

DIARY

Book 476

December 22, 1941

- A -

	Book	Page
Airplanes		
Shipments to British Forces - Kamarck report - 12/22/41.....	476	270

- B -

Budget, Bureau of		
"Defense - the Treasury's part in" - report as submitted - 12/22/41.....		96
business Conditions		
Haas memorandum on situation, week ending December 20, 1941.....		222

- C -

China		
Stabilization Agreement of 1937 - renewal of: Southard's memorandum to White - 12/22/41...		282
Hong Kong's entry into sterling bloc and American and British orders freezing Chinese assets: American Consul General, Hong Kong, cable - 12/22/41.....		283
Churchill, Winston		
"United States of Europe" - Saturday Evening Post article - 12/22/41.....		287
Customs, Bureau of		
Inspection in connection with persons travelling in military aircraft: Stimson believes it impracticable and HMJr asks his reconsideration - 12/22/41.....		234

- D -

Defense Savings Bonds
See Financing, Government

- E -

Engraving and Printing, Bureau of		
HMJr's inspection trip impresses him favorably - 12/22/41.....		5
No nurse on duty at night - HMJr's memorandum to Thompson.....		10
a) Thompson reply - 12/22/41.....		12
Exchange Market		
Resume' - 12/22/41.....		292

- F -

	Book	Page
Financing, Government		
Bond Market Policy: Bell-Morris-Haas memorandum to HMJr - 12/22/41.....	475	158
Defense Savings Bonds:		
Comparative statement of sales during first 18 business days of October, November, and December, 1941.....		202

- G -

Gold		
Bullion shipments from Japan to Peru: American Embassy, Lima, cable - 12/22/41.....		292

- J -

Japan		
See Gold		

- L -

Latin America		
Policy on economic matters * * * in anticipation of forthcoming Rio meeting: Board of Economic Warfare resolution - 12/22/41.....		161
a) Meeting on December 26, 1941:		
See Book 478, page 48		
Peru: See Gold		
Lincoln, Abraham		
See Wise, Rabbi Jonah B.		

- M -

Military Reports		
"Supply Routes to Russo-German War Zone from United States" - Coordinator of Information report - 12/22/41.....		297
War Department bulletin: Japanese tactics - notes on - 12/22/41.....		519

- N -

New York Stock Exchange		
Schram (Emil) offers wholehearted support - 12/22/41.....		238

- F -

	Book	Page
Peru		
See Gold		
Philippine Islands		
Enemy Property: Correspondence between Sayre and Treasury, together with proposed memorandum to FDR - 12/22/41.....	476	255
a) Memorandum to FDR: See Book <u>477</u> , page 112 - 12/23/41		

- R -

Revenue Revision		
British Excess Profits Tax: Beaverbrook and Bevin opinion - 12/22/41.....		275

- S -

Schram, Emil		
See New York Stock Exchange		

- T -

Taxation		
See Revenue Revision		

- U -

United Kingdom		
See Revenue Revision		

- W -

Wise, Rabbi Jonah B.		
Lincoln's Proclamation on March 30, 1863, sent to HMJr who sends it on to FDR - 12/22/41.....		242
Women Employees		
HMJr recommends extensive employment in Treasury - 12/22/41.....		7
a) Thompson memorandum.....		8
Engraving and Printing, Bureau of: No nurse on duty at night - HMJr's memorandum to Thompson..		10
a) Thompson reply - 12/22/41.....		12

December 22, 1941
9:27 a.m.

Operator: Senator Barkley at his office.

HMJr: Hello.

Senator
Barkley: Hello.

HMJr: Alben.

B: Yeah.

HMJr: This is Henry.

B: Yeah, how are you?

HMJr: Fine. Have you got a minute?

B: Yes.

HMJr: Alben, I'd like a little advice. Three or four months ago I went to Senator Walsh and said that I'd like to appoint as Under Secretary, Jim Landis; and he said that he would have to oppose him and so forth and so on because - well, to boil it all down, Landis was for Roosevelt in Massachusetts and not for Walsh.

B: Uh huh.

HMJr: Well, I went to him two or three days ago and said I had looked all over for an Under Secretary and I couldn't find one; and I asked him now that the war was on, whether he wouldn't just step aside and let me have Walsh - let me have Landis - he didn't have to be for or against him. And he promised to let me know the following day and the next day, and finally on Friday, he said he was asking Dies about Landis. In other words, he's trying every sort of way to find out something against him.

B: Uh huh.

HMJr: And then evidently he'd been talking with Senator George, although George had said

- 2 -

nothing to me, but George thought I ought to get a banker other than a lawyer. Well, I really need Landis. Landis doesn't care particularly about coming - he's Dean of Harvard Law School, and he's in charge of the New England region of Civilian Defense; and they tell me it's the only district which is well organized. Now, what I wanted to ask you was, should I make a fight of it and could I win. I don't want to put Landis through the thing unless I could win on it, but when you get.....

B: Well, I'd like to have a little time to look into it. Now, most of the Senators are going to be gone and if you had a fight, you probably couldn't get any action until January.....

HMJr: Yes.

B:on it, and therefore nothing will be lost in waiting a few days. Let me - maybe I can talk to Walsh.

HMJr: Well, I think.....

B:or would you want me to.

HMJr: Yes. Yes. I mean, I'd like - he's kept telling me it's to be private and all that, but now you take people like this Father White, who's Dean of the Catholic Law School here in the District, he's a great friend of Landis and he'll give him his wholesale support. I've talked with various Catholics high up in the church - they're all for Landis - so it isn't a Catholic issue, you see?

B: Uh huh.

HMJr: It's just because Landis was for Roosevelt and belonged to that wing of the party in Massachusetts who was for Roosevelt.

B: Yes.

HMJr: And he wasn't for Walsh.

B: Yeah.

HMJr: And.....

B: Well, now, of course, Walsh wasn't a candidate, and.....

HMJr: Well.....

B: Of course, that boy - he'd merely want to control the delegation, but then - I mean, establish his own leadership.

HMJr: But, you know Landis.

B: Yeah.

HMJr: I mean - there's nothing that anybody can point their finger at him for. Hello.

B: Hello.

HMJr: I mean, he's a fine citizen.

B: Yeah. Well, I'll tell you. Let me feel it out for a day or two - a few days.

HMJr: Will you?

B: Because if you send the name over here now with so many gone and there was any objection, it would be delayed.

HMJr: Well, he'd have to go before the Finance Committee, of which George is the Chairman.

B: Yeah. Yeah.

HMJr: And I.....

B: I think it might be well for me to talk to George about it.

HMJr: I think so.

B: Now, Walsh is in - I think - in Massachusetts.

HMJr: He said he'd be back tomorrow.

B: George may be in Georgia. I don't know yet. I'll have to find out about that.

HMJr: Well, Alben, unless I could win.....

B: Yeah.

HMJr:I don't want to start all this.

B: Oh, no. I think you're right.

HMJr: See?

B: You don't want to get up a futile fight here.

HMJr: Nobody's got time for that.

B: Because after all, while you want him and all that, there is somebody in the country you could get if you can't win with him.

HMJr: That's right. I haven't happened to find anybody, but I think in these times - I mean, I can understand Walsh saying it three months ago, but not now.

B: Yeah.

HMJr: What?

B: Well, Walsh has been very decent since this war started, in his attitude towards everything.

HMJr: Yeah.

B: And I just have hope that he may do the same in this.

HMJr: Well.....

B: But if you want me to, I'll talk to him or whether you want me to or not, I.....

HMJr: No, if I could leave it in your very able hands, I won't talk to anybody else and leave it with you.

B: I'll tell you. I'll talk with him and I'll talk with George.

HMJr: Right.

- 5 -

B: Inasmuch as it would go before that committee.....

HMJr: That's right.

B:and get their reaction.

HMJr: Thank you so much.

B: All right. Good-bye.

December 22, 1941

Mr. Hall

Secretary Morgenthau

I made an inspection Sunday night of the Bureau of Engraving and had a good impression of what was going on. I just thought you would like to know.

When I went through the plant, I noticed that there were places for several new automatic printing presses. I asked why they weren't installed and your men said they were waiting for motors. Please let me know how many new presses you have on hand that you can't install because you lack certain parts and let me know what those parts are. Please send that report in to Lt. Stephens as soon as possible.

Memo submitted

12/22/41-

December 22, 1941

Norman Thompson

Secretary Morgenthau

I wish you would make a study of where in the Treasury we can recruit women with special technical knowledge - such as lawyers, economists, bookkeepers, and begin to put them into more important places. I have been preaching this now for a long time, and I am more convinced than ever that we have got to get more and more women into the Treasury as the nation will call on able-bodied men for the armed forces.

Please talk to me about this on Monday.

TREASURY DEPARTMENT

8

INTER OFFICE COMMUNICATION

DATE December 22, 1941

TO Secretary Morgenthau

FROM Mr. Thompson

With respect to the recruitment of women in the Treasury, I have to report that on December 9, 1941, a Recruitment and Placement Section was set up in the Division of Personnel. This section has accomplished much already in having heads of offices forecast their needs and in locating suitable personnel, and it will concentrate on the necessity for recruiting women instead of men in all branches of the Department in accordance with your wishes.

You may be interested to know that Ed Foley has 8 women lawyers on his staff, while 16 women economists are employed in the Research Divisions of your office.

Ed Foley
OK

Thompson reported at Group on 12/31/41⁹
that since Chief Deasey will not be with
Treas full time, he is trying to get an
engineer officer and the Chief of Engineers
has this retired Brig. Gen. HM Jr said
"Fine." *Letter sent to Secy. of War. -*

also see Thompson's memo of 12/22/41.
~~Follow up 1/15/41~~

December 22, 1941

Norman Thompson

Secretary Morgenthau

I visited the Bureau of Engraving, and I was shocked to find that none of the women working there at night have received any drill in case of an alarm or a bombing. Please let me know today what steps should be taken to have drills in all of the Treasury buildings all over the United States. I read in the paper that they have done something in the Department of Commerce and evidently it was done very well.

Also, I was shocked to find that after nine years in the Treasury and explicit orders that no women should work at night unless a nurse is on duty, all of these women are working over there in the Bureau and no nurse or doctor is in attendance. I really am very much annoyed that my instructions aren't carried out after nine years. Please make a survey and let me know if anywhere in any Treasury building women are working, day or night, and there isn't a nurse in attendance - not only for the women but also for the men, but especially for the women. There are all kinds of volunteer organizations who have given women training to do first aid, and if you can't get trained nurses, we can get these volunteers from the Red Cross who have had this training. Somebody in your office should be charged with this war emergency work to see that we are up to the minute and not dragging our feet. If the Department of Commerce can do it - according to the newspapers - I should think that the Treasury can do it. I don't only want it in Washington. I want it all over the United States.

- 2 -

The matter of air raid protection and warnings is supposed to be under a man by the name of General Gasser. I understand that General Gasser is good, and possibly he could lend us a man or detail somebody to the Treasury. We certainly need somebody.

TREASURY DEPARTMENT

12

INTER OFFICE COMMUNICATION

DATE December 22, 1941

TO Secretary Morgenthau

FROM Mr. Thompson

We have completed our arrangements for a drill in the Treasury Building and it is tentatively set for 3 P.M., Tuesday, December 23. Instructions also are going out to the Heads of Bureaus and Offices of the Treasury giving them details of how we have set up our protective measures for Treasury personnel during emergencies and directing that drills be held in all buildings in Washington and in the field occupied by Treasury personnel.

Attached hereto is a memorandum in some detail setting forth what we have done in the Treasury in protective measures and employment of nurses and other personnel. This is for the record but I am sure you will find it of interest if you find time to read it.

John

TREASURY DEPARTMENT

13

INTER OFFICE COMMUNICATION

DATE December 22, 1941

TO Secretary Morgenthau
FROM Mr. Thompson

Respecting your concern over appropriate steps taken and to be taken since Sunday, December 7th, would advise:

With the news that Pearl Harbor had been bombed Sunday afternoon, a member of my staff reported to the Treasury under my direction and called together the service units including the Superintendent of Guards, the Superintendent of Maintenance, the Chief Clerk, and others, and commenced on a program for taking necessary precautions against possible damage and sabotage.

On Monday, December 8th, admission to the building was restricted in accordance with a plan of regulations which had been considered earlier for adoption in the event of war. By noon on Monday all persons in this building, numbering slightly over 2,000, had identification passes. A reception room was established where courteous treatment was accorded all visitors.

Since Monday, December 8th, my office has participated in an almost constant flow of conferences and has been responsible for many major changes, all leading up to a better plan of safety for the employees of this building as well as for the employees of every Treasury unit in Washington.

At the beginning of the current emergency it was realized that with my limited staff I could not prescribe rules and regulations for the outlying Treasury offices in Washington, much less for the field offices. I took, however, the next best course of action, namely, set up within my administrative office a unit to deal with the problems of this building and had contacted the heads of all bureaus and offices, impressing upon them the importance of following closely the program being inaugurated in the Main Treasury Building and charging these heads with the responsibility for prescribing safety measures peculiar to their own individual operations.

My office has had conferences on the question of safety of employees with the Public Buildings Administration, which is the body charged with this responsibility for all Government buildings. On three occasions Mr. Reynolds has called personally at this office; Mr. Cook, Chief Structural Engineer, and Mr. Barber, Assistant Structural Engineer, called and surveyed this building; and arrangements were made to have Colonel Studler, who undertook this identical program of work in the Embassy in London, call and give us the benefit of his views. To sum up, these engineers have informed us that this building is not safe in a bomb attack, and that the best we can do is to order people from the fourth and third floors to the first and second floors.

We have gone into such matters as blacking out the Treasury, bricking up windows, installing signal systems, painting arrows for employees to follow, and on Saturday, December 20th, issued the first circular concerning the conduct of employees in the event of an air raid.

We estimate that \$309,000 will be needed to put into operation some of the measures above referred to, which item we requested from the President's Fund, knowing that it would be a matter of months before such item would be appropriated either to us or to the Public Buildings Administration. On your advice this item was deleted from the letter to the President and request was made for it by members of my staff at a budget meeting held today at 10:00 a.m. The Bureau of the Budget examiners informed my staff assistants that they should request the Public Buildings Administration to proceed with these necessary protection measures, indicating that if the Public Buildings Administration did not make available these funds, then my staff assistants are to return to the Bureau of the Budget.

At the beginning of the present acute emergency, the Chief of the Secret Service requested this office to assist in every way possible that service in its grave responsibility for protecting the President, as well as protecting through coordinated efforts the persons in this building. A member of my staff attended a meeting in the Secret Service offices on December 8th and submitted at this meeting a memorandum to the Chief containing ten suggestions for immediate consideration. These suggestions follow:

(1) Anti-aircraft guns mounted on Treasury Department, State Department, and White House.

(2) Tunnel to go from White House to Main Treasury, to be continuation of the tunnel from Main Treasury to Annex.

(3) Garage in the Belasco Theater where two cars can be stationed and available.

(4) Buzzers from every executive's desk to Captain of the Guards.

(5) Revolvers assigned to every executive to be held in their desks loaded.

(6) Plan in full contemplation of the Treasury being bombed in order to assure best approach for safety of employees.

(7) Complete defense regulations promulgated for the Treasury Department contemplating any type of emergency.

(8) White House Garage under Secret Service with no other employees to be admitted; doors to be closed.

(9) Move Secret Service cars out of the ramp to Executive Avenue side.

(10) Plan for temporary White House in Middle West.

Subsequently the same representative has handled for the Secret Service all administrative phases arising in connection with securing immediately equipment, arranging conferences with competent engineers, discussing plans, and the like. In this connection the tunnel to the Main Treasury is nearing completion, Vault 1 has been cleared out, and two bays are in process of being finally equipped for the use of the Chief Executive in the event of bombing of the White House. This has necessitated conferences and planning on auxiliary exits from the Vault, separate power to the Vault, moving steam pipes to different locations, change of air at stated intervals, barometer and humidity equipment, chemical toilets, construction of beds, supplying of food and water, supplying of office equipment, and a score of details all of which have been handled in a minimum of time as expeditiously as it has been possible to handle such matters. Here I should like to point

Secretary Morgenthau - 4

out that, commencing with Sunday, December 7th, facilities have been available for the President in the event of an emergency.

Since December 7th and without an available foot of space, arrangements have been made to bring into the Treasury over 100 soldiers, provide them with suitable quarters both in the Sub-Basement and on the fourth floor, as well as to provide sleeping quarters for 20 Secret Service men on 24-hour duty in this building. This has associated with it many administrative problems such as providing suitable equipment, soliciting a collection of over \$400 for their amusement, shifting our service units essential to this building, such as the paint shop, the plumbing shop, the storekeeper, etc., to other locations and the removal from the Main Treasury Building of many truck-loads of equipment held to be pressed into use in an emergency.

The space problem and the expansion of the tax experts has been met since December 7th, and over 16,000 square feet of additional office space has been developed in the Washington Building for the overflow occasioned both as a result of the war emergency and the expansion in tax work.

The above is all additional responsibility assumed within the last two weeks, and with it the regular work of my office, which is heavier now than it has been at any time in the history of my office, has been carried on without delay. It is of interest to mention that within the last two weeks I have received a complimentary letter from the General Counsel on the efficiency of my immediate office in handling the regular work. I had hoped to add to my staff Mr. Shane McCarthy and Mr. Parham, who I felt certain could contribute to the many practical problems now confronting us, and in view of the changed conditions since we last discussed these men, I should now like to have your permission to put them on immediately. In addition, I am recruiting persons of the type you had in mind and I am prepared now to discuss with you one likely candidate--a woman--at your convenience.

Respecting the availability of nurses during overtime hours, would advise that two weeks ago I made arrangements to have the Public Health nurses in this building remain on duty until

11:30 p.m. There are very few women in this building after that hour. Respecting Mr. Hall's having nurses, this matter was taken up with him many months ago and a letter was written by this office to the Public Health Service requesting medical aid on night shifts. We were advised by the Public Health that no funds were available for the procurement of doctors and nurses during overtime hours; however, I have today instructed Director Hall to put the necessary nurses on his own pay roll. In the meantime, we are endeavoring to work out arrangements for volunteer nurses. Volunteer nurses also are being recruited in other Treasury buildings so that we will have a full coverage. With respect to the field service, the heads of the larger bureaus are taking immediate steps to have the necessary nursing or Red Cross first aid facilities established in each field office where such facilities are not already available.

General Gasser loaned us ten days ago Battalion Chief Deasy of the New York Fire Department, who had spent some time in London studying actual bombing conditions and is experienced in the technique of incendiary protection. Chief Deasy and Treasury representatives are covering every foot of space throughout the Main Treasury Building from the roof to the Sub-Basement, determining the areas which are desirable as bomb shelters.

Recommendations have also been submitted by Chief Deasy and Agents Cawley and Baca covering the Bureau of Engraving and Printing and the Bureau Annex. Recommendations covering the Liberty Loan and Auditors' Buildings are in process of preparation. However, the same situation as to funds will exist with respect to these buildings.

John

12/24/41-

18

Thompson reported at Group Meeting. -
Rail cost would be prohibitive.
Deasy recommends putting cloth over
windows. Hays said all right.

See Thompson's memo of 12/29/41 -

December 22, 1941

Mr. Thompson

Mr. Morgenthau

Have you had any estimates made on how much it would cost to put shatter-proof glass into the various Treasury buildings? If you haven't had this done, I wish you would have an estimate made and let me know how much it would cost.

December 22, 1941
9:30 a.m.

GROUP MEETING

Present: Mr. Gaston
Mr. Morris
Mr. Thompson
Mr. Sullivan
Mr. Buffington
Mr. Viner
Mr. Blough
Mr. Kuhn
Mr. Graves
Mr. Paul
Mr. Schwarz
Mr. White
Mr. Foley
Mr. Bell
Mr. Haas
Mrs. Klotz

H.M.JR: Norman, did you get my various notes?

MR. THOMPSON: I just received one.

H.M.JR: I went through the Bureau of Engraving yesterday and there were all these women and nobody that I can find in the Treasury has had any instructions in case there is an air raid warning or bombing.

MR. THOMPSON: For the Bureau?

H.M.JR: Anywhere.

MR. THOMPSON: They have, yes. I put out a circular.

MR. VINER: You mean in this building?

- 2 -

H.M.JR: Yes.

MR. VINER: We all received --

H.M.JR: But I asked the women working, "What would you do?" They didn't know.

MR. VINER: There were notices down at the entrance and they were all received in the offices.

H.M.JR: There is nothing over at the Bureau. I think we ought to have a practice. I think we ought to get some regular Army retired officer, preferably from the Engineering Corps, assigned to us.

MR. THOMPSON: Battalion Chief Deasy has been cooperating with us and giving us all --

H.M.JR: But these women, in the first place, they had no instructions and there was no nurse on duty in case of an accident last night, and there hasn't been. You know how I feel about that. I think if we could get a retired Army officer, preferably from the Engineering Corps. Maybe somebody could be recommended to detail to us.

After all, we have employees all over the United States. He could travel from one place to another. He might need a few assistants. He could have regular drills. Was anybody in Washington yesterday who heard the air alarm?

MR. GASTON: I heard it over the radio.

H.M.JR: Not over the radio.

MR. SULLIVAN: I did.

H.M.JR: Did you hear it?

MR. SULLIVAN: Yes, sir.

H.M.JR: I couldn't.

MR. BELL: It sounded like a fire engine, but I heard it.

- 3 -

H.M.JR: I couldn't hear it. I have got to go at seven-thirty to my school tonight to get instructions on how to handle bombs. Anybody else? Who has been visited by an air warden at their homes?

MRS. KLOTZ: We were.

MR. GASTON: We had a couple of papers left at our house by a small boy yesterday morning. One was a questionnaire to go out.

H.M.JR: Were you told to go to school or any place?

MR. GASTON: No, we were just told to fill out the questionnaire as to who lives in the house and how old they are and whether they are crippled or not.

H.M.JR: Have you been told where to go?

MR. FOLEY: No. I went around to the air warden in New York last night and talked with him, but no one has been to our apartment.

MRS. KLOTZ: We were told to stay in our apartment.

H.M.JR: He said he was appointed Saturday night and he came around to see me on Sunday. So he looked at both of us and he said to her, "I guess I will make you warden." So I said, "I can get under the bed first and she has got to run around to see whether things are all right." It is terrible. And they pick seven-thirty to hold a school.

MR. THOMPSON: There was an editorial in the Post this week.

H.M.JR: I read it. It was a good editorial. Norman, get on that, will you please? And I gave some orders over there - I won't bother. The soldiers there had a table half this size, forty-three soldiers, to eat off. It is terrible. Forty-three soldiers eat off a table half this size. I took care of it over there.

MR. THOMPSON: Is that in the new building?

H.M.JR: They moved the men from the bridge up on top of the Bureau of Engraving; forty-three men are living up there in the attic, of the Coast Artillery, 212th. What I thought, you might make a note, there are forty-three men there and I don't know how many men there are over in the old gymnasium. Possibly we might run some movies in the auditorium of the Bureau of Engraving for those groups. You might inquire. You might work it out that when they get through with the films here they might use the same films over there, maybe on alternate days or something. Will you look into it and talk to me about it?

MR. THOMPSON: Yes.

H.M.JR: The more inspecting I do of the soldiers, the poorer impression I get of the way they are handled. I think they are handled just like so many cattle. I think it is terrible. Forty-three men living up there in an attic, no place to eat, food - tin plates that look cold and unappetizing. General Cox came to see me last night and he said, "I always see my men get at least one hot meal a day." I keep thinking, I don't know when Henry is going to be a private and I hope somebody is going to look after him, but it is terrible the way they are taken care of.

And they all say it is so much better, for instance, downstairs in the Treasury, they would so much rather be there than any other place they have been so far.

Norman?

MR. THOMPSON: I have nothing.

H.M.JR: Dan, I got a good impression of what Hall was doing last night over in the Bureau. Everything was working - I mean, there were a few little suggestions, but on the whole --

MR. BELL: You mean on the manufacturing end?

H.M.JR: Yes, I found four men who were working Sunday

- 5 -

night on a twenty-five dollar plate, engraving. There were a few little odds and ends, a few suggestions, but I thought I would tell you it was all right.

MR. BELL: O.K.

H.M.JR: I don't - at ten o'clock I have got to break this off. I am sitting down on the tax suggestions. I read your Byrd thing and I am not very happy about it.

MR. BELL: Some points. I have just dictated a letter answering some of the questions.

H.M.JR: Do I have to vote on that?

MR. BELL: I don't know what he is going to do. He probably thinks he has authority to write and send the report in but he has sent a copy of it to everybody.

H.M.JR: Are you happy about it?

MR. BELL: Two or three things, no. I told him I didn't think that you ought to agree to the recommendations to turn all reserves in to the Treasury.

H.M.JR: What I would like to do is, Paul has to appear before the Budget at eleven, so I have got to stop at a quarter of eleven. So a little after that - give me fifteen minutes - and I would like to sit down with you on the Byrd report. O.K.?

MR. BELL: Fine.

H.M.JR: Harry, I sent you a book.

MR. WHITE: I already noticed it and have it in my bag.

H.M.JR: Thank you very much. Harry White was kind enough to give me a book when I thought I was going away on a vacation. After I had been back two days, he says, "Have you finished? I want to borrow it from you." (Laughter)

I rushed through it. It is a good book.

MR. WHITE: I was afraid Mrs. Morgenthau might see it.
(Laughter)

H.M.JR: She wanted to read it.

Have I got something on Russian gold for tonight for the press at four o'clock?

MR. WHITE: You have. It is all ready. I sent in to you a little note --

H.M.JR: Supposing you give it to Chick and then Chick can give it to me a couple of minutes before press.

MR. WHITE: I will do that.

MR. SCHWARZ: I will bring it in.

H.M.JR: Will you please? All right, Harry?

MR. WHITE: You might want to mention that the Chinese have renewed their agreement. It is not important. It may sound important. I will give you a little note on it, give it to Chick.

H.M.JR: You know, due to me, I never gave you a chance to talk to me about whether you were going to put Professor Southard in - is he in there?

MR. WHITE: Partly. Whenever you are ready to discuss - have ten minutes, there are a number of things there that need to be cleared with you. Any time this week that you are ready.

MR. BELL: We ought to discuss at the same time Professor Brown.

MR. WHITE: That is one of the things.

H.M.JR: Chick?

MR. SCHWARZ: This problem of contributions directly to the Treasury seems to be growing. Pearson and Allen again last night made an appeal. I have just been talking with Mr. Heffelfinger. He was talking with Mr. Bell. We are accepting some of the money even when it comes in for specific purposes, so it seems difficult to announce that we can't receive it for that purpose.

H.M.JR: Do you mind working it out with Bell? I don't want to handle it in my press conference. I don't want to stress it. Work it out with Bell.

MR. SCHWARZ: You may be able to do it simply by letters to the individual people.

MR. BELL: The way we are handling it. I think maybe we ought to get out a press statement on the whole thing.

MR. FOLEY: I do too. Bob Lovett called up and said that it is a troublesome problem to them because people keep sending the money in for a bomber and they don't know what to do with it.

MR. BELL: They ought to send it over here. We are putting it in a special account and writing the people and telling them that we can't accept it for specific purposes but if they want to donate it for national defense we will be glad to take it. Otherwise we will have to return it to them.

MR. SCHWARZ: The American Society of Newspaper Editors is asking if you will talk in New York to them for twenty minutes on taxes in April. It is pretty far in advance.

H.M.JR: After the experience I am going through now, I am not going to make any more speaking dates until I have a speech written and then I will look for a spot to talk.

MR. SCHWARZ: Shall I suggest they renew their request?

H.M.JR: I am not going to go through it again. Here we are and we don't know what - I am stumped. I am not going to take any more speaking dates. I will get a subject

and then look for a place to speak.

MR. SCHWARZ: They can check later. We may like that sounding board. It is a good --

H.M.JR: But as I say, from now on, the speech is going to be written first and then we will look for a place. Is that right, Ferdie?

MR. KUHN: That is right.

MR. WHITE: What will make you write a speech if you haven't a place? Which comes first?

MR. VINER: The yegg.

H.M.JR: The desire. (Laughter)

MR. WHITE: This is a good place to make a speech. They don't have to specify the topic the way they do.

H.M.JR: I am not going to --

MR. SULLIVAN: Which comes first, the yen or the yegg?

H.M.JR: As a matter of fact, just so you will be ready, Harry, if I can't make this speech, we are sending

you up there Sunday night.

MR. WHITE: I wasn't planning to be available Sunday night. (Laughter)

H.M.JR: You had better reconsider your plans.

MR. SCHWARZ: That is all.

H.M.JR: I thought you might like to please the Director of the Budget, who is president of the organization.

MR. WHITE: I can suggest a lot of good people to go up and talk Sunday night if you are short.

H.M.JR: I have.

MR. GASTON: Do you need a lot?

H.M.JR: Roy? Did you have any success at Harvard?

MR. BLOUGH: I think we are going to be able to get a couple of persons there, yes. One man was in this morning. I am quite sure we will get at least part of his time, and I hope full time.

you up there Sunday night.

MR. WHITE: I wasn't planning to be available Sunday night. (Laughter)

H.M.JR: You had better reconsider your plans.

MR. SCHWARZ: That is all.

H.M.JR: I thought you might like to please the Director of the Budget, who is president of the organization.

MR. WHITE: I can suggest a lot of good people to go up and talk Sunday night if you are short.

H.M.JR: I have.

MR. GASTON: Do you need a lot?

H.M.JR: Roy? Did you have any success at Harvard?

MR. BLOUGH: I think we are going to be able to get a couple of persons there, yes. One man was in this morning. I am quite sure we will get at least part of his time, and I hope full time.

- 10 -

H.M.JR: Paul asked me a question. If a man was for Willkie and was a good statistician, does it mean he couldn't come and work for us? I said he could provided he wasn't both for Willkie and America First. I can't stand America First.

MR. BLOUGH: The gentleman in question is Professor Leonard Crum of Harvard who is trying very hard to get back into the artillery, and they won't take him for age reasons.

H.M.JR: I don't mind his being for Willkie, but if he was both Willkie and America First, no. I can't swallow that.

MR. BLOUGH: There is no America First in this.

MR. GASTON: He is the man we had on tax estimates.

H.M.JR: Anything else, Roy?

MR. BLOUGH: Many things, but nothing important for now.

H.M.JR: George?

MR. HAAS: I have nothing this morning.

H.M.JR: Viner?

MR. VINER: No.

H.M.JR: Kuhn?

MR. KUHN: No, sir.

MR. GRAVES: No.

H.M.JR: George Buffington?

MR. BUFFINGTON: Nothing.

H.M.JR: Got any ideas on what I called you up about

- 11 -

last night?

MR. BUFFINGTON: Not definitely. I will have later in the day.

MR. MORRIS: Nothing.

H.M.JR: Paul?

MR. PAUL: Nothing until ten o'clock.

H.M.JR: We are going to make it. We have got ten minutes to go.

MR. SULLIVAN: War and Navy Departments are proposing legislation to prevent the states from taxing anything that is - any contractor who is manufacturing or selling anything to the War Department or the Navy Department. We are against that. There was quite a conference last week, and I think the Budget is putting it up to the White House to see what they want to do. There is a realm of uncertainty that we think should be cleared up by a statute that would enable the states to even tax the Federal Government outright in certain instances, and that is probably what we are going to recommend. I have a memo on that I will give to you. We have been getting inquiries from industrial concerns as to whether or not expenses they incur in building bomb-proof shelters can be deducted for income tax purposes. The answer is no, but we were considering legislation which would enable them to do that.

Jim Landis started the inquiries, and I phoned Jim and I put it up to him that the best solution of the problem was through amortization, and he agreed, so then I talked with Eddie Greenbaum, and Eddie said that they could issue certifications almost automatically there, and we are sort of preparing - we are preparing a press release on it. I didn't know whether you would want to talk about that in your press conference today or whether it would be better to give it out in a formal release.

- 12 -

H.M.JR: Who all is to have a look at it?

MR. SULLIVAN: Herb and Ferdie and Chick.

H.M.JR: Well, what about Foley and Paul?

MR. SULLIVAN: Yes, I have told Randolph about it and Kades and - no, Tarleau and Blough.

MR. PAUL: Not the bomb shelters.

MR. SULLIVAN: Not the bomb shelters? I thought I discussed that with you.

MR. PAUL: We discussed the other point, about the state taxation.

MR. SULLIVAN: That is right. I thought I had--

MR. PAUL: I was a little surprised that they couldn't deduct that. That was my immediate reaction.

MR. SULLIVAN: Well, it is subject to depreciation, and we can stretch the rules that way, but it would be much more to the advantage of the company not to write it all off in one year, but to have five years in which to write it off. I thought that it would be a good idea just before this - we go in on this tax bill for you to make an announcement of this and let them know that they can get this amortization.

MR. VINER: But what if they are not a defense plant?

MR. SULLIVAN: The feeling of the War Department is that practically anything is a defense facility now, anything that - any bomb-proof shelter that is protecting working people.

H.M.JR: Well, is it up to--

MR. VINER: Supposing it is making women's clothing,

- 13 -

you still want them to have a bomb shelter?

MR. SULLIVAN: Yes, we do, of course.

MR. PAUL: Are these shelters very permanent in character so that they can't be--

MR. SULLIVAN: Yes.

MR. PAUL: It would certainly seem that they are useless after the war, whenever that is.

MR. SULLIVAN: I don't think they are going to be useless, Mr. Paul. Everybody is going to build them so they can use them for a warehouse or for storage or something afterward.

H.M.JR: I don't agree with you. I don't think you can build one you can use as a warehouse.

MR. WHITE: If they do it that way, they are not good bomb shelters. They are too expensive.

H.M.JR: According to the specifications I have seen, the only thing they would be good for would be a wine cellar.

MR. SULLIVAN: Well, I will bet most of the factories find some storage uses for them.

H.M.JR: Not if they build them according to specifications.

MR. SULLIVAN: I don't even know what the specifications are.

H.M.JR: If you saw the way they have them, the gas locks and the winding rows and narrow passages and everything else, you can get a human being in and that is about all.

MR. WHITE: Would the Army certify the particular

- 14 -

project so it would pass certain requirements before it could be classified as a bomb shelter, is that the thought?

MR. FOLEY: John, you could have two types, couldn't you? You could have one where it could all be taken out in the year in which it wasn't used any longer, and you could have the type where they might want to build it as a defense facility and take amortization over a five-year period.

MR. SULLIVAN: That is right.

MR. FOLEY: I should think that the release could be phrased in such a way that the taxpayer could be informed as to both manners of handling the thing from the tax end.

MR. SULLIVAN: They don't want the first kind.

MR. FOLEY: Well, they might. Jim Landis spoke to me when he was out at dinner the other night--

H.M.JR: Do you mind? Don't let's do the home work here. You raised it, and these people I have mentioned could take a look at it.

MR. SULLIVAN: Sure.

H.M.JR: It doesn't have to go out at four o'clock today?

MR. SULLIVAN: No.

H.M.JR: And if these other people would have a minute to look at it and initial it and bring it to me, and we will get it out.

MR. SULLIVAN: Right. That is that other memo I spoke of.

H.M.JR: Thanks.

- 15 -

Have you got something for me for Bill Knudsen?

MR. FOLEY: I haven't, but I will give you one.

H.M.JR: Will you?

MR. FOLEY: Yes.

H.M.JR: Give it to Stephens and tell him to mark it urgent.

MR. FOLEY: Right.

H.M.JR: And I invited Oscar Cox to have lunch with me alone today. I located him up at the Supreme Court.

MR. FOLEY: Yes. Do you want me to go down and see the gentleman?

H.M.JR: Yes, call him up for an appointment. The fact that Oscar is up there is all the more reason that you should go.

MR. FOLEY: All right.

H.M.Jr: How were the children?

MR. FOLEY: Fine, thank you.

H.M.JR: Did it go over successfully?

MR. FOLEY: Very well, It was a nice party.

H.M.JR: Good. Was it bumpy going up? I didn't want to tell you, but I thought it would be terrifically rough.

