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MEMORANDUM

November 22, 1941.

TO: The Secretary
FROM: Mr. Sullivan
SUBJECT: Decentralization of compromise authority.

On Friday, November 21st, a conference was held in my office at which the following were present: Commissioner Helvering, Messrs. Cann, Kuhn and Sullivan.

During this conference the Commissioner and Mr. Cann outlined the prevailing practice of the Bureau in settling in the field tax matters involving doubtful liability and questionable ability to pay. Mr. Kuhn expressed your view as to the extension desired, and it was agreed by all that a memorandum should be prepared showing just what is done now, and that this memorandum be used as a basis for consideration of extension of this power, and whether or not legislation would be required to accomplish this. This memorandum will be ready on Wednesday, November 26th.

T H S

MEMORANDUM

November 22, 1941.

TO: The Secretary
FROM: Mr. Sullivan

Recently you asked Mr. Buffington and me to check with the Bureau of Internal Revenue to determine whether field offices are in a position to service taxpayers requiring information on their taxes. I am attaching hereto a memorandum from Commissioner Helvering. It is my opinion that the Bureau is in a position to service the taxpayers in the field. I believe, however, that there is and always will be room for extension of this activity. I am furnishing a copy of the Commissioner's memorandum to Mr. Kuhn and to Mr. Buffington.

JHS



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TREASURY DEPARTMENT
WASHINGTONOFFICE OF
COMMISSIONER OF INTERNAL REVENUEADDRESS REPLY TO
COMMISSIONER OF INTERNAL REVENUE
AND REFER TO
A&C

NOV 19 1941

MEMORANDUM for Assistant Secretary Sullivan:

Reference is made to your request for a memorandum which will serve as the basis for answering the inquiry of the Secretary as to whether or not the Collectors' offices are adequately prepared to advise taxpayers concerning their tax problems.

Each of the sixty-four collection districts, in addition to the Collector and the Assistant to the Collector, consists of five major divisions, the Income Tax Division, Miscellaneous Tax Division, Employment Tax Division, Cashier's Division and the Field Division. Each of these divisions has its Chief who is well versed in the tax subjects coming within the jurisdiction of his Division. In addition, depending upon the size of the District, there are assistant chiefs of the Divisions and correspondence clerks who have full knowledge of the laws and regulations and who are required to answer any inquiry submitted to the Collectors' offices in connection with tax matters. This plan of organization has been in effect for years and as a result, the employees are adequately trained to perform the functions of their positions.

It is safe to say that the collection districts are in a position to properly answer substantially all inquiries submitted personally or through the medium of correspondence. The employees assigned to the task of answering correspondence are well versed in the regulations and, of course, their experience makes it possible to give proper assistance on practical problems. In addition to the printed regulations, the Collectors' offices have the benefit of published rulings of the Chief Counsel's Office. Particularly in the answering of inquiries concerning income tax and employment tax matters do the Collectors' offices employees depend upon rulings from the Bureau in connection with cases involving similar principles. Every District has the benefit of either the Commerce Clearing House or the Prentice Hall Tax Service.

In connection with any questions submitted to them which can not be answered on the bases of the regulations or actual experience, the Collectors then present the matter to the Bureau for appropriate information. This represents a very small percentage of the inquiries.

It is certain that the collection districts will have a very difficult time during the next filing period, but it will not be because of a lack of knowledge of the requirements of the law and regulations but because of the tremendous volume of detailed work that must be performed within a very short period.

Paul H. Hering
Commissioner

MEMORANDUM

November 22, 1941.

TO: The Secretary
FROM: Mr. Sullivan

I attach hereto a memorandum from Commissioner Helvering outlining the activity of the Bureau in acquainting the public with their tax problems and attaching thereto various exhibits illustrating what has been done in the past. I have forwarded a copy to Mr. Kuhn and to Mr. Buffington.

JWS



TREASURY DEPARTMENT
WASHINGTON

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OFFICE OF
COMMISSIONER OF INTERNAL REVENUE

ADDRESS REPLY TO
COMMISSIONER OF INTERNAL REVENUE
AND REFER TO

November 19, 1941.

MEMORANDUM FOR Mr. John L. Sullivan,

Assistant Secretary of the Treasury.

The following statement outlines the steps that are being taken to bring to the attention of the public their obligations to file income tax returns and pay income taxes under the Revenue Act of 1941.

The Press

(1) Last year the articles "Your Federal Income Tax" were sent to more than 2,100 daily newspapers on the Treasury mailing list with a personal letter over my signature to the managing editor of each paper (Exhibit A). The first article was released January 27, 1941. This year the number of articles will be increased to 50 or more and the release of the first article will occur on or shortly after January 1, 1942. The manuscript for these articles is in course of preparation and will be completed on or about November 24. They are to be sent to the managing editors of nearly 2,200 daily papers on the Treasury mailing list with a personal letter over my signature thanking them for past courtesies and requesting their continued cooperation. A supply of the articles will also be sent to each collector of internal revenue for distribution to the press in his collection district.

(2) Separate releases, 8 or 10 in number, will be prepared and mailed to the weekly newspapers, of which there are about 11,000. These articles will be prepared on multilith or mimeograph machines thus saving some of the time and money that would be involved if they were printed.

(3) Special releases will be prepared for farm journals, educational journals, labor papers, trade papers, technical journals, etc.

(4) Special articles. Every year special writers from press associations and magazines call at the Bureau for information

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Memorandum for Mr. John L. Sullivan,
Assistant Secretary of the Treasury.

relating to income taxes upon which to base special articles to be published during the filing period. A large scrapbook in this office shows many examples of the special articles used by the press last year.

(5) Collectors of internal revenue in the majority of cases have close contact with the press in their respective districts. Clippings reached the Bureau showing that thousands of newspaper articles, many of which are illustrated, are published in newspapers throughout the country during the income tax filing period, evidencing the close and effective cooperation between collectors and the press.

Radio

(6) A year ago there were sent to all radio stations listed with the Federal Communications Commission 26 items of approximately 125 words each entitled "Income Tax Brevities" (Exhibit B) and 30 Spot Announcements of about 25 words each (Exhibit C). There are approximately 900 such radio stations and to each of them was sent a personal letter over my signature thanking them for their cooperation in the past and soliciting its continuance. The plan this year calls for increasing the number of items in both groups and sending them to the 900 radio stations with a personal letter early in January. These announcements will stress the simplified Form 1040A, call attention to the amount of weekly income that would make a return necessary and how much of that income will be used in paying the tax. The desirability of filing returns early will also be stressed.

(7) For the first time, this year plans are under way to have collectors of internal revenue make a series of radio talks to answer questions that may be propounded as the result of an invitation extended to the public over a national hook-up. The plan is to have the questions sent to the Bureau in Washington where the answers will be prepared and distributed to the collectors for use in their radio talks. The problem of contacting the national radio chains for the purpose of having them solicit the public through the medium of the air, for questions to be answered by "Mr. Income Tax" has been taken up with Mr. Schwarz by the Deputy Commissioner of the Income Tax Unit.

Notices

(8) The 64 collectors of internal revenue have been furnished with a draft of a notice (Exhibit D) to be sent to all employers in

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Memorandum for Mr. John L. Sullivan,
Assistant Secretary of the Treasury.

their respective districts with a letter of transmittal over the collector's signature, enlisting their cooperation to the extent of posting the notices in a conspicuous place on the employer's premises. The letter also asks the assistance of the employer in distributing income tax returns to those of their employees who did not file a return last year. The notice calls particular attention to the changes in the personal exemption and to the simplified Form 1040A. The notices and letters will be printed and furnished collectors for mailing to all employers represented in each collector's addressograph plate file in the Employment Tax Division. These letters and notices will go to approximately 2,171,000 employers with a total employment roll of about 33,000,000 persons.

Posters

(9) A poster has been prepared and 350,000 copies will be printed for distribution to post offices, banks and other establishments for display in public places. The poster deals specifically with the simplified Form 1040A and is directly applicable to that class of taxpayers who will be filing returns for the year 1941 for the first time. A statement regarding filing requirements is printed on the poster, thus aiding in the general publicity program. The poster also shows the dollar tax due, if the 1040A return is used, thus clearly showing the taxpayer what he owes the Government in taxes based upon the gross income received by him.

Information Returns

(10) The information return Form 1099 for 1942 (Exhibit E) has been improved over the form used last year by including greater details as to filing requirements and a statement as to optional use of Form 1040A. About 25,000,000 of these forms will be filed in 1942. A copy of this form, which is furnished each employee by the employer, constitutes one of the major systems of advice regarding the necessity of filing returns. The 15,000,000 taxpayers who filed individual returns last year will receive returns this year from the collectors' mailing lists. The additional 8,100,000 new taxpayers will be to a great extent in the employee class, hence a great majority will be advised of their tax filing responsibility through this information form.

Other Publicity Measures

(11) Each year the Bureau edits a pamphlet on income taxes issued by the American Automobile Association which in turn distributes it to motorists. Officials of the Internal Revenue Service,

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Memorandum for Mr. John L. Sullivan,
Assistant Secretary of the Treasury.

both in Washington and the field, appear before trade organizations, Chambers of Commerce, clubs, conventions and similar bodies to explain provisions of the income tax laws. Collectors endeavor to reach the farmers who are required to file returns under the new law, through cooperation with the county agents, or county committees of the Agricultural Adjustment Administration. In those collection districts where military camps are located the collectors assign some of their deputies to assist the soldiers in the preparation of their returns.

A great deal of success was attained during the last filing period as the result of arrangements made by collectors to have deputy collectors visit plants and factories for the purpose of assisting large groups of employees in the preparation of their returns. Similar action will be taken during the ensuing filing period.

It is felt that the publicity measures used last year were very effective, as is evidenced by the fact that it was originally estimated that 16,000,000 income tax returns of all classes would be filed in 1941. From January 1, 1941, to September 30, 1941, 16,083,211 returns were filed. The latter number will be considerably increased by returns filed during the last three months of this calendar year.


Commissioner

Attached;
Exhibits.

This letter bearing the pen signature of Commissioner Helvering was sent to more than 2100 newspapers on Treasury mailing list.



OFFICE OF
COMMISSIONER OF INTERNAL REVENUE

ADDRESS REPLY TO
COMMISSIONER OF INTERNAL REVENUE
AND REFER TO:

PUB:REL:JLM

TREASURY DEPARTMENT
WASHINGTON

EXHIBIT "A"

10

January 15, 1941.

Dear Sir:

For many years the newspapers of the country have cooperated with the Bureau of Internal Revenue by publishing information designed to assist taxpayers in preparing and filing their Federal income tax returns. For the part your paper has taken in this program I desire to express my sincere thanks.

The press has been particularly helpful during the income tax filing period each year by giving widespread publicity to a series of about thirty short articles issued by the Bureau under the general heading "Your Federal Income Tax." These articles contain information of vital interest and importance to the millions of persons whose Federal income tax returns are required to be filed not later than March 15 of each year.

This year, due to important changes made by the Revenue Act of 1940, the necessity of furnishing helpful information to prospective income tax payers is far greater than usual. The new law requires income tax returns to be filed by single individuals, or married individuals not living with husband or wife, having a GROSS INCOME of \$800 or more; and by married individuals living together having a combined GROSS INCOME of \$2,000 or more. Last year the exemption for a single individual was \$1,000 and for a married couple \$2,500. A year ago the net income was used in determining the liability for the filing of a Federal income tax return, while this year gross income is the basis. For these reasons millions of persons will be required to file returns this year who were formerly exempt.

These changes and other important facts will be explained in the series of "Your Federal Income Tax" articles which will be mailed to your paper within a week or two.

The purpose of this letter is to thank you for your cooperation in the past, and to express the hope that your newspaper will be able to use the articles this year.

Very truly yours,

Commissioner.

This letter bearing the pen signature of Commissioner Helvering was sent to all radio stations, about 900, on Federal Communications list.



TREASURY DEPARTMENT

WASHINGTON

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OFFICE OF
COMMISSIONER OF INTERNAL REVENUE

February 5, 1941

ADDRESSES REPLY TO
COMMISSIONER OF INTERNAL REVENUE
AND REFER TO
PUB:REL:JLM

EXHIBIT "B"

Dear Sirs:

In past years the Radio Broadcasting Stations of the country have generously cooperated with the Bureau of Internal Revenue by broadcasting between programs, as time permitted, brief announcements, advising the people to file their income tax returns promptly. This patriotic service has been much appreciated by us, and because it was so helpful, we are anxious that you render it again this year.

The Bureau estimates that fifteen million persons will file returns, practically double the number who filed them in 1940. It has increased its force of field deputies to care for this added work, but we realize the necessity of making the people more than ever income tax conscious, so that the returns will flow in in a constant stream and not in a last minute rush.

Your Station can make a decided contribution to this end; and as an aid to you in doing so we are enclosing two sets of scripts for your use.

A continuance of your fine cooperation will stir anew the gratitude of us all.

Very truly yours,

Enclosures.

Commissioner.

INCOME TAX BREVITIES

For use by

RADIO
BROADCASTING
STATIONSSuggested items of timely public interest
to fill gaps between scheduled
programs

and

Spot Announcements

Prepared by

TREASURY DEPARTMENT
BUREAU OF INTERNAL REVENUE

WASHINGTON, D. C.

1941

INCOME TAX BREVITIES

NO. 1

An Important Message From Your Uncle Sam.

Here is an important message from your Uncle Sam.

When you pay your income tax, you contribute to the National Defense program.

Now is the time to make out your income tax return and file it with the nearest Collector of Internal Revenue. If you wait, and everybody else waits, until March 15, to perform this duty, you may not make the deadline.

Have you ever been in one of those long lines at an Internal Revenue office the last week of the filing period, waiting restlessly for service?

What a waste of time and money! you exclaim.

Did you ever stop to think that you may be the cause of that waste? That you are the source of your own annoyance?

Save your time and save your money by filing your income tax return early.

National Defense cannot afford to wait.

* * * *

INCOME TAX BREVITIES

NO. 2

Who Files an Individual Income Tax Return.

Individual income tax returns for the calendar year 1940 must be filed by -

1. Single persons, or married persons not living with husband or wife, having a gross income of \$800 or more; and
2. Married persons living together and having a combined gross income of \$2,000 or more.

The liability of a citizen or resident of the United States to file a return is determined by his status as a married or single person and the amount of his or her gross income.

If a single individual received \$800 or more or a married individual received \$2,000 or more, but finds that allowable deductions make his return nontaxable, that does not relieve him of the responsibility of filing a return.

There should be no doubt in your mind as to your liability for filing a return, if you are a single person and received \$800 or more or if you are a married person and received \$2,000 or more.

There is certainly no doubt at all about your responsibility to aid the National Defense by filing your income tax return promptly.

* * * *

INCOME TAX BREVITIES

NO. 3

How to Make Out Your Income Tax Return.

If you have ever made out an income tax return, you know that your Uncle Sam gives you ample instructions how to do it.

Attached to the Form you will have to use you will find two pages of directions on how to fill out the return and compute the tax.

Read the instructions over until you understand them before you begin to answer the questions on the Form you are filling out.

Should you not understand the instructions, consult with or write your nearest Collector of Internal Revenue. He will answer your inquiries, and settle your doubts.

Why not do this today?

When you put off filing your income tax return, you are delaying the National Defense program. That you do not want to do.

* * * *

INCOME TAX BREVITIES

NO. 4

Service to the Income Taxpayer.

Uncle Sam offers an almost unrivaled service of help to the income taxpayer.

Attached to the sixty-four Internal Revenue collection districts in the United States are more than 4,000 field deputies.

In as many of these districts as possible, and necessary, the Bureau of Internal Revenue conducted schools of instruction for this corps of field deputies, the purpose being to train them for income tax work.

Where the school was not feasible, the Collector held classes in his office for the new personnel, to acquaint them with the duties they are now performing.

Even this augmented and highly trained force cannot properly serve the millions who will file returns unless they co-operate with the Collectors by filing promptly.

This year the Collectors collect the defense tax at the same time they do the income tax, and will handle double the number of returns handled last year.

* * * *

INCOME TAX BREVITIES

NO. 5

Your Income Is Reported by Others, too.

If you are liable for filing an income tax return, do it now. Uncle Sam has many ways of finding you out.

Your employer, no matter who he is, must file with the Collector of Internal Revenue your name and the salary or wages he paid you in 1940, also the bonuses or other forms of compensation, if the gross amount is \$800 (if you are a single person), or \$2,000 or more (if you are married).

You will get a form, if your name is on the tax rolls; but if you do not, this does not relieve you of the responsibility of filing a return.

The Collector of Internal Revenue nearest you will send you the Form you need, if you apply to him through the usual channels of communication.

This may be the first time you have ever filed a return. If so, it is a proud moment in your life. When you pay an income tax, you share in the defense program. Sharing in that is not only a duty but a great privilege.

* * * *

INCOME TAX BREVITIES

NO. 6

Use the Right Form in Making Out a Return.

Income tax returns are filed on Form 1040 and Form 1040-A. Those who paid income tax last year have already received a Form for this year's filing from the Collector of Internal Revenue. If the form received this year is not the proper one as indicated by the instructions on the form, application should be made to the Collector for the proper form.

This year several million persons who never before paid an income tax will have to file returns. Many of these individuals will make a contribution to the National Defense program. They can get the proper Form by applying to the nearest Collector of Internal Revenue.

If the individual's gross income in 1940 was not in excess of \$5,000, and was received from salaries, wages, dividends, interest or annuities, he should use Form 1040-A in making out the return. If it was in excess of \$5,000, or was received from other sources regardless of amount, Form 1040 should be used.

Avoid running into difficulties by using the correct Form.

* * * *

INCOME TAX BREVITIES

NO. 7

The Passing of the Green Sheet.

Those who file income tax returns this year will find their labors cut in half. No duplicate return need be filed.

The Green copy is out.

In former years millions of green copies were filled out by those who filed returns. That consumed a lot of time and a lot of paper.

The green copies were for the use of State authorities, checking for the benefit of county and municipal authorities in determining liabilities for political sub-division taxes.

They served their day - well and faithfully. The States and counties and towns now have their own lists of taxpayers. If, however, they wish to see any of the Federal returns, they can do so - upon written request of the Governor of the State, designating the representative of his State to make the inspection.

No taxpayers mourn the passing of the green sheet. If you do not file your income tax return promptly, and that slows up the National Defense, many of us may mourn.

* * * *

INCOME TAX BREVITIES

NO. 8

Information Returns.

An individual income tax return consists of a single folded sheet of paper, on which the filer reports his gross income and other required data.

The Bureau of Internal Revenue checks this information to see if it is correct.

Employers and others are required to report, under oath, on Form 1099, all "payments of fixed or determinable income to another, in the calendar year, of \$800 or more." Payments of salaries, or other compensation for personal services, aggregating less than \$2000 made to a married individual are not required to be reported.

These reports are attached to the income tax returns, and the auditor uses them as a check against the taxpayer's figures.

Last year 21,350,000 "information at source" reports were filed with the Commissioner of Internal Revenue.

Form 1099 is a monitor, aiding you to be accurate in making out your income tax return and assisting the revenue agent to check.

National Defense says: Why not do it now?

* * * *

INCOME TAX BREVITIES

NO. 9

The Head of a Family.

The Internal Revenue Code recognizes only two classes of individuals who are liable for income tax - single persons and married persons. It makes provision, however, in the personal exemptions, for another person, who is called "the head of a family." This person may be single, or a widowed father or mother.

As defined by the Regulations, for income tax purposes, the head of a family is: an individual who actually supports in one household one or more dependents who must be closely connected with him by blood, by marriage, or by adoption. His right to govern this household and support his dependents must be based on a legal or moral obligation. As such, he may claim \$2,000 exemption. Nevertheless he will be required to file a return if his gross income for the year is \$800, or more.

The head of a family has an important place in society, and the law recognizes it; but it does not relieve him of the duty of filing an income tax return, even though it is non-taxable. If it is taxable, it is his privilege to share in the National Defense.

* * * *

INCOME TAX BREVITIES

NO. 10

Hymen and Your Personal Exemption.

Poets and income tax experts alike pay tribute to Hymen, the god of marriage, though, truth to tell, the tax experts concern themselves only with the financial status of the newly-weds.

Consider the case of two young persons, each having incomes, who were married on June 30, 1940. In their conjugal state their tax liability depends upon their combined gross income.

But what about their exemptions?

Each was single six months of the year; they have been married for six months. The law allows them to prorate their exemption on this basis; each \$400 for the first period of the year, unless they were in fact entitled to a head of a family status, and together \$1,000 for the second period.

If either of them was the head of a family during the first six months of the year, he or she would be entitled to a prorata share of a personal exemption of \$2,000.

Their interest in this, however, is not so great as their interest in National Defense. All the more reason why they should file their returns now.

* * * *

INCOME TAX BREVITIES

NO. 11

Deductions for Losses.

Losses sustained by an individual may be deducted from his gross income on his income tax return. To be allowed, however, they must follow closely the wording of the Internal Revenue Code.

Losses to the extent not compensated for by insurance or otherwise are deductible if incurred -

1. In the taxpayer's trade, business or profession;
2. In any transaction entered into for profit;
3. From fires, storms, shipwreck, or other casualties, or from theft.

Losses from wagering are deductible only to the extent of the gains received from wagering. The net loss from such transactions may not be deducted from income received from other sources.

In general, such losses must be actually sustained during the taxable period for which they are claimed and must be bona fide and identifiable by evidence that can be checked.

* * * *

INCOME TAX BREVITIES

NO. 12

Deduction for Traveling Expenses.

In the conduct of a business, traveling expenses is an important item with many income taxpayers. Such expenses are deductible from the filer's gross income on a return; but the Bureau of Internal Revenue lays down certain regulations which must be observed to obtain the deductions.

The expenses must be reasonable and legitimate, and necessary to the operation of the business in which the taxpayer is engaged.

The taxpayer must set down the number of days he was away from home during the taxable year on account of business, the total sum he paid for traveling, for lodgings and for meals, and the amounts of "other expenses" incident to his journeyings.

Tips, provided they are reasonable in amount, may be included in "other expenses".

* * * *

INCOME TAX BREVITIES

NO. 13

Income Tax Filing Basis is Now Gross Income.

The liability for filing a Federal income tax return this year is based on gross income. Heretofore it was based on net income.

For tax purposes, generally speaking, gross income includes gains, profits and income derived from salaries, wages or compensation for personal service of whatever kind and in whatever form paid, or gains or profits and income derived from any source whatever, except gifts, inheritances, and other items specifically excluded by law.

The regulations say that all amounts received, including prizes, awards, bonuses, retiring allowances for past services and honorariums of every kind are part of one's gross income.

Professional men have many sources of income to report. A minister of the gospel, for instance, if he is liable, must return, in addition to his salary, all the fees he received for any rite or office of the church he may have performed.

Income tax paid contributes to the National Defense.

* * * *

INCOME TAX BREVITIES

NO. 14

What You Get For Your Income Tax.

The person who pays an income tax gets a bigger return on his money than does the taxpayer of any other civilized country in the world.

It is a token of his citizenship. To be an American is to be the peer of any man.

It guarantees him the protection of the most powerful Nation on earth. Without the revenue derived from this tax, much of the power of the Nation would diminish.

It makes him a partner with his Government in all of its activities. That is a great inspiration to the honest pride and self-respect of any man.

It safeguards those inalienable rights guaranteed him by the great charter of his liberties - the Constitution.

No man who is not ashamed of his country should or does think it anything but a privilege to pay an income tax.

This year there is a tremendous incentive for doing so - the National Defense program is financed substantially through the income tax. The more reason to file your return now.

* * * *

INCOME TAX BREVITIES

NO. 15

Why Overpay Your Income Tax?

Last year many persons made errors against themselves in their income tax returns, and paid the Government more than they owed. Uncle Sam will refund these overpayments.

Much of this might have been avoided, if the taxpayer had followed the instructions in making out his return.

By filing a correct return he can save himself time (which once gone, can never be recaptured), and money (which he may need while it is in Uncle Sam's hands).

While the instructions accompanying the tax forms are carefully prepared, if you are in serious doubt as to the accuracy of your income tax return, consult the nearest Collector or Deputy Collector of Internal Revenue.

Use this service now if you really need help. National Defense cannot wait.

* * * *

INCOME TAX BREVITIES.

NO. 16

Items Exempt From Income Tax.

There are several items of income that are exempt from the Federal income tax, as follows:

1. Proceeds of life insurance paid by reason of the death of the insured.
2. Amounts received under life insurance or endowment contract, which are less than or exactly equal to the premiums or consideration paid therefor.
3. Gifts, bequests, devises, or inheritances.
4. Interest on obligations of the District of Columbia, any Territory, State, county, or municipality.
5. Interest on certain bonds issued by the United States Government or its possessions, and on Federal farm-loan bonds.
6. Amounts received through accident or health insurance or under workmen's compensation acts for personal injury or sickness, and damages received on account of such injuries or sickness.
7. Pensions and compensations received by Veterans from the United States for services rendered in time of war.
8. Pensions received by the family of a Veteran for services rendered to the United States.
9. Alimony and an allowance based on a separation agreement.
10. The rental value of a house and its appurtenances furnished a minister of the gospel as part of his compensation.

* * * *

INCOME TAX BREVITIES

NO. 17

A Challenge to America.

"It is not enough to defend our national existence", said President Roosevelt in his Message to Congress. "Democracy as a way of life is equally at stake."

This is the heart and soul, the inspiration of our National Defense program.

The dictators are bent on world domination - and that means destruction of our form of government.

They have challenged the ability of the democracies to employ their full resources against them.

Our Nation has accepted this challenge, and every resource at its command is being organized to meet it.

The great army of income taxpayers has a definite part in this program - not by bearing arms, not by producing planes, not by building warships - but by providing some of the revenue for financing National Defense.

Do not delay, then, in filing your income tax return.

* * * *

INCOME TAX BREVITIES

NO. 18

State, County and City Employees.

Time was when the salaries of the officials and employees of States, counties, municipalities and other political subdivisions were exempt from the income tax - but those days are gone.

The Federal income tax reaches taxpayers in every walk of life.

Every official or employee of a State or local government unit must file an income tax return, if single and his gross income is \$800 or more, or, if married, and it is \$2,000 or more.

The responsibility for getting the necessary income tax Form is theirs. If any of them needs assistance in filling out the return, the local offices of the Collector or Deputy Collector of Internal Revenue will help them.

They, too, have a part in the National Defense program, and should not delay in filing their returns.

* * * *

INCOME TAX BREVITIES

NO. 19

Great Caesar and Your Income Tax.

Great Caesar, while walking the streets of Rome, was stopped by a soothsayer, who said to him: "Beware the Ides of March!"

The warning went unheeded, and great Caesar lost his life.

All of us know an old gentleman whom we call Uncle Sam. A mythical person he is to every one of us, but he is the symbol of the might and power of our Nation and our Government.

If you listen closely, you will hear him say: "Beware the Ides of March!"

March 15th is the last day on which you may file your income tax return. If you fail to do this, you will not meet great Caesar's fate, but you will have to pay a penalty.

National Defense also reminds you of great Caesar. The tax which is now being collected with the income tax will be used to keep enemies from our shores.

Your duty is plain. File your income tax return now.

* * * *

INCOME TAX BREVITIES

NO. 20

Keeping Step With an Old Custom.

The Bureau of Internal Revenue is using many ways to notify the wage earners of America that they may be liable for the income tax.

Collectors of Internal Revenue have sent to all employers whose names are on the tax rolls printed notices calling attention to the important changes in the income tax law, and asked them to post these notices in conspicuous places on their premises for their employees to see.

This is following one of our oldest national customs. What is so familiar as the bulletin board in a courthouse, post-office, church, factory or club?

People will stop to read a notice on a bulletin board who would not halt to hear someone tell them what is in that notice.

Millions of men and women who have never filed an income tax return will be liable for filing one this year. Many of them work in mills and factories. They may be notified of their liability over the radio and through the newspaper, but somehow the bulletin board is part of their daily life, too. All three are used by the Government in telling the people of the National Defense program and the part the income tax has in it.

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INCOME TAX BREVITIES

NO. 21

Deductions for Contributions.

Some latitude is given the taxpayer in allowing deductions for contributions on his income tax return. In general, the deduction is limited, in the case of individuals, to 15 percent of the net income exclusive of contributions.

The organization to which the gift is made must be an institution created and organized in the United States and operated exclusively for religious, charitable, scientific, literary, or educational purposes, or for the prevention of cruelty to children or animals.

Gifts made to the special fund for vocational rehabilitation of World War Veterans, to posts or organizations of war veterans or auxiliary units or societies of such posts or organizations, or to a domestic fraternal society, order or association, operating under the lodge system (if such gifts are used as the law indicates), are also deductible.

If the contributions are made to a church, they may include pew rent, assessments, dues, gifts to a missionary enterprise, or to other religious activities.

Contributions for exclusively public use may be made to the United States, as the gift of a yacht for National Defense, or to any State or political subdivision thereof - like land for a public park.

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INCOME TAX BREVITIES

NO. 22

The Taxpayer's Duty.

In his Budget Message to Congress the President said:

"The threatening world situation forces us to build up land, sea and air forces able to meet and master any contingency. It is dangerous to prepare for a little defense. It is safe only to prepare for total defense."

Who disputes this? Every true American is united behind the President in the program for total National Defense.

This program will cost huge sums of money. All of us know that. They are to be raised by taxation. Nobody resents that.

Taxpayers - your duty is clear. Speed up National Defense by filing your income tax return now.

* * * *

INCOME TAX BREVITIES

NO. 23

Make Your Income Tax Return Accurate

An income tax return made by an individual whose sole source of income is compensation for personal services is not a complex document.

He was paid so much money; the instructions with the return advise him as to his exemption and as to his credits, all of his income is earned, and the credit on that account is easily computed. The tax on the balance he can calculate without difficulty if he follows the instructions with the return.

In cases where an individual has wilfully made a false return, the delinquency may cost him a fine of \$10,000, or five years in prison, or both, together with costs of prosecution, in addition to the tax penalties.

The honest person does not tempt the long arm of the law. He makes out his return accurately. This year he should file it promptly, to speed up National Defense.

* * * *

INCOME TAX BREVITIES

NO. 24

Filing an Income Tax Return Is No Burden.

Nearly nine million income tax returns were filed in 1940, and more than half of them were not taxable.

The law requires an income tax return to be filed by single persons if their gross income was \$800.00 or more and by married persons if their gross income was \$2,000.00 or more regardless of the fact that the net income may not be sufficient in amount to be taxable.

Each individual is required to compute the tax due upon the basis of the income shown on the return. Authority to check to determine the accuracy of his computation is lodged in the Bureau of Internal Revenue.

How can the Bureau determine if a return is taxable until it sees it? And how can it see it unless it is filed?

A general rule establishing a base for computing the tax was found to be the only fair and reasonable method of reaching all incomes liable for taxation.

Certain exemptions and credits are allowed, and the Bureau must pass on these.

In all the years the income tax has been levied, no person has ever complained that the mere ministerial act of filing a return was a burden.

National Defense is an added reason why you should not delay in filing now.

* * * *

INCOME TAX BREVITIES

No. 25

Housewives Have An Interest In Income Tax.

Many housewives will file income tax returns this year; many more will remind their husbands to do so. They, too, have a direct and positive interest in National Defense, and will want to know something about the much-talked-of income tax return.

The present income tax return is the product of the common experience of tax experts within and without the Bureau. By following the instructions on the income tax form the taxpayer cannot go wrong.

National Defense says: Hurry up with this!

* * * *

INCOME TAX BREVITIES

NO. 26

Wagering As a Source of Income.

Gains from wagering are a source of income. Those who indulge in this pastime are required to keep a record of their winnings, and report them, in their sworn income tax returns, as part of their gross income.

No wagerer wins all the time. The fabulous gamblers of history, whose luck was proverbial and whose winnings were said to be enormous, often had corresponding losses.

The average wagerer sometimes finds himself on the losing end of a wager. He is not required to keep an account of such losses, but he may do so and report them in his income tax return as a claim for deduction from his gross income.

Should the balance sheet of his wagering account show all losses and no gains, he will be allowed to deduct nothing. He can deduct no more than he has gained. That is the law.

In preparing your income tax return be sure to report every item of your gross income. In this way you will be helping on the National Defense program.

* * * *

Exhibit "C"

INCOME TAX BREVITIES

For use by
RADIO BROADCASTING STATIONS

1941

SPOT ANNOUNCEMENT

Use care in making out your income tax return. This may save you time, annoyance and unnecessary expense. The sooner you file it the better.

INCOME TAX BREVITIES

SPOT ANNOUNCEMENT

* * * * *

Many persons overpay the Government on their income tax. This is avoidable if the instructions on the Form are followed. Are you in this number?

* * * * *

INCOME TAX BREVITIES

SPOT ANNOUNCEMENT

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Uncle Sam has experts who will help you make out your income tax return. This costs you nothing. Consult the nearest Collector of Internal Revenue.

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INCOME TAX BREVITIES

SPOT ANNOUNCEMENT

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When you pay your income tax you become a partner of your Government. This is a high privilege. Show your appreciation by filing your return today.

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INCOME TAX BREVITIES

SPOT ANNOUNCEMENT

* * * * *

National Defense is a burden all of us wish to share, one way or another. You contribute directly to it when you pay your income tax. Pay it today.

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INCOME TAX BREVITIES

SPOT ANNOUNCEMENT

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The basis now for filing a return is the gross income. Remember this in making out your return, and file it promptly.

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INCOME TAX BREVITIES

SPOT ANNOUNCEMENT

* * * * *

If you wait until the last moment to file your income tax return,
you may not get it in in time. That will cost you money. File it today.

* * * * *

INCOME TAX BREVITIES

SPOT ANNOUNCEMENT

* * * * *

If you need assistance, there is a Collector of Internal Revenue or a Revenue Agent near you who will help you make out your income tax return. His services cost you nothing.

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INCOME TAX BREVITIES

SPOT ANNOUNCEMENT

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Every single person whose gross income is \$800 or more a year must file an income tax return. It may not be taxable, but it must be filed. Get yours in at once.

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INCOME TAX BREVITIES

SPOT ANNOUNCEMENT

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Every married person living with husband or wife, if their aggregate gross income is \$2,000 or more a year, must file an income tax return. Do not postpone this action.

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INCOME TAX BREVITIES

SPOT ANNOUNCEMENT

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income tax return must be filed by midnight March 15. Why
last minute rush? Make out your return and file it today.

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INCOME TAX BREVITIES

SPOT ANNOUNCEMENT

If you are the head of a family, you can claim \$2,000 exemption and a credit of \$400 for each dependent. Remember this, and file your return today.

INCOME TAX BREVITIES

SPOT ANNOUNCEMENT

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A single person may be classed as the head of a family for income tax purposes. Read the instructions before making out your return, and file it now.

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INCOME TAX BREVITIES

SPOT ANNOUNCEMENT

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The exemptions allowed to income tax payers are \$800 for a single person and \$2,000 for a married person or the head of a family.

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INCOME TAX BREVITIES

SPOT ANNOUNCEMENT

* * * * *

Keep the data from which your income tax return is compiled. You may need it for verification when Uncle Sam audits it. Why not file the return today?

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INCOME TAX BREVITIES

SPOT ANNOUNCEMENT

* * * * *

You may pay your income tax in four quarterly instalments: the first with your return, then on June 15, September 15 and December 15. But you should file your return at once.

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INCOME TAX BREVITIES

SPOT ANNOUNCEMENT

* * * * *

Fifteen million persons, it is estimated, will file income tax returns this year. Receiving them is an immense job. Do not delay in filing your return.

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INCOME TAX BREVITIES

SPOT ANNOUNCEMENT

Ignorance of the law will not protect you, if you fail to file your income tax return. Get the Form today, if you haven't done so. And fill it out now.

INCOME TAX BREVITIES

SPOT ANNOUNCEMENT

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You may pay your income tax by check or by money order. Do not send cash through the mail, or pay cash to any one except a Collector of Internal Revenue.

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INCOME TAX BREVITIES

SPOT ANNOUNCEMENT

* * * * *

Uncle Sam has many ways of finding out if you have not filed your income tax return. Rest easy at night by filing yours at once.

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INCOME TAX BREVITIES

SPOT ANNOUNCEMENT

* * * * *

There is a Collector of Internal Revenue near you who will answer any question you ask about your income tax return. Consult him now if you need help and avoid errors.

* * * * *

INCOME TAX BREVITIES

SPOT ANNOUNCEMENT

* * * * *

If you wait until March 15, to file your income tax return, and everybody else does the same, many of you may not get them in. Avoid the rush.

* * * * *

INCOME TAX BREVITIES

SPOT ANNOUNCEMENT

* * * * *

Haste makes waste is a very old and true proverb. Your income tax return is too important to be made out in a hurry. Do it and file it now before time rushes you.

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INCOME TAX BREVITIES

SPOT ANNOUNCEMENT

* * * * *

Instructions on the income tax Forms will guide you in making out your return. Read them carefully now and tackle the job at once.

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INCOME TAX BREVITIES

SPOT ANNOUNCEMENT

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As a good citizen, you owe it to yourself and to your Government to file your income tax return early. Be sure that it is accurate and file it now.

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INCOME TAX BREVITIES

SPOT ANNOUNCEMENT

* * * * *

If you need help consult your local Collector of Internal Revenue and avoid errors in your income tax return. He will charge you nothing for his services.

* * * * *

INCOME TAX BREVITIES

SPOT ANNOUNCEMENT

* * * * *

There is always satisfaction in doing a good job. The best job income tax payers can do is to file their returns now. What do you gain by waiting?

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INCOME TAX BREVITIES

SPOT ANNOUNCEMENT

* * * * *

An income-tax bottle-neck is like all other bottle-necks. Only so many returns can pass through it in a day. File yours now.

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INCOME TAX BREVITIES

SPOT ANNOUNCEMENT

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The man who files his income tax return early naturally gets more convenient service than can be given to him who waits until the very last moment.

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INCOME TAX BREVITIES

SPOT ANNOUNCEMENT

* * * * *

Eight million persons will file an income tax return this year for the first time. The return is easy to prepare. Do it now and file it at once.

* * * * *

TREASURY DEPARTMENT
Office of Commissioner of Internal Revenue
Washington, D. C.

70

A&C-Mimeograph
Coll. No. 5279

October 29, 1941.

Distribution of Income Tax Return
Blanks to New Taxpayers.
(Supplemental to A&C-Mimeograph Coll. No. 5123).

COLLECTORS OF INTERNAL REVENUE:

Reference is made to A&C-Mimeograph Coll. No. 5123, dated October 23, 1940, relative to the distribution of income tax return blanks to new taxpayers who, for the first time, were required by the provisions of the First Revenue Act of 1940 to file returns.

The Revenue Act of 1941 has lowered the personal exemption bases to \$750 for single individuals and \$1,500 for married individuals, thus affecting a large number of individuals who, heretofore, have not been required to file returns. Therefore, as in the past, a campaign of publicity bearing upon such change will be conducted through the media of the radio, the newspapers and other publications. Collectors will be expected to augment the Bureau's efforts along this line by seeking the cooperation of local newspapers, radio stations, publishers of trade journals, etc.

There is enclosed herewith a draft of a notice, a supply of which will be printed and distributed to Collectors, calling attention to the change in the income tax law, with respect to the personal exemption as provided by the Revenue Act of 1941.

There is also enclosed a draft of a letter to be sent to all employers, as represented in the addressograph plate file in the Employment Tax Division, soliciting their cooperation in posting these notices in conspicuous places on their premises, and seeking their assistance in solving the problem of furnishing blank forms of returns to those of their employees who will be required for the first time to file returns. The letter to employers will also be printed and an adequate supply thereof will be forwarded to you with the printed notices. The letter will be printed on letterheads and the Collector's office will complete them by stamping thereon the district address and the Collector's name. The procedure outlined in Mimeograph Coll. No. 5123 will be followed substantially in the distribution of the several forms of returns, as well as information returns, Form 1099, for the taxable year 1941.

Correspondence with regard to the instructions outlined herein should refer to the number of this mimeograph and to the symbols A&C:Col.

NORMAN D. CANN,
Acting Commissioner.

Enclosures.

NOTICE

CHANGE IN PERSONAL EXEMPTION BASES FOR
FEDERAL INCOME TAX PURPOSES

The enactment of the Revenue Act of 1941 has resulted in an important change with respect to the liability of individuals for the filing of income tax returns. Individuals under the following circumstances will be required to file returns covering the calendar year 1941.

Single individuals, or married individuals not living with husband or wife, having a GROSS INCOME of \$750 or more.

Married individuals living together having a combined GROSS INCOME of \$1,500 or more.

The liability of a citizen or resident of the United States to file a return is dependent upon his status as a married or single person, and the amount of his GROSS INCOME. Therefore, every citizen or resident of the United States will be required to file a return for the taxable year 1941 if his GROSS INCOME in 1941, regardless of the amount of his net income, equals or exceeds the amount specified above for his particular status. A return must be filed even though, by reason of allowable deductions from gross income and of allowable credits against net income, it develops that no tax is due.

A simplified return, Form 1040A, has been provided and may be used if gross income is not more than \$3,000 and if such income consists wholly of salaries, wages, other compensation for personal services, dividends, interest, rent, annuities or royalties. However, Form 1040 may be used if desired. Form 1040 must be used for GROSS INCOME of more than \$3,000 from salaries, wages, interest, dividends, rents, royalties and annuities; or if any part of the income is derived from sources other than salaries, wages, interest, dividends, rents, royalties or annuities. Form 1040 should be used regardless of the amount of the income. While returns must be filed on or before March 15, 1942, with the Collector of Internal Revenue for the district in which the taxpayer resides, it is urged that they be filed as soon as possible after January 1st.

Individuals who filed Federal income tax returns for the year 1940 will receive appropriate blank return forms from the Collector of Internal Revenue. If an individual is in doubt as to his liability for the filing of a return and if his employer has no blank return forms available, a request should be made of the Collector of Internal Revenue for the district in which the individual resides, or of any deputy collector stationed in the vicinity, for the appropriate 1941 individual income tax return blank and the printed instructions accompanying the form.

Failure of individuals, under the circumstances outlined above, to file returns will subject them to the imposition of the penalties prescribed by law.

(Enclosure to AAG-Mimeograph
Coll. No. 5279).

TREASURY DEPARTMENT
OFFICE OF COLLECTOR OF INTERNAL REVENUE
(Designate District)

72

Dear Employer:

The Revenue Act of 1941 provides, among other things, that, effective with returns for the calendar year 1941, the personal exemption for income tax purposes in the case of single persons shall be \$750 instead of \$800 as last year, and in the case of married persons, living together, \$1500 instead of \$2000. The Act further provides (as did the First Revenue Act of 1940) that the gross and not the net income shall be the determining factor with respect to the liability for the filing of income tax returns.

Naturally, the change in the law with respect to the personal exemption will affect many individuals who have not heretofore filed Federal income tax returns. Without any intention or desire to impose upon you, the purpose of this letter is to respectfully enlist your cooperation with this office to the extent of posting the enclosed notice in a conspicuous place on the premises of your establishment for the information and guidance of your employees. Additional copies of this notice may be obtained from this office upon request.

While the Bureau of Internal Revenue is giving all possible publicity to important changes in the law, it is believed that with your assistance none of your employees, because of a lack of knowledge of the requirements, will fail to file returns for the calendar year 1941 and thereby become liable to the penalties provided by law for such failure. The distribution of blank forms to individuals liable for the filing of income tax returns presents a serious problem to this office. In the belief that you would be willing to cooperate with your Government in this important task, it is respectfully suggested that you can assist further by advising this office of the number of Forms 1040 and 1040A which will be needed by your employees for the filing of their returns. Those of your employees who filed returns for the year 1940 will receive appropriate blank return forms by mail from the Collector and it will be appreciated if you will take this into consideration when estimating the number of forms you will need. Promptly upon receipt of such advice from you, the necessary forms will be immediately forwarded to you for distribution to the employees who will need them. The circumstances under which Forms 1040 and 1040A shall be used are fully explained in the enclosed NOTICE.

By reason of the change in the law referred to above, it is quite possible you will be required to report an additional number of employees on Form 1099, information return (copy enclosed), and will, therefore, need more of these forms than heretofore. They are now available in this office and the desired number will be furnished you upon request.

This office is reluctant to impose any serious burden upon you and yet I am sure you will realize that such cooperation on your part will mean much to this office in its desire to fully administer the revenue laws as enacted by Congress.

Very truly yours,

Collector.

Form 1099
TREASURY DEPARTMENT
INTERNAL REVENUE SERVICE

UNITED STATES
INFORMATION RETURN FOR
CALENDAR YEAR 1941

INSTRUCTIONS TO PAYORS

Prepare one of these forms for each
in accordance with the instructions
return Form 1096.

Do not include payments to non-
resident aliens reported on Form 1042.
Forward with return Form 1096
to reach the Commissioner of
Internal Revenue, Returns Distribu-
tion Section, Washington, D. C., on
or before February 15, 1942.

A copy of this form as filed with the
return should be furnished to the
employee whose income is reported
in column to assist him in pre-
paring his income tax return.

To
WHOM
PAID

AMOUNT PAID

Employee's social
security number,
if any _____

(Full name and home address) (If employee is a married woman, name of husband should also be furnished)

KIND AND AMOUNT OF INCOME PAID

SALARIES, WAGES, FEES, COMMISSIONS, BONUSES (If single \$750 or more, if married \$1,000 or more)	INTEREST ON NOTES, MORTGAGES, ETC.	RENTS AND ROYALTIES	OTHER FIXED OR DETERMINABLE INCOME	FOREIGN ITEMS (\$750 or more)	DIVIDENDS (\$100 or more) (Total paid, includ- ing amounts claimed on taxable)
(\$750 or more aggregate amount of above items)					
\$	\$	\$	\$	\$	\$
☐ SINGLE					
MARRIED ☐					

By
WHOM
PAID
(Name and
address)

10-23479

(OVER)

TENTATIVE STERLING AREA BALANCE SHEET
NOVEMBER 1, 1941 TO MAY 1, 1942.

(In Millions of Dollars)

PAYMENTS

On E.P.C. Commitments	435	
Shipping, Films, Interest, etc.....	90	(1)
Other goods and services, urgent or ineligible for lend-lease.....	140	(2)
Payments by rest of sterling area	280	
Gold and dollar payments to third countries..	60	
	<u>1,005</u>	

RECEIPTS

U.K. Exports, visible and invisible	120	
Rest of sterling exports, visible and invisible	365	(3)
GOLD RECEIPTS:		
New production and disbanding	290	
Special sale by South Africa	60	
Unidentifiable receipts of Empire Countries .	-	(4)
	<u>835</u>	
Gold and dollar deficit in six months, 1st November to 1st May next	170	
Gold and dollar balance at 1st November 1941	392	(5)
To be received under RFC loan	125	
Reinstated gold and dollar balance as at May 1st ...	347	(6)

- (1) May Shipping \$30 M., Films & 40 M., Other \$110 M. - year.
Films have been increased since last return by new agreement.
Shipping payments tending to fall a little.
- (2) Includes half (say \$30 millions) of our 1942 purchases of
Cuban sugar and molasses amounting to \$60 millions or more,
which may be ineligible for lend-lease.
- (3) Allowing \$40 millions for sale of strategic stock of
Australian wool to RFC.
- (4) A residual item of \$150 M. viz; \$300 M. a year was included
in last six monthly estimate. Experience of last three months
suggests that this residual item is probably now running much
lower.
- (5) In addition we hold \$105 millions gold borrowed from Belgium
and \$10 millions gold reserve scattered.
- (6) Plus "unidentifiable receipts" for six months, plus whatever
may be realised by 1st May by take-outs not yet finalised.

Handed to Mr. White by Sir Frederick, Nov 21, 1941

-2-

From the experience of the three months August, September and October 1941, it looks as though the residual item of unidentifiable receipts is running at a good deal less than the rate of \$25 millions a month assumed in the table on Page 415 of Supplemental National Defense Appropriation 1942. That table assumed we were losing about \$50 millions a month of which \$25 millions a month was made good by unidentifiable receipts.

In the three months August, September and October, we had the following special receipts:

RFC Loan	\$ 300 Millions
From South Africa in	
gold	60 "
	\$360 Millions

and our gold and dollar balance rose

BY: \$233 Millions

Apart from the RFC loan, and the South African windfall, we lost \$127 millions or \$42 millions a month. This would correspond to unidentifiable receipts of about \$8. a month (say \$50 in six months or \$100 in a year) about a third of the rate assumed in the table.

(It may be noted that the actual payments (B.P.C.) in August September and October (Item A-1) were \$245 millions and the actual receipts from new production of gold and dishoarding (item C) were \$140. The difference is \$35 millions a month, exactly the monthly rate shown in the table. It is not, therefore, these items which account for the difference between the actual experience of August, September and October, and the estimate for the six months to March 1st.)

Washington, D.C.,
November 21, 1941.

MEMORANDUM

November 22, 1941.

TO: The Secretary
FROM: Mr. Sullivan

Pursuant to your instructions a check-up on bootlegging conditions in New York City has been made by Deputy Commissioner Berkshire. In 62 retail liquor establishments inspected on one Saturday evening there was no instance found where nontax-paid spirits were being used. On 8 of the 62 premises there was evidence that the bar bottles had been re-filled with cheaper tax-paid spirits than the label on the bottle indicated. This does not constitute any fraud upon the revenue, and I am advised by Mr. Berkshire that it is impossible to prevail upon the prosecuting authorities to take action against such a practice.

JHS

FOR DEFENSE



FIELD ORGANIZATION

News Letter⁷⁷

DEFENSE SAVINGS STAFF

TREASURY DEPARTMENT, WASHINGTON, D. C.



NOVEMBER 22, 1941

NUMBER 27

Los Angeles, California

TO THE FIELD STAFF:

There are two important items in the Defense Savings Program that should be acted upon by our committees at this time. They are:

1. Bonus payments. Officers of many corporations and businesses will meet immediately to determine the type and amount of Christmas bonuses that will be paid to their personnel. These bonuses may be in cash, which the individual will probably add to the spending that we hope to defer: for Christmas items and luxuries, or for other articles which will be in direct competition with production of needed defense materials. Or these bonuses may be paid in Defense Savings Bonds which many workers will welcome, both as an attractive bonus and as a direct aid to the defense program and added security for America's future.
2. Christmas presents. Our committees should spread the word in every possible way that Defense Bonds and Stamps make ideal Christmas presents. There will be as much of a thrill to giving or receiving a gift of this kind as to giving or receiving any other. Many, many people will follow this suggestion if it is made by our committees.

There should be members of our local committees who have the above projects as their responsibility. It is urged that the importance of these efforts be stressed at once.

Sincerely yours,

GALE F. JOHNSTON,

Field Director, Defense Savings Staff.

GET
BEHIND
HIM.

DEFENSE
BONDS

1941 NOV 26 AM 3 37
OFFICE
SECRETARY OF TREASURY

One Thing Certain



— NEA Service Inc.

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CHRISTMAS OUTDOOR DISPLAYS INCLUDE DEFENSE SAVINGS MESSAGES

Pictured below are the two Treasury approved designs suggested for use by retailers who desire to extend their present cooperation with the Defense Savings Program by including Defense Savings messages in their outdoor displays for the holiday season.



Announcement of the availability of these posters has been made to a large number of retailers by Benjamin H. Mann, Chairman of the Defense Savings Staff's Retail Advisory Committee. In the 24-sheet size, these are available to advertisers for immediate use at an average price of \$3.70 plus imprint cost. Orders should be sent to the Mass Marketing Institute, 201 North Wells Street, Chicago, Illinois.

RETAILERS ADOPT 12-POINT PROGRAM

The following 12-point program for the sale of Defense Savings Stamps has been drafted and adopted by the Retail Advisory Committee:

1. Provide for sale of Defense Savings Stamps throughout entire store, particularly on main floor.
2. Designate one executive to assume full responsibility for the Defense Savings campaign.
3. Refer to Defense Savings Stamps in every newspaper advertisement.
4. Make Defense Savings Stamps available to every clerk who handles cash.
5. Inaugurate a contest with prizes to employees who sell the most stamps.
6. Train every clerk to say, "May I give you part of your change in stamps?"
7. See that every customer gets literature on Defense Savings Stamps.
8. Display Defense Savings signs and posters throughout the store.
9. Maintain a permanent window display regarding Defense Savings.
10. When bonuses are paid to employees, pay them with Defense Savings Stamps and Bonds.
11. Administer, with the cooperation of and upon the initiative of your employees, a systematic savings plan for the purchase of Defense Savings Bonds through pay roll allotments.
12. Keep in close touch with local retail chairman named by the Defense Savings chairman of your city.

DEFENSE SAVINGS IN THE SCHOOLS

"Sharing America" Is Theme Of New School Program

State administrators are receiving this week, advance copies of a new publication:

"SHARING AMERICA: the Defense Savings Plan for Schools."

