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Sunday, December 14, 1941: **1**

Taken to the Secretary's house
Mr. Kuhn, at 11 a. m.

DRAFT OF SECRETARY MORGENTHAU'S SPEECH
TO THE DEFENSE SAVINGS ORGANIZATION
AT CHICAGO, DECEMBER 17, 1941

2

Every one of us must be conscious today of a clearer vision and a deeper understanding than we had two weeks ago. We have had a shock, and we are wiser and stronger for having had it. The bombs on Pearl Harbor have destroyed much more than what the censors would call "military objectives". They have ripped our complacency to shreds. They have blasted the old comfortable belief that the wide oceans could save us from harm. They have blown away the notion that brutality and deceit and murder in another part of the world was of no concern to us in ours.

We now know, or ought to know, that this whole world struggle is "our war" just as much as it was to the people of Warsaw in 1939, or to the people of Rotterdam or London

in 1940, or to the people of Athens and Moscow in 1941. We now know, or ought to know, that there can be no half way method of fighting an attempt to dominate the world. We now know, or ought to know, that this total war will require total effort on our part, with everything that we have and everything we are, with all our resources pledged to final and decisive victory.

We in this room have been working hard for many months to mobilize our financial resources in the form of people's savings. But we have, I think, done more than that. Since the very inception of the Defense Savings program, it has been one of our major objectives to give the American people a sense of their own direct and inescapable involvement in this great battle for our way of

life. We have tried to make them realize that they were not isolated and could not be isolated from a struggle that would shape the future of everyone on this planet. We have tried to give the American people a greater sense of pride in their own country and a greater awareness of the dangers that face them. We have tried to give every man, woman and child in this country a sense of direct participation in its defense, a feeling that there is something for everyone to do in a great effort from which everyone will benefit in the end.

Looking back over the past eight months, I think we can all be proud of what has been accomplished. I believe in all sincerity that the devoted work of the

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Looking back over the past eight months, I think we can all be proud of what has been accomplished. I believe in all sincerity that the devoted work of the

Defense Savings staff and all our thousands of volunteer workers throughout the country has helped immeasurably to crystallize American opinion. I believe that the response to the bombs at Pearl Harbor was deep and wide and immediate partly because of our groundwork in the Defense Savings program.

We have given to millions a new sense of being partners of their Government, of having a direct share in America and in American freedoms. To me, it is an achievement of far greater proportions than the raising of the more than 2 billion dollars which have rolled into the Treasury since the Defense Bonds first went on sale in May.

Now that the groundwork has been laid, it is up to us to follow through, and that is the main purpose of

my being here with you today. We must follow through, not only in terms of a few million individuals or a couple of billion dollars, but by a determined effort to reach every individual in this country. For total wars in these days are wars involving whole peoples.

There is no exemption for any group or any section. Hitler and the Japanese make no exceptions in their conquests. The bombs that fell at Pearl Harbor were aimed straight at every one of us, and whatever Hitler may attempt in the Atlantic will be aimed at every one of us. We are all in this war together -- and we, the people, have as important a part to play as if we were manning a bombing plane or firing a gun from the deck of a battleship.

There is no need for me to go over the details which you have been discussing since yesterday morning. Our problem is one of financing the enormously expanding cost of the war while avoiding the immense and dangerous evils of inflation. I have said in this city, in a talk to the American Bankers Association, that we were in reality fighting two wars -- one, the great struggle on all the continents and all the oceans, and the other the war against an insidious enemy here at home. That enemy is inflation. It creeps up on us as stealthily as a thief in the dark. As the President has said, inflation is a form of taxation that takes no account of the ability to pay and strikes directly at the American standard of life. Our problem, therefore, is a double one, and in this renewed and redoubled effort to which we of the Defense

Savings staff must now dedicate ourselves, we must make sure that we deal effectively with both enemies.

For that reason, it seems to me, our major effort now must be directed at those in all walks of life who are in receipt of regular pay from wages and salaries. The fuel of inflation is current income, rather than the money that now rests in the vaults of savings banks. It may seem heartless to speak of excess spending, but there is such a thing and I mean by it spending in the face of a limited and dwindling supply of goods. The most effective course for us, as we have known from the very beginning has been to enlist current income and to divert excess spending, to persuade our people to set aside a part of their pay every pay day in Defense Bonds and Stamps. Let's now make every pay day Bond Day. And when I speak of

regular investment every pay day, I am speaking not only of the millions of factory workers, not only the teachers and accountants, the clerks and civic employees who live on regular salaries, but also the farmers who are earning solid incomes for the first time in many years and who will be the first to suffer if we allow inflation to get out of hand.

All these are the people we must reach, with a determined effort that will have an impact in Berlin and Rome and Tokyo, an effort that will give new heart and courage to the free peoples who are fighting on our side everywhere.

I have been asked many times whether we have a goal, a quota for the United States. I have always avoided answering with a money figure because such a goal would

have no significance. But I will tell you now what my goal is, what our goal for the next three months shall be and must be. It is to reach every single recipient of regular current income in the United States, and to have every one of these 35 million people setting aside some part of their pay regularly by the first of March. And when I say "setting aside", I do not mean merely a token contribution. I mean a real investment, the very limit that each person can afford without actually taking food and other necessities from himself and his family.

I have given you a broad objective in terms of a three months effort. Now I should like to set for you a supplementary goal in terms of immediate effort -- a goal that must be attained this month if it is to be attained at all. As we say at the Treasury, this is

a "must" -- the first "must" that you have ever had from me. That is to see that every single Christmas bonus that is paid to individuals in your States and in your communities shall be invested this month in Defense Savings Bonds. I do not know how many thousands of individuals will receive bonuses at the end of this busy and prosperous year. But I do know that every dollar of such additional income must be set aside, firstly in the interest of the country, which needs those dollars urgently, but also in the interest of those who will need just that additional security when the war is over. There is not much time; Christmas is only a week off, but even one week is time enough if all of you set to work on this immediate problem the moment you return to your home States.

When this meeting ends, I hope that this organization will set to work in every State and every community in the United States, with the same devotion and determination that is now being shown by the men in our fighting forces.

I have complete confidence in the ability of this great group to exceed both the goals I have set for you today. We have been more than fortunate in the men and women who have rallied to our help since the first of May in all parts of the country. It has been a truly thrilling experience for me as Secretary of the Treasury to see the superb cooperation we have had from labor and industry, from Republicans and Democrats, from foreign-born and American-born, from all the assorted groups and nationalities of which this united American people is composed.

I am genuinely glad to see all our State leaders assembled here in one room, and to thank them on behalf of their Government for the work they have already done. Now that the greater and more insistent call has come, we are ready to meet it. Our organization has been set up, our people are hard at work, our country knows what Defense Bonds are and what they do. It is up to all of us now to spring into action in this great front line of freedom which is the United States of America.

The men who are fighting at this moment on lonely islands in the Pacific are looking to us to supply them with the planes and guns they need. The whole country is looking to us, right here in this room, to raise billions of dollars so that our war effort shall not fail. Our allies in all continents, who have fought for

more than two years, are looking to us, and also the oppressed peoples in the conquered lands who are now living in a darkness that only we can end -- they, too, are looking to us. It is by far the greatest test and the grandest opportunity that has ever come to our country. We in this room must prove ourselves worthy of that opportunity. As Winston Churchill told his own people last year at a moment of supreme crisis, let us so bear ourselves that if the United States should last for a thousand years, men will still say "this was their finest hour".

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C-2/2-7-220; No. 569 M.I.D., W.D. 11:00 A.M., December 14, 1941

SITUATION REPORT

I. Pacific Theater.

Wake Island: The Navy reports further air attacks on Wake yesterday. Two Japanese bombers were shot down and several were said to have been damaged by antiaircraft fire. Malaya: A confidential press release announced this morning that heavy fighting continued in North Malaya today as British ground and air forces sought to dislodge invading Japanese troops which have gained a foothold on both sides of the peninsula. Sharp action is reported in the Kedah area (northwest coast of Malaya) and in the Kelantan area (Northeast coast) with no indication of the turn the fight is taking. Philippines: Continued fighting in Aparri, Vigan, and Legaspi areas. The press reports that Japanese bombers flew at a high altitude over Manila last night without dropping any bombs. Hawaii: No further reports received. Thailand: The R.A.F. raided the airdrome at Singora (southeast coast) on the 12th. Results unknown.

II. Eastern Theater.

Germans appear to be continuing the withdrawal from the salients north and south of Moscow. The Russians claim to have captured Volkovo (90 miles southeast of Leningrad) and, east of Orel, the towns of Tefremov and Livny.

III. Western Theater.

No further reports have been received.

IV. Libyan Theater.

Ground: British mobile columns are continuing flanking operations against Axis forces holding lines stretching 40 miles into the desert from Gazala.

Air: The German High Command stated that German and Italian fighter planes had destroyed 15 British planes in this area.

RESTRICTED

December 15, 1941.

NOTE FOR THE SECRETARY'S RECORD

Secretary Morgenthau telephoned Mr. White at 10:00 a.m. Sunday, December 14, and asked him to think about and prepare a memorandum and plan for setting up an Inter-Allied Stabilization Fund. The Secretary had in mind a Fund to be used (1) during the war to give monetary aid to actual and potential allies and to hamper the enemy; (2) to provide the basis for post-war international monetary stabilization arrangements; and (3) to provide a post-war "international currency".

MHW

December 15, 1941
9:45 a.m.

GROUP MEETING

Present: Mr. Thompson
Mr. Buffington
Mr. Morris
Mr. Gaston
Mr. Kuhn
Mr. Haas
Mr. Blough
Mrs. Klotz
Mr. White
Mr. Foley
Mr. Sullivan
Mr. Schwarz
Mr. Sloan

H.M.Jr: Gene, I might as well get it off my chest first. Peter Odegard was with us. We had three different radios and we finally got WJZ. I never suffered so in my life, watching poor Peter Odegard. I mean, I never saw a man so miserable in my life as when he listened to that program. Did you hear it, Ferdie?

Kuhn: I heard it late last night. It was terrible.

H.M.Jr: It is an all time low.

(Messrs. White and Foley entered the conference.)

This Herman Wouk's poem wasn't read. Altogether, I don't want to get started, but it is just that child - I mean, to use a child on that thing, it was awful. Well, everything - the man was singing "Any Bonds Today" following a hymn. He just couldn't keep the beat. Whoever

it was couldn't keep the beat and you remember I suggested doing the "Ballad of America" and you said there were too many words.

Kuhn: And then they went and used a Walt Whitman thing that was completely out of place. It was not done by our radio people. They called in our radio people to help them about two days before the show came on because the people who were doing it in New York were obviously making a mess of it, but I don't know exactly who was responsible. I am going to try to find out.

H.M.Jr: Well, whoever is responsible, out.

Kuhn: Let's find out.

H.M.Jr: No, out. I mean, I don't want them. I don't ever want the Treasury's name to be so sullied as it was on Sunday, you see.

Kuhn: Yes, sir.

H.M.Jr: I don't care who it was, the man is out. I mean, nobody can do that twice to me. To see poor Peter go through what he did, it was just a crime. Will you find out? I mean, anybody that sullies the Treasury's name the way that was yesterday, I don't want them connected with the Treasury.

(The Secretary held a telephone conversation with General Cox.)

H.M.Jr: He is right. He says that with the Christmas tree on the White House grounds and the people knowing it, that some suicide squads could start fifteen or twenty miles out, cut off their engines, and then just glide in and just make for that Christmas tree and the President.

Gaston: It would be much better on the Ellipse.

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H.M.Jr: I don't think it would be much better on the Ellipse either.

Morris: It shouldn't be.

Gaston: I think the whole thing is a little bit screwy.

H.M.Jr: The President doesn't like the Jefferson Memorial. He could put the Christmas tree on top of that. (Laughter.)

Sullivan: All you have to do is light it on top and that is the target.

H.M.Jr: Well, they give me these nice jobs. Mrs. Roosevelt has already raised perfect hell.

Sullivan: I think she ought to. I think it is pretty bad.

H.M.Jr: Raising hell - she wants to hold them. She doesn't want to give them up.

Sullivan: She and I aren't together on that.

H.M.Jr: Anyway, Gene, if you would, please. I don't want to ever listen to a thing like that again. I don't know how Ferdie feels about it.

Kuhn: I am with you.

H.M.Jr: Do you say amen?

Kuhn: Oh, it was very painful.

H.M.Jr: And then, Gene, the suggestion which I made to - I don't know whether you had time to pass it on. The calendar idea I have got. My idea is to make a calendar of this mural shown in this paper and find out what it would cost to make a good sized calendar and then let the Boy Scouts sell it for a dime. What is his name - Odegard was crazy about the idea. We could put up a

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million, you see, and they would stay right up in the homes. They would stay up in the homes. And Ferdie, I still - the only criticism I have, I still can't make out that factory. If we are going to make five more murals, can't we do the criticism I made of the factory?

Kuhn: I didn't think the factory was going to be in in that form.

Klotz: It was supposed to be taken out.

H.M.Jr: There are other factories. I mean, that factory - it is very hard to realize. Then one other criticism, the three planes on the left, if I am not mistaken, are old models. Let's get the latest model planes. You might just as easily get in some Bell Aircraft or something, or four engine Consolidated. That is an old model plane. Otherwise I think it is wonderful.

Klotz: You mean you can tell it from that picture?

H.M.Jr: The New York Tribune had a full reproduction. Norman, I still think the mural is swell, even though the dedication of Colonel Patterson's is too, too --

Thompson: The House Appropriations Committee have asked me to come up at 1:30 on our Treasury bill.

H.M.Jr: Right.

Thompson: You are scheduled to go up on Friday.

H.M.Jr: Oh yes, have you put it on my calendar?

Thompson: I gave it to Fitzgerald. They want to start out this morning and go right through the Treasury. We could probably clear it up and be ready for you to start it off on Friday.

H.M.Jr: All right.

Thompson: Mr. J. Edgar Hoover has written you asking that you permit his agents to interview the Treasury personnel that they are investigating during office hours. The original arrangement was that they would only do them after office hours. I think it is proper that he be permitted to make his investigations.

H.M.Jr: Are they going to do it in the Treasury?

Thompson: Yes.

H.M.Jr: In the room downstairs?

Thompson: Yes.

H.M.Jr: Can't do it after office hours?

Thompson: Well, it is too restrictive.

H.M.Jr: But they will do it in the Treasury?

Thompson: They will do it in the Treasury.

H.M.Jr: O.K.

Thompson: There is a letter on it.

H.M.Jr: The Chicago people won't be back by Thursday night, will they?

Sloan: I think they will, yes sir.

H.M.Jr: He told me not. He said they were going to run right on because that train leaves at 3:40 or something Wednesday.

Sloan: I should think most of them would be in here by Thursday morning.

Kuhn: Graves did say something about staying on himself to clean up some odds and ends there.

I don't know when he would plan to be back.

H.M.Jr: Who else is staying?

Kuhn: I didn't understand that anyone else was going to stay or needed to stay. I can find out this morning and let you know.

H.M.Jr: Will you let Mrs. Klotz know?

Kuhn: Yes, sir.

Klotz: This morning.

Thompson: Mrs. Spangler told me you wanted to talk about --

H.M.Jr: Yes.

Thompson: We will have that put right in, but we will have to use the Stabilization Fund.

H.M.Jr: That is all right. I mean, there are times when our phone is tied up on OCD for a half hour and I just can't get to it.

Thompson: I will have it put in right away.

H.M.Jr: Harry?

White: There are a few matters that are not immediately important, but I don't think they should go beyond this week, so depending upon your own schedule --

H.M.Jr: Well, it will be today. I will give you three o'clock.

White: That is all right.

H.M.Jr: Chick?

Schwarz: PM had a story yesterday by Wexler that indicates

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that Reuther says that he talked to you.

H.M.Jr: Reuther?

Schwarz: Reuther.

H.M.Jr: Reuther?

Schwarz: The CIO man.

H.M.Jr: Well, he did a year ago.

Schwarz: He quoted in his speech a Cabinet member and then in PM, no other paper, they said it was supposed to have been you.

White: Have you read it?

H.M.Jr: No.

White: I think you should.

Schwarz: It is in the morning clippings.

H.M.Jr: PM?

Schwarz: Yes. We may be asked during the day whether we will confirm or deny it.

H.M.Jr: Did he see me?

Schwarz: I don't know.

H.M.Jr: Sure he saw me.

Schwarz: Did he?

White: Yes, he saw you.

Schwarz: He quotes the Cabinet member as saying it is a good plan and the only trouble with it is the place where it came from.

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H.M.Jr: No, that isn't true.

White: Well, something. You have to read the whole article. I think you should read the whole thing.

H.M.Jr: If they ask me did I see Reuther, the answer is yes. Did I think he had a good idea, yes.

Schwarz: Could I see you for a few minutes after the meeting? It will just take a couple of minutes.

H.M.Jr: All right. It will have to be fast.

George?

Haas: I have got several things, Mr. Secretary. One of them, I have got something on that plant capacity material you asked for and --

H.M.Jr: Well, I will give you --

Haas: ...and payroll deduction.

H.M.Jr: I will give you 3:15.

Haas: All right.

H.M.Jr: And here is a follow-up for you, this question of the RFC plants.

Haas: I have something on that. That is one of the things I wanted to see you about.

H.M.Jr: You have got that?

Haas: I haven't got it complete --

H.M.Jr: But you are getting it?

Haas: Yes, sir.

H.M.Jr: Can we kill this memo then?

Haas: You might as well leave it pending until I complete the job.

H.M.Jr: That is an honest man. (Laughter)

Ferdie?

Kuhn: Can I show you the corrected speech this afternoon sometime? Or I can send it up to your house.

H.M.Jr: No, I am going to do it. What is the matter with Bell?

Foley: I saw him going out of the building around nine o'clock.

Thompson: I think he went up to the Capitol this morning. He is due to go up again tomorrow, too.

H.M.Jr: Oh. When will you be ready, Ferdinand?

Kuhn: It won't take terribly long.

H.M.Jr: Would you be ready by 11:30?

Kuhn: No.

H.M.Jr: All right. Would you be ready by 2:30?

Kuhn: Two-thirty, right.

White: Is anybody else going to see that speech besides yourself and Ferdie? (Laughter)

Gaston: It is going to be public, Harry.

Foley: You mean before he gives it?

Kuhn: Harry, it is very general.

White: I was just asking the question.

Kuhn: Certainly.

H.M.Jr: Mr. Kuhn, will you arrange that anybody who would like to see it before I do at 2:30 gets a chance to see it?

Kuhn: All right, sir. Before 2:30, John and Harry.

H.M.Jr: Herbert says he wants to see it too.

Kuhn: I have a letter from Mr. Berlin --

H.M.Jr: Let them see it before 2:30.

Kuhn: ...with a new patter for his song that I think will need your approval.

Gaston: You don't mean approval, do you?

Kuhn: Or the other way.

H.M.Jr: Well, I didn't have any red meat for breakfast.

Kuhn: I can't rave about it. Shall I tell him it is all right?

H.M.Jr: No, tell him what the President does, to go home and do his homework over again.

Kuhn: All right. I think the first part of it is better than the last. That is all.

H.M.Jr: If your seeing these people is going to crowd you at 2:30, I can see you later, but I will be fresher at 2:30.

Kuhn: I can send them a draft of what you saw yesterday with the delations that you made yesterday.

H.M.Jr: I think we had better stick to 2:30.

Kuhn: Right. .

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H.M. Jr: What else, Ferdie?

Kuhn: That is all.

H.M. Jr: Gene?

Sloan: Nothing.

H.M. Jr: What happened to that radio man from Fredericksburg or Frederickstown I asked you to send in?

Sloan: Callahan spoke to me about that on Saturday. It was Fredericksburg, Virginia. He said you wanted him in here to talk to him after you heard his program and he is arranging to have him in here. Whether he is to be here today or not, I haven't heard yet.

H.M. Jr: Will you find out?

Sloan: I will tell Mrs. Klotz or Mr. Fitzgerald.

H.M. Jr: Please. Roy?

Blough: Mr. Groves said this morning that the first installment of that Gulick-Groves report covering relations during the war between Federal and State should be ready about the first of January.

H.M. Jr: Hooray.

Blough: He said also that one of the big parts of the study they had intended to have the Department of Commerce do on tax compliance, the costs of compliance with taxes by business men, that the Department of Commerce has had some WPA money withdrawn from it and will not be able to go ahead with it.

H.M. Jr: Well, you tell that all to Randolph Paul when he gets here tomorrow, will you, and let him worry about it. Will you?

Blough: Yes. I thought you might be interested.

H.M.Jr: I am, but I am not going to worry about it.

Blough: Good.

H.M.Jr: I have got another worrier for me now. John and I have got another fellow who takes some of our worries. We are splitting it three ways.

Buffington: I have nothing.

Morris: Nothing.

H.M.Jr: John?

Sullivan: We have been doing some work on this idea of putting across tax returns through movies. We are pretty much in agreement that it can't be done in the ordinary way, but George Buffington has an awfully good idea, I think, and that is that what John Barrymore can't do, maybe Mickey Mouse could, and we would like to get Disney on here and talk it over with him.

H.M.Jr: Is that the result of seeing "Fantasia"?

Buffington: No, not entirely. (Laughter) I think it will work.

Sullivan: I think you can do it that way. You can't do it in a straight movie.

H.M.Jr: After all, I like to think we are progressive. Jeff Coolidge says, "That terrible song of Berlin's," and if we can get people to pay taxes with that God-awful Mickey Mouse, we will have arrived socially.

Sullivan: Well, if we can't get Mickey they are all candidates.

H.M.Jr: Sure, try it; what are you going to do, have

Mickey go from question one to question five?

Gaston: No, it is a problem of making an elephant fly.
(Laughter)

H.M.Jr: Very good, Herbert.

Sullivan: If you don't object, I will call him and see
if we can get him here.

H.M.Jr: That is all right.

Sullivan: That is all I have.

H.M.Jr: That is quite a contribution.

Sullivan: It is George's.

Foley: I have here a telegram:

"Re your request for report on the food
picture.

"Today Mr. Merillat and I, as well as Mr.
Ambrose and Mr. Graft of the Los Angeles
branch of the Federal Reserve Bank of San
Francisco, met with substantially the same
representative group we have conferred with
in the past, namely, representatives of the
two large markets, representatives of the State
Department of Agriculture, and other men who
are active in the market here in Los Angeles."

H.M.Jr: When was that sent?

Foley: It came in this morning. This was after I
talked with you yesterday afternoon.

H.M.Jr: Good.

Foley: "We asked them to give us their impressions
on the present marketing situation.

"With regard to the supply of produce; the supply

of fresh vegetables was back to about eighty percent of normal on Friday as a result of publicity on General License 77 through the radio, press and various cooperative groups. It was estimated that the supply was back to normal on Saturday. There appears to be some decline in demand for fresh vegetables, due to reluctance to deal with Japanese nationals and fear of poisoning. No statistics are available, although it is indicated that housewives and so forth are relying more heavily upon canned goods. This may be merely a boycott of Japanese products, however. In the past two days the local papers have carried an article on ground glass discovered in canned shrimp apparently shipped from Japan, which may have been instrumental in augmenting the fear of poisoning.

"It appears that many more farmers have been bringing their produce directly to market than previous to the declaration of war, thus replacing Japanese truckers who previously performed this function. It is to be noted that the farmers themselves are Japanese. The group present seemed to be of the opinion that the General License was too liberal, especially as it related to the activities of Japanese wholesale establishments, many of whose proprietors have been taken into custody by the FBI. It was the consensus of the group that it would be desirable to transfer ownership and control of the some twenty-one Japanese wholesale establishments doing business in the Los Angeles area from Japanese nationals to American citizens, most of whom would be of Japanese descent. The experience of the State Department of Agriculture authorities, as well as that of the heads of the two large markets, indicated that the food produce picture is very closely controlled through a hierarchy of associations, commencing with the local groups representing the small Japanese farmers

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and culminating in Central Japanese Associations, which covers all forms of Japanese business. This master association has in the past worked very closely with the Japanese Consulate and a representative of the Consulate attends most of the meetings.

"The control exercised by the group representing the farmers and the wholesalers is quite complete. For example, there is apparently very close supervision of prices and distribution by the association heads. An instance of this is to be found in the campaign started recently to enlist the cooperation of all farmers in the 'Food for Freedom' program. Through the association program practically every Japanese farmer had enlisted in this program very shortly after its announcement.

"Upon the issuance of General License 77, the Association of Produce Dealers and Brokers, Los Angeles, wrote a letter to the representatives of three of the produce associations, calling their attention to the fact that the Japanese nationals on the market should comply to the present rules or a request will be made to the Treasury Department to cancel the participation of the offending firms under the General License. The representatives of the State Department of Agriculture have apparently worked out a scheme for eliminating the ownership and control of Japanese nationals in the wholesaling houses. They were not willing to discuss this with us in the presence of the marketing group. However, I advised them that should such a plan be worked out and the transfer of assets be desired, the State's interest in this matter should be communicated to the Treasury Department or the Federal Reserve Bank in connection with any applications filed to permit such a transfer."

H.M. Jr:

Just a minute.

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(The Secretary held a telephone conversation with Colonel Smith.)

H.M. Jr: They may have one Thursday night. He agreed the sooner the better.

Gaston: Try it with guns?

H.M. Jr: They are bringing the ninety millimeter guns to Washington.

Gaston: Isn't there some disadvantage in revealing the position of those?

H.M. Jr: That I don't know, but he said they have got one of the best anti-aircraft men in the country here.

Gaston: They could use them in some false position.

H.M. Jr: They have no blanks so they won't do it.

Gaston: No.

H.M. Jr: Go on.

Foley: "It is to be noted that several of the association leaders, as well as the leading wholesalers, have been placed in custody by the Federal Bureau of Investigation. There was some feeling expressed on the part of those present that the associates or the families of the individuals held in custody who are not permitted to carry on business under the General License, should be supervised. This also added to the feeling that the undesirable influences in the associations and the Japanese wholesalers who are nationals should likewise be permitted to dispose of their businesses. It is estimated that this program would take about a month to carry out without disrupting the normal flow of produce. Inasmuch as the elimination

of the small farmer who is a national would be too great a task to fulfill within the short period necessary without a serious disruption, it was felt that the advantage to be gained from it would be outweighed and that the situation would be satisfactorily cleared up by the elimination of the wholesaler. One market representative said that Japanese alien yardmen, that is, small stall operators in markets, would be replaced by Japanese-Americans. This replacement occurred to some extent before the issuance of General License 77, although some alien yardmen returned to market on Saturday. Three wholesale houses owned by Japanese aliens have been sealed by the FBI; two others are open but operating under difficulties, due to inability to get powers of attorney from owners held in custody by FBI.

(Signed) Murphy and Merillat."

- H.M.Jr: One thing that wasn't clear, they said at the beginning that now that the farmers were bringing in their own produce they eliminated the hucksters and the impression was that these farmers were Americans, and later on they said they were Japanese. There was a conflict there right at the beginning.
- Foley: "It appears that more farmers are bringing their produce directly to market than previous to the declaration of war, thus replacing Japanese truckers who previously performed this function."
- H.M.Jr: Go on.
- Foley: "It is to be noted that the farmers themselves are Japanese."
- H.M.Jr: That is the point. But what do you gain? If the farmers are Japanese and the truckers are

Japanese, do you see what I mean?

Foley: "...that more farmers have been bringing their produce directly to market."

I suppose that would mean American farmers were bringing them directly in instead of turning the stuff over to a Japanese trucker.

H.M.Jr: Yes, but they say that the farmers are Japanese.

White: There are a good many Japanese - American born Japanese who are farmers. I don't know whether that might explain the difference.

H.M.Jr: Ed, after reading it all, what do we do?

Foley: Well, I think it indicates that the licenses that we have issued have cleared up the normal flow of food to the Los Angeles market and from a supply standpoint the thing is no longer menacing. The whole problem of getting some Japanese wholesalers out of the business and getting Americans in their places is a problem that I think we ought to examine pretty carefully.

I think always where you get a group of interested people like this you have got to be sure that you are not disturbing self interests and you haven't got a bunch of Americans that are just trying to get - eliminate some Japanese who have heretofore participated pretty heavily in the fruits of that business.

H.M.Jr: Well, I will tell you what I would like to do. I don't know whether Wickard gets a copy of that or not, you see.

Foley: Do you want to send a copy to him?

H.M.Jr: I would like to send a copy over to Claude Wickard and say it seems to me now that this is something he definitely should advise me on

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and I would like him - I would throw it into his lap and say what does he advise us to do?

Foley: O.K.

H.M.Jr: What else, Ed?

Foley: I have got a press release I would like to clear with you on this license insofar as relaxing is concerned.

H.M.Jr: Move fast.

Foley: Will I read it?

H.M.Jr: What is it?

Foley: It is a press release I would like to clear with you on this license we would like to put out that we discussed with you on Saturday.

H.M.Jr: Oh, that one?

Foley: Yes.

H.M.Jr: O.K. Let it go.

Foley: And I have got another telegram now from the presidents of the Feds adding some twenty additional German and Italian concerns to the list that we have already sent to them. They have got the people up in New York to put in to these places and this is adding to it. Do you think I ought to clear it with Leo before I send it out?

H.M.Jr: Yes.

Foley: Ben and I are having lunch with Leo today.

H.M.Jr: Is Ben going to do it?

Foley: He won't be the counsellor. He is willing to

work out a solution, to help work it out, but he won't do it, service it himself.

H.M.Jr: But he will help us?

Foley: Yes.

H.M.Jr: Good. No, I would definitely clear it with Leo and with Dean, too. All right?

Foley: Yes.