MR. FOLEY: It was kind of bumpy. I sat next to Cabot Lodge and he tried to get me to go in the Tank Corps with him so we didn't mind the bumps very much. He is a major now in the Tank Corps.

- 16 -

H.M.JR: Herbert?

MR. GASTON: We wrote to the Secretaries of War and Navy on November 27 asking if they would be good enough to ask their field commands to let us know when planes arrive from abroad with passengers carrying baggage and so on. The Secretary of War first acknowledged it, and now a letter dated December 17 says the matter has been given careful consideration and "since such action would seriously handicap the offensive and defensive operations of the Army air forces, it is not believed practicable to comply with your request." So here is a letter prepared with your signature expressing surprise at that reply and telling them it seems - saying, "I believe that this matter should be seriously reconsidered. It seems unlikely to me that your Department will find it necessary to permit the carriage of merchandise and baggage in military aircraft in any manner which would necessarily involve infraction of the laws of this country."

All we ask them to do is to let us know and to hold the merchandise, not to tell us where the plane came from and when, simply to hold the merchandise for examination. It seems an absurd sort of reply.

H.M.JR: They all get a little excited.

MR. GASTON: The House has passed a bill which would annul this twenty-four hour rule on the lower California border. In view of the huge population of defense workers and soldiers there in San Diego, if that thing is annulled, we are going to have a tremendous traffic across the border there, and it is going to be very difficult to police, and I think we ought to take a position in opposition to the bill in the Senate. Our position was misquoted in the House. They read an old letter which referred to another bill and said it was on this bill, but I think we ought to oppose this because we are going to have a very difficult policing problem on the border anyway on this communications not in the course of the mails. We have

- 17 -

two men down there looking at the situation now to see how much more help we will need.

H.M.JR: O.K.

Now, Randolph, who stays for the tax meeting? We are right on time.

MR. PAUL: I will go around the room. I think Mr. Bell should stay, Mr. White, Mr. Blough. How about you, Mr. Haas?

MR. HAAS: I am on the financing part.

H.M.JR: Yes, I think you should be here. Mr. Viner. Mr. Kuhn, if he wants to.

MR. PAUL: He hasn't been in on the discussion.

H.M.JR: What does that mean?

MR. KUHN: I have not been in on the discussion.

H.M.JR: He asked you whether you wanted to stay.

MR. KUHN: Yes.

MR. PAUL: Mr. Graves, I think. I think everybody around - I don't know whether Mr. Foley needs to stay. I think you ought to stay, Mr. Gaston.

MR. FOLEY: Chuck is sitting in.

MR. PAUL: And then you said you would like to have Mr. Knollenberg. Mr. Knollenberg is in my room.

H.M.JR: Good. I will have him come.

December 22, 1941
10:00 a.m.

RE PRESIDENT'S BUDGET MESSAGE

Present: Mr. Gaston
Mr. Sullivan
Mr. Paul
Mr. Buffington
Mr. Kuhn
Mr. Viner
Mr. Bell
Mr. Kades
Mr. Blough
Mr. Knollenberg
Mr. Haas
Mr. Tarleau
Mr. White

H.M.JR: I only glanced at this thing very hurriedly last night.

MR. PAUL: We are at your pleasure. You can read it over. Of course, you must understand that we worked under terrific pressure yesterday and we are not satisfied with the language.

(Mr. Knollenberg and Mr. Haas entered the conference.)

H.M.JR: I think the best way would be if you read it out loud.

(Mr. Tarleau entered the conference.)

I don't know whether yours is ready yet or not.

MR. BELL: Have you got any carbons, Randolph?

MR. PAUL: We are - the first edition ran out immediately last night and the second edition is just about to come off the press. It will be ready in a few minutes, won't it, Roy?

- 2 -

MR. SULLIVAN: Take mine, Dan. I know it by heart.

MR. BELL: Do you know it by heart?

MR. PAUL: Let me say that - as an introduction - this is a very different document from that which came over from the Bureau of the Budget. There is a good deal of addition to that and there is a good deal of subtraction from that and we are also not at all satisfied with the precise form and phraseology but we are pretty well satisfied with the substance of what we have got here.

I will read, if you want me to, the part that we did on taxation and Mr. Bell has another part on borrowing.

"Our war effort will call for public expenditures unprecedented in magnitude. If we are to achieve full utilization of the productive capacities of our people and our resources, we must carefully plan our financial program. We must see to it that the necessary financial burdens of war are justly distributed. We must see to it also that we emerge from the war period with the minimum of financial and economic dislocations. We must see to it also that our fiscal program shall not interfere with our primary economic goal of maximum production for the war effort."

H.M.JR: Can I make criticisms as you go along without going into words?

MR. PAUL: Yes. I would like to have somebody - will you (Blough) take notes of them? Do you want to make one there?

H.M.JR: Yes. I personally --

(Mr. White entered the conference.)

Harry, have you got something else?

MR. WHITE: I had to do something else.

H.M.JR: You can't stay? Come over here by me.

My feeling on this is that it is contradictory. I don't

think it is strong enough.

MR. PAUL: We wrote that first and we can very much improve that paragraph.

H.M.JR: I don't feel that - "if we are to achieve full utilization of productive capacity we must" - I mean, we have got to use full utilization, we have got to carefully plan our financial program.

MR. PAUL: I think we get your point. It is kind of contradictory.

H.M.JR: I would say you have to achieve full utilization of capacity of our people and our resources. We must see to it - I mean, the part that gripes me a little bit, we must carefully plan our financial program. That is the point.

MR. PAUL: All right. We recognize that can be very much improved. All we say is that it is a good deal better than--

MR. BELL: I agree with that; it is much better than what they had.

MR. PAUL: ...the middle of page nine of the Budget Report.

H.M.JR: I just want you to get my reaction. And I think that next sentence is unnecessary. "We must see to it that our fiscal program will not interfere with our primary" - I think it is unnecessary. I take that for granted.

MR. PAUL: Well, that last--

MR. BELL: It all depends on what the program you adopt is, whether it will or won't interfere.

MR. PAUL: I think we should stress the point that nothing should interfere with that. I think that is important.

MR. WHITE: I think that paragraph could definitely be improved, but I am wondering if that particular thought,

no matter how it is phrased, should not be in there, because one of the criticisms of increased taxes that arises from producers is that you may be interfering with initiative and production and that is the charge they have against the tax in England, for example.

H.M.JR: Look, Harry, if you come out with a statement - if we in the Treasury - of course it is in the room - will do everything we can to make the thing go and I wouldn't have any qualifying about it. I mean, I wouldn't qualify it. You are qualifying it when you say we must see that our fiscal program won't interfere - don't forget, this is the President telling me. This is the President saying, "Now, you have got to raise the money but you can't interfere with our production." Well, it isn't necessary to tell me that.

MR. BELL: He is telling the American people that they are not going to have inflation interfere with production or inflation through fiscal programs.

H.M.JR: All I can do as I read it is to give my reactions.

MR. PAUL: We will take another crack at that. That was written in the early stages before we had written the rest of it. The next heading is Receipts Under Present Legislation:

"Federal tax receipts in fiscal year 1943, it is estimated, will without further addition to the tax structure be sixteen billion dollars four hundred million or three times the five billion four hundred million collected in fiscal year 1940. This increase in tax receipts will be the result of two factors: The expansion of industrial activity consequent upon the defense expenditures of the Government, and the tax measures enacted in 1940 and 1941. Now that we are approaching full use of our productive resources, we must look almost exclusively to additional tax measures for additional tax receipts.

"Deficits under -- "

H.M.JR: Do you mind? Instead of saying, "Now that we are approaching full use," if I were writing it I would say, "When we approach," because we are not approaching it.

MR. PAUL: What about that? We had some discussion of that, Jake.

MR. WHITE: Well, we are approaching it. It is a question that we are far away from the goal.

MR. VINER: It is a question as to whether we are far away from the goal.

H.M.JR: Paul, I am going to ask for a privilege. I am going to make my comments so that you can get off at a quarter of eleven. I mean, I am not asking for an argument. I mean, I am going to - I just throw out my comments. You fellows can come back and say, "Well, your comment is no good, but just -" I want to get you out of here by a quarter of eleven. If you ask each fellow what they think of my comments you won't get out of here.

MR. PAUL: All right. The next heading is Deficits under Present Legislation:

"The budget net deficits are estimated at \$16 billion for the current fiscal year, and at \$38 billion for the fiscal year 1943, omitting the yield of new taxes to be enacted this year."

H.M.JR: Excuse me. If I could add another comment, after all, the reason I am saying this, the last figures I saw is only 17% of our productive capacity is on a war effort, so that is why I say we are not now approaching it.

MR. BELL: But this is total production.

MR. VINER: This is total. That isn't military production.

H.M.JR: Well, as I say, 17% anyway.

MR. VINER: We are not yet anywhere near our full

military program, but we may be near full utilization of resources for some purposes and that was the point there.

MR. PAUL: "If we surpass this--our minimum--program of expenditures will be greater than now estimated, and therefore also our deficit will be greater than now estimated unless additional tax measures are enacted.

"Additional capital will also have to be provided for Government corporations. On the other hand, the accumulation of Government trust funds will operate to reduce the amount of public financing required. Combining the budgetary deficit, the needs of Government corporations for additional capital, and the net accruals of Government trust funds, the total amount that must be met by additional taxation or borrowing from the public is estimated at \$16 billion for the current fiscal year, and at \$36 billion for the fiscal year ending June, 1943.

"I should warn you that in this estimate of expenditures and receipts, allowance is made for only a moderate rise in prices. Any considerable rise in the level of prices would greatly increase the deficit. With every rise in prices there is a rise in the level of expenditures, whereas tax collections, on the other hand, lag behind the price rise. Even were expenditures and receipts to rise proportionately, the deficit would still be greatly increased with a rise in prices, because expenditures are running two to three times as large as tax receipts.

"The need for additional taxes.

"The expansion of the defense program into an all-out war program accentuates the need for more tax receipts. At a time when we cannot be certain either of the rate of expenditure that we can achieve nor of the duration of the emergency period, it is a matter of elementary caution that we substantially increase our taxes. An additional warrant for increased taxes is that the national income is high and is rising, thus augmenting taxpaying ability. Furthermore, higher taxes have the additional positive value of releasing the productive resources we need to make the planes and tanks and guns, and all the other instruments of victory."

H.M.JR: Just a moment, please. I don't understand that sentence. "Furthermore, higher taxes have the additional positive value of releasing productive resources we need." I don't understand that.

MR. WHITE: It is a good thought but it needs to be explained.

MR. VINER: "Of diverting from civilian use the productive resources." The idea is all right, but the wording is rotten.

H.M.JR: O.K. I can't improve on that statement.
(Laughter)

MR. PAUL: "Finally, every additional dollar we collect in new taxes will contribute so much more to prevent inflation now, and ease the difficulty of making the necessary post-war adjustments later.

"I realize full well that such revenue needs will mean sacrifices for all of us. Fortunately our resources are such that in spite of our projected war expenditures we should be able to maintain a decent standard of living, while moving rapidly forward to an all-out war program. But the time is upon us when we must forego many luxuries and conveniences. We must all work harder and longer hours. There is no escape from this necessity if we are to safeguard for all time our historic freedom.

"The control of inflation.

"We cannot, particularly at a time like the present, approach the problem of taxation from the point of view of revenue alone. Taxation has additional functions to perform. Among its new responsibilities is the task of helping to control inflation."

H.M.JR: Excuse me. On page 4 - I have seen the President work and so has Bell. He would condense that down to about two or three sentences. It has got to be a great deal more condensed for him or else he will do it and then he may leave out the meaning you want. He never

will take a page four like that and use it.

MR. PAUL: I think all this must be condensed, but it could only be condensed after it was first read at length.

H.M.JR: That is right.

MR. PAUL: Because you start with the long and end with the short.

H.M.JR: O.K.

MR. PAUL: "I stated in last year's budget message that we might need extraordinary measures to aid in avoiding inflationary price rises which may occur when full capacity is approached. In the intervening months our war production has been enormously increased; and all changes in the production programs have been upward. In the coming year this program must be still further enlarged. Even in 1941, when there was still a margin of unused resources, the impact of increasing war expenditures resulted in substantial price increases.

"From now on there will be continuing large increases in war expenditures. These expenditures will increase civilian incomes at the same time that shortages of material, labor and facilities result in decreasing the volume of goods available for consumption and expansion of civilian enterprises. If civilian goods are reduced and incomes greatly increased, inflation will result, unless we use taxes and other measures to curtail consumption and civilian investment. Taxes cannot do the whole job, but they can absorb some of the newly created purchasing power and some of the business funds which may be used for purchasing. In doing so, taxes will reduce the upward pressures now operating on the price structure.

"I need hardly enlarge in this message upon the evils of inflation. Although there are times when a moderate rise in prices is necessary to encourage increase of production and expansion of our productive facilities, we are now approaching a period when all of our productive

resources will be fully utilized in our great national war program. At this time, any considerable rise in prices is an unmitigated evil. It is a source of grave social injustice. It undermines morale and impedes war production. Inflation divides the country. It sets up producers against consumers, workers against employers, the people who owe money against the people to whom the money is owed."

H.M.JR: You have been stealing my Boston speech.

MR. WHITE: That is right. It is almost a direct quotation. There are several phrases through there.

MR. PAUL: "The hardships of inflation strike at random, without consideration of equity or ability. Moreover, once it has acquired momentum, inflation is extremely difficult to control. If it is not checked the Government must pay for its war needs at boom prices. The personal economies of many citizens will become chaos worse confounded. And inflation will leave a heritage of post-war difficulties that will haunt us for a decade. Every consideration of national welfare calls for its prevention.

"I should be less than candid if I failed to admit that inflation is not a thing of the remote future, but rather an immediate threat of serious proportions. Defense expenditures of \$6 billion and a deficit of \$5 billion have caused a considerable inflationary increase in prices in the fiscal year 1941.

"The defense program of 1940 and 1941 has already greatly increased the income of our people. The war production program is further increasing incomes and is doing so at the same time that it is reducing the volume of goods and services available for civilian consumption. The pre-war picture was that of potential abundance of goods and insufficient purchasing power. That picture is being converted into a prospect of surplus purchasing power and insufficient goods. Much of the increased war output is being achieved and must continue to be achieved by diverting production from civilian into military channels. This

diversion, while it reduces the amount of civilian goods, leaves the incomes paid to civilians as large as or even larger than before.

"There is a significant difference between conditions prevailing a year or two ago and those prevailing under a war economy. A year ago, while we had unused resources, defense expenditures stimulated private investment and civilian consumption. Production could and did expand sufficiently to permit defense expenditures in addition to civilian expenditures. Now, as our war economy reaches nearer to full employment, increased expenditure under our war program must to a great extent replace private capital investment and civilian consumption. Allocations and priorities, necessitated by shortages of essential materials, are now in operation. They curtail expenditures for consumers' durable goods, private and public construction, and new investment and replacement in non-defense plant and equipment. In this way, allocations and priorities offset in part the inflationary effect of our huge war expenditures. The expansion of the social security program so as to extend coverage and increase contributions and benefits desirable for its own sake, would also incidentally make a contribution to checking inflation by temporarily draining off purchasing power."

I would like to interpolate that that last sentence is a substitute for about a page and a half of the Budget Message.

H.M.JR: Well, all of this is four times too long.

MR. SULLIVAN: We agreed that pages 5, 6, 7 and 8 can be --

MR. VINER: Boiled down.

MR. PAUL: I was speaking there of just that one sentence on the social security.

H.M.JR: I see.

MR. WHITE: There is nothing else in the statement about

social security except that reference. It may be too little if you feel that way.

MR. PAUL: "But these measures will not alone suffice. With expenditures and deficits that we foresee under our war program, we shall require an integrated, coordinated, program to prevent inflation. We need control of materials and machines, price control, credit control, financial control, more taxation and more saving, and every other device available for the prevention of destructive inflation. With such a comprehensive program, I say with confidence that we can and we shall combat inflation diligently and successfully.

"Our system of rationing on the business level, the so-called allocations, should be extended and made fully effective especially with respect to inventory control. I do not at present propose introduction of a ration system because we do not yet have the general scarcities in the necessities of life which make such a step imperative. (The problem of consumers' rationing still requires discussion in light of an executive order that is in preparation on that topic.) I do appeal, however, for the voluntary and necessary cooperation of the consumer in the nation's effort. Restraint in consumption, especially of scarce products, may make fewer compulsory measures necessary. Hoarding should be encouraged in only one field, that of defense savings bonds.

"I should add that every possible effort should be made to apply anti-inflationary measures as equitably as possible. Extreme hardships can be avoided by the timely adoption of a variety of measures, each involving a moderate burden upon each individual."

H.M.JR: Don't say that sentence, "Hoarding should be encouraged in defense savings bonds."

MR. PAUL: That sentence we took from the Budget report.

H.M.JR: That is terrible.

MR. PAUL: Make a note of that Roy.

MR. WHITE: Hoarding has a connotation which sounds bad, no matter how you use it.

MR. PAUL: Yes.

"Equitable distribution

"The increased taxes and lowered exemptions already enacted have greatly accentuated the need for equitable distribution of the tax burden. If we are to preserve our national unity, the load must be shared by all, corporations and individuals alike. All who are above a minimum subsistence level must contribute their share to what Mr. Justice Holmes called 'The cost of living in a civilized society.' It is intolerable in times of acute national peril that anyone should be permitted to avoid his just share of the tax burden. The avoidance of tax by those utilizing loopholes in the present tax structure increases the tax burden on the others who are already heavily taxed. The increase in tax burden also adds to the urgency of providing relief to all taxpayers, to the greatest extent possible, from inequities.

"The fact that we must tax mass purchasing power to control inflation should not persuade us to switch from progressive to regressive taxes. Under present, as well as previous, conditions it is desirable to use ability taxation to the limit. I have frequently stated the reasons in favor of progressive taxation for past years and they are still valid today - indeed, they are more valid today than ever. And the need for taxes that absorb mass purchasing power makes it all the more desirable to make progressive taxation fully effective. We must balance our program; our higher income groups, as well as our low income groups must do their share."

- 13 -

H.M.JR: He will never use the word "progressive and regressive." There isn't one man in a hundred on the street that would know what he is talking about.

MR. PAUL: Apart from the word, in view of this morning's paper, that paragraph has become even more important in substance.

H.M.JR: What do you refer to?

MR. PAUL: I refer to the movement on the Hill reported in this morning's paper in favor of sales taxation.

H.M.JR: But if you could use some other language--

MR. PAUL: Well, we can use less technical words of art.

MR. BELL: Isn't this the opposite of what the Budget proposed?

MR. SULLIVAN: Yes. The Budget proposed a sales tax.

MR. PAUL: The Budget proposed an added value tax, which we are against.

MR. BELL: Well it is in effect a sales tax.

MR. PAUL: Yes, it is, a modified sales tax.

MR. BELL: Yes.

MR. PAUL: "The taxation of excessive profits

"Under conditions of a wartime economy there are likely to be unduly high profits for some business concerns. Excessive profits are bad enough at any time; in wartime they undermine unity and morale and should therefore be recaptured. Some profit is necessary even in wartime to secure maximum production with economical

management and to provide a sound financial structure for business. But beyond the amounts necessary for these purposes there is no place for profits in this period of national emergency."

H.M.JR: That has got to be gone over. I wouldn't have the President say that. I mean, I think that has to be gone over because they could take that sentence - just suppose they lift that part, "there is no place for profits in this period of national emergency"? I mean, they could just lift that one thing. It would look awfully bad.

MR. PAUL: Well, they would have to split a sentence, of course.

H.M.JR: Well, that has been done.

MR. PAUL: Well, we get your point there.

MR. WHITE: Do I get your thought? You feel that the statement that now is no time for excess profits is bad or was it the other part of the sentence?

H.M.JR: It is the way you say it. I mean, I think you have got to say it differently. I still think that we will come to some sort of form that a man will be allowed six percent or thereabouts in the way of profits, but I think that the way you are saying - I mean, I think we are going to come to that, but I think from what you are saying here, I am sure the President won't say it. I think you can point up to the thing without being quite so frank about it.

MR. PAUL: We get your point. Of course, we feel that essentially the thought is both true and important, but we can lead up a little more.

H.M.JR: I think you can show the way we are going, but this thing here would give the boys such a shock that - I mean, you have got to cut the dog's tail off by inches.

- 15 -

MR. PAUL: That is right, especially if you are going to be misquoted.

H.M.JR: Well, you will be.

MR. PAUL: "Proposed Legislation

"The adjustment of taxes--

MR. BELL: You didn't read eleven, did you?

MR. PAUL: Oh, that is right.

"Post-war period

"Taxes imposed to finance the war should be designed, as far as is consistent with maximum prosecution of our war efforts, to minimize post-war dislocations. While we must be bold enough to take all the financial measures necessary for maximum war production, there will be many areas in which careful consideration of alternatives on the basis of their post-war effects will strengthen our economy in peace without weakening our war effort."

H.M.JR: I would love to see just how you are going to do that. It is a pretty thought.

MR. PAUL: Well, we had some discussion on that.

MR. SULLIVAN: We have still got a fight coming on that paragraph.

H.M.JR: It is a pretty thought.

MR. WHITE: I think you will find it hard to name one area.

MR. PAUL: "Proposed legislation.

"The adjustment of taxes to achieve these objectives is usually difficult at this time because we do not know

the total amount of war expenditures that we shall have to make, nor how effective priorities, allocations, credit controls, and direct price controls will be in keeping price increases within bounds. A precise recommendation as to the additional taxes that may be needed at any specific time during the next eighteen months cannot be made far in advance.

"It is, accordingly, important that tax legislation be more flexible to meet changing needs than it has been in the past. To achieve increased flexibility I submit two suggestions for the consideration of the Congress.

"(1) Several different rate schedules might be enacted for one or more of the more important taxes, any one of which would become effective only through a later action of the Congress in some form. Such action would be occasioned by some change in the national economy or in the spending by the Federal Government which required Congressional action. Such a method would not only avoid the defects of hasty legislation, but would provide the flexibility in tax legislation which is so urgently needed in emergency periods.

H.M.JR: You will never get away from that.

MR. PAUL: That first point is from the budget message. The second point we added to it.

H.M.JR: You will never get away with it.

MR. PAUL: We have tried to be general here because we are a little uncertain as to precise measures but--

H.M.JR: But the President will say when he reads it, "Well, what have you got in mind?"

MR. PAUL: I think we might ask the Budget what they had in mind there. They wrote that.

H.M.JR: Well, I wouldn't worry about the Budget.

I don't like the paragraph at all. It is too vague. It is a sword hanging over the people's head. I would rather say something definite or nothing at all.

MR. PAUL: Well, we could have a sentence which emphasized - just one sentence saying a flexible tax program.

H.M.JR: That is all right.

MR. PAUL: I do think this is a very important point. I think you agree on that, Jack.

MR. VINER: I think you have got to have it, and I don't see how you can have flexibility without having a sword over them.

MR. WHITE: Also, I think there must be some specific proposals which provide flexibility that you ought to have, but you ought to have some specific plan in mind before you make the statement.

H.M.JR: Yes.

MR. WHITE: If you haven't any specific plan in mind in the first part, I agree with the Secretary it shouldn't be included. I should think there would be some proposals. There have been several talked of. I don't know how practicable they are.

MR. PAUL: That paragraph was written by Gerhardt Colm. He has a great many specific plans in mind.

MR. WHITE: I think the Secretary is still right. If there isn't anything the Treasury can get behind so far as a Treasury program is concerned, you ought to leave it out.

MR. PAUL: We do have something in mind on that point, too.

H.M.JR: All right.

- 18 -

MR. PAUL: "(2) The Secretary of the Treasury might be given discretion, within limits, to make advance collections if the conditions of the moment justify withdrawing additional funds from the stream of purchasing power."

That is the plan we have under discussion.

"It is believed that these provisions would make it possible to adjust the tax program more quickly to the changing conditions of the rapidly developing war-time situation.

"Let me recapitulate the basic objectives which should guide the Congress in the--"

H.M.JR: Excuse me. On this number two, if you are going to say that, then I would say "through a tax at the source."

MR. PAUL: We had that in and then we took it out on the ground that it would raise the ghosts of recent--

H.M.JR: I think you have got to be more specific or--

MR. SULLIVAN: I think the Secretary is right, Randolph. Either you tell the plan or you cause an awful lot of trouble.

MR. PAUL: Of course that is one of our basic difficulties here, John. You can't go ahead and tell one plan without telling all your plans, and we are not ready yet. We have adopted the approach of generality.

MR. SULLIVAN: This is the only one in which you are discussing your recommendation in any detail at all, and I thought your argument in favor of doing that was that this was the new feature of the whole thing.

MR. WHITE: Well, maybe you can avoid all that by making your plea for flexibility a little bit stronger,

- 19 -

and then say there will be some specific measures later suggested to carry out the idea of flexibility.

H.M.JR: It sounds better to me than making a plea for flexibility.

MR. PAUL: That will save a lot of space. We will simply have a general strong statement in favor of flexibility.

H.M.JR: Yes. Dan?

MR. BELL: Yes.

H.M.JR: O.K.

MR. PAUL: Then that will be more in accord with the rest of it, as a matter of fact, because we are general otherwise.

H.M.JR: Yes.

MR. PAUL: "Let me recapitulate the basic objectives which should guide the Congress in the formulation of tax legislation this year. These objectives are:

- "(1) To raise needed revenue
- "(2) To help control inflation
- "(3) To distribute the tax burden equitably
- "(4) To prevent undue profits
- "(5) To ease post-war adjustments, and
- "(6) To introduce flexibility in our tax system during the emergency

"These are the principles which should guide our wartime tax policy."

It is a very weak ending.

H.M.JR: No, I don't agree with you. I think that those six points are splendid. I am perfectly willing to put my name on them, and I think if the President decides to use that he will do very little explaining beyond those six points.

MR. PAUL: Maybe those six points are all we need, then.

H.M.JR: I mean, they are your things and for his sake, because I know what will happen because I have worked with him so often as has Dan, I would get those six points right up--

MR. WHITE: Right at the beginning.

H.M.JR: ... right at the beginning, and then give as much explanation as he wants of why we need those six things, but I would stick those things right up in the beginning. Here is what we need.

MR. PAUL: We will discuss that.

MR. WHITE: It will be easy to shorten it if you follow that device.

H.M.JR: Here is what we need, and then give as much explanation for each one of the six points as necessary. Have one, two, three, four, five, six, for each point, a supporting argument, and then he can boil those down as much as he wants. That is the way I would handle it. If he has to wait to get to that, he won't read the thing at all.

MR. PAUL: We can do that. As a matter of fact, we considered doing that after we got it all done.

H.M.JR: Fine. I am just - I mean, I am taking very much an advantage of you all. I am asking for a one-way conversation so that you can get out of here. I think the six points are swell. I would take those and then have one page for each of the six points and

- 21 -

that is all. He won't take more than a page on each, if he takes that much.

MR. SULLIVAN: Some of those won't need to take a page.

MR. VINER: It is fairly close to that now with some cutting. We haven't done the cutting yet. With the cutting it won't be hard to do that, I mean to follow out your suggestion.

H.M.JR: Are you going to say how much - didn't the Budget use the figures?

MR. PAUL: Yes, ten billion is in the budget. I think Mr. Bell ought to - I think one of the most important things we have to discuss is the question of how much taxes is in the whole fiscal picture. Mr. Bell can give the figures. Why don't you repeat those figures we discussed outside this morning, starting with fifty-six?

MR. BELL: The total deficit for the fiscal year we are now in is about sixteen and a half billion, raised from twelve and a half, and the deficit for next year is thirty-eight billion, and I think that will be--

H.M.JR: Without any new taxes?

MR. BELL: Without any new taxes, and I think that will be increased to forty billion because I think the Budget Bureau was using a tax revenue estimate of their own of nineteen billion whereas ours was only sixteen billion, so I think it is thirty-eight or forty billion dollars next year. It seems to me that we have got to raise our whole thinking around here in terms of taxes and Savings Bonds or some kind of savings, because I don't think that you can go on a basis of five billion dollars that we have been thinking about for taxes, which would leave you thirty-three billion dollars to raise through borrowing and then five billion dollars that we have been thinking about for Savings Bonds,

which leaves twenty-eight billion dollars that you have got to raise in the open market, and I just don't think you can face the American people with that program.

H.M.JR: Well, Dan, let me ask you this. We have got five minutes to go. Do you think that we are prepared at this stage to recommend to the President a figure for additional taxes?

MR. BELL: Well, I should think that you would have to get some figure away up in the twenties for taxes and enforced savings.

MR. PAUL: Then thinking of the enforced savings, and that does require about ten billion, doesn't it?

MR. BELL: I wouldn't put it at less than twenty-five billion dollars for '43 in taxes and savings, and that still leaves you thirteen to fifteen billion to raise in the open market.

H.M.JR: Now, where is your program?

MR. BELL: Well, we have got a statement here which, of course, has to be changed materially because it doesn't necessarily tie into this, and I would like to read it just to give you the thoughts that we had on that.

H.M.JR: Couldn't you and I sit down and do that without my being under pressure?

MR. BELL: Yes.

H.M.JR: And then how long will you (Paul) be before the Bureau of the Budget?

MR. PAUL: I don't know. I have never been before the Bureau before.

MR. SULLIVAN: Fifteen or twenty minutes, Randolph.

H.M.JR: Do they run it on time?

- 23 -

MR. SULLIVAN: Yes.

H.M.JR: Well, and then will you people want to see me again this afternoon?

MR. PAUL: I would like to - well, I would like to have some chance to revise this first if we could see you late.

H.M.JR: Well, when would you be ready? I have press at four. Do you want to come after press?

MR. PAUL: Afterward would be better.

H.M.JR: About four-thirty?

MR. PAUL: Yes, that would be fine. We can have a lot of contractions and revisions by that time.

MR. BELL: I told the Budget we would have something this evening or tomorrow morning, so you have really got until tomorrow noon, if you want it.

H.M.JR: Well, I could put you down again for four-thirty.

MR. PAUL: Put us down for four-thirty and we will do all we can before that.

MR. WHITE: Before you submit any figures of that character, Mr. Secretary, I take it there will be a good deal of discussion on the figures as to how much we have to tax and so on.

H.M.JR: Oh, yes, nothing is settled, but I can't - I want him to get - I can't work under--

MR. WHITE: That is all right. There will be plenty of time before it is submitted.

H.M.JR: We will have a figure at four-thirty as part of the discussion. It won't freeze, if that is

- 24 -

what you mean.

MR. VINER: I would like to know if the idea on those figures is that we ought to ask the Budget Bureau to figure on a six months' basis, the first six months and the second, that in these times to figure for eighteen months at this time is a little absurd, and even if they feel obliged to figure eighteen months ahead, let them break it down into six-months sections.

H.M.JR: I want to go to school with Dan privately and not show my ignorance.

MR. PAUL: Dan, will you bring up this point that--

MR. BELL: Yes.

MR. PAUL: I think that is very important.

MR. BELL: That ties in with the statement that I just made, that I think we have got to go to a much larger figure than five or ten billion dollars for taxes alone. It is a question as to whether we shouldn't have something in this budget message that the people have got to expect enforced savings as part of this tax program.

Now, I was hoping that it would be back in the tax part with this message. I think they have got to face it, and we wrote this together in the tax part, but we also put it in here in case these boys didn't put it in, and they didn't put it in the tax part.

MR. PAUL: Not because we were necessarily against that, but we just didn't reach it.

MR. BELL: You didn't have time to discuss it, yesterday.

H.M.JR: If Dan and I come to any kind of a tentative statement before four-thirty, circulate it amongst the people here, Dan.

- 25 -

MR. BELL: I think we have all got to be together on this whole draft, and weave this into what they have written and what they come out with.

H.M.JR: O.K.

MR. BELL: Before four-thirty.

MR. PAUL: That really should be postponed until we rewrite it.

MR. BELL: Yes, I think that is right.

MR. PAUL: I would like to have a copy of that.

MR. VINER: I am not sure about that, Randolph, because we don't have any idea what is in the draft, and we might write in a different way if we did.

MR. PAUL: That is why I said we wanted a copy of it, Jack.

MR. BELL: And I think we all ought to be together on the next revision, don't you?

MR. VINER: Yes.

MR. BELL: So the two--

H.M.JR: Don't you want to set a time now?

MR. PAUL: I was suggesting we get a copy.

H.M.JR: Look, you go on with your meeting, and let Bell read out loud what he has got here. How is that?

MR. PAUL: All right, but I still would like to have a copy of that.

MR. BELL: We will be ready, Randolph, when you come back to sit down and go over the whole thing.

- 26 -

MR. PAUL: All right, fine.

H.M.JR: Well, if you are going to do that, there is no use of doing it twice. Let me work with you alone.

MR. BELL: O.K.

H.M.JR: Let's leave it this way. As soon as Bell comes back, or rather as soon as Paul comes back, he will let Bell know, and then you will get together.

PAUL: All right.

63

Only draft in
Secretary's office.

Draft 73

Financing the war

Our war effort will call for public expenditures unprecedented in magnitude. If we are to achieve full utilization of the productive capacities of our people and our resources, we must carefully plan our financial program. We must see to it that the necessary financial burdens of war are justly distributed. We must see to it also that we emerge from the war period with the minimum of financial and economic dislocations. We must see to it also that our fiscal program shall not interfere with our primary economic goal of maximum production for the war effort.

- 2 -

Receipts under Present Legislation

Federal tax receipts in fiscal year 1943, it is estimated, will without further addition to the tax structure be _____ billions, or three times the _____ billions collected in fiscal year 1940. This increase in tax receipts will be the result of two factors: The expansion of industrial activity consequent upon the defense expenditures of the Government, and the tax measures enacted in 1940 and 1941. Now that we are approaching full use of our productive resources, we must look almost exclusively to additional tax measures for additional tax receipts.

DB

Deficits under present legislation

The budget net deficits are estimated at \$16 billion for the current fiscal year, and at \$38 billion for the fiscal year 1943, omitting the yield of new taxes to be enacted this year. See Table 3, below.

If we surpass this ~~our minimum~~ program of expenditures will be greater than now estimated, and therefore also our deficit will be greater than now estimated unless additional tax measures are enacted.

Additional capital will also have to be provided for Government corporations. On the other hand, the accumulation of Government trust funds will operate to reduce the amount of public financing required. Combining the budgetary deficit, the needs of Government corporations for additional capital, and the net accruals of Government trust funds, the total amount that must be met by additional taxation or borrowing from the public is estimated at \$16 billion for the current fiscal year, and at \$36 billion for the fiscal year ending June, 1943.

(Text Table 3: The effect of the combined Federal deficit on Borrowings, Fiscal Years 1940-1943)

I should warn you that in this estimate of expenditures and receipts, allowance is made for only a moderate rise in prices. Any considerable rise in the level of prices would greatly increase the deficit. With every rise in prices there is a rise in the level of expenditures, whereas tax collections, on the other hand, lag behind the price rise. Even were expenditures and receipts to rise proportionately, the deficit would still be greatly increased with a rise in prices, because expenditures are running two to three times as large as tax receipts.

DB

The need for additional taxes

The expansion of the defense program into an all-out war program accentuates the need for more tax receipts. At a time when we cannot be certain either of the rate of expenditure that we can achieve nor of the duration of the emergency period, it is a matter of elementary caution that we substantially increase our taxes. An additional warrant for increased taxes is that the national income is high and is rising, thus augmenting taxpaying ability. Furthermore, higher taxes have the additional positive value of releasing the productive resources we need to make the planes and tanks and guns, and all the other instruments of victory. /Finally, every additional dollar we collect in new taxes will contribute so much more to prevent inflation now, and ease the difficulty of making the necessary post-war adjustments later.

I realize full well that such revenue needs will mean sacrifices for all of us. Fortunately our resources are such that in spite of our projected war expenditures we should be able to maintain a decent standard of living, while moving rapidly forward to an all-out war program. But the time is upon us when we must forego many luxuries and conveniences. We must all work harder and longer hours. There is no escape from this necessity if we are to safeguard for all time our historic freedom.

