

October 13, 1941
11:35 a.m.

HMJr: Hello.

Fiorello
LaGuardia: Hello, Henry.

HMJr: How are you?

L: Pretty good.

HMJr: Fiorello.....

L: Yes.

HMJr:thank you for bringing to my attention
about those Internal Revenue fellows.

L: Oh, yes. That'll happen in the best of
families.

HMJr: Well, they're out; and they're not going
back.

L: Good. Say, Henry.....

HMJr: Yeah.

L:I've put my police on the alert for
bootlegging.

HMJr: Yeah.

L: And I think we ought to resume - you ought
to get more men here, because you know it's
very tempting now with the taxes.

HMJr: I see.

L: And we caught a couple, but very small stuff,
you know.

HMJr: Why don't you drop the taxes on liquor between
now and November first?

L: We are dropping it two per cent.

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HMJr: (Laughs)

L: But listen, after all, Henry, I've got a government to run here. We're going to drop the sales tax on it.

HMJr: I see.

L: Two per cent.

HMJr: Well, I'll pass the word along to the Internal Revenue fellows.

L: Yes, because.....

HMJr: Now, we'll make a couple of spot checks.

L: Yes, we.....

HMJr: Any particular district, Fiorello, you're interested in?

L: What's that?

HMJr: Any particular district?

L: No, it'll be general. We've got to watch it and also the stamps in the cabarets.

HMJr: I see.

L: That's it - you see if they can save fifty cents on a bottle, they'll do it.

HMJr: Right.

L: Because they're after it. And thank you very much for cleaning that up, Henry.

HMJr: And we'll do the other thing this week.

L: Thank you.

HMJr: Thank you.

OFFICE OF THE COMMISSIONER OF CUSTOMS

October 13, 1941.

TO: Secretary Morgenthau

FROM: W. R. Johnson.

RE: X-ray detection of concealed
jewels - Your memorandum of
October 7, 1941.

Extensive tests conducted in 1937 with a Kelly-Koett X-ray fluoroscopic machine, supplemented by tests suggested by your inquiry, show that the X-ray machine cannot definitely establish the presence of concealed jewels in packages.

Under certain favorable conditions, the X-ray will indicate the presence of jewels in a package by shadows, but it cannot be known whether the shadows are of pearls, rubies, emeralds, or of articles other than precious stones. Diamonds are practically transparent to X-rays and their presence is rarely indicated. A string of pearls under most favorable conditions might possibly be identified by the shape of its shadow.

The tests were conducted with containers made of various materials, including wood, leather, cloth, fiber, and bakelite.

Metal containers, such as the cases in which jewels are ordinarily carried in baggage, make the X-ray disclosure of the contained jewels extremely difficult and usually impossible. Metal locks, chains, hinges, etc., on leather or cloth bags also seriously interfere with X-ray examination of the contents. The presence of any articles other than jewels in the same container with jewels results in X-ray shadows which may obscure or confuse the shadows of the jewels.

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The X-ray machine should be used, as heretofore, by customs in a few special cases, but I believe that its general use in the examination, for example, of leather containers which we do not want to open, would not produce satisfactory results.

W. R. Johnson

October 13, 1941
3:00 p.m.

HMJr: Hello.

General
Watson: E. M. W.

HMJr: H. M. Jr., broadcasting.

W: How are you? Well say, are you all right?

HMJr: I'm all right.

W: Frances and I worried about you the other day in that damn airplane business.

HMJr: Yeah.

W: But you came out all right?

HMJr: I still come out.

W: Well.....

HMJr: I'm the only man that ever flew into a tree and flew out.

W: Well, that's what I understand. (Laughs)
Well, that's all right as long as you're all right.

HMJr: Yeah.

W: Now look here, this fellow Saul Haas.....

HMJr: Yes.

W:Bone - his secretary is always phoning.....

HMJr: Yeah.

W:and the President said that Jimmie Rowe is holding the thing up because he heard the fellow had been doing a lot of talking against the President out there.

HMJr: Well, now, I'll tell you what's happened. The

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man who's back of this - who's stirring this up - is Harold Ickes.

W: Yes.

HMJr: Now Herbert Gaston is out - was out in Seattle to talk before the A. F. of L.

W: Yeah.

HMJr: I told him to make a particular investigation as to his loyalty, to talk to this John and Anna Boettiger about it, and he said he would. And Herbert will be back in a day or two.

W: Yeah.

HMJr: And as soon as I get a report from him, I'll send it over. But all of the criticism about Saul Haas comes from Harold Ickes.

W: Well, now, look here, H. M. Jr., this fellow - secretary to Bone - Bone's sick over there at the hospital.....

HMJr: I know.

W:says he wants an answer yes or no from us and if he got yes, he's going to assume that the recommendation is distasteful. What the hell of that? Well, what - I haven't even told the President.

HMJr: Yeah. Well.....

W: What would you tell him?

HMJr: Who, the President?

W: No, tell Bone's secretary.

HMJr: Well, why not tell him the truth, that there's been certain criticisms and we've had these criticisms investigated and we expect before the end of the week to have an answer.

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W: Shall I tell him that the Treasury Department is going to report to us before the end of the week?

HMJr: If you want to, yes.

W: Shall I tell him that?

HMJr: You can, and then I'll have a report for you before the end of the week.

W: All right. I think that's the best thing, just tell him the truth.

HMJr: I think so.

W: He said that you said he was okay. He had been here a month.

HMJr: That is correct.

W: Yes.

HMJr: And I don't believe that Harold Ickes knows what he's talking about.

W: Yeah.

HMJr: But you know, "Pa", sometimes the truth pays; you never know.

W: That's right. That's right.

HMJr: Yeah.

W: Well, all right. Well, I'll just tell him that an honest-to-God investigation is being made and that we'll hear within a week.

HMJr: That's right.

W: All right, thank you, sir.

HMJr: Thank you.

W: All right. Good-bye.

HMJr: Good-bye.

October 13, 1941
3:18 p.m.

HMJr: Hello.

Operator: She said Colonel Donovan is not there, that he's gone, but she'd try to locate him and have him call you.

HMJr: No. Is his secretary on the wire?

Operator: Just a moment. I have his secretary.

HMJr: Hello.

Col. Donovan's
Secretary: Yes, sir.

HMJr: This is Mr. Morgenthau speaking.

S: Yes, sir.

HMJr: Is Colonel Donovan in town?

S: Yes, he is. He just left the office, Mr. Secretary, about five minutes ago. I thought he was still in there.

HMJr: Well, now, I'd like him to see Count Coudenhove-Kalergi. Got that?

S: How do you spell that?

HMJr: (Laughs) You sound southern.

S: (Laughs) I am.

HMJr: How far south?

S: Oh, just Virginia.

HMJr: I see. Well, I'll - C-o-u-d-e-n-.....

S: Yes, sir.

HMJr:h-o-v-e.

S: H-o-v-e.

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HMJr: Hyphen.

S: Yes, sir.

HMJr: Capital K-a-l.....

S: Yes, sir.

HMJr:e-r-g-i.

S: Yes, sir.

HMJr: Now, if you will leave word with my office when Colonel Donovan can see Count Couden-hove-Kalergi, I'll get word to him. He'll be here today and tomorrow.

S: Yes. The Count will be in town today and tomorrow?

HMJr: Yes.

S: Uh huh.

HMJr: Well, wait a minute, I'll ask him. (Talks aside) Will you be here today and tomorrow?

Yes, he'll stay if he can see him today or tomorrow.

S: Yes, sir.

(Talks aside) Where can you be reached?

He can be reached at the Carnegie Endowment.

(Talks aside) With the Carnegie Endowment Fund?

The Carnegie Endowment at Jackson Place, here in Washington.

S: Yes, sir.

HMJr: The Carnegie Endowment Fund for Peace, you know.

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S: Yes, sir. And you want me to call the Count direct?

HMJr: Yes.

S: All right. So I'll make those arrangements and let him know.....

HMJr: You'd better - I tell you. You better do it through Mrs. Klotz. K-l-o-t-z. Let Mrs. Klotz know.

S: Yes, sir. That is your secretary?

HMJr: That's right.

S: All right, sir. I'll do that.

HMJr: And she'll get in touch with him.

S: Yes, I certainly will.

HMJr: Thank you.

S: You're welcome.

October 13, 1941
3:23 p.m.

HMJr: Hello.

Francis Biddle: Hello, Henry. This is Francis.

HMJr: No.

B: Yes.

HMJr: Francis, the Biddle, huh?

B: That's right. Attorney General.

HMJr: Yeah.

B: Henry, there are two small matters. In the first place, I think you already know, LaGuardia called me last week to say he wanted to know why a lot of Revenue Agents were in New York checking over petitions for his nomination.

HMJr: They've all been taken out.

B: And would I put a squad on them. I said, "Certainly not. You take it up with the Secretary. I don't want to interfere with him in any way."

HMJr: A squad on my men, huh?

B: A squad of your men.

HMJr: Yes.

B: All right. You know about that.

HMJr: Yeah, they've been withdrawn; but what I'm trying to find out is who gave the order.

B: Well, I'd be very much interested, and let's raise a hell of a stink over it.

HMJr: I'm trying to.....

B: Especially if it comes from the man we think it comes from.

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HMJr: Well, I don't know who you mean.

B: Well, I mean somebody at New York.

HMJr: Yes.

B: (Laughs)

HMJr: Yes. That's where I think it did.

B: Good boy.

HMJr: But we're on it, and we're following - we're on it and we're running it down, but the men were taken off Saturday.

B: Uh huh. The other thing is this.

HMJr: Yeah.

B: I talked to the President about it last week. A very amusing thing happened. Last spring, under the President's Directive Order - I think now they call them Directives - but under the President's Directive, the FBI was supposed to do all the investigation of subversive clerks in the various departments. It so happened that just before that statute was passed - it was part of an appropriation bill setting aside a hundred thousand dollars and directing the FBI to make the investigation and to report to Congress.

HMJr: Yes.

B: Just before that, we discovered that the FBI had been investigating Mrs. Helm.....

HMJr: Yes.

B:and they called us up in great consternation.

HMJr: That's right.

B: She'd gotten on the - on one of the other pay-rolls, you know.

HMJr: Yes.

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- B: And Bob was so annoyed about the whole thing, that he took the FBI off all investigations except our own.
- HMJr: Yes.
- B: Then Congress passed this order, and since then, we've been doing - in a rather unsatisfactory way - the investigations. Now, when I talked to the President about it, he asked me to do two things.
- HMJr: Yes.
- B: In the first place, hereafter instead of writing to the departments - "Do you want so and so investigated? We think he's subversive".....
- HMJr: Yeah.
- B:we're going to go ahead and make the investigation and then send over the results to the department so that they won't be out in the position of trying to determine something they really haven't got the information about - try to do it a little more objectively.
- And secondly, he wanted to have us do all the investigations hereafter so that it be centered in one organization. What actually happens is, I understand, the Civil Service are doing a little investigation and you're doing a certain amount for some of the war defense industries.
- HMJr: Well, we're doing it for the OEM.
- B: Only the OEM?
- HMJr: Only.....
- B: Only OEM.
- HMJr:as far as I know.
- B: Well, the President said he'd like us to do it for everybody.

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HMJr: Well, now, you'd better get a letter; because after this happened, the White House asked me to do OEM and OPM.

B: Oh, yes.

HMJr: And I said I wouldn't. I refused to do it.

B: Yes.

HMJr: Then the President wrote me a formal request.

B: Oh, yes. Who would have that?

HMJr: Who would have what?

B: Your - his request to you. Have we a copy of it?

HMJr: Well, I - no, I don't see why you should.

B: No, but I mean I thought you wanted me to.....

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

B: Will you take a look at it?

HMJr: No, I'll do better than that. I'll send you a copy of it.

B: Good. The reason is this. Our reason, Henry, is we're very much afraid of what's going on in Congress. Apparently those boys - the Dies crowd - are just waiting for a chance to crack down hard, and some of the organizations - well, the Library and Labor and some of the others, are very nervous about it and haven't been making very many investigations.

HMJr: Look, Francis.....

B: And we'd rather like to take the responsibility of the whole thing.

HMJr: Now let me just - it's all right with me.....

B: Fine.

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HMJr:just as long as the President will write me a formal letter relieving me of that responsibility.

B: All right. Well, will you send me a copy?

HMJr: You'll have a copy by hand within the hour. Now, one other thing. This thing, you see, what's happened is this; and you'd better make up your mind if you're going to take full responsibility. A lot of these people - these dollar-a-year-men - you won't find they're subversive in the sense that it's usually used.....

B: Yes.

HMJr:but you'll find that quite a few of them have income tax troubles, and your men never made the investigation on that.

B: Well, do you think that should be made in addition to the other?

HMJr: Oh, well I think it's - personally, I think it's more important, because the dollar-a-year-men that come down are not subversive, but they may have some very bad income tax records.

B: Yes, that's quite right.

HMJr: And not what we've been doing. We haven't done the subversive thing.

B: Oh, you haven't done the subversive thing?

HMJr: Oh, no.

B: Well, I understood that you had been doing it.

HMJr: Oh, no.

B: You're sure of that?

HMJr: Positive.

B: You are?

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HMJr: Yes.

B: I don't think we care a thing about the income tax. I think that's for you to continue.

HMJr: Look, Francis.

B: Yes.

HMJr: Let me take - look - because you and I will never have any trouble. Now, let me send the letter over that the President wrote you.

B: Yes.

HMJr: And - it's not very complimentary to your department.....

B: Sure.

HMJr:but I'll send it over anyway; and I think for his sake you'd better not circulate it.

B: All right.

HMJr: You'll see why when you read it. I didn't write it.

B: No. I understand.

HMJr: But I think for the President's sake, you'd better not show it to anybody.

B: Right.

HMJr: See?

B: Yeah. I don't think - I didn't understand that, Henry. I understood you were doing some of the subversive examination.

HMJr: I tell you what I'll do. I'll send my Administrative Assistant, Norman Thompson, over with the letter.....

B: Oh, well.....

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HMJr:which you can read - Norman Thompson.

B: Oh, certainly, yes.

HMJr: And for the sake of the President, I think we'd better not leave the letter over there.

B: Fine. I'll just glance at it, and then.....

HMJr: And then Norman knows all about this.

B: Yeah.

HMJr: We're not doing the subversive, but we are doing the income tax.

B: Well, I think you ought to go on with that, by all means.

HMJr: And if you will tell Norman, and he can tell you, because he's handled the whole set-up.

B: Fine.

HMJr: Because a lot of these fellows shouldn't be working for the Government.

B: That's right.

HMJr: Because they've got lousy income tax records.

B: Fine.

HMJr: But I am ninety-nine per cent sure we've never done any work on the subversive.

B: Very good. I.....

HMJr: We.....

B:rather think you have, but I'm not - of course, you know more than I do - but I rather think you have.

HMJr: No. No.

B: Well, that's first rate then.

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HMJr: No, we have not.

B: Well, then there's no problem at all.

HMJr: I know we haven't.

B: Fine.

HMJr: I mean, when I say I know we certainly haven't the last year or two.

B: Fine. Oh, well that's all right.

HMJr: Now, let me ask you this. When do you want to see Norman Thompson?

B: Why, I can see him this afternoon if he.....

HMJr: Name the time.

B: Within the next half hour I could see him.

HMJr: Do you want him there at four o'clock?

B: May I just check - let's see a minute. Oh, I could see him at four-fifteen.

HMJr: He'll be there.

B: Fine.

HMJr: Is that all, because I've got one.

B: That's all.

HMJr: I was surprised that during your absence they appointed somebody out in Cleveland instead of Grossman. Remember I called you?

B: Oh, I know you did, yes.

HMJr: And then they - you said that you wanted to make that investigation.

B: Well, I looked into it, but Freed had a very, very strong record. I think it had practically

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been decided.

HMJr: Yeah.

B: I mean, I think the thing had - Bob had sent through the thing, though I didn't know it at the time.

HMJr: He had sent it through?

B: He'd sent it through already, yes.

HMJr: Oh.

B: Yes. Well, I ought to have called you. I'm sorry, Henry. I didn't think about it.

HMJr: Well, I was a little surprised.

B: I'm sorry. I should have called you about it. But Bob had sent Freed's recommendation in before I came in to act.

HMJr: I see.

B: I'm sorry.

HMJr: All right.

B: Righto.

HMJr: Thank you.

October 13, 1941
3:31 p.m.

HMJr: Norman.....

Norman
Thompson: Yes, sir.

HMJr:I just made a statement to the Attorney General that on this investigation of OPM and OEM that we're doing, we don't do any subversive investigation. Am I right or wrong? Hello.

T: Well.....

HMJr: I mean as to whether the man is subversive - just to income tax.

T: That's right. That's as I understand it. Mr. Gaston, the last time I was with him, we discussed it with Elmer Irey, and that was my recollection, that he confined it to that.

HMJr: But we never go in for the subversive stuff.

T: No, sir.

HMJr: Well, I swore up and down that we didn't. Now who's - are you familiar with that?

T: You'd better let me check with Irey or.....

HMJr: Well, I tell you what you do.....

T:with Gaston.

HMJr: I tell you what you do. You know the letter the President wrote us about asking us to do it?

T: Yes, sir.

HMJr: You get hold of that letter, and you and Elmer be in Francis Biddle's office at four-fifteen this afternoon.

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T: Yes, sir.

HMJr: And tell Elmer that I said that we don't do any subversive. If I'm wrong, I want him to tell me about it.

T: That's right.

HMJr: But he had some conversation with the President. I told him he could read the letter of the President to me.

T: Yes.

HMJr: But in view of what the President said about the department, I didn't want to leave that letter lying around.

T: That's right.

HMJr: But if the President wants to call us off, then I want a formal letter, see?

T: That's right.

HMJr: But Biddle said the only thing he's interested in is that he wants to have entire responsibility for the subversive end.

T: That's right.

HMJr: And he'll be glad to have us do the income tax end.

T: I see.

HMJr: Well.....

T: I'm pretty sure that's what we're doing, but I'll check it.

HMJr: Well, you and Elmer be at his office at four-fifteen.

T: Yes, sir.

HMJr: And give me a written report on what happens.

T: Yes, sir.

HMJr: Thank you.

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE October 13, 1941.

TO Secretary Morgenthau
FROM Mr. Thompson

In accordance with your instructions Mr. Irey and I went to the office of the Attorney General this afternoon. I showed the Attorney General the President's letter of February 28, 1941, in which he directed that investigations in all cases of persons proposed for employment in the several defense organizations requiring investigation be undertaken by the Treasury Department. In this letter the President stated that he wished "you would have your investigative service arrange to handle them very promptly and thoroughly."

In accordance with the President's direction these investigations have had a thorough check, which included a complete character investigation. In the case of dollar-a-year men, the check has been only of income tax returns.

The Attorney General pointed out that in an Act of Congress approved June 28, 1941, it became the duty of the Federal Bureau of Investigation to:

"investigate the employees of every department, agency, and independent establishment of the Federal Government who are members of subversive organizations or advocate the overthrow of the Federal Government, and report its findings to Congress."

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I told the Attorney General that we had understood that law to mean, as it so states, that the Federal Bureau of Investigation was charged with the responsibility for investigating cases where persons are members of subversive organizations or advocate the overthrow of the Federal Government. The Attorney General expressed some doubt as to that limitation and I gathered that he had in mind that the Federal Bureau of Investigation should investigate all cases to develop the facts as to possible subversive activity. Of course, in our investigations when we run into evidence of definite subversive activity or questionable loyalty, we should and do report that to the Federal Bureau of Investigation as required by the statute referred to.

The Attorney General indicated that the whole matter needed study to see that there is no duplication of investigations in these matters, and indicated that he is going to talk to the President about it.

The Attorney General also raised a question as to whether the Treasury or the Federal Bureau of Investigation should make preliminary investigations in cases of alleged subversive activity on the part of Treasury employees. It has been the practice for the Department of Justice to refer such cases to us for advice as to whether the matter warrants investigation by the Federal Bureau of Investigation. Whether or not this practice is to be continued he seemed to be in doubt.

THE WHITE HOUSE
WASHINGTON

February 28, 1941

MEMORANDUM FOR THE SECRETARY OF THE TREASURY:

I have just received a memorandum from Mr. McReynolds to the effect that investigations of persons proposed for employment in the several defense organizations which he has requested of the Federal Bureau of Investigation have been unsatisfactory because of the slowness with which the Bureau was able to handle them. I have, therefore, instructed him to turn over to you all cases requiring investigation and I wish you would have your investigative service arrange to handle them very promptly and thoroughly. McReynolds will make the usual form of request for this work to be performed by the Treasury under authority of the provisions of the Economy Act.



October 13, 1941
3:38 p.m.

HMJr: Hello.

Milo Perkins: Yes, Mr. Secretary.

HMJr: Henry Morgenthau.

P: How are you, sir?

HMJr: Fine. How are you?

P: Just grand, Mr. Secretary.

HMJr: I just wanted to thank you for talking to the Vice-President about that Bankhead matter. It was very nice of you to do it.

P: Well, I had the greatest admiration for your broad shoulders. (Laughs)

HMJr: And.....

P: These are wonderful days. The reward of trying to help your fellow men is to get kicked in the pants, I guess, and just all keep going. (Laughs)

HMJr: But it's borne fruit, and I just wanted to say "thank you".

P: Well, it's damn thoughtful of you to call, and not at all necessary.

HMJr: Well, those are the little things which show you whether you have a few friends in town or not.

P: You've got them.

HMJr: Well, I'd like to think of you as one of them.

P: Well, you know I am.

HMJr: I know.

P: Well, it's just swell of you to call, and I

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deeply appreciate it.

HMJr: Thank you.

P: Good-bye.

HMJr: Good-bye.

October 13, 1941
3:41 p.m.

HMJr: Hello. Hello. Hello.

Operator: She'll put him on in just a second.

Vice-Pres.
Wallace: Hello.

HMJr: Hello, Henry.

W: Yes.

HMJr: How are you?

W: Oh, fine.

HMJr: I just wanted to say to you that Bankhead called me up and was terribly nice about that whole business of what he was supposed to have said about Henderson and me.

W: Yes.

HMJr: And he said that he did it through a mutual friend and I have good reason to believe that you were that mutual friend.

W: Well, you're - I'll say this: you're awfully smart to deduce it, but.....

HMJr: It was terribly nice of you, and I really appreciate it; because one doesn't have many friends in this town, and Bankhead claimed he never said it - that he'd been misquoted - and gave a statement out to the press.

W: Did it get printed?

HMJr: It did not. Those things never catch up. But he showed a nice spirit about it.

W: Yeah. Yes, I know he feels.....

HMJr: He really seemed to be quite upset.

W: Yeah.

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HMJr: But I did appreciate your talking to him, and it's nice to know that one has a few friends in town.

W: By the way, Henry, I sent over to Harry White a proposition to check in his personal capacity.....

HMJr: Yes.

W:that you might possibly be interested in checking into.

HMJr: What's that?

W: Oh, it's an idea I had - sort of a pipe dream - that I thought might help prevent inflation and also give savings to draw on in the future.

HMJr: I see. Well, I'll speak to Harry about it.

W: I thought - he was kind enough concerning it, so I thought it might be worthwhile calling to your attention.

HMJr: Good.

W: If he hadn't spoken kindly about it, I wouldn't have bothered you with it.

HMJr: All right.

W: But he spoke sufficiently kindly in a personal capacity, so I'm inclined to think it might be worthwhile looking into.

HMJr: I'll take it home with me tonight and read it.

W: All right.

HMJr: Thank you.

W: Good-bye, Henry.

HMJr: Good-bye.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE Oct. 13, 1941

TO Secretary Morgenthau
FROM Mr. Haas
Subject: Effect on Total Amount of Debt if Outstanding Guaranteed Obligations are Replaced by Direct

In accordance with your request, I have had prepared and am attaching hereto a table showing the amount by which the direct debt of the United States would be increased if all outstanding guaranteed obligations were retired and refunded by the issuance of direct obligations. The table shows this under two assumptions: (1) that all callable guaranteed issues will be retired at the first call date, and (2) that all such issues will run to final maturity.

Attachment

Amount by Which the Direct Debt Would Be Increased
If All Guaranteed Obligations Outstanding October 1, 1941,
Should Be Retired and Refunded by Direct Obligations*

Date	If Retired at First Call Date	If Retired at Final Maturity
(In millions of dollars)		
December 31, 1941	616	616
June 30, 1942	1,265	926
December 31, 1942	2,736	1,522
June 30, 1943	3,025	1,811
December 31, 1943	3,349	2,135
June 30, 1944	5,743	2,820
December 31, 1944	5,743	3,695
June 30, 1945	6,910	4,107
.....
December 31, 1946	6,910	4,107
June 30, 1947	6,910	5,201
.....
May 15, 1949	6,910	6,036
.....
May 1, 1952	6,910	6,815
.....
March 15, 1964	6,910	6,910

Treasury Department,
Division of Research and Statistics.

October 9, 1941.

* Excludes FHA debentures. The whole amount of these debentures outstanding on August 31, 1941, was \$17 millions. Additional debentures will be issued under existing law from time to time in unpredictable amounts.

MEMORANDUM

October 13, 1941.

TO: The Secretary
FROM: Mr. Sullivan

In response to your inquiry over the telephone about the difficulties the examiners of the Vinson Investigating Committee have been having, I called Mr. Toland, Counsel for the Committee. He advised me it was the Bethlehem Shipbuilding Company which refused to permit the examiners to continue their investigation of the company's books. This examination had been in progress for about three weeks, after a lengthy delay in getting under way, which Toland attributed to the company's desire to weed out the records before permitting the examiners to see them. The examination was going forward under a Congressional subpoena, when a Navy admiral wrote to the Commandants of all shipbuilding yards instructing them not to permit the companies to answer questions in regard to classified contracts. (Toland advises me that practically all contracts are classified.)

When the Committee's examiners were ordered to stop work on the books of the Bethlehem Shipbuilding Company, Mr. Toland arranged a conference with Secretary Knox, which was held on Friday, October 10th. As a result of this conference the instructions from the admiral to the commandants of the shipbuilding companies were withdrawn.

Toland advised me that in one contract the Bethlehem Shipbuilding Company made a profit of 72 percent and has already redrafted this particular contract to reduce the cost to the Government by \$750,000.

Toland stated that the 247 percent profit referred to in the news release had been earned by an instrument company. I asked him if I could get a list of the firms that had made unconscionable profits but he said he could not give it to me without authority from the Committee. However, he said he would be glad to discuss it with me at length at luncheon on Monday, October 13th.

JHS

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

CONFIDENTIAL

DATE October 13, 1941

TO Secretary ~~Morgenthau~~

FROM Mr. Haas ~~HAAS~~

Subject: The Business Situation,
Week ending October 11, 1941

Summary

(1) The seasonally-adjusted index of industrial production for September is now estimated by the Federal Reserve Board at 161, a gain of 1 point over the revised index for the previous month. In September of last year the index stood at 127, and in August 1939, just before the outbreak of the war, it was only 105.

(2) The BLS all-commodity index in the week ended October 4 rose 0.4 point to 91.6, thus equalling the previous high reached in the second week in September. The BLS cost of living index for September, according to confidential preliminary figures, will show the striking increase of 2.0 percent, the highest since the war began.

(3) The seasonal peak in freight carloadings normally occurring during the current month appears almost certain to fall below earlier trade and ICC expectations, apparently because of revised freight handling policies and increased railroad efficiency. As a result, a freight car shortage this season is likely to be averted, although the car surplus will be uncomfortably small at the best.