This publication, intended to help teachers and principals establish practicable and educationally sound Defense Savings activities in both elementary and secondary schools, gives primary recognition to this truth: that the schools of America are educational institutions, and should be asked to cooperate with the Defense Savings Program only as such.

In its present form, "SHARING AMERICA" is only a "pilot model" on which Administrators have been asked to obtain the reactions of leading educators and Committee members in their states. A printed edition embodying the best suggestions received will later be available for distribution to every teacher and principal who wants it.

The chief value of the "SHARING AMERICA" program probably lies in its provision for:

1. A continuing program that results in steady, systematic buying of Defense Savings Stamps and Bonds rather than in peak sales, with subsequent slumps.
2. Participation on the part of students.
3. Active cooperation on the part of parents.
4. Activities having genuine educational value.

The suggestions for a continuing program are particularly important at this time. Many schools and school systems have excellent programs already under way. "SHARING AMERICA," and the educational materials that will follow it, are intended not to interrupt or to disrupt these programs, but to help teachers and school officials develop their plans for the long pull. Many of the suggestions contained in the new publication were, in fact, drawn from the experiences of schools already launched on a program of Defense Savings activities.

Synopsis of "SHARING AMERICA"

Certain practical steps should be taken by every school in one form or another if its Defense Savings Program is to get off to a good start and develop to its full effectiveness. "SHARING AMERICA" makes suggestions with reference to many of these steps such as:

1. Providing a convenient and educationally sound way for students to buy Defense Stamps and Bonds. Stamp booths

DEFENSE SAVINGS IN THE SCHOOLS

Synopsis of "SHARING AMERICA" (Continued)

in the schools, school bank plans, and student activity in promotion and selling are discussed.

2. Enlisting the help and cooperation of parents.
3. Forming Faculty and Student Defense Savings Committees within each school.
4. Introducing the Defense Savings Program by means of assemblies and other meetings.

A certain part of the Defense Savings Program can be made part of the life of the school, and can help to coordinate classroom work with extra-curricular activities. In this connection, "SHARING AMERICA" makes suggestions for:

1. Musical and dramatic programs.
2. The making of posters.
3. Debates, essays, etc.
4. General school assemblies at which each department of study can make its special contribution to a proper understanding of National Defense and Defense Savings.
5. The training of certain pupils to disseminate detailed, accurate and easily understood information about all phases of the Defense Savings Program to their schoolmates and others.

A vital part of the program can be conducted in the classroom itself in such a way that it will further, rather than interrupt, the educational process. Defense Savings and National Defense can be closely related to class work; class work can be related to Defense Savings and National Defense. In this connection, "SHARING AMERICA" suggests that:

1. Teachers develop students' questions and observations non-matter National Defense in various subjects of study and classroom discussions, and
2. Teachers introduce Defense Savings materials into classes in Mathematics, Citizenship, History, English, Geography and other classes in which such materials could be used appropriately.

Additional materials are being prepared for the Defense Savings Staff to help teachers relate Defense Savings to the life and work of the school, and will be announced in this NEWS LETTER as they become available.

PAY ROLL ALLOTMENT

Plan To Be Presented To All Firms of 500 Or More

ALL FIELD DIVISIONS of the Defense Savings Staff, all state and local committees, now have the installation of the pay roll allotment plan high on their agenda of things to be done "to widen and deepen the sale of Defense Savings Bonds".



The first group of pilots and hostesses of Braniff Airways prepare to take advantage of the voluntary salary allotment plan for the purchase of Defense Bonds by signing allotment authorization cards.

specialists in pay roll allotment and are prepared to assist State Administrators in promoting this plan for the purchase of Defense Bonds.

THE IMPORTANCE OF THE ALLOTMENT PLAN was pointed out by Assistant Secretary of the Treasury, Herbert E. Gaston, in a recent address to the Connecticut Manufacturers Association:

"We shall not make a success of our Defense Savings program either as a check upon inflation or a contribution to American morale, unless we make a success of the pay roll allotment plan whereby wage earners can set aside a portion of their pay each week to buy a bond." Mr. Gaston said. . . "If your plant happens to be organized, and if your workers express a desire through their union to join in the pay roll allotment scheme, I hope very much that you as the managers will make facilities available. . . If your plant is not organized, you will be doing a great service to your workers and to your country by bringing the pay roll allotment plan to their attention and making it possible for them to save on a systematic and regular basis."

THE FIRST OBJECTIVE is the presentation of the plan to the employers and employees in all business organizations of 500 or more. Concentration upon this objective by all state and local committees should result in a rapid and substantial increase in the number of workers to whom this method of participation is available.

IN WASHINGTON, in the Office of the Field Director, a special unit has been set up to record as accurately and fully as possible, the progress of the allotment plan and to render every possible assistance to State Administrators and other members of the field staff who are directly concerned with this phase of the program. In addition, several representatives of the Field Director's Office are

PAY ROLL ALLOTMENT

Allotment Progress Notes:

34,000 workers in 75 Minneapolis concerns now have the opportunity of participating in salary allotment plans. And 14,000 of these workers are already saving for Defense Bonds at the rate of \$140,000 a month or an average of \$10 a month per man!

Particularly outstanding is the record of one Minneapolis group - the employees of the Northern Pump Company: 4000 employees, 87% participation, monthly allotments \$80,000 or \$20 per man!

97 1/2% of the 6,543 employees of the Botany Forested Mills of Passaic, New Jersey, are saving regularly for Defense Bonds through an allotment plan, according to Col. Charles F. H. Johnson, president of the company. The most recent tabulation showed that these employees have either purchased or subscribed to purchase \$274,825 worth of Defense Bonds - \$40 plus per man!

901 of the 925 workers at the Clearwater (Idaho) plant of Potlatch Forests, Inc., have enrolled in a salary allotment plan in which the minimum allotment is \$3.75 a month. In a letter addressed to both the manager of the Clearwater plant and the president of the local union, which represents the employees, C. L. Billings, Vice-President and general manager says:

"This is a display of intelligent patriotism which will probably stand unequalled among large industrial organizations. . . Please say to the union officers, stewards, foremen and superintendents, who are responsible for this excellent showing and to the men themselves, that the officers and directors of the company are proud to be associated with people who so readily and generously meet the obligations of citizenship."

Mr. Billings, who is a member of the Idaho Defense Savings Committee, has written to a large number of his friends and associates in the lumber industry providing them with full information concerning the procedures followed in installing the allotment plan in the plants of Potlatch Forests, Inc., and urging them to give the plan their support.

According to recent reports reaching the Field Director's Office, outstanding records for participation in Defense Savings allotment plans are also being made by the employees of:

The Cincinnati plant of Curtiss-Wright - several thousand employees, 70% participation.

Kohler, of Kohler, Wisconsin, 4,500 employees, 85% participation.

Sanger Brothers of Dallas, Texas, several hundred employees, 100% participation. This is the largest retail store in Dallas to hang up a 100% record.

PAY ROLL ALLOTMENT

Allotment Progress Notes (Continued)

Tide Water Associated Oil Company, 10,000 employees, 36% participation and rising steadily.

Yellow Truck & Coach Manufacturing Company in Pontiac, Michigan, 1,634 employees investing \$18,000 a month.

Public Service Corporation of New Jersey, employees here have subscribed for \$175,000 worth of Defense Bonds since June, when the allotment plan was installed.

John McKensie Packing Company in Burlington, Vermont, the first concern in that city to report 100% participation.

The United Furniture Workers of America (CIO) is one of the first labor unions to install a Defense Savings allotment plan for organizers and field men. The wholehearted support of the Defense Savings Program by this union is further indicated by these other actions: endorsement by the general executive board; issuance of circular letters to all local unions urging them to give the program complete support; distribution to editors of local union bulletins of material on Defense Savings; and investment of \$1000 of union funds in a Defense Bond.

MINE, MILL AND SHELTER WORKERS ENDORSE PROGRAM



Purchase of \$5000 worth of Defense Bonds and adoption of a resolution encouraging local unions to sanction voluntary pay roll allotment plans for the purchase of Defense Bonds were two important actions of the Board of Directors of the International Union of Mine, Mill and Smelter Workers at its recent meeting in Denver. In the picture above, are members of the executive board of this important union, and Ralph Nicholas, Defense Savings Administrator for Colorado, (3rd from right).

SAVINGS AND LOAN ASSOCIATIONS GIVE
DEFENSE SAVINGS PROGRAM WHOLEHEARTED COOPERATION

FROM MANY QUARTERS come reports that savings and loan associations are aggressively pushing the sale of Defense Bonds. The cooperation of these institutions with the Defense Savings Program is particularly helpful because of their close contacts with those millions of smaller investors, upon whom the success of our program so largely rests.

"For over 100 years savings and loan associations have supported home ownership, and taught the lesson of thrift. . . the importance of savings - of putting away in periodic installments a certain sum each week or month," said James Twohy, Governor of the Federal Home Loan Bank System, in a recent radio address. "We are giving you the same message now and urging that your savings be invested in the United States of America."

* * *

UNUSUALLY ATTRACTIVE WINDOW DISPLAY PIECES have been designed by the U. S. Savings & Loan League to help member associations promote the sale of Defense Bonds. These display pieces are poster statuettes of the Concord Minute Man, 35 inches or 23 inches tall, and are designed for use in either windows or lobbies. . . The League has also designed a series of 10 newspaper ads dealing with Defense Bonds; a red, white and blue sticker to be attached to letters and envelopes, featuring the slogan "Let Us Help You Serve America"; and a special Defense Bond folder for general distribution.

THE BEST RECORD for bond sales of any savings and loan institution in the District served by the Federal Home Loan Bank of Topeka (Colorado, Kansas, Nebraska and Oklahoma) has been hung up by the Home Federal Savings & Loan Association of Tulsa, with sales of \$236,525 to its credit.

EVERY MEMBER of the staff of the Federal Home Loan Bank of Cincinnati has joined the "Defense Bond Club" which has been formed there, according to president W. D. Schultz.

A DEFENSE BOND CLUB has been formed by the Benjamin Franklin Federal Savings & Loan Association of Portland, Oregon. A club member deposits a regular monthly sum and, when these payments reach a sufficient amount, a bond is issued and forwarded to the purchaser.



Boston Federal Savings and Loan Association

A BANK DISPLAY TO SELL DEFENSE BONDS

A simple but strikingly effective window display to boost Defense Bond sales is illustrated at the right. This is one of several suggested window displays for banks shown in Bulletin No. 24 of the California Bankers Association, which bulletin deals entirely with promotion of the sale of these securities.



The California Bankers Association has been outstanding for the efforts which it has made to enlist the full cooperation of bankers with every phase of the Defense Savings Program. Through its public relations committee, of which Carl F. Wente of the Central Bank of Oakland is the chairman, the Association is distributing:

1. A "Pledge of Cooperation."

This is an attractively printed document with a red, white and blue border which reads:

"We, the members of the _____ believe that the purchase of United States Defense Savings Bonds and Stamps is Democracy's way of underwriting national security, and we hereby pledge ourselves to buy the Bonds and Stamps and to urge other loyal Americans to do likewise to the end that patriotic dollars may be made available for the building of an impregnable defense for America."

This pledge is being used by banks, their departments, and branches; chapters of the American Institute of Banking; service clubs; women's organizations; and a wide variety of groups to give expression to the desire of their members to cooperate with the Defense Savings Program.

2. A "Speaker's Handbook."

This consists of an attractively printed loose leaf binder and a series of suggested talks, some prepared by the California Bankers Association and the balance by the Public Relations Council of the American Bankers Association. Sixteen talks suggested as suitable for presentation to general meetings, radio audiences and to special groups are now included in the manual and additional talks are to be forwarded from time to time to bankers and others who speak regularly on Defense Savings.

TO THE LADIES

Women's Radio Program

Two types of Women's Program are being prepared by the Radio Section of the Defense Savings Staff. The first is a series of one-minute announcements on Defense Bonds and Stamps. These are sent out twice a week to all of the Home Economics Directors of radio stations, and it is estimated that at least 3,000 of these are used each month.

The second type is of particular interest to organized groups of women, since it provides for their participation in radio skits and round tables to be broadcast over their local stations. Nine 15-minute programs, one for each month in the club year, are being written. The first two programs in this series - those for October and November - have already been distributed to the presidents or radio chairmen of many women's clubs.

The October script called for a cast of characters that included a women's club president, a women's club Defense Bonds and Stamps chairman, and the Mayor or some other civic official. The second script, which was on the subject of Thanksgiving and Defense Savings, called for participation by an officer of a women's club, a civic official, a club member with a motherly voice, and three children. The December script will suggest that Defense Stamps and Bonds be given as Christmas presents.

These scripts may be secured from the Women's Division of the Defense Savings Staff in Washington, D. C., or through State Administrators. A phonograph recording of "Any Bonds Today?", theme song for these programs, is available at each local radio station.

Cooking Schools Sell Bonds and Stamps

In Oklahoma City, a 5-day cooking school recently brought Defense Savings to the attention of more than 20,000 women. At a Defense Savings booth at the rear of the school's auditorium (pictured at the right), a U. S. Army Field Range was on display, and stamps were sold. At the school, women were urged to keep Stamp Albums in their kitchen cabinets and to buy a stamp on every shopping tour.



In Hartford, Conn., between two and three thousand women attending each of the five sessions of the Annual Cooking School of the Hartford Courant, heard talks on Defense Savings arranged by Mrs. Chester Bolles, a member of the State Defense Savings Committee, and following these talks, received copies of the folder, "We Gals Have To Stick Together."

FIELD ORGANIZATION NEWS

Leaders Appointed in Four Additional States

The Governors of ALABAMA and ILLINOIS have accepted Secretary Morgenthau's invitation to serve as Honorary Chairmen of the Defense Savings Committees being organized in their states. The new Honorary Chairmen are: Governor Frank M. Dixon of Alabama, and Governor Dwight B. Green of Illinois.

In IOWA and LOUISIANA, State Administrators have recently been appointed, bringing the total number of administrators to 45. The new appointees in Iowa is Vernon L. Clark of Des Moines, vice-president of the lumber company of Penrod, Jorden & Clark. In Louisiana, Paul H. Maloney, Collector of Internal Revenue in New Orleans, has been designated State Administrator.

Highlights From Recent State Reports:

ARIZONA. Groundwork for the state-wide program was laid recently at a meeting of the Defense Savings Committee for Arizona, held in Phoenix. State Chairman James F. Boyle outlined the committee's aims. Following the meeting, the committeemen were guests of State Administrator W. F. Stuart at a luncheon. . . Charles A. Stauffer of the Arizona Publishing Company in Phoenix, has accepted the vice-chairmanship of the committee.

FLORIDA. State Chairman Linton E. Allen recently addressed the Central Florida Life Underwriters. This organization has volunteered the active support of its members to promote widespread adoption of the pay roll allotment plan. . . Every bank and building and loan association in Daytona Beach reports 100% participation of officers and employees in pay roll allotment plans.

ILLINOIS. Major Benjamin H. Nease, Chairman of the Retail Advisory Committee, Defense Savings Staff, will be guest speaker at a luncheon of the Chicago Association of Commerce, December 3. Advantage will be taken of Major Nease's visit to Chicago, to bring together some of Chicago's leading retailers and officers of retail store associations for informal round table discussion of the role of the retailer in the Defense Savings Program.

MAINE. Declaring that the public looks to lawyers for leadership, F. Harold Dubord of Waterville, member of the State Defense Savings Committee representing the legal profession, addressed a letter to every attorney in the state.

"You can be of great help to your country by buying these Defense Bonds and Stamps yourself, by advising your friends and clients to do so, and by urging from the public platform, on every possible occasion, the purchase of these splendid securities," he wrote. "In so doing, you will be striking a blow in behalf of freedom and democracy."

FIELD ORGANIZATION NEWS

Highlights From Recent State Reports (Continued)

Dr. Clinton A. Olmason, State of Maine Administrator, reports that Mr. Dubord's fine letter has resulted in a substantial increase in the number of men registered with state and local headquarters as available for speaking assignments.

MISSOURI. A resolution endorsing the Defense Savings Program was passed unanimously by the Missouri Bar Association at its recent convention in St. Louis. The resolution recommended that all members of the Bar Association lend every possible assistance to the State Administrator, Don M. Nee, in furthering the sale of Defense Savings securities in Missouri. . . All departments of the State Government have now installed some systematic savings plan and five departments report 100% participation.

OHIO. Theodore A. Wagner, president of the Canton Federation of Labor and secretary of Local 141 of the Union of Operating Engineers, has been granted a leave of absence by the Canton Refining Company and is serving as a member of the Ohio Defense Savings Staff. His assignment is to secure the active cooperation of leaders of organized labor in Ohio, in the installation of pay roll allotment plans.

VIRGINIA. Initial organization meeting of the State Committee was held in Richmond, October 30. Governor Price, State Chairman Francis Pendleton Gaines, and State Administrator Robert F. Nelson were among the speakers at a meeting attended by practically all of the committee's 40 members. Richmond radio stations cooperated by broadcasting a portion of the proceedings. . . The week following the meeting, State Administrator Nelson and Deputy Administrators John H. Payne, Jr. and C. H. Edwards left Richmond for a tour of the state, during which progress was made in setting up local committees and in launching the pay roll allotment plan. . . A strong resolution of endorsement of the Defense Savings Program was passed by a recent regional meeting of the Virginia Bankers Association, following an address by Deputy Administrator Payne. . . The League of Virginia Municipalities at its annual convention adopted a resolution calling upon all member cities and towns to cooperate with their employees in setting up voluntary pay roll allotment plans.

VERMONT. First city in the state to adopt the pay roll allotment plan was the City of Burlington. Mayor John J. Burns has enlisted the cooperation of city department heads and predicated a fine response from city employees. . . A Defense Stamp Club in every club, lodge, and association in the state is a goal of the Vermont Defense Savings Staff. It hopes that these organizations will arrange to have stamps on sale at every meeting.

WISCONSIN. Both the CIO and AFL state organizations have endorsed the allotment plan. . . Co-chairmen of the pay roll allotment division of the recently organized Racine Committee are Fred Young, president of the Young Radiator Company, and A. B. Mantch, president of the Racine District Council of the U. A. W.

DISTRICT OF COLUMBIA
District Committee Meets Program To Reach All Groups In Capital

DURING THE PAST TWO MONTHS, Chairman H. L. Rust, Jr., and Administrator Hugh Lynch have been active in appointing the chairmen and vice-chairmen of the various divisions of the Defense Savings Committee for the District of Columbia and in launching a comprehensive program to bring the message of Defense Savings to every group and every individual in the Nation's Capital.

FORMAL INAUGURATION of the District Committee's activities took the form of a radio broadcast on the evening of October 23. At that time, five radio stations in Washington cleared their schedules and broadcast this one program simultaneously.

FIRST MAJOR DIVISION to hold its organization meeting was the Women's Division, under the chairmanship of Mrs. Wilson Compton. On October 15, this Division brought together the heads of 37 women's organizations, representing approximately 200 local units and many thousand individual members. This group heard addresses on the Program and voted unanimously to cooperate. Action by various women's groups followed almost immediately. For example:

Radio programs sponsored by District Federation of Women's Clubs were devoted in part to Defense Savings.

Folders and pamphlets were distributed by the local unit of the Catholic Daughters of America.

Club funds were invested in Defense Bonds by the Board of Governors of the Washington Club; and

A corps of 16 speakers were trained by the Defense Savings Chairman of the Order of the Eastern Star to present the Defense Savings Program to the 40 chapters of this organization in the District.

PATROL ALLOCATION installation is being given major consideration by the chairmen of the Business, Banking and Utilities Divisions.

All public utilities in the District — telephone, electricity, gas and transit — have installed the plan, so the Public Utilities Division will devote its attention to increasing employee participation.

The District of Columbia Association of Life Underwriters has volunteered the services of its members in connection with the installation plans, and a program to train a group of these men for this work is now under way.

THE GROUP AGENT PLAN for systematic saving for Defense Bonds will be introduced to employees of the District of Columbia Government by a special District Employees Division.

DISTRICT OF COLUMBIA

FEATURED EVENT of the opening of the new store building of the Hecht Company was the delivery to its president, Alexander Hecht, by Mrs. Harry Wallace, who is a member of the District of Columbia Women's Division, of a \$10,000 Defense Savings Bond. (See picture at the right.) On the evening of the formal opening, which was indeed a gala affair, Defense Stamps and Bonds were the only articles on sale in the entire store.



THE ARMISTICE DAY ISSUE of the Washington Shopping News featured a quarter-page display on its front page, which in red, white, and blue advertised Defense Bonds and Stamps. In addition, in this issue, 21 advertisers included references to Defense Bonds and Stamps in their regular advertisements as the result of suggestions made by the Deputy Administrator F. D. Barkhull.

The Goodyear Blimp, familiar sight to all Washingtonians, will soon carry Defense Savings streamers.

DOVER JAYCEES SELL DEFENSE STAMPS



The picture above shows an attractive Defense Stamp booth erected by the Junior Chamber of Commerce of Dover, Delaware, on one of the main streets of that city, the Capital of its State.

NEW YORK
20,000 Furriers Stage Colorful Defense Bonds Ceremony

THE FUR INDUSTRY stopped work, Monday, November 10th, for a mammoth demonstration of the solidarity of its efforts to spur the sale of Defense Bonds and Stamps. Starting at 11:30 A. M., fur factories and show rooms, dyeing and dressing plants, skin dealing establishments and auction houses in New York City's fur district emptied of owners and workers, bookkeepers, stenographers and models to take part in a mammoth demonstration for Uncle Sam.

FOR THE FIRST TIME in the history of the fur industry, labor and management lined up to march together in a colorful mile-and-a-half-long parade through the fur district. The parade ended at a reviewing platform in Seventh Avenue, where a dramatic half-hour ceremony, from 12:30 to 1:00 P. M., sounded the keynote of the demonstration.

THE PROGRAM OF THIS BIG EVENT:

George I. Fox, Chairman of the Defense Savings Bonds Committee of the Fur Industry, opened the ceremonies by introducing Miss Lucille Falkin, opera star, and Lawrence A. McNally, New York County Commander of the American Legion. Miss Falkin sang the "Star Spangled Banner." Commander McNally recited the Pledge of Allegiance to the Flag as the Unveiling of the Flag took place.

Julius Green, President of the Associated Fur Coat and Trimming Manufacturers, Inc., representing management, was the first speaker introduced by the Master of Ceremonies Harry Marshfield. He was followed by Ben Gold, President, International Fur and Leather Workers Union. Keynote addresses were made by Richard G. Patterson, Jr., Chairman of the New York State Defense Savings Committee; Newbold Morris, President of the City Council; Stanley M. Isaacs, President of the Borough of Manhattan; Albert Goldman, Postmaster of New York City, and Jeremiah Francis Cross, of the Executive Committee of the American Legion.

Phil Baker, the well known entertainer, sang "Any Bonds Today", playing an accordion accompaniment. Crowds in the streets sang with him and made Seventh Avenue resound with the tuneful, patriotic melody.

Aaron Greenberg, 9-year-old accordionist, played "America" and told of buying a 10¢ Defense Savings Stamp from his weekly 25¢ allowance and urged other children to show their patriotism.

Sophie Tucker closed the ceremonies with the singing of "God Bless America."

NEW YORK

Furriers Demonstrate (Continued)

INDICATIVE OF THE FUR INDUSTRY'S COOPERATION with the Defense Savings Program was the announcement at this time of the investment of \$190,000 in Defense Bonds by members of the Furriers' Joint Council of New York, and of a similar investment of \$15,000 by the eight hundred members of the Associated Fur Coat and Trimming Manufacturers, Inc.

AN ESTIMATED 10,000 PERSONS marched in the parade. Of this number, approximately half were in the division from the Furriers' Joint Council of New York. Outstanding in this Division was the pageant depicting the Status of Liberty, and several hundred workers in the costumes of their native lands—France, Poland, Austria, Czechoslovakia and Holland.

Leading the parade was the Grand Marshal, followed by the "Spirit of '76."

Then came the 28 groups represented in the Fur Industry's Defense Savings Bonds Committee.

The American Legion was represented by the Sons of the American Legion Band of the George Dilboy Post; by the American Legion Fur Post, and by the Women's Auxiliary of the Fur Post.

Other features of the parade included: (1) the hundred solicitors officially appointed to secure pledges for the purchase of Bonds by the Fur Industry; (2) the "Minute Man"; and (3) a group of models wearing "Patriotic" furs, from Argentina, Ecuador, Venezuela, Southwest Africa, Canada, Bolivia, Guatemala, Colombia, China, Australia, Brazil, Peru, Mexico, Russia and the United States.



ONLY PART OF FIVE BLOCKS



THE CROWD DISPERSING

EACH STATE COMMITTEE MEMBER AND LOCAL COMMITTEE CHAIRMAN TO
RECEIVE "BADGE OF OFFICE"

All members of State Committees and Chairmen of county, city and town committees are to receive in the near future as their "badge of office," attractive lapel buttons which carry an embossed Minute Man design and signify that their wearers are official members of the Defense Savings Staff.

These buttons (for women, pins) will be forwarded to State Administrators for distribution or presentation to the persons who are qualified to wear them.

Each person receiving a button or pin will be asked to fill out and sign a receipt certifying that he or she has received the button or pin as a member of the state committee or as the chairman of a county, city or town committee, and these receipts will be placed on file in Washington, in the office of the Field Director.

Anyone would be proud to wear one of these buttons. They were manufactured for the Defense Savings Staff by the Bureau of the Mint of the Treasury Department and are very handsome emblems.

OKLAHOMA CCG 100% FOR DEFENSE SAVINGS

Every man in the 29 Civilian Conservation Corps camps in Oklahoma, a total of 4,789 enrollees and civilian employees, has purchased one or more Defense Savings Stamps, according to State Administrator H. C. Jones.

The plan for enrollee participation (described in the August 30th NEWS LETTER) was set up on a voluntary basis by Lieut. Col. K. S. Whittemore, who is in charge of the CCG in Oklahoma. On pay day in each camp, a stamp sales table, manned by two members of the local Defense Savings Committee from the nearest town, is set up at the pay window. On September 1 when the plan was started, 22 of the 29 companies went 100%. On November 1, every man in all 29 companies bought one or more stamps.

Rate off to the Oklahoma CCGI

* * *

The customers and friends of the Drake Press in Philadelphia have recently received an attractive gift card to which was attached a Defense Savings Album with the first stamp towards a \$25 Defense Bond.

* * *

The design on the first page of this NEWS LETTER is one of several contributed to the St. Louis Defense Savings Committee by Brian P. Burns, an artist with the Western Newspaper Union.

DEFENSE SAVINGS ON THE AIR

Leading Programs For The Coming Week:

Monday, November 24, "FOR AMERICA WE SING" 9:30-10:00 P. M. (EST)
NBC Blue Network

Dr. Frank Black's Orchestra and chorus.
GUEST STARS: Margaret Deum, soprano of radio and concert stage
and Thomas L. Thomas, noted baritone.

Tuesday, November 25 "MILLIONS FOR DEFENSE" 8:00-9:00 P. M. (EST)
NBC Blue Network

THE TREASURY HOUR; variety program with leading stars of the
entertainment world.

Thursday, November 27 "AMERICA PREFERRED" 9:00-10:00 P. M. (EST)
Mutual Network

Alfred Wallenstein's Orchestra; Dennis Taylor Commentator,
GUEST STAR: Salvatore Maconioni, Metropolitan Opera bass.

* * *

Jersey City Radio Station Gives Entire Day To Defense Savings

On Armistice Day, Station WJAT in Jersey City, New Jersey, devoted an entire 24 hour period to the Defense Savings Program. From midnight of November 10 until midnight of November 11, no commercial messages or sponsors were broadcast unless they made specific reference to Defense Bonds or Stamps.

Besides arranging these commercially sponsored announcements, the station invited many prominent persons to speak during the day on some phase of the Defense Savings Program. Governor Edison, Mayor Hague of Jersey City, Mayor Murphy of Newark, and officials of all banks in Hudson County were among those who accepted invitations to speak. The day's program was arranged by Walter Patrick Kelly, public relations director for Station WJAT, and a member of the public information division of the Defense Savings Committee for Jersey City.

"Amos and Andy" Lend A Hand

Every week-day evening from 7:00 to 7:15 P. M. (EST) over stations of the Columbia network, millions listen in on the affairs of the "Mythic Knights of the Sea" and events in the lives of those famous characters "Amos and Andy". Recently, "Amos and Andy" have suggested that Defense Bonds and Stamps make fine Christmas gifts. However, during the next month their scripts will make increasingly frequent references to our program. It is understood that in the near future all members of the "Mythic Knights of the Sea" will be urged to buy Bonds and Stamps. Why not tune in and hear some of these episodes?

INDIANS TO TRADE FOR DEFENSE BONDS



Frank C. Rand, Jr., Chairman of the State Defense Savings Committee for New Mexico, congratulates Julian Martinez, famous pottery maker and Governor of the San Ildefonso Pueblo on setting up a plan whereby Indians can take part in the Defense Savings Program by trading produce and livestock for Bonds and Stamps.

CHAMPION BARBER SHOP QUARTETTE PLUGS "ANY BONDS TODAY?"



The Chord Busters, "world champions," according to O. C. Cash, founder of the Society for the Preservation and Encouragement of Barber Shop Quartette Singing in America, Inc., are helping to put over our program in Oklahoma. They appear in costumes as shown above, and sing "Any Bonds Today?", at numerous meetings in and near Tulsa.

STAMP BANK IN OPERATION



Lyman School, North Topeka, Kansas

The design shown at the right, has been placed by the Jersey Central Power and Light Company on 14 illuminated bulletin boards 12' x 42' in size, located along heavily traveled highways in New Jersey. It has also been reproduced on 24 sheet posters and placed on 70 prominently located billboards throughout territory served by this utility.

STRIKING BILLBOARD BOOSTING BOND SALES IN CENTRAL NEW JERSEY



UNITED STATES SAVINGS BONDS

Comparative Statement of Sales During
First Sixteen Business Days of September, October, and November, 1941
(September 1-19, October 1-18, November 1-21)
On Basis of Issue Price

(Amounts in thousands of dollars)

Item	Sales			Amount of Increase or Decrease (-)		Percentage of Increase or Decrease (-)	
	November	October	September	November over October	October over September	November over October	October over September
	:	:	:	:	:	:	:
Series E - Post Offices	\$ 27,551	\$ 25,006	\$ 25,052	\$ 2,545	-\$ 46	10.2%	- 0.2%
Series E - Banks	<u>50,003</u>	<u>48,107</u>	<u>43,522</u>	<u>1,896</u>	<u>4,585</u>	<u>3.9</u>	<u>10.5</u>
Series E - Total	77,555	73,113	68,574	4,442	4,539	6.1	6.6
Series F - Banks	13,007	13,804	10,887	- 797	2,917	- 5.8	26.8
Series G - Banks	<u>77,025</u>	<u>75,024</u>	<u>69,290</u>	<u>2,001</u>	<u>5,734</u>	<u>2.7</u>	<u>8.3</u>
Total	<u>\$167,587</u>	<u>\$161,942</u>	<u>\$148,752</u>	<u>\$ 5,645</u>	<u>\$13,190</u>	<u>3.5%</u>	<u>8.9%</u>

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

November 22, 1941.

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

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

UNITED STATES SAVINGS BONDS

Daily Sales - November 1941
On Basis of Issue Price

(In thousands of dollars)

Date	Post Office Bond Sales Series E	Bank Bond Sales				All Bond Sales			
		Series E	Series F	Series G	Total	Series E	Series F	Series G	Total
November 1941									
1	\$ 1,017	\$ 1,750	\$ 567	\$ 4,201	\$ 6,518	\$ 2,767	\$ 567	\$ 4,201	\$ 7,535
3	3,377	3,421	1,442	9,092	13,954	6,798	1,442	9,092	17,332
4	1,061	2,818	738	7,205	10,761	3,879	738	7,205	11,822
5	1,175	1,694	744	3,794	6,232	2,869	744	3,794	7,407
6	1,968	3,899	988	6,962	11,850	5,867	988	6,962	13,818
7	2,062	4,278	1,258	9,280	14,816	6,340	1,258	9,280	16,878
8	1,289	3,113	352	1,457	4,922	4,402	352	1,457	6,211
10	2,452	3,383	994	3,459	7,836	5,835	994	3,459	10,288
12	2,181	3,321	936	5,312	9,569	5,502	936	5,312	11,750
13	852	2,115	602	4,145	6,862	2,967	602	4,145	7,714
14	1,249	3,862	547	3,107	7,515	5,110	547	3,107	8,764
15	1,191	2,563	473	2,375	5,412	3,754	473	2,375	6,603
17	2,724	3,840	797	3,259	7,897	6,564	797	3,259	10,621
18	953	2,683	612	4,025	7,320	3,636	612	4,025	8,273
19	1,503	3,285	807	4,811	8,903	4,788	807	4,811	10,405
21	2,497	3,978	1,149	4,542	9,669	6,475	1,149	4,542	12,166
Total	\$ 27,551	\$ 50,003	\$ 13,007	\$ 77,025	\$140,036	\$ 77,555	\$ 13,007	\$ 77,025	\$167,587

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

November 22, 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.

Regraded Unclassified

November 22, 1941

CONFIDENTIAL

Dear Mr. Knoke:

Permit me to acknowledge, on behalf of the Secretary, the receipt of your letter dated November 19, 1941, enclosing your compilation for the week ended November 12, 1941, showing dollar disbursements out of the British Empire and French accounts at the Federal Reserve Bank of New York and the means by which these expenditures were financed.

Faithfully yours,

(Signed) D. W. BELL

Under Secretary of the Treasury.

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

FD:vw:11-22-41

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FEDERAL RESERVE BANK

OF NEW YORK

81

OFFICE CORRESPONDENCE

November 22, 1941

To Files

Subject: Telephone Conversation with

From L. W. Knoks

Mr. Turk of the Bank of Canada

Mr. Turk called this morning with reference to my telephone conversation with Governor Towers on November 19. He had canvassed, he said, the Consolidated Mining and also the International Nickel which, between them, had furnished practically the total amount of silver offered us by the Bank of Canada thus far in 1941. Both were agreeable, until further notice, to offer their silver to the market. Should there be a change in conditions, Bank of Canada would notify the producers when they should again offer as heretofore. Meanwhile the Bank of Canada would, as usual, at the end of each month request a renewal of the agreement with us. Turk continued that the Consolidated Mining had mentioned to him their unhappy experience some weeks ago when they had offered silver for New York delivery in the New York market at 35 1/4, not expecting to get that much but rather hoping for a counter offer. The latter, however, had never materialized. They gave as reason for asking for a higher price than the 35¢ paid by the United States Treasury (for delivery San Francisco or New York), the fact that delivery in New York actually cost them a little more than delivery in San Francisco, their mines being located in the western part of Canada. I pointed out to Mr. Turk that if the Consolidated Mining would offer to the New York market for delivery in San Francisco, I was sure they would have no difficulty in finding a buyer because I knew of some demand for delivery at the mint in San Francisco for coinage purposes on behalf of the Dutch East Indies Government.

As regards the price, I repeated, as already stated to Mr. Towers, that nobody would expect the producers to get less by selling in the market; on the other hand, I felt sure that none of them would want it said of them that they were waxing fat as a result of the existing emergency. Mr. Turk replied that he would get busy and see to it that the Consolidated Mining, in accordance with my suggestion, would offer silver here in the market for delivery in San Francisco. He added that he thought they were ready to offer about 350,000 ounces for delivery before the end of November and possibly from 600,000 to 700,000 for delivery during December.

LWK

LWK:BOC

Copy:ec:11-24-41

PARAPHRASE OF TELEGRAM SENT

TO: American Consul, Hong Kong, China

DATE: November 22, 1941

NO.: 420

This telegram is sent from the Secretary of the Treasury to Mr. A. Manuel Fox.

Have any steps been taken by the Board in order to get Dutch cooperation in regard to the program for the regulation of trade and financial relationships with the Chinese? Would you like us to do anything regarding the Dutch from our end?

HULL

Copy:ec:11-24-41

NOV 22 1941

APC

My dear Mr. Chagov Affairs:

I wish to refer to the agreement dated October 10, 1941, relative to the purchase of 903,000 fine troy ounces of gold by the Secretary of the Treasury from the Government of the Union of Soviet Socialist Republics, against which an advance of \$30,000,000 was made on October 11, 1941.

I take pleasure in enclosing for your information two copies of the assay report of the United States Mint at San Francisco giving an analysis of the gold which arrived as the SS *ATREBALTIAN* and deposited by your Government on November 6, 1941, for the account of the Secretary of the Treasury.

You will observe from the enclosed report that the shipment after melting and upon assay was determined to contain 160,399.616 fine troy ounces of gold and to have a value of \$5,613,986.56. After the deduction of the amount of \$14,195.47 representing the Mint charge of \$160.50 plus the $1/16$ handling charge of \$14,034.97, the net value of the gold was \$5,599,791.09. This amount of gold has been applied by the Treasury against the amount of gold agreed to be purchased by the Secretary of the Treasury under the agreement of October 10, 1941.

Sincerely yours,

(Signed) D. W. BELL

Secretary of the Treasury.

Mr. Andrei A. Gromyko,
Chagov Affairs and Interim,
Union of Soviet Socialist Republics.

Enclosures.

TD:dm:12/21/41-2

UNITED STATES MINT
SAN FRANCISCO, CAL.

BULLION DEPOSIT - MEMO REPORT

Mint Form 42R

H 6603

Date Nov 6, 1941

Memos Required 6
by DepositorSilver Price 34
or Class

84

SOURCE DATA
RussiaFEDERAL RESERVE BANK OF SAN FRANCISCO
for Account of FEDERAL RESERVE BANK OF NEW YORK,
for Credit to the Secretary of The Treasury, Special Agent.State
County
Mine

For Credit to the Secretary of the Treasury, Special Agents														
Pages,	Description of Deposit	Assay Number	WEIGHTS				ASSAY CERTIFICATE FINENESS			Refining chg.-cls. per oz.	FINE OUNCES GOLD		OUNCES SILVER	
			Before Melt Ounces	Dec	After Melt Ounces	Dec	Gold	Silver	Base		Ounces	Dec	Ounces	Dec
Bars														
20		7513	7861.04		7586.69		999.8	(000.2)			7585.172			
20		14	7818.90		7729.96		999.8	(000.2)			7728.414			
20		15	7782.98		7676.06		999.8	(000.2)			7674.524			
20		16	7847.90		7708.95		999.8	(000.2)			7707.408			
20		17	7822.50		7743.24		999.8	(000.2)			7741.691			
20		18	7902.99		7621.42		999.8	(000.2)			7619.895			
20		19	7891.63		7681.00		999.8	(000.2)			7679.463			
20		7520	7674.75		7893.91		999.9	(000.1)			7893.120			
20		21	7872.25		8087.47		999.9	(000.1)			8006.661			
20		22	7852.39		8011.72		999.9	(000.1)			8010.918			
20		23	7791.05		8029.49		999.9	(000.1)			8028.687			
Total														

NOTE: THIS REPORT IS FOR THE INFORMATION
OF THE DEPOSITOR AND IS OF NO OTHER VALUE.PAID BY CHECK
PT AS NOTED

VALUES		CHARGES				Total
GOLD	SILVER	Melting	Refining	Handling		
\$	\$	\$	\$	\$	\$	
Bars Cash Check						\$
						NET VALUE

UNITED STATES MINT
SAN FRANCISCO, CAL.

BULLION DEPOSIT - MEMO REPORT

Mini Form 42R

85

SOURCE DATA

Date Nov 6, 1941

Memos Required 6

Silver Price $\frac{3}{4}$
or Class

by Depositor

Other Data

State RUSSIA

County

Mine

FEDERAL RESERVE BANK OF SAN FRANCISCO
for Account of FEDERAL RESERVE BANK OF
NEW YORK, for Credit to the Secretary of Treasury, Special Agent.

Bars	Description of Deposit	Assay Number	WEIGHTS				ASSAY CERTIFICATE			Refining chg.-cts. per oz.	FINE OUNCES			
			Before Melt	After Melt			Gold	Silver	Base		GOLD	SILVER		
			Ounces	Dec	Ounces	Dec					Ounces	Dec	Ounces	Dec
20		7524	7767.25		8022.91		999.8	(000.2)			8021.305			
10		25	3933.81		3676.50		999.8	(000.2)			3675.764			
20		26	7877.34		7545.91		999.8	(000.2)			7544.400			
20		27	7828.32		7531.06		999.8	(000.2)			7529.553			
20		28	7870.85		7756.95		999.8	(000.2)			7755.398			
20		29	7854.96		7726.59		999.8	(000.2)			7725.044			
20		7530	7660.51		7783.74		999.8	(000.2)			7782.183			
20		31	7887.37		8328.88		999.8	(000.2)			8327.214			
20		32	7830.34		8166.63		999.8	(000.2)			8164.996			
20		33	7802.58		8119.43		999.8	(000.2)			8117.806			
			160,431.71		160,428.51									

PAID BY CHECK
PT AS NOTEDNOTE: - THIS REPORT IS FOR THE INFORMATION
OF THE DEPOSITOR AND IS OF NO OTHER VALUE.Total
160,399.616

Total

VALUES		CHARGES			Total
GOLD	SILVER	Melting	Refining	Handling	
\$5,613.986.56	\$	\$160.50	\$14	\$34.97	\$1,195.47
				Bars	\$5,599,791.09
				Cash	
				Check	
				NET VALUE	

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DEPARTMENT OF STATE

Washington

In reply refer to
FF

November 22, 1941

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses copies of a paraphrase of telegram No. 635, dated November 21, 1941, from the American Consul, Casablanca, Morocco, reporting movement of gold from Dakar.

Enclosure:

From Consul, Casablanca,
No. 635, November 21, 1941.

Copy:hmd:11/24/41

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PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Consul, Casablanca, Morocco,

DATE: November 21, 1941, 6 p.m.

NO.: 635

This morning (21st of November) the cruiser Prima Uguet arrived from Dakar. W. Stafford Reid, American Vice Consul, reports on the basis of information from a port contact that the cruiser has brought gold for Banque de France account. He also said that several hours after the arrival of the ship, he counted nine trucks with guards who were armed leaving the port evidently with boxes holding the gold. Presumably these boxes were taken to the Moroccan State Bank. Reid was not able to follow them.

RUSSELL

Copy:hmd:11/24/41

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By Safe Hand

MOST SECRET

British Embassy,
Washington, D.C.
November 22, 1941

W.T. 1024/78/41

Dear Dietrich,

I send you herewith a copy of a letter and enclosures which I have sent today to Mr. Dean Acheson regarding French efforts to obtain further funds in Brazil and to make use of them for provisioning the Antilles.

I would like to emphasize the fact that the information has been derived from a very secret and delicate source which it is extremely important not to compromise.

Yours sincerely,

/s/ R. J. Stopford

Mr. Frank Dietrich,
U.S. Treasury Department,
Stabilization Office, Room 279,
Washington, D. C.

Copy:hmd:11/24/41

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W.T. 1024/77/41

89

By Safe Hand

British Embassy,
Washington, D.C.
November 22, 1941

Most Secret

Dear Mr. Acheson,

We have received from London translated extracts from a report derived by them from an extremely secret source which throw an interesting light on French efforts to obtain further funds in Brazil and to make use of them for provisioning the Antilles. It appears that a Mission under M. Artur and M. Marry was sent to examine this question and that these papers were a part of the documentation of the Mission.

I am sending you copies of these papers herewith and would emphasize that they were derived from a very secret and delicate source which it is extremely important not to compromise.

You will notice these extracts are all some months old but they do provide further evidence relative to the Franco/Brazilian transactions referred to by Mr. Hall in his letters to you of September 27th and October 1st last. The probability that the French have somehow or other come into possession of funds in Brazil is also confirmed by another message which we have just received, again from a very secret source, to the effect that they have asked for details of goods that can be purchased in that country for storing.

On the other hand, the extracts appear to indicate a definite possibility of the utilization of free funds for the purchase of supplies for the Antilles. If this be the case, it is a factor which will, no doubt, be taken into account when the question of the monthly release of 800 million dollars, at present allowed for this purpose, comes up for reconsideration.

Yours sincerely,

Mr. Dean Acheson,
Assistant Secretary of State,
State Department,
Washington, D.C.

(Signed by RJStopford)

RVP:OSB

cc: Mr. Frank Dietrich

Copy:hmd:11/24/41

Extract from Report of the Mission in French Guiana & Brazil

II. Provisioning the Antilles:

Many causes contribute to make it more and more difficult to obtain supplies for the French Antilles and Guiana in the United States. The state of national emergency declared by President Roosevelt, turning the efforts of the country exclusively toward the production of war materials, has brought about a rise in prices to which are ceaselessly added new restrictions and prohibitions which paralyze exports. The American boats which up until now had participated in this provisioning are limiting now the tonnage at the disposal of the French possessions to the benefit of the material and food supplies destined for the English colonies where construction work on American bases is going on.

Furthermore, the crowding of the port of New York and the priority given to loading for Great Britain cause increasing delays for the French boats which have come for supplies for the Antilles.

Therefore it has been necessary to seek elsewhere at least a part of the material indispensable for the life of our American colonies and since February the "ST-DOMINGUE" has made a trip to Bolem. (! Belem).

Its success encouraged the Admiral High Commissioner in his desire to make up in Brazil for the difficulties of purchasing certain supplies in the United States. Since then in conjunction with the Embassy at Rio, he has studied the resources of the market, the means of making payment, and the problem of delivery:

2. Means of paying

- a) the dollars released each month by the United States Government can be used in the whole hemisphere and hence in Brazil.
- b) the gold exported from Guiana (about 90 to 100 kgs. per month) is transformed into exportation milreis available at the Bank of Brazil.

- 2 -

- c) finally the payment agreement of June 18, 1940 between Brazil and France can operate for the provisioning of the Antilles.

The particular advantages that this method offers have been explained in detail to the Admiralty in order that the agreement be put into effect as soon as possible, the Minister of Finances not having seemed to be very hurried for its ratification.

It is important that we not let certain enterprising business men turn to the profit of private interests an agreement which can aid in an effective provisioning of the home country and of the colonies and not in stocking in Brasil merchandise which would be used at some indefinite date.

For political reasons, the Embassy of Rio insists that the bank used for the transactions be the Bank of Brazil. That Bank has agreed to make all arrangements in Buenos Ayres and Montevideo for the purchase in Argentina and Uruguay of merchandise which Brazil cannot furnish.

[In conclusion, the report suggests certain measures which might be taken to improve the situation and prepare for the future, among which are the following.]

- Brazil.
1. Have the French merchant boats taking refuge in Buenos Ayres sail in South American waters, chartering them according to an appropriate agreement.
 2. Organize under the French flag the provisioning of the Antilles in Brazil by establishing a line from Port-de-France, to Rio and Buenos Ayres. The banana boat "KATIOLA", the "ST-DOMINGUE" or preferably a second banana boat could be obtained for the use of this line.
 3. Sanction the payment agreement between France and Brazil of June 18, 1940 and utilize it without delay for the provisioning of the Antilles.
-

Memorandum for Admiral Robert, High
Commissioner of the French Government
in the French Antilles, in care of Mr.
Marry, now in Rio de Janeiro.

Means of Payment

The matter of the means of payment seems to be settled perfectly, whether it is a question of dollars which can be spent freely in Brazil, or of export Milreis placed at the disposition of Fort de France by the Bank of Guiana.

It is known that the Brazilian government, at the request of the United States, has given preliminary authorization as an indispensable condition for the exportation of a great number of Brazilian products. This measure, originally limited to exportations destined for the countries across the seas, has just been made obligatory for exports to American countries.

However, according to instructions which we have received from a good source, these authorizations will be granted for goods meant for the French Antilles.

It is doubtful whether promises of non-re-exportation will be required for goods bought by the French Antilles, but there does not seem to be any doubt that the immediate difficulties will loom up if the French Antilles re-exports Brazilian goods to France or to French Africa.

As for the relations between the Bank of Martinique and the Bank of Brazil, we think it would be a good idea to send our Department the duplicates of all instructions addressed to the Bank of Brazil. This precaution seemed absolutely necessary as far as business with Guiana is concerned and we were able to render some appreciable services to the Bank of Guiana. In fact, one must remember that the mechanism of the Bank of Brazil moves rather slowly and it is a good idea to hasten its action a little.

As you know, exporting is subject in Brazil to innumerable and exacting formalities. We shall do our best to solve these difficulties. The High Commissioner may be assured of our co-operation on all occasions.

Copy: hmd:11/24/41

[Extract from Notes]Artur

In December, requests sent to Ambassador

- Commercial documents and concerning the governing of payments.
- Intervention with the Brazilian government and with the Bank of Brazil so that they will facilitate our purchases.

3 obstacles to our purchases:

1. Means of payment - France has not been able to furnish us any, but the obstacle has been removed since we obtained permission in February to use in the whole hemisphere the dollars accruing from the new license, and the Bank of Guiana furnishes us export milreis.
- - - - -

Present General Rules

- Purchases in Brazil are to be destined exclusively for the local consumption of the Antilles - no re-exportation (We pledged ourselves expressly to it and we are keeping this pledge).
 - Payment in export - milreis of the Bank of Guiana or in \$ on the license to N.Y.
 - The exportation to Brazil of French products by way of the Antilles is forbidden - but the export to Brazil of North African and Antilles products is permitted.
- - - - -

Copy:hmd:11/24/41

C O P Y

[Extract from Notes]

Points to study.

The necessity of an agreement with the Brazilian government and the Bank of Brazil in order to facilitate our purchases.

We are giving guarantees: No re-exportation Cash payment Agreement with a principle of American government in providing a license which may be used in Brazil.

Regulation of payments: Which the Commercial counselor has informed us about.

Transportation.

Exportation of rum to Brazil, none.

Means of correspondence with Brazil, impossible by airplane according to Embassy.

Commercial attache: He will make purchases for public services (Shipping, public works, cement, iron) if we will furnish him the dollars.

The Commercial Attache
of the French Embassy
to Brazil.

Rio de Janeiro-May 22, 1941
370 Praia do Flamengo

Note regarding the present state
of negotiations for an agreement on
payments between Brasil and France.

Attached will be found an analysis of the agreement concluded between the two countries on June 18, 1940, a few days before the armistice. Essentially, this agreement meant the conversion of the securities comprising the Brazilian foreign debt into a partial payment (about two-thirds) for Brazilian goods purchased by the French Government.

At the end of the aforementioned note will be found some commentaries explaining why the agreement has not gone into effect and offering some suggestions for its partial, but immediate, functioning.

Consequently, taking advantage of the presence in Rio de Janeiro of the representative of the French bondholders (?), semi-official conversations took place with a representative of the Brazilian Government with a view to studying precisely this possibility of a partial application.

The Brazilian Government proved much more liberal than would have been expected. It was ready to make concessions, abandon acquired rights, etc.

It will be observed that, in the eyes of the Brazilian Government, the difficulties which stand in the way of French purchases of Brazilian goods and the transportation of these goods could be overcome by stocking the goods purchased at once and then shipping them to their destination, at the first opportunity.

From the French point of view, this solution, which does not seem very favorable at first glance, would offer the advantage, nevertheless, of giving force and vigor to the agreement of June 18, 1940, which otherwise would be in danger of remaining a dead letter. It also permits purchases of necessities at the very advantageous prices which prevail at the present time.

On the Brazilian side, the object would be to finance crop surpluses, which weigh heavily on the Brazilian economy, especially in the matter of cotton.

To put these suggestions into practice, the Brazilian Finance Minister authorized a group of bankers to handle the matter through their French agents. The men named are Numa de Oliveira and Domingos de Assumpcao Junior (of the Commercial and Industrial Bank of Sao Paulo) and Olavo Egdio de Souza Aranha (of the

- 2 -

banking firm of Monteiro, Aranha & Co. of Rio de Janeiro). Their French agent is Monsieur Jean Reinhard (of the 'Societe d'Importations et de Commissions' of Havre). This gentleman appears to reside in Marseilles at the present time and to be in close contact with the Food Ministry and the Ministry of Finance.

Copy:vw:11-24-41

Schedule No. 1Note in regard to the agreement of 6,18,1940Principal provisions of the agreement.

1. A common measure of value is established between the milreis and the Franc on a basis of current official quotations in Paris and at Rio for the dollar. It should be noted that there are a variety of quotations at Rio for the dollar according to the nature of the operations which are contemplated. The elements of the calculation change according to each case but not the formula which is as follows:

18698 Reis	- 1 dollar	1 Franc	- 18698	- 426 Reis
43.90 Francs	- 1 dollar		43.90	

2. The French government agrees to buy annually 800 million of Brazilian merchandise, which is about 67 millions per month, provided prices are not higher than in 1939 and if there are means of transportation.