- 5 -

The control of inflation

We cannot, particularly at a time like the present, approach the problem of taxation from the point of view of revenue alone. Taxation has additional functions to perform. Among its new responsibilities is the task of helping to control inflation.

I stated in last year's budget message that we might need extraordinary measures to aid in avoiding inflationary price rises which may occur when full capacity is approached. In the intervening months our war production has been enormously increased; and all changes in the production programs have been upward. In the coming year this program must be still further enlarged. Even in 1941, when there was still a margin of unused resources, the impact of increasing war expenditures resulted in substantial price increases.

From now on there will be continuing large increases in war expenditures. These expenditures will increase civilian incomes at the same time that shortages of material, labor and facilities result in decreasing the volume of goods available for consumption and expansion of civilian enterprises. If civilian goods are reduced and incomes greatly increased, inflation will result, unless we use taxes and other measures to curtail consumption and civilian investment. Taxes cannot do the whole job, but they can absorb some of the newly created purchasing power and some of the business funds which may be used for purchasing. In doing so, taxes will reduce the upward pressures now operating on the price structure.

DB

I need hardly enlarge in this message upon the evils of inflation. Although there are times when a moderate rise in prices is necessary to encourage increase of production and expansion of our productive facilities, we are now approaching a period when all of our productive resources will be fully utilized in our great national war program. At this time, any considerable rise in prices is an unmitigated evil. It is a source of grave social injustice. It undermines morale and impedes war production. Inflation divides the country. It sets up producers against consumers, workers against employers, the people who owe money against the people to whom the money is owed. / The hardships of inflation strike at random, without consideration of equity or ability. Moreover, once it has acquired momentum, inflation is extremely difficult to control. If it is not checked, the government must pay for its war needs at boom prices. The personal economies of many citizens will become chaos worse confounded. And inflation will leave a heritage of post-war difficulties that will haunt us for a decade. Every consideration of national welfare calls for its prevention.

I should be less than candid if I failed to admit that inflation is not a thing of the remote future, but rather an immediate threat of serious proportions. Defense expenditures of \$6 billion and a deficit of \$5 billion have caused a considerable inflationary increase in prices in the fiscal year 1941.

DE

The defense program of 1940 and 1941 has already greatly increased the income of our people. The war production program is ^{and is doing so} further increasing incomes/at the same time that it is reducing the volume of goods and services available for civilian consumption. The pre-war picture was that of potential abundance of goods and insufficient purchasing power. That picture is being converted into a prospect of surplus purchasing power and insufficient goods. Much of the increased war output is being achieved and ~~we~~ must continue to by diverting production from civilian into military channels. This diversion, while it reduces the amount of civilian goods, leaves the incomes paid to civilians as large as or even larger than before.

There is a significant difference between conditions prevailing a year or two ago and those prevailing under a war economy. A year ago, while we had unused resources, defense expenditures stimulated private investment and civilian consumption. Production could and did ~~expand~~ expand sufficiently to permit defense expenditures in addition to civilian expenditures. Now, as our war economy reaches nearer to full employment, increased expenditure under our war program must to a great extent replace private capital investment and civilian consumption. Allocations and priorities, necessitated by shortages of essential materials, are now in operation. They curtail expenditures for consumers' durable goods, private ~~exp~~ and public construction, and new investment and replacement in non-defense plant and equipment. In this way, allocations and priorities offset in part the inflationary effect of our huge war expenditures. The expansion of the social security program

DB

so as to extend coverage and increase contributions and benefits desirable for its own sake, would also incidentally make a contribution to checking inflation by temporarily draining off purchasing power. ✓

But these measures will not alone suffice. With expenditures and deficits that we foresee under our war program, we shall require an integrated, coordinated, program to prevent inflation. We need control of materials and machines, price control, credit control, financial control, more taxation and more saving, and every other device available for the prevention of destructive inflation. With such a comprehensive program, I say with confidence that we can and we shall combat inflation diligently and successfully.

Our system of rationing on the business level, the so-called allocations, should be extended and made fully effective especially with respect to inventory control. I do not at present purpose introduction of a ration system because we do not yet have the general scarcities in the necessities of life which make such a step imperative. (The problem of consumers' rationing still requires discussion in light of an executive order that is in preparation on that topic.) I do appeal, however, for the voluntary and necessary cooperation of the consumer in the nation's effort. Restraint in consumption, especially of scarce products, may make fewer compulsory measures necessary. Hoarding should be encouraged in only one field, that of defense savings bonds.

I should add that every possible effort should be made to apply anti-inflationary measures as equitably as possible. Extreme hardships can be avoided by the timely adoption of a variety of measures, each involving a moderate burden upon each individual.

DB

- 9 -

Equitable distribution

The increased taxes and lowered exemptions already enacted have greatly accentuated the need for equitable distribution of the tax burden. If we are to preserve our national unity, the load must be shared by all, corporations and individuals alike. All who are above a minimum subsistence level must contribute their share to what Mr. Justice Holmes called "The cost of living in a civilized society." It is intolerable in times of acute national peril that anyone should be permitted to avoid his just share of the tax burden. The avoidance of tax by those utilizing loopholes in the present tax structure increases the tax burden on the others who are already heavily taxed. The increase in tax burden also adds to the urgency of providing relief to all taxpayers, to the greatest extent possible, from inequities.

The fact that we must tax mass purchasing power to control inflation should not persuade us to switch from progressive to regressive taxes. Under present, as well as previous, conditions it is desirable to use ability taxation to the limit. I have frequently stated the reasons in favor of progressive taxation for past years and they are still valid today - indeed, they are more valid today than ever. And the need for taxes that absorb mass purchasing power makes it all the more desirable to make progressive taxation fully effective. We must balance our program; our higher income groups, as well as our low income groups must do their share.

DB

The taxation of excessive profits

Under conditions of a wartime economy there are likely to be unduly high profits for some business concerns. Excessive profits are bad enough at any time; in wartime they undermine unity and morale and should therefore be recaptured. Some profit is necessary even in wartime to secure maximum production with economical management and to provide a sound financial structure for business. But beyond the amounts necessary for these purposes there is no place for profits in this period of national emergency.

573

- 11 -

Post-war period

Taxes imposed to finance the war should be designed, as far as is consistent with maximum prosecution of our war efforts, to minimize post-war dislocations. While we must be bold enough to take all the financial measures necessary for maximum war production, there will be many areas in which careful consideration of alternatives on the basis of their post-war effects will strengthen our economy in peace without weakening our war effort.

Proposed Legislation

The adjustment of taxes to achieve these objectives is unusually difficult at this time because we do not know the total amount of war expenditures that we shall have to make, nor how effective priorities, allocations, credit controls, and direct price controls, will be in keeping price increases within bounds. A precise recommendation as to the additional taxes that may be needed at any specific time during the next eighteen months cannot be made far in advance.

It is, accordingly, important that tax legislation be more flexible to meet changing needs than it has been in the past. To achieve increased flexibility I submit two suggestions for the consideration of the Congress.

(1) Several different rate schedules might be enacted for one or more of the more important taxes, any one of which would become effective only through a later action of the Congress in some form. Such action would be occasioned by some change in the national economy or in the spending by the Federal Government which required Congressional action. Such a method would not only avoid the defects of hasty legislation, but would provide the flexibility in tax legislation which is so urgently needed in emergency periods.

(2) The Secretary of the Treasury might be given discretion, within limits, to make advance collections if the conditions of the moment justify withdrawing additional funds from the stream of purchasing power.

It is believed that these provisions would make it possible to adjust the tax program more quickly to the changing conditions of the rapidly developing wartime situation.

JD

- 13 -

Let me recapitulate the basic objectives which should guide the Congress in the formulation of tax legislation this year. These objectives are:

- (1) To raise needed revenue
- (2) To help control inflation
- (3) To distribute the tax burden equitably
- (4) To prevent undue profits
- (5) To ease post-war adjustments, and
- (6) To introduce flexibility in our tax system during the emergency

These are the principles which should guide our wartime tax policy

December 22, 1941
11:03 a.m.

James
Landis: Hello.

HMJr: Henry Morgenthau.

L: Yeah. This is Jim Landis talking.

HMJr: How are you?

L: Fine.

HMJr: Now, here's the situation. This man Walsh is stalling me, you see.

L: Yeah.

HMJr: So I got hold of Senator Barkley this morning and said that I'd like him to find out if he was willing to sort of make a poll up there, you see, that if we sent your name up over the objections of Senator Walsh, could I win.

L: Uh huh.

HMJr: And he's agreed to do that for me.

L: Yeah.

HMJr: So I didn't know how much you wanted to consider this thing that Mrs. Roosevelt talked about, but I didn't feel it was fair to tie you up indefinitely.

L: Yeah.

HMJr: And I just - but I did want to let you know I was going ahead and that was the next step I was taking without consulting you.

L: Uh huh. Have you had a definite answer from Walsh, or.....

HMJr: No, Walsh last - he's postponed it now until tomorrow.

L: Yeah.

- 2 -

HMJr: But I went up and saw him and literally went almost - I didn't - did everything but go down on my knees.....

L: Yeah.

HMJr:and his only answer was, well, he had to think it over again until Tuesday.

L: Yeah.

HMJr: So he's trying to find one excuse after another, you see; and so I just thought that I was sick and tired of it.....

L: Yeah.

HMJr:and if Senator Barkley said that I could win, all right; but I naturally - you don't want to be dragged through the Senate, so to speak.....

L: Uh huh.

HMJr: Unless we were sure that you could win; and if Barkley said we could win, why you can count on him.

L: Uh huh.

HMJr: Does that make sense?

L: That makes sense, very much. I - this might give you a hunch of one other way you might work.

HMJr: Yes.

L: Through Congressman McCormack.

HMJr: Oh.

L: Why I say that - I think the Congressman knows me. I had a rather pleasant time with him yesterday where I spoke at a big celebration which gave him an award, and I think he - well, he sort of liked what I said and liked the attitude of the group toward me, and so on.

HMJr: I'll do that.

- 3 -

L: It might be of help to you.

HMJr: How about Mayor Tobin?

L: Oh, he'll go to bat, sure.

HMJr: He will?

L: Oh, yes.

HMJr: Right. Well, I've decided - it's a question of now having to bring pressure.....

L: Yeah.

HMJr:and I'll get hold of McCormack, and I'll keep you posted. But as I say, I don't feel I have the right if Civilian - if this thing in Washington - whatever it is - is something that appeals to you.....

L: Yeah.

HMJr: I just.....

L: That hasn't quite jelled yet. I just got a word from Mrs. Roosevelt that something's in the wind there, and I don't know what it is; but it doesn't seem to have jelled quite yet.

HMJr: Then she's not waiting for me?

L: No, she wrote me, in fact, saying that there were some things going on - she didn't quite indicate what they were, but I think I'll call her up this morning and just find out whether she - it's my next move or whether it's her next move.

HMJr: Yeah. Well, would you do me this courtesy; if for some reason something comes up.....

L: Yeah.

HMJr:which would close the door between you and me, let me know.

L: I would without your asking that.

- 4 -

HMJr: Because I've got my fighting clothes on now, and I'm going down the line.

L: Yeah.

HMJr: See? Without asking you to do anything.

L: Yeah. Well, I certainly would have done that in any event; and naturally, I will.

HMJr: Okay.

L: Fine.

HMJr: We had a wonderful fire drill here yesterday.

L: Did you?

HMJr: Nobody heard it as far as I can find.

L: (Laughs)

HMJr: I think in the whole District they had one whistle.....

L: Uh huh.

HMJr:and nobody heard it; and my fire warden showed up at one o'clock yesterday. They had announced it for a week that it was to have been between nine and ten.....

L: Yeah.

HMJr:and he'd been appointed at eleven o'clock the night before.

L: (Laughs)

HMJr: It's terrible.

L: Well, we're bad; but I don't think we're quite that bad.

HMJr: So if you've got any whistles, you can lend them down here; even if it's one of these five cent things, I think it would help them.

- 5 -

L: Uh huh.

HMJr: The District's in terrible shape.

L: Why, I might do the same thing that the Mayor of New York City did for New York City. You heard about that, didn't you?

HMJr: No, what did he do?

L: He distributed a lot of whistles to his auxiliary police.....

HMJr: Yeah.

L:and when you turn them over, there were the words, "Made in Japan" on them.

HMJr: Oh, marvelous.

L: (Laughs)

HMJr: Oh, wonderful. Fiorello did that?

L: Well, I don't say Fiorello, but that's what happened in New York City.

HMJr: I think that's marvelous.

L: (Laughs) There are more nice headaches in this than anything I've seen.

HMJr: Oh, it's terrific.

L: (Laughs)

HMJr: All right.

L: Fine.

HMJr: Good-bye.

L: Good-bye.

December 22, 1941
11:23 a.m.

Ronald
Ransom: Hello.

HMJr: Hello. Ronald?

R: Yes.

HMJr: This is Henry Morgenthau.

R: Yes, how are you today?

HMJr: Fine. Ronald, in strictest confidence, we're working on the fiscal and monetary end for a message for the - the Budget message, you see?

R: Yes.

HMJr: And it's so enormous that I want - I'd like to get the benefit of Goldenweiser's advice.

R: Certainly.

HMJr: So if that's all right - if you'll tell him - and he'll hear from Dan Bell sometime today.

R: Yes.

HMJr: We'd like to guard this very, very carefully.

R: Certainly.

HMJr: But we do want the benefit of his advice.

R: Why certainly. I'll have him available any time, day or night, that you want him.

HMJr: And tell him that he's got to guard this very carefully.

R: Why certainly.

HMJr: Okay.

R: All right, fine.

December 22, 1941
11:25 a.m.

Lauchlin
Currie: Hello, Mr. Secretary.

HMJr: Hello, Lauch; how are you?

C: Fine, thanks.

HMJr: Lauch, I don't know whether the Bureau of the Budget consulted you this year or not on the President's Budget message.

C: (Laughs) No.

HMJr: They haven't?

C: No.

HMJr: Well, I'd like to; because we're preparing something here for the President, see?

C: Yeah.

HMJr: And if you would sit in with us, and naturally treat the thing very confidentially.....

C: Yes, I promise you.

HMJr: It's so enormous that I want to get all the help that I can get.

C: Yeah.

HMJr: So sometime during the morning - I don't know - Bell will call you and let you know when there's going to be a meeting.

C: Fine.

HMJr: But, as I say, this of all things we want to guard.

C: Yeah.

HMJr: But it's so enormous that I'm asking you and Goldenweiser and Leon to help me. I don't know whether they've been - I know the Fed hasn't

- 2 -

been consulted.

C: Yeah.

HMJr: But I'm going to consult the President's friends
and my friends.

C: Fine. Thank you so much, Mr. Secretary.

HMJr: Thank you.

C: All right, thank you.

December 22, 1941
11:29 a.m.

HMJr: Leon?

Leon
Henderson: Yes, Henry.

HMJr: This is Henry.

H: Yes, sir.

HMJr: Leon, I don't know whether the Bureau of the Budget has consulted you on the President's Budget message or not.

H: No.

HMJr: They have not?

H: No.

HMJr: Well, we're trying to do a job here for the President, see?

H: Yeah.

HMJr: And I know how vitally interested you are in the whole question of the taxes and the savings and all like that. Hello.

H: Yeah.

HMJr: And we want your help. Now, do you want to send - because we've got to work in awful close confidence on this.....

H: Yeah.

HMJr: Is there some one person that you'd like to at the preliminary meetings send over?

H: Yeah, I'd like to send Dick Gilbert. He's been working with your fellows, you know, all along.

HMJr: Dick Gilbert.

H: Yeah.

HMJr: And then when we get to the final draft, would you like to sit in yourself?

- 2 -

H: I certainly would.

HMJr: All right. Now here's the thing. I've gone around and I've asked the Fed; they've not been consulted. And I've asked Lauch, and he's been left out.

H: Uh huh.

HMJr: So - but, as I put it - I'd like to go to the President's friends and my friends to help me, because it's an enormous task.

H: Yeah. .

HMJr: And Bell will call up Dick Gilbert a little later and let him know when there is a meeting.

H: All right.

HMJr: But when the thing is - before I sign it, I'd like to go over it with you personally.

H: All right, swell.

HMJr: But it's simply - it's overwhelming - the size of it.

H: I'll bet it is.

HMJr: Yeah.

H: All right; well, we'll.....

HMJr: And will you caution Gilbert to be close-mouthed the way he never has been before?

H: Yes, sir.

HMJr: I mean, more close-mouthed.

H: Yeah.

HMJr: Please.

H: All right.

- 3 -

HMJr: Thank you.
H: Merry Christmas, Henry.
HMJr: The same to you.
H: Good-bye.

December 22, 1941
11:35 a.m.

RE PRESIDENT'S BUDGET MESSAGE

Present: Mr. White
Mr. Haas
Mr. Viner
Mr. Bell
Mrs. Klotz

H.M.JR: Here is the thing that Dan tells me. This is my first reaction. The Bureau of the Budget's estimate for the next fiscal year is that they are going to spend fifty-six billion dollars and that our collections from revenue will be sixteen billion, leaving a deficit of forty.

Now, Dan says that we ought to raise - I mean, this is his horseback opinion and subject to change - twenty-five billion dollars so we don't have a deficit of more than fifteen billion dollars. Right?

MR. BELL: Well, I would say we ought to raise twenty-five billion dollars of that forty through taxes and savings and fifteen billion dollars through open market operations.

MR. VINER: But from the point of view of deficit, that still leaves the deficit an uncertain amount.

MR. BELL: That is right.

- 2 -

H.M.JR: Well, the point that I wanted to get for this thing, just to get my own reaction so that you people could be thinking about it, is this, for the present. Let's use the figure of twenty-five billion dollars that we are going to raise through taxes - forced savings is taxes.

MR. BELL: That is right. That is what I meant.

H.M.JR: My horseback opinion is that to say, using the figure for the moment of twenty-five billion dollars, and these are the methods which we can raise it by, but not tie ourselves down, or the President. We can raise it through taxes; we can raise it through forced savings; this way and that way, but leave it open, you see. Not say that of that, ten billion is going to be taxes or fifteen billion dollars is going to be taxes or ten billion is going to be forced savings. We don't know. But if we set the figure that we have got of the fifty-six billion, forty billion has to be raised other than through borrowing, then I want to leave it open so that we can move from one way to another, and then if we have this thing that you were talking about, payroll deduction plan of from two to fifteen percent, that we could start at two and go forth - you don't know.

After all, up to now they have only spent six billion dollars for national defense, haven't they?

MR. BELL: We will have spent eight at the end of this month.

H.M.JR: So when they get all of these figures and everything else around, it is one thing on the paper and another thing to prove it, so my own reaction to Bell's thing is, I believe we should have a figure, but how - and say the various devices that we have in mind, but leave it open so that you can shift within that figure.

MR. VINER: I am all for that.

- 3 -

H.M.JR: I wanted to give that to this group so that you could be thinking about it and you could come back at me, you see.

MR. BELL: That ties in with what this other group has done because they have put no figure in their statement, you see.

H.M.JR: Yes, but the Bureau of the Budget has.

MR. BELL: That is right.

H.M.JR: And I think that is wrong.

MR. BELL: I do too, and I think that group thought so yesterday because they left without any reference to a figure on taxes.

H.M.JR: You don't know, for instance, what we can do through the voluntary method of Defense Savings Bonds. You don't know.

MR. VINER: It is not only that. A rate of taxes which would be quite right for next December would be quite wrong for this January.

MR. HAAS: You need flexibility.

MR. VINER: You need flexibility. Even if you knew the over-all program and you knew you were going to achieve it, you don't know the rate at which you are going to move up to it and the tax program oughtn't to move too far ahead of that or you may suppress productive activity.

H.M.JR: I just wanted to get that off, because to me, I don't care what they write in the rest. From my standpoint, there are just two things. One is to hit a figure and the other is to say there are three or four methods, but we have got to have an elasticity within that figure and the rest of the stuff is just verbiage.

- 4 -

MR. HASS: That is right.

MR. VINER: Yes.

H.M.JR: Harry?

MR. WHITE: I like the idea of setting a figure and leaving you flexibility within it, but offhand, my first reaction is that I don't think that figure ought to include what you contemplate on saving, forced saving, because that cuts so across the other kind of saving, et cetera, that I think that that should be a road open to you in addition to taxes, that the outside limit should be what you ought to get in taxes and the various ways of how it might be obtained possibly, et cetera, and with flexibility stressed, but I don't think that that outside limit ought to include forced saving because if the figures are of any magnitude of that character, then I think that it - any forced saving that you may have to do will have to be beyond that because one of the first impacts of forced saving is that it cuts very sharply into your voluntary saving, so that your proposal for forced saving has to be much larger than at first appearance because you can not add it onto voluntary saving. It replaces, depending upon the scheme, most of your voluntary saving, so I would like to see that not included in--

H.M.JR: Well, that again is a segment, but it is the over-all picture which makes the drafting of all of this thing very easy if we say first we have got to arrive at a figure, whether it is twenty-five, fifteen, twenty, twenty-five, or thirty, we have got to have a figure. Then once we have the figure, we have all agreed that within that figure we have to have flexibility, and then we have got to set down the various methods of how we are going to do it.

MR. WHITE: I had a suggestion that I wondered--

MR. VINER: I would like a paragraph in this statement which gives the present and the estimated

- 5 -

national income. That is part of the background and should be in somewhere, because we are talking about fifty billions. It is more understandable when you put that against what we think the national income is.

H.M.JR: Now, the other thing which I did, I called up three different groups and asked each of them whether they had been consulted by the Budget and not one of them had. One is the Federal Reserve Board, and they hadn't. I invited them to send one of their men over. I called up Mr. Henderson, and he has not been consulted, and he is sending Mr. Gilbert and will come later on himself. I called up Lauch Currie, and he hadn't been consulted, and he is coming. I want to get all the brains I possibly can. Not one of these groups has been consulted, and this thing has been a month in preparation.

MR. WHITE: I had a suggestion for this thing--

H.M.JR: I have invited each one of these people so that means that this thing is so stupendous that I - and if there is anybody else in town that - or any other group that has any brains, but that is why I am - I am groping for a fellow like Ned Brown, because all of these people are educated and are economists.

MR. VINER: Yes, but I don't know. This is perhaps none of my - I have no right to say this, but I think you ought to go very slow on bringing in an outsider at this stage, because this is a tremendous business explosive, and he is a banker operating a big concern. Even if he just uses his knowledge within his own bank, that already is important. I would check up with somebody else on that.

H.M.JR: I am not going off half cocked.

MR. BELL: You mean, that is what you wanted with Ned Brown?

H.M.JR: I have been looking for a long time for

- 6 -

some important financial person in the financial community who had courage enough to openly vote for Roosevelt, and when I was in Chicago I was told he openly came out for Roosevelt.

Well, the man to do that has got the courage.

MR. VINER: Oh, he has got unlimited courage. He is a character. You might find him a little like Sir Frederick Phillips. He is hard to understand. He mumbles his words, turns away from you. Have you ever met him?

H.M.JR: Oh, yes.

MR. VINER: I think a lot of him, but I don't know on this. It is a big bank. It has big trust accounts under its management. You are giving him an inside track. I would be a little nervous, wouldn't you, Dan?

MR. BELL: I think I would. I don't know enough about Ned Brown. I have met him a lot, and he comes in every time he is in Washington. I question whether he knows as much about tax system--

H.M.JR: Anyway, gentlemen--

MR. BELL: He is a good banker.

H.M.JR: Well, I just wanted to give you my first reaction. I will see you later on it.

MR. WHITE: I have a suggestion that might eliminate that necessity for the whole proposal. See what you think of it. I suggested it the other day. I think if you attempt to have a fiscal - a budget for a whole year for eighteen months, the magnitude you are going to deal with is so tremendous that no matter how you fix it, it is going to be both disturbing and--

H.M.JR: What is the idea, Harry? Don't give me the speech.

- 7 -

MR. WHITE: The idea is that I think this is the time the President can come out with the statement that in view of the emergencies I am only going to give a budget for six months. The earlier six months are the easier ones. You will know approximately what you are going to spend. The tax and the rest of the program will look much, much milder, and then he will come before them four or five months from now and give them a budget for the other six months. It is impossible to deal with a longer time than that. You are dealing with such figures--

MR. HAAS: The law requires it, doesn't it, Harry?

MR. WHITE: I think the emergency might make it possible for him to avoid that.

H.M.JR: The law requires it?

MR. HAAS: I think so.

MR. BELL: Yes, the law requires him to give the estimates for the fiscal year.

MR. VINER: He can give the estimates for the fiscal year, but break it up, as I have been suggesting, into two six-months periods and don't go into detail on the second six months, but only on the first on the ground that you can't see ahead that far.

MR. WHITE: Leaving the other very vague, very general.

H.M.JR: It strikes a sympathetic chord with me. Have you got the idea, too?

MR. VINER: I have been saying all along I can't see how you can plan eighteen months ahead now.

MR. HAAS: I made a suggestion that it is illegal, isn't it?

- 8 -

MR. WHITE: It is uncommon around here, but we were going to draft a statement.

H.M.JR: It would be, then, until December 31, '42.

MR. WHITE: That is right. You can make a much more intelligent plan, and then you can have flexibility, and it won't frighten people, and we will know what you have--

H.M.JR: All right, Harry, O.K., I have got your idea. It is a very good idea.

All right, people, I will see you later.

December 22, 1941

Dear Harold:

I am transmitting herewith the summary report which you requested in your letter of December 11th.

In view of the Budget Message this report must necessarily be retrospective and cannot deal with policies and programs for the coming year.

For the convenience of those who may be working on the President's message on the State of the Union, I also attach more detailed reports from the Bureau of Customs, the Coast Guard, the Procurement Division and Foreign Funds Control. The summary report contains an abridgment of these documents.

Sincerely,

(Signed) H. Morgenthau, Jr.

Hon. Harold D. Smith,
Director,
Bureau of the Budget,
Washington, D. C.

Enclosures.

FK/ogk

By Messenger

M. Des Jones

Simmons 12.45
Has file
cc - Kuba

MAC.

C O P Y

97

EXECUTIVE OFFICE OF THE PRESIDENT
BUREAU OF THE BUDGET
WASHINGTON, D. C.

~~PERSONAL AND CONFIDENTIAL~~

December 11, 1941

My dear Mr. Secretary:

The President has asked me to secure from the defense agencies a series of brief summary reports concerning their relationship to the defense program. It is the President's thought that these reports will be helpful to him in preparing his annual message on the State of the Union and to other officials in the Executive Office, particularly the Director of the Office of Facts and Figures.

May I suggest that your report be limited to a seven to ten page presentation which will set forth the chief accomplishments of those divisions in your agency which are directly related to the defense effort, the changes in objectives which have been brought about by the declaration of war, and the major problems and impediments confronting your program. In this connection it would be desirable to look at both the strengths and weaknesses of your program, and to present such conclusions as are now reasonably certain respecting the time schedule of operations for the next year. It would also be helpful if you could give a short outline of new or additional work plans for 1942 resulting from the declaration of war. If these plans cannot be outlined at this time, may I ask you to send me, about February 1st, 1942, a second report relating to them.

If summary figures are available to shorten your presentation, they may be included in the text or attached as appendices. Such figures might be of particular value in the drawing of contrasts and in the presentation of information concerning the physical progress of major segments of your program.

It is not desired that this report be concerned with technical discussions or that it include material in justification of any part of your program. It is felt rather that it should be a frank appraisal in narrative style, which brings into proper relationship both achievements and lack of achievements.

It would be particularly helpful to the Office of Facts and Figures if you would include as an appendix identifying information concerning any Federal statistical series or other compilations of data which you consider significant in reflecting the progress of your program. Such a list should also contain information as to whether the data referred to are collected by your agency or by other agencies and whether they are available for publication.

It is urgent that your report be in my hands not later than December 17th.

Very truly yours,

HAROLD D. SMITH

Director

The Honorable
The Secretary of the Treasury.

The Treasury's primary function at this time is to raise the money needed to win the war. Throughout the period of the defense program, and now of war itself, it has sought to fulfill its function, firstly, by paying currently as much of the cost as possible, secondly, by spreading the burden as fairly as possible, and thirdly, by taxing and borrowing in such a way as to check inflation as far as possible.

Already the Treasury's money-raising task has grown until all precedent has been shattered and all previous conceptions discarded.

The amount of money needed today bears no relation whatever to the amount the Treasury had to find as recently as two years ago. In January 1940, before the collapse of France and before the real start of the defense program, monthly expenditures were approximately \$700 million, or at a rate of \$8½ billion a year. By January 1941, on the eve of the Lend-Lease Act, monthly expenditures had jumped to \$1.1 billion a month, or an annual rate of \$13.2 billion. By December of this year, monthly expenditures have soared to almost \$2 billion, or an annual rate just short of \$24 billion. The curve of expenditures is still rising, as the figures for the next three months are sure to show.

Even allowing for the comparatively slow rate of spending at the start of 1941, the expenditure of this calendar year is higher than it was in 1919, which until now has been a record in the history of the United States. The 1941 expenditures will be very close to \$19 billion.

The President's budget estimate for the 1942 fiscal year ending June 30, 1942, an estimate revised on October 5, 1941, called for

total expenditures of \$24.58 billion, of which \$18 billion was for defense purposes. In the same budget, receipts for the fiscal year were estimated at \$12 billion, leaving a prospective deficit of \$12.58 billion. These figures are likely to be revised still further before the end of the fiscal year as the pace of production quickens and the calls on the Treasury grow still more insistent.

To raise these colossal sums, greater than any on record, the Treasury has resorted to taxation and borrowing. In April, Secretary Morgenthau said that it was his intention to raise two-thirds from taxation and one-third from borrowing. This standard has been followed fairly closely in the calendar year just ended.

Taxation

Taxation not only produces a steadily rising amount to cover these huge expenditures, but it is being widened year by year to reach millions who had never been called upon to pay taxes before. The speed of the enlargement can be shown by comparing the number of taxpayers under the Revenue Act of 1939, 1940 and 1941. Under the 1939 Act 7,716,000 persons were required to file income tax returns, and of this number 3,959,000 were taxable. The 1940 Act almost doubled these figures; it called for 15,246,000 individual returns, of which 7,520,000 were taxable. Under the present Revenue Act of 1941 it is estimated that 22,007,000 will be required to file individual returns, and of this number 13,200,000 will have to pay taxes. The increase in the number of new taxpayers under the 1941 Act is due to three factors: 1) reduction of the personal exemption from \$800 to \$750 for a single taxpayer and from \$2,000 to

\$1,500 for a married taxpayer; 2) application of the surtax rates to the first dollar of net income; and 3) the increase in the levels of income during a relatively prosperous year.

Such an increase in the number of new taxpayers presents the Treasury with a number of problems, notably the need for acquainting the new taxpayers with their obligations, and the corresponding need of insuring prompt payment and a prompt collection when the first payments come due on March 15, 1942. In an effort to make taxpaying easier for those in the low income group, the Treasury this year introduced a simplified tax form for those with incomes under \$3,000, a form so simple that only six easy steps are required in order to complete it. Instead of going through elaborate and difficult computations, the small taxpayer is now able to find the amount of his tax on a table printed with the new simplified form.

At the same time the Treasury has sought to encourage saving on the part of taxpayers so that they can meet their payments on March 15. A new type of security known as the Tax Anticipation Note was introduced in August of 1941 so that taxpayers could in effect pay their taxes in advance and receive interest in so doing. Of the two types of tax anticipation notes, one - known as Series "A" - is designed for small taxpayers and earns about 1.92 per cent a year for its holder, who may not use more than \$1,200 worth in the payment of taxes in any calendar year. The other, known as Series "B", is intended for large taxpayers and bears interest at 0.48 per cent, but can be held in unlimited amounts. More than \$2 billion worth of these notes had already been sold by the end of 1941, thus serving the triple purpose

of enabling the taxpayer to save, insuring more rapid and efficient collection, and withdrawing a large amount of purchasing power from current income.

Borrowing

During the calendar year just ended, the Treasury sold marketable public debt issues(excluding Treasury bills)for cash amounting to almost \$4.9 billions. These sales were carried out in five major market operations. The securities sold consisted of one note issue and four different bond issues. In addition, the Treasury refunded about \$3.1 billions of securities not including Treasury bills.

Two facts stand out from the record of these transactions, apart from their size. One is that each of them was heavily oversubscribed. In no case was there the slightest difficulty in obtaining the necessary funds on the Government's terms. The latest and largest of these financing operations, for \$1½ billion of new cash, was oversubscribed seven times on the very eve of the war.

The other outstanding fact is that the average interest rate on the outstanding debt is now the lowest in history. It fell from 2.566 per cent at the end of December 1940 to 2.429 per cent at the end of November 1941. In other words, while the national debt has now risen to a record level of more than \$55 billion, and while the Government needs more money than ever before, it can obtain that money more cheaply than ever before.

In financing the defense program and the present war effort, the Treasury is seeking to restrict as far as possible the sale of large amounts of public debt obligations to commercial banks, for borrowing from the banks would not only fail to check inflationary tendencies, but would actually accentuate them. For this reason, the Treasury embarked in May upon a program of borrowing from millions of individual investors throughout the country. The new defense savings bonds issued in May were an attempt; 1) to borrow from individuals and thereby reduce the volume of purchasing power, 2) to give to individuals a back-log of savings for the post-war period, and 3) to build nation morale by making individuals feel a sense of participation in the defense effort.

Up to the outbreak of actual war with the Axis, more than \$2 billion worth of these bonds had been sold. The defense savings program was accompanied by a campaign of publicity and promotion by radio, press and SECURE which sought not only to sell the bonds, but to give to the American people a realization of their privileges and power and purpose. Defense savings organizations were established

- 6 -

in every state and in communities of 10,000 people or over, and cooperation came speedily from all groups and all sections in the country. Up to the actual outbreak of war more than \$2 billion worth of these bonds had been sold to more than 3 million individual investors. In terms of money the total was satisfactory, but it was estimated that only a relatively small proportion of the money total had come from regular systematic purchases out of current income. For this reason the wartime voluntary savings effort will be directed at those receiving regular wages or salaries, and a determined attempt will be made to persuade all the 35 million recipients of regular income to set aside voluntarily a portion of their pay in defense bonds and stamps.

Foreign Funds Control

The "freezing control program" of the Foreign Funds Control was initiated by executive order in April, 1940, by the freezing of Danish and Norwegian assets in this country at the time of the German invasion of Norway and Denmark. Its chief purpose was to prevent these assets from falling into Axis hands. As other countries were invaded or dominated by the Axis powers, the control was successively extended, first to the conquered countries, then to Germany and Italy, and still later to Japan and China. At present the control covers more than \$7 billion of assets and transactions involving 33 countries including all Continental Europe (except Turkey) as well as China and Japan. The blocked assets in this country consist of not only bank deposits and

- 7 -

earmarked gold, but also securities, merchandise, patents, business enterprise and other forms of property.

Approximately 2,500 business enterprises in the United States, with varying degrees of foreign connections, are operating under licenses issued by the Control. As a result, the Treasury now has in its files organized information regarding the structure, activities and background of Axis owned or dominated concerns. Numerous banks and banking agencies owned by foreign interests have also been brought under Treasury control through the licensing process, thus safeguarding the funds of American depositors in these institutions without undermining public confidence in the banks involved.

All security accounts of foreigners have been frozen and all purchases and sales of securities for the accounts of blocked individuals have been regulated. The dumping in the American market of securities looted by Axis countries has been prevented by forbidding the importation into the United States of any securities from any foreign country. All import and export transactions with blocked countries have been controlled, thereby creating effective regulation over the operation of a large number of foreign owned ships. Hundreds of firms and individuals operating in the Western Hemisphere have been black-listed as being sympathetic with the Axis powers, with the result that transactions with or for the persons or firms on the black-list are stringently regulated in the national interest.

To provide the basic data needed for administering Foreign Funds Control, the Control has moreover made the first complete and comprehensive census of foreign property held within the United States. These census reports are providing the most accurate information obtainable regarding every conceivable type of foreign owned property in this country.

