DIARY

Book 454

October 24 - 27, 1941

October 24, 1941
10:15 a.m.

RE FOOD SPECULATION

Present: Mr. Haas
Mrs. Klotz
Mr. Foley
Mr. Kuhn
Mr. Pehle
Mr. Mehl
Mr. Shields
Mr. Ragnel

H.M.Jr: What will we do for fifteen minutes?

Mehl: Mr. Secretary, we have done a little thinking about these small accounts. As I indicated the other day, it is rather a normal thing to find dentists and doctors and lawyers in the commodity markets. We rather agree with you that in times like this a speculative movement on the part of the small traders can get under way simply because some war news, excitement, - and I don't think I told you that under our Act we do not have power to fix margins, and one of the breaks on speculative trading on the part of dentists and lawyers and barbers and that sort of people is a high margin requirement.

Without debating the question of whether or not there should be some speculation in order to carry the hedgers, to maintain a normal market machinery, including a system of future trading, we are certainly justified in insisting that speculators, risk carriers, be of substantial character, that they have enough money back of their trades to be able to stand recessions in the market, and try to get a little better type of trader into the market, or rather keep out the fellows who don't know the risk that they assume.

H.M.Jr: Well, could I --

Mehl: I discussed that question with Secretary Wickard this morning, the desirability --

H.M.Jr: You spoke to him?

Mehl: Yes, of pushing for legislation, to give the Government that authority, and he indicated that we might invite your views.

H.M.Jr: Well, let me - I have done a lot of thinking about this thing. I went all through this in the Farm Credit days when the President asked me to stabilize the price of wheat. I don't know whether you know this story or not. He got worried one night and called me up. Mr. Wallace came to the house at midnight and they authorized me to buy twenty-five million bushels of wheat. One day in four minutes I bought six million bushels and almost fainted. It was at five minutes of twelve on a Saturday.

I have had a little experience. Who is in charge in these futures?

Mehl: Dr. Duggan.

H.M.Jr: Let me ask you this. I know this goes pretty deep. Let's assume that we have - there is a fifty-fifty chance that we are going to get in a war. We are in an undeclared war now. The President issued orders September 11 to shoot on sight, so we are in an undeclared war. Let's say we go a step further. I know the story. I am looking at this thing from the standpoint of what is good for a hundred and thirty million people. Why must we permit speculation in food and the staples of life at all? I mean, why must people be permitted to speculate in lard, potatoes and all of these things? Supposing the Administration said we considered that this was bad practice and keeps the price of food fluctuating. Let me be the proponent of that. How much damage would ~~it~~ do to the cotton mill who has the cotton goods going through, and the miller who has the flour going through, and so forth and so on, if we simply said, "From now on, no speculation in commodities"?

Mehl: Well, in the absence of price fixing, Mr. Secretary, I feel that the immediate effect of prohibiting speculation in commodity futures would immediately widen the margin between consumer prices and producer prices.

H.M.Jr: Have you got any experience to base that on?

Mehl: No, but I think we have a fairly logical line of reasoning, and that is this: Cotton and wheat start to move from the farm in wagonload and truckload lots. The price risk attached to those quantities is not great. A local elevator, for example, will buy a wagonload or a truckload of wheat, and a margin of five or six cents a bushel covers his overhead and a fair margin of profit. It may not make much difference to the financial stability of that company, a small dealer who trades in those lots, if he stands open a day, even if the market moves five cents.

He can't lose a lot. But when those wagon-loads of wheat move to the terminal markets and move into the hands of people who have ownership in terms of millions of bushels, and who turn wheat, who are glad to turn wheat in lots of two hundred and fifty thousand bushels for a quarter of a cent a bushel, they can't possibly take the risk of a price change of five and ten cents a bushel. It means bankruptcy. So that these market risks concentrate and grow, you might say, in geometric ratio as the commodity moves into the central market. Someone has to carry the risk.

Now, the fundamental question in my mind is, shall we force the large handlers to take and carry the risks that they are most anxious to avoid?

Isn't it reasonable - true, the futures market, you should permit these large risks to be broken up again into small parts and carried by those who are willing carriers, speculators, if you please? I know you can debate that question.

H.M.Jr: Well, I am not at all sure, because - I mean, let's call a spade a spade. As the situation is now, we are willing to let the dentist and the butcher and the gasoline fellow take a week's contract in cotton in order to eliminate this risk, but it is a two-edged sword.

Now, of course you have eliminated the risk when you put in a floor at either eighty-five per cent or a hundred per cent loan, so you put a floor under that. I just wondered if people understood the thing thoroughly, that we are saying, "All right, boys, the Government thinks it is a good thing that you go in and speculate"?

Mehl: Well, now, Mr. Secretary, you have provided a floor in so far as the farmer is concerned, and we have not had this, that when the loan prices of other - well, the commercial price, of course, the commodity moves into the loan but there comes a time that the loan starts and has got to move back into commercial channels unless the Government is going into the business of merchandising that stuff, and when that happens, Mr. Secretary, you find the hedging positions of mills and terminal elevators going short and on the long side you find the speculators coming in and carrying --

H.M.Jr: You see, I have had another experience I want to tell you. I went all through this with the foreign exchange people and I just wiped them out. You see, every argument that you are using here now was used by the man who did business in international foreign exchange, and we have eliminated him. He doesn't exist. When they talk about international bankers, people don't know what they are talking about. What they really mean are the international speculators in foreign exchange that are willing to sell any country short if they thought that that country was a little weak. They would sell that country's exchange short and aggravate the situation, and many a time they brought a downfall of government, just the way - very extra triple confidentially - somebody has made the suggestion - I mean this is - that we go short in Japanese yen, to aggravate the situation, you see. Now, who is doing that? I have got a two billion dollar Stabilization Fund, and I am in this business instead of the speculator. We had a tri-partite agreement with England and France just to eliminate this thing. Now, what I am groping for - I mean, there was no more vermin than the dealer in foreign exchange. He knew no flag, he knew no country. He was the low of the low, and his job was to smell out if a certain country was weak, and if that poor country was weak, he just aggravated it by going short in that exchange, and many a government fell, due to the international speculator that had offices in London, Berlin, Paris, and Amsterdam.

Now, we wiped that fellow out. We stabilized the dollar and Congress has given me two billion dollars, and I have made money at it. Now, it isn't beyond the realms of possibility that the Department of Agriculture should have a Stabilization Fund to take the risk out of cotton and wheat while this thing is going to go through. I am just throwing it out. Why isn't that within the realms of possibility? And eliminate - I don't want to call them names, but instead of encouraging the little fellow who has taken a terrible licking this last two weeks, to buy potatoes and lard and so forth and so on - I mean, why isn't that within the realms, that the Department of Agriculture should be given a hundred million dollars in order to take this cushion?

Mehl: You mean to provide the price insurance facilities that are now provided by the speculator?

H.M.Jr: Yes.

Mehl: I wouldn't argue about that.

H.M.Jr: What is the matter with that? Instead of going to Congress to increase the margin, go to Congress to get an insurance fund to take the risk out of this thing so that if the man buys his cotton at seventeen cents, the commodity is going to go through, that this thing is - that you take this risk. What is the matter with that idea? I mean, go the whole hog.

Mehl: I have no objection to the Government becoming the insurer and taking the place of the speculator.

H.M.Jr: Isn't that a good idea?

Mehl: I don't like to be in the position of defending the speculator, because most of the time we are jumping on them.

H.M.Jr: You and I at the moment are. And if the people really knew what you and I are doing, we would have a - pardon me, Mrs. Klotz - a hell of a time explaining. Wickard could never explain it, no more than I can explain what I have been doing unknowingly through frozen funds. Wickard never could explain it. It isn't a very good example, but we have an insurance fund here. I wasn't going to give all this insurance business to the monopoly of insurance people in England. Am I right?

Foley: Yes.

H.M.Jr: We have an insurance fund, and just to give you a little story, just for a little amusement, the Swiss thought that they could beat the game with Lloyd's Insurance, so they sent one brick of gold from Switzerland by parcel post. It is the only brick of gold that has ever disappeared. It was stolen. It never happened before, and it has never happened since. But they sent it by parcel post insured, instead of insuring with Lloyds. That brick of gold disappeared. Well, it worried them naturally, so they never did it again. So we got out and we have the authority. We insure ourselves. We don't go to these people, and we don't pay that insurance. I mean, I am just using that - just the way you can do this thing. What do you gentlemen think?

Bagnel: It seems to me there no question that if you include the price fixing element, which it seems to me is what you are doing, insurance is in effect Government price fixing, or at least Government price guaranteeing, then --

H.M.Jr: No, that isn't it. I am talking about an insurance fund which will take the risk for the manufacturer who is processing a commodity while it is going through his plant.

Bagnel: Well, in effect for that manufacturer that would be substantially a price guarantee, wouldn't it?

H.M.Jr: Well, it simply would mean that if this fellow bought the cotton at seventeen cents that you would give him some kind of a guarantee that if the process takes two weeks or three weeks, that - if it goes down, the Government would have to take a loss, that is all. We would guarantee him against loss, a differential. It would be worked out some way like that.

Mehl: It would put the Government practically in the position of selling privileges, wouldn't it, options?

Bagnel: Well, substantially, I would say. It would give them a call or option on - if it did go below seventeen cents, this manufacturer would look to the Government to recompense him.

H.M.Jr: Well, I am thinking of the philosophy. I am thinking - now take sugar coating. Where does it leave Mr. Wickard and me? We are in an indefensible position, if the public really knew what we were sanctioning. They never could explain it.

Bagnel: Well, it has the effect, doesn't it, of passing a risk to the Government that is now being carried by these small speculators?

H.M.Jr: That is right. Also removing whatever the aggregate of these small speculators are in pushing the thing up.

Bagnel: I think it is clear that there is a risk existing in any of these commodities. That is, somebody is going to speculate. It is either the processor or the dentist and the barber, or the Government.

H.M.Jr: That is right.

Bagnel: Now, the processor doesn't want to speculate. He doesn't want to - he lets the barber and dentist do it for him. You would tell the barber and the dentist,"You have got no business doing this sort of thing, and the Government is going to take care of it." I think that could be done.

H.M.Jr: I am not a technician. In the foreign exchange thing I know how to do it. But for two days I have been worrying about this thing, and I find myself in an impossible position on the matter of public relations if I tried to explain it, and Mr. Wickard is in it just ten times worse if he stops to think about it.

Shields: Well, I am not competent to speak on this, I don't understand it all, but doesn't what you are saying, Mr. Secretary, really involve either price fixing as such, or so manipulating this fund that the price is fixed in effect? I think our general view has been that we think it is desirable for markets to fluctuate, say from eighty-five per cent of parity to a little above, so they will average out about that.

Now, if I understand the analysis of what you are saying, it would be that we would have to use this fund in such a way as to fix the price at a point - we would have to fix it at a point. Now, isn't that true?

H.M.Jr: You are not going to remove the thing, this question of supply and demand, but you might - after all, you have got a ten cent limit in wheat now, which I think, if you don't mind, is entirely too high, to permit a play of ten cents.

Shields: I think we would sort of agree with you.

H.M.Jr: I can't look the thing up. But supposing you said that - I keep drawing from my own experience - that over a period of thirty days that if a man bought a contract, that that contract might not fluctuate more than so many cents, and that he couldn't sell it under thirty cents.

We sell a man a United States Defense Bond. If you go back to war days, he could buy it and sell it. He can't sell it any more. We make him keep it for sixty days. In other words, we removed the speculation of the small man in Government bonds.

Here is another case. We completely removed the speculation, so that we won't put on the drive and the fellow found he over-bought and then have to sell out at eighty-three. Now, I have successfully removed that, and if I can do it there, I can do it in foreign exchange. I can't write the ticket, but I think I am on the right track. I am not a technician in wheat, but if the fellow couldn't get in and out the same day, if he had to keep the contract - you say it takes thirty days to go through a cotton mill, and if he had to keep the contract for thirty days or two weeks and then the price was limited, that it could fluctuate within a few cents, something like that.

Shields: My point I just wanted to make, I believe that if we could avoid it, we would like to avoid price fixing.

H.M.Jr: Me too.

Shields: That is the reason we are opposed to hundred per cent loans. It seems to me that is the same as price fixing. I think it is very bad.

H.M.Jr: I am glad to hear you say that.

Shields: And we are opposed to speculating in these markets, and I think we need more authority than we have to stop it, such as the ten cent limit and that sort of thing.

H.M.Jr: Well, that is fixed by Mr. Mehl.

Mehl: No, we have no authority.

H.M.Jr: You used to be able to change it.

Mehl: No, the exchanges did it on our suggestion. We fought with them about it, but we never had any legal authority to do it.

H.M.Jr: But if you said, "Tomorrow it is five cents," wouldn't they do it?

Mehl: It is possible under these conditions.

H.M.Jr: Sure, they would.

Shields: We think there are several legal powers that we ought to have that we don't now have, and have done some work on them in the past. We are opposed to this speculation of the banker and dentist and so forth, but as I see it, we are anxious to avoid price fixing. Now, it seems to me - I don't understand it very well - that what you are saying is that either by law or fiat, some way, we fix the price or else we take a fund and use it in such a way as to peg the price. Now, unless we can peg it and peg it pretty securely, it seems to me that what you (Mehl) have said would be true, the margins would have to be increased because there would be the risk. Maybe I don't understand this.

H.M.Jr: Look, this is the way I work in the Treasury. I don't think anybody in the room will disagree as to the fact that if knowingly or unknowingly we encourage people to speculate in food, it is wrong.

Shields: Oh, yes. I think we all agree that that is sin and we are all against sin, but the question is just what we should do about it.

H.M.Jr: Now, in the Treasury we have been able to completely eliminate the speculator in foreign exchange and we have been able to eliminate the speculator in government bonds up to five thousand dollars. Now, it took technicians to do that, it took months to do it. I am not a technician in the speculation of food, but I am sure you have people who could work it out.

We didn't do it in a day. It took us three months to work out the technical aspects to eliminate - I mean, we were actually on the thing three months until we worked out a way, how to eliminate the speculation for the small person in government bonds, but we have done it and everybody is happy.

Bagnel: I think it would be much more difficult to eliminate speculative risks in a commodity because it seems to me you have one there based on crop conditions and all the innumerable things, that somebody has to carry.

H.M.Jr: And I think if we want to eliminate it until this war is over, I think it is up to the Government to carry it.

Mehl: I think it is an error to assume, though, that you can prohibit speculation by prohibiting it in futures, by keeping out the dentist and the doctor. I am not so sure but by that course you drive speculation into the actual commodities --

H.M.Jr: I will give you another example. Excuse me. I did it in silver and I was under the most terrific barrage, wasn't I? You can't buy a future in silver. Handy and Harmon in New York and all the silver people, I ruled their business and they had their Congressmen and Senators here and the idea was, you just can't do it.

Mehl: But you did something more, Mr. Secretary, than to prohibit trading in silver futures. You were dealing with silver as a commodity also.

H.M.Jr: True, but I stopped - did I have the law to do it? How did I do it, Ed?

Foley: That was before my time, Mr. Secretary.

Pehle: It was done under regulation, but the regulations have all been lifted and all that is left now is the fifty percent tax on profits, which is one of the effective ways of stopping it.

H.M.Jr: But I did it.

Pehle: That is right.

H.M.Jr: And I set the price every day at noon, from day to day. Well, we did it through the tax. We made it so that if you won you took fifty percent and if you lost you took it all. All I am saying is, and then we will get on this other thing, it took me three months to do it in the government bond thing, and I am sure that the people over there are smart enough that if Mr. Wickard says,"I didn't realize that I was the current speculator in food, I want to get out of that position"- and if he say, "Boys, get busy and get me out of it," I am sure you fellows can get him out of it.

Mehl: You are right.

Shields: I am inclined to think that we can do more, perhaps, than we have, Mr. Secretary. I think that is probably true - but perhaps even more with the authority that we have. I am not a technician. I don't know. We certainly are with you in the objective, and want to. As to this price fixing, I don't believe - if that is what it involves --

H.M.Jr: No --

Shields: ...wholly, I don't think we would agree with that.

H.M.Jr: No, I wasn't thinking of that at all. Now, could we leave this thing here and then you - could I hear from Mr. Pehle where we stand as speculators in food?

Pehle: Well, we have a general license outstanding, Mr. Secretary, as you know now. During August 1941, which is the latest month for which we have complete figures, under that general license we have computed the figures on the six principal commodities and of those figures it shows that the highest amount of any commodity in which the transactions were conducted under this general license was lard, where two point three percent of the total trading was done in blocked funds.

H.M.Jr: Lard, on my weekly chart, has had one of the highest increases since September of any single commodity.

Haas: That is a fairly good sized figure. Mehl, on your figure that you get on cotton, it is only two or three percent of all the big operators. That is all it amounts to, isn't it?

Mehl: In the case of lard?

Haas: Not lard, but cotton.

Pehle: In cotton the percentage of blocked funds was point eighteen of one percent.

Kuhn: But your point is that the two point in cotton was enough to swing the whole market.

Haas: That constituted all those big operators you get reports on. They constitute three percent of the total trading.

Pehle: This was eighteen one hundredths in cotton.

Haas: Cotton, yes, but the other commodity there was --

Pehle: Two point three percent of the total trading was done under - now, of that, seven million pounds were purchased and five million pounds sold, so two million pounds was carried over, was the aggregate. The total trading was three hundred twenty-three million pounds. It was sold and it was dealt in during the month of August. Under our licenses, seven million pounds were purchased and five million pounds were sold. So that is the greatest amount. In wheat, it was six hundredths of one percent, the amount of blocked funds used.

In cotton, it was point eighteen percent. In sugar, it was one point six percent; cotton-seed oil, thirty-eight hundredths of one percent and in soy beans, one point eight percent.

H.M.Jr: That is just for August?

Pehle: That is for August, yes sir.

H.M.Jr: Have you got anything else?

Pehle: Yes, sir.

H.M.Jr: What have you got?

Pehle: In addition to what is done under the general license, we have a number of people who are operating under our licenses entirely who do commodity futures operations under the license, such as Laval Company, which is a blocked national because it is owned by Louis Dreyfus, States Grain Corporation, which we have as a blocked national, Continental Grain, Feedley Brothers, one or two others. All of those in addition to those figures will be doing some trading in commodities, although their license limits them to trading that is in accordance with the normal conduct of their business.

H.M.Jr: But they are licensed brokers?

Pehle: They are licensed dealers, that is right, but they deal for their own account too.

H.M.Jr: Well, what would you gentlemen think if just as a first move we served notice today that these people should clean up their accounts by the evening of the thirty-first?

Bagnel: Would that include your special licenses, like Continental and States?

H.M.Jr: No --

Pehle: I should think those ought to be treated particularly carefully.

H.M.Jr: Separately.

Bagnel: It seems to me it shouldn't.

H.M.Jr: No, the individuals. No, I would wait on those until I got word from Mr. Wickard on his whole policy. There is no reason why we should treat those people for the moment any differently than you would John Jones, who was in the business.

Pehle: Mr. Secretary, that is true also of some of the people that are operating under this general license. Some of those people are people who have funds here and which they want to invest for some reason in the market. We are treating blocked nationals different from Americans when we say they can't put their money into commodity futures.

H.M.Jr: But --

Pehle: It is a different case, I agree, than the States Grain and those people whose sole business is that.

H.M.Jr: We could do the thing in two steps.

Mehl: I should think that dealing with the foreign nationals can be justified on the grounds that you are not going to permit them to dissipate these funds through speculation in futures.

Pehle: On the ground of dissipation, I think, is pretty thin.

Foley: Not on that ground.

Mehl: From our standpoint, of course, we wouldn't regard speculative trading on the part of nationals, that is, individually, any more vicious than its effect on market prices of trading by American citizens. It is a question of whether it is manipulative trading or whether it is in large enough amount to distort the price structure.

H.M.Jr: I would do this thing - I am willing to do this thing solely on the grounds that I think it is bad for the morale of the country to permit people to speculate in food. Now, I can only control those people whose funds I can control.

Mehl: You are going to put the Department of Agriculture on the spot.

H.M.Jr: I am not going to make any public announcement.

Mehl: No, I know.

H.M.Jr: Because I am not coming out publicly and say that - I mean, no public announcement will be made in connection with this thing, but frankly, since I found out that thing has worried me more than anything that has happened in a long time, because I have just been brought up not to leave crusts of bread on the thing or throw it away and I have also been brought up to believe that it is immoral to speculate in food. I mean, it just goes against every grain in me. I mean, I just can't believe in these times, where people are hungry and we are trying to buy food to send to England and having great difficulty to do it, and I am aggravating the situation.

And the lard that is going to Europe has increased in price and so forth and so on, and that makes it that much more difficult. To me it is - I mean, I am not going to say what the Department of Agriculture should do other than the way I have today, to bring it forcefully to your attention, but I am not going to say anything publicly. But this is my responsibility and I don't feel that it is moral. That is the way I feel.

Bagnel: In the absence of fairly complete government control, Mr. Secretary, isn't it more a matter of who is going to speculate than it is of whether someone is going to speculate?

H.M.Jr: No. I don't want to seem too preachy, but I don't want - I mean, after all, I have just got a little segment of this thing that is completely within my control. I only heard about it when Mr. Pehle brought it to my attention two days ago. Now that I do know about it, I don't want to be approving the speculation in this way.

Bagnel: The point I was trying to make was, it seems to me you have this inherent price risk in these commodities and the question is whether that risk is to be carried by one of the three classes we mentioned a minute ago, the processors and merchandisers, the barber and beggar, or the Government. It seems to me when we say the Department or anyone else is encouraging speculation, perhaps we are not entirely right, that there is inherent speculation in the commodities in spite of anything we can do.

Shields: Of course, there is no objection, is there - do you see any objection why the Secretary shouldn't take the action which he proposes with respect to these funds? They are in his control and, as I see it, there is speculation. I guess there is no doubt about that. It doesn't arise from a natural business transaction in which you feel the market is playing a real part.

Bagnel: Oh, from the point of view of these funds, it seems to me it would be a constructive step.

H.M.Jr: I am just talking about my own responsibility. I have got a little piece of it. This was brought to my attention two days ago. I worried about it. Everybody connected with me is worried about it now that we realize what it is.

Shields: You agree with that, don't you?

Mehl: Oh yes.

H.M.Jr: Now, all I would like to do is - I don't know whether you want to go higher up. Have you people any objection to my getting out orders tonight that I want these people to liquidate their position by the thirty-first?

Mehl: I see no objection to it. As a matter of fact, I think that part of the trade would approve that step.

Bagnel: I think some consideration should be given to people that Mr. Pehle mentioned, such as Continental Grain and States and things like that.

H.M.Jr: I want to go into that next, but I have got to go into it with you people.

Shields: Yes, I think that is in line with what we would be thinking about, those kind of cases.

H.M.Jr: That would be the next thing, but I think at that state I would like to sit down with Mr. Wickard.

Shields: Yes, we would like to have a little time to mull this over and then the Secretary, I am sure, would like to talk to you about it.

H.M.Jr: I would love to come out publicly but my skirts aren't clean. I can't do it. I would love to feed it to the press but I am not in a position to.

Shields: I think the effect of the whole thing would probably be better if it was done right away, since we are considering the rest of the problem.

Mehl: In fact, it would be less violent on the market in its effect.

H.M.Jr: Would I have to call up Mr. Wickard or is it all right?

Shields: I think it is perfectly all right. I will talk to him as soon as I get back.

H.M.Jr: Let's put it this way. I will instruct Mr. Pehle to draw up the orders. If we don't hear from you by two o'clock --

Shields: Fine, fine.

H.M.Jr: ...the orders will go out, --

Shields: Fine.

H.M.Jr: ...as affecting individuals.

Shields: Yes, that is fine.

H.M.Jr: And don't you think you could give a person a week to adjust himself?

Klotz: I think --

Pehle: Does that mean that someone who has a position has to get out in a week?

H.M.Jr: Yes.

Klotz: I think it is short notice.

H.M.Jr: You think it is short notice?

Klotz: I think so.

Pehle: Is there any reason to force people who have taken a position to liquidate their position or is it enough to say that beginning whatever time we want to say --

Foley: The thirty-first of October.

Pehle: No one can buy under that license?

H.M.Jr: No, no, I want them to get out.

Shields: You might compromise there and say beginning then there will be no trading, and positions now held must be liquidated before November first.

Pehle: It seems to me that is a very short time to ask them to liquidate their position in because there will be a diminution of blocked funds if you make a break in the market.

Shields: I meant December first. After November first there would be no more transactions entered into and we would liquidate existing ones by December first.

Mehl: Why not issue an order, effective immediately, prohibiting new trade in blocked accounts, and giving a longer time in which to liquidate?

H.M.Jr: That would be all right. That is all right.

Klotz: That is all right.

H.M.Jr: Well, let's say the order goes out that nobody can put any new money into the thing and give them until - have I got to give them all of November?

Shields: I don't know what is fair.

Pehle: As long as no new money is going in, I don't see why we can't give them all of November.

Mehl: I think I would favor a little longer time in which to liquidate. Otherwise, some opposing market interest might take advantage.

H.M.Jr: Well, then give them until November twenty-ninth to liquidate. That certainly gives them - that is five weeks, what?

Mehl: Sounds all right to me.

H.M.Jr: Well, let's get out orders that nobody can buy any more stuff and we will give them until the twenty-ninth of November to get out. Certainly that gives them five weeks.

Kuhn: Is this in all foodstuffs or in all commodities?

H.M.Jr: All commodities.

Pehle: I think we would like to work on the technical phases of that with the Agriculture people because we haven't ipso facto any right to take people - we can tell them what they can't do, but we haven't any right to tell them that you have to do this, you have to get out. What we mean is that after the thirty day period has expired, if you want to move, then you have got to get a specific license and we can warn them as to what we are going to do if they don't get out within a thirty day period, but I think it is something we will have to work out the details of.

H.M.Jr: You mean you can't force them out?

Pehle: I think we will have to study it to be sure we can.

Foley: It is not our money. It is really their money. We can restrict the uses to which they put the money.

Pehle: If someone had bought General Motors security we couldn't make them sell General Motors, but we could say, "After you hold it a certain length of time you have got to get a specific license before you can sell." I think that is a delicate --

H.M.Jr: Well, work on it. But certainly you can tell them that, effective at once, they can't buy any more.

Foley: That is right.

Bagnel: And even that will make many of them get out.

Pehle: Oh - well, the turnover is tremendous each month, so if we stop them from putting any new money in, in a short time these contracts will mature and they will be automatically out.

H.M.Jr: Now, would you tell Mr. Wickard we would like to continue the study very rapidly of these foreign brokers that are here in these things. I would like to study that. Then we can give him the experience we have had in silver and the experience we have had in foreign exchange and we can give him the experience how we insure gold shipments.

Shields: Suppose I tell him the substance of our conversation, Mr. Secretary, and then after we have several days or a week, say, to mull this over, I suggest that he call you and the two of you have a talk about it.

H.M.Jr: Would you do that?

Shields: Yes, and I am sure he would like to.

H.M.Jr: Because I really think that once he appreciates what he is sitting on he will feel just as strongly as I do.

Shields: All right, I will be glad to do that.

H.M.Jr: Thank you very much.

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE
Friday, October 24, 1941

Press Service
No. 28-22

The Treasury Department today announced the amendment of General License No. 9 issued under the freezing order and relating to the purchase and sale of commodity futures contracts for the accounts of blocked nationals. The amended license permits transactions only for the purpose of covering short positions or liquidating long positions taken prior to October 25, 1941.

-oOo-

TREASURY DEPARTMENT
Office of the Secretary
October 24, 1941

GENERAL LICENSE NO. 9, AS AMENDED, UNDER EXECUTIVE ORDER NO. 8389, APRIL 10, 1940, AS AMENDED, AND REGULATIONS ISSUED PURSUANT THERETO, RELATING TO TRANSACTIONS IN FOREIGN EXCHANGE, ETC.*

General License No. 9 is amended to read as follows:

(1) A general license is hereby granted authorizing the bona fide purchase and sale of commodity futures contracts and of evidences of ownership of actual commodities on an exchange or board of trade within the United States by banking institutions within the United States, for the account of nationals of any blocked country, pursuant to the instructions of such nationals, and necessary transfers or other dealings in evidences of ownership of commodities, transfers of credit and payments between accounts in banking institutions within the United States as required in connection with such purchases or sales or because of fluctuations in the market value of the commodities covered by such contracts or evidences of ownership, provided that:

(a) No such purchase shall be made except for the purpose of covering a short position taken prior to October 25, 1941, in the account of the national for whom the purchase is made;

(b) No such sale shall be made except for the

* Part 131; - Sec. 5 (b), 40 Stat. 415 and 966; Sec. 2, 48 Stat. 1; 54 Stat. 179; Ex. Order 8389, April 10, 1940, as amended by Ex. Order 8785, June 14, 1941; and Ex. Order 8832, July 26, 1941; Regulations, April 10, 1940, as amended June 14, 1941, and July 26, 1941.

purpose of liquidating a long position taken prior to October 25, 1941, in the account of the national for whom the sale is made; and

(c) In the case of either purchase or sale the net proceeds of the transaction are credited to a blocked account in the name of the national for whose account the transaction was effected and in the banking institution within the United States which maintains the account for which the transaction was effected.

(2) Each banking institution engaging in any transaction herein authorized is required to file promptly with the appropriate Federal Reserve Bank monthly reports showing the details of each such transaction, including a description of the commodity futures contracts or evidences of ownership of actual commodities purchased or sold, the dates of the purchases or sales, the persons for whose account the purchases or sales were made, the price at which each purchase was made, the name of the exchange or board of trade on which each such transaction was effected, and the net market position in the commodity in question of the national for whose account the transaction was effected before such transaction and after such transaction.

E. H. FOLEY, JR.
Acting Secretary of the Treasury.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 24, 1941.

TO The Secretary

FROM E. H. Foley, Jr.

L. C. Aarons of my staff has just returned from a trip to Honolulu, Manila, Hong Kong, and Shanghai. I should like to report briefly on his activities.

Aarons left Washington on July 25, the day before the freezing of Japan and China. His function was as head of a Treasury group to organize a local foreign funds control office in Honolulu and Manila. One of our principal purposes in sending out these men,was to make sure that at least at the outset no economic upheaval would be caused on the Islands by the freezing order. The original group consisted of two men from my staff, two from Harry White's staff, two from Mr. Pehle's, and two bank examiners.

Aarons spent five days at Honolulu and during that time his group was able to conduct an educational campaign, to set up an organization, to quiet the original alarm felt by the relatively large Japanese and Chinese population, and to start the issuance of licenses. At the present time we have a staff of five at Honolulu, including two bank examiners.

At Manila, Aarons and his group worked as part of the High Commissioner's staff. Before the freezing of Japan and China there had been a small local staff at Manila. The increased volume and complexity of work after July 26 in connection with the oriental problems made it necessary to organize along new lines at Manila, to delegate much more responsibility, and to deal with problems peculiar to the Philippines because of the preponderance of Chinese living there. Within less than three weeks after the arrival of our group there, the backlog of applications was cleaned up, the banking community had been "educated" as to the new general licenses, controls had been set up in the Japanese banks, a system of exchange of intelligence information had been arranged with the British authorities at Singapore and Hong Kong, a control of re-exports of U.S. manufactured goods had been inaugurated (our group working with Export Control), and local general licenses had been issued dealing with problems unique to the Philippines. At present there are six Treasury men at Manila, including two bank examiners.

Aarons left Manila about August 27 for Shanghai, via Hong Kong. It had been intended that he would serve as temporary adviser on freezing matters to Mr. Fox's assistant, Mr. Taylor, at Shanghai. At Mr. Fox's suggestion Aarons stayed ten days in Hong Kong, during the time Mr. Fox was at Manila, and while at Hong Kong, Aarons familiarized himself with the problems and background of the Stabilization Board and with some of the effects of our freezing as applied to Hong Kong. When Mr. Fox returned to Hong Kong about September 8, Aarons proceeded alone to Shanghai (Taylor remaining with Fox at Hong Kong).

During his three weeks at Shanghai Aarons worked in close collaboration with the Consul General and with Mr. Nicholson. He interviewed the officers of twenty-three Shanghai banks, representatives of almost all business groups, and quite a few individual business men. His memoranda of these conferences and the letters and documents which he brought back with him give us a first-hand picture of many of the Shanghai freezing and stabilization problems. Aarons' memoranda were also sent to Fox at Hong Kong. Aarons also advised interested persons at Shanghai on freezing questions.

Aarons transportation was by airplane except between Hong Kong and Shanghai and between Shanghai and Honolulu on the return trip.

F.H. FL

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 24, 1941

TO Ferdinand Kuhn, Jr.

FROM Herbert Merillat

PRESS COMMENT ON
PRICES AND WAGE-CONTROL:
DISSENT FROM LABOR

The Canadian decision to adopt an over-all price-control system, including wages as well as commodity prices, produced a chorus of "I told you so" comment in the American press. The Canadian experience clearly proves, say the editorial writers, that piecemeal price control is ineffective -- that failure to limit wage-increases and rising prices of farm commodities will result in disaster.

The commentators find unconvincing Mr. Henderson's arguments against following the Canadian example in this country. In the words of the Baltimore Sun, "His argument seems to boil down to a defense of gradualism in a case where it is admitted that gradualism is ineffective." The Canadian action was hailed as bold and courageous, in contrast with the political shilly-shallying on price control in the United States.

One of the rare editorial voices raised in support of the Henderson plan is the New York Post's. After a careful review of the welter of arguments which has come out of the price-control debate, the Post concluded that the Henderson bill should be adopted "in the name of intelligent compromise, unity and the essential requirement of speed." Even this supporter, however, believes that changes may be necessary in the near future, particularly with regard to wage stabilization.

Most of the press continues to demand immediate over-all price control, including effective control of farm product prices and wages.

The labor press meanwhile continues its campaign against wage control. The mid-October "United Mine Workers Journal" joined the attack, calling the move to control wages "a new flank assault on collective bargaining." Briefly, its arguments are the following: when some 50 millions have living standards below the danger line, it is folly to maintain that wages are too high; increased wages simply meet increased living costs and do not contribute to inflation; the real cause of inflation is in prices that are out of line with costs; wage control would mean the end of collective bargaining and the institution of forced labor.

"Labor," the weekly of the railroad brotherhoods, expects the Canadian price-control measures to give impetus to demands for the Baruch plan, and pledges the vigorous opposition of all organized labor to any such demands.

The "C.I.O. News" also warns its readers of increasing pressure for wage-control and calls upon organized labor to make its strength felt in Congress. "It is of the utmost importance that sufficient labor protest be registered within the next few days with the House Banking and Currency Committee against any legislation that would set ceilings on wage rates."

Non-defense Spending: Budget Bureau Report

There is not yet available much editorial comment on the Budget Bureau's report outlining possible reductions in non-defense spending to save from one to two billion dollars. Such comment as has appeared has emphasized that economies will not be pleasant or easy, but that in these times unpleasant changes and dislocations must be expected. The press is agreed that agriculture and work relief must take the heaviest cuts. It seems that, faced with an actual schedule of reductions, the press is much more sober in tone than it has been in the past few months when it has been bitterly assailing Administration and Congressional leaders for failure to economize.

"Labor" says that the indicated reductions would be catastrophic. The jobless, the veterans, the farmers, and youth, it says, would be the ones called upon to suffer.

October 24, 1941
10:14 a.m.

HMJr: How's tricks for this afternoon?

Lieut. Sinton: The weather should be good, sir. We will have northwest winds - head winds - but the weather will be good.

HMJr: What's the deadline in take-off from Washington Hoover.

S: About ten minutes past three, sir.

HMJr: Ten minutes past three.

S: Yes, sir.

HMJr: Now, do you know - is that new Army field back at Newburgh - is that ready?

S: It's not completed, no, sir. There's one runway that's usable, but not at night.

HMJr: Not at night.

S: No, sir. Not yet.

HMJr: Well, then there's nothing nearer, then if I can't get off at ten minutes past three, there's nothing nearer than LaGuardia, is there?

S: No, sir, LaGuardia is the nearest.

HMJr: All right. Well, if there's any change in the weather, please let Mrs. Klotz know.

S: Yes, sir. I'll let Mrs. Klotz know if there's any change.

HMJr: Righto.

S: All right, sir. What time shall we stand by, sir?

HMJr: Well, you just be ready over at your station over at the Anacostia. Be ready from two-thirty on.

S: At Anacostia.

HMJr: Yes. Because you can come over - be over at the Washington commercial field from three o'clock on.

S: Be at Washington National from three o'clock on.

HMJr: That's right.

S: Yes, sir.

HMJr: Three o'clock on.

S: All right, sir. Ah.....

HMJr: Go ahead.

S: If you - well, let's see - I gave myself a lot of margin on that deadline. We could probably make it three-twenty.

HMJr: Well.....

S: Sunset is five o'clock at New Hackensack.

HMJr: I see.

S: And if we don't - I can check this wind for the winds again - and if we're not going to be held up too much, three-twenty or three-twenty-five will be all right.

HMJr: Well, I'd rather - if I can't get out of Cabinet by three, I won't attempt it.

S: Yes, sir.

HMJr: See?

S: Yes, sir.

HMJr: Thank you.

S: Good-bye, sir.

October 24, 1941
11:42 a.m.

HMJr: I just called up to tell you how much I appreciated your going on our program.

Secretary Knox: Well, that's fine, Henry. I'm glad - did you hear it?

HMJr: I listened to it and I thought you were swell.

K: Well, that's good. And I understand that it had a very good effect among our ship workers and the delegation at Philadelphia is coming in this morning to express their appreciation and tell me what they're going to do to carry out the suggestion.

HMJr: Well, that's grand.

K: Yeah.

HMJr: I hope you do it again some time......

K: I'll be glad to, Henry.

HMJr: .....because it was a swell.....

K: How's the campaign going?

HMJr: It's going fairly well. I'm not satisfied. It's getting a little bit better all the time, but I wish it would go a little bit faster.

K: Well, what you need is a little war spirit - that's what you lack.

HMJr: Well, I guess so, but it's this thing of getting people mobilized.....

K: Uh huh.

HMJr: .....on a voluntary basis, as you know, you getting enlistments on a volunteer basis, it's not the same as just drafting them.

K: Yeah.

HMJr: But I'm for the volunteer basis.

K: Yeah. Well, the Navy's all volunteers.

HMJr: I know it. That's why it's got such a fine spirit.

K: Yeah. That's one reason why we have no problems in morale.

HMJr: Well, I'm ever so much obliged.

K: All right. Thank you for calling up, Henry. Good-bye.

October 24, 1941
4:31 p.m.

HMJr: Hello.

Operator: Foley and Gaston. Go ahead.

Herbert Gaston: Hello.

Edward Foley: Hello.

HMJr: I have this letter here - are the both of you on?

F: Yes, I'm on.

G: Yes.

HMJr: .....from Stimson, which I'm going to send in to Gaston and you and Foley get together, see?

F: Yes.

HMJr: Now the Attorney General got me in the corner. Then he talked with Stimson and myself, and I'm a little bit in a fog. He says that he's asked for this postponement of the trial because he's waiting to hear the Treasury's side of the case. Is that right?

G: Yes.

F: That's right.

HMJr: Well, I didn't know that; so I said one of our troubles was that we couldn't get at the trained nurse.

F: Yes.

HMJr: Is that right?

G: Yes.

HMJr: All right.

F: We haven't been able to get to the witnesses.

HMJr: All right. Well, now I'm going to send this letter back to you gentlemen. Have you seen it, Foley?

G: I have seen it. Ed has not. I had it copied and sent a copy in to Ed. I don't know whether he has seen it or not.

F: I haven't seen it.

G: I have asked - I'm going to ask that the substance of his instructions be radioed to our man in Honolulu.

F: I've done that. I sent the Justice communication to the United States Attorney to Chambers just a little while ago.

HMJr: Yes, I'm sending it in; and then if you need any more help, I'm tremendously interested. (Talks aside) Take this in to Foley now.

Is everything else all right?

F: Okay.

HMJr: Thank you.

F: All right. Good-bye.

HMJr: Good-bye.

October 24, 1941
4:33 p.m.

HMJr: Hello.

Operator: Mr. Buffington. Go ahead.

HMJr: Hello.

George Buffington: Yes, sir.

HMJr: Buffington, have you got a pencil? I've got a couple of suggestions to think over.

B: Yes, sir.

HMJr: These are not orders - these are just suggestions.....

B: Yes, sir.

HMJr: .....and I would think that if we asked the U. S. Chamber of Commerce to distribute "Know Your Taxes".....

B: Yes.

HMJr: .....to their local offices.....

B: Yes.

HMJr: .....I think they'd do it. Also, the Manufacturers Association.

B: Yes, sir.

HMJr: You might think of other associations - particularly the U. S. Chamber of Commerce.

B: I had that in mind, sir.

HMJr: Good. Now, the other thing I want to suggest - twice a month we send out a million and half checks to Government employees.....

B: Yes.

HMJr: .....and we might include this circular with that.

B: Yes.

HMJr: We may not be able to get it into the November first, but we certainly could the fifteenth.

B: Yes, sir.

HMJr: See?

B: You knew that we were still planning to send another two and a half million December 15 for the tax reminders from the Collector of Internal Revenue.

HMJr: I'm thinking of the Government employees.

B: Yes, sir.

HMJr: And then also, you might find out whether you could send it to all State employees.

B: Okay.

HMJr: That takes a great many.

B: Yes, sir.

HMJr: I personally gave one to the President and every member of the Cabinet and they all took them.

B: Fine.

HMJr: So that's that. I hope you'll do these two things.

B: Fine. Thank you, sir.

HMJr: Good-bye.

B: Good-bye.

October 24, 1941.

Dear Jake:

Mrs. Klotz has shown me your letter of October 22nd, and I want to tell you how much I appreciate the spirit in which it was written. However, I have not the slightest intention of taking you off the payroll.

It is the quality of the work and not the quantity, or the frequency of your visits, that interests me. Of course I am glad to see you whenever you can come, but meanwhile I shall preserve the status quo so far as you are concerned, and feel it an entirely satisfactory arrangement from the viewpoint of the Treasury.

With all good wishes,

Sincerely,

(Signed) Henry

Dr. Jacob Viner,
Department of Economics,
The University of Chicago,
Chicago, Illinois.

GEF/dbe

The University of Chicago
Department of Economics

October 22, 1941

Mrs. Henrietta Klotz
Office of the Secretary
Treasury Department
Washington, D. C.

Dear Mrs. Klotz:

Will you please tell the Secretary for me that I feel guilty about not having come down more often, but that I have found it impossible to get away from my obligations here. I hope that within a few weeks I will be somewhat freer and have more time for Washington at my disposal.

Incidentally, would you ask Mr. Norman Thompson to take me off the payroll temporarily - say, on leave without pay basis - until I again have an opportunity to earn my compensation.

Cordially yours,

Jacob Viner

JV-W

Jacob Viner

October 24, 1941

MEMORANDUM FOR THE SECRETARY

Subject: Professor Irving Fisher's tax proposals.

For a number of years Professor Irving Fisher of Yale University has been writing and speaking against taxing income which is saved and not spent. He would like to have the income tax apply only to amounts spent on consumers' goods and services and would tax such spendings whether made from current income or from prior savings.

If his proposal were followed the income tax would be very much lighter on the larger incomes, which are mostly saved, than under the present law. Accordingly, to raise the same amount of total revenue, the rates on smaller incomes would have to be heavier than under present law.

Professor Fisher argues that to tax saved income results in "double taxation" because the amount saved is taxed when originally received as income and the subsequent earnings derived from those savings are also taxed. Accordingly, he maintains that savings are discouraged by the tax.

Few economists accept his conclusions about double taxation or are worried that such double taxation, if it does exist, would destroy needed savings in the light of the fact that savings have been in greater amount than the opportunities for their profitable investment. So far as I am aware there is practically no support for Professor Fisher's tax proposals.

Roy Blough

Roy Blough what was this about? 7/24/41

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A Second Reason for Not Taxing Savings

By IRVING FISHER*

IN THE January, 1941, issue of this magazine was presented "A Fundamental Reason for Not Taxing Savings", namely, that when an alleged income tax is laid first on savings and then on the income yielded by those savings, *"double taxation"* results.

In this article, a second and more fundamental objection is raised, namely that a tax on savings is *destructive* of savings and therefore (eventually) destructive of revenue.

The January article (on double taxation) was criticized in the May issue by Professor W. W. Hewett and by Mr. Benjamin, Certified Public Accountant, and we made rebuttal in the same issue. The present article (on destructiveness) is in part an elaboration of that rebuttal.

We may begin with the famous dictum of Chief Justice Marshall that the power to tax is the power to destroy. But apparently no one has noted that this power to destroy is far greater when savings are taxed than when merely spendings are taxed. The chief object of this article is to make this difference clear.

The destructiveness in question is of two sorts. One is by discouraging the saver from *making* savings, the other by taking over in taxes the savings which are made. This last will be considered first and will occupy most of our attention.

These two kinds of destruction operate together, but in order to throw into relief the direct destructiveness of the tax as such, we begin with the impossible case of a man who does not know discouragement. Nature forgot to endow him in that respect. No matter how much the law punishes him for being a good saver, he goes right on being a good saver.

We propose, moreover, to discuss at first *heavy* taxes on these chronic savers. In the January article (on double taxation) the taxes were mostly restricted to an uncharacteristic 1% whose destructiveness would be almost negligible.

"Savings" are meant to include any sort of capital increase whether of individuals, partnerships or corporations; for instance, a savings bank account accumulating at 2% compound interest, or the development, at 50% per annum compounded, of a new invention, such as the railway, automobile, airplane, radio, and motion picture.

Destructiveness Magnified by Reinvestment

In such a case, typical of the origin of American capital, the tax, to an unexpected and amazing degree, destroys the savings themselves, the country's growth of capital equipment and the income and social benefits therefrom, and, finally, the tax revenue itself—the very revenue which the tax in question is supposed to enlarge.

Moreover, because of the compounding, a yearly tax on the yearly capital accumulation is far more destructive than would be a tax at the same rate on the final total—the inheritable estate—after the accumulator has finished his life work.

At first sight the opposite result might be expected, namely that the government would get more revenue by not waiting but by taxing the yearly increments as fast as they occur—and that a 20% tax on the yearly increments in advance would at any rate yield as much revenue as a 20% tax on the final estate.

But this is not true.

It might seem still more obvious that the most revenue of all could be obtained by taxing *both* the yearly installments *and* the estate at the end of the accumulator's life.

But even this is not true.

* Professor of Economics, Emeritus, Yale University.

It might seem most obvious of all that the higher the tax on accumulations the more the revenue from said accumulations.

But exactly the opposite is true—the higher the tax the lower the revenue.

Suppose No Tax on Savings

It is said that, in a period of forty years, the fortune of Henry Ford, despite a degree of taxation on his savings—though far less than today's—rose from a net worth of $1,000 to a million times $1,000 namely a billion dollars—a doubling every two years, which would be accomplished by a constant annual rate of increase of 41.42%.

But, for the sake of round figures, let us take an imaginary case—the case of a man named Henry Forward—a blacksmith to start with; and let him live in a land where savings and capital gains of any sort are exempt under the income tax. Only spendings are taxed (and by spendings we mean spendings for real income or living expense).

After 1900, i. e., on January 1, 1901, he converts his smithy into a shop for making automobiles according to a new invention of his. His net worth at this time is $1,000. This proceeds to grow at the rate of 40% per year so that in 1921 it reaches the $1,000,000 mark and at the end of 1940 it is $700,500,000. This value was embodied in a huge automobile plant which he had constructed on River Rouge.

In the first year, 1901, Henry Forward's capital increase was from $1,000 to $1,400 a gain of $400. In 1921 the increase was from $1,000,000 to $1,400,000, a gain of $400,000. This looks as if there would at the end of 1921 be $400,000 which, under a tax on capital increase, could be taxed.

But not if there had been such a tax during the previous years; for the applications of such a tax prior to 1921 would have prevented the $400,000 from coming into existence.

A Savings Tax of 100%

To show the effects of taxation, let us now assume (instead of the foregoing assumption of no tax on savings) that there was such a savings tax from the beginning—a tax of 100%. This impossible rate is chosen for our first example for simplicity of exposition. For the sake of excluding the indirect destruction from discouragement, we shall, as already indicated, suppose that even this 100% tax did not deter the saver. He was fool enough, or saint enough, to keep on each year adding 40% to his net worth, despite the fact that the government forthwith confiscated the entire increase.

In the first year, having faithfully increased his initial $1,000 to $1,400, Forward paid the whole $400 over to the government. This would leave him with exactly what he started with, $1,000. He could not enlarge his little shop at all. At the end of the next year the same thing would happen—he would have only $1,000—and the same every succeeding year. Also, the savings which he pays over every year would remain the same—in the twenty-first year, not $400,000, but just the usual $400 and in the fortieth year not $200,100,000 but $400. And, after the forty years were up he would have for himself not $700,500,000 but $1,000.

That is, the $700,500,000 fortune embodied in a River Rouge plant which would have come into existence had there been no tax on savings, has died a-borning—died, in fact, forty times in succession.

But did the government gain what the taxpayer lost? No, the taxpayer (and the country) lost $700,499,000 of capital, the difference in value between the River Rouge plant that might have been and the smithy, while the government gained only $16,000 i. e., $400 a year for forty years. That is, the government was really a loser too, losing, among other things, the chance to tax after forty years an estate of $700,500,000 instead of an estate of $1,000. For the sake of that $16,000 collected through forty years, the government deprived itself of untold millions.

Worst of all, the public was deprived of the indirect benefits of that $700,500,000 capital. It was as if the Ford plant, the General Motors plant, the Chrysler plant, and all other automobile plants had been prevented by the tax from ever coming into existence. Surely, no government could so sorely need $400 a year for forty years that it could not wait forty years for many millions!

"Ah, but the government expenses must be paid—paid every year, not just once every forty years."

This is palpably a very weak argument. For the government, more easily than any other person or organization, could finance itself over a forty-year period. If it needed that $16,000 during those forty years, it could borrow it at rates so low that, at the end of the forty years, it would owe less than $25,000. And, even if it had to pay 5% interest during those forty years, its debt would still be only $48,320. Such a trifling debt could then be repaid out of the millions obtainable from an inheritance tax on $700,500,000. Even a 1% inheritance tax would pay the government over $7,000,000. Clearly the policy of taxing the savings as they accrue is "penny wise and pound foolish" in the case of a 100% tax.

A Savings Tax of 80%

"But a 100% tax is inconceivable!"

Very well: try it at 80%—a rate actually approximated today in the higher income brackets applied, as it is observed, to income saved quite as ruthlessly as to income spent.

In the first year, the capital increase is, as in the former example, $400. On this an 80% tax is $320, leaving only $80 net capital increase after the tax. That is, though the 80% tax does not, like the 100% tax, *totally* destroy the capital increase, it sets the increase back enormously.

However, the main point is that the set-back is cumulative. The set-back in the first year has an after effect in the next year; for the fortune then starts, not at $1,400 but at $1,080, and clearly a 40% increase on $1,080 is less than a 40% increase on $1,400.

The second year's tax again sets back the increase, whereupon *both* set-backs have after effects on the third year's capital increase. And the fourth year will feel the after effects of all three previous set-backs, and so on cumulatively.

At the end of forty years, forty successive set-backs have had their effects—not all equal, to be sure; the last is the least and the first is the worst—and not merely forty times worse—far more than forty times worse, because of "compounding."

Each year, the 80% tax knocks off thirty-two points from the forty points gained, so that the *net* increase is only 8%. The fortune thus grows, not at 40% compounded as it would without the tax, but only at 8% compounded. After forty such annual set-backs, each reducing a 40% increase to an 8% increase and each setting back all that follow it, the final fortune is not $700,500,000 but $21,700! That is, while the 100% tax destroyed exactly 100% of the potential increase, the 80% tax destroyed more than 80% of the potential increase—it destroyed 99.97% potential increase. The little $1,000 smithy has grown, in forty years, but only to a small shop worth $21,700, not to a River Rouge plant worth $700,500,000.

And, "out of" the $700,500,000 which might have been, how much did the government get in taxes? In the first year it collected $320; in the second, $346 and so on, up to $6,437 in the last, or fortieth year—the total for the forty years being only $82,600! That is, the government, for the sake of getting $82,600, virtually destroyed over $700,000,000.

Again, the government would have done better to borrow. It would have needed to borrow only $320 the first year, $346 the second, and so on up to $6,437 in the fortieth. Even if it had paid on all these loans as high as 5% compound interest, its accumulated debt in forty years would be only $164,500. Evidently it would be "good business" to go into debt that much in order to have, at Forward's death on December 31, 1940, a taxable estate of $700,500,000 instead of $21,700.

We conclude that, paradoxically, delay in taxing the savings increases the revenue, while also helping the saver and the public.

The 100% and 80% Compared

If, now, we compare the results of the 100% and the 80% tax (as applied yearly for forty years) and count no inheritance tax, we observe another paradox. The *lower* of the two rates affords the *higher* revenue; that is, the 100% tax yields during the forty years $16,000; the 80%, $82,600.

Also, of course, we observe that this lower tax permits the eventual Forward estate to rise from $1,000 (to which it was glued by a 100% tax) to $21,700, with corresponding benefit to the public.

Thus, lowering the tax rate on savings from 100% to 80% is beneficial all around—to the public, to the Henry Forward estate, and to Uncle Sam.

As to this last paradox (increasing the total of annual revenue by lowering the annual tax) let us record the revenues year-by-year for each of the two rates.

Government Revenue from

	100%	80%
1901	400	320
1902	400	346
1903	400	373
1904	400	403

Thus the 100% savings tax does yield more revenue at first, but in the fourth year, the 80% tax passes it, and thereafter has an advantage which increases every year. By the end of 1940 it has brought in a total of $82,600 instead of the $16,000 of the 100% tax.

A Savings Tax of 50%

Let us now lower our annual savings tax from 80% to 50%. The Revenue results will be as follows:

Government Revenue from

	80%	50%
1901	320	200
1902	346	240
1903	373	288
1904	403	346
1905	436	415
1906	470	497

In this case, since the lower tax starts with a bigger immediate handicap, it requires six years to overtake the higher tax as to annual results, but at the end of the forty years, its total collections would be $1,470,000 instead of the $82,600 under an 80% tax, and the fortune of Henry Forward would be $1,470,000 instead of merely $21,700—with corresponding benefits to the public.

It would be good business for the government, therefore, instead of collecting this $1,470,000 from Henry Forward to borrow it elsewhere at 5% compound interest. At the end of forty years the government debt would be $2,050,000 but the fortune available for inheritance tax would be $700,500,000 (instead of $1,470,000) on which a 50% inheritance tax would (if collectible) produce over $300,000,000; or if the government wanted only the $1,470,000, it could get it with a tax of less than one-quarter of 1%.

A Savings Tax of 20%

Under a 20% tax we find the same three-fold advantage from lowering the tax-rate on savings—advantages to public, Mr. Forward, and Uncle Sam. It takes longer for the 20% revenue to overtake the 50% revenue—namely eleven years; but the total tax yielded in forty years would be $16,600,000 as against $1,470,000 from the 50% rate, and the Forward plant would reach $66,500,000 instead of $1,470,000. And here again it would pay the government many times over to wait, and meanwhile borrow even at 5% if necessary, such a debt at the end of the forty years would only be $20,700,000. To pay such a debt there would be needed a tax on $700,500,000 of only 3%.

Change the Growth Rate to 20%

In all the foregoing illustrations a 40% annual growth of capital was assumed. But even with a 20% growth of capital there would be corresponding advantage from successively lowering the tax.

At a 20% growth rate the fortune, if untaxed, would in forty years amount to $1,470,000 and would be cut down by a 100% tax to $1,000, by an 80% tax, to $4,800, by a 50% tax to $48,300, by a 20% tax to $379,000; and by a 10% tax to $750,500.

Savings Tax, 10%

Even in this case (20% growth and 10% annual savings tax) it would pay the government to wait forty years. The annual tax would produce in forty years only $83,200. If this were "passed up" and the same sum borrowed (even at the high rate of 5%), the whole debt in forty years would be only $114,300 which could be easily paid by taxing at the same 10% the estate of $1,469,000 which the annual 10% would half destroy.

So far we have supposed only the two growth rates—40% and 20%.

The tables appended to this article give the whole picture, the growth rate ranging from 40% (presumably less than Henry Ford's) down to 5% (which has been exceeded by millions of people); and the annual savings tax rates from 100% down to 20%.

As to destructiveness: Even at low rates of accumulation and taxation the same destructiveness appears. Thus, suppose $1,000 growing at 5% for forty years without any annual savings tax. It would reach $7,040. But a 20% annual tax on savings would cut it to $4,801, thus destroying 30% of it; and a 50% tax would cut it down to $2,685, destroying 60% of it.

Most of the nation's capital equipment now existing—railways, ships, factories,—must, almost certainly, have grown at first at much higher rates than 5%; for their chief growth occurred during their development as new inventions. If this is accepted as correct, we need not descend to a 5% growth rate to prove the destructiveness of taxing the said growth.

As to a lower annual savings tax eventually producing more revenue than a higher annual savings tax: The never fails.

"Perpetual" Saving

Even a 1% annual tax rate on savings would, in time, yield more than a 10% rate, still more than a 20% rate and still more than 50%, 80%, 100%—provided only we wait long enough and the potential rate of growth continues.

A skeptical reader may point out that, according to what has just been stated, a zero or "infinitesimal" rate would eventually produce the most revenue. But to do this would require an "infinite" time. Here of course we find ourselves entering a theoretical realm of mathematics. One objector insists that somebody and his heirs might continue to save perpetually and *never* spend a cent beyond the minimum of necessities supposed to be exempted. In that case he and his heirs would be tax free indefinitely.

Without taking the time here to discuss the various theoretical implications of such an hypothesis,* we may cut the Gordian knot by stipulating that succession taxes (i. e., taxes on estates and inheritances) shall be an integral part of our tax system, complementary to the net yield or spendings tax. There could then certainly be no fear of any *perpetually* untaxed savings without a perpetual lifetime.

