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TREASURY DEPARTMENT  
Washington

FOR RELEASE, MORNING NEWSPAPERS,  
Tuesday, July 15, 1941.  
7/14/41

Press Service  
No. 26-54

The Secretary of the Treasury announced last evening that the tenders for \$100,000,000, or thereabouts, of 91-day Treasury bills, to be dated July 16 and to mature October 15, 1941, which were offered on July 11, were opened at the Federal Reserve Banks on July 14.

The details of this issue are as follows:

Total applied for - \$306,089,000  
Total accepted - 100,337,000

Range of accepted bids:

High	-	99.990	Equivalent	rate	approximately	0.040
Low	-	99.972	"	"	"	0.111
Average			"	"	"	
price	-	99.975	"	"	"	0.097

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

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TREASURY DEPARTMENT  
Washington

FOR IMMEDIATE RELEASE,  
Tuesday, July 15, 1941

Press Service  
No. 26-56

Secretary of the Treasury Morgenthau today announced the subscription figures and the basis of allotment for the offering of 1-1/8 percent notes of Series G of the Commodity Credit Corporation.

Reports received from the Federal Reserve Banks show that subscriptions aggregate \$5,357,000,000. Of this total, about \$201,000,000 were received from holders of Series D notes of the Corporation who tendered a like par amount of such notes to the Secretary for purchase. Such subscriptions were allotted in full, and all other subscriptions were allotted 4 percent, but not less than \$1,000 on any one subscription.

Further details as to subscriptions and allotments will be announced when final reports are received from the Federal Reserve Banks.

-oOo-

July 15, 1941  
8:30 a.m.

RE EXCESS PROFITS TAX

Present: Mr. Bell  
Mr. Gaston  
Mr. Eccles ✓  
Mr. Sullivan  
Mr. Currie ✓  
Mr. Foley  
Mr. Decaux  
Mr. Henderson ✓  
Mr. Lubin ✓  
Mr. Blough  
Mr. Haas  
Mr. Viner  
Mr. White  
Mr. Kuhn

H.M.Jr: While we are waiting for Harry White, which one of you gentlemen will give me your criticisms first?

Henderson: Well, I have got probably the fewest, since I didn't get to see it. I was away, you see.

H.M.Jr: Want to listen?

Henderson: Well, I can give you my general criticism.

H.M.Jr: All right. Anything specific?

Henderson: Oh, I don't think the tax part is near tough enough.

(Mr. Bell entered the conference).

H.M.Jr: I see.

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Henderson: Next year may be entirely too late. Talking about three and a half billion dollars - I don't think we have gone - well --

(Mr. Currie entered the conference).

I should have started out that I am greatly in favor of it. I think it is high time to do it and I am tickled to death with it. I think it is a place for tightening up on their spending. I don't think you have said anything at all in here, for example, about wages and agricultural commodities, and I don't believe that there is going to be a stop on those.

H.M.Jr: Well, may I explain how this came about, because some of you may understand and some of you may not.

(Mr. Sullivan entered the conference).

H.M.Jr: Hello, John, are you a little out of breath?

Sullivan: No, sir, I didn't run more than half way.

(Mr. White entered the conference).

H.M.Jr: The President wrote me a note in which he said he wanted to say something about excess profits, you see, and I wrote him back saying I was delighted he wanted to say something about the tax bill but made the suggestion that he call in Doughton and Cooper. That was after consulting in secret - I told the President about it - with the Speaker, asking him how to proceed. The Speaker said the President had to call these people in. He just couldn't pop something without first talking it over. So they are coming at eleven. This is Doughton and Cooper, and this is a memorandum for the President to work on

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with them at eleven. It is not a message to Congress, so my only haste is to get something to him. I sent this rough draft over to him last night and said that you gentlemen would be here this morning and I would give him a revised draft at eleven. The only haste is to see that he has something on his desk at eleven. What he is going to do after he sees Doughton and Cooper I don't know, but I want to explain. O.K.?

- Lubin: May I make one comment on the memorandum as a whole? You deal with prices and you suggest various things that should be done and then you move into taxes and I don't think you have tied your tax problem into the tax picture at all, the way it is written now.
- White: The modified draft is a little better. The transition is better.
- H.M.Jr: Well, again our boys working under pressure, the two drafts were done by two different groups.
- Lubin: I see.
- Viner: There is a revised draft of that.
- White: Yes.
- H.M.Jr: Where is it, Harry?
- White: Well, the original should be on your desk. There it is. That is the original and the copies --
- H.M.Jr: Well --
- White: .... are in somebody's office.

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- H.M.Jr: Well now, how would people like me to work? Do you want me to read this a page at a time and stop, or have you people got some memoranda? I want to get the benefit of you fellows' advice. How would you like me to work? I will do it any way you say. How would you like me to work, Marriner?
- Eccles: You haven't got much choice. Eleven o'clock doesn't give you a lot of time. I think I would take the latest draft that Harry says - he says there has been some revision from this, as I understand it, and undertake to make a minimum of change. I just don't think you have got time by eleven o'clock to really do much with it.
- H.M.Jr: Well, before we do that, let me just ask, is there anything in what you gentlemen read that you violently disagree with, that you would like to leave out?
- Eccles: I think it is an excellent statement in general. It is certainly needed. I agree with Leon fully on the tax thing. I don't think the tax thing is hit nearly hard enough.
- H.M.Jr: May I explain that as you go along? I have worked - this is all in the room. We are all friends of the President and we are working for him every day. I have, I don't know how many times, I will never forget - Roswell Magill took three months to prepare a tax memorandum for the President. I want to explain. He went up to spend a night with him at Hyde Park and he had fifteen points. He got as far as point one. My boys had a lot of stuff in here, other things; joint returns, inheritance taxes, all of this stuff. I said, "Leave it out." The President asked me for a memorandum on excess profits. If I can

get him to say something on that, then the Congress and the people know he is interested and then we can go up and fight for the rest, but unless he says something, we won't get anything and that is why I cut it down to one thing. Maybe I am wrong, but I wanted to explain.

Henderson: You might put a catch-all in there.

H.M.Jr: All right, but I wanted to explain as we go along that the boys had all these other things and I cut them out because I was afraid when he sees all that stuff he would lose interest again.

Eccles: The first part of the memorandum, before you get to taxes, as I understand it then, is for the purpose of selling the President and selling the Congress on the need of doing something.

H.M.Jr: That is right.

Eccles: And it is an introduction, really, to the tax program.

H.M.Jr: Well, what we are trying to do here is to get the President's mind on it. I know a little bit of Leon's problem, and I thought that this might be a stepping stone to what Leon wants to follow and I had him very much in mind.

Henderson: Well, it is very much in our picture. We have got a separate message drafted. I am supposed to see the President today to discuss it. It is on the matter of specific price legislation and here is what I would suggest, Henry. I would like to see you start out - instead of just starting historically, since the beginning, I would like to see one sentence say the present threat - down here

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you have got, "Apparently we are on the edge of inflation now." I mean that first sentence I would like to see hit right at that point. The jump-off, the very first sentence, and make it a full paragraph, so that you know that this whole thing is addressed to that question. Then you asked for specific objections. On page five, Number three, "Extension of the present system of priorities to include systematic rationing of scarce supplies to consumers." Now, we are not ready for the application of priorities to consumers. Now, to civilian industries, yes, and we are already doing that. I think that number three, if it means to make sure that the legal power is given to us to cut down on the consumer durable goods - now, we already have that but there is a bill, the new Vinson Priority Bill, delegation of authority has not been assigned yet. It is on the President's desk. The minute we get that, we will have the specific legal authority to make the cuts in the civilian industries that are making consumer goods or competing with defense, and that includes automobiles for the civilian account and if we can make Number three read that, but we are not ready yet for rationing directly to consumers by way of bread tickets or meat tickets or anything like that. There is no need for it yet.

H.M.Jr: We will give way on anything that you want on that.

Henderson: Well, I would like that clear as to what it meant.

H.M.Jr: We will give way on anything.

White: Do you want to discuss that first point

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that he has raised or leave that until later?

Viner: I wouldn't support giving that up too easily because I don't see how they are going to operate on rations to an industry and let the industry decide who is going to get these various scarce goods whose prices are fixed. I don't see how you can let the industry decide. The Government will have to play some role in that.

White: Except, Jake, I think that is a much later step if the other measures are adopted, control over consumer credit, excess profits tax, specific taxes and others. It makes the problem you are raising a little less urgent at the moment. It is a later step.

Viner: Yes, but it is going to be a dirty phase of it.

Henderson: That is right. We are working on that, but we are not going to be ready for six months, really, for straightening out this mess of scarcity that we are in right at the raw material line.

Viner: Well, would this suit? I think it is important to get into this document as much as you can see ahead of what you have to do sometime. At least you may say that at some stage in the future it may be necessary to do this also, but don't leave the idea out altogether, as if we hadn't thought of it.

(Mr. Foley entered the conference).

H.M.Jr: I just want to say where it is priorities or something, I am willing to present what you people have in mind, but if Henderson says "No", I don't want it to go over with something

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that he doesn't want in his business.

- Henderson: Well, I agree with Jake on that.
- H.M.Jr: Have you got it in mind so that you can fix that up, Jake?
- Viner: We will fix it up.
- H.M.Jr: Are you satisfied on that?
- Henderson: Yes.
- (Discussion off the record).
- H.M.Jr: Does that take care of your particular objections?
- Henderson: Yes.
- White: That is the second point. The first point, about eliminating the first two paragraphs, I don't know whether you want to discuss that now.
- Henderson: Not to eliminate them, just to put it forward.
- Lubin: Start out with that.
- H.M.Jr: Where is the sentence?
- Henderson: At the end of the - here it is. "Apparently we are at the same point in price history as in 1916 - on the edge of inflation."
- H.M.Jr: Start it up there.
- Henderson: I would put that right up there as Number one.
- H.M.Jr: What is the matter with that?

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Viner: All right.

White: I am wondering whether in a document for the President it is wise to start with a spectacular statement of that character. I think I should be inclined to think he would like it on a little less, shall I say, emotional tone, and a little easier. It is not a matter of importance.

H.M.Jr: I like it up at the top.

Lubin: Especially at ten o'clock in the morning. The afternoon would be different.

White: You can judge the President's attitude better.

H.M.Jr: Are you representing the President and OPM?

Lubin: Hillman couldn't come.

H.M.Jr: So are you representing Hillman?

Lubin: Yes.

H.M.Jr: Do you know what he has got in his mind on this?

Lubin: Yes.

H.M.Jr: Jake insisted that somebody represent OPM, so I tried to get Sidney Hillman and he said if he couldn't come you would represent him.

Lubin: Yes.

H.M.Jr: I just want you (Henderson) to know that is OPM sitting next to you.

Henderson: They have been hiding their heads for months. (Laughter)

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- H.M.Jr: How would you like to proceed, gentlemen?
- Bell? How about reading each page and then stopping?
- H.M.Jr: Would you like me to read each page and then stop?
- Lubin: You raised the question, "Does anybody have any objection to anything in here," and nobody made any - gave any evidences of having any objection. I would like to know whether anybody would like anything added.
- Eccles: As I understand it, you don't want to add anything on the tax front.
- H.M.Jr: No, no, we will go on this - I will listen to everything up to the time that Kuhn can take this and rewrite it, up to the last minute, with the help of the other people.
- Henderson: On the matter of --
- H.M.Jr: But I just thought - the President in the first place confined himself to the one thing. If you have got some things you want to add, Let's discuss it.
- Eccles: Well, you said that they had other items on the tax picture and you had taken them out, and I just assumed from that that the President wanted to confine his discussion to the excess profits tax and therefore there was no need of confusing the thing with bringing in the whole tax picture.
- H.M.Jr: Well, I may be wrong, Marriner, but I was just going on the - if you people think we should add a lot of things, all right. He did write on the one subject. There are a lot of other things we are interested in. If he would make a public statement criticising

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the present tax bill, that would open the wedge and we would have a chance. I doubt if we can get him interested in the other things, but I may be wrong.

Currie: I think, Mr. Secretary, if he meets with these two people and talks about all the other aspects of the tax bill except excess profits, they will think he has no objections.

White: Wouldn't Leon's basket clause take care of that, of one paragraph in which you point to the other tax changes you want without going into a discussion. It would add about three pages, I think, on to that if you did more than that, and might detract his attention from the other, but if he made a statement which indicated his disapproval on the points which we are interested in including, maybe that would take care of that.

H.M.Jr: One of the other things - are you through, Harry?

White: Yes.

H.M.Jr: What other tax subject are you interested in Marriner?

Eccles: On the tax structure.

H.M.Jr: Yes.

Eccles: Well, I would like to see something said about the individual income taxes. I would like to see something said about inheritance and gift taxes. I would like to see something said about joint returns. I think those are all vital in this issue, just as - maybe not as important as the excess profits tax, but certainly they are very essential to have a round tax picture here.

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H.M.Jr: They were all in the first statement. Now, if you can work a statement up so that it will leave the door open and show the President's interest and catch all, I would be glad to put it in.

Eccles: I would be glad to put it in.

I would like to see the thing approached from a standpoint of the taxation being the most important single element in the - as a means of dealing with an inflation problem. First you show that the inflation is imminent here if something isn't done, that taxation is the keystone in dealing with an inflation problem, that with the increased appropriations it is necessary, it seems to me, to raise our sights on this whole tax picture, that since the original tax bill was proposed the economy has moved on to the point where three and a half billion is entirely inadequate. It isn't pumping back anywhere near enough of the funds that the Government is disbursing and that the whole tax picture should be again reviewed and get the door open, get these people realizing, and then give us a little time to let the President, instead of discussing purely the excess profit end - I think he has got to discuss with these people the imminence of inflation and the importance of a tax bill and the need of greater revenue, and call for a reconsideration of the whole thing in the light of the present situation, and then let him tell them he expects to send a special message on the tax program, and give us a week or two here to prepare a strong statement. Now, I mean that is what I would like to see done.

H.M.Jr: Well, I agree with you, but here is the schedule. I don't think the President can get

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to first base. They are going to report this bill out a week from today because the House wants to adjourn.

Eccles:

Why not let them report it and reserve the thing for the Senate? They are going to write the bill anyway, possibly, and take two or three weeks and prepare a statement to the Senate on the bill, indicating that since the bill was considered by the House all this thing has changed and happened and therefore there is a revision necessary.

White:

Or he could take the position that "I have already indicated my position in the House, but they didn't have time to do anything, and now we have more time." I think there is some merit in that but I think there is the danger of stressing the function of increased taxes as a check to inflation so much that he - it dwarfs some of the other measures that he would like but I think that can be handled in the statement along with the thought that the more you increase taxation, the less you have to resort to that type of price fixing, price rationing, and others which characterize an extreme totalitarian Government.

Lubin:

I think that is highly important, if I might interrupt at that point. The members of Congress and business don't like this price fixing business. Now, if we say to them, "The more taxes you give us, the less we have to use these others," I think that you may have a selling point because they know you are going to have to do something about price fixing anyway. The question is, can we keep that to the minimum and one way of keeping to the minimum is through your tax program.

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- Eccles: As a part of the whole program.
- H.M.Jr: You most likely didn't notice it, but at my Thursday press conference, last Thursday, I said that the whole fiscal question would have to be reviewed. I couldn't say whether we did or didn't - but in view of these eight billion dollars additional money plus the Lend-Lease, the whole thing would have to be reviewed, and the reason I know it got in the press, John Sullivan got so excited he called up that evening to find out whether I really meant it, so the door is open.
- Currie: Did you see the President's remarks the next day, Mr. Secretary, on that?
- H.M.Jr: Yes, it wasn't very helpful.
- Sullivan: I went back to play golf when I saw the President's remarks.
- H.M.Jr: Well, now what are we going to do, gentlemen?
- Currie: I just mentioned that because I think he may be a little reluctant to propose reopening the whole tax bill for the sake of more revenue at this point.
- Sullivan: May I suggest along that line, Lauch, that as a matter of strategy, if it appears imminent that we must have a larger amount of taxes collected on 1941 income, we might be in a better strategic position to pass this bill and get our three and a half, and then anything we have to put on top if that later on in the fall might be much easier to obtain than if we tried to make this five or five and a half now. If we button this down, then any jump from then on is a minor step, and we have to remember that it costs

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us about two and a half million dollars for every day we delay passing this bill.

White: Well, doubtless that may emerge, but isn't there something in the fact that the Secretary of the Treasury has a responsibility, and I think that responsibility also is shared by many of the people who are represented here, to call to the President's attention the urgency for re-examination of the tax program. In his judgment he may decide not to open it up or he may decide merely to speak of it in passing, or he may decide it as not politic to raise the issue at all, but so far as a memorandum from this group to the President is concerned, it seems to me that the point ought to be stressed.

Sullivan: I agree thoroughly.

H.M.Jr: Shall I read the first page?

White: There are now some copies.

Henderson: Just one other thing. You have listed some of the things which are going to add to the fear of inflation but you have left out three very important things which can be covered, it seems to me, in the fifth paragraph. One is the increasing amount of withdrawal by way of priorities for defense account. Now, there is no shortage of steel, as all you people know, but eighty per cent of plates and sixty per cent of ships for the next seven to eight months are to go for defense. Well, that is a new figure and a higher figure since about three weeks ago and every time we turn around there is an additional amount that has been claimed by priorities, and as fast as they see things coming over the horizon, we not only find that you can't have enough increased production

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to be ready to put, say, a five-hundred bomber program into effect next spring, but you must start the stock pile now and the only place that you can start the pile is out of the consumer account. Now, in other words, the increasing withdrawal by priorities making a shortage - further shortage of goods available for purchasing power, then we are not at the end of the rises in agricultural commodities, nor are we at the end of wage increases, and I think that some cover-all or catch-all as a paragraph number five just to indicate that those things are still very substantially at work would be advisable.

- H.M.Jr: Do you understand what Leon has in mind, because I don't quite get it, how you would put it in English. Do you understand what he means?
- Viner: Yes.
- White: It is implicit but could be spelled out.
- Viner: I think we could show a phrase or somewhere what he is saying is implied. I am all for saying those things frankly. Obviously, in framing this we had in mind always what we could put over as well as what we would have said if we were speaking for ourselves, and I personally would say certainly that the most important stimulus to inflation that we are likely to have is going to be the free state of collective bargaining on wages.
- White: I certainly would be opposed to saying that.
- Henderson: I don't want to say them as such, necessarily, but I want to point them out as being factors in the picture.

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- White: Well, it depends on how it is said.
- Henderson: I would merely list them. I would merely as a paragraph Number five say "The increasing use of priorities for defense account is shriveling the amount available for consumers and price rises due to agricultural commodity adjustments and wage adjustments have not been completed by any means." That is all that is needed.
- White: True.
- Viner: If you say "have not been completed," that means you are inviting completion.
- White: Exactly. You don't want to stop all wage increases. You wouldn't come out with that fact. Why put it implicitly? You wouldn't come out with a statement that no further wage increases should be tolerated, so why make it implicit? I think the way Leon has stated it is all right.
- Henderson: I was talking extemporaneously and put no special emphasis on the word "completed", but I do think they ought to be listed.
- H.M.Jr: Well, I think they have got your idea. Now, what else before I start reading? Would you like to start reading?
- Blough: Here are new copies, Mr. Secretary. I have practically enough for everybody.
- H.M.Jr: Would you circulate them? I gather that on the whole you people like the thing.
- Henderson: Yes.
- H.M.Jr: Marriner, do you like it on the whole?

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- Eccles: I like it very much. I think it is the best thing I have seen for a long while, dealing with the functional ways of getting at this problem.
- Lubin: As I look at your new draft, I think there is still a fundamental weakness, looking at it from the point of view of the President and Doughton and people of that sort. I don't believe they understand what relationship a tax program has to inflation, and you haven't told them here in this memorandum. In other words, you have got a short transition paragraph and I think you have got to hit that thing, that another way of keeping from inflation is by siphoning off some of this income which otherwise would create a greater demand for a limited supply of products, and you do it by taxes.
- White: I think Lubin is right.
- H.M.Jr: You don't say that here.
- White: It can be said.
- Gastons: You say it twice, once in the introduction that you are speaking about and again in the transition.
- H.M.Jr: I think that is right. You could say right after that sentence that Leon likes that this relationship is so. "Since the beginning of the war, September, 1939, the wholesale price index has risen from 75 to 87 or about 16 per cent. The greater part of this rise has occurred during the past five months."
- White: I am awfully sorry, Mr. Secretary. You are reading the old copy. That is my fault, I guess.

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H.M.Jr: No. How the hell do I know the difference?

White: Just throw away which is the old one.

H.M.Jr: I don't know which is the old one.

Viner: Collect the old ones.

Blough: This is the new one.

H.M.Jr: That is what I was reading. This is the one that was put on my desk. Harry doesn't like this one. All right, everything is settled now.

"Since the beginning of the war, September, 1939, the wholesale price index has risen from 75 to 87 or about 16 per cent. The greater part of this rise has occurred during the past five months.

"The cost of living index has increased 5-1/2 per cent since September, 1940.

"The index of 28 basic commodities has increased 48 per cent during the same period. This increase constitutes a major danger signal of inflation which must not be ignored. The wholesale price index always lags greatly behind the index of basic commodities, while the cost of living index does not show anything like the full effects of inflation until long after the seeds of inflation have taken deep root.

"The pattern of price rises summarized above roughly resembles the price movements during the first two years of World War I -- little rise in the cost of living, a moderate rise in the wholesale price index, and a sharp rise in basic commodities. Apparently we are at the same point in price history as in 1916 -- on the edge of inflation."

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Henderson: On that, the first two years of World War I, it wasn't two years, as I recall it, except for maybe the cost of living and so forth. The wholesale prices started to go up about eleven or twelve months before and at the end of sixteen months you had a line directly --

H.M.Jr: George?

Viner: We sat looking at charts as this was written.

Henderson: Well, it is thirty-nine to --

Viner: Let it go now, Leon.

Lubin: But there is no contradiction here. We are just getting into the second year of the present war.

Henderson: All right.

Viner: He will bring the charts back.

H.M.Jr: "The forces making for further price rise are both potent and persistent."

Kuhn: May I interrupt at the end of each page, Mr. Secretary?

H.M.Jr: That is the idea.

Kuhn: Well, the only change here is that we take --

H.M.Jr: Go ahead, that is the purpose.

Haas: I am sending for a chart.

H.M.Jr: Go ahead, Ferdie.

Kuhn: The only change is to change that sentence,

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"Apparently we are at the same point in price history as in 1916 --" and start the whole page with it.

- H.M.Jr: That is right.
- Lubin: May I make one further suggestion? I don't know how you fellows feel about it. The second paragraph, "The cost of living index has increased five and a half per cent since September, 1940."
- White: That is thirty-nine.
- Lubin: For emphasis, would it not be well to add another sentence, "Half this increase has taken place in the last two months"?
- White: Yes.
- Lubin: That ties up with your first sentence, you see. Almost half of that has occurred in the last two months.
- Eccles: It ties it in with what comes after.
- Lubin: Yes. It is the recent aspect of the thing.
- H.M.Jr: Anything else?
- Bell: I wonder if that whole paragraph that you are talking about on inflation couldn't be moved up and say, "The pattern of prices summarized below roughly resembles" -- follows your inflation.
- White: I prefer Dan's suggestion.
- H.M.Jr: I think it is a good suggestion. Did you get it, Ferdie? Take the paragraph on price rises and move it right up to the top one and then say about the thing --

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- Bell: I would be willing to switch it around so as to bring Leon's sentence first, if you wanted to.
- Henderson: I wish you would start and use the whole paragraph, "Apparently we are at the same point," and then say, "The pattern of prices has risen" right below that.
- H.M.Jr: That is what Dan said.
- Bell: That is right.
- H.M.Jr: Any other suggestions? "The budget"-- will somebody read that next page? I will be back in a minute. Go ahead, Blough, read page 2. By the time you are finished I will be back.
- (The Secretary left the room temporarily).
- Blough: "(1) The Budget estimates Defense spending during the fiscal year 1942 will be fifteen billion dollars, or two and a half times as much as in the fiscal year 1941. This estimate, moreover, does not take account of such additional expenditures as will result from extension of the Defense Program made after June 1."
- Henderson: The whole significance of the paragraph is that fifteen billion dollars is an inadequate estimate. That sentence is just a - oh, sort of one of these estoppel clauses. They keep saying, "Well, we told you so." Why not make that sentence read exactly - "does not take account of such additional expenditures," and so forth, say, "This estimate is bound to be increased, of course, because of the extension of the Defense Program since June 1, and the prospect of Lend-Lease." The Lend-Lease is going to be what, fourteen billion, isn't it? It is useless to be talking about a fifteen billion dollar amount of expenditure with another fourteen billion coming in for Lend-Lease.

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- Viner: We discussed that and the question in our humble minds was whether we have the right to play with a Budget Bureau estimate.
- Henderson: Maybe the Treasury doesn't.
- Kuhn: Wouldn't the word "however" meet your point, Mr. Henderson? You could say, "This estimate, however, does not take account of the additional expenditures."
- White: No, he is making it much stronger and I think much more realistic, and if the Secretary is willing to go that far, I think we ought to do it.
- H.M.Jr: (Returning to conference) How far do I have to go?
- Henderson: Number one at the top of page 2. I say that the second sentence ought to be very specific and say definitely, "his estimate is highly" --
- White: "Underestimated."
- Bell: How about saying, "This estimate will no doubt increase, due to the additional appropriations asked for since June 1"?
- Henderson: "Plus the prospect of"--
- Bell: "additional Lend-Lease appropriations."
- Viner: "This estimate, moreover, will undoubtedly prove too low because of the extensions of the Defense Program and of Lease-Lend which have occurred since June 1." Do you like that?
- Henderson: I would rather say, "Undoubtedly ". I would like to say, "This estimate will undoubtedly prove too low."

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Lubin: As long as everybody is saying, let me say this: "This estimate is a minimum," and then go on to say why it is a minimum.

H.M.Jr: Well, we have got the idea anyway. The boys will put it into words.

Gaston: Or even, "This increased estimate does not take account" --

H.M.Jr: Something. They will fix it.

Henderson: I like Herbert's better.

H.M.Jr: Good. Where were you?

Blough: At the beginning of Number 2.

H.M.Jr: All right. Go on.

Blough: You want me to read?

H.M.Jr: If you don't mind.

Blough: "(2) More important in its bearing on the danger of inflation than the figures for expenditures of the coming year are the estimates of deficit spending. The net deficit for the fiscal year 1942, as estimated by the Director of the Budget, will be twelve point eight billion dollars, compared with five point one billion dollars for the previous fiscal year. This assumes the present tax structure. If the present tax bill is passed by Congress, the deficit will be reduced by two and a half billion dollars, (the revenue yield in fiscal year 1942 of the three and a half billion dollar tax bill) but it will still be over ten billion dollars. Again this estimated deficit does not take account of the expansion of the Defense Program after June 1, 1941.

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"(3) The inflationary force of the Federal deficit has been supplemented during the past year by an expansion of bank credit. Total loans of all member banks expanded by an estimated two point eight billion dollars, or by twenty per cent during the fiscal year just past. This rise, moreover, has been proceeding at an accelerated pace."