There was an interesting session over in Oscar's office yesterday on that legislation I would like to tell you about.

H.M.Jr: I want to hear about it, and don't forget I want to see Steve Spingarn.

Foley: Yes.

H.M.Jr: Did you call the fellow up on the phone that the Attorney General asked you to call?

Foley: Yes.

H.M.Jr: Herbert?

Gaston: I have got some memoranda here of some things that have already been done across the street and also some recommendations of two Secret Service men plus this battalion chief of the New York Fire Department on what further should be done over there. I don't know whether you would like to look at them or not.

H.M.Jr: Yes, I will tell you. Stay after. You are staying for this meeting with General Fleming.

Gaston: Oh. And one thing - two things I would like to mention to you, one is that Bill Donovan called on Harry Anslinger and wanted him to

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take a full time job in connection with some intelligence work and Harry does not think he ought to take it because we have got a lot of important problems in Narcotics. He thought that he would be willing to work for him part time, and I think that is probably the best solution. I am mentioning it to you because I think Bill Donovan is likely to call you up and say he wants Harry Anslinger.

H.M.Jr: Let him have him.

Gaston: I think there are a good many rather important questions coming up.

H.M.Jr: Well, I will be guided by that. He wants Mrs. Friedman.

Gaston: Yes, they called me up about that Saturday and - rather, Jimmy Roosevelt called me up and I told him to negotiate with the Navy or Coast Guard direct on that. She has not come over here because they all agreed and Mrs. Friedman agreed herself that to split the unit would be bad, that it would interrupt their work and it would take her a long time to build an organization where she could function effectively. I thought that we had better just let it float along for the present without taking her away, because in this situation it would simply gum things up, in my opinion.

H.M.Jr: I thought you said you wanted her.

Gaston: They did want her. Ed and Sam Klaus wanted her, but after hearing her story again, it was the conclusion that it was simply going to disorganize matters to try to take her and one helper. If we could take the whole organization it would be different.

H.M.Jr: Will you (Klotz) write a letter for my signature to Donovan that Mrs. Friedman is in the Coast

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Guard and he should take it up with the Secretary of the Navy? All right?

Gaston: The other thing I wanted to mention is that Pearson and Allen on their broadcast last night made a general appeal for people to give to the United States Treasury. I think we ought to decide whether we want to encourage that sort of thing or not. It may gum up our tax program pretty seriously if we encourage or permit these general solicitations of gifts to the United States rather than to Red Cross, and so on.

Sloan: Could I say something on that?

H.M.Jr: I want to stop now. Go ahead, Gene.

Sloan: Neville Miller was down to see me night before last about that and the same thing happened and I told him we did not want that. I was sure that you would prefer that they buy stamps and bonds or tax certificates and please not to encourage it.

H.M.Jr: Well, will you contact Pearson and Allen and tell them that for the time being --

Sloan: I would be glad to if you want me to.

H.M.Jr: Yes, tell them for the time being we want to concentrate on Defense Savings Bonds. All right, Herbert?

Gaston: Yes.

December 15, 1941
9:49 a.m.

HMJr: Hello, General.

General
Cox: How are you this morning?

HMJr: Fine.

C: I just wanted to call you to express my opinion about this Christmas tree lighting at which the President proposes to be present.

HMJr: Yes, please.

C: I understand that Christmas tree is to be placed within the White House grounds.....

HMJr: Yes.

C:to be lighted there. It'll be the only really well-lighted spot in that area.

HMJr: Yes.

C: It will be an invitation - if bombers are coming over - to reserve their time to come for that occasion, knowing that he's going to be there.

HMJr: Yes.

C: I think it would be most unwise for him to attend that in person.

HMJr: Yes.

C: It seems to me that he can, through a loudspeaker system from the White House, say whatever he wants to and the same way he can pull a switch in the White House and light the tree.

HMJr: Uh huh.

C: But for him to go out there.....

HMJr: Hello.

C: For him to go out there personally and be present

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in that lighted spot, is an invitation that I don't think he should issue. Now, I'm thinking about from overhead - not from the ground people. I'm just looking at it from the standpoint of a bombing squadron.

HMJr: Yes.

C: A suicide squad.

HMJr: Yes.

C: It seems to me that if they want to send a squadron over they could send them and they could create a diversion, you see, on each side of Washington.....

HMJr: Yes.

C:while the actual planes could cut the engines off and coast in, and we'd never know where they were.

HMJr: Right. Well, General, I'll certainly put in my two bits.

C: Yes.

HMJr: I know Mrs. Helm has tried to have the dance for the Army and Navy called off - that's at the White House - I don't know whether she's been successful.

C: Yes.

HMJr: But I told her to use my name with Mrs. Roosevelt.....

C: Yes.

HMJr: And the one for International Students - we're trying to drop that.

C: Yes.

HMJr: But this is for another reason.

C: That's right.

HMJr: And I'll do the best I can - I'll recommend that he doesn't do it.

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C: You get my view on it.

HMJr: Is it your idea to put the Christmas tree somewhere else?

C: Well, I'd put it out in the Elipse where it's usually held.

HMJr: In the Elipse.

C: Then I wouldn't have him attend it under - no matter where it's held.

HMJr: And let him do it by remote control.

C: That's it. That's it exactly.

HMJr: Right. Now, General, while I've got you on the wire, I asked Colonel Smith of General Marshall's office - you know Colonel Smith?

C: Oh, yes. Secretary of the General Staff.

HMJr: Yes.

If and when you have your anti-aircraft ready on the - hello.....

C: Yes.

HMJr:your ninety millimeters.....

C: Yes.

HMJr:that I'd like to make an inspection.

C: Fine.

HMJr: And - I don't know whether they've arrived yet or not.....

C: Well, the regiment came in yesterday.

HMJr: Well, when they're in location and they're ready, I think I'd like to make an inspection.

C: That's fine.

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HMJr: And also, wherever your control is for your planes in connection with the anti-aircraft.

C: Yes. That's all under the command of the Interceptor Command in New York.

HMJr: Oh.

C: But, of course, we will naturally work in the closest sort of touch with them.

HMJr: Well, suppose - I guess I'd better leave it with Colonel Smith then, hadn't I?

C: Well, that's all right - I'll let you know. I'm.....

HMJr: Well, I thought I'd mention it.

C: I'm making arrangements for the quartering of those people, and that's already been attended to; and they should be in position very shortly, Mr. Secretary. Today or tomorrow.

HMJr: Yes.

C: I'll let you know - be glad to.

HMJr: We're trying to make the boys happy who are quartered in the Treasury.

C: You've done it.

HMJr: Have we?

C: You've done it.

HMJr: Good.

C: Absolutely.

HMJr: That's fine.

C: I was in there late yesterday afternoon.

HMJr: And they're all right.

C: I went through all the installations and they

were well taken care of. Oh, yes.

HMJr: Good.

C: Very good.

HMJr: Thank you.

C: Many thanks to you.

HMJr: Well, we had a lot of people help here.

C: Yes.

HMJr: But I'll get after this other thing right away.

C: Now if there's anything at any time about any of these troops that you want to take up, if you'll call right in to this headquarters, why it will be done immediately. You needn't bother about the War Department or anything else.

HMJr: All right, General.

C: Fine.

HMJr: Thank you.

C: Thank you.

December 15, 1941
10:14 a.m.

Operator: Go ahead.

HMJr: Hello.

Colonel
Smith: Mr. Secretary, this is Smith.

HMJr: Good morning.

S: How are you this morning?

HMJr: Fine.

S: Mr. Secretary, our sound locators and search-lights will not be in and in position until Wednesday.

HMJr: Oh, oh.

S: I wonder if you would like to see the officer who's making the dispositions and have him show you on the map where they are, and then let us take you on a tour around the place Wednesday.

HMJr: Well, I'll be in Chicago Wednesday, and I'd rather wait until I get back Thursday. Maybe by that time they'll be in?

S: Oh, they will be in Wednesday; but you can see them any time after that. Of course, the guns are in now.

HMJr: Oh.

S: But I think possibly it would be more interesting to you and more informative to see the whole set-up.

HMJr: I'd rather - you mean I'd rather see the whole set-up?

S: Yes, I think you would. Would you like to see a map showing the general defensive disposition?

HMJr: Well, why don't I do it all at one time?

S: You can, very nicely. I'll be glad to do it.

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HMJr: So.....

S: I thought I would go with you.....

HMJr: Yes.

S:and as a matter of fact, you see we're making the changes in - from the old to the new equipment.

HMJr: Yes.

S: The unit which is coming in here is just - is receiving its ninety millimeter guns practically on the ground.

HMJr: I see.

S: So what we've got is two regiments in here - the experienced one instructing the relatively inexperienced one.

HMJr: Yes.

S: And at the present time there's probably a good deal of turmoil going on, and, of course sound arranging and searchlight equipment is on the way by rail, but has not yet arrived.

HMJr: Well, would.....

S: Thursday will be all right. I'll come and get you or call you up Thursday.

HMJr: How early could we start?

S: Any time you like - as early as you like.

HMJr: How many hours do you think it'll take?

S: Well, if you want to look at the whole thing.....

HMJr: No.

S:it will take you all day.

HMJr: Well, I haven't got the time.

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S: Well, then, I suggest what you do is go out and take a look at one battery.....

HMJr: Yes.

S:and at some of the sound arranging and searchlight equipment.....

HMJr: Right.

S:and then I can give you the dispositions from the map about as well as if you went around and looked at them.

HMJr: Fine.

S: That's the way the Commander will probably make his own reconnaissance, anyhow.

HMJr: Well, one other thing - Colonel - General Cox called me this morning, and I - about this tree lighting business, you see?

S: Oh, yes.

HMJr: He wants me to try to get the President to call that off. Hello.

S: Yes, sir.

HMJr: Now, are you in on that?

S: Well, he hasn't said anything to me about it. I just - to be perfectly honest with you, sir, I don't think that the danger is great enough to get everybody stirred up to that extent. That is, I don't see why they don't light that tree one or two nights for awhile.

HMJr: Well, he's definitely opposed to it.

S: Well, I'd rather consult the expert, who is General Jarman, the Coast Artilleryman on General Drum's staff, who is making all these dispositions. He may feel that way about it, I don't know.

HMJr: Supposing you take a look at it; and you might

talk with General Cox, because I don't want to be taking one thing and then.....

S: What's your feeling about the thing?

HMJr: After he talked to me, my feeling is not to have it on the White House grounds.

S: Well, I wouldn't have it there, Mr. Secretary.

HMJr: Well, he - that's where it was supposed to be. He recommended having it out here in the Elipse. I think that's just as bad.

S: Why, that's just as bad. You might as well put it - well, what's the difference to an airplane?

HMJr: That's just as bad.

S: You could miss the Elipse and hit the White House just as easy as you could hit the White House. As a matter of fact, the odds are about the same.

HMJr: That's just - I think if they're going to do it by remote control and the President speaking and they want the thing, then - well, I don't know where I'd put it, but I certainly wouldn't put it in the Elipse.

S: No, I'd put it in some big park quite a long way from the White House.

HMJr: Yeah.

S: I'll talk to Cox about it.

HMJr: Supposing you talk until we get together, and I won't move on the White House on it until I hear from you.

S: Well, Nicholson - Colonel Nicholson, who has until recently been in this office, and who is an expert anti-aircraft man, is really the man who-on the ground, who is making these dispositions.

HMJr: Well, supposing you tie it up, because that - I mean, after all, that's your liaison job, isn't it?

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S: Yes.

HMJr: What?

S: I will do that. Nicholson will be in here - he's coming in here this morning, and I'll talk with him about it and get his opinion.

HMJr: Now, when I see you - I'm putting you down for eleven o'clock Thursday.

S: Well, that'll be all right, sir.

HMJr: Now, I also want to know how they control the airplanes.

S: All right, sir.

HMJr: For - that would cover the District. Where that control is - I understand.....

S: That's in the Interceptor Commander, but I'll have all the details.

HMJr: But I want to know - I mean, if there - where is that control, do you see?

S: Yes.

HMJr: What?

S: Yes, sir, I'll have all that for you.

HMJr: I understand that's up in New York.

S: No, it's not up in New York. There's a man here who's doing it. Of course, the planes would come from a number of different sources. The point is that the Air Corps Combat Commander - General Emmons - is right here at Bolling Field.

HMJr: Yeah.

S: Those things will be handled by him.

HMJr: Well, when I see you at eleven, have the whole story.

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S: Yes, I will.

HMJr: Including - I mean, how the airplanes get their orders.

S: I will, sir. They've got a good man on the job, so they.....

HMJr: And also - I mean - by eleven - the blackout of the District, how that's controlled.

S: Yes, sir.

HMJr: If there is any control on that.

S: Yes, sir.

HMJr: What?

S: Yes, indeed, sir.

HMJr: In other words, what I'd like to have is told me the whole thing, just how the thing clicks, you see?

S: I'll do it. I'll have it for you, sir.

HMJr: And then maybe we can have a little rehearsal.

S: Yeah, I think it would if we gave all the preliminary arrangements so as not to scare people.

HMJr: Oh, yes. Well.....

S: I think we could do it. It would be a very decided advantage to have one.

HMJr: Well, I'd like to recommend that.

S: Yes, indeed. Well, that's - accept that as okay, sir. We'll do that.

HMJr: I mean, a blackout, an attack - let the guns go off so the people get used to the sound - hello.

S: Yes, sir; I'm listening, Mr. Secretary.

HMJr: I mean, let the guns fire.

- 7 -

S: Yes, sir.

HMJr: So that they get used to the noise.

S: Well, I don't know whether they've got any blank ammunition for them or not, Mr. Secretary; but we'll see what can be done.

HMJr: Well, I think we ought to have it.

S: They've got service ammunition exclusively out here at these guns.

HMJr: Oh, well.....

S: And when they shoot them, somebody's liable to get hurt.

HMJr: Yeah. Well, that's - we don't want to hurt anybody.

S: But we'll see whether we can do something about it. We can make a stab - a very decent stab - at it anyway.

HMJr: Don't you think it's a good idea?

S: Yeah, very good. It's highly desirable right here - very desirable.

HMJr: Yeah. I mean, let's go through the whole.....

S: There are a dozen reasons why we ought to do it and do it pretty quick, too.

HMJr: Let's have a mock battle.

S: Right, sir. Fine. I think it would be fun anyhow.

HMJr: Well, I went through one in Norway and I thought it was fun, but it didn't turn out to be.

S: Well, it's fun for us.

HMJr: Yeah.

S: We might as well have a little, we're catching hell from every other direction.

HMJr: I went through one in Oslo.

S: Oh, you did, sir?

HMJr: Yeah. In August, '39.

S: Oh, you did?

HMJr: Yeah.

S: I didn't know that.

HMJr: Yeah.

S: Well, then, I'll see you Thursday with all the data.

HMJr: Yes.

S: And if you like, then, we'll go out and have a look at some of these things.

HMJr: That's right.

S: And I'll let you see how the new guns function, anyway.

HMJr: Thank you.

S: That'll be Thursday at eleven, Mr. Secretary. Good-bye, sir.

HMJr: Thank you.

December 15, 1941.

Dear Bill:

I have your letter of December 14th, speaking of your desire to secure the services of Mrs. Elisabeth S. Friedman, in connection with your code section. You know that I am always happy to cooperate with you, but in this case, your request should be made to the Secretary of the Navy. Mrs. Friedman has long been associated with the Coast Guard, and that organization is now under Navy jurisdiction.

With cordial regards,

Sincerely,

(Signed) H. Wergenthan, Jr.

Colonel William J. Donovan,
Coordinator of Information,
Washington, D. C.

By Messenger

Sturges 5:20
H.M.C.

GEF/dbs

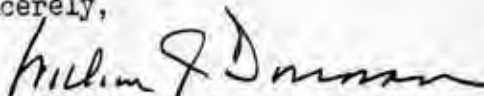
COORDINATOR OF INFORMATION
WASHINGTON, D. C.

December 14, 1941.

Dear Henry:

Pursuant to conversations we have had with Mr. Gaston, I would greatly appreciate it if Mrs. Elizabeth S. Friedman, of your Department, could be assigned to this office for a temporary period pending the return from England of Lieut. Jones early in January. I make this request only because of the urgent need for her services pending the establishment of our permanent code section.

Sincerely,


William J. Donovan

Hon. Henry Morgenthau,

The Secretary of The Treasury.

12-25-41
C. L. L. 125/200

54
WORMASH 61 LA 14-552

December 15, 1941
9:24 a.m.

John W. Pehle
Assistant to the Secretary
Foreign Funds Control 268 Treas. Dept.

RE YOUR REQUEST FOR REPORT ON FOOD PICTURE.

ON DECEMBER 12, AND AT THE REQUEST OF MR. TIMMONS I SENT A WIRE TO YOU DESCRIBING IN DETAIL THE FOOD SITUATION AND RECOMMENDATIONS WHICH HAD BEEN MADE TO US, AS WELL AS THE FIRST IMPRESSIONS OF THE EFFECT OF GENERAL LICENSE NO. 77. THIS IS SUPPLEMENTARY THERETO.

TODAY MR. MERRILLAT AND I, AS WELL AS MR. ALBROSE AND MR. CRAFT OF THE LOS ANGELES BRANCH OF THE FEDERAL RESERVE BANK OF SAN FRANCISCO MET WITH SUBSTANTIALLY THE SAME REPRESENTATIVE GROUP WE HAVE CONFERRED WITH IN THE PAST, NAMELY: REPRESENTATIVES OF THE TWO LARGE MARKETS, REPRESENTATIVES OF THE STATE DEPARTMENT OF AGRICULTURE, AND OTHER MEN WHO ARE ACTIVE IN THE MARKET HERE IN LOS ANGELES. WE ASKED THEM TO GIVE US THEIR IMPRESSIONS ON THE PRESENT MARKETING SITUATION.

WITH REGARD TO THE SUPPLY OF PRODUCE, THE SUPPLY OF FRESH VEGETABLES WAS BACK TO ABOUT 80 PERCENT OF NORMAL ON FRIDAY, AS A RESULT OF PUBLICITY ON GENERAL LICENSE 77 THROUGH THE RADIO, PRESS, AND VARIOUS COOPERATIVE GROUPS, IT WAS ESTIMATED THAT THE SUPPLY WAS BACK TO NORMAL ON SATURDAY. THERE APPEARS TO BE SOME DECLINE IN DEMAND FOR FRESH VEGETABLES DUE TO RELUCTANCE TO DEAL WITH JAPANESE NATIONALS AND FEAR OF POISONING. NO STATISTICS ARE AVAILABLE, ALTHOUGH IT IS INDICATED THAT HOUSEWIVES, ETC. ARE RELYING MORE HEAVILY UPON CANNED GOODS. THIS MAY BE MERELY A BOYCOTT OF JAPANESE PRODUCTS, HOWEVER, IN THE PAST TWO DAYS THE LOCAL PAPERS HAVE

(more)

- 2 -

CARRIED AN ARTICLE ON GROUND GLASS DISCOVERED IN CANNED SHRIMP, APPARENTLY SHIPPED FROM JAPAN, WHICH MAY HAVE BEEN INSTRUMENTAL IN AUGMENTING THE FEAR OF POISONING.

IT APPEARS THAT MANY MORE FARMERS HAVE BEEN BRINGING THEIR PRODUCE DIRECTLY TO MARKET THAN PREVIOUS TO THE DECLARATION OF WAR, THUS REPLACING JAPANESE TRUCKERS WHO PREVIOUSLY PERFORMED THIS FUNCTION. IT IS TO BE NOTED THAT THE FARMERS THEMSELVES ARE JAPANESE. THE GROUP PRESENT SEEMED TO BE OF THE OPINION THAT THE GENERAL LICENSE WAS TOO LIBERAL, ESPECIALLY AS IT RELATED TO THE ACTIVITIES OF JAPANESE WHOLESALE ESTABLISHMENTS, MANY OF WHOSE PROPRIETORS HAVE BEEN TAKEN INTO CUSTODY BY THE F.B.I. IT WAS THE CONSENSUS OF THE GROUP THAT IT WOULD BE DESIRABLE TO TRANSFER OWNERSHIP AND CONTROL OF THE SOME TWENTY ONE JAPANESE WHOLESALE ESTABLISHMENTS DOING BUSINESS IN THE LOS ANGELES AREA FROM JAPANESE NATIONALS TO AMERICAN CITIZENS, MOST OF WHOM WOULD BE OF JAPANESE DESCENT. THE EXPERIENCE OF THE STATE DEPARTMENT OF AGRICULTURE AUTHORITIES AS WELL AS THAT OF THE HEADS OF THE TWO LARGE MARKETS INDICATED THAT THE FOOD PRODUCE PICTURE IS VERY CLOSELY CONTROLLED

(NOTE)

THROUGH A HIERARCHY OF ASSOCIATIONS, COMMENCING WITH THE LOCAL GROUPS REPRESENTING THE SMALL JAPANESE FARMERS AND CULMINATING IN CENTRAL JAPANESE ASSOCIATION, WHICH COVERS ALL FORMS OF JAPANESE BUSINESS. THIS MASTER ASSOCIATION HAS IN THE PAST WORKED VERY CLOSELY WITH THE JAPANESE CONSULATE, AND A REPRESENTATIVE OF THE CONSULATE ATTENDS MOST OF ITS MEETINGS.

THE CONTROL EXERCISED BY THE GROUP REPRESENTING THE FARMERS AND THE WHOLESALERS IS QUITE COMPLETE. FOR EXAMPLE, THERE IS APPARENTLY VERY CLOSE SUPERVISION OF PRICES AND DISTRIBUTION BY THE ASSOCIATION HEADS. AN INSTANCE OF THIS IS TO BE FOUND IN THE CAMPAIGN STARTED RECENTLY TO ENLIST THE COOPERATION OF ALL FARMERS IN THE "FOOD FOR FREEDOM" PROGRAM. THROUGH THE ASSOCIATION PROGRAM PRACTICALLY EVERY JAPANESE FARMER HAD ENLISTED IN THIS PROGRAM VERY SHORTLY AFTER ITS ANNOUNCEMENT.

UPON THE ISSUANCE OF GENERAL LICENSE 77, THE ASSOCIATION

OF PRODUCE DEALERS AND BROKERS, LOSANGELES, WROTE A LETTER TO THE REPRESENTATIVES OF THREE OF THE PRODUCE ASSOCIATIONS, CALLING THEIR ATTENTION TO THE FACT THAT THE JAPANESE NATIONALS ON THE MARKET SHOULD COMPLY TO THE PRESENT RULES OR A REQUEST WILL BE MADE TO THE TREASURY DEPARTMENT TO CANCEL THE PARTICIPATION OF THE OFFENDING FIRMS UNDER THE GENERAL LICENSE.

THE REPRESENTATIVES OF THE STATE DEPARTMENT OF AGRICULTURE HAVE APPARENTLY WORKED OUT A SCHEME FOR ELIMINATING THE OWNERSHIP AND CONTROL OF JAPANESE NATIONALS IN THE WHOLESALE HOUSES THEY WERE NOT WILLING TO DISCUSS THIS WITH US IN THE PRESENCE OF THE MARKETING GROUP. HOWEVER, I ADVISED THEM THAT SHOULD SUCH A PLAN BE WORKED OUT, AND THE TRANSFER OF ASSETS BE DESIRED, THE STATES INTEREST IN THIS MATTER SHOULD BE COMMUNICATED TO THE TREASURY DEPARTMENT OR THE FEDERAL RESERVE BANK IN CONNECTION WITH ANY APPLICATIONS FILED TO PERMIT SUCH A TRANSFER.

IT IS TO BE NOTED THAT SEVERAL OF THE ASSOCIATION LEADERS, AS WELL AS THE LEADING WHOLESALERS HAVE BEEN PLACED IN CUSTODY BY THE FEDERAL BUREAU OF INVESTIGATION. THERE WAS SOME FEELING EXPRESSED ON THE PART OF THOSE PRESENT THAT THE ASSOCIATES OR THE FAMILIES OF THE INDIVIDUALS HELD IN CUSTODY WHO ARE NOT PERMITTED TO CARRY ON BUSINESS UNDER THE GENERAL LICENSE SHOULD BE SUPERVISED. THIS ALSO ADDED TO THE FEELING THAT THE UNDESIRABLE INFLUENCES IN THE ASSOCIATIONS AND THE JAPANESE WHOLESALERS WHO ARE NATIONALS SHOULD LIKEWISE BE PERMITTED TO DISPOSE OF THEIR BUSINESSES. IT IS ESTIMATED THAT THIS PROGRAM WOULD TAKE ABOUT A MONTH TO CARRY OUT WITHOUT DISRUPTING THE NORMAL FLOW OF PRODUCE. INASMUCH AS THE ELIMINATION OF THE SMALL FARMER WHO IS A NATIONAL WOULD BE TOO GREAT A TASK TO FULFILL WITHIN THE SHORT PERIOD NECESSARY WITHOUT A SERIOUS DISRUPTION, IT WAS FELT THAT THE ADVANTAGE TO BE GAINED FROM IT WOULD BE OUTWEIGHED, AND THAT THE SITUATION WOULD BE SATISFACTORILY

CLEARED UP BY THE ELIMINATION OF THE WHOLESALER. ONE MARKET REPRESENTATIVE SAID THAT JAPANESE ALIEN YARD MEN, THAT IS, SMALL STALL OPERATORS IN MARKETS COULD BE REPLACED BY JAPANESE-AMERICANS. THIS REPLACEMENT OCCURRED TO SOME EXTENT BEFORE THE ISSUANCE OF GENERAL LICENSE 77, ALTHOUGH SOME ALIEN YARD MEN RETURNED TO MARKET ON SATURDAY,

THREE WHOLESALE HOUSES OWNED BY JAPANESE ALIENS HAVE BEEN SEALED BY THE F. B. I., TWO OTHERS ARE OPEN BUT OPERATING UNDER DIFFICULTIES DUE TO INABILITY TO GET POWERS OF ATTORNEY FROM OWNERS HELD IN CUSTODY BY F. B. I.

MURPHY AND MERILLAT.

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Monday, December 15, 1941.

Press Service
No. 29-3

The Treasury Department today further relaxed to some extent and under appropriate safeguards the tight restrictions which had been placed upon Japanese residing in this country. It will be remembered that on the outbreak of war the Treasury, as a precautionary measure, placed a complete stoppage on all Japanese financial and commercial transactions and took custody of many Japanese enterprises.

On December 11, the Treasury issued regulations governing living expenses and wages for Japanese nationals in the United States and regulations governing Japanese nationals engaged in the production, marketing, and distributing of food and agricultural products.

The general license issued today by the Treasury unblocks the accounts of Japanese nationals who have resided continuously within the continental United States since June 17, 1940 and permits business enterprises within the continental United States owned and controlled by such Japanese nationals to continue to operate, except in those cases in which Treasury representatives are maintained on the premises or an official Treasury notice is posted indicating that such premises are under Government control. It is anticipated that Treasury representatives and posted notices will be removed from the premises of many Japanese enterprises in which they are now maintained, thus allowing such enterprises to resume normal operations under such general license. It is further anticipated that special business operating licenses will be issued to many Japanese enterprises in which Treasury representatives are continued to be maintained allowing such enterprises to operate under Government surveillance.

Representatives in this country of concerns located abroad or owned and controlled by persons located abroad are excluded from the privileges of the general license.

The Japanese nationals who are given the benefits of today's license are subjected to certain reporting requirements and other restrictions which will constitute safeguards against the abuse of such benefits.

TREASURY DEPARTMENT
Office of the Secretary
December 15, 1941.

GENERAL LICENSE NO. 68A
UNDER EXECUTIVE ORDER NO. 8389, APRIL 10,
1940, AS AMENDED, AND REGULATIONS ISSUED
PURSUANT THERETO, RELATING TO TRANSACTIONS
IN FOREIGN EXCHANGE, ETC.*

(1) A general license is hereby granted:

- (a) Licensing as a generally licensed national any individual who is a national of Japan and who has been residing only in the continental United States at all times on and since June 17, 1940, and
- (b) Licensing as a generally licensed national any partnership, association, corporation or other organization within the continental United States which is a national of Japan solely by reason of the interest therein of a person or persons licensed as generally licensed nationals pursuant to this general license.

(2) This general license shall not be deemed to license as a generally licensed national:

- (a) Any individual, partnership, association, corporation or other organization on the premises of which the Treasury Department maintains a representative or guard or on the premises of which there is posted an official Treasury Department notice that the premises are under the control of the United States Government, or
- (b) Any bank, trust company, shipping concern, steamship agency, or insurance company, or

* Part 131: - Sec. 5(b), 40 Stat. 415 and 966; Sec. 2, 48 Stat. 1; 54 Stat. 179; Ex. Order 8389, April 10, 1940, as amended by Ex. Order 8785, June 14, 1941, Ex. Order 8832, July 26, 1941, and Ex. Order 8963, December 9, 1941; Regulations, April 10, 1940, as amended June 14, 1941, and July 26, 1941.

- 2 -

- (c) Any person who, on or since the effective date of the Order, has represented or acted as agent for any person located outside the continental United States or for any person owned or controlled by persons located outside the continental United States, or
- (d) Any person who on or since the effective date of the Order has acted or purported to act directly or indirectly for the benefit or on behalf of any blocked country, including the government thereof, or any person who is a national of Japan by reason of any fact other than that such person has been domiciled in, or a subject or citizen of, Japan at any time on or since the effective date of the Order.

(3) A report on the appropriate series of Form TFR-300 shall be filed with the appropriate Federal Reserve Bank within 30 days after the date hereof with respect to the property interests of every person licensed herein as a generally licensed national if the total value of the property interests to be reported is \$1,000 or more.