3. The Brazilian government agrees to be paid in the following manner by the Office of Compensation at the end of each month:

Account A. 22 millions, in dollars, in free money.

Account B. 18 millions put in reserve for the payment of French merchandise.

Account C. 27 millions put in reserve for the redemption of Brazilian claims.

At the end of the year certain transfers are authorized, between accounts C. and B. This will make possible an adjustment with gold and will furnish the necessary funds for the transfers of dividends, etc.

4. The Brazilian government agrees to raise a round total of 550 millions of Francs for the redemption of seven Brazilian loans as well as that of the Company Sao Paulo and Rio Grande. (For the remainder, negotiations and taking over of former contracts.)

5. The French Government will agree to pay the claims mentioned above before the 18th June, 1942. After that date, the Brazilian government will recall "at a price which it judges convenient" the vouchers (? coupons) which have not been taken up.

6. The agreement is applicable to the colonies and will remain in force for one year.

- 2 -

Comments

The agreement was not carried out because the French government was unable to make purchases (due to lack of transportation), nor to pay off the vouchers (the Germans are in charge of everything) nor to make payments in dollars, nor manage the funds themselves which are a basis of the accord.

Therefore, France cannot buy anything in Brazil, at present time, without paying the account, or in dollars.

It is not a great misfortune in the state of things, but it can be stated that meanwhile the supply of the colonies suffers and many difficulties can be foreseen and there will be many delays in the supply of the country itself. Otherwise the advantages which have been granted to us by Brazil may be left as dead.

In the course of events the Minister of Foreign Affairs at Vichy sent us a telegram under date of May 5, reporting that the French government was favourable to Brazilian suggestions and requested several reports.

A private telegram sent by Mr. Jean Reinhart to Brazilian bankers under date of May 7 indicated that he expected to make a purchase of 100 millions of Francs during the present month of June.

Commercial Attache of the French Embassy in Brazil (Seal)

Supplement No. 2

Rio de Janeiro, March 21, 1941.

In the course of official conversations with Mr. Marcos de Souza Dantas, Brazilian negotiator of the agreement of June 18, 1940, the commercial adviser of this embassy and Mr. Berger have picked up some interesting indications on the arrangements made by the Brazilian government in respect to this agreement, which has remained a dead letter until now by reason of circumstances.

1. The Brazilian government would accept a partial execution of the said agreement on the following terms:

- a. Redemption of the bonds of the Brazilian debt.
- b. Settlement of the Sao Paulo-Rio Grande affair.
- c. The funds thus made available would be used,

until the 550 million francs making up the liquidation fund are exhausted, for purchases which France proper or the French colonies would make in Brazil.

2. The Brazilian government would temporarily give up its claim to receiving from the French government payments in dollars and in French francs (Account B) as provided for in the agreement, and would also forego the clauses obligating France to a minimum of purchases in Brazil. When the situation returns to normal again, the agreement would be carried out in accord with the provisions of the original texts. The time limits provided for in the agreement would be extended and would not go into effect until after hostilities had ended.

3. The French government would give the Brazilian government a receipt in full in the name of the Sao Paulo Rio Grande, and would be credited by the Brazilian government, at the Bank of Brazil, with milreis equivalent to the amount of French francs which it would have deducted for this purpose from the total of the liquidation fund at the rate of exchange stipulated in the agreement.

4. As the Brazilian government receives the bonds of Brazilian federal loans issued in France and enumerated in article 6 of the agreement of June 18, 1940, it would credit the French government at the Bank of Brazil with the corresponding amount in milreis, according to the division which the French government would find it expedient to make among the bonds of the various loans, and at the rate of exchange stipulated in the agreement.

5. The French government would use these credits in milreis for purchases of goods and in general for all payments which it might have to make in Brazil.

6. It was Mr. Marcos de Souza Dantas who took the initiative in making these suggestions. He said that he was authorized by the Minister of

- 2 -

Foreign Affairs to convey them to the French government, although they do not, for the moment, constitute an official offer of the Brazilian government.

The goodwill shown by the Brazilian government is doubtless due to the fact that it is afraid, if the agreement of June 18 were to remain a dead letter, that it will have to take up negotiations later with other representatives under conditions less favourable for the Brazilian government.

In a subsequent conversation Mr. de Souza Dantas let it be understood that in case the French government accepts the above formula, the Brazilian government might suggest that it make use of a part of the funds at its disposal at once for the purchase of certain Brazilian products, on terms which will be laid down, but without storage risks or warehouse expenses for the French government. This proposition would enable the Brazilian government to finance in part its agricultural surpluses and would assure the French government of a reasonable interest return on its fund, until it can accept the delivery of the goods. However, in the mind of the Brazilian spokesman, this provision is apparently not a necessary condition of the proposed arrangement.

I should be grateful to Your Excellency if you would send me your instructions as soon as you are notified by Mr. Cheysson, to whom I am delivering the present telegram.

Saint Quentin.

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[Extract from Note on Franco-Brazilian Payments]

[Incomplete in Report]

The contracting parties provisionally agree that the purchases of France and French colonies will be liquidated as follows:

33% in gold (for want of dollars) to be paid in the stocks of Martinique, on deposit in the Bank for International Settlements.

26% of the special block in account X, in Milreis, to the Bank of Brazil with a guarantee of gold, to regulate French merchandise or to permit certain transfers in conformance with the agreement of 6,18,1940.

41% of the special block through account Z, in Milreis, to the Bank of Brazil, with a guarantee of gold, to redeem on a certain day the Brazilian vouchers, in conformance with the agreement of 6,18,1940.

As may be seen it will be the Bank of Brazil which will handle the funds (in the name of the Office of Compensation, liquidated elsewhere) and the accounts will be in Milreis instead of in Francs, under the terms of the conversion schedule established on 6,18,1940.

The agreement will be effective and its mechanism will be ready the day when the needs of our country have a problem which needs to be solved with urgency.

C
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YDEPARTMENT OF STATE
WASHINGTON

November 22, 1941

In reply refer to
FF 894.515/91

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses copies of the paraphrase of telegram no. 644, dated November 21, 1941, from the American Embassy, Mexico City, Mexico, in reply to a circular instruction of November 14, 1941 regarding gold imports from Japan.

Enclosure:

From Embassy, Mexico City,
no. 644, November 21, 1941.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Mexico City, Mexico

DATE: November 21, 1941, 4 p.m.

NO. : 644

This telegram is in reply to the November 14 telegram of the Department. As the result of a careful investigation of the Bank of Mexico and of private banks, it has been disclosed that no gold shipments from Japan have recently been made.

MCGURK

Copy:bj:11-24-41

November 22, 1941.

TO: Mr. F. J. Dietrich
FROM: D. J. Liddy

With reference to Mr. Knoke's memorandum of September 15 to Mr. Cochran, and your memorandum of September 29 to Mr. Cameron, regarding the sending of Reichsbank mail to the Banco Germanico de la America Del Sud, Mexico City, I am enclosing copy of a cable received from the Reichsbank, telling us to send such mail in the future to the German Embassy, Washington. Mr. B. Bernstein was at the bank yesterday and Mr. Knoke showed him a copy of this cable, which Mr. Bernstein felt was all right.

In the absence of any instructions to the contrary from the Treasury, we intend to comply with the cable instructions of the Reichsbank to send mail destined for it to the German Embassy, Washington, D. C.

(Signed) D. J. Liddy

COPY

INCOMING CABLEGRAM

Received on November 21, 1941

Berlin, November 20, 1941

Federal Reserve Bank of New York

New York

No. 192

With reference to your cable No. 193 please
forward your mail destined for us to German Embassy
Washington until further notice mentioning that mail is
destined for us.

Reichsbank.

Copy:lc:11/24/41

TREASURY DEPARTMENT

106

INTER-OFFICE COMMUNICATION

DATE November 22, 1941.

TO Secretary Morgenthau

FROM Mr. Dietrich

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£13,000
Purchased from commercial concerns	£22,000

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

The Venezuelan bolivar, which has been quoted at .2760 during the past few days, advanced 20 points to close at .2780 today.

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

Canadian dollar	11-1/4% discount
Argentine peso (free)	.2390
Brazilian milreis (free)	.0505
Colombian peso	.5775
Mexican peso	.2070
Uruguayan peso (free)	.4900
Cuban peso	1/8% discount

There were no gold transactions consummated by us today.

The Federal Reserve Bank of New York reported that the following shipments were consigned to it, the disposition of which is unknown at the present time:

\$1,171,000 from Mexico, shipped by the Bank of Mexico for its account.

559,000 from Chile, shipped by the Central Bank of Chile for its account.

\$1,730,000 Total

The Federal also reported that a shipment of gold amounting to \$1,174,000 arrived from Mexico yesterday and was earmarked at the Federal for account of the Bank of Mexico.

BRITISH EMBASSY
WASHINGTON, D.C.

November 22nd, 1941

PERSONAL AND SECRET

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

Harper

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

Telegram from London dated November 21st, 1941

NAVAL.

1074

During and after attack on convoy off Lesser night of 19th/20th enemy losses estimated two E-boats sunk, two probably sunk and others damaged. In engagement by M.G.B.'s off Holland M.G.B. 64 and 67 engaged at least four E-boats at 04.45/20th; lasted thirty minutes, range came down 200 yards; enemy fire was wild. After action E-boat S41 found stopped other E-boats made off; S41 sank. Believed four groups of E-boats operating against convoy during night. His Majesty's ship "Wolsey" possibly sank one, His Majesty's ship "Campbell" and M.G.B. 87 another.

A.M./16th His Majesty's submarine "Sea Lion" 25 miles east off North Cape set on fire with gun fire Norwegian tanker 331 tons carrying 304 tons of benzine and oil to Kirkenes from Narvik. Two hours later tanker was still heavily on fire.

In cooperation with military advance in Libya His Majesty's ships "Maia" and "Buryalus" night of 18th/19th fired 415 CS into Halfaya area, good fires started; weather prevented aircraft being used.

MILITARY.

Russia. German attack on Rostov area has been resumed.

ROYAL AIR FORCE.

United Kingdom. Night of 20th/21st. Weather prevented operations.

Libya. 19th. 32 bomber sorties carried out in Gambut/Bardia/Capuzzo area and enemy AFVS and MT attacked/

-2-

attacked with satisfactory results. MT stores and tents were also bombed near El Adim and three Italian fighters destroyed and 13 damaged on landing ground Sedi Resegh.

Mediterranean. On 19th five Blenheims attacked convoy of three ships escorted by destroyer in the Gulf of Sirte; one ship estimated at 5,000 tons hit and left with a list, another merchant vessel near missed and a schooner appeared damaged.

Night of 19th/20th. Attacks on railway centre and gas works Naples; oil tankers, barracks and factories, Brindisi, Tripoli, Benghazi and Messina.

RESTRICTED

G-2/2657-220; No. 550 M.I.D., W.D. 11:00 A.M., November 22, 1941

SITUATION REPORTI. Eastern Theater.

Ground: The situation at Leningrad is unchanged.

Heavy fighting continues on the Moscow front from Tula to Kalinin.

On the south central and southern fronts the German advance continues. It is reported that the Germans have captured Yefremov (75 miles east of Orel). The German High Command has announced the capture of Rostov.

II. Western Theater.

Air: A low-flying formation of R.A.F. planes was observed near Folkestone this morning on their way to continue attacks in occupied France. Last night British fliers were again grounded. A few Nazi raiders dropped a few bombs in southwest England and South Wales last night.

The German High Command announced that during a daylight raid yesterday German planes scored hits on a railway station north of Newcastle. Last night an airfield on the southwest coast of Britain was bombed.

III. Middle Eastern Theater.

Ground: The German High Command reports a severe battle with strong British tank units, in progress. The Italian High Command reports counterattacks by Axis forces.

Air: The British Air Ministry announced that the Germans are attempting to fly reinforcements into North Africa by glider planes from Crete, but are meeting severe opposition from the R.A.F.

The German High Command states that Nazi planes in North Africa have been busy bombing the British lines.

RESTRICTED

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Sunday, November 23, 1941.
11/19/41

Press Service
No. 28-58

Revised Form 1040 for 1941 income tax returns was made public today by the Treasury Department.

All individuals filing returns who do not elect to use simplified Form 1040A prescribed in accordance with the Revenue Act of 1941 for certain incomes of \$3,000 or less will make their reports on the new Form 1040 regardless of the size or source of their incomes.

Form 1040 also has been simplified this year so that persons whose income is entirely from salaries and other compensation for personal service, dividends, interest, rents, royalties and annuities may fill in pages one and two of the new Form and disregard the remaining two pages. The Form is so printed that in such cases the taxpayer may tear off the second sheet of the Form on which pages three and four are printed and file only the first sheet which contains pages one and two.

Taxpayers who have income or losses from other sources, such as from business or sale or exchange of capital assets, will fill out the entire four pages of the Form.

Printing of the forms is being rushed so they will be in the hands of Collectors of Internal Revenue by January 1, 1942. The Bureau of Internal Revenue estimates that 10,000,000 or more taxpayers will use Form 1040 this year and some 12,000,000 taxpayers the simplified Form 1040A.

The old Form 1040 was used by all persons whose gross income was more than \$5,000, but under the present system all taxpayers who are not eligible or do not elect to use Form 1040A will use Form 1040, if gross income is equal to or exceeds the exemption of \$750 for a single person and \$1,500 for a married person.

A large majority of the taxpayers who formerly used Form 1040 will find the revised Form much more simple, Bureau of Internal Revenue officials pointed out. If their income is wholly from compensation for personal services and from investments, they will be able to skip items 7, 8, 9 and 10 on page one and disregard pages three and four of the Form.

A sheet of instructions is attached to the Form and contains the information necessary for the proper preparation of the return.

The new Form 1040A, prescribed in accordance with the Revenue Act of 1941 for incomes of \$3,000 or less from salary, wages, compensation for personal service, dividends, interest, rent, annuities and royalties, is even more simple than the new Form 1040. A table on the reverse side of this Form shows the amount of tax on increasing amounts of gross income after the proper allowance of \$400 for each dependent, if any.

In the case of this simplified Form 1040A, the status of a person on the last day of the taxable year is the governing factor in determining the exemption level as well as the credit for dependents. On Form 1040 the personal exemption and credit for dependents are prorated according to the portion of the year during which the taxpayer was married or head of a family or had dependents.

In the case of the new Form 1040A the tax is the same for each \$25 block of gross income and the taxpayer need only ascertain in which block his gross income (less the allowance for dependents) falls to determine his tax. A flat reduction of 10 percent has been made in arriving at the amount of tax shown in the table for deductions such as charitable contributions and taxes paid, so that the taxpayer who uses this Form does not list these but gets an automatic deduction of 10 percent.

Use of this simplified Form 1040A is optional for taxpayers whose income is wholly from the specified sources and does not exceed \$3,000. Those who prefer may use Form 1040 though their income is less than \$3,000.

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, November 25, 1941.
11/24/41

Press Service
No. 28-60

The Secretary of the Treasury announced last evening that the tenders for \$200,000,000, or thereabouts, of 91-day Treasury bills, to be dated November 26, 1941, and to mature February 25, 1942, which were offered on November 21, were opened at the Federal Reserve Banks on November 24.

The details of this issue are as follows:

Total applied for - \$466,603,000
Total accepted - 200,026,000

Range of accepted bids: (Excepting two tenders totaling \$30,000)

High	- 99.977	Equivalent rate approximately 0.091 percent
Low	- 99.926	" " " 0.293 "
Average		
Price	- 99.932	" " " 0.267 "

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

-oOo-

November 24, 1941
11:15 a.m.

GROUP MEETING

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

Thompson: The Attorney General has advised you that he is prepared to take over the investigations of the defense agency employees.

H.M.Jr: Right. Well now, let me ask you a question. Are we investigating now anybody outside of the Treasury?

Thompson: Well, there are about sixteen hundred of these defense cases left to be completed by us.

H.M.Jr: But outside of that?

Thompson: No, sir.

H.M.Jr: Well, without a written order from me, will you not investigate anybody outside of the Treasury unless I give you a written order?

- 2 -

Thompson: Yes, sir. There may be some Civil Service - do you know, Mr. Gaston?

Gaston: I don't know of anything outside the Treasury except those income tax checks on the dollar a year people. That is the only thing we are doing. That was by your orders.

H.M.Jr: Dollar a year?

Gaston: They sent us over the names of the dollar a year men to check the income tax records.

H.M.Jr: But no field investigations?

Gaston: No field investigations. Merely a record check on them.

Thompson: That is all.

H.M.Jr: Daniel?

Bell: Mr. Shelton, business manager of the Times Herald here in town, is trying to organize the newsboys of the town to sell defense stamps.

H.M.Jr: Where is Graves?

Kuhn: He is at a meeting in Procurement.

Bell: He called me just now and said that he had gotten Gordon Leach, who is the President of the Boys' Club, to get together tonight about twelve or fifteen hundred boys in the Department of Commerce auditorium. They are trying to get Colonel Knox to come down for three minutes, and they thought it would be awfully nice if you could drop in for two or three minutes.

H.M.Jr: Since Tuesday night I have had the most terrific back. It has been bandaged the whole time. So I am not going anywhere. But we have

- 3 -

here, the business manager of the Philadelphia Bulletin, who is here with us, you know.

(Mrs. Klotz entered the conference).

Bell: No, I didn't know it.

H.M.Jr: The business manager of the Philadelphia Bulletin is here, and they are the people that discovered the plan and worked it out. He is very able.

Bell: This is more for show, and they didn't want anybody to make a speech or anything, but just welcome them for maybe one minute.

H.M.Jr: Well, you go down there. Have you got a social date?

Bell: No. I wish I did have.

H.M.Jr: Have you?

Bell: No, I have not.

H.M.Jr: Then you are elected, please.

Bell: Thank you.

H.M.Jr: But you had better turn this right over because this thing - he most likely knows it. What is the name of the man?

Kuhn: Stodgill.

H.M.Jr: Yes. They say he is really pretty much the works of the Philadelphia Bulletin.

Bell: Apparently they want to do a better job than the Bulletin.

H.M.Jr: As somebody in this room told me, it is fat and dull, just like the Star. What else?

- 3a -

That is good, because I asked Harold particularly to get the thing started in Washington.

Bell: You were asking about the Icelandic Lease-Lend agreement. I don't believe there is anything there in which we are very much interested. We were in on part of it. It is just a straight Lend-Lease agreement. We are going to purchase food in Iceland for Great Britain, largely fish, and the Department of Agriculture is going to do that. We made arrangements for the payment, the voucher to be issued up there, and they will cable us, and we will draw a check here to the credit of the Iceland Government. The Icelandic Government is going to operate here through the Lend-Lease machinery and they will put up the dollars.

H.M.Jr: Who looks after the fish in the Treasury? (Facetiously).

Bell: I don't know. I haven't found out yet.

H.M.Jr: But anyway, it is all right, is it?

Bell: It is all right.

H.M.Jr: What I would like to do, and if anybody isn't satisfied they can have a rebuttal on it, now that Merle is back, I would like all incoming cables, no matter what the subject is, copies to go to Bell and White and Dave Morris, see. Then if Dave feels it is something that I should see, it is up to him to see that I see it, you see? All incoming cables. I am sort of dividing the thing. Anybody can do it. White will look after any of the Lend-Lease people, and Cochran will continue to look after the Stabilization Fund. But please, each of you keep Bell, White, Morris, and Cochran informed on anything that has to do with the foreign field.

- 4 -

Foley: A lot of those have to do with Foreign Funds, Mr. Secretary.

H.M.Jr: O.K., you are included. But Dave, it is going to be your job. Do you want to see the cables too?

Foley: I think it would be better.

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

Bell: You do now.

Foley: We do now, and I think we should continue to get them.

H.M.Jr: That is the purpose of the nine thirty, and the reason I want Dave Morris to see them is to see that if it is something that needs action, Dave, or if you think I should see it, you see.

Morris: Yes, sir.

H.M.Jr: Would you take that chore on, please? And if anybody isn't satisfied, they can talk to me about it afterward.

Bell: Well, you can't split it, exactly like that, because there may be problems as, for instance, in Lend-Lease, which I don't believe Harry would be interested in. I don't think he is interested in the payment provisions of this Icelandic --

H.M.Jr: You might be surprised.

Bell: Well, he shouldn't be, I will put it that way (laughter).

H.M.Jr: That is something different.

Bell: Too many cooks spoil the broth.

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H.M.Jr: Well anyway, I figure if Bell and White and Foley all see the stuff, and if Dave, who knows nothing about any of this, would go around and say, "Well, who is looking after this," and if not he is going to see that somebody does, and that I am informed if and when necessary, you see.

Cochran: May I stand up for myself just a little there? I mean, I have had the responsibility in the past to see that all cablegrams were acted upon. Now, shall I have that in the future or is it to Mr. Morris? I mean, for a long while I kept sort of a catalog of Foreign Funds cablegrams. They all come to my office, you see. Everything from abroad comes in there. Then we arranged with Mr. Pehle so that I didn't do that any more, but still I get copies of the cables.

On the other hand, these go to these several people for action. I mean, Mr. Bell and Mr. White have so far always gotten copies of everything, I think.

H.M.Jr: Yes, but I haven't always got action. That is my complaint.

Cochran: On anything specific?

H.M.Jr: Oh, yes. A number of things have dragged and dragged and dragged. You keep your tally just the same, but since Morris is here, he acts as my adjutant on a lot of things, not just on this, you see. You keep your tally and if we get action, then it isn't necessary for him to step in. There have been a lot of things that drag out for weeks. I can't just remember them, but there are plenty. Well, that Swiss thing, for instance, while you were gone.

Cochran: I don't know what it is.

- 6 -

H.M.Jr: Well, let's try this. Let's see how it works.

Bell: Member Bank reserves during the week ending the 19th went up to two hundred thirty-five million, of which eighty-five is - was required reserves, and a hundred and fifty million excess. New York increased in excess reserves by a hundred and sixty million. The country outside of New York went down ten. Most all of that increase is due to reduction in the Treasury balance by about two hundred and nine million dollars. Now, I think most of the estimates we have seen on excess reserves were for the end of the year.

H.M.Jr: Well, - how do you do, George?

Haas: How do you do, sir?

H.M.Jr: How are you feeling?

Haas: Much better, sir.

H.M.Jr: I could use another memo from you on excess reserves.

Haas: Swell. I am up on that. I know what that is.

H.M.Jr: I would like very much if Bell and whoever works with him and Haas and Dave Morris would hold a meeting with the Federal Reserve people, invite them up here from New York Wednesday on excess reserves, because this tightening in the short money market, I think it needs watching.

Bell: We have been having some meetings with the Reserve people on financing, and the reserve picture is in that. They are meeting today at the Board, not with us.

- 7 -

H.M.Jr: Well, I don't know whether we have been sold down the river or not, but - certainly in the short money market, and you fellows have got to get ready for a big financing in December. I don't know when I am going to get away.

Bell: We will have a memo to you this week on some of the things we would like you to do before the December financing.

H.M.Jr: When would you want to do the December financing?

Bell: Well, I would like to do it the week of November 30th.

H.M.Jr: The week of November 30th?

Bell: That would be about the 4th, I think, Thursday.

H.M.Jr: Well, I will know better tomorrow.

Bell: Thursday the 4th I think would be a good day. Otherwise, it would have to go over to the 9th or 10th.

H.M.Jr: I will be here the 3rd and the 4th.

Bell: I would like to do it on the 4th. That would be Thursday.

H.M.Jr: As far as I know.

Bell: And then we can have payment on the 15th. I am afraid if we go over to the following week we have got to defer payment until about the 20th.

H.M.Jr: Well, I think the 3rd or 4th. Let's set it temporarily. But don't tell anybody outside the Treasury. All right? But I am bothered about the tightening of the money market.

- 8 -

Bell: Here is a memorandum on the Cabinet meeting.

H.M.Jr: Will you (Mrs. Klotz) send it to the house?

Bell: Mr. Haas has gotten up a rather interesting table on the distribution of the two and a half '67 - '72 bonds, showing that in the period of eleven days after the original allotment two hundred and fifty-five million dollars have been added to the portfolios of commercial banks, mutual savings banks, and insurance companies, and that the individual subscribers and dealers have lost that amount. That will be in the bulletin, won't it, George?

Haas: Yes.

H.M.Jr: I see.

Bell: That is all I have.

H.M.Jr: Harry?

White: I haven't yet replied to Mr. Bewley's request with respect to the status of the gold which is to come here from Russia in relation to the gold which they expect to receive. I had asked a question. Do you want to have a meeting, or can you give me the answer?

H.M.Jr: I should give you an answer?

White: Yes.

H.M.Jr: Well, I thought the Russians wanted to know what they could get for their gold. I thought that was the last.

White: There was another question which the British asked and that was whether the thirty million dollars of gold which you have bought for future delivery constitutes the American share

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of the gold which is to be sold to both countries.

H.M.Jr: The answer is, "Nuts". I never had that in mind. I mean, that was done the week before the Lend-Lease as an emergency matter in order to help these people get this thing until the Lend-Lease passed. It was a life saver for two weeks.

White: I suggested that that was probably the understanding.

H.M.Jr: The English try to push me too hard, and I have got to sort of take a grip on myself. After all, they are fighting my battle, but it is that kind of thing that annoys me terrifically. Ask the English what do they want to sell the Russians for the gold. What is all the trading for?

White: That has come out on - or it may have come out on Friday, or Thursday, rather, and I am sending a note to you. There is some material which they have bought, some planes.

H.M.Jr: Well, let's do it some other time. There is no rush about it. They have been monkeying around with this.

White: I have here a memorandum of an initial report on this American technical mission to Cuba which we would like to submit through the State Department to the Cuban Government, if it has your approval. There is one --

H.M.Jr: Tax?

White: No, this is the recommendations for monetary reforms there. This is the initial report of the economic - the monetary mission, of which I was chairman.

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H.M.Jr: Could somebody else, whoever is interested, do it before it comes to me?

White: Yes, I will see that that is done, and we might come to you with a proposal. I would like to get it today or tomorrow.

H.M.Jr: I will make it easy. If Bell - is anybody else interested?

White: Yes, Merle and the legal division would be interested in this problem.

H.M.Jr: If they are satisfied, let it go.

White: All right.

I looked over the reports on the mail which you had asked if anyone was interested to see. I think they are very interesting, and I am just going to ask a question. The answer may be very simple. There are numerous items in here which raise either criticism or misunderstandings or something with the Treasury. Does somebody have the responsibility for seeing that following each one of those things up and seeing that it is taken --

H.M.Jr: Norman Thompson.

White: That is already taken care of, then. That is all.

H.M.Jr: I would like to say without going into any detail - Harry doesn't know this - in the first place I think what the President did on the coal strike was one of the great things in his career and I called him up after I heard it on the radio, and I never heard him more cheerful or in a better frame of mind. He was just simply delighted. Harry had done a very amazing

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memorandum of suggestions on the Japanese questions, and I sent them over to the President and Mr. Hull, so I asked the President whether he had been able to make any use of them, that we had been shooting in the dark, and he said yes, they had incorporated several of your suggestions. I thought you would like to know.

White: That is interesting.

H.M.Jr: Anything else, Harry?

White: That is all.

H.M.Jr: Chick, you know every time - not every time, but two or three times Gregory has gotten off some wisecracks about these newsletters that get inside dope. There are only about a half dozen of them, and they come out on Monday. I wish you would read them.

Schwarz: I have been reading all of them.

H.M.Jr: And if they know something that you don't know, will you bring it to my personal attention?

Schwarz: I certainly will. I have seen a few things which they say are facts which --

H.M.Jr: If there are some things you don't know, you bring them to me, and if they particularly have to do with taxes, you can talk to people that are handling taxes.

Schwarz: And let them know that --

H.M.Jr: But as I say, these half dozen things --

Schwarz: There have been occasionally a few lines now and then which --

(Mr. Graves entered the conference).

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H.M.Jr: Harold, did you bring home the bacon?

Graves: We already had the bacon, it turned out (laughter).

Klotz: What do you mean?

White: I hope it wasn't rancid.

H.M.Jr: Well, that is fine. What was it, just window dressing?

Graves: It was a large meeting with representatives there from the War and Navy Departments, OPM, OEM, Department of Commerce and ourselves, and it was a discussion of the whole space situation for the entire Government.

H.M.Jr: Anybody particularly gunning for the Treasury?

Graves: Not at all. Mr. Reynolds made it clear that he was vacating that building, moving into a building on H Street that had been intended for the Maritime.

H.M.Jr: Well, if you would write a letter for me to Reynolds, I would like to sign it.

Graves: Fine.

H.M.Jr: Because I think he did it on a strictly personal basis. He once worked for me, and he happened to like me. That takes care of that. Harold, afterward see one Bell. Bell insists on going to address one hundred newspaper boys this afternoon. I tried to stop him, but I can't.

Bell: What a guy (laughter).

H.M.Jr: You know, it is funny. After a while it even gets the Civil Service boys. They like to go on the air, you know.

Bell: It certainly does. You just can't hold me back.

Schwarz: We would like permission to try to work out a method of taking on for a short time on a per diem basis a boy named Jack Turner, who has been collaborating with Mark Childs on a book of income tax cases. I have told Ferdie about it. It wouldn't conflict with the Atlantic City case. This boy is crippled and can't work every day, but he is - he is doing a good job. I have seen some drafts of some of his stuff.

H.M.Jr: What does he want to write?

Schwarz: It would be a story on all of the major income tax evasion cases that we have had with a chapter for each one. The publishers in New York are interested, but they haven't been able to give an advance on the thing. Now, if we do it, he won't take any other compensation from the publishers.

H.M.Jr: If you and Ferdie are satisfied, I am.

Schwarz: Fine.

H.M.Jr: Anything else?

Schwarz: I have a draft of the story on the deputy collectors up in the third district, if you would like to see it. Ferdie and I talked about it, and decided we ought to let Ed - ask him to take a look at it and he will --

H.M.Jr: Has he?

Foley: I just got it.

Schwarz: He has just received it.

H.M.Jr: If he clears it, let it go. I don't want to see it.

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Schwarz: All right. And there is a last desperate appeal from the Marshall Field paper, the Chicago Sun, for a few lines from you. They say they have the President, the Vice President, and every other member of the Cabinet.

H.M.Jr: I once held out on that book too, you know. Tell him I am holding out for a cash offer.

Schwarz: They say if it is only a couple of lines, if they could have your picture in the group.

H.M.Jr: I have never done it, have I, Herbert?

Gaston: No, I think it is improper.

H.M.Jr: That settles it.

Schwarz: That is good enough. That is all.

H.M.Jr: It is nice to be lonesome sometimes.

Harold?

Graves: Nothing.

H.M.Jr: George?

Graves: You wanted to talk with me, I suppose, sometime soon about New York. I am ready to at your convenience.

H.M.Jr: This is a good one. I called up Harold - sent Harold up to fire a dozen people up in New York. I said, "Harold, do we understand each other?" He said, "Yes, absolutely." "Now, you know, this is one of the few times - " he said, "Yes, sir." And I called him up and I said, "Harold, what happened?" He said, "Well, it is one of those things I want to talk to you face to face about." (Laughter)

I said, "Is it as bad as that? Well, I won't spoil my Thanksgiving or yours." Well, Harold, if it is as bad as that, we can let it wait.

Graves: That is all right.

H.M.Jr: "One of those things I want to talk face to face with you about."

What did you do, increase their salaries, Harold?

Graves: Yes, raised their pay. (Laughter)

H.M.Jr: You know, it is funny how Graves gets a reputation of being a tough guy. (Laughter)

What else, Harold?

Graves: Nothing more.

(Mr. Haas handed reports to the Secretary.)

H.M.Jr: Send that stuff to the house. It is easier to look at. Are you feeling all right, George?

Haas: I am feeling all right.

H.M.Jr: Fine. Listen, young fellow--

Haas: I have got a report on the other stuff.

H.M.Jr: Have you?

I wish you would carry Mr. Barnard along on this, because I want him to help me on this stuff. I would like Bell and Barnard to know what I am - let Bell concentrate on the Byrd thing. I want Mr. Barnard, if he is willing, to help me on this. It is the same sort of

thing we are doing with Lend-Lease. We are taking every appropriation in Army and Navy to see how much they have spent on the contracts. I will talk to you about it.

Barnard: All right.

H.M.Jr: But I mean I want your (Barnard's) help on it.

Haas: We will have a new Lease-Lend chart with a new appropriation on the same day. The Navy is compiling some figures today and Maritime, Wednesday, and the War Department, exclusive of that, the balance of War Department, Lindow is over there now trying to get something out. I don't know just what luck he will have.

H.M.Jr: That is considered very confidential, Barnard.

Barnard: Yes.

H.M.Jr: This is the first one going after the Army just the way we did with the others. June 13, 1940, appropriation, under two billion four - as of September 30, they had spent just half of it. On their April 5, 1941, of a billion five, they had spent twenty-five million. Of their June 30 appropriation of three billion two, they had spent sixty-seven million. This stuff helps you making estimates, you see, Bell.

Bell: Yes.

H.M.Jr: Now, I want to get a chance to talk to you (Barnard). Maybe we can pick up something of what is the matter here.

Barnard: Yes.

H.M.Jr: Roy?

Blough: We have some charts we would like to have criticisms on whenever you wish to take a look at them.

H.M.Jr: I can take a short run on taxes at around three o'clock. I will have a half hour. I am going to be very frank. On this tax thing, until we get something, there is no use - well, I will put it this way. The people that have been coming are invited, but I think it is a waste of their time. I think if Blough and Sullivan and Foley and White would come to this particular meeting, and then - and Barnard, I think then when we have something - I don't think it is worth your while, Bell, sitting around.

Bell: I haven't been sitting in on them.

H.M.Jr: I am being very honest about it, and Herbert, when I have something then I would like to invite you and Bell in, but to tie you up for hours - because I expect to do this every day. But I do want you (Foley) and Kades, and I would like to meet that fellow Peterson.

Foley: O.K. When would you like to meet him, three o'clock? After the meeting?

H.M.Jr: Yes, three. I mean, I am being very honest. Just as soon as I have something, then Bell and Kuhn and Gaston, I will invite you in. Is that all right?

Gaston: Yes.

H.M.Jr: Do you mind?

Gaston: No.

H.M.Jr: I mean, I think it is a waste of time until

we get something. Is that all right with you?

Bell: Yes, sir, very much.

H.M.Jr: I can be overruled very easily.

Bell: No, I haven't been sitting in at all.

H.M.Jr: Oh, I see.

Sullivan: I think Tarleau ought to be in on that, too.

H.M.Jr: That is right.

Sullivan: Do you want the Commissioner?

H.M.Jr: Not at this, no.

Sullivan: I don't think so either.

H.M.Jr: But I did come back with an idea, and I wish you would think about it. Harold might help you. I would like to have the names of one, two, or three, but particularly one, of the best income tax fellows in the country working for the Treasury who are accustomed to going over the taxes of big corporations. I mean, who are our star men?

Sullivan: You mean in private practice?

H.M.Jr: No, working in the Treasury.

Sullivan: You mean in the Bureau?

H.M.Jr: Yes, from the field or wherever they are, you see. I would like to know who are the star men who know the corporation tax thing the best from just actually working with the thing.

Sullivan: I can give you those three right now.

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H.M.Jr: Who?

Sullivan: Tim Mooney, Norman Cann, and Ralph Reed.

H.M.Jr: Do you agree?

Graves: Oh, yes. I don't think that meets the Secretary's point, because those people are all tied up on administrative work.

Sullivan: Well, Ralph does mostly work for Tim along that line.

Graves: That is right.

H.M.Jr: Well, would you two talk it over?

Sullivan: None of those would be available to be detached from his present duties.

Graves: That is right.

H.M.Jr: Well, I want somebody detached for as long as necessary to sit in with us when I go into this new phase that I am going into on corporation stuff. I mean, I will only talk for myself. I have never worked a corporation's taxes, and I want some fellow that has done it all his life.

Sullivan: I see what you mean. I will get you someone.

H.M.Jr: I don't know whether you have or not.

Sullivan: No, I haven't.

H.M.Jr: I want a man who has done it all his life and who is just a little bit smarter, or he should be, than the fellow on the outside.

Sullivan: That is right. I think I see what you mean now.

H.M.Jr: Harold went all through it. Somebody that went to the X, Y, Z corporation and he found that loophole or this loophole and knows where to look. But I would like that fellow to come here with no responsibility except to work with us until we get this thing straightened out. I think we could use a man like that, you see. Some fellow that is outstandingly smart.

Sullivan: It would be very helpful.

H.M.Jr: With no responsibility but just to work with us. You must have some fellow.

Sullivan: Oh, yes, I think we have - we ought to have at least fifty men.

H.M.Jr: But wouldn't it be helpful to you, Roy, to have a man like that?

Blough: Yes, it would, distinctly.

H.M.Jr: Do you see what I mean?

Sullivan: Yes, I am all for it.

H.M.Jr: Although it is impossible, but smarter than the fellow who used to be in the Treasury and who is now with the U. S. Chamber of Commerce. What is his name?

Foley: Alvord.

He is a lawyer.

H.M.Jr: Well, he can be smart. (Laughter)

White: It happens occasionally.

Sullivan: Incidentally, I played golf with Alvord on Thanksgiving, and he still doesn't know where

they got those figures on the British national income, and he said they have a man who is going to work on it today. I told him that there was a field of mutual interest there, that we shouldn't overlook, and whatever antipathy existed, I thought it would be a good idea if when they got their figures they talked with us before they sounded off, and he said they would like very much to do it.

H.M.Jr: But you understand what kind of a fellow I mean?

Sullivan: I do.

H.M.Jr: All right, Roy?

Blough: Yes. On those particular figures, I understand they came largely from Professor Fairchild of Yale.

Sullivan: The ones the Chamber used?

Blough: Yes.

H.M.Jr: Anything else?

Blough: I think Mr. Sullivan has all the other matters to report on. I have nothing further.

H.M.Jr: I think, George, you had better be here at three. The charts are supposed to be made by your department. You had better find out, because I have asked for something entirely original. Roy paid me the compliment, he wished he had thought of it himself. Not being Roosevelt, he couldn't say he dreamed it. (Laughter)

Blough: I don't have the - well, I can probably have one of the overlays. I was going to show you

how the overlays would be used, but I don't have them ready this afternoon unless you particularly want them.

H.M.Jr: Well, bring in what you have.

Blough: We have quite a lot of stuff.

Kuhn: You have an invitation from the National Association of Insurance Commissioners to speak to them on December 8 in New York. They are the state supervising agents. I have written a note declining, but I wanted to check it with you.

H.M.Jr: You are perfectly safe.

Kuhn: You had a tentative acceptance of a speaking date in Cleveland on the twenty-ninth.

H.M.Jr: I have postponed that.

Kuhn: They have postponed it?

H.M.Jr: I have.

Kuhn: Indefinitely?

H.M.Jr: No, they are asking me now to give them one in January. I haven't answered.

Kuhn: The Dallas Journal is publishing a defense bond section, and they wanted to devote the whole front page to a picture of you, a picture of the President, and a letter from you to be reproduced in facsimile.

H.M.Jr: Who?

Kuhn: The Dallas Journal, Texas. I would like to have a signature on that.

H.M.Jr: Is that the paper that is having the tax

trouble?

Sullivan: I don't recognize it by that name. (Laughter).
Who owns the paper?

H.M.Jr: You know the one the Speaker brought in here,
where the fellow died, and they had a twenty-
five thousand dollar corporation and they
earned about a half million a year.

Sullivan: That is right. I don't remember the name.

Kuhn: How big a corporation?

H.M.Jr: Twenty-five thousand dollar capital, and they
earn a half million a year.

Kuhn: There is only one paper, Chick, that earns
a half million a year, and it is the News
in Dallas.

Schwarz: Yes. This isn't the larger paper there.

Sullivan: Who owns it?

H.M.Jr: Check it. I will sign it, but please check
it, because they have a case pending.

Klotz: They need your signature.

H.M.Jr: A twenty-five thousand dollar corporation.
Wasn't that right, they earned about a half
million a year?

Sullivan: I don't know. He talked with you before I
came in, and I didn't hear those figures.
I am sure I would have remembered those.

H.M.Jr: Anything else, Ferdie?

Kuhn: That is all.

Morris: Nothing.

H.M.Jr: What are you doing, living in a sleeper?

Morris: Pretty nearly.

Cochran: I have been traveling a lot, and I have a story on China when you get around to it.

H.M.Jr: If you would stay behind a minute, then I thought if we were able, tomorrow, I thought I would turn the nine thirty meeting over to you and let everybody hear it.

Cochran: All right. I will speak to you about that afterward.

H.M.Jr: But if you would stay behind a minute, I would like to talk to you. You are looking well.

Cochran: Thank you.

Sullivan: You wanted Mr. Buffington and me to report to you on whether or not the Bureau is in a position to give service in the field to taxpayers, that they could come in and make inquiries and so on and so forth.

H.M.Jr: Yes.

Sullivan: I have a memorandum from Mr. Helvering attached to my memorandum, and I am convinced they are able to do that.

H.M.Jr: Well, let's wait until George gets back, George Buffington.

Sullivan: Well, I have already sent him and Ferdie a copy of this memo. Then--

H.M.Jr: Don't let it drop. I can't do it right now, that is all.

Sullivan: Well, I have sent a copy of my memo to you

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and a copy of Mr. Helvering's memo to me to both Ferdie and to George.

H.M.Jr: All right.

Sullivan: Then on the decentralization of the compromise authority, we had a meeting on Friday and went over that and they are preparing a memorandum in the Bureau which should be ready by Wednesday. I have got a progress report for you here. Sometime ago you - well, it was at the time of the municipal election. You wanted to check up on the conditions in New York. They inspected sixty-two different places, one Saturday night, and they found no tax-free liquor at any one of the sixty-two and eight of the sixty-two places they found were using - refilling the bar bottles with inferior liquor which is no fraud upon the revenue, and I held the report for some time, because I wanted to get hold of Berkshire and see if something could be done, and he said that repeatedly they have tried to get prosecution for that up there, and the District Attorney's Office just won't touch it. They can't do anything about it.

H.M.Jr: Ever ask Tom Dewey?

Sullivan: No. Want me to suggest that to him?

H.M.Jr: Yes.

Sullivan: All right. You wanted to be brought up to date on the activity of the Bureau in acquainting the public with their tax problem next March, and I have a memorandum from--

H.M.Jr: We will have to sit down and go into that thoroughly, John.

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Sullivan: All right. I have sent a copy of this to Ferdie and also to George.

H.M.Jr: I want to sit down on it.

Sullivan: All right. I will hold that--

H.M.Jr: I hope to do something on taxes every day.

Sullivan: We had quite a meeting on Friday and again on Saturday on the Paul plan, and I have a report of our tentative conclusions on that. Do you want me to give you that memo now?

H.M.Jr: No, there is no use giving it to me now. I have got to go on the Hill at ten tomorrow and I thought if you (Bell) would go with me with the hope that I could leave you behind. We had better take our friend Bill with us. I have got so I call him Bill, by the way.

Bell: Yes.

H.M.Jr: And would you or Bill analyze the report on this--

Schwarz: National Economy League?

H.M.Jr: Yes, National Economy League, which is in today's paper.

Bell: Yes, I saw that.

H.M.Jr: Would you?

And then - well, to answer you, I would like to start on taxes at nine tomorrow morning. We will run as long as we can. Have Paul here, if possible. He is coming down.

Sullivan: I don't think that you can do it very well in the morning, because you see Paul wasn't here either Friday or Saturday--

H.M.Jr: You don't want to do it?

Sullivan: No, I think it is a waste of your time until Paul is here and our crowd has had a chance to go over things with him.

H.M.Jr: How about three o'clock?

Sullivan: That is all right. Don't you think so, Herb?

Gaston: Yes, I should think so.

H.M.Jr: John, that is music to my ears. That is the kind of thing I want. I don't want people to come in and say, "Well, I haven't seen it." It is music to my ears. I want everybody to get a chance at it and have a dog fight in your office or somebody's and then come in.

Sullivan: That is right.

You see, Barnard and Dave and George Buffington--

H.M.Jr: That is the kind of thing that helps me more than anything else.

Sullivan: Did you get the copies of the cablegrams on excess profits?

H.M.Jr: No. I have got some cables here, but I haven't read them.

White: I think if you will wait a few days there will be more material and we will digest it and put it in form together with those and that will be more helpful to you.

Sullivan: The Bureau has been making for three or four years semi-annual reports on depreciation adjustments. That was made because Congress was afraid we weren't going to handle it well. They want to discontinue that job.

H.M.Jr: What job?

Sullivan: Depreciation adjustments. Do you remember the time Congress wanted a flat 25% reduction in depreciation allowance?

H.M.Jr: I am not familiar with it.

Sullivan: The Bureau told them they could handle it better. We think the reports are pretty onerous and not necessary and the Commissioner would like to discontinue them.

Bell: It is not a statutory requirement?

Sullivan: No. The only other thing is, I had understood you to say that there were going to be no more taxes on '41 income. Now, we are getting all kinds of inquiries as to whether or not we are going to recommend an increase in the capital gains tax on transactions completed in 1941.

Roy and Tom and I are all in accord that there should not be, and that we should issue a statement to the effect that we are not going to do it, just as last year after the White House conference a similar statement was issued that we were not going to recommend any more taxes on 1940.

H.M.Jr: I am willing to do it if you can get George and

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what's-his-name to initial it.

Sullivan: All right, I will take care of that right away.

H.M.Jr:- But get George and Doughton to initial it.

Sullivan: Yes. Those are those three other memos that I spoke about in the first part. I am holding the things you told me to.

H.M.Jr: I will take them up to the House. But you had better get them to initial it.

Sullivan: Yes, sir.

Schwarz: Could you schedule that for one of your press conferences? It would be a good story to give at a press conference.

Sullivan: Now, and when you say, "Initial it," you mean that they approve it.

H.M.Jr: That is right.

Sullivan: And now the Treasury Decision, regulations on the information to be disclosed by exempt corporations, is probably in the office now. Chuck Kades was over there with the Commissioner at a quarter past eleven.

H.M.Jr: I can't do it.

Sullivan: And I wonder when are we going to discuss that?

H.M.Jr: Well, we will meet at three this afternoon and at three again tomorrow and you can bring it up any time. I think if you are going to have a meeting tomorrow morning on these other things you had better throw it into that meeting.

Sullivan: All right. Well, you spoke about having a

memorandum to go across the street today.

H.M.Jr: No, that was Bell.

Bell: Well, the President said he would like to have a memorandum on it in the next two or three days.

H.M.Jr: Well, if he gets it tomorrow afternoon it will be all right.

Foley: Francis Biddle called me on it this morning and he is going to see the President at noon and I said that I would - we had something that we had worked on over the week end and we were circulating but we weren't ready.

H.M.Jr: Well, we won't be ready. That thing has been hanging fire for years. Was I correct that Morris Ernst has been sort of needling us on that?

Sullivan: Yes, and as a matter of fact when you called that matter was already up on the Commissioner's desk for his signature and we got it over and went through it from the other point of view and made some changes.

H.M.Jr: That is all right. I wouldn't promise Francis Biddle anything on it before Wednesday.

Foley: All right.

H.M.Jr: It is too important.

Foley: O.K.

Sullivan: Then you want that tomorrow morning?

H.M.Jr: Yes, but have a ruminating feast, if you know what that is. The cow has seven stomachs.

Sullivan: Seven? (Laughter)

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H.M.Jr: So by the time it reaches me it ought to be marvelous.

White: Unless it is a cumulative belly-ache.

Foley: In other words, you don't want us to take up --

H.M.Jr: That is the New York State cows. Maybe in Vermont they have only got three.

Sullivan: I don't know about Vermont either.

H.M.Jr: By the time they eat the rocks in New Hampshire I don't know.

Bell: I am not so sure Biddle has to be in on it. the President thought it was a legal question and he just asked Biddle to look into the law.

Foley: He wants to be in on it, Dan. He called twice. He called Saturday morning and again this morning.

H.M.Jr: Did you know the President announced at his press conference - Chick gave it to me, but I didn't see it in any paper - the President said, "I have been informed by the Attorney General that the Treasury has had a great victory on this defense tax business"? He must have used your memorandum because he said it was the Attorney General. But no paper carries it. He said the Treasury had had a great victory.

Foley: They lost the case in the Supreme Court. That is the great victory. We took a position contrary to the position Bob Jackson took and they wanted to litigate it and we prophesied they would lose the case and we didn't want to take the case up. Then, by golly, Francis Biddle sends the President a memorandum and says

we have got a great victory in the court, and they gave a unanimous opinion contrary to the position argued by the Solicitor General.

Sullivan: And Ed and Chuck and I were over there and told them of our position and we wanted the case lost, remember?

Foley: Sure. Well, the Army wanted the case taken up and we didn't want the case taken up. Anyway, the great victory is won for our side but it just happens that the United States lost in the Supreme Court.

Schwarz: The President said the Attorney General had informed him that the Treasury viewpoint was upheld.

Foley: That is right, we lost.

H.M.Jr: Anything else, Edward?

Foley: Yes, I have other things.

H.M.Jr: Well, go ahead.

Foley: Harold Ickes called up on Friday and said he wanted to steal Joe O'Connell. O'Connell went over and talked with him and O'Connell is not interested. He wanted him to be Chief Counsel for this hard fuels administration that the President has just named Ickes head of, so if it is all right with you, Joe is going to call up Ickes today and tell him he is not interested.

H.M.Jr: Well, I am glad it was handled that way. You know my policy. Anybody that gets an offer, it is up to them to consider it. Tell Joe I would hate to see him leave us.

Foley: Well, that is all he wants. He wants to make sure that if he tells Ickes that he is not interested --

H.M.Jr: Tell him to come in at a couple of minutes of three. I would like to talk to him myself.

Foley: -- that it isn't something you would like to have him do.

H.M.Jr: I don't know whether you people saw it in the paper. I can't believe it is true. They were talking about Ickes and the troubles he had with gasoline. Then they said his most recent troubles, somebody sold him a coat of arms for the Ickes family and Ickes is suing them because it ain't so. Two dollars.

Gaston: Justice refused to ask for an indictment. It was the Grand Jury that refused to indict.

Foley: He is going in to all that himself. He just wanted to see whether these people that send you around an advertisement and say for two dollars they will give you your lineage were on the level, so he paid his two dollars and they sent it in. It didn't check at all with this thing he developed himself, so he wanted an indictment.

H.M.Jr: He needs a personal counselor badly. (Laughter)

Foley: He doesn't take counsel on those things.

H.M.Jr: He needs something.

Foley: The Attorney General wanted to know whether or not we had any information here that would make Pierson Hall unavailable for the Federal Judgeship in the southern district of California.

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H.M.Jr: Quite the contrary.

Foley: Helen Gahagan had sent a cable to him saying that he should check with you as to a Smith case that Pierson Hall handled while he was United States attorney in Los Angeles and with Harold Ickes as to certain oil matters that Pierson Hall was involved with. I called Wolf in Irey's absence. They have nothing.

H.M.Jr: Quite the contrary.

Foley: People here remember the Smith case but --

H.M.Jr: I know the Smith case. He handled it and got a conviction. The Smith case - let me just see if I remember it - was the case where the man made thirty or forty of his employees absorb fifteen or twenty thousand dollars worth of his income. Isn't that the case?

Foley: That is right.

H.M.Jr: Quite the contrary. I would like to go on record, and let Pierson Hall know, because that is one of the black marks in the New Deal. Pierson Hall was forced out by one Gibbs McAdoo because he would not play the game with that crooked attorney, Neville.

Foley: Who was a partner of McAdoo's. And then apparently McAdoo went over and blackened Pierson Hall with the President so whenever Pierson Hall's name is mentioned to the President he says he won't send his name to the Senate.

H.M.Jr: I would like to let Pierson Hall know. He did a beautiful job and I will tell you another case he did. You just listen a minute.

It was Pierson Hall, as I remember it, who finally got that crooked doctor who was selling narcotics to society and so forth in Los Angeles.

Gaston: Williams, I think.

H.M.Jr: And I personally called up. Isn't that right?

Gaston: That is right.

H.M.Jr: And the fourth time we got it, didn't we?

Gaston: Yes. I don't remember the number of times, but we got him against terrific pressure.

H.M.Jr: He stood up against that, so every contact I have had with Pierson Hall, he has been outstanding. I would be delighted to have him in the Treasury.

Foley: Woolf has written a memorandum which he read to me on the telephone saying that they had nothing on record over there against him and Francis is going to have lunch with the President, so I promised to call him before one o'clock.

H.M.Jr: You can tell him I not only have nothing against him but I regard him personally very highly.

Foley: All right.