- Eccles: There is a suggestion there on three that during the fiscal year forty-one the inflationary forces of the Federal deficit to the extent financed by banks. You are indicating possibly that the entire deficit might have been inflationary. I think to the extent that the Savings Bonds have been taken, the -- I think the emphasis should be placed here on the part where new money is created, rather than that it is drawn into the baby -- now, here is another thing.
- H.M.Jr: to the extent --
- Eccles: To the extent financed by the banks. Then, has been supplemented by an increase in bank loans. You say "member banks" there and I think that you can put a round figure in there. Maybe a little better than two billion eight, has been supplemented by an increase in bank loans amounting to more than three billion dollars, but if you include all non-member bank loans --
- H.M.Jr: Are you fairly sure of that, Marriner?
- Eccles: Yes.
- Viner: And how would the percentage be, because we thought that was very important?
- Eccles: We would say about twenty per cent. It is, maybe, nineteen, but I mean for the purpose of this memorandum you can say, "amounting to about three billion dollars" --

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- H.M.Jr: And later on could your man give us the correct figures?
- Eccles: We checked this last night. That is right, isn't it?
- Decaux: Yes, three billion.
- Eccles: You are apparently safe on three, and I think on the twenty per cent. I think that looks a little better than if you say "member banks" and "two billion eight".
- Sullivan: Roy, in the parentheses in two, the revenue collected in fiscal forty-two.
- White: I think you can make that clear by putting quotes around the three and a half billion tax bill.
- H.M.Jr: All right, gentlemen?
- Bell: Do you get the impression that the two billion eight expanded bank credit is all due to deficit financing? I take it that isn't true.
- Eccles: Well no, you have got loans. You don't say - you say it is supplemented, you see, by an expansion of bank credit. I have changed that to "has been supplemented by an increase in bank loans."
- H.M.Jr: Ferdie, if you want to get this stuff started, typing it, I will wait until you come back.
- Henderson: We can talk about the language. On this page three, when you get into this, "Also making for further price increases," that is where I wanted to come in. This tends to emphasize the import difficulties, whereas the real price increase is going to come from the

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increasing shortage of raw materials to make civilian goods, plus the further extension of agricultural price levels, plus further wage increases, you see.

- White: That will go in there, as you said. That was the same suggestion you had before. It will go in this point here, five.
- Viner: Well, I suppose his point is that it is in terms of relative importance - it ought to come before the imports.
- Henderson: Yes.
- White: And just make the imports six.
- Henderson: I would make it one catch-all.
- White: Yes.
- H.M.Jr: Where are we, on three?
- Blough: At the top of three.
- Henderson: Where?
- Blough: Top of page three.
- Henderson: For my money, the things I have mentioned are much more important than number four.
- Viner: I think the reason they are omitted, which is not an adequate reason --
- H.M.Jr: "(4) To the fiscal and banking factors likely to cause price increases during the next fiscal year must be added the increasing absorption of idle plant capacity in many lines of industries.
- "Also making for further price increases are

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the heightened obstacles to imports, such as reduced ship space, higher shipping costs, and cutting off of normal foreign sources of supplies.

"Though there are some factors in the situation operating to check inflationary trends, such as surplus stocks of some agricultural commodities, unemployed labor resources, and partially employed production facilities, most of these factors were present in the fiscal year 1941 in greater degree and yet did not serve to restrain price rises even though the forces making for price rises were then much weaker."

Bell: Too long.

Henderson: I haven't finished off on number four.

H.M.Jr: I will just read down to the end and then we will go back.

"Important steps have already been taken or are being taken to check inflation. Congress has made provision for the Treasury to sell defense savings bonds and stamps and so to absorb, for the Defense Program, funds which might otherwise be used for civilian purchase of goods. This program is well under way."

Now, we start with the top of page three.

Henderson: At the top of page three, my feeling is that we are going to have a selective absorption of plant capacity. We will have an expansion in the defense industry, where the orders are increasing and under pressure, but because of the diversion and scarcities of raw materials, you will have an actual decline in some of the consumer goods industries in this period

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of transition. Now, the thing which will occasion the price rise, to my mind, will be the scramble for a large volume of available consumer goods. Number four, it doesn't seem to me to rank in importance with the others. I would like to - I would suggest you make number four a paragraph which would take into account these direct additions to cost that we are having which are real when you come to making a price determination such as the agricultural, wage and shipping costs, plus the shortage of available goods. I wouldn't mention that item, plant capacity, as being of importance in this draft.

- H.M.Jr:           Anybody agree or disagree with Henderson?
- Eccles:            Your point, Leon, is that irrespective of the supply of labor and some idle plant capacity due to the shortage of basic materials, that you simply can't utilize them, the plant capacity and labor, that the question is the shortage of materials.
- White:             But I think it is nonetheless true that the increased national income and the increased program is absorbing idle plant capacity that still exists and existed last year.
- Sullivan:          Leon, would it help you if in the second line of the second paragraph we said "obstacles to imports of raw materials"?
- Henderson:         No, that sense there is all right, that is adding to the price. I think we are going to be able to do something about it in about three weeks, but I want -- the thing which is going to occasion the pressure on prices is going to be the reduced volume of automobiles or refrigerators, which are due to a reduced amount of raw materials that are available.

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H.M.Jr: You want to leave out the increase in absorption of idle plants?

Henderson: Yes.

Viner: Or put it down in a minor role?

Henderson: Yes, put it down in a very minor role. I am more scared today about what is going to happen to employment than I am about anything else.

H.M.Jr: How do you mean, employment?

Henderson: I think we are going to have a considerable amount of unemployment due to the fact that there are going to be drastic cuts in the consumer durable goods industry.

H.M.Jr: I see.

White: Don't you think we ought to recognize that in that sentence we are speaking of, on the situation operating to check inflationary trends? We ought to at least indicate that we are aware of it.

Henderson: That isn't checking inflationary trends, that is increasing them.

White: Well, it works both ways. The net result may be an increase.

Viner: It is a sectional unemployment.

White: Well, it extends over the whole country.

H.M.Jr: Now, what do you want to do about that?

White: Well, I heard Leon some time past make a rough estimate of something, I think in the category of seven billion dollars, as to the value of -- of unemployed, in terms of

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products. I don't know what that would mean in terms of men, maybe a million men. That is a very substantial amount but I think some indication of that might go in here.

Henderson: I think that is a little too much.

H.M.Jr: You have got about another half hour. I would just rather drop that first paragraph out.

Haas: Oh, no, you can't do that.

Blough: Oh, no.

White: I think we can reach an agreement on it.

H.M.Jr: It is a question of getting the right language.

Haas: Could you let that paragraph, number four start as it is, and get your thought in following. Say, "This problem will be greatly accentuated by priorities which will preempt capacities of industries producing civilian goods," or something to that effect. In other words, what you are saying is technically how it will operate to increase taxes more than is generally understood.

White: Why don't you dictate the sentence you want?

Henderson: You go on with this thing and I will see what I can do with it.

H.M.Jr: All right. Leon says he will try to write something. Well now, is there anything in the second paragraph of page three? The third paragraph of page three? The fourth paragraph of page three?

Viner: I would like to see that paragraph, "Several important steps have already been taken."

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- Henderson: I wondered what we had done that had any restraining effect. I didn't see any mention of it.
- White: It was in one of the early drafts. (Laughter)
- Henderson: I would expect that from the people that believe in the functional monetary and fiscal control.
- Lubin: The Office of Price Administration is making every effort to obtain cooperation in these measures to restrain prices. They have unquestionably been helpful, but are inadequate to meet the situation.
- H.M.Jr: Thank you for saving my embarrassment.
- Henderson: I want to put in a footnote to the Ways and Means Committee.
- Blough: It was a typographical error. It should have been a paragraph there.
- H.M.Jr: Well, of course we could put it up first, page one.
- Eccles: I think you might add, to recognize Leon on page one, you have got despite the fact you have got these increases - you could say, "despite the fact that prices of some basic commodities have been controlled". We are talking about the inflation that has taken place and you haven't recognized that that inflation is in spite of the fact that some basic commodities have been controlled.
- H.M.Jr: All right.
- Eccles: It would have been higher. Your inflation that you indicate on your page one would

- 32 -

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- H.M.Jr: All right.
- Eccles: It would have been higher. Your inflation that you indicate on your page one would

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have been greater than it is had it not been for certain controlled prices.

- Viner: Yes, but Leon came in when lots of the dirty work had already been done. He came in late in the day. This is a two-year picture, you see.
- Eccles: But you are talking about the increase but steel and copper would have added to that considerably here if you hadn't had the controlled prices.
- White: Despite the effective action in keeping down the prices on some basic commodities.
- Henderson: The President knows that. You don't have to tell him. I told him. (Laughter)
- H.M.Jr: That is wonderful. I am delighted to put it on the front page. Can you put it in there?
- Pell: I think it is all right.
- H.M.Jr: The way Eccles suggests. How did you put it, Ferdie?
- Kuhn: It would be on the first page. "The increase of twenty-eight basic commodities has increased forty-eight per cent during the same period, despite the fact that many basic raw materials have been controlled by OPACS."
- Gaston: "Some", not "many".
- Kuhn: All right.
- Blough: You are willing to call it "controlled"? (Laughter)
- H.M.Jr: What is that laugh?

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- Henderson: Eccles says no, not him. Name an important commodity outside the agricultural commodities.
- H.M.Jr: Ferdie, will you get your girl and get that changed?
- Kuhn: She will have to do it over, but that is all right.
- H.M.Jr: When do you want to do that?
- Kuhn: Right now.
- H.M.Jr: Do you want to go ahead?
- Kuhn: I have two more pages to take out.
- H.M.Jr: I think you had better write it in ink rather than have her rewrite the whole page. Had we cleared page three?
- Bell: You hadn't read the last paragraph at the bottom of page three.
- H.M.Jr: "The Treasury Department has also launched a plan for selling tax anticipation notes which will facilitate the prepayment of income taxes and will more promptly withdraw purchasing power represented by such taxes." Anybody want to argue about that? Well, that clears page three, Ferdie.
- Kuhn: All right. No change at all?
- Blough: No, Mr. Henderson has a change.
- Henderson: I have got it. I would substitute for number four this language, "Prices will be increasingly stimulated by, A - The shortage of raw materials for civilian goods. B - Increased absorption of idle capacity in many industries. C - Further increases in agricultural prices and wages."

H.M.Jr: What do you say, Harry?  
White: It is all right.  
H.M.Jr: Jake?  
Viner: It is all right.  
H.M.Jr: George?  
Haas: It is O.K.  
H.M.Jr: All right. Those are the boys that worked on that, anyway.  
Henderson: I would make that four.  
Eccles: You mean further increases if something isn't done about it?  
Henderson: Even if there is something done about it.  
H.M.Jr: Now we are at the top of page four. All right to proceed? All right, Dan? If anybody has got an idea, you know, Professor Currie, if I haven't heard from you, it is because you haven't shouted. If I don't hear from you, I take it you are satisfied.  
Currie: Yes.  
H.M.Jr: You are not in a modest crowd here, you know.  
Iubin: Just substitute Henderson's statement for paragraph one on page three.  
Kuhn: I have got it.  
H.M.Jr: "The Ways and Means Committee is holding firmly to the goal of three and a half billion dollars from the tax bill."  
Viner: That ought to be made "at least three and a half," or else it doesn't -- "at least three and a half".  
H.M.Jr: All right.  
Henderson: The Ways and Means Committee is?  
Viner: Well --  
Sullivan: That is not so, Jake. This is reciting the fact, and the fact is, they are at three and a half.

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- Viner: We are listing things now that are obstacles to inflation.
- Blough: No, these are the things that have been done.
- Henderson: These are the things helping to restrain them. You can just see it in every market, the fact that they are holding firm to three and a half billion. You can see how it is holding prices back. (Laughter)
- Viner: Well, that was my point, Leon.
- Henderson: It says, "Important steps have already been taken or are being taken to prevent inflation."
- White: Paragraph the next sentence.
- H.M.Jr: Why did you spell out the "Office of Price Administration" in one place and call it "OPACS" in another?
- Viner: We decided we wanted it spelled out at least at one point.
- H.M.Jr: I see.
- Haas: It should have been spelled out the first time.
- H.M.Jr: "The Office of price Administration and Civilian Supply is making every effort to obtain the cooperation of producers and distributors in limiting price rises. These measures to restrain price rises though they have unquestionably been helpful are inadequate to meet the situation confronting us. We have gone only a small part of the way it will be necessary to go. We must attack the problem on all fronts if we are successfully to check inflation.
- Certain tax matters relevant to the problem of

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inflation are discussed later. The problem, however, cannot be met by tax measures alone. There should be additional action along the following lines."

- White: Paragraph that sentence, "These measures to restrain price rises," as well, because it applies to many measures.
- H.M.Jr: All right.
- Now, "(1) OPACS should be given the power to fix prices where necessary."
- Henderson: "Given the statutory power." Then say, "Without effective power to impose price ceilings with direct sanctions" - you see, we could enforce - if the President would go along with us and accept the drastic penalty of stopping transportation, we could enforce every price ceiling we have got. What you do, it is too drastic and throws the burden on labor and consumers also. Without effective power to enforce price ceilings with direct sanctions.
- H.M.Jr: What does that mean, "direct sanctions"?
- Henderson: Punish a violator--
- Viner: By something that hurts.
- Henderson: No, by proceeding against him directly for violation of that specific order in a court of law.
- H.M.Jr: Is that legal language, "by direct sanction"?
- Henderson: Yes.
- Foley: Yes.
- Henderson: We are using now an indirect pressure and the

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group committee in the last war used entirely indirect sanctions after the Labor Act was thrown out.

Gaston: Isn't penalties better than sanctions?

Henderson: Yes.

H.M.Jr: I like the word "penalties."

Eccles: More generally understood.

H.M.Jr: Penalty.

"The mere possession of such power tends to make its exercise unnecessary. The attempt to prevent unwanted price increases by fiat, however, is bound to break down here, as it has elsewhere, unless it is accompanied not only by an adequate fiscal program to absorb buying power, but also by the additional methods listed below."

Henderson: Can you make a paragraph of the attempt?

White: Yes, that should be paragraphed.

H.M.Jr: Now, Ferdie, I will wait here a minute if your young lady is out there.

Kuhn: All right, I will be right back.

H.M.Jr: We can keep talking.

Do you want something else on page four, Leon?

Henderson: No, I am up on five trying to revise that.

H.M.Jr: "(2) Increase the supplies of goods required for military and civilian needs. Increased output is in itself a major objective of our Defense Program and the most effective and

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desirable means of preventing inflation. There should be further exploration of the possibilities of inducing expansion of production facilities and labor supply where such response could not be expected to occur automatically."

That is a good paragraph. Is everybody happy with that?

Are you working on three?

Henderson: Yes.

H.M.Jr: Do you want us to skip it?

Henderson: Yes.

H.M.Jr: All right.

"(4) Extension of the general controls over bank credit."

Is that all right, Marriner?

Eccles: Well, I think as a general statement, yes, that is all right. Of course, as I understand, this is very general. That is all it can be.

H.M.Jr: Sure. If he asks me how, I will say, "I don't know," but at least that brings it in.

Is that all right?

Eccles: Yes.

H.M.Jr: "(5) Establishment of controls over the entire field of consumer credit."

Well, you have got that ready, haven't you?

Eccles: We are just--

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Bell: Waiting for us.

H.M.Jr: Well, and I didn't make good on my promise yesterday.

Eccles: I knew you had this.

Bell: It is because of this.

H.M.Jr: Only because of this, but I started in at nine o'clock yesterday and canceled appointments and just stuck with this.

Eccles: When this came up, I knew that other would be--

H.M.Jr: I will try to get to it this afternoon. I am sorry, but you understand.

Eccles: Yes, I understand.

Bell: We have got some work to do on it, Mr. Secretary, before you see us.

H.M.Jr: All right.

Bell: We want to have a conference with Marriner and Leon's people.

H.M.Jr: Couldn't you do that this afternoon?

Eccles: That is scheduled for this afternoon, isn't it?

Bell: There was no hour set. It was scheduled if we could get to it.

Eccles: I understood the boys figured on seeing you this afternoon.

H.M.Jr: Then you are not waiting on me?

Bell: No, they are waiting on me.

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Eccles: Dan has to have a conference with our staffs.

H.M.Jr: Then I withdraw my apologies.

White: The British are supposed to be at three in the Undersecretary's office. Do you want to postpone that?

H.M.Jr: Are you sitting in on that?

Bell: Yes.

H.M.Jr: Well, let Dan do his and you (White) do the British.

Bell: No, I want Harry and George and Jake Viner in on my conference.

H.M.Jr: Then I think we owe it to Marriner to give him the precedence.

White: Then we will postpone the British until tomorrow.

Henderson: On number three, I give in advance what the idea is. Three, delegation to OPACS of priority authority to provide systematic rationing of scarce supplies to industries making civilian goods. You see, the priority - you are going to add a sentence, I understand, which would take note of the necessity of labor rationing of consumption goods.

Now, if you want to - I ought to put you on notice as to what this means. This means that you are endorsing the idea that we have the direct authority to make this priority in civilian goods. We are doing it now.

H.M.Jr: Listen--

White: Aren't you getting into a fight with--

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Henderson: No.

H.M.Jr: Didn't I cross that bridge when I forwarded that very thing to the President while you were out of town, remember?

Henderson: Yes. Well, as I say, I think it is fair to put you on notice.

H.M.Jr: No, but you remember I forwarded that thing.

Henderson: That is right, and we are doing it now. That is, we set up the first set of priorities wherever the utilities and maintenance of the services and then second for repairs--

H.M.Jr: Does this mean I am going to get into a fight with the OPM?

Lubin: Yes.

White: It may be a fight you may be willing to undertake, because I think it will have a much better effect--

H.M.Jr: Leon - Leon, I crossed that bridge. What month was that?

Henderson: In February.

H.M.Jr: So that is - I sink or swim with you. Just as long as I don't have to give up my aluminum to the junk dealers of America. (Facetiously)

Henderson: We want to say in number five, "Establishment of controls over the entire field of consumer credit by a new Executive Order." Is that all right, Marriner?

H.M.Jr: That is in the President's hands.

Eccles: I believe, inasmuch as we haven't discussed it

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with him yet--

- H.M.Jr: No, he would say, "Well--"
- Eccles: I think when he finds out it ought to be in a conference, don't you think so?
- H.M.Jr: No, I think that would be wrong.  
Now, Ferdie, are we going too fast?
- Kuhn: Not at all.
- H.M.Jr: How far are you?
- Kuhn: Item four of page 5.
- H.M.Jr: We are all right on five. We are all right--
- Kuhn: You have a little insert on page five, Mr. Henderson, as a substitute for paragraph three?
- Viner: That sentence that I gave you follows his.
- Kuhn: "Delegation to OPACS of priority authority to provide systematic rationing of scarce supplies to industries making civilian goods." In order to obtain a fair distribution of supplies among consumers, it may later prove necessary to extend the rationing to consumers.
- Lubin: Public consumers?
- Henderson: All consumers.
- Lubin: Yes, ultimate consumers.
- H.M.Jr: All right?  
Go ahead, Ferdie.
- Kuhn: O.K.

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H.M.Jr: "(6)." We all agreed on that a long time ago and sent it over to the President and nothing happened.

Eccles: Listen, I would like to make a suggestion. Wait until we get down to eight.

H.M.Jr: You are all right on six, aren't you, Marriner?

Eccles: Only partly. Let me suggest this, that instead of six and the last part of eight, consider the advisability of substituting under one of them a permit system.

Now, merely to control capital issues doesn't mean much, because your great business concerns and individuals with cash don't have to have capital issues.

White: That is right, that shouldn't be issues.

Eccles: Well, that is the difference. When you are talking about control of capital--

White: And we shifted. You are right.

Eccles: That doesn't mean a thing.

White: That is right.

Eccles: You have got capital issues, however.

White: That is right. Well, that should be changed.

Eccles: Why not, instead of controlling of capital, why not put it this way. Consider the advisability of substituting a permit system.

Now, in the last war all capital construction, a permit system was required before you could undertake it.

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- White: Except that I think that there has already been a good deal of discussion with your group and they have agreed on some kind of an Executive Order which may not go so far as statutory powers - as far as you might later want to go, but certainly has in it all the broad powers you are thinking of as a beginning and this would relate back to that and without introducing any new thought, I think you would be satisfied if that other bill or Executive Order could be issued.
- Eccles: Well, as I understand the proposed Executive Order, all that does is give to a committee the power over capital issues.
- White: No, it wasn't only over capital issues. I think it was some--
- Eccles: Which doesn't get at your problem.
- White: I think it was so worded to meet your problem too.
- Eccles: I didn't - I wasn't favorable to it, because I felt it was so thoroughly inadequate.
- H.M.Jr: Can I interrupt? All we are trying to do here is just list it as a problem, that is all. I mean, it is just a short sentence.
- Eccles: But I do think you have got a problem of capital construction, but the capital issue is the question of financing and that isn't the problem, because most of this is done out of cash and not by issuing security issues at all.
- White: Either cash or extensions of bank credit.
- Haas: Call it, Marriner, the whole thing capital, but substitute extensions for the word "issues",

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and then you have got the broader term.

Eccles: That may be.

Bell: "Capital expenditures."

Viner: That is right.

Eccles: That is all right, Dan.

H.M.Jr: All right? O.K.?

Eccles: Yes.

H.M.Jr: That would go for municipalities also then, wouldn't it?

Viner: No.

H.M.Jr: Wouldn't it?

White: It is a question of legal powers.

H.M.Jr: Well--

Bell: Why not? You would have control over the person who contracted for it.

White: You could stop it at that.

Bell: Sure.

H.M.Jr: How would six read now, Ferdie?

Kuhn: "Creation of controls over capital expenditures."

H.M.Jr: Is that all right, Marriner?

Eccles: Well, I think that is general enough that you possibly could cover everything.

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H.M.Jr: Are you satisfied?

Eccles: Yes.

H.M.Jr: All right. How about seven?

Currie: Mr. Secretary, I don't think I am quite prepared to go along with seven yet. I haven't discussed this with Jake until today. This is a possibility. Another possibility would be a more generalized scheme of deferred pay or enforced savings. I am not sure that we are prepared at this particular point to say that this is the particular scheme to cut down consuming purchaser power and pay them back later because there are a lot of difficulties, administrative and others. It may be inequitable in a way to utilize this means of collecting people's incomes now with a promise you are going to pay them back later because these particular people may not qualify later. There were a lot left out of the present insurance schemes. You could have more general words there which might cover the other possibility when they get around to studying it.

White: Well, Lauch, if you just eliminated the word "and contributions," just "which greater coverage," wouldn't that meet your point?

Bell: That might mean outgo.

White: Bringing new people in under the Social Security.

Eccles: It seems to me this thing has more merit than the British system. You have already got it set up. You can expand it and increase the rates, which would certainly have a - you could build up a big fund now by increasing the rates, and it would be deflationary.

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Later on you could stop you--

- Currie: Well, I didn't want to argue the merits of it now, Marriner. I have not studied it enough to make sure that this is the thing we are going to propose rather than a more generalized, deferred enforced savings.
- Viner: I am under the impression that even if you decided to have another elaborate scheme of the other sort, there still is a case for the extension of our Social Security program, and that, therefore, what you are saying is not really hostile to this except as putting it here implies that that is the way we think.
- Currie: As long as this is not exclusive.
- Viner: Yes.
- Lubin: There is one aspect of this thing that politically is significant. I don't think it is very significant economically. Namely, the movement in various states to cut down these contributions due to the large size of the fund plus the application because of the legal situation of your experience rating, which means again smaller contributions. Do you want to put the positive in as well as the negative - or rather, the negative as well as the positive, that there should be no curtailment in these contributions at the present time?
- Eccles: There should be no curtailment. But they should be increased.
- Viner: The implication here is that we ought to move in that other direction, but I don't believe we need to spell it out here.
- Eccles: There is one thing in connection with seven

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that I think you should put in if you are going to leave that in and that is that the extension of the program should call for increased benefit provisions that in justification for the maintenance of rates and also increasing rates, that it is to increase benefits at such time as may be required, and you could say that it would increase the outflow of funds we needed in a post defense period.

- Haas: We could leave it out. I mean, it is just an enumeration.
- Bell: How about just a study of the Social Security program?
- Currie: Or measures to reduce consumer purchasing now to be compensated by increased buying power at a later date, to cover this and other schemes?
- White: I am surprised, Lauch, that you don't want this in if it is not indicated as exclusive. I think that this increased coverage would be something that if it doesn't - and it doesn't exclude any other method, would be something that you would be glad to stick in wherever you could.
- Currie: It is increased contributions.
- White: Delete the "contributions."
- Eccles: I think I would rank that as the best of the whole bunch, as right near the very top in importance, the mechanism to build up a real fund as a backlog for expenditures later on.
- Lubin: I would like to substitute that last clause for the present last clause, leave out "would not involve" and substitute for it, "and would provide a source of income when - in the post defense period," something of that sort.

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- H.M.Jr: There is so much disagreement here that I would just as lief make it very concise and simply say, "reexamination of the Social Security Program."
- Eccles: For what purpose?
- H.M.Jr: Well, for the same purpose as everything else.
- Eccles: For the purpose of increasing coverage, increasing rates, increasing benefits?
- H.M.Jr: Why do you want to control capital issues? You don't explain why. It is the whole thing.
- Eccles: Capital expenditures. Well--
- White: Control of capital issues can only go in one direction and that is a restriction.
- H.M.Jr: I am inclined to over simplify it. Marriner, don't feel badly if we don't have enough time when it comes to taxes. But I have got from now until five minutes of eleven. How would you like to leave it, gentlemen?
- Eccles: I think the statement - leave that up to study with what idea in mind? With the idea in mind that you increase coverage, increase taxes, and increase benefits. That is the purpose.
- Now, you are going to study to see whether or not it is feasible to increase taxes, benefits, the idea being that if that could be done, it would increase the outflow of funds when needed in the post defense period.
- Lubin: May I suggest this?
- "(7) Extension of Social Security program along the lines which would increase the flow

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funds to the Treasury from current income during the emergency."

- Eccles: "And later increase the - " we could add to that, "and later would increase the outflow of funds when needed in the defense period."
- H.M.Jr: That is good.
- Henderson: I like that.
- Eccles: That does it.
- H.M.Jr: Does that suit you, Lauch?
- H.M.Jr: No, that doesn't suit me, that last sentence. I don't know what that means.
- Eccles: What?
- H.M.Jr: "And increase outflow of funds during the defense period."
- Eccles: No, "post defense", after. It increases funds to the Treasury now, and there will be an outflow of funds later when needed.
- H.M.Jr: I didn't hear the word "post."
- Currie: With convenient measures to accomplish that.
- Eccles: Yes. With the idea of making it accomplish that.
- H.M.Jr: Have you got it, Ferdie?
- Kuhn: Yes, "An extension of the Social Security program along lines which would increase the flow of funds to the Treasury from current income during the emergency and would increase the outflow of funds in the post defense period."

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Foley: That is right.

