DIARY

Book 437

September 1 - 3, 1941

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A23

MEMORANDUM

FROM British Supply Council in North America

TO Mrs. Henrietta Klotz

Compliments ofE.N. Gray

1

STATEMENT NO. 30

AIRCRAFT SHIPPED TO U. K. & OVERSEAS COMMANDS

	DESTINATION	ASSEMBLY POINT	By Sea week ended August 9, 1941	By Air week ended August 30, 1941
...racobra	U. K.	U. K.	5	-
...ED				
...esapeake	U. K.	U. K.	6	-
...AS				
...ston III	U. K.	U. K.	7	-
...ston III	M.E.	Port Sudan	9	-
...EED				
...dson III	U. K.	U. K.	-	22
...A L S			27	22

...sh Air Commission
...mber 1, 1941

Bangkok

Dated September 1, 1941

Text of a telegram which was received by the British Embassy in Washington from the British Legation in Bangkok.

First.

Luang Pradist's action received unanimous Cabinet approval on Saturday but later the Prime Minister and certain pro-Japanese elements in the Cabinet began to criticize him for being too unyielding. Japanese Minister the same day saw Nai Direck (new Minister for Foreign Affairs) and asked for negotiations to be reopened and as a result a meeting was held yesterday morning in Premier's palace at which the Premier, Luang Pradist, Nai Vanich, Nai Direck, Japanese Minister and Mr. Ono were present. Straight sale of 25 million ticals worth of gold was arranged on basis of one fine ounce equals 35 United States dollars and one pound sterling equals 4.03 United States dollars equals 10 ticals 60 satangs. Transport of the gold to Bangkok is at option of Minister of Finance, who asks for 13 million ticals worth immediately, remainder to remain earmarked in Bank of Japan. Cost of transport to

be

be paid by Yokohama Specie Bank but repayable to Yokohama Specie Bank by Currenty Department within the limit of 20 Satangs per one pound sterling worth of gold. Parties to the agreement are Yokohama Specie Bank and Thai National Banking Bureau acting for Currency Department. Memorandum containing the engagement to deliver the gold in Bangkok at option of Thai Minister of Finance is signed by Luang Pradist and the Japanese Minister on behalf of his Government. I welcome the agreement as thereby Luang Pradist has strengthened his position of opposition to yen bloc, while it must lead to a certain detente in political tension here.

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CONFIDENTIAL CONFIDENTIAL

For Miss Ch...

P A R A P H R A S E

A telegram dated September 1, 1941 from the American Legation at Bangkok reads substantially as follows:

According to an announcement in the local press of August 28, the Yokohama Specie Bank and the National Banking Bureau of the Ministry of Finance have concluded an agreement providing for the purchase by the National Banking Bureau of Japanese gold to a value of twenty-five million baht. Effective the date of the signature, August 26, the agreement will remain in operation until December 31, 1941 and is subject to alteration, termination or prolongation provided the parties to the agreement give their consent. A substantial part of the gold, or perhaps all of it will, at the discretion and upon the request of the Finance Minister of Thailand, be shipped to Bangkok where it will constitute a portion of the currency reserve. In this connection, the best authority has disclosed that the shipment of gold to the extent of baht thirteen million is being asked for at once. The Japanese are to be given baht currency in an amount equivalent to the value of the gold for purchases of rubber, tin, rice and other commodities. A credit up to baht twenty-five million has

been

been established at the Bangkok branch of the Yokohama Specie Bank and as it is needed it will be drawn upon.

The previous bank loan was used up on August 16, (see Legation's telegram no. 389, August 2, 4 p.m.). The Japanese immediately demanded that the Thai Government extend a loan of twenty-five million baht secured by gold earmarked in Japan under conditions which made it virtually impossible for the currency to be brought to Thailand. This demand was made through R. Ono, Japanese financial expert, supported by the Japanese Minister Futami. Mr. Ono is reported to be a former Vice Minister of Finance and now adviser to the Japanese Finance Ministry. He has been in Thailand since June. The Thai Finance Minister, Luang Pradist, did not accept the Japanese demands but as a counter-proposal suggested that the loan of baht ten million be renewed without change of terms and that an additional loan of baht twenty-five million be made, to be secured by gold which would be shipped to Thailand. The Thai Finance Minister's insistence that the gold be shipped made the Japanese furious. The Japanese pointed out that the Thai Government trusted Great Britain and the United States with the custody of gold; they made vigorous representations to the Prime Minister accusing Luang Pradist of being an obstructionist. The

Prime

Prime Minister, however, remained firm and the Japanese in the end agreed to sell the gold on the terms demanded by the Thai Government. This represented a victory for the conservative elements in the Thai Government. The outstanding leader of these conservative elements is Luang Pradist.

Copy:wec:hbr:9-9-41

MILITARY INTELLIGENCE DIVISION
WAR DEPARTMENT
Washington, September 1, 1941

TENTATIVE LESSONS BULLETIN
No. 152
G-2/2657-235

NOTICE

The information contained in this series of bulletins will be restricted to items from official sources which are reasonably confirmed. The lessons necessarily are tentative and in no sense mature studies.

This document is being given an approved distribution, and no additional copies are available in the Military Intelligence Division. For provisions governing its reproduction, see Letter TAG 350.05 (9-19-40) M-B-M.

ITALY IN THE PRESENT WAR

SOURCE

This is the third and last of a series of three bulletins based on translations of connected articles written by a German war correspondent and published in separate issues of the Militar Wochenblatt, a semi-official periodical distributed to the German army.

This bulletin, which describes the Italian loss of Western Cyrenaica, is a continuation of the articles published in Tentative Lessons Bulletins Nos. 150 and 151.

As this account was written from the German point of view and was intended to bolster friendly feeling between the Axis partners, propagandistic tendencies should not be overlooked, particularly with regard to the size of the forces opposing the Italians.

ITALY IN THE PRESENT WAR

After taking Tobruk, General Wilson counted upon Italian resistance at Derna, the next important settlement. Actually, however, Marshal Graziani had decided to occupy a more favorable defensive position which had been prepared west of the town, on the eastern part of the plateau of Barce. Only combat outposts were left behind in Derna. For three days these fulfilled their delaying mission against the foremost groups of pursuing Britons, before yielding the town on January 30. They then withdrew to the main position, which ran southward from Cirene.

British advance detachments reached Apollonia on the 31st and established contact there with a British force estimated at several divisions. Attack seemed very difficult, especially since the terrain was unfavorable for the British armored units. Obviously, however, the position could be held only if it were not turned on the south side. If it were, the defender could be cut off from his sole rear communication leading along the coast, via Bengasi, to Tripoli, and he would then share the fate of the defenders of Bardia and Tobruk. The Italian command was not willing to take this chance, and it had, therefore, already prepared to evacuate Bengasi. It meant to hold out east of that town only so long as that could be done without endangering the 10th Army. General Tellera, the Commander-in-Chief, accordingly had sent the armored unit at his disposal - one brigade - to the road junction at El Mechili with orders to protect the right flank, correctly anticipating that the Britons would send forces toward that junction.

This unit encountered enemy tanks on January 31, and threw them back. During the next two days, however, superior British armored units arrived, and the Italians were obliged to retreat to Bengasi. Some of these British units followed them over this route, but the majority pushed toward the southwest in an effort to cut off the Italians and prevent their reaching the coast road. These British armored units advanced in two columns; one armored brigade went by way of Soluch; and the other group, consisting of armored units, artillery, and motorized infantry, crossed the desert at top speed, further south. Both ran into retreating Italians on February 5, for as soon as General Tellera had received news of the fall of El Mechili, he had given orders to quit the defense of the Barca plateau and to move back along the coast road. The attacking Britons, therefore, were able to march into Cirene on February 3 after slight resistance, in the form of a delaying action, from the Italian rear guards. On the 4th, the van of the 10th Army set out to the south from Bengasi; the other troops followed in a long column. The British armored units, having reached the vicinity of the Italian route of march after a 30-hour advance over difficult terrain, were able only to harass the enemy on February 5. The advance elements of the 10th Army, about 7,000 men, were therefore able to continue their southward retreat after repelling a few flank attacks, and they eventually reached Tripolitania without further contact with the enemy.

By the morning of the 6th, the British, on the other hand, had received such reinforcements that they were able to advance seriously to the attack. Their armored brigade at Soluch was the greatest danger to the Italians. At 10 o'clock therefore, General Tellera ordered his armored brigade to counterattack. Of the 100 M-13 tanks which took the field, including the one in which the General himself was, only 14 were left when the battle ended in the evening. The Italian machines were not strong enough to withstand those of the British in the individual duels which developed. But the latter also had suffered heavy losses; one of their armored regiments left the field with only six machines not disabled. General Tellera had been mortally wounded in the course of the battle, and his place had been taken by General Bergonzoli, although the latter had been seriously ill in Bengasi since his adventurous escape from Bardia.

The sacrifice of the tanks had not brought the desired relief to the retreating Italian column. The area to the sea was so narrow that the rear of the column had been affected; its forward elements had been held up by the English southern column. On its two flanks a serious division in the units had developed, and the command had lost control of the situation. A battalion of the English rifle brigade had spread out for a distance of five kilometers across the coast road, down to the sea. Three times in the course of the night the Italians attempted to break through; desperate calls for help went out from the battalion, and anti-tank guns, tank mines, and reinforcements were sent to its assistance. Nevertheless, the situation was extremely grave on the morning of the 7th when General Bergonzoli put his total forces into action, including the 34 tanks which were still serviceable, and ordered a fresh attempt to break through. The Italians smashed in along a rather wide front and, according to statements of English officers, fought brilliantly. However, they did not succeed in breaking through, and at 10:30 o'clock, after a three-hour battle which nearly exhausted their ammunition, Bergonzoli gave the order to surrender. He and five other generals were taken prisoner.

Not until after this victory did the English approaching from the north move into Bengasi. Mobile troops made a vain attempt to reach the Italians who had retreated southward; but the latter, by traveling via Agedabia along the southeast tip of the Gulf of the Great Syrte, which cuts deep into the land, finally reached El Agheila.

The British depicted this last battle as a tremendous victory;

they claimed to have taken 18,000 prisoners, and then reported that that brought the total captures since the beginning of the offensive to 130,000 men and much equipment. The possession of Bengasi harbor, which, it was said, was suited for cruisers and light fighting forces, as well as for a supply base for fighting forces, was emphasized as being just as important for the control of the Straits of Sicily as was the possibility of using the Italian airfields in Cyrenaica. That a severe blow had indeed been dealt the Italian Army was acknowledged by Mussolini in his speech before the Fascist Army units on February 23. In that speech he said: "The 10th Army was completely overrun; Air Fleet 5 was almost literally sacrificed." He was, however, able rightly to add that this defeat did not shake Italy, but simply added to her determination. The contributions thus far made by the mother country to North Africa had been large. From October 1, 1937, to January, 1941, 14,000 officers and 327,000 men had been sent to Africa for the 5th and 10th Armies, with their ten divisions of white and native troops. These men had been equipped with 1,924 guns, 15,386 machine guns, 779 tanks, 9,585 landgoing vehicles and 4800 other motor conveyances.

Upon his own request, Marshal Graziani was relieved as Chief of the General Staff of the Army, Governor General and Commander-in-Chief in Libya, and Commander-in-Chief of Air Fleet 5. General Porro also gave up his command. Graziani's former subordinate, General of the Army Garibaldi, succeeded him in North Africa.