Here is a memorandum to Harry Hopkins in reply to a note of his asking how a certain Frenchman who rented an apartment up on Park Avenue - he is getting five thousand dollars a month. We don't act as a probate court on those matters and we are satisfied that when he asks for five thousand dollars a month it is legitimate for his expenses and it is perfectly all right. I also have a letter here

to Congressman Sutphin in regard to Advanced Commercial Solids, which is a chemical company that has been tied up with General Aniline and Film, and all those companies that are blocked because of their relationship with the German interests, and he complained about the way I talked to Mullaly, the president of the company, and his lawyer.

H.M.Jr: Were you too nice to him?

Foley: No, I was a little tough, but they got a little nasty too, and I thought we had better write a letter for your signature, if you don't mind.

H.M.Jr: Is that the company that they made Johnnie Mack president?

Foley: No, that was General Aniline.

H.M.Jr: What do I say?

Foley: Well, you just tell him that I am a nice fellow and this is a bad company and that they ought to be blocked. Sutphin is --

H.M.Jr: Is this Sutphin of General Electric?

Foley: Electric Boat? I don't think so. I asked the same question. Sutphin has been in Congress --

H.M.Jr: Remember when I did a job on Sutphin? Remember? Do you know Sutphin, Barnard? Down in Bayonne? We did a job on him.

Barnard: I didn't know that but I have known him.

Foley: Well, this Congressman comes from Delaware.

Sullivan: I sat next to Sutphin --

Foley: He has been in the House a long time. He is on the Naval Affairs Committee.

H.M.Jr: All he wanted was us to let him build a six hundred thousand dollar building to put these speedboats in.

Sullivan: And take four hundred seventy-five thousand depreciation.

H.M.Jr: In how long?

Sullivan: The first year.

H.M.Jr: That was all.

Barnard: Very modest, wasn't he?

Gaston: Then the Navy Department announced --

Sullivan: Yes, they had a column and a half on the front page.

Gaston: It was a secret. Nobody was to know what was going on and they gave out a public announcement of what was to be done.

H.M.Jr: O. K.?

Foley: All right.

H.M.Jr: Herbert?

Gaston: I have just a few minor things. There is a letter to General Spaulding of Lend-Lease telling him that that matter of an icebreaker for Archangel was up to the Navy Department.

H.M.Jr: Right. I see she arrived in Seattle.

Gaston: I didn't notice that. I will pass that file over to Waesche, if you don't mind. That man here, you have got a memorandum from the President. We don't like his looks for a judge of the Customs Court.

H.M.Jr: What do I say to the President?

Gaston: Tell him that our investigation shows --

H.M.Jr: Will you write a memorandum for me?

Gaston: I will write a memorandum to the President.

There is another thing. I don't know whether you want a memorandum or not. You spoke to the President about that matter before.

H.M.Jr: I will think about it.

Gaston: And here is a letter about Bertie Pell. We find that he is in the Coast Guard. He has served as an enlisted man for the last three months and he has just passed his --

H.M.Jr: Would you write it in the form of a memorandum to the President?

Gaston: Yes. He has taken his examination for ensign and passed and is going to go to sea.

H.M.Jr: O. K.

Gaston: But he is all right and under control.

H.M.Jr: O. K.

Klotz: Mr. Gaston, do you want Waesche to get this?

Gaston: I think he should get it.

H.M.Jr: All right?

Barnard: In Procurement we are going to build up the organization for what we call expediting on contracts that have already been let and on which there is trouble and the kind of men that we have to have for that are fellows who can go in the front office and really get somewhere with the head management. We can't get those men except we get them on a dollar a year or a partial compensation basis and I am asking whether or not it is against your policy to do it.

H.M.Jr: No, it all depends upon the man.

Barnard: We have one specific case. He would go to work for us at fifty-six and his concern, the American Brass Company, will give him partial compensation.

H.M.Jr: If you don't mind, those kind of people I would like to take the time to meet them and talk to them myself. We have to.

White: Aren't there a lot of other contacts with the Treasury where they meet important people to get things done? Why does this particular job require dollar a year men?

Barnard: Because they won't terminate their connections with their companies, Harry, and their companies are interested in keeping their connections with those men.

H.M.Jr: Well, if you don't mind, it is a departure, so I would like to take the time to talk to them myself.

Barnard: All right.

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H.M.Jr: You may be right, but I don't know whether we can or not get people who will terminate. I have got two that I haven't talked to you about under consideration just for that. I am looking them up. If they look good I was going to talk to you. But both of those would have to leave their businesses, and they are both topflight men. Both of them are heads of their concerns and topflight fellows.

Barnard: All right.

H.M.Jr: But would you trot them in?

Barnard: Yes.

H.M.Jr: Anything else?

Barnard: That is all.

White: There was one other item I neglected to speak of. There is a meeting this afternoon in Berle's office to consider the questions of priorities on gold mining and the position that I thought we would take there would be that the domestic gold and silver mining, where they are not by-products of other necessary metals, are not entitled to any priorities at all.

H.M.Jr: What are they entitled to?

White: To no priorities for machinery and steel and so on.

H.M.Jr: How about gold?

White: Neither gold nor silver, would be the position I should think we would take, because certainly increased production of gold and silver at this time in the United

States or even maintained production serves no useful purposes, and contributes to inflation and mis-use of labor compared to what it could otherwise be used for, and so forth. I am speaking now of domestic gold and silver mining.

H.M.Jr: Domestic?

White: Yes.

H.M.Jr: What about Canadian and South African?

White: That raises a different problem.

H.M.Jr: I can't do it now. Do you have to give Berle an answer? I can do it on the domestic. I will go along with you on the domestic but on South African and Canadian --

White: This meeting was held at my suggestion because there were some departments that were interested in the foreign and we were interested in the domestic, and I suggested having a meeting of all the interested agencies.

H.M.Jr: Do you have to cross the domestic field too?

White: I --

H.M.Jr: I meant the foreign.

White: I thought there would be less doubt about the domestic.

H.M.Jr: I agree with you. I meant the foreign.

White: On the foreign we will hedge as we have and we will continue to do so.

H.M.Jr: I would like to talk to you about it. It is the sinews of war for these other countries.

White: That is right, and there was a resolution passed at the last Canadian-American meeting which so phrased it that I think --

H.M.Jr: When it comes to silver mining, unless Merle Cochran insists, I wouldn't give anything for silver mining. (Facetiously)

White: I will see what I can do to convince him.

H.M.Jr: All right.

November 24, 1941

My dear Mr. Attorney General:

I have your letter of November 19th, in which you inform me that you have made the necessary arrangements whereby your Department will conduct investigations of present and potential employees of the several defense agencies, which investigations have heretofore been conducted by representatives of the Treasury Department.

I am in complete accord with the understandings and arrangements set forth in your letter for the transfer of these investigations to your Department.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The Honorable

The Attorney General

of the United States

*By hand.
Sent by Mr. Thompson's office
N.M.C.*

ENT:ajs

November 24, 1941

My dear Mr. Coy:

I enclose copy of a letter of November 19, 1941, addressed by the Attorney General to the Secretary, confirming all arrangements whereby his Department will conduct the investigations of employees of the several defense agencies which have heretofore been conducted by this Department.

An agreement for the transfer of this work from the Treasury Department to the Department of Justice was reached at a conference in the office of Mr. McReynolds on October 21st, last, following which there have been discussions between the two departments, and the arrangements set forth in the Attorney General's letter are concurred in by this Department.

Sincerely yours,

s/ Herbert E. Gaston

Herbert E. Gaston,
Assistant Secretary of the Treasury.

Honorable Wayne Coy,
Liaison Officer for
Emergency Management,
State Department Building,
Washington, D. C.

WH:aja



Office of the Attorney General

Washington, D. C.

November 19, 1941.

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

My dear Mr. Secretary:

In confirmation of our oral agreement, I have made the necessary arrangements whereby this Department will conduct investigations of present and potential employees of the Office For Emergency Management and the Office of Production Management, which investigations have heretofore been conducted by representatives of your Department.

It is my understanding that you contemplate completing the investigation of the approximately 1,524 investigations which have already been initiated by investigators of your Department. It is my further understanding that you will refer to the Department of Justice for investigative attention the approximately 2,922 investigations which have been requested of your Department by the Office For Emergency Management and the Office of Production Management, but which investigations have not actually been initiated.

I am making the necessary arrangements whereby requests for investigations of this kind will hereafter be made direct to the Department of Justice.

For your information, I might state that I have requested the Office For Emergency Management to allocate to the Department of Justice the funds necessary to carry on the investigations of these cases, and the undertaking of these investigations will, of course, be dependent upon the receipt of the necessary funds.

Sincerely yours,

Attorney General.

NOV 24 1941

Dear Harry:

Reference is made to your memorandum of November 17, 1941, in which you inquire as to the ability of Jacques Poberejsky to lease an expensive apartment on Park Avenue.

I am enclosing for your information a memorandum prepared by the Foreign Funds Control with respect to this matter.

Sincerely,

(Signed) Henry

Honorable Harry L. Hopkins,
The White House.

Enclosure

JWP:ged 11/21/41

By Messenger J. S. Brown

Photostat file to Foley's office
N.M.C.

CONFIDENTIAL

MEMORANDUM

Subject: Policy followed by Foreign Funds Control in licensing withdrawals for living expenses of wealthy blocked nationals resident in the United States.

Reference is made to Mr. Hopkins' memorandum to the Secretary of the Treasury in which he inquires as to how blocked nationals whose funds are frozen can spend large sums for living expenses in the United States.

It is the policy of Foreign Funds Control to approve applications filed by blocked nationals within the United States for amounts in excess of the \$500 per month permitted under General License No. 11, provided that the monthly amounts requested for living expenses are reasonable in view of the total assets held by such blocked nationals within the United States and there is no adverse information available with respect to the national. We have not attempted to set up strict rules for the amounts thus granted but have examined each individual application and allowed expenditures which appeared reasonable in view of the special circumstances surrounding each individual case.

We are at present allowing Jacques Poberejsky, the French inventor about whom Mr. Hopkins inquired, to spend up to \$5,000 a month for living expenses. Mr. Poberejsky has perfected certain processes for protecting airplane gasoline tanks and has invested \$50,000 in laboratory equipment and materials for experiments relating to the construction of airplane tanks without use of metal. He is presently working with the B. F. Goodrich Company who are using his patented process. He was the owner and managing director of a French company which has an affiliate in England, specializing in the production of leak-proof hose used in connection with his leak-proof gasoline tank. Poberejsky has \$360,000 in cash and \$12,000 in securities in his account in the National City Bank in New York and is receiving royalties from the B. F. Goodrich Company.

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11/18/41

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Referred to Mr. Pehle by the Secretary
for report and preparation of a reply.

TAKES MAISONETTE IN 855 FIFTH AVE.

French Inventor Also Rents
Private Garage With Rooms
for Servants on 68th St.

TENANT IN 340 PARK AVE.

Naval Captain Leases Suite
—Air Line Executive Will
Live at Hotel Vanderbilt

Jacques Poberejsky of Paris,
French inventor, has leased
through Reba E. Minford, broker, a
twelve-room maisonette apartment
855 Fifth Avenue for his own oc-
cupancy and a private garage with
servants' quarters above at 168
Street. Miss

May-

APARTMENT HOUSE WITH TERRACES



THE WHITE HOUSE
WASHINGTON

Reale

SC

166

November 17, 1941

MEMORANDUM FOR SECRETARY MORGENTHAU:

HOW CAN FRENCHMEN, WITH THE FROZEN
FUNDS AS THEY ARE, AFFORD TO TAKE ON
APARTMENTS LIKE THESE?

HARRY L. HOPKINS

November 24, 1941
11:15 a.m.

HMJr: This is Morgenthau talking.

Mr. C. D.
Howe: Oh, good morning, Mr. Morgenthau.

HMJr: How are you?

H: Very well indeed.

HMJr: That's nice. Mr. Howe, I'm looking forward to having lunch with you.

H: Splendid, I'm looking forward to that.

HMJr: Let me tell you - I invited the Vice President to come down and have lunch with us, because he's as much interested as I am.

H: I see.

HMJr: And he says on account of the Senate being in session, would you and I come up and have lunch with him?

H: Well, that would be splendid.

HMJr: Now, he wants us at one-thirty; and if you'd stop by here at one-fifteen, we could go up together.

H: All right, splendid.

HMJr: How would that be?

H: That'll be first rate, Mr. Morgenthau.

HMJr: He's interested in exactly the same thing that I am.

H: Quite.

HMJr: All right?

H: First rate, yes. Splendid.

HMJr: That'll be fine.

H: All right, Mr. Morgenthau, thanks.

ASSISTANT SECRETARY OF THE TREASURY

November 24, 1941.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston

Re: Mrs. Nan Honeyman, Portland,
Oregon. (President's memorandum
of November 5.)

I see no objection to the appointment of Mrs. Honeyman other than the usual ones against replacing a collector who has had some training and experience in the job and is also a Roosevelt appointee with one who is inexperienced and will have to learn the duties. Judge Fisk, the present collector, is rated as conscientious in attention to duty and a satisfactory collector, but not outstanding in ability.

WEG

THE WHITE HOUSE
WASHINGTON

November 5, 1941

MEMORANDUM FOR H.M. Jr.

Will you speak to me about
appointing Dan Honeyman as Collector
of Customs in Portland, next February?
I am inclined to do it.

F.D.R.

November 24, 1941
2:50 p.m.

Operator: Go ahead.

HMJr: Hello.

Secy.
Perkins: Hello, Henry?

HMJr: Yes, Frances.

P: Henry, you know when I spoke to you the other day about Nan Honeyman.....

HMJr: Yes.

P: You remember?

HMJr: Well, you had a memo or something.

P: That's right. A memo.

HMJr: Yes.

P: Now, she's in town at the present time and will be here for perhaps another week.

HMJr: Yes.

P: And the President seems to want to have you meet her so you'll know her.

HMJr: Yes. Is she good looking?

P: Oh, awfully good looking.

HMJr: Well, that's good.

P: Not young, Henry, but handsome for her years.

HMJr: Well, neither am I.

P: Really handsome, just like you.

HMJr: I get it.

P: (Laughs) And very smart, too. Well, now, I

- 2 -

asked Elinor to come to dinner tomorrow night, and unfortunately you have an engagement. I thought that would be a nice time.

HMJr: Yes.

P: But, do you know of any time when you could come - over to lunch here or to dine with me or something like that - and meet Mrs. Honeyman in a kind of an unofficial way.

HMJr: Well, on those things I've always got to talk to Elinor, but I'll talk to her tonight, Frances.

P: Will you do that?

HMJr: I'll do that.

P: And I'd like to - because, I mean she's - she's worth considering. She's quite an important personality, I think, in the politics of that area.

HMJr: Well, I'll talk to Elinor tonight.

P: I want to be sure that you remember who she is.

HMJr: Oh, yes.

P: Fine. (Laughs)

HMJr: You must feel very pleased about the coal strike.

P: Are you?

HMJr: Oh, I - am I?

P: Yeah.

HMJr: Oh, I'm delighted.

P: Well, don't you think that anything is better than to go through with what was in store?

HMJr: Well, I mean I didn't get all the under-currents at the Cabinet two weeks where the President almost

lost his temper trying to explain.

P: Yes.

HMJr: But I certainly understood what he wanted. I couldn't understand what the Secretary of War wanted, though.

P: Well, the Secretary of War wanted to march right in the next day.

HMJr: I see. Well, I knew what the President wanted.

P: Yeah.

HMJr: And.....

P: The President wanted delay, and he wanted to be able to use patience and negotiation, and he didn't want any wild action taken while the CIO was in conference.

HMJr: Well, he was right.

P: You know?

HMJr: He was right.

P: I mean - oh, and I do think that this has justified the President's patience and fair play.

HMJr: Absolutely.

P: Don't you?

HMJr: Oh, I think it's one of the most important things that's happened in nine years.

P: Well, it saved the day from something that I don't know how we would have carried.

HMJr: That's right.

P: If I had felt perfectly certain of his success, why I might have felt differently.

HMJr: Naturally.

P: Between you and me, I didn't.

HMJr: I see.

P: What?

HMJr: I see.

P: (Laughs)

HMJr: All right, Frances.

P: All right. Good-bye, Henry, good-bye.

November 24, 1941

MEMORANDUM

To: The Secretary

From: Mr. Blough

On Thanksgiving Day, Thursday, November 20, 1941, Secretary Morgenthau called Mr. Blough on the telephone and said he wanted some charts prepared showing excess profits taxation for typical companies with the different taxes shown by different colors. He said he had previously had some charts in which isinglass (transparent film) with painted lines had been superimposed over other charts. Thus Plan A and Plan B would each be on a separate transparent film and could be superimposed on the chart to show the effect of various changes in the law. This would be a way of showing the comparative effects for different companies.

The Secretary asked Mr. Blough to start at once and discuss the problem of getting at the charts with Miss Michener and Mr. Banyas. If a bottleneck occurs Mr. Blough is to let the Secretary know. He did not wish to get into the problem of priorities. This material is on a par with the War Department work which Mr. Lindow is doing.

He said he would like to have the estate taxes and the other types of taxes charted in the same manner.

The Secretary said not to make the charts too small. If there is any shortage of technicians, to go ahead without waiting for the Secretary and secure the necessary help. He then asked Mr. Blough if the staff of the Division was sufficient to handle the work. Mr. Blough said that it was not adequate to do all that was being asked of it. The Secretary then asked to have a list made of good tax men in other departments and elsewhere whom we might get to supplement our staff.

R/C

November 24, 1941
8 p.m.

RE TAXES

Present: Mr. Peterson
Mr. Tarleau
Mr. Blough
Mr. Kades
Mr. White
Mr. Barnard
Mr. Haas
Mr. Sullivan
Mr. O'Connell

H.M.Jr: Well, Roy, do your stuff.

Blough: This is a desk size chart, because if we make it any bigger we can't use this transparency business.

H.M.Jr: Has everybody else seen it?

Blough: No, two or three people have seen it.

H.M.Jr: Well, how are they going to see it?

Blough: Here is one for another company that shows the same general idea, for those that haven't had a look at it.

H.M.Jr: Can you hold it up for the time being? Maybe their eyes are better than mine.

Blough: Well, we can try.

H.V.Jr: You hold it there. As long as I can see it.

- 2 -

Blough: Now, this is experimental and an attempt to carry out what I thought you had in mind. This chart is for the Coca Cola Company.

H.M.Jr: This is a different chart than you have, Harry.

Blough: It looks pretty much like that, though, the same principle as for American Car and Foundry.

H.M.Jr: I see.

Blough: Now, the income of the Coca Cola Company is shown along this axis here. The Company had thirty-five and eight tenths million dollars of net income in 1940. This little bit of yellow here represents income which was not subject to excess profits tax, but was subject to normal tax, probably capital gains, which are not subject to excess profits tax. The green is the excess profits credit which in this case was thirty million eight hundred thousand dollars, leaving the remainder here, about four billion seven hundred million dollars, subject to excess profits tax.

H.M.Jr: You mean four billion?

Blough: Four million seven hundred thousand dollars subject to excess profits tax. The excess profits tax goes up in progressive rates, reaching sixty per cent at five hundred thousand dollars, so that this dotted area down here in the pink is the excess profits tax. Now, that excess profits tax --

H.M.Jr: Let me see. They earn about thirty-six million dollars?

Blough: That is right.

H.M.Jr: And of the thirty-six million they paid two million eight excess profits?

- 3 -

Blough: Yes, sir.

H.M.Jr: What was the total taxes they paid?

Blough: May I come to that in just a minute?

H.M.Jr: Surely.

Blough: We now move down to a computation of the normal tax. The normal tax is based on the net income after deducting the excess profits tax, so we take the excess profits tax out over here, that is the same thing as this, and you have left subject to normal tax, thirty-three million dollars.

The normal tax is the blue, at twenty-four per cent. The surtax is the yellow, six per cent on the first twenty-five thousand, which is invisible here, and seven per cent on the balance, so that you have here the tax of this company, the normal tax is seven and nine tenths million, the surtax is two and three tenths million, the excess profits tax is two and eight tenths million, the remaining area is money which goes to the corporation without tax. That is profits after tax.

H.M.Jr: That is velvet.

Blough: Well, that is at least the amount after tax. Whether they would call it velvet or not, I don't know. That was twenty-two and eight tenths million.

H.M.Jr: That is the first time I have ever understood it. From my standpoint that is perfect. Who doesn't understand it?

Blough: Now I had this thought in mind.

H.M.Jr: I mean, graphically I have never seen it done before.

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Blough: Well, if this general form is informative, we can then take proposals for changes and using the transparency which you suggested, put them over the top here. For instance, if the Coca Cola Corporation were subject to tax and had only the invested capital credit, the line - this line would run about over there, and all of this green would be pink and would be subject to the excess profits tax.

H.M.Jr: That is right.

Blough: And this then would be bigger down here.

H.M.Jr: That is just the way I want it.

White: Why do you use a different scale on the bottom? Oh, no, one is longer and the other is stubby. You are dealing with areas. I am wondering whether it couldn't be more simply or effectively produced if you don't deal with areas, but with heights of columns.

H.M.Jr: Well, look, gentlemen, let's just take American Car because he has got the idea and if somebody wants to see him afterward - I think for something like that, John, the Ways and Means is marvelous.

Sullivan: Well, that one that we just saw is a good one. I would want to see how it works out on some others.

H.M.Jr: May I see American Car and Foundry?

Blough: American Car and Foundry, they use the invested --

H.M.Jr: Do you want to hold it up?

Blough: American Car and Foundry uses the invested capital credit and it shows you that you can get very

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little tax under that credit too. The same thing here. Their total income in 1940 was six - about seven million dollars. They had a very slight amount of adjustments. The excess profits credit was six million six hundred thousand, leaving subject to excess profits about - well, that would be about four hundred thousand dollars.

H.M.Jr: What happened to Joe O'Connell?

Sullivan: There he is.

H.M.Jr: Hello, Joe.

Blough: Then the excess profits computed and never got in to the highest bracket here was low, and then they paid the normal tax. Here you have a case where the invested capital credit was this much, whereas the average earnings credit would have been practically nothing. Practically that whole income would have been subject to excess profits tax under the average earnings credit, because this company made practically nothing during its base period. Of course in that period you would have had a terrifically large tax here which would have been reflected down here.

H.M.Jr: I think that is a - I don't want it because it happened to be my idea, but for me I think this is the most important step we have taken toward - from my standpoint, I will just talk for me - to understand this thing and then to turn and sell it to Congress, since I have been here. I just don't see how any Congressman that is at all open-minded can resist a thing like that. Joe, you didn't have anything like that up under TNEC, did you?

O'Connell: No.

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H.M.Jr: Are you at all impressed?

O'Connell: They are very good. I hadn't seen it before.

H.M.Jr: Does it impress you as an outsider?

O'Connell: Yes, as an outsider I can understand it, and it isn't a simple thing to understand, except put up that way. I think it is very good.

H.M.Jr: You see what we have done is, we have made these tax boys - there are only a half dozen of them in the United States - put it down so you can understand it.

Blough: Now, is it your wish that we have some other companies? These are the only two we have like this.

H.M.Jr: Oh, yes. I would like to take - well, take a company like - take Glenn Martin. I think United Aircraft is too complicated, I am not sure. Pratt and Whitney, the engine, is simpler, I think. I think you might take a look at either or both of them, but I think you will find United Aircraft is sort of a holding company. I would take Glenn Martin and I would take Consolidated Aircraft.

Blough: We also are getting up some figures on steel and --

H.M.Jr: I would take this big U.S. and Bethlehem Steel. Take New York Shipbuilding and Norfolk Shipbuilding, whatever that is called down there, the one I was stockholder in before the Library of Congress. I am chairman of the finance committee of the Library of Congress. We are one of the biggest stockholders in Norfolk Shipbuilding. Huntington's son gave this large block of stock to the Library of Congress. Did I say General Motors?

Blough: No, we have General Motors down, though.

H.M.Jr: Of course if you want to take Remington Arms, that is good.

Blough: It might be that this type of table - chart here would give you as much as you want on some of these. May I--

H.M.Jr: Sure. I don't think you need many more, but I would get as many as you can. I think we ought to take a good public utility. Take--

White: New Jersey Bell Telephone Company. (Laughter)

H.M.Jr: No.

Barnard: Why don't you take A. T. & T.?

H.M.Jr: Take A. T. & T., but I was thinking more - what is a good operating electric light?

Haas: Out in Chicago there is one. I have forgotten the name. There is a big one in Chicago.

O'Connell: Consolidated Gas would be one.

H.M.Jr: Yes, Consolidated Gas of New York and A. T. & T. Is that a good--

Barnard: Well, they are all of different types. That is a stabilized type with a very large capital investment. Coca-Cola, I don't know how stable it is, but it has no investment. Car and Foundry has a large investment but a very unstable business.

H.M.Jr: Well, those are the two glaring examples.

Blough: This chart is a simpler one and simply attempts to show for a number of companies without so much complication what has happened.

Now, in 1939, the income is shown in this top column. The tax is the blank part of it. The amount left after taxes is the dotted part, and the total income is shown here.

In 1940 the income is shown out here. It is again that column.

Now the two bars for 1940 are the taxes computed under the 1940 law and the taxes computed under the 1941 law and under the 1940 law you have the normal income tax, and you have the rest of it tax free, and under the 1941 law you have the normal income tax and the surtax, and there was no excess profits tax in either case, so the rest of it was free.

H.M.Jr:

Excuse me, take a good railroad like Pennsylvania Railroad. Then take the Pennsylvania and take Atchison, Topeka, and Santa Fe, and Union Pacific, those three. Those are all good money makers. That doesn't impress me at all. The point is this, gentlemen. In this room, I don't see how I, as Secretary of the Treasury, can sit here and without a hair shirt on, with my conscience, and see that chart there - granted that Coca-Cola is extreme and American Car and Foundry is extreme, but when you get down, the net that they pay on their total earnings - have you got the net percentage of their gross earnings?

Blough: It isn't computed here, but--

H.M.Jr: Rough, what is it?

Blough: Here it is twenty-two million out of - twenty-three million out of thirty-six million.

H.M.Jr: They paid taxes?

Blough: Is left. Thirteen million taxes, twenty-three million left.

H.M.Jr: Well, that is a third, roughly.

Sullivan: Yes.

H.M.Jr: Roughly a third.

Sullivan: A little more.

H.M.Jr: And in Coca-Cola.

Blough: That was Coca-Cola.

H.M.Jr: That was a third. What is American Car and Foundry?

Blough: They had a total income of seven million and had left about four and a half. They paid about two and a half in taxes.

H.M.Jr: Well, they paid a third. As I say, I cannot talk about an all-out tax bill and an all-out effort and all these sacrifices when certain types of companies - granted we have got the worst examples here, but when certain types of companies only pay a third of taxes. I mean, somebody outside of the Treasury is certainly going to find a way, whether it is an accountant who has been drafted and is getting a dollar a day or whether it is a labor union radical official or something like that, but somebody is going to say, "Well, how come? You freeze this and you freeze that and you

close down this business and you close down that, and here you are letting these companies, because it is always the extreme they use. They don't use the - they won't use the other companies that are paying two-thirds."

Sullivan: You tried to get American Car and Foundry last year.

H.M.Jr: But, John, I blame the whole Treasury for not putting it up in a sufficiently dramatic way to catch the public sentiment. I say all of it, everybody in this room or anybody that has got anything to do with it, that they just haven't caught the popular imagination.

I prided myself in my own business, I like to be one jump ahead of the crowd, and I think as long as these extreme cases exist, and they are extreme, you can't ask the fellow who is paying sixty-six and two-thirds - and then you go to him and say, "Well, I am sorry, Mister, you can't have your steel so you have got to shut down your business and let these other fellows go along like that."

It doesn't make a happy America.

Sullivan: That is why in the last bill we tried to have a special defense tax on those companies using invested capital who were earning more than they had earned during the base period.

H.M.Jr: But John, until I got this thing on - what was it, Thanksgiving Day I phoned you?

Blough: Yes.

H.M.Jr: And I think undoubtedly that gives me what I want. I am willing to go out on the street corner now and explain it, because I can explain that to any undergraduate of any college. They will understand it. What I want is more ideas like that. I am tickled to pieces. Do you see anything the matter with that, Barnard?

Barnard: Well, it is misleading to me, or it was at first sight. If it is just a demonstration of the computations, it is very good. I haven't seen anything like it. But I am unable to size up whether Car and Foundry is equitable or inequitable. It looks, on the face of it, as if it was getting away without any taxes, whereas if its relation to invested capital is low, it may be a perfectly proper thing.

H.M.Jr: Well, now, Barnard, the contribution that you can make as a business man is that you go to anybody in Sullivan's office and say, "Well, I have got these doubts. Please give me somebody to sit down with me." You see?

Barnard: Yes.

H.M.Jr: And sit down, take any one of those things; John will give you somebody that understands it, and you sit with them long enough until you say, "Well, that isn't equitable," or, "there are some circumstances which Morgenthau hasn't taken into account." I would like you to do that, see?

Barnard: Well, I am doing it right now with a committee for John. We are trying to find out what kind of an animal it is we are working with and we are having a hell of a time. This breed of corporations is the most multifarious crowd. There is every conceivable kind of a combination.

H.M.Jr: You always get hung by the extreme case. I mean, they are not interested in the average case. But what we started with was this, the thing that I put up to the tax boys. We have got to find some flexible method that we can tax that kind of company as well as - well, my guess is that Union Pacific most likely you will find paying a pretty good share; I don't know. Well, I won't mention it.

You take an old line company like American Gas and Electric. I think you will find that most likely their proportion of taxes are pretty high. But I am just going to drive the point home. Some method, somebody has got to have the skill and the ingenuity to discover a way that you can make those kind of companies pay their share during this emergency and that is what I want.

First I had to have it so I could get a graph. Somebody may not care for graphs but I do. I think this is one of the best hours I have had in a long time.

Blough: I think Mr. Barnard's point is well taken, that a concern that paid no excess profits tax at all would look the worst on this chart and yet it might not be in a position where it ought to pay an excess profits tax and we will have to work with the problem of how can we keep this computation chart, which is -

the purpose of it is to show how the tax is computed - keep that from being ---

H.M.Jr: Distorted.

Blough: Misleading and distorted, yes.

H.M.Jr: Because when John or I go before the public with this chart we are going to be shot at from every side, so certainly from within we have to do our own shooting.

Blough: Well, I gather what you want us to do is to try to chart the excess profits tax in such a way that everybody can understand it and what these various proposals which may be made are, and how they relate to it, and so on.

H.M.Jr: Let's say that that chart on Coca Cola stands. Everybody says, "Well, that is all right now." See?

Blough: Unless they have some suggestions for improvement.

H.M.Jr: Then we begin to take that and superimpose on it any bright idea anybody has, on isinglass, so they can see through the plan. (Facetiously) Pardon me.

Barnard: If you are going to compare companies, I think that third chart would be more significant to me as to the treatment of them.

White: Well, that doesn't demonstrate that point, either. You need a third dimension. You need to be able to show it in some graphic way. I think it is a very difficult task but it might be worked out.

Barnard: You speak of Car and Foundry as if there is something

wrong there. I don't know what you think is right. You can't get it from the chart, can you?

H.M.Jr: Barnard, I will tell you what I think is right. If American corporations during this period - I don't care - pay "X" percent of their profits, see, then I think we ought to be smart enough to find some way that they all pay about the same percentage.

Barnard: Of their profits?

H.M.Jr: Well, of their profits.

Barnard: I don't think so at all. I think the outfit that is only paying three percent ought not to pay half its taxes and the fellow earning fifteen percent ought to pay more than half his taxes.

H.M.Jr: Say that again.

Barnard: A fellow who is earning three percent and never has earned a dollar up to now and pays half of that in taxes is being rooked, compared with the fellow that is making fifteen percent.

H.M.Jr: When we went into this thing last year we had a minimum of four or seven.

White: Four.

Sullivan: The original was six to twelve, sir.

H.M.Jr: We didn't stop before he earned six.

Sullivan: Then between six and twelve percent we allowed him the excess profits credit, that percentage

of his invested capital which he had earned in the four base period years. In other words, our proposal was the combination of invested capital and average earnings.

H.M.Jr: We didn't start operating until he had six and we didn't start to really take it away from him until he had twelve. Isn't that right?

Sullivan: If he had earned up to twelve he was allowed that as an excess profits credit.

H.M.Jr: And then above twelve?

Sullivan: Sock him.

H.M.Jr: That answers your point.

Barnard: Yes, that is all right, but just a percentage of profits wouldn't give you that.

H.M.Jr: I am talking with a broad brush. We had another plan which we tried twice, you see.

Well, thank you all.

November 24, 1941
3:49 p.m.

HMJr: Hello.

Grace
Tully: Hello, Mr. Secretary.

HMJr: My God, Grace, you're getting to be a regular banker. Three hours for lunch.

T: Three hours for lunch, nothing; to get my hair done, but I was here all Saturday afternoon so I have to take it off during the week when I don't get Saturday to do it.

Mr. Secretary, Wednesday morning.

HMJr: Yeah. Now, look, that's wonderful and I may ruin my chances by what I'm going to tell you.

T: Yeah.

HMJr: You'll be seeing the President again, won't you?

T: Yes.

HMJr: Mr. C. D. Howe, Minister of Supply, is here today and tomorrow. Of course, he could stay over; he was going back tomorrow.

T: Uh huh.

HMJr: I've asked him to explain to me how he operates his department. He has charge of all purchasing, all production, and the creation of factories where it is necessary in Canada.

T: Yes, uh huh.

HMJr: And it works. Hello.

T: Yes, sir.

HMJr: I didn't say, "He's the works."

T: No, you said, "It works." (Laughs)

HMJr: With one man, and he's here and he's explained

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the whole thing to me.

T: Yes.

HMJr: And I wonder if the President would like to see him, because he's a very able fellow.

T: Yes.

HMJr: He talked of if Mackenzie King ever gets out, he's supposed to be next in line.

T: Uh huh.

HMJr: Would he care to see him on Wednesday at his bedside; would he rather see me alone, or would he care to have this fellow some time tomorrow, you see?

T: Yes.

HMJr: But I really think if the President - he's very pleasant, got a good sense of humor, takes it easy.....

T: Uh huh.

HMJr:he's got the - brought down his whole chart of his whole department.....

T: Yes.

HMJr:and I think it would be distinctly worthwhile for the President to see him.

T: Yes. Well, now, let me ask him. I don't know how tied up he is or whether he wants to see you alone or have you bring him in on Wednesday.

HMJr: Now, the point is, if Howe doesn't hear, he'd be going back to Ottawa tomorrow afternoon.

T: I see.

HMJr: But if he thought he could see the President, of course, he'd stay over.

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T: Uh huh.

HMJr: So if you could let me know tonight or the first thing in the morning.....

T: Yes.

HMJr:you'd be living up to your reputation.

T: Yes, sir. Well, I'll try my best.

HMJr: Thank you.

T: All right. I'll let you know. All right, Mr. Secretary.

November 24, 1941
3:52 p.m.

HMJr: Yes, Harold.

Harold
Hochschild: How are you?

HMJr: I'm alive.

H: Henry, I haven't heard a word from McCabe since I saw him on Friday and I didn't commit myself to him at the time.....

HMJr: Yes.

H:partly because of my plans for the next few weeks.

HMJr: Yeah.

H: But you asked me to be perfectly frank with you; and I've thought about it quite a lot and I - well, I'm not sure that - I'm still not quite sure that I want to do the other thing, I think that would appeal to me more than the Procurement.

HMJr: I see. Well, I want you to be frank.

H: Yeah. Because I still - one thing, I think mainly because I still have a feeling that I'd like to go abroad some time if it ever becomes possible, and that seems to put me a little nearer in line to it.

HMJr: Well, Harold, let's leave it this way. Supposing something doesn't materialize in that group, see?

H: Yeah.

HMJr: And you still want to come with us, we'd be delighted.

H: Well, Henry, that's terribly nice of you and that's an awfully kind thing of you to say and I appreciate it ever so much.

H: We'll be glad to take you second.

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H: Well, thanks ever so much, Henry, and.....

HMJr: I mean, if you take us second, I meant. We'll take you first.

H: Thank you ever so much.

HMJr: Right.

H: And in any case, I hope to see you as soon as we get back. The party I mentioned to you has.....

November 24, 1941
4:27 p.m.

HMJr: Yes, Grace.

T: The President says that he's all jammed up, that he won't be able to see Howe, and that he'd rather have you come in Wednesday alone.

HMJr: That's all right.

T: But he said that he thought Howe ought to see some other people here, like Knudsen, and Hillman and Frances Perkins and Don Nelson and Leon Henderson. He said he thought he ought to talk with them.

HMJr: Well, let me think about it. I mean, he's a very kind of - in some ways, he's - you know, he just doesn't want to go around and say, "Look what a wonderful guy I am."

T: Uh huh.

HMJr: "You're system is all wrong."

T: Yeah.

HMJr: I did have him up to see the Vice President for lunch today.

T: Yes.

HMJr: And Wallace is very much interested. He left a lot of stuff, and I think that Wallace is going to sort of, you know, he said he would give it to - what's the head of OEM?

T: Uh.....

HMJr: Wayne Coy.

T: Wayne Coy, uh huh.

HMJr: So it will get around like that.

T: Yeah. Well, just hearing who he was, he thought that maybe he should talk to some of those people,

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both for their benefit and maybe for his, for an exchange of ideas on.....

HMJr: Well, he's seeing Nelson this afternoon. They know what the plan is up there.

T: Uh huh.

HMJr: But between you and me, this is something that there's no use in seeing anybody but the President. You know what I'm talking about.

T: Yes.

HMJr: And.....

T: Well, unfortunately he's going to be jammed up. I'm afraid that he won't be able to.....

HMJr: I didn't think he'd see him, but.....

T: Uh huh.

HMJr:you know I've been plugging for this now for months.

T: Yes.

HMJr: Did you know it?

T: No, I didn't know it particularly, no.

HMJr: Well, I mean, I think that some day the President - the thing that worries me so is, some day something is going to go wrong.

T: Uh huh.

HMJr: Why don't we have enough planes and enough guns and enough tanks, see?

T: Yes.

HMJr: Well, who's at fault. The President can't point to anybody..

T: Uh huh.

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HMJr: Because we've got the responsibility spread amongst a hundred people.

T: Yes.

HMJr: See?

T: Yes, uh huh.

HMJr: And what I'm trying to do for his sake, and the country's sake, is to get him to give it to one person.

T: Uh huh.

HMJr: The way they have it in Canada.

T: Yes.

HMJr: Then if something goes wrong, why whose fault is it? Well, it's John Jones.

T: Uh huh. Put your finger on it.

HMJr: What?

T: You can put the finger on it.

HMJr: In Canada, if the guns aren't produced, or the ammunition, if the Canadian troops haven't got it, it's just one man's responsibility and his name is Howe.

T: Yes.

HMJr: In this country if we fall down, why it all goes back on the President.

T: Uh huh.

HMJr: That's what I don't want.

T: Yes.

HMJr: For his sake.

T: Yes.

HMJr: I want to explain it to you; but, of course, I've got the whole Army and Navy against me.

T: Uh huh.

HMJr: But I keep following, I keep trying.

T: Yes. Well, it may work out one day they find that it is a mistake not to do it that way.

HMJr: I don't want something to go wrong and then have it all blamed on the President.

T: Uh huh.

HMJr: But - is my appointment for Wednesday still good?

T: Yes, yours is still good.

HMJr: Thank you, Grace.

T: All right, Mr. Secretary.

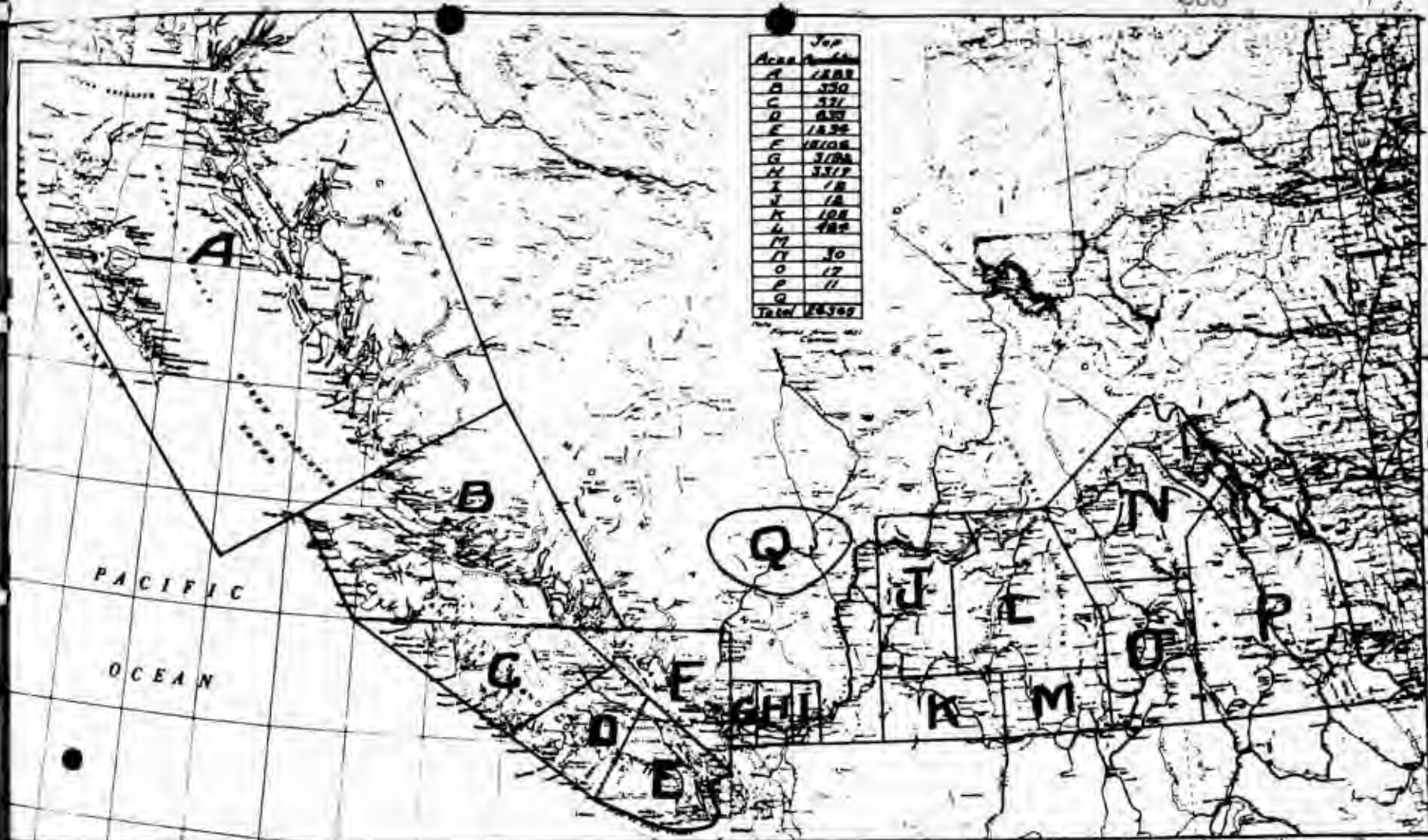
HMJr: Good-bye.

T: Good-bye.

We have just received the following cable from our man in Cairo:

"I have just returned from Syria. The relations there between the British military men and the Free French show improvement. The friction remaining revolves around differences of opinion as to pressure by Spears Mission and long-range political objectives. The common danger will, I believe, keep things together. Their military weaknesses outside of Egypt are spoken of freely by Wilson and Catroux. There is very frank criticism by British officers of the way things are going. If six divisions can be spared by Hitler, they believe he will have the Near East. If they are left unprotected, American officers are beginning to wonder what will happen to all installations planned.

"The Near East needs a total of 18,000 tanks in order to clean up the desert, insure Turkish participation and protect right flank according to Catroux. He also says the Libyan battle is lost for this year. He urged that Madagascar be occupied immediately before it is too late. It is thought by the Middle East that there is a better chance with Rommel where they are now than west of Benghazi, but personally I think their chances are doubtful."



SOUTH BRITISH COLUMBIA AERIAL DISTRICT

November 24, 1941
4:30 p.m.

Mr. McCloy: Hello.

HMJr: Hello. McCloy?

Mc: How are you?

HMJr: The name is Morgenthau.

Mc: How are you? I've got some good news for you if I can break in.

HMJr: Go ahead.

Mc: We just got a telegram from Fellers from Cairo.....

HMJr: Yes.

Mc:who is very much of a pessimist and has been thought to be somewhat anti-British and what not out there, who sent in a very glowing telegram about the results of the fighting in Cyrenaica.

HMJr: Wonderful.

Mc: He said he was out there, that the Fourth Armored Brigade, which is composed exclusively our M-3 light tanks.....

HMJr: Yeah.

Mc:had withstood the most determined effort yet made of the German armored divisions to break through and repulse them, had fought hard battles for three successive days.....

HMJr: Yeah.

Mc:a hundred and sixty tanks, and at the end of the third day they had eighty battle-worthy tanks still fighting.....

HMJr: That's wonderful.

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Mc:and that they were moving those eighty tanks in to attack the remnants of the armored - German armored division - which they estimated to be at about sixty; that all in all, the British had accomplished a brilliant and very important success.

HMJr: Wonderful.

Mc: So I thought you'd be interested. It buoyed me up no end.

HMJr: (Laughs) That's - you're a smart guy.

Mc: What's the matter?

HMJr: Sure, you give me the good stuff - sort of kind of soften me up.

Mc: Oh. (Laughs)

HMJr: What a man.

Mc: Were you about to deliver me a blow or something?

HMJr: No, I wasn't; but Sir Frederick Phillips came in to see me.....

Mc: Yes.

HMJr:and wanted to know whether I could report progress on the Army taking over the hundred and thirteen million dollars worth of contracts.

Mc: Yes.

HMJr: So I told him about the conversation with Eddie Greenbaum, and I hadn't heard anything since.

Mc: Yes. Well, I got a memo this morning - or no, last Saturday - from Eddie on it. I called up Ed Stettinius to see whether it was okay with him.

HMJr: Yeah.

Mc: I wasn't able to reach him, either. Then he didn't get back until this morning.

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HMJr: Yeah.

Mc: But I've got - as a matter of fact, I've got it right on my desk now - my plan is to clear it with Ed - Ed Stettinius - and then with the British; and if the British say that they are ready to use - I suppose we'd ought to consult the British as to whether they want to use Lend-Lease funds. If they do, and Stettinius says yes, that's the end of it.

HMJr: Now, will you do me a little favor?

Mc: Surely.

HMJr: Sir Frederick Phillips didn't seem to know what the Hell I was talking about as to this proposal that Greenbaum told me about.

Mc: Yes.

HMJr: So whatever you do - after all, what we're trying to do is to satisfy the British Treasury.

Mc: Right.

HMJr: Do you mind having him in?

Mc: Oh, no.

HMJr: With whoever else you.....

Mc: No, no. Sure, sure.

HMJr: And then the suggestion I made from Eddie, if they say yes.....

Mc: Yes.

HMJr:by God ask them to confirm it in a letter.

Mc: All right.

HMJr: What?

Mc: All right.

HMJr: If they say yes.

Mc: Only if they say yes. I will.

HMJr: I mean, make them confirm it.

Mc: Yes, I - you mean make the British confirm it.

HMJr: The British.

Mc: Yeah.

HMJr: Saying that this is okay.

Mc: All right.

HMJr: And then we'll.....

Mc: Now my thought was that I'd talk to - the fellow that I talk to here mostly is Morris Wilson. Should I get Morris Wilson and Phillips together, is that.....

HMJr: That's perfect.

Mc: Yeah. All right.

HMJr: That's perfect. Phillips.....

Mc: I'll try to clear it this afternoon.

HMJr: Phillips is the British Treasury representative assigned to Morris Wilson.

Mc: All right.

HMJr: But Morris Wilson isn't particularly interested in this thing, and Phillips' chief mission in life is this; and he came over here with a message from the Chancellor of the Exchequer, England, today to me, "What's the situation?"

Mc: Yeah.

HMJr: And if he's present, then he can telegraph back to - whatever the Chancellor of the Exchequer

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is over there - and Kingsley Wood, and say,
"This is the situation."

Mc: All right. I'll do it - I'll buzz Stettinius again this minute, and I'll try to clear it this afternoon.

HMJr: Now, that sounds swell. Let me ask you, is the story in the paper true that our light tank is under-gunned?

Mc: Well, I don't think so. Yes, perhaps we ought to have a - oh, the light tank, no. I don't think that a thirty-six - that light tank you can put much more on it than we've got on it. We're experimenting with a fifty-seven, but we've pepped up the charge.....

HMJr: I see.

Mc:in the thirty-seven so that unless you've got the very last word in armor-plate, this gun - the thirty-seven - will penetrate all the armor that a tank - that an ordinary tank can carry.

HMJr: Well, that's the answer.....

Mc: And it's a very easily handled gun; and with that extra velocity, it's really a - I just had a tank man in here.....

HMJr: Yeah.

Mc:commanding one of the brigades, and he said that he deplored going to the heavier guns because this one was so maneuverable and so accurate.....

HMJr: I see.

Mc:that if they can only get that velocity stepped up a little bit, it'll be the solution; and the reports that we've got are that the German tanks do not have this goldplate, as they call it, goldplate armor, that it's.....

HMJr: They don't have the alloys.

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Mc: They don't have the alloys, precisely. And that maybe we've got more gun than we need when we move to the seventy-five and the three inch.

HMJr: Let me ask.....

Mc: Now, of course, our mediums have got seventy-five on them.

HMJr: Well, they - now what I've read in these newspaper stories - the gun does penetrate.....

Mc: Yes.

HMJr:anything that the German armor has, so far.

Mc: Yeah.

HMJr: Well, it's good news; and thank you.

Mc: That's good, and so far as we can find out, the performance - that is, the ability to keep going - is really very marked.

HMJr: Fine.

Mc: All right.

HMJr: Thank you.

Mc: Good-bye.

November 24, 1941
4:38 p.m.

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HMJr: What's the situation on New York? Anything new on that concert business?

Vincent
Callahan: Oh, you mean the supper?

HMJr: Yes.

C: Well, I sent you two notes this morning, Mr. Secretary.

HMJr: Oh. Oh, that's right. Well, there's something else. I don't know what I had in my mind. I'll call you back tomorrow.

C: Okay, sir.

HMJr: I'll call you back tomorrow.

C: Okay. Good-bye.

November 24, 1941.

Dear General Spalding:

This will acknowledge receipt of your letter of November 19, which refers to the suggestion that an American ice breaker might be made available for use in the Archangel region.

As a result of a meeting in my office at which Mr. Harriman and Admiral Standley were present, it was my understanding that the Navy Department was to supply to the Russian Government information as to the type of equipment possessed by the Coast Guard which might be available for this purpose and that since that time word has been awaited from the Russian Government as to whether equipment of this type would prove suitable.

In view, however, of the transfer of the Coast Guard on November 1 to the Navy Department, it seems appropriate that reply to the inquiry of the Soviet Charge d'Affaires should be sought from the Secretary of the Navy.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Brigadier General S. P. Spalding, U.S.A.,
Office of Lend-Lease Administration,
515 - 22nd Street, N.W.,
Washington, D.C.

HEG/mah

By Messenger

Delivered to Spalding's office

November 22, 1941.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston

With reference to the attached letter from General Spalding:

The understanding arrived at at the meeting in your office, at which Averell Harriman and Admiral Standley were present, was that Waesche would supply to the Navy the information as to the type of ice breaking equipment we could supply and that advice would then be sought from Russia as to whether equipment of this kind would be of any use.

Waesche tells me that he gave the information to the Navy and that a dispatch was sent to Moscow or Kuibyshev and that he has heard no further word. However, the Navy people were doubtful, as he was, that any of our equipment would be of value. The need seems to be for more heavy ice breakers.

(WGS)

OFFICE OF LEND-LEASE ADMINISTRATION
FIVE-FIFTEEN 22d STREET NW.
WASHINGTON, D. C.

November 19, 1941

Dear Mr. Secretary:

During October a suggestion was made to the Soviet Charge d'Affaires that an American icebreaker might be made available for use in the Archangel region. It was understood that if such an icebreaker were to be made available it would come from vessels under your jurisdiction. The Soviet Charge d'Affaires was asked to determine whether his Government would welcome such a vessel.

The Soviet Charge d'Affaires has today asked where this icebreaker now is operating and what its horsepower is believed to be. Would you be so good as to advise as to whether the information the Soviet Government desires can be made available and whether in your opinion it would be fruitful to continue negotiations with the Soviet Government on this question?

Very truly yours,

S. P. Spalding
S. P. Spalding
Brig. Gen., U. S. Army

The Honorable

The Secretary of the Treasury

Washington, D. C.

