

DIARY

Book 458

November 6 and 7, 1941

	Book	Page
Agriculture		
New York Produce Exchange reduces margin requirements on cottonseed oil futures contracts from 15% to 10% - HMJr's letter to Wickard protesting - 11/7/41.....	458	153,154
a) HMJr's letter to Wickard congratulating him on action taken - 11/13/41; See Book 461, page 165		
b) Wickard's further correspondence - 12/9/41; Book 470, page 303		
Attlee, Clement (Deputy Prime Minister and Lord Privy Seal) See War Conditions: United Kingdom		

Barth, Alan		
Non-defense economies - report on editorial opinion - 11/8/41.....		44
"Editorial Opinion on Foreign Affairs: Waiting for the Deadline" - 11/7/41.....		262
Brazil		
See War Conditions: Japan		

Coast Guard		
San Francisco Bay: Proposed amendment to Rules and Regulations for Anchorage and Movements * * * to establish restricted area for naval operations sent to FDR - 11/6/41.....		67
HMJr's farewell to Wassche and personnel - 11/8/41..		71
Correspondence		
Mrs. Forbush's resume' - 11/7/41.....		241
a) Copies to go to Kuhn and Thompson in future		
b) Thompson asked to set up procedure to handle response to "Know Your Taxes" leaflet - 11/10/41; Book 452, page 82		
Cotton		
See War Conditions: Japan		
Cottonseed Oil		
See Agriculture		

Defense, National		
Navy approves Treasury plan "to deliver to other Government departments or agencies of the United States articles of interest to such departments or agencies" - 11/8/41.....		53
Defense Savings Bonds		
See Financing, Government		

	Book	Page
Financing, Government		
Non-defense Economies:		
Barth report on editorial opinion - 11/6/41.....	458	44
Legislation pending November 1, 1941, wherein there is possibility of non-defense economies - Barnard report - 11/6/41.....		51
Byrd-HMJr conversation - 11/7/41.....		132
HMJr-Bell conversation in preparation for conference with Byrd and Doughton - 11/8/41: See Book <u>459</u> , page 2		
HMJr-Smith conversation in preparation for conference with Byrd and Doughton: Book <u>459</u> , page 85		
Conference; present: HMJr, Barnard, D. W. Bell, and Heffelfinger - 11/10/41: Book <u>459</u> , page 88		
Conference; present: HMJr, Barnard, D. W. Bell, Heffelfinger, Byrd, and Doughton: Book <u>459</u> , page 127		
a) Comparative statement of Public Debt on June 30 of each year, 1930-1941: Book <u>459</u> , page 154		
b) Public Roads expenditures: Book <u>459</u> , page 177		
c) Civilian Conservation Corps: Book <u>459</u> , page 179		
d) Other agencies of Federal Security Agency: Book <u>459</u> , page 181		
Conference; present: HMJr, White, Kuhn, Barnard, and Heffelfinger - 11/13/41: Book <u>461</u> , page 1		
Byrd-HMJr conversation on newspaper pressure for information concerning: Book <u>461</u> , page 49		
Conference; present: HMJr, Kuhn, Barnard, Heffelfinger, Schwarz, and White - 11/13/41: Book <u>461</u> , page 111		
HMJr's own notes as basis for prepared statement - 11/14/41: Book <u>462</u> , page 22		
HMJr's reading copy: Book <u>462</u> , page 37		
a) Schwarz's memorandum on testimony: Book <u>462</u> , page 66		
b) Members of Joint Committee: Book <u>462</u> , page 174		
c) Copies of testimony sent to FDR, Cabinet members, etc.: Book <u>462</u> , page 191		
d) Editorial comment east of Mississippi reviewed by Kuhn: Book <u>463</u> , page 43		
e) Merrillat resume' of editorial comment - 11/21/41: Book <u>463</u> , page 349		
f) Mrs. FDR's reaction to HMJr's plans: Book <u>463</u> , page 356		
g) United Kingdom Select Parliamentary Committee on economy in government expenditures - American Embassy, London, asked for report - 11/24/41: Book <u>464</u> , page 324		
1) Winant reply - 12/2/41: Book <u>467</u> , page 306		

Financing, Government (Continued)

Non-defense Economies (Continued):

- Bell memorandum on appearance at meeting of Joint Committee on Reduction of Non-defense Expenditures - 11/18/41: Book 453, page 38
- Conference with Committee; HMJr accompanied by Bell and Heffelfinger - 11/25/41: See Book 465, page 18
 - a) Memorandum taken by HMJr: book 465, page 14
- Hines, Frank T. (Director, Veterans Administration), congratulates HMJr - 11/27/41: Book 466, page 131
- Conferences with Committee; Treasury represented by Bell and Heffelfinger: Book 466, page 253 - 11/28/41; Book 467, page 68 - 12/1/41
- Conferences with Committee on December 1 and 2, 1941 - Heffelfinger summary - 12/2/41: Book 467, page 259
- Conference with Committee - 12/4/41: Book 468, page 274
 - a) McEntee (Civilian Conservation Corps) testifies in morning
 - b) Dryden (Work Projects Administration) testifies in afternoon
- General Counsel's report - 12/10/41: book 471, page 86
- River and Harbor Bill (Omnibus) - Foley report - 12/11/41: Book 471, page 331
- Defense Savings Bonds:
 - Comparative statement of sales during first four business days of September, October, and November, 1941 - 11/6/41..... 459 80
 - Progress report - 11/7/41..... 252

- 2 -

Glasser, Daniel
See Tax Evasion

- I -

Innes, Harold L. (Secretary of Interior)
Appointed Solid Fuels Coordinator for National Defense - 11/7/41..... 1938

Inflation:
See Revenue Revision

- J -

Japan
See War Conditions

- K -

Kretzke, Norman
See Tax Evasion

Book Page

- L -

Latin America

Brazil; Peru; Cotton:
See War Conditions: Japan
Mexico:

Welles and HMJr discuss present relations; State
Department endeavoring to get Standard Oil
Company of New Jersey to cooperate in
valuation proposal - 11/7/41..... 458 117
Report (Hochschild?) on conditions - 11/7/41.... 374

- M -

Mexico
See Latin America

- P -

Peru
See War Conditions: Japan
Procurement Division
See War Conditions

- R -

Revenue Revision

Social Security - Compulsory Savings:

FDR given resume' of action to date by HMJr; talk
repeated to Sullivan, Bernard, and Blough -
11/5/41..... 2,15
a) HMJr's conversation with George..... 6
b) Blough's memorandum on conference with
George and Doughton..... 11
c) Miss Elliott asked by HMJr to talk to
Doughton (from her own state) on dangers
of inflation..... 24
d) Doughton's press release..... 31
1) Proposed letter from FDR to Doughton -
11/7/41..... 148
2) FER's letter to Doughton:
See Book 459, pages 6 and 8
a) Discussed at 9:30 meeting:
Book 459, page 32
b) Press release on exchange of
letters: Book 459, page 41
e) "Social Security message from FER is ace
card" HMJr tells 9:30 group - 11/7/41..... 109
f) White suggests "not forcing program on
FDR"; HMJr resents inference..... 110

- R - (Continued)

	Book	Page
Revenue Revision (Continued)		
"Excise Tax: Plan on one for the increase of spendable income in any year over that of preceding year" - Barnard memorandum - 11/6/41..	458	36
15% withholding tax favors higher brackets rather than lower brackets - Foley memorandum - 11/7/41.....		131
a) Discussion at 9:30 meeting - 11/7/41.....		126
River and Harbor Bill (Omnibus)		
See Financing, Government: Non-defense Economies		

- S -

San Francisco Bay		
See Coast Guard		
Silver		
See War Conditions		
Social Security - Compulsory Savings		
See Revenue Revision		

- T -

Tax Evasion		
Glasser-Kretzke case: HMJR discusses with Biddle - 11/7/41.....		138,139

- U -

U.S.S.R.		
See War Conditions: Lend-Lease		
United Kingdom		
Select Parliamentary Committee on Economy in Government Expenditures: See Financing, Government (Non-defense Economies)		
See also War Conditions: Lend-Lease; United Kingdom		

- W -

War Conditions		
Airplanes:		
Shipments to United Kingdom and overseas commands - British Air Commission report - 11/7/41.....		276
Exchange market resume' - 11/6-7/41.....		103,299
Export Control:		
Exports to Russia, China, Burma, Japan, France, and other blocked countries - White report - 11/7/41.....		267

	Book	Page
War Conditions (Continued)		
Japan:		
New business in cotton springing up between Brazil, Peru, and Japan; payments based on some form of clearing in which freezing regulations probably are ineffective - 11/7/41.....	458	262
Lend-Lease:		
Status of action under first appropriation approved March 27, 1941.....		59
British Exporters: Attitude of toward British exports under Lend-Lease - White memorandum - 11/6/41.....		83
Delays - Procurement Division: Charts showing speed with which requisitions are being converted into actual orders sent to Hopkins by HMJr - 11/7/41.....		216
U.S.S.R.: FDR directs Stettinius to offer all aid - 11/7/41.....		237
Military Reports:		
War Department bulletin: German infantry - miscellaneous notes on - 11/7/41.....		300
Purchasing Mission:		
Federal Reserve Bank of New York statement showing dollar disbursements, week ending October 29, 1941 - 11/6/41.....		79
Silver:		
Purchases by sources - Dietrich report - 11/7/41..		261
United Kingdom:		
Proposed trade agreement - White memorandum - 11/6/41.....		87
Attlee, Clement (Deputy Prime Minister and Lord Privy Seal): Calls on HMJr - 11/7/41.....		141

TREASURY DEPARTMENT
INTER-OFFICE COMMUNICATION

DATE November 6, 1941.

TO Secretary Morgenthau
FROM Mr. Schwarz *(CS)*

200-1

Upon the appearance of the first tax stories from the Hill late yesterday afternoon, you told me that the Treasury had recommended no figures at the informal meeting of members of the Ways and Committee. You said that you had gone to the Hill at the invitation of Chairman Doughton to find out if a new tax bill to be effective January 1, 1942, would be considered and passed if such a proposal were made. You said you had asked for assurances from Democratic and Republican leaders and that by 5:30 p.m. had received no answer.

I gave that information to the Associated Press, United Press, International News Service, the New York Times, the New York Herald Tribune, the Wall Street Journal, the New York Journal of Commerce, PM and the Chicago Tribune News Service.

November 6, 1941
10:10 a.m.

RE SOCIAL SECURITY - COMPULSORY SAVINGS

Present: Mr. Sullivan
Mrs. Klotz
Mr. Barnard
Mr. Blough

H.M.Jr: I explained in detail what had happened yesterday to the President and what the program was today and then he took the material which I gave him and read the tables first and he said, "This is fine." And then he read the whole statement. He liked it very much.

He asked, "How does this affect the people in the higher brackets," and I let him have that table and that seemed to satisfy him. Also, I explained to him about the doctors and the lawyers. He was interested in that. I said, "Well, now, look, Mr. President, there are two things the Committee wants to know. They want to know if they go ahead with this, will you withhold your Social Security message until later on?"

He said, "Well, that is a fair question." He said, "If they go ahead with this, you can tell them I will not send up a message on Social Security until about Christmas, or to have it on their desks on the first of the year rather than to include it in my annual message. I will send it up ahead of that." I said, "Well, what will happen if they turn me down?" He said, "Well, if they turn you

- 2 -

down I will write Doughton a letter on this asking for it." So I said, "Well, can I tell that to Doughton?" He said yes, so I said, "What I am going to do is, I would like to get word to him before ten-thirty that you want this and that if you don't get it you are going to write a letter and that if they do go ahead, that you will withhold your Social Security message until between Christmas and New Year's." So he said, "Well, I am not going to hold that they have actually got to pass it, but I will insist at least that they begin hearings at once and report the bill out so that it can be passed." So if you want to do a little trading - I want to tell you people everything. Do you see what I mean?

In other words, I have got the complete backing of the President. Now you (Sullivan) have lived with this Committee and this was my horseback opinion, and you argue with me on it. If I go up and see Doughton now, and Jere Cooper, they will know it. I have got to get this message to them. Now, my thought was to call up Walter George and say, "Walter, this is what has happened. Now, would you think well if I came to your room and you have Doughton come over to your office, see, because I don't want to seem to be forcing things, but on the other hand, you seem to be agreeable," and I don't think unless I get this message to Doughton he will do anything and then if it pops on him afterward he would say, "Well, why didn't you tell me that is the way the President feels?"

Sullivan:

Why don't you phone him right away? The time is getting rather short. I am not arguing with you because that is a very good way of handling it. In other words, you are reporting to both George and Doughton and you are meeting with George in his office because you went up to Doughton's yesterday. I think that is very good.

- 3 -

- H.M.Jr: What do you think?
- Barnard: I think that is right.
- Blough: I think so.
- Klotz: Yes.
- H.M.Jr: Because if I go there, every newspaper man will know it. Well, I didn't know how the President would take it, you see, but he couldn't have been nicer, and to have this all in the papers and everything - but I mean, he couldn't have been nicer than he was this morning.
- Sullivan: This material that we are sending up, should we stamp that "confidential"?
- H.M.Jr: Yes, just to be humorous.
- Sullivan: That is what I meant. Everybody in the world has been --
- Barnard: That gives me a chance to blow off.
- Sullivan: All the newspaper fellows are on my neck. Did that tell the whole story? Was it an adequate account? This will be stamped "confidential".
- Klotz: You learned all this before and still you don't accept it.
- H.M.Jr: The man who taught me my first lesson was Senator Couzens. He was a great fellow. Whenever they went into executive session he would say, "Gentlemen, I wish to be excused. I will not take part in any executive session. In the first place, no one ever keeps a secret, and in the second place, the people of the United States are entitled to know what is going on in the committee." So he would get up and walk out.

- 4 -

He is the only fellow I ever saw do that.

Klotz: To try to keep such things a secret at this time is silly.

H.M.Jr: The President was very much amused by that. He had a grand laugh.

(The Secretary held a telephone conversation with Senator Walter George, as follows):

November 6, 1941
10:14 a.m.

HMJr: Hello.

Operator: Senator George.

HMJr: Hello.

Senator George: Hello.

HMJr: Walter....

Q: Yes, Henry.

HMJr:I'd like to get a little friendly advice from you. Are you so that you can talk?

Q: Yes, sir.

HMJr: Now, it will take me a minute or two, if you don't mind.

Q: No, that's all right.

HMJr: Yesterday Doughton invited me to come up there to a meeting of the Ways and Means Committee in executive session. They practically - well, they had everybody in town there.

Q: Yes, I was afraid he would have a good many people there.

HMJr: But you know Bob; when he wants to do something, he wants it - I can't argue with him, and I didn't argue with him.

Q: Yes.

HMJr: Well, I went up there; and, of course, I hadn't left the room five minutes before - although I repeated three times that I was simply coming up to say, "Would they receive me?", that I wasn't there officially and wasn't making any proposals, they go ahead and give it out as though I'd made definite proposals.

G: I saw that in the morning's paper.

HMJr: Yeah. Now, I told the newspaper men last night after I'd heard about it that I was simply up there asking, "Would they receive me on a tax bill?" Well, that - so the fat's in the fire. Now, know the whole story. I went to see the President this morning and told him what's happened. It's the first time he heard it. After all, he was entitled to an explanation. And the President likes the program. And I told him what you said, and talking for yourself, that you felt that withholding tax plus the advancing of the date by one year you thought was all right.

G: Yes.

HMJr: Now, the President said - I said, "Now what will happen if Doughton turns me down, which I think he will?" So the President said, "Well," he said, "Henry, I think I'll have to write him a letter." So I said, "Well, I think that I ought to get that to him before he starts." Hello.

G: Yes, I'm listening.

HMJr: And - because I said, "At least he knows where you're at." Now the President said if they raised the question, "If they will start hearings on this right away, I will not send up a message on Social Security until some time between Christmas and New Years. I'll keep that - I would hold my message," you see.

G: Yes.

HMJr: But he said, "I would like very much if they would start it." Now, I'd like to offer this as a suggestion and then you tell me if it's worth a damn. I want to get this to Doughton; but if I go up to see Doughton, I'll be seen by a lot of people and it'll be looking as though I was putting pressure on him. Now, how would it be if I called on you to make a report now? And then you send for Doughton to come over to

your office.

G: Yes. Well, he promised to see me this morning, but I think he's having another meeting of his committee this morning.

HMJr: At ten-thirty.

G: Yes.

HMJr: But I - in fairness to Doughton, I want to get this message to him so that it doesn't come to him like the last letter did which upset him so, you know.

G: Well, suppose I get in touch with him and tell him that I understand that this will be done. Is that all right?

HMJr: I think it would be better if I came to your office, because Doughton will want to ask me.

G: Well, I'll be glad to call him, Henry, right at once and ask him if he'll come. I'm sure he will. He may not have the time before his meeting though, you see.

HMJr: Well, I - knowing how this last letter upset him, I don't want the thing to happen again.

G: No. And of course, if the Ways and Means doesn't want to undertake anything, you can't - you really can't make them.

HMJr: No, but at least then he knows that if they turn the Treasury down, the President is going to write them a letter.

G: Well, I'll call him right at once.

HMJr: And should I come up to your office?

G: Yes, I'd be very glad to have you come.

HMJr: Well, I think I'll start right away just on the chance that he's going to come.

G: I think he'll come.
HMJr: Don't - is that agreeable?
G: Yes, quite agreeable.
HMJr: I'm ever so much obliged.
G: All right.
HMJr: Thanks.

- 5 -

H.M. Jr:

Well, I think that if you will get your hats and coats we will go on up and I will call off my press conference. I will postpone it.

- 5 -

H.M.Jr:

Well, I think that if you will get your hats and coats we will go on up and I will call off my press conference. I will postpone it.

November 13, 1941

MEMORANDUM

To: The Secretary

From: Mr. Blough

Subject: Conference with Senator George and Chairman Doughton, 10:30 a.m., November 6, 1941.

The Secretary saw Mr. Sullivan, Mr. Barnard, and Mr. Blough at 9 a.m. in his office, Thursday, November 6. He said he was going to see the President at 9:30 and tell him about the matter. The Secretary seemed somewhat disturbed about the publicity but was not surprised at it since it had been necessary to appear before the Ways and Means Committee. He took to his conference with the President the memorandum on the proposed tax program, dated November 5, together with a copy of the cost of living index chart and tables showing the tax burdens of the suggested withholding tax.

The same group met at the request of the Secretary about 10 a.m. He said he had been to see the President and that the President liked the program and had read the whole memorandum. The President said that he wanted it. The Secretary reported that he had asked the President whether he would be willing to withhold the social security message while the tax bill was under consideration as this had been one of the requests of the Ways and Means Committee. The President said he would withhold it until the week between Christmas and New Years but that he wanted it on the congressmen's desks when they came back and before sending his budget message. The Secretary asked him what he would do if the Committee refused to consider the legislation at this time. The President said in that case he would be obliged to write Chairman Doughton a letter urging such consideration. The Secretary asked whether he could mention this fact to Chairman Doughton and the President said that he could.

The Secretary then called Senator George. He mentioned the conversation of the President and asked if he could come down and talk to Senator George and Chairman Doughton in Senator George's office. The Senator agreed to ask Chairman Doughton to come to his office. The Secretary, Mr. Sullivan, Mr. Barnard, and Mr. Blough thereupon went to Senator George's office and were joined by Chairman Doughton.

The Secretary then mentioned the way in which the whole matter had come up; how he had explored the matter with Senator George and Chairman Doughton the previous day and how Chairman Doughton had felt that the Secretary should present the same story to the Ways and Means Committee; that the Secretary had told them that he had not talked over the matter with the President and accordingly it was in very tentative and preliminary stage, and that he was merely inquiring whether the Committee would be willing to hear him and consider tax legislation at this time. In other words, whether it would be advisable to present recommendations to the Congress. The Secretary went on to say that since the story had been in the papers, the fat was in the fire and the Treasury was placed in a very embarrassing position in case the Committee should decide not to hear the Treasury. He said he had been to see the President; that the President liked the suggestions he had proposed and wanted them. He then said that the President had agreed not to send down the social security message until the latter part of December, between Christmas and New Years, if the Committee would take the tax legislation up now. He said he wanted the Chairman to know that the President had said he would be obliged to write Doughton a letter asking for consideration if the Committee should decide to turn down the Secretary's suggestion at this time.

Chairman Doughton seemed considerably irritated by these remarks. He said that the President of the United States, of course, would do what he pleased here as in everything else and that he (Chairman Doughton) would do his best to get the President what he wanted, but he was sure that the President's writing a letter or not writing a letter would have no bearing on his own position and he was sure would not have any effect on the decision of the Ways and Means Committee. He said he thought that it was placing him in an unfair light to bring up the matter of publicity since he

could not give any answer to the Secretary without consulting members of the Committee and that when the Committee was consulted the matter was bound to become public. He said he did not want to embarrass the Secretary or put him in an unfair light.

He said that it would be much better to close loopholes before increasing tax rates. If there were important loopholes they ought to be taken care of at once. He said he thought this was the purpose of the administrative bill and that the Treasury was ready to start this bill and had been working with the Joint Committee staff. He suggested that a desirable procedure would be to consider the administrative bill and get it out of the way, then have the Economy Committee make its report next and get some real economy, and then the tax bill could be taken up and put through with much less opposition and the government would get its revenue. (Mr. Blough does not remember whether he put the social security revision before or after the main tax bill.)

At this point Secretary Morgenthau asked Mr. Blough to call Mrs. Klotz to cancel the press conference for the morning. When Mr. Blough left the room Mr. Sullivan was explaining why the administrative tax bill would take a long time and not the short time which Chairman Doughton seemed to assume it would. When Mr. Blough returned, Chairman Doughton had apparently dropped the point.

The Chairmen seemed to think that the withholding tax would meet with a great deal of opposition. He said all the Republicans were going to be against it and that some of the Democrats would oppose it. He said he thought it would take a long time in hearings before the Committee. Senator George said that several members of the Senate Finance Committee were opposed to the withholding tax; that Senator Vandenberg had no particular objection to the withholding tax but was strongly opposed to an increase in social security taxes; that Senator LaFollette might not object to social security taxes but he had indicated his strong opposition to a withholding tax; that he had not talked to Senator Taft. He expected, however, that the

Republicans would be pretty strongly against the program and he was not sure of some of the Democrats. He felt the program would run into some opposition for this reason and that it might take some time to get through the Committee.

Chairman Doughton asked whether this tax bill meant that the price control bill was being given up. He said it seemed to him that the price control bill ought to be passed and that that would take care of the situation. Secretary Morgenthau assured him that all his cards were on the table and that his recommendation of a tax bill in no sense implied that the price control bill was being given up. He said that in arriving at a figure for a tax bill, it had been assumed that a strong price control bill would be passed. The price bill was not enough - the tax bill was necessary also. The Chairman reiterated his belief that the way to control prices was through the price bill and that he did not understand why the tax bill was necessary for that purpose.

Chairman Doughton referred to the desire of Congress to go home. He said there was less done normally during December than in the summertime even, and that they seemed very restless. He said that so far as he was concerned he would be glad to keep on working if it would do any good.

The Secretary said that he had given suggestions for ways of raising money but that Congress might find a better way. He suggested that if there was some question about the specific tax proposals made it might be possible to do as was done with the last tax bill, namely to agree to raise X billion dollars without reaching an agreement on the ways in which the money was to be raised. Senator George spoke favorably of this idea but then passed on to another point and it did not come up again.

The meeting broke up about 11:20. It was agreed that nothing should be said to anybody about the Secretary's visit and that Chairman Doughton could

- 5 -

explain postponing his meeting by saying it was more convenient to have it in the afternoon and that he wanted to talk with Senator George about the reaction that the latter had found among his senators.

When the Treasury group left Senator George's office, Secretary Morgenthau went alone to talk with Speaker Rayburn.

Ray Blough

November 6, 1941
12:00 m.

RE SOCIAL SECURITY - COMPULSORY SAVINGS

Present: Mr. Blough
Mr. Barnard
Mr. Sullivan
Mrs. Klotz

H.M.Jr: I had a great success.

Sullivan: Good.

H.M.Jr: I saw the Speaker, and I got there just in the nick of time. I told him my story, and he said, "Well, you know, Henry, we kind of want to get home." I said, "Yes." Then I told him about the President being willing to hold up the Social Security message until New Year's. Well, that rung the bell. He said, "We are all scared to death of that, that the President is just going to mess everything up." He said, "He told you he would do that?" I said, "Yes, he told me." He said, "I will tell you what I think we can do." He said, "You don't care about the administrative bill?" I said, "I don't." He said, "We will start hearings at once on what you want, and I promise you I will make it the first order of business on January 3 when we open." He said, "Get it reported out, start your hearings, and we will pass it on January 3."

Of course, that is strictly within what the

- 2 -

President told me, you see, because the President said, "Now, if you find you can't squeeze it out, if they will get it right out for you early in January, I will take that."

"But now for God's sake no letters, nothing, Henry." He says, "Don't let the President send any letters." I said, "Well, if you will tell me that you will start hearings right away for more taxes, withholding or something of that nature - " and he is all right on inflation. He is worried about it, the Speaker is. He has got the story. I said, "No matter what kind of a price bill you have, we need this." He said, "You start the hearings, and we will make it the first order of business the first day Congress reconvenes."

So then John McCormack stuck his head in, and he said, "Wait a minute, John," and Jere Cooner. I said, "Of course if you happen to tell this to John McCormack and Jere Cooper, I can't help it." He said, "You let me take care of it. I have been talking to Jere about this anyway."

Is that the breaks?

Sullivan:

Yes, definitely.

Now, does that also include number one on the Social Security?

E.L.Jr:

I didn't want to get down to that. I said, "I need more money. Maybe we will advance the date one year on Social Security." He wasn't interested.

What rung the bell with him was, he started to give me the talk that all the boys want

to go home, but just as soon as he heard that the President would hold his Social Security message up, O.K., I would get what I want.

You don't seem pleased.

Barnard: I am.

H.M.Jr: What is the matter? Sam Rayburn always keeps his word.

Sullivan: Yes.

H.M.Jr: But if we start our hearings and run through this thing and air this thing out so the people know we mean business and they make it the first order of business, I think it is a swell deal.

Sullivan: Is he going to talk with Doughton?

H.M.Jr: As soon as John McCormack stuck his head in he got restless, so I speeded up my story. He said, "O.K., Henry, the apples were fine. I just opened them." I sent some boxes of apples around. I sent eight on the Hill.

Sullivan: Maybe you had better get a box so I can carry a couple in my pocket when I go up there.

H.M.Jr: How do I know they will get up there?

Sullivan: I was thinking I haven't had any myself either.

H.M.Jr: We will give him two, but we will give that nice secretary some.

Sullivan: If she only got one and I get two, I think that is terrible.

H.M.Jr: Anyway, I feel pretty good about it. I don't

- 4 -

see why you don't spark.

Sullivan: Well, I am thinking ahead here.

H.M.Jr: How far ahead?

Sullivan: Well, late this afternoon when you are going to hear from George and Doughton. Now, have you given George the information you got from--

H.M.Jr: No. Just let the House take care of it. I have done enough now. I am just going to rest and we will just let the Speaker work. They are evidently scared to death of this Social Security thing. On that assurance, I think it is all right. They forgot all about their going home and everything. The last thing you said to me - the Speaker says, "Everybody is going to go home, and now they have forgotten about home."

Sullivan: Have they? I thought from what you just told us that the Committee would go to work and the Congress would recess, and they would take it up when they came back.

H.M.Jr: That is right.

Sullivan: So they are going home.

H.M.Jr: Well, that is all right, but the Committee will give us a finished bill, report a bill out and it will be the first order of business on January 3. I am enthusiastic.

Sullivan: Yes, I know it. I am just trying to keep down to earth here for a few minutes.

H.M.Jr: Good-by. We will just sit here now.

Sullivan: No need of Randolph Paul hanging around town over the weekend? He spoke to me yesterday.

H.M.Jr: Is he in town.

Sullivan: Yes, he is here, and he wants to go home and be available for you whenever you want him, but this is sort of on dead center for a couple of days anyway.

H.M.Jr: Yes. Thank him very much.

Blough: John Williams wanted me to go to Harvard tomorrow. In the light of these prospects, what do you think?

H.M.Jr: What do you think?

Blough: I think we will have to be preparing a statement for next Monday morning, and I can't go.

H.M.Jr: Yes. As usual, you are right.

November 6, 1941
2:20 p.m.

HMJr: Grace.

Grace
Tully: Yes, Mr. Secretary.

HMJr: You saved my life by my seeing the President
this morning.

T: Good.

HMJr: And he was terribly nice. He backed me up a
hundred per cent on this tax thing.

T: Oh, that's grand.

HMJr: Have you got a minute?

T: Yes, sir.

HMJr: I just want to give him a report of progress.

T: Yes.

HMJr: I met with the President - I met with Walter
George and Bob Doughton this morning.....

T: Yeah.

HMJr:and went over the whole thing.

T: Yeah.

HMJr: This tax program.

T: Yes.

HMJr: Walter George was fine, a hundred per cent.

T: Yes.

HMJr: But I got nowhere with Bob Doughton.

T: Uh huh.

HMJr: So then I walked over to see the Speaker,

T: Yes.

HMJr: And I told him my whole story.

T: Yes.

HMJr: And to my surprise, the Speaker said, "I think that this is all right."

T: Uh huh.

HMJr: "And the committee should start hearings at once."

T: Yes.

HMJr: "And have the bill ready so that we can make it the first order of business when we meet on January 3rd."

T: Yes.

HMJr: Now that was what the President said I should take as a compromise, you see?

T: Yes.

HMJr: But I want the President to know that the thing that made the Speaker change his mind about having a tax bill was when I told him that the President would be willing to withhold his message on Social Security until some time between Christmas and New Years.

T: Yes.

HMJr: Now, when the Speaker heard that, he said, "Well, that's fine because that's the one thing I've been worrying about."

T: Yes.

HMJr: "And if the President does that," he said, "why I'm willing to have them go ahead and start hearings at once on a tax bill."

T: All right, fine. Then the President agreed that

he would withhold the message, huh?

HMJr: The President told me this morning that if they would start at once to get it out so that it would be the first order of business.....

T: Yes.

HMJr:he would not send a Social Security message until sometime between Christmas and New Years.

T: Uh huh. All right, fine. I'll make that report to him.

HMJr: And that's the way it stands. Now, the Ways and Means Committee is meeting again at one-thirty this afternoon.....

T: Uh huh.

HMJr:to go into the matter further.

T: Yes.

HMJr: And if I hear, I'll write - I'll give you a further report.

T: All right, fine, Mr. Secretary. I'll tell him.

HMJr: But for God's sake get it to the President he told me no Social Security between Christmas and New Years.

T: Yeah. All right, fine.

HMJr: Thank you.

T: (Laughs)

HMJr: Okay.

T: All right, Mr. Secretary. Good-bye.

November 6, 1941
2:35 p.m.

24

HRJr: Hello, Miss Elliott.

Harriet
Elliott: This is Miss Elliott.

HRJr: This is Henry Morgenthau.

E: Yes, Mr. Secretary.

HRJr: Miss Elliott, I was shocked yesterday to find out that Congressman Robert Doughton tells me he doesn't understand why I'm so worried about prices and inflation, and he's never heard - never received a letter, no one's ever talked to him about it. Now, when I mentioned you and your work, he seemed to be entirely unfamiliar with it. He does come from your state.

E: He would be. (Laughs) Don't you know him well enough to know that he would be?

HRJr: Well, I don't know. I still - I was surprised. Anyway, I wondered if you'd be willing to call up and ask for an appointment to see him. I said that you would.

E: Well, I'd be very glad to talk with him.

HRJr: And see if you can't make an impression on him.

E: Uh huh. He is the sort of person that would - he has a one-track mind and he rolls along in one individual way.

HRJr: Well, all he's interested in now is economy.

E: Uh huh.

HRJr: Now, if - aren't there some women - some extension workers in his own district that could stir up a little.....

E: May I talk very confidentially to you?

HRJr: I hope you would.

E: There isn't a woman in North Carolina who's been in public life for twenty years who has the slightest influence with him. He's the sort of a person - this is very confidential.....

HMJr: Yes.

E:he's a person we just never have known. We've tried in every way, shape, fashion or form. It's just a question of - his mind just seems to be a blank in certain directions. Now, I think this - or, I can get somebody to him who might be able to make a day of it, but.....

HMJr: Well, he's very susceptible to letters.

E: What is is?

HMJr: He's very susceptible to letters.

E: He is?

HMJr: Yeah. And to flattery.

E: Uh huh.

I've never talked with him at all about this. In fact, for years I've seen him just occasionally; but I just gave up on the.....

HMJr: Would you mind making one more trial?

E: Not a bit in the world. I'll be glad to, really.

HMJr: Because he holds a very important position up there.

E: And I can get some other people - some men - who are very much interested in this.....

HMJr: From North.....

E:whom I think he'd listen to.

HMJr: Well, if you could get some men from his district. Do you know the man who owns Cannon Towels?

E: Yes, very well.

HMJr: Well, he listens to him.

E: Well, he was one, and two or three others connected with him in an indirect way that I had thought I might talk with.....

HMJr: Yeah, well he.....

E:to decide the way to bring him around on this. I'll tell you, he - I'm being very emphatic about this, Mr. Secretary, because he really has never listened to the women of the state on anything; and really, he never will.

HMJr: Well.....

E: And he wouldn't pay any more attention to me and what I said than if I were just barking out the window.

HMJr: Well.....

E: (Laughs) I'm putting it very bluntly.

HMJr: I understand. Well, it's much better to be blunt.

E: Yes.

HMJr: But if you could think of some people down the state who have influence with him - and I know that there are people who do have influence - and get him to talk about this, I really think it would be very helpful.

E: I will, and I'll start something on that right away.

HMJr: Thank you so much.

E: And I can get some people, I'm sure, to do it.

HMJr: Thank you.

E: All right. Thank you.

November 6, 1941
3:27 p.m.

27

HMJr: Hello.

Operator: Operator.

HMJr: I can take that call.

Operator: All right.

HMJr: Hello.

Mr. Greir: Mr. Morgenthau?

HMJr: Yes.

G: Are you ready?

HMJr: Yes.

G: Just a moment.

HMJr: Hello. Hello.

Cong.
Doughton: Hello.

HMJr: Hello.

D: Is that you, Mr. Secretary?

HMJr: Talking, Henry.

D: Yeah. Well, I wanted to read you the statement
that I've prepared to give to the press.....

HMJr: Oh, yes.

D:to see what you thought of it. If you didn't -
if you wanted to - didn't want anything said - if
you wanted to omit it or change it.

HMJr: Please.

D: And - I'll read it to you.

HMJr: Right.

D: "Chairman Doughton issued the following statement."

HMJr: Yeah.

D: "Secretary of the Treasury, Morgenthau, met informally yesterday with members of the Ways and Means Committee and offered purely as a suggestion, that consideration might well be given to the matter of another tax bill to be effective January 1, 1942, for the main purpose of helping to prevent inflation as well as to provide additional revenue....."

HMJr: Right.

D: "needed for national defense."

HMJr: Right.

D: Now then, "Consideration of the matter was continued at a meeting of the Ways and Means Committee today," but that's the - I'll give you the result of what we did after I talked with Senator George. He and I reported to you - but that was the statement I was going to make to put you in the proper light about what took place yesterday. Does that suit you?

HMJr: That suits me.

D: All right.

HMJr: Now.....

D: I'm going to emphasize it - and I have been doing it all day today - that you offered no program, made no requests, that what you did was just some suggestions for our consideration in order to - as a result of what went along with many other suggestions, as a result of your conviction about the importance of something being done to control inflation.

HMJr: Now, what - would you mind reading me the rest of the statement?

D: What did you say?

- 3 -

EMJr: Would you mind reading me the rest of the statement?

D: No.

EMJr: Hello.

D: Yes.

EMJr: I said, would you mind reading me the rest of.....

D: I'll read you the other. "Consideration of the matter -" we discussed here for quite awhile - "continued at a meeting of the Ways and Means Committee. And after general discussion and consideration of the matter, the Committee decided that action on the matter be temporarily deferred."

EMJr: I see. Well, I'm sorry.

D: Well.....

EMJr: But.....

D: That was the best that we were able to do. I made no - took no position about it one way or the other. I presided and the boys discussed it on and off. They didn't think - confidentially - well, not confidentially - they didn't think that it would be possible to get through a bill of this importance and this magnitude - anyhow get through it before the first of the year. This matter has opened up the whole subject of taxation that would necessarily come up for consideration, and they didn't believe that we could get at it practically now; and of course, I suppose it's some difference of opinion.....

EMJr: Did you say "deferred" or "temporarily deferred"?

D: Temporarily deferred.

EMJr: I see.

D: Yeah.

EMJr: Well, that leaves the door open, doesn't it?

D: That leaves the door wide open.

HMJr: Uh huh.

D: Yeah. I think that we handled it the very best we could under existing circumstances with the feeling of the Committee, Mr. Secretary.

HMJr: I see.

D: Did the best we could about it.

HMJr: I see.

D: I'll go over and see Senator George. I told him I'd see him. Whatever - he said he was going to confer further with the members of his committee.

HMJr: All right.

D: And I'll go over and see him, and then any further statement - why we can make him come out - he can make his own statement.

HMJr: Right.

D: All right, Mr. Secretary.

HMJr: Thank you.

ADD TAXES. HOUSE.

CHAIRMAN DOUGHTON SAID THE TREASURY'S TAX PROPOSALS HAD NOT BEEN TURNED DOWN BUT MADE IT CLEAR THAT FURTHER DEVELOPMENTS WILL BE NECESSARY TO INDUCE CONGRESS TO RUSH THROUGH SO TREMENDOUS A WAR REVENUE PROGRAM BEFORE THE FIRST OF THE YEAR.

AFTER A TWO HOUR MEETING OF THE COMMITTEE, DOUGHTON ISSUED THIS STATEMENT:

*SECRETARY OF THE TREASURY MORGENTHAU MET INFORMALLY YESTERDAY WITH MEMBERS OF THE WAYS AND MEANS COMMITTEE, AND OFFERED, PURELY AS A SUGGESTION, THAT CONSIDERATION MIGHT WELL BE GIVEN TO THE MATTER OF ENACTING ANOTHER TAX BILL TO BE EFFECTIVE FROM JANUARY 1, 1942, FOR THE MAIN PURPOSE OF HELPING TO PREVENT INFLATION, AS WELL AS TO PROVIDE ADDITIONAL REVENUE NEEDED FOR NATIONAL DEFENSE.

CONSIDERATION OF THE MATTER WAS CONTINUED AT A MEETING OF THE WAYS AND MEANS COMMITTEE TODAY, AND AFTER GENERAL DISCUSSION AND CONSIDERATION OF THE MATTER, THE COMMITTEE DECIDED THAT ACTION ON THE MATTER BE TEMPORARILY DEFERRED.

11/6--RS354P E20-0

November 6, 1941
4:31 p.m.

HMJr: Hello.

Operator: Go ahead.

HMJr: Hello.

Walter
George: Hello. Henry?

HMJr: Walter?

G: Yes.

HMJr: I just had the damndest time in my - for thirty minutes I've had the press in here saying "no" to them in forty different languages.

G: Is that right?

HMJr: Yeah, I told them I couldn't talk and I said that when I was asked to come up and testify in executive session that it is on my word of honor that I keep my mouth shut.

G: Yes.

HMJr: And I said, "I can't help it if other people talk; my mouth is sealed."

G: Yes.

HMJr: And I repeated it and repeated it, and for thirty minutes they've been hammering me.

G: Yes. Well, they'll do that.

HMJr: But they got nothing out of me.

G: Yes. Well, you heard from Bob?

HMJr: Yeah, he read me that statement.

G: Yes. I've seen him and talked with him since, and he - I did not see him before he read you the statement.

HMJr: Yeah.

G: He just brought - came over and read it to me.

HMJr: Well, what do you think?

G: Well, I've canvassed the situation pretty fully. We have, on our side of the table, we have considerable support for going along right promptly.

HMJr: Yeah.

G: But we have some who think it's inadvisable. About half and half I would say. The Democrats are inclined to think that while they're willing to go on now, but that they were of the opinion that with the House - everything in its present humor - that it would probably be around Christmas before the House finally did anything; and it amounted to only about a January proposal so far as we were concerned, over here.

HMJr: Yeah. Well, let me tell you in strict confidence about my conversation with the Speaker.

G: Yes.

HMJr: Now, after I left you, I went over to see the Speaker, and he's kept it - I'd like you to know about it, and I'm sure he wouldn't mind.

G: Yes.

HMJr: Now, his attitude was that he'd like to see them begin to have hearings right away and bring in a bill on the first day that the house meets. You see? And make it the first order of business.

G: I see.

HMJr: And the reason that he felt that way was, he said he would be delighted to do that on the assurance that the President would not send up a Social Security bill until after Christmas.

G: Yeah, I see.

- 3 -

HMJr: And I told him I could give him that assurance. Now, that was the way the Speaker felt; and I think I'm going to let him work a little bit on this thing, you see?

G: Yes. Well, I believe I would.

HMJr: Because he said he thought that they should do something.

G: Yes.

HMJr: And that they should start hearings right away.

G: Yes.

HMJr: Now, that's the way he felt.

G: Yes. Well, we have - over here on this side, Henry - we have some division. Some don't want it - one or two of our friends said they wouldn't be able to support it; they were satisfied. Others said that they knew that the matter - that is was inevitable and they were ready to go right along now and give consideration.

HMJr: Yeah.

G: So we are ready to do whatever they finally - if whatever they decide to do over there.

HMJr: Yeah. Well, I told - I sent word to the President when I came back that you were perfectly splendid and that you'd offered me every possible co-operation.

G: Yes. Well, we are ready and if they decide to go along with hearings, we probably will, too.

HMJr: I see.

G: So that we'll be ready practically when they are ready.

HMJr: Do you mind if I tell that to the Speaker?

G: No, that's all right.

HMJr: Can I tell him that?

G: Yes, that's quite all right. We'll out our cloth here rather like the committee over there does. In other words, we'll proceed - we can't finally wind up until after they have wound up, anyway, you understand.

HMJr: I understand.

G: But we can do the bulk of the work.

HMJr: Well, the thing that seemed to interest the Speaker the most was that by doing this now, it would delay the President sending a message on Social Security.

G: Yes, I see that.

HMJr: Because he said, "It's a bombshell, and I don't want it."

G: Yes. I'd like to see that done, too.

HMJr: Yeah. I can't tell you how much I appreciate your cooperation and spirit of friendliness and I haven't given up hope; and I'm just going to see what the Speaker can do.

G: All right.

HMJr: Thank you so much.

G: Thank you, Henry.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

36

DATE November 6, 1941

TO Secretary Morgenthau
FROM Mr. Barnard

I have sent the attached to Mr. Elough for his critical comment and for calculations if it seems worth while. It is another attempt to work out one of the problems you have in mind. It may be of interest as a possible line of treatment that would have practical value in the months ahead.

CVB

November 6, 1941

PLAN FOR AN EXCISE TAX ON THE INCREASE OF SPENDABLE
INCOME IN ANY YEAR OVER THAT OF THE PRECEDING YEAR

37

The following plan proposes a tax in the nature of an excise on the privilege of receiving an increase of income at a time of Emergency and Defense and of scarcity of consumption goods. It is intended to capture a part of the increase in spendable income of those who secure increases of income under such conditions; and to restrict the purchasing of such persons during the first (or first and second) year of such increases. The amount of the tax will depend (a) on the increase in spendable income in relation to net income and (b) on the amount of income taxes. Thus, the proposed tax is as a first step made roughly proportionate to the increase in purchasing power; and then, as a second step, is made progressive, i.e. proportionate to the total currently received purchasing power of the individual. The magnitude of the tax is so regulated that in a rough way it might be considered equivalent to an additional income tax for a very few years on the increased income assuming it to be permanent; but it is payable only once for the year in which the increase occurs. (If made a compulsory saving contribution, it could be collected annually repeatedly; being reduced in amount, however, whenever a decrease in spendable income occurred).

In designing the tax, provision has been attempted to be made to prevent the following:

a. Exhausting the total increase in net income by the combined effect of income taxes and the proposed tax, with reference to high bracket incomes. (Not sure I have achieved this until the calculations are made.)

b. Imposing excessive repeated taxes on those whose incomes are normally of highly fluctuating character. This is a matter of degree.

c. An excessive tax for those at low levels due to the effect of unemployment, illness, etc., in making an apparent large increase of income in following year of full employment.

(Other deductions could be made if desired, e.g. for medical and hospital expense, etc.)

Definition of Spendable Income for Excise Purposes.

Spendable income is defined as net income less income taxes paid or payable for the same year; also less \$1500 or so much thereof as may reduce the net income, after taxes, to zero.

(Note: The purpose and effect of this provision is that if an individual had no income one year, the increase in a following year would be reduced \$1500, to compensate for the abnormal situation; if he had only \$600 in one year he would have the increase of the following year reduced by \$900, etc.)

The increase of spendable income is determined by subtraction, that of one year from that of the succeeding year.

Determination of Tax:

1. Find the increase of spendable income.
2. Find the percentage of this increase to the net income of the same year; but this percentage shall not exceed 50.

Note: Relating the increase to net income rather than surtax net income gives an appreciable advantage to the large family in the lower brackets.

3. Multiply the percentage so found into the total income tax for the instant year. The amount so computed is the excise tax.

The computation schedule given in the following page will make this clearer.

Note: I have as yet not been able to imagine even a remotely practical scheme for distinguishing between increases in income from defense activities and from others; nor do I think the distinction of any validity except for very short periods. The high level (when it exists) of wages, salaries, etc., in direct defense industries will force up rather quickly those in other non-defense industries if they have economic justification under these conditions; and prosperity will come as a result of defense industries to others that are not defense in any direct sense, e.g. stores and hotels in cities adjacent to military camps, or in Washington; or capital gains due to inflation.

ILLUSTRATIVE COMPUTATION SCHEDULE

Line No.

1. Total net income last year		_____
2. Deduct total income taxes plus \$1500		_____
3. Net spendable income last year		_____
4. Total net income this year		_____
5. Deduct total income tax paid and payable thereon		_____
6. Deduct \$1500	<u>\$1500.</u>	_____
7. Total spendable income this year		_____
8. Increase of spendable income (Line 6 - Line 3)		_____
9. Per cent increase of spendable income (not over 50)(Line 8 ÷ Line 4)		_____
10. Excise tax (Line 5 x Line 9)		_____

A table of selected examples follows.

(Table not yet completed)

November 6, 1941

Secretary Morgenthau
George Buffington

We propose to send the attached covering letter and press release to a list of 3,000 business publications, company magazines, and house organs to increase distribution of the folder, "Know Your Taxes".

The press release is substantially the same as the one released to the newspapers October 26. Messrs. D. W. Bell and Kuhn have seen the letter and Mr. Schwarz prepared the press release. May I have your signature on the letter which will be dupligrapped.

GB:amo 11/6/41



TREASURY DEPARTMENT

WASHINGTON

November 10, 1941

Mr. Walter A. Reiners, Adv. Mgr.,
Dugan's,
1270 Abington Ave.,
Newark, N. J.

Dear Mr. Reiners:

I have had prepared recently a folder, "Know Your Taxes", containing tables showing taxpayers how much of their monthly income will have to be set aside regularly to meet tax payments next year. We believe it desirable to have this information in the hands of taxpayers as promptly as possible.