At the last, the Italian troops had fought against great superiority. Three British armored and motorized divisions, three Indian, three Australian, and two New Zealand divisions, Polish and French units, and three additional divisions in Palestine as reserve, opposed the Italians, without mentioning the men who had seen action in East Africa, 120,000 in the Sudan and 100,000 in Kenya.*

The English now had to decide how they were to employ these forces in the future. They probably had the original intention of continuing the attack on into Tripolitania in order to drive the Italians entirely out of North Africa. This was never done. It is not yet known whether or not it was concern over the territory which had first to be traversed on the way to Sirte, and which was without water for a stretch of 400 kilometers, that deterred the British from carrying out this intention. The trip to the Near East at the end of February by the Chief of the Imperial General Staff, General Dill, and by Foreign Minister Eden, seems to have decided the British to make a halt in Cyrenaica. General Wilson, the commander of the Army of the Nile, was appointed Governor of Cyrenaica. His troops were to take

* The size of the British force is considerably exaggerated. G-2.

over the defense against Tripolitania in the region of El Agheila. The British drive stopped, then, at its halfway mark, and troops were removed for use elsewhere.

The Italian strongholds which were still holding out in the desert south of Cyrenaica, under these circumstances, could no longer be maintained. The Oasis of Kufra had been held for 35 days by Captain Colonna; he had pushed forward offensively against English and French attacks until February 23, by which date the Oasis was entirely encircled. In the forenoon of March 1 he was forced to capitulate and to surrender to the Free French. Giarabub gave in only on March 21, after a four month's resistance and after the wounding of its heroic commander, Lieutenant Colonel Castagna. In March, the British forces there had been strengthened more and more, and finally, just before the English rule in Cyrenaica collapsed, the defense of this isolated post, which had been so courageously maintained although it rarely saw an Italian airplane overhead, was broken.

The results in eastern Cyrenaica encouraged the British to undertake attacks upon Italy itself. During the early part of the night of February 10, parachute jumpers landed in Southern Italy in an effort to destroy an important water conduit; but they were soon rendered harmless. Shortly thereafter, a fleet unit coming from Gibraltar under Vice-Admiral Sir J. Somerville - the battleships Malaya and Renown; the cruiser Sheffield; the airplane carrier Ark Royal; and other ships - appeared before Genoa one overcast day and bombarded the city in a surprise attack, killing 144 and wounding 272. England believed her domination of the sea was so complete that she fixed a blockade area in the central Mediterranean, thinking she could prevent communication between Italy and North Africa. But she was soon to experience bitter disappointments. After Grand Admiral Raeder had met with the Italian Under-Secretary of State, Admiral Riccardi, at Merano, on February 13 and 14, the Sheffield steamed into Gibraltar severely damaged by Italian fliers. The Suez Canal was blocked repeatedly for long periods by successful German air attacks. The uncertainty of the communications indispensable to the British position in the Near East was clearly shown.

September 2, 1941
10:00 a.m.

GROUP MEETING

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

H.M.Jr: Well, it is nice to see you all here. I never worried less about the Treasury. Well, Herbert, what did you do that was wrong?

Gaston: Let's try to approach it from the other direction.

H.M.Jr: Is everything all right?

Gaston: I think everything is under control. There is a little matter which Dan will be interested in this morning, this transaction that I spoke about of the Indian Service of the Department of Interior, trying to sell ten million of securities. Bill Heffelfinger can tell you all about it.

Bell: He did.

Gaston: We are just sitting back waiting. I think they have a right to demand them if they come back and insist on it.

Bell: I think they have been sold and I think the brokers are calling this morning as to when they can get delivery. I have an idea we will have to let them go.

Gaston: I think that goes both ways. I think they have been sold twice.

Bell: Yes, I think they have gone short.

H.M.Jr: Well, you might write a very strong letter for me to sign to Harold Ickes saying it mustn't happen again.

Bell: I think we can show them where they are losing money.

H.M.Jr: Well, we just can't have agencies going off on their own like that. I don't care how strong you make it.

Bell: All right.

Gaston: This was a slick salesman for this brokerage house who just came around and high pressured them into it.

Bell: Yes. Well, he knew better because he has been in to see me a number of times and I told him to stay away from the agencies, that they all operate through the Treasury and we operate through the Federal Reserve Bank of New York, and we favor no brokers.

H.M.Jr: You can make it a little caustic by saying you are surprised Harold Ickes was taken in by a Fuller Brush man. Well, you take care of it and I will sign it. Make it good.

Bell: All right.

H.M.Jr: What else?

Gaston: There is this matter that Dan is also interested in of this censorship bill prepared by the Navy, under which we are to have Army and Navy military censors in case of emergency. The only way they have approached us is informally, but the only way they have approached us formally is asking your approval on that section of the bill that relates to the Coast Guard, which would enable them to detail Coast Guard officers on the same basis as they detail Navy officers to censor. I have prepared a letter for you stating that you don't approve it because you think military censorship is the wrong kind of a censorship, so I think you may want to consider that before --

H.M.Jr: Well, have you written it?

Gaston: Yes, I have a memorandum.

H.M.Jr: Well, I had better read it, hadn't I?

Gaston: I think you had.

Bell: May I see a copy of it, Herbert?

Gaston: Yes, surely.

H.M.Jr: Anything else?

Gaston: Nothing else.

H.M.Jr: Herbert, talking on that, "Short-wavers give big news tips; Government listeners learn of German plan to march into Russia." Well, that is Fly's outfit, isn't it?

Gaston: Fly?

H.M.Jr: Yes.

Gaston: Well, I suppose they are talking about Fly.

H.M.Jr: Well, anyway, if there is such a thing, I would like Kamarck to be put in touch with the man, if there is anything like that around, please.

Gaston: There is a broadcast listening service that listens to short-wave and standard broadcasts. In Europe it is mostly short-wave and they are sending out short summaries of the highlights. I am getting a copy and have arranged to have Mr. Kuhn put on for copies. They have been doing it for some time.

H.M.Jr: Kamarck?

Gaston: Yes.

H.M.Jr: Military is what he is interested in.

Gaston: There has been nothing so far of any interest.

H.M.Jr: Well, let Kamarck take a look at it for me. Do you know who he is?

Gaston: I don't think so. I have heard his name. He is in Harry White's shop, isn't he?

H.M.Jr: Yes, but the work he does --

Gaston: Oh yes, I know.

H.M.Jr: I mean, what he does for me has nothing to do with Harry White's shop. Is that right, Harry? I mean, it is two separate things.

Gaston: Yes, surely.

H.M.Jr: He works for me direct.

Gaston: Like the Captain?

H.M.Jr: Like the Captain used to, only better. All right?

Gaston: Yes.

H.M.Jr: Well --

Foley: I haven't been back long enough to find out what did or didn't happen while I was away. I came in on the Capitol Limited this morning and I went home and came right down.

White: He doesn't want to know whether you have been back long enough, he wants to know whether you have been away long enough. (Laughter).

Klotz: And I am not leaving the room.

H.M.Jr: Everything go off all right?

Foley: Everything went off very well, thank you a lot.

H.M.Jr: Were you at the ranch all that time?

Foley: Practically all the time. I flew from the ranch yesterday and got into Chicago around noon time and came down on the Capitol Limited last night.

H.M.Jr: I won't ask you any questions about your work.

Foley: All right.

H.M.Jr: John?

Sullivan: We are going over the bill this morning at eleven. It will be introduced tomorrow morning.

H.M.Jr: You leave any time you want to.

Sullivan: I have plenty of time.

H.M.Jr: Merle, I didn't read - I okayed that Mexican release but I didn't read it anywhere.

Cochran: Well, the President of Mexico gave his message yesterday to Congress but he decided not to go into details so the State Department hasn't been obliged to give out anything as yet, so it may come later but so far there is nothing. What is in that envelope, Canadian money?

H.M.Jr: Not very much. See what you can do with it, please.

Cochran: All right. So that release may not be given out until after the thing is signed and no date has been fixed yet, but they think it will still be before the fifteenth, which is the Mexican anniversary.

The Ecuadorians were in and talked once or twice since you left and sent in a formal request but there is no rush on that. We have had some exchange messages with Fox and all of us are working on that now. It is rather complicated. It is freezing and stabilization together.

H.M.Jr: I would like you to prepare for me a thumbnail sketch, if possible not more than one page, just where, for instance, the stabilization loan with China stands, our stabilization loan with Argentina, where does that stand? Have they used any money and so forth? And from now on I would like to have it once a month, you see.

Cochran: All right, sir.

H.M.Jr: I mean, if somebody asks me, has China used any of the money, I wouldn't know. Has the Argentine? And then we have got that gold agreement with Brazil, haven't we?

Cochran: Yes, we have that.

H.M.Jr: But any one - just on the stabilization or the gold.

Cochran: I keep a table of those. I can give you a summary each week.

H.M.Jr: From now on, once a month, you see, and then if - write it so that if I want to send it to the President and Mr. Hull, I could.

Cochran: All right, sir.

H.M.Jr: But keep it to one page. I mean, anything that we are doing with any country on money.

Cochran: All right, sir.

H.M.Jr: And before it comes to me, would you let White look at it and if he has any additions or subtractions - let him look at it and go over it before it comes to me. Do you want to see it before it comes to me, Dan?

Bell: Not necessarily.

H.M.Jr: All right. But if you would let White look at it, but I would like you to prepare it for me, Merle.

Cochran: All right. Then we had a request from London a couple of days ago in regard to any negotiations here by the RFC with Russia, where the British thought it might help them. So I asked Mr. Gaston's approval to have the Department of State refer the inquiry to Mr. Jones and we have had nothing with the Russians since you left. We have finished that arrangement that we made that day. There has been no Russian gold shipment since you went away.

H.M.Jr: Well, that three million that came in that same day, did we get that?

Cochran: No, that had been sold to Chase Bank.

H.M.Jr: That is all right. I didn't think we would. Does your office handle the daily purchases of silver, too?

Cochran: Yes, sir.

H.M.Jr: Well, I would also like that on silver we have bought, how much we bought from Canada during August or Mexico.

Cochran: By the month?

H.M.Jr: Yes.

Cochran: All right.

H.M.Jr: You might give it to me for two months in this case, for July and August, and then from now on once a month.

Cochran: All right. I have just one memorandum I think you ought to see. It is from Coyne on the Canadian proposition of taking U.S. securities. It is rather a good memorandum. I have sent copies to Mr. White and Mr. Bell. That is all.

H.M.Jr: Did you go to the Laurentians?

Kuhn: Yes, sir.

H.M.Jr: Where were you?

Kuhn: Up at a place called St. Donat.

H.M.Jr: How far was that?

Kuhn: Eighty miles north of Montreal. It was very cold. We stayed about a week.

H.M.Jr: Four blankets?

Kuhn: Four blankets, fire in the cabin night and morning.

H.M.Jr: Eighty miles north of --

Kuhn: Right up in the woods.

H.M.Jr: We weren't near there.

Kuhn: There is a settlement seven miles north and then after that there is nothing to the North Pole. It is very swell.

H.M.Jr: No radio?

Foley: It is cold out in Wyoming, too. Cold and rainy.

Kuhn: Couldn't even get the Treasury Hour.

H.M.Jr: I got it, and I got off a telegram too. Have you heard about it?

Kuhn: I heard about it.

H.M.Jr: It is all right. They snapped back - that Eddie Cantor hour was wonderful. His take-off on that opera was amazing. It was amazing.

Kuhn: Did you know that those --

H.M.Jr: But no more of that Oboler. It is out. How they can keep using - I don't want to get started now - a fellow like Oboler when you have got a man like Carl Carmer ready to do a play, is just beyond me.

Kuhn: Do you know that they are the number one hour in the country, number one program?