CONFIDENTIAL

MEMORANDUM FOR THE SECRETARY'S FILES

Conference held in the Secretary's office,
Monday, November 24, 1941.

Present: Secretary Morgenthau
Mr. Gromyko, Charge d'Affaires,
Russian Government
Mr. White

The conference was held at Mr. Gromyko's request.

Mr. Gromyko submitted the memorandum on the condition of shipping for Russia which the Secretary had suggested several days previously might be prepared. The Secretary examined the memorandum and said that he would see that it was placed in the President's hands.

Mr. Gromyko then said he would like the Secretary's assistance in another matter. He had been instructed to ask the U. S. Government for delivery of 600 Douglas passenger planes. The Secretary responded that that was a matter that would lie wholly within the province of the Lend-Lease people and that Mr. Gromyko should address his inquiry to them. The Secretary said that he would be glad to do what he could to assist Mr. Gromyko when all other approaches had failed to yield results. The Secretary said he did not want to get into this since it was not within the field of his responsibility and that he hoped Mr. Gromyko would not come to him with such problems unless he was unable to get satisfactory action through the more appropriate channels.

JDW

November 24, 1941
4:48 p.m.

HMJr: Hello.

Operator: Secretary Knox is at the White House and Mr. Forrestal is out of town. Mr. Bard is at the State Department. Commander Forrestal is the next one in line.

HMJr: Who?

Operator: Commander Forrestal, aide to Mr. Bard.

HMJr: Uh huh. Just let me see. He's at the White House?

Operator: No, I'm calling the other way.

HMJr: Oh. Through the White House, see if you can locate Admiral Stark.

Operator: Right.

4:50 p.m.

Admiral
Stark: Yes, Mr. Secretary.

HMJr: How are you?

S: I'm fine. How are you, sir?

HMJr: Very well. Admiral, I'm calling you because I frankly cannot get anybody in the Secretary's office.

S: Right.

HMJr: So I thought you might take pity on me.

S: Well, I'll be glad to do whatever I can, as you know.

HMJr: Mr. Gromyko is here, who's the Acting Ambassador of the Russian Embassy, and some time ago in the good old days when Coast Guard used to be

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Stark: Yes, Mr. Secretary.

HMJr: How are you?

S: I'm fine. How are you, sir?

HMJr: Very well. Admiral, I'm calling you because I frankly cannot get anybody in the Secretary's office.

S: Right.

HMJr: So I thought you might take pity on me.

S: Well, I'll be glad to do whatever I can, as you know.

HMJr: Mr. Gromyko is here, who's the Acting Ambassador of the Russian Embassy, and some time ago in the good old days when Coast Guard used to be

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in the Treasury - you remember that far back.

S: When who was in the Treasury?

HMJr: Yes. You remember, years ago.

S: When who was in the Treasury?

HMJr: Coast Guard.

S: Yes. (Laughs) Oh, yes.

HMJr: Coast Guard.

S: Yes, I got you.

HMJr: We made a proposal to them about the icebreaker Crasson - that they lease it to us for eight months.

S: Yes.

HMJr: Which they agreed to, and we got some money from the President's fund - his own fund - to repair it.

S: Yes.

HMJr: The Crasson - icebreaker Crasson - is now in Seattle, and the Russian government now says to us that they think she's in good enough shape to go on and go through the winter up at the White Sea.

S: Yes.

HMJr: And they'd like to proceed and send her through the Panama Canal and send her up to the White Sea.

S: Yes.

HMJr: Now, I started this thing, but it's - of course, when we had Coast Guard.

S: Yes.

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HMJr: It's out of my hands now.

S: Yes.

HMJr: Mr. Gromyko would like to have a fairly prompt answer. Could you take it off my shoulders?

S: I'd be delighted to, sir. I'll look out for it.

HMJr: And do you think he could get an answer, when?

S: Tomorrow.

HMJr: Will you.....

S: I say tomorrow. I'll get a dispatch off to the Commandant out there.....

HMJr: Yes.

S:within the next hour or so, and I'll push it just as fast as I can.

HMJr: And just for my records, whatever you decide to do, would you mind letting me know.

S: I will, yes, sir.

HMJr: And what they want to do is to let her go on up to the White Sea and go to work this winter. They think that she's in good enough shape.

S: Yes, sir.

HMJr: And, of course, you know the importance of keeping that open.

S: Oh, yes, I do.

HMJr: Well, if I can leave it in your very able hands, I will.

S: All right, sir. I'll do the best I can with it, right away.

HMJr: Thank you.

S: All right. Good-bye.

November 24, 1941
5:05 p.m.

Admiral
Stark:

I've just been following up on the icebreaker, and I find that some of the Coast Guard people who are experts in the ice breaking line - some from the Bureau of Ships - left by plane today for Seattle to determine the condition of that ship.

HMJr:

I see.

S:

I'm told that she's several feet over-draft, so that instead of having her heavy plates where the blows would come against the ice, she has her light plates. They had an estimate that it would take about five hundred thousand dollars and five months to get her in shape.

HMJr:

Yeah.

S:

So this gang have gone out to look her over and report.

HMJr:

Well, all I - he says they think she's good enough to last until spring. I take it after you get this report, you'll know yourself.

S:

Yes, sir.

HMJr:

Is that right?

S:

Yes, that's right. Admiral Waesche prepared the letter which this is going under. He's following it for us just as he would if - had he still been with you.

HMJr:

Now then - I mean, the reason I went to you was because he isn't with me.

S:

Oh, yes. Yes, I understand. All right, sir. Well, I'll keep you informed as we get the news.

HMJr:

Now, I'm going to ask you - as long as I have you - a very indiscreet question; and if you

- 2 -

don't answer, I'll understand.

S: Yes, sir.

HMJr: My son happens to be in the Navy - he's an Ensign.....

S: Yes.

HMJr:and he's just been assigned - he's been told to report December 5th at Boston to the Destroyer Winslow; and if I could be told - in strictest confidence - where the Winslow operates, I'd appreciate it; and if you feel I shouldn't know, I'll understand perfectly.

S: Well, I couldn't answer you offhand, but I'll check up.

HMJr: But if you tell me, "Morgenthau, you'd better not know," I'll understand perfectly. But if, on the other hand, you think that it's.....

S: Well, we've had some secrets before. I think we can have some more.

HMJr: And if you decide it's all right, if you'd send one of your aides over, why I promise you it'll be all right. But I'll understand if you don't.

S: I'll.....

HMJr: What?

S: I'll check up on it.

HMJr: If you think it's all right, if you'd send one of your aides over, why.....

S: All right, sir.

HMJr:I'm just a father, in this case.

S: All right.

HMJr: He's enjoying his work very, very much.

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S: That's fine.

HMJr: And I'm delighted he's been assigned to a destroyer.

S: Yes. All right, sir.

HMJr: Thank you.

S: Right. Good-bye.

November 24, 1941.

Dear Mr. Davis:

Thank you for your letter of November 14, written at the suggestion of Dr. Viner, and enclosing a copy of your recent talk on Government Price Control As It Pertains To Agriculture. I appreciated your thought in bringing this to my attention and have read the material with much interest.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. J. S. Davis,
Director, Food Research
Institute,
Stanford University,
Stanford University, California.

GEF:is

FMH

FOOD RESEARCH INSTITUTE
STANFORD UNIVERSITY
STANFORD UNIVERSITY, CALIFORNIA

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November 14, 1941

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

Dear Mr. Morgenthau:

At the suggestion of Professor Jacob Viner, I am sending you enclosed a copy of a talk on "Governmental Price Control as It Pertains to Agriculture," which I gave by request before the Agricultural Section of the California State Chamber of Commerce on October 23. I had already sent a copy to Mr. Reas, with a letter in which I expressed my admiration of your address on September 9 on "The Fight against Inflation."

Correspondence with economists close to the agricultural situation leads me to the conclusion that I erred in stating certain proportions in the middle of page 2. I think I would now rewrite these three sentences, as follows:

"A considerable part of the startling price advance has been due to larger economic demand, arising both from enlarging consumer purchasing power spent for meats, other animal products, fruits, etc., and from buying for Britain of some of these same things. But a great deal of the price rise has been due to governmental policy, embodied in acts of Congress--old, new, and in the making--and carried out by official agencies set up under these acts; and to consequent rampant speculation unchecked by public measures. This is, in effect, government-sponsored price inflation."

This correspondence has not, however, led me to change my other conclusions.

Respectfully yours,

J. S. Davis
J. S. Davis
Director

JSD:t
Enc.

Agricultural Section, Sixteenth Annual Statewide Meeting
California State Chamber of Commerce, October 23

GOVERNMENTAL PRICE CONTROL AS IT PERTAINS TO AGRICULTURE

Joseph S. Davis
Director, Food Research Institute, Stanford University

It is good for us university folk to rub elbows with men like you, who are active in our workaday world. I am honored by the invitation to join in your discussions this morning. But I was constrained to accept it, and my pleasure in being here is painfully tempered. I feel like a schoolboy who comes to class without having learned his lesson. The lesson was hard and long. I am on a spot, and it is a hot one. Several of you could discuss this topic better than I can, and I cannot answer the questions that are in your minds to my own satisfaction, in substance, form, or tone. But I'm in for it, and so are you. I'll do the best I can to state a few facts, to raise a few questions, and to give a little perspective on the situation as I see it. I wish there were more farmers among you, for most of what I have to say I should like to say direct to them.

The United States is not yet formally at war, but we are already deeply involved in World War II. For two years our peace economy has been in process of conversion into a war economy. This transition is being accelerated, even if still too slowly to meet urgent needs. Isolationists curse the trend itself. To mollify those who count participation in war the supreme, catastrophic folly, we keep resorting to fresh batches of weasel words, as well as to excessive caution, when forthrightness and even boldness are called for. Most of us chafe at the snail's pace at which (1) momentous decisions emerge from the cross-fire of discussion and debate, (2) conflicting policies reluctantly give way to integrated policy, and (3) administrative efficiency matures out of confusion. Among the strains of the time are those on our patience and tempers. Today, under conditions that are extraordinarily trying, we need to give sympathetic but critical attention to certain problems of policy and administration.

I myself am torn between two desires. I am most eager to support the Administration in this crisis, and do see eye to eye with it on the dominating issues. But when I see the main drift of agricultural policy exceedingly dangerous, and grave mistakes being made along with some far-sighted decisions, I cannot close my eyes or shut my mouth when I am urged to speak.

The very term "control" is often abused. We know what it means to control our tempers, our children, our automobiles, highway traffic, and the use of habit-forming drugs: it is to keep them within a range that we and others regard as normal, even if we do not precisely define the limits of this range. A few governmental controls belong in this category, for example, those exercised over impure foods and over grain grades.

But most of the agricultural controls are not of this sort. (1) In the first place, the "normals" aimed at are mostly not true, economic normals. They are often artificial, political compromises, subject to change almost at a whim. "Parity prices" and "parity income" are fine-sounding phrases, but in practical substance viciously abnormal, compromise goals. (2) In the second place, "control" in practice ranges all the way from something approaching fixation to merely a moderate degree of influence. In general, under the AAA, acreage regulation has been most nearly achieved, but production control has not; and I do not consider that we have or have had price control of farm products. What I suppose you want me to discuss is official agricultural policy in the defense emergency as it

pertains especially to farm-product prices, and the consequences to other aspects of agriculture and the national economy.

Are you awake to what is happening to prices of farm products? They have been rising amazingly. The official index of farm prices of all farm products rose from 103 per cent of the 1909-14 average in March 1941 to 139 to September.¹ In the 12 months ending with September the rise has been 42 points or 43 per cent. Every group has shared in this advance. The least rise, in fruits, has been over 20 per cent; the largest, in cotton and cottonseed, nearly 100 per cent. Compared with a year ago, about the only commodities included that have dropped in price are horses and mules. The only others that haven't risen appreciably more than the index of prices farmers pay are buckwheat, hops, potatoes, sweet potatoes, apples, sugar cane, and sugar beets. The September 1941 index of prices farmers receive is the highest since February 1930, and 5 per cent above the officially computed price parity; and for the first time in 21 years the index of prices received has exceeded the combined index of prices paid, interest, and taxes. Meanwhile, federal payments to farmers, especially on wheat, corn, cotton, tobacco, rice, sugar cane, and sugar beets continue to constitute very important supplements to their sales returns, and cost the Treasury something like three-quarters of a billion dollars a year.

The startling advance in farm-product prices is not the result of short crops or small supplies. Crops of cotton and tobacco are smaller than in 1940, but September 1 stocks of both were huge--and larger than last year, with export outlets exceedingly restricted. Production of most other crops, and total production of all other crops, is larger than a year ago, well above average, and, indeed, not far below the highest on record. Part of the startling price advance, but only a relatively small part, is due to larger economic demand arising both from enlarging consumer purchasing power spent for meats, other animal products, fruits, etc., and from buying for Britain of some of these same things. Much more of the price rise is due to governmental policy, embodied in acts of Congress--old, new, and in the making--and carried out by official agencies set up under these acts; and to consequent rampant speculation unchecked by public measures. It is, in effect, government-sponsored price inflation.

Some of us can remember or can visualize the dangers, wastes, and complications of general price inflation, even if it does not reach astronomic dimensions. In wartime, inflation can hardly be prevented, but many ways are known for keeping it within narrow limits. But more than this technical knowledge is required. Willingness, even eagerness, to employ these means, and promptly, is essential.

Is it good for farmers to be taken on this joyride? No farmer likes to be called a profiteer. I doubt if farmers would have knowingly voted for what is essentially farm profiteering. But farm leaders, and the powerful farm bloc in Congress, are successfully cashing in on the present emergency by putting the farmer's feet in the pig trough. The next speaker is to discuss "The Effect of War on Land Values." I hope he will consider not merely the effect of war, but the effect of current agricultural policies. For my part, I do not consider these policies inevitably associated either with war or with the defense effort. And I do not see how a serious boom in land prices can be prevented if this dangerous drift of policy is allowed to continue.

There are other consequences. The Brookings Institution has recently put out a pamphlet on "Effects of the Defense Program on Prices, Wages, and Profits."² While I cannot endorse its statements 100 per cent, I think its authors are right when they

¹ U.S. Dept. Agr., Agr. Marketing Serv., Midmonth Local Market Price Report (With Parity Price Comparisons), Sept. 29, 1941.

² By Meyer Jacobstein and H.G. Moulton, published Sept. 30, 1941.

say: "The prices of farm products have led the advance." (p. 26)

"Government policy with respect to agriculture has . . . been primarily responsible for the great rise in raw material prices." (p. 27)

"5. We are now at the stage where the vicious spiral of rising costs--rising prices--and again rising costs and prices--threatens the living standards of vast numbers of people . . ." (p. 42)

"6. The Administration's price control bill does not reach to the heart of the present inflation process. Unless the government is willing to restrict further increases in the prices of agricultural products and wages, it will be impossible for the Office of Price Administration to keep the prices of manufactured products from rising." (p. 42)

"The lack of a sound, coordinated price policy has already resulted in much damage that cannot be repaired. Further delay will multiply the difficulties and inequities during the war period and gravely complicate the problems of postwar readjustment." (p. 43)

In years past there was much fine talk of "stabilizing" farm prices. Have you heard any recently? Actually, stabilizing was a nice word for boosting. An AP dispatch in yesterday's Chronicle reported the official announcement of a loan program on soybeans at a rate of \$1.05 per bushel, "similar," I quote, "to that used to stabilize prices of cotton, wheat and corn." Can anyone look at the recent price record of these three surplus crops, and say that the loan programs have, in any true sense, stabilized their prices? On May 26 the President signed the bill raising the floors under these prices by making loan rates mandatory at 85 per cent of parity, thus making their prices more than ever uneconomic, and more than ever "political prices" of "political crops." Before and since, farm and market speculation, favored by prospects of further boosting measures, and unchecked by restraints, has brought more price advances amid violent fluctuations. How can anyone have the nerve to say that what we have witnessed in the past six months is "stabilization" of these or any other farm-product prices?

Where are the signs of price control? Mr. Henderson's OPACS, I gather from one of his recent aides, has enough headaches to be willing to leave control of prices of farm products to the AAA. But it has had almost no experience in this. By Congressional mandate, the AAA has been pretty consistently a price-boosting agency. The skyrocketing of cotton prices could already have been given a normal check if CCC loan cotton were released in adequate amounts; but the law now prevents the sale of over 300,000 bales in any calendar month or more than 1,500,000 bales in any year.³ It took a presidential veto (August 25) to kill a bill to freeze surplus stocks of cotton and wheat for the duration of the emergency.⁴ Two days ago, sharp speculative advances in commodity markets were attributed to Secretary Dickard's statements before the House Committee that is considering the price-control bill. He is reported to have said that prices of farm commodities are not too high, and that he favored allowing ceilings on agricultural products "at not less than 110 per cent of parity."⁵ On many products, including wheat, corn, cotton, and tobacco, even parity prices under present formulas are abnormally high. Agitation for raising official parities is rising, not subsiding.

Moreover, huge federal subsidies introduced to supplement farm returns when prices were much lower are not being withdrawn now that prices are high. Soil-conservation and parity payments for 1941, on wheat, were at the rate of 18 cents per bushel of normal yield of acreage allotment, and it was recently stated that the 1942 rate would probably be about 23 cents a bushel. Including prices received for quantities sold, farmers may thus expect substantially more than parity returns on basic crops.

³ Fortune, October 1941, p. 65. ⁴ Ibid., p. 62.

⁵ San Francisco Chronicle, Oct. 22, 1941, p. 17

Please don't make the mistake of counting me a reactionary enemy of our entire agricultural policy. I am not that. Real progress has been and is being made in several fields, such as soil conservation, farm rehabilitation, other work of the Farm Security Administration, and crop insurance. The Food Stamp Plan and certain related methods of surplus distribution are improvements over earlier moves in this direction, and hold promise of evolving into useful elements of our national policy. But most of these lie outside my present assignment.

Some newer elements of policy I can warmly endorse. The Department of Agriculture, in cooperation with the British purchasing mission, has worked out and is executing an extensive program of food aid to Britain, chiefly in animal products. With this in prospect, Secretary Wickard announced last spring that prices of hogs, eggs, chickens, and milk would be supported at not less than 85 per cent of parity till the end of 1942. State and county agricultural defense boards are now bringing home to individual farmers the goals of increased output of these and certain other farm products now deemed urgently needed, and the best ways to achieve these goals. The response to such efforts may yield some insurance against continued extreme inflation. I am broadly in sympathy with eventual building of reserve stocks of food against the day when peace comes, to throw into rehabilitation and to help make a good and durable peace; but after observing the operation of the ever-abnormal granary I must reserve judgment on the way the idea will be carried out.

The trade agreement with Argentina, signed last week (Buenos Aires, October 14) and provisionally effective on November 15, includes a few concessions to Argentine wishes consisting of "reductions in duty and import-exercise taxes, bindings of existing duties, and bindings on the free list."⁶ A little contribution to the checking of inflation may be made by those applicable to flaxseed, casein, tallow, oleo oil and stearin, prepared or processed meats, and wools. Argentina's concessions mostly apply to our industrial exports, but concessions are also made on our exports of fresh apples, pears, and grapes, prunes and raisins, and on dried peaches, apples, pears, and cherries, walnuts, and leaf tobacco. Such agreements deserve general support, and should go further.

Despite such moves, it is not too much to say that governmental price control, in any significant sense, is largely conspicuous by its absence in the field of farm products. The exceptions are relatively petty. Governmental price control in other directions pertaining to agriculture is also relatively insignificant. The main drive for inflation of farm prices comes from the powerful farm bloc in Congress, pushed and backed by farm organization lobbies. Some of the insistent demands have been resisted by Secretary Wickard, and the President, but for the most part unsuccessfully. Under the influence of loan rates at increasingly abnormal levels, government buying, successive concessions to price boosters, and speculation for the rise ignored, the inflation is proceeding without resort to brakes that exist but are legally and politically unavailable. These potential brakes include lower loan rates, freer release of government stocks, more tariff concessions, reduced distribution of so-called surplus commodities, sharp cuts in federal subsidies no longer needed, reasonable price ceilings, and perhaps other sorts of curbs on bull speculation. Shall we resolve to put the brakes on, or let the juggernaut run away?

Some three years ago, in addressing audiences of western bankers, I discussed "The Drift of Agricultural Policy." May I quote a few sentences from what I said then then?

⁶Foreign Crops and Markets, Oct. 20, 1941, pp. 509-11.

⁷On Agricultural Policy, 1926-1938 (Food Research Institute, Miscellaneous Publications 9, Stanford University, Calif., 1939), pp. 478-79

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"The present drift of agricultural policy bears the marks of a tidal wave...

"I cannot dismiss the impression that an unnecessary crisis is already in the making....

"Yet it seems a profound pity that we should have to face this outlook. Really, there is no longer rational excuse for major blunders in national agricultural policy. In time of war, or the extreme emergency of severe depression, the practical or political necessity for rapid action greatly increases the risk that grave mistakes will be made. Even against these, in future, many safeguards could be developed if such situations were given careful advance consideration by competent experts.... Except in slight degree, they are not being so used.... I fear they will not be, so long as dreams, hunches, and political considerations determine the main drift of our agricultural policy."

I wish I had been wrong. I hope I am wrong now. But I cannot escape the conviction that in officially promoting, instead of curbing, these powerful tendencies toward extreme advances in farm-product prices, we are not solving agricultural problems but multiplying and magnifying them for the present and the future. In the long run, farmers themselves stand to lose, and heavily, by this artificial prosperity spree at the grave expense of the nation.

b THE LIBRARIAN OF CONGRESS
WASHINGTON, D. C.

November 24, 1941

Dear Henry:

Your letter of November 18 is
extremely generous and I appreciate it more
than I can say.

With all good wishes,

Faithfully yours,

Archibald MacLeish
Archibald MacLeish

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

1201 NOV 25 1941

TREASURY DEPARTMENT

226

INTER-OFFICE COMMUNICATION

DATE November 24, 1941

TO Secretary Morgenthau

FROM Mr. Barnard

You asked on November 17th for a list of materials which there was difficulty in purchasing either for the United States or for the British; also, any extraordinary delays in materials.

I attach Mr. LeFevre's report answering this inquiry.

I made a report on this subject to you on November 3rd. There has been some change in the situation since then and it is quite likely that it will change from month to month. Would you like a monthly report of this character?

CVB

*Noted
JAMf.*



OFFICE OF THE DIRECTOR

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TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

November 19, 1941

MEMORANDUM FOR MR. BARNARD

With adequate priorities no difficulties have been experienced in the purchase of materials for the United States Government. However, some difficulty is being encountered in the purchase of the following items for the British:

Butyl Acetate, Acetone, Butyl Alcohol

Extraordinary demand for use in the manufacture of explosives and other combat materials have required more of these than can be produced from the normally available raw material and additional supplies can only be made from higher priced raw materials with considerably increased cost.

Paper Board, Newsprint and other items

The demand for pulp for use as a vehicle for explosives, together with the fact that one of the world's principal sources of pulp is not now available, is creating difficulties in obtaining these items.

Calcium Carbide and Calcium Chloride

The supply of these has been affected by the drought conditions with the resultant power shortages.

Glycerine

Demand for use in the manufacture of explosives and other combat materials has been such that adequate supplies have not always been available.

Digitalis Seed, Leptandra Root, and other raw materials for the manufacture of medicinal drugs

Unusual demand, plus the elimination of certain foreign sources, has made these materials difficult to obtain at times.

Magnesium

Diversion for combat use has made it difficult to obtain magnesium. New production, of over a million pounds annually, is expected to be available about January 1st and it is hoped will relieve this situation.

Silk

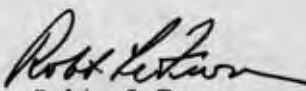
The well-known situation in the Far East has affected this item.

Superphosphate and other items requiring the use of sulphuric acid to produce

Demand by the military services for sulphuric acid for use in the manufacture of explosives has made it impossible for the producers of materials requiring sulphuric acid to get their supplies.

Copper and Copper Base Alloys, Construction Equipment, Machinery, and Agricultural Implements

Difficulty with these items is occasioned by the demand for metals for use in combat materials.


Robt. LeFevre
Acting Director of Procurement

TREASURY DEPARTMENT

229

INTER-OFFICE COMMUNICATION

DATE November 24, 1941

TO Secretary Morgenthau
FROM Mr. Barnard

Among the letters received in the Department was one from J. J. Spath of New York City, complaining that electric switches were purchased at a price substantially in excess of that for which they could be purchased from his concern, and claiming that the specification used was obsolete.

I attach Mr. LeFevre's report on this matter and have discussed it with him. It is entirely clear, I think, that this matter was properly handled and that the bids of the Williamsburg Electric Supply Company in which Mr. Spath was interested, did not meet the specifications and applied to a distinctly inferior switch.





OFFICE OF THE DIRECTOR

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TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

November 19, 1941

MEMORANDUM FOR MR. BARNARD

Your memorandum of November 17th quoted in part a communication from J. J. Spath, New York City, stating in substance that electric switches were purchased at a price in excess of his distributor's quotation, claiming that the specification used is obsolete.

The purchase was made by this Division based on specifications applicable to a standard quality switch used by electricians in construction and maintenance work and produced by the leading manufacturers (Bryant #2572, G. E. #558, Hart & Gageman #3672, Pass & Seymour #3090, Cutler & Hammer #7007).

Bids on switches meeting specifications were received at prices ranging as follows:

American Electric Supply	.34
Baitinger Electric	.3323
Crannell Nugent	.339
General Electric Supply	.343
E. B. Latham	.336
Noland Company	.335
Shell Electric	.3365
Westinghouse Electric Supply	.34

Bids for a switch not meeting specifications were received from others, including the Williamsburg Electric Supply Company. The award was made to the lowest bidder meeting specifications.

Robt. LeFevre
Acting Director of Procurement

M 231

MEMORANDUM FOR THE SECRETARY.

November 14, 1941.

Mail Report

Letters in regard to taxes continue to flood the mails. Mention of the Social Security tax increase has dropped off -- only 28 letters criticizing this idea to 3 advising it. Mention of the 15% payroll deduction, however, has greatly increased, and is in a proportion of 79 protests to 3 approving the idea. There were 174 letters speaking of increased taxation in general -- all in protest and ranging from the mild to the violent. There were, in addition, 24 letters giving suggestions as to individual taxes, and an equal number suggesting possible exemptions to be allowed in calculating present income tax. These almost invariably include doctors, dentists, hospital and funeral expenses; next come expenses for education. The sales tax still has many endorsements, and so has a national lottery. There have been quite a few letters urging the taxing of church properties and religious organizations which do not account for their intake of funds.

"Anti" letters of all sorts continue to come in in the following proportion: abusive, H.M.Jr, 5 signed to 7 anonymous; the President, 2 signed to 5 anonymous; the Administration as a whole, 4 signed to 7 anonymous. Letters protesting loans to Russia, 7, as against 19 anti-Britain letters, and 14 urging that we keep aloof from the war in every way. There were 15 anti-labor letters to 16 urging greater economy. Many letters mention both, and many of the tax letters also speak of strikes, Government expenses, etc. It is thus hard to get an exact count.

Individual cases reported for advice on income tax procedure have been coming in at the rate of about 20 to 25 a day. There continue to be many requests for the "Know Your Taxes" folder, and also for the speech on inflation.

*See Page ① J. J. Hatt - C. Barnard
Please investigate and report*

GENERAL COMMENTS

Donald R. Gorham, Director, The Eastern Baptist Theological Seminary, Overbrook, Pa. Over three years ago I returned four savings stamps which I had purchased during the World War, asking for a refund of the money. To date I have had not even a reply. * * * After waiting for three years, it is perhaps time that I should write to ask why my ONE DOLLAR which was loaned to the Government to help finance the last war, and which you have had for over twenty years, without interest, has not been returned to me.

Mrs. John B. Powell, Hannibal, Mo. My husband owns and publishes an American newspaper in Shanghai. He has a limited account in the National City of New York. In Sept. he sent me a check for \$50 which I cashed at the bank in Columbia, Mo. * * * The check was returned to the Columbia bank with the request that I have 5 statements of my nationality, intended use of the money, made and sworn to before a Notary -- which I did, and after two weeks or more received the notice of check clearing. I realize this is part of the freezing assets program, but what I want to know is -- must I spend Notary fees, extra postage, etc., out of every small check Mr. Powell writes, or is my identity, etc., established? * * * It struck me as both ridiculous and pathetic to get a notice that I must spend \$2.50 to get \$50.00, in the same mail with a request from your office to buy more Defense Bonds. I've been buying a Defense Stamp each week for my young grandson, but there will be several weeks of no purchase of Stamps. That is how much some of us understand, through sheer necessity, the need of careful spending.

J. J. Spath, N. Y. C. One of our distributors, Williamsburg Elec. Supply Co., Brooklyn, N.Y., has recently submitted a bid on 22,000 pendant switches, covered by the invitation referred to above (Invitation #1143-S7-10-29-41), on which they submitted the price of \$10 per C pieces. The bid, however, was awarded at the price of \$33.25 per C pieces, to the Baitinger Elec. Co., N.Y.C., a distributor for a competitor of the firm which I represent. In this connection, I would like to be informed why our product was rejected in favor of a product which costs over three times as much as the device we manufacture. * * *

This device is manufactured under rigid specifications and requirements by the Board of Fire Underwriters, who have approved our switch and we cannot find a justification for the loss of the contract. * * * There would have been a saving of approximately \$5,000 on this one small purchase if an obsolete specification had been checked before the invitation bids had been mailed out and a comparison made of the samples submitted by our distributor and the item purchased.

FAVORABLE Comments on Taxes

B. H. Erickson, San Jose, Calif. There are workers on the West Coast who have never been signed up for Social Security. Now if these were signed up, would it not help the tax problem for Governmental expense. I myself have never been signed up for Social Security as my employer has always been opposed to it. I am a tailor and have been working steadily for the same employer since 1926, except for a 4 months' vacation in 1934. I would like to know if my employer could be compelled to pay this up since 1937. I have called on the Internal Revenue official in this city for information on this subject, but that office does not take much interest in my case. They seem to be more interested in my employer's attorneys.

Clarence Armstrong, Baltimore, Maryland. I do hope that the Treasury Department will not let the criticism which has been levied against the Morgenthau proposal (6% statement) deter it from going ahead along these lines. It should awaken it to the kind of opposition they can expect, and make it realize that it must take the issue to the people and persuade them that therein lies the only hope of winning a victory over internal conditions at home as well as over external factors abroad.

Paul C. Hessler, Wilmington, Del. I thoroughly believe in the fifteen per cent tax on salaries and wages. In fact, I believe it should be thirty per cent. If this generation is going to have the war, let this generation pay for it and not our great grandchildren.

UNFAVORABLE Comments on Taxes

Mrs. B. D. Koons, Muncie, Ind. I have read that the Treasury is working on a plan to deduct income taxes from salaries of employed people, but I am at loss as to how you are going to do this under our Constitution, which I believe is still operative. In the event a man is not employed, his taxes could not be drawn from him; this leaves the employed man a citizen who has been discriminated against, something the Bill of Rights forbids.

Paul W. Berens, Oakland, Calif. Please inform me if income taxes can be paid here in Oakland, Calif., with good old U. S. Currency. It is still good legal tender. The income department has been requiring the taxpayer to get a Money Order.

Lewis Jones, Overbrook, Pa. I feel sure if employers are required to withhold the income tax from employees as suggested, there will be widespread strikes to force the employers to pay the tax without deducting it from the pay. I would suggest as a substitute that tentative returns, accompanied with the tax, be required every three months from each individual with an accurate, detailed return at the end of the year as at present.

A. E. Vaughan, Brooklyn, N. Y. You are thoroughly well liked by the majority of us, as we know that you have done a fine job under the hard circumstances you have had to deal with. With the above in mind, I beg to suggest that you temper all of your suggestions that have to do with increased taxes and their collection. We are fed up with strikes which are causing costs to rise above all reason. We middle-class people fight the wars and pay the taxes, but do not get any of the benefits from increased wages or dividends. Our stock values decrease, our salaries are more often cut than increased, costs of living have increased much more than were given by Mrs. Roosevelt in her column this past week. Our professional fees do not increase, and collections are poor. That taxes will have to be increased is thoroughly known by everyone, and that the cheapest method of collections will have to be used, is also appreciated, but we can be told about this in smaller headlines and with a little honey. * * * You have important and serious things to do in the years ahead, and I wish you proper guidance and good health to help you carry on for the good of America.

FAVORABLE Comments on Speeches

John J. Teal, Greenwich, Conn. I have just read a copy of your address before the Advertising Club of Boston, and wish to add my commendation for the sane and sound manner in which you treated the subject of inflation.

Stuart Culbertson, Head of the Dept. of Modern Languages, University of Colorado, Boulder, Colorado. I am grateful to you for sending me a copy of the speech on the subject of inflation. It cleared up a number of points for me, and made more intelligent my support of the Administration.

Preston E. Reed, Executive Vice President, Financial Advertisers Assn., Chicago. Let me take this occasion to say that one of the best, and perhaps the most important speech made at the Chicago American Bankers Association Convention, was the one I heard you make. It was forceful, timely, and created a very fine spirit of ever increasing desire to help.

Mrs. W. C. Twiss, Hollywood, Calif. California taxpayers are watching with interest your attempts to get people to think and act before it is too late. We have just read your article, "We Cannot Carry on as Usual", in "America's Future" and are much interested. Our hope is that other Government employees may have the courage you have displayed.

Samuel E. Gaches, President, American Chamber of Commerce of the Philippines. Let me introduce myself by saying that years ago I had the pleasure of meeting your illustrious father in Manila and conversing with him at the Round Table of the American Chamber of Commerce of the Philippines. * * * I have read with interest your, "Speech and Pledge", delivered some-time ago on the subject of "inflation". From the outpost of American democracy in the Far East, the Philippines, I wish to congratulate you on that article. It is most excellent in every respect, with this exception - that you do not emphasize the principal factor in the control of inflation and prices, namely, the wages of labor. In the control of prices and inflation, it is our opinion that the first move to be made must be the placing of a ceiling on wages. Everything is the product of labor. * * * Until labor is controlled, prices of finished articles cannot be controlled.

FAVORABLE Comments on Bonds

Eugene P. Gum, Secretary, Oklahoma Bankers Association, Oklahoma City. No doubt the wide-spread answers to your telegram, giving the experience of national banks of the nation will be more valuable than any report I might make. As far as this association is concerned, we are "In the Army Now" and have tightened our belt to render any and every service possible. We are urging the banks to qualify for the sale of Defense Bonds, and the success we have had is very gratifying. We expect to have our banks one hundred per cent before long. Our banks are loaning every dollar they can on defense contracts and we are holding meetings of our bankers, educating them as far as we can on the applications and rulings of Regulation W and Foreign Control. * * * We appreciate the fine service you are rendering the nation - no doubt at a great sacrifice to your personal interests. I enjoyed your address before the bankers in Chicago and hope you will feel free to call on me for any service I may be able to render you or the nation.

G. R. Brigham, Director, Journalism and Publicity, Brenau College, Gainesville, Ga. I write to acknowledge with hearty thanks the receipt of fifty copies of the patriotic song, "Any Bonds Today?" The girls were extremely pleased with this attractive song, and as Brenau is a musical college, they asked if they might sing it softly in the class room at once, which they did, with great pleasure, and took the copies away for further use. I also gave a little talk on the value of U. S. Government Bonds, especially as an investment for young people and for journalists, who may find it the easiest and safest way to save their earnings. * * * I believe this is an extremely valuable piece of publicity for the Government and the Treasury, and I congratulate you on it.

Laurence F. Arnold, (House of Representatives), Washington, D.C. Enclosed is a letter received from the President of the Farmers Bank of Trenton, Ill., in the district I represent, in which he fully agrees with your recommendation to the House Ways and Means Committee. I, too, am in thorough accord. ----- The following excerpts are from the letter signed by D. L. Schaeffer, which the Congressman forwarded. ----- If the Government wishes the defense workers and others who are now making big salaries to have Defense Bonds to spend after the war, it seems to me that Mr. Morgenthau's suggestion of checking it off at the source, that is payday, is about the only way that they will be able to get anywhere. People like myself and thrifty folks and patriotic folks have been buying Defense Bonds. The type of folks that really Defense Bonds were intended for, don't seem to know there is such a thing. My candid opinion is from observations here about that they won't know. * * * The group of people I have in mind are going to get rid of their money some way or other. They are not going to keep it; they never did keep it; they never will, not under any circumstances. Morgenthau is right! He should have some support!

W. H. Kuenzi, Cashier, Farmers State Bank, Clyman, Wis. We have not been active in selling war stamps -- we feel the local Post Office should be able to do that, although we do boost for it when the occasion comes along. However, we are doing all we can to sell the savings bonds to those customers having several hundreds of dollars on deposit and don't know how to invest it. By doing this we not only get rid of the surplus cash we have on hand uninvested, but also are doing our share for defense, which should be of greatest importance to every American citizen at all times. * * * When the real call for money comes, we will again be ready to do our share, even though we will have to put in some long hours in order to get our book work done each day. The last time we handled over 200M Liberty and still were able to meet all demands made on us by our customers. However, I do not believe it will be as hard for us this time as it was the last; people now know something about bonds which in most instances was not the case last time. Perhaps the "strongarm" method used around here last time was necessary, but I did not like it, and people around here, in general, resented it.

This time we have had the experience and I believe a small bank can do much more good by personal touch during daily routine, convincing those customers who have idle funds on hand to invest in war savings than to try to convince an irritated customer the amount allotted to him as his share by some committee knowing nothing of his financial affairs, is the proper amount he should purchase.

UNFAVORABLE Comments on Bonds

W. J. Dungan, (Lawyer), Augusta, Arkansas. This morning I read an article in Nation's Business in which it was stated that the campaign to market Defense Bonds and Stamps is bogging down. The article suggested that the fault was found in the organization. I doubt that this is true. I think the trouble lies primarily in the resentment of the public toward the misconduct of industry and labor toward their responsibilities in national defense. I find a lot of bitterness in the hearts of fathers and mothers whose boys are being taken into the army at a time when such misbehavior is being practiced by industry and labor. * * * I can state definitely, Mr. Secretary, that until the people of this country quit seeing in the papers that strikes are occurring and factories are being closed down, the Government will not have general cooperation from the people.

Miss Margaret Gilliland, Columbus, Ohio. Since the Defense Bond sale was started, I have skimped in every way; have not been to a picture show for more than 6 months; have even cut down on my eating, and have managed to buy a \$50 bond each month. But I shall not continue to do it. I work in an office and my wages have not been and will not be raised, but everything else is higher. I have no home and no one to care for me, and I cannot pay double or triple Social Security. * * * City, county, state and federal taxes are being levied constantly until it will take more than I can make to just have the money they take away from us - whether we are willing or not - and I for one am stopping giving the Government any more money in the shape of so-called Defense Bonds.

Anonymous - I have taken the trouble to ask one hundred citizens from all walks of life if they have bought Savings Stamps or Bonds, and if not, why not? Sixty-two out of the hundred had not bought either. The principal reason is strikes and labor troubles, which they say flatly have been fostered and encouraged by the Government, and they do not intend to buy any until it is stopped. The second reason is non-defense expenditures. * * * Mind you, these people are not kicking on defense taxes, they are for them 100%, they wonder why all the delay, in fact, and want to go the limit to whip Hitler.

A. R. Forbush, Washington, D. C. Twenty years' publicity and advertising experience, including handling the "stunt" publicity for three Liberty Loan Campaigns in Detroit, leads me to ask if those in charge of the present bond-selling campaign radio programs have seriously considered the possible effect on a large section of the public of the new theme song, "Abe Lincoln Had Only One Country". * * * In a section of the country that celebrates Jefferson Davis' birthday, such a song will not be too effective. And most surely a mistake was made on the program this week when that song was introduced, by following it with "The Battle Hymn of the Republic". In the deep south, this song is second in public disfavor only to "Marching Through Georgia".

George F. Blackburn, Washington, D. C. In response to a recent Government appeal I agreed to buy Defense Bonds and Stamps in the amount of about 10% of my salary. It was my understanding that part of the purpose of this was to help check an inflationary trend. * * * Now I read that you propose a tax which would in effect be a 15% pay cut. In the expectation that some such tax will probably be in effect in the near future, I wish to say that I do not intend to buy any more Defense Bonds or Stamps. The simple reason is that I want to use the money to buy things which I cannot afford to buy after this tax goes into effect.

TREASURY DEPARTMENT

242

INTER-OFFICE COMMUNICATION

DATE November 24, 1941

TO Secretary Morgenthau
FROM Mr. Barnard

You suggested on November 17th that if we had not used up all our appropriation for automobiles for this fiscal year, we place the orders at once. The Procurement Division advises that automobile requirements up to June have been anticipated, with the exception of those required for the Customs Service, which will submit its requirements not later than December 1st.

PNB

*Noted
JHmg*

TREASURY DEPARTMENT

243

INTER OFFICE COMMUNICATION

DATE November 24, 1941

TO Secretary Morgenthau

FROM Mr. Barnard

Re: DOING BUSINESS WITH THE PROCUREMENT DIVISION

Did you see one of these booklets?

CUB

Enc.

*Noted
J.M.F.*

Doing
Business
with the
Procurement
Division



Treasury Department, Procurement Division
Washington, D. C.
November 1, 1941

Introduction

More than \$500,000,000, is now being spent annually in purchasing materials and supplies for the civilian needs of the United States Government.

Thousands of items ranging from rubber bands to locomotives--practically everything manufactured by man--are bought.

Because of the vast purchases which the Procurement Division makes, it constantly is looking for additional sources of supply, seeking new contacts with businessmen. The Procurement Division welcomes their competition in supplying the Government's needs under the competitive bidding system established by law.

Manufacturers and dealers--small and large alike--all have equal opportunity to do business with the Procurement Division, and this booklet is designed to show how to have regular business relations with the Division. It should be particularly helpful to those firms which, because of lack of knowledge of procedure, have hesitated in the past to deal with the Government.

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How the Procurement Division Buys

Created as the Government's central purchasing agency, the Procurement Division formulates policies of purchasing and buys those materials and supplies which are most economically purchased in quantities and for which there are sufficiently large and recurring demands. In addition to these ordinary functions of centralized purchasing, the President and Congress assign to the Procurement Division from time to time specific programs of purchasing. Both these ordinary and extraordinary functions will be discussed in detail in this booklet.

The theory of centralized purchasing is accepted in business and in the Government as an axiom for economical and efficient administration. Replacing duplication in purchasing with centralized procurement has resulted in substantial savings to the taxpayer. The cost of paper work is minimized when hundreds of orders are consolidated into one. Grouping of orders permits large-quantity purchases at lower costs, and the value of the taxpayer's dollar is increased.

Centralized purchasing is an aid to vendors in a number of ways. It reduces the vendors' operating costs, in that negotiations can be carried on with one office, instead of a multitude. It reduces the amount of paper work involved in bookkeeping. If deliveries are to be made to the warehouse, it reduces the number of deliveries. These factors all tend to simplify the problems of the vendors.

The ordinary purchases under contracts consummated by the Procurement Division may be broadly divided into three categories. They are: purchases under the *General Schedule of Supplies*, purchases for warehouse stock, and specific-quantity purchases.

Contracts under the *General Schedule of Supplies* are those consummated by the Procurement Division under which

vendors agree to supply the needs of all agencies in the District of Columbia and of field agencies as designated by the Director of Procurement and as specified in the purchase negotiations. These term contracts call for indefinite quantities of a commodity to be delivered as ordered during the life of the contracts, which may range anywhere from three months to a year. As a result of these contracts, a source of supply is available at all times.

Thus, for example, there are awarded contracts to supply all Government agencies, both in Washington, D. C., and in the field, with tires and tubes for automobiles and motorcycles. The prices, places of delivery, and other terms are covered by the contracts. Whenever an agency of the Government requires a tire or tube, it must be ordered from the vendor with whom the contract was made.

Sometimes the Procurement Division finds it more advantageous to have another agency consummate a term contract. For example, the Navy Department because of its wide experience in petroleum purchases, has negotiated the contracts for lubricating oil to be used by the various civilian departments and agencies.

Under the second category, the Procurement Division purchases from manufacturers or dealers definite quantities of commodities, which are placed in its warehouse at 7th and D Streets, S. W., in Washington, D. C. From this warehouse are met the needs of the Government in the District of Columbia, and, when purchases from warehouse stock are more economical than direct purchases, the Government agencies in the field avail themselves of warehouse stock. Materials purchased in this way are those which lend themselves to warehousing and distribution by a centralized agency.

Articles purchased under these two categories are listed in pamphlets known as the *General Schedule of Supplies*. These pamphlets are distributed to purchasing officers throughout the Government, who use them as a guide in ordering materials from either the Procurement Division Warehouse or from contractors.

Under the third category come specific articles for specific agencies of the Government. These commodities do not lend themselves to consolidated purchasing or warehousing. Nor is the demand for them sufficient to warrant inclusion in the term contracts under the *General Schedule of Supplies*. Glassine bags are an example. These bags are used exclusively by the Department of Agriculture in experimental work. As corn ripens, the bags are slipped over the tassels to prevent the disbursing of pollen. To stock these bags in the Procurement Division Warehouse or to make term contracts for them, when only the Department of Agriculture uses them, would not be beneficial to the Government.

In addition to the foregoing, the Procurement Division has been charged from time to time with making certain special types of purchases, or has been required to handle certain purchasing programs of wide scope. For example, the purchasing of supplies and materials for the Emergency Relief Program has been and is now being performed by the Procurement Division and its forty-three State or Regional Procurement Offices, established primarily for this purpose. With few exceptions, contracts for the purchase of materials and supplies needed for this Program are made directly by each State or Regional Procurement Office.

Another purchasing program which has been delegated to the Procurement Division is that of buying materials and supplies for distribution by the American Red Cross to refugees of war-torn nations. And today, a very important activity of the Procurement Division is purchasing commercial items under the Lend-Lease Act and certain equipment for the Defense Housing Program.

Although these purchasing programs are referred to as "special," it has been the experience of the Procurement Division that there have always been several such programs in progress—almost continuously. And as one special program has been completed, a new one usually has been begun.

Laws Affecting Federal Procurement

The fundamental law of Government purchasing is contained in Section 3709 of the Revised Statutes (USC, Title 41, Sec. 5). This statute, as interpreted by the law officers of the Government and the Courts, requires that, except in a public exigency, all purchases for materials, supplies, and equipment, must be made after public advertisement from the lowest bidder who has offered a product in accord with specifications.

In normal times, practically all Government purchases are subject to this general rule. In times of emergency, however, Congress in many cases waives this rule and permits the award of contracts without advertising or without competition. It can readily be seen that the situation caused by such extraordinary measures as priorities, price ceilings, and allocations, require temporary modifications in the competitive system. The formal, competitive system contemplates a normal market; when prevailing conditions are abnormal, mechanics must be revised to meet the problems.

The Government's policy on labor related to Federal purchases is expressed in the law commonly known as the Walsh-Healey Act (USC, Title 41, Secs. 35-45). This Act, in general, requires that every contract in excess of \$10,000 must contain a provision that the contractor is a regular dealer or manufacturer of the articles or materials; that he will not employ child or prison labor; and that he will not pay less than the prevailing rates of wages fixed by the Secretary of Labor for the locality in which the goods are manufactured. The Act is administered by the Secretary of Labor and provides for penalties for violations of these stipulations, as well as other terms of the Act.

The third general policy is that contained in the Buy-American Act (USC, Title 41, Sec. 10A). This law requires

that goods purchased by the Government must be mined, produced, or manufactured in the United States. It does not apply:

1. When articles, materials, or supplies are for use outside the United States;
2. When there is not sufficient and reasonable available commercial quantities of satisfactory qualities;
3. When it is believed to be inconsistent with the public interest; or
4. When the cost of the articles, materials, or supplies is unreasonably high.

How to Get on the Procurement Division Mailing List

The first step in doing business with the Procurement Division is having one's name placed on the mailing list. This enables the manufacturer or dealer to receive invitations to bid or informal notices of quotations desired for such commodities as he may have to sell. Any firm desiring to have its name placed on the mailing list for such invitations or informal notices from the Procurement Division in Washington, D. C., should address a request to the Director of Procurement, Procurement Division, 7th & D Streets, S. W., Washington, D. C. Any firm desiring to have its name placed on a mailing list maintained by the State Procurement Offices should address a request to the Procurement Officer for the state in which the firm desires to do business. The addresses of the State and Regional Procurement Offices are given on the following pages.

Alabama - U. S. Treasury Dept., Old Post Office Bldg., Montgomery, Ala.
 Arizona - U. S. Treasury Dept., 1206 S. Santee St., Los Angeles, Calif.
 Arkansas - U. S. Treasury Dept., Old Post Office Bldg., Little Rock, Ark.
 California, San Francisco - U. S. Treasury Department, 49 - 4th St.
 California, Los Angeles - U. S. Treasury Dept., 1206 S. Santee St.
 Colorado - U. S. Treasury Dept., 810 - 14th St., Denver, Colo.
 Connecticut - U. S. Treasury Dept., 341 State St., New Haven, Conn.
 Delaware - U. S. Treasury Dept., 100 W. Saratoga St., Baltimore, Md.
 Florida - U. S. Treasury Dept., 49 W. Duval St., Jacksonville, Fla.
 Georgia - U. S. Treasury Dept., 10 Forsyth St. Bldg., Atlanta, Ga.
 Idaho - U. S. Treasury Dept., 433 Federal Bldg., Boise, Idaho.
 Illinois - U. S. Treasury Dept., 222 W. North Bank Drive, Chicago, Ill.
 Indiana - U. S. Treasury Dept., Century Bldg., Indianapolis, Ind..
 Iowa - U. S. Treasury Dept., 300 Royal Union Life Bldg., 7th & Grand Ave.,
 Des Moines, Iowa.
 Kansas - U. S. Treasury Dept., 300 W. 8th St., Topeka, Kansas.
 Kentucky - U. S. Treasury Dept., Speed Bldg., 333 Guthrie St. Louisville, Ky.
 Louisiana - U. S. Treasury Dept., 707 Canal Bldg., New Orleans, La.
 Maine - U. S. Treasury Dept., Park Square Bldg., Boston, Mass.
 Maryland - U. S. Treasury Dept., 100 W. Saratoga St., Baltimore, Md.
 Massachusetts - U. S. Treasury Dept., Park Square Bldg., Boston, Mass.
 Michigan - U. S. Treasury Dept., Old Post Office Bldg., Lansing, Mich.
 Minnesota - U. S. Treasury Dept., 1881 University Ave., St. Paul, Minn.
 Mississippi - U. S. Treasury Dept., 5th Floor - Tower Bldg., Jackson, Miss.
 Missouri - U. S. Treasury Dept., 6th Floor - Porter Bldg., Kansas City, Mo.
 Montana - U. S. Treasury Dept., Silver Bow Co. Courthouse, Butte, Mont.
 Nebraska - U. S. Treasury Dept., 243 N. 13th St., Lincoln, Neb.
 Nevada - U. S. Treasury Dept., 303 S. Center St., Reno, Nev.
 New Hampshire - U. S. Treasury Dept., Park Square Bldg., Boston, Mass.
 New Jersey - U. S. Treasury Dept., Industrial Office Bldg., 1060 Broad
 Street, Newark, N. J.
 New Mexico - U. S. Treasury Dept., New Mexico Public Welfare Bldg., Santa
 Fe, N. M.
 New York - U. S. Treasury Dept., 76 - 9th Ave., New York City, N. Y.
 North Carolina - U. S. Treasury Dept., Raleigh Bldg., 5 W. Hargett St.,
 Raleigh, N. C.
 North Dakota - U. S. Treasury Dept., 1881 University Ave., St. Paul Minn.

Ohio - U. S. Treasury Dept., 5th Floor - New Federal Bldg., Columbus,
 Ohio.
 Oklahoma - U. S. Treasury Dept., Cotton Exchange Bldg., Oklahoma City,
 Okla.
 Oregon - U. S. Treasury Dept., Weatherly Bldg., 516 S. E. Morrison St.
 Portland, Oregon.
 Pennsylvania - U. S. Treasury Dept., 928 N. 3rd St., Harrisburg, Penna.
 Rhode Island - U. S. Treasury Dept., Park Square Bldg., Boston, Mass.
 South Carolina - U. S. Treasury Dept., 1429 Senate St., Columbia, S. C.
 South Dakota - U. S. Treasury Dept., 1881 University Ave., St. Paul, Minn.
 Tennessee - U. S. Treasury Dept., 433 Stahman Bldg., Nashville, Tenn.
 Texas - U. S. Treasury Dept., 5th Floor - Bedell Bldg., San Antonio, Tex.
 Utah - U. S. Treasury Dept., 419 Boston Bldg., Salt Lake City, Utah.
 Vermont - U. S. Treasury Dept., Park Square Bldg., Boston, Mass.
 Virginia - U. S. Treasury Dept., Schmidt Bldg., 7th & Franklin Sts.,
 Richmond, Va.
 Washington - U. S. Treasury Dept., Alaska Bldg., Seattle, Wash.
 West Virginia - U. S. Treasury Dept., 910 Quarrier St., Charleston, W. Va.
 Wisconsin - U. S. Treasury Dept., 301 E. Wilson St., Madison, Wis.
 Wyoming - U. S. Treasury Dept., 402 City & County Bldg., Cheyenne, Wyo.
 Puerto Rico - U. S. Treasury Dept., Bldg., F. Munoz Rivera Park, San Juan,
 Puerto Rico.

