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TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, August 12, 1941.
8/11/41

Press Service
No. 27-0

The Secretary of the Treasury announced last evening that the tenders for \$100,000,000, or thereabouts, of 91-day Treasury bills, to be dated August 13 and to mature November 12, 1941, which were offered on August 8, were opened at the Federal Reserve Banks on August 11.

The details of this issue are as follows:

Total applied for - \$288,323,000
Total accepted - 100,118,000

Range of accepted bids:

High	-	100.				
Low	-	99.969	Equivalent rate	approximately	0.123	percent.
Average						
price	-	99.971	"	"	"	0.114

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

-oOo-

August 12, 1941
9:30 a.m.

GROUP MEETING

Present: Mr. Gaston
Mr. Sullivan
Mr. Haas
Mr. Foley
Mr. Thompson
Mr. Cochran
Mr. Bell
Mr. Schwarz
Mr. Blough
Mrs. Klotz

H.M.Jr: All right, Herbert.

Gaston: Metro-Goldwyn-Mayer News has some films that you might like to see. They are films of the action in Crete and in Russia, news films. They came in under rather peculiar circumstances. M.G.M. has an arrangement with the Army by which they pick up films of Germany made in Europe and turn them over to the military attache in Lisbon, and the military attache sends them over in the pouch and the Army makes copies of them and then turns them over to Metro-Goldwyn-Mayer, all of which is strictly illegal, but since the Army wants it that way, I imagine it is all right.

H.M.Jr: What is M.G.M. - they pick them up in the first instance?

Gaston: They buy them in the first place from some source in Europe. Then they turn them over to the military attache in Lisbon and he sends them over in the pouch - over by

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courier over here. They make copies of them here and then turn the film back to Metro-Goldwyn-Mayer, so Brown here, the M.G.M. agent, was a little worried about it. He came in to ask us what they should do about duties, since they are original negatives. I think the best thing to do is probably nothing.

H.M.Jr: Well, don't ask me.

Gaston: They may be interesting. One they have now is Crete, and the other is on the Eastern Front.

H.M.Jr: How long do they take?

Gaston: I don't know. They are newsreels. They are probably not very long. I will ask Brown today how long they are.

H.M.Jr: When would be a good time to see them?

Gaston: We can have them any time. We can bring them over any time. They are not going to release them. It probably would take not more than fifteen minutes apiece.

H.M.Jr: Well, why not have them and if I am not busy around four o'clock, I will come down and see them.

Gaston: All right. Nothing else.

Foley: Joe says --

H.M.Jr: Excuse me. We will set it tentatively for four o'clock.

Gaston: Yes, I will have the films here.

H.M.Jr: In the room here, anybody is invited.

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Foley: Joe says it looks as though the Banking and Currency Committee is conducting a filibuster with Leon, and they want to string him out until Friday and then adjourn until the Republicans agree on some kind of a substitute program. However, they have agreed no matter what the situation is to break on Thursday morning and let you testify and then they go back with Henderson.

H.M.Jr: Tell Joe as soon as you see him after this meeting that I want him to be thinking of questions to ask me.

Foley: I did, and he has got a list.

H.M.Jr: Good.

Foley: I spoke to John Pehle yesterday about the Swiss situation in New York, and he sent Towson up to New York last night. He will be back tomorrow and give us a report.

H.M.Jr: I would like to get it.

Foley: Yes. On the question of fees to procurers of contracts, so far as the Procurement Division is concerned, they have got two forms of contract, a long form and a short form. The short form doesn't have anything in it. The long form does say, "Covenant against contingent fees. The contractor warrants that he has not employed any person to solicit or secure this contract upon any agreement for a commission, percentage, brokerage, or contingent fee. Breach of this warranty shall give the Government the right to annul the contract, or, in its discretion, to deduct from the contract price or consideration the amount of such commission, percentage, brokerage, or contingent fees. This warranty shall not apply to commissions payable by contractors upon contracts or sales secured or made through bona fide, established commercial or selling

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agencies maintained by the contractor for the purpose of securing business."

H.M.Jr: When it is all lined up, can you or can you not get a commission?

Foley: Well, the kind of a commission that we are aware of, that is being paid by some fellows here to get contracts from the Army, can't be paid if you take this kind of a contract with the Procurement Division. Now, I would like to see the thing fixed up with a little more teeth in it, and I would like to see it tied in to Section thirty-five of the Criminal Code, which provides for a fine and a jail sentence for misrepresentation in so far as giving facts to the Government is concerned.

H.M.Jr: Well, go to it.

Foley: We are working on that now.

H.M.Jr: You see, there is some - look up this case. Do you remember, Mrs. Klotz, the time that somebody came in and tried to give McReynolds something for a hundred second-hand typewriters or something, and there is some law that affects the general Treasury. That wasn't Procurement.

Klotz: That was over in Farm Credit.

H.M.Jr: Was it?

Klotz: I think so.

H.M.Jr: There was something, and the man went to jail.

Foley: Well, of course there is a bribery statute, but that is different. There is a difference between a commission and a bribe. A commission is for services rendered.

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H.M.Jr: Well, you can't make it too tough to suit me.

Foley: All right. Mr. Oliphant went into this situation some time ago and I think this clause in here is a result of the studies that were made at that time, but I would like to see it a little tougher than it is now. We issued a general license last night for Portugal. That is the last of the neutral countries in Europe.

H.M.Jr: Now they issue a general license to Portugal?

Foley: Yes.

H.M.Jr: It is crazy.

Foley: Well, it is the State Department.

H.M.Jr: It is the height of stupidity.

Foley: Well, they have been negotiating with the Minister and the license runs to the Central Bank and to the Government. It is the same as the Swiss license.

H.M.Jr: Well, now, going back to Switzerland or Spain, has Spain got a general license?

Foley: Yes.

H.M.Jr: Supposing I get a transaction through to Switzerland. I get the license. Then is the thing examined with a fine tooth comb afterward, the transaction following?

Foley: Well, I wouldn't say it is exactly with a fine tooth comb, Mr. Secretary, but if there is evidence that those Governments are taking advantage of the general license, we have assurances from them, of course, that they won't do that, then that is ground for --

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H.M.Jr: I know, that is eyewash.

Foley: I think so, too. That is ground for revoking the general license.

H.M.Jr: Let me repeat my question.

Foley: I understand your question.

H.M.Jr: Then let me put it again. These countries which we are suspicious of, is there a regular, systematic follow-up on each transaction to see that they live up to their word?

Foley: The ones we are suspicious of, yes.

Bell: But you do get a monthly report on those general licenses.

Foley: Oh, yes, sure, and they watch the ones where there is any reason for us to be suspicious. If somebody has told us that these fellows are acting for or on behalf of the Germans or something of that kind, they watch every one of their transactions.

H.M.Jr: Who does the watching?

Foley: The people in Pehle's office.

H.M.Jr: Or the people in the Federal in New York.

Foley: The people in the Federal?

H.M.Jr: Who does the watching?

Foley: Well, it is the whole system, Mr. Secretary.

Bell: The reports come through the Federal, as I recall, and then they come down here and are analyzed. Now, maybe there could be a little more intensive analysis of them, but as I recall, they were analyzed very carefully.

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- H.M.Jr: I would like to consider setting up a little section. I keep trying to think of something good for Sammy Klaus to do. After these things go through, that they would be examined. Now, if Sammy was put on that kind of thing, it would be good. A little section, you see, that would be under Pehle, but it would be separate from his regular machinery. They would take these things and keep going over them and following them up.
- Foley: Well, Mr. Secretary, when Pehle gets the reports from Towson, suppose you give us a little time, tomorrow, if you can, conveniently, and let us come in and talk to you about it.
- H.M.Jr: But you get that?
- Foley: Yes.
- H.M.Jr: And then a separate section responsible to the head of the organization who would - let the regular crowd do it, but here would be a group that would be doing it entirely separately, checking every transaction.
- Cochran: I think you will find, Mr. Secretary, that in each geographic division they do that. They know the suspicious accounts, like the general license in favor of the Bank of Indo-China. They follow that very carefully. They get reports of every transaction and follow them up.
- H.M.Jr: Well, I would like to put a fellow like Sammy on it so that he could go in and take any report and recheck it, and just see how good the checking is. That would be a swell job.
- Foley: I think we can satisfy you all right. We will talk to you about it tomorrow.

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H.M.Jr: O.K.

Sullivan: The public hearings started yesterday in the Senate. They disposed of quite a large number of witnesses. Not many members of the Senate were there, and I thought it was a rather apathetic performance.

Bell: I understand your friend Elijah Friedman is going to be on today. You remember his name came up not so long ago for employment in the Foreign Funds, I think, when Jake Viner remarked that you didn't want - he is going to be on today, I think.

Sullivan: He is the fellow who wrote that long letter on the capital gains tax in the Times on Sunday. He is coming in to see me, too.

H.M.Jr: Are you all right, John?

Sullivan: Oh, yes.

H.M.Jr: Good.

Cochran: On Saturday the State Department let me know that the consul at Casablanca had been in touch with your friends, the Oppenheimers and yesterday I got them to send an instruction okaying the visas and they are to send us word when they are ready to leave for Portugal, so we will follow that right up now.

H.M.Jr: Good. Could you send a progress report through Mrs. Klotz to Mrs. --

Cochran: I have a memo here.

H.M.Jr: And she could forward it to Mrs. Lehman. That is fine because that is one of the most difficult ones we have had for a long time.

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Cochran: The only chance is that there might be some physical disability or something like that where they could turn it down on a technical ground, and I presume there is no such chance.

You asked me to bring up again the request of the Ecuadorian Minister of Finance for an appointment. He is going away the end of the week or Monday, and they hoped you could see him and then turn him over to the rest of us for a meeting.

H.M.Jr: I will tell you what we will do. On the theory that I am only going to testify for one day, we will give him ten thirty Friday.

Cochran: Ten thirty Friday?

H.M.Jr: Ecuadorian Minister.

Cochran: Mr. Illingworth is the name. It is an English name.

Bewley phoned me last night that Sir Otto Niemeyer had arrived in New York today and he is going to try to get down before you leave. He said Sir Frederick is up in Ottawa right now on the matter of a price agreement on bacon and cheese with Great Britain. I asked him if he had anything to bring up before he got away and he said he had one thing. He came over this morning and left me this memorandum with regard to the Northrop Aircraft Company. I can tell you in two words what it is.

H.M.Jr: Please.

Cochran: They are hard up and want to get a loan from the RFC, and one of the conditions which the

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RFC makes for a loan is that they advance their payments on aircraft.

Instead of the British paying fifty per cent now, they would have to pay seventy-five per cent.

That would mean that they would speed up two hundred million dollars' worth of payments by the British over the next year and they have had it up with Brown down at the Lend-Lease, and they can't do anything there.

They thought that we might want to speak to Jesse Jones to see if he could help them out any.

H.M.Jr: If you could prepare a letter for me, you and White, on that, and have Bewley - Bewley and you and White prepare a letter for me to Jones and I will sign it.

Cochran: All right. Fine.

H.M.Jr: White, you and Bewley prepare a letter and I will sign it.

Cochran: All right.

H.M.Jr: To Jones. And I want Oscar Cox to initial it.

Cochran: All right.

H.M.Jr: I want Oscar Cox to initial it before it goes.

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Cochran: Then I spoke to the Assistant Secretary of State last night on Howland Shaw, Cassidy, and he said he would have to send a cablegram to Winant on that and he was getting it off today.

H.M.Jr: That is all right.

Cochran: I think I ought to let you know at the same time that one of Jake Viner's star students is going to London in about a month, Ware Adams. He was down in Brazil for a couple of years. He is going to be in the Embassy there. He is really an awfully good man. He called the other day and left his card. He is going to be on duty in the Department of State for a month or so. If you did want to meet him, I think it is worth keeping in mind.

H.M.Jr: If I could work it in, you see. I don't know what I am going - when I am going to have this talk ready for Thursday.

Cochran: Well, if you are not going to use him soon, it wouldn't be a lot of purpose, but if I may speak frankly, he is a man with much more experience, I think, than the man you had me see last night. This man has been with us only one month and it is quite a bit to ask them to name him as a successor to Coe without any experience.

H.M.Jr: Well, maybe I can see Adams Friday.

Cochran: All right. He is a fine boy and Viner spoke of him when he was here before. But I shall go ahead with this other just the same.

H.M.Jr: Good. George, did you get my message?

Haas: Yes, sir. I got that.

H.M.Jr: Is the cost of living chart the same as the

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parity payment thing? I saw, for instance, in Standard Statistics, they ran a thing on parity payments, a line. They didn't explain what it was. I didn't know there was a line for parity payments.

Haas: I have never noticed those - I don't remember seeing a chart on parity payments. It is possible to construct one, I think, but it is not the same as the cost of living.

H.M.Jr: Well, I don't mean - the farmers' purchasing power is the one I asked for.

Haas: Yes, sir, and we will--

H.M.Jr: Isn't there one also for factory workers, what their purchasing dollar will buy?

Haas: Well, that usually - we usually take the cost of living for that.

H.M.Jr: Take the cost of living for that?

Haas: Or you can take the wages and divide it by the cost of living and get a similar thing as the purchasing power of agriculture.

H.M.Jr: You get the same result?

Haas: That is right, it is similar. In other words, in one case the farm price is divided by the things the farmers buy and in this case the wages would be divided by the things which the wage earners have to purchase.

H.M.Jr: But supposing you do that and then also supposing you find out from O'Connell - I understand that Henderson used thirty-two different charts the first day he went up there.

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Haas: He had a truckload of them.

H.M.Jr: Well, let's find out. If he used a different one on the cost of living, I wouldn't want to use a different one, you see.

Haas: Well, he used your chart on the cost of living.

H.M.Jr: Did he?

Haas: He sent over here and got a big one on it.

H.M.Jr: Did he?

Haas: And one other chart. I have forgotten. It was one that he had seen in your office.

H.M.Jr: He used the one on commodity prices.

Haas: That is right.

H.M.Jr: The weekly one. Has Miss Elliott sent you over anything?

Haas: I haven't seen anything. In fact, she said yesterday it wouldn't be until today. Do you want us to make up a series of big ones? I made - Ed Daggett told me that you are interested in seeing commodity prices starting at about 1910 and run through and we have had a chart made on that. I will show you that this morning when I come in.

H.M.Jr: Bring it in. I will want some but I don't know yet which ones. What is today, Tuesday? We will have to make up our minds today.

Schwarz: The Under-Secretary came over well on the radio last night.

Bell: It wasn't so good, I didn't think.

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H.M.Jr: Why didn't somebody tell me and I would have listened.

Bell: You didn't miss much.

H.M.Jr: I wish somebody had told me. I would have listened.

Schwarz: It was listed on the Defense Savings Program. Don't they send those to you?

H.M.Jr: Yes, but I never look at them. They go in my waste basket. I can't read all the stuff they send me. It is impossible. Any more than I can read all these clippings. Somebody has got to pick out the important stuff. I have said it again and again. They send in twenty-five sheets like that and I am supposed to read them. No one takes the trouble to pick out what is important. That is what happens to them.

Schwarz: You should see what we put aside.

H.M.Jr: Certainly I have read the first page.

Schwarz: We worked from the top down.

H.M.Jr: Certainly I have read the first pages of the newspapers. It is the unusual thing that is the stuff to catch.

Schwarz: I go from the top down on that basis. That is all.

H.M.Jr: If somebody had told me that Bell would be on the air last night I would have listened.

Bell: It really wasn't anything.

H.M.Jr: I am sorry I missed it but I can't unless

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somebody tells me. Here is a page that - there are ten different things. I can't read them all. If I were only told the important things I would read them.

Bell: You noticed, I suppose, that the market has gone off a point and a half in the last ten days?

H.M.Jr: Yes.

Bell: A great deal of that has been due, I think, to Henderson's testimony and the Federal Reserve requirements and the hiking of interest rates. I suppose you saw the statement on that. He thought interest rates were too low and they ought to be much higher. He has gotten everybody just sitting on the sidelines wondering what is coming next. There hasn't been any volume of sales or anything. It has kind of drifted down from lack of interest.

H.M.Jr: They were too high.

Bell: They were too high and this does no harm. I hate to see this talk keep up, though. By the time we do some financing in September we may have a bad bond market.

H.M.Jr: Maybe Henderson and I will be talked out by then.

Haas: I think, Mr. Secretary, you could have handled that in your speech. Every time these excess reserves were mentioned it tightened the market like Eccles' statement. I think it is going to be one of the questions that will come up, what your position with regard to that matter is, and I think if you take the position you are going to have selective controls rather than over-all blanket controls, it will improve the market, help the market tone. I noticed in Moody's review of the bond

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market, it pointed out the different types of controls.

Bell: I am wondering if the Secretary hasn't got to take the position that possibly the Federal Reserve should have more authority over reserve requirements, but he would be more interested in how they use it, that authority.

Haas: I think he almost has to say he is interested - if he wants to improve the situation - interested in selective controls. Otherwise you are going to run interest rates up and make the government pay more, which is unnecessary, I think.

Bell: I do too.

H.M.Jr: On that question, in my own mind I know how I want to answer it.

Bell: The other thing is that I understand as soon as the President comes back there is going to be a request for six or seven billion dollars of additional Lend-Lease appropriations and the budget, I think, is requiring each department to make up a justification, and they are going to testify on that part like the Treasury would testify in the Procurement end. They wondered if there should be another financial statement on Great Britain.

H.M.Jr: The answer is no.

Bell: They probably will ask for it, don't you think?

H.M.Jr: Well, when they ask for it we will get it out.

Bell: I am wondering who will be here at that time.

H.M.Jr: Well, if nobody is here they can't get it.

Bell: You wouldn't want one made up in advance and give it to Smith?

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H.M.Jr: No, he would most likely abuse it.

Bell: He would use it, there is no question about that.

H.M.Jr: Yes. Well, Smith is Director of the Budget. He thinks he is Vice-President of the United States. He gets more so every day.

Bell: Well, he asked the question as to whether we should put in any statement. It may come up and they may have hearings while you are away and White is away.

H.M.Jr: The pipeline told me that he is working on a system of a committee which he will be on whereby when he makes up the budget, by God he is going to have in it what the taxes should be.

Sullivan: Who is this?

H.M.Jr: A man by the name of Harold Smith.

Sullivan: He is going to make out the tax program?

H.M.Jr: Well, when the President makes up the budget, he is going to include what the tax program should be. A scientific government and scientific planning, and so forth.

Bell: Scientific management.

H.M.Jr: Scientific management should also have the receipts as well as the expenditures.

Bell: I think that is inevitable that that will come out sooner or later with the type of people they are getting in the Budget. They are getting a number of economists working on taxes and expenditures and it sooner or later

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is bound to develop into that very thing.

Gaston: It shows how illogical this set-up is. It just shows that the Budget belongs in the Treasury.

H.M.Jr: They had better make up their mind that either the Budget is the chief fiscal officer or the Secretary of the Treasury is. You can't have two.

Bell: I agree.

H.M.Jr: Somebody has to carry the responsibility.

Bell: That is all.

H.M.Jr: That is some more of the Merriam stuff.

Bell: Yes.

Gaston: The more the Merriam stuff.

H.M.Jr: That is right.

Thompson: Mr. Flynn has given political clearance to the appointment of Mr. Cann as Assistant Commissioner of Internal Revenue.

H.M.Jr: It is no worse than I said at press. They asked me why I didn't do something about silver and I said I held my nose and dove into the water and I didn't even make a splash.

Klotz: And then they said, "I knows it."

H.M.Jr: This is one of the Gaston-Flynn appointments?

Thompson: Yes.

H.M.Jr: Has the Governor of Georgia approved this?

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Gaston: Senator George has approved it.

H.M.Jr: How about the Governor?

Gaston: George is more important.

Cochran: Speaking of silver, we have a telegram from the Colorado Mining Association.

H.M.Jr: I get that through my mail.

Cochran: You get that?

H.M.Jr: Yes. The altitude is too high up there. They don't think very well.

Bell: You really ought to read the statement that the Mexican representative put in on silver. That is rather interesting.

Thompson: That is a very nice volume. (Handing book to Secretary). It doesn't include all the buildings, but they have a map and a listing of the buildings.

H.M.Jr: Is that all of them? It was arranged by Morris.

Klotz: Whose idea was this?

Thompson: Well, Miss Chauncey told me the Secretary would like to have it done.

H.M.Jr: Lovely.

Klotz: Isn't that lovely.

H.M.Jr: Yes.

Gaston: Chicago or Los Angeles?

H.M.Jr: This is grand.

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Klotz: Beautiful.

Thompson: Each dot on this map is a building.

H.M.Jr: It looks as though the United States is broken out with measles.

Klotz: It does.

Thompson: These are supposed to be representative buildings.

Klotz: All photographs?

Bell: What was the last building, Thompson? What was the last building that represented a hundred and three years of Treasury control?

H.M.Jr: Here is a list of buildings.

Thompson: They had thought of putting in a photograph of each building but they thought it would be so much material.

Gaston: Want anybody to check up on them? (Laughter).

H.M.Jr: You say I asked for this?

Klotz: Well, it was your idea a long time ago.

H.M.Jr: That is very nice. All right, everybody, we can go to the speech at 10:30.

August 12, 1941
10:10 a.m.

HMJr: Hello. Hello.

Operator: They said they'd put him right on.

HMJr: That's all right.

Henry
Wallace: Hello.

HMJr: Henry Wallace?

W: Yes. Good morning.

HMJr: Good morning. Henry. Hello.

W: Yes.

HMJr: On this question of alternate to me.....

W: Yeah.

HMJr:I don't know whether I wrote you or not; but now that the legal phase of it is over, would Harry White be agreeable to you?

W: Why, he'd be fine, of course.

HMJr: What's that?

W: Yes. Yes.

HMJr: Well, then I think if it's agreeable to you, why I'll have him on the days that I can't come or at least have him come with me when I do come.

W: Yes. He's fine, of course.

HMJr: All right.

W: You bet.

HMJr: Thank you, Henry.

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W: That's all right.

HMJr: Good-bye.

W: Good-bye.

August 12, 1941
10:30 a.m.

RE PRICE CONTROL

Present: Mr. Bell
Mr. Gaston
Mr. Haas
Miss Elliott
Miss Ware
Mrs. Klotz
Mr. White
Mr. O'Connell
Mr. Kuhn

White: The three men from Agriculture were here and they read this statement and they had some comments to make. Whether you wish to hear them now or later I don't know.

H.M.Jr: Make them now.

White: They made several points. The most serious criticism which they felt might be made against it is that there is not any recognition in the statement of the parity principle. They say that they would like to see accepted the parity principle and have your comments directed against increases beyond the parity principle.

H.M.Jr: Well, that is out.

White: That was criticism number one.

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

White: If present - present prices are on the average below parity farm prices. Some are below, but

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on the average they are eight per cent below. That was one point.

The second one was that British purchasing, in their opinion, has been an important factor in the increase in prices. It is not the amount which has been sent, but the amount of buying which the Government is doing and which the British are doing. They feel that is an important factor as against the sentence which we had in which we said it is not responsible.

H.M.Jr: Well, we will leave it out. I would leave it out, because if it had any effect it is because they have done their buying badly. I would just leave it out.

White: They claim the British want much more, and they could buy much more, but they don't want to cause prices to rise further, and so they are not buying.

H.M.Jr: If Miss Elliott and I have our way, we will produce more.

White: That is the third point. They feel that not enough recognition is made of the fact that the Department of Agriculture has made more effort and has been more successful in increasing production of agricultural commodities than certainly any one has in industrial commodities. They knew a year ago that hogs were going to be short, so they guaranteed a higher price to the farmer in order to encourage them to produce more. The results of that program will be evident soon. It is not evident yet because the hogs have not yet been produced, but they would very much like some statement to the effect that the Department of Agriculture has done much toward increasing commodities, the demand for which increased.

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- H.M.Jr: I am glad you have got the Iowa way of pronouncing h-o-g-s. It is all right. In New York State we call it "hog" but in Iowa it is "hawg".
- Gaston: This is the dirt farmers' pronunciation (Laughter)
- White: They also said the Department of Agriculture is doing a great deal to stimulate the expansion of plants to produce dried milk, evaporated milk, and are having some --
- H.M.Jr: Well, do you know what they are doing? Have you heard about their doing anything?
- Elliott: Not anything on an extended scale.
- Ware: I understood that they were intending to launch a purely educational campaign for the increase in dairy products this summer and fall.
- H.M.Jr: Well, Harry, if they can give us facts and figures on what they have done - I remember now about the hog campaign. If they can give us the facts and figures of what they have done, and it stands up under examination, I am willing to give it.
- White: I think we can probably some way here distinguish between the work the Department of Agriculture is doing without interfering with the criticism of general farm prices.
- H.M.Jr: Well, I think if they have done these various things - you call them up and say send them on over and we will say, "Well, the Department of Agriculture has made a start along the following lines. They have made a start in the right direction."
- White: Yes. Two more points.