When Would It Not Pay the Government To Borrow?

As to whether it would pay the Government to postpone the tax till death and borrow in the interim:

With so low a growth rate as 10% we find, for the first time, that it would no longer pay the government to skip the 20% annual tax and during the forty years borrow the equivalent at 5% compound interest. For its debt at the end would be $2,220 and the inheritable estate would be only $7,040, on which 20% would bring only $1,408 and not even that, because of the difficulty of realizing on non-liquid assets.

But in arriving at this checkmate we have been much too liberal in our hypothesis. To be realistic, we ought to assume that the government would borrow at rates far below 5%. At a 3% rate its debt would be only $1,510 and at lower rates the debt would, of course, be much lower, certainly lower than the

* For some of these, see *The Nature of Capital and Income*, p. [illegible]

$1,408 which we supposed could be obtained by a 20% inheritance tax.

Moreover, it is equally unrealistic to suppose an inheritance tax rate no higher than the annual tax rate on savings which would in practice be low when the savings were low. Only big savings would, in practice, be taxed.

Finally, we have, it will be remembered, not taken into account the important factor of discouragement which leads a saver to quit saving or reduce it greatly when the government punishes his thrift.

We may conclude that it would, in most cases, if not all, pay the government to borrow up to the time of inheritance rather than tax the savings annually.

How much, it would pay depends on facts not statistically available—the actual assortment of the growth rates which we experience in America, the proper tax rates and interest rates to assume, and the average period of accumulation in a generation.

But we have no hesitation, pending fuller study, in expressing our personal belief that a no-tax-on-savings-policy, coupled with proper inheritance and estate taxes would, in the long run, pay the government, bringing in many times what are now, or ever can be, collected by taxing savings annually.

To Tax "Part" Yields More Than to Tax "Whole"

The appended tables even show that, in general, more taxes can be raised by taxing only accumulations at death than by taxing *both* the accumulations at death *and* the annual increments out of which those accumulations were formed.

For instance, in the case of Henry Forward, with a growth rate of 40% per year for forty years, a 20% annual savings tax would bring in $16,600 and would cut the inheritance from $700,500,000 to $66,500,000. Even this tax of $16,600,000 plus a 100% inheritance tax on the $66,500,000 if collectible would aggregate a revenue of only $83,100,000; whereas if the estate were allowed to reach its potential $700,500,000 a tax of less than 20% would produce far more than $83,100,000 and with ample margin for interest.

To raise the annual tax rate above 20% only makes matters worse, as has been seen.

In a less degree these same inequalities apply to the case of slower accumulations, as may be seen by examining the tables below.

If this article were historical and if Henry Forward were really Henry Ford, the fact might be stressed that the automobile industry was essentially established before the American income tax began to put high rates on capital increase of corporations and before there was any personal income tax. It seems altogether certain that such an income tax as now in force, and such added taxes as are being proposed as this article is being written, would never have permitted such developments as have actually occurred in the past.

On the basis of the calculations cited above, we may conclude that if we were today to repeal all our present taxes on capital increase or even merely to exempt from taxation that part of the earnings of corporations which is plowed back—the undivided profits—the result would be, in the end, not a reduction of tax revenue but a tremendous increase as well as a tremendous boost to our whole economy. There would be more immediate savings, and consequently more future spendings and immensely bigger estates to tax. Even if the rates for taxing them were unchanged, the tax revenue from large estates would probably be multiplied many times.

Under this plan we would theoretically be required to go into debt for a few years but on an entirely different basis from that of the past ten years. For, even if the government would then have to borrow substantially, it would be "the smart thing to do." It would actually generate more income later because it would be done for the very purpose of promoting the creation of income-producing capital. That is, we would stop the foolish practice of eating up our seed corn instead of planting it.

Why are we so anxious to impose heavy taxes now? The only rational answer is: "In order that we in this generation shall pay the bills of this generation and not leave so much for our successors to pay."

But that argument works just the other way. If we are trying to help the next generation we can do it most effectively by spending less and saving more now. That is precisely what would follow when more taxes are put on spendings and less on savings. Today's tax yield is not the important consideration but tomorrow's income. To kill capital accumulation today means to kill the goose that lays the golden egg.

Today and Military Defense

All this argument for more saving and less spending applies to the present Defense problem which demands private accumulations, even if merely to be shot away. Any considerable tax on savings reduces our chances of success in defending ourselves and helping to defend England.

It is important to encourage such savings not only in order to maximize Defense effort but also to minimize the curse of credit inflation, which war and preparation for war so readily generates.

This article is confined to the "second" reason for not taxing savings. But there are still others which could be elaborated.

The sooner, therefore, we can drop all taxes on capital increase, the better for [Turn to page 468]

A Second Reason for Not Taxing Savings

[Concluded from page 463]

all concerned. This would convert our income taxes into spendings taxes, and their progression would make them virtually taxes on luxuries. They would have all the virtues of a sales tax but without taxing the poor. The rich would be doubly taxed—on their spendings and on their estates and at progressive rates. More taxes would be collected and yet more wealth would be created.

Table I

The Forward Fortune after Forty Years

(For Specified Rates of Growth and Taxation)

Potential Rate of Growth of Fortune	*Annual Tax Rates of:* 100%	80%	50%	20%	No Tax
40%	$1000	$21,700	$1,470,000	$66,500,000	$700,500,000
20%	1000	4,800	45,300	379,000	1,480,000
10%	1000	2,210	7,040	21,700	45,300
5%	1000	1,490	2,685	4,801	7,040

Table II

Tax Collection in Forty Years

(For Specified Rates of Growth and Taxation)

Potential Rate of Growth of Fortune	*Annual Tax Rates of:* 100%	80%	50%	20%
40%	$16,000	$82,600	$1,470,000	$16,600,000
20%	8,000	15,000	44,200	94,400
10%	4,000	4,750	5,990	[illegible]
5%	2,000	1,916	1,660	[illegible]

Table III

Government Debt Accumulated in Forty Years

(Including 5% Interest, from Borrowing Instead of Collecting as per the Preceding Table)

Potential Rate of Growth of Fortune	*Annual Tax Rates of:* 100%	80%	50%	20%
40%	$48,320	$164,500	$2,050,000	$20,700,000
20%	24,160	37,600	80,300	142,000
10%	12,080	13,500	14,080	[illegible]
5%	6,040	5,590	4,355	[illegible]

Address of Professor Irving Fisher, Professor Emeritus
of Yale University,
Before The Conference Board's Round Table Session on
"Financing National Defense,"
Thursday, September 25, 1941, at the Waldorf-Astoria Hotel

Last Saturday a tax bill became law which breaks the record for magnitude and, in my opinion, also breaks the record for harmfulness to American enterprise.

For three years I have been preparing a book, now nearly ready, on Income Tax Reform. Its conclusions are in direct conflict with at least one major feature of the legislation just passed.

It is this feature which I shall almost exclusively discuss, partly because of its importance in our problem of "Financing National Defense", partly because its importance is quite generally unrealized, and partly because I have given more attention to it than to any other part of the defense problem.

The feature to which I refer is the increased tax on the undistributed profits of corporations. In my opinion there should have been no such increase. The only increase in income taxes, personal or corporate, should have been on the income which is distributed and spent.

It would have been extremely easy, without otherwise disturbing the tax bill as drafted by the Administration, to have specifically exempted undistributed profits from any of its provisions.

Not only could this have been done but I have little doubt that it would have been done if those who had the bill in charge had had the time -- or perhaps I should say -- if they had taken the time to analyze the disastrous effects of the heavy tax on undistributed profits.

It will be remembered that, a few years ago, at the instigation of Mr. Oliphant of the Treasury Department, a special tax on undistributed profits was placed on the statute books. But, to Mr. Oliphant's great mortification, it did not stay there long. The business world rose up against it as one man. A Committee of the United States Chamber of Commerce had reported against it before it was passed. Afterwards Senators, Congressmen and, less openly, those in the administration itself who had originally sponsored this ill-considered measure, repudiated it, and it was repealed.

That project as such has, apparently, no friends today. Business men in all lines affected by the tax on undistributed profits felt then and feel now that its effects were harmful. Many are still feeling its harmfulness and still trying to rebuild what was torn down.

Why then do we now have before our eyes the spectacle of virtually restoring the taxes then removed?

The answer seems to be simply this; that the true reasons why the Oliphant project was unsound were only dimly perceived. The businessmen reacted against the Oliphant proposal by instinct rather than by reason. They were close enough to the economic machinery to hear it creak and strain so that they could instinctively perceive that something was wrong without quite finding it.

As I see it any tax on savings, corporate or private, is unsound, and especially today when we should all save for defense. In the case of a small tax, the harmfulness is so slight that it will not arouse any feeling of special harmfulness. But the harmfulness increases with amazing rapidity as the tax rate is raised.

In my book on Income Tax Reform I believe it will be clearly shown that the soundest income tax is one levied wholly on income spent and not at all on income saved. But, for practical reasons, a very small tax on savings may have to be tolerated.

For instance, in the present emergency, I agree with Professor Lutz that a small tax on all paid incomes would be an excellent practical procedure, although it would, in a very small degree, necessarily involve some taxation of private savings. But its practical advantages of simplicity and ease of collection greatly outweigh this slight disadvantage.

The tax which I am advocating is, in effect, the same as the spendings tax favored by the late Ogden L. Mills who, in his day, was recognized as perhaps the leading American authority on taxation.

All taxes on savings (except as involved in the Lutz plan) would be abolished.

By savings are meant capital-increase of any kind. No discussion will be entered into here regarding any temporary lag or gap between monetary savings and their investment. I will merely note in passing that Keynes, who is so often quoted as opposing savings, wrote me that he approved my plan as presented before the Committee on Ways and Means. Also, as is well known, he advocates compulsory savings in this War Emergency. The tax I am proposing would, I believe, accomplish the same purpose without any compulsion.

The proposed spendings tax would, of course,be progressive. That fact and the minimum exemptions would make it a tax not on necessary spendings but only on luxury spendings.

We all certainly agree that, in this emergency, at least, luxury should be decreased and I hope we agree that savings should be increased.

But any tax on savings decreases them and, unless the tax is very low, decreases them enormously.

An airplane factory, for instance, should have every incentive to enlarge. But if all its earnings are taxed, including its undistributed profits plowed back in the business, this reinvestment is thereby penalized when it ought to be encouraged.

We should also encourage the upbuilding of our country's capital in general. Otherwise we shall impair our national capital, and reduce our future national income, the source of all taxes.

Even if taxes on capital-increase did not thus discourage and reduce that capital-accumulation, the mere payment of a tax thereon automatically reduces the rate of that accumulation.

This destructive effect is enormously greater than realized. We all know that "the power to tax is the power to destroy". But the power to destroy of a tax on savings is many times as great as that of a tax on spendings.

Moreover, a yearly tax on savings or capital-increase is far more destructive than a tax on the final total, after the accumulator has finished his work of accumulating, has died and left his accumulations in a great estate. At first sight the opposite might seem true. It might seem that the government would get more revenue by taxing the yearly increments than by taxing the final estate created out of those increments, that to tax the yearly increments is simply to tax the estate in advance and in installments. But this is not true.

It might also seem that the most revenue of all could be gotten by taxing both the estate at the end of an accumulator's life and the yearly installments out of which it is built during his life. But the opposite is true.

It might also seem that the higher the tax on savings the more the revenue. But here again the opposite is true.

Savings or capital-increases are a very peculiar and sensitive sort of income, if we choose to call it income. To tax it kills it and not it alone but its future income.

All of these contentions can be substantiated mathematically. Here they will be merely illustrated by numerical examples.

Suppose at first, that the tax is 100% so that the whole of the capital-increase is confiscated. Of course no one would seriously propose such an extreme tax, knowing that it would put a stop to all savings and so yield no revenue at all. But such an extreme case is the clearest for beginning our exposition.

Let us also suppose that a certain man's net-worth increases at the rate (before taxes) of 40% per year and that it does so for forty years.

This rate of growth is high but not unprecedented. It is said that Henry Ford became a billionaire in forty years, between 1900 to 1940. If this is true his annual rate of growth must have been much more than 40%.

Suppose first there were no tax on capital-increase so that the full 40% could be compounded for forty years. It would then be true that a little blacksmith shop in 1900 worth $1,000 could, through that 40%, become a River Rouge plant in 1940 worth $700,500,000. Half-way between, in 1921, the plant would have reached the $1,000,000 mark, in our imaginary example.

At the end of the first year, in 1901, the capital-increase would be from $1,000 to $1,400, or $400. In 1921 the increase would be from $1,000,000 to $1,400,000 or $400,000. This looks as if there would be $400,000 which could be taxed in 1921.

But any tax on capital-increase would prevent that $400,000 from coming into existence.

For the sake of argument let us suppose that the 100% tax did not deter the saver from saving. That is, we suppose that he was fool enough (or saint enough) to keep on each year adding 40% to his net worth despite the fact that the government takes it all away from him forthwith.

In the first year he would increase his initial $1,000 to $1,400 and, under a 100% tax, pay over to the government the entire $400 capital-increase. He would then have left $1,000, exactly what he started with. Next year the same thing would happen. He would still have only $1,000 left at the end of that year, and of every succeeding year. In the twenty-first year his capital-increase instead of being $400,000 would be just the usual $400. And after the forty years were up he would have the same $1,000, instead of the $700,500,000 which he would have had were there no taxes!

We see that the $700,500,000 fortune which would have come into existence were there no tax on savings has died a-borning -- died, in fact, forty times in succession. Everytime it started, the tax has destroyed it all.

But, you ask, didn't the Government gain what the taxpayer lost? No, the taxpayer lost $700,499,000 and the Government gained $400 a year for forty years, or only $16,000 in all. The Government also really lost; for it lost the opportunity to tax an estate of $700,500,000. After its destructive taxes in life it had only $1,000 left to tax at death. For the sake of that paltry $16,000 the Government deprived itself of millions. Only one per cent on $700,500,000 would bring in $7,000,000 which is hundreds of times as much as the $16,000 from the 100% tax on the annual increments out of which that huge estate was formed.

Worst of all, the public would be deprived of the indirect benefits of that capital. It would be as if the Ford plant, the General Motors' plant, the Chrysler plant, and all other automobile plants had been prevented by the Government from ever coming into existence, all for the sake of collecting a total of $16,000 in taxes. Our country would have practically no automobiles.

Let us now leave our impossible 100% example and substitute 80%, a rate actually approximated in the "higher brackets" today. Assume, as before, that every year's capital-increase is taxed separately, as it accrues.

In the first year, before taxes, the capital-increase is $400. On this an 80% tax is $320, leaving only $80 net capital-increase after taxes. This set-back to the savings has an after-effect next year; for the fortune then starts at $1,080 instead of at $1,400 and clearly a 40% increase on $1,080 is less than 40% on $1,400. The second year's tax again sets back the increase and now both of these set-backs have after-effects on the third year's capital-increase. The next year will feel the after-effects of all three previous year's set-backs, and so on cumulatively. At the end of forty years there are felt the effects of forty successive set-backs.

The important point is not that the power to destroy was exercised forty times instead of once but that for the earlier years this power was multiplied later.

For instance in the first year the Government took away only $320. This reduced the capital from the $1,400 which it might have been at the end of the first year to $1,080, a reduction of about 23%. But it also entails reductions in the same proportion in all later years. In the twenty-first year the $1,400,000 would be reduced to $1,080,000 and the $700,500,000 at the end to about $540,000,000. In other words that little $320 reduction in the first year gets magnified to a reduction of over $160,000,000 at the end.

To put it another way, each year, though the fortune grows by 40% before the tax knocks off 32 points, the net increase is only 8%. The fortune thus grows not at 40% "compound interest" as it would without the tax but only at 8%. After forty annual set-backs, each reducing a 40% to an 8% increase and each setting back all that follows it, the final fortune is not $700,500,000 but only $21,700!

And how much did the Government get in taxes?

In the first year it collected $320, in the second, $346 and so on, the collection in the last, or fortieth, year being the most -- $6,437. The total through the forty years was only $83,000! That is, the government for the sake of getting $83,000 virtually destroyed over $700,000,000.

Let us further pursue the tax-lowering by substituting 50% for 80%. Again we find the lower of the two taxes the more profitable to the Government as it is to the taxpayer and the public.

The higher 80% tax would, it is true, yield more in the first year, namely $320 instead of the $200 yielded by the 50% tax. In the second year the 80% rate also has the advantage, $346 instead of $240. But the advantage is not so great. Year by year the 50% tax-yield creeps up on the 80% yield until it overtakes it in six years. The Government revenues under the two systems are contrasted for each of the six years in the following table:

Government Revenue Under

	80%	50%
1901	320	200
1902	346	240
1903	373	288
1904	403	346
1905	436	415
1906	470	497

Here it takes six years for the annual revenue under a 50% tax to overtake that under an 80% tax, in spite of a bad handicap at the start.

Under a 20% tax we find the same three-fold advantage from lowering the tax-rate. As to government revenue, it is true that the 20% tax yields far less revenue in the first year -- only $80 as compared with $200 under a 50% tax. But the 20% revenue overtakes the 50% revenue in the eleventh year, when it becomes $1,284 as against $1,239.

In short, the lower the tax-rate the higher the tax-yield in the end. The best results can be obtained by not taxing accumulations at all during the life-time of an accumulator.

Cases as extreme as Henry Ford's are rare. But the capital equipment of America is largely the product of a relatively small number of capital-creators of which he is the extreme type. It is the result of developing inventions and technological improvements in general.

The death of the accumulator usually marks the end of the rapid accumulation. From a fiscal point of view, therefore, there is usually little, if any, advantage in delaying beyond that point the taxation of savings, if savings are ever to be taxed at all; while, from a social point of view, the argument is strong to appropriate most of the accumulation, when inherited. From every point of view, therefore, the death of the accumulator marks an appropriate, in fact the only appropriate, time to tax accumulations of capital.

If we were today to repeal all our present taxes on capital-increase or even merely to exempt from taxation that part of the earnings of corporations which is plowed back -- the undistributed profits -- the result would be, in the end, not a reduction of tax-revenue but a tremendous increase.

But, you say, we are seeking bigger revenues now and not simply "in the end."

But any loss in immediate revenue would be made up many fold "in the end." Even if, in the meantime, the Government had to borrow substantially, it would be "the smart thing to do." It would generate so much more income later. Why eat up our seed corn instead of planting it?

Why are we so anxious to impose heavy taxes now? The only rational answer is: "In order that we in this generation shall pay the bills of this generation and not leave so much for our successors to pay."

But that argument works just the other way. If we are trying to help the next generation we can do it most effectively by spending less and saving more now. That is precisely what would follow from putting more taxes on spendings and less on savings. Today's tax-yield is not the important consideration but tomorrow's income. To tax capital-accumulation is, if I may repeat for emphasis, to kill capital accumulation -- to kill the goose that lays the golden egg.

I have admitted that at first the tax on spendings alone would, at a given rate raise less revenue than a tax on spendings plus savings and would, therefore, require, temporarily, more borrowing by the Government.

But the greater this temporary shortcoming in revenue from a spendings tax the greater the savings, and the greater the savings the more these savings can be invested in Government bonds. That is, the very forces which would increase the need of this sort of Government borrowing (namely to safeguard savings) would also meet that need.

The present taxes on corporations lump together, indiscriminately, both kinds of earnings, distributed and undistributed, as if the two were alike. They are very unlike. One stands for spendings; the other, savings. A tax on savings is far the more destructive. As we have seen in our extreme illustrative case, a tax of $320 on savings may have the effect, forty years later, of virtually destroying $160,000,000. A tax of $320 on spendings has no such after effect.

If a third of a corporation's earnings is distributed, a tax on that third will, it is true, only yield a third of the revenue in that particular year. But in the end any tax, year after year, on the one third distributed will yield far more than a tax on the whole, simply because this exemption of the undistributed part allows that part to grow and to generate more taxable income later as well as to generate bigger taxable estates.

Incidentally, if we were to take off taxes on savings we would thereby combat inflation by generating the wherewithal for subscriptions to government bonds out of savings instead of out of newly issued and inflationary bank credit.

One way to accelerate such subscription would be analogous to Keynes' compulsory savings plan. Let the Government, without changing the tax law, be authorized to give its interest-bearing notes to a corporation in return for that part of its taxes allocated to undistributed profits.

This, like exempting the undistributed profits, would create a strong incentive to save more and spend less, which is what is needed today.

As the tax law now stands it is an outrage. Last Tuesday I attended two directors' meetings. One of the corporations finds that its reserve for taxes must, under the new law, be put up to 35% of its earnings. This of course includes 35% of its undistributed earnings -- the corporate savings on which its future capacity to pay taxes depends. The other corporation finds its reserve for taxes will be about 48%.

Such a law is especially outrageous in its incidence on the poorer stockholders. Many of these have incomes supposedly below the exemption limits. Almost all of them are probably well below the brackets which are supposed to pay 35% or 48%. Yet they have to pay those percentages so far as concerns their income or earnings from their stock.

Someday, under a rational spendings or luxury tax, there should be no need of any big taxes on corporations. We must not forget that every dollar of taxes paid by a corporation is really paid by its stockholders.

An ideal income tax should be only on real persons and only on what they spend. Then the progression has real meaning. Now, with 35%, 48% and even 55% on small stockholders, progression becomes meaningless.

In the recent tax bill the progressive rates on personal income reach up to 77%. Such rates would not be too high if the taxable income were solely spent income. But, in so far as these high rates discourage and destroy saving and investment, they too will stop the up-building of our nation's capital.

The destructiveness of the present income tax system seems almost to spell the end of our free enterprise by throttling investment. This is a matter of grave concern to the whole country. For, as Carl Snyder has emphasized, our prosperity depends on our capital. Why destroy it, especially when this exercise of the "power to destroy" is futile? For it destroys also the very revenue it aims to produce. In short, by increasing the tax on undistributed profits and on savings generally, we are repeating the Oliphant error. So we now find ourselves travelling in exactly the wrong direction, not only as respects our immediate problem of financing defense but as respects the problem of a permanent solution of government finance in general.

* * * *

EXECUTIVE ORDER

- - - - -

ESTABLISHING AN OFFICE OF FACTS AND FIGURES
IN THE OFFICE FOR EMERGENCY MANAGEMENT
IN THE EXECUTIVE OFFICE OF THE PRESIDENT

By virtue of the authority vested in me by the Constitution and the statutes of the United States, and in order to define further the functions and duties of the Office for Emergency Management in the Executive Office of the President with respect to the unlimited emergency as declared by the President on May 27, 1941, and for the purpose of facilitating the dissemination of factual information to the citizens of the country on the progress of the defense effort and on the defense policies and activities of the Government, it is hereby ordered as follows:

1. There is established within the Office for Emergency Management of the Executive Office of the President an Office of Facts and Figures, at the head of which shall be a Director appointed by the President. The Director shall discharge his responsibilities and duties under the direction and supervision of the President. The Director shall receive no salary or other remuneration for his services, but shall be entitled to actual and necessary transportation, subsistence, and other expenses incidental to the performance of his duties.

2. Subject to such policies and directions as the President may from time to time prescribe, the Office of Facts and Figures shall formulate programs designed to facilitate a widespread and accurate understanding of the status and progress of the national defense effort and of the defense policies and activities of the Government; and advise with the several departments and agencies of the Government concerning the dissemination of such defense information. The Office of Facts and Figures shall rely upon the services and facilities of existing agencies of the Government for the dissemination of information.

3. The several departments and agencies of the Government shall make available to the Director, upon his request, such information and data as he may deem necessary to facilitate the most coherent and comprehensive presentation to the nation of the facts and figures of national defense.

4. There shall be in the Office of Facts and Figures an Advisory Committee consisting of the Director as Chairman and such representatives of the Federal Government and other members as he may determine. The members of the Advisory Committee shall serve without compensation, but shall be entitled to necessary travel, subsistence, and other expenses incidental to the performance of their duties.

5. Within the limits of such funds as may be made available to the Office of Facts and Figures, the Director may employ necessary personnel and make provision for the necessary supplies, facilities, and services.

Office of Facts and Figures shall use such fiscal, personnel, and other general business services and facilities as may be made available to it through the Office for Emergency Management.

FRANKLIN D. ROOSEVELT

THE WHITE HOUSE,

October 24, 1941.

October 26, 1941

STATEMENT BY ARCHIBALD MacLEISH, LIBRARIAN OF CONGRESS

I deeply appreciate the President's confidence in me as expressed by my appointment to direct the Office of Facts and Figures. As Librarian of Congress, I have been necessarily concerned with information as to the facts and figures of national defense, and I welcome the opportunity to render additional service in that particular field.

The Office of Facts and Figures is established, as I understand it, upon the assumption that the people of a self-governing country are entitled to the fullest possible statement of the facts and the figures bearing upon conditions with which their government is faced. The essential difference between a democracy and a despotic form of government is that a democracy is based upon a complete trust in the people and a democratic service of information must necessarily reflect that trust. The job of the Office of Facts and Figures, as stated in the Executive Order, is to serve as an interdepartmental clearing house for information and data required "for the most coherent and comprehensive presentation to the nation of the facts and figures of national defense." In other words, the operation of the office will be purely within the government.

The Office of Facts and Figures will not make a practice of issuing releases nor set up new channels for the dissemination of information, but will "rely upon the services and facilities of existing agencies of the government in the dissemination of information". In other words, the establishment of the Office will in no way change the relation between the departments and the agencies of government and the press and radio services, nor will it alter the reliance of the government upon these means of informing the people.

October 24, 1941.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston

The President sent to the Senate yesterday the name of Saul Haas to be reappointed Collector of Customs at Seattle and the name of Representative Charles H. Leavy of Spokane to be Federal Judge in the Western District at Tacoma.

Several weeks ago Jim Rowe told me that Saul's nomination was being held up because of his interference in the judgeship situation. Saul told me last night that Senator Bone was vexed and he had asked that both nominations be held up until he could come to the Senate on crutches (he is in Walter Reed Hospital) and make a speech on the matter. Bone had joined in the recommendation of the whole delegation, except former Senator Schwellenbach, for the appointment of Leavy as a Judge in the Eastern District at Spokane, but Schwellenbach was appointed. Bone wanted a Western Washington man appointed for the vacancy at Tacoma. Saul said he would probably have gone along with the appointment of Leavy if anybody had done him the courtesy of consulting him, particularly if the President had written him a nice letter, but now he is mad and will fight it.

— Staff meeting
9-4-41

September 2, 1941.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston

Nomination for reappointment of Saul Haas as Collector of Customs at Seattle was sent to the White House Monday, August 18, after receipt of word from Ed Flynn that he approved the reappointment. Haas had been recommended for reappointment by Senators Bone and Wallgren. Approval came from Ed Flynn on August 15, the day of your departure for the North. Haas' second four-year term as Collector at Seattle was to expire, and did expire at midnight of August 31. Collectors of Customs, however, hold office until their successors have qualified.

Haas, as you probably know, is Harold Graves' administrator of the Defense Savings Staff for the State of Washington. He is very close to Homer Bone and has been Homer Bone's campaign manager. He is also on good terms with Mon Wallgren of Seattle, the junior Senator, who joined in recommending him for reappointment. Haas is regarded as a good Collector. He devotes more than the ordinary amount of energy to the job. He expressed some doubt about accepting another appointment because of pressure of other work, but seems to have decided to go along. He is putting in a lot of time on the Defense Savings work.

HG.

THE WHITE HOUSE
WASHINGTON

August 18, 1941.

MEMORANDUM FOR

H. M. Jr.

Will you speak to me about this?

F.D.R.

THE SECRETARY OF THE INTERIOR
WASHINGTON

August 14, 1941.

My dear Mr. President:

I understand that the term of office of Saul Haas, Collector of Customs at Seattle, will shortly expire. I hope that you will give me an opportunity to discuss this matter with you, if you are considering reappointing him. I think that this is important.

Sincerely yours,

Harold L. Ickes

Secretary of the Interior.

The President,
The White House.

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THE WHITE HOUSE
WASHINGTON

PRIVATE & CONFIDENTIAL

August 29, 1941.

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY

FOR YOUR INFORMATION AND PLEASE RETURN FOR MY FILES.

F. D. R.

THE WHITE HOUSE
WASHINGTON

August 27, 1941

Memorandum for The President.

Saul Haas

Attached is the reappointment of Saul Haas as Collector of Customs in Seattle.

As you well know Haas has always been a headache but he always gets reappointed.

At this time I raise the question of sending down his nomination because of his recent actions.

Congressman Leavy of Washington wants to be a federal judge in the Eastern District of Washington. He is from the Western District but there are several precedents, including Allred and Schwellenbach for such transfers. At present the three district judges in Washington come from the Eastern part of the State. In all fairness the next appointment should go to the Western part of the State.

Leavy has the unanimous endorsement of all the Washington Congressmen and the endorsement of Senator Wallgren. Bone has publicly taken the position that he cannot endorse Leavy because he, Bone, comes from the Eastern part of the State and would be in political trouble if he endorsed him. He has said he would not oppose Leavy's nomination if the President sends it down.

Privately his attitude is somewhat different. He does not want Leavy to be a judge because Haas, who is Bone's Svengali, does not want Leavy to be a judge. In fact, Haas, in his usual arrogant manner, has told Leavy that he is sorry but he cannot be a judge. In other words, Haas and not the President of the United States makes the judicial appointments. The candidate of Haas and Bone is an able lawyer but is the leading sponsor in the Northwest of the America First Committee.

I cannot pass on Leavy's intellectual qualifications. Politically, however, he deserves well of this Administration and has been an unusually consistent supporter of it.

Recently he got sufficient Congressmen to sustain your veto on the road bill although it is practically political suicide for a Western Congressman to vote against a road appropriation. He also voted in favor of the extension of the Selective Service Act, being the only Washington Congressman to do so, as the extension was very unpopular in the Northwest.

I have no illusions about Leavy's motives in voting this way but the fact is his vote saved two situations.

There has been no action on the Leavy appointment because there has been no Attorney General.

My suggestion here, however, is that you withhold the nomination of Saul Haas until such time as the Leavy matter has been settled one way or the other.

JHR

James Rowe, Jr.

October 24, 1941

MEMORANDUM FOR THE FILES

After talking with the Secretary about the attached letter and at his suggestion, I called Mr. Straus in U. S. Housing Authority. He being absent from the city I talked with Mr. Keyserling. I told Mr. Keyserling that the Secretary had signed this letter with the distinct understanding that if the legislation now pending, which would clarify their $800,000,000 borrowing limitation, passed, we would not use it but would expect new notes to be delivered to the Treasury on November 1 and December 31, for the obligations then maturing.

I also told Mr. Keyserling about the desire of some of the members of the Banking and Currency Committee to attach an amendment to the pending bill which would prohibit the Housing Authority from using any of its unobligated balances for expanding the housing program. I told him that it was our view in the Treasury that any unobligated balances now available or becoming available in the future through cancellation of contracts or otherwise, should be put in reserve and not used for any purpose. This would put the Authority in a position to state to the Committee when it went up for other legislation that while the law did not require them to do this, they understood it was in accordance with the wishes of the Committee. He said he would put a memorandum in the file to this effect and that he would advise the Administrator upon his return of our views in the matter. He was sure that the Administrator would agree with this and that no further obligations would be incurred.

DWB:FLK

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OCT 24 1941

Dear Mr. Straus:

Referring to the publicly-held one-quarter of one percent Notes of Series A of the United States Housing Authority, in the principal amount of $112,000,000, which mature on November 1, 1941, this will advise you that the Treasury will purchase these obligations and will extend their maturity to December 31, 1942.

This letter will also confirm our understanding that the one-quarter of one percent Notes of Series G of the Authority, in the principal amount of $108,000,000, maturing December 31, 1941, now held by the Treasury, will be extended to the same date.

Sincerely yours,

Secretary of the Treasury.

Mr. Nathan Straus, Administrator,
United States Housing Authority,
Washington, D. C.

JJO'C.Jr/ml
10/23/41

Straus file
[illegible] 10/28/41

October 24, 1941.

TO: HAROLD N. GRAVES

SUBJECT: PROGRESS REPORT FROM DEFENSE SAVINGS STAFF

SALE OF BONDS

Actual cash receipts from the sale of E, F and G Bonds from October 1st through October 22nd were $190,487,000, which is an increase of 9.6 per cent over the same period in September. Sales from September 1st through September 23rd were $173,727,000. Sales from August 1st through August 22nd were $203,606,000.

DIRECT MAIL

The industrial mailing in 41 days has produced orders for $2,529,390. Though naturally orders are dropping off, for the past week they have averaged better than $30,000 daily. Customer mailing orders now total $2,080,300, with orders running approximately $85,000 a day after 31 days of pulling.

FIELD OFFICE

Since October 17 State and local committees have been organized in Colorado and Maine. (Status of organization nationally is shown on the map attached)

During the past week Chairmen Patterson of

New York and Jouett of Kentucky visited the Field Director's office; also Administrators Lyons of Alabama, Ford of New York; and Deputies Clements of Alabama, Wellman of Maine, Canada of New Jersey, Burke of Massachusetts, and Pritchard of West Virginia.

Two new representatives have gone into the field on their first assignments, and a third is leaving as of this date.

The inaugural program of the District of Columbia, H. L. Rust, Jr., Chairman, was broadcast over five local stations on October 23rd.

HOUSE ORGANS

A letter mailed October 11th to 300 house organs published by nationally prominent companies has brought replies to date from 70 publications with a circulation of approximately 2,500,000. More than half of the editors indicated they would carry the Minute Man emblem, and would be glad to receive other material. Fifteen of the house organs replying publish magazines of sufficiently elaborate format to be prospective users of the "Millions for Defense" supplements designed for trade publications, and this has been suggested to them.

RETAILERS

The Retail Advisory Committee met in Washington October 23rd and approved all promotional material for

Thanksgiving and Christmas, also the bonus plan for retailers. Membership in the committee was extended to include trades not now represented.

MAIL ORDER HOUSES

Five mail order companies represented on the Retailers Advisory Committee have agreed to devote two full pages in their catalogues to promotion of Bonds and Stamps; one a color page advertising the program, the other an application form that may be turned in at a post office or mailed to the Treasurer of the United States. The companies participating are Sears Roebuck and Company, Montgomery Ward, Chicago Mail Order, Speigel, and Walter Field. The circulation of these mail order catalogues is 30,000,000 and they have an estimated life of six months.

EXHIBITS

The Buhl Planetarium and Institute of Popular Science, Pittsburgh, is opening a three-months' defense exhibit on November 1st. Arrangements have been made with the Army, Navy, and other services to display equipment, and a Treasury booth will be maintained for the sale of Defense Savings Stamps.

TREASURY BOOTHS

Through October 23 sales at Washington Treasury booths opened on the dates indicated have been as follows:

Garfinckel's	Oct. 3
Bonds	$506.25
Tax Notes	25.00
Stamps	274.45
	$805.70

Woodward & Lothrop	Oct. 6
Bonds	$3,581.25
Tax Notes	75.00
Stamps	1,082.10
	$4,738.35

Lansburgh's	Oct. 10
Bonds	$ 675.00
Tax Notes	-----
Stamps	321.05
	$ 996.05

Willard Hotel	Oct. 15
Bonds	$112.50
Tax Notes	-----
Stamps	37.30
	$149.80

Total Sales to Date: $6,689.90

RADIO

By arrangement with the Office of Emergency Management we will promote the launching of OEM's Civilian Defense Week November 11th. Reciprocating, OEM will use rewrites of Defense Savings announcements in all their radio programs and scripts. OEM also is being requested to promote Defense Savings in their films.

Special Navy Day announcements have been distributed for use fifteen minutes or more after President Roosevelt's broadcast. "For America We Sing" will be dedicated to the Navy on that day. Hildegarde will be a guest singer on the program.

Wheeling Steel Makers will start promoting Savings Bonds starting October 26th.

A meeting of sponsors of daytime programs has been arranged for October 30 at the Treasury Department, in which representatives of Colgate-Palmolive-Peet, Proctor & Gamble, Lever Bros., General Foods, and General Mills will participate.

Statistics and examples illustrative of the cooperation extended to the Army, Navy and Marine Corps in Defense Savings radio activities have been compiled. (Herewith in three binders)

PRESS

Mailings to the labor press have been started with a matted picture of William Green initiating union payroll allotment activities in Seattle; and a cartoon especially drawn for the Defense Savings Staff by Daniel R. Fitzpatrick, famous cartoonist of the St. Louis Post Dispatch.

Defense Bond emblems in color for use on covers have been sent to the publishers of 38 magazines of large circulation in the fiction, women's and other fields.

For use daily from November 9th until Christmas a series of 1-col mats (one for each day) carrying "39 Shopping Days to Christmas", etc., with Minute Man emblem and "Give Defense Savings Bonds and Stamps" is being sent to the 1550 daily newspapers.

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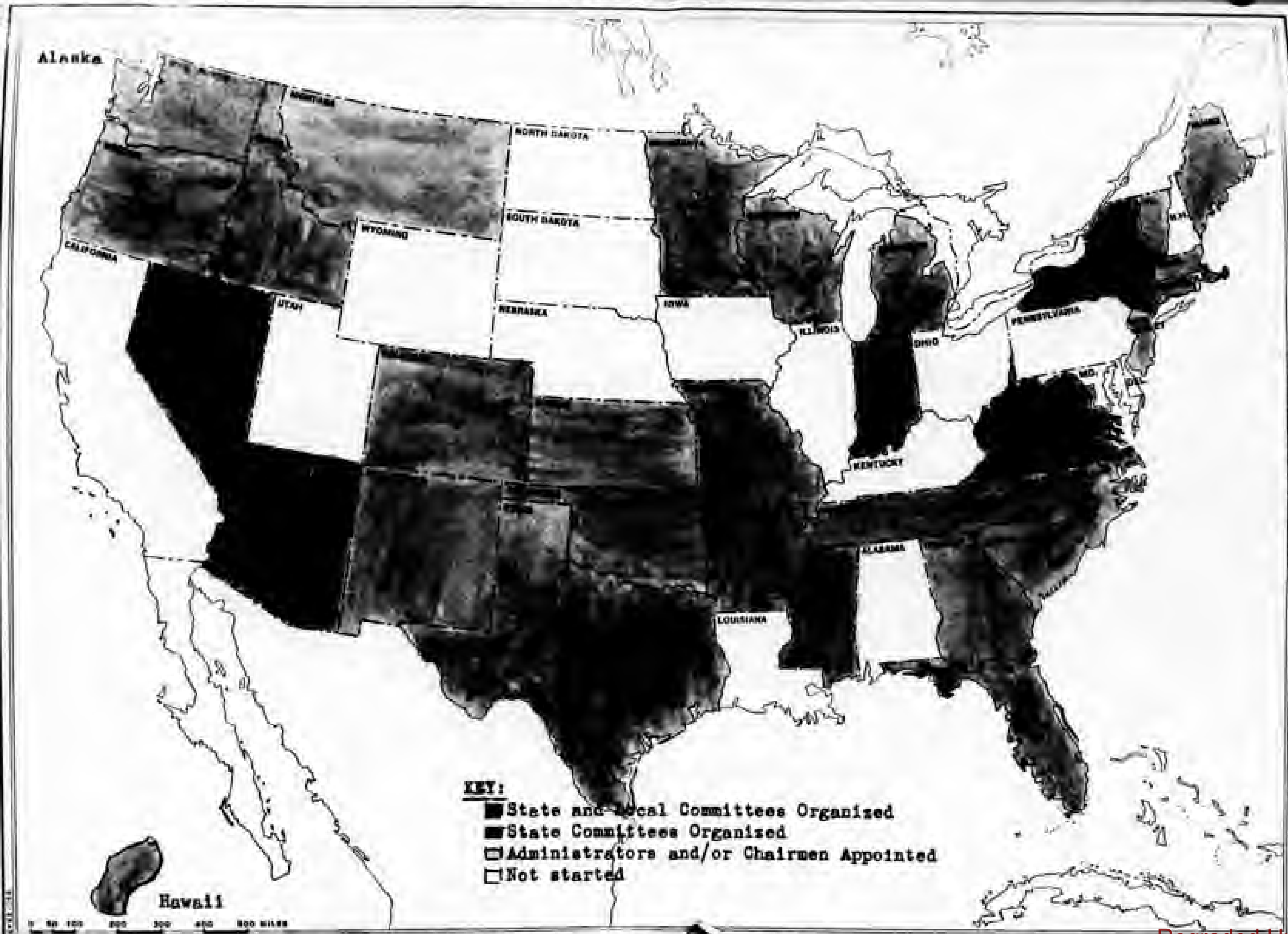

Alaska
NORTH DAKOTA
SOUTH DAKOTA
WYOMING
CALIFORNIA
UTAH
NEBRASKA
IOWA
ILLINOIS
OHIO
PENNSYLVANIA
KENTUCKY
ALABAMA
LOUISIANA
MD.
Hawaii
KEY:
State and Local Committees Organized
State Committees Organized
Administrators and/or Chairmen Appointed
Not started
RAND McNALLY
LOOSE LEAF OUTLINE MAP
UNITED STATES

MEMORANDUM FOR THE SECRETARY.

October 24, 1941.

Mail Report

Mail during the past week has followed the same lines as that abstracted a week ago.

There has been a great falling off in comment on the 6% statement, but the proportion of those for and against remains the same.

This also holds true in regard to the speech on inflation. Many letters thanking the Secretary for copies distributed to names on lists held by the Defense Savings Staff have been received and filed since no acknowledgment is necessary. However, a separate brief abstract on these is being kept and will be available when returns are all in.

Letters of protest continue to deal mostly with economy in Government, and curb for Union labor.

Anti-British, Anti-Russia and Anti-War letters remain the same, with a slight increase in the latter due to a number of protests against any change in the present Neutrality Act.

There have been very heavy returns to the 20,000 letters sent out to banks in connection with the Foreign Funds Control work. We have been receiving from 50 to 100 in every mail for the last few days. The tenor of these letters is friendly and appreciative of the offer of Treasury cooperation.

In general, all the comment mail has been much less this week.

G. E. Forbush

FAVORABLE Comments on Bonds

Miss N. Isabel Schmidt, Lexington, Ky. Your letter of Sept. 24 came, has lain on my writing table not forgotten at any time; the reminder it brings of the privilege that is mine, the privilege of helping, of serving, leads to this writing today. Thank you and will you please send in my name one $100 Defense Savings Bond Series E. Enclosed please find my check for $75.

John H. Boogher, President, Ward County Water Improvement District #2, Grandfalls, Texas. It was a pleasure to receive your letter of Oct. 2nd, and it has been a pleasure to stand firmly behind the Administration of which I had a share in the making July, 1940, at Chicago. I am enclosing a further $4,000 for which send me four U. S. Defense Bonds Series G.

UNFAVORABLE Comments on Bonds

Carl W. Engstron, N.Y.C. If my Government expects me to serve and to share in the cost of the defense program by buying Defense Bonds, I certainly expect the Government to economize and to eliminate all non-defense projects and, also, to do something about the strikes that are causing interruptions and delays to the defense program and costing the taxpayer money and the money from the Defense Bonds I am buying used for such purposes.

Biltmore Cleaning & Laundry Service, Biltmore Hotel, Los Angeles, Calif. We have just received a letter from your office requesting that we invest in Defense Savings Bonds. With same mail we are informed by our local dealer that Priorities Director, Donald Nelson, has imposed rigid controls on chlorinated solvents, and that there will be no more available to dry cleaners. If this is correct, we will be forced out of business. It does seem that in extending all out aid to foreign countries and making the U. S. the "Arsenal of Democracy", it might be well to remember that "Charity Begins at Home", and take care of our own citizens before we bankrupt ourselves on idealistic theories of salvation abroad.

Albert P. Groebl, Westex Oil Company, Big Spring, Texas. I have purchased and intend to continue purchasing your bonds, and have encouraged others to do likewise; however, I am often confronted with discussions tothe contrary on points meriting consideration. * * * I am asked, "Why does not our President deal firmly with the Radical element?" He has the third term; is it necessary to play politics any longer? The English are crying for supplies and equipment, and we are told our schedule is behind - and 90% of the people realize it is due partly to strikes - jurisdictional disputes.

UNFAVORABLE Comments on Speeches

Clifford H. Bissell, Berkeley, Calif. I am not as much impressed by your speech as I might be, since this (opposition to wage control) seems to indicate that you are opposing the very things you advocate in it. * * * I have already bought several U. S. Savings and Defense Bonds for myself and my children, and in view of the necessary preparations to which the monster Hitler has forced us, I realize that high taxes are unavoidable, but I am not so clear how prosperity is furthered and inflation warded off by diminishing everybody's purchasing power, in other words, by making everybody poorer. * * * Everything in the present Government set-up seems to favor labor racketeers. Why does not the U. S. do something to control them? The strikes in essential defense industries have been and are disgraceful, though of course Hitler does not think so.

Eliot Blackwelder, Stanford University, Calif. It is true that buying Government Bonds will be a big help toward checking inflation. But selling Bonds, levying heavy taxes, and enforcing the other measures which you propose, will be wholly inadequate. Other factors, among which farm prices and industrial wage rates are the most important, are inescapable factors. You seem to have no definite plan for dealing with them effectively. * * * I am now going to wait to buy Bonds until I see clear evidence that the Government is going to take adequate measures to deal with those two elements of the problem.

Ralph Snyder, Wichita Bank for Cooperatives, Wichita, Kan. I am in receipt of your pamphlet, "The Fight Against Inflation". * * * It seems to me that you have overlooked some essential points and have ignored some conditions in your analysis of this situation. You say that "The most effective way to prevent a damaging rise in prices is, quite simply, to release surpluses from storage". Then you go on to call the attention of the housewife to the fact that she is paying fifteen per cent more for flour and cotton goods when we have a heavy surplus on hand, and suggest that we throw the gates open to imports from Canada. You compare this situation with Cuban sugar. Let me call your attention to the fact that we have in wheat an export commodity, supported as to price by a cooperative arrangement between government and producer, while we never did produce enough sugar in this continent to supply our needs. * * * The only way we can expect to increase our supply of food products is by some assurance of a fair price, based on the price of the goods we (the farmers) must buy. "Parity prices", which have been approximated through the offices of the AAA, seems to be the only practical way. * * * I would like very much to distribute any literature that will help to prevent an undue inflation, but with the labor wage scale nearly two hundred per cent above parity, and many other services and industrial products about as much out of line, I hestitate to broadcast anything that attacks as a major menace agricultural products that show but one per cent over parity prices.

GENERAL COMMENTS

Austin J. McArdle, (M. J. Corbett & Co.) N. Y. C. I have just received notice advising me that "the Secretary of the Treasury" announced that subscriptions to the cash offering of 2½% Treasury Bonds 1967/72 are cut to 12½% I am a small subscriber, and asked for $3,000 worth of these bonds, and really wanted $3,000 worth. I suppose I should have over-subscribed and asked for $24,000 worth. Why is it that the small man gets squeezed on every side? On the one hand the Treasury Dept. throttles him with taxes, and on the other hand you let the large institutions gobble up the Treasury Dept. investments. Is there any reason why those who subscribed up to say $5,000 worth should not get their allotment in full, first? Can you give me one good reason?

Miss Mary A. Duffy, Jersey City, N. J. Please Mr. Secretary, let us have a tax savings plan for the small income group. I have just received the second folder from you covering the Tax Savings Plan. My salary is under $1,500, and anyone who has made this small salary knows there is never as much as $25 to put in any one thing in one month. If the Government would evolve a plan suitable for my income group, which would mean a saving of from $5 to $10 in units, it would not only be a wonderful thing for low-salaried people, but for the Government too. *** I am on your mailing list because I own five Baby Bonds. The reason I was able to buy these bonds is because we had a dollar-a-week savings plan in our office. It would have been out of the question for me to have purchased them at $18.75 in one lump sum.

V. M. Smith, Sales Manager, Liberty Show Printing Co., Pittsburgh, Pa. The writer knows and appreciates the fact that you, like all of us, are having your problems these days, and as a result we dislike adding more burdens to your job. However, because of a matter of principal, and, at the same time, a matter of a few dollars - which, after all, are just as important to us, if not more so, than to the Government - we would appreciate your time to consider the following. (Tells of an order for lithographed material accepted on the basis of 2% discount, ten days: net, thirty days. Three months elapsed since bill was sent and check received in payment deducted the 2%, short-changing the company $38.) A rectification or an explanation of this matter will be appreciated.

r Miss Chauncey

October 24, 1941

CONFIDENTIAL

Dear Mr. Knoke:

Permit me to acknowledge, on behalf of Secretary Morgenthau, the receipt of your letter of October 23, 1941, enclosing your compilation for the week ended October 15, 1941, showing dollar disbursements out of the British Empire and French accounts at the Federal Reserve Bank of New York and the means by which these expenditures were financed.

Faithfully yours,

(Signed) D. W. BELL

Under Secretary of the Treasury.

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

imc - 10/24/41

(Init.) F. D.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 24, 1941

TO Secretary Morgenthau

FROM Mr. Barnard

I transmit Mr. Mack's weekly report which is somewhat changed in form and details but is lacking data as to actual deliveries which I have asked him to include as soon as the necessary machinery for it can be put in shape. The substance of the first page of the report I discussed with you yesterday.

CMB

TREASURY DEPARTMENT 79

PROCUREMENT DIVISION

WASHINGTON

OFFICE OF THE DIRECTOR

[illegible] TO THE SECRETARY: October 24, 1941

[illegible]with report of lend-lease activities for the week ending [illegible] 24.

[illegible] conjunction with the preparation of material for the Budget [illegible]essional hearings during the past six weeks having to do [illegible] proposed lend-lease purchases from November 1941, to February [illegible], it is indicated, will approximate [illegible] monthly, [illegible] also made plans for the handling of this new work. We have [illegible] talked with the Bureau of the Budget informally about [illegible]tal requirements of approximately [illegible] additional employees [illegible] that the Second Lend-Lease Act has been passed arrangements [illegible] for a formal Budget hearing to obtain the Bureau of [illegible]'s approval and a tentative date has been set for Tuesday [illegible], October 28.

[illegible] meantime, however, we are utilizing present administrative [illegible] fill key positions and, immediately upon Budget approval of [illegible] administrative expenses required, steps will be taken [illegible] the employees on the rolls in order that we will have some [illegible] provide training before purchase requisitions are received [illegible] the Second Lend-Lease Act, which we expect will reach our [illegible] groups about the middle of November.

[illegible] are now supplementing our purchase groups in anticipation of [illegible] program as the Purchase Division will be the first branch [illegible] by the increased load, whereas the volume will not hit the [illegible] Division until December or early January. However, immediate [illegible] are being made as to personnel, space and equipment in [illegible] to be ready for the expected increase in purchase activity [illegible] the Second Lend-Lease program.

[illegible] inspection and expediting personnel in the field will be [illegible] increased to take care of the expected additional volume [illegible] headquarters group of technical men is to be created to [illegible] progress expediting and delivery.

Clif. E. Mack

Clifton E. Mack
~~Director~~ of Procurement

[illegible]-10

REQUISITIONS ON HAND (as of beginning of week)	$196,062,489.52	
REQUISITIONS RECEIVED DURING WEEK	17,475,974.50	
TOTAL		$ 213,538,464.02
LESS:		
AWAITING ALLOCATION OF FUNDS	$ 40,034,724.75	
REQUISITIONS AWAITING CLEARANCE BY O.P.M.	17,840,782.98	
REQUISITIONS AWAITING ALLOCATIONS OF MATERIAL BY O.P.M.	28,479,020.00	
TOTAL		$ 86,354,527.73
TOTAL REQUISITIONS ON HAND AVAILABLE FOR PURCHASE		$ 127,183,936.29
PURCHASES DURING THE WEEK		8,494,439.04
BALANCE REQUISITIONS ON HAND AWAITING FINAL PURCHASE ACTION		$ 118,689,497.25

Note: Specific information relative to deliveries and delays in deliveries is not available at this time, but upon completion of machine tabulation arrangements which is expected shortly, such data will be made available from the inception of the program.

As of October 16, 1941, there was a lag of approximately 40,000 tons in the October steel delivery schedule. The steel mills were contacted and assurances received that an effort will be made to make up the lag before the end of the month. The shortages of delivery were primarily with U. S. Steel Corporation and Bethlehem Steel Corporation.

As of October 22, there were 155,000 tons of steel at shipside awaiting overseas shipment.