H.M.Jr: All right?

Currie: Can you say "Social Security and/or other means"?

H.M.Jr: What does that mean?

Henderson: Social Security and other programs.

Currie: And other measures.

H.M.Jr: Such as what?

Viner: Bearing on payrolls, you have got to bring that in.

H.M.Jr: Such as what?

Currie: You may want to have a more generalized--

Bell: Dismissal wage, you mean.

Currie: .... than just the Social Security's deal. We may, by next year, want to go something like the British system, I don't know. I really haven't canvassed that yet.

Lubin: But there will be three more memos between now and next year.

H.M.Jr: I would like to leave it the way you have got it now.

Read it, Ferdie.

Kuhn: "An extension of the Social Security program along the lines which would increase the flow of funds to the Treasury from current income during the emergency and would increase the outflow of funds in the post defense period."

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H.M.Jr: Does that satisfy you, Jake?

Viner: Yes.

Kuhn: You could put in "would increase the outflow of funds when needed in the post defense period."

Lubin: If needed.

H.M.Jr: Lubin?  
Marriner?

Eccles: I have got "increase the outflow of funds when needed in the post defense." You could say "if needed," if there is any "if."

H.M.Jr: If you don't mind, Lauch, as somebody said, there will be three other memoranda.

Currie: That is right.

H.M.Jr: All right, can we go on to the next? Are you all right, Ferdie?

Kuhn: Yes, sir.

H.M.Jr: What about eight?

Eccles: It seems to me that your reduction of non-Federal expenditures--

H.M.Jr: Non-essential.

Eccles: .... belongs with nine, at least that part. I would put "reduction of non-Federal expenditures" and "an appeal for economy to states and local governments," tie that together under one heading. I think that the "Federal underwriting, non-emergency housing expenditures,

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mortgages," belong under the capital issues thing. I think you might expand that because a capital expenditure for a store building or a house or a plant--

- H.M.Jr: Take your suggestion, "reduction of non-essential expenditures" and "an appeal for economy to State and local governments," I think those things could go together in nine.
- Kuhn: Want to leave out the last half of eight?
- H.M.Jr: No.
- Henderson: No. I could agree technically that it is a capital issue, but in order to make sure that the President sees it, I would like to make it number eight.
- Eccles: That is all right, make it separate, then.
- Henderson: Because we have already been moving in that field ourselves.
- Eccles: Well, the only question I raise, all you are talking about is Federal lending and underwriting. It isn't just the Federal thing that you want here.
- H.M.Jr: Dan, is it all right to put that non-essential Federal, state, and local thing in together?
- Bell: I think so.
- White: That would be taken care of in the earlier part, whereas you would hardly be given control over Federal, so that I think--
- Eccles: No, Well, all right.
- White: Privately taken care of.

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H.M.Jr: Having taken out "the non-essential Federal," what is left in eight?

Kuhn: "Reduction of the Federal lending and underwriting program, such as non-emergency housing expenditures and mortgage guarantees."

Nine would read, "Reduction of non-essential Federal expenditures," semi-colon, "also an appeal for economy to state and local governments."

Is that right?

Eccles: Yes, that is right.

H.M.Jr: Want to step out a minute, Ferdie, and get that started?

Henderson: Before you go out, of course, as you say, there are three more to come.

H.M.Jr: Three more?

Henderson: Somebody said there were three more memos to come.

H.M.Jr: You said that.

Henderson: If we ever get it out publicly, instead of curtailment of the borrowing for non-emergency expenditures, I would make it a positive, the building up of a back log for the post defense area by postponement of non-emergency expenditures.

H.M.Jr: It is all right.

"Even with substantial action along all of these lines it seems probable to us that some undesirable price inflation will occur in this fiscal year if our tax program is not carried

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further than has as yet been proposed. We, therefore, urge that the tax program now under consideration by Congress be reexamined in the light of the following considerations."

- White: That is where we need Lubin's paragraph. I started writing it up.
- H.M.Jr: The catch-all?
- White: Well, a better tie-up on the problem of inflation with the tax program.
- H.M.Jr: Let's wait until Kuhn comes back.
- White: To save time, Roy might try to write that basket paragraph on taxation. Lubin is writing a different one. I mean, it might be acceptable. A paragraph which would direct the President's attention to the other tax comments which were in the first draft, Roy, and which were deleted in the subsequent draft.
- Blough: One of those was joint returns. I don't know if you have made up your mind, Mr. Secretary, on that subject.
- H.M.Jr: Well, I have made up my mind, but there is so much difference of opinion here. I have never discussed it with Sullivan.
- Blough: And with respect to individual income taxes, I am not sure what the Chairman had in mind about - or Mr. Currie had in mind about that.
- H.M.Jr: I think that--
- White: Or you could have one sentence saying that this is the only tax. I think there is something in the criticism that unless you mention something, it will seem that the President approves of everything else.

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- H.M.Jr: Well, Mr. Roosevelt has a mind of his own, and when he gets this thing, he will say, "Now what about these other things?"
- Are you all right, Ferdie?
- Kuhn: Yes, sir.
- H.M.Jr: Let's go.
- "It is important that the annual addition to the Treasury revenues provided by the new tax bill shall not fall below the \$3.5 billion level. In fact, it is apparent from the size of the appropriations and the pressures of consumer purchasing power on prices that further increases in rates or extensions of taxes will be necessary not later than next Spring."
- Eccles: We are talking about a three and a half billion tax bill. I am just wondering whether we shouldn't say that taxes even beyond this amount.
- Foley: That is there, isn't it, Marriner?
- Eccles: Should not fall below it, you see.
- H.M.Jr: Well, the next sentence, "further increases in rates or extensions of taxes will be necessary not later than next Spring."
- Eccles: Yes, but the rates that you put in next spring don't give you the revenue until the following year.
- H.M.Jr: True.
- Eccles: Which isn't soon enough. It seems to me that with a year's lag existing, that you have got to get your tax bill in - passed this year so

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that you begin getting your revenue next year. If you wait until next spring to put it in, in '42, it is just too late to do any good on this front.

- White: Do you want to merely say, "are necessary," period.
- Sullivan: "Will be necessary."
- Viner: "Should likely be necessary before next spring."
- H.M.Jr: That is all right.
- Eccles: Well, I have got - I think they should be provided for now.
- Viner: The question is whether now or next month. It may be good to get this bill out of the way.
- Eccles: "Should be provided for this year." That is what your present tax bill does, provide for taxes this year that you collect next year.
- H.M.Jr: How would this do, simply say, "increase in rates or extension of taxes will be necessary," period. Then you have no time factor.
- Eccles: Well, that is better than putting "next spring."
- H.M.Jr: Cut out, "not later than next spring."
- Eccles: I would cut that out.
- H.M.Jr: We can do it this fall, next January, any time we want. All right, Marriner?
- Viner: I would say, "are necessary."
- Eccles: It leaves the date open.
- H.M.Jr: "Taxes are necessary." I am satisfied with that.

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- Blough: Someone brought up the point about a little lesson to Doughton and Cooper on taxes and inflation. Is this where you had in mind it should go in?
- White: No, it was right before part two in the transitional paragraph Lubin is drafting now.
- H.M. Jr: In form - it reads that they are necessary.
- "In formulating the excise tax program an important consideration should be to reduce the demand of producers and consumers for scarce commodities which compete with Defense Program and to absorb windfall profits resulting from scarcity of supply relative to demand. Thus the tax on passenger automobiles might well be made much higher than the 7 percent adopted by the Committee. The production of passenger automobiles will undoubtedly have to be greatly restricted. It would be extremely difficult to prevent price rises on cars sold by some retailers or the setting up of a "black market" in new and slightly used cars. It is probable that the excise tax will in large part come out of windfall profits to producers and dealers in automobiles, rather than being passed on in full in higher prices."
- Currie: I think there, Mr. Secretary, that they will be passed on in full. I wonder if it isn't probable that the absence of a high tax will result in windfall profits. Profiteers would then be in a position to take advantage.
- Viner: That is right. You are right.
- Hocles: Here is a suggestion I would like to make on it along that line. "It is probable that a sufficiently high excise tax will prevent increased prices from resulting in windfall

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profits for dealers and middlemen and will not increase prices of automobiles to consumers beyond what they otherwise would be."

H.M.Jr: Are you sure of that?

Sullivan: That is good.

Eccles: Beyond what they otherwise would be.

White: The price would include the tax.

Eccles: That is right, but the point is, if we didn't put the tax on, the consumers would pay just the same as they did otherwise. Therefore, the tax amounts to, you see - did you get that?

Kuhn: I am going to get it from you, if I may.

Eccles: All right.

"It is probable that a sufficiently high excise tax will prevent increased prices from resulting in windfall profits--"

H.M.Jr: Wait a minute, you know he writes longhand.

Eccles: Oh!

Kuhn: It is all right.

Eccles: He is pretty good, then.

H.M.Jr: He is if he got it.

Eccles: "For dealers and middlemen and will not increase prices of automobiles to consumers beyond what they otherwise would be."

White: Do you want to add a further thought, Leon, that

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moreover it will also make the problem of price control much easier?

Viner: That was certainly in our minds.

Henderson: Yes.

White: Otherwise, it appears that price control might replace that, when that isn't so.

Eccles: Well, isn't this whole program to lessen the problem of price control, and isn't Leon in the beginning indicating that the whole thing is really to supplement and reduce what otherwise would be necessary by way of price control? Don't you think that is implied in the first part, Harry?

White: Yes, it is.

Henderson: We are going to try to control prices at the second-hand level and the trading level.

H.M.Jr: Is that wording agreeable to you?

Henderson: Oh, yes.

H.M.Jr: It is all right with me, then.

Now we go ahead.

Ferdie, you are waiting for six, aren't you, to get something from Lubin?

Lubin: Could we have a look at what I have got here?

H.M.Jr: Please.

Lubin: Second paragraph.

"Even with substantial action along all of these lines it seems probable to us that some undesirable price inflation will occur in this

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fiscal year unless there be a radical change in our attitude toward our tax structure. If inflation is to be controlled, a tax program should be enacted which will increase the flow of funds into the Treasury sufficiently to curtail the pressure - the upward pressure of the consuming purchasing power on the price level of the limited supply of goods which will be available in certain lines."

- Viner: I think that is all right. I would find another word for "radical," there.
- White: "Drastic."
- Henderson: These conservatives never let up, do they?
- Eccles: How is this on that?

"The principal mechanism for diverting the rising stream of buying power from inflationary outlets is taxation. It is the most effective as well as the most equitable of all the broad functional powers of the Government. The tax system should be designed to recapture for the Government a large part of defense expenditures and, so far as possible, to reduce consumer demand for goods, of which the supply is inadequate, to tax back into the Treasury currently an amount equal to that spent during the - " well I have got here, "tax back in the Treasury the amount spent during the emergency program is not practical."

- Lubin: I would take what you have got there in preference to mine, if you leave out the equity considerations.
- Eccles: It is the most effective--
- Lubin: We are talking now about only one thing, control of inflation, you see.

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- Viner: An engineering job to be done.
- Eccles: "It is the most effective then of all the broad functional powers at the command of the Government."
- Lubin: And then leave out the question of taking back and so forth. Leave in only the question of consumer demand.
- Eccles: Well, it isn't as effective as direct price control.
- Viner: Oh, yes it is.
- White: Well, we say "direct price control--"
- Viner: "Effective without taxation."
- H.M.Jr: Do you mind reading that slowly, Marriner?
- Eccles: I just say, "The principal--"
- H.M.Jr: This is to come after nine, is it?
- Eccles: "The principal mechanism--"
- Lubin: We ought to have an introductory paragraph.
- "Even with a substantial action along all of these lines, it seems probable to us that some price inflation will occur in this fiscal year unless we have a drastic change in our attitude toward our tax structure."
- Then go on.
- Eccles: "The principal mechanism for diverting this rising scheme of buying power from inflationary outlets is taxation."
- Lubin: Yes.

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- Eccles: It is the most effective of all the broad powers - "you cut out functional - "at the command of the Government. The tax system should be designed to recapture for the Government--"
- Lubin: Leave that "recaptured" stuff out.
- Viner: You don't need any more on that, do you?
- Eccles: Just drop it then.
- Lubin: Explain how your tax--
- Eccles: Simply say, "The tax system should be designed to reduce consumer demand--"
- Lubin: That is right.
- Eccles: "... for goods of which the supply is inadequate."
- Lubin: And stop right there.
- H.M.Jr: Just do it again. There is one thing you said that I wasn't quite sure about. Do you mind?
- "Even with substantial action along all of these lines, it seems probable to us that some undesirable price inflation will occur in this fiscal year unless our--
- Lubin: "Unless we have a drastic change in our present attitude toward our tax structure."
- Henderson: "Tax policy."
- H.M.Jr: Just a minute, aren't these fellows going to say, "What the hell do you think we have been doing?" Do you want to say that it has to be drastic?

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White: "Unless there is a full realization of the rule--"

H.M.Jr: Can't you say, "more comprehensive"?

Lubin: It is all right.

H.M.Jr: I just thought "drastic" might be a little offensive to them. "Comprehensive"?

Lubin: It is all right.

H.M.Jr: "Comprehensive" and "marked." You can use both words.

Lubin: The weakness of the whole program lies in the fact that they haven't conceived of taxation as a means of controlling inflation. They are thinking of it only as a revenue measure.

H.M.Jr: Would you read yours again slowly.

Eccles: Right.

"The principal mechanism for diverting this rising stream of buying power from inflationary outlets is taxation. It is the most effective of all the broad powers at the command of the Government. The tax system should be designed, so far as possible, to reduce consumer demand for goods, of which the supply is inadequate."

H.M.Jr: Are you satisfied with that, John?

Sullivan: Yes, sir.

H.M.Jr: Roy?

Blough: I think so.

H.M.Jr: What don't you like about it?

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- Blough: I am a little skittish about the last sentence.
- H.M.Jr: What is that? Speak up, Roy.
- Blough: Would you mind reading it again, Mr. Chairman.
- Eccles: "The tax system should be designed to reduce consumer demand--"
- Blough: Well, that is O.K.
- Eccles: "... for goods - now you can stop there, if you want to, but I would say for goods of which the supply is inadequate. You don't want to reduce the consumer demand for goods if you have got an excess supply. You want to reduce the demand for goods of which the supply is inadequate.
- Blough: I guess that is general enough.
- H.M.Jr: Are you satisfied?
- Bell: Yes.
- H.M.Jr: Are you?
- White: That is all right.
- Eccles: I think you have got to add that part.
- Viner: Yes, I think so.
- Gaston: I have two objections to Lube's sentence. The first is the word "unless," because I think that we are not going to have any perfect controls, and you are going to have undesirable price rises and then a radical change in tax policy, I agree with the Secretary that - or attitude toward tax policy, that that is likely to be an affront to the

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Committee. I would say something like this: "There will be these undesirable price rises except to the extent that they may be controlled through tax policy."

- Lubin: Good. Sounds all right. You say in spite of all these other activities, there will be these other price rises except to the extent they can be controlled by the tax policy.
- Blough: Isn't that saying the tax policy can control them--
- Gaston: No, except to the extent--
- Viner: You start it with "even if." You still retain, "even with substantial."
- Blough: This is the only other one, though. You are saying we have these. Even if you do these--
- Viner: We still need more taxation.
- Blough: That isn't what it says. You are saying except to the extent that you control it through taxation. There may be some other thing that you haven't put in here, which is logically excluded.
- White: If you add "under other means," then it becomes meaningless.
- Sullivan: You proposed a tax on something all through this bill, and they said, "Why, no. Henderson will take care of that."
- White: If you say, "and other means," what you are saying is that you are going to have price rises unless you don't.
- H.M.Jr: Get together, boys, we have got to move. What is it you are arguing about, Gaston's revised

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statement?

Gaston: Yes.

Blough: I think one word in that statement - I don't know what it goes like now.

Kuhn: It is, "even with substantial action along all of these lines, it seems probable to us that some undesirable price inflation will occur in this fiscal year except to the extent that it can be controlled by a tax policy."

Viner: "By national tax measures."

Eccles: You can't control it this year.

White: I am inclined to think it was a little safer as it was said before, if you water down the "drastic" to "comprehensive." Maybe Herbert won't object to it.

Kuhn: "It seems probable to us that some undesirable price inflation will occur this year unless we have a marked and--"

Gaston: You can correct the whole thing by a radical change in your tax policy is what that implies.

Eccles: Why don't you say "taxation and other means." Then you come to, "The principal mechanism for averting this is taxes," but you don't say it is the only one.

White: Yes, I think that is safe enough.

H.M.Jr: How is it now, Ferdie?

Kuhn: "It seems probable to us that some undesirable price inflation will occur in this fiscal year except to the extent that it can be

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controlled by taxation and other--"

Eccles: "Other policies."

Kuhn: ".... and other policies."

Eccles: That is right.

Now the principal mechanism for diverting it is--

White: I don't like to be meticulous, but that statement sounds - you are going to have price rises unless you can control them by taxation and other means.

Eccles: That is right.

Viner: Which will not be sufficient.

Currie: Back on page four you say, "The problem, however, can not be met by tax measures alone."

Viner: Now we are saying they can't be met by tax measures plus everything else.

Lubin: No, you are emphasizing your tax program now.

H.M.Jr: Let me tell you what the Vice President, according to Dow Jones, says: "Vice President Wallace strongly enforces a policy of stiff taxation and Government bond buying by individuals as means of holding down consumer purchasing power and checking possible price inflation. The Vice President's position on the controversial price control policy was disclosed yesterday to Associated Press reporters. The problem has been under discussion for several weeks. The effective way to check inflation is through measures which would hold down through purchasing power rather than by direct price control measures

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as has been proposed by the Price Control Administrator Henderson."

This is fairly hot.

Henderson: Yes.

Kuhn: I think this is logical, Mr. Secretary. You say you can't achieve these things by taxation alone, but in this sentence you are saying that you can't do it without taxation.

Lubin: That is what I say.

Gaston: Why don't you just say: "Even with all these measures listed above, there will be some undesirable price rises, and an important way to accomplish further corrections is the tax instrument.

White: But in order to keep those price increases down to a minimum, it is essential.

Henderson: That is right.

H.M.Jr: That is the way I liked it, but I am sorry I - I don't get it now at all.

Blough: What you are really saying is, unless taxation is greatly increased, aren't you?

H.M.Jr: Read it once more, will you.

Kuhn: "Even with substantial action along all of these lines, it seems probable to us that some undesirable price inflation will occur in this fiscal year except to the extent that it can be controlled by taxation."

Viner: I would say, "except to the extent that further tax measures control it."

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- Lubin: That is all right.
- Viner: That would fit in with the rest if that is what you have in mind.
- Kuhn: That doesn't exclude other measures.
- H.M.Jr: I don't like it. It looks to me as though you are really not saying anything.
- Viner: You are saying that you need further tax measures.
- H.M.Jr: Why say it in a double negative form? On one hand you say one thing and then you say "Not matter what you do, you are going to have inflation anyway." Try it once more.
- Blough: You might say, "Unless further tax measures are taken to control it."
- Eccles: Why don't you say, "The principal means for converting this rising stream of buying power from inflationary outlets is taxation"?
- Lubin: That is an explanation of your first sentence. It elaborates the first sentence as to why you do it.
- Gaston: "Even with all that has been - all these controls listed above, there will still be undesirable changes. Other means must be sought to control them. The most important of these is tax policy."
- Kuhn: That is good.
- H.M.Jr: Now put that down and let's see how that sounds.
- Kuhn: "Even with substantial action along all of these lines, it seems probable to us that some undesirable price inflation will occur in this

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fiscal year." Stop. "Other means must be sought to control it." And then go on to Mr. Eccles', "The principal and most effective weapon is taxation."

- H.M.Jr: Is that all right?
- Gaston: O.K. That is what I was trying to get.
- H.M.Jr: Let's go to press.
- Kuhn: May I ask one question before I take that out?
- H.M.Jr: Yes.
- Kuhn: At the very beginning of page six, it would read, "Reduction -" number nine, "Reduction of non-essential Federal expenditures. Thus building a backlog for the post defense period. Also in a field of economy for state and local expenditures" and so on.
- H.M.Jr: "Building a backlog" applies to both.
- Henderson: It applies more in this period to the states.
- H.M.Jr: Ferdie, if you can get that in, I doubt if we can get any more. Go ahead, will you, Ferdie.
- White: If you like, you can skip to the last page, because the others, the revision is merely a smoothing and a clarifying of the illustrations. It doesn't raise any points.
- H.M.Jr: May I read it?
- Roy, on page eight, isn't that practically the same, eight?
- Blough: Yes, it is.

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H.M.Jr: Are there any changes on nine?

Blough: No, no changes on nine.

H.M.Jr: Ten?

Blough: No changes on ten.

H.M.Jr: Well, now, does anybody want to say whether there is anything they could do at the bottom?

Marriner, did you write anything out at the end? Is there anything that you have got written there?

Eccles: You mean on the tax picture?

H.M.Jr: Yes, something that could go on at the end? Do we have time to have it written?

Eccles: No, I didn't fit in anything on the end. I was thinking of the excess profit end. It seemed to me that it possibly could be made a little more effective, and I had here this thought, that during the emergency we should have to rely heavily upon the excess profits tax, because, business units, are the greatest beneficiaries directly and indirectly from defense expenditures. The profits accruing from the expanding national income tend to become concentrated here in the first instance. Consequently, one of the surest ways to insure against price inflation is for the Government to levy on such profits and divert them directly into the defense program before they are distributed into the general income stream through higher wages and increased defense dividends. If not so diverted at one, they will swell the general level of effective purchasing power in the country, and the Government will be obliged to go through the far more complicated operation

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of checking more of them through personal income, excise, and other forms of taxation. You have to do that anyway. Tapping these profits at their source is a logical procedure during this emergency. Perhaps the most compelling reason for - perhaps the most compelling reason of all for the imposition of excess profits tax is that if not taken by the Government, such profits will lead to further demands for higher wages and properly so. If wage increases continued to be freely granted to those who have already received substantial wage increases, they will swell unduly the volume of consumer purchasing power." There is one other point, and then I am through.

"With the increased personal income tax that will be required in any event, especially in the brackets of from five to fifty thousand, many corporations may be expected to leave large portions of their profits undistributed. In the absence of an undistributed profits tax, therefore, these profits, unless taxed through excess profits tax will be beyond the reach of the Government.

White: I think much of that is very good. I think you can boil that down.

Eccles: Yes.

Viner: The only point that bothers me about that is that excess profits tax is not an issue here, as I gather it, but the form of the tax or the extent of the tax.

Blough: Well, the profits about which the Chairman is speaking--

H.M.Jr: Go ahead, Roy.

Blough: The profits about which the Chairman is speaking are taxed seventy-two percent under the proposed Committee bill, and it is not that aspect of the bill to which we have taken objection.

Eccles: Oh, no. The taxes I am speaking of are not taxed seventy-two percent, because if you exempt enough beforehand you don't get into the excess profits tax. An excess profit tax, it seems to me, is a question of definition. Anything above a certain fixed rate on capital, I think most of us possibly consider it as an excess profit.

Blough: The profits growing out of defense is what you started out with. Those are the ones that are taxed under this law.

Eccles: How do you mean?

Blough: Everything in addition to the previous income, previous profits, above - rather a moderate percentage, which has been lowered in this bill, are subject to taxes of sixty percent excess profits plus thirty percent normal tax, or an effective rate of seventy-two percent. It is the profits they earned before the defense period which they may continue to earn which are not taxable.

Eccles: That doesn't mean that a corporation which earned a profit before the defense period is not making a profit now out of defense. That doesn't mean that at all, that a corporation may well - they may well have made their profits out of selling something in 1936 and '37 and '38 and '39, and they are now making their profit out of defense.

Blough: I see your point.

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- Eccles: As a matter of fact, these huge expenditures today are the thing that is creating the profits for your corporations. The automobile industry will be making profits out of defense next year, not out of the production of automobiles, if they make them.
- Blough: Having cut down the corporation's profits from its normal sources and having substituted profits from the defense sources, you want to step in and tax those profits very heavily, although you have really taken away their normal source of living.
- Eccles: That may well be.
- White: Roy, I think that is the weakest part of the statement. I think that - there is a small part that might be rewritten without affecting much - the force of much of his statement.
- Blough: I thought the present law was very fine, the proposal, except with regard to that portion of the profits which represents what they earned before.
- White: That is why I think if you left that particular portion out and used much of the remainder, I think you have got a very much stronger statement which might go right to the end without violating the thought that you have.
- Blough: I think the language is excellent about excess profits. I would agree on that. We are very close on time now.
- H.M.Jr: Can I say this, gentlemen, and that is this: all that I am trying to do this morning, with your help, is this, is forcibly to bring to the President's attention the question of inflation, prices, taxes, and the seriousness of it which I have been unable to interest

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him in, talking here, up to now.

Now, we really only started on this thing yesterday, and I think considering everything and considering the divergence of opinions that are represented, personally I am delighted that I have got even as much as I have. This cannot cover the waterfront and doesn't but - and it isn't the last word either, but I think that with what we have, if the President would only read the whole damn thing, it certainly would forcibly and dramatically bring to his attention the thing that we want. If he will take this and read it to these two men, I feel that I, with the help of everybody here, have accomplished a great deal. I don't think that in the few minutes left we can begin to interpret this thing, and I am not going to say to the President that everybody has had his last word or that this represent anybody's opinion. I don't think we can go much further than what we have.

- Eccles: Can't you say to the President that this in general - we haven't tried to get down to detail, but in general it does represent everybody's opinion?
- H.M.Jr: I was afraid to say that. If I could say that--
- Henderson: You can certainly say in general, as far as I am concerned.
- Lubin: Nobody will take issue with any of the fundamentals in it. It is just a question of a little detail here and there.
- H.M.Jr: How about you, Lauch?
- Currie: That is right, Mr. Secretary.

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- H.M.Jr: I didn't want to go so far. Our people, we all started with it yesterday morning and got this thing through at five and got it over there lat and it shows at least there is a group in Washington that can work together, which I think is very encouraging.
- Henderson: That is the most encouraging thing about it.
- H.M.Jr: There is a group that can work together and eighty percent be in agreement.
- Viner: My guess is that eighty is low.
- Lubin: A hundred percent agreement on fundamentals.
- Eccles: I would think that it is important to - if you are going to say that this group met and we considered this, that that doesn't mean anything unless along with that you can say that this group is in unanimous agreement as to the general program here.
- H.M.Jr: Well, can I say that?
- Henderson: Yes.
- Eccles: I think you ought to find out, because I think it is terribly important if you can.
- H.M.Jr: Can I say that?
- Henderson: You can for me.
- Lubin: You can for me.
- Eccles: And for me.
- H.M.Jr: How about you, Lauch?
- Currie: Yes.