A copy of the folder and a suggested press release which you may desire to print in the next issue of your publication are enclosed herewith. Corporations desiring to distribute the folder to employees may secure a supply either from the Federal Reserve bank in their district or direct from the Treasury Department, Washington, D. C.

I think you will agree that taxes are a vital part of our defense program, and I shall appreciate very much your cooperation.

Very truly yours,

A handwritten signature in cursive script that reads "H. Morgenthau Jr.".

Secretary of the Treasury.

Enclosures.

DEFENSE

BUY
UNITED
STATES
WARREN
BONDS
AND
STAMPS

TREASURY DEPARTMENT
Washington

FOR RELEASE UPON RECEIPT

Secretary of the Treasury Morgenthau has asked employers throughout the country to write to him for copies of the new "KNOW YOUR TAXES" folder for distribution to their employees. The folder contains five tables which tell at a glance the approximate amount of individual income taxes due next year on 1941 salary and wage incomes of selected sizes, and the amount of monthly savings needed to meet these payments.

Early this month, through arrangements made with the Federal Reserve banks, copies of the folder were sent to depositors of commercial banks along with their regular statement of accounts. Treasury officials believe, however, that the information should be in the hands of wage earners who do not have checking accounts and therefore are asking employers to request a sufficient supply of the folders for their organizations.

Secretary Morgenthau explained the new tax tables suggest the easy savings plan inaugurated last August 1. At that time the Treasury placed on sale a new type of security known as Tax Savings Notes which enables taxpayers to save systematically and conveniently to meet next year's higher taxes. These notes bear interest when used in payment of Federal income taxes and provide the purchaser with an investment in advance to meet future taxes.

The Secretary reiterated to the employers his belief that it is extremely important for taxpayers to budget their taxes in view of the greatly increased levies, and expressed the hope that this new plan would be helpful.

The new tables disclose, for instance, that if your net income for 1941 is \$5,000 and you are a single person with no dependents, you must save at the rate of \$40 every month, or \$480 a year, for your Federal income taxes. If you are married but have no dependents, your savings for taxes should amount to \$31 per month, or \$375 a year. If you are married and have one dependent, you must save \$27 a month, or \$323 a year. If you are married and have two dependents, you must save \$23 a month, or \$271 a year. If you are married and have three dependents, you must save \$18 per month, or \$219 a year, for the payment of Federal income taxes.

These tables begin at the lowest taxable amount and include income tax classifications up to net incomes of \$25,000 a year. The Tax Savings Notes being offered by the Treasury are issued in two series, both dated August 1, 1941, and maturing August 1, 1942. They cannot be presented in payment of income taxes before January 1, 1942, and must be held by the purchaser at least three months if they are to be used for that purpose. On January 1 of each year thereafter, two new series of notes will be provided so that a taxpayer can always purchase notes during the entire year in which he is receiving his income for use in payment of taxes due the following year.

UNITED STATES TREASURY

KNOW YOUR TAXES



TAX SAVINGS PLAN

START SAVING NOW to make tax payments easier

You will see from the tables that if your net income for 1941 is \$5,000 and you are a single person with no dependents, you must save at the rate of \$40 every month or \$493 a year for your Federal income tax. If you are married but have no dependents, your savings for taxes should amount to \$31 per month or \$375 a year. If you are married and have one dependent, you must save \$27 per month or \$323 a year. If you are married and have two dependents, you must save \$13 per month or \$273 a year. If you are married and have three dependents, you must save \$16 per month or \$219 a year for the payment of Federal income taxes.

CONSULT YOUR BANK about Tax Savings Notes.

The Tax Savings Notes being offered by the Treasury to make it easier for taxpayers to plan ahead are being issued in two series, both dated August 1, 1941, and maturing August 1, 1943. They bear interest only when used to pay income taxes up to and including the month when the tax payment is made. The notes cannot be presented for payment of income taxes before January 1, 1942, and must be held by the purchaser at least three months if they are to be used for that purpose. On January 1 of each year hereafter, two new series of Notes will be provided so that a taxpayer can always purchase Notes during the year in which he is receiving his income for the payment of taxes due the following year. Plan how to save some part of your income during the remaining months of the calendar year to be used for payment of Federal income taxes.

The Treasury urges that you go immediately to your neighborhood bank to secure detailed information about the Tax Savings Plan and how you personally can best take advantage of it. Treasury Department Circular No. 667 describing the Tax Savings Notes in detail has been sent to all banks, where you will find someone who will be glad to answer any questions.

It is extremely important that the increased Federal income taxes vitally necessary for National Defense be provided for in your budget as you would pay for other expenses.

A Message to Taxpayers from the Secretary of the Treasury

Through our representatives in Congress we have decided upon an "all-out" defense program. We have also expressed our preference for paying as much as possible of the cost of defense out of current earnings.

Your Government, therefore, is anxious that each taxpayer know as promptly as possible what his income tax bill will be. As a service to the taxpayers, I have had prepared the attached tables showing what you will have to pay in the coming year, and how much of your monthly income you should set aside regularly for tax payments.

Tax Savings Notes are now being sold by the Treasury because thousands of citizens asked for a plan to enable them to save money systematically and conveniently for this purpose. When you examine the attached tables you will, I think, see the usefulness of these Treasury Notes in helping you to meet your own tax payments next year. I am sure that your neighborhood bank will be glad to help you start such a savings program. If you wish any additional information, I shall be glad to have you write to me at the Treasury Department, Washington, D. C.

Henry Morgenthau, Jr.
Secretary of the Treasury

October 20, 1941.

The attached tables show how much you will have to pay in individual income taxes on 1941 salary and wage incomes of selected sizes and the savings needed to meet these payments.

If your gross income is not more than \$3,000 and consists wholly of salaries, wages, other compensation for personal services, dividends, interest, rent, annuities, or royalties, you may make your tax payments in accordance with the instructions contained in Form 1040-A. In this case your tax will be slightly different from that shown in the following tables, but the monthly savings necessary will be approximately the same.

Table showing how much you will have to pay in individual income taxes on salary and wage incomes of selected sizes and the monthly savings needed to meet these 1941 income tax payments.¹

Single person—Not head of family—No dependents

If your net income from salary or wages is—	You will have to pay under the 1941 Act—	You will need to save every month to meet 1941 tax payments—
\$750		
\$800	40	17
\$900	11	31
\$1,000	21	2
\$1,100	31	3
\$1,200	40	3
\$1,300	50	4
\$1,400	59	5
\$1,500	69	6
\$2,000	117	10
\$2,500	165	14
\$3,000	221	18
\$3,500	284	24
\$4,000	347	29
\$5,000	480	40
\$6,000	640	54
\$7,000	825	69
\$8,000	1,091	86
\$9,000	1,247	104
\$10,000	1,493	124
\$11,000	1,749	146
\$12,000	2,045	170
\$13,000	2,331	194
\$14,000	2,657	221
\$15,000	2,994	250
\$16,000	3,354	280
\$17,000	3,722	310
\$18,000	4,112	343
\$19,000	4,509	379
\$20,000	4,929	411
\$21,000	5,357	446
\$22,000	5,807	484
\$23,000	6,264	522
\$24,000	6,744	562
\$25,000	7,224	602

¹ Computed on the annual dollar.
² Less than 50 cents.

START SAVING NOW to make tax payments easier

You will see from the tables that if your net income for 1941 is \$5,000 and you are a single person with no dependents, you must save at the rate of \$40 every month or \$483 a year for your Federal income tax. If you are married but have no dependents, your savings for taxes should amount to \$31 per month or \$375 a year. If you are married and have one dependent, you must save \$27 per month or \$323 a year. If you are married and have two dependents, you must save \$23 per month or \$271 a year. If you are married and have three dependents, you must save \$18 per month or \$219 a year for the payment of Federal income taxes.

CONSULT YOUR BANK about Tax Savings Notes.

The Tax Savings Notes being offered by the Treasury to make it easier for taxpayers to plan ahead are being issued in two series, both dated August 1, 1941, and maturing August 1, 1943. They bear interest only when used to pay income taxes up to and including the month when the tax payment is made. The notes cannot be presented for payment of income taxes before January 1, 1942, and must be held by the purchaser at least three months if they are to be used for that purpose. On January 1 of each year hereafter, two new series of Notes will be provided so that a taxpayer can always purchase Notes during the current year in which he is receiving his income for the payment of taxes due the following year. Plan now to save some part of your income during the remaining months of this calendar year to be used for payment of Federal income taxes.

The Treasury urges that you go immediately to your neighborhood bank to secure detailed information about the Tax Savings Plan and how you personally can best take advantage of it. Treasury Department Circular No. 867 describing the Tax Savings Notes in detail has been sent to all banks, where you will find someone who will be glad to answer any questions.

It is extremely important that the increased Federal income taxes vitally necessary for National Defense be provided for in your budget as you would provide for other expenses.

43

UNITED STATES TREASURY

KNOW YOUR TAXES



TAX SAVINGS PLAN

A Message to Taxpayers from the Secretary of the Treasury

Through our representatives in Congress we have decided upon an "all-out" defense program. We have also expressed our preference for paying as much as possible of the cost of defense out of current earnings.

Your Government, therefore, is anxious that each taxpayer know as promptly as possible what his income tax bill will be. As a service to the taxpayers, I have had prepared the attached tables showing what you will have to pay in the coming year, and how much of your monthly income you should set aside regularly for tax payments.

Tax Savings Notes are now being sold by the Treasury because thousands of citizens asked for a plan to enable them to save money systematically and conveniently for this purpose. When you examine the attached tables you will, I think, see the usefulness of these Treasury Notes in helping you to meet your own tax payments next year. I am sure that your neighborhood bank will be glad to help you start such a savings program. If you wish any additional information, I shall be glad to have you write to me at the Treasury Department, Washington, D. C.

Henry Morgenthau Jr.
Secretary of the Treasury

October 20, 1941.

The attached tables show how much you will have to pay in individual income taxes on 1941 salary and wage incomes of selected sizes and the savings needed to meet these payments. If your gross income is not more than \$3,000 and consists wholly of salaries, wages, other compensation for personal services, dividends, interest, rent, annuities, or royalties, you may make your tax payments in accordance with the instructions contained in Form 1040-A. In this case your tax will be slightly different from that shown in the following tables, but the monthly savings necessary will be approximately the same.

Tables showing how much you will have to pay in individual income taxes on salary and wage incomes of selected sizes and the monthly savings needed to meet these 1941 income tax payments.¹

Single person—Not head of family—No dependents

If your net income (and salary or wages) is—	You will have to pay under the 1941 Act—	You will need to save every month to meet your tax payments—
\$750.....		
\$800.....	82	10
\$900.....	11	11
\$1,000.....	21	2
\$1,100.....	31	5
\$1,200.....	40	3
\$1,300.....	50	4
\$1,400.....	59	5
\$1,500.....	69	6
\$2,000.....	117	10
\$2,500.....	165	14
\$3,000.....	221	18
\$3,500.....	284	24
\$4,000.....	347	29
\$5,000.....	483	40
\$6,000.....	640	54
\$7,000.....	825	69
\$8,000.....	1,031	86
\$9,000.....	1,247	104
\$10,000.....	1,484	124
11,000.....	1,740	146
12,000.....	2,005	170
\$13,000.....	2,331	194
\$14,000.....	2,667	221
\$15,000.....	2,994	250
\$16,000.....	3,354	280
\$17,000.....	3,722	310
\$18,000.....	4,112	343
\$19,000.....	4,509	376
\$20,000.....	4,929	411
\$21,000.....	5,257	446
\$22,000.....	5,807	484
\$23,000.....	6,264	523
\$24,000.....	6,744	562
\$25,000.....	7,224	602

¹ Computed to the nearest dollar.
² Less than 30 cents.

Table showing how much you will have to pay in individual income taxes on salary and wage incomes of selected sizes and the monthly savings needed to meet these 1941 income tax payments.¹

Married person living with husband or wife—No dependents

If your net income from salary or wages is—	You will have to pay, under the 1941 Act—	You will need to save every month to meet 1941 tax payments—
\$1,500		
\$1,600	56	51
\$1,700	13	1
\$1,800	23	2
\$1,900	32	3
\$2,000	42	4
\$2,100	52	4
\$2,200	61	5
\$2,300	71	6
\$2,400	80	7
\$2,500	90	8
\$3,000	138	12
\$3,500	186	16
\$4,000	249	21
\$4,500	312	26
\$5,000	375	31
\$6,000	521	43
\$7,000	657	57
\$8,000	873	73
\$9,000	1,079	90
\$10,000	1,305	109
\$11,000	1,551	129
\$12,000	1,817	151
\$13,000	2,103	176
\$14,000	2,409	201
\$15,000	2,739	228
\$16,000	3,084	257
\$17,000	3,444	287
\$18,000	3,819	318
\$19,000	4,209	351
\$20,000	4,614	385
\$21,000	5,034	420
\$22,000	5,469	456
\$23,000	5,919	493
\$24,000	6,384	532
\$25,000	6,864	572

¹ Computed to the nearest dollar.

Table showing how much you will have to pay in individual income taxes on salary and wage incomes of selected sizes and the monthly savings needed to meet these 1941 income tax payments.¹

Married person living with husband or wife—One dependent

If your net income from salary or wages is—	You will have to pay, under the 1941 Act—	You will need to save every month to meet 1941 tax payments—
\$1,500		
\$1,600		
\$1,700		
\$1,800		
\$1,900		
\$2,000	86	81
\$2,100	12	1
\$2,200	21	2
\$2,300	31	3
\$2,400	40	3
\$2,500	50	4
\$3,000	98	8
\$3,500	146	12
\$4,000	197	16
\$4,500	260	22
\$5,000	323	27
\$6,000	453	38
\$7,000	619	52
\$8,000	789	66
\$9,000	965	83
\$10,000	1,265	106
\$11,000	1,451	121
\$12,000	1,701	142
\$13,000	1,987	166
\$14,000	2,277	190
\$15,000	2,607	217
\$16,000	2,940	245
\$17,000	3,300	275
\$18,000	3,663	305
\$19,000	4,053	338
\$20,000	4,446	371
\$21,000	4,866	406
\$22,000	5,289	441
\$23,000	5,729	478
\$24,000	6,192	516
\$25,000	6,672	556

¹ Computed to the nearest dollar.

Table showing how much you will have to pay in individual income taxes on salary and wage incomes of selected sizes and the monthly savings needed to meet these 1941 income tax payments.¹

Married person living with husband or wife—Two dependents

If your net income from salary or wages is—	You will have to pay, under the 1941 Act—	You will need to save every month to meet 1941 tax payments—
\$1,500		
\$1,600		
\$1,700		
\$1,800		
\$1,900		
\$2,000		
\$2,100		
\$2,200		
\$2,300		
\$2,400	86	81
\$2,500	12	1
\$3,000	56	5
\$3,500	106	10
\$4,000	154	13
\$4,500	205	17
\$5,000	271	23
\$6,000	397	33
\$7,000	551	46
\$8,000	717	60
\$9,000	911	76
\$10,000	1,117	93
\$11,000	1,351	113
\$12,000	1,597	138
\$13,000	1,871	160
\$14,000	2,157	190
\$15,000	2,475	200
\$16,000	2,805	234
\$17,000	3,156	263
\$18,000	3,516	293
\$19,000	3,897	325
\$20,000	4,287	357
\$21,000	4,698	392
\$22,000	5,118	427
\$23,000	5,559	463
\$24,000	6,009	501
\$25,000	6,480	540

¹ Computed to the nearest dollar.

Table showing how much you will have to pay in individual income taxes on salary and wage incomes of selected sizes and the monthly savings needed to meet these 1941 income tax payments.¹

Married person living with husband or wife—Three dependents

If your net income from salary or wages is—	You will have to pay, under the 1941 Act—	You will need to save every month to meet 1941 tax payments—
\$1,500		
\$1,600		
\$1,700		
\$1,800		
\$1,900		
\$2,000		
\$2,100		
\$2,200		
\$2,300		
\$2,400		
\$2,500		
\$3,000	118	82
\$3,500	66	6
\$4,000	114	10
\$4,500	162	14
\$5,000	210	18
\$6,000	343	29
\$7,000	480	40
\$8,000	640	54
\$9,000	827	69
\$10,000	1,033	86
\$11,000	1,251	104
\$12,000	1,497	123
\$13,000	1,755	146
\$14,000	2,041	170
\$15,000	2,343	193
\$16,000	2,673	223
\$17,000	3,012	251
\$18,000	3,372	281
\$19,000	3,741	312
\$20,000	4,131	344
\$21,000	4,530	378
\$22,000	4,950	413
\$23,000	5,379	448
\$24,000	5,829	486
\$25,000	6,288	524

¹ Computed to the nearest dollar.

*F. Kuhn please see that
this letter is correct 24*

November 6, 1941

To: Secretary Morgenthau

From: Alan Barth

*without any
delay
H. M. J.*

EDITORIAL OPINION ON NON-DEFENSE ECONOMIES

The aversion to waste being almost as universal as the aversion to sin, there is a general enthusiasm for economy in non-defense expenditures. The term "economy" is usually employed without definition and without any frame of reference. The common demand is for wholly ambiguous objectives -- non-essential expenditures should be "cut to the bone" or "completely eliminated". Indeed, the terms "non-defense" and "non-essential" appear to be used interchangeably.

Editorial writers seem to think of the financial phases of their government in cartoonists' terms. They conceive of Uncle Sam as a giant spendthrift and, despite nearly a decade of education in the social advantages of federal contributions to the national income stream, they are still prone to make no distinction between a national budget and the budget of an individual household. The Charlotte Observer offers a typical illustration of this kind of editorial thinking:

"The Treasury Department is very considerate and thoughtful of the individual citizens of this country in sending out statistical information as to HOW MUCH THEY WILL HAVE TO SAVE EACH MONTH in order to have enough of their earnings to pay their income taxes when the time rolls around * * * * If the Federal Government itself would practice the same principle and rule of economy it is now so jealous (sic) in advising the people to adopt, and save a couple of billion of dollars a year in its present non-defense spending, it would be doing itself and them, too, an everlasting favor."

There is rarely any recognition that governmental economy involves the sacrifice of governmental services, which may be of value to the taxpayer or which may reduce the burden of his local obligations.

It may be significant that the most vehement demand for economy comes from those sources which have consistently opposed large-scale governmental spending for relief, or for

other social benefits. There is a marked tendency in current editorial comments to regard the bulk of federal spending during the whole of the New Deal as sheer waste.

The goal commonly set by newspapers for reduction of non-defense expenditures ranges from one billion to two billion dollars. Very few of them, however, offer any specific recommendations whatever as to the sphere in which these economies should be effected. The Scripps-Howard chain has been carrying on a series of editorials pointing out concrete instances of governmental extravagances. It remarks, for example:

"If you are married and have an income of \$2000 a year, your federal income tax due next March 15, will be \$60, which the government may spend to provide a day's rations for 145 soldiers. And then, too, the government might use your \$60 to buy an executive type swivel chair, upholstered cushion back and seat, mahogany finish."

Beyond this sort of minor nibbling at the two billion dollar nugget, however, comments confine themselves to vague grumbings about Passamaquoddy, the Florida Ship Canal, and the St. Lawrence Seaway.

There was a good deal of applause for the President's proposal for merger of the CCC and the NYA, although a number of newspapers suggested that the complete abolition of both would be preferable. Of the two agencies, the CCC has been by far the more popular, and some editorial writers suggest that its functions ought not to be carried on under the auspices of the "radical" youth organization.

The tentative budgets submitted to the Joint Congressional Committee by Budget Director Harold D. Smith came in for a good deal of criticism. "The impression created," says The Kansas City Times with apparent indignation, "was that the whole accumulated spending of the last eight or nine years was both necessary and patriotic business."

According to The Times, Mr. Smith told a meeting of the American Municipal Association that cities of the country can aid defense by postponing or cutting down all expenditures that might compete directly with the defense program. It quotes him as saying: "The more restraint that is exercised by public and private consumers, the less will be the need for direct controls from Washington."

"In other words," the editorial observes, "unless there is voluntary economy by other people, Washington will see that it is enforced, but

what about an example in economy from Washington itself? What about its spending, present and proposed, that competes directly with defense * * * and in view of all the new employment, reduced needs for relief, and the like, why should economy be hard for Washington and easy for the rest of the country. For the Budget Director's study, we would suggest the Scriptural injunction, 'Physician, heal thyself'."

Both the Secretary of the Treasury and Senator Byrd have received warm praise from the press for initiating the movement toward governmental economy. In this movement there is seen by some commentators a return to the principle of Congressional control over the national purse strings. The Baltimore Sun, which has made the subject of non-defense economies one of its principal editorial objectives, makes this observation:

"The establishment of the Joint Committee on Non-Essential Expenditures * * * provides a sort of Congressional rallying point around which the forces of prudence and economy may group themselves. It represents a check on the unlimited discretion in budgetary matters which the Executive

has enjoyed for 20 years. It is a temporary check addressed to the particular physical problem arising out of the defense emergency, but it creates a precedent which may have weight in future matters of the same kind."

Letters to editors, as well as the comments of the editors themselves show a widespread conviction that the Government, in some respects at least, is spending unwisely and extravagantly. Awareness of higher taxes has heightened public disapproval on this score. There appears to be no doubt that a genuine effort toward the curtailment of non-defense expenditures would enlist a higher degree of sympathy for and cooperation with the defense effort.

HARRY FLOOD BYRD, VA., CHAIRMAN
 PAT HARRISON, MISS.
 EDWINH MCCOLLAR, TENN.
 ALVA W. ADAMS, CALIF.
 T. M. GILLETTE, IOWA
 ALEX D. ANDREWS, FLA.
 JET W. LUCAS, ILL.
 JOHN H. BARKHEAD, ALA.
 ARTHUR H. VANDERBERG, MICH.
 W. WARREN BARBOUR, N. J.
 CHARLES W. TOWSE, N. H.
 WALLACE H. WHITE, JR., MAINE

United States Senate

COMMITTEE ON RULES

M. J. MOWEE, CLERK

November 6, 1941 d

The Honorable Henry Morgenthau, Jr.

The Secretary of the Treasury

My dear Mr. Secretary:

I have been awaiting word from you as to when you will have the information ready for the consideration of the Joint Committee to Reduce Non-Essential Spending, so that I may call a meeting.

Please let me know when you will have this information, as I should like to call a meeting shortly after next Tuesday, Armistice Day. I understand some of the members of the Committee will be away until then.

With best wishes, I am

Faithfully yours,

Harry J. Byrd

Handwritten note:
 Forwarded by [unclear]
 [unclear] [unclear] [unclear]
 [unclear] [unclear] [unclear]
 [unclear] [unclear] [unclear]
 [unclear] [unclear] [unclear]

NOV 9 1941

Secretary Morgenthau
Mr. Foley

Attached is a report prepared by Mr. Bernard's office to assist you in your work as a member of the Joint Senate and House Committee on economy. This is submitted in accordance with the request in your memorandum of October 17 and my reply thereto.

The billion dollar omnibus navigation and power program bill which is mentioned in your memorandum has not as yet been introduced by the House Rivers and Harbors Committee. A report will be made on it after it has been introduced.

We shall continue a close check on bills currently introduced and committee or other action on all bills, and will make further reports from time to time.

(Initialed) E. H. P., Jr.

WMC:mb - 11/3/41

The list below includes a digest of pertinent provisions and the status of bills in the 77th Congress relating to non-defense expenditures or possible diversion of funds in an uneconomic manner which bills involve or might involve sums approximating \$10,000,000 or more. Because many bills involving large amounts of money are in effect "crack-pot" bills and therefore never get beyond committee consideration, only bills introduced prior to September 1 which committees reported out are included; however, all pertinent bills introduced in September and October, 1941, are listed. Future check will cover new bills and also any action on pending bills and reports will include all significant developments.

Some of the bills listed are perhaps partially, at least, of a defense character, but have been included so that any error would be one of over-inclusion rather than exclusion. In addition, certain bills, as noted, have support of the Administration and probably are not, therefore, subject to economy reductions.

A check made by the Bureau of Accounts has revealed no outstanding non-defense authorizations of appreciable size by laws enacted in the 76th Congress or the 77th Congress.

A. Bills acted upon prior to November 1, 1941.

Number: H. R. 4

Title: "To provide more adequate compensation for certain dependents of World War Veterans, and for other purposes."

Features: The principal feature appears to be extension of pension payments to dependent widows, children and parents of deceased World War Veterans somewhat in the same manner as has been done for veterans of other wars. The report of the Veterans' Administration on the bill (reprinted in H.R. Rep. No. 381) suggests the measure is a variation from the original approach to the pension problem (i.e., use of workmen's compensation standards rather than pure pension standards) adopted in relation to the World War Veterans. The maximum pension under the bill for a widow and children would be \$55 a month. As revealed by Report No. 381, supra, the Veterans' Administration estimated the first year cost would be \$22,238,000 with subsequent costs greater.

Status: Passed House June 16, 1941. Referred to Senate Committee on Finance, June 19, 1941.

Number: H. R. 4137

Title: "To extend the benefits of the Act of August 29, 1935, relating to Federal assistance in the acquisition and development of State forests to counties, municipalities, and other political subdivisions."

Features: Authorizes not exceeding \$10,000,000 to be appropriated, with \$2,500,000 limit per year, to assist States in acquiring forest areas. The bill modifies Act of August 29, 1935, by increasing the authorization and extending the provisions to political subdivisions of States.

Status: Reported from House Committee on Agriculture June 13, 1941 and now pending in the House.

Number: H. R. 4937

Title: "To amend an Act entitled 'An Act to authorize an appropriation for roads on Indian reservations'."

Features: Authorizes appropriations without specific limit for construction of roads on Indian reservations with purpose to expand usefulness of funds authorized by existing law.

Status: Reported June 19, 1941, from Committee on Indian Affairs and is now pending in House. Most recently passed over without prejudice October 21, 1941.

Number: S. 1544

Title: "To provide for cooperation with Central American republics in the construction of the Inter-American Highway."

Features: \$20,000,000 authorized for cooperation in the construction of the Inter-American Highway in certain Central American republics.

Status: Passed Senate May 28, 1941. Favorably reported by House Committee on Foreign Affairs and placed on consent calendar. Most recently passed over without prejudice October 21, 1941. Has support of President and War and Navy, as well as State, which Department appears to have been the principal sponsor.

Number: S. 1840

Title: "Defense Highway Act of 1941."

Features: As amended by House this bill authorizes \$170,000,000 for access roads, flight strips, and surveys and plans in addition to normal highway authorizations.

Status: The bill is in conference. The first impetus for this legislation came from the President who, however, vetoed a previous bill because of certain undesirable pork-barrel features. The present bill is an attempt to meet the reasons for the President's veto while still retaining as much pork-barrel as possible.

B. Bills which on November 1, 1941 have not been acted upon.

Number: H. R. 5639

Title: "To authorize the Federal Government to contribute funds in the improvement of a section of the New York State Barge Canal."

Features: Sec. 2 appropriates \$50,000,000, or as much thereof as may be needed, for improvement of New York State Barge Canal system from Three Rivers Point to the Niagara

River. Sec. 5 provides payments under Act in any fiscal year shall not exceed appropriate allocation from any annual War Department Appropriation Act.

Status: Introduced September 15, 1941 by Representative Bitter; referred to House Committee on Rivers and Harbors.

Number: H. R. 5641

Title: "To provide for the disposal of surplus agricultural commodities."

Features: Proposes to divert import duties to financing of export of surplus agricultural commodities.

Status: Introduced by Representative Collins September 15, 1941, and referred to the Committee on Ways and Means.

Number: H. R. 5669

Title: "To increase the amount of funds available for the disposal of surplus agricultural commodities."

Features: Proposes that 100 per cent of gross receipts from customs duties be appropriated each fiscal year to increase funds available for the disposal of surplus agricultural commodities.

Status: Introduced by Representative Rankin September 17, 1941, and referred to the Committee on Agriculture.

Number: H. R. 5981

Title: "To promote the general welfare of the Nation by providing work on public projects to persons in need of employment, and for other purposes."

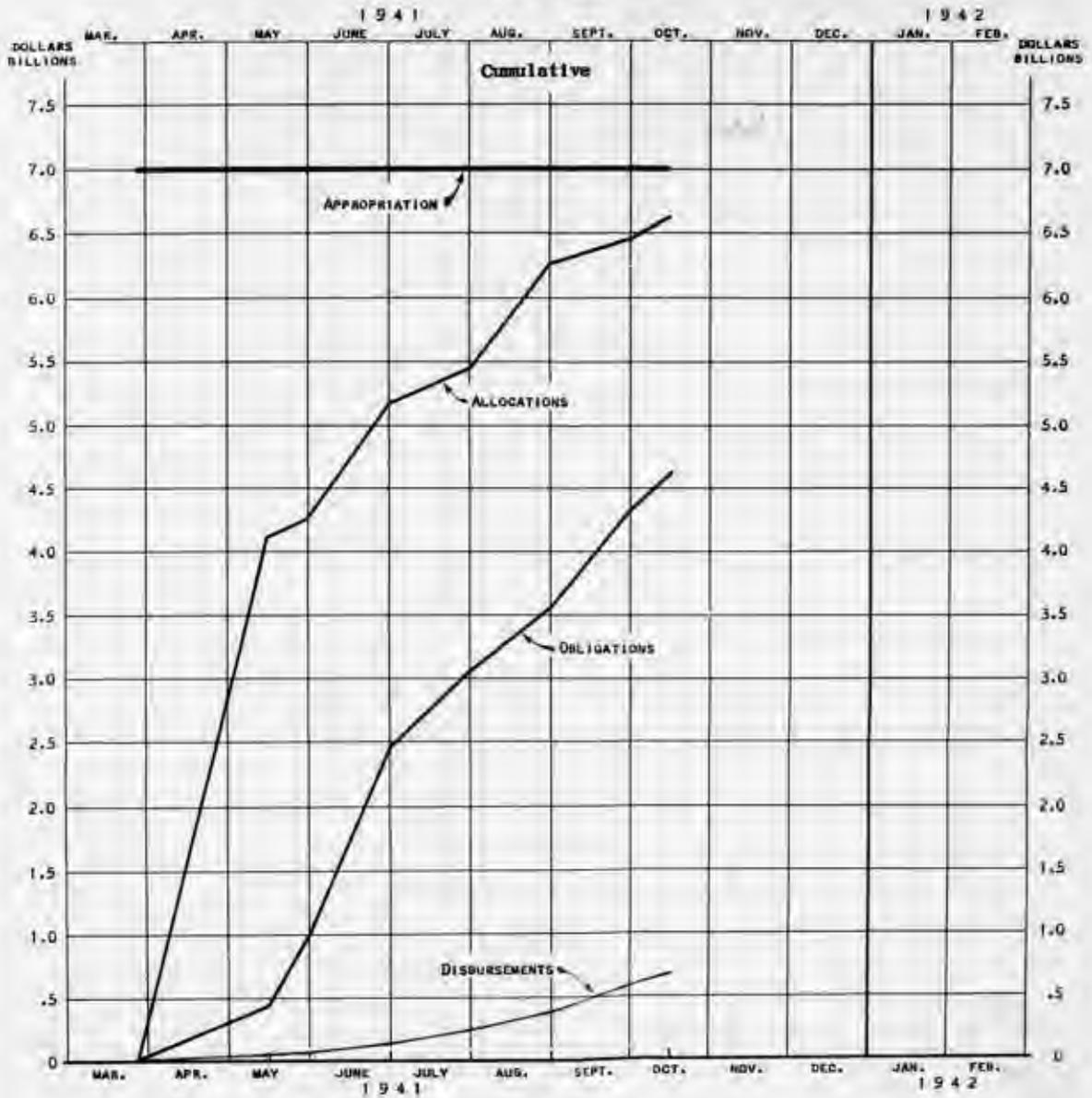
Features: Proposes creation of Public Works Projects Administration as agency in Federal Works Agency to build (etc.) public works and to make plans for a "reservoir of projects". Appropriation is authorized of such sums as are necessary to carry out the provisions.

Status: Introduced by Representative Voorhis October 30, 1941, and referred to the House Committee on Appropriations.

FIRST APPROPRIATION FOR LEND-LEASE

CONFIDENTIAL

Approved March 27, 1941



(in millions of dollars)

	Mar. 27	May 15	May 31	June 30	July 31	Aug. 31	Sept. 30	Oct. 15
Cumulative								
Appropriation...	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000
Allocations....	-	4,132	4,277	5,177	5,446	6,281	6,456	6,638
Obligations.....	-	446	595	2,458	3,057	3,556	4,331	4,620
Disbursements...	-	49	68	140	252	389	590	676
	Mar. 27	May 16-	June 1-	July 1-	Aug. 1-	Sept. 1-	Oct. 1-	
	-May 15	May 31	June 30	July 31	Aug. 31	Sept. 30	Oct. 15	
Noncumulative								
Appropriation...	7,000	-	-	-	-	-	-	-
Allocations....	4,132	145	900	269	535	175	182	
Obligations.....	446	549	1,463	599	499	775	289	
Disbursements...	49	19	72	112	137	201	66	

SOURCE: OFFICE OF LEND-LEASE ADMINISTRATION

UNITED STATES SAVINGS BONDS

Comparative Statement of Sales During
First Four Business Days of September, October, and November, 1941
(September 1-5, October 1-4, November 1-5)
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	\$ 6,631	\$ 6,740	\$ 7,210	-\$ 109	-\$ 470	- 1.6%	- 6.5%
Series E - Banks	<u>9,682</u>	<u>10,809</u>	<u>11,547</u>	- <u>1,127</u>	- <u>738</u>	- <u>10.4</u>	- <u>6.4</u>
Series E - Total	16,313	17,549	18,757	- 1,236	- 1,208	- 7.0	- 6.4
Series F - Banks	3,491	3,830	3,574	- 339	256	- 8.9	7.2
Series G - Banks	<u>24,291</u>	<u>25,318</u>	<u>26,632</u>	- <u>1,027</u>	- <u>1,314</u>	- <u>4.1</u>	- <u>4.9</u>
Total	<u>\$44,096</u>	<u>\$46,697</u>	<u>\$48,963</u>	- <u>\$2,601</u>	- <u>\$2,266</u>	- <u>5.6%</u>	- <u>4.6%</u>

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

November 6, 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 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
3	3,377	3,421	1,442	9,092	13,954	6,798	1,442	9,092	17,332
4	1,061	2,818	738	7,205	10,761	3,879	738	7,205	11,822
5	1,175	1,694	744	3,794	6,232	2,869	744	3,794	7,407
Total	\$ 6,631	\$ 9,682	\$ 3,491	\$ 24,291	\$37,465	\$ 16,313	\$ 3,491	\$ 24,291	\$ 44,096

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

November 6, 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.

ASSISTANT SECRETARY OF THE TREASURY

November 6, 1941.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston

Elmer Irey's office received yesterday thirty reports from F.B.I. on defense candidates for employment. In the cases of twenty-seven F.B.I. reported "No record." Information from their files was given in three cases. These are the first reports of this kind since mid-July.



NOV 8 1941

My dear Mr. Secretary:

Receipt is acknowledged of your letter of November 3, 1941 (your reference (SC)A7-5/E7, Serial No. 01136716), wherein you state that the Navy Department considers appropriate for the purpose intended the proposed Executive Order authorizing the Department of the Treasury, in furtherance of national defense, to deliver to other Government departments or agencies of the United States articles in its possession which may be of interest to such departments or agencies.

Very truly yours,

(Signed) H. Horowitz, Jr.

Secretary of the Treasury.

The Honorable

The Secretary of the Navy.

JAG:fsz
11/5/41

n.m.c. Photostat file
Original file in Thompson

THE SECRETARY OF THE NAVY
WASHINGTON

64

(SC)A7-5/ET
Serial No. 01136716

~~CONFIDENTIAL~~
CONFIDENTIAL

Sir:

Reference is made to confidential memorandum of August 20, 1941, from Mr. Samuel Klaus of your Department to Commander Hoskett of the Office of Naval Intelligence. Reference is also made to confidential memorandum of August 26, 1941 from Mr. Klaus to Lieutenant Mackall of the Office of Naval Intelligence, transmitting a draft of a proposed executive order which would permit the Department of the Treasury to deliver to other Government agencies such articles, coming into its possession through its Customs Service or other Bureaus, as are of interest to the national defense.

It is my understanding that this proposed order has been revised in accordance with suggestions by representatives of your Department, the Division of Naval Intelligence and the Military Intelligence Division of the War Department, and embodies in substance the amendment suggested by the Secretary of War in his recent communication to you regarding this same subject. Therefore, since such articles are frequently of definite value from the standpoint of Naval Intelligence, and in view of the agreed upon changes which were incorporated in the order, the Navy Department considers the proposed executive order to be appropriate for the purpose intended. As a matter of confirmation there is enclosed herewith a copy of the proposed order.

I believe that this letter will obviate the necessity of having this matter referred again to the Navy Department by the Bureau of the Budget.

Respectfully,



The Honorable,

FRANK KNOX

The Secretary of the Treasury.

EXECUTIVE ORDER

AUTHORIZING THE TRANSFER OF CERTAIN PROPERTY
BY THE SECRETARY OF THE TREASURY

By virtue of the authority vested in me as President of the United States and as Commander in Chief of the Army and Navy, and in the interests of national defense, it is hereby ordered that the Secretary of the Treasury, if he finds that the interests of national defense or the proper execution of the laws of the United States or of any rule or regulation issued thereunder will be promoted or furthered thereby, may and he is hereby authorized to cause to be delivered to any other department or agency of the United States, or officer thereof, upon such terms and conditions as he deems proper, any article or property in any way destined to a point outside from a point inside the United States or from a point outside to a point inside the United States or destined to or from a point in any Territory or possession, or in the Canal Zone or the Philippine Islands from or to a point outside such Territory or possession or the Canal Zone or the Philippine Islands, which has heretofore or may hereafter come into the custody or possession of the officers of the Department of the Treasury or of any bureau, office, agency, or division thereof. Any article or property so delivered shall be returned forthwith to the Department of the Treasury upon request by the Secretary of the

Treasury. The Secretary of the Treasury in making the finding required by this order may receive and act upon the recommendations of the Secretary of War or the Secretary of the Navy. The Secretary of the Treasury may designate any officer or employee of the Department of the Treasury to act for him in carrying out the provisions of this order, and the officer or employee so designated shall have all the power and authority conferred by this order upon the Secretary of the Treasury.

Section 2. The term "United States" as used in a geographical sense in this order shall not include Territories, possessions, the Canal Zone, or the Philippine Islands.

THE WHITE HOUSE,

August , 1941.

NOV 6 1941

My dear Mr. President:

There is enclosed herewith, for your approval, a proposed amendment to the Rules and Regulations for the Anchorage and Movements of Vessels and the Lading and Discharging of Explosive or Inflammable Material, or Other Dangerous Cargo, issued with your approval on October 29, 1940, pursuant to the authority of section 1, Title II of the Act of June 15, 1917, 40 Stat. 220 (U.S.C. title 50, sec. 191), and your Proclamation of June 27, 1940.

The purpose of the proposed amendment is to establish a restricted area for naval operations in San Francisco Bay, California, extending across the entrance to the Bay. The area will be used for the installation of net-and-boom defenses and forms a part of the joint Army and Navy plan for the defense of San Francisco Harbor. The proposed regulations will prohibit any navigation in the North Section of the restricted area except with the permission of the captain of the port. Vessels may cross the restricted area only through the South Section. The net-and-boom may be erected at any time in the South Section leaving an opening

600 feet wide for navigation. The proposed regulations provide for publication of notice after which no vessel may anchor or navigate in the South Section except with the permission and subject to the direction of the captain of the port. This will permit prompt extension of strict control over all navigation across the restricted area when the net-and-beam is extended.

Approval of the proposed regulations is recommended.

Faithfully yours,

(Signed) H. Morgenthau, Sr.

Secretary of the Treasury.

The President,

The White House.

-2-

By Messenger *Stanger* 4:10

D.M.C.

Typed 10-22-41

GMH:mb

TITLE 33 - NAVIGATION AND NAVIGABLE WATERS
 CHAPTER I - COAST GUARD, DEPARTMENT OF THE TREASURY
 PART 7 - ANCHORAGE AND MOVEMENTS OF VESSELS AND THE
 LADING AND DISCHARGING OF EXPLOSIVE OR INFLAMMABLE
 MATERIAL, OR OTHER DANGEROUS CARGO.

Pursuant to the authority contained in section 1, Title II of the Act of June 15, 1917, 40 Stat. 223 (U.S.C. title 30, sec. 191), and a Proclamation issued June 27, 1940 (5 F.R. 2419), the Rules and Regulations for the Anchorage and Movements of Vessels and the Lading and Discharging of Explosive or Inflammable Material, or Other Dangerous Cargo, approved October 29, 1940 (5 F.R. 4401), as amended, are hereby further amended as follows:

§ 7.10 (c) is amended by adding the following subparagraph:

§ 7.10 Anchorage Regulations for certain parts of the United States.

* * * * *

(c) * * * * *

(10) San Francisco Bay, California: restricted area for Naval Operations. (1) The following area in San Francisco Bay, California, divided into a North Section and a South Section, is hereby designated a restricted area for Naval operations:

An area in San Francisco Bay, the five corners of which are the following true bearings and distances from the point described:

(a) 228°, 2000 yards from Point Stuart Light; (b) 233°, 1,500 yards from Point Stuart Light; (c) 230°, 1,370 yards from Alcatraz Light; (d) 215°, 2,575 yards from Alcatraz Light; (e) 234°, 2,705 yards from Alcatraz Light. The area is divided into a North

Section and a South Section by a line through buoy "A", bearing 245° , 2,200 yards from Alcatraz Light and "B", bearing 225° , 2,215 yards from Alcatraz Light.

(ii) No vessel except those engaged in Naval operations shall navigate or anchor in the North Section without the permission of the captain of the port.

(iii) Vessels shall cross the restricted area only through the South Section. Upon publication of such notice through the usual channels of notice to mariners, no vessel shall navigate or anchor in the South Section except with the permission of and subject to the directions of the captain of the port.

(iv) Anchorage (temporary) No. 1 in San Francisco Bay (35 CFR 202.90 (a)(1)) is discontinued.

Secretary of the Treasury.

(Signed) H. Morgenthau, Sec

Approved:

The White House,

1941.

November 6, 1941.

My dear Admiral Waesche:

I thank you for your note of the 3rd and your thoughtfulness in paying a farewell visit to me yesterday. I have enjoyed greatly my work with and for the Coast Guard and my interest in it has not ceased with its temporary divorce from the Treasury. I hope it will soon be back.

As for your own record since I recommended you for appointment in 1936, you deserve richly the approbation: Well done.

To you and to the officers and men of the Coast Guard I extend my heartiest wishes for good fortune in the work that lies ahead. My confidence that all of you will be true to the best traditions of the Service is complete.

Sincerely,

(Signed) E. C. Berenson, Jr.

Secretary of the Treasury.

Rear Admiral Russell R. Waesche,
Commandant, U. S. Coast Guard,
Washington, D. C.

By Messenger 11-20-41

R. C. Berenson, Jr.

File to Mr. Thompson

THE COMMANDANT OF THE UNITED STATES COAST GUARD
WASHINGTON

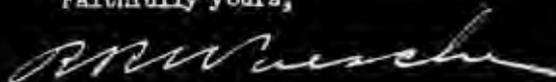
3 November 1941.

My dear Mr. Secretary:

With the transfer of the Coast Guard by Executive Order from the Treasury Department to the Navy, I would like you to know of my personal and official regret in leaving the jurisdiction of your Department, and in passing out from under your immediate direction. I trust the conditions necessitating this transfer of the Service will so change, in the not too distant future, as to permit the Coast Guard to return to its place in the Treasury organization.

I can assure you, with all sincerity that I have enjoyed working under your direction. The support you have given me in the administration of the affairs of the Coast Guard, and the initiative you have taken in furthering the development of the Service, are appreciated more than I can express.

Faithfully yours,



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

TREASURY DEPARTMENT

73

INTER OFFICE COMMUNICATION

DATE *Nov. 6, 1941*

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

There have been received by air mail a report from Robert Chambers, Chief Counsel, Bureau of Customs, and a report from Customs Agent Reilly, both dated November 2, 1941, with respect to the case of Customs Guard John K. Yeung. Yeung is charged with second degree murder for the shooting of Lt. Connelly on September 22 at the port of Honolulu. I spoke by telephone with Mr. Chambers on November 5. The following points appear from the reports and the telephone conversation:

(1) The Federal Court has granted a continuance and has set the case down for trial on November 13. This will enable witnesses to arrive from the mainland and the Customs investigation to be completed.

(2) Yeung's private counsel, Mr. Espisto, made two motions which were denied. The first motion requested a quashing of the jury panel and the assembly of a new panel. The motion was based on an allegation that of

40 jurors, 37 were white. The number of whites, it was asserted, was out of proportion to their number in the population.

The second motion was one for a change of venue to another of the islands. This was based on an allegation that, due to unfavorable newspaper reports, the defendant could not secure a fair trial in the Island of Oahu.

(3) It now appears that the Army and Navy personnel are giving Mr. Chambers and the Customs investigators full cooperation. However, some difficulty is still being had with the local prosecutors and the local police.

(4) It appears that Yeung has, on several prior occasions, had difficulty with the Honolulu police. In 1936, he was arrested for assault and battery on a police officer and fined \$15.00. In 1937, he was arrested for drunkenness and fined \$1.00. In 1938, he was arrested for loitering, but the charge was stricken. According to the police records, Yeung behaved very badly and used unseemingly language at the time of his arrest for loitering. Yeung's personnel file shows several examples of

difficulties with people on the piers, which, however, are satisfactorily explained save for one occasion in 1931 when he was surly to a superior in the Customs service.

(5) Another eye witness has been found to the shooting. He is a deaf mute named Ah Kim Yam. Because of his disability, his testimony was elicited only with the greatest difficulty, and that disability may reduce the value of his testimony for court purposes. However, Yam states that he saw Lt. Connelly strike Customs Guard Yeung.

(6) The city physician examined Yeung on the day of the shooting and found no evidence of a blow. However, four other doctors of apparently good repute examined Yeung on the following day and found definite evidences that Yeung had received a blow on the jaw.

(7) The United States Attorney has not yet decided whether he will represent Yeung, but will decide on that point after he has received a full report from the Customs investigation. Mr. Chambers stated by

telephone that, on all the evidence, it is doubtful whether Yeung will be acquitted even if he gets a fair trial. Furthermore, he pointed out that there is a strong local feeling and racial feeling involved.

S.H. 76.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

77

DATE November 6, 1941

TO

Secretary Morgenthau

FROM

Mr. Pehle

You will be interested in the attached item from the New York Times of October 25, 1941, on the Lati airline.



ARGENTINE BLOCKS AXIS AIRLINE FUEL

Halt in Gasoline Sale to Lati Expected to Cut Off Its Buenos Aires Flights

PART OF EUROPEAN LINK

Action Emphasizes Process in South America of Ending German-Italian Services

By **ARNALDO CORTESE**

SPECIAL CABLE TO THE NEW YORK TIMES.
BUENOS AIRES, Argentina,
Oct. 24—The Buenos Aires-Rio de Janeiro link of the Italian Lati line, the Axis air connection between this continent and Europe, appeared today destined to early extinction, in view of a notice served on Lati by Yacimientos Petroliferos Fiscales, the Argentine Government Oilfields concern, that in the future it would be unable to deliver aviation gasoline to the line.