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H.M.Jr: Wait a minute.

Elliott: I was going to say, Mr. Secretary, if they wanted to simply say they are in this and you recognize the fact that they have done this, we in December went to them and asked them to call in this group of farm people for that increased production of hogs and poultry and eggs and they did start that. It is true that that part of it, after much probing, was put on, that campaign on increased production, in January.

White: I think we can give them credit in some general statement without interfering with the --

Elliott: But it hasn't been enough, is the difficulty. Increased production hasn't been enough.

H.M.Jr: Then let's ask them just what they did do, you see.

White: All right.

H.M.Jr: Harry, please.

White: There are two other points which they made. One is that there is a great over-emphasis on the role which farm prices are playing in the general price rise, that not enough attention is paid to other prices increasing, that our illustrations are in the main those of foodstuffs.

H.M.Jr: How about that, Miss Elliott?

Elliott: Of course you have rents in here and clothing. Your figures show rents and clothing, of course. And of course if you are trying to call attention to the fact that the hundred and ten will bring

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increased prices in foods, it is very natural to use a good many illustrations on food. That is going to be the thing that is going to push harder on it than anything else.

White: Yes. I think it is true that there is purely from the point of view of measuring the number of lines, if for no other criterion, that there is an overwhelming emphasis on foodstuffs. We may be able to partly correct that by an additional paragraph on the price of shoes and --

H.M.Jr: Well, Harry, if there is, then you are carrying out what I wanted, because what we decided last night was that we would lay down in the first part of the statement the thing which we gave the President several weeks ago, the general economic basis for this, and then we would branch off in to the stuff, as I would say, the stuff which is closest to my heart.

Now, what I want to do is to appeal to the housewife. If I am going to appeal to the housewife I have got to talk about food and I can't talk about the prices of cotton.

(Mr. Foley entered the conference).

Elliott: Mr. Secretary, I think there is another answer to that in the hundreds of complaint letters that we are getting over our desk now. Practically all of them are food.

White: We might say "We are informed by the Consumers' Division that they are receiving hundreds of letters hourly, or daily, complaining about the rising costs of foodstuffs," that the housewife is already aware.

H.M.Jr: If I may be pardoned to reminisce a little bit, I go back to the very early days - what was the name of the gentleman who had the Consumers' Division in Agriculture?

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Elliott: Mr. Montgomery?

Haas: Howe?

H.M.Jr: From the very days that Mr. Howe came down here, they have never had the chance. It has always been on the production and - I mean not the production. It has always been on this whole soil conservation and all this business, but the consumer, I don't think, has ever gotten a break, starting with Mr. Howe. Were you (Ware) under Mr. Howe?

Ware: No, I was over in the NRA Consumers' Division.

H.M.Jr: Well, so far there is nothing that bothers me.

White: Then there is one remaining point. They felt that the farm bloc would be considerably exercised over the tone of this statement. They felt that it might be possible to get across most of this and either avoid that opposition and possibly even win their sympathy if, A, a clear statement of the recognition of the principle of parity were made, and B, if there were some occasion that you are directing your criticism more against future rises or rises above parity, rather than the present level.

H.M.Jr: I can't do it. George, have somebody --

White: That is the sum total of their comments.

H.M.Jr: George, have somebody in your staff go all through the President's statements and see whether he has ever recognized parity payments, publicly. Has he?

Elliott: In the speech which Mr. Wickard made in Kansas - When was that?

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- Ware: About three months ago.
- Elliott: About three months ago. He had a conference with the President before he left and in that speech you will find him saying - he quoted the President. I don't remember his exact words but as I remember it now the meaning was that we will reach parity - we were going to parity.
- Ware: It was at the time when the question of whether the President would veto the eighty-five per cent was still open.
- H.M.Jr: At that time the President was thinking in terms of seventy-five per cent.
- Elliott: No, seventy-five per cent came in when we asked Mr. Wickard to increase the production of hogs, poultry and eggs. That went seventy-five per cent then. The farm bloc - the farm leaders came in then and fought that vigorously and tried to get Mr. Wickard then to go to the parity, or certainly to eighty-five. Then they went right into Congress on top of that and pushed through the eighty-five per cent. If I am not mistaken, the President supported that.
- H.M.Jr: Can I interrupt you just a minute? Bell, you were with me, weren't you, when we went over secretly to meet the farm group in the House with Wickard, you and I?
- Bell: Yes.
- H.M.Jr: And at that time didn't the President say he wanted seventy-five per cent?
- Bell: That is my recollection, but I - we have got a record of that meeting, I think, but I am not sure.
- H.M.Jr: I will tell you why it stands out, because

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somebody, Wickard or somebody, said if I hadn't fought for seventy-five per cent so hard, they never would have got eighty-five per cent, and they blamed me for it. But anyway --

Elliott: I think you need to read Mr. Wickard's speech that he made in Kansas right on the heels of that eighty-five per cent.

H.M.Jr: Well, get that.

Elliott: Because I was so startled when I saw it.

H.M.Jr: I just can't come out on this thing because I have always said, and Herbert, you check me, there is just as much reason that we figure on parity for the gasoline station and the drug store keeper and everybody else.

Gaston: Right as to what you said and right as to principle.

White: Except that the farmer is the backbone of the nation.

Haas: Well, I don't see on the principle --

H.M.Jr: Well, when it gets to be all backbone and no meat --

Haas: The difficulty about the parity principle, Mr. Secretary, one of the difficulties is that - what is parity? It is a moving, changing term.

H.M.Jr: Well, they change it on us all the time.

Gaston: You are not dealing with incomes when you talk about parity. You are dealing with unit prices for products, and that denies every principle of progress and production.

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- White: It denies every element of technological advance. They want a bushel of wheat to buy the same amount of shoes, irrespective of the fact that they may be able to produce a bushel of wheat - as they did thirty years ago.
- Gaston: That is like taking a pound of rayon and saying that the price relations must stay the same when the cost isn't a tenth of what it was.
- H.M.Jr: If you will get, Harry, the statement - I hate to go to them - of the Economy League and their economists - they have just done a paper in the last week on parity, and the thing that he points out - we had it and you might read it. He points out that in parity they take no account of the difference between the two cylinder opposed tractor weighing twenty-five tons and the light high-speed tractor that hoes six rows with an automobile engine.
- White: Wheat is the same.
- H.M.Jr: One of these tractors can take care - does take care of six hundred acres in Texas, of cotton. That is one of the reasons why they have so much migratory labor. They have forced the people off the farms. One tractor and one man can take care of the thing. That is all in that thing. In other words, a technological advance since 1910. They give no credit for that.
- White: Well, they get some, because it is in the general purchasing power, but they also take no cognizance of possibly a more important fact, and that is the stuff they sell in the main is not - does not improve in quality except as it means more poundage, more bushels, whereas the stuff they buy, an automobile that they buy, for a thousand dollars is infinitely better, but if you take the

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price index of that, it doesn't show the manufactured goods and textiles and it doesn't show in what they buy and therefore they are always biased in their own favor by the use of this parity principle.

H.M.Jr: Well, after ten years I can't suddenly change my spots. I just can't do it.

White: But I think in the light of what they said and how it has been written here, you may want to pull the punches a bit.

H.M.Jr: I doubt it.

White: But this thing needs to be rewritten in any case, because we spent until the very last minute in a - sort of organizing it, so I take it there will be another draft which will include this much.

H.M.Jr: Oh, yes. Ferdie, do you want to read?
Have these ladies had a chance to see it?

White: No, it was just finished.

Kuhn: Do you want me to read the whole thing or skip what is the same as yesterday?

H.M.Jr: I would skip what is the same.

Kuhn: Well, the beginning is the same, the first page is all the same as yesterday. It starts at the middle of page two.

"I welcome the bill before you because, despite one serious shortcoming which I shall mention later, I believe it is a step forward. I believe the bill provides another important weapon to use in the fight against inflation.

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"We cannot wait any longer to add that weapon to our arsenal. The time left us in which to act is short.

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

"Memories are so short that I suppose many of us have forgotten what happened the last time inflation struck us - 25 years ago. In 1916, the cost of living began to rise sharply, but there were few who saw its significance and nothing was done about it.

"It was not until April 1917 that the first real alarm was sounded against inflation. It was not until prices had risen by over 70 per cent that the President Wilson recommended any steps to prevent inflation. In fact, so little aware were they of the dangers of inflation that in June 1917 Congress actually encouraged inflation by reducing the reserve requirements for member banks of the Federal Reserve System."

H.M.Jr: That is old.

Kuhn: The next paragraph is the same.

"By 1918 price increases were in full swing."

H.M.Jr: I don't want that. I hope the ladies are going to give me something else. I don't want that.

Kuhn: You don't want that?

H.M.Jr: No. I want something from the ladies.

Ware: Did you get our material?

Kuhn: Yes, we used it.

"The pattern of price rises in the past two years is frightening in its similarity to the

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price movements during the first two years of World War No. 1.

"As the President said in his message to Congress a few weeks ago: 'Today we stand, as we did in the closing months of 1915, at the beginning of an upward sweep of the whole price structure.'"

H.M. Jr: In connection with what are you saying that?

Kuhn: In the price message.

"Then as now, there was a little rise in the cost of living. Then as now, there was a greater rise in wholesale prices. Then as now, there was a still greater rise in the price of basic commodities.

"Since the beginning of the present war, the wholesale prices have risen about eighteen per cent - the greater part taking place during the past five months.

"True to the usual pattern, the cost of living did not rise till later. During the past year, however, it has increased four per cent - half of it in the past three months.

"During the past 12 months the average price of 28 basic commodities has increased 37 per cent, despite the fact that the prices of many basic raw materials have been kept partly in check through the efforts of the Office of Price Administration and Civilian Supply.

"It is the rise in the prices of basic commodities that constitutes our danger signal today. They rise first, general wholesale prices always lag behind, while the cost of living does not show anything like the full effects of inflation until long after the seeds of inflation have taken deep root.

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"Moreover, the forces now in existence making for further price rise are both potent and persistent:"

H.M.Jr: Is this from the statement we handed the President?

White: This with some modifications is taken from the price statement.

H.M.Jr: Do you mind - I would go back. There is some of this I am not crazy about. I will let you read through it.

Kuhn: "(1) Our defense expenditures are increasing rapidly. The Budget estimates Defense spending"-- that is --

H.M.Jr: Well, the ladies haven't seen it, so let's read it through.

Kuhn: "The Budget estimates Defense spending during the fiscal year 1942 will be \$15 billion, or two and a half times as much as in the fiscal year 1941. Even this increased estimate does not include additions to the Defense Program made after June 1, and greater sums needed for Lend-Lease.

"(2) More important as an inflationary force" --

H.M.Jr: Excuse me. When we are repetitious of what you heard up on the Hill, please just raise your hand, will you?

O'Connell: Yes, I will. There isn't a great deal here that is said in the way it was said up there. A great deal of it has been demonstrated in charts and said in different ways but I haven't seen anything in this statement which I would change because it has been said. I will keep it in mind, though.

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H.M.Jr: You are invited principally - first for your charming personality and second to see if there is anything repetitious. (Laughter)

Go ahead.

Kuhn: "(2) More important as an inflationary force is the fact that the Government is borrowing from banks much of the money it is spending. When the Government borrows from banks it is for the most part creating new purchasing power. It is adding to the total stream of money spent on goods. The net deficit for the fiscal year 1942, as estimated by the Director of the Budget will be \$12.8 billions, compared with \$5.1 billions for the previous fiscal year. If the present tax bill is passed by Congress so that it will yield \$3-1/2 billion, the deficit will be reduced by \$2-1/2 billions, but it will still be over \$10 billion. Again this estimated deficit does not take account of the expansion of the Defense Program after June 1, 1941.

"(3) Supplementing the inflationary force of the Federal deficit has been the expansion of bank credit by increased loans to business. Bank loans expanded by approximately \$3 billions, or about 20 per cent during the past twelve months. And, as in the case of the other forces making for inflation, the expansion of bank loans has been proceeding at a quickening pace.

"(4) Pressing upward on prices is the fact that more and more plants are reaching maximum capacity and more and more shortages in basic materials for civilian use are appearing. Prices of imports are daily rising due to reducing shipping space, higher shipping costs, and disappearance of normal foreign sources of supply.

"(5) Finally, we have increasing agricultural income, and fatter pay envelopes and many more of them.

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"It is not easy for us to visualize where these forces will take us if permitted to operate unchecked. They were unchecked in the World War and all we have to do to see what is ahead of us is to look into the purse of the average family of those times - to see it, not in terms of percentages and indexes, but in terms of the prices of every day needs of food, clothing and shelter."

H.M.Jr: Just one second. You say that during the World War they were unchecked. What about the great Mr. Baruch? What was he doing all the time?

White: Nothing then and very little later.

O'Connell: I think the explanation of that, Mr. Secretary, is that by the time Mr. Baruch got into the picture the prices had increased something over seventy per cent, I believe, and that has already been brought out. We are now maybe a year ahead, or at least months ahead of the time that we made any move at the time of the World War.

H.M.Jr: Wait a minute, George has got something. What is this chart, George?

Haas: That is the price level from 1910 on. If they were checking they weren't working very hard on it.

H.M.Jr: We want to go over very carefully these charts.

Kuhn: They were unchecked in the World War until it was too late to stop them.

H.M.Jr: Well, according to this thing here they went up like a skyrocket and came down like a bomb.

White: When - but they didn't come down during this period.

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Maas: Take a look at it, Harry.

H.M.Jr: That is the thing I want to emphasize. Go ahead.

White: It sounds like a good phrase. "Went up like a skyrocket and came down like a bomb."

H.M.Jr: I will lend it to you. (Laughter)

White: If it is Lend-Leased we don't have to give it back to you.

Foley: What did it come down like, Harry?

White: A bomb. You heard me the first time.

Kuhn: "The money the housewife paid for one loaf of bread in 1914 bought only half a loaf in 1920. The money she paid for a pound of bacon in 1914, bought only a half a pound in 1920. The money that she paid for a yard of cotton cloth in 1914, was only enough to buy one-third of a yard in 1920."

H.M.Jr: That is new. Is that you ladies? Good.

Kuhn: "The family with no increase in income found its purchasing power cut in half. It found that food, fuel, shelter and clothing that cost \$1.00 in April, 1915, had risen to \$1.08 in April, 1916. By 1920, after four years of rising prices, the cost of these goods and services had risen to \$2.03. In August 1940 this same food, fuel, shelter and clothing cost \$1.37. The cost of these goods and services has already risen to \$1.42 during the past year. But if prices continue to rise in the same pattern as during 1916 to 1920, these goods and services will soon cost \$2.67."

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- H.M.Jr: That is exactly what I asked for, Miss Elliott, Sunday night. I want a chart to support this and I would like to have two kinds. If you would give him the basis, George will make them. I want one the size that can go right into the statement I give to Congress so they can look at it, you see, and then a big one, George, so that everybody can see, but - in other words, I want to illustrate my talk. Please make suggestions, too.
- Elliott: We brought the material this morning for the chart.
- H.M.Jr: If you would just turn it over to Haas, but I thought this, if the thing would run - this statement, and then the next page or somehow or other have it so it would be - run nicely with the chart. They could just see the thing on a chart, you see.
- White: You mean a mimeographed chart?
- H.M.Jr: I want a mimeographed chart and then a big one. I will read this and I will say, "Now, if you will turn to the next page you will see the chart illustrating this thing," and I can say to the audience - George will be there - "There is the chart to show this thing," you see.
- White: And projected in red. Have the anticipated increase in red so they can see what you can expect if you don't do anything.
- H.M.Jr: Well, if you don't mind, George's crowd on that is so much better than I am, I will leave it to them to give me a pretty picture.
- Elliott: Mr. Secretary, in condensing that, I believe that there is some advantage in the way this was stated here in the other draft, in changing that.

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H.M.Jr: Do you think they spoiled it?

Ware: Well, the question, Mr. Secretary --

White: We didn't state it the way you did. If you think the way you did is better --

H.M.Jr: Let's listen to what they have.

Ware: The question is whether it is more effective to state it in the increase in the price of the same things or the decrease in terms of cuts or in terms of increased price.

H.M.Jr: Say it again, Miss Ware, a little slower. Remember you are dealing with an eighth grade pupil, so do it a little slowly.

Ware: Whether to state the increase in the price of food, clothing, and shelter or the decreased amount which can be bought.

H.M.Jr: I personally like the idea - well, if you can get seven loaves today and two years from now you are only going to be able to buy five loaves or four loaves rather than - is that what you mean?

Ware: Yes.

H.M.Jr: Which do you prefer?

Klotz: Well, that is the way it is.

White: It is both ways, Mr. Secretary, and I will tell you what the difficulty is. When you are talking about a loaf of bread you can say that and we do say it. When you are talking about the cost of living which includes rent and other services, you either have got to use a percentage decrease, and we wanted to get away from percentages - you would have to say that the cost of living has

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risen by ten per cent or so, or you have to say the same things you could buy for a dollar now cost you two dollars. You can't say that you get half as much rent and half as much for a dollar.

Bell: You had your difficulty when you lumped food, fuel, shelter and clothing.

H.M.Jr: Let me hear how you had it.

Ware: With my eye on the labor listeners, I suggested saying something like this. "A family earning thirty to thirty-five dollars a week in 1940 took in effect a cut in income of more than twelve per cent a year for more than five years. That is the kind of thing which the workers can hear.

White: Providing they got the same income, which they didn't. That is the difficulty.

Ware: Yes, a family having the same income.

H.M.Jr: Well, my suggestion, Miss Ware is, if you could stay afterward, you see, and go into a huddle with White after the meeting and then just see whether you can't get a meeting of the minds. Is that agreeable to you, Miss Elliott?

Elliott: Yes indeed.

H.M.Jr: If you could stay behind, Miss Ware, and go in with White and just thrash it out. I think you can hold up your own.

Ware: This is quite O.K.

H.M.Jr: No, but I mean - I would very much like it if you could stay behind. But let me say this. This is the first time I have seen this thing this way, you see, and this does what I want to do.

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It says if the thing continues the same way, that what cost a dollar thirty-seven, a dollar forty-two today, in two years from now will cost two dollars sixty-seven cents. I have never heard that said before. Has that been said on the Hill, Joe?

O'Connell: No.

H.M.Jr: That is new, isn't it?

O'Connell: That is right.

H.M.Jr: Well, that is the key to my whole story.

Haas: The figures would be a little more dramatic if you took August, 1939, the beginning of the war. Is that just as easy to get?

Ware: Yes.

H.M.Jr: Again, that is a technical thing. If you think that is so - if Miss Ware would take a look at August. I know the figures. I think George is right.

White: Well, they will say you picked the low month. It is all right, we can.

H.M.Jr: Well, you start with the war.

Haas: It is the beginning of the war. You have got that reason.

H.M.Jr: All of our charts start with August, '39 here.

Elliott: We have those figures here.

H.M.Jr: What would it be in August, '39? You have got August, '40.

Haas: Well, the cost of living up in the front of the

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statement, Mr. Secretary, it is five point eight per cent and I think in the statement it is four per cent. You see, it is a difference between four per cent and nearly six per cent, which is nearly a fifty per cent difference.

H.M.Jr: I would like to use the figure August, unless these economists overrule me, which is easy. What was it in August, '39? August, '40 was a dollar thirty-seven. How much was it in August, '39?

Elliott: Sorry, I don't have that exact figure here.

H.M.Jr: I should guess it would be pretty close to a dollar.

Kuhn: What would this be in August, '39?

White: In August, '40 this same food and shelter, I think, cost a dollar thirty-five. A very small change. The rise in the cost of living in August, '39, I think, was something - my recollection, if it serves me correct, brings much less than two per cent.

Elliott: Oh, much less than two per cent, it must have been.

H.M.Jr: Well, again, if Miss Ware could stay and with George and Harry get together and settle the figures, I will be glad to use them, but it is the idea.

White: We will take the one that looks most dramatic.

H.M.Jr: They will say, "Well, Mr. Morgenthau, when do you think we will reach the two point sixty-seven, in how many years?" You don't say.

White: We say in four years, but I think we will change

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that. I think the thing to do is to say that by the time the war lasts much longer, we will be close to that.

H.M.Jr: Well, why not say we are headed right toward that?

White: That is what we reached in the last war. How rapidly we will get to that point this time is difficult to say, but we are --

H.M.Jr: What do you say, Miss Elliott?

Elliott: We are moving in that direction rapidly.

H.M.Jr: We are moving rapidly in that direction.

Bell: Well, one year of the war has already gone by.

Kuhn: You say in the next sentence, "If the same rate of increase takes place in the United States in the next two years as during the last war, a basket of groceries which now cost \$1.00 will cost \$1.75. That is where the inflationary forces of today will lead us unless we take positive steps to prevent it."

H.M.Jr: Just wait a minute, please. Now, what I would like to say is this. This still doesn't - isn't convincing enough. I would like to after this thing here say, "Now, I want to translate that into terms that the housewife and I can understand," and then I would like to, Miss Elliott, right in there put in a paragraph. I would like to take a few items like porkchops today cost thirty cents a pound. If this thing continues they are going to cost so much. If bread costs so much today, following the same pattern - I would like four or five things, I mean what you think are good, porkchops, bread, eggs. I mean, I would like another paragraph to illustrate the thing.

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Elliott: We have figures here on corn meal, pork, flour, bread, eggs, beans and rice.

H.M.Jr: Forecasting it?

Elliott: Yes.

H.M.Jr: What is the list again?

Ware: This was a list, as a matter of fact, for the translating a hundred and ten per cent of parity into likely price increases.

H.M.Jr: Is that the same as from a dollar to a dollar seventy-five?

Ware: No.

H.M.Jr: No, it isn't.

Ware: No.

White: We can break that basket of groceries down to that.

H.M.Jr: Take the dollar to a dollar seventy-five and give me a half dozen good items.

Elliott: We can do that. We can get that right out of this percentage here.

H.M.Jr: Yes, from a dollar to a dollar seventy-five, and each one of these things here which are new, like this is, I would like a chart to back it up with, George.

Haas: All right.

H.M.Jr: Even if we get too many charts we can always throw some out, but at least let's have them. But I simply want to say now a dollar and a

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dollar seventy-five. Let's take a half dozen items in that market basket and what would they be if they went from a dollar to a dollar seventy-five?

Elliott: Well, these would cover meal and pork and flour and bread and eggs and beans and rice.

H.M.Jr: Wonderful.

Isn't that as good as any? That is on the poor man's table, isn't it?

Elliott: I think that is a good assortment.

Ware: We can get a good assortment from that.

H.M.Jr: Go ahead, Ferdie.

Kuhn: "The rise in prices is not confined to foodstuffs and clothing. I have before me the actual figures on the cost of constructing a standard six-room frame house in one of our typical cities. This home that could have been built a year ago for \$6,000 now costs \$7,140 to build. Here we have an increase in prices of nearly 20 per cent and if it goes along the 1916 pattern, we are only at the beginning of the story."

H.M.Jr: I certainly want that chart.

Haas: I have got a chart.

H.M.Jr: I know, I saw it just last night. I certainly want that in a chart.

Kuhn: "There is however one great difference between conditions today and 1916. We at least know what is going on. We are aware of the dangers that lie ahead of us."

Klotz: It says "that" here. It should be "what".

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Kuhn: It is a misprint.

"We now know or ought to know that the time to do something about inflation is before it occurs, not after it has gathered momentum. We should profit by our greater knowledge and take prompt and effective action now."

Beil: Do you intend to leave out the details of the house? We had them in yesterday, broken down.

H.M.Jr: You mean in the chart? They will be in the chart. That saves another thing. You can have less details in the statement and all the details in the chart. If you don't mind, Ferdie, I think that last paragraph could even be made stronger, on page eight. I don't think I am beating my breast hard enough.

Kuhn: You are only beginning to beat your breast there.

"Our economy today resembles an over-loaded steam boiler."

H.M.Jr: Now we are getting somewhere.

Kuhn: "The fire under the boiler is being fed by billions of additional purchasing power in the hands of the public. The fire is growing better and is generating more steam than the boiler can safely hold. If we are to prevent the boiler from bursting, we must damp down the fires by withdrawing some purchasing power, and we must also strengthen the boiler by increasing the supplies of goods available to the consumer.

"It is true that some important steps are being taken to withdraw purchasing power that competes with defense goods. Congress has now before it

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a huge tax bill destined to raise from \$3 - \$3-1/2 billion in additional revenue. The Treasury in its borrowing program is attempting to obtain as large a portion of its funds as possible from current consumer income. To do this it has initiated a program of selling defense savings bonds and stamps to people of moderate and low income, and has also embarked upon the sale of a new form of note - the Tax Anticipation Note - which will operate to reduce the lag between the time of accrual and the time of payment of income tax, thus"--

H.M.Jr: May I interrupt you? Go back to page nine at the end of the paragraph where you say, "We must also strengthen the boiler by increasing supplies of goods available to consumers." I would like to follow the technique of the fellow in his prime who was tops, a man by the name of Alfred E. Smith, who used to use this expression, "Now let's look at the record." At this point I would like to say, "Now, let's take a look, what can we do?"