(4) Steel tonnage scheduled for production last week rose slightly above the previous record high. However, labor troubles and scrap shortages may have cut actual production below scheduled output. The OPM has placed iron and steel scrap under full priorities control.

(5) The scope of the potential curtailment in non-defense activity has been broadened by the limitation on new building construction imposed by SPAB. Total building in 1941, exclusive of repairs and remodeling, is estimated by SPAB at \$11,000,000,000, of which \$6,100,000,000 is non-defense construction. An indefinite part of the non-defense work will be eliminated by the new order.

Industrial production slightly higher

On the basis of preliminary data, the Federal Reserve Board now estimates the seasonally-adjusted index of industrial production for September at 161. This is 1 point higher than the downward-revised figure for the previous month, and contrasts sharply with year-earlier levels when the index stood at 127. In August 1939, just before the outbreak of the war, the index was only 105. Despite the further slight rise last month, the index has shown a distinct tendency to level off since last June, the rise in actual production since that time being only a little greater than the usual seasonal proportions. (See Chart 1.)

The steadiness of the adjusted index of industrial production last month was not matched by the New York Times weekly index of business activity which showed a slightly declining tendency. Moreover, in the week ended October 4, the Times index extended its decline by dropping 0.5 point to 127.7. However, during the same period Barron's index of business activity rose 0.6 point to 139.0.

Some indication of reduced employment in non-defense industries is seen in the September employment report of the New York State Department of Labor. Factory employment and payrolls in New York State during September, for the first time this year, showed less than a normal seasonal gain over the previous month. Employment rose 2.5 percent, as compared with a usual increase of about 2.9 percent, and payrolls rose 3.8 percent against a usual gain of 3.9. Several non-defense plants were reported to have laid off workers due to lack of materials.

BLS all-commodity index higher

The BLS all-commodity index in the week ended October 4 rose 0.4 point to 91.6, carrying it back to the high point reached in the second week in September. In the intervening period, the price index of farm products declined 1 percent, but all other major commodity groups advanced or remained unchanged. The largest advance was a 3 percent gain in the chemicals and allied products group, featured by an advance of 17 percent in prices of drugs and pharmaceuticals. This sharp rise was ascribed partly to the higher excise taxes effective October 1.

Basic commodities lower

The BLS wholesale price index of 28 basic commodities declined 1 percent in the week ended October 10, largely because of reduced prices for domestic agricultural products. Although the index of 11 import commodities declined moderately, the greater part of the decline in the combined index was due to a decrease of 1.2 percent in the domestic commodities group. (See Chart 2.) The drop in this group would have been more marked if a rise of 13 percent in zinc prices, due to the lifting of the price ceiling by OPA in order to stimulate production, had not partially offset declines in other commodities.

Cotton prices declined last week as the Government crop report issued on Wednesday indicated a larger yield than the trade had expected. The October crop estimate of 11,061,000 bales was 351,000 bales higher than the September estimate.

The domestic wheat crop as of October 1 was estimated by the Crop Reporting Board during the week at 961,000,000 bushels, an increase of 3,500,000 bushels over the September 1 estimate. Wheat futures moved lower during the week and now show a rather substantial decline from the recent high reached around the beginning of the month.

New "parity" basis under consideration

A further move toward "inflation by legislation" is seen in the Thomas Bill (S. 1955) to provide a new formula for computing parity prices of farm products, introduced in the Senate on October 6 and referred to the Committee on Agriculture and Forestry. This bill would re-define "parity" by (1) shifting the base period to 1919-1929 from 1910-1914, and (2) using the BLS all-commodity index (1926 = 100) as a measure of changes in the cost of goods bought by farmers. It would also base parity prices on central market price averages, rather than on farm price averages as at present.

From an inflation viewpoint, the bill would have two important influences. It would increase by about 5 percent the current parity prices for agricultural products as a group, although parity prices for some products (notably wheat) would be reduced. This would be significant in view of the "110 percent of parity" limitation on farm product price ceilings in the pending price control bill. Secondly,

and of much greater importance, it would provide a more rapid rise in parity prices, since the BLS all-commodity index (itself heavily weighted with farm products) may be expected to rise more steeply than the present index of costs of goods bought by farmers, which by legislation includes also interest and taxes. The combined effect would be largely to nullify the effectiveness of the price control bill, so far as farm products are concerned.

The extent to which prices of important farm products have advanced above parity, as currently defined, is shown in Table 1. It will be noted that the farm products which were above parity on September 15 included a considerable proportion of the important sources of farm income.

Living costs advance in the United States and Canada

The BLS cost of living index for September, according to confidential preliminary figures, will show the striking increase of 2.0 percent, the highest since the war began. (See Chart 3, upper section.) The cost of living index has increased 6.8 percent since March.

Some indication of the effect of a war economy on living costs may be gained from a review of recent Canadian experience. Figures released last week by the Dominion Bureau of Statistics show that living costs in Canada rose 0.9 percent during August, and have advanced 13.8 percent since the beginning of the war. (Refer to Chart 3.) In comparison, the cost of living index for the United States in September showed a gain of 9.3 percent since the war began.

The rapidity of the advance in food costs during recent months, both in Canada and the United States, is particularly outstanding. (See lower section of Chart 3.) The August index of retail food costs for Canada shows a rise of more than one-fifth (22.2 percent) since the beginning of the war, while food costs in the United States in September had risen approximately 18.5 percent.

Peak freight carloadings below expectations

The sagging tendency in the New York Times index recently has been largely due to the failure of freight carloadings to show the usual seasonal expansion. As a result, earlier trade and ICC expectations of maximum weekly loadings of around 1,000,000 cars this fall are almost certain to be too high, and earlier concern over the ability of the railroads to handle this year's peak traffic will be allayed.

- 5 -

As will be seen by referring to Chart 4, top section, the sharp rise in freight traffic which occurred in the spring subsequently has flattened out. The rise in loadings from the end of June to the beginning of October has amounted to only about 1 percent, in contrast with a normal rise of around 11 percent. This has been due partly to increased railroad efficiency and to changes in freight loading and unloading policies.

The failure of freight carloadings to show the normal seasonal expansion has helped to alleviate the pressure on equipment facilities. Nevertheless, by the week ended October 4, the average daily surplus of freight cars was down to 39,000 cars, as compared with 72,000 a year earlier. Nevertheless, it now appears likely that the fall traffic peak will be passed without any serious car shortage, although the surplus at best will be uncomfortably small.

Railroad equipment orders decline

New orders for freight cars in the past 2 months have fallen considerably below year-earlier levels. (Refer to Chart 4, lower section.) Despite this recent decline, new freight cars ordered for domestic service from the beginning of 1941 until the end of September totalled 109,000 as compared with only 39,000 in the corresponding period of 1940.

Due largely to a lack of steel, railway equipment builders have fallen behind original production expectations and now have huge order backlogs on hand. This lag in production has been viewed with concern, since it is believed that sustained heavy output of new equipment will be needed to meet 1942 peak traffic requirements.

Railroad earnings improve

The heavier volume of traffic in 1941 has been accompanied by a substantial improvement in railroad earnings. Net operating income of Class I railroads in August rose 67 percent above year-earlier levels to a new high since 1929. (Refer to Chart 4, middle section.) Railroad net operating income for the first 8 months of 1941 reached the highest levels since 1930, and the rate of return on property investment rose to 4.12 percent from 2.36 percent in the corresponding period of 1940. Despite the improved showing, however, 29 roads still failed to earn interest and rentals in the period mentioned.

Steel production rises to a new high

Despite the shortage of steel scrap and sporadic labor troubles, steel tonnage scheduled for production last week reached a record high. The operating rate rose 1.2 points to 98.1 percent of capacity. While steel operating rates have reached an even higher percentage of capacity in the past, the actual tonnage slated for production last week exceeded the previous peak by a slight margin, owing to increased capacity.

Trade sources continue to express considerable concern over the shortage of steel scrap, and at the end of the week the OPM issued an order placing iron and steel scrap under full priorities control. Under the provisions of the order, producers, dealers, brokers and consumers are required to make monthly reports to the OPM showing their inventories, sales, etc. On the basis of the information thus obtained, the OPM is expected to work out a general policy for the distribution of scrap under mandatory orders.

Sporadic labor troubles of short duration continue to harass the steel industry. At the beginning of last week, a 2 day strike of CIO crane men at the Gary, Indiana plant forced the Carnegie-Illinois Steel Corporation to halt operations at 12 blast furnaces and 53 open hearths. At the same time operations at the Wickwire Brothers Steel mill at Cortland, New York were curtailed by the first strike in the company's history. A short-lived tie-up in operations also occurred at the Fairfield steel mills of the Tennessee Coal and Iron Company as a result of a strike of machinists and electricians.

Curtailement of non-defense activities broadens

The basis for curtailment of non-defense business activities was widened last week by the action of the Supply Priorities and Allocations Board in placing a ban on all new construction using appreciable quantities of critical materials, if not needed for defense or essential to the health and safety of the people. While much will depend on how the order is enforced, its potential effect may be gathered from the fact that estimated total building in 1941, exclusive of maintenance repairs and remodeling, is expected by SPAB to reach \$11,000,000,000 of which \$6,100,000,000 is non-defense work.

About 1,500,000 workers are estimated to be employed at present in non-defense construction, in addition to 400,000 employed in remodeling, maintenance and repairs. SPAB estimates that the 1941 building program is consuming 13,800,000 tons of steel ingots, of which 6,300,000 tons is going into non-defense work. It is further estimated that this last figure could be cut to less than 3,000,000 tons under the new program.

Earlier last week it was reported that the OPM was expected to order a substantial cut in washing machine production, to be followed by limitations on the output of vacuum cleaners, metal office equipment and air conditioning equipment.

Automobile production and sales below 1940

In line with the curtailment program imposed by OPM, automobile production has been running under year-earlier levels since the beginning of September. Production last week rose 2,000 units to 79,000 -- the highest weekly figure attained thus far in the production of 1942 model cars. Nevertheless, output was still 27 percent under the corresponding week of last year.

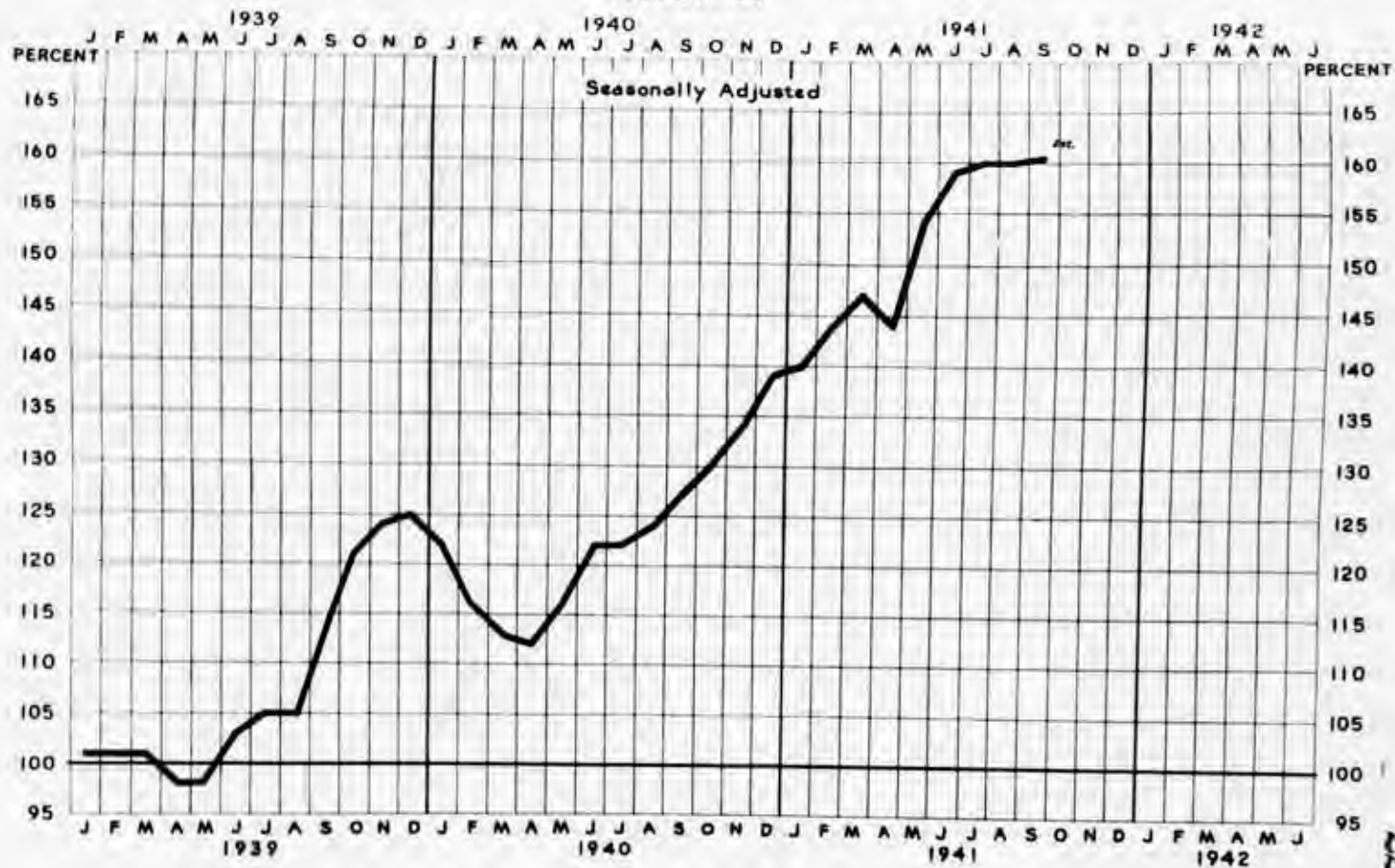
Following the very heavy sales of last spring and early summer, retail sales of General Motors cars dropped sharply in August, and in September reached a new low since September 1938. (See Chart 5.) The low sales figure no doubt was partly due to lack of adequate new car stocks, since stocks at the end of August had been cut to the lowest point since September 1938 and were 41 percent under year-earlier levels. Some preliminary trade reports, however, have indicated that sales of new model cars have not been good, perhaps because of heavy advance buying and because of adverse consumer reaction to sharp price advances. An accurate appraisal of the retail demand for 1942 model cars probably will not be possible until sales results for the current month are available.

New orders index rises as textile buying gains

Due entirely to a substantial rise in textile orders, our new orders index rose 8 percent in the first week in October to the highest levels since the end of August. (See Chart 6.) New orders for steel declined moderately to 114 percent of capacity from 117 percent in the previous week. In addition, orders for all other products than steel and textiles declined 5 percent below the previous week.

FEDERAL RESERVE BOARD INDEX OF INDUSTRIAL PRODUCTION

1935-39=100



Office of the Secretary of the Treasury
Bureau of Economic and Statistics

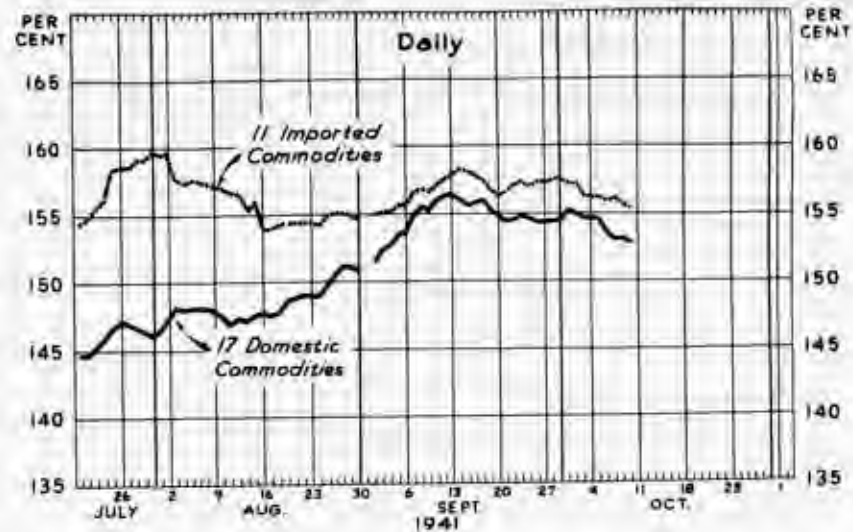
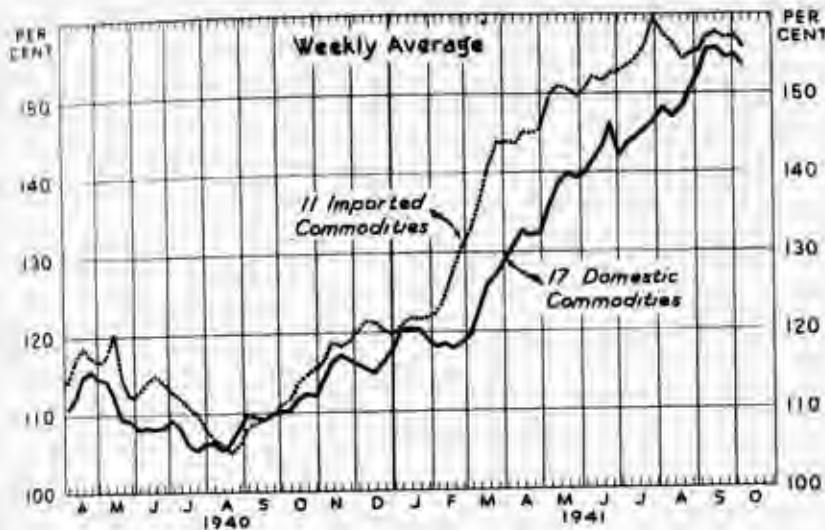
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Chart 1

C-349-2

MOVEMENT OF BASIC COMMODITY PRICES

Domestic and Imported

AUGUST 1939 = 100



Percentage Change for Individual Commodities, August 1940 Low to October 3, 1941, and to October 10, 1941

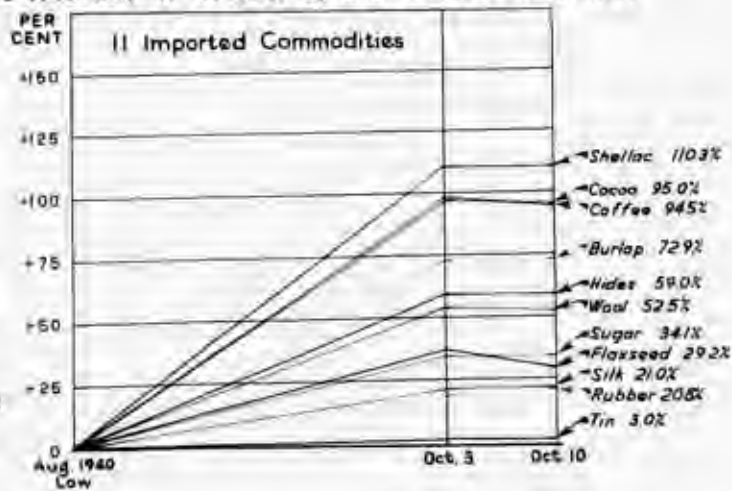
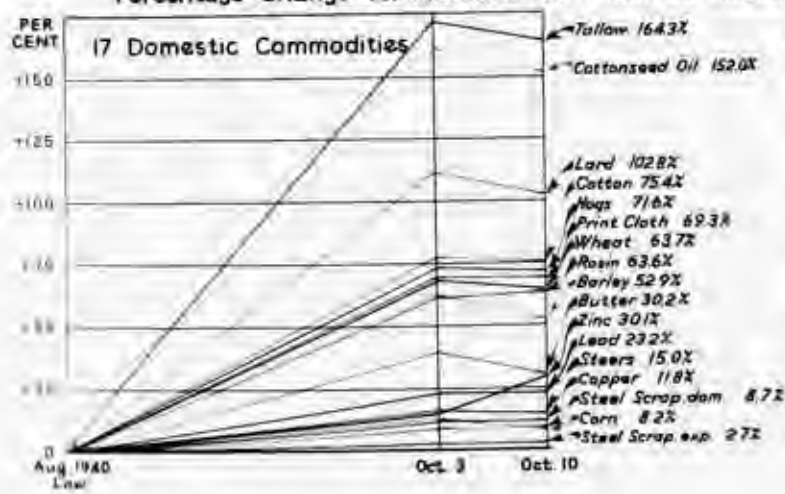


Table 1

Prices received by farmers, as percentage of parity,
September 15, 1941 ^{1/}

<u>Commodity</u>	<u>Percent</u>	<u>Commodity</u>	<u>Percent</u>
Maryland tobacco	168	Corn	80
Cottonseed	161	Flaxseed	80
Wool	145	Rice	80
Beef cattle	131	Wheat	79
Lambs	122	Sweet potatoes	77
Veal calves	122	Oats	73
Hogs	112	Sugar beets	69
Flue-cured tobacco	108	Peanuts	68
Butterfat ^{2/}	107	Potatoes	68
Milk ^{3/}	106	Buckwheat	66
Chickens	104	Apples	64
Cotton	103	Barley	61
Hogs	101	Rye	58
Eggs ^{2/}	91	Sugarcane	55
Turkeys	89	Hay	49

^{1/} Prices received are exclusive of Government payments.

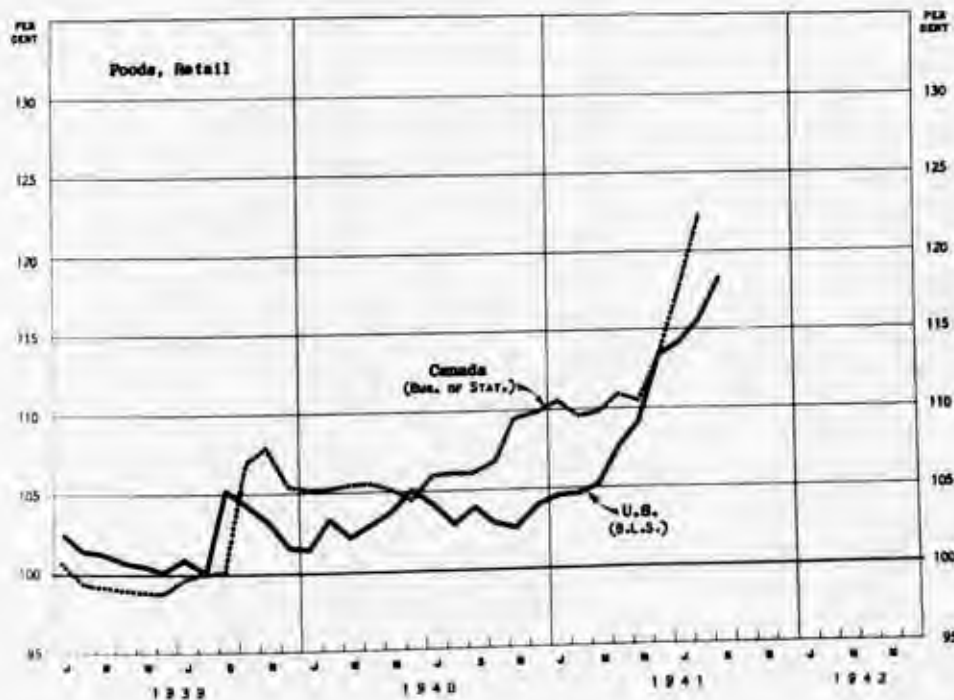
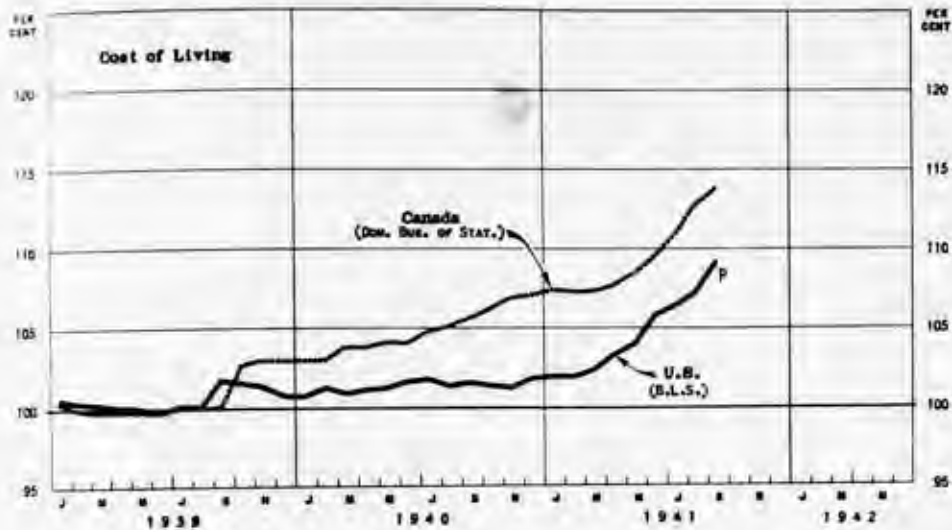
^{2/} Adjusted for seasonal variation.

^{3/} Based on weighted average wholesale price of milk, and milk equivalent of butter and butterfat.

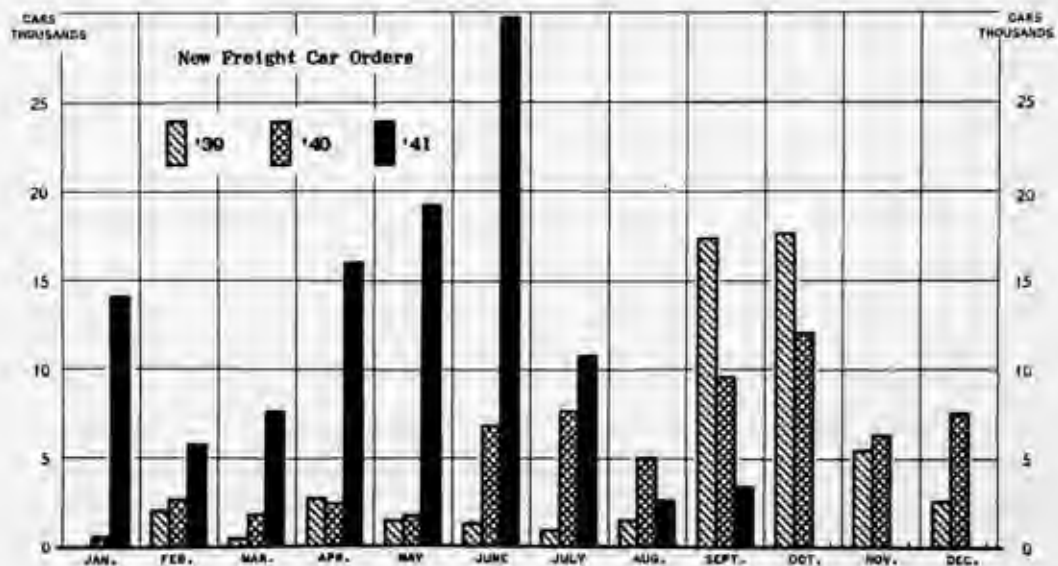
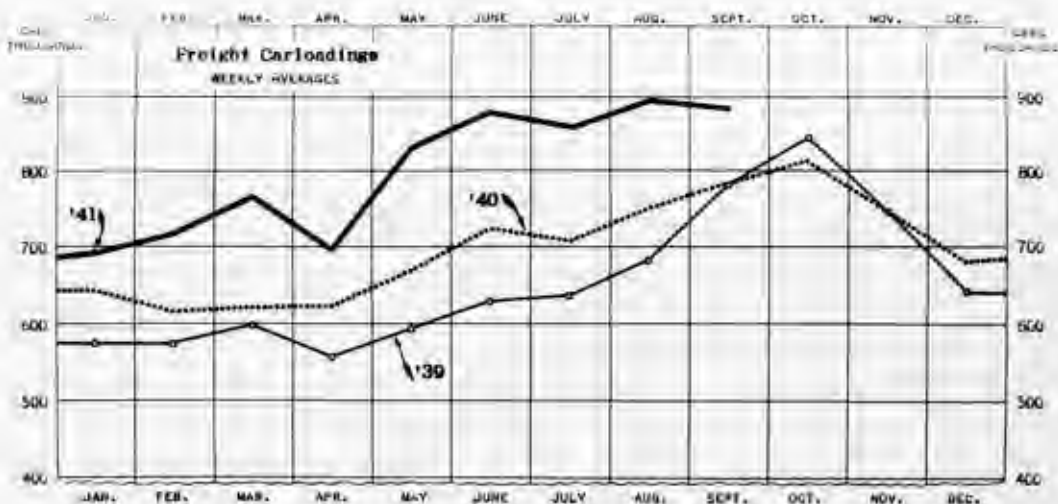
Source: U. S. Department of Agriculture.