(4) Every business enterprise licensed herein as a generally licensed national shall also file with the appropriate Federal Reserve Bank within 30 days after the date hereof an affidavit setting forth the information required by Form TFR-1, if the total value of all property interests of such business enterprise is in excess of \$5,000.

(5) Banking institutions within the United States effecting payments, transfers or withdrawals in excess of \$1,000 during any month for the account of any person licensed as a generally licensed national hereunder, shall file promptly with the appropriate Federal Reserve Bank a report showing the details of such transactions.

- 3 -

(6) This general license shall not authorize any transaction which, directly or indirectly, substantially diminishes or imperils the assets within the continental United States of any national of Japan or otherwise prejudicially affects the financial position of such national within the continental United States.

(7) As used in this general license, the term "business enterprise" shall mean any individual proprietorship, partnership, association, corporation or other organization engaged in commercial or other business activities within the continental United States.

E. H. Foley, Jr.

Acting Secretary of the Treasury.

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Thursday, December 11, 1941.

Press Service
No. 28-97

The Treasury Department today announced regulations governing living expenses and wages for Japanese nationals in the United States and regulations governing Japanese nationals engaged in the production, marketing and distributing of food and agricultural products within the United States.

Under General License No. 11-A any Japanese national in the continental United States may receive up to \$100 per month for living and personal expenses for him and his family. This license permits such payments from either the national's bank account or from his employer in the form of wages. Banks and employers making such payments are required to make certain that the Japanese national is not drawing more than \$100 under the license. Thus a Japanese national cannot draw \$100 per month in the form of wages and at the same time withdraw \$100 per month from his bank accounts.

Under General License No. 77 Japanese nationals engaged in the business of producing, marketing or distributing food or agricultural products may, with minor exceptions, engage in all transactions incident to the normal conduct of such business. However, under the license a Japanese national cannot withdraw from his accounts during any one week for such enterprises sums in excess of his average weekly withdrawals during the last six months. Moreover, the license covers only Japanese nationals who were previously licensed under General License No. 68. This action is intended to permit the orderly movement of fresh vegetables and other food in areas such as the Pacific coast in order to supply the needs of our civilian population and military forces.

GENERAL LICENSE NO. 11-A.
UNDER EXECUTIVE ORDER NO. 8389,* APRIL
10, 1940, AS AMENDED, AND REGULATIONS
ISSUED PURSUANT THERETO, RELATING TO
TRANSACTIONS IN FOREIGN EXCHANGE, ETC.*

(1) A general license is hereby granted authorizing payments out of the blocked account of any national of Japan in the continental United States for the living and personal expenses of such national and his household; provided that the total payments under this general license from all the blocked accounts of any one national shall not exceed \$100 in any one calendar month.

(2) Banks, employers and other persons making any such payments shall satisfy themselves, through affidavits or otherwise, that payments out of blocked accounts for living expenses for any one national and his household do not exceed \$100 in any one calendar month.

E. H. Foley, Jr.,
Acting Secretary of the Treasury.

* Part 131; - Sec. 5(b), 40 Stat. 415 and 966; Sec. 2, 48 Stat. 1; 54 Stat. 179; Ex. Order 8389, April 10, 1940, as amended by Ex. Order 8785, June 14, 1941, Ex. Order 8832, July 26, 1941, and Ex. Order 8963, December 9, 1941; Regulations, April 10, 1940, as amended June 14, 1941, and July 26, 1941.

TREASURY DEPARTMENT
Office of the Secretary
December 11, 1941.

GENERAL LICENSE NO. 77
UNDER EXECUTIVE ORDER NO. 8389, APRIL
10, 1940, AS AMENDED, AND REGULATIONS
ISSUED PURSUANT THERETO, RELATING TO
TRANSACTIONS IN FOREIGN EXCHANGE, ETC.*

(1) A general license is hereby granted licensing any person engaged, prior to December 7, 1941, in the production, marketing or distribution of food products within the continental United States and who is a national of Japan to engage in all transactions ordinarily incidental to the normal conduct of their business of producing, marketing or distributing food within the continental United States, Provided, however, that this general license shall not authorize

- (a) any transaction which could not be effected without a license if such person were not a national of any blocked country.
- (b) total payments, transfers or withdrawals from blocked accounts of any such person during any one week in excess of the average weekly payments from such account during the six months' period immediately preceding the date of this license, or
- (c) any transaction by or on behalf of nationals of Japan who were not generally licensed nationals under General License No. 68 prior to December 7, 1941.

(2) Any person engaging in business pursuant to this general license shall not engage in any transaction pursuant to this general license which, directly or indirectly, substantially

* Part 131; - Sec. 5(b), 40 Stat. 415 and 966; Sec. 2, 48 Stat. 1; 54 Stat. 179; Ex. Order 8389, April 10, 1940, as amended by Ex. Order 8785, June 14, 1941, and Ex. Order 8832, July 26, 1941; Regulations, April 10, 1940, as amended June 14, 1941, and July 26, 1941; Ex. Order 8963, December 9, 1941.

diminishes or imperils the assets of such person within the continental United States or otherwise prejudicially affects the financial position of such person within the continental United States.

(3) Any bank effecting any payment, transfer or withdrawal pursuant to this general license shall satisfy itself that such payment, transfer or withdrawal is being made pursuant to the terms and conditions of this general license.

(4) Where any blocked account in a bank is debited in excess of \$500 per calendar month pursuant to this general license, such bank shall file with the appropriate Federal Reserve Bank a report for such calendar month setting forth the details of the transactions in such account during the calendar month.

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

December 15, 1941

Dear Mr. Hamilton:

Attached is the most recent report we have received from our people in Los Angeles in regard to the food situation.

Secretary Morgenthau would appreciate any suggestions you may have as to how the matter should be handled.

Very truly yours,

(Signed) E.H. Foley, Jr.

Honorable Carl Hamilton
Assistant to the Secretary
Department of Agriculture
Washington, D. C.

EHFJr/fm 12;15 '41

Attachments

Telegram from Murphy and Merillat (Los Angeles
12/15'41 9:24 a.m.)
Press Release 12/15'41 on General License 68A
General License 68A
Press Release 12/11'41 on General License 11-A & 77
General License 77.

Out 6 p.m. by Special Messenger

December 15, 1941

Dear Mr. Hoover:

Attached is the most recent report we have received from our people in Los Angeles in regard to the food situation.

Secretary Morgenthau would appreciate any suggestions you may have as to how the matter should be handled.

Very truly yours,

(Signed) E.H. Foley, Jr.

Mr. J. Edgar Hoover
Director, Federal Bureau of Investigation
Department of Justice
Washington, D. C.
EHFJr/fm 12/15'41

Attachments Telegram from Murphy and Merillat (Los Angeles
12/15'41 9:24 a.m.)
Press Release 12/15'41 on General License 68A
General License 68A
Press Release 12/11'41 on General License 11-A & 77
General License 11-A
General License 77.

Out 6 p.m. by Special Messenger

FOREIGN EXCHANGE CONTROL

December 18, 1941

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS:

THE FOLLOWING IS THE TEXT OF GENERAL LICENSE NO. 88A
AND PRESS RELEASE ISSUED IN CONNECTION THEREWITH:

[HERE TAKEN IN ANNEXED GENERAL LICENSE AND PRESS RELEASE]

YOU ARE REQUESTED TO HAVE COPIES OF THESE DOCUMENTS PREPARED
AND DISTRIBUTED TO ALL BANKS INCLUDING ALL MEMBER BANKS IN
YOUR DISTRICT AND TO ALL OTHER PERSONS AS YOU MAY DEEM APPROPRIATE.

THE FOLLOWING IS A TEXT OF CIRCULAR NO. 79:

[HERE TAKEN IN ANNEXED CIRCULAR]

YOU WILL BE FURTHER ADVISED WITH RESPECT TO THE FORMS REFERRED
TO IN GENERAL LICENSE NO. 88A.

(Signed) E. H. Foley, Jr.
Acting SECRETARY OF THE TREASURY

LCA:gt 12/18/41

COPY

C O N F I D E N T I A L

TREASURY DEPARTMENT
Foreign Funds Control
December 15, 1942

CIRCULAR NO. 79.

Reference is made to General License No. 684, as amended.

(1) You should promptly institute a program of withdrawing all guards and supervisory personnel and removing the posting from the premises of all enterprises which would otherwise obtain the benefits of General License No. 684, unless such enterprises

(a) are of such size as to justify the maintenance of guards and supervisory personnel; or

(b) are known to you to be dangerous to the national interest. It is expected that in so far as possible you will effect this part of the program within the coming week.

(2) You are authorized pursuant to the provisions of Paragraph 15 of General Fuling No. 4, as amended, to exclude from the provisions of General License No. 684 any person who on the basis of the considerations referred to in paragraph (1)(a) and (b) above should be excluded therefrom. In such cases, you should assign guards or supervisory personnel and post the premises, if you deem such action desirable.

(3) In cases in which you deem it desirable to continue to maintain, or to install, guards or supervisory personnel, you are authorized to issue appropriate operating licenses where you deem such action not inconsistent with the national interests. You should report to the Treasury Department as promptly as possible full facts concerning all persons and enterprises which are not permitted by you to resume operations.

(4) Persons excluded from the benefits of General License No. 684 because of the maintenance of guards or supervisory personnel or because of the posting thereof, or specifically excluded by you pursuant to Paragraph 15 of General Fuling No. 4, as amended, should be included in notices sent by you to the banking institutions with whom such persons are known to have accounts.

(5) You should return to such enterprises as promptly as possible and to the maximum extent consistent to our national interests, any records and documents and other papers which may have been removed under your authorization from the premises of concerns operating under General License No. 684 or under specific licenses issued by you.

- 2 -

(6) With respect to enterprises which, prior to December 7, 1941, did not have the benefits of General License No. 68 and which were doing business under an operating license granted by the Treasury Department, there will be forwarded to you a list of numbers of these operating licenses which should be reinstated by you unless the enterprise in question is known to you to be dangerous to national interests. You are authorized to make such changes in operating licenses as are necessary to conform them to present conditions.

(Signed) E. H. Foley, Jr.

Acting Secretary of the Treasury.

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,

Press Service

DEC 15 1941

The Treasury Department today further relaxed to some extent and under appropriate safeguards the tight restrictions which had been placed upon Japanese residing in this country. It will be remembered that on the outbreak of war the Treasury, as a precautionary measure, placed a complete stoppage on all Japanese financial and commercial transactions and took custody of many Japanese enterprises.

On December 11, the Treasury issued regulations governing living expenses and wages for Japanese nationals in the United States and regulations governing Japanese nationals engaged in the production, marketing, and distributing of food and agricultural products.

The general license issued today by the Treasury unlocks the accounts of Japanese nationals who have resided continuously within the continental United States since June 17, 1940 and permits business enterprises within the continental United States owned and controlled by such Japanese nationals to continue to operate, except in those cases in which Treasury representatives are maintained on the premises or an official Treasury notice is posted indicating that such premises are under Government control. It is anticipated that Treasury representatives and posted notices will be removed from the premises of many Japanese enterprises in which they are now maintained, thus allowing such enterprises to resume normal operations under such general license. It is further anticipated that special business operating licenses will be issued to many Japanese enterprises in which Treasury representatives are continued to be maintained allowing such enterprises to operate under Government surveillance.

Representatives in this country of concerns located abroad or owned and controlled by persons located abroad are excluded from the privileges of the general license.

The Japanese nationals who are given the benefits of today's license are subjected to certain reporting requirements and other restrictions which will constitute safeguards against the abuse of such benefits.

(Signed) H. E. F. Jr.

H. E. F. Jr.
12-15-41

Part 181 - Money and Finance: Treasury
 Chapter I - Monetary Offices, Department of the Treasury
 Part 181 - General licenses under Executive Order
 No. 8808, April 10, 1940, as amended,
 and regulations issued pursuant thereto.
 Section 181.00A

TREASURY DEPARTMENT
 Office of the Secretary
 December 16, 1941.

GENERAL LICENSE NO. 00A
UNDER EXECUTIVE ORDER NO. 8808, APRIL 10,
1940, AS AMENDED, AND REGULATIONS ISSUED
PURSUANT THEREUNTO, RELATING TO TRANSACTIONS
IN FOREIGN EXCHANGE, ETC.*

(1) A general license is hereby granted:

- (a) Licensing as a generally licensed national any individual who is a national of Japan and who has been residing only in the continental United States at all times on and since June 17, 1940, and
- (b) Licensing as a generally licensed national any partnership, association, corporation or other organization within the continental United States which is a national of Japan solely by reason of the interest therein of a person or persons licensed as generally licensed nationals pursuant to this general license.

(2) This general license shall not be deemed to license as a generally licensed national:

- (a) Any individual, partnership, association, corporation or other organization on the premises of which the Treasury Department maintains a representative or guard or on the premises of which there is posted an official Treasury Department notice that the premises are under the control of the United States Government, or
- (b) Any bank, trust company, shipping concern, steamship agency, or insurance company, or
- (c) Any person who, on or since the effective date of the Order, has represented or acted as agent for any person located outside the continental United States or for any person owned or controlled by persons located outside the continental United States, or

* Part 181; - Sec. 8(b), 48 Stat. 418 and 500; Sec. 2, 48 Stat. 1; 54 Stat. 170; Ex. Order 8808, April 10, 1940, as amended by Ex. Order 8708, June 14, 1941, Ex. Order 8888, July 24, 1941, and Ex. Order 8948, December 8, 1941; Regulations, April 10, 1940, as amended June 14, 1941, and July 24, 1941.

- (4) Any person who on or since the effective date of the Order has acted or purported to act directly or indirectly for the benefit or on behalf of any blocked country, including the government thereof, or any person who is a national of Japan by reason of any fact other than that such person has been domiciled in, or a subject or citizen of, Japan at any time on or since the effective date of the Order.

(5) A report on the appropriate series of Form TFR-500 shall be filed with the appropriate Federal Reserve Bank within 30 days after the date hereof with respect to the property interests of every person licensed herein as a generally licensed national if the total value of the property interests to be reported is \$1,000 or more.

(6) Every business enterprise licensed herein as a generally licensed national shall also file with the appropriate Federal Reserve Bank within 30 days after the date hereof an affidavit setting forth the information required by Form TFR-1, if the total value of all property interests of such business enterprise is in excess of \$5,000.

(8) Banking institutions within the United States effecting payments, transfers or withdrawals in excess of \$1,000 during any month from the account of any person licensed as a generally licensed national hereunder, shall file promptly with the appropriate Federal Reserve Bank a report showing the details of such transactions.

(9) This general license shall not authorize any transaction which, directly or indirectly, substantially diminishes or imperils the assets within the continental United States of any national of Japan or otherwise prejudicially affects the financial position of such national within the continental United States.

(7) As used in this general license, the term "business enterprise" shall mean any individual proprietorship, partnership, association, corporation or other organization engaged in commercial or other business activities within the continental United States.

(Signed) E. H. Foley, Jr.
Acting Secretary of the Treasury.

Regarded Unclassified

2020120

Salaries and Expenses

Allot.

Foreign Exchange Control 1942 - 1-b

December 15, 1941.

To the Presidents of all Federal Reserve Banks:

This telegram is supplemental to our similar telegram of December 11. You are instructed to add the following amendment "This license does not authorize any transaction prohibited by the Treasury Representative assigned to this enterprise." to licenses in your district in the names of the following business enterprises as promptly as you are able to effect the installing of Treasury Representatives in such business enterprises:

ST. DENNIS-KUELMANN-ST. CLAIR DYESTUFFS CORP.
55 Van Dam Street, New York City.

UNION PHARMACEUTICAL CO. INC.,
Bloomfield, New Jersey.

ARTHA COSMETICS, INC.
Bloomfield, New Jersey.

SYNTHETIC NITROGEN PRODUCTS CORP.
285 Madison Ave., New York City.

AMERICAN PILEOL COMPANY,
206 1/2 Ninth Street, Lorain, Ohio.

MAYWOOD CHEMICAL WORKS INC.,
Maywood, New Jersey.

BUFFALO ELECTRO-CHEMICAL CO., INC.
Sawyer Road, Tonawanda, New York.

BILHUBER-KNOLL CORP.,
Orange, New Jersey

E. BILMERE, INC.
Orange, New Jersey

AMERICAN ASSURANCE CO.
Merchants and Manufacturers Bldg., Houston, Texas

STANDARD FABRICATORS, INC.
Long Island City, New York

AMERICAN OVERHAULERS CORP.
358 Walton Ave., New York City

THE SIKOTA CORPORATION
27 William Street, New York City

JOHANN MARIA FARINA, INC.
27 William Street, New York City

WESTFALIA SEPARATOR CO., INC.
30 Orange Street, Bloomfield, New Jersey

AMERICAN LUBRI CORPORATION
80 Broad Street, New York City

ONE AND CHEMICAL CORPORATION
60 Broad Street, New York City

THEODORE WILLE AND CO., INC.
104 Front Street, New York City
New Orleans, Louisiana

AJAX TRANSPORTATION COMPANY
208 North Broadway
St. Louis, Missouri

ROBERT C. MAYER & COMPANY, INC.
New York City

SOUTHERN RESIN & CHEMICAL COMPANY
Glen Saint Mary, Florida

After the Treasury Representative is installed and has worked out a suitable procedure with the banking institutions involved for the honoring of checks and other items outstanding and to be issued in the future, the following clause should be inserted in the license: "No payment, transfer or withdrawal may be effected unless approved by such Treasury Representative."

The Treasury Representatives may be national bank examiners, customs officers, Treasury investigators, or any other available Treasury personnel all of whom are being instructed to get in touch with you immediately and be at your disposal in this connection. Such representatives shall be guided by the following general instructions:

(1) No person shall be permitted into or out of the premises of such enterprises without approval of the Treasury Representative. Do not keep out officials, employees and others on a wholesale basis but merely those individuals whom you have reason to believe to be dangerous.

(2) Treasury Representatives shall determine the number and location of books and records and access to or use of such books and records shall be under surveillance of the Treasury Representatives. No books or records shall be destroyed, effaced, nor shall any records be removed from the premises without the permission of the Treasury Representative.

(3) No mail shall be delivered to such enterprises or opened except in the presence of or as authorized by the Treasury Representative.

the Presidents of all Federal Reserve Banks

who shall have the right to inspect all incoming and outgoing mail.

(4) No payments, transfers or withdrawals of funds from bank accounts or otherwise shall be permitted except with the prior approval of the Treasury Representative. Approval shall not be given except for payments, transfers or withdrawals in the normal course of the legitimate business of the enterprise. Approval for normal expenditures shall be given promptly.

(5) No changes in personnel shall be made without the prior approval of the Treasury Representative.

(6) As soon as sufficient Treasury personnel for the purpose is made available the Treasury Representative and his staff shall begin a careful study of all books, files, correspondence, and all other records. The object of such a study will be to determine what transactions, relationships, activities and personnel of the business enterprise are opposed to the National interest.

(7) Any transactions, relationships or activities opposed to the National interest shall be prohibited by the Treasury Representative. Appropriate measures shall be taken with reference to personnel whose continued employment is opposed to the National interest.

(Signed) E. H. Foley, Jr.

Acting SECRETARY OF THE TREASURY.

(F:BB:JWP 12/13/41

/ D.J.S. BB

12/15/41 - 11:30 A.M.

Cleared over the phone with Leo Crowley and Dean Acheson after Secretary said go ahead if they approved.
E.H.F. Jr.

THE UNDER SECRETARY OF THE TREASURY
WASHINGTON

December 15, 1941

Conference in the Secretary's Office this morning with Chairman Eccles. Mr. Morris and Mr. Bell were also present.

Mr. Eccles said that he would like to propose legislation to amend the Federal Reserve Act so that the Treasury could sell its securities directly to the Federal Reserve Banks rather than going through the open market. This restriction was placed on the Federal Reserve Banks by the Banking Act of 1935. It was proposed at that time by Senator Glass, who insisted upon including this restriction in the Act.

The Secretary told Mr. Eccles that he was in favor of eliminating it at this time as it would help us level off the money market during tax payment times when the receipts might be larger than the payments. It was agreed that Mr. Eccles would contact Mr. Oscar Cox regarding the proposed legislation; that he would prepare a letter which he and the Secretary both would sign, recommending it; and that Mr. Eccles and the Secretary would see Mr. Glass personally about the matter.

Mr. Eccles then discussed at some length the question of Federal Reserve Banks making industrial loans under Section 13(b) of the Federal Reserve Act. He said that the provision of that section is so restrictive that the Banks can not make loans without running the risk of impairing a part of their capital structure. This, of course, they can not afford to do in these times. He suggests that the section either be amended to give the Banks greater flexibility in making these loans or that the section be repealed entirely and the whole matter of making loans to small business concerns be left in the hands of the Federal Loan Administrator. He said that there was a great deal of objection in the War Department to the Administrator having this authority because he is not liberal in making these loans and it is handicapping the War Department in entering into contracts with small concerns for the production of defense materials.

FOR DEFENSE



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The Secretary told Mr. Eccles that we would study his memorandum and then he thought we ought to have a general conference with Mr. Jones regarding the matter. Generally speaking, he said, he was not in favor of two or more lending agencies in Washington but he was in favor of making some provision so that small businesses could borrow funds promptly. He said that when he finished reading the memorandum he might agree that the Federal Reserve should handle it rather than the Federal Loan Administrator. He said he would discuss this matter with Eccles after he had read it.

The other matter discussed was the date for the open market committee to discuss with the Secretary the matters considered by them at their meeting on Friday of last week. The Secretary agreed to see them at three o'clock on Thursday, and I told them I could see them at 10:30 a.m.

swb

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE December 15, 1941.

TO Mr. Foley
Mr. White
Mr. Haas
FROM Dave H. Morris, Jr.

This morning Mr. Eccles discussed with the Secretary (Mr. Ball and I were also present) the desirability of either repealing Section 13(b) of the Federal Reserve Act, or modifying it radically so as to make it really workable.

Mr. Eccles points out that under Section 13(b) as it now stands, the Reserve Banks and the Industrial Committees set up to pass on loans are necessarily extremely conservative in the making of loans, with the result that very few are actually made. With terrifically expanded activity in defense industries, the smaller companies have borrowed all they legitimately can, based on their capital set-up, from the commercial banks. However, in many instances it is imperative that they obtain additional working capital to provide for actual production. There is rapidly increasing pressure on this matter from the Army, Navy, and Mr. Odium's group.

Mr. Eccles points out further that while the RFC might make loans, they have never set up a properly decentralized force to handle small loans. Where big ones are concerned and the matter can be handled from Washington, everything works smoothly, but because of the requirement that practically everything be passed on by Washington, the making of small loans has, in practice, bogged down and without a large expansion of the RFC machinery is bound to continue to do so.

With the above in mind, and also believing that if small loans are going to be made by any Governmental agency the banking communities would prefer

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them made through the Federal Reserve Banks, Mr. Eccles suggests some entirely new legislation covering this proposal and submitted to the Secretary this morning a memorandum on the subject together with a copy of the proposed legislation. In doing so, he said he was fairly well satisfied with everything except the restrictions on the length of period for the loan and the amount to be paid back within certain periods and, personally, he ^{would} prefer to remove all restrictions and leave the terms to the discretion of those making the loans.

Mr. Eccles is very anxious to get a reply from the Treasury Department within the next day or two, so as to get it started before the Christmas rush. The Secretary has said he will give him an answer just as soon as possible. Consequently, will you let me know as soon as you have been over the attached material and are ready to discuss it and I will arrange a meeting.

DMG

Attachments: Summary of Industrial Loan Corporation Bill (1942),
Principal points of Industrial Loan Corporation Bill (1942),
Draft of Bill.

Copy to Mr. D. W. Bell.

Creation of Corporation and Termination of Reserve Bank

Authority. - The present limited industrial loan authority of Federal Reserve Banks would be terminated and transferred in broadened and more effective form to the Industrial Loan Corporation created by the bill.

Functions of Corporation. - The Corporation could extend financial assistance to commercial or industrial businesses by acquiring their obligations or preferred stock or by making commitments to acquire such obligations or stock. Such obligations could not have a maturity in excess of 10 years. Periodic repayments on all such obligations and stock would be required in order to retire at least 40 per cent of principal amount within a 10-year period. Loans could be made to businesses directly or in cooperation with financing institutions, but not more than \$1,000,000 of funds could be outstanding at any time to any one business.

Capital and Surplus of Corporation. - The Secretary of the Treasury is authorized by existing law to pay to the Federal Reserve Banks approximately \$139,000,000 to enable them to make industrial loans. This amount is already appropriated for this purpose. Under this authority approximately \$27,000,000 has been paid. The bill would require payment of the remaining \$112,000,000. These funds would be used by the Federal Reserve Banks to supply the capital and surplus of the Corporation, consisting of about \$39,000,000 of surplus and \$100,000,000 of capital stock to be issued to the United States and delivered to the Secretary of the Treasury. The Corporation would take over outstanding industrial loans and commitments of the Federal Reserve Banks.

Borrowing by Corporation. - The Corporation could borrow from any Reserve Bank on promissory notes secured to the bank's satisfaction, but its aggregate debt to all reserve banks at any one time could not exceed \$250,000,000.

Management of Corporation. - The members, Chairman and Vice Chairman of the Board of Governors of the Federal Reserve System would be, respectively, directors, chairman and vice chairman of the Corporation. It could utilize the Reserve Banks as its agents, and could use the employees of the Board or the Reserve Banks as its own officers or employees but without extra compensation to them.

Dissolution of Corporation. - The Board of Governors could cause the dissolution of the Corporation whenever there is no longer a reasonable need for its facilities. Upon dissolution, all its assets in excess of indebtedness would be paid to the United States.

PRINCIPAL POINTS OF INDUSTRIAL LOAN CORPORATION BILL (1942)

General Objective. - Heretofore the Industrial Loan Corporation Bill and the other Read bills had as their primary objective the assistance of small business. The present Industrial Loan Corporation Bill has a broader objective, as set forth in the preamble. This objective is to further the defense program by helping the country's industries to obtain maximum production both of defense goods and of civilian supplies. As a corollary to this, it would assist the Government's anti-inflation program by increasing the supply of goods of all kinds. In this process small business units would of course benefit since they would in many cases be enabled to maintain or increase their production where additional financing could accomplish this. The preamble also contemplates that the operations of the Corporation shall assist in meeting the requirements of the armed services and of the defense agencies established by executive orders of the President.

Industrial Loan Corporation. - The bill would terminate the present limited authority of the Federal Reserve banks to make industrial loans, and would transfer this authority, in broadened and more effective form, to the Industrial Loan Corporation, which the bill would set up as an integral part of the Federal Reserve System. The activities of the Corporation could be promptly set in motion through the existing facilities of the Federal Reserve System. The plan would involve no increase in the budget.

Loans to Business by Corporation. - The Corporation could extend financial assistance to commercial or industrial businesses by acquiring their notes, debentures, bonds, or similar obligations, by purchasing preferred stock in such businesses, or by making commitments to acquire such obligations or stock. Such obligations could not have a maturity in excess of 10 years and provision would have to be made, in a manner satisfactory to the Corporation, for periodic repayments or retirements on such obligations and stock sufficient to repay or retire at least 40 per cent of the principal amount within a 10-year period. The Corporation could extend its assistance to industrial or commercial businesses directly or in cooperation with financing institutions, but it could not have more than \$1,000,000 of funds outstanding at any time to any one commercial or industrial business.

Capital and Surplus of Corporation. - The capital and surplus of the Industrial Loan Corporation would be supplied from a fund of about \$139,000,000 which has already been appropriated (out of the increment resulting from the devaluation of the dollar) for the purpose of assisting Federal Reserve banks in making industrial loans. The Secretary of the Treasury was authorized to pay this sum to the Reserve banks for this purpose on the security of the approximately \$139,000,000 of Federal Deposit Insurance Corporation stock which the Reserve banks were required

to purchase when the Federal Deposit Insurance Corporation was organized. Pursuant to this authority, the Secretary has paid approximately \$27,000,000 to the Reserve banks and the proposed plan would require him to pay the balance, or about \$112,000,000. The Reserve banks would be required to use all of these funds to supply the capital and surplus of the Industrial Loan Corporation which would consist of about \$39,000,000 of surplus and \$100,000,000 of capital stock, to be issued to the United States and delivered to the Secretary of the Treasury. The Federal Deposit Insurance Corporation stock now owned by the Federal Reserve banks would also be transferred to and be owned by the United States. The outstanding industrial loans and commitments of the Federal Reserve banks would be transferred to the Industrial Loan Corporation. Upon the dissolution or liquidation of the Industrial Loan Corporation all its assets in excess of indebtedness would be paid to the United States.

Borrowing by Corporation. - The Corporation could borrow from any Reserve bank on the Corporation's promissory note secured to the satisfaction of the Reserve bank but its aggregate debt to all Federal Reserve Banks at any one time could not exceed 250 million dollars.

Management of Corporation. - The members of the Board of Governors of the Federal Reserve System would be the directors of the Industrial Loan Corporation and the Chairman and Vice Chairman of the Board of Governors would be chairman and vice chairman, respectively, of the Corporation. The Corporation could utilize the Federal Reserve banks as its agents, and could use any employees of the Board of Governors or the Reserve banks as its own officers or employees, reimbursing the Board of Governors or the Reserve banks for such services. No director of the Corporation and no officer or employee of the Board of Governors or of any Reserve bank would receive any extra compensation for his services for the Corporation. The bill provides that the Corporation "shall endeavor to decentralize its activities" and that functions other than the prescribing of regulations or the determination of general policies may be performed through designated representatives.

Dissolution of Corporation When Not Needed. - The Board of Governors of the Federal Reserve System could order the dissolution and liquidation of the Corporation whenever it appears, either by reason of decreased volume or otherwise, that there is no longer a reasonable need for the facilities of the Corporation.