By all these and other methods, Foreign Funds Control operated during 1941 as a powerful weapon of economic warfare. With the outbreak of war, the Control has intensified and widened its work so as to wipe out any economic influences in this country which might be hostile to the national interest. By cutting off the funds for Axis propagandists in this country, the Control helped to prepare the United States for the outbreak of war in December.

Stabilization Loans

The operations of the United States Stabilization Fund, begun in 1936, are designed to maintain stability in rates of exchange between the United States dollar and the currency of countries with which agreements exist. While these operations do not arise directly out of the war effort, they assisted by preventing disruptive fluctuations in foreign exchange and thereby help to prevent any weakening of the economic and monetary structure.

The following commitments of the fund were made during 1941 by inter-governmental agreements: Central Bank of China - \$50 millions;

- 9 -

Chinese Stabilization Fund - \$50 million; Brazil - \$60 million; Argentina - \$50 million; Mexico - \$40 million.

The agreements with China and Brazil are now in operation, but those with Mexico and Argentina are not yet operative, since they have not yet been ratified by the Latin-American Congresses concerned. It should be noted that the Chinese stabilization commitment provides full collateral for United States purchases of Chinese YWHA, and that the commitment to the Bank of Brazil requires a deposit of gold in the United States as collateral to the full value of the United States purchases of milreis.

Procurement Division

At the beginning of 1941 the Treasury Procurement Division was chiefly engaged in its normal activities of purchasing and contracting for the civilian needs of the government. It was not yet a vital part of the defense effort except for its purchases of strategic and critical materials for stock piling, and its purchases of supplies for the American Red Cross distributed to refugees abroad.

With the increasing tempo of the defense program, however, the Procurement Division was called upon to purchase thousands of tons of chrome, manganese, tin and tungsten, huge quantities of industrial diamonds, manila fiber, mercury, optical glass and scores of other

materials essential to the building of the armed services.

At the same time the Procurement Division was called upon to buy a multitude of household items needed for the thousands of new homes for defense workers. With the passage of the Lease-Lend Act, the Procurement Division became a central buying agency for meeting the commercial needs of the British and other Allied governments. Thousands of commodities ranging from aviators' watches to locomotives were rushed to the docks for shipment abroad and the buying volume of the Division increased by millions of dollars each month as were advanced its purchases for the United Kingdom, China and Soviet Russia as to the \$287 million, representing 2,917 contracts since April 1, 1941. Its purchases in the normal categories jumped from \$64 million in 1940 to over \$118 million in 1941. Its purchases for defense housing from November 8, 1940 to the middle of December 1941 have totalled \$6,259,000 and its purchases for refugee relief from September 1940 to November 1941 totalled \$26,921,000. As the year ended the Procurement Division was becoming the nation's main buying agency for all non-military supplies needed for the war effort.

Bureau of Customs

The work of protecting the interests of the United States in a world at war have greatly increased the duties of the Bureau of Customs. Following the enactment of the export control and foreign funds control acts, the Customs Service was charged with the physical control of exports to insure that strategic and critical

materials should not be taken out of the United States except under license; to insure that no funds or other values were removed from the United States except as authorized by the Secretary of the Treasury; and to enforce the prohibition against trading with persons or firms on the so-called black-list of Axis interests in this hemisphere.

On behalf of the office of export control the Customs Service has investigated, since February 1, 1941, approximately six thousand individuals, firms, and corporations conducting export business, and has also investigated suspected violations of foreign funds control provisions by a large number of individuals, firms or corporations. Officers of the Customs participated in seizures of foreign vessels immobilized in American ports and assisted in making these ships available for American use.

United States Coast Guard

During the calendar year 1941, up to November 1, the United States Coast Guard functioned as a bureau of the Treasury Department, but on that date it was, by direction of the President, transferred to the jurisdiction of the Secretary of the Navy. The Coast Guard, in the period prior to its transfer to the Navy Department, had assumed many special and additional duties consequent upon the state of war abroad and the growing menace to the United States. Supervision over the number of vessels in the harbors and territorial waters of the United States was greatly strengthened

and intensified. The program of training of merchant sailors and officers under the direction of the U.S. Maritime Commission was substantially enlarged and at the request of the Navy Department seamen were trained in specialized occupations. Men and officers specially qualified and equipment specially adapted to navigation in ice conditions were employed in Greenland operations and later transferred to Navy command. The enlisted personnel of the Coast Guard was increased to an all-time high of 21,837 on November 1, 1941.

A building program instituted during the year includes some 75 cutters of various classes in which are included four 260-foot steel ice-breakers of 5,000 tons displacement, three for Arctic service and one for lake service, three 327-foot steel cruising cutters, and ten 255-foot steel cruising cutters to replace ten 250-foot cutters which were transferred to Great Britain under the Lease-Lend Act.

December 22, 1941
12:05 p.m.

HMJr: Okay.

Operator: All right. Go ahead.

HMJr: Hello.

Herbert
Emmerich: Hello. This is Herbert Emmerich speaking.

HMJr: Hello, Emmerich.

E: Do you want me to come over there, or do you want me to tell you on the phone what I've thought up?

HMJr: Well, tell me on the phone first and let me see how good it is.....

E: All right.

HMJr:because I'm kind of tied up.

E: Well, I talked to Harold Smith about it, and to Luther Gulick.....

HMJr: Yes.

E:who are responsible for inviting you, I believe.

HMJr: That's right.

E: And we all feel that - hope very much that you can see your way clear to do a job for the two organizations; and we feel that there's a story that hasn't been told at all, which I happen to know is an important one, and that's just what the Treasury has done in the national defense program. The Treasury has had so many major rolls to play in it.

HMJr: Yeah.

E: These two groups, you know, they're not economists.

HMJr: They're not?

- 2 -

- E: They're interested - the Political Science Association, a great many of them are professors and students of Government; and the Public Administration Society, are mostly administrators.
- WJr: Yes.
- E: The role of the Treasury in this thing has been so important, that that's a story which I think they'd be extremely interested in; and you folks have been not only in bond selling and taxation, but in Foreign Funds Control and God knows what else. If you think that's an important enough job here to do, I think that's the thing that would go very well.
- WJr: Well, I don't; but I tell you what I'm going to do, if you don't mind. I'd like to turn you over on the phone to Ferdinand Kuhn and let the two of you talk it over. Do you know Kuhn?
- E: I think I do.
- WJr: Could I turn you over to him now?
- E: Well, may I say one more thing?
- WJr: You can say two more things.
- E: All right. Smith and I both think that the kinds of problems that are ahead, the relation of fiscal policy to things like price control and inflation, and the relation of fiscal policy to conservation of materials and all that sort of thing, as an indication of the problems you folks have got coming, would be perfectly all right even if you can't talk about the new tax program; because you might feel that it would interfere with the President's message.
- WJr: Well, I - I mean, I've got everything that should go to a group like that, but I'm recommending that it all go into the President's Budget message, which leaves me as flat as a pancake.
- E: Yeah. Well, I don't mean to tell them the answers, because that you can't do, probably.

HMJr: Well, I can't, in these times, go up there and state the problem and not - and act as though I didn't know what the answers were. It's very difficult. They never should have asked me to speak one week before the Budget message.

E: Yes, it's an awkward time; there's no doubt about it.

HMJr: Let me ask you, as an old friend, how awkward would it be if I didn't come?

E: Well, the - several other of their programs have kind of faded out. They were going to have Nelson and Henderson the day before; and, of course, they want very much to have you.

HMJr: What happened to Nelson and Henderson?

E: Well, they've cut off all their speaking engagements about three weeks ago, and notified the committee they couldn't be scheduled.

HMJr: Well, that's - of course, I mean, I've got the stuff. It's all here.....

E: Yeah.

HMJr:but I just don't see how I can talk about it. Let me - are you free to talk to Kuhn now?

E: Yes, indeed.

HMJr: See?

E: I'll be glad to.

HMJr: I'll get him on the wire and introduce you, you see, and then you can listen.

E: Yeah.

HMJr: Just a moment.

Operator: Operator.

HMJr: Put Mr. Kuhn on the same time. I want to introduce him to Mr. Emmerich.

Operator: All right.

HMJr: I'm awfully much obliged to you for thinking about it, Herbert; but the more I talk to you, the more I think I shouldn't talk.

E: Well, that's up to you. This is the best - and by the way, Gulick is up taking to - he's flying back this afternoon, but he's going to take to.....

Operator: Go ahead, sir.

HMJr: Ferdie, Herbert Emmerich's on the wire listening.....

Ferdinand
Kuhn: Yes.

HMJr:and he's been kind enough to call me up, and he's got some suggestions, and I thought I'd let him talk to you and then maybe you could get together.

K: All right, fine.

HMJr: And, he's on the phone now and I'll let you talk with him.

K: Good.

HMJr: And I think if - the sooner the two of you could get together, the better; because I think I ought to make up my mind between now and sunset whether I'm going to talk or not.

K: I think so.

HMJr: And if you would talk to Herbert Emmerich, and between now and sunset let's make up our minds.

E: Let me say just one more thing. Now, Gulick is sending Smith air mail today some suggestions along the lines I've mentioned, which Harold Smith will have tomorrow morning.....

HMJr: Yeah.

E:for whatever they're worth.

HMJr: Okay.

- 5 -

E: All right, Mr. Kuhn.

K: Yes, Mr. Emmerich.

December 22, 1941
12:10 p.m.

HMJr: Hello.

Operator: General Cox.

HMJr: Hello.

General Cox: Good morning, Mr. Secretary.

HMJr: Good morning, General, how are you?

C: I saw General Reybold, Chief Engineer, this morning.....

HMJr: Yes.

C:and he said this matter was being handled entirely by General Fleming.

HMJr: That's what I thought.

C: Yes. Now, I've just talked to General Fleming.....

HMJr: Yeah.

C:and he said the reason for not putting in a bombproof shelter is just exactly, of course, as you told me.

HMJr: Yes.

C: That it wasn't permitted.

HMJr: Yes.

C: That they would like to do it.

HMJr: Yeah.

C: And that this set-up that they have over at the Treasury building is the best available under the circumstances.

HMJr: Yes. Well, I think we'll have to let it rest there until the President changes his mind.

C: Yes. I still am just as fully impressed as I was. It's not good.

HMJr: Right. Well.....

C: And the sooner we can get the other done, the better.

HMJr: Right.

C: I think General Fleming thinks that maybe later on they might be able to get the other thing done.

HMJr: Yeah. All right, General.

C: In the meantime, I'll just continue these plans about this digging out thing.....

HMJr: Yeah.

C:that we discussed.

HMJr: That's right.

C: Okay. Thank you, sir.

HMJr: Good-bye.

See page 2.

December 22, 1941
1:02 p.m.

Operator: Go ahead.

HMJr: Hello.

Senator
Barkley: Henry?

HMJr: Yes, Alben.

B: I talked to Walter George about that matter.....

HMJr: Yes.

B:and he said that Walsh had talked to him.....

HMJr: Yeah.

B:and that as far as Walter was concerned, he had no objection but he said that Walsh had told you he would let you know this week.....

HMJr: Well.....

B:about it. I haven't been able to talk to Walsh yet. He's in town, though, today.....

HMJr: Is he?

B:and I'll try to get hold of him. If I can't today, I'll do it tomorrow.

HMJr: Will you?

B: Yeah. I'll let you know. Of course, Walter said, and I agree, that it's not a state appointment exactly; although this fellow comes from Massachusetts, it's not a state office, and that if it were, he might have grounds for making it a personal objection but that inasmuch as it's a national office, that he might yield on it, so I hope he will.

HMJr: Well.....

B: It'll be a lot better than to have to have a fight over it.

- 2 -

HMJr: I don't want to fight, but - and as I say - unless you assured me I could win, I don't want to fight.

B: Well, I'd have to canvass the Senate and the committee both.....

HMJr: Yes.

B:before giving you any such assurance.

HMJr: Yes.

B:but I'll let you know.

HMJr: Thank you.

B: Now.

HMJr: Yes.

B: Here's another matter. ✓

HMJr: Yes, sir.

B: I called up Francis Biddle the other day about a situation in Louisiana.....

HMJr: Yes, sir.

B:over the appointment of a District Attorney.

HMJr: Yes, sir.

B: And he said that you had expressed some skepticism about the man recommended by Ellender and Overton because he might be too close to some people down there involved in income taxes. Is that correct?

HMJr: Well, as far as I know, I don't know that - I can't remember that Biddle ever talked to me about it.

B: Well, anyhow - well, now here's the situation.

HMJr: I mean, I have.....

B: You know the two Senators from Louisiana are as

- 3 -

loyal administration supporters as we've got in the Senate.

HMJr: Yeah.

B: And we have our problems over here.....

HMJr: Yeah.

B:and they tell me that this man is all right; and even if it did involve any income tax matter, you can do as you frequently do - send a special attorney from the Department. I don't think there are any suits down there pending at this time.

HMJr: Well, Alben.....

B: And what I'm anxious to do - these boys want to go home for Christmas and they're having an election down there, and they're anxious for this appointment to come in before they go; and we're going to meet tomorrow and then go over till Friday; and Francis told me that he's all right on it, but he's waiting on you.

HMJr: Well, I don't think that that's true. The only case that I can remember of, he talked to me about a man from Los Angeles.....

B: Uh hun.

HMJr:to be a judge.

B: Well, he may have the cases mixed.

HMJr: And I don't.....

B: This fellow's name is Christenberry, and they say he's a very able man and that he hasn't any connections down there that would be embarrassing; and I'd like to just help these boys out and keep our house in order over here, which, you know, I've got a big troupe over here that I have to deal with.

HMJr: I know. Well, now, what do you suggest I do?

B: And they've been negotiating and talking about

- 4 -

it for the last three or four months, and he's been a first assistant down there for six years.

HMJr: Well, you see.....

B: Why can't you call Francis up and tell him as far as you're concerned to let it come on in?

HMJr: Well, I'll just tell him, I don't know anything about it.

B: Well, will you do that?

HMJr: I'll call him up immediately.

B: And I'd like to have him send it over tomorrow.

HMJr: Christenberg.

B: Christenberg, yes.

HMJr: Never heard of him.

B: Christenberry, Christenberry.

HMJr: Christenberry. Yeah.

B: Yeah, that's an old Southern family name, and we've got a lot of Christenberry's in Kentucky and they're all good people.

HMJr: Well.....

B: I can't guarantee those in Louisiana.

HMJr: I've got a lot of poor qualities, but one of them is I tell the truth.

B: What's that?

HMJr: One of the few qualities I have is I tell the truth.

B: Well, you can put the soft pedal on that now and then, can't you?

HMJr: No, I still like to tell the truth. I never heard of him.

- 5 -

B: Well, you don't tell it except when you have to. (Laughs) Is that what I gather?

HMJr: Well. Well, listen.....

B: Now, I don't know, it may be that he's got that case mixed with some other.

HMJr: I'm afraid he.....

B: Probably he has. Anyhow, will you call him up right away and tell him that I talked to you?

HMJr: I'll do that.

B: And that I'm anxious to get this thing ironed out and I wish he'd - as far as you're concerned, that you haven't got any interest in it.

HMJr: Well, I'll call him up at once.

B: All right. And I'll call you tomorrow about this Massachusetts matter.

HMJr: Thank you.

B: All right.

Christenberry

our Bell

No

Gaston

yes

Sullivan

No

Foley

yes

TO:

The Secretary

Inquires about Mr.
Christenberry were
made by the Attorney-
General of:

Mr. Foley

Mr. Gaston

prior to 1:00 p.m. today
J.

From: LIEUT. STEPHENS

12/22/41

December 22, 1941
1:10 p.m.

Francis
Biddle: Hello, Henry.

HMJr: Francis.

H: Yes.

HMJr: I've just had a telephone call from one Alben Barkley.

B: Barkley?

HMJr: Yes.

B: Alben, yeah.

HMJr: He's one Alben. He works in the Senate.

B: Yeah.

HMJr: Comes from Kentucky.

B: I've heard of him.

HMJr: Yeah. And he says that you say that you'd love to send Christenberry's name in from Louisiana, but that I'm holding you up.

B: No, I didn't say that. I said that we want to clear with the Treasury before we sent it in. Now, what I'm doing, I'm going to send over Christenberry's name with a little caveat to the President. It undoubtedly means that the anti-Huey Long crowd will take the appointment to mean that we're backing the Huey Long organization. Now, if the Chief wants to do that, it's all right. But we've got several tax cases and several criminal cases, and I think he ought to remember that.

HMJr: Well, I was perfectly truthful in telling him that you'd never talked to me about it.

B: That's right.

HMJr: You haven't.

B: No. I mean, I think our people cleared with Ed

- 2 -

or somebody over there, and both our people and your people feel that we just don't like it.

HMJr: Well.....

B: We just don't like it.

HMJr: No one - I don't - well, I don't think.....

B: Oh, they wouldn't have bothered you about it I don't believe.

HMJr: Well, I just say - has it already been sent over here?

B: No, no. I told Jim to - or Sam Klaus - to check with the Treasury and get their aquint on it.

HMJr: Yeah.

B: I don't know who he talked to. I can find out if you like.

HMJr: Well, I don't know; but anyway, I said the only case you'd ever talked to me personally about was a fellow from Los Angeles.

B: That's right. That's right. No, I never talked to you about this.

HMJr: Well, anyway.....

B: You're perfectly in the open.

HMJr: Well, he seems to think that I'm personally holding it up.

B: Well, I'm going to call him as soon as the name is sent over; and I'll just call him and tell him that we've sent the name over to the Chief and told him what the situation was, and I think that.....

HMJr: I don't know the man. I don't know whether he's bad - if I looked him up, I'd most likely find out he was no good.

B: Christenberry isn't bad, but his gang are awful.

- 3 -

HMJr: What?

B: Cristenberry's all right, but his crowd are pretty awful.

HMJr: Well, you've got ways of finding it out, haven't you?

B: Oh, I've got the whole dope. I've got everything there is.

HMJr: Yeah. Was he part of the Huey Long gang?

B: His brother was very close to the Huey Long organization.

HMJr: Yeah.

B: If we just - if the President wants to; I mean politically, it simply looks as if the Administration were backing up the Huey Long organization.

HMJr: Well, that would look pretty bad, wouldn't it?

B: I think it would, and I think the Chief will have to make up his mind whether he wants to give that to Ellender or not.

HMJr: Of course, we haven't done that up to now.

B: No. On the other hand, there's nothing specifically against enberry; he's a competent, decent little fellow with a perfectly good reputation.

HMJr: Right.

B: So I think the Chief will have to decide for political matter.

HMJr: Right.

B: All rightie.

HMJr: Thank you.

B: Thank you.

December 22, 1941.

MEMORANDUM FOR THE SECRETARY'S FILES

Conference in Secretary Morgenthau's Office
December 22, 1941
3:00 P. M.

Present: Secretary Morgenthau
Sir Frederick Phillips
Mr. White

Sir Frederick called at his request. He stated that he had three points to raise.

1. The United States is taking planes which the British had ordered prior to the Lend-Lease Act for their own use and for which they had paid dollars. He was unable to learn exactly how many planes the Army had taken nor had any statement been made as to whether they were to be paid for or replaced. He stated the British Government would very much like to have them paid for with cash. The Secretary replied that the Army had not notified him of any such transactions but he would see what he could find out. He telephoned Mr. McCloy and was unable to reach him. Mr. Lovett was also unavailable, so he spoke with Mr. Patterson. The Secretary told Mr. Patterson that Sir Frederick Phillips was in the office and had come to him stating that the British planes were taken over by the War Department and that the British Treasury wished to receive cash for them but had not been told how many planes were taken nor when and how they were to be paid. Mr. Patterson inquired whether the British had paid for the planes and Sir Frederick replied to the Secretary that advance payments had been made in all cases and in some cases they had been completely paid for. Mr. Patterson then said that the Army would pay the British in cash and that the British could then pay the manufacturers the balance due, if any. Mr. Patterson said that he would get in touch with Sir Frederick directly on the matter very soon. The Secretary suggested to Sir Frederick that if he did not hear by Friday, he should get in touch with him (the Secretary).

2. Sir Frederick referred to the probable loss of dollar exchange to the British resulting from the attack on Malaya. Sir Frederick stated that if Malaya was unable to export rubber and tin, British dollar exchange resources would be seriously depleted during the coming year. He estimated the loss at approximately \$300 million a year. He said he proposed to present an estimate of a balance of payments for the coming year in which the figures were to be adjusted in the light of the new circumstances.

- 2 -

Division of Monetary
Research

3. Sir Frederick referred to a letter he had received from the Secretary of the Treasury asking whether the British Treasury would wish to release to the Federal Reserve Board the weekly British gold figures which were submitted confidentially to the Treasury. Sir Frederick asked the Secretary whether he felt that was necessary. The Secretary said he would not press the matter and Sir Frederick said the British Treasury would prefer that the figures be confined to the Treasury unless the Secretary pressed them to release them. The Secretary said he would not press the matter.

December 22, 1941
3:17 p.m.

HMJr: Hello.

Operator: Mr. McCloy is out of the building attending a meeting, and they don't expect him for at least an hour.

HMJr: Well, see if Mr. Stimson is in. Well, wait a minute, it's planes. Give me Lovett.

Operator: Lovett, all right.

HMJr: Lovett - Robert Lovett.

Operator: Right.

3:21 p.m.

HMJr: Hello.

Operator: Mr. Lovett is not in, but his secretary will try to locate him and have him call you.

HMJr: Get me - try - see if the Under Secretary is in - what's his name?

Operator: Patterson?

HMJr: Patterson.

Operator: Right.

HMJr: See if he's there.

Operator: All right.

3:22 p.m.

HMJr: Hello.

Operator: Mr. Patterson.

- 2 -

HMJr: Hello.

Robert
Patterson: Hello, Henry.

HMJr: Bob?

P: Yeah.

HMJr: Can you help me out?

P: Sure.

HMJr: Sir Frederick Phillips, representing the British Treasury, is here. I tried to get McCloy and I tried to get - what's his name - your air man?

P: Lovett?

HMJr: Lovett - but nobody's in, so I've got to bother you.

P: All right.

HMJr: Somebody in the War Department has taken over a lot of English planes in this country. Now, the British Treasury wants to know how you're going to pay for them; and, of course, I told him I know less than nothing about it. I'm only in the Treasury.

P: Yeah. Well, of course.....

HMJr: But.....

P: I understand we have taken over planes on British orders since the outbreak of war.

HMJr: Yes. Now, they want to be paid in cash.

P: Yeah. Well, they ought to be.

HMJr: Well, now, could you.....

P: If they paid the plane companies - I suppose they paid them largely in advance, didn't they?

HMJr: Well, just a minute. He's sitting across the

- 3 -

desk. (talks aside) How have you paid for these planes so far? You've paid in advance?

They've made advance payments in cash; and most likely if they've taken delivery, they have them paid entirely for cash.

P: Yeah. I presume the thing to do is really to reimburse the British Government and let them make the arrangements with the manufacturers.

HMJr: Well, something like that. But they're left high and dry, and they think it'll run around a hundred and twenty million dollars, which in dollars is a lot to them.

P: Well, I'll take it right away. Who should I talk it over with?

HMJr: Well, if you'll - for the British?

P: Yes.

HMJr: Sir Frederick Phillips.

P: Yeah. All right. I can get him at the British Purchasing Commission?

HMJr: Yes. He's sitting here. He'll be going back to his office shortly.

P: Yeah.

HMJr: Now, he's been unable to even get a list of the planes. He's also in the Treasury, so he's sort of in the dark.

P: Yeah.

HMJr: So - but he knows he's paid cash, but he can't find out what planes you've taken.

P: Yeah.

HMJr: But I think if it could be done fairly promptly, it would leave a good taste in their mouth.

P: Oh, they ought by all means to get the money.

- 4 -

HMJr: And - do you think it could be done fairly promptly?

P: Yes, sir.

HMJr: Okay.

P: All right, Henry.

HMJr: Thank you.

P: Good-bye.

December 22, 1941
3:43 p.m.

132

Senator
Byrd: Hello, Henry, how are you?

HMJr: I'm alive.

B: Henry, everybody down here agreed to sign it except LaFollette.

HMJr: I see.

B: And Nye has approved of all of them except the farm - he wouldn't sign the farm.

HMJr: Yeah.

B: So would it be all right for us to work out any little changes with Bell?

HMJr: Yes.

B: All right.

HMJr: Yes. Will you do that?

B: Yeah. I'm sorry I couldn't do better. And then just sign your name to it, huh?

HMJr: You mean, let Bell?

B: Yeah, I mean let Bell sign your name to it.

HMJr: Well, I'd like to talk with Dan about it.

B: He was down here, you know, and we went all over it.

HMJr: I know. He wanted to talk to me this morning, but they've just swept me off my feet all day.

B: What we're trying to do is to get it out the first thing in the morning, so as to release it Wednesday morning.

HMJr: Oh. Well, I'd like to talk with Dan once more.

B: Are there any things you've got in your mind, especially, about it?

HMJr: Well, of course, I don't think it's gone far enough.

- 2 -

B: Well, I don't either; but we emphasized here that we're going into a lot of other matters and we added another clause to it. This is just the preliminary report.

HMJr: There's one thing there which would hit me pretty hard. Hello.

B: Yeah.

HMJr: And that's this question of publicity people.

B: Uh huh. Well, that's immaterial. If you want that done, we'll cut it out.

HMJr: Because we can't sell Defense Savings Bonds without having publicity people.

B: Well, what it meant was in non-defense.

HMJr: Well.....

B: But if you want that - there's no importance attached to that - we'll leave that out.

HMJr: I mean, I have no objection to your going into the other agencies and looking at them, but just naming it that, we might - they might suddenly wake up and have no appropriation for Defense Savings Bonds.

B: All right. Well, suppose we strike that out, then.

HMJr: Would you do that?

B: Yes, sir.

HMJr: And I'll talk with Dan - when are you going to see him?

B: Well, we could see him any time. We're anxious to get it out into the papers this afternoon. They've all - everybody else has signed it except Cannon - Cannon went home, but he said he's for it.

HMJr: Well, give me - can you give me a half an hour to turn around in?

- 3 -

B: Oh, yes. Do you want Hayward Bell to come up there and see Dan, then - my secretary, Hayward Bell?

HMJr: Come here.

B: Yeah.

HMJr: If he could do that; and I'll try my best, but.....

B: All right. Of course, if you could make this publicity relate strictly to non-defense, I think it would be a good thing; but if you have any question about it, we could leave it out.

HMJr: Well, what is that?

B: That publicity part of it. That publicity item. I say, if you could make it strictly to non-defense.

HMJr: Look, I'll go along with you on examining any of these agencies who have publicity departments.

B: All right.

HMJr: But I just think if you nail it, it might frankly, somebody, you know, they'll say, "Well, strike them all out."

B: Uh huh. Well, I think you can re-word that, Henry, just to affect those that have nothing to do with the defense.

HMJr: Oh, I don't know. Well, if it.....

B: But if you think it's inadvisable, it's entirely acceptable to us - to me - and I know it will be to the rest of them - to leave it out.

HMJr: Thankyou.

B: Fine. Well, he'll come up there in a little while, then.

HMJr: He'll come to see Bell.

- 4 -

B: Yeah.
HMJr: I'll tell Dan.
B: All right.
HMJr: Thank you.
B: Thank you.

December 22, 1941

My dear Senator:

I am willing to sign the report of the Joint Committee on Reduction of Non-essential Federal Expenditures subject, however, to my disagreement with the recommendations under "Agriculture." I disagree with the recommendations with respect to "Agriculture" and in lieu of the recommendations contained in the Committee's report, I desire to suggest the following:

"When I appeared before the Committee on November 14 I stated that expenditures included in the Budget under the farm program which was initiated in 1933, after the catastrophic fall in prices in 1932, were designed mainly to meet conditions involving low prices for farm products, surplus production and loss of export markets. Present conditions are radically different from those which the farm program was designed to meet. It is estimated that in 1941 the farmer's share of the national income will be 20 per cent greater than in 1932, notwithstanding a reduction of almost 10 per cent in the proportion of the farm population to the total population of the country. Although governmental aid was necessary in order to bring the farmer's net income from three and one-quarter billion dollars in 1932 up to eight and one-half billion dollars or more in

- 2 -

1941, certainly after having reached this goal there does not appear to be any reason to continue spending at the same rate. The farmer is getting his share of the total expenditures made by the Government, as the increase in his net income indicates. In addition, there are substantial benefits that will accrue to the farmer from the Lend-lease program.

"In view of all these circumstances I feel at this time that we should make drastic cuts in our agricultural expenditures and I would recommend that the Secretary of Agriculture be required to operate the agricultural program included in the Budget with an annual appropriation of \$500,000,000 less than authorized for the current fiscal year.

"With respect to that part of the agricultural program carried on with funds borrowed from the Reconstruction Finance Corporation, I would want the Committee to make a more thorough investigation of these activities before I make any definite recommendation for reductions in the amounts available for this purpose."

I also raise a question about the recommendation (paragraph 1, item 7), to cover into the Treasury all reserves set up by the Bureau of the Budget. Reserves are set up primarily to meet unforeseen contingencies and to avoid deficiencies. Many times these

- 3 -

reserves result in large savings. It seems to me that if a general recommendation of this kind is adopted, it would defeat the very purpose for which reserves are created.

Sincerely yours,

J. H. Morgenthau, Jr.

Secretary of the Treasury

Honorable Harry F. Byrd,
Chairman, Joint Committee on Reduction
of Non-essential Federal Expenditures,
United States Senate,
Washington, D. C.

WTH:CE:NLE
December 23, 1941

December 22, 1941

My dear Senator:

I am willing to sign the report of the Joint Committee on Reduction of Non-essential Federal Expenditures subject, however, to my disagreement with the recommendations under "Agriculture." I disagree with the recommendations with respect to "Agriculture" and in lieu of the recommendations contained in the Committee's report, I desire to suggest the following:

"When I appeared before the Committee on November 14 I stated that expenditures included in the Budget under the farm program which was initiated in 1933, after the catastrophic fall in prices in 1932, were designed mainly to meet conditions involving low prices for farm products, surplus production and loss of export markets. Present conditions are radically different from those which the farm program was designed to meet. It is estimated that in 1941 the farmer's share of the national income will be 20 per cent greater than in 1932, notwithstanding a reduction of almost 10 per cent in the proportion of the farm population to the total population of the country. Although governmental aid was necessary in order to bring the farmer's net income from three and one-quarter billion dollars in 1932 up to eight and one-half billion dollars or more in

- 2 -

1941, certainly after having reached this goal there does not appear to be any reason to continue spending at the same rate. The farmer is getting his share of the total expenditures made by the Government, as the increase in his net income indicates. In addition, there are substantial benefits that will accrue to the farmer from the Lend-lease program.

"In view of all these circumstances I feel at this time that we should make drastic cuts in our agricultural expenditures and I would recommend that the Secretary of Agriculture be required to operate the agricultural program included in the Budget with an annual appropriation of \$500,000,000 less than authorized for the current fiscal year.

"With respect to that part of the agricultural program carried on with funds borrowed from the Reconstruction Finance Corporation, I would want the Committee to make a more thorough investigation of these activities before I make any definite recommendation for reductions in the amounts available for this purpose."

I also raise a question about the recommendation (paragraph 1, item 7), to cover into the Treasury all reserves set up by the Bureau of the Budget. Reserves are set up primarily to meet unforeseen contingencies and to avoid deficiencies. Many times these

- 3 -

reserves result in large savings. It seems to me that if a general recommendation of this kind is adopted, it would defeat the very purpose for which reserves are created.

Sincerely yours,

\$ H. Morgenthau, Jr.

Secretary of the Treasury

Honorable Harry F. Byrd,
Chairman, Joint Committee on Reduction
of Non-essential Federal Expenditures,
United States Senate,
Washington, D. C.

WTH:CH:NLN
December 23, 1941

December 22, 1941

4:27 p.m.

John W.
McCormack: Hello there, Mr. Secretary; how are you?

HMJr: Where did I locate you?

Mc: Well, you located me in Boston at the WPA headquarters.

HMJr: Well, I didn't want to know that; I just wanted to know whether you were in Washington or not.

Mc: No, in Boston you got me.

HMJr: John, here's what I'd like to ask your advice about. Three or four months ago I went to Senator Walsh and said that I'd like to have as Under Secretary, Jim Landis. Hello.

Mc: Yes, I'm listening.

HMJr: And he objected on personal grounds.

Mc: Yes.

HMJr: Well, I went to him last week and I said, "The war is on now and I've looked for three months, and I can't find anybody, and I still want Jim Landis for Under Secretary."

Mc: Yeah.

HMJr: Well, he's given me every possible excuse and he's put it off and put it off, and he said he'd let me know tomorrow. Now, there's nothing against the man and there's everything for him. The only thing against - for - I mean, against him is that he wasn't for Willkie. He was for Roosevelt.

Mc: Yeah. Well, I guess that.....

HMJr: What?

Mc: I guess Walsh - you mean he's personally objectionable to Walsh?

- 2 -

HMJr: Yes.

Mc: Uh huh.

HMJr: But, I.....

Mc: I think that's on account of the Senatorial side.

HMJr: Yes, but I understand from Alben Barkley, who I've taken the thing up with.....

Mc: Yeah.

HMJr:that that particular position is considered a national position and that this question of personal privilege doesn't apply.

Mc: Well, I should think so. Now, what do you want me to do, Henry, or try to do?

HMJr: Well, if - I want help. I don't just - I want help on Walsh, that's all.

Mc: Well, of course, you know that I haven't talked to Dave only twice this year, because we've been as far apart as the Poles.

HMJr: Well, let me ask you this, who is there up in Massachusetts that has influence with him?

Mc: Well, I don't know as I - I think probably I could still talk to him. My diplomatic relationships have not been severed.

HMJr: Well, could you talk to him?

Mc: Oh, of course, I'd talk to him. I'd put it up to him coldly and say it's a credit to Massachusetts to have the Under Secretary of the Treasury come from there. As a matter of fact if you'd want me to send you a wire of endorsement of Landis.....

HMJr: No, that doesn't help any. It's a question of talking directly with Walsh.

Mc: Yes.

HMJr: Because he keeps saying, "Well, the Democrats in Massachusetts won't like this."

Mc: Well, I should think there's a deeper question there, that it's the feeling of pleasure that the state has been recognized.

HMJr: Well, Landis is a fine fellow; and I've looked high and low, I can't find anybody half as good.

Mc: Well, you couldn't - you haven't got anyone that has a greater respect for Landis than I have. I think he - as a matter of fact, he was at a breakfast yesterday given to me by the B'nai B'rith. It was an unusual honor, being the first New Englander selected for the gold medal.

HMJr: I wrote them a letter about it.

Mc: Well, they're going to have them all bound and given to me. I didn't know they had done that, but it was really one of the - it was an historic occasion.....

HMJr: Yeah.

Mc:and he was there. I have a very high regard for him. When are you going to see Walsh again?

HMJr: Well, he just keeps putting it off. It's a question of somebody like yourself calling him up and saying, "Now, look, Dave, Morgenthau's talked to me and I just want to let you know that as far as I'm concerned I'm for Landis."

Mc: Uh huh. All right, let me mull it over. Is there any particular hurry about it?

HMJr: Well, I mean, I think if you could do it in the next twenty-four hours.

Mc: Yes. Is he down in Washington - Walsh?

HMJr: They tell me he is, yes.

Mc: Yes. Well, I'll try and get him and have a talk with him.

HMJr: If you'd do that, I'd appreciate it.

Mc: All right, Henry; I'll do anything I can for you, you know that.

HMJr: Because, as I say, I think it's a damn shame in these times to hold me up.

Mc: Well, I agree with you. Men have got to be given their own weapons.

HMJr: Yeah.

Mc: That's the one thing I've been standing for in Congress, that we've got to give the Executive branch of the Government which has to conduct the war, all the powers that's necessary.

HMJr: Yeah. A telegram won't do any good, either.

Mc: Oh, no, I wouldn't send a telegram.