The request should show information, explaining the prospective bidder's financial status, and a list of the commodities which he sells. Upon receipt of the request, the Procurement Division will send to the prospective bidder commodity classification sheets (detailed lists of items on which the Procurement Division desires bids) and a questionnaire form, as shown by the following sample, which must be completed and returned within a reasonable time.

Please Type or Print Answers Given Below

MAILING LIST QUESTIONNAIRE

To be filled out and mailed to

TREASURY DEPARTMENT
PROCUREMENT DIVISION
WASHINGTON, D. C.

1. Name of Firm _____

2. Type of Business _____

3. State whether individual, partnership, company, or corporation _____

4. Give names of officers, members, or owners of firm, partnership, or corporation _____
President _____ Vice President _____

of the general _____ supplies, articles,
under the contract are _____ the specifications and
in stock and sold to the re-
tail dealers in the usual course of business.

(Over)

If the dealer or manufacturer indicates that he has a bona fide intention of bidding on a particular article, his name will be placed on the mailing list to receive invitations for this item and for all other items which he specifically indicates on the classification sheets. Dealers or manufacturers who are deemed ineligible for the mailing list are informed by mail.

When a manufacturer or dealer fails to bid on a particular item after three successive invitations have been issued, the Procurement Division assumes that he no longer is interested and removes his name from the mailing list for this item. Removal from the mailing list for one commodity, however, does not affect his listing for others. Moreover, his name may be reinstated on the mailing list from which it has been "scratched," if he requests in writing that this action be taken. This policy insures an active mailing list and avoids unnecessary stationery and clerical expense.

Invitations to Bid

A formal bid invitation used ordinarily for regular purchases contains three general features. They are:

1. *General Conditions:* Provisions which apply to all contracts consummated by the Procurement Division. Among such conditions are those covering labor requirements, the provisions of the Buy-American Act, recourses of the Government in case of default by the contractor, settlement of disputes, etc.

2. *Special Conditions:* Provisions which are applicable to the specific contract at hand. These include such things as method of delivery, basis of evaluation of bids, submission of samples, etc.

3. *Specifications:* Descriptions of the commodities to be purchased, setting forth in detail the quality of the product.

Because of limitations in time, or other factors resulting from the urgency of a situation, it often is necessary to dispense with formal advertising. Instead, bidders are requested by telephone, telegram, or informal letter, to offer quotations of prices for the article to be purchased. Offers received by this method are considered, and if the terms, including prices, are acceptable to the Government, an award is made, the contractor is notified, and a formal contract is executed in due course.

In the case of informal requests for quotations, the bidder should be careful to state definitely the price and explain in detail the materials offered, so that the contracting officer can determine without further communication with the bidder whether the materials offered meet the need.

For many of the articles purchased, there has been established a Federal Specification. Whenever a Federal Specification exists for an advertised commodity, proper reference is made to the Specification in the invitation. These Federal Specifications are published in leaflet form and may be purchased from the Superintendent of Documents, Washington, D. C.

In addition to the Federal Specifications, the Procurement Division has prepared a set of its own specifications for items on which there exist no corresponding Federal Specifications. Prospective bidders may obtain the Procurement Division Specifications at no cost by writing to the Director of Procurement.

When there is no standard specification, the requirements and the description of the commodity are clearly and fully given in the bid invitation.

Included with the invitation to bid are copies of the proposals and instructions, which should be followed closely. Generally speaking, the following rules should be observed:

1. All copies of the bids must be identical.
2. Although legibly written bids are acceptable, type-written bids are preferable and are a safeguard to the bidder.

3. Bids must be received not later than the time indicated in the invitation. (At such time, the opening date, all bids are opened in public in the Procurement Division's bid room.)

4. Bids must be in response to invitations and should not be qualified.

5. When samples are required, they must be delivered not later than the hour designated for opening bids and must be properly marked for identification. (The Procurement Division receives hundreds of samples and if they are improperly marked, they cannot be identified with the bids to which they pertain.)

6. Formal bids, once submitted, cannot be withdrawn after the time set for opening of the bids. However, as in the case of commercial transactions, informal bids--now used extensively--may be withdrawn after the opening time.

Bid and Performance Bond

The bid bond is a guaranty by authorized sureties that the bidder will, within the time specified in his bid, enter into contract and give proper bond for its performance. Unless it be determined that such a guaranty is necessary to protect the interest of the United States, no bid bonds will be required under bids submitted in response to the invitations of the Procurement Division. When a bid bond is desired, its requirement will be made a part of the Special Conditions of the invitation.

Performance bonds, which insure the Government against the failure of the contractor to perform all the terms of the contract, are required on purchases amounting to more than \$12,500. Such bonds must be signed by the contractor and a licensed corporate surety, or two or more individual sureties. They insure faithful performance of all the conditions and provisions of the contract.

In lieu of sureties on performance bonds, United States bonds or notes may be deposited. Certified checks drawn payable to the Treasurer of the United States are also acceptable.

Awards

After the bids have been opened and studied and the prices tabulated, the award is made to the lowest responsible bidder whose product conforms to the advertised specifications. The successful bidder is notified and a contract is forwarded for execution.

Announcement of the award cannot always be made immediately, especially if a number of complicated factors are involved. For instance, when bids are accompanied by samples, examination and analysis are required to establish quality.

Contracts

Two forms of contract are used by the Procurement Division--the short-form contract, usually used for individual purchases upon which delivery is to be made in a very short time after the execution of the contract, and the long-form contract, which generally is used for term contracts under the *General Schedule of Supplies*.

The first is merely a notice of acceptance of the bidder's offer. The latter is a more formal document, incorporating the bids and the terms of the contract.

Protest

If any prospective bidder feels aggrieved at any action taken by the Procurement Division in connection with any of the steps involved in the purchase of any commodity, he may

protest in writing to the Director of Procurement, stating specifically his objections to such action.

If the grievance be against the specifications or the terms of the invitation, the protest should be made immediately upon receipt of the invitation and before the opening of bids.

Inspection

Before material may be accepted and paid for by the Procurement Division, it must be inspected for quality and quantity.

Inspection tests are particularly important when purchases are made under the competitive system of bidding. Few commodities are invariably uniform in quality. It is inevitable that some vendors will deliver a better quality than others. The best specifications and procurement procedures are of little value without intelligent and thorough inspection.

If any articles are found to be defective in material or workmanship, the Government has the right to reject them or require that correction be made.

For certain specific items sold to the Government, it is necessary to present certification when these items are delivered. For instance, delivered wiping rags must be accompanied by a certificate to the effect that they have been laundered. The requirement for such a form of certification is covered in either the contract or in written instructions to the contractor.

Occasionally, it is necessary to send inspectors to examine deliveries in the field or to inspect commodities in the process of manufacture. Ordinarily, however, inspection and acceptance of materials and articles is made after delivery.

Payments to Contractors

After the contractor has made delivery of his materials and they have been duly accepted, he should submit in duplicate to the Government agency from which he received his order a properly certified invoice. This may be submitted on either the regular Government voucher form (Form 1034), shown on page 15, or on the firm's commercial invoice form.

Unnecessary delay in payment of his invoice can be avoided if the contractor will become thoroughly familiar with the billing instructions on the purchase order and with the terms of the contract which deal with the required certified invoice. With a view to expediting payment to the contractor, the following suggestions are offered:

1. Merchandise for which the contractor is furnishing an invoice must have been delivered, inspected, and accepted;
2. Computations on the invoice must be correct;
3. The name of the firm as shown on the invoice must be identical with that shown on the original contract, and the individual signing for the firm must indicate his official title;
4. The following certification must be given on all invoices: "I certify that the above bill is correct and just; that payment therefor has not been received; that all statutory requirements as to American production and labor standards, and all conditions of purchase applicable to the transactions have been complied with; and that State or local sales taxes are not included in the amounts billed."

When the contractor's invoice has been found to be properly executed, a check drawn in his favor will be written. Accompanying the check will be a copy of the invoice to help him to identify the check with the original contract. (Payment for partial deliveries is made only when the amount and conditions warrant.)

If, in submitting his voucher, the contractor observes all pertinent requirements, he may expect prompt payment from the Procurement Division.

Standard Form No. 1034 - Rev.
Form approved by
Comptroller General, U. S.
(Gen. Reg. No. 21, Supp. No. 7)

PUBLIC VOUCHER FOR PURCHASES AND SERVICES OTHER THAN PERSONAL

GENERAL ACCOUNTING OFFICE PREAUDIT		PAID BY		UNIT PRICE		AMOUNT	
No. and Date of Order	Date of Delivery or Service	Quantity	Cost	Per	Dollar	Cts.	
U. S. (Department, bureau, or establishment) Voucher prepared at (Give place and date) THE UNITED STATES, Dc., To (Payee) Address Payee's Account No.		Articles or Services (Enter description, item number of contract or general supply schedule, and other information desired summary) Terms \$ Dollars Cents days Brought forward		Amount Reimbursed Amount Reimbursed		Amount Reimbursed Amount Reimbursed	
By Comptroller General of the United States		Check No. 19 for \$ 19 00/100 Cash \$ 19 00/100		for Treasurer of the United States in favor of payee named above.		Total	

*Amendment to Information Concerning
"Bid and Performance Bond" Found on Page 11.*

Effective November 6, 1941, a successful bidder will not be required to furnish a performance bond except "in those cases where it is administratively determined that the circumstances in connection with the particular purchase are such that the interests of the United States require the furnishing of a performance bond." In such cases the requirement for the bond will be part of the Special Conditions of the particular invitation.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

November 24, 1941

TO Secretary Morgenthau
FROM Ferdinand Kuhn, Jr.

Here is a list of people who have been of great help in the Defense Savings program. You might wish to invite them to the second Toscanini concert.

Postmaster General Walker -

The Postmaster General has been of wonderful help to us ever since the start of our Defense Savings program.

Mr. Robert McLean -

Publisher of the Philadelphia Evening Bulletin.

Mr. Charles H. Letchworth -

Mr. Letchworth is our Defense Savings Chairman for Buffalo and Western New York State, and has been doing a magnificent job. He is a leading lawyer in Buffalo.

Mr. Jerome Kern -

Mr. Kern will be in New York and I think would appreciate an invitation. His song is being broadcast on the Treasury Hour tomorrow (November 25) as the climax of a twenty-minute program of Jerome Kern songs.

Mr. Alfred Wallenstein -

Mr. Wallenstein is conductor of the Mutual Broadcasting System symphony orchestra, and has been giving his time to us every week since last June.

Dr. Frank Black -

Dr. Black is the conductor of the concert orchestra which plays on Mr. Hummert's program every Monday night.

Mr. William Murray -

Mr. Murray was in many ways the guiding spirit of the Treasury Hour all last summer, and has been giving us a great deal of help.

- 2 -

Mr. Harry Marschalk -

Mr. Marschalk is head of the advertising agency of Marschalk & Pratt, which has been doing our spot announcements on the radio ever since the start of the Defense Savings campaign.

Mr. G. W. Freeman -

Mr. Freeman has written hundreds of our spot radio announcements for the firm of Marschalk & Pratt.

Mr. Paul Munroe -

You will remember him from frequent discussions of the Treasury Hour. He has worked devotedly for us ever since we went into the radio business.

Mr. Charles Marcus -

Mr. Marcus is Vice President of the Bendix Aviation Corporation and was particularly helpful to us during the recent episode. His opinion of Hugh Baker is just about as violent as our own.

Mr. Herman Wouk -

Mr. Wouk, you will remember, is the author of the Ballad of the Leathernecks and other poems which have been among the best things ever done on the Treasury Hour.

Mr. Roy Stryker -

Mr. Stryker, of the Farm Security Administration, has been of great help to Peter Odegard on many phases of Defense Savings work, especially in connection with the mural for the Grand Central Station.

Most of these people are married and probably should have two tickets. I have many of the home addresses and can get the rest when you have checked this list.

F.K.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

House
247

DATE November 24, 1941

TO Secretary ~~M~~orgenthau
FROM Mr. Haas *[Signature]*

[Signature]
Employment under the Work Projects Administration increased from 1,050,000 to 1,056,000 persons during the week ended November 12, 1941.

Attachments

WORK PROJECTS ADMINISTRATION
Number of Workers Employed - Weekly
United States

Week ending 1941	Number of Workers (In thousands)
May 7	1,519
May 14	1,497
May 21	1,474
May 28	1,464
June 4	1,442
June 11	1,423
June 18	1,410
June 25	1,368
July 2	1,172
July 9	1,030
July 16	1,016
July 23	1,025
July 30	1,036
August 6	1,041
August 13	1,042
August 20	1,043
August 27	1,045
September 3	1,043
September 10	1,037
September 17	1,035
September 24	1,033
October 1	1,032
October 8	1,037
October 15	1,040
October 22	1,044
October 29	1,047
November 5	1,050
November 12	1,056

Source: Work Projects Administration

WORK PROJECTS ADMINISTRATION
Number of Workers Employed - Monthly
United States

	Number of Workers (In thousands)
1939	
July	2,200
August	1,842
September	1,790
October	1,902
November	2,024
December	2,152
1940	
January	2,266
February	2,324
March	2,288
April	2,092
May	1,926
June	1,665
July	1,701
August	1,691
September	1,704
October	1,779
November	1,821
December	1,878
1941	
January	1,895
February	1,867
March	1,708
April	1,560
May	1,464
June	1,368
July	1,036
August	1,045
September	1,033
October	1,047

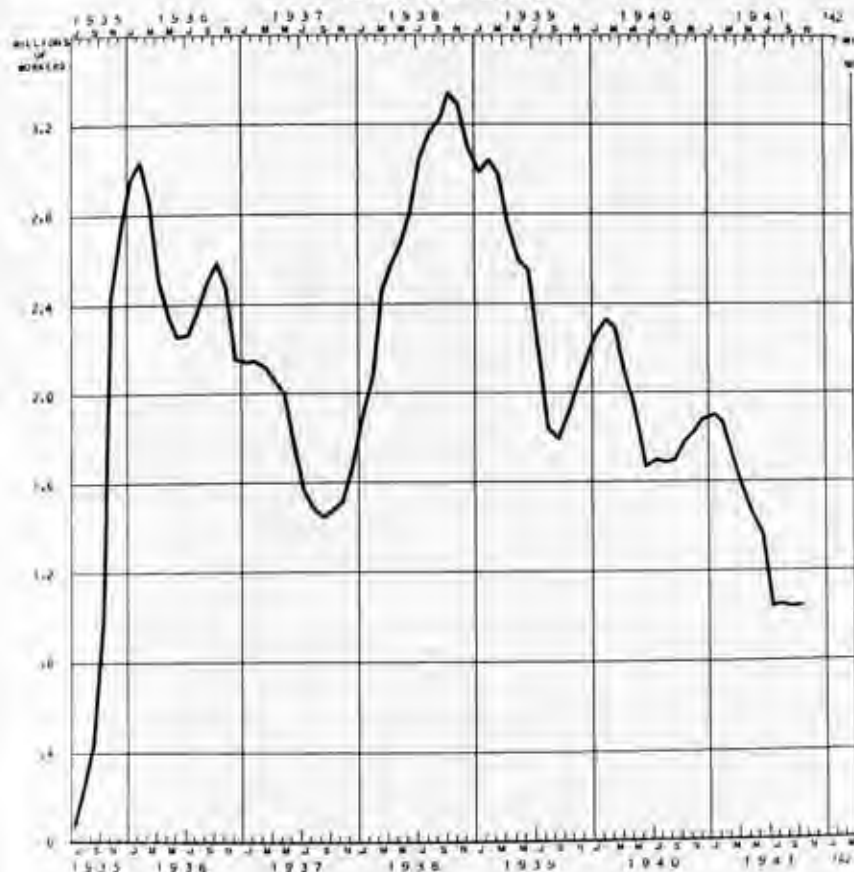
Source: Work Projects Administration

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

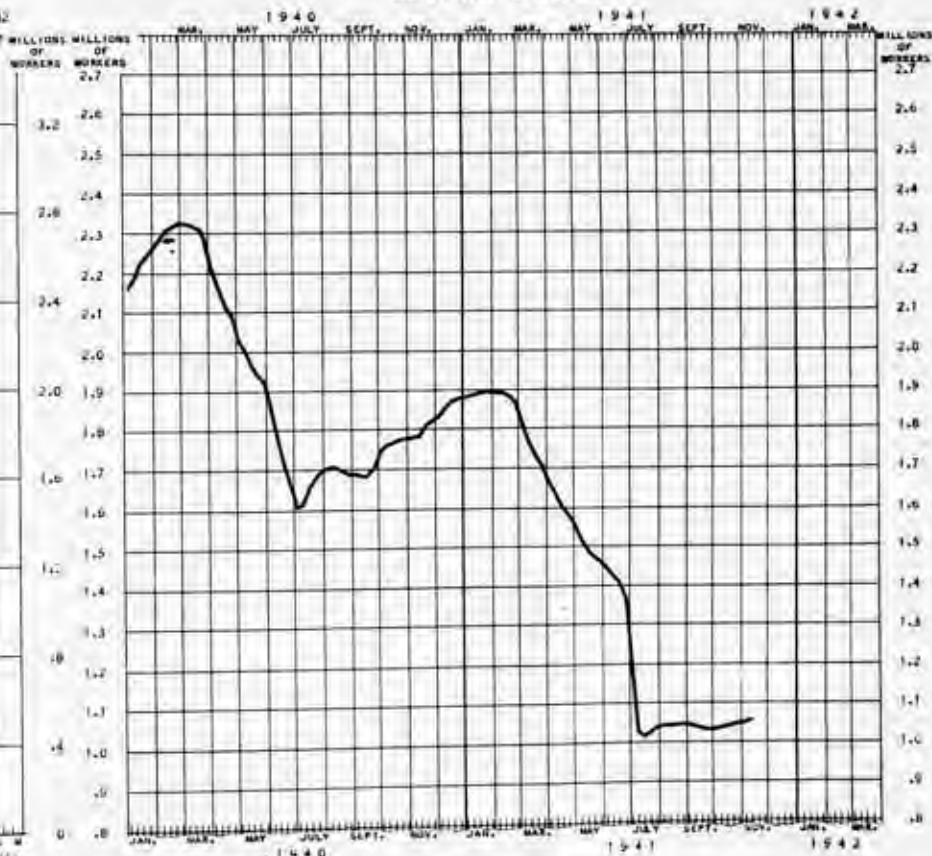
They include certified and noncertified workers.

WORK PROJECTS ADMINISTRATION
Number of Workers Employed
United States

Monthly W.P.A. Employment



Weekly W.P.A. Employment



SOURCE: WORK PROJECTS ADMINISTRATION

TREASURY DEPARTMENT

251

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE November 24, 1941

TO Secretary Morgenthau
FROM Mr. Heas
Subject: The Business Situation,
Week ending November 22, 1941.

Summary

(1) Despite restraining factors, aggregate industrial production has continued to expand and in October reached somewhat higher levels than earlier Federal Reserve Board forecasts had indicated. The FRB seasonally-adjusted index of industrial production rose to 164 from 161 in September. In April 1940, before the defense program got under way, the index stood at only 112.

(2) Weekly business indexes have shown a rising tendency in the first half of November. In the week ended November 15 the New York Times index extended its recent moderate gains and rose 1.8 points to 130.1. During the same period, Barron's index advanced 1.6 points to a new high at 142.0.

(3) Commodity prices continue to advance. In the week ended November 14, the BLS all-commodity index reached the highest level since January 1930, rising 0.7 percent to 92.3. The rise since August 1939, just before the outbreak of the war, is slightly over 23 percent.

(4) Rural and variety store sales in October made a stronger showing than department store sales, although all three groups declined on a seasonally adjusted basis. Department store sales in the first half of November ran 14 percent above year-earlier levels, as compared with an increase of 10 percent in October.

(5) The coal strike cut into steel operations last week, and before the end of the week the Carnegie-Illinois Steel Corporation had shut down 11 blast furnaces. Despite settlement of the strike, steel operations during the current week are scheduled to decline to 95.9 percent of capacity as compared with 97.0 percent last week.

- - - - -

- 2 -

Industrial production at new high

Industrial production has moved upward to somewhat higher levels than had been expected in earlier Federal Reserve Board forecasts. Instead of declining slightly in October, as indicated by preliminary estimates of the Federal Reserve Board, actual industrial output showed a further moderate rise to a new high. The FRB adjusted index of industrial production consequently moved up to 164 in October from 161 in the previous month. These figures contrast sharply with the 112 recorded in April 1940, just before the national defense program got under way. (See Chart 1, top section.)

The widest gains from September to October, after allowance for seasonal factors, were shown by industries comprising the Transportation Equipment and Manufactured Foods groups. (Refer to Chart 1, lower section.) Although increases were shown for all kinds of transportation equipment, particularly sharp gains were scored by the aircraft and shipbuilding industries, both of which attained record highs.

The machinery industry, intimately related to defense production, continued to expand its output. In this connection the National Machine Tool Builders Association recently reported that the total value of machine tool output in October rose fully 12 percent above the previous month to a new record high at \$77,000,000. The value of production in the first 10 months of 1941 ran 76 percent above year-earlier levels. If the October pace is maintained until the end of the year, machine tool output in 1941 is expected to reach the large total of \$770,000,000.

In addition to the gains in output of durable goods required for the defense program, the production of non-durable goods in October was maintained at a high level. The gain in the adjusted index of manufactured food products was partly due to a greater than seasonal rise in the meat packing industry, while the increase in the important textiles group was principally due to a rise in cotton consumption to the highest monthly total on record.

Weekly business indexes higher

Last month's swift industrial pace continued to be fully maintained in the first half of November, judging from the trend of weekly business indexes. Both the New York Times

- 3 -

and Barron's indexes of business activity have been rising moderately in November, and now stand above the best levels of the previous month. Contra-seasonal gains in freight carloadings and paperboard production in the week ended November 15 were chiefly responsible for a rise in the New York Times index of 1.8 points to 130.1. Barron's index of business activity during the same period confirmed the rise in the Times index and rose 1.6 to a new high at 142.0.

BLS all-commodity index at new high

The BLS all-commodity index advanced 0.7 percent in the week ended November 14, rising above its level of the past two months to touch 92.3, the highest point since January 1930. (See Chart 2, upper line.) The index has advanced 23.1 percent since the pre-war level of August 1939. The largest price increases among the sub-groups during the latest week occurred in automobile tires and tubes, and in cattle feed. Price advances also occurred in numerous other sub-groups, with relatively few showing declines.

Basic commodity index higher

The BLS wholesale price index of 28 basic commodities resumed its upward movement in the week ended November 21, and at the end of the week reached the highest point since October 6. (Refer to Chart 2, lower line.) This may foreshadow a further rise in the all-commodity index.

The sharpest advance occurred in the index of 16 industrial raw materials (see Chart 3) which reflected almost entirely a very large increase in the price of rosin. The higher rosin prices are attributed to trade expectations of a substantial increase in the Government loan level.

The index of 12 foodstuffs also increased, despite declines in prices of butter, corn, and wheat. It will be noted that butter prices, although 32 percent above the August 1940 low, show a relatively small advance as compared with the large increases made by other basic foodstuffs. Cocoa prices last week rose to a new high, attributed in the trade to a tightening shipping situation from Brazil.

Increased pressure on sugar price ceiling

Recent developments have increased the pressure toward raising the ceiling on sugar prices. World sugar prices rose sharply during the past week, and domestic sugar futures touched new highs for the season. In addition, the negotiations which have been in progress between the Defense

Supplies Corporation, Federal Loan Agency, and representatives appointed by the Cuban Government, for the purchase of the Cuban sugar crop by the United States Government, have led to numerous rumors which have been given a bullish interpretation. It was rumored that Cuba would refuse to sell her crop at the ceiling price of 3.50 cents per pound, but had offered it to the United States at 4.20 cents, and that the United States had offered to pay 3.80 cents. Complaints have been received that under the sugar ceiling cane sugar growers are likely to receive less than parity.

The OPA is reported to be studying recent increases in retail sugar prices. When the ceiling on raw sugar was set at 3.50 cents per pound in August, the retail price of refined sugar in 51 cities averaged 5.58 cents. By September 16, this average had advanced to 6.00 cents, and by mid-October to 6.04 cents. The Fulmer-O'Mahoney sugar control bill reported out of Committee to the House on November 19 includes a provision which would in effect increase the quotas allotted to domestic growers.

Retail trade below seasonal expectations in October

The slackening in retail buying in October, as shown by department store sales, has been reflected also in variety store and rural retail sales, according to figures which have now come to hand. Reference to Chart 4 will reveal that on a seasonally-adjusted basis, October retail sales declined in all categories, following the heavy pre-tax buying of August and September.

The decreases shown by variety and rural sales, however, were entirely due to seasonal adjustment factors, whereas department store sales actually dropped about 10 percent below September. In contrast, rural sales last month were 18 percent higher than in September, but this substantial gain was computed to be less than seasonal by the Department of Commerce. The seasonal adjustment factor used for October may be unduly high, however, since the adjusted index of rural sales has shown a sharp dip in that month in 3 of the last 4 years. (Refer to Chart 4.)

Thus far in November, department store sales have been showing somewhat larger gains over year-earlier levels than in October. In the 2 weeks ended November 15, department store sales ran 14 percent above the corresponding period of 1940, while the gain in October was only 10 percent.

Merchants are reported to be anticipating a record Christmas trade. Department store stocks were built up steadily during the summer despite the heavy volume of sales, and by September (in dollar value) were 30 percent above year-earlier levels.

Coal strike cuts steel operations

The effects of the strike in the captive coal mines of the steel industry showed up in reduced steel operations near the end of last week. The Carnegie-Illinois Steel Corporation, the country's largest steel producer, by that time had closed down 11 blast furnaces and reduced operations at other steel-making facilities. The seriousness of the situation was heightened by the fact that the strike was not confined to open-shop captive mines, but spread to many commercial mines.

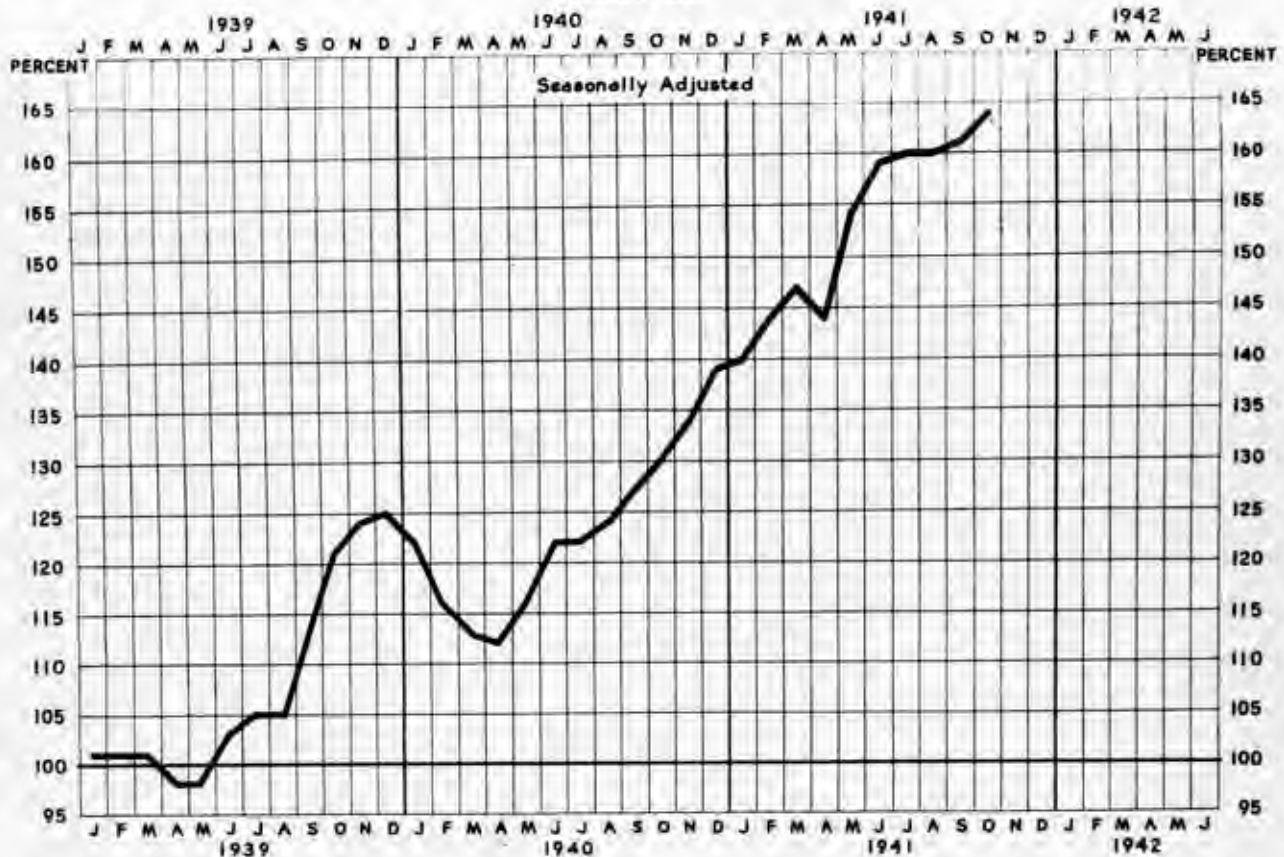
As a result of the coal strike, steel operations during the current week are scheduled to decline to 95.9 percent of capacity as compared with 97.0 percent of capacity last week.

New orders index sharply higher

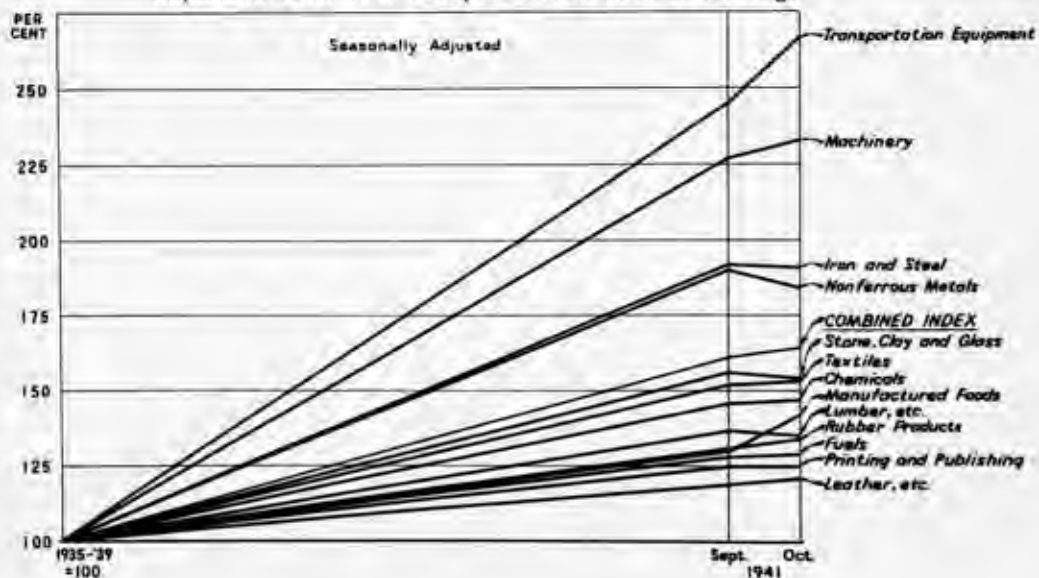
Due largely to unusually heavy business booked by the American Woolen Company, our new orders index showed a very sharp rise in the week ended November 15. (See Chart 5.) War Department contracts announced during the week included a total of \$22,000,000 to the American Woolen Company for 4,500,000 yards of serge cloth and 4,000,000 yards of flannel shirting. In addition to the steep rise in textile orders, new orders for steel rose moderately to 105 percent of capacity from 95 percent in the previous week. However, new orders for products other than steel and textiles in the aggregate showed little change.

FEDERAL RESERVE BOARD INDEX OF INDUSTRIAL PRODUCTION

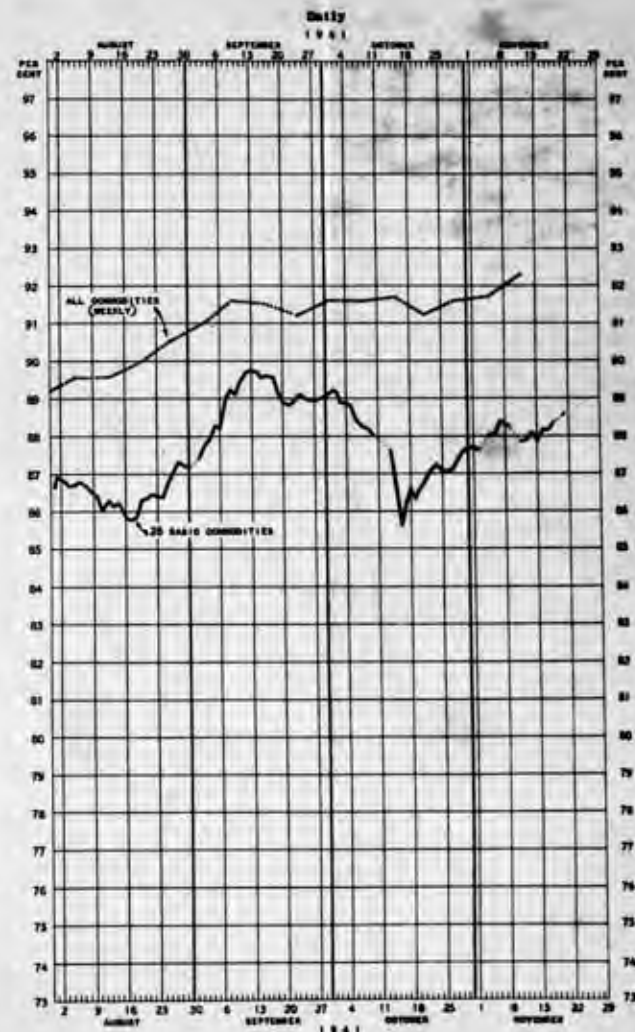
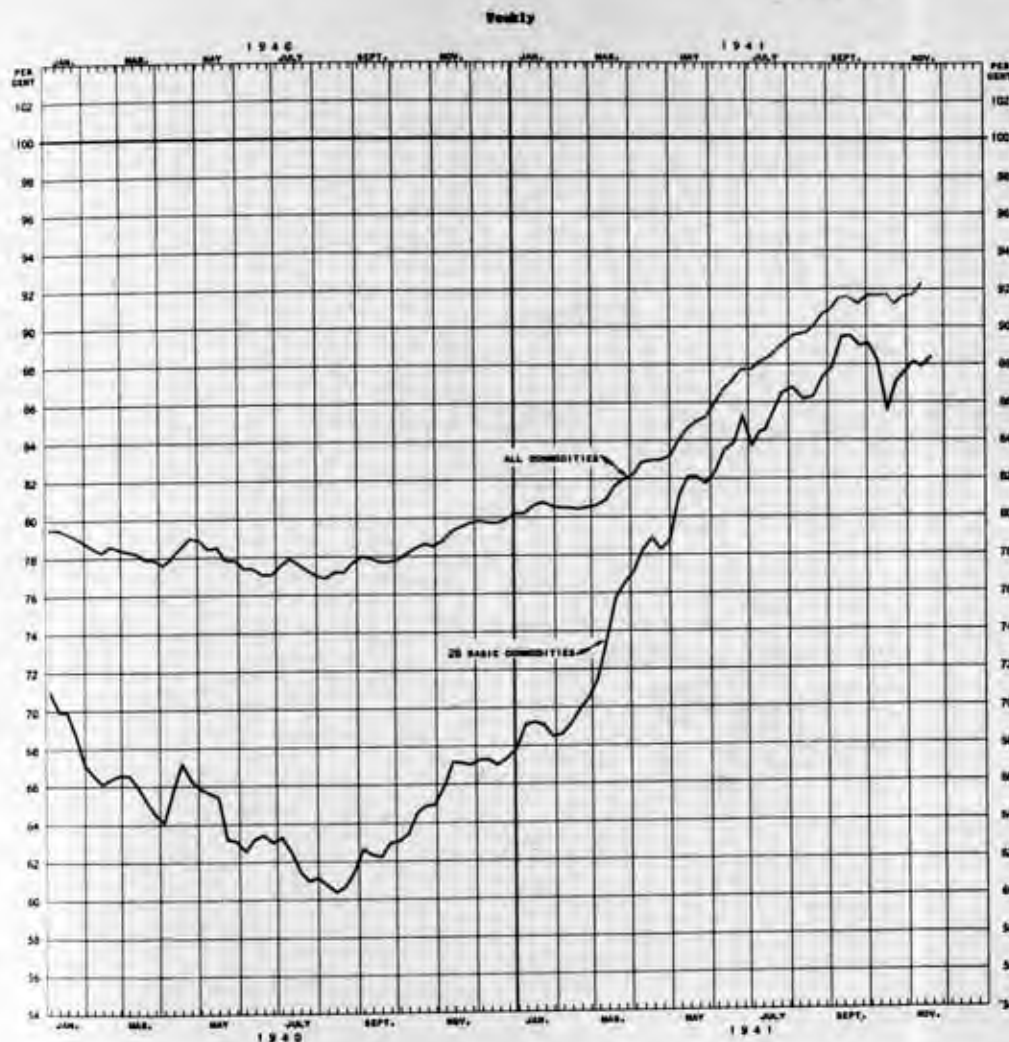
1935-39=100



Selected Components
Sept. and Oct. 1941 Compared with 1935-39 Average

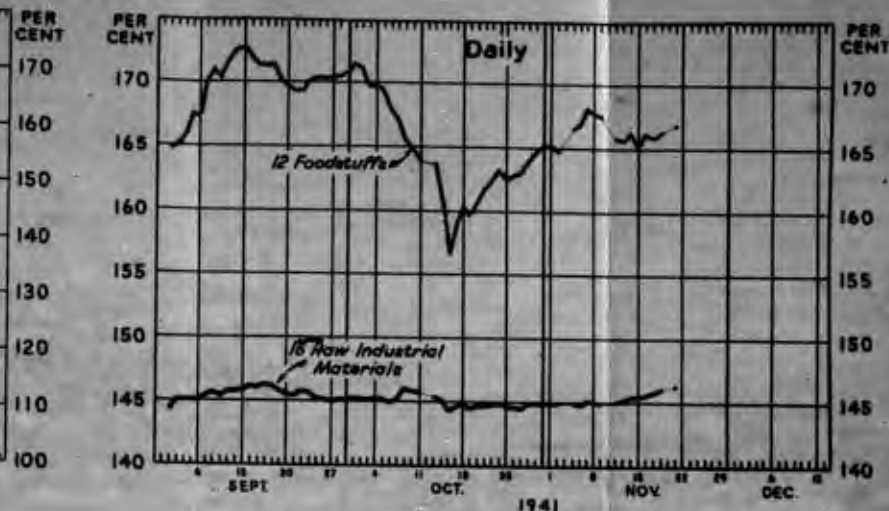
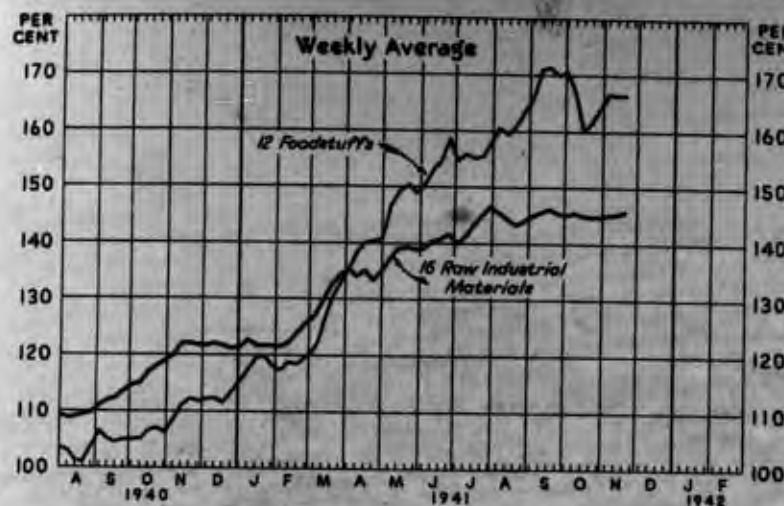


U.S. INDEX OF WHOLESALE COMMODITY PRICES 1926 = 100

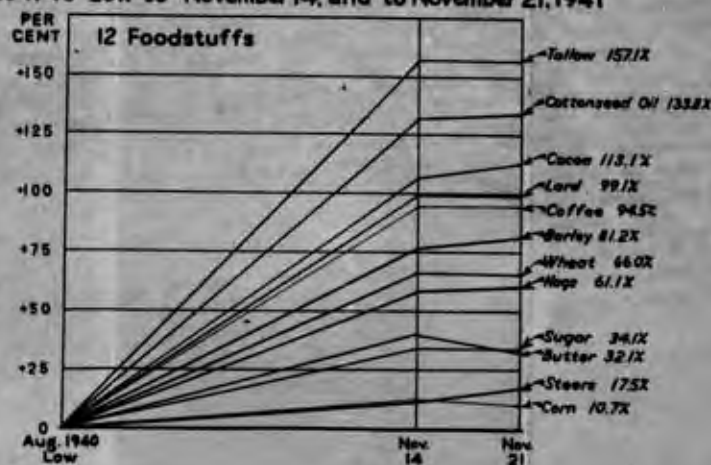
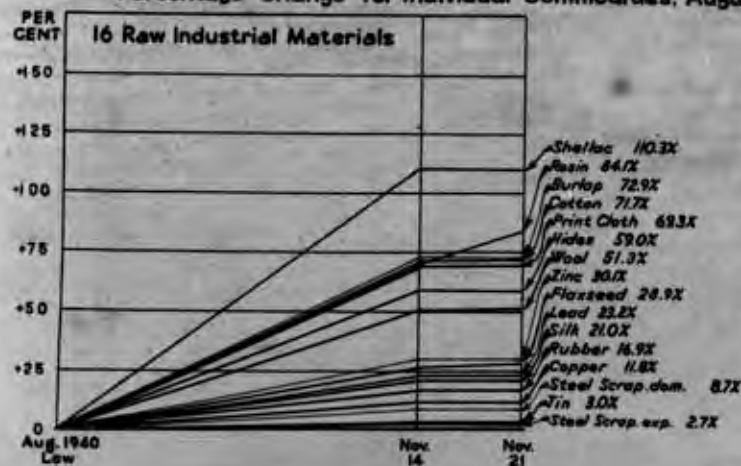


MOVEMENT OF BASIC COMMODITY PRICES

AUGUST 1939 = 100



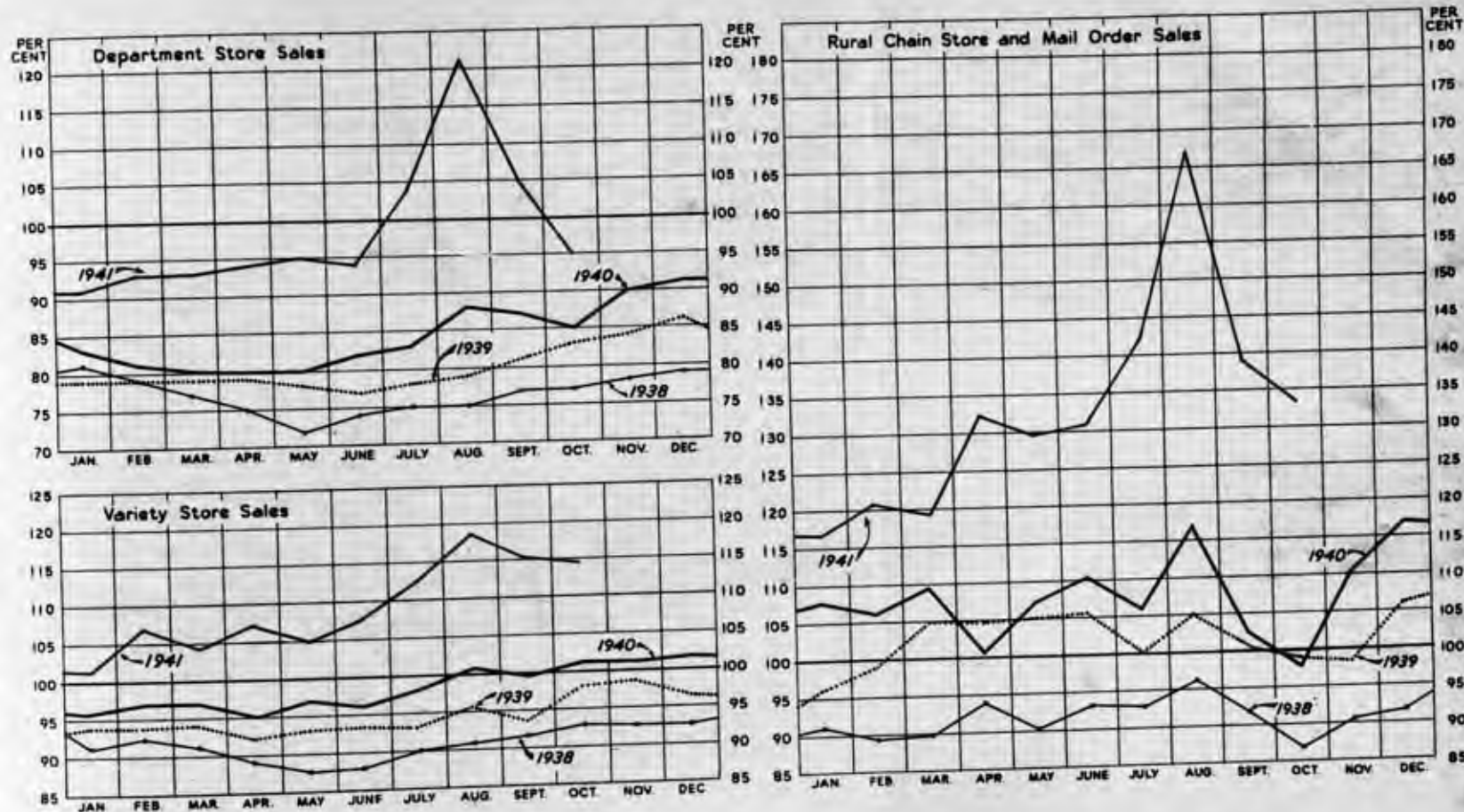
Percentage Change for Individual Commodities, August 1940 Low to November 14, and to November 21, 1941



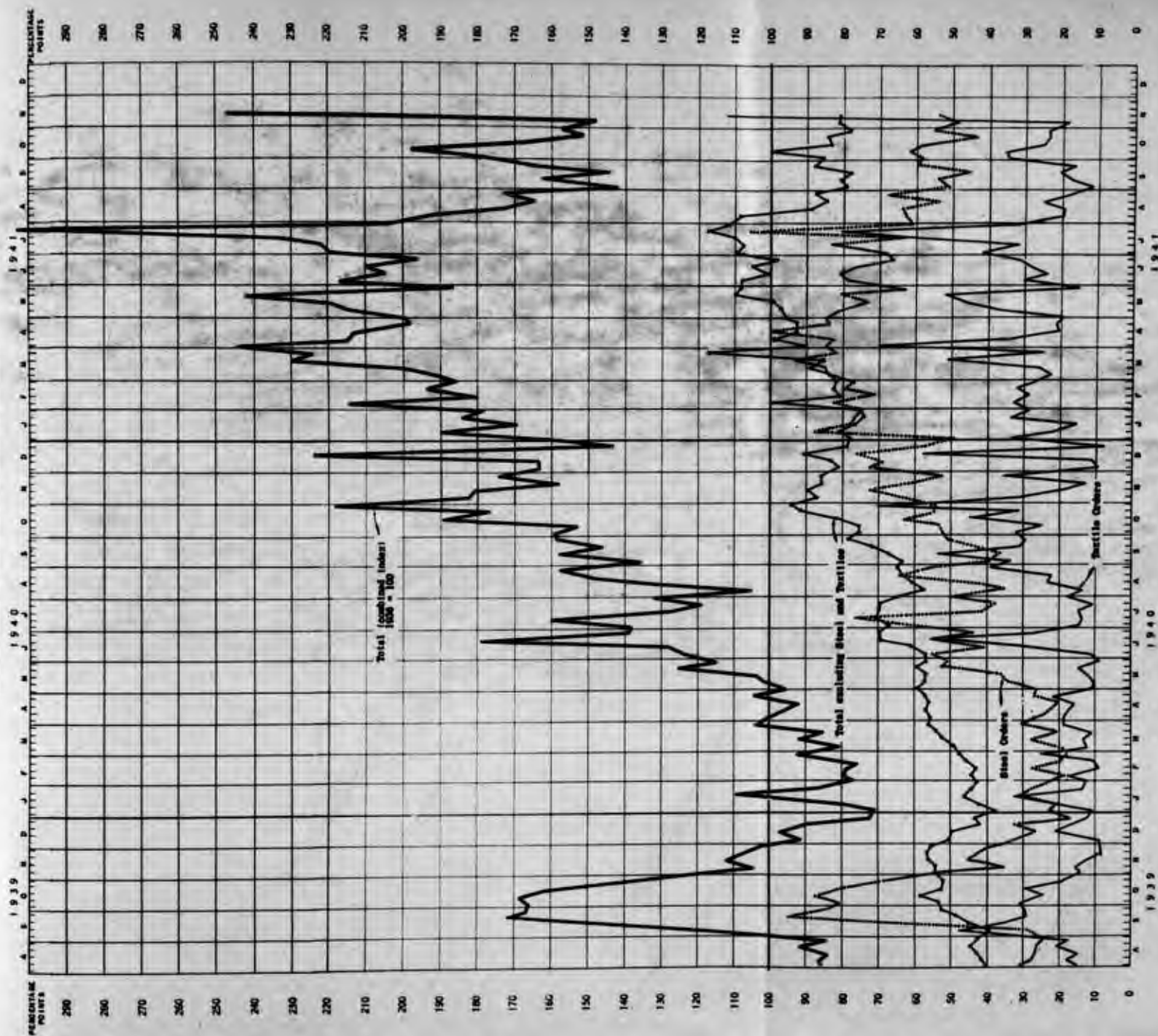
RETAIL TRADE

Urban and Rural Sales of General Merchandise

1929 = 100, ADJUSTED



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



Office of the Secretary of the Treasury
Bureau of Economic Warfare

MEMORANDUM FOR THE SECRETARY.

November 24, 1941.

Mail Report

The mail during the past week followed the general trend of the preceding week, with the great emphasis on tax comment. Letters speaking specifically of Social Security taxes fell off, and we received only 7 which mentioned this topic and no other. The 15% payroll deduction still drew a heavy mail, in the ratio of 3 approvals to 113 protests. There were 255 letters violently protesting any kind of increased taxation; some mentioning tax suggestions already made, others alluding to them indirectly. There were also a number of letters suggesting possible types of taxation, and as usual, lotteries and the sales tax led in these. There were 94 letters asking specific help in individual income tax cases.

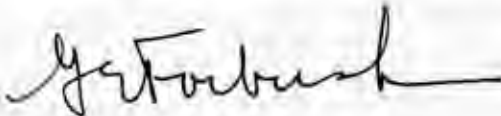
The anti-labor letters seem to have fallen off a little, but there were 11 protests against strikes, and a number of these said, "No bond purchases until strikes in defense industries are ended".

There were 33 letters endorsing the Byrd Committee and urging Government economy. Several of these also said that Bonds would not be purchased until the Government had taken a firm position concerning Administration cuts.

"Anti" letters were in the ratio of 7 protesting help to Russia, to 12 protesting help to Britain.

There were 3 letters abusive of the Secretary personally, all anonymous, to 4 abusive of the President, anonymous, and 1 signed. There was a great increase in letters abusing the whole Administration and a mingling of the isolationist arguments. Most of these were anonymous.

A brief abstract on returns to the Grange speech is attached. In addition to the comment letters, there was one request for 25 copies.