PROPOSED BILL VS. EXISTING LAW

(a) Loan Policy. - In peace time, loans made by commercial banking institutions are necessarily based primarily upon the soundness of the risk. This has been true, although to a lesser degree, as to loans made by the Federal Reserve Banks under section 13b of the Federal Reserve Act. In time of war, however, it is essential that all necessary credit be

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made available to finance maximum possible production. In cases where this cannot be done without the assumption of risks which are not proper for commercial financing institutions to assume, the Government must provide the funds in some manner. The removal of the restrictions in the existing section 13b would assist materially in this direction. The proposed Corporation, however, under the control of the Board of Governors, which is a governmental agency, could adopt and more effectively implement the policies necessary to attain these ends, using the Federal Reserve Bank officers as agents for making loans. In this situation, such policies would not run counter to the responsibilities of the directors of a Federal Reserve Bank for the conservation of the bank's assets, since they would not pass upon the loans made by the Corporation.

(b) Limitation on Loans. - The existing law restricts the authority of Federal Reserve Banks in this matter so that loans can be made only to businesses which are established, only for working capital purposes, and only for five years. The law also requires that direct loans to industry be made only on a sound and reasonable basis.

(c) Availability of Funds. - Under existing law, the Secretary of the Treasury is authorized to pay the entire amount of \$139,000,000 to the Federal Reserve Banks, and it would be possible for all losses sustained by the Federal Reserve Banks in using either this amount, or an additional sum up to \$139,000,000 from their own surplus, to be taken from the amount thus provided by the Secretary. However, under his regulations on this subject, the Treasury has supplied only about one-half of the amount of outstanding loans made by the Federal Reserve Banks, and the loans have been made on a participating basis.

A BILL

To aid in the national defense program by liberalizing credit facilities for business and industry, to aid in resisting inflation by making available additional credit needed to maintain maximum production of civilian goods consistent with the defense program, to establish an industrial loan corporation and for other purposes:

Whereas, it is essential to the success of the national defense program that business and industry maintain the maximum possible production of goods and services for defense and for civilian supply; and

Whereas, many small and medium size business enterprises are participating or desire to participate either as contractors, subcontractors, or otherwise in the production of goods and materials necessary to the defense program, and could in many instances attain greater production if they were able to obtain requisite financial assistance; and

Whereas, other such enterprises are producing goods and services necessary for civilian supply and could in many instances attain greater production if they were able to obtain requisite financial assistance; and

Whereas, such production for civilian supply contributes to national defense by helping to maintain a reasonable standard of living and aids the Government's anti-inflation program by increasing the supply of civilian goods within the limits of established priorities and allocations; and

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Whereas, in order that greater assistance may be rendered by the Federal Reserve System to the armed services and the defense agencies established by executive orders of the President, it is essential that an agency of the System be given broad authority to make loans to industry and business for defense and civilian needs; Now, therefore,

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 13b of the Federal Reserve Act is amended to read as follows:

"SEC. 13b. (1) This section may be cited as the 'Industrial Loan Corporation Act'.

"(2) There is hereby created a body corporate with the name Industrial Loan Corporation (hereinafter called the Corporation). The principal office of the Corporation shall be located in the District of Columbia, but it may designate and utilize as its agents for the performance of its functions any or all of the Federal Reserve banks, which are hereby authorized to act in such capacity, may establish branch offices, or may designate and utilize other persons or other existing institutions as its agents for the performance of its functions. The Corporation shall have power (a) to adopt, alter, and use a corporate seal, which shall be judicially noticed; (b) to have succession until dissolved by Act of Congress or in accordance with subsection (1) of this section; (c) to sue and be sued, complain and defend, in

any court of law or equity; (d) to make contracts and to lease or acquire such real estate and equipment as may be necessary for the transaction of its business; (e) to prescribe by its board of directors by-laws and rules, regulations, and requirements, not inconsistent with law, as to the manner in which its business and operations may be conducted and the powers granted to it by law may be exercised and enjoyed. The Corporation may exercise all powers specifically granted by this section and such incidental powers as may be reasonably necessary to effectuate the provisions of this section in accordance with its purposes and to prevent evasions of such provisions. All rules and regulations of the Corporation shall be prescribed by the board of directors and all determinations of matters of general policy for the Corporation shall be made by the board of directors; but it is the sense of Congress that in the administration of the Industrial Loan Corporation Act the Corporation shall endeavor to decentralize its activities, and all functions of the Corporation other than the prescribing of rules and regulations and the determination of matters of general policy may be performed through such members of the board of directors, such Federal Reserve banks, or such officers, employees, or representatives as the board of directors may prescribe; and the board of directors shall not be required to authorize, approve, or otherwise pass upon individual transactions.

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"(3) For the purpose of providing funds to a commercial or industrial business, the Corporation is authorized, subject to such regulations and requirements as it may prescribe, (a) to make loans to, discount obligations for, and purchase obligations from such a business; (b) to purchase preferred stock in a corporation engaged in such a business; (c) to discount for or purchase from a financing institution obligations of, or preferred stock in a corporation engaged in, such a business; (d) to make loans to a financing institution on the security of such obligations or preferred stock; and (e) to make commitments to make any such loans, discounts, or purchases. The Corporation shall not make or acquire any such loan or obligation which has a maturity exceeding ten years, nor shall the Corporation purchase any such preferred stock unless the issuer of the preferred stock is obligated to retire the same within ten years; and all such loans, obligations, or preferred stock shall provide in a manner satisfactory to the Corporation for installment payments on the loan or obligation, or periodic retirements of the preferred stock, sufficient to amortize at least 40 per centum of the principal amount within a period of ten years. The Corporation may include in its regulations, among other things, provisions regarding the kinds of preferred stock which it may acquire, and regarding the purchase price of obligations and preferred stock and the rates of interest and discount applicable to transactions hereunder, and may

define for the purposes of this or other subsections of this section the terms 'commercial or industrial business', 'financing institution', 'obligation', and 'preferred stock'. The Corporation may exercise the authority granted in this subsection either directly or in cooperation with financing institutions; but the amount of funds provided by the Corporation pursuant to this subsection for any one commercial or industrial business and outstanding at any one time shall not exceed \$1,000,000.

"(4) The Corporation is authorized to borrow from any Federal Reserve Bank, and any Federal Reserve Bank is authorized to make advances to the Corporation, on the latter's promissory notes secured to the satisfaction of such Federal Reserve Bank, but the amount of the indebtedness of the Corporation at any one time to all Federal Reserve Banks combined shall not exceed the sum of \$250,000,000.

"(5) The net earnings of the Corporation, after making adequate provision for losses, shall be transferred to its surplus or undivided profits account. Upon the liquidation or dissolution of the Corporation all assets remaining after the payment of all indebtedness of the Corporation shall be paid to and become the property of the United States.

"(6) The Corporation is authorized to sell, exchange, or otherwise dispose of any obligations or preferred stock which it has acquired, with or without its endorsement or guaranty and upon such

terms and conditions as it may deem advisable. The provisions of the Securities Act of 1933 shall not apply to any obligations issued by the Corporation under subsection (4) of this section, nor to transactions by any person in connection with any acquisition by the Corporation of obligations or preferred stock or any commitment to acquire them under subsection (3) of this section, nor, after any such obligations or stock are so acquired by the Corporation, to any subsequent sale, exchange, or other disposition of them by any person.

"(7) The Corporation, its franchise, loans and other assets, its capital stock, its surplus, its reserves, and its income, shall be exempt from all taxation now or hereafter imposed by the United States, by any Territory, dependency, or possession thereof, or by any State, county, municipality, or other taxing authority; except that any real property of the Corporation shall be subject to State, Territorial, county, municipal, or local taxation to the same extent according to its value as other real property is taxed.

"(8) Notwithstanding any other provision of law, all suits of a civil nature at common law or in equity to which the Corporation shall be a party shall be deemed to arise under the laws of the United States, and the district courts of the United States shall have original jurisdiction of all such suits; and when the Corporation is a defendant in any such suit, it may, at any time before the trial thereof, remove such suit from a State court into the district court of the United States for the proper district by following the procedure for the removal of causes otherwise provided by law. No attachment or execution

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shall be issued against the Corporation or its property before final judgment in any suit, action, or proceeding in any State, county, municipal, or United States court.

"(9) The management of the Corporation shall be vested in a board of directors consisting of the members of the Board of Governors of the Federal Reserve System, and the chairman and vice chairman of the board of directors shall be the chairman and vice chairman, respectively, of the said Board of Governors. At meetings of the board of directors three members shall be necessary for a quorum. The Corporation may utilize, as its officers and employees, any employees of the Board of Governors of the Federal Reserve System, and any officers or employees of any Federal Reserve bank. If the Corporation should find it advisable, it may employ additional officers or employees, and the employment, compensation, leave, and expenses of such additional officers and employees shall be governed solely by the provisions of this section, specific amendments thereof, and rules and regulations of the Corporation not inconsistent therewith. No director of the Corporation and no officer or employee of the Board of Governors or of any Federal Reserve bank shall receive any compensation from the Corporation by reason of any services which he may perform for it. The Corporation shall determine and prescribe the manner in which its obligations shall be incurred and its disbursements and expenses allowed and paid, and may deposit in

any Federal Reserve bank its funds, which shall not be construed to be Government funds or appropriated moneys. The Corporation may invest its funds in direct obligations of, or obligations guaranteed as to principal and interest by, the United States. The Corporation shall reimburse the Board of Governors of the Federal Reserve System and the Federal Reserve banks and its other agents for their expenses in carrying out the provisions of this section on such basis as may be determined by the Board of Governors of the Federal Reserve System.

"(10) The Corporation shall have a capital stock and surplus which shall be paid in in the amounts and out of the funds hereinafter provided. The Secretary of the Treasury is hereby authorized and directed, on the date on which the Industrial Loan Corporation Act becomes effective, to purchase from each Federal Reserve bank the stock of the Federal Deposit Insurance Corporation heretofore subscribed for by such bank and to pay to such bank therefor an amount equal to the entire sum which the said Secretary was originally given authority to pay to such bank under the provisions of this section less the difference between the aggregate amounts paid to such bank by the Secretary of the Treasury and the aggregate amounts paid to the Secretary of the Treasury by such bank under the provisions of this section prior to the date on which the Industrial Loan Corporation Act becomes effective. When the payment of such amount has been made by the Secretary of the Treasury to such bank, the United States shall become and be the owner of all the stock in the Federal Deposit Insurance

Corporation heretofore subscribed for or held by the said Federal Reserve bank and all rights of the said Federal Reserve bank with respect to said stock shall be transferred to and vested in the United States. Any and all of the obligations and liabilities to the United States and to the Secretary of the Treasury which have been imposed upon or incurred by any Federal Reserve bank under this section at any time prior to the date on which the Industrial Loan Corporation Act becomes effective shall on said date be completely discharged and terminated, and no Federal Reserve bank shall, after said date, have any obligation or liability to the United States or the Secretary of the Treasury by reason of any provisions of this section. The amount required to be paid to each Federal Reserve bank by the Secretary of the Treasury under the provisions of this section shall be paid out of the miscellaneous receipts of the Treasury created by the increment resulting from the reduction of the weight of the gold dollar under the President's proclamation of January 31, 1934, and there is hereby authorized to be appropriated, out of such receipts, such sums as shall be required for this purpose.

"(11) Upon the receipt by each Federal Reserve bank from the Secretary of the Treasury of the amount specified in subsection (13) hereof, such Federal Reserve bank shall forthwith pay the entire amount so received to the Industrial Loan Corporation and also shall forthwith pay to the Corporation an amount equal to the difference

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between the aggregate amounts paid to such bank by the Secretary of the Treasury and the aggregate amounts paid to the Secretary of the Treasury by such bank under the provisions of this section prior to the date on which the Industrial Loan Corporation Act becomes effective; and out of the aggregate amounts paid to the Industrial Loan Corporation in this manner the Corporation shall set aside \$100,000,000 as its capital and the remainder as surplus and shall issue to and in the name of the United States, and deliver into the custody of the Secretary of the Treasury, capital stock in the amount of \$100,000,000. No stock in the Industrial Loan Corporation shall be transferable, have any voting rights, or be entitled to any dividends. Upon the payment of such funds to the Industrial Loan Corporation by the Federal Reserve banks, the Corporation shall forthwith purchase from each Reserve bank, and each Federal Reserve bank shall sell to the Corporation, all assets held by the Reserve bank which were acquired under the provisions of this section prior to the date on which the Industrial Loan Corporation Act becomes effective, and such sale shall be made at the appraised value of the assets on the effective date of the Industrial Loan Corporation Act, such appraisal being made according to such rules and regulations as the Board of Governors of the Federal Reserve System may prescribe. All commitments of each Federal Reserve bank outstanding under this section on the date on which the Industrial Loan Corporation Act becomes effective shall forthwith be taken over and assumed by the Corporation.

"(12) When designated for that purpose by the Secretary of the Treasury, the Corporation shall be a depository of public moneys under such regulations as may be prescribed by said Secretary; and it may also be employed as a fiscal agent of the Government; and it shall perform all such reasonable duties, as depository of public money and fiscal agent of the Government, as may be required of it. Obligations of the Corporation shall be lawful investments, and may be accepted as security, for all fiduciary, trust, and public funds the investment or deposit of which shall be under the authority or control of the United States or any officer or officers thereof. The Corporation shall be entitled to the free use of the United States mails in the same manner as the executive departments of the Government.

"(13) Whenever it shall appear to the Board of Governors of the Federal Reserve System, either by reason of a decrease in the volume of the operations of the Corporation or otherwise, that there is no longer a reasonable need for the continuance of the facilities of the Corporation, the said Board may order the dissolution of the Corporation, and thereupon the Corporation shall be liquidated and its affairs wound up under regulations prescribed by the said Board.

"(14) The Corporation shall annually prepare a full report of its operations, and this report shall be included by the Board of Governors of the Federal Reserve System in the annual report made by it to the Speaker of the House of Representatives in accordance with the provisions of section 10 of this Act."

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SEC. 2. Subsections (h), (i), and (k) of section 22 of the Federal Reserve Act are amended by inserting after the words "Federal Reserve bank" wherever they occur in such subsections the words "or the Industrial Loan Corporation"; and subsection (j) of said section 22 is amended by inserting after the words "Federal Reserve bank" the words "and of the Industrial Loan Corporation".

SEC. 3. (1) The third paragraph of section 24 of the Federal Reserve Act is amended by striking out the word "established" where it appears in said paragraph, and by substituting the words "the Industrial Loan Corporation" for the words "a Federal Reserve bank" wherever they appear in said paragraph.

SEC. 4. Sections 1, 2, and 3 of this Act shall become effective on the 1st day of the second calendar month following the date of its enactment.

12/15/41

Mr. Tolson
Mr. E. A. Tamm
Mr. Clegg
Mr. Glavin
Mr. Ladd
Mr. Nichols
Mr. Rosen
Mr. Tracy
Mr. Carson
Mr. Egan
Mr. Gurnea
Mr. Harbo
Mr. Hendon
Mr. Pennington
Mr. Quinn
Mr. Nease
Miss Gandy

DEPARTMENT

COMMUNICATION

DATE December 15,
1941

TO Secretary Morgenthau

FROM Mr. HARRIS

Subject: Current Developments in the High-grade Security Markets;
Effect of the War on the Prices of the Two New Bond
Issues

SUMMARY

- (1) In the first three trading days following the Japanese attack on December 7, prices of direct and guaranteed United States Government securities declined substantially (Chart I). Since Wednesday prices have recovered perceptibly.

Price movements of all maturity classes of Treasury securities had been downward in the four weeks preceding the Japanese attack. The 2-1/2 percent bonds of 1967-72 had been especially weak, losing almost 2 points from November 8 to December 6.

- (2) The two new Treasury bond issues lost their premiums of 1-3/8 points by falling to 100 on Monday morning following the Sunday Jap attack on the United States (Chart III). After being maintained at par on Tuesday, Wednesday, and Thursday through Federal Reserve Open Market purchases, both issues floated fractionally above par on Friday and Saturday without support of Open Market purchases. Distress selling, according to the Federal Reserve confidential letter, came from small allotment holders. The larger portion of the selling was in the longer-term 2-1/2 percent issue.

- (3) Municipal bonds have declined more since the outbreak of the war than any other class of high-grade domestic securities. The Dow-Jones average yield of municipal bonds, moving inversely to prices, rose 27 basis points during the week to 2.28 percent on Saturday (Chart IV). In contrast our average yield of high-grade corporate bonds rose only 9 basis points to 2.69 percent (Chart II). Philippine Government bonds fell drastically during the week and bonds of Hawaii less so.

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I. United States Government Securities

Prices of Government securities declined very sharply on Monday -- the first trading day after the Japanese attack -- and less rapidly on Tuesday and Wednesday. Thursday, despite the fact that Italy and Germany declared war on the United States, prices stabilized. During Friday the market rallied perceptibly, and these gains were, in the main, consolidated on Saturday (Chart I).

The following table presents price changes, by classes of issues, in the week following the outbreak of hostilities:

	Average Price Change			
	Mon.-	Thurs.	Fri.-	Entire
	Wed.	Thurs.	Sat.	Week
(Decimals are thirty-seconds)				
<u>Treasury notes</u>				
1 - 3 years	- .09	0	+ .03	- .06
3 - 5 years	- .11	0	+ .06	- .05
<u>Treasury bonds</u>				
5 - 15 years to call	-1.14	0	+ .10	-1.04
15 years and over to call	-1.25	0	+ .10	-1.15
<u>Guaranteed securities</u>	- .10	+ .01	+ .03	- .06

The extent of the price change in each maturity class tended to vary directly with length of maturity. Thus, it will be noted, Treasury bonds declined more and recovered more than Treasury notes and guaranteed obligations (all of which are short-term).

During the past week the average yield of long-term partially tax-exempt Treasury bonds, moving inversely to prices, experienced a net increase of ten basis points, closing Saturday at 1.97 percent (Chart II).

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The sharp declines of last week followed more moderate declines which had occurred throughout the list during the preceding four weeks. Prices of Treasury notes had declined about 1/4 of a point during this period, while prices of Treasury bonds had fallen about 3/4 of a point. The 2-1/2 percent bonds of 1967-72 had experienced a decline during this period of almost two points -- much greater than any other Treasury issue. This issue is now (close on Saturday) 3-12/32 below its high reached on November 5.

II. Hourly Price Changes in the Two New Treasury Bond Issues Since Closing of Subscription Books

The two new Treasury bond issues offered for cash of \$1.5 billions on Thursday, December 4, fell to par from premiums of about 1-3/8 points the day following the Jap attack on the United States. Chart III shows the hourly quotations for these new securities since trading first began last Friday, December 5.

Both issues opened last Friday at good premiums, 101-10/32 for the 2 percent bonds of 1951-55 and 101-13/32 for the 2-1/2 percent bonds of 1967-72. At the close for the day, the shorter-term 2's were up fractionally from the opening while the longer-term 2-1/2's were down insignificantly.

Saturday morning, December 6, both issues remained steady, rising a little at the close. Thus, the market from Friday through the close on Saturday indicated a successful reception for the new financing.

The next day in the Pacific the Japs launched the typical Axis brand of Sunday morning war.

The next trading day, Monday, December 8, both new issues lost all their previous premiums of about 1-3/8 points by opening at 100. They both rallied during the day to a high of 100-16/32, attained at eleven o'clock, but at the close for the day the shorter-term 2 percent issue had fallen to 100-9/32 and the longer-term 2-1/2 percent issue to 100-3/32.

On Monday, according to the Federal Reserve daily confidential letter, selling of Government securities consisted principally of the new 2 and 2-1/2 percent Treasury bonds. Offerings were not heavy and were absorbed mainly by large

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banks and a few insurance companies. The Federal Reserve System Open Market Account purchased no securities on Monday.

On Tuesday, a gradual decline set in, carrying both issues down below par (99-31/32) for the first time at one o'clock. The rest of the day prices were at par or very slightly above. A price of 100 (at some hours 100-1/32) prevailed not only the rest of Tuesday, but also all of Wednesday and Thursday.

According to the Federal Reserve confidential daily letters, fairly heavy selling of allotments on the new 2 percent and 2-1/2 percent Treasury bonds reached the market on Tuesday and Wednesday.

Tuesday the Federal Reserve Open Market Account supported the market by buying \$8 millions of the 2 percent and \$31 millions of the 2-1/2 percent bonds. Wednesday the Open Market Account purchased \$6 millions of the 2 percent and \$37 millions of the 2-1/2 percent bonds.

The Federal Reserve letter reports that on Thursday the volume of selling of the new issues declined and some measure of support at par was afforded by insurance company demand. The Open Market Account purchases were smaller on Thursday than they had been on Wednesday, being about \$4 millions of the 2 percent and about \$16 millions of the 2-1/2 percent bonds.

During Friday both new issues floated above par to a high of 100-11/32 for the 2 percent bonds and 100-5/32 for the 2-1/2 percent issue. On Saturday both issues remained above par, but did not surpass the highs of Friday. The 2 percent bonds closed Saturday's trading at 100-6/32 and the 2-1/2 percent bonds at 100-2/32.

The rise over par on Friday and Saturday occurred without support of purchases of the Federal Reserve Open Market Account.

There are two interesting aspects to the selling of the new offerings during the last week. The first is that the banks and insurance companies were buyers, and the holders of small amounts were sellers (in quite substantial amounts in the aggregate). The second is that more selling occurred, both absolutely and relatively, in the longer-term 2-1/2 percent bonds than in the shorter-term 2 percent bonds. The

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greater selling pressure in the 2-1/2 percent bonds is shown by the purchases during the week by the Federal Reserve Open Market Account of about \$84 millions of the 2-1/2 percent bonds contrasted to only \$18 millions of the 2 percent bonds.

The statement of condition of the Federal Reserve Banks as of the close of business Wednesday, issued for release in Friday morning papers, showed no change in the total bond portfolio of the Federal Reserve Banks. (The statement did show purchases of \$12 millions of Treasury bills -- the first holdings of such securities since the end of 1939.) It should be noted, however, that purchases of the new 2's and 2-1/2's on a when-issued basis will not be settled for until Monday, December 15.

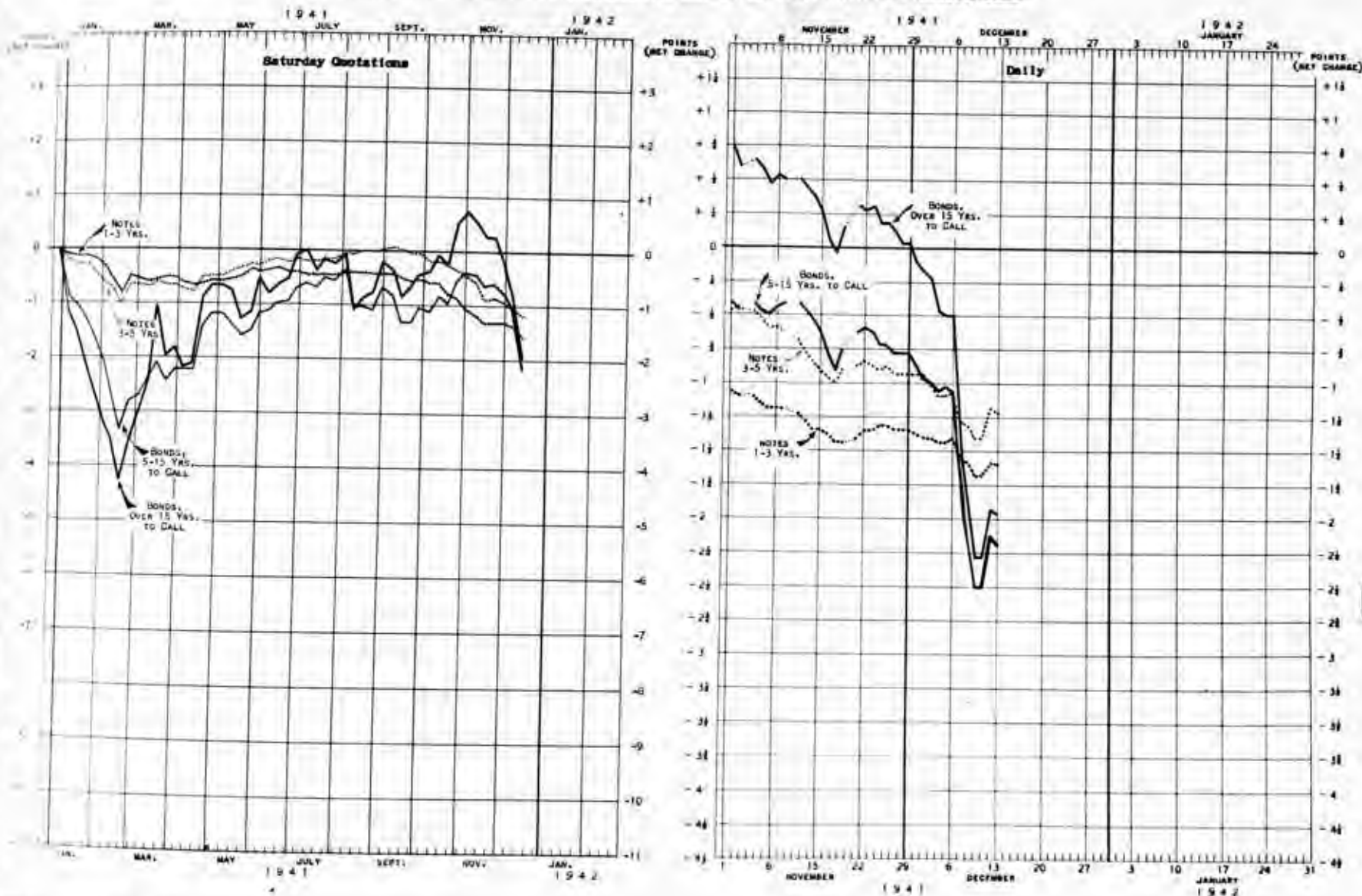
III. Other High-grade Securities

Municipal bonds declined more sharply than any other class of domestic high-grade securities during the last week. The Dow-Jones weekly average yield of municipal bonds rose 27 basis points to 2.28 percent during this period (Chart IV). Bonds of municipalities on the West and East Coasts were especially weak.

The corporate bond market held up much better in face of the outbreak of war than did the municipal. The Treasury average yield of high-grade corporate bonds, moving inversely to prices, rose only 9 basis points during the week, to close Saturday at 2.69 percent (Chart II). This is only one-third of the decline experienced by municipal bonds during the same period.

Bonds of the Territory of Hawaii held up moderately well in spite of the Sunday bombing. The Territory's 4-1/2 percent bonds of 1946-56 were down Monday only about 3-1/2 points from the previous day's close of 115-1/2, and no further loss was suffered Tuesday. In the next four days, an additional 4-3/4 points decline occurred, with the issue closing Saturday at 107-1/4. Philippine Government bonds suffered a more severe deterioration. The 4-1/2 percent bonds, due in 1959, dropped about 12 points Monday, and by Saturday were off another 6-1/2 points to 102.