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- H.M.Jr: Wonderful. That is the best - that is the most encouraging thing.
- White: Now, much of what Marriner says can be worked in later before the Senate or anything subsequent.
- H.M.Jr: You are going to have several chances. The chance that I hope you will have is that the President will say, "Well, now, this is fine, Henry, will you please, with the help of these other gentlemen, draft a message for me to Congress and take a week to pour the stuff into it. Then, if on the other hand, he says, "I don't want to go ahead," then my next chance will be when I appear before the Senate Finance on the opening of the bill, and I will certainly ask you gentlemen to help me on that statement.
- Eccles: If the President will open the door, it will make a lot of difference.
- H.M.Jr: In the room here, if the President doesn't say something, we have got about as much chance as a snowball in hell during the months of July and August in the Senate. That doesn't mean that I will pull my punches when I go up there. I will just go down the line. I can't tell you how much I have appreciated it. It is the most encouraging thing that has happened to me in months. If you will leave these copies, we will send you each a corrected copy just as soon as it is finished.

July 15, 8.30 draft.  
1941

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## MEMORANDUM FOR THE PRESIDENT

### I. The Present Price Situation

Since the beginning of the war, September, 1939, the wholesale price index has risen from 75 to 87 or about 16 percent. The greater part of this rise has occurred during the past five months.

The cost of living index has increased 5-1/2 percent since September, 1940.

The index of 28 basic commodities has increased 48 percent during the same period. This increase constitutes a major danger signal of inflation which must not be ignored. The wholesale price index always lags greatly behind the index of basic commodities, while the cost of living index does not show anything like the full effects of inflation until long after the seeds of inflation have taken deep root.

The pattern of price rises summarized above roughly resembles the price movements during the first two years of World War I -- little rise in the cost of living, a moderate rise in the wholesale price index, and a sharp rise in basic commodities. Apparently we are at the same point in price history as in 1916 -- on the edge of inflation.

The forces making for further price rise are both potent and persistent:

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(1) The Budget estimates Defense spending during the fiscal year 1942 will be \$15 billion, or two and a half times as much as in the fiscal year 1941. This estimate, moreover, does not take account of such additional expenditures as will result from extension of the Defense Program made after June 1.

(2) More important in its bearing on the danger of inflation than the figures for expenditures of the coming year are the estimates of deficit spending. The net deficit for the fiscal year 1942, as estimated by the Director of the Budget, will be \$12.8 billions, compared with \$5.1 billions for the previous fiscal year. This assumes the present tax structure. If the present tax bill is passed by Congress, the deficit will be reduced by \$2-1/2 billions, (the revenue yield in fiscal year 1942 of the \$3½ billion tax bill) but it will still be over \$10 billion. Again this estimated deficit does not take account of the expansion of the Defense Program after June 1, 1941.

(3) The inflationary force of the Federal deficit has been supplemented during the past year by an expansion of bank credit. Total loans of all member banks expanded by an estimated \$2.8 billions, or by 20 percent during the fiscal year just past. This rise, moreover, has been proceeding at an accelerated pace.

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(4) To the fiscal and banking factors likely to cause price increases during the next fiscal year must be added the increasing absorption of idle plant capacity in many lines of industries.

Also making for further price increases are the heightened obstacles to imports, such as reduced ship space, higher shipping costs, and cutting off of normal foreign sources of supplies.

Though there are some factors in the situation operating to check inflationary trends, such as surplus stocks of some agricultural commodities, unemployed labor resources, and partially employed production facilities, most of these factors were present in the fiscal year 1941 in greater degree and yet did not serve to restrain price rises even though the forces making for price rises were then much weaker.

Important steps have already been taken or are being taken to check inflation. Congress has made provision for the Treasury to sell defense savings bonds and stamps and so to absorb, for the Defense Program, funds which might otherwise be used for civilian purchase of goods. This program is well under way.

The Treasury Department has also launched a plan for selling tax anticipation notes which will facilitate

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the prepayment of income taxes and will more promptly withdraw purchasing power represented by such taxes.

The Ways and Means Committee is holding firmly to the goal of \$3.5 billion from the tax bill. The Office of Price Administration and Civilian Supply is making every effort to obtain the cooperation of producers and distributors in limiting price rises. These measures to restrain price rises though they have unquestionably been helpful are inadequate to meet the situation confronting us. We have gone only a small part of the way it will be necessary to go. We must attack the problem on all fronts if we are successfully to check inflation.

Certain tax matters relevant to the problem of inflation are discussed later. The problem, however, cannot be met by tax measures alone. There should be additional action along the following lines:

(1) OPACS should be given the power to fix prices where necessary. Price rises cannot be controlled when inflationary forces are at work without effective power to impose price ceilings. The mere possession of such power tends to make its exercise unnecessary. The attempt to prevent unwanted price increases by fiat, however, is bound to break down here, as it has elsewhere, unless it is accompanied not only by an adequate fiscal program to absorb buying power, but also by the additional methods listed below.

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(2) Increase the supplies of goods required for military and civilian needs. Increased output is in itself a major objective of our Defense Program and the most effective and desirable means of preventing inflation. There should be further exploration of the possibilities of inducing expansion of production facilities and labor supply where such response could not be expected to occur automatically.

(3) Extension of the present system of priorities to include systematic rationing of scarce supplies to consumers.

(4) Extension of the general controls over bank credit.

(5) Establishment of controls over the entire field of consumer credit.

(6) Creation of controls over capital issues.

(7) An extension of the Social Security program along lines by which greater coverage and contributions would increase the flow of funds to the Treasury from current income during the emergency and would not involve any substantial increase in the current outflow.

(8) A reduction of non-essential Federal expenditures and of the Federal lending and underwriting program, such as non-emergency housing expenditures and mortgage guarantees.

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(9) Appeal for economy in State and local governmental expenditure and for curtailment of their borrowing for non-emergency expenditures.

Even with substantial action along all of these lines it seems probable to us that some undesirable price inflation will occur in this fiscal year if our tax program is not carried further than has as yet been proposed. We, therefore, urge that the tax program now under consideration by Congress be reexamined in the light of the following considerations.

## II. Comments On The Tax Bill

It is important that the annual addition to the Treasury revenues provided by the new tax bill shall not fall below the \$3.5 billion level. In fact, it is apparent from the size of the appropriations and the pressures of consumer purchasing power on prices that further increases in rates or extensions of taxes <sup>are</sup> ~~will be~~ necessary. ~~not later than next spring.~~

In formulating the excise tax program an important consideration should be to reduce the demand of producers and consumers for scarce commodities which compete with Defense Program and to absorb windfall profits resulting from scarcity of supply relative to demand. Thus the tax

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on passenger automobiles might well be made much higher than the 7 percent adopted by the Committee. The production of passenger automobiles will undoubtedly have to be greatly restricted. It would be extremely difficult to prevent price rises on cars sold by some retailers or the setting up of a "black market" in new and slightly used cars. It is probable that the excise tax will in large part come out of windfall profits to producers and dealers in automobiles, rather than being passed on in full in higher prices.

Automobiles are mentioned because they are perhaps the most important example. Other commodities which may be in the same category should be examined to determine whether an excise should be imposed and if so, whether it should be on the final product or on a scarce material entering into the product. Through such taxes the demands for the most scarce commodities and the large windfall profits which may be made by those escaping price control would be reduced.

A basic revision of the excess profits tax plan is urgently needed. The excess profits tax plan tentatively adopted by the Committee is in some important respects an improvement over the present excess profits tax. However, it fails to correct one fundamental weakness of the present law. It leaves exempt from the tax profits in excess of a

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reasonable return on invested capital to the extent that those profits are also in excess of the profits of the base period years.

Substantial numbers of companies are in this category. One out of five profit-making corporations with assets of \$1 million and over averaged more than 10 percent net income on their reported equity capital during the years 1935 to 1938 and that one out of 25 companies averaged more than 30 percent. These companies can continue to earn profits at virtually these rates without paying excess profits tax under either the present law or the Committee's tentative plan.

The way in which the present law and the Committee's tentative plan leave exempt large amounts of excess profits is illustrated by the following actual examples.

A. After paying all taxes an automobile company made during the base period years of 1936 through 1939 approximately 23 percent. Practically all (95 percent) of this amount can be earned and yet be free from excess profits tax under the present law and under the Committee plan. In 1940 the earnings of this concern, after the payment of taxes, will be approximately 24 percent of its invested capital, under the present law.

B. The earnings of a manufacturer of tractors with nearly \$50 million of invested capital averaged, after all

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taxes, approximately 18 percent of invested capital during 1936-1939, which amount will be free of excess profits tax under the present law and the Committee's tentative plan.

G. Similarly a company which has practically a monopoly on one of the important Defense materials had earnings after taxes during the base period years averaging approximately 19 percent of its 1940 invested capital, which it can continue to earn free of excess profits tax.

D. A large manufacturer of beverages can continue to earn free of excess profits tax over 25 percent of its 1940 reported equity capital.

Thus, large amounts of the kind of profits which are commonly defined as excess profits and were taxed as such under the 1918 Act are free from excess profits tax under the present law and the Committee plan.

Failure to apply excess profits taxation to such profits is unfortunate for a number of reasons:

(1) The highly prosperous, well established corporation which has been making 30, 40, 50 percent or more on its invested capital has a much larger ability to pay taxes than a corporation which has been earning only 3, 4, or 5 percent on its invested capital, even though the

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dollar incomes of the two companies are the same. Taxation of corporations in accordance with ability to pay calls for higher taxes on the profits of those corporations which have the higher rates of return.

(2) The corporation which has been making high returns in the base period years is given a competitive advantage over newly organized concerns or concerns which have been struggling to establish themselves. The latter types are limited to a much smaller rate of return free of excess profits tax than are the former. The effect is to confirm monopolies in their control and to protect well established prosperous businesses against competition.

(3) If we are to expect all classes of society, including laborers and farmers, to accept the sacrifices of the emergency period and not to press for every possible dollar of advantage, they must be convinced that sacrifices are being distributed according to ability and that no one is making unreasonably large profits. The prevention of inflation is thus to a considerable extent dependent on the imposition and enforcement of a true excess profits tax.

MEMORANDUM

July 15, 1941.

TO: The Secretary.

FROM: Mr. Sullivan.

SUBJECT: Conference with the President. Present: Secretary Morgenthau, Director of the Budget Smith, Representatives Doughton and Cooper, Assistant Secretary Sullivan.

The President opened the conference with a discussion of problems involved in the appointment of a Chairman of the Senate Finance Committee. He then removed from the memorandum the first five or six pages dealing with inflation and congratulated the Chairman upon the general results achieved in the proposed tax bill. He said he was a bit disturbed at the excise or "nuisance" taxes and appeared to be surprised when Mr. Sullivan advised him that after enactment of this measure the proportionate part of the total collections raised from excise taxes would be very much lower than under the present law, — at least 10 percent. The President then remarked that this took care of the situation and Mr. Sullivan advised him that he thought it was a step in the right direction.

The President then went into the question of excess profits and said that he thought that if the bill passed in its present form the Congress and the Administration would be open to serious criticism. Chairman Doughton stated that it was apparent to him that someone in the Treasury had convinced the President that the Committee had failed in its duty and that he was sure if he had time to present the arguments on the other side the President would be convinced the Committee had not made a mistake. The Chairman offered to file a brief. The President said it was not a question of a mistake but that he wanted to bring to the Chairman's attention certain results in specific cases inevitable under the present law and the proposed changes.

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The President again referred to the political consequences of such tax immunity for wealthy, prosperous concerns at a time when the Administration is making greater demands upon individuals and corporations. Chairman Doughton stated that he was perfectly willing to accept all of the political consequences and that in handling the bill he was not permitting political considerations to influence his decisions. He referred to the length of time this bill had been pending and the ample opportunity that he had given to everybody to present their views and stated that the Committee had listened to everybody and had made its decision. At this point Congressman Cooper interrupted to say that all decisions thus far taken were tentative. Chairman Doughton then inquired if it was the purpose of the meeting to ask that the Hearings be reopened and this matter be discussed again. The President stated that whatever technique the Chairman wished to adopt would be satisfactory with him but he suggested that the Chairman tell the members of the Committee that the President had brought to his attention certain disadvantages in the proposed bill, and that the Chairman point out to the Democratic members of the Committee the political consequences of passing the bill in its present form.

There was then some discussion as to whether or not the Secretary should make a statement before the Committee in Executive Session or in Public Hearings and this was followed by a further discussion by the Secretary and Chairman Doughton which revealed that Chairman Doughton not only was not changing his views but was become resentful. The conference ended without any clear cut understanding as to what should be done.

Immediately after this conference the Secretary, Congressman Doughton and Cooper and Mr. Sullivan met in the Cabinet Room where Congressman Doughton spoke very frankly of his surprise and disappointment about this meeting. He stated that if it was to be the practice of the Treasury to keep opening up every issue upon which there had been differences of opinion after decisive action had been taken, he would not be able to work with them and he twice almost stated that he would have to give up the bill and let somebody else assume the responsibility. He stated that it was obvious to him that the Treasury had originated this meeting. The Secretary then informed him that someone else had originated this recent discussion and that on last Thursday the Secretary had received from the President a memorandum indicating the President's interest in a revision of excess profits taxes.

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The Secretary further stated that he was delighted to find that the President had become interested in this suggestion and as a result of the President's communication to him he transmitted to the President a memorandum to which the President referred in the conference this morning.

Chairman Doughton said that he did not know what to do but he was sure he would not call a meeting of the Democratic members alone. Secretary Morgenthau said that he regretted he was obliged to excuse himself because people for whom he had sent were now waiting for him and he offered to come to the Chairman's office at any time the Chairman wished to see him. The Chairman said that he didn't call the meeting and he would be very glad to come down to see the Secretary any time the Secretary sent for him but that he did not see any useful purpose of any future discussion. As the meeting ended the Chairman said this was the most unpleasant and unsatisfactory conference he had ever had.

This does not include 95  
2 1/2 billion of proposed taxes

CONFIDENTIAL BUDGET ESTIMATES

	June 1st	Present
Receipts	\$ 9,402 M	\$ 9,402 M
Expenditures	<u>22,169</u>	<u>23,669</u>
Deficit	\$ 12,767 M <u>          </u>	\$ 14,267 M <u>          </u>
Defense expenditures	\$ 15,500 M <u>          </u>	\$ 17,000 M <u>          </u>

Harold Smith will be at the conference.

vwf3

July 15, 1941

Copy taken to F.A.C. ✓  
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July 15, 1944

I. The Present Price Situation

Apparently we are at the same point in price history as in 1916 -- on the edge of inflation.

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Since the beginning of the war, September, 1939, the wholesale price index has risen from 75 to 87, or about 16 percent. The greater part of this rise has occurred during the past five months.

The cost of living index has increased 5-1/2 percent since September, 1940. Half of this increase has occurred in the past two months.

The index of 28 basic commodities has increased 48 percent during the same period, despite the fact that the prices of many basic raw materials have been controlled by the Office of Price Administration and Civilian Supply. This increase constitutes a major danger signal of inflation which must not be ignored. The wholesale price index always lags greatly behind the index of basic commodities,

while the cost of living index does not show anything like the full effects of inflation until long after the seeds of inflation have taken deep root.

The forces making for further price rise are both potent and persistent:

(1) The Budget estimates Defense spending during the fiscal year 1942 will be \$15 billion, or two and a half times as much as in the fiscal year 1941. This increased estimate does not take account of extension of the Defense Program made after June 1, and of additional sums needed for Lend-Lease.

(2) More important in its bearing on the danger of inflation than the figures for expenditures of the coming year are the estimates of deficit spending. The net deficit for the fiscal year 1942, as estimated by the Director of the Budget, will be \$12.8 billions, compared with \$5.1 billions for the previous fiscal year. This assumes the present tax structure. If the present tax bill is passed by Congress, the deficit will be reduced by \$2-1/2 billions, (the revenue yield in fiscal year 1942 of the \$2-1/2 billion tax bill) but it will still be over \$10 billion.

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Again this estimated deficit does not take account of the expansion of the Defense Program after June 1, 1941.

(3) The inflationary force of the Federal deficit has been supplemented during the past year by an expansion of bank credit. Total bank loans expanded by an estimated \$3 billions, or about 20 percent during the fiscal year just past. This rise, moreover, has been proceeding at an accelerated pace.

(4) Prices will be increasingly stimulated by (a) the shortage of raw materials for civilian goods, (b) increased absorption of idle capacity in many industries, (c) further increases in agricultural prices and wages.

Also making for further price increases are the heightened obstacles to imports, such as reduced ship space, higher shipping costs, and cutting off of normal foreign sources of supplies.

Though there are some factors in the situation operating to check inflationary trends, such as surplus stocks of some agricultural commodities, unemployed labor resources, and partially employed production facilities, most of these factors were present in the fiscal year

- 4 -

1941 in greater degree and yet did not serve to restrain price rises even though the forces making for price rises were then much weaker.

Important steps have already been taken or are being taken to check inflation. Congress has made provision for the Treasury to sell defense savings bonds and stamps and so to absorb, for the Defense Program, funds which might otherwise be used for civilian purchase of goods. This program is well under way.

The Treasury Department has also launched a plan for selling tax anticipation notes which will facilitate the prepayment of income taxes and will more promptly withdraw purchasing power represented by such taxes.

The Ways and Means Committee is holding firmly to the goal of \$3.5 billion from the tax bill.

The Office of Price Administration and Civilian Supply is making every effort to obtain the cooperation of producers and distributors in limiting price rises.

These measures to restrain price rises though they have unquestionably been helpful are inadequate to meet the situation confronting us. We have gone only a small

- 5 -

part of the way it will be necessary to go. We must attack the problem on all fronts if we are successfully to check inflation.

Certain tax matters relevant to the problem of inflation are discussed later. The problem, however, cannot be met by tax measures alone. There should be additional action along the following lines:

(1) OPACS should be given the statutory power to fix prices where necessary. Price rises cannot be controlled when inflationary forces are at work without effective power to impose price ceilings with direct penalties. The mere possession of such power tends to make its exercise unnecessary.

The attempt to prevent unwanted price increases by fiat, however, is bound to break down here, as it has elsewhere, unless it is accompanied not only by an adequate fiscal program to absorb buying power, but also by the additional methods listed below.

(2) Increase the supplies of goods required for military and civilian needs. Increased output is in itself a major objective of our Defense Program and the

- 5 -

most effective and desirable means of preventing inflation. There should be further exploration of the possibilities of inducing expansion of production facilities and labor supply where such response could not be expected to occur automatically.

(3) Delegation to OPACS of priority authority to provide systematic rationing of scarce supplies to industries making civilian goods. In order to obtain a fair distribution of scarce supplies among consumers it may later prove necessary to extend the rationing to ultimate consumers.

(4) Extension of the general controls over bank credit.

(5) Establishment of controls over the entire field of consumer credit.

(6) Creation of controls over capital expenditures.

(7) An extension of the Social Security program along lines which would increase the flow of funds to the Treasury from current income during the emergency and would increase the outflow of funds when needed in the post-defense period.

- 7 -

(8) A reduction of the Federal lending and underwriting program, such as non-emergency housing expenditures and mortgage guarantees.

(9) Reduction of non-essential Federal expenditures, also an appeal for economy in State and local governmental expenditure and for curtailment of their borrowing for non-emergency expenditures, thus building a back-log for the post-defense period.

Even with substantial action along all of these lines it seems probable to us that some undesirable price inflation will occur in this fiscal year. Other methods must be sought to control it. The principal mechanism for diverting this rising stream of buying power from inflationary outlets is taxation. It is the most effective of all the <sup>broad</sup> bought powers at the command of the government. The tax system should be designed as far as possible to reduce consumer demand for goods of which the supply is inadequate. We, therefore, urge that the tax program now under consideration by Congress be reexamined in the light of the following considerations.

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II. Comments On The Tax Bill

It is important that the annual addition to the Treasury revenues provided by the new tax bill shall not fall below the \$3.5 billion level. In fact, it is apparent from the size of the appropriations and the pressures of consumer purchasing power on prices that further increases in rates or extensions of taxes are necessary.

In formulating the excise tax program an important consideration should be to reduce the demand of producers and consumers for scarce commodities which compete with the Defense Program and to absorb windfall profits resulting from scarcity of supply relative to demand. Thus the tax on passenger automobiles might well be made much higher than the 7 percent adopted by the Committee. The production of passenger automobiles will undoubtedly have to be greatly restricted. It would be extremely difficult to prevent price rises on cars sold by some retailers or the setting up of a "black market" in new and slightly used cars. It is probable that a sufficiently high excise tax will prevent increased prices from resulting in windfall profits for dealers and middlemen and will not increase prices of automobiles to consumers beyond what they otherwise would be.

Automobiles are mentioned because they are perhaps the most important example. Other commodities which may be in the same category should be examined to determine whether an excise should be imposed and if so, whether it should be on the final product or on a scarce material entering into the product. Through such taxes the demands

- 9 -

for the most scarce commodities and the large windfall profits which may be made by those escaping price control would be reduced.

A basic revision of the excess profits tax plan is urgently needed. The excess profits tax plan tentatively adopted by the Committee is in some important respects an improvement over the present excess profits tax. However, it fails to correct one fundamental weakness of the present law. It leaves exempt from the tax profits in excess of a

-10-

reasonable return on invested capital to the extent that these profits are also in excess of the profits of the base period years.

Substantial numbers of companies are in this category. One out of five profit-making corporations with assets of \$1 million and over averaged more than 10 percent net income on their reported equity capital during the years 1935 to 1938 and one out of 25 companies averaged more than 30 percent. These companies can continue to earn profits at virtually these rates without paying excess profits tax under either the present law or the Committee's tentative plan.

The way in which the present law and the Committee's tentative plan leave exempt large amounts of excess profits is illustrated by the following actual examples.

A. After paying all taxes an automobile company made during the base period years of 1936 through 1939 approximately 25 percent. Practically all (95 percent) of this amount can be earned and yet be free from excess profits tax under the present law and under the Committee plan. In 1940 the earnings of this concern, after the payment of taxes, will be approximately 25 percent of its invested capital, under the present law.

B. The earnings of a manufacturer of tractors with nearly \$50 million of invested capital averaged, after all

- 10 -

taxes, approximately 18 percent of invested capital during 1936-1939, which amount will be free of excess profits tax under the present law and the Committee's tentative plan.

C. Similarly a company which has practically a monopoly on one of the important Defense materials had earnings after taxes during the base period years averaging approximately 19 percent of its 1940 invested capital, which it can continue to earn free of excess profits tax.

D. A large manufacturer of beverages can continue to earn free of excess profits tax over 25 percent of its 1940 reported equity capital.

Thus, large amounts of the kind of profits which are commonly defined as excess profits and were taxed as such under the 1918 Act are free from excess profits tax under the present law and the Committee plan.

Failure to apply excess profits taxation to such profits is unfortunate for a number of reasons:

(1) The highly prosperous, well established corporation which has been making 30, 40, 50 percent or more on its invested capital has a much larger ability to pay taxes than a corporation which has been earning only 3, 4, or 5 percent on its invested capital, even though the

- 12 -

dollar incomes of the two companies are the same. Taxation of corporations in accordance with ability to pay calls for higher taxes on the profits of those corporations which have the higher rates of return.

(2) The corporation which has been making high returns in the base period years is given a competitive advantage over newly organized concerns or concerns which have been struggling to establish themselves. The latter types are limited to a much smaller rate of return free of excess profits tax than are the former. The effect is to confirm monopolies in their control and to protect well established prosperous businesses against competition.

(3) If we are to expect all classes of society, including laborers and farmers, to accept the sacrifices of the emergency period and not to press for every possible dollar of advantage, they must be convinced that sacrifices are being distributed according to ability and that no one is making unreasonably large profits. The prevention of inflation is thus to a considerable extent dependent on the imposition and enforcement of a true excess profits tax.

July 15, 1941.

Dear Chairman Eccles:

In confidence I am enclosing a copy of the memorandum which we discussed this morning and which was submitted to the President today.

Sincerely yours,

(Signed) H. Morgenthau, Jr.  
Secretary of the Treasury.

Honorable Marriner S. Eccles,  
Chairman,  
Board of Governors of the  
Federal Reserve System,  
Federal Reserve Building,  
Washington, D. C.

By Messenger

7/15/41

4:30

File to Mr. Thurman  
201 - see Chauncey

JLS:hb

July 15, 1941.

Dear Mr. Henderson:

In confidence I am enclosing a copy of the memorandum which we discussed this morning and which was submitted to the President today.

Sincerely yours,

(Signed) E. Morgenthau, Jr.

Secretary of the Treasury.

Honorable Leon Henderson,  
Administrator,  
Office of Price Administration  
and Civilian Supplies,  
Social Security Building,  
Washington, D. C.

By Messenger

7/15/41  
4:20

File to Mr. Thompson

*Mina Chumney*

JLS:lh

July 15, 1941.

Dear Mr. Currie:

In confidence I am enclosing a copy of the memorandum which we discussed this morning and which was submitted to the President today.

Sincerely yours,

[Signed] H. Morgenthau, Jr.

Secretary of the Treasury.

Honorable Lauchlin Currie,  
Administrative Assistant to the President,  
The White House.

By Messenger 7/15/41  
4:30

File to Mr. Thompson

File Mrs. Channing

JL:lb

July 15, 1941.

Dear Dr. Lubin:

In confidence I am enclosing a copy of the memorandum which we discussed this morning and which was submitted to the President today.

Sincerely yours,

(Signed) H. Morgenthau, Jr.,  
Secretary of the Treasury.

By Messenger 7/15/41

4:20

Dr. Isador Lubin,  
Commissioner of Labor Statistics,  
Department of Labor,  
Washington, D. C.

File to Mr. Thompson

File: *Miss Channing*

JLB:mb

July 16, 1941.

Dear Mr. Vice President:

In confidence I am sending to you a memorandum which was submitted to the President yesterday and which I think may be of interest to you.

Sincerely yours,

(Signed) Henry

Secretary of the Treasury.

By Messenger

2:10 p.m.  
7/16/41

The Honorable,

The Vice President of the United States.

File to Mr. Thompson.

JLS:hb

## MEMORANDUM FOR THE PRESIDENT

JUL 15 1941

I. The Present Price Situation

Apparently we are at the same point in price history as in 1916 -- on the edge of inflation.

The pattern of price rises summarized below roughly resembles the price movements during the first two years of World War I -- little rise in the cost of living, a moderate rise in the wholesale price index, and a sharp rise in basic commodities.

Since the beginning of the war, September, 1939, the wholesale price index has risen from 75 to 87, or about 16 percent. The greater part of this rise has occurred during the past five months.

The cost of living index has increased 5-1/2 percent since September, 1940. Half of this increase has occurred in the past two months.

The index of 28 basic commodities has increased 48 percent during the same period, despite the fact that the prices of many basic raw materials have been controlled by the Office of Price Administration and Civilian Supply. This increase constitutes a major danger signal of inflation which must not be ignored. The wholesale price index

always lags greatly behind the index of basic commodities, while the cost of living index does not show anything like the full effects of inflation until long after the seeds of inflation have taken deep root.

The forces making for further price rise are both potent and persistent:

(1) The Budget estimates Defense spending during the fiscal year 1942 will be \$15 billion, or two and a half times as much as in the fiscal year 1941. This increased estimate does not take account of extension of the Defense Program made after June 1, and of additional sums needed for Lend-Lease.