COST OF LIVING, U.S. AND CANADA

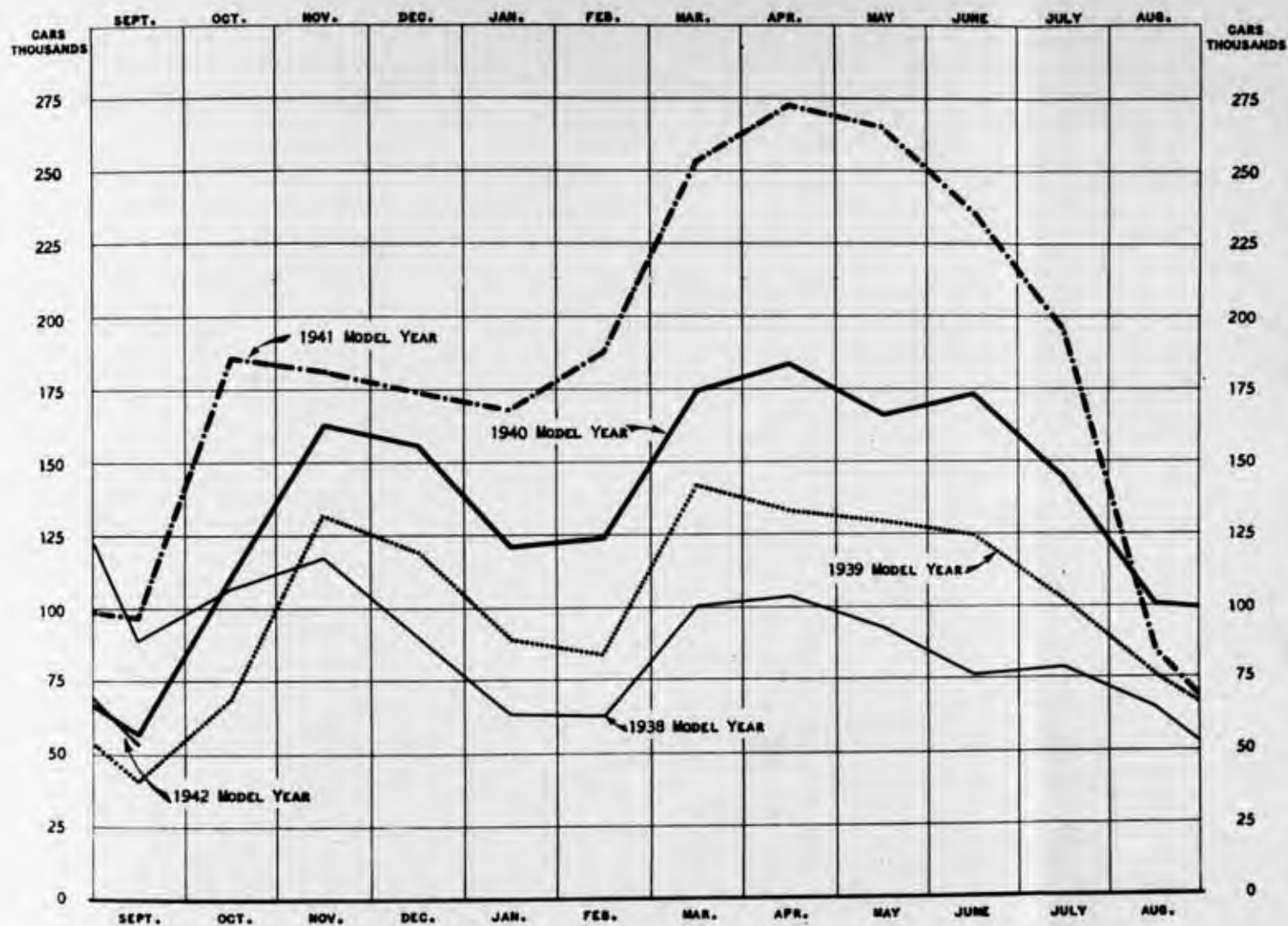
AUGUST 1939 = 100



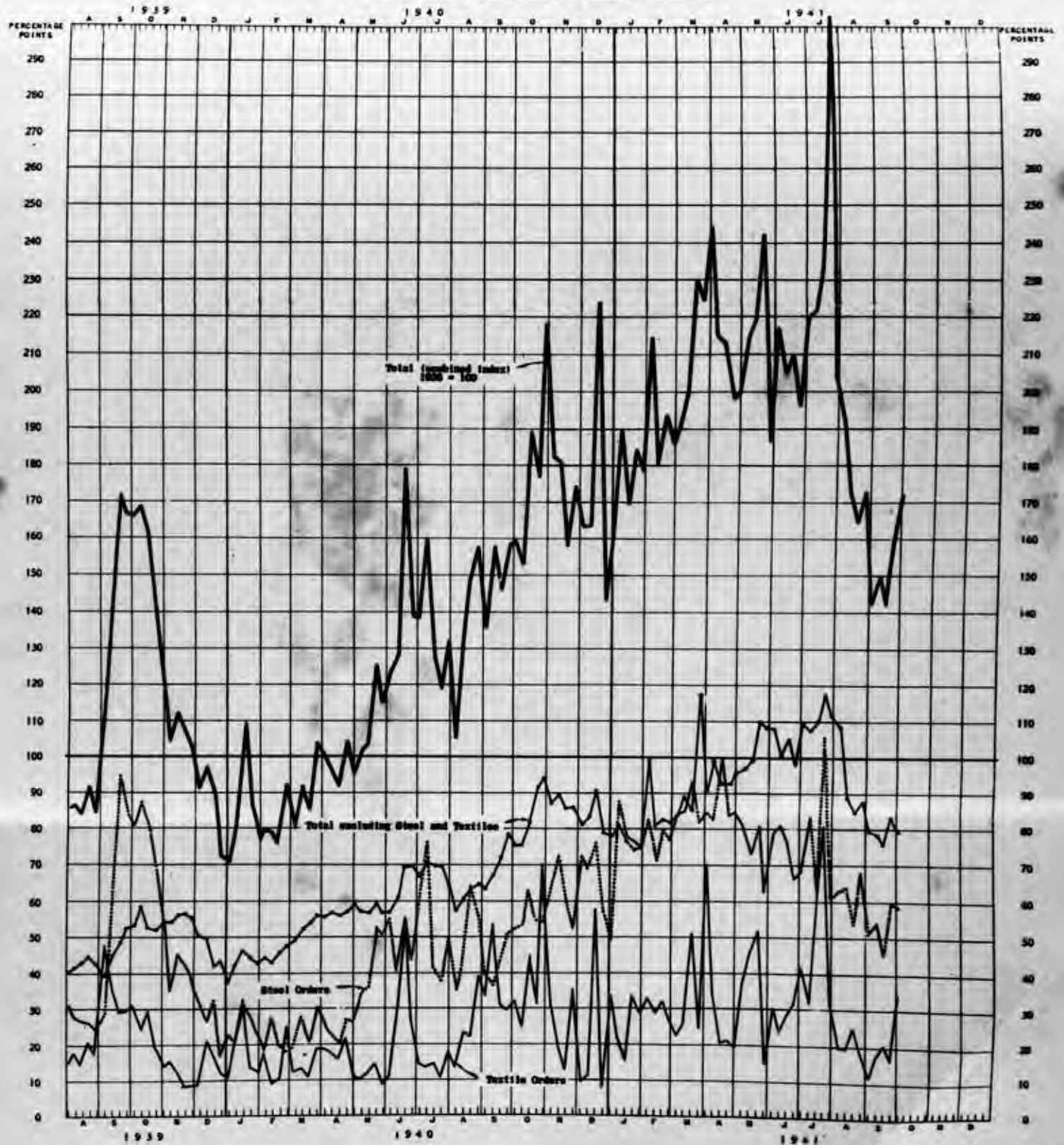
RAILROAD SITUATION



GENERAL MOTORS
Retail Sales of New Cars during Model Years 1938 - '42



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



UNITED STATES SAVINGS BONDS

Comparative Statement of Sales During
First Ten Business Days of August, September, and October, 1941
(August 1-12, September 1-12, October 1-11)
On Basis of Issue Price

(Amounts in thousands of dollars)

Item	Sales			Amount of Increase or Decrease (-)		Percentage of Increase or Decrease (-)	
	October	September	August	October over September	September over August	October over September	September over August
Series E - Post Offices	\$ 17,197	\$ 16,673	\$ 18,311	\$ 524	-\$ 1,638	3.1%	- 8.9%
Series E - Banks	<u>32,198</u>	<u>28,279</u>	<u>33,425</u>	<u>3,919</u>	- <u>5,146</u>	<u>13.9</u>	- <u>15.4</u>
Series E - Total	49,395	44,952	51,735	4,443	- 6,783	9.9	- 13.1
Series F - Banks	9,191	7,225	10,148	1,966	- 2,923	27.2	- 28.8
Series G - Banks	<u>54,152</u>	<u>47,064</u>	<u>64,181</u>	<u>7,088</u>	- <u>17,117</u>	<u>15.1</u>	- <u>26.7</u>
Total	<u>\$112,737</u>	<u>\$ 99,242</u>	<u>\$126,064</u>	<u>\$13,495</u>	- <u>\$26,822</u>	<u>13.6%</u>	- <u>21.3%</u>

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

October 13, 1941.

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

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

UNITED STATES SAVINGS BONDS

Daily Sales - October 1941
On Basis of Issue Price

(In thousands of dollars)

Date	Post Office Bond Sales Series E	Bank Bond Sales				All Bond Sales			
		Series E	Series F	Series G	Total	Series E	Series F	Series G	Total
October 1941									
1	\$ 1,450	\$ 3,029	\$ 1,286	\$ 8,271	\$ 12,587	\$ 4,479	\$ 1,286	\$ 8,271	\$ 14,036
2	1,870	2,786	867	4,324	7,977	4,656	867	4,324	9,847
3	2,150	3,299	1,065	6,323	10,687	5,449	1,065	6,323	12,837
4	1,270	1,696	612	6,400	8,707	2,966	612	6,400	9,978
6	3,449	4,778	1,444	9,286	15,508	8,226	1,444	9,286	18,956
7	1,207	2,595	572	2,913	6,080	3,802	572	2,913	7,287
8	1,363	3,674	821	3,611	8,106	5,037	821	3,611	9,469
9	1,652	4,270	903	3,654	8,827	5,923	903	3,654	10,479
10	1,495	3,672	989	5,272	9,933	5,167	989	5,272	11,428
11	1,291	2,400	632	4,098	7,129	3,690	632	4,098	8,420
Total	\$ 17,197	\$ 32,198	\$ 9,191	\$ 54,152	\$ 95,540	\$ 49,395	\$ 9,191	\$ 54,152	\$112,737

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

October 13, 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.

OCT 13 1941

My dear Mr. President:

I think you will be interested in the "program", prepared jointly by the Post Office and Treasury Departments, for the guidance of postmasters and employees of the Postal Service in promoting the sale of Defense Savings Bonds and Stamps.

Faithfully yours,

(Signed) H. Morgenthau, Jr.

The President,
The White House.

HNG/mff

By messenger Linnard 5 12 pm
10/13/41



PROGRAM

for Guidance of

POSTMASTERS

for **DEFENSE SAVINGS BONDS** and **DEFENSE SAVINGS STAMPS**

AGAIN . . . the Post Office
Department furthers its service to
the Nation . . . through the sale of
Defense Savings Bonds & Stamps

A SHARE OF AMERICA FOR EVERY AMERICAN

Today, America is on guard. A united Nation is engaged in an all-out program of national defense.

These are days in which we are calling on every resource at our command, for the national defense program can be carried through only in terms of men, machines, weapons, materials, and money.

Billions of dollars are needed by the Government for the purchase of airplanes, tanks, guns, ships, munitions of all types, and all the other weapons of modern warfare.

America today faces a more pointed challenge to its freedom and security than has confronted this Nation during any previous period in our national history. The United States Government's answer to this threat from abroad has been the great national defense program on which we are now engaged. This is a program in which each of us and every member of our families have a vital stake.

Our front line of defense in the present emergency may well be termed the post offices of the country. For the Government has called upon the Post Office Department and entrusted to its personnel one of the most important single tasks of the entire defense effort. This is the sale of the National Defense Bonds and Stamps through our post offices. How generously and how nobly the men, women, and even the little children of the country respond to the call of their Nation in its hour of need depends in a large degree upon you postmasters and those under your supervision.

It is the duty of every postmaster and postal worker handling Defense Bonds and Stamps to see that complete and comprehensive information relative to the Bonds and Stamps and what they mean to the Government in terms of national defense is placed before every patron served by your respective post offices.





This is not to be a high-pressure campaign in any sense of the word. This is an appeal to the patriotism, to the thrift and to the future security of the people of this country. It is an appeal to them to Buy a Share in America and at the same time to increase their own savings and protect the future security of themselves and their families.

The Post Office Department in cooperation with the Treasury Department has formulated a program for the dissemination of information and the educating of the American public with respect to the Bond and Stamp Program. This program and the manner in which it is to be carried out by the Postal Service is contained in the following pages. It is the duty of every postmaster to insure the success of this program by adhering to these instructions.

With this in mind, I feel certain that there will be no doubt as to the Post Office Department and the American public generally responding in a most generous and whole-hearted manner to the Bond and Stamp Program.


I have every confidence in the postmasters and the postal personnel to do a splendid job during the critical months that lie ahead.

Contained in these pages is a definite and comprehensive program for you to follow together with the supporting material and instructions as to what will be expected of you from time to time during the various stages of this program.



Frank C. Walker

POSTMASTER GENERAL



He stands for Safety and Freedom, and sales of Defense Savings Bonds and Stamps

The Minute Man is the emblem of America arming for Defense. Shown on the Stamps themselves, on the Bonds, on the Stamp Albums, on posters, in newspapers and magazines—everywhere, the Minute Man is the symbol of "America on Guard"—on guard against attack—on guard against inflation—on guard against public indifference to the imminent need for wholehearted financial and moral support of the country's Defense Savings Program. More than two and one-half million Minute Man posters in various sizes have been distributed to post offices, banks, retail establishments, industrial plants, etc. Wherever you go you will see the Minute Man, serving as constant reminder to buy Defense Savings Bonds and Stamps.

By sheer repetition of his direct command, "Buy United States Defense Savings Bonds and Stamps" the Minute Man keeps the public everlastingly conscious of the part they can play in providing the money needed so urgently for national defense.



Most important for us to remember is the fact that practically every Minute Man display, no matter where it stands, is directing the public to our offices as the place to go for Defense Savings Bonds and Stamps. Every person that is halted by the Minute Man has this impressed upon him—

**"ON SALE
AT YOUR POST OFFICE"**

our **FIRST** job . . . **FOR** **ALL OF US**



Be Patriotic

Be Thrifty

Buy a Share in America

In all our country's history Postmaster General Benjamin Franklin, Father of the Postal Service, has typified thrift and belief in America. A voluntary, wholehearted participation in a regular savings program by all postal employees might well find its inspiration in his example and teachings.

Leading business firms in the country have adopted plans for systematic savings by employees. The labor unions are urging their members to buy Defense Bonds and Stamps regularly. The employees of the Postal Service who are going to carry forward this program in the interest of national defense should themselves be provided with the opportunity to participate in this program. By the example we set, others may be inspired to increase their efforts to save and to invest their savings in America.

The United States Treasury Department has devised and put in operation throughout the Treasury Service a plan for the voluntary, periodic purchase of Defense Savings Bonds and Postal Savings Stamps by its employees. The Treasury Department recommended that the plan be used generally throughout the Government Service. The Post Office Department examined the plan and presented it to the official representatives of each of the Postal Service organizations for consideration. These representatives unanimously recommended that the Treasury Department plan, modified only to conform to conditions peculiar to our Service, be adopted and placed in operation throughout the Postal Service as soon as practicable.

Accordingly, a Post Office Department Employees' Voluntary Purchase Plan was formulated jointly by the Department and the official representatives of the Service organizations. The desire of the organizations expressed through their representatives, to have this program of systematic savings placed in operation, is gratifying and it undoubtedly will receive the whole-hearted and patriotic support of everyone in our great service. Not only does the plan afford an opportunity of aiding the Government in this real emergency, but it provides a splendid means of investment and of developing habits of thrift.

Once this plan is available throughout the Service and the proper facilities are provided for the participation of each employee in each unit of the Service, postal employees will respond patriotically and set a stimulating example for others.

Detailed instructions relative to the Post Office Department Employees' Voluntary Purchase Plan will be sent to you at an early date and the plan should be placed in operation immediately thereafter. Copies of the published instructions should be posted on bulletin boards for the information of all employees. A requisition form will accompany this pamphlet and as soon as possible after receipt, postmasters should indicate thereon the number of copies of the printed instructions needed for posting, and send the requisition by ordinary mail to the Third Assistant Postmaster General, Division of Postal Savings, Washington, D. C.



our **SECOND** job

. . . . **DISPLAY**



. . . . **a Defense window**

Postmasters at offices authorized to sell Defense Savings Bonds and Postal Savings Stamps will be furnished with one or more sets of window display pieces for use in the main office and in stations and branches where these securities are sold. Three types of displays will be provided—for windows at which only Bonds are sold—for windows at which only Stamps are sold—and for windows at which both Bonds and Stamps are sold.

Window displays will be prepared in such forms that they can be adapted to the type of windows with which the office is equipped, so that window signs, such as "Postal Savings," "Money Orders," and "Stamps" will not be concealed.

A requisition form will accompany this pamphlet and as soon as possible after receipt, postmasters should indicate thereon the number of window displays of each type needed, and send the requisition by ordinary mail to the Third Assistant Postmaster General, Division of Postal Savings, Washington, D. C.

... in our Lobbies



You will be furnished with one or more sets of display pieces consisting of placards and directional arrows for your public lobbies. There will be two types of directional arrows—one directing patrons to windows where bonds are sold, and one to windows where stamps are sold.

You should indicate on the accompanying requisition form the number of placards and directional arrows of each type needed at your office, including stations and branches, and send the form promptly by ordinary mail to the Third Assistant Postmaster General, Division of Postal Savings, Washington, D. C.





... on our Trucks

During the coming year, five or six different posters will be furnished to be mounted on trucks at offices where Motor Vehicle Service is established. The posters will be 22 by 28 inches and will be specially treated to prevent damage from the weather.

The first series of these posters is now available for distribution and postmasters at offices where Motor Vehicle Service is established should indicate on the accompanying requisition form the number of truck posters needed. The requisition should be sent by ordinary mail to the Third Assistant Postmaster General, Division of Postal Savings, Washington, D. C.

Postmasters will be informed when other posters of this series are ready for distribution and advised as to the manner in which requisition should be made.

... on our Letter Boxes



You will be furnished with placards to be used in the advertising card frames on No. 1 and No. 2 street letter boxes. The placards should be used on all boxes equipped with the advertising frames.

You should indicate on the accompanying requisition form the number of street letter box advertising cards needed at your office and send the form promptly by ordinary mail to the Third Assistant Postmaster General, Division of Postal Savings, Washington, D. C.


our **THIRD** job . . .

**Educate YOUR STAFF SO THEY MAY
Inform PATRONS ACCURATELY
AND COURTEOUSLY**



. . . the man at the window must know the answers!

It is the duty of the postmaster to see that clerks assigned to Defense Savings Bond and Postal Savings Stamp Windows are thoroughly familiar with all matters pertaining to these securities and with all literature relating thereto. It is essential that patrons be served rapidly, intelligently, accurately, and courteously.

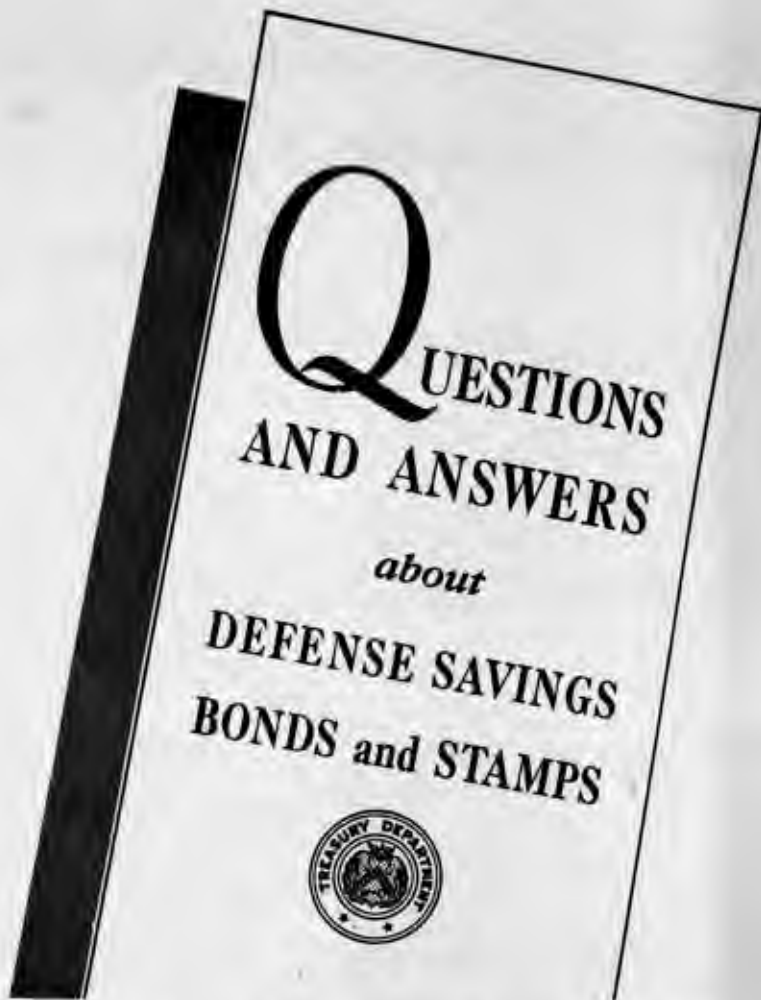


**Questions and
Answers about
DEFENSE SAVINGS
BONDS and STAMPS
for use by
POSTAL EMPLOYEES**



You will be furnished for use by your Window Clerks, a Manual containing questions and answers concerning Defense Savings Bonds and Postal Savings Stamps, designed to provide them with authoritative answers to all of the questions with which they will be confronted in their work. You should see to it that there are sufficient copies of the Manual available for this purpose.

A requisition form will accompany this pamphlet and as soon as possible after receipt, you should indicate thereon the number of Manuals needed, and send the requisition by ordinary mail to the Third Assistant Postmaster General, Division of Postal Savings, Washington, D. C.



Illustrated above is a six-page folder containing answers to the usual questions that people ask about Defense Savings Bonds and Stamps. This folder has been furnished as a handout piece not only to people who inquire about Bonds and Stamps, but also to patrons who call at your post office windows. It would be very helpful if a small supply of these folders were handed out at each window where business is transacted. These folders can also be distributed in lock boxes and by other means which may suggest themselves to you.

Indicate on the requisition form which accompanies this manual the number of these folders which you will require and send the requisition by ordinary mail to the Third Assistant Postmaster General, Division Postal Savings, Washington, D. C.

Postmasters will be advised very shortly about a series of informative literature which we plan to distribute by letter carriers, village carriers, and rural carriers to twenty million homes in the United States.

The greatest volunteer program ever launched

by Ear



In May, June, and July, 845 individual radio stations broadcast 234,182 radio announcements for Defense Bonds and Stamps. On commercial programs such as Kraft Music Hall, Quiz Kids, Fred Waring, Bob Hope Show, and Fibber McGee and Molly, 326 special announcements have been broadcast. All this in addition to three network radio roundtables, the Treasury Department's own three programs, "The Treasury Hour," "For America We Sing," and "America Preferred" on three major networks, addresses on stamps and bonds by Secretary Morgenthau, Under Secretary Bell, Assistant Secretary Graves and many others.

with Pictures



Since April 18, 19 separate motion picture films have been produced and released to over 12,000 theaters who are showing them to more than 70,000,000 people per week. These films consist of eight newsreel shots, seven trailers on feature pictures, one eight-minute short subject and three skits in feature pictures. A 16-millimeter 10-minute, sound film has been produced for use by schools, clubs, and organizations.

in Type



The Banks of the country have run more than a half-million dollars' worth of advertising on Defense Savings Stamps and Bonds in three months and are continuing a similar program. Leading Shopping Newspapers have run more than 125,000 lines in May, June, and July. Many magazines have printed feature articles and cover messages on Defense Bonds and Stamps. All this is in addition to thousands upon thousands of lines of publicity for the Defense Savings Program in every printed medium.

THE POSTMASTER'S JOB

Postmasters will be responsible for carrying out the program of the Post Office Department as it is outlined in this manual.

The Treasury Department is setting up State and Local organizations and the postmaster may serve as a member (but not as chairman) of any committee on which he is invited to serve. He is to cooperate with the work of that committee and with the work of the Treasury Department's organization representative of the United States Defense Savings Staff, but not to an extent which will interfere with his duties as postmaster.

In other words, the postmaster's participation should take the form of **cooperation with**, rather than **initiation of**, activities in his local community. Individuals and firms should be requested to submit requisitions direct to the local Defense Savings Staff Committee for any display material, etc., which they may desire, or, if such a committee does not exist, to the State Administrator. If neither a local nor a State organization is available, requisitions by the public should be submitted direct to the Defense Savings Staff, U. S. Treasury Department, Washington, D. C.



79 Mr Govt
Cable

THE WHITE HOUSE
 WASHINGTON

Oct. 13-1941

16. WUL
 C-K-1040 pm

NOLL COWARD
 SANDY HOTEL
 LONDON
 (ENGLAND)

WE HAVE JUST HEARD YOUR
 RECORDS OF "LONDON PRIDE"
 AND "CAN ANYONE OBLIGE
 US WITH A BREN GUN" AT
 HOUSE
 THE WHITES WHICH WERE GIVEN
 TO THE PRESIDENT BY LORD
 MOUNTBATTEN WOULD
 LIKE YOU TO BROADCAST
 THESE SONGS OVER NATIONWIDE

THE WHITE HOUSE
WASHINGTON

HOOK-UP UNDER AUSPICES
OF THE TREASURY ON
OCTOBER 21ST BETWEEN
NINE AND TEN PM NEW-
YORK TIME DETAILS SHOULD
BE ARRANGED BY REPRESENTATIVE
OF NBC ~~BE~~ WOULD
APPRECIATE A REPLY CARE
OF TREASURY WASHINGTON

Henry Clay Hall Jr.

