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P A R A P H R A S E

A portion of a telegram dated September 7 from the American Embassy at London reads substantially as follows:

The Embassy understands that the British Foreign Office is concerned over the apparent inability of the "road through China" (presumably the Yunnan-Burma Highway) to carry the traffic which is increasing in volume. In the opinion of the Foreign Office this unsatisfactory situation is due as much to inefficiency on the part of the Chinese as to Japanese bombing attacks. Therefore, the British would not only welcome but support a control commission under the effective authority of an American or Americans. It is desired that following the abolition of the Burmese transit tax, lend-lease supplies be better identified. Details in regard to this matter will be communicated through the British Embassy to the Department.

Copy:hbr:9-13-41.

PARAPHRASEC O P Y

A confidential telegram dated September 7 from the American Embassy at London reads substantially as follows:

The Foreign Office has indicated confidentially the abolition of Burma transit duties on all lend-lease goods landed in Rangoon for China after September 3, 1941. The Governor of Burma will make an announcement in the above sense on September 9, and until then the Department is requested to observe the confidential nature of this information.

In order to partly compensate the Government of Burma for the loss of transit duties, payment will be made by the British Government to the Government of Burma in the amount of ten rupees per each ton of lend-lease goods, which will compensate for the upkeep of the road, payment of the guards beyond the railhead, and administrative expenses in connection with the shipments. It is desired that better identification be made of shipments of lend-lease goods arriving in Burma after the abolition of transit duties. Details will be sent through the British Embassy to the Department.

The Foreign Office feels that in view of all the facts, and considering the internal and political problems in Burma, the attitude of the Burmese Government towards

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towards this question has been reasonable, and therefore the Foreign Office regretted to see a recent Chungking press despatch quoting disparaging remarks which Mr. Currie is alleged to have made in regard to the Burmese Government.

It is disturbing to the Foreign Office that the road through China is unable to accommodate the increasing volume of traffic, and the Foreign Office feels that Chinese inefficiency is as much the cause of the unsatisfactory volume of traffic as are Japanese bombs. For this reason the British would welcome and support a control commission in which effective authority would rest in American hands.

Copy:hbr:9-15-41.

TO THE SECRETARY
TECHNICAL ASSISTANT
OFFICE OF THE

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PARAPHRASE

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A telegram of September 7, 1941 from the American Consul at Kunming reads substantially as follows:

A decline in August traffic figures for the Yunnan-Burma highway is evident. Figures show that traffic during August was about one-third less than during July. The cause of this decline is believed to be, for the most part, road blocks. Traffic along the lower road was probably closer to normal. So far as is possible General Yu Fei-peng will probably spend most of his time in Kunming. It seems that he is assuming control over the administration of the highway. Thus far it is not known here what comprehensive plans exist for future operations of the Burma Road. His first trip of inspection along the highway has been begun by Captain James _____ (?). An announcement has been made of the amalgamation by the National Transport Control Bureau of certain Government transport organizations under an office which is to be set up and known as the Yunnan (?) (?) Transport Administration. It is stated, however, by one official that this new organization will not for the present include all Government organizations. There are to be established six large stations: Two to the east of Kunming, two to the west, one at Rangoon and one at Lashio. Whether these stations are to be depots or truck dispatching terminals is not yet clear.

Copy:hbr:9-11-41.

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P A R A P H R A S E

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Regraded Unclassified

A telegram, no. 1415, dated September 7, 1941, from the Embassy, Tokyo, reads substantially as follows:

The branch in San Francisco of the Domei News Agency has unsuccessfully tried to get permission from the authorities in the United States for the release of funds necessary for the operation of the Agency. An official of the Commercial Bureau of the Foreign Office has asked that the Department be informed of the foregoing. The official in question did not know the date and the amount involved in the application by the Domei News Agency (although it may be assumed that the figure is in excess of \$500), but according to the official, the Agency is suffering serious embarrassment as a result of lack of funds for common expenses. The official in question then mentioned that there is at present pending an application for a license to obtain yen on behalf of the correspondent in Tokyo of the New York Herald Tribune, Mr. Newman, and the official stated that he could give assurances that, provided funds desired by the Domei News Agency were released, favorable action would be taken upon the application on behalf of Mr. Newman. The foregoing appears to indicate that the Japanese authorities intend, in the application of their freezing regulations to the correspondents in Japan of American newspapers, to be guided by their conception of the treatment which Japanese news representatives in the United States may receive in this respect. Notwithstanding this fact, this matter is reported only for information and there is no intention to influence the action of the authorities in the United States in Mr. Newman's case.

eh:copy
9-19-41

TO THE
SECRETARY OF STATE
WASHINGTON, D. C.

9/8/41

6

The changes indicated on these pages were discussed by the Secretary and Mr. Kuhn on the phone today and were incorporated into the final reading copy which Mr. Kuhn took with him to give the Secretary when he met him in Boston 9/9/41.

7 ✓

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Wednesday, September 10, 1941.

Press Service
No. 27-37

(The following address by SECRETARY MORGENTHAU before the Advertising Club of Boston is scheduled to be broadcast at 8:00 p.m. Eastern Standard Time, Tuesday, September 9, 1941, and is for release upon delivery at that time.)

~~Only twenty miles from here, at Lexington and Concord, the men of New England first proved that Americans could defend their homes and their freedom. Today, the people of these States are proving that they are still New Englanders. In army camps and naval stations, in hundreds of factories and shipyards from Connecticut to Maine, the men and women of New England are responding magnificently to their country's needs.~~ I am glad to be here tonight to pay my tribute to the great work that New England is doing, like all other sections of the country, to arm America.

I am glad also that my host tonight is the Advertising Club of Boston, for the advertising profession is a mighty force in creating public understanding. We cannot make ourselves the arsenal of democracy and the defender of freedom unless our people understand the tremendous issues involved in this Battle for the World. In the same way, we at the

Treasury shall find it more difficult to accomplish our task of financing the defense program unless the public sees clearly the need for greater sacrifice and for greater effort.

In particular, I think that clear understanding is needed if we are to avoid the economic evils that might otherwise spring from a defense program as great as ours, a program that is making such enormous demands upon our productive resources. The worst of those economic evils has been constantly uppermost in my mind as Secretary of the Treasury. That is the evil of inflation and that is the subject which I should like to discuss with you tonight.

We have been talking about inflation for a long time as if it were a threat remote from our daily lives. It is a distant threat no longer. We are facing it now and we must deal with it at once.

If we are selfish or shortsighted in facing this issue, the consequences may haunt us and our children for years. But if we look at the problem with clear vision and firm resolve, we can beat this thing. If we keep always in mind the interests of our country as a whole, if we provide promptly the appropriate means and use them vigorously whenever necessary, we can prevent inflation from fastening its grip upon us.

That task calls for alertness and mental toughness on the part of everyone in the executive departments of the Government, everyone in the halls of Congress, everyone of us here in this room and everyone who may be listening to me tonight.

The word "inflation" is cold and lifeless, so cold that even you advertising men here tonight might have difficulty in making it real, but the thing it describes is treacherous and cruel. Memories are so short that I suppose many of us have forgotten what happened the last time a price inflation struck us 25 years ago. The effects of that inflation, however, lasted for many years and brought untold heartbreak and misery in their train.

Let us look at the record to see what happened a generation ago. In 1916 the cost of living began to rise sharply but there were few who saw its significance. It was only when prices had risen by 70 per cent that President Wilson recommended any steps to prevent inflation. In fact, the country was so blind to its dangers that as late as June, 1917, Congress actually hastened the rise in prices by reducing the reserve requirements for member banks of the Federal Reserve System.

The consequences were so serious for every American that there must be many housewives even today who can remember them. By 1920, a ten-pound bag of sugar cost \$2.67, a dozen eggs cost 92 cents, a ten-pound bag of flour cost 88 cents, a pound of butter cost 76 cents and a pound of pork chops cost 50 cents. By that year prices had skyrocketed to twice the level of five years earlier. The money the housewife paid for one loaf of bread in 1914 bought only half a loaf in 1920. The money she paid for a pound of bacon in 1914 bought only half a pound in 1920. The money she paid for a yard of cotton cloth was only

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enough to buy ~~only~~ 1/3 of a yard in 1920. ~~The consumer found that food, fuel, shelter and clothing which cost a dollar in April, 1916, had risen to almost two dollars by 1920.~~ The family with no increase in income found its purchasing power out in half.

We have now, as we had then in 1916, a moderate rise in the cost of living, a great rise in wholesale prices, and a still greater rise in the prices of basic commodities like wheat, hogs, cotton and lumber. It is the rise in the prices of basic commodities that constitutes our red light, our warning signal, today, for such a rise is always the advance guard of an increase in the cost of living.

If we fail to use the controls at our disposal now, if we fail to do the specific things which are in our power to check inflation now, if we allow prices to go on rising as they did from 1916 to 1920, we may find that food, fuel, shelter and clothing which now cost a dollar will once more cost almost twice as much before the process has ended.

The rise in prices is by no means confined to foodstuffs and clothing. I have before me, for instance, the actual figures on the cost of constructing a standard six-room frame house in one of our typical cities. This home that could have been built a year ago for \$6,000 now costs \$7,140 to build. Here we have an increase in prices of nearly 20 per cent, and if it goes along the 1916 pattern, we are only at the beginning of the story.

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Not only is the cost of building homes rising, but higher rentals are also on the way for the millions who do not own their homes. In scores of areas where industrial expansion has first taken hold, rents have already risen 10, 20, 30 per cent, and even higher.

~~I have brought with me tonight a pictorial chart which I wish the radio audience could see because it shows so plainly the road ^{that road} we traveled once; and the road which we ^{we} must not travel ^{it} again. The chart shows how the buying power of your dollar shrank from 1914 to 1920, how your dollar bought less food, less clothing, less shelter, less heat and light because prices were allowed to run away. It shows how your dollar is already buying less in 1941 than in 1939, and it leaves a big question mark for the space showing what your dollar may buy in 1942. The answer to that question is in our keeping as Americans, whether we are officials of the Government or private citizens. And I have written on the chart, alongside the question mark, the words: "Answer depends on us". We must decide now, this year, we in Washington and you in the country at large, whether we shall have the common sense and determination to avoid what we went through twenty-five years ago.~~

Let it not be said of us, as David Lloyd George said of his people in 1915, that we were "too late in moving here, too late in arriving there, too late in coming to this decision, too late in starting with enterprises, too late in preparing "

There is no excuse for us to be too late in meeting this threat of inflation that faces us. We now know, or ought to know, what is going on; that is perhaps the greatest difference between conditions today and in 1916. This time our eyes are open to the dangers that lie ahead of us. We now know that the time to do something about inflation is before it occurs, not after it has gathered momentum. We should profit by our greater knowledge and take prompt and effective action now.

~~There is no need for us to remind this audience in detail of the reasons why prices have already risen. The reasons are plain for everyone to see.~~ Our economy today resembles an overloaded steam boiler. The fire under the boiler is being fed by billions of additional purchasing power in the hands of the public. The fire is growing hotter and is generating more steam than the boiler can safely hold. If we are to prevent the boiler from bursting, we must damp down the fires by diverting spending away from those articles or commodities in which there is a shortage, actual or potential. We must damp down the fires also by increasing the flow of supplies of goods available to the consumer.

We can, as I have said before, defeat this threat of inflation, just as we can defeat and destroy the forces of evil that have been let loose upon this earth. But we need to understand the issues and we need to see clearly the consequences of inaction or delay. I should like, therefore,

to point out, first, what we have done, and then, what we need to do, in order to stop prices from rising further.

In the first place, Congress is on the point of passing a huge tax bill designed to raise almost four billion dollars in additional revenue, thus withdrawing a great amount of purchasing power that competes with the defense effort.

Secondly, the Treasury in its borrowing program is trying to obtain as large a portion of its funds as possible from current consumers' income.

Through a new form of note - the tax anticipation note - it is seeking to increase the effectiveness of the income tax as a check on current purchasing power, and I am happy to report to you that more than a billion dollars' worth of these notes were sold in the month of August.

The Treasury has also begun a program of selling Defense Savings Bonds and Stamps to people of moderate and low incomes. The people have responded to a tune of a billion and a quarter dollars in four months, without coercion of any kind; and in making that response possible the advertising profession has been of truly invaluable help.

The President has recently issued an order authorizing the Board of Governors of the Federal Reserve System to control consumers installment credit.

The Congress is considering, and I hope will pass without undue delay, a bill to limit price rises and to supplement the efforts of the Office of Price Administration to limit those rises by voluntary cooperation.

All these are useful steps to a necessary end, but they are not enough.

We shall have to tax ourselves much more heavily next year than this year, great and far-reaching as the present tax bill will be.

We shall have to invest much more widely and systematically in Defense Savings Bonds and Stamps. In particular, the rising payrolls of the past year have been a clear call to the wage earners of America to set aside a portion of their earnings each week for their own good and their country's good.

We may have to extend general controls over bank credit and create controls over selected capital expenditures.

I hope that we may extend the social security program so as to increase the flow of funds to the Treasury from current income during the emergency and increase the outflow of funds when needed in the post defense period. In addition, I have already suggested the creation of what I have called a "separation wage" -- that is, an entirely new form of contribution out of which a worker may draw a regular wage for a stated period in case he loses his job. These measures would be good and desirable in themselves, but they are especially necessary at this time, for they should help us to decrease certain forms of purchasing now and increase them in the future when they may be needed.

We must, as I have said many times, reduce nonessential Federal expenditures. We must also appeal for economy in state and local government expenditure and a curtailment of their borrowing for nondefense purposes. The President pointed the way a month ago when he vetoed a bill calling for 320 million dollars worth of highway construction. By this action he demonstrated that there is a clear distinction nowadays between the spending that is necessary for defense and the spending that can be postponed until a later day.

The country should congratulate itself on the President's veto of this measure, and also upon the Senate's action only last week in approving the creation of a joint committee of the taxing and the appropriating agencies of Congress to study the possibilities of economy all along the line in nondefense activities. I have several times suggested the creation of such a committee, and I am very happy that my suggestion has been adopted by the Senate at last. I hope now that the House will also approve the idea, because it seems to me that such joint action is the only sensible way to proceed if we are to cut the costs of government and clear the decks for defense spending.

All of the measures I have so far suggested for combatting inflation would attack the problem of reducing the demand for goods now and by helping to build up a backlog of purchasing power for the post war world.

But we should also attack the problem from the opposite direction. We must make every effort to increase the supply of goods available to the consumer wherever this can be done without encroaching upon the defense program. Above all, we must make full use of those supplies that are available, not only in defense production, but in the provision of civilian goods which do not compete with defense output.

This is a time when we must flatten the peaks and fill up the valleys in our economic picture. If we reduce undesirable purchasing now and keep prices down now, we shall be helping to provide for the day when these vast defense expenditures will end and when our defense workers will take up the work of peace again.

The most effective way to prevent a damaging rise in prices is, quite simply, to release surpluses from storage.

I wonder if the housewife knows, when she pays fifteen per cent more than she did a year ago for a bag of flour, that our supply of wheat is the largest on record, and that 498 million bushels of several years' crops are available in our neighbor democracy of Canada. It is true that only three months ago a rigid quota was applied to the importation of wheat from Canada with the ultimate objective of keeping up the price of wheat in this country. But it is also true that only the other day the quota on sugar from Cuba was enlarged so substantially as to absorb most of the reserve stocks in that country. It seems to me desirable and necessary that we

now follow the example set in the case of Cuban sugar and permit the entry of Canadian wheat in larger volume.

Here in this country we have large reserve stocks of farm products of many kinds which should be released for consumption as fast as necessary to prevent unreasonable price rises.

The Government now holds or controls seven million bales of cotton in reserve, and cotton prices have risen from 9½ cents a pound on August 1, 1939 to over seventeen cents a pound at the present time. In spite of this rise of not far from 100 per cent in two years, Congress recently sent to the President a bill to freeze government stocks of cotton and wheat for the duration of the war, and thus to prevent the government from disposing of any of the surplus wheat and cotton it had acquired. The President promptly vetoed the bill because this measure would have aggravated the danger of inflation and might have frustrated our efforts to fight it.

We ought not to withhold cotton surpluses, or any surpluses, from the market in times like these. The housewife ought not to be made to pay a tribute to profiteers and speculators when she buys a cotton sheet for her home or a shirt for her husband or a suit for her child.

Millions of people still go without the milk, butter and eggs which, according to the testimony of food experts and the dictates of plain common sense, are necessary to good health and good people. Yet the reserve stocks of butter,

cheese, beef and pork now held in this country are far higher than they were a year ago and far higher than the average of the past five years.

This has been historically a land of milk and honey. There is still plenty of milk and honey but too much of it is in the warehouses. Let's make it flow. If we were to let it flow to the public we would not only help in keeping prices stable but we would be doing something even more important; we would be helping to make our people healthier and happier.

It is sheer folly from the farmer's point of view to push prices up by creating scarcities in times like these. The farmers suffered cruelly for twelve long years after the collapse of the inflation of 1920 and 1921, they should not be made to suffer again.

It is sheer folly in the same way for labor leaders to seek new increases in wages every few months -- new increases which in turn produce higher manufacturing costs, higher prices, and a higher cost of living.

It is short-sighted for a landlord to charge all that the traffic will bear in defense centres where housing space is at a premium.

It is poor business, in the long run, for any businessman to seek exorbitant profits in this period of defense spending.

It is bad banking, in the long run, for any banker to exploit the present demand for funds by seeking to charge unreasonable interest rates.

There are always selfish groups in any country which think they can profit from inflation. They are wrong.

Inflation does more than merely to rob the wage earner of a portion of his earnings. It does more than saddle the farmer with a load of debt which he cannot repay. It is more destructive of morale than any other single force. Inflation divides the country. It sets up producers against consumers, workers against employers, the people who owe money against the people to whom the money is owed.

No group in a community profits from inflation in the long run except the Three Horsemen - the Speculator, the Profiteer and the Hoarder.

~~These are truths that should be self-evident. They should be especially so now, in view of the fact that rising prices will only add to the cost of our defense program and making the aiming of our country steadily more difficult. They should be self-evident now in the light of the experience that we suffered only 25 years ago.~~

We Americans have more than 150 years of self-government behind us. We are a mature nation, and we should be able to face up to our responsibilities as mature men and women. My plea to you tonight is that we should learn from bitter experience. My hope and my belief is that no group among us - whether farmers, working men or business men - shall be tempted by the illusion of selfish gain into allowing prices to rise unchecked.

The cost of inflation is too ruinous to producer and consumer alike for anyone in authority to tolerate it now. I can give you only this pledge - that this Administration will do everything humanly possible to prevent inflation. But in this fight the Administration must have the firm support and the clear understanding of 130 million Americans behind it. If we have that support and that understanding, I know that we shall not fail.

STANDARD FORM No. 14-A
APPROVED BY THE PRESIDENT
MARCH 10, 1926

TELEGRAM

OFFICIAL BUSINESS—GOVERNMENT RATES

Ferdinand Kuhn, Jr., Ext. 838

TREASURY DEPARTMENT

WASHINGTON

21

CHARGE TREASURY DEPARTMENT, APPROPRIATION FOR

Official

(The appropriation from which payable must be stated on above line)

U. S. GOVERNMENT PRINTING OFFICE

2-14117

September 8, 1941

Mr. Alfred Wallenstein
333 East 57th Street
New York NY

This is just to tell you how much I appreciate your
part in Saturday night programs We are fortunate to have
such an orchestra and such a leader to help us

Henry Morgenthau, Jr.

STANDARD FORM No. 14 A
APPROVED BY THE PRESIDENT
MARCH 10, 1926

Ferdinand Kuhn, Jr., Ext. 333 ✓

TREASURY DEPARTMENT

WASHINGTON

22

CHARGE TREASURY DEPARTMENT, APPROPRIATION FOR

Official

(The appropriation from which payable must be stated on above line)

U. S. GOVERNMENT PRINTING OFFICE

2-14117

September 8, 1941

TELEGRAM

OFFICIAL BUSINESS—GOVERNMENT RATES

Mr. Deems Taylor
2 East 60th Street
New York NY

I was delighted with the good beginning on Saturday night and
deeply appreciate your part in it

Kindest regards

Henry Morgenthau, Jr.

Pages 23-26, dated October 8, 1941,
placed in Book 449.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE September 6, 1941

TO Secretary Morgenthau
FROM Mr. Haas
Subject: The Business Situation,
Week ending September 6, 1941

Summary

(1) Advancing commodity prices continue to feature the business news. Led by farm and food products, the BLS all-commodity index in the last week of August rose 0.6 point to 90.6, which compares with 77.7 a year earlier. The index has risen 21 percent since the pre-war level of August 1939, and 12.5 percent in the past 6 months.

(2) Wheat futures prices have risen above loan levels to reach the highest levels in 4 years, despite the largest wheat supplies on record and the prospect of a new record carryover next year. The Government loan program has been chiefly responsible. Cotton prices last week gained more than half a cent, May futures reaching the 18-cent level, the highest for any delivery since December 1929.

(3) Under a program to expand production of various food products through 1942, the Secretary of Agriculture has announced that prices of hogs, chickens, eggs, and certain dairy products will be supported at not less than 85 percent of parity until December 31, 1942.

(4) The combination of increased consumer purchasing and higher retail prices has brought a marked gain in department store sales for the second successive month. The FRB adjusted index of department store sales for August (in dollar value) rose to 135 from 115 in July and 104 in June. The index for August last year was 98.

(5) Weekly business indexes declined slightly in the last week of August. The New York Times index was down 0.3 point to 130.5, while Barron's index declined 0.5 point to 137.1.

Continued price advance features business news

The continued rise in commodity prices, with no evidence of hesitation despite the price-control efforts of OPACS, is an outstanding feature of the current business news. The broad BLS all-commodity index advanced more than half a point in the last week of August, rising to 90.6 from 90.0 in the previous week. (See Chart 1.) This compares with 77.7 in the same week last year. The all-commodity index has risen 21 percent since the pre-war level of August 1939, and 12.5 percent in the past 6 months. For comparison with the present index of 90.6, the highest monthly BLS index in 1929 was 96.5.

Indicative of the strong forces underlying the present price rise, which may not yet be fully reflected in the all-commodity index, the BLS price index of 28 basic commodities has risen 54 percent since August 1939, and nearly 30 percent in the last six months, despite ceiling prices on a number of these commodities. (Refer to Chart 1.)

Prices of farm products make further gains

During the week ended August 30 (the latest week available) the rise in the all-commodity index was led by marked upturns in prices of various farm and food products, notably cattle feed, fruits and vegetables, and livestock and poultry. The advance in farm prices continued in the first week of September, reflecting in part a proposed step-up in the lend-lease food purchase program of the Department of Agriculture to about \$1,000,000,000 a year, as compared with the present rate of about \$700,000,000, under the enlarged lend-lease appropriation to be requested by the President this week.

Although domestic commodities last week showed the most noticeable gains in the basic commodity group (see Chart 2), prices of a few imported commodities (notably shellac) were also somewhat higher. Domestic sugar prices declined somewhat, reflecting the recent increase in the import quota. The prospective reduction in stocks outside the United States, on the other hand, had a bullish effect on world sugar prices. Cuba last week sold to American refiners 276,000 tons of its surplus of raw sugar financed by the Export-Import Bank, at the duty-paid ceiling price of 3.50 cents. Any increase in ceiling price, reduction in import duty, or reduction in freight rates affecting this sugar is to accrue to the Cuban sellers rather than to domestic buyers.

- 3 -

Cotton prices continued to rise steadily during the week, carrying May futures to 18 cents, the highest for any delivery since December 1929. Spot cotton prices in the 10 spot markets rose to an average of 17.27 cents on Saturday, representing a gain of more than half a cent over the previous week. The Government crop report, issued this morning, placed the crop prospect at 10,710,000 bales, a reduction from last month's estimate of 10,817,000 bales.

Wheat futures at 4-year highs

Wheat prices in the futures markets last week reached the highest levels in 4 years, largely because of the growing realization that a large proportion of the 1941 wheat crop will be placed in the Government loan. An increase in the demand for flour, with flour prices advanced 10 cents a barrel in the New York area, was also a bullish factor.

The Bureau of Agricultural Economics mentions in its recent wheat market review that the quantity of 1941 wheat to be placed under loan may be sufficient to cause wheat prices to advance above loan values. (The September future at Chicago has since advanced about 2 cents above the loan level, and the May future about 10 cents above.) About 43 percent (276 million bushels) of the marketings from the 1940 crop was placed under loan. A similar percentage of the current year's crop would amount to about 350 million bushels.

An examination of the wheat-supply outlook for next summer, as projected by the Department of Agriculture, indicates that one need not go outside the United States to find sufficient wheat stocks to provide strong control over prices of wheat and wheat products, if restrictive legislation were removed. (See Chart 3.) Wheat stocks in the United States on July 1, 1942, (shown in the last bar on the chart) are expected to total about 640 million bushels, much larger even than the stocks of 391 million bushels at the bottom of the depression in 1932. The huge supplies in other exporting countries are also indicated on the chart.

In view of the huge accumulation of wheat supplies in exporting countries, which are estimated as sufficient to meet the normal requirements of importing countries for 2 years, the problems before the recent meeting of the International Wheat Conference in Washington included the necessity for some form of world wheat production control, as well as the problems of sharing world markets on an equitable basis, and of meeting the post-war food requirements of Europe.

Food production to be expanded

The Secretary of Agriculture has announced an expansion program through 1942 for the production of hogs, eggs, evaporated milk, dry skim milk, cheese, and chickens. Accordingly, under legislation which became effective July 1, he has announced that the Department of Agriculture will support prices of these commodities until December 31, 1942 at not less than 85 percent of parity.

Production goals have been set up for all major farm products for 1942, which would raise total production 2 percent above the record 1941 total. The greatest emphasis will be on increased production of milk. British needs are expected to account for about 6 to 8 percent of the total United States production of farm products.

Retail sales sharply higher

An expansion of consumer purchases due to rising incomes and to "scare" buying of various products, together with higher prices of many goods, are having a decided influence on the dollar volume of retail sales.

The FRB adjusted index of department store sales (1923-1925 = 100) soared to 135 in August, as compared with 115 in July and 104 in June. The index in August last year stood at 98. The unadjusted weekly index of department store sales (see Chart 4) in the last week of August rose to a new high for the year, 29 percent above the corresponding week of 1940.

Mail order houses have shared in the increased volume of buying. Sears Roebuck sales in August, for example, were 49.1 percent higher than in August 1940, the largest year-to-year gain since March 1934.

Steel industry adjusts to full priorities

Steel mills last week were reclassifying their orders under the full defense priorities ruling which went into effect at the beginning of the week. While considerable confusion exists regarding the ultimate effect of the order, trade observers believe that it may severely restrict civilian supplies for perhaps two months, after which the more equitable rationing of these supplies may put civilian consumers generally in a better position than during recent months. The precedent-breaking action of the steel industry in continuing operation of most steelmaking plants over the traditional Labor Day holiday indicates an appreciation of the necessity for maintaining full production.

The steel operating rate this week is scheduled at 96.9 percent of capacity, as compared with 96.3 percent in the previous week. New orders reported by the U. S. Steel Corporation for the last week of August rose to 132 percent of capacity from the previous week's figure of 105 percent.

New orders index slightly higher

Higher steel orders in the last week of August brought a very slight increase in our weekly new orders index after several weeks of decline, despite further reductions in orders for textiles and for products other than steel and textiles. (See Chart 5.) The recent downturn in the index is partly of a seasonal nature.

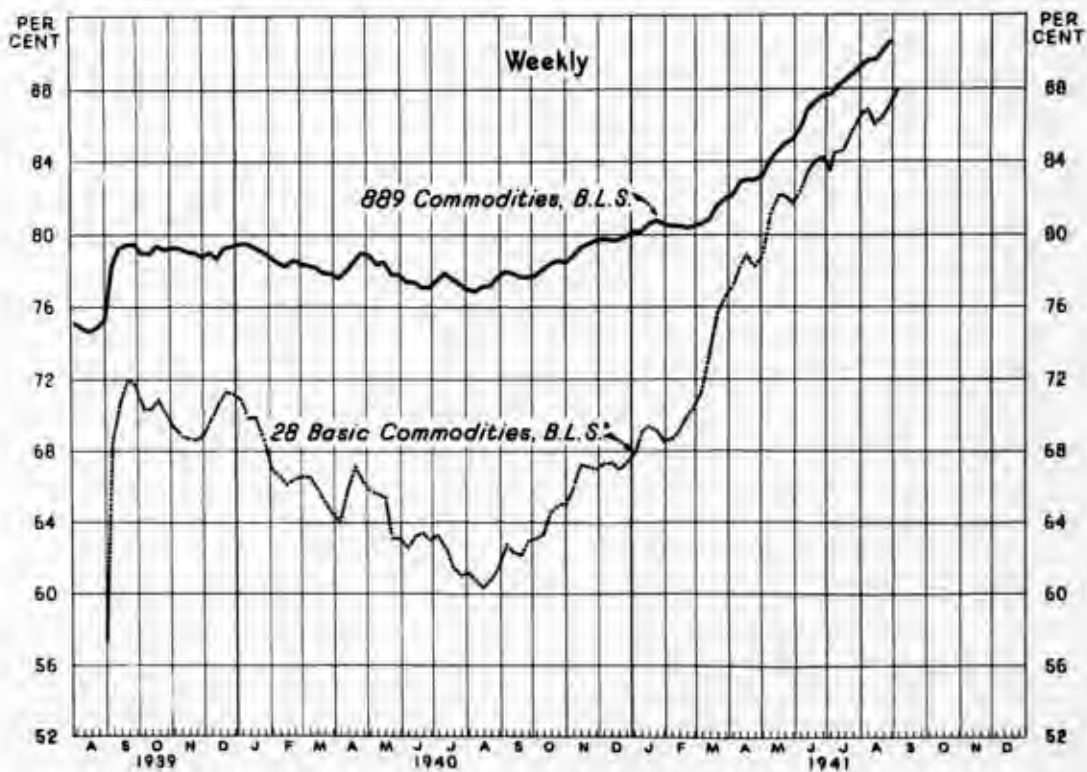
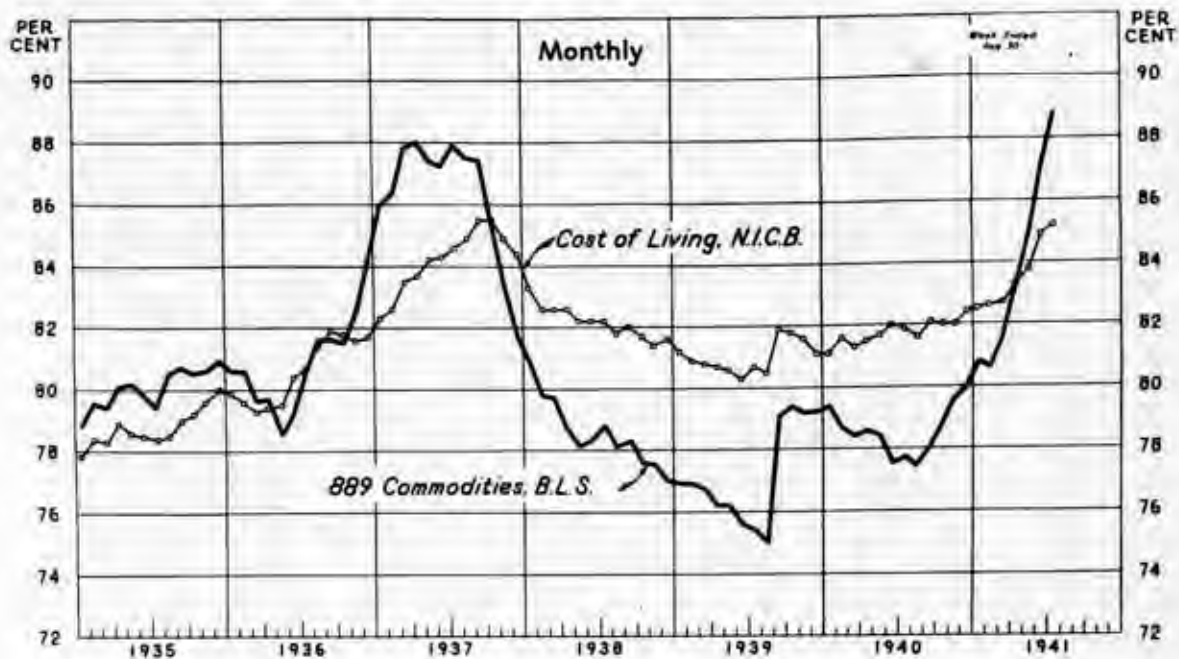
Weekly business indexes lower

Weekly business indexes declined slightly in the last week of August, giving further indication of a flattening-out tendency in the adjusted indexes of business activity.

The New York Times index was 0.3 point lower at 130.5. Declines in the adjusted indexes of automobile, paperboard, and lumber production, and "all other" carloadings were partially offset by increases for steel and electric power production and miscellaneous carloadings. Barron's index for the last week of August was 0.5 point lower at 137.1.

COMMODITY PRICES AND COST OF LIVING

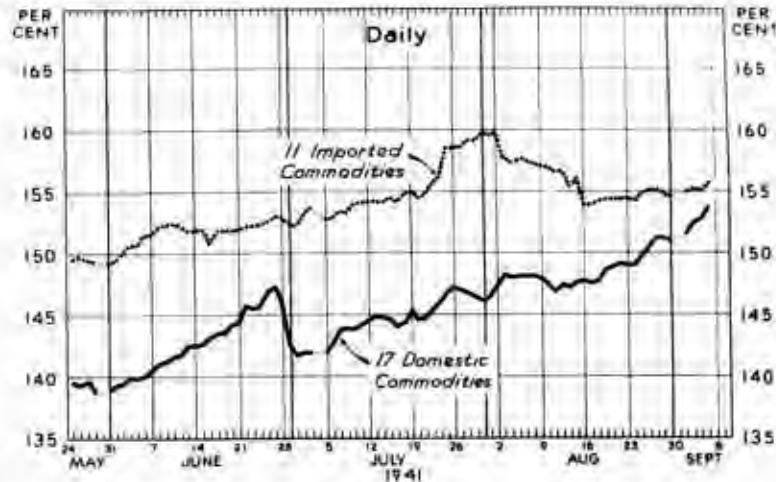
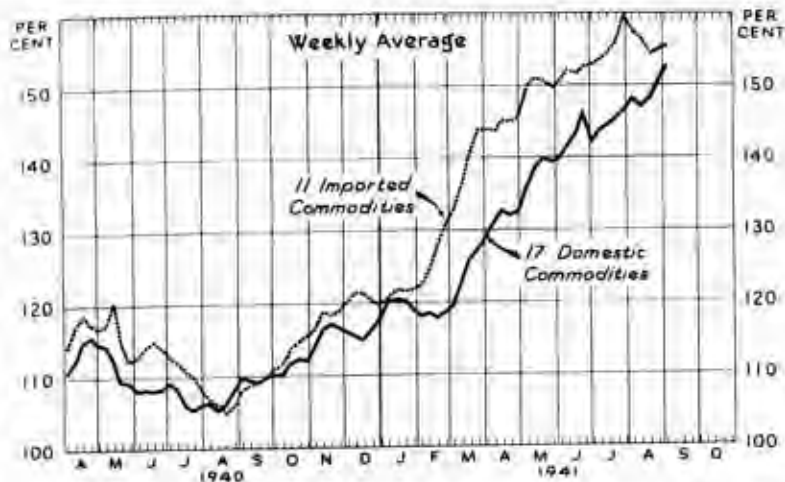
1926 = 100



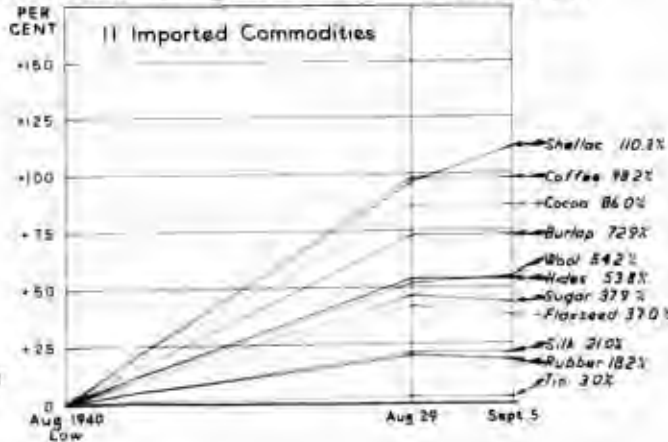
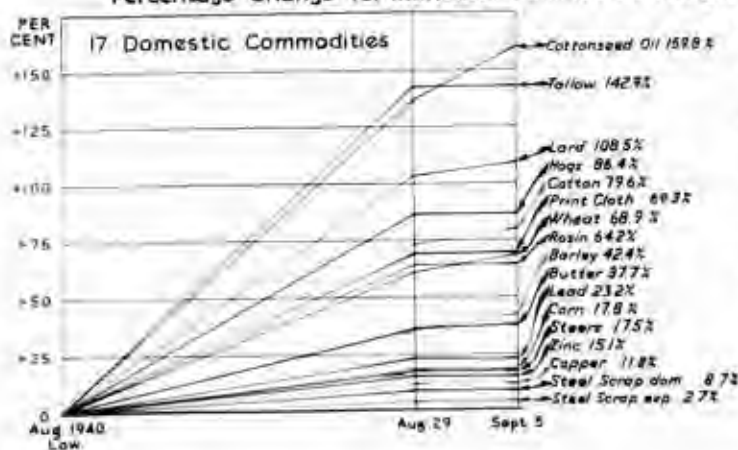
*20 Commodities Prior to January, 1940.

MOVEMENT OF BASIC COMMODITY PRICES Domestic and Imported

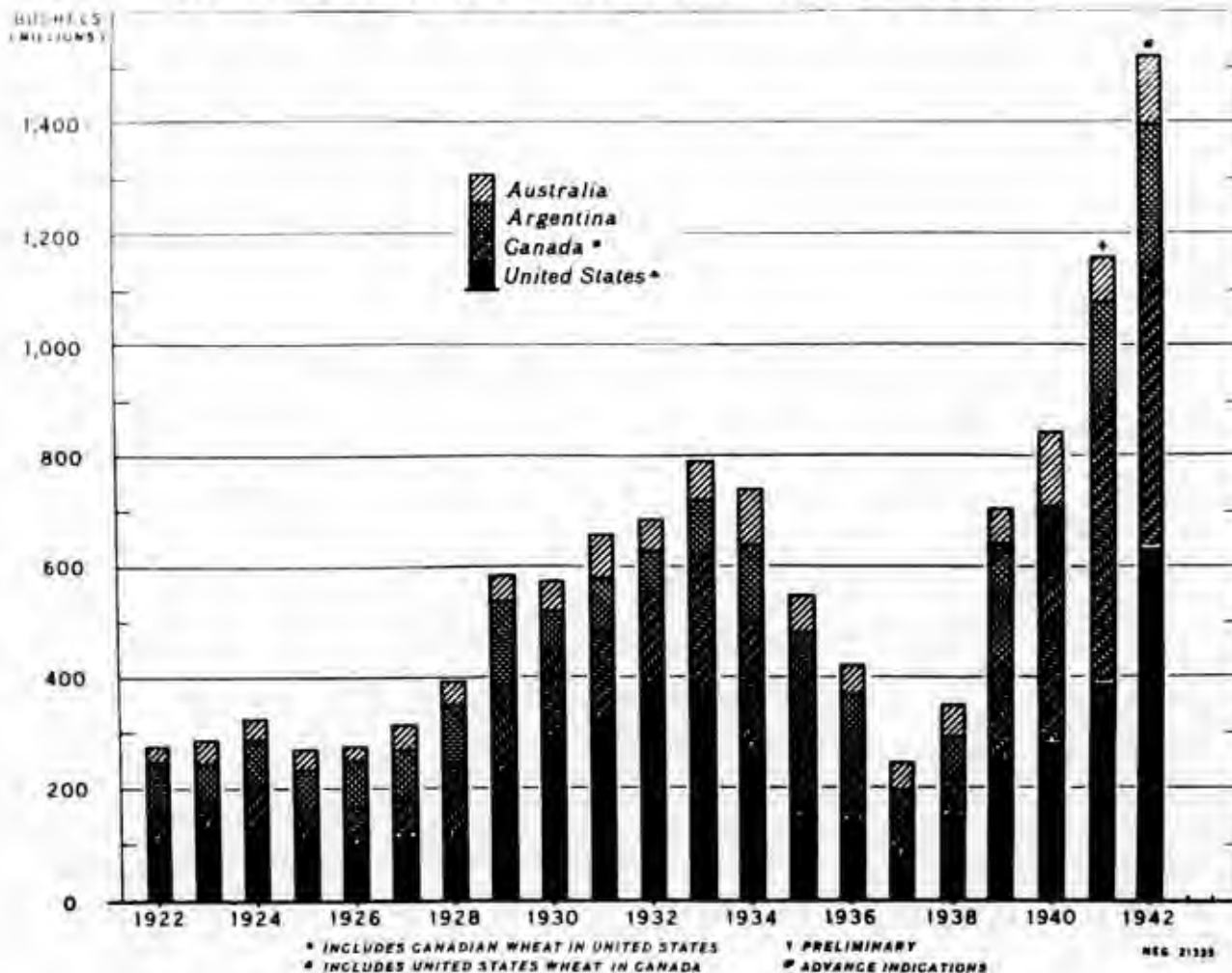
AUGUST 1939=100



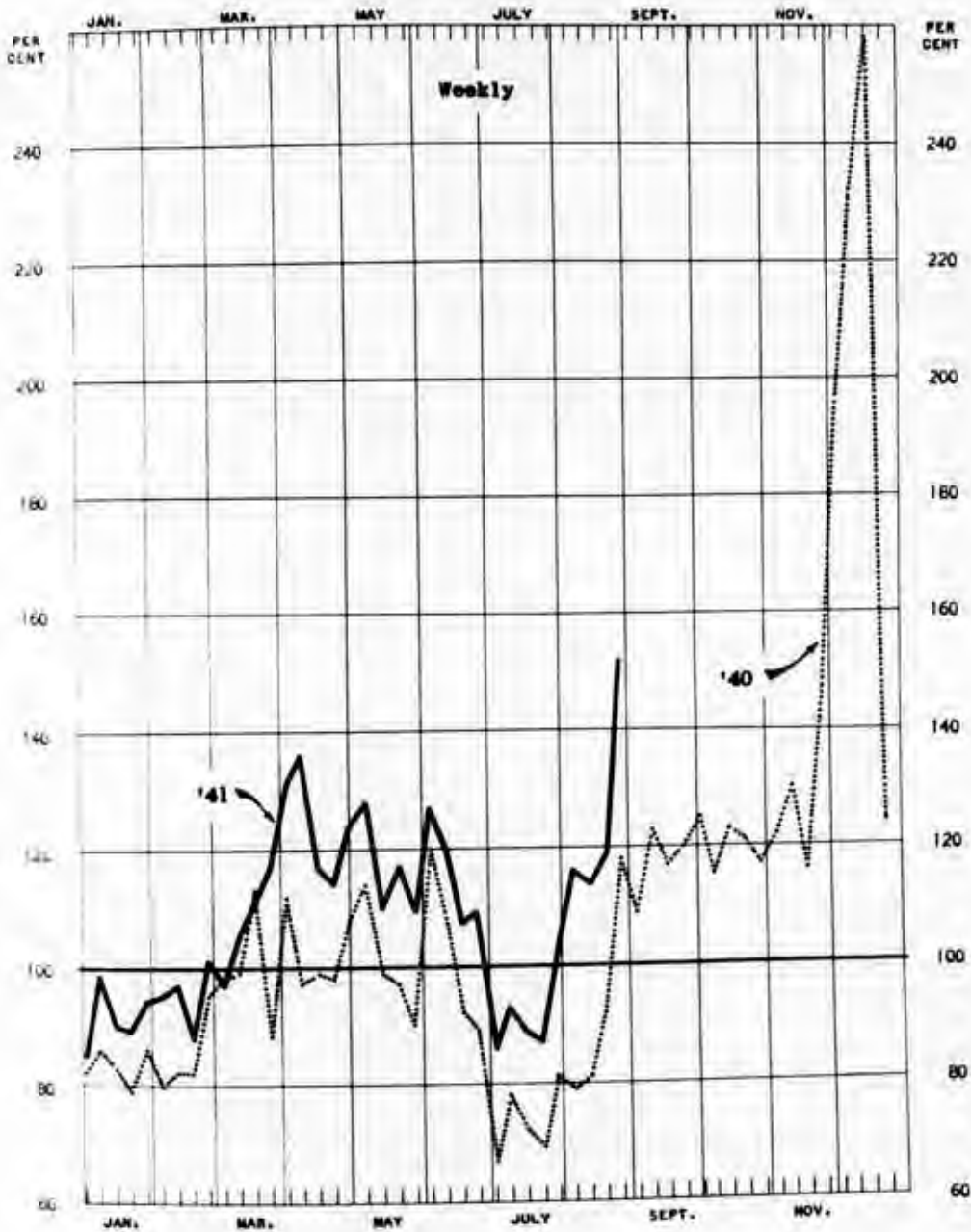
Percentage Change for Individual Commodities. August 1940 Low to August 29 and to September 5, 1941



**ESTIMATED WHEAT STOCKS IN FOUR MAJOR EXPORTING COUNTRIES
AS OF JULY 1, 1922-41, AND INDICATION FOR 1942**



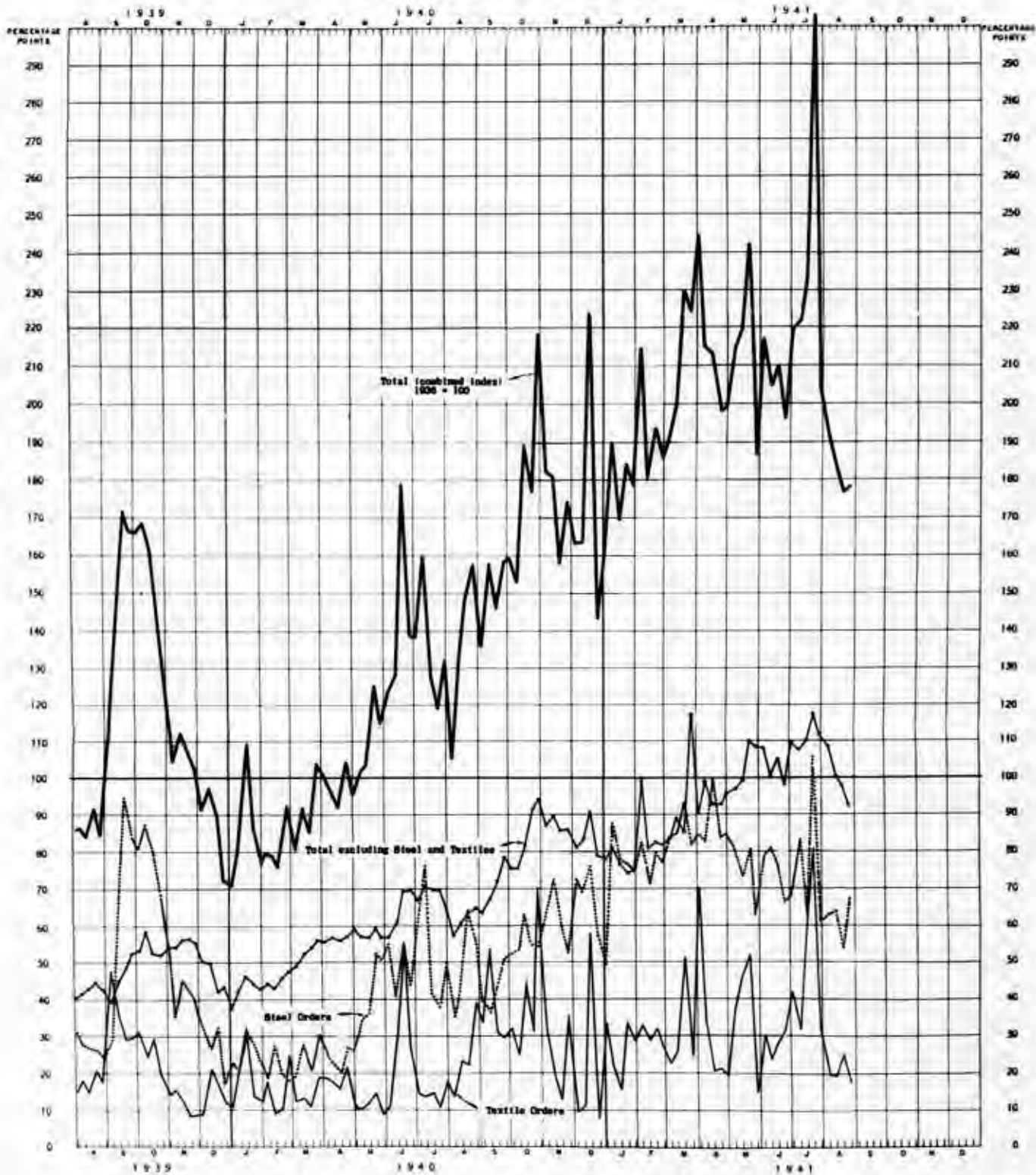
DEPARTMENT STORE SALES
1935 - '39 = 100, UNADJUSTED



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

C - 390

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



Treasury Department
Division of Monetary Research 37

Date Sept. 10 19 41

To: Secretary Morgenthau

I think you will be interested
in reading the appended summary of Dean
Acheson's report on preclusive buying of
strategic and critical materials.