CHANGES IN THE PRICES OF U.S. SECURITIES Points Plotted Represent the Difference from December 25, 1940 Price of Each Maturity Class



United States Treasury
Bureau of Economic Warfare

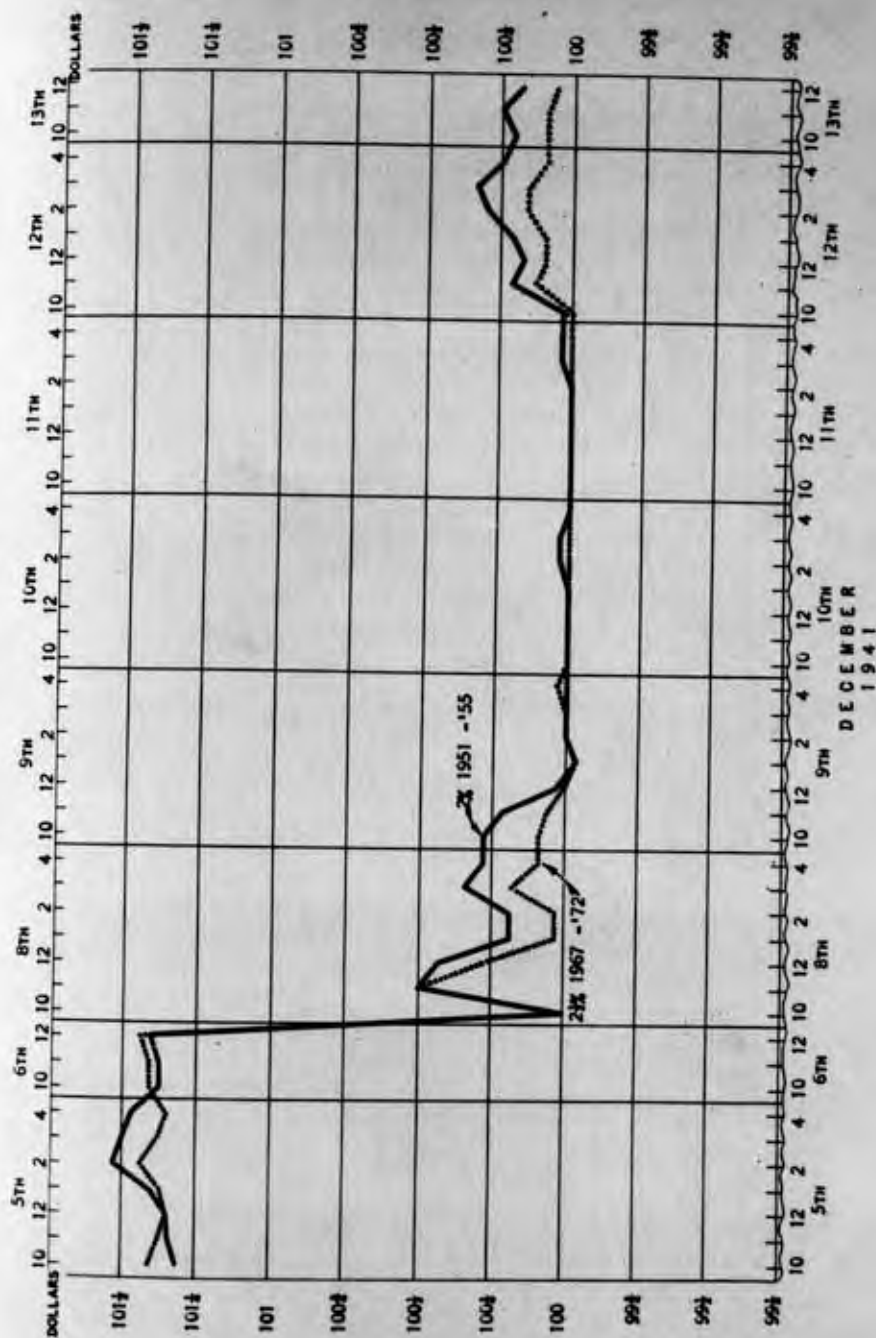
35



F-50-0-9

Chart III

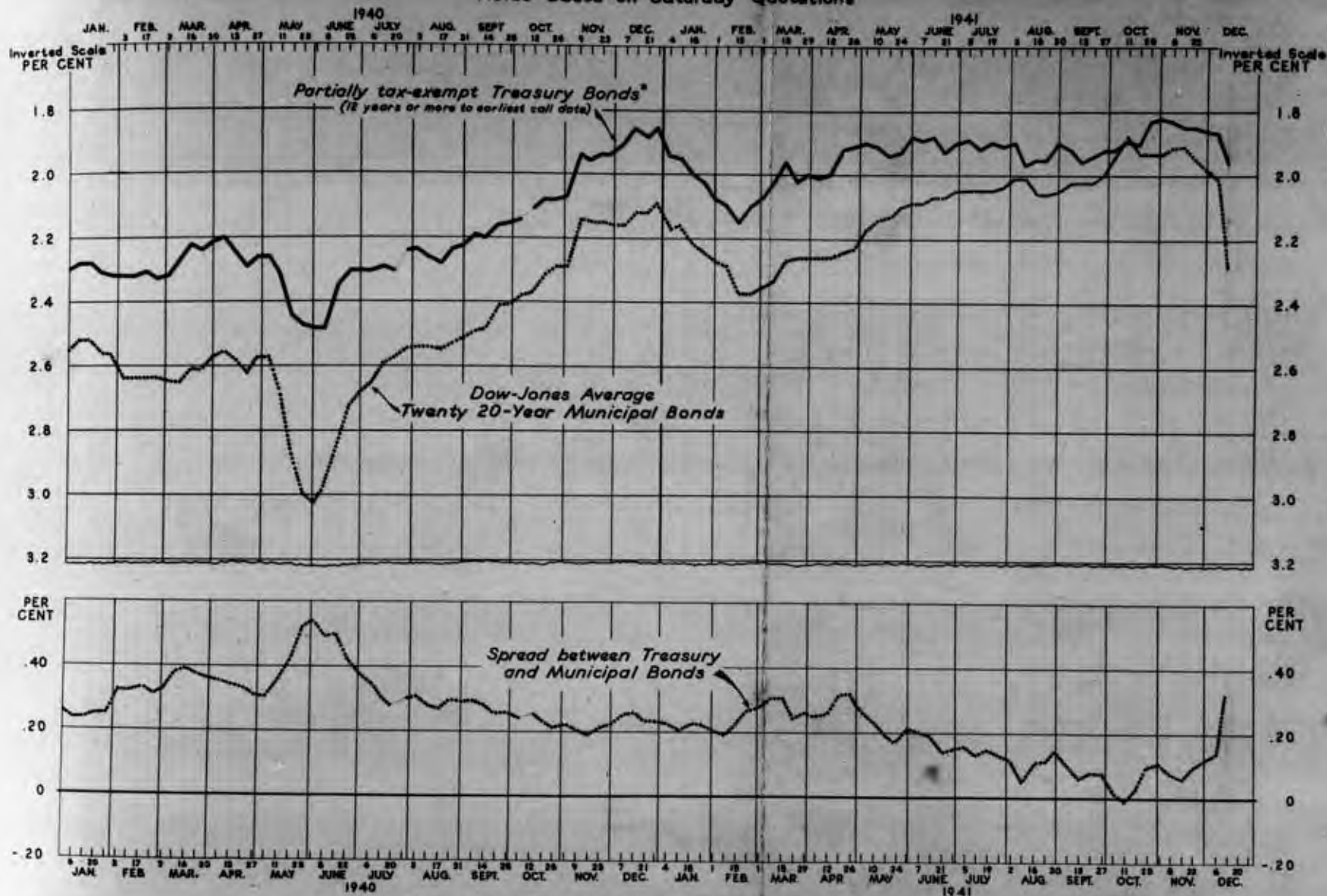
HOURLY PRICES OF THE TWO NEW TREASURY BOND ISSUES
2X 1951-'55 and 2X 1967-'72



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

AVERAGE YIELDS OF LONG-TERM TREASURY AND MUNICIPAL BONDS

Yields Based on Saturday Quotations



December 15, 1941
12:08 p.m.

Operator: Go ahead.

HMJr: Hello.

JAMES
Farley: Hello. This is Jim Farley.

HMJr: Yes, Jim.

F: How are you?

HMJr: I'm fine.

F: I talked with you about that matter the other day.

HMJr: Yes.

F: Well, I'm convinced - I've talked with two men here in New York in addition to Patterson - one was Lew Douglas, and the other is Bayard Swope.

HMJr: You've done what?

F: I've talked with Bayard Swope.

HMJr: Yes.

F: I have talked with Lew Douglas.

HMJr: Yes.

F: And I am convinced, Henry, as definitely as I was ever convinced of anything, that a great injustice would be done if Patterson would be asked to resign.

HMJr: Really?

F: Yes, I'm sure of that.

HMJr: Uh huh.

F: Now, I'm satisfied in my own mind, and if I wasn't, I'd tell you. I've known you for years, and I wouldn't tell you anything that wasn't the truth as I saw it.

HMJr: Yes.

F: I'm convinced that an injustice would be done here, and I'm convinced that he should be permitted to carry on; and I'm satisfied that he'll do a job for you and to those associated with him and see that the job is done to your entire satisfaction.

HMJr: Uh huh. Well, does Douglas know that you're checking up for me?

F: Beg pardon?

HMJr: Would Douglas know that you're checking up for.....

F: I talked with Douglas. I was very frank. You know, I'm a pretty frank fellow, the same as you are.

HMJr: Yeah.

F: And Douglas is convinced that that is true.

HMJr: Uh huh.

F: And so is Bayard Swope. Now, Henry, you let this thing go as is.

HMJr: Yeah.

F: You keep in touch with me, and I'm satisfied - as satisfied as any fellow could be - that Dick Patterson will do the kind of a job that you want done here.

HMJr: Yeah. Well, he hasn't up to now, Jim.

F: Let's admit the organization - I don't think it was - of course, Henry, as I've looked about on this situation here, your Department, or your committee, hasn't permitted these fellows to put the pressure on as they could have put on and maybe develop something to a greater extent than they have.

HMJr: Well, that's their alibi.

F: Now, the war is on here, Henry.....

HMJr: Yeah.

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F:and I'm convinced that New York is the most loyal group of people in all the world - New York State - in every emergency.

HMJr: Uh huh.

F: And New York State under every circumstance has always delivered.

HMJr: Uh huh.

F: And I'm sure that this committee that Dick has set up here will do this job to your satisfaction.

HMJr: Uh huh.

F: And I'm honestly convinced - he got a leave of absence from his company, and I think a terrible injustice would be done if he wasn't permitted to carry on and do this job; and I'm sure he'll do it.

HMJr: Uh huh. Well, I'll give it another thought.

F: All right. Now, do that, because honest, I never felt more right about anything in my life; and if I didn't, I'd tell you.

HMJr: Okay. Thank you very much.

F: All right. Well, you do that; and if there's any other change in the situation, I wish you'd call me.

HMJr: Thank you.

F: Okay.

HMJr: Good-bye.

December 15, 1941
3:25 p.m.

HMJr:that you showed me this morning - I mean, they were blaming the FBI in part for some of those things, you know?

Edward
Foley: Yeah.

HMJr: I think I would send a copy of that telegram over to Hoover.....

F: All right.

HMJr:and ask his men whether they wouldn't co-operate with our men.

F: All right.

HMJr: Sort of put him on record, you know, a little bit.....

F: All right.

HMJr:to show that his fellows are tying up some of this too.

F: Yeah.

HMJr: Don't you think so?

F: Okay.

HMJr: What do you think?

F: I think that's a good idea.

HMJr: Yeah.

F: We'll send a copy over there.

HMJr: Big day for me. When I called McGuire she said she didn't know who Foley was or what he'd written.

F: (Laughs)

HMJr: Huh? What?

- 2 -

F: What?

HMJr: Sure, she said she didn't know. She said she always knew what Foley did, it must be it wasn't her Foley.

F: (Laughs) You mean on that.....

HMJr: Yeah. I asked her where the telegram came from.

F: Well, the Interior people - Burlew brought it over to a meeting this morning in Bell's office.....

HMJr: Oh.

F:at one o'clock.....

HMJr: Oh.

F:and I thought it was something you ought to know about.

HMJr: Sure.

F: And we had it typed up and sent in.

HMJr: Oh, well, I had quite a lot of fun kidding McGuire.

F: (Laughs) She's kind of sensitive about that.

HMJr: She likes to be kidded.

F: She doesn't like to think she doesn't know what's going on here.

HMJr: Is she sitting there?

F: No, no. No, I'm talking on your wire.

HMJr: Anyway, though, she liked it. I want Harry to sit in on it.

F: Yeah, I told Harry about it.

HMJr: All right.

F: Harry knows about it.

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HMJr: I'd send that stuff over then.

F: All right.

HMJr: Thank you.

December 15, 1941
10:30 a.m.

RE AIR RAID SHELTERS

Present: Mr. Reilly
Mrs. Klotz
Mr. Thompson
Mr. Gston
General Fleming
Mr. Reynolds
Mr. Wilson

H.M.Jr: I want to compliment both of you. I got the greatest pleasure of seeing those fellows working through the rain. I didn't get the pleasure because it was raining, but the thing was carried out, and I was thinking if you people can do a thing like that, what could they do if they really turned you people loose on emergency housing. I mean, to see those fellows working steadily right through that rain is the best demonstration of what you could do if they said, "Go ahead and build fifty thousand houses."

Fleming: By the way, we are making that trench zigzag all over the place. That is on the advice of the Engineer officers. They said if we put it straight that we should have traverses because in case there should be a direct hit on the thing, if you have it straight, the whole thing could be dangerous.

H.M.Jr: Where is Mike Reilly?

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Wilson: He is at the White House. I don't believe he understood that he was to be here.

Fleming: And besides we save a lot of trees that way, too.

H.M.Jr: Good.

Reynolds: We dug around the trees.

H.M.Jr: That will please the President. He and I both like trees.

Reynolds: We took one out, but it was a badly damaged tree. It would have died anyway in another year or two.

Fleming: Do you want us to go ahead on this?

H.M.Jr: If you would, please.

Fleming: Or wait for Mr. Reilly?

H.M.Jr: No, go right ahead.

Fleming: I have consulted with the Army Engineers and with the Air Corps people since we had our conversation. The Engineers have been keeping very much up to date on bomb proofs and splinter proofs. They have a special group over there, and they have had men in England who have just recently returned from there and have the very latest information. The Air Corps says that about all we can expect here in Washington, certainly at present, the way things are now, would be token raids, just something to come in and terrify the population, show what they can do. They would have to come from a carrier some place. That therefore limits the size of the bomb that can be carried to about two thousand pounds. They say there would be one ship with a two thousand pound bomb load that

- 3 -

would try to get through and - of course that is a pretty effective bomb, but they have used them up as high as six thousand pounds against London and that is all we could count on.

H.M.Jr:

One two thousand pound bomb?

Fleming:

Per plane. They would come over with a number of planes but - with the hopes of getting a few through. There is not much chance that they would come in day time. Our interceptor service, they think, is good enough to keep them away normally in day time, although somebody might be able to filter through if they were willing to sacrifice a large number of ships. Therefore, the chances are that if we get anything it will be at night and they will carry - instead of smaller bombs, this big bomb, so as to show what can be done. Their accuracy in daytime is very high. The Germans have showed that down in Africa, where they came in there and where they weren't hampered. They really have good bombing. They can hit. In daylight, of course, they would be hampered very materially, and their aim in that case is not good. It is just a chance shot. The effectiveness against a night raid is a complete blackout of Washington, and I think that is something that we should push forward just as hard as we can because--

H.M.Jr:

It has already been done, General. This morning I suggested to Colonel Smith, you know, secretary to the War Board or whatever they call it - he is General Marshall's man, anyway - that we have a practice, and I am hoping to have it Thursday night.

Fleming:

Well, that is--

H.M.Jr:

I mean, the whole District, planes, anti-aircraft, a regular mock battle. But they will

- 3 -

would try to get through and - of course that is a pretty effective bomb, but they have used them up as high as six thousand pounds against London and that is all we could count on.

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H.M.Jr:

I mean, the whole District, planes, anti-aircraft, a regular mock battle. But they will

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announce it, but I hope to have it Thursday.

Fleming: That is really essential, I think, because with our avenues and all, if there are any lights at all, it is easy to locate--

H.M.Jr: Well, I am pushing for Thursday night.

Fleming: Well, that is fine. We can expect any bombing about at a half hour's warning, both day and night. The Air Corps tells me there would be that much time when they get word that a ship is trying to get through.

Now, we discussed the problem of bomb proofing, and they are all convinced that the proper structure to build is one above the ground and not under ground.

H.M.Jr: Is that right?

Fleming: Yes, sir. The Admiralty in London has built a complete blackout building which is all above ground and their whole tendency is to go above ground rather than under ground, because the type of bomb that is dropped - there are about three of the mine type, that is a land mine type, to one that will explode on the surface and if you get your under ground ones, to guard against that, the explosive wave that is carried through the earth is much greater than the explosive wave that is carried just through the air, and a bomb proof that is under ground besides meeting the difficulties of water and drainage and all that is something to this terrific explosive wave that comes through the earth. And therefore their flight command is very small - that is the RAF - is under ground. That was one of the early ones built. Now they have gone to the above-ground and they all think it is far and away the best solution. The King and Queen, by the way, only have a

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splinter proof, but that is for political reasons. They don't want anybody to think that they are - have more protection than anybody else. We have, fortunately, acquired a half block right over here from Pennsylvania Avenue to H Street and on the east side of 17th Street. We have practically all of that property now and can take the rest any time.

H.M.Jr: I don't know where that is.

Reynolds: That is the proposed extension for the State Department and it takes in the present Court of Claims building.

H.M.Jr: I know the Court of Claims.

Reynolds: That is right. It is the west half of that block.

Fleming: That block all the way through to H Street.

H.M.Jr: Have you got a map?

Reynolds: Yes, sir.

Gaston: That is the block west of Lafayette Park.

Fleming: It is the west half of that block.

Reynolds: Here is a map. This is the present State Department, and this is the property that is in the process of acquisition.

H.M.Jr: You take the whole of that block?

Fleming: No, just half of it.

Reynolds: This half right here.

H.M.Jr: I see.

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- Reynolds: Last week I - we have practically all of it. We have all but two parcels acquired now. There are two little pieces we haven't gotten.
(Mr. Reilly entered the conference.)
- H.M.Jr: What is your suggestion?
- Fleming: The suggestion is to build about a five story building on that site, a complete blackout building. No windows at all. It can be made - it would have about two hundred seventy-five thousand square feet of floor space. We can make it so that there is living quarters and everything else there. It can go ahead and just stand a long siege, that building. It has a very heavy reinforced roof. This is twelve feet. Now, the Admiralty has a ten-foot roof on it. Then this floor is - what is that, five? Two feet.
- Reynolds: This is a degree floor. Sometimes when a bomb hits here this falls out and we want something to catch it.
- Fleming: The farther down you go the safer it is, so the ground floor and basement are completely safe. We think it is even safe on the top floor where we put the less important elements.
- H.M.Jr: Four hundred twenty feet long and how deep is it?
- Reynolds: It is about a hundred and forty-four feet deep. If you wanted to, you could put fifteen or twenty thousand people in it.
- H.M.Jr: Why don't you take the whole block?
- Reynolds: Well, there are other features in connection with the other purchases that we haven't - we haven't thought it necessary to do so. This was - is being purchased for an extension of the State

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Department building, only this half. Later on, at some other time, they can come around here and get the Brookings Institute and the rest of the block, but for the moment we would not recommend a building any larger than this one.

H.M.Jr: Who would use this building?

Reynolds: This group right through here.

H.M.Jr: I see.

Reynolds: Treasury, State, and the Executive Offices.

H.M.Jr: That would take care of the President's suggestion on that?

Fleming: Oh, yes. I think he probably wants some of the higher staff officers of the Army and Navy in there.

H.M.Jr: I see.

Reynolds: Our plan was to carry a tunnel from here over to the White House over to this building and from the State over to this building.

H.M.Jr: How would we get over here?

Reynolds: By the tunnel.

H.M.Jr: Oh, we would go through this other tunnel?

Wilson: The one that is being built right now.

H.M.Jr: To the White House and from there through the others?

Reynolds: We expect to extend that tunnel right on anyway over to the State Department.

H.M.Jr: Oh, you do?

Reynolds: That is my understanding, that they want that.

H.M.Jr: It doesn't show here.

Reynolds: No, it doesn't on this one. This was a sketch that we made some little time ago. This tunnel will go right through here now and this tunnel here will be changed and - we made this a couple of weeks ago as our solution to this problem. We are very glad that the army and Navy agree with us on this.

Fleming: Oh, they absolutely think it is the only thing. We can build this in six months time at a cost of about seven and a half million dollars.

H.M.Jr: Do you think we ought to show it to the President?

Fleming: Yes.

H.M.Jr: He is always interested in this stuff.

Reynolds: He has been interested in a blackout building too, you know. He has always wanted to build one building that didn't have any windows in it. This won't have any because the walls are six feet thick.

H.M.Jr: I think we ought to ask him for five minutes to show it to him.

Fleming: We have got that bomb proof communications center now right out in front of the White House.

Reynolds: Here is another thing. This tunnel comes right in here to the White House. They asked us to have a little shell down here about six hundred feet - to house the radio and so forth.

H.M.Jr: Where would this be, right out in front?

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Reynolds: Yes, under ground, and also that this room in here would be another stopgap for the President's use until this other structure is completed.

(Secretary held a telephone conversation with General Watson as follows:)

December 15, 1941
10:45 a.m.

HMJr: Hello.

General
Watson: E. M. W.

HMJr: H. M., Jr. General Fleming is here with me, and the other day the President asked me to get together and have ready a building which would house the White House staff, State, and Treasury. Now, we're ready to go ahead. I'd like to show it to the President with General Fleming, and it would only take about five minutes. Hello.

W: I tell you, he's coming over here - he's over there with Knox now.....

HMJr: Yeah.

W:and when he comes over here - I haven't dated him up at all - but God only knows how long he'll talk to Knox.....

HMJr: Yeah.

W:but when he comes over, let me ask him if he'll see you himself.

HMJr: We want - I - it's - I don't want to go ahead and order a seven million dollar building without the President seeing it.

W: I'll say, "Morg and Fleming are ready to discuss with the President a building to house the personnel of" - what?

HMJr: Of the White house.....

W: "White House".

HMJr: Well, we'll start with the President.

W: Yeah.

HMJr: The President, State, and Treasury.

W: Yeah.

HMJr: And we've got the building - everything is ready - it's been approved by the Army, but I'd like to get his ideas.

W: Well, look here, you got a place in there for the Secretary and the Military Aide?

HMJr: I don't know. Personally, I know I'd like to put them right out as bait.

W: (Laughs)

HMJr: That's what I'd like to do, right out there as bait.

W: (Laughs) Yeah, I see. I tell you, the Military Aide is too big to be used as bait.

HMJr: We'll just put you out there as bait.

W: I see. (Laughs)

HMJr: (Laughs) All right.

W: I'll get it just as soon as he comes over.

HMJr: All right.

W: He wants to see Phil, anyhow; he hasn't seen him yet.

HMJr: All right.

W: All right.

HMJr: Personally - I mean, I think the best time - I know, if he could, say, see us right after lunch.

W: Yeah. Well, I'll ask him. He's got one at three-thirty.

HMJr: Well, if he could see us right after lunch - he likes to play with this stuff.

W: Yeah, I think he'd like that. I think he'd enjoy it, yeah. He's got that speech today, the only

- 3 -

thing he's got on his mind.

HMJr: All right.

W: But I'll get that to him. H. M. Jr., - E. M. W.
car calling off. Signing off - signing off.

HMJr: All right.

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H.M.Jr: He said where would they put him, and I said, "We would use him as bait." This is Pa. We would put him right out as bait. He thought he was too big, he said, for bait. (Laughter)

Gaston: Tell him these are big bombs.

Fleming: He would make a good target.

H.M.Jr: Well, I think this. I know the way the President likes to fuss with this, and I am not going to argue whether it should be above or below ground. It is built like a battleship almost and if everybody thinks that is the way to do it, I would never argue, but I do think that we ought to get it started.

Fleming: I think so.

H.M.Jr: Don't you think when we go up for seven million dollars, we ought to have a twin which we could build for the Congress?

Reynolds: We have been in touch with the architects of the Capitol. What they have proposed heretofore is - not as a bomb-proof proposition but as a garage a place right out there in front of the Capitol in that little park there, but to us that is all wrong. We have been arguing for a building above ground. We just don't like to go down in a hole.

H.M.Jr: Well, my suggestion would be that if the President approves this or when we go up to Congress say, "Now, we would like to build an exact replica for you."

Reynolds: I wouldn't go to Congress for the money.

H.M.Jr: Have you ever tried to get any of the President's emergency fund?

Reynolds: Oh, yes, and I have been quite successful in doing it.

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H.M.Jr: Well, you are a better man than I am.

Reynolds: It is the only way that we could get some of these temporary buildings built.

H.M.Jr: What has he got, two hundred--

Thompson: Two hundred million.

H.M.Jr: What he would most likely say is he will give it to us if we get a bill through to reimburse him.

Reynolds: If it comes to a show-down, we have got twenty-five million dollars coming through the Congress now for buildings in or near the District, and we can take it out of that.

H.M.Jr: How long would it take to have your working plans in such shape to let the contract?

Reynolds: We can start the contract the moment we can get those occupants out of those buildings over there. We are working on that this morning. I told them we could give them ten days to get them out. Our drawings are sufficiently advanced that we could start the contractor to work tomorrow morning if necessary.

H.M.Jr: I still say, though, that I would put somebody on to find a spot around the Capitol.

Fleming: We are looking for spots up there.

Reynolds: Oh, yes.

H.M.Jr: And say, "Now, look, gentlemen, we will do just as well for you as we do down here." The only thing I was thinking about is, if this is the thing here, whether - the Library of Congress owns a piece up here on 16th Street.

Don't we own - we own the Cosmos building.

Reynolds: That is right.

H.M.Jr: I just wondered, if this is big enough, whether we didn't want to build another one here?

Reynolds: I think it is large enough.

H.M.Jr: You think it is?

Reynolds: I think so.

H.M.Jr: And I think it is to the advantage of the President to have everybody in one building, too.

Reynolds: This is just the answer, there is no question about it.

Fleming: And as I say, we can fix it so that his main staff could just live right there.

H.M.Jr: Fine. You allot the space, don't you?

Reynolds: Well, I have got sometimes to call on Cabinet officers when they scrap amongst themselves to give me a hand, you know, which you so generously did the other day.

H.M.Jr: And it stuck? You know what I told Henry Wallace when he called me up about it? Did I tell you about Nelson Rockefeller? I said, "What is the matter with Nelson? He is a great big baby to have to go over to see the Vice President and cry on his shoulders."

Reynolds: What we are doing to help you is to move out of that building down there, and we are moving into a temporary building so we are doing something for the Treasury.

H.M.Jr: Wonderful. I expect it. (Laughter)
Now, what else have we got?

Fleming: Well, this other--

Reynolds: Oh yes, just a moment. Can we get your approval of this little building out here in--

H.M.Jr: Will that be under ground?

Reynolds: That will be under ground. We have got to go thirty-some feet to get that damm thing in there.

Reilly: We feel we ought to have it, Mr. Secretary. This tunnel is not bomb proof, and we ought to have some place where we can go.

H.M.Jr: Is this for the President?

Reilly: Right out in front of the White House, for the President and for our communications center over there.

H.M.Jr: I think you should have a communications center.

Fleming: How long will that take?

Reynolds: Well, it will take us about two to two and a half months, I think. It is a mean thing to build. When you get down that low, you are just about on top of a Jap's head, you know, with water and snow and everything else.

Reilly: That won't interfere with construction of the tunnel whatsoever.

Reynolds: No, we have moved it out far enough.

H.M.Jr: Do you think they need that, General?

Fleming: I think they should have something like that.

Railly: If we get caught in that tunnel coming across here, if that street should cave in, we have no place to go. The house would be a mass of debris at that time, too.

H.M.Jr: I am all in favor of it.

Reynolds: That is an eight-foot concrete wall and an eight-foot ceiling, and then on the inside of it is another box which is free from the outside which is two feet thick and it gives you a pretty good protection. Now, it won't protect against a four thousand pound bomb.

H.M.Jr: Would you make a little note when you have a breathing spell, see, what do they recommend over - make a note to remind yourself - I mean for people to build on their own place, you see.

Fleming: I can tell you that. They have completely abandoned the Anderson shelter. It is for several reasons. One is that the people don't like to be alone, even in their own families in a damp shelter like that. They prefer a larger group. So they are building some now where they will take twenty to twenty-five families in localities. But the most popular of all is a small steel shelter that they have right in their own house. It is about as high as a table or as high as the window sill. It can be used as a table. It is bomb proof - not completely bomb proof but absolutely splinter proof, and they just put a mattress in there and the family goes in and all sleep together right in the house.

H.M.Jr: Well, could you give me something - in the country we are isolated. They know where we live and I want to fix something up in my own house. I mean, if you would just tell me what to do, you see. It is a wooden house. We are

on top of a rock, though. We could put a cave underneath. The house is built on the rock.

Reynolds: Is that a rock foundation? Well, we will make a study of it and give you a drawing of it if you like.

H.M.Jr: I don't want you to bother.

Reynolds: It is no bother, it is just a job.

H.M.Jr: Well, if you had time.

Reynolds: We can send somebody out there to do it.

H.M.Jr: If you had time, then just what to do, because we are on a rock, and I don't know whether we should drill underneath, you see, and drill ourselves a cave or just have something in the basement, but I would like to do something.

Reynolds: All right. Another thing that we are--

Fleming: Put in a wine cellar. (Laughter)

Klotz: Yes, that is a good suggestion.

H.M.Jr: We have argued about that.

Reilly: Mr. Secretary, my suggestion is that when they make a survey they also make a survey of Hyde Park.

H.M.Jr: There, the fellow has an idea. You have earned your salary for the year on that suggestion.

Reynolds: Another thing that they are doing is building concrete boxes with a twelve-inch wall where they can hold about fifty people. That is for a shelter. There was a five hundred pound bomb dropped over there, and it didn't go off. So they built one of these things about twelve or thirteen feet away, and they

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fastened some monkeys on the side of the wall and they fired this thing and it kicked it sideways about three feet, but it didn't hurt the monkeys. Now they are going to that for a shelter proof where you could run into. They try to keep it down to about fifty or seventy-five people. They have got them scattered everywhere, but if you have a direct hit, it is just too bad. It is just a complete black-out.

H.M.Jr: Well, his suggestion on Hyde Park is excellent.

Now, what else, gentlemen?

Fleming: Is the President going to see us?

H.M.Jr: Well, he is closeted with Colonel Knox right now, and Watson can't get at him, but he says as soon as the President comes over, he will let us know, and I will let you know. My guess is we will get an appointment after lunch.

Fleming: All right, sir.

H.M.Jr: That is my guess. As soon as I hear, I will let you know. Would you like to take Reynolds?

Fleming: Yes.

H.M.Jr: All right. Thank you very much, gentlemen. I will see you later.

(General Fleming and Mr. Reynolds left the conference.)

H.M.Jr: Now, Gaston, what is the White House stuff you have got?

Gaston: I have two things. One is this Deasy, Cawley, and Kelly. Their recommendations as to what to do now for the White House.

Reilly: I went over all that last night and we are having experts come in to see what can be done.

Gaston: And then the other stuff there is what they have done over there.

H.M.Jr: Why don't I read it?

Gaston: Yes.

H.M.Jr: Deasy?

Wilson: Deasy is the Battalion Fire Chief sent from New York City to London to study it, and we had him over at the White House yesterday to make a survey, and he is making a survey this morning at the Treasury Building and will later go to the Bureau of Engraving and make a survey. He is an outstanding man on that.

Reilly: Most of those suggestions were considered not practicable.

Gaston: You are moving on the number one report? The second report is for sand bags all around the White House.

H.M.Jr: I can't read the thing the way it is.

Gaston: I will give you a summary of it.