H.M.Jr: Incidentally, Howard Dietz - I called up to tell him because I wanted to talk to Eddie Cantor and I want to write him a letter. He wants to come down and see me.

Kuhn: Howard Dietz?

H.M.Jr: Yes.

Kuhn: I spoke to you about that before you left.

H.M.Jr: Does he have to be there Wednesday night?

Kuhn: I think they are going to postpone that hearing in the Senate which has got Howard Dietz so worried. That is what he wants to see you about.

H.M.Jr: No, he told me he had a proposal. Is that what he wants to see me about?

Kuhn: Well, he said before you left that he was very anxious to see you --

H.M.Jr: Here is the point. I have got to listen to the Hour and if I have got to talk to him, couldn't I do the whole thing Wednesday night?

Kuhn: Shall I ask him if he can come down?

H.M.Jr: Yes, see.

Kuhn: He is very worried, though, about the Wheeler investigation of the movies.

H.M.Jr: I don't want to talk to him about it.

Kuhn: I think that is what he has in mind.

H.M.Jr: I want to talk to him about the next program but I can't devote two evenings to this, so if he wants to come down and you and Harold are available.

Kuhn: At your house?

H.M.Jr: Yes. We will do it Wednesday night. But I don't want to devote two evenings to it.

Kuhn: I will get him on the phone.

H.M.Jr: I can't devote two evenings to it. Incidentally, this is my idea of what a good program should be (referring to clipping). This is - "The Man Who Came to Dinner" - what is his name? This is Alexander Woolcott. That is my idea of a good program. And on the train last night was a representative of Time and I told him I wanted to see Henry Luce and he said he would arrange it and let you know when Luce could come down. I want to talk to Luce about this dramatized news and why they gave it up, the possibility of their doing it for us for fifteen minutes.

Schwarz: The March of Time program?

H.M.Jr: Yes.

Kuhn: I have a memorandum on that.

H.M.Jr: I want to know why they gave it up. What is the name of the man that represents them?

Kühn: Belair.

H.M.Jr: Yes, Felix.

Gaston: Does he work for them?

Schwarz: Yes.

H.M.Jr: He and Harry Hopkins had it hot and heavy last night. We went in afterward. Harry wanted some milk and crackers. Belair came over. God, the way they talked to each other was an eye opener for me.

Gaston: Felix is a scrappy little fellow.

H.M.Jr: The way Hopkins talks as soon as he leaves the President and the language they used was amazing. I haven't heard language like that since I left prep school.

Gaston: Colloquial?

H.M.Jr: No, more prep school.

Blough: You have asked for a report on the dismissal compensation set-up. I have it ready today.

H.M.Jr: Wonderful. That goes up to the house. I have asked Mr. Sullivan each day now to give me an up to the minute report on the tax bill so I can send it to the President each day. It is quite interesting. George?

Haas: Here is the report on Savings Bonds.

H.M.Jr: How up to the minute is this?

Haas: To the twenty-ninth. There are a couple of other things that could hold if you are in a hurry.

H.M.Jr: I don't know. George, I am putting you and Harry White on notice - you may have gotten it - and Bell, at ten-fifteen tomorrow morning the whole question of excess reserves and

and money in circulation and all the rest of that stuff, you see, and would you at the very first meeting invite Goldenweiser or let him come on the second meeting?

Haas: I would say the second.

Bell: Do you expect to have several meetings to discuss it?

H.M.Jr: Well, I want to devote enough time until I make up my mind what I want to do because Herbert Gaston told me he had a telephone call from Eccles that he didn't want us to do any long term financing until he could talk about the excess reserves. They may want to raise them. Then within two days I read the whole story by Miss Sylvia Porter in the New York Evening Post. She had the whole story. She said, "Of course you can't tell what is going to happen, because Mr. Morgenthau is on vacation," but she had the whole story that Gaston wrote me about.

Gaston: There is some reference to it in Ted Goldsmith's letter this morning, too.

Haas: It is also in Standard Statistics.

H.M.Jr: I would like to first satisfy myself. Jake Viner will be here Thursday and I have asked Walter Stewart to come down particularly. He will be here tomorrow. I would like to sort of go to school on the whole thing, money and circulation, and maybe the second day after I have satisfied myself we might have Currie.

White: And the Federal Reserve Board.

H.M.Jr: Tomorrow morning I want to spend just as much time on it as possible. If we are going to to any financing I have got to make up my mind, Dan, you see, so let's first thrash out this excess reserve. So if you two men could get together and let us have some charts - didn't I send word to you, George?

Haas: Yes, I have a memorandum which you can have tonight if you want it.

H.M.Jr: No, we will do it tomorrow.

Bell: I would do it in your own shop first for a day or two.

H.M.Jr: All right. You have got a memorandum?

Haas: Yes.

H.M.Jr: Who has seen it?

Haas: Nobody has seen it except my own shop.

H.M.Jr: Well, let White see it and let Bell see it, will you please?

Haas: Yes.

Bell: I think the bankers are pretty much against Eccles on that thing, on his program, the ones with whom I talked. They say don't let Eccles get away with this reserve business.

H.M.Jr: I figured if we settled it in our own minds in Treasury this week we could decide on financing next week. Is that all right?

Bell: We are all right on financing. We can wait until the end of September.

White: I think that subject can be well re-examined periodically.

H.M.Jr: Well, I would like to - I would like to spend enough time on it this week so I am satisfied in my own mind which way to go.

Bell: All right.

Haas: The other thing, Mrs. Gardner Means--

White: Caroline Ware.

Haas: Wanted ten thousand copies of this "cost-of-living" chart. I think you should see it before we do it.

H.M.Jr: Yes.

Now coming down on the train last night, Mrs. Roosevelt went after the President on cost of living, so I piped up and told them about my prepared talk, and, among other things, I was going to recommend bringing wheat from Canada and sugar from Cuba, and he said, "Well, how can you bring in the wheat from Canada?" and I said, "You have got the authority to do it by lowering the tariff." You could lower it fifty percent. You might figure if he lowered it fifty percent, would that take care of a forty percent differential or not. I don't know, but you can figure it very quickly. He said, "I am for it."

White: The differential is just the duty, forty-two cents.

Gaston: You can bring it in free as cattle feed.

H.M.Jr: Can I?

Gaston: If you certify that there is a drought and need for feed.

H.M.Jr: Get all those things together, the cattle feed and the duty.

White: How soon do you want to look at a first draft of your statement? It will have to be redrafted because there are several things that have occurred since.

H.M.Jr: I will tell you in a minute.

Harold, you got my message or somebody got my message about going to Boston to speak.

Graves: I didn't get your message. I was going to ask you.

H.M.Jr: I sent a message out of my office. Did it go to your office, Kuhn?

Kuhn: I never saw it.

H.M.Jr: I said I would talk - this was the message - I would talk in Boston to the Advertising Club. They were checking up - only if I could give my price talk. If they didn't want me to talk on prices, I wouldn't come.

Klotz: You said that before you went away.

Graves: Yes, I got that before you went away.

H.M.Jr: What happened?

Graves: I don't think that they have specified any subject. I have assumed that you are at liberty to speak--

H.M.Jr: You said they wouldn't want me if I came up there on prices.

Graves: Well, I felt that it might have been more in keeping with that--

H.M.Jr: Did you give them that message?

Graves: No, I didn't think it was necessary. If you wanted to talk about that it seemed it was perfectly proper for you to do that.

H.M.Jr: Harold, get in touch with them this morning and ask them do they want me to talk on prices. What was that date?

Sullivan: The ninth.

Graves: A week from tonight.

H.M.Jr: If they do, I will come up and talk on prices, and then we will have to begin to go to work on the speech right away.

Schwarz: Ted Goldsmith this morning says, "Secretary Morgenthau may express his views on the entire inflation question in an address he has tentatively agreed to make before the Advertising Club of Boston on September 9." (Laughter)

Bell: There it is.

White: I feel somewhat as Harold does. I am not sure - would you reconsider whether it is appropriate to ask them whether they will listen to you on condition you speak on prices? They have asked you to talk.

Graves: They did not specify subjects.

White: Nothing you talk about to that crowd will make a bigger hit than this.

H.M.Jr: Bigger than what?

Sullivan: Price control and inflation will make a bigger hit with them than any other Treasury subject you could speak about.

Bell: When is your Bankers' speech?

H.M.Jr: End of the month. You are satisfied?

Sullivan: Oh, that is the place. I agree with Harold that I wouldn't submit it to them.

White: It is a little bit peculiar to say, "I will talk to you if you let me talk on prices."

H.M.Jr: I don't care how Harold handles it. In his usual diplomatic, suave way, he can handle it any way he wants, but I am ready to go up and talk on the ninth.

Graves: Suppose we let it go at that. They didn't specify the subject.

H.M.Jr: All right. Do I get a radio hookup?

Graves: Yes, it is my understanding. That is what they said at the time they gave you the invitation.

H.M.Jr: Well, between you and Ferdie, let me know during the day.

Graves: I will.

White: A little publicity as to the subject which you will talk about--

Gaston: Out of courtesy to them, I would simply call up and tell them what you are going to talk about.

H.M.Jr: Now that I know the President will go along - have you got a draft of the speech?

White: We have got a draft, but in the last two weeks - oh, not a draft of that speech, no. It was a draft of the statement. But we can revamp that; and if that is going to be your subject, it won't take long to prepare a speech.

H.M.Jr: When could you have something for me?

White: How long would you want to talk? About a half hour?

H.M.Jr: No, I never like to talk more than fifteen minutes.

White: Well, I should think we could have - you name the day and hour and we will have it.

H.M.Jr: Nine o'clock tomorrow morning.

White: We will have a draft.

Gaston: One-half of what you have got. Twenty-four hundred words. Eight pages.

H.M.Jr: No one listens to you on the radio more than fifteen minutes.

Gaston: That is twenty minutes, what I said to Harry, twenty-four hundred words.

H.M.Jr: Well, I go a hundred and twenty words, and then you have got to multiply it by fourteen because you have got to allow for announcements.

Gaston: Twenty is better.

H.M.Jr: But you can't get twenty minutes.

Graves: That would be fifteen.

Gaston: You would have to use fifteen, that is right, for the radio.

Graves: Or thirty.

White: I understand Mr. Kuhn will have the responsibility. I will help him.

H.M.Jr: Mr. Kuhn will have the responsibility. We will start at nine tomorrow morning. Just get your boys sort of oiled up.

Graves: I suppose that it would be possible in making a speech on that subject to bring the Defense Savings Bonds strongly into the picture?

H.M.Jr: Oh, sure, because the fact that if this thing is going to go up and we know - how can I in honesty ask people to invest in a fixed asset?

Graves: Well, the sale of bonds in itself is a deterrent to--

H.M.Jr: And the other thing, talking in New England, if you people - if you want to just say here, if you people will bring in a sentence of this, George, "You people of New England, you buy so many million dollars worth of grains a year for cattle and shipping feed and it runs into the millions." Get it from the New England - the Department of Agriculture. "You people here in New England, of all the places in the United States, realize what it means." In discussing it last night with Hopkins, he said, "Aren't you going to say something about increasing production?" and I said, "Well, sure. That is the purpose of bring the grain in, in order to increase production." The President liked it. Mrs. Roosevelt was crazy about my speech. She said she hoped I would give it.

Find out about - I think if I keep myself on fifteen minutes, Ferdie, I ought to get a coast-to-coast "hiccough" - pickup.

Sullivan: You will get a kickback. (Laughter)

White: This speech will have to be different, I take it, from the statement, in phraseology if not in major content, from the statement you were going to give before the Senate Committee, because it comes before that.