White: "What have we already done and what can we do?"

H.M.Jr: "What have we done and what can we do about it?"
"What have we done and what can" --

White: "And what more can we do?"

H.M.Jr: "And what more can we do," you see?

Kuhn: It is good to break it up that way.

H.M.Jr: Do you remember Al Smith? He would say, "Now let's take a look at the record."

White: He has stopped looking at his record now.

H.M.Jr: He has stopped thinking, poor man.

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- Elliptt: May I interrupt at this point? In this discussion of the production of purchasing power, wouldn't it be desirable to have a sentence saying that the reduction in purchasing power is not aimed at the lowest or the very low incomes which are needed to provide minimum essentials for health and welfare? It sounds as if there was a slight inconsistency between this statement here and cutting down consumer purchases and the statement later on.
- H.M.Jr: About morale and health?
- Ware: Yes.
- White: Cutting purchasing power where it can be most afforded or something, where it can most be afforded.
- Ware: Yes, just a little sentence there.
- H.M.Jr: And do the least damage.
- White: To our standard of living.
- H.M.Jr: Something like that. I think that is a good point.
- Kuhn: We are on the Tax Anticipation Note, which will reduce the lag between the time of accrual and the time of payment of income taxes, "thus increasing the effectiveness of that tax as a means of curtailing current purchasing power for consumer goods.
- "These measures to restrain price rises, though they have unquestionably been helpful, are inadequate to meet the situation confronting us. All of them attack the problem by attempting to reduce expendable consumer incomes. Fortunately, however, there is available an additional method that attacks the problem from the opposite

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direction. Because of our accumulations of agricultural surpluses we are in a position to provide increased quantities of almost all agricultural goods and thereby both curtail prices and increase the standard of life."

H.M.Jr: Right there, what I want to say is that this was done during times of depression and the time to rid one's self of surpluses are in boom times.

Kuhn: We have got that in the next paragraph.

H.M.Jr: All right.

Kuhn: "Indeed, my suggestion that the granary doors should now be opened agrees with our established agricultural policy - the ever normal granary. Having been accumulated in time of surplus, the stocks should be distributed in time of shortage. To do so is the natural complement of our previous policy and the necessary preparation for reaccumulation when and if surpluses again develop."

H.M.Jr: That sentence is a little highbrow.

White: I got your note this morning, and we added that paragraph.

H.M.Jr: This first paragraph, at the top of eleven, is a little highbrow. That is me?

White: I say we got your note this morning, and we wrote that paragraph this morning.

H.M.Jr: This one?

Kuhn: And the next one.

H.M.Jr: I say it is a little highbrow. Never take anything seriously that I dictate before six in the morning.

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White: I don't think the time was on it.

H.M.Jr: Well, it was. I have one of these Ediphones at home. All right, go ahead.

Kuhn: "Now is the time to empty our shelves, both for present advantage and so that if necessary we can later fill them again."

H.M.Jr: That is what I said.

Kuhn: "The concept of the ever normal granary calls for a floor to be built under falling farm prices and, it seems to me, for a ceiling to be built over rising farm prices."

Elliott: Wouldn't it be better to say, "Now is the time to empty our bins and our shelves"?

Haas: It is more farmlike.

H.M.Jr: All right.

Kuhn: "And that brings me, gentlemen, to what I consider the major defect of the bill now before you. It is a defect which I consider so great that it will undermine the effectiveness of the bill unless it is repaired. This is the failure of the bill to provide for effective control of farm prices. And without a check upon farm prices, it is useless to look for a check upon inflation."

H.M.Jr: Hear, hear, did Miss Elliott write those two sentences?

Elliott: Not guilty.

H.M.Jr: They are good.

O'Connell: Mr. Secretary, I would like to point out that

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I am not sure that sentence about control of farm prices is absolutely accurate because once you get to a hundred and ten per cent, the bill contains the same power to control farm prices that it does all other types of prices. That is, the effectiveness at that level is the same as regards farm products as the bill supplies for other commodities at whatever level the Administrator determines to be fair. Now, I don't know that that means that this is absolutely incorrect, but I am not sure of it.

Haas: Unless they changed the definition of parity, Joe.

O'Connell: Well, I am assuming that there is an existing definition of parity. I don't know.

Bell: In other words, there is a ceiling but the ceiling has been fixed high.

Ware: No, but it is a escalator ceiling.

White: There is no ceiling. They can't do it lower.

Haas: Because by definition the parity doesn't - yes, that is right.

Kuhn: You have the word "effective" as a hedge, Joe, "effective control".

H.M.Jr: If I understand correctly, what you mean by "escalator ceiling" is that as the articles the farmers buy go up, that is one of the factors going into farm parity, so his prices go up, is that right? What he buys rises and what he sells rises, so therefore the thing goes up - goes right on up. Is that right, Miss Ware?

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Ware: Yes.

H.M.Jr: Well, Joe O'Connell made a comment. Give it careful consideration.

White: Look what they have done with cotton. The minute they have reached the parity they have given every indication of no willingness to release supplies, even after it reaches parity.

O'Connell: Well, that is another point. That is entirely different.

H.M.Jr: Well, Joe, go after these boys afterward and see who gets licked. You know, go after them. It is a point and see whether you can argue it among yourselves.

White: Yes.

H.M.Jr: Go ahead.

Kuhn: "The problem of farm prices is close to my heart, not only because I have a farm of my own, but also because I was the first Governor of the newly organized Farm Credit Administration in 1933. With memories of those days in my mind," --

H.M.Jr: Wait a minute. Aren't you going to say for a few weeks I was the Governor or Chairman of Herbert Hoover's Farm Board?

Kuhn: If you want it in.

H.M.Jr: Sure. So I had a taste of that, and it has been a bad taste ever since. "With the memories of the few weeks that I was Chairman of Herbert Hoover's Farm Board still clear in my memory," and then the other thing. What was that, three weeks, Herbert?

Gaston: Two months.

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Bell: May.

Gaston: A little over two months, March 3 to May 12.

Bell: Yes.

H.M.Jr: All right.

Kuhn: "With memories of those days in my mind, it seems to me that too many people are now looking at farm prices purely from a short-run point of view without any apparent regard for the inevitable after-effects of inflation. Have they forgotten the experience of 1920 and 1921 when farm prices dropped more than 50 per cent within twelve months? Have the people back on the farms forgotten the whole heartbreaking period from 1921 to 1933 when American farmers fought for relief with no result? Surely millions of our farmers can remember the bottom of the pit in 1933, when they organized "holiday" movements to protect their farms from foreclosure."

H.M.Jr: Now you have got to put one thing in. "Have the people back on the farms, have the Republican Party, forgotten the period?" Just put that in, will you please?

Haas: What was the little result, the Farm Board?

H.M.Jr: Well, believe me, when Mr. Crawford - this is a good point, Joe. When Mr. Crawford goes after me, I can say, "Has the Republican Party forgotten the period from 1921 to 1933?"

White: You wouldn't blame them if they did.

O'Connell: They never will forget it.

H.M.Jr: Well, isn't this the place to chuck it in? Where is my farm prices, George, that I asked for last night, where is my chart?

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Haas: They didn't work out exactly what you wanted, I don't think. That is farm income. It is an interesting thing, but it is not farm prices, you see.

H.M.Jr: No good.

Haas: It shows all right.

H.M.Jr: No, it doesn't.

Haas: It shows it way up, you see.

H.M.Jr: I want farm prices.

Elliott: Mr. Secretary, it is probable - there are some Southern Democrats, you see, who are leading the fight for this higher parity, and it might throw that back.

O'Connell: Of course you will get more Republicans on this Banking and Currency Committee than you will Democrats.

H.M.Jr: I went through the campaign in 1932 preparing this thing, and the whole thing we had to keep throwing in Hoover's teeth was the Farm Board and that was one of the principal things we threw in his teeth and into the teeth of the Republican Party. Now, if they get nasty with me, I am going to simply say - and if I remind the Democrats of this they may pipe down and say, "Well, Morgenthau is right. We had better make this a Party matter." They will say, "We don't want to repeat." It is my only chance, you see, to remind them that it was the Republicans who had made the mistake and it was the farmers who had suffered for thirteen years. We Democrats pulled them out of that hole. We don't want to make the same mistake as the Republican Party did. I - unless these people --

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Foley: I don't quite see the relevancy, Mr. Secretary --

White: It would come better in the questioning, Mr. Secretary.

H.M.Jr: Oh, absolutely. I don't want it in the statement. But in the questioning. No, I wouldn't put it in the statement. I was only kidding. But in the questioning. I am perfectly consistent on Mr. Roosevelt's agricultural speeches of '32, what he said. I am only repeating what he said in '32.

O'Connell: Well, Mr. Secretary, I have been listening to that cross examination of Mr. Henderson for the past five or six days, and I really think that you are not apt to have much trouble with Wolcott, Gifford, and Crawford, who are the three Republican members who have been examining Mr. Henderson so far. I think that you will get, frankly, more sympathy with this sort of statement from them than you will a number of Democratic members.

H.M.Jr: But Joe, certainly I am on very safe ground if I go back to Mr. Roosevelt's campaign of '32 and what he did for the farmers to pull them out of the hole and keep their farms for them.

O'Connell: That is right.

H.M.Jr: I would just as soon say that maybe some Democrats have forgotten what Mr. Roosevelt stands for, including Cotton Ed Smith. Maybe some Democrats have forgotten what the principles of the Democratic Party are. What is the matter with that?

Foley: Well, Mr. Secretary, the result, in so far as the farmer is concerned, may be the same, but the logic of this and the way it is said in here

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bothers me a little bit. I don't quite see the relevancy between inflation and depression and your comparing - I mean, you go from inflation and the effects of inflation right back to the depression period.

H.M.Jr: I can answer that for you. You weren't here yesterday when we heard the statement. They didn't use it. The illustration I used was this: If you want to keep Humpty Dumpty from falling off the wall and you don't want to let him get up on this high wall --

Kuhn: We did use it, Mr. Secretary. It is on the next page.

H.M.Jr: Let me just go with Ed on the farm prices. He comes from Fourteenth Street in New York, is it?

Foley: I come from up-State New York.

H.M.Jr: You don't vote there, anyway. (Laughter)

Foley: Besides, if you want to be accurate, it is Twenty-third Street.

H.M.Jr: O.K. You win. Well, anyway, the connection between the two is that we don't want inflation now, so we don't have that horrible deflation afterward. That is the point. Does that satisfy you?

Foley: Yes, that satisfies me.

White: His point is, it may be - may not be made clear in the statement.

Foley: It is not clear.

H.M.Jr: He is most likely right, but you don't want the cruel inflation now and the even more devastating deflation which comes as a result.

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That is my whole thesis. That is my whole thesis. If that is wrong, then we had better start all over again.

Foley: I don't think the thesis is wrong. I was merely saying that it is kind of hard here to follow the logic.

Kuhn: It comes. We might point it out sooner.

"I lived with the tragedies of the farmers in 1933. I remember the day when seventy-five farmers with shotguns" -- I am going to revise this -- "stood on the steps of the Illinois Court House." (Laughter)

White: "I remember when farmers with seventy-five shotguns came to my office."

Foley: It sounds like a marital proposition to me, Harry.

Kuhn: "They came to my office to tell me they were about to be turned out of their homes and their lands."

H.M.Jr: That is wonderful.

Kuhn: "I remember the case" --

H.M.Jr: Is this the part that Herbert Gaston wrote?

Kuhn: Not guilty.

Gaston: I am not guilty.

H.M.Jr: All right, go ahead.

Kuhn: "I remember the case of one farmer, a college graduate, who had been worth fifty thousand dollars a few years earlier, and who was being threatened with foreclosure although he had 25,000 bushels of corn in his bins. It was

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my job then to help extricate our farmers from a price and speculation wreckage which had its origins in the price boom of the last World War."

White: I don't think that expression is good. I think we ought to cut it out. They will begin talking about the men who had millions in 1928 and lost them in '30.

H.M.Jr: Well, Herbert can fix that stuff up.

White: Who cries over anybody who is worth fifty thousand dollars anyway?

Foley: Especially if he went to college. (Laughter)

White: He should have known better.

Foley: Sure, what has he got education for?

Haas: Put the corn in the crib, too.

Kuhn: Instead of a bin?

Haas: Yes.

Kuhn: All right.

H.M.Jr: Go ahead.

Kuhn: "But it was hard for me then and it has been hard for the Administration since then to put Humpty Dumpty together again. And it has been hard to persuade the present-day descendants of Humpty Dumpty not to go climbing up that wall of high prices again.

"I want to see a healthy development of farm prosperity, and with that objective I helped to initiate our agricultural program and have

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continued to support it. Holding fast to that objective, I am convinced that we must not ignore the danger signals ahead.

"Now what are those danger signals as they apply to our farms? The most serious of them is a rapid rise in prices which is hastened to a large extent by the artificial withholding of huge supplies from the market. It is hastened also, to some extent, by the continuance of unreasonably high tariff rates that keep foreign supplies from our shores. Yet if we were intelligent in seeking to prevent further price rises, we should be making every attempt to bring in supplies from other countries, particularly those supplies in which shortages are already operating. We should not hesitate to cut tariff rates wherever such rates operate to keep prices unduly high or the goods unduly scarce. Above all, we should be making full use of those supplies that are available here in the United States."

Elliott: In this here, wouldn't they come back there at you on shipping, the fact they would do this if they could, it is a shipping shortage that is keeping them from bringing them in?

White: Not from Canada.

H.M.Jr: I was thinking of wheat from Canada and sugar from Cuba. There is no trouble in bringing it over in barges.

White: And vegetables from Mexico.

Elliott: Well, I think, though --

H.M.Jr: Cocoa, coffee, yes, but sugar and vegetables and wheat - I hope you have got the right figures for the wheat in Canada now.

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White: We will check on that.

H.M.Jr: I have got to get a lot of this stuff primed into me. I think it is all right, Miss Elliott.

Kuhn: "It is sheer folly from the farmer's point of view, to be pushing prices up by creating scarcities in times like these. It is folly, because it will end in the same heartbreak and misery that came in 1921 and lasted for twelve long years.

"I hope the farmer will see where all this is heading; I know the housewife does. For she is feeling the effects already, every time she goes to the market to buy food for her family.

"I wonder if the housewife knows, when she pays 20 per cent more than she did a year ago for a bag of flour, that our supply of wheat is the largest on record, and that 450,000,000 bushels of two years' crops are stored in Canada and could be imported easily. I wonder if she knows, when she pays 15 per cent more for a pound of sugar than a year ago, that there are huge untouched reserves of sugar in Cuba. I wonder if she knows, when she pays 25 per cent more for butter, that we have forty million more pounds of butter in storage than a year ago. We have in our own country large reserve stocks of farm products of all kinds which should be released for consumption as rapidly as is necessary to prevent unreasonable price rises."

The cotton business here is as it was yesterday.

Elliott: Isn't "of all kinds," a slight overstatement?

Kuhn: Probably it had better be "many kinds."

Page seventeen. "Millions of our people" --

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Elliott: There is a statement that has just been prepared and is on my desk on the sugar situation, which I think can make this even stronger, the amount of sugar that is now in this country. I was amazed to see that this statement - they are calling in the sugar people now because - on the price ceilings discussion and that there is more sugar now, according to this statement, in this country than at any other time.

Kuhn: Being withheld from the market?

Elliott: Yes.

H.M.Jr: Can we get that list?

Elliott: Yes. Well, I don't know whether that statement is being held for the price ceiling thing. He got up this statement because they are calling in the sugar people to fix a price ceiling.

H.M.Jr: Well, if I could use this. You see, the point that I would like to get over is this --

Elliott: When I go over to the office I will send that sugar statement back.

H.M.Jr: The thing I would like to get over, so you get it once more, is on this whole question of food, the thing that burns me up so, I happen to have been partly responsible when the President released the seven hundred thousand tons of sugar two years ago when the thing went up to twenty-five cents in the fall of '39, and I felt that when he did that - I mean, as I remember it I brought it to his attention - that if all of this had been turned over steadily every time there was a surplus, you would have knocked the price on the head, and every time that one of these things grows you just hit it on the head. Well, gradually you would keep this thing down.

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But that isn't done, and that is the thing that I want to get over, and if it is sugar or wheat - and that is the way, after all, if you could keep the price of bread at what it was - but the selfishness of the people, for instance, on - they know that this thing is coming for England so there is so many million pounds gone up. Then they hold the price there, they freeze it. Now, they have done it in the House. The price in the House went up when they were building Army cantonments and there was a temporary shortage of lumber. Now, the lumber is there, but do they let the lumber price drop? Oh, no, they freeze it right at that price, and that is true in every one of these cases, and the only way that you can break it is the way the President broke the price of sugar in the fall of '39, by releasing seven hundred thousand tons. Now, if they thought we were going to release any one of these particular items - I would do it judiciously. I mean, not to have too sharp a break. A lot of these prices could go down.

Kuhn: "Millions of our people still go" --

White: I think when we were talking about sugar we should say, "large supplies in Cuba and possibly here," and at the same time we have a quota which prevents that sugar from coming in.

H.M.Jr: Yes.

White: I think it would please Agriculture, because we are not accepting a single recommendation they made, if you are willing to make a statement along the lines that you have just made, that what you are concerned about, what bothers you is not the price rises which have already taken place, but rather the price rises which will take place unless they are checked. It is the further price rises.

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H.M.Jr: Well, that is true, on the whole.

White: I think if we have a sentence of that kind in there they will like it.

H.M.Jr: As long as you say where there is something particular out of line - you can bring that down. I mean, take --

White: There are things out of line. Feed products are --

H.M.Jr: Tallow, a hundred and twenty per cent up. I remember that figure. There is no excuse. I mean, if tallow is a hundred and twenty per cent and there is some way of bringing tallow and - cottonseed oil, the things that go into shortening, isn't that what you call it? Those things, for some reason or other, are completely out of line. Just keep that in mind. Go ahead. And, gosh, the peanut oil in the country must be tremendous. There must be huge quantities of peanut oil. It is the thing from the Philippines, isn't it, that has driven the price up, the lack of that, isn't it?

Gaston: Yes, they can't move copra.

Kuhn: "Millions of our people still go without milk, butter and eggs which nutrition experts have found necessary to good health and good morale. The effect of good food on national defense has been stated so well in the August issue of Fortune magazine that I should like to read one paragraph to you."

Shall I read it?

H.M.Jr: Yes, I would like to hear it.

Kuhn: "It says:

'This is a war in which every man, woman and child must be alert, physically tough, strong in

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character. Planes, battleships, natural resources, industrial plants mean little without human fitness to match - superb health, geared up to its highest potential by the right food. Courage and the cool head in battle, efficiency on the production line, civilian morale - all hinge on food; not on just eating enough, but on eating enough of the best life-giving foods. The Nazis have even demonstrated that right and wrong diet can be used as a double-edged weapon, both to sustain the will to victory of their own people and to paralyze the will of the conquered. Never has it been so clear that food is power.'

"One would imagine that every effort would be made to put more dairy products on the market; yet we are withholding the largest reserves and the largest production of milk, butter, eggs and cheese in our history. We could easily expand our production of dairy products for our own use, and yet leave ample amounts to be sent overseas."

Elliott: We were just questioning this, "yet we are withholding the largest reserves" --

White: I think on this whole thing George ought to take the statement and wherever there is any reference at all either to agricultural prices or agricultural stocks or surpluses, that he ought to have somebody in his staff check it because we haven't checked them carefully.

H.M.Jr: Will you take that responsibility, George?

Haas: Yes.

H.M.Jr: You see, before Haas was with me in the Farm Credit he was in the Foreign Service in the Department of Agriculture. He went from there to Farm Credit to here. We are all farmers here.

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Elliott: She (Ware) is a good farmer, you know.

H.M.Jr: Where is your farm?

Ware: Virginia.

H.M.Jr: Don't you have one up in Dutchess County?

Ware: No.

H.M.Jr: Do you still teach at Vassar?

Ware: No, I keep only my voting residence in Dutchess County.

H.M.Jr: Good. We need you up there, especially next fall when we go after Ham Fish.

Ware: Again?

H.M.Jr: Again. (Laughter)

Kuhn: Shall I read this business about England which we are going to cut?

H.M.Jr: No.

"The prices of these products need not rise at all if we use our surpluses for supplying our own market and if we began expanding our food processing plants. It requires only elementary foresight. It was lack of such foresight that brought us to our present shortage of plant capacity for the manufacture of steel and aluminum. A similar failure to act in the field of food products is leading us to the same outcome, and to the same conditions of shortage which have operated in other fields.

"I know from experience on my own farm that within two months we could increase our supply of milk by feeding some of our huge surpluses of corn

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to the cows. That is the practical way of getting more milk for our people. I know that we could use some of our surplus grains as feed for chickens, and get more eggs. Yet the price of a standard poultry ration has increased 60 per cent since the war began. We could feed our surplus grain to hogs and get more pork at prices which the American housewife could pay. Yet the government is withholding 200 million bushels of wheat and 300 million bushels of corn.

"This has been historically a land of milk and honey. There is still plenty of milk and honey, but too much of it is in the warehouses. Let's make it flow. If we were to let it flow to the public" --

H.M.Jr: What is the hymn, "The land of milk and honey"?

Elliott: "Jerusalem the Golden".

Kuhn: "With Milk and Honey Blessed."

H.M.Jr: You might look it up to see if there is something you can quote directly from the hymn.

Kuhn: That is all there is about milk and honey.

White: I will let you know in a half hour.

H.M.Jr: Until you call up your wife?

Klotz: Yes.

H.M.Jr: All right. You know, Mrs. White has the children's Book of the Month - for children, this month. Her book was selected as the best book.

White: My wife thanks you for that little publicity.
(Laughter)

Kuhn: "...we should not only help in keeping prices stable, but we should be doing something even

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more important; we should be helping to make our people healthier and happier.

"The Treasury proposes to do everything in its power to prevent inflation, through its tax and borrowing policies. It proposes to do this because on the one hand, it has a responsibility to the public, and on the other hand, its own financing will be definitely more difficult if inflation develops."

The rest of that about the nation's largest purchaser and the nation's largest employer is old, and also keeping faith with the people who have bought defense bonds to prevent inflation.

Then, on page 22: "For these reasons, we are determined to fight inflation wherever it appears. I hope that every citizen, every housewife, will fight it at the same time, because of the dangers of inflation to every individual. What the public can do in the fight against inflation immediately is to insist upon the passage of this Bill and upon the adoption of a policy of increasing the supply of food and other civilian goods which do not compete with defense production.

"Some of our people think that they will benefit from rising prices. They are wrong. No group in a community profits from inflation except the Three Horsemen - the speculator, the profiteer and the hoarder."

Then comes the morale passage which we had yesterday. The ending is old until we get to this:

"The responsibility is ours. The time to give our people that assurance is before the inflationary

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process has gripped them. We have it in our power, in this year of great decisions, to show courage for which the American people will thank us in years to come."

H.M.Jr: Well, I think we are getting somewhere now. Now, Miss Elliott, please? Additions or subtractions?

Elliott: No, I think not. There are one or two things we marked along here, but I think Miss Ware is going over that will catch them.

H.M.Jr: Can she go over it with the men later on?

Elliott: Yes, just minor things there. I still think that - I just asked Miss Ware if she doesn't agree with me there in the end where you say you support this bill. You don't support the bill in its entirety. You support it with reservations.

Kuhn: Insist on the gap in this bill being repaired?

Elliott: Couldn't you say - I mean, if you say you support this bill, that contradicts, it seems to me, the criticisms, you see.

H.M.Jr: I think she is right.

Elliott: which he has made. You support price control.

White: You support this bill provided such change is made?

H.M.Jr: That would hurt. I wouldn't say anything.

Bell: You say that, don't you, in the first paragraph?

Elliott: But I think if you come out at the end and say, "Now, gentlemen, I support this bill," I think it is --

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White: Well, it appears to me that this bill is a step forward, and the one item in there --

Elliott: The principle of this bill you support, and price control, but you don't support the bill as it is written. Maybe I am wrong.

White: The bill itself - as I say, I don't know whether the Secretary is ready to go further than this bill, excluding the question of the floor of agricultural commodities, because if that is excluded, I take it that you do support the bill.

H.M.Jr: Harry, on page two, I say, "I welcome the bill before you because, despite one serious shortcoming, which I find, I believe it is a step forward." I think that is enough.

Elliott: I think you shouldn't give that general statement at the end.

Ware: Except that here you are calling on the public to act, and if you want this to constitute a call on the public, there is a slight difference in the way in which --

White: You are asking the public to support this bill. We will have to change that.

Kuhn: You can ask the public to support a policy of using agricultural surpluses.

H.M.Jr: I can't say here, "Write to your Congressman." You will have to change it because I think Miss Elliott is right. That is enough to say on page two, and then I don't want to come on again after all the criticisms and say, "I am for this bill."