MR. WHITE
Branch 2058 - Room 214½

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 2, 1941

TO Mr. White

FROM Mr. Kamarek

Subject: Summary of "Interim Report on the Program for the Acquisition of Strategic and Critical Materials" (Memorandum presented by Assistant Secretary of State Acheson, to the Economic Defense Board, August 20, 1941)

1. Of the three major objectives of the buying program, little progress has been made in achieving the first one, the creation of stock piles. There are no stock piles as yet of a number of commodities, and of the others the actual stock pile acquired averages around 10 per cent of the program.

The other two objectives, purchase of materials to be made immediately available to consumers and preclusive buying, are meeting with reasonable success. Instances of pure preclusive buying are few; fluorspar from Mexico and beryl ore from Argentina are in this category. However, since most of the materials of use to the Axis are needed in the defense program, there is incidental preclusive effect in a large part of the purchasing.

2. After making a number of agreements covering the purchase of only one commodity, the present policy is to make "over-all agreements" with foreign countries. The first of these agreements was made with Brazil in May, 1941. In this agreement the United States guaranteed the purchase of the entire Brazilian export surplus of twelve commodities, including industrial diamonds, manganese, mica, quartz crystals. A similar agreement was reached with Mexico in July covering more than 20 commodities.

3. Agreements for the purchase of specific commodities have also been concluded. The Rubber Reserve Company has been made sole purchasing agent for all rubber imported into the United States. By contract with four large companies, substantially the entire copper production of Chile, Mexico and Peru has been acquired. The entire Bolivian tungsten output and substantially the entire tin output (less the British share) has been secured.

Negotiations are under way for the acquisition of the entire Colombia platinum production, the 1942 Turkish output of chrome, some rubber from Indo China, rubber and tin from Thailand, zinc from Spain, the entire tungsten output of Portugal, and cork from North Africa.

COPY

September 8, 1941

Dear Mr. Bewley:

Thank you for your letter of September 6 with regard to Trusts held in this country on behalf of U.K. beneficiaries.

Sincerely yours,

/s/ H. D. White

H. D. White,
Director of Monetary Research.

Mr. T. K. Bewley,
The British Supply Council
in North America,
Box 680, Benjamin Franklin Station,
Washington, D.C.

IS/icn
9/6/41

THE BRITISH SUPPLY COUNCIL IN NORTH AMERICA

TELEPHONE REPUBLIC 7880



BOX 880
BENJAMIN FRANKLIN STATION
WASHINGTON, D. C.

6th September, 1941.

Dear Dr. White,

Phillips mentioned to you at a recent Treasury Committee meeting that we had not been successful in obtaining dollars on the Trusts held in this country on behalf of U.K. beneficiaries and which are estimated to have made up some 2291 millions of the figure of \$900 millions given to Congress in January as the best estimate of the value of our direct investments.

In the case of one of the largest of these Trusts, the beneficiaries wrote to the Trustees asking them to realize the assets in this country and to remit the proceeds in dollars to England for investment in British securities. (You will, of course, realize that had this been done the U.K. Control authorities would have obtained the use of the dollars against payment in sterling to the Trust). The U.S. Trustees, however, replied that they felt that their duties as Trustees did not permit them to carry out the beneficiaries' wishes, and that they were advised that the Supreme Court of the State in which the Trust was situated would not authorize the investment of the funds in British securities at that time. They pointed out that unless otherwise provided in the trust instrument the duty of the Trustee was to preserve the principal of the Trust, and that in the investment of the money all considerations must be excluded except those involved in the safe investment of the principal and the production of a reasonable return of income. They also pointed out that some British Government bonds selling in London at over par could be bought in New York at about one-third of the London price.

Dr. H. D. White,
Director of Monetary Research,
United States Treasury,
Washington, D. C.

The question was then raised by the beneficiaries whether the Trustees would not prefer to be relieved of their trusteeship and replaced by Trustees resident in England. The reply to this was that the Trustees were advised that their resignation would not accomplish the purpose desired, since it was believed that the Courts of the State would not appoint an English Trustee.

In the light of the above it was clear that no effective steps towards the realisation of the assets of the Trust, or its transfer to the U.K., could be taken either by the beneficiaries or by H.M.G.

We have not, of course, approached each individual Trust, but the same considerations as apply in the case described above would naturally apply equally to other Trusts.

I should add that under the Exchange Control Regulation no U.K. resident could now set up a new Trust in the U.S. without specific permission, and that I find it hard to imagine any circumstances in which such permission would *at present* be granted.

Yours sincerely,

T. K. Bewley
(T. K. Bewley)

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE FOR EMERGENCY MANAGEMENT

WASHINGTON, D. C.

MEMORANDUM

September 8, 1941

TO: Secretary Morgenthau
FROM: Oscar Cox
SUBJECT: Re-Export and Commercial Distribution of Lend-Lease
Articles

For your information:

Anthony Eden and John Winant have exchanged notes on the memorandum setting forth the policy to be followed by Britain in the re-export and commercial distribution of lend-lease articles.

This material is to be released in the very near future as a White Paper. As soon as we get the complete text of it I will send it to you.

Oscar Cox

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE FOR EMERGENCY MANAGEMENT

WASHINGTON, D. C.

MEMORANDUM

September 8, 1941.

TO: Secretary Morgenthau
FROM: Oscar Cox
SUBJECT: Re-Export and Commercial Distribution of Lend-Lease Goods by Britain.

Annexed is a copy of the memorandum on this subject, together with the proposed exchange of letters between Eden and Winant.

Oscar Cox

Attachments.

COPI/mt.

Text of letter from Mr. Eden to Mr. Winant.

London.
September 8, 1941.

Dear Mr. Ambassador,

With reference to the conversations about Lend-Lease material which have recently taken place in London and in which you have participated, I enclose an agreed memorandum on the policy which His Majesty's Government in the United Kingdom undertake to follow with regard to experts from this country and with regard to distribution here of Lend-Lease material. I shall be glad if you will transmit it to your Government.

Yours sincerely,

Anthony Eden.

C O P Y

TEXT OF MEMORANDUM TO H.R. WINANT.

(Revised - F.O. 4933
Sept. 7, 1941).

1. All materials which we obtain under the Lend-Lease Act are required for the prosecution of the war effort. This principle governs all questions of the distribution and use of such goods and His Majesty's Government have taken and will continue to take action to secure that these goods are not in any case diverted to the furtherance of private interests.

EXPORT POLICY.

2. Lend-Lease materials sent to this country have not been used for export and every effort will be made in future to ensure that they are not used for export, on the principle that where complete physical segregation of Lend-Lease materials is impracticable, domestic consumption of the material in question shall be at least equal to the amounts received under Lend-Lease.

3. His Majesty's Government have not applied and will not apply any materials similar to those supplied under Lend-Lease in such a way as to enable their exporters to enter new markets or to extend their export trade at the expense of United States exporters. Owing to the need to devote all available capacity and manpower to war production, United Kingdom export trade is restricted to the irreducible minimum necessary to supply or obtain materials essential to the war effort.

4. For some time past, exports from the United Kingdom have been more and more confined to those essential (i) for the supply of vital requirements of overseas countries, particularly in the sterling Empire; (ii) for the acquisition of foreign exchange, particularly in the Western Hemisphere. His Majesty's Government will now adopt the policy summarised below:-

(i) No materials of a type the use of which is being restricted in the United States on the grounds of short supply, and of which we obtain supplies from the United States either by payment or on Lend-Lease terms, will be used in exports with the exception of the following special cases:-

(a) Material which is needed overseas in connection with supplies essential to the war effort for ourselves and our Allies, and which cannot be obtained from the United States. This would enable us (i) to export supplies essential to the war effort to countries within the Empire and to our Allies, and (ii) to export such articles as tinsplate for canning to Portugal and the Argentine for our food requirements if such tinsplate could not be supplied by the United States of America.

(b) Small quantities of such materials needed as minor though essential components of exports which otherwise are composed of materials not in short supply in the United States.

(c) Repair parts for British machinery and plant now in use, and machinery and plant needed to complete installations now under construction, so long as they have already been contracted for.

Steps will be taken forthwith to prevent the execution of existing contracts for the export (except to Empire and Allied territories) of such goods which do not come within the exceptions referred to in (a), (b) and (c) above.

(ii) Materials similar to those being provided under Lease-Lend which are not in short supply in the United States will not be used for export in quantities greater than those which we ourselves produce or buy from any source.

DISTRIBUTION IN THE UNITED KINGDOM OF LEND-LEASED GOODS.

5. The general principle followed in this matter is that the remuneration received by the distributors, whatever the method of distribution, is controlled and will be no more than a fair return for the services rendered in the work of distribution. The arrangements rigorously exclude any opportunity for a speculative profit by private interests from dealing in Lend-Leased goods. In most cases, Lend-Leased supplies will be distributed through organisations acting as agents of His Majesty's Government in the strict sense of the term and not as principals. Where for strong practical reasons this cannot be done a full explanation will be supplied to the United States Administration and their concurrence sought beforehand in any alternative arrangements proposed. The justification for retaining existing channels of distribution operating under strict Government control, is that the creation of elaborate new organisations in their place would inevitably result in loss of efficiency and the wasteful use of man-power, and retard the war effort. In distribution of Lease-Lend goods there will be no discrimination against United States firms.

6. Food is a special case. Only some 5 or 6% of the total British food supply will come from the United States and without great practical complications it would be impossible to have a separate system for the distribution of Lend-Leased food. Food distribution is carried out in the United Kingdom by wholesalers, to whom the Government sells food as principals. In fact, the Ministry of Food has established a close control over all distributive margins so that neither the wholesalers nor the retailers receive any greater remuneration than is adequate to cover the cost of the services performed. No food obtained on Lend-Lease terms is or will be sold at uncontrolled prices. Thus the general arrangements as regards the issue of Lend-Leased food fit into His Majesty's Government's policy of stabilising the whole price level of foodstuffs, a policy to which the Government contributes 100 millions pounds a year.

7. In some cases direct free distribution is practicable and will be adopted. For example, some milk products (including Lend-Leased milk from the United States) are distributed direct and free of charge

Text of letter from Mr. Winant to Mr. Eden.

London,
September 8, 1941.

Dear Eden,

Thank you for your letter of September 8th, enclosing a memorandum on United Kingdom export policy and on distribution of Lend-Lease material. I have caused the memorandum to be transmitted immediately to Washington for the information of my Government.

Sincerely yours,

John G. Winant.

Copied:lwb
9/8/41

September 5, 1941.

CONFIDENTIAL

Dear Mr. Knocks:

Permit me to acknowledge for the Secretary the receipt of your letter of September 2, 1941, enclosing your compilation for the week ended August 27, 1941, showing dollar disbursements out of the British Empire and French accounts at the Federal Reserve Bank of New York and the means by which these expenditures were financed.

Faithfully yours,

H. Merle Cochran
Technical Assistant to the Secretary.

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

HMC:dm:9/8/41

C
O
P
YFEDERAL RESERVE BANK
OF NEW YORK

September 2, 1941.

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

I am enclosing our compilation for the week ended August 27, 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:lg 9/8/41

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

Week ended Aug. 27, 1941.

PERIOD	BANK OF ENGLAND (BRITISH GOVERNMENT)							BANK OF FRANCE							
	D.E.B.I.T.S.			C.R.E.D.I.T.S.				Net Inar. (+) or Deor. (-) in Balance	D.E.B.I.T.S.			C.R.E.D.I.T.S.			Net Inar. (+) or Deor. (-) in Balance
	Total Debits	Gov't Expendi- tures (a)	Other Debits	Total Credits	Proceeds of Sales of Gold	Proceeds of Securities Outfall (b)	Other Credits (c)		Total Debits	Gov't Expendi- tures (3)	Other Debits	Total Credits	Proceeds of Gold Sales	Other Credits	
First year of war (8/27/39-8/28/40)*	1,708.8	508.4	1,187.6	1,808.2	1,356.1	52.0	420.1	+ 35.0	866.3 (a)	416.6 (c)	449.7	1,053.3 (a)	900.2	156.1 (c)	- 229.0
1940															
Aug. 29 - Oct. 2	316.8	244.8	72.5	808.9	271.5	6.0	51.4	- 7.9	2.6	4.4	4.2	1.3	-	1.3	- 7.3
Oct. 3 - 30	196.7	167.8	28.9	198.5	160.5	6.0	32.0	+ 1.8	0.5	0.3	0.2	0.5	-	0.5	-
Oct. 31 - Nov. 27	241.0	201.1	39.9	259.5	210.0	18.0	31.5	+ 18.5	0.8	0.1	0.7	0.7	-	0.7	- 0.1
Nov. 28 - Dec. 31	233.8	206.8	27.0	198.0	111.4	26.0	80.6	- 36.6	2.1	-	3.1	0.6	-	0.6	- 1.5
Week ended French Dec.	2,782.3	1,485.4	1,356.9	2,783.3	2,109.5	108.0	575.6	+ 10.8	878.3	421.4	456.9	1,094.4	900.2	192.2	+ 220.1
1941															
Jan. 2 - 29	197.4	162.7	34.7	259.9	176.2	52.0	31.7	+ 52.5	1.7	-	1.7	0.3	-	0.3	- 1.2
Jan. 30 - Feb. 26	164.8	137.8	26.8	101.4	26.6	25.0	48.8	- 53.2	0.2	-	0.2	0.2	-	0.2	-
Feb. 27 - Apr. 2	229.7	157.6	32.1	237.9	103.7	72.0	62.2	+ 6.2	0.7	-	0.7	1.26	-	1.4	+ 0.9
Apr. 3 - Apr. 30	126.0	101.9	24.2	216.2	125.6	15.0	78.3	+ 22.9	0.9	-	0.9	0.9	-	0.9	-
May 1 - May 28	122.6	90.6	32.0	21.0	6.3	32.0	52.7	- 31.8	0.4	-	0.4	0.8	-	0.8	+ 0.4
May 29 - July 2	140.5	113.8	26.7	105.1	1.9	11.0	92.2	- 35.4	21.5	-	31.6	0.9	-	0.9	- 20.6
July 3 - July 30	101.4	75.6	25.8	61.5	-	6.0	55.5	- 39.7	0.5	-	0.5	0.3	-	0.3	- 0.2
July 31 - Aug. 27	131.7	92.2	39.5	145.2	-	4.0	145.2	+ 17.5	1.0	-	1.0	0.5	-	0.5	- 0.5
Second year of war (8/28/40-8/27/41)															
Aug. 28 - Oct. 1															
Oct. 2 - Oct. 29															
Oct. 30 - Dec. 3															
Dec. 4 - 31															
WEEK ENDED:															
Aug. 6	23.0	21.4	1.6	116.6	-	2.0	114.6	+ 53.6	0.7	-	0.7	0.2	-	0.2	- 0.5
13	36.2	21.8	14.4	15.3	-	-	15.3	- 20.9	0.2	-	0.2	0.2	-	0.2	-
20	26.0	16.5	9.5	12.1	-	2.0	10.1	- 13.9	0.1	-	0.1	0.1	-	0.1	-
27	36.5	22.5	14.0	5.2	-	-	5.2	- 31.3	-	-	-	-	-	-	-

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

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

(See footnotes on reverse side)

England (through June 19, 1940) 27.6 million
England (since June 19, 1940) 45.7 million

Week ended Aug. 27, 1941 \$ -
Cumulation from July 6, 1940 \$162.7

million
million

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

Regraded Unclassified

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

Week Ended Aug. 27, 1941.

Confidential

	BANK OF CANADA								COMMONWEALTH BANK OF AUSTRALIA							
	DEBITS				CREDITS				DEBITS			CREDITS				
	Total Debits	Transfers to Official British A/C	Other Debits	Total Credits	Proceeds of Gold Sales	Transfers from Official British A/C		Other Credits	Net Incr. (+) or Deor. (-) in Balance	Total Debits	Transfers to Official British A/C	Other Debits	Total Credits	Proceeds of Gold Sales	Other Credits	Net Incr. (+) or Deor. (-) in Balance
1939																
Year of war (1939-3/38/40)*	323.0	16.6	306.4	504.7	412.7	20.9	39.7	32.4	+181.7	31.2	3.9	27.3	36.1	30.0	6.1	+ 4.9
1940																
1 - Oct. 2	44.3	-	44.3	43.9	16.4	-	27.5	0.2	- 0.4	8.7	2.5	6.2	8.0	6.7	1.3	- 0.9
1 - 30	26.7	-	26.7	28.6	14.0	-	14.3	0.3	+ 1.9	10.1	7.5	2.6	7.9	6.5	1.4	- 2.2
1 - Nov. 27	36.2	-	36.2	69.6	49.2	-	16.7	3.7	+ 34.4	3.1	0.6	2.5	3.6	2.1	1.5	+ 0.6
1 - Dec. 31	48.0	-	48.0	60.6	42.5	-	13.7	4.4	+ 12.6	4.8	-	4.8	6.8	4.8	2.0	+ 2.0
Total through Dec. 31	477.2	16.6	460.6	707.4	534.8	20.9	119.7	41.0	+230.2	57.9	14.5	43.4	62.4	50.1	12.3	+ 4.6
1941																
1 - 29	33.7	-	33.7	33.9	16.9	-	15.0	3.0	+ 0.2	4.8	-	4.8	6.8	5.1	1.7	+ 2.0
1 - Feb. 26	31.1	-	31.1	24.3	14.3	-	6.8	3.2	- 6.8	5.0	1.7	3.3	3.2	0.6	2.6	- 1.8
1 - Apr. 2	60.9	-	60.9	46.0	23.1	-	19.1	3.8	- 14.9	5.8	0.8	5.0	13.7	12.5	1.2	+ 7.9
1 - Apr. 30	34.9	-	34.9	36.9	18.5	-	10.5	12.9	+ 1.0	2.6	-	2.6	5.9	4.6	2.3	+ 3.1
1 - May 28	39.2	-	39.2	25.6	15.8	-	0.5	9.3	- 13.7	5.4	-	5.4	4.9	4.1	0.8	- 0.6
1 - July 8	43.2	-	43.2	49.2	16.3	-	-	31.9	+ 5.0	10.1	-	10.1	5.8	4.3	1.5	- 4.2
1 - July 30	30.6	-	30.6	21.8	15.2	-	-	6.6	- 8.8	6.4	-	6.4	6.3	4.8	1.5	- 0.3
1 - Aug. 27	32.5	-	32.5	23.6	10.0	3.4	-	10.2	- 8.9	5.2	-	5.2	5.3	6.6	1.7	+ 3.1
Year of war (1939-3/38/41)																
1 - Oct. 1																
1 - Oct. 31																
1 - Dec. 31																
WEEK ENDED:																
Aug. 6	3.4	-	3.4	3.9	2.6	-	-	1.3	+ 0.5	7.6	-	7.6	0.2	-	0.2	- 2.4
13	10.4	-	10.4	6.9	7.9	3.4	-	0.6	- 3.5	0.3	-	0.3	0.4	-	0.4	+ 0.2
20	8.5	-	8.5	9.9	3.0	-	-	6.9	+ 1.4	0.2	-	0.2	7.0	6.4	0.6	+ 6.8
27	10.2	-	10.2	2.9	1.5	-	-	1.4	- 7.3	2.1	-	2.1	0.7	0.2	0.5	- 1.4

Weekly Average of Total Debits Since Outbreak of War

Through Aug. 27, 1941 \$ 7.5 million
For monthly breakdown see tabulations prior to April 23, 1941.

For Miss Gurnea - **TREASURY DEPARTMENT**
INTER-OFFICE COMMUNICATION

53

DATE September 8, 1941

TO Secretary Morgenthau
 FROM Mr. Cochran

STRICTLY CONFIDENTIAL

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

	<u>\$ Proceeds of Shares Sold</u>	<u>\$ Proceeds of Bonds Sold</u>	<u>Total</u>	
Sept. 1				H o l i d a y
Aug. 25, 1941	58,274	12,000	70,274	
Aug. 26, 1941	25,383	Nil	25,383	
Aug. 27, 1941	70,119	Nil	70,119	
Aug. 28, 1941	20,805	Nil	20,805	
Aug. 29, 1941	11,420	Nil	11,420	
	<u>186,001</u>	<u>12,000</u>	<u>198,001</u>	
Sales from Feb. 22, 1940 to Aug. 30, 1941	<u>279,899,088</u>	<u>37,012,581</u>	<u>316,911,669</u>	
Total Feb. 22, 1940 to Sept. 6, 1941	<u>280,085,089</u>	<u>37,024,581</u>	<u>317,109,670</u>	317,109,670
① proceeds of non-vested securities sold Aug. 25, 1941 to Aug. 30, 1941			300,000	
② proceeds of non-vested securities sold Sept. 1, 1939 to Aug. 23, 1941			<u>232,300,000</u>	
③ proceeds of non-vested securities sold Sept. 1, 1939 to Aug. 30, 1941			<u>232,600,000</u>	<u>232,600,000</u>
			<u>GRAND TOTAL</u>	<u>549,709,670</u>
④ Units sold from Aug. 18 to Sept. 6, 1941 for			\$ 42	
⑤ Shares Stock Dividend sold from Aug. 18 to Sept. 6, 1941			\$ 101	
⑥ Rights sold from July 24 to Sept. 6, 1941 for			\$102,445	

TREASURY DEPARTMENT

54

INTER-OFFICE COMMUNICATION

DATE September 8, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

You will recall that upon your return from your holidays I took up with you the question of the application of the Swiss National Bank for a license to permit the transfer of \$2,000,000 worth of gold from the Swiss Bank's earmarked deposit with the Federal Reserve Bank of New York to Lisbon, to pay for food-stuffs purchased in Portugal for Switzerland, and to be shipped to Switzerland with the approval of British authorities. I pointed out that the National Bank of Switzerland had \$220,000,000 of gold with the Federal and other funds in New York making a total of \$562,000,000 held there. I warmly recommended the approval of this license from a monetary and gold policy standpoint.

Mr. Gautier, the Director of the Swiss National Bank who is now in this country, telephoned me from New York this morning stating that the Government officials at Berne have cabled him urgently as to the status of the application.

To them this appears to be a normal transaction between the central banks of neutral countries which should go through without question. I told Mr. Gautier that I hoped to let him hear on Wednesday. He said that his Government had instructed him to take the matter up through the Legation with our Department of State. At my suggestion, he said he would delay this until he had heard from me again.



TREASURY DEPARTMENT

55

INTER-OFFICE COMMUNICATION

STRICTLY CONFIDENTIAL

DATE September 8, 1941

TO Secretary Morgenthau

FROM Mr. Klaus

Mr. Wiley wishes me to report to you that he has it on very reliable authority that Chautemps has now been taken off the French Embassy payroll as part of the French purge campaign against Free Masons.

Samuel Klaus

TREASURY DEPARTMENT

56

INTER-OFFICE COMMUNICATION

DATE September 8, 1941

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

Colonel Behn, President of the IT&T Company tried to see me on Friday and was referred to me. He told me of the following proposition:

He is anxious to sell the Spanish properties of his company, having a value of about \$64 million. The Germans offered to buy the properties from him either directly or through the medium of Spanish bankers. Behn told them that he could not sell the properties to them.

When he was in London, Behn discussed with the British a proposal for the British to buy the Spanish properties and make payment for the properties in sterling and then to pay off the sterling in dollars in annual installments over a period of years after the war. The British told Behn that in view of the great British debt to the United States, nothing could be done by the British unless the American authorities approved of the transaction.

Behn claimed that the State Department would approve the transaction if there was no German interest involved, if Americans remained in control of the Spanish companies during the war, and if Behn could arrange his own financing.

Behn said that Jesse Jones was willing to make a loan to IT&T, secured by the sterling but that Behn had to be able to get dollars for the sterling to pay off the loan. Accordingly, Behn came to us to get our approval to the British making a commitment to pay \$64 million over a period of years after the war for the Spanish properties.

Behn admitted that it could be argued that his proposition involved the American public paying his company \$64 million for the Spanish properties which the British would either keep or return to the Spanish people in exchange for exports from Spain. Behn said that unless this proposition could be put through, it would be necessary for his company to sell out its interest in Argentina to the Lebering interests and that the State Department would not want to see IT&T sell its Latin American properties. Behn said that if his company could realize \$64 million on the Spanish properties, it

would be able to pay off existing obligations and buy in outstanding bonds and put itself in a very strong position.

Behn wants to leave for London at the end of this week and came in to see me again to find out the Treasury reaction. Harry White was present at the second meeting with Behn.

I recommend that after checking with State and Jesse Jones, Behn be advised that this Government does not approve the transaction.

In this connection you will recall that several months ago at the specific request of the State Department, acting with the approval of the President, we issued a license enabling IT&T to realize \$14 million on its Rumanian properties. Since that time, it has been the policy of the Inter-Departmental Committee not to allow the use of blocked funds to pay for American property interests in Europe. The present proposal involves the use of British dollar funds which if used by Britain for other purposes would reduce the amount we would have to lease-lend to Britain.

I spoke informally to Dean Acheson and he approves my recommendation that we do not approve this transaction.

E. W. F. L.

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International Telephone and Telegraph
Corporation

58

Washington, D. C.
August 7th, 1941.

Mr. Herbert Feis,
Adviser on International Economic Affairs,
Division of European Affairs,
Department of State,
WASHINGTON, D. C.

Dear Mr. Feis:

Thanks ever so much for the time you gave me yesterday and, as promised, I am enclosing you a short memorandum on a possible solution of our Spanish dilemma. The expressed wish of the Department that we should not negotiate and carry out the sale of our Spanish Telephone Company to Spanish interests if in any way financed by the German interests, has been complied with. You, of course, realize my responsibility to my creditors and shareholders and how terribly anxious I am, therefore, to find a solution to our problem.

Thanking you for your kind attention,

Sincerely yours,

(Sgd.) Sosthenes Behm

PROPOSED SALE OF THE
COMPANIA TELEFONICA NACIONAL DE ESPAÑA (Spanish
Telephone Company) BY THE INTERNATIONAL TELEPHONE
AND TELEGRAPH CORPORATION

59

The Spanish Telephone Company operates under a concession granted on August 25, 1924. It is provided in the Concession and the "Reglamento", an official interpretation of certain terms of the Concession, that at the end of 20 years the Spanish Government has the right of recapture of the property by payment of the amount invested in the property as defined in such Concession. A contract was also entered into between the ITT and the Spanish Telephone Company expiring in 1944 providing for certain Managerial services. It is also provided in the Concession that "In case of war with another nation, or by reason of grave disturbance of the public order, the State may take temporarily in its charge, so long as the abnormality may last, the operation of all or any part of the telephone exchanges and lines which the Company may possess". Under this latter provision, the Government may take over temporarily the operation of the Company since a state of national emergency continues to exist in Spain.

The operation of the Company, which was withheld from the American Management from the beginning of the civil war, was restored to American Management as of September 1st, 1940 and is at present under such management. There have, however, been indications that the Spanish Government, either on its own initiative or under German pressure, is considering taking over the operation of the Company under the existing state of emergency, if and when the United States enters the War or if and when the Germans enter Spain.

Towards the end of March of this year representatives of the ITT in Germany suggested that the German Government might be interested in

acquiring control of the Spanish Telephone Company. We informed them that we would not consider selling control to the German Government or to German interests but that we might consider selling to a group of Spanish bankers who, in order to obtain the necessary dollars to pay for our investment of \$64,000,000.--, might in turn be financed by German bankers which latter could possibly retain a minority interest in the company. On consultation with the State Department, however, we were advised that any such operation would be considered as contrary to the interests of the United States. In the meantime German Government authorities had expressed a decided interest in the operation and the German interests were ready to start negotiations. In view of the expressed view of the State Department (which of course was not mentioned by us), we informed the Germans that it would not be possible for us to negotiate with them along the lines discussed. We then suggested to the American authorities that the Spanish bankers might be assisted in the acquisition of the company by the RFC or the Export and Import Bank. We were advised, however, that this suggestion would not be favorably considered.

While in London a suggestion was made by English friends that the British authorities might be interested, but after several conversations we were informed that the British authorities did not feel they could consider the question at this time and that in any event they could do so only in collaboration with the American authorities.

The following plan is therefore submitted for consideration
The present capital setup of the Spanish Telephone Company is
Pts. 200,000,000 in common shares, (which shares are now selling at about

270% of par), Pts. 400,000,000 of 7% Preferred shares (which are quoted at 145), and Pts. 100,000,000 of 5-1/2% Debentures (quoted at 111).

Present earnings are at the rate of about 11% on the common shares (after current preferred dividends) and ITT owns approximately 80% or Pts. 160,000,000 of such common shares. In addition the Spanish Telephone Company owes ITT Pts. 250,000,000 on current account. ITT also has had bank balances, blocked since 1955, with the principal Spanish banks, which now amount to approximately Pts. 100,000,000.-

As a first step ITT would turn over its existing cash deposits of approximately Pts. 100,000,000 to the Spanish Telephone Company. With these funds the Company would then pay off its outstanding debentures at the call price of 104% of the principal amount. This would increase ITT's total credit on open account against the Company to approximately Pts. 350,000,000.

ITT would then enter into an agreement with a group of Spanish bankers under which it would sell to them its holdings of Pts. 160,000,000 par value of common shares of the Company and release the Company from its Pts. 350,000,000 of debt on open account in consideration for the delivery to ITT by the Spanish Bankers of Pts. 600,000,000 of debentures of the Company and Pts. 200,000,000 of joint and several notes of the Spanish banking group. The consideration to the Company for the issuance of its new debentures would be the liquidation of the ITT account of approximately Pts. 350,000,000 and the payment to the Company in cash by the Spanish banking group of approximately Pts. 270,000,000.

The new debentures would be payable in Pesetas but with expressed equivalents in British Pound Sterling and U. S. Dollars. The notes of Pts. 200,000,000 of the Spanish banking group would likewise be payable

in Pesetas but with the same expressed equivalents in British Pounds Sterling and in U. S. Dollars. Both the debentures and the notes would be payable in equal annual installments over a period of not exceeding eight nor less than five years. The Banking group would undertake that the Company and the bankers would pay into the British-Spanish clearing the amounts necessary to provide for the annual installments of principal and for interest, and the necessary agreements would be worked out with both the Spanish and British Governments to insure that such amounts would be included annually in the clearing between Spain and England. The Spanish bankers would also agree that in the event of a decline in the exchange value of the Peseta to the Pound and the Pound to the Dollar the necessary additional pesetas would be paid annually into the Spanish-British clearing. The total therefore of Pts. 800,000,000 of debentures and notes would be paid into the clearing at the rate of not less than Pts. 100,000,000 nor more than Pts. 150,000,000 a year, unless otherwise agreed, and, in addition, interest at the rate of say 5% per annum, plus any adjustment for exchange variations would be so paid into the clearing.

The arrangement would provide that ITT London, a British subsidiary of ITT, would immediately enter into a new Management contract with the Spanish Company for a period of say 8 years. The contract would be in substitution of the existing contract with ITT which terminates in 1944. The new Management contract would provide that pending final liquidation of the debentures and notes:

(1) A management fee will be paid for services at the rate of say 3-1/2% (present rate 4-1/2%).

(2) One third of the directors of Company will be appointed by the ITT London and may be either British or Americans.

(5) A Vice President, the Chief Engineer, the Comptroller, the Director of Construction and Maintenance and the Commercial Director of the Company will also be designated by ITT London.

(4) No dividends in excess of say 8% on the Common shares will be paid without the consent of ITT London.

(5) All indebtedness other than current obligations incurred in the usual course of business will require the prior approval of ITT London, and

(8) Such other provisions would be included as may be deemed advisable to assure control of engineering, operating and financial management of the Company.

Obviously it would appear desirable that continuity of management be preserved during the present world conditions, and the payment of the Debentures and Notes over a 5 to 8 year period through the Spanish clearing would tend to ensure this and at the same time provide the medium for the liquidation in Pounds of the purchase price. The present dislocation of the British-Spanish clearing due to war conditions and the difficulty of lifting British purchases in Spain make it probably equally desirable to stipulate that the Debentures and Notes be payable over a period of years.

On the other hand, it is desirable that ITT, upon completion of the negotiations and without waiting for the liquidation of the Debentures and Notes should obtain its invested funds for the retirement of outstanding dollar debt and for use in carrying out developments and extensions in the operating and manufacturing fields in the Western Hemisphere.

It is therefore submitted that the U. S. Treasury or other U. S. financial agency should cooperate with and extend necessary facilities to the British Treasury so that the entire issue of Debentures and Notes totalling Pts. 800,000,000 could be taken over by the British Treasury and the equivalent Dollars, say \$64,000,000.- be paid to ITT New York.

The Pts. 800,000,000 of debentures and the Pts. 200,000,000 of notes would probably carry the following relative values: Pts. 100 equal £ 2 and equal \$8.00. Accordingly the total purchase price would involve the payment of approximately £ 16,000,000 or \$64,000,000, which is approximately the amount of the investment of which ITT would be disposing.

Under the concession, the Spanish Government has the right to recapture the property beginning in the month of September 1944 upon payment of the gold equivalent of the "net amount invested" (a term specifically defined in the Concession) and which "net amount invested" is materially in excess of the \$64,000,000 at which the investment of ITT stands on its books. In addition a premium of 15% of such net amount invested would be payable in case of recapture in 1944, a premium which would decrease by 1% in case of recapture in each succeeding year so that only after the expiration of 15 years from 1944 would the recapture price consist simply of the net amount invested without premium. In contrast to these provisions the suggested sale to the Spanish bankers as outlined in this memorandum, for the amount of the net investment on the books of ITT, would carry with it no premium. This amount would also be approximately the same as the present market value of the shares to be sold plus the amount of the receivables which ITT would surrender, since at the market price of about 270% of par value, the Pts. 160,000,000 par value of common shares have an indicated market value of about Pts. 430,000,000. This, in addition to the receivables of about Pts. 350,000,000, makes a total of approximately Pts. 780,000,000 as compared to the Pts. 800,000,000 principal amount of debentures and notes to be received. Moreover, the present earning rate of about 11% on the common shares, after provision for current preferred dividends, should be increased to approximately 18% as a result of an increase in rates which has already

been applied for. In addition, the Company has claims against the Government for damage and loss of revenue sustained during the Civil War well in excess of the amount of approximately Ptas. 100,000,000.- of accumulated past due dividends on its preferred shares (accumulated during the Civil War and at present being reduced through supplementary payments in excess of the current preferred dividend rate).

The plan submitted above offers the following advantages:

(1) For the British Government it should improve the good-will of the Spanish Government since the British bankers or Treasury will have demonstrated their confidence by financing the Spanish bankers, thereby enabling Spain to purchase its National Telephone System. In addition the British Treasury will decrease its normal unbalance of trade with Spain and thus increase its purchasing capacity in Spain and it is quite possible that the British Government may, as part of this trade, obtain the acceptance and approval for the purchase of additional Spanish supplies which now go into enemy hands. It is recognized, however, that the normal exchange of goods is not actually operating due to lack of shipping facilities and the present consequent inability of the British Government to lift its purchases in Spain. The British Treasury would in addition obtain a certain tax income from interest and management fees and it is more than likely that the Management Contract would be extended in some form with a continuing although minor intervention of British engineers, and the shipment from England of a given amount of telephone equipment.

(2) The American Government would be benefited since one of its major international corporations will be enabled to clear its financial situation, which has become involved due to the blocking of transfers of funds from foreign countries. ITT in its improved financial position would be able to develop and extend its properties in Central and South America without

recourse to borrowings from Federal Agencies. In addition approximately \$11,000,000 of notes due by this Company to the Export and Import Bank would be liquidated.

(5) So far as the ITT is concerned, its financial position would be obviously be changed from an involved to a completely normal and in fact strong position which would enable it to undertake further important services in the Western Hemisphere.

Washington, D. C.
August 7, 1941.

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

67

Week ended September 6, 1941

	JAPAN	RUSSIA	SPAIN	GREAT BRITAIN
PETROLEUM PRODUCTS				
Fuel and Gas Oil (including Diesel Oil)	--	--	--	460,000 Bbls.
Crude -				
Blended or California High Octane Crude*	--	--	--	--
All Other Crude	--	--	--	--
Gasoline -				
Gasoline A**	--	21,379 Bbls.	--	315,705 Bbls.
Gasoline B*	--	--	--	591,279 Bbls.
All Other Gasoline	--	--	--	--
Lubricating Oil -				
Aviation Lubricating Oil***	--	--	--	30,000 Bbls.
All Other Lubricating Oil	--	--	--	18,000 Bbls.
Tetraethyl Lead***	--	--	--	--
"Boosters", such as Iso-Octane, Iso-Hexane, or Iso-Pentane	--	--	--	--
SCRAP IRON AND SCRAP STEEL				
Number 1 Heavy Melting Scrap	--	--	--	2,425 Tons
All Other Scrap	--	--	--	3,650 Tons

Office of the Secretary of the Treasury, Division of Research and Statistics.
September 8, 1941.

Source: Office of Merchant Ship Control, Treasury Department.

* Any material from which by commercial distillation there can be separated more than 3 percent of aviation motor fuel, hydrocarbon or hydrocarbon mixture - President's regulations of July 26, 1940.
** Aviation Gasoline.
*** As defined in the President's regulations of July 26, 1940.

Exchange Stabilization Fund

September 8, 1941

M. R. Nicholson
United States Treasury Attache
Shanghai
China

Your cablegrams on the Shanghai market have been especially valuable considering recent developments. The material contained therein should be of real benefit to Fox if you and he can work out some liaison so that this may be made available to him currently. Naturally precautions must be taken to protect your contacts and to preserve the confidential character of your observations. Your Hong Kong office should likewise cooperate with Fox.

(Signed) D. V. HELL

Secretary of the Treasury

Acting

HMC: dm: 9/8/41

September 8, 1941

Dr. Feis

Mr. Cochran

During recent conferences at the Treasury Department, in which representatives of the State Department participated, in regard to our stabilization arrangements with China, the question of cooperation by the American consular officers in China and Hong Kong with Mr. Fox was discussed. With the view to improving this cooperation, will you kindly send the following cablegram, if it meets your approval and that of the other interested Divisions:

"American Consul,
Shanghai.

The Treasury department is appreciative of the timely and informative cablegrams which the Consul General is submitting on the financial, monetary and exchange situation. The Treasury would be happy if the Consul General would arrange continuing close liaison with Fox so that he may have the benefit of such material. The detail of a special officer for liaison and cooperative work with Fox and Taylor would appear desirable. The Treasury suggests that Horace Smith, who spent some time in the Stabilization office while in Washington, could be of real service in this connection."

HMC:dm:9/8/41

September 8, 1942

Dr. Feis

Mr. Cochran

Will you kindly send the following cablegram, if it meets the approval of the interested Divisions of the Department:

American Consul,
Hong Kong.

For Fox from Treasury.

Following message today being sent to American Consul, Shanghai:

'The Treasury Department is appreciative of the timely and informative cablegrams which the Consul General is submitting on the financial, monetary and exchange situation. The Treasury would be happy if the Consul General would arrange continuing close liaison with Fox so that he may have the benefit of such material. The detail of a special officer for liaison and cooperative work with Fox and Taylor would appear desirable. The Treasury suggests that Herace Smith, who spent some time in the Stabilization office while in Washington, could be of real service in this connection.'

Nicholson is being cabled as follows:

'Your cablegrams on the Shanghai market have been especially valuable considering recent developments. The material contained therein should be of real benefit to Fox if you and he can work out some liaison so that this

- 2 -

may be made available to him currently. Naturally precautions must be taken to protect your contacts and to preserve the confidential character of your observations. Your Hong Kong office should likewise cooperate with Fox.'

Please consult freely with General General Southard in regard to possible cooperation in your work at Hong Kong, especially for such interim period as may be required for the setting up of your organization. Consideration being given to your request to Cochran for Hong Kong assistant.'

HMC:dm:9/8/41

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TELEGRAM SENT

72

GRAY

September 8, 1941

9 p.m.

AMERICAN CONSUL,

HONG KONG VIA H.R.

261.

FOR FOX FROM TREASURY.

Following message today being sent to American Consul, Shanghai:
QUOTE The Treasury Department is appreciative of the timely and
informative cablegrams which the Consul General is submitting on
the financial, monetary and exchange situation. The Treasury would
be happy if the Consul General would arrange continuing close liaison
with Fox so that he may have the benefit of such material. The de-
tail of a special officer for liaison and cooperative work with Fox
and Taylor would appear desirable. The Treasury suggests that Horace
Smith, who spent some time in the Stabilization office while in Wash-
ington, could be of real service in this connection. END QUOTE.

Nicholson is being cabled as follows: QUOTE Your cablegrams on
the Shanghai market have been especially valuable considering recent
developments. The material contained therein should be of real benefit
to Fox if you and he can work out some liaison so that this may be made
available to him currently. Naturally precautions must be taken to
protect your contacts and to preserve the confidential character of
your observations. Your Hong Kong office should likewise cooperate
with Fox. END QUOTE

Please consult freely with Consul General Southard in regard to possible cooperation in your work at Hong Kong, especially for such interim period as may be required for the setting up of your organization. Consideration being given to your request to Cochran for Hong Kong assistant.

HULL
(FL)

EA:FL:VCL

Copy:bj:9-10-41

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TELEGRAM SENT

DES

GRAY

September 8, 1941.

9 p.m.

AMERICAN CONSUL,

SHANGHAI (CHINA) VIA NAVAL RADIO.

636.

The Treasury Department is appreciative of the timely and informative cablegrams which the Consul General is submitting on the financial, monetary and exchange situation. The Treasury would be happy if the Consul General would arrange continuing close liaison with Fox so that he may have the benefit of such material. The detail of a special officer for liaison and cooperative work with Fox and Taylor would appear desirable. The Treasury suggests that Horace Smith, who spent some time in the Stabilization office while in Washington, could be of real service in this connection.

HULL
(FL)

EA:FL:VCL

Copy:bj:9-10-41

FROM: American Consulate, Tsingtao, China.

DATE: September 8, 1941, 4 p.m.

NO.: 63.

The following is CONFIDENTIAL.

From a usually reliable source I have learned that at a meeting of Japanese officials and (?), which was called ^{by} the Asia Affairs Board at Peiping on July 24, a decision was made to transfer a sum of United States currency reputedly between ³1,000,000 and ⁹600,000 from Japanese funds in the United States, for the purchase of American cotton, to Volkart Brothers, New York. The transfer mentioned above is reported to have taken place before Japanese funds were frozen on July 24. As of possible interest, the above mentioned transfer is reported.

The following statement is from my informant.

Subsequent to the freezing of Japanese funds a shipment and sale of 4,000 bales of cotton was made from New York by the firm Anderson Clayton and Company, which maintains a branch office in Shanghai, ultimately destined for Japanese in North China. Such sales were from an American company in the United States of America to an American firm in Shanghai and therefore could not be stopped, boasted the Japanese source of this information to my informant.

Although

Although cotton supposedly has been placed on a license basis in the United States during the past fortnight, Anderson Clayton and Company has sold an additional 5,000 bales of cotton, although it is not yet shipped, under a license which only imposes the condition that the cotton will not be resold to the Japanese, to its Shanghai branch, according to the statement of my informant's Japanese source. By selling the cotton to a Chinese broker in Shanghai, who will in turn resell to the Japanese, this condition has been already circumvented.

It is quite probable that the Japanese will get most shipments of cotton to Shanghai. The Department may wish to investigate the accuracy of this report if the policy of the Government of the United States is to prevent the falling into Japanese hands of American cotton supplies.

The foregoing was sent to the State Department, repeated to Shanghai, to Chungking, and Peiping.

MEYER

840.51 Frozen Credits/3393

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PLAIN

77

Tokyo via Shanghai & N. R.

Dated September 3, 1941.

Rec'd 12:32 p.m., 11th.

Secretary of State,

Washington.

1430, September 3, midnight, (SECTION ONE).

Embassy's translation of a note received today from the Japanese Ministry of Foreign Affairs follows: "number ninety seven commercial one, note verbale. The Imperial Ministry of Foreign Affairs presents its compliments to the American Embassy at Tokyo and has the honor to acknowledge the receipt of the Embassy's memorandum of August 22, 1941, concerning the regulations for the control of transactions concerning foreigners.

The application to the United States of Japan's regulations for the control of transactions concerning foreigners was a measure taken in response to the application of the American freezing order to Japan. From the legislative view-point however, there are certain differences between the assets freezing regulations of Japan and the United States. For this reason, it is unavoidable that there should be some inequalities in the treatment

the treatment accorded by each country to the nationals of the other country. This, however, does not necessarily mean that the Japanese treatment is unfair as compared to that of the United States. As pointed out in the following, in not a few cases quite the contrary is true.

The Imperial Ministry of Foreign Affairs has the honor to forward the following to the Embassy in reply to the Embassy's memorandum and to add that it is prepared to correct such inequalities gradually and on a reciprocal basis.

September 6, 1941

Addendum

One. The views of the Japanese authorities concerning the amelioration of the treatment to

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Copy:hbr:9-13-41.

TRB

PLAIN

Tokyo via Shanghai & N.R.

Dated September 8, 1941

Rec'd 8:37 a.m., 11th

Secretary of State,

Washington.

1430, September eight, Midnight (SECTION TWO).

be accorded diplomats, consular officials and other Government officials of Japan as the United States were set forth in the memorandum dated August twenty-six, 1941 from the Imperial Ministry of Foreign Affairs to the Embassy.

Two. (A) American nationals in Japan (not including Government officials) may freely withdraw deposits up to yen one thousand per month per household from non-designated banks (chiefly Japanese banks) to pay living expenses. In addition they may freely acquire or dispose of Japanese currency up to yen five hundred per month, and they may also acquire or dispose of Japanese currency without permission when needed to pay taxes, public assessments, or similar items, or to make salary, wage and other similar payments to Japanese employees or workmen residing in Japan.

Although

Although Japanese nationals in the United States may freely withdraw deposits up to dollars five hundred monthly, if the commodity price levels of the two countries are compared and if consideration is given to the fact that yen one thousand five hundred per month in Japan provides a far more abundant living than dollars five hundred per month in the United States, it will be realized that criticism of the action of Japan only from the standpoint of the difference in absolute amounts, based on the conversions rates between Japanese and American currencies, is unwarranted.