CONTRACT NUMBER	CONTRACTOR'S NAME	[illegible]	COMMODITY	QUANTITY	TOTAL VALUE
DA-TPS-857 (Adj. Add)	General Motors Overseas Operation	U.K.			$ 2,100.00
DA-TPS-868 (Adj. Add)	General Motors Overseas Operation	"			150.00
DA-TPS-1467 (Adj. Add)	SKF Steels, Inc.	"			3,437.15
DA-TPS-1606 (Adj. Deduct)	Oil Well Supply Co.	"			-2,086.10
DA-TPS-1595 (Adj. Add)	Youngstown Sheet & Tube Co.	"			605.44
DA-TPS-1567	Heintz Mfg. Co.	"	Drop Forgings	80,000 ea.	483,675.00
-- --- ---	Metals Reserve	China	Copper	3,000,000lbs.	352,500.00
-- --- ---	Metals Reserve	U.K.	Copper	16,000,000lbs.	1,860,800.0
DA-TPS-966 (Adj. Deduct)	General Motors Overseas Operations	"			-2,050.00
DA-TPS-1096	General Motors Corp.	"	Drop Forgings	10,700 ea.	96,687,50
DA-TPS-529	United Aircraft Corp.	"	Drop Forgings	17,000 ea.	308,585.00
DA-TPS-1588 (Adj. Deduct)	Atlantic Steel Co.	"	Wire Rods		-5,219.42
DA-/TPS-1561 (Adj. Deduct)	Sharon Steel Corp.	"	Rolled Strip		-2,272.03
DA-TPS-1568 (Adj. Deduct)	Bethlehem Steel Export Co.	"	Barbed Wire		-3,027.00
DA-TPS-1633	American Steel Foundries	"	Friction Draft Gear	2,000 sets	58,000.00
DA-TPS-1672	Anaconda Sales Co.	China	Zinc Slab	618,000 lbs.	50,985.00
DA-TPS-1673	The New Jersey Zinc Co.	"	Zinc Slab	510,000lbs	42,075.00

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CONTRACT NUMBER	CONTRACTOR'S NAME	[illegible]	COMMODITY	QUANTITY	TOTAL VALUE
DA-TPS-1674	St. Joseph Lead Co.	China	Zinc Slab	192,000lbs.	$ 24,090.00
DA-TPS-1675	U. S. Smelting Refining & Mining Co., Inc.	"	Zinc Slab	80,000lbs.	6,600.00
DA-TPS-1678	American Zinc Co. of Ill.	U.K.	Zinc Slab	2,200,000lbs.	162,580.00
DA-TPS-1679	Du Pont de Nemours Co.	"	Zinc Slab	430,000lb.	32,852.00
DA-TPS-1682	Matthiessen & Hegeler Zinc Co.	"	Zinc Slab	760,000lb.	57,836.00
DA-TPS-1684	The New Jersey Zinc Co.	"	Zinc Slab	408,000lb.	33,660.00
DA-TPS-1685	St. Joseph Lead Co.	"	Zinc Slab	234,000lb.	19,305.00
DA-TPS-1686	U.S. Smelting Refining & Mining Co., Inc.	"	Zinc Slab	64,000lb.	5,280.00
DA-TPS-1702 (Adj.Deduct)	Inland Steel Co.	"	Angle Splice Bars		-6,092.64
DA-TPS-1735 (Adj. Add)	Sheffield Steel Corp.	"	Track Spikes		220.84
DA-TPS-1796	Oil Well Supply Co.	"	Fittings	1,890ea.	29,011.70
DA-TPS-1810	Wyman Gordon Co.	"	Drop Forgings	3,000ea.	237,000.00
DA-TPS-1817	Wyman-Gordon Co.	"	Drop Forgings	2,000ea	102,000.00
DA-TPS-1713	National Plywood Inc.	"	Veneer BirchAirscrew		150,000.00
DA-TPS-1183	Bucyrus-Erie Co.	"	Water Well Drills	12	100,266.75
DA-TPS-1601	Buffalo Forge Co.	"	Forges	72	6,296.40
DA-TPS-1645	The Celotex Corp.	"	Bagasse	2,750T	36,300.00

CONTRACT NUMBER	CONTRACTOR'S NAME	REQUISITIONER	COMMODITY	QUANTITY	TOTAL AMT
DA-TPS-1718	Rock Bit Sales & Service Inc. D.A.		Jackrods		$ 11,968.00
DA-TPS-1722	American Radiator & Standard Sanitary Corp.	"	Radiator	270	3,848.00
DA-TPS-1802	The Timken Roller Bearing Co.	"	Bearing		2,243.96
DA-TPS-1811	Phelps-Dodge Copper Products Corp.	"	Conductor Copper		456,794.90
DA-TPS-1462	Bucyrus Erie Co.	"	Shovels	2	96,728.00
DA-TPS-1785	American Chain & Cable Co.	"	Hoists	110	15,145.40
DA-TPS-1852	The Jaeger Machine Co.	"	Mixers	80	183,247.20
DA-TPS-1865	American Electric Furnace Co.	"	Electric Furnace	1	2,157.55
DA-TPS-1868	The Jaeger Machine Co.	"	Mixers	40	91,623.60
DA-TPS-1801	The Linde Air Products Co.	"	Plants, liquid Oxygen	3	496,861.00
DA-TPS-1268	Caterpillar Tractor Co.	"	Tractors Graders	6 2	53,419.88
DA-TPS-1720	Maywood Chemcal Works	"	Theobromine	50#	137.50
DA-TPS-1424	R. G. Le Tourneau Inc.	"	Scrapers	26	117,386.60
DA-TPS-1744	Beach Mfg. Co.	"	Spindle Shaper	21	12,579.00
DA-TPS-1751	Carrier Corp.	"	Air Conditioning	2	59,800.00
DA-TPS-1667	Chicago Pneumatic Tool Co.	"	Electric Nut Runner	42 sets	1,560.30
DA-TPS-1666	Milwaukee Electric Tool Corp.	"	Electric Hammers		2,471.00

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CONTRACT NUMBER	CONTRACTOR'S NAME	REQUISI-TIONS	COMMODITY	QUANTITY	TOTAL VALUE
DA-TPS-1723	Nicholson File Co.	W.R.	Nicholson Brand Files	2662 doz.	$ 8,830.00
DA-TPS-1556	Shell Chemical Co.	"	Acetone	525.280#	86,769.50
DA-TPS-1665	Independent Pneumatic Tool Co.	"	Electric Drills		5,131.00
DA-TPS-975 (Adj. Deduct)	R. J. Prentiss & Co. Inc.	"	Digatalis Seeds		- 33.60
DA-TPS-1438	Lima Locomotive Works, Inc.	"	Spare Parts		6,588.55
DA-TPS-1246	Caterpillar Tractor Co.	"	Tractors	225	1,147,965.64
DA-TPS-1726	Remington Rand Inc.	"	Parts for Typewriters		2,023.95
DA-TPS-1457	Bucyrus-Erie Co.	"	Lifting cranes	10	71,056.60
DA-TPS-1730	Royal Typewriter Co., Inc.	"	Parts for Royal Typewriter		720.65
DA-TPS-1728	Woodstock Typewriter Co.	"	Parts for Woodstock Typewriter		116.29
DA-TPS-1729	Underwood Elliott Fisher Co.	"	Parts for Underwood Typewriter		1129.64
DA-TPS-1727	L.C. Smith & Corona Typewriter	"	Parts for L.C. Smith Typewriter		397.60
DA-TPS-1858	Bowell Roller Bearing Co.		Bearings		7,742.50
DA-TPS-1867	The Torrington Co.	"	Bearings		2,245.00
DA-TPS-1861	Norma-Hoffmann Bearing Corp.	"	Bearings		660.00
DA-TPS-1860	SKF Industries Inc.	"	Bearings		8,763.00
DA-TPS-1859	General Motors Sales Corp. Hyatt Bearing Division.	"	Bearings		4,050.00

[illegible]	[illegible]	[illegible]	COMMODITY	QUANTITY	TOTAL VALUE
DA-TPS-1559	Winthrop Chemical Co.,	N.Y.	Atabrine Tablets	2500.	3,750.00
DA-TPS-1562	Mallincrodt Chemical Co.	"	Tannic Acid	1000#	1,130.00
DA-TPS-1563	Abbott Laboratories	"	Epinephrine Hydro-chloride Solution	12,000 oz.	2,160.00
DA-TPS-1577	Merck & Co., Inc.	"	Solution Formaldehyde	450#	68.62
DA-TPS-1578	Geo. Luders & Co., Inc.	"	Oil of Citronella	1,000#	900.00
DA-TPS-1581	E. I. Du Pont de Nemours & Co.	"	Alum Powdered	4,400#	193.60
DA-TPS-1587	Mallinckrodt Chem. Works	"	Barium Sulphate	5500#	522.50
DA-TPS-1592	Chas. Pfizer & Co., Inc.	"	Potassium Iodide	800#	1,080.00
DA-TPS-1593	Chipman Chemical Co., Inc.	"	Sodium Arsenate	11,200#	1,092.00
DA-TPS-1580	Heyden Chemical Corp.	"	Methyl Salicylate	20,150#	7,455.50
DA-TPS-1579	Magnus, Mabee & Reynard Inc.	"	Oil of Citronella	1792#	1,632.40
DA-TPS-1450	Winthrop Chemical Co., Inc.	"	Atabrine Tablets Plasmochin	1000	3,850.00
DA-TPS-1594	Chas. Pfizer & Co., Inc.	"	Iodine Resublimed	280#	560.00
DA-TPS-1165	Williamette Hyster Co.	"	Hyster CarryKrane		4,475.00
DA-TPS-1736	The Crescent Macline Co.	"	Crescent 4 Speed Lathes	9	3,210.75
DA-TPS-1832	J. W. Wells Lumber Co.	"	Red Oak	500,000	23,750.00
DA-TPS-1828	Lamson Lumber Co., Inc.	"	Red Oak	200M BM	12,000.00

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
DA-TPS-1830	Mobile River Saw Mill Co.	U.K.	Red Oak	1[illegible]	$ [illegible],450.00
DA-TPS-1822	American Pitch Pine Export Co.	"	Red Oak	150[illegible]	[illegible],825.00
DA-TPS-1823	The Atlantic Lumber Co.	"	Red Oak	440MBM	24,525.00
DA-TPS-1824	Chicago Mill & Lumber Co.	"	Red Oak	110 MBM	6,820.00
DA-TPS-1825	Denkinann Lumber Co.	"	Red Oak	100MBM	4,760.00
DA-TPS-1826	Hallett Mfg. Co.	"	Red Oak	140MBM	5,782.50
DA-TPS-1827	J. M. James Lumber Co.	"	Red Oak	15MBM	677.50
DA-TPS-1829	Miller & Co., Inc.	"	Red Oak	600MBM	26,800.00
DA-TPS-1831	Robinson Lumber Co.	"	Red Oak	150 MBM	9,150.00
DA-TPS-1821	S. B. Adams Lumber Co., Inc.	"	Red Oak	16 MBM	1,120.00
DA-TPS-1783	Maurice W. Grundy	"	White Ash		1,950.00
DA-TPS-1773	Anderson Tully Co.	"	White Ash		25,549.50
DA-TPS-1776	Angelina Hardwood Co.	"	White Ash		7,107.00
DA-TPS-1777	Santee River Hardwood Co.	"	White Ash		3,110.00
DA-TPS-1778	Thompson-Katz Lumber Co.	"	White Ash		2,880.00
DA-TPS-1779	White Wood Products Co.	"	White Ash		29,962.50
DA-TPS-1782	Robinson Lumber Co.	"	White Ash		23,030.00
DA-TPS-1551	Bendix Products Div.	"	Carburetors & Parts		1,454.00

CONTRACT NUMBER	CONTRACTOR'S NAME	DESTINATION	COMMODITY	QUANTITY	TOTAL VALUE
DA-TPS-1845	Birds Eye Veneer Co.	U.K.	Veneer Birch		$ 72,437.60
DA-TPS-1921	The Celotex Corp.	"	Fiber Board		56,158.77
DA-TPS-1920	United States Gypsum Co.	"	Fiber Board		8,[illegible]10.00
DA-TPS-1784	Ingersoll Rand Co.	"	Pumps		8,040.00
DA-TPS-1933	Birds Eye Veneer Co.	"	Veneer Birch		12,144.00
DA-TPS-1748	Northfield Foundry and Mch.Co.	"	Hand Feed Planing Mchs.		19,370.40
DA-TPS-1886	Bloedel Donovan Lumber Mills	"	Douglas Fir		18,000.00
DA-TPS-1885	Dant & Russell Inc.	"	Douglas Fir		59,400.00
DA-TPS-1708	Wallace and Tierman Co.	"	Chloramine		38,880.00
DA-TPS-1935	Alvey Conveyor Mfg. Co.	"	Gravity Rollers		7,666.00
DA-TPS-1374	Caterpillar Tractor Co.	"	Caterpillar Tractor		15,707.32
DA-TPS-1277	Ingersoll Rand Co.	"	Spare Parts		9,376.40
DA-TPS-1277	Ingersoll Rand Co.	"	Spare Parts		13,197.70
DA-TPS-1584	Cummins Engine Co.	"	Diesel Engines		107,331.20
DA-TPS-1791	Caterpillar Tractor Co.	"	Electric Generator sets		81,705.48
DA-TPS-1490	Swift & Co.	"	Hide Butts		46,102.00
DA-TPS-1892	Haskelite Mfg. Corp.	"	Veneer Birch, Aircraft		141,280.00
DA-TPS-1781	Mobile River Mill Co.	"	White Ash		7,565.50

CONTRACT NUMBER	CONTRACTOR'S NAME	DESTI-NATION	COMMODITY	QUANTITY	TOTAL VALUE
DA-TPS-1780	Lemson Lumber Co.	U.K.	White Ash		$ 20,650.00
DA-TPS-1774	Bankster Lumber Export Co.	"	White Ash		22,520.00
DA-TPS-1449	Chicago Rawhide Mfg. Co.	China	Belt Dresser and Cement		330.00
DA-TPS-1882	Mundet Cork Corp.	"	Gasket, Sheet		210.00
DA-TPS-1870	American Chain & Cable Co., Inc.	"	Pins, cotter, split		376.77
DA-TPS-1468 (Adj. Deduct)	Pennwell Oil & Belting Co.	U.K.			-972.00
DA-TPS-1789	Royle Mfg. Co.	"	Drums	55 ga. 20,000	65,600.00
DA-TPS-1856	The Peck, Storo & Welcox, Co.	"	Shears, foot	9	1,697.40
DA-TPS-1854	Ford Chain Block Div. of American Chain & Cable Co., Inc.	"	Crane,	6	634.80
DA-TPS-1952	German Lumber Co.	"	Pitch Pine	200 M	17,450.00
DA-TPS-1913	General Motors Sales Corp.	"	Bearings		1,153.90
DA-TPS-1911	Roller Bearing Co. of America	"	Bearings		35.28
DA-TPS-1912	Rollway Bearing Co., Inc.	"	Bearings		1,640.00
DA-TPS-1596	Briggs & Stratton Corp.	"	Motor, gasoline	500	35,489.85
DA-TPS-1939	The Torrington Co.	"	Bearings		2,136.00
DA-TPS-1893	The John E. Potter Co.	"	Veneer Birch Aircraft		52,650.00
DA-TPS-1940	The Torrington Co.	"	Bearings		2,723.70

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CONTRACT NUMBER	CONTRACTOR'S NAME	REQUISITIONS	COMMODITY	QUANTITY	TOTAL VALUE
DA-TPS-1956	The Timken Roller Bearing Co.	U.K.	Bearings		$ 12,466.00
DA-TPS-1954	General Motors Sales Corp.	"	Bearings		98,522.80
DA-TPS-1953	Bower Roller Bearing Co.	"	Bearings		9,227.60
DA-TPS-1819	Dictaphone Corp.	"	Recording Mach. Transcriber	20 6	10,640.00
DA-TPS-1840	Champion Blower & Forge Co.	"	Forges	6	1,942.50
DA-TPS-1841	The Mac Leod Co.	"	Rivet Forge	4	380.00

Total Purchases 10/17-to 10/24/41..$8,494,439.04

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 24, 1941

TO Secretary Morgenthau

FROM Mr. Barnard

Attached for your information are letter received from Sir Clive Baillieu, Director-General of the British Purchasing Commission, and a copy of my reply.

CWB

1219 K STREET N. W., WASHINGTON, D. C. TELEPHONE REPUBLIC 7860

BRITISH PURCHASING COMMISSION

October 24th, 1941

Mr. Chester Barnard,
Treasury Building,
Pennsylvania Avenue and 15th Street,
Washington, D.C.

Dear Mr. Barnard,

With reference to the conversations which I and some of my officers have had with you about arrangements for closer coordination of the work of the Treasury Procurement Department and this Commission, I am writing to let you know that we shall be most happy to accept your offer that we should appoint a representative or representatives of the Commission to work in the Procurement Department.

For this purpose we have nominated Mr. G. Archer and Mr. A. McKim. Mr. Archer is a permanent civil servant and a senior officer of the Raw Materials Department of the Ministry of Supply in England. He has been with the Commission since the early part of this year and is wellknown to many officers of the Treasury Procurement Department. Mr. McKim, whose services have been lent to us by his firm in Canada, has been with the Commission for some eighteen months. He has a very complete knowledge of our organization and is also personally known to several officers of Treasury Procurement. Mr. Archer and Mr. McKim will be available to start work immediately in their new functions in the Treasury Procurement Department.

You mentioned to me the possibility that additional officers might be attached to individual sections of the Procurement Department. I think experience may well prove this to be a desirable development. I think we can, however, leave it to be explored further by Mr. Archer and Mr. McKim in association with Mr. Mack and his officers. Mr. Mack has suggested to us that two or more officers of his Department should be attached to us to carry out functions similar to those to be performed by Mr. Archer and Mr. McKim. I need hardly say that we should cordially welcome such an arrangement.

I feel confident that these new arrangements for securing closer coordination between the Commission and Treasury Procurement will go a very long way towards securing the objective we all have in mind - the expediting of the process of supply - and I am most grateful to you for your help in bringing these arrangements to a happy conclusion.

Very sincerely yours,

Clive Baillieu

(Clive Baillieu)
Director-General.

OCT 24 1941

2:45

October 24, 1941

Sir Clive Baillieu, Director-General
British Purchasing Commission
1518 K Street, Northwest
Washington, D. C.

Dear Sir Clive:

This acknowledges your letter of October 24th advising me that Mr. Archer and Mr. McKim have been appointed representatives of your Commission to work in the Procurement Division of the Treasury Department. These appointments are quite gratifying to us and we are delighted with you that arrangements for better coordination of our joint endeavor are so well under way.

Mr. Mack advises me that he is assigning Mr. Freeman and Mr. Thompson to be attached to your office to carry out the functions similar to those of Mr. Archer and Mr. McKim.

I need not add that I hope you will call on me whenever you think I can be of help.

Yours very truly,

Chester I. Barnard
Assistant to the Secretary

October 24, 1941

Secretary Morgenthau

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Assistant to the Secretary

C O P Y

1518 K St., N.W., Washington, D.C. Telephone Republic 7860

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Very sincerely yours,
(Signed) Clive Baillieu
Director-General

Received 10/24/41 - 2:45 p.m.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 24, 1941

TO Ferdinand Kuhn, Jr.

FROM Alan Barth

EDITORIAL OPINION
ON FOREIGN AFFAIRS:
THE PRESS GROWS ANGRY

Politics

To editorial minds, the attack on the Kearny clinched the case for Neutrality Act repeal. Commentators and Washington correspondents alike appear to be in general agreement that both Congressional and public opinion are swinging rapidly toward the elimination of all the statutory shackles on our foreign policy.

That sizeable segment of the press which has consistently supported the Administration in foreign affairs, despite an abhorrence for the New Deal, could not help rejoicing in the fact that the motion for Neutrality repeal in the Senate came first from a trio of Republicans. Wendell Willkie is generally credited with having inspired the move. It is hailed in some comments as a shrewd political coup, in others as genuine minority leadership in the service of the nation.

Since many newspapers have for some time urged outright repeal, they have no reluctance in echoing Mr. Willkie's charge that the President has presented his international program "by doses as though we were children." Most of them are aware, however, that if Mr. Roosevelt has sought piecemeal revision of the Neutrality Act, it is because Republican opposition has hitherto fought him at every turn.

But, however transparent their delight in the "regeneration" of the Republican Party, editorial writers insist that there should be no politics in regard to Neutrality proposals. They are inclined to scoff slightly at Democratic proposals for removing the combat zone restrictions. The preponderant sentiment is for doing away, not merely with the Neutrality Act, but with neutrality.

Initiative

Editorial discussion of the attacks on the Kearny, Lehigh and Bold Venture has a very different tone from that which prevailed in comment on the Robin Moor and Greer incidents. On the earlier occasions, the press followed the lead of the President; it urged the public to remain calm. But current editorials are written in genuine anger and seem designed to incite a sense of public outrage.

Again, as always within the broad pattern of policy which has become generally accepted, there is a quick response to the national leadership. The newspapers take their cue from Secretary Hull's observation that the State Department does not send notes of protest to international highwaymen; echoing the President, they treat these attacks as unmitigated acts of piracy.

The Charlotte Observer heads an editorial with the bold-face query, "What Else Is It But War?" The Providence Journal declares, "This is deliberate and unrestricted war against the United States, of similar character to but more savage than the warfare which caused President Wilson to act in 1917.... There is no course open to us but to defend our rights, not by asserting them, but by enforcing them."

The dominant demand in the press is clearly for war against Germany, although not for a declaration of war. The Baltimore Sun, for example, asserts: "The President and the Congress should consider promptly the use of our navy and air force to drive <u>all</u> German and Italian raiders from <u>all</u> the seas.... Our national safety requires that we stop drawing imaginary lines. The war is total. The seas are total.... Our protection is to take risks -- and strike first." The editors have had more than enough news of submarine attacks on American vessels. They want news of a Nazi raider sunk by an American destroyer. Passive defense no longer satisfies them; they want the United States to seize the initiative.

The same feeling is manifest in relation to Japan. "The United States must seize the initiative from Japan ... with acts, not words," says The Philadelphia Record. War with Japan is commonly regarded as inconvenient at this time -- but by no means as wholly undesirable. The Wichita Beacon, hitherto not notably interventionist, remarks that "... the United States, while averse to sending an expeditionary force to Europe, can and will take direct action in the Pacific."

A flurry of uneasiness was apparent in the press over the Maritime Commission's announcement that no more aid to Russia would be sent via Vladivostok. If there is one thing of which American editorial writers seem to be unanimously convinced, it is that in the Oriental lexicon a soft answer does not turn away wrath. "The situation demands absolute firmness," insists The Worcester Gazette. "Anything else would be fatal."

Sensibilities

The wholesale execution of French hostages has stirred a feeling of horror and indignation which seems to be deep and genuine. It utterly belies the postulate on which the Neutrality

Act was founded -- that Americans could remain indifferent to brutality and injustice anywhere in the world. If the newspapers of the nation are in any sense expressive of the people they serve, then they demonstrate unmistakably that this people is not callous.

Earlier reprisal shootings by the Nazis were hailed here rather joyously as evidence of a rebellious spirit in the conquered countries. But now there seems to be flowing out of this mass cruelty some understanding of the real nature of the Nazi menace to civilized society.

Anger is replacing fear as the motive power conditioning American attitudes toward the war. And anger is the one emotion which can arouse a people from lethargy.

TREASURY DEPARTMENT

United States Mint Service

San Francisco, Calif.

October 24, 1941

Secretary of the Treasury,
Treasury Department,
Washington, D.C.

Attention - Frank Dietrich

Dear Sir:

I am enclosing copy of a letter that I have today handed to the Federal Reserve Bank with check - also six copies of memorandum form 42-R.

Hoping you will find everything in order and assuring you that I am glad of the opportunity of serving you at any time, I am -

Respectfully,

/s/ P. J. Haggerty

Superintendent.

Copy:vw:10-27-41

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October 24, 1941

Federal Reserve Bank,
San Francisco, California.

Gentlemen:

There was on October 19, 1941 delivered to the U.S. Mint, San Francisco, 158,558.25 ounces of gold, which arrived in San Francisco on the SS "Dneprostroy" for the account of the State Bank of the U.S.S.R. Moscow. We were instructed by telegram from D. W. Bell, Acting Secretary of the Treasury (copy of which is attached) to instruct the Federal Reserve Bank of San Francisco to transfer by telegram to the Federal Reserve Bank of New York, for credit of the Secretary of the Treasury, Special Account, and to include in the telegram the number of -

Fine Ounces	158,539.363
Dollar Value	$5,548,877.70
Mint Charges	$ 158.60
Net Amount	$5,548,719.10

for which latter amount we are delivering you our check.

The amount of one-fourth of one percent (1/4%) handling charge is $13,872.19.

Yours very truly,

/s/ P. J. Haggerty

Superintendent

Copy:vw:10-27-41

October 24, 1941

Mr. D. W. Bell

Mr. Dietrich

Today there was a meeting with the Bolivian Minister regarding a stabilization agreement with that country. Nothing concrete was presented by him except that he thought that it would be a good idea to have a preliminary discussion as to just what information the Treasury would require in connection with a stabilization agreement. The Minister stated that while he did not know the plans of his Government, he thought that it would be looking for between five and eight million dollars to stabilize their currency.

It was agreed that Mr. White would prepare a set of questions which would be given to the Minister next week. After perusal of those questions by the Minister, another meeting will be called.

The Minister inquired if an expert could be sent to Bolivia to survey the monetary and banking situation in that country. Mr. White stated that there was nobody available in the Treasury for this task at the present time but that it was his impression that Glasser, who is now assigned to Ecuador, would be available perhaps at the end of the year. This question is to be given further consideration.

It developed during the meeting that there will be sent to Bolivia experts to survey the mineral, agricultural and transportation fields, all of which will eventually be grouped together at the conclusion of the survey with a view to establishing a long-term program for Bolivia.

FD:da:kma 10/24/41 (3)

October 24, 1941

Mr. D. W. Bell

Mr. Dietrich

This afternoon a meeting was held with the Ecuadorian Ambassador regarding the stabilization agreement. While the Ambassador did not offer any concrete proposal, a general discussion was held with him regarding the trade and finances of Ecuador.

It was agreed that Mr. White would go over the material on Ecuador which he has in his possession and prepare, if necessary, a list of questions which would be of help to the Treasury in arriving at its decision regarding the agreement. These questions are to be prepared by next week and another meeting will be called.

While the letter of August 15 to State from the Finance Minister of Ecuador mentioned a maximum amount of U. S. $5,000,000, I gathered from the meeting that this amount may be reduced to $3,000,000, $1,000,000 of which will be provided by Ecuador.

(Init.) F. D.

D:dm:10/24/41

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DEPARTMENT OF STATE
WASHINGTON

October 24, 1941

In reply refer to
FF 894.5151/262

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and transmits herewith a copy of despatch No. 1904, dated October 7, 1941, and a copy of despatch No. 1892, dated October 3, 1941, from the American Embassy at Lima, relating to banking and exchange transactions in Peru on behalf of German, Japanese and Swiss interests.

The Secretary of State would appreciate the advice of the Secretary of the Treasury as to replies to be made to inquiries in these despatches.

Enclosures:

1. From Embassy, Lima,
   No. 1904, October 7, 1941.

2. From Embassy, Lima,
   No. 1892, October 3, 1941.

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Lima, October 7, 1941.

No. 1904

Subject: Combination of Japanese and German Banking Operations

CONFIDENTIAL

The Honorable

The Secretary of State,

Washington.

Sir:

I have the honor to refer to my despatch No. 1892 of October 3, 1941, relating to Japanese and other unusual exchange operations in Peru, and to submit the following supplementary information supplied by the Central Reserve Bank of Peru.

The Banco Aleman Transatlantico of Lima has just approached the Central Reserve Bank on behalf of a "Swiss bank" with an offer to supply Swiss francs for the Peruvian government's use in providing funds for its diplomatic and consular officers in Europe.

The German bank stated that if Central Reserve would deposit gold in Lima to the account of the German bank, the "Swiss bank" in Shanghai would supply the corresponding amount in Swiss francs.

The offer is said to have been made verbally and the exact name of the Shanghai bank could not be given. The informant did recall, however, that it included the word "Asiatic." The German bank in Lima would forward dollars from this country to Shanghai.

The amount of gold in question seems to be about thirty thousand dollars, equivalent to approximately one hundred thousand Swiss francs.

The officer of the Central Reserve Bank at first requested that the Embassy inquire by telegram if the American government would object to such an operation. We replied that the case could be presented more clearly in letter form, and in any event we were inclined to doubt if the American government would be willing to go on record with any statement other than that all possible cooperation in such matters would be appreciated. The officer referred to expressed full agreement with this point of view and stated that the bank wanted the details of this subject brought to the attention of Washington, and would like to receive any comments which the American authorities might wish to make.

It is our understanding that the object of the conversations referred to in this despatch and No. 1892 of October 3, is to obtain Swiss francs for meeting the expenses of the Peruvian officers in Europe without dealing with German or Japanese banks, or with any others which may be objectionable to the United States.

During the course of our most recent conversations, one of the sub-managers of the Central Reserve Bank stated that the German bank has no dollar credit in the Central Reserve Bank.

Respectfully yours,

R. Henry Norweb

851.6
JG/ds

Copy:lc:10/24/41

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Lima, October 3, 1941.

No. 1892

Subject: Japanese and Other Unusual Exchange Operations in Peru in the Recent Past.

STRICTLY CONFIDENTIAL

The Honorable

The Secretary of State,

Washington.

Sir:

I have the honor to submit the following information relating to recent Japanese and other unusual exchange operations in Peru, which was supplied voluntarily by the Central Reserve Bank of this country with the explanation that the bank desires to keep the American government currently informed of such operations.

The specific request was made that the Central Reserve Bank be informed if this procedure is in any way inimical to the policies of the American government. The operations were effected for the purpose of facilitating a sale of Peruvian cotton, wool and certain other products. The local authorities felt that the needs of domestic exporters could be satisfied in this way, and that the nature of the transactions could not be considered as opposing any important objective of the democratic nations. However, the officers of the bank stated that their perspective is limited and that the opinion of the Department would be very valuable.

Imports of gold: The Japanese vessel "Noto Maru" on September 22 disembarked in Callao seven boxes containing fourteen bars of gold containing 6,775.581 fine ounces valued at S/1,506,821.74, which were purchased by the Central Reserve Bank of Peru. Peruvian paper currency against this gold shipment was paid out to cotton

exporters.

exporters. Over one million soles was for Japanese cotton purchases, a considerable amount of which was sold by Anderson, Clayton & Co., S. A., and Alexander Eccles & Company, according to officers of the Central Reserve Bank.

The Central Reserve Bank has now been informed that an additional shipment of gold will arrive in Callao during the first half of October. This shipment will be composed of thirty-eight bars containing 17,931.477 fine ounces, valued at $627,601. The proceeds will be used for purposes similar to those explained above.

The officers of the Central Reserve Bank asserted that if the American government has any objection whatsoever, this shipment of gold will be rejected and returned to Japan, although they expressed the opinion that they could forsee nothing of the sort in the circumstances which at present are known to them.

It was stated that the gold bars received in the first shipment were stamped with the Japanese assay mark.

Operations in yen currency: During July, August and September, the commercial banks of Peru sold S/12,383,909 of yen and purchased S/9,589,108 of yen, according to the compilations of the Superintendent of Banks. A more detailed statement of these operations is given on one of the enclosures to this despatch.

Account opened by the State Bank of the U.S.S.R.: While speaking of the subjects described above, the officers mentioned parenthetically an interesting development which took place earlier in the year while the Russians were still associated with Germany.

Although it is assumed that the Department will have been informed of the operation owing to the fact that the Chase National Bank of New York was involved in the same, it is mentioned here as a matter of record. Under date of January 1 the State Bank of the U.S.S.R. informed the Central Reserve Bank of Peru that it was willing to open a free dollar account. There were further communications, and on April 3, 1941, a current account of one thousand dollars was opened through the Chase National Bank of New York. A specimen signature and a code were forwarded. It is assumed that the account current was opened for the purpose of effecting mercantile operations--possibly with reference to sugar for Russia or for transactions on the behalf of Germany.

The account has been idle and there has been no further correspondence on the subject since the Russians began hostilities against Germany. At the time this account was opened the Central Reserve Bank

consulted

consulted the British authorities and accepted the same with the consent of the British, according to statements made at the bank.

Difficulty in obtaining Swiss francs: The Central Reserve Bank authorities discussed in some detail an obstacle which has been encountered in transmitting funds for the expenses of the Peruvian diplomatic and consular officers in continental Europe. The Federal Reserve Bank of New York had been supplying Swiss francs, but several weeks ago informed the Central Reserve Bank of Peru that the supply of that currency in New York was low. According to the Central Reserve Bank authorities, the Federal Reserve Bank of New York suggested or intimated that Swiss francs might be obtained from the Swiss National Bank in New York, the latter supplying a certain amount of that currency for use of the officers in Europe referred to.

The Swiss National Bank subsequently informed the Central Reserve Bank that it did not care to receive further amounts of gold to be deposited in the United States, but suggested that the Buenos Aires branch of the Swiss bank is in a position to accept such deposits of gold bars. On the possibility of transferring gold bars to the Banco Central de la Republica de Argentina, the latter informed the Central Reserve Bank of Peru that the Argentine institution could not receive deposits of gold bars other than those bearing the assay marks which are recognized in Argentina.

Consequently, the Central Reserve Bank requested the Federal Reserve Bank of New York to transfer to the Banco Central de la Republica de Argentina gold bars representing a value of approximately $100,000. The corresponding credit would be transferred to the Buenos Aires branch of the Swiss National Bank, and the central office of the latter in Zurich would make the Swiss francs available to the Peruvian government officers.

The last communication on the subject from the Federal Reserve Bank of New York was a telegram dated October 1, which is quoted in the copy of the Central Reserve Bank's letter of October 3 enclosed herewith.

The authorities of the Central Reserve Bank have requested that the Embassy bring this matter to the attention of the Department of State with a request for such cooperation as may be properly rendered to this Peruvian institution in its efforts to care for the needs of the Peruvian diplomatic and consular officers in continental Europe.

At

At the time this request was made, we inquired if the Central Reserve Bank had in mind any financial operations other than those relating to the needs of the Peruvian foreign service officers in Europe. The reply was that naturally the bank would not use any funds requested of the American government for purposes other than those declared.

Respectfully yours,

R. Henry Norweb

Enclosures:

1 - Copy of letter to Federal Reserve Bank of New York from Central Reserve Bank of Peru dated October 3, 1941.

2 - Recent sales of yen by commercial banks of Peru.

851.51
JG/ds

Copy:imc
10/24/41

[TRANSLATION]

Enclosure No. 1 to despatch No. 1892 of October 3, 1941,
American Embassy, Lima, Peru.

COPY

Lima, October 3, 1941.

Federal Reserve Bank of New York,
New York.

Dear Sirs:

SHIPMENT OF GOLD TO BUENOS AIRES

We thank you for your cablegram of the 1st instant reading as follows:

"YOUR NUMBER 20 APPLICATION NOT APPROVED BY TREASURY STOP TREASURY ADVISES Will CONSIDER NEW APPLICATION WHEN AND IF REQUEST TO EFFECT TRANSFER OF GOLD IS MADE BY YOU"

by which we understand that the Treasury has not given its approval to the sending of about $100,000 in gold of that which we hold in custody in your power to the Banco Central de la Republica Argentina of Buenos Aires.

As you are aware through out previous correspondence on this subject, according to our letters of July 12 and 21, August 28 and September 20 last, our sole purpose is to deposit this gold in Buenos Aires in the name of the Banque Nationale de Suisse, Zurich, for credit to our account for that sum in Swiss francs, in order to meet the monthly payments which we have to make to our Diplomatic and Consular Service on the European Continent.

We have discussed this subject with the Commercial Attache to the Embassy of the United States at Lima, who has promised us to write to the Treasury Department regarding the matter.

As you advise us in your cablegram that the Treasury would consider a new application to make this transfer of gold, if and when it is made by us, we shall be grateful if you will inform us of the procedure we must follow in order to submit the direct application which the Treasury suggests to us.

Thanking you for taking the trouble which we are causing you and awaiting your reply which we beg you to send by air mail, we remain,

Yours very truly,

BANCO CENTRAL DE RESERVA DEL PERU

AV-MVC

Tr:JVM:HSF

Copy:bj:10-24-41

COPY

Enclosure 2 to despatch No. 1892 of October 3, 1941, American Embassy, Lima, Peru.

SALES OF YEN BY THE COMMERCIAL BANKS OF PERU DURING THE MONTHS MENTIONED:

July	1941	Yen	841,452.-		
Less: Swaps		"	40,000.-	Yen	801,452.-
August	1941	Yen	3'629,732.-		
Less: Swaps		"	47,944.-	"	3'581,788.-
September	1941	Yen	8'000,669.-	"	8'000,669.-
				Yen	12'383,909.-

PURCHASES OF YEN BY THE COMMERCIAL BANKS OF PERU DURING THE MONTHS MENTIONED:

July	1941	Yen	783,767.-		
Less: Swaps		"	779,880.-	Yen	3,887.-
August	1941	Yen	3'617,728.-		
Less: Swaps	213.-				
Cancellations	74,501.-	Yen	74,714.-	"	3'543,014.-
September	1941	Yen	7'930,485.-		
Less: Swaps	602,897.-				
Cancellations	1'285,381.-	Yen	1'888,278.-	"	6'042,207.-
				Yen...	9'589,108.-

Lima, October 3, 1941

Copy:ec:10-24-41

Recd 4 pm.
10/24

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 24, 1941.

TO Secretary Morgenthau

FROM H. D. White

As you suggested, I inquired of Mr. Currie as to the request by Dr. Soong for an interview with the President. Currie informed me that he tried to get an interview with the President for Soong a couple of weeks ago but was informed that Soong should see Stettinius. It was also Currie's impression that Mr. Corcoran had since then arranged the interview with the President but he was not certain about it.

October 24, 1941

Dr. Feis

Mr. Dietrich

With reference to the cable delivered to you last night for transmission to the American Embassy "for Casaday from the Secretary of the Treasury" regarding an address by John L. Sullivan, in second paragraph of this message the following should be substituted "governmental treasuries" in place of "the Federal Treasury".

I spoke to Miss Lanoville by phone this morning and requested that the substitution be cabled as soon as possible.

Mr. Roy Blough came in this morning and requested that the above correction be made.

(Init.) F. D.

FD:ch
10-24-41

TELEGRAM SENT

DES

GRAY

October 24, 1941

Noon.

AMEMBASSY,

LONDON.

4685.

Department's 4670, October 23, 10 p.m.

FOR CASADAY FROM SECRETARY OF THE TREASURY.

QUOTE. In second paragraph substitute "governmental treasuries" in place of "the Federal Treasury". END QUOTE.

HULL
(FL)

FF:FL:VCL

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Consulate General, Hong Kong.

DATE: October 24, 1941, 4 p.m.

NO. : 445.

THIS MESSAGE IS IN STRICT CONFIDENCE TO THE SECRETARY OF THE TREASURY FROM FOX. MESSAGE TF-H.

The telegram which you sent on October 18, no. 350, should have been sent to Chungking. This telegram was repeated to Chungking although until it was relayed to Hong Kong I did not see it. Although I have not as yet had an opportunity to study all of the sections in telegram no. 350, under reference, I do believe that all of the questions raised in this telegram except that which involves the Banque Belge are answered in telegram TF-E, dated the 15th of October, from Cochran and Fox from Hong Kong and telegram no. 423 from Cochran, sent from Chungking on the 20th of October. I have not had an opportunity to discuss that with Hall-Patch although I am sure that Phillips who is in Washington is informed. Before he left for Shanghai Mr. Cochran received sections one to five of the Department's telegram no. 350. The other sections are being sent to him today by cable. Until further advised all cables should be addressed to me at Hong Kong.

SOUTHARD

HSM

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DEPARTMENT OF STATE
Washington

In reply refer to
FF 811.20 (D) Regulations/4876

October 24, 1941

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and refers to the formers letter dated August 29, 1941 transmitting a paraphrase of telegram No. 3915, from the American Embassy at London, dated August 27, 1941, relating to control of exports to China. The Secretary of State transmits herewith with further reference to this subject paraphrases of telegrams No. 3947, dated September 19, 1941, and No. 4551, dated October 18, 1941, from the Department of State to the American Embassy at London, and a copy of telegram No. 4755, dated October 6, 1941, from the American Embassy at London.

Enclosures:

1. To American Embassy, London,
   No. 3947, September 19, 1941.

2. To American Embassy, London,
   No. 4551, October 18, 1941.

3. From American Embassy, London,
   No. 4755, October 6, 1941.

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10-25-41

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PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, London, England.

DATE: September 19, 1941, 6 p.m.

NO.: 3947.

The courtesy of the British Treasury in supplying us with information concerning British treatment of exports to China is appreciated by the Department. You may convey to the British Government the following information concerning our policy as to exports to China:

Such control may be exercised under the terms of either Executive Order No. 8389, as amended, or the Export Control Act of July 2, 1940.

The export of all war materials and all other important items with the exception of raw cotton are covered by Proclamations which have been issued under the Export Control Act. It is believed that the British Government is fully informed with respect to this matter. In so far as the administration of this control is concerned, no licenses are being issued for the exportation of commodities on the export control list to Japanese consignees in China. Nor are export licenses being granted to ship commodities on the list to other consignees in Shanghai and other Japanese occupied areas except when the shipments contemplated appear essential to the preservation of property operated or owned by British or American citizens, or when the shipments have some relation to the operation of local public utilities or to public health or in cases involving insignificant amounts of commodities. It should be noted that for some time the only licenses which have been issued for export to Japanese-occupied areas have been licenses for exports to Shanghai. Licenses are freely issued in the case of exports of controlled commodities to areas in China which are not occupied or controlled by the Japanese.

General License No. 58 issued under Executive Order No. 8389 authorizes under certain conditions all transactions incident to the import and export of goods between any part of China other than Manchuria and the United States. Refer in this connection to the text of the General License. Consideration is currently being given to the modification of this General License in the near future so as to make it more restrictive. It may be noted in this connection that representatives of the Treasury Department, the State Department, and the British Government are now considering the whole problem of integrating the freezing and financial controls of Great Britain and the United States with the financial controls of China.

With respect to the inquiry of the British Government as to our policy with regard to cotton exports, cotton is not on our export control list and may, therefore, under General License No. 58, be exported to all areas of China with the exception of Manchuria. The Department is considering the problem of cotton exports and hopes to be in a position soon to send you further information.

HULL

811.20 (D) Regulations/4672A

FF:GL:ME

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10-25-41

PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, London, England.

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

NO. : 4551.

Although there is no issuance of licenses for the exportation of goods to Japanese consignees resident in China, the rejection or approval of license applications is not in general based on the criterion of nationality of the consignee but on the criterion of the use to be made of the commodity; that is whether the use is one of those specified in the fourth sentence of the third substantive paragraph of the Department's telegram of September 20 (No. 3947). In addition when a shipment is for manufacture by reputable Chinese, British or American concerns in Shanghai and when the products so manufactured would not be of substantial assistance to the Japanese war effort, it is considered that the shipment would be put to a legitimate use. The American Consul General in Shanghai furnishes the Department with information with regard to the reliability of consignees and the use to which material is to be put. Export licenses are granted only if it appears reasonably certain that materials will not be resold to Japanese nationals or persons who might in turn sell the materials to the Japanese.

eh:copy
10-25-41

BS

GRAY

LONDON

Dated October 6, 1941

Rec'd. 6:40 p.m.

Secretary of State,

Washington.

4755, October 6, 11 p.m.

STRICTLY CONFIDENTIAL

FOR TREASURY FROM CASDAY

Department's 3947, September 20, 6 p.m.

Waley was pleased to receive the information transmitted in the above but now asks for an interpretation of the term "Japanese consignees" in the third paragraph of the above. He asks, "Does it mean firms controlled from Japan, or controlled by Japanese nationals in China, or merely any firm suspected for having a Japanese interest in it?" He would also appreciate any general comments as to criteria used in selecting consignees in China and as to methods of obtaining information about prospective consignees.

WINANT

PEG

eh:copy
10-25-41

For Miss Chauncey

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE October 24, 1941.

TO Secretary Morgenthau

CONFIDENTIAL

FROM Mr. Dietrich

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£45,000
Purchased from commercial concerns	£ 4,000

Open market sterling was again quoted at 4.03-1/2. While no transactions with commercial concerns were reported, we were advised that one of the New York banks sold £2,000 to a bank in Colombia.

The Uruguayan free peso, which has shown a firm tendency so far this month, declined 50 points (1/2¢) today to close at .4625.

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

Canadian dollar	11-1/16% discount
Argentine peso (free)	.2368
Brazilian milreis (free)	.0505
Colombian peso	.5775
Mexican peso	.2070
Venezuelan bolivar	.2630
Cuban peso	1/8% discount

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

No new gold engagements were reported.

In London, both spot and forward silver were again quoted at 23-1/2d, equivalent to 42.67¢.

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

We purchased 400,000 ounces of silver from the Bank of Canada. Today's was the first silver bought from that source in October under our regular monthly agreement to purchase up to 1,200,000 ounces.

126

BRITISH EMBASSY,
WASHINGTON, D.C.

October 24th, 1941

PERSONAL AND
SECRET

Dear Mr. Secretary,

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

Believe me,
Dear Mr. Secretary,
Very sincerely yours,

Halifax

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

Telegram from London dated October 23rd, 1941.

H.M.S. "Aurania" has arrived in Clyde.

In convoy reported attacked 21st, one British ship 4,099 tons was torpedoed and sunk and one British ship 5,281 tons, is missing. Several aircraft of Coastal Command took action against four U-boats sighted in vicinity of this convoy.

Day of 21st sweeps were carried out over St. Omer area in the course of which 13 enemy fighters were destroyed and 4 damaged. 21 Blenheims attacked one motor vessel of 1500 tons and one schooner of 600 tons off the East Tunisian coast using 2½ tons of bombs; schooner blew up and sank, motor-vessel was set on fire.

Night of 21st/22nd twenty-four Wellingtons made successful attacks on Naples. About 120 aircraft bombed Bremen, targets including Deutsche Schiff Werke and eight Hudsons started good fires at Aarhus petrol harbour. Night of 22nd/23rd 161 aircraft despatched to deliver a heavy attack on Mannheim light attack on Havre and Brest. Enemy employed about 40 aircraft in widespread attacks over United Kingdom. Night fighters shot down 3 certain and one probable; no serious damage was caused.

Russia.

On 22nd October Molotov who had arrived from Moscow with other members of Soviet Government outlined situation to His Majesty's Ambassador as follows:

(1)/

(1) Leningrad. Soviet Government were very concerned and were trying to improve their position. Germans had crossed Volkhov and were trying to advance Northeast but were being held.

(11) Moscow. Germans' break-through near Mozhaisk October 14 was responsible for decision to evacuate Government authorities and diplomatic corps on October 15th. This break-through had now been held; Germans had only advanced a few kilometres and that only at expense of great losses. Although Germans had taken Kalinin a week ago, fighting was still going on there with Soviet infantry and tanks in occupation of Southern outskirts. Germans held the centre. West of Moscow bitter fighting was proceeding in the approaches to City but there had been no noticeable German advance since October 15th.

(111) Southern Front. Position difficult, Germans advancing slowly towards Rostov.

(IV) Crimea. Germans were held on Isthmus but pressure was great.

(V) Kharkov. Position steady.

(VI) Molotov stressed that fighting spirit of people was quite unbroken.

MILITARY INTELLIGENCE DIVISION
WAR DEPARTMENT
Washington, October 24, 1941

TENTATIVE LESSONS BULLETIN
No. 166
MID 461

NOTICE

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

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

GERMAN INFANTRY ASSAULT BATTALION

SOURCE

This bulletin is based upon a report submitted on July 19, 1941, by an American official observer in Berlin. The translated article, which was contained in the report, originally appeared in the Militär Wochenblatt, a semi-official German military publication.

CONTENTS

GERMAN INFANTRY ASSAULT BATTALION*

1. INTRODUCTION

a. The translated article describes the action of an assault infantry battalion, with an exposed left flank, as it crossed the Marne River near Jaulgonne and captured Varennes, about 1000 yards south of the river. To comprehend the action fully, it should be recalled that the German infantry battalion is organized in general as follows:

Headquarters, composed of

- Staff,
- 1 signal platoon, consisting of
  - Headquarters,
  - 4 back pack radio sets - 3 men each,
  - 2 telephone squads;

3 rifle companies, each company composed of

- Headquarters,
- 3 platoons - each containing four rifle squads and one light mortar squad;

1 machine gun company, composed of

- Headquarters,
- 3 machine gun platoons - each containing two sections of two squads each,
- 1 heavy mortar platoon - three sections of two squads each, each section equipped with 81-mm. mortar.

The companies in an infantry regiment are designated numerically. The 1st, 2d, 3d, and 4th Companies constitute the 1st Battalion; the 5th, 6th, 7th, and 8th Companies constitute the 2d Battalion; the 9th, 10th, 11th, and 12th Companies constitute the 3d Battalion. The 13th Company is the infantry cannon company, and the 14th Company is the regimental antitank company. The 4th, 8th, and 12th Companies are machine gun companies.

The following article deals with the action of an assault

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*Two sketches, showing troop positions and movements, are attached at the end of this bulletin. The key which accompanies the sketches is based on British official information concerning German symbols.

infantry battalion which had been held up by strong hostile resistance. The commander of one of the rifle companies in this battalion, on his own initiative, moved his unit into the zone of an adjacent assault battalion and attacked the hostile resistance from the rear, thus enabling his own battalion eventually to accomplish its assigned mission.

3. CAPTURE OF VARENNES

"On June 10, 1940, certain elements of the 2d and 3d Battalions of the 35th Infantry Regiment were rushed in trucks from the heights south of the Ourcq to a front line point near Jaulgonne, on the Marne. They arrived at their destination too late - the enemy had blown up the bridge there at the last moment. The 10th Company of the 3d Battalion, however, attempted to gain a crossing near the destroyed bridge and became involved in a stubborn fight which lasted until evening. In the meantime, Chasseurs d'Ardennes and Colonial troops were being cleaned out of Jaulgonne. A few divisional antitank weapons went into position along the Marne Valley Road and engaged hostile positions on the south bank of the river with high explosive projectiles, while Jaulgonne itself was being bombed by enemy airplanes.

"The hostile - southern - bank was strongly fortified, the enemy being installed in well-camouflaged field positions which were connected by trenches. Almost vertically, the banks on both sides of the river dropped down to the water's edge, six to eight feet below.

"The 2d Battalion occupied the heights, just east of Jaulgonne, from which a five-mile bend in the Marne could be observed. This steeply sloped hill, about 475 feet high, dominated the river bend and the adjacent valley. The left flank of the battalion was open. The battalion observation post was established on that part of the high ground occupied by the 8th Company.

"In this position on the heights, the 8th Company, which was the machine gun company of the 2d Battalion, experienced the most satisfactory close-range employment of its entire service on the Western Front. It used its heavy mortars to force the enemy from his prepared positions and then fired on him with heavy machine guns.

"The enemy's fire from his river positions continued to decrease throughout the afternoon until finally only intermittent machine gun fire came from around Varennes and the woods east of it. Fire from our own infantry accompanying guns and our artillery fell on Varennes, while enemy artillery fire was directed on Jaulgonne, especially on its northeastern exit.

"We observed hostile trucks continually moving reinforcements into Varennes from the west. These reinforcements were worth-while targets for the 150-mm. weapons of our infantry accompanying gun platoon.

"At 3:10 P.M., the battalion assistant adjutant returned from the regimental command post with orders to reconnoiter at once for battalion crossings. He also had information that later in the day an assault group was to be sent against Varennes to determine whether the village was occupied, and if so, how strongly. If the hostile force in Varennes were weak, the village and the heights south of it were to be captured at once by the 2d Battalion; in case Varennes were held in force, a bridgehead south of the Marne was to be established.

"A crossing point was discovered near the eastern exit of Jaulgonne. The enemy continued to occupy a few of his riverbank positions, but the 6th Company (see Sketch No. 1), with a reconnaissance detachment attached, was ordered to carry out the detailed reconnaissance for this crossing.

"Four small inflated rafts arrived at 5:35 P.M. The machine gun company remained in position on the heights northeast of Jaulgonne, and elements of the 6th Company, from positions near the north bank, prepared to cover the crossing operations. The first pneumatic raft was lowered into the water at 6:20 P.M., and a sergeant with four riflemen and two light machine guns crossed over. A few enemy machine gun nests opened fire, but these were promptly silenced by our automatic weapons which were concealed along the north bank, and the nests were quickly cleared out by the men from the first two rafts. Soon raft after raft was crossing, and our troops were fanning out on the south bank on both sides of the crossing point. By 7:30 P.M. the 2d platoon of the 6th Company had crossed. More pneumatic rafts arrived, and by 8 P.M. the 1st platoon of the 6th Company and one heavy machine gun platoon were on the south bank.

"At 8:30 P.M., after receiving last-minute instructions from the company commander, the assault group deployed, and at about 8:45 P.M. it started across the valley plain towards Varennes. It crossed the railroad track without encountering enemy resistance and continued to the northern edge of the village. There enemy fire came from every window, attic, and cellar, and bullets even whistled out of gardens and trees; the right flank of the group became engaged in house to house combat. It was soon learned that Varennes was very strongly held, and when darkness set in a little later, the group withdrew to take cover along the railroad embankment. One antitank platoon, one heavy machine gun squad, and the remaining platoon of the 6th Company were sent across to reinforce the bridgehead along the railroad embankment. In accordance with orders from the regimental commander, the battalion commander remained on the north bank of the Marne during this assault.

"About 11:30 P.M. an enemy counterattack from Varennes was repulsed (see Sketch No. 1). Antitank guns were used in this action and some prisoners were brought in. At the same time, the 7th Company, with another heavy machine gun squad as well as a platoon of the 5th Company, crossed over and joined the 6th Company (see Sketch No. 1).

"The enemy made another unsuccessful counterattack at 12:30 A.M. (see Sketch No. 1). Reports from prisoners brought in during the night indicated that Varennes as well as Courtemont and the intervening ground were strongly held by Chasseurs d'Ardennes and Zouaves, who were being reinforced continually. The enemy had become aware of our threat to his defenses and was bombarding the crossing point.

"During the night, the 6th Company, with a heavy machine gun platoon, furnished protection to the front and right flank from a position based on the railroad cut. The 7th Company furnished similar protection to the front and left flank from a position (see Sketch No. 1) on the other side of the railroad viaduct, which served as the boundary between the two companies. The 1st platoon of the 5th Company protected toward the left rear. The 7th Company was charged with defense along the Marne. One antitank gun was placed in position on the approach to the viaduct.

"At 5:45 A.M. the battalion adjutant was called to the regimental command post, where he received the regimental order which designated Varennes and the heights south of it as the attack objectives. The 2d and 3d Battalions were to attack abreast, with the 3d Battalion on the right. Upon the return of his adjutant, the battalion commander issued orders to the attached light infantry-gun platoon - 75-mm. - to pay particular attention, during the attack of the 2d Battalion, to targets appearing on the left flank which could not be taken under fire by artillery. Soon the battalion staff and the heavy mortar platoon of the 8th Company crossed over.

"The company commanders were ordered to assemble at 8:45 A.M. at the battalion command post on the south bank of the Marne (see Sketch No. 2). There the battalion commander issued the following oral attack order:

"Battalion order for the attack against Varennes and the heights south of it: Enemy defends himself along the heights northeast of Varennes. Varennes, and the heights south of it, are strongly fortified. 35th Infantry attacks with 3d Battalion on the right and 2d Battalion on the left.

Regimental attack objective: the heights, 5 kilometers south of Varennes, just beyond those woods.

Initial attack objective of this battalion: the height just south of Varennes. Boundaries... (see Sketch No. 2). The left flank is exposed because adjacent unit has not yet caught up. Attack begins at 10:05 A.M. The artillery fire upon Varennes, which began at 8:30 A.M., will increase to its highest rate from 9:35 A.M. to 9:45 A.M. From 9:50 A.M. to 10:05 A.M. dive-bombing planes will operate against Varennes and the country south of it.

Battalion attack formation: 6th Company in front on the right; 7th Company in front on left; 5th Company follows 200 meters on the left rear of the 7th Company and, above all, protects the left flank. One heavy machine gun platoon remains attached to each of the assault companies; heavy machine guns from another infantry regiment give fire protection from heights north of the Marne. The attached light infantry-gun platoon, from position north of the Marne, fires upon targets of opportunity - above all, on any enemy appearing on the left flank, for which it already has individual order - and displaces forward after the battalion arrives at Varennes.

Artillery liaison unit accompanies me; I follow the 7th Company. Next Battalion command post yonder, in front, at the railroad embankment. Radio to 6th Company.

"The company commanders gave their orders and organized their companies. Our own artillery fire increased steadily, aided by artillery observation planes. The enemy artillery was shelling Jaulgonne, the heights east of it, the observation post of the attached infantry-gun platoon, and the 1st Battalion command post - regimental reserve.

"The artillery fire reached its peak at 9:45 A.M., and exactly at 9:50 A.M. the dive-bombing planes arrived and began their attack. Varennes disappeared in smoke and dust.

"At 10:05 A.M., the 2d Battalion formed for attack, and at first, only the 6th Company received machine gun fire from Varennes. Targets could not be distinguished, because everything was still enveloped in smoke. After a brief halt, the commander of the 6th Company noticed that the 3d Battalion, on the right, was making unhindered progress. He decided, therefore, to bear over to the right into the zone of this battalion and thus detour around Varennes (see Sketch No. 2).

"The smoke and haze vanished, and hell suddenly broke loose in the 7th Company's zone. Deadly hostile fire was received from the front, from the left, and from the left rear. The 5th and 7th

Companies were pinned to the ground in their zone of action, on the flat open terrain, which was covered with clover and grain up to 20 centimeters - about 8 inches - in height. The northern edge of Varennes and the edges of the woods to the east and northeast of it were strongly occupied.

"The battalion commander could find no trace of the 6th Company. The radio group which had been ordered to advance with this company did not answer, and messengers and reconnaissance patrols sent to the 6th Company did not return. Connection with the regiment was also broken at this time, but toward 11 A.M. the following written message was sent to the regimental command post:

"Battalion advance held up by strong hostile flanking movement from the woods northeast of Varennes. No connection with 6th Company. Request employment of 1st Battalion to relieve left flank.

"A duplicate of this message was dispatched at 11:15 A.M., since it was so doubtful whether a messenger could cross the open terrain in the valley. The regimental telephone detail arrived at the railroad embankment about 12 noon, but immediately afterwards, hostile artillery fire broke the connection at the point where the telephone lines crossed the tracks.

"The 7th Company first moved its left and center platoons to the right in order to free themselves from the enemy and then continued ahead on the right.

"The back pack radio detail, which had remained with the battalion in order to make contact with the 6th Company, finally succeeded after a long effort in contacting the regiment about 2:10 P.M. Commitment of the 1st Battalion on the left was announced by regiment. The following written message came into the 2d Battalion command post at about 3:30 P.M. from the 6th Company:

"Time sent: 12:10 P.M.: 6th Company reached first attack objective at 12 noon. No contact with 7th Company.

"The messenger from the 6th Company reported that in contrast to the situation in the forenoon, the western edge of Varennes and the group of trees west of it were now strongly occupied. It had, therefore, taken him more than three hours to transmit the message. This messenger on his return, accompanied by a battalion messenger, carried the following written order to the 6th Company:

"Leave security groups behind, move south around Varennes, and attack the enemy from the rear.

"Meanwhile, the reconnaissance patrols of the 6th Company, which had been sent out to contact the 7th Company, observed an enemy motor column halted in a sunken road south of Varennes. By 2:30 P.M. this column had been put out of action. (See Sketch No. 2).

"Beginning at 5 P.M., the noise of heavy firing coming from an easterly direction was heard at the battalion command post. The 1st Battalion had moved from the east into the woods east of Varennes. The machine gun fire from the left rear ceased; the 6th Company assault groups were doing their work. The explosions of hand grenades and the shouts of an assault were heard coming from Varennes at 5:30 P.M. and from the woods east of the city at 5:45 P.M.

"Hostile resistance decreased in the face of the 7th Company's advance into the woods. The enemy was surrounded, and the 6th and 7th Companies broke his last resistance with close-range fighting. The central and western parts of Varennes were still occupied, however, and the 5th Company was ordered to mop up the village. After hard, hand-to-hand fighting, some 600 prisoners, mostly black, were captured.

"Meanwhile, the battalion reorganized and renewed the advance without meeting much resistance. About 10 P.M., the battalion commander reported orally by radio to the regiment: 'The day's objective has been reached!'"

3. COMMENTS BY OBSERVER

a. This article discloses another instance in which the Germans used antitank weapons on artillery missions. The Germans consider such action to be practical when there is no hostile tank threat, and the same procedure, under similar circumstances, applies to their antiaircraft-artillery weapons. Antitank and antiaircraft crews, therefore, are provided with ammunition appropriate to their probable targets.

b. The inclusion of a heavy mortar platoon in the battalion machine gun company proved satisfactory against the French defenses on the south bank of the Marne. The mortars cooperated with the machine guns by firing upon the French emplacements, causing the defenders to leave them. When the defenders were thus exposed they were taken under fire by the German machine guns.

c. The Germans have made extensive use of their pneumatic rafts to overcome water obstacles promptly.

d. The use of the various weapons within the German infantry regiment, including the 75-mm. and 150-mm. infantry accompanying guns, are illustrated in this article. The Germans believe in exploiting the fire power of their weapons to the utmost, both before and during the exposure of their assault troops to hostile fire.

e. The oral attack order of the 2d Battalion Commander indicates that the attack on Varennes was preceded by an artillery preparation lasting one hour and thirty-five minutes. The artillery preparation was supplemented by dive-bombing planes which operated on the village for 15 minutes immediately preceding the time of attack.

f. At 8:45 A.M. the battalion commander issued his oral order for the attack which began at 10:05 A.M. The order was therefore issued after the artillery preparation began.

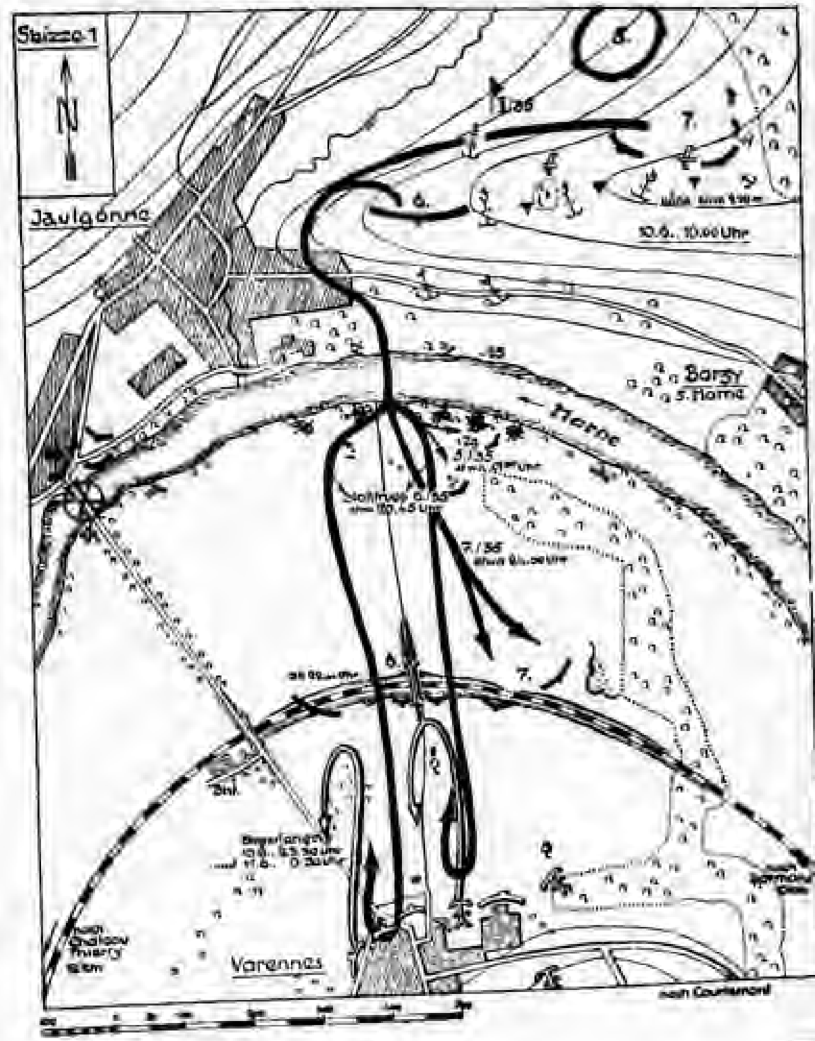
g. In this and other published accounts of German combat experiences on the Western Front, it is frequently stated that radio communication failed, especially in battalion and lower units. No explanation for this deficiency is given nor is any known.