HMJr: It's a question of a personal telephone call.

Mc: Can I tell him I had a talk with you?

HMJr: Yes.

Mc: And that during the course of the talk we discussed Landis?

HMJr: Yes.

Mc: All right, fine.

HMJr: Yeah.

Mc: I'll do what I can, Henry.

HMJr: Thank you.

Mc: Good-bye.

HMJr: Good-bye.

146

- 85

1941 DEC 22 PM 5 58

WV155 33 GOVT

BOSTON MASS DEC 22 452P 1941

HON HENRY MORGANTHEAU

SEC OF TREASURY

IMMEDIATELY AFTER OUR TALK TRIED TO GET WALSH ON THE FONE
INFORMED HE HAD LEFT WASHINGTON AND WOULD BE IN CLINTON
TUESDAY I WILL TRY AND CONTACT HIM THERE AND REPORT TO YOU

JOHN W MCCORMACK M C.

525P.

✓ H
T
R
E
A
S
U
R
Y

T
E
L
E
G
R
A
P
H

T
R
E
A
S
U
R
Y

December 22, 1941
4:49 p.m.

RMJr: Dan Bell is sitting next to me.

Senator
Byrd: Yeah.

RMJr: Now, he's got a few little things which he'll tell you about. Hello.

B: All right.

RMJr:which are not important, and I'm sure that you'll go along with; but here's the important thing. The Agricultural thing - what I'd like to do would be to write you a letter, see.

B: Uh huh.

RMJr: And say that I think that what I'd like to see would be the Secretary of Agriculture be directed to save five hundred million dollars of his appropriation.

B: All right.

RMJr: See?

B: I wish you'd have been there that day, Henry, we might have gotten something done. I had a devil of a time.

RMJr: Because the way.....

B: Danny will explain it to you.

RMJr: He did.

B: They jumped on us all over.

RMJr: But I'd like to do it that way rather than singling out these different items.

B: All right. I think - you mean instead of signing that particular.....

RMJr: Well, as I say, I'll sign it some way with a proviso that I'm not going along on the Agriculture;

but on the Agriculture, this is my suggestion.

B: Uh huh.

HMJr: Something like that.

B: All right. I entirely approve of it, and I thought rather than for me to withdraw - I mean, to get up only two or three members to sign it, it's better for me to go along.

HMJr: Yes, but you don't mind my doing.....

B: No, not at all. I think it would be an excellent idea. I think there ought to be deeper cuts. Of course, we do say, you know, that this is a preliminary report and that we'll bring in others.

HMJr: Well, I couldn't sign this one, because it singles out certain things that if I had to do the cutting, I wouldn't cut, you see, in Agriculture.....

B: Uh huh.

HMJr:and the things I'd like to cut, they don't.

B: I see. All right.

HMJr: So I'd like to just.....

B: You'll sign it with that exception.

HMJr: With that exception, and then suggest that in view of - they'll fix up a little letter - and the increased - oh, they'll take just the part out of the statement which I gave them on the Hill.

B: Yeah. All right.

HMJr: I forget - I mean, which I gave to you - I mean, in view of the situation and the increased.....

B: You see, those darned fellows, they just wouldn't do anything on parity payments and soil conservation.

HMJr: Well, I'd like to just take what I said before you on Agriculture.

B: All right.

- 3 -

HMJr: And say, "In view of these conditions which I have already presented to you, I feel that the Secretary of Agriculture could very well save five hundred million dollars, but it's up to him to do it.

B: Uh huh. All right, sir.

HMJr: That won't - is that all right?

B: Yes. I think that's.....

HMJr: Well, with that, and with a few little things which Bell will tell you about - your man's in his room now.....

B: Yeah.

HMJr:we're all right.

B: Fine, Henry. And I think we can get some further reports now. George told me today that he thought we ought to have gone farther, although he at the time didn't want to do it. I mean, he didn't want to cut any of these Agricultural things. But I think as time goes on, about the first of the year, we can get a recommendation to cut them deeper.....

HMJr: All right.

B:from the committee. Now, you see the fact that we're getting practically everybody to sign this, I think, will have some effect.

HMJr: Well, I'd just like to sign it with that one proviso.

B: Why, that's fine. I think that'll really help it, too.

HMJr: All right.

B: Fine. Thank you so much. And I'll say a Happy Christmas to you.

HMJr: Thanks. Same to you.

B: Good-bye.

HMJr: Good-bye.

December 22, 1941
5:03 p.m.

HMJr: Hello.

Harold
Smith: Hello.

HMJr: Harold Smith.

S: Yes.

HMJr: Henry Morgenthau.

S: Yeah.

HMJr: Look, have you got a minute or two?

S: Yes.

HMJr: It's about next Sunday night. Now, in the first place, I wish I had time to come to see you. Will you please take my word a hundred per cent the fact that I've been hesitating about doing this - there's nothing personal in it - it's just the question of the subject and the time.

S: Yeah.

HMJr: Because when you were kind enough to ask me to do it, I felt very much complimented and I still do, but we're all here trying to turn out something for the President and you on this Budget thing; and all the suggestions I've gotten from the various people, they all - everybody, when they get down to it - they all shy away because they realize that the President's Budget message comes first.

Let me ask you this question, are you going to be able to get up there Sunday night yourself?

S: Well, I'll have to be up there all the time, I guess.....

HMJr: Are you going to.....

S:or at least I may have to fly back.

- 2 -

HMJr: Are you going to be there for three days?

S: Well, I'll have to be there for parts of three days. I'm in a hell of a spot, because I'm the President of this outfit.....

HMJr: I know.

S:and I've got a presidential address to give, I think that's Monday night.

HMJr: Has it occurred to you at all, the possibility of postponing the whole thing for two weeks?

S: Well, you see, that can't very well be done because it's a joint meeting with the Political Science people and they start a year in advance to plan their meeting, that's the rub.

HMJr: But I meant - because the thing on you must be simply terrible. It would be bad enough on me, but the repercussions on you would be ten-fold.

S: Well, I know, I'm in an awful jam; and, of course, I was - nobody ever consulted me or even so much as warned me last December. They got into a jam over something and elected me president without any notice, and I never - I just got through resigning from everything I'd ever been connected with.

HMJr: Uh huh.

S: Well, I think that there's an area there that you can talk about that doesn't have much bearing on the Budget message; and as far as I'm concerned, I don't think it would do much harm if you crowded it a little bit. But I think that there's something that can be said that'll be a background for the Budget message - it will be very helpful; and I know it's a little bit difficult; but at the same time, I feel that this is going to be a national broadcast.....

HMJr: Yeah, that's the trouble.

S:people are very much concerned about all these problems, and that there's an area that

- 3 -

I believe will be helpful.

HMJr: Well, all day long we've been talking back and forth here, and with other people, and we just can't find the area.

S: (Laughs)

HMJr: And I've been really trying very hard because I I don't like to say I'm going to do something and then not do it.

S: Well, I don't want to crowd you at all, but I.....

HMJr: I've never been so stumped in my life. I mean, two weeks from now I could follow the Budget and say, "Now, this is what the President said; now here's my job and this is my end of it."

S: Well, I wouldn't - I wonder if you aren't too much concerned about the immediate task there - of financing, I mean and taxation. It seems to me - I think, it seems to me, your boys could help you put something together on the problems and.....

HMJr: Well, frankly they haven't been able to, and they've really made an honest effort.

S: My gosh. Well, it's kind of a dilemma. I hate to see you withdraw from that, because I think it's really - they're banking on you, you know.

HMJr: I know.

S: Well, we've sort of advertised you now.

HMJr: Well, if it wasn't for you personally - I mean, the fact that you are the president of this thing - I'd say just as quick as a flash, "Please excuse me."

S: Well, I hope you won't put it on that basis.

HMJr: But I mean, it's just - the fact that you are the president, it makes me hesitate.

S: Well, we.....

HMJr: That's the only reason I'm hesitating, because we've all talked about it - everybody around here -

and it just seems about the worst possible time to make a speech - for the Secretary of the Treasury to make a speech.

S: Uh huh. It's an awfully good group to make one to.

HMJr: I know it is.

S: Yeah.

HMJr: It's a fine group.

S: And we've done something to - of course, that program has got very wide distribution, and even the preliminary program. Well, it's a kind of a dilemma, isn't it?

HMJr: It is, and as I say, I want to - and I'm trying to look at it in an abstract manner, what can I do, and I really feel I'd be a complete flop up there. Because the boys here, we've got some bright boys around here and.....

S: Yes, you have.

HMJr:they've tried earnestly - I mean, I've talked with Jack Viner and I've talked with other people and - who are all interested in your work - I mean, this public administration; and the suggestions that Emmerich gave me were not so good.

S: Yeah.

HMJr: Herbert Emmerich didn't - I mean, what he came through with wasn't any good.

S: Yeah. Well, I may be wrong. I thought that you could put together - here's a puzzling situation with priorities, scarcities, and civilian supply.....

HMJr: Oh, I could.....

S:prices soaring.....

HMJr:make a speech, but that's what I hope to give the President and you.

S: Uh huh.

- 5 -

HMJr: The stuff that - I've got the speech, but I'm going to hand it to the President and you.

S: Uh huh.

HMJr: I mean, we're going to give you everything that we've got here in the Treasury.

S: I wondered - well, I'm - I think that you ought - won't you just think a little more about this before you.....

HMJr: Sure.

S:before you make up your mind.

HMJr: Sure.

S: I appreciate the - I don't think I did when we came over there to talk to you about this, and you very graciously accepted. I think probably neither Luther Gulick nor I quite realized at the time that this might possibly conflict with the Budget message.

HMJr: Well, I know I didn't think about it. I just thought between Christmas and New Years - it isn't as though I'm going anywhere or got anything else to do.

S: Yeah.

HMJr: But it's - other than to go to bed.....

S: Yeah. Well, both you and I are very much rushed; and I don't know, maybe some of your boys haven't been as ingenious this time as they usually are.

HMJr: No, they've tried awfully hard. I've had them in here about three times on this today.

S: I see.

HMJr: We've talked about it the first thing in the morning. I talked about it at the house last night, and we've been talking about it for a week.

- 6 -

S: Yeah.

HMJr: And the more I get into this message for the President, every good idea I've got I'm giving to that.

S: Yeah.

HMJr: For whatever it's worth.

S: Yeah.

HMJr: But supposing.....

S: You don't think there's anything on the administrative side - now, take your Fund Control isn't understood very well.....

HMJr: Well, that's.....

S:by people over the country, and.....

HMJr: Well, I may.....

S:the general Treasury effort.

HMJr: I may wake up and find I've lost it between now and Sunday. (Laughs)

S: (Laughs)

HMJr: Although I hope not. I tell you, I'll tell the boys to think about it once more and make an honest effort; and then I'll call you up around noon tomorrow.

S: Yeah, fine. If I can be helpful - if you want me to talk to any of them - I'll be glad to do it. If - of course, I feel this way, that we did bank on you being a feature of that program and you're the only person on it, and there were some other plans to get some other people and we pushed them out of the picture, so you'd have that whole evening to yourself.....

HMJr: Uh huh.

S:and - but on the other hand, I will say to

- 7 -

you that if after you size this up and you feel that you shouldn't do it, why I think we can pull the thing out without very much repercussions.

HMJr: And there mustn't be any feeling on it.

S: Yeah.

HMJr: There won't be any feeling on your part.

S: Oh, absolutely not. Oh, no I'm just as sensitive to your position almost, I suppose, as you are.

HMJr: Well, I.....

S: I can see the difficulty of getting around it. I'm just a little - because it is a joint meeting - it was one of the few joint meetings planned, you see.....

HMJr: Uh huh.

S:and you were the king pin of the plan, and a little from the standpoint of both the Political Science Association and the other group to see it dropped.

HMJr: Yeah.

S: But we are at war, and if it comes to that, why we'll just have to try to do it, that's all.

HMJr: Well, I appreciate your spirit - nobody could be friendlier - and we'll make one more honest effort. I'll give you a ring around noon.

S: Yeah, all right.

HMJr: Ever so much obliged.

S: Thank you.

TO:

The Secretary ¹⁵⁷

The recommendations
of the Treasury group
(Marrs, Haas, Murphy & Bell)
were made before we saw
The Budget Message. Since
seeing this message it
becomes more imperative
that something like this
be done.

Dec 3
Office of the Under Secretary

1422

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE Dec. 27, 1961

TO Secretary Morgenthau
FROM Messrs. Bell, Morris and Haas
SUBJECT: Government Bond Market Policy

The Executive Committee of the Federal Reserve Open Market Committee called on us on Thursday to discuss the proper handling of the Government bond market during the war.

The Committee is badly divided among themselves. They are agreed that we ought to establish a "pattern of rates", and that the rate for future long-term borrowing should be 2-1/2 percent. They differ sharply, however, as to the maturity range in which it would be appropriate to borrow new 2-1/2 percent money.

Three members of the Committee, Messrs. Eccles, Sproul, and Leach, believe that new borrowing should not be longer than the 1955-60 maturity range, and that the outstanding 2-1/2's of 1967-72 should be allowed to fall to a discount. Estimates of how much of a discount this would represent differ. Mr. Sproul suggested a price of 98. Chairman Eccles suggested a price of 97. Our studies indicate that the appropriate price might be as low as 95.

The other two members of the Committee, Messrs. Ransom and McKee, differ sharply from this view. They believe that it is extremely important psychologically that the 2-1/2's of 1967-72 should be maintained at par, and believe that the pattern of rates should be framed with this objective in view. Mr. McKee urged that this would increase the maturity of new long-term borrowing by only about 5 years and that this was very unimportant compared with the psychological advantages of maintaining the outstanding 2-1/2's at par.

The Eccles-Sproul group are also very desirous of increasing short rates. Mr. Sproul suggested that the "pattern of rates" should run from 0.50 to 0.75 percent on 90-day bills to 2-1/2 percent on 1955-60 bonds. Mr. McKee said that such a pattern would not give us room "to turn around".

Secretary Morgenthau - 2

Mr. Williams, who was present, agreed with the Eccles-Sproul group. We are informed that Mr. Goldenweiser, who was not present, agrees with the Ransom-McKee group.

After a discussion of nearly three hours, it was concluded that the group had better not see you until it could reconcile its own differences. Chairman Eccles stated, however, that the Federal Reserve System would go along with any program you requested. It was agreed that Federal would support the 2-1/2's of 1967-72 at par, if necessary, until a more permanent program could be agreed upon.

We believe that it is feasible for the Government to set the rate at which it will issue long bonds for the duration of the war. We do not believe that it is feasible, however, to set an entire "pattern of rates". We are particularly skeptical of any pattern such as that suggested by Mr. Sproul, beginning as high as 0.50 to 0.75 percent for 90-day bills and extending only to 1955-60 for 2-1/2 percent bonds. It will probably be necessary to maintain a much wider spread between long and short rates if the long rate is to be held at 2-1/2 percent. In any event, we believe that short rates should be allowed to find the level appropriate to a 2-1/2 percent long rate rather than be fitted into any arbitrary "pattern".

We recommend:

- (1) That the Treasury and the Federal Reserve System definitely indicate to the market that the Government does not intend to pay a long rate in excess of 2-1/2 percent for the duration of the war. It would be helpful in this connection if a statement to this effect could be included in the President's budget message.
- (2) That the 2-1/2's of 1967-72 and all future issues of long-term Government securities be maintained indefinitely at par, and that the maturities of new securities be determined with this in view.

Secretary Morgenthau - 3

- (3) That reliance should be had so far as possible upon orthodox and conventional modes of financing, but that the market should be given to understand that the objective of a 2-1/2 percent rate will be upheld, if necessary, by stronger and less orthodox procedures.

We recognize that it is possible that future events may make it necessary to change the rate and "back down" from the original statement. This danger is always involved in any announcement of long-term policy. We believe, however, that the 2-1/2 percent rate can be maintained, that it is important that it be maintained, and that the chances of maintaining it will be greatly enhanced if a firm declaration to that effect is made at this time.

Treasury Department
Division of Monetary Research **161**

Date January 12, 1942

To: Miss Chauncey

From: Mrs. Shanahan

Before he left, Mr. White asked me to return this for your files. Mr. White took the matter up with the Secretary prior to the December 26th meeting, referred to in the letter.

*Being
attended
12/26 meeting
ref to*

BOARD OF ECONOMIC WARFARE
~~INTERAMERICAN DEFENSE BOARD~~
WASHINGTON, D. C.

162

OFFICE OF THE CHAIRMAN

December 22, 1941.

Dear Henry:

A meeting of the Board of Economic Warfare will be held on Friday, December 26, 1941, at 10:30 a.m. in my office in the Capitol Building.

The meeting is called primarily to satisfy the urgent need for a declaration of policy on economic matters relating to Latin America in anticipation of the forthcoming meeting of the Foreign Ministers of the American Republics to be held in Rio de Janeiro. Specifically, there will be presented for the Board's consideration an extremely important resolution, a copy of which is enclosed, with respect to the satisfaction of the essential requirements of the other American Republics.

The Supply, Priorities and Allocations Board and the Office of Production Management have been affording priority assistance, and in the case of one commodity, tin plate, have granted an allocation to the other American Republics. Both Mr. Donald Nelson, the Executive Director of the Supply, Priorities and Allocations Board, and the Office of Production Management have now indicated that further effective assistance may appropriately be granted only after a declaration of policy by the Board of Economic Warfare. Such a declaration of policy has been incorporated in the proposed resolution.

I cannot emphasize too strongly the importance of this resolution to the basic structure of our Hemisphere defense. Many of the other Republics have already joined us as allies and we are anxious to maintain the friendly support of all of the Republics. Such support will depend in large measure upon a political stability which, in turn, is dependent upon a substantial measure of economic stability.

This Government has secured some and is in the process of negotiating for other strategic military bases in the other American Republics. With the danger to our source of supply in

- 2 -

the Far East, we become more than ever dependent upon Latin America for supplies of strategic and critical materials. We are now securing the support of the other American Republics against Axis influence in their principal industries, their banks, and their system of communication.

All of our objectives, both military and economic, and particularly our program for maximizing their production of strategic and critical materials, will be jeopardized if we fail to supply our neighbors with the bare essentials necessary to support their simple economies. Less than 3% of our normal productive capacity is needed to accomplish these vital defense objectives.

I also enclose herewith a copy of the report prepared by the Board of Economic Warfare in support of the tin plate allocation recently granted by S P A B. The report demonstrates the great care, through cooperation with all interested Government agencies, that is being exercised to insure thorough examination of Latin American requirements.

Sincerely yours,

H A Wallace

H. A. Wallace
Chairman

The Honorable,
The Secretary of the Treasury,
Washington, D. C.

Enclosures

Proposed Resolution by the Board of Economic Warfare with Respect
to the Satisfaction of the Essential Requirements of the other
American Republics

WHEREAS, the President, in his letter of April 5, 1941,
to Mr. Knudsen and Mr. Hillman, declared that:

"In the interest of Hemisphere defense,
therefore, it now appears desirable to give
the vital requirements of these (other American)
Republics such priority as may be necessary to
maintain their industrial and economic stability,
provided that there should be no prejudice to the
national defense program of this country."

and

WHEREAS, the Subcommittee of the Committee on Appropriations of the House of Representatives in reporting on its trip to South and Central America in the late summer and early fall of 1941 has declared that

"The committee is definitely of the opinion that South and Central America are not being given the proper priorities consideration that they should be extended in terms of the needs of our national and hemispheric defense The feeling of the committee, therefore, is that an intensive study should be made of the needs of each country for our raw materials and manufactured goods and that we accommodate our neighbors in every way possible up to the point where such accommodation would definitely deprive ourselves of absolutely essential national-defense commodities."

- 2 -

and

WHEREAS, the Board of Economic Warfare has worked out a procedure in collaboration with the Supply, Priorities and Allocations Board pursuant to which authoritative analyses of minimum essential Latin American requirements have been and are being made in cooperation with all of the interested agencies of this Government, and

WHEREAS, the new danger to our sources of supply in the Far East renders it more than ever imperative that the economic stability of the other American Republics be maintained so as to enable them to continue and increase their production of strategic and critical materials, and

WHEREAS, nine of the other American Republics have declared war against all of the Axis powers, two have broken off diplomatic relations with all Axis powers, six have stated that they do not regard the United States as a belligerent, three have officially declared that they will pursue a policy of solidarity with the United States in accordance with Inter-American agreements, and several of them are making available strategic bases for the military defense of the Hemisphere, and

WHEREAS, all of the American Republics have adopted some form of economic control in support of Hemisphere defense, including control over the export of strategic materials, freezing of funds of Axis nationals, the seizure and utilization of immobilized Axis ships, and the elimination of Axis influence from airlines and other vital communications and industrial systems, and

WHEREAS, the economies of the other Republics can in fact be kept stable by providing them with an extremely small part, less than 3%, of our normal productive capacity, and

- 3 -

WHEREAS, the economies of the other Republics are extremely sensitive, based frequently upon a single commodity or industry, and lack the capacity for developing substitutes or changing methods of production, and have no defense contracts to absorb the shock of dislocation in industry, it is hereby resolved that

1. It is the policy of the Government of the United States to aid in maintaining the economic stability of the other American Republics by recognizing and providing for their essential civilian needs on the basis of equal and proportionate consideration with our own.
2. The requirements of essential industries and services in the other Republics for repair, maintenance and operating supplies shall be given equal consideration with our own in relation to their comparable importance.
3. The Department of State, through its representative at the Conference of Foreign Ministers to be held in Rio de Janeiro during January, 1942, be, and it hereby is, authorized to announce the foregoing statement of policy on behalf of this Government.

SECRET

November 12, 1941

Donald S. Nelson, Executive Director,
Supply Priorities and Allocation Board

Colonel F. C. Pottierworth, Chairman, Policy Committee,
Office of Export Control, Economic Defense Board

(13-plate Allocations to non-aggressor countries)

The 13-plate requirements of non-aggressor countries for the
year 1942, which the U.S. will be called upon to supply, have
been estimated as follows by the Inter-Departmental Requirements Committee:

<u>Region</u>	<u>(000 Metric Tons)</u>
Latin American Republics	218.6
British Empire (except Canada)	339.0
Canada	45.0
Portugal, British Account	33.0
U.S.S.R.	48.0
China	10.0
Netherlands (East) Indies	42.6
Philippine Commonwealth	30.0
Other Areas and Special Reserves Against Contingencies	20.0
Total	776.2

It is recommended that a definite allocation for the first quarter be
made and that tentative allocations be made for the next three
quarters in accordance with the quarterly requirements as shown in the

TABLE:

-2-

EXPORT REQUIREMENTS BY QUARTERS
(in Thousands of Metric Tons)

<u>Country or Region</u>	<u>Proposed Allocation for:</u>				
	<u>Calendar Year</u>	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>
British Empire (except Canada)	339.0	84.7	84.8	84.8	84.7
Canada	45.0	6.8	13.5	18.0	6.7
Portugal, British Account	33.0	13.2	6.8	5.0	8.2
U. S. S. R.	48.0	12.0	12.0	12.0	12.0
China	10.0	2.5	2.5	2.5	2.5
Netherlands East Indies	42.6	8.5	12.8	12.8	8.5
Philippine Commonwealth	20.0	5.0	5.0	5.0	5.0
Latin American Republics	218.8	51.2	49.2	46.3	71.9
Argentina	(77.5)	(11.6)	(19.4)	(19.4)	(27.1)
Brazil	(64.5)	(22.6)	(12.9)	(9.7)	(19.3)
Chile	(12.0)	(3.6)	(1.8)	(1.8)	(4.8)
Cuba	(13.5)	(2.2)	(3.2)	(2.7)	(5.4)
Mexico	(15.0)	(3.0)	(3.0)	(3.8)	(5.2)
Uruguay	(17.0)	(3.4)	(5.1)	(5.1)	(3.4)
Other Latin America	(19.1)	(4.8)	(3.8)	(3.8)	(6.7)
Other Areas and Contingency Reserve	20.0	5.0	5.0	5.0	5.0
TOTAL	776.2	188.9	191.4	191.4	204.5

SECRET

ECONOMIC DEFENSE BOARD

November 1, 1941

MEMORANDUM

To: The Policy Committee of Office of Export Control
 From: Inter-Departmental Requirements Committee
 Subject: Tin-plate Export Requirements to the World during the next Twelve Months

SUMMARY

It is estimated that the United States will have to export 776,200 metric tons of tin plate to the world during the next twelve months.

These exports will be divided as follows:

<u>Region</u>	<u>(000 Metric Tons)</u>
Latin American Republics	218.6
British Empire (except Canada)	339.0
Canada	45.0
Portugal, British Account	33.0
U.S.S.R.	48.0
China	10.0
Netherlands (East) Indies	42.6
Philippine Commonwealth	20.0
Other Areas and Special Reserves against Contingencies	<u>20.0</u>
TOTAL	776.2

The estimates of British Empire, Canadian, Portuguese, Soviet, Chinese and Netherlands East Indies requirements are those furnished by the official agencies of those countries or else they represent commitments already undertaken by the United States. They are reported without critical comment by your committee.

The Committee, however, did not include the British Estimate of 110,000 long tons of tin plate to South America for the English meat pack on the grounds that a careful check revealed that the real requirement for tin plate on this account would not exceed 58,200 tons, even allowing for a possible 15% shift from frozen to canned meats. This matter is discussed fully later in the report.

The estimate for the Philippine Commonwealth is an interpolation of export statistics.

The requirements of certain minor and scattered areas, such as Free French Africa, Belgian Congo, Netherlands West Indies, Greenland and Iceland could not be ascertained in view of the lack of available data. A figure of 20,000 metric tons was assigned to cover the needs of these regions and in addition to serve as a general export pool to be used to increase shipments to certain countries if changing conditions or fuller information compel upward revision of the estimate of needs.

The estimates of tin-plate requirements for the Latin American Republics represent what is believed to be a careful summary and analysis of the available data.

Latin American requirements are estimated at 218,600 metric tons.

More than one-fourth of this amount is essential for the shipment of meat and other necessary food products to the United Kingdom and the United States for defense purposes.

Any effort to pare down the quantities allocated to Latin America would, it is believed, result in wide-spread unemployment in the Latin American canning industry.

Tin-plate inventories are practically exhausted in most of the Latin American Republics. Canneries producing foodstuffs essential to the health of the population have already closed down because of lack of raw materials in Chile and in Mexico. Poor refrigeration, inadequate transportation facilities and regional specialization in mining or in monoculture necessitate the use of canned food products lest large groups in the Latin American Republics be deprived of protective foods. In Chile, for example, the failure to provide timely supplies of tin plate for canning the fruit and vegetable crops would not only wipe out a source of revenue for an important segment of the population but would endanger the food supply of the miners of the northern desert for the full year and of the whole country for the winter.

In arriving at these estimates, we have assumed that immediate substitution of alternate packaging materials can be effected in certain

types of tin-plate use. This implies that the necessary materials and machinery will be made available by the United States.

The estimate is below 1940 Latin American imports which amounted to 233,000 metric tons. This, despite the presence of significant factors increasing Latin American requirements. The first of these factors is the increase in British and United States imports of meat and other tinned foods. The second factor is the elimination of European exports of edible oils, chemicals, etc., which were shipped to Latin America in cans and now must be replaced by increased production and packaging of these products in Latin America. In the third place, the disruption of normal Latin American trade with the world has tended to increase unemployment, making it doubly desirable that a curtailment of employment in the canning and meat packing industries be avoided.

Latin American requirements, as herein estimated, would constitute only 5% of United States tin-plate production in 1941. Deducting the amounts required by United States and British defense orders, Latin American needs are less than 4%.

Approximately two-thirds of Latin American tin-plate requirements are for Argentina and Brazil. The breakdown of import needs by countries is presented below.

TABLE I
Estimate Tin-plate Import Requirements of the
Latin American Republics
(In metric tons)

<u>Country</u>	<u>Estimated Requirements</u>
Argentina	77,500
Bolivia	500
Brazil	64,500
Chile	12,000
Colombia	4,500
Costa Rica	35
Cuba	13,500
Dominican Republic	200
Ecuador	700
El Salvador	30
Guatemala	1,500
Haiti	50

<u>Country</u>	<u>Estimated Requirements</u>
Honduras	0
Mexico	15,000
Nicaragua	75
Panama	500
Paraguay	1,900
Peru	5,000
Uruguay	17,000
Venezuela	4,000
TOTAL	218,500

The above requirements will be needed in proportionately larger values during the next three months than in the succeeding three quarters, as the table below shows.

EXPORT REQUIREMENTS BY QUARTERS

(in Thousands of Metric Tons)

<u>Country or Region</u>	<u>Calendar Year</u>	<u>Proposed Allocation for</u>			
		<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>
British Empire (except Canada)	339.0	84.7	84.8	84.8	84.7
Canada	45.0	6.8	13.5	18.0	6.7
Portugal British Account	33.0	12.2	6.5	5.0	8.2
U.S.S.R.	32.0	12.0	12.0	12.0	12.0
China	10.0	2.5	2.5	2.5	2.5
Netherlands East Indies	42.5	8.5	12.8	12.8	8.5
Malaya Commonwealth	20.0	5.0	5.0	5.0	5.0
Latin American Republics	218.5	51.2	49.2	46.3	71.9
Argentina	(77.5)	(11.6)	(19.4)	(19.4)	(27.1)
Brazil	(64.5)	(22.5)	(12.9)	(9.7)	(19.3)
Chile	(12.0)	(3.6)	(1.8)	(1.8)	(4.8)
Colombia	(13.5)	(2.2)	(3.2)	(2.7)	(5.4)
Peru	(15.0)	(3.0)	(3.0)	(3.8)	(5.2)
Uruguay	(17.0)	(3.4)	(5.1)	(5.1)	(3.4)
Other Latin America	(19.1)	(4.8)	(3.8)	(3.8)	(6.7)
Other Areas and Contingency					
Reserve	30.0	5.0	5.0	5.0	5.0
TOTAL	775.2	188.9	191.4	191.4	204.5

The seasonal coefficients were worked out from U.S. export statistics for all countries concerned or from their imports from the world where available. No seasonal factor could be applied to the British requirement for 557,000 tons due to the fact that the destination of this item is unknown to your committee. The proportionately greater Latin American requirements during the last quarter are due to the seasonal character of the Argentine and Chilean packs and the approach of the sugar grinding season in Cuba.

The estimates proceed from the assumption that it is of paramount importance to permit a sufficiently large flow of tin plate to Latin America to allow adequate exports of tinned foods to Britain and the United States. It is further assumed that it is desirable to permit continued production of preserved foods for domestic Latin American consumption lest serious unemployment result and living standards deteriorate.

The estimates allow for substitution of glass, paper and cardboard containers for tin plate to an extent deemed practicable in terms of present knowledge of conditions in the container and canning industries of Latin America. It is not, however, assumed that substitution should be pushed to such an extent in Latin America as to become inconsistent with the State Department's proclaimed policy of equality of treatment as between Latin American and United States civilian consumers. It is also recognized that the backward industrial development of Latin America makes wholesale and rapid substitution and rationalisation peculiarly difficult, that all changeovers in industrial techniques involve a time lag, and that wholesale substitution would involve additional Latin American imports of machinery, cellulose and other materials which this country might find difficulty in sparing.

The estimates cover all import requirements on the assumption that the United Kingdom will not be in a position to deliver any tin plate to Latin America. To the extent that British shipments occur the estimates of the amounts which the United States should supply will be reduced.

An explanation of the various estimates made is contained in the body of this report. The information available is of a very heterogeneous character. Unfortunately, few of the consular reports on Latin American

requirements cover tin-plate demand.

The main sources considered in preparation of this report were:

- A. Consular despatches on import requirements
- B. Estimates of Latin American Governments
- C. Estimates of United States steel concerns
- D. Estimates of the Department of Commerce
- E. The import and export record
- F. The available Latin American periodical literature dealing with business conditions
- G. Consular despatches on the supply situation in Latin America
- H. The files of the Commercial Intelligence Division of the Department of Commerce
- I. Special studies such as the Argentine Central Bank report and the survey of the Latin American glass container industry

The estimates of Latin American requirements compare with the following statistical record of imports:

TABLE I

Latin American tin-plate imports (1937-1940) and estimated import requirements for the 12 months ending November 1, 1942

(in thousands of metric tons)

Country or Area	1937-39 Imports	1939 Imports	1940 Imports	Estimated requirements
Argentina	67.4	68.6	90.6	77.5
Bolivia	0.3	0.4	1.1	0.6
Brazil	47.9	50.3	64.6	64.6
Chile	7.4	9.0	11.3	12.0
Colombia	4.0	5.6	4.7	4.6
Cuba	11.2	12.7	10.1	13.5
Central American Republics	2.0	1.7	1.5	2.1
Dominican Republic	n.s.s.	n.s.s.	n.s.s.	0.2
Ecuador	0.7	0.8	0.6	0.7
Haiti	.0	n.s.s.	n.s.s.	.0
Mexico	14.6	17.0	16.7	15.0
Paraguay	1.3	1.6	3.7	1.9
Peru	5.7	5.5	6.5	5.0
Uruguay	8.6	10.7	18.6	17.0
Venezuela	n.s.s.	1.8	a) 2.5	4.0
TOTAL	171.0	185.6	232.6	218.6

a) Estimated

n.s.s. Not available

n.s.s. Not shown separately

The difference between a tin-plate allowance which would maintain the Latin American food-packaging industry in operation and one which would occasion serious hardship throughout the 20 neighbor republics is of the magnitude of 50,000 metric tons. Estimated total United States production of tin plate in 1941 is approximately 4,200,000 tons. Equitable treatment of Latin America in this respect would involve at most a $1\frac{1}{2}$ - 2% change in the amount of tin plate made available to domestic consumers.

The remainder of this report contains,

1. An estimate of the tin plate required to ship canned meat to Britain and the United States
2. Country by country estimates of tin-plate requirements with explanation of the economic factors involved, wherever possible

A. The British and United States Meat Pack

Data on the magnitude of British and United States meat purchases from Latin America during the next 12 months was obtained on October 27 from Mr. Fitzgerald of the United States Department of Agriculture. The material concerning British projected purchases was secured by Mr. Fitzgerald from the British purchasing officials concerned.

The United Kingdom will take from 221,500 to 271,500 metric tons of canned meat from Latin America during the next 12 months. The amount purchased, within this range, will depend on the meat supplies available. Britain has made a flat commitment to take 500,000 metric tons of frozen and chilled meat from Argentina. Her purchases of canned meat will represent the residual after frozen and chilled imports have been made. It is believed by the Department of Agriculture that actual British purchases will probably represent an arithmetic average of the two figures, or 246,500 metric tons. Should Britain succeed in obtaining more, there will conceivably be an equivalent decrease in the quantities of canned meat obtained by the United States. United States projected purchases amount to 40,000 metric tons. On the assumption that Britain obtain the maximum amount estimated and that the United States will also obtain the quantities desired, the total for the Anglo-United States meat pack will be 311,500 metric tons.

The ratio of Argentine container weights to weight of meat content, as determined from three samples tested for me by the United States Department of Agriculture, was:

12 ounce cans	21%
1 1/2 lb. "	18%
6 " "	13%

While 20% is the figure used by the United States Embassy in Rio in estimating tin-plate requirements, 18% seems to be a better figure in view of the British efforts to increase average container size.

On the basis of this ratio, Latin American tin-plate requirements for the British and United States meat pack would amount to 56,100 metric tons. This does not allow for any further shift from frozen to canned meat imports by the United Kingdom.

TABLE 2

Tin Plate Requirements For the British and United States Meat Pack From Latin America

(in thousands of metric tons)

Country	Projected British Purchases	U.S. Projected Army - Navy	Purchases: Industrial	Total Meat	Tin Plate Equivalent At 18%
Argentina	135 -165	10	15 (1)	190.0	34.2
Brazil	52.5- 72.5		10 (1)	82.5	14.9
Uruguay	28.7		2.5 (1)	31.2	5.6
Paraguay	5.3		2.5 (1)	7.8	1.4
Total	221.5-271.5	10.0	30.0	311.5	56.1

- (1) The breakdown of this item among the four countries concerned is that of Mr. Fitzgerald

Information was received from Mr. Fitzgerald to the effect that the United Kingdom will take from Latin America during the next twelve months 10,000 tons of tomato extract, of which 9,000 tons will be obtained from Argentina and 1,000 tons from Brazil. This will involve an additional tin-plate requirement of approximately 1,600 tons for Argentina and 180 tons for Brazil. In addition, unspecified, but presumably small, quantities of fats, oils, dairy products and fish are being exported from Argentina to England.