In Japan, under the system in effect, permission is necessary for a bank of a designated nation to pay out money on deposit and for a designated national to withdraw money on deposit from a bank of an undesignated nation when the amount is more than yen one thousand. In both cases, however, arrangements have been made to enable a bank of a designated

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PLAIN

Tokyo via Shanghai & N.R.

Dated September 8, 1941

Rec'd 8:12 a.m., 11th.

Secretary of State,
Washington.

1430, September eight, Midnight (SECTION THREE).
foundry to make applications on behalf of a designated national, and the Finance Ministry has been prompt and liberal in granting permits upon receipt of such applications. Since the procedure to be followed each time deposits are withdrawn from a bank of a designated nation is said to be complicated, if such deposit is transferred in a lump sum to a nondesignated bank no permission is necessary for its withdrawal. If these circumstances are understood, there should be no cases in which American nationals in Japan are inconvenienced in their daily life.

In contrast to this, not only has withdrawal of money of deposit in excess of the present limit of dollars five hundred per month not been permitted in the United States, but in one instance even a Japanese Government official was refused a limit to withdraw
more than

more than dollars five hundred, and an application for withdrawal of deposits to pay traveling expense is said to have been rejected. Thus, in actual fact, the application of the American ordinance freezing Japanese assets may be termed more severe than that of the Japanese ordinance.

(B) In the matter of funds taken by Americans upon departure for the United States, the Japanese authorities on account of the exchange control law, are unable to grant general permission as the United States has done. Efforts however will be made to accord treatment not unequal to that given Japanese in the United States and permits are being granted for all applications involving amounts over dollars two hundred, it is intended that permission be

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Tokyo via Shanghai
& N. R.

Dated September 8, 1941.

Rec'd 9:35 p.m., 11th

Secretary of State,
Washington.

1430, September 8, midnight. (SECTION FOUR)
given promptly after due investigation.

(C) No distinction is made in Japan in the treatment of American nationals residing in Japan since before June 17, 1940, and other (*). The Japanese authorities, however, just as the American authorities, have no intention of bringing unnecessary pressure to bear on individual designated foreigners. Permission, accordingly, has always been given generously for necessary living expenses even when the amount exceeded yen one thousand five hundred per month. In response to the American treatment, consideration is now being given by the Japanese authorities to the matter of especially relaxing the application of the regulations over the control of transactions concerning foreigners and to according special and friendly treatment to American nationals in Japan on the basis of a better minded standard and irrespective of the length

the length of their residence in Japan.

Three. When it is necessary to pay salaries, wages, et cetera to Japanese employees, American commercial firms and banks in Japan may withdraw deposits from any bank without permission and entirely freely.

Permission of the Finance Minister, however, is necessary for such commercial firms and banks to withdraw deposits in order to pay salaries, wages, et cetera to their American employees, but such permission shall be given without delay in consideration of the last record. As a matter of fact

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(*) Apparent omission

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PLAIN

Tokyo via Shanghai
& N. R.

Dated September 8, 1941

Rec'd 8:11 a.m., 11th

Secretary of State,

Washington.

1430, September eight, midnight. (SECTION FIVE)

Such permission has been given in a great number of cases.

The American authorities, however, have not as yet permitted the payment of wages to Japanese in the New York branch of the Yokohama Specie Bank.

It is also said that the American authorities do not permit the Yokohama Specie Bank to pay remittance drafts sent from Japan to an establishment of the Japanese Government such as the raw silk foreign market investigation office. In Japan, however, a general inclusive license has been given to the National City Bank for the payment of remittance drafts issued in the United States.

Four. It is stated in the Embassy's memorandum that no special permits making possible the continuation of regular functioning of American commercial firms operating in Japan have been given prior this, however, is contrary to the fact. Our treatment in

this

this connection is as follows:

(A) Inclusive general licenses concerning the repayment of obligations of American commercial firms, payment of exchange, interest, its range, transportation and storage fees, dividends, et cetera, payment of money on deposit, settlement of debts, deposit of trust funds, deposit of money, extension of loans, collection of interest, disposition of bills of lading, delivery and receipt of

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PLAIN

Tokyo via Shanghai & N.E.

Dated September 8, 1941

Rec'd 9:20 a.m., 11th.

Secretary of State,

Washington.

1430, September 8, Midnight (SECTION SIX).

imported articles, payment of electricity, gas and water charges, purchase of postage stamps, acquisition and disposition of checks and domestic drafts, transfer of capital between firms engaged in the same business, etc., have been granted to make the continuation of normal business possible.

(B) In addition to the above, individual permits are being granted in each individual case upon examination of the circumstances. Up to the present permits have been granted a great number of cases.

Contrary to this, however, the American authorities have not only cancelled the permit for continuation of normal business granted to the Japan raw cotton company (Japan, Menka Kaisha) at Dallas, but are said not to have granted permission, after the lapse of half a month from the date of application, for the payment of communications and storage expenses.

Five. In Japan general licenses are real and final in character. Within the scope of the license, there is complete latitude of action. However, in the United States even with respect to actions for which general license is given, it is necessary to secure prior authority from the inspection official for each action taken by Japanese banks and firms. In this respect the treatment on the part of the United States is severe in comparison with that of Japan.

Wiz. In connection.

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PLAIN

Tokyo via Shanghai & N.R.

Dated September 8, 1941.

Rec'd 3:22 a.m., 11th.

Secretary of State,

Washington.

1430, September 8, midnight (SECTION SEVEN).

With the enforcement of the freezing order, it is said that officials who visit Japanese commercial firms and banks in the United States for purposes of inspection have not only sealed vaults and opened all mail and telegrams, but have stationed watchmen continuously, even during the night; employees are not free to remove their personal belongings. On the other hand, in the enforcement of the freezing order in Japan, no measure has been taken to seal the vaults of American commercial houses, or to open mail and telegrams, or to station watchmen. Furthermore, with the idea of respecting private rights, there has been no interference with the personal property of employees.

Seven. With reference to paragraphs four, five, and six of the memorandum of the American Embassy, if the American authorities will permit similar actions by Japanese officials and private nationals in the United States, the Japanese authorities will permit, within the scope of the foreign exchange control law and of the regulations for the control of transactions by foreigners, American officials and private nationals to draw drafts and checks

of their accounts in the United States. The Japanese Ministry of Finance is prepared to issue to banks in Japan the necessary instructions relating thereto.

(END OF MESSAGE).

LOCKHART.

KLP

SEP 12 1941

RECEIVED
TREASURY DEPARTMENT

copy

PM

GRAY

London

Dated September 8, 1941

Rec'd 5:17 p.m.

Secretary of State,

Washington.

4155, September 8, 9 p.m.

CONFIDENTIAL TO TREASURY FROM CASADY.

British Treasury informed the Embassy today that the Anglo-Russian interbank agreement has been signed (see 1st paragraph of my telegram No. 4087, September 4, 12 midnight, and Article 5 of the Anglo-Russian payments agreement). An initial credit of 10 million pounds (sterling) at 2 percent extended to Russia. Other details are not yet available but British Treasury will submit copies of the agreement to the Embassy as soon as they are received by air from Moscow and I shall forward them to Washington.

Incidentally, Treasury officials here and there continue to express anxious interest in the nature of any arrangements by the United States to extend credit to Russia (see my telegram No. 3952, August 28, 11 p.m.).

GRIMANT.

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Cairo

Dated September 8, 1941

Rec'd. 2:20 p.m., 9th

Secretary of State,
Washington.

1306, Eighth, 8 p.m.

Tonight's BOURSE EGYPTIENNE carries a military proclamation signed by the Prime Minister reading in translation as follows:

(Begin translation): We Hussein Sirry Pasha

In view of the Decree of September 1, 1931 declaring a State of Siege on all Egyptian territory and by virtue of the powers conferred upon us by the Decree of November 16, 1940 order the following:

Article One. Whoever possesses or holds dollars in Egypt or abroad in any form whatsoever, whether they be in currency or other forms of payment, or whether in some form of credit, or whoever possesses or holds stocks or other negotiable securities in United States dollars must declare them within a certain period and under such conditions as shall be established by a regulation of the Ministry of Finance.

The Declaration in question may be required by a regulation of the Ministry of Finance in respect of the funds previously defined which were possessed or held in any form whatsoever at dates to be fixed by the regulation on the condition, however, that they refer to no period prior to September 1, 1931; in the latter case, the declarant must indicate

every transaction effected subsequent to the periods in question.

Article Two. The funds mentioned in the preceding Article shall not be the subject of any transfer or operation without previous authorization from the Minister of Finance.

Article Three. The Ministry of Finance may by regulation extend the measures provided for in the preceding articles to funds in other foreign currencies.

Article Four. Without prejudice to the application of more severe penalties provided for in the penal code the revealing of information on the part of officials or any other person charged with the responsibility of performing work connected with the Declarations provided for by the foregoing Articles shall be punished by imprisonment not exceed six months or a fine not exceeding pounds Egyptian twenty or both.

Article Five. The failure to make a declaration during the prescribed time or the making of false declaration shall be punished by a fine not exceeding pounds Egyptian twenty.

If the violation has been knowingly committed with the view to concealing funds that have been declared, the penalty shall be imprisonment for not more than three months or a fine of not more than pounds Egyptian two hundred or both. Signed, HUSSEIN SIRRY, Cairo, September 7, 1941. (End translation).

THE OFFICIAL JOURNAL containing the foregoing is not yet available. The matter is being investigated.

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TELEGRAM SENT

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GRAY

September 8, 1941

10 p.m.

**AMERICAN LEGATION,
SOFIA (BULGARIA).**

RE.

Your 340, August 19.

Treasury advises that should Turkish members of Turkish Legation and consulates in Bulgaria wish to effect transactions over their accounts, Chase Bank may apply to Federal Reserve Bank of New York for licenses authorizing transactions.

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(FL)**

**EA:MSW:VGL
840.51 Frozen Credits/3356**

TO THE
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RECEIVED
SEP 15 1941

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, Managua, Nicaragua.

DATE: September 6, 1941, 1 p.m.

NO. : 158.

This is in reference to the Legation's telegram of the 26th of August, no. 148.

Because of orders to stop shipments given by the Federal Reserve Bank of New York to the American Cyanamide Company, New York City, the Jabeli gold mines are still not able to get shipments of cyanamide. It is deemed certain by the President of the Jabeli Gold Mines that the above-mentioned order was given because it was assumed that Leopoldino Uda de Caligaris owned a controlling interest in the company and, further, that de Caligaris was an Italian national. These assumptions are erroneous. I have been assured by the President of the company that not over 10% of the shares of the company are owned by de Caligaris and that he is a citizen of Nicaragua. After investigating, I made the recommendation in my despatch no. 19 of the 25th of August that the name of Sucesion de Angel Caligaris (Leopoldino Uda de Caligaris) be deleted from the list of blocked nationals. I fear that operations in the mine will be jeopardized if shipments of cyanamide, which is important to the country's economy, are delayed.

The following recommendations are made:

1) that

-2-

- 1) that information with regard to the current situation be given to the appropriate authorities; and
- 2) that efforts be made to remove the restrictions on shipments which now exist.

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TO THE SECRETARY
TECHNICAL ASSISTANT
OFFICE OF THE

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SECRETARY DEPARTMENT
RECEIVED

TREASURY DEPARTMENT

96

INTER-OFFICE COMMUNICATION

DATE September 8, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£57,000
Purchased from commercial concerns	£22,000

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

The Argentine free peso, which has been quoted in the neighborhood of .2373 during the past week, improved to a closing quotation of .2380 today.

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

Canadian dollar	10-3/8% discount
Brazilian milreis (free)	.0505
Colombian peso	.5800
Mexican peso	.2070
Venezuelan boliver	.2750
Uruguayan peso (free)	.4400
Cuban peso	1/2% discount

The Chase National Bank in New York received cable advices from its Shanghai office this morning reporting that New York bank branches in that center were only transacting business at the official rate, with the market in dollars being quoted at 5-1/4¢ to 5-3/8¢. Shanghai's unofficial exchange market in dollars and sterling was reported to have been closed. Late this afternoon, the State Department forwarded to us a cable sent from Shanghai today by the American Consul General, which contained the following:

"Free or black foreign exchange market suspended operations this morning and licensed banks not selling exchange at any rate pending receipt of further instructions from the Stabilization Committee at Hong Kong but will buy at 5 3/8¢ and 3 5/32 pence."

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

Under General License No. 70, and in accordance with a Treasury license under the Gold Reserve Act, the Federal Reserve Bank of New York effected the following transfer of gold in its vaults today:

- 2 -

\$1,700,000 from the Bank of Portugal's Gold Account G to the ordinary account of the Bank of Portugal. Gold in Account G is the property of the Portuguese Government.

The Bank of Portugal stated that it had purchased the above amount of gold from the Government, with payment being made in dollars.

The Federal Reserve Bank of New York reported that the Bankers Trust Company, London, shipped \$30,000 in gold from England to its head office in New York, for sale to the New York Assay Office.

In London, spot and forward silver were again fixed at 23-1/2d and 23-7/16d, respectively. The United States equivalents were 42.67¢ and 42.55¢.

The Treasury's purchase price for foreign silver was unchanged at 35¢. Handy and Harman's settlement price for foreign silver was also unchanged at 34-3/4¢.

We made two purchases of new production silver totaling 100,000 ounces under the Silver Purchase Act. This silver, which was bought for forward delivery, came from various foreign countries.



CONFIDENTIAL

CONFIDENTIAL

98

MILITARY INTELLIGENCE DIVISION
WAR DEPARTMENT
Washington, September 8, 1941

TENTATIVE LESSONS BULLETIN
No. 155
G-2/2657-235

NOTICE

The information contained in this series of bulletins will be restricted to items from official sources which are reasonably confirmed. The lessons necessarily are tentative and in no sense mature studies.

This document is being given an approved distribution, and no additional copies are available in the Military Intelligence Division. For provisions governing its reproduction, see Letter TAG 350.05 (9-19-40) M-B-M.

OBSERVATIONS ON THE TRAINING OF GERMAN YOUTH

SOURCE

These observations are based on a report submitted November 18, 1940, by an American official observer in Berlin. They constitute another one of that series of bulletins illustrating some of the principles of German military leadership; Tentative Lessons Bulletins Nos. 145 and 149 were the earlier ones of the series.

CONFIDENTIAL

OBSERVATIONS ON THE TRAINING OF GERMAN YOUTH

The strength of the Hitler Youth movement is usually estimated as a political factor. Apart, however, from the political side, and equally important, is the early training in military leadership brought about by the movement.

The German child is raised on a military tradition. War is a German industry. The small children - even the little girls - play with toy soldiers and cannon. They know the military world like the children of circus families know the circus; that world is a part of their life.

At ten years of age both boys and girls receive their first organized training uniform, that of the Jung Volk and the Jung Maedel. These organizations correspond roughly to our Boy Scouts and Girl Scouts; the training in them continues for four years.

When these young people are between the ages of 14 and 18, a new uniform is issued, and compulsory training is carried out by members of the National Socialist Party. The boys are then known as Hitler Jugend, or Hitler Youth, and the girls as Bund Deutscher Maedchen, or German Girls' Organization.

Normally, at 18, - though this age is not definitely fixed because of school schedules - boys of the Hitler Jugend and girls of the Bund Deutscher Maedchen enter the Arbeitsdienst, or Labor Service, the boys for six months, the girls for one year.

For the boys, the next step is two years' military service; for the girls, a corresponding national service.

It is a serious mistake to believe that this long training for war creates military automats. Instead, it seems to have quite the contrary effect. Observers have seen enough of that early training to become convinced that it is developing self-reliant and quick-thinking leaders. The German has decided upon a war technique that is now universally taught and employed in Germany; only to the extent of its universal application can this training be considered automatic. Great latitude is given leaders; independent action is encouraged. The tools are always the same, but skill and versatility in their use is encouraged and demanded.

Some very interesting exercises by the Hitler Jugend were observed not long ago. One exercise that stood out particularly as a fine example of training in leadership was carried out on a Sunday morning during October, in Grunewald Forest.

CONFIDENTIAL

Two groups, one of mixed Hitler Jugend and Jung Volk, thirty strong, and the other a similar group of twenty-two cyclists on eleven bicycles, marched into Grunewald Forest under the command of a Hitler youth. This boy appeared to be fifteen or sixteen years of age. He halted his command, dressed it with skill and precision, and announced his mission in a clear and definite manner: "The enemy is reported advancing from south to north through Grunewald Forest. At seven o'clock it was reported to be entering ----. My mission is to determine at once, and report to headquarters, the position and activity of its advance units. My sector is ----."

It will not be necessary to go into the young commander's estimate of the situation and his orders to his subordinates. They would have done credit to a professional army officer. That boy, still two or three years from active service as a private in the army, was able to estimate a difficult situation, and organize and put into execution a rather complex plan to carry out his mission on a sector nearly 1,000 meters wide. This demanded an extended series of rapid fire orders. It was evident that he had control of his boys. A continuous stream of bicycle messengers carried reports from advance units to the leader's post. He, in turn, sent frequent written messages to some post to his rear.

The observer was frankly amazed at this performance and spent the entire morning with this group. To be sure, there was a certain amount of laughing and horseplay among the boys. This was not repressed; but any lack of attention to duty called forth immediate and severe rebuke from the leaders. It was evident that the youngster in charge was on his own. Some other means must have been provided for checking up on how well that youthful commander had accomplished his mission.

Two of his units - one boy each - failed to follow instructions. Some were lost, and some had difficulty in reporting clearly what they saw; some failed in their individual missions. But the boy leader did not fail in his. Finally, he skillfully recalled all units, marched them to the rear, and very ably praised and criticized individual performance.

On the whole, it was a remarkable demonstration of how German military leadership is developed. It suggested the following illustration:

CONFIDENTIAL

MILITARY SERVICE

Professional
Officers

Reserve
Officers

Noncommissioned
Officers

Enlisted Men in Armed Forces

Military Discipline and Training
Propaganda Control

CIVIL LIFE

Labor Service

Military Discipline

Training in Cooperation
Directed Political
Training

Hitler Youth Organization

Military Discipline
Physical Training

Training in Leadership
Directed Education

Childhood

War Traditions

Military Toys

RESTRICTED

G-2/2657-220; No. 487 M.I.D., W.D. 11:00 A.M., September 8, 1941

SITUATION REPORTI. Eastern Theater.

Grounds: Finnish forces operating north of Lake Ladoga have reached the Svir River.

Hard fighting, with few details, is reported along the whole front.

The Germans continue to press the sieges of Leningrad and Odessa.

Air: German Air Force reported greatly increasing activity, especially against Soviet ground forces, fortifications, electric installations and transportation.

Dive-bombers repeatedly attacked the Leningrad defenses. The Finnish Air Force reported the destruction of 50 cars of a Soviet ammunition train on the Murmansk railway.

II. Western Theater.

Air: An R.A.F. attack, reported to be the heaviest yet made on that city, was carried out over Berlin. Many fires were reported started. British attacks were made on all airdromes from which German night fighters might have operated to protect the city. The naval base at Kiel and Oslo, Norway, were also scenes of operations. The east coast of Scotland and England received normal bombing attacks.

III. Middle Eastern Theater.

Ground: Minor activity of no importance.

Air: Palermo, Sicily, was the objective of an R.A.F. raid.

RESTRICTED

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, September 9, 1941.
9/8/41

Press Service
No. 27-40

The Secretary of the Treasury announced last evening that the tenders for \$100,000,000, or thereabouts, of 91-day Treasury bills, to be dated September 10 and to mature December 10, 1941, which were offered on September 5, were opened at the Federal Reserve Banks on September 8:

The details of this issue are as follows:

Total applied for - \$439,541,000
Total accepted - 100,957,000

Range of accepted bids: (excepting one tender of \$26,000)

High	- 99.990	Equivalent rate	approximately 0.040 percent
Low	- 99.991	" "	" 0.075 "
Average			
Price	- 99.982	" "	" 0.071 "

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

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Final Reading Copy used at Boston.

104

I am glad to be here tonight to pay my tribute to the great work that New England is doing, like all other sections of the country, to arm America.

I am glad also that my host tonight is the Advertising Club of Boston, for the advertising profession is a mighty force in creating public understanding. We cannot make ourselves the arsenal of democracy and the defender of freedom unless our people understand the tremendous issues involved in this Battle for the World. In the same way, we at the Treasury shall find it more difficult to accomplish our task of financing the defense program unless the public sees clearly the need for greater sacrifice and for greater effort.

In particular, I think that clear understanding is needed if we are to avoid the economic evils that might otherwise spring from a defense program as great as ours, a program that is making such enormous demands upon our productive resources. The worst of those economic evils has been constantly uppermost in my mind as Secretary of the Treasury. That is the evil of inflation and that is the subject which I should like to discuss with you tonight.

We have been talking about inflation for a long time as if it were a threat remote from our daily lives. It is a distant threat no longer. We are facing it now and we must deal with it at once.

120
2864

If we are selfish or shortsighted in facing this issue, the consequences may haunt us and our children for years. But if we look at the problem with clear vision and firm resolve, we can beat this thing. If we keep always in mind the interests of our country as a whole, if we provide promptly the appropriate means and use them vigorously whenever necessary, we can prevent inflation from fastening its grip upon us.

That task calls for alertness and mental toughness on the part of everyone in the executive departments of the Government, everyone in the halls of Congress, everyone of us here in this room and everyone who may be listening to me tonight.

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2747

The word "inflation" is cold and lifeless, so cold that even you advertising men here tonight might have difficulty in making it real, but the thing it describes is treacherous and cruel. Memories are so short that I suppose many of us have forgotten what happened the last time a price inflation struck us 25 years ago. The effects of that inflation, however, lasted for many years and brought untold heartbreak and misery in their train.

Let us look at the record to see what happened a generation ago. In 1916 the cost of living began to rise sharply but there were few who saw its significance.

107
2638

- 5 -

It was only when prices had risen by 70 per cent that President Wilson recommended any steps to prevent inflation. In fact, the country was so blind to its dangers that as late as June, 1917, Congress actually hastened the rise in prices by reducing the reserve requirements for member banks of the Federal Reserve System.

The consequences were so serious for every American that there must be many housewives even today who can remember them. By 1920, a ten-pound bag of sugar cost \$2.67, a dozen eggs cost 92 cents, a ten-pound bag of flour cost 88 cents, a pound of butter cost 76 cents and a pound of pork chops cost 50 cents.

$$\begin{array}{r} 124 \\ \hline 2514 \end{array}$$

By that year prices had skyrocketed to twice the level of five years earlier. The money the housewife paid for one loaf of bread in 1914 bought only half a loaf in 1920. The money she paid for a pound of bacon in 1914 bought only half a pound in 1920. The money she paid for a yard of cotton cloth was only enough to buy 1/3 of a yard in 1920. The family with no increase in income found its purchasing power cut in half.

We have now, as we had then in 1916, a moderate rise in the cost of living, a great rise in wholesale prices, and a still greater rise in the prices of basic commodities like wheat, hogs, cotton and lumber.

133
2381

It is the rise in the prices of basic commodities that constitutes our red light, our warning signal, today, for such a rise is always the advance guard of an increase in the cost of living.

If we fail to use the controls at our disposal now, if we fail to do the specific things which are in our power to check inflation now, if we allow prices to go on rising as they did from 1916 to 1920, we may find that food, fuel, shelter and clothing which now cost a dollar will once more cost almost twice as much before the process has ended.

The rise in prices is by no means confined to foodstuffs and clothing. I have before me, for instance, the actual figures on the cost of constructing a standard six-room frame house in one of our typical cities.

147
2-34

This home that could have been built a year ago for \$6,000 now costs \$7,140 to build. Here we have an increase in prices of nearly 20 per cent, and if it goes along the 1916 pattern, we are only at the beginning of the story.

Not only is the cost of building homes rising, but higher rentals are also on the way for the millions who do not own their homes. In scores of areas where industrial expansion has first taken hold, rents have already risen 10, 20, 30 per cent, and even higher.

We traveled that road once; we must not travel it again. We must decide now, this year, we in Washington and you in the country at large, whether we shall have the common sense and determination to avoid what we went through twenty-five years ago.

139
2095

Let it not be said of us, as David Lloyd George said of his people in 1915, that we were "too late in moving here, too late in arriving $\frac{1}{3}$ *there* there, too late in coming to this decision, too late in starting with enterprises, too late in preparing."

There is no excuse for us to be too late in meeting this threat of inflation that faces us. We now know, or ought to know, what is going on; that is perhaps the greatest difference between conditions today and in 1916. This time our eyes are open to the dangers that lie ahead of us. We now know that the time to do something about inflation is before it occurs, not after it has gathered momentum.

$\frac{126}{1969}$

We should profit by our greater knowledge and take prompt and effective action now.

Pause Our economy today resembles an overloaded steam boiler. The fire under the boiler is being fed by billions of additional purchasing power in the hands of the public. The fire is growing hotter and is generating more steam than the boiler can safely hold. If we are to prevent the boiler from bursting, we must damp down the fires by diverting spending away from those articles or commodities in which there is a shortage, actual or potential. We must damp down the fires also by increasing the flow of supplies of goods available to the consumer.

$\frac{110}{1859}$

We can, as I have said before, defeat this threat of inflation, just as we can defeat and destroy the forces of evil that have been let loose upon this earth. But we need to understand the issues and we need to see clearly the consequences of inaction or delay. I should like, therefore, to point out, first, what we have done, and then, what we need to do, in order to stop prices from rising further.

In the first place, Congress is on the point of passing a huge tax bill designed to raise almost four billion dollars in additional revenue, thus withdrawing a great amount of purchasing power that competes with the defense effort.

116
1743

Secondly, the Treasury in its borrowing program is trying to obtain as large a portion of its funds as possible from current consumers' income.

Through a new form of note - the tax anticipation note - it is seeking to increase the effectiveness of the income tax as a check on current purchasing power, and I am happy to report to you that more than a billion dollars' worth of these notes were sold in the month of August.

The Treasury has also begun a program of selling Defense Savings Bonds and Stamps to people of moderate and low incomes. The people have responded to a tune of a billion and a quarter dollars in four months, without coercion of any kind; and in making that response possible the advertising profession has been of truly invaluable help.

135
1608

The President has recently issued an order authorizing the Board of Governors of the Federal Reserve System to control consumers installment credit.

The Congress is considering, and I hope will pass without undue delay, a bill to limit price rises and to supplement the efforts of the Office of Price Administration to limit those rises by voluntary cooperation.

All these are useful steps to a necessary end, but they are not enough.

We shall have to tax ourselves much more heavily next year than this year, great and far-reaching as the present tax bill will be.

97
1511

We shall have to invest much more widely and systematically in Defense Savings Bonds and Stamps. In particular, the rising payrolls of the past year have been a clear call to the wage earners of America to set aside a portion of their earnings each week for their own good and their country's good.

We may have to extend general controls over bank credit and create controls over selected capital expenditures.

I hope that we may extend the social security program so as to increase the flow of funds to the Treasury from current income during the emergency and increase the outflow of funds when needed in the post defense period.

111
1400

In addition, I have already suggested the creation of what I have called a "separation wage" -- that is, an entirely new form of contribution out of which a worker may draw a regular wage for a stated period in case he loses his job. These measures would be good and desirable in themselves, but they are especially necessary at this time, for they should help us to decrease certain forms of purchasing now and increase them in the future when they may be needed.

Pause

We must, as I have said many times, reduce nonessential Federal expenditures. We must also appeal for economy in state and local government expenditure and a curtailment of their borrowing for nondefense purposes.

117
1283

The President pointed the way a month ago when he vetoed a bill calling for 320 million dollars worth of highway construction. By this action he demonstrated that there is a clear distinction nowadays between the spending that is necessary for defense and the spending that can be postponed until a later day.

The country should congratulate itself on the President's veto of this measure, and also upon the Senate's action only last week in approving the creation of a joint committee of the taxing and the appropriating agencies of Congress to study the possibilities of economy all along the line in nondefense activities.

106
1177

- 17 -

I have several times suggested the creation of such a committee, and I am very happy that my suggestion has been adopted by the Senate at last. I hope now that the House will also approve the idea, because it seems to me that such joint action is the only sensible way to proceed if we are to cut the costs of government and clear the decks for defense spending.

All of the measures I have so far suggested for combatting inflation would attack the problem ^{by} of reducing the demand for goods now and by helping to build up a backlog of purchasing power for the post war world.

109

1068

Pause
But we should also attack the problem from the opposite direction. We must make every effort to increase the supply of goods available to the consumer wherever this can be done without $\frac{2}{3}$ thru encroaching upon the defense program. Above all, we must make full use of those supplies that are available, not only in defense production, but in the provision of civilian goods which do not compete with defense output.

This is a time when we must flatten the peaks and fill up the valleys in our economic picture. If we reduce undesirable purchasing now and keep prices down now, we shall be helping to provide for the day when these vast defense expenditures will end and when our defense workers will take up the work of peace again.

128
940

The most effective way to prevent a damaging rise in prices is, quite simply, to release surpluses from storage.

Pause I wonder if the housewife knows, when she pays fifteen per cent more than she did a year ago for a bag of flour, that our supply of wheat is the largest on record, and that 498 million bushels of several years' crops are available in our neighbor democracy of Canada. It is true that only three months ago a rigid quota was applied to the importation of wheat from Canada with the ultimate objective of keeping up the price of wheat in this country. But it is also true that only the other day the quota on sugar from Cuba was enlarged so substantially as to absorb most of the reserve stocks in that country.

138
802

It seems to me desirable and necessary that we now follow the example set in the case of Cuban sugar and permit the entry of Canadian wheat in larger volume.

Here in this country we have large reserve stocks of farm products of many kinds which should be released for consumption as fast as necessary to prevent unreasonable price rises.

The Government now holds or controls seven million bales of cotton in reserve, and cotton prices have risen from 9-1/2 cents a pound on August 1, 1939 to over seventeen cents a pound at the present time.

102
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700

In spite of this rise of not far from 100 per cent in two years, Congress recently sent to the President a bill to freeze government stocks of cotton and wheat for the duration of the war, and thus to prevent the government from disposing of any of the surplus wheat and cotton it had acquired. The President promptly vetoed the bill because this measure would have aggravated the danger of inflation and might have frustrated our efforts to fight it.

We ought not to withhold cotton surpluses, or any surpluses, from the market in times like these. The housewife ought not to be made to pay a tribute to profiteers and speculators when she buys a cotton sheet for her home or a shirt for her husband or a suit for her child.

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565

Pause

Millions of people still go without the milk, butter and eggs which, according to the testimony of food experts and the dictates of plain common sense, are necessary to good health and good morale. Yet the reserve stocks of butter, cheese, beef and pork now held in this country are far higher than they were a year ago and far higher than the average of the past five years.

Pause

This has been historically a land of milk and honey. There is still plenty of milk and honey but too much of it is in the warehouses. Let's make it flow. If we were to let it flow to the public we would not only help in keeping prices stable but we would be doing something even more important; we would be helping to make our people healthier and happier.

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426

It is sheer folly from the farmer's point of view to push prices up by creating scarcities in times like these. The farmers suffered cruelly for twelve long years after the collapse of the inflation of 1920 and 1921; they should not be made to suffer again.

It is sheer folly in the same way for labor leaders to seek new increases in wages every few months -- new increases which in turn produce higher manufacturing costs, higher prices, and a higher cost of living.

It is short-sighted for a landlord to charge all that the traffic will bear in defense centres where housing space is at a premium.

112
314

It is poor business, in the long run, for any businessman to seek exorbitant profits in this period of defense spending.

It is bad banking, in the long run, for any banker to exploit the present demand for funds by seeking to charge unreasonable interest rates.

There are always selfish groups in any country which think they can profit from inflation. They are wrong.

Inflation does more than merely to rob the wage earner of a portion of his earnings. It does more than saddle the farmer with a load of debt which he cannot repay. It is more destructive of morale than any other single force.

107
207

Inflation divides the country. It sets up producers
against consumers, workers against employers, the
people who owe money against the people to whom the
money is owed.

No group in a community profits from inflation
in the long run except the Three Horsemen - the
Speculator, the Profiteer and the Hoarder.

We Americans have more than 150 years of
self-government behind us. We are a mature nation,
and we should be able to face up to our responsibilities
as mature men and women. My plea to you tonight is
that we should learn from bitter experience. My hope
and my belief is that no group among us - whether
farmers, working men or business men - shall be
tempted by the illusion of selfish gain into allowing
prices to rise unchecked.

131
76

Pause

The cost of inflation is too ruinous to producer and consumer alike for anyone in authority to tolerate it now. I can give you only this pledge -- that this Administration will do everything humanly possible to prevent inflation. But in this fight the Administration must have the firm support and the clear understanding of 130 million Americans behind it. If we have that support and that understanding, I know that we shall not fail.

76
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8:55 P.M. RADIO STATION WWDC

ANNOUNCER: Secretary of the Treasury Morgenthau tonight warned that the nation is under immediate threat of inflation. He said, "We must deal with it at once." Morgenthau calls upon laborers, farmers and business men to curb their desires for higher wages and profits. To guard against inflation, the Treasury Secretary says the nation must be taxed more, spend less, save faster and submit to increased regulation.

9:45 P.M. RADIO STATION WJSV

ANNOUNCER: Secretary of the Treasury Morgenthau said tonight that the nation faces inflation and must deal with the problem at once. Speaking in Boston, he said laborers, farmers and business men must curb their desires for higher wages and profits in the interests of the nation's welfare. The public must be taxed more, spend less, and submit to additional regulation, he declared, while saving faster.

Morgenthau proposed two points for combating inflation. One, by curbing demands for commodities, regulation of installment credit, higher taxes and increased savings. Two, by price control through the release for consumption of all commodity surpluses, particularly farm products as far and as fast as necessary, to prevent unreasonable price rises.

Morgenthau renewed his plea for reduction in non-essential Federal expenditures and for economy in both Federal and State governments. He endorsed President Roosevelt's recent veto of a bill to freeze Government stocks of cotton and wheat. Morgenthau said it was sheer folly, from the farmers' point of view, to push prices up by creating scarcities in times like these. He likewise criticized labor leaders for seeking new increases in wages every few months, increases which he said in turn produced higher manufacturing costs, higher prices and higher living costs.

10:00 P.M. RADIO STATION WINX

ANNOUNCER: In Boston Treasury Secretary Henry Morgenthau, Junior, tonight proposed that the Government's huge farm surpluses be released for consumption as a primary means of averting inflation. Releases of cotton, wheat, butter, cheese, beef and pork, Secretary Morgenthau told the Boston Advertising Club in a Boston address, simultaneously would stabilize prices and improve the national health.

11:00 P.M. RADIO STATION WMAL

ANNOUNCER: Treasury Secretary Henry Morgenthau, Junior, tonight proposed that the Government's huge farm surpluses be released for consumption as a primary means of averting inflation.

Release of surplus wheat, cotton, beef, pork and other food surpluses, Morgenthau told the Boston Advertising Club, simultaneously would stabilize prices and improve the national health.

"This has been historically a land of milk and honey," Morgenthau said. "There is still plenty of milk and honey but too much of it is in the warehouses. Let's make it flow." The Treasury Secretary said the nation is now facing inflation and must deal with it at once or the consequences may haunt us and our children for years. He said there is no single force more destructive of morale than inflation. It will ultimately benefit only the three horsemen -- the speculator, the profiteer and the hoarder.

12:00 Midnight RADIO STATION WMAL

ANNOUNCER: Treasury Secretary Morgenthau proposes tonight that the Government's huge farm surpluses be released for consumption. This, he said, would be a primary means of averting inflation. Release of food stores from warehouses, Morgenthau said, would simultaneously stabilize prices and improve the national health.

- 4 -

7:00 a.m. RADIO STATION WINX

ANNOUNCER: Boston: Secretary Morgenthau Jr. of the Treasury Department proposes a huge farm program. Says the Secretary of the Treasury, "This has been historically a land of milk and honey. There has been plenty of milk and honey but too much of it is in the warehouse. Let's make it flow."

7:30 a.m. RADIO STATION WJSV

Luke Connor: ~~■~~ Treasury Secretary Morgenthau suggests that farm surpluses be released to combat inflation. Morgenthau told the Boston, Massachusetts, Advertising Club last night that withholding surplus crops contributes to unwarranted price rises.

Senator Ellender of the Louisiana Democrats charges that the Government should not penalize the American farmer to curb prices.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

135

DATE September 9, 1941

TO: Secretary Morgenthau
FROM: Mr. Kuhn

Mutual Broadcasting System stations in the following cities will carry your speech at the time you are delivering it:

San Francisco, Calif.
New Orleans, La.
Boston, Mass.
Portland, Oregon.
Seattle, Wash.
Rochester, N. Y.
Raleigh, N. C.
Tulsa, Okla.
Bangor, Maine.
Winston Salem, N. C.
Merced, Calif.
Columbus, Ohio.
Norfolk, Virginia.
Springfield, Mass.
Mobile, Alabama.
Emporia, Kansas.
Scranton, Penna.
Olympia, Wash.
Hot Springs, Arkansas.
Jefferson City, Missouri.
Ogden, Utah.
Buffalo, N. Y.
Philadelphia, Penna.
Baltimore, Md.
Louisville, Kentucky.
Indianapolis, Ind.
Little Rock, Ark.
Jacksonville, Fla.
New Haven, Conn.
Spokane, Wash.
Denver, Colorado.
Wilkes Barre, Penna.

Akron, Ohio.
Wilmington, Del.
Lincoln, Nebr.
Canton, Ohio.
Oklahoma City, Okla.
Albany, Georgia.
Harrisburg, Penna.
Augusta, Maine.
Charlotte, N. C.
Greenville, S. C.
Syracuse, N. Y.
Dallas, Texas.
Albany, N. Y.
Hartford, Conn.
Waterbury, Conn.
Fall River, Mass.
St. Louis, Missouri.
Knoxville, Tennessee.
Jackson, Tennessee.
Lexington, Kentucky.
Minneapolis, Minnesota.
Windsor, Ontario.
Superior, Wisconsin.
Atlanta, Georgia.
Tacoma, Washington.

The following stations will broadcast your speech from a transcription later in the evening:

New York, N. Y.
Chicago, Ill.
Washington, D. C.
Cleveland, Ohio.
Binghamton, N. Y.
Pittsburgh, Pa.
Omaha, Nebraska.

Birmingham, Ala.
Chattanooga, Tenn.
Pittsfield, Mass.
Hollywood, Calif.
Des Moines, Iowa.
Roanoke, Virginia.
Austin, Texas.

The following have refused to carry your address, presumably because of commercial commitments:

Manchester, N. H.
Elmira, N. Y.

UNITED STATES SAVINGS BONDS

Comparative Statement of Sales During
First Six Business Days of July, August, and September, 1941
(July 1-8, August 1-7, September 1-8)
On Basis of Issue Price

(Amounts in thousands of dollars)

Item	Sales			Amount of Increase or Decrease (-)		Percentage of Increase or Decrease (-)	
	September	August	July	September over August	August over July	September over August	August over July
Series E - Post Offices	\$11,487	\$11,450	\$12,851	\$ 37	-\$ 1,401	0.3%	- 10.9%
Series E - Banks	<u>17,722</u>	<u>21,194</u>	<u>19,277</u>	- <u>3,472</u>	<u>1,917</u>	- <u>16.4</u>	<u>9.9</u>
Series E - Total	29,209	32,644	32,128	- 3,435	516	- 10.5	1.6
Series F - Banks	4,803	6,516	6,751	- 1,713	- 235	- 26.3	- 3.5
Series G - Banks	<u>34,846</u>	<u>47,502</u>	<u>42,439</u>	- <u>12,656</u>	<u>5,063</u>	- <u>26.6</u>	<u>11.9</u>
Total	<u>\$68,857</u>	<u>\$86,661</u>	<u>\$81,317</u>	- <u>\$17,804</u>	<u>\$ 5,344</u>	- <u>20.5%</u>	<u>6.6%</u>

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

September 9, 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 - September 1941
On Basis of Issue Price

(In thousands of dollars)

Date	Post Office Bond Sales	Bank Bond Sales				All Bond Sales			
		Series E	Series F	Series G	Total	Series E	Series F	Series G	Total
September 1941									
2	\$ 3,021	\$ 3,385	\$ 1,182	\$ 5,510	\$ 10,077	\$ 6,406	\$ 1,182	\$ 5,510	\$ 13,098
3	972	1,933	585	5,790	8,308	2,905	585	5,790	9,280
4	1,365	2,540	645	4,846	8,032	3,906	645	4,846	9,397
5	1,852	3,689	1,162	10,486	15,336	5,540	1,162	10,486	17,188
6	1,419	3,144	707	4,666	8,516	4,562	707	4,666	9,935
8	2,858	3,032	521	3,549	7,102	5,890	521	3,549	9,960
Total	\$ 11,487	\$ 17,722	\$ 4,803	\$ 34,846	\$ 57,371	\$ 29,209	\$ 4,803	\$ 34,846	\$ 68,857

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

September 9, 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.

September 9, 1941.

MEMORANDUM FOR THE SECRETARY'S FILES:

A meeting relative to the administration of Executive Order 8389 was held in Mr. Foley's office at 4 p.m. on September 8, 1941, attended from time to time by the following:

Messrs. Foley (Chairman), Pehle, B. Bernstein, Cochran, White, E. M. Bernstein, and Timmons for the Treasury; Messrs. Acheson, Fisher, Luthringer and Miller for State; Messrs. Shea, Kreeger, Jurenev and Swydlar for Justice; and Mr. Gardner of the Board of Governors of the Federal Reserve System.

Reference was made to a recent letter addressed to the Treasury by the State Department, relative to the release of funds from French blocked accounts in the United States for the purchase of merchandise under the North African agreement. The French Financial Attache estimates the total yearly expenditure will be approximately \$44,000,000.00, and he has requested an immediate release of \$5,000,000.

Further reference was made to the license allowing the transfer from French blocked funds of \$100,000.00, in payment of the expenses of the French State in China for the month of September. This license has not as yet been granted, and it was agreed that no action should be taken thereon until the question of the renewal of such license has been further canvassed in the State Department.

Mr. B. Bernstein pointed out that under the Spanish and Portuguese General Licenses, strategic materials, including fuel oil, gasoline and lubricating oils, may be purchased and shipped. In view of the increasing Axis shortage of these products, particularly lubricating oils, Mr. Bernstein suggested that it might be advisable to modify the General Licenses in order that we may individually examine each shipment of merchandise to Spain and Portugal before it is made. Mr. Acheson is to take this matter up in the State Department.

A letter has been received by the Treasury Department from Assistant Secretary of State Breckinridge Long, requesting that Prince Colonna, the Italian Ambassador, be allowed to draw \$1500 in cash monthly from his account free from supervision. It appears that the American Ambassador in Rome is allowed to draw his entire monthly allotment in cash without reports. Mr. Pehle pointed out that the Treasury Department could not be responsible for policing the expenditures made by foreign diplomats in the United States unless adequate reports were required. Mr. Acheson said the State Department was anxious that the Italian Ambassador's license be modified as requested, in view of the fact that he has already been informed that such action will be taken. In view of this, the Committee agreed that the license should be amended.

Mr. Pehle informed the Committee that two applications filed by Standard Vacuum Oil Company are presently pending before the Foreign Funds Control. One of these applications involves the payment of \$557,000 from the blocked account of the Yokohama Specie Bank, New York, to Standard Vacuum, an amount representing approximately one-quarter of Standard Vacuum's blocked yen balances in Japan. It also appears that Standard Vacuum has informed the Japanese that it will ship no more oil to Japan from the Netherlands East Indies unless this payment is effected. It has also been proposed that for future shipments of oil from the Netherlands East Indies, the Japanese will effect payment out of guilder balances to the Dutch Exchange Control authorities who will in turn pay out dollars to Standard Vacuum in the United States. These two cases will be discussed at the next meeting of the Committee.

The Committee agreed that telegrams should be dispatched to Hawaii and the Philippine Islands drawing the attention of the Governor and High Commissioner to the desirability of following a licensing policy with respect to Japanese banks which will conserve the assets of such banks to the end that they will be able to meet their liabilities from assets available to them.

Mr. White referred to recent reports about Switzerland becoming increasingly useful to the German economy, and raised the question as to whether we were in any way aiding Switzerland to help Germany. Mr. Acheson said that he would obtain a report from the State Department on what Switzerland has been receiving in the way of merchandise, and a joint memorandum will be drafted considering the whole problem.

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142

Societe Des Nations

League of Nations

Institute for Advanced Study
Princeton, N.J.
September 9, 1941

Mr. Merle Cochran,
United States Treasury
Washington, D. C.

Dear Mr. Cochran,

After leaving you yesterday I wired the substance of our agreement concerning my work at the Stabilization Fund to Brown, and today I have heard that it is all right at their end. When I receive your letter of confirmation I shall file a copy with them, and this together with your letter to President Wriston will be their record of the arrangement. They will then confirm to me that they have approved and this will complete the formalities as far as Brown is concerned.

It will be a very great pleasure for me to work on these problems with you and I hope that I may really be of some service.

I shall turn up on Thursday the eighteenth at 8:45.

Yours very sincerely,

/s/ Wm. Adams Brown, Jr.

Copy:mew 9/22/41

OFFICE FOR EMERGENCY MANAGEMENT
DIVISION OF DEFENSE AID REPORTS
WASHINGTON, D. C.

143

September 9, 1941

FOR YOUR INFORMATION

To: The Secretary
From: Philip Young

The following information is transmitted to you at the request of Mr. Stettinius.

In accordance with the arrangements made at the conference held in your office last Thursday, September 4th, a supplementary meeting was held in my office Monday afternoon, September 8th, to discuss ways and means of expediting lend-lease procedure. Present were, Mr. E. R. Stettinius, Jr., Messrs. Mack and Rehlender of Treasury Procurement, Mr. Martin of the Bureau of the Budget, Mr. Young, and Mr. Buckley.

The discussion explored all angles of lend-lease operations insofar as they concern Treasury Procurement activities. The principal emphasis was placed on ways and means of speeding up action. Due to the investigation which this office had made during the period between the two conferences, as well as to supplementary investigations by Mr. Mack, it developed that there was no one special point of delay. Rather the accumulative lag was made up of small delays here and there both in the Division of Defense Aid Reports and in the Treasury Department. This was freely admitted by all parties concerned.

Due to a new procedure which this Division is about to initiate on the basis of thorough study extending over the past four weeks, the time to secure allocations from the President will be cut to four days. Any commitments which it is desired to make before such an allocation can be secured may be placed against the Treasury Procurement lend-lease revolving fund.

Further, Mr. Mack was advised that this Division will consider the use of blanket allocations for certain bulk materials for transfer to the United Kingdom where there could be no questions involved of lend-leaseability.

The foregoing arrangements are quite satisfactory to the various interests concerned and should eliminate the difficulties which have been the subject of criticism.

54.



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TREASURY DEPARTMENT

145

PROCUREMENT DIVISION

OFFICE OF THE DIRECTOR

WASHINGTON September 10, 1941

MEMORANDUM TO THE SECRETARY:

At your instigation and upon your insistence I have gone very thoroughly into the matter of time required to make lend-lease purchases handled by the Procurement Division with a view to expediting all possible.

My memorandum of September 4, 1941, prepared in accordance with your request of the same date, states in substance that a spot check of requisitions showed that approximately 30 days are required before we are authorized to make purchase contracts.

I met with Mr. Stettinius and others Monday afternoon of this week, as arranged by you, to discuss expediting the procedure. As a result the following procedure is now in effect:

	<u>Average Time Required</u>
(1) From date of requisition of British or Chinese Supply Agencies, routed through the Division of Defense Aid Reports, to receipt in Procurement	2 days
(2) OPI examination for availability, priority rating and clearance to Procurement	7 days
(3) Time required for routine purchase	7 days

Representatives for the Division of Defense Aid Reports have stated that fund authorizations will be secured within four days, accordingly, with this reduction in time, we will be able to start our purchase negotiations as the fund clearance will be received before formal commitment is required. Hence, both procedures will be simultaneous under this proposed plan.