KEY

The Scale is in Meters

Skizze	Sketch
Höhe	Height
Etwa	About
Zg. (Zug)	Platoon
Gegenangriff	Counterattack
23,30 Uhr	11:30 P.M. The sketches use the European time system, based on 24 hours beginning at midnight.
I/35 etc.	1st Battalion of 35th Regiment
7./35 etc.	7th Company of 35th Regiment*
	Battalion Headquarters
	Light machine gun
	Light machine gun in position
	Heavy machine gun
	Heavy machine gun in position
	Antitank gun
	Antitank gun in position
	Infantry gun company
	Infantry gun company in position
	Heavy mortar
	Railroad
	Collecting stations for walking wounded

*See pp. 1-2 for the explanation of how companies are designated within the battalion and regiment.



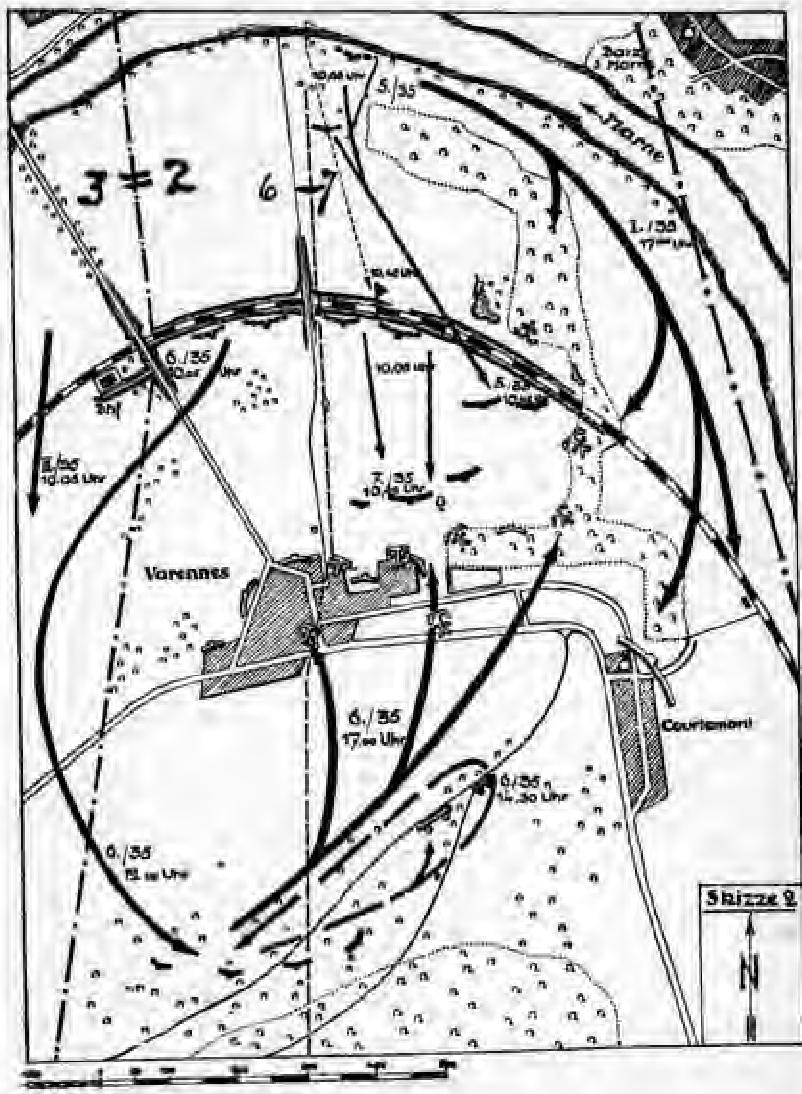
Sketch No. 1

KEY

The Scale is in Meters

Skizze	Sketch
Höhe	Height
Stosstrupp	Assault group
23.30 Uhr	11:30 P.M. The sketches use the European time system, based on 24 hours beginning at midnight.
I/35 etc.	1st Battalion of 35th Regiment
7./35 etc.	7th Company of 35th Regiment*
	Corps boundary
	Battalion boundary
	Company boundary
	Battalion Headquarters
	Light machine gun
	Light machine gun in position
	Heavy machine gun
	Heavy machine gun in position
Bhf.	Station
	Railroad
	Collecting stations for walking wounded
	Light motor transport column

*See pp. 1-2 for the explanation of how companies are designated within the battalion and regiment.



Sketch No. 2

RESTRICTED

G-2/2657-220; No. 527 M.I.D., W.D. 11:00 A.M., October 24, 1941

SITUATION REPORT

I. Eastern Theater.

Ground: Desperate fighting continues on the Moscow front.

The Germans claim to have reached the western outskirts of Kharkov. North of the city the Germans have reached the Kharkov-Kursk railway and to the south have reached the line of the Donets river.

The Germans have crossed the Nikatovka-Taganrog railroad on a broad front north of Rostov.

The Germans claim to have further extended their bridgehead in the Crimea.

Air: Large scale bombing of Moscow featured air activity in this theater.

II. Western Theater.

Air: Hamburg and Kiel, and Brest, Cherbourg and Le Havre, in France, were attacked by the R.A.F. last night.

London admitted a raid by German aircraft on northern Scotland last night, but said only one German plane was sighted.

III. Middle Eastern Theater.

Air: Naples and Cotrone (Southern Italy) were bombed last night by the R.A.F.

RESTRICTED

FOR DEFENSE BUY UNITED STATES SAVINGS BONDS AND STAMPS

FIELD ORGANIZATION *News Letter*

DEFENSE SAVINGS STAFF

TREASURY DEPARTMENT, WASHINGTON, D. C.

OCTOBER 25, 1941 NUMBER 23

TO THE FIELD STAFF:

There are hundreds upon thousands of Americans who would welcome the opportunity to buy a Bond a month. You yourself, in the course of a week, are in contact with scores of such folks.

Many mean to set up this easy, sure method of aiding defense and providing a reserve against future financial uncertainty, but the demon of inertia, or of forgetfulness, or pressure of personal or business matters often gets in the way. Reminders are sorely needed.

Individual members of the Field Staff can do much in the way of missionary work to dissolve this forgetfulness. They can provide reminders not only of the availability of Defense Savings Bonds, but also of the three easy ways of purchasing a Bond a month. Every member of the Field Staff knows these three ways:

1. Through payroll allotment - the method whereby the cooperation of employers is enlisted to provide the Bond-A-Month opportunity for employees.

2. Through the bank depositors' draft plan—whereby the individual depositor arranges with his bank to earmark his account for regular Bond-A-Month payments.

3. Through direct mail to the Treasury Department—whereby the individual mails to Washington his Bond-A-Month payments upon receipt of a reminder.

You will agree, we think, that there are many people who do not as yet fully "realize" that these three methods are available. You will agree, too, that "if" they knew of these methods they would probably be Bond-A-Month purchasers, through one of them.

Why don't you personally see to it that those within the circle of your personal and business acquaintance really know these three methods? You would thus be stepping up your personal contribution to the field effort; in addition, you would be doing your acquaintances an appreciated favor.

Sincerely yours,

GALE F. JOHNSTON,
Field Director, Defense Savings Staff.

FIELD ORGANIZATION NEWS

Chairmen Appointed in Maryland, Utah and New York City

Two more distinguished civic leaders have recently been added to the roster of chairmen of state Defense Savings Committees, and a chairman for the New York Metropolitan Area has also been appointed.

In MARYLAND, Charles H. Roloson, Jr., president of the Central Insurance Company of Baltimore, will head his state's Defense Savings Committee. Mr. Roloson is well known in Baltimore civic affairs and is president of the Baltimore Association of Commerce.

In NEW YORK, Lewis William Douglas has been appointed to the State Committee as co-chairman for the New York City Area. Mr. Douglas, a former Member of Congress and Director of the Budget, is president of the Mutual Life Insurance Company of New York.

In UTAH, the newly appointed chairman is Charles L. Smith, president of the First National Bank of Salt Lake City.

Five New Administrators

Defense Savings Administrators have recently been appointed or designated in the following states and territories: ALABAMA, Joseph M. Lyons, Collector of Customs, Mobile; ALASKA, Governor Ernest H. Gruening; DISTRICT OF COLUMBIA, Hugh Lynch; UTAH, Charles R. Mabey; and VIRGINIA, Robert F. Nelson.

IN THIS ISSUE

IDAHO

Governor Crowns Bond Queen; Local Committees Have "Action Manual"

GOVERNOR CHASE A. CLARK, Honorary Chairman of the Idaho Defense Savings Committee, participated in the Jerome County Fair this year by crowning Miss Madelyn May Sanberg "Defense Bond and Stamp Queen." The queen was selected by the votes of those who bought Defense Bonds and Stamps at the Fair booth.

A FOURTEEN-PAGE "ACTION MANUAL," prepared especially for members of the Idaho Committee by State Administrator John R. Wiley and Deputy Administrator John Churchill, outlines specifically just what each member of a local committee can do to promote the sale of Defense Bonds and Stamps. Separate pages of the manual are devoted to outlining the function, personnel, and methods of each of the following divisions of a typical committee:

1. Banking and Finance
2. Education (schools and colleges)
3. Public Employees
4. Industry
5. Women's Organizations
6. Labor
7. Agriculture
8. Information (publicity)
9. Trades (retail and service)
10. Service Clubs and Organizations
11. American Legion
12. American Legion Auxiliary
13. Speakers Bureau
14. Boy Scouts

LOCAL COMMITTEES, which have been formed in all of Idaho's 44 counties, are now organizing sub-committees and divisions along the lines suggested in the Action Manual.

"AMERICA SPEAKS" - mass meetings with impressive ceremonies are to be held in every town in the State during the Winter months, under the sponsorship of State and local Defense Savings Committees.

INVESTMENT OF $2500 OF LEGION FUNDS in Defense Bonds was recently consummated by officials of the Idaho Department of the American Legion in a transaction which was pictured in many Idaho newspapers. John Schoonover, Chairman, represented the Idaho Defense Savings Committee.

CLERKS in some Idaho stores wear cardboard tags reading:

"Buy Your Defense Savings Stamps Here" - or
"Buy Your Defense Savings Stamps From Me"

(This is a simple but effective way of boosting the sale of Defense Stamps. Why not get a local druggist or other merchant, or merchants, to try it?)

CONNECTICUT NOTABLES AT DANBURY FAIR

Defense Bond booth at the Danbury, Connecticut Fair. From left to right; John B. Cawley, Deputy Collector of Internal Revenue; William Hanna, Mayor of the City of Danbury; G. Gordon Fisher, Defense Savings Staff; Mrs. Hanna; Governor Robert A. Hurley; Mrs. Hurley; Brigadier-General E. B. DeLacour and three members of the Fife Drum Corps of the Danbury Hatters' Union. The girls served as attendants at the booth.

BONDS OF FREEDOM

The largest single sale of Defense Bonds in Hamtramck, Michigan, was recently reported when Council #122, of Polish National Alliance invested $10,000 in Series F Bonds. Above: Anthony Karczmarzyk, President of Council; R. Biernacki, Executive Chairman of the Hamtramck Defense Savings Committee; and Alois Chronowski, Bank Cashier.

WATERVILLE LIONS CLUB INVESTS IN DEFENSE

Defense Bond purchased by the Lions Club of Waterville, Maine, is formally presented to the officers of the Club by George D. Hagarty, State Committeeman for Service Organizations. From left to right; Dr. Paul J. Sephart, Secretary and Louis Bartlett, President of the Club; George D. Hagarty; Dr. Clinton A. Clauson, State of Maine Defense Savings Administrator; and Howard Staples, Club Treasurer.

F L O R I D A

State Committee Holds Second Meeting; Program Moving Forward

THE FLORIDA STATE COMMITTEE convened for its second meeting October 15, in Jacksonville, with State Chairman Linton E. Allen presiding. Guest of honor was Field Director Gale F. Johnston, who brought with him from Washington for each committeeman certificates of membership, the first to be distributed. These membership certificates, which are signed by Secretary Morgenthau, will be presented to all state committeemen as the state organizations are completed.

REPORTS ON THE PROGRESS of the program were made by State Administrator John L. Fahs and Deputy State Administrator Karl Lehmann. Some highlights from their reports:

EVERY COUNTY now has a Defense Savings Committee. In addition, in five of the largest counties, there are nine city committees.

MORE THAN 1,000 MEN AND WOMEN are serving on these committees.

A STATE-WIDE NEGRO DEFENSE SAVINGS COMMITTEE is now being organized in Florida, with Dr. J. R. E. Lee, president of the Florida Agricultural and Mechanical College, as Chairman.

* * *

SOME FLORIDA FIRSTS:

FIRST COUNTY SCHOOL SYSTEM to report that every school board member, teacher, bus driver, and janitor had invested in Defense Stamps was the school system of Hendry County. C. E. Weaver is chairman of the Education Division of the Hendry County Defense Savings Committee.

FIRST LARGE CONCERN to report that every employee had purchased at least one Bond was the Southern Food Stores of Miami and Tampa, 756 employees.

FIRST POST OFFICE in Florida to have every employee buying Bonds or Stamps regularly is the Clermont Post Office, Mrs. Florence Bowman, postmistress.

FIRST COUNTY COURTHOUSE in the state to announce 100% employee participation in a plan for the regular purchase of Defense Bonds and Stamps was the one in Tavares, county seat of Lake County. George J. Dykes, Clerk of the Circuit Court there, is chairman of the Public Employees Division of the Lake County Committee.

FIRST CITY to announce the installation of a salary allotment plan is New Smyrna Beach. Mayor W. E. Swoope and City Auditor W. M. White are working out the details.

OKLAHOMA
"Buy For Victory" Plan Outlined

OKLAHOMA'S "BUY FOR VICTORY" program is outlined briefly in the October issue of the Defense Savings Bulletin issued by the Oklahoma State headquarters. State Administrator H. C. Jones is now visiting each of the states eight districts and holding meetings to explain the plan in detail to county administrators, city and town chairmen and other active workers.

"VICTORY FOR OKLAHOMA" says the bulletin "starts in your town. The goal is: everyone buying a security, be it a ten cent stamp or a $100 bond, every month."

FOUR SALES APPROACHES: (1) salary allotment (2) group agent (3) Buy-a-Bond-a-Month and (4) retail sale of Defense Stamps are all to be stressed.

TRAINING COURSES are to be offered to members of the local committees who will specialize in these sales methods.

A SCHOOL PLAN is to bring the message of thrift and saving to every school child.

INSURANCE MEN, as part of a nation-wide program of support to Defense Savings, will work closely with local committees in Oklahoma's larger cities including Oklahoma City, Tulsa, Enid, Muskogee and Stillwater.

* * *

PROGRESS NOTES:

Full page newspaper advertisements for Defense Savings Stamps appeared in 35 Oklahoma cities during "Retailers for Defense Week".

One of the largest buyers of Defense Stamps at the recent Oklahoma City Fair was Senator Elmer Thomas who bought stamps for his two grandchildren. Banks, building and loan associations, the Oklahoma Chain Store Associations, and the Oklahoma Gas & Electric Company all had stamp booths at this fair.

The 25,000 Oklahoma City women who attended the annual cooking school sponsored by the Oklahoman and Times, had the message of Defense Savings brought home to them in a particularly forceful way:

"Aunt Susan," the home economist and lecturer who conducted the five day school took as her theme saving money through the proper preparation of food. Every time she saved a dime or a quarter by some new method, she took the Defense Bond Stamp Book from the kitchen cabinet and demonstrated how that saving could be put into a Defense Bond. By the end of the week she had saved enough to buy a $25 bond and purchased one on the stage from a representative of a local bank.

Introducing the members of the

DEFENSE SAVINGS COMMITTEE FOR THE STATE OF NEW YORK

HONORARY CHAIRMAN:
Governor Herbert H. Lehman

CHAIRMAN:
Richard C. Patterson, Jr.
Chairman of the Board, Radio Keith Orpheum Corp., New York City

CO-CHAIRMAN (for Up-State New York):
Edward H. Letchworth
General Counsel, Marine Trust Company, Buffalo

CO-CHAIRMAN (for the Metropolitan Area):
Lewis W. Douglas
President, Mutual Life Insurance Company of New York

VICE-CHAIRMAN (Director of Women's Activities):
Mrs. Lytle Hull
Rhinebeck

OTHER MEMBERS:

Henry Bruere
President, Bowery Savings Bank, New York City

Eugene C. Donovan
President, New York State Bankers Association

Guy Emerson
Vice-President, Bankers Trust Company, New York City

Arthur Getman
Chief, Agricultural Education Bureau, New York State Department of Education

Walter S. Gifford
President, American Telephone & Telegraph Company

Henry H. Heimann
Executive Manager, National Association of Credit Men

Oswald Knauth
President, Associated Dry Goods Corporation of New York

OTHER MEMBERS (Continued)

Arthur Kudner
President, Arthur Kudner, Inc., Advertising, New York City

Thomas J. Lyons
President, New York State Federation of Labor

William I. Myers
Head, Department of Agricultural Economics and Farm Management, College of Agriculture, Cornell University, Ithaca

Bayard Pope
Vice-Chairman, Executive Committee, Marine Midland Trust Company, New York City

Robert G. Rouse
Vice-President, Federal Reserve Bank of New York

Rose Schneiderman
Secretary, New York State Department of Labor

Gustave Strebel
President, New York State Industrial Council, Congress of Industrial Organizations

NATIONAL CONVENTION OF THE AMERICAN FEDERATION OF LABOR ENDORSES DEFENSE SAVINGS PROGRAM

ON OCTOBER 15, in Seattle, at the annual convention of the American Federation of Labor, a ringing endorsement of the Defense Savings Program was adopted. After appropriate references to the gravity of the present situation the resolution of endorsement concluded:

"THEREFORE, BE IT RESOLVED . . . that every union and every member of organized labor purchase as many defense bonds as possible,

"AND BE IT FURTHER RESOLVED, That the American Federation of Labor endorses and applauds the voluntary principle upon which the program of Defense Savings is based and its approval is especially extended to voluntary Payroll Allotment Plans as sponsored by individual unions and entered into freely in accordance with sound trade union principles."

THE CONVENTION was addressed by Herbert E. Gaston, Assistant Secretary of the Treasury, who pointed out:

"The kind of investment that we need now, and need most urgently, is the systematic investment of savings out of the current earnings of millions of Americans. I mean by that, that those who are earning steady pay and higher pay today -- to contribute most effectively to defense and to serve their own interests by helping to prevent inflation -- should make every effort to put at least a part of that extra pay into Defense Savings Bonds and Stamps and should do it regularly.

"Your President and other leaders of the American Federation of Labor understand these truths and have said repeatedly that they would like the rank and file to understand them too. . . The plan which we think the most efficient, and which many of the unions have already accepted, is one by which the individual workers ask to have a certain amount set aside from their pay each week toward the purchase of Defense Savings Bonds. . . .

"My plea to you today is that as soon as you get home from this convention and meet your fellow members of your own unions you discuss with them the adoption by each local of a plan similar to this and do what you can to forward its adoption."

IMMEDIATELY FOLLOWING Mr. Gaston's address, William Green, President of the A. F. of L., added his personal endorsement in these words:

"We are all deeply impressed by the message which Assistant Secretary Gaston brought to us this afternoon. We are in thorough accord, wholehearted accord, with the sentiments he expressed, and the suggestions and recommendations made in the address he delivered."

VOLUNTARY PURCHASE PLAN ENTHUSIASTICALLY RECEIVED BY VETERANS ADMINISTRATION EMPLOYEES

The more than 43,000 employees of the U. S. Veterans Administration are enthusiastic about their regular purchase plan for investing in Defense Bonds and Stamps and already 66.4 per cent have pledged themselves to purchase bonds or stamps regularly, either directly or through designated "group agents". Here are the units of this large establishment in which on September 20 -- after the plan had been in operation only two months -- 80% or more of all employees were participating:

CENTRAL OFFICE:		**V. A. FACILITIES (Continued)**	
Insurance Claims Council	100.0%	Lake City, Fla.	90.7%
Construction Service	93.0	Batavia, N. Y.	90.4
Board of Veterans' Appeals	83.0	Bay Pines, Fla.	89.7
		Amarillo, Texas	89.3
REGIONAL OFFICES:		Fort Bayard, N. Mex.	88.6
Jackson, Miss.	100.0%	Biloxi, Miss.	88.5
Philadelphia, Pa.	100.0	Knoxville, Iowa	88.5
Seattle, Wash.	100.0	North Little Rock, Ark.	87.8
New Orleans, La.	100.0	Tuscaloosa, Ala.	87.7
Little Rock, Ark.	98.4	Northampton, Mass.	87.6
Denver, Colo.	95.6	Roseburg, Ore.	87.3
Boston, Mass.	96.1	Des Moines, Iowa	87.1
Sioux Falls, S. D.	94.7	Brecksville, Ohio	86.5
		Muskogee, Okla.	86.5
V. A. FACILITIES:		Oteen, N. C.	85.7
Sunmount, N. Y.	98.4%	Rutland Heights, Mass.	85.6
Fargo, N. D.	98.1	Columbia, S. C.	84.7
Montgomery, Ala.	97.9	Legion, Texas	84.4
Murfreesboro, Tenn.	94.4	Outwood, Ky.	83.9
Excelsior Springs, Mo.	94.1	Pittsburgh, Pa.	82.6
Atlanta, Ga.	93.4	Wichita, Kansas	81.3
Northport, L. I., N. Y.	93.0	Memphis, Tenn.	81.0
Lincoln, Neb.	91.8		

REPORTS FROM OTHER FEDERAL DEPARTMENTS:

Treasury: 91% of the 62,702 employees in Washington and in the field are now participating in the purchase pledge program. Particularly outstanding is the record of the Internal Revenue Service: 37,385 employees and 99% participation!

Government Printing Office: 81.8% of the 7329 employees are participating in the G. P. O. employees' voluntary purchase plan.

Agriculture: 95.2% of the 803 employees of the Soil Conservation Service in Washington and nearby Beltsville, Md., have signed purchase pledges. Large percentages of participation are also reported by Federal Crop Insurance Corporation (92.6%); Commodity Credit Corporation (81%); Agricultural Marketing Service (80%) and Rural Electrification Administration (76.7%). These are reports as of September 23.

PAYROLL ALLOTMENT
Important Developments in Minnesota, Indiana And Other States

With the Minneapolis Committee's program to extend the allotment plan to all large concerns there in full swing (see NEWS LETTER, October 11), the St. Paul Committee has swung into action under its General Chairman, Ray F. Wentz, and the Chairman of its Industrial Division, John L. Connolly.

Herman Anderson, employee of the Smith Welding Equipment Corporation, Minneapolis, is shown here receiving from Lee Johnson, shop foreman, the first of the many Defense Bonds that workers in the plant have bought through the new payroll allotment plan now under way in Minneapolis. E. E. Smith, President, looks on at the extreme right.

More than 70 St. Paul concerns had announced allotment plans by October 10, and a series of luncheon meetings were being held by Wentz and Connolly and Federal Reserve Bank President John N. Peyton, to bring the objectives of the program and the details of the plan to all other large concerns.

"Making Defense Bonds easily available to the workers in these industries should provide a great stimulus to the Defense Bond sale," said Chairman Wentz. "Employers are to be commended for the enthusiasm they have shown. . . These plans involve both added work and expense but so far they have cheerfully assumed this extra burden."

* * * *

This fine statement is especially noteworthy as Mr. Wentz is one of the recognized leaders of organized labor, being the business representative of the St. Paul Trades & Labor Assembly and Vice-President of the Minnesota State Federation of Labor.

Many Indiana Firms Now Have Allotment Plans

From Indiana, State Administrator Will H. Smith reports that by the middle of October, 249 firms had reported to him that they had installed allotment plans. Impressive records for participation in the Defense Savings Program have already been hung up by the employees of some of these companies. Most outstanding are the records of:

The J. D. Adams Manufacturing Company of Indianapolis. This firm with more than 900 employees reports 100% participation.

ALLOTMENT DEVELOPMENTS: INDIANA (Continued)

The E. C. Atkins & Company of Indianapolis with approximately 1600 employees reports that nearly 90% are purchasing Defense Bonds either through the payroll allotment plan or the accumulation of Defense Stamps.

The Eli Lilly Company of Indianapolis, which has one of the most well developed payroll allotment plans in the State, reports that its 3000 employees laid aside approximately $12,000 during the month of September towards Defense Bonds. Approximately half of the firm's employees are participating in the allotment plan.

The Schacht Rubber Company of Noblesville, Indiana, estimates that its 900 employees will purchase about $60,000 worth of Defense Bonds during the coming twelve months.

ALLOTMENT PROGRESS IN OTHER STATES:-

CONNECTICUT. With nearly 90% participation in an allotment plan, the United Aircraft Corporation has hung up a mark for other large concerns to shoot at. More than 27,000 of the 31,000 employees in the firm's East Hartford, and Stratford, Connecticut plants (including Hamilton Standard Propellers, Vought-Sikorsky and Pratt & Whitney) have enrolled as regular Defense Savers and total allotments amount to about $225,000 monthly. Our congratulations to Martin F. Burke and his associates Junius Cooper, R. W. Russell, Joseph Barr, Charles T. La Visa, W. H. Robbins, John P. Smith and Fred Dawson who are reported to have worked hard for this record!

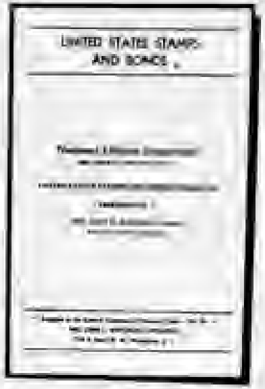
NEW JERSEY. The Wright Ex-Service Men's Club is assisting in placing the details of the allotment plan before each employee of the Wright Aeronautical Corporation (plants in Paterson, N. J., and Cincinnati, Ohio). Sam Sharpley, former commander is Chairman of the Wright Defense Bond Committee. . . Wright is advertising in local papers: "New Jersey Puts 'Em In The Air. . . Let's Keep 'Em Flying. . . Buy Defense Bonds."

THE SECRETARY ATTENDS A UNION MEETING

Workers in the Fisher Body Plant of General Motors, members of Local 596, United Automobile Workers, C. I. O., in Pontiac, Michigan, recently heard a talk on the Defense Savings Program by Frank M. Isbey, Michigan State Chairman after which the payroll allotment plan and various other features of the program were discussed.

At the rear of the hall, unknown to all but the union's Secretary, D. V. Gote, was an interested observer - Secretary Morgenthau.

"I came away from the meeting," the Secretary was quoted in a Detroit paper, "convinced that we are on the right track and that it can be done on a voluntary basis."



TO THE LADIES

"Every Clubwoman a Bond-Owner"

State and local Defense Savings Committee-women can expect intelligent cooperation from the Presidents of state and local units of the General Federation of Women's Clubs. As early as last June, delegates to the national conference of that organization, held in Atlantic City, heard a representative of the Defense Savings Staff speak on the subject of Defense Bonds and Stamps.

This Fall, Mrs. John L. Whitehurst, President of the GFWC, sent out a direct request to each of the 14,500 presidents of member clubs, urging them to participate in the Defense Savings Program. A month later, this was followed by a National Defense Club Program Kit. This contained a plan of work for the GFWC Stamp and Bond Committees. It also made reference to Defense Savings materials that could be secured by writing to State Defense Savings Headquarters, or to Washington.

Chairman of the National Defense Department of the GFWC is Mrs. Harold V. Milligan. Chairman of the GFWC Defense Bond Committee is Mrs. John D. Robinson, who is also a member of the State Defense Savings Committee for North Carolina. Motto for the year is, "Every Clubwoman a Bond-Owner."

The Women Follow Through

In Kansas, Mrs. Albert Kushner, who is state president of the Kansas Federated Women's Clubs as well as a member of the State Defense Savings Committee, has been touring the state making speeches at club conventions on the Defense Savings Program. A couple of weeks ago, she predicted that by the end of October, the 13,000 Kansas club women will have bought at least one stamp apiece. The KFWC has had the following message printed in bright red on a small sticker suitable for use on correspondence;

"Kansas Federation of Women's Clubs Urges You
To Buy U. S. Stamps and Bonds."

Down in Texas, Mrs. J. W. Walker, who as president of the Texas Federation of Women's Clubs is a member of the State Defense Savings Committee, has personalized her campaign to sell Bonds and Stamps. In her purse she carries several partially filled Stamp Books. On her speaking tours, she displays them at every opportunity to her audiences.

The California Federation of Women's Clubs is going to buy Bonds. The Minnesota State Federation devoted a luncheon session recently to Defense Savings. In Colorado, the immediate past president of the State Federation, Mrs. Henry Bruse Teller, has been drafted to serve as Director of the Women's Division of the Defense Savings Committee of that State.

RETAILERS AND DEFENSE SAVINGS

"RETAILERS FOR DEFENSE" WEEK launched the sale of Defense Stamps in countless retail outlets throughout the country. It is expected that a large majority of these retail stores will continue to make these stamps conveniently available and also to help State and local Defense Savings Committees promote their sale. On October 23, members of the Defense Savings Staff's Retailers Advisory Committee gathered in Washington to consider this problem and to discuss ways and means of accomplishing the desired objective — the sale of a large and steady volume of Defense Stamps through retail outlets.

NEW DISPLAY MATERIAL. For THANKSGIVING and CHRISTMAS, special posters, streamers, decalcomania transfers, and other pieces of display materials have been prepared and will be distributed to approximately one million retailers in the near future. Distribution will be handled by local Defense Savings Committees. State Administrators have received a field memorandum (No. 128) which outlines the distribution procedure in detail.

A "CARD OF INTENTION" will be enclosed with the package of display material which each retailer receives. On this card, retailers will be given an opportunity to state that;

"AS PART OF OUR SERVICE during the National Emergency it is our intentions

"1. To pay all bonuses to employees in U. S. Defense Savings Bonds and Stamps.
"2. To offer facilities at all times to our customers and employees for purchasing U. S. Defense Stamps in our store.
"3. To promote the public sale of U. S. Defense Stamps until the end of the National Emergency."

* * * * *

DRUG STORES GIVING AWAY "ANY BONDS TODAY?"

In Detroit, Cunningham's Drug Stores are giving away thousands of copies of the souvenir edition of "Any Bonds Today?" which they have reprinted "by permission of the copyright owner" -- the Secretary of the Treasury.

In the near future, other drug chains will also print copies of this song for free distribution to their customers. Among the chains which have indicated their intention to doing this are;

Marshall Drug Company of Ohio, stores throughout that state;

Liggett Drug Company of New York, stores throughout the Middle West; and

Owl Drug Company of California, with stores throughout the Far West.

HELLZAPOPPIN STARS SELL DEFENSE STAMPS IN PORTLAND

The broadway stage success "Hellzapoppin" reached Portland, Oregon recently and State Administrator Ted R. Gamble as the saying goes, "saw his opportunity and seized it."

Arrangements were made for the principal members of the cast to appear on an outdoor stage in front of the Pioneer Post Office in the heart of the city at noon and put on an impromptu show to sell Defense Stamps.

Below are two views of the crowd which gathered to listen to the show's ace comedians, Billy House and Eddie Garr and to hear Bobby Jarvis, Arleen Anderson, Marylin Robbins and other stars of the show in various specialty numbers.

Mayor Earl Riley addressed the crowd briefly and purchased the first stamp. Hundreds of others followed suit until more than $800 worth had been dispensed.

Members of the cast including Billy House (see above) acted as salesmen for the stamps. They were assisted by members of the Junior Chamber of Commerce. The Jaycee Committee responsible for this event was composed of Jack Shields, James Yeomans and Martin Blakeley.

The Fire Department's disaster car broadcast the event.

The first performance, Wednesday noon, was so well received it was repeated on Thursday noon and members of the Hellzapoppin cast say that they want to do the same thing in other cities they visit on their tour.

* * *

A large booth at the Pacific International Live Stock Exposition October 4 to 11 was devoted to the sale of Defense Bonds and Stamps. The Portland Gas & Coke Company donated the space and Portland Savings and Loan Associations provided personnel to staff the booths at all times.

D E F E N S E S A V I N G S O N T H E A I R

Leading Programs for the Coming Week

Monday, October 27	FOR AMERICA WE SING	9:30-10:00 P. M. (EST) NBC Blue Network
Tuesday, October 28	MILLIONS FOR DEFENSE (The Treasury Hour)	8:00-9:00 P. M. (EST) NBC Blue Network
Saturday, November 1	AMERICA PREFERRED	9:15-9:45 P. M. (EST) Mutual Network

* * *

LAST WEEK, "MILLIONS FOR DEFENSE" featured Secretary of the Navy Frank Knox; Noel Coward and Robert Montgomery, speaking from London; Bing Crosby and other stars. We can't tell you the program for this week, but it will be worth listening to. Incidentally, Tuesday evening might be a good time to schedule meetings of your local committees.

"MILLIONS FOR DEFENSE"

WJTN

The advertisement from the Jamestown, N. Y. Post, reproduced at the right in its original size was one-fourth of a full newspaper page.

* * *

WITH FOOTBALL very much to the fore these days, the Radio Section of the Defense Savings Staff reports that, on a recent week-end, the specially prepared Defense Bond football announcements were used 500 times over 150 stations. Tidewater Oil Company and the Atlantic Refining Company, which sponsor broadcasts of 35 games each week over 78 stations, use these announcements regularly.

A typical football announcement reads in part as follows:

"Millions of Americans have enjoyed football games this week-end. . . America must be kept free to enjoy its national sports and the countless liberties with which we are blessed. . . The roar of the football crowds is loud--but it's only a whisper in comparison with the roar of our industrial plants. . . . Today our country is one team in its determination to preserve our democratic ideals. . . . Get on that team and fight! . . . Back your country to the limit by buying United States Defense Bonds and Stamps. . . Invest a part of your earnings regularly to make our team the world's best. . . Let's sweep down the field to victory and make Uncle Sam's the strongest team in the world."

"A LETTER FROM SECRETARY MORGENTHAU"

(Originally published on the Editorial Page of the Boston Sunday Post, September 28, 1941).

John Q. Citizen came home from work the other night a bit upset. The headlines in the paper had not been heartening. . . . Besides, he had had an argument on the train with a fellow passenger. . . . Both were for defense. But on the means to that end they had differed, mildly at first, and then — well, they were not speaking when John got off the train.

In the hallway, on the little table were a few letters. "Bills," John muttered. Then his heart stopped. Here was a long envelope bearing the notation, "Treasury Department, Washington, D. C."

That was bad. What had he done? Why should the Treasury send him a letter? . . . The envelope opened easily. It contained a couple of pamphlets. But there was a letter also. Gingerly he unfolded it. It was addressed to him, "John Q. Citizen," and the address was right. It was even meant directly for him. For it didn't say, "Dear Sir." It said, plainly enough, "Dear Mr. Citizen." Then he read the first line and gasped.

> "I am writing to thank you personally for your patriotic cooperation in buying United States Savings Bonds."

Quickly his eye ran to the bottom of the letter, to the ending which read: "Very truly yours, H. Morgenthau, Jr., Secretary of the Treasury."

> "Gosh," was all John could think, "Gosh, the Secretary of the Treasury writing to me!" . . .

He hadn't expected this. Of course, he had bought a bond because he wanted to do something to help defense. After all, it was the thing for Americans to do. But a personal letter. . . It was down on the record. He had done something more than argue about the defense of America. No, this wouldn't stop him from arguing how the defense should be carried out. But it showed he was for the main idea, that he wanted to help and that he had demonstrated his confidence in the future of America. . . .

He tucked the letter in the inside coat pocket, very carefully. . . Where did he stand? Well, that letter would show where John stood, right on the line, alongside of Uncle Sam, shoulders back, chin out, looking the rest of the world straight in the eye and ready to quote that potent paragraph from the Secretary's letter:

> "Now, as never before, I believe that all of us are ready to demonstrate, in concrete form, our partnership with the government -- a partnership, as the President said, which is entered into to safeguard and perpetuate all those precious freedoms which the founders of our republic gave us as our heritage."

UNITED STATES SAVINGS BONDS

Comparative Statement of Sales During
First Twenty-one Business Days of August, September, and October, 1941
(August 1-25, September 1-25, October 1-24)
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	$ 32,864	$ 32,374	$ 34,349	$ 490	-$ 1,975	1.5%	- 5.7%
Series E - Banks	63,369	56,289	64,003	7,080	- 7,714	12.6	- 12.1
Series E - Total	96,233	88,663	98,352	7,570	- 9,689	8.5	- 9.9
Series F - Banks	17,571	14,633	16,978	2,938	- 2,345	20.1	- 13.8
Series G - Banks	95,948	89,336	104,905	6,612	- 15,569	7.4	- 14.8
Total	$209,753	$192,632	$220,235	$17,121	-$27,603	8.9%	- 12.5%

Office of the Secretary of the Treasury, Division of Research and Statistics. October 25, 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.

CONFIDENTI

UNITED STATES SAVINGS BONDS
Daily Sales - October 1941
On Basis of Issue Price
(In thousands of dollars)

Date	Post Office Bond Sales	Bank Bond Sales				All Bond Sales			
	Series E	Series E	Series F	Series G	Total	Series E	Series F	Series G	Total
October 1941									
1	$ 1,450	$ 3,029	$ 1,286	$ 8,271	$ 12,587	$ 4,479	$ 1,286	$ 8,271	$ 14,036
2	1,870	2,786	867	4,324	7,977	4,656	867	4,324	9,847
3	2,150	3,299	1,065	6,323	10,687	5,449	1,065	6,323	12,837
4	1,270	1,696	612	6,400	8,707	2,966	612	6,400	9,978
6	3,449	4,778	1,444	9,286	15,508	8,226	1,444	9,286	18,956
7	1,207	2,595	572	2,913	6,080	3,802	572	2,913	7,287
8	1,363	3,674	821	3,611	8,106	5,037	821	3,611	9,469
9	1,652	4,270	903	3,654	8,827	5,923	903	3,654	10,479
10	1,495	3,672	989	5,272	9,933	5,167	989	5,272	11,428
11	1,291	2,400	632	4,098	7,129	3,690	632	4,098	8,420
13	2,515	3,624	1,164	4,989	9,778	6,139	1,164	4,989	12,293
14	437	1,022	261	511	1,794	1,459	261	511	2,231
15	879	2,175	759	3,482	6,417	3,055	759	3,482	7,296
16	1,376	3,054	724	3,908	7,685	4,429	724	3,908	9,060
17	1,422	3,609	860	4,969	9,438	5,031	860	4,969	10,861
18	1,180	2,424	846	3,013	6,283	3,604	846	3,013	7,463
20	2,827	3,395	895	3,800	8,091	6,222	895	3,800	10,918
21	887	2,029	436	2,959	5,425	2,917	436	2,959	6,312
22	1,284	3,316	835	5,880	10,032	4,600	835	5,880	11,316
23	1,496	3,201	882	5,322	9,406	4,697	882	5,322	10,901
24	1,364	3,320	718	2,963	7,001	4,684	718	2,963	8,365
Total	$ 32,864	$ 63,369	$ 17,571	$ 95,948	$176,889	$ 96,233	$ 17,571	$ 95,948	$209,753

Office of the Secretary of the Treasury, Division of Research and Statistics. October 25, 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.

12:28 p.m., October 25, 1941.

Mr. Louchheim of the SEC dictated the following over the telephone. He said it was a teletype received from Commodity Expert in New York answering his inquiry as to the effect of amendment to General License No. 9:

General feeling seems to be that Treasury Order has removed a source of very unwholesome speculation. Result will probably be a smaller volume but a trading market instead of sharp run-ups caused by foreigners' bullishness. Also believe that selling and attendant easiness today due to the action.

A partner of a large firm which has many commodity accounts as well as blocked accounts said: "The Treasury action caused some selling. Blocked accounts were more conscious of inflation than Americans. The Order was probably designed to limit speculation and to keep prices down. In the long run probably a good thing."

The principal market news service attributed easiness this morning mostly to Treasury action.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 25, 1941

TO Secretary Morgenthau

FROM V. F. Coe

Subject: Clippings on Women's Work in England -- Sent by Casaday

1. The Government is making an intensive drive to recruit women for work in war industries.

They are asking older women to volunteer before they are called up. They are shifting all women twenty to twenty-five from shops -- making an exception only of food shops.

2. The Army is intensifying its advertising in order to get more women into the A.T.S.

3. The much more important industrial role of women has made an irritating issue out of the unequal compensation paid to women for war injuries.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 25, 1941

TO Secretary Morgenthau

FROM Mr. White

Subject: Exports of Philippine Iron Ore to Japan

1. A decision was reached some time ago by the Metals Reserve Corporation to preclusively purchase approximately one million tons of Philippine ore -- the amount normally shipped to Japan in a year.

2. The British had agreed to stop the export to Japan of Burmese ore if we stopped the flow of Philippine ore.

3. The State Department preferred to purchase the ore, rather than stop its export; but postponed action. Mr. Perkins, however, withheld export licenses.

Mr. Milo Perkins has notified us that a directive has been signed by him requiring special affidavits in connection with the exports of certain commodities, including iron ore, from the Philippines. He believed this directive would stop the flow of ore to Japan.

4. As a result of export control together with a lack of shipping, Japan received no Philippine ore after the beginning of August.

5. Recent statistics of Philippine ore production and exports to Japan:

	Production	Exports to Japan
1940 - 12 months	1,235,000 metric tons	1,191,600 metric tons

By Months	Production	Exports to Japan
1940		
September	102,400 metric tons	not available
October	91,000 " "	" "
November	96,000 " "	" "
December	83,700 " "	" "
1941		
January	124,000 metric tons	168,000 metric tons
February	86,000 " "	53,000 " "
March	121,700 " "	99,000 " "
April	136,100 " "	118,000 " "
May	111,100 " "	150,000 " "
June	70,000 " "	150,000 " "
July	57,000 " "	128,000 " "
August	not available	none
1st. 6 months-1940	678,700 metric tons	624,000 metric tons
1st. 6 months-1941	648,900 " "	738,000 " "

6. According to a cable of August 11, 1941, from the U. S. Consul at Manila, the Philippine iron mines announced closure early in August because of a lack of shipping space.

C O P Y

FEDERAL RESERVE BANK

OF NEW YORK

October 25, 1941.

S i r : Attention: Mr. Frank Dietrich

We have today received the following tested telegram dated October 24, 1941 from the Federal Reserve Bank of San Francisco:

"WE CREDIT 25TH $5,548,719.10 FOR CREDIT TO THE 'SECRETARY OF THE TREASURY SPECIAL ACCOUNT', REPRESENTING PROCEEDS OF 158,539.363 FINE OUNCES GOLD RECEIVED BY MINT HERE ON OCTOBER 19 ON S. S. 'DNEPROSTROY' FOR ACCOUNT OF THE STATE BANK OF U.S.S.R. MOSCOW. DOLLAR VALUE $5,548,877.70 LESS MINT CHARGES OF $158.60. AMOUNT OF REGULAR 1/4 OF 1 PERCENT HANDLING CHARGE WOULD BE $13,872.19"

In accordance with the above telegram and pursuant to our telephone conversation of today we have credited the Secretary of the Treasury, Special Account on our books $5,548,719.10 and have made the appropriate entries in the transcript of the Secretary of the Treasury Special Account to reflect the 1/4 of one per cent charge of $13,872.19 as a handling charge on gold.

Respectfully,

/s/ L. W. Knoke

L. W. Knoke,
Vice President.

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

Enc.
Copy:vw:10-27-41

October 25, 1941

Dr. Feis

Mr. Dietrich

Will you please send the following cable to the American Consul at Hong Kong:

"For Fox from the Secretary of the Treasury.

Reference Spagent's cable of September 27 re manager of Hong Kong office of American Express Company. It is suggested that you take this matter up with J. Stenersen (or his successor) Foreign Manager of the Hong Kong office of American Express Company with a view to having Chinese manager discharged if facts warrant such action. We will support your insistence that such person be discharged."

(Init.) F. D.

FD:dm:10/25/41

PARAPHRASE OF TELEGRAM SENT

TO: American Consul, Hong Kong, China.

DATE: October 25, 1941, 7 p.m.

NO.: No number.

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

Reference is made to Spagent's cable under date of the 27th of September regarding the manager of the American Express Company at the Hong Kong office. The matter in question should be taken up with the Foreign Manager, J. Stenersen, or his successor, of the Company's Hong Kong office, so as to have the Chinese manager removed from the office if facts in the matter reveal that such action should be taken. Your insistence that the Chinese manager be discharged will be supported by us.

HULL
(FL)

FD

GRAY
Hong Kong via N.R.
Dated October 25, 1941
Rec'd 10 a.m. 26th

Secretary of State,
Washington.

447, October 25, noon (SECTION ONE)
CONFIDENTIAL.
FROM FOX FOR SECRETARY OF THE TREASURY:

TF- I have further examined your 350 of October 18 and am in thorough accord with objectives as I am sure are the Chinese Government and Board members. Most earnestly plead that early action be taken. Am reasonably certain that had Manila plan been completed most of recent Shanghai developments would not have occurred. Majority of objections raised by British to Manila plan had little validity. Your new plan now has the approval of all members of the Board and Chinese authorities. Furthermore, Hiemeyer Baxter, and Cochran participated in discussions with Board members and Cochran in discussions with the Chinese authorities. See no reason why the plan cannot be put into effect immediately. Would help greatly if it were.

Am in complete accord with the principle enunciated in section six

-2- #477, October 25, noon (SECTION ONE) from Hong Kong via N.R.

in section six in 350 regarding licensed banks. Do not expect too high degree of cooperation from Shanghai banks. Repeated evidence to the effect that spirit of cooperation is lacking especially from American banks.

SOUTHARD

CSB

TRB

GRAY

Hong Kong via N.R.

Dated October 25, 1941

Rec'd 9:46 a.m., 26th.

Secretary of State,

Washington.

447, October 25, noon, (SECTION TWO).

They continue to believe in the spirit of Mackay's September 17 letter. Rumors persist that both Chase and National City Bank have been recently submitting bank notes to black market in Shanghai. I have reported that together with suggestion for checking flow of bank notes into China. Cannot of course obtain definite evidence but reports come from sufficiently reliable source to have some credence.

I was quite embarrassed recently when in Chungking to have manager of the Central Bank hand me bid for purchase of United States Treasury check issued by officer of the United States navy. This particular check was sold to an unlicensed bank at unofficial rate. I reported on September 12 that United States Government officials were selling their checks at unofficial rates but to date no action has been taken.

Understand that

-2- 447, October 25, noon, (SECTION TWO), from Hong Kong.

Understand that British regulations forbid dealing at unofficial rates. Why cannot all Washington Departments notify their officials in China that they must deal only at (official?) unofficial rates. It is true that prices in China are high and are rapidly rising, but this situation should be taken care of in some other way than in dealing in the black market. It is most embarrassing and it is certainly a situation that can easily be taken care of in Washington and could have been long ago."

(END OF MESSAGE).

SOUTHARD

CSB

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE October 25, 1941

CONFIDENTIAL

TO Secretary Morgenthau

FROM Mr. Dietrich

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£14,000
Purchased from commercial concerns	£7,000

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

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

Canadian dollar	11% discount
Argentine peso (free)	.2368
Brazilian milreis (free)	.0505
Colombian peso	.5775
Mexican peso	.2070
Uruguayan peso (free)	.4625
Venezuelan bolivar	.2630
Cuban peso	1/8% discount

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

The Federal Reserve Bank of New York reported that the Central Bank of the Colombian Republic shipped $2,100,000 in gold from Colombia to the Federal for its account, disposition unknown.

The Federal Reserve Bank's report of October 22, listing deposits of banks in Asia with the New York agencies of Japanese banks, showed that such deposits totaled $58,463,000, an increase of $727,000 since October 15. Also reported were selected items from the statement of the Yokohama Specie Bank's New York Agency, which revealed that an increase of $702,000 in Japanese and Manchurian bank deposits was accompanied by a decline of $778,000 in U. S. Treasury bills, commercial paper, etc. held by the Agency for account of such banks.

RESTRICTED

G-2/2657-220; No. 528 M.I.D., W.D. 11:00 A.M., October 25, 1941

SITUATION REPORT

I. Eastern Theater.

Ground: Hard fighting continues along the entire front.

The German High Command claims the capture of Kharkov and Belgorod (50 miles north of Kharkov).

The Germans apparently are pressing their advance on a line from Rostov, north to Makeyevka.

II. Western Theater.

Air: The Air Ministry reports that squadrons of R.A.F. bombers raided the Rhineland and other targets in western Germany, as well as the Brest docks, during last night. This made the fifth consecutive night of British planes to operate over Germany proper.

Great Yarmouth was agains last night the target of a German attack. Germany also claimed to have sunk large quantities of British shipping during the night.

III. Middle Eastern Theater.

Air: The Italian communique indicated that Naples had been raided for the third time in four days, and also that Ragusa and Licata, in Sicily, had been attacked. The sinking of a large British freighter in the Mediterranean by Italian torpedo planes was claimed.

RESTRICTED

OFFICIAL PUBLICATION OF
THE ZIONIST ORGANIZATION OF AMERICA

The New Palestine

The American Zionist Weekly Devoted to Jewish Affairs
1720 SIXTEENTH STREET, N. W.,
WASHINGTON, D. C.

October 26, 1941

Mr. Henry Morgenthau, Jr.,
The Secretary Of The Treasury
Washington, D. C.

Dear Mr. Morgenthau:

Thank you for your note on Justice Brandeis. It will occupy a feature position in the November 14th Brandeis Memorial issue of The New Palestine.

I shall see to it that copies are sent to you upon publication.

Sincerely yours,
Carl Alpert
Carl Alpert
Managing Editor

CA:eg

October 20, 1941
For New Palestine

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

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

Henry Morgenthau, Jr.

C
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Y

PD

PLAIN

Stockholm

Dated October 26, 1941

Rec'd 1:35 p.m.

Secretary of State,

Washington.

688, Twenty-sixth.

New three months Treasury bills issued for 75 million crowns at one point 349 percent discount.

Final budget deficit fiscal year 1940-41 1609 million crowns increasing deficit in budget equalization fund as of June thirty 1941 to 2368 million crowns. Riksbank report October 23 gold reserves 807, foreign exchange 865, loans discounts 769, note circulation 1449, all million crowns.

Inform Treasury, Commerce.

GREENE

HPD

Copy:bj:10-28-41

October 27, 1941
9:36 a.m.

HMJr: Hello.

Secretary Stimson: On Saturday I got word indirectly through Foley that you were afraid still - even after my telegram to the authorities - the military authorities in Hawaii - that pressure would be brought by them to prevent the continuance when the case came up for trial. I've forgotten whether it was to come up Saturday or today.

HMJr: Well, I haven't seen Foley so I don't know - I spoke to him after Cabinet when I came back, and told him about my conversation with you and the Attorney General. I believe we have a postponement for two weeks.

S: Well, all right then. But I just wanted to tell you that I called up on the telephone the Commanding General out there.....

HMJr: Oh, really?

S: .....and told him that I had had this word and while I had sent the telegram, and was sure that he was obeying it, I wanted to be perfectly certain that they were not - that none of the subordinates were doing anything in it, and he at once said that.....

HMJr: Hello.

S: He at once said that my orders would be obeyed.

HMJr: Yes.

S: But I have had a long telegram from him, which indicates that there's a great deal of feeling out there that the attack was entirely unprovoked and also he gives me the sequence of events which shows some things that you might look into on your side.

HMJr: Good.

S: I mean, he starts off the telegram by saying - I've got it before me here - "This headquarters has taken no part in the prosecution nor made any appearances in the proceedings requesting continuance - made no appearings in the proceedings requesting continuance of the trial."

HMJr: Yes.

S: The prosecution of the case and the resistance to continuance has been solely in the hands of the Territorial District Attorney, Mr. Cassidy, who has from time to time requested and has been furnished the full information possessed by these headquarters.

HMJr: Yes.

S: And Mr. Cassidy has today expressed his complete satisfaction as to the cooperation rendered. On the other hand, the local Customs office has deviated from the rule of interested spectator and it is quite apparent here that strenuous efforts are being exerted on behalf of the accused, that they are leaving no stone unturned to have their man found either only guilty of the lesser charge of manslaughter or to have him go Scott-free.....

HMJr: Yes.

S: .....on the theory that the shooting was in the line of duty either in self-defense or to prevent the commission of a felony.

HMJr: Yes.

S: Then he says - he calls my attention to the fact - that it was the duty of the Army, of course, to have what they call a "death board" investigation of the murdered officer.

HMJr: Yes.

S: And that board did reach the conclusion that the killing was unjustified, and the facts show I'm reading now, "beyond a reasonable doubt that the slayer could not be considered as having acted in line of duty or by color of his office."

HMJr: Yes.

S: "And it is believed that these views are concurred in by the local United States Attorney, Mr. Taylor, and furnish the reason for his declining to join in the slayer's defense."

HMJr: Yes.

S: Then he goes on reading about the point that you brought up about that Army witness.

HMJr: Yes.

S: He says, "I desire to point out that when the two Navy and the one Army witness were formally examined at police headquarters, both Mr. Hiberle -" I think that's one of your men, isn't it?

HMJr: I don't know.

S: Yes. "Both Mr. Hiberle and Mr. Riley, his investigator, were present. They are therefore fully cognizant of the testimony which will be given by these witnesses at the trial."

HMJr: Yes.

S: "Bearing in mind that these men are the identical witnesses - that these are the identical witnesses which they now claim have been denied to them by this headquarters, this headquarters has not at any time prior to receipt of your radio, discussed this case with the two Navy witnesses; and today these witnesses stated that no one from the local Customs offices had ever requested the statement from them." Then comes this - a little further down - but as regard to the Army witness - "as regard to the witness, the Army nurse, she is primarily a witness for Mr. Cassidy, the prosecutor, and in addition, she has testified before the Grand Jury which indicted the accused. Therefore, when Mr. Riley requested that this headquarters order her to give him a formal statement prior to the trial, the request was under the circumstances denied on the grounds of propriety."

HMJr: Yes.

S: "Our views in this regard were likewise conveyed to Mr. Cassidy and he stated to the effect that his policy regarding witnesses prior to the trial was one of hands-off, and to let the opposition interview them as they pleased."

HMJr: Yes.

S: "And it was legally a matter for the witness to decide, and that therefore there was no legal method of compelling any witness to be interviewed against his will prior to the trial. These views were also conveyed to Mr. Riley and later Mr. Riley admitted that he did not wish to interview the nurse as a part of any official investigation by the Customs Department, but purely for the purpose of assisting the accused defense counsel."

Well, if that is so, why, of course, Riley was asking for something that under the law, as I understand it, he wouldn't have a right to.

HMJr: Well, I don't know, Harry, but.....

S: I mean, in other words, what they've done is to leave the witness alone to her own decisions.....

HMJr: Yes.

S: .....and they're very emphatic in regard to that, and not to put any Army compulsion either one way or the other on her; and inasmuch as they feel pretty strongly about it, I think they have leaned over backwards - not leaned over backwards - but they've stood up straight.

HMJr: Well, I appreciate your taking all this personal interest in it, and I will see Gaston and Foley immediately and ask them where the thing stands and tell them what you have told me.

S: Well, my whole object was to see that our people don't interfere with the proper trial there.

HMJr: Well, that's all I'm asking. That's all I'm asking.

S: I know that's all you're asking, and I have perhaps gone further than I would ordinarily do.....

HMJr: Yes.

S: .....to follow up a telegram with a telephone talk on the subject.

HMJr: Well, I think what you've done is only what I would expect you would do under similar circumstances, knowing you.....

S: And I thought I would also tell you that there is another side to it out there.....

HMJr: Yes.

S: .....and that these officers of the Army who didn't know this young man at all - he had just come from the Philippines - feel very strongly that he was shot without provocation.....

HMJr: I see.

S: .....on the evidence that they've heard there.

HMJr: Well that, of course, I wouldn't attempt to pass on that, because I don't.....

S: I don't either. I just wanted you to know that there was another side.

HMJr: Oh, I'm sure there is.

S: These are respectable men - Short - General Short out there, is an able man and I just asked about him - I don't know him personally - but General Marshall says that he is an able fellow and will do what's ordered.

HMJr: Gossip has it - and this is pure gossip - that this man had been ordered back from the Philippines because he was mentally deranged. Now, that's pure gossip.

S: Well, they - in this long telegram, Short says that your man made that statement out there, and that he doesn't have any of it to that effect at all.

HMJr: I see. Well.....

S: So that evidently, if he was mentally deranged, this branch of the Army hadn't heard of it.

HMJr: Well, anyway, Harry, you've done everything that anybody could possibly ask for. The man will get a fair trial.

S: Yes, he'll - I'm sure he'll get a fair trial.