The only other possible sources of supply are American and British oil companies, and they have refused to sell to the Axis.

Argentine Oilfields stated that it produced only about a fourth of the amount of aviation gasoline required by the flying services of the Argentine Army and Navy and could not spare any for a foreign commercial airline.

The army and navy here use about 100,000 gallons of high-octane gasoline a month. About 25,000 gallons a month are produced locally, and that largely with imported materials. About 4,000 gallons a month had been sold to Lati.

Lati is understood to have a stock of 8,000 gallons here, or enough to operate its weekly Rio de Janeiro-Buenos Aires service for about two months. Unless by that time it can replenish its supplies it will probably have to interrupt the service.

During this year the mileage of Axis-controlled airlines in South America has been cut from 22,000 to about 10,000. Peru, Ecuador, Colombia and Bolivia have eliminated commercial air services run by affiliates of the German Lufthansa.

The chief remaining Axis-controlled line on the continent is the Germans' Condor syndicate of Brazil, which runs three main services from Rio de Janeiro. One runs north to Para; another west to Bolivia, where it connects with Lloyd Aereo Boliviano, and the third south to Montevideo and Buenos Aires and then across to Santiago, Chile.

Lati began a three-day service between Rome and Rio de Janeiro in December, 1939, now operating with one plane a week each way. Early this year Lati got a permit from the Argentine Government to extend the line to Buenos Aires and started the service July 20.

For Miss Chauncey

P
Y

FEDERAL RESERVE BANK
OF NEW YORK

79

November 6, 1941

CONFIDENTIAL

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

I am enclosing our compilation for the week ended October 29, 1941, showing dollar disbursements out of the British Empire and French accounts at this bank and the means by which these expenditures were financed.

Faithfully yours,

(signed) L. W. Knoke

L. W. Knoke,
Vice President.

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

Enclosure

Copy:ec:11-10-41

Statement of Current and Reserve Accounts
(in Billions of Dollars)

PERIOD	DEBIT							CREDIT			Net Amer. (-) or Recr. (-) in Balance	DEBIT			CREDIT		Net Amer. (-) or Recr. (-) in Balance
	Total Debits	Gov't Expenditures (a)	Other Debits	Total Credits	Proceeds of Sales of			Total Debits	Gov't Expenditures (d)	Other Debits		Total Credits	Proceeds of Gold Sales	Other Credits			
					Gold	Reserves (Official) (b)	Other Credits (c)										
First year of war (8/23/39-8/28/40)*	1,793.2	605.6	1,187.6	228.2	1,356.1	52.0	420.1	+ 35.0	866.3(a)	416.6(d)	449.7	1,095.3(a)	908.2	195.1(e)	+229.0		
War period through December, 1940	2,792.7	1,425.6	1,326.7	793.1	2,109.5	108.0	575.6	+ 30.8	878.3	421.4	496.9	1,098.4	908.2	198.2	+220.1		
Second year of war (8/29/40-8/27/41)**	2,203.0	1,792.2	410.8	2,189.8	1,193.7	274.0	722.1	- 13.2	38.9	4.8	34.1	8.8	-	8.8	- 30.1		
1941																	
Aug. 28 - Oct. 1	140.9	105.9	35.0	176.2	20.1	2.0	154.1	+ 35.3	0.3	-	0.3	0.5	-	0.5	+ 0.2		
Oct. 2 - Oct. 29	109.0	77.3	31.7	150.9	0.8	-	150.1	+ 41.9	0.3	-	0.3	0.3	-	0.3	-		
Oct. 30 - Dec. 3																	
Dec. 4 - Dec. 31																	
1942																	
WEEK ENDED:																	
Oct. 8	34.3	26.2	8.1	14.7	0.8	-	13.9	- 19.6	0.2	-	0.2	0.2	-	0.2	-		
15	23.9	20.3	3.6	20.3	-	-	20.3	- 3.6	-	-	-	-	-	-	-		
22	27.0	15.4	11.6	7.2	-	-	7.2	- 19.8	0.1	-	0.1	0.1	-	0.1	-		
29	23.8	15.4	8.4(f)	108.7	-	-	108.7(g)	+ 84.9	-	-	-	-	-	-	-		

Average Weekly Expenditures Since Outbreak of War
France (through June 19, 1940) \$19.8 million

England (through June 19, 1940) 27.6 million
England (since June 19, 1940) 43.4 million

*For monthly breakdown see tabulations prior to April 23, 1941.
**For monthly breakdown see tabulations prior to October 8, 1941.
(See attached sheet for other footnotes)

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

Week ended October 29, 1941 \$ 162.7 million
Cumulation from July 6, 1940 \$ 162.7 million

- (a) Includes payments for account of British Purchasing Commission, British Air Ministry, British Supply Board, Ministry of Supply, Timber Control, and Ministry of Shipping.
- (b) Estimated figures based on transfers from the New York Agency of the Bank of Montreal, which apparently represent the proceeds of official British sales of American securities, including those effected through direct negotiation. In addition to the official selling, substantial liquidation of securities for private British account occurred, particularly during the early months of the war, although the receipt of the proceeds at this Bank cannot be identified with any accuracy. According to data supplied by the British Treasury and released by Secretary Morgenthau, total official and private British liquidation of our securities through December, 1940 amounted to \$334 million.
- (c) Includes about \$85 million received during October, 1939 from the accounts of British authorized banks with New York banks, presumably reflecting the requisitioning of private dollar balances. Other large transfers from such accounts since October, 1939 apparently represent the acquisition of proceeds of exports from the sterling area and other currently accruing dollar receipts.
- (d) Includes payments for account of French Air Commission and French Purchasing Commission.
- (e) Adjusted to eliminate the effect of \$20 million paid out on June 26, 1940 and returned the following day.
- (f) Includes \$8 million representing part payment to American film producers of profits accumulated in England.
- (g) Includes \$100 million received from RFC as further advance on \$425 million loan secured by British-owned securities and direct investments in U. S. (Total extended so far - \$300 million.)

Statement of Receipts and Disbursements
 (in millions of dollars)

PERIOD	REVENUE OF COMRA (and Canadian Government)								DISBURSEMENTS OF COMRA (and Canadian Government)							Net Incr. (-) or Decr. (-) in Balance
	DEBITS				CREDITS				Total	DEBITS			CREDITS		Net Incr. (-) or Decr. (-) in Balance	
	Total Debits	Transfers to Official British A/C	Other Debits	Total Credits	Proceeds of Gold Sales	Transfers from Official British A/C		Other Credits		Total Debits	Transfers to Official British A/C	Other Debits	Total Credits	Proceeds of Gold Sales		
					For Own A/C	For French A/C										
First year of war 1939/40-1940/41*	323.0	16.0	306.4	504.7	412.7	20.9	38.7	32.4	+161.7	21.2	3.9	27.3	36.1	30.0	6.3	+ 4.8
War period through December, 1940	577.2	16.6	460.6	707.4	534.8	20.9	110.7	41.0	+230.2	27.9	14.5	43.4	62.4	20.1	18.3	+ 4.9
Second year of war 1940/41-1941/42	460.4	-	460.4	462.0	246.2	3.4	123.9	66.5	+ 1.6	72.2	16.9(-)	25.3(+)	61.2	48.0	18.2	+ 3.0
Jan. 29 - Oct. 1 1941	23.1	-	23.1	22.2	21.2	-	-	31.0	+ 29.1	10.7	0.5(+)	10.2(+)	2.8	2.1	8.7	+ 2.2
Oct. 2 - Oct. 29 1941	37.4	-	37.4	19.7	11.9	-	-	7.8	+ 17.7	8.2	5.5	2.7	8.0	5.9	2.1	+ 0.8
Oct. 30 - Dec. 31 1941																
1942																
1943																
1944																
1945																
1946																
1947																
1948																
1949																
1950																
1951																
1952																
1953																
1954																
1955																
1956																
1957																
1958																
1959																
1960																
1961																
1962																
1963																
1964																
1965																
1966																
1967																
1968																
1969																
1970																
1971																
1972																
1973																
1974																
1975																
1976																
1977																
1978																
1979																
1980																
1981																
1982																
1983																
1984																
1985																
1986																
1987																
1988																
1989																
1990																
1991																
1992																
1993																
1994																
1995																
1996																
1997																
1998																
1999																
2000																
2001																
2002																
2003																
2004																
2005																
2006																
2007																
2008																
2009																
2010																
2011																
2012																
2013																
2014																
2015																
2016																
2017																
2018																
2019																
2020																
2021																
2022																
2023																
2024																
2025																
2026																
2027																
2028																
2029																
2030																

Monthly Average of Total Debits Since Outbreak of War through October 29, 1941 7.4 million
 * For monthly breakdown see tabulations prior to April 23, 1941.
 ** For monthly breakdown see tabulations prior to October 8, 1941.

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE November 6, 1941

TO: Secretary Morgenthau
FROM: H. D. White
Subject: Attitude of British Exporters to British Export
Policy Under Lend-Lease
(Digest of Casaday's letter of October 17, with
comment.)

There is an underlying anxiety among British traders and industrialists concerning the ultimate effect of Lend-Lease upon British export trade. This anxiety is reflected in the recent questioning in Parliament, and in comments appearing in the Press.

The Press has commented on the difficulties facing the British export trade and has endorsed the demands that, where possible, steps be taken now that will help preserve or revive post-war markets. The newspapers point out that after the war not only will exports be more than ever a vital factor in building up the British national economy, but they will also be necessary to pay off the Lend-Lease obligations.

This apprehension felt in British export circles concerning the future of the British export trade is matched by a corresponding anxiety on the part of American trading groups who fear that centralization of purchases in the United States by British countries may have an adverse effect upon their post-war position in these markets.

(Clippings are on file in this office.)



EMBASSY OF THE
UNITED STATES OF AMERICA
LONDON, October 17, 1941.

Dear Mr. Secretary:

This is on the subject of attitudes toward British export policy as expressed in the Eden Memorandum.

On two recent days, October 9 and 14, questions have been asked in Parliament concerning the effect of the Lend-Lease Act upon British exports and export policy. This fact, when account is also taken of recent press comment on the subject, suggests that there is an underlying anxiety on the part of trade interests concerning the ultimate effects of the present policy upon British export trade.

Government spokesmen, as well as newspaper commentators, have been careful to reaffirm the principles of the Eden Memorandum and to point out the heavy obligations of Britain to the United States. In the House on October 14, Sir Andrew Duncan in replying to a Member's question said, "We have to consider the susceptibilities of the United States in these matters, as well as the proper return we should make for the invaluable help they are rendering to us now". He further said, "winning the war must be our paramount task. But so far as is consistent with that and with our Lend-Lease obligations, everything possible will be done to preserve markets for our post-war trade". One Member replied that, except for winning the war, this question is more important than any other.

Mr. Harcourt Johnstone, Secretary of the Department of Overseas Trade, is reported in the Manchester Guardian as stating that exports to the United States still considered necessary by the Department include whiskey, linen, certain cotton specialties, woollen goods, apparel, leather goods, skins, raw wool, tin and earthenware. It

WAS

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

-2-

was implied that all other exports, to the United States or elsewhere, will have to be severely restricted to those absolutely essential to the receiving countries.

Several newspapers, including The Times, the Manchester Guardian and the financial press, have commented recently on the difficulties facing the export trade and have discussed the importance of a post-war revival in this trade. One paper points out that post-war exports are necessary, not only for the sake of the exporters, but to help pay off Lend-Lease obligations.

The tone of press comment generally is that while exporters understand the necessity of adhering faithfully to the policy of the Eden Memorandum, they are quite right in viewing the post-war period with some apprehension and, where possible, in taking steps now that will help to preserve or revive post-war markets.

You will find enclosed a duplicate copy of this letter and of the clippings. The Ambassador suggests that one copy be sent to Mr. Dean Acheson, Assistant Secretary of State, Department of State, Washington.

Sincerely yours,

L. W. CASADAY

Treasury Department 86 ✓
Division of Monetary Research

Date November 14, 1941

To: Secretary Morgenthau

From: H. D. White

You may possibly be interested in glancing at the summary of the proposed trade agreement with the U.K., particularly the last paragraph, p. 2. However, the agreement is at much too early a stage to require your attention at this time.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 6, 1941.

TO Mr. White

FROM Mr. Southard

Subject: Trade Agreements Committee consideration of the proposed agreement with the United Kingdom, November 4, 1941.

The Country Committee presented Schedule I (our requests from the United Kingdom) and called attention to the fact that our offers of concessions to the United Kingdom in Schedule II appear to be distinctly smaller.

Schedule I involves the following requests:

(1) Present duties imposed against American products by the United Kingdom are not to be increased.

(2) United Kingdom is to promise not to increase the margin of imperial preference on items of importance to the United States.

(3) The United Kingdom is to undertake to remove all wartime duties as soon as practicable after the close of the war. In addition, as to agricultural items the following is recommended:

(a) Reductions in rates of duty or complete removal of duties on a number of important agricultural products. This will, of course, reduce or abolish the margin of imperial preference on such items.

(b) Reductions of about 50 percent on the margin of imperial preference on tobacco and sausage casings -- both important items of trade.

(c) The binding of existing margins of preference on all other items of importance to the United States.

(d) Removal of quota restrictions on ham, bacon and pork.

The above proposals for our requests of the United Kingdom were approved by the Committee but at the instance of Mr. Ryser the Country Committee was asked to review again the list of United States industrial exports to the United Kingdom in order to determine whether at least a few industrial concessions might be added to Schedule I. It was agreed that could be done but the Country Committee and some members of the Trade Agreements Committee argued strenuously that we are already asking for more from the United Kingdom than we are likely to get in view of the

- 2 -

Division of Monetary
Research

fact that our offers to the United Kingdom are relatively small and that our tariff appears to be distinctly more burdensome to the United Kingdom than hers does to us.

Complete removal of the duties on apples and pears is being requested although Mr. Hickerson warned that all we are likely to get is the removal of imperial preferences on apples and pears, since England in all probability will insist on maintaining some continued protection to her fruit farmers.

C
O
P
Y

89

TREASURY DEPARTMENT

Telegraph Office

Nov. 6, 1941
8:05 a.m.

5DI 37TRSY

San Francisco, California 12:51 p.m., Nov. 5, 1941

D. W. Bell

Acting Secretary of the Treasury

Washington

I am advised shipment of eighty two cases gold from Russia estimated value approximately five million six hundred thousand will be delivered today. Will be handled in same manner as last two shipments. Please advise.

Haggerty

Superintendent

8:09 a.m., Nov. 6

COPY - dm - 11/6/41

COPY

90

THE CHASE NATIONAL BANK
of the City of New York
New York

November 6, 1941

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

Dear Mr. Knoke:

Pursuant to our letter of November 5th, we are pleased to quote herewith, for your information, the following telegram received by us today from our San Francisco representative:

"SS AZERBAIDJAN SHIPMENT LIQUIDATED WEIGHT 160,431.71 OZS"

Yours very truly,

(Signed) E. C. Funck
Second Vice President

TO:

The Secretary

The Russian matter
is now clear.

Therefore Mr. Gromyko
and Mr. Luskacher
will not be here
at 11 today

11-6-41

From: MR. FITZGERALD

THE STATE DEPARTMENT ANNOUNCES THAT A \$1,000,000,000 LOAN TO RUSSIA HAD BEEN ARRANGED IN COMMUNICATIONS BETWEEN PRESIDENT ROOSEVELT AND PREMIER STALIN.

11/6--SB527P

U

ADD RUSSIAN LOAN

THE OFFER OF THE BILLION DOLLAR CREDIT FOR WAR SUPPLIES WAS MADE IN A LETTER TO STALIN OCT. 30 AND ACCEPTED BY HIM IN A REPLY DATED NOV. 4.

THE LOAN, UNDER THE LEND-LEASE ACT, WILL CARRY NO INTEREST AND REPAYMENT WILL NOT START UNTIL FIVE YEARS AFTER CONCLUSION OF THE WAR.

11/6--SB528P

ADD RUSSIAN LOAN

THE REPAYMENT IS TO BE COMPLETED IN 10 YEARS AFTER THAT TIME. PART OF THE PAYMENT WILL BE IN RAW MATERIALS AND COMMODITIES.

11/6--SB529P 20-0

ADD RUSSIAN LOAN

THE ROOSEVELT LETTER SAID THAT DELIVERY OF MILITARY SUPPLIES TO RUSSIA WAS BEING EXPEDITED AND IN THE LARGEST POSSIBLE AMOUNTS. THE STATE DEPARTMENT'S ANNOUNCEMENT, DESCRIBED AS A PARAPHRASE OF MR. ROOSEVELT'S LETTER TO STALIN, ADDED:

"IN AN EFFORT TO OBTAIN ANY FINANCIAL DIFFICULTIES, IMMEDIATE ARRANGEMENTS ARE TO BE MADE SO THAT SUPPLIES UP TO \$1,000,000,000 IN VALUE MAY BE EFFECTED UNDER THE LEND-LEASE ACT. IF APPROVED BY THE GOVERNMENT OF THE U.S.S.R. I PROPOSE THAT THE INDEBTEDNESS THUS INCURRED BE SUBJECT TO NO INTEREST AND THAT THE PAYMENTS BY THE GOVERNMENT OF THE U.S.S.R. DO NOT COMMENCE UNTIL FIVE YEARS AFTER THE WAR'S CONCLUSION AND BE COMPLETED OVER A 10-YEAR PERIOD AFTER."

THE PRESIDENT'S LETTER SAID THE UNITED STATES APPRECIATED THE HANDLING BY STALIN AND HIS ASSOCIATES OF THE MOSCOW SUPPLY CONFERENCE AND GAVE STALIN "ASSURANCES THAT WE WILL CARRY OUT TO THE LIMIT ALL THE IMPLICATIONS THEREOF."

STALIN'S REPLY EXPRESSED THANKS FOR MR. ROOSEVELT'S REMARKS AND ACCEPTED THE LOAN OFFER "WITH SINCERE GRATITUDE."

11/6--SB538P 20-0

ADD RUSSIAN LOAN

STALIN IN HIS REPLY TO MR. ROOSEVELT, DESCRIBED THE LOAN AS "UNUSUALLY SUBSTANTIAL AID IN ITS (THE SOVIET'S) DIFFICULT AND GREAT STRUGGLE AGAINST OUR COMMON ENEMY, BLOODTHIRSTY HITLERISM."

STALIN ALSO ASSURED MR. ROOSEVELT THAT THE SOVIET UNION IS READY "TO EXPEDITE IN EVERY POSSIBLE WAY THE SUPPLYING OF AVAILABLE RAW MATERIALS AND GOODS REQUIRED BY THE UNITED STATES."

11/6--SB548P 20-0

EJ.

CHLY

Hong Kong via N. R.

Dated November 6, 1941

Rec'd 8:35 p.m.

Secretary of State,
Washington.

475, November 6, 5 p.m.

FOR TREASURY THRO. FOX AND COCHRAN.

"TF-K. Your 375, October 28, 5 p.m., received November 5, 4 p.m., has been discussed with the Stabilization Board of China and the following reply has the Board's approval. This reply is confined to questions specifically raised (?) or to points on which we appear not to be in agreement with you.

(1) Board confirms Hall-Patch's opinion of Banque Belge as expressed in 403 of October 8 and cannot recommend that it be included in list of cooperating banks. This does not preclude later reconsideration dependent upon the bank's behavior.

(2) Board appreciates your point regarding paragraph two of general license 59 but believe it best not to delete this unless you consider it necessary because deletion would unquestionably raise doubts and suspicions.

(3) Reference

-2-#475, November 6, 5 P.M., from Hong Kong via H.R.

(3) Reference paragraph two Note 1-V of our 420. The question was raised because it was thought that prohibition existed of Chinese goods being exported to the United States via Japan as goods of Japanese origin and (?). This possibility has now been much reduced owing to shipping and other difficulties. As regards Hong Kong, the question is under consideration of the Hong Kong Government.

(4) Reference your paragraph three (A). No significant variation in language was intended. Attempt was made in our draft to define family and similar exchange remittances as distinguished from exchange accruing from trade transactions. There is no need to refer to trade question in remittance licenses.

(5) Any reasonably effective control through customs and invoice measures along the lines suggested in paragraph three (C) of your 373 would be welcome. (?) Minister of Finance Koo states that he has received reports of evasions of control by means of parcel post shipments. It is assumed that these exports would not be captured and that customs regulations

-3- #475, November 6, 5 p.m., from Hong Kong via
N.R.

regulations could control.

(6) Reference your E paragraph three on proviso regarding remittances through usual banking channels. This provision was intended to cover remittances to China in foreign currencies, e.g. through the specified (*) in United States dollars, sterling and Hong Kong dollars. In these cases the bank issuing the drafts would be required to pay the United States dollar equivalent into an account with the (?) acknowledged by the (?) Bank of China, but may credit the dollar amount directly into the current account of its paying correspondent (?) since no payment of Chinese national currency is involved.

(7) Reference your paragraph nine concerning (?) (?) 420 regarding Hong Kong. The Chinese Vice Minister of Finance and the Board are at present conducting negotiations with the Hong Kong Government. Announcement of treatment of remittance phase of question is expected today. Negotiations on trade sanctions being pursued. Under existing circumstances therefore it seems undesirable to suggest any provisional procedure on the part of
the United

-2- #475, November 6, 5 P.M., from Hong Kong via
N. R.
the United States.

(8) RE use of terms "cooperating" fully understand your reference to stigma which may attach to banks not definitely licensed by United States Government and your hesitancy therefore to use the term "cooperating". Even if term "cooperating" is not used it would be highly desirable as you contemplated in 1-1-3 of your 304 to have "the general license by express language (?) indicate that the banks must cooperate with the Board". Hall-Patch reports British plan to use term "approved" in connection with their regulations.

(9) Reference part B of your 373. Chinese Government (*) Kung accepted as agreeable to it the first seven banks listed in Kung's letter, which had all been recommended by the Board, as desirable (?) addition to the list of all the "cooperating" banks. The established bank, the China Banking Corporation, was added by the Ministry of Finance and meets with the Board's approval.

(10) Report will be cabled as soon as possible upon announcement of the first phase of negotiation between British and Chinese officials on Hong Kong problem

-5- #475, November 6, 5 p.m., from Hong Kong via
N. R.
problem.

(11) Please cable when possible the day on which United States Treasury expects to promulgate the new or amended licenses and regulations concerning China in order they (?) of statement by the Governments concerned may be considered."

SOUTHARD

HSM

(*) Apparent omission

November 6, 1941

Mrs. Friedman

Frank F. Dietrich,
Secretary's Office.

Please send the following cable urgent priority to Spagent, Shanghai:

"It is of the utmost urgency that this message be delivered immediately to Fox and Cochran, Hong Kong."

'For Fox and Cochran from the Secretary of the Treasury.

We are ready but Dewey has recent message from Hinesyer and Hall-Patch stating that Beard does not have organization to start at once and that both Washington and London should delay until Beard is ready. This is not our understanding. Advise with Hinesyer and Hall-Patch and advise at once. Please reply through Spagent, Shanghai by urgent priority cable."

FD:lap-11/6/41

November 6, 1941

Files

Mr. Dietrich

The notation given below was placed by Mr. D. W. Hall on the letter of October 22, 1941, from the Department of State (Da) regarding the curbing of any influence over the rate of exchange between the Icelandic kronur and the United States dollar.

"Talked to Berle on 'phone and he agrees we should not confirm in writing my informal statement to effect that U.S. has no desire to influence rate of exchange in Iceland. He said he would talk to Ther and see if he (Ther) would not accept the statement already made. In view of world situation we can't tell at this time what might be necessary one year from now.

D. W. H.
11/6/41 "



FD:lap-11/6/41

DEPARTMENT OF STATE

Washington

November 6, 1941

In reply refer to
FF

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses copies of a paraphrase of a telegram (no. 617 dated November 3, 1941) from the American Minister at Budapest regarding German acquisition of stock of the Credit Bank of Hungary. Previous telegrams from and to the American Minister at Budapest on this subject were transmitted to the Treasury with this Department's letter of December 28, 1940.

Enclosure:

Copies of paraphrase of
telegram no. 617,
November 3, 1941, from
American Minister, Budapest.

Copy:sc:11-7-41

PARAPHRASE OF TELEGRAM

No. 617

Dated: November 3, 1941

From: The American Minister at Budapest.

Reference is made to the Legation's telegram no. 342 of December 19, 1940 and to the Department's telegram no. 285 of January 7, 1941.

I am now advised by the informant mentioned in my telegram 342 that the Dresdner Bank has acquired control of the bloc of stock which had been held by Schneider Creusot and which the Germans seized in France. According to him, unless the British take steps to prevent it, Germany will also absorb some shares of the British-held bloc (which is smaller than the Schneider Creusot bloc) which have been placed on the Swiss market. He strongly urges that all the British held shares should be retained en bloc in order to prevent Germany from acquiring control of the bank, the diverse and valuable ramifications of which would strengthen the political and commercial hold of Germany on Hungary, and in order also to keep for Britain a financial interest in Hungary as an instrument of policy for the period after the war. I suggest that some means should be found to keep these securities out of German hands in case it is necessary to sell them.

SF:FL:HOW

Copy:ec:11-7-41

TREASURY DEPARTMENT

103

INTER-OFFICE COMMUNICATION

DATE November 6, 1941

TO Secretary ^{Handley} Morgenthau
 FROM Mr. Dietrich

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	\$51,000
Purchased from commercial concerns	\$24,000

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% discount
Argentine peso (free)	.2385
Brazilian milreis (free)	.0505
Colombian peso	.5775
Mexican peso	.2070
Uruguayan peso (free)	.4675
Venezuelan bolivar	.2530
Cuban peso	1/8% discount

There were no purchases or sales of gold effected by us with foreign countries today.

The Treasury was advised that the Government of the U. S. S. R. has deposited about \$5,600,000 in gold at the San Francisco Mint for account of the Secretary of the Treasury. This gold was shipped from Russia to San Francisco on the S. S. "Azerbaidjan." It will be applied against our gold purchase agreement of October 10 with the Russian Government.

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¢. Lundy and Herman's settlement price for foreign silver was also unchanged at 33-3/4¢.

We made one purchase of new production silver amounting to 100,000 ounces under the Silver Purchase Act. This silver, which was bought for forward delivery, came from Peru.

The report of October 29, received from the Federal Reserve Bank of New York, giving foreign exchange positions of banks and bankers in its district, revealed that the total position of all countries was short the equivalent of

\$4,495,000, an increase of \$173,000 in the short position since October 22. Net changes were as follows:

<u>Country</u>	<u>Short Position October 22</u>	<u>Short Position October 29</u>	<u>Change in Short Position*</u>
England**	\$ 651,000 (Long)	\$ 641,000 (Long)	+ \$ 10,000
Europe	2,718,000	2,605,000	- 113,000
Canada	58,000 (Long)	50,000 (Long)	+ 8,000
Latin America	26,000	154,000	+ 128,000
Japan	262,000	201,000	- 61,000
Other Asia	2,075,000	2,207,000	+ 132,000
All Others	<u>50,000 (Long)</u>	<u>19,000</u>	<u>+ 69,000</u>
Total	\$4,322,000	\$4,495,000	+ \$173,000

*Plus sign (+) indicates increase in short position, or decrease in long position.
 Minus sign (-) indicates decrease in short position, or increase in long position.

**Combined position in registered and open market sterling.


CONFIDENTIAL

RESTRICTED

G-2/2657-220; No. 538 M.I.D., W.D. 11:00 A.M., November 6, 1941

SITUATION REPORT

I. Eastern Theater.

Ground: Situation at Leningrad and Moscow remains unchanged.

German advance continues in the area east of Stalino, in the Donets basin.

German advance continues in the Crimea.

Air: Well informed Government officials in London said yesterday that Great Britain is preparing for a large-scale aerial offensive against the Germans on the Russian front.

In the past six weeks, according to this statement, the British have been moving an ever-increasing number of planes, both fighters and bombers, into Russia. This will be manned by seasoned R.A.F. pilots. Major air operations, however, will not be undertaken by the R.A.F. Expeditionary Force until all arrangements have been completed for maintenance and supply. Even British ground crews are being sent to take part in the operations.

II. Western Theater.

Air: The only report of operations in this Theater told of light German attacks on the southwestern British port of Falmouth.

III. Middle Eastern Theater.

No information.

RESTRICTED

November 7, 1941
9:27 a.m.

Speaker
Rayburn:

.....feel your way and all this, that and the other, and you don't have to decide on what you're going to do today; and they seem to have had some kind of a meeting and then, just to adjourn it, well, Bob gave out some kind of a little statement; but my impression - I didn't see any of them after that, because I was so busy all afternoon - but I'm going to see him this morning and see just what the setup is.

SMJr: Would you mind giving.....

R: I think that they are not much - I got the impression in the talk that McCormack and I had with him before they went into the committee, that they're not much on this. If they're going into it at all, they're taking in the Social Security end of it.

SMJr: Well, I'd like to know, because I've got to tell the President.

R: Yeah.

SMJr: Is he going to.....

R: Well, I'll find out about it by twelve o'clock or a little after, Henry, and I'll let you know what their attitude is.

SMJr: Would you do that?

R: Yes, I'll certainly do it.

SMJr: Thank you so much.

R: All right, Henry.

November 7, 1941
9:30 a.m.

GROUP MEETING

Present: Mr. Barnard
Mr. Thompson
Mr. Buffington
Mr. Blough
Mr. Gaston
Mr. White
Mr. Sullivan
Mr. Odegard
Mr. Kuhn
Mr. Graves
Mr. Schwarz
Mr. Morris
Mr. Foley
Mr. Bell
Mr. Haas
Mrs. Klotz

H.M.Jr: The Secretary of War will receive you (Bell) and George Haas at eleven. What we are trying to do is, we have got the figures on Lend-Lease broken down, how much they spent. It is the most amazing thing. What we are going to try to do is to get all the important appropriations on that basis, when they are contracted and how much they spend. That is the model. George has done a wonderful job. The Navy has agreed to it, and the Army is stalling.

John, I would like you and Mr. Barnard and

- 2 -

Blough, immediately after this meeting and use anybody else you want, to prepare a letter for the President to send to Mr. Doughton, very much along the lines of my memorandum, but I don't want to mention - what I want to say in the letter is, give them the background, we need four billion eight and so forth and so on, you see, and that we need those kind of revenues to come into the Treasury beginning early in January. I don't want in the letter from the President to have him say that it is payroll taxes or anything else.

Sullivan: Except to indicate that it should come out of that kind of income to be anti-inflationary.

H.M.Jr: That is right, but I don't want to put the President on the spot that it should be payroll deduction or Social Security or anything else.

Now, I am not recommending yet that he send it, but I want it here. I spoke to - to bring you all up to date - Walter George last night said that he is ready to go. The interesting thing is, Vandenberg is for the payroll deduction but violently against Social Security. Bob LaFollette is for Social Security and violently against the withholding tax, but after checking for two days, Walter George says, "You can tell the President I am ready to start any time. I spoke to the Speaker a few minutes ago, and the Speaker says, "Henry, I haven't had time, but I will call you back at twelve. You know we are all scared to death about this Social Security thing." So I want to have this for the President.

Now, I don't know what he has told Leon Henderson. Of course, Chick can tell you, I suppose I had the toughest press conference

- 3 -

I have had in a long time.

Schwarz: It was the worst ever.

H.M.Jr: And the Tribune and the Times, I haven't seen the others--

Schwarz: The Baltimore Sun has the very best editorial.

H.M.Jr: The boys, so far as the story goes, treated me beautifully because they said nothing. That is what I begged them to say, was nothing.

Schwarz: Because you have sold them on it.

H.M.Jr: I mean the Cleveland Plain Dealer finally said, "Well, why?" and I gave him the reasons why, the publicity would simply add fuel to inflation and hurt Harold Graves' Defense Savings Bonds and please not to say anything, and I wasn't going to say anything, and they didn't say anything, but the Washington Herald said no member of the Cabinet ever got such a drubbing that I got and they said I winced, which I don't think I did. In fact, I know I didn't. But that is the story.

The House members are scared to death of a Social Security message from the President, so that is his ace card.

Sullivan: I was wondering about using that ace card. I wonder what would happen if he were to intimate that inasmuch as they weren't taking this bill off, his promise to refrain until between Christmas and New Year's was out the window, and since they weren't doing anything, he might as well send that message up.

H.M.Jr: That is what I am going to hint very strongly to Mr. Sam Rayburn when he calls me at noon, and the President - I don't think there would be

- 4 -

any difficulty in getting him to send the Social Security message because, after all, he knows he has got a price bill, and it is kind of hard to explain why you want a tax bill at the same time you want a price control bill, and the boys say, "Well, is the price control bill no good? You don't think it is any good?"

"Well, we need both."

"Well, why? If the price control bill is effective, why do you need this?"

Well, it is kind of hard to explain.

White:

Mr. Secretary, it is with very much trepidation that I am going to make this request, but would you consider re-examining at this moment, or sometime this morning, the question of letting the thing ride, now that you have pushed it through Congress, and not forcing it on the President? Do you want some discussion?

H.M. Jr:

That isn't the word, Harry, "forcing it on the President." I am not forcing it. He is going to move one way or the other. He has got - he can move on three fronts. He can send a message on price control, he can send a message on the tax bill, or he can do Social Security. He will do one of them if I do nothing.

White:

Well, if you do nothing. The suggestion I have, that I would like to make if you reconsider it, is a defense of the position that I think from now on you might do nothing.

H.M. Jr:

I can't fool around. Say what you have got on your mind.

White:

Well, what I have got on my mind is simply this: that I think that you pushed the tax thing far enough. If they want to go forward with it, all right. I am a little bit afraid that if the rest of the program goes forward on defense effort, that what you are going to have in the early months of 1942 may be no price rise at all. You might even have a diminution if there is going to be a substantial disemployment as there would have to be if the program is going to assume the proportions it has, and that you won't get the effect of rising prices until the second quarter or maybe even the third quarter when you will very much need some sort of a program of this kind, so that I think there is no great harm in waiting until after the first of the year to get your tax program through and if, in the meantime, they get this Social Security program, fine.

H.M.Jr:

Well, this is a lovely time to say this. No one said this out of the twenty people. You never said this thing when everybody was telling me what the great urgency was.

White:

That is true.

H.M.Jr:

The only person that said that was Lauch Currie. He is the only one.

White:

That is true, and I am--

H.M.Jr:

And Lauch Currie has been consistent on it.

White:

And I am revising my opinion on it. That is why I said I would like to have it re-examined. I know there are some others around who feel as I do. Whether they felt that way all along, I don't know.

H.M.Jr:

Well, the only person that said it is Lauch

- 6 -

Currie. I don't see how one minute you can think this is the most burning necessity and the next minute you get cold feet on it.

White: I don't think I ever felt it was the most burning necessity, and I don't have cold feet on it now, but I don't think it is ever too late to re-examine a thing if the re-examination has any basis in fact.

H.M.Jr: Well, how can one minute you people be so worried, you be so worried about inflation and all of this thing, and then suddenly you talk about maybe the price rise won't come until the second or third quarter?

White: Because there has been something injected in the situation which is new.

H.M.Jr: What?

White: That is the prospect or the hope of getting a program of all-out defense which will include at least a couple of months of shutting down of a lot of industries.

H.M.Jr: You knew that Monday. You knew it Tuesday.

White: Yes, I did. There are two things to be said about that. One is that I have greater hopes it will be successful. The second is that I didn't evaluate it correctly.

H.M.Jr: You didn't what?

- White: I didn't evaluate it as I do today. Now, either I have some good reason for my position, in which case the fact that I may have been wrong before, I don't think should matter, or I am not right now, in which case the re-examination won't hurt.
- H.M.Jr: Well, I know what you have in mind. I have got your doubts, but your doubts are based on the fact that this thing may go through with all this re-employment business and so forth and so on. Take a look at that chart that George has and see what they are doing and how much money they have been able to spend in seven months. Anyway, Harry, I have got your idea.
- White: Well, I will have to examine that more carefully by myself. It is just a stop, look and listen sign that I am very much disturbed about going forward with it now but what I am arguing about is the question of a few months and not a question of the general proposal.
- H.M.Jr: Well, after what happened yesterday, there is very little chance of our getting any tax bill.
- White: Well, that is why I think you might legitimately rest on your oars if you feel that what I am saying is so.
- H.M.Jr: Well, I don't think that that - anyway, I know what you have in mind without your embroidering it. Thank you for bringing it to my attention. I know what you are thinking about.
- Norman?
- Thompson: I have nothing this morning.
- H.M.Jr: Are you (Kuhn) phoning Jerome Kern today?

Kuhn: Yes.

H.M.Jr: You tell him in answer to this telegram that it did come and we are all very, very enthusiastic about it. (Dated November 6, 1941.)

Dan?

Bell: Nothing.

H.M.Jr: If you will stay behind --

Bell: O.K.

H.M.Jr: I would like Bell and Barnard and Dave to stay on behind.

Buffington: I don't know whether you have seen this publicity we got in a South Bend newspaper.

H.M.Jr: No.

Buffington: Here is your message up here. (Handing clipping to Secretary.)

H.M.Jr: Wonderful. I think you might very well write a letter to the publisher of the newspaper and I will be glad to sign it.

Buffington: It is the bank who sponsored it.

H.M.Jr: Isn't that grand? That is really something. You write a letter and I will sign it. Will you give it to Mrs. Klotz?

Buffington: Yes. That is all.

H.M.Jr: Harry?

White: I have this material on the British cash position that I think you ought to read over the week end.

- H.M.Jr: Just a second. For your eyes only, you read this booklet and give it back to me Monday. It is for your eyes only.
- White: The Mexican Finance Minister would like to see you. He sent that man around to see me. When he told me what he would like to see you about I said to hold it off. I would prefer to talk to you. I didn't know whether it might be more embarrassing and it might not be necessary. But he came up to sign these - this arrangement with the Treasury, and at least several weeks he waited around. He now is in the very unfortunate situation of not being able to go back without being regarded as a failure. He is in very much of a spot.
- H.M.Jr: Well, tell him to go around and see Mr. Hull. I can't do anything. It was on Mr. Hull's invitation and say so that he came up here, not on mine.
- White: Would a telephone question satisfy?
- H.M.Jr: Pardon?
- White: Would a telephone call from you to Welles or Hull - and then I could just report it back and let it go there.
- H.M.Jr: What do you want me to say to them?
- White: Ask Mr. Hull or Mr. Welles what is the status of the negotiations.
- H.M.Jr: That the Finance Minister of Mexico is in a sweat.
- White: That is right.
- H.M.Jr: How long has he been here?

White: I think it is almost a month.

Bell: It was supposed to be signed on October 12th, Columbus Day.

White: That is right, October 12th.

Bell: He was here the week previous. He has been here almost a month.

H.M.Jr: Anything else, Harry?

White: That is all.

H.M.Jr: Barnard, you had better not stay behind with Bell because you and Sullivan and Blough have got your work set out for you and call on anybody else that you want to help on that. I want this thing the way I said it, in case the President brings it up in Cabinet, you see, if he wants to move in this direction.

Did I clear you, George?

White: I am sorry, I did have one thing. Coe is going to be up in Montreal. If you wanted to pursue that thing that you thought of the other day, it might be an opportunity.

H.M.Jr: I will tell you what you do. I will do it here, Harry.

(Speaking to Mrs. Klotz) Write a letter to C. D. Howe and simply say, "My dear Mr. Howe, are you thinking of coming to Washington shortly? If you are, there are several matters I would like to discuss with you."

They tell me he comes almost every week.

George?

November 7, 1941
9:50 a.m.

H&Jr: Sumner?

Sumner
Bellet: How are you?

H&Jr: Good morning. Sumner, there's a Minister of Finance from Mexico that's been here for one month.

H: Yes.

H&Jr: And the dinner - luncheon that I gave him and the one that Jesse Jones or somebody, doesn't seem to satisfy him. In other words, he's here, and he doesn't know what to do. I don't know what to tell him, even.

H: Well, there's nothing whatever to tell him, Henry. You know the circumstances.

H&Jr: Well, shall we tell him to go home?

H: No. Of course, tell him - he has no intention of going home anyhow until this matter settles, so I don't think you need be embarrassed that way.

H&Jr: Well, can we give him any encouragement?

H: Why, you're familiar with the situation, aren't you?

H&Jr: No, I'm not.

H: What we are trying to do is to get the - make a final attempt to get the Standard Oil Company of New Jersey to cooperate in this valuation proposal which we've agreed upon in principle.

H&Jr: I see.

H: Up to the present time they've been completely intransigent. We had a further meeting with them three days ago at which they appeared to be a little more reasonable, and I'm anticipating a

final reply from them today or tomorrow. If they do cooperate, of course, you understand it makes the whole process of valuation a thousand times easier.

HMJr: I see.

W: That's the only hitch.

HMJr: Well, then I'll tell him to keep his shirt on?

W: You bet.

HMJr: All right.

W: It would be very helpful if you could tell him just exactly that.

HMJr: Okay.

W: All right, Henry.

HMJr: Thank you.

W: Good-bye.

(Mr. Haas handed a letter to the Secretary for his signature.)

(The Secretary held a telephone conversation with Under Secretary Welles.)

- Sullivan: He couldn't tell him that. You tell him that.
(Laughter)
- White: Shall I tell him just that? I will be glad to. I can tell him he can keep it on without washing it and still remain in good society.
(Laughter)
- H.M.Jr: I don't know, there are lots of stories in history of the man who wouldn't have his hair cut or shave or something or other until something happened. He can keep his shirt on until Standard Oil of New Jersey - I can't use that five dollar word he used.
- Foley: "Intransigent."
- Bell: It may be dirty but he can keep it on anyway.
- H.M.Jr: Anyway, are you completely satisfied?
- White: Yes, I am sure that will satisfy him. I won't mention about the Standard Oil. I imagine he will know that. I will merely tell him to keep his shirt on. That isn't the advice they give you when you go down to Mexico.
- H.M.Jr: Who said the Baltimore Sun had something pleasant?
- Schwarz: I said it.
- H.M.Jr: I am getting it after while?
- Schwarz: Yes.

- 12 -

H.M.Jr: Fine. What else, George?

Haas: That is all I had.

H.M.Jr: Peter?

Odegard: Nothing this morning.

H.M.Jr: Barnard?

Blough: No, sir.

H.M.Jr: Roy?

Kuhn: May I have just a few minutes to discuss your farmers speech because I don't know exactly what you want to say and I would like to get going on it.

H.M.Jr: Well, Bell is staying behind and right after that I will see you.

Kuhn: Good.

H.M.Jr: Right after. I mean, it will be ten or fifteen minutes.

Kuhn: That is all right.

H.M.Jr: I mean Bell will be here for ten or fifteen minutes.

Kuhn: There was only one other thing. You wanted some words changed on a poem and I have never discussed with you what was wrong with it.

H.M.Jr: When you come in afterward.

Kuhn: All right.

H.M.Jr: Chick?

Schwarz: At General Duffield's request I asked Joe O'Connell as your alternate on the Price Administration Committee if he would talk for background with B. H. McCormick of the Wall Street Journal, who is doing a series on prices and inflation and while he said it was all explanatory, he got along so well he would like to use it as one of his series.

H.M.Jr: He talked to Joe O'Connell?

Schwarz: Yes.

H.M.Jr: Well, tell Joe O'Connell that he will have to decide whether it is good or bad. He has got a head on his shoulders.

Schwarz: I think it is all right.

H.M.Jr: I don't know what he told him but it is up to Joe. Let Joe decide. I mean, I don't know what he told him but if Joe thinks it is good - but you talk with Foley and Joe.

Schwarz: Right. That is all.

H.M.Jr: Harold?

Graves: Mr. Stodgill of the Philadelphia Bulletin will be here today and among other things --

H.M.Jr: Who?

Graves: Mr. Stodgill who is the business manager of the Philadelphia Bulletin and responsible for their Defense Savings Stamp program. He has arranged for a meeting of circulation managers of many newspapers to be held in Washington either, he says, the nineteenth or twentieth, and they would like a word from you. I was

- 14 -

wondering whether you, in the first place, would care to commit yourself to appear.

H.M.Jr: No, I am not going to do that. You go and give them a pep talk.

Graves: It would be much better if you would do it.

H.M.Jr: I can't do it, Harold, I just haven't got enough energy left.

Graves: It will be right in this building.

H.M.Jr: I know. They are going to meet here?

Graves: That is our plan.

H.M.Jr: How many of them are there?

- 15 -

Graves: They don't know, but there may be as many as seventy-five newspapers represented.

H.M.Jr: On the 19th?

Graves: Nineteenth or twentieth.

H.M.Jr: Well, talk to me the day before and see how I feel. It is a bad day today.

Graves: All right. There are two or three things that I would like to talk with you about this morning.

H.M.Jr: Well, tell Fitz. Are they urgent?

Graves: Well, they are things you have indicated you would like to handle today.

H.M.Jr: I most likely won't get to them.

Graves: I would like one minute, if you have it.

H.M.Jr: You can have one minute if Bell will give it to you right after this meeting.

Graves: Could I sneak in with Ferdie?

H.M.Jr: Sure (laughter). You can settle what is the matter with the bulletin.

Morris: Do you want to hear about Swiss gold sometime?

H.M.Jr: No, I have given as much as I can. I am taking care of Bell this morning on the Byrd Economy Committee, and I am taking care of Foley, even though Pehle isn't here, on the commodities. That is all I can do this morning, if I can do that. Ferdie will be coming in on the speech, and Harold on a minute.

Morris: Mr. Henderson is going to get his price data all right.

- 16 -

H.M.Jr: Good. Keep after me, will you please?

Morris: Yes.

H.M.Jr: Don't get discouraged.

Then I have got to see these fellows after they have got the thing written for the President. Mr. Atlee is coming in this morning.

Sullivan: I assume the general form of that letter should be expression of disappointment --

H.M.Jr: Excuse me.

Harry, I would like you here at 11:30 when Atlee comes.

Sullivan: In general form, that letter should be an expression of disappointment as to the decision that was made yesterday, and a request for a reconsideration?

H.M.Jr: I don't think so. I would just put it on the positive side, as though nothing had happened yesterday, as though nothing had happened.

Sullivan: I see. We are getting a great many inquiries --

H.M.Jr: Just as though nothing had happened.

Sullivan: Yes, sir.

Bell: Can't you add something that the Secretary of the Treasury has been discussing with the leaders and members of the appropriate committees in Congress this matter? Wouldn't that be a good thing, to carry it along from that point?

H.M.Jr: That would be all right, yes.

- 17 -

Sullivan: We are getting a great many inquiries from people as to whether or not we are going to recommend a change in the capital gains and losses which will affect income in 1941. Blough and Tarleau and I are all in agreement that it should not - if any change is to be made in that law, it should not affect past transactions.

H.M.Jr: What law?

Sullivan: Capital gains and losses. In other words, should we next year make a change which would affect transactions that have been consummated in 1941? We don't think it would be at all fair.

H.M.Jr: Why do you bring that up now?

Sullivan: Because we are getting all kinds of inquiries as to what we are going to do.

H.M.Jr: I can't do it on the fly.

Sullivan: Well, I have a memo here recommending that we do it.