(2) More important in its bearing on the danger of inflation than the figures for expenditures of the coming year are the estimates of deficit spending. The net deficit for the fiscal year 1942, as estimated by the Director of the Budget, will be \$12.8 billions, compared with \$5.1 billions for the previous fiscal year. This assumes the present tax structure. If the present tax bill is passed by Congress, the deficit will be reduced by \$2-1/2 billions, (the revenue yield in fiscal year 1942 of the \$3-1/2 billion tax bill) but it will still be over \$10 billion.

Again this estimated deficit does not take account of the expansion of the Defense Program after June 1, 1941.

(3) The inflationary force of the Federal deficit has been supplemented during the past year by an expansion of bank credit. Total bank loans expanded by an estimated \$3 billions, or about 20 percent during the fiscal year just past. This rise, moreover, has been proceeding at an accelerated pace.

(4) Prices will be increasingly stimulated by (a) the shortage of raw materials for civilian goods, (b) increased absorption of idle capacity in many industries, (c) further increases in agricultural prices and wages.

Also making for further price increases are the heightened obstacles to imports, such as reduced ship space, higher shipping costs, and cutting off of normal foreign sources of supplies.

Though there are some factors in the situation operating to check inflationary trends, such as surplus stocks of some agricultural commodities, unemployed labor resources, and partially employed production facilities, most of these factors were present in the fiscal year

- 4 -

1941 in greater degree and yet did not serve to restrain price rises even though the forces making for price rises were then much weaker.

Important steps have already been taken or are being taken to check inflation. Congress has made provision for the Treasury to sell defense savings bonds and stamps and so to absorb, for the Defense Program, funds which might otherwise be used for civilian purchase of goods. This program is well under way.

The Treasury Department has also launched a plan for selling tax anticipation notes which will facilitate the prepayment of income taxes and will more promptly withdraw purchasing power represented by such taxes.

The Ways and Means Committee is holding firmly to the goal of \$3.5 billion from the tax bill.

The Office of Price Administration and Civilian Supply is making every effort to obtain the cooperation of producers and distributors in limiting price rises.

These measures to restrain price rises though they have unquestionably been helpful are inadequate to meet the situation confronting us. We have gone only a small

part of the way it will be necessary to go. We must attack the problem on all fronts if we are successfully to check inflation.

Certain tax matters relevant to the problem of inflation are discussed later. The problem, however, cannot be met by tax measures alone. There should be additional action along the following lines:

(1) OPACS should be given the statutory power to fix prices where necessary. Price rises cannot be controlled when inflationary forces are at work without effective power to impose price ceilings with direct penalties. The mere possession of such power tends to make its exercise unnecessary.

The attempt to prevent unwanted price increases by fiat, however, is bound to break down here, as it has elsewhere, unless it is accompanied not only by an adequate fiscal program to absorb buying power, but also by the additional methods listed below.

(2) Increase the supplies of goods required for military and civilian needs. Increased output is in itself a major objective of our Defense Program and the

most effective and desirable means of preventing inflation. There should be further exploration of the possibilities of inducing expansion of production facilities and labor supply where such response could not be expected to occur automatically.

(3) Delegation to OPACS of priority authority to provide systematic rationing of scarce supplies to industries making civilian goods. In order to obtain a fair distribution of scarce supplies among consumers it may later prove necessary to extend the rationing to ultimate consumers.

(4) Extension of the general controls over bank credit.

(5) Establishment of controls over the entire field of consumer credit.

(6) Creation of controls over capital expenditures.

(7) An extension of the Social Security program along lines which would increase the flow of funds to the Treasury from current income during the emergency and would increase the outflow of funds when needed in the post-defense period.

(8) A reduction of the Federal lending and underwriting program, such as non-emergency housing expenditures and mortgage guarantees.

(9) Reduction of non-essential Federal expenditures, also an appeal for economy in State and local governmental expenditure and for curtailment of their borrowing for non-emergency expenditures, thus building a back-log for the post-defense period.

Even with substantial action along all of these lines it seems probable to us that some undesirable price inflation will occur in this fiscal year. Other methods must be sought to control it. The principal mechanism for diverting this rising stream of buying power from inflationary outlets is taxation. It is the most effective of all the broad powers at the command of the government. The tax system should be designed as far as possible to reduce consumer demand for goods of which the supply is inadequate. We, therefore, urge that the tax program now under consideration by Congress be reexamined in the light of the following considerations.

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II. Comments On The Tax Bill

It is important that the annual addition to the Treasury revenues provided by the new tax bill shall not fall below the \$3.5 billion level. In fact, it is apparent from the size of the appropriations and the pressures of consumer purchasing power on prices that further increases in rates or extensions of taxes are necessary.

In formulating the excise tax program an important consideration should be to reduce the demand of producers and consumers for scarce commodities which compete with the Defense Program and to absorb windfall profits resulting from scarcity of supply relative to demand. Thus the tax on passenger automobiles might well be made much higher than the 7 percent adopted by the Committee. The production of passenger automobiles will undoubtedly have to be greatly restricted. It would be extremely difficult to prevent price rises on cars sold by some retailers or the setting up of a "block market" in new and slightly used cars. It is probable that a sufficiently high excise tax will prevent increased prices from resulting in windfall profits for dealers and middlemen and will not

- 9 -

increase prices of automobiles to consumers beyond what they otherwise would be.

Automobiles are mentioned because they are perhaps the most important example. Other commodities which may be in the same category should be examined to determine whether an excise should be imposed and if so, whether it should be on the final product or on a scarce material entering into the product. Through such taxes the demands for the most scarce commodities and the large windfall profits which may be made by those escaping price control would be reduced.

A basic revision of the excess profits tax plan is urgently needed. The excess profits tax plan tentatively adopted by the Committee is in some important respects an improvement over the present excess profits tax. However, it fails to correct one fundamental weakness of the present law. It leaves exempt from the tax profits in excess of a reasonable return on invested capital to the extent that those profits are also in excess of the profits of the base period years.

Substantial numbers of companies are in this category. One out of five profit-making corporations with assets of \$1 million and over averaged more than 10 percent net income on their reported equity capital during the years 1935 to 1938 and one out of 25 companies averaged more than 30 percent. These companies can continue to earn profits at virtually these rates without paying excess profits tax under either the present law or the Committee's tentative plan.

The way in which the present law and the Committee's tentative plan leave exempt large amounts of excess profits is illustrated by the following actual examples.

A. After paying all taxes an automobile company made during the base period years of 1936 through 1939 approximately 25 percent. Practically all (95 percent) of this amount can be earned and yet be free from excess profits tax under the present law and under the Committee plan. In 1940 the earnings of this concern, after the payment of taxes, will be approximately 26 percent of its invested capital, under the present law.

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B. The earnings of a manufacturer of tractors with nearly \$50 million of invested capital averaged, after all taxes, approximately 18 percent of invested capital during 1936-1939, which amount will be free of excess profits tax under the present law and the Committee's tentative plan.

C. Similarly a company which has practically a monopoly on one of the important Defense materials had earnings after taxes during the base period years averaging approximately 19 percent of its 1940 invested capital, which it can continue to earn free of excess profits tax.

D. A large manufacturer of beverages can continue to earn free of excess profits tax over 25 percent of its 1940 reported equity capital.

Thus, large amounts of the kind of profits which are commonly defined as excess profits and were taxed as such under the 1918 Act are free from excess profits tax under the present law and the Committee plan.

Failure to apply excess profits taxation to such profits is unfortunate for a number of reasons:

- 12 -

(1) The highly prosperous, well established corporation which has been making 30, 40, 50 percent or more on its invested capital has a much larger ability to pay taxes than a corporation which has been earning only 3, 4, or 5 percent on its invested capital, even though the dollar incomes of the two companies are the same. Taxation of corporations in accordance with ability to pay calls for higher taxes on the profits of those corporations which have the higher rates of return.

(2) The corporation which has been making high returns in the base period years is given a competitive advantage over newly organized concerns or concerns which have been struggling to establish themselves. The latter types are limited to a much smaller rate of return free of excess profits tax than are the former. The effect is to confirm monopolies in their control and to protect well established prosperous businesses against competition.

(3) If we are to expect all classes of society, including laborers and farmers, to accept the sacrifices of the emergency period and not to press for every possible dollar of advantage, they must be convinced that sacrifices are being distributed according to ability and that no one

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is making unreasonably large profits. The prevention of inflation is thus to a considerable extent dependent on the imposition and enforcement of a true excess profits tax.

TO:

127

MISS CHAUNCEY

Mr. Foley carried this to the Secretary's  
10:30 meeting on 7/16/41.

The Secretary initialed the memorandum.

*GMB 7/18/41*

MR. FOLEY

JUL 15 1941

Secretary Morgenthau

Mr. Foley

U. S. - U. K. Tax Convention

Attached is a letter for your signature addressed to the Secretary of State requesting him to communicate with the British Embassy with a view to instituting negotiations for the formulation of a special tax convention between the United States and Great Britain which would grant reciprocal immunity from taxation of activities connected with waging war and providing for defense.

Last week Sir Frederick Phillips and Mr. Keynes requested the Treasury Committee to give some thought to the question of State taxation of British defense activities which, it was estimated, would cost the British from 10 to 30 million dollars.

Apparently the States have proceeded to levy ad valorem property taxes as well as sales, use and other excises, notwithstanding representations made by the State Department to the Governors that this action violates international comity.

As a result of the request of Sir Frederick, a conference was held in the office of Assistant Attorney General Sam Clark on Thursday, July 10, at which an opinion of the Attorney General was requested by counsel to the British Air Commission for use in proceedings pending before the Los Angeles County Board of Supervisors in the California courts.

It is my understanding from Sam Clark that the matter was brought up at the Cabinet meeting on Friday and that it was decided that the Attorney General should not issue an opinion and that the Federal Government should not participate in litigation between the British and the States.

The question of intergovernmental immunity is constantly causing irritation. Many complex tax problems are raised by the absence of any tax convention. The Bureau of Internal Revenue would welcome such a convention. And it seems the only solution for the present problem.

The attached letter has been cleared by Assistant Secretary Sullivan as well as Assistant Attorney General Clark, and also by Messrs. White and Blough and Commissioner Helvering.

CLK:it 7-15-41

(Initialed) E. H. Fox, Jr.

JUL 18 1930

COPY

My dear Mr. Secretary:

As you know, several States of the Union and their political subdivisions are seeking to impose upon the Government of the United Kingdom, their agencies and instrumentalities, taxes of various types, including personal property as well as sales, use and other excise taxes. In addition, there are pending before the Bureau of Internal Revenue several cases involving the applicability of stamp taxes to transactions under which the burden of the tax will probably be shifted to the Government of the United Kingdom or an agency or instrumentality thereof.

There seems to be no statute either Federal or State, which provides an immunity for the Government of the United Kingdom from the taxes which create the instant problem. Nor is there any tax convention or any provision in any treaty with the British Government granting such an immunity.

I am, of course, aware that there is said to be an established principle of international comity which exempts the property of a foreign sovereign from the taxing jurisdiction of a State, at least so far as such property is used for public purposes. French Republic v. Board of Sup'rs. of Jefferson County, et al., (Ky. 1923) 252 S. W. 124; 26 Am. J. Int. Law (Supp. 1932) 193, 385; but see, Republic of France et al v. City of New York, (N.Y. Sup. Ct. 1925) N.Y. Tax Serv. (1925-26) at p. 8086.

The question is, however, unsettled. Moreover, the State of California has already collected a tax assessed in the name of the British Air Ministry upon personal property owned by the Government of the United Kingdom entrusted to the Lockheed Aircraft Corporation for installation in military aircraft manufactured for that Government.

In view of the fact that the dollar exchange of the Government of the United Kingdom will be depleted to the extent that taxes are paid by that Government, or on its behalf, it is suggested that the Government of the United Kingdom be requested to consider the execution of a special tax convention with the Government of the United States.

In order to avoid protracted negotiations, such a convention could be limited to provide in effect for reciprocal immunity of the two Governments from taxes levied upon their property or their transactions related to the prosecution of the present war and national defense.

A tax convention of this character would be wholly consistent with the Constitution and international law. Like any other treaty, it would be binding upon the States. Ware v. Hylton, (1796) 3 Dall. (U.S.) 199. Even if embodied in an executive agreement, the same rule would result "from the very fact that complete power over international affairs is in the national government and is not and cannot be subject to any curtailment or interference on the part of the several states." United States v. Belmont, (1937) 301 U. S. 324, 331.

Such a tax convention should not be retroactive so as to affect assessments already made or taxes hitherto collected by any State or political subdivision. Prevent v. Oppenauer, (1886) 19 How. (U.S.) 1. Even though prospective in operation, the convention would express a national public policy which might be deemed declaratory of a rule previously required by international comity.

Unless there are paramount considerations of foreign policy which lead to some other conclusion, I am inclined to believe that any long-range solution of this constantly recurring problem of intergovernmental taxation warrants our taking steps to consummate, at least with the Government of the United Kingdom, a special tax convention immediately.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The Honorable

The Secretary of State.

CLK:it  
7-12-41

July 15, 1941

Dear Mr. Purvis:

The Secretary asked me to  
send you copies of the enclosed —  
letters for your information.

Yours sincerely,

(Signed) H. S. Klots

H. S. Klots  
Private Secretary

Mr. Arthur B. Purvis,  
British Supply Council  
in North America,  
Willard Hotel,  
Washington, D. C.

By messenger 7/15  
9:40 am.

Let from per Arthur  
Palter dated 7/12  
+ copy of King's  
ack. 7/14.

July 15, 1941

Files

Mr. Cochran

At 1 o'clock yesterday noon I received the file of correspondence originating with Mr. Currie's letter of June 20 to the Secretary, and including Mr. White's memorandum of June 27 to the Secretary, as well as his draft of a reply to Mr. Currie. I had not been aware of this correspondence when Mr. White's draft of a cablegram to Mr. Fox reached me.

I telephoned Mr. Coyne at the Canadian Legation yesterday afternoon to see if he had any word from Ottawa, but he was not in his office. He called me back at 10 o'clock this morning. Mr. Coyne said that he had spoken on Saturday by telephone with Mr. Gordon of the Bank of Canada. Mr. Coyne had explained to Mr. Gordon the lines of the cablegram which we were considering sending to China, and also gave him the data which I had supplied with respect to remittances to China through the Bank of China at New York. According to Mr. Coyne, Mr. Gordon did not think that the information requested in the draft cablegram was just what the Bank of Canada desired. Mr. Gordon would, therefore, write a note to Mr. Coyne setting out exactly what the Bank of Canada wishes to learn. Mr. Coyne suggested that no cablegram should be sent pending the receipt of Mr. Gordon's letter, especially since he felt that part or perhaps all of the data desired could be obtained in this country.

It is suggested, therefore, that both the cablegram to China and the reply to Mr. Currie be held up pending the receipt of word from Mr. Gordon through Mr. Coyne.

*J. M. S.*

RMC:lap-7/15/41

## TREASURY DEPARTMENT

## INTER-OFFICE COMMUNICATION

DATE July 15, 1941

TO Files  
FROM Mr. Cochran

At 10 a.m. this morning Mr. Coyne, Financial Attache of the Canadian Legation, spoke with me. He said that there is now in Washington a Canadian official to look after sales of the Dominion to be made in the United States under the Hyde Park Agreement. This gentleman is Mr. E. T. Taylor. Mr. Coyne said that Mr. Taylor understood that the purchasing section of the United States Treasury Department was interested in buying some supplies which Mr. Taylor thought Canada would be in the position to provide. Mr. Coyne desired, therefore, that Mr. Taylor be placed in touch with the appropriate official of the Treasury.

After talking with Mr. Coyne, and upon learning that Mr. Graves was absent from the city for the day, I telephoned directly to the office of Mr. Mack, Director of Procurement, and arranged for him to receive Mr. Taylor at 3 o'clock this afternoon.

Mr. Mack called me back at 11:15 and I gave him full background information in regard to the Hyde Park Agreement and of our interest in American purchases of certain materials being placed with Canadian plants which are in the position to supply the orders.



July 15, 1941

Files

Mr. Cochran

At 10:15 this morning I talked by telephone with Mr. Oscar Cox. I reminded him of the matter which I had brought to his attention previously, namely, the problem posed by Sir Frederick Phillips with respect to the British ceasing payments to France on account of contracts taken over by the British from the French Purchasing Commission.

Mr. Cox told me that his people were working on a reply to the British, but that this would require a little time since Army authorities would have to be consulted on the points involved. Mr. Cox promised to keep me informed of progress being made. I told him that this question would probably be brought up by Sir Frederick Phillips again on his next visit to the Treasury.



EMO:lap-7/15/41

C  
O  
P  
YTHE BRITISH SUPPLY COUNCIL  
IN NORTH AMERICA

Telephone: REpublic 7860

Box 680  
Benjamin Franklin Station,  
Washington, D. C.

15th July, 1941

Dear Cochran,

I wonder if you remember a note you showed me a little while back from Mr. Secretary Knox deprecating our taking any action (we hadn't in fact taken such action) to set up a statistical record of the value of defense information handed over? Does not the last of the enclosed regulations conflict with the view you were then expressing?

Yours sincerely,

F. Phillips

Mr. H. Merle Cochran,  
U. S. Treasury,  
Washington,  
D.C.

COPY:lap-7/16/41

BRITISH SUPPLY COUNCIL IN NORTH AMERICA

TO: All Recipients of Council Minutes  
FROM: Secretary  
Copy for Sir Frederick Phillips

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Lend-Lease Evaluation of Defense Articles

Attached for your information is a copy of a paper which has been received from the Legal Department and which gives the contents of regulations promulgated by the President for the evaluation of defense articles, services, and information transferred or received by the United States pursuant to the Lend-Lease Act.

Leslie Chance

Washington, D. C.

12th, July, 1941.

COPY:1sp-7/16/41

COPY

EW:JM

Federal Register of July 8, 1941Evaluation of Defense Articles

Regulations have been promulgated by the President for the evaluation of defense articles, services and information transferred or received by the United States pursuant to the Lend-Lease Act.

Evaluation shall be made by the Executive Officer of the Division of Defense Aid Reports after consultation with representatives of the Treasury Department and the Bureau of the Budget.

Defense Articles - The Executive Officer shall give such consideration as he deems necessary and proper to the cost, age, character and condition of the defense articles, the degree of depreciation or obsolescence, the use or uses to which the articles are to be or can be put, and any other criteria which he deems relevant to the proper valuation of such articles.

Defense Services - The Executive Officer shall give such consideration as he deems necessary and proper to the character, cost, and utility of such services, and to any other criteria which he deems relevant to a proper valuation.

Defense Information - The Executive Officer shall give such consideration as he deems necessary and proper to the cost of developing such information, the use or uses to which the information is to be or can be put, and any plan, specification, design, prototype or other data conveyed in connection with or as a part of such information, and any other criteria which he deems relevant to a proper valuation.

COPY:lap-7/16/41

July 15, 1941  
10:56 a.m.

HMJr: Hello.

William Green: Hello.

HMJr: Good morning, Mr. Green.

G: Good morning, Mr. Secretary.

HMJr: I'm sorry they didn't give me your message until two minutes ago.

G: Yes.

HMJr: Otherwise I would have called you earlier.

G: That's perfectly all right. I know you were in a conference.

HMJr: But.....

G: I called up to tell you that I am reluctantly agreeing to participate in your radio broadcast.

HMJr: Well, I'm simply delighted.

G: I - it's a violation of the rule I've consistently followed for about six years since the CIO was formed.

HMJr: Yes.

G: It's only the national emergency and your program for the sale of bonds that influences me in that manner; but under ordinary circumstances, I just couldn't do it, but I'll have to do it in your case.

HMJr: Well, I'm delighted and.....

G: That's on the twenty-second?

HMJr: That's right. And I'll have our people contact your office; and just as soon as the script is

- 2 -

written, we'll submit it to you.

G: Yeah.

HMJr: I mean the whole script.

G: That's the whole script?

HMJr: The whole script.

G: Uh huh.

HMJr: In plenty of time to get your suggestions and criticisms.

G: Yes, all right. That'll be for one half hour - that is, total time.

HMJr: That's as I understand it.

G: All right, thank you; I'll await.....

HMJr: Well, I'm simply delighted. And I - I've got to do a lot of things these days that I wouldn't do if there wasn't a national emergency, and I grit my teeth and I do them.

G: Yeah. Well, I guess we all have to do that occasionally. But I - it's a tough thing for me to do, but I'll have to do it.

HMJr: Thank you ever so much.

G: All right, sir.

HMJr: Good-bye.

July 15, 1941  
12:57 a.m.

Operator: Mr. Bell.

HMJr: Hello.

Daniel  
Bell: Yes.

HMJr: Dan?

B: Yeah.

HMJr: Do it on the phone here, Lauchlin, will you please?

Lauchlin  
Currie: Yes. We got the five billion one hundred million, one hundred and fifty-six million.

B: Luck.

C: And four percent of that is two hundred and six million.

B: Yes.

C: And you have to add about six million for adjustments, to make about two hundred and twelve.

B: Yeah.

C: Now to add another percentage, you go up fifty million.

B: Yeah.

C: So they don't need the money and don't want it. I'm inclined to put it on a four percent basis.

HMJr: All right. Go ahead, Dan, handle it.

Bell: Okay. I'll handle it.

HMJr: Now wait a minute.

- 2 -

- B: Yeah.
- HMJr: There's one thing that I haven't had a chance - I thought I would - I'm just back from the White House, and I'm completely shot.
- B: I'll bet.
- HMJr: The President isn't going to send any message. It got too hot, and he isn't going to do anything.
- B: You're in bad, huh? (Laughs) I thought that was it.
- HMJr: Now, on this thing with Marriner Eccles and the Federal Reserve taking over this business of credits.....
- B: Yeah.
- HMJr: .....the only thing that I'd like is, have written in there that the Treasury should have the veto power on that thing.
- B: Well, something like that or - I understood that they're operating as an agency of the President and not an independent capacity as the Federal Reserve Board.
- HMJr: Now, I'd like to have it out even before Congress that in these times - I mean, you can't - this is one of six or seven things. And we've got to have the veto power. I mean - by that I mean to say if they go ahead, but if we say "No, it's not the general interests of the public," I want that veto power, Dan.
- B: Yeah. I'm not so sure that somebody from the Treasury and somebody from Henderson's office shouldn't sit in at the Board meetings when they're discussing that thing.
- HMJr: Yeah, but - but would you mind putting it that way, as the way I feel?

- 3 -

B: Okay.

HMJr: And now - I mean, it isn't enough just at the Board meeting, but we have to have the veto power.

B: All right.

HMJr: Now, they can write it, and all we can say is "no".

B: Uh huh.

HMJr: You see?

B: Uh huh.

HMJr: We can't - we can't say, "Do it this way." But we can say, "Don't do it this way, because it's in conflict with the Treasury."

B: Yeah.

HMJr: See?

B: Or, if you didn't want to run into that fight, you might put it, "With the approval of the President."

HMJr: Ah.....

B: That would give you a chance at it.

HMJr: But.....Well.....

B: You hope.

HMJr: Don't joke with me today, please.

B: (Laughs) All right.

HMJr: I can't take it.

B: You had a hard - you had a hard conference, huh?

- 4 -

HMJr: Terrific. You - you fight for it on the  
Treasury, will you, old man?

B: Okay.

HMJr: Thank you, Dan.

*Remember  
Miss Shelley to make  
more photographs*

July 15, 1941

Dear Henry:

So that you may have a chance to glance at it before the meeting in your office this afternoon, I am enclosing a copy of a proposed Executive Order which Cordell Hall, Bob Jackson and I submitted to the White House last May.

After months of effort and innumerable drafts, the three Departments were finally able to agree on this Order.

So far as I know nothing has been done about our recommendation.

Sincerely yours,

(Signed) Henry

The Honorable  
Henry A. Wallace  
Vice President

By Messenger *7/15/41  
9:45*

Enclosure  
EHF:s 7-15-41

Enclosures: Memo to President dated 5/5/41, signed by Secy. Hull, Secy. Morgenthau and Attorney Gen. Jackson.  
Executive order re: Economic defense committee.

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Vice President

By Messenger

q:ts  
1/5/41

Enclosure

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Henry A. Wallace  
Vice President

By Messenger

9:45  
7/15/41

Enclosure

KHP:s 7-15-41

Enclosures: Memo to President dated 5/5/41, signed by Secy. Hull, Secy. Morgenthau and Attorney Gen. Jackson.

Executive order re: Economic defense committee.

s James

7-15-41

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This is the memo and Executive Order  
which was enclosed in the letter to  
the Vice President this morning.

Miss Shelley  
Mr. Foley's office

## MEMORANDUM FOR THE PRESIDENT

We submit for your consideration a proposed Executive Order establishing an Economic Defense Committee, consisting of the Secretaries of State and Treasury and the Attorney General for the purpose of making recommendations to you concerning the control of foreign funds, foreign trade and related matters, in the interest of the national defense. The Order would give the Committee authority to supervise the administration of such freezing or export control orders as you have issued or may issue. The purpose of the Order is to coordinate and further economic defense.

If this proposal meets with your approval, we contemplate designating officers of our respective Departments to work continuously together, keeping in constant familiarity with our respective views and submitting to us all recommendations proposed to be submitted to you. These officers would have sitting with them advisors from other departments and agencies of the Government where the matters under consideration are of interest to such other departments or agencies. We recommend also that the Committee be provided with sufficient funds to employ a small staff to work with the foreign funds control and the Administrator of Export Control in the preparation of data for its consideration.

*Correll Hull*  
 (Secretary of State)

*Henry M. Humphreys*  
 (Secretary of the Treasury)

*William H. Jackson*  
 (Attorney General)

**EXECUTIVE ORDER**

**DEALING WITH THE ESTABLISHMENT OF AN ECONOMIC  
DEFENSE COMMITTEE AND RELATED MATTERS**

By virtue of and pursuant to the authority vested in me by section 5(b) of the Act of October 6, 1917 (40 Stat. 415), as amended, by section 6 of the Act of July 2, 1940 (54 Stat. 714), by the Act of October 10, 1940 (54 Stat. 1090), by virtue of all other authority vested in me, and by virtue of the continued existence of a period of national emergency, and finding that this Order is in the public interest and is necessary in the interest of national defense and security, I, FRANKLIN D. ROOSEVELT, PRESIDENT of the UNITED STATES OF AMERICA, do hereby prescribe the following:

Section 1. There is hereby established an Economic Defense Committee (hereinafter referred to as the "Committee"). The Committee shall consist of the Secretary of State, the Secretary of the Treasury and the Attorney General. Each member of the Committee may designate an alternate from among the officials of his Department and such alternate may act for such member in all matters relating to the Committee. The Committee may, in carrying out the provisions of this Order, act either directly

-2-

or through such subcommittees, agencies or personnel as it may designate or employ, and, in respect of matters involving other departments or agencies of the government, call upon such departments or agencies for advisors to sit with the Committee and for such information and assistance as may be necessary.

Section 2. All proclamations, orders and regulations issued under section 5(b) of the Act of October 6, 1917 (40 Stat. 415), as amended, or under section 2 of the Act of July 2, 1940 (54 Stat. 714), which are in effect as of the date hereof or are hereafter issued thereunder, shall be administered pursuant to the supervision and control of the Committee.