HMJr: Now, whether he's guilty or whether he shot without provocation, I don't know and I don't care, but.....

S: Yes. You're only seeking a fair trial.

HMJr: That's all I'm seeking, and.....

S: And I was trying to help you to get it.

HMJr: Well, I think you have. I think you've done everything anybody could ask.

S: I think so far as these - as the Army authorities there are concerned, you and I'll get it all right.

HMJr: Well, and - if anything turns up and I feel that we don't and I'm sure of my facts.....

S: Yes.

HMJr: .....I'll communicate with you.

S: All right.

HMJr: Thank you.

October 27, 1941
9:45 a.m.

GROUP MEETING

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

H.M.Jr: The reason I was delayed - I am sorry - was that Mr. Stimson had me on the wire ten minutes. I will talk to you people about it afterward.

Gaston: Right.

H.M.Jr: He not only sent his telegram but he called up the Commanding General from the District on the telephone.

Foley: Well, I called McCloy about 12:30 on Saturday after I had talked with Chambers, so that the Army wouldn't interpose through the Commandant out there an objection to a continuance for a month, as Chambers thought they might do.

H.M.Jr: I couldn't tell him what you had been doing, but Stimson called up the Commanding General on the telephone and he said, "I want my orders carried out." The Commanding General said, "They will be." And then a lot of stuff which I don't want to go into now. Who is Cassidy?

Gaston: As I recall, that is one of the Navy Lieutenants. Connally was the man that was shot.

H.M.Jr: Well, whoever is going to do the prosecuting --

Foley: Cassidy is the territorial prosecutor.

H.M.Jr: And he is refusing to prosecute because he thinks that our man was in the wrong.

Foley: Yes. Out there the Army views this as cold blooded murder. That is what Chambers said.

H.M.Jr: Well, anyway, if you people will stay behind, --

Thompson: I have got a letter that Mr. Kuhn sent for your signature.

H.M.Jr: Oh yes. I hear by Peter Odegard that Barth has decided to stay with us.

Kuhn: That is right.

H.M.Jr: Now, who lets Stettinius know?

Kuhn: I believe Oscar Cox.

H.M.Jr: Who tells Oscar Cox?

Kuhn: Barth.

H.M.Jr: I don't have to do anything?

Kuhn: No, sir.

H.M.Jr: It is all right with me. Have you got anything else?

Thompson: I have sent over to the Bureau of the Budget of the Budget a deficiency extimate of approximately four million dollars for Foreign Funds for the rest of this year.

H.M.Jr: How much?

Thompson: A little over four million dollars. Our appropriation is a million, two hundred fifty thousand, and it has gone up to five million more.

H.M.Jr: What else?

Thompson: That is all.

H.M.Jr: I have got a follow up here for Messrs. Foley, Gaston and Thompson, that they were going to get together and decide the fate of one Sam Klaus.

Thompson: We have had a number of meetings.

Gaston: That has been decided.

Foley: And the order is in process of writing it and we will bring it in to you as soon as the job is finished.

H.M.Jr: What are you doing with him?

Gaston: We are putting him under Mr. Foley's jurisdiction with the provision that he will continue to do substantially the same things for me that he has been doing heretofore.

H.M.Jr: Sounds like Leon Henderson, the way they fixed him. He says the only difference in the job was, he had to walk from one end of Washington to the other but he still had the same responsibility.

Gaston:	Well, the question of responsibility is a little different here. Ed gets the responsibility.
Foley:	He (Gaston) gets the benefit and I get the responsibility. (Laughter)
H.M.Jr:	Just as long as I continue to hear the gossip.
Gaston:	I won't comment on that.
H.M.Jr:	We know you know what is happening to Klaus.
Thompson:	I would like to get your permission to move Mr. Klaus to the Washington Building. I have no more space in this building.
H.M.Jr:	He is responsibile to Mr. Foley.
Thompson:	Well, he told me I could move him.
H.M.Jr:	From now on, don't come to me about Sammy Klaus. I know what makes Sammy run. (Laughter) Don't ask me, if that is the way your set-up is.
Thompson:	Well, we will work it out. Sammy probably will come to you.
H.M.Jr:	No, if it is a signed order that (Foley) is his boss. That answers that argument. You just start in.
Foley:	John says keep him in the district.
Sullivan:	It looks to me as though Sam is getting an awful trimming around here. (Laughter)
H.M.Jr:	Any time, Barnard, they wish fifteen or twenty economists on you and you want a ringmaster, send for Sammy Klaus. He will take care of them.
Barnard:	I had better get acquainted with him quick. (Laughter)

Sullivan: Yes, quick.

Bell: You should have known him last week, shouldn't you?

H.M.Jr: Here is that request on the mail survey still pending.

Thompson: I have a man making a very thorough survey of the mail. He is covering the whole Department and setting up new procedures. I will have a preliminary report from him tomorrow on this.

H.M.Jr: All right. I asked Thompson to prepare and Mr. Foley to approve a letter to the Attorney General requesting instructions from the President if the Treasury is to turn personnel investigations over to F.B.I.

Thompson: That letter has been drafted, and Mr. Foley thought he had better wait until he sees J. Edgar Hoover.

H.M.Jr: He is supposed to be coming in this afternoon. Mr. Ickes went to town on J. Edgar Hoover and said he wasn't going to have J. Edgar Hoover investigating his office.

Foley: Yes, his man called me up and wanted to know if he could get together with us on some suggested modifications of that procedure.

H.M.Jr: Who is that man?

Foley: Felix Cohen.

H.M.Jr: What I said was this --

Foley: There is that statute I thought you might want to have in front of you.

H.M.Jr: Ickes had it. What I said was this, that there were some two thousand cases that we had asked under O.E.M. for Hoover to investigate and he had only investigated about a hundred and twenty-seven. So that they wouldn't pick me up, I said that may be ten percent off, one way or the other, that what reason had I to believe that he could do these if he can't do the other, so to my amazement, in a stage whisper, the Attorney General whispered that the reason he didn't do the two thousand is that he doesn't want you to have that part of the work.

Thompson: Mr. Irey told me that Lucey now is going to try to lay the blame on McGuire. Matthew McGuire was there and he was handling that and told Lucey and Lucey told Elmer Irey that McGuire was holding all of our requests on his desk.

H.M.Jr: Has Mr. Hoover started the investigation on the fifty so-called Communists?

Thompson: Not that I know. I checked that list of thirty-six and sixteen names washed out. There are twenty we have never investigated at all. Twelve of them are no longer in the Treasury, two of them are wives of Treasury employees, four of them have never been in the Treasury. That is the way it checks out, so that there are twenty left that we never made any check on at all.

H.M.Jr: Then doesn't it get down to really three organizations?

Gaston: Six organizations.

H.M.Jr: Are there six? But I mean, most of them are the Friends of Democracy.

Foley: The League for Democracy and the Washington Bookshop are the two most prominent. As far as the

Bookshop is concerned, you can get books cheaper there than you can any place else, and that is one of the reasons why some of our people belong and get books from that shop. I don't know anything Communistic about the organization.

H.M.Jr: Well, anyway, I think Mr. Hoover is coming in this afternoon. All right?

Thompson: That is all.

Bell: We got two hundred ninety-seven million on the three hundred RFC.

H.M.Jr: Two-seventy-nine?

Bell: Two-ninety-seven and we got two hundred and one million of the two hundred and four million of the Commodity Credit.

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

Bell: It is very close to a record. It is very good. This is a matter of information. The Swiss earmarked another twenty million dollars worth of gold on the twenty-first. That makes about ninety-four million.

H.M.Jr: What is that?

Bell: Switzerland earmarked another twenty million dollars of gold last week and that makes about ninety-four million dollars they have earmarked within the past ten months. There seems to be some gold coming in to South America, particularly Argentina, from Japan. The Argentine Ambassador has asked us whether or not --

H.M.Jr: I passed on that once.

Bell: That gold comes up to standard. You say you have?

H.M.Jr: Yes. Didn't you speak to me about it?

Foley: I spoke to you about it on Friday.

H.M.Jr: And this committee. Will you two get together?

Bell: Yes.

H.M.Jr: How does it come to you?

Bell: The Argentine Ambassador and the mint.

H.M.Jr: Well, will you and Foley get together? Foley said he wanted to take it up on his committee and we discussed it.

Bell: Well, he apparently wants to take it up with his committee to try to find out how much gold and whether or not it is going to eventually go into dollars.

Foley: That is right, as a means of avoiding our controls. I raised it with Dean and he has got it under consideration over in the State Department now.

Bell: Well, I guess I gave it to Bernstein.

Foley: You gave it to Bernie and Bernie brought it right to me and then we have got a couple of other angles on it too that came directly to us in the way of intercepts.

Bell: I thought I would try to find out the amount for the Ambassador and tell him that it stands up very well under the refinancing processes.

Foley: I think we ought to find out the amount and the purpose.

H.M.Jr: I have got to read this to you.

Foley: I think what he is trying to find out, Dan, is whether or not we have any objection to buying that gold from Argentina if they buy it from Japan.

H.M.Jr: May I read you a very personal letter from the President? It is marvelous. It shows his humor. I will see if there are any words you people wouldn't understand. He refers to a man by the name of Townsend who is the former Democratic chairman, but he isn't any longer.

"In the life of the Secretary of the Treasury there stands out a historic anniversary usually celebrated toward the end of each October. It is the day of thanks-offering that he may throw his loving appreciation to the great Dimithratic Party of Dutchess County which gave him birth. It gives him opportunity to keep his foster mother in health and strength for just one more year.

"In other words, 'Cough up.' Townsend is after me. I have as usual bought a meal ticket for Mommer. Please do the same. F.D.R."

Klotz: Mama, M-o-m-m-e-r.

H.M.Jr: Will you see that it is taken care of?

Klotz: Yes.

H.M.Jr: Isn't that marvelous? Wonderful. Don't tell Ham Fish about it.

Bell: That is all I have. Here is a letter you might read some time.

H.M.Jr: I think you had better do it before tomorrow, too.

Klotz: Had you anticipated that?

H.M.Jr: I was waiting. I thought it might slip by. You now know who is Democratic chairman of

Duchess County.

Who writes you letters, John?

Sullivan: I am glad you mentioned that. I have got a city election a week from tomorrow.

H.M.Jr: This is for Haas and Barnard, a chart on Procurement.

Barnard: I have it here.

H.M.Jr: All right, when we get around to you. Is that all, Dan?

Bell: Yes.

H.M.Jr: Harold, how is good old New Orleans? How is the Louisiana Purchase? Did we get stuck?

Graves: Kind of. I think I would like to have, if you could give it to me, ten or fifteen minutes to tell you about that and a few other things.

H.M.Jr: Well, your pal, Elmer, is in here at ten-fifteen. Ten-thirty?

Graves: Fine.

H.M.Jr: I was told - oh, I know who told me, Sol Haas. Carl M. Richards is deputy in Seattle and gets thirty-five hundred. He says all the other deputies get a minimum of forty-six hundred, and he says this boy is really good.

Gaston: I have been talking to Harold about that. Carl Richards is the man that we brought back from France, and he had some very interesting adventures with the German Army. He has been lecturing on these adventures out there with very great success, and he has been transferred over as an assistant to administrator, Sol Haas, but he is still on the Customs payroll at thirty-six hundred dollars a year. The Customs people don't feel that as a Customs man they could advance him beyond that. I think the best thing to do, and I think Richards would accept it, would be this: to let him resign as a Customs agent to be transferred to the Savings Bond roll and they could give him a higher rate, and then I think that the chances of taking him back again on the Customs roll would be all right when he got through with that work, but there doesn't seem to be any way to raise him in Customs without putting the Customs ratings out of line.

H.M.Jr: Well, both Sol Haas and Anna Boettiger spoke to me about him.

Gaston: He is very fine and doing effective work.

H.M.Jr: Supposing you (Graves) talk to me when I see you at ten-thirty.

Graves: Yes, sir.

H.M.Jr: And also about Richards.

Graves: Yes, sir.

H.M.Jr: I thought you were going to see Dietz today.

Buffington: Well, Mr. Kuhn suggested that I wait until after that letter that he was sending to him.

H.M.Jr: I am not going to write that letter.

Kuhn: Did you see it, Mr. Secretary?

H.M.Jr: Yes. You will have to see me.

Kuhn: All right.

Buffington: I was planning to go on Wednesday. We had mailed out by late Saturday afternoon twenty-three and a half million copies of "Know Your Taxes," which represents all mailing.

H.M.Jr: Wonderful.

Buffington: I am not sure that we have hit all the right people, but I am working on that chamber of commerce and national association. I am preparing a condensed circular in that "Know Your Taxes." We have suggested that if people want more information, they get a copy from the bank of 667, which is the official circular. I would like to get a discussion with these men about a condensed circular, because I think we will have a good many inquiries from people who have received that "Know Your Tax" circular. We may want later to include a condensed circular in the payroll envelopes.

H.M.Jr: I wish you would get somebody with a car from Norman Thompson to go out for a week anywhere and just call at banks and find out their reaction to this circular. Let them spend a week calling on as many as they can a day.

Buffington: I am planning to do that same thing through the Chamber with nine hundred thousand corporations, with the heads of nine hundred thousand corporations.

H.M.Jr: But I mean if you can get a man that can just go and call for a week on banks and see if they get this, what they are going to do about it. Just drop in and check up, to get the reaction from the field on this thing. Will you do that?

Buffington: Yes. Did you see the publicity that we got on this release?

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

Schwarz: We got a good play yesterday. Many of the papers used two or three or even four of the tables.

H.M.Jr: In the papers I read I didn't see it. Will you send it in to me?

Schwarz: Yes, sir. I sent it to Norman. I will see that you get those copies.

H.M.Jr: To Norman?

Thompson: Well, I have been working with Mr. Kuhn on weeding out of the clippings.

Schwarz: We will see that you get them.

H.M.Jr: You got my note on the Reston story?

Schwarz: Yes. We will have memo for you.

H.M.Jr: They charged the whole three million three, Harold, to publicity.

Kuhn: Mr. Secretary, I can explain that. Not to publicity, but to promotion of all kinds, and the field organization which makes speeches, contacts labor unions and so forth, is all trying to sell this program to the country, and that is why it was included. We were saved on that story from a fate worse than death because there is a budget report that shows that the Treasury has six hundred seventy-two full-time employees on publicity, information, and so on, and six hundred and sixty-one part-time, and the writer of this article rang me up about that. They had included all the addressograph people, and all the Internal Revenue people, and so on.

H.M.Jr: Well, have you told that to Bell?

Kuhn: No.

H.M.Jr: I wish you would tell Bell, because I would like to have him call up the Director of the Budget. Every time they get a chance to take a shot at us, they do.

Kuhn: If that had been an unfriendly writer of an article, he could have made hay with us on that Budget report.

Bell: Did it come out of the Budget?

H.M.Jr: Yes.

Schwarz: Out of the Budget to the House Appropriations Committee.

Kuhn: Yes, very bad.

H.M.Jr: One of these days I am going to come out publicly and say something about Harold Smith. I would love to say something about his report to Congress on economy. Of all the weak-kneed dishwater I ever read in my life, his report on that thing was the most supine, intellectually dishonest thing I have read in a long time. Did you read it?

Bell: Yes, I read it.

H.M.Jr: My God, it turned my stomach. Otherwise I

I thought it was good. I am just sick and tired of having that man shoot at us all the time, and you know every time you call him he apologizes or blames somebody else, so if you get this story and call him.

Bell: I take it this was a routine report, wasn't it, on estimates?

Thompson: It was, yes.

Bell: It is about in the same form as what all other departments' estimates go up in, is that right?

Graves: I don't know about this, Dan.

Kuhn: But it puts us in such a vulnerable position, Dan.

H.M.Jr: Tell Bell the story they got from the Budget and then Bell is going to call up Harold Smith for me and ask him how come, because if Reston can get it, anybody can get it.

Kuhn: Sure, Frank Kent or anybody can get it.

H.M.Jr: And it is up there before Congress. Will you do that for me?

Bell: Yes, sir.

Schwarz: It includes all the people working on statistics of income, which is a large number.

Kuhn: More than three hundred.

H.M.Jr: I understood from Odegard he had to start charging either twelve or thirteen hundred men on publicity.

Kuhn: Six hundred seventy-some full time and six hundred sixty-some part time. It included two hundred twenty-eight full time people in the mail room.

Thompson: They gave us a form on which to make reports, and they wanted to know the people who work on preparing annual reports, statistics of income, mailing lists and those things.

When you give them all those details, it adds up to those man hours of employees. All departments reported on that basis and without explanation it looks bad.

H.M.Jr: I will say it looks bad.

Anything else, Chick?

Schwarz: The American Automobile Association is asking for a message from you for their meeting next month, asking people to use some of their surplus for traveling around the country.

H.M.Jr: You tell them I am in favor of the discontinuance of the manufacture of all pleasure cars.

Schwarz: I told them we would like to sell some bonds and tax notes.

H.M.Jr: Just tell them that is my message.

Schwarz: That takes care of them.

That is all.

H.M.Jr: I hope you have a sense of humor. I mean it, but I don't - (Laughter) I mean, that is what I think should happen, but I don't think I would announce it just yet.

Schwarz: We will take care of them.

H.M.Jr: Harry?

White: In attempting to guess how much the new tax proposals, forced savings proposals, will reduce the ordinary purchase of baby bonds, we have very little information to go on. I was wondering whether it wouldn't be worth while if George could have a survey made of an appropriate sample of the purchasers of baby bonds to determine what income classes they fall into. He might make a preliminary survey to see how much it would cost, but I think that we need more information now, and I think that as time goes on, more information will become increasingly important.

H.M.Jr: I want to tell Graves he had better find out what is going on during the week that he is gone, to find out what effect this whole thing that is being developed under Barnard will have on the Baby Bonds.

You had better get in on that, Harold.

Graves: Yes, sir.

H.M.Jr: It is up to you to find out what effect it would have on savings bonds. I assure you it won't help your sales.

Bell: That is right.

H.M.Jr: But you can do it that way. Anything else, Harry?

White: Nothing.

H.M.Jr: George?

(Mr. Haas handed reports to the Secretary).

H.M.Jr: I have got to tell a story on Harry. Harry last night was arguing with me for deducting fifteen per cent cent at the source from everyone's payroll. I said, "Harry, I thought that you were opposed to forced saving." He said, "Oh, I only was opposed to it when I didn't think it would be effective."

White: Are you sure the joke is on me? (Laughter).

H.M.Jr: For the moment.

White: I still think I am right.

H.M.Jr: I think it is on you.

Sullivan: You had better not put it to a vote.

H.M.Jr: Ed thinks it is on you.

Barnard: I have the reports on Procurement. They show pretty good improvement in the last six weeks, and pretty good efficiency except on special metals and on machinery.

H.M.Jr: Do you mind explaining those to me at eleven o'clock? I think George had better come in, too. Do you suppose you could get Mack over here at eleven?

Barnard: Yes, I think so.

H.M.Jr: I would like to go over those with you and Haas and Mack.

Anything else?

Barnard: That is all.

H.M.Jr: Roy?

Blough: I believe not.

H.M.Jr: Make up your mind, Roy (laughter).

Kuhn: A hundred things, but none of them important.

Foley: You look surprised.

H.M.Jr: Take the cushion out of that seat and give him a little more room.

Morris: It is out.

Kuhn: I have nothing.

Morris: I had a very good trip, and I had some very interesting thoughts on the question of the paper, "Know your Taxes", (handing cartoon to the Secretary).

H.M.Jr: I will see you. You ask for an appointment.

Morris: All right.

Sullivan: Mr. Anderson and Mr. Evans got here from Chicago this morning. Do you want to see them?

H.M.Jr: I will tell you, when Mr. Barnard is through - has somebody received them?

Sullivan: They came to my office just as I was leaving for the nine thirty meeting, and they are still waiting. It is too bad I didn't have a chance to start them going. I am going to work on them as soon as we get out of this meeting.

H.M.Jr: When Barnard is through reporting at eleven, I will ask them to come in and I will have a little talk with them myself. But they are there waiting?

Sullivan: They are in my office, yes, sir.

H.M.Jr: Will you remind me, Barnard?

Barnard: Yes.

Sullivan: I am wondering if we shouldn't have some talks with Mr. Doughton and Senator George and find out whether they are going to take this recess, and whether or not --

H.M.Jr: I saw that whole statement of Doughton's in in the paper. I didn't know whether it had anything to do with your going on the Hill or not. It followed your going on the Hill.

Sullivan: No. I told you about my conversation with John McCormack and Sam Rayburn. Then the boys up on the Hill began to let it leak out they thought they were going to have a recess.

George Bryant went to Mr. Doughton and Doughton said "No", that he hadn't asked that this be postponed. Then I understand that Senator George became very much disturbed and went to see Doughton because he wants this Administrative bill in this fall.

H.M.Jr: Well, John, I have hopes that Bernard and the group that is working with him will have something for me in a few days, and then if we do, I will be in a much better position to talk. I would like to wait for a few days and then I hope I know where I am at.

Sullivan: I realize that it is going to be a lot easier if you know which thing you want to do, but I think we have to talk with them before the end of the week, or we may lose out.

H.M.Jr: We have to. I have to know which way I am going before the end of the week.

Sullivan: Congressman Gore has a profit limiting bill similar to the one that Vinson introduced, and they asked for reports on both of those, and in accordance with our previous conversation, I told them that we didn't want to make up our minds or take a position until we saw what was in the report the Vinson investigating committee was turning in. He said he would like very much to have a temporary, tentative report, and I said we didn't like to do that, because we might be obliged to reverse our position when we learned the facts. He might speak to you about it.

H.M.Jr: Let's just sit tight for a day or two.

Sullivan: Right. That is all I have to report.

Foley: Here is a little memorandum from Louchheim of the SEC on the effect of the modification of general license number nine, speculation of commodities.

H.M.Jr: What does it say?

Foley: Well, he says it is a good thing to do, and it caused the market to sag a little bit on Saturday, but on the whole there was trading in commodities on the part of these people, and it was a good thing to shut it off.

H.M.Jr: Well, you are investigating --

Foley: I wanted to know whether or not it would be all right for Joe to talk to some of the people at the SEC.

H.M.Jr: Sure. But I want those grain houses, foreign grain houses, investigated.

Foley: Oh.

H.M.Jr: Promptly.

Foley: Yes. And then pursuing the same idea a little farther, as to how to take speculation out of the whole business.

H.M.Jr: But will you move fast on those grain houses?

Foley: Yes, that havethe general license.

H.M.Jr: The only paper I saw was the Tribune, that had a story.

Foley: It was all right.

Kuhn: The Post had it, Mr. Secretary, and the Times had it, I think.

H.M.Jr: It was all right, wasn't it?

Kuhn: Very inconspicuous, but it was all right.

Schwarz: The Star yesterday had a story that it had hit the market Saturday.

H.M.Jr: Hit the market in what?

Schwartz: That the market had declined.

H.M.Jr: In commodities?

Schwarz: Yes.

H.M.Jr: Take a look at it, George, and see how much.

Haas: There were some other factors in the thing. The Wall Street Journal wrote it up as one of the factors.

Foley: These letters that have come in in reply to your general letter to all the banks.

H.M.Jr: Yes.

Foley: We would like to handle it this way. The replies from the secretaries of state banking associations that require attention, the answers to be prepared for my signature, the replies to the letters from the presidents of the banks that require attention, for John's signature, and then we would like to turn all the letters over to Merillat if Merillat is available.

H.M. Jr: Tell Thompson about it. I don't want to be bothered with it.

Foley: All right.

H.M.Jr: Just clear it with Norman Thompson. Whatever you fellows decide. Is that right?

Klotz: Yes.

H.M.Jr: I don't want to be bothered with it.

He is doing the mail investigation and this comes right in it. I turned Merillat over to you.

Foley: I haven't got him yet.

H.M.Jr: It is not my fault.

Foley: That is one of the reasons I am bringing it up here.

H.M.Jr: I said Merillat was yours a week or ten days ago.

Kuhn: As soon as he could be replaced. I am trying to replace him. Ed has got him three days a week, anyway.

Bell: Friday, Saturday, and Sunday (laughter).

Foley: John Pehle says, "I should appreciate your advice as to whether Mr. Merillat is available for this work."

H.M.Jr: I simply said yes that he was yours the next day.

Foley: I have got him with a mortgage (laughter). I haven't got clear title.

Sullivan: Is he still on my payroll? They took him from me in the first place. This is very amusing to see them fighting over him.

H.M.Jr: All right, what else, Ed?

Foley: That is all.

H.M.Jr: I go back to say, Ferdie said you could have him.

Foley: That is what I thought too, but then Ferdie lost another man and he wasn't able to replace him, and he has hung on to him. I don't blame Ferdie, but --

Kuhn: As soon as I can get somebody who can do those letters.

Foley: We will use him if we only can get him.

H.M.Jr: Ferdie will give you an appointment and you can talk it over. What else?

Foley: Here is a memorandum on the conversation Paul Shorb had with Kades on this unemployment compensation plan. Apparently Colt talked to Pratt and Whitney. Pratt and Whitney want to know all about it and want a ruling. Chuck told them that we didn't have any Colt plan and if they wanted a ruling they had better submit something, so Shorb is apparently going to get some plan together and get a ruling. He said Ferguson of Colt had talked to him about it.

Gaston: You asked me about the future of Coast Guard in connection with the Navy. That has all been worke d out some time ago. It is known in the Coast Guard as Plan one. All that is necessary to do to put it into effect is sending a message, "Plan one acknowledged." In general, it provides for the operation as a bureau somewhat similar to the Marine Corps. However, the local areas will be under the command of the Navy Commander, District Commander, as to certain functions and supply and personnel and so on.

H.M.Jr: Would you and Waesche come up tomorrow and explain it to me?

Gaston: Yes.

H.M.Jr: It has never been explained. Would you ask Fitz outside?

Gaston: Yes.

H.M.Jr: I have never seen it. I would like Norman Thompson to see it. It was never cleared with me.

Gaston: Well, of course the Navy - if that happens it is entirely within the Navy's power to do just as they please.

H.M.Jr: No, it is up to the President of the United States. I thought we had a plan where we were going to keep Waesche here and keep the Great Lakes and the inshore stuff and everything else. That was the last I heard, that it would be taken and reassigned back to us. That was what the President said he wanted.

Gaston: I didn't understand that to be true in case of war.

H.M.Jr: Oh, yes, sure, that he would take it and then we had a legal ruling that the President could reassign it, and there was something like that during the world war. Some bureau was reassigned back by Wilson, wasn't it?

Foley: Yes.

H.M.Jr: Don't you remember something about that?

Foley: Yes, I remember it now.

H.M.Jr: I mean, I have made this fight for nine years for Coast Guard and I thought that was the understanding, that they would take it and then the President - that is what the President has in mind, that he would give it back. I had never heard of a plan one.

I will get this stuff to you people about Stimson. I don't want to stop now. I will give you some notes on it.

Foley: All right.

TREASURY DEPARTMENT

WASHINGTON

October 27, 1941

MEMORANDUM FOR THE SECRETARY:

I talked this morning with Mr. Wait, in Florida, about Karl Richards who is working for Mr. Haas in Seattle.

Mr. Wait gave Mr. Richards a clean bill of health in every particular.

I am arranging to have Mr. Richards transferred from the Customs Service to the Defense Savings Staff at Seattle for the duration of the emergency.

GRAVES

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE October 27, 1941

TO Secretary Morgenthau

FROM Mr. Thompson

I have placed Mr. Larson, one of our trouble shooters, in Chick Schwarz' office with instructions to so organize the work that it may flow effectively. I am also assigning to the office William L. Lynch, an experienced young man, to work with Mr. Larson and to become office manager when Mr. Larson completes his assignment. Lynch is a young fellow who knows how to get things done.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE 10-27-41

TO Secretary Morgenthau

FROM Mr. Schwarz

The New York Times story this morning on defense information activities of the Government listed as a Treasury information expenditure all of the $3,300,000 allotment to the Defense Savings Staff from the current fiscal year's appropriation for Expenses of Loans. This allotment covers much work that should be described as "promotional" rather than as the cost of running an "information department."

From the efforts of this staff we are getting as patriotic contributions radio, newspaper, magazine and motion picture advertising worth more than $3,000,000 a month. Moreover, when considering that the allotment is sustaining a program of more than $3,000,000,000, the cost of promotional work is running at a rate of less than 11/100 of 1 per cent. In 1918, with the nation engaged as a belligerent in the first World War, total expenses of $13,757,000 were incurred in the six-weeks campaign for the Fourth Liberty Loan, which raised almost $7,000,000,000.

The current allotment is paying for millions of posters and pamphlets which have done much to stimulate the sale of Defense Bonds and Stamps. It is also drawn upon to pay the salaries and expenses of 175 field workers, who are providing valuable contacts with banks, insurance companies, business, labor, farm and social organizations, women's groups, schools and colleges, etc. While a small part of their time is devoted to delivering speeches on the Defense Savings program, they must give considerable attention to practical sales work and to developing the actual mechanics of payroll allotment plans for workers in industry and business and systematic savings arrangements for others.

October 27, 1941
10:57 a.m.

HMJr: That's marvelous.

Grace Tully: (Laughs)

HMJr: How much did he cough up?

T: Yes, sir, he did.

HMJr: How much?

T: He coughed up plenty.

HMJr: Five hundred?

T: Yeah.

HMJr: What?

T: Five hundred for Townsend and a hundred and fifty to Killmer; of course, that's the Hyde Park local thing - the other is the Democratic - Dutchess County Democratic Committee. Five hundred.

HMJr: Yeah, that's what he - five hundred to.....

T: Townsend.

HMJr: And a hundred and fifty in his district?

T: Yeah. He gave it to Killmer - a hundred and fifty.

HMJr: I never could - I just hate to do it - it's just the most wasteful money I spend.

T: Well, maybe it shows results, I don't know.

HMJr: Well, I've never seen any yet.

T: No, you never see them really very much. I said, "Oh, you don't have to give all that." And he said, "Yes, I always do." (Laughs)

HMJr:	Well, I think - well, I'll give them six fifty, but whether I give them a hundred and fifty in my town, I don't know.
T:	Uh huh.
HMJr:	It's the most wasteful money, but we'll do it today, anyway.
T:	All right, fine.
HMJr:	Now, that appointment for tomorrow.....
T:	Yeah.
HMJr:	.....did that include Stacy May?
T:	Yes, sir.
HMJr:	It does.
T:	You and Stacy May and Harry Hopkins and the President.
HMJr:	Right.
T:	That's as you suggested and as he said would be all right.
HMJr:	Right.
T:	And I sent a memo to Harry saying that he was expected.
HMJr:	Now, one other thing that you might tell the President when he's alone.
T:	Yes, sir.
HMJr:	He asked me the other day about two people.
T:	Yes.
HMJr:	One of them was Donald Nelson.
T:	Yes.

HMJr: And you might say to him that from personal experience that I've had with Donald Nelson, he just will not stand up under fire.

T: Uh huh.

HMJr: Under - or put under pressure.

T: Yeah.

HMJr: He seems sort of doubtful.

T: Uh huh.

HMJr: You've got somebody in your room, huh?

T: No, no. No, I haven't. I know what I'm saying.

HMJr: You're surprised at what I'm saying?

T: Yes, I am a little, uh huh.

HMJr: Well, so I gathered, but.....

T: It's.....

HMJr: What?

T: .....never been my impression is the only reason why I picture him.....

HMJr: Well.....

T: .....but I don't know a great deal about it.

HMJr: Well, under pressure he'll not stand up.

T: Uh huh.

HMJr: And this is not heresay.

T: Uh huh.

HMJr: Now he asked me about one other person. I haven't had a chance.

T: I see.

HMJr: But I'd like - this is terribly confidential.....

T: Yes.

HMJr: See?

T: Yes, I know it.

HMJr: What?

T: Yeah.

HMJr: So sometime when you're alone with him, and if he wants to ask me what I mean, he can ask me.

T: Yes, sir. All right, fine.

HMJr: I didn't want to say it in front of anybody else.

T: No. All right, fine.

HMJr: You will tell him that, won't you?

T: Indeed I will.

HMJr: And you will keep it confidential?

T: Yes, sir. All right, sir, I will.

HMJr: Thank you.

T: All right.

October 27, 1941
12:00 Noon

HMJr: I have something here, and I didn't know whether you could just pick it up or not to bring it over at one o'clock. I wondered - have you a pencil?

Stacy May: Yes.

HMJr: .....whether your office knows (1) what is the total production of aluminum and magnesium in this country at present.

M: Yes, we have it.

HMJr: How much of it is needed for the airplane industry - that's planes ~~and~~ engines - what do they need?

M: Yes.

HMJr: And what at present goes for other purposes than airplanes or engines.

M: Yes.

HMJr: And how much is the airplane and the engine production at present retarded due to the shortage of aluminum and magnesium.

M: All right, sir. I'll bring it all over.

HMJr: Wonderful. What a man!

M: (Laughs)

HMJr: And.....

M: The last one is the sketchier one, sir, but I can bring you substantially that story.

HMJr: And I thought we'd have a little dress rehearsal at lunch. You're included in this nine-thirty tomorrow morning.

M: At nine-thirty. Fine, sir.

HMJr: Just Hopkins, you and I.

M: Oh, that's grand, sir.

HMJr: Yes.

M: Fine.

HMJr: Right.

M: Good-bye.

October 27, 1941
2:55 p.m.

HMJr: Hello.

Operator: Mr. Pehle.

HMJr: Hello.

John Pehle: Yes, Mr. Secretary.

HMJr: John, Mr. Arthur Rubinstein, the pianist, is here.

P: Uh huh.

HMJr: And he does business 57th Street in New York, Park Avenue, National City Bank.

P: Uh huh.

HMJr: And he's having some troubles, and they may have let him have the money when they shouldn't and they're worried. Now, who looks after that for you?

P: Why, I look after it myself.

HMJr: Well, now, the point is that we want to do everything we can for Mr. Rubinstein, and - let me just tell you. He's got two problems. He's got, one, as I understand it, his normal checking account is with the National City's 57th Street and Park Avenue, and then this other thing is, he wants to build a house in Los Angeles.

P: Uh huh.

HMJr: It's practically finished. (Talks aside) Is it paid for? Well, then what are you worrying about?

He wants money to live on.

P: That doesn't sound like any problem.

HMJr: Now, that's what he is - he's an alien here with a quota.

P: Yeah.

HMJr: Now, let me just find out. (Talks aside)

Well, John, if I sent Mr. Rubinstein over, what time could you see him and let's settle it this afternoon. He's leaving town at eleven tonight.

P: Well, if he comes over right now I'll see him.

HMJr: He's to come right over now?

P: That's right.

HMJr: And fix him up so he doesn't worry, so he can go ahead and play the piano.....

P: Right.

HMJr: .....and not have any worries, and live on the money he earns here.

P: That's right.

HMJr: See? He shouldn't be worried.

P: No, there won't be any problem about that.

HMJr: No problem?

P: No, sir.

HMJr: All right. Well, fix him up and when he leaves - when he gets ready to leave - let him call me from your office, because I want to hear if he's stopped worrying.

P: All right, I'll do that.

HMJr: When he gets ready to leave, put him on the phone and let me talk to him to make sure that everything is all right. Not that I doubt you, but I want to hear his voice.

P: All right. I'll do that.

HMJr: Okay?

P: Yes, sir.

HMJr: He'll be over there in ten or fifteen minutes.

P: All right.

HMJr: Thank you.

October 27, 1941
4:03 p.m.

HMJr: Mr. J. Edgar Hoover just left here.

Norman Thompson: Yes, sir.

HMJr: And he said that he doesn't want to do this investigating of OEM. He'd like us to do it.

T: I see.

HMJr: Hello.

T: Yes, sir.

HMJr: And I think strictly that whenever we run into anything that looks of a subversive nature, send the name over and he would look into it, and report to us.

T: I see.

HMJr: I told him I wanted him to do the whole thing, and he said he didn't want to.

T: Uh huh.

HMJr: I wouldn't give him an answer until I had a chance to talk to you people about it.

T: Yes.

HMJr: And he says that he has the written record of - six times he tried to get the thing from Judge McGuire and McGuire wouldn't give a clearance.

T: Well.

HMJr: Six times. And he said the Attorney General knew it at Cabinet and it didn't clear him, and looked as though he was hanging the thing up. He was unable to get it off McGuire's desk.

Well, so much for that.

T: Yes.

HMJr: Now, on the people - on the fifty-six people from the Treasury.....

T: Yes.

HMJr: .....he will examine them in a room designated by you in the Treasury.

T: I see.

HMJr: He'll not ask them to come over to his office the way he intended to.

T: I see.

HMJr: He will simply examine them - they can sign it or not, as they want to, and then the report comes to me for me to decide what to do.

T: I see.

HMJr: The decision rests entirely with me.

T: That's right.

HMJr: And then after I've decided, just to let him know.

T: Yes.

HMJr: All they're going to do is to conduct the investigation; no recommendations of any kind.

T: I see.

HMJr: What's the matter with that?

T: Well, I think that's all right.

HMJr: Well, think it over, and.....

T: I think that's all right.

HMJr: He said he cleared the whole thing with

Mr. Baldwin of the Civil Liberties Association.

T: I see.

HMJr: You might not know him, but he's Roger Baldwin. He's a great liberal.

T: Yes.

HMJr: He went over the whole thing with Roger Baldwin and Roger Baldwin's approved the whole plan.

T: Well, I can't see any great objection to that.

HMJr: No fining, and only in the cases where they're sure that there's something, and they'll conduct the investigation in a room in the Treasury after office hours so that nobody will be disturbed or excited or persecuted.

T: Well, we can arrange that, all right.

HMJr: I think it sounds fair, and after all, he has been given the job by Congress.

T: Well, I'd like to talk to Mr. Gaston and Mr. Foley and Elmer about it and let us see how we feel about it.

HMJr: Righto.

T: All right, sir.

October 27, 1941.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston

Norman Thompson has told me of your conversation with J. Edgar Hoover on the matter of character investigations of Defense candidates. It seems to me that it is strictly up to Justice to make the next move. The situation is that an order is lying on the President's desk, written by McReynolds at the request of Ugo Carusi, as representative of the Attorney General, asking that the investigations be transferred back to F.B.I. If Justice now desires a different action, it seems to me that it is up to the Attorney General to inform the President.

The job is very much heavier than we counted on when we took over the work. We were told that there would be about 4,000 investigations. We have already reported on approximately that number and there are an equal number pending for investigation. We were for a brief time this summer disposing of cases as rapidly as they came in, but recently they have been coming in at the rate of approximately 400 a week (for the last six weeks) and we are handling them at the rate of 125 a week. We have 80 agents and 25 clerks on the job. We understand that O.E.M. is holding back 500 cases while waiting to see whether the work is switched to F.B.I. It is obvious that we shall have to double our crew and in addition get money in much more substantial amounts from O.E.M., but I don't think we ought to try to beg off, even though the dimensions of the job were greatly under-estimated at the start. That we should have expected.

HG.

October 27, 1941
4:20 p.m.

HMJr: Hello.

Howard Deitz: Hello, Mr. Morgenthau.

HMJr: How are you?

D: Oh, I'm all right, thank you. How are you?

HMJr: Good. I got your letter with the suggestion about the thing that was written by Hecht and McArthur.

D: Yes.

HMJr: Well, I think that any way that we could use it would be fine.

D: Yes.

HMJr: See?

D: Yes.

HMJr: Now, I had another thing that I called you up about, was this. I know that you've been terribly busy with your own affairs.....

D: Yes.

HMJr: .....and that therefore you haven't been able to give us as much time on either.....

D: As I'd like to.

HMJr: .....the radio or movies.

D: Yes.

HMJr: And I just wanted to first - how you felt the radio program was coming along.

D: Well, I thought it started off on the NBC pretty badly.

HMJr: Yes.

D: And I think it's picking us now.

HMJr: You do.

D: I think last week would have been a great program if it hadn't been for a series of unfortunate mechanical things.

HMJr: Yes.

D: Sometimes they are a little beyond our control, but the effort was good there; and it was an almost.....

HMJr: Well, are you going to.....

D: .....very great program. I mean, Secretary Knox spoke more than we figured on.

HMJr: That's right.

D: It threw us, you know, a little askew; and then this stuff coming in from London - you can't quite figure what you're going to get.

HMJr: No.

D: But, it was a distinguished program. And I think this - I think tonight - tomorrow night is going to be very good.

HMJr: Yeah.

Well, now, are you going to be able to give us much time from now on?

D: Well, it's - frankly, I'll try to give it as much as I can.

HMJr: Yeah.

D: I don't neglect that we've got a set-up there. Have you anything in mind? I mean, anything you think of is.....

HMJr: Well, the only thing that I have in mind was this. They've suggested that we get an additional person to help out. This man Murray. I don't know who he is.

D: We're agreeable on that. I mean, there's no - I have no personal feeling about it at all.

HMJr: Well, do you think he's good?

D: Think who?

HMJr: Murray.

D: Oh, Bill Murray?

HMJr: Yes.

D: Well, I think he's very good. The only trouble - thing about Bill Murray is, he's not exactly thinking of our angle all the time.

HMJr: He's not.

D: He's a damn good worker though. I mean, it was a great help in our first program when I got him.

HMJr: Well, you see, after all, my arrangement is personal between you and me; and I don't want to make any major change without talking to you.

D: Yes, I understand that.

HMJr: Because you've done a swell job and I greatly appreciate what you've done.

D: Well, I tell you frankly. I mean, some times- I mean, this is my own estimate - some times I've done a very good job, sometimes I haven't; and some times circumstances have combined to make it difficult for me to do exactly what I wanted to do; but I think on this program, our problem is not very much a problem of talent, it's a problem of deciding what we want to do.

HMJr: Yes.

D: If we knew very clearly what we wanted to do at all times, we could go boldly ahead in doing it.

HMJr: Yes.

D: For instance, there's almost nobody in the talented field that we cannot get.

HMJr: That's right.

D: With the proper approach.

HMJr: That's right.

D: But - and I don't think - take Bill Murray - I think he's a great help to us in getting the talent and I'm glad to have him. On the other hand, what we need is a decision as to what is to be said in this program.

HMJr: Yes.

D: Now, we're going along on the borderline of everything.....

HMJr: Yes.

D: .....never quite knowing what we want, whether we want to dig up something out of past American patriotism, whether we want to inspire the Athenians into something. We don't quite - we're not quite sure of ourselves. But we're going ahead and giving it entertainment and throwing in a commercial here and there, and it comes over sometimes distinguished, sometimes a little emasculated, sometimes we don't know what.

HMJr: Yeah.

D: Now, I would like to see - if we had somebody who was important in the program, and I'd like it very much, I'd like to see them come to us with something that told us what to do.

HMJr: Yeah.

D: I - I mean, I'm not saying that - I am not admitting defeat.....

HMJr: Yeah.

D: .....but what I am saying, we have been doing it now for about 18 or 19 weeks.....

HMJr: Yeah.

D: .....and constantly, you know, like beating the sheriff to the program.

HMJr: Yeah.

D: It's a very luxurious thing to be able to sit back and think what you're going to do.

HMJr: Yeah.

D: It's another thing to say, "Well, next week is next week."

HMJr: Yeah.

D: Now, I would like - I mean, what I'd like to see is somebody analyze the shortcomings of the program in terms of what they want. I think that, for instance, when you say, Bill Murray, I'm delighted; I think we should have Bill Murray. I think we should have everybody.

HMJr: Yeah.

D: But when you're talking about something more than that, which is a sort of a directing force, which I can be, but which I cannot be all the time, then you're stating the problem.

HMJr: Well, do I.....

D: I hope I've expressed myself so that you understand.

HMJr: When will you be back?

D: I'll be back in about ten days.

HMJr: Well, suppose.....

D: It can wait until then.

HMJr: Of course, it can.

D: And it's a long pull. Suppose I come to Washington on my return.

HMJr: That's what I'd like you to do, and then we could spend an evening together.

D: And have an over-all discussion of it.

HMJr: That's right.

D: And let's also list what we want to do in the future.

HMJr: That's right.

D: And I think that would be very fine.

HMJr: Could I throw out little suggestions like Gertrude Lawrence and having other plays in New York which I think were good?

D: Well, I did throw a little wrench in that, because it's a complication of unions and everything.

HMJr: Yes.

D: And costly. It's very costly to have it wired backstage. Also, we cannot get the individual player to work with the other people on our program, because they are isolated in a theater.

HMJr: Yes. But they are going to try to ....

D: We've even now got Gertrude Lawrence now coming to the broadcasts at last. That means she can talk to Boyer.

HMJr: Is she coming?

D: Yes.

HMJr: Oh, I thought she was going to do it from the theatre.

D: Well, they decided that it would be impractical. They had to move pianos onto the stage.

HMJr: Oh, I see.

D: And other things like that before the audience starts to come in.

HMJr: Oh, I see. Well, that's just a minor detail. Now, let me ask you and then....

D: Well, they're all minor. The only objections to it are minor details.

HMJr: Yeah. The point is - you're quite right. It can wait until you come back. If you'll let me know when you come back by Washington, we'll have an evening together.

D: Well, that's very nice, and I'll tell you exactly when I'm returning.

HMJr: Will you?

D: Yes.

HMJr: Now the other thing.....

D: I only arrived just this minute, so I can't be definite.

HMJr: Well, that's all right. Now the other thing is, I've put in a call for New York; and then the other thing is - which I've been trying to get - is this - the movie industry hasn't given us another good movie on the bonds for a long time.

D: That's what I was going to talk to you about.

HMJr: And I want something.

D: Well, that's - what do you think of taking that McArthur thing and dramatizing it. It could make quite a good little short, I think. At least I was going to talk it up with the people here who are our introduction.

HMJr: I'm not.....

D: You aren't enthusiastic.

HMJr: No, no. I don't think I - my wife can take a play and read it and get something out of it. I can't.

D: Yes, I see what you mean.

HMJr: I mean, it's a technique which I don't have and I know it.

D: Well, actually we're going ahead and making the short.

HMJr: Yes.

D: And I'll have something to show you very soon.

HMJr: Good.

D: That's the best way to do this.

HMJr: Well, I'm going to leave it to the industry to give me something else to follow up that other - that picture "America Preferred."

D: Good. Okay, well, you'll have something.

HMJr:	And I want something if I can fairly soon.
D:	You'll have something very soon.
HMJr:	And that was the purpose of my call.
D:	That's - all right, fine. And good wishes.
HMJr:	Thank you.
D:	Righto.
HMJr:	Good-bye.
D:	Good-bye.

TREASURY DEPARTMENT 226

INTER OFFICE COMMUNICATION

DATE October 27, 1941

TO Secretary Morgenthau

FROM Vincent F. Callahan

I have made sure that there will be no duplications of the songs sung by Gertrude Lawrence and Hildegarde.

Gertrude Lawrence is singing only one number, "Jenny". Because of the time element, she will be unable to sing the other song you requested.

Vincent F. Callahan

TREASURY DEPARTMENT

226

INTER OFFICE COMMUNICATION

DATE October 27, 1941

TO Secretary Morgenthau

FROM Vincent F. Callahan

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Gertrude Lawrence is singing only one number, "Jenny". Because of the time element, she will be unable to sing the other song you requested.

Vincent F. Callahan

October 27, 1941
4:35 p.m.

HMJr: Hello.

Arthur Rubinstein: Mr. Secretary, here is Rubinstein again.

HMJr: Yes, Mr. Rubinstein.

R: I couldn't telephone you before because you were busy, but I must thank you from all my heart for your enormous kindness.

HMJr: Yes. Are you all right?

R: Wonderful.

HMJr: Good.

R: Everything is perfectly well settled, and I'm so much more obliged for my poor banker friend.

HMJr: And you can go ahead and play now?

R: Yes, I think I can again.

HMJr: Fine.

R: And thank you once more, very, very much; and please count me absolutely as your - whatever you like to use me for, for your bonds and anything you want.

HMJr: Thank you so much.

R: Please count on me.

HMJr: Thanks.

R: Thank you very much, Mr. Secretary.

HMJr: Good-bye.

R: Good-bye.

October 27, 1941

Dear Frank:

This is just to tell you how much we all appreciated your fine talk on our radio program, and also the stirring music of your band.

You were more than generous in helping to make our program a success, and all of us are deeply grateful.

Sincerely,

(Signed) Henry

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

FK/cgk

copies to Thompson
D.M.C.

October 27, 1941

My dear Mr. Kern:

I was delighted to receive your letter of October 25th and to learn that you are making such good progress. I am anxiously looking forward to receiving the phonographic recording of your song.

You might be interested to know that working with musicians like yourself and Oscar Hammerstein is one of the few cheerful, encouraging moments in my day.

Yours sincerely,
(Signed) H. Morgenthau, Jr.

Mr. Jerome Kern,
917 North Whittier Drive,
Beverly Hills, California.

P. S. I hope you will send the record by air mail express.

Air Mail

H.M.C.

JEROME KERN

917 North Whittier Drive
Beverly Hills, California

October 25, 1941

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

Dear Mr. Morgenthau:

Your generous wire of the 21st must have been the spur and incentive we needed, for I now hasten ~~to~~ report definite progress, even though Oscar Hammerstein's and my collaboration is conducted over the long distance telephone.

Rather than to just send you a pianoforte copy with words, which, no matter how carefully marked, might easily become the innocent victim of a false interpretation at your end, I think it better to prepare a simple orchestral accompaniment and make a recording of a good vocalist, coached and rehearsed by yours truly, and then send you a record which you may play on any ordinary, household phonograph, and thereby get a good, lucid idea of what we proffer.

To this end, I already have had a session with Tony Martin, the well-known, highly gifted baritone, who, I am glad to say, is most enthusiastic over what we have so far accomplished. All being well, we should have a complete song by Monday, and I already have pencilled in a recording date for either Tuesday or Wednesday next. This means that a record should reach you before the end of next week, the week of October 27th.

All concerned are proud of and grateful for the opportunity to serve.

Yours sincerely,

Jerome Kern

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

231

DATE October 27, 1941

TO Secretary Morgenthau

FROM Vincent F. Callahan

We are asking Emanuel Feuermann, a German, who is appearing on "America Preferred", Thursday night, November 6, to speak in both English and German. We will ask artists on succeeding programs to do the same thing. In some instances, the artists have told us that they do not wish to speak at all. I am telling you this because you will realize that these people are volunteers and all we can do is simply make a request of them.

The change in day for the "America Preferred" program came after our weekly advance sheet had been set up. Such changes occur very often, and it is not possible for us to keep the advance sheet 100 per cent accurate.

"America Preferred" has been changed from Saturday to Thursday night at the request of Mutual. This came about because of new commercial programs going on Mutual on Saturday night, and there was no room left for "America Preferred".

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

232

DATE October 27, 1941

TO Secretary Morgenthau

FROM Vincent F. Callahan

I think that the Thursday night time is much better than Saturday because I believe we will have a much bigger audience. In any event, the change was beyond our control.

Deems Taylor will continue to be Master of Ceremonies.

Vincent F. Callahan

✓

DEFENSE SAVINGS STAFF

TREASURY DEPARTMENT

WASHINGTON

October 27 1941

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

Dear Mr. Secretary:

Ferdinand Kuhn has informed me that you were kind enough to send a bound copy of my poem, "The Rhyme of the BB-66," to President Roosevelt. I cannot tell you how thrilled I am that you thought my slight work worthy of such notice.

It has been a privilege to be called upon to do this work, and to receive such recognition is an unexpected double recompense.

Please accept my sincere gratitude for your kindness.

Respectfully yours,

Herman Wouk

Herman Wouk

HW:HS

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 27, 1941

TO Secretary Morgenthau

FROM Mr. Haas

Employment under the Work Projects Administration increased from 1,037,000 to 1,040,000 persons during the week ended October 15, 1941.

Attachments

WORK PROJECTS ADMINISTRATION
Number of Workers Employed - Weekly
United States

Week ending 1941	Number of Workers (In thousands)
March 5	1,806
March 12	1,764
March 19	1,736
March 26	1,708
April 2	1,662
April 9	1,634
April 16	1,607
April 23	1,586
April 30	1,560
May 7	1,519
May 14	1,497
May 21	1,474
May 28	1,464
June 4	1,442
June 11	1,423
June 18	1,410
June 25	1,368
July 2	1,172
July 9	1,030
July 16	1,016
July 23	1,025
July 30	1,036
August 6	1,041
August 13	1,042
August 20	1,043
August 27	1,045
September 3	1,043
September 10	1,037
September 17	1,035
September 24	1,033
October 1	1,032
October 8	1,037
October 15	1,040

Source: Work Projects Administration

WORK PROJECTS ADMINISTRATION
Number of Workers Employed - Monthly
United States

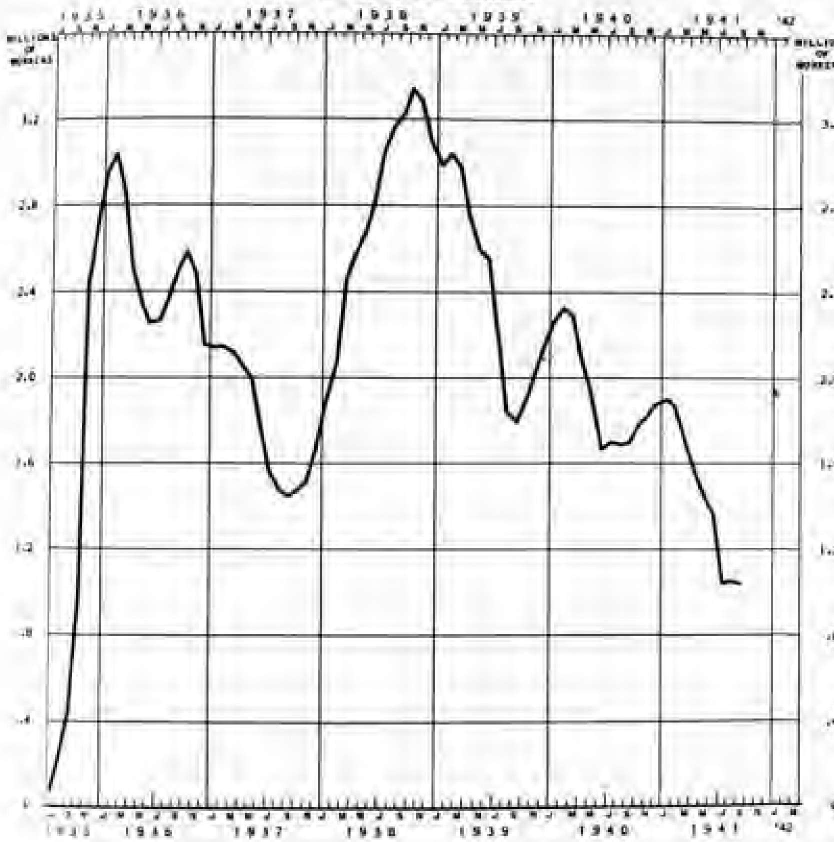
	Number of Workers (In thousands)
1939	
January	2,986
February	3,043
March	2,980
April	2,751
May	2,600
June	2,551
July	2,200
August	1,842
September	1,790
October	1,902
November	2,024
December	2,152
1940	
January	2,266
February	2,324
March	2,288
April	2,092
May	1,926
June	1,665
July	1,701
August	1,691
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

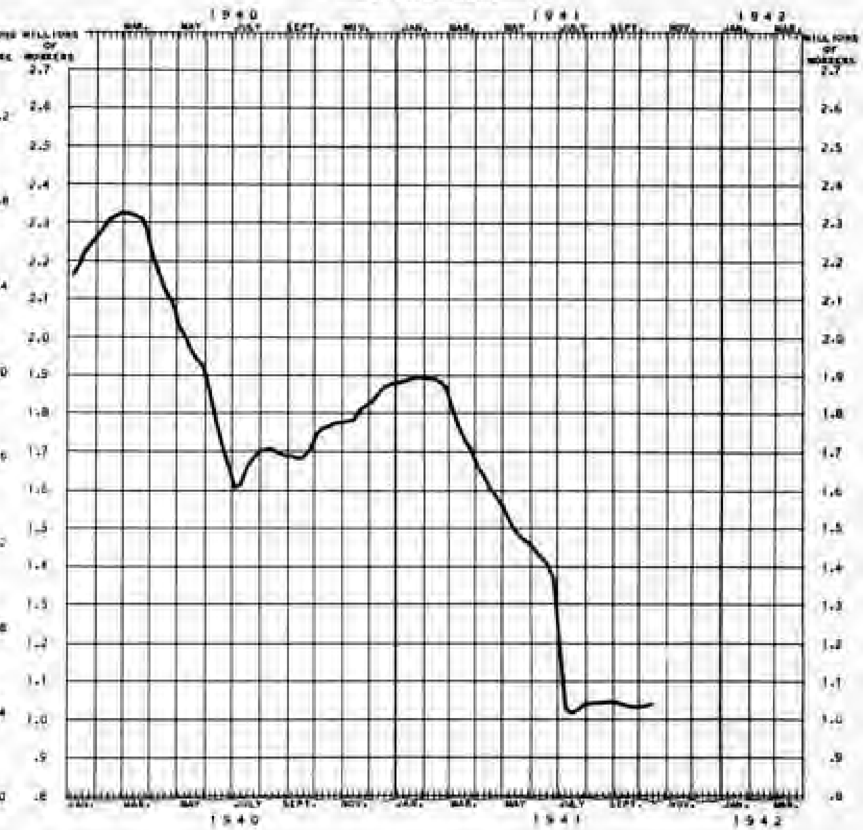
Source: Work Projects Administration

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.

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

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TREASURY DEPARTMENT 237

INTER OFFICE COMMUNICATION CONFIDENTIAL

DATE October 27, 1941

TO Secretary Morgenthau

FROM Mr. Haas

Subject: The Business Situation,
Week ending October 25, 1941.

Summary

(1) Basic commodity prices last week rallied sharply from the previous week's severe decline, strongly influenced by proposed legislation for loans on basic farm crops at 100 percent of parity, and endorsement by the Secretary of Agriculture of ceilings on farm products at not less than 110 percent of parity. Prices turned somewhat weaker Saturday on reports of Administration opposition to the 100 percent loan and on the Treasury order restricting commodity speculation with blocked funds.