H.M.Jr: Oh yes, but Harry, I can say the things there that you people were worried about. I can talk to the American housewife there.

White: Yes, that is right.

H.M.Jr: I can talk to the American housewife. I can talk to the advertising men, after all, who mold public opinion, "and it is up to you men who mold public opinion through your advertising copy, if you want any business after this thing is over, and if you don't want to go through and - look at the advertising lineage, where it went to in '33. Now you men whose bread and butter depend upon advertising lineage, take a look at it. If you don't want another slump in advertising lineage, which is all hooked up with this thing, you had better get busy and do something."

That is down their alley.

"If you take a look at the advertising lineage in '33" - if you can give it that kind of a flair, you can cut out some of Ferdie's peroration.

Kuhn: That is the place for peroration. (Laughter)

H.M.Jr: All right?

Haas: I have one other thing. Philip Young has written you a letter asking for a copy of a British report which he does not receive. It is made up by the British Commission themselves, and we have five copies which are distributed, but he does not get a copy.

(Secretary held telephone conversation with Mr. Biggers.)

H.M.Jr: I am glad you brought it up. From now on get out of doing the work for the British Purchasing unless we need it for the Committee which Harry handles for me. But I don't see why we should run those statistics, you see.

Haas: All right.

H.M.Jr: I mean, it costs a lot of money. Why shouldn't they do the statistics and furnish them to us?

Haas: We get some money for doing it, you know. It isn't done on Treasury money, except what has been appropriated for that purpose.

H.M.Jr: That is a little different.

Bell: Where do you get the money, if it isn't Treasury money?

Haas: Well, the Bureau of the Budget gave us fifty thousand dollars to do this job and Congress added it to our regular appropriation.

Bell: It is still Treasury money.

Haas: Well, but we would lose it if we had to turn it back.

White: You are supposed to be spending it?

Haas: Well, we are.

White: Then you wouldn't lose it.

H.M.Jr: What does Philip Young want?

Haas: This is a report which we do not make up. It comes from the Purchasing Commission to us and we handle the distribution of it. All we have to do is ask the British Purchasing Commission for another copy.

White: It is useful information, and if that is the only way--

Haas: As soon as we stop it, I think you will find out we need it.

H.M.Jr: Tell Philip Young to go to the British Purchasing

Commission.

Haas: You wanted to centralize it before.

H.M.Jr: Ask them if it is agreeable to them.

Haas: Oh yes, they would be willing.

H.M.Jr: Well, that is all right. O.K.?

Haas: Yes.

Schwarz: The only ripple in your absence was some comment by the Chicago Tribune on your flying and the use of oil. I called it to Herbert's attention.

H.M.Jr: Use of what?

Schwarz: Gasoline and oil.

H.M.Jr: I didn't know, but Mrs. Roosevelt told me about it. They said we used three planes.

Schwarz: The Tribune didn't say three.

Gaston: It said a Navy plane. I thought it was useless to quibble about a Navy plane.

H.M.Jr: To go where?

Gaston: To go to Montreal.

Schwarz: We agreed, considering the source, that it would only prolong their viewpoint.

H.M.Jr: She said that some paper had run it that we used three planes to go to Montreal.

Schwarz: Somebody might well have picked it up and improved on it.

H.M.Jr: Is that all they said?

White: I wouldn't give it a second thought.

Schwarz: They tried an editorial to put you up against Harold Ickes, that he was trying to save oil and you were using it. It died a natural death.

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

Schwarz: I thought you would like to see this American Federation of Labor booklet.

H.M.Jr: I also saw the--

Schwarz: Seagrams this morning?

H.M.Jr: Yes.

White: A whiskey ad?

H.M.Jr: You let Harold get out of the office a couple of weeks and look what happens.

Graves: That is pretty bad.

H.M.Jr: O.K.?

Schwarz: That is all.

H.M.Jr: Harry?

White: You asked, apparently, Mr. McDougall and Mr. Bruce, the Australian representatives in Washington and London, to prepare a memorandum on the raising of post war standards of living. They have prepared a memorandum and I have digested it, but they want to discuss this with you.

H.M.Jr: I am not going to discuss it. I have met this fellow McDougall and he bores me to death, and

I am not interested in post war at this time. I am interested in - if I have got to be interested - I met him at lunch over at - I had to go to lunch at Wickard's, and he talked and talked, and he is one of these star-gazing fellows, and you can add it to your responsibilities.

White: Well, I just have a page summary of what he said.

H.M.Jr: All right. It doesn't interest me. I have got too many things to do to win the war before we talk about what we are going to do afterward.

Gaston: It seems to me that that committee of Wallace's is apparently wanting to concentrate. The thing he seemed to think important was this organization for discussion of the future economic set-up after the war.

H.M.Jr: Well--

White: This might well be turned over to them as part of their material.

H.M.Jr: To--

White: To your committee.

H.M.Jr: That is right.

White: And that would be a way of disposing of it as far as the Australians are concerned so they wouldn't want to take it up with you further.

H.M.Jr: Is there any reason why I shouldn't write David Lawrence a letter of thanks for a very nice article he wrote about what I did for airplanes?

Foley: No, I don't see any reason.

Gaston: If it is critical of the other people, I don't think you should do it.

Schwarz: No, no, it is a straight-out praise of the job of starting production and expansion early. I think he would like it.

H.M.Jr: O.K.

Incidentally, you know, I really think it is outrageous that Treasury lets these people go two months without pay. I think it is terrible.

Thompson: Hasn't Crawford got his money?

H.M.Jr: No. His Civil Service is cleared, but he hasn't got his money. The man he works for sent for him and told him he has got his Civil Service, and here for two months he hasn't got any money.

Thompson: They assured me a month ago he would be paid that day.

H.M.Jr: If you don't mind my saying it, I think where I raise a question like that, it ought to be followed by him, and everybody else in the same boat, and I would like a report tomorrow.

Thompson: I was told he was paid that day.

H.M.Jr: Well, whoever you relied on can't be very efficient.

Thompson: Commissioner Johnson personally telephoned up here.

H.M.Jr: I don't ask much - I am not only talking about this man but two or three hundred others. It puts them in the hands of loan sharks and everything else. I think it is terrible.

Thompson: It is worse than terrible. It is inexcusable. I just don't understand it.

H.M.Jr: I think it is inexcusable, that whole group.

Thompson: I had a report that his Civil Service had cleared.

H.M.Jr: That cleared, but there are at least three hundred men and women in that group.

Thompson: Well, there are only two in his particular circumstances.

H.M.Jr: But that whole group was held up. You told me there were two or three hundred.

Thompson: In the whole emergency relief.

H.M.Jr: But have they got their money?

Thompson: Yes.

H.M.Jr: But are they being paid. You don't know.

Thompson: Yes. I would have heard of it.

H.M.Jr: You didn't hear of this. Do that for me. Don't be too sure. I think that is inexcusable.

Thompson: It is.

H.M.Jr: He is not complaining, because he borrows from his sisters so he is all right, but some other fellow who doesn't have a sister would be in a bad spot.

Thompson: I was amazed.

H.M.Jr: Harry?

White: There are two or three items you might want to know about with respect to British Lease-Lend activities during the two weeks.

One relates to the Vimalert purchases in the War Department which you asked Mr. Gaston to investigate as to price.

H.M.Jr: He told me about it. I know. It is my understanding that we didn't say yes or no.

Gaston: I made that very plain to Brown. I thought the investigation of price was perfectly useless for reasons I think you will understand. This is stock they bought back in 1919. Nobody can say what it is worth today. It would cost very much more to reproduce it than the price they are charging for it. They have made a relatively modest increase. I don't know whether it was to pay an attorney's fee or what for, but anyway, it wasn't an unreasonable increase, in view of the fact --

White: Well then, you also possibly told them that the War Department still wouldn't pay the additional amount, and the British couldn't wait, so they bought it out of outside funds.

Gaston: Yes, that is right.

H.M.Jr: In order to save time here, if there is anything outstanding, put it on a sheet of paper.

White: All right, the two other items I will.

Here is a paper on two developments in the Far East which would more or less bring you up to date on a number of things going on there and in the Treasury.

H.M.Jr: All right.

And the way that person briefed those letters of Coe's was very good. Somebody briefed Coe's letters for me.

Klotz: While you were away.

White: We have got a different batch.

H.M.Jr: The same thing on Lend-Lease.

White: All right. And on that memorandum that Merle referred to, with respect to the Canadian position on their dollar exchange, it is of interest to know that the Treasury is the only Department of four agencies in the Government who do not feel concerned about Canadian foreign exchange. The rest of them are very much concerned, and there is a good deal of discussion and investigation and so on going on. But this memorandum supports us. In fact, they have so little concern about their foreign exchange position that they are advancing that as the reason why they are not going to pursue their suggestion to you or their discusion of selling their American investments.

H.M.Jr: Can I interrupt you a minute?

Bell, who is responsible in the Treasury for going over the monthly budget for the French Embassy here in Washington?

Bell: The French Embassy? So far as the Foreign Funds control, that comes under Foley, John Pehle.

Foley: John Pehle.

H.M.Jr: Who reviews their expenditures? They are supposed to give us an itemized statement.

Foley: John Pehle.

H.M.Jr: Well now, you haven't had time, but the Tribune Story, you see, that you ought to get hold of, which ran yesterday and the day before, accuses them of spending money to do undercover work, you see, and I am sure I will be asked that - and it mentions the Treasury specifically, that we give them the money to do this thing.

Foley: They are under a license.

H.M.Jr: Well, but let's say that we give them a million dollars a month. I don't know. Now, as they are supposed to give us --

Foley: An itemization before they get the next million as to how they spent the last.

H.M.Jr: You and Pehle had better come in here at about ten minutes of three prepared to tell me about it before my press.

Schwarz: Do you want to see the press today? This is Tuesday.

H.M.Jr: Oh.

Schwarz: The President will have his at four o'clock. But you will be asked Thursday morning.

Foley: I will get your (Schwarz') memorandum on it for tomorrow morning.

H.M.Jr: Well, there won't be a nine thirty, but get it in to my hands. In this case, give it to Mrs. Klotz, will you?

Foley: Sure.

H.M.Jr: But read those two stories.

Foley: All right.

H.M.Jr: I wouldn't wait. I would hit it this morning, so we might want to ask the Tribune on the thing for tomorrow morning. I wouldn't wait.

Foley: All right, if Chick will get me the stories.

Schwarz: I will get them right to you.

H.M.Jr: Because I like to get those things --

Foley: When they are hot.

H.M.Jr: Find out who reviews their expenditures.

Gaston: Is it really the Embassy expenditures? They are drawing money to make purchases for shipment to Martinique. That also comes into the picture.

H.M.Jr: But that is something the State Department approves.

Gaston: Oh, yes.

H.M.Jr: You might want to bring up the whole thing at your meeting.

Foley: I don't know whether we have one today or not.

H.M.Jr: Anyway, get the Tribune story and Herbert says the Martinique thing, and I never did understand the Martinique deal.

Gaston: And then there is oil being bought at the Virgin Islands for those trans-Atlantic voyages. They are getting their supplies at St. Thomas. That is the general cargoes that go to Martinique.

H.M.Jr: You had better get the whole story.

Schwarz: It would be better today than tomorrow, Mr. Secretary, because the French Ambassador is holding a press conference at four o'clock today in order to try to explain it, and that will revive the story in tomorrow's papers.

H.M.Jr: You had better get the whole thing.

Bell: One story said they had unlimited funds to spend for this Nazi propaganda. This fellow is pretty good.

Schwarz: Ansel Talbert.

H.M.Jr: I am sorry, Harry, did I interrupt you?