Section 3. The Committee shall engage in such studies and shall make such recommendations to the President and to the appropriate departments and agencies of the Government as the Committee deems in the interests of the economic defense of the United States.

Section 4. Any regulation, licence, ruling, instructions or other action by the Secretary of the Treasury or by the Secretary of State or the Administrator of Export Control, as the case may be, purporting to be under the provisions of any proclamation, order or regulation heretofore or hereafter issued under section 5(b) of the Act of October 6,

-3-

1917 (40 Stat. 415), as amended, or under section 6 of the Act of July 2, 1940 (54 Stat. 714), shall be conclusively presumed to have been issued or taken pursuant to the supervision and control of the Committee.

Section 5. This Executive Order may be amended, modified or revoked at any time.

*RAF*  
THE WHITE HOUSE,  
1941.

A-A:DA:GMH

*M.M.P.*  
*CH*  
Regraded Unclassified

7/15/41

Miss Chauncey

7-15-41  
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Nell, this is a set of the documents which Vice President Wallace gave to Secretary Morgenthau. <sup>Today</sup> yesterday at the meeting in Wallace's office at 2:15. The originals were returned to the Vice President.

(There is to be another meeting at the same time tomorrow at same place.)

McGuire  
MR. FOLEY

THE WHITE HOUSE  
WASHINGTON

My dear Henry:

I have been giving a great deal of consideration in the last few weeks to the whole problem of our economic defense.

As you know, several of the government departments and independent agencies have important responsibilities in this field which are fixed by statute.

I have given some consideration to appointing a director of economic defense who would administer certain phases of the program and act as coordinator. The more I think of it, however, the more I believe there is much to be said in favor of a committee giving broad consideration to the problem of our economic relationships rather than an administrative unit. I had in mind appointing five or six people from various departments concerned, who would consider the broad implications of our economic relationships in the light of what is going on in the world today and would consider further the potentialities of the future.

I realize the committee would have to give consideration to immediate problems and that at a later date that committee might wish to recommend to me a more definite administrative alignment within the government.

I am quite sure I am right about not appointing an administrator of economic defense at this time, but I do want the advice of a competent group sitting

- 2 -

constantly in regard to these matters.

I have been wondering if you would take the chairmanship of such a committee. I am sure that you know more about this field than anybody in town and it is essential that we have someone as chairman in whom the various cabinet officers will have confidence.

Will you let me know what you think about this.

Very sincerely yours,



The Honorable

Henry A. Wallace,  
Vice President of the United States.

March 6, 1941

## WHAT SHOULD BE DONE ABOUT ECONOMIC DEFENSE

In order to aid Britain effectively as well as to protect ourselves against a thoroughgoing, although undeclared, economic war, we must develop a comprehensive program of economic defense. Economic defense consists of those economic measures having international implications exercised for the purpose of protecting and conserving the resources and the commerce of the Nation, aiding friendly neutrals and belligerents, and impairing the resources and commerce of unfriendly belligerents.

We should begin at once to plan the defense of our post-war foreign trade, for irrespective of the outcome of the present war, peace will be fraught with manifold economic problems, insoluble without a long period of study.

A number of instances, based on suggestions by various departments and agencies contacted during the course of the survey, illustrate some of the ramifications of economic defense problems. Random in nature, they reveal that the disposition of any particular problem may require the choice of one of many potential measures or the decision to take no action whatsoever.

Transit Trade to the "Axis"

The Japanese have been purchasing in Latin America raw materials for munitions. They have negotiated a contract expiring November first of this year to purchase the entire output of Peruvian molybdenum, and

- 2 -

they have been buying Bolivian tungsten at a price well above the world market to assure preempting supplies. The Japanese are also purchasing Bolivian antimony, Brazilian quartz crystals, rubber, mica, castor seed, Mexican lead and mercury, Argentine quebracho and hides, and Chilean copper.

Using Japanese bottoms to Vladivostok, quantities of these materials it is charged are then shipped by rail to Germany. The Italians transport by airline non-bulk items such as platinum and industrial diamonds from Brazil to Europe.

#### Preclusive Purchasing versus Alternatives

Several Government agencies have recommended preclusive purchasing by the United States of the Latin American raw materials to preempt them from inimical interests. Before such a program is inaugurated, consideration should be given to the possible use of alternative measures: diplomatic pressure, lending power, managed exchange, and others.

Under the urgency for a stockpiling program, we have made purchases in Latin America with free and uncontrolled dollar exchange. Should we not have used our bargaining position as a buyer either to gain advantages for ourselves or to thwart unfriendly nations? Could we not have restrained Bolivia from selling tungsten to Japan? The latter could probably have been accomplished by diplomatic pressure or as a condition for granting a loan, since Bolivian tungsten is sold through only one outlet, Banco Minero.

Purchases in Latin America by Japan have been made largely with American dollars. If compatible with State policy, the prompt freezing of exchange here might have the effect of stripping unfriendly powers of their means of payment. Moreover, influence could be exerted through a series of special deals and barter; pressure could be applied through private exporting and importing firms. The use of private firms to regulate foreign trade would have the obvious advantage of being "unofficial." Since many of the Latin American countries desperately need shipping facilities and certain materials, e. g., aluminum, we could furnish these on condition that they refrain from supplying strategic materials to our potential enemies.

#### Loans and Subsidies

Loans made by the Export-Import Bank to South America might, in many instances, be conditioned upon the United States being granted reasonable considerations. Thus, the United States might have obtained cabotage (internal air transport) rights for the American line "Panagra" and cooperation in excluding German rights as consideration for a loan recently made to Chile by the Export-Import Bank. Actually part of the loan was used to finance the purchase of equipment for the Chilean National Airline. Since German and Italian airlines to South America are now encountering difficulties in obtaining new equipment, our loan and air subsidy programs assume a new and vital importance.

### Boycott and Embargo

Instances pertaining to Japan and the Philippines illustrate the necessity for careful study of the economic as well as political effects of proposed measures. Thus in contemplating a boycott of Japanese silk, consideration must be given to the effect of such action upon American silk-consuming industries, upon competing materials and substitutes, and upon the price effects of the use of those materials and substitutes viewed both from the Japanese and the American side of the picture. In anticipation of such a boycott, Japan might increase her shipments, thereby acquiring additional amounts of exchange. The advantages and disadvantages of a boycott must thus be weighed against those of a currency freezing or another kind of program.

The Philippines constitute an important link in an embargo of materials to Japan, for the effect of such embargo is nullified if materials received in the Philippines can be reshipped to Japan.

### Control of Shipping

The Office of Production Management requested the power to direct the requisitioning of ships in order to facilitate prompt shipment of strategic materials. Shipping has broader aspects. Control over shipping should be exercised in the light of our foreign commercial policy. Attention might be given to the requisitioning and directing of ships for the purpose of interfering simultaneously with the commerce of unfriendly belligerents and aiding that of friendly nations.

- 5 -

Shipping rates affect the types of cargoes carried. Unless rates can be controlled, both the commodities carried and the ports covered may be out of line with defense needs. Control of ship movements may be the key to control over rates.

#### Economic Strings on "Lend-Lease" Program

Pending operations under the "Lend-Lease" program are tied up with these economic questions. While time is of the essence in aiding Britain to the fullest extent consistent with American defense, a great opportunity may be lost if careful consideration is not given to the many economic ramifications under that bill. Is the United States once more to win a war only to lose the peace? Or will she now, while still retaining her current bargaining position, take advantage of the lessons of 1918-19?

Many courses are open under the Lend-Lease program. We could merely give Britain armaments outright and forego the assurance of an important position in the post-war settlement. Or we might offer to exchange armaments for any one of a number of agreements relating to the post-war period. For example, we might insist on the elimination of the effects of the Ottawa Conference, whereby the colonies and dominions receive preferential trade treatment within the Empire, and in its place create a wide trading area, a kind of economic "Union Now" of states recognizing the writ of habeas corpus. Here might be the opportunity to return to the objectives of the reciprocal trade program, and to stimulate foreign trade and investment in order to cushion the effect of post-war economic readjustments.

We might exchange weapons for Britain's South American holdings and utilize these in a variety of ways to control trade (Britain uses them for this purpose), to obtain military bases, to gain the friendship of the Latin countries by returning the investments to them and their nationals, or to obtain concessions from Great Britain by returning these holdings to her after the war.

We might lend armaments to be repaid in kind, but before doing so, we should give thought to the economic effects of the repayment of such loans.

#### Deficiencies in Present Facilities

Many agencies of the Government have been thinking about isolated segments of economic defense, but no single focal point exists where all segments can be brought into proper relationship, coordinated, and adjusted to the over-all defense policies of the President. For example, one agency urges purchasing Mexican mercury in order to preempt the supply from Japan; another agency states that there are ample world supplies outside the United States and Mexico. Further, many suggestions for action toward South America have been made, but no agency appears to be relating these suggestions to a Far Eastern program or to the Nation's plan in regard to Britain and the Dominions.

The difficulties of planning and directing a program of economic defense lie in the number of the agencies involved and the variety of controls in each as well as in the complexity of the economic problems. The appended schedule of controls and devices and list of departments

and agencies concerned with economic defense indicate the scope of the problem.

The job of developing sound programs of action and the full coordination of effort of the many agencies concerned with economic defense cannot be accomplished by any existing department or agency for the following reasons:

1. Individual agencies are preoccupied by daily routine and with their main interests, which in every case are far narrower than the conception of total economic defense. For example, the Treasury Department contributes appreciably in the fiscal role, which is, however, only one segment of the problem.
2. Any existing agency because of jealousies and lack of central position would find it difficult to secure the thorough cooperation of other departments and agencies.
3. Direction of the economic defense activities requires someone of unusual qualifications and broad-gauged experience; the director must of necessity devote his full and undivided attention to this problem. He would have knowledge of plans known only to a few. Such a task precludes Cabinet members and agency heads who are already overburdened; nor should attention to pressing internal governmental problems be allowed to recede.
4. By nature, economic defense is an emergency function which is to be liquidated when the emergency passes; consequently, these activities should not be allowed to become so intermeshed with permanent governmental activities that they become a vested interest or that their cessation would cause disturbance of normal governmental functions.
5. The Department of State, probably the most eligible agency, should it be decided to entrust economic defense activities to an existing department, would be placed at a disadvantage in carrying out its main defense role as a buffer in our political relationships with other nations.

6. The Office of Administrator of Export Control seems unfitted for this role because of its military approach. The military mind is accustomed to dealing with concrete problems and obtaining direct results; whereas the mind concerned with economic defense must deal in abstractions and delayed or not easily controlled results. Moreover, the chief officials of the Economic Defense Unit of necessity must be experienced in international finance and trade and possessed of considerable analytical ability and imagination. In addition to the hierarchal arrangement of the Export Control Office, question is raised as to the ability of a military organization to deal successfully with and understand businessmen.

It is important to note that the Office of Export Control Administrator is now expanding its program and staff to cover the whole economic defense field.

#### What is the Solution?

The preceding random illustrations of economic defense activities reveal that the determination of any particular course of action—or inaction—may require the choice of one of many possible measures. Economic controls should be exercised only after the most careful preliminary study. Here is indeed a case where haste makes waste, and where partial measures may undo the desired total effect. International trade and finance is a highly complicated field, with influencing factors comingling from every angle. In such a field there is danger that any one agency, focusing upon some particular phase of defense, may fail to see the alternatives or the full implications of a given measure. It may want action of some nature, any nature, when action is the most undesirable course in a particular set of circumstances.

The many officials contacted in the course of this survey believe that the establishment of a coordinating center on economic

defense measures is exceedingly urgent. Except in the case of the Office of the Export Control Administrator and the Treasury, which desire to be entrusted with these responsibilities, opinion was unanimous that the job must be done by a new agency under the President. Only in this fashion can the respective parts which several agencies may play in a particular course of action be scheduled and unified. Only through such an agency can that all-important, illusive factor of "timing" be safely exercised. Only by the creation of a central unit can we be assured that carefully planned, deliberate study is being given to problems of economic defense in the proper order of importance and with proper attention to the inherent ramifications of alternative measures and policies.

This might be accomplished by the designation of someone with outstanding ability and broad experience in this field to assist the President and such Cabinet Committee as may be desirable in formulating and coordinating programs for economic defense. If necessary, this could be done quite informally. However, the many agencies which deal with particular segments of the problems would need to understand the role of this advisor so that the necessary planning and unification of actions could result.

Or preferably perhaps a Division of Economic Defense in the Office for Emergency Management of the Executive Office of the President could be established by Executive order.

Under either alternative, a major task for the economic defense advisor or division would be to assist in a secretarial and advisory

way whatever Cabinet Committee the President might wish to designate on economic defense. The same Cabinet Committee which is now helping the President on Lend-Lease operations might appropriately cover this related field. Such an arrangement could be accomplished informally as a normal method of doing business.

In any event, intimate relationships would be necessary between the Economic Defense Unit and the agencies administering the Lend-Lease program and the Office of Production Management. Likewise, a close relationship would necessarily exist between the Economic Defense Unit and any price administration and consumer agency that might be established as a successor to the Price Stabilization and Consumer Protection Divisions of the Advisory Commission on National Defense. The Coordinator of Commercial and Cultural Relations between the American Republics would have in the Economic Defense Unit a channel for securing more effective action than he now possesses.

The Office of the Administrator of Export Control should also come under the direction of this unit. While that office is not suited to be the central economic defense agency, the fact that it has been developing a program and specific projects which go far beyond export control is fortunate. The location of that office in the proposed Economic Defense Unit will capitalize on the various economic defense activities already launched by that office and on the experience of its staff in dealing with such matters.

In either plan a highly competent research man in the international economics field would be needed to assist the Advisor or Director in carrying on the necessary studies and the many contacts with

the departments and agencies affected. The staff would appropriately consist largely of persons borrowed from other departments and agencies who have been actively engaged in working on the specific problems under consideration. While there might be some type of actions which the Economic Defense Advisor or Director would need to carry out through his own facilities, most of the actions would be executed through the normal facilities of existing departments and agencies. Clear-cut and speedy channels of relationship with such departments and agencies would need to be established.

Since the Economic Defense Unit would be dealing with matters which require continuous decision by the President and the advice of Cabinet members, its head would need ready access to the President and his principal officers. The unit would need to work at all times in close consultation with the Department of State, and any proposed action should have the approval of that Department.

## E X H I B I T A

MEASURES THAT MIGHT BE EXERCISED IN A  
PROGRAM OF ECONOMIC DEFENSEExports

Embargo (by countries); "moral" embargo; licensing of exports (special and general); favoring or hampering through United States production priority regulations; requisitioning of goods under license; licensing of exporters; quotas (rationing of neutrals to prevent re-export); subsidies (including subsidized export competition ("dumping") to drive out enemy goods from a neutral market); barter and special trade deals; pressure on exporting firms, such as: Black lists, bonuses and subsidies, pressure on producers, private monopolies. Examination of foreign orders.

Imports

Boycott (by countries); licensing (special and general); licensing of importers; quotas; barter and special trade deals; tariffs (special increases and reductions); administrative discretion by customhouse; pressure on importers such as: Black list, bonuses and subsidies, private trade monopoly, indirect pressure by consumer boycotts.

Purchases of strategic materials to: Acquire needed materials, help friendly countries, prevent acquisition by unfriendly countries, pressure on private firms to purchase materials.

Foreign Exchange

Freezing of foreign assets as follows: Prohibiting transactions in foreign exchange, transfers of credit, transfers of securities, export or withdrawal of gold, silver, coin, and currency, and transfers of other evidences of indebtedness, or of ownership involving property of specific countries or nationals.

Licensing of foreign exchange transactions as follows: Clearing agreements, use of blocked money units.

Manipulation of the value of currencies: Price at which bullion is bought or sold; purchase by United States Treasury of gold or silver, or refusal to purchase it when origin from accepted areas cannot be proved; licensing of export of bullion; the purchase and/or sale of foreign currencies through the stabilization fund.

Foreign Investments

Direct loans to foreign governments (for roads, airports, etc.); direct loans to foreign nationals (for trade monopolies, special

productive facilities, etc.); encouragement of private loans to foreign governments or nationals; subsidies and loans to our nationals for the benefit of foreign governments or foreign trade (as subsidization of tin smelter in America for Bolivian ore); gifts; paying civil servants in orphaned colonies (e.g., in French colonies); calling of loans, refusal to renew; assistance or threats through influential United States companies (e.g., the United Fruit Company in Central America).

#### Special International Activities

Cooperative purchasing agreements for stockpiling: To attain needed materials, to prevent purchase of materials by the enemy, to maintain prices.

Cartels for marketing or regulating production; furnishing or withdrawal of technical experts, including government and civilian experts and military technicians, to develop resources, transportation systems, etc.; training of experts (exchanges of students).

Furnishing of needed materials to friendly countries; support of currencies of friendly nations; joint propaganda and cultural activities (promotion of travel); joint agreements to prohibit transactions with unfriendly countries and their nationals; seizure of property of unfriendly countries and their nationals; cooperative trade policies (such as a joint program with Britain in regard to South American trade); blacklisting of uncooperative neutral firms.

#### Shipping and Transportation

Acquisition by purchase or lease; requisition (ships of neutrals and belligerents); determination of routes; control of anchorage; control of bunkers, harbor facilities, warehouse facilities; regulation of marine insurance; regulation of overseas mail and parcel post; control of shipping in territorial waters (as through clearance papers, inspections, etc.); favorable or unfavorable treatment in allocation of shipping (assuming shipping control); offer of convoy protection of ships of a neutral; blockade reinforced by navicert system; control of overseas airlines.

#### Patents and Other Property

Restriction of international licensing under new patents; offering to friendly nations of special patent rights; confiscation of enemy patents; licensing of foreign firms doing business in the United States; seizure of enemy property.

#### Communications

Prohibition of adverse commercial propaganda, broadcast and otherwise communicated; encouraging of commercial propaganda to friendly

nations; control over mail and parcel post (used for shipment of non-bulk articles, plans, and military secrets; examination of mails to trace illegal transfers and obtain information on goods shipped to the enemy, etc.).

Political Instruments

Threats and pressures, or favors and concessions, in the political (diplomatic) field, for which the country concerned might reciprocate by economic measures that help our friends or harm our enemies.

Military and Naval Instruments

Bombing and other attacks on objectives picked for their key importance in a campaign of economic attrition; blockade, perfected by a navicert system.

## E X H I B I T B

## FEDERAL GOVERNMENT ESTABLISHMENTS CONCERNED WITH ECONOMIC DEFENSE

Executive Office of the President

Office for Emergency Management  
Office of Production Management  
Division of Priorities  
Division of Purchases  
Bureau of the Budget  
National Resources Planning Board

Council of National Defense

Advisory Commission to the Council of National Defense  
Price Stabilization Division  
Defense Communications Board  
Office for Coordination of Commercial and Cultural Relations  
between the American Republics

Office of Export ControlInterdepartmental Committee for Coordination of Foreign and Domestic  
Military PurchasesPermanent Joint Board on DefenseInterdepartmental Committees:

Joint Army and Navy Munitions Board  
Executive Committee on Commercial Policy  
National Munitions Control Board  
Interdepartmental Committee on Inter-American Affairs

Department of State

Division of Controls  
Division of International Communications  
Special Division  
Liaison Office  
Division of European Affairs  
Division of Near Eastern Affairs  
Division of Far Eastern Affairs  
Division of the American Republics  
Office of Philippine Affairs  
Division of Commercial Affairs  
Division of International Conferences  
Division of Commercial Treaties and Agreements  
Consular Service  
Passport Division  
Office of the Advisor on International Economic Affairs

Department of the Treasury

Procurement Division  
Bureau of Customs  
U. S. Coast Guard  
(Stabilization Fund)  
Secretary, as personal representative of the President in  
matters relating to formal purchasing of war materials

War Department

War Department General Staff

Department of Justice

Anti-Trust Division  
Immigration and Naturalization Service  
Federal Bureau of Investigation

Post Office Department

International Postal Service  
Bureau of the Chief Inspector

Department of the Navy

Office of the Chief of Naval Operations  
Bureau of Supplies and Accounts

Department of the Interior

Bureau of Mines  
Geological Survey  
Petroleum Conservation Division

Department of Agriculture

Bureau of Agricultural Chemistry and Engineering  
Bureau of Agricultural Economics  
Office of Foreign Agricultural Relations  
Surplus Marketing Administration

Department of Commerce

Bureau of Foreign and Domestic Commerce  
Patent Office  
Bureau of Marine Inspection and Navigation  
Civil Aeronautics Authority

Federal Loan Agency

Reconstruction Finance Corporation  
Rubber Reserve Company  
Metals Reserve Company  
Defense Supplies Corporation  
Export-Import Bank of Washington

Federal Trade Commission

Federal Communications Commission

United States Maritime Commission

United States Tariff Commission

The Federal Reserve System

The Pan American Union

## AN EXAMPLE OF SUCCESSFUL ECONOMIC WARFARE

Back in 1918, acting under an agreement for joint intervention in eastern Siberia by the United States and Japan, Japan violated the terms of the agreement. Instead of sending 12,000 troops into Siberia, as agreed, she dispatched a force of 72,500 fighting men and officers. This was more than the combined forces of the Allied intervention in both east and west Siberia.

President Wilson, disappointed and displeased with Japan's failure to observe the agreement, made the most vigorous diplomatic protest and authorized the strongest kind of economic pressure. On November 18, the War Trade Board issued an order stopping the further granting of all licenses for the export of cotton to Japan and the import of silk from Japan to this country. Iron and steel and their products were considered for similar action, but, as it seemed that Japan would be able to obtain these products elsewhere, cotton and silk were chosen as the commodities that would make the economic pressure most effective.

At that time we were buying from Japan about \$15,000,000 worth of silk per month and were selling that country roughly \$13,000,000 worth of cotton per month. This trade was vital to Japan's economy. The action taken by the United States, together with the effect of the collapse of Germany, brought an immediate response from the Japanese. By the end of December, 1918, they had removed over 50,000 troops from Siberia. Having achieved the desired result, the United States restored the granting of licenses, and trade in cotton and silk was resumed.

In this incident we have a concrete example of the effectiveness of American economic pressure. Thus in 1918 the United States was not afraid to make its displeasure felt by measures which were easily understood by the militarists of Japan. Diplomatic protests were backed by economic pressure and the desired results immediately achieved. Today the issues at stake are of even more vital importance to the United States; the economic weapons at hand are of even greater effectiveness when war becomes a total effort.

EXECUTIVE ORDER

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ESTABLISHING THE OFFICE OF ECONOMIC DEFENSE  
IN THE EXECUTIVE OFFICE OF THE PRESIDENT  
AND DEFINING ITS FUNCTIONS AND DUTIES

By virtue of the authority vested in me by the Constitution and statutes of the United States, and in order to define further the functions and duties of the Office for Emergency Management of the Executive Office of the President in respect to the unlimited national emergency as declared by the President on May 27, 1941, and for the purpose of developing, coordinating, and carrying out plans and programs designed to protect and strengthen the international economic relations of the United States in the interest of national defense, it is hereby ordered as follows:

1. The term "economic defense" as used in this Order means the conduct, in the interest of defense, of international economic activities relating to exports, imports, the acquisition and disposition of materials and commodities from foreign countries, foreign exchange, international investments, shipping and transportation of goods among countries, the international aspects of patents, international communications pertaining to commerce, and other foreign economic matters.

*preclusive buying in  
foreign countries*

2. There shall be within the Office for Emergency Management of the Executive Office of the President an Office of Economic Defense, consisting of a Director to be appointed by the President, and a Committee on Economic Defense composed of the Secretary of State, Secretary of War, Secretary of the Navy, Secretary of the Treasury, Secretary of Commerce, and such others as the President may from time to time designate. ~~The Director shall serve as Chairman of the Committee on Economic Defense.~~ *Chairman*

*by the* Director shall receive compensation at such rate as the President shall approve and, in addition, shall be entitled to actual and necessary transportation, subsistence, and other expenses incidental to the performance of his duties.

3. Subject to such policies, regulations, and directions as the ~~President~~ *Committee* may from time to time prescribe, the Office of Economic Defense shall:

- a. Study and analyze problems and methods of economic defense and formulate plans and programs relating thereto; and advise the ~~President~~ *Committee* as to economic defense measures to be taken or functions to be performed essential to the effective defense of the Nation.
- b. Use all appropriate means to assure that policies and measures relating to economic defense approved by the President are carried into effect by the departments and agencies concerned, and in the case of policies and measures which are not appropriate for execution by other departments and agencies, take all lawful steps necessary to carry them into effect.

- (c) Initiate plans and make arrangements for the coordination of the work of agencies engaged in the accumulation and assembly of information and data required for economic defense in order to assure maximum availability and utility of such information and data.
- (d) Review proposed or existing legislation relating to or affecting economic defense and recommend such additional legislation as may be necessary or desirable; and perform such other functions relating to economic defense as the President may from time to time assign.

4. The Director shall exercise and perform all powers and functions heretofore vested by any Proclamation, Executive order, or regulation in any officer or agency of the Government (1) under section 6 of the act of July 2, 1940, entitled "An Act to expedite the strengthening of the national defense" (Public, No. 703, 76th Cong.), as extended by joint resolution of May 28, 1941 (Public, No. 75, 77th Cong.), and (2) under the act of October 10, 1940, entitled "An Act to authorize the President to requisition certain articles and materials for the use of the United States, and for other purposes" (Public, No. 829, 76th Cong.), except the powers and functions vested in the Joint Army and Navy Munitions Board by sections 1 and 2 of Executive Order No. 8567 of October 15, 1940; and all such Proclamations, Executive orders, and regulations are amended to the extent necessary to make this paragraph effective, but shall otherwise remain in full force and effect, and

*Handwritten:* Under the amendment  
C. 175

any of the provisions thereof heretofore applicable to any such officer or agency shall be applicable to the Office of Economic Defense.

5. The Director, with the advice and assistance of the Committee on Economic Defense, shall discharge and perform the administrative responsibilities and duties required to carry out the functions and authorities set forth in this Order.

6. In the study of problems and in the execution of programs, it shall be the policy of the Office of Economic Defense to collaborate with existing departments and agencies which perform functions and activities pertaining to economic defense. Such departments and agencies are requested to cooperate with the Office of Economic Defense in arranging for appropriate clearance of proposed policies and measures involving economic defense considerations. The Office of Economic Defense may arrange for the establishment of committees or groups of advisers, representing two or more departments and agencies as the case may require, to study and develop economic defense plans and programs in respect to particular commodities or services, geographical areas, types of measures that might be exercised, and other related matters.

7. To facilitate unity of action and the maximum use of existing services and facilities, each of the following departments and agencies, in addition to the departments and agencies represented on the Committee on Economic Defense, shall designate a responsible officer or officers to represent the department or agency in its continuing relationships with the Office of Economic Defense: The Departments of Justice, Agriculture, and Labor,

*Rockefeller*

Commerce, the Federal Loan Agency, the United States Maritime Commission, the United States Tariff Commission, the Federal Trade Commission, the Board of Governors of the Federal Reserve System, the Office of Production Management, the Office of Price Administration and Civilian Supply, the Office for Coordination of Commercial and Cultural Relations Between the American Republics, the Permanent Joint Board on Defense, the Division of Defense Aid Reports, and such additional departments and agencies as the President may from time to time determine. The Office of Economic Defense shall provide for the systematic conduct of business with the foregoing departments and agencies.