(2) General commodity prices continued to advance in the week before last (ended October 18), despite the break in prices of farm products. The BLS all-commodity index in that week rose 0.1 point to 91.7, influenced by a 9 percent rise in prices of motor vehicles and by moderate price increases in a considerable number of other sub-groups.

(3) High prices of farm products have raised the cash income of farmers to $1,325,000,000 in September, or 46 percent above the previous September. This increase is even greater than the increase in factory payrolls over the same period. The rise in farm incomes is reflected in a strong increase in retail sales in rural areas.

(4) The FRB index of industrial production for September has been revised downward to 160, which places it at the same level as in July and August. Production during the month was characterized by a greater than seasonal rise in durable goods, offset by less than seasonal gains in nondurable goods and minerals.

(5) Factory employment rose further in September, according to confidential BLS figures. The employment index rose to 134.8 from 132.5 in August, and compares with 111.4 in September last year. Payrolls rose more rapidly.

- - - - -

Basic commodity prices recover

Following the previous week's severe setback, prices of agricultural commodities last week made substantial recoveries, influenced chiefly by two developments: (1) The endorsement by the Secretary of Agriculture on Tuesday of price ceilings on farm products at not less than 110 percent of parity, and (2) the approval by the House Agriculture Committee on Thursday of a bill providing for crop loans at 100 percent of parity on the five basic farm crops, to apply to crops of 1942 and 1943.

Recalling the bullish effect of the 85 percent loan legislation on prices of farm products last spring, a heavy buying movement developed in commodity futures, particularly in the grains. The Dow-Jones futures index (see Chart 1) regained fully one-half of its extreme decline from the early-September high. Spot prices of commodities, as measured by Moody's index, showed a less pronounced recovery.

The Treasury order prohibiting the use of blocked funds in futures speculation caused considerable selling in cottonseed oil on Saturday, according to trade reports, and was a factor in downturns in other commodities. A report that the President would veto the 100 percent loan bill, if passed by Congress, was also a bearish factor.

Recent decline largely in agricultural products

A breakdown of the BLS index of 28 basic commodities into the two groups, raw industrial materials and foodstuffs, shows the extent to which the recent price decline has been confined to agricultural products and foods. (See Chart 2.) It will be noted that prices of industrial materials have held practically unchanged throughout September and October, while foodstuff prices have declined sharply in the first important reaction since the long upturn began in August 1940.

Among the industrial materials, cotton was the only commodity last week to show a pronounced price rise. (See lower section of Chart 2.) Among the foodstuffs, many of which recovered from the previous week's decline, cottonseed oil and other oils and fats rose strongly in response to proposed plans for a Government buying and crop loan program to raise the price of cottonseed and its products.

BAE foresees more commodity speculation in 1942

Commenting upon the extent of recent speculation in agricultural commodities, the Bureau of Agricultural Economics mentions in its October report on demand and prices that speculative buying and withholding of commodities, which "has been an important factor in the demand for farm products in 1941", will probably become even stronger next year if the rise in the general price level continues, as is expected.

The experience of the World War period is cited, when prices of some commodities were bid up to levels considerably above those which might have been justified by demand and supply conditions, because of "artificial" speculative demand which did not represent the demand of final consumers. The BAE believes that present conditions are such that if prices were left to themselves "there is little doubt that prices in general would continue to rise rapidly and reach a point probably as high as during World War I, if not higher."

Farm income 45.9 percent over last September

The high level of agricultural prices this year has been a major factor in raising farm income in September to $1,325,000,000, or 45.9 percent over the income in September 1940. (See Chart 3, upper section.) This represents an even greater gain than the increase of 45.4 percent in total factory payrolls for the same period, mentioned below.

The rapidly rising incomes of farmers have brought a broad expansion in rural retail sales. (Lower section of Chart 3.) Sales in rural areas in August rose very sharply to 43 percent over 1940, in response to the same rush of anticipatory buying that characterized department store sales in cities. Rural sales during September rose somewhat further but showed less than a seasonal gain over the previous month.

Rise in industrial production merely seasonal

A downward revision of 1 point in the preliminary estimate of the FRB index for September reduces it to 160, the same as in July and August. (See Chart 4.) Thus, after allowance for the normal seasonal expansion which carried actual production up to a record high in September, the seasonally adjusted index held unchanged throughout the third quarter.

A greater than seasonal rise in the production of durable goods in September (see lower section of Chart 4) just offset less than seasonal gains in the output of nondurable goods and minerals. It will be noted that industries closely associated with the defense program, such as transportation equipment, machinery, etc., showed further gains, while nearly all other groups declined.

With aircraft production and shipbuilding activity rising noticeably, an even sharper gain would have been scored by the transportation equipment group if automobile production had not fallen short of the usual seasonal increase. The decline in textile output was largely due to a further sharp reduction in silk mill activity, although both cotton and rayon declined moderately. Output of fuels rose slightly less than seasonally, due partly to labor troubles at anthracite and bituminous coal mines.

Civilian copper use curtailed

Production in non-defense industries will suffer from restrictions imposed by the OPM last week on the use of copper. The OPM recently estimated that unrestricted demand for copper in 1942 would total 2,400,000 tons, as compared with an estimated supply of only 1,650,000 tons. To reduce this disparity between supply and demand, the OPM has issued an order curtailing the use of copper in non-defense industries. The use of copper, brass or bronze in nearly all civilian goods industries is reduced immediately to 60 or 70 percent of 1940 levels, and its use in more than 100 non-defense products is banned after January 1.

Factory employment continues to increase

Despite priorities unemployment in various industries, confidential preliminary figures from the Bureau of Labor Statistics show that total factory employment continued to increase in September. The index of factory employment rose 2.3 points to 134.8, which compares with 111.4 in September last year, and with only 102.5 in May 1940, at the initiation of the defense program. (See Chart 5, middle line.) The increase from the previous month, however, is less than in any of the previous 5 years except 1937.

Factory payrolls (solid line on chart) showed a larger advance than employment, since average weekly earnings per worker have increased because of higher wage rates and longer hours worked. The BLS index of factory payrolls, according to confidential data, rose to 162.3 in September from 157.0

in August. It shows a gain of 45.4 percent over September last year, and a gain of 66.0 percent since the initiation of the defense program in May 1940.

Department store sales decline further

Retail sales by department stores have declined for the second week, following their early October peak, and in the week ended October 18 the reported dollar total was only 6.5 percent higher than sales by the same stores in the corresponding week last year. This compares with a gain of 34.8 percent in the first week of the month. In physical volume, the sales were probably less than last year, since retail prices have risen 13 percent, according to the Fairchild retail price index for September.

Rise in carloadings bolsters weekly business indexes

A rise in freight carloadings to a new peak for the year at 923,000 cars bolstered weekly business indexes in the week ended October 18. Barron's index of business activity rose 1.3 points to 139.5. The New York Times index, nevertheless, declined 0.3 point to 126.2, with substantial downturns in the indexes of automobile, electric power and lumber production, and in cotton mill activity.

New orders index lower

Our weekly index of new orders for the third week of October dropped back to around recent low levels, owing to declines in orders in all three component groups. (See Chart 6.)

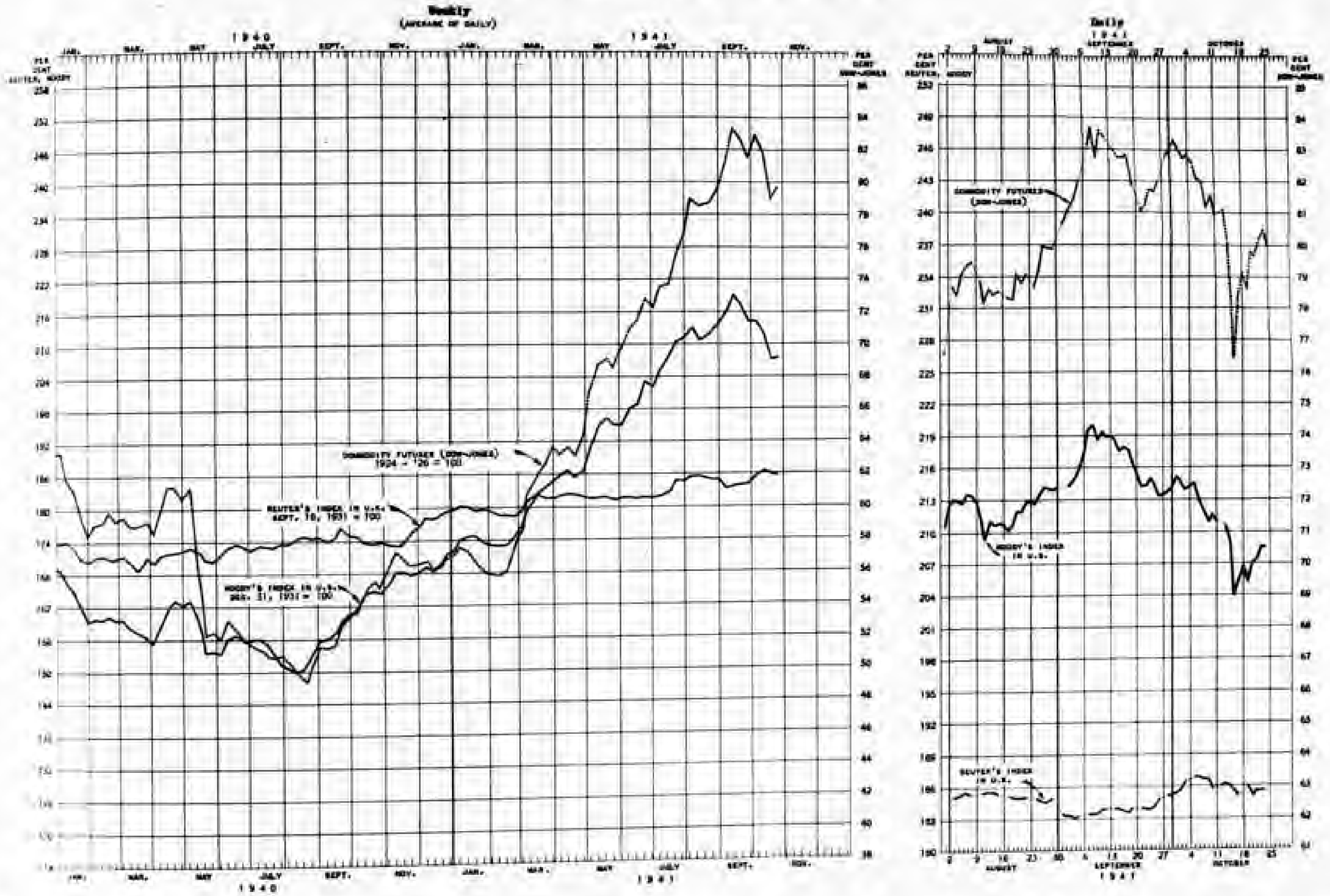
Labor troubles harass steel industry

Although steel operations last week were scheduled to show a decline of only 0.6 point to 97.8 percent of capacity, the industry continued to be plagued by sporadic labor troubles. The strike at the Great Lakes Steel Corporation continued until near the end of the week, and cut the Iron Age estimate of steel ingot production for the Detroit district to 39 percent of capacity, as compared with 107.5 percent before the strike began. Around the middle of the week, a strike at the coke by-products plant of the Sloss-Sheffield Steel and Iron Company in the Birmingham district caused a temporary shut-down of 4 blast furnaces and 2 iron ore mines. In addition, numerous other plants in the area dependent on the steel company for gas also had to close down.

This week starts with the industry rate scheduled at 99.9 percent of capacity, the highest since July 1, when operating rates were shifted to the high capacity basis. The greatest present threat is the strike of 53,000 workers in the "captive" coal mines, which supply one-half or more of the coal used by the steel industry. Trade commentators believe that unless this strike, which was put into effect this morning, is settled within the next week, it will force a severe curtailment in steel production. The steel companies affected by the strike are reported to be producing about 80 percent of the steel needed by the defense program.

Chart 1

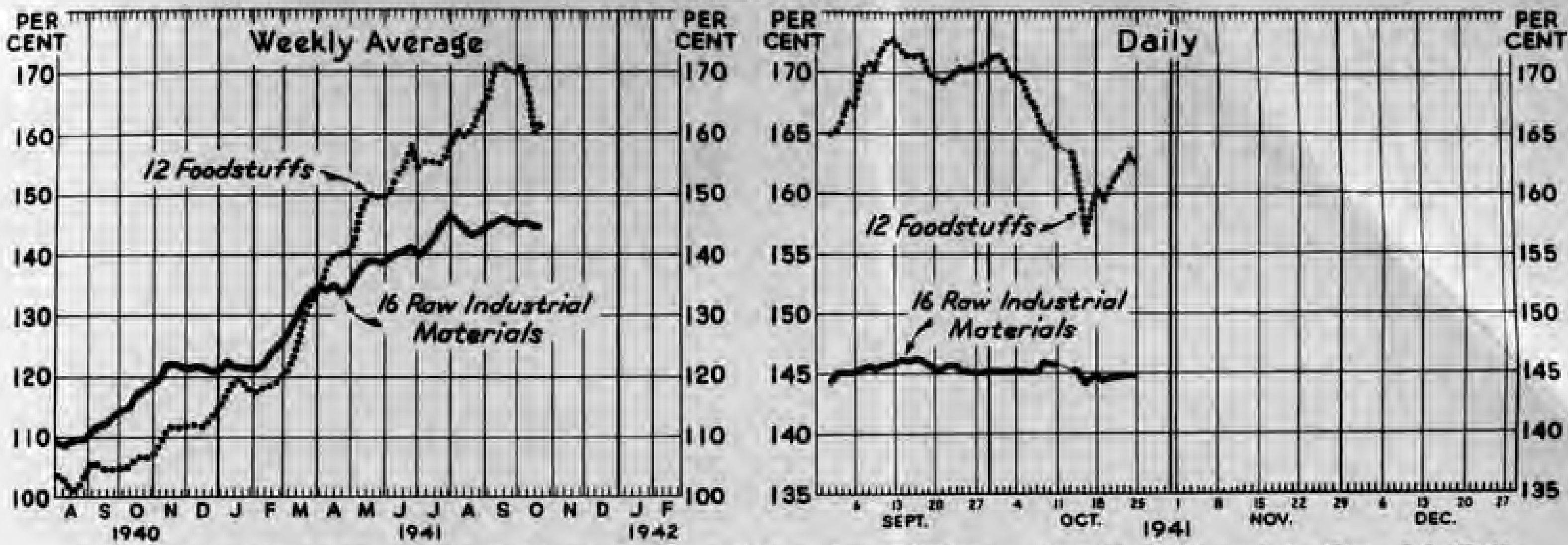
COMMODITY PRICE INDEXES IN U.S. AND U.K.



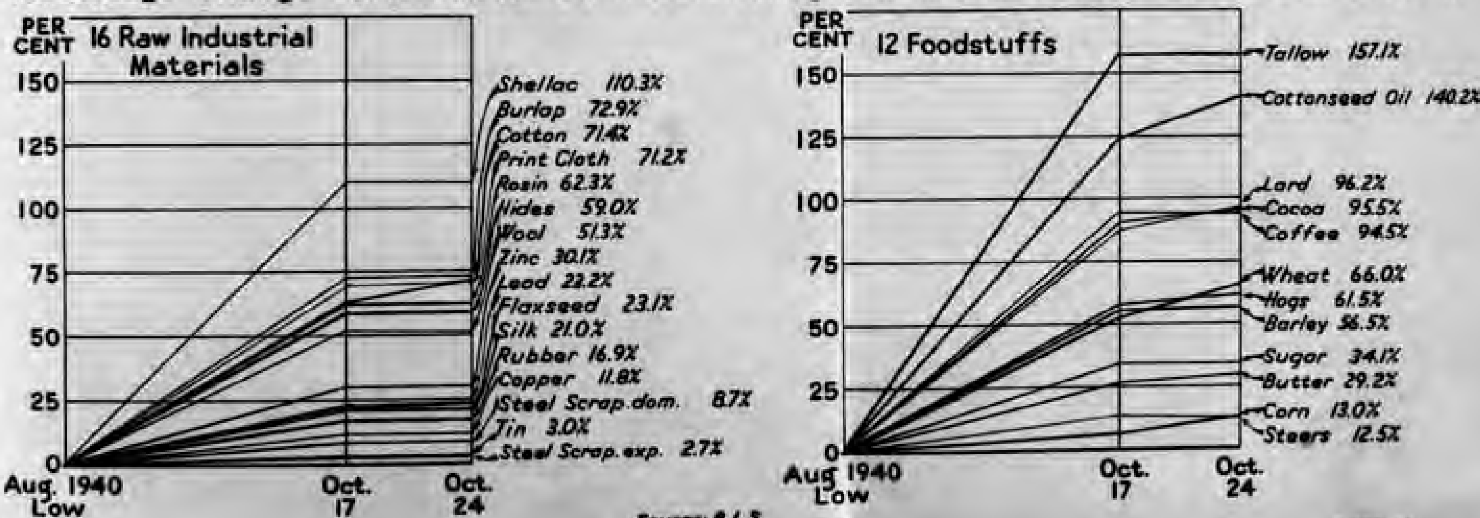
Office of the Secretary of the Treasury
Division of Research and Statistics

MOVEMENT OF BASIC COMMODITY PRICES
Raw Industrial Materials and Foodstuffs

AUGUST 1939 = 100



Percentage Change for Individual Commodities, Aug. 1940 Low to Oct. 17 and to Oct. 24, 1941



Source: B.L.S.

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

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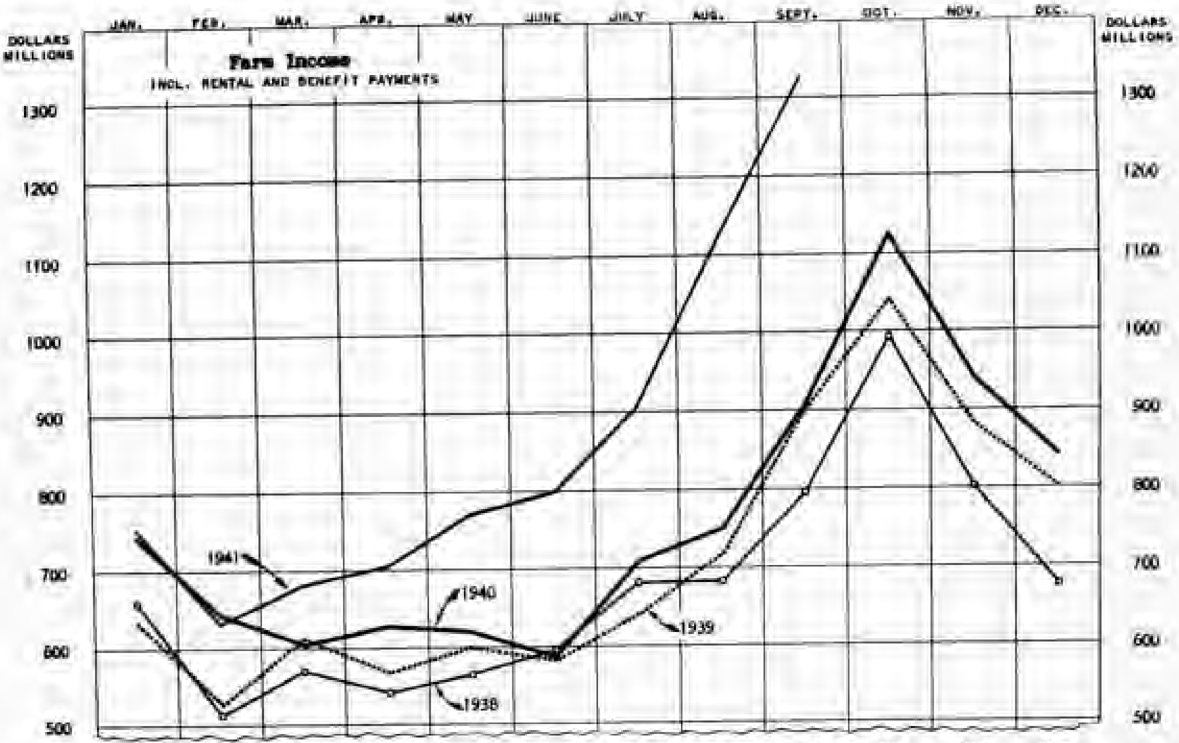
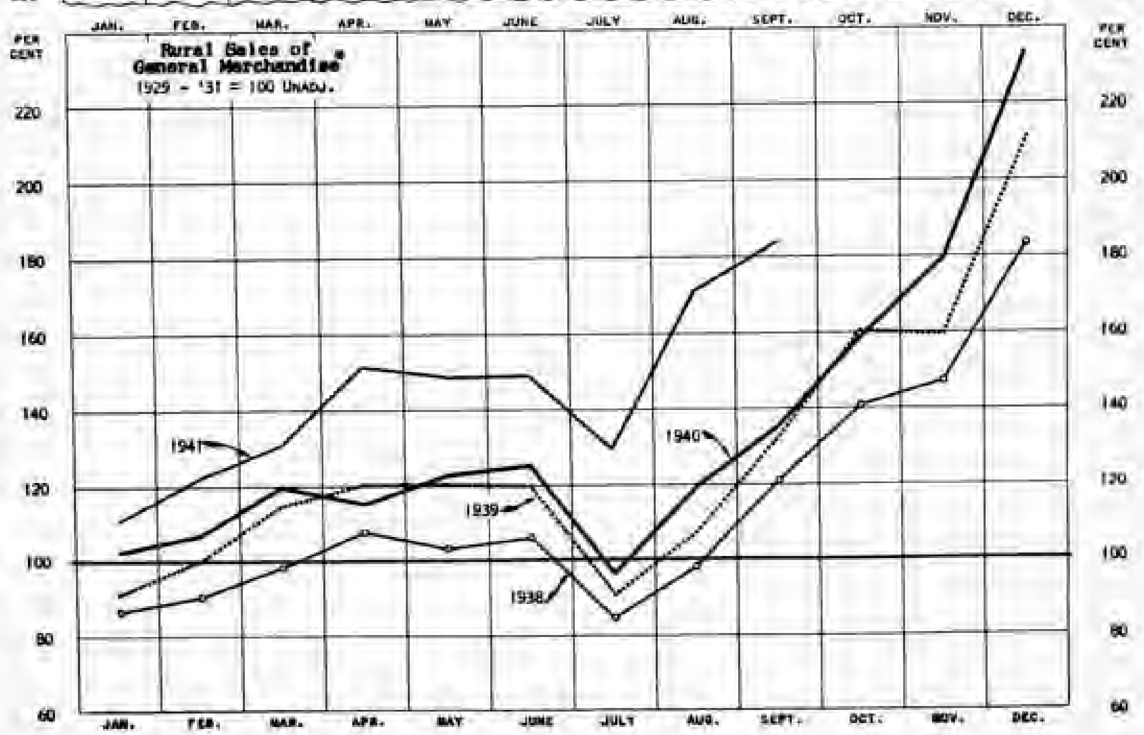
FARM INCOME AND RURAL SALES OF GENERAL MERCHANDISE





* DEPT. OF COMMERCE INDEX OF DOLLAR SALES OF GENERAL MERCHANDISE IN SMALL TOWNS AND RURAL AREAS

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

C - 273 - B

Chart 3

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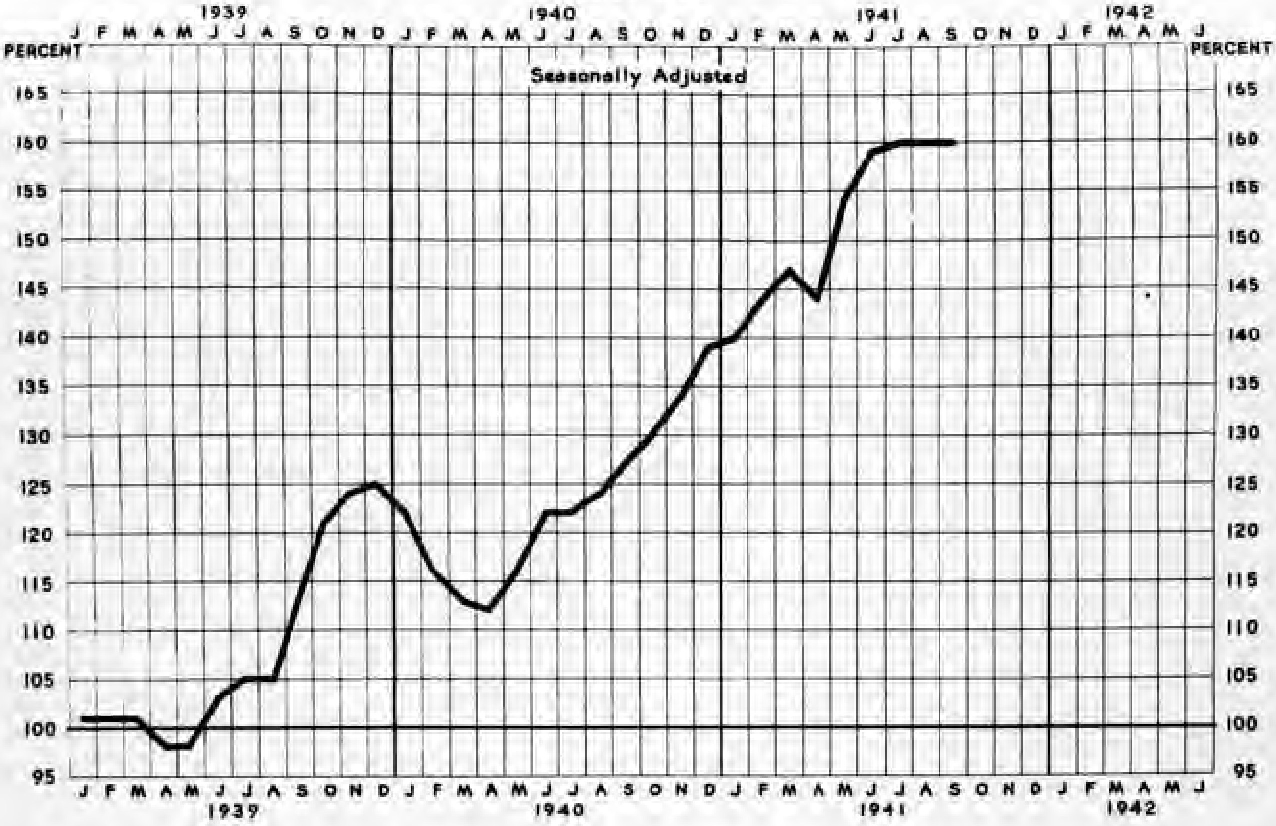
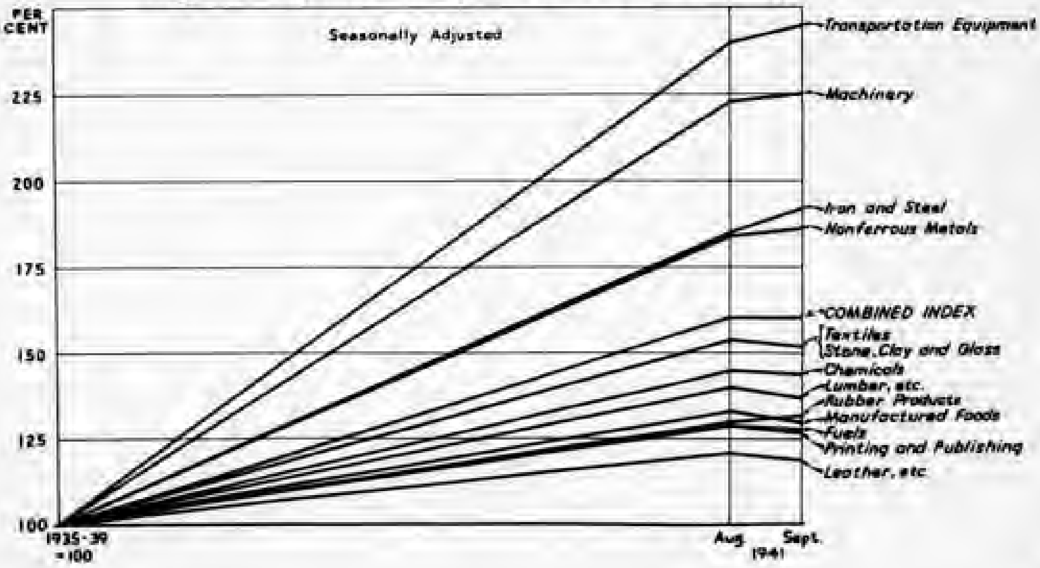
FEDERAL RESERVE BOARD INDEX OF INDUSTRIAL PRODUCTION

1935-39 = 100



Selected Components
Aug. and Sept. 1941 Compared with 1935-39 Average



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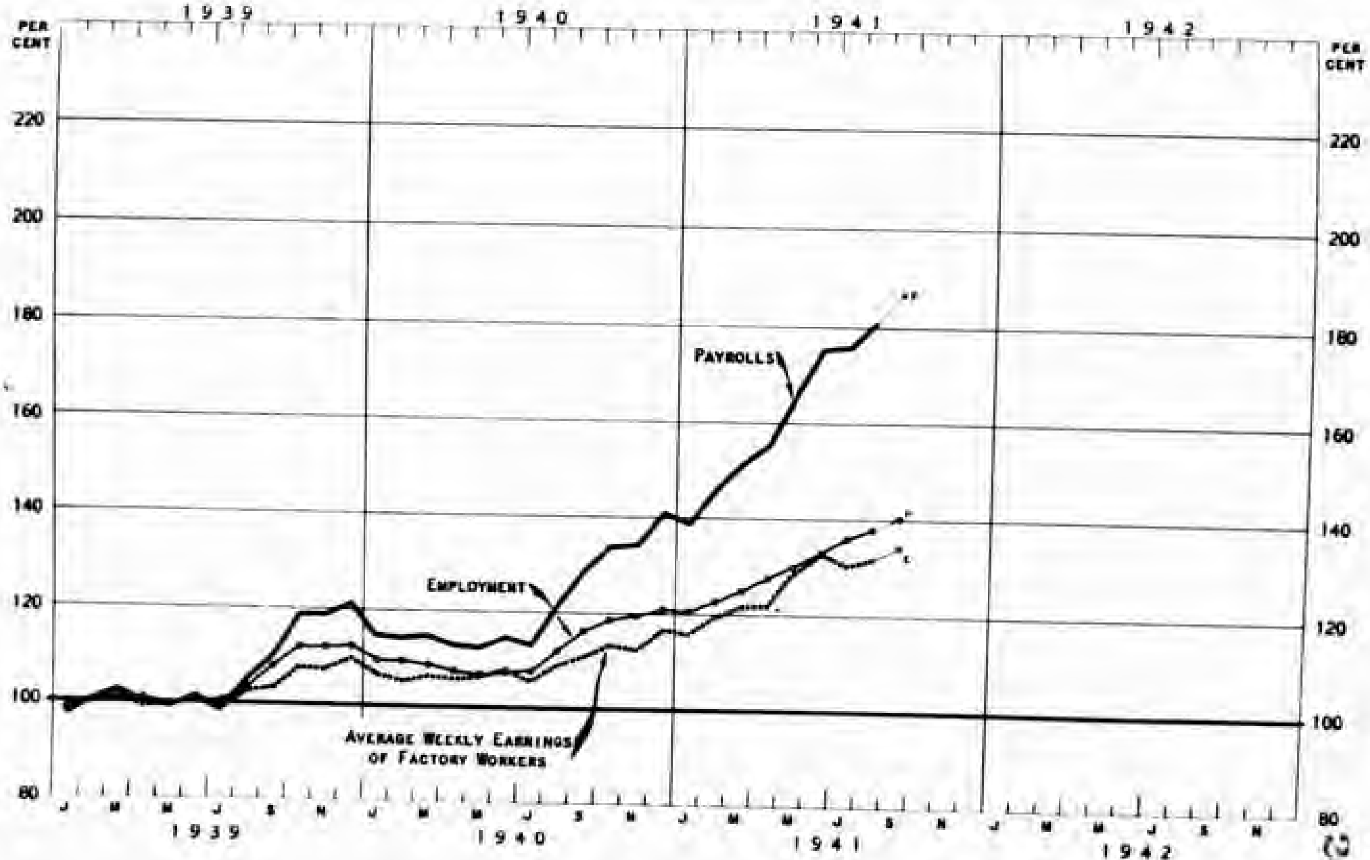
C-383-C

Chart 4

FACTORY EMPLOYMENT, PAYROLLS AND WAGES
First 6 Months of 1939 = 100, Unadjusted



Source: B.L.S.

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

Chart 5
CONFIDENTIAL

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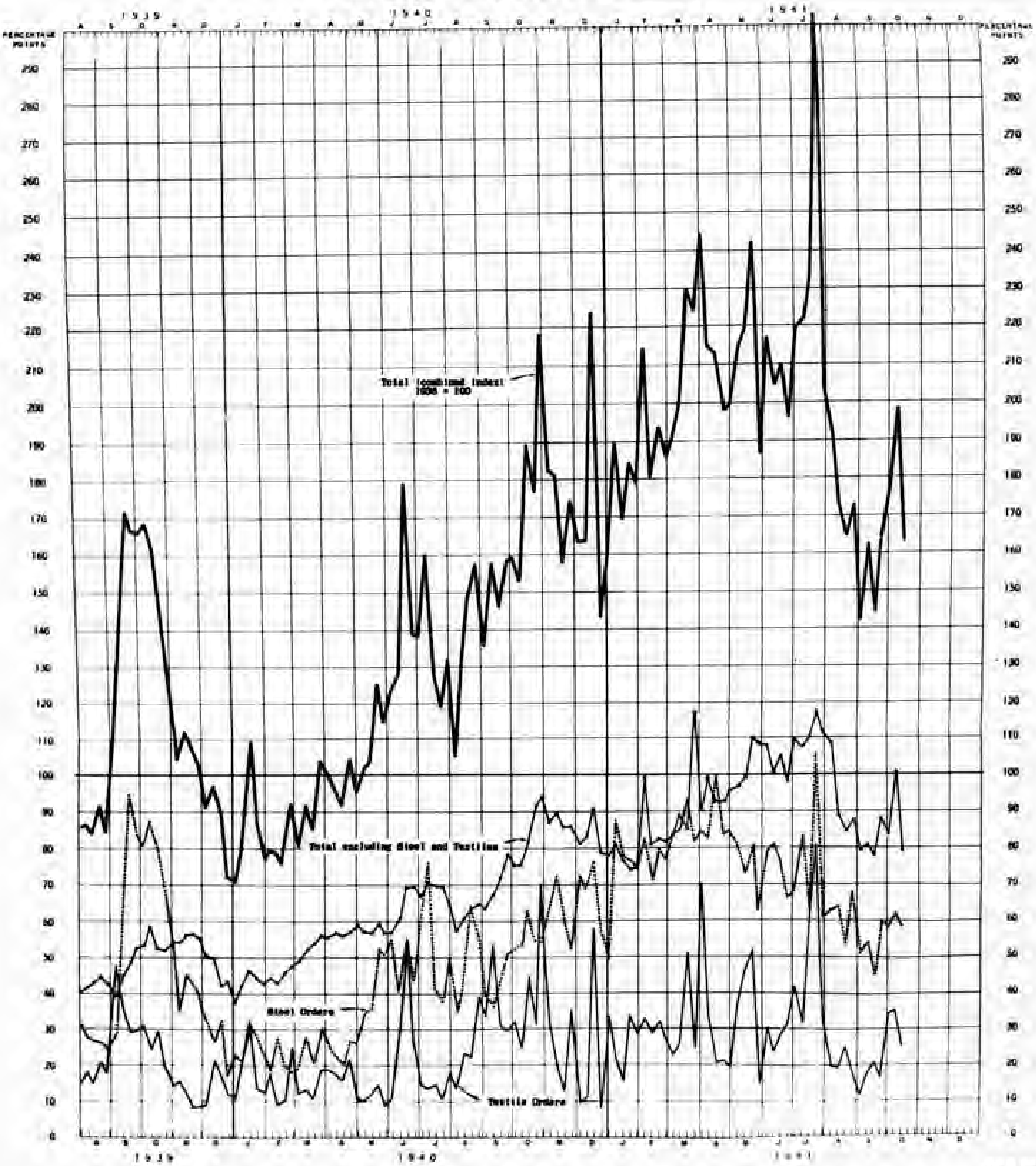
INDEXES OF NEW ORDERS

Combined Index of New Orders and Selected Components



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

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Chart 6

CONFIDENTIAL

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

249

DATE Oct. 27, 1941

TO Secretary Morgenthau

FROM Mr. Foley

On Saturday morning Mr. Paul Shorb of Covington, Burling, Rublee, Acheson & Shorb, telephoned Chuck Kades and said he was trying to ascertain the facts concerning a proposed plan for the issuance of dismissal wage certificates which Shorb understood was being considered by the Treasury.

Shorb said that United Aircraft Corporation had inquired of him about the proposed plan, saying that United had been approached by officials of Colt's Patent Firearms Manufacturing Company. Shorb read an extract from a letter stating that a Mr. Ferguson, of Colt's Patent Firearms, had conferred with Mr. Barnard, who had been receptive though noncommittal.

Shorb stated he was particularly interested in learning more about the nature of the proposed dismissal wage certificates which he understood would be analogous to tax anticipation notes, as well as the legal theory which would permit the purchase price of such certificates to be deducted as a business expense. He said that he had inquired of the Bureau of Internal Revenue but that the officials there said they knew nothing about it and he had been referred to the office of the General Counsel.

Kades told him that all he knew was that there had been some talk of a Colt dismissal wage plan but because Colt had been so vague and indefinite no ruling was under consideration. He told Shorb that no ruling would be given on a purely hypothetical plan.

Shorb said he knew it was the Treasury policy only to issue rulings in specific cases but that inasmuch as United Aircraft wanted to go ahead, he intended to prepare a plan and submit it to the Bureau for a ruling.

E.H.F.

250

OCT 27 1941

MEMORANDUM FOR THE PRESIDENT:

I have your memorandum of October 25th to Wayne Coy, asking that I give clearance on your letter to William S. Knudsen, Director General of the Office of Production Management relative to the appointment of a committee to represent OPM in dealing with policy problems surrounding the granting of the tax amortization privilege. Inasmuch as this is a matter of primary concern to the War and Navy Departments and to the Office of Production Management, and since no direct tax question is involved, I interpose no objection to the proposed letter to Mr. Knudsen. You might, however, wish to clear this with the other Departments involved, War and Navy.

(Signed) H. Morgenthau, Jr.

N.M.C.
Delivered by Secret Service
cc- Thompson

JLS

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE FOR EMERGENCY MANAGEMENT
WASHINGTON, D.C.

October 25, 1941.

My dear Mr. Morgenthau:

You will note from the attached correspondence that the President would like clearance from you prior to signing the letter to Mr. Knudsen, as the matter has to do with taxes.

Sincerely,

Sidney Sherwood

Sidney Sherwood,
Acting Liaison Officer.

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

THE WHITE HOUSE
WASHINGTON

252

October 25, 1941.

MEMORANDUM FOR

WAYNE COY

Will you get clearance on this from the Secretary of the Treasury, as it has to do with taxes?

F. D. R.

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE FOR EMERGENCY MANAGEMENT
WASHINGTON, D.C.

October 25, 1941.

My dear Mr. Morgenthau:

You will note from the attached correspondence that the President would like clearance from you prior to signing the letter to Mr. Knudsen, as the matter has to do with taxes.

Sincerely,

Sidney Sherwood

Sidney Sherwood,
Acting Liaison Officer.

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

THE WHITE HOUSE
WASHINGTON

October 25, 1941.

MEMORANDUM FOR

WAYNE COY

Will you get clearance on this from the Secretary of the Treasury, as it has to do with taxes?

F. D. R.

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE FOR EMERGENCY MANAGEMENT
WASHINGTON, D.C.

October 23, 1941

MEMORANDUM TO THE PRESIDENT:

From: Wayne Coy WC

The Congress has just passed a Joint Resolution amending section 124 of the Internal Revenue Code - the tax amortization statute. There has been considerable discussion and disagreement all summer about this matter and the legislation as passed by the Senate does not reflect the agreement reached by the Army, and Navy and me as Secretary of the Advisory Commission. It was finally accepted on the basis of an agreement between me and the service departments that the regulations issued under the Act, with your approval, would recognize the responsibility of the Office of Production Management to examine the tax amortization work of the service departments in order that the administration of the statute may be in conformity with the Administration's policy and that the Office of Production Management would from time to time assist in the direction of the policy of the service departments and in addition, make recommendations to the Secretary of War and the Secretary of Navy or to the President for changes in regulations as such changes may be necessary.

The legislation will be coming to you for your signature very shortly and quickly thereafter the regulations will be coming to you for your approval.

It is my suggestion that you designate the heads of three divisions of the Office of Production Management to carry out the responsibility of the Office of Production Management with respect to the administration of the tax amortization statute. My suggestions are Mr. Donald M. Nelson, Executive Director, Supply, Priorities and Allocations Board; Mr. Leon Henderson, Director of Civilian Supply, and Mr. Floyd B. Odlum, Director of Contract Distribution, and that Mr. Odlum serve as chairman of this group because of his interest in seeing that there is no unnecessary expansion of facilities without exhausting all of the possibilities of subcontracting and conversion. I think it would be advisable to appoint this committee now so that they may work with the War Department and Navy Department in the development of the regulations and in the establishment of the small organization to look after their continuing responsibility with respect to the administration of the statute by the War and Navy Departments.

I am attaching herewith for your signature a letter to Mr. Knudsen, asking him to appoint the committee. I should appreciate having a copy returned to me when you have signed it.

Attachment.

THE WHITE HOUSE
WASHINGTON

Mr. William S. Knudsen,
Director-General,
Office of Production Management,
Washington, D. C.

Dear Bill:

In order to give substance to an agreement between the Advisory Commission and the War and Navy Departments concerning the general administration of Section 124 of the Internal Revenue code as amended, I wish you to appoint a Tax Amortization Committee composed of three members, which will be charged with the responsibility that the Office of Production Management shares with the War and Navy Departments in dealing with policy problems surrounding the granting of the tax amortization privilege.

This committee should be appointed now in order that they may work with the War and Navy Departments in the development of the regulations, as I should like them to pass upon all such regulations prior to my approval. They will also be expected to recommend to the Secretary of War and the Secretary of the Navy, or to the President, necessary changes in regulations.

In view of the importance of insuring that there is no unnecessary expansion of facilities without exhausting all of the possibilities of subcontracting and conversion, I should like Mr. Floyd Odlum, Director, Division of Contract Distribution, to serve as Chairman of the committee, with Donald Nelson, Director, Supply, Priorities and Allocations Board and Leon Henderson, Director, Civilian Supply, serving as co-members.

Mr. Odlum should be authorized to arrange for personnel necessary to carry out the policy determinations of the committee and to maintain liaison with the Departments of War and Navy.

Very sincerely yours,

Appropriations, Contract Authorizations, and Recommendations for National Defense
Fiscal Years 1941 and 1942
(As of September 27, 1941)

	Army	Navy	Other Agencies	Total
Fiscal year 1941:				
Appropriations enacted	$8,480,613,877	$3,548,748,345	$1,282,171,908	$13,311,534,130
Contract authorizations enacted	5,006,589,651	946,098,112	389,000,000	6,341,687,763
Subtotal	13,487,203,528	4,494,846,457	1,671,171,908	19,653,221,893
Deduct cash included to liquidate 1941 contract authorizations	203,626,456	28,560,000	75,000,000	307,186,456
Net total, 1941	13,283,577,072	4,466,286,457	1,596,171,908	19,346,035,437
Fiscal year 1942:				
Appropriations enacted	14,645,279,287	5,683,847,907	1,640,332,250	21,969,459,444
Contract authorizations enacted	183,145,695	41,448,894	1,287,000,000	1,511,594,589
Pending before Congress:				
Appropriations	-	120,996,000	16,957,725	137,953,725
Subtotal	14,828,424,982	5,846,292,801	2,944,289,975	23,619,007,758
Deduct cash included to liquidate 1941 contract authorizations	3,357,373,076	615,453,690	235,653,000	4,208,479,766
Net total, 1942	11,471,051,906	5,230,839,111	2,708,636,975	19,410,527,992
Net total, 1941 and 1942	24,754,628,978	9,697,125,568	4,304,808,883	38,756,563,429
Defense Aid Appropriation Act, 1941				7,000,000,000
Additional Defense aid (pending)				5,985,000,000
Appropriations required beyond 1942 to complete construction of the expanded Navy				1/ 8,413,000,000
Total				60,154,563,429

1/ Represents estimate of the Navy Department.

Source : Bureau of the Budget.

CONFIDENTIAL

DIVISION OF DEFENSE AID REPORTS
ANALYSIS OF APPROPRIATIONS, ALLOCATIONS, OBLIGATIONS, AND EXPENDITURES
UNDER THE DEFENSE AID SUPPLEMENTAL APPROPRIATION ACT, 1941

AS OF JUNE 14, 1941

APPROPRIATION TITLE AND DEPARTMENT	AMOUNT OF APPROPRIATION	ALLOCATIONS		UNALLOCATED APPROPRIATIONS (Column 2 minus Column 4)	OBLIGATIONS		UNOBLIGATED ALLOCATIONS (Column 4 minus Column 7)	EXPENDITURES		UNLIQUIDATED OBLIGATIONS (Column 7 minus Column 10)
		THIS PERIOD	TO DATE		THIS PERIOD	TO DATE		THIS PERIOD	TO DATE	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
ORDNANCE AND ORDNANCE STORES	1,343,000,000.00									
Navy Department		13,560,500.00	273,180,350.00		2,872,672.50	32,507,354.50	240,672,995.50	535,440.00	912,690.00	31,594,654.50
War Department		142,672,644.00	763,229,761.00		65,387,716.82	130,431,240.98	632,798,520.02	3,754,101.83	3,918,640.20	126,512,600.78
Maritime Commission		14,000.00	14,000.00		-	-	14,000.00	-	-	-
Total	1,343,000,000.00	156,247,144.00	1,036,424,011.00	306,575,989.00	68,260,389.32	162,938,595.48	873,485,215.52	4,289,541.83	4,831,330.20	158,107,265.28
AIRCRAFT AND AERONAUTICAL MATERIAL	2,054,000,000.00									
Navy Department		18,359,500.00	152,548,368.00		6,267,620.32	6,338,083.18	146,210,284.82	-	-	6,338,083.18
War Department		7,981,046.00	1,809,987,667.00		102,874,173.05	458,475,186.09	1,351,461,480.91	-	-	458,478,186.09
Maritime Commission		102,000.00	102,000.00		-	-	102,000.00	-	-	-
Treasury Department		1,830,000.00	4,470,000.00		967.11	1,893,029.25	2,576,970.75	797,437.00	1,853,664.14	39,365.11
Total	2,054,000,000.00	28,272,546.00	1,967,098,035.00	86,901,965.00	109,138,761.38	466,705,298.52	1,500,390,736.48	797,937.00	1,853,664.14	464,851,634.38
TANKS AND OTHER VEHICLES	362,000,000.00									
War Department		13,426,280.00	331,407,080.00		90,960,635.43	115,539,250.60	216,407,829.40	-	-	115,539,250.60
Maritime Commission		4,750,000.00	4,750,000.00		-	-	4,750,000.00	-	-	-
Treasury Department		252,175.00	574,175.00		Cr. 21.62	38,894.38	535,280.62	38,894.38	38,894.38	-
Total	362,000,000.00	18,428,455.00	337,131,255.00	24,868,745.00	90,960,613.81	115,578,144.98	221,553,110.02	38,894.38	38,894.38	115,539,250.60
VESSELS AND OTHER WATERCRAFT	629,000,000.00									
Navy Department		71,926,800.00	122,877,150.00		16,285,460.00	29,416,798.65	93,460,351.35	138,009.00	265,509.00	29,151,289.65
Maritime Commission		1,150,000.00	501,111,400.00		34,613,929.03	445,405,532.23	55,730,867.77	436,565.46	2,453,600.10	442,951,932.03
Treasury Department		-	450,000.00		13,500.00	43,300.00	406,700.00	-	-	43,300.00
Total	629,000,000.00	73,076,800.00	624,488,950.00	4,511,050.00	49,912,882.03	474,865,630.88	149,623,319.12	574,565.46	2,719,100.10	472,146,530.78
MISCELLANEOUS MILITARY EQUIPMENT	260,000,000.00									
Navy Department		50,000.00	12,219,000.00		-	-	12,219,000.00	-	-	-
War Department		Cr. 12,190,630.00	91,087,383.00		7,890,264.00	15,339,273.68	75,748,112.32	55,726.50	125,662.97	15,213,603.71
Treasury Department		-	3,725,000.00		-	34,054.79	3,690,945.21	-	-	34,054.79
Total	260,000,000.00	Cr. 12,140,630.00	107,031,383.00	152,968,617.00	7,890,264.00	15,373,325.47	91,658,057.53	55,726.50	125,662.97	15,247,657.50
FACILITIES AND EQUIPMENT	752,000,000.00									
Navy Department		27,000,000.00	76,630,000.00		-	-	76,630,000.00	-	-	-
War Department		100,131,971.00	137,836,789.00		2,505,600.97	2,505,600.97	135,331,188.03	-	-	2,505,600.97
Maritime Commission		-	50,000,000.00		-	43,788,054.00	6,211,946.00	1,087,114.38	3,304,339.01	40,483,714.99
Total	752,000,000.00	127,131,971.00	264,466,789.00	487,533,211.00	2,505,600.97	46,293,654.97	218,173,134.03	1,087,114.38	3,304,339.01	42,989,315.96
AGRICULTURAL, INDUSTRIAL AND OTHER COMMODITIES	1,350,000,000.00									
Navy Department		12,000,000.00	67,000,000.00		20,413,354.89	27,538,920.31	39,461,079.69	934,197.95	1,010,171.64	26,528,748.67
War Department		7,401,036.00	9,312,739.00		436,680.00	836,680.00	8,476,059.00	-	-	436,680.00
Maritime Commission		1,400,000.00	1,400,000.00		-	-	1,400,000.00	-	-	-
Treasury Department		29,935,152.50	196,914,747.00		9,011,741.26	12,848,177.36	184,066,569.64	894,053.11	1,671,026.70	11,177,150.66
Department of Agriculture		14,938,700.00	73,425,900.00		14,302,232.60	51,404,550.63	22,020,349.37	-	-	51,404,550.63
Total	1,350,000,000.00	65,735,488.50	348,050,386.00	1,001,949,614.00	44,564,012.75	92,627,328.30	255,424,057.70	1,778,151.56	2,681,198.34	89,946,129.76
REPAIRS, RECONDITIONING, ETC., OF DEFENSE ARTICLES	200,000,000.00									
Navy Department		8,013,000.00	40,805,000.00		4,285,235.66	13,721,346.11	27,083,653.89	54,877.17	131,466.72	13,589,879.39
War Department		14,974,258.00	18,863,108.00		-	-	18,863,108.00	-	-	-
Maritime Commission		1,311,936.00	13,594,936.00		5,116,588.84	7,900,297.75	5,694,638.25	1,048,874.59	1,675,443.44	6,224,854.31
Total	200,000,000.00	24,319,194.00	73,263,044.00	126,736,956.00	9,401,824.50	21,683,634.86	51,579,409.14	1,103,751.76	1,807,910.16	19,875,724.70
SERVICES AND EXPENSES	40,000,000.00									
Navy Department		1,300,000.00	1,300,000.00		-	-	1,300,000.00	-	-	-
War Department		8,627,901.00	11,601,506.00		-	-	11,601,506.00	-	-	-
Maritime Commission		-	264,000.00		264,000.00	264,000.00	-	-	-	264,000.00
Treasury Department		-	5,000.00		-	-	5,000.00	-	-	-
Total	40,000,000.00	10,127,901.00	13,170,506.00	26,829,494.00	264,000.00	264,000.00	12,906,506.00	-	-	264,000.00
ADMINISTRATIVE EXPENSES	10,000,000.00									
Navy Department		325,000.00	325,000.00		-	-	325,000.00	-	-	-
War Department		3,300,000.00	3,300,000.00		-	-	3,300,000.00	-	-	-
Maritime Commission		-	294,000.00		-	-	294,000.00	-	-	-
Treasury Department		-	24,299.00		4,758.71	11,357.86	12,941.14	1,559.29	3,903.89	7,454.97
Department of Agriculture		-	2,305.00		850.54	1,197.20	1,107.80	850.54	1,197.20	-
Executive Office of the President		25,000.00	150,000.00		7,004.25	25,304.98	124,695.02	1,896.71	3,941.41	21,363.57
Total	10,000,000.00	3,650,000.00	4,095,574.00	5,904,426.00	4,614.50	38,430.04	4,057,143.96	4,306.54	9,042.45	29,387.59
BY DEPARTMENTS	7,000,000,000.00									
Navy Department		158,552,800.00	741,892,758.00		50,460,747.35	105,522,698.75	636,370,059.25	1,609,475.32	2,320,158.56	103,202,540.19
War Department		285,925,040.00	3,177,846,033.00		200,115,264.39	722,588,379.32	2,454,957,653.68	5,405,428.35	4,084,328.17	718,543,021.15
Maritime Commission		8,277,936.00	571,582,736.00		29,894,511.87	497,359,883.98	74,222,852.02	2,530,754.23	6,833,988.55	490,325,895.43
Treasury Department		26,077,327.50	206,153,151.00		9,025,746.44	14,858,713.04	191,294,437.96	1,235,345.02	3,567,489.06	11,301,254.58
Department of Agriculture		14,938,900.00	73,425,900.00		14,303,083.16	51,405,747.83	22,020,152.17	850.54	1,197.20	51,404,550.63
Executive Office of the President		25,000.00	150,000.00		7,004.25	25,304.98	124,695.02	1,896.71	3,941.41	21,363.57
GRAND TOTAL	7,000,000,000.00	493,747,043.50	4,771,159,923.00	2,228,840,077.00	303,808,161.16	1,397,169,248.50	3,378,990,674.50	9,388,154.17	16,771,082.95	1,375,398,168.55

October 27, 1941

Honorable Harry Hopkins
The White House
Washington, D. C.

Dear Harry:

I think you will be interested in the attached letter and the accompanying charts which I have sent to Mr. Stettinius, (10-27) and I am sending them to you for your information.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

[illegible] to only sent [illegible] Morris Wilson
[illegible]/28/41

CIB:BLB

By Messenger 9:20 Veech
N.M.C.

OCT 27 1941

Dear Ed:

Following our discussion relative to lend-lease purchasing by the Treasury Procurement Division, I had charts prepared, which are being sent along with this letter, showing the time taken to make purchases. The charts show a picture of all lend-lease purchases from the inception of the program. The record of all lend-lease purchases for October 1-22 shows averages of 6.9 days for miscellaneous purchases; 5.1 days for metal purchases; and the purchase of agricultural equipment required less than a day. These are all-over averages and include difficult purchases as well as routine transactions.

You will recall that during a conference at my office on September 10, I spoke of certain difficulties which the Procurement Division was having because of the policy of the Office of Production Management to allocate for but one month whereas the British orders specified quantities for future deliveries over a period of three, six and nine months, or longer. This necessarily resulted in a substantial volume of "frozen" funds which could not be used for purchases until the Office of Production Management's allocations of materials were received. It is my understanding that this matter is now being straightened out and that you stated at your meeting on October 22 that you would request the Office of Production Management to allocate metals for three-month periods or longer rather than monthly allocations as heretofore.

The weekly report of lend-lease activities received by me from the Procurement Division for the period ending October 24 shows the following:

Awaiting allocation of funds	$40,034,724.75
Requisitions awaiting clearance by OPM	17,840,782.98
Requisitions awaiting allocations of material by OPM	28,479,020.00
Total	$86,354,527.73

The first item again raises the question of fund procedure, which also was discussed at the meeting on September 10, and, I understand, changes were made to expedite it, nevertheless I also understand that the original plan of requiring a request for funds to cover each individual requisition is still being followed. I am advised, however, that this matter is now being studied by Mr. McCabe of your organization and it seems to me that the present practice of allotting funds for purchases can be revised to provide a more workable process.

You appreciate, I am sure, that the Treasury Procurement Division is purchasing commercial items of a very wide scope and the procedure of requiring the allocation of funds for each requisition must necessarily be involved and is not in line with usual procurement practice.

I think that the fund procedure is something you might want to go into personally.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Mr. E. R. Stettinius, Jr.,
Lend-Lease Administrator,
512 - 22nd St., N. W.,
Washington, D. C.