White: No, I was through.

H.M.Jr: Harold?

Graves: I think Mr. Gaston has told you that General Burns and Phil Young gave him --

H.M.Jr: That bothered me, but I controlled myself and I didn't blow up. I have confidence in Cliff Mack.

Graves: Yes. Mr. Gaston called on Cliff for a memorandum explaining that apparent lag in the work over there, and he has suggested that I give you the statement with Mr. Mack's explanation.

H.M.Jr: Well, I would let Mack fight it out with them, you see.

Graves: He is apparently taking it up with them.

H.M.Jr: And tell Mack while he is doing it, to get me a couple of good cases where he has been sitting around waiting for them, you see.

Graves: Yes, sir.

H.M.Jr: O.K.

(Mr. Sullivan left the conference).

Gaston: Mack is straightening it up with Oscar Cox.

H.M.Jr: Well, give me a couple of good cases. That will be easier than sitting around waiting for them.

Graves: He has got a hundred million dollars in that figure of allocations on which he is waiting for requisitions from OPM. Whether there is any fault there, I wouldn't know.

H.M.Jr: Sure, he can take care of himself. What else?

Graves: I have nothing.

H.M.Jr: How about a meeting Wednesday at three to go --

Graves: Tomorrow at three?

H.M.Jr: Yes.

Klotz: No, you gave somebody else that time.

H.M.Jr: Then make it three fifteen. Not to rush it, we will make it three thirty, Graves' crowd.

White: Incidentally, Mr. Mack and I have been talking about that allocation, and we have both agreed that he needed much more study and information before he could meet their requirements, so that he has been keeping me informed as well.

H.M.Jr: I am sure it is a statistical one and not an operating one.

Graves: I think so.

H.M.Jr: But anyway, three thirty, Harold.

Graves: Yes, sir.

H.M.Jr: All right?

Graves: All right.

H.M.Jr: Bell?

Bell: We sold a billion and thirty-seven million dollars' worth of tax notes in August.

H.M.Jr: Was that the result of the telegrams?

Bell: Yes. We got telegrams up to Saturday's business, and it is a billion and thirty-seven million. That is seven hundred sixty million, I think, on your daily.

H.M.Jr: August 29 says nine hundred eighty-seven.

Bell: Well, you have got one more day and you probably won't get them all credited for the daily.

H.M.Jr: What is it now?

Bell: A billion and thirty-seven million.

(The Secretary held a telephone confersation with Mr. Young, President of Boston Federal Reserve Bank).

H.M.Jr: After all, since Henry Wallace has had his picture taken putting on a cotton sock, at least I can climb up on that statue and grab its foot.

Schwarz: It is a big foot.

H.M.Jr: All right, Harold.

Graves: Would you want to do a thing like that?

H.M.Jr: Would I?

Graves: Yes.

H.M.Jr: Would you let me?

Graves: I would.

White: It would take you at least an hour to go to Lexington and back, even with a motorcycle cop.

H.M.Jr: How long did it take Paul Revere? (Laughter) I saw the story and somebody said that this man was saying something about comparing himself - the man who designed the engine that flew Lindbergh across the ocean, that he never got any more publicity than Paul Revere's horse did, and he says, "Who knows the name of Paul Revere's horse?" After all, he carried him. Well, you fellows can think that over.

Graves: All right. May I ask who you were talking to?

H.M.Jr: Governor Young of the Federal Reserve Bank of Boston. All right?

Klotz: He is so serious about it.

H.M.Jr: He is always serious. You can't be in the Federal Reserve System for twenty-five years and have a sense of humor. (Laughter)

All right, Harold.

Graves: All right.

H.M.Jr: I think that is wonderful on the tax notes. Are you going to say anything about it in tomorrow's papers?

Bell: Can, if you want to. It would be the daily tomorrow, and not a billion thirty-seven, but close to a billion.

H.M.Jr: Let's give out a little something tonight.

Schwarz: Do we have a breakdown by denominations? We have had a lot of questions.

Haas: About a week from today you will have it.

H.M.Jr: Give out something tonight for tomorrow morning's papers.

Bell: We can give out a billion and thirty-seven million if you want to, Chick, that is the amount we got.

H.M.Jr: Is that the amount?

Bell: Yes, sir.

H.M.Jr: All right.

Bell: It won't show up exactly like that on the daily because some of the transcript won't be in, but it will be close to that.

H.M.Jr: I would give it out.

Bell: Our balance will be about a billion nine fifty or sixty at the close of business Saturday. That is pretty healthy.

H.M.Jr: You see, that was the reason we dropped the notes from two hundred to one hundred.

Bell: The bills, you mean.

H.M.Jr: Knowing that this stuff would come up, so, you see we therefore dropped it from two hundred to one hundred, knowing we would have this tremendous working balance, and that is the explanation why we dropped from two hundred a week to a hundred a week.

Bell: Do you want to continue that? You remember we just made the decision with respect to one hundred million.

H.M.Jr: Sure, we will go back from two hundred to one hundred --

Bell: Wipe out those three issues?

H.M.Jr: Sure.

Bell: National Defense expenditures took quite a jump this month, up to a billion and forty-two million. This is the 28th. They will probably go a little over a billion one, which is a hundred and sixty million dollars increase in a month. That is pretty good. That is all I have.

Thompson: The President approved a retirement extension for Captain Edwards.

H.M.Jr: Did he?

Klotz: Good.

Thompson: We will have to get him reinstated.

H.M.Jr: What is it for, Mrs. Klotz or Colonel Jenkins?

Klotz: A combination.

Gaston: What happened about Edwards?

Thompson: He had resigned to go to the State Government out in Arizona, and that blew up so that he wanted to come back, and we reinstated him and then got him an extension.

H.M.Jr: That is something.

Klotz: He lost out on the State job and he was out in the cold.

H.M.Jr: And the President approved it?

Thompson: Yes.

H.M.Jr: Wonderful. I couldn't get him a post office, but I can get him an extension.

Thompson: Miss Catherine Blanton, who was a special assistant to Pat Harrison on the Finance Committee, was in and wanted to see you. I talked to her, and she said the Senator had told her that in case anything happened to him he would like her to come to you and ask you to place her in Treasury. I have found a place for her in Internal Revenue, where she wants to go.

Foley: She is a very capable person.

Gaston: Very good.

Thompson: Mr. Helvering is very glad to get her.

H.M.Jr: If we are going to do it, I would like to do it, so arrange for her to come in and see me.

Bell: Did she accept the salary?

Gaston: Yes, she was getting forty-two hundred and the best we could give her was thirty-eight, which I think is very good.

H.M.Jr: I will say it is good. Well, if she is going to do it, let her come in and see me. If it is all fixed, she can come in --

Thompson: Well, the papers are going through.

H.M.Jr: Well, when they are ready let me do it myself.

Klotz: You ought to get it all clear before.

Thompson: The whole staff apparently is personal to the Chairman.

Bell: Except Johnson.

H.M.Jr: She was with him when he was the head of the Speakers' Bureau when Al Smith ran for President. That goes back that far.

Thompson: She is a very nice woman. We have the moving picture room all ready except the chairs, and they are definitely promised this week.

Gaston: They are still hammering while this meeting is going on.

Thompson: Yes, they said that would be through last Friday.

H.M.Jr: Anybody got any afterthoughts?

Cochran: Just one thing. You read about this ferry from Montreal that went down? One of the bombers.

H.M.Jr: No, I didn't. Another one?

Cochran: Yes, sir.

Schwarz: It is only missing now, isn't it, Merle?

Cochran: Well, they are reporting it to relatives. It doesn't give the names.

H.M.Jr: Which way were they coming?

Cochran: Going from Montreal.

H.M.Jr: O.K.

September 2, 1941
10:30 a.m.

Operator: Go ahead.

HMJr: Hello.

John Biggers: Mr. Secretary.....

HMJr: Yeah.

B: John Biggers.

HMJr: Good morning.

B: Good morning to you. I was at a meeting - presiding at a meeting when your call came through, and I was unfortunately unable to leave.

HMJr: Yes.

B: I just wanted to tell you that I have a desire to stop in and see you for a few moments before I leave on this British mission.....

HMJr: Good.

B: .....and get the benefit of your over-all guidance if you could spare me those moments.

HMJr: I can spare you the moments. I don't know how much guidance, but I'm always glad to see you.

B: Well, you've handled that problem and studied that problem from its inception.....

HMJr: Uh huh.

B: .....and I'd like to get a few words of wisdom from you if I may.

HMJr: Well.....

B: When would suit you, sir?

HMJr: Well.....

B: Would there be time tomorrow?

HMJr: Yeah. How about three o'clock tomorrow afternoon?

B: That would suit me fine if I may come over.

HMJr: Be glad to see you.

B: Thank you, sir.

September 2, 1941
10:50 a.m.

HMJr: Hello.

Operator: Governor Young in Boston.

HMJr: Right.

Governor Roy Young: Hello.

HMJr: Hello.

Y: Hello. Mr. Secretary?

HMJr: Yes.

Y: Young speaking in Boston.

HMJr: How do you do?

Y: They tell me you're coming up here on Tuesday, the ninth.

HMJr: That's what I'm thinking about.

Y: Well, I'd be happy if you'd use the bank here as your headquarters. We'll give you an office and everything you want for yourself.

HMJr: Oh, well, that's terribly nice. I think I'll just get up there in time to talk.

Y: Oh, you won't get up until the evening?

HMJr: No.

Y: Well, I'm a little sorry about that, because I think I have an opportunity for some real publicity - something that I wanted to talk over with you when I was down there.

HMJr: Publicity on what?

Y: On the defense bonds.

HMJr: Oh.

Y: I'll give you the story in a minute, and you can probably turn me over to one of your publicity men to see whether there's any value in it or not.

HMJr: Go ahead. Shoot.

Y: There's a woman lives out here at Stockbridge.....

HMJr: Yeah.

Y: .....and the banker out there wrote me, and she's the daughter of the man that designed that statue that's out at Lexington that's.....

HMJr: Yeah.

Y: .....used in all your defense diagrams.

HMJr: Yes.

Y: And she wondered whether it was possible for you to autograph one of the posters for her.

HMJr: Well, she's written to me about that, and I think we did it; and she's written also to Mrs. Roosevelt, and Mrs. Roosevelt said in her Monday column she's giving her a big write-up today.

Y: Yeah.

HMJr: Either today or.....

Y: Well, what I had in mind - if you could come up here a little ahead of time, we could run out to Lexington and have you make the presentation out there with the movie people and the whole thing. That'll go all over the country, and I thought it was a pretty good idea.

HMJr: Well, let me talk to my folks about it and see what they say.

Y: Lexington is only out a short ways. You can get out there in twenty minutes, you know.

HMJr: I see.

Y: A half hour at the outside, and the whole thing could be taken care of, and I could have the banker bring her down there and be there.

HMJr: Well, what.....

Y: That's something that would get in the movies and go all over the country, and I think, be real helpful to you.

HMJr: Should I climb up on top of the statue and shake him by the hand?

Y: That's right. Yeah, we'll do all of that.

HMJr: Okay. Well, I'll talk it over with my boys, and we'll see.

Y: Yeah. All right.

HMJr: And I'm glad you're thinking along those lines.

Y: Yeah. All right.

HMJr: Thank you.

Y: Good-bye.

Surplus of wheat in Canada

The wheat surplus in Canada for export and carryover for the current year is estimated by the U. S. Department of Agriculture at 498,000,000 bushels. Stocks of wheat in Canada are at a record high level.