(Change to Up Treasury Dept)

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 13, 1941

TO Secretary Morgenthau
FROM Mr. Haas *BA*

Employment under the Work Projects Administration showed a slight decline of 1,000 persons, to 1,032,000 for the week ended October 1, 1941.

Attachments

WORKS PROJECTS ADMINISTRATION
Number of Workers Employed - Weekly
United States

Week ending 1941	Number of Workers (In thousands)
February 5	1,892
February 12	1,893
February 19	1,885
February 26	1,867
March 5	1,806
March 12	1,764
March 19	1,736
March 26	1,708
April 2	1,662
April 9	1,634
April 16	1,607
April 23	1,586
April 30	1,560
May 7	1,519
May 14	1,497
May 21	1,474
May 28	1,464
June 4	1,442
June 11	1,423
June 18	1,410
June 25	1,368
July 2	1,172
July 9	1,030
July 16	1,016
July 23	1,025
July 30	1,036
August 6	1,041
August 13	1,042
August 20	1,043
August 27	1,045
September 3	1,043
September 10	1,037
September 17	1,035
September 24	1,033
October 1	1,032

Source: Work Projects Administration

WORK PROJECTS ADMINISTRATION
 Number of Workers Employed - Monthly
 United States

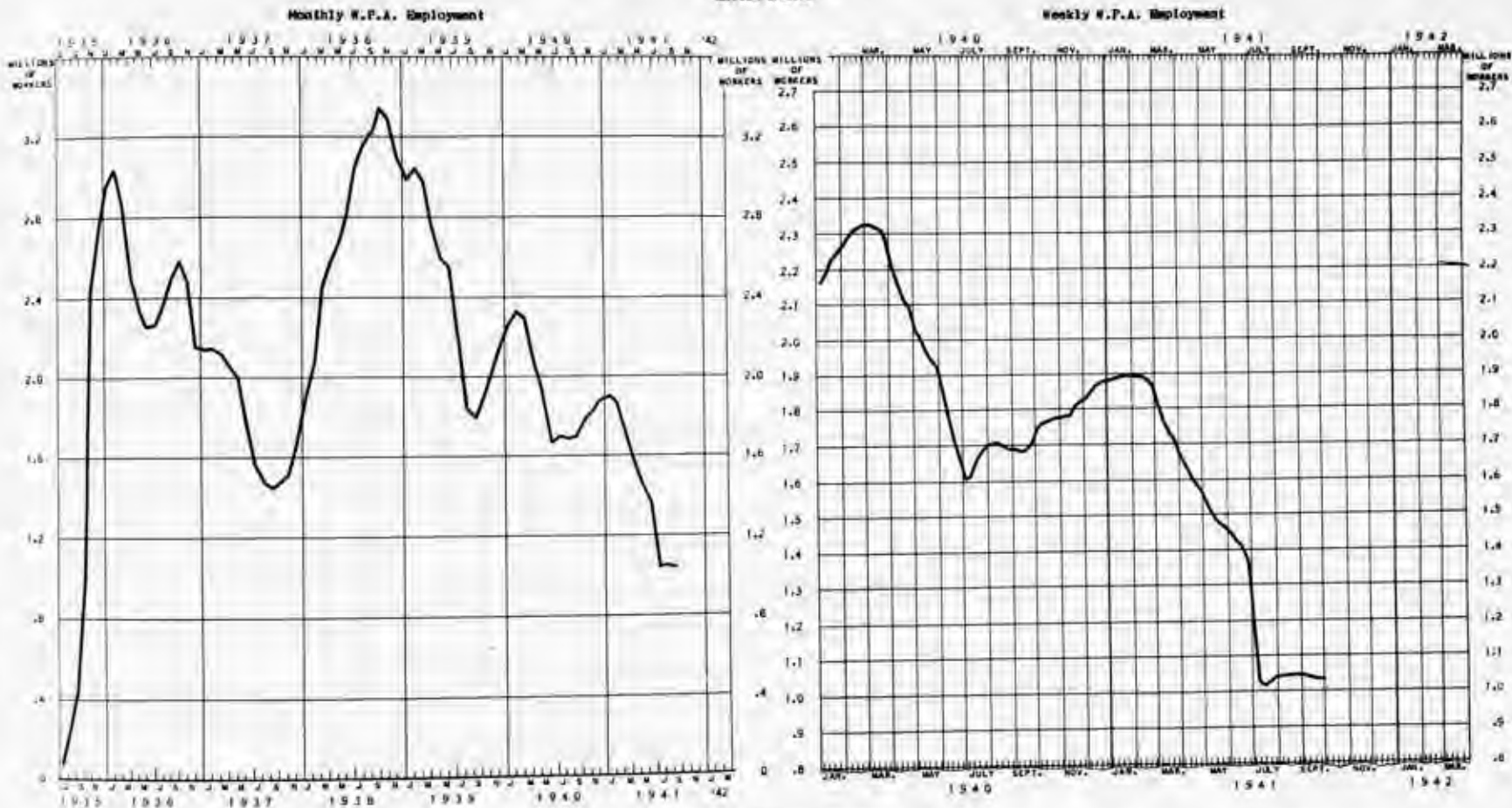
	Number of Workers (In thousands)
1939	
January	2,986
February	3,043
March	2,980
April	2,751
May	2,600
June	2,551
July	2,200
August	1,842
September	1,790
October	1,902
November	2,024
December	2,152
1940	
January	2,266
February	2,324
March	2,288
April	2,092
May	1,926
June	1,665
July	1,701
August	1,691
September	1,704
October	1,779
November	1,821
December	1,878
1941	
January	1,895
February	1,867
March	1,708
April	1,560
May	1,464
June	1,368
July	1,036
August	1,045
September	1,033

Source: Work Projects Administration

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

They include certified and noncertified workers.

WORK PROJECTS ADMINISTRATION
Number of Workers Employed
United States



SOURCE: WORK PROJECTS ADMINISTRATION

TREASURY DEPARTMENT

242 ✓

INTER OFFICE COMMUNICATION

DATE October 13, 1941

TO Secretary Morgenthau
FROM Messrs. Foley and Pehle

As of the opening of business October 13, 1941, there were 4365 pending applications in the Foreign Funds Control.



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

243

Week ended October 11, 1941

	: JAPAN :	RUSSIA	: SPAIN :	GREAT BRITAIN
PETROLEUM PRODUCTS				
Fuel and Gas Oil (including Diesel Oil)	--	--	--	493,500 Bbls.
Crude -				
Blended or California High Octane Crude*	--	--	--	--
All Other Crude	--	--	--	--
Gasoline -				
Gasoline A**	--	199,481 Bbls.	--	514,000 Bbls.
Gasoline B*	--	--	--	922,780 Bbls.
All Other Gasoline	--	--	--	32,000 Bbls.
Lubricating Oil -				
Aviation Lubricating Oil***	--	17,367 Bbls.	--	58,700 Bbls.
All Other Lubricating Oil	--	--	--	84,275 Bbls.
Tetraethyl Lead***	--	--	--	--
"Boosters", such as Iso-Octane, Iso-Hexane, or Iso-Pentane	--	--	--	--
SCRAP IRON AND SCRAP STEEL				
Number 1 Heavy Melting Scrap	--	--	--	2,568 Tons
All Other Scrap	--	--	--	3,800 Tons

Office of the Secretary of the Treasury, Division of Research and Statistics.
 October 13, 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.

Hotel Richemond,
Geneva.

13 October 1941.

Personal

My dear Mr. Secretary,

Some information has come my way showing that the Nazi party in Germany itself is to some extent honey-combed with Communism.

I have it from a University source that the German students here, of whom a number have remained, are Communists almost to a man. The other day, some Nazi party members, come from Germany to visit a Trade Fair in Switzerland, were in Geneva. They delivered messages to the German students here from Communist headquarters in Germany, to the effect that the students were to carry on as at present for the time being, and that they would get fresh instructions some time in November.

A little story from Rome: A Fascist in uniform was struck by a civilian, in a bus, and then by another civilian. After arrest, Civilian A said the Fascist had trod on his corns. Civilian B said that when he saw the other fellow hit the Fascist, he thought the hour had come.

With kind greetings,

Yours sincerely,

Royall Tyler
Royall Tyler

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

**BRITISH AIR COMMISSION**

1785 MASSACHUSETTS AVENUE

WASHINGTON, D. C.

TELEPHONE HOBART 9000

PLEASE QUOTE

REFERENCE NO. _____

With the compliments of Sir Henry Self,
who encloses weekly Statement No. 21, with
reference to aircraft flight delivery as
at October 13, 1941

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

October 13, 1941

1. B-17C

20 in U.K.

2. B-24's and LIBERATORS

- (a) Six diverted B-24's off Contract A-5068
6 in Service
- (b) Liberator I off Contract F-677
19 in U.K.
1 at Kansas City
20
- (c) Liberator II off Contract F-677
4 in U.K.
12 at Montreal
7 at Detroit
1 en route Detroit
1 at Wright Field
2 at Albuquerque, N. M.
8 at Akron
4 en route Long Beach from Akron
13 at Long Beach
52

3. HUDSON V LONG RANGE

166 in U.K.
2 at Gander
36 at Debort (training)
1 at Montreal en route Debort
1 at Detroit en route Debort
7 at Montreal
3 at Kansas City
6 for U.S.A.A.C. Familiarization Program
222*

4. HUDSON III LONG RANGE

208 in U.K.
8 at Montreal
20 for U.S.A.A.C. Familiarization Program
1 en route March Field
1 at Long Beach
238 **

5. CATALINAS

78 in U.K.
9 in Singapore
16 in Australia
9 at Dartmouth
1 in Bermuda
113

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

ZONE	B-17	B-24	Lib.I	Lib.II	Hudson V	Hudson III	Catalina	Total
UNITED KINGDOM	20	6	19	4	166	208	78	501
Canada					2			2
Alia							16	16
Singapore							9	9
Dartmouth							9	9
Bermuda							1	1
Debort					36			36
Montreal en route Debort					1			1
Detroit en route Debort					1			1
Montreal				12	7	8		27
Detroit				7				7
En route Detroit				1				1
Akron				18				18
Wright Field				1				1
Albuquerque, N. M.				2				2
Kansas City			1		3			4
U.S.A.A.C. Familiarization					6	20		26
En route March Field						1		1
En route Long Beach from Akron				4				4
Long Beach				13				13

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE October 13, 1941

TO Secretary Morgenthau

FROM Mr. Bell

AWB STRICTLY CONFIDENTIAL

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

	<u>No. of Shares Sold</u>	<u>\$ Proceeds of Shares Sold</u>	<u>Nominal Value of Bonds Sold</u>	<u>\$ Proceeds of Bonds Sold</u>
Oct. 6	220	26,026	18,500	16,396
7	440	27,845	16,000	12,705
8	325	10,926	23,000	16,333
9	359	11,633	9,000	5,177
10	359	12,882	21,000	13,229
11	Nil	Nil	Nil	Nil
	<u>1,703</u>	<u>89,312</u>	<u>87,500</u>	<u>64,500</u>
Sales from Feb. 22, 1940 to Oct. 4, 1941	<u>9,811,938-1/2</u>	<u>280,620,686</u>	<u>45,193,216</u>	<u>37,118,673</u>
Total Feb. 22, 1940 to Oct. 11, 1941	<u>7,816,641-1/2</u>	<u>280,709,998</u>	<u>45,280,716</u>	<u>37,183,173</u>

TREASURY DEPARTMENT

248

INTER-OFFICE COMMUNICATION

DATE October 13, 1941

TO Secretary Morgenthau

FROM Mr. Bell

SWH STRICTLY CONFIDENTIAL

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

	<u>\$ Proceeds of Shares Sold</u>	<u>\$ Proceeds of Bonds Sold</u>	<u>Total</u>	
Oct. 6	26,026	16,396	42,422	
7	27,845	12,705	40,550	
8	10,926	16,993	27,919	
9	11,633	5,177	16,810	
10	12,882	13,229	26,111	
11	<u>Nil</u>	<u>Nil</u>	<u>Nil</u>	
	89,312	64,500	153,812	
Sales from Feb. 22, 1940 to Oct. 4, 1941	<u>280,620,686</u>	<u>37,118,673</u>	<u>317,739,359</u>	
Total Feb. 22, 1940 to Oct. 11, 1941	<u>280,709,998</u>	<u>37,183,173</u>	<u>317,893,171</u>	317,893,171
* proceeds of non-vested securities sold Sept. 29, 1941 to Oct. 4, 1941			700,000	
* proceeds of non-vested securities sold Sept. 1, 1939 to Sept. 27, 1941			<u>234,000,000</u>	
* proceeds of non-vested securities sold Sept. 1, 1939 to Oct. 4, 1941			<u>234,700,000</u>	<u>234,700,000</u>
			GRAND TOTAL	<u><u>552,593,171</u></u>
9 Units sold from Aug. 18, 1941 to Oct. 11, 1941 for				\$42
11 Shares Stock Dividend sold from Aug. 18, 1941 to Oct. 11, 1941 for				\$123
55,572 Rights sold from July 24, 1941 to Oct. 11, 1941 for				<u>\$102,590</u>

DEPARTMENT OF STATE
WASHINGTON

In reply refer to
EA 841,24/886

October 13, 1941.

My dear Mr. Secretary:

There is enclosed herewith a message for you from the American Ambassador in London. The records of this office show that copies of the despatch in question were sent to you immediately upon receipt, but as of possible convenience a further copy is enclosed.

Sincerely yours,

/s/ Herbert Feis

Herbert Feis
Adviser on International
Economic Affairs

Enclosures:

1. No 4857 of October 11
from London.
2. No. 4782 of October 8
from London.

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

Copy:hr:10-13-41.

C
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P
Y

PD

GRAY

London

Dated October 11, 1941

Rec'd. 1:24 p.m.

Secretary of State,
Washington.

4857, October 11, 5 p.m.

FROM THE AMBASSADOR FOR THE SECRETARY OF THE
TREASURY.

Your 4324, October 9, 3 p.m. received. Since
my 4348, September 17, I have forwarded to the
State Department a message number 4782, October 8,
11 a.m. Please ask that a copy be sent to you
for your information.

WINANT.

HPD

Copy:hr:10-13-41.

KD

GRAY

London

Dated October 8, 1941

Rec'd. 6:35 a. m.

Secretary of State,
Washington.

4782, October 8, 11 a. m.

Your 4262, October 6, 9 p. m. as it relates to my 4348 to Secretary Morgenthau.

I am glad to hear that the inter-departmental advisory committee to handle problems growing out of the Eden memorandum has been established. I am also glad to know that the State Department and the Division of Defense Aid Reports with the Treasury Department are represented on this committee. I feel sure that the procedure developed will meet the needs of the situation. I doubt the wisdom of sending an officer to London to serve in a liaison capacity with the British Board of Trade and agree that the problem of short supply alone would be a serious obstacle to any such plan.

There are other reasons that also prompt me to write on this matter. There was certainly an inclination after the signing of memorandum on Lend-Lease exports to encourage exporters to get guidance from

-2- #4782, October 8, 11 a.m., from London.

from this Embassy. There were also proposals that a special committee with Embassy representation be set up with the idea of ironing out on short notice interpretations of the agreement (or alternatively that the London branch of the United States Chamber of Commerce be designated to function in this capacity). If this work were thrown on the Embassy we would have no time for anything else. It would mean that the Embassy at a difficult time would find itself in constant friction with export merchants in this country and at the same time making decisions affecting United States exporters three thousand miles away from our base. The Board of Trade would be constantly tempted to use us here as a buffer in making decisions for which they are responsible and in the end we would find that the practical policing of the agreement would fall upon the Embassy staff.

I have insisted that the administration of this export arrangement is being handled in the United States and I hope very much that you will continue to support me in maintaining this position.

WINANT.

EF

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Y

253

DEPARTMENT OF STATE
WASHINGTON

October 13, 1941

In reply refer to
EA 840.51 Frozen Credits/3831

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and transmits herewith copy of despatch 998, dated August 23, 1941, from the American Consulate General at Hong Kong concerning the effect of Hong Kong's entry into the sterling bloc and of the recent American and British orders freezing Chinese assets.

Enclosure:

Despatch no. 998 from Hong Kong,
August 23, 1941.

AMERICAN CONSULATE GENERAL

Hong Kong, August 23, 1941.

Confidential

Subject: Effect of Hong Kong's entry into the Sterling bloc and of the recent American and British orders "freezing" Chinese assets.

The Honorable

The Secretary of State,
Washington, D.C.

Sir:

I have the honor to report on the subject of the recent "freezing" orders and the action of the British authorities in placing Hong Kong in the Sterling bloc. Now that nearly one month has elapsed, it is pertinent to report the initial effect of the new policy, together with local comment thereon from informed sources. The following comment has accordingly been prepared by Consul John H. Bruins of this office.

United States Executive Order no. 8389 as amended by E. O. 8785 of April 10, 1940 and by E. O. 8832 of July 26, 1941, froze Chinese and Japanese assets as from June 14, 1941. Hong Kong Order no. 895 of July 30, 1941, froze Chinese assets. Hong Kong's entry into the "Sterling bloc" became effective August 2, 1941. Both the American and British orders freezing Japanese assets and the Japanese retaliatory action are not discussed in the

present despatch in view of their negligible effect on trade between Hong Kong and the United States.

As already reported, the initial effect of the foregoing was to cause a standstill in any new foreign trade commitments in Hong Kong until the pertinent administrative measures became known. There were also mild runs on local banks by Chinese who withdrew considerable sums. The run lasted less than two days and did not embarrass any of the banks.

There has been very little criticism or adverse effect from the American freezing order because of the exemption therefrom of transactions with the Chinese Government and because of General Licenses nos. 58 and 59 under which bona fide foreign trade between the United States and China may continue to be financed. Some inconvenience has been caused by the fact that some Hong Kong banks transferred their U.S. dollar accounts to their United States branches or correspondents several months ago because of the uncertain situation in the Far East. Most of these accounts were in Chinese names, and such owners now find their funds blocked in the United States. This action was taken by local banks in the supposed best interests of their clients, who are now inclined to criticize the action since most of such funds were for personal uses. The Chase Bank and the Kinchong Banking Corporation are among those who took this action.

Some criticism of the British orders has appeared, first because of the confusion caused by the initiation of "freezing" and entry into the Sterling bloc at almost the same time, and second, over the policy involved in the inclusion of Hong Kong in the Sterling bloc. Mr. D. Kelvin-Stark, Hong Kong Controller of Exchange admitted to the writer in a recent conversation, that the new regulations are so complicated that he has practically ignored the British "freezing" order and confined his action to the new sterling policy in view of his opinion that it transcends the former.

There is no doubt but that trade between Hong Kong and China has been adversely affected by the entry of Hong Kong into the Sterling bloc. Because of the effective Japanese blockade of the South China coast, this trade is now mainly between Hong Kong and Shanghai. Hong Kong buys much more from Shanghai than is sold to that port. This adverse trade balance would normally be equalized by remittances which are now impossible. Local coverages of payments are possible under the new regulations in so far as they balance, but at present no excess of purchases by Hong Kong appears to be possible. The American Express Company made an arrangement whereby Sterling was transferred from its London office to Shanghai account for debit to the Hong Kong office which in turn is repaid for the import of goods in Hong Kong dol-

lars. The latter is now a British controlled currency. The National City Bank and the Chase Bank also attempted this arrangement but were denied by the Hong Kong authorities. This is doubtless one of the details of the new regulations which needs standardization.

From such information as is available, it appears that the British banks are thus far getting most of the business which represents trade up to the point where it balances. None of the banks can make payments for goods imported without a special permit. For the present, the policy is to allow payments for foodstuffs and other "essential" requirements, but to refuse them for most other imports including all luxuries. The Chinese banks in Hong Kong consist of four Government banks (only two of which engage in exchange business with the public) and a large number of commercial banks. The latter appear to be hard hit by the new British regulations. The Hong Kong Controller of Exchange stated confidentially to the writer that many of the Chinese banks are carrying on for the present by smuggling large quantities of notes back and forth between Hong Kong and Macao. He added that the Hong Kong Government staff available here is utterly inadequate to cope with this matter, and that no attempt has been made thus far to search travellers going to and from Macao.

The "Sterling bloc" order gasetted July 31st effective August 2nd also extended the obligation to offer

foreign holdings to the local Government in exchange for sterling. Previously this applied only to British subjects. The amendment made it applicable to all persons. Thus all Americans in the Colony are supposed to report their holdings wherever situated after which the Hong Kong Government may, at its convenience, require such assets to be surrendered against payment in Sterling at the official rate. The local Government has not gotten around to the enforcement of this provision, although it is stopping telegraphic orders for trading in securities abroad. Some doubt has been expressed in informed quarters whether the local Government can legally compel local Americans to surrender their holdings which are now in the United States which in most cases would cause material deterioration in value.

Some criticism has arisen from the withholding of remittances from abroad. Many Chinese both in Hong Kong Colony and in adjacent South China receive regular remittances from the United States, Canada and the West Indies. Normally such remittances were cashed in Hong Kong into local currency which passed along into the surrounding territory. Under the new British regulations, such money cannot be sent out of Hong Kong. This also tended to remove support from the Chinese National dollar. However, this matter has now been arranged by permitting Hong Kong banks to remit to the interior amounts up to 75% of their normal previous transactions of this character.

The Stabilization Board of China offered sterling and American dollars in Shanghai on August 18th at rates below the open market, for certain legitimate trade purposes. This had no direct effect in Hong Kong where payments normally occur in Hong Kong dollars. The American banks in Hong Kong state that their Shanghai branches did not have room enough in their vaults for the large quantity of Chinese currency obtained from the sale of American dollars at the advantageous rate.

Local criticism centers mainly around the policy of placing Hong Kong in the Sterling bloc. It is argued that Hong Kong is almost totally dependent for its income on transit trade to and from China, and that inclusion in the Sterling bloc cuts off an important part of this trade. The Colony is not a producing center, but it is primarily a trading point. In so far as trade is cut off, the Colony does not prosper. This point of view was repeated privately to the writer by Mr. W. H. Evans Thomas, Manager of the Chartered Bank of India Australia and China. He added that in his opinion the order emanated from the belief in London that the Colony would otherwise become a leakage point for Empire Sterling resources. He gave it as his opinion that such is not the case and that exactly the opposite may occur, namely that the curtailment of business here may result in the Colony becoming a financial liability instead of an asset.

A similar statement was made privately by Mr. Kan Tong Po, Chief Manager of the Bank of East Asia, probably the largest non-Government Chinese bank in Hong Kong.

Summary: From the foregoing, the following conclusions may be drawn:

(1) The multiplicity of new financial regulations within a few days caused great confusion in Hong Kong, and a temporary stoppage of new trade commitments;

(2) No ill effects have been observed in the Colony attributable to the American order freezing Chinese assets, other than the unfortunate but well-intentioned action on the part of some banks which transferred considerable sums to the United States in recent months;

(3) Considerable reduction in the trade of the Colony is expected as a result of its inclusion in the Sterling bloc;

(4) Not only British subjects but all persons must now report their foreign holdings for possible later surrender in exchange for sterling at the official rate;

(5) Remittances from abroad are accepted for distribution into adjacent territory up to 75% of normal requirements;

(6) Many competent observers believe that the inclusion of Hong Kong in the Sterling bloc was a mistaken policy, and that the action, because of its adverse effect on trade, may even result in the Colony becoming

a financial liability to the Empire instead of an asset.

Respectfully yours,

Addison E. Southard
American Consul General

Distribution:

In quintuplicate to Department;
Copy to Embassy, Chungking;
Copy to Embassy, Peiping;
Copy to Consulate General, Shanghai.

800
JHB/g

Copy:bj:10-17-41

EMBASSY OF THE
UNITED STATES OF AMERICA

No. 173

Chungking, October 13, 1941

Subject: Transmitting Memorandum Regarding the Price Problem and
Financial Policy in Unoccupied China.

AIR MAIL.Strictly Confidential.

The Honorable
The Secretary of State,
Washington, D.C.

Sir:

I have the honor to transmit herewith a copy of a strictly confidential memorandum that was prepared at the request of General Chiang Kai-shek by Dr. Arthur N. Young, financial advisor to the Government of China, regarding the price situation in unoccupied China and containing suggestions for improving the nation's financial position. At the time Dr. Young furnished the Embassy with a copy of his memorandum he specifically requested that it be treated as strictly confidential with regard both to contents and source.

In discussing the memorandum with Dr. Young a few days ago he told an officer of this Embassy that he was informed that the Generalissimo had found the memorandum very interesting and was taking measures to have the suggestions studied. Dr. Young was encouraged by this report and therefore intends to follow up the matter and endeavor to have his recommendations adopted.

Summary of Memorandum.

Prices have increased twelve-fold since 1937. This increase is attributed to scarcity of commodities and a poor crop in 1940 but inflation is the fundamental cause. Strict control of further increase in note issue is therefore the chief remedy. The recommendations suggested in order to check inflation are increased taxation, abandonment of the proposal for Government monopolies, increased borrowing from the public, borrowing from the commercial and provincial banks and control of their credit, economy in Central Government expenditures, economy in military budget, reorganization of Government offices, control of provincial development schemes and special efforts to control inflation in Yunnan.

Recommendations similar to those in Dr. Young's memorandum have been discussed at considerable length recently by individuals interested in the

inflationary tendency in China and the nation's deteriorating financial position but there have been no indications that the Government is prepared to follow a policy along such general lines. Following the recommendations adopted at the Third Financial Conference held at Chungking in June of this year (as reported in my despatch no. 54 dated July 2, 1941) there has been an attempt to improve the tax structure with a view to increasing the country's revenue. The collection of the land tax in kind and the issuance of food treasury certificates are two measures that have been introduced already (see my despatch no. 168 dated October 8, 1941). Recently provisions have been made as well for increasing the salt revenue (as reported in my despatch no. 145 dated September 18, 1941). These efforts during the past few months are highly commendable but there still exists possibilities for increasing the national revenue which are not utilized. The proposed salt monopoly plan has been abandoned and there is no evidence of progress in instituting other monopolies.

Borrowing from the banks and public affords only a limited field for government financing in as much as the capital assets in this area have been tapped now for over a period of four years. Even in the matter of food treasury certificates (a type of borrowing from the public) the authorities admit that they are faced with difficulties which may cause them to abandon any measures to enforce this scheme (see my despatch no. 168 dated October 8, 1941).

Economy in Government administration has not received serious official consideration. Deficit financing provides an easy means of obtaining funds and there has been little attempt to cut down requests for additional appropriations. Considerable sums of money are spent on development projects, both national and provincial, that do not contribute in any way to the war effort.

Although China's financial condition has reached a critical state there is no immediate danger of collapse but remedial measures are imperative in as much as the present state of affairs cannot be allowed to continue indefinitely. Consequently effective reforms along the lines of those recommended by Dr. Young deserve the serious consideration of the Ministry of Finance.

Respectfully yours,

C. E. GAUSS

C. E. Gauss

Enclosure: 1/ Copy of memorandum, as stated.

Original and one copy to the Department by air mail.
Three copies to the Department by pouch.
One copy for the Division of Commercial Affairs by pouch.
One copy for the Consulate General at Shanghai.
One copy for the Embassy at Peiping.