The revised procedure will reduce the average time required heretofore of 42 days to a total average time of 16 days.

[Handwritten initials]

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

(COPY)

146

September 10, 1941

MEMORANDUM TO THE SECRETARY:

At your instigation and upon your insistence I have gone very thoroughly into the matter of time required to make lend-lease purchases handled by the Procurement Division with a view to expediting all possible.

My memorandum of September 4, 1941, prepared in accordance with your request of the same date, states in substance that a spot check of requisitions showed that approximately 90 days are required before we are authorized to make purchase contracts.

I met with Mr. Stettinius and others Monday afternoon of this week, as arranged by you, to discuss expediting the procedure. As a result the following procedure is now in effect:

	<u>Average Time Required</u>
(1) From date of requisition of British or Chinese Supply Agencies, routed through the Division of Defense Aid Reports, to receipt in Procurement	2 days
(2) OPM examination for availability, priority rating and clearance to Procurement	7 days
(3) Time required for routine purchase	7 days

Representatives for the Division of Defense Aid Reports have stated that fund authorizations will be secured within four days, accordingly, with this reduction in time, we will be able to start our purchase negotiations as the fund clearance will be received before formal commitment is required. Hence, both procedures will be simultaneous under this proposed plan.

The revised procedure will reduce the average time required heretofore of 42 days to a total average time of 16 days.

(Signed) Clifton E. Mack
Director of Procurement

(COPY)

147

September 10, 1941

MEMORANDUM TO THE SECRETARY:

At your instigation and upon your insistence I have gone very thoroughly into the matter of time required to make lend-lease purchases handled by the Procurement Division with a view to expediting all possible.

My memorandum of September 4, 1941, prepared in accordance with your request of the same date, states in substance that a spot check of requisitions showed that approximately 30 days are required before we are authorized to make purchase contracts.

I met with Mr. Stettinius and others Monday afternoon of this week, as arranged by you, to discuss expediting the procedure. As a result the following procedure is now in effect:

	<u>Average Time Required</u>
(1) From date of requisition of British or Chinese Supply Agencies, routed through the Division of Defense Aid Reports, to receipt in Procurement	2 days
(2) OPM examination for availability, priority rating and clearance to Procurement	7 days
(3) Time required for routine purchase	7 days

Representatives for the Division of Defense Aid Reports have stated that fund authorizations will be secured within four days, accordingly, with this reduction in time, we will be able to start our purchase negotiations as the fund clearance will be received before formal commitment is required. Hence, both procedures will be simultaneous under this proposed plan.

The revised procedure will reduce the average time required heretofore of 42 days to a total average time of 16 days.

(Signed) Clifton E. Mack
Director of Procurement

Office of the Director

TREASURY DEPARTMENT
Procurement Division
Washington

September 10, 1941

MEMORANDUM TO THE SECRETARY:

At your instigation and upon your insistence I have gone very thoroughly into the matter of time required to make lend-lease purchases handled by the Procurement Division with a view to expediting all possible.

My memorandum of September 4, 1941, prepared in accordance with your request of the same date, states in substance that a spot check of requisitions showed that approximately 30 days are required before we are authorized to make purchase contracts.

I met with Mr. Stettinius and others Monday afternoon of this week, as arranged by you, to discuss expediting the procedure. As a result the following procedure is now in effect:

Average Time Required

- | | |
|---|--------|
| (1) From date of requisition of British or Chinese Supply Agencies, routed through the Division of Defense Aid Reports, to receipt in Procurement | 2 days |
| (2) OPM examination for availability, priority rating and clearance to Procurement | 7 days |
| (3) Time required for routine purchase | 7 days |

Representatives for the Division of Defense Aid Reports have stated the fund authorizations will be secured within four days, accordingly, with this reduction in time, we will be able to start our purchase negotiations as the fund clearance will be received before formal commitment is required. Hence, both procedures will be simultaneous under this proposed plan.

The revised procedure will reduce the average time required heretofore of 42 days to a total average time of 16 days.

Clifton E. Mack (Signed)
Clifton E. Mack,
Director of Procurement

Office of the Director

TREASURY DEPARTMENT
Procurement Division
Washington

September 10, 1941

MEMORANDUM TO THE SECRETARY:

At your instigation and upon your insistence I have gone very thoroughly into the matter of time required to make lend-lease purchases handled by the Procurement Division with a view to expediting all possible.

My memorandum of September 4, 1941, prepared in accordance with your request of the same date, states in substance that a spot check of requisitions showed that approximately 30 days are required before we are authorized to make purchase contracts.

I met with Mr. Stettinius and others Monday afternoon of this week, as arranged by you, to discuss expediting the procedure. As a result the following procedure is now in effect:

Average Time Required

- | | |
|---|--------|
| (1) From date of requisition of British or Chinese Supply Agencies, routed through the Division of Defense Aid Reports, to receipt in Procurement | 2 days |
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Clifton E. Mack (Signed)
Clifton E. Mack,
Director of Procurement

Treasury Department 150
Division of Monetary Research

Date...Sept. 12.....19 41

To: Secretary Morgenthau

From: Mr. White

Please note Item 4. You
thought you might call Secretary
Stinson directly instead of McCloy.

TREASURY DEPARTMENT

151

INTER OFFICE COMMUNICATION

DATE September 9, 1941

TO Secretary Morgenthau

FROM Mr. White

Subject: Developments in the British Lend-Lease Program During the Past Few Weeks

1. British Dollar Position. As of August 30, the British had \$195 million available gold and dollars, \$49 million more than on July 31, and more than at any time since February 1. This improvement reflects principally the receipt on August 1 of the first \$100 million from the British R.F.C. loan.

2. Preparations for Lend-Lease Hearings. For possible use in your testimony on a new Lend-Lease appropriation, we are preparing, with the cooperation of the British, an estimate of British dollar assets and requirements as of September 1, 1941, similar to that prepared for the hearings of the Lend-Lease Bill last January.

3. Transfer of Plant Facilities. The Army has finally agreed to allocate funds from its present and future appropriations for the purchase of the 11 British plants that have been discussed for some time. Accordingly, the Defense Plant Corporation (Jesse Jones) will proceed to acquire the plants. The completion of this transfer will yield an additional \$52-55 million, which, together with the \$45 million already provided on the Tennessee Powder and the 4 machine gun plants, make an aggregate of about \$100 million relief provided through the transfer of plant facilities.

An additional list of plants aggregating \$31 million and suitable for transfer to the United States has now been offered by the British. Some \$20 million might be realized on this group of plants.

4. Transfer of Supply Contracts. No progress has been made in the Army program to take over British supply contracts. It had been thought possible to realize as much as \$150 million through such transfers, but negotiations have completely stalled. The decision to act now rests apparently with Secretary Stimson. We believe that an inquiry from yourself to Assistant Secretary of War McCloy about the status of this project would be the best immediate step.

5. Todd Shipbuilding Contracts. The Todd shipbuilding contracts, the transfer of which was to have provided some \$87 million of the \$150 million total on supply contracts, has encountered a specific objection of the Maritime Commission. The ships cannot be taken over, the Maritime Commission says, because the plans call for coal burning ships while the Commission is building only oil burners. It is too late, they claim, to have the plans changed. The possibility of taking over the contracts with a simultaneous agreement from the British that they will purchase the ships at the end of the war is being explored.

6. Loan to Northrop Aircraft, Inc. The R.F.C. was to have participated in a loan to Northrop to make it possible for that company to complete its British aircraft orders. For its participation the R.F.C. specified that the British must increase their payments on deliveries, and in addition insisted upon obtaining a priority of claims on the company. The British arranged to increase their payments to the company, and with that arrangement, a group of New York bankers agreed to accept the entire loan.

A23

MEMORANDUM

153

FROM BRITISH SUPPLY COUNCIL IN NORTH AMERICA

TO Mrs. Henrietta Klotz

Compliments of E.N. Gray

STATEMENT NO. 31AIRCRAFT SHIPPED TO U. K. AND OVERSEAS COMMANDS

TYPE	DESTINATION	ASSEMBLY POINT	BY SEA	BY AIR
			WEEK ENDED AUGUST 16, 1941.	WEEK ENDED SEPTEMBER 6, 1941.
<u>WILCOX</u> Airacobra	U. K.	U. K.	4	—
<u>WILCOX</u> Chesapeake	U. K.	U. K.	2	—
<u>WILCOX</u> Boston III	U. K. Middle East	U. K. Port Sudan	4 15	— —
<u>LOCKHEED</u> Hudson III	U. K.	U. K. (via Gander)	—	8
<u>CONSOLIDATED</u> Catalina	U. K.	U. K. (via Bermuda)	—	1
TOTALS			25	9

British Air Commission,
September 9, 1941.

TREASURY DEPARTMENT

155

INTER OFFICE COMMUNICATION

DATE September 9, 1941

TO Secretary Morgenthau
FROM Messrs. Foley and Pehle

Mr. Cochran referred to you recently the application of the Banque Nationale Suisse to ship to Portugal \$2,000,000 in gold which it has earmarked in the New York Federal.

For your information, there is attached a copy of a letter received from the British Embassy referring to this proposed gold transaction, together with the despatch referred to therein.

As you have been advised, the Interdepartmental Committee considered the application of the Banque Nationale Suisse and unanimously agreed that it should be denied.

We are strongly of the view that this application should be denied.

J. P. Pehle
E. W. F. H.

Attachments

C O P Y

156

W.T.1045/87/41

SAFE HAND

BRITISH EMBASSY,
WASHINGTON, D. C.

September 3rd, 1941.

Dear Towson,

You mentioned to me the other day a proposal to export gold to Lisbon for Swiss account in payment of a debit on the Portuguese Swiss clearing.

London suggest that this transfer of gold is to reimburse the Portuguese for their sales of escudos to the Swiss, who have been heavy buyers lately, and have been re-selling to the Germans who require escudos for their Wolfram purchases. (See attached copy of W.T. 1045/86/41.) The proposed shipment of this gold would therefore presumably assist Germany to continue her purchases of Portuguese Wolfram, and would be most undesirable.

I therefore think it unlikely that we should grant a navicert.

Yours sincerely,

(Signed) W. Ritchie

W. Ritchie.

Mr. Norman Towson,
Foreign Funds Control,
U. S. Treasury Department,
Washington, D. C.

COPY

September 3, 1941

W.T. 1045/86/41.

We understand from a certain source that transfers to Reichsbank account in Portugal during this month include following totals from Swiss banks:

Credit Suisse 10 million escudos.

Swiss Bank Corporation 14 million escudos.

Banque de Leu 34 million escudos,

and there is no doubt that these figures are incomplete.

September 9, 1941

Secretary Morgenthau

Messrs. Foley and Pehle

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(Signed) J. W. Pehle
(Initialed) E. H. V. JF.

Attachments

JWP:ged 9/9/41

COPY

159

W.T. 1045/87/41

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COPY

FEDERAL RESERVE BANK
OF NEW YORK

161

September 9, 1941.

OFFICE CORRESPONDENCE

TO: Mr. Knoke

FROM: W. H. Rosell

Spanish Deposits in Second District

(In thousands of dollars)

	<u>July 2, 1941</u>	<u>Current Balances</u>			
		<u>Bk. of Spain</u>	<u>Institute</u>	<u>Other</u>	<u>Total</u>
National City	3,262	1	899	2,130	3,030
Chase National	1,019	-	-	822	822
Irving Trust	1,016	3	-	887	890
Manufacturers Trust	767	-	760	124	884
	<u>Total</u>	<u>4</u>	<u>1,659</u>	<u>3,963</u>	<u>5,626</u>
Swiss Bk. Corp.	623				
Royal Bk. of Canada	598				
Guarenty Tr.	549				
Bk. of London & So. Amer.	470				
Chemical Bank & Tr.	<u>302</u>				
<u>Total</u>	8,606				
Total - All Banks	9,044				

Since balances at the four banks holding the largest amounts have decreased \$438,000 since July 2, the total of all Spanish deposits in this District probably is now around \$8,600,000, assuming, of course, there have been no sizable changes in the accounts at other banks.

2-11-41

TREASURY DEPARTMENT

162

INTER OFFICE COMMUNICATION

DATE September 9, 1941

TO Secretary Morgenthau
 FROM Mr. Foley and Mr. White

1. Exports of petroleum products to Spain since July 1 have amounted to approximately 415,000 barrels.

July	222,000 bbls.
August	193,000 "

(The monthly figures for oil and gasoline since January are shown in the appended table.)

There have been virtually no reported exports of petroleum products to Portugal during the past two months.

2. Total exports to Spain have declined since mid-June. They amounted to \$800,000 in August. (Figures in appended table.) Aside from petroleum products there have been, according to our information, no significant amounts of strategic materials exported to Spain during the past two months.

3. Total exports to Portugal have declined during August. The only sizable value in the export of strategic material going to Portugal during the period of seven weeks ending August 16 (later data will be available early next week) consisted of approximately \$200,000 worth of steel manufactures and an equal value of coal.

4. Exports to Spain and Portugal can be effected either under the general licenses issued to such countries or under specific licenses. As you know, the general licenses were issued at the insistence of the State Department. The reports received with respect to transactions effected under such general licenses are very general and do not provide an adequate basis for policing such transactions.

In view of the confidential information which you have obtained we have raised at the meeting of the Foreign Funds Control Committee on September 6 the question of the desirability of maintaining the general licenses for Spain and Portugal. Dean Adgerson agreed to take up the matter at the State Department and let us know. In the meantime, we will exercise closely all

- 2 -

tions for specific licenses involving the two countries realizing at the same time that the vast bulk of trade and financial activities with Spain and Portugal can be carried on under the general licenses.

Heretofore we have been granting specific applications for oil shipments to Spain and Portugal where export licenses had been issued and navicerts obtained. This was done having in mind the letter from the President to Secretary Ickes, a copy of which was furnished you.

United States Exports of Petroleum Products to
Spain, January 1, 1941-August 31, 1941

(Thousands of Barrels)

<u>Period</u>	<u>Fuel and Gas Oil</u>	<u>High Octane Gasoline</u>	<u>Other Gasoline</u>	<u>Lubricating Oil</u>
January	178.8	—	—	12.9
February	30	—	8.0	22.0
March	5	—	—	—
April	39	47.0	20.0	3.4
May	101.5	—	11.0	20.5
June	132	64.0	—	42.8
July	61	120.8	15.6	24.7 ^{1/}
August	143.1	—	—	49.8 ^{2/}
Total-8 months	690.4	231.8	54.6	176.1

^{1/} Includes 1,845 barrels of lubricating oil.

^{2/} Includes 750 barrels of transformer lubricating oil.

Source: U. S. Treasury Department, Office of Merchant Ship Control

Treasury Department, Division of Monetary Research

September 5, 1941

U. S. Total Exports to Spain — as Reported to
the Treasury Department July 5 - August 30, 1941

(In thousands of dollars)

<u>Reported in week ending:</u>	<u>Domestic Exports</u>	<u>Reexports</u>	<u>Total Exports</u>
July 5	\$1,064	\$ 4	\$1,068
12	412	419	831
19	259	167	426
26	256	8	264
August 2	198	15	213
9	47	-	47
16	185	8	193
23	187	129	316
30	45	-	45
GRAND TOTAL	\$2,653	\$750	\$3,403

U. S. Exports to Spain by Principal Commodities as Reported to the
Treasury Department, July 5 - August 30, 1941

(In thousands of dollars)

TOTAL DOMESTIC EXPORTS	\$2,653
Meat products	401
Grains and preparations	83
Petroleum products	544
Relief supplies	491
Wood pulp	127
Cooperage	90
Agricultural	368
Chemical specialties	88
TOTAL REEXPORTS	750
Dried beans and peas	719
Ivory nuts	8
Gums and resins	9

Treasury Department, Division of Monetary Research. September 8, 1941.

U. S. Total Exports to Portugal -- as Reported to
the Treasury Department July 5 - August 16, 1941

(In thousands of dollars)

Reported in Week ending:	Domestic Exports	Reexports	Total Exports
July 5	\$ 480	-	\$ 480
12	396	\$ 9	405
19	138	3	141
26	203	1	204
August 2	274	-	274
9	9	-	9
16	42	-	42
23	48	-	48
30	333	7	340
GRAND TOTAL	\$1,923	\$ 20	\$1,943

U. S. Exports to Portugal by Principal Commodities as Reported to the
Treasury Department, July 5 - August 16, 1941

(In thousands of dollars)

TOTAL DOMESTIC EXPORTS	\$1,923
Autos, trucks, parts and accessories	125
Grains and preparations	82
Relief supplies	127
Tobacco and manufactures	243
Steel mill manufactures	187
Bituminous coal	297
Industrial chemicals	60
Fertilizers	80
Photographic and projection goods	31
Electrical machinery and apparatus	71
Industrial machinery	62
Animal products, inedible	52
TOTAL REEXPORTS	\$ 20
Leaf tobacco	6
Tea	5
Spices	7

TREASURY DEPARTMENT

167

INTER-OFFICE COMMUNICATION

DATE SEP 9 1941

TO Secretary Morgenthau
FROM Mr. Foley

Re: Lazard Freres & Co.

Our investigation indicates that Lazard Freres has acted for European interests in attempting to arrange the purchase of American interests in European properties only in the Silesian-American case, and at present has no other such transactions in contemplation.

I. H. F. H.

8/5/41

168

Original of this memo was taken back to Mr. Foley today with HM Jr's pencilled note at the bottom telling him to get the answer to Item No. 2 in the memo.

memo submitted 9/9/41.

~~Follow up 8/14/41~~

AUG 8 1941

Secretary Morgenthau

A. H. Foley, Jr.

In response to your two questions--

(1) What is Lazard Freres doing in this?

Lazard Freres is acting as agent for "IKAP" Internationale Kapitalanigen A. G., a corporation affiliated with or wholly owned by the Swiss Banking house of Robert La Roche which purports to be acting in this transaction for a syndicate of Swiss banks including La Roche itself and the Union Bank of Switzerland.

In addition, if the license had been granted, Lazard Freres proposed to act in liquidating the corporation under a very broad power of attorney from a certain Swiss corporation which is a subsidiary or affiliate of a certain German mining corporation which is involved in this transaction in other respects.

(2) Are they acting for other corporations in making sales via Switzerland?

We have no specific information bearing on this question.

(Initials) E. B. F., Jr.

JUL:BB:11d
8/1/41

Finished

Secretary Morgenthau

July 23, 1941

Messrs. Foley and Pehle

The matter Gordon Rentschler referred to was presumably the pending applications with regard to the Silesian-American Corporation.

These applications, which are now under study by the Treasury, State, and Justice Departments, involve several transactions which may be summarized as follows:

The Silesian-American Corporation owns or controls zinc, lead, and coal mines, and other properties in Germany and German-occupied Poland. The ultimate ownership of the Silesian-American Corporation is part American and part German. On August 1, bonds of the Silesian-American Corporation in excess of 2 1/2 million dollars will mature. A Swiss banking group is willing to provide the necessary funds to pay such bonds on condition that they are able to acquire all the American interests in the Silesian-American Corporation and the properties which it owns or controls. This would involve the Swiss paying for such interests at a cost in excess of an additional \$1,300,000.

On analysis, these transactions would appear to result in the ultimate German acquisition of the American interests in these properties.

(Signed) J.W. Pehle

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

JWW:s 7-23-41

See also memo of

July 23, 1941

MEMORANDUM FROM THE SECRETARY

TO: Mr. Foley
Mr. Pehle

The other day, Gordon Rentschler came in to see me and talked about, as I remember, some Polish mines which were trying to negotiate a sale through Lazard Freres via Switzerland.

I would like to know more about it.

*See memo from Pehle
& Foley of 7/23/41 and
press release of 7/24/41
denying application.*

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Saturday, July 26, 1941.

Press Service
No. 26-75

The Treasury today announced the denial of applications for licenses authorizing the purchase of Silesian Holding Company stock and a loan to Silesian-American Corporation by European interests.

-000-

TREASURY DEPARTMENT

173

INTER-OFFICE COMMUNICATION

DATE SEP 9 1941

TO Secretary Morgenthau
FROM Mr. Foley

This memorandum is submitted in response to your request for a report on the memorandum left with Mr. Wiley by Mr. Rene Plevan, a representative of General de Gaulle in the United States.

In his memorandum Mr. Plevan suggests that by general license the Free French territories be accorded the same freedom with regard to trade and other transactions as that granted to the Netherlands East and West Indies.

The Order of June 17, 1940, freezing French assets in the United States, included the areas which are now "Free French" territories. Because the Vichy Government is still being accorded official recognition by this Government, and in view of the prevailing attitude of the Department of State, it has been impossible to issue general licenses which would have the effect of removing such territories or persons from the scope of

- 2 -

the Order. This matter will, however, be raised with the Interdepartmental Committee.

The policy of the Foreign Funds Control in acting on applications involving trade with Free French territories or financial transactions by Free Frenchmen in the United States has been one of definite liberality. Specific licenses which have been granted by the Foreign Funds Control have included shipments of petroleum products and other merchandise to Tahiti and French Equatorial Africa, the remittance of funds by the British Government to Mr. Plevan and other representatives, and purchases by Free French officials in this country. In this connection, Mr. Plevan has recently discussed with representatives of the Foreign Funds Control the granting of a license to permit such purchases to be made on an extensive scale. Approval of such license is being granted today.

P. W. Fh

September 9, 1941

Files

Mr. Cochran

At 3:45 yesterday afternoon I telephoned Mr. Collado in the Department of State to ascertain the present status of our negotiations with Mexico. Collado stated that the Mexican Government had really had the State Department proposals only since August 25. State is now awaiting a formal reply from Mexico on the petroleum phase of the question. When the reply is received Secretary Hall will then tell the American oil men what the State Department proposes to do. Collado said there was no possibility of the negotiations being completed so that there could be any signing of the Stabilization Agreement by Secretary Morgenthau and the Mexican Minister of Finance this week. Next week would be the earliest possible time. Collado will keep us informed of developments.



HMC: dm: 9/10/41

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CONFIDENTIAL

176

P A R A P H R A S E

A telegram dated September 9 from the American
Consul at Rangoon reads substantially as follows:

There has been issued today a Government communique
setting forth the arrangement for the abolition of transit
duties on Lend-lease supplies destined for China. The
new arrangement provides for compensation of the Government
of Burma by the British Government for the revenue thereby
lost. The communique further states that the Government
of Burma had reluctantly decided that it would be unable
to waive transit duties on Lend-lease supplies due to the need
of funds for public building, the adverse effect of
economic action against Japan and greatly augmented expendi-
tures for defence. It was stated, however, that the
Government of Burma would gratefully accept the British
Government's generous offer to compensate for the loss of
revenue on Lend-lease supplies and therefore decided to
waive, effective September 3, duties on Lend-lease supplies
to China.

Copy:hbr:9-13-41.

TREASURY DEPARTMENT

177

INTER-OFFICE COMMUNICATION

DATE September 3, 1941

For Miss Chauncey

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£ 44,000
Purchased from commercial concerns	£115,000

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

The Argentine free peso continued to improve, closing at a high of .2385 (as compared with .2373 two days ago). One of the New York banks reported that it had received an order from a bank in Colombia to purchase 290,000 Argentine pesos. The New York bank bought this exchange through a broker from a Uruguayan firm. It was reported that the American Express Company also purchased 150,000 Argentine pesos late this afternoon. Some time ago, the Company informed the Federal that they were interested in buying pesos for Italian remittances; it is possible that their purchase today was affected for that purpose.

The Cuban peso improved fractionally to a discount of 7/16%, a new three-year high.

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

Canadian dollar	10-3/8% discount
Brazilian milreis (free)	.0505
Colombian peso	.5800
Mexican peso	.2070
Venezuelan bolivar	.2750
Uruguayan peso (free)	.4400

In the Shanghai exchange market, today's yuan-dollar quotations were unchanged from those of yesterday. Licensed banks are selling dollars against approved imports at 5-5/16¢ (18.8235 yuan per \$1), and can obtain cover from the Chinese Stabilization Board at 5-11/32¢ (18.7134 yuan per \$1). Licensed banks will also reportedly buy dollars in the market at 5-3/8¢ (18.6046 yuan per \$1).

There were no gold transactions consummated by us today.

The Federal Reserve Bank of New York reported that the Bank of Canada shipped \$3,381,000 in gold from Canada to the Federal for account of the Government of Canada, for sale to the New York Assay Office.

In London, the spot and forward silver prices were again fixed at 23-1/2d and 23-7/16d respectively. The U.S. equivalents were 42.67¢ and 42.55¢.

The Treasury's purchase price for foreign silver was unchanged at 35¢. Handy and Harman's settlement price for foreign silver was also unchanged at 34-3/4¢.

We made no purchases of silver today.

CONFIDENTIAL

B. M. P.

RESTRICTED

G-2/2657-220; No. 488 M.I.D., W.D. 11:00 A.M., September 9, 1941.

SITUATION REPORTI. I. Eastern Theater.

Ground: German troops have captured Schlisselburg, a city at the point where the Neva river flows out of Lake Ladoga. Leningrad therefore is cut off from its land connections with Russia. A theoretical supply route still exists by which Leningrad can be provisioned across Lake Ladoga.

Attempts by Russian forces, on September 5th, encircled near Luga, to break through the German blockade lines were repulsed.

Russian forces are counterattacking on the Bely-Yartsevo-Yelnya-Roslavl-Bryanak front. These forces recaptured Yelnya on September 8th.

The German drive southeastward from Gomel towards Zharkov has made only slight gains in recent days. Konotop is still in Russian hands. Further west however, German advances have been registered. A German column has crossed the Desna river to the east of Chernigov and is moving southward to the southeast of that city. Other German forces, have crossed the Dnopr river to the north of Kiev and have reached the west bank of the Desna.

The German bridgehead to the east of Kremenchug has been greatly enlarged in the last few days, but the city of Kremenchug itself is still in Russian possession.

Air: Moscow and Leningrad were subjected to strong bombing attacks.

II. Western Theater.

Air: Cassel, in west central Germany, was bombed by 100 planes during the night.

On the seventh, German objectives were: Great Yarmouth, Boston, Peterhead, Margate, Ramsgate and the Thames Estuary.

III. Middle Eastern Theater.

Ground: Reports consist of inconsequential activity.

Air: Bombing operations in the Red Sea resulted in the sinking of an American freighter.

The British sunk two Axis ships in the Mediterranean and raided Benghazi and objectives in Sicily.

Tobruk was bombed.

RESTRICTED

September 10, 1941
12:15 p.m.

GROUP MEETING

Present: Mr. Gaston
Mr. Thompson
Mr. Cochran
Mr. Schwarz
Mr. Stewart
Mr. Viner
Mr. Bell
Mr. Kuhn
Mr. Foley
Mr. Haas
Mr. White

H.M.Jr: Well, Herbert, how are you?

Gaston: Very well. I haven't anything of very great interest.

Here is a little scheme that we cooked up, Admiral Waesche and I (handing clipping to Secretary).

The recruiting was lagging. This plane from Elizabeth City is going around the middle west and doing very well. There is a monthly report on it. It is not too intelligible, but the substance is that we have an awful flood of new cases. We are trying very desperately to double up the amount of the force.

Here is a little bit interesting, that London shipping record which has a paragraph about the cutters.

- 2 -

H.M.Jr: Good.

Gaston: You asked some time ago for a report on the sterling products. It was material that Sam was able to get.

H.M.Jr: Who is Sam working for these days, anyway?

Gaston: I guess theoretically he is working for me.

H.V.Jr: Let's get out of this theoretical status. Norman, fix him up, now that Mr. Wiley has left, with an actual status. Talk to Mr. Gaston.

Thompson: He is to continue on his present work?

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

Foley: We have got a plan, Mr. Secretary, that I would like to talk to you about, that you spoke to me about before you went away on your vacation. You said to give some attention to putting him into an operating, working place, and we could use him in Foreign Funds.

H.M.Jr: I think Herbert wants him too, doesn't he?

Gaston: I think he is quite usefully employed there.

H.V.Jr: But I don't want him floating, you see.

Gaston: You don't want anything uncertain about his status.

H.M.Jr: I want him definitely under somebody. Why don't the three of you talk it over?

- 3 -

The three of you ought to be able to settle Sammy.

Gaston: I think the sort of work he is doing ought to be continued.

If they are lacking for something else, I think we need to get somebody else as a part of the law enforcement coordination to do the certain things he is doing.

H.M.Jr: I would like to get him out of the special status and get him regularized, if that is possible.

Gaston: Right.

H.M.Jr: What else have you got?

Gaston: We are going to have a meeting at two fifteen with Navy and the Bureau of Navigation and FBI about an interim plan of regulation of small boats in the harbors, fishing boats, dump boats and the like, that requires a complete system of license and identification and so on. I don't know whether you would be particularly interested, but it is something in which various departments are interested and we can best do it through these anchorage regulation powers.

H.M.Jr: Chick, here is some stuff I would like to give out at my press conference tomorrow.

Schwarz: Would you like copies?

H.M.Jr: Well, for the press. I mean, particularly this stamp stuff. I don't know whether it has been given out. Some of it comes under Mr. Bell and some of it comes under - but let's handle it tomorrow.

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- Schwarz: I will check with Bell and Harold.
- Gaston: We had a re-broadcast of your speech at ten fifteen last night, and it came over very well indeed.
- H.M.Jr: Good. The Boston audience - you don't get much help from them.
- Gaston: Well, I noticed they cheered at one point.
- H.M.Jr: Well, the Mayor led it off, but any other audience other than those baked bean fellows are - but I mean it is awfully hard work to keep your pitch up.
- Foley: You were on the wrong side of town.
- H.M.Jr: I mean to realize you were talking to the radio, and you had to get it for the radio people, but everybody I gather that listened liked it, which makes it all the more important that we get a good hookup, and I have asked Chick to look after my Chicago radio hookup, because - and I am going to say something. If it isn't factual you can correct me. I gathered from what you (Kuhn) said yesterday that Mr. Vincent Callahan didn't want to contact the stations because he thought it was Defense Savings Bonds and this was me.
- Kuhn: I don't think that is correct. It was left first to the Boston people to arrange a coast-to-coast hookup which they did. Then when we investigated, we found that Mutual is a system that won't tell you where the thing is being broadcast.
- H.M.Jr: But Ferdie, didn't you tell me that when you went after it for me - that Callahan said he didn't want it to go out from the Defense Savings Bonds section?

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Kuhn: No, sir.

H.M.Jr: I thought you did.

Kuhn: No. He said, "Well, why don't we send a telegram to all the Mutual stations, since the Chain won't tell us what is being done?"

H.M.Jr: But he wanted you to sign your name so it wouldn't get mixed up with Defense Savings.

Kuhn: That wasn't his motive.

H.M.Jr: Wasn't it?

Kuhn: He thought it might be more effective coming directly from your office. He never mentioned that as the reason.

H.M.Jr: Are you sure?

Kuhn: Positive. He has always done anything that we ever wanted him to do, and also, one reason for that is that the Defense Savings broadcasts have cut into the stations' willingness to put you on the air, I think, at any time.

I think that was one reason. They have done so much on other chains.

H.M.Jr: Well, anyway, I think we can divide it this way. Where I am going on myself, I think we will let Chick look after it.

Schwarz: We treat it as a straight news event.

H.M.Jr: That is right.

Schwarz: And not as a Treasury promotion scheme.

H.M.Jr: Do you think that is a good idea, Ferdie?

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- Kuhn: Perfectly. Also this morning I found a dozen more telegrams from big city stations, Minneapolis, Atlanta, and Omaha, and so on, saying that they were delighted to carry your speech last night.
- H.M.Jr: But here in New York and Washington didn't.
- Schwarz: Washington had the re-broadcast.
- White: We had a very hard time getting it. We got it very faintly.
- H.M.Jr: I mean, Ferdie's job was to help me write the speech. He did a beautiful job. So that was his end.
- But it was Harold Graves who takes the blame for it. He isn't here, but if it is anybody's blame, it is his.
- Kuhn: I think if you were to total it up, you would find you had a pretty big audience last night on the radio.
- H.M.Jr: While I have got that in mind, Norman, I wish you would get out a regulation that no communication should go out of the Treasury with my name signed to it unless I or Mrs. Klotz initials it. That is something that never happened until recently, but there are communications going out with my name signed, but unless Mrs. Klotz or I - and if I go away and if she shouldn't be here, then bring it to my attention and I will designate somebody else.
- Kuhn: Mr. Secretary, in that connection --
- H.M.Jr: You see? But I mean if I am gone and Bell

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is here acting or Herbert, but I don't want this miscellaneous use of my name unless either she or I - when either she or I are here - but if neither of us are here, I will designate somebody else.

Bell: Does that apply to the routine stuff? For instance, I never change your name on Treasury Bill announcements or the telegrams going to the Federal. I just initial them and let them go.

H.M.Jr: No, I am thinking more of this Defense Savings Bond stuff. I mean, I don't know - they have been pretty liberal in asking people and I don't know that I always want to sign my name to it.

I don't know. I enjoyed the story about Goodman saying he got a telegram from me coming down, and immediately called up his lawyer to find out what he should do, and so forth and so on, but it was written in a very amusing manner, but I think they have been a little bit too free.

Thompson: Yes.

Kuhn: Mr. Secretary, you authorized Graves, Odegard and myself to pass on articles in connection with Defense Savings to be signed with your name without referring them to you, and we have been doing that.

H.M.Jr: Articles?

Kuhn: Articles for trade magazines and so on.

H.M.Jr: Well, as long as I am here you had better show them to me.

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Kuhn: Number two, telegrams go out okayed by Graves and myself and --

H.M.Jr: Well, you had better show them to me, Ferdie, from now on.

Kuhn: All right, sir.

H.M.Jr: I think we have been too indiscriminate.

Kuhn: Have you had any kickback on any of them?

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

Kuhn: But if Mrs. Klotz initials them on a day when you are busy, that is all right with you?

H.M.Jr: Oh, yes, she doesn't have to show them to me.

Kuhn: Right.

H.M.Jr: No.

Kuhn: And when Mrs. Klotz is not here?

H.M.Jr: I am here. I like a little check-up. I have no complaints. If I am not satisfied - how was it before?

Kuhn: It was left - after we had had some trouble on this, it was left that articles which had been requested from you by trade magazines or any magazine, which Graves, Odegard and I think suitable and legitimate requests, can go out if they are okayed by the three of us.

H.M.Jr: All right, that is Number one.

Kuhn: And Number two --

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H.M.Jr: That will still stand.

Kuhn: Number two, any telegram from you in connection with Defense Savings, thanks or asking some artist to appear, I have been initialing and they have gone out in that way ever since I can remember.

H.M.Jr: All right, we will leave it that way. I didn't realize that it was that way.

Kuhn: That is the way it has been.

H.M.Jr: That is all right, we will leave it that way.

Kuhn: Nobody sends any telegram for you without coming to me and having me initial it.

H.M.Jr: I was thinking that Callahan could send out some.

Kuhn: He never does.

H.M.Jr: It goes to you?

Kuhn: Every time.

H.M.Jr: Well, that is all right.

Bell: Most of that stuff goes out under his name, doesn't it, where he is making requests and so on?

Kuhn: Yes, but if the Secretary's name is used, it always comes to me, without fail.

H.M.Jr: No, I think that is all right, so we will let it go. I thought Callahan could sign them.

Kuhn: I think it will save a lot of trouble.

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H.M.Jr: He can't send out anything?

Kuhn: Nothing with your name without initialing and approval by me, and sometimes I don't approve.

H.M.Jr: That is all right. Well, it doesn't do any harm to check up once in a while, for me.

Kuhn: That is the way it has been working.

H.M.Jr: That is entirely satisfactory.

Kuhn: Sometimes they are thrown out.

H.M.Jr: That is entirely satisfactory. I didn't realize that.

Thompson: I know that Harold has told me that he didn't permit anyone over there to use your name.

H.M.Jr: O.K. I am well protected.

Kuhn: They have never done that.

H.M.Jr: I say I am well protected.

Kuhn: I think so.

H.M.Jr: I think so.

Foley: After you spoke to me about the telegram from Baumbusch yesterday, Dan and I talked the matter over --

H.M.Jr: You will have to talk a little louder. My ears haven't cleared.

Foley: After you spoke to me about the telegram you had from Baumbusch, Dan and I had a little conference and I called Allan Sproul and John Pehle called Norman Davis. Baumbusch wrote a letter on the fourth of September to

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the bank up there and simply said that he had written a letter on the twenty-ninth, one, in regard to Foreign Funds control, and the other in regard to Consumer Credit regulations. And he wanted to refer to the letter he had written on Foreign Funds and go on to say that he was having a meeting of the executives of the member banks for discussions of various problems in the next few days and he would like to have somebody come up to discuss the regulations, so there really wasn't any complaint in this letter.

H.M.Jr†

Yes, but then I spoke to my local bank and he says, "They can not - they were up to some meeting at Saratoga, the bankers, and they can't get this thing explained. He said he stays up every night working on this stuff. What I should think - I don't know whether they have done it, but certainly if we get these complicated things out - here is another complaint; that the Federal Reserve ought to hold meetings - say one at Poughkeepsie where fellows could come in from Kingston and so on. Another one at Albany. District meetings. That should go on all over the country to take care of the little fellow.

Foley:

On the eighteenth of August, Mr. Secretary, after we had had two meetings here in Washington of representatives of the various Federal Reserve Banks, we sent this telegram: "A completely efficient administration of Executive Order 8389 as amended in every section of the nation is of the greatest importance to the economic and financial side of the national defense. The fifteen thousand banks of this country are a vital link in the success of Foreign Funds control. Most American banks have kept themselves fully informed of every step taken under the Executive Order and have

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cooperated expertly with the Treasury and the Federal Reserve Banks. Foreign Funds control significantly affects the country's welfare. It places important responsibility" --

- H.M.Jr: I know, but then what happened? That is a telegram.
- Foley: Well, we asked them to get in touch with each bank --
- H.M.Jr: Yes, but --
- Foley: ... in their district and asked the bank to designate an important official.
- H.M.Jr: But did they do it?
- Foley: Yes, they did that.
- H.M.Jr: But then did they go into the field?
- Foley: Well, now, I am getting up a telegram to each Federal Reserve Bank following up this wire of August 18, and saying that we are getting reports of instances where the small banks in various parts of the country indicate that they are not familiar with the thing, and we are asking them to follow up to see that they are familiar, to arrange meetings in the rural areas, attend the banking meetings in the rural areas, and bring the local small banks up to date in so far as this is concerned.
- H.M.Jr: Do you know any banker in Syracuse?
- Foley: Yes.
- H.M.Jr: Call him on the telephone and ask him how it is going.
- Foley: All right.
- H.M.Jr: Ask the Federal what have they done since they got this telegram.
- Foley: We will --
- Bell: The trouble, Mr. Secretary, is that these regulations are very complicated and the average small country banker just will never get them.

Foley: Now, this is being - these are questions and answers regarding T. F. R. three hundred, for instance, that we have gone over here. There are a hundred and fifty questions and answers.

H.M.Jr: Now, listen, old fellow, I have been through this before. You have got to run schools.

Foley: Yes.

H.M.Jr: Now, if, for instance - let's say at Albany everybody within fifty miles is invited to come in to Albany.

Foley: Yes.

H.M.Jr: And you held it one, two or three days, a school, and that was repeated all over.

White: I think that is a good idea and I think a Treasury man has to be there because otherwise you might not get sympathetic treatment.

Foley: No, I don't agree.

H.M.Jr: Let me finish.

Foley: We can't do that --

H.M.Jr: Excuse me. I, when I was in Farm Credit, with all the rush and everything else, held twelve regional meetings, where we brought in people from four states and we covered the whole United States and we stood up there, Bill Myers and I - you remember how we answered questions, Gaston. And by the time we got through, everybody in that room knew about the four divisions of Farm Credit and they thoroughly understood it.

Now, the fact that you say these fellows - that they are complicated, that isn't the answer, Ed. It has got to be a question of - if it is a three day school

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and the answer is, a fellow says - well, instead of saying, "Damn it, the Treasury sends in all these silly regulations" they say "Treasury is wonderful. They gave us a three day school." It is just a difference.

- White: I think Dan is right. These things are very complicated and we are very apt to forget how complicated they are, particularly for small banks, and I think in order to get the kind of sympathetic interpretation and explanation to these various groups that there ought to be some such arrangement and that in every such school there ought to be a Treasury man. If you haven't got some, then train some for that purpose.
- Bell: Ninety-five percent of the questions that are raised under these regulations will never be met by the average banker and it is that five percent that he - he has to read the whole regulation to get all the - to get his little five percent out. They will just never get them.
- Foley: Well, in so far as the Federal Reserve Banks are concerned, Mr. Secretary, Norman Davis and Kimball and Knoke and those boys in New York know it as well as we do down here.
- H.M.Jr: Look here, you have got two of the best teachers in the United States sitting in this room. One of them is connected with an extension service known as the Rockefeller Foundation. Is that an extension service?
- Stewart: Yes.
- H.M.Jr: Subsidized. Ask these peoples' advice, how to run a field school, to educate these

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people, and the very fact that there are - they don't understand it and the very fact that the little fellow doesn't, he is the fellow that ought to know in order to make good-will. I mean, the stuff that you get - I mean on the gasoline business, from Ickes, it is just terrible.

Bell: That is right.

Viner: We ought to have a clinic hour in which a group can come in and hear particular cases discussed as these things develop in addition to any of these schools. It is my impression from Chicago that when they master it then the next day a case comes along that doesn't seem to fit the questions and answers --

White: There isn't a country in the world, Mr. Secretary, in which complaints against foreign exchange control haven't super - haven't exceeded complaints about any other government function, and I think there may be an opportunity, with the expenditure of a little more, probably, than might appear to start, to get an entirely different reaction from the public as a whole.

H.M.Jr: May I interrupt? Ed, this is not a job for a lawyer. It isn't - this is a job for an extension service, for teachers, for people who realize going out. It is a teaching job. It isn't a legal job and with these people - Harry teaches.

Bell: Does he?

Viner: It is a lawyer's job too and lawyers are also teachers.

Foley: It is a very technical job.

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White: I am sure a program can be arranged.

Viner: No matter how good a system you can set up, it may be the best the human mind can think out, you are still going to get problems because this is bound to - I am not saying that all has been done --

H.M.Jr: I have got a suggestion.

Viner: If you still keep on getting complaints, it doesn't mean that the thing --

H.M.Jr: I have got a suggestion. I will bet after you have done this thing that - here is the good will. Either I go to the American Bankers Association and say, "Will you join the Treasury? We would like to put on a half hour in the morning when the radio isn't busy and we are going to take the more difficult questions and we are going to give questions and answers once a week."

White: A round table.

H.M.Jr: Yes.

White: That is right.

H.M.Jr: At twelve o'clock or sometime which isn't a crowded hour on the radio and will the American Bankers Association join us in this program? We are going to hold this thing but every week, once a week, we will put on these questions and answers and as the questions come in we will have somebody --

Viner: Possibly a group. It may take a group.

White: It would take a group. Questions and answers and questions and answers.

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- H.M.Jr: That is all right. And the thing is important enough for good will - I mean, I don't care, Dan, if you don't mind, that is the five percent - you talk about morale. We do everything for morale. If they would say, "Well, by God, the Treasury has done a wonderful job. They have gone out and they are just as much interested in the fellow in the town of two thousand as they are in New York City."
- Bell: I agree with you that that is the people we want to reach.
- Foley: I think you will find, Mr. Secretary, that a larger percentage of the population are not criticizing but I recognize the importance of the little fellow.
- H.M.Jr: Don't take it personally.
- Foley: I am not taking it personally.
- H.M.Jr: I mean, this is something entirely new. I am looking at it from the standpoint of unity, morale. We put on a Treasury Hour. My God, here you have got fifteen thousand banks. I want them to go out and say, "The Treasury is wonderful. The time and the patience that they take, and we are going to do it." The next thing - and we get a rebound on this, "Oh, let's forget selling these Defense Savings Bonds." I am sick and tired of the Treasury. You see?
- Foley: Yes.
- White: That is particularly true --
- H.M.Jr: Or they come back and, "Well, I am sick now. If they want us to clear WPA checks, let them

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pay us. I am just fed up with it." We are always going to the banks. They have got to buy my merchandise. I want the banks - they are my customers - I want them happy. It is up to this group to make them happy, you see.

Bell: I think that is right. I agree with that.

H.M.Jr: They are my customers. I have got to make them happy if I am going to be successful. You have got enough talent here that you could take these people aside and sit down and work out a program. You will help, won't you, Walter, on this? And Jake?

Viner: Sure.

H.M.Jr: Am I right, Jake?

Viner: I think you are absolutely right. All that I have in mind is that while you are absolutely right, don't expect that you can run a thing like that without having individual cases of confusion and misunderstanding because it is a tough proposition.

H.M.Jr: But also admit that through no fault of anybody, we haven't done it on an extension basis like - that we have something that we go right down to the grass roots and explaining this thing to the little fellow, - we have never had a thing like this before.

White: I think, Mr. Secretary, we have got many fewer complaints than any other country.

Viner: I have been impressed with the achievement as an administrative job, that it hasn't caused more headaches than it has. It seems to me almost a miracle in administrative accomplishment. They have done beautifully.

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- Foley: I am awfully glad Jake has said that because I think that is true.
- H.M.Jr: Well, I always say in Washington you get three warnings and before somebody jumps on us in something like this, I would like an educational program worked out. I would like you to consider a radio program for a half hour early in the morning when things aren't crowded and - so that you can have a discussion of the questions that come up and do the thing because these are the people in the final analysis - I have got to go to them to help me finance this national defense program and I want satisfied customers. I have got to have satisfied customers. And the more fuss you make over them the more they like it.
- White: I think you have got to do it soon in order to - because the Senator --
- H.M.Jr: Excuse me. Ferdie, begin to think about my speech for the banks, the stuff I have been saying for October first, will you, the stuff I have been saying here in the last ten or fifteen minutes. It might be useful. We have got to get a subject. I have no subject. Incidentally, I don't know what I am going to say if I go up on the fifteenth.
- Kuhn: I was going to ask about that.
- H.M.Jr: But the stuff I have been saying here.
- Foley: Do you want to get out of that, Mr. Secretary, or do you want to go?
- H.M.Jr: I would love to get out of it.
- White: On the fifteenth?

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- H.M.Jr: Yes.
- Foley: Well, just before Henderson --
- Schwarz: You have already supported the legislation publicly now.
- H.M.Jr: Is that a fixed date?
- Foley: No, it is not a fixed date.
- Bell: They are going to take Henderson on again, as I understand it.
- H.M.Jr: Then why not take it for granted that I am not going?
- Foley: All right. Will, I mean if you want me to work - work with that approach, I will be glad to see what we can do about getting you so that you won't have to go.
- H.M.Jr: Well, let's put it this way. Tuesday is important to the Morgenthau family. My son becomes an ensign in the Navy. I will not be here Tuesday. If I don't have to be here Monday - well, I am short on apple pickers.
- Kuhn: You had one date Monday with those retailers.
- H.M.Jr: Well, I could be here but also I am very short on apple pickers and I am having great trouble getting apple boxers.
- Viner: Do you need any apple polishers?
- H.M.Jr: We don't do that, Jake. The apples are so beautiful they sell themselves. You can save your spit.
- White: I don't know whether the Secretary is familiar

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with the term, "apple polishers".

Foley: Sure he is.

White: I beg his pardon.

H.M.Jr: Oh, I am thinking of what they do in the apple industry.

White: He is thinking of what they do in the teaching industry.

Schwarz: An apple for the teacher.

H.M.Jr: Are we all right on this? You have got what I want?

Foley: Sure.