H.M.Jr: Well, you will have to wait until you get a chance to sit down with me.

Sullivan: All right.

H.M.Jr: Ferdie, you might be interested in coming at 11:30 also. Do you know Atlee?

Kuhn: I have met him.

H.M.Jr: Come in.

Kuhn: Thank you.

Sullivan: When you finish that letter, do you want us to send it in directly?

H.M.Jr: When you say you are ready, tell Fitz, and I will adjust my morning. I will be waiting for you.

Sullivan: Yes, sir.

Foley: Here is the article in this month's Banking on freezing, if you would like to look at it.

Here is a memorandum to the effect that a straight fifteen per cent withholding tax is more favorable to people in the higher brackets than in the lower brackets.

H.M.Jr: You fellows have got a lot of after-thoughts, haven't you?

White: That isn't an after-thought.

Foley: That is no after-thought.

H.M.Jr: Nobody told me that when I was considering it.

Blough: Well, it doesn't happen to be true, that is the only thing that is wrong with it (laughter).

Foley: What do you mean, it doesn't happen to be true?

Blough: I will talk to you about that later. The percentage of reduction in income is just as high in the higher brackets, if not higher, than in the lower brackets.

White: It depends on the exemption, whether you use the lower exemption or the higher exemption.

Foley: If it is an exemption in computing your individual tax, Roy, it is more favorable to a fellow getting ten thousand than it is to a fellow getting two, and that is what this memorandum says.

- H.M.Jr: Now, wait a minute. After all, I am --
- Blough: I am sorry, I shouldn't have gone --
- H.M.Jr: No, it is right, and if you have some doubts, clear it with Roy first, Foley. Let him have a chance at it. I mean, I get one thing from one side.
- White: We should have done that before.
- H.M.Jr: That is what I think. I mean, why take Roy unawares? Why not give him a chance, let alone me?
- Foley: They practically made up their minds over in Justice to recommend that Annenberg be paroled in the winter time. The parole board has considered it.
- H.M.Jr: When the wind blows (laughter). Just in the winter time? Then he goes back in the summer?
- White: Seasonal employment.
- Foley: I thought you would be interested.
- H.M.Jr: Are you serious, that in the winter time he be paroled and in the summer he goes back?
- Foley: Well, they have practically made up their minds, and they are going to this winter make a recommendation that he be paroled. His time for good behaviour and compliance with the civil requirements would permit him to be paroled this winter, and they are going to do it.
- H.M.Jr: I don't want to get in on it. What else?
- Foley: You saw about Bioff's conviction?

- H.M.Jr: Yes. Now, that information which Bioff spoke about, about all of this additional money that passed between them, I take it that Internal Revenue has somebody taking that and checking it to see whether any of it is new?
- Sullivan: I am sure they must.
- Foley: Oh, yes.
- H.M.Jr: Would you, John, check up on that? I mean, the information which was given, does Internal Revenue have somebody there to pick that up and see whether additional money was passed which was not reported?
- Foley: You have got another angle there, too, Mr. Secretary, and that is that these movie companies deducted that as business expense, and that is an improper deduction, so you may have an action against them.
- H.M.Jr: Well, that is why I am directing it - this does come under John, doesn't it?
- Foley: Yes. I know the lawyers over there are looking at it now, because Phil and I have talked about it. It also comes under John.
- H.M.Jr: What else?
- Foley: That is all.
- Gaston: We already had a report in on that Skidmore case in Chicago, but it isn't in the good narrative style of Frank's report on Nucky Johnson, and Elmer is going to have it done over and show Madden the --
- H.M.Jr: Is that finished, that investigation on Jeidels?
- Gaston: No. Elmer has some stuff that he hasn't closed up. He got the impression when I told him to wind it up that he was to hurry through with

- 21 -

the investigation. I told him that that was wrong, that what we wanted was to close it up and make a final report. He is rewriting it on that basis now. I talked to him about it yesterday. I don't know whether you are interested in the case of the - Scott Beck.

The Comptroller of the United States has written to you about Beck's repeated absences from duty and raising the question whether payments of salary will be valid.

H.M.Jr:

Beck?

Gaston:

S. Scott Beck who is the Comptroller of Customs at Baltimore. That is a useless office, you know, that we have tried to get abolished, and I am writing to Beck and asking him for his reply, but I think we may have to protect ourselves by asking him for his resignation. The General Counsel's office, at least Mr. Cairns, is inclined to think that the Comptroller cannot withhold - cannot be supported by the courts in withholding payment of his salary, but that is another matter. But the man is flagrantly and repeatedly absent. He very seldom goes to his office. We have at least one other in the same category. That is Ladd up in Boston.

H.M.Jr:

Thank you all.

November 7, 1941.

My dear Mr. Howe:

There are several matters that I would like very much to discuss with you. I wonder if you are planning to come to Washington any time in the near future. If you are, I would appreciate your letting me know in order that we may set a time when we could talk together.

Sincerely,

(Signed) E. Morgenthau, Jr.

Honorable C. D. Howe,
Minister of Munitions and Supply,
Ottawa, Canada.

Air Mail
N.M.C.

GEF/aba

11/12/41

TO:

Orig. by Mr. Foley
to 9:30 meeting - 11-7-41

MR. FOLEY

MAY 7 1941

Secretary Morgenthau

Mr. Foley

The proposal for a 15 percent withholding tax contemplates that the amount of this tax will be allowed as a deduction in computing net income for purposes of the individual income tax. Because of this, the withholding tax decreases the income tax.

Thus, the wealthier the taxpayer, the less the net burden imposed by the withholding tax.

For example, in the case of a married person with no dependents whose entire income consists of a salary and whose net income amounts to \$2,000, though his withholding tax will amount to \$75, the net increase in tax due to the withholding tax will amount to \$67.90.

On the other hand, in the case of a taxpayer in the same position except that his net income is \$10,000, though his withholding tax is \$1,275, his net increase in tax because of the withholding tax is only \$992.

In other words, the taxpayer with the \$2,000 net income really pays an amount equal to 90 percent of new taxes, whereas the taxpayer with the \$10,000 net income pays only 70 percent of new taxes.

This is due to the fact that the deduction of the withholding tax is worth more to the person in the upper surtax brackets than to the person in the lower brackets.

Consequently, the withholding tax diminishes the progressive character of the present surtax rates.

Unless the surtaxes are increased simultaneously with the enactment of the withholding tax, or it is not allowed as a deduction, the present proposal will be unfair to persons of modest means and will favor those with the greatest ability to pay.

(Initialed) E. H. F., Jr.

CLK:t
11-6-41

November 7, 1941
10:22 a.m.

HMJr: Hello.

Senator
Byrd: Henry?

HMJr: How are you?

B: Are you.....

HMJr: Harry?

B: How are you?

HMJr: I'm alive.

B: (Laughs) I see you've been going through the mill.

HMJr: Yeah. Well, I'm not licked yet.

B: That's right.

HMJr: I'm not licked.

B: You're right.

HMJr: On this economy thing, while I haven't progressed very far, I'd kind of like to see you and Doughton on a sort of a trial run on Monday. We've got some ideas down here.

B: Well, let's see. I'm not positive, Henry, that I can be here Monday. Will you be here Wednesday?

HMJr: Oh, yeah.

B: All right. I tell you, I'll see Doughton, and we'll arrange it either for Monday or Wednesday.

HMJr: Well, the only reason I'm - Bell is going out of town Tuesday night to go down to a Federal Reserve conference in Atlanta.

B: Uh huh.

HMJr: So.....

B: All right. Well, I'll try to arrange it Monday, then. I think I can.

HMJr: He's been doing this thing. If you could make it.....

B: Make it Monday.

HMJr:if you say you're going to be - if you could make it two or two-thirty Monday.....

B: Fine.

HMJr:offer that as a tentative suggestion.

B: Either two or two-thirty.

HMJr: Yeah.

B: All right, Henry. Well, I'll call.....

HMJr: And then so that there'll be no misunderstanding. I'd like Harold Smith to be there so he doesn't think I'm going behind his back.

B: Well, we're to come up to your office?

HMJr: I'll come to yours.

B: Well, you're busier than we are, suppose we come up there?

HMJr: Any way you want.

B: All right. Well, I'll call your secretary in a little while then. As soon as I can get hold of Mr. Doughton.

HMJr: Now, I say, we haven't got - but we're ready to point out the things that we think should be challenged.

B: That's fine.

HMJr: See?

B: Fine, Henry. I think we'll - I think there's a

little more sentiment getting up now in Congress now for it.

HMJr: Well, Harry, we've got to move on all of these fronts. I mean, we've got to move on economy; I need more revenue, and there's no use sparring about it, but.....

B: Yeah. That's what I told Senator George yesterday, that we had to have this bill, which is inevitable, and my judgment is that we ought to go through with it now.

HMJr: But.....

B: What did the House - reject it definitely or temporarily?

HMJr: No, just postponed consideration.

B: Uh huh.

HMJr: Postponed consideration, but they didn't close the door. They left it open, and.....

B: I don't see - unless you get more revenue - how in the world you can finance this program.

HMJr: The Speaker is with me - Sam Rayburn is with me on it.

B: Uh huh.

HMJr: And - but I don't know. There's a lot of jockeying going on unless you're up there. I don't know what it's all about.

B: Yeah. I had a long talk with Senator George yesterday, and I don't think he's opposed to taking it up now.

HMJr: No. He called me late in the afternoon and said that he talked to enough people that he said he was ready.

B: Yeah.

HMJr: He was ready to move. He was fine. George has been fine. And he said he's ready to go any time that I am.

B: Yes. That's what - we had quite a talk about it. Here's my opinion. I told him as long as we've got to raise the money, that I see no use in fooling about it, to go ahead and do it.

HMJr: And we've got to get it before the boys have it in their pockets to spend. If it gets into their pockets, and they spend it, then it's too late.

B: That's exactly right.

HMJr: What? ~~e~~

B: I think that's exactly right.

HMJr: Well, I mean, a lot of these things - all of us have got to get much tougher about.

B: Yeah.

HMJr: Some are acting as though this was a picnic.

B: That's right. You're exactly right about that.

HMJr: Well, I think you'll be surprised - I mean - there's a lot of things - we've done a lot of things - we've got a lot of appropriations that we're ready to challenge.

B: Uh huh.

HMJr: And I think that.....

B: Do you think it's well to have Smith there? There's no reason especially, is it, or not. What do you think?

HMJr: Well, I don't want - I simply feel that I don't want Smith to think that I'm doing something behind his back.

B: Oh, no.

HMJr: So at least.....

B: Well, suppose when you.....

HMJr: Well, if you'll let me know that you're coming, I'd just as lief call him up and say the meeting's going to take place and if he'd care to come, we'd be glad to have him.

B: That would be better then, for you just to handle it any way you see fit; and I'll - all I'll do is to speak to Mr. Doughton and see if it's satisfactory to him, then let us know.

HMJr: Yeah. There's a little jealousy there between the bunch at the Treasury.....

B: Yeah, I know it.

HMJr: What?

B: I know that, yeah.

HMJr: And so I'll just - I'll invite him in, and if he don't want to come, that's his business.

B: Uh huh.

HMJr: Okay?

B: All right, Henry, and I'll call your Secretary in a little while.

HMJr: Thank you.

B: Good-bye.

HARVEY FLOOD BYRD, VA., CHAIRMAN
PAT HARRISON, MISS.
BENJAMIN MCKELLAR, TENN.
JESSE S. ADAMS, CALIF.
W. BRADLEY DOUGLAS, IOWA
ALEX. S. ANDREWS, FLA.
JOHN W. LECHE, ILL.
JOHN H. HANCOCK, ALA.
ARTHUR H. HANCOCK, MICH.
W. WARREN BARBOUR, N. J.
CHARLES W. TOWNE, N. H.
WALLACE H. WHITE, JR., MARIANNE

United States Senate

137

COMMITTEE ON RULES

November 7, 1941 s. .

M. J. MENZEL, CLERK

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

My dear Henry:

Following our telephone conversation this morning, I got in touch with Congressman Doughton and we shall come to your office on Monday, November 10th, at 2:30, as suggested by you.

With best wishes, I am

Faithfully yours,

Harry J. Purnell

Apppt. took place
O.K.

U. S. vs. Daniel Glasser,
Norman Kretske, et al.

To be argued before Supreme Court November 10,
on writ of certiorari.

Appellants' attorney is Homer Cummings.

Appellants convicted of violations of internal
revenue laws.

They were formerly Assistant United States
Attorneys under Michael L. Igoe.

11/7/41.
Hwy phone 138
Atty Genl
Biddle
about
this
case.

November 7, 1941
10:39 a.m.

HJR: Francis?

Francis
S: Hello, Henry.

HJR: How are you?

S: Fine.

HJR: Francis, there's a case appearing before the
Supreme Court on November 10th - United States
versus Daniel Glasser - G-l-a-s-s-e-r.

S: Yes, I'm very familiar with it.

HJR: And Norman Fretzke.

S: It came up from Chicago.

HJR: Yes. And we in the Treasury are particularly
interested.

S: Yes.

HJR: And I wanted you to know that this is a case
that I've been in on from the beginning.

S: Yes.

HJR: And see, this goes back to the time when Judge
Campbell was United States.....

S: I know. I've talked to Bill Campbell about it
at length, and I talked to our people and I'm
very anxious to win it. It's not a very strong
case, I'm sorry to say.

HJR: Oh, oh.

S: I mean, in this sense only, that there were a good
many that the record went pretty far in remarks
that perhaps oughtn't to have gotten on - I mean,
went - you know - commenting on the habits.

HJR: Well, I just didn't want you to think that this

- 2 -

was - this is a fellow by the name of Mike Igoe.....

B: Yes.

HMJr:before he was dignified.

B: Yes.

HMJr: And it's a long drawn out fight, and as long as you know - and you personally are taking an interest in it.....

B: Oh, yes. I got the boys in and gave them a talk. I said we had to win it, because it's a case I don't want to lose.

HMJr: Thank you.

B: All right, Henry.

HMJr: Thank you.

B: See you later.

HMJr: Good-bye.

B: Good-bye.

November 7, 1941

MEMORANDUMFor the Secretary's Diary:

Present: The Secretary
 Dr. White
 Mr. Kuhn

Mr. Clement Attlee, Deputy Prime Minister and Lord Privy Seal in the British Cabinet came to see the Secretary this morning, accompanied by Mr. R. J. Stodorr.

Mr. Attlee first delivered a verbal message from Geoffrey Lloyd, Minister of Mines, saying that Secretary Morgenthau had been of wonderful help to the British in the matter of oil.

The Secretary asked Mr. Attlee about his impressions of America, and particularly about his impressions of Labor's attitude here. The Secretary said that he felt Labor was more strongly determined to beat Hitler than any other group in America. Mr. Attlee said that this was his impression too.

The talk then shifted to problems of production. The Secretary felt that the greatest need today was to utilize existing plants, so that the change-over from civilian to defense production could be accomplished more quickly. If you transplant a tree and take a year to do it, he said, the tree will die; if it is put back into the ground and watered it will live. Mr. Attlee said that the British themselves have depended too much on new plant construction and had not utilized existing plant capacity quickly enough. He said that he was thinking particularly of the pre-war period when all the emphasis was on building something new.

The Secretary said that a much more realistic attitude toward production problems was now becoming apparent in the Administration and that he was more encouraged now than at any time since the start of the war. He felt that we would have a shortage of labor within six months after the new "victory" program got underway, and that the dislocation and unemployment of the transition period could be reduced by using existing plants.

Answering a question from Dr. White, Mr. Attlee said that a very heavy percentage of Britain's labor potential was now being used in the war effort. There have been stories of unemployment, he said, but these concern workers who are shifting to new jobs.

Doctor White asked whether any memoranda from shop stewards and other factory employees in England were available to us in helping to solve production problems. He said that it would be a great help if such data could be supplied. Mr. Attlee said that the British had "heaps of it" and undoubtedly Mr. Bevin would be glad to supply it.

The Secretary then asked about food conditions in England, and cited Mr. Coe's report that the British were not getting enough to eat. Mr. Attlee said the answer depended on what was "enough." Health officials in England, he said, reported that people were getting enough, but there were many difficulties of distribution during the period of the air raids, and there was much difficulty in getting the heavy workers the food they were accustomed to have. Since the blitz these troubles have been corrected, partly by the establishment of canteens in large factories and at the mines. The amount of food and the quality of food available in the future, he said, depended on the tonnage available to carry it.

In saying goodbye to Mr. Attlee after about 20 minutes, the Secretary said that the British were doing marvelous things and that all of us admired them for it.

F.A.

November 7, 1941
12:12 p.m.

Daniel
Bell:

Well, he was very much interested; and Lovett came in and said that we just got your letter yesterday and those figures are all available and they're now being worked up. And he gave us the name of the man which George is going to call.....

HMJr:

Yeah.

B:

.....and see if there's anything that we can do to help out; but he says they'll be available in a day or two.

HMJr:

Oh, he did?

B:

Yeah. He says they're now working them up - started on them yesterday when they got your letter.

HMJr:

Well, of course, I didn't know. They didn't - but did he - was he interested in that?

B:

Oh, very much. He said they'd like to have it in their own work also. He said it helped them out considerably.

HMJr:

What? If they had that chart?

B:

Yeah. Lovett went into some long explanation on the side about supplemental appropriations and we weren't a bit interested in it.....

HMJr:

I know.

B:

.....and that was all right, but Stinson showed a lot of interest and said he thought that it was a good thing to have and they could use it.

HMJr:

And he.....

B:

And Lovett said that it was being worked up.

HMJr:

And he wants that chart?

B:

We left him the Lend-Lease.

HMJr: Did you?

B: Yeah.

HMJr: Well, I think that George ought to send one to Knox, don't you think so?

B: It wouldn't do any harm, yeah. Show him what we're doing. Sure, I think that it might be a good thing.

HMJr: How about letting George walk it over? He saw Mr. Knox.

B: Yeah.

HMJr: And let him walk it over and then - so that there could be no question, I'd also have George walk one over to Stettinius.

B: That's all right.

HMJr: See?

B: Sure. I think that might be a good thing.

HMJr: Walk one over to Stettinius and walk one over to Knox.

B: Yeah. All right, we'll do that.

HMJr: Thank you.

B: All right.

November 7, 1941
12:53 p.m.

HMJr: Yes.

Lieut.
Sinton: Sinton.

HMJr: Go ahead.

S: The weather, I think, will be satisfactory. We'll have, possibly ceilings down to two thousand, but I believe we can go up to New Hackensack contact as long as we start by three o'clock.

HMJr: I can't start by three o'clock. I mean.....

S: Yes, sir. Well, we can go into LaGuardia later.

HMJr: Well, how about LaGuardia?

S: It will be all right later.

HMJr: Are you sure?

S: Yes, sir.

HMJr: How much ceilings at LaGuardia?

S: LaGuardia should have at least twenty-five hundred to three thousand.

HMJr: Well, is it getting worse or better?

S: It should not get any worse at all.

HMJr: I see.

S: After dark it should hold.

HMJr: Well, I have Cabinet; so the earliest I could leave would be four.

S: Four o'clock, yes, sir.

HMJr: That would take us to LaGuardia.

S: Aye, aye, sir.

HMJr: See?

S: You want us to stand by down at Washington National?

HMJr: Yes.

S: At.....

HMJr: Let's say from - let's see, Cabinet might be over early.

S: Sir?

HMJr: Why not be there, say, does it make much difference where you stand by?

S: No, sir, not a bit.

HMJr: How long does it take you to come over?

S: Well, if we're over at the other field, it only takes a few minutes; but we'll stand by right here at any time you say.

HMJr: Where are you now?

S: I'm at the Weather Bureau - at Washington National.

HMJr: Oh, you're there now?

S: I haven't the plane, no, sir. I'm over here though, checking the weather.

HMJr: Well, I think you can be there, say, from three o'clock on.

S: Yeah. I'll be at Washington National from three o'clock on.

HMJr: Yes. Washington National.

S: Yes, sir.

HMJr: Now if there's any change.....

S: Yes, sir.

HMJr:please - I mean, if you find you can't do it.....

S: Yes, sir.

HMJr:please let Mrs. Klotz know.

S: Mrs. Klotz. I'll let her know, yes, sir.

HMJr: Please.

S: Aye aye, sir.

HMJr: Thank you.

S: Good-bye.

11/7/41

The original of the letter to Mr. Doughton ¹⁴⁸
and the attached clipping from the Baltimore
Sun were left with the President by HM Jr
when he saw him at Cabinet today.

Handwritten notes in cursive script, including the date "11-7-41" and the number "149".

149

11-2-41

My dear Bob:

I understand that the Secretary of the Treasury recently consulted with you and other Congressional leaders about the inflation problem and the urgency of prompt tax legislation to counteract the inflationary pressures arising from the Defense Program. It seems clear that if we are to prevent a further sharp increase in the cost of living and in the cost of the Defense Program itself, we must take immediate steps to absorb a large amount of purchasing power through additional taxes. In my opinion these new taxes should yield at least \$5 billion. We must remember that taxation is a necessary complement of price control legislation because the continuing effectiveness of price control is largely dependent upon the restriction of the demand for goods.

If these taxes are to restrain inflation they should be directed mainly at that part of the national income which is being devoted to the purchase of civilian goods, and should be of a character that will not increase the cost of these goods. Purchasing power so far exceeds actual and potential production of civilian goods that vigorous steps must be taken to reduce purchasing power more nearly to the level of

- 2 -

production capacity.

Inflation is itself a most inequitable type of taxation. It grants no exemptions and recognizes no hardships, -- though a well-drafted tax bill can do both. I very much fear that unless we start within two or three months to withdraw through taxes a larger part of the current national income an even greater part may evaporate through inflation, and the upward spiral may gain such momentum that it will be difficult to regulate, despite all efforts through price control and similar measures. I do hope you will be able to help us with this problem now.

Very truly yours,

Honorable Robert L. Doughton,
House of Representatives.

JLS:kb

RB *[Signature]* JLS

THE  SUN

NOV 7 1941

**THE TREASURY WILL NEED
THE ADDITIONAL MONEY**

After their conference with Secretary Morgenthau on Wednesday, members of the Ways and Means Committee mentioned \$4,800,000,000 as the sum which the Treasury hoped to raise by new taxes on individual income.

It is a large figure, the attainment of which would just about double the present individual income-tax burden. It is not surprising that members of the committee should show reluctance about accepting such an amount as a basis for a new revenue bill now. Taxpayers have not yet had time to become accustomed to the higher rates imposed by the \$3,500,000,000 bill enacted in September. With that bill and with two 1940 measures, each of which was expected to raise about a billion a year, fresh in memory, elective legislators could hardly be expected to show enthusiasm for a plan to raise an additional sum of nearly five billions.

Neither the members of the committee nor anyone else can deny, however, that the Government needs the money. The Treasury's accounts for October, fourth month in the current fiscal year, are just in. They show national-defense expenditures of \$1,527,000,000 and total expenditures of \$3,082,000,000 for the month. Since July 1 in national defense has cost the Federal Government \$4,930,000,000 and overall expense has amounted to \$7,083,000,000. To defray this huge bill the Treasury had to pay \$2,460,000,000 in revenues. The deficit was \$4,904,000,000 for the four-month period.

At this rate it is easy to believe that the Budget Bureau's forecast of a deficit of more than twelve billions for the fiscal year ending next June will be realized. It may even be exceeded. There will be a substantial rise in collections after January 1, due to the heavier income levies carried by the recently adopted tax law. Increased revenues already coming in from the new excises. The Treasury will also be able to borrow substantial sums from the old-age insurance

fund, the unemployment trust fund and other trust accounts. Borrowings from these special accounts have already aggregated \$707,000,000 in the first four months of the fiscal year and, while some of these items will not occur during the remainder of the annual period, the total available will nevertheless be well in excess of \$1,500,000,000. It may approach \$2,000,000,000.

Even after full advantage has been taken of these self-borrowings, the Treasury will still have to float about eleven billions in public loans during the twelve months. And despite a further rise in revenues due to expanding business, the rising cost of defense will make for even greater borrowing the following year. So it is clear that the Treasury will need a great deal more money and that it is not too soon for members of the Ways and Means Committee to begin to think about ways and means of raising it. They do not necessarily have to take the Treasury's methods, nor even the Treasury's figure as to the amount. But they cannot afford to disregard the urgent need for additional revenue.

In connection with this need, it must be emphasized that the borrowing and spending of eleven or more billions of dollars a year in a period when consumer goods are limited in supply will generate a tremendous inflationary pressure for higher prices. An effective price-control bill will be necessary as a first line of defense against this pressure. But no price-control bill can prevent a price rise unless at the same time there is heavy taxation designed to reduce public borrowing and also to reduce purchasing power, thus relieving the pressure which tends to force prices up.

There is this further point. If we have inflation, we will pay out in higher prices much more than we are likely to pay in to the taxes and have nothing to show for it. On the other hand, if we can check inflation by price controls, heavy taxes and other means, defense will cost less, living will cost less and we will be better off all around.

NOV 7 1941

My dear Claude:

I understand that the New York Produce Exchange at the beginning of this week reduced the margin requirements on cottonseed oil futures contracts from 15 percent to 10 percent. The effect of this action, it seems to me, can only be to encourage more active speculation, particularly on the part of the general public, while serving no useful purpose except that of increasing brokers' commissions. Cottonseed oil, of course, is one of the key commodities in the fats and oils group, and accordingly will have considerable influence in determining the general trend of commodity prices. It has already advanced 40 percent in price since August last year, and press reports seem to indicate that public speculation in recent months has become an increasingly important influence in the market.

I wonder if the Commodity Exchange Administration could not do something about this, in the interest of heading off a speculative price boom that might jeopardize our price control program.

Sincerely,

(Signed) Henry

The Honorable,

The Secretary of Agriculture,

Washington, D. C.

115 Messenger 2-10-41

GAH
 OCB:law 11/5/41 FILE COPY
 462

5-18-41
 made to [unclear] office

November 7, 1941

Given to me at Cabinet today by Secretary
Wickard.

Henry M.

THE WHITE HOUSE
WASHINGTON

Re: your note
on margins. We
asked the exchange
to not reduce
margins. They
did anyway. They
know we have no
power to enforce
our request.

Claude

THE WHITE HOUSE
WASHINGTON

response to Henry 11/4/41 - November 7, 1941

Dear Henry:

Many thanks for the special series of commercial posters. I am particularly pleased to have them.

This is indeed splendid cooperation and support of the Defense Savings Program.

Very sincerely yours,



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

TREASURY DEPARTMENT

156

INTER OFFICE COMMUNICATION

DATE November 7, 1941

TO Secretary Morgenthau
FROM Mr. Kuhn

Jerome Kern told me on the telephone today that he was coming to New York November 12th and would be there until at least the 24th. I asked if he could come down to Washington during his stay and he said he would be delighted to come any day we wanted him. It occurs to me that you and Mrs. Morgenthau might like to invite him for an evening.

JK

TREASURY DEPARTMENT

157

INTER OFFICE COMMUNICATION

DATE November 7, 1941

TO Secretary Morgenthau

FROM Mr. Kuhn

Howard Dietz is back in the East and will be available to come to Washington any day or evening next week. He has a lot to report about films and a lot to discuss about radio. I told him that I would let him know.

F. K.

TREASURY DEPARTMENT

158

INTER OFFICE COMMUNICATION

DATE November 7, 1941.

TO Miss Chauncey
FROM Mr. Callahan

You telephoned the other day saying that the Secretary was anxious to have for use on the Treasury Hour, the song "Buckle Down Winssocki", the featured number in the Broadway show, BEST FOOT FORWARD.

This number, together with the stars of the show, will be featured on the Treasury Hour broadcast of November 25th between 8:00 and 8:15.

There will also be another song from this show, but it has not yet been selected.

Vincent F. Callahan

Treasury Department-
Division of Monetary Research 159 *er*

Date November 19, 1941 19

To: Mr. Dava Morris

I think the Secretary will be interested in reading Mr. Taub's testimony before the Tolson Committee. If he doesn't wish to, he should glance at the digest prepared by Mr. Ullmann, of this Division.

Mr. Taub is an engineer very well qualified to discuss the matters about which he testified.

H.D.W.

H.D.W.
MR. WHITE
Branch 2058 - 214½

TREASURY DEPARTMENT

160

INTER OFFICE COMMUNICATION

DATE November 7, 1941

TO Mr. White
FROM Mr. Ullmann
Subject: Mr. Taub's Memorandum

In his memorandum (and in his testimony before the Tolan Committee), Mr. Taub pointed to some glaring deficiencies in our utilization of manufacturing facilities for defense.

1. He could arouse little interest on the part of the Army in a plan to enable idle automobile plant facilities and labor to be used for defense production — even though the manufacturers were interested and their various plants were idle to an extent of from 50 percent to 90 percent of capacity.

A small sample "shopping list" was prepared — consisting of gun mountings, fire directors, tank transmission, etc. — and various auto manufacturers selected items off the list for manufacture. But no comprehensive list has been prepared.

2. The Army ascribed its lack of interest to the fact that it had no orders to place, which is a surprising situation in the present emergency. In such a center as Detroit, Ordnance officials were "very flat and more or less disinterested". He states: "There is nowhere an attitude capable of bringing about a shopping list".

3. He has found idle manufacturers — large and small — willing to form "pools" to produce defense items, i.e., each member of the pool to produce parts and quantities for which he is equipped. Under this plan (which is used in England) even small shops can be used and even empty buildings (for assembly).

Such "pools" have been formed in Toledo and now the pools are asking for orders.

4. Government officials have been refusing orders to many plants because a particular machine might be absent in the plant. This policy has failed to take into consideration the mechanical ingenuity to be found in our factories. Furthermore, if "pools" are formed, one plant might well have machines to supplement equipment in another factory. Such pooling also overcomes many technical difficulties encountered in converting a single plant.

Division of Monetary
Research

- 2 -

5. He is not only concerned about the failure to use idle capacity to produce defense items in the time necessary but is also alarmed at the prospect of unnecessarily displaced labor. Some of this labor may be absorbed in new defense plants, but that implies a migration to new centers where defense facilities are located and the prospect of a necessary re-migration when the defense program is completed.

OFFICE OF PRODUCTION MANAGEMENT

SOCIAL SECURITY BUILDING

WASHINGTON, D. C.

October 27, 1941

MEMORANDUM

TO: Mr. Stacey Hay

FROM: Alex Taub

SUBJECT: Experimental Shopping List

During the early discussions with the automobile industry on curtailment of that industry it was agreed that curtailment should move hand in hand with conversion. To effect this you suggested a shopping list be organized from which curtailed industry could select defense items which they could make. The Automotive Section of OPM accepted this suggestion in spite of the fact that speakers from the services indicated that they had no work to place. Contact was made with Ordnance and other departments of the service. Mr. Peterson in Under Secretary of War's Office was detailed to act as door opener and introducer. General Lewis and his group were the only ones who really got down to the problem and finally furnished us with a book of some thirty items. These included ammunition, gun mountings, a fire director and a tank transmission. Arrangements were made for the writer to meet with representatives of the nine auto manufacturers at local district ordnance offices. Considerable amount of interest was in evidence by the manufacturers. However, each in turn pointed out that he had been in contact with government procurement agencies on many of the items listed and had failed to get consideration. Sometimes it was a matter of price and sometimes things just died on the vine, as it were. The manufacturers were all of the opinion that special arrangements should be provided for the handling of heavy unemployment areas in order that negotiated arrangements could be made that would bear in mind that our project was two-fold: first, check unemployment, and then expand defense production.

The material was left with these manufacturers with the provision that they would advise the Automotive Section of OPM in detail as to what they were interested in.

There is a considerable difference in atmosphere at the various local ordnance district offices. Col. Armstrong and his crew in Chicago really put on a show and gave representatives of

Mr. Stacey May

- 2 -

October 27, 1914

Studebaker, Waco-Kelvinator a real opportunity to see the drawings and hear from the ordnance experts as to the nature of the defense work. The Cleveland District Office did a pretty good job although not up to the Chicago set up. The Detroit District Office was very flat and more or less disinterested. Later, explaining this situation to Col. Quentin in Ordnance, not knowing that the Detroit area was his particular ordnance office, we were told by him that the lack of interest was due to a lack of sympathy with the project but they couldn't understand how you could have a shopping list on items for which there were no orders.

During the following two weeks contact was made by the Ford Motor Car Company with the object of getting the tank transmission, a 57mm gun mounting, and the fire director. Later arrangements were made with the Ford Motor Company to manufacture gears for Pratt and Whitney engines, at first for everybody and later General Motors decided to make their own gears for the Pratt and Whitney engines which they were to manufacture. Other companies showed a certain amount of interest and prepared bids and between them made contracts on practically all the items in the list at the period. The Automotive Section was broken up and the conversion part of the department became the problem of defense contracts distribution which was to be reorganized under Mr. Odium. Mr. Adams and the writer had several discussions with the members of the Defense Contracts Service and it was understood that the shopping list which had proven itself to be a very important and needful instrument would be carried on by them and expanded. We were advised by Mr. Mahoney that it was their intention to obtain the services of Army, Navy and Air Force representatives whose main job it would be to gather material for a full sized shopping list. These service men would be under Col. Ware in the Under Secretary of War's Office.

At the present, some eleven weeks later, there not only is no shopping list; there is nowhere an attitude capable of bringing about a shopping list. A parallel contracts distribution group has been set up as outlined under Col. Ware and this group is very capable but it is bound by the same stringent rules as any other procurement agencies and in no contacts that we have made has there been the slightest indication that they would be even willing to arrange for some of our distressed manufacturers to see some of the drawings of the probable pieces that can be made unless they were made in the regular channels. A shopping list in spirit if not in fact is tremendously essential regardless of the present state of procurement as I don't believe the flow of munitions begins to represent the volume needed in the time we have. There is an enormous unused but usable capacity in this country and although we do

Mr. Stacey May

- 3 -

October 27, 1941

Not like to produce an over-long memorandum, I should like to restate answers to questions that have been put to us before.

We have been asked:

1. How can we, consistent with defense needs, more fully utilize existing production facilities?

Some doubt is thrown on this question because it states "consistent with defense needs." At the moment the greatest drawback to the utilization of existing production facilities is the consistent advice that we get from the procurement agencies that the needs have all been covered and hence only the production facilities now under use can be used. It is entirely useless to organize the tremendous production facilities of this country unless work can be furnished for these facilities. Billions of dollars are released for this purpose but apparently it dries up very quickly.

2. Where does the excess production capacity exist which should be utilized?

Bearing in mind the answer to No. 1, assuming we had worked for Distribution, our larger facilities can be found in two national groups: the large mass producers of durable goods industry such as motor cars and heavy capital equipment, and the small manufacturer normally running a business of his own, employing from two hundred to a thousand employees, sometimes used as a parts maker to the larger companies. Ten months ago, when I first returned to America, the state of mind of industries such as the motor car industry was still against any interference of their normal business. Defense work was only acceptable to those who foresaw a possible cut in their output and these were very few. At that time the announced percentage of facilities available for defense work was in the neighborhood of 15%. Today, with curtailment on the premises, it is freely admitted that 50% of the facilities can be used for defense with a possibility in certain areas of extending this to 70%. We have one instance of actual practice where nearer to 90% is used. With proper planning, considerable employment can be absorbed, even in shops without any facilities except empty buildings and a few cranes. The smaller manufacturer who, numerically by factory units and number of employees, far exceeds the large manufacturer can be brought into the picture only if his facilities can be used to their maximum even though this maximum doesn't complete a project. By pooling his facilities with the facilities of other properly geographically placed small factories a project can be completed.

Mr. Stacey May

- 4 -

October 27, 1941

The present practice of examining a list of machine tools and determining by remote control what those facilities can make excludes the greatest facility that America has and that is mechanical ingenuity. By allowing a pool of these smaller factories to examine a defense item they can determine for themselves whether they can make it and who else to bring to their pool to complete the item. This is a principle we have been working on and in Toledo have actually formed that community into usable pools. The same is being done for smaller manufacturers in Detroit and again in Newark, New Jersey, and an attempt will be made to broaden this activity. We are sure that this will bring forward production facilities far in excess of anything that any one has dreamed of and unfortunately very far in excess of available work.

3. What industries can be most readily converted?

This is best answered by saying the most difficult industry to convert is one such as the stove industry where most of the work is punch press and sheet metal. Defense items require this type of work in a very limited manner. However, that does not mean that if skilled press shop engineers were allowed to examine all defense items for the conversion of defense items from castings to stampings, that we might not be able to save machine tools and create work for that part of the durable goods industry that is being hardest hit.

4. What are the technical difficulties of converting different kinds of industries and different sizes of plants?

The technical difficulties are legion but they solve themselves when facilities are pooled. A Detroit manufacturer who was attending a distress meeting in Detroit told us that he had lost a five hundred thousand dollar order because he did not have more than five of a certain type of machine and needed twenty-five, yet around the table of discussion sat all the machines he could want. Small tools and jigs can be had for the breaking of bottlenecks because we know there are many small tool manufacturers whose facilities are unused. A pool of such organizations is being formed now around Detroit which will eventually offer a tool capacity for the making of tools and jigs needed for the production of any item. It is even conceivable that a combination of tool shops with some of the better stove makers with their foundries could make machine tools, some of which are true bottlenecks today.

TREASURY DEPARTMENT

166

INTER-OFFICE COMMUNICATION

DATE

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

November 1, 1941

Pursuant to your request, I am attaching
the testimony of Mr. Taub before the Tolan
Committee on Migratory Workers.

S. H. 74.

Attachment

TESTIMONY OF MR. TAUB BEFORE THE TOLAN COMMITTEE 10-28-41

167

MR. CURTIS: Mr. Taub, you have spent quite a little time in England, recently, haven't you?

Mr. TAUB: That is right.

MR. CURTIS: What was your profession before going to England?

MR. TAUB: I have been an engine designer for 30 years.

MR. CURTIS: And with whom were you associated or employed in this country?

MR. TAUB: Ford, Packard, and General Motors from 1917 to 1936.

MR. CURTIS: And where did you go in 1936?

MR. TAUB: I went to Vauxhall in England to design a line of cars for them.

MR. CURTIS: Is that the General Motors Company in England?

MR. TAUB: Yes sir.

MR. CURTIS: In what capacity did you serve the English Government when the war came on?

MR. TAUB: On the Mechanics in charge of consultation on automotive equipment, such as truck and tank engines.

MR. CURTIS: How long did you serve the English Government?

MR. TAUB: From the beginning of the war until two months ago.

MR. CURTIS: I wish you would in your own words elaborate upon your observations coupled with any suggestions that you have to make in the light of the discussion we have had here this morning or anything in addition thereto.

MR. TAUB: Well, you understand that I am a rank amateur in meetings of this kind. I had much rather design a tank than

talk about one. It is easier. You can prove what you are doing very quickly. I would like to revert to the questions that were in your memorandum if you don't mind because in the last two months, having a roving commission, I have spent most of my time on conversion. In England there naturally was a lot of conversion because business as usual pretty well died overnight. Within three months of war we weren't making any automobiles except for export. Within six months we were making no motor cars whatever. So it didn't take long to understand that you were going to convert. It was just a question of what, and the suitability of your plant to the particular item. We found by experience that you could make 3-ton trucks on an assembly line that normally handled little 10-horsepower cars. It was a question of urgency and how many bombs were dropping outside. It makes a difference. Bombs have a way of urging you along to get your job done. There was some mention made of hours of work. It must be borne in mind that the night shifts were quite useless for a while in that you had four or five interruptions during an evening. And you got very little good out of it. The total number of hours actually worked bore no comparison with the total number of hours on the books per month because they spent half of their time in the trenches.

Do you want me to go along with these questions?

MR. CURTIS: I may ask you a few. What was the experience in England on what has been termed here as exploding?

MR. TAUB: It isn't done quite that way sir. The best thing I can do is to explain how a small motor car company was given the contract of making the Churchill Tank, a 42-ton tank. The company about half the size of the Studebaker Co., but not having as much equipment, and certainly nowhere near as up-to-date, but it has an advantage in having non-up-date equipment. It gives you a certain degree of freedom whereas had the company had fully up-to-date equipment they would have more single-purpose machines in the house and less that they could use. This organization has to tank program, which meant to cover design, cover purchases and sub-contracting. Among the sub-contractors were 12 concerns any one of which was several times larger than the parent company. The Government was betting on the management, and that company spread the design and that is how the job is exploded. You can't design in a lump. You have to design in detail. So as the job was developed, units were passed out to probable manufacturers and by the time the job was ready, the experimental or pilot model was built, the manufacturers had already made their production studies. But there was at no time a tank built completely by some independent group, then burst into pieces and then having someone say: "Here are the pieces. Who can make them?" Always somebody in the industry was asked to master-mind the job. That is the Government's way in England to bring to the support of the Government the maximum of management and technical skill. Why, they don't

have a whole slough of production engineers in the Ministry of Supply. They have fairly good men to consult with who act as carriers between one group and another but the hard-hitting gentry are where the work is going on, which is important, and I believe where it ought to be. We must bear in mind that England is a much smaller, compact unit than America and you can do those things perhaps more readily there. But it did bring out this to my mind, that the business of building a tank arsenal capable of building everything in the tank was probably not the way to do it because without explaining to you how many tanks are being made a day, I can say that a small company is able to engineer that product. Some of the buildings in which these tanks are being assembled were buildings that had been empty, body buildings. Floor-space was there but there were no bodies being built, and by the installation of the proper types of hoists and cranes you could assemble tremendous tanks there, using a tremendous amount of line labor, the unskilled type. That is the practice on tanks. Does that cover the question you asked?

MR. CURTIS: Yes, I think so. In our hearing in Detroit, the automobile manufacturers maintained that the industry's productive equipment was by and large not capable of adaptation to defense work. I was glad to learn that under the pressure of necessity they have in at least one instance increased from 15% convertibility to 90% convertibility. Do you know how much

is being converted now?

MR. TAUB: It is moving to the 50% mark. It depends entirely on how much work is being placed with them rather than on the facilities that could be used.

MR. CURTIS: Mr. Taub, can you describe what contribution on the basis of your knowledge such civilian industries as stove manufacturers, refrigerator manufacturers, etc. could make to the manufacture of defense products? To what extent are they now being utilized?

MR. TAUB: I can only answer that question by explaining to you that at the present I am working on this pooling arrangement, that I have spent time in three different places. Take Toledo. In Toledo we were able to gather under the auspices of their Chamber of Commerce representatives of some 400 metal manufacturers. A committee was formed to divide that group into pools. These pools have been formed on the basis of some knowledge as to the type of defense work they can do, the objective being that anyone of the members of the pool are usually turned down on defense contracts for lack of equipment, but in combination they are able to bid completely without a request for new equipment. That has gone on in Toledo to a point where they have hired them a production engineer as general manager and a permanent Committee of both labor and management ...

and a permanent committee of both labor and management, and they are now knocking at our door, saying "We are ready with our pools. Where is the work." We have got to try them. We are talking about large scale production and the need for capacity. We have taken an entire city area to find a pattern and we have them now in usable form and they have now come in and are trying to make contracts to get this work, but we are not evidently setting up a procurement agency to handle that.

But we have to go on with the picture, of the building of these pools because that is the only way these stove people such as mention can be used. We were able to point out to one stove manufacturer in Detroit that the automotive industry is short cast-iron parts (pistons) because they have been changed from aluminum to cast-iron because cast-iron was practically all that could be had. And he rushed back and tried to get his foot in the door. We are able to pick out a few items or a few individuals but to handle these things in groups as they are growing in size, we have to bring them down to fewer problems than they would represent as individuals.

MR. CURTIS: Now, in the metal-working field, some plants have had to close down because of priority allocations, that cannot perhaps be converted. We have had cited as an example of the extreme of this a zipper factory. What have you to say along that line? Are there very many factories that it is entirely

hopeless to convert and to give a part in the defense program? 173

MR. TAUB: I don't think it is entirely hopeless. Bearing in mind that I am not going to say - and nobody else can - that you can utilize the 180,000 factories in this country. But we are speaking about the group far enough up the line that should be used and that we can use. Zipper factory workers, after priorities have gotten through with them, have only hands and fingers left, but they are still good assemblers, and in all this defense work we still need assembly. It is not hard to imagine a zipper factory to be able to assemble small arms if it were hooked in some way with a great organization that makes the necessary parts. The same thing goes for larger factories that have facilities that cannot any longer be used and for all intents and purposes are just empty buildings. They too could be placed on the assembly. There are few defense items in which assembly is not a very important item. We must bear that in mind in the grouping of the pools. It isn't hopeless at all.

MR. CURTIS: Isn't it true that assuming that a plant is capable and that they have adequate machinery that there is no plant too small but what they can make a distinct contribution?

MR. TAUB: I would draw the line, particularly as you say a "distinct contribution". With a plant that employes 15 to 30 men, you might be able to use them if they are near an operating plant, but you could hardly expect them to make a distinct contribution.

Mr. Taub

7.
174

MR. CURTIS: Let's change the term. Could they make some contribution?

MR. TAUB: That all depends upon the nature of the plant. The majority of the extremely small plants, if we are now talking about those in the 20-employee type, the majority of those would have to be handled by finding them substitutes or allocations of material. A percentage of these materials would have to be assigned to some of them although it would have to be very carefully scrutinized to be sure that substitutions could not be made. A lot of them would be in such localities and so grouped that you might not be able to use them.

MR. CURTIS: Take, for example, a concern that makes garage tools. It is small but they turn out several gross of a given tool a day. Couldn't they likewise make simple braces that go on airplanes?

MR. TAUB: Yes. A Company capable of making several gross of garage tools could very easily make machine-gun mounts and I wouldn't consider that a helpless sort of concern. There are others, making imitation jewelry and that kind of thing that just haven't got the equipment. When you get into making the bits and pieces for servicing existing pieces of machinery, they can make bits and pieces for servicing defense items. But there are trades that don't fit in that will be equally hurt. Those will be the difficult people and for them we must find substitutions for material.

MR. CURTIS: That is all, Mr. Chairman.

MR. TOLAN: Mr. Person, at the suggestion of Congressman Welch of California who is sitting to the right of Congressman Sparkman, here, not a member of this Committee but a highly respected member of the House of Representatives, I would like to ask you a question. He was very much interested in your testimony and he informs me you are a technical consultant to the R.E.A.

MR. PERSON: Consulting economist. Not on a full-time basis.

MR. TOLAN: He was very much interested in finding out if you care to express yourself. There is going to be a drastic cut under the National Defense Program in the use of copper by non-defense industries. What effect will that have, if any, on the further electrification of farms and homes in this country?

MR. PERSON: All right, if this is off the record. (OFF THE RECORD)

MR. TOLAN: Was there anything else?

DR. LAMB: I have a few questions that I would like to ask to complete the record on some of the statements that the panel made. First, I would like to ask a general question of the panel in the event that any of you care to answer it. I will direct it at the panel without being specific as to the individual to whom it is directed. How many additional workers do you believe could be absorbed by the metal-working industries where facilities could be utilized on a 100-hour week as contrasted with the present 50-hour week.

MR. HENRY: I think if you go to the Bureau of Labor Statistics you can get a pretty accurate estimate of the actual number of metal workers employed in the metal working industry and a fairly accurate estimate of the number of working hours. If you divide that will give you the figure for assuming that they still work the same number of hours per week.