Gaston: You could say, "This legislation to control prices is most urgently necessary and therefore consideration of this bill at this moment by the Committee is very timely."

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Elliott: That modifies it.

H.M.Jr: Will you write it, Herbert?

Gaston: Yes.

H.M.Jr: Mrs. Klotz, have you got any suggestions?

Klotz: That is a very good suggestion. I like the statement very much.

Kuhn: Mr. Secretary, there is one omission I would like to ask you about while we are here. In the memorandum to the President, it included an extension of Social Security contributions and benefits. You say nothing in this statement about wages. Isn't that the way to say it, as another one of the anti-inflationary measures?

H.M.Jr: I would like to say it.

Kuhn: I have a paragraph which I would like to read and see if it is O.K. with you. It can be fitted in in the early part of the statement.

"As another means of withdrawing purchasing power, many people concerned with the rise in incomes have suggested that wages be frozen. Our wage bill in the first six months of this year was forty-one and a half billion, or fourteen per cent more than for the corresponding period last year. I believe that we can prevent this increase from having inflationary consequences by a substantial increase at once in the Social Security contributions and benefits. This would serve the double purpose of drawing off a very large amount of excess purchasing power and providing a source of increased purchasing power in the years of readjustment that will follow the war."

O'Connell: That assumes that the increase in wages is inflationary.

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Kuhn: No.

White: No, it doesn't.

O'Connell: Well, read what you said.

Kuhn: "We can prevent this from having inflationary consequences."

O'Connell: But you have got to take some of it away from them in order to prevent it.

H.M.Jr: Let's put it this way, Joe. Let me say something about the increase in Social Security, you see. I would let Altmeyer take a look at that sentence, but I think it is a good thing to throw in.

White: Why don't we duplicate what was said in the President's statement on Social Security?

H.M.Jr: That is what I thought you were going to do. I don't know why you have left it out.

White: I didn't know it was left out.

Kuhn: Yes, there was a whole list of things that advocated greater powers for OPACS and so on, some of which are in this bill, and one of the things on that list was the extension of Social Security.

White: I didn't know it was left out.

H.M.Jr: Well, just repeat what we had in the statement for the President. You don't have to bother showing that to anybody.

O'Connell: Mr. Secretary, Leon mentioned just in passing in answer to a general question yesterday that he thought consideration ought to be given to an increase in Social Security taxes, but he didn't dwell on it. He just said that.

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H.M.Jr: Well, that kind of thing I could repeat.

O'Connell: Sure, that is right.

H.M.Jr: Now, Herbert, please, any suggestions? Any criticisms?

Gaston: No, I think not.

H.M.Jr: Something you want to go over with the boys afterward on?

Gaston: I think there may be points I would like to go over.

H.M.Jr: Will you do that, please?

Gaston: Yes.

H.M.Jr: Ferdie, Herbert will go over some things with you. Dan?

Bell: No, I think they have met your wishes very well.

H.M.Jr: Can your people check the figures as to income and all of that?

Bell: Only as to the Budget end.

H.M.Jr: But you do --

Bell: They look right to me, without checking them again.

H.M.Jr: Ed?

Foley: I think it is all right.

H.M.Jr: How does it look on Twenty-third Street?

Foley: Pretty good.

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H.M.Jr: Joe?

O'Connell: There is one thing I would like to suggest, and that is on about page ten of the statement - I have an old copy, and I am not quite sure of the exact page, but after referring it to the - attacking the problem by attempting to reduce the expendable consumers' income, we say that there is an additional method that attacks the problem in an opposite direction, which I take it to mean the expansion of production, but you don't say that. You go immediately - the statement goes immediately from reduction of consumers' income and then a reference to the opposite direction and immediately to the accumulation of agricultural surpluses. And I wondered if the transition wouldn't be smoother if we talked about the necessity for the expansion of production in all lines and then used the agricultural surpluses and the agricultural situation to demonstrate one particular way in which that general problem may best be approached.

H.M.Jr: Joe, you ought to spend the rest of the day with the boys on this thing. I wish you would, please.

O'Connell: Sure.

H.M.Jr: You can get a leave of absence from Mr. Foley for the rest of the day.

Foley: Granted. (Laughter)

Kuhn: Mr. Secretary, you said that you didn't like the first part.

H.M.Jr: Well --

White: There is one paragraph you didn't like that I think can be cut out, that one about --

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H.M.Jr: I just wondered, Ferdie, whether you are not saying too much - I guess it is all right.

White: It goes kind of slow on pages three and four.

H.M.Jr: On page three do you want to talk about a ten pound bag of flour at that place?

White: No, I think not, because we can take that out - that is what you wanted to say later.

H.M.Jr: Later, yes.

Klotz: Yes.

White: Something of that character, and I think that can come out there and merely say - you can either delete the whole paragraph or say, "By 1918 prices were doubled," or something.

H.M.Jr: The other thing is, I like this three horsemen business. Couldn't you bring that right up to the beginning somewhere, so they know what -

Klotz: It fits in right where that --

Kuhn: You have got to have something at the end, a flourish at the end.

H.M.Jr: Now, Miss Elliott, can Miss Ware stay behind?

Elliott: Yes.

H.M.Jr: Can we have here as long as necessary today?

Elliott: Yes, indeed.

H.M.Jr: That is fine. And then when could I show this to you again? Would it be asking too much if you came back at eleven tomorrow?

Elliott: Not at all. I will be delighted to.

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H.M.Jr: Would that be asking too much?

Elliott: Not at all. I will be glad to do it.

There are two or three sentences here on production that were in the old draft that we think were awfully important, but Miss Ware can talk that over with you.

H.M.Jr: Now, just one minute, George. I want you to put yourself and somebody else on it, to go all through this thing where you think there could be a good chart. You will have too many, but I can eliminate them. I can look at those this afternoon with you. I thought Miss Elliott was going to give us some pictures of a market basket or something.

Elliott: We have the material here.

H.M.Jr: If you could give it to George and then if George - when would you be ready, George, this afternoon, to submit charts? Three thirty?

Haas: Such charts as we have now available.

H.M.Jr: At least describe them.

Haas: Any time you say.

H.M.Jr: Well, Harry, if you and George and O'Connell and Ferdie could come back at three thirty and George will - Miss Ware could be here too. You could give me a sample of the charts.

Kuhn: You don't want a new draft at three thirty?

H.M.Jr: No.

White: We can have another draft.

H.M.Jr: I don't want a new draft, but I would like to be able to say, "I like this chart and I don't like this one, and I need another one." In other words,

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to illustrate. We need the kind of charts, Miss Elliott, you would like to see in the statement - I mean, if I just have description of one. I think we ought to have a chart of this at this place. And Haas will say, "I think we have to have a chart of this kind," and I can go over this at three thirty because he will have to have the people work all night to get the thing out.

Elliott: When do you testify, Mr. Secretary?

H.M.Jr: Thursday morning, but in order to make these big charts and have the thing mimeographed, it takes a lot of time. I will do charts at three thirty. I am ever so much obliged.

PRELIMINARY DRAFT

I am glad that you have asked me to testify today, because you and I are faced with serious decisions of policy, very serious decisions, if we are to avoid bringing the calamity of inflation upon the American people.

The word "inflation" is cold and lifeless. But the thing it describes is treacherous and cruel. We have been talking about inflation for a long time as if it were a threat remote from our daily lives. It is a distant threat no longer. We are faced with the urgent, practical necessity of grappling with it now.

If we are timid--we in the Executive departments and you in the halls of Congress--the consequence may haunt us and our children for years. But if we are courageous, we can beat this thing. If we keep always in mind the best interests

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of our country as a whole, and forget about special interests, we can prevent inflation from fastening its grip upon us.

That is the choice that confronts us. The outcome depends upon the alertness and courage and mental toughness of every one of us here today.

I welcome the bill before you because, despite one serious shortcoming which I shall mention later, I believe it is a step forward. I believe the bill provides another important weapon to use in the fight against inflation.

We cannot wait any longer to add that weapon to our arsenal. The time left us in which to act is short.

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

Memories are so short that I suppose many of us have forgotten what happened the last time inflation struck us -- 25 years ago. In 1916, the cost of living began to rise sharply, but there were few who saw its significance and nothing was done about it.

It was not until April 1917 that the first real alarm was sounded against inflation. It was not until

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prices had risen by over 70 per cent that the President Wilson recommended any steps to prevent inflation. In fact, so little aware were they of the dangers of inflation that in June 1917 Congress actually encouraged inflation by reducing the reserve requirements for member banks of the Federal Reserve System. |

By 1918 price increases were in full swing. In 1920, a pound of sugar cost 26 cents, a dozen eggs cost 92 cents, a ten-pound bag of flour cost 88 cents, a pound of butter cost 76 cents, and a pound of pork chops cost 50 cents. Then came the reaction--tumbling prices, bankrupt farms, millions of people out of work.

The pattern of price rises in the past two years is frightening in its similarity to the price movements during the first two years of World War No. 1.

As the President said in his message to Congress a few weeks ago:

"Today we stand, as we did in the closing months of 1915, at the beginning of an upward sweep of the whole price structure."

Then as now, there was a little rise in the cost of living. Then as now, there was a greater rise in wholesale prices. Then as now there was a still greater rise in the price of basic commodities.

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Since the beginning of the present war, the wholesale prices have risen about ¹⁸~~16~~ percent-- the greater part taking place during the past five months.

True to the usual pattern, the cost of living did not rise till later. During the past year, however, it has increased ⁴~~3~~ percent-- half of it in the past ^{three} two months.

During the past 12 months the average price of 25 basic commodities has increased ³⁷~~34~~ percent, despite the fact that the prices of many basic raw materials have been kept partly in check through the efforts of the Office of Price Administration and Civilian Supply.

It is the rise in the prices of basic commodities that constitutes our danger signal today. They rise first, general wholesale prices always lag behind, while the cost of living does not show anything like the full effects of inflation until long after the seeds of inflation have

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taken deep root.

Moreover, the forces now in existence making for further price rise are both potent and persistent:

(1) Our defense expenditures are increasing rapidly. The Budget estimates Defense spending during the fiscal year 1942 will be \$15 billion, or two and a half times as much as in the fiscal year 1941. Even this increased estimate does not include additions to the Defense Program made after June 1, and greater sums needed for Lend-Lease.

(2) More important as an inflationary force is the fact that the Government is borrowing from banks much of the money it is spending. When the Government borrows from banks it is for the most part creating new purchasing power. It is adding to the total stream of money spent on goods. The net deficit for the fiscal year 1942, as estimated by the Director of the Budget, will be \$12.5 billions, compared with \$5.1 billions for the previous fiscal year. If the present tax bill is passed by Congress so that it will yield \$3-1/2 billion, the deficit will be reduced by \$2-1/2 billions, but it will still

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be over \$10 billion. Again this estimated deficit does not take account of the expansion of the Defense Program after June 1, 1941.

(3) Supplementing the inflationary force of the Federal deficit has been the expansion of bank credit by increased loans to business. Bank loans expanded by approximately \$3 billions, or about 20 percent during the past twelve months. And, as in the case of the other forces making for inflation, the expansion of bank loans has been proceeding at a quickening pace.

(4) Pressing upward on prices is the fact that more and more plants are reaching maximum capacity and more and more shortages in basic materials for civilian use are appearing. Prices of imports are daily rising due to reducing shipping space, higher shipping costs, and disappearance of normal foreign sources of supply.

(5) Finally, we have increasing agricultural income, and fatter pay envelopes and many more of them.

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It is not easy for us to visualize where these forces will take us if permitted to operate unchecked. They were unchecked in the World War and all we have to do to see what is ahead of us is to look into the purse of the average family of those times -- to see it, not in terms of percentages and indexes, but in terms of the prices of every day needs of food, clothing and shelter.

The money the housewife paid for one loaf of bread in 1914, bought only a half a loaf in 1920. The money she paid for a pound of bacon in 1914, bought only a half a pound in 1920. The money that she paid for a yard of cotton cloth in 1914, was only enough to buy one-third of a yard in 1920.

The family with no increase in income found its purchasing power cut in half. It found that food, fuel, shelter and clothing that cost \$1.00 in April, 1915, had risen to \$1.06 in April, 1916. By 1920, after four years of rising prices, the cost of these goods and services had risen to \$2.03. In August 1940 this same food, fuel, shelter and clothing cost \$1.37. The cost of these goods and services has already risen to \$1.42 during the past year. But if prices continue to rise in the same pattern as during 1916 to 1920, these goods and services will soon cost \$2.67.

If the same rate of increase takes place in the United States in the next two years as during the last war, a basket of groceries which now cost \$1.00 will cost \$1.75. That is where the inflationary forces of today will lead us unless we take positive steps to prevent it.

The rise in prices is not confined to foodstuffs and clothing. I have before me the actual figures on the cost of constructing a standard six-room frame house in one of our typical cities. This home that could have been built a year ago for \$6,000 now costs \$7,140 to build. Here we have an increase in prices of nearly 20 percent and if it goes along the 1916 pattern, we are only at the beginning of the story.

There is however one great difference between conditions today and 1916. We at least know what is going on. We are aware of the dangers that lie ahead of us. We now know we ought to know that the time to do something about inflation is before it occurs not after it has gathered momentum. We should profit by our greater knowledge and take prompt and effective action now.

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Our economy today resembles an over-loaded steam boiler. The fire under the boiler is being fed by billions of additional purchasing power in the hands of the public. The fire is growing better and is generating more steam than the boiler can safely hold. If we are to prevent the boiler from bursting, we must damp down the fires by withdrawing some purchasing power, and we must also strengthen the boiler by increasing the supplies of goods available to the consumer.

It is true that some important steps are being taken to withdraw purchasing power that competes with defense goods. Congress has now before it a huge tax bill destined to raise from \$3 - \$3-1/2 billion in additional revenue. The Treasury in its borrowing program is attempting to obtain as large a portion of its funds as possible from current consumer income. To do this it has initiated a program of selling defense savings bonds and stamps to people of moderate and low income, and has also embarked upon the sale of a new form of note - the Tax

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Anticipation Note -- which will operate to reduce the lag between the time of accrual and the time of payment of income tax, thus increasing the effectiveness of that tax as a means of curtailing current purchasing power for consumers goods.

These measures to restrain price rises, though they have unquestionably been helpful, are inadequate to meet the situation confronting us. All of them attack the problem by attempting to reduce expendable consumer incomes. Fortunately, however, there is available an additional method that attacks the problem from the opposite direction. Because of our accumulations of agricultural surpluses we are in a position to provide increased quantities of almost all agricultural goods and thereby both curtail prices and increase the standard of life. /

Indeed, my suggestion that the granary doors should now be opened agrees with our established agricultural policy -- the ever normal granary. Having been accumulated in time of surplus, the stocks should be distributed in time of shortage.

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To do so is the natural complement of our previous policy and the necessary preparation for reaccumulation when and if surpluses again develop.

Now is the time to empty our shelves, both for present advantage, and so that if necessary we can later fill them again. The concept of the over normal granary calls for a floor to be built under falling farm prices and, it seems to me, for a ceiling to be built over rising farm prices.

And that brings me, gentlemen, to what I consider the major defect of the bill now before you. It is a defect which I consider so great that it will undermine the effectiveness of the bill unless it is repaired. This is the failure of the bill to provide for effective control of farm prices. And without a check upon farm prices, it is useless to look for a check upon inflation.

The problem of farm prices is close to my heart, not only because I have a farm of my own, but also because I was the first Governor of the newly organized Farm Credit Administration

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in 1933. With memories of those days in my mind, it seems to me that too many people are now looking at farm prices purely from a short-run point of view without any apparent regard for the inevitable after-effects of inflation. Have they forgotten the experience of 1920 and 1921 when farm prices dropped more than 50 percent within twelve months? Have the people back on the farms forgotten the whole heartbreaking period from 1921 to 1933 when American farmers fought for relief with no result? Surely millions of our farmers can remember the bottom of the pit in 1933, when they organized "holiday" movements to protect their farms from foreclosure.

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I lived with the tragedies of the farmers in 1933. I remember the day when seventy-five farmers with shotguns stood on the steps of an Illinois Court House. They came to my office to tell me they were about to be turned out of their homes and their lands. I remember the case of one farmer, a college graduate, who had been worth \$50,000 a few years earlier, and who was being threatened with foreclosure although he had 25,000 bushels of corn in his bins. It was my job then to help extricate our farmers from a price and speculation wreckage which had its origins in the price boom of the last World War. But it was hard for me then and it has been hard for the administration since then to put Humpty Dumpty together again. And it has been hard to persuade the present-day descendants of Humpty Dumpty not to go climbing up that wall of high prices again.

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I want to see a healthy development of farm prosperity, and with that objective I helped to initiate our agricultural program and have continued to support it. Holding fast to that objective, I am convinced that we must not ignore the danger signals ahead.

Now what are those danger signals as they apply to our farms? The most serious of them is a rapid rise in prices which is hastened to a large extent by the artificial withholding of huge supplies from the market. It is hastened also, to some extent, by the continuance of unreasonably high tariff rates that keep foreign supplies from our shores. Yet if we were intelligent in seeking to prevent further price rises, we should be making every attempt to bring in supplies from other countries, particularly those supplies in which shortages are already operating. We should not hesitate to cut tariff rates wherever

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such rates operate to keep prices unduly high or the goods unduly scarce. Above all, we should be making full use of those supplies that are available here in the United States. |

It is sheer folly from the farmer's point of view, to be pushing prices up by creating scarcities in times like these. It is folly, because it will end in the same heartbreak and misery that came in 1921 and lasted for twelve long years.

I hope the farmer will see where all this is heading; I know the housewife does. For she is feeling the effects already, every time she goes to the market to buy food for her family.

I wonder if the housewife knows, when she pays 20 per cent more than she did a year ago for a bag of flour, that our supply of wheat is the largest on record, and that 450,000,000 bushels of two years' crops are stored in Canada and could be imported easily. I wonder if she knows, when she pays 15 per

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cent more for a pound of sugar than a year ago, that there are huge untouched reserves of sugar in Cuba. I wonder if she knows, when she pays 25 per cent more for butter, that we have forty million more pounds of butter in storage than a year ago. We have in our own country large reserve stocks of farm products of all kinds which should be released for consumption as rapidly as is necessary to prevent unreasonable price rises.

The Government, for example, now holds seven million bales of cotton. Cotton prices have risen from 9½ cents a pound on August 1, 1939, to over 16 cents a pound at the present time. Yet the Senate has passed a bill indefinitely prohibiting all sales of Government-held stocks of cotton. We ought not to withhold surpluses from the market in this manner. In times like these, the housewife ought not to be made to pay tribute to profiteers and speculators when she buys a cotton dress for

herself or a shirt for her husband or a suit for her child.

Millions of our people still go without the milk, butter and eggs which nutrition experts have found necessary to good health and good morale. The effect of good food on national defense has been stated so well in the August issue of Fortune magazine that I should like to read one paragraph to you. It says:

"This is a war in which every man, woman, and child must be alert, physically tough, strong in character. Planes, battleships, natural resources, industrial plants mean little without human fitness to match -- superb health, geared up to its highest potential by the right food. Courage and the cool head in battle, efficiency on the production line, civilian morale -- all hinge on food; not on just eating enough, but on eating enough of the best life-giving foods. The Axis have even demonstrated that right and wrong diet can be used as a double-edged weapon, both to sustain the will to victory of their own people and to paralyze the will of the conquered. Never has it been so clear that food is power."

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One would imagine that every effort would be made to put more dairy products on the market; yet we are withholding the largest reserves and the largest production of milk, butter, eggs and cheese in our history. We could easily expand our production of dairy products for our own use, and yet leave ample amounts to be sent overseas.

The Treasury receives weekly reports of food shipments to England, and I can assure you that these shipments are not the cause of any shortage of dairy products or any rise in prices. The prices of these products need not rise at all if we use our surpluses for supplying our own market and if we began expanding our food processing plants. It requires only elementary foresight. It was lack of such foresight that brought us to our present shortage of plant capacity for the manufacture of steel and aluminum. A similar failure to act in the field of food products is leading us to the same outcome, and to the same conditions of shortage which have operated in other fields.

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I know from experience on my own farm that within two months we could increase our supply of milk by feeding some of our huge surpluses of corn to the cows. That is the practical way of getting more milk for our people. I know that we could use some of our surplus grains as feed for chickens, and get more eggs. Yet the price of a standard poultry ration has increased 60 per cent since the war began. We could feed our surplus grain to hogs and get more pork at prices which the American housewife could pay. Yet the government is withholding 200 million bushels of wheat and 300 million bushels of corn.

This has been historically a land of milk and honey. There is still plenty of milk and honey, but too much of it is in the warehouses. Let's make it flow. If we were to let it flow to

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the public we should not only help in keeping prices stable, but we should be doing something even more important; we should be helping to make our people healthier and happier.

The Treasury proposes to do everything in its power to prevent inflation, through its tax and borrowing policies. It proposes to do this because on the one hand, it has a responsibility to the public, and on the other hand, its own financing will be definitely more difficult if inflation develops.

As the nation's largest purchaser, the Government is concerned with the problem in a very direct way. We have a \$50 billion defense program, the bulk of which is to be spent on purchases of materials. If prices behave as they did during the World War, we will find that our defense program will cost us double without giving us a single additional gun or plane for that extra expenditure. If that happens, not only will we have to double taxes, but our outstanding debt, already high, will reach dangerous proportions.

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Furthermore, as the nation's largest employer we are also concerned. Apart from the armed forces, the government employs more than one million people with a payroll now running at the rate of \$2-1/2 billion a year. A substantial rise in the cost of living will raise for us as an employer a choice of evils: to permit the real incomes of our employees to be unjustly reduced, or to increase still further the payroll that we must meet.

Moreover, millions of people who are now responding to our pleas for cooperation in financing our defense effort have the right to demand that we prevent inflation. These people were asked to invest in defense savings bonds partly as a means of preventing inflation. They are entitled to the assurance that they will not now be sufferers from inflation.

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Now, I ask you, can we give them that assurance in good faith, knowing the danger of inflation that confronts us, unless we take positive steps now to prevent that inflation from occurring? We must keep faith with those who have shown their patriotism and their faith in democracy.

For these reasons, we are determined to fight ^{inflation} wherever it appears. I hope that every citizen, every housewife, will fight it at the same time, because of the dangers of inflation to every individual. What the public can do in the fight against inflation immediately is to insist upon the passage of this Bill and upon the adoption of a policy of increasing the supply of food and other civilian goods which do not compete with defense production.

Some of our people think that they will benefit from rising prices. They are wrong. No group in a community profits from inflation except the Three Kevans — the speculator, the profiteer and the hoarder. Inflation does more than merely to rob the wage earner of a portion of his earnings. It is more destructive of morals than any other single force. Inflation divides the country.

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It sets up producers against consumers, workers against employers, the people who owe money against the people to whom the money is owed.

There is no better single way of building American morale in the present emergency than to assure our people that the money they earn and the money they save will retain its full value in buying goods and services a month from now, a year from now, and ten years from now. The responsibility is ours. The time to give our people that assurance is before the inflationary process has gripped them. We have it in our power, in this year of great decisions, to show courage for which the American people will thank us in years to come.

PRELIMINARY DRAFT

Third Draft 102
Discussed at meeting
10:30 - Aug. 12, 1941 -

I am glad that you have asked me to testify today, because you and I are faced with serious decisions of policy, very serious decisions, if we are to avoid bringing the calamity of inflation upon the American people.

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prices had risen by over 70 per cent that the President Wilson recommended any steps to prevent inflation. In fact, so little aware were they of the dangers of inflation that in June 1917 Congress actually encouraged inflation by reducing the reserve requirements for member banks of the Federal Reserve System.

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Since the beginning of the present war, the wholesale prices have risen about ¹⁸~~16~~ percent-- the greater part taking place during the past five months.

True to the usual pattern, the cost of living did not rise till later. During the past year, however, it has increased ⁴~~6~~ percent-- half of it in the past ^{three}~~two~~ months.

During the past 12 months the average price of 28 basic commodities has increased ³⁷~~46~~ percent, despite the fact that the prices of many basic raw materials have been kept partly in check through the efforts of the Office of Price Administration and Civilian Supply.

It is the rise in the prices of basic commodities that constitutes our danger signal today. They rise first, general wholesale prices always lag behind, while the cost of living does not show anything like the full effects of inflation until long after the seeds of inflation have

taken deep root.

Moreover, the forces now in existence making for further price rise are both potent and persistent:

(1) Our defense expenditures are increasing rapidly. The Budget estimates Defense spending during the fiscal year 1942 will be \$15 billion, or two and a half times as much as in the fiscal year 1941. Even this increased estimate does not include additions to the Defense Program made after June 1, and greater sums needed for Lend-Lease.