Adding the tomato extract item to the meat figure and allowing an additional 15% for other tinned products and contingencies (a) the total British and United States tin-plate requirements from Latin America during the next twelve months should be as follows:

TABLE 3

Estimated Tin Plate Requirements On Account Of British Food and United States Meat Imports From Latin America

(in thousands of metric tons)

Country	Estimated British Requirements	Estimated United States Requirements	Total
Argentina	36,200	4,500	40,700
Brazil	15,000	1,800	16,800
Uruguay	5,900	450	6,350
Paraguay	1,100	450	1,550
Total	58,200	7,200	65,400

The estimate of tin-plate requirements for the British pack is generous in view of the fact that the capacity of the South American canneries is limited in the opinion of Mr. Hutton of the British Food Mission. The above figures represent an outside estimate of the quantities which the four Latin American countries concerned might be able to supply.

It will be noted that the above estimate of 58,200 metric tons for total British requirements is utterly inconsistent with the arrangements already made by the British Government for direct purchase of 110,000 tons of tin plate for the South American pack. When queried about this latter estimate, Mr. Malcolm of the British Purchasing Commission states that 100,000 tons represented the London estimate of requirements while the remaining 10,000 tons could be considered as a reserve against contingencies. He also states on the telephone that these quantities of tin plate were solely for the British pack.

This fifty percent discrepancy between the two estimates is so great that Mr. Hutton has wired London for a full explanation. Within the course of the next few days more precise information may lead to some revision in the above estimates.

a) This allowance is made on the assumption that the shipping situation may deteriorate so markedly as to compel the maximum possible substitutions of canned meat exports for frozen meat exports

The British are purchasing their tin plate from United States concerns and arranging for top priorities on this tin plate through OPM. They presented an itemized statement of orders covering the final quarter of this year and the first quarter of 1942. This statement shows that a total of 24,100 long tons are to be sent to South American frigorificos during this quarter and that 14,650 long tons are earmarked for the first quarter of 1942. This last figure will probably be increased somewhat in the coming months. However, in view of the seasonal character of packing operations in the Platina area the allocation of 24,100 long tons in the present quarter appears inconsistent with any program of utilizing as much as 100,000 tons on the British pack.

The breakdown of British tin-plate orders by frigorificos and by countries is shown in the table below. The country breakdown is available for the first quarter of 1942 only.

TABLE 4

British Orders For Tin Plate From South American Frigorificos
(in long tons)

<u>Frigorifico</u>	<u>Fourth Quarter 1941</u>	<u>First Quarter 1942*</u>
CAP	1,469	1,469
Smithfield	960	-
Swift	6,400	5,049
Frig. Mac.	1,000	463
Liebi's	2,000	2,000
Cin. Sansinena	890	960
Union Cold Storage	3,970	2,980
Armour & Co.	4,350	-
Bovril	600	-
Wilson & Co.	1,740	1,740
Intn'l. Products Corp.	600	-
McCall	32	-
TOTAL	24,101	14,651

First quarter of 1942 breakdown

Argentina	6,878
Brasil	5,420
Uruguay	1,353
Paraguay	1,000
TOTAL	14,651 long tons

* Larger quantities of tin plate will probably be taken in the first quarter of 1942 by Union Cold Storage, and additional orders will probably be placed for Armour, Bovril and McCall. For the last quarter of 1941, no breakdown by countries is available

The Argentine Central Bank sent the Department of State in September 1941, a detailed list of tin-plate requirements for the ten months ending June 30, 1942. This list distributed the tin plate by uses and by consuming plants.

Argentina requested 45,750 long tons of tin plate for the meat packers, or at an annual rate of 54,900 tons as compared with 1940 consumption of 27,200 tons. The text of the report states that this vastly increased amount of tin plate was necessary because the packing houses "have stated that they foresee an increase in the export of canned meats to the United Kingdom to replace part of the frozen meat which would cease to be shipped because of the difficulty in obtaining the necessary refrigerated cargo space. Furthermore, they think that sales of canned meat to the United States will show an appreciable increase inasmuch as Argentine packing houses are participating to an ever growing extent in tenders for the supply of meat to the United States Army." This statement is inconsistent with the course of British-Argentine negotiations on canned meat. The British Ministry of Foods informs me that they originally requested the Argentine packing houses to furnish them with 250,000 tons of canned meat and that as recently as six weeks ago the Argentine Government informed the British that only 50,000 tons would be made available during the coming year. Actually, the British believe that they will get a maximum of 165,000 tons from Argentine.

It thus appears that the Argentine Government is presenting an exaggerated request for tin plate from the United States on the plea that it intends to supply huge quantities of tinned meat to Britain, while on the other hand it is negotiating with the British on the basis of a mere 50,000 tons of canned meat exports--involving only 9,000 tons of tin plate requirement--in order to compel the British to raise prices. Moreover the Argentine memorandum admits that "some packing houses have put down figures in excess of their real import requirements for certain

180

types of tin plate (thick, for six-pound cans), foreseeing that the British Government may give preference in its purchases to six-pound cans of meat instead of the 12-ounce cans which it was accustomed to buy." It is hardly necessary to observe that a shift from 12-ounce to six-pound cans reduces total tin-plate requirements.

ARGENTINA

The estimate of Argentine tin-plate import requirements is 77,500 metric tons.

This compares with the following statistical record:

<u>Item</u>	<u>Thousands of metric tons</u>
1937-39 imports from the world	88.5
1939 imports from the world	88.6
1940 imports from the world	90.6
Argentine Central Bank substitution study	90.0
Argentine Central Bank requirements memo	127.2

The first Argentine Central Bank estimate, prepared on August 6, 1941, for the Argentine Finance Minister was drawn up to serve as a guide to the Government in meeting an existing import stringency, and not as a brief to obtain generous treatment from the United States. The memorandum deducts certain amounts from calculated Argentine requirements on the theory that extensive substitution of other containers and rationalization in tin plate use was possible.

The second Argentine Central Bank memorandum is a composite of estimated requirements presented by firms in the tin plate consuming industries.

It can be assumed that the companies approached exaggerated their requirements in the hope of accumulating tin-plate inventories for the lean years ahead and in the expectation that only a portion of what they requested would be granted.

Method of Estimation

Estimated Argentine tin-plate requirements on account of food exports to Great Britain and meat exports to the United States were placed at 40,700 metric tons. Adding to this figure the amount necessary to cover Argentine

meat exports to other countries and tin-plate wastage in container manufacture, the overall tin plate figure for meat exports to the world is 41,500 tons. 181

The normal requirement of tin plate for the packaging of those products domestically consumed and of export products not specified above was estimated at 45,000 tons, or the figure in the first memorandum of the Argentine Central Bank.* This memorandum stated that paper, cardboard, cellophane and glass containers could eliminate 14,000 tons of tin plate immediately, if all such substitute container producing facilities were fully utilized immediately, and 21,500 tons of tin plate if production capacity were expanded.

The second memorandum of the Central Bank, however, stated that the following difficulties had been encountered in attempting to resort to wholesale substitution:

(a) Glass container production capacity had been over-estimated in view of the fact that a large proportion of the glass containers made proved to be non-recoverable.

(b) Glass packaging of edible oils proved impractical due to the impossibility of washing the bottles thoroughly with the washing machinery Argentina at present possesses.

(c) Jams and biscuits, when packaged in paper, cardboard, cellophane and plicofilm containers, were spoiled in some cases by moisture.

(d) To increase paper-container capacity to the required extent, it would be necessary to expand cellulose imports from the United States, while the substitution of plicofilm and cellophane containers is limited by the fact that these materials must be imported from the United States in their entirety.

It is impossible to evaluate this conflicting evidence without an impartial survey by disinterested specialists in Argentina who would have full access to the material collected by the Central Bank.

A decision was made to place possible substitution at 11,500 metric tons -- a figure which seems not inconsistent with the second Central Bank report. This is eighty percent of the estimate of immediately practicable substitution contained in the first Central Bank memorandum.

* The second memorandum suggests that Argentine requirements will be considerably higher due to excellent harvests this year.

This yielded a figure of 33,500 metric tons for packaging of products domestically consumed plus those exports not covered in the first estimate. 182

In addition, Argentina normally uses some 8,700 metric tons of tin plate for advertising displays, tinfoil for cigarettes, toilet preparations, kitchen utensils, etc. This amount was reduced to 2,500 metric tons, as against a Central Bank estimate of requirements of 6,800 tons.

This yielded a total estimate of Argentine requirements of 77,500 metric tons.

The above estimate covers total Argentine import requirements. British officials have recently stated that no tin plate of English origin is now being shipped or is intended for shipment to South America due to the diversion of British tin mills and tin mill workers to direct munitions production. A recent consular despatch stated that Argentina imported 12,200 metric tons of tin plate from the world in August 1941, of which 7,500 came from the United Kingdom and 4,700 from the United States. It should be ascertained whether the figure for British exports represents tin plate purchased from the United States and exported from U.S. ports or actual British shipments.

BRAZIL

The estimate of Brazilian tin-plate import requirements is 64,500 metric tons.

This compares with the following statistical record:

<u>Item</u>	<u>Thousands of metric tons</u>
1938 imports from the world	43.7
1939 imports from the world	50.3
1940 imports from the world	54.8
1941 (estimated) imports from the world	66.0
Brazilian Government requirements estimate	70.0

Method of Estimation

The method of estimation was to take as a starting point the Brazilian Government's view of normal import needs which is simply a projection of the normal growth trend in tin-plate utilization. To this figure of 70,000 metric tons was added 8,500 tons representing the additional tin plate needs

on account of increased United States and United Kingdom canned meat imports. On the basis of the method of analysis contained in the Argentine Central Bank 183 report on tin-plate substitution, as applied to Brazilian conditions, it was assumed that 20% of this normal demand could, without inconvenience, be eliminated through use of other packaging materials. This yielded the above estimate.

The United States Department of Agriculture calculations show that Brazil will export 82,500 metric tons of canned meat to the United Kingdom and the United States in the next twelve months. Allowing for a tin plate-meat tonnage ratio of 18%, and increasing this figure 15% for contingencies, this represents a requirement for 16,800 tons of tin plate. However, Brazil sold the United States and the United Kingdom 45,000 tons of canned meat in 1940. The additional demand for tin plate on account of the increased United States-United Kingdom meat pack is therefore 8,500 metric tons.

Brazilian Exports of Canned Meat

(in thousands of metric tons)

Item	1939	1939	1940	1941*
Total exports	24.4	38.2	47.9	64.6
to U.S.A.	12.8	22.0	8.4	10.0
to U.K.	2.0	11.9	36.6	54.6

* Estimated January-June figures multiplied by two

Degree of Possible Substitution

The extent to which substitute materials can be used in lieu of tin-plate containers depends mainly on the following factors: (a) type of products packaged; (b) average distance of haul, period elapsing between production and sale; (c) nature of transportation and handling; and finally (d) extent to which industries making substitute containers (glass, paper, cardboard, plastic, etc.) can take care of additional demand. In the case of Brazil, information available on these three points is not sufficient for a definitive judgment.

About 48% of Brazilian canned food products are represented by sweets, candies and chocolates—a category which presumably includes candied jellies and fruit and vegetables preserves. According to Brazil, 1939-40, an official government statistical annual, the canning industry has grown as

follows:

THE BRAZILIAN CANNING INDUSTRY
(in thousands of metric tons)

<u>Year</u>	<u>Total canned goods</u>	<u>Sweets, Candies, Chocolates, etc.</u>	<u>Meat, fish Coloring matter</u>	<u>Other</u>
1930	31.6	8.2	22.2	1.1
1935	56.0	M.S.S.	M.S.S.	M.S.S.
1938	80.6	36.3	35.9	8.4

The Brazilian consumption pattern in tin plate shows greater possibilities for substitute packaging materials than that of Argentina. Concerning the item "sweets and candied preserves," the Argentine Central Bank report states:

"The tins used for compact or solid sweets (quince, yams, etc.) can be replaced, when the product has a high sales turnover in markets close to the locus of production, by paper treated with paraffin or cardboard or wooden boxes. It is believed this would be 80% cheaper than equivalent tin-plate containers. Two-thirds of production satisfies these conditions of substitution."

Despite the fact that the Brazilian canneries are scattered all over the country, it is conservatively assumed that, not two-thirds, but only one-half of the tinned candies, preserves, etc. could be packaged in substitute containers. This would indicate immediate possibility of substitution of 24% of total Brazilian tin plate used for food containers. In addition, tins for yerba mate could be eliminated entirely.

The substitution ratio was reduced to 20% because the Brazilian glass industry has concentrated on production of beverage bottles (54,300,000 units in 1937) and bottles for lotions and medicines (65,000,000 units). (1) There is no evidence that this glass industry could produce the type of jars needed for displacement of tin plate.

The industry comprised 18 glass container factories in 1937, most of them non-specialized and producing for order, two of them equipped with automatic machinery. By October 1938, Commercial Intelligence Division reported the existence of 30 glass container factories in Brazil.

An adequate, impartial survey of possibilities of substitution should be made in Rio de Janeiro.

1) "The Latin American Glass Industry and Trade," Department of Commerce, Washington, 1937. 31 pp.

CHILE

The estimate of Chilean import requirements is 12,000 metric tons. This compares with the following statistical record:

<u>Items</u>	<u>Thousand of metric tons</u>
Imports from the world, 1938	5.8
Imports from the world, 1939	9.0
Imports from the world, 1940	11.3
Est'd. U.S. exports in 1941	8.0
Fomento Corporation	13.0

Supply Situation

An acute stringency of tin plate exists in Chile. The Republic Steel representative in Santiago, Mr. Luis Harnecker, wrote his home office on September 22, 1941 that the "situation is frankly alarming, steel scarcity is becoming worse every day." The Fomento Corporation labelled its tin-plate request from the United States "needed with extreme urgency." The Chilean Manufacturers Association estimated that 50% of total tin-plate requirements for the coming year should be made available in the last quarter of 1941, presumably because of stock depletion. The Embassy in Santiago reports that a milk canning factory in Valparaiso has closed down and it is feared it will not be possible to provide tin cans to take care of the coming vegetable and fruit harvest."

Among the underlying causal factors are: (a) canners are attempting to replenish stocks of canned food which were drastically diminished when drawn upon to feed earthquake victims; (b) low 1941 exports by the United States; and (c) the increase in tin container manufacture.

Method of Estimation

Projecting the growth trend, normal Chilean import demand for tin plate can be computed at approximately 13,000 metric tons. Deflating this figure by 10% to take account of immediately practicable substitution yields an estimate of 11,700 metric tons.

This figure was increased slightly because of the acute situation prevailing, the almost total exhaustion of inventories and the peculiar social importance of canned goods to Chile.

As the Chilean coastline is longer than any other country on the earth in proportion to area, as internal transport facilities and coastwise steamers are inadequate, and as cold storage facilities on the ships and in most Chilean towns are also inadequate, it is manifestly essential that tinned food consumption be at least maintained at 1939-40 levels. Fresh vegetables are available to only a small section of the country and then only for four months during the year.

Canning Industry

Commercial Intelligence Division reports that there were 35 canneries in Chile in 1938, 11 of which packaged fruits and vegetables, 7 of which packaged fish, 5 meats, 3 vegetables and 7 miscellaneous products (cocoa, candies, oils, etc.). The existence of 3 glass container factories of unstated capacity was reported.

URUGUAY

The estimate of Uruguayan imports requirements is 17,000 metric tons.

The statistical record is as follows:

<u>Item</u>	<u>Thousands of Metric Tons</u>
1937-39 average imports from the world	8.7
1939 imports from the world	10.7
1940 imports from the world	18.5
1941 Estimated U.S. exports (a)	8.1

- a) First six months of 1941 multiplied by two. Uruguayan official statistics show that tin-plate imports were running at an annual rate of 24,800 tons during the first half of 1941. The discrepancy between United States exports and Uruguayan imports might result from transshipments among the Platine Republics

Uruguayan tin-plate requirements during the next twelve months for the British and United States meat pack will amount to 6,350 metric tons, calculated at 18% tin plate to canned meat and with a 15% allowance for contingencies.

Uruguayan tin-plate import statistics show a rapid increase during the period 1938 to 1941. Unfortunately, however, it is impossible to project the growth trend to determine normal demand because of the unknown amount of imports for transshipment to frigorificos in Rio Grande do Sul, Brazil, and

because of 1941 import figures appear unreliable.

The estimate of total Uruguayan requirements is based on a report just received from the Uruguayan Government requesting 5,000 tons this quarter for all purposes other than meat packing. Assuming that this involves an annual requirement of 11,000 tons and adding the 6,380 tons for the meat pack yields a total of 17,380 tons.

The Uruguayan tin can making industry, producing for the domestic market, showed the following user pattern in 1938: of 5,000,000 cans produced, 600,000 were used for meat and fish, 2,250,000 for fruits, vegetables and preserves, 1,000,000 for general purposes, and 150,000 for yerba mate.

Total substitution is possible in the case of yerba mate and partial substitution in the case of sweets, preserves and fruits, provided glass container making facilities are available. In 1936, Uruguay had two manufacturers of glass containers, producing 2,280 tons of products annually and concentrating on bottling of beer, wine, milk and carbonated beverages.

MEXICO

The estimate of Mexican import requirements is 15,000 tons. This compares with the following statistical records:

<u>Item</u>	<u>Thousands of Metric Tons</u>
1937 imports from world	16.7
1938 imports from world	10.7
1939 imports from world	17.0
1940 imports from world	16.7
Est'd. 1941 U.S. exports	15.7

The fact that some Mexican container factories have already been obliged to close down as a result of irregular and inadequate tin-plate supplies indicates that the above estimate will probably prove inadequate unless there is intelligent rationalization of container industry supplies and substitution, wherever possible. Taking 1939 imports as normal, the proposed estimate represents a reduction of approximately 12%.

It is worth noting that among the new industries to be established this year under the tax exemption law is a marine extraction plant which will presumably require tin plate to package cooking fats. New plants to process frozen fowl and broken eggs are also being established, according to recent consular despatches.

The Mexican canning industry consists of a large number of comparatively small plants with diversified activities. It is important that the canning industry be maintained to prevent deterioration in living standards. The glass container industry is very small.

Mexico imported \$251,000 of finished cans from the United States during the first eight months of 1940 out of total Latin American imports of this item from the U.S. of \$597,000.

CUBA

The estimate of Cuban import requirements is 13,500 metric tons

<u>Item</u>	<u>Thousands of Metric Tons</u>
1937 imports from the world	12.1
1938 imports from the world	9.5
1939 imports from the world	12.7
1940 imports from the world	10.1
1941 estimated U.S. exports	15.2

The present rate of importation indicates that there should be no shortage of tin plate in Cuba at present.

There are several large canneries in the country, specializing in packaging of jellies, fruits, preserves, lard, guava and lobster. It is believed that meat canning facilities are expanding with the growth in the Cuban livestock and meat export industry. Nothing is known concerning industries making substitute containers in the island.

Expanding local demand for canned feed products may be expected with increasing Cuban income, resulting from improved sugar prospects.

PERU

The estimate of Peruvian import requirements is 5,000 tons. This compares with the following statistical record:

<u>Item</u>	<u>Thousands of metric tons</u>
1937 imports from the world	6.1
1938 imports from the world	6.8
1939 imports from the world	6.5
1940 imports from the world	6.5
1941 estimated U.S. exports	3.0

The 1941 rate of importation indicates that stringency in respect to tin plate probably exists.

The canning industry contained eleven companies listed by Commercial

Intelligence Division in 1939. Three of these had Japanese firm names. The main products canned are fish, fruits and preserves. Seven of the eleven concerns listed are not equipped to make their own cans. One of the companies is owned by the Peruvian Government. U.S. Steel Corporation reports that there is large demand for five-gallon oil cans from the petroleum companies. These are presumably manufactured locally.

Peru has seven glass container factories, one of which is large, equipped to make all types of bottles, jars and containers and provided with automatic machinery.

COLOMBIA

The estimate of Colombian import requirements is 4,500 tons.

This compares with the following statistical record:

<u>Item</u>	<u>Thousands of metric tons</u>
1937 imports from the world	4.1
1938 imports from the world	2.6
1939 imports from the world	5.5
1940 imports from the world	4.7
Estimated U.S. exports in 1941	2.1

As no adequate information is available concerning the demand for or consumption pattern of tin plate in Colombia, the procedure resorted to was to take a rough average of 1939-40 imports as representative of normal demand and deflate this figure 10 percent to indicate presumed ability to substitute and economize.

Canneries in Colombia

There are three canneries in Colombia, packing preserves, vegetables, tomato juice, soups, marmalades, etc., and using both tin cans and bottles in unspecified proportions, according to the October 1939 Commercial Intelligence Division report. Candies, soda crackers, butter and lard are also packed in tin containers in Colombia. There are four glass container firms of unspecified production capacity.

VENEZUELA

The estimate of Venezuela's import requirements is 4,000 metric tons.

This compares with the following statistical record:

<u>Item</u>	<u>Thousands of metric tons</u>
1938 imports from the world	1.5
1939 imports from the world	1.8
1940 U.S. exports	2.5
1941 U.S. exports (estimated)	0.8
Venezuelan Government	4.7

The above estimate is based on the Venezuelan Government statement of requirements, which, unfortunately, was not supported by an adequate economic or statistical analysis. It should be noted, however, that the Venezuelan Government estimates are conservative in respect to most items.

The reasons for believing that Venezuelan tin-plate needs have increased very rapidly are the following:

The canning industry is expanding rapidly under the impetus of government subsidy and as a result of a general program to diversify food production, stimulate meat exports and improve nutritional standards. This program is endorsed, on the whole, by the U.S. Department of Agriculture.

The canning industry has expanded from six concerns in 1936 to 28 in 1941. There has been large government investment in meat packing at Maracay and Caripite. Utilization of fish resources is planned, involving establishment of freezing fish reduction plants and canneries. These developments are important as a means of (1) stimulating meat exports to deficit meat producing areas in the Caribbean, (2) improving Venezuelan dietary standards by making preserved meat, fish, vegetable oils and dairy products more generally available, and (3) developing hinterland agricultural areas at present handicapped by deterioration of produce while being transported to urban markets. The fact that Venezuela has been obtaining tin plate from the United States this year at the rate of only 300 tons indicates that stocks must be virtually exhausted.

PARAGUAY

The estimate of Paraguayan import requirements is 1,900 metric tons.

This compares with the following statistical record:

<u>Item</u>	<u>Metric Tons</u>
1937 imports from the world	1,011
1938 imports from the world	1,382
1939 imports from the world	1,838
1940 imports from the world	3,781

Method of Estimation

It is estimated that Paraguay will ship 5,500 metric tons of meat to the United Kingdom and 2,500 metric tons to the United States during the next twelve months. At the 18% container-meat ratio and allowing 15% for contingencies, this will require 1,650 metric tons of tin plate.

The estimate assumes that 300 tons of tin plate will be needed for local consumption.

It is assumed that Paraguay will reduce or eliminate her imports of empty tin containers, which amounted to 145 metric tons in 1939 and 327 metric tons in 1940.

By reason of her large tin plate imports during 1940 - part of which were on account of inventory speculation - Paraguay is in a comparatively strong position.

The country has no glass container industry. There are three meat canneries (frigerificos with canneries attached), which in 1939 had a capacity of 70 tons of meat products per day. Their indicated daily capacity tin-plate utilization is 14.7 tons.

Drought conditions on the Paraguayan ranges this year will limit meat supplies and hence tin plate demand.

EQUADOR

The estimate of Ecuador's tin-plate requirements is 700 tons.

The statistical record is as follows:

<u>Item</u>	<u>Metric Tons</u>
1937 imports from world	550
1938 imports from world	960
1939 imports from world	770
1940 imports from world	759

No information is available as to the canning industry in Ecuador. In 1939 there was no reported manufacture of containers.

BOLIVIA

The estimate of Bolivian import requirements is 600 tons.

The statistical record is as follows:

<u>Item</u>	<u>Metric Tons</u>
1937 imports from the world	320
1938 imports from the world	270
1939 imports from the world	370
1940 imports from the world	1,130
1941 est'd. U.S. exports	152

There are six canneries in the country, five of which manufacture their own containers. Canning activity is general, including fruits, vegetables, preserves, jellies, milk products and meat. There is only one glass container factory, which manufactures glassware and beer bottles. Whether it could produce substitute containers is not known.

The normal estimate gives some weight to the substantial increase in importations occurring in 1940, while recognizing that the main cause of that increase was presumably speculative and inventory purchasing.

PANAMA

Estimated requirements for Panama are 500 tons.

The statistical record is as follows:

<u>Item</u>	<u>Metric Tons</u>
1937 imports from world	47
1938 imports from world	70
1939 imports from world	92
1940 imports from world	n.s.
1941 U.S. exports (est'd.)	492

No information is available on Panamanian canning or glassware manufacture. The estimate reflects the increased demand, arising out of increased garrisons and construction activity in the Canal Zone.

GUATEMALA

Estimated requirements for Guatemala are 1,500 tons.

The statistical record is as follows:

<u>Item</u>	<u>Metric Tons</u>
1937 imports from world	2,120
1938 imports from world	1,800
1939 imports from world	1,740
1940 imports from world	1,534
1941 U.S. exports (est'd.)	80

There is no information available as to the canning industry in Guatemala. In 1937 there was no manufacture of glass containers in the country.

The estimate was made on the showing of past imports and the present stringency indicated by the extremely low comparative tonnage received in 1941.

HONDURAS

Estimated requirements 0
U.S. exports 1941(est'd.) 0

COSTA RICA

The estimate of requirements is 35 tons. The statistical record is as follows:

<u>Item</u>	<u>Metric Tons</u>
1937 imports from world	NBS
1938 imports from world	25
1939 imports from world	30
1940 imports from world	34
1941 U.S. exports (est'd.)	4

EL SALVADOR

Estimate of requirements	30 tons
Import figures 1937-40	NBS
U.S. exports 1941 (est'd.)	30 tons

NICARAGUA

Estimate of requirements	75 tons
Import figures 1937-40	NBS

DOMINICAN REPUBLIC

The estimate of requirements is 200 tons
1937-40 imports from world - not available
1941 U.S. Exports (est'd.) - 124 tons

No information is available concerning canning or manufacture of glass containers in the Dominican Republic.

HAITI

Estimated requirements are 50 tons
1931-40 imports from world average 51 tons
1941 U.S. exports (est'd.) 24 tons

TREASURY DEPARTMENT

194

INTER-OFFICE COMMUNICATION

DATE December 22, 1941,

TO Secretary Morgenthau

FROM Mr. Schwarz *e*

Mr. Kuhn and I think it might be well to give out the attached telegram at your press conference. I am bringing a dozen copies down if you agree. Mr. Houghtaling points out that members of the U A W already have purchased \$12,000,000 worth of bonds and that they are promising this expansion in the face of possible unemployment for some weeks, but are acting in accord with your declaration at Chicago that all of us will have to tighten our belts. He asks if you will express the hope that other national organizations similarly intensify their efforts.

Detroit Mich. Dec. 20, 1941.

Hon. Henry Morgenthau Jr.
Secretary of the Treasury
Washington, D. C.

As part of our defense of America from aggressor nations I am anticipating today a drive among 700,000 auto and aircraft workers to sell to our entire membership and officers in as short a time as possible \$50,000,000 worth of Defense Bonds. The son of a UAW CIO member went down on the Arizona. He was killed in action. We are answering that dastardly attack by purchasing these Defense Bonds to replace the U S S Arizona as speedily as possible in order to stop forever the brutal aggression of our enemies.

R. J. Thomas, President.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 22, 1941

TO Secretary Morgenthau
FROM Vincent F. Callahan

Both Mr. Sloan and Mr. Gilchrest personally talked with Mr. Seth, Assistant Manager, and Mr. Bell, announcer, from Station WFVA at Fredericksburg. They both feel that neither of these men would be suitable for the work proposed. Mr. Seth is twenty-seven and Mr. Bell is twenty-two. They are youthful in appearance and unimpressive. Mr. Gilchrest, who is an experienced radio man, says he does not believe radio station managers would take them seriously. Meanwhile, the following action has been taken:

1. Stories describing in detail the Fredericksburg plan have been placed in two radio trade publications. This was the quickest way to reach station managers with the idea.
2. Last Saturday, December 20, a letter was sent to all 865 radio stations in the United States. (Copy attached)
3. Field men, representing radio and press, are being appointed. These men will personally visit stations to follow through on the letter.

Attached is a copy of a report made to Mrs. Klotz on December 15.



To: Secretary Morgenthau
From: Vincent F. Callahan
Page 2

December 22, 1941

We have in Washington today (Monday) a man from Boston whom we are considering putting in charge of this promotion.

Vincent F. Callahan

MRS. KLOTZ.

December 15, 1941

MR. GILCHREST.

Herewith the report regarding the Defense Bond and Stamp promotion of Radio Station WFVA, Fredericksburg, Virginia, as requested by the Secretary.

The program entitled "Any Bonds Today?" is broadcast over WFVA from 11:00 to 11:30 AM, Monday through Friday, and resulted in a total sale of \$43,100.00 during four days. After the initial program on Tuesday, December 9th, the sales have averaged \$600 per broadcast.

The broadcasts originate from a "Defense Bond Headquarters", established by WFVA in the window of a leading local department store. This temporary studio is equipped with a private telephone, the number of which is announced once at the opening of the broadcast. Listeners are urged to call the number to order Bonds or Stamps. The name and address of persons calling are announced on the air, and the amount of Stamps or Bonds which they wish to purchase.

An adding machine has been installed so that total sales may be announced throughout the half-hour broadcast.

As telephone requests for Bonds and Stamps are received, Boy Scouts and Girl Scouts leave the Bond Headquarters and deliver them to homes or business offices. In the case of Bonds, they deliver an application blank, and give the purchaser complete instructions as to filling out the application and redeeming it for their Bond at post offices or banks.

In addition to the telephone calls made to the Bond Headquarters, the announcer calls telephone subscribers, and asks "Any Bonds Today?" As a result of such a telephone call on one program, the announcer was given an order for over \$20,000.00 in Bonds by the head of a large corporation.

TO: MRS. KLOTZ.
FROM: MR. GILCHREST.

Page Two.
12/15/41.

The program idea was conceived by John Bell, an announcer at WFVA, and carried out by William R. Seth, Assistant Manager of the station.

Mr. Bell, a native of Baltimore, Maryland, is 22 years of age, married, and has worked in radio as an announcer for three years. He attended Loyola College in Maryland for one year.

Mr. Seth, also a native of Baltimore, is 27 years of age and married. He graduated from the University of North Carolina and entered radio in 1933.

December 20, 1941.

TO ALL RADIO STATIONS

Dear _____:

During these past weeks when every station the country over has been bending every effort to further the sale of Defense Bonds and Stamps, hundreds of new program ideas have developed by radio stations. One such idea has been submitted to us, which we believe could be used by hundreds of stations advantageously. I want to pass the idea along to you for your consideration.

The program, originated by WFVA, Fredericksburg, Virginia, is broadcast one-half hour daily, and resulted in a total Defense Bond and Stamps sale of \$43,100.00 in the first four days it was on the air, in a city of about 10,000 population.

The broadcasts originate from a "Defense Bond Headquarters", located in the window of a leading local department store. This temporary studio is equipped with a private telephone, the number of which is announced once at the opening of the broadcast. Listeners are urged to call the number to order Bonds and Stamps. The name and address of persons calling are announced on the air, and the amount of Stamps or Bonds which they wish to purchase. An adding machine has been installed to record sales, and total sales are announced several times during the half-hour broadcast.

As telephone requests for Bonds and Stamps are received, Boy Scouts and Girl Scouts leave the Bond Headquarters and deliver them to homes or business offices. In the case of Bonds, they deliver an application blank, and give the purchaser complete instructions as to filling out the application and redeeming it for their bond at post offices or banks.

In addition to the telephone calls made to the Bond Headquarters, the announcer calls telephone subscribers, and asks "Any Bonds Today?" As a result of such a phone call on one program, the announcer was given an order for over \$20,000.00 in Bonds by the head of a large corporation.

Telephone calls are interspersed with recorded music.

The programs have not only resulted in tremendous Defense Bond and Stamp sales, but have also brought wide publicity to the station. We hope that you may be able to instigate a similar series in your city.

Sincerely yours,

Vincent F. Callahan,
Chief, Radio and Press Sections.

TREASURY DEPARTMENT

201

INTER OFFICE COMMUNICATION

DATE December 22, 1941

TO Secretary Morgenthau
FROM Vincent F. Callahan

Since June 1, 1941 Miss Marjorie Spriggs has been conducting, through individual stations, a nation-wide radio campaign directed to the women of the country.

She has been consistently sending material to, and contacting 456 women program directors of a similar number of stations. These women personally conduct their own programs and their audiences total in the millions.

Material used is special and is prepared by Mrs. Frank Hummert.

Through a return post card system, Miss Spriggs knows definitely that the material is being used.

These women's programs represent the largest single women's group in the United States. We are reaching them daily and consistently.

Vincent F. Callahan

*hated
\$1*

UNITED STATES SAVINGS BONDS

Comparative Statement of Sales During
First Eighteen Business Days of December, November and October 1941
(October 1-21, November 1-24, December 1-20)
On Basis of Issue Price

(Amounts in thousands of dollars)

Item	Sales			Amount of Increase or Decrease (-)		Percentage of Increase or Decrease (-)	
				December	November	December	November
	December	November	October	over	over	over	over
				November	October	November	October
Series E - Post Offices	\$ 54,284	\$ 31,056	\$ 28,720	\$23,228	\$ 2,336	74.8%	8.1%
Series E - Banks	<u>106,487</u>	<u>56,543</u>	<u>53,532</u>	<u>49,944</u>	<u>3,011</u>	<u>88.3</u>	<u>5.6</u>
Series E - Total	160,770	87,599	82,252	73,171	5,347	83.5	6.5
Series F - Banks	16,298	14,600	15,136	1,698	- 536	11.6	- 3.5
Series G - Banks	<u>92,300</u>	<u>83,008</u>	<u>81,783</u>	<u>9,292</u>	<u>1,225</u>	<u>11.2</u>	<u>1.5</u>
Total	<u>\$269,368</u>	<u>\$185,208</u>	<u>\$179,171</u>	<u>\$84,160</u>	<u>\$ 6,037</u>	<u>45.4%</u>	<u>3.4%</u>

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

December 22, 1941.

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

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

UNITED STATES SAVINGS BONDS

Daily Sales - December 1941

On Basis of Issue Price

(In thousands of dollars)

Date	Post Office Bond Sales	Bank Bond Sales				All Bond Sales			
		Series E	Series F	Series G	Total	Series E	Series F	Series G	Total
December 1941									
1	\$ 2,976	\$ 3,904	\$ 1,333	\$ 7,220	\$ 12,458	\$ 6,880	\$ 1,333	\$ 7,220	\$ 15,434
2	1,229	2,592	623	5,750	8,964	3,821	623	5,750	10,193
3	1,510	2,734	870	5,289	8,893	4,244	870	5,289	10,403
4	2,411	4,036	726	7,530	12,292	6,447	726	7,530	14,703
5	2,015	4,805	1,152	12,357	18,314	6,820	1,152	12,357	20,329
6	1,001	2,293	656	2,776	5,725	3,294	656	2,776	6,726
8	3,282	4,764	1,011	3,810	9,585	8,046	1,011	3,810	12,866
9	1,828	3,877	601	4,996	9,475	5,706	601	4,996	11,304
10	1,651	3,566	491	2,612	6,668	5,217	491	2,612	8,320
11	1,909	4,763	719	3,423	8,905	6,672	719	3,423	10,814
12	2,773	5,012	658	3,768	9,437	7,785	658	3,768	12,211
13	2,767	5,030	584	2,120	7,734	7,798	584	2,120	10,501
15	7,185	11,679	1,022	4,462	17,162	18,864	1,022	4,462	24,347
16	2,113	3,956	893	1,901	6,750	6,069	893	1,901	8,863
17	4,164	9,750	1,180	6,327	17,257	13,914	1,180	6,327	21,421
18	5,382	11,630	1,337	6,826	19,793	17,012	1,337	6,826	25,175
19	5,995	10,205	1,172	5,214	16,591	16,201	1,172	5,214	22,586
20	4,091	11,890	1,270	5,921	19,081	15,981	1,270	5,921	23,172
Total	\$ 54,284	\$106,487	\$ 16,298	\$ 92,300	\$215,085	\$160,770	\$ 16,298	\$ 92,300	\$269,368

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

December 22, 1941.