MR. TAUB: I would like to interject there a thought, and that is that if you propose by any means at all to multiply the number of employees or men engaged in the metal businesses in the large that are going now, and if by good fortune we are able to bring into the band of usefulness all of these others, the question then arises, as it is in England's defense work at the present time, "Where are you going to get the men from?"

DR. LAMB: That was my next question. Are our present approaches to training adequate to build a labor supply capable of manning efficiently our industries, granted that we can utilize our existing facilities on an average of 75 to 100 hours a week? Would you like to answer that Mr. Taub? That question has two parts, one with reference particularly to the metal working industry.

MR. TAUB: I don't think that training is going along at a very satisfactory rate. It is more the type of training where

you lift one brand of workman to another level, but when you are thinking of an all-out defense effort, you are thinking of drawing men from other walks of life so that you will have enough to man the defense effort. Pressing plants to a hundred hours a week plus all of those metal-working plants that should be used, no, there isn't a possibility.

DR. LAMB: In other words, the proposals which have been made right here by the panel this morning, on the basis of machine capacity and its full utilization, will be limited by the shortage of adequate trained labor, particularly in the metal-working industries.

MR. TAUB: Yes sir.

DR. LAMB: How is that to be overcome, assuming that all other factors as described here are capable of such an expansion?

MR. TAUB: The question is one of problem. If the problem is to produce X number of defense units and you succeed in doing that without working a hundred hours a week in every plant in the country, you have another problem. You are assuming that for your defense needs or orders the X number of defense units will be such that this country cannot handle them and I don't think that is even barely possible.

MR. LAMB: You would say, then, that in spite of the probable increase of the defense orders from a present \$30,000,000,000 to let us say \$120,000,000,000, the existing and easily trainable labor force plus the existing metal-working capacity can turn

out the job.

MR. TAUB: Yes sir.

MR. LAMB: That is a very encouraging prospect.

MR. TAUB: You must bear in mind that there is such a large percentage of this money that goes for fairly large units and you have not introduced the time element. If somebody suddenly telescoped the program and said that everything must be finished by 1942, then you have a problem.

DR. LAMB: Isn't that assumed? If you say, for example, that at the present time we have, let us say, \$30,000,000,000 of contracts let., - the Committee has gone around the country and we have been informed that the number of contracts which are so to speak standing in line at a given plant add up to two or three years' backlog, in certain instances. Now clearly a program of \$30,000,000,000 in those time terms is for all military and immediately practical purposes meaningless. The possibility of utilizing those materials for any early military objectives is nil. I don't mean all materials, but the bulk of them.

MR. TAUB: I understand what you are driving at, sir, and I appreciate that thought very, very keenly, but at the same time the program - you couldn't build the war-ships you have on schedule through the year 1942. That is the thing I have been talking about.

DR. LAMB: Granted the impossibility of expecting an expansion on any such scale as would bring into effective use in twelve months' time battleships, granted that that is out of the way, still we have been talking in terms of metal-working capacity for guides in discovering what an individual man can be expected to roll off the line in 30, 60, or 90 days.

MR. TAUB: That can be handled. You have not begun to scratch the capacity of normal working, without a 100-hour week.

DR. LAMB: Though those contracts are also standing in line, as I understand at the present time.

MR. TAUB: Shipbuilding may be standing in line, some of the larger ships and some of the smaller ships can be handled as Mr. Ford did the Eagle Ships in the last war. That can be planned. But, gentlemen, we haven't begun to use even the 8 or 9 major motor car companies, whom we criticize so severely. And behind them are hundreds and hundreds of others.

DR. LAMB: Would you say with reference to that failure to utilize their capacity it is a failure to give them the contracts?

MR. TAUB: That is right, sir.

DR. LAMB: Which, I take it, gets back to the contention of Dr. Person that the failure to utilize capacity and incidentally to let contracts traces to the lack of an over-all plan into

which such contract-letting fits.

MR. TAUB: Yes, I think that is true. But I would like to underline here that while everybody is taking a whack at the Army and I have had some sour experiences with the Army myself, nevertheless they are only the front and my experience with them is that they are limited by the law of the land and also by the laws of the departments. The Navy has one set of playing rules that do not agree with the Army's playing rules, the Army's being broader. We do whack at procurement agencies but I think if we look behind them we would find that appropriations and the legal side of the picture are the two major drawbacks. It is all right to talk about planning ahead. Say that we planned a year ago to spend \$120,000,000,000. If we had the same ideas we had at that time would be in an awful state because we would have built a lot of new buildings, the same as we did in the last war, and we would be worse off.

DR. LAMB: I don't think the interest of the Committee is in retrospective considerations of what might have been, but rather to discover what can be done from this point out to transform what I think the criticisms of the members of this panel indicate is an effort by far less than this country is capable of.

MR. TAUB: May I give a specific example of what might be done? At the moment the Army needs trucks. It is not ordering trucks in the broadest scope that it can. It is getting along with the least

it can safely order. That is the truck program today. There will be a continuation of the truck program into next year. By next year a lot of those facilities will have been filled with programs now in preparation and the opportunity to get them is going to be difficult. We are now running into a lull. Why can't we take next year's truck business and throw it into this year, fill in the lull, and not have the headache of trying to get them when they will not be available.

DR. LAMB: Why can't we?

MR. TAUB: Why can't we?

DR. LAMB: If I understand Dr. Person correctly, it is his contention that without an over-all plan you are bound to have lulls, and lulls in an adequately operating over-all plan can't exist, because is the opportunity in terms of his plan - is that correct, Dr. Person? - (Mr. Person nods his head.)

MR. TAUB: Whether you can make one over-all plan and get away with it, you don't know. We know that in England there is much planning and we have heard England's methods praised, but working from the inside there was nothing to praise. They ^{have} had a new minister of supply every five or six months. They have had more shake-ups in England even than they have had here. So what looks good from here, sitting close up is not quite so good. Whether or not one plan, no matter how good or how large it was, would be satisfactory or even is the way to do it, I don't know. I do know this, that it would help if we had at least one financial plan, if we knew that would

money
be enough/to cover a large plan. It seems to me we already know that the war is going to cost so much money and that should be provided for without the Army's having to come in and say: "We want this list of stuff", and having the non-military people say: "You can get along without this and that." I think that encouragement to spending shouldn't be the order of the day but discouragement to spending shouldn't be the order of the day either. But whether you can make a plan on materials detailed as to what you are going to use, I think that is dangerous. You are then getting into a point where you are freezing by plan your designs and we know by bitter experience that these fellows who are setting the pace keep changing the rules and we'd like to have ability to change our products, and an over-all plan might interfere with that.

DR. LAMB: I would like to amend the phrase "an over-all plan" because I am not sure that it is a perfectly adequate representation of what Dr. Person had in mind. I would say that his statement as I read it comes closer to being a description of two things: 1. a series of control policies which are closely integrated in their operations so that there is a large amount of understanding between them as to not only the division of functions but the degree of cooperation required. On top of that, as I understand him, something approaching a flow-sheet of operations and of the supply of materials backward in the opposite direction from the orders and directives as in process of development. Now those two related items are necessary, and I would like to have him correct me if I

am misstating him, to his plan if you please, or proposal.

MR. PERSON: That is all right. We have got just one job to do in the United States on a national scale, that means one over-all plan which fans out maybe into a hundred different levels of planning. Now the main point is that everyone of these hundred constituent plans must head up into the one and not be left to judgement, the vision, the interest of a hundred different agencies.

DR. LAMB: In summarizing the Committee's interest in the matters which have been discussed here today I would like to take the liberty of saying I think the Committee is particularly interested in the possibilities of sub-contracting and incidentally, although that isn't identical, decentralization, because of the opportunity which they afford for a more adequate employment not only of our materials and facilities but particularly - and that is the concern of the Committee - manpower. Without too great shifting about of population, which shifting will probably in the end have to be repeated in the opposite direction at some future date, in other words migration towards defense centers already overcrowded, must be followed by the subsequent migration of those people where they came from with no assurance when they return to their point of origin that they will be able to find jobs or assistance.

One of the things that emerges from this discussion and I would like to raise with the panel in closing the discussion is the question of sub-contracting. I want to make a distinction between sub-contracting, in the way you might call it the in-breeding of sub-contracting - a given large-scale corporation or group of corporations which lets sub-contracts to its affiliates within an organization. That serves many useful purposes but it is not in line with the discussion we have had this morning of decentralization or contracting out to new and to uncoordinated firms and facilities. Now the Committee has heard that sub-contracting is this type of contract is avoided because of the headaches and extra cost involved. For instance, the work of the sub-contractor must be redone on occasion, etc. What the committee is concerned with is how far this attitude exists and to what extent if it does exist it serves as a barrier to exactly those procedures which this panel has advocated this morning. I would like to have anyone of you who cares to address himself to that problem.

MR. COOKE: I would like to say this, that we have had from a great many people from the President down statements favoring what I call farming out, which is an emergency type of sub-contracting. But personally I haven't been able to find a single instance where the man who could really do it has done it in the Government service. Now there doubtless have been occasions but the prejudice

against it is so strong that I think even this Committee would have difficulty in finding instances of its actually having taken place.

MR. TAUB: I would have to disagree with that. I haven't had any experience other than full cooperation on the sub-contracting and I have heard the Army men _____, who had one of the automatic guns, a 20-millimeter, and they are making 3% of the guns and farm out 97%, and that was given to me as an illustration of how well this could be done. Perhaps before my time here there may have been this situation. Mr. Cooke has been here longer than I have. He has perhaps had different experience, but from my experience in the contract distribution group in OPM and the Army I must say that they all seem to be _____. If you ask me to give you concrete examples of what they have done about it, that is more difficult because the thing still seems to be in a state of flux.

DR. LAMB: From this Committee's experience in going around the country I think it would be correct to say that there are many professions of sympathy with the sub-contracting procedure and a good many instances in which sub-contracting of the kind that I described earlier where you have already existing affiliated companies, they may not be tied by stock relationships but through long practice, for example the Chrysler Corporation, there is no particular difficulty about those sub-contracts and in fact many large-scale manufacturers have advocated to the Committee the

piling on of orders so there would be more of that. I take it that the opinion of the panel this morning would be that that is not enough granted that it is necessary to do the job which was advocated here of bringing everybody into the job and if that is the case the problem that the Committee still would need to raise is how are you going to get it? Is it through contract centers, is it through pools? How are you going to get this mass distribution of sub-contracts and contracts on a scale which will enlist all the available capacity and man-power?

MR. TAUB: It seems to me that if Mr. Odlum's department is going to live up to what has been said about it in the newspapers, you certainly ought to have an organization big enough to offer the United States a mechanism of distribution of contracts. Assuming now that we or they, if they don't do it we will, prepare the field to accept those contracts. If you have a large number of concerns in the field who because they are shy a machine or so are not able to accept the contract, then you just can't bring the two together, but if it is intelligently organized individuals into usable groups, then as defense contracts go into the field, they will find groups there waiting for work. That is exactly what will occur from the standpoint of organizing the groups, but what will happen to the business of organizing the distribution of contracts, that is something I don't know.

DR. LAMB: I would like to ask Mr. Person in this connection whether in his estimation what is lacking is an active rather than a passive approach to the situation which you are describing.

Granted that there is a passive situation such as, for example, Mr. Odium's Division having been created and having the authority, starting trains around the country with certain bits and pieces laid out for the manufacturers, is something more in the way of activity required, Mr. Person, in order to make effectual the situation Mr. Taub has described?

MR. PERSON: You have the same perception of the answer that I have, Dr. Lamb, as revealed by the form of your question. It is a problem of aggressive, organized arrangement of the matter as against casualism, it strikes me. Now in my main statement I made the suggestion that there should be a comprehensive organization of an engineering nature to plan and carry through the prime-contracting. That is all that was implied in the statement, but between the lines it should have carried with it the suggestion to carry clear through to sub-contracting. Now as I take it, prime contractors don't hesitate to let sub-contracts to other well-known and highly respected concerns of the same type. But the hesitancy is in reaching out and sub-contracting to the numerous small, less well-known and probably less efficiently managed concerns. Those are the ones that they had in mind when they say the trouble is that you have to do the work over, etc. It strikes me that just as there should be from the center in Washington an aggressive, dynamic reaching out of engineering ability and organization immediately to the prime contractor, this should carry on through by aiding the prime contractor to

organize on a lesser but adequate scale, a reaching down through to their sub-contractors of the class that I am just now talking about. In other words, the planning role of the prime contractor should be to plan for the sub-contractors and it should be in intimate contact with the planning going on in the sub-contracting establishment, and of course good planning of the prime contractor carries with it precise and adequate specifications and all the technical information necessary to do the job right, and there isn't left a large area of instructions. It could be covered by the word "need". If this primary consideration of adequate specification and instructions to the last detail by the prime contractor to the sub-contractor has been taken care of, then planning by the prime contractor should embrace the planning going on in the sub-contractor's concern. That is the way thousands of small enterprises can be brought into the orbit of effective defense preparedness.

MR. HENRY: To carry out specifically what Mr. Person said: three concerns in one type of machine tooling - without mentioning any names - two of these concerns have a national reputation and have done the job of sub-contracting just exactly as you have said. They have taken many small concerns and educated them to make pretty close tolerance. The third concern making the same type has done no sub-contracting. It has bought motors but not done any subcontracting. They are all competitive. One has the wrong attitude. Commercially it may be the right attitude, but he has done no sub-contracting and the other two

have done a complete job of sub-contracting. It is very important to understand not only the attitude in Washington but also what it is in the field. Do they want to sub-contract?

MR. COOKE: Assuming that there are already 8 concerns handling the M-3 tank contracts. There isn't any doubt in my mind that those 8 concerns ought to set up some sort of an organization by which they each have an assignment and one of the essential parts of such a work would be to handle all the sub-contracting for the concerns. If they are going to do any sub-contracting and they have these 8 concerns going out on their own and with various degrees of fancying sub-contracting and the small man who wants to get in having to contact a concern, whereas they could set up a central sub-contracting system which would work much better. That would be one way which on that very extensive tank program you would be able to expedite your sub-contracting.

MR. TAUB: That has been done. They are getting together so there will be less duplication of effort and whoever happens to have facilities will be making such lines. So the scope of that will grow.

DR. LAMB: In other words, if for example you were letting bids on a given part you would open those bids to all the companies capable of making that part which would be conceivably at some time in the evolution of this plan deliverable alternatively

to any of these manufacturers.

MR. TAUB: That is right.

MR. COOKE: According to the instructions.

MR. PERSON: I would like to make another observation if I might. I notice that Congressman Curtis in some of his questions showed a very great interest in the little plants, and their possible disadvantage because of more or less equipment in comparison with larger plants. The following circumstance will throw some light on that. During the First World War some of the largest brass concerns on the Hudson River (?) were equipped with very up-to-date machinery and in so doing they sold their more or less obsolete equipment where they could in an open salvage market and which were bought up by a lot of concerns which began making little bits of things. They were plants employing 5 workers to 15 workers and were set up around the New England States. After the war was over and the market of the brass manufacturers had disappeared there was a period of 8 or 9 years during which all these big concerns got along in the black in the production of big stuff like pipes and valves, but they were in the red all that time in respect of spun brass and shell brass. The big firms couldn't compete with the little fellows to whom they had sold their old obsolete equipment. This simply shows that equipment isn't all that enters into the calculations. 100% good management and 90% efficiency may go further than 100% efficient equipment and 90% good management. There are other

factors that matter, and I think we could rely on any comprehensive scheme which provided developing a very considerable amount of capacity and efficiency among these finger-tips of concerns that exist all over the country.

... OFF THE RECORD ANSWER TO MR. WELCH ...

But I think a goodly portion of the 130,000 could be brought in.

MR. TAUB: We haven't been able to scratch the surface of the 5,000 of them have have fairly reasonably sized plants, so we are a long, long way from being able to organize the very, very small ones. ...

MR. PERSON: We have been following the line of least resistance.

MR. TAUB: The small ones will be the last served, and if we can't look after them they won't be served at all.

MR. TOLAN: This was highly interesting and you have given us a very valuable contribution but I guess we can't save this nation the first morning. But one thing that occurs to me : ~~and~~ I think we can't sub-let or sub-contract the right to eat. The Committee stands adjourned until tomorrow morning at 9:30.

November 7, 1941

Dear Randolph:

It was very good of you to collect the group of confidential memoranda and other material that you sent me in response to my request. I appreciate your getting this to me.

With cordial regards,

Sincerely,

(Signed) E. Fergenthu, ~~522~~

Dr. W. Randolph Burgess,
55 Wall Street,
New York, New York.

See n.m.c.

W RANDOLPH BURGESS
55 WALL STREET
NEW YORK

November 3, 1941

Dear Henrys:

Since you telephoned me on Friday I have spent a good many hours gathering up information and have had our Senior Vice Presidents talking with a number of concerns with defense orders. I have talked with two of our directors operating defense industries and have reviewed the whole matter carefully with Gordon Rentschler.

As a result I enclose several reports which I hope will be helpful. They are not exactly in the form you suggested for I found the diary report either meaningless or unobtainable.

All of these people, moreover, are gun-shy and quite unwilling to put their experiences in detail into writing, partly because they do not want to be complaining and partly for the danger that anything they gave us might come back to the procurement officers with whom they deal and worsen their relationships with these officers. Of course, as you suggested, I was not able to tell them who the report was for beyond saying it was for responsible people in Washington who would use it with discretion.

The most striking finding was that a number of concerns had no criticism as to their relations with the Washington agencies. They say they are obtaining fine cooperation and most of the problems are minor ones normally incident to such a huge program, which are ironed out by direct contacts. With these firms a diary of relationships with Washington would be a mass of detail without any special conclusions. This group of companies would include United Aircraft,

Niles-Bement-Pond, General Machinery, National Cash Register, American Car and Foundry, and a number of others with which we are in close contact.

In the case of a substantial part of the airplane industry we are able to give you a pretty thorough-going picture because, as you know, our contacts with them have been pretty continuous and we have helped them especially in their contacts with the Washington agencies. Gordon Rentschler and Arthur Forward last summer visited the principal plants in the West and then discussed the various problems that appeared with people in the Washington agencies with, I think, some very helpful results.

I enclose a memorandum from Mr. Forward⁽¹⁾ which summarizes the principal problems encountered.

I also enclose the following reports which seem to me to give the kind of picture you had in mind as it appears from various points of view.

2. Memorandum from the president of a manufacturing company producing household appliances
3. Memorandum from Vice President Rounds of the Federal Reserve Bank of New York.
4. Memorandum from W.M.V. a Vice President of The National City Bank
5. An additional memorandum from D.A.F.
6. A cotton mill in the south
7. Memorandum from a manufacturer of electrical appliances.

In the course of this inquiry one suggestion was that while people are reluctant to put their experiences in writing with their names attached, they would talk freely across their own desks to a trouble-shooter who came to see them if he was a man in whom they had confidence such as, John Biggers, James S. Knowlson, or Heacock of Caterpillar Tractor.

I think I should mention three general problems which were very generally mentioned by those we talked with. The first and foremost was, of course, labor.

While many have avoided labor difficulties, they are all greatly concerned about it. A number took the very dangerous attitude that since their business was largely for the Government and since the Government would take three-quarters of any additional profits, the easy way out for them was to give labor all that they asked for to keep them happy.

A number mentioned the priorities problem as requiring a new solution in the form of allocation rather than priority though few, if any, of those with whom we make contact actually are being held up for materials.

A number were also concerned about the preservation of the soundness of their business structure in the face of necessary expansion and high taxation. Their earnings largely go into bricks and mortar, inventories and accounts receivable whereas their taxes have to be paid in cash. This results in weakening their cash position at a time when it is difficult to obtain more equity capital because of market conditions.

But the most vivid impression I got from the inquiry was that the machinery is working much more smoothly than it did a few months ago. There are many less squawks.

Sincerely yours,

Kaulog

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

Memorandum to: Mr. W. Randolph Burgess, Vice Chairman

196 (1)

From: Mr. D. A. Forward, Vice President

November 1, 1941

Beginning with the period when our manufacturers took contracts for airplanes and other required supplies from the French and British Governments, I have been familiar with many of the problems which have confronted these manufacturers, starting with the contract negotiations and running through the various arrangements made to finance the contracts, the expansion and production problems involved, and some of the difficulties experienced with various governmental departments as our own defense program has been expanded. As you know, we have financed or participated in the financing of the requirements arising out of Emergency Plant Facilities contracts of the following: Douglas Aircraft Company, Boeing Aircraft Company, United Aircraft Corporation, Glenn L. Martin Co., Charles-ten Shipbuilding and Dry Dock Company, Worthington Pump & Machinery Company and others. Likewise, we have arranged or participated in supplying the working capital requirements to finance defense contracts of Douglas Aircraft Company, Lockheed Aircraft Corporation, Vega Airplane Company, Boeing Aircraft Company, National Cash Register Company, Bohn Aluminum Company, and the Niles-Sement-Pond Company. Many other concerns which have large defense contracts who are depositors of ours, such as Consolidated Aircraft, North American Aviation, Curtis Wright, Ford Motor, Chrysler, Packard, Westinghouse, General Electric, Dow Chemical Company and Allis Chalmers have discussed some of their problems arising out of defense contracts with us and the possible need of financing some portion of their requirements in several instances.

The latter part of July and during the month of August Mr. Rentschler and I visited most of the airplane plants on the West Coast and discussed at some length with the top executives such problems as each of them had which were delaying production. Following our return Mr. Rentschler took up personally with various officials of the Army and Navy Departments and of OPM these several problems, and, to the credit of the Washington officials involved, I believe that,

following a full understanding of each problem a prompt and satisfactory solution was found in each case. Since then as other problems have arisen we have found a disposition on the part of the Washington officials concerned to be cooperative and to make reasonable adjustments.

There still are some general problems which confront almost all prime contractors from the standpoint of obtaining continuous and maximum production. Among them might be mentioned:

1. In Germany a procedure has been followed from the start under which a manufacturer was instructed to tool up his plant to produce a given number of units per month of a definite design, with the assurance that he could count on having orders for the duration of at least that quantity. The manufacturer accordingly could make his plans for materials, labor, supply parts, etc. on a definite basis. If any modifications in the design are required the production line is not stopped, but one change at a time is made for introduction at the earliest date when it can be worked into the production line without reducing current output. The policy of some of our governmental departments is to require numerous changes as they are requested, with the result that when practically new models are introduced the production line stops while the changes are being made. Furthermore, while one order is in the process of production, there is no assurance of a reorder of the same model so that an even flow cannot be maintained. Many of the parts and supplies must be ordered months in advance so that the supply contractors and other suppliers are just as much affected in maintaining output as a prime contractor.

2. Contractors having cost-plus-fixed-fee contracts experience considerable delay and have difficulty in obtaining approval of exactly what items may properly be included as an element of cost, with a tendency on the part of representatives of the Treasury Department to disallow many items which on any ordinary business basis are definite and necessary costs of operation, sometimes even when the supply contracts specify that certain items are to be considered an element of

cost. These disputes apparently arise out of some rulings or interpretations of the Internal Revenue Department.

3. Labor - While most uniformly manufacturers have accepted the principle of collective bargaining, an attempt on the part of either the CIO or the A.F. of L. to control and collect the dues of workmen of some given plant or industry and/or check-offs have been responsible for many delays in production and consuming the time of the management.

4. Many manufacturers are seriously concerned with various tax proposals such as the Vinson Act. Even though excess and emergency facilities are in many instances financed by the Defense Plant Corporation or under an EPF contract, there are a great many subsequent capital expenditures which manufacturers are called upon to make which are not included under arrangements which are to be reimbursed by the Government. This has the effect of causing a constant drain of working capital which should be built up to provide a proper base for borrowing working capital. Through the means of high corporate taxes and similarly high taxes on any dividends received by individual stockholders, the Government recaptures a large percentage of the cost of the materials it buys, and reasonable provision should be made for building up a cushion of surplus as against the time when the emergency is over. This situation is obviously one of concern to all prudent management.

5. Much valuable time of management and considerable expense is incurred as a result of requests for voluminous reports on all types of subjects from various government departments. Also the management's time is taken in attending hearings and conducting inspection groups through the plants of various Congressional Committees and others, many of whom cover very much the same ground. The management is always willing and anxious to see operating or administrative officials of the various government departments who are directly concerned with the production of contracts they hold.

6. The theory under which the Emergency Plant Facilities Contract was evolved was that emergency facilities would be paid for by the Government over a five year period following completion, the monthly amortization payments constituting in effect allowable depreciation as an offset against the payments made. Due to technical interpretation in some instances there seems to be a tendency on the part of the Treasury Department to interpret the payments made as income, even though Certificates of Non-Reimbursement have been obtained and, obviously, the payments and the amortization do offset each other without any profit to the contractor. This is important particularly where a contractor has a State Income Tax or Franchise tax to pay where the State accepts the Treasury Department ruling as to the status of the payments made. While in a recent instance the Treasury Department has concurred in the rewriting of an EPF contract to cover one particular situation, it will arise in other instances. It would seem interpretations and regulations of the Treasury Department should be very clear on this point as an evidence of good faith in carrying out the understanding based upon which the manufacturers originally entered into contracts of this character.

7. When a contractor is asked to manufacture a brand new model of any implement of war, such as an airplane, instead of putting it on a competitive bidding basis and expecting the manufacturer to recoup his development costs from a subsequent supply contract, it would be much fairer to let the contract for the original model on a cost-plus-fixed-fee basis. There are instances where airplane companies have expended in excess of \$5,000,000 in developing a new model as against a contract price with the Government for the model for a few hundred thousand dollars. The ship may or may not be successful and meet all requirements, and a supply contract may or may not be forthcoming. Under a program of high taxes and a limitation of profits on supply contracts the manufacturer is confronted with the problem of absorbing these large development expenses. Thus far some of these development expenses have been absorbed through profits on foreign government contracts. Relief from this source, of course, will not be available in the future

under the lend-lease program. The existing procedure thus has the effect of impeding the development of new models.

This is from the president of a large manufacturer of household appliances who has defense orders for miscellaneous metal items. His letter of transmittal reads as follows:

"After struggling long and laboriously with the assignment you gave me yesterday, I send you the enclosed memorandum with the knowledge that it may not in any way conform to your requirements.

However, the more thought I gave the problem the more firmly was I convinced that a long, detailed account of many contacts and conferences with governmental agencies could not serve any useful purpose because the correction of the serious shortcomings of governmental agencies must be dealt with by the correction of basic conditions over which such agencies have little or no control."

2

MEMORANDUM

Subject: National Unity and the Defense Program

Since the declaration of the emergency, members of our organization have been in very frequent contact with many agencies of the federal administration and with a great number of manufacturers who are making defense material.

Contacts with federal authorities have included the several agencies interested in federal housing, many departments and officials of the Office of Production Management, the Office of Price Administration and Civilian Supply, the Office of Price Administration, officials of the War Department, Navy, Army Quartermaster's Department, Army Ordnance and Army Air Corps.

To deal in detail with these many contacts would be tedious, and such narrative apparently would serve no useful purpose.

The purposes of these many contacts have been to discover how our organization could most effectively cooperate in the defense program by supplying materials either through prime or sub-contracts and to assist in diverting material from non-defense to defense activities through material substitution and curtailment of normal production.

Your request for constructive suggestions has caused us to ask ourselves how such suggestions can be most effectively presented. We could recite and document a long list of detailed criticism and suggestions growing out of a great many contacts and conferences. Such an approach probably would serve no useful purpose because the ineffectiveness of governmental departments in dealing with their many complicated problems results in very great degree from certain fundamental causes, and presumably the correction of these difficulties at their sources is much more important than a detailed examination of effects.

Apart from the great difficulties which are inherent in a program for rapidly diverting the thinking and activities of a great nation from normal peace time activities to those of war, which, of course, are fundamental and inevitable, it seems to us when we attempt to summarize the principal causes of ineffectiveness that most of them stem from four serious omissions which may be summarized as follows:

1. Failure clearly to define responsibility and authority.
2. Failure to deal effectively with national material control.
3. Failure to curb inflationary tendencies.
4. Failure to deal effectively with management-labor controversies.

All of these matters have been dealt with at great length by people well qualified to discuss them. Likewise, such matters have been exhaustively dealt with by the press. However, one having experienced the many contacts which I have listed cannot fail to appreciate the repercussions of these delinquencies throughout the complicated structure of governmental agencies in a degree which will not be fully appreciated by those who look upon these problems from an academic or detached point of view.

ORGANIZATION

The fact that responsibility is not clearly defined and that authority is not

properly delegated is everywhere apparent. The result is lack of decision, costly delays, unnecessary costs and expense, inertia and political intrigue. Attempts have been made to ameliorate these conditions, not by thoroughgoing reorganization nor by attacking the essential elements of the problem, but by superimposing agency upon agency. This process not only fails to correct but aggravates the difficulty.

We need not more agencies but less agencies, properly correlated under the direction of a single, competent, civilian authority, and the head of that authority, thoroughly schooled in industrial organization and management but reasonably responsive to public sentiment, should be an individual to whom must be delegated full responsibility and authority second only to that of the President of the United States. If a better pattern is not available, that which was established by the War Industries Board which functioned during the last war should be followed, and administrative changes should be made as a result of that experience, which I understand has been documented.

Things of first importance should have first consideration. Proper organization for effectuating the defense program is obviously fundamental, and to this problem of effective organization all other elements of the program are secondary. During the entire period of the emergency it would appear that no serious attempt has been made to deal with this fundamental problem in a fundamental way. Bureaus and governmental agencies have been multiplied; overlapping of responsibility and authority and consequent confusion have consistently grown worse rather than better. Until this problem is dealt with aggressively, effectively and without too much regard for political considerations, progress commensurate with the resources and abilities of the United States cannot be expected.

MATERIAL CONTROL

The problem of national material control is so serious and is so far from being solved that, in my considered opinion, complete failure of the defense program is threatened. I say this because it is axiomatic that a nation cannot successfully prosecute a war without the support of the civilian population, and the bungling attempts which are being made to control materials threaten to wreck the civilian morale. If the present course is pursued several million people will suffer the penalty of unemployment, and thousands of small business concerns will be forced out of existence. If demoralization of the American public were deliberately planned no more effective forces than those now at work could be adopted.

No serious attempt has been made to convince the people of the United States that arbitrary, drastic and sudden dislocations are necessary. People have every reason to be skeptical as to the actual existence of material shortages. Aluminum, for example, has been unavailable for non-defense production since June, and experts, well informed about aluminum, do not believe that the entire aluminum production of this country is being effectively used in aircraft production. Moreover, we have had no convincing evidence that a steel shortage exists which would justify the arbitrary curtailment of civilian steel usage in any such degree as 50 per cent.

The method of handling priorities is very generally regarded as being unsatisfactory and ineffective. As far as I can discover, no control exists which prevents a manufacturer whose defense contracts carry high priorities from accumulating

-5-

materials far beyond his legitimate and immediate requirements and which may remain stagnant for months. Instances have been brought to our attention of vast quantities of material accumulated months before the plants for their fabrication had started operations.

Every incentive for material accumulation and hoarding exists, but no corrective control has been instituted even at this late time.

We all know that any effective material control must take into account the requirement of velocity as well as the requirement of mass. In other words, the turn-over of inventory is just as important as the amount of inventory. To date the priorities system apparently neglects the rate of movement of material. I daresay that if our national material control were so organized as to insure against slow turn-over and stagnant inventories in all industrial operations there would be plenty of material in most categories for all defense requirements as well as for reasonably satisfactory non-defense requirements.

As one considers the terrible danger of demoralization through drastic and sudden curtailment of non-defense activity it seems certain that such demoralization may so seriously threaten the defense program as to require more gradual adjustment even at the cost of temporarily delaying the defense program. Certainly temporary delay and adjustment is infinitely preferable to the serious risk of failure.

It is reported that approximately 15 per cent of the capacity of American industry is now being applied to the defense program, and, while it is believed that this ratio will be increased as rapidly as possible to something in the order of 50 or 60 per cent, such an increase cannot be accomplished for many months because of unavoidable inertias which must be recognized and dealt with. In the face of these conditions, attempts are made to curtail a few industries by as much as 50 per cent, and the machinery set up for such curtailment is so cumbersome that it cannot possibly be applied to industry generally. Consequently, a few industries fall under drastic control while all other industries continue a mad scramble for materials.

If unthinkable demoralization is to be avoided as a result of failure to control the flow of materials nationally, it would seem that the following three steps must be given serious consideration:

Material Control. A system of allocations should be devised immediately which will insure against stagnant and slow-moving inventories in defense and non-defense industry alike. The velocity with which materials move is just as important as the quantities involved.

Enlist immediately the cooperation of American industry to control priorities and allocations to the end that the effectiveness of Washington agencies may be multiplied a thousandfold in developing a practical, flexible national system of material control. In a democracy cooperation works when compulsion fails.

Curtailment of Non-Defense Production. Let all non-defense production be curtailed gradually month by month to the necessary minimum, but let that curtailment

be sufficiently gradual to avoid tragic, disastrous dislocations.

Healthy Transition from Non-Defense to Defense Production. Let every effort be made during this process of graduated curtailment of non-defense activity to employ manpower and other productive facilities with defense work, thereby retaining and fully enlisting industry's great assets of managerial, technical and productive organization.

INFLATION REGULATION

The fear of inflation and the actual operation of inflationary forces are demoralizing and destructive. The administration apparently is guided too much by considerations of political expediency and too little by sound economic precepts in their efforts to control inflationary forces. The futility of attempting to control prices without placing effective ceilings upon such fundamental factors in the price structure as labor earnings and farm prices is generally recognized. Mr. Henderson's comments upon the measures adopted by the Canadian government are not convincing.

LABOR CONTROL

As regards impedence of the defense program by labor controversies, a suggestion which has been made many times is repeated. Let it be provided by legislation, or preferably by executive order, that no strike can be called until after mediation has failed to bring agreement and then only after such strike should have been authorized (through secret ballot, impartially conducted) by more than 50 per cent of all qualified employees. If labor can be freed from the dictatorship of short-sighted labor leaders and become truly self-governing, we shall have very few unjustified, destructive strikes to impede further the defense program.

American labor as a whole is one of the finest and most patriotic forces in America. But labor groups too frequently, after suffering intolerable threats and coercion, after hearing false promises and being subjected to lying salesmanship, join unions which are dominated and controlled by racketeers or by vicious, selfish, ambitious leaders.

If the measure above suggested can be taken immediately it may be possible to avoid reactionary legislation which will deprive labor not only of the gains which it has made in recent years but of certain fundamental rights which should not be abridged.

* * * * *

The above comments and suggestions are made only with the hope that here and there may be found some thought that may assist toward a greater degree of national unity and increased effectiveness in our effort to preserve our American institutions against external threats of world revolution and internal threats of demoralization and dissolution.

205

Memorandum from Mr. Rounds of the Federal Reserve
Bank of New York, who has been handling a substantial
number of contacts with smaller businessmen.

DEFENSE ACTIVITIES

Prior to the establishment of the District Manager's office of the Defense Contract Service, the Federal Reserve Bank of New York had considerable contact with businessmen desirous of obtaining primary and subcontracts in connection with the defense program. Also, at the request of the Board of Governors of the Federal Reserve System, we obtained through the commercial banks something over 1,500 facilities reports from various manufacturers in the Second Federal Reserve District. These were furnished to us in triplicate and two copies were forwarded by us to the Board of Governors, one of which it was understood would be turned over to the Office of Production Management. Numerous complaints were received from the manufacturers to the effect that similar facility reports had been filed with the National Association of Manufacturers, Chambers of Commerce, etc.; in fact, in one section of New York State, nine different organizations had requested approximately the same information. So far as we have been able to ascertain, nothing tangible resulted from all this book work. However, it is our opinion that this enormous duplication resulted from the desire of the various organizations to cooperate in the program. Since the establishment of the District Manager's office, this duplication has been eliminated and it is our understanding that some contracts have resulted from the filing of the information.

Our contacts with the manufacturers disclosed quite forcibly that the majority of them had no idea as to how their organizations could fit into the defense program. This problem has been solved to some extent by the engineering staff attached to the District Manager's office.

Our relationship with the various branches of the service has been very satisfactory. Through the office of Governor Draper of the Board of Governors of the Federal Reserve System, we obtain promptly for the lending agencies and others, information relative to contracts on which advances are being considered or on which advances have already been made. For example, one New York City bank became somewhat concerned about delinquent payments against one of the contracts on which it had made an advance and upon investigation through the branch of the service which made the award, the Board of Governors ascertained that the bank's customer was not meeting specifications definitely because they were endeavoring to have the contract cancelled in order that they might obtain higher prices for their product in the open market. Another example is that of a small manufacturer who called here one day and stated that he was manufacturing neckerchiefs for the Navy, had never had any of his product rejected but that some payments due him were as much as 44 days delinquent. He stated that the working capital position of his firm was such that he had to factor his accounts and such delays were very costly to him. We communicated with the Board and the contractor received his checks within 24 hours. The forego-

-3-

ing examples are cited merely to demonstrate the cooperation of the services.

This morning I had a chat with Mr. Crabtree, District Manager, to ascertain what type of complaints he had been receiving, and he indicated that they were two in number: (1) subcontractors state that many primary contractors are very slow pay, and (2) manufacturers protest that the procurement officers do not distribute the work as they should. It is claimed that the better known organizations generally receive the awards.

This morning I received a call from Mr. Kiesling of the Kiesling Elevator Company, who stated that sometime ago his concern had installed an elevator in the plant of the Titeflex Metal Hose Company. He said that the installation was so satisfactory that recently when the Defense Plant Corporation decided to finance the expansion of Titeflex's plant, the latter company recommended that Kiesling elevators be installed. Mr. Kiesling said that he was not even permitted to bid on the installation for the reason that only a few of the better known companies are invited to bid on such jobs. He asked me whether I could suggest anyone whom he might contact in connection with this matter and I told him that I did not have anyone in particular in mind and he then said he would write to Mr. Thurman Arnold.

Generally speaking, so far as I can determine, the services are doing a good job considering the enormity of their task, and

while they could probably farm out more of the work to smaller organizations, many who think they have the facilities do not have the ability to perform. Some effort might be made to expedite payments by primary contractors to subcontractors so that the latter are not discouraged from doing their share of the work. Also, the disbursing officers should endeavor to make payments as promptly as possible, although here again many factors enter the case. Payments are made more promptly when final inspection is effected at the plant instead of at the various field offices of the services.

MEMORANDUM TO Mr. W. Randolph Burgess

November 3, 1941

On my recent trip I called on the President of one of the large steel companies who was much concerned over his labor situation. His point of view was somewhat different from any which I had heard expressed before, and sums up this way: In September 65% of their net earnings went to taxes, and the Government has preempted 75% of his production. He said, "Why should I worry about my labor situation? The Government at Washington has so much more at stake in the company than I have, or than my stockholders have, that I am just going to sit back and let them worry about it."

I talked to a large contractor who has an enormous amount of Army business in the South. He has handled a great many construction projects on a cost plus fixed fee basis. He was recently told, in connection with one of his jobs, that the cost was mounting to much higher figures than the Army had had in mind. He told the people in Washington that this increased cost had been largely due to the multiplicity of change orders which they had received on the job and which had necessitated a tremendous increase in their force. Change orders have been coming through every day and sometimes two or three a day, which made it necessary for them to expand their personnel all along the line from the drafting room up. The Army has consented to eliminate change orders from now forward, and the week that I was there my friend let 51 draftsmen go. This will result in a very material saving to the Government unless the Army doesn't stand hitched in its determination to let construction proceed in an orderly manner.

W. M. V.

MEMORANDUM TO: MR. W. RANDOLPH BURGESS, VICE CHAIRMAN

Confirming my conversation with you, in the middle of August I learned of an unusual delay which one of the large airplane companies experienced. The situation was that they were approaching completion of a large new plant under an EPF contract. They were asked to duplicate the facilities and promptly signed a contract about June 1. Delay in the construction of the new plant was being caused by requests by the Government officials involved to file detailed material specifications, including the mix of the cement. As the new plant was to be a duplicate of the one already under construction and was to be built by the same contractor, the delay of several months which was occasioned by one demand after another over this period of time by the Government officials involved seemed unwarranted.

November 3, 1941

D.A.F.

A COTTON MILL IN THE SOUTH

This mill was asked to bid on contracts for towels when the defense effort speeded up in the spring of 1940. It has never sought defense orders but has regarded it as its duty to make bids when asked to do so. Its officers seldom go to Washington and have not had occasion to do so. Since early 1940 it has received large additional orders for sheets and towels particularly.

The mill reports no delays or difficulties with respect to the receipt of specifications or other details of operations. In fact it reports that the Quartermaster Department in Philadelphia has handled these details well.

Up to this time there have been no difficulties with respect to the materials or priorities and the mill has on hand substantial stocks of cotton, bleaching chemicals, etc. They anticipate, however, that there may be trouble in obtaining dyeing and bleaching chemicals as the work goes forward.

The large proportion of machinery now occupied with defense orders has made it necessary to cut deliveries to department stores and others and non-defense production is now allocated on the basis of quantities taken by customers in normal times.

While the mill has had no labor difficulties it considers this potentially its greatest problem. It has therefore followed the principle of keeping labor satisfied so as to leave no ground for complaint. Overseers have been instructed to keep their ears open for any dissatisfaction and report back so that possible trouble may be anticipated. Due to wage increases elsewhere, rising costs, etc. the mill has made two substantial wage increases since January 1940.

November 3, 1941

November 3, 1941

213

⑦

Prior to the present emergency, our company was one of that class which might be called self-contained. We manufactured essentially one product: namely, a household appliance. We had never been in the business of making parts or devices for other manufacturing concerns or other selling concerns. Consequently, we had no commercial sales staff. We had a large organization for selling our own manufacture in the retail market, but obviously such an organization would not, in general, be adapted to selling mechanical equipment to the Government or to prime contractors on defense work.

If it be of interest, our factory employed approximately 1,000 people prior to taking on defense work. Today the number of workers is approximately the same despite the fact that we have appreciably reduced our output of our non-defense product. At present, we have approximately 250 people working on defense work, most of which have been transferred from work on the manufacture of our household appliance. Some of this work is in our Motor Department, where we have obtained orders on parts of electric motors and complete electric motors. We also have some defense work in other departments.

Our first contact with Government agencies with respect to defense work was approximately a year ago. Like many others, we were desirous of being of assistance so far as we were able. About that time, we contacted one of the Government agencies. Our reception was cordial, as has been every contact we have had with Government agencies. We were shown prints and parts, and proceeded to consider the feasibility of manufacturing these parts in our own factory. At that time, of course, the defense program had not advanced to the full swing in which it is now, and our view on the entire situation has a different perspective than it did at that time. At that

time (perhaps erroneously, but in accordance with the majority of manufacturers), we visualized the defense work as something which should be adapted to our own manufacturing facilities, without taking into account additional equipment or any essential recasting of our own facilities to fit defense work. In this respect, we have since been forced to a reversal of attitude.

Our first contact did not work out to our advantage. It finally ended in a suggestion that the Government was not ready to make firm contracts, but was merely analyzing the possibilities. We had another early contact with a Government agency, in which perhaps we were at fault in likewise trying to fit the defense equipment into our factory, rather than looking at our factory as the means which might have to be altered to fit the functioning of the defense effort.

We have had various contacts with agencies in Washington and elsewhere, and the further we went into the picture, the more it became evident to us that we had both to go after the work ourselves and to a certain extent recast our factory to fit defense rather than merely fitting defense to our factory. We set up a special organization in the factory including a new estimating and planning department and engaged an engineer to devote all his time for direct contacts with government agencies and prime contractors on defense work. We have found correspondence relatively inefficient compared to continuity of direct contacts.

We were, perhaps, fortunate in that a part of our standard product found application in a standard piece of aircraft equipment. As a result of this, officials from Wright Field visited our factory and apparently were impressed with the quality of our manufacture of electrical equipment. Since that time, Wright Field has been helpful without stint in suggesting projects for us to develop, and in suggesting contacts which we might make with prime contractors who have problems to be worked out.

Although, as above indicated, our particular equipment fitted into this program, the situation was such as to necessitate a considerable amount of testing and research. This we went into whole-heartedly at our own expense, and no doubt that was a turning point in our attitude, because from that time on, our position has been that we are willing and desirous of utilizing our development and experimental facilities in order to be of assistance in the defense program; and we will make changes in and add to our equipment to produce new devices for defense purposes. We now have various developments in progress looking well into the future but without any certainty of future orders.

We believe that the average engineer investigating our plant as of a year ago would have said that it was applicable in small degree, as it then existed, to the direct application to defense work. We soon began to appreciate the necessity for certain types of machine tools as fundamentally necessary to the defense program. Consequently, we set about to supplement our existing equipment with equipment not usable, or at least not necessary for, our peacetime manufacture, in order to permit us to utilize our peacetime facilities in defense, because while alone the latter have apparently small availability for defense work, we found that they would have a large measure of availability if supplemented by additional basic machine tool equipment.

Once our organization became known to a few prime contractors as having been made available for certain types of work, it was surprising how quickly other prime contractors came to us with requests for assistance. Here again perhaps we have done an unorthodox thing. We have tried to cut the delay of estimates and quotations in some instances—and very successfully—by arranging with a prime contractor to carry through certain operations on his rough parts and work up from that to making complete sub-assemblies,

using the prime contractor's labor costs in comparison with ours for later determining a reasonable price which would be satisfactory to the prime contractor and still be satisfactory to us. We have worked this out with three prime contractors at present, and the result has been happy and satisfactory. The question is merely now how much material we can produce for each one.

It might be of interest to state that we contacted several Government agencies who felt that a certain part of our equipment was not usable on defense work; for example, presses; whereas we found that by directly contacting prime contractors we were able to obtain press work on defense projects. Furthermore, we have undertaken the re-design of certain parts from castings to stampings in order to permit use of our equipment, and it seems quite probable that some of these designs may be accepted. This indicates how our line of thinking has brought us back to flexibility in our own utilization of our factory. As is well recognized, the preponderance of defense orders requires tool machines of certain kinds, and particularly automatic machines. To the extent we can find projects which can utilize some of our equipment we no longer limit ourselves, because some one or several machines may not be available. We try to anticipate certain orders by purchasing machine equipment. While this is somewhat of a gamble, we have found that those companies have been most successful who have taken certain risks in this respect in order to give themselves a broader flexibility of factory operation to fit the defense program.

One of our best contacts was obtained through one of the GPM clinics. Consequently, we believe that these clinics are worthwhile. We might suggest, in this connection, that it is not enough to go to the clinic and find some article which has some application to factory facilities. There must be a period of follow-up and considerable contact between the sub-contractor and the prime contractor.

We rather feel that perhaps many manufacturers are viewing the defense situation as we first viewed it: namely, as a question of finding some article which will fit, so to speak, "pat" into the plant's particular facilities. While this might be true in some instances, it is an unusual situation, and not an ordinary situation. The Government agencies cannot be expected to fit defense items into a particular plant; and all plants are different and have their own individual characteristics. The Government agencies cannot be expected to know whether a specific machine can carry operations to certain tolerances. Consequently, while the Government agencies are splendid and cooperative as originators, the real effort should be in the detail work in the factory in fitting factory equipment to the defense program. At least, that is our present view, and is our philosophy with a view to affording, through our facilities, the greatest help to the defense program.