Comments on SPEECH AT WORCESTER

In all, 15 letters commented on the speech made before the National Grange. Very few went into any details about the speech itself. Most of them simply mentioned the newspaper report of it, and went on to tell of rising food prices, special plans for distributing to the needy, etc. A few quotations follow:

Major George W. Kirkman, Los Angeles, California. All acclaimed your great speech at Boston on September 9th, and I was glad to get a copy of it in the envelope containing reference to Defense Bonds, which I had been and still am buying. * * * Reading yesterday's press accounts of your even greater speech at Worcester, Mass., I am encouraged by its noble, humanitarian and patriotic features to write you concerning a crusade that some of us writers are starting in behalf of our babies and children who now are suffering from gross malnutrition here in this land of superabundant plenty, shocking to say! Etc.

E. Hultman, Flint, Mich. I see by the papers that in addition to the four phony freedoms that we are to impose on the world, we have to feed it also. Well, up to now we haven't been able to feed our own people sufficiently, so why take on the world? It seems that you think of the U.S.A. only as a Santa Claus of unlimited resources.

Mrs. Charles Dickerman, Hinsdale, N. H. After reading your address to the Grange on Nov. 15th, I feel like complimenting you on the menu. I hope everyone in this country of ours can have that much food, and I hope there will be enough for the rest of the world too.

Mrs. L. R. Kerr, Fisherville, Mass. Until we can manage and improve our own conditions right here at home, one had better refrain from sharing our supplies with other countries. Yes, Mr. Morgenthau, I understand just how those boys who now are being rejected have been brought up, but try to get any money even to secure hot lunches for the children, and see just how difficult it is to do it.

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J. B. Patterson, Spokane, Wash. I have just read in our evening paper some words which were reported as having been spoken by you at Worcester, Mass. today, quote: "In order to build a better world - and that goes for our own country as well as those abroad - we must recognize the citizen's right to have a minimum standard of food with which he can live the life of a free man". Courageous words these, Mr. Secretary, but I feel you did not go far enough.

David S. Satterwhite, Attorney-At-Law, Birmingham, Ala. I read with interest the press statements attributed to you at Worcester, Mass., in your speech of last Saturday, relative to feeding a hungry world, and especially the citizens of the U. S. Both Birmingham papers gave considerable publicity to this speech. I have heard much favorable comment on it, especially the part of using the credit of the United States to guarantee a sufficient minimum requirement of food to the peoples of the U. S. * * * Surely if we, the richest nation on earth, can afford to appropriate \$50,000,000,000, and more, for the implements of war (which I admit is necessary and highly desirable in this period of world crisis), and pass this debt on to the shoulders of our children and future generations, surely we can afford to spend slightly more than a half billion dollars a year to provide these children with an adequate supply of wholesome milk. (Asks H.M.Jr.'s endorsement of H.R. 5414 - Bill to provide milk by stamp plan.) * * * Remember too, that increased production of milk is something that cannot be achieved in a week or even a year. It takes at least two years to breed a cow to produce milk, and almost as long to develop the pasturage and dairy equipment.

FAVORABLE Comments on Taxes

Eben H. Ellison, Boston, Mass. I received your letter suggesting that money be set aside in anticipation of the payments due on income taxes. I think this is a very wise suggestion, as I am a large employer of labor and I find that many of them are already in debt when their paycheck is received. * * * While the employers have enough to bother them, if they can collect dues for the Labor Unions, they should be willing to collect for the Government, only the thing should be lined up in as simple a manner as possible. * * * I am in favor of the 15% payroll and salary tax that you talk about. To a certain extent, it would take the place of a sales tax, and you could drop some of these irritating taxes, and still get the money. You can readily figure up what a 15% tax on wages and salaries would amount to. The way the thing is today, you have so many details that a needless amount of energy is used up with accountants and lawyers. I realize the Government has to have the money, but try to give us something so simple that everybody can understand it, and also in a way that will be the least irritating.

William H. Shepherd, Los Angeles, Calif. I am a Turkish Bath Man and Masseuse at the Los Angeles Athletic Club - been here 19 years. I think it would be a wonderful thing to do to tax the wage check at the source. I work and have worked with hundreds of men who live from hand to mouth; no matter how big their check, they are always broke. Trouble comes the end of the year when they have no money to pay taxes. Their family, etc., also suffer. Collect it at the source and they have to regulate their budget to fit. Their worries are then over. I have spoken to dozens of my fellow workers, and they all agree with me on same.

UNFAVORABLE Comments on Taxes

Georgiana Cowan, Toronto. For 27 years I taught in a New York Girls' School. Latterly I was induced to put my savings into the Carnegie Endowment as a "safe and sure" investment for an income in my old age. I thank God I did not join it sooner. * * * First the Government takes 5%, then 16½%, and now 27½% with a retroactive penalty, making it this month 38½%. * * * Does your Government want to turn all aliens to enemy aliens? Does it realize that this income was paid for in all good faith as a surety for one's old age? It is not like stocks and bonds, or other investments, but savings from a small income. (Salary) Can nothing be done about this injustice?

R. R. Root, Camp Hill, Pa. People of average circumstances are puzzled over the alleged excess purchasing power. Who possesses it? Why isn't a survey made to determine who falls in that classification before disastrous tax programs are adopted? If we are to have unity, people must feel that the Government is solving today's problems intelligently.

Frank Pemberton, Pemberton's Maytag Store, Gouverneur, N. Y. I see you want to lift some tax burdens from the little wage earner, which is being a broad-minded man and doing the right thing. What I want to call to your attention is the 20% tax on appliances which is too much, for it has put little fellows like me out of business. We cannot buy defense stamps if we have no earning power, so why not modify the finance law and make it 10% down payment instead of 20%. This is only fair and reasonable and will help the Government as I am giving \$1.00 in defense stamps with every sale to help defense, but if the Government puts me out of business, then I am powerless to help.

Anonymous - You seem bent on supporting the whole British Empire, with the American taxpayer being the goat. Is there anything in the Constitution that says we have to support all the foreign nations and their wars? Wasn't the Constitution supposed to be for the working class too, or just the rich? It seems strange how you men can always quote from the Constitution to justify anything you want to do, but how about the rest of the people? I was under the impression

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that we had some rights provided by the Constitution too. But I guess not, according to you fellows. It seems to have been written for you, and the millionaires alone. I thought our forefathers fought for rights for all of us, but it looks as though that job is yet to be done. Yes, tax, tax, tax, the working man, pay him as little as they can, take his boys for \$21 a month, but let the rich ride on, get richer and richer, the poor get poorer, and poorer, etc., etc.

A. M. Rolph, Minneapolis, Minn. I am wondering if in our search for ways and means of taxation we are considering sufficiently the middle-aged man and woman who have worked hard for years, have contingent liabilities such as interest and payments on their mortgage, insurance premiums paid for years, with the idea of protecting their families, before the general idea came into being of having the other fellow support them. * * * This type of person must meet the increased living costs and has absolutely no opportunity to earn higher wages, as his income is now on the downgrade. If he is compelled to pay the taxes now being dreamed up, it will mean that many of these good citizens will lose their homes or their insurance, or perhaps both.

Lilian W. Zinkin, Portland, Oregon. I wish to voice my protest against the latest proposals of the Treasury Dept. for increased taxation. The idea of further increasing the tax burden of the lower and middle income groups is shocking and disgraceful. If the President insists on waging England's war, at least let him tax those who most profit from the war. * * * The President's policy of involving us in a war without asking us is not popular, all the propaganda notwithstanding; and once the terrific burden of taxation will be felt by the ordinary man, it is going to be a good deal more unpopular. At any rate, it is certainly unfair to ask the working and middle classes to finance a war that is not of their making.

FAVORABLE Comments on Bonds

A.F.L. Driver, Huntington, L. I., New York. I believe that were you to add to your radio announcements something to the effect that in case of financial emergency, these bonds could be easily cashed, with accrued interest, your campaign would be all the more successful. I say this because I have worked in the field with over 200 insurance men, and the question of cash value in case of emergency is always a major consideration by the prospective purchaser.

Lorene Ahlers, Rice & Ahlers (Contractors), Juneau, Alaska. I feel sure were it put up to employees that they either buy Defense Bonds up to a certain per cent of their wages, or have a 5% social security tax deducted, that the buying of Defense Bonds would be chosen. * * * With Bonds they feel they would have savings which would be accessible for use during their lifetime, while, with social security payments, no benefit would accrue unless they lived to be sixty-five years old. * * * The sale of Defense Bonds cannot gain momentum until this tax question is out of the way and people know where they stand. If social security is not raised, and people do not then voluntarily buy Bonds in sufficient number to meet defense needs, then, by all means, make it compulsory. We had to do it during the first World War and it didn't kill us. In fact, the enforced buying of Liberty Bonds was the seed of many a savings account. It made the down payment on a home for the writer.

Dr. A. Frank Glide, Hanover, Pa. The most interesting and thrilling part of the Treasury Hour on Tuesday night, to me, is the description of the actual operation taking place in various defense industries. I believe if these same scenes could be brought to the screen, and shown to more Americans, it would immensely stimulate interest and help for our defense production.

UNFAVORABLE Comments on Bonds

E. C. Thompson, Springfield, Mass. The interest rate on Treasury Bonds should not be less than $3\frac{1}{2}\%$ because $2\frac{1}{2}\%$ is not enough to pay for money that is saved up by sacrifices made by the individual. * * * He may as well spend it and go on relief when he gets to be 80. This attitude is taking something fine out of the American way of life. * * * In the World War No. 1, Liberty Bonds paid $4\frac{1}{2}\%$. After the War, the Treasury Dept. began to retire them. The Government in those days was more careful about expenditures than this Administration has been. The idea was to work, save and pay the debts. Some day we shall have to do the same thing.

Milton Samuels, N. Y. C. I believe that the reason for the lack of public interest in the purchase of Defense Bonds is due to the following reasons: The men in charge of the sales promotion of these bonds are men that have been schooled in national advertising who base their program on a long-term view instead of quick, hard-hitting selling. Because of this fact, too much entertainment and too little realism has been placed upon all appeals to buy. Our radio programs are jammed with talent that overshadows the important reasons and arguments in favor of buying Defense Bonds.

E. P. Tucker, Merchants National Bank, Port Arthur, Texas. Several of our customers have been very much disappointed and surprised when they brought their Defense Bonds in to make a temporary loan from us on these bonds, to find out they cannot be hypothecated. Several of these parties told me that they did not want to cash in their bonds as they only needed a temporary loan. They were very much disappointed about this feature of their investment. As this news spreads, I anticipate it will be harder to sell these bonds. Most of our customers are wage earners and salaried people, and they want to invest in something that is good collateral in case they need a little money for some emergency. They would much prefer to borrow and pay back rather than to dispose of their investments.

R. B. Mateer, Philadelphia, Pa. No stamps or bonds until the St. Lawrence Waterway and the Florida Ship Canal are dropped for good.

Russell Fox, Pawtucket, R. I. I have often been solicited to buy U. S. Defense Bonds. Up to now, I have bought two \$1,000 bonds, one \$100, and five \$25 Bonds. I am an old man (74 years old and retired), and have very little income. I have a few more dollars that I would be glad to divert to U. S. Defense Bonds. But why should I buy Defense Bonds when such men as John L. Lewis and other labor leaders like him can sabotage the whole defense program? * * * Until there is something done to limit the labor menace to national defense, I see no reason why I should buy any more Defense Bonds.

Anonymous - If you can give us a logical reason why we should buy Defense Bonds to carry on non-defense projects, we are ready to buy - otherwise, we are not interested. When you men get earnest about defense and quit playing politics, we are ready to follow you.

GENERAL COMMENTS

B. F. McLain, Manager, Hart Furniture Co., Dallas, Texas. As the manager of the largest retail furniture store in Dallas, I have naturally been interested in proposals to increase social security payments by employers and employees, and also to make salary deductions to drain off excess purchasing power. * * * Since the Federal regulations on installment selling went into effect September 1st, our store has had a decline in sales which leaves us less able to pay increased expense than we were before the war developed in Europe. We have had commission salesmen experience a forty per cent decline in income. Both we and our employees will be faced with tremendous problems that will, no doubt, continue as long as the emergency exists. Dallas is primarily a distribution center. * * * Unfortunately, the type of employee working in furniture stores and factories ordinarily does not fit into the armament program. In this connection may I submit for your consideration that since wood is not a critical material, and is made in comparatively small plants not adaptable to defense production, there would be many advantages in removing it from the installment regulations. The present regulations have a tendency to divert demand from wood, a non-critical material, to consumers goods made of critical materials.

Charles A. Silford, Modesto, California. I want to send our sincere thanks to you for the very prompt and accurate way of sending the monthly pension to us, under the Social Security plan. We received our first checks on November 1st for the month of October. It is gratifying to note how efficient business is being done by our Government officials all along the line in our Grand Old U. S. A. I had to quit work on account of ill health and age -- nearly 73 years. So thanks for checks.

H. L. Snyder, Massillon, Ohio. I am one of the many "little fellows" who tried hard to make a living for the past 8 years, and believe me, from 1933 to 1939, inclusive, it was nip and tuck -- everybody fighting to get an order and cutting each others throat. * * * The NRA might have been o.k. but when we, the little fellows, had to "toe the mark" but Sears and others just cut prices to a point where it was about our cost, then we just lost out. * * * Now we can get orders, but try and get the materials - I know, because I am still trying the best I know how. In the past few weeks I tried a number of banks in this section to borrow \$15,000 to purchase a building for our business, that is worth all of \$40,000, but it was just a loss of time and effort. One of our local banks has owed the people \$600,000 for ten years and now want another ten years in which to try to pay. * * * The RFC which was organized to help the little fellow, loaned hundreds of thousands to some of our local banks, but I don't know of any small businessman that got a dime. * * * We now have enough live prospects living in 40 different states and Canada to indicate that we could do a million dollars worth of business in 1942 alone, if we had two things -- first, sufficient money; second, materials. If we ever find a way to get these two items, we can furnish employment to a good number of local unemployed citizens.

Walter Salmon, (Tennessee & Foreign Marbles, Milwaukee, Wis.) The Roosevelt Administration certainly double-crossed the small firms of this country in more ways than one. He only works with the "big boys", instead of using factories likes ours, he must build all new ones. In 24 hours our factory could be ready for work instead of in 1943. If you are a Chinaman, Polack or Mexican, the RFC will loan you money. Anybody can get money except an American businessman.

Edward H. Carus, Carus Chemical Company, LaSalle, Illinois. Our workmen are complaining of the high costs of overalls, workshirts, etc., which are made from cotton. I do not understand why you do not sell or release some of the accumulated Government stock of cotton at the present time, or did not do so if you care to prevent inflation. No doubt southern Congressmen will oppose this as their constituents want high prices. However, the rest of the country is apt to rebel against this situation and I believe that the wave of impending strikes is caused largely by the increases in prices of commodities.

John V. Farwell, Chicago, Ill. I want to congratulate you on the position you have taken about saving \$1,000,000,000 on non-defense expenditures. Every patriotic man in Congress should follow this advice. I trust your strong position on this matter will bear fruit very soon.

The second case has been reported of workers being dropped from the WPA when it was learned that they had bought Defense Bonds or Stamps. Samuel Ostroff, Brooklyn, N. Y., writes that his first WPA connection permitted him to keep up his insurance policy, but when demoted to a salary of \$52.80, he could not pay premiums and so surrendered the policy, receiving \$306. As the policy had been taken out for his wife and daughter, he put the money into \$300 worth of Defense Bonds. Shortly thereafter he received his dismissal with a statement that resources of \$300 in Bonds would be sufficient to cover his budget for some months to come. He has no other means of support, needs the job, and does not want to cash his Bonds which are meant as protection for his family.

The other case reported is similar to this one, although the buyer purchased one Bond of a much smaller denomination.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE

November 24, 1941

TO Secretary Morgenthau
FROM Messrs. Foley and Pehle

As of the opening of business November 24, 1941, there were 2041 pending applications in the Foreign Funds Control. Of this number more than 500 cases are being held pending policy questions which have not been determined or awaiting clearance with other Government agencies. This leaves approximately 1500 cases pending, which is substantially less than a week's work at the current rate.

While this figure no doubt can, and will, be reduced further, the work of the Foreign Funds Control can fairly be said to be reasonably current.

JWP
E.H.F.

It has been learned that on November 24, 1941 the Swiss Legation in Washington were in receipt of the following information:

1. - FRANCE: Amalgamation of French Firms with I.G. Farben

"The Chemiekonzern Kuhlmann has called a General Meeting for the 12th of December for the purpose of ratifying the Agreement which has been made, with the consent of the French Government, between this firm, the Matiere Colorante de St. Denis and the Societe St. Clair du Rhene on the one hand and the I.G. Farben on the other. The negotiations, which have lasted for months, will result in the foundation of a joint enterprise, 'Francolor,' which will have a capital of 700 million Francs. The I. G. Farben will take over half the shares against which it will contribute its own shares and patents."

II. - Germany and the Occupied Countries

"As a result of difficulties with supplies, which are experienced not so much in Germany itself as in the occupied countries, the German authorities state that this winter and next year will be the most difficult period in nutrition. By the year

1943, the Germans think they will have got so far that production in the conquered Russian territories can be pushed to its utmost limit. According to German views there is therefore a difficult period of two years' nutrition problems to be gone through.

German sources declare that an increase in acreage under wheat in Germany is no longer possible. Special care is given to the cultivation of exotic plants; this especially applies to wool, rice, soya beans, plants producing castor and other oils and yarn. More attention will be paid to cultivation of thistles, as the heads contain meal and oil for fodder, and fibre which can be used instead of capoc.

Rationing quotas in Germany are nearing the maximum. 30 to 50% of the workers have been withdrawn from enterprises not directly concerned with armaments. At the same time, prices are more and more strictly controlled. In the place of new taxes there now exists a skimming off of so-called excess profits; it is estimated that the margin of profit has been reduced by about 20%.

Not only in official circles in the Reich, but also amongst the German people, it is realized with regret and some surprise that in the occupied territories and in other countries feeling against Germany is becoming more and more acute. The German troops of occupation who for various reasons change their quarters fairly frequently have ample experience of this unpleasant circumstance.

The Balkans in particular constitute a considerable source of anxiety for the Axis Powers. As the Balkans represent a source of supply and background for the war in the south of the Eastern Front, the perpetual disturbances constitute a hindrance from a military point of view. However, means of communication destroyed by the war are being steadily restored. Bridges blown up by the Russians in Galicia have been rebuilt so that the approach to Roumania by this route is again open. Rail communication between Bulgaria and Italy via Serbia and Croatia has also been re-established.

The Roumanians report that trade by sea with the Port of Odessa will again become practicable in the next few days. In the meantime, the Danube ports are still overcongested and there cannot yet be any question of the Axis Powers dominating the Black Sea.

*The Golan
preliminary
report.*

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

*(apart
11-24-41)*

Dear Mr. Secretary:

Under date of September 24, 1941, the Treasury Department authorized and directed me to proceed on or about September 26, 1941, from Washington to Hongkong and China on official business of the exchange stabilization fund. By an instruction dated September 25, 1941, the Department of State informed me that I was to proceed to China on the special mission concerning which I had received oral instructions. My period of detail to the Department of State was terminated, effective at the close of business on September 25, 1941, and the diplomatic passport which was issued to me indicated that I was "a Foreign Service officer of the United States of America on special mission, traveling in China and Hongkong."

In accordance with the above-mentioned instructions, I left Washington at 8:40 a.m. September 26, traveling by air to San Francisco. I reached San Francisco at 2:30 a.m. on the morning of September 27 and proceeded to the Hotel St. Francis. During the forenoon of that day, Saturday, September 27, I called on the Vice President temporarily in charge of the Federal Reserve Bank at San Francisco, Mr. Ira S. Clark. I discussed problems of the Far East with Mr. Clark, and particularly trade and banking connections between San Francisco and China. I asked Mr. Clark to recommend someone of his staff who might be available, if his services should be required, to proceed to Hongkong or China for possible service with the Stabilization Board. Mr. Clark had no one immediately available. From the Federal Reserve Bank Mr. Clark accompanied me to the St. Francis where I had arranged to meet Sir Otto Niemeyer, the British official who had left me in Washington, preceding me to San Francisco by train. Sir Otto and I were luncheon

guests of Mr. Clerk at the Bohemian Club. During the afternoon Mr. Clerk and his wife took us on a long tour by motor of San Francisco and neighboring areas.

In company with Sir Otto Niemeyer I left the San Francisco airport by clipper ship at 4:00 p.m., arriving in Honolulu at 6:30 the following morning, September 29. In Honolulu we stopped at the Royal Hawaiian Hotel. On the forenoon of our arrival Sir Otto and I called at the Federal Building and visited with the representatives there of the Treasury's Foreign Funds Control, namely, Tree, Klotz and Snider.

During the above-mentioned visit to the Federal Building, and on subsequent occasions during my stay in Honolulu, I discussed with Mr. Tree and his colleagues current problems which their office was facing in connection with Foreign Funds Control, and endeavored to clarify certain matters of Treasury policy. While at Honolulu I received cablegrams from the Treasury Department, sent by Messrs. Bernstein and Dietrich, concerning the plan for Foreign Funds Control to cooperate with the Stabilization Board of China. I also received by mail from Mr. Dietrich the cablegram of instructions to Mr. Fox which had been discussed while I was still in Washington, but which had not been completed prior to my departure. I reviewed the previous correspondence on this subject, and spent several hours with Sir Otto Niemeyer discussing the possibilities of putting the proposed system of cooperation into effect.

Mr. John Russell of Theo Davies, to whom the Secretary had introduced me in Washington some months previously, called on me in Honolulu and took Sir Otto Niemeyer and myself to various places of interest on the island.

The plane from San Francisco, which was to pick us up in Honolulu, was delayed three days, so I did not leave Honolulu until

8:30 a.m. on October 4. The China Clipper, on which we traveled, arrived at Midway Island at 5:00 o'clock that evening. The following morning we left Midway at 6:30 a.m., arriving at Wake Island at 3:00 p.m. the same date, October 6 (having crossed the International Date Line during the voyage). On the morning of October 7 we left Wake Island at 7:00 a.m. and reached Guam at 5:00 in the afternoon. Departing from Guam at 6:00 a.m. on October 8, Manila was reached at 3:00 p.m.

At Guam Sir Otto and I had received invitations to attend a cocktail party at Manila given by the Chinese Consul General, Mr. C. G. Young, and we had accepted. The Aide to the American High Commissioner, Mr. Sayre, met us at the airport, together with Mr. Aitkin, and drove me to the Manila Hotel. At the cocktail party, which the Chinese Consul General gave at the Manila Hotel, Sir Otto and I met the American Consular and Foreign Funds Control officers, the latter including Messrs. Saxon and Anderson, as well as a large number of Chinese bankers. We then proceeded to the High Commissioner's for a second cocktail party, after which Sir Otto dined with the British Consul General and I remained for dinner with Mr. Sayre. The High Commissioner had with him for dinner the three officers of Foreign Funds Control, together with his Executive Assistant and other members of his staff interested in economic and financial questions.

During and following the dinner we had a detailed discussion of technical problems arising under freezing control and operations of the Stabilization Board of China. A list of questions had been typed out in advance, to which I gave as detailed answers as possible with respect to Treasury practice and policy. One or two questions were raised which I suggested be cabled to Washington, and I recommended that no action be taken pending definite instructions in the premises. Furthermore, I recommended that Mr. Sayre have one of the Foreign Funds Control men prepare a detailed review of the setting up of the Foreign Funds Control

in Manila, describing the present establishment, its personnel and 281 problems. In addition, I recommended that a weekly report be instituted which would provide a journal of the Control's activities in the Philippines and would set forth a sufficient summary of business transacted to permit the officials in Washington to have a fair picture of activities at Manila. In the same report I suggested there could be incorporated a recital of policy problems which would not be sufficiently urgent to warrant cabling. It was the consensus of opinion that this weekly report should be in the form of a memorandum, to be prepared by one of the Foreign Funds Control men, and be submitted to the Treasury Department under cover of a letter signed by the High Commissioner.

While at the High Commissioner's residence I learned that a representative of the Chinese Stabilization Board had come to Manila to study the remittance question and possibly to arrange for funneling of Chinese remittances from Manila through the Bank of Communications. In confidence, I gave Mr. Sayre and his immediate associates of Foreign Funds Control an idea of the plan for remittances which we hoped to set up vis-a-vis China. I told Mr. Sayre that either Mr. Fox or I would let him know how our plan progressed but that there would be little that we could tell him until after the whole question had been studied by the Board and perhaps submitted to the Chinese Government at Chungking.

Our plane left Manila at 8:30 on the morning of October 9 and arrived at Hongkong at 3:00 p.m. We were met by a large group of Chinese and other officials, including a representative of the American Consul General and one from the Governor General of Hongkong. With Mr. Fox, I proceeded to the Peninsula Hotel where I remained during my stay in Hongkong, and dined with Mr. Fox that evening.

On the morning of October 10 I called upon Consul General Southard and Treasury representative Nicholson, the latter having been in Hongkong for a few days. I then called on Mr. Fox in the Stabilization Board of

China and met his various colleagues and assistants. During the 282
afternoon Mr. Cyril Rogers, formerly British Stabilization representative and now Financial Adviser to the Government of Hongkong, called on me at my hotel. Later in the afternoon Sir Otto Niemeyer called to introduce to me Mr. Baxter, the British Financial Adviser to the Government of Burma, who had proceeded to China to meet Sir Otto and become associated with the latter in the economic survey of China which the Chungking Government had invited him to undertake. Later in the evening Mr. K. P. Chen, Chairman of the Stabilization Board, called on me. The same evening, accompanied by Mr. Fox, I went to the Government House for dinner, where Sir Mark Young, the recently arrived Governor General, entertained Messrs. Niemeyer, Hall-Patch, Baxter, Rogers and members of his own staff.

The British financial representatives, Messrs. Niemeyer and Hall-Patch, called at Mr. Fox's suite at 10:00 o'clock on October 11 and conferred with us through the day, including luncheon, until 5:30 p.m., exchanging information with respect to the Chinese situation. This particularly gave Niemeyer an opportunity to question Messrs. Fox and Hall-Patch concerning developments with respect to the Stabilization Board which had transpired since we had left Washington. That evening Mr. Mackay of the National City dined with me at the hotel.

Early on the morning of October 12 I prepared in my hotel room the draft of a memorandum with respect to the American plan for cooperation by Foreign Funds Control with the Stabilization Board of China. I had Mr. Hewlett come to my room and I dictated this at 9:00 a.m. I lunched with Mr. Frese. At 3:30 in the afternoon I discussed my memorandum with Messrs. Fox, Niemeyer, Hall-Patch and Baxter. We then joined the three Chinese members of the Board and I presented my memorandum, a copy of which is attached hereto as enclosure 1. At the same time Mr. Hsi Te Mou read and submitted a memorandum in which he

defended the position of the Central Bank of China. I told him that in the American plans for cooperating with the Chinese authorities there had been absolutely no desire to cast any reflections upon the ability or standing of the Central Bank of China. We had conceived certain plans but were submitting them to the Chinese with the sole desire to be of helpful service and gladly would leave to the Chinese authorities the decision as to what instruments of banking and control the Chinese themselves might choose to utilize. Mr. Fox presented at the meeting a letter which had been received from Chungking with respect to the division of foreign exchange in which the Stabilization Board of China would participate with the Exchange Control Committee. This letter was not found satisfactory and was to be discussed further by the Board and a reply to Chungking prepared.

On the evening of October 12 I dined alone with Mr. Taylor at his hotel. He reviewed to me the work with which he has been occupied since his coming out to China, including his special detail to Shanghai and Kunming.

On the morning of October 13 I received, at Mr. Fox's request, Mr. Bruce Smith, an automotive dealer and officer of the American Chamber of Commerce at Shanghai, who was in Hongkong for the purpose of consulting the Stabilization Board on allowances of foreign exchange for automotive imports. Following the interview at my hotel, I went to the Stabilization offices with Mr. Fox. I visited Consul General Southard and drafted with his approval a cablegram to the Department of State recommending an additional allowance to his office to permit the hiring of an extra clerk for code work incidental to the duties of the American member of the Stabilization Board of China.

Later in the morning of October 13 I called on Mr. Nicholson and arranged through his office for transportation to Shanghai and for reservations from Hongkong to Manila. I lunched with Mr. K. P. Chen at the Hongkong Hotel. In the afternoon I called on Mr. Ballantyne, in charge of the Chase Bank in Hongkong, and Mr. Samuel Bittner, in charge of the National City Bank there. In the evening Mr. Fox had in for dinner in his rooms at the Peninsula Hotel Messrs. Niemeyer, Baxter, Hall-Patch and myself, which gave us an opportunity to discuss developments to date and particularly to outline future discussions with the Board and contacts to make at Chungking.

After breakfast on the morning of October 14 I talked with Mr. Crowe, the Ford dealer in Shanghai, who was at Hongkong in connection with business which the automotive dealers had with the Stabilization Board.

At 10:30 Messrs. Niemeyer, Baxter and I met with the full membership of the Stabilization Board to consider further the drafting of a document which would set forth the American plan, as well as incorporate the views of the Chinese and British members of the Stabilization Board, the latter with particular reference to the remittance question. At this meeting of the Board I was handed Mr. Tsu Yee Pei's draft, and after some discussion, it was agreed that I should redictate a composite draft of our two documents. I took Mr. Fress to lunch at the Hongkong Hotel. Immediately after lunch I went to the Consulate General and dictated my memorandum to Mr. Hewlett. This was finished at 4:00 o'clock when Sir Otto Niemeyer also came to the Consulate General and checked the draft with me. At 5:00 o'clock Sir Otto accompanied me to the Repulse Bay Hotel where we called on Dr. A. N. Young. During the course of our visit Mr. Young gave us each a copy of a memorandum of suggested reforms in Chinese finance, a copy whereof is attached. I dined alone at the Peninsula Hotel.

At 7:30 a.m. on October 15 I redictated the consolidated memorandum which I had drawn up in draft form the preceding evening. The British representatives and myself met with the Board from 10:00 to 12:00 noon. We definitely agreed upon a final draft of the memorandum which I had copied and checked again by Messrs. Niemeyer and Pei at 3:30 p.m. When the memorandum was finally approved by the three of us, I turned it over to Consul General Southard to be forwarded to the Treasury Department, through State, as a joint communication from Mr. Fox and myself. A copy of this message is attached. The several Board members were provided individually with copies of the memorandum, to which I had added merely the introduction and conclusion to make it into a cablegram. It was understood that the Chairman of the Board would mail a copy of the memorandum to Minister of Finance Kung at Chungking.

At 5:00 o'clock the British visitors and myself met again with the Board to discuss the Shanghai crisis. There had been a precipitate drop in the fapi and the Board was concerned as to steps which might be taken. Mr. Hall-Patch favored the idea of changing entirely from the present practice and reverting to the policy which was followed by the old Anglo-Chinese Stabilization Fund of intervening on the open market and not supporting the rate at any fixed level. There was one suggestion that the present practice might be continued, but that intervention might be made at the same time to feel out the market and determine how heavy the pressure on the fapi might be. Furthermore, the recommendation was made by one member that the Board issue a public statement denying allegations from Shanghai that the Board's resources had been seriously depleted. It was my personal opinion that the Board should refrain from any statement to this effect at present. I thought that if the Board began at this early date to have to explain its position and give assurances as to its resources, this would be an endless embarrassment rather than strengthen the Board. I advised calmness, pointing out that a black market was to be expected, and that the first few weeks of the

Board's operations were bound to be hectic. I felt that instead 286
of giving out statements or altering the whole policy trend, it might
be advisable to take a bolder attitude toward the Shanghai market,
particularly through meeting at once pre-zero commitments still out-
standing. I thought that it would be necessary eventually to clear
up these commitments and I felt it preferable to do so at once, thus
showing a generous and courageous attitude on the part of the Board
rather than to permit the necessity continually to develop for the
importers to go into the black market for their exchange. Sir Otto
suggested the idea that when he and I went to Chungking within the
next couple of days, we might, at a press interview, indicate that
the Board had ample funds. This idea was agreed upon by the Board
and we left with the understanding that no exceptional steps would
be taken other than that of looking at once into the pre-zero commit-
ment situation.

It had been the original intention for Messrs. Fox and Hall-
Patch, and possibly the Chinese Chairman of the Board, to go to Chung-
king simultaneously with Messrs. Niemeyer, Baxter and myself, so that
the three members of the Board could talk directly with the Minister
of Finance and his assistants with respect to the plan which we had
drawn up. Considering the Shanghai panic, it was at the last moment
decided that the two British visitors and I should proceed alone, to
be followed two days later by Messrs. Fox and Hall-Patch. Chairman
Chen, himself, did not feel that he ought to leave Hongkong in any
circumstances at such a critical time.

On the evening of October 15 Mr. Baxter entertained Sir Otto
and myself at dinner at the Peninsula Hotel. At 3:30 a.m. on the
morning of October 16 we left the hotel for the Kowloon flying field,
whence our plane departed for Chungking at 4:00 a.m., and there
arrived at 8:00 a.m. I was met at the air field in the Yangtze River

by a group of prominent Chinese, whose names are given in the attached Reuter's announcement. Mr. Y. P. Wang was detailed to be with me during my stay in Chungking and, together with Messrs. Adler and Kwok, accompanied me to the T. V. Soong house which I was to occupy in the temporary absence of the American Political Adviser, Mr. Lattimore. My friends remained to breakfast with me. After breakfast Messrs. Adler and Wang accompanied me to the American Embassy where I called alone on Ambassador Gauss. I explained fully the circumstances which had brought me to China and reviewed developments at Hongkong. I emphasized my desire to keep the Ambassador informed as to my movements while in China, and I discussed all of my problems frankly with him. The Ambassador, in turn, gave me the benefit of his opinions with respect to the functioning of the Stabilization Board and Freezing Control. I also met Messrs. Vincent, Drumright and Hart. The three of us returned to lunch at my house.

In the afternoon I went with the British representatives to call on Minister of Finance Kung, who gave a formal tea for us. The British Ambassador was there and accompanied the three of us to pay a call on the Minister of Foreign Affairs. Messrs. Niemeyer, Baxter, Adler and myself dined that evening, as guests of Vice Minister of Finance Y. C. Koo, and C. K. Yui, at the residence of the former. Various members of the Cabinet, some of whom had attended the Kung tea earlier in the day, were present.

At 10:00 o'clock on October 17 Sir Otto Niemeyer and I received the press at his residence. There were about forty journalists present. The interview went smoothly enough and was accurately reported in the press. There is attached hereto a copy of the press story of this conference.

At 3:00 p.m. Messrs. Niemeyer, Baxter and I called on the National Resources Commission, where we were received by Mr. C. C. Chien. This

officer explained that his Commission was in charge of such products as tin, tungsten and antimony, including their sale and distribution, as well as their production. He hoped to increase the output of tin through the improved machinery for which a part of the loan obtained by Mr. K. P. Chen in the United States had been allocated. He explained to me that coal in ample quantities was available near Chungking, but that there was great opportunity to develop hydro-electric power in that part of China. The Minister of Economics was absent from Chungking during our visit.

With my British friends, I called at 3:30 p.m. on the Minister of Communications, Mr. C. N. Chang. This official explained to us that since July, 1940, the highways of China, including particularly the Burma Road, had been turned over to the military authorities, not only for maintenance but also for construction. His office retained control of the railways which are still functioning, as well as various other means of communication aside from the highways. This Minister refuted the oft-advanced argument that China's rise in prices results chiefly from transportation difficulties. This official pointed out that the price of rice has gone up sharply at centers only a few miles removed from the producing farms, and where the element of transportation is of little consequence. In discussing transportation problems, he made the point that trucks had been introduced into parts of China where they had been found uneconomical. With human labor so cheap, it has been found more economical to carry burdens on the shoulders of coolies, or to push them in wheelbarrows, than to carry them in trucks where hauls are not excessively long and where the topography of the land makes road building and maintenance expensive and consumption of scarce gasoline costly. The Minister advocates a compromise between automotive and human transportation, consisting of a wheelbarrow with pneumatic wheel which could be pushed by a coolie and could carry a load three times that of which he can take on his back. The coolie load in this part of China ranges

from eighty to one hundred pounds, while the wheelbarrow could take from two hundred fifty to three hundred pounds.

At 4:00 p.m. we called on the Minister of Food, Mr. Hau Kan. This official, who came of coolie stock, impressed me as being one of the strongest members of the group whom I met in Chungking. He spoke no English but was especially alert and intelligent. He explained to us the difficulties of taxing farmers, of assembling farm produce, and of rationing the same. He said that many of China's soldiers had been recruited from the farms, and with five million under arms this drain had been considerable. No workers had been taken from the shops and mines to go into the Army because of the importance of industrial effort to the Chinese military cause. The Chinese farmers have been slow to be convinced that they should account to the State for their entire production of rice. A census has been taken in many areas, but when the census takers become very precise and exacting, the acreage and production reports diminish rather than increase. There is definitely a tendency on the part of rice farmers to hoard for their own possible needs and for price gains when strict Government control is threatened. Under a new system taxes on farms are now being paid in kind. The rice so obtained is used primarily to provide the principal part of the ration for soldiers, which amounts to around two pounds per soldier per day. This rice is provided free, together with one or two other of the staple elements in the daily ration. The soldier must pay out of his small salary for any other foodstuffs. Of the remaining rice acquired through taxation in kind, a part is sold to Governmental employees. The price therefor is fixed at present around \$80.00 per picul, while the current market price in Chungking was, on the day of our interview, approximately \$240.00 per picul. The Government permits the purchase of only a fixed amount of such official rice lest its own civil servants be tempted to hoard or profiteer.

At 7:00 p.m. on October 17 I had as my guests at the house Miss Annales Whitmore of the United China Relief, Mr. Leland Stowe of the Chicago Daily News, Mr. Harrison Forman of the National Broadcasting Company, and Mr. William J. Dunn of the Columbia Broadcasting System, Inc. Three of these had attended the press conference earlier in the day as American representatives, and Mr. Leland Stowe, an old friend from Paris, had reached Chungking later in the day. Mr. Wang was also present for the dinner.

At 9:30 a.m. on October 18 Mr. Y. C. Koo, Vice Minister of Finance, and Mr. K. K. Kwok, Acting Director of the Banking Department of the Central Bank of China, called on me at my home. They had before them the Hongkong plan which had been submitted by Chairman Chen to Dr. Kung. After a detailed discussion of this document they gave me their provisional approval, subject to final word by Finance Minister Kung.

At 11:00 o'clock I called alone on the Secretary General of the Executive Yuan, Mr. T. F. Chiang. This official also talked to me on the subject of transportation and human labor versus mechanical transportation. He was particularly anxious to obtain the cooperation of the various departments of the Government toward economy and improved economic processes. He said that he constantly met with political difficulties when endeavoring to effect economies, just as he imagined Government officials in other countries experience. He said everyone would agree to economize until it became a question of his own immediate department.

Messrs. Fox and Hall-Patch arrived during the morning and were among the guests whom Dr. Kung, Minister of Finance, entertained at his home at a formal luncheon at 1:00 p.m. The other guests were Sir Otto Niemeyer, Mr. Baxter, Mr. Y. C. Koo, Mr. C. K. Yui, Mr. K. K. Kwok, Mr. Adler, Mr. T. C. Kou, the Chinese Foreign Minister, Mr. S. C. Wang, Minister of Information, General T. C. Wu, General Secretary of the

National Party, Mr. Hsu Kan, Minister of Food, Mr. Hollington Tung, Vice-Minister of Information, Mr. Chen Shien, Deputy Governor of the Central Bank of China, and the British and American Ambassadors.

At 4:00 p.m. I called with Messrs. Niemeyer and Hall-Patch upon the Minister of Information, Mr. S. C. Wang. At 8:00 o'clock I dined with Messrs. Niemeyer, Hall-Patch and Baxter at their house.

Early on the morning of October 19, Vice Minister of Finance Yui telephoned that the Generalissimo would be back in town shortly and hoped that I could arrange to remain in Chungking long enough to be received by him. I regretted that my schedule necessitated my departure on the morning of October 21, and indicated my appreciation of the courtesy of the Generalissimo in offering to receive me. I stated that I hoped that I might be able to return to Chungking later and have the honored privilege of meeting him.

At 12:00 o'clock Y. C. Koo and K. K. Kwok called for me and accompanied me by motor car to the country home of the Minister of Finance where we were Dr. Kung's only guests. Following the luncheon Dr. Kung took me to his study where we talked alone for an hour. He asked me to thank the officials of my Government, and particularly the Secretary of the Treasury, for the assistance which they have been giving and are continuing to give China. He recalled that Secretary Morgenthau was the member of our Government who had first realized the real situation in China and had appreciated the need for American assistance and the opportunity for cooperation between our two countries. Dr. Kung was quite touched by the fact that such cooperation has now developed to a point where it is very material and very effective. He thanked me personally for coming out to China in spite of the business which he understood occupied all of us currently in the Treasury at Washington. He hoped that the visit of Sir Otto Niemeyer and myself

might aid in the solving of China's economic and financial problems.

I told the Minister that I was out only for a brief visit but that Mr. Fox would remain on and that he really was the economist to whom the Chinese should look as the American Adviser. I added that Mr. Fox had the assistance of Mr. Adler in economic research, of Mr. Taylor and Mr. Frese on the Stabilization Board at Hongkong, and that we gladly would send out further personnel if additional American assistance might be required.

At this point Dr. Kung specifically outlined assistance which he said would be most appreciated, if we could provide it. He referred to the request which he had recently made formally through the Chinese Embassy in Washington, after taking up the matter informally with Mr. Fox, to the end that an expert on our Federal Reserve system be sent to China to study and improve the Central Bank of China. I was familiar with this request and understood that it would be discussed by the Treasury Department with the Chairman of the Board of Governors of the Federal Reserve system. Dr. Kung stated that a reply had been received that the matter was being considered. Dr. Kung hoped that someone would come out who could remain as long as three years. In answer to my question as to whether such an expert should come out on loan from our Federal Reserve system or actually in the employ of the Central Bank of China, the Minister of Finance said that either plan would be agreeable to him. To supplement this sending of a Federal Reserve expert to China, Dr. Kung hoped that we would approve the idea of his sending three apprentices to our country who could spend some time studying the Federal Reserve Bank of New York, the Board's business in Washington, and also the Treasury's system of Foreign Funds Control. I told Dr. Kung that I was confident arrangements could be made for this mission and that I would definitely look into the matter upon my return. I added that certain Central bankers, including Argentina, have from time to time had apprentices on detail with the Federal Reserve Bank at New York, and

had on a reciprocal basis sent their own men to spend time in foreign Central Banks. I assured the Minister that we could also give his young men the benefit of knowledge of our system of Foreign Funds Control which might be quite useful when they returned to China and assist in Chinese Stabilization and Exchange Control. As a third point, Dr. Kung mentioned that he had asked Mr. Fox to serve as his Honorary Adviser on taxation and had put this matter up officially through the Chinese Embassy at Washington. He had not, as yet, received a definite reply in the premises. I pointed out to Dr. Kung that Mr. Fox had been the American nominee to the Stabilization Board and that we also looked to him to conduct any economic research which might be desired. I asked Dr. Kung whether in addition to these two tasks he thought Mr. Fox would be in a position to serve also as Honorary Adviser on taxation. He replied in the affirmative. The Minister then came to the point of the plan which had been submitted to him by Chairman Chen of the Stabilization Board. He was most appreciative of the American desire to lend its Foreign Fund Control system to effective cooperation with the Chinese Stabilization Board. He was confident that good results could be obtained by this method, together with coordinated control by the British and Dutch, and he thanked me warmly for my efforts in this direction. He questioned no part of the plan except that which would remove certain restrictions upon Japanese remittances. To these he pointed out certain objections which I immediately recognized. I told him that in view of these points, we would gladly alter the plan. Before leaving Kung, we had a brief general discussion of the war and particularly of the Russo-German situation. I have known Dr. Kung from earlier meetings in Paris and Brussels. I found him less vigorous than when I had met him six or seven years ago. At the same time he is still a man in his fifties with an especially alert and inquisitive mind. He definitely stood out head and shoulders above the other Government officials whom I met at Chungking, many of whom are fairly recent

graduates from Columbia, Cornell, Pennsylvania, and other American universities, or the London School of Economics. While all of these men impress me as honorable and serious public servants, I confess that most of them were lacking in actual experience and mature judgment. They are working under great hardships, receiving meager pay, and definitely sacrificing their own interests for the benefit of their Government. I had heard many stories of the selfish interests of Dr. Kung and his relatives and friends in the Generalissimo's Government. I have not attempted to fathom these stories. I can only say that the men who surround him gave to me evidence of devotion to the cause of free China. They are definitely limited in experience and wisdom and need strong advice from outside sources. Their present attitude is certainly one of receptiveness towards assistance and advice from the United States.

Messrs. Koo and Kwok accompanied me to my home where we were joined at 5:00 p.m. by the political Vice Minister of Finance, Mr. Yui, and Mr. Fox. Mr. Yui read to us the draft of a letter which had been prepared for Dr. Kung's signature acknowledging the communication from Chairman Chen which submitted the Board's Hongkong plan. In this draft there were certain phrases which I thought should be changed, particularly one which provided that the Board should obtain remittance proceeds from the Central Bank of China upon the Board's request. I pointed out that foreign exchange remittances constituted an essential element for the replenishment of the Board's foreign exchange resources, and that such funds should be definitely guaranteed to the Board without there being any need for making requests which might possibly be denied, if the Government's need for foreign exchange might for the moment appear more urgent than that of the Board. After some argument this phrase was changed to meet my point. I also recommended that a final paragraph be added to the effect that a copy of the communication was being handed to me for transmittal to my Government. It was agreed that Mr. Yui should re-submit the communication to Minister Kung the following morning, and that

I should receive a copy of the signed document between 9:00 and 10:00 o'clock.

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On the evening of October 19 I dined at the British Embassy as the guest of Sir Archibald Clark-Kerr, together with Messrs. Nienmeyer, Baxter, Hall-Patch and Fox.

Mr. C. C. Chien of the National Resources Commission called on me at 10:00 a.m., October 20, returning my visit. At the same time Mr. Yui telephoned to let me know that he had received a second message from Generalissimo Chiang Kai Shek urging me to stay over in Chungking until he returned. Shortly after 10:00 o'clock Mr. Wang brought me a copy of the revised letter, as signed that morning by Minister Kung. It was in the identical phrases which we had decided upon the preceding evening. Accompanied by Mr. Wang, I went at 11:00 o'clock to the United States Embassy and dictated a cablegram to the Department of State, a copy whereof is attached. It will be noted that this incorporates the letter from Dr. Kung to Mr. K. P. Chen. I showed this message to Ambassador Gauss and gave him the background pertinent thereto before filing it. Mr. Gauss had Mr. Wang and myself stay for lunch at the Embassy residence, along with Major McHugh and Mr. Vincent. At 4:00 p.m. Mr. Fox conferred with me at my home and we discussed our program for the next few days. I was to leave for Hongkong the following morning, while Mr. Fox was to follow two days later with Mr. Hall-Patch and Vice Minister of Finance Koo, upon whom we had impressed the necessity of going to Hongkong at once and negotiate directly with the Hongkong authorities toward an amelioration of the exchange situation in that city. We had pointed out that the new American cooperation could not be effective so long as current foreign exchange leakage continued through Hongkong. At 7:00 p.m. Vice Minister of Finance Y. C. Koo came to my home, accompanied by his daughter, Anna, who expects to go to the United States within the next few months to continue her studies in music. Mr. Koo wanted me to know her and possibly to serve as one of her uncles when she comes

to my country. Messrs. Fox and Wang also remained for dinner. 296

At 6:00 a.m. on the morning of October 21 Mr. Wang and I left for the airport. At 7:30 we were informed that the plane for Hongkong would not depart until 1:00 p.m. We consequently returned to our house at 8:00 o'clock. The private secretary to Dr. Kung lunched with us and accompanied us back to the airport at 1:00 p.m. The plane actually left at 3:00 p.m. While at the airport earlier in the morning I had visited with Mr. Taylor, the American alternate on the Stabilization Board, who was proceeding to Kunming at the Board's request to act as one of its two representatives in that city for the present.

I arrived in Hongkong at 9:00 p.m. where I was met by General Secretary Chi of the Stabilization Board. He told me that a cablegram from the Treasury Department for Mr. Fox had been received by Consul General Southard that afternoon and had been repeated to Mr. Fox at Chungking. At 9:30 I telephoned Consul General Southard and he had Mr. Bruins, who is responsible for this work, telephone me directly. It was agreed that Mr. Bruins would bring to me the following morning a copy of the true reading of this message. I dined alone at the hotel after arranging with Mr. Kenneth Wong of the Treasury office for my departure the next morning, and after telephoning Mr. K. P. Chen, who had asked Mr. Wong to have me get in touch with him. Mr. K. P. Chen breakfasted with me on October 22. He talked frankly with me in regard to the problems facing the Stabilization Board and again indicated his desire to withdraw from the Board as early as possible. I told him that we had made real progress at Chungking and I handed him the original of the letter from Dr. Kung, which had been entrusted to me for safe delivery. I especially emphasized to Mr. Chen the step which was to be taken to add Chinese commercial ^{Op 15} to the list of those generally licensed. Mr. Chen said there had been complaints because he had been too polite and gentle as a Chairman. I told him that this was absolutely wrong and that I especially

appreciated the need of a Chairman of such an international group as he was heading being possessed of endless patience and superlative politeness. I thought that the Chairman must necessarily be a conciliator, and I reminded Mr. Chen that the first and only condition which Secretary Morgenthau had interposed when a stabilization agreement in China was contemplated was that he, K. P. Chen, the Secretary's original Chinese friend, should be the Chairman of the Board. I told Mr. Chen that the Secretary would be grievously disappointed if the Board should lose his services. I told him that I realized there was a need for greater harmony and strength within the Board's organization and that upon my return to the United States I would endeavor on my part to arrange for the sending out of such additional American experts and assistants as may be required to improve the functioning of the Board. Furthermore, I agreed not to approve the return of Mr. Frese to the United States until a competent successor could arrive to take over his duties.

Mr. Bruins brought to me at 9:00 o'clock that part of the message to Mr. Fox from the Treasury which has so far been received by the Consulate General. A copy of this message is attached. I told Mr. Bruins that it required no action on my part and thanked him for his help. Shortly after this Consul General Southard telephoned me to see that I had received the message. I asked that when the remainder of the message was received, Mr. Southard should request Mr. Fox's approval to transmit it on to me in code through the Consulate General at Shanghai. Accompanied by Mr. Chen and Mr. Wang, I went to the pier at 9:45. Mr. Wang and Mr. Frese accompanied me on board the SS "Ming Sang". Shortly after 12:00 o'clock the "Ming Sang" departed for Shanghai where I arrived at 4:00 p.m., Saturday, October 25, and was met by Consul General Lockhart and Mr. Nicholson of the Treasury.

Messrs. Lockhart and Nicholson accompanied me to the Metropole Hotel where a suite had been reserved for me by Mr. Nicholson. Later in the evening I called at the Consulate General where Mr. Lockhart handed me the final part of the cablegram sent by the Treasury Department to Mr. Fox at Hongkong, which had not arrived at that port when I left. There is attached a copy of these final sections of the message under reference. In the Consul General's office I also was greeted by Consul Horace Smith. For dinner I was entertained by Mr. Nicholson at his home. Messrs. Smith of the Consulate General and Mackay of the National City Bank were the other guests.

On Sunday morning, October 26, I breakfasted with Mr. Nicholson. Mr. Smith came in during breakfast. At 11:30 a.m. I called on Consul General Lockhart, and Mr. Smith and I accompanied him to the Cathay Hotel for luncheon. In the afternoon the Consul General took the two of us to the Columbia Country Club. In the evening I was Mr. Smith's dinner guest at the French Club. Messrs. Groves and Calder were the other guests.

I visited and saw part of the city on the morning of October 27 with Mr. Nicholson, calling later on Consul General Lockhart at 12:00 noon. Mr. Lockhart went along to the American Club where the directors of the American Chamber of Commerce, Shanghai, were having a regular meeting, and where Messrs. Nicholson, Smith and I were guests. There is attached a sheet showing those who attended the luncheon. On this occasion Messrs. Crowe and Smith, who had represented the American automotive dealers in Shanghai, recounted their trip to Hongkong to take up with the Stabilization Board of China the question of allotments of foreign exchange for their business. These men gave a very fair report of their consultations with the Board. They were convinced that there was no desire on the part of any member of the Board to cut Shanghai off. There was, on the other hand, a sincere desire to study Shanghai's actual business and economic needs and to try to meet the situation as it exists.