7. The Director may provide for the internal organization and management of the Office of Economic Defense. He shall obtain the President's approval for the establishment of the principal subdivisions of the Office and the appointment of the heads thereof.

8. Within the limits of such funds as may be appropriated to the Office of Economic Defense, or as may be allocated to it by the President through the Bureau of the Budget, the Director may employ necessary personnel and make provision for the necessary supplies, facilities, and services. However, the Office of Economic Defense shall use such statistical, informational, fiscal, personnel, and other general business services and facilities as may be made available through the Office for Emergency Management.

9. This Order shall become effective immediately, except that paragraph 4 shall become effective on June 1941.

THE WHITE HOUSE,

June , 1941

July 15, 1941

MEMORANDUM FOR THE SECRETARY'S FILES:

A meeting relative to the administration of Executive Order 8389, as amended, was held in Mr. Foley's office at 4:00 p.m., July 15, 1941, attended from time to time by the following:

Messrs. Foley, Cochran, B. Bernstein, Pehle, E. M. Bernstein, and Aikin for the Treasury, Messrs. Acheson and Luthringer for State, Messrs. Shea, Kreeger, Rosenwald and Jurenev for Justice.

Mr. Pehle mentioned briefly the Silesian-American case. According to him, the problem resolves itself into the sale of properties located in Poland and Germany by Americans to Swiss interests, which sale may be for German account. The transaction is so complex and of such importance that Mr. Pehle suggested representatives from State and Justice communicate with Mr. Carre of Foreign Funds Control, who is thoroughly familiar with it. Representatives of the company and interested counsel, according to Mr. Pehle, are conferring with Foreign Funds Control tomorrow at 10 a.m. and he suggested that representatives of State and Justice might wish to be present at the conference. Decision on the case will be reached after it has been discussed at an inter-departmental meeting.

Mr. Pehle explained an application submitted by European Gas and Electric (majority stock of which is owned by Standard Oil of New Jersey) for a license to sell its wholly-owned Hungarian subsidiary to German interests for \$24,000,000, \$9,000,000 of which is to be paid in gold presently located in Germany but to be sent to Lisbon if the transaction is approved. After discussion, it was agreed that the application should be denied.

Mr. Bernstein mentioned that the portion of General License 45 in relation to the payment of documentary drafts drawn under confirmed irrevocable letters of credit issued by American banks is being extended.

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Mr. Shea distributed a memorandum on Sterling Products prepared by Justice. As soon as the other departments have had an opportunity to study it, representatives of the company will be asked to come to Washington for a conference with the Inter-Departmental Committee.

Mr. Acheson stated that the British Embassy would be interested to know this Government's policy with respect to suits brought by British creditors who have claims on Germans with dollar balances here. The present practice of Foreign Funds Control in attachment cases was explained briefly. It seemed to be the consensus that the British should be told we would not favor such suits.

Mr. Shea distributed a memorandum which his Department had prepared on patent cases. A committee composed of representatives from Treasury, Justice, State, and other interested departments is being set up for handling patent problems on a coordinated policy basis.

Mr. Cochran said that he had talked with Leon Fraser, former head of the B. I. S., concerning dividend payments by that Bank. It was Mr. Fraser's understanding that the B. I. S. had paid the July 1 dividend to Germany in reichsmarks and Italy in lira, but with respect to the other countries, the normal procedure was to pay in the currency in which most of the Bank's funds were held. Mr. Fraser told Mr. Cochran that the Bank only carried sufficient Swiss francs to meet normal running expenses and that most of their funds were either in dollars or gold located in this country. It was decided to approve the applications to pay \$271,433.74 to the British, \$49,120 to the Bank Nationale Suisse, Zurich, \$6,189.12 to the Guaranty Trust Company for account of the National Bank of Egypt, and \$49,120 to Sveriges Riksbank.

Mr. Acheson reported that the British had informed him of a proposal made to Anderson and Clayton to buy up French franc Brazilian bonds in France and with the proceeds purchase Brazilian cotton for storage in that country. Mr. Pehle indicated that a somewhat similar proposal had already come to his attention.

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Mr. Luthringer said that after careful consideration, the State Department felt that approval should be given to the application filed by General Motors Corporation for a license to pay \$300,000 to Amadeo Barletta, their Cuban distributor, who is an Italian. It was agreed that the application should be approved.

~~June~~ July 15, 1941  
4:07 p.m.

HMJr: Bob?

Robert Doughton: Hello, Mr. Secretary.

HMJr: Henry talking.

D: All right, Henry. How're you feeling now?

HMJr: Oh, no better than I was this morning.

D: (Laughs)

HMJr: A little worse.

D: Yeah. Well, I guess I'm about to have the same experience.

HMJr: Yeah.

D: I want to confer with you a little bit further about that meeting we had this morning.....

HMJr: Yeah.

D: .....about my duty in the premises under present conditions.

HMJr: Yeah.

D: It's - I've been talking to Mr. Cooper about it since we returned - in fact, he's here now hearing me talk.

HMJr: Yeah.

D: And we decided I'd call you, and what is my duty in the circumstances. Should I call the committee together, and seeing that the President wanted these views that he expressed there this morning, presented by someone - I suppose he meant yourself or Mr. Sullivan or someone from the Treasury - presented to the committee. But.....

- 2 -

- HMJr: I don't know that the President suggested that. I don't know who suggested that. I don't know whether it was the President or Cooper. I thought it was Cooper that suggested that.
- D: Well, what other purpose could you have - do you think that the President had in mind? Perhaps Mr. Cooper did suggest that, but, of course, he suggested on the assumption that - I suppose that's what the President wanted done.
- HMJr: Uh huh.
- D: What was your - what is your interpretation of what.....
- HMJr: Well, I.....
- D: .....of what he wanted us to do, or what he wanted done or how he wanted it handled?
- HMJr: Well, Bob, could I kind of sleep on this and couldn't we get together in the morning at any place that you suggest?
- D: Why, yes, we could do that. What - time is the element that's very important now.
- HMJr: Uh huh.
- D: Our drafting service is going to have their work done in two or three days, anyhow this week, they hoped - they told me this morning they hoped to have their draft ready to present to us Friday.
- HMJr: Well, I've been up on the Hill with the Vice-President on the meeting that he called, all afternoon.
- D: Yeah.
- HMJr: And I haven't had a chance to talk this over with anybody in the Treasury. So - I just got in this minute.

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D: Well, if you're going to do anything about it, you know, we ought to do it soon, because - and not let the draft - and the Legislative Council go on and draft what we've done and then have to go back, it's a very delicate thing to draft anyhow.

HMJr: Of course.....

D: If there's going to be any changes in the position of the committee, why they - we ought to know it soon and they ought to know it before they go over it and then have it all to do over. And the quicker we can get at it, you know, the better. I don't know what our committee will do. That vote before, you know - I don't know whether anybody told you or not - was a rather decisive vote on the question of - that we had up about retaining the two methods of computing excess profits tax. And what our committee will do, I don't know when they hear whoever presents the President's views. I suppose he wanted his views presented. If he does, why then I want to consider whether - decide whether or not I let them decide whether they hurt somebody, or whether I'll just call the committee and invite somebody myself. That's the question in.....

HMJr: Well.....

D: Mr. Cooper and I don't exactly see alike.

HMJr: Well, when you put it up to the President, you know, he said to you, "Bob, that's a matter that you've got to decide," and you tried to press him but he wouldn't advise you, you remember?

D: Well, would you consider that the President thinks that I had broken faith, in so far as our conference of this morning was concerned, if I called the committee together and just relate to the committee what occurred this

- 4 -

morning, that the President wanted the matter reconsidered or wanted to speak.....

- HMJr: No.
- D: .....further on it.
- HMJr: No, I don't think - I don't think.....
- D: I've got to have some reason for calling the committee together and tell them what the President - why I called them together.
- HMJr: Well, I don't see what else you could do as long as you ask me.
- D: Well, I hadn't seen anything else I could do, but I tried to proceed cautiously because.....
- HMJr: But I don't see - after all, the Treasury's presented its views in full. We had ample time. There's nothing that we could add to it. There's nothing new that we could say.
- D: Well, that's about what I said this morning, wasn't it?
- HMJr: But the President expressed his view for the first time, and I don't see why it isn't perfectly proper that you pass this on to the committee.
- D: Pass it on to the committee whether I open it up at all, or not?
- HMJr: Yeah.
- D: If so, would you - just like you say, we've heard the same thing over and more than once, but if the President - would your - confidentially, if you want to - would your idea be that we should let the President be heard through a letter from him or through a statement from you.

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HMJr: Well now, will you wait a minute? I just sent for Sullivan and he's just come in. Would you mind if I spoke to him a minute?

D: Why, take all the time you wish, because we want to get these matters as clear and as straight and as satisfactory as we can.

HMJr: Well, let me just speak to him a minute. (Talks aside)

D: All right.

HMJr: Hello.

D: All right.

HMJr: I told very briefly to Sullivan what you and I said.

D: Yeah.

HMJr: But mainly about your idea of calling the committee together and advising the committee of what - of your conversation with the President this morning.

D: Yeah.

HMJr: And he agrees that under the circumstances that your idea is a good one.

D: Well.... And then let them decide whether they want to go into the matter further?

HMJr: Yes.

D: Well, that's what I thought.

HMJr: Yes.

D: And if the President wants to have a letter there, when I call them together I'll have the letter read. Otherwise, I'll just tell them what - the committee - relate, Mr. Cooper and I together will - I'm sure we'll agree, in

- 6 -

substance, what took place this morning.

HMJr:

Well I don't think it needs any letter. You two gentlemen were there.

D:

Yeah.

HMJr:

And you heard what the President said, and if you waited for a letter you might have to wait a week.

D:

Well, all right. I'm glad you feel that way about it.

HMJr:

I mean until the President got around to it, with all this war business; it might take him several days.

D:

Well, I understand that.

HMJr:

But.....

D:

Certainly can realize that.

HMJr:

But I think your idea of calling the committee and informing them of what the President said sounds all right.

D:

Well all right. I'm glad that's the - was exactly the decision I'd reached in my own mind, but I wanted to check it with you and with some members of our committee.

HMJr:

Yeah.

D:

Because I certainly want to proceed with all the caution and courtesy I can in this matter.

HMJr:

Yeah. Sullivan is sitting here, and he agrees with me.

D:

All right. I thank you very much, and I'll call the committee either tomorrow or next day, one.

- 7 -

- HMJr: All right.
- D: And we'll relate to them just what took place this morning and then they can decide, the committee itself. The Republicans have gone along, and I don't feel like - the fact is, I've stated that I wouldn't to them, in the full committee, too, and the Democratic members too, that I was not going to call any conferences, party conferences, about this tax matter.
- HMJr: Yeah.
- D: They have shown every disposition and willingness to go along with us that we've been - we could expect, and even more. And if they were to find out that we were having a secret conclave or conference about it, why they might say we wasn't playing fair with them, you know, wasn't keeping faith; and so I'll just call the full committee together then.
- HMJr: All right.
- D: The full committee took the action; and if you want to talk to me any more about it in the morning - you spoke about.....
- HMJr: Yeah.
- D: .....thinking it over. If you want to talk to me any more about it in the morning, I'll be glad to come anywhere you say and meet you anywhere you suggest.
- HMJr: Well, I don't know what else I'd have to say; but if I've got anything else, I'll take the liberty of calling you. I take it the committee will meet in Executive session.
- D: How's that?
- HMJr: The committee will meet in Executive session.
- D: Yeah, the committee will meet in Executive session.

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HMJr: Yeah, that's right.

D: That is, any meeting we have will be in Executive session unless the committee orders otherwise. Of course, we've closed the open session, you know.

HMJr: Yeah.

D: And the committee would have to order, of course, any public hearings or any hearings other than Executive session.

HMJr: All right, Bob, I appreciate your calling me very much.

D: Well, I'm very glad to do it; and I'll keep you advised of just what's going on.

HMJr: Thank you so much.

D: All right, thank you. Good-bye.

July 15, 1941  
4:19 p.m.

Robert  
Doughton:

Henry?

HMJr:

Yes, Bob.

D:

Doughton calling again.

HMJr:

Yeah.

D:

I mentioned to Sullivan, and - I suppose he's mentioned it to you - if not, I'll mention it to you anyhow - Jere and I have just discussed that. Would it be proper and you'd be willing to let me have a copy of that memorandum the President read this morning?

HMJr:

You'd have to get it, Bob, from General Watson. I couldn't give it to you.

D:

You had - you couldn't give it to me?

HMJr:

No, I've given it to the President and it's his property now.

D:

Well, we - that is, it'd enable us to more accurately lay the matter before our committee if we had that.

HMJr:

Well, I - I.....

D:

Both Jere and I agree to that; but if there's any reason that it ain't worth holding and not let us have it, why, of course, that'll be all right with us.

HMJr:

Well, anything that I've got is yours; but if you didn't mind calling up General Watson and asking him.

D:

I will. I'll call him.

HMJr:

Will you do that?

- 2 -

D: Yeah, I'll call him right now.

HMJr: I'm sure he'll give it to you, and that will save me.....

D: Well, that'll help us, you know, in preparing the - in restating to the committee what the President stated to us this morning.

HMJr: I'm sure it would.

D: 'Cause we want to give it to them as accurate as we possibly can.

HMJr: I'm sure.....

D: Because memory is not always - it's not as safe as a written word.

HMJr: Well, you call up the General, and that'll take me off the spot.

D: Thank you very kindly.

HMJr: Thank you.

D: Good-bye.

July 15, 1941  
4:27 p.m.

HMJr: Hello.

Operator: Mr. Sullivan. Go ahead.

HMJr: John.....

John Sullivan: Yes, Mr. Secretary.

HMJr: Bob Doughton just called back and asked me about the memorandum, and I told him to call up General Watson and he said he would. Hello?

S: Yes, sir.

HMJr: So you know that relieves you.

S: Yes. That's that.

HMJr: Yeah.

S: Right.

HMJr: Thank you.

S: Thank you, sir.

July 15, 1941  
4:30 p.m.

HMJr: Hello.

Operator: Mr. Secretary, General Watson.

HMJr: Hello.

Operator: Here you are.

General  
Watson: Hello.

HMJr: Hello.

W: Bob Doughton called up and wanted a copy  
of that memo the President read on excess  
profits tax.

HMJr: Yeah.

W: Is there any way we can get that without  
bothering him? He's in there with the  
press.....

HMJr: Yeah.

W: .....and he's got two people after that.

HMJr: Well, I - I wouldn't want to say whether  
the President would want to release that  
or not.

W: Well, did - did they want it released  
or did he.....

HMJr: Well.....

W: .....and Cooper just want to use it?

HMJr: If you give it to them, you might just as  
well make up your mind that.....

W: .....that it's going to be released.

- 2 -

HMJr: Yeah.

W: All right, I'll ask him.

HMJr: I wouldn't - I mean, he asked me and I said it was the property of the President and I couldn't tell it.

W: All right.

HMJr: But if you give it to them, you might just as well make up your mind you'll.....

W: Well, what is - what is your recommendation?

HMJr: My recommendation?

W: Yes, sir.

HMJr: Is no.

W: Your recommendation is that.

HMJr: Yeah.

W: Well, that's about what it would be.

HMJr: Yeah.

W: Well, I know damn well it is.

HMJr: But don't tell that to Doughton.

W: Hell, no. I'm not going to..... (Laughs)  
You know I'm not that shrewd man they picture me up as if I'm going to do that kind of thing.

HMJr: Yeah.

W: They got me written up as a shrewd fellow.

HMJr: Yeah.

W: Yeah.

- 3 -

HMJr: Well, my throat is very delicate, and I don't want it cut.

W: Yeah, I see. All right. (Laughs.) All right.

HMJr: Okay.

W: You'll never get it cut by me.

HMJr: All right.

W: Yes, sir. You'll get it protected by me.

HMJr: All right.

W: All right, I'll tell him then you said no.

HMJr: All right.

W: Good-bye.

HMJr: Good-bye.

July 15, 1941  
4:36 p.m.

HMJr: Hello.

Operator: Secretary Ickes. Go ahead.

Harold Ickes: Hello.

HMJr: Hello, Harold.

I: Say, Henry, I don't know whether you have anything to do with it; but there's a vacancy on the Federal Reserve Board, isn't there?

HMJr: Not that I know of, but there might be. Do you want to have Charlie West go on?

I: Well, yes. I wondered if you could help him out any.

HMJr: (Laughs) What's on your mind, Harold?

I: Oh, what is that damn thing that - oh, a fellow over here by the name of Julian Terrett. Doesn't there have to be a farmer representative on there, too? Chester Davis resigned.

HMJr: Yeah, that's right. That's right.

I: Is there a vacancy there?

HMJr: There - there might perfectly well be.

I: Well, the only thing I promised to call you and mention his name to you.

HMJr: Who?

I: Julian Terrett. T-e-r-r-e-t-t.

HMJr: Okay.

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I: He's Assistant Director of Grazing over here.

HMJr: All right.

I: He's from.....

HMJr: Anything else?

I: .....from Montana.

HMJr: Okey-doke.

I: All right. That's enough said.

HMJr: Thank you.

I: Say.....

HMJr: Yeah.

I: .....are we ever going to do any economic warfare business?

HMJr: Well, the President's given the job to Wallace, to call up a committee and be chairman of it.

I: Christ!

HMJr: And I was up there for two hours today.

I: Have you really?

HMJr: Yeah.

I: Uh huh.

HMJr: And I don't know what'll come of it.

I: That's a nice mess everything is here these days.

HMJr: But, I was amazed to get a call from Wallace to come up there. The President asked him

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to become chairman and take it over.

He did? Well, he's a good executive.

I:

HMJr:

Well, you recommended him to head up the whole morale thing.

I:

Well, you know why.

HMJr:

No, I never did know why.

I:

Well, I tell you. I saw that we were going into a descending spiral again because nobody suggested anybody with a national - that was known nationally.

HMJr:

Yeah.

I:

So in desperation.....

HMJr:

Uh huh.

I:

.....I suggested Henry to take it temporarily.....

HMJr:

Yeah.

I:

.....thinking that way we could keep the damn - its nose above water.....

HMJr:

Yeah.

I:

.....until we could get a life raft out for it.

HMJr:

Yeah.

I:

But I guess the President just doesn't intend to have any morale.

HMJr:

(Laughs)

I:

I think it's - I think it's perfectly terrible.

HMJr:

Yeah. Well, there isn't - there's nothing going on.

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I: Oh no. And I went and made a speech last night, and I wasn't allowed to mention the Vichy Government or Petain in disparaging terms.

HMJr: No.

I: No.

HMJr: Good heavens.

I: My God! Chamberlain at his best couldn't appease the way our State Department does.

HMJr: (Laughs) Well, I don't know.

I: You don't know. Well, I do.

HMJr: Well, we still send out the list every week of the gasoline that goes.....

I: Say, isn't it - isn't it ghastly?

HMJr: Terrible. It's getting worse.

I: Well, you know what they're doing? They're building up a bigger supply so they'll be ready for us.

HMJr: That's right.

I: We're just - we're just giving week by week.....

HMJr: I know.

I: .....hundreds of thousands of gallons to put away so that when they're ready for us they won't meet any trouble about their oil supply.

HMJr: That's right. They don't have to go down to the Dutch East Indies.

I: That's right.

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HMJr: Yeah.  
I: All right, Henry.  
HMJr: Thank you.  
I: Good-bye.

July 15, 1941  
4:51 p.m.

HMJr: Hello.

Operator: Leon Henderson.

HMJr: Hello. Hello.

Leon Henderson: Hello.

HMJr: Leon?

H: Yeah.

HMJr: How'd you make out?

H: All right.

HMJr: Did you?

H: Got the green light.

HMJr: You did.

H: Yeah. And I'm arranging to see the folks down on the Hill tomorrow.

HMJr: Yeah.

H: And I think we'll move pretty fast.

HMJr: Could you tell in any - well, I congratulate you. Could you tell in any way whether - what the President's reaction was to my memo?

H: He didn't say anything about the whole thing. He was very much disturbed at Bob's attitude toward that tax.

HMJr: Yeah.

H: And he talked a little bit about that. Otherwise, he didn't mention it.

HMJr: I see.

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H: But they did and it was helpful, I think, in the decision about the green light.

HMJr: Well, if he read it, he must have read it last night.

H: Uh huh.

HMJr: Hello.

H: Yes. He didn't get a chance to go over the whole thing.

HMJr: No, he just confined himself to the tax part this morning. But he had it all last night, and he had last night's memo on top of his desk with some pencil on it, so he must have read it last night.

H: Yeah.

HMJr: At least that's what I think he did, but.....

H: What do you think will happen?

HMJr: What will happen?

H: Yes.

HMJr: On the tax thing?

H: Yeah.

HMJr: Nothing.

H: You don't think so?

HMJr: No, because the President told Doughton it was entirely up to him and that he wouldn't make any suggestions.

H: Oh my! Then it's going to be up to you when you go down.

HMJr: Well, when I go before the Senate.

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H: Yeah.

HMJr: Doughton is going to report the conversation to the committee as a whole.

H: Yeah.

HMJr: See?

H: Yeah.

HMJr: He's going to tell the committee what the President told him. He just told me two minutes ago.

H: Yeah.

HMJr: And said he was going to do that. But, the chances are ninety - nine out of ten that nothing will happen.

H: Oh my!

HMJr: Because, you see I - you know I said - I said to you, "Unless the President takes this and does something dramatic, nothing will happen."

H: Not in that House Committee, certainly.

HMJr: No, and the Senate Committee's worse.

H: Well, I guess we'll all have to get in and pitch and try to convince him of the necessity of it.

HMJr: Yeah. Well, when we get down to writing my statement, I'll ask you to help collaborate.

H: All right, Henry.

HMJr: I'm delighted, though, that you got a green light. I congratulate you.

H: Thank you very much.

HMJr: Good-bye.

H: Good-bye.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

Handwritten initials

DATE

TO Secretary Morgenthau

July 15, 1941.

FROM J. J. O'Connell, Jr.

For your information

The regular weekly meeting of the Price Administration Committee was held in the conference room at the Federal Trade Commission this morning at 11 o'clock. Mr. Henderson was unexpectedly required to go to the White House so was unable to be present. Mr. John Hamm, Deputy Administrator of OPACS presided.

The meeting was relatively brief, the discussion centering around the difficulties they have been having with the cotton textile people as a result of the price order issued by OPACS in connection with that industry. The industry is, to all intents and purposes, on a strike against the price ceiling and it is very difficult at this point to see how it is all going to come out. Industry representatives are to confer with some of Mr. Henderson's people this afternoon and tomorrow and they have some slight hope that the log-jam will be broken. What the industry wants, of course, is higher prices, as well as relief from the provision of the Order which makes the price ceiling retroactive.

I told the group of the difficulties the Procurement Division has been having in connection with purchase of a substantial quantity of greige goods under lease-lend, and a general discussion was had with respect to that problem. No constructive suggestions were forthcoming, although all seemed agreed that efforts should be made to negotiate contracts for the materials we need with individual suppliers. Mr. Stettinus suggested the possibility of shutting off power or coal from any company which would refuse to sell us what we want within the price ceiling fixed by Mr. Henderson. He pointed out that this method was used extensively during the World War. The difficulty

Secretary Morgenthau,

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with this weapon, as well as with others presently available, is that it is too drastic. This portion of the discussion pointed up pretty well the necessity for some price legislation which will give to Henderson's outfit the power it needs to enforce its edicts.

One other subject was mentioned which was stated to be highly confidential. OPACS' representatives have been discussing the cotton situation with representatives of the Department of Agriculture, in view of the rapid rise that has recently taken place in the price of cotton. The price is now substantially in excess of the 85 per cent of parity which may be loaned on cotton, and the price may ultimately go to or above parity, in spite of the tremendous stocks of surplus cotton that exist. Although there are many restrictions around a disposal by the Government on stocks of cotton, an agreement has been reached by which the Department of Agriculture will release some of its cotton when, as and if the price reaches parity. OPACS officials feel that this will operate effectively as a price control device to keep the price of cotton from getting out of hand.

Before the OPACS Committee meeting I attended a meeting of the motor truck subcommittee of the automotive industry committee at OPM. Very little transpired which was of more than general interest. However, the figures which were developed as to the trucks that would be needed during the next year were startling. From the figures that were presented to the group, it sounded as though the automotive truck industry is expecting an expansion of about 50 per cent in terms of the number of trucks that will be needed during the next year. The figures were not very intelligible, inasmuch as there had been no break-down as to the number of trucks that will be needed in the different size categories, but it was apparent that in the eyes of that group at least, there is little hope for any curtailment in the manufacture of trucks during the next year. It is apparently possible to convert passenger car capacity to the construction of small trucks, but any substantial expansion in the capacity to produce large trucks can be as a result only of re-tooling and the acquisition of a substantial quantity of machine tools (as to which a real bottleneck exists).

Secretary Morgenthau,

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And this, of course, takes no account of the shortage of materials. If the figures presented at the meeting are realistic, and if what we have been told about the shortage of raw materials is true, it would sound as though practically all of the passenger car industry will either be making trucks or defense articles or will be shut down next year.

Joseph J. Connell Jr

July 15, 1941

Mr. Graves

Mr. Sloan

This morning the Secretary asked Mrs. Klots to call you with reference to certain statistical data which he desired. In your absence I talked with Mrs. Klots and the following is what is wanted.

1. Every day a report of sales of bonds and stamps on a daily basis brought forward from July 1.
2. Daily receipts from the sale of stamps at the Treasury House.
3. A report on all orders received for the sheet music of "Any Bonds Today". This report is to reflect the total number orders and also to indicate any unusually large orders and the purpose for which a quantity of sheet music is to be used.

Mrs. Ready is getting together immediately each of these reports and we will continue to function the three reports through you until we hear from you to the contrary.

cc: Mrs. Klots  
Mr. Reagh  
Mr. Buckley  
Mr. Daffus  
Mrs. Ready  
Mr. Sloan

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Recd  
7/18/41  
M.P.  
S.A.M.

**WM. WRIGLEY JR. COMPANY**

**WRIGLEY BUILDING**  
400 NORTH MICHIGAN AVE

**CHICAGO**  
**July 15th,**  
**1941.**

Mr. Harford Powel,  
Defense Savings Staff,  
Treasury Department,  
Washington, D. C.

Dear Mr. Powel:

Am sorry to have been so long in getting some material to you, but first we had to wait until the art work was finished. This was held up because we had to arrange the figures and our copy on the size sheets which Gugler Lithograph use on their presses, so we would only have to rerun half of the poster sheets for the Defense Bond copy.

We are enclosing with this letter photographs of our material, and photographs of the material we propose to print for you. You will notice that in addition to the posters we have included a run of car cards. We mentioned what we were doing in posters for you to the New York Subways Advertising Company, because we do not have any poster covering in New York City, and we thought you might like a run of cards.