NOV 7 1941

November , 1941

Dear Harry:

Herewith I am sending you a set of charts similar to those sent you last week, which show the speed with which Lend-Lease requisitions are being converted into actual orders by our Procurement Division.

This is for your information.

Sincerely yours,

(Signed) W.

Secretary of the Treasury

Honorable Harry Hopkins
The White House
Washington, D. C.

CIB:BLE

By Messenger

M. T. C.

CIB

NOV 7 1941

November 1941

Dear Mr. Wilson:

Herewith I am sending you a set of charts similar to those sent you last week, which show the speed with which Lend-Lease requisitions are being converted into actual orders by our Procurement Division.

This is for your information.

Sincerely yours,

(Signed) H. Roosevelt, Jr.

Secretary of the Treasury

Mr. Morris Wilson
British Purchasing Commission
Willard Hotel
Washington, D. C.

By Messenger

H. M. C.

EMB

220

NOV 7 1941

November , 1941

Dear Ed:

Herewith I am sending you a set of charts similar to those sent you last week, which show the speed with which Lend-Lease requisitions are being converted into actual orders by our Procurement Division.

This is for your information.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

Mr. E. R. Stettinius, Jr.
Lend-Lease Administrator
512 - 22nd Street, Northwest
Washington, D. C.

CIB:HLB
Enc.

By Memorandum

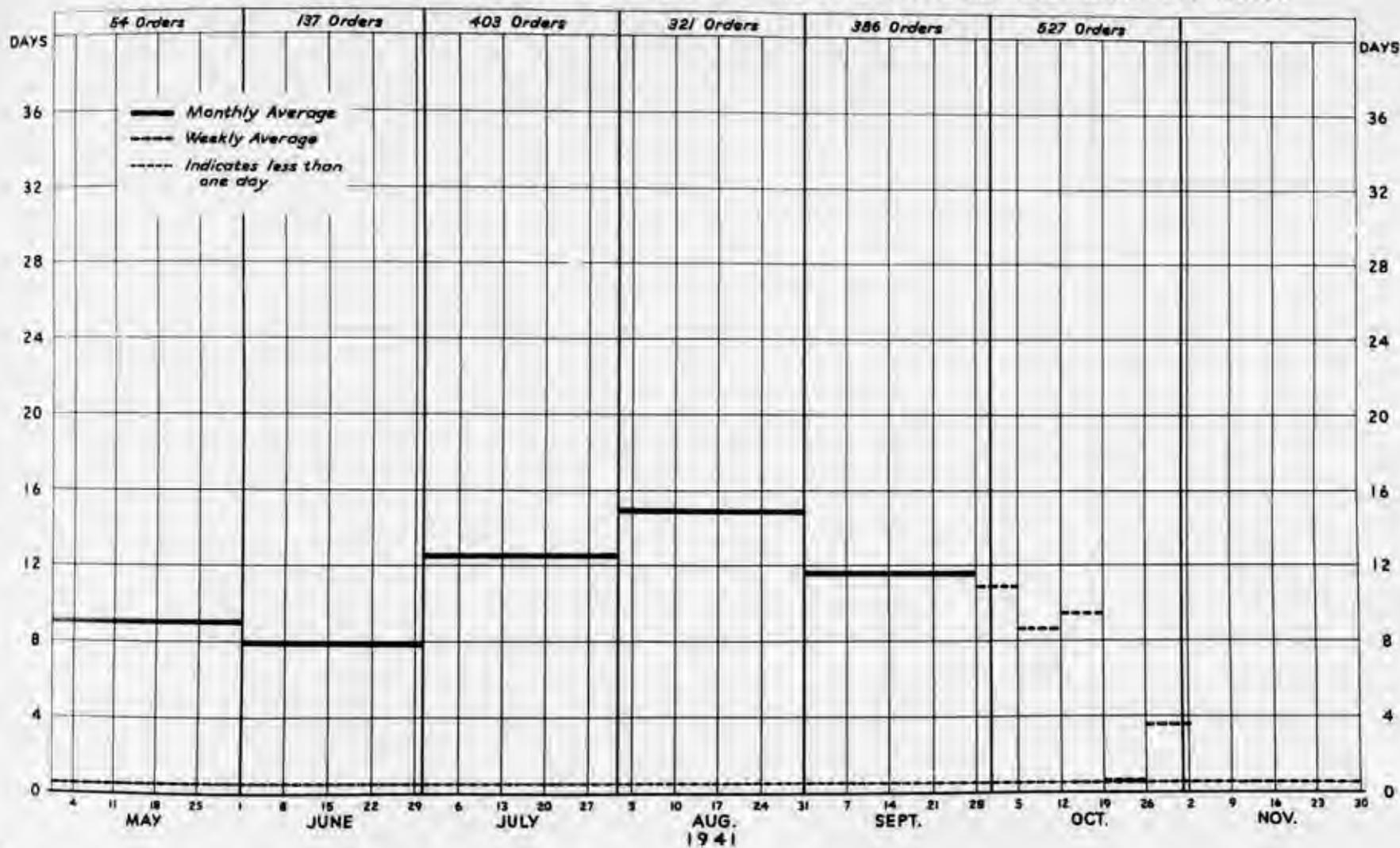
n.m.c.

HLB

Mo - 5, 1941

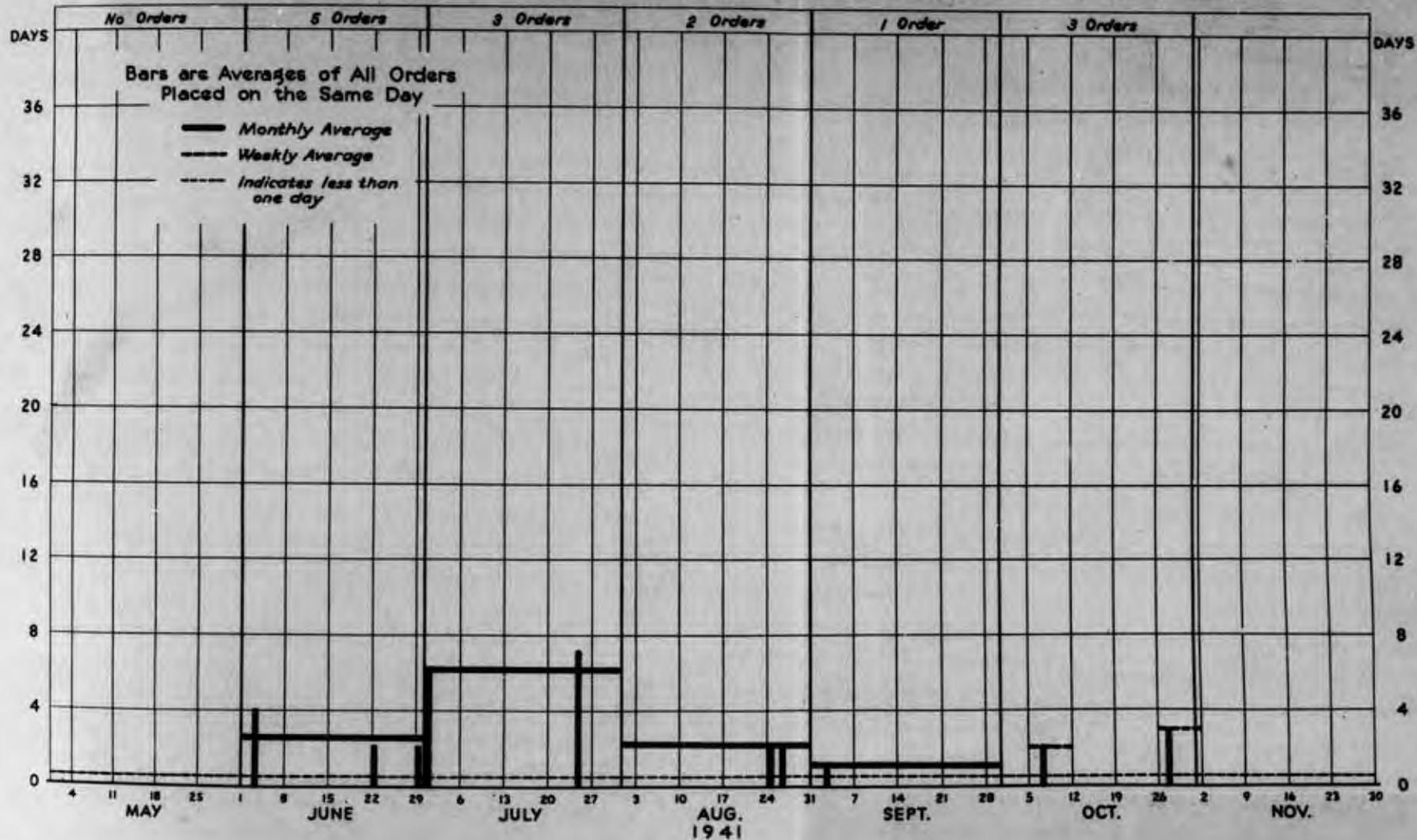
ALL ORDERS EFFECTED BY THE PROCUREMENT DIVISION MAY 1 TO DATE

Days Elapsed Between Date of Clearance by OPM and Lend-Lease, and Date Order Was Placed



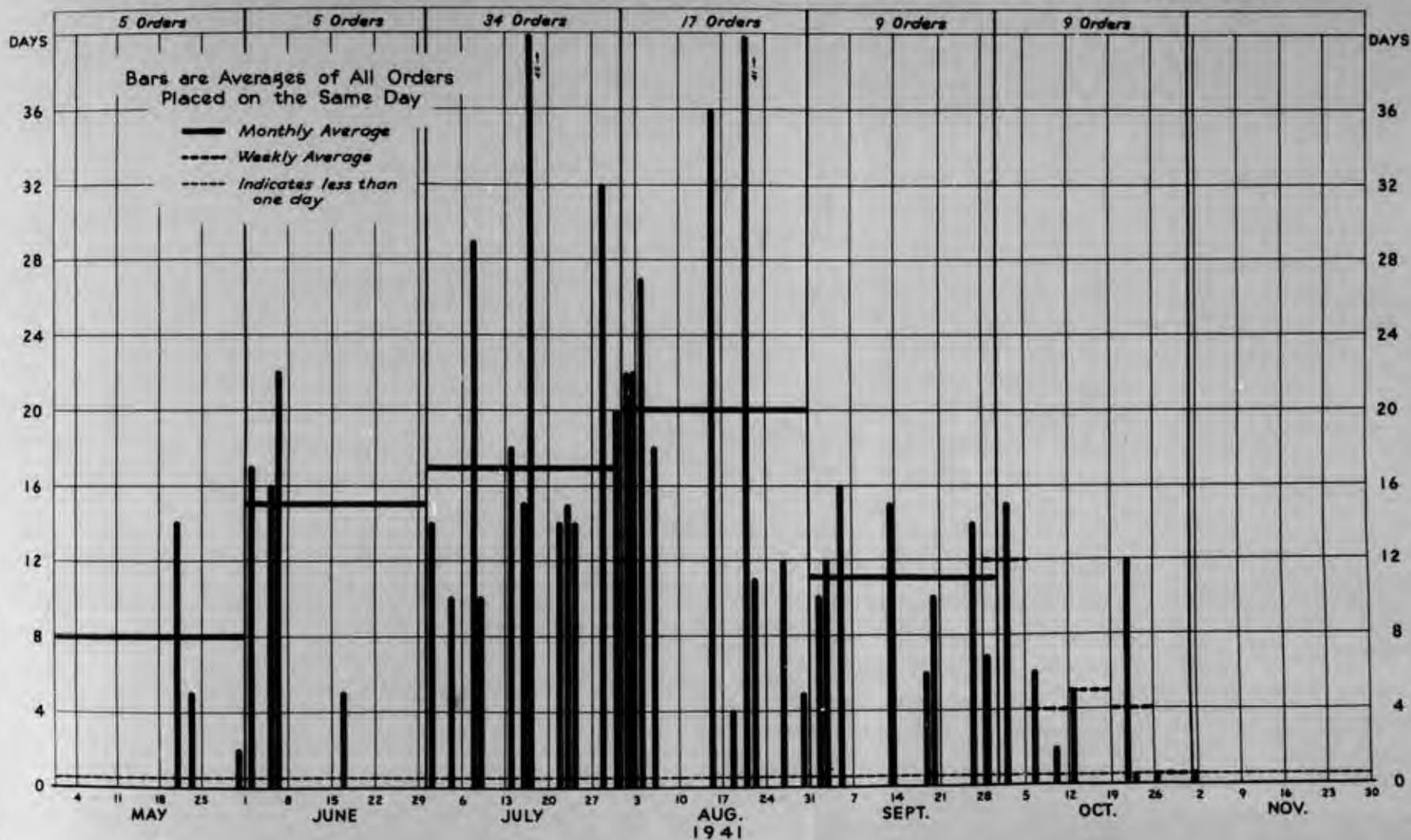
COPPER ORDERS EFFECTED BY THE PROCUREMENT DIVISION MAY 1 TO DATE

Days Elapsed Between Date of Clearance by OPM and Lend-Lease, and Date Order Was Placed



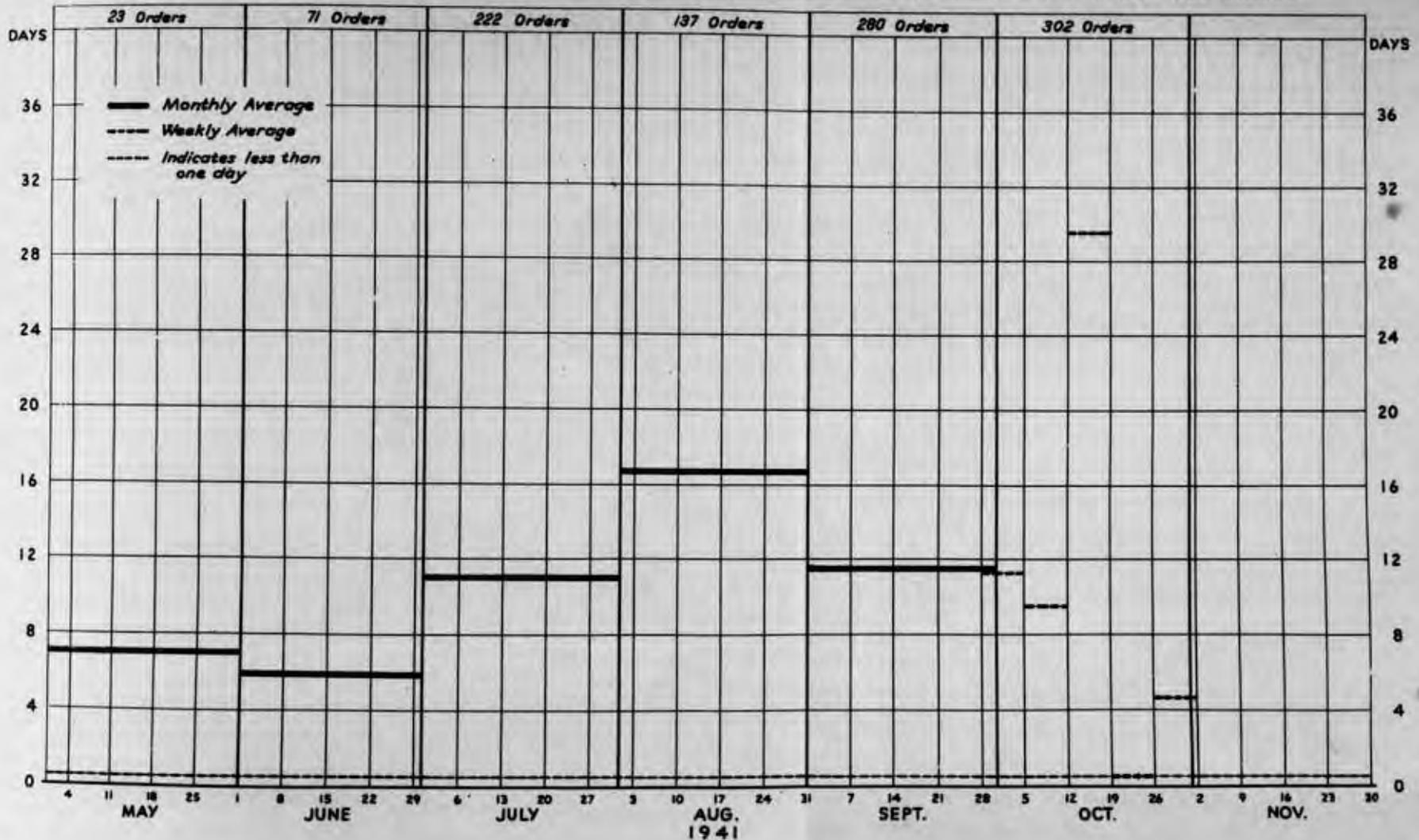
CHEMICAL ORDERS EFFECTED BY THE PROCUREMENT DIVISION MAY 1 TO DATE

Days Elapsed Between Date of Clearance by OPM and Lend-Lease, and Date Order Was Placed



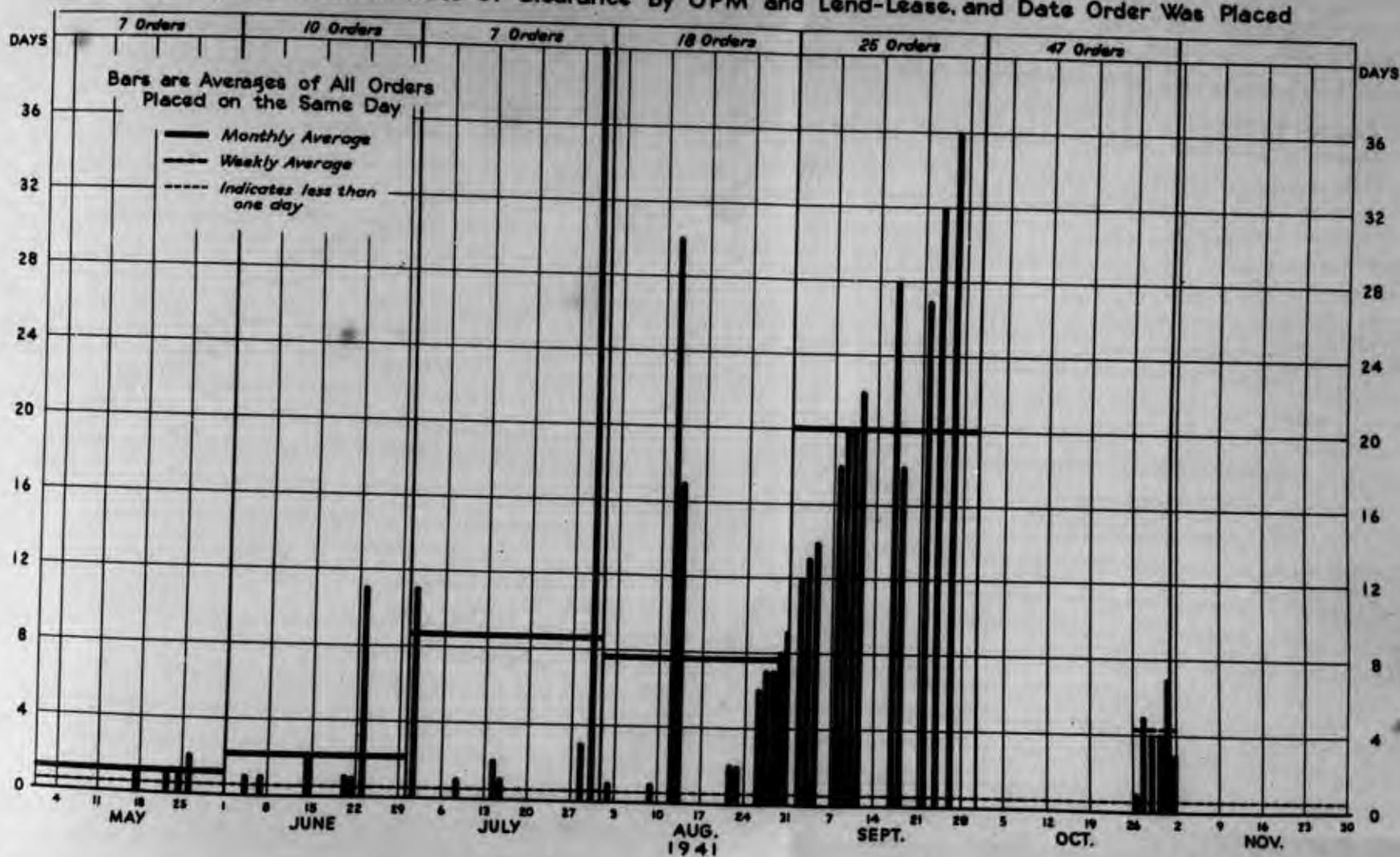
ALL METAL ORDERS EFFECTED BY THE PROCUREMENT DIVISION MAY 1 TO DATE

Days Elapsed Between Date of Clearance by OPM and Lend-Lease, and Date Order Was Placed



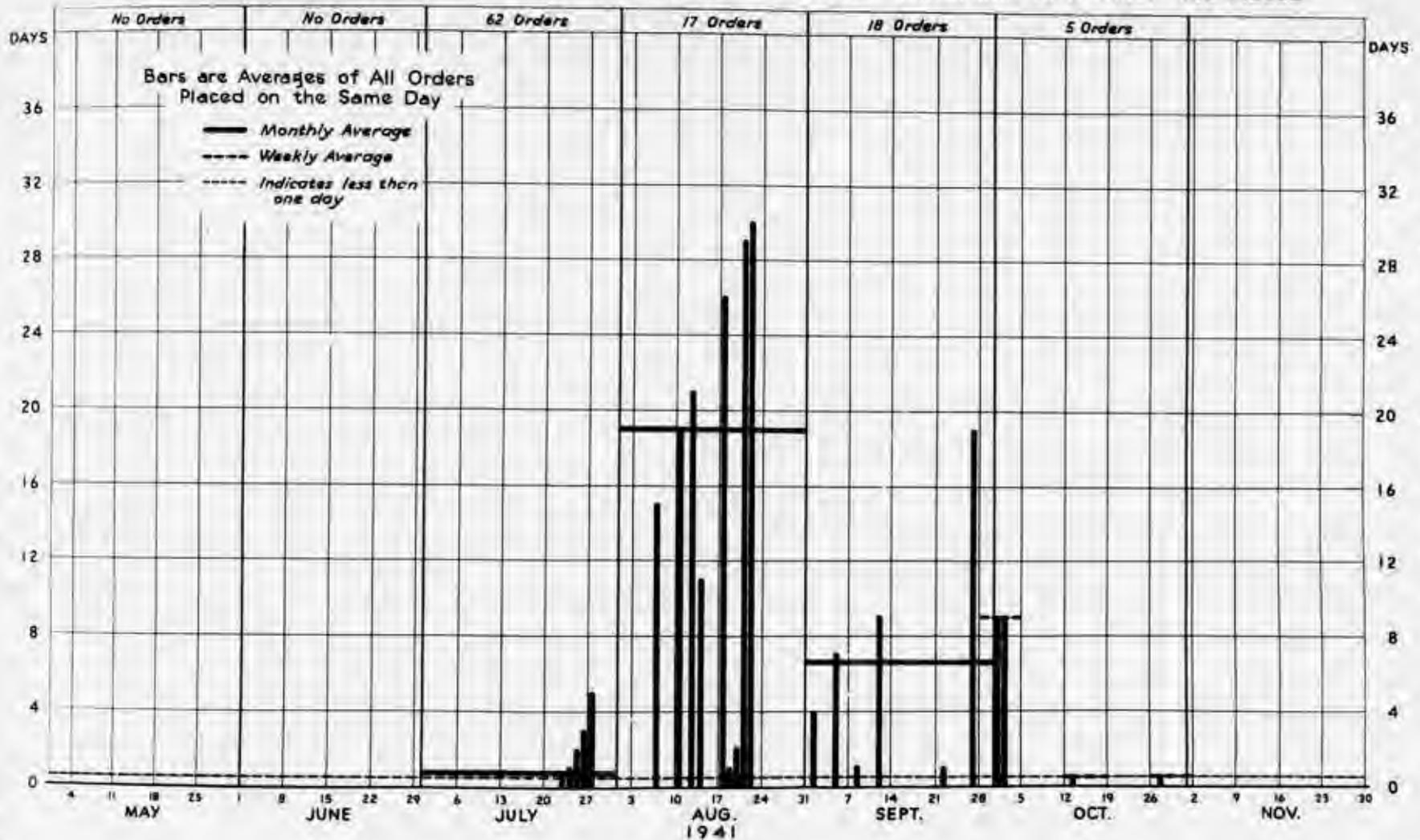
MISCELLANEOUS STEEL AND STEEL PRODUCT ORDERS EFFECTED BY THE PROCUREMENT DIVISION MAY 1 TO DATE

Days Elapsed Between Date of Clearance by OPM and Lend-Lease, and Date Order Was Placed



DROP FORGING ORDERS EFFECTED BY THE PROCUREMENT DIVISION MAY 1 TO DATE

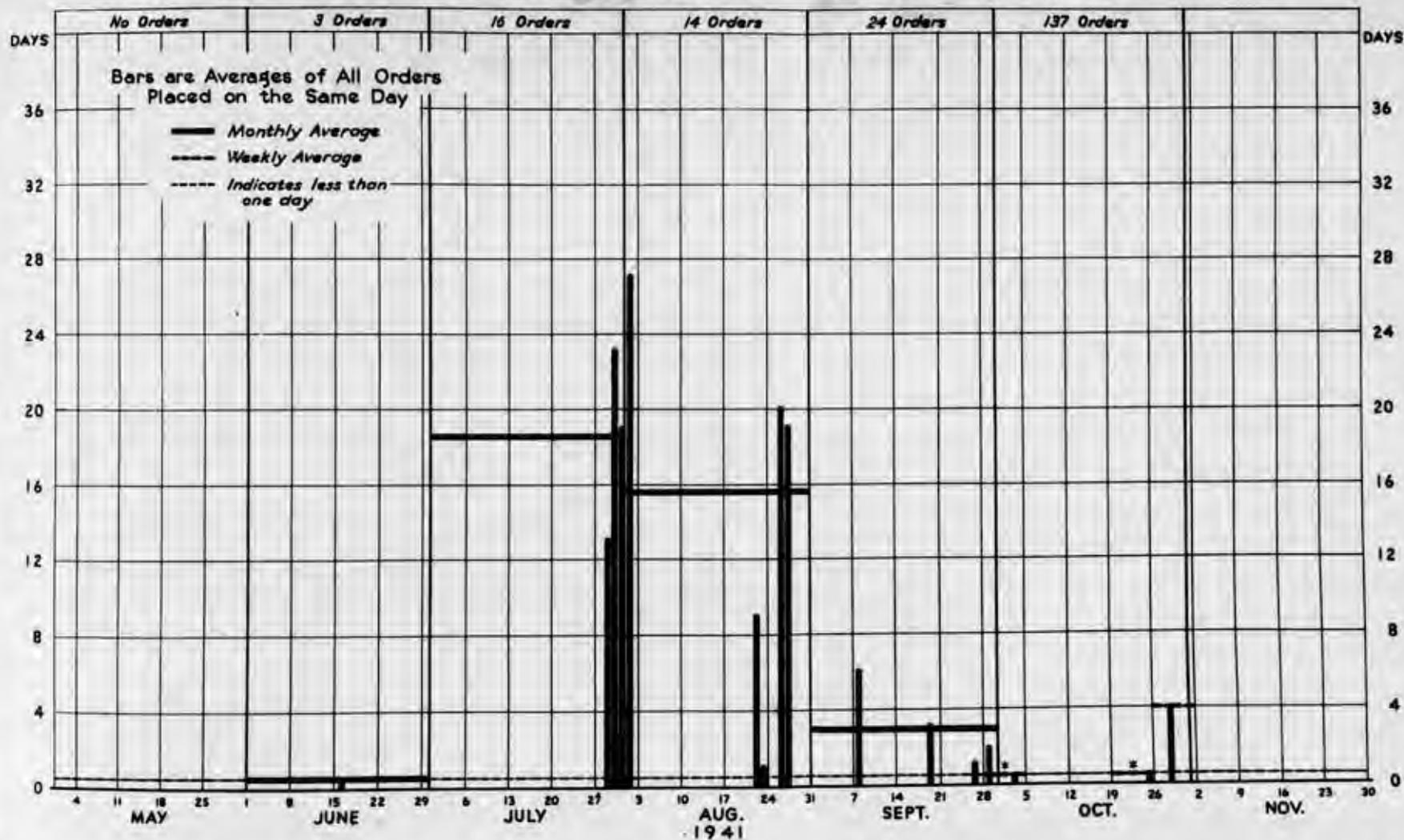
Days Elapsed Between Date of Clearance by OPM and Lend-Lease, and Date Order Was Placed



U.S. GOVERNMENT PRINTING OFFICE
 1941

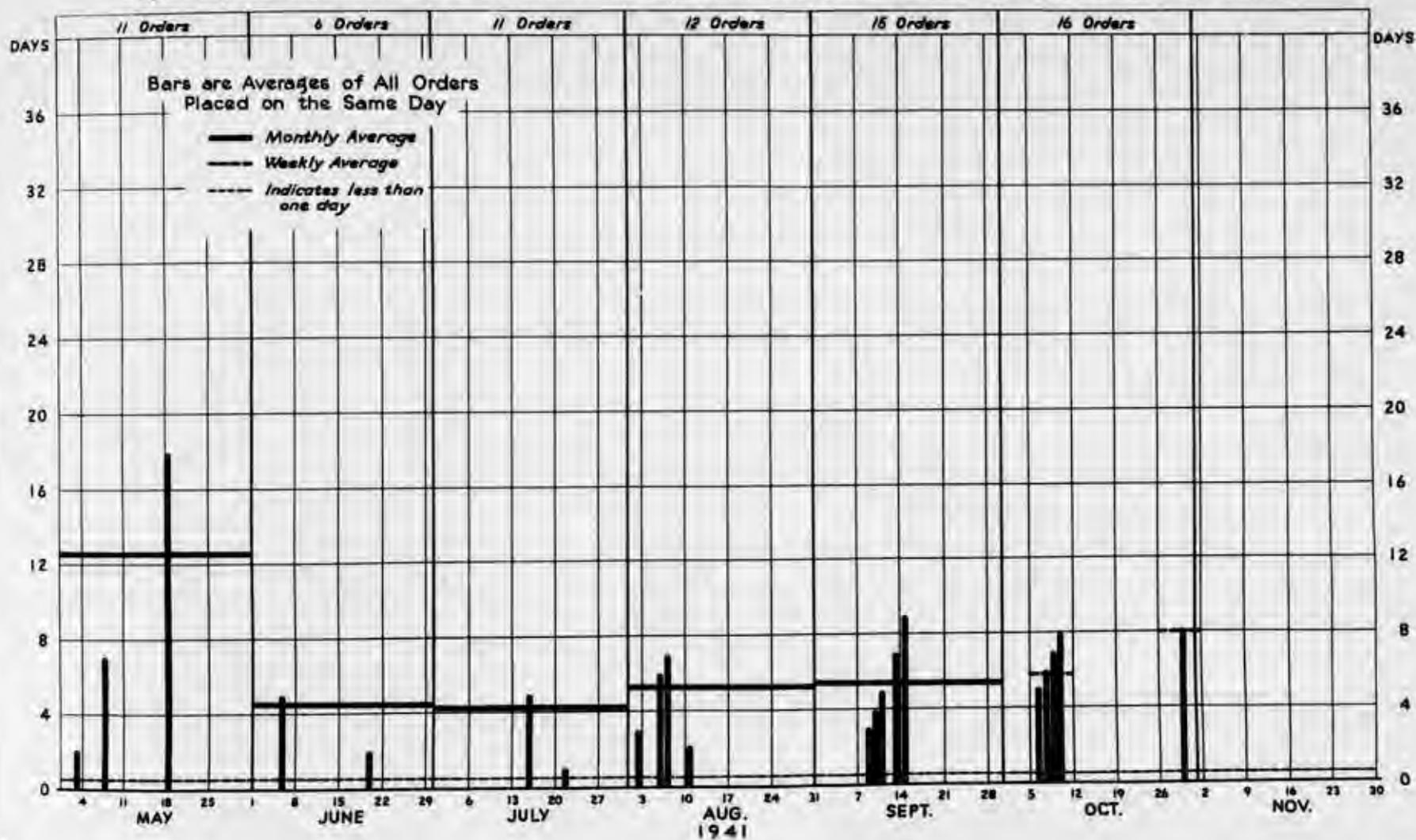
TIN PLATE ORDERS EFFECTED BY THE PROCUREMENT DIVISION MAY 1 TO DATE

Days Elapsed Between Date of Clearance by OPM and Lend-Lease, and Date Order Was Placed



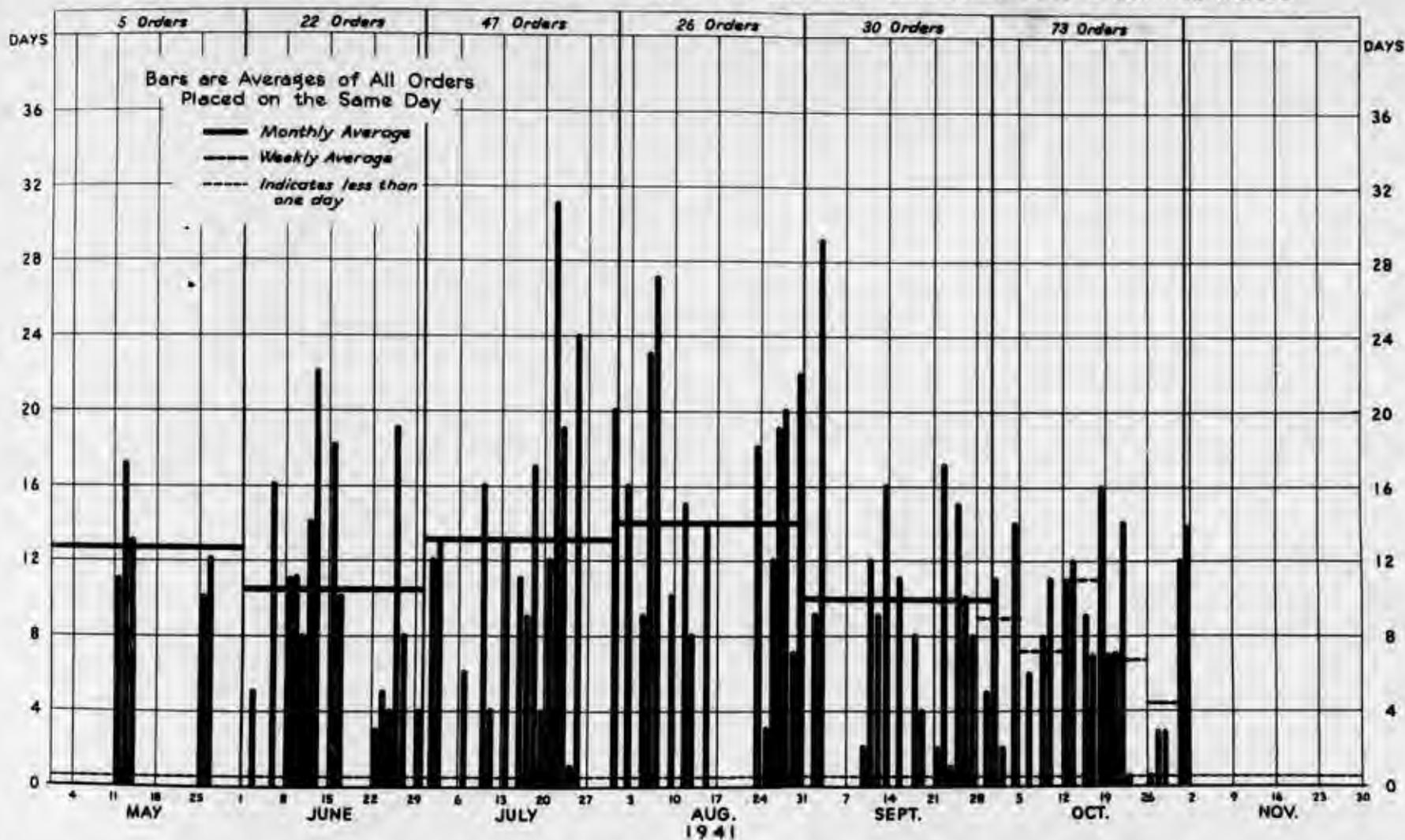
* Purchase Negotiations Completed Prior to Clearance

ZINC ORDERS
EFFECTED BY THE PROCUREMENT DIVISION MAY 1 TO DATE
 Days Elapsed Between Date of Clearance by OPM and Lend-Lease, and Date Order Was Placed



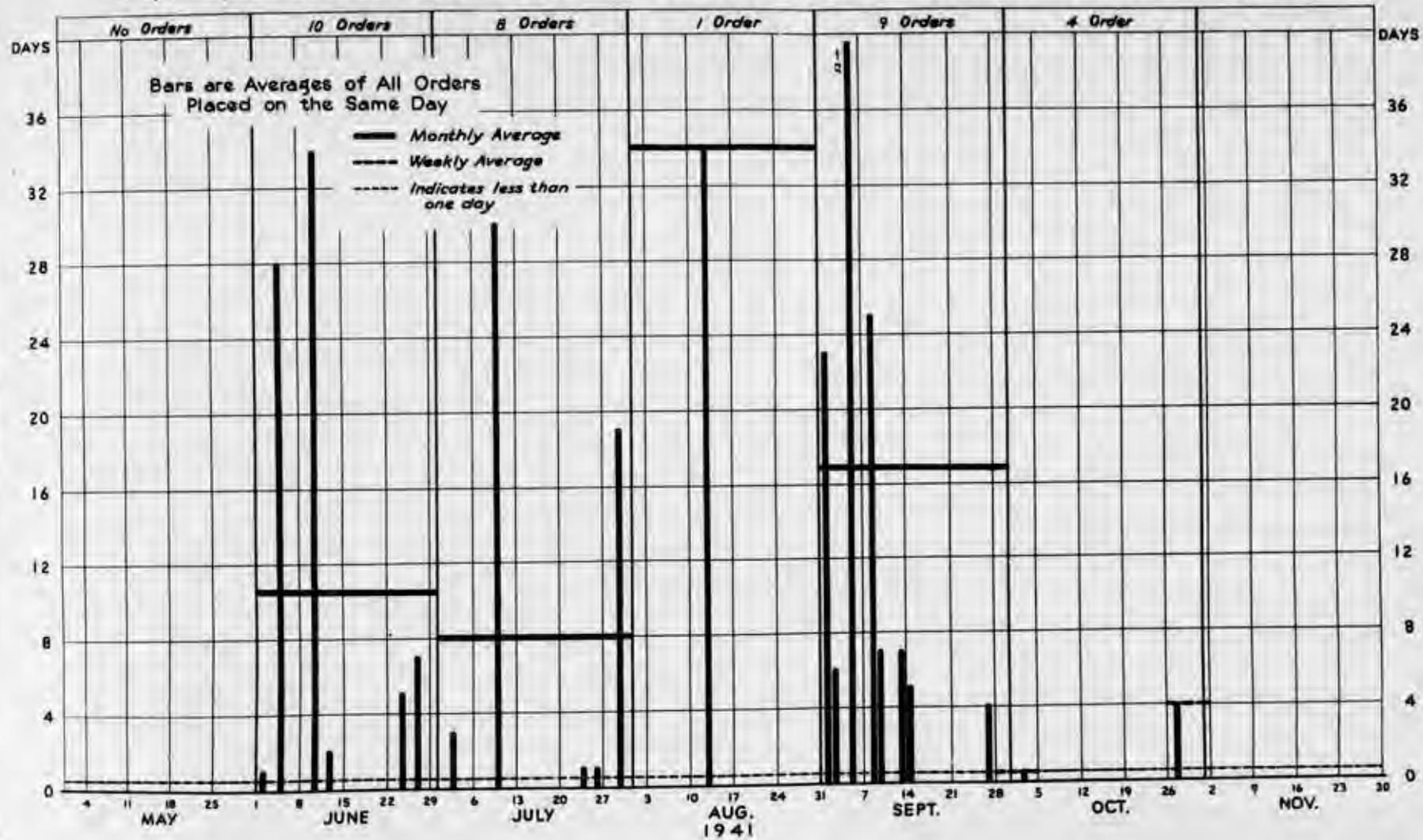
MACHINERY ORDERS EFFECTED BY THE PROCUREMENT DIVISION MAY 1 TO DATE

Days Elapsed Between Date of Clearance by OPM and Lend-Lease, and Date Order Was Placed



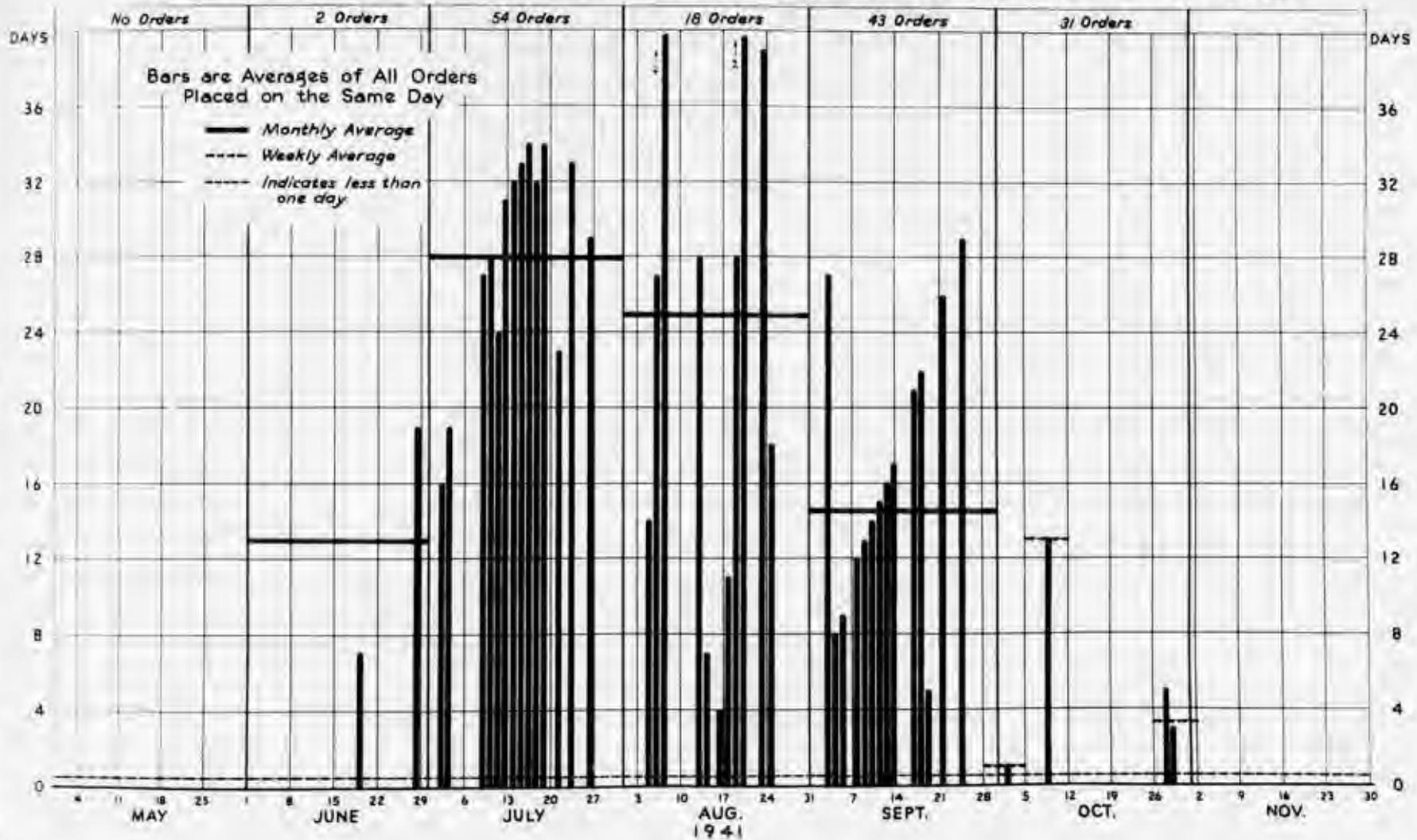
MISCELLANEOUS METAL ORDERS EFFECTED BY THE PROCUREMENT DIVISION MAY 1 TO DATE

Days Elapsed Between Date of Clearance by OPM and Lend-Lease, and Date Order Was Placed



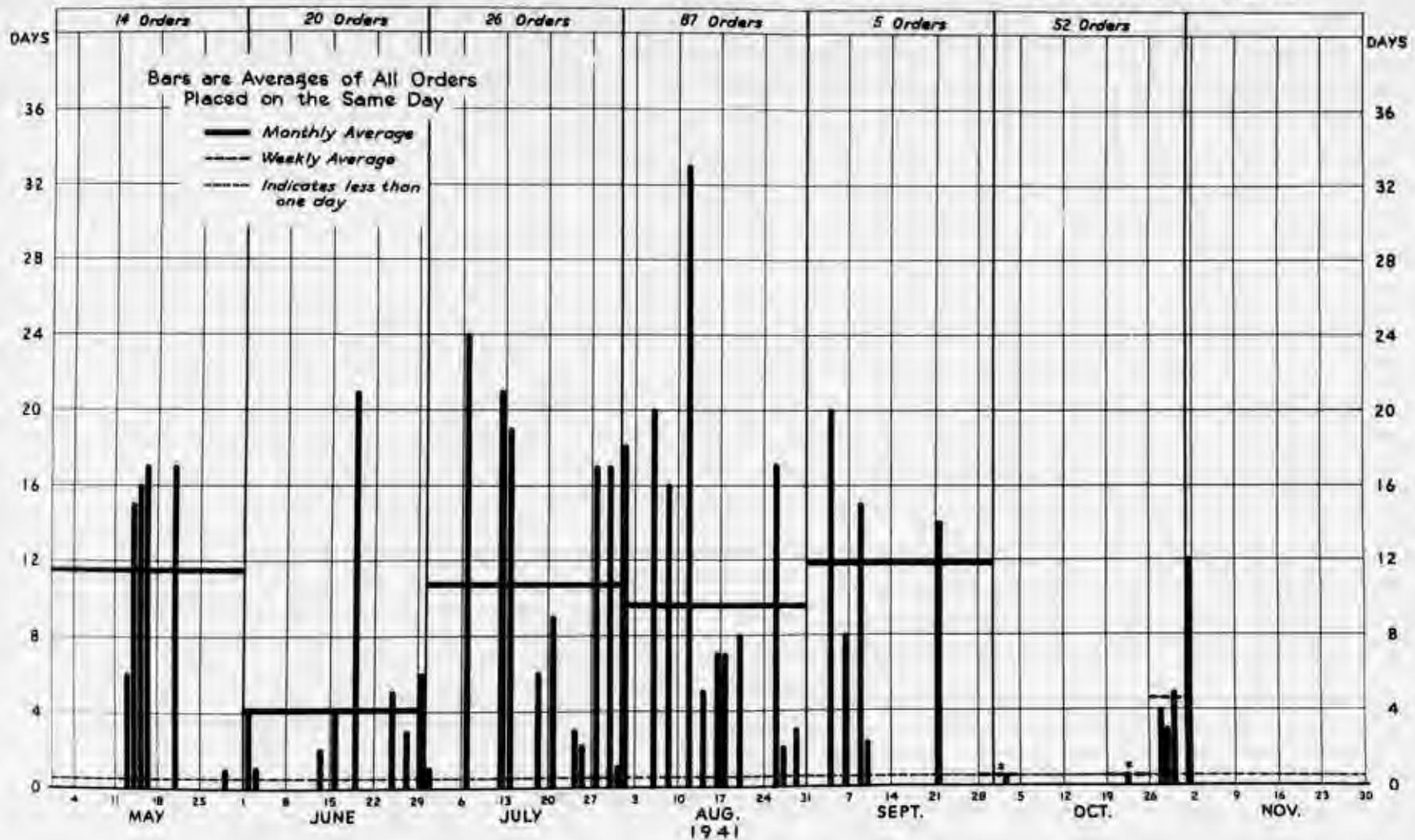
ALLOY STEEL ORDERS EFFECTED BY THE PROCUREMENT DIVISION MAY 1 TO DATE

Days Elapsed Between Date of Clearance by OPM and Lend-Lease, and Date Order Was Placed