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

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

U. S. SAVINGS BONDS, SERIES E, TYPE A
STOCK ACCOUNT OF LOANS AND CURRENCY VAULT

Report of December 22, 1941

	\$25	\$50	\$100	\$500	\$1,000	Total Pieces
On hand c.o.b. Dec. 21.....	4,663	5,502	17,321	13,751	72,280	113,517
Received from Bureau Dec. 22.....	160,000	75,000	25,000	.....	.....	260,000
Total.....	164,663	80,502	42,321	13,751	72,280	373,517
Shipments Dec. 22.....	149,950	76,240	31,325	6,075	11,077	274,667
On hand c.o.b. Dec. 22.....	14,713	4,262	10,996	7,676	61,203	98,850

Estimated deliveries to be received from Bureau of Engraving and Printing:

Tuesday	Dec. 23.....	180,000	85,000	35,000	.....	.....	300,000
Wednesday	Dec. 24.....	220,000	80,000	25,000	.....	.....	325,000
* Thursday	Dec. 25.....	235,000	80,000	35,000	.....	.....	350,000

NOTE: The bureau advises that the aggregate number of pieces for all denominations to be delivered each day will not be less than the figures shown but that there may be variations as between denominations.

* In case the Bureau does not operate on December 25, the deliveries for this date will be made on December 26.

U. S. SAVINGS BONDS, SERIES E, TYPE A
REQUISITION ACCOUNT OF ISSUING AGENTS

Report of December 22, 1941

	\$25	\$50	\$100	\$500	\$1,000	Total Pieces
Due on requisitions c.o.b. Dec. 21						
Federal Reserve Banks.....	228,000	274,000	273,000	66,500	46,000	887,500
P. O. Department.....	526,000	288,000	245,000	20,000	20,000	1,099,000
Others.....	.....	.....	.....	.....	.....	.....
Total.....	754,000	562,000	518,000	86,500	66,000	1,986,500
Requisitions received Dec. 22						
Federal Reserve Banks.....	113,450	75,240	120,325	26,575	26,077	361,667
P. O. Department.....	.....	.....	.....	.....	.....	.....
Others.....	5,500	1,000	.....	.....	.....	6,500
Total.....	118,950	76,240	120,325	26,575	26,077	368,167
Totals						
Federal Reserve Banks.....	341,450	349,240	393,325	93,075	72,077	1,249,167
P. O. Department.....	526,000	288,000	245,000	20,000	20,000	1,099,000
Others.....	5,500	1,000	.....	.....	.....	6,500
Total.....	872,950	638,240	638,325	113,075	92,077	2,354,667
Shipments Dec. 22						
Federal Reserve Banks.....	84,450	50,240	26,325	6,075	11,077	178,167
P. O. Department.....	60,000	25,000	5,000	.....	.....	90,000
Others.....	5,500	1,000	.....	.....	.....	6,500
Total.....	149,950	76,240	31,325	6,075	11,077	274,667
Due on requisitions c.o.b. Dec. 22						
Federal Reserve Banks.....	257,000	299,000	367,000	87,000	61,000	1,071,000
P. O. Department.....	466,000	263,000	240,000	20,000	20,000	1,009,000
Others.....	.....	.....	.....	.....	.....	.....
Total.....	723,000	562,000	607,000	107,000	81,000	2,080,000

U. S. SAVINGS BONDS, SERIES E, TYPE A
REQUISITION ACCOUNT OF THE FEDERAL RESERVE BANK OF BOSTON

Report of December 22, 1941

	\$25	\$50	\$100	\$500	\$1,000	Total Pieces
Due on requisitions c.o.b. Dec. 21...	.....	.....	3,000	.....	.....	3,000
Requisitions received Dec. 22.....	20,000	10,000	20,000	.....	.....	50,000
Total.....	20,000	10,000	23,000	.....	.....	53,000
Shipments Dec. 22.....	5,000	5,000	3,000	.....	.....	13,000
Due on requisitions c.o.b. Dec. 22...	15,000	5,000	20,000	.....	.....	40,000

U. S. SAVINGS BONDS, SERIES E, TYPE A
REQUISITION ACCOUNT OF THE FEDERAL RESERVE BANK OF NEW YORK

Report of December 22, 1941

	\$25	\$50	\$100	\$500	\$1,000	Total Pieces
Due on requisitions c.o.b. Dec. 21...	64,000	55,000	105,000	30,000	25,000	279,000
Requisitions received Dec. 22.....	.....	.....	.....	.....	.....	.....
Total.....	64,000	55,000	105,000	30,000	25,000	279,000
Shipments Dec. 22.....	25,000	15,000	10,000	.....	5,000	55,000
Due on requisitions c.o.b. Dec. 22...	39,000	40,000	95,000	30,000	20,000	224,000

U. S. SAVINGS BONDS, SERIES E, TYPE A
REQUISITION ACCOUNT OF THE FEDERAL RESERVE BANK OF PHILADELPHIA

Report of December 22, 1941

	\$25	\$50	\$100	\$500	\$1,000	Total Pieces
Due on requisitions c.o.b. Dec. 21... ..		7,000	15,000	11,000	20,000	53,000
Requisitions received Dec. 22.....	48,000	35,000	50,000	25,000	25,000	183,000
Total.....	48,000	42,000	65,000	36,000	45,000	236,000
Shipments Dec. 22.....					5,000	5,000
Due on requisitions c.o.b. Dec. 22... ..	48,000	42,000	65,000	36,000	40,000	231,000

U. S. SAVINGS BONDS, SERIES E, TYPE A
REQUISITION ACCOUNT OF THE FEDERAL RESERVE BANK OF CLEVELAND

Report of December 22, 1941

	\$25	\$50	\$100	\$500	\$1,000	Total Pieces
Due on requisitions c.o.b. Dec. 21...	52,000	36,000	20,000	10,000	.....	118,000
Requisitions received Dec. 22.....	.....	.....	.....	.....	.....	.....
Total.....	52,000	36,000	20,000	10,000	.....	118,000
Shipments Dec. 22.....	10,000	5,000	.....	.....	.....	15,000
Due on requisitions c.o.b. Dec. 22...	42,000	31,000	20,000	10,000	.....	103,000

U. S. SAVINGS BONDS, SERIES E, TYPE A
REQUISITION ACCOUNT OF THE FEDERAL RESERVE BANK OF RICHMOND

Report of December 22, 1941

	\$25	\$50	\$100	\$500	\$1,000	Total Pieces
Due on requisitions c.o.b. Dec. 21...	6,000	16,000	13,000	1,000	1,000	37,000
Requisitions received Dec. 22.....	450	240	325	75	77	1,167
Total.....	6,450	16,240	13,325	1,075	1,077	38,167
Shipments Dec. 22.....	2,450	2,240	1,325	1,075	1,077	8,167
Due on requisitions c.o.b. Dec. 22...	4,000	14,000	12,000	.....	.....	30,000

U. S. SAVINGS BONDS, SERIES E, TYPE A
REQUISITION ACCOUNT OF THE FEDERAL RESERVE BANK OF ATLANTA

Report of December 22, 1941

	\$25	\$50	\$100	\$500	\$1,000	Total Pieces
Due on requisitions c.o.b. Dec. 21...	4,000	6,000	3,000	.....	.....	13,000
Requisitions received Dec. 22.....	10,000	.....	.....	.....	.....	10,000
Total.....	14,000	6,000	3,000	.....	.....	23,000
Shipments Dec. 22.....	4,000	.....	.....	.....	.....	4,000
Due on requisitions c.o.b. Dec. 22...	10,000	6,000	3,000	.....	.....	19,000

U. S. SAVINGS BONDS, SERIES E, TYPE A
REQUISITION ACCOUNT OF THE FEDERAL RESERVE BANK OF ATLANTA - NEW ORLEANS BRANCH

Report of December 22, 1941

	\$25	\$50	\$100	\$500	\$1,000	Total Pieces
Due on requisitions c.o.b. Dec. 21...	8,000	4,000	.....	.....	.....	12,000
Requisitions received Dec. 22.....	.....	.....	.....	.....	.....	.....
Total.....	8,000	4,000	.....	.....	.....	12,000
Shipments Dec. 22.....	.....	.....	.....	.....	.....	.....
Due on requisitions c.o.b. Dec. 22...	8,000	4,000	.....	.....	.....	12,000

U. S. SAVINGS BONDS, SERIES E, TYPE A
REQUISITION ACCOUNT OF THE FEDERAL RESERVE BANK OF CHICAGO

Report of December 22, 1941

	\$25	\$50	\$100	\$500	\$1,000	Total Pieces
Due on requisitions c.o.b. Dec. 21...	.....	20,000	15,000	5,000	.....	40,000
Requisitions received Dec. 22.....	20,000	20,000	40,000	.....	.....	80,000
Total.....	20,000	40,000	55,000	5,000	.....	120,000
Shipments Dec. 22.....	15,000	10,000	5,000	5,000	.....	35,000
Due on requisitions c.o.b. Dec. 22...	5,000	30,000	50,000	.....	.....	85,000

U. S. SAVINGS BONDS, SERIES E, TYPE A
REQUISITION ACCOUNT OF THE FEDERAL RESERVE BANK OF ST. LOUIS

Report of December 22, 1941

	\$25	\$50	\$100	\$500	\$1,000	Total Pieces
Due on requisitions c.o.b. Dec. 21...	13,000	23,000	11,000	2,500	.....	49,500
Requisitions received Dec. 22.....	.....	.....	.....	.....	.....	.....
Total.....	13,000	23,000	11,000	2,500	.....	49,500
Shipments Dec. 22.....	5,000	3,000	.....	.....	.....	8,000
Due on requisitions c.o.b. Dec. 22...	8,000	20,000	11,000	2,500	.....	41,500

U. S. SAVINGS BONDS, SERIES E, TYPE A
REQUISITION ACCOUNT OF THE FEDERAL RESERVE BANK OF MINNEAPOLIS

Report of December 22, 1941

	\$25	\$50	\$100	\$500	\$1,000	Total Pieces
Due on requisitions c.o.b. Dec. 21...	5,000	10,000	5,000	.....	.....	20,000
Requisitions received Dec. 22.....	.....	.....	.....	.....	.....	.....
Total.....	5,000	10,000	5,000	.....	.....	20,000
Shipments Dec. 22.....	.....	.....	.....	.....	.....	.....
Due on requisitions c.o.b. Dec. 22...	5,000	10,000	5,000	.....	.....	20,000

U. S. SAVINGS BONDS, SERIES E, TYPE A
REQUISITION ACCOUNT OF THE FEDERAL RESERVE BANK OF KANSAS CITY

Report of December 22, 1941

	\$25	\$50	\$100	\$500	\$1,000	Total Pieces
Due on requisitions c.o.b. Dec. 21...	12,000	10,000	13,000	2,000	.....	37,000
Requisitions received Dec. 22.....	.....	.....	.....	.....	.....	.....
Total.....	12,000	10,000	13,000	2,000	.....	37,000
Shipments Dec. 22.....	5,000	.....	2,000	.....	.....	7,000
Due on requisitions c.o.b. Dec. 22...	7,000	10,000	11,000	2,000	.....	30,000

U. S. SAVINGS BONDS, SERIES E, TYPE A
REQUISITION ACCOUNT OF THE FEDERAL RESERVE BANK OF DALLAS

Report of December 22, 1941

	\$25	\$50	\$100	\$500	\$1,000	Total Pieces
Due on requisitions c.o.b. Dec. 21...	11,000	17,000	10,000	.....	.....	38,000
Requisitions received Dec. 22.....	15,000	10,000	10,000	1,500	1,000	37,500
Total.....	26,000	27,000	20,000	1,500	1,000	75,500
Shipments Dec. 22.....	5,000	5,000	.....	.....	.....	10,000
Due on requisitions c.o.b. Dec. 22...	21,000	22,000	20,000	1,500	1,000	65,500

U. S. SAVINGS BONDS, SERIES E, TYPE A
REQUISITION ACCOUNT OF THE FEDERAL RESERVE BANK OF SAN FRANCISCO

Report of December 22, 1941

	\$25	\$50	\$100	\$500	\$1,000	Total Pieces
Due on requisitions c.o.b. Dec. 21...	53,000	70,000	60,000	5,000	.....	188,000
Requisitions received Dec. 22.....	.....	.....	.....	.....	.....	.....
Total.....	53,000	70,000	60,000	5,000	.....	188,000
Shipments Dec. 22.....	8,000	5,000	5,000	.....	.....	18,000
Due on requisitions c.o.b. Dec. 22...	45,000	65,000	55,000	5,000	.....	170,000



219

TREASURY DEPARTMENT
WASHINGTON

Columbia, S. C.
December 22, 1941

Honorable Henry Morgenthau
Secretary of the Treasury
Washington, D. C.

Dear Mr. Morgenthau:

I have your letter of the 13th notifying me that my designation is changed to Consulting Expert in the Defense Savings Staff. I also have your letter of the 20th explaining that it is necessary that you have additional full time Assistants because of the changed situation since our country has entered the war.

This arrangement is entirely satisfactory to me, and you will remember that I told you when we talked the matter over about six weeks ago that I would be very happy to meet your wishes in this respect at any time.

If I can be of help in any capacity, I am with pleasure at your command.

With kindest regards, I am

Sincerely yours,

B. M. Edwards

BME:atb



TREASURY DEPARTMENT
WASHINGTON

December 22, 1941.

MEMORANDUM FOR THE SECRETARY:

You will recall asking me at Chicago to make inquiry to determine the indentity of a Jewish citizen who, as you said, lived in Senator Harrison's home town.

I have the attached letter from our State Administrator for Mississippi with reference to this matter.

Does any of the persons named appear to be the person you had in mind?

GRAVES



TREASURY DEPARTMENT
INTERNAL REVENUE SERVICE

221

OFFICE OF THE COLLECTOR
DISTRICT OF MISSISSIPPI

JACKSON, MISS.

December 20, 1941

IN REPLYING REFER TO

PERSONAL AND CONFIDENTIAL

Hon. Harold N. Graves
Assistant to the Secretary
Treasury Department
Washington, D. C.

My dear Mr. Graves:

Referring to your conversation with Orrin Swayze and me during the luncheon in Chicago Wednesday, and in compliance with your request, I give you below the names and addresses of a number of outstanding Jewish citizens of Mississippi:

Alec Loeb,	Meridian	Isidore Lehman, Jackson
Irving Rothenberg,	"	Isidore Dreyfus, "
Louis Threefoot,	"	Lee S. Hart, "
Ike Rosenbaum,	"	Dan Cohn, Lorman
Gabe Jacobson,	"	S. B. Laub, Natchez
Jake Rubel,	Corinth	Albert Krauss, Fayette
Simon Rubel,	"	

You told us that the Secretary was under the impression the person he had in mind was from the home town of Senator Harrison, but there is not an outstanding Jewish citizen who is a resident at this time of Crystal Springs, Senator Harrison's birthplace, or Gulfport, which was his home, and, while it is quite possible I may have overlooked the very person inquired about, since we have many fine Jewish citizens, the above list, in the opinion of local Jewish friends with whom I have conferred, is composed of citizens who might meet the specifications you mentioned.

If we can be of any further service to you and the Secretary in this matter, please command us.

You did yourself proud at the Chicago meeting, and deserved all the fine things that were said about you.

With kindest regards, I am

Sincerely yours,

Eugene Fly
Eugene Fly
Collector

TREASURY DEPARTMENT

222

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE December 22, 1941

TO: Secretary Morgenthau
FROM: Mr. Haas
SUBJECT: The Business Situation,
Week ending December 20, 1941.

Summary

(1) Despite increasing restrictions on the output of civilian goods, industrial production rose to a record high in November and was maintained at a high rate in the first half of the current month. The FRB adjusted index of industrial production in November stood at 167 as compared with 163 in the previous month and only 112 in April 1940, before the defense program got under way.

(2) The Government price control program continues to broaden. Additional price ceilings have been imposed on basic commodities, and restrictions on finished goods prices have been increased. The forthcoming institution of consumer rationing, thus far limited to automobile tires, will afford an important means of implementing inflation control.

(3) The general price level in the opening week of the war rose 0.9 point to 93.1, the highest point since December 1929. Basic commodity prices in the following week, however, declined somewhat, largely as a result of recent Governmental price control measures, particularly the imposing of ceiling prices for fats and oils.

(4) The shipbuilding industry will provide an important offset to unemployment caused by restrictions in some civilian goods industries. On top of an increase of more than 400,000 workers since January 1939 (when total employment in shipyards was only 100,000), it is estimated that the shipbuilding industry will employ 234,000 additional workers by next November, solely on the basis of contracts on hand at the end of September.

(5) Department store sales in the week ended December 13 ran only 1 percent above year-earlier levels, as compared with a gain of 9 percent in the previous week, despite a 15 percent increase in prices over last year. Sales in the San Francisco and New York areas reflected the adverse effects of air raid alarms and fell 5 and 3 percent, respectively, below year-earlier levels.

- - - - -

General situation

The second week of the war brought into clearer light the trends in the national economy that will result from the outbreak of hostilities. While steps are being taken to expand the output of such items as steel, copper, machine tools and war equipment, restrictions are being tightened on the production and consumption of a widening range of civilian goods, particularly those using up strategic materials produced in the Far East.

The extension of the ban on tire sales and the 80 percent cut planned for civilian rubber consumption, together with such developments as the freezing of tin stocks and the severe production curtailments recently ordered for the automobile and household appliance industries, all emphasize the drastic adjustments that will have to be made in gearing up the war effort. Evidence of public recognition of this is seen in the action of the stock market, where the so-called "war stocks" during the past week have strengthened somewhat, while "peace stocks" have shown noticeable weakness. (See Chart 1.) As a result, the ratio of war to peace stocks moved up to a new high.

Despite the production curtailment of some civilian goods, which was already in progress before war broke out in the Pacific, aggregate industrial production and business activity has continued to move ahead. The FRB seasonally-adjusted index of industrial production in November rose to a new high at 167 from 163 in the previous month, and preliminary estimates indicate that a high rate of activity was maintained in the first half of the current month. Both Barron's index and the New York Times index of business activity rose moderately during the week ended December 13. A rise of 0.6 point to 133.3 carried the latter index within 0.1 point of the high for the year.

Consumer rationing of tires to begin soon

In order to cope with the limited supply of tires available for civilian use when the sale of tires is resumed on January 4, the OPA has announced that a complete rationing system for the sale of tires will be put into effect on that date. This action, which is expected to be followed by others of a similar nature, is the first of its kind since the war began. It derives special significance from the

- 3 -

fact that in addition to directing the flow of goods into the most useful channels, rationing provides a method of reducing the effective demand, and is thus an important means of implementing governmental efforts to control inflation.

BLS all-commodity monthly index at 12-year high

Wholesale commodity prices in November, as measured by the BLS index of 889 commodities, reached a new high mark since January 1930. (See Chart 2, upper section.) The November figure of 92.5 represents an increase of 14.8 percent since the beginning of the sharp rise last February, and 23.3 percent since the pre-war August 1939 level.

The Conference Board cost-of-living index in November (shown on the chart) rose 1.0 percent above the October level, marking an unbroken 12-month rise that has carried the index up 9 percent in that period, and 11 percent since August 1939.

All-commodity weekly index at new high

The sharp advance of wholesale prices in the week ended December 12 (after the Japanese attack) lifted the BLS all-commodity weekly index 1.0 percent to 93.1, the highest peak since December 1929. (See Chart 2, lower half.) Advances were general. Farm products prices increased 2.2 percent, chemical and allied products, 2.0 percent, and foods, 1.9 percent. The largest increase in an individual group was 14 percent in fats and oils. The rise in basic commodity prices in recent weeks (lower section of chart) has been steeper than the advance in the all-commodity index.

Basic commodity prices recede

The sharp advance of wholesale prices in the second week of December was dampened last week by vigorous Government action. Prices of basic commodities declined substantially, reflecting uncertainty over future governmental action and confusion in the trade from OPA emergency measures. (See Chart 3.) As was to be expected from the Government's price-fixing action, prices of domestic fats and oils weakened. Cottonseed oil, lard, butter and tallow prices declined sharply. Wheat lost half of its large gain of the week before, while rosin continued to advance. Most of the imported commodities have been subject for some time to OPA restrictions, and prices in this group showed relatively little change.

Price controls extended

A noticeable stiffening of price control measures occurred last week, which will tend to offset inflationary tendencies arising from the prospective curtailment of Far East imports and the stepped up war demands. There were indications that farm products may be subjected to wider and stricter Government control than had heretofore seemed likely. Restrictions on prices of finished goods were broadened, and seemed likely to be extended further.

The OPA continued to implement its control of prices by imposing new ceilings, and by making advance "standstill announcements" of ceilings to come. The textile field was especially affected last week by OPA action. An announcement was made that price restrictions were in preparation for a wide range of textiles, at all stages of production and distribution except at retail. By bringing previously-excepted groups under control, this action has the net effect of placing under restriction wholesale prices of practically all textiles except garments.

Late in the week a subcommittee of the Senate Banking Committee tightened the House version of the price control bill, restoring the power to issue licenses, authorizing the Price Administrator to buy and sell commodities to stabilize their prices, and giving him greater control of farm commodity prices. Left for action by the full committee was the choice between the alternatives of fixing the ceiling on farm prices at 100 percent or 110 percent of parity. The bill is scheduled to go before the Senate on January 5.

Commodity Credit Corporation to sell wheat

Announcement by the Commodity Credit Corporation that the Government was willing to sell 170 million bushels of its holdings of 1939 and 1940 wheat (total CCC wheat holdings October 31 were 173 million bushels) was interpreted in the trade as a warning that the Administration is opposed to a substantial price rise in wheat and perhaps in other farm products. Secretary Wickard said in a public statement last week: "There is little excuse for any substantial increase in the price of agricultural commodities at this time, and we will do everything in our power to check speculative increases."

- 5 -

The Corporation stated that this wheat would be sold at the market price, or 15 cents a bushel above the 1941 loan level at storage points, whichever was higher. This tends to establish a ceiling, for example, on the basis of No. 2 hard winter at Kansas City at about \$1.25 a bushel, which compares with a price last Friday of about \$1.22.

Steel expansion to be pushed

While some civilian goods industries are curtailing operations, steps are being taken to expand the production facilities of steel and other industries closely identified with the armament program. During the past week the OPM announced that high priority ratings would be given projects for expanding steel output, particularly those providing additional pig iron capacity, electric furnaces or facilities for the output of special steels. One example of what can be done in expanding pig iron capacity, needed to offset the shortage of scrap, was given recently by a subsidiary of the National Steel Corporation. This concern completed and put into operation within 6 months one of the largest blast furnaces in the world, which produces 450,000 tons of pig iron a year. Under ordinary circumstances it is said that such furnace would require 12 to 18 months for completion.

Automobile producers, normally the largest consumers of steel, are reported to be suspending almost all of their unfilled steel orders, because of the automobile curtailment program. This is having the intended result of providing greater facilities for defense orders.

Steel operations, which last week rose 0.4 point to 97.9 percent of capacity, are scheduled at 93.4 percent of capacity during the current holiday week. The Carnegie-Illinois Steel Corporation, the country's largest producer, has announced that its blast furnaces, coke ovens, certain open hearths and various other facilities will operate on Christmas.

Increased copper output sought

One of the most serious bottlenecks in the entire defense program has been the shortage of non-ferrous metals. Near the end of the week representatives of the copper industry met with OPM and other Government officials to discuss means of expanding output, including steps to improve working efficiency and to reopen mines now closed.

In a move to alleviate the copper shortage, two of the largest domestic producers, the Anaconda Copper Mining Company and the Phelps Dodge Corporation, recently announced that all their properties were going onto a 3-shift basis, 7 days a week. Before the end of the year the latter company is expected to begin operations at its new open pit Morenci mine which has been under development for 5 years. This mine is expected to add 75,000 tons a year (nearly equal to one month's total industry output) to the country's copper production.

Large increase in shipbuilding employment expected

As an important offset to unemployment caused by curtailment of production in some civilian goods industries, further substantial gains are in prospect for shipbuilding employment. The number of workers employed in ship construction and repair work has risen from less than 100,000 in January 1939 to around 500,000 in the current month. On top of this unusually sharp rise, the Bureau of Labor Statistics estimates that shipbuilding employment will show a further gain of 234,000 men by November of next year, solely on the basis of contracts on hand at the end of last September. Sizeable additional shipbuilding contracts have been awarded since the end of September, and further large increases appear almost certain.

War hits department store sales

Actual figures for department store sales, now available for the opening week of the war, tend to corroborate earlier reports that sales had slumped sharply after the Japanese attack, particularly in coastal cities. Thus despite a 15 percent rise in prices, department store sales in the week ended December 13 ran only 1 percent above year-earlier levels as compared with a gain of 9 percent in the previous week. (See Chart 4.) Moreover, the San Francisco, New York, Boston and Philadelphia areas actually showed declines from year-earlier levels running from 1 to 5 percent. Significantly, the best showing was made by the St. Louis district, where sales ran 10 percent above the corresponding week in 1940.

Preliminary reports indicate that some recovery was shown last week from the slump occasioned by the outbreak of war, but it is said that trade is still below the levels

expected earlier in the year. One source reports that the growing practice of corporations to give their Christmas bonuses in the form of defense bonds and stamps, together with the fact that many individuals are giving defense bonds instead of other gifts, has retarded trade.

New orders higher

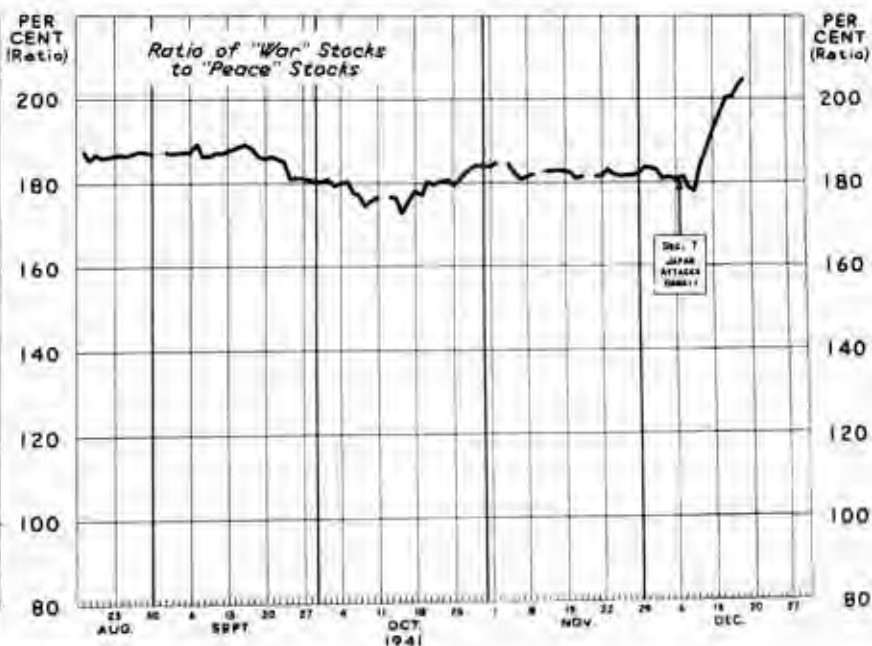
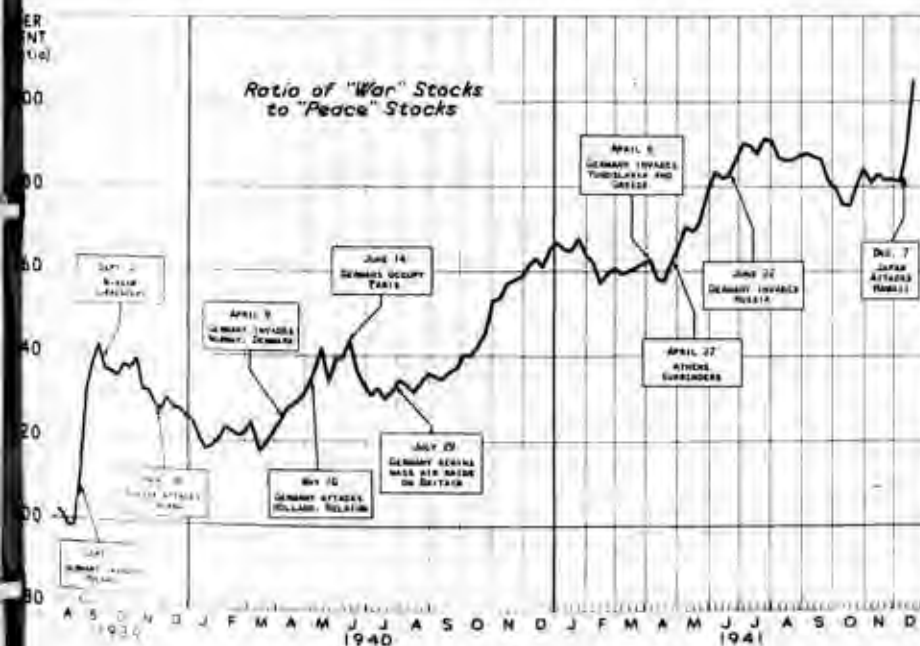
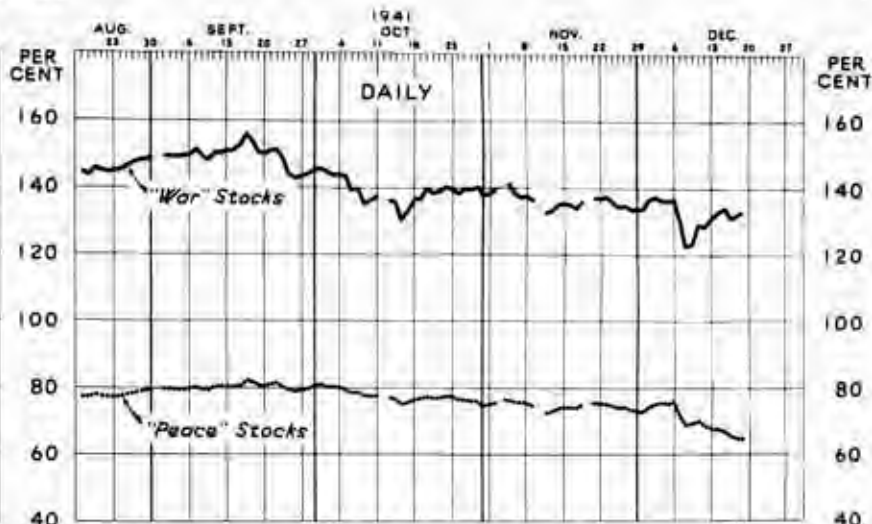
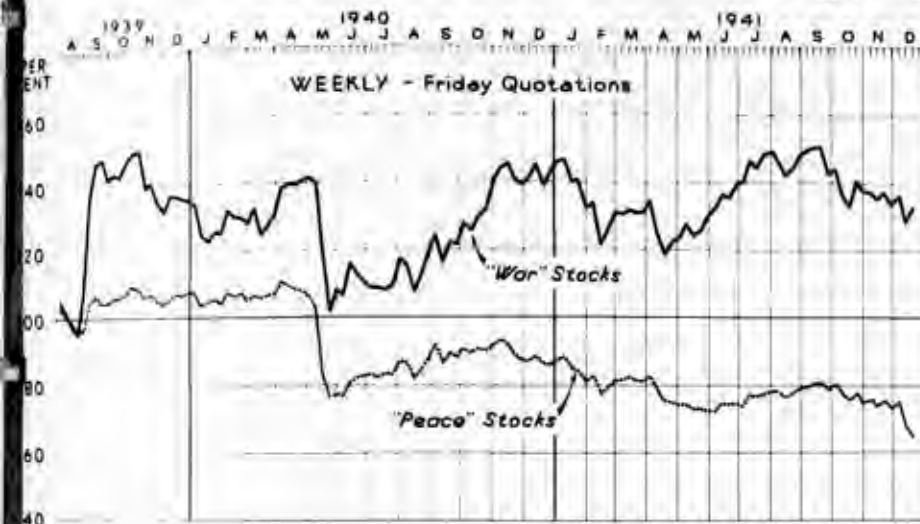
With all major components showing gains, our index of new orders in the second week in December rose substantially above the levels of the two preceding weeks. (See Chart 5.) The outstanding factor in the rise in that week (the first week of the war) was a sharp gain in electrical equipment orders, which pushed the "all other" component up to the highest levels since the second week in October. New orders for steel also expanded substantially and rose to 109 percent of capacity from 84 percent in the previous week.