By Messenger Simmons
9-15

N.M.C

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 27, 1941

TO Secretary Morgenthau

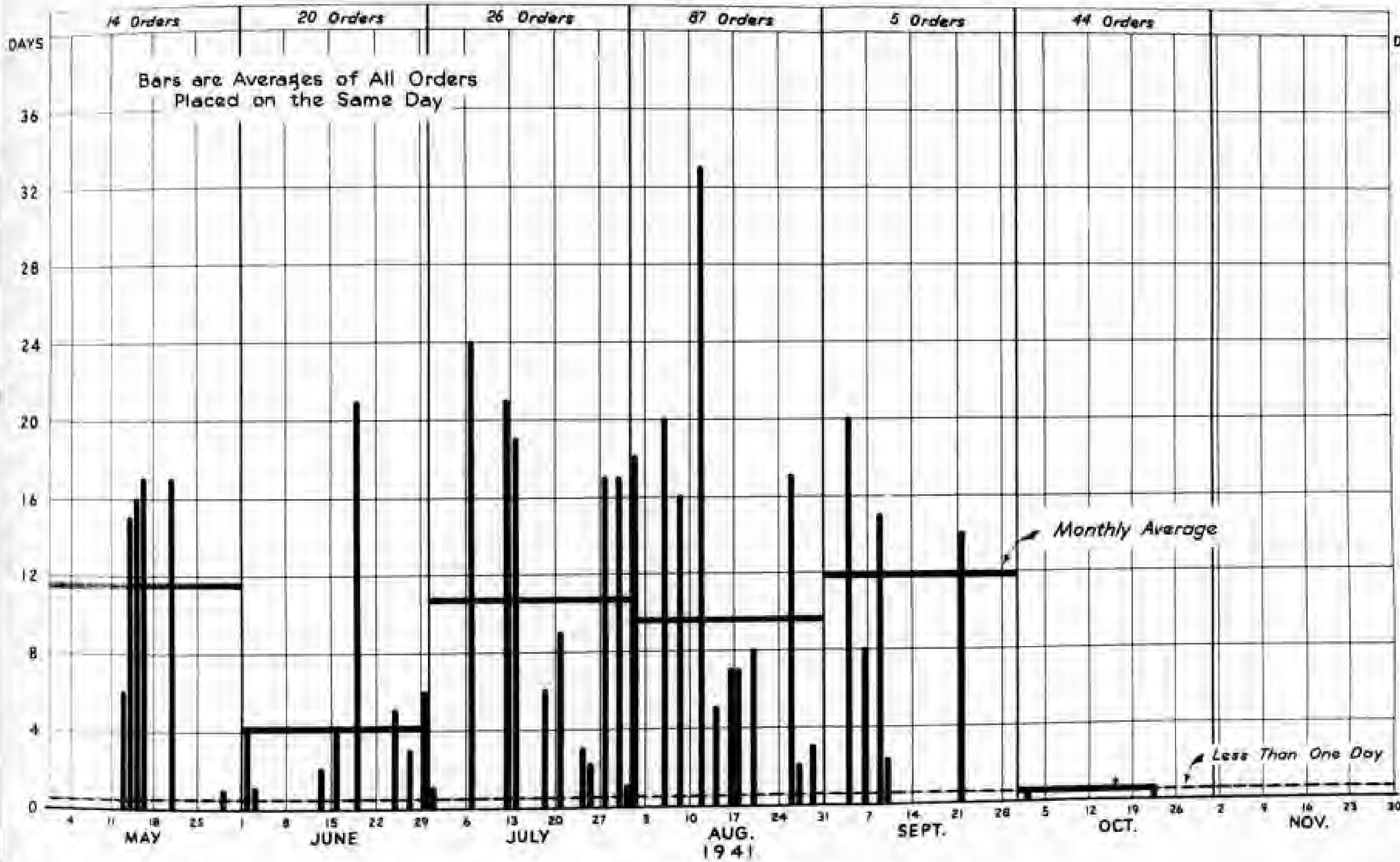
FROM Mr. Barnard

Attached is letter to Mr. Stettinius which was prepared by Mr. Mack in accordance with our conversation and your instructions this morning. It seems to me satisfactory.

CMB

AGRICULTURAL EQUIPMENT ORDERS EFFECTED BY THE PROCUREMENT DIVISION MAY 1 TO DATE

Days Elapsed Between Date of Clearance by OPM and Lend-Lease, and Date Order Was Placed

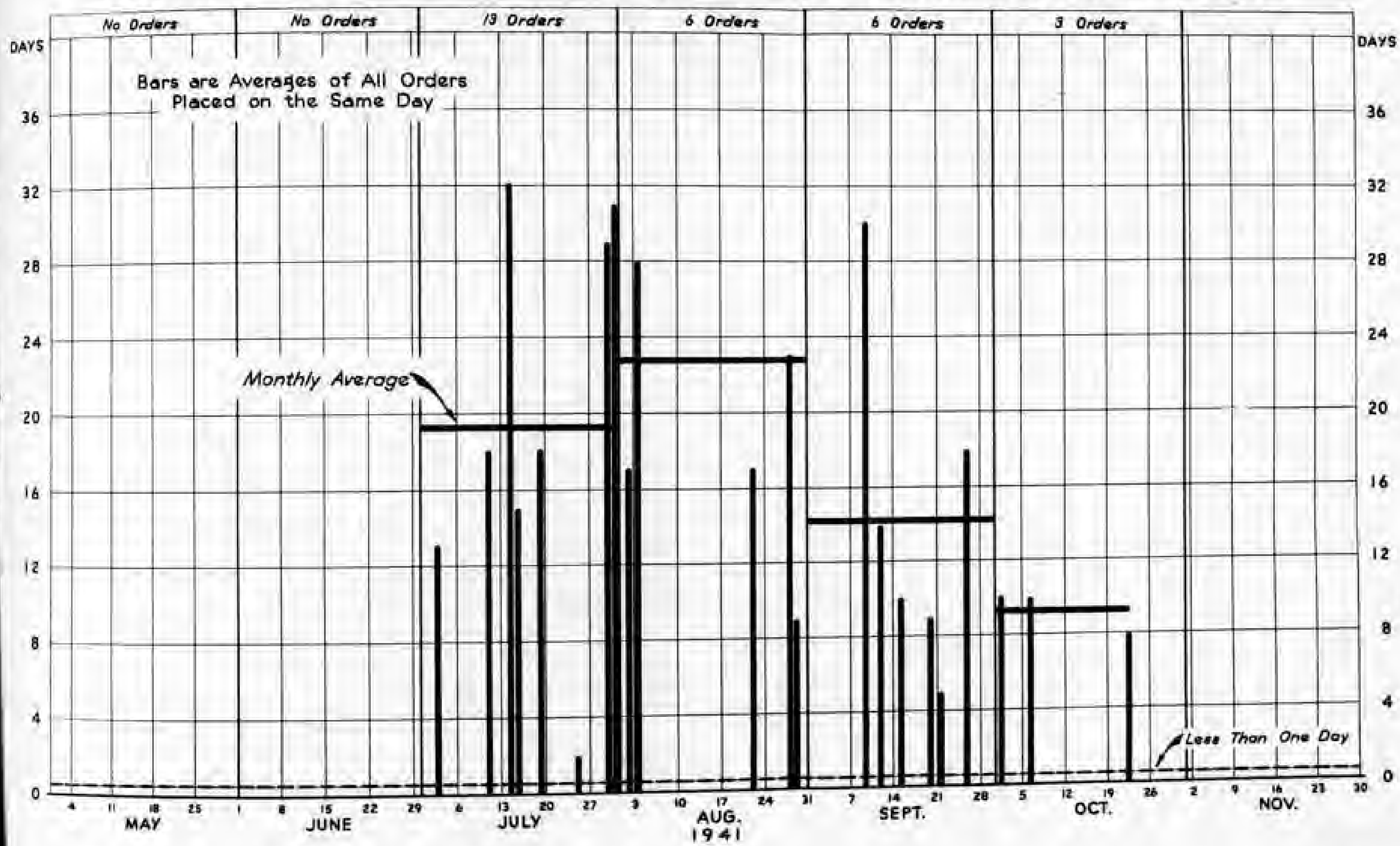


* October Purchase Negotiations Completed Prior to Clearance

2-294

AUTOMOTIVE EQUIPMENT ORDERS
EFFECTED BY THE PROCUREMENT DIVISION MAY 1 TO DATE

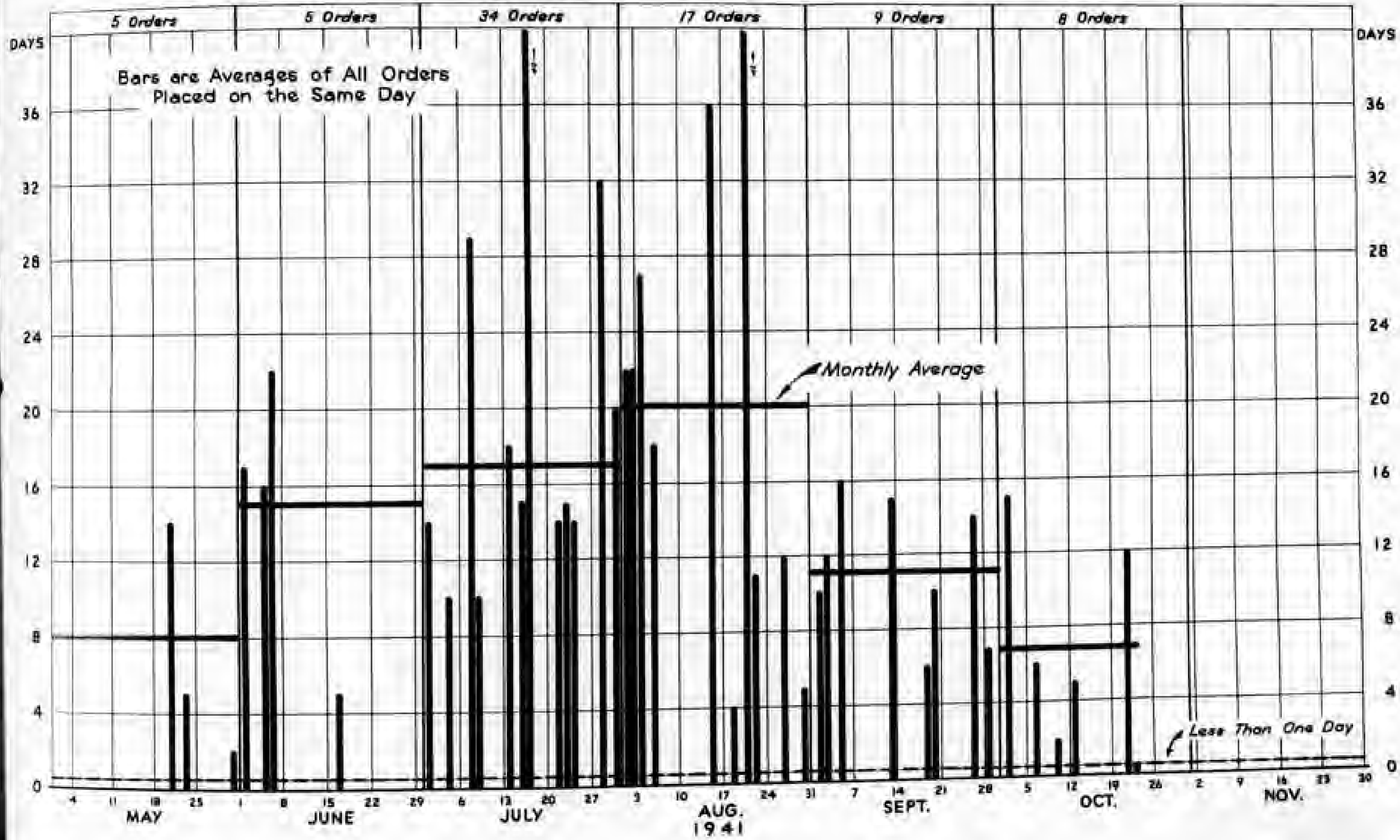
Days Elapsed Between Date of Clearance by OPM and Lend-Lease, and Date Order Was Placed



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

Z-297

CHEMICAL ORDERS
EFFECTED BY THE PROCUREMENT DIVISION MAY 1 TO DATE
Days Elapsed Between Date of Clearance by OPM and Lend-Lease, and Date Order Was Placed



2-282

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

MACHINERY ORDERS
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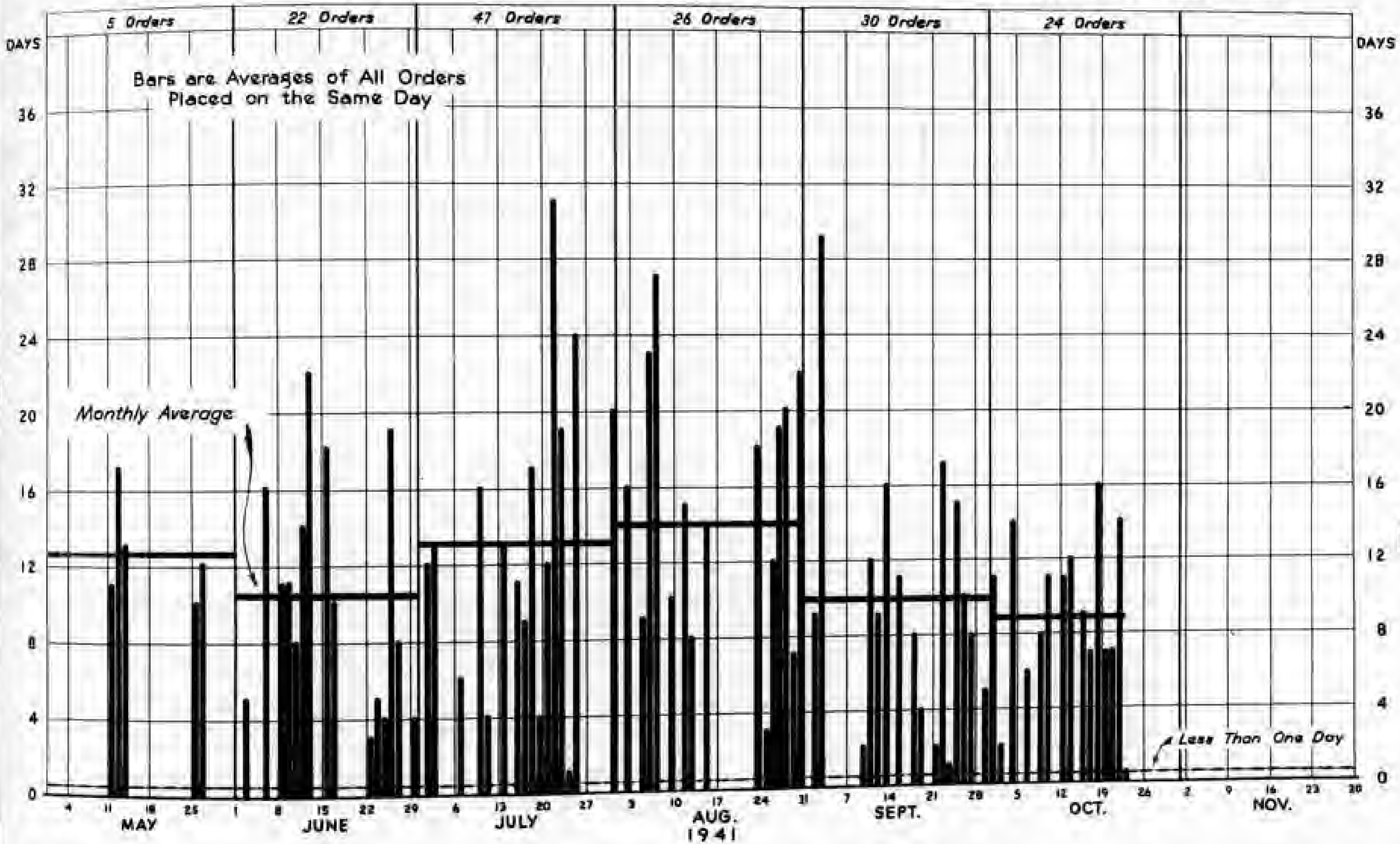
Days Elapsed Between Date of Clearance by OPM and Lend-Lease, and Date Order Was Placed

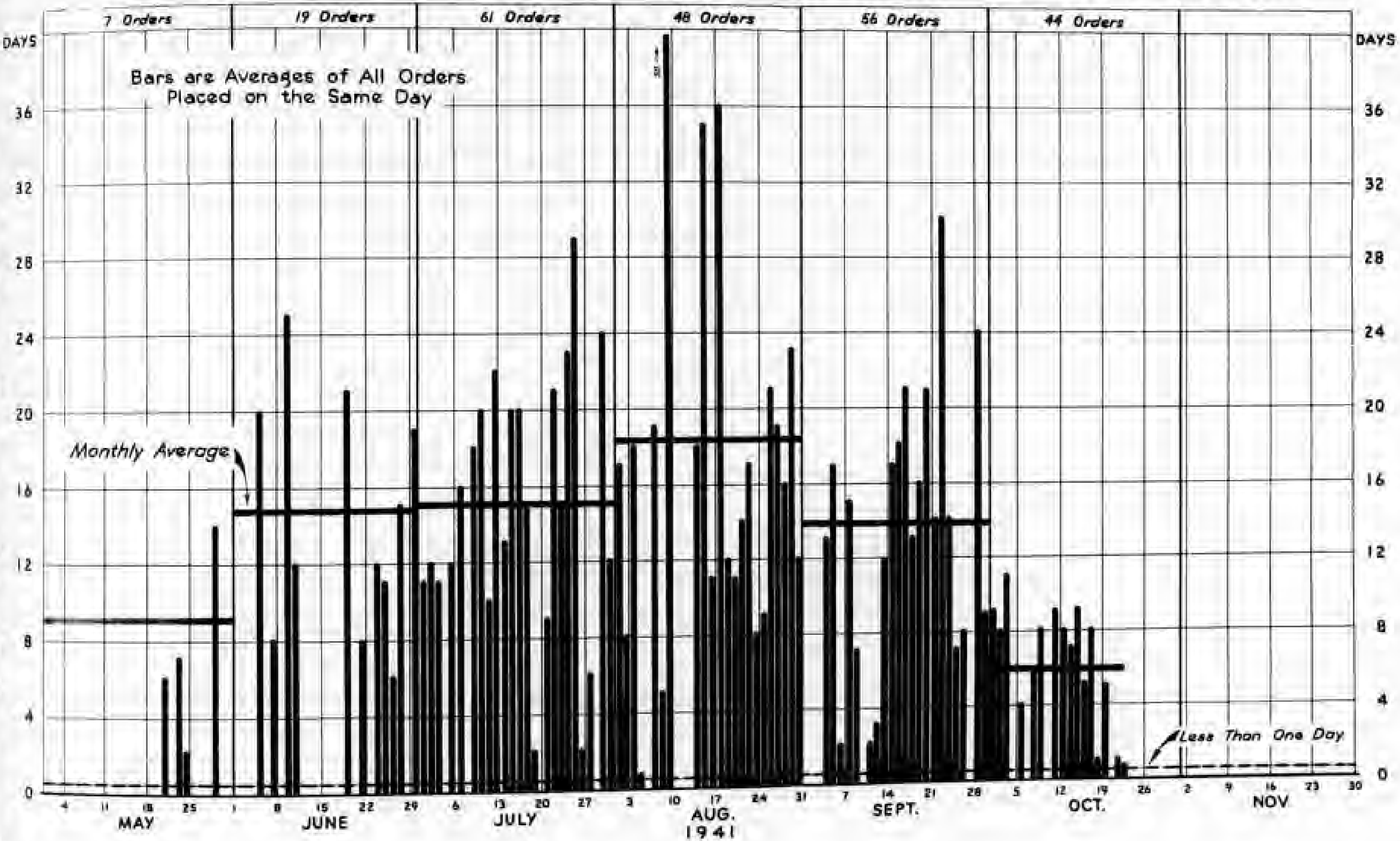


Office of the Secretary of the Treasury
Division of Research and Statistics

2-291

MISCELLANEOUS ORDERS
EFFECTED BY THE PROCUREMENT DIVISION MAY 1 TO DATE

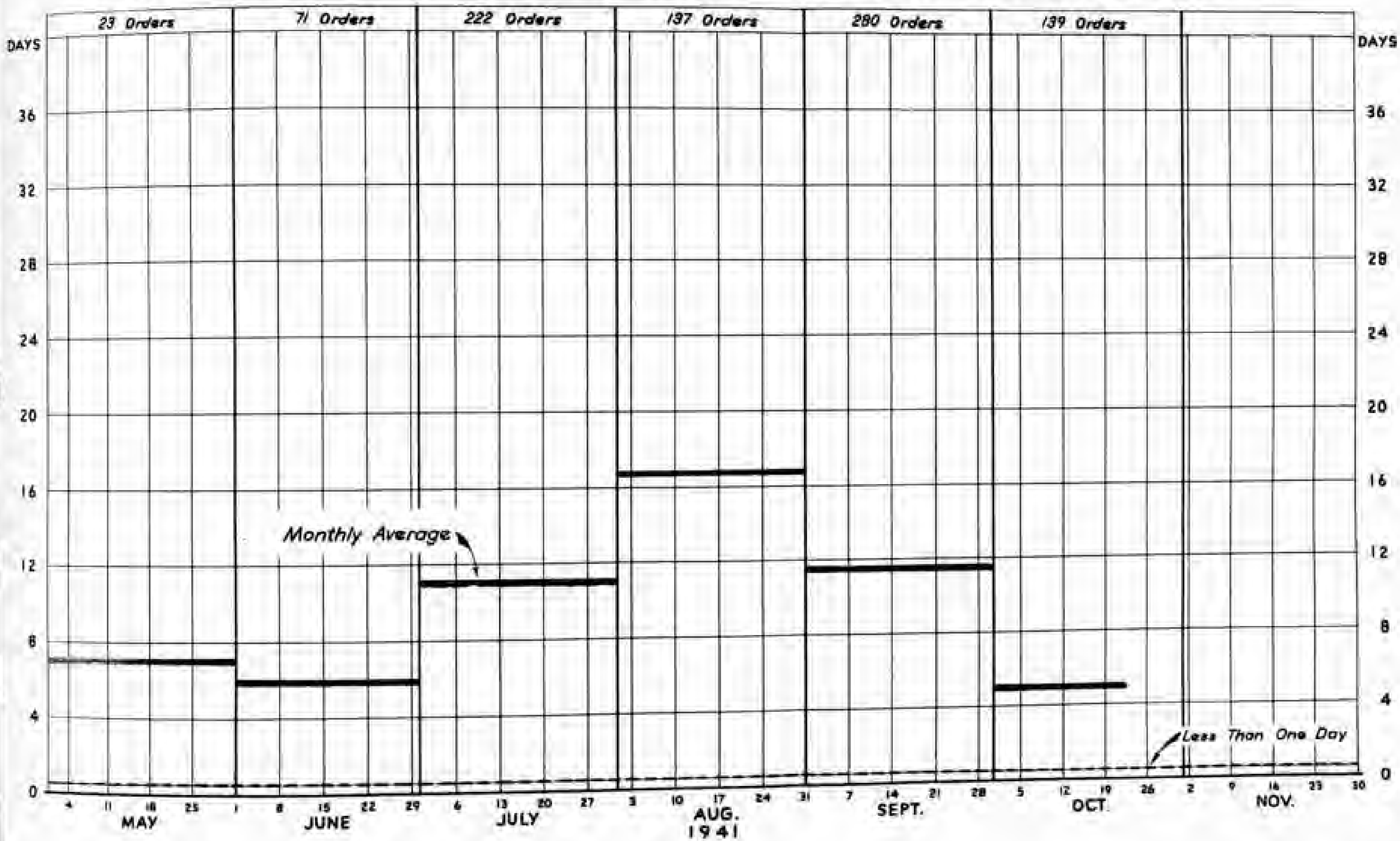
Days Elapsed Between Date of Clearance by OPM and Lend-Lease, and Date Order Was Placed



2-296

ALL METAL ORDERS
EFFECTED BY THE PROCUREMENT DIVISION MAY 1 TO DATE

Days Elapsed Between Date of Clearance by OPM and Lend-Lease, and Date Order Was Placed



Z-283

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

CARBON STEEL ORDERS
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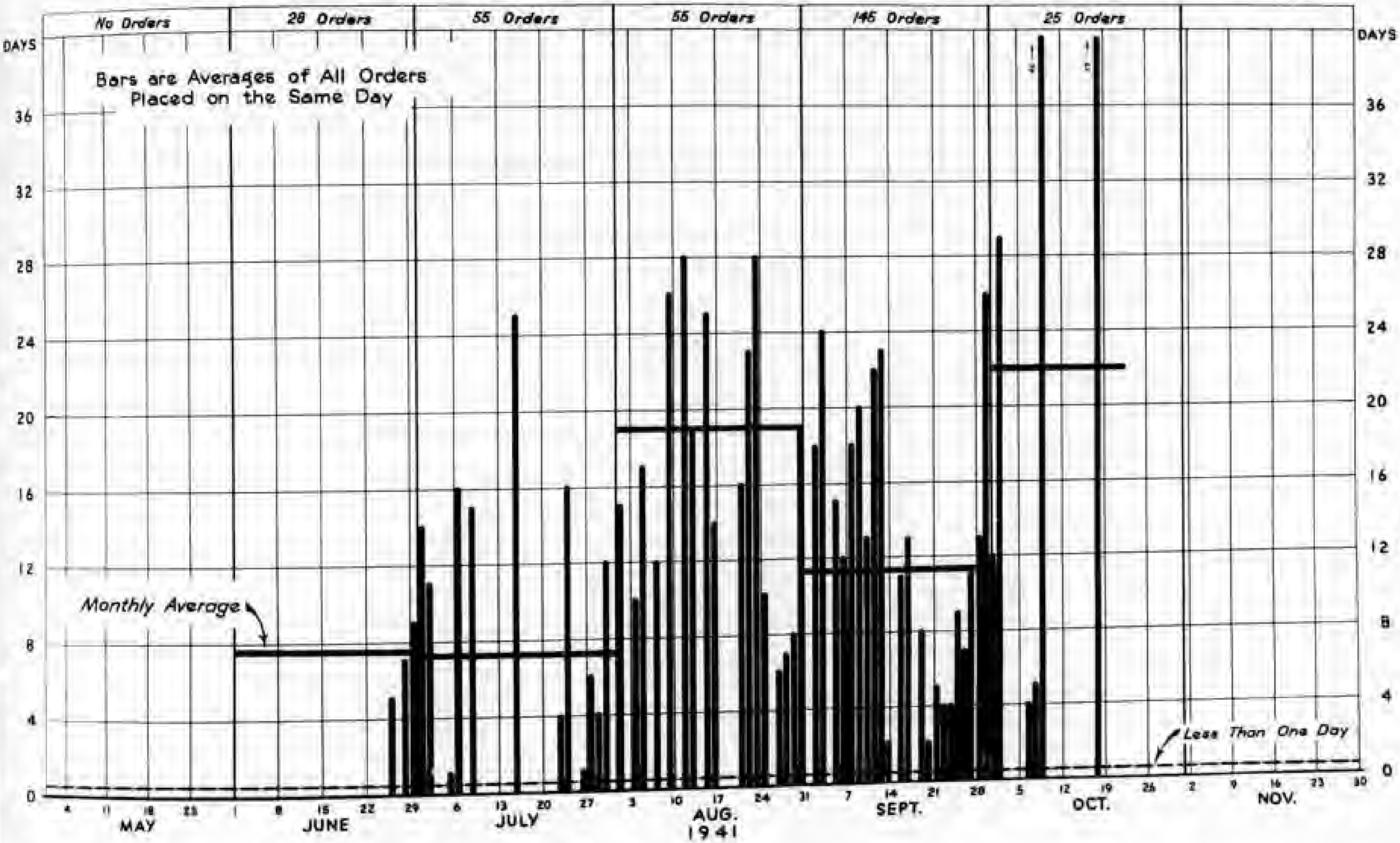
Days Elapsed Between Date of Clearance by OPM and Lend-Lease, and Date Order Was Placed



Z-295

ALLOY STEEL ORDERS
EFFECTED BY THE PROCUREMENT DIVISION MAY 1 TO DATE

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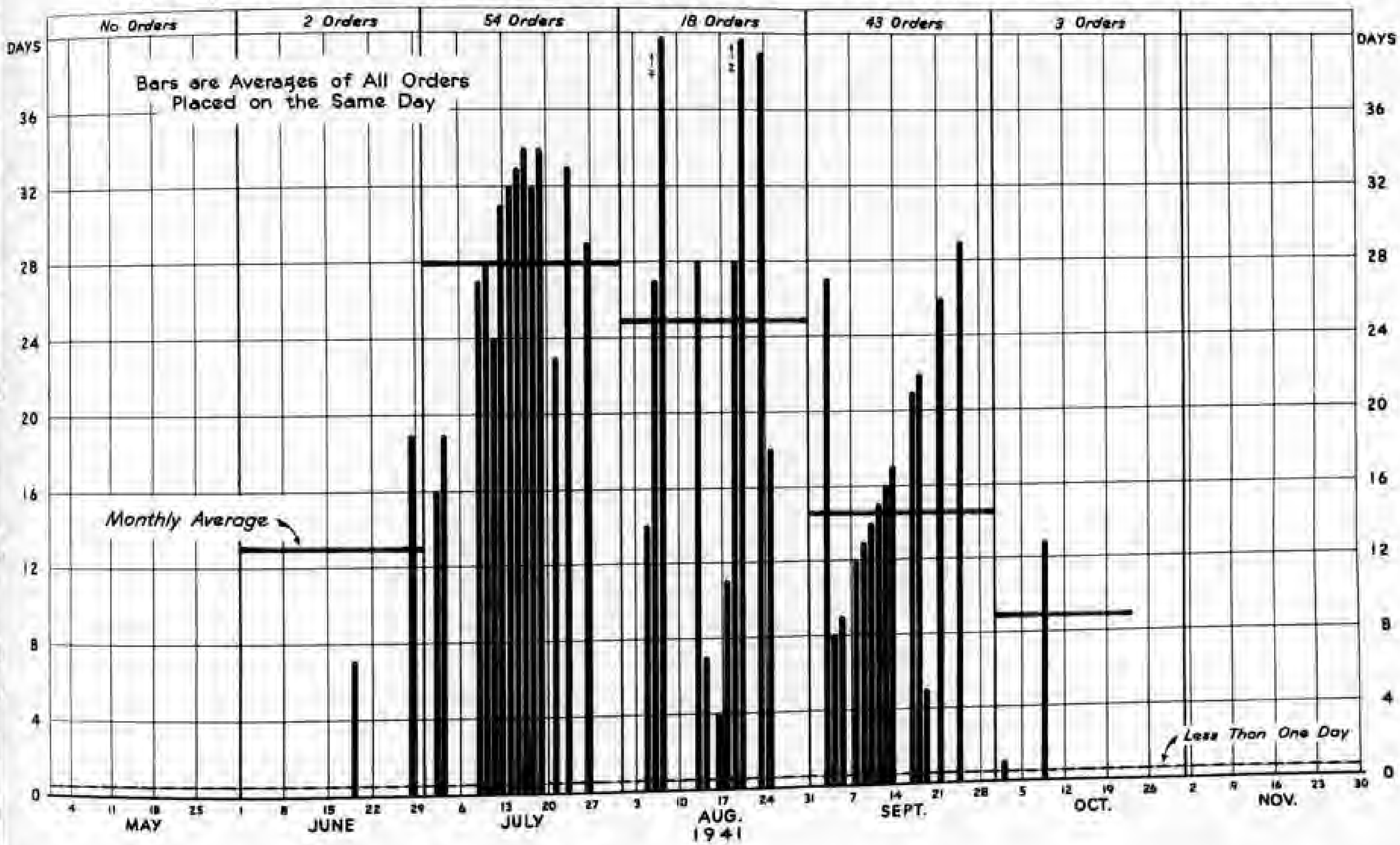
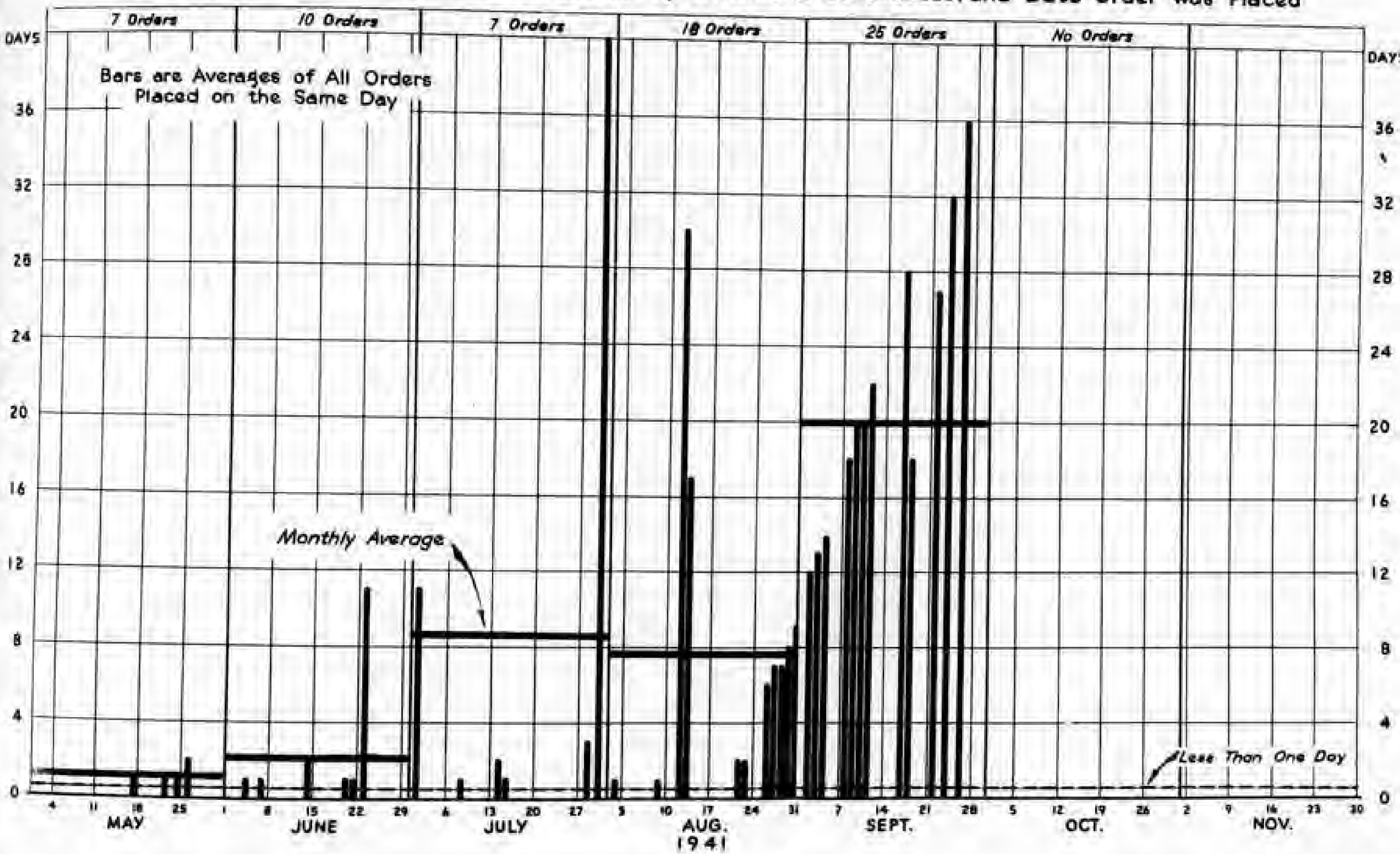


Z-293

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

MISCELLANEOUS STEEL AND STEEL PRODUCT ORDERS EFFECTED BY THE PROCUREMENT DIVISION MAY 1 TO DATE

Days Elapsed Between Date of Clearance by OPM and Lend-Lease, and Date Order Was Placed



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

Z-284

STEEL SCRAP ORDERS
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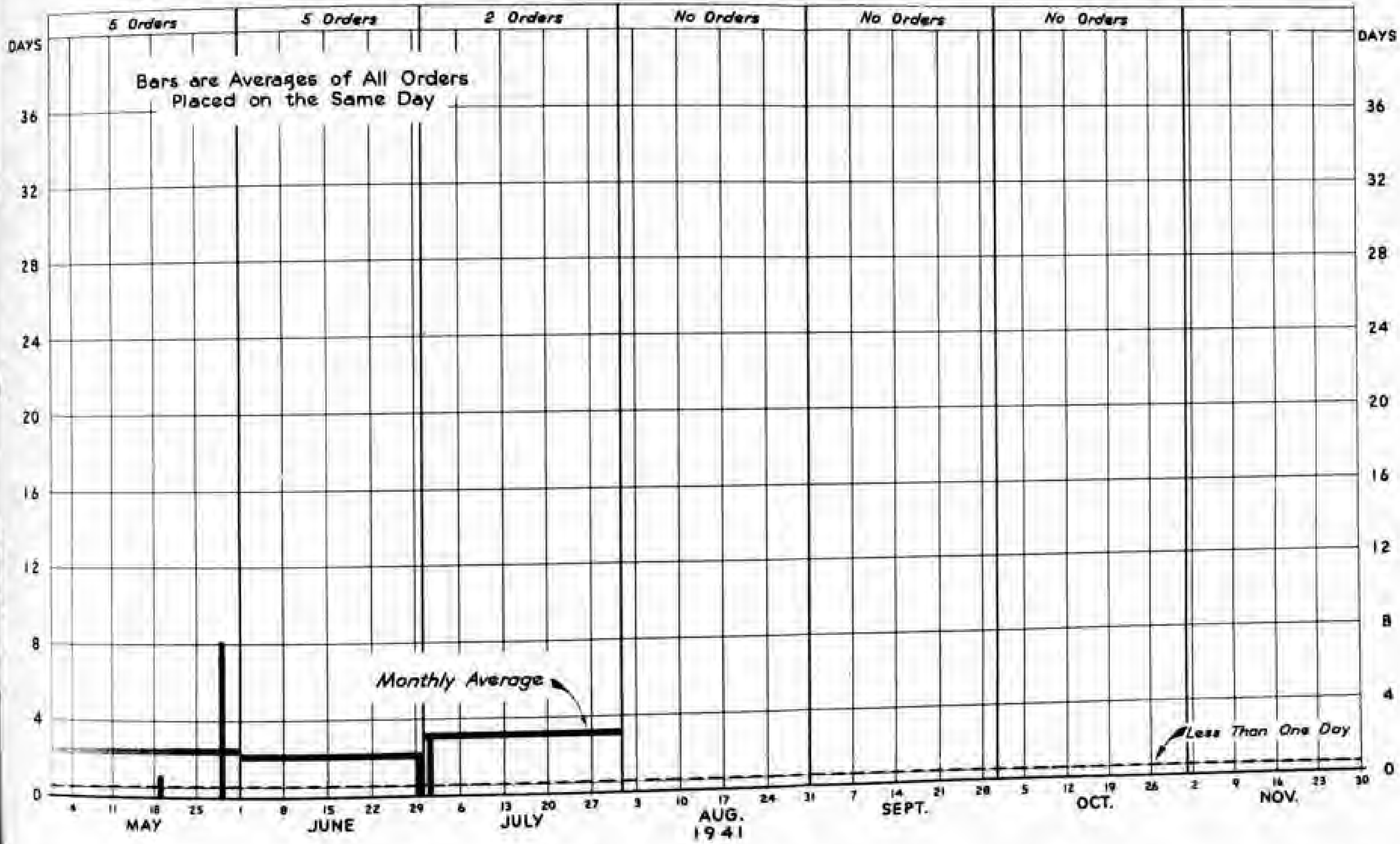
Days Elapsed Between Date of Clearance by OPM and Lend-Lease, and Date Order Was Placed



Z-289

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

TIN PLATE ORDERS
EFFECTED BY THE PROCUREMENT DIVISION MAY 1 TO DATE

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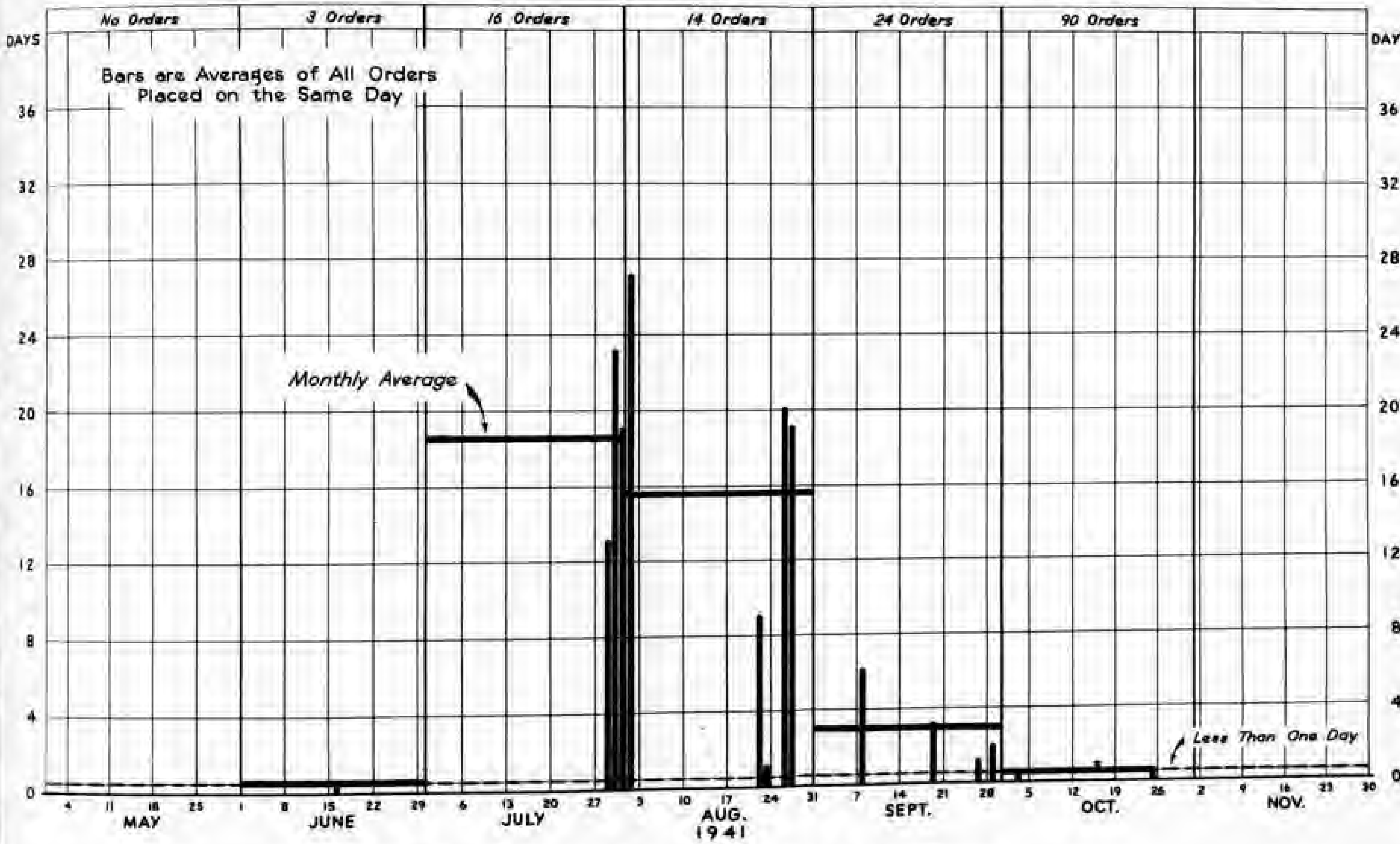
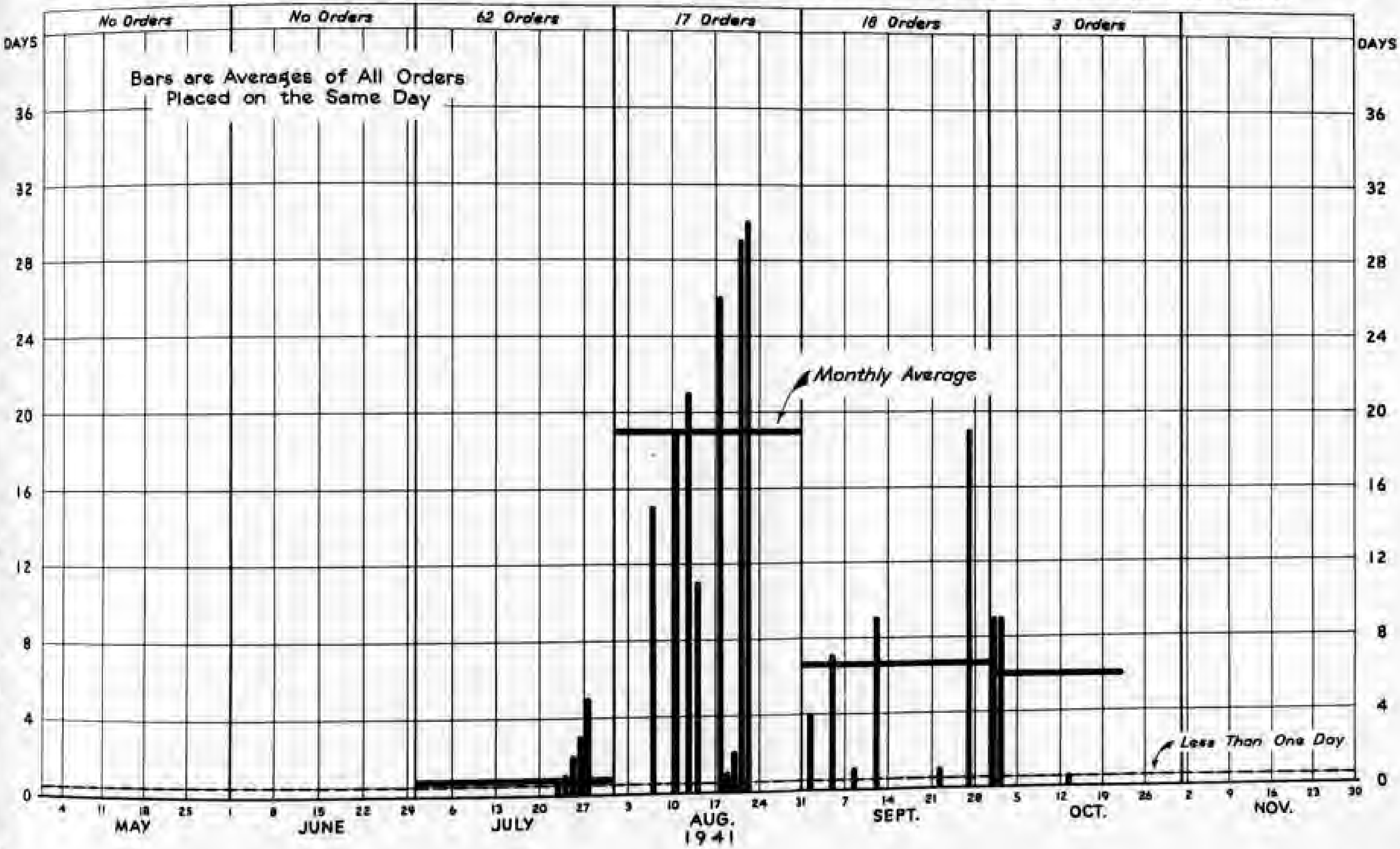


* October Purchase Negotiations Completed Prior to Clearance

Z-286

DROP FORGING ORDERS
EFFECTED BY THE PROCUREMENT DIVISION MAY 1 TO DATE

Days Elapsed Between Date of Clearance by OPM and Lend-Lease, and Date Order Was Placed



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

2-265

ZINC ORDERS
EFFECTED BY THE PROCUREMENT DIVISION MAY 1 TO DATE
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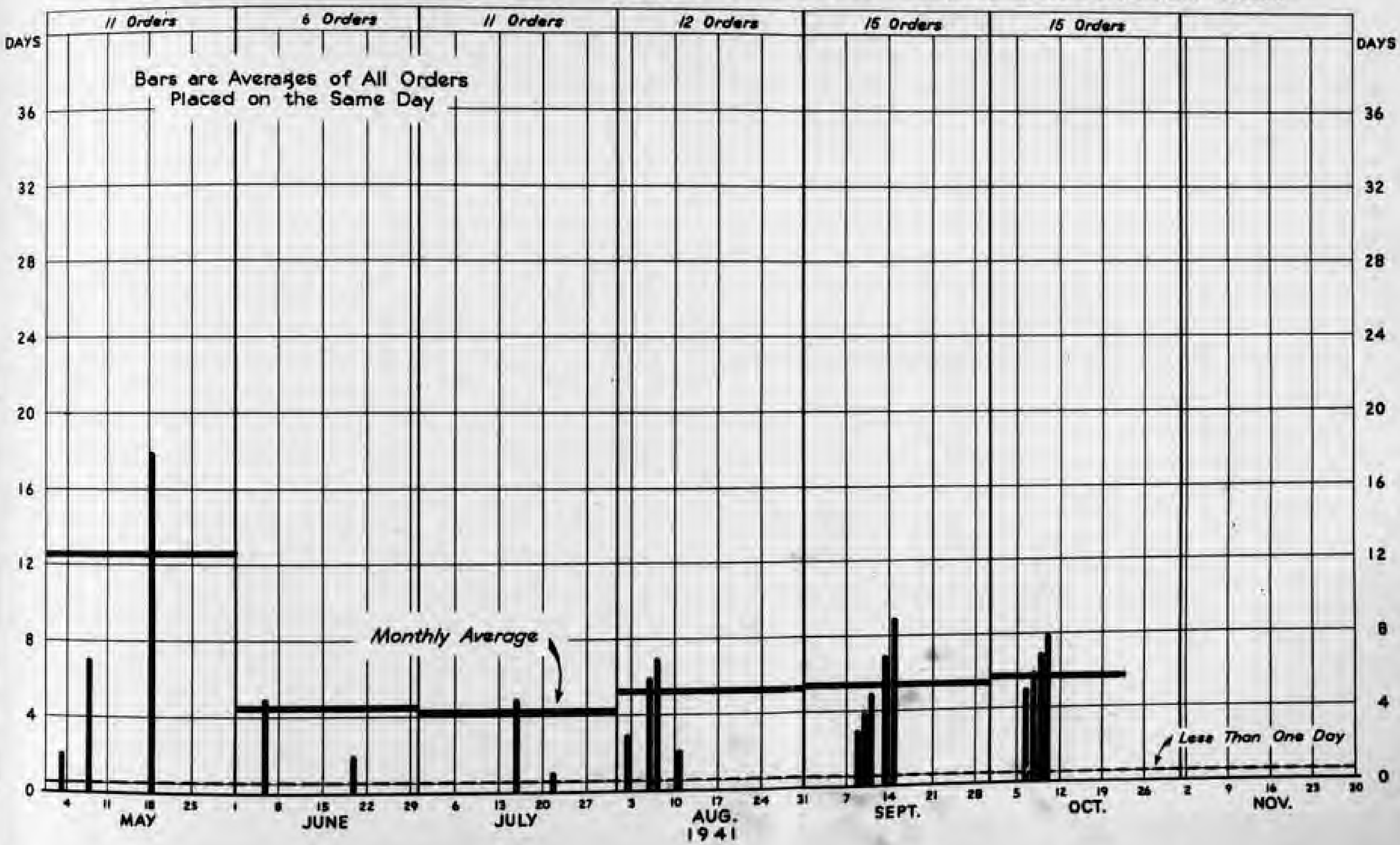

Office of the Secretary of the Treasury
Division of Research and Statistics

Z-288

COPPER ORDERS
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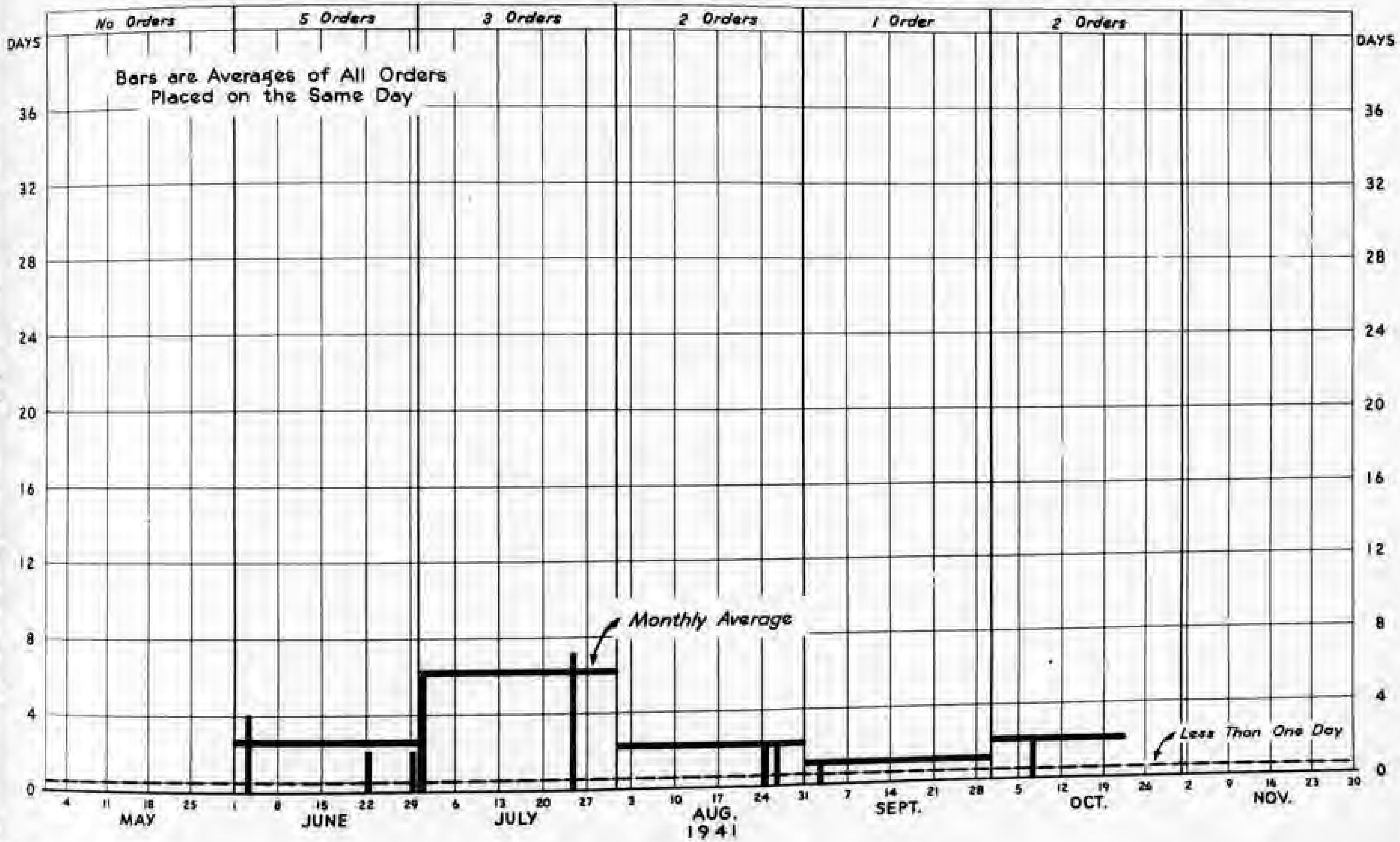
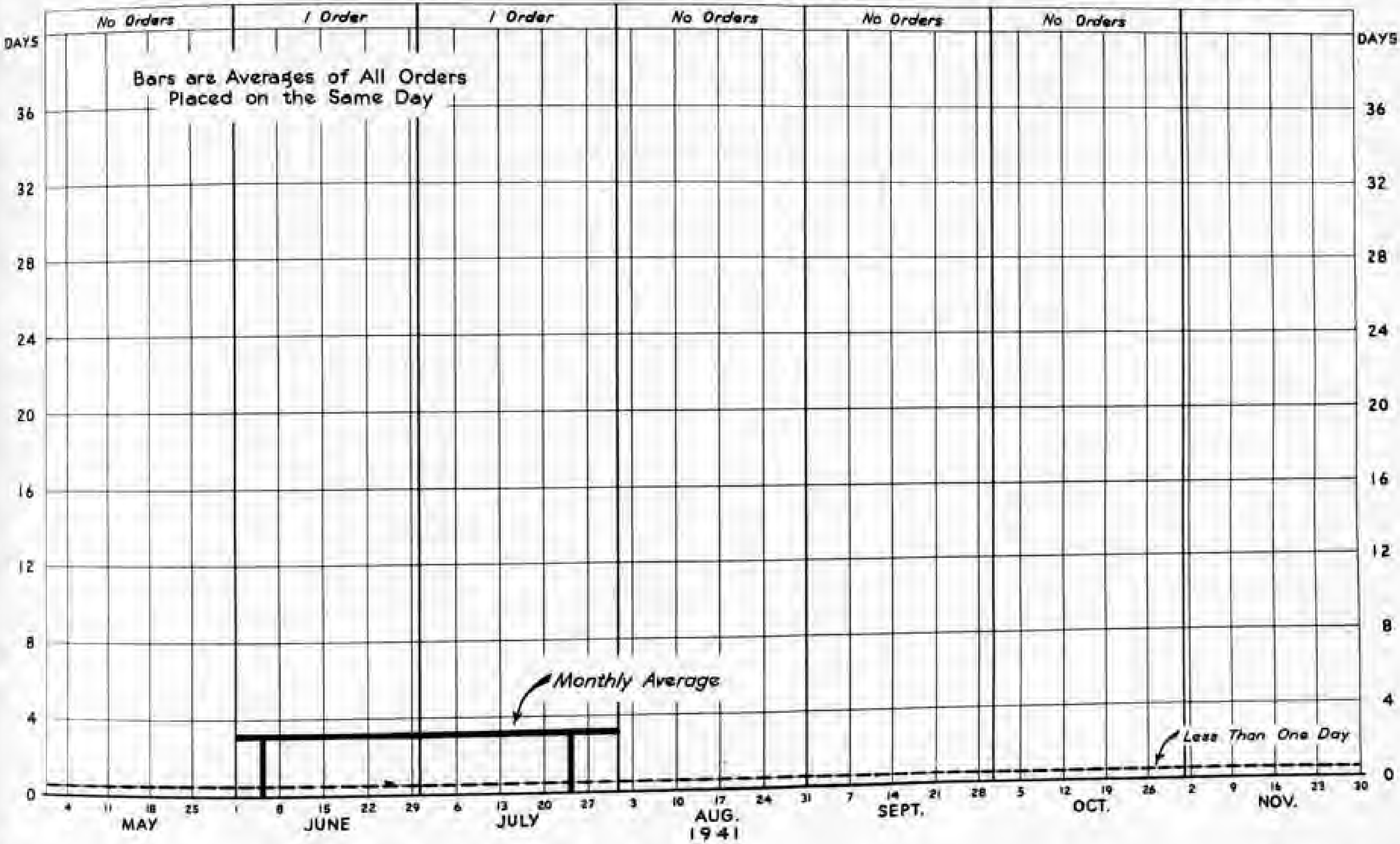


2-281

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

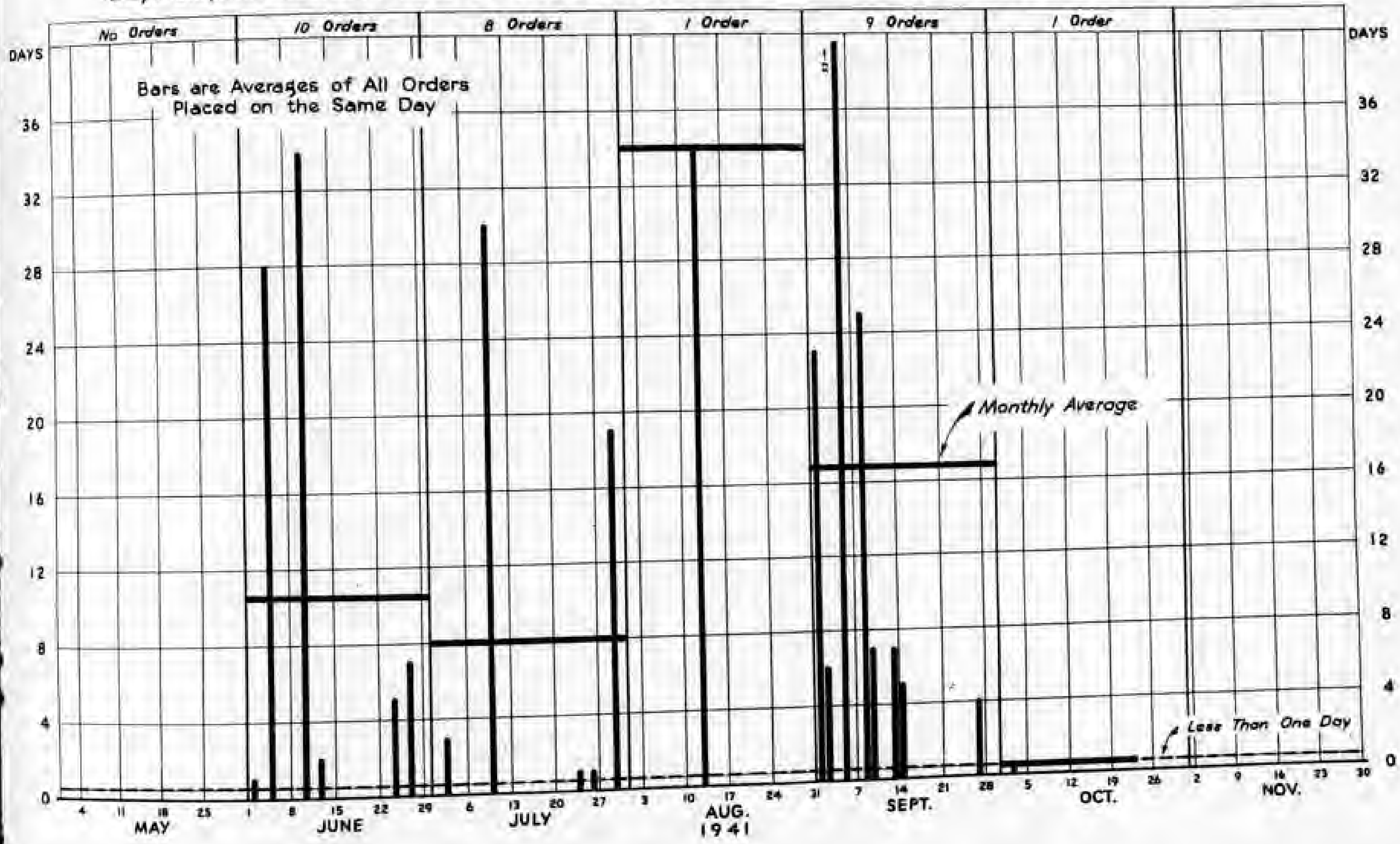
LEAD ORDERS
EFFECTED BY THE PROCUREMENT DIVISION MAY 1 TO DATE
Days Elapsed Between Date of Clearance by OPM and Lend-Lease, and Date Order Was Placed



Z-287

MISCELLANEOUS METAL ORDERS
EFFECTED BY THE PROCUREMENT DIVISION MAY 1 TO DATE

Days Elapsed Between Date of Clearance by OPM and Lend-Lease, and Date Order Was Placed

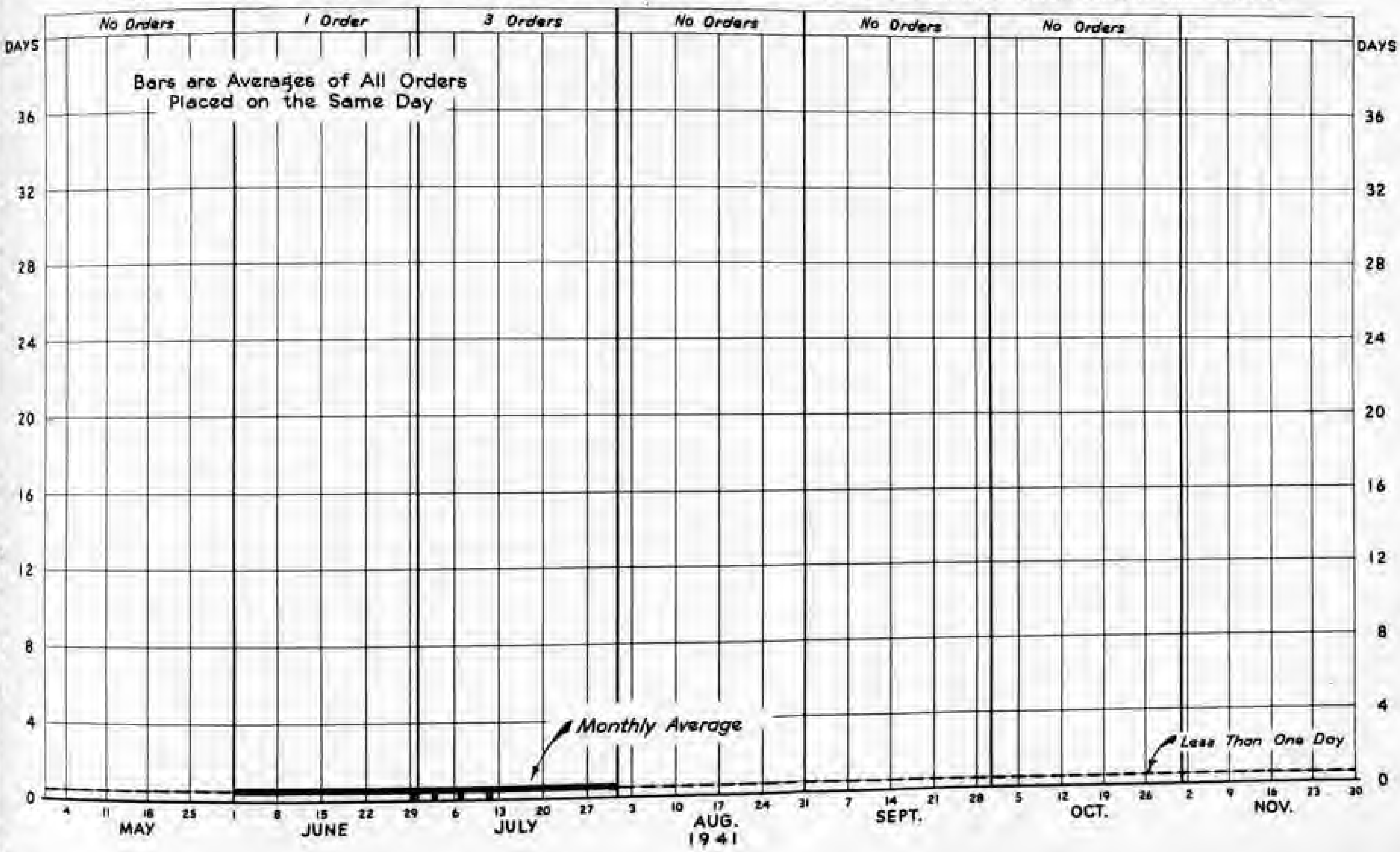


Z-292

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

PIG IRON ORDERS
EFFECTED BY THE PROCUREMENT DIVISION MAY 1 TO DATE

Days Elapsed Between Date of Clearance by OPM and Lend-Lease, and Date Order Was Placed



Z-290

October 27, 1941

MEMORANDUM

To: Secretary Morgenthau

From: Messrs. Foley and Pehle

At the opening of business on Monday, October 27, 1941 there were 2440 pending applications in the Foreign Funds Control.