H.M.Jr: Then go to it, will you?

Foley: All right.

H.M.Jr: I have got to go around the room. Let me know what you do. And then two things. Find out from your man and let me know today, if possible, if I am expected up there on the fifteenth.

Foley: Yes.

H.M.Jr: And then would you ask somebody on the Hill - have your Hill man ask Carter Glass if he will introduce my speech into the record.

Foley: Sure.

H.M.Jr: Carter Glass. Please. Are you making notes?

Foley: Mental notes. I have one other thing.

H.M.Jr: Can't I get by you?

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Foley: No.

H.M.Jr: These married men, they take an awful lot of time, don't they? (Laughter).

Foley: Colonel Bain of the I. T. & T. came in.

H.M.Jr: Yes, I heard about him.

Foley: We ought to check the cash after he left. he is a pretty smooth guy.

H.M.Jr: I'll say he is smooth.

Foley: He has got some properties in Spain which he wants to sell. They are worth about sixty-four million dollars. He has worked out a deal with the British whereby the British will give him sterling and he has worked out a deal with Jesse whereby Jesse will make the loan, but he has got to get dollars and he wants the Treasury to tell him that we will approve the deal whereby the British Treasury can pay him dollars during the post-war period. Now, it is our recommendation that we - after we check with the State Department and with Jesse Jones, turn the matter down.

H.M.Jr: It is all right with me. Was it he that got that slice of money out of Roumania?

Foley: Yes, that is right. He got a hunk. He got fourteen million dollars for his Roumanian properties and nothing has been approved since that time and while this isn't a Foreign Funds Control problem, because it doesn't involve the use of blocked funds, it is a question involving the use of dollars by the British Treasury and it seems to me --

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H.M.Jr: I would like to have a little memo on it to study it.

(Mr. Foley handed the Secretary a memo).

My heavens, I said a memo.

Foley: Well, it is only a memo. (Laughter).

H.M.Jr: What else?

Foley: That is all there is to it.

H.M.Jr: All right, send it up to the house. Now can I go on to the next?

Foley: Right.

H.M.Jr: Now, give me a report. You have got all this talent. Get them to help you on this school.

Foley: All right.

H.M.Jr: Harry?

White: With reference to your remark as to a subject for a speech for October first, I think it might contain something a little more important than what I gathered your thought was. (Laughter).

Viner: Mr. Secretary, that is not a case of apple polishing.

Stewart: That is right.

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White: Here is a - I thought he was going to work on it.

H.M.Jr: Will you supply the more important ideas?

White: No, I thought Ferdie Kuhn was very fertile.

H.M.Jr: We need some ideas, and we will be very glad to receive some from you, your section, Mr. White.

White: I will try. There is one action there called - that we would like to have you consider and that is to - asking you to get in touch with McCloy because that is a bottle neck on an important matter.

H.M.Jr: Well, you had better ask for a conference, then, and take your memo back. I will do it when you see me.

White: All right, I will get it.

You asked about - you asked Mr. Foley and myself for exports, petroleum, and other things, to Spain.

H.M.Jr: Yes, and I see a lot of people got excited about that.

White: That is a memo on it. It is mostly tables, just the first page.

H.M.Jr: I will take that home.

Gaston: That Spanish situation?

H.M.Jr: Yes.

Gaston: We have asked the British - they reported there was nothing to these reports of diversions, but we have asked the State Department

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to look into it and see if they can give us any verification or disproof of it. We have only stories from two people, a master and an engineer. I doubt if there is much to them.

H.M.Jr: O.K.

All right, Harry?

White: The rest of the memos can--

H.M.Jr: You will get a chance?

Cochran: The State Department told me yesterday there would be no signing of the Mexican arrangement this week. They still have to hear from Mexico on the petroleum phase of it. Then they have to get our own petroleum people in. They haven't consulted them.

H.M.Jr: Did I talk too soon?

Cochran: I don't think so. There might still be delays. There has been some criticism in the business papers about the arrangements.

H.M.Jr: Not about our arrangements?

Cochran: No, about the general idea of putting in funds to help out the payments, you see.

I have here the Stabilization Fund statement and one on the sale of British securities. They are still going on.

H.M.Jr: Are they still selling?

Cochran: Yes, there are small sales.

The only other thing I had interests Mr. Foley. It is that Swiss gold to Portugal. I think Mr. Pehle wrote a memorandum on that.

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Chauncey: I have a memo that he prepared.

H.M.Jr: Will you let me take it home with me?

Chauncey: Yes.

Cochran: I have some more information on the subject which they put in the memo, so I didn't want to keep writing. If you would get the two of us together--

Foley: Well, the memorandum that John and I submitted to you contains information that the British have gotten in so far as that transaction is concerned, and they think it should not be approved. John feels quite strongly about it, and he says if you are disinclined to go along with his recommendation that the thing be turned down, that he would like a chance to be heard.

H.M.Jr: Good.

Cochran: I think we ought to settle it fairly soon.

H.M.Jr: Well, we will do it best we can.

Anything else?

Cochran: That is all.

White: May I return to something, Mr. Secretary? Did you happen to notice yesterday's Wall Street Journal?

H.M.Jr: About me?

White: About your proposal.

H.M.Jr: Yes, who has been talking?

White: I don't know who has been talking, but if

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there is going to be any more talking, I wonder-- (Laughter)

- White: I was wondering before the scheme jelled or crystallised, I wondered whether there could be some discussion.
- H.M.Jr: You and me both.
- Now that Kintner and Alsop are in the armed forces, it is a little harder to find who talks.
- Bell: What is the subject?
- H.M.Jr: Why, the whole thing, Morgenthau's idea on--
- Schwarz: Under serious consideration.
- Foley: Severance wage.
- White: There is a whole column and a half on the front page.
- Bell: It was in your speech.
- H.M.Jr: Excuse me?
- Bell: It was in your speech.
- H.M.Jr: But all the details.
- Schwarz: Nobody has mentioned a two months' period publicly. You never have.
- H.M.Jr: Well, I will show you how innocent I am. I have been carrying George Haas' memorandum around with me for five days and I haven't read it yet.
- Bell: Maybe that is the answer, somebody else read

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it when you were carrying it around.

H.M.Jr: Got any good ideas about Chicago, Harry?

White: I - That is the idea I have got, nothing, but I think that that - an elaboration of that proposal might be worth considering. Oh, I am sure some of the men here will find some good idea.

H.M.Jr: Ask Harry whether he thinks that I can use that (handing paper to Foley) in Chicago.

All right, George?

Haas: I have nothing.

White: I think this might make a wonderful theme song. (Laughter) This is all in the interests of increased production.

H.M.Jr: I am sorry, I am being a little naughty.

Chauncey: I can't judge that.

H.M.Jr: We will let you see it afterward if you will promise not to read it when it comes to you. It is a little mean.

Ferdie, how did you sleep last night?

Kuhn: Very well.

H.M.Jr: I had a bad night. I couldn't get to sleep until one or two o'clock.

Kuhn: I never can on trains, but I slept six or seven hours and it was all right.

May I tell those retailers who have been asking, that you will open their party on Monday?

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H.M.Jr: Not definitely yet. You had better ask me again Friday.

Kuhn: And you wanted to talk to me about Mr. Hummert, who is coming down tomorrow.

H.M.Jr: Will he be here?

Kuhn: He will be in town tomorrow.

H.M.Jr: Is he doing a good job?

Kuhn: As well as he can. I think that he ought to be seen for a little "thank you."

H.M.Jr: Do you think I ought to have him for lunch?

Kuhn: Not necessarily, but he would like it. I thought of a fifteen minute meeting here in your office.

H.M.Jr: He runs that program, doesn't he?

Kuhn: The NBC thing, yes. He has never seen you, and never seen any of us around here.

H.M.Jr: Well--

Kuhn: I mean, he is entitled to a little meeting.

H.M.Jr: All right, I will have him for lunch and you and Mr. Graves.

Kuhn: Fine.

H.M.Jr: Chick?

Schwarz: I have nothing further.

Bell: Larry Duggan of the State Department called me yesterday and said Mr. Hull was very much interested in getting the values that the

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Standard Oil Company had put on its Mexican properties and wondered if that information might be gotten from the income tax returns, the balance sheet they filed with the returns, and he said that if you preferred, you could give that information confidentially to Hull alone, informally, and not send it over so it would be available to all the State Department people, if you preferred it that way, but Mr. Hull would be very much pleased.

H.M.Jr: Standard Oil of what?

Bell: New Jersey.

H.M.Jr: What do you think, Ed?

Bell: They want it in connection with this Mexican negotiation. They want to get some idea of the value that the Standard puts on the Mexican property.

H.M.Jr: Is White poking you?

Foley: No, he didn't touch me. I will lean away from him so he can't.

H.M.Jr: What do you think, as my counsel?

Foley: Well, I don't know. I would like to talk it over with Bernie and John.

H.M.Jr: Will you?

Foley: Yes.

H.M.Jr: I would like to know what the precedent is.

Foley: All right. Suppose I get together with Dan?

H.M.Jr: Yes.

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Bell: Yes, John Sullivan ought to be in on it too.

H.M.Jr: Will you?

Bell: O.K. We would like to have a conference with you on the Social Security program as soon as possible. I understand that McNutt had an appointment with the President today, but I assume he didn't come down, I don't know.

H.M.Jr: He is rushing it a little bit. He has taken the attitude he isn't waiting for anybody.

Bell: Who is that?

H.M.Jr: McNutt kind of gave the impression at Cabinet that we and Budget were sort of sitting back.

Bell: He was over at the conference day before yesterday.

H.M.Jr: Well, listen, don't you want to see me before the three o'clock meeting? Don't you want to bring me up to date?

Bell: We can. We have a memorandum, or hope to have, by three o'clock on which we have all agreed, and you can read it and we can tell you where we go from there.

H.M.Jr: Are the Federal Reserve people going to be here?

Bell: Yes, and Allan Sproul.

H.M.Jr: Oughtn't I to have a little coaching, a little discussion in our own shop?

Bell: I don't think it would do any harm, if you have got the time. We are going to meet at two thirty on the revised draft.

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- H.M.Jr: Well, I thought I would meet with you at two thirty and I would like to - like very much to go over this thing just with our own people.
- Bell: Well, we had a meeting at two thirty with Ronald Ransom to kind of put the draft of the memorandum in final shape.
- White: I don't think that will take more than five or ten minutes.
- H.M.Jr: Can't I get a little coaching on this beforehand or do you want me to do it just out in the open?
- Bell: I see no harm in doing it right out in the open.
- H.M.Jr: All right.
- Bell: But I see no harm in having our meeting at a quarter of three with Ransom and seeing the Secretary at--
- White: There may be some question which the Secretary might want to raise. I think fifteen minutes would be better, ahead of time. I don't think you will need more than fifteen minutes for Ransom.
- H.M.Jr: Do you need Ronald Ransom at two thirty?
- Bell: Well, he is supposed to agree on the memorandum that we submit to you.
- H.M.Jr: Would he mind waiting from a quarter of three until three?
- Bell: No, I will call him and tell him to come at a quarter of three.

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Viner: You mean at three.

Bell: No, we will see the Secretary at two thirty, and then we will go back in my room and go over the final draft with Ronald at two forty-five.

H.M.Jr: Yes. Then after that is over we will talk about Social Security and see what is left. I have no more appointments the rest of the day.

Bell: But I would rather you would give us that time tomorrow than today.

H.M.Jr: Well--

Bell: Because half an hour or an hour would be better, but a half hour if you can't spare the hour.

H.M.Jr: Let me get my calendar.

Bell: It is quite a program. That is all I have.

H.M.Jr: I am sorry. I was ready to do it this afternoon.

Bell: Well, we are ready too, but Blough has been on the Hill all morning, and I don't know whether he will be here this afternoon or not. They would be ready at four o'clock. I think it is a little late to start in on a program of that kind.

H.M.Jr: O.K. All right, eleven o'clock.

Thompson: We have been giving the usual thirty days' notice to the Emergency Relief employees whose services are being discontinued, but we find in many cases the employees have two or three months accrued annual leave to their credit. Giving them thirty days means that in some

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cases they can be absent four months before they go off the payroll. The appropriation is cut very drastically, and we have got to save money on it, and we would like to eliminate that thirty days notice where the employees have accrued leave.

H.M.Jr: No, it is not fair.

Bell: Where they have accrued leave in excess of thirty days. Be sure that they get a full thirty days' advance notice that their services are going to be terminated. I think that is fair.

Thompson: You see, the accrued leave has run up to sixty and seventy days, and when you add Sundays and holidays to it, it means three or four months, and then thirty days notice on top of that is quite a long period.

H.M.Jr: Can't they work those thirty days?

Thompson: Yes, but we don't need the services. We are trying to save money to get the appropriation down.

H.M.Jr: Is it the custom to give thirty days' notice?

Thompson: That has been the regular practice.

H.M.Jr: That is kind of cutting corners. That is cutting corners.

Thompson: Eddie Bartelt is having quite a time to get down. He had two million dollars to cut on appropriations.

Bell: Cut it right in two.

H.M.Jr: The fact that the fellow has got an accumulated leave and if we don't give him a thirty days'

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notice, that is cutting corners. I wouldn't do it.

- Thompson: We are being very successful in placing most of the employees here in Washington. We have placed about a hundred percent. In the field, of course, there isn't the same opportunity.
- H.M.Jr: Well, it may work out if they get thirty days' notice, they may go to their new jobs or--
- Thompson: They might do that. However, Eddie feels that they are going to stay thirty days.
- H.M.Jr: What kind of work is this?
- Bell: It is in this accounting control work in WPA.
- Thompson: Well, that wasn't for your signature. I plan, if you approve, to go on record with the Budget Bureau and the Public Buildings Administration to ask for a Treasury Annex up here on the Belasco Theater and Cosmos Club site.
- H.M.Jr: Fine.
- Thompson: It will be some time before we can get it, if we do get it, because the Cosmos Club will be there for another year.
- Gaston: I thought the Coast Guard had a plan to build a Coast Guard building way down here on the channel, and I don't like it at all. I think Coast Guard and Customs ought to go together in whatever building we build right up here.
- H.M.Jr: You had better talk to Norman.
- Thompson: We have discussed it.
- Gaston: I had mentioned it to Norman, and Waesche is

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satisfied with that idea, too.

White: Getting another building, Harold?

Thompson: Dr. Magill wouldn't accept his travel expenses on the last trip. You were going to see Mr. Harper and Admiral Covell.

H.M.Jr: Give me a time tomorrow.

Thompson: I have got another man, Mr. Swigart, the Assistant Director of the Bureau of Engraving and Printing.

H.M.Jr: I will try to do it tomorrow.

September 10, 1941

The Secretary told Mr. Schwarz today that he will hold him responsible for the job of looking after the broadcasting of his address before the American Bankers' Association in Chicago.

September 10, 1941
2:30 p.m.

RE EXCESS RESERVES

Presents: Mr. Bell
Mr. White
Mr. Haas
Mr. Stewart
Mr. Viner
Mr. Murphy

H.W. Jr: Yes, Professor Bell.

Bell: Well, this is a memorandum upon which this group is practically agreed, to be submitted to you and to the Board. The reason for its going to the Board is that Ronald feels that he is in about the same position as the Treasury people on this committee in submitting it to you. It hasn't been discussed with you other than in that informal conference, and he has to sell it over there after it is agreed here.

We set down these first three points first because they were easy to agree upon, and then we tackled the reserve question. We have had a long discussion on that. Last Friday we thought we had an agreement on a formula when we broke up. Last Monday I will take it back. But on sleeping on it I think some of us thought that maybe that formula would be worse than general control over credits or the reserve means.

So we went back at it again this morning and rewrote that part of the reserves which there was virtual agreement on, and this is the memorandum that we intended to submit to you at three o'clock. I think the

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best way to get at it is to just read it hurriedly at this meeting and then we will come back at three and discuss it.

- H.M.Jr: "A feature on the up side was United Ply-wood Preferred." That is in the ticker. Why do we all get in on that one.
- Stewart: They are getting ready to change their hair so they will come under the regulations.
- Bell: I think the market is interpreting this --
- H.M.Jr: The funniest thing, Dan, when I made this statement a day or two after election, and I said that the President of the United States would never permit inflation, you see, and pointed out how big the debt was, the market went up six points. Do you remember? Do you remember that?
- Viner: Yes.
- H.M.Jr: All I said --
- Bell: It took, I understand, two passages from your speech, to make an interpretation that there was going to be action by the Treasury and the Reserve Board on reserve requirements. One was, you said they may have to exercise some general control over bank credit. The other was that you said that Wilson approved a bill in 1920 which - no, that the Federal Reserve Board in 1920 --
- Haas: '17.
- Bell: '17.
- Haas: Increased.--
- Murphy: Reduced.

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Bell: Reduced reserve requirements in a similar situation, so they took the two together and said some action is going to be taken.

H.M.Jr: Congress reduced it.

Bell: That is right, Congress gave authority to reduce it.

Stewart: That is all right. That is a reasonable interpretation.

H.M.Jr: Well, I am glad the market went off. Well, do you want me to take the next fifteen minutes to read this?

White: I think if we only have a short time we might concentrate on four.

H.M.Jr: Why not read the whole thing?

Bell: Why don't we leave it with you and let us go back and talk to Ransom?

H.M.Jr: And be back at three o'clock.

Bell: And come back at three o'clock.

H.M.Jr: Wonderful.

September 10, 1944

**REPORT ON MONETARY CONTROLS RECOMMENDATIONS FOR
THE FUTURE**

Submitted to the Secretary of the
Treasury and the Board of Governors by a
group of Treasury and Board officials
and advisers.

In making specific recommendations on monetary and credit controls to be undertaken at this time, the group wishes to make it clear that it views these measures as a part of the Government's broad anti-inflation program, which includes increased taxation, encouragement of Treasury financing out of savings, as well as direct price controls, priorities, and other policies.

I. Control of consumer credit

(a) Stricter Regulation

Among the principal purposes of regulation of consumer credit are the diminution of the pressure of consumer demand on durable goods that require defense materials and the dampening of an inflationary rise in prices. The present regulation represents the first step in this untried field of economic control and is admittedly liberal. This group recommends that the list of articles covered by the regulation should be constantly under review with respect to both extension and contraction, and that the terms of credit should be tightened, whenever in the opinion of the Board of Governors and its consultative committee such action would promote the desired objectives and would be administratively feasible.

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(D) Housing

Housing is expressly exempted from the control of consumer credit set up under the Executive Order. This group believes that housing credit, whether extended or sponsored by governmental or private agencies, should also be subject to regulation. The group recognizes that, in establishing controls in this field, it may be necessary to follow highly selective policies in order to permit the creation of low cost housing to meet urgent needs. The group recommends that immediate steps be taken by the credit authorities to explore this matter with the Federal Loan Administration and other agencies concerned with housing.

(e) Rural electrification

The group recommends that the field of rural electrification be explored to determine whether it should be subject to control in whole or in part, and whether existing promotional activities of the Federal Government in this field should be curtailed or eliminated.

I. Social conditions and issues

This matter has been referred to a subcommittee, representing the Board of Governors and the Treasury, which will submit a report.

J. Bank loans - other than for defense purposes

This subject is under consideration by a subcommittee, consisting of a representative from the Treasury (Comptroller of the Currency), the Board of Governors, and the Federal Deposit Insurance Corporation.

1. Control of Bank Credit

It is the consensus of the group that the problem of reserve requirements should be considered in conjunction with the question of what additional powers should be requested to control banking operations. It is agreed that steps should be taken to retard inflation through restraint on bank credit expansion, but these steps must not interfere with the Treasury's ability to finance defense at as low rates as can be maintained without danger to the economy. The group believes that the following interdependent steps should be taken and that an agreed-upon announcement of policy should be made prior to the announcement of any major Treasury financing.

It is clearly agreed by the group that all four of the proposals listed below are to be considered and treated as integral parts of one whole, that agreement rests upon the prior acceptance of all four proposals; and that no action be taken with respect to any of the four unless there is agreement on all of them. The proposals are:

- (a) That reserve requirements be increased to the full extent permitted by present law;
- (b) That legislation be requested by the Administration for new powers over bank credit, and that the form of such reserve be agreed upon by the Board of Governors and the Treasury;
- (c) That such additional selective credit controls as the Treasury and the Board of Governors agree are necessary and practicable as further steps to counteract inflation be recommended or adopted;

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- (4) That the Board of Governors and the Treasury both feel that the appropriate procedure with respect to the Government Security Market is that a pattern of interest rates deemed desirable should be determined from time to time and that once determined the monetary authorities shall support such pattern with such measures as may be necessary, including open market operations by the Federal Reserve System.

Any question of publicity with respect to the policy adopted under (4) shall be a matter for special determination by the two groups.

September 10, 1941
3:00 P.M.

RE EXCESS RESERVES

Present: Mr. Haas
Mr. Ransom
Mr. Bell
Mr. Murphy
Mr. Goldenweiser
Mr. Stewart
Mr. Viner
Mr. Sproul
Mr. White

H.M.Jr: Well, gents, I have read this memorandum and I say for a starter it is very good. I thought we would have New York in here because they never agree on anything. (Laughter). Most likely they feel we haven't gone far enough.

Bell: Allan hasn't had a chance to read this, Mr. Secretary. He just got in town.

H.M.Jr: When did he get in town?

Bell: He just got here.

H.M.Jr: Why don't you get here in time to do your homework?

Sproul: I thought it might be better if I came in fresh without being contaminated. (Laughter).

Ransom: Mr. Secretary, I would like to first --

H.M.Jr: They bring it in to me, you know, and say,

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"Here it is; now read it" at a quarter of three.

Ranson:

I would like to express very great appreciation for the time and effort that your staff men have given Mr. Goldenweiser and me in the preparation of this memorandum. They worked very continuously at it and listened to all the arguments, and we have listened to theirs, and I have a hopeful feeling that it marks real progress and that it does lay a foundation for further progress in the light of an effort to state here something in the nature of the general principles involved. I feel myself very much encouraged by it.

I requested that it be put in the form of a joint report to you and the Board because I have had no opportunity to keep the Board currently advised and I thought in order to get results, which I am personally very anxious to do, that I would like it on a basis where you and the Board then can agree, as I hope you can and believe you can, and in so far as this lays the foundation for that I think we have made some headway.

W.H.H. Jr.:

Well, my people here also feel that they have never worked on a more friendly and more intelligent basis. They are all very enthusiastic about the cooperation.

Ranson:

I would like to specifically call your attention to a few additional words that I have asked them to put in. I only had a chance to read it just a few minutes ago myself, and if you would turn to page three, in the second paragraph, we are in effect agreeing that we won't do anything in connection with these four proposals until we reach an understanding as to what can be done.

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I find myself, as a member of the Board, required under the law to vote on the question of exercising our authority, and while I have no reason to anticipate it will come up in the interim between now and some Treasury financing, in order to make my own position perfectly clear I would like in the third line to change - strike the word --

H.M.Jr:

Third line?

Ransom:

Third page, second paragraph, so that it will read - I will tell you when I am changing it - "It is clearly agreed by the group that all four of the proposals elicited below are to be considered and treated as integral parts of one whole. That agreement rests upon these" - strike prior - "upon the acceptance of all four proposals prior to the next long term Treasury financing."

H.M.Jr:

Now where will that be?

Ransom:

Now, that strikes the word "prior" before acceptance and after the words, "of all four proposals" add "prior" to the next long term Treasury financing. Now is that clear to you?

Bell:

The change he has, Mr. Secretary, is not in substance.

Haas:

We changed "long term" to "major" in that other one.

Murphy:

It would be long term here, I think.

Ransom:

I think long term is what I had in mind, that I didn't want to - I don't care if we

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can keep the thing open, how long we keep it open, while it is in the process of discussion, but I have got to have some end point on my own responsibility in the matter. And then that would mean, Mr. Secretary, in the next line, I would like to add, "and that no action be taken" - insert "in the interim" - "with respect to any of the four."

That becomes a recommendation in which I join to the Board and you that no action be taken in the interim.

Bell: We didn't have time to make these changes, Mr. Secretary.

H.M.Jr: That is all right.

Bell: They are not of substance so when we go out of here and rewrite it --

Ransom: Mr. Secretary, in the same page, sub-section B, because the term "bank credit" did not seem to me to be quite as complete a statement as I would like, because I think the question of excess reserves and reserve requirements is involved, I would like to say that legislation be requested by the Administration for new powers over the volume of bank credit.

H.M.Jr: Well, you fix that up.

Bell: We will fix this up and give you a new copy.

H.M.Jr: It is --

Ransom: I believe someone made a suggestion on page four.

H.M.Jr: Well, for my purposes I have no interest. You

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will get a chance to change it afterward. Let me just go around. Talking on the record or off the record, as this is now, have you a minority report or is this a majority report?

Ransom: As far as I am concerned, I can make that as a report and a recommendation - I will join in it to you and the Board.

H.M.Jr: And you have no other suggestions?

Ransom: No, I have no other suggestions.

H.M.Jr: How about you, Goldenweiser?

Goldenweiser: It is all right. I would sign it.

H.M.Jr: You signed it?

Goldenweiser: I would sign it.

H.M.Jr: In the Treasury all we can get is initials. We never move unless I get twelve initials.

Ransom: We can contribute two of them in this instance.

H.M.Jr: I won't ask Sproul. You are not ready, are you, Walter?

Stewart: I am satisfied.

H.M.Jr: George?

Haas: I am satisfied.

H.M.Jr: Henry?

Murphy: I am not a member of the committee. If I were I should dissent.

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H.M.Jr: Well, go ahead and dissent.

Murphy: It seems to me the report largely conceals by verbiage lack of fundamental agreement and that B expresses in essence a pious wish. I don't mean to say anything that doesn't imply the highest degree of good will. This is merely a disagreement on the intellectual. It says under B that legislation be requested by the administration for new powers over the volume of bank credit and that the form of such powers be agreed upon by the Board of Governors and the Treasury.

The implicit supposition there is that some form of these powers can be agreed upon by the Board of Governors and the Treasury which will accomplish what good may be accomplished by raising the reserve requirements and still not disturb the rate of interest and will not adversely or seriously affect the Government bond market.

H.M.Jr: In other words, we can have our cake and eat it too?

Murphy: I don't think we can. I think we conceal our inability to have our cake and eat it too by burying it in a phrase and if I can just make one other point --

H.M.Jr: You can make three. I have got all the rest of the afternoon. I don't have a thing to do until seven-thirty.

Murphy: We put an escape clause at the end. We say if this doesn't come out as we expect, we are going to support the Government bond market but it seems to me at the present time the Government bond market is generally supposed to support itself. It may be that

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on the more esoteric point --

H.M.Jr:

On the what?

Murphy:

Say the more theoretical point.

H.M.Jr:

I never went beyond college.

Murphy:

But it appears to be a natural market and is generally accepted as a natural market. If by means of the initiation of general credit controls we take the fight out of it and it goes down, then the idea is that we can reinstate it to its previous position by supporting the market. I don't think you can. I think that there is a something, an intangible something, to the market now, because of its apparent naturalness which will not be there if your reserves are removed and then put back again by support.

I think that the market, if it were restored to the same statistical position it has today would appear to be supported by an unnatural market, that it would have lost its virginity.

I would rather have the market stand on its own feet rather than have it knocked down and held up and that is essentially what it seems to me to mean, taken together.

H.M.Jr:

Let me just ask you in my own simple language. All of these things - you can't do all of these things at once, see. Taking the situation of general price levels as they are now, commodities, the Government bond market, the whole fiscal and monetary picture as it is now, you see, would you or wouldn't you use up the rest of the authority of the Federal Reserve that they have now, as far as excess reserves go?

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Murphy:

I wouldn't and I say that as one who fears inflation and would like to take all steps against it. I don't think that the step is a relevant step. If I thought that it was going to hold down the price level I wouldn't hesitate to put the Government bond market to considerable inconvenience, but I think it is a step which is relatively futile on the price level and apt to be harmful to the Government bond market.

As a matter of fact, if - and I say "if" because I am not endeavoring to make a forecast here - if the effect should be seriously deleterious to the Government bond market, I think that the psychological effect would be inflationary rather than deflationary. A bad Government bond market is characteristic of inflationary periods, and I think that if by this step we should make - we should give ourselves a weak market we would have lost one battle in a fight to avoid inflation.

H.M.Jr:

One what?

Murphy:

One battle in the fight to avoid inflation. I think that at the present time the strong and the at least apparently naturally strong Government bond market is one bolt in fighting inflation.

H.M.Jr:

Who wants to take him on?

Ransom:

I would like to say, Mr. Secretary, that --

H.M.Jr:

Who wants to take him on?

Ransom:

I will take on just part of it, if I may.

H.M. Jr: Take any part.

Ransom: Take it all, maybe. (Laughter).

It seems to me that I am in agreement with only the last thing he said, that a strong Government bond market, a stable Government bond market is one of the most important factors in the fight against inflation. I can at least agree with the last thing Mr. Murphy said. I am afraid I don't agree with his conclusions or perhaps with his premise.

It seems to me that it implies that we propose, as he says, first to knock the Government bond market down, then pick it up and put it on its feet again. I would say that if I were in your place I would not like to travel with any of these proposals unless I did have a feeling of reassurance that if the consequences of what we are proposing to do and which, speaking for myself, I believe would be a move toward - in the right direction in the fight on inflation, that it would not result in any such situation as knocking the Government bond market down. I would want to feel in your place that the Federal Reserve System was with you one hundred percent in saying that if its consequence was something that we don't now anticipate, we would propose to take such action as the situation might justify. I think that is the essential difference, Mr. Murphy, between you and me. We have discussed it several times before.

Murphy: Could I just make one addition?

Ransom: Yes.

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Murphy:

It seems to me we are faced with the dilemma that any action on the reserve requirement front which is not strong enough to have a powerfully adverse effect on Government bond market is the futile step, a mere gesture. The purpose of raising reserve requirements or taking the initiative on general credit controls is to make credit scarce. That is the only way that it has any impact on the economy. If we take such a slap on the wrist as to not have an effect on the Government bond market, we are not taking any effective action.

Ransom:

I have a feeling that the Government bond market is so much stronger than Mr. Murphy seems to feel it is, that the position of the Treasury is so much stronger than what he says it is, and it implies to me that it can stand a good deal more than a slap on the wrist. Now, if what we are proposing to do is wholly futile, then of course there is no reason for doing it, but I don't think so. I think there are intangible, psychological factors involved in our problem which in considerable part outweigh the points you stated.

I don't mean to imply, Mr. Secretary, that I think any of us - I don't think Mr. Murphy thinks that any of us can be completely dogmatic on these conclusions. It is just a question of what you think is going to happen to this situation. It is a question of the best judgment we can obtain.

H.M. Jr:

I was just curious. The commodity market today went off practically - well, it went off decimal nine six, Dow Jones future

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commodities. Dow Jones stocks, industrials, were off nine tenths of a point and the Dow Jones forty bonds were off decimal nineteen and the Government bond market doesn't seem to be off much at all. A little bit, a fraction, a couple of thirty-seconds.

White: Mr. Secretary --

Ransom: I think you gave it more than a tap on the wrist last night and I don't think it knocked it down.

H.M.Jr: I agree with Murphy to this extent, that if you are going to do this thing I take it that you do want to deflate the Government bond market, if it is inflated. I mean, this is a test. If the Government bond market is inflated --

White: Mr. Secretary, I don't know what that phrase means. It is being used and I think there is --

H.M.Jr: Wait, may I finish my sentence, please?

White: Yes.

H.M.Jr: ...If a hundred and eight or a hundred and nine is too high a price and by doing this reserve thing that is a test to find out whether it is too high or whether it isn't, what?

White: Mr. Secretary, I think your comments and Henry's go to the very root of some of the problems that we have been talking at very considerable length and I would like to say a few words, and I would preface my remarks by that, in order to excuse the fact I think

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it takes more than a minute or two to make clear our position because they are basic and they are --

H.M.Jr: Well now, before you start --

White: Yes?

H.M.Jr: Have you agreed to this memo?

White: Yes, but for very different reasons - not very; but for different reasons than I think are apparent to you at the moment.

H.M.Jr: You have agreed to it?

White: I have agreed to the memo but I will have to explain that because I would like to be able to say I either agree or disagree with Henry. It would make it very simple but unfortunately I agree with some things he says and disagree with others and yet I think it is important enough so as to justify --

H.M.Jr: Well, I need some discussion because I don't get the feel of what is in the brains of you people the way it is now.

White: Well --

H.M.Jr: I mean I don't --

White: We have been - they have been at it many hours so it is a difficult problem.

H.M.Jr: Go ahead, take your time.

White: I have felt long, as Henry expressed it, and I think with George, that it would be an error at this time to raise reserve requirements, let alone to ask for new powers. I

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have felt that the advantages to be gained, and there are some little advantages, would be offset by what I felt, and I think what Henry expresses would be adverse effects on the bond market. We discussed that at considerable length. I think we narrowed our range of difference - I think Mr. Ransom and Mr. Goldenweiser didn't feel that the effect on the bond market would be as great as we did, but at any rate, that was where the discussion left us.

However, in order to get some working compromise to go ahead, not with raising the reserve requirements but with further exploration, we took this position, that if there were other methods of control adopted, which did not include - and that is important - which did not include asking for the power to raise reserve requirements further but were confined on other methods, some of which have been discussed, some of which would be effective, if they would adopt those methods in agreement and if they further would agree to support the bond market at some pre-determined level - and I would like to say a word about that later - then I think we were willing to say, if you can find agreement on those other points, we are willing to agree to using up the powers you have, on condition you don't ask for any more, and on condition you do ask for new powers which will be effective in controlling the expansion of loans, and on condition that you are ready to support any policy with regard to interest rates that are maintained.

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Therefore, this proposal here is to be regarded in the nature of a compromise and it takes cognizance of the fact that for many, many years the public has been led to believe, or the public has been told, that raising reserve requirements at a time of expanding business enterprise is one of the methods of control of inflation, and that a failure to do so now might be regarded as a statement that the Government is afraid to do those things which are in its power - it is asking for more powers. It isn't even doing what it has in its power to do and there might be some psychological disadvantages to that, which psychological disadvantages might be avoided if you let them raise reserve requirements, provided we could agree upon them, and I am not at all sure that we can agree upon them, upon other measures and upon the decision not to ask for further powers.

Therefore, the fact that we are uncertain as to what we can agree upon has led us to tie all these four together and that is why we feel, or I feel, that this is a - something that we could go forward on but doesn't necessarily indicate that we will end up in agreement or in any action at all.

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Goldenweiser: Mr. Secretary, may I--

Hell: In other words, there is a lot of work to be done before we can come out here with a program, particularly under B.

Goldenweiser: I don't want to make a speech. I just want to ask--

H.S.Jr: Make a speech.

White: I am sorry--

Goldenweiser: I just want to ask a question.

H.S.Jr: Why don't you make a speech?

Goldenweiser: Later on, if you want one. I just want to clarify one point in Harry's statement, because it is absolutely vital to me. We have all agreed to ask for more power rather than not to ask for more power. When you say that we agreed not to ask for more power, you mean not to ask for more power in the present form.

White: With respect to raising reserve requirements.

Goldenweiser: That is right, but the point is, it was part of their agreement and several of the Treasury people and ourselves insisted that we will ask for more power. The form of the power is to be agreed upon. But we didn't agree not to ask for any power.

White: But the form of the power to be agreed upon did, in the Treasury's mind or at least in some of our minds - we felt that it did not include asking for the power to raise reserve requirements.

Goldenweiser: You don't finish that phrase and it is an

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awfully important phrase to finish. On the present method, not to ask for increased reserve requirements on the present - by the present method.

White: No, my understanding was on any method.

Goldenweiser: Well, say the ceiling plan --

White: That is different. If you want to call it that, O.K.

Goldenweiser: I just wanted to make clear that that is not excluded from your statement.

Bell: That is the reason this is worded in this way.

Ransom: Mr. Secretary, I wonder if all of these people will agree with this statement on my part, that there is a feeling that some additional power in some form seems to be desirable, if not necessary, at the present time, that there is a strong feeling on the part of the Treasury group that that might spell itself out into one form rather than another. On the part of Mr. Goldenweiser and me, that the form is tremendously important, but that our consideration of the problem from now on doesn't exclude any possible form because we want to be sure we have explored every possibility before we come to a final conclusion. Isn't that about your point, Harry?

White: Yes, although I think again it needs to be re-emphasized only because we explained it so frequently that we understand each other, but I am not sure the Secretary is with us.

Bell: That is true so far as the group is concerned, Harry, what Ronald says, so far as the group as a whole is concerned, that we

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did not agree upon any formula and therefore --

Whitel: Except that I think that our acquiescence to it - certainly I can speak for myself, and I gather that Henry feels that way, and I think George does - that our acquiescence to this is predicated in our own minds upon the assumption that there shall not be requested among the powers the power to ask for further reserve requirements above the present legal powers.

Ransom: I don't understand --

Goldonweiser: On the ratio basis.

Whitel: On the ratio basis.

Ransom: I don't understand that. Even that was wholly excluded from your consideration if we, as a group, can get down to considering forms. In other words, you would listen to an argument if anybody wanted to make it. I don't know whether anyone wants to make it.

Whitel: I thought that was clear, that there may be other forms which we would be glad to discuss and might agree upon, but this form was excluded from our consideration. We thought we wouldn't mention it here because you feel you didn't want to go before your Board with that specific --

Ransom: I just don't want to shut any door when we face together a really serious emergency, and I am less concerned with the form than the result, and if the two staffs of the Board and the Treasury can come together in agreement on the form that the thing is to take, then, speaking as one Board member, I don't see why I should be particularly concerned with the form, if it is felt it will do the job.

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L.S.Jr:

Now let me ask you, Dr. Viner, how do you feel about this memo?

Viner:

I am satisfied with the memo. I think probably like most of us here my reasons for agreeing with it would be just a little bit different from anybody else's. I think I am fairly close to Harry, although I also think on some things I differ. I never have had any enthusiasm for the reserve ratio type of credit control, although I have never been sure that I saw as satisfactory an alternative, but I have felt over the years that the reserve ratio method is becoming, because of structural changes in American banking, a less and less suitable form.

In the days of, let's say, the foundation of the Federal Reserve bank, the proportion of Government bonds in the portfolio of the American banking system was so small that if they tightened up on their credit policy the the impact would not have been so important on the bond market as it is likely to be today, and now with banks holding Governmental bonds in such large funds, there is danger, if you have a credit control type, that makes Treasury securities bear the whole burden of adverse regulation, so that I feel very strongly that the best minds in Washington on these matters explore the possibilities of finding better formulae for control.

On the other hand, I also feel that if we are going to have an inflation or a real, full-sized inflation, this time, as in most other times, the banking system will be an important part in bringing it about and that they have already sufficient ammunition to do it on a large scale and that within six months, possibly, as soon as that, or a year, there may be a tough proposition in holding them

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back, and I would rather do the - some of the holding back or provide the tools for holding them back as early as possible when the bond market is as easy as possible and when the pressure on you not to act because of great Treasury needs is not very intense, so I would be happy to get potential controls, not actually restrictions, but the rights to impose restrictions, any ones that you think you might want to use in any emergency, subject to the circumstances that I would like to get them in as soon as possible.

Your financing situation is easy now. In terms of a defense program of this size, it is extraordinary how strong the Treasury is. So I say, in general, this is a very good period to get the things in that tend to unsettle the market as compared to what it might be six months or a year from now.

H.M.Jr:

Oh, I agree with you. I mean, I want to get the thing settled one way or the other. I mean, I am not going to sit around here for months arguing about this thing. My mind is entirely open. I haven't made up my mind yet. The only thing is, I am going to push everybody concerned here hard to move as fast as possible, at least to make up their minds.

Waite:

You see, Mr. Secretary, there is one reason for raising - letting the Board use their powers that they have remaining, which is not an economic reason, and I don't think could be justified on economic grounds, but it does have political bases which I think must be taken into consideration irrespective of what we may evaluate from a technical point of view of the uselessness of it. The public as a whole has a different point of view; and, if prices continue to rise, they will hold the Board and the Treasury and the Government

responsible for not taking whatever measures they could so that I think that is something that has to be thrown into the scales, that we have created a certain attitude on the part of the public and it has important consequences, provided we can keep it within limits of ineffectiveness through the other measures.

H.V.Jr:

Harry, if you don't mind, I disagree with you a hundred percent. With all respect to the Federal Reserve Board and the - and Mr. Winthrop Aldrich and his twelve or thirteen points which preceded the Federal Reserve Board by about a couple of weeks, there has been a selling job. I mean, I just want to say this with no rancor of any kind. There has been a selling job done on this reserve thing and other things, and the banking community are for this thing. The bank management people are for this thing. Now, they may be right, but just because the banking fraternity has been prepared for this thing is no reason that I should do it on the grounds that you call political. I mean, I have got to be convinced, particularly after the New York Tribune says I spoke like an economist last night. It has kind of gone to my head.

Winer:

Those are fighting words.

H.V.Jr:

That this thing is sound.

White:

I didn't mean political from the point of view of getting votes, Mr. Secretary.

H.V.Jr:

I didn't mean votes. I mean the fact that - again using Winthrop Aldrich as a whipping boy, that he wanted us to fix the price of gold and put gold back in circulation. Well, we went all through that and we weathered that storm. I decided it wasn't the thing to do,

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and these recommendations that the Federal Reserve System and the banks made at the end of the year, if they are sound, I will take them like that, but I don't want to take them just because they happen to be popular with the banking fraternity. That is the point that I am making.

Ransom: That certainly, Mr. Secretary, is not a persuasive reason with you and it certainly is not a persuasive reason with the Board. I think that perhaps the Board finds itself embarrassed at times with the support it gets from some of its proposals. Now, on the other hand--

H.M.Jr: It is just a question of which comes first, the chicken or the egg. Which comes first, the Board or Winthrop Aldrich?

Ransom: That is right.

Now, on the other hand, because Mr. Winthrop Aldrich happens to be right would not preclude either you or me from agreeing with him, if he is right.

H.M.Jr: That is right.

Ransom: Now it seems to me that the important thing - as I understood, Harry, it isn't political in the sense that you took it at all but politically expedient in the sense that if we have got to move on into some other field, we have got to consider whether we have got to do this thing first.

H.M.Jr: Did you read the English Economic Journal's comments on your recommendations?

Ransom: No, but I heard some others and--

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H.M.Jr: If you haven't, I think it would be very good.

Goldenweiser: I read them. They are very good.

H.M.Jr: Did you read them?

Goldenweiser: Yes.

H.M.Jr: Has the Board read them?

Goldenweiser: That I couldn't say.

H.M.Jr: Why don't you make them available to the Board?

Goldenweiser: I did. (Laughter)

Ransom: He means he can't always make us read.

Goldenweiser: I did circulate it.

H.M.Jr: They were very interesting, weren't they?

Goldenweiser: Yes.

Ransom: Mr. Secretary, I said to this group when we first met after leaving your office a few days ago, as I saw this problem it was a dilemma of steering between two rather serious pitfalls. On the one hand, inflation, against which we are all raising our voices.

H.M.Jr: We are agin' it.

Ransom: All right, sir. On the other hand, to me there is an equal danger, namely, that bankers as a group like high interest rates, and that with the slightest possible encouragement they will put them just as high as the traffic will bear, so that it seems to me regarding this as a problem of Governmental and public obligation, we have got to find that point between these

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two dangers which is fair and reasonable and in the public interest, which means, in other words, that I don't think we need to try to raise interest rates. I do think we do need to stabilize interest rates.

H.M. Jr: Well, the only place at the moment where some of you and myself differ is this. If I was going to do this thing, then I would let it sink until it sought its natural level. I wouldn't just jump in and buy more backing because I don't see what you would accomplish.

Bell: That isn't contemplated.

Ransom: I would say that we would be obligated to buy them back to the extent that was necessary to give due consideration to the public interest involved in this problem of steering between these two pitfalls.

H.M. Jr: I wouldn't buy them back unless the Secretary of the Treasury said he was licked and he couldn't do his next financing. If I said I was licked and I sent out an SOS and I needed some help, all right, but otherwise I would just make up my mind if we are going to do this thing, all right, we will do it and then see what happens.

White: Well, Mr. Secretary, the assumption that every time the Government either through the Board or through some one of its trust agencies or any other acquires Government securities introduces an artificiality into what otherwise would be a natural rate, I think is one of the issues about which we discussed from a different angle but one which - I think it is not clear here and that is why that D is in there. I think it is a mistake to speak of some rates in this connection, level of rates as being artificial or too high. I think the

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Government has the power--

- H.M.Jr: Harry, if you don't mind, you are sticking too much on names and words and things.
- White: Yes, that is true.
- H.M.Jr: I mean, you are worried about calling the bond market inflationary or something else.
- White: Because the minute you accept that - if we say that the Government - that it is artificial, that means something bad, Mr. Secretary.
- H.M.Jr: No, I mean, after all, if we do this thing and, let's say, we raise them the maximum and the bond market goes off four or five points. I would just sit here. At some price it is going to be attractive and the people are going to step in and buy them. If we are going to do the thing, let's see what happens. They may not go off at all.
- Viner: I think that that is a sound view, but the market may get a shock from showing and over act and you ought to be prepared. There isn't any important security flotation in this market that doesn't get nursed or handled.
- H.M.Jr: Not under the SEC rulings, if they are carried out.
- Goldenweiser: Mr. Secretary--
- H.M.Jr: Do you mind if Mr. Bell talks? He has been very patient and very good. Do you mind?
- Goldenweiser: Not at all.
- H.M.Jr: He hasn't said a word. Then I would like to

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hear from Sproul.

Bell:

I agree with what Harry said. When I started out I was opposed to raising reserve requirements. First, I didn't think it would have any effect whatever on prices. I thought it would, to some extent, disturb the bond market, but I didn't think that would be permanent. I think it may go down as much as two points, although I don't know, and I don't think anybody knows, but I don't think that is very important. If it doesn't get a shock, if it keeps going down - and I don't think it will. I think the more important thing is that we agree on future policy, and if we take action on this point, then what we do in the future is a most important thing for the bond market and that is the reason for B.

The reason I turned around and feel that we might take action on - under the present authority, under the conditions we stipulate here is that I do feel that as long as the Government has taken action on many fronts that there will be a feeling that here is one we have ignored and that we have overlooked it and maybe in three or four years from now, if there is inflation, we will be accused of not taking this action, and it would have done some good, and I don't believe that if we take it it would do a lot of harm. That is the way I feel about it.

On D, I think we have always had the cooperation of the Federal Reserve Board and the market, and I am not in favor of fixing interest rates and then pegging or holding them there, and I think you might interpret D in that way, although I am sure it wasn't intended that way. It was intended to do just what we have done in the past, although I

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think Mr. Goldenweiser would say we ought to go stronger than we have in the past.

Winer: And you would too, wouldn't you?

Hell: I would, maybe, on certain occasions, but I don't think that I would get in the bond market and buy seven or eight hundred or a billion dollars worth of securities to support a rate, and I think if we cushion it and let it find its level and then go on from there, that would be my idea.

Ransom: What you say, as I understand you, is that you don't think that would be necessary.

Hell: No, I don't, if the market is assured that you are not going after more authority to control excess reserves and in another three months when you get them they can expect another slap.

Ransom: Or that they know definitely what the policy is.

Hell: I think they will be nervous from that point on if they do expect that.

Sprout: I haven't been in on the recent discussion of this group so I don't know what considerations have been developed and what the discussions have involved.

H.C.Jr: Neither do I.

Sprout: Of course we have been considering the problem independently and I can give you my own view.

H.C.Jr: Please.

Sprout: First, I still hold to the opinion which I

have had right along that credit control is a second-string weapon in the anti-inflation program under present circumstances and that it must, under these circumstances, as has been said here, be subordinate to the Treasury financing, but I do think enough steps have been taken now with the first-string weapons, such as taxation and price control and borrowing of savings, to warrant giving an indication that this second string method of quantitative credit control is not going to be ignored but that it is going to be fitted into the general program.