COMPARISON OF PRICE MOVEMENTS OF 20 "WAR" STOCKS AND 20 "PEACE" STOCKS*

August 1939 = 100

229

Chart 1



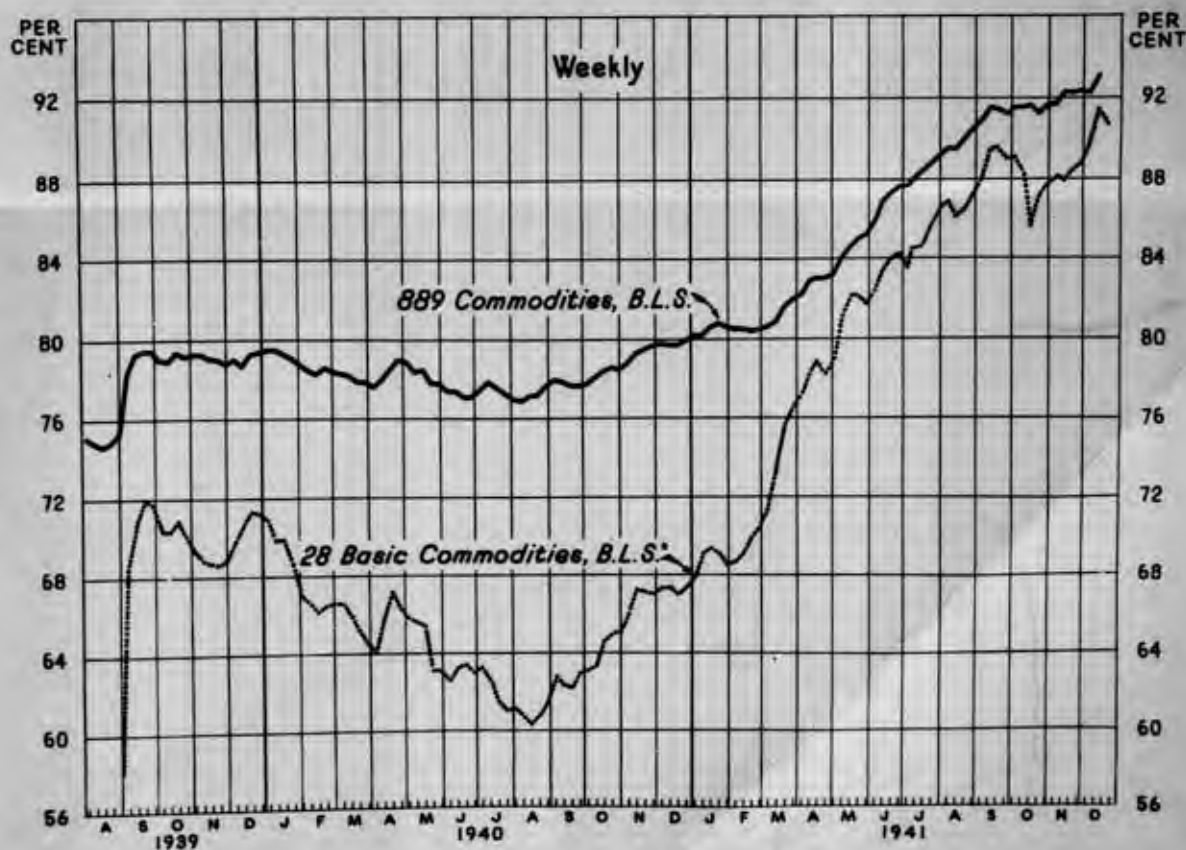
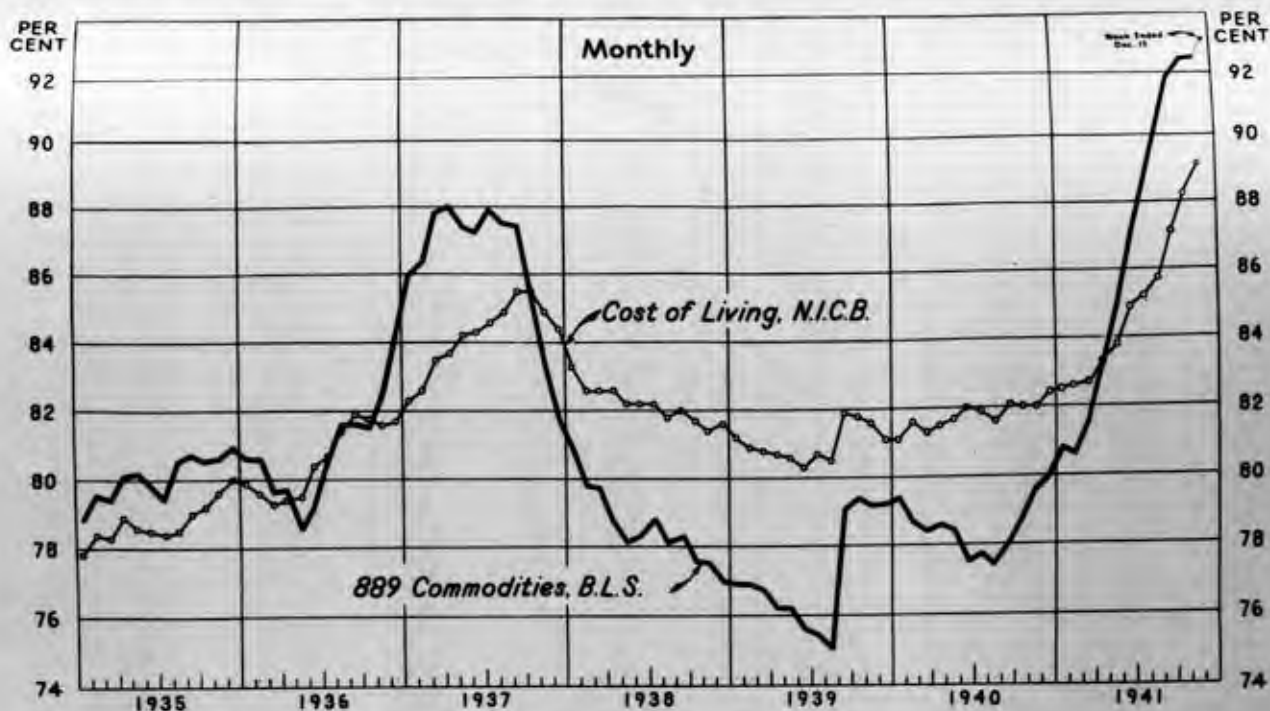
* Stocks selected on basis of relative benefits from prolonged war vs. early peace
Indexes are weighted averages of price relatives

F-225-8

Regraded Unclassified

COMMODITY PRICES AND COST OF LIVING

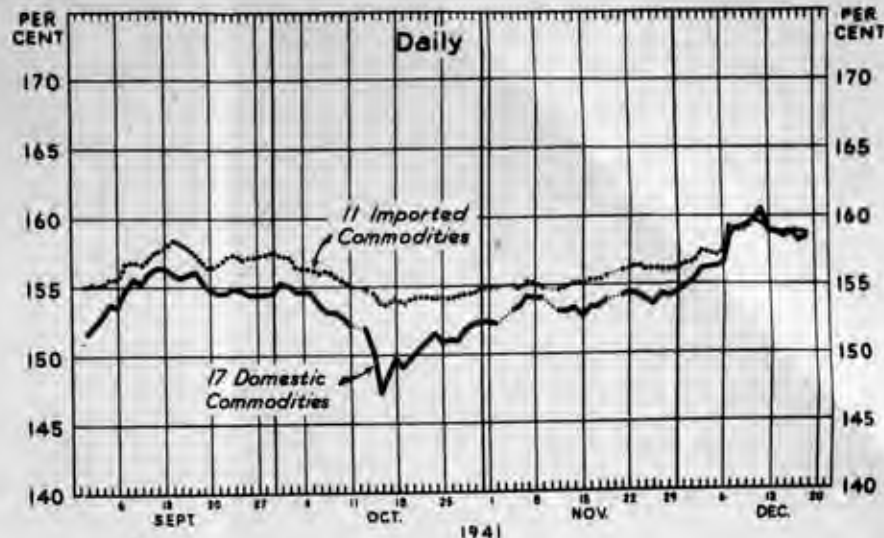
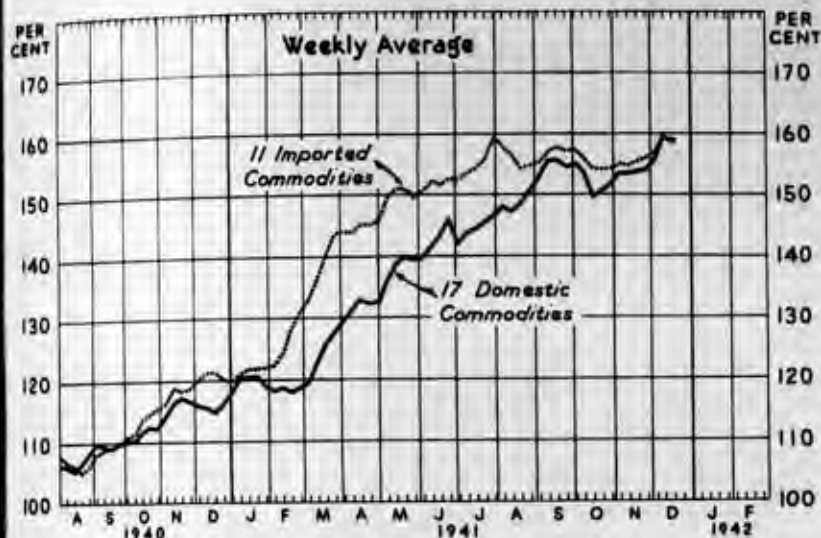
1926 = 100



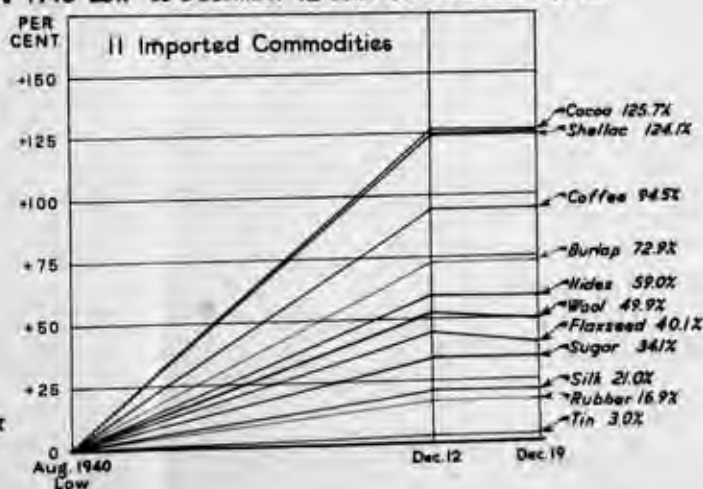
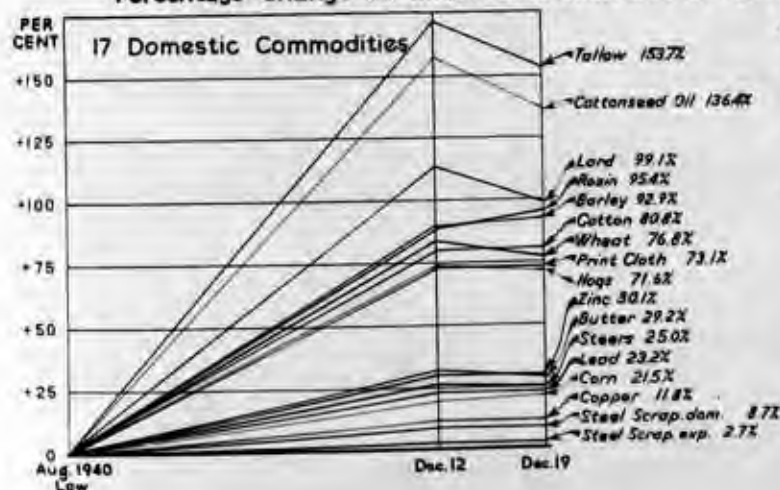
*30 Commodities Prior to January 1940

MOVEMENT OF BASIC COMMODITY PRICES

AUGUST 1939 = 100

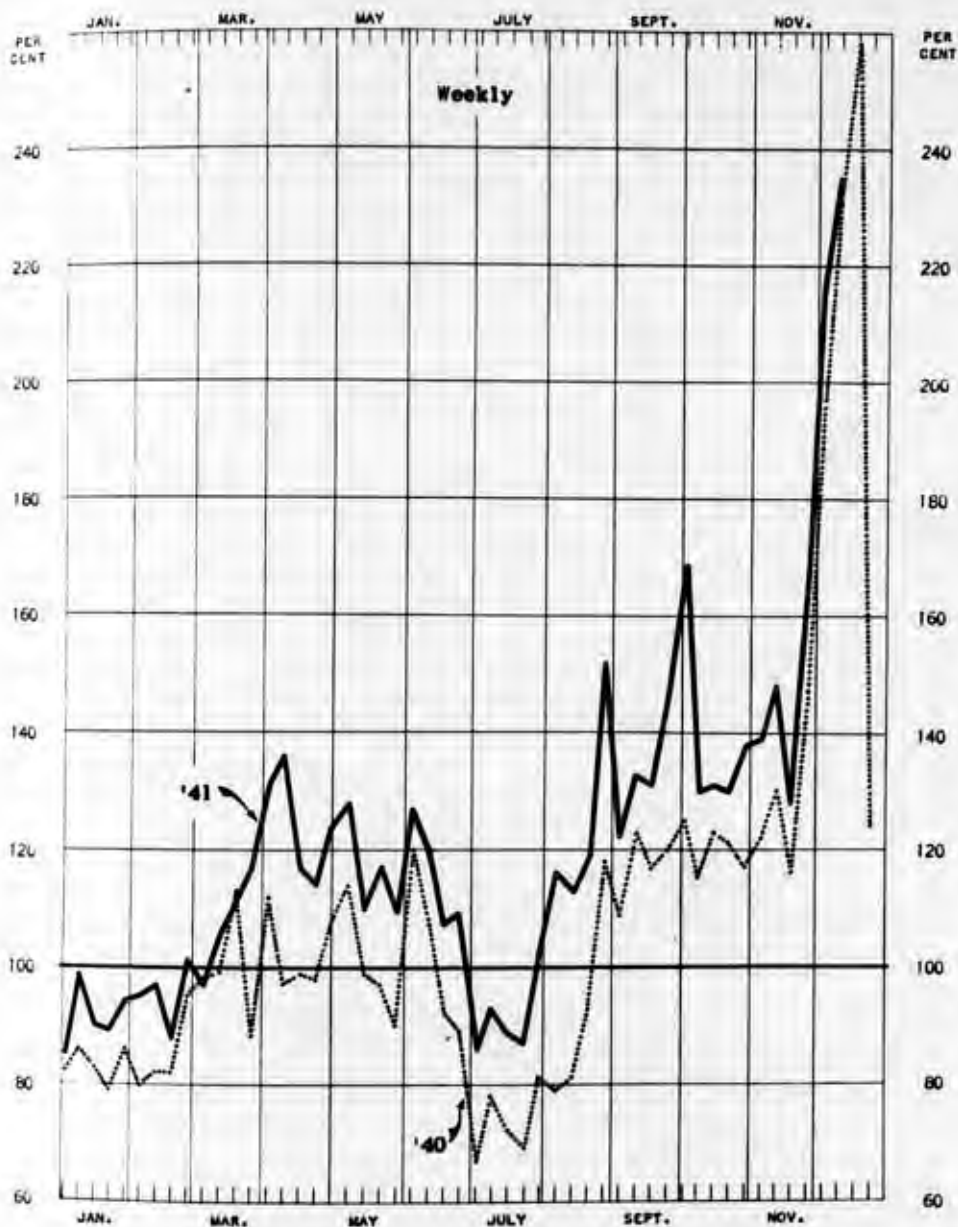


Percentage Change for Individual Commodities, August 1940 Low to December 12 and to December 19, 1941



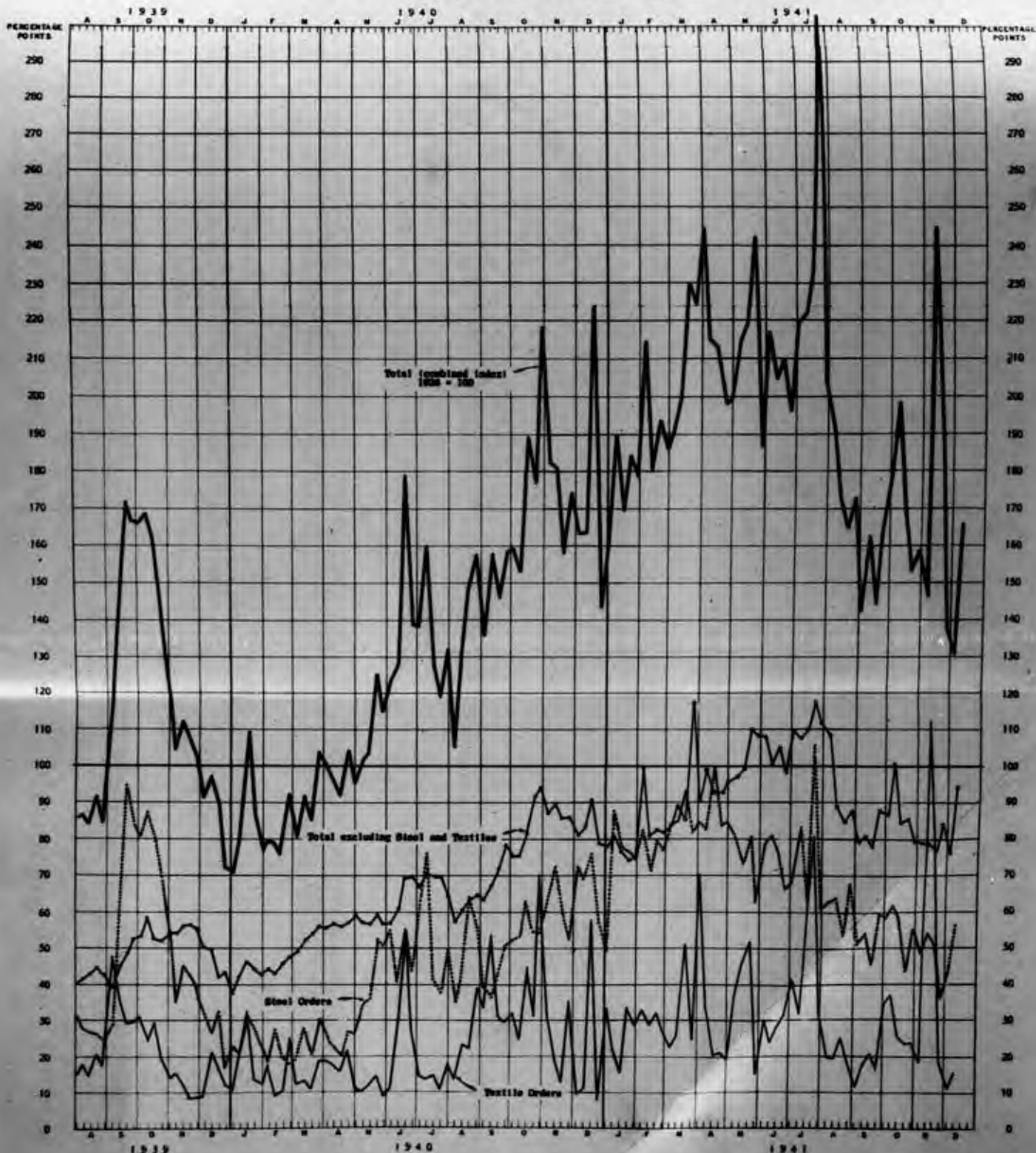
DEPARTMENT STORE SALES

1935 - '39 = 100, UNADJUSTED



INDEXES OF NEW ORDERS

Combined Index of New Orders and Selected Components



DEC 22 1941

Dear Mr. Secretary:

I have your letter of December 17, 1941, in which you state that it would seriously handicap the offensive and defensive operations of the Army Air Forces if they were instructed to take measures looking towards compliance with the tariff laws with respect to merchandise and baggage brought into the United States in military aircraft.

I believe that this matter should be seriously reconsidered. You will note that the instructions requested by this Department did not contemplate any detention of aircraft and did not necessarily require any immediate disclosure, even to customs officers, of the operations of such craft.

It seems unlikely to me that your Department will find it necessary to permit the carriage of merchandise and baggage in military aircraft in any manner which would necessarily involve clear infraction of the laws of this country.

Sincerely yours,

Wesley C. Cunningham, Jr.

Secretary of the Treasury.

The Honorable

The Secretary of War.

By Memorandum

Shorte

WRJ-esb

File to Thompson
N.H.C.

WD 042.27
(11-27-41) MB

WAR DEPARTMENT
WASHINGTON

DEC 17 1941

The Honorable,

The Secretary of the Treasury.

Dear Mr. Secretary:

Further reference is made to your letter of November 27, 1941, signed by the Acting Secretary, requesting that appropriate instructions be issued with reference to merchandise and baggage brought into the United States in military aircraft subject to customs entry, examination and payment of duties.

This matter has been given careful consideration in the War Department and since such action would seriously handicap the offensive and defensive operations of the Army Air Forces, it is not believed practicable to comply with your request.

Sincerely yours,

Henry L. Stimson
Secretary of War.

WAR DEPARTMENT
WASHINGTON

DEC - 2 1941

The Honorable,

The Secretary of the Treasury.

Dear Mr. Secretary:

Receipt is acknowledged of the letter of November 27, 1941, signed by the Acting Secretary, requesting that appropriate instructions be issued to the proper authorities with reference to merchandise and baggage brought into the United States in aircraft subject to customs entry, examination and payment of duties.

The matter is receiving attention and you will be given a further reply at a later date.

Sincerely yours,

Henry L. Stimson
Secretary of War.

Nov. 27, 1941

My dear Mr. Secretary:

Civil aircraft arriving in the United States from a foreign port or place are required by the Air Commerce Act of 1926, as amended (U.S.C. title 49, sec. 177) and the regulations thereunder, to make the first landing at an airport of entry unless permission to land elsewhere is obtained in advance from the Commissioner of Customs, Washington, D. C.

The term "civil aircraft" does not include aircraft used exclusively in the governmental service of the United States or a foreign country and not carrying persons or property for commercial purposes. Therefore, military aircraft arriving in the United States are not subject to the requirement cited. However, merchandise and baggage brought into the United States on such aircraft are subject to customs entry, examination and payment of duties, if any are due, in the same manner as like merchandise and baggage brought in by other modes of transportation.

In order to assist the customs service of this Department in the enforcement of the laws which it is charged to administer, it is requested that you issue appropriate instructions to the commanding officers at U. S. airfields and bases and to the operators of military aircraft under your jurisdiction so that in the event any merchandise or baggage is brought into the United States in military or naval aircraft, the nearest customs officer will be notified immediately and the merchandise or baggage held intact until customs inspection and clearance can be had. A similar request is being made of the Secretary of the Navy.

This Department would like advice as to any instructions which you may issue so that the customs officers may be appropriately informed. Your cooperation in this matter will be greatly appreciated.

Very truly yours,

(Signed) Herbert E. Gaston

Acting Secretary of the Treasury

The Honorable,

The Secretary of War

LHV:ag
11/26/41

December 22, 1941.

Dear Mr. Schram:

Thank you for your nice letter of December 18th. Your expression of confidence is very much appreciated.

I am sure the New York Stock Exchange, under your leadership, will share the responsibility we are facing during this emergency.

Best wishes for the coming year.

Sincerely,

(Signed) H. Morgenthau

Mr. Emil Schram, President,
New York Stock Exchange,
Eleven Wall Street,
New York, New York.

cc - Thompson

N.M.C.

GB:amo 12/22/41

WJ 239

New York Stock Exchange,
PRESIDENT'S OFFICE.

December 18, 1941

Dear Mr. Secretary:

On behalf of myself and my associates here in the financial community, I wish to send you this word of appreciation for the vitally important job you are doing and for the wisdom and courage with which you are facing the grave tasks which lie ahead.

We are unanimous in extending to you our wholehearted loyalty and support.

Best wishes for the Christmas season.

Sincerely yours,

Eugene Schram

Honorable Henry Morgenthau, Jr.
Secretary of the Treasury
Washington, D. C.

December 22, 1941

Dear Felix:

Thank you for your cheerful note of December 19th. Randolph Paul has gotten off to a good start.

I have re-read your letter three times, and I do not know how long "before very long" is that I have to wait for an invitation to lunch. I will furnish the apple if you will furnish the snake ala Eve.

Sincerely yours,

PS Henry

Honorable Felix Frankfurter,
Supreme Court of the United States,
Washington, D.C.

By Land
9:00 am. Shuts 12/23/41

Supreme Court of the United States
Washington, D. C.

241

CHAMBERS OF
JUSTICE FELIX FRANKFURTER

December 19, 1941

Dear Henry:

A word of congratulation to you in having
summoned Randolph Paul as one of your aides.

and before very long I hope I can snake you
for a luncheon or something. These are more than
crowded days for all of us but, after all, even you
have to eat lunch.

Keep fit - we
Ever yours,

FF.

Hon. Henry Morgenthau, Jr.

December 22, 1941.

My dear Mr. President:

Rabbi Jonah B. Wise has sent me a copy of a prayer, issued in proclamation form by Abraham Lincoln on March 30, 1863. It occurred to Rabbi Wise that you would be interested in reading this, and that you might at some time make use of its contents. I am therefore sending you a copy of the document herewith.

Faithfully yours,

(Signed) E. Wergessman, Jr.

The President,
The White House.

Enclosure.

GWJ/dbe

By Messenger

Lincoln
1245

December 19, 1941

Dear Rabbi Wise:

Thank you very much for sending me the text of the Lincoln prayer. It is one that I had not seen before, and I am very glad to have it. I intend to show it to the President at some appropriate time, in the hope that he can make use of it.

Mrs. Morgenthau and I want to thank you for your greetings, and we send our best regards to you both.

Sincerely,

(Signed) Henry

Rabbi Jonah B. Wise,
35 East 62nd Street,
New York, N. Y.

FK/hkb

12/19/41

*Copies to Thompson
NMC*

TO:

244

Mrs. McHugh

12/18/41

This prayer is a little too abject
for my taste. I wouldn't send it
to the President now, but I would
hold it in reserve.

F.K.

Att:

Rabbi Wise letter of 12/15/41 and
proclamation by Lincoln 3/30/1863.

MR. KUHN

CENTRAL SYNAGOGUE

55TH STREET AND LEXINGTON AVENUE

RABBI JONAH B. WISE

15 EAST 62nd STREET
NEW YORK



December 18, 1941

Mr. Henry Morgenthau Jr.
2434 Belmont Road
Washington, D. C.

Dear Mr. Morgenthau:

Mrs. Wise and I wish to call the attention of the President to the enclosed prayer which, as you will notice, was issued by proclamation by Abraham Lincoln, on March 30, 1863.

We have a feeling, from hearing the President speak, that this prayer will mean something to him.

With kindest personal regards to you and Mrs. Morgenthau, in which Mrs. Wise joins me, I am

Sincerely yours,

Jonah B. Wise
Jonah B. Wise

*I used the enclosed on the
"alliance of Israel" broadcast
last Saturday at 7 P.M. station
W. J. Z. of the National Board
casting Co.*

JBW/ks
enclosure

PROCLAMATION

BY

ABRAHAM LINCOLN

MARCH 30, 1863

And whereas, it is the duty of nations as well as of men to own their dependence upon the overruling power of God, to confess their sins and transgressions in humble sorrow, yet with assured hope that genuine repentance will lead to mercy and pardon; and to recognize the sublime truth, announced in the Holy Scriptures and proven by all history, that those nations only are blessed whose God is the Lord;

And insomuch as we know that by His divine law nations like individuals are subjected to punishments and chastisements in this world, may we not justly fear that the awful calamity of civil war which now desolates the land may be but a punishment inflicted upon us for our presumptuous sins, to the needful end of our national reformation as a whole people. We have been the recipients of the choicest bounties of Heaven. We have been preserved, these many years, in peace and prosperity. We have grown in numbers, wealth, and power as no other nation has ever grown; but we have forgotten God. We have forgotten the gracious hand which preserved us in peace, and multiplied and enriched and strengthened us; and we have vainly imagined in the deceitfulness of our hearts, that all these

blessings were produced by some superior wisdom and virtue of our own. Intoxicated with unbroken success, we have become too self-sufficient to feel the necessity of redeeming and preserving grace - too proud to pray to the God that made us.

It behooves us, then to humble ourselves before the offended Power, to confess our national sins, and to pray for clemency and forgiveness.

All this being done in sincerity and truth, let us then rest humbly in the hope authorized by the divine teachings, that the united cry of the nation will be heard on high, and answered with blessings no less than the pardon of our national sins and the restoration of our now divided and suffering country to its former happy condition of unity and peace.

(From AUTOBIOGRAPHY OF ABRAHAM LINCOLN - Bobbs-Merrill Co.)

TREASURY DEPARTMENT

248

INTER OFFICE COMMUNICATION

DATE Dec. 22, 1941.

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

On December 8, 1941, General Motors Overseas Corporation filed with the Federal Reserve Bank of New York an application (NY 320069) to remit direct \$2,500 to each of four sisters located in Denmark of Mr. Knudsen or, in the alternative, to credit the account of General Motors International A/S, Copenhagen, Denmark, the Danish subsidiary of General Motors with the amount of \$10,000 covering remittances to be made by it of the kroner equivalent of \$2,500 each to Mr. Knudsen's four sisters.

This application was denied by the Federal Reserve Bank of New York under instructions of the Foreign Funds Control, dated December 12, 1941. These instructions were issued in strict accordance with established policy.

Under General License No. 32 the amount of funds which may be remitted monthly to non-American citizens located in Denmark is \$100, plus \$25 per month for additional members of the household, but not in excess of \$200 per calendar month to any one household. The amount limits thus established are not being deviated from by the Foreign Funds Control.

Mr. Knudsen desires to make the remittances in one of two ways. The first is to remit the \$2,500 direct to his sisters. This would involve the establishment of a free dollar account for \$10,000. Since October 23, 1941, when General License No. 32 was amended to eliminate the free dollar provision no free dollar accounts have been permitted to be established for remittances to non-American citizens. Accordingly, it is clear that such remittances could not be allowed in favor of Mr. Knudsen.

- 2 -

The other method suggested in the application filed on behalf of Mr. Knudsen is to effect the remittances by crediting the dollars to General Motors' Danish subsidiary. This in effect would permit a remittance against blocked dollars, which is obviously much less objectionable. The Foreign Funds Control is willing to allow such a remittance within the amount limits specified in General License No. 32. This will allow Mr. Knudsen to send for the month of December, assuming that each of his sisters is married and has three children, the total of \$200 for each of such sisters, or \$800.

The Federal Reserve Bank of New York has been instructed to issue such a license.

8-14-76

TO:

MISS CHAUNCEY

250

The original of this memo was given to the Secretary yesterday but at his request was superseded by the shorter memo, copy of which was transmitted to Mr. Knudsen.

12/24/41.

MR. FOLEY

Dec. 22, 1941

Secretary Morgenthau

H. H. Foley, Jr.

On December 8, 1941, General Motors Overseas Corporation filed with the Federal Reserve Bank of New York an application (NY 320069) to remit direct \$2,500 to each of four sisters located in Denmark of Mr. Knudsen or, in the alternative, to credit the account of General Motors International A/S, Copenhagen, Denmark, the Danish subsidiary of General Motors with the amount of \$10,000 covering remittances to be made by it of the kroner equivalent of \$2,500 each to Mr. Knudsen's four sisters.

This application was denied by the Federal Reserve Bank of New York under instructions of the Foreign Funds Control, dated December 12, 1941. These instructions were issued in strict accordance with established policy.

Under General License No. 32 the amount of funds which may be remitted monthly to non-American citizens located in Denmark is \$100, plus \$25 per month for additional members of the household, but not in excess of \$200 per calendar month to any one household. The amount limits thus established are not being deviated from by the Foreign Funds Control.

Mr. Knudsen desires to make the remittances in one of two ways. The first is to remit the \$2,500 direct to his sisters. This would involve the establishment of a free dollar account for \$10,000. Since October 23, 1941, when General License No. 32 was amended to eliminate the free dollar provision no free dollar accounts have been permitted to be established for remittances to non-American citizens. Accordingly, it is clear that such remittances could not be allowed in favor of Mr. Knudsen.

- 2 -

The other method suggested in the application filed on behalf of Mr. Knudsen is to effect the remittances by crediting the dollars to General Motors' Danish subsidiary. This in effect would permit a remittance against blocked dollars, which is obviously much less objectionable. The Foreign Funds Control is willing to allow such a remittance within the amount limits specified in General License No. 32. This will allow Mr. Knudsen to send for the month of December, assuming that each of his sisters is married and has three children, the total of \$200 for each of such sisters, or \$800.

The Federal Reserve Bank of New York has been instructed to issue such a license.

(Initialed) E. H. F., Jr.

DEC 22 1941

Dear Bill:

Attached is a memorandum in regard to your application for a permit to remit funds to your relatives in Denmark.

I think within the amount limits referred to in the memorandum something can be done. Your representative should work out the details with our people in the New York Federal Reserve Bank.

Sincerely,

(Signed) Henry

Hon. William S. Knudsen
Office of Production Management
Social Security Building
Washington, D. C.

Enclosure.

BLT:EHF/mp 12/22/41

Initialed;

BLT JWP BB

By Messenger

*Brown 3:25**N.M.C.*

Secretary Morgenthau

December 22, 1941

E. H. Foley, Jr.

On December 8, 1941, General Motors Overseas Corporation filed with the Federal Reserve Bank of New York an application (NY-320069) to remit direct \$2500 to each of 4 sisters located in Denmark of Mr. Knudsen or, in the alternative, to credit the account of General Motors International A/S, Copenhagen, Denmark, the Danish subsidiary of General Motors, with the amount of \$10,000 covering remittances to be made by it of the kroner equivalent of \$2500 each to Mr. Knudsen's 4 sisters.

This application was denied by the Federal Reserve Bank of New York under instructions of the Foreign Funds Control, dated December 12, 1941. These instructions were issued in strict accordance with established policy.

Under General License No. 32 the amount of funds which may be remitted monthly to non-American citizens located in Denmark is \$100, plus \$25 per month for additional members of the household, but not in excess of \$200 per calendar month to any one household. The amount limits thus established are not being deviated from by the Foreign Funds Control.

The Foreign Funds Control is willing to allow a remittance within the amount limits specified in General License No. 32. This will allow Mr. Knudsen to send for the month of December, assuming that each of his sisters is married and has three children, a total of \$200 for each of such sisters, or \$800.

Mr. Knudsen's representative should work this out with Mr. Kimball of the Federal Reserve Bank of New York.

[Initialed] E. H. F., Jr.

December 22, 1941

Dear Francis:

Attached are (1) cable from Sayre,
(2) proposed memorandum to the President,
and (3) proposed cable to Sayre, which
we will send if the President approves.

Before submitting the memorandum to
the President, I would like to have your
suggestions or criticisms. If you could
telephone me in the morning after you have
had a chance to read these drafts, it will
help matters materially.

Sincerely,

(Signed) E. H. Foley, Jr.

The Honorable,

The Attorney General.

Enclosures

EHFJr:vls - 12/22/41

Manila, December 10 - 7 32 P.

Chief, Treasury Department

Washington, D. C.

Your telegram December eleventh re enemy property in regard to most problems here arising from fact this is active military operations and in view present possible loss of many hundreds of enemy aliens and others have been interned and separated from their properties. No military personnel can be spared to guard such properties. Such enemy property must be requisitioned for military, naval and civilian emergency uses. Military, naval and civilian emergency administration needs must be coordinated on such problems and records kept of all such requisitioning. Authority necessary to engage personnel and incur other expenditures for custody and supervisory work. Please specify from what fund salaries and necessary expenses are to be paid. Desirable to continue operation some enemy-owned industries such as textiles, dairy and poultry farms and the like in cooperation with Commonwealth Government, its agencies and others. Highly desirable that specific authority be given to enter into any sort of agreement with Commonwealth Government or others for custodial and supervisory work including arrangements for continuing operations under our supervision. Power of sale without publication of enemy property should extend beyond perishables and include any enemy property where such sale is deemed necessary because of surge of war or for other military or administrative reasons. Special authorization should be given for continued operation extensive Japanese hemp plantations in Davao for defense purposes. In final analysis all arrangements must be subordinated to military necessities and therefore subject to the military directive of the commanding General. Any or all of these properties may at any time be actually in a zone of real combat, and therefore subject to capture and recapture. Foregoing suggestions relate to immediate emergency needs here. I should appreciate your advising me what plans are in contemplation with regard to permanent administration of enemy property and particularly with respect to Philippines. Please furnish copies of this radio to Interior, State, War and other interested departments.

(No signature was on this cable)

MEMORANDUM FOR THE PRESIDENT

The High Commissioner to the Philippines has cabled me that it is imperative that he receive immediately adequate authority and funds to deal with enemy property in the Philippines. A copy of such cable is attached.

Sayre states that the property of interned enemy aliens must be guarded and military personnel cannot be spared. In some cases the Government must move in and operate enemy properties whose continued production is essential for defense purposes. Much enemy property must be seized or requisitioned for military, naval and civilian emergency uses. Records must be kept. Military, naval and civilian administration measures dealing with enemy property require coordinating. Funds for meeting these activities must be provided.

As you know, the High Commissioner has been handling freezing control for me in the Philippines for the past twenty months and I have always delegated broad powers to him so that he could exercise his own judgment in dealing with Philippine matters. Since July of this year I have provided him with a staff of experts to help him deal with the Japanese situation under freezing control. He has been doing a good job.

Under Title III of the First War Powers Act, 1941, which you approved December 18, 1941, you are granted complete powers over foreign property and can deal with enemy property on any basis consistent with our war effort. I strongly recommend that the High Commissioner be notified at once that he may meet the

- 2 -

present emergency by exercising any or all of the powers conferred upon you by such legislation. At the same time I will notify him that he can draw on our freezing control appropriation for any funds he needs to carry out this program.

Attached to this memorandum is a draft of a proposed cable from me to the High Commissioner covering this matter. If you approve I will have the cable despatched at once.

I do not think this matter can be delayed pending the issuance of an Executive order relating to enemy property in this country.

I approve the foregoing action.

THE WHITE HOUSE,

December , 1941.

AFL:BN/ma - 12/22/41