I spoke a few words with respect to the purpose of my trip to China and emphasized my interest in helping China succeed with her plans, 299 as well as to look out for the rights of American business enterprises in this area. I emphasized that no one should expect profits out here in these times, but that we did hope the American concerns would be able to maintain their foothold. When one of the officers expressed his unhappiness over the possible uncertain life of the Stabilization Board of China, I pointed out that the Stabilization agreements between the United States and Great Britain on one part, and China on the other, definitely called for the setting up of such a Board as is at present constituted, and I saw no probability of the Board's being discontinued during the life of the agreements. I admitted that the Board needed improved technical personnel and management, as well as more space. I let the directors know that Sir Otto Niemeyer and I had discussed the question of space while in Hongkong and that it appeared likely that the British authorities in Hongkong would shortly arrange for better housing for the Board. As to personnel, it was my definite plan to send out two or more Americans from the United States shortly after I returned to assist in the technical and office management end. I told the group that any stabilization effort out here was necessarily difficult; that we anticipated spending some money in this area; but that we were out to help China and intended to do so.

At 3:15 p.m. on October 27 I called on Mr. Schumacher, Resident Manager of the Chase Bank. I had met Mr. Schumacher in Washington some months ago when he was on leave of absence, and before our freezing and stabilization controls had become really effective in China. Mr. Schumacher was rather pessimistic in discussing present operations and prospects of the Stabilization Board of China. He advocated a reduction in the value of the officially quoted fapi. He also thought the Board should have permitted him to enter the market some days ago and sell a few hundred thousand dollars worth of United States bank notes when the

demand therefor sharply rose. He was of the impression that the market had really been thin at that time and could have been satisfied with a fair amount of American paper currency. He is not so sure now that a comparatively small amount would settle the market. Mr. Schumacher took me through his vaults and showed me the extent to which they are crowded with containers of fapi purchased by the bank operating under instructions from the Stabilization Board of China. Some of these boxes were Japanese munition crates. I examined a few boxes. The notes were of five and ten dollar denomination. In this connection it was explained to me by Mr. Schumacher and others that the Nanking Government, under Japanese influence, have recently succeeded in introducing their Central Reserve bank notes into circulation in Shanghai. There had originally been a dearth of small change notes of the Central Bank of China. Consequently, the Nanking Government has forced in its own notes for this purpose and now has replaced Chungking's dollar notes to a small extent. It is feared that the tendency will be gradually to replace the dollar notes, and then to attack the five and ten dollar denominations. Everyone agreed that there is ample currency in circulation in this area, and almost everyone favored some move toward retiring or limiting the circulation. Mr. Schumacher thought that there would never be any occasion to put back into circulation the fapi notes now held in his vaults. Mr. Schumacher promised to give me a memorandum of his observations, for my own personal and confidential use. A copy thereof is attached. In connection with the storage of fapi, I learned that the National City and Chase Banks had raised the question of renting vault space of the Bank of China, a massive structure which has not yet been occupied in this city. Consul General Lockhart had submitted a recommendation to the Department of State opposing this measure since he thought it might involve our Government in considerable difficulty if we undertook to put our flag and protection over this building which

has been and still is the subject of bitter controversy between the various Governments concerned. Mr. Lockhart told me that Ambassador Gauss had supported his recommendation. I had also learned this from Ambassador Gauss while I was in Chungking. It is my belief that the Stabilization Board of China should arrange with the Minister of Finance to permit the destruction of the fapi notes stored in the National City and Chase Banks, such burning to take place under Government supervision, and the Central Bank giving due credit on its books for the notes so destroyed.

On the evening of October 27 I accompanied Mr. Smith to a meeting of an economic club to which he belongs, and over which he presides. This club held its meeting at a dinner in the American Club. There is attached a memorandum by Mr. Smith giving the high lights of the discussion. I entered the meeting with the understanding that I would have positively nothing to say, either voluntarily or in answer to any questions. No points came out in this forum other than those which are discussed elsewhere in this memorandum. A French Jesuit Priest did repeat some gossip with respect to Mr. Currie having tried to urge Finance Minister Kung's replacement by Mr. E. P. Chen. This good Father thought the effort failed through Madame Chiang Kai Shek having failed to interpret honestly to the Generalissimo what Mr. Currie was saying.

At 10:00 a.m. on Tuesday, October 28, I received two Assistant General Managers with the Central Bank of China in Shanghai, Messrs. S. T. Huang and Mr. Ta Li. These gentlemen impressed upon me the difficulties under which their institution is operating in Shanghai at present. The Japanese are constantly bringing pressure upon them and particularly trying to force their currency into this market and to depress the Chinese National Yuan. I was informed that it is the Central Bank at Nanking which is active in bidding up the gold bars on

this market. This policy continued, with rapid advances therein, until October 31 when it was reported that the puppet Government at Nanking had given instructions to close this gold bar market since trading thereon was having such a deleterious effect upon the price situation. While gold bars and American bank notes have been really small in actual volume, there has been manifest a marked tendency to measure the value of the fapi against these two standards of value. As the fapi has thus declined in exchange value, prices have soared in Shanghai, and while I am dictating this note, on October 31, there is really a runaway market with a tremendous loss of confidence in the fapi. People have been buying any commodity in which they could invest, preferring to get rid of their Chungking currency even though they knew the price they were paying was high. They figure on a still further price rise with a continuing deterioration in the currency, and hope to make either a profit or have something on hand in return for their fapi. The two representatives of the Central Bank of China hoped that some measure could be taken to restrict the circulation of the Chungking currency. They thought the banks might agree to locking up a certain part of that coming into their possession. They were strongly against any lowering of the official exchange rate for fapi, as established by the Stabilization Board of China, at this time. Whether the original rate might have been correct or not, they believe that a permitted decline in the official rate now in this nervous period would lead to a complete lack of confidence in and collapse of the Chinese National Yuan.

At 11:00 o'clock on Tuesday, October 28, I met in the Consul General's room, with him present, the Chairman of the Municipal Council of Shanghai, Mr. John Liddell, and the Secretary, Mr. Phillips. These two gentlemen outlined to me the problem they have in obtaining flour particularly and also other necessary commodities for Shanghai. During

recent months the Municipal Council has taken over the purchase of important quantities of rice from Hongkong, originally imported there from Burma, and have distributed this rice in the Shanghai Settlement at a reasonable price, irrespective of the rise in the rice sold outside this official system. It has been necessary to ration such official rice, but the price has been maintained at a reasonable level and the system promises to continue to function. The Municipal Council hopes to inaugurate a somewhat similar system for flour. They have failed so far, however, to obtain a permit from the Stabilization Board to obtain dollars to pay for such flour since there is a large quantity of flour already on hand in Shanghai. These officials pointed out that they have no control over this flour now here, and the Japanese have definitely made the threat that if exports therefrom to northern China should be blocked, Japan would not let Shanghai obtain its necessary coal from that area. The Municipal Council would like, therefore, to start acquiring new flour or wheat and handle it in the same fashion as rice, irrespective of the stock of flour already existing, but outside of their control. They feel that it would materially strengthen their hand if the Board could help them in this fashion, and that the municipality would greatly benefit as a result. They say that only a few imported foodstuffs are essential to Chinese life, namely, rice, flour, sugar, and vegetable oils, and they hope gradually to be instrumental in handling all of these commodities. I admitted a sympathy with their desire to cooperate with the Board in checking the rise of prices for essential commodities, and I recommended that they go personally, or send representatives to Hongkong, to consult with the Board again on this general problem. Consequently, it was decided that Messrs. Liddell and McMullen should proceed to Hongkong on Sunday, November 2nd. On Tuesday noon I lunched with Mr. Nicholson. Mr. Mackay was also present.

We witnessed a tremendous fire in Shanghai's business district in which a warehouse containing large supplies of matches, candles, etc., was destroyed. I accompanied Mr. Mackay to his bank and met his several officers. We then continued a discussion which we had had on two earlier occasions in Shanghai as to the local situation. Mr. Mackay gave me a copy of his letter of October 14 to Mr. Hart, as well as certain memoranda with respect to my visit, copies whereof are attached. Mr. Mackay feels definitely that the Board must obtain the cooperation of the foreign banks in Shanghai and feels that this can best be achieved through placing confidence in the banks and depending upon them to follow the mandates of the Board to the best of their understanding. He feels that a mistake was made in so cautiously guarding the exchange of the Board at its beginning, and regrets that there has been such a delay in taking care of pre-zero commitments. He thinks the Board must definitely follow a bold policy. On Tuesday evening Mr. Nicholson dined with me at my hotel and we later went to a cinema.

At 9:45 on Wednesday, October 29, I received at my hotel Mr. Alfred T. H. Shao, Sub-Manager of the Bank of China. This gentleman is known as the representative temporarily in Shanghai for Mr. Tsu Yee Pei. Mr. Shao advanced the idea that the provision of export control should be divorced from that of stabilization control. He thought Shanghai's imports should thus be regulated by the export controls of the United States, Great Britain and other free countries, and that a moderate amount of foreign exchange might be placed on the Shanghai market by the Board under a system quite different from that now obtaining. He recommended, further, that to feed the exchange market in Shanghai, dollar accounts of Chinese in the United States be unfrozen. He remarked that freezing and foreign exchange control prevented any repatriation of Chinese funds abroad and led to a scarcity of foreign exchange which is depressing the Yuan and raising prices. He promised to give me a memorandum upon this subject.

At 10:30 I received at the Consulate General Mr. Henningsen, a prominent American produce dealer in Shanghai. Particularly in connection with his icecream business, which practically monopolizes the Shanghai market, he desires foreign exchange for the importation of paper containers, coloring and flavoring matters, etc. I could only recommend that he keep in touch with the Board at Hongkong.

At 11:00 o'clock I received in the Consulate General Mr. William Schilling, Commercial Attache' for Switzerland. This gentleman thought that I was here as representative of the Stabilization Board and he had specific questions as to whether exchange would be given for dollars to cover imports of Swiss dyestuffs and pharmaceuticals which are importantly required in the textile and drug trades of this city. I had a considerable discussion with Mr. Schilling but told him that any decision would have to come from the Stabilization Board at Hongkong.

At 11:30 Mr. P. M. Anderson, General Agent for China of the Occidental Life Insurance Company, called on me at the Consulate General. He talked at length on his problems here and later gave me a memorandum setting them out, a copy whereof is attached.

At noon Consul Smith lunched with me at my hotel. At 3:00 p.m. I received Mr. Pierre Dupuy, a Director of Hongay Sales, Ltd., which sells French Indo-China coal. There is attached a memorandum which he left with me.

At 3:45 I received Mr. Paul Stanley Hopkins who left with me the attached booklet on the Shanghai Power Company. On Wednesday evening I dined at the home of Mr. Horace Smith, together with Messrs. Stanton, Calder, Dawson, Berger and Hall.

At 10:00 a.m. on Thursday, October 30, I received the President of the British Chamber of Commerce at my hotel. He talked to me at some length about the food and labor situation and his desire to help perpetuate the foreign interests long established in Shanghai. When I mentioned the

efforts of the Municipal Council toward controlling foodstuffs, such as rice, he said that this was, of course, a move in the right direction. He emphasized, however, the futility of solving the problem by merely stabilizing food prices, if the Board did not permit foreign exchange to enable manufacturers to carry on the business which gives employment to Shanghai's population. He referred particularly to the textile trade. He was quite disappointed that the Board had taken the decision which it had in refusing permits for exchange to import raw cotton. He is convinced that Japan will not permit the export of cotton goods until some assurance is obtained from the Board in the direction of letting in raw cotton. It will be recalled that the cotton people were in Hongkong some weeks ago discussing their problem with the Board. There was some leakage of information to Shanghai to the effect that the Board might refuse to give exchange, considering the stocks of cotton already on hand. When the Japanese got this information, they immediately put their embargo on the export of manufactured cotton goods and yarn from Shanghai. The decision of the Stabilization Board was then made to the effect that no imports of cotton would be permitted so long as Japan refused to permit exports of manufactured cotton goods.

At 11:00 o'clock I received at my hotel the British Consul General, Mr. Anthony H. George. He went over some of the ground covered by my preceding visitor. He stressed, however, international political factors. Through many years service in China and specializing in the commercial field, he had come to appreciate the importance of maintaining British and American interests here. He feels that a continuation of the deteriorating economic situation will favor Japanese intrusion into the Settlement, and he is convinced that once the Japanese come in definitely and the Chinese population is alienated from Chungking, a resumption of the old situation will be most difficult.

At noon on Thursday, October 30, I attended a luncheon at the Rotary Club where Consul Horace Smith was the speaker. In the evening Commercial

Attache' Groves gave a dinner at the Park Hotel. Among the guests were Messrs. Smith, Calder, Mackay, Schumacher, Tsang, and five Chinese bankers and business men. Two of the latter have received word from the Stabilization Board that their banks would be added to the list of cooperating banks, if the Government at Washington approves. I admitted that there was some move on foot in this direction and emphasized that my Government had only been awaiting Chinese official recommendation for the inclusion of Chinese commercial banks on our list.

At 9:45 on Friday, October 31, I received Mr. Ping Yuan Tang, representing the Chinese cotton mills. He went over the same ground of wanting cotton in to keep mills going and prices down. He says that he is sure the Japanese will not raise their embargo on exports until they know that manufacturers are going to receive funds for raw cotton through the Board. He realizes the delicacy of this situation but hopes the Board will resolve it shortly.

At 10:15 I received the Chilean Charge'd. Affaires and Consul General, Dr. Juan Marin. He wanted me to arrange for him to receive United States dollar currency from the National City Bank for the \$400.00 check which he is now receiving monthly, following an unfreezing of this amount by our Treasury. He had taken this matter up with the Board at Hongkong and had been told that this was a matter for the United States Treasury. I told him, in turn, that he was free to inquire of the American Treasury through his Ambassador in Washington. I showed him, however, an exchange slip indicating that on the preceding day I had sold two official American checks to the National City at the established rate of exchange and had not gone through United States currency with which a rate almost 100 percent higher could have been obtained on the black market here.

The French Consul General, Mr. de Margerie, called at 11:00 o'clock, accompanied by Mr. Louis des Courtils, the Secretary of the French Concession body. The latter was particularly interested in the Board providing around

\$20,000 per month to permit the French Concession authorities to bring in equipment and supplies which they require from the United States. The Consul General dealt with the political side. He supported the request of his countryman, Mr. Dupuy, for exchange to bring in coal from Indo-China. He said that the French want to cooperate with us 100 percent in Shanghai and would abide by any regulations which the stabilization and freezing authorities might prescribe for disposition of foreign exchange involved. The Consul General thought the political situation very dangerous and that trouble might be precipitated by unemployment and social unrest incidental to stoppage of imports and rise in prices.

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At 12:00 o'clock, October 31, I received in the Consulate General Messrs. Gordon and Ballard, British business men interested in cotton and shipping. They were particularly anxious that cotton imports be permitted. They stressed the importance of the cotton industry to Shanghai and estimated that there are at least 70,000 employes, or 280,000 people dependent on cotton manufacturing alone in Shanghai. They also made the point that Shanghai has been an important exporter of cotton goods to the interior of China, in addition to supplying various foreign markets such as the Dutch East Indies. Should this manufacturing stop, interior China will have practically no other source of cotton goods and the foreign exchange accruing from exports to Java, etc., will be cut off.

Consul Berger entertained me at lunch at his apartment. The other guests included Mr. Nicholson and officers from the Consulate General.

At 2:00 p.m. I received in the Consulate General Mr. Cousins of the British American Tobacco Company. They have on hand ample stocks to keep their cigarette factories going for some time to come, but will be obliged to close down early in 1942 unless their supplies are renewed. So far they are obtaining foreign exchange for around 50 percent of their normal requirements. He pointed out the difficulties arising in

connection with the small exchange allotments which are permitted for maintenance of families in the United States.

At dinner on October 31 I went to the home of Mr. Mackay. The other guests were Messrs. Hopkins, Cousins, Adams, Reed, and a Chinese named Russell. No business matters were discussed particularly but the political and economic developments of recent years in Shanghai were reviewed. This group of important business men was manifestly concerned over possible Japanese taking over of Shanghai entirely.

At 9:30 on Saturday morning, November 1, I called on Mr. Henchman, head of the Hongkong and Shanghai Bank. Mr. Henchman showed me the cablegram which had been sent from Shanghai yesterday to the Board in Hongkong in regard to the contemplated issue at an early date of a new currency by the Nanking Bank to be quoted one for two fapi. This, Mr. Henchman stated, was just one more evidence of Japanese effort to work against the fapi and to gain control of the currency situation. He was particularly perturbed lest this may mean a doubling of customs duties at Shanghai and a consequent further rise in prices. He thought the Board at Hongkong should place more responsibility on the bankers here. He believes that control of exports and imports should be divorced from the stabilization efforts and be carried out by the foreign countries which are interested. A free exchange market should be permitted with some support. Mr. Henchman let me know confidentially that he is giving one of his top men, with Consular experience, to assist Mr. Hall-Patch both here and in Hongkong, so that Mr. Hall-Patch may have more time to devote to the Stabilization Board. At the close of our conversation Mr. Henchman advanced one idea to supplement the efforts of the Municipal Council in controlling prices. He thought it might be possible to finance an organization here, starting with the nucleus of a concern which has already a large number of trucks, to handle the distribution of imported products. Imports would be taken over by this organization and a definite

percentage added to the import price, not in excess of 20 percent, and the distribution through this trucking system would avoid many of the steps through which the prices are now skyrocketed.

At 10:00 o'clock I called on Mr. Hopkins, in charge of the Chartered Bank of Shanghai. He showed me the draft of a letter which the licensed banks in Shanghai contemplated sending to the Board at Hongkong protesting against certain restrictive clauses in recently issued forms. He also showed me a cablegram to the Board in regard to the liability involved in the repayment of Sterling loans by borrowers who now feel that they can offer fapi as legal tender at the official rate established by the Board. Mr. Hopkins urged that the Board should be more prompt in handling applications and broader and more generous in its outlook.

I

At Luncheon at his country home on October 19, Chinese Minister of Finance Kung mentioned three requests:

- (1) He had asked the Chinese Ambassador in Washington to seek the services or the loan of an American expert on the Federal Reserve system, to be sent to China, for perhaps as long as three years, to study and improve the Central Bank of China. (Reply was subsequently received that this matter had been referred to Chairman Eccles and that the Chinese Ambassador was to see him.)
- (2) He desires to send as many as three of his young banking or economic experts to the United States to study, as apprentices, our Federal Reserve system, Treasury "freezing", stabilization problems, et cetera. He awaits our answer.
- (3) He had asked through his Ambassador in Washington that Mr. Fox be permitted to serve as his honorary adviser on taxation. While Mr. Fox had not previously mentioned this to me, he had intimated that he might ask us to send him, Fox, an assistant who should be an expert on taxation. Prior to my second visit to Chungking, Mr. Fox showed me a cable wherein the Treasury approved this appointment, provided it did not interfere with his Stabilization Board work.

II

At tea on November 8, Generalissimo Chiang Kai-shek talked to me along general lines of cooperation, and said that his Minister of Finance would present me with some concrete proposals toward this end. When I lunched with Dr. Kung the following day, November 9, he asked:

- (1) That the United States dry up the supply of U.S. currency in Shanghai, and prevent counterfeiting thereof by the Japanese, through following the British example of "calling currency home". I pointed out utility of dollar notes as a refuge to invaded peoples; and commercial use of our currency in Cuba, the Philippines, certain parts of Latin America, etc.
- (2) That the United States Government help control American exports to China, calling upon the Chinese Consuls or other Chinese officials in the U.S. for assistance if necessary. I replied that the new plan which we were then working on would provide material assistance on our part, and that we should not complicate the system by enlisting his Consuls until it might be seen how it was working.
- (3) That the Treasury set up in the United States a new and separate fund in \$ (United States) to constitute a reserve backing the Chinese currency. The British would be asked to act similarly if we approved of such plan.
- (4) That there be a consolidation of the last three, or perhaps four, American Export-Import bank loans to China, extending the term and increasing the total amount. Note that Customs obligations are pledged for some of these but that Japs control most of the Customs.
- (5) That to increase tungsten production and marketing he be given some planes (not modern) such as his 5 Condors.
- (6) That we increase our economic pressure on Japan.

At dinner on November 9, the Generalissimo referred in summary to the concrete proposals which Dr. Kung had made to me. Chaing Kai-shek stated that he could hold out militarily, but that the economic situation was deteriorating and would require energetic support within three months. He hoped for a plan of American aid in the economic field as definite and precise as that being developed in the military field. He was especially concerned over the currency and price problems.

IV

Miscellaneous:

- (1) American Adviser Dr. Arthur H. Young wants an internal Chinese loan to be guaranteed by U.S. and Great Britain.
- (2) Studies by Niemeyer and Baxter.
- (3) Studies by Adler and Board's economists.
- (4) Replacement for Frese.
- (5) Nicholson's financial work to Consul Smith.
- (6) Kung thought Taylor should be with Fox; Fox will not have him around; question of alternate made urgent by order for Taylor to come home.
- (7) Technical Assistance to the Board.
- (8) Possibility of resignation of Chen and others.
- (9) F O X ?

DEPARTMENT OF STATE

Washington

November 24, 1941

In reply refer to
??

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses copies of a telegram dated November 20, 1941, from the American Embassy, Chungking, China, concerning the China Stabilization Board. This telegram refers to the Department's telegram of November 14, 1941, no. 984, which is being transmitted to the Secretary of the Treasury today.

Enclosure:

From Embassy, Chungking,
November 20, 1941.

Copy:hmd:11/24/41

C
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P
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314

EJ

PLAIN

Chungking via N. R.

Dated November 20, 1941

Rec'd 4:55 a.m., 23d

Secretary of State,

Washington.

November 20, 1 p.m.

Reference Department's 984 November 14.

Fox is requesting Stabilization Board Hong Kong
to make information available to Consulate General
at Hong Kong.

Sent to Shanghai; repeated to Hong Kong and
Department.

GAUSS

HPD

Copy:ec:11-24-41

C
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315

DEPARTMENT OF STATE

In reply refer to
FF

Washington

November 24, 1941

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses copies of a telegram dated November 21, 1941, from the American Embassy, Chungking, China, concerning the China Stabilization Board. This telegram refers to the telegram no. 984 sent by the Department on November 14, 1941, which is being transmitted to the Secretary of the Treasury today.

Enclosure:

From Embassy, Chungking,
November 21, 1941

Copy:hmd:11/25/41

C O P Y
GS

GRAY

Chungking via H.R.

Dated November 21, 1941

Rec'd 2:38 a.m., 23rd

Secretary of State,
Washington.

November 21, noon.

Reference Department's 984, of November 14.

Following from Fox for K. P. Chen of Stabilization Board: "State Department has requested certain information regarding tobacco transaction. Please furnish Southard with an adequate statement for transmission to Washington which should be repeated to Chungking for the Ambassador and me".

Sent to Hong Kong. Repeated to Shanghai, Department.

GAUSS

NK

Copy:hmd:11/25/41

BAS

PLAIN

Shanghai via N. R.

Dated November 24, 1941

Rec'd 6:48 a.m.

Secretary of State,
Washington.

1762, November 24

Memorandum just received from Fox, Stabilization Board, states that due to revocation of general license number 64 trade between the Philippine Islands and China is covered by amended general license number 58.

Please advise whether a special instruction has been issued to that effect if the Philippine Islands are included in the term "United States" as defined in section 5B of Executive order number 8399.

This office has been certifying invoices for the Philippines without special certification but has today stopped. The matter is therefore urgent.

STANTON

MG

DEPARTMENT OF STATE
WASHINGTON

November 24, 1941

In reply refer to
FF

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses copies of the paraphrase of telegram No. 5595, dated November 21, 1941, from the American Embassy, London, England, transmitting a strictly confidential report by Mr. Lauren W. Casaday for the Secretary of the Treasury reporting a discussion with Mr. J. M. Keynes concerning the British excess profits tax.

Telegram No. 5595 has reference to telegram No. 5169 which was transmitted to the Secretary of the Treasury in this Department's letter of November 14, 1941.

Enclosure:

From Embassy, London,
No. 5595, November 21,
1941.

Copy:lc:11/25/41

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P
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319

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, London, England.

DATE: November 21, 1941, 10 p.m.

NO. : 5595.

THE FOLLOWING IS STRICTLY CONFIDENTIAL FROM MR. LAUHEN
W. CASADAY FOR THE SECRETARY OF THE TREASURY.

The Embassy refers to the Department's telegram No. 5169,
10 p.m., dated November 13, 1941.

A number of opinions were offered concerning the British
excess profits tax by Mr. J. M. Keynes in strictest confidence
for Secretary Morgenthau. A summary of these opinions follows:

The argument that management has been robbed of incentive
because the tax is so high is not very convincing. A great
number of managers, particularly big concern managers, receive
a salary and bonus, or a salary only. The incentive remains the
same as it would have been in the absence of excess profits tax
because in either case the salary paid is a cost and is deducted
before net profit is estimated. At any rate, we have the right
in war time to expect people to offer unaccustomed service without
the usual reward and perhaps for even less than the usual reward.

The allegation that the tax leaves nothing in reserve for
postwar necessities and for deteriorated assets is largely a
spurious argument and often a dishonest one. Depreciation and

other allowances are substantially and regularly being over-charged by a lot of companies. This is known to the Treasury but it is unable to take the trouble of an investigation and to disallow charges like this unless the cases are flagrant.

Many companies feel encouraged to "borrow on the equity" in view of the fact that capital computations now include borrowings. That is, the company borrows at low rates of interest and receives on these amounts for tax computation purposes the standard eight per cent allowance. A lot of dishonest advertising is done not only in the sense that technical products are advertised in popular magazines and products that cannot be had are advertised, but also because, though charged in full on the books of the company, advertising commissions are rebated quite heavily. According to Mr. Keynes the knowledge of this practice is very wide-spread. In his opinion, quite a few firms are putting aside tidy amounts for the postwar period by the foregoing and other devices.

In regard to wasting assets and the standard period the British have a better case. It is not possible to adopt a formula that will fit all kinds of firms and industries in either respect. The result of this is that there is quite a high proportion of hard cases which are expensive and slow to settle. When the tax rate is at 60 per cent or 70 per cent many borderline cases could be easily settled with rough justice which are much harder to decide when the rate is at 100 per cent. The tax rate should probably not be over 60 or 70% on equity grounds alone but political considerations

have to be taken into account also.

There are several advantages to the credit of the tax. Mr. Keynes states that it is a marvelous producer of revenue. Confidential estimates, he said, indicate that current receipts during this year will be far in excess of anything that anyone expected last April and, further, that receipts should be even better during the fiscal year to follow. During the interview no specific figures were mentioned. After the repeal of the excess profits tax a substantial revenue will continue to flow to Treasury for some time after the war because the tax is collected in arrears. Not being seasonal, the revenue flow is quite even during the year as the tax is payable three months after the close of the fiscal year of each company and the company practice is said to vary widely with no particular pattern with regard to the accounting period.

Mr. Keynes said with reference to the political aspect of the British excess profits tax that a rate near 100% was necessary in dealing with labor in any way, also that this rate was certainly responsible for the fact that labor gave and kept the no strike commitment. It is his feeling that as it now stands the political banking for the tax is firm although he has admitted that probably the original rate of 100% could not have been passed if the members of Parliament had been subject to free vote and election as is the case with members of Congress here. The Government is not paying a great deal of attention to a campaign for modification owing to the strong political position although it is the feeling of

Mr. Keynes that it might have been possible to prevent the agitation almost completely by means of a little propaganda. The concessions which were made April brought the Government nearly no political benefits. The 20% postwar rebate is ignored in most of the company reports to stockholders, which treat as a tax the entire amount paid to the Exchequer. The amount of these allowances will not be determined until after the war in some cases. These accounting practices are perhaps sound but these practices and the misleading statements which have been made by officials of companies and by the financial press, by which the concessions have also been ignored, have been the source of some unnecessary agitation. Keynes believes that much of this would have been avoided by the practice of holding official press conferences.

It is Keynes' suggestion that if an excess profits tax is to be imposed it would usually be advisable to begin with a rate which is fairly low with the thought of raising it subsequently. It is difficult to administer this tax and if it is started at a lower rate the authorities are thus enabled to develop a technique and administrative machinery at a time when the number of cases is relatively low.

Mr. Keynes has expressed the wish that he not be quoted on any of his foregoing opinions.

WINANT

Copy:bj:11-25-41

323

November 24, 1941

Mr. Feis

Mr. Dietrich

Will you please send the attached cable to the American Embassy, London,
for Casaday from the Secretary of the Treasury.

FD:kma 11/24/41

CABLE

For Casaday, American Embassy, London.

From the Secretary of the Treasury.

Please obtain at once information on Select Parliamentary Committee on economy in government expenditures. Send significant highlights by cable and bulkier material by air pouch.

With the Ambassador's approval contact chairman of committee to obtain (a) more information on activities of committee, (b) its procedure for arriving at its findings, and (c) its ideas and methods for dealing with problems of curtailing non-defense expenditures.

Specific information on items cut, proposed methods of curtailing expenditures, and procedures for studying and carrying out these recommendations would be useful; also suggestive ideas as to the magnitude of cuts proposed and achieved in British governmental expenditures; and specific actions which might be relevant to United States problems concerning relief, the agricultural program, public works, social security, and other problems involving the use of federal funds.

Is there any other parliamentary committee dealing with the subject of governmental economy besides the Select Committee on government expenditures?

CV:smh
11/24/41

TELEGRAM SENT

ALH

PLAIN

November 24, 1941

EMBASSY,

LONDON.

5402, Twenty-fourth.

FOR C.S.DAY FROM THE SECRETARY OF THE TREASURY

QUOTE Please obtain at once information on Select Parliamentary Committee on economy in government expenditures. Send significant highlights by cable and bulkier material by air pouch.

With the Ambassador's approval contact chairman of committee to obtain (a) more information on activities of committee, (b) its procedure for arriving at its findings, and (c) its ideas and methods for dealing with problems of curtailing non-defense expenditures.

Specific information on items cut, proposed methods of curtailing expenditures, and procedures for studying and carrying out these recommendations would be useful; also suggestive ideas as to the magnitude of cuts proposed and achieved in British governmental expenditures;

-2- #5402, Twenty-fourth, to London

governmental expenditures; and specific actions which might be relevant to United States problems concerning relief, the agricultural program, public works, social security, and other problems involving the use of federal funds.

Is there any other parliamentary committee dealing with the subject of governmental economy besides the Select Committee on government expenditures? END QUOTE

HULL
(FL)

FF:F.L.:ME

✓
PARAPHRASE OF TELEGRAM RECEIVED

327

FROM: American Consulate, Casablanca, Morocco

DATE: November 24, 1941, 5 p.m.

NO.: 643

Reference is made to our telegram no. 635, dated November 21, 1941. Confirmation has been given by a reliable contact of Vice Consul Canfield that the gold which Vice Consul Reid reported to be aboard the ship PRIMAUGUST has now been transferred to the Moroccan State Bank. Two hundred and fifty tons was the total weight of this gold.

RUSSELL

Copy

328

GRAY

HRL

Baghdad

Dated November 24, 1941

Rec'd 10:31 a.m., 26th

Secretary of State,
Washington.

325, November 24, 3 p.m.

The Iraq Parliament yesterday passed a law providing for the control of foreign exchange, which became effective today. Transaction in foreign exchange including dollars and Swiss francs are forbidden unless made through banks licensed by the Ministry of Finance. Restrictions do not cover currency of countries included in the sterling area. Am informed unofficially that rates for dollars will be as follows: Banks buying rate for dollars telegraphic transfers four point zero four five, selling rate for dollars telegraphic transfers three point nine eight five. Rates for mail transfers buying four point zero six five selling four point naught zero five. Text will be forwarded by air mail. Comment is given in telegram.

KHABENSHUE

HPD

eh:copy
12-1-41

DEPARTMENT OF STATE
WASHINGTON

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In reply refer to
FF

November 24, 1941

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses copies of the paraphrase of telegram no. 1159, dated November 17, 1941, to the American Embassy, Rio de Janeiro, Brazil, concerning instructions issued by the Belgian Embassy to the branches of the Banque Italo-Belge in Brazil, Argentina, and Uruguay.

Enclosure:

To Embassy, Rio de Janeiro,
no. 1159, November 17, 1941.

Copy:ec:11-25-41

PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Rio de Janeiro, Brazil

DATE: November 17, 1941, 8 p.m.

NO.: 1159

The Department has been advised by the Belgian Embassy that instructions have been sent to the branches of the Banque Italo-Belge in Argentina, Brazil, and Uruguay. These instructions require the above-mentioned branches to conform with the course of conduct which was set forth in the second paragraph of the circular instruction of the Department dated September 20, and in the circular telegrams of the Department dated September 22 and September 26, 1941. The Belgian Government has instructed these branches not to have any dealings with firms or individuals whose names are on the Proclaimed List or on the Statutory List of Great Britain. The suggestion was made by the Belgian Embassy that the heads of the Belgian missions in Brazil, Argentina, and Uruguay keep closely contacted with the British and American missions concerning questions about the interpretation and application of those instructions. The Belgian mission should be confidentially and informally kept informed of developments in this regard. You should also get from the Belgian mission information concerning the actual operations of the branches mentioned above

in

in regard to the instructions given them, as well as you should submit reports periodically to the Department concerning these operations.

The appropriate Consuls should be informed of the context of this telegram.

HULL

Copy:ec:11-25-41

DEPARTMENT OF STATE

Washington

November 24, 1941

In reply refer to
FF

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses copies of the paraphrase of telegram no. 630, dated November 22, 1941, from the American Embassy, Santiago, Chile, in reply to a circular instruction of November 14, 1941 regarding gold imports from Japan.

Enclosure:

From Embassy, Santiago,
no. 630, November 22, 1941.

Copy:hmd:11/24/41

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333

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Santiago, Chile

DATE: November 22, 1941

NO. : 630

This is in reply to the circular telegram sent by the Department at 6 p.m., November 14, 1941.

According to a statement made to Consul Burt by the superintendent of customs at Valparaiso, from June 1 through September the value of Chilean imports of gold and platinum, which are combined in official statistics, was only one hundred and forty-six dollars. These imports were for use in the arts probably. It could not be learned where those minerals came from.

As yet the October statistics are not accessible. The NOTO MARU, of which mention was made in the very confidential circular dated September 26 sent by the Department, arrived at Valparaiso on October 4. The arrival date of the TERULKAWA MARU was October 27. On the twenty-seventh of November another vessel from Japan is due to pick up a cargo of ore. No evidence could be obtained in banking or other circles regarding Chilean imports of gold from Japan.

BOWERS

Copy:bj:11-24-41

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

334

DATE November 24, 1941

TO Secretary Morgenthau
FROM Mr. Ksmarek

Subject: Weekly Report: The British Offensive in North Africa

According to the data available to Military Intelligence, the land forces of the two sides are almost equal. The British have probably a slight superiority in number of tanks and an initial superiority in the air. The quality of the generalship of the two sides is a doubtful factor. In view of the British advantage of the initiative, their command of the sea and initial superiority in the air, our G-2 believes that it is most probable that the British will be able to win local successes and re-conquer Cyrenaica. The advance should carry the British as far as they went in their first offensive a year ago.

Relative Forces

The Axis is known to have two German armored divisions, a German reinforced infantry regiment, and eight or nine Italian divisions, including an armored division. The total number of tanks available is less than a thousand. The British have around ten divisions and 1,000 tanks. There are 150,000-200,000 men involved on each side.

The Axis may have as many as 500 airplanes in the fighting. The British with a total of around 1,500 airplanes in the Middle East, probably have 700-800 in the first-line squadrons engaged. The Axis should be able to reinforce its air forces rapidly by flying planes from Crete and southern Italy.

Our army, frankly, is at best skeptical of the quality of British generalship. Our observers in Egypt report that the subordinate British officers have a low estimate of the ability and imagination possessed by their higher commanders. The American officers generally concur in this judgment.

Our Military Intelligence also disapproves of the system of command of the British. The present operation is under the joint command of the naval, land, and air commanders-in-chief. With the best will in the world, such a three-headed arrangement is not efficient and it, of course, violates one of the cardinal precepts of warfare, "unity of command".

On the other hand, the Axis forces are composed in the bulk of Italian troops with a German striking edge. The German divisions have occupied the advance positions near the Egyptian frontier, while the Italian troops, in the main, were distributed in the rear areas near Tobruk and behind it. The quality of the Italian divisions is not regarded as high.

British Plan of Battle

It was not possible to make plans for the entire operation, since opportunities in one sector and set-backs in another would mould the course of events. In conception, the British are attempting a series of encircling moves. The plan is somewhat similar to that by which the Imperial forces conquered Cyrenaica last year. The main difference is that the force involved is much larger and the scope of the operation is much wider. Last year, the attack started much closer to the coast and the British progressed by a series of small bites along the coast: Sollum first, then Bardia, Tobruk, Derna, Benghazi. Now, the initial point of departure is over 100 miles south from the coast, and the swing in towards the coast did not come until near Tobruk. At the same time, a British force, still farther south (almost 200 miles from the coast), has as its mission a daring advance straight across the hump of Cyrenaica to the coast south of Benghazi, an airline advance of around 400 miles.

If the British succeed in cleaning out Cyrenaica, it is not believed that they will be able to push on immediately towards Tripoli. It took five months to bring up reserves, stocks of material and to prepare bases for the advance before this offensive could start. As a matter of fact, this attack was postponed several times. It was supposed to have started at the latest by November 1. The final date was set for November 15, but it actually did not jump off until November 18. It might take several months before similar preparations could be completed for a further advance into Tripoli.

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

336

DATE November 24, 1941

TO Secretary Morgenthau
FROM Mr. Kamarek

Subject: Summary of Military Reports

R. A. F. Raids on Continent

According to our Military Intelligence, high sources in Britain report that large-scale air offensives against Germany have been proved impracticable because of losses due to bad weather and that the full power of the R.A.F. will be directed against Italy whenever possible.

(The implications of this statement, if it is correct, are important.

- (a) The theory that Germany could be bombed out of the war is exploded.
- (b) Large regions of eastern Germany will be relatively immune from air raids. When the weather is good in summer, the nights are too short. When the nights are long enough, the weather is bad.
- (c) Aid to the Russians by means of R.A.F. bombing raids is ineffective.)

(M.I.D. Situation Report, November 24, 1941)

Mediterranean

Our Military Attache in Cairo reports that it is claimed that the British now have more planes in the Middle East alone than they had in the entire Royal Air Force two years ago. (The British probably have over 1,500 planes at present in the Middle East.)

(Military Intelligence, Situation Report, November 19, 1941)

Ten Swordfish (torpedo spotter reconnaissance airplanes) and four Fulmars (fighters) landed at Gibraltar from the Ark Royal. There is a probable loss, therefore, of 20 Swordfish and 20 Fulmars in the Ark Royal.

(U.K. Embassy, London Telegram, November 16, 1941)

The indications are that the Corinth Canal (across the neck of land connecting the Peloponnesus and the mainland of Greece) is now open for all ships of the size normally able to use it. (The Corinth Canal was closed early in the summer by British bombs causing a landslide. This forced Axis shipping to pass to the south of the Peloponnesus exposing it more to British submarines.)

(U.K. Embassy, London Telegram, November 14, 1941)

Spanish Aid to the Axis

Shipments of ore (probably iron ore) by sea from Spain for Germany reached 100,000 tons (during the past month). The shipments moved to France both by way of the Mediterranean and the Bay of Biscay in the Atlantic. This quantity is twice as much as was sent during the previous three months.

(U.K. Embassy, London Telegram, November 14, 1941)

Battle of the Atlantic

A British ship of 7,000 tons is presumed to have been torpedoed in the afternoon of November 12, 400 miles south of Freetown in the South Atlantic. The ship was independently routed (i.e., not in convoy). A Norwegian ship, 5,757 tons was sunk by explosion about 35 miles from East London (South Africa). It is believed that the ship was torpedoed. (There have been a number of sinkings recently in this area below the African bulge, a long way from Nazi submarine bases.)

(U.K. Embassy, London Telegram, November 15, 18, 1941)

Russia

West of Moscow, the Germans are again attacking but are meeting vigorous resistance. At other points, they have been forced on to the defensive. Their operations are being much hampered by supply difficulties and cold.

(U.K. Embassy, London Telegram, November 18, 1941)

RESTRICTED

G-2/2657-220; No. 551 M.I.D., W.D. 11:00 A.M., November 24, 1941

SITUATION REPORTI. Eastern Theater.

Ground: The investment of Leningrad is being maintained.

Hard fighting continues on the Moscow front with the edge favoring the German forces. The penetration at Klin has been extended to include Solnechnogorskii (31 miles northwest of Moscow).

The German advance east of Orel and Kursk, as well as in the Donets basin, continues.

II. Western Theater.

Air: Last night the R.A.F. attacked Nazi airdromes in northern France, and the docks at the German-held French ports of Brest, Lorient and Dunkirk. This morning waves of day raiders were seen on their way to attack Calais and barges near Gravelines.

High sources in Britain report that large-scale air offensives against Germany have been proved impracticable because of weather losses, and the full power of the R.A.F. will be directed against Italy whenever possible.

A small force of German bombers attacked the British coast during the night, concentrating on the port of Falmouth.

III. Middle Eastern Theater.

Ground: The Axis admits heavy fighting in the area from the border to Tobruk. The destruction of 260 British tanks and about 200 armored vehicles is claimed. The Italians claim they have destroyed the 4th British Armored Brigade west of Sollum and captured its commander.

The British claim the capture of Fort Capuzzo, Bardia and Gambut; also the destruction of many Axis tanks and armored vehicles. Fighting continues severe. The British also claim the sinking of an Italian destroyer and a cruiser.

Air: The British claim complete control of air in the Middle Eastern theater.

RESTRICTED

RESTRICTED

G-2/2657-220; No. 548 H.I.D., W.D. 11:00 A.M., November 19, 1941.

SITUATION REPORTI. Eastern Theater.

Ground: Strong German attacks are taking place along the Moscow front from Kalinin to Tula.

On the south central and southern fronts strong German advances are in progress from Tula to the sea of Azov.

In the Crimea fighting continues for the capture of Sevastopol.

Air: Germany announces further bombing last night of both Moscow and Leningrad. Sevastopol was also heavily bombed last night.

II. Western Theater.

Air: The R.A.F. raided Brest docks last evening about dusk. German planes raided the harbor of Lowestoft.

III. Middle Eastern Theater.

Ground: Italian sources claim that the garrison of Gondar has successfully beat off another heavy British attack.

Air: A report from Cairo claims that the number of British aircraft available in the Middle East at present is greater than the entire R.A.F. two years ago.

RESTRICTED

BRITISH EMBASSY
WASHINGTON, D.C.

November 15th, 1941.

PERSONAL AND
SECRET

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

R. I. Campbell

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

TELEGRAM FROM LONDON DATED NOVEMBER 15,
1941

Naval.

1. British ship 6,961 tons presumed torpedoed p.m./12 400 miles south of Freetown. She was independently routed.

Royal Air Force.

2. United Kingdom night of 14th/15th and day of 15th. No offensive operations of importance owing to weather.
3. Libya. Night of 12th/13th. Wellingtons attacked stores, dumps and railway sidings at Benghazi, hit claimed on sidings with 4,000 pound bombs. Following day aerodromes Berca and Benina were attacked.

BRITISH EMBASSY
WASHINGTON, D.C.

PERSONAL
AND SECRET

November 17th, 1941

Dear Mr. Secretary,

I enclose herein for your
personal and secret information a copy
of the latest report received from London
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Believe me,

Dear Mr. Secretary,

Very sincerely yours,

R. I. Campbell

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D.C.

343

TELEGRAM RECEIVED FROM LONDON
DATED NOVEMBER 16th, 1941

NAVAL

10 Swordfish and 4 Fulmars landed at Gibraltar from the Ark Royal. This indicated the probable loss of 20 Swordfish and 20 Fulmars in the ship.

MILITARY. RUSSIA.

Leningrad Sector. There has been heavy fighting without an appreciable change.

Crimea. The Germans have reached Kerch but near Sebastopol are being hampered by weather and supply conditions.

ROYAL AIR FORCE.

Day November 15th. Fighters flew 123 offensive sorties against oil targets in Northern France. Hits claimed by bombs and cannon fire on five refineries. Night of November 15th, November 16th. A total of 110 aircraft despatched mainly to Emden 50, Kiel 45.

MIDDLE EAST.

Night of November 13th, November 14th. Benghazi Harbour, Enona and Bardia attacked. November 14th landing grounds at Barga and Martaba. Night of November 14th/15th Catania railway centre 30 tons of H.E.

344

BRITISH EMBASSY,
WASHINGTON, D.C.

PERSONAL
AND SECRET

November 15, 1941.

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

Wahfer

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

TELEGRAM FROM LONDON DATED NOVEMBER 14,
1941

Naval. At 1543/15 heavy explosion thought caused by torpedos, occurred in Ark Royal 37 miles east of Gibraltar. Ship stopped and quickly listed 20 degrees to starboard although majority of ships company were taken off. By 21 hours ship was in tow of 2 tugs with destroyer alongside providing electric power. Though steam has been raised in one boiler and was being raised in another and hoped ship would soon be able to steam, at 4-45/14th fire broke out in remaining boiler room and list increased to 37 degrees. At six/14th it was reported that Ark Royal had sunk.

8. Small Dutch ship mined and sunk in Plymouth harbour p.m. 13th.

9. P.M. 18th. Small British ship was attacked inside Irish territorial waters off County Waterford.

4. Indications are that Corinth Canal is now open for all ships of size normally able to use it.

5. Ocean shipments of ore by sea for Germany from Spain to France both in Mediterranean and Bay of Biscay reached 100,000 tons. This is twice as much as was during previous three months.

Military.

0. Russia. Moscow sector. Russians are counter-attacking. Tula Germans have made some progress eastward from Tula-Orel railway. Orissa. Germans are nearing Sebastopol from the south-east and Ostash from West and South.

7. Royal Air Force.

Middle East. Night of 11th and 12th. 45

ending/

-2-

bombing sorties flown against stores dumps at Derna, Gazala, Berca, Bardia. Fires and explosions at all targets. 11th/12th Waples attacked for five hours. 12th Gela aerodrome attacked two aircraft on ground destroyed. Mellaha aerodrome (Tripoli (L)) attacked.

347

BRITISH EMBASSY,
WASHINGTON, D.C.

PERSONAL
AND SECRET

November 19th, 1941.

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

R. I. Campbell

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

TELEGRAM FROM LONDON DATED NOVEMBER 18th, 1941.SUMMARY.NAVAL.

1. British ship 1,212 tons in convoy bombed and sunk p.m. November 16th off Great Yarmouth.
2. Norwegian ship 5,757 tons about 35 miles from East London (South Africa) was sunk by explosion early November 17th. Officer survivor believes ship torpedoed.

MILITARY.

3. West of Moscow Germans are again attacking but are meeting vigorous resistance. At other points they have been forced on to defensive. Their operations are being much hampered by supply difficulties and cold.

ROYAL AIR FORCE.

4. November 17th off Southern Norway Hudson aircraft scored two direct hits and one near miss on ship estimated 8,000 tons near Lister Light. Ship was left with 20 degrees list to port and much smoke amidships. Fighters attacked with cannon three alcohol distilleries plants in northwest France.
5. Libya. Night of November 15th/16th. Derna and Bardia attacked. November 16th Derna and Gazala attacked.
6. November 17th aircraft attacked enemy convoy of three merchant ships, one destroyer, 60 miles southwest of Zante in Greece. One ship left on fire.

TREASURY DEPARTMENT

349

INTER-OFFICE COMMUNICATION

DATE November 24, 1941

TO Secretary Morgenthau

FROM Mr. Dietrich

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£48,000
Purchased from commercial concerns	£ 3,000

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

The Canadian dollar discount narrowed to 11-1/8% at today's close. A week ago, that currency was quoted at 11-3/4%.

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

Argentine peso (free)	.2390
Brazilian milreis (free)	.0515
Colombian peso	.5775
Mexican peso	.2070
Uruguayan peso (free)	.4900
Venezuelan bolivar	.2580
Cuban peso	1/8% discount

There were no gold transactions consummated by us today.

No new gold engagements were reported.

In London, spot and forward silver remained at 23-1/2d, equivalent to 42.67¢.

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

We made no silver purchases today.



BRITISH EMBASSY
WASHINGTON, D.C.

November 24th, 1941.

Personal and Secret.

Dear Mr. Secretary,

_____ I enclose herein for your personal
_____ and secret information copies of the two
latest reports received from London on the
military situation.

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

Halifax

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

TELEGRAM FROM LONDON DATED November 22nd.NAVAL.

His Majesty's Submarine Utmost reports having attacked on 21st in Straits of Messina force of three destroyers and three cruisers hitting one cruiser which probably sank.

2. Polish submarine Sokul claims two hits on convoy of three merchant ships escorted by destroyer on 21st in Mavaro Bay.

3. His Majesty's Ship Devonshire in South Atlantic intercepted enemy armed merchant ship which she engaged; magazine having blown up enemy sank 13 minutes after engagement commenced.

4. P.M. November 21st. Photographic reconnaissance Brest showed Scharnhorst and Gneisenau and Prince Eugene in the usual position.

MILITARY.

5. Russia. Leningrad Sector. Russians are attacking strongly in Tikhvin area. Moscow Sector between Kalinin and Moscow strong German attack has made some progress south eastwards. Centre, east of line Tula-Orel German advance towards Upper Don has reached Moscow-Volga railway at certain points. Kurok Sector. Germans have made some progress eastwards. Rostov. Germans have reached outskirts of town.

ROYAL AIR FORCE.

6. United Kingdom day 21st and night 21st/22nd no offensive operations.

7. Libya. Night of 19th/20th. Derna town and landing ground 43 tons H.E. Bardia 10 tons H.E. Following day hits scored on a FV5 and 1 in EL Adem area and on armoured force south of Capuzzo; two J.U.31's destroyed on the ground at Gasr El Aryid. Eleven squadrons of fighters carried out sweeps and escort patrols 14 J.U.37's and one H.E.109 destroyed on the ground at El Timini.

Mediterranean. Night of 20th/21st. Naples, Brindisi and Messina bombed.

Telegram from London dated November 23rd, 1941

NAVAL

Please regard paragraph 3 of summary of November 22nd as most secret.

Night of November 21st-22nd naval aircraft and Wellingtons off Cape Spartivento attacked convoy of 5 merchant ships, 1 cruiser, five destroyers (probably the force attacked by U-boat on November 21st when one cruiser was probably sunk). Cruiser and one merchant vessel estimated 6000 tons believed each hit by one torpedo. On November 22nd shadowing aircraft considered the speed of the convoy was reduced probably by bomb damage several ships having been straddled during the night attack. An explosion observed in one merchant ship by shadower may have been caused by submarine attack.

ROYAL AIR FORCE.

United Kingdom. Day November 22nd, four squadrons of fighters carried out offensive patrols over Northern France. Six enemy fighters destroyed, one probably destroyed, seven damaged. Night of November 22nd, 23rd, no operations owing to adverse weather.

Libya. Now claimed enemy losses numerically were 30 destroyed not 24 as previously reported.

Night of November 20th-21st, 32 Wellingtons attacked El Gasala landing grounds which were again attacked following day by 9 Marylands and Fortresses.

Day November 21st: 16 Blenheims attacked about 2000 tanks and motor transport at Bir Hachea. Frequent fighter sweeps over battle area. Beaufort fighters and Hurricanes successfully attacked aircraft on the ground. Enemy losses during day 5 shot down, one probably destroyed, one damaged, further 16 destroyed or damaged on the ground.

RESTRICTED

G-2/2657-220; No. 551 M.I.D., W.D. 11:00 A.M., November 24, 1941

SITUATION REPORT

I. Eastern Theater.

Ground: The investment of Leningrad is being maintained.

Hard fighting continues on the Moscow front with the edge favoring the German forces. The penetration at Klin has been extended to include Solnechnogorskii (31 miles northwest of Moscow).

The German advance east of Orel and Kursk, as well as in the Donets basin, continues.

II. Western Theater.

Air: Last night the R.A.F. attacked Nazi airdromes in northern France, and the docks at the German-held French ports of Brest, Lorient and Dunkirk. This morning waves of day raiders were seen on their way to attack Calais and barges near Gravelines.

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A small force of German bombers attacked the British coast during the night, concentrating on the port of Falmouth.

III. Middle Eastern Theater.

Ground: The Axis admits heavy fighting in the area from the border to Tobruk. The destruction of 260 British tanks and about 200 armored vehicles is claimed. The Italians claim they have destroyed the 4th British Armored Brigade west of Sollum and captured its commander.

The British claim the capture of Fort Capuzzo, Bardia and Gambut; also the destruction of many Axis tanks and armored vehicles. Fighting continues severe. The British also claim the sinking of an Italian destroyer and a cruiser.

Air: The British claim complete control of air in the Middle Eastern theater.

RESTRICTED