H.M.Jr: And what they are going to do.

Gaston: Yes.

Reilly: We will have a joint report on it during the day.

H.M.Jr: One thing I wanted to ask you. I can't read all that. General Cox called me, and he said please not to have any Christmas tree. So I spoke to Colonel Smith, and he said, Well, he didn't know whether he was right. So you boys

had better get together now.

Reilly: All right, sir.

H.M.Jr: "No Christmas tree," says General Cox.

Reilly: We suggested to Colonel Smith if the men couldn't have leave, there would be no party.

H.M.Jr: That is the party, but General Cox said there should be no Christmas tree.

Reilly: The President said he wanted it. I don't know if we could do anything about it or not.

H.M.Jr: He is reasonable about it.

Wilson: They called off the Rose Bowl and other gatherings. They can call that off.

Reilly: If you can do anything, I would appreciate it.

H.M.Jr: He is reasonable, and you can say, "This is just like putting a torch there to guide them to the place." He didn't have the Christmas tree on his grounds last year did he?

Reilly: No, we put it in there this year for the President's convenience so we wouldn't put him out there in the cold.

H.M.Jr: General Cox suggests you do it all by remote control.

Wilson: There would be approximately ten thousand or maybe fifteen thousand people inside of those grounds at least.

H.M.Jr: These men were told to come at ten-thirty and they both knew it. What did you fellows do, forget?

Wilson: No, I didn't forget, Mr. Secretary. I didn't

understand that I was to be here.

H.M.Jr: I told them to come back at ten-thirty Monday.

Wilson: Well, I think you directed that conversation at General Fleming particularly and asked him if he would come back and talk to you.

H.M.Jr: I will send you an engraved invitation next time.

Wilson: All right, sir, I am sorry.

Reilly: Sorry, sir.

December 15, 1941.

MEMORANDUM

TO: Secretary Morgenthau

FROM: Mr. Gaston

This summarizes the high points of a report to Chief Wilson yesterday by Agents W. D. Cawley, Jr., Secret Service, and L. E. Kelly, Alcohol Tax Unit, and Battalion Chief Daniel A. Deasy, New York Fire Department, who is Consultant of the Office of Civilian Defense, together with action being taken thereon.

Skylights and ventilator shafts. Recommendation for covering them with six inches of sand topped by tin roofing; further expert advice being sought. Wire netting is being installed to protect interior from glass fragmentation.

East and West flanking terraces. Roofs to be covered with sand bags and machine guns installed.

(I suggested protection of the open terrace along which the President travels from the White House to the Executive Offices. They are considering either a wholly enclosed passageway or steel curtains to drop down on the outer edge of the terrace).

Windows. Bullet-proof glass is to be installed in the windows of the President's office and study. Roll-down steel curtains are to be installed on these and some other windows in critical locations. Wire glass is to be installed in place of ordinary glass in exterior windows. Strong curtain walls are to be built around basement windows. Black-out drapes are being constructed for all windows.

Doors. Glass is being removed and non-shatterable material substituted. The plate glass inner vestibule at the front door is being removed. Entrance doors are to have vestibules which will operate as light and air

- 2 -

or gas locks. Guards are stationed at all entrances. Interior glass is all being removed or protected against fragmentation.

Combustibles. Old furniture and other unnecessary articles are being removed to safe storage places. Paints and other combustible liquids are stored in metal cabinets.

Steam line. Electric motor cut-off is being installed in steam line where it enters building and airtight barrier constructed as protection against possible break in line outside building.

Roof watch. The investigators recommended permanent guard on the roof with equipment to combat incendiary bombs. White House guards are being maintained on the terrace roofs and fire-fighting equipment is available.

Refuge. The investigators suggested improvising a shelter under the porte cochere. This has been abandoned in favor of the plan for a double-walled underground shelter north of the building which may be built within 60 days. This will contain an auxiliary electric plant.

Camouflage. Suggestion for changing the color of the building and making other exterior modifications for camouflage purposes is to be discussed with the Army Air Corps.

Gas Protection. An eight-man squad of chemical warfare experts is being supplied.

Sand bag barricade. The investigators recommended a sand bag barricade 15 feet high completely around the White House building and Executive Offices. No steps have been taken to comply with this suggestion. It is believed the President would not permit it.

WPS

TREASURY DEPARTMENT

139

INTER-OFFICE COMMUNICATION

DATE

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

December 15, 1941

You will be interested in the following cable received
December 15 from President Quezon:

"Following for President Roosevelt from President
Quezon: -

'I am in dire need of funds for public relief and the protection of our civilian population. I beg you to secure the passage of a law placing at the disposal of the Government of the Commonwealth the proceeds from excise tax on sugar already collected and if possible the Gold Devaluation Fund to be spent for the above mentioned purposes in agreement with the Commanding General of the United States Forces in the Far East. My people are already shedding their blood side by side with American soldiers and the civilian population are cooperating unto death in doing their part. My volunteer guards are serving day and night without compensation and I should like to give them at least free food. The National Assembly has appropriated all available funds of the Commonwealth Government and has authorized me to spend them for war purposes. It will have a tremendous heartening effect on my people if the United States Congress would in turn appropriate the money which after all has already been decided under existing legislation previously approved by the Congress to belong to the Government of the Commonwealth.'

SAYRE."

S.H. 7h.

December 15, 1941
2:33 p.m.

Operator: He's in Mr. Crowley's office.

HMJr: Crowley's office?

Operator: Yes.

HMJr: Get him.

Operator: All right.

HMJr: On the phone.

Operator: Right.

HMJr: Ed, on this thing of President Quezon to Roosevelt.....

Edward
Foley: Yeah.

HMJr: I think we ought to do something and move fast.

F: Well, I do, too.

HMJr: So if you'll fix up something.....

F: It seems to me, Mr. Secretary, there are two things that could be done.

HMJr: Yeah.

F: Either he can release some funds immediately.....

HMJr: Yeah.

F:from his emergency kitty, and - for what Quezon wants - at the same time recommend to Congress that legislation be passed either in this Omnibus bill or in some deficiency bill so that it would get through before they go home for Christmas to make that gold devaluation money, which is about twenty-three and a half million dollars.

HMJr: How much is the other money you're talking about?

F: The sugar money?

HMJr: Yeah, how much is that?

F: I don't know what that amounts to, but it's somewhere around twenty-five million dollars, I think.

HMJr: Well, that's what he's asking for.

F: He's asking for either that or the gold devaluation money, both of which have been promised to him.

HMJr: Which can he do - which can the President do faster?

F: We thought he could do the gold devaluation faster.

HMJr: I think they could get that through in one day.

F: I should think if you read that telegram to the two committees.....

HMJr: Yeah.

F:that you could get it through; or, if somebody had the telegram and got up and read it on the Floor of the Senate.....

HMJr: Yeah.

F:you could amend this Omnibus bill that's going through if you had the language all ready.

HMJr: Has it gone through the House yet?

F: It's coming up on the - it's coming up in the House either this afternoon or tomorrow. The Senate Committee - Judiciary Committee in the Senate - is considering it now. They presented it to the Senate Committee this morning.

HMJr: Well, if you could get me something that I could send over to the President and say I'd like to do this in view of this telegram, let's do the gold first.

- 3 -

F: All right.

HMJr: I think there's less controversy.

F: That's right.

HMJr: And - I don't know what you're doing with Leo, but I'd drop it.

F: Right. Well, we're all through here and I'm coming right back.

HMJr: And get me something to get over to the President and simply have everything ready. I'd like to have a green light from him to go ahead with this.

F: Yeah. Yeah, I think it would help out there.

HMJr: Because I think he's working on his speech. It's hard to reach him.

F: All right.

HMJr: But if you can get that moved fast, we'll have it put on the Omnibus bill.

F: All right, I'll come right back.

HMJr: What?

F: I'll come right back.

HMJr: Do that.

F: Yeah.

TREASURY DEPARTMENT

143

INTER-OFFICE COMMUNICATION

DATE December 15, 1941.

TO Secretary Morgenthau
FROM Mr. Foley

Larry Bernard has just told me that Dave Speck, Interior's legislative counsel, called him a few minutes ago and told him that Interior was arranging with the Bureau of the Budget to get \$10,000,000 out of the President's Emergency Fund to take care of the immediate needs of the Philippines and that they were going to include an appropriation item in the next supplemental appropriation for the War Department. Speck also said that Interior was sending a copy of Quezon's cable to the President. Bernard asked Speck whether he was sure everything was under control and whether they needed our help. Speck replied that everything was under control and that the Treasury could forget about the matter.

LWFh

December 15, 1940

144

Discussed with the Secretary by Mr.
Kuhn at 2:40 p.m. today.

DRAFT OF SECRETARY MORGENTHAU'S SPEECH
TO THE DEFENSE SAVINGS ORGANIZATION
AT CHICAGO, DECEMBER 17, 1941

145

This nation of ours has had a shock, and it is wiser and stronger for having had it. Every one of us must be conscious today of a clearer vision and a deeper understanding than we had two weeks ago. The bombs on Pearl Harbor have destroyed much more than what the censors would call "military objectives". They have ripped our complacency to shreds. They have blasted the old comfortable belief that the wide oceans could save us from harm. They have blown away the notion that brutality and deceit and murder in another part of the world could never touch us in ours.

We now know, or ought to know, that this whole world struggle is our war, just as much as it was to the people of Warsaw in 1939, or to the people of Rotterdam or London

in this great battle for our way of life. We have tried to make them realize that they were not isolated and could not be isolated from a struggle that would shape the future of everyone on this planet. We have tried to give the American people a greater sense of pride in their own country and a greater awareness of the dangers that face them. We have tried to give every man, woman and child in this country a sense of direct participation in its defense, a feeling that there is something for everyone to do in a great effort from which everyone will benefit in the end.

Looking back over the past eight months, I think we can all be proud of what has been accomplished. I believe in all sincerity that the devoted work of the Defense Savings

staff and all our thousands of volunteer workers throughout the country has helped greatly to crystallize American opinion. I believe that the response to the bombs at Pearl Harbor was deep and wide and immediate partly because of our groundwork in the Defense Savings program.

We have given to millions a new sense of being partners of their Government, of having a direct share in America and in American freedoms. To me, it is an achievement of far greater proportions than the raising of the more than 2 billion dollars which have rolled into the Treasury since the Defense Bonds first went on sale in May.

Now that we have cleared the decks for action, it is up to us to follow through, and that is the main purpose of

my being here with you today. We must follow through, not only in terms of a few million individuals or a couple of billion dollars, but by a determined effort to reach every individual in this country. For total wars in these days are wars involving whole peoples.

There is no exemption for any group or any section. The Nazis and the Japanese make no exceptions in their conquests. The bombs that fell at Pearl Harbor were aimed straight at every one of us, and whatever the Nazis may attempt in the Atlantic will be aimed at every one of us. We are all in this war together.

Not all of us can pilot a bombing plane or fire a gun from the deck of a battleship. Not all of us are being asked to risk and give our lives for our country.

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Not all of us can pilot a bombing plane or fire a gun from the deck of a battleship. Not all of us are being asked to risk and give our lives for our country.

Those of us who are too old or too young to get into uniform are not even being asked to give our money. We are just being asked to lend our money to the Government, to invest our savings for victory. That, ~~it seems to me,~~ is a call to which everyone must respond. We must do it to the very limit of our ability. We, the people, must show that we are ready and eager to be of some service to our country.

It has given me real encouragement to be told this morning that you of the Defense Savings Organization have been discussing detailed plans for intensifying and widening our effort, and that you have shown so much enthusiasm in these meetings. Our problem, as you all know, is one of financing the enormously expanding cost of the war while avoiding the immense and dangerous evils of inflation.

I have said right here in Chicago, in a talk to the American Bankers Association, that we are in reality fighting two wars -- one, the great struggle on all the continents and all the oceans, and the other the war against an insidious enemy here at home. That enemy is inflation. It creeps up on us as stealthily as a thief in the dark. As the President has said, inflation is a form of taxation that takes no account of the ability to pay and strikes directly at the American standard of life. Our job, therefore, is a double one, and in this renewed effort to which we of the Defense Savings staff must now dedicate ourselves, we must make sure that we deal effectively with both enemies.

For that reason, it seems to me, our major effort now must be directed particularly at those in all walks

of life who are in receipt of regular pay from wages and salaries. Inflation feeds on current income, rather than on the money that now rests in the vaults of savings banks. It may seem heartless to speak of excess spending, but there is such a thing; and by it I mean spending in the face of a limited and dwindling supply of goods. The most effective course for us, as we have known from the very beginning, has been to enlist current income and to divert excess spending, to persuade our people to set aside a part of their pay every pay day in Defense Bonds and Stamps.

Let's now make every pay day Bond Day. And when I speak of regular investment every pay day, I am speaking not only of the millions of factory workers, not only of the teachers and accountants, the clerks and civic employees who live on regular salaries, but also of the farmers who

are earning solid incomes for the first time in many years and who will be the first to suffer if we allow inflation to get out of hand.

All these are the people we must reach, with a determined effort that will have an impact in Berlin and Rome and Tokyo, an effort that will give new heart and courage to the free peoples who are fighting on our side everywhere.

I have been asked many times whether we have a goal, a quota for the United States. I have always avoided answering with a money figure because such a goal would have no significance. But I will tell you now what my goal is, what our goal for the next three months shall be and must be. It is to reach quickly, within the next few months, every single recipient of regular current

income in the United States, and to have every one of these 35 million people setting aside some part of their pay regularly within the shortest possible time. And when I say "some part of their pay," I am not thinking merely of a token contribution. I mean a real investment, the very limit that each person can afford without actually taking food and other necessities from himself and his family.

When this meeting ends, I hope that this organization will set to work in every State and every community, throughout this great front line of freedom that is the United States, with the same devotion and determination that is now being shown by the men in our fighting forces.

I have complete confidence in the ability of this great group to reach the goals I have set for you today.

We have been more than fortunate in the men and women who have rallied to our help since the first of May in all parts of the country. It has been a truly thrilling experience for me as Secretary of the Treasury to see the superb cooperation we have had from labor and industry, from Republicans and Democrats, from foreign-born and American-born, from all the assorted groups and nationalities of which this united American people is composed.

I am genuinely glad to see all our State leaders assembled here in one room, and to thank them on behalf of their Government for the work they have already done. In thanking them I should also like to thank The Federal Reserve Bank of Chicago, our hosts at this luncheon, and all the member banks of the Federal Reserve System who

have given us such magnificent help ever since the start of the Defense Savings program.

Now that the greater and more insistent call has come, we are ready to meet it. Our organization has been set up, our people are hard at work, our country knows what Defense Bonds are and what they do. It is up to each and every one of us to do our part.

Our fighting men in the Philippines and Iceland, in Hawaii and Wake and Midway, in all the posts of danger on all the seven seas, are looking to us to supply them with the planes and guns they need. The whole country is looking to us, right here in this room, to raise billions of dollars to win this war -- and let none of our enemies make any mistake about it, we are going to win it. Our allies in all continents, who have been fighting our battle

with our common enemy for long, hard years, are looking to us, and also the oppressed peoples in the conquered lands who are now living in darkness -- they, too, are looking to us to sweep that darkness and that misery away.

It is by far the greatest test and the grandest opportunity that has ever come to our country. We in this room must prove ourselves worthy of that challenge. The words that Winston Churchill addressed to his own people a year ago can now be applied to ours: come, then, let us brace ourselves to our duty, and let us so bear ourselves that if these United States should last for a thousand years, men will still say, "This was their finest hour."

12/15/41

December 15, 1941
3:13 p.m.

HMJr: Hello.

General Watson: I brought that up to him.

HMJr: Yeah.

W: I don't think he's feeling good.

HMJr: Oh, I'm sorry.

W: He said you were crazy as hell. He's not going to build that building.

HMJr: He asked me to.

W: Well, he said, "What building", he said. I said, "Well, a building that Henry said the personnel of Treasury, State and the White House."

HMJr: Yeah.

W: I said, "It's evidently quite a building - several million dollars." I didn't tell him that seven.

HMJr: Yeah.

W: "Why," he said, "tell him he's crazy, what is he talking about."

HMJr: Well, I guess he's feeling low - he told me to do it.

W: Well, he isn't feeling good today.

HMJr: Oh. Why.....

W: I don't think so.

HMJr: Why doesn't he go out for a drive or something?

W: Well, I can't get him out.

HMJr: What?

W: I ain't able to get him out.

- 2 -

HMJr: Oh.

W: He's going to have - Knox has been with him all night and day. He.....

HMJr: I see. Well, that's enough.

W: That's enough to make anybody feel bad, isn't it?

HMJr: That's right.

W: Yeah. But he said - I think you better - did he say really build it for that purpose?

HMJr: Well, he told me - well, he said - have a - what he told me was to have a bomb cellar, see?

W: Yeah.

HMJr: Now, all the engineers that come back from England say "Don't put the people in the cellar any more, put them up in the building."

W: Yeah.

HMJr: They've got - I think it's an eight or twelve foot concrete roof over this thing.

W: Hmm!

HMJr: This is the latest stuff that the Army engineers have brought back from England.

W: It costs seven million dollars did you say?

HMJr: Yes, sir.

W: I didn't tell him anything about that.

HMJr: Well, I tell you what we'll do. We're going to go ahead and get the property anyway.

W: Sure.

HMJr: And we'll have all the plans ready.

W: That's what I'd do. He's not feeling right today.

HMJr: And we'll go right ahead up to the point of signing

- 3 -

a contract.

W: Yeah.

HMJr: And.....

W: He said, "He's crazy, I don't want any building", he said.

HMJr: Uh huh. Well.....

W: I said, "Well, he thought you did."

HMJr: (Laughs) Did you tell him what I told you that you were just bait?

W: I didn't tell him that.

HMJr: I know darned well you didn't.

W: He was too damn - in such a hurry.

HMJr: Yeah.

W: Willkie was going in. I was trying to get him to make his appointment before I went to lunch.

HMJr: I know. Well, thanks, old man. We'll tackle him the end of the week.

W: I think I would. Let's get him gradually.

HMJr: Yeah. We're digging up his front lawn now as it is.

W: Yeah. Well, where are you going to put it?

HMJr: The building?

W: Yeah. You've got your ground, have you?

HMJr: Yeah. I tell you, it's opposite the State Department where that - oh, I don't know - that street that runs opposite from them - across the street - you know, where you used to go to get your passports in the old days.

W: Oh, yeah.

HMJr: What?

W: Yeah.

HMJr: That block there.

W: Yeah.

HMJr: See?

W: Yeah. Well, all right, you just go on - you know what to do.

HMJr: I know what to do.

W: I don't have to tell you anything.

HMJr: And now this - while I've got you on the wire - General Cox called me up about this Christmas tree business.

W: Yeah.

HMJr: And he doesn't want it.

W: Well, nobody else wants it; but President's going to have it.

HMJr: Well, I may take a crack at him on it.

W: Yeah, I think I would. He was a little undecided this morning. All of us said, "Why, I wouldn't have that."

HMJr: Well, Cox says that you might just as well put up an airplane beacon right in front of the White House.

W: Well, I think he's right.

HMJr: And you might just as well have one then; and he definitely wanted me to help him, but I - if the President's not feeling right, I'll wait a day.

W: Lay off a day or two.

- 5 -

HMJr: Okay, I guess after seeing Knox he needs a day.
W: He'll need one more day.
HMJr: All right.
W: All right.
HMJr: Thank you.
W: Good-bye.

December 15, 1941
3:21 p.m.

HMJr: I just heard from General Watson and he says the President is a little off his feed today.....

General
Fleming: Yeah.

HMJr: That's between us. And he said, "Where does Morgenthau get the idea of a building?" Well, of course, what the President told me was to build a cellar, see?

F: Yes.

HMJr: So I said we'd go - I told Watson we'd go right ahead and make the plans and get the property and we'd let it rest for a couple of days, and then hit him again.

F: All right.

HMJr: And Watson said that was the thing to do.

F: Okay.

HMJr: He said he'd had Knox all last night and all this morning, and it was enough to put him off his feed.

F: I guess so.

HMJr: See?

F: Well, you think I ought to just go ahead then?

HMJr: You go ahead, but before - after all, you won't be ready to let the contract for ten days.

F: Oh, no. No, no.

HMJr: So I'd go ahead just as though we were going to. We'll ask to see him Thursday or Friday.

F: All right, fine.

HMJr: See?

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F: Yeah. All right. Thank you.

HMJr: Thank you.

DECEMBER 19, 1941

CONFIDENTIAL: To be held in **STRICT CONFIDENCE** and no disclosure or intimation to be divulged or given until the **PRIVACY** of the President's message has been in the Senate or the House of Representatives. **SECURITY** must therefore be exercised to avoid premature publication.

STEPHEN EARLY
Secretary to the President

TO THE CONGRESS OF THE UNITED STATES OF AMERICA:

On December 8, 1941, I presented to the Congress a message in person asking for a declaration of war as an answer to the treacherous attack made by Japan the previous day upon the United States. For the information of the Congress, and as a public record of the facts, I am transmitting this historical summary of the past policy of this country in relation to the Pacific area and of the more immediate events leading up to this Japanese onslaught upon our forces and territory. Attached hereto are the various documents and correspondence implementing this history.

I

A little over a hundred years ago, in 1833, the United States entered into its first Far Eastern treaty, a treaty with Siam. It was a treaty providing for peace and for amicable relationships.

Ten years later Caleb Cushing was sent to negotiate and in 1844 there was concluded our first treaty with China.

In 1853, Commodore Perry knocked on Japan's doors. In the next few years those doors began to open; and Japan, which had kept itself aloof from the world, began to adopt what we call Western civilization. During those early years, the United States used every influence it could exert to protect Japan in her transition stage.

With respect to the entire Pacific area, the United States has consistently urged, as it has for all other parts of the globe, the fundamental importance to world peace of fair and equal treatment among nations. Accordingly whenever there has been a tendency on the part of any other nation to encroach upon the independence and sovereignty of countries of the Far East, the United States has tried to discourage such tendency wherever possible.

There was a period when this American attitude was especially important to Japan. At all times it has been important to China and to other countries of the Far East.

At the end of the nineteenth century, the sovereignty of the Philippine Islands passed from Spain to this country. The United States pledged itself to a policy toward the Philippines designed to equip them to become a free and independent nation. That pledge and that policy we have consistently carried out.

At that time there was going on in China what has been called the "open door" policy. There was even talk about a possible "open door" policy in China. It was then that the principle of the "open door" in China was laid down. In 1900, the American Government declared that its policy was to "seek a solution which may bring about permanent safety and peace to China protect all rights guaranteed to friendly powers by treaty and international law and safeguard for the benefit the principle of equal and impartial trade with all parts of the Chinese Empire".

Ever since that day, we have consistently and unfailingly advocated the principles of the open door policy throughout the Far East.

In the year 1908 the Government of the United States and the Government of Japan concluded an agreement by an exchange of notes. In that agreement, the two Governments jointly declared that they were determined to support "by all pacific means at their disposal the independence and integrity of China and the principle of equal opportunity for commerce and industry of all nations in that Empire"; that it was "the wish of the two Governments to encourage the free and peaceful development of their commerce on the Pacific Ocean"; and that "the policy of both Governments" was "directed to the maintenance of the existing status quo" in that region.

The United States has consistently practiced the principles enunciated in that agreement.

In 1921, following the close of the first World War, nine powers having interests in the western Pacific met in conference in Washington. China, Japan, and the United States were there. One great objective of this conference was the maintenance of peace in the Pacific. This was to be achieved by reduction of armament and by regulation of competition in the Pacific and Far Eastern areas. Several treaties and agreements were concluded at that conference.

One of these was the Nine Power Treaty (see Annex 1). It contained pledges to respect the sovereignty of China and the principle of equal opportunity for the commerce and industry of all nations throughout China.

Another was a treaty between the United States, the British Empire, France, Italy, and Japan providing for limitation of naval armament. (see Annex 1)

The course of events which have led directly to the present crisis began ten years ago. For it was then -- in 1931 -- that Japan undertook on a large scale its present policy of conquest in China. It began by the invasion of Manchuria, which was part of China. The Council and the Assembly of the League of Nations, at once and during many months of continuous effort thereafter, tried to persuade Japan to stop. The United States supported that effort. For example, the Government of the United States on January 7, 1932, specifically stated in notes sent to the Japanese and the Chinese Governments that it would not recognize any situation, treaty, or agreement brought about by violation of treaties. (see Annex 2)

This barbaric aggression of Japan in Manchuria set the example and the pattern for the course soon to be pursued by Italy and Germany in Africa and in Europe. In 1933 Hitler assumed power in Germany. It was evident that, now re-armed, Germany would embark upon a policy of conquest in Europe. Italy -- then still under the domination of Mussolini -- also had resolved upon a policy of conquest in Africa and in the Mediterranean.

Through the years which followed, Germany, Italy and Japan reached an understanding to time their acts of aggression to their common advantage -- and to bring about the ultimate enslavement of the rest of the world.

In 1934, the Japanese Minister for Foreign Affairs sent a friendly note to the United States, stating that he firmly believed that no question existed between the two Governments that was "fundamentally incapable of amicable solution". He added that Japan had "no intention whatever to provoke and make trouble with any other Power". (see Annex 3) Our Secretary of State, Cordell Hull, replied in kind. (see Annex 4)

But in spite of this exchange of friendly sentiments, and almost immediately thereafter, the acts and utterances of the Japanese

Government began to belie these assurances -- at least so far as the rights and interests of other nations in China were concerned.

Our Government thereupon expressed to Japan the view of the American people, and of the American Government, that no nation has the right thus to override the rights and legitimate interests of other sovereign states. (see Annex 5)

The structure of peace which had been founded upon the Washington Conference treaties began to be discarded by Japan. Indeed, in December of 1934, the Japanese Government gave notice of its intention to terminate the Naval Treaty of February 6, 1922, which had limited competition in naval armament. She thereafter intensified and multiplied her rearmament program.

In 1936 the Government of Japan openly associated itself with Germany by entering the anti-Comintern Pact.

This Pact, as we all know, was nominally directed against the Soviet Union; but its real purpose was to form a league of fascism against the free world, particularly against Great Britain, France and the United States.

Following this association of Germany, Italy and Japan, the stage was now set for an unlimited campaign of conquest. In July 1937, feeling themselves ready, the armed forces of Japan opened new large-scale military operations against China. Presently, her leaders, dropping the mask of hypocrisy, publicly declared their intention to seize and maintain for Japan a dominant position in the entire region of eastern Asia, the western Pacific, and the southern Pacific.

They thus accepted the German thesis that seventy or eighty million Germans were by race, training, ability and might, superior in every way to any other race in Europe -- superior to about four hundred million other human beings in that area. And Japan, following suit, announced that the seventy or eighty million Japanese people were also superior to the seven or eight hundred million other inhabitants of the Orient -- nearly all of whom were infinitely older and more developed in culture and civilization than themselves. Their conquest would make them masters of a region containing almost one-half the population of the earth. It would give them complete control of vast sea lanes and trade routes of importance to the entire world.

The military operations which followed in China flagrantly disregarded American rights. Japanese armed forces killed Americans. They wounded or abused American men, women, and children. They sunk American vessels -- including a naval vessel, the Panay. They bombed American hospitals, churches, schools, and missions. They destroyed American property. They obstructed, and in some cases, drove out, American commerce.

In the meantime, they were inflicting incalculable damage upon China, and ghastly suffering upon the Chinese people. They were inflicting wholesale injuries upon other nations -- flouting all the principles of peace and good will among men.

There are attached hereto (see respectively Annexes 6, 7, 8 and 9) lists of American nationals killed or wounded by Japanese forces in China since July 7, 1937; of American property in China reported to have been damaged, destroyed or seriously endangered by Japanese air bombing or air machine-gunning; of American nationals reported to have been assaulted, arbitrarily detained or subjected to indignities; of interferences with American nationals, rights and interests. These lists are not complete. However, they are ample evidence of the flagrant Japanese disregard of American rights and civilized standards.

II

Meanwhile, brute conquest was on the rampage in Europe and the Mediterranean.

Hitler and Mussolini embarked upon a scheme of unlimited conquest. Since 1935, without provocation or excuse they have attacked,

conquered, and reduced to economic and political slavery some sixteen independent nations. The machinery set up for their unlimited conquest included, and still includes, not only enormous armed forces, but also huge organizations for carrying on plots, intrigue, intimidation, propaganda and sabotage. This machine -- unprecedented in size -- has world-wide ramifications; and into them the Japanese plans and operations have been steadily interlocked.

As the forces of Germany, Italy and Japan increasingly combined their efforts over these years, I was convinced that this combination would ultimately attack the United States and the Western Hemisphere -- if it were successful in the other continents. The very existence of the United States as a great free people, and the free existence of the American family of nations in the New World, would be a startling challenge to the Axis. The Axis dictators would choose their own time to make it clear that the United States and the New World were included in their scheme of destruction.

This they did last year, in 1940, when Hitler and Mussolini concluded a treaty of alliance with Japan deliberately aimed at the United States.

The strategy of Japan in the Pacific area was a faithful counterpart of that used by Hitler in Europe. Through infiltration, encirclement, intimidation, and finally armed attack, control was extended over neighboring peoples. Each such acquisition was a new starting point for new aggression.

III

Pursuing this policy of conquest, Japan had first worked her way into and finally seized Manchuria. Next she had invaded China; and has sought for the past four and one-half years to subjugate her.

Passing through the China Sea close to the Philippine Islands, she then invaded and took possession of Indochina. Today the Japanese are extending this conquest throughout Thailand -- and seeking the occupation of Malaya and Burma. The Philippines, Borneo, Sumatra, Java come next on the Japanese time-table; and it is probable that further down the Japanese page, are the names of Australia, New Zealand and all the other Islands of the Pacific -- including Hawaii and the great chain of the Aleutian Islands.