851
JJM/cwo

Copy:hmd:11/27/41

Enclosure No. 1 to Despatch No.
173 dated October 13, 1941 from
the Embassy, Chungking.

Strictly Confidential

Chungking, September 23, 1941

THE PRICE SITUATION AND FINANCIAL POLICY

By Arthur N. Young, Financial Adviser

The present situation

Average prices in eight leading cities of China roughly doubled in the first two years of war. But now they are roughly six times as high as two years ago, that is, a twelve-fold increase since 1937. Added to the ravages of war, this increase has caused enormous hardship to the people and confronts the Government with the necessity of doing everything possible to ameliorate conditions and check the deterioration.

What has the future in store? Some indication of possible developments is had by comparing prices in China and in some of the European countries during the war of 1914-18. The following is a summary taken from a more detailed table annexed hereto:

	Europe, 1914-20*			China, 1937-41		
	France	Italy	Austria**		Average 8 cities	Chung- king
July, 1914	100	100	100	July, 1937	100	100
June, 1915	142	141	179	June, 1938	122	135
" 16	186	210	382	" 39	191	220
" 17	268	331	616	" 40	504	560
" 18	329	452	1,560	" 41	1,100 ^x	1,658
" 19	329	390	3,009			
" 20	493	687	5,552			
Dec. 20	435	712	8,918			
" 21	326	647	84,000			
" 22	362	630	1,553,000			

In China, price movements in the first two years of war were much like those in France and Italy. These countries, though suffering severe financial difficulties, got through their crises without collapse.

*The extreme and unprecedented inflation in Germany is not cited here because of its special causes and unusual development. See table annexed.
**Retail food prices in Vienna through 1920; thereafter another series of Austrian retail prices is continued, based upon the former index. See table annexed.
^xEstimated.

- 2 -

and prices there at no time went higher than the level obtaining in China about a year ago, say a 7-fold increase. But China's price history in the second two years follows more nearly the pattern of Austria, which later had a serious collapse and got through only after prolonged suffering and having to call for an international salvage operation. No one can safely predict, on the basis of what happened elsewhere, what may come in China or what future price movements may be. But if China goes the way of Austria, in four years it will take \$1,000 to buy what \$1 buys today. Every possible effort must be made to avoid such a development.

In another month China's war will have lasted as long as the war of 1914-18; but the end is not yet in sight. China therefore must still sustain itself to reap the rewards of its valiant fight, - especially now that China has access to far-reaching foreign aid, and may have allies against Japan.

The diagnosis of China's price problem is not difficult. At times scarcity of goods, notably the short crop of 1940, and breaks in the exchange market have greatly stimulated the price rise. Throughout, war dislocations and especially difficulties of transport have played a large part. But the fundamental cause is the constantly growing increase of currency. Probably China now has nearly ten times as much currency in circulation as in 1937. It is not only the increase of fapi. There is also the circulation of provincial and commercial banks, of the Red Army, et cetera; and of puppet notes, the Federal and now the Central Reserve Bank, military yen and the like. The price increase has somewhat outrun the increase in circulation; but this is explained by the scarcity of goods, difficulty of transport, reduced demand for money because of impaired trade, and diminished confidence in money which leads people to spend it more rapidly and thus has the same effect as actual increase in the quantity issued.

Thus by far the greatest cause of the price difficulty is the heavy issue of fapi as the result of financing the war mainly by borrowing from the four Government banks. The remedies therefore have to be sought chiefly in the strictest possible measures to control the further growth of fapi issues. Other measures such as price control, rationing, encouragement of production et cetera are only palliatives. They can be applied only to a limited extent under actual conditions, and cannot much influence the main trend in China as a whole.

Roughly there are two main sorts of remedial measures:- first, to get back from the public as many as possible of the fapi already issued, and spend them again instead of issuing more; and, second, to refrain religiously from issuing more fapi than absolutely necessary. Although the broad lines of the problem are so simple, practical measures are not easy. And the problem is complicated because many persons and organizations

- 3 -

asking for funds do not see that, while deficit financing in the present manner is not difficult for a time, it will eventually break down if unmodified. Private trade will go largely to a barter basis. A Government relying mainly on bank borrowing will not be able indefinitely to obtain the goods and services it needs.

The better crops this fall should help to check the recent rapid rise in prices. This, it is hoped, may give a brief breathing spell which the Government can use for reform. But unless drastic action is promptly taken, runaway inflation cannot be avoided.

Recommendations

1. Increased taxation. This is a two-edged sword in checking inflation. By getting back fapi, the Government can expend them again instead of issuing more. Also the public's ability to bid up prices is lessened, because their purchasing power is reduced by the amount they pay to the Government. Success of the program of the Ministry of Finance to increase revenue is of vital importance. The Government has been receiving from taxation only about 5-10% of its total expenditure. The salt tax has been increased as from September 1, and the yield is expected to increase from \$100 million to \$930 million yearly. The land tax should be even more productive, and prompt progress with this reform is properly a major objective of the Government. But results will be disappointing unless an efficient organization is built up. The staff should work according to a carefully prepared plan, be properly trained and supervised, and in particular be adequately paid in order to attract good men and keep them contented and loyal. Personnel could be drawn partly from other branches of the Government whose work is less essential. Further proposals re taxation are made in the following section.

2. Government monopolies. The scheme to put into effect monopolies of salt, sugar, tea, wine, tobacco and matches calls for a large expenditure. A capital expenditure of over \$1,500 million in the first year for salt alone has been estimated. For all these products, the capital expenditure would run into billions, and for a long time is likely to exceed greatly the possible revenues.

From the financial viewpoint, therefore, it is very important at this time not to proceed with any of these schemes in order to save expense. It will be far better to concentrate on collecting substantial tax revenue from all of these goods, rather than to take steps towards monopoly. Moreover, from the economic standpoint, the carrying out of the scheme will result in dislocating the established trade and causing loss to many, aggravating the economic hardships of the war and causing criticism of the Government. Besides, the ordinary Chinese trader working for profit is most resourceful and hard-working, and will carry on these trades much more efficiently than any Government bureau.

Detailed knowledge of these trades is very specialized, and (except as to salt) is not possessed by any existing Government organization. Either the Government monopolies would have to use inexperienced men who would take long to learn the job; or bring in men of the trade who would tend to work more for themselves than for the Government. The available good administrators are needed for land tax and other important activities. Especially in time of war, it is wise to concentrate on solution of existing problems rather than needlessly to create new ones to be solved.

3. Increased borrowing from the public. Direct borrowing is difficult because, with the currency depreciating, people hesitate to buy bonds payable in fapi. Yet means for direct borrowing should be sought. Schemes for savings bonds and the like are good, as far as they go. The scheme of rice certificates is based on a sound idea because holders are partly safeguarded against receiving at maturity money with smaller buying power, but may prove difficult to apply in practice. Other possible means to safeguard lenders should be explored, but taking care to avoid action that would hurt confidence in the currency.

4. Borrowing from commercial and provincial banks, and control of their credit. An important indirect means to tap the savings and income of the public is to borrow from banks other than the four Government banks. Even though it involves difficult political problems, efforts should be made to induce provincial and private banks to invest deposits in loans to the Government, or at least to control their credit so that they employ these funds for really essential purposes. Otherwise such funds may be used largely for unessential ends, or even for speculation and hoarding, thus bidding up prices and competing with the Government for essential labor and materials.

5. Economy in Central Government civil expenditures. The forthcoming budget gives a new opportunity for reform. War expenditure must of course be given priority, but postponable expenditure should be strictly curtailed. The guiding principle of the forthcoming budget, and for all requests for extraordinary outlays, should be the paramount need for strict economy in order to check the price rise by diminishing the increase of fapi issues. Lately Government offices have been invited to prepare their estimates of funds desired for a Three Year Plan. Most offices have an understandable desire for expansion, in view of China's vital urge for economic, social and cultural development and the great needs that indisputably exist. Moreover, the amounts asked will be exaggerated because of the belief that budgets will be cut down before finally approved. Therefore we may expect a program to be presented calling for huge expenditures, which the country cannot now afford. Furthermore, there is a shortage not only of many materials but of skilled and even common labor, directing and technical skill, and of means of transportation. To provide fapi to be spent for purposes

that are not necessary creates competition with essential activities of the Government. Not only does it reduce the supply of goods and labor available for these activities, but it bids up the prices.

The real issue is a choice between, on the one hand, giving priority to war needs and measures of reform that are needed to prevent the war economy from going to pieces, and, on the other hand, diverting China's resources to a variety of lesser purposes at the risk of probably economic and financial disintegration. It is therefore of vital importance to establish firmly the principle that there is to be no expansion of activities of any Governmental organization, or addition to staff, unless clearly proven necessary for the war effort. In particular, the Central Government's capital outlay of all kinds should be closely scrutinized, so that projects not closely related to the war effort, involving any considerable expenditure of fapi, will be postponed.

6. Military expenditures. While of course there can be no reduction in really important war expenditure, the question arises whether there is room in the huge military budget for economy that would not impair defence. For example, could a program be adopted of having a smaller but better trained and equipped personnel? Could physically unfit men be eliminated? Could provincial forces that serve no real need be reduced? If so, not only would total payments be reduced, but also labor would be set free for increased production of food and other essential work, thus indirectly checking the rise of prices.

7. Reorganization of Government offices. Many officials are devoting their attention to schemes for expansion and to get and spend more public funds, but few are studying the organization of the Government, as to how it may be improved and consolidated, and how the different offices can perform their work more efficiently, and what unnecessary offices might be eliminated. Nor what personnel of existing offices are on the job and doing useful work, and what are merely "supernumeraries", who either draw pay for no work or for only nominal work. Sooner or later the multiplication of useless offices and the padding of payrolls with useless or worse than useless men will have to be studied and drastic action taken. It would seem better to tackle this problem now, not only to benefit from the economy but also to improve the Government's organization when there is so much vital work to be done, rather than later when the wartime organization will have to be out down. Creation of a small but impartial commission of very able and public-spirited men to analyse the functions and work of the different offices and recommend reorganization is recommended. As an immediate measure, now that the cost of living is rising and officials are mostly underpaid so that the work is suffering, the several departments could well be told to reduce numbers and curtail unessential work so as to save funds that could be used to give a proper living salary to those engaged in the really important activities and whose work is good. It is poor economy to have responsible work done by persons not paid a living wage.

8. Control of provincial development schemes. Most provinces have schemes of economic development and expansion of activities that call for large use of funds, much of which must come from subsidies from the Central Government or from loans. Recently two large-scale schemes of development have been announced, the Szechuan-Sikong Development Co. and the Yunnan three-year economic program. There are similar schemes in Kiangai and Kansu. Such schemes might be useful if strictly limited to undertakings of immediate importance to the war effort. But they do China more harm than good if the projects either are unnecessary or, if useful, they cannot be finished in time to be of value in the war. Not only do they add needlessly to the circulation of fapi and aggravate the price rise, but they compete with the Central Government for the limited supply of labor, material and transport. Any increase in provincial expenditure, therefore, whether through the budgets or through development companies or bank credit should be most closely scrutinized in the light of the principles herein outlined.

9. Special effort to control inflation in Yunnan. The unavoidable need for heavy expenditures in Yunnan for the Burma Road, the new railway, purchase of tin, and military purposes creates a special danger of serious inflation. In the past, Yunnan has been a danger spot in which price rises first showed themselves before extending to the rest of China. The Central Government is now spending there over \$40 millions monthly. As railway building is pressed after the wet season, and as the road is paved and other improvements made and traffic increased, this figure soon may grow to well over \$100 millions, even on the basis of the present price level. Central Government revenue in Yunnan, however, is not more than say \$5 million monthly.

In these circumstances, special effort is warranted to try to prevent the situation in Yunnan from getting out of hand. There is first the obvious need for all possible economy in expenditure of both the National and Provincial Governments, and postponement of all but essential development schemes. Also there should be every possible economy in private capital outlay, and strong control of the credit of all banks, otherwise the limited supply of materials and labor will be diverted to less essential purposes and prices needlessly bid up. The revenue system in Yunnan should be overhauled to raise more revenue and since the land tax in Yunnan is to remain a provincial revenue for the present, the province might assume a larger share of the costs of pending projects. Requisitioning of labor, while ordinarily a doubtful expedient, is apparently advisable in Yunnan. Furthermore, payments in foreign currency might be substituted to some extent for fapi - not in the actual circulation, but for some transport costs et cetera and perhaps partly for payment for tin for export if found practicable. A deal with the provincial authorities covering these various matters seems wise. They would naturally want a quid pro quo. One thing that could be offered them is financial aid, including foreign currency, for reconstruction after the war. A detailed scheme could be worked out as a basis for negotiations with the provincial authorities, if these suggestions are agreeable in principle to the Government.

Chungking, September 23, 1941

Comparison of indices of wholesale prices in China, 1937-41, and in certain European countries, 1914-18.

Note. All European data are from European Currency and Finance, by John Parke Young, except that the figures for Austria, 1914-20, are from Die Preisentwicklung wichtiger Lebensmittel and Bedarfsartikel in Wien, 1914-20, by Klezl.

	France	Italy	Germany	Austria ^x	China 8 cities 1937 average	Chung- king
1914						
July	101	100	99	100	July 100	100
Dec.	124	114 ⁺	125	131	Dec. 107	103
1915					1938	
June	142	141 ⁺	139	179	June 122	135
Dec.	179	200 ⁺	148	247	Dec. 152	173
1916					1939	
June	186	210 ⁺	152	382	June 191	220
Dec.	215	249 ⁺	151	562	Dec. 317	348
1917					1940	
June	268	331 ⁺	172	616	June 504	560
Dec.	313	395 ⁺	203	828	Dec. 764	1,187
1918					1941	
June	329	452	209	1,560	June ^{xx} 1,100	1,658
Dec.	353	403	245	2,854		
1919						
June	329	390	308	3,009		
Dec.	423	497	803	4,587		
1920						
June	493	687	1,380	5,552		
Dec.	435	712	1,440	8,918		
1921						
June	325	553	1,370	13,400		
Dec.	326	647	3,490	84,000		
1922						
June	325	584	7,030	306,000		
Dec.	362	630	147,480	1,553,000		
1923						
June	409	618	1,938,500	1,827,000		
Dec.	126,160,000,000,000	000,000,000	000,000	1,948,000		

- x There are available no series of price data for Austria except, (1) cost of food necessities in Vienna, 1914-20, and (2) retail prices of 52 commodities from 1921, based on January 1921 as 100. In the absence of other data, the first series has been extended after 1920 by taking the December 1920 figure, 8,918, as equal to 100 in the second series. Figures for 1914-20, except the first and last, relate to the month after that specified above.
- ‡ Figures relate to the month following that specified above.
- xx Estimated from incomplete data.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, (Paris) Vichy

DATE: October 13, 1941, noon

NO.: 1289

The following telegram is from Matthews for the Treasury Department:

I saw Couve de Murville yesterday, when he came to Vichy on one of his periodic visits to this capital. Couve is one of several officials in the Ministry of Finance here who are still completely sympathetic to the cause of the Allies.

I asked him why the French governmental authorities now are trying to get the United States to unfreeze enough funds from their accounts in New York for the servicing of their foreign loans during the whole of the next calendar year. His reply was that they had two motives:

(1) A possible future rupture in the relations between Vichy and the US is feared.

(2) The probable entry of the United States into the present war - to use his own words - may cause Germany to stop them from paying service on these debts.

In view of the foregoing, he told me that he and his colleagues are anxious to complete all the required details right now so that full service for 1942 will be assured - I understand that their plan includes some \$4,000,000 in amortization

- 2 -

amortization payments. Then if the French Government must later on send out instructions - at the instance of Germany - that payment of service on debts is to end, the instructions need not be heeded and the fiscal agents can continue payments without hindrance; in this case the agents would be Morgan and Company,

LEAHY.

EA:LWV

RECEIVED
OFFICE OF THE
DIRECTOR
MAY 11 1942

RESTRICTED

G-2/2657-220; No. 517 M.I.D., W.D. 11:00 A.M., October 13, 1941.

SITUATION REPORTI. Eastern Theater.

Ground: The situation on the entire front is extremely obscure.

The sieges of Leningrad and Odessa continue.

Heavy fighting is still taking place around the pockets of Vyazma and Bryansk. German High Command claims that their advance continues and that the above pockets lie well to the rear of the front line. The Russians claim the German advance is being slowed down and have checked the German advance 18 miles north of Orel.

There is no information available from the Kharkov area.

Along the Sea of Azov, the Germans claim to be continuing their advance.

II. Western Theater.

Air: British reports claim 300 bombers in action last night from the Baltic to the Southern Alpine border. Bremen and Nurnberg were two of the many targets. Germany admitted heavily increased activities.

Manchester and Hull were reported as the main targets of German effort.

III. Middle Eastern Theater.

Ground: There are indications of increased Axis activity at Tobruk which may presage a general attack.

Air: Italian sources report another attack on Tobruk while the R.A.F. in this theater claims to be concentrating against Italian shipping.

RESTRICTED

October 14, 1941
9:30 a.m.

GROUP MEETING

Present: Mr. Buffington
Mr. Bell
Mr. Barnard
Mr. Thompson
Mr. Morris
Mr. Haas
Admiral Waesche
Mr. Kuhn.
Mr. Graves
Mr. Johnson
Mr. Sullivan
Mr. Viner
Mr. Schwarz
Mr. Foley
Mr. White
Mrs. Klotz

H.M.Jr: Jake, have you anything?

Viner: No.

H.M.Jr: Edward?

Foley: Forty-three hundred and sixty-five applications at the end of this week.

H.M.Jr: Oh, you are going down?

Foley: Yes, from eighty-five hundred. Stonier is bringing in the editor of "Banker" this morning. I think if Ferdie could be available, he might meet him. Mr. Buffington might meet

- 2 -

him also.

Ruffington: When is that?

Foley: This morning some time. I will let you know.

H.M.Jr: Well, I want Mr. Graves and Mr. Kuhn to be downstairs at twenty minutes of eleven. While I am talking about that, here is a letter from Lowell Mellett. He wants Mrs. Morgenthau - they first tried to get Mrs. Roosevelt but they couldn't. The Hecht Company is having a dinner for several hundred people at the Mayflower with a day-long celebration on opening their large store. They wanted Mrs. Morgenthau to accept the ten thousand dollar Defense Bond. I think it is crazy. Why should she go to the Hecht Company? It is from Lowell Mellett. You (Kuhn) tell him I think it is crazy. Would you mind telling Lowell Mellett?

Kuhn: That she can't do it?

H.M.Jr: I hate to use the word "undignified," but to go to a celebration of the Hecht Company - it would be different if they offered her a complimentary account there or something or let her buy her dresses wholesale.

Sullivan: How about this price control thing?

.....Jr: Anything.

But just one ten thousand dollar bond doesn't amount to much.

Anything else, Ed?

Foley: No.

H.M.Jr: John?

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Sullivan: No, sir.

Morris: Nothing, sir.

M.M.Jr: Wonderful.

Johnson: I have nothing of interest.

H.M.Jr: Admiral, have you got my little picture?

Waesche: Yes, I just got your note before I came in, and it is being reproduced. I will have it over here by eleven o'clock.

H.M.Jr: Would it be embarrassing to Coast Guard if we sent an independent report to the President or should we just send the picture?

Waesche: I don't think it would be embarrassing. I haven't any report that is really worth much. It would just be a picture of the ship, together with a description of the vessel.

H.M.Jr: Well, let me have that. He was very much interested in it. Then he said to me, "What are we going to do with the Germans after we get them here?" So I said, "Well, Coast Guard could ferry them between Miami and Puerto Rico the way we did those escaped prisoners from Devil's Island." He thought that was a swell idea.

Waesche: We would like to get that little ship, Mr. Secretary. That is a nice ice ship. It will help us in our studies of the types of vessels best suitable for ice work.

H.M.Jr: Why can't you get it?

Waesche: I have already taken it up with Admiral Ingersol, and I am writing him a letter today

- 4 -

asking him for it before it gets down here.

H.M.Jr: Are you going to get me my new wings?

Waesche: Yes, sir. We may want some help from you on that.

H.M.Jr: Well, I am ready.

Waesche: When we need the priorities. We wired the factory day-before-yesterday and that wire should be in now, and as soon as I get the dope - and if they don't give us the priority without your help, we will come to you.

H.M.Jr: Find out who is the man who has the say, whether I get the wings or not. They are getting me an entirely new pair of wings, Mrs. Klotz. Mine melted. I flew too close to the sun.

Waesche: I would like to have about two minutes with you after this conference.

H.M.Jr: Sure.

George?

(Mr. Haas handed daily reports to the Secretary.)

H.M.Jr: Dan, have you ever considered increasing the amount of the G Bonds that a fellow can buy?

Bell: Yes, I have done that on one or two occasions. It is always a question of how far you can go, whether you don't force them to sell securities out of the portfolios to buy this kind of a bond because of the rate. We have left fifty as the limit.

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H.M.Jr: Well, the time to do it would be December, wouldn't it?

Bell: Yes, beginning January 1.

H.M.Jr: To get it still in this year, if they wanted to do it.

Bell: You mean so that they could have the limit this year and the limit next year?

H.M.Jr: Yes.

Bell: You can do it any time. It is just a matter of regulation.

Barnard: Nothing.

H.M.Jr: Harold?

Graves: Nothing.

H.M.Jr: Have you decided about your trip?

Graves: No, I was going to go down and see the Congressman whose name I mentioned to you last night. I was going today if possible.

H.M.Jr: Chick?

Schwartz: Senator Bankhead's idea seems to be to repeat with some kind words the Associated Press heading in the story. Here is the picture made yesterday. It is a good picture.

H.M.Jr: Oh, yes.

Now, when I get that, for instance, could I have a little story about who the girl is, the story behind it so it could go into my record?

- 6 -

Schwarz: Surely.

H.M.Jr: It is nice.

Schwarz: I will fix it up and send it down to you.

H.M.Jr: Will you?

Schwarz: Yes. That is all.

H.M.Jr: Harry?

White: Nothing, sir.

Buffington: Nothing.

Bell: On your memo to me this morning on new financing for non-defense, do you mean do we get a report on those companies every time they want to have any new financing?

H.M.Jr: What I mean is, for instance, when SEC gets an application for a company, let's say that they wanted to expand cosmetics, want to build a new million dollar plant, want to borrow some new money, do we know about it?

Bell: I don't think we get any reports from SEC, do you, George?

Haas: Not in detail.

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Bell: We get a report every week from Allan Sproul as to the applications pending and when it is likely to hit the market.

H.M.Jr: What I want is when it first goes to SEC.

Bell: When the application is filed?

H.M.Jr: Yes, and to have somebody offer there that would be responsible to somebody over here.

Bell: All right.

H.M.Jr: We don't do that now.

Bell: I don't think so, unless George's shop does.

Haas: We did it for a period there.

H.M.Jr: Let's have it, and I would like to have it - use Dave Morris on this.

Bell: O.K.

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- H.M.Jr: The idea is that if we could sort of informally know just when the application is filed and then also, I would like to have some kind of contacts somewhere if the cities are going to do any financing, or states.
- If any state or city is going to do any financing, the character of the financing - now, if it is going to go near something that could be postponed, I would like to get some kind of arrangement that we could kill it, you see.
- Bell: Yes.
- Foley: Well, SEC wouldn't know about the states and municipals.
- H.M.Jr: Then you have got to do it through the Feds.
- Bell: I doubt if they would know about it until it had gone so far they couldn't stop it.
- Viner: Or half a dozen investment banking houses would have all the information in the country on that.
- Foley: That is right, the big ones.
- H.M.Jr: You (Buffington) would know how to get that, wouldn't you?
- Buffington: Yes, sir.
- Viner: They would know it much sooner than SEC would.
- Morris: SEC never knows it.
- Foley: No, not on public offerings.

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- H.M.Jr: Well, Bell, between you and Dave Morris and Buffington, lets line it up that any financing, other than Federal, that I would be able to get it here in time that if we thought it was a non-essential, it could be postponed, you see.
- Bell: You want the same information that might come to a capital control committee, for instance.
- H.M.Jr: That is it.
- Viner: The British operated like that for years with an unofficial capital issues control committee with no statutory rights to say "No", but just expressing their wish to the market.
- H.M.Jr: That is what I had in mind.
- Viner: If you do that, you will have to set it up rather carefully, because it will get lots of publicity.
- H.M.Jr: What I want to do first, is to explore it, and that is the purpose of that luncheon tomorrow.
- Foley: I might go a step farther and consider sending letters to the governors and mayors of the principal cities, and ask them to check with you.
- H.M.Jr: What I want, Ed, is a carefully worked out program so that I can say if I want to do it this is the way to do it, but I don't want anybody to know about outside of the Treasury. Simply a carefully worked out program, Dan. If I want to do it, this is the way that we can get all the things, you see, Jake.

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Viner: You ought to get Harry White to get somebody in his shop to write up a little history of the English committee.

White: It is already prepared and has been circulated some time.

Viner: That is efficiency.

White: We read your every wish, Jake.

Buffington: Mr. Secretary, you have no reason not to want to get ahead of the SEC? There are ways that you might get any important financing before it becomes public from SEC records.

H.M.Jr: Well, if Bell would get you, Buffington, and you, Morris, together and work up a little plan for me, the three of you.

Bell: I think it is important to get it before the plans are formulated.

Buffington: That is what I meant.

H.M.Jr: Using what anybody in this room has. If anybody has any ideas, if they would give them to Bell. I don't want any leaks on it outside the Treasury, no leaks, please, but I would like to have it fairly soon. Have you got any suggestions, Jake?

Viner: I will think about it.

H.M.Jr: Dr. Viner is here all week. He could work it into shape.

Viner: I am leaving this afternoon.

H.M.Jr: Really?

Viner: My students are just waiting there with their tongues hanging out.

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H.M.Jr: That is what you say.

Foley: They have probably got their tongues out (laughter).

Viner: They are all ganging up on me.

H.M.Jr: Poor Jake. Well, anyway, make the best use of Dr. Viner today that you can, will you?

Bell: Yes.

Viner: They told me I have got to vacate my room at the hotel by four o'clock this afternoon.

Foley: Haven't you got a priority?

Bell: If you stay over two days, you are not a transient. Joe Cotton, who used to be with us, and is now in OPM, said some question had been raised over there, and I take it it is a matter of difference of opinion between OPM and RFC as to whether the new plant construction for defense purposes should be built by the Government, by Government money direct, or through the loan process, and whether or not Jesse should loan money to the companies to build the plants or whether or not he should build them outright, and the Government own them. They have got some indication that the Treasury is opposed to the loan process, and we ought to build them. I don't know that we are interested in it at all.

H.M.Jr: We used to be very much interested in it. I don't know why we should now. Have any of you boys been in this?

Sullivan: That isn't quite what Joe told me. He said he hadn't heard that we were interested

in it, but because the deals were being held up, he was just trying to find out who was holding it up, and he wondered if there was any interest here.

Bell: Well, he said he got some indication that the Treasury preferred one way, and he thought that was --

H.M.Jr: Who in the Treasury? We are eighty thousand strong.

Bell: I don't know. That may be being used as an excuse, you see, for not going ahead. I want to tell him that we are not interested in it.

Foley: We are not now, but a year ago or a year and a half ago we were very much interested.

Bell: That is what I told them.

Foley: That they build them and own them.

H.M.Jr: That was when we were doing the Curtiss Wright and Pratt and Whitney. He is only a year and a half behind the times.