But I think we still have to remember that it is a second-string weapon and that it is subordinate to Treasury financing; and, therefore, I think the action taken in that field should not be drastic action but should be action with a limited objective. That I think is particularly important because we still don't know to what extent we are going to have to depend on the banks in financing the Treasury's program.

The policy is to avoid financing through the banks as far as possible but to what extent that will be possible we still don't know.

A program of limited objectives seems to me to be one which takes a step with respect to credit which will psychologically aid the present anti-inflation program and which will either stabilize or bring about some slight increase in interest rates, particularly short term.

It is my belief that such a program of limited objectives would be the exercise of the existing powers of the Board of Governors to raise reserve requirements, and I would do that, and I would couple with it--

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- H.L.Jr: You would do what?
- Sproul: I would use the existing power with the Board of Governors to increase reserve requirements. I would couple with it as it said here the grant of additional powers, but I would not want to exclude from that consideration of what those additional powers might be, the same powers that they now have extended. I think that ought to be considered along with any other powers because as far as I am concerned, I think there ought to be additional powers, and unless some better, more effective power than that one can be devised, and I don't know whether it is yet, I would be for having that power.
- In brief, that is my view.
- Sell: What would you say about their use? Would you keep silent on their use of additional powers?
- Sproul: In using the present power and asking for the additional power, I would say that the question of the additional power did not imply its immediate use because I am interested in not having drastic action taken in this area at the present time.
- H.L.Jr: Could I ask you a question? Supposing the Board used up its limit of powers in one fell swoop. What would happen to funds in New York?
- Sproul: We have looked into that. The actual increase in reserve requirements would take about five hundred million dollars of excess reserves out of New York, reducing them from a billion seven to a billion two. That would put about eight banks into reserve deficiency

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positions, but the largest one of those would only have a reserve deficiency of between four and five million, and that particular bank has just taken on sixty million of Treasury bills, for instance, and the other deficiencies would be two hundred thousand or three hundred thousand and five hundred thousand. They would be wiped out in a day's transactions.

If you make the further assumption, however, which I think you must make, that out of town banks would withdraw say half of their deposits with the New York banks in order to meet their own increase in reserve requirements, then you would have a further reduction in excess reserves in New York of about two hundred fifty million dollars, I think, which would get them down to about nine hundred fifty million dollars.

There again, you would only have about nine banks deficient in their reserves, and the largest deficiency would be on the order of eighteen and nineteen million dollars, and most of them would be much smaller than that.

Goldenweiser: Isn't that too much of an assumption, that they would withdraw that much?

Sproul: I am taking what I think is an outside assumption.

H.M.Jr: I just had a train of thought I would like to finish. Supposing your assumptions are correct. I have no way of - let's just say they are correct. The New York banks are doing how much lending in this Defense Program? How big a business are they doing?

Sproul: I don't know how much it would be.

H.M.Jr: What are their commercial loans altogether?

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Bells: What is the increase?

Sproul: Oh, they have increased substantially in the past year.

H.M.Jr: Do you know how much?

Sproul: Have you those figures?

Goldenweiser: I haven't got the figure in my head. I will give it to you in a minute.

Commercial loans have gone up from seventeen hundred and ten millions in 1940 to twenty-three hundred millions. They have gone up about six hundred million in a year.

H.M.Jr: And of course there is no indication of what is the term of those loans?

Sproul: No.

H.M.Jr: What do you think- what would your guess be, if you would want to guess? What would these banks do on their interest rates?

Sproul: I think there would be a very small change in interest rates. There has been some change already and they are less willing to make term loans of longer periods, and there is some increase in the rates, but I think the effect of this move on their interest rates would be slight, but I think it would have some effect.

H.M.Jr: Are they still taking some of these five, six, and seven year loans?

Sproul: Not nearly so many as they did, and they are much more reluctant to take them. It won't help without looking for them.

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- H. W. Jr: They have stopped that?
- Sproul: Yes, they have stopped that and they take only prime cases now.
- H. W. Jr: Well, that is the end of that particular thought, if you want to ask something, Dr. Goldenweiser.
- Goldenweiser: That was just a question of Sproul's that I thought he was over-estimating the amount of withdrawal of funds because they won't want to withdraw half of their balances. It would be very much less than that.
- Sproul: I think that is an outside estimate.
- Goldenweiser: Very much outside, because, as a matter of fact, there would be very few banks that would take more than ten per cent to meet this.
- H. W. Jr: That would be quite a big readjustment, wouldn't it?
- Sproul: Yes, but I don't think it would be such a big readjustment that it would have any draft on interest rates or on the Government security market.
- Hall: Under those conditions, there wouldn't be much selling of Government securities. With a deficiency in the largest bank of eighteen million, where they have got sixty million Treasury bills.
- Sproul: The last time we acted on reserves and I don't think now most of the selling would come because of deficiencies in reserves. I think the selling would come because there was a conviction that the trend of interest

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rates had changed and that it was not going to be stabilized, but was going to go on up from here, and they would sell for that reason, not because of a deficiency.

- Viner: The fear of capital losses or the hope of realizing on capital gains.
- Sprout: That is right.
- White: Which justifies action - that is exactly the point.
- Ransom: That is exactly what I wanted to say, Mr. Secretary, that assuming that, which I do, that the selling is not to meet deficiencies in reserves but an effort to skim off a little cream. I think it is of the utmost importance that there should be evidences of a cooperative spirit between the Treasury and the Reserve System, and that it is not any part of our policy or your policy to let these interest rates run up to any figure that the market may --
- H.M.Jr: I understand. Are you through?
- Ransom: Yes.
- H.M.Jr: Let me explore something else, Dan. This has all been done, but for me. When you and I did our last long-term financing we had a lot of talking and we found out that the banks today are not paying any income tax, I mean talking by and large.
- Bell: Generally speaking.
- H.M.Jr: And then this whole question of income tax came in and this question of taxable Government bonds. Well now, have you people

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thought about the way that - if the tax bill passes the way it is, what effect it will have on the banks in their attitude toward Government securities? You and I went all through that. You (Sproul) went through it in pricing. Have you discussed that at all?

Bell: No, we have not.

H.M.Jr: It is important in considering the Government bond market. You can't overlook it.

Bell: Certainly the banks and the market have been watching the tax bill, and they know about how they are going to be affected, because that part of it is agreed upon.

H.M.Jr: Well, let's say it is the way it is now. Will banks this year pay income taxes, or won't they?

Bell: More of them, I would say, would pay taxes this year than paid last year. Wouldn't you say that was right, Murphy?

Murphy: Yes, I would say due not primarily to changes in the tax bill, but due to changes in their own earning position.

Bell: Well, a shift from tax exempt to taxable, too.

Murphy: Yes.

Winer: But the tax bill they pay under any conceivable income tax would be a very small percentage of their assets.

H.M.Jr: I know, but Jake, when I sat here - and I am sure the same thing happened to Allan Sproul in New York - on the long-time

financing we made, the question of taxes, whether they were just trying to rub our noses in it, certainly was uppermost in their minds and I am just raising it now because I want to say here on the record, that certainly before we get through I have got to rely on the banks to help me for the rest of Mr. Roosevelt's term. I mean, I have just got to, and I think that besides being theoretical, we have got to be practical, and that is what I say, we have to keep the banks as far as possible in a good humor. We don't want to cuddle them but we want to keep them in a nice humor.

Ransom: You need that cooperation.

H.M.Jr: Definitely. I don't need it yet, but I am going to need it.

Ransom: Sure. Mr. Secretary, there is just one thought I would like to inject without opening it for discussion, or opening the merits of any one plan over the other.

When we come to consider the possible methods that could be used in the future, we ought to give consideration in connection with the present ratio to the fact that if we had a different division of the banks into the different groups, and the New York banks were in one group and the large city banks in another, and the actual country banks in another, instead of being mixed up as it is now, the present plan might become more acceptable to some of the people who don't feel as kindly toward it at the present time as I think they would if that was thrown open to discussion. I just

didn't want to let that go by without saying it is one of the things I would like to see discussed.

- H.M.Jr: Allan, if we were going to do this thing - I mean, have you crossed the bridge enough - I mean, talking for yourself and your bank in New York, as to when you would do it, and so forth and how you would do it?
- Sproul: Yes, I would do it fairly promptly. I think the situation both with regard to your financing and the state of the market and the state of the anti-inflation program is such that I would do it fairly promptly. By that I mean within the next month.
- Bell: It really ought to be done before that if we are going to finance, say about the eighth or ninth of October.
- H.M.Jr: I would like to do it this month if we are going to do it.
- Ransom: Mr. Secretary, it has been my thought that if we move from the present point of this memorandum to an exploration of the subject matters covered by the memorandum, that we ought to be able to say both to the Board and to you, "Here is the recommendation of this group," not later than the end of this month.
- H.M.Jr: Oh, I think so. I would like to go further than that. I would like to get a recommendation and then if the recommendation calls for action, I would like to act this month.
- Ransom: Well, yes. I mean, let's see if we can't settle this thing by the end of the month.
- H.M.Jr: If I am going to do something, gentlemen, I would like to - if I am going to do something,

with you, or you and I are going to do something, I very much want it done this month.

Pell: I would like to see it done at least two weeks before any announcement on financing.

Ransom: I agree.

W.C. Jr: There is no use fooling around with it. Let me ask Allan Sproul another question. Now let's just for argument's sake say we are going to do this on the twentieth. What would you do, give them thirty days notice or something like that to get their houses in order?

Sproul: Yes, I would.

W.C. Jr: Would that be enough?

Sproul: That would be enough.

W.C. Jr: That would give them time to get their houses in order. They wouldn't wait until the last day. They would begin adjusting it right away, wouldn't they?

Sproul: They would, yes.

Ransom: I would have a preference for doing it in two steps, but your boys almost talked me out of that idea.

W.C. Jr: I would much rather do it in one step, and give them a month's notice.

Ransom: My associates on the Board tried to talk me out of it and didn't do it, but when I found out the feeling in the Treasury and I was thinking about the effect on the Treasury market, I had nothing to stand on.

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- H.M., Jr: I haven't talked with these people either about it, but I would like to do it in one step, but give them ample notice. A month would be enough, wouldn't it?
- Ransom: Oh, yes.
- Sproul: I think a month would be ample. I think you could do it with less.
- Bell: Could we finance before they actually take effect?
- Sproul: Yes, they --
- Bell: Announce it two weeks and then finance and then it would take effect two weeks later, is that possible?
- Sproul: If they would know it was going to be done and know what the effect would be on them so they would forewarned with respect to the financing.
- Stewart: It seems to me a month.
- Viner: If a New York bank holds very large corresponding balances and thirty days notice is given, is there any precedent for that New York bank asking their corresponding banks what they are going to about withdrawals, or can the country banks wait until the last day, knowing they can take care of themselves and disregard the interest of the New York bank?
- Sproul: I think there is some question for their asking, and where there isn't precedent I think it could be established at this time.

- Vinert: It would be very desirable because you create certainty on the part of the country banks as to how they are going to handle it but New York would not know until the last day.
- Sproult: However, the amount of that reduction would be much smaller than the actual reduction due to the increase in reserves.
- Whiter: Do the banks feel it is a sign of weakness to ask?
- Sproult: No, I don't think they would. It is just a sign of prudence and foresight, not of weakness.
- Vinert: How about my pet Chicago banks that hold big corresponding balances? Are they any better off that way than the New York ones, Continental and the First National?
- Sproult: They are not any tighter. I don't think they are as tight.
- H.W.Jr: Did you want to say something more?
- Stewart: I was going to say that if you are going to meet your readjustment, I can see that you might want a month, but for the adjustment that is involved here, I should think two weeks is ample.
- Vinert: Two weeks is more convenient for Dan. It doesn't have to be a month.
- H.W.Jr: I would rather say a month and have you fellows say two weeks than I say two weeks and have you say a month.
- Well, I don't think we can go much further

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than that until you people have taken it up with your Board. Now, could you do that fairly promptly?

- Ransom: Yes, sir.
- H.M.Jr: And then meet again? But I really would like to push a little bit.
- Ransom: I would like to do this.
- H.M.Jr: I would like to be pushed.
- Bell: We have a lot of work to do here yet. We have two reports we just got.
- Ransom: I would like to have you, if you will, ask your staff and let the Board ask its staff to really get down to cases on this thing and to study the questions which are open for discussion and be able to give us a report with promptness and I know how fast they can work. They worked pretty fast on this, as a matter of fact, and they got over the underbrush stage. Now, let's pin them down to getting something very tangible before both you and us within the next few days, Mr. Secretary.
- H.M.Jr: Suits me. I like it.
- White: Is it clearly understood, Mr. Secretary, that there is no implicit commitment on your part yet to raise the present reserve requirements, irrespective of what else is done?
- (Discussion off the record).
- Ransom: There are no commitments on anyone's part unless it is ourselves.
- Sproul: Mr. Secretary, you said the New York banker always disagreed. I would like to enter

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one dissent or disagreement here. The discussion of this problem, as I understand it, began with conferences and discussions between the staff of the Treasury, the staff of the Board, and the staff of the Open Market Committee, which includes in its membership some of the Federal Reserve Banks and which is involved in this situation at least to the extent that there is any commitment or desire to support the Government security market through open market operations.

This memorandum in its terms eliminates the Federal Open Market Committee, as the Federal Reserve Banks are represented on it and confines it entirely to the Board of Governors and the Treasury. I think the Federal Open Market Committee is concerned and involved and should be brought in, in so far as it includes Federal Reserve Banks, as well as the Board of Governors.

Bansome:

Mr. Secretary, could I take him on right at that point, because I can't let that go by unchallenged?

H.M. Jr.:

Is this jurisdictional? I was just going to say I read Sylvia Porter in the New York Evening Post, and that was my first notice this discussion was going on.

Bansome:

I think, Allan, if you will read sub-section D on the top of page four, if it doesn't say that the Federal Open Market Committee is a necessary part of the whole scheme of things, then we haven't been very adroit in the use of language, because we had that thought in mind, and we tried to work it out. In fact, this isn't my language. I think it

is better than the language we suggested, but because that trouble me greatly, I adopted this language which to me implies that - there are three parties to the scheme of things as they would develop under this, the Treasury, Federal Reserve Board, and the Open Market Committee, that is, the System. So there was no intention to exclude it. Now, as to these particular discussions, for the sake of the record, Mr. Secretary, I would like to say that they came about by reason of the fact that due to all the discussion that has gone on for many, many months, the Treasury asking for some views as to the current thinking of the Board, Mr. Goldenweiser, and I asked the Secretary for a chance to have a general discussion with him, which developed into the meeting of the group you see in this room and a number of other staff men in an effort to get something we could report back to the Board and to the Secretary, but it is unquestionably true, as you say, that that is an element in this situation that cannot be left out, and I would assume, Mr. Secretary, that when I say that I want our staff to study that, that it implies the people who will be the spokesmen for the Open Market Committee.

- H.M.Jr: Well, isn't Mr. Sproul here representing the Open Market Committee?
- Banaom: He says he is here a little late, I take it, Mr. Secretary.
- H.M.Jr: All right, have you got anything else on your chest?
- Sproul: That is all.
- H.M.Jr: Well, then, shall we --

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Ransom:

Stand adjourned with instructions from you
and to your staff and --

September 10, 1941

REPORT ON MONETARY CONTROLS REQUIRED FOR
THE EMERGENCY

Submitted to the Secretary of the
Treasury and the Board of Governors by a
group of Treasury and Board officials
and advisers.

In making specific recommendations on monetary and credit controls to be undertaken at this time, the group wishes to make it clear that it views these measures as a part of the Government's broad anti-inflation program, which includes increased taxation, encouragement of Treasury financing out of savings, as well as direct price controls, priorities, and other policies.

1. Control of consumer credit

(a) Stricter regulation

Among the principal purposes of regulation of consumer credit are the diminution of the pressure of consumer demand on durable goods that require defense materials and the dampening of an inflationary rise in prices. The present regulation represents the first step in this untried field of economic control and is admittedly liberal. This group recommends that the list of articles covered by the regulation should be constantly under review with respect to both extension and contraction, and that the terms of credit should be tightened, whenever in the opinion of the Board of Governors and its consultative committee such action would promote the desired objectives and would be administratively feasible.

(b) Housing

Housing is expressly exempted from the control of consumer credit set up under the Executive Order. This group believes that housing credit, whether extended or sponsored by governmental or private agencies, should also be subject to regulation. The group recognizes that, in establishing controls in this field, it may be necessary to follow highly selective policies in order to permit the erection of low cost housing to meet urgent needs. The group recommends that immediate steps be taken by the credit authorities to explore this matter with the Federal Loan Administration and other agencies concerned with housing.

(c) Rural electrification

The group recommends that the field of rural electrification be explored to determine whether it should be subject to control in whole or in part, and whether existing promotional activities of the Federal Government in this field should be curtailed or eliminated.

2. Capital expenditures and issues

This matter has been referred to a subcommittee, representing the Board of Governors and the Treasury, which will submit a report.

3. Bank loans - other than for defense purposes

This subject is under consideration by a subcommittee, consisting of a representative from the Treasury (Comptroller of the Currency), the Board of Governors, and the Federal Deposit Insurance Corporation.

4. Control of Bank Credit

It is the consensus of the group that the problem of reserve requirements should be considered in conjunction with the question of what additional powers should be requested to control banking operations. It is agreed that steps should be taken to retard inflation through restraint on bank credit expansion, but these steps must not interfere with the Treasury's ability to finance defense at as low rates as can be maintained without danger to the economy. The group believes that the following interdependent steps should be taken and that an agreed-upon announcement of policy should be made prior to the announcement of any major Treasury financing.

It is clearly agreed by the group that all four of the proposals listed below are to be considered and treated as integral parts of one whole, that agreement rests upon the ^{in the interim} ~~prior~~ acceptance of all four proposals; and ^{prior to the next long-term Treasury financing} that no action be taken with respect to any of the four unless there is agreement on all of them. The proposals are:

- (a) That reserve requirements be increased to the full extent permitted by present law;
- (b) That legislation be requested by the Administration for new powers over bank credit, and that the form of such powers be agreed upon by the Board of Governors and the Treasury;
- (c) That such additional selective credit controls as the Treasury and the Board of Governors agree are necessary and practicable as further steps to counteract inflation be recommended or adopted;

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- (d) That the Board of Governors and the Treasury both feel that the appropriate procedure with respect to the Government Security Market is that a pattern of interest rates deemed desirable should be determined from time to time and that once determined the monetary authorities shall support such pattern with such measures as may be necessary, including open market operations by the Federal Reserve System.

Any question of publicity with respect to the policy adopted under (d) shall be a matter for special determination by the two groups.

September 10, 1941
4:20 p.m.

HMJr: Hello.

Deems Taylor: Oh, hello.

HMJr: Henry Morgenthau.

T: Oh, hello.

HMJr: How are you?

T: Fine, thank you.

HMJr: I thought you got off to a good start Saturday.

T: I thought we did pretty well.

HMJr: Yes. The reason I'm calling you is this. I'd like to make a suggestion.

T: Yeah.

HMJr: And I want to tell you so that you realize why.

T: Yeah.

HMJr: Werner Josten - J-o-s-t-e-n.....

T: Yes.

HMJr:of Smith College.....

T: Yeah.

HMJr:happens to be my brother-in-law.

T: Uh huh.

HMJr: He also happens, I think, to be a pretty good composer.

T: Oh, yes. I know his work very well.

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HMJr: And I wondered if we couldn't do something of his on some Saturday night.

T: Sure. Certainly.

HMJr: I.....(laughs)

T: As a matter of fact, I've got a list - I've got him down on a list that I made out for Wally.

HMJr: You think you could do it fairly soon?

T: Yes.

HMJr: You're familiar with his various.....

T: Yeah. Oh, yes.

HMJr: Well.....

T: Let me see - well, I should say - well, a week from Saturday, probably.

HMJr: A week from this Saturday.

T: Yeah.

HMJr: Will you communicate with him directly?

T: Yes. He's at Smith, isn't he?

HMJr: He's at Northampton.

T: Yeah. Yeah. All right, I'll do that.

HMJr: Which one of his worke do you think you'd do?

T: Well, I don't know. It'll be - we choose them by time. (laughs)

HMJr: By time. Well, he has several that run fifteen minutes.

T: Yeah. Well, that's a little long.

HMJr: Yeah. Well, the one you did last Saturday ran that long didn't it?

T: Why, that was a - that was the soloist's number.

HMJr: Yeah. I don't think there's anything that he has that runs shorter, but I'm not sure.

T: Well, I'll.....

HMJr: He might.....

T:talk with him, and I'll ask him to suggest.

HMJr: Yeah. Well, it would be very pleasing to me if you did it.

T: All right, we'll do it.

HMJr: Thank you.

T: You're welcome.

HMJr: And, of course, on the assumption you think it's good music.

T: Oh yes. Oh, oh yes, that's - it's no favor to you to do it.

HMJr: No. I said I really think he's good.

T: Oh yes, he is.

HMJr: Yes.

T: Oh, sure.

HMJr: All right.

T: Be delighted.

HMJr: Thank you.

T: All right.

HMJr: Good-bye.

T: Good-bye.

September 10, 1941

Dear Werner:

I asked Deems Taylor today to do one of your compositions on our Saturday night program. He said he would. He said he thought they could do it a week from Saturday. Please let me know whether or not you hear from them.

Alfred Wallenstein is the conductor. We have not followed the plan of asking the composer to conduct or to say anything.

I hope this time I have been successful and that they do one of your compositions well.

Yours sincerely,

(Signed) Henry

Mr. Werner Josten,
Northampton,
Massachusetts.

cc - Mrs. Morgenthau

September 10, 1941

Dear Mr. Young:

Your letter of August 30, 1941, to Governor McKee, with its enclosures relative to the Employees Savings and Extra Compensation Plan adopted by the International Harvester Company, has been brought to my attention. The extent to which the employees of that company have already participated in the purchase of savings bonds is extremely impressive and it is quite apparent that large future sales can be expected under this plan.

I am writing Mr. McCormick as you suggested, and I enclose a copy of my letter to him. Efforts of this sort are real contributions to the Defense Program and the Treasury is always glad to encourage them.

Very truly yours,

(Signed) H. Worgenthau, Jr.

Secretary of the Treasury.

C. S. Young, Esq.,
President, Federal Reserve Bank,
Chicago, Illinois.

Enclosure

ELK:mrw 9/8/41



TREASURY DEPARTMENT

WASHINGTON

September 10, 1941

Dear Mr. McCormick:

I have read with interest the material you sent me describing the Employees' Savings and Extra Compensation Plan of International Harvester Company.

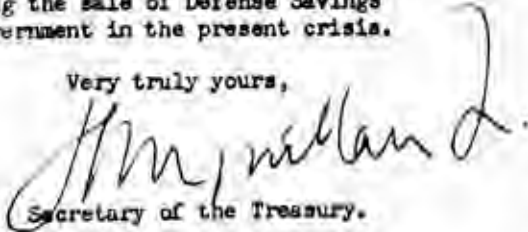
I was particularly impressed, of course, by the fact that employees' savings under the plan are to be invested exclusively in United States Defense Savings Bonds. We have been extremely interested in having corporations make it possible for employees to buy Defense Savings Bonds out of income. Your plan provides an admirable method by which employees can perform this patriotic service and at the same time make a prudent investment for their own futures.

I was struck by the fact that the Harvester Company not only makes it possible for employees to buy the bonds out of income but also, in the case of employees with three or more years service, matches the employees' savings up to 2-1/2 percent of their annual incomes. This feature of the plan offers an unusually attractive investment opportunity, since the Company's contribution enables employees to obtain more bonds than their own savings alone would purchase.

Your circular on the new tax notes, and your favorable comment regarding them, is appreciated, and I was interested to note the substantial purchase of these notes for your Company account.

I wish your Company success with the savings plan and I hope every Harvester employe will feel that he can participate in it. Such participation will result in increasing the sale of Defense Savings Bonds and will directly assist our Government in the present crisis.

Very truly yours,



Secretary of the Treasury.

Mr. Fowler McCormick,
President,
International Harvester Company,
180 North Michigan Avenue,
Chicago, Illinois.



TREASURY DEPARTMENT
WASHINGTON

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September 4, 1941

Dear Mr. Bell:

I talked with you at lunch today about the plan of the International Harvester Company, Chicago, Illinois, with respect to their employees' savings and compensation plan.

There is enclosed the file on this subject.

I understand that you approve of the plan and that you will draft a letter to be signed by Mr. Morgenthau. I will greatly appreciate it if you will give this matter your immediate attention. When the letter has been signed, kindly send us a copy for our files and also send a copy to Mr. L. P. Bethea, Assistant Secretary, Board of Governors of the Federal Reserve System, Washington, D.C., and return to him the letter by Mr. Young, President of the Federal Reserve Bank of Chicago, dated August 30 and addressed to Honorable John K. McKee.

With kindest regards, I am

Sincerely yours,

(signed) B. M. Edwards
Assistant to the Secretary

Honorable Daniel W. Bell
Under Secretary of the Treasury
Washington, D. C.

Enclosure

FEDERAL RESERVE BANK OF CHICAGO 277

August 30, 1941

OFFICE OF THE PRESIDENT

Hon. John K. McKee, Member
Board of Governors of the Federal Reserve System
Washington, D. C.

Dear Mr. McKee:

I had a conference a few days ago with three executives of the International Harvester Company, Chicago, Illinois, at which was discussed the Employee Savings and Extra Compensation Plan which the Company put into effect sometime ago.

The Plan provides for voluntary authorized pay roll deductions of from 1 to 10 per cent of employes' wages or salary, with which will be purchased Defense Savings Bonds. The employes' savings are to be invested exclusively in Defense Savings Bonds.

It further provides, with respect to employes having at least three years of service with the Company, that the Company will match their savings on a 50 per cent basis up to a maximum of 5 per cent of their annual salary or wages. These matching payments are forfeited if withdrawn by the employe for any purpose save unemployment or retirement income. In the event of forfeit, the payments are spread among remaining participants. No such matching credits ever revert to the Company.

The Plan further provides that one-half of any Extra Compensation paid to employes must go into their savings accounts. (Extra Compensation referred to is paid to employes whenever the Company's earnings exceed \$3 per share of common stock)

I am very enthusiastic about the Company's Plan and I am confident that it will be the means of selling several million dollars of Defense Savings Bonds. The Company has no ulterior motive in offering this Plan to employes, but feels that it has responsibility in the Defense Program, and it

Hon. John K. McKee, Washington, D. C.

8/30/41 -2

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is of course very interested in offering to employes additional security against unemployment and retirement.

There are enclosed -

1. A schedule of the number of employes now participating in this Plan.
2. A schedule of Government issues purchased by the Company.
3. A schedule of the estimate of purchases for the immediate future under the savings plan.
4. Copy of the text of the Savings Plan.
5. Copy of the Managerial Savings Plan.

You will note that the Company has 57,000 employes and that it has purchased for employes a maturity value of Defense Bonds of \$5,895,000, in addition to \$148,000 purchased by officers, or a total of \$6,043,000. The International Harvester Company, as a corporation, has purchased Savings Bonds with a maturity value of \$21,970,000.

The Company is very anxious that the matter be submitted to The Secretary of the Treasury with the thought that perhaps he may be willing to write the Company a letter. I have prepared a suggested letter, which is also enclosed. I wish you would give this proposed letter consideration and if you think it advisable, I shall appreciate it if you will contact Mr. Morgenthau or Mr. Bell about the matter. It will not be necessary for Mr. Morgenthau or Mr. Bell to approve the Plan, but if they would be willing to write a letter to the Company indicating that the Plan offers an unusually attractive investment opportunity, since the Company's contribution enables employes to obtain more bonds than their own savings would purchase, I believe that would suffice.

If you think there is merit in my suggestion, I shall appreciate having you advise me.

Very truly yours,


President

UNITED STATES SAVINGS BONDS

Comparative Statement of Sales During
 First Seven Business Days of July, August, and September, 1941
 (July 1-9, August 1-5, September 1-9)
 On Basis of Issue Price

(Amounts in thousands of dollars)

Item	Sales			Amount of Increase or Decrease (-)		Percentage of Increase or Decrease (-)	
	September	August	July	September over August	August over July	September over August	August over July
Series E - Post Offices	\$12,460	\$ 13,262	\$15,080	-\$ 802	-\$ 1,818	- 6.0%	- 12.1%
Series E - Banks	<u>19,735</u>	<u>24,262</u>	<u>23,324</u>	- <u>4,527</u>	<u>938</u>	- <u>18.7</u>	<u>4.0</u>
Series E - Total	32,195	37,525	38,405	- 5,330	- 880	- 14.2	- 2.3
Series F - Banks	5,330	7,515	7,631	- 2,185	- 116	- 29.1	- 1.5
Series G - Banks	<u>36,378</u>	<u>50,864</u>	<u>51,852</u>	- <u>14,486</u>	- <u>988</u>	- <u>28.5</u>	- <u>1.9</u>
Total	<u>\$73,903</u>	<u>\$95,903</u>	<u>\$97,888</u>	-\$ <u>22,000</u>	-\$ <u>1,985</u>	- <u>22.9%</u>	- <u>2.0%</u>

Office of the Secretary of the Treasury, Division of Research and Statistics. September 10, 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 - September 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
September 1941									
2	\$ 3,021	\$ 3,385	\$ 1,182	\$ 5,510	\$ 10,077	\$ 6,406	\$ 1,182	\$ 5,510	\$ 13,098
3	972	1,933	585	5,790	8,308	2,905	585	5,790	9,280
4	1,365	2,540	645	4,846	8,032	3,906	645	4,846	9,397
5	1,852	3,689	1,162	10,486	15,336	5,540	1,162	10,486	17,188
6	1,419	3,144	707	4,666	8,516	4,562	707	4,666	9,935
8	2,858	3,032	521	3,549	7,102	5,890	521	3,549	9,960
9	973	2,013	528	1,532	4,073	2,987	528	1,532	5,046
Total	\$ 12,460	\$ 19,735	\$ 5,330	\$ 36,378	\$ 61,443	\$ 32,195	\$ 5,330	\$ 36,378	\$ 73,903

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

September 10, 1941.

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

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

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 10, 1941

TO Mr. Thompson

FROM Mr. Hass

In further response to your request of December 26, 1939, there is submitted herewith for the Division of Research and Statistics a memorandum listing, with brief descriptions, the studies or projects completed or under way, and the names of persons working on each, for the month of July 1941.

DIVISION OF RESEARCH AND STATISTICS

Report of Studies or Projects Completed or Under
Way, and the Names of Persons Working on Each,
For the month of July 1941

For convenience of reference, the studies listed are grouped under general subject heads.

The names shown for persons working on each project include only those who participated fairly directly, as explained in the introductory note to the corresponding report submitted on December 28, 1939. No attempt has been made to cover also persons whose responsibility in each particular case was mainly in planning, supervising, or consulting.

Financial Analysis

I. Projects or studies completed

1. Reviews of current developments in the high-grade securities markets were prepared, and memoranda were transmitted to the Secretary on July 2 and 16. - Mr. Haas, Mr. Turner, Mr. Matlock, Mr. Barnett

These reviews contained, in addition to analysis of the current situation, the following special studies:

- (a) The RFC financing (Review of July 2, page 3). - Mr. Turner
- (b) Some aspects of the Canadian war effort (Review of July 2, pages 4-6). - Mr. Matlock
- (c) The GGC financing (Review of July 16, page 3). - Mr. Turner
- (d) Increase in the public debt and in bank deposits during the fiscal year 1941 (Review of July 16, pages 3-6). - Mr. Turner, Mr. Barnett

2. A maturity calendar for each issue of direct and guaranteed bonds and notes of the United States was prepared, showing by year, month, and day, with calendar year totals, the amounts outstanding, classified by fixed maturity issues and by callable issues, according to the maturity, first, and final callable dates. The calendar, as of July 3, 1941, was transmitted to the Secretary on July 5. - Miss Lagos

3. Yield rates on United States securities, direct and guaranteed, on the basis of over-the-counter closing quotations were calculated daily. These were summarized each day in a table showing for each issue the closing price and yield that day, the changes in price and yield from the preceding day, and the price range since the date on which first traded and also for the year 1941 to date. A chart for each issue was kept up to date showing recent daily price and yield figures, together with comparative monthly data since 1934, since the date of issue, or since the date first traded. Similar calculations are made daily on the basis of New York Stock Exchange closing quotations on direct and guaranteed bonds of the United States, for use in preparation of the publication "Market Prices and Yields of Outstanding Bonds, Notes, and Bills of the United States", described under Publications in this report. - Mr. Moody, Miss McCoy, Mr. Kroll

4. At the request of the Secretary, arrangements have been made to secure periodically from the British Empire purchasing missions certain information regarding purchases in the United States by the British Empire. - Mr. Haas, Mr. Lindow, Mr. Wagner, Mr. March, Mr. Mayo, Mr. Marcus

(a) Weekly statements are received covering the itemized purchases by British Empire Governments through the various missions, the itemized purchases made by these Governments with the knowledge of the missions but not through their facilities, and inquiries made through the missions for future purchases. Similar statements are received showing, by itemized contracts, deliveries made with respect to orders placed by the United Kingdom through the missions. The details with respect to orders and deliveries are classified by some twenty-five commodity groups designed especially for the purpose.

These data are reviewed and edited in the Division each week and a report is then prepared summarizing in dollar volume the information on orders and deliveries, by commodity groups. This report consists of eight statements: the first three summarize orders placed by the individual governments

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of the British Empire for the current week and the totals to date; the next three statements summarize total orders of the British Empire on an historical basis; the last two statements present data on deliveries with respect to orders placed by the United Kingdom through the British missions. These weekly commodity statements were prepared, and were transmitted on July 5, 11, 18, and 25, according to instructions by the Secretary.

- (b) The Division also receives each week the data required to prepare statements giving the details concerning the physical volume of airplane and airplane engine orders in the United States by the British Empire. The material for these statements is contained in a group of work sheets prepared by the British Purchasing Commission, but it is necessary for the Division to consolidate and coordinate the information contained in the Commission's statements. The finished tables show, by company and by type of plane or engine, the following information: (1) summary of orders, deliveries, and exports; (2) history of orders; (3) history of deliveries; (4) history of exports; (5) scheduled deliveries of unfilled orders; (6) options: scheduled deliveries; (7) spare parts: orders, deliveries, unfilled orders, and options; and (8) secondhand units: orders, deliveries, and scheduled deliveries of unfilled orders. These aircraft reports were prepared, and were transmitted on July 5, 11, 18, and 25, according to instructions by the Secretary.
- (c) A series of six tables has been developed to show each week the disposition of airframes and airplane engines inspected in the United States by the British purchasing missions, and the status of airframes and airplane engines on hand in the United States. Separate tables for airframes and airplane engines show, by company and by model: (1) the disposition of units inspected; (2) the status of these units, and (3) the physical location of the units awaiting export. These tables were prepared, and were transmitted on July 8, 14, 21, and 28, according to instructions by the Secretary.

- (d) Reports are prepared each week showing commitments by the British Empire Governments for capital expenditures in the United States and for extraordinary charges designed to expedite deliveries. The data for these statements are provided by the British Purchasing Commission but the tables actually are prepared in the Division. Tables showing capital commitments were prepared, and were transmitted on July 5, 11, and 25, according to instructions by the Secretary.
- (e) A group of nine analytical tables on British Empire orders of iron and steel is prepared monthly. Six of these cover commercial iron and steel, excluding ferro-alloys and drop forgings, and are classified by product. One table covers ferro-alloys and silicon metals, and also is classified by product. The last two tables cover drop forgings and are classified by manufacturer. Statements showing British Empire orders of iron and steel as of May 31, were prepared, and were transmitted on July 7, according to instructions by the Secretary.
- (f) Arrangements have been made to receive information on a physical volume basis for the orders, deliveries, and dates of scheduled deliveries on unfilled orders, with respect to several other important commodities. For each of these commodities the following tables are being prepared: (1) current delivery status of orders; (2) history of orders; (3) history of deliveries; and (4) scheduled deliveries of unfilled orders. The data in these tables are broken down by particular products, particular models in each case, and particular manufacturers.

Statements covering various commodity groups were prepared, and were transmitted according to instructions by the Secretary as follows:

Small arms ammunition, on July 11
Explosives and propellants, on July 18.
Ships, small boats, and marine engines, on July 18.
Ordnance, on July 25
Small arms (fully automatic), on July 25
Sub-machine guns, revolvers, and rifles, on
July 25; and
Tanks and tank equipment, on July 25.

- (g) Certain financial information concerning the orders placed in the United States by the British Empire is presented in a monthly report. This report consists of three tables, showing by commodity groups a summary of the status of payments on dollar orders placed, the history of payments made, and a forecast of future payments on unpaid commitments. The report was prepared, and was transmitted on July 21, according to instructions by the Secretary.
- (h) Arrangements have been made with the Citadel Merchandising Company, Ltd., a Canadian Government corporation, to receive regular reports showing orders placed for machine tools in the United States, and deliveries on these orders. From this information the Division will be able to prepare reports summarizing Citadel orders, deliveries, and unfilled orders, classified by companies. Delays in the receipt of necessary information have held up completion of the planned reports.
5. At the request of the Secretary, arrangements have been made to secure periodically certain information regarding purchases in the United States by the Netherlands Purchasing Commission, and by Lindeteves, Inc. - Mr. Haas, Mr. Lindow, Mr. Wagner, Mr. March, Mr. Mayo, Mr. Marcus

Statements are received covering the itemized purchases by the Netherlands Purchasing Commission in the United States, and the volume of deliveries made thereon. Similar statements are received concerning the activities of Lindeteves, Inc., a large private commercial organization operating in the Dutch East Indies. The details with respect to orders and deliveries for these purchasing agencies are classified by the same twenty-five commodity groups used for reporting orders placed in the United States by the British Empire.

These data are reviewed and edited in the Division. Reports are then prepared for each of these agencies summarizing the information on orders and deliveries,

classified by commodity groups. These reports consist of three statements: the first shows the history of orders placed; the second shows the history of deliveries made on these orders; and the third shows the current delivery status of orders. These commodity statements covering orders of the Netherlands Purchasing Commission were prepared, and were transmitted on July 7, 11, 18, and 25, in accordance with instructions by the Secretary. Similar statements for Lindeteyes, Inc., were prepared, and were transmitted on July 7, and 18, also according to instructions by the Secretary.

6. At the request of the Secretary on May 23, 1940, arrangements were made for securing weekly until September 11, 1940, and since then fortnightly, from more than forty airplane and airplane engine manufacturers data on deliveries, new orders, unfilled orders, and estimated deliveries by months on the unfilled orders. Analytical tables were prepared every other week showing this information by type of plane or engine and by class of purchaser. A report for the fortnight ended July 5 was transmitted on July 9, according to instructions by the Secretary. The Secretary subsequently instructed that this series of reports be discontinued. Accordingly, letters were sent to each of these companies informing them of this decision. - Mr. Haas, Mr. Tickton, Mr. D. J. Leahy
7. At the request of the Secretary, a memorandum was transmitted to him on July 1, with respect to lend-lease orders shown in the biweekly airplane report. - Mr. Haas
8. At the request of Under Secretary Bell, various memoranda and charts were prepared for use in the Friday discussion group meeting fortnightly to consider matters of general interest in connection with defense financing. - Mr. Haas, Mr. Daggitt

The material prepared during the month included the following:

Analyses were made of recent movements of commodity prices illustrated by three wall charts. One chart showed on the basis that August 1939=100, the movement of 25 basic commodity prices, consisting of 16 industrial raw materials and 12 foodstuffs. For the indexes of 16 industrial raw materials and 12 foodstuffs, there were shown weekly average movements from August 1940 to date, and daily

changes from May 1941 to date. On the same chart were shown also for each of the 28 commodities the percentage price changes from the August 1940 low to July 9 and to July 23, 1941.

A comparison was shown in a second chart of indexes for all commodities and for raw materials in the United States and in the United Kingdom since January 1939, on the basis that August 1939=100.

Comparisons were shown in a third chart of price indexes for all commodities and for foods in the period 1939-41 and the period 1914-16, on the basis that July 1914=100 in the World War period, and August 1939=100 in the current period.

These charts were presented at the meeting on July 25. - Mr. Daggit

9. In response to a request by the Secretary on January 21, that measures be taken to obtain information to assist in carrying through the defense financing program, arrangements have been made to obtain the necessary detailed statistics on the holdings of each issue of the public debt and of guaranteed securities by the various classes of holders. - Mr. Haas, Mr. Tickton, Miss Westerman, Mrs. Wolkind, Mr. D. J. Leahy, Mr. Blitman, Mrs. Barnes, Mr. Alter, Mr. Robbins

A summary was prepared of the data received as of May 31, consisting of brief explanatory text and six tables for publication in the Bulletin of the Treasury Department for July.

The information as of June 30 received in response to our letter of June 28, from 7,000 banks and insurance companies was coded, tabulated, and analyzed. A comprehensive analysis was prepared, consisting of 100 tables, showing this information, classified by type of institution, by issue, by geographic area, by call classes, and by tax-exemption provisions.

New letters were sent out to the banks and insurance companies on July 28, requesting comparable data as of July 31.

10. At the request of the Secretary, arrangements have been made to prepare current statistical reports on the sales of United States Defense savings bonds, series E, F, and G, and Defense Postal savings stamps, on the basis of reports by the Treasurer of the United States, the Federal Reserve Banks, and the Post Office Department. The reports prepared during July were transmitted according to instructions by Mr. Graves. - Mr. Haas, Mr. Reagh, Mr. Brown, Mr. Tickton, Mr. Kroll, Mr. D. J. Leahy
- (a) Daily tables were prepared, showing the dollar volume, on the basis of the issue price, of sales of each of the three series of bonds, with totals, by Post Offices and by banks. The table prepared on July 1 presented these data, together with sales of stamps, for each day of June, with totals for the month. The next table, prepared on July 3 showed sales of bonds for July 1 and 2, with totals. Succeeding tables showed the data for each additional day of July, with cumulative totals. The table of July 31 covered the period from July 1 through July 30.
 - (b) Daily tables were prepared, beginning on July 3, showing the amount and percent of change in the dollar volume, on the basis of the issue price, of sales in July compared with the sales in June, of each of the three series of bonds, with totals, by Post Offices and by banks. The table of July 3 compared the sales for the first two days of June and of July. The table of July 31 compared the sales for 30 days of each month.
 - (c) Two tables were prepared, one showing for the week ending June 28, and the other for the month of June, the dollar volume of sales, on the basis of the issue price, of each of the three series of bonds, with totals, by Post Offices and by banks, classified by Federal Reserve districts. These tables were prepared on July 3.
 - (d) Two tables were prepared, one showing for the week ending June 23, and the other for the month of June, the dollar volume of sales, on the basis of the issue price, of series E bonds, by Post Offices and by banks, with totals, classified by States. These tables were prepared on July 3.

- (e) Two tables were prepared, one for the week ending June 28, and the other for the month of June, showing the estimated number of units sold of savings bonds, series E, F, and G, classified by denominations, by Post Offices and by banks, with totals. These tables were prepared on July 8.
- (f) A table was prepared on July 5, reporting sales of savings bonds, series E, F, and G, in May and in June, with totals, by Post Offices and by banks, separately by series, by the number of bond units; the dollar volume, on the basis of the issue price; and the number of purchasers excluding second co-owners.
- (g) A table was prepared on July 8, showing the sales during June of Defense savings bonds, series E, F, and G, by number of units, with total; and of Defense savings stamps by denominations, with total, as estimated by the Post Office Department, on the basis of daily reports of 111 large Post Offices.
- (h) A table was prepared on July 8, showing for Defense savings bonds, series E, F, and G, the percentage of the dollar volume of sales in June, by Post Offices and by banks, on the basis of the issue price, by each denomination.
- (i) A table was prepared on July 2, showing sales by Post Offices and by banks, with totals, in dollar volume, on the basis of the issue price, of savings bonds, series E, F, and G, and estimated sales of Defense savings stamps, for the combined months of May and June.
- (j) A table was prepared on July 2, and revised on July 3, comparing sales in dollar volume, in June and in May of savings bonds, series E, F, and G, and estimated sales of Defense savings stamps. The table showed the monthly and daily average sales by Post Offices and by banks, with totals, together with the absolute and percentage changes for the month and for the daily average. Accompanying the table of July 2 was a memorandum explaining in detail the basis of the figures.