To the eastward of the Philippines, Japan violated the mandate under which she had received the custody of the Caroline, Marshall and Mariana Islands after the World War, by fortifying them, and not only closing them to all commerce but her own, but forbidding any foreigner even to visit them.

Japanese spokesmen, after their custom, cloaked these conquests with innocent-sounding names. They talked of the "New Order in Eastern Asia"; and then of the "co-prosperity sphere in Greater East Asia". What they really intended was the enslavement of every nation which they could bring within their power, and the enrichment -- not of all Asia, not even of the common people of Japan -- but of the war lords who had seized control of the Japanese State. Here too they were following the Nazi pattern.

By this course of aggression, Japan made it necessary for various countries, including our own, to keep in the Pacific in self-defense large armed forces and a vast amount of material which might otherwise have been used against Hitler. That, of course, is exactly what Hitler wanted them to do. The diversion thus created by Hitler's Japanese ally forced the peace-loving nations to establish and maintain a huge front in the Pacific.

IV

Throughout this course and program of Japanese aggression, the Government of the United States consistently endeavored to persuade the Government of Japan that Japan's best interests would lie in maintaining and cultivating friendly relations with the United States and with all other countries that believe in orderly and peaceful processes. Following the outbreak of hostilities between Japan and China in 1937, this Government made known to the Japanese Government and to the Chinese Government that whenever both those Governments considered it desirable we stood ready to exercise our good offices. During the following years of conflict that attitude on our part remained unchanged.

In October 1937, upon invitation by which the Belgian Government made itself the host, nineteen countries which have interests in the Far East, including the United States, sent representatives to Brussels to consider the situation in the Far East in conformity with the Nine Power Treaty and to endeavor to bring about an adjustment of the difficulties between Japan and China by peaceful means. Japan and Germany only of all the powers invited declined to attend. Japan was itself an original signatory of the Treaty. China, one of the signatories, and the Soviet Union, not a signatory, attended. After the Conference opened, the countries in attendance made further attempts to persuade Japan to participate in the Conference. Japan again declined.

On November 24, 1937 the Conference adopted a declaration, urging that "hostilities be suspended and resort be had to peaceful processes".

Japan scorned the Conference and ignored the recommendation.

It became clear that, unless this source of affairs in the Far East was halted, the Pacific area was doomed to experience the same horrors which have devastated Europe.

Therefore, in this year of 1941, in an endeavor to end this process by peaceful means while there seemed still to be a chance, the United States entered into discussions with Japan.

For nine months, these conversations were carried on, for the purpose of arriving at some understanding acceptable to both countries.

Throughout all of these conversations, this Government took into account not only the legitimate interests of the United States but also those of Japan and other countries. When questions relating to the legitimate rights and interests of other countries came up, this Government kept in appropriate contact with the representatives of those countries.

In the course of these negotiations, the United States steadfastly advocated certain basic principles which should govern international relations. These were:

The principle of inviolability of territorial integrity and sovereignty of all nations.

The principle of non-interference in the internal affairs of other countries.

The principle of equality -- including equality of commercial opportunity and treatment.

The principle of reliance upon international cooperation and conciliation for the prevention, and pacific settlement, of controversies.

The Japanese Government, it is true, repeatedly offered qualified statements of peaceful intention. But it became clear,

as each proposal was explored, that Japan did not intend to modify in any way her greedy designs upon the whole Pacific world. Although she continually maintained that she was promoting only the peace and greater prosperity of East Asia, she continued her brutal assault upon the Chinese people.

Nor did Japan show any inclination to renounce her unholy alliance with Hitlerism.

In July of this year the Japanese Government connived with Hitler to force from the Vichy Government of France, permission to place Japanese armed forces in southern Indochina; and began sending her troops and equipment into that area.

The conversations between this Government and the Japanese Government were thereupon suspended.

But during the following month, at the urgent and insistent request of the Japanese Government, which again made emphatic profession of peaceful intent, the conversations were resumed.

At that time the Japanese Government made the suggestion that the responsible heads of the Japanese Government and of the Government of the United States meet personally to discuss means for bringing about an adjustment of relations between the two countries. I should have been happy to travel thousands of miles to meet the Premier of Japan for that purpose. But I felt it desirable, before so doing, to obtain some assurance that there could be some agreement on basic principles. This Government tried hard -- but without success -- to obtain such assurance from the Japanese Government.

The various proposals of the Japanese Government and the attitude taken by this Government are set forth in a document which the Secretary of State handed to the Japanese Ambassador on October 2, 1941 (see Annex 10).

Thereafter, several formulas were offered and discussed. But the Japanese Government continued upon its course of war and conquest.

Finally, on November 20, 1941, the Japanese Government presented a new and narrow proposal, (see Annex 11) which called for supplying by the United States to Japan of as much oil as Japan might require, for suspension of freezing measures, and for discontinuance by the United States of aid to China. It contained however no provision for abandonment by Japan of her warlike operations or aims.

Such a proposal obviously offered no basis for a peaceful settlement or even for a temporary adjustment. The American Government, in order to clarify the issues, presented to the Japanese Government on November 26, a clear-cut plan for a broad but simple settlement. (See Annex 12)

The outline of the proposed plan for agreement between the United States and Japan was divided into two parts:

In section one there was outlined a mutual declaration of policy containing affirmations that the national policies of the two countries were directed toward peace throughout the Pacific area, that the two countries had no territorial designs or aggressive intentions in that area, and that they would give active support to certain fundamental principles of peace upon which their relations with each other and all other nations would be based. There was provision for mutual pledges to support and apply in their economic relations with each other and with other nations and peoples liberal economic principles, which were enumerated, based upon the general principle of equality of commercial opportunity and treatment.

In section two there were outlined proposed steps to be taken by the two Governments. These steps envisaged a situation in which there would be no Japanese or other foreign armed forces in French Indochina or in China. Mutual commitments were suggested along lines

as follows: (a) to endeavor to conclude a multilateral non-aggression pact among the governments principally concerned in the Pacific area; (b) to endeavor to conclude among the principally interested governments an agreement to respect the territorial integrity of Indochina and not to seek or accept preferential economic treatment therein; (c) not to support any government in China other than the National Government of the Republic of China with capital temporarily at Chungking; (d) to relinquish extraterritorial and related rights in China and to endeavor to obtain the agreement of other governments now possessing such rights to give up those rights; (e) to negotiate a trade agreement based upon reciprocal most-favored-nation treatment; (f) to remove freezing restrictions imposed by each country on the funds of the other; (g) to agree upon a plan for the stabilization of the dollar-yen rate; (h) to agree that no agreement which either had concluded with any third power or powers shall be interpreted by it in a way to conflict with the fundamental purpose of this agreement; and (i) to use their influence to cause other governments to adhere to the basic political and economic principles provided for in this suggested agreement.

In the midst of these conversations, we learned that new contingents of Japanese armed forces and new masses of equipment were moving into Indochina. Toward the end of November these movements were intensified. During the first week of December new movements of Japanese forces made it clear that, under cover of the negotiations, attacks on unspecified objectives were being prepared.

I promptly asked the Japanese Government for a frank statement of the reasons for increasing its forces in Indochina. (see Annex 13) I was given an evasive and specious reply (see Annex 14). Simultaneously, the Japanese operations went forward with increased tempo.

We did not know then, as we know now, that they had ordered and were even then carrying out their plan for a treacherous attack upon us.

I was determined, however, to exhaust every conceivable effort for peace. With this in mind, on the evening of December sixth last, I addressed a personal message to the Emperor of Japan. (see Annex 15).

In this Government's proposal of November twenty-sixth the Japanese Government made no reply until December seventh. On that day the Japanese Ambassador here and the Special Representative whom the Japanese Government had sent to the United States to assist in peaceful negotiations, delivered a lengthy document to our Secretary of State, one hour after the Japanese had launched a vicious attack upon American territory and American citizens in the Pacific.

That document (see Annex 16) was a few minutes after its receipt aptly characterized by the Secretary of State as follows:

"I must say that in all my conversations with you (the Japanese Ambassador) during the last nine months I have never uttered one word of untruth. This is borne out absolutely by the record. In all my fifty years of public service I have never seen a document that was more crowded with infamous falsehoods and distortions -- infamous falsehoods and distortions on a scale so huge that I never imagined until today that any Government on this planet was capable of uttering them."

I concur emphatically in every word of that statement.

For the record of history, it is essential in reading this part of my Message always to bear in mind that the actual air and submarine attack in the Hawaiian Islands commenced on Sunday, December 7, at 1:30 P.M., Washington Time -- 7:00 A.M. Honolulu Time of same day -- Monday, December 8, 2:20 A.M., Tokyo Time.

To my message of December 6 (9 P.M. Washington Time -- December 7, 11 A.M. Tokyo Time) to the Emperor of Japan, invoking his cooperation with me in further effort to preserve peace, there had finally come to me on December 10 (6:23 A.M. Washington Time -- December 10, 9:23 P.M., Tokyo Time) a reply, conveyed in a telegraphic report by the American Ambassador at Tokyo dated December 8, 1 P.M. (December 7, 11 P.M., Washington Time).

The Ambassador reported that at seven o'clock on the morning of the 8th (December 7, 5 P.M., Washington Time) the Japanese Minister for Foreign Affairs asked him to call at his official residence; that the Foreign Minister handed the Ambassador a memorandum dated December 8 (December 7, Washington Time) the text of which had been transmitted to the Japanese Ambassador in Washington to be presented to the American Government (this was the memorandum which was delivered by the Japanese Ambassador to the Secretary of State at 2:30 P.M. on Sunday, December 7 (Monday, December 8, 4:20 A.M., Tokyo Time)); that the Foreign Minister had been in touch with the Emperor; and that the Emperor desired that the memorandum be regarded as the Emperor's reply to my message.

Further, the Ambassador reports, the Foreign Minister made an oral statement. Textually, the oral statement began, "His Majesty has expressed his gratefulness and appreciation for the cordial message of the President". The message further continued to the effect that, in response to our inquiries on the subject of increase of Japanese forces in French Indochina, His Majesty had commanded his Government to state its views to the American Government. The message concluded, textually, with the statement:

"Establishment of peace in the Pacific, and consequently of the world, has been the cherished desire of His Majesty for the realization of which he has hitherto made his Government to continue its earnest endeavors. His Majesty trusts that the President is fully aware of this fact."

Japan's real reply, however, made by Japan's war lords and obviously formulated many days before, took the form of the attack which had already been made without warning upon our territories at various points in the Pacific.

There is the record, for all history to read in amazement, in sorrow, in horror and in disgust!

We are now at war. We are fighting in self-defense. We are fighting in defense of our national existence, of our right to be secure, of our right to enjoy the blessings of peace. We are fighting in defense of principles of law and order and justice, against an effort of unprecedented ferocity to overthrow those principles and to impose upon humanity a regime of ruthless domination by unrestricted and arbitrary force.

Other countries, too -- a host of them -- have declared war on Japan. Some of them were first attacked by Japan, as we have been. China has already been valiantly resisting Japan in an undeclared war forced upon her by Japan. After four and one-half years of stubborn resistance, the Chinese now and henceforth will fight with renewed confidence and confirmed assurance of victory.

All members of the Great British Commonwealth, themselves fighting heroically on many fronts against Germany and her Allies, have joined with us in the Battle of the Pacific as we have joined with them in the Battle of the Atlantic.

All but three of the governments of nations overrun by German armies have declared war on Japan. The other three are severing relations.

In our own Hemisphere many of our Sister Republics have declared war on Japan and the others have given firm expression of their solidarity with the United States.

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The following are the countries which have to date declared war against Japan:

Australia
Canada
China
Costa Rica
Cuba
Dominican Republic
Guatemala
Haiti
Honduras
The Netherlands
Nicaragua
New Zealand
Panama
El Salvador
South Africa
United Kingdom
Poland

These and other peace-loving countries will be fighting as are we, first, to put an end to Japan's program of aggression and, second, to make good the right of nations and of mankind to live in peace under conditions of security and justice.

The people of this country are totally united in their determination to consecrate our national strength and man-power to bring conclusively to an end the pestilence of aggression and force which has long menaced the world and which now has struck deliberately and directly at the safety of the United States.

FRANKLIN D. ROOSEVELT

THE WHITE HOUSE,

December 15, 1941.

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Annex 954

1. Senate Document No. 124, 67th Congress, 2nd Session, which contains texts of Washington Conference Treaties and Resolutions.
2. Identic notes to the Japanese and the Chinese Governments, January 7, 1932.
3. Note from the Japanese Minister for Foreign Affairs, handed to the Secretary of State by the Japanese Ambassador, February 21, 1934.
4. Reply thereto, handed to the Japanese Ambassador by the Secretary of State on March 3, 1934.
5. Statement by the American Ambassador to Japan to the Japanese Minister for Foreign Affairs, April 29, 1934.
6. List of American nationals killed or wounded by Japanese forces in China since July 7, 1937.
7. List of American property in China reported to have been damaged, destroyed, or seriously endangered by Japanese air bombing or air machine-gunning since July 7, 1937.
8. List of American nationals reported to have been assaulted, arbitrarily detained, subjected to indignities, et cetera, since July 7, 1937, by Japanese authorities or agents.
9. List of Japanese interferences with American trade and enterprise in China.
10. Document handed by the Secretary of State to the Japanese Ambassador on October 2, 1941.
11. Document handed to the Secretary of State, by the Japanese Ambassador on November 20, 1941.
12. Document handed by the Secretary of State to the Japanese Ambassador on November 28, 1941.
13. Memorandum addressed by the President to the Secretary and the Under Secretary of State, copy of which, under authorization of the President, was read and handed by the Under Secretary of State to the Japanese Ambassador on December 2, 1941.
14. Reply thereto, handed to the Secretary of State by the Japanese Ambassador on December 5, 1941.
15. Personal message from the President to the Emperor of Japan, December 6, 1941.
16. Document handed by the Japanese Ambassador to the Secretary of State, December 7, 1941.

December 15, 1941

Dear Ross:

I am taking the liberty of sending you a copy of the New Republic and I want to draw your particular attention, on page 824, to "Exit, the Common Cold".

If this article is based on sound medical information, might I suggest that we put several of these lamps in the President's bedroom and in the oval room upstairs and that, as recommended, we treat the air that is pumped into his office through the air conditioning system.

Yours sincerely,

(Signed) Henry

Rear Admiral Ross T. McIntire,
Surgeon General, United States Navy,
The White House.

By Messenger

Dixon 4:35

M.R.C.

December 15, 1941

Dear Ross:

I am taking the liberty of sending you a copy of the New Republic and I want to draw your particular attention, on page 824, to "Exit, the Common Cold".

If this article is based on sound medical information, might I suggest that we put several of these lamps in the President's bedroom and in the oval room upstairs and that, as recommended, we treat the air that is pumped into his office through the air conditioning system.

Yours sincerely,

(Signed) Henry

Rear Admiral Ross T. McIntire,
Surgeon General, United States Navy,
The White House.

By Messenger

Diakon #135

H.M.C.

December 15, 1941
4:34 a.m.

HMJr: Clif Mack, Mrs. Klotz tells me that you and McKeachie want to see me about some consolidation.

Clifton Mack: Yes, sir.

HMJr: Now, the only time I could see you people would be if you wanted to come to the house tonight at a quarter of nine I could see you.

M: Well, that would be splendid.

HMJr: Both of you.

M: Yes, sir; that's fine.

HMJr: Well, I could see you at a quarter of nine; that would be my only time.

M: Very good.

HMJr: All right.

M: Fine, and thank you.

HMJr: How do you know you can deliver McKeachie?

M: Well, I'll get him.

HMJr: All right.

M: Yes, sir.

HMJr: Thank you.

December 17, 1941

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MEMORANDUM FOR FILE:

Meeting - December 15, 1941

8:45 PM, 2434 Belmont Rd., N. W.

Present:

Hon. Henry Morgenthau

Secretary of the Treasury

Mr. Douglas MacKeachie, Director of Purchases, Office of Production Management

Mr. Clifton E. Mack, Director of Procurement, Treasury Department

The meeting was arranged to discuss the matter of coordinating non-military purchases.

Mr. MacKeachie pointed out that the supply situation is becoming more difficult due to the scarcity of many materials and that control would be necessary to avoid waste or unnecessary use. He added that an executive order should be drawn up to authorize centralized control and that he, also someone from the Bureau of the Budget, might cooperate with me as a Board or Committee to pass on requisitions involving matters of policy such as requests for materials that are not justified, illustrating the practice of Federal agencies to requisition steel furniture when wood furniture would serve the purpose as well.

The Secretary stated that, in his opinion, there is ample authority in the executive order which created the Procurement Division to determine policies of purchasing by the Federal agencies and to consolidate purchases, exclusive of the War and Navy Departments, and that he did not believe that a further executive order would be needed for that purpose but that it might be well to obtain a legal opinion to determine what authority, if any, is needed to control the use of unjustified supplies.

Mr. MacKeachie spoke of the program which the Procurement Division and the Office of Production Management have been working out relative to the purchase of office furniture and the steps taken by the Office of Production Management to limit the use of steel office furnishings.

The Secretary then asked me if, in my opinion, any further authority would be required to determine purchase policies or to consolidate purchases by the Federal agencies other than Army and Navy and I stated that, in my opinion, the present authority is adequate as to purchasing, further that we have been recording all non-military purchases since July 1st and are making consolidations

low on furniture, automobiles and studying heavy equipment, substantial savings having been effected.

I stated further that the degree of justification required of an agency to support a requisition of a tight material is a consideration that would come within the Office of Production Management's determination as to availability.

Mr. Morgenthau then stated that if any agency insisted upon ordering supplies which were not essential or justifiable and interfered with materials needed for military use, although not restricted by specific order, that the matter could be readily corrected by calling the situation to the attention of the head of the agency involved.

I briefly reviewed the progress that has been made by the Procurement Division towards centralized control, pointing out that last year funds were requested to set up a Purchase Classification Group effective July 1 of this year and that commodity studies are being currently made, also that Mr. MacKeachie's comments fitted right into a job that we are now doing.

The Secretary then suggested that he be informed weekly of steps taken to consolidate and conserve supplies and in the meantime obtain a legal opinion as to whether any additional authorization is in fact required.

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

TO:

Miss Chauncey

179

For filing.

Matter completed

12/31/41.

Medals awarded

12/26/41.



From: LIEUT. STEPHENS



ADDRESS FOR CORRESPONDENCE U. S. COAST GUARD

AND REFER TO NO.

OP-18

71

75

UNITED STATES COAST GUARD
WASHINGTON

15 December, 1941.

MEMORANDUM FOR - The Secretary of the Treasury (via Assistant Secretary Gaston:

Subject: Distinguished Flying Crosses; presentation of.

1. Four Distinguished Flying Crosses have been received for the following personnel:

Lieutenant William E. Sinton
Aviation Chief Machinist Mate Edmund T. Preston
Aviation Chief Machinist Mate Lonnie Bridges
Radioman, first class, Stephen J. Brodnan

2. Inasmuch as you were a passenger in airplane V188 at the time the extraordinary flight was made which resulted in the awarding of subject Crosses, it is thought that you would like to make the presentation to the personnel concerned.

R. R. Waesche
R. R. WAESCHE.



FOR IMMEDIATE RELEASE:

Secretary Morgenthau has awarded Distinguished Flying Crosses to the pilot and crew of a Coast Guard airplane which was landed safely at Philadelphia on October 3 after having been severely damaged in a crash through tree tops near New Hackensack, New York. The Secretary, who was then head of the Coast Guard, was a passenger in the plane.

Those receiving the crosses were the pilot, Lieutenant William E. Sinton, Aviation Chief Machinist's Mates Edmund T. Preston and Lonnie Bridges, and Radioman (First Class) Stephen J. Brodman, all of the United States Coast Guard.

Approved
H. H. H.

FOR IMMEDIATE RELEASE:

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TO:

The Secretary

183

0

Okay for release?

*Kuhm
rewrite
Please
just a new
short statement
of fact.
Don't*

From: MR. SCHWARZ

Secretary Morgenthau has awarded Distinguished Flying Crosses to the pilot and crew of a Coast Guard airplane on which he was a passenger October 3, when it was landed safely after being severely damaged in a crash through tree tops near New Hackensack, New York, in bad weather.

Those honored were Lieutenant William E. Sinton, Aviation Chief Machinist's Mates Edmund T. Preston and Lonnie Bridges, and Radioman First Class Stephen J. Brodman, all of the United States Coast Guard. Since the latter's enlistment has expired, his medal was mailed to him.

Lieutenant Sinton was pilot of the Coast Guard plane V-188 on the October 3 flight. While flying by instrument, the pilot brought his plane down through thick overcast in the late afternoon, preparatory to landing at New Hackensack. The plane swept the tops of a number of trees and a crash landing appeared imminent. However, the crew kept the craft in the air and, after a further flight of nearly two hours in low visibility and darkness, accomplished a dangerous, high-speed landing at Philadelphia without injury to the persons on board or further damage to the plane.

In recommending the awards, Secretary Morgenthau said:

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

RANDOLPH E. PAUL
25 BROADWAY
NEW YORK

December 15, 1941

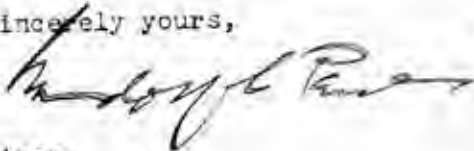
Dear Mr. Secretary:

Cleaning up things in New York is not a completely simple matter, and it is now clear that I shall have to stay over until Tuesday. I think I shall be able to get away tomorrow evening, arriving Wednesday morning.

In view of this slight delay I thought I would tell you that I had a very good session with Knollenberg yesterday and arranged for him to meet me in Washington for a further conference Thursday. Possibly then we shall want to talk with you for a few moments.

Knollenberg's ideas fit in with mine, and I think also yours, like a glove.

Sincerely yours,



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

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

186

DATE December 15, 1941.

TO Mr. ROSS.
FROM Mr. MICHAELT.

Gil

Herewith the report regarding the Defense Bond and Stamp promotion of Radio Station WFVA, Fredericksburg, Virginia, as requested by the Secretary.

The program entitled "Any Bonds Today?" is broadcast over WFVA from 11:00 to 11:30 AM, Monday through Friday, and resulted in a total sale of \$43,100.00 during four days. After the initial program on Tuesday, December 9th, the sales have averaged \$600 per broadcast.

The broadcasts originate from a "Defense Bond Headquarters", established by WFVA in the window of a leading local department store. This temporary studio is equipped with a private telephone, the number of which is announced once at the opening of the broadcast. Listeners are urged to call the number to order Bonds or Stamps. The name and address of persons calling are announced on the air, and the amount of Stamps or Bonds which they wish to purchase.

An adding machine has been installed so that total sales may be announced throughout the half-hour broadcast.

As telephone requests for Bonds and Stamps are received, Boy Scouts and Girl Scouts leave the Bond Headquarters and deliver them to homes or business offices. In the case of Bonds, they deliver an application blank, and give the purchaser complete instructions as to filling out the application and redeeming it for their Bond at post offices or banks.

In addition to the telephone calls made to the Bond Headquarters, the announcer calls telephone subscribers, and asks "Any Bonds Today?" As a result of such a telephone call on one program, the announcer was given an order for over \$20,000.00 in Bonds by the head of a large corporation.

TO: MRS. KLOTZ.
FROM: MR. GILCHRIST.

Page Two.
12/15/41.

The program idea was conceived by John Bell, an announcer at WFVA, and carried out by William R. Seth, Assistant Manager of the station.

Mr. Bell, a native of Baltimore, Maryland, is 22 years of age, married, and has worked in radio as an announcer for three years. He attended Loyola College in Maryland for one year.

Mr. Seth, also a native of Baltimore, is 27 years of age and married. He graduated from the University of North Carolina and entered radio in 1933.

TREASURY DEPARTMENT

188

INTER OFFICE COMMUNICATION

DATE December 15, 1941

TO Secretary Morgenthau
FROM Gene Sloan

In replying to your attached memorandum I presume you are referring to the new pledge application (proof attached) which you approved last week. These applications are to be printed by the Government Printing Office and not by the Bureau of Engraving and Printing. The Government Printing Office has advised that 2,000,000 sets can be delivered by January 1st and 2,000,000 each week thereafter.

However, if you refer to the Payroll Allotment Authorization Card (copy attached), which is also being printed by the Government Printing Office, we are receiving large deliveries everyday and expect to have 14,000,000 delivered in the next ten days.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 15, 1941

TO Gene Sloan

FROM Secretary Morgenthau

When Peter Odegard was here yesterday, he told me that Hall of the Bureau of Engraving can only print 80,000 applications for pay roll deductions plans a week. This is unbelievable. If you are having any production troubles along these lines, please talk to me on Monday.

432477

AGREEMENT FOR THE SYSTEMATIC PURCHASE OF DEFENSE SAVINGS BONDS

(Place—City and State)

(Date)

No.

NOTE—This is not an order form. In accordance with this agreement, the pledger will make his own purchases of Bonds from a post office, bank, any other authorized issuing agency, by direct mail from the Treasurer of the United States, Washington, D. C., through his employer, or organization of which he is a member.

DUPLICATE

Send to Pledgor.

In Consideration of our Common Defense and National Welfare, I hereby promise and pledge that effective immediately, I shall invest the sum of \$_____ each

week
month

 in Defense Savings Bonds. I shall buy these Bonds:

- ☐ From a post office, bank, or other authorized issuing agency.
☐ By direct mail from the Treasurer of the United States, Washington, D. C.
☐ Under a Pay-Roll Allotment Plan (or other similar arrangement for systematic purchasing) established at my place of employment:

(Employer's name)

(Employer's business address)

- ☐ Through a systematic plan for purchasing Bonds installed by an organization of which I am a member:

(Name of organization)

(Address)

Note—This agreement is to be secured from all persons regardless of any other arrangement entered into for the purchase of Defense Savings Bonds.



This agreement will remain in full force and effect and will be faithfully fulfilled by me for the duration of the national war emergency, or until canceled by me, by writing to the State Administrator, Defense Savings Staff,

(Print)

(Last name)

(Given name)

(Middle initial)

(Street and number)

(City)

(State)

(Signature)

NAME						DEPT. & LOCATION					DEDUCTION		PAY-ROLL PERIOD		1st DEDUCTION		ISSUE PRICE				
PAY-ROLL PERIODS					APPLIED TO PURCHASE OF BOND	NET CREDIT END OF MONTH	PAY-ROLL PERIODS					APPLIED TO PURCHASE OF BOND	NET CREDIT END OF MONTH	PAY-ROLL PERIODS					APPLIED TO PURCHASE OF BOND	NET CREDIT END OF MONTH	M O N T H
1	2	3	4	5			1	2	3	4	5			1	2	3	4	5			
YEAR 19						YEAR 19						YEAR 19									
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(Special Information)

UNITED STATES SAVINGS BONDS

Comparative Statement of Sales During
First Twelve Business Days of December, November and October 1941
(October 1-14, November 1-15, December 1-13)
On Basis of Issue Price

(Amounts in thousands of dollars)

Item	Sales			Amount of Increase or Decrease (-)		Percentage of Increase or Decrease (-)	
	December	November	October	December	November	December	November
				over	over	over	over
				November	October	November	October
Series E - Post Offices	\$ 25,353	\$ 19,874	\$ 20,149	\$ 5,479	-\$ 275	27.6%	- 1.4%
Series E - Banks	<u>47,376</u>	<u>36,217</u>	<u>36,845</u>	<u>11,159</u>	- 628	<u>30.8</u>	- 1.7
Series E - Total	72,729	56,092	56,994	16,637	- 902	29.7	- 1.6
Series F - Banks	9,424	9,642	10,616	- 218	- 974	- 2.3	- 9.2
Series G - Banks	<u>61,650</u>	<u>60,389</u>	<u>59,652</u>	<u>1,261</u>	<u>737</u>	<u>2.1</u>	<u>1.2</u>
Total	<u>\$143,803</u>	<u>\$126,122</u>	<u>\$127,261</u>	<u>\$17,681</u>	<u>-\$ 1,139</u>	<u>14.0%</u>	<u>- 0.9%</u>

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

December 15, 1941.

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

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

UNITED STATES SAVINGS BONDS

Daily Sales - December 1941
On Basis of Issue Price

(In thousands of dollars)

Date	Post Office Bond Sales	Bank Bond Sales				All Bond Sales			
		Series E	Series F	Series G	Total	Series E	Series F	Series G	Total
December 1941									
1	\$ 2,976	\$ 3,904	\$ 1,333	\$ 7,220	\$ 12,458	\$ 6,880	\$ 1,333	\$ 7,220	\$ 15,434
2	1,229	2,592	623	5,750	8,964	3,821	623	5,750	10,193
3	1,510	2,734	870	5,289	8,893	4,244	870	5,289	10,403
4	2,411	4,036	726	7,530	12,292	6,447	726	7,530	14,703
5	2,015	4,805	1,152	12,357	18,314	6,820	1,152	12,357	20,329
6	1,001	2,293	656	2,776	5,725	3,294	656	2,776	6,726
8	3,282	4,764	1,011	3,810	9,585	8,046	1,011	3,810	12,866
9	1,828	3,877	601	4,996	9,475	5,706	601	4,996	11,304
10	1,651	3,566	491	2,612	6,668	5,217	491	2,612	8,320
11	1,909	4,763	719	3,423	8,905	6,672	719	3,423	10,814
12	2,773	5,012	658	3,768	9,437	7,785	658	3,768	12,211
13	2,767	5,030	584	2,120	7,734	7,798	584	2,120	10,501
Total	\$ 25,353	\$ 47,376	\$ 9,424	\$ 61,650	\$118,450	\$ 72,729	\$ 9,424	\$ 61,650	\$143,603

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

December 15, 1941.