Bell: I told him I knew we were interested some time ago, but that I hadn't heard anything about it recently, and I thought we were entirely out of it, and I would like to tell him that.

H.M.Jr: That is right.

Bell: O.K. That is all.

May I have five minutes after the Social Security conference?

H.M.Jr: Sure. If you are ready at five minutes of ten, I will be ready five minutes ahead, or aren't you ready?

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Bell: Yes, I am ready. I just thought I was going to stay at ten o'clock anyhow.

H.M.Jr: Well, it is only twelve minutes of, and I will see the Admiral and then I will ring you in your office when he leaves.

Bell: All right.

H.M.Jr: There is a Horace Alexander, you (Thompson) make a note, who works in the Treasury, and who came here at the age of eight, and he is the first cousin or something, of Mr. Alexander, First Lord of the Admiralty, and last night Lord Mountbatten went out somewhere to call on him. I don't know whether he is a messenger or what, but I would be curious to know. Horace Alexander.

Thompson: I will check on it.

Bell: He didn't come in to the Treasury at eight, did he?

H.M.Jr: No, he went out last night to call on him.

Klotz: He means at the age of eight.

H.M.Jr: No, those people work for other agencies (laughter). But I was just curious to know who he is, and what he does. We insist of a mentality of twelve.

Klotz: You have got it (laughter).

H.M.Jr: Harry, I will have to put up a loudspeaker down at your end of the room. I can't hear those witticisms.

White: Chick hears them. He is my audience (laughter).

H.M.Jr: All right.

October 14, 1941

My dear Mr. President:

I am sending you herewith a copy of the picture of the Norwegian steamer BUSKOE, which was seized in northeast Greenland waters.

Yours sincerely,

(Signed) H. Morgenthau, Jnr

The President,
The White House.

By Messenger

Dixon 4:45

H. M. L.



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THE COMMANDANT OF THE UNITED STATES COAST GUARD

WASHINGTON

CONFIDENTIAL

14 October, 1941

MEMORANDUM FOR THE SECRETARY OF THE TREASURY:

Attached hereto are several copies of a picture of the Norwegian steamer BUSKOE which was seized in northeast Greenland waters. The BUSKOE is a typical Norwegian sealing steamer, especially strengthened against ice, length 105 feet, beam 22 feet, draft 13 feet.

In our studies as to the best type of vessel for use in navigating in ice in Greenland waters, one school of thought (minority opinion) believed that a small vessel of this general type would be more serviceable than a larger vessel.

Provided arrangements can be made with the Navy Department, the State Department, and other interested agencies of the Government, it is my intention to request the Navy Department to permit the Coast Guard to man and operate this vessel for the dual purpose of using her in Greenland waters, along with other vessels of the Coast Guard now operating with the Navy, and for experimental use in determining the best type of vessel for use in working through ice in Greenland waters.

R. R. WAESCHE
Rear Admiral, U. S. Coast Guard
Commandant



Regraded Unclassified



Regraded Unclassified

OCT 14 1941

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

Sir:

I recommend that Radioman, first class, S. J. Brodnan, U. S. Coast Guard, be awarded the Distinguished Flying Cross for an extraordinary achievement while participating in an aerial flight.

On the late afternoon of October 3, 1941, Radioman, first class, S. J. Brodnan was radioman of the Coast Guard airplane V-188 with the Secretary of the Treasury on board, and while executing an instrument let-down procedure to break through the overcast preparatory to landing at New Hackensack, New York, the airplane crashed through tree tops and was severely damaged. An imminent crash landing seemed certain, but the pilot and crew kept the damaged airplane in the air and after a flight of almost two hours in low visibility and darkness arrived over Philadelphia where clear weather prevailed. Because of the condition of the airplane a dangerous landing at high speed was necessary and it was successfully accomplished without injury to the persons on board or further damage to the airplane.

The courage, quick thinking, skill, resourcefulness and efficient teamwork of the pilot and crew transformed almost certain disaster into safety which seems incredible now in the light of the known damage to the airplane.

I make this recommendation as an eyewitness of Radioman, first class, Brodnan's contribution to this extraordinary achievement and his outstanding performance of duty on this occasion.

Sincerely yours,

(Signed) S. McPherson, Jr.

Secretary of the Treasury.

Typed 13 Oct., 1941.

RR:RWR

OCT 14 1941

Rear Admiral E. H. Wessche,
Commandant, U. S. Coast Guard,
Washington, D. C.

Sir:

I recommend that Aviation Chief Machinist's Mate Lonnie Bridges, U. S. Coast Guard, be awarded the Distinguished Flying Cross for an extraordinary achievement while participating in an aerial flight.

On the late afternoon of October 3, 1941, Aviation Chief Machinist's Mate Lonnie Bridges was plane captain of the Coast Guard airplane V-188 with the Secretary of the Treasury on board, and while executing an instrument let-down procedure to break through the overcast preparatory to landing at New Hackensack, New York, the airplane crashed through tree tops and was severely damaged. An imminent crash landing seemed certain, but the pilot and crew kept the damaged airplane in the air and after a flight of almost two hours in low visibility and darkness arrived over Philadelphia where clear weather prevailed. Because of the condition of the airplane a dangerous landing at high speed was necessary and it was successfully accomplished without injury to the persons on board or further damage to the airplane.

The courage, quick thinking, skill, resourcefulness and efficient teamwork of the pilot and crew transformed almost certain disaster into safety which seems incredible now in the light of the known damage to the airplane.

I make this recommendation as an eyewitness of Aviation Chief Machinist's Mate Lonnie Bridges' contribution to this extraordinary achievement and his outstanding performance of duty on this occasion.

Sincerely yours,

(Signed) E. Margerthal, Jr.

Secretary of the Treasury.

OCT 14 1941

Rear Admiral R. B. Beasche,
Commandant, U. S. Coast Guard,
Washington, D. C.

Sir:

I recommend that Aviation Chief Washinlet's Mate (AP) E. T. Preston, U. S. Coast Guard, be awarded the Distinguished Flying Cross for an extraordinary achievement while participating in an aerial flight.

On the late afternoon of October 3, 1941, Aviation Chief Washinlet's Mate (AP) E. T. Preston was co-pilot of the Coast Guard airplane V-168 with the Secretary of the Treasury on board, and while executing an instrument let-down procedure to break through the over-cast preparatory to landing at New Hackensack, New York, the airplane crashed through tree tops and was severely damaged. An imminent crash landing seemed certain, but the pilot and crew kept the damaged airplane in the air and after a flight of almost two hours in low visibility and darkness arrived over Philadelphia where clear weather prevailed. Because of the condition of the airplane a dangerous landing at high speed was necessary and it was successfully accomplished without injury to the persons on board or further damage to the airplane.

The courage, quiet thinking, skill, resourcefulness and efficient teamwork of the pilot and crew transformed almost certain disaster into safety which seems incredible now in the light of the known damage to the airplane.

I make this recommendation as an aviator of aviation Chief Washinlet's Mate (AP) E. T. Preston's contribution to this extraordinary achievement and his outstanding performance of duty on this occasion.

Sincerely yours,

(signed) S. Worgentin, Jr.

Secretary of the Treasury.

Typed 13 Oct., 1941.

ZRR:RDM

OCT 14 1941

Dear Admiral R. B. Tweedy,
Commandant, U. S. Coast Guard,
Washington, D. C.

Sir:

I recommend that Lieutenant R. E. Sinton, U. S. Coast Guard, be awarded the Distinguished Flying Cross for an extraordinary achievement while participating in an aerial flight.

On the late afternoon of October 3, 1941, Lieutenant Sinton was pilot of the Coast Guard airplane F-108 with the Secretary of the Treasury on board, and while enrouteing an instrument let-down procedure to break through the overcast preparatory to landing at New Rochelle, New York, the airplane crashed through tree tops and was severely damaged. An imminent crash landing seemed certain, but the pilot and crew kept the damaged airplane in the air and after a flight of almost two hours in low visibility and darkness arrived over Philadelphia where clear weather prevailed. Because of the condition of the airplane a dangerous landing at high speed was necessary and it was successfully accomplished without injury to the persons on board or further damage to the airplane.

The courage, quick thinking, skill, resourcefulness and efficient teamwork of the pilot and crew transformed almost certain disaster into safety which seems incredible now in the light of the known damage to the airplane.

I make this recommendation as an appreciation of Lieutenant Sinton's extraordinary achievement and outstanding performance of duty on this occasion.

Sincerely yours,

(Signed) W. Worthington, Jr.

Secretary of the Treasury.

Typed 13 Oct., 1941.

EDR:ROR

October 14, 1961
10 a.m.

RE SOCIAL SECURITY

Present: Mr. Barnard
Mr. Bell
Mr. Viner
Mr. Sullivan

H.M.Jr: Gentlemen, this is the way I feel. By my speaking first, don't let that keep you from speaking last. I read this thing very carefully, and I don't see how I can object, as laying down the principles to the President. I don't see how I can object. As a matter of fact, I don't see why I shouldn't be for it. I would like to know if anybody thinks there is anything bad in there. The only thing I would like to say to Altmeyer is that before the President sends it, I think he ought to send for the chairmen of the two committees and talk it over, and when he does, I would like to be there.

Bell: Hasn't that been promised?

H.M.Jr: But the President might be reminded. Do you think it shouldn't come from me?

Bell: Not at all. I just thought the President had had that definitely in mind.

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

Barnard: I can't see going along with this taking over general relief at this time.

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H.M.Jr: You don't see it?

Barnard: I don't see it, no. I agree with Currie's position on that. I don't see it. I don't see how you can at the present time stop any shorter than that. As far as I see it, you can't, but that particular thing, it seems to me, you can stop short of now, and from the Treasury point of view, it should be done.

Bell: Should not be done?

Barnard: Yes, you should stop short of that.

H.M.Jr: How would you change that?

Barnard: I would eliminate taking over general relief from states and the price that goes with it. I think the increase in taxes here is too much for this purpose at this time. It adds tremendously to the confusion all through the country to do it. The old age pension thing I think is all right. I am for the program in general, and I don't see how you could stop it now, and I don't see any disadvantages to the Treasury particularly in it. It is somewhat anti-inflationary for the present, but the other I don't see.

H.M.Jr: What does Currie say on that?

Bell: Currie says that he has some doubts about it.

"I am somewhat concerned over the proposal to initiate Federal grants for general relief. If this is not at the expense of WPA, we are in the position of increasing non-defense expenditures when the financial condition of states is improving and the need diminishing. If compensated by a cut

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in WPA, you will be criticized for giving up the long fight for work relief, rather than the dole. A possible way out is to confine Federal grants to the permanently disabled in addition to the blind. There would be some logic in this, as the program contemplates giving old age insurance to the future covered permanently disabled, and the grant would look after a good portion of the current unemployables."

Well, I feel somewhat the same way about it, only for a little different reason. If I thought that we were going to get a cut in WPA rolls by this general relief program, I wouldn't object to it, but I think we are going to get both. I mean, we are going to get this general relief and WPA, and there isn't anything we can do about it. I think the additional burden on the Treasury is really something to think about in these times.

Barnard: Well, you probably won't get the cut in WPA, because you haven't got all the employables on WPA, anyway. They are on state relief. At least, that has been true in New Jersey right along. We never have been able to get enough work in WPA, so I wouldn't anticipate much cut in that.

H.M.Jr: Well, you had it for a very short time when we had that four million people on WPA for that short term.

Bell: '38?

H.M.Jr: No, back in '34 or '35. What did they call it? CWA. Then they came along and at a stroke of the pen they took nine hundred thousand people who were unemployed and threw them back on the state.

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- Barnard: but CWA was being operated by the states with Federal money when we switched. In my state there were about forty per cent of the people on state relief who were employable who could not be taken into WPA. What is the reason why I don't think you can anticipate much cut in that.
- H.M.Jr: The tax wouldn't go into effect until the calendar year '43?
- Bell: Well, it was hoped originally when this thing was started that you could get a bill through this fall and it would go into effect January 1st. Now, if they don't start considering this tax until the next session - I mean this program until the next session of Congress, I don't see how they can put the tax into effect until probably the following year, or several months later to give them a chance to set up their programs.
- Viner: When would they increase the benefits, and so on, immediately?
- Bell: No, I should think that they ought to go along together.
- H.M.Jr: Jake, on the over-all, what would you advise me?
- Viner: Why, I would advise against any transfer to the Federal Government of any obligations which are now with the state and local Governments at this time. The fiscal position of the Federal Treasury is all-important. The state and local governments are going to find their financial positions eased. They are already finding their positions temporarily eased. They are not in trouble.

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But the Treasury may be in trouble.

So I would say this is the wrong time to shift burdens from them, obligations from them to you, so that on this general relief I would oppose that on that ground.

Also, in the copy you sent me, there was attached to it a little note by Blough in which he said that certain passages marked had been put in at the request of the Treasury. Well, I am very unhappy about those passages. I have given Dan a note suggesting a redrafting, because if that goes into the record as - in response to the Treasury's suggestion, they are very, very weak passages at both places.

I think I would recommend that you ask Altmeyer if he wouldn't change the wordings, somewhat.

Bell:

You see, Mr. Secretary, we have made no attempt to redraft this message. Blough admitted that some of the language was --

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- H.M.Jr: Well, I was disappointed.
- Bell: The only thing he has attempted to do is to fit in a passage here and there on the fiscal situation. I think Jake is right, that that can be turned around and made stronger from our point of view than it is. I think he is right about that.
- Viner: Well, I have suggested rough drafts of alternate sentences that don't lengthen it at all, but change the emphasis in a way which I should say ought to be more satisfactory from the Treasury point of view and yet I don't see don't see why Altmeyer would have any ground for objecting.
- Bell: I don't think he will. He has accepted our suggestions.
- Sullivan: I am in accord with these gentlemen, Mr. Secretary, and for one additional reason. You will recall the surtax schedule we introduced. We finally got one that started at six percent. I anticipate that we will have a big fight to increase those surtax rates early in the next session.
- Now, if an additional five percent has been taken out, or four percent has been taken out of the workers' pay envelopes in these kind of taxes, they are going to say, "Well, you have already got that." We can't raise these increases. Now, to be sure, this will have the anti-inflationary effect of taking that money out of circulation. The worker will not have it to spend, but it is money we will have to pay back, and I think to that extent it is going to hamper us in our efforts to pay as large a part as we reasonably can of our current expenditures.

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H.M.Jr: Well, of course the thing that you say is - you will find that in these meetings I am as critical of myself as I am of anybody else, or more so - is, we go on the assumption we get the money now - let's be very frank in the room - and we spend it on - it goes out. But there is an obligation there for these people against old age or retirement. The obligation is on our books, but the money, the cash that we take in, we spend.

Now, when this thing is over and these people are laid off and begin to draw on us for this money, we have got to go out and raise it five years from now from some other source, which would be taxes.

Sullivan: At a time when it is going to be more difficult to raise money in taxes.

H.M.Jr: We like to think now that we are going to be able to reduce taxes. Is that too harsh?

Viner: Well, I would say we will have to get used to a higher level of revenues, tax revenues.

H.M.Jr: True, but you can't - in times, say, when business falls off half, you can't get the taxes.

Sullivan: And you may run into a situation, Jake, where in order to encourage business, you might presumably be obliged to reduce taxes to build up re-employment.

H.M.Jr: I mean if the national income goes back to fifty billion dollars, which it could very quickly if this armament thing was over, then you come along with this high payroll tax or want to raise it because a lot of people are laid off. How the hell are you going to do it?

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- Bell: But aren't you going--
- Viner: No, if the national income falls to fifty billion, you are going to borrow. You will not face increased taxes then.
- Bell: But aren't you going to spend a lot of money--
- H.M.Jr: Could you hold your thought a minute?
- Bell: Yes.
- H.M.Jr: Let's say by that time - I mean if this thing lasts two or three years more, that will be a hundred billion dollars. Ontop of a hundred billion dollar debt, we are going to have to borrow some more?
- Viner: I don't contemplate that with joy, but we have been moving into that now steadily for ten years. I don't see why you should suddenly get scared about it. That is the pattern that has been laid out.
- H.M.Jr: Well, there are degrees of being scared.
- Viner: I think the concern about the future - there will be problems, but--
- H.M.Jr: What I am leading up to is this: There is another way of doing this thing, and that is through the tax route. Then you get it and you don't have to pay it back.
- Viner: Well, Mr. Secretary, that raises a very fundamental issue. Do you or don't you believe in the extension of the Social Security program?
- Now, I would say for various reasons, some of them not economic, I believe in the extension of the program, although I think this is too

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sentimental and romantic an extension in certain phases. It isn't hard-boiled enough but a good deal of it, I say, is - it is in our national interest that we move on and if we are going to move on, there never has been a better time than just this moment and there never will be.

H.M.Jr: I go back to my original position. My original position was that I was ready wholeheartedly to go along on the old age and the unemployment insurance, but no more at this time. That was my original position, wasn't it, Dan?

Bell: Yes.

H.M.Jr: Wasn't it?

Barnard: Yes, that is what I understood.

H.M.Jr: And I go back to that.

Now, both of those things would be helpful to the Treasury and it would be a step forward, you see, but this other thing, raising this thing so we are collecting ten percent, five from the employer and five from the employee, we will never be able to go back on it, and I just think that instead of going wholeheartedly on that - then there is another thing that Mr. Barnard said which I haven't forgotten. That is, these taxes on the employer fall equally on the business that makes money and on the business that loses and it is particularly hard on the losing fellow. It makes it that much harder for him to come back.

Viner: You are only raising his taxes from four percent to five percent.

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H.M.Jr: He isn't paying four now?

Bell: Yes, he is paying four now.

H.M.Jr: No, not now.

Bell: The employer is paying four now.

Sullivan: One on old age and three on unemployment.

H.M.Jr: It hasn't got there yet.

Viner: But it is about to get there.

H.M.Jr: It doesn't start until January 1, either.

Bell: No, it is there now. The employer pays three percent for unemployment taxes now and one percent on old age.
That is right, isn't it, John?

Sullivan: Yes.

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

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- Barnard: I think that is correct.
- H.M.Jr: Three now?
- Barnard: Yes and the old age will go up another one percent in '43.
- H.M.Jr: Well, you are going to jump him to five.
- Bell: No, it is four now, three unemployment and one old age. The employee only pays one old age.
- Viner: As far as tax burdens are concerned now, of course it is going to be hard on them but wait until you see what we have to do next year. You are going to do lots of other hard things.
- H.M.Jr: But Jake, I will give you another question. In the next six months we are going through a terrifically difficult business adjustment period. I mean, I have heard statements made that - let's say that they are exaggerated, but anyway, in order to do what England and Russia and our own Army want, ninety percent of this business has to be armaments. Let's say that that is high. Let's say seventy-five percent, what? That is high enough, isn't it?
- Now, the period of readjustment --
- Viner: I think seventy-five percent is a gross exaggeration, because if we had all the shipping in the world we could probably not carry even to England seventy-five percent of our national output.
- H.M.Jr: Well, anyway, Jake, let's say a very large percentage, and I will say this, that the readjustment certainly will take place during the next six months.

Viner: That is all the more reason for this measure if you think --

H.M. Jr: Why?

Viner: Because that readjustment is not going to stop the powering out of income from the Federal Treasury, but it is going to cut down the amount of goods available to them for spending. Therefore, you will have a real fierce inflation unless you draw away some of that by one way or another, because I don't think anybody is saying that the national income is going to fall because of this problem of adjustment.

What you are saying is that the Government, instead of spending for defense purposes at the rate of a billion and a half a month, will boost that to three billion or three and a half a month, but that is all going to create purchasing power and dollars but at the same time the Government will be withdrawing the goods that these people can send that purchasing power against. Therefore, I say it is all the more urgent to tap that purchasing power one way or another.

H.M. Jr: Would you do it the way the Altmeyer memorandum gives it?

Viner: Well, with the qualifications I have made, I say yes, I would do it that way as well as do a taxation too. I would move on. I probably wouldn't qualify anything that some of them would have in mind here even if this goes in. I would say do them both.

Sullivan: If you had your choice, which way would you do it?

Viner: I think I would do it largely this way because,

as I say, this has got to get into our system and I don't know any better time to get it in and this has merits also. It is an execution of the President's policy since he came in, and a desirable one. I would like to see that job polished up and finished.

- H.M.Jr: Well, now, I will tell you what I would like you to do.
- Viner: I don't like to be caught in the act of --
- H.M.Jr: I will tell you what I would like you to do. I don't know what the rest of you people have got to do for the rest of the morning; I don't know how busy you are.
- Bell: I have got a conference on this other thing right after this meeting.
- H.M.Jr: What is that?
- Bell: This private financing thing.
- H.M.Jr: Well, you people aren't tied up, are you?
- Viner: I was asked to go to that, and I have got something else.
- Bell: Then he has got the British meeting at eleven. This afternoon would probably be better.
- H.M.Jr: I am free at 3:45. Would you get together right after lunch and discuss this for an hour or two?
- Barnard: I can do that.
- H.M.Jr: And possibly draft a Treasury statement, not trying to follow this. Draft one looking forward to what we might have to do in taxes.
- Sullivan: Sure.

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H.M. Jr: See?

Viner: But of course, I was struck by the vagueness and the generality of that but Dan tells me that is the way they ought to do it for a message by the President.

Sullivan: That is an agreement.

H.M. Jr: But why don't you do this? I don't care if Altmeyer gets angry. I would much rather drag my feet. I don't see daylight yet on this thing. You (Sullivan) come in with the taxes. Your point is that you can't get it both through taxes and payroll taxes.

Sullivan: That is right.

Bell: Aren't you going to hit people with this tax that you can't hit with any general tax scheme unless we have a miscellaneous sales tax?

Sullivan: No.

Viner: Do you have some thought in mind of withholding taxes to get really down to the low income levels?

Sullivan: We are working on that now. We are down to the low income levels, Jake. We are down to seven hundred and fifty dollars a year.

Viner: But you take nothing from them.

Sullivan: That is right but we were fighting for twice as much. The surtaxes we proposed in the lowest bracket were eleven percent against the six that was adopted.

Viner: Well, I think that our imagination tends to

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lag behind the needs of the situation, and even Congress. I think one tends to be unfair to them. They will move on. They will be resisting and lagging but as the pressures and needs come they will move on with you, three months too late always, but don't assume now that next spring they won't be willing to put on another load.

- H.M.Jr: If you people are free, we will talk it over. Now, here is Sullivan. He is on the tax end. I would put down 3:45. Let's have another whirl at it, if you fellows could get together after lunch. What?
- Bell: Two-thirty in my office?
- Sullivan: Right.
- H.M.Jr: Maybe you can put something on a piece of paper. Maybe that is asking too much. If not, we will do it again tomorrow.
- Barnard: It is very important.
- H.M.Jr: You haven't seen me work. I drag my feet until I am satisfied that two-thirds of the people in the Treasury are satisfied. Well, I am not satisfied yet. It is a big problem.
- Bell: It certainly is.
- H.M.Jr: All right, I will see you all again at 3:45.

October 14, 1941
2:12 p.m.

HMJr: Hello.

Operator: Go ahead.

HMJr: Hello.

Fiorello
LaGuardia: Hello.

HMJr: Hello, Fiorello.

L: Henry.....

HMJr: Yeah.

L:I'm awful sorry I made a nuisance of myself, but that crew has been up there ever since and they're right now at the Concord Plaza working them.

HMJr: At the Concord Plaza?

L: Yeah.

HMJr: Are you sure that that's our people, and.....

L: Internal Revenue.

HMJr:not Department of Justice?

L: No. I wish they were Department of Justice. That's what they need. (Laughs)

HMJr: What?

L: That's what they ought to have up there - Department of Justice, you're right. No, they're Internal Revenue. McNamara is up there with them.

HMJr: Mc.....

L: McNamara.

HMJr: McNamara's up there with them?

L: Yeah.

HMJr: And our people are there at the Concord Plaza now?

L: Found them at the Concord Plaza, and they've all been there ever since; up at Fitzpatrick's Club, too.

HMJr: What club?

L: Fitzpatrick's Club.

HMJr: But I mean, where are they actually working at Concord Plaza?

L: In one of the rooms there.

HMJr: What is that, a hotel?

L: Yes, it's a hotel, and they're going through these petitions and tabulating and comparing and doing all sorts of accountant's work.

HMJr: Well.....

L: McGoughran and McNamara.

HMJr: McGoughran.

L: (Talks aside) What's this 529 Courtland Street? Oh, they're at 529 Courtland Street, and at the Concord Plaza Hotel.

HMJr: Five what?

L: Twenty-nine Courtland Street.

HMJr: Five twenty-nine Courtland.

L: Yeah.

HMJr: Well, isn't that downtown?

L: That's downtown, and there are two crews.

- 3 -

McNamara's at the Concord Plaza. That's.....

HMJr: What is it? Five twenty-nine Courtland, and the other is at Concord Plaza?

L: Right.

HMJr: Well, if it wasn't you, I wouldn't believe it possible.

L: And McNamara and McGoughran are the two markers in charge.

HMJr: I see.

L: Yeah.

HMJr: Well.....

L: Give it a look, will you, Henry?

HMJr: Within a second.

L: Thank you.

HMJr: Where are you?

L: I'm in New York.

HMJr: All right.

L: Thank you.

October 14, 1941
2:17 p.m.

Preston
Delano:

Thank you.

HMJr:

I read in the papers about your speech up in
New Hampshire.

D:

Oh, did you?

HMJr:

And I was delighted.

D:

Well, that's very thoughtful and nice of you
to say it.

HMJr:

And.....

D:

We had a very nice reception for it up there.
Everybody seemed to like it.

HMJr:

Good. Well, it read fine.

D:

Well, that's very nice of you.

HMJr:

More power to you.

D:

Thank you so much.

HMJr:

Hit them again!

D:

I'll do it.

HMJr:

All right.

D:

Good-bye.

October 14, 1941
2:30 p.m.

RE VIOLATION OF THE HATCH ACT

Present: Mr. Cann
Mr. Sullivan
Mr. Thompson
Mr. Bell
Mrs. Klotz

H.M.Jr: Mr. Cann, there is something wrong in your department.

Cann: I am sorry to hear that, sir.

H.M.Jr: Mr. LaGuardia calls me up and says there are Internal Revenue men right now in New York under Mr. McGovern and some under Mr. McNamara.

Cann: Both those men are in the same office.

H.M.Jr: In the Concourse Plaza and 529 Corcoran Street, and Mr. Sullivan and Mr. Bell both told me yesterday they were all pulled off Saturday.

Cann: That was my understanding.

Bell: Those were your instructions, weren't they?

Cann: Yes, sir, not only my instructions, Mr. Secretary, but I was called back Saturday

-2-

afternoon at five-thirty to the effect that they were off the job, and I talked to Mr. McNamara yesterday morning again. Of course, that was a holiday up there yesterday, and I talked to him regarding the matter, and he said this morning that of course when the employees would report back in to work, he would take it up with each man who had been on that particular work and advise them as to - that he had ruled that that was a violation of the Hatch Act.

Now, I haven't talked to him today, but that was my orders and that was my understanding.

Now, if this is the situation, of course, it is utterly unbeknown to me.