AGRICULTURAL EQUIPMENT ORDERS EFFECTED BY THE PROCUREMENT DIVISION MAY 1 TO DATE

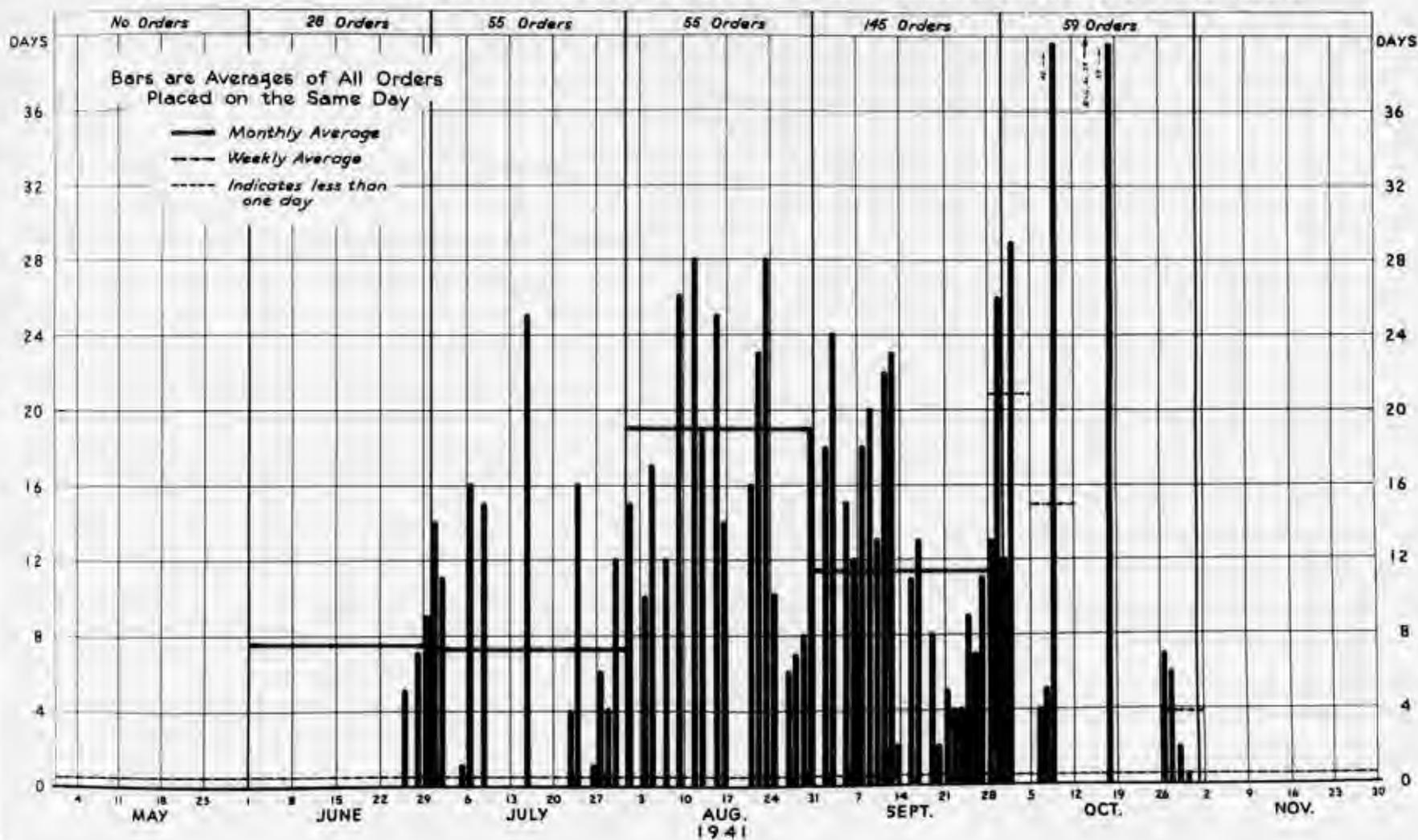
Days Elapsed Between Date of Clearance by OPM and Lend-Lease, and Date Order Was Placed



* Purchase Negotiations Completed Prior to Clearance

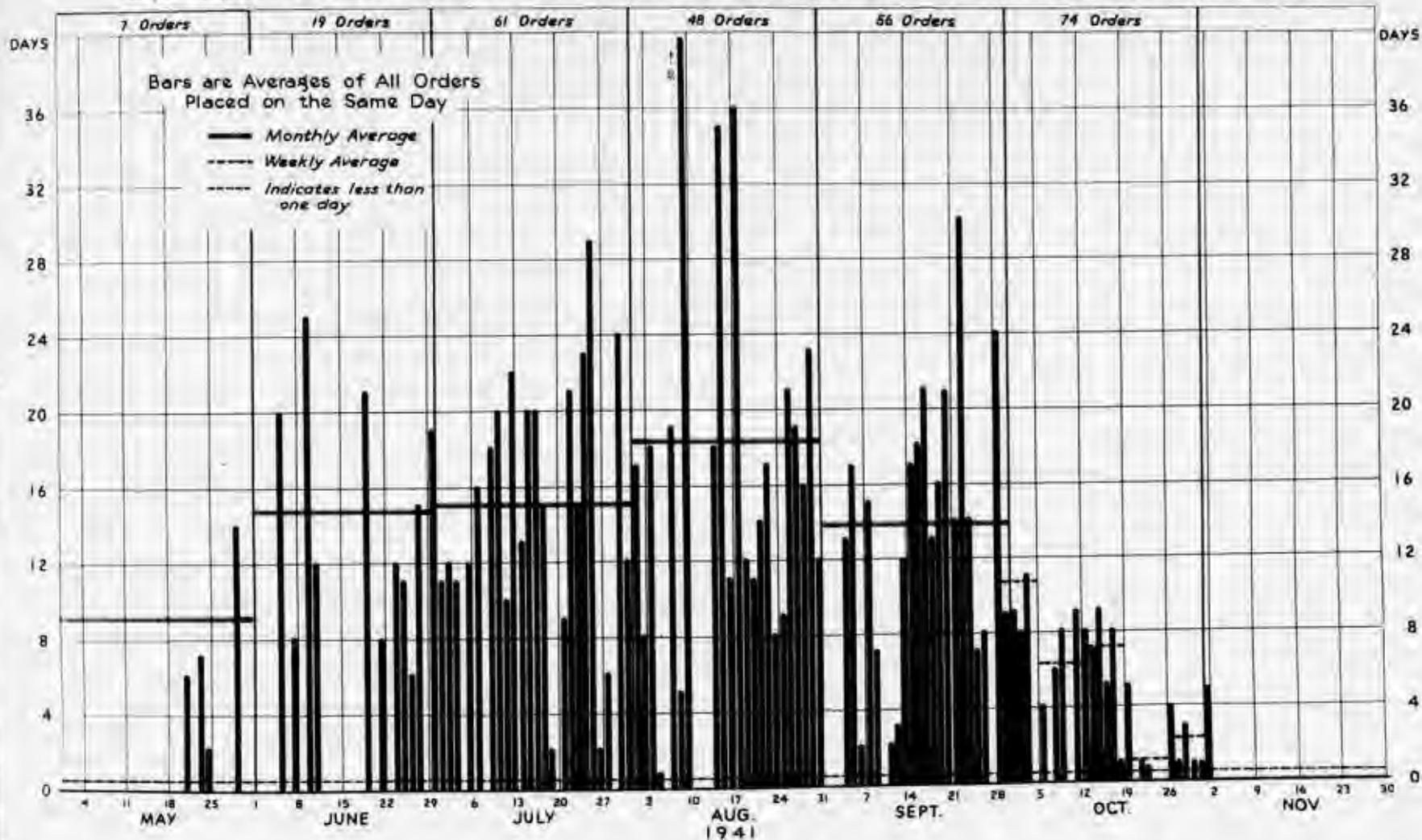
CARBON STEEL ORDERS EFFECTED BY THE PROCUREMENT DIVISION MAY 1 TO DATE

Days Elapsed Between Date of Clearance by OPM and Lend-Lease, and Date Order Was Placed



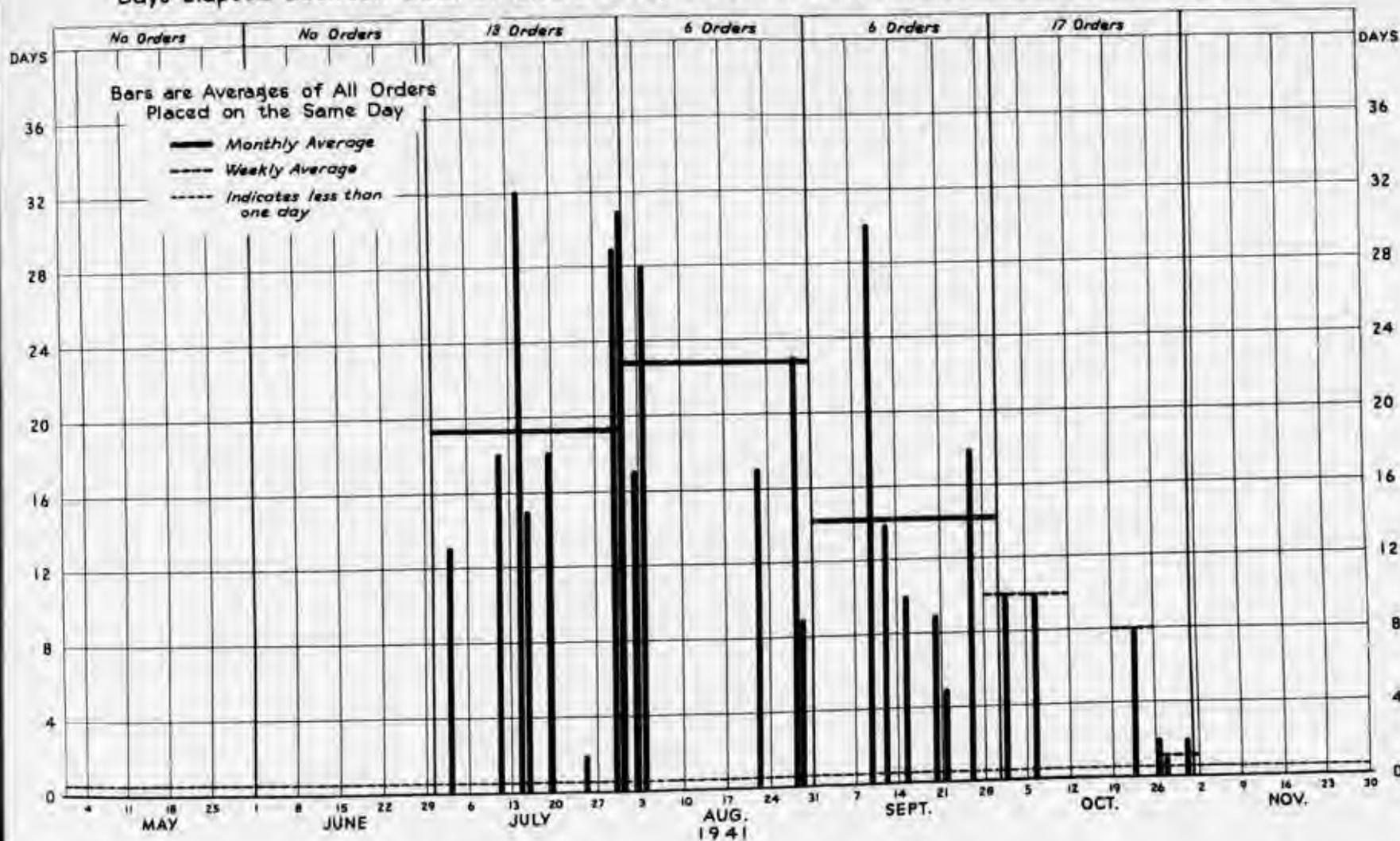
MISCELLANEOUS ORDERS EFFECTED BY THE PROCUREMENT DIVISION MAY 1 TO DATE

Days Elapsed Between Date of Clearance by OPM and Lend-Lease, and Date Order Was Placed



AUTOMOTIVE EQUIPMENT ORDERS EFFECTED BY THE PROCUREMENT DIVISION MAY 1 TO DATE

Days Elapsed Between Date of Clearance by OPM and Lend-Lease, and Date Order Was Placed



OFFICE OF THE
LEND LEASE ADMINISTRATOR

Washington, D. C.

236

515 22d Street NW.

November 7, 1941

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

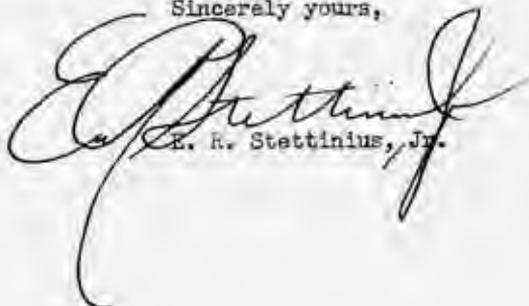
Dear Henry,

Thank you for your letter of today's date enclosing additional charts reflecting the speed with which Lend-Lease requisitions are being converted into orders by your Procurement Division.

I appreciate your making this material available to us. It will be very helpful in connection with the operations study we are now making.

With best wishes,

Sincerely yours,



E. R. Stettinius, Jr.

FOR THE PRESS

IMMEDIATE RELEASE

NOVEMBER 7, 1941

The President today addressed to Honorable Edward R. Stettinius, Jr., Lend-Lease Administrator, a letter of which the text is as follows:

"On November 7, 1941, I addressed a letter to His Excellency President Kalinin in which I congratulated him upon the national anniversary of the Union of Soviet Socialist Republics and expressed the admiration of the people of the United States for the 'valiant and determined resistance of the army and people of the Soviet Union' and the determination of the United States that the 'sacrifices and sufferings of those who have the courage to struggle against aggression will not have been in vain'.

"In that letter I assured President Kalinin 'of the desire of the Government and people of the United States to do everything possible to assist your country in this critical hour.'

"In accordance with that pledge and pursuant to the power conferred upon me by the Lend-Lease Act, I have today found that the defense of the Union of Soviet Socialist Republics is vital to the defense of the United States. I therefore authorize and direct you to take immediate action to transfer defense supplies to the Union of Soviet Socialist Republics under the Lend-Lease Act and to carry out the terms of my letter of October 30, 1941 to Premier Stalin.

"I should appreciate it if you would work out as quickly as possible details of this program with representatives of the Union of Soviet Socialist Republics."

- - - - -

The President, under date of November 5, 1941, addressed a letter to the Secretary of the Interior, the text of which follows:

"As the defense effort progresses it becomes increasingly urgent to assure that the supply of solid fuels will be adequate and that they will be readily available at consuming points when required for military, industrial, and civilian purposes. Difficult problems are already arising with respect to their supply and availability for such uses. These problems require the efficient and carefully coordinated development, production, distribution, utilization, transportation and handling of solid fuels.

"You have in your Department extensive information and facilities with respect to solid fuels. I refer particularly to the Bituminous Coal Division, the Bureau of Mines, and the Geological Survey. In addition, in your capacity as Petroleum Coordinator for National Defense you have important functions with respect to oil and gas. It is essential that the handling of solid fuel and of oil and gas problems should be closely coordinated in the present emergency.

"I am, therefore, requesting that you as the Secretary of the Interior shall act as solid fuels coordinator for national defense in performing the following duties:

"1. Obtain currently from the appropriate defense and other Federal agencies, from the various States and their subdivisions, and from any other sources, private or governmental, information as to the military and civilian needs for solid fuels;

"2. Obtain currently from the solid fuels industries and from any other sources, governmental or private, information relating to development, production, supply, availability, distribution, utilization, transportation and handling of solid fuels;

"3. Make recommendations to the Supply Priorities and Allocations Board, the Office of Production Management, the Office of Price Administration, the transportation agencies of the Federal Government and to any other appropriate Federal departments and agencies concerning measures relating to the production, storage, pooling, transportation, distribution, marketing and consumption of solid fuels for the purpose of assuring the maintenance of a ready and adequate supply at reasonable prices;

"4. In cooperation with the solid fuels and related industries and with consumers of solid fuels, and in coordination with the Office of Production Management, carry on such programs as will promote economy and efficiency in the development, production, distribution, utilization, transportation and handling of solid fuels, and we will facilitate the operation of the solid fuels industries so as to meet the requirements of the national defense program;

"5. Advise and make recommendations to the Supply Priorities and Allocations Board, the Office of Production Management, and other appropriate defense agencies with respect to the material, equipment and supplies which will be required by the solid fuels industries in producing, transporting, and distributing the tonnage needed for civilian and defense purposes;

"6. Make other recommendations to appropriate Federal departments and agencies concerning measures affecting the supply and availability of solid fuels as may seem necessary from time to time.

"In carrying out these responsibilities, the determinations of the Supply Priorities and Allocations Board and of the Office of Production Management will, of course, govern as to the requirements for national defense, direct and indirect, and as to the establishment and administration of priorities and allocations.

"The heads of the agencies and departments concerned are being informed of this designation and I am requesting that they inform you in advance of any action proposed which may affect the maintenance of

- 2 -

an adequate supply of solid fuels and of all meetings or conferences dealing with these problems.

"I anticipate that you will use your present staff in the discharge of these responsibilities to the fullest extent possible. Within the limits of such funds as may be made available, you may make provision for the necessary services and facilities and you may employ necessary additional personnel, including the appointment or designation, with my approval, of an assistant to whom you may make any necessary delegation of functions."

240

November 7, 1941

Secretary Morgenthau
George Buffington

Would you object to my asking Mr. Emil Schram, President of the New York Stock Exchange, to help in the distribution of the folder, "Know Your Taxes", to large corporations? I am disappointed in the results of the National Association of Manufacturers and believe the New York Stock Exchange would be glad to help us.

n K
Jagw

GB:emo 11/7/41

*Miss Klotz; (and I mean the person
Kuhns should get copy
of this report each week*

MEMORANDUM FOR THE SECRETARY.

241
D

Mail Report

November 7, 1941.

For outweighing all other subjects discussed in the current mail is the question of taxes. The Secretary's several statements, together with the mailing of the tax leaflet, have called forth a flood of letters. A very small minority of these are favorable and friendly; the others range from the pathetic to the abusive. On the question of increasing the Social Security tax, the proportion is one favorable to 108 unfavorable. Particularly did the expression "chopping up extra money" seem to infuriate those who read it! I do not remember any statement that has called forth such indignant comment. It far exceeds that aroused by the 6% statement, which had a rather surprising number of endorsements in proportion to those against the suggestion.

Comments on the 15% payroll deduction for taxes are just beginning to come in, and bid fair to be quite heavy in bulk, even if not quite so many as we received on the Social Security statement. Here too, the majority of the letters are strongly against the idea, but not in as large proportion. So far, the letters are 7 against to 2 for such deductions, with a scattering of general comments on the whole idea.

The tax leaflet has directly resulted in a very heavy mail. These letters describe individual cases and are written in direct reply to the printed suggestion that individuals who are uncertain about their returns write to the Secretary. They are all being referred to Mr. Helvering's office. I do not know whether any special arrangement has been made to take care of these letters, but have heard that they will be distributed to the various income tax local headquarters. This seems to me to have the germs of trouble in it. It means indefinite delays; different types of reply, depending on the various employees; no check on the speed or type of answer; and also, I think a sense of betrayal on the part of some of the taxpayers who would not want local officials to handle a matter they thought they were invited to submit to the Secretary. I may be wrong in thinking this is the method of handling, but I feel very strongly that these letters should have some special consideration right here in Washington.

The general comments continue much the same, with increasing anti-labor feeling. There are 11 letters hostile to Union labor in general to 3 simply urging that strikes on defense work be stopped. Economy in general and approval of the Byrd Committee fell in a number just below this last classification.

- 2 -

Memorandum for the Secretary.

November 7, 1941.

There was 1 pro-Lindbergh letter; 7 anti-Great Britain; 3 anti-Russian; 5 against repeal of the Neutrality Act to 1 letter urging it; and an increase of abusive letters -- particularly those applying to the entire Administration.

During October, the White House referred 425 letters. For the same period last year we received from them 370. Of the 425, 223 had personal acknowledgments from this office; a few were filed; and the rest were referred to specific offices in the Treasury.

J. G. Forbush

- 1 -

COMMENTS ON TAXATION POLICIES

Marletta M. Banks, Hartford, Conn. In my bank statement this morning I received a copy of your message to taxpayers, together with a list of tables showing how much will have to be paid by individual taxpayers on their 1941 incomes. * * * I am interested now in knowing where my income tax money will go. I shall be paying this year five times as much as I paid in 1939, although I am earning only \$200 more. I have never grudged paying income tax, for it seems to me a small price to pay for living in America. I will gladly pay more still to help keep the American way of life. But I should like to know exactly what happens to my \$150 after you receive it. It seems to me that we should all be more intelligent taxpayers if you were to send with our next month's bank statements an account of Government expenditures from income tax money for 1940, and also an account of proposed Government expenditures from income taxes to be collected for 1941.

C. Walter Kirk, Woodhaven, N. Y. Innumerable great business organizations, through a ruling of your department a few years ago, are developing a highly skilled technique in evading the spirit and ends of the Social Security Law. * * * Because I have been in the subscription book business for many years as an executive, and recently as a salesman, I speak with a particular knowledge of that business, but by hearsay I understand it is spreading through all lines of business where commission salesmen are employed. * * * In seeking a position in recent months (for obvious reasons I ask that my name and letter be treated in confidence) I found, despite my broad experience, I could not get on the sales force of Encyclopaedia Britannica, The Grolier Society or with The University Society, Inc., all in New York City, unless I signed an "Agents Contract". * * * The first two made no bones about this "Agents Contract" was to avoid paying the tax, although your Social Security Number must be given. I engaged with Britannica three weeks ago and had to sign the "Agents Contract", and also give a security bond. This contract expressly stipulates that they have no control over you, but I find this is an evasion and they exact strict supervision, compelling attendance at "must meetings", indicating very clearly their salespeople are still considered as employees. I have a copy of this contract and of notices of their "must meetings".

"All American (No pros or cons)" — What kind of Seps do you think the American people are? Do you think you can keep on spending to your heart's content, and just pile it on the taxes? You can carry your tax raising program just so far, the people will not stand for paying such more of England's war tax, or the Administration's extravagant ideas.

George Witams, Jr., St. Louis, Mo. Practically every time I pick up the paper, I am struck with your name suggesting a new or an additional form of taxation. I do not wish to be unkind or rude, but we businessmen would certainly welcome a new record. For the love of heaven, give us a breathing spell!! About all we are doing is figuring out how to make a living and pay our taxes, without worrying about some more.

Anonymous - When we get so poor we can't take care of our sick or even bury our dead from your taxations, it is high time for the political crowd in Washington to cut our non-defense spending and for Congress to cut out this check-book money. Spend less and tax less and talk less about what is to be done to keep down inflation.

C. P. Overmyer, Overmyer Mould Co., Winchester, Ind. I note that you are thinking about additional taxes for manufacturers and I, for one, do not know why you continually hammer on the manufacturers of this country who are really the backbone of this country. Our secretary-treasurer handed me a list this morning of the known taxes that we pay, and on our little business, it is a staggering amount. You not only increase the taxes but you make the tax reports so difficult to figure out that it costs thousands of dollars a year to hire auditors to make them out and then when they are through, no one knows that the thing is right. * * * Why not make the Labor Unions come through and give an account of their receipts and expenditures and their profits? As I see it, it is nearly all profit. Why not tax Unions?

L. R. McCann, Hawthorne, N. J. Having read about your desire to increase the Social Security rates, I want to thank you for your scheming ways in trying to "mop up the extra money in people's pockets for which there will not be goods to buy". Where did you ever get the idea that the man of average salary, whom this increase will hit hard, ever had any "extra money"? It is easy to see that you are not in the average man's class. * * * I suppose this letter will never reach you, but in case it does, I should also like to inform you that to the best of my knowledge, the Social Security Act is an annuity proposition for aged people, unless you have grossly deceived us in this as you have in many other things. I believe this Act was never intended as a means of robbing people to raise money for Government expenditures, and I therefore beseech you to reconsider your "mopping up" process. There is a limit to taxation even though you don't know it.

Charles G. Helmerdinger, San Francisco, Calif. If my understanding of your proposal is correct, I beg to submit the following questions and should appreciate a reply from you. (1) Is it not a complete breach of faith with the people of this country to now tie a revenue or anti-inflationary program onto a plan which was originally sold to the people of the U. S. as "social security"? * * * (Your other questions analyzing defects of plan as writer sees them.)

Mrs. Richard P. Hafner, El Centro, Calif. We note that you want to increase wage and social security taxes to "mop up" the extra money the people are supposed to have in their pockets. If this were not tragic, it would be funny -- we who have to juggle our budgets now to keep things going! Extra money when food prices, clothing prices are going up and up, and even a haircut becomes a luxury? Or whom do you mean by "the people", Mr. Morgenthau? Perhaps the people working in the defense industries have extra money. There are surely a good many of these who are making more money than they ever dreamed of. But what of us who have to stand by and keep things going outside the defense industries? We have to pay the same increasing prices and the same increasing taxes. There is no extra money in my pocket, and yet your mopping up will catch us too. The Administration promised "there will be no war profits -- prices will not soar" -- what has happened to these plans?

"A Bonner" - N. Y. C. Fifteen percent checkoff tax on salaries is an out and out theft. (Telegram)

S. Knefel, Chairman, Polish National Alliance Group, St. Louis, Mo. (Telegram) We heartily approve your proposed plan for collecting income taxes in 1942 by weekly deductions from payroll.

- 4 -

FAVORABLE Comments on Bonds

Fred J. Oberndoerfer, Dallas, Texas. Please permit me to tell you that your letter of October 2nd was one of the most pleasant surprises of my life. Convinced that you will not understand why, I may point to the fact that my family and "yours truly" only 3 1/2 years ago came to this country from Germany, where every official, let alone the Secretary of the Treasury, would have considered it impossible to write a letter of thanks to a "subject", even if this subject would have shown the highest and most unselfish patriotism. How much less would such a man have written to a "somebody" who was not even a citizen, but only had declared his intention to become one?

UNFAVORABLE Comments on Bonds

Mrs. George P. Lott, Philadelphia, Pa. When I tried to purchase U. S. Saving Stamps at the Pennsylvania Co. office at 49th and Baltimore Avenue, Philadelphia, I was informed that they sold only the Bonds. As I was not prepared to purchase a Bond, it seems to me that they should sell Savings Stamps.

Ruth Robothem, Lincoln, Nebraska. I am writing to protest a method of buying Defense Savings Bonds proposed by a local union chapter. Yesterday it was proposed to all of us that the secretary would accept payments of not less than \$2 each month and hold the money in a savings account at the bank until sufficient had accumulated to buy a bond for \$18.75. I buy my Bonds by first purchasing Defense Stamps, and it has been quite a satisfaction to me to feel that when I buy Stamps, even a 25¢ one, my money immediately goes to work for the Government. I asked the secretary why Defense Stamps were not purchased with the money rather than putting it into a bank to lie idle for months. He said the method proposed by him was outlined in a letter from the Treasury Dept., and that such a letter was sent to every union organization in the country. If that is the case, it seems to me the Treasury Department is defeating the purpose of the Defense Bonds. My understanding is the Government needs the money NOW, and it seems to me that it is sabotage to suggest a method which withholds it for so long a period.

Mrs. William R. Fogg, Corinth, Miss. Not only on my own behalf am I seeking information, but on behalf of other T.V.A. people in this area. (Pickwick Dam). Why do we have to pay fifteen cents per hundred on every Government check we deposit, or have cashed? There are several who would buy Defense Bonds every payday, but the Post Office seldom can, or will, cash checks, and the ones we know resent paying the exchange, or having the Post Office turn them down for lack of funds. ** We have gotten fifteen Defense Bonds since May, but they are hard to get here. For further information regarding the above, I refer you to Mr. Ralph Crosby, Pickwick Dam, Tenn. (Foreman)

J. A. Abey, Circulation Mgr., Reading Eagle-Times, Reading, Pa. On March 18, 1941, I wrote to Jesse Jones offering my services to help develop a plan to have the carrier boys of the country sell Defense Bonds, as I know this would be one of the most effective organizations that you could secure for this type of work. On April 4, 1941, I had a letter from Mr. Sloan and later on I wrote additional letters to men connected with the Treasury Dept., but they all seemed to be rather indifferent to the idea. I talked with Mr. H. W. Stodghill of the Philadelphia Bulletin, and Stodghill thought it was a good idea, and one that should be presented before the Circulation Men of the country,

provided it met with the approval of the Treasury Department. Now the Bulletin is gathering all of the credit for this proposition, which I think was originated by me. I think part of the plan should be credited to the Reading Eagle and Reading Times.

F. L. Holts, Glencoe, Ill. At one time I was glad to demonstrate my partnership with the Government, as at that time I felt that the funds were being disbursed for constructive purposes. Now, I regret to say, I no longer have this feeling, and do not want to be a party to what I consider a crime, by buying further U. S. Savings Bonds. When the proceeds are being used for purposes that are entirely wasteful and destructive, I could not conscientiously make a voluntary loan.

Louis S. Feinn, Chicago, Ill. After conducting a private survey, I found that Defense Bonds have received extraordinary advertising and have very decided sales appeal. The only reason they are not selling like with their lack of accessibility. There are millions of enthusiastic prospects among the lower and medium income groups, but their enthusiasm is not carried into action because the Stamps and Bonds are not readily available; in order to make a purchase they are forced to seek a proper agency.

Mrs. Meiss C. Grant, Miami, Florida. On October 1, 1941, after receiving several letters from your Department asking me to buy Savings Bonds, I sent my check on The Fulton National Bank of Atlanta, Georgia, for \$3,750.00, for five \$1,000.00 Savings Bonds. To date I have not received the bonds and would like to have my check returned if I am not entitled to them.

GENERAL COMMENTS

Frederick Heffel, Auditor-Accountant, Fresno, Calif. There appears to be no form T.F.R. - 300, series A in Fresno, neither the Post Office, the income tax department, nor either of the two banks, which are members of the Federal Reserve System. None of these have blanks for filling out, so, therefore, I am making my report in this form and if you so require, I will fill out form T.F.R. - 300 if you will send the form to me in duplicate.

J. A. Swalwell, President, Seattle First National Bank, Seattle, Wash. I wish to express my appreciation for your letter of October 17th, evidencing your concern over the difficulties encountered by Banks in their exercise of the freezing control required under the Order and inviting suggestions for rendering it more effective. * * * I am told that officers and employees of Banks are often unable to cope with the legal and rather involved wording of the Order; that the words "residence" and "domicile" have not been clearly defined; that the continuity of residence here is not easily determinable and that a short absence from the U. S. by persons who spent the major part of their lives in this country is causing many misgivings; that refugees who arrived here after June 17, 1940, are hamstrung by the maze of applications and reports they must keep filing to be permitted to operate a small business; and that since many Banks kept no records enabling them to distinguish between citizens and foreign nations, the determination of the latter is a haphazard task at best. * * * I am enclosing a schedule of suggestions submitted by our Department in charge of this work, as well as a copy of our relative report to the National Bank Examiner. (Letter forwarded to Mr. Foley)

Charles S. McNulty, Jr., a member of the staff of Radio Station WDBJ, Roanoke, Va., encloses a copy of a letter he has written to the Chief of the Income Tax Division at Richmond, Va. Mr. McNulty happens to be the radio employee who sees to it that the Government gets proper consideration in the way of spot announcements over the station. "Strange as it may seem, I am the man who fights for the Treasury request for 5 announcements every day. Those 5 announcements would cost your Department \$21 a day". There are other occasions when Government employees ask help in connection with Defense Bonds, Secret Service "Know Your Money", etc. Recently Mr. McNulty went to the Roanoke office to pay a tax, but the man at the desk refused to help him, saying that it was time for the office to close, and he should "stick it in the mail". Mr. McNulty writes that he has been in touch with Mr. Callahan, but if this is a specimen of Treasury manners, he would feel out of place in the organization.

Karl Aschaffenburg, Plainfield, N. J. I want to thank you for your answer to my letter of complaint of October 3rd. The information which you have been kind enough to give me has satisfied me that in this case my complaint has been unfounded. I want you to know that I appreciate your courtesy in writing me such an explicit letter.

L. F. Sailer, President, National Union Bank of America, Paterson, N. J. We have been perplexed and confused by the "Documents pertaining to foreign funds control", and Public Circular No. 4, and our experience seems also to have been that of other bankers and even of attorneys in this area. These documents in our opinion, because of the involved legal language used, including that which seems to encompass unforeseen situations and contingencies, and the utilization with such language of references and cross-references to related matters which are in their turn similarly complicated, lack the simplicity and directness which would enormously aid the average bank-man and layman in a more intelligent and effective application of the executive order. We here cheerfully are making every effort to meet in good faith the obligations imposed on us by the executive order and the regulations issued pursuant thereto, but we cannot but wonder if more fruitful results might not be obtained throughout the land by a simplification of the regulations, general rulings, general licenses, specific licenses, report requirements, etc., promulgated or issued under the executive order. While we realize the necessity of these involved and legally phrased documents and public circulars, it seems to us that they should serve only as a foundation and background for a set of direct and simple rules and regulations prepared by the Treasury Department for the guidance of bank-men and others concerned.

Donald F. Waler, Manager, Chamber of Commerce, Pontiac, Mich. We have had opportunity to inspect the revision of expenditure estimates as submitted to your committee by the Bureau of the Budget, and we are firmly of the belief that the reduction as there suggested would be in the public interest. You will have our wholehearted support in bringing in recommendations to that end, and in advocating these recommendations in the Congress.

L. A. Wien, Dade Millwork & Lumber Co., Miami, Fla. We are a small manufacturing concern in a non-defense area. Our business has been hurt considerably by the various priorities and by the stoppage of building. We are suffering from the hardships contingent with an all-out defense effort without reaping any of the profits accruing to those in defense areas. Our taxes have been increased. Our wages have been increased. Our materials have gone up and, in many cases, are unobtainable, and at the same time we are undergoing a reduction in sales, a keener competition and a sharp cut in profits to the point

where they no longer exist. We do not complain of these additional burdens caused by the necessity of a strong defense effort, but just as we were opposed to the capitalistic profiteers in the last war, and just as we have favored all legislation to prevent a repetition of such a condition in this war, we are as strongly opposed to the power and the unwillingness to cooperate on the part of the labor profiteers that exists today. The officers of this firm and its 125 employees wish to strongly put themselves on record as heartily in favor of labor legislation which will eliminate the power to strike defense industry and which will eventually set a ceiling on wages, just as a ceiling has been set on profits.

Guy N. Hardy, The Canon City Daily Record, Canon City, Colorado. We are constantly reminded that there is a shortage of paper. The public printer is telling business men to conserve by retaining letters and use the blank back side for second sheets. Yet we are told that the Federal Government has requisitioned 1,400,000,000 envelopes for next year. Every newspaper knows the wasteful practice of the several Departments in Washington. Waste baskets have been enlarged to carry the accumulations from Washington. Take your own Department for instance. Your Press Section is very prolific with copy. * * * They are extravagant in paper and envelopes. Copy comes on high grade paper, printed in three colors. Envelopes are about the most expensive on the market. * * * This return envelope, Press Section sends out with all copy and all mailing, requesting publishers to certify that the copy has been printed, is expensive. Not only expensive and unnecessary but presumptuous. Newspapers are not accustomed to furnishing certificates that favors have been granted -- that free publicity has been run. If that were required for all propoganda, newspapers would have to put on more checking clerks and the mails would be crowded with return franked mail. * * * Lest you may think us unfriendly to your defense financing, will state that we have run all Defense Savings Quiz material in Daily Record, and I have purchased \$8,000 of the securities.

November 7, 1941.

TO: HAROLD N. GRAVES

SUBJECT: PROGRESS REPORT FROM DEFENSE SAVINGS STAFF

SALE OF BONDS

Actual cash receipts from the sale of Series E, F and G Bonds from November 1st through November 5th were \$44,096,000, a decrease of 5.6 per cent over the similar period in October. Sales from October 1st through October 5th were \$46,697,000. Sales from September 1st through September 5th were \$48,963,000.

SALE OF STAMPS

Sale of Stamps for October, according to preliminary figures were \$5,935,934, an increase of 19.2 per cent over September, when sales were \$4,978,000. Total Stamp sales for six months are \$24,933,934.

UPWARD TREND

Sales of all series of Bonds, as well as Stamps, showed a marked rise in October over September. Series E Bonds reached their peak in July, declined in August and September, but in October turned up sharply, with a 16.8 per cent increase over September. Series F and G Bonds showed a declining trend from May through September, but turned up in October, with an

increase of 16.3 over September. Stamps sales have gone up steadily since Jun
(See graph attached).

STATUS OF BANKS

The following shows the status of banks which have qualified as
issuing agents for Series E Bonds as of October 31:

	<u>Eligible to Qualify</u>	<u>Qualified</u>	<u>Percentage Qualified</u>
National banks	5,114	4,662	91%
State Banks	9,088	7,119	78%
Mutual savings banks	548	509	93%

DIRECT MAIL

The industrial mailing to date shows orders of \$2,802,446; the
customer mailing, \$2,605,754; total \$5,408,200.

Orders from acknowledgements sent to new purchasers, going out
at the rate of about 300 a day, since October 20, have brought 91 orders
amounting to \$12,056.

FIELD OFFICE

Sixteen administrators and deputies participated in conferences
in the Field Director's office as follows:

John L. Fahs	State Administrator	Florida
A. E. Wilde	" "	Wyoming
Walter N. Ruth	" "	Maryland
O. R. Frasier	Deputy	Arizona
L. M. Montania	" "	Colorado
Karl Lehmann	" "	Florida
C. Arthur Cheatham	" "	Georgia
Joseph J. Poizner	" "	Kansas

J. George Eierman	Deputy Administrator	Maryland
Fred J. Martin	" "	Montana
Wallace D. Warren	" "	Nevada
Edwin G. Hobbs	" "	New Mexico
William V. Reagan, Jr.	" "	Northern Califor.
William M. Stephens	" "	Oklahoma
Joseph D. Miot	" "	South Carolina
Jo Gibson, Jr.	" "	Tennessee

Ten field representatives are now on active duty in the field.

Status of the field organization remains the same as reported on October 31.

TOLEDO DEFENSE DEMONSTRATION

Army, Navy, Marine Corps and Coast Guard cooperated with the Defense Savings Staff in the demonstration at Toledo, November 4th. More than 400 men marched in the parade, with equipment, and twenty Powers models were flown from New York through arrangements by the Press Section. Goodyear blimp carried Defense Savings sign over city all day. Local newspaper coverage was lavish.

HOUSE ORGANS

Chairmanship of a house-magazine committee on Defense Savings has been accepted by Robert Newcomb, coordinator of the National Council of Industrial Editors Associations, which has a membership of 1,000 editors, representing a total circulation of approximately 13,000,000 readers of company publications. He has

volunteered his services to plan and distribute material for distribution to Association members, also to 2,000 other house organs with an additional circulation of about 7,000,000.

RADIO

The new method devised to provide better promotion on daytime network programs has been approved by major sponsors. The plan eliminates to a great extent the five-and ten-second announcements; the new promotions, though less frequent, are longer and more convincing, due to heightened dramatic content. The same plan is being applied immediately to evening commercial network shows, as per Fannie Brice's "Baby Snooks" on November 6th, which carried six full minutes of an entertaining skit about "Baby Snooks" purchase of Stamps.

Reports from stations show that 354 had broadcast 1,871 football announcements up to November 5, and 294 stations have written praising the announcements and asking for an increased number.

During October, when special five-minute interviews were broadcast, urging the regular, continued and repeated buying of Bonds,

orders on the regular purchase plan increased 300 per cent.

Two hundred stations broadcast these announcements a total of 1,103 times.

Forty-eight leading dance orchestras have signified their willingness to emphasize "Any Bonds Today" and other patriotic music.

PRESS

Plans for four new long-range activities were approved and put into production — a drawn feature with limericks, a women's page feature, and one on what Defense dollars will buy, all for daily papers; and a Sunday editorial cartoon.

A second editorial cartoon drawn especially for the labor press (see Fitzpatrick cartoon attached, distributed earlier) by Rollin Kirby has been distributed.

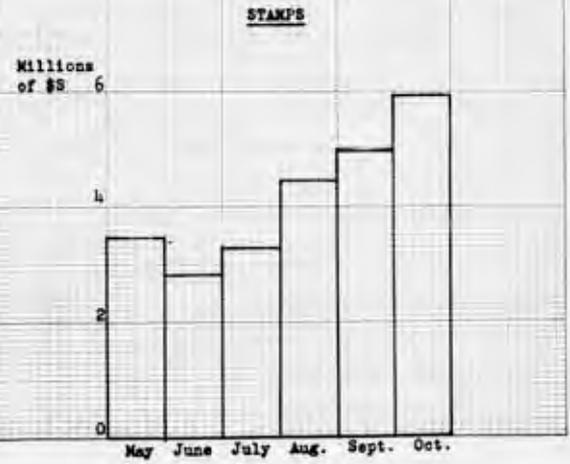
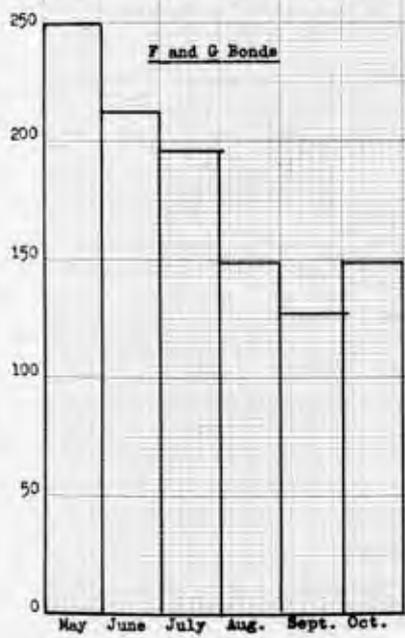
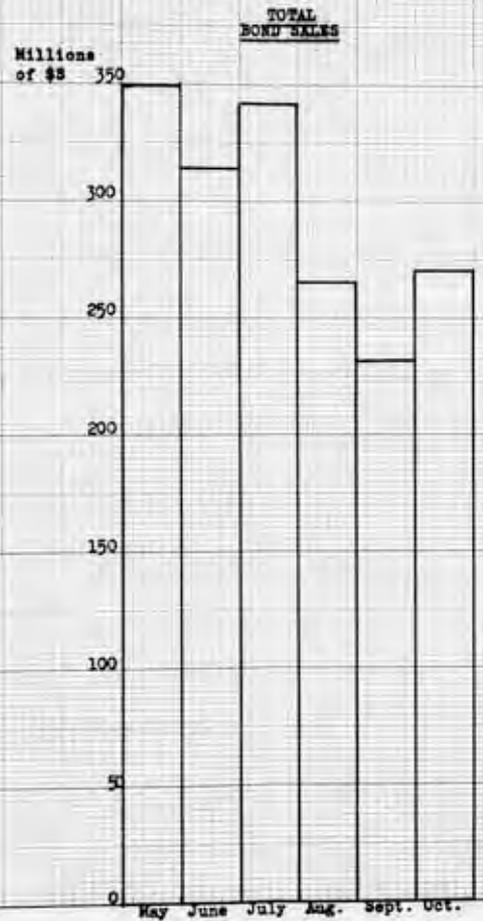
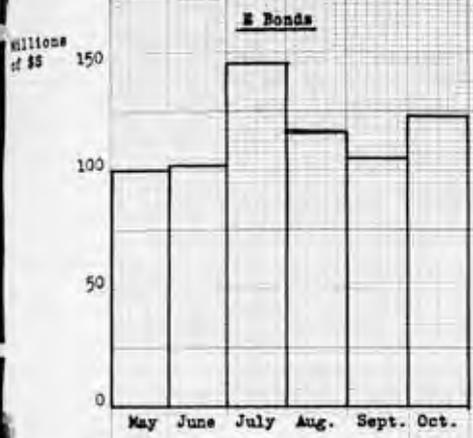
Many additional papers, including the Washington Daily News, report use of Minute Man emblems in their columns. Figures on October sales, released this week, were widely printed. Pictures and story of the Secretary and the Philadelphia Bulletin boy who

sold the millionth Stamp were released to picture syndicates simultaneously with release of the story on extension of the Bulletin plan nationally.

More magazines have signified their intention to cooperate, among them Popular Science, Woodmen of the World, The Churchman, Click, and Public Service Magazine.

SALES OF E, F AND G BONDS BY MONTHS

SALES OF STAMPS BY MONTHS



November 7, 1941

My dear Mr. Hoover:

This will acknowledge receipt of your letter of November 4th. I appreciate having the information it contained.

Yours sincerely,

(Signed) E. Mergenthau, SAC

Mr. J. Edgar Hoover,
Federal Bureau of Investigation,
Department of Justice,
Washington, D. C.

F. W. N. M. C.

JOHN EDGAR HOOVER
DIRECTOR



**Federal Bureau of Investigation
United States Department of Justice
Washington, D. C.**

260

[Handwritten signature]

November 4, 1941

PERSONAL AND CONFIDENTIAL
BY SPECIAL MESSENGER

2-1-42

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 that the sum of \$5,000 has been credited to the account of the Special Administration of the Holy See, Vatican City, in the Banca Commerciale Italiana in Rome, Italy, the money being received from J. P. Morgan & Co., Inc., New York, New York.

Sincerely yours,

J. E. Hoover

TREASURY DEPARTMENT

261

INTER-OFFICE COMMUNICATION

DATE November 7, 1941

TO Secretary, Chauncy
 For Miss Morgenthau
 FROM Mr. Dietrich

The following table presents a breakdown of our silver purchases by sources and purchasers during October touched a new monthly low since September, 1939.