(2) More important as an inflationary force is the fact that the Government is borrowing from banks much of the money it is spending. When the Government borrows from banks it is for the most part creating new purchasing power. It is adding to the total stream of money spend on goods. The net deficit for the fiscal year 1942, as estimated by the Director of the Budget, will be \$12.8 billions, compared with \$5.1 billions for the previous fiscal year. If the present tax bill is passed by Congress so that it will yield \$3-1/2 billion, the deficit will be reduced by \$2-1/2 billions, but it will still

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be over \$10 billion. Again this estimated deficit does not take account of the expansion of the Defense Program after June 1, 1941.

(3) Supplementing the inflationary force of the Federal deficit has been the expansion of bank credit by increased loans to business. Bank loans expanded by approximately \$3 billions, or about 20 percent during the past twelve months. And, as in the case of the other forces making for inflation, the expansion of bank loans has been proceeding at a quickening pace.

(4) Pressing upward on prices is the fact that more and more plants are reaching maximum capacity and more and more shortages in basic materials for civilian use are appearing. Prices of imports are daily rising due to reducing shipping space, higher shipping costs, and disappearance of normal foreign sources of supply.

(5) Finally, we have increasing agricultural income, and fatter pay envelopes and many more of them.

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It is not easy for us to visualize where these forces will take us if permitted to operate unchecked. They were unchecked in the World War and all we have to do to see what is ahead of us is to look into the purse of the average family of those times -- to see it, not in terms of percentages and indexes, but in terms of the prices of every day needs of food, clothing and shelter.

The money the housewife paid for one loaf of bread in 1914, bought only a half a loaf in 1920. The money she paid for a pound of bacon in 1914, bought only a half a pound in 1920. The money that she paid for a yard of cotton cloth in 1914, was only enough to buy one-third of a yard in 1920.

The family with no increase in income found its purchasing power cut in half. It found that food, fuel, shelter and clothing that cost \$1.00 in April, 1915, had risen to \$1.08 in April, 1916. By 1920, after four years of rising prices, the cost of these goods and services had risen to \$2.03. In August 1940 this same food, fuel, shelter and clothing cost \$1.37. The cost of these goods and services has already risen to \$1.42 during the past year. But if prices continue to rise in the same pattern as during 1916 to 1920, these goods and services will soon cost \$2.67.

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If the same rate of increase takes place in the United States in the next two years as during the last war, a basket of groceries which now cost \$1.00 will cost \$1.75. That is where the inflationary forces of today will lead us unless we take positive steps to prevent it.

The rise in prices is not confined to foodstuffs and clothing. I have before me the actual figures on the cost of constructing a standard six-room frame house in one of our typical cities. This home that could have been built a year ago for \$6,000 now costs \$7,140 to build. Here we have an increase in prices of nearly 20 percent and if it goes along the 1916 pattern, we are only at the beginning of the story.

There is however one great difference between conditions today and 1916. We at least know that is going on. We are aware of the dangers that lie ahead of us. We now know or ought to know that the time to do something about inflation is before it occurs not after it has gathered momentum. We should profit by our greater knowledge and take prompt and effective action now.

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Our economy today resembles an over-loaded steam boiler. The fire under the boiler is being fed by billions of additional purchasing power in the hands of the public. The fire is growing better and is generating more steam than the boiler can safely hold. If we are to prevent the boiler from bursting, we must damp down the fires by withdrawing some purchasing power, and we must also strengthen the boiler by increasing the supplies of goods available to the consumer.

It is true that some important steps are being taken to withdraw purchasing power that competes with defense goods. Congress has now before it a huge tax bill destined to raise from \$3 - \$3-1/2 billion in additional revenue. The Treasury in its borrowing program is attempting to obtain as large a portion of its funds as possible from current consumer income. To do this it has initiated a program of selling defense savings bonds and stamps to people of moderate and low income, and has also embarked upon the sale of a new form of note -- the Tax

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Anticipation Note -- which will operate to reduce the lag between the time of accrual and the time of payment of income tax, thus increasing the effectiveness of that tax as a means of curtailing current purchasing power for consumers goods.

These measures to restrain price rises, though they have unquestionably been helpful, are inadequate to meet the situation confronting us. All of them attack the problem by attempting to reduce expendable consumer incomes. Fortunately, however, there is available an additional method that attacks the problem from the opposite direction. Because of our accumulations of agricultural surpluses we are in a position to provide increased quantities of almost all agricultural goods and thereby both curtail prices and increase the standard of life.

Indeed, my suggestion that the granary doors should now be opened agrees with our established agricultural policy -- the ever normal granary. Having been accumulated in time of surplus, the stocks should be distributed in time of shortage.

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To do so is the natural complement of our previous policy and the necessary preparation for reaccumulation when and if surpluses again develop.

Now is the time to empty our shelves, both for present advantage, and so that if necessary we can later fill them again. The concept of the ever normal granary calls for a floor to be built under falling farm prices and, it seems to me, for a ceiling to be built over rising farm prices.

And that brings me, gentlemen, to what I consider the major defect of the bill now before you. It is a defect which I consider so great that it will undermine the effectiveness of the bill unless it is repaired. This is the failure of the bill to provide for effective control of farm prices. And without a check upon farm prices, it is useless to look for a check upon inflation.

The problem of farm prices is close to my heart, not only because I have a farm of my own, but also because I was the first Governor of the newly organized Farm Credit Administration

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in 1933. With memories of those days in my mind, it seems to me that too many people are now looking at farm prices purely from a short-run point of view without any apparent regard for the inevitable after-effects of inflation. Have they forgotten the experience of 1920 and 1921 when farm prices dropped more than 50 percent within twelve months? Have the people back on the farms forgotten the whole heartbreaking period from 1921 to 1933 when American farmers fought for relief with no result? Surely millions of our farmers can remember the bottom of the pit in 1933, when they organized "holiday" movements to protect their farms from foreclosure.

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I lived with the tragedies of the farmers in 1933. I remember the day when seventy-five farmers with shotguns stood on the steps of an Illinois Court House. They came to my office to tell me they were about to be turned out of their homes and their lands. I remember the case of one farmer, a college graduate, who had been worth \$50,000 a few years earlier, and who was being threatened with foreclosure although he had 25,000 bushels of corn in his bins. It was my job then to help extricate our farmers from a price and speculation wreckage which had its origins in the price boom of the last World War. But it was hard for me then and it has been hard for the administration since then to put Humpty Dumpty together again. And it has been hard to persuade the present-day descendants of Humpty Dumpty not to go climbing up that wall of high prices again.

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I want to see a healthy development of farm prosperity, and with that objective I helped to initiate our agricultural program and have continued to support it. Holding fast to that objective, I am convinced that we must not ignore the danger signals ahead.

Now what are those danger signals as they apply to our farms? The most serious of them is a rapid rise in prices which is hastened to a large extent by the artificial withholding of huge supplies from the market. It is hastened also, to some extent, by the continuance of unreasonably high tariff rates that keep foreign supplies from our shores. Yet if we were intelligent in seeking to prevent further price rises, we should be making every attempt to bring in supplies from other countries, particularly those supplies in which shortages are already operating. We should not hesitate to cut tariff rates wherever

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such rates operate to keep prices unduly high or the goods unduly scarce. Above all, we should be making full use of those supplies that are available here in the United States.

It is sheer folly from the farmer's point of view, to be pushing prices up by creating scarcities in times like these. It is folly, because it will end in the same heartbreak and misery that came in 1921 and lasted for twelve long years.

I hope the farmer will see where all this is heading; I know the housewife does. For she is feeling the effects already, every time she goes to the market to buy food for her family.

I wonder if the housewife knows, when she pays 20 per cent more than she did a year ago for a bag of flour, that our supply of wheat is the largest on record, and that 450,000,000 bushels of two years' crops are stored in Canada and could be imported easily. I wonder if she knows, when she pays 15 per

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cent more for a pound of sugar than a year ago, that there are huge untouched reserves of sugar in Cuba. I wonder if she knows, when she pays 25 per cent more for butter, that we have forty million more pounds of butter in storage than a year ago. We have in our own country large reserve stocks of farm products of all kinds which should be released for consumption as rapidly as is necessary to prevent unreasonable price rises.

The Government, for example, now holds seven million bales of cotton. Cotton prices have risen from $9\frac{1}{2}$ cents a pound on August 1, 1939, to over 16 cents a pound at the present time. Yet the Senate has passed a bill indefinitely prohibiting all sales of Government-held stocks of cotton. We ought not to withhold surpluses from the market in this manner. In times like these, the housewife ought not to be made to pay tribute to profiteers and speculators when she buys a cotton dress for

herself or a shirt for her husband or a suit for her child.

Millions of our people still go without the milk, butter and eggs which nutrition experts have found necessary to good health and good morale. The effect of good food on national defense has been stated so well in the August issue of Fortune magazine that I should like to read one paragraph to you. It says:

"This is a war in which every man, woman, and child must be alert, physically tough, strong in character. Planes, battleships, natural resources, industrial plants mean little without human fitness to match — superb health, geared up to its highest potential by the right food. Courage and the cool head in battle, efficiency on the production line, civilian morale — all hinge on food; not on just eating enough, but on eating enough of the best life-giving foods. The Nazis have even demonstrated that right and wrong diet can be used as a double-edged weapon, both to sustain the will to victory of their own people and to paralyze the will of the conquered. Never has it been so clear that food is power."

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One would imagine that every effort would be made to put more dairy products on the market; yet we are withholding the largest reserves and the largest production of milk, butter, eggs and cheese in our history. We could easily expand our production of dairy products for our own use, and yet leave ample amounts to be sent overseas.

The Treasury receives weekly reports of food shipments to England, and I can assure you that these shipments are not the cause of any shortage of dairy products or any rise in prices. The prices of these products need not rise at all if we use our surpluses for supplying our own market and if we began expanding our food processing plants. It requires only elementary foresight. It was lack of such foresight that brought us to our present shortage of plant capacity for the manufacture of steel and aluminum. A similar failure to act in the field of food products is leading us to the same outcome, and to the same conditions of shortage which have operated in other fields.

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I know from experience on my own farm that within two months we could increase our supply of milk by feeding some of our huge surpluses of corn to the cows. That is the practical way of getting more milk for our people. I know that we could use some of our surplus grains as feed for chickens, and get more eggs. Yet the price of a standard poultry ration has increased 60 per cent since the war began. We could feed our surplus grain to hogs and get more pork at prices which the American housewife could pay. Yet the government is withholding 200 million bushels of wheat and 300 million bushels of corn.

This has been historically a land of milk and honey. There is still plenty of milk and honey, but too much of it is in the warehouses. Let's make it flow. If we were to let it flow to

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the public we should not only help in keeping prices stable, but we should be doing something even more important; we should be helping to make our people healthier and happier.

The Treasury proposes to do everything in its power to prevent inflation, through its tax and borrowing policies. It proposes to do this because on the one hand, it has a responsibility to the public, and on the other hand, its own financing will be definitely more difficult if inflation develops.

As the nation's largest purchaser, the Government is concerned with the problem in a very direct way. We have a \$50 billion defense program, the bulk of which is to be spent on purchases of materials. If prices behave as they did during the World War, we will find that our defense program will cost us double without giving us a single additional gun or plane for that extra expenditure. If that happens, not only will we have to double taxes, but our outstanding debt, already high, will reach dangerous proportions.

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Furthermore, as the nation's largest employer we are also concerned. Apart from the armed forces, the government employs more than one million people with a payroll now running at the rate of \$2-1/2 billion a year. A substantial rise in the cost of living will raise for us as an employer a choice of evils: to permit the real incomes of our employees to be unjustly reduced, or to increase still further the payroll that we must meet.

Moreover, millions of people who are now responding to our pleas for cooperation in financing our defense effort have the right to demand that we prevent inflation. These people were asked to invest in defense savings bonds partly as a means of preventing inflation. They are entitled to the assurance that they will not now be sufferers from inflation.

Now, I ask you, can we give them that assurance in good faith, knowing the danger of inflation that confronts us, unless we take positive steps now to prevent that inflation from occurring? We must keep faith with those who have shown their patriotism and their faith in democracy.

For these reasons, we are determined to fight ^{inflation} wherever it appears. I hope that every citizen, every housewife, will fight it at the same time, because of the dangers of inflation to every individual. What the public can do in the fight against inflation immediately is to insist upon the passage of this Bill and upon the adoption of a policy of increasing the supply of food and other civilian goods which do not compete with defense production.

Some of our people think that they will benefit from rising prices. They are wrong. No group in a community profits from inflation except the Three Horsemen — the speculator, the profiteer and the hoarder. Inflation does more than merely to rob the wage earner of a portion of his earnings. It is more destructive of morale than any other single force. Inflation divides the country.

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It sets up producers against consumers, workers against employers, the people who owe money against the people to whom the money is owed.

There is no better single way of building American morale in the present emergency than to assure our people that the money they earn and the money they save will retain its full value in buying goods and services a month from now, a year from now, and ten years from now. The responsibility is ours. The time to give our people that assurance is before the inflationary process has gripped them. We have it in our power, in this year of great decisions, to show courage for which the American people will thank us in years to come.

August 12, 1941
3:30 p.m.

RE PRICE CONTROL

Present: Miss Ware
Mr. Viner
Mr. O'Connell
Mr. Haas
Mr. White
Mr. Kuhn
Mrs. Klotz

H.M.Jr: Hello, how are your parents?

Viner: They are fine. One is 85 and the other is 83.
I haven't seen them for an interval of a year,
and you notice aging, but they are pretty good.

H.M.Jr: But comfortable?

Viner: Yes.

White: Before you begin on that, Mr. Bledsoe, who is
the Assistant to the Secretary of Agriculture,
sent me a letter confirming what he said.
He is just going on record. We are going to
try to take care of as many of the things that
he complains about and still be in harmony
with your position.

H.M.Jr: Who put this on my desk?

Kuhn: That is what the President said about farm
products.

H.M.Jr: "President Roosevelt urged the nation's farmers
today to produce abundant crops because food is
a weapon against Hitlerism just as much as is
munitions. We need reserves to meet emergencies
which can as yet be only dimly foreseen."

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Well, that is a letter that Wickard wrote which he signed, which I don't think helps much.

White: We are trying to find the letter but haven't been able to locate it yet. Here is Secretary Wickard's speech.

H.M.Jr: What is that? I don't like this. He (White) said after "with milk and honey" they should have eaten and filled themselves and waxed fat. (Laughter).

I don't like that. Now, this is the plea for parity, isn't it, in Wickard's speech? I won't take up the time of you people reading this.

White: I have that statement on farm parity fallacy from them, but two of my boys independently have made studies of the technical errors in the policy of farm parity. Independently, they both severely criticize it, and I am sure without reading any of these three that these two are a much better job, because I know this fellow isn't so good, and I know these other two fellows are. I haven't read those two others yet.

H.M.Jr: Now, I am glad you are here, Jake.

Viner: Thank you.

White: We have been rewriting a statement. We are not quite through, but by tomorrow morning we will have a redrafted statement, or tonight, if you shake your head.

H.M.Jr: No. What I do want is charts.

White: Yes, but I was just giving you a progress report. We don't have that ready now.

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H.M.Jr: Charts?

White: The redraft.

H.M.Jr: I didn't expect it.

White: Now, charts, I take it that Miss Ware and George have got something.

Haas: I have got something and I have talked to Miss Ware, and I have talked about setting up those cost of living charts.

H.M.Jr: Talk so everybody can hear you. What are the charts you suggest, George?

Haas: Well, I think you can do better if you look at them. Many of them are small ones.

H.M.Jr: Has anybody else seen them?

Haas: No, sir, not in this group. I went through the statement and each place indicated where a chart could be used. It is a question of whether it should be used, and that is another problem. There is a chart which you might make up and have on hand which shows the costs of living and also mentions that this was one of our first indicating signals and followed by this.

H.M.Jr: I think it is good. I would use it, and these people can look at it. It can always be lifted out. I think that is good.

Haas: Would you think in terms of putting that in your statement?

H.M.Jr: Yes. We are thinking of illustrating this, Jake. I think that is all right.

Viner: I wouldn't use more than three or four.

H.M.Jr: Well, that one certainly ought to go in. You are going to blow it up so the audience can see it?

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Haas: Yes, sir. They may have some question about that, but here is the chart which shows some of the components.

H.M.Jr: No.

Haas: Now, here is one showing we are about in the same position as we were at a certain time during the World War, and here is the World War picture, and then the present we will put on top, following it right around. That is for all commodities. This is for food products. As food is going now faster.

H.M.Jr: Good, but have it in different colors. Don't have both --

Haas: That is right. We can use different colors on the wall chart but in the small edition it is going to be --

H.M.Jr: Can't they use red in mimeographing? I think they can use one color.

Klotz: Not on the mimeograph. They can with that.

Haas: They can do a print job, but that is going to take too long. We would have to go up to the Printing Office.

H.M.Jr: Then I would take what you have here.

Haas: There is a chart which shows it - you saw that this morning. You might have that up there even though you don't want to put it in the text.

H.M.Jr: Couldn't you take that and leave off industrial production?

Haas: Sure.

H.M.Jr: Just so that the commodity thing sticks out.

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Haas: That is right.

H.M.Jr: My suggestion is, because I like this so much, I would leave this off (referring to the bottom line of the chart). That one I very much want.

Haas: All right.

H.M.Jr: Leaving off the industrial production.

Haas: Would you want something like that? We might have it in reserve. It shows National Defense expenditures.

H.M.Jr: No.

Haas: Do you want anything on commercial loans?

H.M.Jr: No.

Haas: Bank deposits?

H.M.Jr: No.

Haas: Here is import of commodities and domestic commodities.

H.M.Jr: He used that, I think, didn't he?

O'Connell: I think so.

Haas: He didn't have a big one. He had small ones.

O'Connell: Well, I was going to suggest that when we leave here I ought to get the charts that Leon has introduced. He has introduced about thirty. I see one of them over there.

Haas: One of them he did use, because he got it from us.

H.M.Jr: I like that chart.

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Haas: We have got two versions of that. One is import and domestic, and the other is the food and industrial.

White: Mr. Secretary, I gather that one of your objectives is to send this statement to a great many places, in which case the mere fact that you may be duplicating one or two or three charts oughtn't to be of decisive enough consideration to include them here.

H.M.Jr: It is a good point.

Haas: You see, Mr. Secretary, in your statement we could reproduce this in color. In a wall chart we could have it very easily.

H.M.Jr: That is right. But I like that one.

Haas: All right.

Here is a chart. We can make a different one if you want a chart. It shows farm income and the purchasing power of farm income.

H.M.Jr: No.

Haas: Here is the St. Louis house.

H.M.Jr: That I want definitely.

Haas: I just experimented here. This shows the wheat supply from the Department of Agriculture.

H.M.Jr: No, I don't need that.

Haas: These are some prices of specific commodities.

H.M.Jr: No, I think you have got enough.

Haas: All right.

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White: Have you decided on the four you are going to have in?

H.M.Jr: George knows the four.

White: So we can refer to them in the statement.

Haas: All right. Then in addition to that, Mr. Secretary, there is going to be a chart showing the loaf of bread cut in half and a slice of bacon cut in half and that sort of thing.

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

Ware: What we were suggesting doing was taking the 1914 and 1920 food dollars and the clothing dollar in '14 and the clothing dollar in '20.

H.M.Jr: I think that would be swell. You mean it shrinks?

Ware: Yes. The question was whether to do it in three charts or two. Probably two would be clearer.

H.M.Jr: Now, wait a minute. What happens in the year after the war? I would do it in three.

Ware: All right. Now, this one would do it for 1939 to 1941. It is pretty risky to forget.

H.M.Jr: Well, I think you have got to. You don't have to put a year. You can just put an "X" year.

Ware: Would you put a dollar sign there?

H.M.Jr: I think it is pretty risky. I wouldn't do that.

Ware: There is a possibility of doing this for individual items, that is, a dollar in 1940 bought three and a half pounds of lard and it will now buy two and a quarter pounds of lard, and it bought three pounds of butter, and so forth.

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H.M.Jr: I would like that very much. Don't let them argue you out of it.

Ware: All right.

H.M.Jr: Are they treating you all right?

Ware: Very nicely.

H.M.Jr: All right. What else, Harry?

White: That is all. You have decided on five charts and we will refer --

H.M.Jr: No, no, Miss Ware has got three or four I have okayed.

White: Four, and several more --

H.M.Jr: Whatever she has.

Haas: Three of mine.

White: All right, that is all.

H.M.Jr: Now, wait a minute. How do you like my statement so far, Jake?

Viner: I like it in general. I have no serious criticism. I would like to work on it a little.

H.M.Jr: My God, Jake, I never heard you so complimentary.

Viner: Well, I will get over that. (Laughter)

H.M.Jr: How well do you know Dr. Viner? Do you know him?

Ware: Not very well.

H.M.Jr: Well, he is worth cultivating. When Dr. Viner

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says "I think it is pretty good, I don't think there is anything particular wrong with it," that is like getting the highest decoration that you would get as - that you could get from an economist. Will you kindly go over it with your usual eagle eye?

Viner: Sure. I would like a chance at the charts before they are finally --

H.M.Jr: Well, I think that George ought to concentrate on those awfully hard.

Haas: We haven't got much time.

H.M.Jr: Let this group see them, but just go to work.

White: Herbert Gaston has some serious reservations, but he will speak for himself.

H.M.Jr: On what?

White: On the emphasis in this statement on agricultural prices, but I am sure he will speak for himself. In our attempt to go through it again we will try to, in so far as we can, without violating your views, modify it.

H.M.Jr: I don't want it modified.

White: Well, we have put in a few things there that I don't think you will object to, stressing the fact that though you are talking only about agricultural prices, the same thing goes for industrial commodities that have risen out of line, and things of that sort.

H.M.Jr: I don't want to --

Viner: But you do want to make it clear that you haven't got any special bias against agricultural prices, that any other prices behaving the same way you would say the same thing about.

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H.M. Jr: That is all right.

Viner: I think that note is needed in the statement.

H.M. Jr: And I don't want to say that the rise so far is particularly bad, but it is the trend which is moving so fast, and the selfishness of the small handful of people who - I read this thing. I read this discussion of Ex-Governor Landon of - Langer, that is it, and Cotton Ed Smith. They introduced this resolution and they were voting on it and Senator Barkley got up and said, "Now, wait a minute, gentlemen. I don't think any of us know what we are voting on," and nobody knew what they were voting on.

White: Well, the best thing that can be said about Cotton Ed Smith is that he hasn't got too long to live.

Viner: He has?

White: No.

Viner: Yes, he has.

Kaas: You can't judge by the age.

White: Did you ever see his nose?

Viner: Well, whether it is a month or a year, it is too long. (Laughter)

H.M. Jr: No, I don't know what Gaston has in mind. This may not be a very fair audience but I had at lunch today the representative of the Retail Trade of the United States in toto on our Defense Stamps. I tried it out on a few of them, prices and retail and chain stores and food stores. It is time somebody said something. The interesting thing is, you see, when I came

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out against freezing the seven million bales of cotton, then Wickard took courage and followed me, and if I say this, then Wickard will take courage and follow me, too. I am not worried. What is Herbert worrying about? I will ask him.

- White: Well, I think that he feels, and I think probably the earlier draft certainly gave him some basis for it, that it seems like an all out attack on our agricultural policy and against the farm bloc. I think that is his view, but he hasn't expressed it in detail to me, so I would rather he would speak for himself.
- H.M.Jr: Well, I think what Viner says is true. If any other prices or group of prices --
- Viner: I want them to find at least one other commodity that isn't an agricultural commodity of which you can say the same thing, and I have suggested lumber, and apparently that works.
- H.M.Jr: Good.
- White: Of course there is nothing else the Government is withholding stocks of.
- Viner: No.
- H.M.Jr: But - wait a minute, on the lumber thing, George and I went into that. The stocks of lumber exist too.
- White: Government stocks?
- Viner: That doesn't matter.
- H.M.Jr: No, but the stocks exist. It is a question of the location, but the stocks that - we found stocks of lumber existed. We did all the original work. We gave all the figures, everything, to Leon Henderson. He took everything that we had and went and addressed the Lumber

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Association based on what we gave him. That was one of the real fights I had with Leon. He first said lumber wasn't too high, but the stocks of lumber exist. I will give Wickard's speech back to you to see if there is something in here that we can say, as the President says, and sort of make it - you know.

White: We will find something.

Kuhn: That is the President's letter to Wickard?

H.M.Jr: Yes. We are quoting Fortune Magazine and we can also quote the President. Now, as I understand it, I am going to get a pretty good draft tomorrow morning at eleven.

White: At eleven, yes, I think so. We will have that done definitely.

H.M.Jr: Jake, if you could spend the rest of the day on this I would appreciate it. And you (Ware) are staying with my people?

Ware: Yes.