- Sullivan: I reported to the Secretary, Norman, what you told me, that they were called of Saturday afternoon.
- Cann: That is correct.
- Sullivan: And they were not to be allowed to go back unless the order was countermanded.
- Cann: We advised them at the time that we would consider the matter formally Monday, which we did with Mr. Foley, you and I and Mr. Thompson, and it was agreed that it was, in our opinion, a violation of the Hatch Act.
- H.M. Jr: When did you get word to these men?
- Cann: Well, I worked through Mr. McNamara Saturday.
- H.M. Jr: Who is McNamara?
- Cann: He is the Assistant Collector in Charge.
- H.M. Jr: Well, would the men go back to these places

- 3 -

this morning?

Cann: No, sir, they weren't told to go back to this office at all. Of course, these men were working on their own time. That is, they were not on government time. I assumed from all that I could gather that the head of the Bronx Department or whatever you call it, the Democratic organization, had called on these men to do this work. They hadn't called upon the Collector's Office to furnish these men, but they had called upon the men individually and the men had gone to work individually without taking it up with Mr. McNamara. Then at a later date, after they had worked two evenings, they came down and they asked Mr. McNamara if, in his judgment, this was a violation of the Hatch Act. He told them that he didn't think that was a violation of the Hatch Act. And then when I talked to him, he said, "I will have to get in touch with the head men in this particular area, which I will do immediately." Then I said, "After you have done that, I want you to call me back and advise me that these men have been taken off the job." So that is what he did. He called me back and said he had talked to--

H.M.Jr: What day?

Cann: Saturday at five-thirty. He called me back and said, "I have talked to this man, and he advises me that he will immediately have these men taken off the jobs."

Bell: That was reported to me at six-thirty at my home Saturday night.

Cann: That is right.

H.M.Jr: According to Mayor LaGuardia, they are there

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now.

Cann: Then I would like, of course, to take further steps immediately about it. We will send a man down. The only other thing I can see to do is to send a man up there particularly to these places.

H.W.Jr: Who is this man McNamara? Why doesn't he carry out orders?

Sullivan: It is a question of his carrying out orders, it seems to me.

Cann: Well, Mr. Secretary, of course his position was that these men were working on their own time, but I pointed out to him, I said, "Regardless of that fact, you are their superior, and it is up to you to see that they are advised to quit that job."

Now, I am satisfied that he thought himself that that was done because when I talked to him yesterday to follow this thing up and advise him about final determination--

H.W.Jr: Will you go into Mr. Sullivan's office. Where can you find McNamara?

Cann: I will call him at the Collector's office.

H.W.Jr: Call him up and find out what he has done, and then come back.

(The conference adjourned for a few minutes.)

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(Mr. Cann, Mr. Sullivan, Mr. Thompson, and Mrs. Klotz returned to the conference).

H.M.Jr: What happened, Cann?

Cann: We contacted Mr. McNamara and he stated specifically that he had talked to those men this morning and advised them that his prior ruling that the Hatch Act had not been violated - it was, in his opinion, being violated, and it is his statement that there are none of their men on that job, but as I told Mr. Sullivan here, it is possible that there might be some men out of the agency, of the Bureau there, maybe out of the other Collector's office, and I would like to check on that.

H.M.Jr: Have you got somebody you can send on that?

Cann: Yes, and I would like to have that done. It may be that there are some employees of the U.S. District Attorney's office engaged in this work, and they might be confused with our men.

H.M.Jr: I wish in the next hour you would let somebody from your office go to both of these places, will you please?

Cann: Yes, sir.

Sullivan: You put in the call from my office. Don't wait until you go back.

H.M.Jr: Well, he can go back.

Sullivan: Yes, but put it in and that will save him fifteen minutes.

H.M.Jr: O.K.

October 14, 1941
3:40 p.m.

HMJr: Hello.

Operator: Senator Hughes.

HMJr: Hello.

Senator Hughes: Hello, Mr. Secretary.

HMJr: How are you? Morgenthau talking.

H: What?

HMJr: This is Morgenthau.

H: Oh, yes. Well, this is Hughes. This is Senator Hughes.

HMJr: I know. How are you?

H: Oh, I'm not any too well.

HMJr: I'm sorry.

H: Why, I want to - we're rather interested from Delaware.....

HMJr: Yeah.

H:in the selection of a man to sell - to have charge of the Defense Bonds. I understood Mr. Johnson is director of that, isn't he?

HMJr: Who?

H: Mr. Johnson?

HMJr: No, Mr. Graves is in charge.

H: What?

HMJr: Harold Graves is in charge.

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H: Who?

HMJr: Harold Graves. G-r-a-v-e-s.

H: Yeah. Anyhow, whoever it is, has gone into Delaware and selected Ex-Governor Buck, a Republican and who is to be the candidate against me next year, to have charge of that; and, of course, that gives him a certain amount of prestige and we don't think so much of it.

HMJr: Uh huh. Well, of course, what we've been trying to do all over the country is get good patriotic fellows that are willing to give us their time.....

H: Yeah.

HMJr:and we haven't asked them about their politics.

H: Well, we'd better ask them about politics if we expect to stay in office any length of time.

HMJr: Yeah.

H: How can I run for office over there and support the Administration and have you fellows going down in Delaware appointing some - picking up some fellow who's a candidate for Senator against me to get some publicity on the Administration and so on and so on?

HMJr: Well, I'll be glad to look into it, Senator. I've - so far, we've gotten along pretty well all over the country. We haven't had any complaints, and the main thing is that we're trying to get the people to buy Defense Bonds.

H: Well, of course, we want to do that, too.

HMJr: Yeah.

H: But I think we're at fault in rather overlooking the fact that there's something else

- 3 -

besides that always.

HMJr:

Yeah.

H:

That is to say that the Administration puts us in rather a bad position with our people at home when you go into our state, and without consulting a soul, without consulting any of us who are supposed to be responsible and who are expected to do things in the state, we Senators, for instance, both of us - Delaware has two Senators here - pick up a man like Buck, who is a very active Republican politician and who is an active candidate against me next year, without consulting us at all, I think it's rather too much.

HMJr:

Well, give me a chance to look into it, will you?

H:

Yes. Yes, I'll be glad to.

HMJr:

Yes.

H:

But I think that Mr. Johnson has gone quite a good ways, and I wish you'd stop it there if you possibly can so.....

HMJr:

Well, I'll tell him that - give me a chance to take a look at it.

H:

He's not definitely on it, but he's contacted him.

HMJr:

Yeah. Well, I'll tell him to hold it up until I can take a look at it.

H:

Very good. Thank you.

HMJr:

Thank you for calling.

H:

Thank you, sir. Good-bye.

October 14, 1941
3:45 p.m.

RE SOCIAL SECURITY

Present: Mr. Barnard
Mr. Sullivan
Mr. Viner
Mr. Bell

H.M. Jr: All right, Professor Bell.

Bell: Well, we have talked about this matter a little and we think maybe you might consider the subject from that angle (handing Secretary a paper). The first one, direct relief, being the least important of the whole report and probably one which you should say to the President shouldn't be included at this time. No additional burden should be added to the Treasury program.

I think we all agree that, at least we would recommend, that that go out.

The second one is disability and hospitalization. That is the next least important. Well, sometime you may want it. Certainly this isn't the time to start it. If you want to start it at all at this time, you might confine it just to the wage earner and leave out the family unit, as a unit. That isn't important from a fiscal standpoint, because the outgo about equals the income. I think there is a little excess income for the first year, but it just about evens out as far as the rest is concerned.

- 2 -

The next two sort of go together, the unemployment compensation and the old age coverage. There is additional coverage and additional benefits. Unemployment is somewhat less important than the old age, but nevertheless you ought to consider them together and I think we would agree that we might recommend those.

Now, in recommending them, the last two things mentioned there you ought to give consideration to. One is that you certainly want to make it very clear that you don't want the benefits without the taxes, and that has to be understood before any bill is passed. The third is as to how it is going to interfere with any Treasury tax program that you want next year, whether or not this is going to dip into the - the Social Security program is going to dip into the field that you may want to cover with the Treasury tax program in the next Congress.

That can probably be gotten up and the arguments on all sides for a memorandum from you to the President, or we might draft a message along the lines that we think it ought to take on three or four or two, three, and four.

If I haven't covered it, you fellows speak up.

H.M.Jr:

Jake?

Viner:

No, that is --

Barnard:

That is all right.

Viner:

That covers our discussions.

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Bell: Now, John has got a memorandum on the tax policy.

Sullivan: This is in the form of a memo from me to you. I assume if you want a memo from yourself to the President it would incorporate what Dan says, and I don't know whether you would want to use any of this or not. This gives you the background of our experience last year.

H.M.Jr: Have you gentlemen seen this?

Sullivan: They have.

H.M.Jr: Well, I think what we ought to do is this: I think this viewpoint from the Treasury certainly should be presented to the President, and I think that - well, this is very much along the lines I talked originally, three and four, the unemployment trust fund and the old age retirement, and I think what we ought to do is to draw up - evidently there is no pressure from the White House - a very careful memorandum and let Douglas Brown try to shoot holes into it and see what fault he will find. We will let Altmeyer shoot holes into it before it leaves the office. We will see if he says it is unfair. Then we will simply lay it on the line and if the President wants to do something this year, we will go along on unemployment and old age and we will tell him why we don't like direct relief and disability and hospitalization at this time. There is only so much blood you can get out of a turnip, and the question will be which way would do the most good to the country. I think I would say something about losing businesses, businesses losing money, and the small business man, and under which method he would

- 4 -

prosper most. In all of our taxes, after all, we make special allowances for the fellow if his income is twenty-five thousand or less, so we take care of him that way, and there is no allowance made under Social Security, none whatsoever.

I am sorry Jake can't be here, but if the three of you will take it on and if I could have something Thursday morning, does that rush you too much?

Bell: Pretty much.

H.M.Jr: Does it?

Bell: I think if we could wait until Roy got back, who would be in on all of this, it would help us a lot.

H.M.Jr: You can't wait, Bell.

Bell: Do you think we need this before next week?

H.M.Jr: Well, I don't like to be caught.

Barnard: Give it to me, and I will try a crack at it while you are waiting. I am free tomorrow.

Sullivan: What I thought, Dan, was that Mr. Barnard and I could have our fling tomorrow, and then maybe show it to you late tomorrow afternoon or else Thursday morning.

Bell: That will be fine to do that.

H.M.Jr: I really think I ought to have it, because I am afraid the President may say, "Well, Henry, I have been sitting around here waiting for you for weeks now." He might.

Viner: Why not plan to have it as best you can by, say, Thursday morning, but if you have more time--

H.M.Jr: Oh, yes.

Viner: Give them a chance to rephrase it.

H.M.Jr: I want something in my pocket in case he jumps on me, but I won't use it, and they will send it out to you, Jake, if you don't mind. I won't use it, but I will look for something at eleven o'clock Thursday.

Sullivan: Yes. I think we can have something, Dan, don't you?

Bell: Oh, yes, we can have something. I don't know what kind of a product it will be.

H.M.Jr: Well, give me something, Dan.

Bell: O.K.

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- Viner: My own opinion, Dan, is that that is the right way to go at it. It is the job of the Social Security to do it, but they ought to do it in the light of your reactions.
- H.M.Jr: That is the honorable way to do it, isn't it? Let Douglas Brown and Arthur Altmeyer have a look at it. And I would let Lauchlin Currie have a look at it.
- Sullivan: Well, not until after you have seen it.
- H.M.Jr: Why not? If he isn't busy tomorrow, let him see it.
- Viner: If you haven't seen it, then it is just not final. It is at the staff level here.
- Sullivan: I don't know what Dan's program is tomorrow, but I think we ought to all be in accord before we let anything go out.
- Bell: I think so. I can see you tomorrow afternoon.
- H.M.Jr: I would let Lauchlin Currie and Altmeyer and Doug Brown see it.
- Bell: I don't think I agree with Lauch Currie on his budgetary reductions, charging direct relief to trust funds.
- Barnard: That is beginning to whittle away that insurance fund.
- Bell: Sure. That is the first step.
- H.M.Jr: But strangely enough, there have been no leaks on the fact that the Treasury is holding back on this thing. There has been nothing in the newspapers.
- Sullivan: Well, as I said to you last Friday, we are

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not holding back because the President told
Senator George--

H.M. Jr:

I know. Since when do you expect to always
read the truth in the newspapers?

Well, I think I will let it go like that.
If I could have your technical advice on a
telephone set-up, Barnard, we will take a
look at it. They have got one in the other
room carrying out your suggestion.

October 14, 1941

MEMORANDUM FOR THE SECRETARY

From: Mr. Sullivan JLS

When the Treasury appeared before the Congressional committees on the 1941 Bill, it recommended an 11 percent surtax rate on the first dollar of income above substantially higher exemptions than in the 1941 Act. This, together with the normal tax and the defense tax, amounted to approximately 16½ percent. The Congressional committees opposed these rates on the grounds that they were too high on the low income classes and as the bill was finally passed, the surtax rate was reduced to 6 percent which, together with a 4 percent normal rate, amounts to approximately 10 percent on the dollars of income immediately above exemptions.

The payroll taxes under the present social security program amount to 5 percent. Of the 5 percent, 4 percent is now payable by the employer and 1 percent by the employee. These rates are scheduled to increase, effective January 1943, from 5 percent to 7 percent. If the program proposed by the Social Security Board is enacted, the payroll taxes will increase from 5 percent to 10 percent, effective January 1942. Of this 10 percent, 5 percent will be payable by the employer and 5 percent is to be payable by the employee.

Under the Revenue Act of 1941, taxpayers are required to pay in normal and surtax approximately 10 percent on the first dollars of income above exemptions. Thus, on the dollars of income above these exemptions the low income classes would be required to pay at least 15 percent under the Social Security Board's program, even if no increases were scheduled for 1942 income taxes.

It seems clear that the Treasury will be obliged to recommend a substantial increase in the income taxes on the low income classes, and probably a substantial collection at the source tax. In view of our experience with the Revenue Act of 1941, I believe that either of these steps to raise substantial amounts of additional revenue from the individual income tax will encounter strong resistance if simultaneously the payroll taxes

- 2 -

are increased. The Congress will certainly take the payroll taxes into account in determining the amount of increase possible in the income tax burden on the small wage earner. Every increase in the payroll taxes diminishes the amount available for general revenue purposes.

1. Direct relief
2. Disability and Hospitalization
3. Unemployment Trust Fund
4. Old-Age Retirement
5. Danger of getting benefits and not taxes.
6. Treasuring taxes

TREASURY DEPARTMENT

333

INTER OFFICE COMMUNICATION

DATE October 14, 1941

TO Secretary Morgenthau

FROM Mr. Thompson

Mr. Ugo Carusi, Executive Assistant to the Attorney General, called me on the phone today and stated that the Attorney General wished him to discuss with me a plan which the Attorney General feels should be adopted in connection with character investigations, the suggestion being that in each case on which Mr. Irey undertakes the character investigation he confine the investigation to all matters except those of loyalty and subversive activities, the F.B.I. to check immediately on the latter subjects. For this purpose, Mr. Carusi suggested that when a name goes to Mr. Irey for investigation it be submitted at the same time to the F.B.I. for their check.

As a result of our telephone discussion, it was arranged that on Mr. Gaston's return tomorrow I would take the matter up with him for discussion with Elmer Irey, following which Mr. Irey would work out the details of what might be agreed upon with Mr. Hoover of F.B.I. Any plan agreed upon would be subject to approval by the Secretary of the Treasury and the Attorney General before being put into effect.

Thompson

TREASURY DEPARTMENT

334

INTER OFFICE COMMUNICATION

DATE

October 14, 1941

TO Secretary Morgenthau
FROM Messrs. Foley and Pehle

Attached for your information is a copy of a report of the conversation had by J. Homer Butler,* of the Foreign Funds Investigative Unit, with Georges Wildenstein, Paris and New York art dealer.

J. Pehle
SN+L

* Since discharged

Attachment

COPY

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FOREIGN FUNDS CONTROL
70 Pine Street, New York

October 9, 1941

John W. Pehle, Esquire,
Assistant to the Secretary,
Treasury Department,
Washington, D. C.

Sir: Re: Conversation with Mr. Georges Wildenstein,
Paris and New York art dealer.

The writer called on Mr. Wildenstein on September 23rd in connection with a general inquiry. The following conversation, which Mr. Wildenstein repeated to me, seems to be of sufficient interest to report it.

Prior to the arrival of the German army, Mr. Wildenstein left Paris and went to Aix-en-Provence. One day Mr. Aberstock, a Berlin art dealer, arrived at the hotel accompanied by a high ranking German officer, looking for Mr. Wildenstein.

Aberstock showed Mr. Wildenstein a letter signed by Hitler commissioning him to buy certain art works for Germany. He also had a letter of recommendation signed by Laval. He asked Mr. Wildenstein to purchase for him certain art works, and told him to offer payment in French francs, marks or lire. Mr. Wildenstein protested on the grounds that owners would not wish to part with their valuable possessions in exchange for these currencies. Mr. Aberstock asked what currency Mr. Wildenstein would suggest, and when he replied "dollars" Mr. Aberstock declared that "dollars would not be a desirable currency after they (the Germans) had finished with America". Mr. Wildenstein asked, "Do you think the United States is going to be such an easy job?" Aberstock replied, "It will be an easier inside job than France was."

Respectfully,

J. HOMER BUTLER,
Treasury Representative.

Respectfully forwarded,
Approved:

S. J. KENNEDY,
Treasury Representative,
Acting in Charge.

TREASURY DEPARTMENT

336

INTER OFFICE COMMUNICATION

DATE October 14, 1941

TO Secretary Morgenthau
FROM Messrs. Foley and Pehle

You may be interested in the following example of the work done by the Foreign Funds Control. The Foreign Funds Control is not in a position to prevent shipments of goods from the United States to Indo-China which are paid for out of two special accounts established prior to the Japanese control of Indo-China and consisting of the proceeds of imports of strategic materials into the United States. This Government committed itself to allow the proceeds of such imports of strategic materials to be used for exports to Indo-China insofar as the Foreign Funds Control was concerned.

However, through the information we get of materials leaving the United States for Axis-controlled areas such as Indo-China, we have been able, through Export Control, to prevent certain shipments from being exported to Indo-China. Recently we noted that a shipment of steel bars was moving under an Export Control license to a firm in Haiphong, Indo-China. We immediately got in touch with Export Control and pointed out to them that since the license was granted on May 1, 1941, there has been a considerable change in the situation in Indo-China and they might wish to consider revoking such license. Export Control indicated that they appreciated the matter being called to their attention and the license was canceled and Customs notified accordingly.

J. Pehle
J. P. 7L

OCT 14 1941

Mr. Floyd B. Odum,
Director, Division of Contract
Distribution,
Office of Production Management,
Social Security Building,
Washington, D. C.

Sir:

Receipt is acknowledged of your letter of October 8, 1941, with enclosures, in connection with the policy of spreading orders under the Executive Order of September 4, 1941.

Mr. Barnard, Assistant to the Secretary, has advised me that Mr. Harrison Smith of your office conferred today with Mr. Mack, Director of Procurement, in connection with the questions involved. I understand that the conference was a very satisfactory one, and that the plans are being worked out to fit the Procurement Division purchasing program into the policies outlined by your office.

Sincerely,

(Signed) E. B. Morgenthau, Jr.

TAM:CB

Secretary of the Treasury.

By Messenger 9:25 am

N. M. C.
cc - Thompson



OFFICE OF THE DIRECTOR

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TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

October 9, 1941.

MEMORANDUM TO THE SECRETARY:

Pursuant to arrangements made by Mr. Barnard with Mr. Odlum, I conferred with Mr. Harrison Smith of Mr. Odlum's office today and discussed with him the outline of proposed action contained in Mr. Odlum's letter to you of October 6, 1941, and the general problems in connection with the spreading of orders of our purchasing program.

I explained to Mr. Smith the extent and the nature of purchases made by the Procurement Division and in a general way, we considered means whereby such purchases might be worked into the general plan of Mr. Odlum.

It was agreed that I would furnish Mr. Smith a breakdown of the various items which we contemplate purchasing, as detailed as possible in the light of information on hand as to the needs of the various parties under each of our purchasing programs. This data is now in the process of preparation.

It was further understood that after this data had been studied by Mr. Odlum's office and that office had become more familiar with our purchasing programs, Mr. Smith and I would confer again as to the adoption of a definitive plan. When such plan is evolved I will submit the same to you for your approval.

In order to avoid introducing any new element into our procedure which might delay the processing of purchase requisitions, the principle was agreed upon that the determination as to whether a question of spreading of a particular order was involved would be made by Mr. Odlum's office in connection with the clearance of such order by OPM so that when we receive such clearance from OPM it will contain definite suggestions or requests of Mr. Odlum's office.

A proposed reply to Mr. Odum is enclosed herewith.

Cliff M. ...
Director of Procurement.

TREASURY DEPARTMENT

340

INTER OFFICE COMMUNICATION

DATE October 14, 1941

TO Secretary Morgenthau
FROM H. D. White

If the Axis' superiority in plane production is as large as is indicated in the appended memorandum, it is dangerous to delay much longer in revamping our own program. This memorandum, prepared by Mr. Kamarck, is preliminary and necessarily based on incomplete data. It is to be hoped that somewhere in the Government there exists information to disprove some of Kamarck's figures.

The following are the significant conclusions of the memorandum:

1. England cannot increase her production significantly; Russia's production can only decrease, hence any large increase in output must come from the United States.

2. If the Allies are to achieve effective equality with Germany and if Russia continues to hold her present area and continues to fight, then the United States must increase its combat plane production from its present level of something less than 1,000 per month to over 5,000 per month. Incidentally, it would seem that our goal should be superiority rather than equality.

3. If, further, Germany conquers some of the important Western industrial areas of Russia, the amount that we will have to produce to permit the Allies to maintain effective equality would raise the 5,000 figure to 6,000 or 7,000.

4. If Russia ceases to fight, we will have to produce even more than that.

These conclusions indicate the magnitude of the job before us, but if we start to think about the time factor, the job is even bigger.

TREASURY DEPARTMENT

341

INTER OFFICE COMMUNICATION

DATE October 9, 1941

TO Mr. White
FROM Mr. Kanarck

Subject: Preliminary Memorandum: Axis and Allied Production of Airplanes

Summary

1. To secure an air force as effective as the Axis possesses, it is probably necessary that the total Allied production of planes should be twice as great as Axis production. This is because the Axis has the favorable central position, Allied strategical needs are greater, Allied planes have to be more specialized, and the Allied lag in the past has to be made up.

2. The present Axis production of planes is from 3,500 to 5,500 a month, or, say, 4,500 a month. English production, Russian, and the Allied share of American production totals about 4,000 a month.

I. Axis and Allied Needs

To achieve equality with the Axis in effective air power, more than equality in planes produced is needed.

- (a) The fighting efficiency of a plane in the air forces of the Axis is much greater than that of a plane in the air forces of the Allies. The Axis occupies the central position, while the Allies are along the periphery. The Axis can concentrate its planes more quickly at the decisive spot. Planes that bomb London today may bomb Moscow tomorrow. A large proportion of the air force of each of the Allies is, moreover, strategically immobile. The British, no matter how great the need of Russia, are not likely to send their Metropolitan Fighter Squadrons to Russia, just as they refused to send them to France. The same is true of Russia. None of the South African air squadrons are permitted to leave Africa. On this count alone, to be as effective as the German air force, it would be necessary for the Allies to have perhaps a 50 percent numerical superiority.
- (b) All of the Axis planes are available for use against the Allies. This is not true of the Allied air forces. Both the Russians and the British are forced to maintain air squadrons in Asia as a protection against possible Japanese aggression. Also, some of the Allied production has to be diverted to Free China. Thus, a numerically equal total Allied air force would be inferior vis-a-vis the Axis.

- 2 -

- (c) It may well be that, since the Allies are attempting to overtake the German Air Force, a larger proportion of Allied production consists of trainers than is true of the Axis production. An equality in total planes produced may well hide an inferiority in combat planes.
- (d) In order to secure the same size air force, current Allied production has to be greater than current Axis production, since the lag of the past has to be made up.
- (e) Because of the dependency of England upon sea transport for supplies, a large number of planes have to be used for convoy patrol and shipping protection. These planes and the large number of specialized naval cooperation planes that England needs are not available for use in land campaigns. The Axis, on the other hand, uses only a few dozen planes at most to attack shipping. These are, moreover, not so rigidly specialized that they cannot be used in land warfare.
- (f) Only a part of the American production can be counted in with the Allied production since the American Air Force is not fighting in the war.

II. Axis Production

- (a) Estimates of monthly airplane production in Germany vary widely, from 1,700 to 4,500. The sources which should be in the best position to know the true situation, incline towards the upper figure. Informed Swedish sources told our military attache in Stockholm in January, 1941, that the German maximum capacity at that time, nine months ago, was 3,000 planes a month. The Soviet Military Attache in Budapest informed our military attache in April 1941, that German airplane production was 4,500 a month.

Most of the lower estimates are either from British sources or are, apparently, largely based on British sources. On the record, the British seem to have under-estimated German airplane production in the past. On March 7, 1940 (two months before the Battle of France which was lost, among other reasons, due to marked Allied inferiority in the air), Sir Kingsley Wood, Secretary of State for Air, stated, "Even on a numerical basis, the output of aircraft in Britain and France is now greater than that of Germany".

We do know that the Germans have been straining every nerve since the war began to increase their production of aircraft.

The various estimates of the monthly production of airplanes by Germany are listed below with their sources:

1. 1700, April 1941 (U.K. military magazine, The Fighting Forces, April 1941)
2. 1750, April 1941 (American observer in France, Report to M.I.D.)
3. 1800, September 1940 (U.K. source, Report to M.I.D.)
4. 2000, January 1940 (estimate of Colonel Laguire, head of German section, M.I.D.)
5. 2200, September 1941 (T.P. Wright, Vice-President, Curtiss-Wright Corp., in Aviation, January, 1941)
6. 3000, January 1941 (Swedish sources, Report of U.S. Military Attache, Stockholm)
7. 4200, September 1940 (Paul H. Wilkinson, Diesel Aviation Consultant, visitor to German factories in summer of 1939, in Aviation, September, 1940)
8. 4500, April 1941 (Russian Military Attache, Budapest, Report to M.I.D.)

- (b) Italy is probably producing not more than 500 planes a month. According to the June 1940 issue of The Aeroplane, British air magazine, the Italians were producing 250 planes a month on her entrance into the war. This figure they hoped to double. Hanson Baldwin believed that in June 1940, the Italians were already producing 500 planes a month. T.P. Wright, Vice-President of Curtiss-Wright, estimated that in September, 1941, the Italians would be producing 600 planes a month. (Aviation, January, 1941). This figure may not have been reached. Our Rome military attache reported in April, 1941, that the Italian industry was in bad shape. Some factories were doing repair work. Others were assembling German planes or making units or instruments for German planes.

- (c) In addition to German and Italian production, the Axis now controls the airplane industry of most of the rest of Continental Europe. Aside from France and the Netherlands, the other countries did not produce any sizeable number of planes. Nearly all, however, had a few airplane factories.

France probably did not produce more than 100 planes a month before she capitulated. According to Werner, (Battle for the World, p. 23), France produced 71 planes in February, 1939, and never went much higher. T.P. Wright, on the other hand, estimated that in June, 1940, the French were producing 400 planes a month (Aviation, January, 1941). Dutch production probably was not as high as 50 a month. Of the other occupied countries, Belgium had 6 plants; Denmark, 2; Poland, 4; Sweden, 5; Czechoslovakia, 7; Hungary, 2; Bulgaria, 1; Norway, 2; etc. There is very little information on what has happened to these factories. Some of them have been commandeered to build planes for Germany. This is true of Czechoslovakia and Poland. New factories have been built in Czechoslovakia according to Jane's All the World's Aircraft. Many of the plants in the occupied countries are used to repair German warplanes damaged on active service.