The New York Subways Advertising Company said that they would be very glad to give you the space, provided we were willing to print the cards, and we have made arrangements to make new plates and to furnish them 15,000 cards for New York City.

We, also, have a verbal promise from the people running the Chicago car cards to duplicate what is done in New York, and this would include 1,000 cards in Chicago. The above car cards are size 11x28, which is our regular size of car card. We are also going to see if we cannot stretch these plates to include a 16x28 card, which is the size used in the Chicago Elevated Lines, and if we can, this will give you an additional 2500 cards. Undoubtedly once this

Second Page.  
Mr. Harford Powel.

gets started other people in the car card business will not want to be left out, and if they all come in it will mean we may have to furnish for the entire United States about 85,000 car cards.

In connection with the posters; the design we are using and the one which we mentioned to you is, of course, for September, but this happened to be a short run, as the September poster only appears in the Hard Coal Region in Pennsylvania in September, with a total of 630 posters, and on the West Coast in October with a total of 1,870 posters, and also in October in three Southern States with a total of 970 posters.

We felt we could cover New York with the car cards, and I am sure we can get other cities to do the same thing, but we felt that we were not giving you coverage in the Middle West where we imagine you need the outdoor showing, so we put through an order for a representative showing in Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Ohio and Wisconsin, which will be a total of 6,670 boards.

This means that we have purchased for September--October space for 10,140 - 24 sheet posters, of which we propose to give you half, that is, in the Mid-Western States, listed above, there will be 3,335 posters paid for by us and carrying your copy. In Pennsylvania 315. Both of these showings to go up in September. On the West Coast, which takes in the States of Arizona, California, Idaho, Nevada, Oregon, Utah and Washington you will have 935 posters, and in South Carolina, North Carolina and Georgia 485. The West Coast and South to be posted in October.

This is the space we are paying for, but we are sure we can get you nearly double this amount. In sending out our orders for the additional space in the Mid-Western States we mentioned in our letter to the plant-owners that we were buying this space and giving half of it to you to help sell U. S. Defense Bonds and Postal Savings Stamps, and that if they cared to cooperate with you and give you additional space we would be willing and more than glad to furnish additional paper. The responses coming in to this letter so far indicate that on the average the plant-owners are going to ask for double the amount of paper

Third Page.  
Mr. Harford Powel.

carrying your copy and will double up your showing. If this goes through at the rate it has started, it will mean that in the Mid-Western States, for instance, you will have 3,335 posters with your copy on, and for which we are paying for the space, and approximately 3,000 additional posters, for which we will furnish the paper and the plant-owners, themselves, will furnish the space.

Realizing that the mediums we are furnishing you show to the masses of the people rather than to the carriage trade, so to speak, and because we are using our figures as a symbol on this material, we have worded our copy to keep it in the 5¢ field. For that reason we avoided any reference to investment, because we firmly believe that investments are beyond the reach of the majority of people, that is, the younger people that our copy is generally addressed to, and being of the younger generation and having their lives ahead of them, they generally spend pretty well up to their income, and investing is something they leave for the future. Also, we believe that the word "investment" means to the average person the setting aside of a sizeable sum of money, and as we understand your drive it is to get everybody to at least do a little.

It is the reason that we show the prices on the car cards. This same reasoning is the reason for not using the word "buy" but instead to use the word "get". It has been our experience that if people are sold on the idea of getting something you generally get action, that is, when somebody goes out to get something their mind has been made up beforehand to get it as the word implies. On the other hand, when people go out to buy, it generally indicates some indecision and means shopping around.

I am afraid I am not explaining this very well, and the point may be a little far fetched, but there is some psychology to it. For instance, people will come into a bank and say "where can I buy stamps or Defense Bonds". Their whole attitude indicates a certain amount of indecision and uncertainty. On the other hand, if they come in and say "I want to get some Defense Bonds" it pretty well indicates that they have been presold.

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Mr. Harford Powel.

Of course, you will undoubtedly have your own viewpoint on this and we are, therefore, not going ahead with the posters or cards until such time as we get an okay from you, but we would like to have it just as soon as possible, as it is going to take some time to make the plates.

Another thing I might mention, and which apparently I have overlooked, is that our experience has been that the first law of nature and our strongest instinct is a law and instinct of self-preservation, which in simple language means that everyone at heart is one hundred per cent selfish, and for that reason we have made the entire appeal on an entirely selfish basis and without any appeal whatsoever to patriotism. This might be a mistake if the material we are furnishing were the only material out on Defense Bonds and Savings Stamps, but they are being hammered through every medium and nearly all of them refer more or less to the patriotic motive behind getting these bonds and stamps. That being the case we thought we would limit our appeal to the selfish angle, and we may pick you up some buyers that have not been moved by the other appeal, and also has the advantage of being a little different.

I am also sending with the sketches a drawing of the New York Sign, on which, if you care to have us do so, we will put in the space that now carries our copy, the same copy which appears on the posters and car cards. This would come on in three flashes, the same as our own copy at the present time, and as is illustrated by pulling out the slide on the sketch.

We mention the price of Savings Stamps from 10¢ to \$5 as we believe the bulk of the people, who see this sign on Broadway, will be your small buyers and not your large buyers. Just what we can do with the lettering, that is, whether it will be in bulbs or Neon tubing, we do not know, but we are getting figures and information from New York on this subject.

Also, please bear in mind that these sketches showing your copy are only in black and white, and the lettering on the car cards is very rough. When finished it will have the same clear hand lettering that appears on our own copy. Also, please remember

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Mr. Harford Powel.

that in black and white it does not have the punch that it does in color. The finished sketch is in front of me now and it really is a dandy. The girl's clothing is a bright plaid; the Marine, of course, is in dress uniform, which is always colorful, and the whole thing is on a powder blue background. On the poster, both our own copy and yours, appears in yellow lettering on a dark blue panel, which makes it stand out to beat the band.

Yours very truly,

WM. WRIGLEY JR. COMPANY.



PKW-h  
Enclosures

July 15, 1941

"TREASURY HOUSE" Daily Report

<u>Date</u>	<u>Stamps Sold</u>	<u>New Albums Started</u>	<u>Total Albums To Date</u>	<u>Cash</u>	<u>Total To Date</u>
July 1	1573	495		\$853.40	
2	975	257	752	331.75	\$1,185.15
3	808	104	856	314.55	1,499.70
4	945	223	1079	229.45	1,729.15
5	2245	591	1670	850.15	2,559.30
6	860	117	1787	280.05	2,839.35
7	1091	118	1905	380.05	3,219.40
8	967	196	2101	302.75	3,522.15
9	1344	199	2300	405.20	3,927.35
10	1066	233	2533	329.70	4,257.05
11	758	206	2739	261.00	4,518.05
12	870	202	2941	265.80	4,783.85
13	967	160	3101	303.60	5,087.45
14	1295	213	3314	518.50	5,605.95

## UNITED STATES SAVINGS BONDS

CONFIDENTIAL

 Daily Sales - July 1941  
 On Basis of Issue Price

(In thousands of dollars)

Date	All Bond Sales				Post Office Bond Sales Series E	Bank Bond Sales			
	Total	Series E	Series F	Series G		Total	Series E	Series F	Series G
July 1941									
1	\$ 9,505	\$ 2,387	\$ 957	\$ 6,160	\$ 595	\$ 8,910	\$ 1,793	\$ 957	\$ 6,160
2	11,612	4,066	845	6,701	1,735	9,877	2,331	845	6,701
3	15,045	4,903	843	9,299	2,077	12,969	2,827	843	9,299
5	22,900	9,589	2,437	10,875	3,191	19,709	6,397	2,437	10,875
7	11,028	6,315	472	4,242	3,908	7,120	2,407	472	4,242
8	11,226	4,867	1,197	5,162	1,346	9,881	3,522	1,197	5,162
9	16,570	6,277	880	9,413	2,229	14,341	4,048	880	9,413
10	11,430	6,018	605	4,808	2,459	8,972	3,559	605	4,808
11	16,311	8,504	1,197	6,610	2,405	13,905	6,098	1,197	6,610
12	12,689	4,482	860	7,347	1,672	11,017	2,810	860	7,347
14	13,435	7,754	1,046	4,636	3,060	10,375	4,693	1,046	4,636
Total	\$ 151,752	\$ 65,162	\$ 11,338	\$ 75,252	\$ 24,677	\$ 127,075	\$ 40,485	\$ 11,338	\$ 75,252

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

July 15, 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.

DEFENSE SAVINGS STAFF

ADVANCE NOTICE RADIO PROGRAMS

TUESDAY - JULY 15, 1941

Time: 3:15 - 3:30 P.M.

Program: Stella Dallas

Station: WRC and National Broadcasting Red Network

Time: 7:00 - 7:30 P.M.

Program: Johnny Presents

Station: WRC and National Broadcasting Network

Time: 9:30 - 10:00 P.M.

Program: College Humor

Station: WRC and National Broadcasting Red Network

THESE PROGRAMS PROMOTE THE SALE OF DEFENSE BONDS AND STAMPS.

## TREASURY DEPARTMENT

## INTER-OFFICE COMMUNICATION

DATE July 15, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

**CONFIDENTIAL**

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£65,000
Purchased from commercial concerns	£ 5,000

Open market sterling was again quoted at 4.03-1/2. The only reported transaction consisted of the selling of £5,000 to a commercial concern.

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

Canadian dollar	11-3/4% discount
Argentine peso (free)	.2385
Brazilian milreis (free)	.0505
Uruguayan peso (free)	.4380
Colombian peso	.5800
Mexican peso	.2070
Cuban peso	1-1/4% discount
Japanese yen	.2358

In Shanghai, the yuan was unchanged at 5-5/16¢. Sterling rose 2-1/4¢ to 3.94-1/2.

In addition to accepting dollars representing the proceeds of Swiss exports and income from Swiss investments in the United States, or in payment for Swiss francs to be used for living expenses in Switzerland, the Swiss National Bank cabled a New York bank that it would also make available moderate amounts of Swiss francs (against dollars) for payments to consular agents and legations outside Switzerland. The current selling rate of the Swiss National Bank is .2322-7/8 per Swiss franc. We also learned today that a few New York banks who have small balances in Switzerland are offering Swiss francs in the New York market at .2375.

We sold approximately \$10,000,000 in gold to the Swiss National Bank, which was added to its earmarked account.

The Federal Reserve Bank of New York reported that the Central Bank of China shipped \$709,000 in gold from Hong Kong through the Chase Bank, Hong Kong. Delivery of this shipment is to be taken in San Francisco by the Federal Reserve Bank of that city, under instructions from the New York Federal Reserve Bank. The gold will be refined in San Francisco, and equivalent amount will be delivered in New York to the Federal Reserve Bank of New York, which will earmark the gold for the account of the Central Bank of China.

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We were informed that the Bombay gold price on July 5 was equivalent to \$34.19, or 15¢ higher than the quotation of June 28. The rise above export parity (recently placed at \$34.04) was attributed to a depletion in stocks resulting from previous gold exports, accompanied by a speculative demand due to political developments. The Bombay silver price on July 5 worked out to the equivalent of 44.76¢, or 1/16¢ under the quotation for June 28.

In London, spot silver was fixed at 23-3/8d, up 1/16d. Forward silver was also priced at 23-3/8d, unchanged. The U. S. equivalent of this price is 42.44¢.

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 one purchase of silver amounting to 114,085 ounces under the Silver Purchase Act. This silver represented new production from Java, and was bought for spot delivery.



**CONFIDENTIAL**

**TREASURY DEPARTMENT**

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**INTER OFFICE COMMUNICATION**

DATE July 15, 1941

TO Secretary Morgenthau  
FROM Mr. White

There is attached a list of memoranda and reports prepared in the Division of Monetary Research during April, May, and June, 1941.

RECEIVED  
JUL 17 1941  
U.S. TREASURY DEPT.

Memoranda Prepared in the Division of Monetary Research  
during April, May and June, 1941.

Japanese Gold Movements and Dollar Balances in the United States,  
January to March, 1941.

A new equation for estimating silver production in the United  
States.

\*Monetary Policy as it Affects Foreign Trade - Chamber of Commerce  
pamphlet.

Canadian Foreign Exchange Position.

British Cash Position.

S.E.C. Study of British Insurance Direct Investments.

Special Reports to the Secretary from Mr. Kamarck.

Comments on Navy Report on Japan's Oil Situation.

Contemplated Control over Capital Markets.

British report on German aviation gasoline (attaching letter from  
Mr. Harris, British Embassy).

Memoranda on: Axis influence in Colombia, Guatemala, Ecuador,  
Peru, Costa Rica, Panama, Honduras, and Bolivia.

Comments on Dr. Lewis L. Lorwin's study of War Finance.

The German Invasion of Yugoslavia and Greece.

Material prepared in connection with Survey of Defense Expenditures.

German Exploitation of Denmark.

German Exploitation of the Netherlands.

The Economic Situation in Belgium.

Export Control - Shipments to Japan.

Opinions of members of Economists National Committee on Monetary  
Policy.

The British Budget, 1941-42.

Economic Situation in Germany.

Mr. A. Loveday's study of German war Finance.

- 2 -

Credits for Secretary's statement before House Committee on Ways and Means, regarding new Taxes.

Report on The Office of the Alien Property Custodian.

Recent economic developments in Germany.

Canadian Budget, 1941-42.

What raw materials will Germany gain from the Balkans and what may she gain from a conquest of the Mediterranean?

History of Chinese Coin Collection received from Dr. H. H. Kung.

Licensed exports of copper since April 1.

British request for "relief" on outstanding obligations.

Export-Import Bank Consolidated Wheat and Cotton Loan to China.

Resume of negotiations respecting relief with British.

Liquidation of British assets in this country.

Hemingway's and Bond's comments on Chinese transportation.

U. S. Assets in Continental European Countries.

German assets available for expenditure in the United States.

British Thread Companies in the United States.

Revised estimates of British Gold and U.S. Dollar Requirements during 1941.

The Anglo-Palestine Bank.

Two States on H. R. 4646.

Imports into Madagascar and Reunion.

The French request for dollars to finance imports into French North Africa.

Arbitrium, S.A.

Trade of the Philippines with the French East Indies.

U. S. Corporate Interests in Austria and Germany.

German, Austrian, and Czechoslovakian interests in U. S. Corporations.

Investigation of the possible effects on the securities market of the sales of securities under General License No. 4.

Ownership and control of the German Gold Discount Bank.

Japanese Yen Holdings of Paramount Pictures, Inc.

The course of British prices since August 1939.

Minerals in the Balkans.

U. S. Trade with French Indo-China, 1938-1940.

Plan for Tabulation of Property Reports.

U. S. Treasury Relations with Canada.

The proposal for allowing the British to borrow privately on their direct investments.

Stabilization Fund.

Proposed Questions on Taxation for the Gallup Poll.

Official statements made before Congressional Committees with respect to British payments in the United States.

Chinese Stabilization Agreement.

U. S. Foreign Policy.

Reported Sales of British-owned Domestic Securities.

The acquisition of newly-mined Domestic Silver.

A new silver policy for the United States.

F.B.I. Data and Capital Movements.

Criticism of Walter Lippmann's A B C of War Finance.

The Sales Tax as a Measure to Prevent Inflation.

Monetary Gold Stock of the World.

Capital Movements and Foreign Funds.

The half-cent piece.

The 2 $\frac{1}{2}$  Cent piece.

The prospective shortage of coin.

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The New Caledonian Nickel Ore.

Currency Control and the General Freezing of Foreign Funds.

Revision of Country Study: Mexico.

Probable economic effects of a cessation of Treasury purchases of foreign silver.

British Purchase of Cuban Sugar.

Investment of frozen funds in Government securities.

Review of comments on the Sixty Economists National Committee Report.

Parity for the Canadian dollar.

Suggestions on Controlling price rises.

Governor Eccles' letter to Congressman Patman - Summary and comment.

Comment on Thomas G. Reid's report on TFR-132s.

Governor Eccles' memorandum on new taxes.

The Federal Reserve Board's comments on the bank holding company bill.

Power to devalue the Dollar.

Excess Profits Tax Base.

Treasury attitude toward savings deposits in commercial banks.

Action by OPACS.

Agricultural Payments.

Inquiry on Money in Circulation.

Recommendation for a Labor and Profits Program.

Notes on proposed Treasury Financing.

Belgian Gold Holdings.

Germany's public debt.

The exploitation of Belgium under German occupation.

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The Significance of Capital Issues Control in the State-Directed German Economy.

United States Assets in Germany, Austria, Czechoslovakia.

The new note in Nazi-propaganda; Nazi Europe will promote world-trade and relax her internal authoritarian economic controls after the war.

Digest of "Nazi Europe and World Trade", by Cleona Lewis, Brookings Institution.

German retaliation to our Freezing Order.

A preliminary inquiry into the possible occurrence of speculation by German agents on the New York stock market.

Axis-inspired revolt in Iraq.

The Belgian Embassy's statement on their national gold holdings.

Theses for a general appraisal of United States foreign funds control.

Germany engaging in economic relations with the United States.

Foreign Assets in the United States of various countries, by types. Changes in Latin American Assets in the United States.

The Reemergence of W. V. Bigara and H. Kollmar as Agents for the Repatriation of German Obligations.

Franco-German Collaboration.

Financial points from recent French consular reports.

How much gold will the U.S. Treasury acquire in 1941?

The Trend of Silver Imports.

Canadian Direct Investments in the United States.

Brown and Williamson Arrangements similar to Subrogated Securities.

Study of Sales under General License No. 4.

Preliminary estimate of Canadian Investments in Latin America.

Weekly reports on military situation.

Comments on the April 11 Statement of Sir Edward Peacock on the Ownership of Lever Brothers Co., Boston.

Powers of the Treasury over Shipping.

Comments on the difficulties of selling direct investments encountered by the British.

Outline for pamphlet on economic warfare.

Non-Reimbursement and the Defense Commission.

The Defense Commission, Contracts and Government Protection.

The Morgan-British Demand Loan.

Past and Proposed setups for Certifying Non-Reimbursements.

Treasury Policy on Non-Reimbursement.

The Treasury and Proposed Certification Unit for Non-Reimbursement.

Status of Applications for Certificates of Necessity as of March 15, 1941.

The Treasury and Amortization.

Transactions in 3 percent mark funding bonds by American corporations.

British Direct Investments.

The Universal Corporation.

United States Employment Service.

Applications for Certificates of Non-Reimbursement submitted by Pratt and Whitney.

Abstract of MacKenzie King's Speech of March 25 on Canada's War Effort.

Canadian estimates of their gold and dollar balances.

British Treasury estimates of gold and other assets.

British-U.S. Dollar Requirements for Oil Imports.

British Estimates of Their Gold and U.S. Dollar Requirements outside the United States and Canada.

Valuation of Expropriated Foreign Oil Properties in Mexico.

Principal conclusions reached by Mr. B. Nititine in an article entitled "The Kurd Element in the International Situation in the Middle East".

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Explanation of discrepancy between our previous estimates of total Greek assets in this country and the figure reached from TFR-100 reports.

Chilean multiple exchange rates may be increasing the price of strategic materials to the United Kingdom.

Notes on the operation of the coffee agreement.

British exchange clearing in Central America.

Trade Agreements Committee consideration of a request for a modification of the Netherlands Trade Agreement.

Colombia's use of dollar exchange to settle compensation accounts.

Brazilian Decree Restricts Activities of Foreign Funds.

Reconsideration of the proposal for a quarterly Inter-American Treasury Bulletin.

Action of Trade Agreements Committee with reference to concession to Chile on copper and to a supplementary agreement with Cuba.

Treasury consideration of International Commodity Agreements.

Acting President of Argentina approving the stabilization credit by decree.

Further developments in Latin American dollar deposits for accounts ex-Hemisphere.

Argentine Trade Agreement.

Notes on Ecuador.

British Payment for Latin American Products.

Should the Treasury extend a Stabilization Fund credit to Venezuela?

Proposed trade agreement with Peru.

Memo on Latin American debt defaults prepared by the Coordinator's office.

Trade Agreement Negotiations with Argentina and Uruguay.

Inter-American Treasury Bulletin.

Trade Agreement with Chile.

Discussion with Foreign Funds Control officials concerning the procedure in obtaining Import-Export information.

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Proposal for a small statistical unit in New York to obtain foreign trade information for Foreign Funds Control.

Initiation of trade agreement negotiations with the United Kingdom, Australia, South Africa and New Zealand.

Mexico: Stabilization Credit and Silver Purchase Agreement.

Current activity of the Interdepartmental Committee on Inter-American Affairs.

Proposal for reorganization of the Foreign Bondholders' Protective Council and other steps furthering the settlement of Latin American debt defaults.

Argentine credits.

Colombian application for \$13 million Export-Import Bank loan.

Argentine abolishing prior-permit system.

Comments on Mr. Collado's memorandum of June 2 on the problem of blocked sterling.

Hawkins and Keynes on the proposed British Empire trade agreements.

Consideration of a stabilization credit to Colombia.

Actions of Mexican Country Committee of Interest to the Treasury.

Renewal of U.S.-Argentine Stabilization Agreement.

Philippines Export Control.

Preliminary memorandum on the wartime control of the capital market in Japan.

Results of the President's message of November 30, 1940, on financial aid to China.

U. S. Trade with French Indo-China, 1938-40.

Netherlands East Indies - Imports of Strategic and Critical Commodities, Total and from U.S.

Chinese Yuan Exchange Rates.

Indo-China Foreign Funds: Rubber.

Puerto Rico Land Problem.

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Exports to Japan of commodities under Export Control.

Sold from Spanish Jewelry.

Why do Axis-dominated Countries allow Remittances from the United States to their Citizens?

"The Credit Requirements of Small Manufacturing Corporations", by Charles L. Merwin, Jr.

Dollar Amounts Deposited in Free Dollar Accounts.

Tentative outline for a study of the problems of Securities in Foreign Funds Control.

Suggested problems concerning business enterprises and Foreign Funds Control.

Report on 12,597 TFR-132 Reports Reviewed for March.

Results of Tabulation of Stock Sales reported by "nationals" under General License No. 4.

International Money Transactions.

Letters submitted by reporting parties subsequent to the filing of TFR-100 Property Reports.

Freeing of Accounts of "Nationals" previously blocked.

Report on Statistical Uses of Form TFR-100.

Development of FFC Statistics.

Foreign Holdings of U.S. Property Subject to FFC Control.

Blocked Assets of Greek and of all other "nationals".

Comment on memorandum alleging the necessity of the continued importation of essential oils and natural aromatics.

Bulletin Presentation of Capital-Movement Statistics.

Report of Foreign Property Control Department of the Federal Reserve Bank of New York.

Report on Washington Operations of Foreign Funds Control.

Report on transactions effected under General License No. 11 or licensed under General Authorization No. 4c.

Dumping Cases completed:

Fresh tomatoes and cucumbers from Cuba and Mexico.  
Antifriction bearings and parts from Switzerland.  
Children's wool sweaters from England.  
Mexican handicraft articles from Mexico.  
Linoleum and felt-base floor covering from the United Kingdom.  
Stearic acid from Belgium.  
Oat mill feed from Canada.  
Optical glass from France.  
Clarinets and parts from France.  
Lighting carbons from Germany.  
Reeds for musical instruments from France.  
Window cleaners from Japan.  
Complete equipment for a gear-grinding machine factory, from England.  
Crude petroleum and petroleum products from Mexico.  
Petition for revocation of anti-dumping finding on glass frostings.  
Plywood from Japan.  
Woven fabrics of wool from Japan.  
Raincoats from England.  
Electrical reproducer sets from Canada.  
Casein fiber from Italy.  
Yeast-leavened bread from Canada.  
Amorphous graphite from Japan.

Correspondence:

259 Letters replied to.

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Current reports in addition to the above:

Daily report on transactions in domestic stocks (compiled from S.E.C. figures).

Weekly table: "Balances and Earmarked Gold Held for Foreign Account".

Weekly table "Net Capital and Gold Movements".

Material for monthly Treasury Bulletin.

In addition to the above, material falling into the following categories is also prepared:

1. A large number of tables on various items.
2. Reports on conferences in which this Division participates.
3. Participation in preparation of some of the statements and speeches by the Secretary.

afterthought;

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Mr. Norman Thompson's office has electric time stamp & Walker could stop in there with mail on his way to Mrs. Forbush's office.  
rc.

MEMORANDUM FOR MRS. KLOTZ.

In re: Delivery of Personal Mail.

July 15, 1941.

I am glad you are planning to get a more definite check on time of arrival of the personal mail. As you know, I am strong for stamping everything, and I have always known that by expediting the delivery of these, we have also left a gap which made it impossible to tell the time of arrival.

I have talked with Walker about this, and have thought it over myself, and I believe that your mail should be stamped on the envelope by an electric clock, rather than a hand stamp. The reason for this is that the hand stamp simply gives the date, no time, whereas the electric one is attached to a clock which ticks along all the time and gives the exact minute at which the letter is stamped in. No one can change it or has to adjust it, whereas anyone operating a hand stamp has to set it each day, and then write in the time. Thus, there is chance for error or to forget to jot down time of arrival, which makes it useless.

To get an electric stamp on the letters there are three possibilities. One is to put one in the mail room. As I told you, they are very expensive, and the Secretary might not think it a justifiable expense to stamp 12 or 15 letters a day at the most. Lt. Stephens has a stamp and Walker could use it, or one of your Messengers could, when the letters come upstairs around 8:30. We have a stamp and since Walker brings the mail upstairs direct from the mail room, it seems to me there would really be no loss of time in stamping your mail here, and since the business of this office

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Memorandum for Mrs. Klotz.

July 15, 1941.

is to handle and expedite mail, there is always someone here to attend to it, and someone who will put it first and not handle it as one of a number of pressing duties. My recommendation would be (a) the use of an electric clock, and (b) the use of the one in the Correspondence Division. Those points, of course, are for you to decide.

Almost invariably the personal mail for which you are looking comes in the first or second morning deliveries. Walker goes down for the first one about 20 past 8. In the mail room he sorts what he has been delivering to your office, and then brings everything upstairs.

Of course, there are many important and rush letters in the rest of the mail which he at once opens and stamps for me to route, and some of these must get down to you just as quickly as possible. I would suggest, therefore, that if you use our time stamp, a Messenger from your office be here at 25 past 8 to pick up your personal mail. Walker would have it ready, sorted and stamped, so that it would be downstairs by 8:30. (Of course the mail is not always delivered exactly on the dot, but this is a safe time schedule to use.)

Although practically all your letters come on this mail, sometimes, especially Mondays or after a holiday, there are others that Walker brings up at 9:10 or 9:15. I would suggest that when he brings the mail in here, I call for a Messenger at once to come up if there are additional letters for you. Or I could send one of the file-room girls on a rush trip, as I often do with other mail.

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Memorandum for Mrs. Klotz.

July 15, 1941.

During the course of the day there are very few, if any, letters of this type for you. For general information, I would like to make a check of one full day. There are seven mails in the course of the day -- 3 a.m., 4 p.m. -- and I would like to get an idea of how this is divided, but for the moment, it is safe to say that this gives a fair idea of the way it comes in.



G.S.F.

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