- (k) A table was prepared on July 7, showing sales of savings bonds, series E, classified by denominations, by number of units, and by dollar volume, on the basis of the issue price. These data were shown for the period May 1-17, and for the weeks ending May 24 and 31, and June 7, 14, 21, and 28.
 - (l) A table was prepared on July 2, comparing sales in dollar volume, on the basis of the issue price, of Defense savings bonds, series E, in May and in June 1941, and sales of savings bonds, series D, in May and in June 1940. The absolute and percentage changes were shown.
 - (m) A table was prepared on July 7, comparing sales of Defense savings bonds, series E, in May and in June 1941, and sales of savings bonds, series D, in May and in June 1940, classified by denominations, by units, and by dollar volume, on the basis of the issue price.
 - (n) A table was prepared on July 10, showing the number of American Bankers Association banks qualified as selling agents of United States Defense savings bonds, series E, classified by States.
11. A proposal of the RFC that the Secretary request that corporation to purchase debentures of a bank was examined. - Mr. Foy
 12. A study was completed of the relationship between public debt operations and bank reserves, and was incorporated in the review of developments in the high-grade securities markets of July 16, as listed under Financial Analysis, I, 1(a). - Mr. Turner, Mr. Barnett
 13. Preparation of material was completed for Representative Tager in response to his request on June 18, concerning the effect of sales of United States Defense savings bonds on bank deposits and reserves. The material was transmitted on July 9. - Mr. Haas, Mr. Murphy, Mr. Turner
 14. A memorandum was received from Mr. Tarleau on May 31, stating that it was his understanding that if the Treasury's recommendation regarding the surtax on corporations is adopted it will be advisable to have corporations holding partially tax-exempt obligations

amortize the premium or discount by which such obligations were obtained, and requesting a memorandum regarding the extent of the revision of the law which will be required with respect to the bond interest for income tax purposes. The memorandum was prepared and was transmitted to Mr. Tarleau on July 25. - Mr. Murphy

15. At the request of Under Secretary Bell on June 9, a review was made of a memorandum and draft of a proposed Bill prepared by Mr. Broughton on the redemption of "old series" currency and the adjustment of the amount outstanding. A memorandum was prepared and was transmitted to the Under Secretary on July 11. - Mr. Turner
16. A review was made of a proposed reply prepared by Mr. Broughton to a letter from Mr. S. E. Foster dated June 12, with respect to the Circulation Statement of United States Money, and an alternative reply was prepared for signature of the Under Secretary. A memorandum to the Under Secretary was prepared suggesting certain changes in the Statement. The letter and the memorandum went forward to the Under Secretary on July 11. - Mr. Murphy, Mr. Turner
17. At the request of Mr. Heffelfinger on June 17, a review was made of a proposed reply prepared in the Bureau of the Public Debt, to a letter from Mr. T. T. Malleson, Brooklyn, New York, concerning the redemption values prior to maturity of United States Defense savings bonds, series G. An alternative reply was prepared, and with a memorandum was transmitted to Mr. Broughton on July 3. - Mr. Reagh, Mr. Brown
18. A study was completed of a new type of Defense annuity savings bond. - Mr. Reagh, Mr. Brown
19. A table was prepared on July 5, showing estimated yield bases and probable prices of the new issues of Commodity Credit Corporation notes based on closing bid prices on July 5. - Mr. Foy, Mr. Barnett
20. A table was prepared on July 7, showing estimated yield bases and probable prices of the new issues of Commodity Credit Corporation notes based on closing bid prices on July 7. - Mr. Foy, Mr. Barnett

21. A table was prepared on July 8, showing estimated yield bases and probable prices of new issues of Commodity Credit Corporation notes based on closing bid prices on July 8. - Mr. Foy, Mr. Barnett
22. Two tables were prepared showing respectively, the distribution of ownership as of May 31, 1941, of Commodity Credit Corporation 5/8 percent notes maturing on August 1, 1941, by various classes of holders, and the ownership by the 25 largest holders reporting to the Treasury Department. The tables were transmitted to the Secretary, and to the Under Secretary on July 7. - Mr. Tickton
23. At the request of Under Secretary Bell on July 15, revision was made of the following radio material on the Treasury tax savings program. - Mr. Murphy, Mr. Villard
 - Ten-minute interview by Under Secretary Bell and announcer. The script was transmitted to the Under Secretary on July 16.
 - Ten-minute interview by Commissioner of Internal Revenue Guy T. Helvering and announcer. The script was transmitted to the Under Secretary on July 16.
 - Ten-minute interview by State representatives of the Office of Government Reports and announcer. The script was transmitted to the Under Secretary on July 17.
 - Two five-minute interviews for collectors of internal revenue and announcer. The scripts were transmitted to the Under Secretary on July 17.
 - Special announcement for Women's radio program for use before August 1. The script was transmitted to the Under Secretary on July 18.
 - Two special announcements for Women's radio programs for use after August 1. The scripts were transmitted to the Under Secretary on July 18.
 - Three brief radio announcements for use July 29, 30, and 31. The scripts were transmitted to the Under Secretary on July 18.
 - Five brief radio announcements for use August 1 through 11. The scripts were transmitted to the Under Secretary on July 18.
24. The index of the average yield of high-grade corporate bonds was revised as of July 1, 1941. - Mr. Turner

25. At the request of Under Secretary Bell on July 10, a memorandum was prepared on "Control of Consumer Credit", and was transmitted to him on July 14. - Mr. Murphy
26. At the request of Major Dunham on July 17, data were obtained on the compensation paid to the officers of 43 selected corporations in the construction industry, 1934-38. The data were incorporated in a letter for signature of Under Secretary Bell, to the Under Secretary of War. The letter was mailed on July 26. - Mr. Murphy
27. At the request of the Division of Statistical Standards of the Bureau of the Budget in a letter of July 8, a review was made of a plan for a financial reporting system for corporations proposed by the OPACS. Report was made by telephone to the Division of Statistical Standards on July 11. - Mr. Murphy, Mr. Daggit, Mr. Leaney, Miss Michener
28. At the request of Under Secretary Bell on July 5, a review was made of his testimony on June 21, before the Committee on Banking and Currency of the House of Representatives in the hearings on S. 1471, an act to extend the period during which direct obligations of the United States may be used as collateral security for Federal Reserve notes. - Mr. Murphy
29. At the request of Under Secretary Bell on July 22, a redraft was made of a proposed reply prepared by the Legal Division to a letter from Senator Wagner dated May 26, requesting a report on S. 1553, a bill to provide for loans to Federal Land Banks for re-financing certain Farm Loan bonds by the Farm Mortgage Corporation, and changing the method of fixing interest rates on land-bank mortgages, cited as the "Farm Credit Act of 1940". The letter was transmitted to the Legal Division on July 25. - Mr. Murphy

30. At the request of Under Secretary Bell on July 24, a summary was prepared of the provisions of H. R. 5336, cited as the "Farm Credit Act of 1941". The summary was incorporated in a memorandum transmitted to the Under Secretary on July 29. - Mr. Foy

II. Projects or studies under way

1. A study is being made of the relative interest costs of short- and long-term borrowing. - Mr. Barnett
2. A study is being made of the available sources of funds for Treasury financing. - Mr. Villard
3. A memorandum is being prepared on a negotiable "tax" security. - Mr. Sandelin, Mr. Turner, Mr. Murphy
4. A study is being made of the probable excess reserves in 1941-42. - Mr. Turner, Mr. Barnett
5. Tables are being prepared which will present various data on new Treasury notes and bonds and on guaranteed new issues. - Mr. Conrad
6. A memorandum is being prepared on the advantages and disadvantages of increasing the short-term debt. - Mr. Foy
7. A revision is being made as of June 30, 1941, of the estimates of the ultimate increase in interest costs which would result from removal of the tax-exemption privilege from all public securities. - Mr. Conrad
8. A memorandum is being prepared recommending legislation terminating miscellaneous types of tax exemption analagous to the exemption of interest on Federal securities, but unaffected by the Public Debt Act of 1941. - Mr. Foy
9. A study is being made of war-financing measures in belligerent countries in the present war. - Mr. Matlock
10. A comparison is being made of the British Fiscal Program 1941-42 with the Keynes plan proposed in "How to Pay For the War", by Mr. J. M. Keynes. - Mr. Matlock

11. At the request of Under Secretary Bell on October 14, a memorandum is being prepared on a memorandum submitted by Mr. John Evans, President of the First National Bank of Denver, Colorado, in reference to United States Government bonds now owned by the Federal Reserve System and its member banks, and suggestions concerning a refunding and change in form which would appear to be in interest of the Treasury Department, the Federal Reserve System, the member banks, the Federal Deposit Insurance Corporation, and the public generally whose money is deposited in member banks. - Mr. Murphy
12. In response to a request by Under Secretary Bell on January 27, comments are being prepared on a memorandum by Mr. George Eddy to Mr. White, in regard to a plan of Mr. N. E. Peterson, entitled, "A Means of Financing the Defense Program". - Mr. Murphy
13. At the request of Under Secretary Bell on February 5, an analysis is being made of his plan for investing savings banks' and insurance companies' funds in special 2 percent Treasury certificates. - Mr. Tickton
14. At the request of Under Secretary Bell on February 11, a memorandum is being prepared to the Secretary regarding a letter from Mrs. Sylvia F. Porter, New York Post, dated January 22, suggesting a plan for the distribution of United States Government securities. - Mr. Haas, Mr. Murphy
15. An analysis is being made of a study of savings bond mortality by Miss Hilda Hoffman, Bowery Savings Bank, transmitted by Mr. Theodore R. Goldsmith on March 13. - Mr. Murphy
16. At the request of Under Secretary Bell on April 21, a memorandum is being prepared on Mr. Salant's memorandum on "Limitation on Purchases of Defense Savings Bonds". - Mr. Murphy
17. At the request of Under Secretary Bell on July 28, an outline of a speech on the tax anticipation notes was prepared for use in preparing a radio address to be given by him on August 11 at the Washington Star Radio Forum. - Mr. Murphy, Mr. Villard
18. In response to an invitation in a letter of July 25, from Mr. C. C. Fichtner, Chief, Division of Regional Economy, arrangements were made for representation at a training conference for the regional business consultants of the United States Department of Commerce, on August 1. - Mr. Murphy, Mr. Lindow

19. At the request of Under Secretary Bell replies are being prepared to certain questions asked by the Wagner Committee preparatory to its investigation of banking and monetary conditions pursuant to Senate Resolution 125. - Mr. Haas, Mr. Murphy, Mr. Foy
20. At the request of Under Secretary Bell on May 24, cooperation is being given Mr. Bartelt and Mr. Blough in preparing replies to the list of questions accompanying a letter from Senator Tydings of May 5. The replies are for use by the Senate Committee created to find ways and means of automatically balancing the Federal Budget in times of peace. - Mr. Murphy, Mr. Foy

Revenue Estimates

I. Projects or studies completed

1. The regular monthly statement was prepared, showing the latest revised estimates of receipts, by months and by principal sources of revenue, for the period July 1941-June 1942, and actual receipts for the fiscal year 1941. The statement was transmitted to the Bureau of Accounts on July 3. - Mr. Delcher
2. The regular monthly summary comparison was prepared, showing estimated receipts and actual receipts in June 1941 on the daily Treasury statement basis. - Mr. Delcher
3. The regular monthly detailed comparison was prepared, showing estimated and actual receipts in June 1941, and for the fiscal year 1941, based on the collections classification. The fiscal year summary was compared with the estimates as revised in May 1941 and with the January 1941 Budget estimates. - Mr. Delcher
4. Revised estimates of the population of the Continental United States were prepared as of the end of each month from June 30, 1940 through June 30, 1942, based on the preliminary population estimates released on May 16, 1941 by the Bureau of the Census. The estimates were transmitted in memoranda to Miss Barr, and to Mr. Weber on July 31. A tabular presentation of the population estimate as of June 30, 1941, by States was transmitted under cover of a memorandum to Mr. Mulroney on July 31. - Mr. O'Donnell

5. An analysis was completed of each component of the April 1941 estimate, as revised in May 1941, of miscellaneous internal revenue, excluding capital stock, estate, and gift taxes, for the fiscal years 1941 and 1942. - Mrs. May, Miss Spiegel, Miss Hagedorn
6. For use in revenue estimating data were assembled on collections of taxes now repealed which may be re-enacted according to testimony at Congressional hearings. - Mrs. May, Miss Spiegel, Mr. R. R. Smith
7. At the request of the office of Under Secretary Bell on July 9, estimates were prepared and were transmitted to him in a memorandum on that date, of collections from the capital stock tax for the first quarter of the fiscal year 1942, and for the full fiscal year, based on 1.10 rate effective under the present law. - Mr. Leahey
8. At the request of Under Secretary Bell on July 21, estimates were prepared, and were transmitted to him in a memorandum on July 23, of the monthly distribution of the estimated capital stock tax collections for the fiscal year 1942, based on the assumption that the time for filing capital stock tax returns will be extended from July 31 to September 29. Distribution was shown for estimated collections under the present statutory rate and under the rate and filing date proposed by the Revenue Bill of 1941 as recommended by the Committee on Ways and Means, compared with estimated collections under the present statutory rate and filing date, and with unchanged filing requirements. - Mr. Leahey
9. In connection with the hearings on the Revenue Bill of 1941, a number of revenue estimates, listed below, were prepared for use of Assistant Secretary Sullivan and the Division of Tax Research. - Mr. O'Donnell, Mr. Leahey, Mr. Bronfenbrenner, Mr. Butters, Mr. T. L. Smith
 - (a) Estimates were completed, and were transmitted to Mr. Blough in a memorandum on July 2, of the revenue from two proposed estate tax schedules, showing separately the amounts attributable to the estate tax and the gift tax before and after the defense tax.

- (b) An estimate was completed, and was transmitted to Mr. Blough in a memorandum on July 2, of the revenue increase which would result from raising the rate of tax on firearms, shells, and cartridges (Sec. 3407) from 11 percent to 20 percent.
- (a) Estimates were completed, and were transmitted to Mr. Blough in a memorandum on July 2, of the additional revenues from the following excise taxes:

1. Wines, cordials and liqueurs: Increase the rates to the following schedule:

(a) Still wines	Tax per gallon
Not more than 14 percent alcohol	15 cents
14 to 21 percent alcohol	35 cents
More than 21 percent alcohol	65 cents

	Tax per 1/2 pint
(b) Sparkling wines	7 cents
(c) Artificially carbonated wines	3 1/2 cents
(d) Liqueurs, cordials, etc.	3 1/2 cents

2. Gasoline: Increase the rate 1 cent per gallon.

3. Soft drinks: (a) A tax of 32 cents per gallon on all finished or fountain syrups, of the kind used in manufacturing, compounding or mixing soft drinks, sold or used by the manufacturer or importer.

(b) A tax of 20 cents per pound on all carbonic acid gas in liquid, solid, or gaseous form, sold by the manufacturer or importer thereof, or by a dealer in such gas, for use in the preparation of soft drinks.

4. Automobile tax: A tax of 15 percent on items covered in section 3403(b); excepting that buses are to be excluded from the base, but automobile trailers are to be included.

5. Automotive parts and accessories: A tax of 10 percent on items covered in section 3403(c), excepting that automobile radio sets and parts are to be excluded from the base.
6. Buses, trucks and certain tractors: A tax of 10 percent on items covered in section 3403(a), excepting that buses and truck trailers are to be included in the base.
7. Tires and tubes: Increase rates from 2 $\frac{1}{2}$ and 4 $\frac{1}{2}$ cents to 5 and 9 cents.
8. Telephone, telegraph, cable, etc.: Revise rates under section 3465 as follows:

On messages for which the charge is 15 cents or more and less than 50 cents, a tax of 5 cents; 50 cents or more and less than \$1.00, 10 cents; \$1.00 or more and less than \$1.50, 15 cents; \$1.50 or more and less than \$2.00, 20 cents; \$2.00 or more, 5 cents for each additional 50 cents or fraction thereof.

The tax on telegraph, cable and radio dispatches and messages to be on the same graduated rate as set forth above with respect to telephone conversations (instead of the present rate of 5 percent of the amount charged for telegraph messages and 10 cents for each radio and cable message).

The phrase "any leased wire or talking circuit special service" which is now subject to tax of 5 percent of the amount paid for such service should be defined to include certain services which may not now be classed as leased wires or special talking circuits, such as furnished in connection with news or stock quotation tickers, teletypewriters, burglar alarm systems, and similar services.

9. Jewelry: A tax at 10 percent of the retail sales price, allowing no exemptions and including retail sales of clocks, watches and parts therefor.

10. Photographic apparatus and materials or projective apparatus: A tax of 10 percent of the manufacturers' sales price.
 11. Mechanical refrigerators: Increase the rate under section 3405 from 5½ to 10 percent, and extend base to include commercial type refrigerators and parts therefor and air conditioning equipment and parts therefor.
 12. Radio sets and parts: Increase the rate under section 3404 from 5½ to 10 percent, and revise base to tax the completed sets; the tax on parts applies only when they are not sold for use in the further manufacture of completed sets. Automobile radio sets and parts also are to be included in the revised base.
 13. Phonographs and records: 10 percent of the manufacturers' sales price.
 14. Toilet preparations: Repeal the existing statute section 3401 and enact in lieu thereof a tax of 11 percent on sales of toilet preparations at wholesale by manufacturers, importers, producers, and dealers to retailers for resale at retail. Sales by taxpayers at retail are to be taxed at the wholesale basis.
- (d) An estimate was prepared, and was transmitted to Assistant Secretary Sullivan in a memorandum on July 6, of the tax liabilities, at business levels forecast for the fiscal year 1942, of revenue from the levying of a retail sales tax on toilet preparations covered by section 3401 of the Internal Revenue Code.
- (e) Four excess-profits tax schedules with revenue estimates were prepared under the Treasury plan, and were transmitted to Assistant Secretary Sullivan in a memorandum on July 15. The structure of the schedules, based on income levels forecast for the calendar year 1941, was explained, and they were compared with the plan recommended by the Committee on Ways and Means and with the original Treasury plan.

- (f) A tentative estimate was prepared, and was transmitted to Assistant Secretary Sullivan on July 23, of the revenue effect, at income levels forecast for the calendar year 1941, of the Treasury proposal for preferential treatment of earned income under the mandatory joint individual income tax returns.
- (g) In response to a request on July 29 by Representative J. W. Boehne, an estimate was prepared, at income levels forecast for the calendar year 1941, of the defense tax rate which would be required to replace the revenue that would be lost under the Revenue Bill of 1941 by the elimination of the mandatory joint return provision. The estimate was transmitted to Assistant Secretary Sullivan in a memorandum on July 30.
- (h) An estimate was prepared, and was transmitted to Assistant Secretary Sullivan in a memorandum on July 31, at income levels forecast for the calendar year 1941, of the amount by which personal exemptions would have to be decreased in order to replace the mandatory joint return provision of the Revenue Bill of 1941.
- (i) A comparison was prepared of the surtax schedules in the present law and in the Revenue Bill of 1941 with a suggested Schedule O, which would yield the same amount of revenue without mandatory joint returns as does the schedule in the Revenue Bill of 1941 with mandatory joint returns. The comparison was transmitted to Assistant Secretary Sullivan in a memorandum on July 30.
- (j) Two tables were prepared, showing the preliminary estimated increase or decrease in revenue from tax changes as tentatively agreed upon by the Committee on Ways and Means as of June 30 and as of July 1, respectively. The tables showed a detailed classification under income, estate, and gift taxes, excise taxes, and miscellaneous taxes. Copies of both were transmitted to Assistant Secretary Sullivan, Mr. Tarleau, and Mr. Blough on July 2, and copies of the table as of July 1 were distributed to the Committee on Ways and Means on July 2.

- (k) A table was prepared, and was mimeographed, showing the preliminary estimated increase or decrease in revenue from tax changes as tentatively agreed upon by the Committee on Ways and Means as of July 2. The table showed a detailed classification under income, estate, and gift taxes, excise taxes, and miscellaneous taxes. Five copies were transmitted to Mr. Blough on July 7.
- (l) A table was prepared, and was photostated on July 23, showing the estimated increase or decrease in the revenue yield from the provisions of the Revenue Bill of 1941 as agreed upon by the Committee on Ways and Means on July 23. The table containing a detailed classification under income, estate, and gift taxes, excise taxes, and miscellaneous taxes, was transmitted to the Committee on Ways and Means on July 23, and for use in the report on the Bill a copy was supplied the Joint Committee on Internal Revenue Taxation on the same day.
- (m) An estimate was prepared, and was transmitted to Assistant Secretary Sullivan in a memorandum on July 29, of the number of taxable individual income tax returns which will be filed on calendar year 1941 incomes. Of the estimated increase over those filed for the preceding year there were shown the respective portions attributable to the increase in incomes and to the provisions of the Revenue Bill of 1941.
- (n) An individual income surtax rate schedule was prepared, designed to yield the same amount of net revenue allowing separate returns as the schedule in the Revenue Bill of 1941 for mandatory joint returns. The estimate took into account the corporation taxes in the Bill and the net income levels forecast for the calendar year 1941. The schedule with a memorandum to Mr. Blough was transmitted on July 31.

II. Projects or studies under way

1. At the request of the Division of Tax Research on July 12, 1940, an estimate is being made of the additional revenue which would be derived if mutual insurance companies other than life insurance companies taxable under Section 207 of the Internal Revenue Code were made taxable in the same manner as stock insurance companies other than life insurance companies taxable under Section 204, and at the same time the exemption under Section 101(11) were restricted to local mutual companies of the assessment type. - Mr. Leahey

2. In connection with the revising of the revenue laws in 1941, at the request of the Division of Tax Research, estimates are being prepared of the revenue effects under the present law and under Treasury proposals of: (1) Representative Charles S. Dewey's proposals for estate tax prepayment through Federal estate tax anticipation receipts; and (2) the Lonergan proposal, whereby insurance could be accumulated for estate tax payment and excluded from the taxable estate up to the amount of the estate tax liability. - Mr. T. L. Smith

3. Further progress was made on the following projects for revising and improving methods of estimating revenues from the taxes listed below: - Mr. Duggitt, Mr. H. H. Smith
 - (a) Admissions to theaters, concerts, cabarets, etc.
 - (b) Passenger automobiles and motorcycles.
 - (c) Distilled spirits, domestic and imported combined.

4. New studies were begun of the following projects for revising and improving methods of estimating revenues from the taxes listed below. - Mr. Duggitt, Mr. H. H. Smith
 - (a) Fermented malt liquors.
 - (b) Electrical energy.
 - (c) Cigarettes (small).

Economic Conditions Related to Fiscal
and Revenue Matters

1. Projects or studies completed

1. Memoranda on the business and price situation were prepared, and were transmitted to the Secretary on July 7, 14, and 21. - Mr. Haas, Mr. Daggit, Mrs. May, Mr. Chevraux

These memoranda contained in addition to analysis of the current situation the following special studies:

- (a) Forecasts of the revised FRB index of industrial production from the revised New York Times index, weekly from January 1940 to date, and monthly forecasts compared with actual production, January 1938 to date. (Chart in memorandum of July 7. Also described below under Economic Conditions, I, as item 12). - Mr. Daggit, Mrs. May, Mr. Colclough
- (b) Price movements of all commodities and foods in the United States and Canada from January 1939 to date. (Chart in memorandum of July 14. Also described below in Economic Conditions, I, as item 6). - Mr. Daggit, Mrs. May, Mr. Colclough, Mr. Smith
- (c) Price movements of selected textiles from January 1934 to date. (Chart in memorandum of July 14. Also described below under Economic Conditions, I, as item 7). - Mr. Daggit, Mrs. May

2. Memoranda on employment under the Work Projects Administration were prepared on July 7, 14, and 21. - Miss Hagedorn

3. At the request of the Secretary, a table is prepared each week summarizing exports of petroleum products, scrap iron, and scrap steel, from the United States to Japan, the U.S.S.R., Spain, and Great Britain, as indicated by departure permits reported daily by the Office of Merchant Ship Control. The tables were prepared for the weeks ending July 5, 12, 19, and 26. On July 7, 14, 21, and 28, the original and 13 photostats were transmitted to Assistant Secretary Gaston. - Mr. Tickton, Mr. D. J. Leahy

4. Compilations were made of daily quotations on selected commodities, and daily and weekly figures on selected business indexes, foreign and domestic security transactions, security prices, exchange rates, as well as other data for the Secretary's chart book. - Mr. Chevreaux
5. Comments were prepared on the commodity situation as of July 23, for information in connection with the Friday meeting of July 25. - Mr. Daggit, Mrs. May
6. A comparison was made of the price movements of all commodities and foods in the United States and Canada, monthly from January 1939 to date, on the basis that August 1939=100. The BLS all-commodity and food indexes were used for the United States and the indexes of the Dominion Bureau of Statistics for Canada. A chart was used in connection with the business memorandum of July 14. - Mr. Daggit, Mrs. May, Mr. Colclough, Mr. Smith
7. A study was made of the movement of prices of selected textiles monthly from January 1934 to date. A chart showing the quotations used in the BLS index of 28 basic commodities for cotton, wool, burlap, silk, and printcloth, was used in connection with the business memorandum of July 14. - Mr. Daggit, Mrs. May
8. At the request of the Secretary, a committee of three was formed on July 14 to draft a statement on the price situation for the President. The committee's members were Dr. Viner, Chairman, Mr. White, and Mr. Haas. The draft was completed on July 15. -Mr. Haas, Mr. Murphy, Mr. Villard
9. A memorandum was transmitted to the Secretary on July 11, reporting a telephone conversation with Mr. Sexauer of the New York Dairymen's League on July 10. - Mr. Haas
10. At the request of Mr. Leon Henderson on July 19, copies of three charts were transmitted to him on July 21.

One chart compared price indexes of all commodities and of raw materials in the United States and in the United Kingdom since January 1939, on the basis that August 1939=100.

The second chart showed comparisons of price indexes for all commodities and for foods in the period 1939-41 with the period 1914-16, on the basis that July 1914=100 in the World War period, and August 1939=100 in the current period.

The third chart showed the movement of 28 basic commodity prices, consisting of 16 industrial raw materials and 12 foodstuffs, on the basis that August 1939=100. For the indexes of 16 industrial raw materials and 12 foodstuffs, weekly average movements were shown from August 1940 to date, daily changes were shown from May 1941 to date, and the percentage changes for the individual commodities from the August 1940 low to July 11 and to July 18, 1941. - Mr. Daggit

11. At the request of the Secretary on July 18, tables were prepared on July 19, showing United States consumption of primary aluminum by industries in 1939; United States production of automobiles in the period January through May in 1940, and in 1941; and manufacturers' sales of selected household equipment in the period January through May in 1940, and in 1941. - Mr. Daggit, Mr. Colclough, Mr. Smith, Miss Washbaugh
12. A study was completed of the relationship between the New York Times revised index of business activity and the new FRB index of industrial production as a basis for forecasting the weekly level of the FRB index from the New York Times index. A chart was used in connection with the business memorandum of July 7. - Mr. Daggit, Mrs. May, Mr. Colclough
13. An analysis was completed of the State distribution of United States Defense savings bonds, series E, in relation to payrolls, national income, by States, and per capita retail sales by States. A memorandum, with seven tables, was transmitted to the Secretary on July 21. - Mr. Haas, Mr. Daggit, Mrs. May, Mr. Colclough, Mr. R. R. Smith

II. Projects or studies under way

1. A project on measures of consumer buying is under way with the object of developing three indexes: (a) and (b) two indexes to measure the buying power of consumers in terms of physical volume of purchases; and (c) an index to measure changes in total consumer expenditures, in dollar volume. These indexes will supplement our present "index of sales", which is designed to measure the "off-take" of manufactured goods into various consumption channels.

- (a) Computation was revised of the physical volume index of consumer buying power, entitled "Index of consumer demand for a selected group of consumer goods". This index is corrected for the effect of price changes from 1935 to date.
 - (b) Computation was revised also of the second physical volume index of consumer buying power, entitled "Index of potential consumer purchasing power". This index is corrected both for the effect of price changes and for the effect of changes in the national income.
 - (c) With respect to the "Index of consumer expenditures, in dollar value", further progress has been made in developing individual series, in determining their suitability for inclusion and the necessary adjustments. These series have been classified in two broad groups: durable goods and non-durable goods. The purpose of the index is to cover as large as possible a proportion of the purchases of ultimate consumers. During the month further progress was made in selecting appropriate series with a view to making this index more useful in connection with defense studies. - Mrs. May, Mr. Colclough
2. A study of the volume of installment buying and consumer credit has been nearly completed. This study is designed eventually to provide a monthly index of the volume of buying on deferred payments, which at times is an important business factor. Newly-published data from the Department of Commerce and the National Bureau of Economic Research have been assembled. A preliminary study is under way to determine how they may be used in a combined index. Further work is awaiting additional data to be released by the Department of Commerce. - Mrs. May
 3. A project in process is designed to develop an index of industrial production that will indicate week by week the approximate level of the FRB index. It will include a larger number of weekly series than are included in any current business indices, with weightings and seasonal adjustments approximating those in the FRB index. - Mr. Daggit, Mr. Smith

4. Further progress was made on a study of the selling prices of commodities on which taxes are imposed, in order to determine the percentage which the tax represents of the actual price. - Mrs. May, Mr. Smith
5. For use in revenue estimating, a study was begun as a basis for forecasting salaries and wages of the United States Department of Commerce series on a quarterly basis, the July 1941 revision, from the United States Department of Labor index of factory payrolls, the January 1941 revision. - Mr. Daggit, Mr. Smith
6. At the request of Under Secretary Bell on January 29, a memorandum for the Secretary is being prepared, illustrated by five charts, on the possibility of a freight car shortage in October 1941, when car loadings are at their seasonal peak, and containing a forecast of freight car loadings for October, a forecast of the number of freight cars that may be required, and outlining steps which would alleviate or prevent such a shortage. - Mr. Daggit, Mr. Chevrax

Actuarial Problems

I. Projects or studies completed

1. A memorandum was prepared, and was completed on July 14, on the investment yield on the Civil Service Retirement and Disability Fund. - Mr. Reagh
2. A letter dated July 11 was received from Mrs. Dulles, Social Security Board, requesting, in connection with an inquiry by Senator Downey, estimates as of July 1, 1942, and January 1, 1943, of the amount of (1) the Old-Age and Survivors Insurance Trust Fund, and (2) the Unemployment Trust Fund. Certain estimates submitted by Mrs. Dulles were checked and compared with complementary estimates in the Treasury Department. A reply was mailed on July 14. - Mr. Reagh
3. In response to a request contained in a letter from Mr. George Buchan Robinson of May 11, several articles on Social Security written by the writer and published in the Annalist were reviewed. An oral discussion of their content was held on July 23 with Mr. Robinson. - Mr. Reagh

4. At the request of Under Secretary Bell on June 30, a revision was made of a proposed reply prepared by the Bureau of Accounts to a letter from the Bureau of the Budget dated June 14, requesting the views of the Treasury Department on S. 1396, a bill repealing section 611 of the National Service Life Insurance Act of 1940. The redraft was transmitted to the Under Secretary on July 9, and was mailed on July 14. - Mr. Reagh
5. At the request of Mr. Heffelfinger on July 28, a review was made of a report prepared by the Bureau of Accounts in response to a letter from the late Senator Pat Harrison dated July 7, requesting a report on S. 1715, a bill to amend the Social Security Act with respect to Federal grants to States for old-age assistance. The letter incorporating the report was approved, and was forwarded to the Under Secretary on July 31. - Mr. Reagh, Mr. Murphy
6. At the request of the Bureau of the Budget on July 11, a letter was prepared commenting on H. R. 4133, a bill to amend section 92, title 2, of the Canal Zone Code, and for other purposes. The letter was mailed on July 16. - Mr. Reagh

II. Projects or studies under way

1. The Board of Actuaries of the Civil Service Retirement and Disability Fund is laying out detailed plans for tabulating and processing data for use in preparing the regular five-year valuation of the Civil Service Retirement Fund for the purpose of determining the liabilities of the Government under the Civil Service Retirement law. Under the law, such a valuation must be prepared as of July 1, 1940. - Mr. Reagh, Mr. Brown
2. The Foreign Service Retirement Law, as approved April 24, 1939, Section 26(m), provides that the "Treasury Department shall prepare the estimates of the annual appropriations required to be made to the Foreign Service Retirement and Disability Fund and shall make actuarial valuation at intervals of five years, or oftener if deemed necessary by the Secretary of the Treasury". An outline of the data required for making an actuarial valuation has been submitted to the State Department. The data are now in process of preparation. - Mr. Reagh, Mr. Brown

3. Several years ago a committee was organized for the purpose of studying ways and means to extend retirement benefits to all Government employees regardless of Civil Service status. The working committee, the Subcommittee on Retirement, has again become active and is attempting to draft legislation which would coordinate the provisions of the Social Security Act with the Civil Service Retirement Act. A draft of a proposed bill was prepared for consideration by the committee. The work of the committee is temporarily suspended. - Mr. Reagh
4. At the request of Under Secretary Bell on July 10, a memorandum is being prepared in regard to the 1941 legislative program of the Social Security Board. - Mr. Reagh

Other Projects or Studies

1. At the request of the Legal Division on July 1, in response to a request from Senator Elbert D. Thomas in a letter of June 27, a report is being prepared on S. 1666, a bill to coordinate Federal reporting services, to eliminate duplication and reduce the cost of such services, and to minimize the burdens of furnishing reports and information to governmental agencies. Memoranda requesting comments on the bill were prepared for signature of the Administrative Assistant to the Secretary, and were forwarded to the various bureaus and divisions of the Department on July 16. Preparation of the report is awaiting receipt of their comments. - Miss Michener
2. Publications
 - (a) For the July issue of the Treasury Bulletin data were prepared on average yields of long-term Treasury bonds and high-grade corporate bonds. - Mr. Turner, Mr. Barnett

All the material submitted for the July issue was reviewed and edited.

Substantial revisions were made in the July issue in the section on average yields of long-term Treasury and corporate bonds and in the transposition of the chapter on ownership of Government securities to an independent chapter from its former grouping with the data on the public debt. -

Additional revisions are being considered for future issues. - Mr. Lindow, Mr. Lynch

- (b) For the publication Market Prices and Yields of Outstanding Bonds, Notes, and Bills of the United States, computations were made and copy was prepared for the issue covering the month of June. This publication shows by securities the rates of interest, maturities, interest payment dates, and amounts outstanding; and for each day of the month, together with a monthly average, closing market quotations (accrued interest to be added), and yields. - Mr. Moody, Miss McCoy
- (c) Memoranda were prepared for the signature of Under Secretary Bell to the various Treasury officials requesting data to be supplied for the Annual Report of the Secretary of the Treasury for the fiscal year 1941. The memoranda were signed and transmitted on July 28. - Miss Westerman, Mr. Tickton, Miss Michener
- (d) At the request of the office of the Administrative Assistant to the Secretary, a review was made of the material in the United States Government Manual relating to national defense activities in the Treasury Department. A suggested revision was prepared, and was transmitted under cover of a memorandum to Mr. C. S. Bell on July 16. - Miss Ziegler
- (e) At the request of Assistant Secretary Gaston on July 17, an article is being prepared on the operations of the Treasury Department during the year 1941 to be incorporated in the 1942 Americana Annual. - Mr. Barnett

3. Correspondence

Replies were prepared to letters received on subjects relating to the work of the Division, and letters drafted elsewhere and submitted to the Division for that purpose were reviewed. - Miss Michener, Mr. Lindow, Miss Ziegler, and other members of the staff in appropriate fields of work.

During July 362 letters were received in the Division and 340 were handled as required.

4. Charts

Charts are prepared and continually brought up to date for use in memoranda and in chart books on special subjects, and corresponding photographic, photostatic, and multilith work is carried on. This is done in the Graphic Section under the supervision of Mr. Banyas. A statistical report on the work of the Graphic Section for the month of July is attached.

Work completed in the Graphic Section, Division of
Research and Statistics, during July 1941

Type of work	For Division of R & S	For Others	Total
<u>Graphic:</u>			
<u>Job charts:</u>			
Total charts completed	23	11	34
Bond book charts completed	2	-	2
<u>Charts brought up to date:</u>			
3 bond chart books brought up to date	26 (times)	-	26 (t)
All other charts brought up to date	693	28	721
<u>Miscellaneous:</u>			
Total jobs	21	6	27
<u>Photographic:</u>			
<u>Photographs:</u>			
Total jobs	65	26	91
Number of-			
Negatives	176	17	193
Contact prints	172	82	254
Enlargements	99	42	141
<u>Photostats:</u>			
Total jobs	136	33	169
Number of-			
Lettersize copies	2,104	698	2,802
All other copies	6,034	1,485	7,519
<u>Multilith:</u>			
Total jobs	20	2	22
Number of-			
Zinc plates	145	8	153
<u>Miscellaneous:</u>			
Total jobs	21	13	34

Graphic Section, Division of Research and Statistics, by months,
beginning July 1941.

Type of work	July	Aug.	Sept.	Oct.	Nov.	Dec.	Total
A. <u>Graphic:</u>							
New charts completed	34						
Charts brought up to date	721						
Bond book charts completed	2						
Bond books brought up to date	26(times)						
Miscellaneous	27						
B. <u>Photographic:</u>							
<u>Photographs:</u>							
Total jobs	91						
Number of-							
Negatives	193						
Contact prints	254						
Enlargements	141						
<u>Photostats:</u>							
Total jobs	169						
Number of-							
Lettersize copies	2,802						
All other copies	7,519						
<u>Multilith:</u>							
Total jobs	22						
Number of-							
Zinc plates	153						
<u>Miscellaneous:</u>							
Total jobs	34						

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TREASURY DEPARTMENT

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INTER-OFFICE COMMUNICATION

DATE September 10, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Since dictating my memorandum of September 8, I have seen the memorandum of Messrs. Foley and Fehle, dated September 9, on the same question of shipping gold for the Banque Nationale Suisse from New York to Lisbon. My feeling is that if the British wish to withhold a navicert to cover the gold shipment, that should be between them and the Swiss. So long as we have a general license (No. 30) outstanding which approves certain transactions for which the Banque Nationale Suisse vouches, I do not see how we can very properly refuse a license for this transaction on the part of the bank itself, and concerning which Mr. Gautier, a fully-authorized representative, gives full assurances. If we have evidence that the bank is acting in bad faith, the situation would seem to call for considering possible revocation of the general license. It will be recalled that general licenses were issued several European countries principally for political reasons. I think the Treasury should not take the lead in questioning the good faith with which such licenses are observed unless they have very good information as the basis for their complaint. In the present instance, I think the argument submitted by Mr. Ritchie, a young lawyer temporarily in the service of the British Ministry of Economic Warfare, is quite weak. Of course, there are remittances from Switzerland to Portugal in behalf of the Reichsbank. It is not at all clear, however, why the act of Switzerland in trying to move gold from New York to Lisbon should be tied up with this business. When we were dealing with the Standard Oil obligation for sale of their Hungarian properties to Germany, we learned that Germany was ready to make \$24,000,000 immediately available in gold at Lisbon. In a report from our Legation at Bern dated August 15, it was stated that the German Reichsbank had during the preceding six weeks sold some 30 to 45 million Swiss francs of gold bars to private banks in Switzerland. It was thought that the entire proceeds from these sales had been sold as quickly as possible to Swiss banks against delivery in Lisbon and Buenos Aires of escudos and pesos, chiefly the latter. Competent opinion in Bern was inclined to believe that these transfers (the first of which had occurred after the United States blockage of certain foreign assets two months ago and since the German attack on Russia) were being used to buy raw materials in South America. It was also conceived as possible that these transfers might represent the liquidation of reichsmarks by high Germans having an inside knowledge of the true course of the campaign against Russia and who are seeking investment in commodities for resale at such time and for such currency as they may later deem best.

My point is that Germany already has gold available in Portugal, or could easily make it available there by transport on their regular airlines between Germany and Portugal. There is no need for the expense of Switzerland shipping gold from the United States to be used in German transactions over Portugal.

- 2 -

I find the explanation of the Swiss National Bank entirely acceptable and would regret very much to see us question the word of the Swiss authorities at this time and refuse to let them take out \$2,000,000 in gold from their total gold holdings of over \$220,000,000 with the Federal Reserve Bank at New York. The Secretary may recall that during the working of the Tripartite Agreement I was once sent on a special trip to Switzerland to obtain the cooperation of the Swiss monetary authorities in our gold policy, particularly toward influencing the Swiss to hold a larger part of their funds on the New York market in the form of gold. The Swiss at that time indicated their willingness to cooperate with us and have cooperated fully with us in matters pertaining to gold and currencies ever since they adhered to the Tripartite accord. The Swiss officials responsible for monetary policy at that time are now practically the same ones asking for this small but normal cooperation from the United States Treasury in times of adversity. Acquainted personally with these Swiss as I am, I know that they will feel that the Treasury has failed them if we refuse this transaction.



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

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DATE

TO Secretary Morgenthau
FROM J. J. O'Connell, Jr.

September 10, 1941.

For your information

A meeting of the Price Control Committee of OPA (formerly OPACS) was held this morning at 11 o'clock. Mr. Henderson presided as usual.

Mr. Henderson reported to the Committee that he had discussed the status of our Committee with the new Defense Board (Supply, Priorities and Allocation Board) and that it was their unanimous opinion that the Price Control Committee should be kept in existence and functioning as heretofore. A change in the membership of the Committee is the substitution of William Levis (President of Owens Illinois Glass Company) of OPM for Donald Nelson. Mr. Henderson indicated, however, that he hopes that Mr. Nelson will continue to attend meetings and be at least an informal member of the Committee.

The main topic for discussion this morning was the price of raw cotton and its relationship to the price of textiles. Members of Mr. Henderson's staff pointed out that the rising price of raw cotton is putting terrific pressure on the existing price ceiling on textiles. It is their position that unless something is done to stabilize the price of raw cotton it will be impossible to maintain the existing levels of textile prices, which are already substantially in excess of their level of a year ago. Forward selling of textiles has been particularly difficult since the manufacturers suspect that the price of cotton will continue to rise in an uncontrolled fashion. Henderson pointed out that mail order prices for next spring show prices for textile products as much as 40 and 50% above present levels.

Secretary Morgenthau,

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The obvious thing to do would be, of course, to sell Government cotton at such times and in such amounts as to keep the price of cotton stable at or around parity (it was above parity yesterday), and to make it clear that such will be the Administration policy. Unfortunately, Secretary Wickard was not present and his representatives were not apparently in a position to take any very definite position on the subject. I reminded them that at least six weeks ago Secretary Wickard and Mr. Henderson had at least a general understanding that Agriculture would sell cotton to keep its price from going above parity. The Agriculture representatives were unable to discuss such an agreement but indicated their fear that to sell cotton now might infuriate the farm block enough so that they would pass the cotton freezing bill over the President's veto. Neither Mr. Henderson nor I were much impressed by this argument, Leon taking the position that the existence of a power which the Department is afraid to exercise is no better than no power at all. The whole discussion was quite unsatisfactory, in part due, of course, to the fact that the Secretary of Agriculture was not present and that his representatives were unable to speak for him. He is not expected back in town until the twenty-second of this month, and whether Mr. Henderson will be able to hold out against the pressure of the textile industry in the face of a continuously rising price of cotton is problematical.

There was a long discussion of the existing situation as regards the domestic production of zinc concentrates. A report has been prepared in OPA which indicates that domestic production, at least in the tri-state area (which produces about 40 per cent of our domestic supply), will tend to go down over the coming months unless the existing price ceiling is lifted substantially. The two factors which will apparently make for this condition are (1) that some of the mines are becoming sub-marginal as they approach depletion and (2) that it is expected that much of the labor force (the wage level is apparently quite low) will be tempted out of the zinc mines and into defense activities in or near the same area.

Secretary Morgenthau,

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The report was admittedly not very conclusive, and was subjected to quite a bit of criticism, both by members of the Price Control Committee and by members of the OPA staff. Several members of the Committee queried the conclusion reached in the report that a substantial increase in the price of zinc concentrates would either (1) be necessary to maintain production, or, (2) result in expanded production. In this connection it was pointed out that the price of zinc concentrates as well as of slab zinc, is very substantially above 1929 level, and that the rise in the last year in both has been precipitous. Furthermore, the report assumes that the rise in the price of zinc concentrates will necessarily result in the price of slab zinc rising, although, as Mr. Clayton pointed out, the existing relationship between the two prices is an historical one and may not be a true one. To put it another way, analysis might show that the increase in the price of zinc concentrates could be absorbed by the processors without any increase in the price of slab zinc.

Furthermore, it was pointed out that little information was available as to profit margins and levels for the zinc mines in the tri-state area and that analysis of these figures might indicate that the additional labor cost which it is assumed must take place if a competent labor supply is to be maintained might be absorbed without the proposed increase in the price of zinc concentrates.

While it is admittedly desirable and in fact necessary to maintain existing levels of production in this country, the desirability of substantial expansion is more open to dispute, at least until we get an expansion in smelting capacity. Most of the zinc we import comes from Mexico, Canada and Argentina, and as to these sources of supply, the shipping problem is not acute. Any substantial expansion in domestic

Secretary Morgenthau,

4.

production of zinc concentrates without a comparable expansion in smelting capacity might result in a necessary but undesirable curtailment in imports from the countries above mentioned. This last mentioned possibility does not seem to me to be of particular importance, but it was mentioned by both Mr. Clayton and Mr. Ryder, Vice Chairman of the Tariff Commission.

The Committee discussed the matter very fully and the staff of OPA are to make a further investigation and study along the lines indicated by the discussion.

The meeting adjourned at 1 o'clock.

Joseph J. Connelley

September 10, 1941

MEMORANDUM TO THE SECRETARY:

At your instigation and upon your insistence I have gone very thoroughly into the matter of time required to make lend-lease purchases handled by the Procurement Division with a view to expediting all possible.

My memorandum of September 4, 1941, prepared in accordance with your request of the same date, states in substance that a spot check of requisitions showed that approximately 30 days are required before we are authorized to make purchase contracts.

I met with Mr. Stettinius and others Monday afternoon of this week, as arranged by you, to discuss expediting the procedure. As a result the following procedure is now in effect:

	<u>Average Time Required</u>
(1) From date of requisition of British or Chinese Supply Agencies, routed through the Division of Defense Aid Reports, to receipt in Procurement	2 days
(2) OPM examination for availability, priority rating and clearance to Procurement	7 days
(3) Time required for routine purchase	7 days

Representatives for the Division of Defense Aid Reports have stated that fund authorizations will be secured within four days, accordingly, with this reduction in time, we will be able to start our purchase negotiations as the fund clearance will be received before formal commitment is required. Hence, both procedures will be simultaneous under this proposed plan.

The revised procedure will reduce the average time required heretofore of 42 days to a total average time of 18 days.

Clifton E. Mack,
Director of Procurement



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT
PROCUREMENT DIVISION
WASHINGTON

323

September 10, 1941.

MEMORANDUM TO THE SECRETARY:

Due to the condition of the aluminum scrap collected in the recent campaign and to the fact that the Aluminum Company of America has reduced its price of virgin aluminum, OPA has under consideration the reduction in price to be paid by the smelters to the Government for the scrap collected from $11\frac{1}{2}\%$ to 9% per pound. Such proposed action was the subject of a conference between representatives of OPA, OPM, and my office.

The matter is receiving my attention and after a study of the problem I will report further to you.

Clifford M. Wood
Director of Procurement.

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324

DEPARTMENT OF THE NAVY
Office of the Secretary
Washington

September 10, 1941

My dear Mr. Secretary:

I am in receipt of your letter of September 5, 1941, expressing the thanks of the Treasury Department for the splendid assistance and cooperation of the Navy Department in the transportation of gold from Africa to the United States.

The medallions forwarded with your letter will be presented to the officers concerned. A copy of your letter is being filed in the individual records of Captain John R. Beardall, U.S.N., and Captain Harold J. Nelson, U.S.N.

Sincerely yours,

/s/ Frank Knox

The Honorable,
The Secretary of the Treasury,
Treasury Department.

Copy:mew 9/20/41

Treasury Department 325
Division of Monetary Research

Date Sept. 12.....1941.

To: Secretary Morgenthau

From: Mr. White

Reports of Philippine Exports
have not been received and we have
sent another strong cable to our
men in the Philippines.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 10, 1941

TO Secretary Morgenthau

FROM Mr. White

subject: Exports to China, Japan and Russia as reported to the Treasury since July 28, 1941

1. Exports to China

The figures for U.S. exports to China as reported to the Treasury since July 28, 1941, indicate that shipments to occupied China continue and that our aid to Free China has been small indeed. Out of total exports valued at about \$8 million to all China, Free China accounted for only about \$900,000, or less than 12 percent. (Summary tables are appended). These figures and those given below, however, are not completely indicative of shipments made since the freezing order went into effect because of the lag between date of shipment and date reported to the Treasury. This lag has now been reduced to a few days.

(a) Exports to Free China consisted practically entirely of goods which Free China greatly needs in her war effort, such as oil well drilling equipment, but there were, however, no significant shipments of much needed war materials.

(b) Exports to Japanese controlled ports have continued on a substantial scale since July 28. A considerable part of these exports which included raw cotton, automobiles and trucks, and lubricating oil and grease, are probably for the use of the Japanese Army in China or for eventual re-export to Japan proper. Thus, Shanghai continues to serve the Japanese as an important source of commodities from the U.S.

2. Exports to Japan

There have been virtually no shipments to Japan since the freezing order went into effect. The exports to Japan which were reported to the Treasury after July 28 represented shipments made prior to July 28.

3. Exports to Russia

Exports to Russia amounting to over \$12 million were reported to the Treasury since July 28, 1941. Industrial machinery ranked first in value, but the airplanes and gasoline exported were of more immediate importance to Russia in her war effort. Although shipments to Russia are somewhat larger than usual, they are very small when seen in terms of Russia's immediate war needs.

APPENDIX A

Exports from the U.S. to China, Japan and U.S.S.R.
as reported to the Treasury Department,
July 28, 1941 - September 6, 1941 ^{1/}

(Thousands of Dollars)

	Exports to China		<u>Exports to Japan</u>	<u>Exports to USSR</u>	
<u>Total</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	<u>897</u>	<u>693</u>	<u>204</u>	<u>-</u>	<u>4,280</u>
Total	7,994	7,083	911	1,864	14,098

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

Principal Exports from the U. S. to China,
Japan and U.S.S.R. as reported to the
Treasury Department since July 28.

(in thousands of dollars)

1. Exports to China

Total		7,994
<u>To Japanese-controlled Ports</u>		
Total		7,083
Principal Items		
Raw cotton	1,482	
Grains and preparations	932	
Paper and manufactures	714	
Medicinal and pharmaceu- tical preparations	368	
Autos and trucks	258	
Industrial chemicals	245	
Lubricating oil and grease	213	
<u>To Chinese-controlled Ports</u>		
Total		911
Principal Items		
Oil well drilling equipment	145	
Automobiles and trucks	142	
Industrial machinery	95	
Copper brass and manufactures	88	
Steel mill manufactures	78	

2. Exports to Japan

Total		1,864
Principal Items		
Raw cotton	913	
Diesel fuel oil	233	
Crude oil	231	
Lubricating oil	98	

3. Exports to U.S.S.R.

Total		14,098
Principal Items		
Industrial machinery	5,167	
Gasoline	3,055	
Airplanes	1,152	

Treasury Department, Division of Monetary Research, Sept. 10, 1941

C O N F I D E N T I A LSAFE HAND

BRITISH EMBASSY,

WASHINGTON, D.C.,

September 10th, 1941.