On the whole, the Germans are probably not getting more than 500 planes a month from the occupied areas.

- (d) Total Axis production, then, (adopting 3,000 as the minimum and 4,500 as the maximum German production, and 500-1,000 as the contribution of Italy and the occupied areas) is from 3,500 to 5,500 airplanes a month. 4,500 may be a good average figure.

III. Allied Production

- (a) There is surprising unanimity in the estimates of English plane production as being around 1,800 a month. The estimates of monthly production follow:

- (1) 1,800, September 1940 (U.S. Military Attache Report, September 15, 1940)
- (2) 1,850, September 1941 (T.P. Wright, Vice-President, Curtiss-Wright Corp., in Aviation, January, 1941)
- (3) Around 1,800, August 1940 (Winston Churchill stated on August 21, 1940 that U.K. production was already greater than the German. Official statements in

November, 1940 said that British aircraft output was ahead of Germany, according to Jane's All the World's Aircraft. The British estimate of German plane production, as shown in an article in the British military magazine, Fighting Forces, April, 1941, was 1,700 planes a month. We may assume, perhaps, that 1,800 is the figure the British produce which is "greater" than the German production. It is not likely to be much higher than 1,800 since the statement would probably say "considerably greater.")

- (b) There are very few estimates of Russian plane production. The available data indicate that at about the outbreak of war, the Russians were producing around 2,000 planes a month.

In 1935, the Russians were producing 333 planes a month, (Jane's All the World's Aircraft, 1940). In 1936, the Russians produced 666 planes a month (according to Colonel von Suelow in Militärwissenschaftliche Rundschau quoted in Werner, The Military Strength of the Powers, p. 77). In 1939, the Soviet Union produced 1,666 planes a month (Colonel von Suelow and Bréguet, quoted in Werner, p. 77). These figures indicate an absolute increase of 333 planes a month per year. Assuming the same absolute increase, in 1941 the Russians would be producing about 2,300 planes a month. While up to now, no major airplane producing centers have been lost by the Russians, the loss of some of the Ukrainian basic industries must have some impact on airplane production. The other war dislocations, also, should lead to some decrease in production. It may be safe, then, to estimate Russian plane production at 2,000 a month.

- (c) The United States is shipping currently 250 planes a month to the Allies.
- (d) The total number of planes a month being added to the Allied Air forces, therefore, comes to 4,050 planes a month. (English contribution, 1,000 a month; Soviet, 2000; and American, 250).

Oct 14 1941

My dear Mr. Secretary:

There are outstanding contracts totaling \$114 million for which the British have obligated themselves to pay dollars, and which we have been discussing with Mr. McCloy. The \$114 million is made up of the following:

- | | |
|---|-------------------|
| (1) Tanks and tank engines
contracted for prior to
March 11 | \$44,000,000 |
| (2) Airplane engines contracted
for prior to March 11..... | 40,000,000 |
| (3) Ordnance contracted for
since March 11..... | <u>30,000,000</u> |
| | \$114,000,000 |

It would be very helpful to the English in strengthening their dollar position if you could see your way clear to take these contracts off their hands.

I would appreciate it if you could let me have an answer on this matter.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The Honorable,

The Secretary of War.

By Messenger 3/24/41

EDW:iam
10/14/41

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

347

DATE October 14, 1941.

TO The Secretary
FROM Mr. Barnard

The first letter attached from Mr. Mack seems to me to represent sufficiently substantial progress to warrant a moment of your attention.





OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

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October 14, 1941

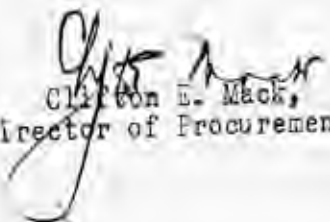
Memorandum to Mr. Barnard:

The attached copy of a letter from Mr. Elliot of the British Purchasing Commission refers to the discussion had at this office relative to the proposed plan to simplify the procedure having to do with steel purchases.

Our thought is that submission by the British of steel requirements for three months will permit a single determination by Mr. Hopkins' organization as to whether the quarterly needs are within the scope of the Lend-Lease Act, OPM will then be in a position to allocate for the three-month's period and we will be in a position to make purchases accordingly.

Representatives of the Lend-Lease organization and OPM are in agreement as to the practicability of the plan and agree further that it will eliminate many requisitions caused by submitting individual requisitions, which has been the procedure heretofore, resulting in hundreds of requisitions being received which under the scheduled program could be consolidated to a very large extent.

It is expected that the new plan will be put into effect as soon as Mr. Elliot is ready to submit a schedule of requirements.


Clifton E. Mack,
Director of Procurement

Attachment - 1

C
O
P
Y

BRITISH PURCHASING COMMISSION

10th October, 1941

Dear Mr. Mack:

The discussion, which we had yesterday afternoon in your office with representatives of the OPM and of the Lease-Lend Administration, was, I feel very helpful.

While I think the representatives of the OPM had in mind the whole picture and not steel alone, the points they raised are well taken. They were perhaps not aware of the extent to which our joint procedure has already evolved along the very lines they indicated.

As regards the conclusions which were reached, I shall be grateful if you will confirm or correct my understanding of them, which is as follows:-

(1) That the Liaison Committee will finally pass, or if necessary reject, steel requisitions as soon as they are received.

(2) That requisitions for direct shipment to the U.K. under the programme approved from time to time by the Lease-Lend Administration and OPM can be regarded as acceptable under Lease-Lend.

(3) That we shall, in future, submit blanket requisitions under this programme covering requirements for not less than three months ahead, and, if possible, longer.

This will enable us to deal with actual specifications as sub-requisitions, which the Liaison Committee will not require to pass again, and which will, therefore, come direct to Treasury Procurement and OPM.

(4) The Liaison Committee will consider granting the right of diversion to theatres of War, in respect of such requisitions.

(5) In the case of requirements for the British Empire a similar procedure will be considered for the products which can be presented in the form of a programme, such as, for example, tinplate.

(6) Otherwise, however, requirements for the British Empire will be submitted as they arise.

We are undertaking to do everything possible to obtain and furnish adequate explanations regarding use and to submit only requisitions for uses, acceptance of which can reasonably be expected.

(7) That it would be unwise to attempt at this stage to categorise acceptable uses, since the situation is not sufficiently crystalized to justify this, and since changing strategic considerations must tend to govern the Liaison Committee's decisions.

The agreement recently reached, which will enable us to eliminate large numbers of requisitions for miscellaneous requirements for the British Empire in order that they may again be supplied from the U.K., and to continue such arrangements as long as practicable, will, in our opinion, greatly facilitate the above simplification of procedure.

Yours sincerely,

/s/ I.F.L. Elliot

Mr. Clifton E. Mack,
Director
Procurement Division
U. S. Treasury Department
WASHINGTON, D.C.

Cc Mr. A. D. Whiteside,
" Robert J. Lynch
Sir Clive Baillieu

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

BY RADIO

TELEGRAM

OFFICIAL BUSINESS—GOVERNMENT RATES

TREASURY DEPARTMENT
 WASHINGTON

CHARGE TREASURY DEPARTMENT, APPROPRIATION FOR

Defense Savings - Expenses of Loans
 (The appropriation from which payable must be stated on above line)

U. S. GOVERNMENT PRINTING OFFICE

2-14117

October 14, 1941

Mr. Noel Coward
 Savoy Hotel
 London, England

THANKS DELIGHTED YOU CAN ROADCAST FOR US
 LOOKING FORWARD TO HEARING YOU NEXT TUESDAY

Henry Morgenthau, Jr.

October 14, 1941.

Dear Judge Campbell:

I much appreciated your letter of October 10th, with its comments on Mr. Buffington, and the enclosed résumé for my reading.

You will be interested to know, I am sure, that Mr. Buffington is now in the Treasury, and we feel sure that the connection will work out in a satisfactory way.

With thanks again for your letter, and cordial personal regards,

Sincerely,

(Signed) H. Morgenthau, Jr.

Judge William J. Campbell,
United States District Court,
Chicago, Illinois.

GEF/dbs

UNITED STATES DISTRICT COURT
CHICAGO

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CHAMBERS OF
JUDGE WILLIAM J. CAMPBELL

October 10, 1941

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

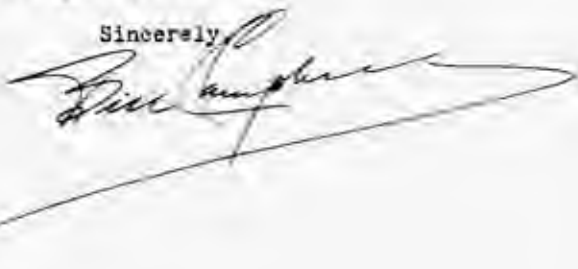
Dear Mr. Morgenthau:

Since your telephone call the other day while you were in Chicago I have made careful inquiry relative to Mr. George Buffington and I can assure you that all the information which I have received has been of the highest tribute to Mr. Buffington. The particular factors in which you were interested have no objection whatsoever to the gentleman's appointment. The enclosed gives a brief summary of the information I was able to get about Mr. Buffington personally. I suppose you already have this in much greater detail but I thought you might be interested in scanning over this in addition.

I certainly enjoyed hearing from you.

With kindest personal regards, I am

Sincerely,

A handwritten signature in cursive script, appearing to read "Bill Campbell", is written over a long, thin horizontal line that extends across the width of the page.

PREFATORY

George Buffington is 43 years of age, married, has three children, and resides in his own home located on Sutton Road, Barrington, Illinois. Title held in his wife's name, Sarah Louise Buffington.

Mr. Buffington was born in Buffington, Kentucky, March 9, 1898. He did not attend college.

BUSINESS

Since Aug. 1, 1938 he has maintained an office in suite 880, 231 S. LaSalle Street, and is engaged in business under his individual name as a financial consultant, making arrangements for the purchase of controlling stock in concerns, working with the investor and the concern itself.

He is Vice President & Director of Campbell, Wyant & Cannon Foundry Co., Muskegan, Michigan, and is a director of the Sullivan Machinery Co., Michigan City, Ind.

ANTECEDENTS

Prior to Aug., 1938 he was for five years a partner in the stock brokerage firm of Winthrop Mitchell & Co., members of the New York Stock Exchange. He was formerly from 1926 to 1933 a partner in the Stock Exchange firm of Eastman Dillon & Co.

PROPERTY

He represents a worth in excess of \$50,000 in security holdings not including his Barrington home, which cost \$50,000, and title held by his wife.

He enjoys a good income.

BANKING

He has since 1928 carried a non-borrowing account with one loop bank, involving daily substantial proportions.

INSURANCE

He carries in excess of \$75,000 life insurance.

REFERENCE

He has retail credit established in the local trade.

COURT ACTION

Our records show one suit filed against him on 5-10-36, Cir. Ct. for \$735.00 by Lloyd L. Burrows, and item reported adjusted.

SOCIAL

He is a member of the Union League Club, and the Barrington Hills Country Club.

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CONCLUSION

Mr. Buffington is well regarded at sources consulted, and is deemed worthy of confidence.

MEMORANDUM

October 8, 1941.

The records of the War Department show the following with respect to George N. Buffington:

Enlisted at Chicago on May 31, 1917, giving as residence Evanston, Illinois, and stating that he was born in Erlanger, Kentucky, March 9, 1898. He was assigned to the Base Hospital at Chicago on enlistment and was transferred to Headquarters Company, 326 Battalion Tank Corps, on July 14, 1918; transferred to "A" Company, Provisional Motor Transport Company, December 16, 1918, and was given his discharge on August 15, 1919, with character "Excellent." He was overseas from September 25, 1918, to August 9, 1919, when he returned as a Sergeant in a Motor Transport Company. He was with the Army of Occupation in Germany from January 8, 1919, to July 22, 1919; was gassed in Longres, France, in November, 1918; and was given a Victory Medal with French clasp.

Bill Hurd

W. J. H.

October 14, 1941

Mr. B. V. Ball
 Mr. Sterling

STRICTLY CONFIDENTIAL

At 10:43 a.m. I received from Mr. Gumpin, the Russian Charge d'Affaires, the following letter:

"My dear Mr. Secretary:

On or about October 16, 1941 there will be deposited at the United States Mint, San Francisco, gold valued at approximately \$5,000,000 for account of the Secretary of the Treasury of the United States by order of the Government of the Union of Soviet Socialist Republics. This gold will arrive on the S. S. Balaportov and it is to be applied against the amount of gold sold under the agreement of August 15, 1941.

Very truly yours,

A. Gumpin
 Charge d'Affaires."

The letter was addressed to Secretary Morgenthau and dated October 14, 1941.

At 10:50 a.m. I spoke to Mr. Gannon at the Federal and informed him that I had received the above letter. Mr. Gannon stated that he had heard from the Chase Bank and that both the Chase and the Amberg Trading Corporation felt that the Chase should receive instructions from the State Bank of the U.S.S.R. to deposit the shipment for account of the Secretary of the Treasury rather than that bank accepting instructions from the Amberg.

At 10:55 a.m. I called Mr. Gumpin, the Russian Charge d'Affaires, and informed him that I had received his letter but that I noticed that the stenotypic was the DIRECTOR, not the MINISTER, as I had been previously advised. I asked Mr. Gumpin if there were two ships pending and he replied that there was only one, the DIRECTOR. I then mentioned to him the position which the Chase and the Amberg had taken regarding instructions for the depositing of this gold and Mr. Gumpin conferred with Mr. Laskaer, President of the Amberg Trading Corporation, who was with him at the time. Mr. Gumpin then told me that Mr. Laskaer had given instructions to the Amberg yesterday to deposit the gold in San Francisco in the same manner as the previous shipment, that it was not necessary for the Chase to receive instructions from the State Bank and that the instructions of the Amberg regarding the depositing of the gold were valid.

At 11:05 a.m. I called Mr. Gannon and informed him of the reply received from Mr. Gumpin and he said that he would pass this information on to the Chase Bank.

At 11:45 Mr. Cameron called back and said that the Chase Bank had now told him that it was receiving a letter from the Astory Trading Corporation regarding the depositing of this gold and that the letter was satisfactory to the Chase Bank.



FD:lp-10/14/41

Exchange Reallocation Fund

Superintendent,
United States Mint,
San Francisco, California.

On or about October 16, 1941 you will receive gold valued at approximately 19,000,000 for the account of the Secretary of the Treasury by order of the Department of the Union of Soviet Socialist Republics. Upon receipt of this gold you are hereby authorized and instructed to melt and determine the value. After determination of the value you are further authorized and instructed to purchase the gold at the flat price of \$35 per fine Troy ounce without subtracting the 1/4 of 1 percent handling charge, to draw the deposit certificate accordingly and to draw your check for the net value of the gold (less the usual net charge) to the order of the Federal Reserve Bank of San Francisco for account of the Federal Reserve Bank of New York for credit to the "Secretary of the Treasury, Special Account." Please instruct the Federal Reserve Bank of New York for transfer this amount by teletype to the Federal Reserve Bank of New York for credit to the "Secretary of the Treasury, Special Account." Please have the Federal Reserve Bank of San Francisco include in the telegram to the Federal Reserve Bank of New York the outline of the number of fine ounces, the total dollar value, the amount of the regular 1/4 of 1 percent handling charge, and the mint charges which have been deducted, as well as the name of the ship on which the gold was transported, and the date of its arrival. Please prepare six copies of this Form 10-2 in the usual manner inserting in the proposed spaces at the foot of the report the total value of the gold, the melting charge, the handling charge, the total charges, and the net value of the gold, with the handling and other charges deducted, but without other extraneous notations on the Form. Please do not mention in the report, as was done in the case of the September transaction, that the 1/4% handling charge has been computed but not charged. Please forward three forms to the Secretary of the Treasury, Attention: Frank Dietrich, Treasury Department, Washington, D. C. You will observe from the instructions that you are not to deduct the 1/4 of 1% handling charge.

Secretary of the Treasury.

Attended: TD 527 00 10

FD-100-10/24/41

**Exchange Stabilization
Fund**

OCT 14 1941

**Superintendent,
United States Mint,
San Francisco, California.**

Referring to telegram today regarding deposit
\$5,000,000 gold for account Secretary of the Treasury
please advise by telegraph when gold is received by
you

(Signed) D. W. BELL

Acting Secretary of the Treasury

FD-10-10/14/41

Chase National Bank

October 14, 1941.

(Reference 2-45-ECF)

Mr. L. W. Knoke,
Vice President,
Federal Reserve Bank of New York,
New York.

Dear Mr. Knoke:

We are in receipt of instructions from Amtorg Trading Corporation, requesting us to notify you, as Fiscal Agents of the United States, that, at the instance of the State Bank of the U. S. S. R., we are authorized to deposit forthwith all of the gold that arrived on the "S. S. Dneprostroy," in the San Francisco mint, for account of the Secretary of the Treasury.

We are telegraphing our San Francisco representative accordingly.

Kindly forward copy of this letter to the Treasury Department in Washington.

Very truly yours,

(signed)
E. C. Funck,
Second Vice President.

(Rec'd. from Mr. Knoke's office, F.R.B., N.Y., 12:10 P.M., 10-14-41, hr)

October 14, 1941

Files

Mr. Dietrich

Mr. Lang of the Federal Reserve Bank of New York informed me today that the Federal received \$500,000 from the Bank of China, New York, for credit of the Bank of England by order of the Central Bank of China, Shanghai.

Mr. Raymond of the Bank of China, New York, told me that instructions to make this payment were received from the Bank of China, Hong Kong.



COPIES

CONFIDENTIAL

363

No. 176

Chungking, October 14, 1941

Subject: Reported criticism of Dr. T. V. Soong in connection with the American-Chinese Stabilization Agreement.

Airmail

CONFIDENTIAL

The Honorable
The Secretary of State,
Washington, D. C.

Sir:

1/ I have the honor to enclose as of possible interest to the Department copy of a memorandum submitted to me by Second Secretary Drumright relating to information obtained by him and Third Secretary Service from Mr. Maurice Votaw during the latter's recent week-end visit to the officers named.

Mr. Votaw is an American citizen, a teacher at St. John's University at Shanghai for some years, who is now connected with the publicity department of the National Government at Chungking. Mr. Votaw has been living during the summer with the family of Dr. E. H. Kung, the Minister of Finance, and I

take it that his remarks are based upon information he acquired in his official and personal associations.

I need not dwell on the known antipathy between Dr. H. H. Kung and his brother-in-law, Dr. T. V. Soong, or on the latter's attitude toward the Generalissimo.

I attach no particular importance to the information regarding the Sino-American stabilization agreement and its non-ratification. I assume that if the document is of a character requiring ratification, such ratification would have been sought from the Chinese Government before Dr. A. Manuel Fox came out to take his place on the Stabilization Board. The dissatisfaction with the terms of the agreement, if any, may have its source in the rivalry between Drs. Kung and Soong and some disposition on the part of the former to disparage the ability of the latter.

The remarks regarding Dr. Soong's relations with officials of the American Government conform to rumors which have been circulating in Chungking for some time. They, also, may have had source in the known feud between the brothers-in-law.

I submit the enclosed memorandum merely on the off-chance that it carries information which may be of interest or value to the Department in reference to the stabilization agreement and the full acceptance of its responsibilities thereunder by the Chinese national government.

Respectfully yours,

C. E. Gauss

Enclosure:

1/ Memorandum as above

Original and two copies by air to the Department
Two copies to the Department by pouch

CEG/wr

851

True copy
of signed original

MEMORANDUM TO THE AMBASSADOR

Subject: Reported Reluctance of General Chiang Kai-shek and Dr. H. H. Kung to seek Ratification of American-Chinese Stabilization Agreement; Alleged Unpopularity of T.V. Soong in Washington.

Mr. Maurice Votaw, an American citizen who has been teaching at St. John's University at Shanghai since 1932 and who has been on leave of absence for the past two years so that he could give his services to the Chinese Government, spent the week-end with Mr. Service and me; and in the course of some rather extended conversations he made some assertions that are believed to be worthy of record. It may be mentioned that Mr. Votaw is widely known in Chinese official and educational circles, that he is the right-hand assistant of Mr. Hollington K. Tong, Vice Minister of Publicity and confidant of General Chiang Kai-shek, and that he is well known and often gives his services to Madame Chiang Kai-shek and Dr. and Mrs. H. H. Kung, having lived with the latter family throughout the summer of 1941. It is believed that Mr. Votaw is a reliable source of information.

Mr. Votaw said that General Chiang Kai-shek and Dr. H. H. Kung are on the horns of a dilemma with regard to ratification of the American-Chinese stabilization loan agreement. He said that according to law the agreement must be ratified by the Legislative Yuan to give it legal validity, but that both General Chiang and Dr. Kung are hesitant to take this action because of the alleged rigorous terms and language of the agreement; they fear that the Legislative Yuan may refuse to ratify the agreement. Mr. Votaw went on to say that Mr. T. V. Soong had not referred the agreement to the authorities in Chungking for their approval before he signed it and that moreover he had signed as a "plenipotentiary" official of the Chinese Government when in fact he had no such powers. Mr. Votaw added that a copy of the agreement was not received in Chungking for more than a month after it had been signed. He asserted that the Chinese authorities (inferentially General Chiang and Dr. H. H. Kung) resented the severity of the language employed in the agreement as well as its restrictive and binding terms. In this relation he explained that information had been received to the effect that the draft agreement had been drawn up by some expert mortgage attorney in Washington; and he said that the observation had been made (by whom he did not say) that the stabilization agreement smacked of a contract such as a money-lender might draw up. The British-Chinese stabilization

agreement was by comparison much more liberal in its terms and conditions and in the mildness of its language, Mr. Votaw added. He went on to say that General Chiang and Dr. Kung were astounded to learn that Mr. T. V. Soong would sign such an agreement and that they were very much displeased with his action in so doing. Mr. Votaw stated that he did not know what action would be taken by the Chinese authorities in respect of the ratification of the American-Chinese stabilization agreement.

Discussion of the foregoing subject led to talk on the status of Mr. T. V. Soong. In this connection, Mr. Votaw said that Generalissimo Chiang and Mr. Kung would like to recall Mr. Soong from Washington but do not know just how to go about effecting this action. He said that Mr. Soong's actions in the United States are not looked on with favor by Chinese in Chungking or in the United States. Mr. Votaw continued that Mr. Soong in his dealings with American officials has acted with utter disregard of the Chinese Ambassador in Washington; that his actions have been calculated to undermine the position of other important Chinese in the United States and notably Mr. K. C. Li of the Wah Chang Trading Company (who has just arrived in Chungking on a flying trip from New York). Mr. Votaw asserted that General Chiang and other Chinese officials are irritated at Mr. Soong's endeavors to gather to himself credit for the recent negotiations with the American Government.

Mr. Votaw said also that word has come from Washington that Mr. Soong has by his lack of tact and arrogance alienated the friendship and kindly feelings of a number of high American officials. For example, it is said that Secretary Morgenthau will not receive Mr. Soong. Another report current in Chungking is that Mr. Soong recently offended Mr. Hull by walking out of a dinner party because he was not satisfied with the seating arrangement and that later when he came to call on Mr. Hull he was not received.

(Sgd) EFD

EFD/wr

True copy
of signed original

PARAPHRASE OF TELEGRAM RECEIVED

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FROM: AMERICAN CONSUL, SHANGHAI
TO: Secretary of State, Washington
DATED: October 14, noon.
NO.: 1464

My October 11, no. 1454. Genuine alarm is expressed by Chinese bankers here at runaway commodity price situation and adverse psychological reaction to slumping in market exchange rates for Chinese currency in Shanghai, despite the fact that the volume of such transactions is limited. There is a severe test here of local confidence in Chinese currency. It is maintained by these bankers that the avowed aims of Stabilization Board in granting exchange allotments at high official rates and of the American Treasury authorities in freezing Chinese credits are defeated through the existence of too many loopholes and inadequate control mechanism. It is anticipated that there will be serious aggravation of living conditions in Shanghai, particularly among the wage earning class. American banknotes are reported having been bought up by Japanese interests locally for hoarding and for needed purchases of materials out of local stocks, especially metals, as payment is demanded in American currency by the sellers.

The general situation has been further aggravated by additional control measures imposed by Japanese and Nanking authorities probably designed to offset policy of the Stabilization Board toward Shanghai and expectation is rapidly gaining in the exchange that the Japanese will attempt, if present developments are not checked, to assume additional economic control in this area.

Copy:hr:10-20-41. LOCEHART

TREASURY DEPARTMENT

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INTER-OFFICE COMMUNICATION

DATE October 14, 1941.

TO *Sec Miss Chauncey*
 Secretary Morgenthau

FROM Mr. Dietrich

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Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£103,000
Purchased from commercial concerns	£ 35,000

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

The Argentine free peso, which closed at .2350 on Saturday, improved to .2365 by the close today in a thin market. It is believed that the upward movement may have resulted from the announcement that a trade agreement had been concluded between this country and Argentina.

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

Canadian dollar	11-3/8% discount
Brazilian milreis (free)	.0505
Colombian peso	.5775
Mexican peso	.2070
Uruguayan peso (free)	.4600
Venezuelan bolivar	.2670
Cuban peso	1/8% discount

We purchased \$2,500,000 in gold from the earmarked account of the Central Bank of the Uruguayan Republic.

No new gold engagements were reported.

We were informed that the Bombay gold price on October 11 was equivalent to \$34.16, or 2¢ higher than the quotation of October 4. Silver was again priced at the equivalent of 44.20¢.

Both yesterday and today, the prices fixed in London for spot and forward silver remained 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.

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The Federal Reserve Bank's report of October 8, listing deposits of banks in Asia with the New York agencies of Japanese banks, showed that such deposits totaled \$57,586,000, an increase of \$133,000 since October 1. Also reported were selected items from the statement of the Yokohama Specie Bank's New York Agency, which revealed no appreciable changes.



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G-2/2657-220; No. 518 M.I.D., W.D. 11:00 A.M., October 14, 1941

SITUATION REPORTI. Eastern Theater.

Ground: There is no change in the situation at Leningrad and Odessa.

On the central front, the Germans are pressing their attacks vigorously. The front now extends along the line: Rzhev—Gzhatsk—Medyn—Kaluga—thence south.

Kursk has been captured by the Germans.

The Germans' advance north and south of Kharkov continues slowly.

No further information covering the German advance north of the Sea of Azov is available.

Unconfirmed information indicates that the Germans have reached Borodino and that their advance guards are in the vicinity of Taganrog.

Air: A Russian source admitted that it appeared a few days ago that Germany had attained absolute superiority in the air. The Government newspaper "Izvestia" says that this condition has changed in the past few days and that Red fighters now patrol all the major sectors.

II. Western Theater.

Air: R.A.F. objectives were scattered last night with Dusseldorf and Cologne as principal ones, while Bologne and shipping off the French coast were among the others. Daylight raids took place on German air bases in northern France, with heavy activity resulting between the attackers and the forces based there.

Germany claims to have raided numerous airfields in eastern England last night.

III. Middle Eastern Theater.

Air: An engagement between Italian air units and a British naval unit has taken place in the Eastern Mediterranean. Italian torpedo-carrying planes were said to have scored hits on a British battleship and a cruiser of 10,000 tons. The cruiser was said to have been observed listing badly. Sunday night heavy British bombers attacked Bengazi, Tripoli, Bardia and the airdrome at Gazala.

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