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

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

TREASURY DEPARTMENT

194

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE December 15, 1941

TO Secretary Morgenthau
FROM Mr. Haas
Subject: The Business Situation,
Week ending December 13, 1941.

Summary

(1) The total volume of industrial output will likely be expanded above earlier expectations by the accelerated war effort, although production in various industries will be reduced in the immediate future. The necessity of conserving strategic materials and speeding up war material output has resulted in drastic curtailment programs for the rubber and automobile industries.

(2) Due to the vital role of shipping in the conduct of the war, still further expansion of shipbuilding is in prospect. One consequence of this will be to place a still greater strain on the plate making facilities of the steel industry, which already are a serious bottleneck in the defense program.

(3) Basic commodity prices last week rose to new highs for the year. The BLS index of 28 basic commodities now stands 60 percent above the level of August 1939. The price rise during the week undoubtedly would have been greater if the Commodity Exchange Administration had not imposed temporary trading limits on certain commodities and if the OPA had not frozen prices of various others.

(4) National income payments continued to rise in October and reached the highest level on record at an annual rate of \$95 billions. This compares with \$72 billions in August 1939. Due to the rise in living costs, however, the purchasing power of national income has levelled off since August. Living costs rose 1 percent in November and are now 12 percent above the pre-war June 1939 level.

(5) Department store sales are showing a reduced gain over 1940 levels. In the first week in December (before the Japanese attack) the sales gain over year-earlier levels narrowed to 9 percent from 15 percent in the previous week. Since retail prices have risen 15 percent over last year, the volume of goods sold was actually below year-earlier levels.

General situation

The gradual transition of industry from civilian to war goods production, which has been in progress for months past, will be greatly accelerated now that war has been declared. The net result seems likely to be an eventual greater expansion of industrial output than had previously been looked for, although the immediate effect on total output is uncertain.

The outbreak of war with Japan, and the consequent threat to shipping from the Far East, will necessitate sharp curtailment in the operations of some industries. On the other hand, the industries producing aircraft, guns, ammunition, tanks and ships will further step up operations to a full 168-hour week basis. The expansion of output in existing defense plants will be supplemented by the construction of additional production facilities, and the resulting greatly enlarged output of war equipment promises to much more than offset curtailments in civilian goods production, once the expanded war effort gets into full swing.

Restrictions imposed to conserve raw materials

Some civilian goods industries will be hard hit by the lack of raw materials due to the demands of the defense program and threatened interruptions to the flow of incoming supplies. The OPM last week prohibited the consumption of rubber unless intended for defense or certain essential civilian uses, pending the development of a longer range rubber control program. Moreover, the sale of new automobile tires to the public was banned until December 22 to forestall a consumers' buying wave.

The OPM also imposed further cuts on passenger car and light truck production. Passenger car production in January is to be 75 percent below year-earlier levels, and the December quota is 60 percent below December of last year. As a result of the relatively high production in the first 2 weeks of the month, and other factors, the industry is expected to virtually suspend non-defense production until early in January, when such output is to be resumed on a reduced scale.

One consequence of the drastic curtailment program in prospect for passenger cars, automobile tires and tubes, and other consumer goods will be to restrict important sources of excise taxes.

- 3 -

Shipping situation a crucial factor

In view of the vital necessity of maintaining the inflow of raw materials and the outflow of lend-lease shipments, while supplying armed forces on both oceans, shipping developments are bound to play a role of supreme importance in the nation's war effort. Maritime Commission officials are therefore predicting a further enlargement of our mammoth shipbuilding program, which has already raised the number of active private shipbuilding ways (300 feet or longer) to 383 from only 83 in mid-1940.

This enlargement will exert further heavy pressure on a wide range of heavy industries, including the hard pressed plate-making branch of the steel industry. It is estimated, according to the Iron Age, that only 600,000 tons of plates a month are being produced in the face of a demand for about 950,000 tons. In order to cope with the heavy demand for plates for ships, tanks, freight cars and other purposes, the OPM instituted a complete allocation system at the beginning of this month. Unless this allocation system achieves much improved results, the lag in steel plate production may constitute a drag on the defense program.

Large steel scrap shortage forecast

Unfavorable predictions continue to be made with respect to the steel scrap supply. The Iron Age estimated last week that the shortage may run close to 10,000,000 tons in 1942. In an effort to alleviate the situation, the OPM launched a salvage campaign last week. The nation's pig iron capacity is to be augmented this month by the blowing in of 2 new blast furnaces of the National Steel Corporation, which will increase the potential pig iron output by 750,000 tons per year, or more than 1 percent.

Steel ingot production in November, after allowance for the shorter month, fell only slightly below October which was the highest month on record. Production in the first 11 months of 1941 totaled nearly 76 million tons or 25 percent above year-earlier levels. Steel ingot production last week was virtually unchanged at 97.5 percent of capacity, and is scheduled at 97.9 percent for the current week.

National income at new high

National income payments continued to expand in October and reached the highest level on record at an annual rate of

\$95 billions. This compares with only \$72 billions in August 1939. (See Chart 1.) In the first 10 months of the year, income payments to individuals rose 17 percent above the corresponding period of last year. The most important factor in the rise was an increase of 21 percent in salaries and wages.

While income payments have continued to rise, the purchasing power of national income has shown little change since August, due to the rise in the cost of living. (Refer to Chart 1.)

Living costs continued to rise in November, and Conference Board figures show an advance of 1 percent in the combined index as compared with the previous month. Chart 2 shows estimates of the BLS cost-of-living index and components based on the Conference Board data. As a result of this further rise, the cost-of-living index in November was 12 percent higher than the pre-war level of June 1939. Most of the advance has occurred since last February. Although all components of the index showed further increases in November, the widest advances were made by clothing and food, with estimated rises of 1.7 percent and 1.3 percent respectively. (Refer to Chart 2.)

Department store sales lag

In view of the high level of national income, merchants have been somewhat disappointed over the recent showing of department store sales. In the week ended December 6, the sales gain over year-earlier levels narrowed to 9 percent from 15 percent in the previous week. Since prices on December 1 were 15 percent above the corresponding date in 1940, the volume of merchandise sold by department stores in the first week of this month was below year-earlier levels.

Preliminary reports for last week appear to indicate that department store sales showed a further lag, due in part to air raid alarms and blackouts in coastal cities. In view of the failure of sales to come up to earlier expectations, merchants have recently shown signs of concern over the high level of inventories. A recent confidential survey conducted by the Federal Reserve Board indicated that on October 31 department store stocks were 35 percent above year-earlier levels, and the ratio of stocks to sales had moved up to 3.4 from 2.7 a year earlier.

Stocks decline, commodities rise at outbreak of war

The outbreak of war in the Pacific brought rather heavy selling into the New York stock market, and at the Wednesday lows the Dow-Jones industrial stock average was down about 10 points from the previous week's close. By the end of the week, however, the market had steadied considerably. As a result of the decline, the Dow-Jones industrial average fell below the low point touched at the time of the French collapse in 1940. (See Chart 3.) Industrial stock prices also declined in the London market, halting at least temporarily the long rise which has been in progress in that market. (Refer to Chart 3.)

In contrast to the decline in the stock market, commodity prices rose at the outset of the week and the Dow-Jones futures index on Monday advanced to the highest levels since compilation of the index was begun in October 1933. (See Chart 4.) However, the imposing of temporary price limits on certain commodities by the Commodity Exchange Administration and other factors halted the rise in the futures markets. Spot commodity prices, as measured by Moody's index, showed a stronger upward trend during the week. Reuter's index of commodity prices in the United Kingdom also rose moderately. (Refer to Chart 4.)

BLS all-commodity index still at peak level

The BLS all-commodity index in the week ended December 6 (before the Japanese attack) continued to move in a narrow range near recent peak levels. Grain prices in that week increased 5½ percent, and were the only group showing a marked rise. The largest decline occurred in livestock prices.

Basic commodities advance to new high

The renewed price rise which has recently been getting under way received new stimulus last week from our entrance into the war. The BLS price index of 28 basic commodities on December 12 reached a new peak 60.2 percent above the August 1939 figure.

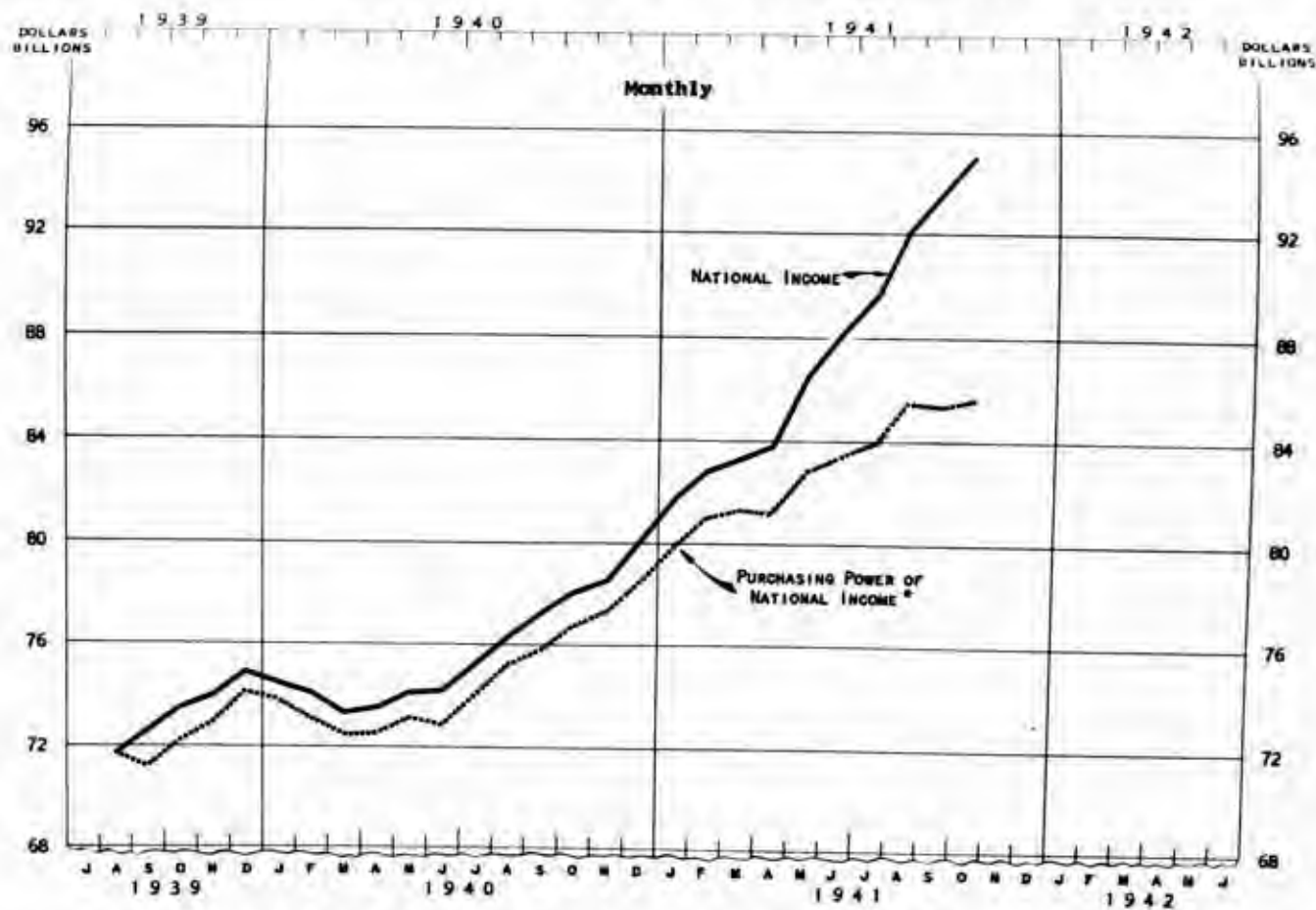
Led by domestic products, prices of a number of commodities touched new highs for 1941. (See Chart 5.) Prices for wheat, corn, barley, steers, and lard advanced beyond previous levels since August 1940. The rise in wheat prices

carried winter wheat approximately 15 cents above the Government's loan basis. This price is high enough to cover carrying and other charges on stored wheat, making it possible for farmers to withdraw such grain from Government loan stocks at a profit. Imported commodities (most of which are under price restrictions) showed little advance, the exceptions being cocoa and flaxseed.

Government action retards price rise

Prices for certain commodities were kept from rising to even higher levels by prompt Government action. The Commodity Exchange Administration requested the futures exchanges temporarily to limit rises of some speculative commodities. Owing to the threatened increases in prices of certain imported commodities, the OPA froze prices for coffee, cocoa butter, cocoa beans, and pepper at the levels prevailing on December 8. In addition, ceiling prices were imposed on a long list of fats and oils (not including butter) at levels prevailing on November 26. Butter prices will be covered by a schedule to be issued later. In addition, ceiling prices are to be placed on raw wool at the levels of the first week in December.

NATIONAL INCOME AND ITS EQUIVALENT PURCHASING POWER



*BASED ON COST OF LIVING INDEX OF U.S., AUG. 1939 = 100

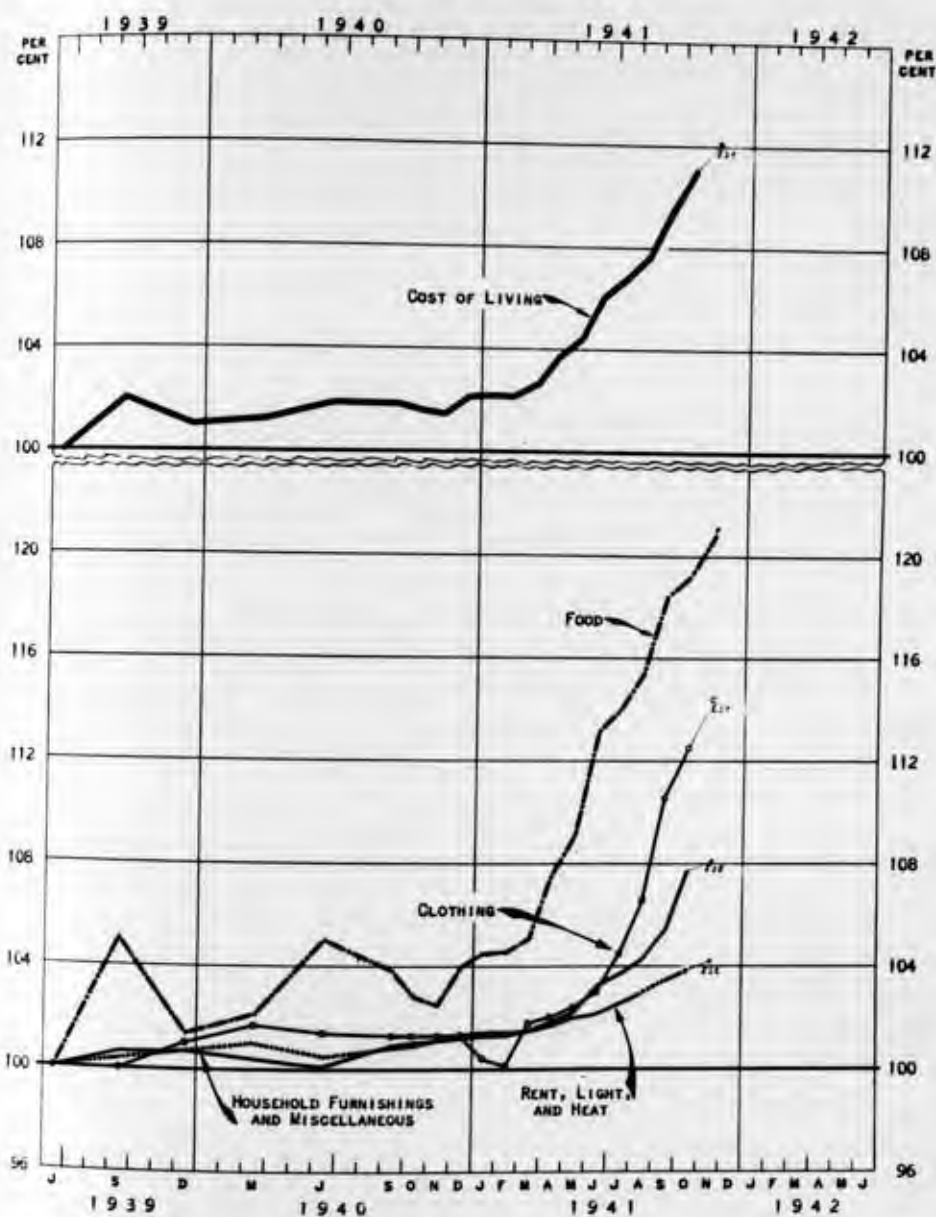
Office of the Secretary of the Treasury
Division of Research and Statistics

Chart 1
200

C-415

Regraded Unclassified

COST OF LIVING AND SELECTED ITEMS JUNE 1939 = 100



SOURCE: B.L.S.

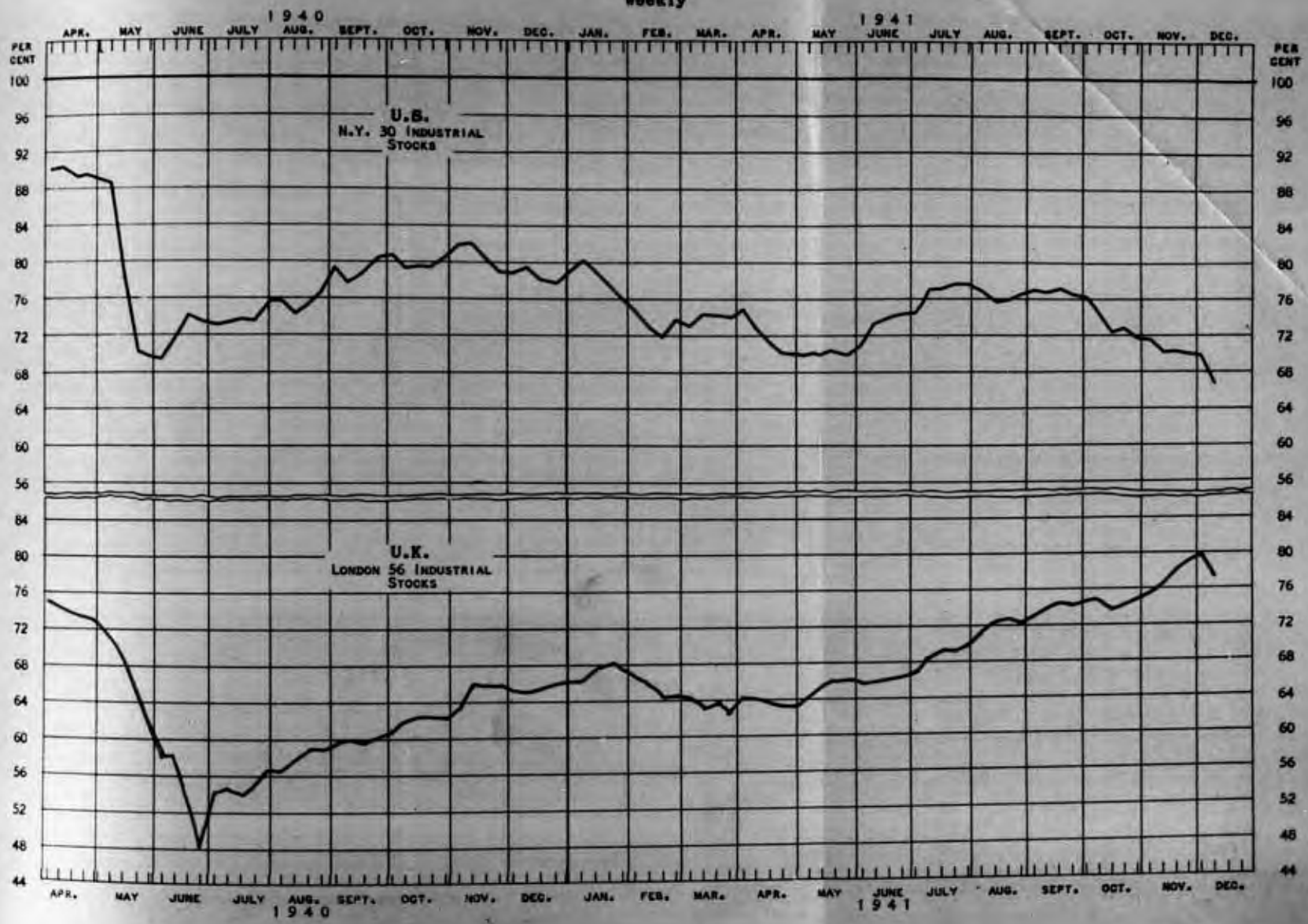
Office of the Secretary of the Treasury
Bureau of Research and Statistics

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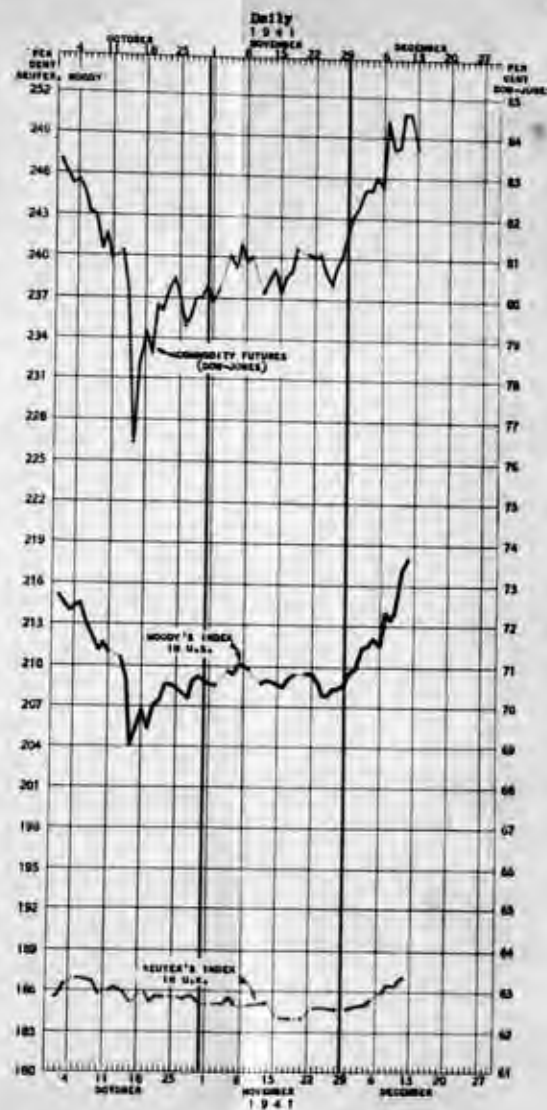
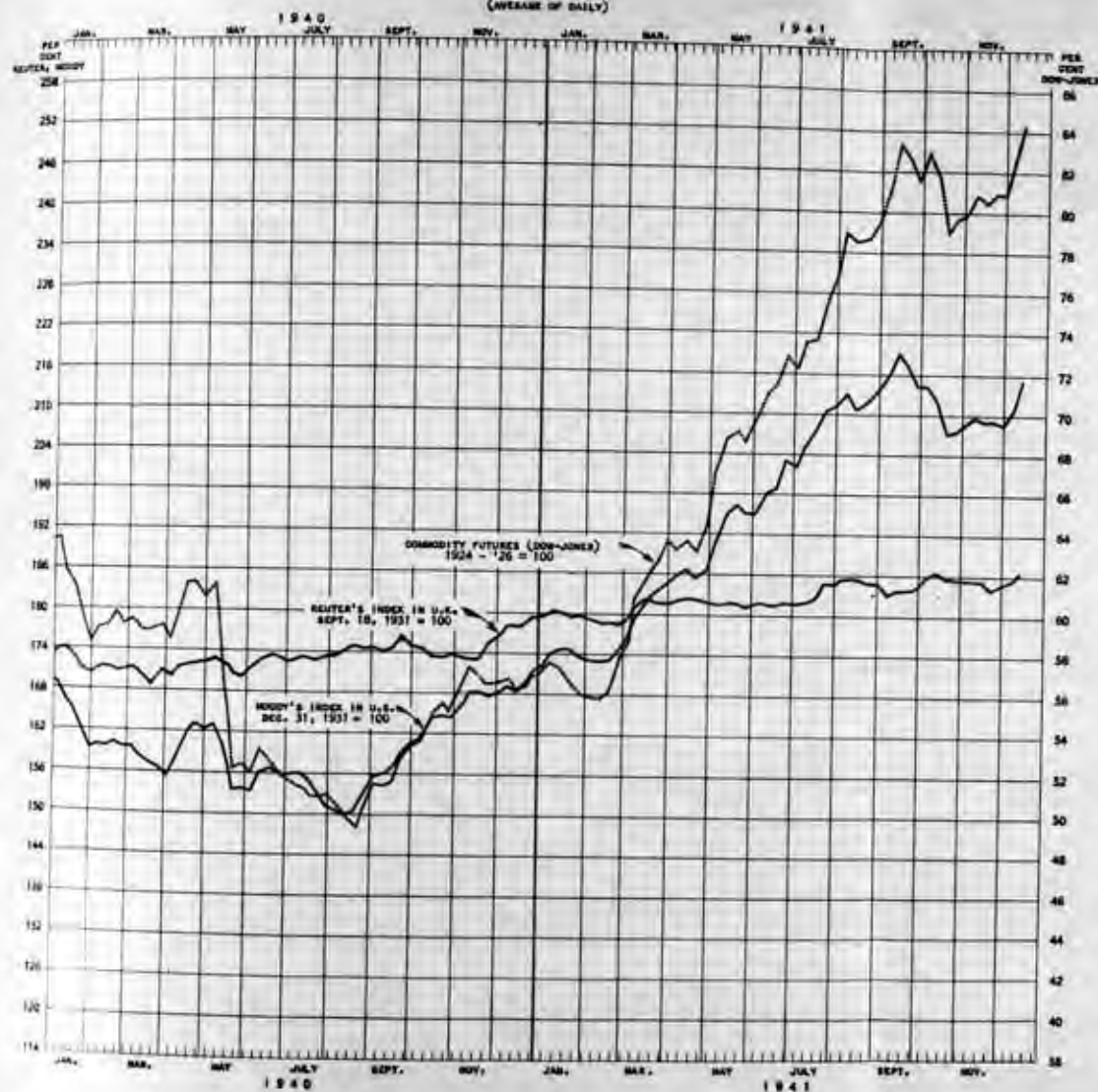
INDUSTRIAL STOCK PRICES IN U.S. AND U.K.

AUGUST 1936 = 100

Weekly

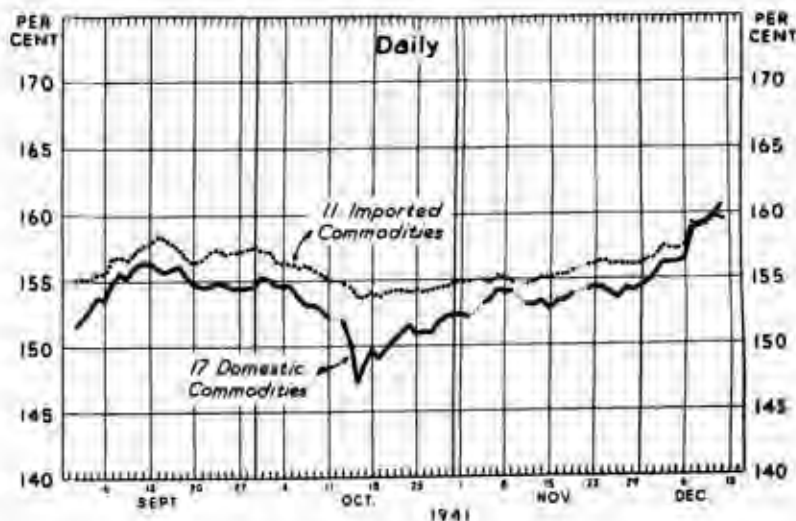
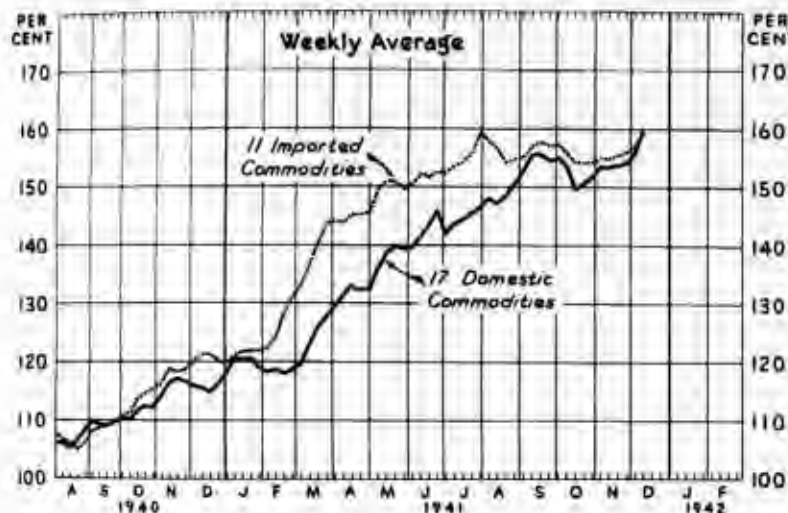


Weekly
(AVERAGE OF DAILY)



MOVEMENT OF BASIC COMMODITY PRICES

AUGUST 1939 = 100



Percentage Change for Individual Commodities, August 1940 Low to December 5 and to December 12, 1941