Dear Cochran,

German-Argentine Clearing

We have received some information about this from Simon in B.A. which I think would interest you. He writes-

"At the beginning of the war, it was generally estimated here that Germany owed the Argentine anything from 60 to 100 million pesos, for Argentine exports, for which the counterpart in German merchandise had not been delivered.

"As German exports have, of course, fallen off, all authorities here thought, until lately, - and some think still - that Germany owes the Argentine, substantial sums. The Central Bank have, on two occasions in recent weeks, made a most definite statement to me that the account is considerably the other way (likewise, in regard to Italy).

"This statement receives some confirmation from an intercept received here some days ago from Trinidad, which showed that the Reichbank had a credit, in June, of 4,559,412.79 R.M.

"I have also had today, from a banking friend, who is in confidential touch with a responsible official of the Central Bank, a note prepared by the latter, apparently from the Central Bank's books. According to this note, (which is unofficial and unauthorized):-

"The Central Bank holds in Gold
and Foreign Exchange:

Arg. \$744,000,000

Mr. Merle Cochran,
U. S. Treasury Department,
Washington, D.C.
RJS:RVP:TMI

- 2 -

(The Gold is valued on the basis of
4.20 Argentine pesos to the U.S.dollar).

Of this amount, Gold or free exchange is: \$ 609,000,000
and clearing accounts: \$ 135,000,000

"The 135 million includes English and German clearing accounts. Balance in England is 149 million, which makes a balance due to Germany of 14 million, since the note adds that remaining French francs only amount to the equivalent of one million pesos, and no other accounts are included.

"There is a further and somewhat remarkable statement, by this Central Bank official, that imports from Germany amount to 400/500,000 reichmarks monthly. These imports are thought to be mainly pharmaceutical products, arriving by LATI 'plane, but may include some German goods, arriving by the Far East route, on Japanese ships. This latter channel is, of course, now stopped, so far as fresh shipments from Germany are concerned.

"Even if one accepted the figures of German exports, these would not fill the gap of German indebtedness existing at the outbreak of war. In some banking quarters here, it is thought that the German debt was worked off by the sale of dollars to the Central Bank, in anticipation of American blocking measures. I think this quite likely.

"There is, of course, a danger in a German accumulation of marks here with the Central Bank, in that the latter may be pressed at any time, to give pesos here, against the reichmarks. The Germans may well say that if the Central Bank accept credits from the Reichbank, as they did on two occasions in June to the extent of 1 1/4 million reichmarks each, (according to the intercept mentioned above), then pesos should be provided against these credits, since the credits can hardly be worked off today by exports to Germany.

- 3 -

"The Central Bank official stated also that the balance of Argentine payment for 1941 up to date, is 322 million pesos, in favour of the Argentine. A little more than half of this balance, or say, the equivalent of U. S. \$42 millions, has been accumulated by purchases by the Central Bank of dollars in the free market; half of these dollars came from the Bemberg group."

We shall be grateful if you will kindly let us know if you have any information about this and will also keep us advised of any further information you may receive.

Yours sincerely,

(Sgd) R. J. Stopford.

Dow Jones
September 10, 1941
12:55 P.M.

Jones Favors additional sales of British Securities held as loan collateral. Olin Corp. to build new aluminum plant. Dow Chemical Co. and Diamond Alkali Corp. to build two new magnesium plants.

Washn. - Federal Loan Administrator Jesse Jones told his press conference today that he favored further liquidation of the holdings of British owned securities which have been placed with the R.F.C. as collateral for a \$425,000,000 loan to the United Kingdom.

First such sale was of 12,000 shares of Continental Baking Co. 8 PC PFD. This issue was sold privately to the company Mr. Jones said. The Continental Baking Co. has been retiring its preferred issue as a regular policy he said he understood.

Mr. Jones indicated that the British sales would be principally of minority holdings. He said he believed there was general agreement between the U. S. and Great Britain that all of the American stocks should be sold except those necessary to the British economy. To illustrate what he considered necessary stocks he cited the insurance company holdings. On the other hand he said he did not believe the British would be justified in retaining holdings of a few shares in American companies.

Box 680
Benjamin Franklin Station
Washington, D.C.

September 10th, 1941.

My dear Cochran:

I enclose a copy of a telegram from Rogers about the Shanghai market. Frankly I find it very difficult to understand. I don't know exactly what "Chinese Government drawings in Chinese currency on Hong Kong" means, and I don't know whether we want to discourage or encourage smuggling of notes out, in order to enable goods to be smuggled in through the Japanese blockade. You may be interested, however, in the telegram. I should be glad to know your reactions.

I also enclose a copy of another telegram from Rogers referring to the question of the amount of dollars in Hong Kong. I think I have sent you copies of the previous telegrams about this.

Sincerely,

/s/ T. K. Bewley

(T. K. Bewley)

Mr. H. Merle Cochran,
United States Treasury,
Washington,
D. C.

COPY

Telegram September 6, 1941 from Rogers.

I have evidence that far greater sums must be held by non British Chinese in Hong Kong than was suggested by Hong Kong telegram under reference. This confirmed confidential investigation of balance of the Chinese Government banks here which amount to United States dollars 15,000,000 and not to figures previously reported to me which included balance of head offices held in Chungking but operated on from here. Central Bank of China holds no balance in Hong Kong. Substantial sums are believed held on time deposit in respect of which deposit books are kept in safe custody boxes in Hong Kong.

Telegram September 8, 1941

Secret.

Following for Treasury from Rogers.

Your telegram 893 /1 paragraph 2/

Although sterling is paid into unblocked account of banks in Shanghai, the undertaking given by letter presumably does not preclude selling at lower rates against imports for which stabilization board does not give cover. British merchants in Shanghai, whose accounts have been unfrozen, are also presumably free to set off imports against exports if conducting both import and export business or to link imports with exports of another British firm. In /1 the absence of / special accounts procedure, next best approach to control of black market would seem to be to require

a) licensed banks only to sell against cover provided by stabilization board for approved imports and to sell their present black market /1 cover / to the stabilization board or Government Banks at an official buying rate.

b) Merchants not to enter transactions below official rates. Unless merchants forbear to /1 ease/ off imports and exports inside their own //1 business/, exchange might be available for imports, for which stabilization board would not sell.

2. As a temporary measure pending establishment of Chinese exchange control imports to Hong Kong from China have been restricted since July 31st to necessary foodstuffs and cotton yarn for industries here.

3. Overseas family remittances in sterling (and U.S. dollars) are being settled at black market rates but only a portion goes to /1 Shanghai/. The bulk is absorbed in Chinese note market here, which is fed by

smuggling of notes from the interior and by Chinese Government drawings in Chinese currency on Hong Kong. Impossibility of effective customs control makes it difficult to abolish market without direct action. Note smuggling is also an embarrassing counterpart of smuggling through the Japanese blockade of goods necessary to Hong Kong and China. I feel that problem could be best attacked along the following lines.

4. a) Reduction of premium on interior remittances to coast ports in order to remove incentive to wholesale smuggling - see my telegram No. 945.

b) Stabilization Board to sell exchange against applications in Kunming in order to remove demand for Hong Kong dollars at present met by sale of smuggles Chinese notes in Hong Kong.

c) Require Chinese Government to cease heavy drawings in Chinese currency on Hong Kong and to ensure that notes imported from printers are re-exported to interior or held in store.

d) Hong Kong Government to check large scale import and export of notes by requiring license for amounts above say Chinese dollars 20,000.

e) Reduce the remaining notes in market by fund operations.

f) Require cover in Chinese currency in Hong Kong, including remittances through Hong Kong from Malaya, to be obtained only from Bank of China at local equivalent of official rate. The Bank of China has been appointed sole agent in Hong Kong and Malaya for canalization of emigrant remittances.

5. I am telegraphing further regarding action on 4 (b).

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THE BRITISH SUPPLY COUNCIL IN NORTH AMERICA

337

Box 680
Benjamin Franklin Station
Washington, D. C.

10th September, 1941.

Dear Cochran,

I enclose a copy of a telegram
from Hong Kong.

Yours,

/s/ T. K. Bewley

(T.K. Bewley)

Mr. H. Merle Cochran,
United States Treasury,
Washington,
D. C.

Following received from Hong Kong for Niemeier and Phillips telegram No. 985 of 9th September.

Begins.

My telegram No. 380.

Following telegram from stabilisation Board of China given simultaneously on September 8th to Foreign banks licensed under United States License 59 and to four Chinese Government Banks and scheme comes into operation from September 9th. This message was accompanied by two lists A and B. First dealing with major imports (e.g. rice and coal), second with other specified imports. September programme for licensed and/or authorized banks supplementary to instructions of August 15th.

1. Cover will be provided for major import commodities (including freight and insurance on quota basis against approved applications as decided by board and set out in list A provided that exchange has not already been settled by importer or furnished by consumer.
2. Cover will be provided for other principal import items (including freight and insurance) set out in list B against approved applications.
3. (a) to meet small imports not on lists A and B and not on prohibited list board will provide exchange not exceeding dollars (U.S.) 2,000 or strlg (Sterling) 500 in any one transaction. (b) for personal requirements such as remittances passage money insurance premiums etc., board will provide reasonable amount of exchange not exceeding dollars (U.S.) 200 or strlg (sterling) 50 to any one individual or family for any one month. (c) Weekly Statement will be rendered to board by each bank covering nature and amount of transactions under (a) and (b) above.
4. No cover will be provided for articles on prohibited list which do not appear on lists A and B without prior approval of Chinese Government.

5. Cover will be provided for bills maturing in September for which exchange has not been settled but excluding specific margin in foreign currency held by banks or importers. Statement of cover so provided should be submitted to board.

6. Banks will only quote official rates and will have no dealings at other rates directly or indirectly.

7. Market cover expressed in Foreign currencies acquired by banks shall be purchased at official rates and set off against foreign exchange requirements specified in paragraphs 1, 2 and 3. Statement of foreign currencies thus acquired together with any set off affected shall be made by the banks each week in confidence to their respective national or designated members of board.

8. Merchants who receive cover from licensed and/or authorized banks should sell all their export paper to those banks and merchants not complying with this requirement will receive no further cover from board. Merchants effecting link transactions will also receive no further cover from board.

9. All import cover to merchants shall be for cash. Before cover is given by banks to merchants shipping space must have been secured and export formalities fulfilled by merchants. Any cover not used for purposes for which made available must in all cases be surrendered to board at rate of purchase.


10. Onus rests upon banks to take reasonable precautions in all cases to satisfy themselves that applications for exchange to be furnished by board are for genuine and legitimate business and that exchange has not been obtained from other sources.

September 10, 1941

Files

Mr. Cochran

I lunched today with Sir Otto Niemeyer. He said that he had not yet received a reply from London on the points with respect to British and American representations to China concerning the Stabilization Board and its operations. He was available, however, to see Under Secretary Bell whenever the latter might choose to receive him. I believe Sir Otto desires to talk with Mr. Bell on the general subject of the economic mission. I gave Niemeyer nothing contained in Fox's recent cablegrams concerning the mission, except to let him know that Fox is still keenly interested in an economic mission and that we are giving him an additional economist.



September 10, 1941

Files

Mr. Cashman

Mr. Boies Hart, Vice President of the National City Bank at New York in charge of Far Eastern business, telephoned me this morning that he was in Washington and asked for an appointment. I received him at 10:30 a.m.

Mr. Hart was, of course, familiar with the cablegrams exchanged between his New York and Far Eastern offices, and with the telephone conversations between Under Secretary Bell and Mr. Randolph Burgess. Mr. Hart wanted to emphasize to me personally, as he had by telephone to me some weeks ago, the honest desire of the National City Bank to cooperate fully with the Stabilization Board of China, and particularly with the American Treasury and its representative on that Board. Mr. Hart knew that there had been some unhappiness on the part of Mr. Fox as to the position of the National City Bank. He, in turn, reported that his people in Shanghai had been quite unhappy over the attitude which Mr. Fox had assumed shortly after his arrival in the Far East. At Shanghai, particularly, it was understood that Mr. Fox had criticized the American banks, especially the National City. The National City had, Hart said, made more than usual efforts to remove any ground for criticism and he thought some days ago that things were moving smoothly. They had dispatched their Shanghai representative, Mr. McKay, to Hong Kong to consult with Mr. Fox and it was hoped that this meeting would iron out any remaining difficulties. Mr. Fox had left Hong Kong for Manila before McKay's arrival at Hong Kong. McKay had reported by cable that he had consulted with the other members of the Board, awaiting Fox's return, and had found himself in complete agreement with them. Hart thought that Fox in Manila had thus been reporting to us on a situation which had actually changed. Unhappily, however, Fox had continued to criticize the National City Bank in China to people whom he met in Manila, as reported very definitely in a letter dated September 1 from the Manila representative of the National City.

Hart hoped that Fox would refrain from such criticisms. He emphasized that the undertaking of the Stabilization Board in China was a difficult one, and that many technical problems would have to be worked out by the Board and Chinese exchange control agency in conjunction with the various banks operating in that area. Mr. Hart talked along the lines followed by Mr. Burgess, namely, that the situation is so complex in China that only the exchange experts actually operating there and on the spot can pass on the feasibility of certain exchange control measures. The National City had always been willing for conversations in China to take place with full cooperation as the aim, but considering American as well as foreign banking laws, they had not desired at this end to attempt to prescribe the whole procedure to be followed by their banks in China.

Mr. Kart referred particularly to criticism which Fox was alleged to have made publicly in Shanghai shortly after his arrival on the ground that American banks, particularly the National City, had not been rendering proper service to American business concerns there as a result of too tight a credit policy. Kart stated that this attitude on Fox's part apparently resulted from stories told him by a Mr. French, head of the American Chamber of Commerce in Shanghai, whose business concerns had been denied certain lines of credit by the National City. Mr. Kart said that this resulted solely from sound banking practices, and that the present concern of French's Fox Masters organization was not willing to guarantee any further credits. French had cited examples of the Hong Kong and Shanghai bank, a British institution, attracting desirable American customers, such as the International Telephone and Telegraph Company, the Electrical Bond and Share Company and others operating in China, implying that this was the result of a more generous credit policy. Mr. Kart said that at least the two companies above mentioned have directors on the board of the National City Bank in New York and carry their business with the National City. The fact of the matter was that they carried no heavy lines of credits as possible under our laws with the head office in New York, and for this reason put their business in China with another bank.

Referring to the matter of cooperation requested of the National City Bank in Shanghai by the Stabilization Board of China, which Kart had reported to me some weeks ago, he said this now appeared to be solved. The two points in question were as to the responsibility that the National City and Chase Bank would have for the Chinese currency taken in while operating on behalf of the Board, and the responsibility for exchange transactions entered into by these banks, which might subsequently be disapproved of by the Board. Kart did not go into detail on these two points, but indicated that as to the first point the Board relieves the bank of any responsibility so long as the bank took the same precautions with the currency belonging to the Board that would be given currency belonging to the bank itself.

Mr. Kart will be in Washington, at the Mayflower Hotel, until Friday evening. He said that if we had any question about the operations of the National City banks in the Far East, he would be glad to talk to us about them. I told him that I was glad he had come in since we had received information to the effect that the National City had not cooperated from the first to the full extent which might be wished. We had not criticized the bank, but we did want to come to an understanding with it and let the details be worked out in China. It appeared that progress had been made the past few days, but we were still watching the situation and would let the National City Bank know if we had any further reports on steps which they might take to make easier and more effective the undertaking of the Stabilization Board of China.

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PLAIN

Mukden via Peiping & N.R.

Dated September 10, 1941

Rec'd 9:35 a.m., 12th

Secretary of State,

Washington.

78, September 10, 5 p.m.

This office has received information to the effect that the Manchuria Bristle monopoly (see my despatch No. 9 June 23, 1941, to the Embassy) and associated companies (such as Mitsui and Mitsubishi) are planning to forward large quantities of bristles, which recent developments have prevented them from exporting to the United States, to Shanghai for sale and exports to the United States through Chinese or other non-Japanese firms in that city. They hope to evade American freezing controls in this way and to make imports from the United States through South or Central American countries with the proceeds of such sales.

Names of the Shanghai firms concerned are not available but the name of N. Wagman and Company of Philadelphia was mentioned as a possible purchaser in the United States.

Sent to Peiping for transmission to the Department and Shanghai.
Mail to Harbin, Dairen. Sent to the Department. Repeated to Chungking.
Shanghai.

RR

KRENTZ

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9-19-41

TRE

Shanghai

Dated September 10, 1941

Rec'd 9:20 a.m., 11th.

Secretary of State,
Washington.

1246, September 10, 4 p.m., (SECTION ONE).

Local bankers generally express satisfaction over the more explicit program announced on Monday for handling stabilization exchange fund as it clarifies many uncertainties and includes wider range of products for exchange coverage than many traders anticipated. Some satisfaction is also expressed over agreement among licensing banks for elimination of black or non-official market but there is some fear that loop holes in new regulation may permit development of link exchange transactions at rates below those specified by Stabilization Board. For example, it appears insufficient to require importers who receive official coverage to sell their exchange derived from exports only to licensed banks at official rates as many exporters are not importers and vice versa. Hence such exporters would have no occasion to apply for import coverage but might readily arrange to dispose of their foreign funds to importers unable to obtain coverage at Stabilization rate and by special arrangements might even circumvent freezing system by instructing their consignees abroad whose assets are not frozen to effect pay-

ment to exporters abroad, thus completing transactions for Shanghai importers. A possible method of avoiding development of such practices might be to secure cooperation of friendly governments in adopting a requirement that Shanghai export shipments made after a fixed date be admitted only when documents are accompanied by certified statement that related exchange was sold to a licensed bank.

Naturally it may take some time for local merchants to acquire requisite amount of confidence in those prepared to carry out such link exchange transactions but if given time such brokers are likely to succeed in exploiting the possibilities of such an avenue and exporters abroad may also fall in line since it would offer a sales outlet otherwise cut off. Buyers abroad would also fall in line as a means of acquiring China export produce from Shanghai more cheaply, because of the lower exchange rates, than would be possible otherwise.

LOCKHART.

HPD

eh:copy
9-12-41

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GRAY

Shanghai via N. R.

Dated September 10, 1941

Rec'd 4:45 p.m.

Secretary of State

Washington

1246, September 10, 4 p.m., (SECTION TWO).

An effective administration of Stabilization Board's program must also end board's problem presented by sharply rising trend in Shanghai commodity prices to avoid giving cover for clearing of goods already heavily hoarded and held at profiteering prices possibly requiring that cover for such goods be provided only when assured that goods are for early local consumption and at reasonable prices. The Shanghai Municipal Council's efforts in distributing rice at low prices over a considerable period is indication that efforts to check inflation of prices is not impossible.

There also appears some likelihood that a black market may develop for foreign exchange not affected by freezing order employing funds transferred Shanghai from abroad by holders as precautionary measures in anticipation of freezing action or vice versa. Black market trading continues unlicensed banks selling exchange Monday and Tuesday to merchants at 4 13/16 cents to cover goods on the banned list which are in transit or have arrived but for which exchange has not been previously settled. This

This

-2- #1246, September 10, 4 p.m., (SECTION TWO) from Shanghai via N. R.

347

This process may continue until amounts originally specified in letters of credit opened are completely utilized.

Several criticisms of regulations just announced have been voiced in Shanghai among them: firstly, allowances for passage money considered insufficient, secondly, licensed banks which have previously opened letters of credit for clients for imports on banned list have no means of completing these transactions, a situation which may drag on for months because of shipping delays, thirdly, granting cover for leaf tobacco but not for cigarette paper appears illogical, fourthly, there is no guarantee that licensed banks will acquire export bills to set off their import exchange sales, hence the deficit may be larger than anticipated.

Sent to the Department. Repeated to Hong Kong.

LOCKHART

MK

copy:kma

(CONFIDENTIAL)

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The following is the
substance of telegram
No. 1436 Sept. 10, 4 p.m., 348
from Tokyo.

P A R A P H R A S E

Ambassador Grew refers to his telegram no. 1430, September 8, midnight -- this containing the text of an aide-memoire received from the Foreign Office -- and states that the Embassy has made a study of the Japanese communication and that the Embassy desires to make the comment that misleading statements are made in the addendum. Although the Embassy is not in a position to make commentary in regard to that which is set forth in the aide-memoire in reference to the treatment which specified Japanese firms in the United States receive, the statement made in paragraph 2(a), for example, is not correct. According to that statement a permit is not required in Japan in order for a bank of a designated nation to pay out funds which are held on deposit and for a designated national to draw out money deposited in a bank of a nation which is undesignated when the amount involved is in excess of yen 1,000. This statement is misleading in that the implication exists that a permit is not necessary when the amount concerned is less than yen 1,000. This is not the case. In addition, that which is set forth in paragraph 4(a) may be perhaps true in a literal sense in one or two cases but the impression is entirely erroneous that American firms as a whole or even one-half the American firms in Japan are allowed to carry on normal business under general licenses. There is

in appearance no evidence to indicate that measures corrective of inequalities in the treatment accorded by each country to the nationals of the other are being taken, and in the Japanese note there are no concrete remedial measures proposed, this notwithstanding the fact that the note contains a statement indicating that the Japanese Government will gradually correct, and on a reciprocal basis, such "inequalities". As a matter of fact, although the Japanese continue to follow the strict letter of their regulations the administration of these regulations in practice in the majority of cases is cumbersome and obstructive and continues to place an extremely heavy burden upon American nationals and firms.

Copy:bj:9-23-41

PARAPHRASE OF TELEGRAM RECEIVED

350

FROM: American Legation, Port-au-Prince, Haiti.

DATE: September 10, 1941, 4 p.m.

NO. 1 168.

This telegram supplements number 164 of September 8, 3 p.m., from the Legation. Publication of the decree law has been announced and it contains substantially the same provisions as those of Executive Order No. 8389, as amended. There are added provisions to meet local debtor and creditor conditions. It is said that the freezing order applies only to persons whose names appear on the American Proclaimed List or on a list prepared by the Haitian Government. The belief is that the control provided for in the decree law is at least as complete as that which is now being exercised in the United States of America.

Tomorrow a text of the decree law with translation is being forwarded to the Department via air mail.

WHITE

840.51 Frozen Credits/3442

EA:HQ:INCE

TREASURY DEPARTMENT

351

INTER-OFFICE COMMUNICATION

DATE September 10, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£56,000
Purchased from commercial concerns	£43,000

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

In an extremely thin market, the Argentine free peso again moved upward to touch a current high of .2390 this afternoon. Just before the close, however, it reacted to .2382. Yesterday's final quotation was .2385.

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

Canadian dollar	10-1/2% discount
Brazilian milreis (free)	.0505
Colombian peso	.5800
Mexican peso	.2070
Venezuelan bolivar	.2750
Uruguayan peso (free)	.1400
Cuban peso	7/16% discount

In the Shanghai exchange market, the yuan was apparently still quoted in the neighborhood of 5-11/32¢, the Chinese Stabilization Board's selling rate for dollars against approved imports.

There were no gold transactions consummated by us today.

The Federal Reserve Bank of New York reported that the following gold shipments were being consigned to it:

\$1,000,000 from Peru, shipped by the Central Reserve Bank of Peru for its account, disposition unknown.

183,000 from Canada, shipped by the Bank of Canada for account of the Government of Canada, for sale to the New York Assay Office.

\$1,183,000 Total

The prices fixed in London for spot and forward silver remained unchanged at 23-1/2¢ and 23-7/16¢, respectively. The U. S. equivalents were 42.67¢ and 42.55¢.

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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 two purchases of new production silver totaling 100,000 ounces under the Silver Purchase Act. This silver, bought for forward delivery, came from various foreign countries.

B. M. F.

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BRITISH EMBASSY,
WASHINGTON.

PERSONAL
AND SECRET

10th September, 1941.

Dear Mr. Secretary,

I enclose herein for your personal and secret information copies of the latest reports received from London on the military situation.

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

R. I. Campbell

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D.C.

COPY OF TELEGRAM FROM LONDON
DATED SEPTEMBER 6, 1941

Southern part of Suez Canal
closed after air raid on 5th. About 10
enemy aircraft employed.

2. Night 4/5 successful attack by
13 Wellingtons on Tripoli (L) 4th. Five
Heinkel's attacked shipping in Gortone. One
hit scored on merchant ship estimate 7,000
tons.

TELEGRAM FROM LONDON DATED
SEPTEMBER 7, 1941

U.S. trawler Strathborve mined and sunk p.m./6th east of Spurn Point.

2. German activities on French Mediterranean coast reported increasing. Many Germans openly in Marseilles Fort Caronte almost entirely taken over by enemy and will probably be used for import of iron ore and phosphates from Africa for Axis use.

3. Night of 6th-7th. British tanker of 4500 tons in east coast convoy damaged by bombs off Lowestoft but proceeding. Later attack by E. boat made off Cromer. Two ships torpedoed but no details yet.

4. Reported a.m./7th American ship Steel Seafarer 5,718 tons sunk by aircraft near Shadwan Islands, Red Sea. No further details but twenty-four of crew are on Shadwan Islands. His Majesty's ship sent to pick them up.

5. 6th. Three fortresses bombed port of Oslo. Primary target Admiral Yernet located. Night of 6th/7th more than eighty aircraft attacked Chemical Works near Krefeld and about 24 were min-laying. Oil installations near Stadtlandet attacked by four aircraft and set on fire. Night of 5th/6th three hits claimed on merchant ship in Tripoli (L).

6. Nine enemy aircraft attacked Alexandria hitting Naval Storage shed and railway station. No service casualties.

7. Germans reported to have established bridge head east bank of Dnieper at Kremenchuk.

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MILITARY INTELLIGENCE DIVISION
WAR DEPARTMENT
Washington, September 10, 1941

TENTATIVE LESSONS BULLETIN
No. 156
G-2/2657-235

NOTICE

The information contained in this series of bulletins will be restricted to items from official sources which are reasonably confirmed. The lessons necessarily are tentative and in no sense mature studies.

This document is being given an approved distribution, and no additional copies are available in the Military Intelligence Division. For provisions governing its reproduction, see Letter TAG, 360.06 (9-19-40) M-B-M.

BATTLE TACTICS OF THE
GERMAN ARMY

SOURCE

This bulletin is based upon an official British manual published in February, 1941.

Intended propagandistic effects should not be overlooked.

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1. GENERAL
2. ATTACK
3. DEFENSE
4. PROTECTION AT REST
5. PROTECTION ON THE MOVE
6. MOTORIZED RECONNAISSANCE UNITS
7. ARMORED FORCE
8. INFANTRY

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(Continued)

9. ARTILLERY
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11. SMOKE
12. GAS

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RESTRICTEDBATTLE TACTICS OF THE
GERMAN ARMY1. GENERAL

German tactical teaching insists on the importance of speed and surprise in battle; on the need for concentration of all available means, moral, physical, and material, at the decisive place and time; and finally, on the ruthless exploitation of success. With a view to obtaining speed and surprise, the Germans make the most careful preparations beforehand.

Good leadership depends, first of all, upon boldness and decision. The Germans are taught that if two equally reasonable courses exist, the bolder course must be adopted.

The following slogans, therefore, are impressed on all leaders:

- a. Strive to maintain the initiative;
- b. Keep your main object always in mind;
- c. Simplicity of plan ensures speed in execution;
- d. Put as much power as possible in the main effort and minimum power in the subsidiary effort;
- e. Your constant aim must be to preserve and to renew the fighting power of your troops;
- f. Be quick to recognize a favorable situation or turn of events and do everything to utilize it to your own advantage;
- g. Pay due regard to the tactical doctrine and methods of your opponents.

The Germans firmly believe that their army, by virtue of its size and excellence, is invincible. They consider that their soldiers are superior in training, equipment, and morale to those of any other nation, and they give much attention to instilling into the individual soldier the offensive spirit under all circumstances.

2. ATTACKa. General

In the conduct of the attack, the following principles are

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observed, whether operations are carried out by armored and motorized formations or by foot troops.

- (1) The plan is simple but flexible, and the orders allow subordinate commanders considerable latitude. Below divisions, these orders normally are issued orally and in the shortest and simplest form.
- (2) A point is selected at which the main effort is to be made, and at this point superiority in numbers and weapons is provided.
- (3) Where possible, centers of resistance and defended obstacles are first neutralized by infiltration methods; once surrounded, they can be reduced systematically.
- (4) Formations and units do not stop when they have lost touch with flanking troops.
- (5) Mobile reserves are held available to reinforce success.
- (6) Should success be achieved in an unexpected quarter, troops and fire are concentrated to take advantage of the new situation.

b. Forms of Attack

Although envelopment should be aimed at wherever possible, it is realized that the attacker will often be faced with the task of having to break through a well prepared position, which has been organized in depth and strengthened by every possible means. Only after he has defeated the defending troops and has reached the open country can the attacker achieve victory by mobile operations. A successful break-through is the necessary preliminary for the strategical development of the situation.

The Germans envisage three types of attack, all of which should be accompanied by threats of attack or by feints in other quarters whenever possible.

(1) Frontal Attack

A frontal attack is considered the most frequent form of attack, though the introduction of armored and motorized forces is tending to make it less common. It requires great superiority in strength and produces decisive results only when the hostile front has been penetrated.

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RESTRICTED(2) Envelopment

An envelopment is thought to be the most effective form of attack and, if successful, may result in annihilation of enemy. This maneuver, which presumes marked superiority in means, is most effective when launched in a wide movement against flanks. The enemy must not be given time to take counter measures.

(3) Penetration

The penetration form of attack should be attempted over suitable ground at a selected weak spot in the enemy front. Surprise is essential. Penetration must be on a wide front and must permit maneuver. In order to deal with enemy reserves and check hostile counterattacks, penetrating troops must be organized in depth. Once achieved, the penetration must be followed by continuous pressure, until disintegration and panic have been assured and the penetration has been converted into a break-through.

c. General Conduct of the Attack

Successful attack is based on the following principles:

- (1) Coordination and control prevent disintegration of an attack into separate actions.
- (2) A main effort requires narrow battle sectors, and coordination and concentration of fire of all weapons.
- (3) The choice of locality for a main effort is dictated by terrain, artillery facilities, and suitability for use of armored forces and reserves. Even if the sector for decisive action cannot be determined beforehand, the resources for the main effort must be built up in readiness for employment as and when the situation demands.
- (4) A crisis will develop in every battle; victory will go to the commander who can turn this crisis to his own assistance.
- (5) When an attack has come to a standstill, new impetus can be given only by:
 - (a) Regrouping of forces;
 - (b) Throwing in of fresh forces;
 - (c) Reorganization of fire.
- (6) It is important to launch an attack on the correct frontage.

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which depends on the probable strength of the enemy's resistance. German regulations give the following approximate frontages:

Battalion - 400 to 1000 yards;
Infantry division in favorable circumstances as regards ground, artillery support, etc. - 4000 to 5000 yards;
Infantry division, as above, carrying out the main attack against enemy in strong position - 3000 yards.

Throughout an attack, ground troops will be given direct support by air forces. This includes reconnaissance, the bombing of communications, reserves, etc., and close support against forward troops. The German dive-bombing aircraft have in fact become a form of highly mobile, close support artillery. Close support will almost invariably be available at short notice in the sector of the main effort. By continuous raids and the use of loudspeakers before the attack, and by the noise of whistling bombs, loud explosions, and the lavish employment of grenades, during it, the German hopes to destroy the morale of his opponents, particularly of those in the forward defenses.

3. DEFENSE

a. Organization of Position

The defensive position is organized in great depth, in order to attain the maximum power of resistance. The beaten zone in front of the defenses is carefully planned, continuous, and deep, and all weapons are allotted tasks in the defensive fire plan. The bulk of the fire is employed to defend that part of the front which the commander decides must be held at all costs.

b. Advanced Position

Troops in the advanced position are intended to delay the enemy in his attempt to gain possession of localities which would assist him in launching an attack against the main line of resistance. Consequently, the advanced position must usually be some 5000 to 7000 yards in front of the main line of resistance. Although advanced position troops are provided with their own artillery, antitank guns, and machine guns, at least a portion of the artillery covering the main position should be situated so as to support them by its fire.

The advanced position is sometimes held by motorized machine gun battalions, and the advanced troops are usually placed under the commander of the zone immediately in rear.

c. Battle Outposts

The task of battle outposts is to gain time for the troops responsible for the defense of the main line of resistance and to deceive the enemy as to the exact location of the main line. Battle outposts, therefore, are usually some 2000 yards in front of the main line of resistance, and within effective support of the artillery of the main defensive position.

These outposts may be ordered to remain in position until a certain time or to retire when the enemy reaches a particular line or appears to be developing a major attack.

d. Main Line of Resistance

The defense of the main position necessitates distribution of available troops in depth; distribution in depth should not, however, be too great, for the majority of the infantry weapons must bring down fire in front of the main position. As regards frontages, a division is normally allotted 6000-7000 yards. Defense is based on mutually supporting centers of resistance, organized in depth, and capable of all-round defense. Obstacles are constructed to supplement the natural defensive characteristics of the ground, and full use is made of concealment and camouflage.

Priority of defensive preparations is governed by the rule: effectiveness before cover. Thus, clearing of fields of fire, ascertaining of ranges, and preparation of camouflage take precedence over digging of cover and provision of dug-outs.

Unless a unit receives definite orders to withdraw, defense must be to the last man and to the last round.

4. PROTECTION AT REST

In general, the method of organization and employment of outposts and patrols does not differ from that of the British army.

Outposts protect their positions with wire and show their ingenuity by installing trip-wires, land mines, and booby traps which cover the approaches. The Germans maintain the offensive spirit by continuous patrolling activity. Small patrols, consisting of three to seven men, attempt to penetrate deep into enemy lines with the object of locating dispositions and possible avenues for infiltration. On occasions, patrols have succeeded in tapping telephone wires far inside the enemy lines and have thus obtained valuable information.

In the conduct of raids the Germans vary their methods skillfully. Before attempting a raid, they study in great detail the

dispositions and habits of enemy posts, the most favorable approaches, and the method of making the best use of supporting weapons.

5. PROTECTION ON THE MOVE

German formations on the move are protected by a screen of motorized or semi-motorized reconnaissance units, depending upon whether they are armored, motorized infantry, or infantry divisions. These units work in close cooperation with reconnaissance aircraft. The motorized reconnaissance units have a wide radius of action - 155 miles - and are used for strategical as well as tactical ground reconnaissance. The semi-motorized units, having considerably lower mobility and radius of action, are employed only for the tactical ground reconnaissance on the divisional front.

For protective duties on the move the Germans also make considerable use of motorized machine gun battalions and motorized antiaircraft machine gun battalions. The former are equipped with antitank guns, while the antiaircraft battalions are armed with dual purpose antiaircraft and antitank machine guns.

6. MOTORIZED RECONNAISSANCE UNITS

These units include armored cars and motorcyclist riflemen, as well as heavy companies and motorized engineer detachments. The heavy companies also are motorized and armed with close support weapons, light guns, mortars, machine guns, and antitank guns.

Their tasks are as follows:

- a. To push rapidly ahead of slower moving formations and discover the strength and dispositions of enemy forces;
- b. While avoiding combat with large forces or strongly defended localities, to overrun small centers of resistance which would impede the advance of the main forces;
- c. To prevent the carrying out of demolitions and to disrupt communications - for example, telephone exchanges, wireless stations, etc.;
- d. By rapid movement and indiscriminate firing to give the impression of the presence of large forces, with the object of creating panic and confusion;
- e. To seize and hold covering positions or bridgeheads;
- f. To protect demolitions prepared by engineer troops;

- g. To hold an exposed flank;
- h. To establish contact with air-borne troops which have already landed.

The mobility of these units and their large radius of action enable them to reconnoiter rapidly; if necessary, they can also fight for information. Fighting is primarily the duty of the motorcyclist squadrons - which include motorcycle combinations, carrying three men and a machine gun-supported by the guns and mortars of the heavy companies; their object is to clear the way for the armored cars. All vehicles have a considerable cross-country performance, and they can deploy rapidly off roads when road blocks or other opposition is encountered. They usually operate in small patrols consisting of armored cars, motorcyclists, and possibly a few light tanks.

Motorized reconnaissance units possess limited offensive power, but their mobility and cross-country performance enable them to penetrate into enemy territory by infiltration methods. On such occasions no attempt is made to keep touch with flanking reconnaissance units.

7. ARMORED FORCE

The main principles for the employment of the armored force are:

- a. Surprise;
- b. Selection of suitable ground;
- c. Employment in large numbers and in depth;
- d. Speed.

Wherever possible, armored units avoid attacking fortified positions; instead, they endeavor to turn the flank of opposition. Where an organized or semi-organized opposition cannot be avoided, however, the ground and strength of enemy defenses are the deciding factors as to whether tanks will attack ahead of, simultaneously, or after the infantry.

In the case of strongly organized defenses it is considered necessary to "loosen up" the enemy defensive system, especially the antitank organization, before tanks can operate successfully. Armored force vehicles will therefore not be launched against suspected or known minefields or formidable antitank obstacles and defenses until artillery fire, dive-bombing attacks, and specially trained and equipped infantry and engineer assault detachments - Stosstruppen - have prepared the way by clearing minefields and obstacles and reducing defensive works. In certain circumstances tanks may provide covering

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fire to the assault detachments during the preliminary operations.

In river crossings, bridgeheads are secured by infantry and engineers before tanks cross by ponton rafts or rubber boats.

On the other hand, where defenses are relatively weak or hastily organized, as was the case in Poland and in the later stages of the Battle of France, tanks attack well ahead of infantry, relying on such air and artillery support as is immediately available.

A tank attack against organized or semi-organized opposition normally takes the form of an attack in two or three waves, with relatively narrow frontage and great depth. The leading wave deals with the enemy antitank guns and artillery; this wave is allotted the farthest objective - enemy artillery reserves and enemy headquarters. The subsequent waves attack enemy infantry and strong points, and may precede or accompany the leading infantry. Close support by the other arms is provided during the attack. The task of the artillery is to neutralize or destroy enemy artillery and anti-tank resources, or to engage counterattacking enemy tanks; that of the infantry and engineers is to follow up closely and consolidate.

Armored formations were the decisive factor in German successes in Poland, Flanders, and France. Once having broken through the outer defenses, they aimed at deep penetration into the enemy's country, paying little attention to flanks and communication, and relying mainly on air cooperation in the form of dive-bombing and reconnaissance. By spreading out across the enemy's communications they attempted to disrupt his whole rearward organization. Centers of resistance were not allowed to hold up the advance, but were either avoided and later attacked from the rear, or were dealt with by motorized troops following close behind. Close cooperation between armored units and the reconnaissance, artillery, antitank, engineer, motorized infantry, and motorcyclist units was an important feature at all stages of the advance.

B. INFANTRY

Because of the predominant role played by German armored forces since the outbreak of the present war, German infantry, both motorized and non-motorized, with the exception of the specially trained and equipped assault detachments, has been chiefly employed in following up, exploiting, and consolidating the ground gained by armored formations

Infantry tactics in the attack are chiefly remarkable for:

- a. Boldness and skill in infiltration. Small detachments

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penetrate between enemy posts, which they engage from the flanks and rear. By a liberal expenditure of ammunition, they often attempt to create the impression of large numbers. For example, nine automatic weapons may mean the presence of only one platoon.

- b. Reliance on prompt and efficient fire support of considerable volume from their heavier weapons, which are handled with great skill and dash, and are brought into action well forward. Units are lavishly supported by infantry guns as well as antitank guns, mortars, and machine guns. The cooperation between these weapons and infantry is excellent. Where necessary, support is given by dive-bomber aircraft.

The infantry of the active divisions and of the majority of reserve divisions reaches a high standard of physical fitness. Its training aims at developing initiative and the offensive spirit.

Assault detachments, which are small bodies of troops composed of infantry and engineers, are employed for special tasks, such as reducing pillboxes, overrunning centers of resistance, etc. They are picked men trained for specific operations and equipped with automatic weapons, flame-throwers, Bangalore torpedoes, pole charges, and small smoke generators, according to the requirements of each task.

9. ARTILLERY

All types of German divisions are weaker in artillery than their British equivalents. On the other hand, German infantry is stronger in close support weapons, which include 75-mm. and 150-mm. infantry guns. In consequence, German artillery is rarely placed under command of infantry units, though batteries may be detailed in support. The Germans consider the enemy artillery the most important objective and attach the greatest importance to keeping down enemy artillery fire while maintaining their own.

The importance of getting their artillery into action before the enemy can do so is constantly impressed upon the German gunners, who are taught to shoot first and correct afterwards. Ranging methods are varied as much as possible in order to achieve surprise fire for effect. Much use is made of "roving" guns and also of guns firing from alternate positions.

The efficiency of artillery observation and communications and of artillery observation aircraft are important factors in the success of German artillery support.

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Artillery support in attack varies somewhat from that of the British. Barrage fire is avoided whenever possible, and support is given by means of concentrations. By rapidity of deployment and by a sudden opening of intense fire on selected points, the Germans aim at reducing the defender to a state in which he will be unable to use his weapons.

Once the enemy's position is overrun, forward observation officers and guns are pushed forward with great determination. At this stage, close cooperation between artillery and infantry is assured by artillery liaison detachments. Light signals are freely used as a means of communication between leading troops and artillery observers.

Antiaircraft artillery is employed well forward in the attack, guns following close behind the leading troops. Antiaircraft guns are frequently used against land targets, such as pillboxes and armored vehicles.

In defense, German artillery is trained to make the fullest use of the range of its weapons, and a proportion of the artillery is placed well forward. The enemy is subjected to an ever increasing artillery bombardment as he closes with the defenders. German manuals state that the artillery must have finished a great part of its work before the enemy's attack is finally brought to a standstill in front of the main line of resistance.

10. ENGINEERS

German engineers are highly trained and efficient fighting troops, lavishly equipped with engineering stores of all kinds.

In the attack, they are employed in removing obstacles like wire, antitank mines, etc., and in bridging water. For this latter purpose assault boats and large and small pneumatic boats are used in large numbers on a wide front. Although heavy casualties may be sustained, a portion of the troops are expected to gain a footing on the opposite bank of the stream. Supporting troops and light equipment, including antitank guns, are ferried across in large rubber boats and on rafts made from rubber boats.

Light and heavy ponton bridges are constructed, and heavy loads, exceeding 18 tons, are ferried across on special, heavy rafts.

In addition, engineers are trained in the use of explosive charges, flame throwers, and smoke generators and are employed as assault troops with the infantry, cooperating in the reduction of pillboxes and centers of resistance.

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In defensive operations, engineers are employed in constructing pillboxes and obstacles, laying minefields, preparing and carrying out demolitions, and setting booby traps. They may also act in close support of infantry and may be used to defend the obstacles and demolition charges which they have established.

11. SMOKE

The Germans have not yet made extensive use of smoke, but their manuals draw attention to its great possibilities.

Although German teaching does not differ greatly from the British, it appears that the Germans have developed the use of smoke somewhat further in certain respects. For example, German smoke equipment includes, in addition to the normal smoke projectiles and smoke candles, smoke sprays and generators designed to function up to 30 to 40 minutes and to reproduce the conditions of fog. The laying of smoke screens from the air is also advocated.

Smoke is much used in attacks by assault detachments on strongly defended positions.

The landing of troops in a combined operation is likely to be covered by smoke screens if weather conditions are favorable. Limited use of smoke may be made in covering the crossing and bridging of water obstacles and in concealing the direction of a main attack or the advance of tanks.

12. GAS

The Germans are known to have studied fully the use of gas and are also believed to have made every preparation to use gas if it should suit their purpose.

Available information indicates that the methods most likely to be adopted by the Germans are:

- a. Low altitude spray with mustard - possibly mixed with lewisite;
- b. Air-bursting bombs charged with mustard;
- c. Percussion bombs charged with a mixture of H.E. and arsenical toxic smoke;
- d. Percussion bombs charged with phosgene.

In combined operations, gas emitted from special craft may be used in conjunction with smoke.

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G-2/2657-220; No. 489 M.I.D., W.D. 11:00 A.M., September 10, 1941.

SITUATION REPORT

I. Eastern Theater.

Ground: Finnish troops have reached the Svir River on a broad front cutting communications on Stalin Canal and Murmansk Railroad.

The situation on the Leningrad front remains unchanged.

German forces are advancing rapidly east of Kholm and Toropets. On September 7th, advanced units had reached points about fifteen miles west of Ostashkov.

Russian troops continue their counterattacks on the central front along the line: Yartsevo—point west of Yelnya—Roslavl—point west of Bryansk.

The German drive southeastward from Gomel into the Ukraine continues.

On September 7th, an armored unit forced the crossing of the Seim river to the northwest of Konotop and by evening of the same day had reached an area due west of that city.

To the north of Kiev, German troops have crossed the Desna river and have established a series of bridgeheads on the east bank.

Elements of the Army Group of Field Marshal von Rundstedt have begun an attack in a northerly direction out of the large bridgehead east of Kremenchug.

On the lower Dnepr river, other German forces belonging to the same army group have begun an attack from the bridgehead of Berislav. It is thought that the ultimate objective of this attack is Melitopol on the sea of Azov. The capture of Melitopol would sever all land communications between Russia and the Crimea.

Air: Germany reported heavy night attacks on Moscow, Odessa, and especially Leningrad.

II. Western Theater.

Air: No air activity report has been received on this theater this date.

III. Middle Eastern Theater.

Air: British planes raided Reggio Calabria, Italy, and Messina, Sicily. Axis planes attacked Haifa.

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Paraphrase of Code Cables
 Received at the War Department
 at 1:10 p.m., September 10, 1941

London, filed: 4:50 p.m., September 10, 1941

1. British Air Activity over the Continent.

a. Night of September 8-9. The attack on the locomotive works at Kassel was reported to have been very successful. No heavy anti-aircraft fire was encountered and many bombers carried out their attack from an altitude of less than 1000 feet. The condition of the weather over the target was also very favorable. 65 tons of HE and 9100 incendiaries were dropped on this target and no aircraft were lost. During this same night 4 tons of HE were dropped on Cherbourg.

b. Day of September 9. Because of bad weather no bombers were dispatched. 227 fighters were employed as follows: 145 in the protection of shipping, 53 on interception patrols, 8 on offensive missions and 18 on special operations.

2. German Air Activity over Britain

a. Day of September 8. 5 reconnaissance aircraft and 5 long range bombers were employed.

b. Night of September 8-9. 10 fighters, 10 reconnaissance aircraft and 5 long range bombers were used.

c. Day of September 9. Operations consisted of defensive patrols and sea reconnaissance, both on a small scale.

d. Night of September 9-10. Off the east Coast of Britain there was some small scale activity against shipping.

3. Aircraft Losses Reported.

a. British losses. No losses occurred on September 9.

b. Axis Invasion. None reported.

4. British Air Activity, Other Theaters.

a. North African Theater. Fort Capuzzo was attacked by 2 Mustangs the night of September 7-8.

b. Mediterranean Theater. 16 tons of HE were dropped by 9 Wellington bombers on Palermo the night of September 7-8. The results of this raid were said to be good.

5. Axis Air Activity, Other Theaters.

a. Middle Eastern Theater. No damage to property or to shipping resulted from the previously reported raid on Suez the night of September 7-8. The night of September 8-9 Haifa was bombed by 4 Axis aircraft. No damage was caused by this attack. Also during this night two attacks were made on Ismailia and Abu Basir. The results of these raids have not been reported.

LEE

I. B. # 8, 4:10P, 9/10/41

Distribution:

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