JWPehle
E. H. Foley Jr.

TREASURY DEPARTMENT

282

INTER-OFFICE COMMUNICATION

DATE October 27, 1941.

TO Secretary Morgenthau
For Miss Chauncey

FROM Mr. Bell DWB

STRICTLY CONFIDENTIAL

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

	$ Proceeds of Shares Sold	$ Proceeds of Bonds Sold	Total	
Oct. 20	22,707	1,000	23,707	
21	48,613	2,887	51,500	
22	9,376	-	9,376	
23	13,326	-	13,326	
24	6,767	48,991	55,758	
25	3,354	-	3,354	
	104,143	52,878	157,021	
Sales from Feb.22,1940 to Oct.18,1941.	280,809,659	37,217,194	318,026,853	
Total Feb.22,1940 to Oct.25,1941.	280,913,802	37,270,072	318,183,874	318,183,874
$ proceeds of non-vested securities sold Oct. 13, 1941 to Oct. 18, 1941.			300,000	
$ proceeds of non-vested securities sold Sept. 1, 1939 to Oct. 11, 1941.			235,500,000	
$ proceeds of non-vested securities sold Sept. 1, 1939 to Oct. 18, 1941.			235,800,000	235,800,000
			GRAND TOTAL	553,983,874

9 Units sold from Aug. 18, 1941 to Oct.25,1941 for $42

11 Shares Stock Dividend sold from Aug.18,1941 to Oct.25,1941 for $123

55.772 Rights sold from July 24,1941 to Oct.25,1941 $102,853

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

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For Miss Chauncey

DATE October 27, 1941

TO Secretary Morgenthau

FROM Mr. Bell DWB

STRICTLY CONFIDENTIAL

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

	No. of Shares Sold	$ Proceeds of Shares Sold	Nominal Value of Bonds Sold	$ Proceeds of Bonds Sold
Oct. 20	789	22,707	1,000	1,000
21	1,410	48,613	5,000	2,887
22	430	9,376	Nil	Nil
23	400	13,326	Nil	Nil
24	200	6,767	52,000	48,991
25	40	3,354	Nil	Nil
	3,269	104,143	58,000	52,878
Sales from Feb.22,1940 to Oct.18,1941	9,818,832-1/2	280,809,659	45,320,016	37,217,194
Total Feb.22,1940 to Oct.25,1941	9,822,101-1/2	280,913,802	45,378,016	37,270,072

BRITISH AIR COMMISSION

1785 MASSACHUSETTS AVENUE
WASHINGTON, D. C.

TELEPHONE HOBART 8000

PLEASE QUOTE
REFERENCE NO.

With the compliments of British Air Commission, who enclose Statement No. 3, covering aircraft shipped, for week ended October 21, 1941

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

October 27, 1941

STATEMENT NO. 3.

AIRCRAFT DESPATCHED FROM THE UNITED STATES.
WEEK ENDED OCTOBER 21, 1941.

TYPE	DESTINATION	ASSEMBLY POINT	BY SEA	BY AIR	FLIGHT DELIVERED FOR USE IN CANADA
ELL Airacobra	U. K.	U. K.	5	--	--
OEING Boston III	U. K.	U. K.	1	--	--
ESSNA T-50	Canada	----	--	--	19
NSOLIDATED Catalina	Australia	Melbourne	--	1	--
Liberator II	U. K.	U. K.	--	9	--
RTISS Kittyhawk	Middle East	Port Sudan	30	--	--
	Canada	----	--	--	9
OUGLAS Boston III	U. K.	U. K.	10	--	--
	Middle East	Port Sudan	6	--	--
OCKHEED Hudson V	Canada	----	--	--	1
LENN MARTIN Baltimore	Middle East	Port Sudan	3	--	--
ORTH AMERICAN Harvard II	Bombay	Karachi	4	--	--
	Middle East	Port Sudan	4	--	--
	S. Africa	Durban	30	--	--
Mustang	U. K.	U. K.	6	--	--
TOTAL			99	10	29

British Air Commission,
October 27, 1941.

THE LIBRARIAN OF CONGRESS
Washington, D. C.

needs an answer
HM Jr

October 27, 1941

My dear Henry:

Please find enclosed a copy of an Executive Order issued by the President on October 25, creating a new agency, to be known as the Office of Facts and Figures, operating under the direction of the President.

The President has honored me by naming me the Director of the new agency, and I am hopeful of beginning operation immediately. I am writing you this letter, therefore, to ask for your cooperation and the cooperation of your department in achieving the President's objective, as expressed in his Executive Order. I realize the Office of Facts and Figures cannot be successful without the complete assistance and constant advice of all agencies of the government dealing with the defense program and defense policies.

The President's Executive Order expresses very clearly the purpose and authority of the Office of Facts and Figures. I should like, however, to emphasize five points:

1. The strength of a democracy lies in the knowledge and understanding of its people. Unlike the government of a totalitarian state, we can take the people into the confidence of the government, and explain the whys and wherefores. The fundamental purpose of the creation of an Office of Facts and Figures is to help to make available to the average citizen a maximum of information on the defense program and policies, consistent with the public interest. I am sure no one can quarrel with this objective.

2. The requirements of the Office of Facts and Figures are extremely simple. The operation of the Office will be almost completely within the government. It will not duplicate nor supercede any existing information facility. It will not alter the present relationship between newspaper and radio representatives and the various departments and agencies. The Office of Facts and Figures will clarify, and we hope make more effective, the efforts of agencies already in the field. The job is one of coordination, not of control or regulation.

3. In order to perform its duties, the Office will, of course, depend upon information supplied by the various departments and agencies. In turn the Office will make suggestions under the direction of the President, as provided in the Executive Order, to the various departments and agencies.

4. The details of the organization of the Office and the methods by which it will maintain liaison with other departments and agencies have not yet been worked out. As soon as a procedure can be proposed, I should like to discuss it with you and to receive your suggestions and advice.

5. The Office of Facts and Figures will not use bally-hoo methods. We will deal with information in the absolute literal sense of the word - i.e., accurate facts and figures. It is the duty of the Office to help this information to flow freely and rapidly through the natural channels of the government, and I can promise that the facts and figures will be neither perverted nor colored.

The Office of Facts and Figures, which is an independent agency operating under the President, is an outgrowth of the plan which Civilian Defense Director F. H. LaGuardia submitted to you in a memorandum under date of August 14. Mr. LaGuardia has been of invaluable help and is largely responsible for the final plan that the President evolved and which is contained in the Executive Order.

I shall not attempt in this letter to spell out to you in greater detail the functioning of the Office of Facts and Figures. My only purpose now is to give you a broad outline of my thinking and to ask whether it will be convenient for you to discuss this entire matter with me at some time in the near future. If your secretary will be good enough to suggest to my office in the Library of Congress an hour which will be convenient for you, I shall make every effort to make my convenience meet yours.

Faithfully yours,

Archie MacLeish

Archibald MacLeish
Director, Office of Facts and Figures

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

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HOLD FOR RELEASE HOLD FOR RELEASE HOLD FOR RELEASE

OCTOBER 27, 1941

CAUTION: The following address of the President, to be delivered at the dinner to be held at the Mayflower Hotel in celebration of "Navy and Total Defense Day", MUST BE HELD IN STRICT CONFIDENCE UNTIL RELEASED.

2054

NOTE: Release to editions of all newspapers appearing on the streets not earlier than 10:00 P.M., E.S.T., October 27, 1941. The same release of the text of the address also applies to radio announcers and news commentators.

CARE MUST BE EXERCISED TO PREVENT PREMATURE PUBLICATION.

STEPHEN EARLY
Secretary to the President

- -

Five months ago tonight I proclaimed to the American people the existence of a state of unlimited emergency.

Since then much has happened. Our Army and Navy are temporarily in Iceland in the defense of the Western Hemisphere.

Hitler has attacked shipping in areas close to the Americas in the North and South Atlantic.

Many American-owned merchant ships have been sunk on the high seas. One American destroyer was attacked on September fourth. Another destroyer was attacked and hit on October seventeenth. Eleven brave and loyal men of our Navy were killed by the Nazis.

We have wished to avoid shooting. But the shooting has started. And history has recorded who fired the first shot. In the long run, however, all that will matter is who fired the last shot.

America has been attacked. The U.S.S. Kearny is not just a navy ship. She belongs to every man, woman and child in this nation.

Illinois, Alabama, California, North Carolina, Ohio, Louisiana, Texas, Pennsylvania, Georgia, Arkansas, New York, Virginia -- those are the home states of the honored dead and wounded of the Kearny. Hitler's torpedo was directed at every American, whether he lives on our sea coasts or in the innermost part of the nation, far from the seas and far from the guns and tanks of the marching hordes of would-be conquerors of the world.

The purpose of Hitler's attack was to frighten the American people off the high seas -- to force us to make a trembling retreat. This is not the first time he has misjudged the American spirit. That spirit is now aroused.

If our national policy were to be dominated by the fear of shooting, then all of our ships and those of our sister Republics would have to be tied up in home harbors. Our Navy would have to remain respectfully -- abjectly -- behind any line which Hitler might decree on any ocean as his own dictated version of his own war zone.

Naturally we reject that absurd and insulting suggestion. We reject it because of our own self-interest, because of our own self-respect, because, most of all, of our own good faith. Freedom of the seas is now, as it has always been, a fundamental policy of your government and mine.

Hitler has often protested that his plans for conquest do not extend across the Atlantic Ocean. But his submarines and raiders prove otherwise. So does the entire design of his new world order.

For example, I have in my possession a secret map made in Germany by Hitler's government -- by the planners of the new world order. It is a map of South America and a part of Central America, as Hitler proposes to reorganize it. Today in this area there are fourteen separate countries. The geographical experts of Berlin, however, have ruthlessly obliterated all existing boundary lines; and have divided South America into five vassal states, bringing the whole continent under their domination. And they have also so arranged it that the territory of one of these new puppet states includes the Republic of Panama and our great life line -- the Panama Canal.

That is his plan. It will never go into effect.

This map makes clear the Nazi design not only against South America but against the United States itself.

Your government has in its possession another document made in Germany by Hitler's government. It is a detailed plan, which, for obvious reasons, the Nazis did not wish and do not wish to publicize just yet, but which they are ready to impose -- a little later -- on a dominated world -- if Hitler wins. It is a plan to abolish all existing religions -- Protestant, Catholic, Mohammedan, Hindu, Buddhist and Jewish alike. The property of all churches will be seized by the Reich and its puppets. The cross and all other symbols of religion are to be forbidden. The clergy are to be forever silenced under penalty of the concentration camps, where even now so many fearless men are being tortured because they have placed God above Hitler.

In the place of the churches of our civilization, there is to be set up an International Nazi Church -- a church which will be served by orators sent out by the Nazi Government. In the place of the Bible, the words of Mein Kampf will be imposed and enforced as Holy Writ. And in place of the cross of Christ will be put two symbols -- the swastika and the naked sword.

A God of Blood and Iron will take the place of the God of Love and Mercy. Let us well ponder that statement which I have made tonight.

These grim truths which I have told you of the present and future plans of Hitlerism will of course be hotly denied tonight and tomorrow in the controlled press and radio of the Axis Powers. And some Americans -- not many -- will continue to insist that Hitler's plans need not worry us -- and that we should not concern ourselves with anything that goes on beyond rifle shot of our own shores.

The protestations of these American citizens -- few in number -- will, as usual, be paraded with applause through the Axis press and radio during the next few days, in an effort to convince the world that the majority of Americans are opposed to their duly chosen Government, and in reality are only waiting to jump on Hitler's band wagon when it comes this way.

The motive of such Americans is not the point at issue. The fact is that Nazi propaganda continues in desperation to seize upon such isolated statements as proof of American disunity.

The Nazis have made up their own list of modern American heroes. It is, fortunately, a short list. I am glad that it does not contain my name.

All of us Americans, of all opinions, are faced with the choice between the kind of world we want to live in and the kind of world which Hitler and his hordes would impose upon us.

None of us wants to burrow under the ground and live in total darkness like a comfortable mole.

The forward march of Hitler and of Hitlerism can be stopped -- and it will be stopped.

Very simply and very bluntly -- we are pledged to pull our own oar in the destruction of Hitlerism.

And when we have helped to end the curse of Hitlerism we shall help to establish a new peace which will give to decent people everywhere a better chance to live and prosper in security and in freedom and in faith.

Each day that passes we are producing and providing more and more arms for the men who are fighting on actual battle-fronts. That is our primary task.

And it is the nation's will that these vital arms and supplies of all kinds shall neither be locked up in American harbors nor sent to the bottom of the sea. It is the nation's will that America shall deliver the goods. In open defiance of that will, our ships have been sunk and our sailors have been killed.

I say that we do not propose to take this lying down.

Our determination not to take it lying down has been expressed in the orders to the American Navy to shoot on sight. Those orders stand.

Furthermore, the House of Representatives has already voted to amend part of the Neutrality Act of 1937, today outmoded by force of violent circumstances. The Senate Committee on Foreign Relations has also recommended elimination of other hamstringing provisions in that Act. That is the course of honesty and of realism.

Our American merchant ships must be armed to defend themselves against the rattlesnakes of the sea.

Our American merchant ships must be free to carry our American goods into the harbors of our friends.

Our American merchant ships must be protected by our American Navy.

It can never be doubted that the goods will be delivered by this nation, whose Navy believes in the tradition of "Damn the torpedoes; full speed ahead!"

Yes, our nation will and must speak from every assembly line. Yes, from every coal mine -- the all-inclusive whole of our vast industrial machine. Our factories and our shipyards are constantly expanding. Our output must be multiplied.

It cannot be hampered by the selfish obstruction of any small but dangerous minority of industrial managers who perhaps hold out for extra profits, or for "business as usual". It cannot be hampered by the selfish obstruction of a small but dangerous minority of labor leaders who are a menace -- for labor as a whole knows that that small minority is a menace -- to the true cause of labor itself, as well as to the nation as a whole.

The lines of our essential defense now cover all the seas; and to meet the extraordinary demands of today and tomorrow our Navy grows to unprecedented size. Our Navy is ready for action. Indeed, units of it in the Atlantic patrol are in action. Its officers and men need no praise from me.

Our new Army is steadily developing the strength needed to withstand the aggressors. Our soldiers of today are worthy of the proudest traditions of the United States Army. But traditions cannot shoot down dive bombers or destroy tanks. That is why we must and shall provide, for every one of our soldiers, equipment and weapons -- not merely as good but better than that of any other army on earth. And we are doing that right now.

For this -- and all of this -- is what we mean by total national defense.

The first objective of that defense is to stop Hitler. He can be stopped and can be compelled to dig in. And that will be the beginning of the end of his downfall, because dictatorship of the Hitler type can live only through continuing victories -- increasing conquests.

The facts of 1918 are proof that a mighty German army and a tired German people can crumble rapidly and go to pieces when they are faced with successful resistance.

Nobody who admires qualities of courage and endurance can fail to be stirred by the full-fledged resistance of the Russian people. The Russians are fighting for their own soil and their own homes. Russia needs all kinds of help -- planes, tanks, guns, medical supplies and other aids -- toward the successful defense against the invaders. From the United States and from Britain, she is getting great quantities of those essential supplies. But the needs of her huge army will continue -- and our help and British help will have to continue!

The other day the Secretary of State of the United States was asked by a Senator to justify our giving aid to Russia. His reply was: "The answer to that, Senator, depends on howanxious a person is to stop and destroy the march of Hitler in his conquest of the world. If he were anxious enough to defeat Hitler, he would not worry about who was helping to defeat him".

Upon our American production falls the colossal task of equipping our own armed forces, and helping to supply the British, the Russians and the Chinese. In the performance of that task we dare not fail. And we will not fail.

It has not been easy for us Americans to adjust ourselves to the shocking realities of a world in which the principles of common humanity and common decency are being mowed down by the firing squads of The Gestapo. We have enjoyed many of God's blessings. We have lived in a broad and abundant land, and by our industry and productivity we have made it flourish.

There are those who say that our great good fortune has betrayed us -- that we are now no match for the regimented masses who have been trained in the Spartan ways of ruthless brutality. They say that we have grown fat, and flabby, and lazy -- and that we are doomed.

But those who say that know nothing of America or of American life.

They do not know that this land is great because it is a land of endless challenge. Our country was first populated, and it has been steadily developed, by men and women in whom there burned the spirit of adventure and restlessness and individual independence which will not tolerate oppression.

Ours has been a story of vigorous challenges which have been accepted and overcome -- challenges of uncharted seas, of wild forests and desert plains, of raging floods and withering drought, of foreign tyrants and domestic strife, of staggering problems -- social, economic and physical; and we have come out of them the most powerful nation -- and the freest -- in all of history.

Today in the face of this newest and greatest challenge of them all we Americans have cleared our decks and taken our battle stations. We stand ready in the defense of our nation and the faith of our fathers to do what God has given us the power to see as our full duty.

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THE WHITE HOUSE
WASHINGTON

PERSONAL

October 27, 1941.

Dear Mr. Secretary:

You may wish to add the enclosed to your file on "Why the British Can't Lose". It would be amusing, if it weren't for the fact that Owen Lattimore, our political adviser to Chiang Kai-shek, tells me that the British Ambassador is assiduously trying to build up Niemeyer and run down Fox, and Lattimore is putting in his licks for Fox.

Sincerely,

Lauch Currie

Lauchlin Currie

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

CHINESE NEWS SERVICE

1250 6TH AVENUE NEW YORK, N. Y.

Phone: Circle 6-5225 Cable Address: SINONEWS

New York, October 21, 1941

VOICE OF CHINA
(China News by Shortwave Radio)

Economic

NIEMEYER, COCHRANE IN CHUNGKING SAY
MISSION SYMBOLIZES AID-CHINA POLICY

CHUNGKING, Oct. 18 (CNS).....The arrival of the long-awaited Anglo-American Financial and Economic Mission to China has been in the last two days an event which has held the attention of official circles and the people alike. It is the expressed feeling of both the visiting experts and their host that in the work of the mission a further step will have been accomplished in Chinese-British-American economic co-operation as well as in strengthening the world democratic front in general.

Apply Anglo-American Experience

In an interview granted the Chinese and foreign press yesterday Sir Otto Niemeyer, head of the visiting mission and a Director of the Bank of England, made the following statement:

"Our mission is purely in an advisory capacity. We hope to apply
the experience we have learned in Europe and elsewhere to your problems. I
have been sent from the other side of the world at a moment when my country
is deeply engaged in war and has its own difficulties. My presence in Chung-
king is a symbol of the very real feeling that is in my country for this
country. We hope to contribute whatever we can to the Chinese economy in a
desire to promote these ends. The presence of Mr. Cochrane and myself is in
line with the policy of both our countries to assist China."

Mr. H. Merle Cochrane, Technical Assistant to the United States
Secretary of the Treasury and a member of the mission, told the press that
he is happy to work with Sir Otto Niemeyer who has recently been in Washing-
ton and had watched for himself how the American Government is pushing ahead
with its "Aid Democracy" policy.

To Solve Currency Problems

Sir Otto declared that the Stabilization Fund for Chinese currency
is only one phase of the problems of foreign exchange. Our sole object, the
British expert said, is to help in solving them. The stabilization fund has
not been working very long, according to Sir Otto, and the United States
freezing system is also new. "But the instruments are there," he said, "if
we can help you." He added that the Chinese-American-British Currency Stabi-
lization Board still has ample funds.

The Anglo-American Financial-Economic Mission arrived in Chungking
by plane from Hong Kong on Thursday morning (Oct. 16). The party included,
besides Sir Otto and Mr. Cochrane, Mr. James Baxter of the Burma Government.
Mr. A. Manuel Fox, American member of the Currency Stabilization Board, re-
turned to Chungking on the same plane. While in Hong Kong, where they ar-
rived on Oct. 9, Sir Otto and Mr. Cochrane conferred with members of the British Colony.
Currency Stabilization Board who were at that time in the Chinese
Questions raised at the discussions concerned stabilization of the economic problems.
dollar and the control of frozen assets as well as other
Sir Otto revealed that the mission would spend most of its time meeting in
Chungking. Already the members have begun a series of consultations with
Chinese authorities.

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

Week ended October 25, 1941

	JAPAN	RUSSIA	SPAIN	GREAT BRITAIN
...OLEUM PRODUCTS				
...el and Gas Oil (including Diesel Oil)	—	7,000 Bbls.	—	508,223 Bbls.
...ude -				
Blended or California High Octane Crude*	—	—	—	—
All Other Crude	—	—	—	—
...soline -				
Gasoline A**	—	43,286 Bbls.	—	296,100 Bbls.
Gasoline B*	—	—	66,000 Bbls.	270,800 Bbls.
All Other Gasoline	—	—	—	95,000 Bbls.
...bricating Oil -				
Aviation Lubricating Oil***	—	—	—	11,352 Bbls.
All Other Lubricating Oil	—	719 Bbls.	—	—
...traethyl Lead***	—	—	—	—
...oosters", such as Iso-Octane, Iso-Hexane, or Iso-Pentane	—	—	—	327 Bbls.
...P IRON AND SCRAP STEEL				
...mber 1 Heavy Melting Scrap	—	—	—	—
...l Other Scrap	—	—	—	—

...ce of the Secretary of the Treasury, Division of Research and Statistics.
October 27, 1941.

...ce: 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.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 27, 1941.

TO Secretary Morgenthau

FROM Mr. White

Subject: Exports to Russia, China, Burma, Japan, France and other blocked countries, as reported to the Treasury Department during the week ending October 18, 1941.

1. Exports to Russia

Exports to Russia as reported to the Treasury during the week ending October 18, 1941 amounted to only $1,924,000 as compared with $5,[illegible],000 the previous week. Aviation gasoline and anti-knock compounds accounted for more than 80 per cent of the total exports. (See Appendix C.)

2. Exports to China and Burma

Exports to Free China as reported during the week under review declined even more sharply than exports to Russia, amounting to only $5,000. Exports to Occupied China also declined, but considerably exceeded the amount to Free China. (See Appendices D and E.)

During the week ending October 18, 1941, exports to Burma amounted to only $35,000. Petroleum well-drilling apparatus was the chief item. A large percentage of exports to Burma are presumed, because of their consignees, to be for reexport to Free China. (See Appendix F.)

3. Exports to Japan

No exports to Japan were reported during the week ending October 18, 1941. Of course, Japan may very well be the ultimate destination of much of the goods exported to Occupied China.

4. Exports to France

No exports to France - occupied and unoccupied - were reported during the week ending October 18, 1941.

5. Exports to other blocked countries

Exports to other blocked countries are given in Appendix A.

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

July 28 to October 25, 1941

(In thousands of dollars)

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

Treasury Department, Division of Monetary Research October 30, 1941

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

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

3/ September 11 - October 25, 1941 — it is presumed that a large percentage of material listed here, consigned to Burma, is destined for Free China.

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

5/ Less than $500.

Appendix B

Exports from the U. S. to China, Burma, Japan and U.S.S.R. as reported to the Treasury Department, July 28, 1941 -- October 18, 1941
(Thousands of dollars) 1/

	Total	Exports to China: To Japanese controlled ports	Exports to China: To Chinese controlled ports	Exports to Burma 3/	Exports to Japan	Exports to U.S.S.R.
July 28 - Aug. 2	937	542	395		1,657	4,523
Aug. 4 - Aug. 9	2,794	2,794	--		159	551
Aug. 11 - Aug. 16	1,278	969	309		42	986
Aug. 18 - Aug. 23	1,352	1,350	2		6	2,735
Aug. 25 - Aug. 30	736	735	1		---	1,023
Sept. 2 - Sept. 6	897	693	204		---	4,280
Sept. 8 - Sept. 13	3,038 2/	757	2,281 2/		---	5,217
Sept. 15 - Sept. 20	3,978 2/	156	3,822 2/		---	752
Sept. 22 - Sept. 27	462	352	110	449	---	2,333
Sept. 29 - Oct. 4	1,305	80	1,225	684	---	323
Oct. 6 - Oct. 11	5,864	552	5,312	1,157	---	6,845
Oct. 13 - Oct. 18	272	267	5	35	---	1,924
Total	22,913	9,247	13,666	2,325	1,864	31,492

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

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

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

Treasury Department, Division of Monetary Research — October 28, 1941.

Appendix C

Principal Exports from U. S. to U.S.S.R.
as reported to the Treasury Department
during the week ending October 18, 1941.

(Thousands of dollars)

Total exports	$ 1,924
Principal Items	
Aviation gasoline	1,174
Anti-knock compounds	461
Metallic containers (drums)	143
Carbon black	116
Toluol	30

Treasury Department, Division of Monetary Research Oct. 28, 1941

Appendix D

Principal Exports from U. S. to Free China
as reported to the Treasury Department
during the week ending October 18, 1941.

(Thousands of dollars)

Total Exports to Free China	$ 5
Principal Item	
Insulated copper wire	4

Appendix E

Principal Exports from U. S. to Occupied China
as reported to the Treasury Department
during the week ending October 18, 1941.

(Thousands of dollars)

Total Exports to Occupied China	$ 267
Principal Items	
Leather	50
Leaf tobacco	37
Malt	32
Cigarettes	28
Wrapping paper	23
Newsprint paper	18
Raw cotton	13

Appendix F

Principal Exports from U. S. to Burma
as reported to the Treasury Department
during the week ending October 18, 1941.

(Thousands of dollars)

Total Exports	$	35
Principal Items		
Petroleum well-drilling apparatus		14
Auto replacement parts		5
Potassium Xanthate		5
Other paint		2
Salmon and sardines		2
Asbestos brake lining		2
Vitamins		1
Other X-Ray apparatus		1

Treasury Department, Division of Monetary Research Oct. 29, 1941.

Principal Exports from U. S. to French Indochina
as reported to the Treasury Department
during the week ending October 18, 1941.

(Thousands of dollars)

Total Exports	$ 4
Principal Item	
Cigarettes	4

TREASURY DEPARTMENT

303

INTER-OFFICE COMMUNICATION

DATE October 27, 1941

TO Secretary Morgenthau

FROM Mr. Dietrich

The attached cable from Berne, No. 229, was received late this afternoon and in view of its confidential character it was shown only to Under Secretary Bell. I assume that you will want the usual distribution made to the persons interested in this matter.

Bell
Foley
White

Copies to Messrs Bell
Foley & White on 11/28 at 1020 am

C O P Y

COPY FOR SECRETARY

304

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, Bern, Switzerland.

DATE: October 15, 1941, 9 a.m.

NO. : 229.

THIS TELEGRAM IS STRICTLY CONFIDENTIAL FOR THE UNDER SECRETARY AND THE SECRETARY.

I have been informed by Mr. Piletgolaz that the Federal Council is concerned because of the present ratio of the gold reserves of the Swiss National Bank and this has led him to instruct the Swiss Minister at Washington to request permission to transfer part of the bank's gold now in the United States to Switzerland. Mr. Pilet hopes that favorable consideration will be given to this request.

It was pointed out by Mr. Pilet that the National Bank as was previously its practice has even since the freezing of Swiss funds been careful not to refuse purchases of dollars even though the Bank had no direct interest in such purchases which were to the advantage of the United States rather than Switzerland and that the National Bank has been careful to facilitate operations between the two countries. He cited a payment of the American contribution to the International Institute of Agriculture in Rome as an example of such cooperation. He said that although the Bank was glad to continue to be of service it could not continue indefinitely to pay out Swiss francs here against the purchase of blocked dollars without some counterpart being received. The Bank is required by law to maintain in Switzerland gold coverage of 40 per cent of the paper money in circulation. In addition the Bank must provide gold for use in the internal market. An important use of this character is the requirements of the watch industry, many of the products of which are exported to the Western Hemisphere. The paper money of the Bank in circulation now totals 2,100 million Swiss francs and the minimum coverage of gold that must be held in Switzerland amounts to 840 million gold francs (40 per cent of 2,100 million francs). At the present time there is in fact a shortage of some 150 million (i.e. the equivalent of 30,000 kilograms) of gold since the actual gold coverage here is only 690 million. The strictly confidential character of the foregoing information was particularly emphasized by Mr. Pilet. The Bank would have repatriated gold to meet this shortage had it not been for difficulties of transportation but since Switzerland now has her own flag ships the transportation of the gold to Switzerland has become possible. Repatriation of gold through Genoa is now proposed. Switzerland will ask special Italian consent to this and has every reason to believe that the request will be granted by Italy. The National Bank intends to repatriate 10,000 kilograms of gold at once. After this has been done successfully the National Bank will arrange to bring gold coverage up to the minimum required by law by repatriating the remaining two-thirds.

Switzerland will still have even after the repatriation of 30,000 kilograms of gold more gold in the United States than is held in Switzerland, since gold held by Switzerland in the United States now amounts to 1,040 million Swiss francs or the equivalent of 200,000 kilograms. The desire of Switzerland for repatriating part of its gold held in the United States is explained in part by the unusual demands for gold in this market. While these demands have now subsided they may be resumed at any time. Added to the demand for gold for industrial uses in Switzerland there must be taken under consideration the export of gold to pay for transportation facilities and to pay for purchases of merchandise in foreign countries. If the Government of Switzerland continues to accumulate reserves in foreign countries it will undoubtedly become vulnerable to criticism, particularly if such reserves are blocked rather than free. It should be noted that the Swiss National Bank is continually faced with demands that it purchase dollars in the United States in order that it may effect the remittance to Switzerland of the dividends and interest on Swiss investments in South America, and in North America, that it effect individual payments in Europe, that it meet the requirements of the United States Government in Europe and that it effect the transfer to Rome of various payments which are made by Catholic Institutions. It is my opinion that since Switzerland is not our capital debtor our interests would be best served at this time if the Swiss request is granted. The granting of this permission would also in my opinion strengthen the independent position of Switzerland.

HARRISON

Copy:bj:lc:10/27/41

Office of Dave H. Morris, Jr.
Received: Date........Hour..........

October 31, 1941.

MEMORANDUM ON

The Transfer of Swiss-owned Gold in the United States

In September, 1941, the Swiss National Bank attempted to obtain permission from the Treasury to export from New York to Portugal $2 million in gold. The reason given by the Swiss Minister for the transaction was the need for this gold to make payments due to Portugal and the fact that Switzerland could not release gold for this purpose from her reserves in Switzerland. After careful consideration, this application was denied by the Interdepartmental Committee on Foreign Funds.

On October 10, 1941, the Swiss National Bank cabled the Federal Reserve Bank to obtain a license to transfer $11.5 million in gold from the earmarked account of the Swiss National Bank to the earmarked account of the Bank of Portugal. In this cable the Swiss National Bank stated:

> "As you see, Banco [de Portugal] has consented now to such transfer instead of asked shipment from New York. We therefore hope to get now very promptly the license asked for."

Subsequently, a cable was received on October 14 by the Federal Reserve Bank from the Bank of Portugal stating:

> "According to cable you will have received from Banque Nationale Suisse, Zurich, please do necessary to transfer from their to our gold account with you 10,000 kilos fine gold bars as we are delivering Banque Nationale Suisse, Zurich, equivalent amount from our gold deposit with them at Berne."

The Swiss cable of October 10, fairly read, indicated that the transfer of the earmarked gold in New York was for payments which the Swiss wished to make in Portugal. We were not told the very material fact that this transaction was fundamentally an export of gold from New York to Switzerland.

A third application is pending requesting a license to release $100,000 in gold from the account of the Central Reserve Bank of Peru for shipment to Argentina where it would be credited to the account of the Swiss National Bank in return for a corresponding credit of Swiss francs in Zurich.

In a communication to the Under Secretary of State, the Swiss Minister states that the Swiss National Bank must transfer 30,000 kilograms of gold (about $34 million) from this country to Switzerland. Further, the American Embassy in Mexico reports that a Mexican bank has received an inquiry from a Swiss bank with respect to the price of freely exportable gold bars against dollars, and the American Embassy in Brazil reports that the Bank of Brazil has been informed that the Swiss National Bank may ship gold to Brazil for safekeeping.

These applications and inquiries show conclusively that the Swiss Government is determined to withdraw gold from the United States, directly or indirectly, for the purpose of increasing its gold holdings in Europe. The transfer of such large quantities of gold to Europe at this time is contrary to the vital interests of the American Government and to the long-range interests of the Swiss Government.

Sixty percent of the gold reserves of Switzerland are in the United States. According to the Swiss Minister: "The reasons why the Swiss National Bank accumulated such an important part of its reserves in this country was the confidence which Switzerland placed in the Government of the United States of America as well as the conviction that in no other country could the reserves of a small independent nation be better safeguarded than in America." The soundness of this view is clear. In May and June, 1940, the Swiss Government asked the United States to facilitate the shipment of all of its gold reserves from Switzerland to this country. What has happened since to make Europe a safe place in which to hold the gold reserves of a small nation?

The first reason given by the Swiss Minister for transferring gold to Switzerland is the need for $34 million in gold to provide sufficient reserves for the note issue. As Swiss banknotes are not convertible into gold and as Swiss gold reserves are held solely as assurance of the soundness of the currency, it would seem that this purpose could be better served by retaining the gold reserves in this country where they are safe from seizure by invaders. The welfare of Switzerland would be better served by keeping to a minimum its reserves of gold in Europe and by basing its note issue on earmarked gold in this country. This is a practice now followed by many countries and by the Swiss National Bank prior to 1929. In May and June, 1940, the Swiss apparently were not troubled by the existence of any statute requiring that gold reserves be held in Switzerland.

The present large gold reserves in Switzerland are an invitation to the invader seeking loot. The direct transfer of gold to Switzerland cannot be regarded as in the interest of this country or even in the ultimate interest of a free Switzerland. The same objection applies to an increase in the gold reserves of Switzerland which will result from a switching transaction of earmarked gold to Portugal in New York in return for earmarked gold from Portugal in Berne.

The second reason given by the Swiss Minister for the transfer of gold to Switzerland is the need for such gold in settlement of adverse trade balances. Switzerland is importing raw materials and semi-finished goods from the less-developed parts of Europe for conversion into precision instruments and other highly fabricated war goods for export to Germany. Not only is Switzerland providing Germany with urgently needed goods but it is providing these goods on credit. According to the Swiss Minister, under the clearing agreement Switzerland is financing export credits to Germany at the rate of 400 million francs a year. The actual credits under the clearing agreement may in fact turn out to be much larger. It is admitted by the Swiss Minister that Switzerland is helpless to alter this situation. He says: "As a result of the developments of this war, it is entirely surrounded by Axis-dominated countries." Its imports and exports can continue only on the sufferance of Germany.

Transfer of earmarked gold in New York from Switzerland to Portugal is only one part of the transaction. Corresponding to this transfer, there is another transfer abroad from Portugal to Switzerland, resulting in an increase in the gold reserves at the disposal of Switzerland. Under present circumstances, such a transaction would result in an acceleration of Switzerland's economic contribution to Germany's war effort. The United States cannot imperil its vital interests by permitting Switzerland to withdraw gold from this country, directly or indirectly, for the purpose of expanding its contribution to the German war effort.

Even if Switzerland, for the purpose of liquidating its obligations to Portugal, should desire to transfer to Portugal gold in New York to be left there under Portugal's earmark, we should not approve the transfers, particularly so long as Switzerland has enough gold in Europe to discharge its European obligations. It should be remembered that a substantial part of the materials heretofore or hereafter acquired by Switzerland from Portugal, will be used by Switzerland to manufacture goods for Germany or otherwise help Germany in its war effort.

The Swiss Government has indicated that the Italian Government is prepared to grant free transit of gold from New York to Switzerland by way of Genoa. It would be surprising if the Italian Government followed any other course. The Axis countries will make certain that Swiss gold will be used to the fullest extent to further Germany's war economy even if seizure or a threat of seizure is necessary for this purpose. It is so obviously to Germany's advantage to see an increase in the gold reserves held by Switzerland in Europe that the British Government has not granted a navicert for any of the proposed shipments of gold. It is interesting to observe that when the Swiss were considering moving all their gold to the United States in June, 1940, Sommary, the Swiss representative, said he was unwilling to ship $250,000,000 of gold through an Italian port even if the Italians agreed by treaty to allow Switzerland to use Genoa during the war. Sommary noted that this amount of gold was more than the gold holdings of the Bank of Italy. What has happened since to make Italy a safe place through which to transport Swiss gold?

Our gold policy is in no way involved in refusing to allow Switzerland to withdraw its gold from this country or to transfer earmarked gold in New York to the earmark of another country. The Treasury is continuing to buy and sell gold from Switzerland and has done so very recently. Our policy with respect to Swiss-owned gold does not differ from our policy with respect to other Swiss-owned dollar assets and property in this country. Of course, our freezing control policy regulates the use of gold but that has been true ever since April, 1940. We are not singling out gold but simply treating it the same way we treat all other forms of blocked property.

This Government appreciates the confidence the Swiss Government has shown in this country and in its free institutions by maintaining a large part of its monetary resources in the United States. The sympathetic manner in which we have considered the economic and monetary problems of Switzerland is evidenced by our granting them a General License. There is nothing in the long history of our relations with Switzerland or our current views with regard to the rights of small countries to cause Switzerland to fear that her fundamental interests will be undermined by the United States.

In return we hope that the Swiss Government will recognize that we are acting in their interest and will continue to rely on our good faith by accepting dollar funds and by retaining earmarked gold and other Swiss-owned assets in this country.

EMB:BB:mrd - 10/31/41.

Office of Dave H. Morris, Jr.
Received: Date 11/4 Hour 9.25

C
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November 3, 1941

313

A-A
Mr. Acheson:

Memorandum: Transfer of Swiss-owned gold in the United States to the Banco de Portugal

As I understand the transaction, it is as follows:

(1) The Swiss National Bank desires to transfer gold held by it in America to the Banco de Portugal, which in turn will hold it under earmark in the United States.

(2) It is assumed that there will be some sort of transfer of gold or other American exchange from Portugal to Bern. This last is not spelt out.

If an arrangement could be worked out by which we permit Switzerland to transfer earmarked gold in the United States to an earmarked Portuguese account, also to be held in the United States, thus satisfying Swiss obligations to Portugal, I see no objection to it. Unless it is established that thereupon the Portuguese transfer dollars or gold to Switzerland, it would seem that no material damage to our interests took place.

Actually, my distinct impression is that our interests would be served if the gold could be brought into Portuguese control. Portugal is, in my judgment, in far greater danger of invasion than Switzerland. Should this occur, the Portuguese Government would undoubtedly take

refuge

refuge in the Azores, and the greater its assets in the United States, the better we could support the hand of that government. There is less reason to invade Switzerland; and in any case supporting a Swiss government in exile — assuming such a government existed — would be a mere political gesture, whereas there are material advantages which would accrue in the conduct of the war if we were in a position to support the Portuguese situation, as I am pretty clear we would.

The assumption, however, is that by transfer of this gold Switzerland will buy in Portugal tangible materials which it will then bring into Switzerland, and will use for manufacture of materials much of which will go into Germany under the prevailing German-Swiss economic arrangements. This is a question of fact; to decide it would turn on an accurate knowledge of the supplies Switzerland is drawing and can draw from Portugal.

I agree wholly with Mr. Bernstein that there seems to be no reason for transferring gold to Switzerland to serve as a base for Swiss note issues; or to assist the Bank of Portugal in transferring gold it holds in Bern to Swiss account.

The conclusion is that the application for license ought to be denied, unless it were accompanied by assurances satisfactory to us from Portugal that they would not transfer an equivalent amount of assets to Swiss account.

A. A. Berle, Jr.

CONFIDENTIAL

315

Hotel Richemond,

Geneva.

27 October 1941.

My dear Mr. Secretary,

The enclosed copy of a letter to the Secretary of State will tell you about the two memoranda I am sending you by the same pouch that takes this.

I believe that no peace is likely to last long unless Central and South-East European economic frontiers are wisely drawn. The 1919-1920 set-up must on no account be confirmed by the settlement that follows the present war. The memoranda I am sending you now contain a further development of the ideas I tried to express in the Notes on Self-Determination I sent you on the 4th instant.

With my kindest regards,

Sincerely yours,

Royall Tyler

Royall Tyler

Enclosure:
Copy of a letter to the Secretary of State.

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

CONFIDENTIAL

316

Hotel Richemond,

Geneva.

27 October 1941.

My dear Mr. Secretary,

I am sending to you by the same pouch that takes this:

(1) Some notes on political and economic frontiers in Central and South-East Europe, as it seems to me they ought to be drawn after this war. I am not showing these notes to anyone here.

(2) A first draft of a memorandum on the economic organization of Central Europe, with particular reference to the Danube Valley, which I am doing at the request of the Secretary General of the League of Nations, and which goes in some detail into the economic havoc caused by the 1919-1920 customs-barriers. This memorandum may be sent, privately, to some of the League Governments. The Secretary General has not yet had time to consider what he wishes to do with it, or whether he wants changes made in it, so for the present at any rate it also had better be regarded as confidential.

I am, with kind personal regards, Mr. Secretary

Respectfully yours,

Royall Tyler

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

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 27, 1941

TO Secretary Morgenthau

FROM George Buffington

It has been suggested by Mr. Vincent T. Callahan that I make a fifteen minute talk regarding the Tax Savings Plan over a national radio hookup the early part of November. I have discussed the matter with Messrs. D. W. Bell, Sullivan, Kuhn, and Odegard and they feel such a talk advisable. You may prefer to have it done by an official of the Treasury Department. May I have a decision from you in order that I may have the script prepared and approved.

GB.

I think it would be best to have W. Bell do this

H.M.Jr.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

318

DATE October 27, 1941

TO Secretary Morgenthau
For Miss Chauncey

FROM Mr. Dietrich

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£110,000
Purchased from commercial concerns	£ 16,000

Open market sterling was again quoted at 4.03-1/2. The only reported transactions consisted of £4,000 sold to two commercial concerns.

The Canadian dollar, which closed at 11% discount on Saturday, improved to a final quotation of 10-7/8% today.

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

Argentine peso (free)	.2363
Brazilian milreis (free)	.0505
Colombian peso	.5775
Mexican peso	.2070
Uruguayan peso (free)	.4625
Venezuelan bolivar	.2610
Cuban peso	1/8% discount

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

No new gold engagements were reported.

In London, both spot and forward silver remained at 23-1/2d, equivalent to 42.67¢.

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

We made no silver purchases today.

C
O
P
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October 27, 1941

IN. 27/1/10/41

Bank of Portugal, Lisbon, notified Banco do Brasil, Rio de Janeiro, on September 22, 1941, they would like to know:

1. Under what conditions bank is prepared to receive and to keep in safe custody Gold which may be sent for account of Bank of Portugal.

2. If the export of Gold is free.

3. If they could deposit Gold in Bank under the condition that it might be freely exported at any time.

4. Under what terms would Bank undertake to assist in effecting such export.

J.M.

Copy:vw:10-29-41

C
O
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DEPARTMENT OF STATE

Washington

In reply refer to
FF 851.51/2914

October 27, 1941

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and transmits herewith a copy of the paraphrase of telegram no. 1363, dated October 24, 1941, from the American Embassy at Vichy, transmitting a message from Morgan and Company, Chatel Guyon, France to J. P. Morgan and Company, New York, regarding service on French Government 7% bonds in the United States.

A paraphrase of the message has been transmitted to J. P. Morgan and Company, New York, by the Department of State.

Enclosure:

No. 1363 from Vichy,
October 24, 1941.

Copy:ec:10-27-41

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Vichy, France.

DATE: October 24, 1941, 10 a.m.

NO.: 1363.

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It is desired by Mr. Arragon, of Morgan and Company, Chatel Guyon, France, that a paraphrase of the following message be sent to the New York office of J. P. Morgan and Company:

Desirous of assuring continuous service in the United States on the 7% bonds even if, as a result of events beyond the Ministry's control, there should be an interruption of communications and the French Financial Attache should be isolated, the French Ministry of Finance, with this end in view, asks that you examine the possibility of accepting powers from the French Government in a form to be decided upon under which you would act for its account and perform all acts of administration connected with the service of the loan covering both the semi-annual coupon payments and the annual sinking fund reimbursement of bonds, including drawings, publication and signing of notices, and the other such formalities. The French Financial Ministry believes that in view of your present status as fiscal agents and sinking fund trustees you can best discharge these functions. I understand that the powers would be irrevocable unless and until by mutual agreement other arrangements should later be made but that the powers would involve no financial responsibility beyond handling funds which you already have on deposit.

A reply through the American Embassy at Vichy is requested.

With reference to this matter the Department and Treasury are asked to refer to telegram no. 1299 which was sent by the Embassy at noon on the 13th of October.

LEAHY

Copy:hr:10-27-41.

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BRITISH EMBASSY,
WASHINGTON, D.C.

October 27th, 1941

PERSONAL AND
SECRET

Dear Mr. Secretary,

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

Believe me,
Dear Mr. Secretary,
Very sincerely yours,

Halifax

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

TELEGRAM FROM LONDON DATED OCTOBER 24th, 1941.

H.M.S. GNAT has arrived in harbour in tow.

H.M.S. MAORI was torpedoed night 22nd/23rd 10 miles South Southwest Cape St. Vincent while escorting homeward bound convoy. Forward part completely wrecked and, though possibility of towing was expected, later report states H.M.S. MAORI was sinking.

H.M.S. URGE reports hits on two ships off KURIAT Island Tunisian Coast.

H.M.S. UNIQUE torpedoed Italian A.M.C. CITTA DI GENOVA Class 54 13 tons P.M./14 off Naples. Later ship appeared to have sunk.

R.F.A. DARKDALE tanker 8,145 tons sank after explosion in St. Helena Harbour night of 21st/22nd. Believed she was torpedoed by U-Boat.

Night of 21st/22nd 111 tons of H.E. including 5 of 4000 lbs. and 6000 incendiaries were dropped on Bremen. 38 tons of H.E. including 4 of 4000 lbs. were dropped on Naples; reports claim large fire, many buildings destroyed and railway station well alight.

Day of 22nd Blenheims attacked barracks at Homs, Libya, many bursts being seen among buildings.

Night of 22nd/23rd approximately 130 aircraft attacked Mannheim, 20 attacked Havre and Brest where bombs were seen to burst in vicinity of battle cruisers.

Day of 23rd 4 Blenheims attacked small merchant-vessel 60 miles W.N.W. of Marittimo Island scoring hits near funnel and two near misses.

Night of 23rd/24th 140 aircraft were despatched from the United Kingdom. Over 100 attacked Kiel, 9 Sterlings attacked Brest, light attack also made on Cherbourg.

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BRITISH EMBASSY,
WASHINGTON, D.C.

October 27th, 1941.

Personal and
Secret.

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

(in the absence of
Lord Halifax)

R. I. Campbell

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

Telegram from London dated October 25th.

Correction to telegram dated October 24th; in second paragraph for H.M.S. "Maori" read H.M.S. "Cossack" and for "10 miles" read "110 miles". (Latest reports state that H.M.S. Cossack is proceeding to harbour in tow).

Night 20th/21st a cruiser force bombarded enemy battery east of Tobruk and destroyers bombarded Bardia Harbour.

On October 24th a medium size German merchant vessel off the south coast of Norway was set on fire by a Beaufort.

Two minesweeping trawlers were mined and sunk in the Thames estuary on October 24th.

Partly due to 8 ships sunk in homeward-bound Canadian convoy shipping losses were heavier during last week, U-boats being mainly responsible.

Heavy weather in the Atlantic caused damage to several destroyers.

Casualties during last week in air operations over and from this country: Royal Air Force 24 bombers 14 fighters, German Air Force 4 bombers destroyed, 1 probable, 3 damaged, 21 fighters destroyed, 8 probable, 6 damaged; Middle East: Royal Air Force 4 bombers destroyed, 5 damaged, 2 fighters destroyed, German Air Force 3 fighters, 1 probable, 1 damaged, Italian Air Force 1 bomber destroyed.

On the night of 20th/21st and the following day a total of over 25 aircraft dropped 26 tons of H.E. on Benghazi harbour, hits being scored on moles and railway sidings.

On the night of 22nd/23rd 61 tons of H.E. and 3600 incendiaries were dropped on Mannheim, 27 tons of H.E. on the docks at Havre, 20 tons on Brest.

In/

On the night of 23rd/24th the main target was Kiel and small forces also raided Havre, Cherbourg and Brest.

On the night of the 24th/25th, 101 aircraft raided Frankfurt and attacks were also made on Cherbourg, Emden and Brest. One aircraft is missing.

966 ships were escorted in convoy during the week ending October 22nd; 789,286 tons were imported in convoys during the week ending October 18th.

Malta has been reinforced with aircraft.

During the past week night bombing operations have been hampered by weather. Enemy air activity has again been slight.

<u>Russia</u>.

Heavy fighting continues on the Moscow front; there is bad weather and more evidence of German supply difficulty. Kharkov appears in immediate danger. German armoured troops are within 20 miles of Rostov but are meeting vigorous resistance. German attack on Crimea is continuing. German difficulties in advancing across the River Don thence into the Caucasus must not be underrated.

Information received so far confirms success of Russian policy of evacuation of key armament factories from Western areas. There is considerable evidence of destruction of buildings and installations of factories by retreating Russian troops.

RESTRICTED

G-2/2657-220: No. 529 M.I.D., W.D. 11:00 A.M., October 27, 1941

SITUATION REPORT

I. Eastern Theater.

Ground: Heavy fighting is reported along the entire front. Bad weather continues to impede military operations.

Nothing definite is reported from the Moscow area.

In the south the Germans are pressing the advance through the Donets River basin.

II. Western Theater.

Air: British fighters renewed their attacks on German bases in northern France this morning. Other groups of 4-cannon Hurricanes headed for Boulogne.

Last night the R.A.F. heavily bombed the docks of the German port of Hamburg. Other targets last night were Cherbourg, Nantes, and Egersund, in southern Norway.

Only a few German planes were said to have appeared over Britain last night.

III. Middle Eastern Theater.

Air: German and Italian sources each claim credit for the sinking of a British cruiser in the Mediterranean. There is no British confirmation. The British raided Tripoli and Benghazi.

RESTRICTED