Import duties and quotas on Canadian wheat

The importation of milling wheat from Canada is subject to (1) an import duty of 42 cents a bushel, which was raised to that level in April 1924 under the flexible provision of the Tariff Act of 1922, and (2) an import quota of 795,000 bushels proclaimed by the President under Section 22 of the Agricultural Adjustment Act of 1933, amended and re-enacted, which became effective May 29, 1941.

The importation of feed wheat from Canada (unfit for human consumption) is subject to an import duty of 5 percent under the trade agreement with Canada effective January 1, 1939. (The full rate is 10 percent.) The amount of feed wheat which may be imported is not limited under the trade agreement, but in practice it is restricted by Canadian licensing, which has held imports of such wheat to 3,237,000 bushels during the year ended June 30, 1941. The amount of milling wheat imported during that period (almost entirely from Canada) totalled 165,000 bushels.

The President may have authority under Section 318 of the Tariff Act of 1930 to reduce the import duty on wheat. The Act provides that whenever the President shall by proclamation declare an emergency to exist, he may authorize the Secretary of the Treasury to permit "the importation free of duty of food, clothing, and medical, surgical, and other supplies for use in emergency relief work." This provision was invoked by the President on July 25, 1941 to remove the import duty on forage for livestock to aid livestock producers in the northeastern drought states.

Feed shipments into New England

No data are available that would indicate how much feed grain is shipped into the New England area. It is of interest, however, that one large farmers' organization in that area, the Eastern States Farmers' Exchange of Springfield, Massachusetts, handled $18,000,000 worth of feed in 1940, almost entirely brought in from other States and ground or mixed at its mill at Buffalo, New York.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE September 2, 1941

TO Secretary Morgenthau

FROM Messrs. Foley and Pehle

FRENCH GOVERNMENT PAYMENTS ALLOWED BY FOREIGN FUNDS CONTROL

SUMMARY

1. The Treasury has been granting licenses permitting the monthly expenditure of $91,000 for French diplomatic and consular expenses in the United States and $120,000 for similar expenses of the French Government in Latin America. In view of all the circumstances these amounts were not unreasonable.

2. The Treasury has been guided by the views of the State Department in licensing French Government payments, including its views as to the reasonableness of the amounts involved.

3. The Treasury polices the expenditures made by the French Government insofar as is possible under the restrictions imposed by the State Department.

4. The more significant advantages accruing to the French under the freezing control are not the payments allowed for diplomatic and consular expenses in the Western Hemisphere but the substantial amounts allowed for the purchase of goods to be sent to North Africa, and the $100,000 a month allowed to the French for governmental payments within China.

I. French Diplomatic and Consulate Expenses in the United States

The monthly amount originally allowed the French for this purpose was $105,700. This amount was regarded by the State and Treasury Departments as a reasonable amount under all the circumstances. However, in May 1941, confidential information was received through the American Embassy in Rio de Janeiro, Brazil, concerning a circular telegram sent to all French diplomatic missions in the Western Hemisphere. The substance of this telegram was that the French missions in the Western Hemisphere had not been drawing the full amount available under various licenses, and that in the future the missions should withdraw the entire amount of their monthly allotment and with any unused portion build up reserve funds sufficient to enable the missions to be maintained for as long as one year without the use of additional frozen funds.

In view of this information the monthly licenses issued to the French Government for their expenses in the United States were reduced from $105,700 to $91,000 which represented the average withdrawals per month prior to the receipt of the circular telegram. The licenses in question require the banks at which the various Embassy and consular accounts are maintained to submit monthly reports with respect to the transactions in such accounts. It has been difficult to obtain these reports because of the lack of cooperation of the French who have at times protested to the Department of State. Nevertheless, the Treasury is insisting upon the reports being filed and examines such reports in order to police insofar as possible the expenditures made under the licenses.

It should be kept in mind, however, that in a number of ways dollar funds may accrue to the French other than through the Treasury licensing system. For example, one of the items referred to in the Herald-Tribune story was to the effect that a French official had accepted dollar funds and arranged to have the franc equivalent paid in France. The result of such transactions is to make free dollars available to the French. Of course, such transactions constitute violations of the Executive Order. We propose to have this phase of the matter investigated after clearing our action with the State Department.

B. French Diplomatic and Consular Expenses in Latin America

The monthly amount originally allowed the French for this purpose was $161,300. In view of the circular telegram mentioned above, this amount was reduced in June 1941 to $120,000 per month. For the month of June there was also deducted the amount of $77,000, which, through confidential sources, it was learned the French had on deposit in Uruguay. At the same time a letter was sent to the Department of State by Mr. Foley as Acting Secretary requesting that the French authorities be requested to submit promptly a written statement of all funds in Latin America available to the French Government or French diplomatic and consular missions, such statement to include local currency as well as dollar funds. It was also suggested that the French authorities be advised by the State Department that the funds available to them under license are to be drawn upon only to the extent necessary to meet the current expenses referred to in such licenses and that the French authorities be requested to submit to the State Department by the 15th day of each month a definitive statement of the amounts drawn under license during the previous month in the United States and the Western Hemisphere, specifying the embassy, legation, or consulate by which each portion of such funds was used and containing a definitive statement that the amounts transferred to each such mission were actually needed and used for the normal expenses of such establishment during the month in question, over and above the amounts available through fees and other commissions earned by such establishment, and all other sources of income. Although we understand certain requests were made by the State Department pursuant to the Treasury's suggestion, the French Government apparently has made no reply to the State Department with respect to the information requested.

Furthermore, very recently Ambassador Caffery has reported that a courier arrived in Rio de Janeiro from Vichy with $1,000,000 in American currency which he turned over to the French Embassy in Rio de Janeiro as an emergency fund for French missions in Latin America. We have also learned that the French Embassy in Rio de Janeiro has available the milreis equivalent of $385,000. In view of the above, and with the acquiescence of the State Department, the Treasury has not renewed for September the license authorizing expenditures by the French for their diplomatic and consular establishments in Latin America.

C. <u>French Possessions in the Western Hemisphere</u>

Since January 1941 a monthly sum of approximately $800,000 has been made available to the French Government out of their frozen funds here, for purchases of goods to be sent to Martinique, Guadeloupe, and French Guiana. A similar arrangement makes available $25,000 per month for goods sent to St. Pierre and Miquelon. To some extent these funds are replenished through shipments of local produce from such areas to the United States, and the shipment of gold from French Guiana to Brazil. The Treasury obtains detailed reports on the purchases made under such licenses. In addition the State and Navy Departments have observers in Martinique to insure that none of the goods are reexported.

D. China

At the specific request of the Department of State who advised us that the matter had been cleared with the President, the Treasury has since March 1941 allowed $100,000 per month to be remitted to China out of French Government funds in the United States. We are advised these amounts are needed for French governmental expenditures in China, but we have no information as to the exact nature of the use to which such funds are put, nor as to the advantage, if any, accruing to the United States under such arrangement.

E. North Africa

At the specific request of the State Department, who had negotiated the matter with French and British Governments, there has been made available to the French Government approximately $7,000,000 for the purchase of certain specified commodities to be sent to North Africa. The Treasury did not participate in these negotiations and has merely at the written request of the State Department issued the necessary licenses to effectuate such arrangement. We have recently been advised that such arrangement is to be placed on a yearly basis, under which approximately $12,000,000 of goods will be sent quarterly to North Africa.

F. Madagascar and Indochina

Special arrangements have been set up designed to facilitate the export to the United States of rubber from Indochina, and graphite and mica from Madagascar, in return for goods to be sent to such areas and other concessions.

G. Havas News Agency

From time to time, at the request of the State Department, the Treasury has issued licenses allowing payments for the expenses in the United States and in Latin America of the Havas News Agency. There has been some disposition on the part of the State Department to curtail these expenditures, but until recently payments were still being allowed, each at the specific request of the State Department.

E.H. Foley Jr.

September 2, 1941
12:04 a.m.

Francis Biddle: Yes, sir.

HMJr: I'm back at my desk, and I want to tell you how delighted I am.

B: Good.

HMJr: Also my Mrs.

B: (Laughs) Well, you're both - you were both two of the originators of the idea, I think.

HMJr: Well, I'll take a teensie-weensie credit.

B: Well, you certainly deserve more than that.

HMJr: Well, it's grand to have you there now.

B: Well, it'll be bully to - it'll be bully to be with you.

HMJr: I look forward with lots of pleasure to have a crusader over there.

B: How's that pleasant Island of Mount Desert?

HMJr: Pardon?

B: How's Mount Desert? Was it nice?

HMJr: I wasn't at Mount Desert. We were up in Canada.

B: Oh, you were up in Canada. I see.

HMJr: Yes.

B: Lot of rain?

HMJr: Rain and very cold.

B: Uh huh. Henry.....

HMJr: Yes.

September 2, 1941
2:30 p.m.

HMJr: I saw an announcement that you were having the Treasury Glass House at Rockefeller Plaza.

Harold Graves: Yes.

HMJr: Well, I'm very disappointed that they're holding it there. That's a long way from Fourteenth Street and Twenty-Third, the way I suggested it.

G: Yeah. Well, I don't know about it. I'll.....

HMJr: I mean, that's the place where they sell the most precious jewelery and it's a high price fur retail to people on Fifth Avenue.

G: Yes.

HMJr: Those aren't the kind of people I want to reach.

G: Well, I'll look into it.

HMJr: I'm very much disappointed. I said Fourteenth Street was my first choice, and Twenty-Third was my second.

G: Yeah.

HMJr: Now they go to Rockefeller Plaza.

G: Well, I'll look into it and.....

HMJr: Well, tell whoever did it that I'm very much displeased.

G: Yes. Maybe we can move it or put it in another.....

HMJr: Well, they're opening it tomorrow, I think.

G: Oh, they are?

HMJr: I think you'll find that that is the man up there - whatever his name is.....

G: Patterson.

HMJr: Yeah.

G: Yeah. Well, I'll look into it.

HMJr: Will you?

G: And I'll at least pass on your message.

HMJr: Yes. You tell him that that isn't the kind of thing that.....

G: You bet.

HMJr: It's a little bit of a foyer - they're not going to have people come in there. I mean, they're not the kind of people I want to attract anyway.

G: Yeah. Well, I'll look into it.

HMJr: Thank you.

G: Yes, sir. Good-bye.

September 2, 1941
3:10 p.m.

HMJr: Hello.

Grace Tully: Hello. Mr. Secretary.....

HMJr: Talking.

T: Mr. Secretary, now I took that up, and that was a mistake, and, of course, he should have been notified.

HMJr: Yes.

T: He should have been there.

HMJr: Yes.

T: But, however, the President doesn't think he should call him but he thinks Pa should call up and apologize to him. Is that all right with you?

HMJr: That would be entirely all right.

T: You think that'll handle it all right? Because he - the President said, "Of course, he should have been there." He said, "I don't know why he wasn't." Then I said, "Well, he was told not to come."

HMJr: I.....

T: And then he said, "Well, I don't know who told him not to come," and I said, "Well, I guess Pa must have."

HMJr: Well, you know I didn't suggest that the President should call. That was just, you know.....

T: No. But I said, "Do you want to call him?" And he said, "Well, I don't think I should get into it." After all, you know it was Pa's job to do it.

HMJr: That's right.

T: So that we'll let Pa handle it, so I will tell Pa to call Mr. Gaston.....

HMJr: Well, I.....

T: .....and tell him that he's very sorry, that he should have notified him to be here.

HMJr: Well, didn't the President feel badly?

T: Huh? Yes. He said, "I don't know why he wasn't here."

HMJr: Well, I think it's up to Pa to call him.

T: Yes. I do, too. Well, all right. When - Pa's probably out - I don't know whether he's back from lunch, but as soon as I get in touch with him I'm going to explain it to him.....