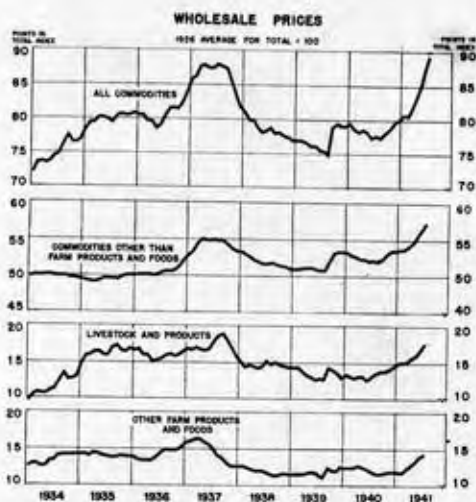
H.M.Jr: Are you going to work with Haas?

Ware: As long as necessary.

H.M.Jr: And you and Miss Elliott will be back again at eleven?

Ware: Yes.

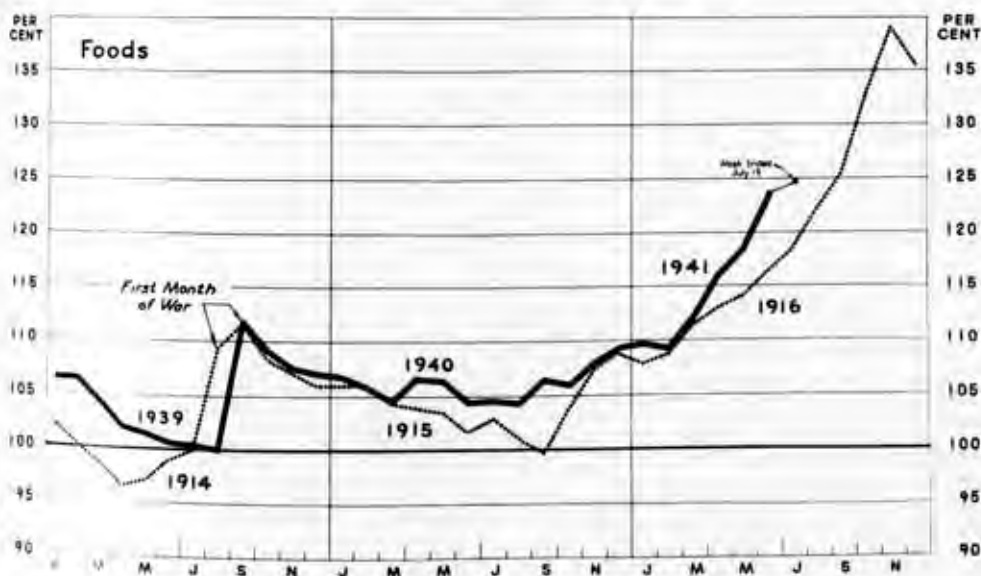
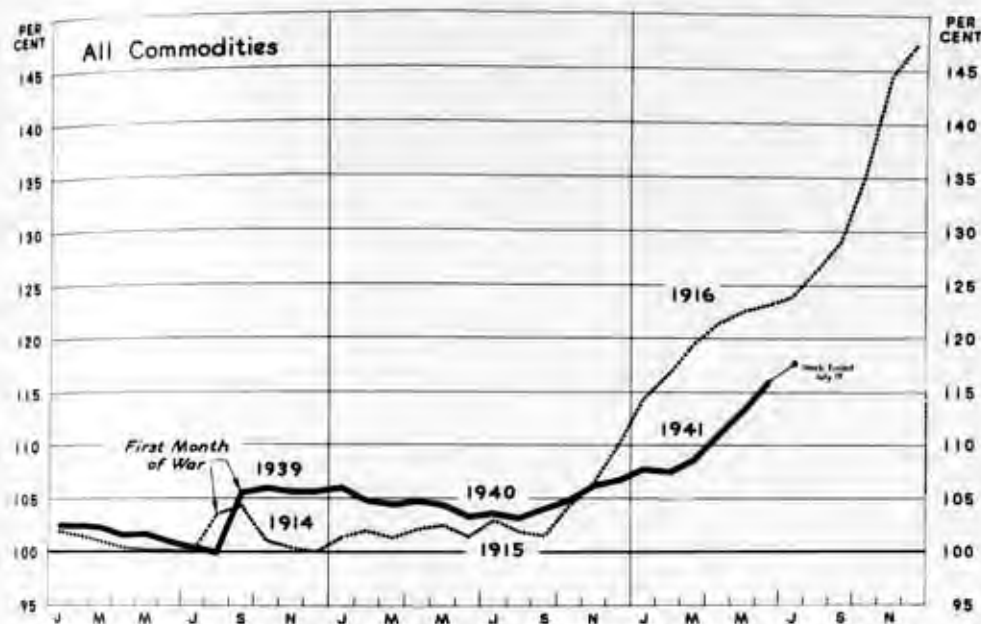
H.M.Jr: Fine. Thank you all.



Bureau of Labor Statistics data, with Federal Reserve classification of livestock and products and other farm products and foods. July 1941 estimated.

PRICES, 1939-41 COMPARED WITH 1914-16

July 1914=100 World War Period; Aug. 1939=100 Present Period

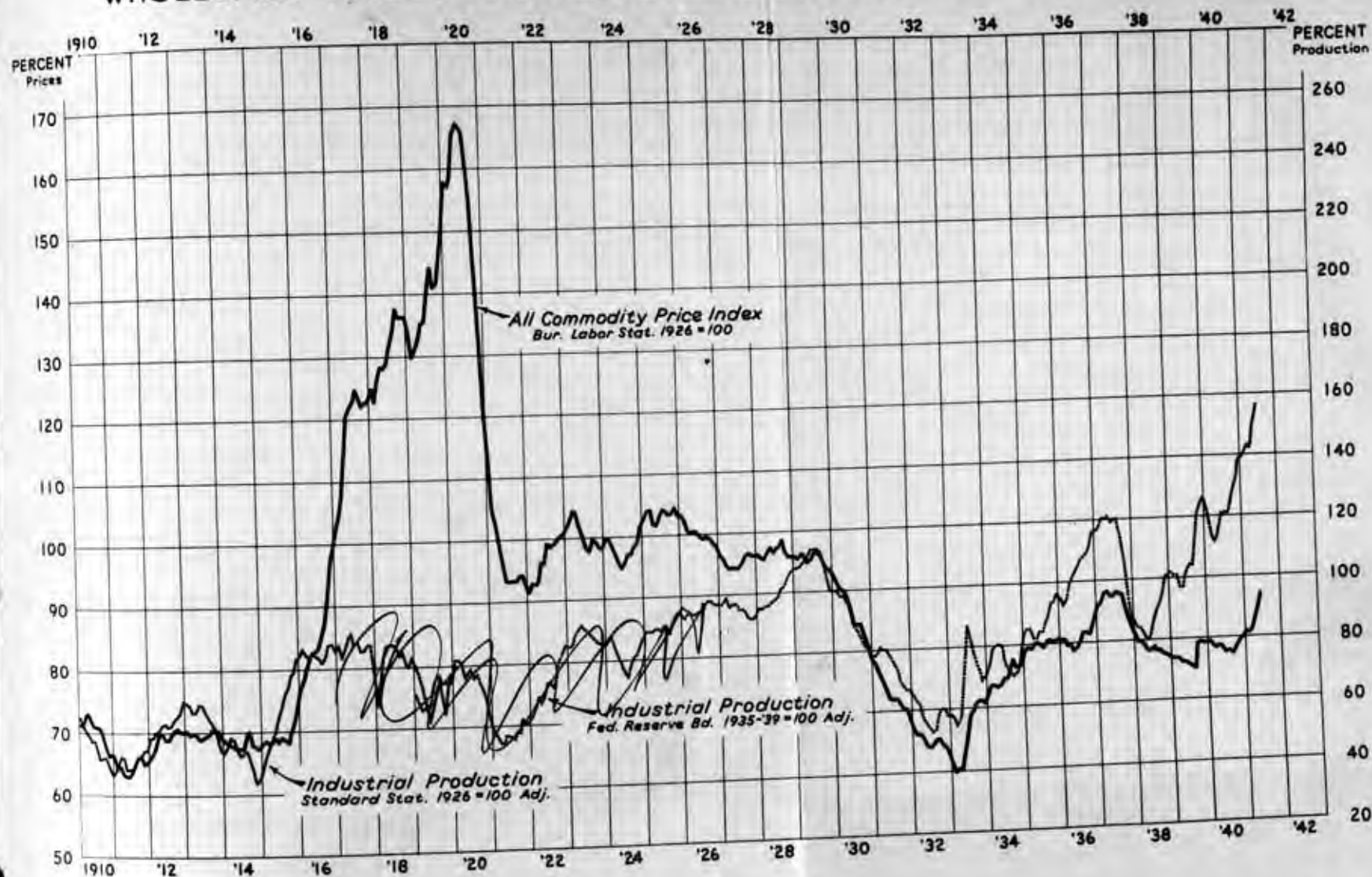


Source: B.L.S.

Office of the Secretary of the Treasury
Bureau of Economic Warfare

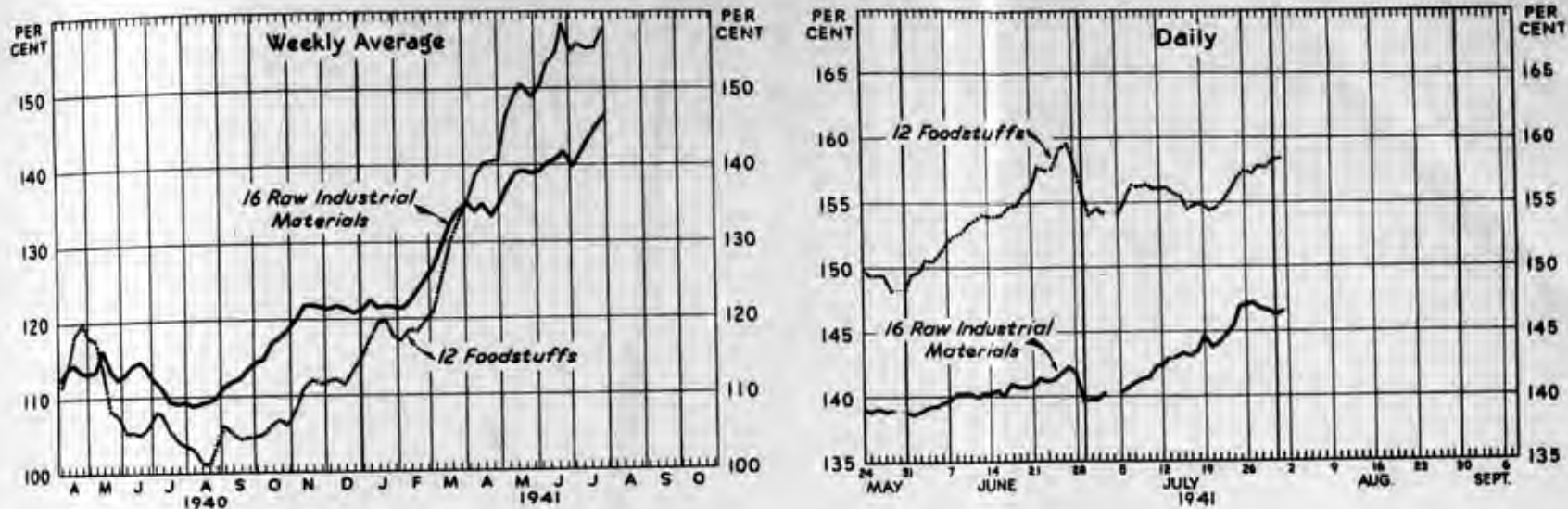
P - 222

WHOLESALE PRICES AND INDUSTRIAL PRODUCTION - 1910 TO DATE

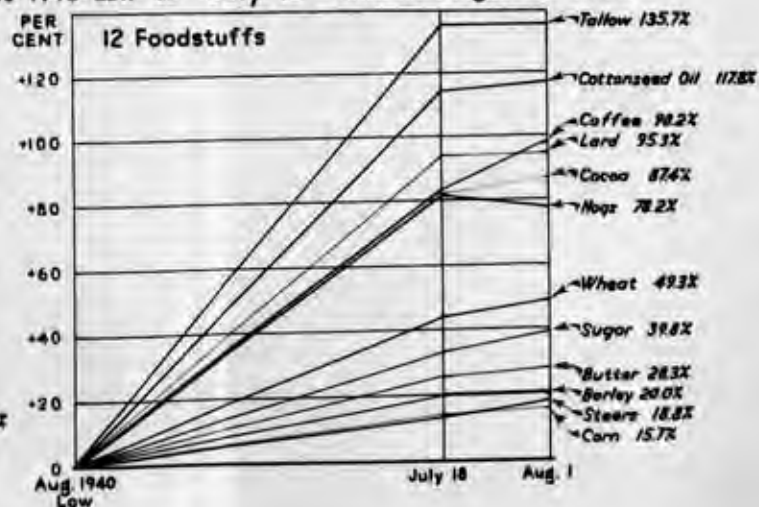
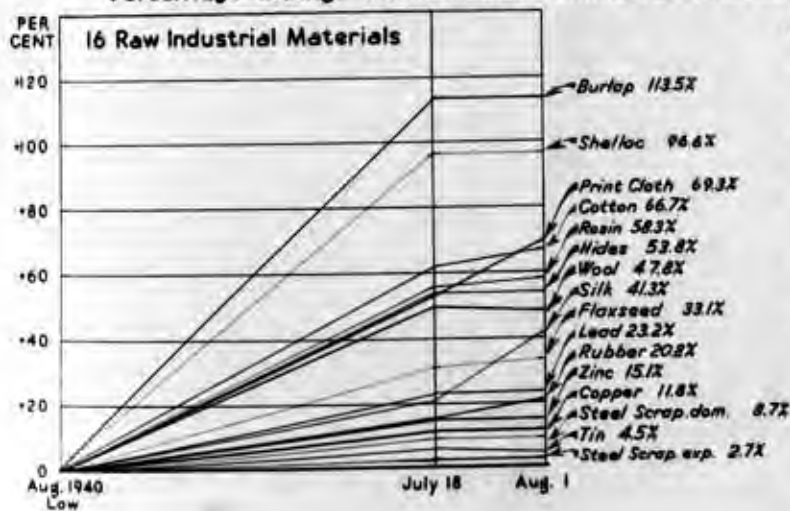


MOVEMENT OF BASIC COMMODITY PRICES

AUGUST 1939 = 100

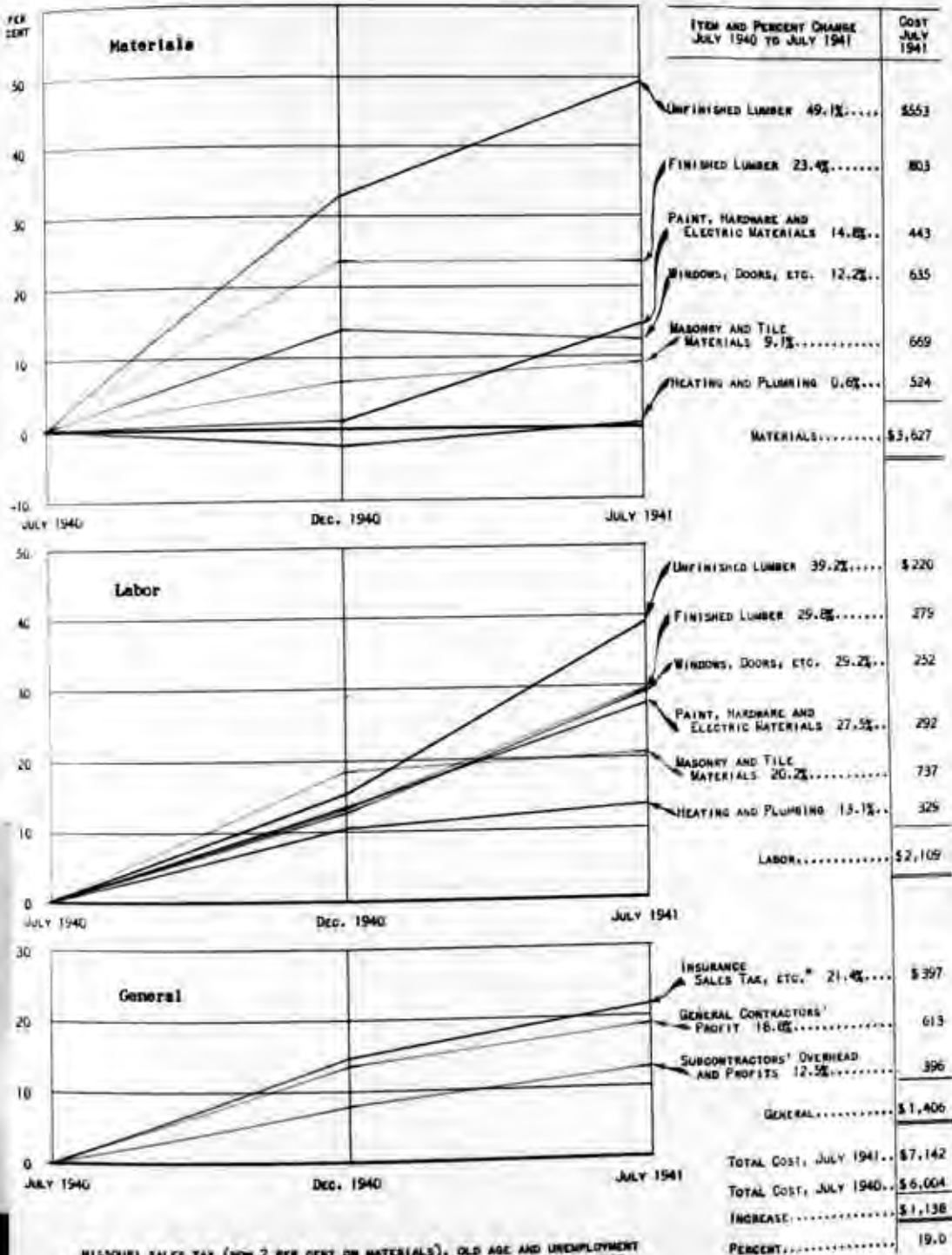


Percentage Change for Individual Commodities, August 1940 Low to July 18 and to August 1, 1941



CHANGES IN COST OF CONSTRUCTION OF STANDARD 6-ROOM FRAME HOUSE, ST. LOUIS

Percentages Change, December 1940 and July 1941 over July 1940



MISSOURI SALES TAX (NOW 2 PER CENT ON MATERIALS); OLD AGE AND UNEMPLOYMENT
TAX (FEDERAL AND STATE); LIABILITY AND EMPLOYEES' COMPENSATION INSURANCE;
FIRE AND TORNADO INSURANCE, COMPLETION BOND.

SOURCE: REAL ESTATE ANALYST.

Treasury Department
Division of Monetary Research

Date Aug. 12, 1941 19

To:

The land of Canaan had been promised to the Israelites, the descendants of Abraham, by God, and there is a reference to the land "flowing with milk and honey" in Deuteronomy 31:20:

"For when I shall have brought them into the land which I swear unto their fathers flowing with milk and honey and they shall have eaten and filled themselves and waxed fat", etc.

MR. WHITE
Branch 2058 - 214½

Treasury Department
Division of Monetary Research

143

Date.....8/13/41.....19

To: Mrs. McHugh

For the Secretary. I understand he gave the original to the Vice President this morning.

MR. WHITE
Branch 2058 - Room 214½

August 12, 1941

Mr. White

Messrs. Ullmann and Komarek

Subject: Economic Warfare

Economic defense and warfare differ from military measures only in the weapons and techniques employed. Any attempt to conduct economic defense in halfhearted fashion or at no expense to the nation would prove to be relatively ineffective and, probably, would be false economy.

Below are outlined some of the objectives and methods of economic warfare.

A. Objectives

1. Deprive "enemy" countries and nationals of the goods and facilities (a) of the United States and (b) of third countries.
2. Render additional economic aid to friendly nations.
3. Induce third countries to cooperate fully with the United States on economic, political and military problems.
4. Prevent and reduce economic, social and political disruption in the United States (and third countries) by "enemy" nations.
5. Weaken the ties between "enemy" nations and third countries friendly to them.

B. Methods

1. Use of commercial powers

- a. Prevent shipment to the "enemy" of American goods and forbid trans-shipment of other goods.
- b. Prevent re-export by third countries to the "enemy" of goods in whole or in part of U.S. origin.
- c. Prevent the importation (for free dollars) of commodities having their origin in "enemy" countries, shipped through "enemy" countries or otherwise benefiting nationals of "enemy" countries.

- 2 -

Division of Monetary
Research

- d. Throw all our weight into stopping any trade which would be advantageous to any "enemy" national or sympathizer (including the "Proclaimed List"). (For example, the Germans filled orders in Latin America from U.S. sources last autumn — having made commitments earlier in the year which they were unable to fulfill from Germany.)
- e. Purchase any exportable surpluses in third countries that would be of value to the "enemy" — thus precluding these products' and materials' falling into the hands of the enemy.
- f. Engage in "preclusive selling" by subsidizing U.S. competition with "enemy" products in third countries — thus eliminating or reducing the foreign exchange secured from such sales by the "enemy".
- g. Facilitate the importation of goods (for blocked dollars) from "enemy" occupied or dominated countries, thus precluding the use of these goods by the "enemy" and also providing a way of "saving" for the occupied countries — with a view toward the post-war period — as well as obtaining goods for our own use.
- h. Make use of our Trade Agreement authority
- i. Assume control over "enemy" owned and controlled patents and designs in order (a) to preclude disruption of our defense effort if patent rights should be withheld by the "enemy" and (b) to insure that all possible technical knowledge is made available to domestic producers.
- j. Prevent inter-company relationships between U.S. firms and "enemy" firms which are detrimental to our interests. (For example, Bausch & Lomb did contract to provide Carl Zeiss of Germany with details of all formulas for U.S. military lenses.)
- k. Prohibit the use by the "enemy" of American controlled facilities for the dissemination of "enemy" propaganda.
- l. Make full use of the commercial policy powers (pertaining to discrimination, countervailing duties, anti-dumping, selection of a rate for customs valuation, etc.) to influence the policy of third countries.
- m. Control the use of U.S. port facilities, bunkering privileges, ship clearance powers, and the Panama Canal, in such a way as to obtain our objectives. (For example, we can exercise a strong influence over Danish ships that enter our ports.)

- 3 -

Division of Monetary
Research

- n. Confiscate "enemy" ships in our waters.
 - o. Withhold, if desirable, the use of U.S. vessels by third countries which could readily confiscate "enemy" ships in their ports.
 - p. Charter, or otherwise make available, U.S. ships to friendly nations and allies.
 - q. Deny the use of U.S. insurance facilities to "enemy" countries.
 - r. Render productive and technical assistance to friendly nations and allies.
 - s. Discontinue the flow of U.S. industrial and technical publications and other information to "enemy" countries.
2. Use of financial powers
- a. Prevent the "enemy" from using dollar assets in the United States to purchase our products and materials, or the products and materials of third countries, or to finance disruptive activities in the United States and in third countries.
 - b. Deprive the "enemy" of the use of dollar assets held by third countries. (For example, Brazil holds dollars for Japanese account. Should Japan be allowed to use these dollars to purchase Colombian platinum?)
 - c. Facilitate the use of dollar assets, here or elsewhere, by friendly countries.
 - d. If necessary or desirable, use the power of control over dollar assets to influence neutral nations to cooperate with us.
 - e. Control U.S.-owned assets located abroad to influence their use and disposition to further our objectives. (For example, we have already prevented the sale of American foreign properties where such sales would have benefited the Germans.)
 - f. Use our gold and silver purchase powers to aid our allies, to win friends, and to handicap our "enemies".
 - g. Use the loaning authority of the Stabilization Fund and the Export-Import Bank to strengthen our friends, to win cooperation, to gain military bases and collaboration, and to injure our "enemies" by obtaining favorable "quid pro quos" from third countries.

- 4 -

Division of Monetary
Research

- b. Deploy Lend-Lease to render our economic resources most useful to our allies.

WLU:AMK:HW
8/12/41

OFFICE FOR EMERGENCY MANAGEMENT
DIVISION OF DEFENSE AID REPORTS
WASHINGTON, D. C.

MEMORANDUM

8/12/41?

TO: Honorable Henry J. Morgenthau
Secretary of the Treasury

FROM: Oscar S. Cox

SUBJECT: The Free French

(1) Mr. Rene Pleven has been in touch with us about direct lend-lease aid to the Free French. This could be accomplished by lend-leasing defense articles to French Equatorial Africa which is clearly a country whose defense is vital to the defense of the United States.

(2) Pleven has also had conversations with the State Department. Because of his doubtful status, he has not been formally received there and has had to operate through the British. Last week Mr. Welles told the British Ambassador that it was too early for the Free French to requisition lend-lease defense articles directly and that Pleven should have the British requisition defense articles for retransfer to the Free French. Pleven is acquiescing in this view and the British are going to do the requisitioning.

(3) This procedure fails to give the Free French the morale support that direct lend-lease aid would give them. Direct aid would

- 2 -

strengthen the Free French throughout the world by making it clear that the United States was supporting them in their resistance to aggression; it would also strengthen the anti-Vichy forces within France and thus make it more difficult for Vichy to yield to German demands for all-out collaboration.