Sources of Silver Purchased Under
 the Silver Purchase Act -- 1941

Country of Origin	Jan.-Aug.	Sept.	Oct.	Jan.-Oct.
(In thousands of dollars)				
<u>New Production Silver</u>				
Argentina	\$ 281	\$ --	\$ --	\$ 281
Canada	2,103	157	245	2,505
Honduras	885	95	74	1,054
Cuba	239	--	14	253
Peru	2,001	254	175	3,030
Not Designated*	4,299	126	--	4,425
Total New Prod.	\$10,408	\$ 632	\$ 508	\$11,548
<u>Other Silver</u>				
China	\$ 282	--	--	\$ 282
Japan	918	--	--	918
Mexico	175	--	--	175
Not Designated*	691	--	--	691
Total Other	\$2,066	--	--	\$ 2,066
<u>Grand Total</u>	<u>\$12,474</u>	<u>\$ 632</u>	<u>\$508</u>	<u>\$13,614</u>

*A large part of the "Not Designated" silver is believed to represent imports from Mexico. For comparison, total silver imports into the United States from Mexico are given below, according to type of silver:

	Jan.-Aug.	Sept.	Oct.	Jan.-Oct.
(In thousands of dollars)				
New Production	\$ 3,576	\$ 174	\$ 406	\$ 4,156
Other (refined)	13,912	1,942	1,711	17,565
Total	\$17,488	\$2,116	\$2,117	\$21,721

A

TREASURY DEPARTMENT

262

INTER OFFICE COMMUNICATION

DATE November 7, 1941

TO Ferdinand Kuhn, Jr.

FROM Alan Barth

EDITORIAL OPINION
ON FOREIGN AFFAIRS:
WAITING FOR THE DEADLINE

Instrument

Newspapers throughout the country show a deepening awareness that the United States is at war. In their discussion of this development, there is a marked quality of dignity and restraint, a consciousness of responsibility. They are ready to follow the leadership of the President.

With each fresh instance of Nazi hostility in the Atlantic, the editorial writers have looked to the White House for guidance, carefully modulating their comment to conform with the tone set by Mr. Roosevelt. This pattern of conformity has become increasingly apparent in respect to the latest sinkings of American naval vessels. There are dissident elements, of course. But the bulk of the press is now a tuned instrument, waiting for the President's use of it to provide popular understanding of any course which he chooses to pursue within the broad framework of accepted and established national policy.

Fundamentals

The acknowledgment that a state of war exists is general. The newspapers seem very little concerned with its immediate causes. It should be reported, indeed, that they reflect a rather sharp impatience with Administration anxiety to prove the Nazis guilty of the first overt blow. They consider this unimportant. They hope that American destroyers have been sinking U-boats steadily and frequently ever since announcement of the "shoot-on-sight" order.

At the same time, the German effort to catalogue this nation as the aggressor is dismissed as nonsensical. The real aggression is seen in the Nazi ambitions for world conquest and in the threat to American interests and values. "Who fired the first shot that started this inevitable war?" The Lynchburg News asks rhetorically. "Who cares except it be the ever hopeful propagandists? The responsible nation is the nation that first threatened the security of the other." The interest of the American press is centered in the President's observation that, "In the long run, however, all that will matter is who fired the last shot."

In the view of The Christian Science Monitor, "The fact is that the United States could not tolerate Nazi control of the Atlantic. And beyond that is the fact that when Hitlerism started on the road of oppression and aggression, it attacked ideals and interests which Americans must defend."

Editorial commentators do not seem primarily concerned with whether the war be declared or undeclared. The New York Times reasons: "The sinking of the destroyer Reuben James by a Nazi submarine near Iceland brushes away the last possible doubt that the United States and Germany are now at open war in the Atlantic. It is an undeclared war, because our Government does not choose to let circumstances force its hand and because we intend to remain masters of our own decisions . . . But the war is none the less real because, like all the wars that Hitler makes, it is accompanied by no formal declaration of belligerency." And The Daily Oklahoman, a paper which has been much more moderately interventionist, says: "Theoretically, our nation is at peace, but actually it is at war. It does not matter overmuch whether war shall be declared formally . . . The men who died in the hulls of the Kearny and the Reuben James are dead. They would be no deader if the President were to

recommend and the Congress to approve a formal declaration of hostilities . . . It is useless now to review the ways in which we have been drawn into the conflict or to discuss the ways in which we could have kept out. We are in it to the limit and the guns are already flaming. Naught remains but to see it through."

Unity

The press as a whole faces this condition soberly and sadly. But it shows little disposition to blink at it or to shrink from it. The overwhelming desire now seems to be to prosecute the war effectively and successfully.

There continue to be minority elements, to be sure, which counsel caution and retreat. The Scripps-Howard papers, for example, have suddenly remembered that there is danger in the Pacific. "How are we going to defend ourselves in the Pacific," they demand, "if Hitler pushes his Axis partner into war with us? We do not have a two-ocean Navy. We do not have enough ships and planes to guard England and her waters on one side of the world, and British Singapore on the other side of the world, and defend ourselves from Japanese attack with the leftovers -- much less arm Britain, Russia, China, Latin America and others at the same time. If Congress faces that fact it will not deliberately extend the undeclared shooting war in the Atlantic.

Against this point of view is ranged a heavy majority of commentators who insist that retreat in the face of danger has been the root of our present problem. They urge abandonment of all the Neutrality Act's prohibitions against forceful action in the West. And they reason that only inflexible firmness can keep the Japanese within bounds in the East.

There appears to be a powerful groundswell in the press for national unity. It springs from the recent recognition that the die has been cast and that further debate is only a form of frustration. True, the appeal for unity, for acceptance of the indelible imprint of what has already taken place, comes mainly from the majority whose policy has prevailed. But, judging from the rising popular sentiment for Neutrality repeal recorded by the Gallup Poll and from the disintegration of isolationist forces in Congress, the movement toward unity is becoming genuine.

There is a sense of great events. The country is perhaps only beginning to awaken to their full meaning. The press, at least, has come to grips with reality. Both press and public expect, and will answer, the challenge of an unmistakable call to arms.

TREASURY DEPARTMENT

267-

INTER OFFICE COMMUNICATION

DATE November 7, 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 November 1, 1941.

1. Exports to Russia

Exports to Russia as reported to the Treasury during the week ending November 1, 1941 amounted to about \$4,500,000 as compared with \$5,600,000 during the previous week. Military tanks, motor trucks and chassis and landplanes were the principal items. (See Appendix C.)

2. Exports to China and Burma

Exports to Free China reported during the week under review amounted to over \$4,700,000, the second largest figure for any single week since July 28, 1941. The principal item was machine and heavy-ordnance guns and carriages.

Exports to Occupied China also increased as compared with the previous week, the respective figures being \$438,000 and \$269,000. (See Appendices D and E.) Exports to Burma were valued at only \$58,000. (See Appendix F.)

3. Exports to Japan

Exports to Japan during the week under review were negligible, but included among the exports to Occupied China were commodities which the Japanese need, such as paper and manufactures.

4. Exports to France

Exports to France during the week ending November 1, 1941 amounted to only \$2,000 of which all went to the occupied territory.

5. Exports to other blocked countries

Exports to other blocked countries are given in 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 November 1, 1941

(In thousands of dollars)

	July 28 to <u>Oct. 18</u>	Week ended <u>October 25</u>	Week ended <u>November 1</u>	Total <u>Domestic Exports</u>
U. S. S. R.	\$31,144	\$ 5,623	\$ 4,484	\$ 41,251
Occupied China	8,788	396	436	9,620
Free China	11,550	269	4,392	16,211
Japan ^{2/}	1,864	-	5/	1,864
Burma ^{3/}	3,442	403	58	3,903
France ^{4/}	6	5/	2	6
Free France	4	-	-	4
Spain	1,578	81	5/	1,669
Switzerland	3,503	5	47	4,555
Sweden	6,781	108	1	6,890
French Indochina	253	50	-	303

Treasury Department, Division of Monetary Research

November 5, 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/} From September 11, 1941 to date - 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.

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

	<u>Total</u>	<u>Exports to China</u>		<u>Exports to Burma ^{3/}</u>	<u>Exports to Japan</u>	<u>Exports to U.S.S.R.</u>
		<u>To Japanese controlled ports</u>	<u>To Chinese controlled ports</u>			
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
Oct. 27 - Nov. 1	<u>5,210</u>	<u>438</u>	<u>4,772</u>	<u>58</u>	-	<u>4,484</u>
Total	28,791	10,084	18,707	2,786	1,864	41,599

^{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 November 1, 1941

(Thousands of dollars)

TOTAL EXPORTS	\$ 4,484
Principal Items:	
Military tanks	1,385
Motor trucks and chassis	1,152
Landplanes, powered	951
Barbed wire	133
Relief supplies - surgical and hospital	128
Aviation gasoline	108
Gun parts	84
Metallic cartridges	83
Brass and bronze plates and sheets	71
Machine and heavy ordnance guns, carriages and parts	61
Auto replacement parts	55
Sole leather	33

Treasury Department, Division of Monetary Research Nov. 7, 1941.

Appendix D

Principal Exports from U.S. to Free China, as reported to the Treasury Department during the week ending November 1, 1941

(Thousands of dollars)

TOTAL EXPORTS TO FREE CHINA	\$4,772
Principal Items:	
Machine and heavy ordnance guns and carriages	1,677
Explosive shells and projectiles	360
Cotton blankets	316
Motor trucks, busses and chassis	230
Scientific and professional instruments, apparatus and supplies	192
Explosives, fireworks, and ammunition	188
Refined copper	176
Gun parts	176
Other road machinery and parts	172
Radio transmitting sets, tubes and parts	167
Telephone equipment and parts	146
Other printed matter	135

Treasury Department, Division of Monetary Research Nov. 7, 1941.

Appendix E

Principal Exports from U.S. to Occupied China,
as reported to the Treasury Department during
the week ending November 1, 1941

(Thousands of dollars)

TOTAL EXPORTS TO OCCUPIED CHINA	\$438
Principal Items:	
Tobacco and manufactures	88
Paper and manufactures	52
Medicinal and pharmaceutical preparations	31
Grains and preparations	25
Fruits and preparations	24
Leather	18
Dairy products	17
Miscellaneous office supplies	15
Coal tar products	13
Electrical machinery and apparatus	12
Iron and steel advanced manufactures	10

Treasury Department, Division of Monetary Research Nov. 7, 1941

Appendix F

Principal Exports from U.S. to Burma, as reported
to the Treasury Department during the week ending
November 1, 1941

(Thousands of dollars)

TOTAL EXPORTS	\$58
Principal Items:	
Iron and steel plates	18
Industrial machinery	13
Other iron and steel manufactures	6
Wire and manufactures	6
Tubular products and fittings	5

Treasury Department, Division of Monetary Research Nov. 7, 1941.

Copy of letter from B. Mexico City, November 7, 1941

After having sent our last letter, the papers published the surprising news that Mr. Josephus Daniels, United States Ambassador to Mexico for almost nine years, had resigned from his post on account of poor health of Mrs. Daniels, and that Mr. Roosevelt had accepted his resignation. The exchange of correspondence between the President and Mr. Daniels was widely published. The reaction in official Mexican circles seems to have been one of regret, as relations between them and Mr. Daniels were always quite cordial, even in critical times, and they must feel that they are losing a good friend. The American Embassy received the announcement rather coolly and with an air of indifference.

Mr. Daniels returned to Mexico by air for the purpose of cleaning up pending matters and for bidding farewell to the President of Mexico, the Secretary of Foreign Relations and to his other friends in the Government; to other Diplomats, as well as to his personal friends. (Mr. Daniels had been the Dean of the Diplomatic Corps.)

Some farewell banquets and parties are announced to take place in the immediate future, as Mr. Daniels' definite departure is announced for next week.

There is, of course, speculation as to his successor, and amongst other names, that of Mr. James Farley has been mentioned.

This resignation was the outstanding event of the period under review, as otherwise things have been pretty quiet here.

The public attention keeps focused on the delay in the signing of the Mexican American agreement, on which no headway seems to have been made. It is now said that Lic. Suarez will return to Mexico for the purpose of reporting to the President on the results of the Washington negotiations prior to signing any agreement, which would indicate that there are still some obstacles to be overcome. It is also rumored that direct negotiations between the Mexican Government and the expropriated Oil Companies are to be renewed here in Mexico in the near future. It has been mentioned that a contemplated trip of Mr. Winthrop Aldrich, President of the Chase National Bank to Mexico has something to do with those negotiations. But all of these reports are based on rumors, and nothing definite is known. The Government itself has been silent on the subject.

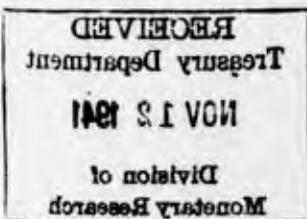
Politically there has been nothing of interest or worth worth mentioning, excepting, perhaps, the rumor that Mexico's Ace Attorney Leñer, Lic. Lombardo Toledano, is preparing to leave the country, which sounds almost too good to be true.

From the labor field there are no news either, but this may change when Lic. Garcia Tellez returns from New York, now that the International Labor Congress has concluded. In some industries the situation seems to be getting tense on account of shortage of raw materials, and this will not improve the labor situation. Some factories

-2-

seem to reach the point where they will have to close down. Governmental efforts to improve conditions don't seem to have achieved much.

The exchange has continued without variation.



**BRITISH AIR COMMISSION**

1785 MASSACHUSETTS AVENUE

WASHINGTON, D. C.

TELEPHONE HOBART 9000

PLEASE QUOTE

REFERENCE NO. _____

with the compliments of British Air Commission,
who enclose statement No. 5, covering aircraft
shipped, for week ending November 4, 1941

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

November 7, 1941

STATEMENT NO. 5.AIRCRAFT DESPATCHED FROM THE UNITED STATES
WEEK ENDED NOVEMBER 4, 1941.

TYPE	DESTINATION	ASSEMBLY POINT	BY SEA	BY AIR	FLIGHT DELIVERED FOR USE IN CANADA.
<u>ESSNA</u> T-50	Canada	----	--	--	19
<u>CONSOLIDATED</u> Catalina Liberator II	U. K. U. K.	U. K. U. K.	-- --	3 2	-- --
<u>BURTISS</u> Kittyhawk	Middle East Canada	Port Sudan ----	31 --	-- --	-- 4
<u>GLAS</u> Boston III	U. K. Middle East	U. K. Port Sudan	6 8	-- --	-- --
<u>LENN MARTIN</u> Baltimore	Middle East	Port Sudan	5	--	--
<u>NORTH AMERICAN</u> Harvard II Mustang	Canada U. K.	---- U. K.	-- 4 10	-- -- --	8 -- --
TOTAL			64	5	27

British Air Commission,
November 7, 1941.



HEADQUARTERS

ADDRESS THE COMMANDANT, U. S. COAST GUARD
AND REFER TO NO.

TREASURY DEPARTMENT

278

UNITED STATES COAST GUARD

WASHINGTON

SECRET

7 November, 1941
(5:02 a.m. E.S.T.)

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

The latest report from Pan-American is that the departure of the clipper from Hongkong on which I have a reservation is postponed until November 12th. In the meantime W. W. Kung has urgently requested that I come to Chungking for another talk with him and to meet Chiang Kai-shek, who was absent when I was in Chungking. Consequently, tonight I am flying to Chungking, returning to Hongkong on the night of the tenth.

(Signed) (initials)

Received Washington
November 7, 1941
(5:30 p.m. E.S.T.)

MT

GRAY

Hong Kong via N. R.

Dated November 7, 1941

Rec'd 4:49 a.m.

Secretary of State,
Washington.

479, November 7, 1 p.m.

FOR TREASURY FROM COCHRAN:

Upon urgent invitation of Minister of Finance Kung, I am proceeding to Chungking tonight 7th and returning to Hong Kong Monday night 10th. On 12th I leave for San Francisco on clipper which has been postponed from 10th.

SOUTHARD

PEG

November 7, 1941

Mrs. Friedman

Mr. Dietrich

Will you please send the following cable to Spagent, Shanghai, China:
"For Spagent from the Secretary of the Treasury. Report of October 23.
Our investigation indicated J. H. Williston & Company, New York, acted
as brokerage correspondent for Sun Lee & Company, Shanghai. For your
information J. H. Williston & Company is also brokerage correspondent
in New York for Sun Fung Company, Shanghai. Investigation did not
reveal any relationship other than indicated."

FD:lsy-11/7/41

TREASURY DEPARTMENT
UNITED STATES COAST GUARD
WASHINGTON

SECRET

7 November, 1941.
(5:02 a.m. E.S.T.)

From: Syngant, Shanghai, China.
Re : Mr. Dietrich.

The message was delivered to Fox and Cochran at 3:30 p.m. today, November 7, and I am momentarily awaiting their reply for transmittal to Hinesper, who at the present time is in Chungking. Hall Patch is in Hongkong.

(Signed) NICHOLSON

Received Washington
November 7, 1941
(5:30 p.m. E.S.T.)

ch:ccy
11-6-41

S
O
P
Y

TREASURY DEPARTMENT

United States Coast Guard

Washington

7 November, 1941.
(7:00 a.m. G.C.T.)

SECRET

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

It has been reported by our Shanghai market contact that a new business in cotton has sprung up between Brazil, Peru, and Japan for which payments are based on some form of clearing in which freezing regulations are probably ineffective. Brazilian cotton is still being sold and shipped to Japan by Japanese steamers and for this type of business Japanese buyers open a letter of credit through the Yokohama Specie Bank, Rio De Janeiro, Brazil. As for the Peruvian cotton part of this business, it is done by clearing yen — soles, and the remainder is somehow worked through Brazilian milreis. Thus it appears that there is some triple clearing going on between the three countries. It seems that in the Banco Italiano, Lima, there is one hundred thousand U. S. dollars available, but the Japanese Government, for some unexplained reason, has ruled that this sum of money is not available for Peruvian cotton to Japan. However, the Japanese Government is prepared to allot freight space by Japanese steamers for Peruvian cotton to Japan, provided payment is taken by the shippers in yen in Rio De Janeiro, Brazil. We are informed that Messrs. Anderson, Clayton, and Company, and the Exportadora Peruana, both of Lima, Peru, recently sold to Messrs C. Iton, and Company, and Messrs. ASA ^YBUSSANBEIWA, both of Osaka, a total of six thousand and four thousand bales respectively on the above basis.

It is believed that the yen proceeds will be converted into Brazilian milreis, which subsequently can be transferred without difficulty to Peruvian soles. The cotton purchased by Japan consists of Tangurs and Pima varieties, both suitable as substitutes for Egyptian and high grade Californian. Some Japanese buyers are insisting that commercial invoices for Peruvian cotton be drawn up at contract price plus freight, that is with freight prepaid at the same time requiring that bills of lading be made out freight payable at destination. In this way, balances in foreign currency can be gradually built up abroad. Shipment is effected as soon as freight space is available by Japanese steamers direct from Peru to Japan, and payment is only effected after shipment. The Kawasaki Steamship Line is operating from Peru to Japan and between now and the end of the year such vessels as the ASEMA MARU, TERUKAWA MARU, and ALPHARUTO MARU, will be lifting cotton in Peruvian ports for Japan.

(Signed) NICHOLSON.

Received Washington
7:45 a.m. E.S.T.
10 November, 1941

DES

PLAIN

Hong Kong via N. R.

Dated November 7, 1941

Rec'd 5:45 a.m., 10th

Secretary of State,
Washington.

476, November 7, 10 a.m.

FOR TREASURY FROM FOX AND COCHRANE.

"Special issue of Hong Kong Government GAZETTE dated November 6 appeared last night announcing following orders numbers 1304, 5, 6, 7 and 8 of Colonial Secretary's Department.

'No. 1404: In exercise of the powers conferred by the Emergency Powers (defense) Acts, 1939 and 1940, as applied to this colony by the Emergency Powers (colonial defense) Order in Council, 1939, and the Emergency Powers (colonial defense) (amendment) Order in Council, 1940, His Excellency the Governor further amends the defense (finance) regulations, 1940, published United States Government notification 328 in the GAZETTE of 214, March 1940, as subsequently amended, as follows--amendment. The following regulation is inserted immediately after regulation 2A, as enacted by Government notification 893 published in the GAZETTE extraordinary of 26th July, 1941--26--(one) subject to any exemptions for which provision may be

made

-2- 476, November 7, 1941, 10 a.m. from Hong Kong via N.R.

made by order of the Governor, no person shall, whether on his own behalf or for, or on behalf of or jointly with, any other person, except under the authority of a written permit granted by or on behalf of the Governor--(A) by any act which directly or indirectly constitutes, forms part of, leads to or assists any exchange transaction involving Chinese national currency, whether such transaction be conducted in this colony or not, unless the transaction is conducted with or through a dealer authorized, or a bank registered, under regulation on: (B) own, or have in his possession, custody or control, whatever in this colony or elsewhere, except in China, any Chinese national currency notes unless he has: (I) before the 14th day of November 1941; or (II) at any time before the notes came into his ownership, custody or control; and (III) thereafter, on the prescribed date of same month, declared the whole amount of the notes in such manner and to such possession (hereinafter called the registry officer) as the Governor may prescribe; provided that a person shall not be required so to declare such notes if--(I) his total holdings of such notes does not exceed in value CN5000; or (II) he has a
bona fide

-3- 476, November 7, 1941, 10 a.m. from Hong Kong via N.R.

bona fide business or is a partner or manager of a bona fide business established before the 6th day of November 1941, in this colony, and his total holding, though exceeding CN5000, does not exceed CN30000 and is necessary for the purpose of that business.

The registration officer shall issue to the declarant, or to any person who applies to him for permission to hold Chinese national currency notes, a certificate specifying the total amount of such notes which the declarant or such person is permitted to hold, and the certificate shall also specify the limits within which the holding may be varied.

It shall be an offense to own, or have possession, custody or control of, any Chinese national currency notes, whether in this colony or elsewhere, except in China, in breach of any such permission; (C) import to or export from this colony any Chinese national currency notes or do any act which directly or indirectly constitutes or leads to any alteration in the amount, situation, ownership, custody or control of any Chinese national currency notes whatever and wherever situated, outside China, unless in the case only of a person of Chinese race the effect of the alteration

-4- 476, November 7, 1941, 10 a.m. from Hong Kong via N.R.

alteration is merely to increase or diminish his hoarding within the limits specified in a certificate issued to him under sub-paragraph (6), or unless such person is not required to register his holdings under that sub-paragraph.

(2) For the purposes of this regulation, an exchange transaction involving Chinese national currency includes and extends to any transaction by which any note issued by a bank, any bill of exchange, promissory note, deposit receipt or entry in any account book, such note, bill, receipt or entry being expressed in terms of Chinese national currency, is dealt with in such a way that it involves directly or indirectly, any change in the ownership, title, custody or situation of or lien on any other currency wherever situated, or any change in any entry in an account book wherever situated kept in any other currency, or any change in any property whatever within this colony.

(3) The provisions of these regulations shall have effect notwithstanding any provision in any other of these regulations.

(4) Nothing in this regulation shall operate to prevent any transaction or class of transaction for the time being agreed upon between the Government of Hong Kong and the

-5- 476, November 7, 1941, 10 a.m. from Hong Kong via N.R.

and the Stabilization Board of China.

No. 1305: In exercise of the powers conferred by regulation 2 of the defense (finance) regulations, 1940, and all other powers enabling him in that behalf, His Excellency the Governor hereby amends the order published as Government notification 759 in the GAZETTE of 8th September, 1939, and appearing on page 208 of the volume of Hong Kong War Emergency Legislation, by the addition of the following provision--: provided that the appropriate officer may nevertheless seize and detain any such notes in the possession of a traveler if the officer has reasonable grounds for suspecting that notes are being brought into or taken out of this colony in contention of any provision of the defense (finance) regulations, 1940, or of any order made thereunder; and in that case the officer shall, unless the notes are released, forthwith take the traveler and the notes before a magistrate, and on conviction of the traveler before the magistrate, of such offense under the defense (finance) regulations, 1940, all the provisions of regulation 2 of those regulations shall apply in respect of the notes.

No. 1306: It is notified under the defense (finance) regulations, 1940, that the following banks are
those at

-6- 476, November 7, 1941, 10 a.m. from Hong Kong via N. R.

those at present authorized under regulation 1 (1) by the Governor to deal in foreign currency under the conditions applicable to authorize banks and that all other authorizations previously made were cancelled --American Express Company Limited, Bank of Canton Limited, Bank of China Limited, Bank of Communication, Bank of East Asia Limited, Chartered Bank of India, Australia and China, Chase Bank, Hong Kong and Shanghai Banking Corporation, Mercantile Bank of India Limited, National City Bank of New York, Nederlandsch Indische Handels Bank NV 2, Nederlandsche Handelsmaats Chappij.

No. 1307: It is notified under the defense (finance) regulations, 1940, at the following banks are those at present authorized under regulations one (one) by the Governor to deal in foreign currency under the conditions applicable to licensed banks and that all other authorizations previously made are canceled --Banque Belge pour l' Extreme Orient, Banque de l' Indochina, E. D. Sassoon Banking Corporation, Oversea Chinese Banking Corporation, Kwanghi Provincial Bank, Manufacturers Bank of China, Provincial Bank of Sukien, Provincial Bank of Kwangtung, Shanghai Commerce and Savings Bank, Thomas Cook and Sons, Underwriter Bank.

No. 1308: It is notified under the defense

(finance)

-7- 476, November 7, 1941, 10 a.m. from Hong Kong via N. R.

(finance) regulations, 1940, that the following banks have been registered under regulations one (one) (6) as permitted to sell Chinese currency and to remit money to China subject to the limits and on the conditions notified to each bank individually and that all previous notifications are canceled (here follows a long list of Chinese banks) 'China and South Sea Bank, China State Bank, Chu Hsin Chen, Kincheng Banking Corporation, Sun Company Limited, Dao Heng Bank, Wing Lung, Wing On Company Limited, China Trust Company Limited, Cheong Kee, Choy Kee, Foo Hang, Hang Seng, Hang Shing Company, Hung Tak, Kan Koamt Sing Company Cosa Shui Choong, Tai Wo Sing Room Tang Tin Fook, Yen Kieh Commercial Bank, Ying Shun, Yue Lung, Yue To, Lhan Man Pat, Kwan Shing Company Lai Yuen, May Cheong, Mau Cheung, Cheong Lee, Fat Cheong, Foo Kee, On Taxi, Tang Kee, Yan Yue, Yee Hang, Industrial, Wing On Bank Limited, Hong Kong and Swatow Commercial Bank Limited, Sin-suawing Sang Bank, Shing Sang Bank, Man On Bank, Tai Lam Bank, Tung Lee Bank, Sang Tai Bank, Ying Tweun Bank, Kwai Kee Bank, Sang Tai Bank, Ying Tweun Bank, Kwai Kee Bank, Yav Sang Bank, Slip Tai Bank, Snug Hang Bank, Kwong On Bank'".

SOUTHARD

MG

PH

GRAY

HONG KONG via N.E.

Dated November 7, 1941

Rec'd 12:25 p.m., 10th.

Secretary of State,

Washington.

478, November 7, noon.

FOR TREASURY FROM FOX AND COCHRAN.

Reference our 476, November 7, 10 a.m. and
477, November 7, 11 a.m., Hong Kong Exchange
Control has prepared under date of November 5 and
issued the following important notice to all banks.

'This notice is not for publication and banks
are prohibited from passing on the information to
the press.

(One) No transaction, directly or indirectly
involving Chinese national currency may be made with
Macao or any other place outside China without special
permit.

(Two) No transaction, directly or indirectly
involving Chinese national currency may be made
without special permit, except through one of the
following banks in China: American Express
Company, Bank of China, Bank of Communications, Bank

- 2 -

of Canton, Bank of East Asia, Central Bank of China, Chartered Bank, Chase Bank, Chekiang Industrial Bank, China Banking Corporation, David Sassoon and Company Limited, E. D. Sassoon and Company Limited, E.D. Sassoon Banking Company Limited, Farmers Bank of China, Hong Kong and Shanghai Bank, Kinchong Banking Corporation, Mercantile Bank of India, Moscow Narodny Bank, National City Bank of New York, Netherlands Indies Bank, Netherlands Trading Society, National Commercial Bank, Overseas Chinese Banking Corporation, Shanghai Commercial and Savings Bank, Thomas Cook and Sons (bankers), Underwriters Bank for the Far East.

(Three) All banks may buy or sell Chinese national dollar telegraphic transfer, or other Chinese national dollar bills of exchange repay at the official rates. This includes also indirect exchange transactions involving Chinese national currency. Approved banks may buy and sell Chinese national dollar notes only on the basis of the official rates.

(Four) Official rates for Chinese national currency are 473 buying 469 selling. Approved banks should pay non-approved banks commission at the

- 3 -

rate of one-eighth of one percent on transactions with them. No bank may buy Chinese national dollar telegraphic transfer or other bills of exchange otherwise than against applications for exchange approved by the Stabilization Board of China.

(Five) Approved banks are such of those banks listed in paragraph two as are recognized as licensed or authorized banks in Hong Kong. Non-approved banks are not (underlined not) allowed to deal direct with China and must (underlined) conduct all their own transactions through approved banks, i e, they must cover through approved banks.

(Six) Banks are subject to the same rules as the public as regards import and export of notes. Limits for banks in cases other than import and exports of notes (i.e. holdings, alterations of holdings) shall after registration be determined by the control.

(Seven) The notice to banks dated 21st September 1941 is amended as follows:

A-(1) read—"in Chinese national currency notes except that withdrawals not exceeding Chinese national

- 4 -

dollars 1000 monthly from any one account are allowed".

A (2) is deleted.

B (1) second line --the word "free" is deleted and the whole of the sentence after the word (China).

(Eight) Registered banks are not permitted to make or facilitate payments to a non-resident in Hong Kong dollars or sterling without permit.

(Nine) Banks should register their holdings of Chinese national dollar notes on the attached forms which should be forwarded in duplicate.

(Ten) Conditions under which licensed banks may operate will be notified to such banks shortly, meanwhile (as regards currencies other than Chinese national currency) licensed banks should continue to operate as before."

SOUTHARD

NPL

Copy:lc:11/12/41

C
O
P
Y

FOR WIRE

PLAIN

Hong Kong via N. R.

Dated November 7, 1941

Rec'd 1:37 p.m.; 10th

Secretary of State,
Washington.

477, November 7, 11 a.m.

FOR TREASURY FROM FOX AND COCHRAN.

"Reference 476, November 7, 10 a.m.

Following information regarding the new rules concerning Chinese national currency is published this morning (seventh) for information. It is intended to indicate the general scope in the new rules but must not be taken as permitting any transaction forbidden in those rules.

'A. Under the rules now published it is in the first place made an offense -- (I) to undertake any exchange transaction involving Chinese national currency without permit. (II) To purchase or sell any goods in the colony against Chinese national currency without permit. (III) To hold, require, pay out, import or export any Chinese national currency notes without permit. Note -- permit. Note -- permit for export of notes to China are at present given without restriction.

B. Certain exemptions are then allowed from the above rules -- (A) Exchange transactions in Chinese national currency are allowed with authorized, licensed or registered banks subject to the rules conveyed to such banks. All exchange transactions involving T. drafts et cetera all be at the official rates, i.e. 473 buying and 469 selling. (B) The

-2- #477, November 7, 11 a.m. from Hong Kong via H.R.

holding, acquisition, paying out, importing or exporting of Chinese national currency notes is allowed provided -- (1) any existing holding above CN30000 in the case of a business or CN50000 in the case of an individual is registered within seven days of the date of the regulation and a certificate is held covering the period of validity of the holding. (2) Any person acquiring or importing notes or increasing his holding of notes in future first obtain a certificate allowing him to do so. This does not apply if the limits or totals mentioned in the preceding paragraph are not exceeded. (3) The limits agreeing on the certificate mentioned in paragraph B (B) (1) (1) are not deposited from paragraph (C). The public should -- (1) apply to the banks as regards exchange transactions. (1) Register with the Exchange Control and holdings of notes above CN30000 in the case of a business or CN50000 in the case of an individual. No registration of Chinese national currency other than notes is necessary. (3) Apply for a permit in the case of any individual transaction (whether acquisition, paying out, import or export) in Chinese national dollar notes either exceeding CN3000 in the case of a business and CN5000 in the case of an individual, or causing any departure from the limits applying in the certificate mentioned in paragraph B (B) (1) (2). (4) Before the total holdings of any business amount to CN30000 or any individual amount to CN50000 such holdings become subject to registration under C (3) above. The certificate of registration has to be renewed every month. (5) If the permits or certificates applied for in C (3) or C (4) are refused then no further transactions of the nature

-3- #477, November 7, 11 a.m. from Hong Kong via N. R.

referred to will be allowed out transactions which have already taken place in accordance with these rules will not be interfered with. (B) As a general rule it is proposed that persons who have not time to receive notice of these rules before importing notes into the colony will be given the opportunity of depositing notes imported with the government and subsequently applying for an import permit. Such import permit will take the form either -- (1) of a permit to import unconditionally. (2) Of a permit to import subject to the deposit of the notes into a blocked customary account.

To allay any anxiety that may be felt by the public as to the free use of their Chinese national currency it is proposed, pending adjustment of the situation -- (one ten) that all applications for export of Chinese national dollar banknotes to China will normally be granted without question. (Two) That withdrawals Chinese national dollar accounts by way of banknotes not exceeding CN1000 monthly will be allowed without permit.

D. All applications for permits to do any transaction otherwise prohibited should be made in person to the Exchange Control.

The legal tender of the colony is Hong Kong currency and purchase and sale of goods which are within the colony should be made in Hong Kong currency prior persons desiring to use Chinese national dollar in their possession to purchase goods should in all cases first change their Chinese national dollars into Hong Kong currency through a money changer or bank.

It is not proposed to enforce payment in Hong Kong dollars in the

-4- #477, November 7, 11 a.m. from Hong Kong via H. R.

case of individual transactions not exceeding GH5000 in value.

F. (A) Any bank or money changer assisting in evasion of any of the regulations including evasion through Canton or Macao or other places outside the colony, will cease to have any authority to operate under the defense (finance) regulations. (D) Any party taking part in evasion of these regulations, including evasion through Canton or Macao or other places outside the colony, is liable to (one) prosecution (two) banishment proceedings. (C) The public are particularly warned that it is also an offense to assist in any evasion jointly with any other person or on behalf of any other person or to conduct any exchange transaction even outside the colony directly or indirectly or to had, without registration, Chinese national currency notes in any place outside China.

G. The public are reminded that it is an offense to make any payment outside the sterling area in any currency, including Hong Kong dollars, (even by means of books entries between Hong Kong and abroad) except through authorized channels.

H. The new rules have been introduced in conjunction with the Ministry of Finance of the National Government of China and the Stabilization Board of China and will assist in carrying out the currency policy of the National Government of China. 10

SOUTHARD

RR

Copy:vw;11-12-41

TREASURY DEPARTMENT

299

INTER-OFFICE COMMUNICATION

DATE November 7, 1941.

TO Secretary Morgenthau
 FROM Mr. ^{Miss C. G. Genthau} Dietrich

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£72,000
Purchased from commercial concerns	£ 5,000

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

The Canadian dollar, which closed at a discount of 11% last night, eased to a final quotation of 11-1/8% today.

The Uruguayan free peso advanced 25 points (1/4¢) to reach a new current high of .4700.

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

Argentine peso (free)	.2382
Brazilian milreis (free)	.0505
Colombian peso	.5775
Mexican peso	.2070
Venezuelan bolivar	.2530
Cuban peso	1/8% discount

There were no purchases or sales of gold effected by us with foreign countries today.

No new gold engagements were reported.

In London, spot and forward silver remained 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 purchases of silver today.

RESTRICTED

MILITARY INTELLIGENCE DIVISION
WAR DEPARTMENT
Washington, November 7, 1941

TENTATIVE LESSONS BULLETIN
No. 170
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 INFANTRY
DIVISIONSOURCE

This bulletin is based upon a report submitted on July 25, 1941, by an American official observer in Berlin. This observer attended the Kriegsakademie in 1939, and he has supplemented the information obtained there by material gathered in conversation and personal observation since that time.

CONTENTS

1. ORGANIZATION
2. COMMENTS OF OFFICIAL OBSERVER

RESTRICTED

RESTRICTED

MISCELLANEOUS NOTES ON GERMAN INFANTRY
DIVISION

1. ORGANIZATION

Basically, the German infantry division contains the following main subordinate elements:

Division Commander and headquarters staff;
3 Regiments of Infantry, each composed of

Headquarters staff,
1 signal platoon,
1 mounted platoon,
Infantry cannon company - six 75-mm. and two 150-mm.
howitzers,
Antitank company - twelve 37-mm. antitank cannon,
Infantry light column - corresponding to our regi-
mental train,
3 battalions, each consisting of

Headquarters staff,
3 rifle companies - 12 light machine guns and
three 50-mm. mortars,
1 heavy weapons company - 12 heavy machine guns
and six 80-mm. mortars;

1 regiment of artillery, composed of

Headquarters staff,
1 signal platoon,
1 medium battalion, consisting of

Headquarters staff,
3 batteries of 150-mm. howitzers, or 2 batteries
of 150-mm. howitzers and 1 battery of 105-mm. guns;

3 light battalions, each consisting of

Headquarters staff,
3 batteries of 105-mm. gun-howitzers;

1 observation battalion, composed of

Headquarters staff,
1 signal platoon,
1 sound-ranging battery.

RESTRICTED

RESTRICTED

1 flash-ranging battery,
1 survey battery,
1 reproduction platoon,
1 meteorological platoon;

1 signal battalion, composed of

Headquarters staff,
1 radio company,
1 telephone company,
1 light signal column - corresponding to our signal supply train;

1 engineer battalion, composed of

Headquarters staff,
1 motorized company,
2 foot companies - now being motorized,
1 light engineer column - supply train,
1 light bridge column - bridge train;

1 antitank battalion, composed of

Headquarters staff,
1 signal platoon,
3 antitank companies - each armed with twelve 37-mm. antitank guns;

1 reconnaissance battalion, composed of

Headquarters staff,
1 signal platoon - mounted and motorized,
1 horse troop,
1 armored car platoon - 7 cars,
1 antitank platoon - four 37-mm. antitank guns;

Division trains, composed of

5 ammunition sections - 3 infantry, 2 artillery,
3 ration and baggage sections,
1 gasoline and oil section,
1 repair section,
1 service company;

Ration Service, composed of

Ration office,

RESTRICTED

RESTRICTED

1 bakery company,
1 slaughter platoon;

1 veterinary company - motorized;
1 military police company - motorized;
1 post office - motorized.

2. COMMENTS OF OFFICIAL OBSERVERa. General

The Germans think of any organization primarily as a specially designed tool in the hands of its commander. He is furnished with it rather than being assigned to it, and he is encouraged and required to use the maximum of initiative, first in improving and preparing it, and second in using it in combat. Nowhere is this more true than in the case of the division. The first corollary of such a principle is that the commander must have forces armed and equipped sufficiently well to accomplish their mission without being dependent upon other commanders for assistance. Thus it will be found in all German organizations, and particularly in the division, that great emphasis has been laid on providing for as much independent action and self-sufficiency as can be obtained without making the unit unwieldy. In self-sufficiency, the infantry regiment can, without exaggeration, be considered a small division.

Next to completeness and self-sufficiency, the outstanding characteristic of the division is mobility. In talking of their division the Germans emphasize battlefield mobility rather than strategic mobility, and they seemed to feel in the Kriegsakademie that it was desirable to depend primarily on horses for the combat units; motors, however, would be used in the services. By great emphasis on careful training and rigorous conditioning for marching, they have also attained a strategic mobility that is superior to that of any of their opponents to date. In the presence of the enemy their infantry has frequently marched 50 miles in 24 hours, and one unit is reported to have marched 60 miles in Belgium during a 24-hour period. Their horse-drawn combat vehicles and their motorized service vehicles can, of course, keep up with the foot troops.

The strategic mobility requirements of the German Army are on a more reduced scale than ours since their probable theaters of action are much smaller geographically. The relative supply and maintenance problems for horse-drawn and motor transportation in Central Europe are the reverse of what they are in the United States. That is, horse maintenance is still somewhat easier than motor maintenance within Germany and is incomparably easier in all the area east

RESTRICTED

of Germany. In spite of these facts and of what the Germans say, the trend toward increased motorization is perfectly obvious, both in the increasing number of armored and motorized divisions and in the extension of motorization within the infantry division itself. The continued construction of the network of strategic concrete arterial highways in Germany and their extension into Slovakia provide additional evidence that the Germans intend to increase motorization as quickly as possible.

Coordination and control within the division, except artillery-infantry liaison, will be considered below in the discussion of subordinate elements. German artillery-infantry liaison works, primarily because infantry missions are handled entirely by the infantry, which is equipped for the purpose by having light artillery as an organic part of the infantry regiment. The divisional artillery is therefore released for real divisional missions. The purpose of German artillery-infantry liaison is to coordinate these divisional missions with the true infantry missions being fired by the infantry heavy weapons - that is by the light artillery organic within the infantry regiment.

b. Division Commander and Headquarters Staff

The commanding general is freed completely of all detail and is entirely and solely responsible for the performance of the division; as far as higher authority is concerned, he is the division. He makes all the decisions, either in accord with or against the freely proffered advice of his chief of staff; and the chief of staff then carries them out under such supervision as the general cares to give. The commander is expected to find out what is going on, to apply his superior tactical knowledge and experience in solving the military problem in front of him, and finally to see that his division executes his solution. This means that he will usually be well forward, where he can recognize every change in the situation and give any necessary orders immediately.

There are essential differences between the German divisional general staff and our own which seem to make the German organization simpler and to concentrate its activities more in the hands of one man. This concentration appears to facilitate coordination within the division. The key man, of course, is G-3, who is always the senior and acts as the chief of staff; G-2 works directly under G-3; and G-4, when not present himself, keeps a representative with G-3. G-1 does not exist as a general staff officer, and his duties are performed by an adjutant and various administrative officials who are not officers. The chief of staff has the activity of the division actually in his own hands more than our own has, and because of this the necessity for a good deal of conferring and coordination is automatically eliminated.

RESTRICTED

The division special staff functions like ours. During actual combat, the entire division headquarters is divided into three groups for convenience and security. The command group consists of the commander, the chief of staff (who has at least one officer assistant and at least one clerk), the artillery commander, and such other members of the special staff as are required by the existing situation. The rest of the headquarters forms two groups, one mounted and one motorized, and all three groups are kept well separated.

c. Artillery Regiment and Observation Battalion

The divisional artillery shown in Section 1 of this bulletin is admittedly a makeshift organization. It has been generally increased, recently, to two regiments - one light regiment of three battalions and one medium regiment, probably of two battalions. The governing principle is the same as ours, that is, to have the minimum amount of artillery organic within the division and to attach additional amounts as required. The single battery of 105-mm. guns is present for long-range interdiction, and before a meeting engagement it is often to be found as far forward as the advance guard.

The employment of the artillery is in theory much like ours but the practice differs considerably. The presence of the observation battalion within the division is a very important difference from our organization. Just as the addition of the heavy weapons to the infantry regiment make it in effect a small division, so the presence of this unit, combined with the practice of attaching large amounts of artillery, make the reinforced division often in effect a small corps. The additional fire power and consequent self-sufficiency of the division undoubtedly assist greatly in maintaining the warfare of movement at which the Germans have been so successful.

Observation is so strongly stressed in the German Army that every organization is assigned a zone or sector of observation along with a zone of action. Although it is desirable to have these two zones coincide, the terrain usually prevents this. The observation battalion, under the division artillery commander, has as its chief function the collection and correlation of all observation within the division, not only for the artillery but also for the specific use of the division commander. In other words the artillery commander, already chief adviser to the division commander and chief of staff, has the additional role of providing the bulk of the observation within the division. Obviously this function tends to increase his importance to, and integration with, the chief of staff and the division commander.

Aside from its standard sound-ranging, flash-ranging, and meteorological activities, the observation battalion performs two

RESTRICTED

other divisional functions; it extends and reproduces maps and photographs for general distribution, and it complements the signal battalion in establishing the divisional communications net. Of course both these functions tend to make the artillery a more integral part of the division, and it is believed that the good coordination of the German artillery within the division is largely due to the presence of the observation battalion.

d. Signal Battalion

In 1939 the signal battalion was only partly motorized and was not comfortably equipped to perform its function of establishing and maintaining a division telephone and radio net. However, it has now been - or it will be as soon as possible - entirely motorized and more fully equipped. As described in the Kriegsakademie, it lacked a proper reserve of wire, and the necessity for recovering wire could delay the establishment of a new net.

e. Engineer Battalion

When described at the Kriegsakademie in 1939, the engineer battalion was in the process of becoming fully motorized. It was shown primarily as a defensive combat organization and its use in denying territory to the enemy was emphasized more than was road building, bridging, etc. Its use against fortifications was not touched upon*. Through the offensive and defensive functions of his battalion, its commander has become a very important combat member of the division special staff.

f. Antitank Battalion

Like the commander of the engineer battalion, the commander of this organization plays an important role on the division special staff. He also coordinates the efforts of the infantry regimental antitank companies to make an all-round division defense whenever practicable.

g. Reconnaissance Battalion

The reconnaissance battalion is designed for reconnaissance of limited range, but it is often used for securing or even for holding territory. The presence of the cavalry troop in this battalion, the mounted platoon in each infantry regiment, and the Cavalry regiment in each corps explain why the German Army has only one cavalry division. They consider the role of horse cavalry, except

*In actual campaigns it has, of course, played a major part in offensive operations. G-2.

in very special terrain, to have been reduced to close-in reconnaissance. There is, then, a large amount of German horse cavalry; but since it is broken up into various reconnaissance units, its number is often unconsciously underestimated.

h. Conclusions

Although the infantry division has not been as prominent in the news as the tanks and the dive-bombers, it has always been immediately behind them, capitalizing on their advances. This has required excellent coordination, great mobility, and the capacity for independent action. The infantry division has displayed all these attributes in Poland and in the West; it is undoubtedly being called on to display them to a still greater degree in Russia today. Ignoring all the other numerous and important factors and considering organization alone, the answer seems to be that they have gone a step farther than anybody else - ignoring our own current developments - in concentrating fire power and its control in the hands of a relatively small number of people. Specifically, they have put the machine gun into the squad, light artillery into the infantry regiment, and a large part of corps artillery into the division, all without appreciably increasing the personnel in the unit. This means that the delivery of the same amount of fire now involves less personnel than heretofore, and consequently the unit delivering it is more mobile, more self-sufficient, and more easily controlled and coordinated with the other components of the combat team.

RESTRICTED

G-2/2657-220; No. 539 M.I.D., W.D. 11:00 A.M., November 7, 1941

SITUATION REPORTI. Eastern Theater.

Ground: The situation on the Leningrad and Moscow fronts continues unchanged. Hard fighting at Tula.

There is no information on military operations in the Donets Basin.

The German advance continues in the Crimea. The German High Command claims the Germans have reached the southern shore on a broad front.

Air: Reports from the Soviets indicate wide activity by their Air Force recently. The British also claim great success for their squadrons based in Russia. Also, it is stated in London that the German air fleets on the Moscow and northern fronts have been withdrawn.

II. Western Theater.

Air: There is no news from the British on this Theater. According to the German High Command, Nazi bombers operated last night over Britain, causing "big fires in a utility plant." It was admitted that British bombers attacked several points in northern Germany last night, but damage was said to have been insignificant. Ten British planes were said to have been shot down yesterday over the Channel and off the Dutch and Norwegian coasts.

III. Middle Eastern Theater.

Ground: Normal patrol activity hindered by dust.

Air: The Italian High Command announced new British air raids on Sicily, the Naples region, and Benghazi and Tripoli, in North Africa. The damage caused by these raids was said to be slight.

RESTRICTED