HMJr: Ever so much obliged.

T: .....and then ask him to call Mr. Gaston and explain it to him and make some apology to him for not doing it.

HMJr: Yeah. What's the news about Miss LeHand?

As from
Supreme Court of the United States
Washington, D.C.

Sept 7/41

CHAMBERS OF
JUSTICE FELIX FRANKFURTER

Dear Henry:

I know that your days ought to consist at least of 36 hours — and yet I'm so inhuman as to suggest that you find time to read the enclosed paper. I want to talk to you about its author soon after we get back — which will be early next week.

In the present state of the world no one — let alone one with your responsibilities — can have had a good summer. But I hope that you & yours have had some refreshing days. Yours ever F.F.

Redesigning Federal Taxation

By RANDOLPH E. PAUL

REPRINTED FROM
HARVARD BUSINESS REVIEW
WINTER, 1941

REDESIGNING FEDERAL TAXATION

BY RANDOLPH E. PAUL

"Faith is a fine invention
For gentlemen who see;
But microscopes are prudent
In an emergency!"

Emily Dickinson

IN these hard, critical days the words of a New England poet may be full of salutary suggestion. They may be applied to the whole kaleidoscopic international situation. They may be addressed as well to the fluctuating national scene, including the problem of financing national defense. The necessity of paying for continuing to live in a civilized society will put an indescribable strain upon our tax system. In such an emergency, shall we trust to blind faith, or shall we add to our faith as Americans the prudent use of microscopes?

The vaguenesses of preliminary discussion have recently been clarified by concrete figures on the subject of financing national defense.[1] The total cost of the projected expansion of military and naval plant, exclusive of maintenance, has been crudely estimated at between $16,000,000,000 and $18,000,000,000. These figures are sufficiently challenging, even for twentieth century thresholds of sensation. They mean that the United States must pay the equivalent of the asset value of eighteen General Motors corporations as the price of adequate defense. But even more arresting are the estimates of annual maintenance and operation cost of the new military plant when completed. Here many imponderable factors, such as airplane obsolescence and military vacillations, preclude precise estimate, and dictate a range estimate of from $5,500,000,000 to $8,000,000,000. This sum may be compared with less than $1,000,000,000 of Army and Navy expenditures in the Government fiscal year 1940. At the very least we shall, therefore, have to increase our annual governmental expenditures by $4,500,000,000 when our military plant is completed. Probably the increase will be nearer $5,000,000,000.[2] And these sums may be underestimates.

Such necessities bring incalculable problems. To what extent shall such a program be financed by borrowing? To what extent shall it be financed by taxation? What is necessary to adapt our Federal tax system to the inevitable strain of providing its share of the necessary funds? Questions of such staggering importance need calm, objective, nonpartisan discussion. Our wisdom will depend upon our detachment. If there is too much heat, there may be too little light. And there cannot be too much light upon a problem that will be with us for so long a time. For we have not only the financial problem of building up defense during the next few years, but also the vital long-run questions of post-defense fiscal policy in connection with the problem of permanent cost of maintenance and operation of an extended military plant.

Whether many are right in their assertion that we may borrow freely with-

[1] "Exploring the Financing of National Defense and Its Economic Consequences," 21 *Savings Bank Journal* 5 (October, 1940).

[2] This is about the sum which may be spent in the fiscal year 1941 for increased plant. Leon Henderson, 21 *Savings Bank Journal* 46 (October, 1940); Richard V. Gilbert, 21 *Savings Bank Journal* 9 (October, 1940). It is not a simple task to spend money.

Printed in U. S. A.

out undue risk need not be debated now; we have no other choice for the moment.[3] Ultimately we shall have to deal with this question as a matter of long-run policy. And we shall also have to decide whether to increase our taxes. The problem is, however, far larger than a question of increased taxation. It may well be that taxes should be used moderately until we have achieved a full utilization of our resources.[4] It may also be that pressures of national morale will require us quickly to increase tax rates beyond the levels achieved by the two revenue acts of 1940.[5] However these questions may be answered, the grim necessity of a searching re-analysis of our existing tax system is knocking hard at the door. That necessity will merely be emphasized by any further increase in taxes. The crucial question is with us even if increased national revenues save us from the necessity of increasing rates: To what extent and how shall our tax system be redesigned to meet an unprecedented emergency?

A tax system engaged in the task of exacting[6] from 8% to 10% of the national income, on top of a state and local exaction of about 10%, must be a sound tax system. Apart from its usefulness for nonfiscal ends, taxation is but a method of raising revenue to defray the expenses of government, and of fairly distributing the burden among those who must bear it.[7] Even if we assume that our existing system may raise the requisite revenue under an economy stimulated to produce a national income of from $90,000,000,000 to $110,000,000,000,[8] the question remains whether its burden is equitably distributed. Only wishful apologists will claim that it is. Even in taxation, equity may be a roguish thing; but it has some principles. It rebels at a palpable failure to reach available revenue, which in turn passes avoided burdens to others. It protests, with equal vehemence, against inflexible attitudes which exact their pound of flesh without discrimination. The quality of mercy should not be strained even in the field of taxation. And a tax system must keep reasonably abreast of economic realities; it cannot live in an ivory tower apart from a changing world which it is supposed to serve.

Defects of the Tax System

General principles do not usually decide concrete cases,[9] but to judge a tax system it is necessary to adopt some point of departure in terms of basic theory. There is considerable debate among our leading economists upon the question whether the chronic depression which has characterized our national economy is caused by a lack of balance between the disposition to save and available investment outlets, or has some

[3] See Guy Greer, "Arming and Paying for It," 181 *Harper's Magazine* 650, 653 (November, 1940); E. A. Goldenweiser, 21 *Savings Bank Journal* 12 (October, 1940); Gilbert, op. cit., p. 13.

[4] Gilbert, op. cit., p. 55; Greer, op. cit., pp. 650, 652.

[5] Emile Despres, 21 *Savings Bank Journal* 30 (October, 1940).

[6] The central thought in the accepted definition of taxes is that they are an exaction of sovereignty. See Thomas M. Cooley, *Law of Taxation* (4th ed., Chicago, Callaghan & Company, 1924), pp. 61, 69; *United States v. Butler*, 297 U.S. 1, 61 (1936); *Bull v. United States*, 295 U.S. 247, 259 (1935); *Florida Central and Peninsular R.R. Co. v. Reynolds*, 183 U.S. 471, 475 (1902).

[7] Justice Stone, dissenting in *Great Northern Railway Co. v. Weeks*, 297 U.S. 135, 155 (1936); Felix Frankfurter, *Mr. Justice Holmes and the Supreme Court* (Cambridge, Harvard University Press, 1938), p. 42.

[8] See Greer, op. cit., pp. 650, 653. See also 21 *Savings Bank Journal* 8 (October, 1940).

[9] Justice Holmes, dissenting in *Lochner v. New York*, 198 U.S. 45, 76 (1905); "Holmes, Letter to Dr. Wu, June 16, 1923," *Justice Oliver Wendell Holmes, His Book Notices and Uncollected Letters and Papers*. Edited by Harry C. Shriver (New York, Central Book Company, 1936), pp. 164–165.

less obvious cause, the elimination of which would in turn eliminate idle savings as a depressing factor.[10] Within the limits of a short article it is not possible to explore the validity of many available statistical studies on this subject or to appraise the significance of controversies. The discussion of proposed changes in our tax structure in this article is premised on the belief that some reduction of stagnant savings by taxation and by their reintroduction into the income stream through expenditures is desirable, and that a reduction within certain limits can be accomplished without having unintended restrictive effects more than offsetting the desired advantages.

What specifically is the matter with our tax system? If one could be Congress, what would one do to improve it? Tax talk needs to be on such a brass-tack level. Tax questions can rarely be answered with smooth generalities. Exact descriptions and bills of particulars will be a refreshing change from most tax talk. And they are a prime requisite of constructive tax discussion. They are the trees that make the forest, which incidentally must always be kept in view *as a forest*.

It is not difficult to be specific about the defects of our tax system,[11] for it fails to deal adequately with many of its problems. Unreasonable corporate accumulations are a common phenomenon.[12] The provision penalizing unreasonable corporate accumulations has been found completely wanting, because taxpayers have successfully argued that they may pile up surpluses for the mythical rainy day of the unpredictable future, or that they may in the same sort of future go into a new business in the manner of the White Knight, who kept a bee hive on his horse because he might some day wish to keep bees.[13] We have for years supinely failed to seek reexamination of a five-to-four decision of the Supreme Court of another day that stock dividends are not constitutionally taxable. Only comparatively recently have we ventured to tax some stock dividends, and we still shy at an attempt to tax common stock dividends upon common stock where only common stock is outstanding. In spite of recent decisions of the Supreme Court, legitimate wholesale avoidance of income and estate taxes may be accomplished by the use of trusts at the cost of a relatively low gift tax.[14] We do not try, in the manner of the more realistic British, to cut under this whole problem by

[10] Cf. the different points of view as represented in H. G. Moulton, G. W. Edwards, J. D. Magee, and Cleona Lewis, *Capital Expansion, Employment, and Economic Stability* (Washington, The Brookings Institution, 1940); National Bureau of Economic Research Publications, No. 34, *Commodity Flow and Capital Formation* by Simon Kuznets, and No. 35, *Capital Consumption and Adjustment* by Solomon Fabricant (New York, The Bureau, 1938); "Papers and Proceedings of the Fifty-first Annual Meeting of the American Economic Association," 29 *American Economic Review* 1–60 (Supplement, March, 1939); Alvin H. Hansen, "Progress and Declining Population," 29 *American Economic Review* 1 (March, 1939); *An Economic Program for American Democracy* by Seven Harvard and Tufts Economists (New York, The Vanguard Press, 1938).

[11] Our Federal tax system is also unduly complicated. It now comprises more than 100 taxes. Mabel Newcomer, *Taxation and Fiscal Policy* (New York, Columbia University Press, 1940), p. 17. But I hesitate to make this complaint, since so much of the complexity springs from a desire to be fair to taxpayers. See Robert E. Eichholz, "Should the Federal Income Tax Be Simplified?," 48 *Yale Law Journal* 1200 (May, 1939). Much complexity not attributable to this cause originates in the legislative desire to prevent tax avoidance.

[12] See Greer, op. cit., pp. 650, 660.

[13] See *Final Report of the Committee of the National Tax Association on Federal Taxation of Corporations, National Tax Association, Proceedings* (1939).

[14] As an example of this saving, it may be noted that a gift of $10,000 from an estate that will amount to slightly more than $1,000,000 at the death of the donor avoids a prospective estate tax of $3,520 by paying a gift tax of only $165. This example assumes that the donor has used the $40,000 exemption, but has made no other gifts. It also ignores the $4,000 exclusion.

abolishing husbands' and wives' privilege of filing separate returns. Although the Supreme Court has unshackled us from several supposed Constitutional limitations, we continue a statutory exemption of income from state and municipal securities; and in so doing we provide a haven from the sweep of the surtax, with the result that a constantly growing mass of tax-exempt securities is seriously endangering the system of the progressive income tax. Life insurance remains for the initiated a manifold instrument of tax avoidance. We have no adequate provisions to prevent escape from the estate tax by means of *inter vivos* gifts which are in fact, if not in synthetic legal theory, in contemplation of death. The estate tax is flagrantly avoided by the instrumentality of special powers of appointment.[15] We discriminate against earned income, such as salaries, and against unearned income, such as dividends, by continuing in effect an unduly low tax on capital gains.[16] And the angel of death saves many capital gains from any tax at all because of our statutory rule that the estate of the owner of the appreciated property may take value at the date of death as the basis of the property. Finally, the estate, income, and gift taxes are wholly without integration.[17]

While we thus make the mistake of being tender-minded, we also disregard William James's advice by being tough-hearted. Our tax statutes are full of discriminations. The existing situation with respect to consolidated returns cries out for further study. We now permit such returns for excess profits tax purposes, but not for income tax purposes. If there is any plausible reason for this differentiation, no one has stated it on any available record. The tax effect of mortgage transactions, from the standpoint of the capital loss provision and the bad debt provision, is a morass of metaphysics.[18] Our rules of *res judicata*, every year a more important subject, are completely archaic.[19] The statute is inexcusably harsh with respect to personal

[15] Erwin N. Griswold, "Powers of Appointment and the Federal Estate Tax," 52 *Harvard Law Review* 929 (April, 1939).