(4) Pleven feels that he cannot go contrary to Mr. Welles' views and is, therefore, not going to file lend-lease requisitions. Since this will prevent the matter from coming directly to the attention of the President, I thought you might want to consider other ways of obtaining a Presidential decision.

cc: Mr. Wayne Coy

at lunch Aug 12, 1941

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U. S. TREASURY

DEFENSE SAVINGS STAFF

RETAILERS ADVISORY COMMITTEE MEETING

- - - -

August 12, 1941

Honorable Henry Morgenthau, Jr., Secretary of the Treasury
Lewis W. Cole, National Association of Food Chains
Tyre Taylor, National Association of Retail Grocers
Robert J. Wilson, National Restaurant Association
Franklin Moore, American Hotel Association.
John B. Fitch, Institute of Distribution
Louis Kirstein, American Retail Federation.
Major B. H. Namm, National Retail Dry Goods Association
Thomas K. Ruff, National Association Hardware Dealers
J. Hudson Hufford, National Association Retail Furniture
Roland Jones, National Association Retail Druggists.
F. W. Griffiths, National Association of Chain Drug Stores
E. C. Mauchly, Limited Price Variety Stores Association.
Robert W. Lyons, Special Advisor.

TREASURY and DEFENSE SAVINGS STAFF

Harold N. Graves, Assistant to the Secretary
Eugene W. Sloan, Executive Director
Sydney D. Mahan, Associate Information Director
F. Edward Pulte, Jr., Chief, Retail Stores Division,
Robert W. Sparks, Associate Field Director
Vincent Callehan, Chief, Radio and Press Section
Millburn McCarty, Assistant Chief, Press Section
Charles Gilchrist, Assistant Chief, Radio Section.

- - - -

C. J. Judkins, Chief, Trade Associations, Dept. of Commerce.
A. A. Imus, Director, Postal Field Activities, Post Office Dept.
F. A. Ironside, Confidential Legal Aide, Postmaster General,
Post Office Dept.

SUGGESTED REMARKS TO
RETAILERS' ADVISORY COMMITTEE

MR. MORGENTHAU.

I have been looking forward to this meeting very much, gentlemen. Since June 24, when I was advised of the meeting in Detroit, where many of your representatives were present and helped us to work out the test plan for Michigan, I have been following this activity with great interest. In my weekly meetings with the Defense Savings Staff, the first thing I have called for was the report on Michigan.

The fact that three great national retail associations, thirteen strong State associations, and Chambers of Commerce, threw their full support behind the Stamp sale in Michigan is a remarkable record of cooperation. I do want you to know that we here at the Treasury are very appreciative of this 100 per cent support of the Defense Savings Program.

In planning to extend this Stamp-selling activity to all other States, I feel you are making a great and permanent contribution to our program. You are giving us access to that great throng of traffic that crowds your stores every week in the year. You are exposing Defense Savings Stamps to countless people who otherwise might not have an opportunity to buy them if our distribution were confined to banks and post offices.

I might mention right here that sales of stamps to millions of people in America will help accomplish the first objective of our Defense Savings Program--that objective being to interest the greatest possible number of people in our program and secure their active participation.

Your presence at this meeting today certainly indicates your interest in this program. I hesitated to call you down for this meeting because I am fully conscious of the problems you are facing these days in your own business. I, personally, very much appreciate the fact that you have taken "time out" to give us the benefit of your advice and suggestions. I hope the program that has been laid out for your discussion and action will appear worthwhile and important enough to have justified your trip.

LONDON, August 12, 1941.

No: 1207

Subject: Copyright Release on Kipling's "The Islanders".

The Honorable

The Secretary of State,
Washington.

Sir:

With reference to the Department's telegraphic instruction No. 2965, of August 5, 11 a.m., I have the honor to confirm the Embassy's telegram No. 3558, of August 11, 6 p.m., stating that the Embassy had obtained copyright permission for the use of the late Rudyard Kipling's poem, "The Islanders", on the "Treasury House" radio program.

There are enclosed copies of an exchange of
correspondence/

-2-

correspondence on this subject consisting of the Embassy's letter of August 7, 1941, to Messrs. A.P. Watt & Son, and the firm's reply, dated August 11, confirming the fact that Mrs. Bambridge, Mr. Kipling's daughter and owner of the copyright, has agreed to the broadcasting of the poem.

Respectfully yours,

For the Ambassador:

Herschel V. Johnson,
Counselor of Embassy.

Enclosures:

1. Copy of letter to A.P. Watt & Son,
dated August 7, 1941.
2. Copy of letter from A.P. Watt & Son,
dated August 11, 1941.

DGF:IW

Enclosure No. 1 to Despatch No. 1207, dated August 12, 1941, from the Embassy at London, England.

COPY

London, August 7, 1941.

PRIVATE AND CONFIDENTIAL.

Dear Sirs:

With reference to the telephone conversation this morning between one of the partners of your firm and Mr. Fisher of this Embassy, I should like to make application on behalf of the Treasury Department of my Government for permission to use Mr. Rudyard Kipling's poem "The Islanders" on a radio program in the United States.

I am instructed by my Government that the Treasury Department desires to have Mr. Alfred Lunt, or some other outstanding actor, recite the poem this month on the "Treasury Hour" program, in connection with promoting the sale of American Defense Bonds. For your information, the program in question is broadcast every Wednesday evening, from 8 to 9 p.m. Eastern Standard Time, on a nationwide hook-up of the Columbia Broadcasting System, and it is listened to by the third largest radio audience in the United States.

The Embassy has been asked to cable a prompt reply to Washington.

I shall greatly appreciate being informed whether the desired copyright clearance may be granted.

Very truly yours,

Herschel V. Johnson
Counselor of Embassy.

Messrs. A.P. Watt & Son,
Hastings House,
10 Norfolk Street, W.C.2.

Enclosure No. 2 to Despatch No. 1207, dated August 12, 1941, from the Embassy at London, England.

COPY

A.P. WATT & SON

Hastings House,
10 Norfolk Street, Strand,
London, W.C.2.

B.45.

11th August 1941.

Herschel V. Johnson, Esq.,
Counselor of Embassy,
The American Embassy,
1, Grosvenor Square,
W.1.

Dear Sir,

Confirming my message of this morning per the telephone, I now write formally to put on record that I am authorised by Mrs. Bambridge, Mr. Rudyard Kipling's daughter, to agree to your proposal to broadcast THE ISLANDERS in the U.S.A. in the programme to which you referred in your letter to me of the 7th of August.

Yours sincerely,

(Signed) A.S. WATT

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Sent to Mr. Forster's office at 9:40 on August 12, 1941, by Secret Service man. Mr. Forster will transmit it by wire to the President.

August 12, 1941

WIRE TO THE PRESIDENT

At your suggestion I have arranged that Maurice Evans will read Rudyard Kipling's poem, "The Islanders", Wednesday night on the Treasury Hour over the Columbia Broadcasting System, between eight and nine Eastern Standard Time. I hope you will enjoy it. Best regards.

Henry Morgenthau, Jr.

August 12, 1941

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Henry Morgenthau, Jr.

160-
file 8/12/41 -
(date received)
THE SECRETARY OF THE TREASURY
WASHINGTON

July 31, 1941

Dear Eleanor:

We are going to take care of
Mrs. McAdoo as soon as we establish
the Los Angeles headquarters of the
Defense Savings Staff, which I hope
will be within the next few weeks.

Affectionately,

Henry

Mrs. Franklin D. Roosevelt,
The White House.

Thank You
ER

TREASURY DEPARTMENT
WASHINGTON

August 12, 1941

Memorandum for THE SECRETARY:

The following report is made of Stamp sales
at "Treasury House":

July 1-August 10	\$29,120.65
August 11	<u>904.90</u>
Total	\$30,025.55

GRAVES

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE August 12, 1941

TO Secretary Morgenthau
FROM Mr. Kuhn

Mr. Callahan is anxious to have someone who will get our publicity into trade papers in a big way. He says that Mr. van Wiseman knows the field and is well equipped for this job.

AUG 12 1941

Dear Mr. Bennett:

Please express to the National Association of Insurance Agents the thanks of the Treasury Department for the loan of the services of your Mr. Jerome van Wiseman, Director of Publications and Public Relations.

In our plan to publicize the National Defense Savings Program through the trade publications throughout the United States the personal services of Mr. van Wiseman will be of great value to us.

Your government sincerely believes that through such cooperation and helpfulness as your organization is contributing, the plan of savings for defense will become a reality to all Americans.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Mr. Walter H. Bennett
General Counsel
National Association of
Insurance Agents
80 Maiden Lane
New York, New York

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Your government sincerely believes that through such cooperation and helpfulness as your organization is contributing, the plan of savings for defense will become a reality to all Americans.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Mr. Walter H. Bennett
General Counsel
National Association of
Insurance Agents
80 Maiden Lane
New York, New York

August 12, 1941

Dear Mrs. Clayton:

I want you to know how delighted I am to learn of your interest and participation in the Treasury's Defense Savings Program. Dick Jenkins, who is here with us this summer as a volunteer, told me a few days ago of the substantial purchase of Defense Savings Bonds that you arranged through him.

This program is as important as any the Treasury has ever undertaken and the unsolicited support of our friends is a great encouragement to us in our efforts to finance the building of the National Defense.

With warmest regards, I am

Sincerely,

(Signed) H. Morgenthau, Jr.

Mrs. William Clayton,
2839 Woodland Drive,
Washington, D.C.

August 6, 1941

Mrs. William Clayton
Lookout Mountain
Chattanooga, Tennessee

Dear Mrs. Clayton:

I want you to know how delighted I am to learn of your interest and participation in the Treasury's Defense Savings Program. Dick Jenkins, who is here with us this summer as a volunteer, told me a few days ago of the substantial purchase of Defense Savings Bonds that you arranged through him.

This program is as important as any the Treasury has ever undertaken and the unsolicited support of our friends is a great encouragement to us in our efforts to finance the building of the National Defense.

With warmest regards, I am

Sincerely,

Henry Morgenthau, Jr.
Secretary of the Treasury

EDJ/abb

August 12, 1941.

CONFIDENTIALMemorandum, W. CochranRequisition or Re-registration of
Canadian Holdings of U.S. Securities and other Investments1. Previous discussions

In the spring of 1941 the prospects for Canada's exchange position were unfavourable. It appeared that it might become necessary for Canada to requisition U.S. securities held by its citizens and sell the securities in order to obtain U.S. dollars. This would have been an emergency action, pending more substantial arrangements by Canada or the United States, or both, to rectify the Canadian-American exchange position.

The subject was studied and discussed in March and April by officials of the United States and Canadian Governments. In order to be prepared for any eventuality, Canada made the necessary arrangements, which were completed in May, for re-registering Canadian holdings of U.S. securities. Such action is a necessary preliminary to requisition and sale. Actual re-registration was postponed, however, so as to avoid creating an unsettling influence at the time of the Victory Loan campaign in June.

In the meantime, a broad-visioned and comprehensive plan for overcoming the exchange difficulties was discussed in Washington and approved by the President and the Prime Minister in the Hyde Park Declaration of April 20. It soon became apparent that the arrangements therein contemplated, if put into effect promptly, would postpone for a considerable period, even possibly for the duration of the war, the need for drastic emergency action with respect to Canada's U.S. securities.

2. The present position

Canada's exchange position is now in a much more favourable condition than was contemplated earlier in the year. Capital receipts of U.S. dollars which could not be forecast in advance, and the cooperation of American officials in giving effect/

(Handed by Mr. Coyne, Financial Attache of the Canadian Legation, to Mr. Cochran in the Treasury, 3 p.m., August 22, 1941)

- 2 -

effect to the Hyde Park agreement, have been responsible for this change. The figures, which have been analysed in detail in previous memoranda submitted to the United States Treasury, are summarized in Section 7 below.

Canada is ready and willing to take any action deemed necessary or advisable in the light of the best interests of the two countries. The Canadian Government considers, however, that it is not necessary in the next six to twelve months at least, for Canada to requisition its citizens' holdings of U.S. securities and other U.S. investments with a view to forced sale or collateralization. The Canadian Government is also of the opinion that such action is most undesirable from the long-term point of view. In any case, it is felt that there should be full discussion of the issues involved before definite action is decided upon. With a view to such discussion the case for retention of securities is summarized in section 4 and outlined in more detail in sections 5 to 10 of this memorandum.

3. Re-registration of holdings of U.S. securities

Circumstances have so changed that it does not appear to be either necessary or desirable at the present time to call for the re-registration of Canadian holdings of U.S. securities. Here, too, it is desired to outline the reasons for our views to the Secretary of the Treasury of the United States, so that a common understanding may be reached as to what is the best course in the present circumstances.

To call for such a re-registration too far in advance of any need for requisition and sale, would be of little value. On the other hand, such action would undoubtedly create the impression that requisition and sale were imminent, and would be taken as an indication that our exchange problem was acute and urgent. All the unsettling effects, which would of course have to

be/

- 3 -

be accepted in case of real necessity, would be anticipated in point of time, and perhaps borne unnecessarily if, as now appears possible, eventual requisition and sale can be avoided.

For example, the beneficial influence of the Hyde Park Agreement on general opinion might be nullified; certainly U.S. confidence in Canadian conditions would be shaken. The present moderate but helpful flow of new U.S. investment in Canada would probably cease. The value of the Canadian dollar in the free market would almost certainly fall, and fluctuate considerably. Some U.S. holdings of Canadian dollars would seek an outlet, and would be sold at a discount to prospective tourists who would otherwise bring U.S. dollars to Canada.

Perhaps this is too gloomy a forecast, but it is clear there is a risk of undesirable consequences which should be avoided in the absence of any urgent necessity for incurring them.

4. Summary of major considerations regarding the requisition and sale of securities.

(a) Such action could only be an emergency measure, enabling Canada to meet its commitments while a more substantial remedy for a chronic exchange deficit was being sought and adopted. Canadian holdings of U.S. securities represent a total value which would only be sufficient to cover our wartime exchange deficit with the United States for about seven or eight months (ex Hyde Park Agreement).

(b) A moderate but reasonably steady volume of voluntary liquidation of U.S. assets by Canadians has already appreciably decreased the total value of our holdings and continues to do so.

(c) There is no present emergency. The Hyde Park agreement has not yet completely overcome Canada's wartime exchange deficit, but may possibly do so in the course of time; sufficient progress has already been made, in any event, to remove any immediate

danger/

danger of a sort requiring sale of securities.

(d) Unlike the United Kingdom, Canada is a debtor nation, heavily indebted to foreign countries, especially the United States. We should on general principles endeavour to maintain a reserve of foreign assets, and this is the more necessary because of the fluctuating nature of the Canadian economy and its high degree of vulnerability to changing international conditions.

(e) Unlike the United Kingdom, Canada always has an exchange deficit with the United States, historically balanced by the exchange surplus with the sterling area. This normal method of settlement has been disrupted, but fortunately other methods were found. These methods are applicable to a wartime situation. A new but equally grave situation will arise after the war if the normal method of settlement cannot be resumed. The course of post-war events cannot now be predicted, but at that time the possession of an emergency reserve of foreign assets may be of the utmost importance for Canada both domestically and in its financial and trade relations with the United States.

(f) Even if some kind of eventual "return to normalcy" is possible after the war, there will be an intermediate period of great stress and uncertainty. Post-war economic problems will be difficult enough for Canada, domestically and internationally, without adding to them by removing the potential cushion provided by our foreign investments. Neither Canada nor the United States would wish to see any action taken now which would aggravate post-war pressures for trade restrictions, exchange depreciation, etc.

(g) The requisitioning of U.S. securities for sale or collateral would involve political difficulties in Canada, in the broad sense of that term, with unsettling effects which ought to be avoided if possible. On the other hand, such action does not seem to be required (in contrast with the case of the United Kingdom) by political considerations in the United States.

5. Canadian/

5. Canadian holdings of U.S. securities

Canadian holdings of U.S. securities amount to about \$265 million as of July 31st, 1941, according to the records of the Foreign Exchange Control Board. This valuation, which is based on market values as of December 31, 1940, less sales since that date, was described in Memorandum F dated March 31, 1941.

This capital sum - the readily disposable part of Canada's investment in the United States - is not much greater than the annual investment income which Canada pays to the United States every year. It is about 60% of the total exchange deficit which Canada would have with the United States in the next twelve months in the absence of the Hyde Park agreement.

6. Past liquidation of Canada's U.S. dollar assets

Net sales and maturities of U.S. securities amounted to \$40 million from the beginning of the war to December 31, 1940. This process continued during the seven months ending July 31, 1941 when realizations on U.S. securities amounted to \$14 million.

Other liquidations of U.S. assets amounted to about \$20 million up to December 31, 1940, and a further \$11 million in the past seven months.

In 1940 Canada requisitioned all liquid reserves of U.S. dollars, except commercial working balances. Some \$90 million was used up in the period from the beginning of the war to December 31, 1940, and a further \$82 million in the past seven months.

In addition, the entire \$227 million in gold received from the United Kingdom (all in the period ending December 1940) was paid to the United States.

7. The present exchange situation

At the end of 1940, Canada's reserves of gold and U.S. dollars (excluding \$20 million of working balances held by corporations) amounted to \$328 million. In March it was estimated

- 8 -

that these reserves would decline to \$138 million by the end of June, and would be completely exhausted in December.

In fact, the reserves at the end of June were \$254 million and it is now forecast they will amount to \$227 million at the end of September and \$209 million at the end of December. The assumptions underlying this forecast are discussed in a separate memorandum dated July 7.

It is true that \$254 million represents the very minimum liquid reserves which Canada needs, in view of its heavy debtor position, its normal deficit with the United States, and its extreme vulnerability to changes in international economic conditions. It is hoped, however, that the ultimate effect of the Hyde Park agreement will be to bring Canada's wartime exchange position vis-à-vis the United States more or less into balance, and that possibly the drain during say, the next twelve months, will be made good during the following twelve months.

On the basis of the immediate position, therefore, and prospects for the future so far as they can be seen, it is not necessary to take immediate Government action with respect to U.S. securities. The Canadian exchange position will, of course, continue to be discussed at frequent intervals with the Secretary of the Treasury and his officials.

8. Canada's position as a debtor nation.

Unlike the United Kingdom, Canada is heavily indebted to private investors in other countries. Foreign capital invested in Canada is 4 to 5 times as great as Canadian capital invested abroad. The foreign investment in Canada is greater than the federal government's national debt, greater even than one year's national income of the Canadian people. Canada is not only a debtor nation, it is a mature debtor nation, that is, its period of large capital imports is over, and it is now both servicing
its/

its debt and making capital payments abroad as its debts fall due.

The United States investment in Canada, estimated in 1937 at about 4 billion dollars, is alone greater than the direct net debt of the Dominion Government, and is from 6 to 10 times as great as the Canadian investment in the United States, depending on the value assigned to Canadian-owned railway subsidiaries in the United States. Canadian interest payments to the United States represent 25% of all bond interest paid by Canadian governments and corporations. United States investors receive over 40% of all dividends paid by Canadian corporations (excluding inter-corporate dividends in Canada).

The Canadian investment abroad represents a small offset to the foreign investment in Canada, but it is more important as an element in the underlying security of that investment, along with Canada's foreign trade and domestic resources and the character of its people.

This general principle of the relationship of Canada's foreign investments to its foreign debt even has specific application in individual industries and corporations. Many companies in Canada with American shareholders own businesses in the United States, or have U.S. securities in their portfolio. Conversely, Canadians hold securities of U.S. companies which own subsidiaries in Canada or invest in Canadian securities. For a Canadian to be a shareholder in the Canadian automobile industry, for example, it is necessary for him to buy U.S. securities, i.e., the shares of the parent companies in the United States (except that Ford of Canada has a domestic share issue carrying no voting rights).

The disruption of this relationship, changing the situation from inter-dependence to unilateral dependence, not to say subservience, is not something to be lightly entered upon, if there is any reasonable alternative.

It/

It should be noted also that the sale of U.S. securities and investments by Canada would not only increase Canada's net debtor position (i.e. it is no better, in the long run, than the incurring of further debt to the United States by Canada) but would tend to turn the net debt into gross debt, removing the factor which, if necessary, might serve as an offset, or backlog, or margin. It would be similar to spending away a sinking fund instead of holding it as security, however indirectly, for the gross debt.

To maintain not only essential imports but also payments on the foreign debt has already required substantial sacrifices on the part of the Canadian people in other uses of foreign exchange. Further proposed restrictions (with respect to imports) were dropped as being clearly unacceptable to the United States Government. If other methods of meeting Canada's deficit with the United States could not be found and Canada's holdings of U.S. securities had to be liquidated, which would only temporarily relieve the situation, the pressure thereafter might readily develop towards the apparently "easy" method of blocking interest and dividend payments to non-residents. The effect upon Canada's international standing would be disastrous. It would fall into the same class as certain European and Latin American countries, and such a step, once taken, will not be forgotten even if payments are later resumed.

This argument may appeal much less to the United States - other than the investors directly concerned - than to Canada. In our view, it would damage forever, if not destroy, our existing and wholly justified position in the eyes of American individuals and corporations as a preferred field for investment and enterprise with assurance of fair treatment and reasonable rewards. It would injure the future of Canada and perhaps destroy much of the value of the present U.S. investment in Canada.

9. Economic nationalism after the war.

Canada was built upon multilateral international trade. The essential features of its position have been the creation of a surplus of sterling from exports, and a deficit of U.S. dollars to pay for imports; the free conversion of sterling into dollars served to balance the exchange. The war not only greatly increased both the surplus of sterling and the deficit of dollars, but destroyed the convertibility of the one into the other. Until December 1940 the United Kingdom Government to some extent performed the function of a free exchange market for Canada, by providing gold (about 80% of Canada's deficit with the United States up to that time) in settlement of part (41%) of the United Kingdom deficit with Canada. This process ceased in December because the United Kingdom needed its remaining reserves to meet its own commitments in the United States and its current receipts of gold and U.S. dollars have also been used, since December, for that purpose.

Canada was thus forced to attempt to balance its accounts bilaterally, and the cooperation of the United States as expressed in the Hyde Park agreement and in other ways is tremendously appreciated. Neither country, however, desires to see a continuance of bilateral trade, exchange restrictions and depreciation, Government control of commerce, the freezing of foreign investment, and other features of a Reich economy, continued and aggravated after the war. In the case of Canada bilateralism, if necessary, would mean not only the continuation of exchange control but the most drastic reduction in expenditures in the United States, resulting in disruption of trade, of interrelation of industry, even of social and family ties.

Possibly during or after the war the United Kingdom position will once more be such that the Canadian-Anglo-American triangle in international trade and finance can be re-established. No one responsible for national policy can act as if that

assumption/

Regraded Unclassified

assumption were a certainty; at the best, before complete restoration of the normal situation, there will be a period of re-adjustment after the war, during which there must be some bulwark against a resurgence of economic nationalism and the building up of new vested interests; against demands for extreme measures of currency depreciation and other nostrums. In the case of Canada, the keystone in the process of re-adjustment in international economic matters will be her U.S. dollar position. Liquid reserves may, despite efforts to prevent it, have to be used up before the war is over. The last margin of safety lies in our holdings of U.S. securities and investments. If they can be retained, there will be an opportunity for elasticity and gradual adjustment even to unfavourable conditions.

10. The political problem

As might be expected from the foregoing considerations, if they have the validity which we attach to them, there is a political problem involved in the question of sales of U.S. securities and other investments by Canada, both a domestic problem in Canada and in the United States and a problem affecting the international relations of the two countries.

Anything which disturbs the public or any substantial portion of industry or finance in Canada is to be avoided if at all possible in view of the compelling need for unified concentration on the prosecution of the war. The financial situation in Canada, with the emphasis upon voluntary rather than forced borrowing by the Government to meet financial requirements six times as great as in any peacetime year, depends upon a feeling of confidence and security on the part of those to whom an appeal must be made. What would be regarded as essentially confiscatory action, at prices which those affected would regard as unduly low because of present conditions in New York security markets, would undoubtedly have unsettling effects and breed resentment against

the/

- 11 -

the failure to find some other method of meeting the exchange problem. Similarly Canadian businesses with holdings of U.S. securities, which they regard under present conditions as a valuable nest egg, would be disturbed and their managers distracted from their primary duty, in the national view, of accelerating war production.

On the other hand, there does not appear to Canadian eyes to be the same political requirement in the United States to divest Canada of its U.S. investments as there might be with relation to the U.S. investments of the United Kingdom. Canadians have always felt that there exists in the United States as well as in Canada a keen sense of the mutuality of interests of our two countries. The people of the United States, we think, would not oppose a course of action with reference to Canada quite different from that which might seem necessary in dealing with a similar problem between themselves and the United Kingdom.

It is also evident that the needs of the United Kingdom, expressed in many billions of dollars, were far greater than those of Canada. The provision of sums reaching upwards from 7 billion dollars is a tremendous undertaking even for the United States. Dealing with a situation which involves a few hundred million dollars a year, most if not all of which may ultimately be met under the Hyde Park agreement, is in a different category and may well be susceptible of different treatment.

There is in both countries, we feel sure, a strong desire to maintain their unparalleled history of meeting mutual problems by measures which strengthen the bonds between them rather than severing them.

August 12, 1941

Files

Mr. Cochran

At 3 o'clock yesterday afternoon I telephoned Mr. See in the Chinese Purchasing Mission to inquire concerning the employment of Mr. Hewlett. Mr. See said that no reply had yet been received from Chungking. He recalled that Mr. Seong had sent a cablegram to Chungking a week ago, after he had interviewed Mr. Hewlett on Monday, August 4, requesting authority to employ Mr. Hewlett for Mr. Fox's secretary on the Stabilization Board in China. I told Mr. See that we were anxious to have an answer since Mr. Fox was again calling us, and wanted certain documents sent to him by Mr. Hewlett. After this conversation Mrs. Keith informed Mr. Hewlett that I had spoken with Mr. See but that there is still no reply from Chungking.



HHC:lap-8/12/41

TK

GRAY

Chungking via N. R.

Dated August 12, 1941

Rec'd 5:40 p.m.

Secretary of State
Washington

343, August 12, 7 p.m.

FROM FOX FOR SECRETARY OF THE TREASURY.

Please notify Federal (*) that when its sealed letter of May 24th to me was opened on August 9th in presence of all members of Stabilization Board of China last paragraph of page two read, "Please acknowledge receipt of this letter and of the enclosed sealed package by (?) and returning to us the enclosed copy of this letter". No copy of letter was enclosed. I have had duplicate made, am signing and returning that via air mail. If this is not satisfactory wire me other instructions.

GAUSS

EMB

(*) Apparent omission.

CONNECTED COPY

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Chungking, China, via H.B.

DATE: August 12, 1941, 11 a.m.

NO.: 542

STRICTLY CONFIDENTIAL.

THE FOLLOWING IS FOR THE SECRETARY OF THE TREASURY FROM
FOX.

The Ministry of Finance has requested that the Treasury Department furnish the Government of China with a list of depositors of Chinese notes in the U.S. which are credited to securities and other assets of Chinese nationals. In regard to this request, they would like for the Treasury to furnish as complete statistics as possible. I informed them that details could not be furnished, but I am submitting this question to you for a decision at this time.

The Ministry of Finance also asks how it could requisition such funds. I said that this could not be done. It is my understanding that a similar position in regard to these questions has been taken by Hall-Patch.

Hall-Patch is in Chungking for a few days. The Board is taking steps at once to carry through the requisite procedure for its official organization. Within a few weeks, Hall-Patch is expected to return to Chungking.

The American banks are peeling information which they have received on unfreezing. However, they still seem to be receiving instructions from their home offices which are conflicting.

conflicting. Would it be possible for these instructions to be coordinated a little better? This would help to relieve the confusion in Shanghai and in Hong Kong.

At the request of Dr. Kung, the Board conferred with him on Sunday evening. In particular, he seemed to be interested in learning of the Japanese situation from Hall-Patch. Dr. Kung was advised of the steps which are necessary in order to establish the stabilisation operations. Immediate action was promised.

The Statement was made by Dr. Kung that he and the Chinese Government expect to receive better cooperation from the British and American banks than was received in connection with Fund A. Dr. Kung asked that Rogers be requested to use the balance of Fund A to support Ramsdell. He also ordered the Bank of China and the Central Bank to offer U.S. dollars at little above the Shanghai rates of Saturday in order that the market might be bolstered.

In Chungking, operating conditions for exchange purposes are extremely difficult at this time. The Board will try to establish headquarters in Chungking in order to meet the insistence of the administration ~~XXXX~~ and an exchange division in Hong Kong.

As to the plans for exchange control, Dr. Kung is not very communicative. A visit by the principal Vice Ministers of Finance and Central Bank officials with the Board was prevented because of air raids this morning. It is expected that they will reveal something on exchange control. Later

on,

-3-

on, I will telegraph the Department in regard to this matter.

Pei and Hsi will go to Hong Kong as soon as the organization of the Board is completed in order that the tension might be relieved and in order that a number of the Board's problems might be attended to by them. I will remain in Chungking and so will K. P. Chen while Hall-Patch and Tayler are in Shanghai.

GAUSS

EA:FL:PAK

EA:PAK

1941 MAR 13 PM 11 50

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Chungking, China, via H.R.

DATE: August 12, 1941, 11 a.m.

NO.: 342

STRICTLY CONFIDENTIAL.

THE FOLLOWING IS FOR THE SECRETARY OF THE TREASURY FROM
FOX.

The Ministry of Finance has requested that the Treasury Department furnish the Government of China with a list of the Chinese nationals who are depositors in the U.S. together with their securities and other holdings. In regard to this request, they would like for the Treasury to furnish as complete statistics as possible. I informed them that details could not be furnished, but as they have requested, this question is submitted to you for a decision.

The Ministry of Finance also asks how it could requisition such funds. I said that this could not be done. It is my understanding that these questions are also being taken up by Hall-Patch.

Hall-Patch is in (7) for a few days. The Board is taking steps at once to carry through the requisite procedure for its official organization. Within a few weeks, Hall-Patch is expected to return to Chungking.

The American banks are pooling information which they have received on unfreezing. However, they still seem to be receiving instructions from their home offices which are conflicting. Would it be possible for these (7) to be
coordinated

-2-

coordinated a little better? This would help to relieve the confusion in Shanghai and in Hong Kong.

At the request of Dr. Kung, the Board conferred with him on (?) evening. In particular, he seemed to be interested in knowing all that Hall-Patch (?) (?). Dr. Kung was advised of the steps which are necessary in order to establish the stabilization operations (?) promised (?).

The statement was made by Dr. Kung that he and the Chinese Government expect to receive better cooperation from the British and American banks than was received in connection with Fund A. Dr. Kung asked that Rogers be requested to use Fund A so that the market might be supported and also that the Bank of China and the Central Bank be requested to offer (?) (?) at little above the Shanghai rates of Saturday in order that the market might be bolstered.

In Chungking, operating conditions for exchange purposes are extremely difficult at this time. The Board will try to establish headquarters in Chungking in order to meet the administration authorities (?) and an exchange division in Hong Kong.

As to the plans for exchange control, Dr. Kung is not very communicative. A visit by the Minister of Finance and Central Bank officials with the Board was prevented because of air raids this morning. It is expected (?) that they will reveal something on exchange control. (?) (?) although somehow this later aspired to relieve tension and to attend to (?) Board.

(?) and

-3-

(7) and Hsi will go to Hong Kong as soon as the organization of the Board is completed. I will remain in Chungking and so will K. P. Chen while Hall-Patch and Taylor are in Shanghai.

GAUSS

KAI/FL:PAK

TO THE SECRETARY
TECHNICAL ASSISTANT
OFFICE OF THE

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RECEIVED
DEPARTMENT

LET

GRAY

Hong Kong via N. R.

Dated August 12, 1941

Rec'd. 10:40 a.m., 13th.

Secretary of State,
Washington.

304, August 12, 4 p.m.

FOR TREASURY FROM FRESE.

"Advise by cable clarification on following points
refers to freezing orders, licenses, et cetera.

(1) Our cabled copy general license No. 61 reads
in part: 'any such transaction might be useful by
any such office of any such bank pursuant to the
order of any person not within any blocked country
is also hereby authorized, et cetera.' This apparently
precludes the licensed Chinese banks from engaging in
transactions under paragraph (one) for account of any
and all persons living within China including citizens
of unblocked country except in so far as such trans-
actions may otherwise be licensed by paragraph (two)
and by other general licenses. Please verify.

Following questions relate to deposits of blocked
nationals in terms of United States currency with
generally licensed Chinese banks in Shanghai: (1) is
there anything in the United States, orders regulations,
et cetera,

-2- 304, August 12, 4 p.m., From Hong Kong.

et cetera, which would preclude payment of such deposits by such banks in Chinese currency? (2) Can payment be made with drafts drawn by such generally licensed banks on their accounts in New York and can such drafts be credited in the United States to blocked accounts of the original payee; (3) can such drafts be paid and upon blocked accounts of other than original depositor with generally licensed Chinese bank if made payable to bearer or endorsed by original payee; (4) can such drafts be purchased with Chinese currency by Shanghai offices American generally licensed banks and credited to their accounts irrespective of whether such drafts relate to licensed import and export transactions?

Is there any general license authorizing use of blocked accounts in the United States for purchase of securities?"

Sent to the Department, repeated to Chungking, Shanghai.

SOUTHARD

CSB

PARAPHRASE OF TELEGRAM TEXT

TO: American Consul, Kunming (Yunnan) China, via
Hong Kong & HA

DATE: August 12, 1941, 8 p.m.

NO.: 17

First. Up to the end of last month, the U.S. balances of the Yunnanfu branch of the Banque de l'Indochine were partially free, in accordance with certain licenses which were issued under the order which froze their funds. It was necessary for the Bank to obtain renewal of these licenses each month. However, the Treasury has not renewed them. An approach was made to the Department by the Financial Attaché of the French Embassy here, asking that the licenses be renewed since banking functions which are useful to free China are performed by the Bank's branch at Yunnanfu.

Second. The Financial Attaché advanced the following arguments:

(1) The Yunnanfu branch of the Banque de l'Indochine is the only foreign bank there, and the clientele will not be able to find elsewhere the advantages which a foreign bank offers.

(2) Import and export transactions for shipments over the Burma Road or through the Japanese lines to the southern coast of China are financed by the branch bank.

(3) In general, exchange transactions in U.S. dollars are carried out on the Shanghai market. The

funds

- 2 -

funds are then transferred from Shanghai, through Chinese Government banks, to the Yunnanfu branch.

Third. You are requested to transmit a cable report on any information you may have as to the validity of the statements made by the Financial Attaché (second part of this telegram), and as to the economic importance to Yunnan's economy of the functions performed by the branch bank.

NULL
(DA)

EA:GL:VGL

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EA:LNW

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(CONFIDENTIAL)

STRICTLY CONFIDENTIAL

191

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P A R A P H R A S E

A strictly confidential telegram of August 12, 1941, from the American Consul at Rangoon reads substantially as follows:

On August 11 three American motor transport men (Arnstein, Hellman and Davis), who went recently to China at the Chinese Government's invitation to look into the matter of ways and means of increasing traffic on the Burma Road, left for Chungking having arrived in Rangoon on July 29 after making a trip over the road. They carried with them a report prepared while in Rangoon for submission to the head of the Chinese Government. These men planned to stay in Chungking until a decision is reached in regard to their recommendations and then to return to the United States. Included in the recommendations are the following: Full authority to be delegated to one person as managing director of the Burma Road with the commission formed recently to act in a supervisory capacity only for coordination of the Burma Road and other highways in China; a terminal plan and preventative maintenance plan such as trucking companies in the United States use is to be adopted, the adoption contemplating the employment of Americans consisting of a maintenance supervisor, six assistants to act as terminal managers and fifteen mechanics; tax collections along the Burma Road, which are said to seriously delay traffic, are to be simplified and centralized; the road is to be policed and a system of radio communication set up. Arnstein and his party expressed the opinion that if unnecessary

- 2 -

delays were eliminated the tonnage now carried with the present equipment would be more than double. They say also that the road is capable of taking care of many times as much traffic as is moving over it at the present time.

COPY: new 8/15/41

RS

GRAY

(Paris)

Vichy

Dated August 12, 1941

Rec'd 1:45 p.m.

Secretary of State,
Washington.

1014, August 12, 1 p.m.

Fuad Hamza, the Saudi Arabian Minister, has been informed by his agent in the United States, Kamel Hamady, 421 Welch Boulevard, Flint, Michigan that his dollar account with the Guaranty Trust Company in New York has been blocked. He has requested my assistance in unblocking his account inasmuch as there is no Saudi Arabian Minister at Washington. I shall appreciate any information the Department is able to send me related to the unblocking of his account so that I may keep him informed.

LEAHY

CSB

PARAPHRASE OF TELEGRAM RECEIVED

194

FROM: American Embassy, Panamá, Panama.

DATE: August 12, 1941, 9 a.m.

NO.: 223.

PRIORITY
Reference is made to the Department's telegram
No. 177, 7 p.m., dated August 8, 1941.

Telegraphic instruction on May 8, 1941 from
Barcelona to obtain cancellation of registry of Panama
of SANTA HELENA was appropriately signed "Compania
Primera Navegacion Limitada care Josif Oglurits Otel,"
(Oglu, Josif, care of the Ritz Hotel), according to infor-
mation received by the Embassy from a local representative.
This representative has no reason, therefore, to doubt its
authenticity.

WILSON

THE SECRETARY
TECHNICAL ASSISTANT
OFFICE OF THE

12th SEP 33 PM 15 50

KA:MOE

18EVS08A DEBAGINENT
RECEIVED

PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Panamá, Panama, via H.R.

DATE: August 12, 1941, 7 p.m.

NO.: 186

Reference is made to telegram No. 221, dated August 9, noon, from the Embassy.

The following is submitted for the Embassy's information: According to a report from the American Embassy at Madrid, Jossifoglu was released from jail on the twenty-seventh of July and the twenty-ninth is the date that the sale contract was signed. The Department, on the basis of this report from the Embassy at Madrid, is unable to establish that the sale was not a bona fide transaction.

The Department, nevertheless, hopes that if it is at all possible to do so that confirmation of cancellation of registry can be delayed until the end of the week.

Of course, the vessel will not be allowed to leave until this Government's action is decided upon--regardless of what may eventually be done by the authorities of Panama.

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PARAPHRASE OF TELEGRAM SENT

TO: American Legation, Budapest, Hungary

DATE: August 12, 1941, noon

NO.: 440

Reference is made to telegram of August 8, 2 p.m., no. 479 from the Legation.

Several approaches have been made to the Treasury with regard to the proposed transactions for disposal of the properties of the subsidiary of the Standard Oil Company of New Jersey in Hungary. No favorable action has been taken up to the present.

The Government found your information timely, and the Department would be glad to have you transmit to it any additional information in this regard that may come before you.

HULL
(FL)

864.6363/47

EA:GL:MGZ

EA:LNW

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE August 12, 1941.

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£71,000
Purchased from commercial concerns	£ 1,000

Open market sterling remained unchanged at 4.03-1/2. The reporting banks purchased £1,000.

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

Canadian dollar	11-3/8% discount
Argentine peso (free)	.2390
Brazilian milreis (free)	.0505
Colombian peso	.5800
Mexican peso	.2070
Uruguayan peso (free)	.4380
Venezuelan bolivar	.2650
Cuban peso	1-3/32% discount

In Shanghai, the yuan improved to 4-31/32¢, up 3/16¢. Sterling was also higher at 4.03-3/4, up 1/4¢.

There were no gold transactions consummated by us today.

The Federal Reserve Bank of New York reported the following gold shipments:

\$3,400,000 from Vladivostok, shipped by the State Bank of the U.S.S.R. to the Chase National Bank, San Francisco, for sale to the U. S. Mint. This shipment arrived in San Francisco today.

\$ 596,000 from Chile, shipped by the Central Bank of Chile to the Federal Reserve Bank of New York, disposition unknown.

\$3,996,000 Total

The London fixing prices for spot and forward silver were 23-1/2d, up 1/16d. The U. S. equivalent of this price is 42.67¢.

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

There were no purchases of silver under the Silver Purchase Act.

- 2 -

The report of August 6, received from the Federal Reserve Bank of New York, giving the foreign exchange positions of banks and bankers in its district, showed that the total position of all countries was short the equivalent of \$5,269,000, a decrease of \$25,000 in the short position since July 30. Net changes were as follows:

<u>Country</u>	<u>Short Position</u> <u>July 30</u>	<u>Short Position</u> <u>August 6</u>	<u>Change in</u> <u>Short Position*</u>
England**	\$ 377,000	\$ 235,000	- \$142,000
Europe	2,885,000	2,873,000	- 12,000
Canada	351,000 (Long)	298,000 (Long)	+ 53,000
Latin America	262,000	203,000	- 59,000
Japan	50,000	59,000	+ 9,000
Other Asia	2,083,000	2,113,000	+ 30,000
All others	12,000 (Long)	84,000	+ 96,000
Total	\$5,294,000	\$5,269,000	- \$ 25,000

*Plus sign (+) indicates increase in short position, or decrease in long position.

Minus sign (-) indicates decrease in short position, or increase in long position.

**Combined position in registered and open market sterling.

BRITISH EMBASSY,
WASHINGTON, D. C.

PERSONAL AND
SECRET

August 12th, 1941

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

Halifax

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D.C.

**TELEGRAM RECEIVED FROM LONDON
DATED AUGUST 10th. 1941**

Bases attacked at Bardia,
Benghazi, Capusse and Tripoli (Libya) night
7th/8th and Tripoli again night 8th/9th.

Night 8th/9th enemy aircraft
attacked Alexandria and the Canal Zone. Slight
damage caused at Suez and Ismailia.

9th. Five escorted Blenheims bombed
target near Gravelines. During this and other
offensive operations 18 enemy fighters were
destroyed and others damaged. We lost 10
spitfires.

Libya. Jarabub now occupied by
our troops.

Russia. Finnish and Baltic fronts
no change. White Russia. German southeastward
thrust making progress towards Bryansk. Southern
Ukraine. Germans have captured Korosten and are
immediately threatening Kiev. Further South
German thrusts along Dnieper and Astride Bug
making headway. Some substance in German claims
regarding captures in this sector.

BRITISH EMBASSY,
WASHINGTON, D.C.

August 12th, 1941.

PERSONAL
AND SECRET

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

Halifax

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

TELEGRAM FROM LONDON DATED AUGUST 11th, 1941

Naval. Night of 10th/11th. Three attacks by E-boats on coastal convoy. British ship 1,648 tons torpedoed and sunk off Dungeness.

2. His Majesty's Trawler "Withernsea" attacked by Heinkel 111, P.M. 9th, shot it down and picked up pilot.

3. Two air attacks on the Suez Canal on night of 9th/10th. Ismailia, Port Said, Suez area bombed from high level. Slight damage round docks at Suez, no casualties reported.

4. Royal Air Force. On 10th by daylight three Blenheims scored two hits on merchant vessels off Gravelines. Two Blenheims shot down one ME 109 destroyed.

5. Night of 8th/9th, 33 Wellingtons attacked Corinth Canal with bombs and mines.

6. Military.

Russia. Murmansk front stabilized. No reports of enemy progress on Finnish front or North East Ladoga.

7. Ukraine. German advance continues. Armoured units operating near Kremenchug on the river Dnieper. Advance elements in southwards thrust on Nikolaev have reached Vosnessensk. German casualties heavy.

RESTRICTED

G-2/2657-220; No. 465 M.I.D., W.D. 12:00 M., August 12, 1941.

SITUATION REPORTI. Eastern Theater.

Ground: Finnish troops are advancing down the western shore of Lake Ladoga in the direction of Leningrad. On August 10, advanced Finnish detachments had reached points about 20 miles west and northwest of Kakisalmi.

Heavy fighting is proceeding along the Luga River southwest of Leningrad.

To the south of Lake Ilmen, German forces have established two bridgeheads east of the Pola River, near Demyansk and to the east of Staraya Russa.

German troops hold the town of Bely, to the northeast of Smolensk and 50 miles southwest of Rzhev.

The German pursuit on the southern Ukraine continues.

To the southeast of Kremenchug German troops are advancing along the southern bank of the Dnepr, and have reached a point 70 miles northwest of Dnepropetrovsk.

German columns advancing southward along both banks of the Bug River are approaching Nikolaev.

To the west and northwest of Nikolaev, large portions of the Russian armies defeated near Uman are swung to escape complete German envelopment by withdrawing to the Crimea via Nikolaev and Kherson.

Air: Germany reported night bombing of Moscow and both sides reported air activity in the Kiev sector. Russian planes bombed Berlin during the night.

II. Western Theater.

Air: No German bombing activity reported over the British Isles. Normal British night activity over northwest industrial objectives.

III. Mediterranean Theater.

Ground: Continued lull.

Air: British attacks were reported on Grotone and Cocatan-zro, Italy.

Axis planes bombed Tobruk and Marsa Matruh.

RESTRICTED

August 13, 1941

MEMORANDUM FOR THE SECRETARY'S FILES:

A meeting relative to the administration of Executive Order No. 8389 was held in Mr. Foley's office at 4 p.m. on August 12, 1941, attended from time to time by the following:

Messrs. Foley (Chairman), Pehle, Cochran, Lufford, E. M. Bernstein, Viner, and Timmons for the Treasury; Messrs. Acheson, Fisher, Luthringer, and Miller for the State Department; Messrs. Shea, Rosenwald, and Jurenev for Justice; Mr. Knapp for the Board of Governors of the Federal Reserve System.

Reference was made to an application filed by the States Trustee Company (which holds the stock of the subsidiaries in the United States of the Society for Chemical Industry, (Ciba), Basel, Switzerland) which proposes to purchase all of the common stock and 2,225 shares of the preferred stock of the Schering Corporation for \$850,000. The stock of the Schering Corporation is at present held by the Swiss Banking Corporation, New York, for the Swiss Bank Corporation, Basel, for account of Chemical and Pharmaceutical Enterprises Limited (Chepha). Chepha is owned 51% by Palladium A.G., a Swiss holding company which is in turn owned by the Swiss Bank Corporation, Basel; and 49% by Paciba A.G., a Panama holding company, said to be owned by certain Swiss nationals who also have interests in the Society for Chemical Industry (Ciba). After careful consideration of all of the facts involved in this application, it was unanimously agreed by the Committee that the application should be denied.

Mr. Pehle referred to a memorandum recently received from Mr. L. W. Knoke, Vice President of the Federal Reserve Bank of New York, stating that several economists from South American central banks, who are working at the Federal Reserve Bank for experience, had expressed an interest in the Foreign Property Control Department, and desired to become acquainted with its operations. It was agreed that Mr. Knoke

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should be informed that in view of all the circumstances the Committee did not feel that it would be appropriate to grant this request.

Mr. Pehle also referred to an application filed by the Gillette Safety Razor Company to send a power of attorney to two of its employees in Germany to conduct the business of the Gillette subsidiary there as they see fit in case of an emergency. This application will be approved and the relative license will contain a stipulation that the power of attorney will not allow any sale of the stock of the subsidiary or its property.

The Finnish Minister, in a recent conversation with Messrs. Foley and Pehle, requested reconsideration of the decision taken by the Committee with respect to the transfer of funds from private Finnish accounts to the Bank of Finland. Such applications have been denied and the Minister contends that unless the pulp mills and other enterprises are able to obtain local currency from the Bank of Finland, their operations will be seriously hampered. The output of such pulp mills is at the present time being sold chiefly to Germany. The Committee reaffirmed its previous decision.

The Joint Distribution Committee has advanced a proposal whereby it would be allowed to accept local currency in France, Italy, and Rumania, and to pay dollars, either to persons who have surrendered local currency and then emigrated to the United States, or to friends and relatives of persons remaining in the occupied areas. It was agreed that applications of this type could not be approved, but it is to be suggested to the Joint Distribution Committee that the dollars be placed in special blocked accounts not to be drawn against until after the war.

A letter is to be addressed to the Standard Oil Company of New Jersey stating that such Company may not, except pursuant to license, sell through its Latin American subsidiaries petroleum products to persons whose names appear on the "Proclaimed List of Certain Blocked Nationals". Copies of such letter will also be forwarded to the Texas Corpora-

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tions; Socony Vacuum Oil Company, Inc., Atlantic Refining Company, Gulf Oil Company and Asiatic Petroleum Corporation. It was also noted that we should secure the cooperation of the British, Canadian and Dutch Oil Companies in cutting off supplies of oil to Proclaimed List firms in South America.

Mr. Acheson reported that three Japanese tankers are now in San Pedro, California, and that nine applications for export licenses covering shipments of oil to Japan have been filed. Of these, Export Control has approved three covering shipments of crude oil. Mr. Iguchi of the Japanese Embassy was informed by Mr. Acheson that payment for such oil should be made out of the cash funds in possession of the Japanese Government in the United States. Mr. Iguchi later saw Mr. Pehle and received the same information. Mr. Iguchi said that he would further consider the matter and advise us thereon. It was agreed by the Committee that no action with respect to the issuance of freezing control licenses should be taken until we have heard further from the Japanese Embassy. With further reference to oil shipments to Japan, Mr. Acheson indicated that the Government of the Netherlands East Indies has taken a firm stand and is prepared to follow our lead.

An application has been filed by Norwegian Relief, Inc. to transfer \$200,000 to Stockholm for the purchase of canned foods to be shipped to Norway. The Treasury Department has been informed that the British Government has raised no objection to this transaction but has said that it will not authorize the importation into Sweden through the blockade of any goods that may be sent to Norway. In view of all the circumstances it was agreed that this application should not be approved.