[16] See Gerhard Colm, "The Revenue Act of 1938," 5 *Social Research* 255 (September, 1938). This is, of course, a highly controversial point. Opinion ranges over a wide latitude from the advocacy of complete elimination of any capital gain tax to contentions that such gains should have no immunity. See Arthur H. Kent, "The Case of Taxing Capital Gains, The Case for Taxation," 7 *Law and Contemporary Problems* 194 (Spring, 1940); Godfrey N. Nelson, "The Case of Taxing Capital Gains, The Case against Taxation," 7 *Law and Contemporary Problems* 208 (Spring, 1940). See also George O. May, *Twenty-Five Years of Accounting Responsibility* (New York, American Institute Publishing Co. and Price, Waterhouse & Co., 1936), Vol. 2, p. 144; Henry C. Simons, *Personal Income Taxation* (Chicago, University of Chicago Press, 1938), p. 148; Robert Murray Haig, "Taxation of Capital Gains," *Wall Street Journal*, March 23, 25, 29, April 2, 8, 15, 1937; Roy Blough and W. H. Hewett, "Capital Gains," contained in *Studies in Income and Wealth* (New York, National Bureau of Economic Research, 1938, Vol. 2, p. 191); National Tax Association Conference, Report of Committee on Capital Gains, 1938. Apart from the general 10% increase effected by the first Revenue Act of 1940 we now tax long-term gains at a 15% rate as against a top surtax of 75%, which with the normal tax totals 79%. This seems to the writer too great a differentiation.

[17] Among the many minor blunders in our tax acts may be mentioned (1) the extension of the right to deduct for income tax purposes the market value of gifts made to religious, charitable, scientific, and educational institutions, (2) the failure to make the basis of property to be used by the distributees of an estate conform to the valuation allowed under Section 811 (j) of the Internal Revenue Code, and (3) the extension of the right to deduct for estate tax purposes claims against the estate, even though such claims may not be enforceable against particular assets of the estate, such as insurance. Randolph E. Paul, "Life Insurance and the Federal Estate Tax," 52 *Harvard Law Review* 1037, 1072 (May, 1939).

[18] Randolph E. Paul and George S. Allan, *Studies in Federal Taxation, Third Series* (Cambridge, Harvard University Press, 1940), p. 296.

[19] See Erwin N. Griswold, "Res Judicata in Federal Tax Cases," 46 *Yale Law Journal* 1320 (June, 1937); Randolph E. Paul and Philip Zimet, *Selected Studies in Federal Taxation, Second Series* (Chicago, Callaghan and Company, 1938), p. 104.

holding companies where dividends cannot be distributed.[20] The statute has no provision for such intelligent generosities[21] as a credit on account of dependents between the ages of nineteen and twenty-one years, or a limited deduction for personal medical expenses.

Consumption, Income, and Estate Taxes

Even if we corrected ourselves in these respects, we should fall short—far short of the goal of a sound tax system. For our existing system is conceived *in vacuo*. Our predominant philosophy is the shop-worn notion that taxation is for revenue only.[22] Such a philosophy contradicts experience, which is the best teacher of all.[23] The use of taxes, with incidental and even nonfiscal motives, is sanctioned by precedents as old as our Constitution.[24] Whether we like it or not, we know that every tax is in some measure regulatory, since it interposes "an economic impediment to the activity taxed as compared with others not taxed."[25] But we hesitate to view our tax system as part of an entire economy. We act upon the charming fiction that its only function is revenue raising, when we know that our choice of taxes affects our whole economy. This is particularly true in relation to our election of substantial consumption taxes instead of taxes upon savings.

Our tax system is now overloaded with consumption taxes. In the fiscal year 1940 our consumption taxes totaled $1,813,000,000, or about 33% of our total receipts, as compared with $1,210,000,000 in 1929. These taxes have been increased by the first Revenue Act of 1940, and it is probable that consumption taxes will reach the unprecedented total of $2,240,000,000 in the fiscal year 1941. A recent TNEC study[26] demonstrates the effect of these consumption taxes. Families with incomes of $500 and under, pay taxes amounting to 25% of their total income. Families with incomes from $500 to $10,000 pay between 18% and 20%. In the lowest income families the process is to take money out of one of their pockets and to put it back into the other pocket.

Regressive consumption taxes provide the easiest administrative way of raising revenue. But they are primarily a levy on the poor, violating the first canon of progressive taxation, the principle of ability to pay.[27] In addition, and in terms of "things and results,"[28] their effect on our economy may be extremely

[20] The same situation exists under the discarded undistributed profits tax where there has been an impairment of capital. *Helvering v. Northwest Steel Rolling Mills, Inc.*, decided by the Supreme Court, November 12, 1940.

[21] See John M. Maguire, "Capitalization of Periodical Payments by Gift," 34 *Harvard Law Review* 20, 49 (November, 1920).

[22] An exception is our Federal estate tax, which is avowedly for the purpose of wealth redistribution. See remarks of Congressman (later Vice President) Garner in 65 *Congressional Record* 3122 (1924); remarks of Congressman LaGuardia (now Mayor of New York City) in 75 *Congressional Record* 6678 (1932). See also Message of President Roosevelt, June 19, 1935, quoted in H.R. Rep. No. 1681, 74th Cong., 1st Sess., CB 1939-1, Part 2, p. 642.

[23] See Gerhard Colm, "Full Employment Through Tax Policy?," 7 *Social Research* (November, 1940).

[24] See Robert Murray Haig, "Taxation," 14 *Encyclopedia of the Social Sciences* 533 (New York, The Macmillan Company, 1934); Alfred G. Buehler, "Regulatory Taxation," 17 HARVARD BUSINESS REVIEW 138 (Winter, 1939); Chester T. Crowell, "Taxation Not for Revenue," 176 *Harper's Magazine* 89 (December, 1937). See also *St. Louis Poster Advertising Co. v. St. Louis*, 249 U.S. 269 (1919), justifying a high tax to discourage billboards.

[25] *Sonzinsky v. United States*, 300 U.S. 506, 513 (1937); *Pacific American Fisheries v. Alaska*, 269 U.S. 269, 277 (1925).

[26] Gerhard Colm and Helen Tarasov, *Who Pays the Taxes?*, Monograph No. 3, Temporary National Economic Committee (1940).

[27] Henry S. Dennison, Lincoln Filene, Ralph E. Flanders, and Morris E. Leeds, *Toward Full Employment* (New York, Whittlesey House, McGraw-Hill Book Company, Inc., 1938), p. 215; Newcomer, op. cit., pp. 22, 37, 39, 40.

[28] Oliver Wendell Holmes, *Collected Legal Papers* (New York, Harcourt, Brace and Company, 1920), p. 282.

damaging, because they seriously affect the incomes and welfare of all persons, including taxpayers in the upper brackets. Any form of taxation

> . . . takes money out of somebody's pocket and entails some decrease in expenditures of that person. Taxation diverts funds from the taxpayer to the Government. The expenditure of these funds by the Government in general merely replaces expenditures by individuals and business firms, and does not add to the stream of national income and thus to the volume of employment. Only in the event that taxes divert to the Government funds which would otherwise be hoarded can tax-financed expenditures have a net expansive effect upon the income stream and the volume of employment.[29]

Consumption taxes, including such mass luxury taxes as the taxes upon tobacco and gasoline, should be a last resort in a modern tax system.[30] There may come a time—such time has come in Great Britain—when consumption taxes will have to be used to curtail the production of peacetime commodities.[31] The primary function of consumption taxes should be to control production, not to raise revenue. With unemployment at present levels it looks as though it will be a long time before this country has to adopt Goering's slogan of guns, not butter, unless bottlenecks intervene. But as if this were not true, we are using consumption taxes to raise revenue when we should be holding them in reserve to act as a control upon production. The effect is to repress the expansion of the economy. We thus take two steps forward, and then one step backward. What we should do is finance less by consumption taxes and more by taxes upon the moderately high income groups and, as a practical matter, upon corporations.[32] While taxes on moderately high incomes have some repressive effects upon investment and thus upon employment, they operate to reduce idle savings. From the standpoint of the whole economy, they are therefore much more desirable than consumption taxes, which reduce the spending power of individuals in the lower brackets. And even if the supply of goods available to consumers must be reduced because of the requirements of national security and defense, it is more than ever necessary that the sacrifices should be borne by those whose consumption can be reduced without impairment of health or efficiency. Full employment provides no justification for regressive taxation for the purpose of raising revenue.

If we look at our tax problems without the pressure of interest in our own personal pocketbooks, what is the true situation? Our existing individual income taxes, even under the rates of the first Revenue Act of 1940, and even including state taxes,[33] are insignificant compared with British income taxes under the rates proposed in the new British budget. The effective rate for a married person with no dependents having a fully earned income of $3,000 a year is 21.9% in Great Britain and only 1.5% in combined United States Federal and New York State income taxes. In other words, such a person pays $658 in Great Britain and only $45 in the United States. A person with an income of $10,000 pays $3,621 in Great Britain and only $854 in the United States. The same story holds until we reach the high

[29] Gilbert, op. cit., p. 13.

[30] Dennison, Filene, Flanders, and Leeds, op. cit., p. 237. A case may be made for the gasoline tax upon the ground that it proportions highway cost to use.

[31] Gilbert, op. cit., pp. 36, 46; Jerome Frank, Speech before the Army Industrial College, April 8, 1940.

[32] As to the taxation of corporations see, however, comments in note 35.

[33] The single British tax is heavier than the combined Federal and state taxes in the United States Newcomer, op. cit., p. 23.

brackets[34] or the corporate field.[35] Many corporations, particularly corporations with high earnings in the period from 1936 to 1939, will be relatively immune from the excess profits tax imposed by the Second Revenue Act of 1940. On the other hand, corporations with low invested capital and low earnings during this period will be unduly penalized. New corporations, the growth of which it may be desirable to encourage, may also be handicapped.

In the estate tax field we have no such taxes as are imposed by the British. The United States taxes a net estate of $50,000 before exemptions at the effective rate of 0.44%. Great Britain taxes such an estate at the rate of 6%. A United States net estate of $100,000 pays a tax rate of 4.6% as against a British tax of 10.8%. The pendulum does not swing the other way until we reach extremely large estates when, finally, our estate taxes do become larger than the British taxes.

To the extent that they are unsuccessful at avoidance, persons in the upper income brackets pay their share of taxes. The middle and moderately high income groups do not. And the poor pay more than their share, with the result that the need for relief is increased. Such a tax program is fantastically unrealistic. Redistribution of the load is essential both from the standpoint of equity and in terms of economic consequences. Certainly the solution of our unemployment problem depends in large part upon intelligent action in this direction. And a relatively heavier burden of income, estate, and gift taxation in the middle and moderately high brackets may be the only thing that will save our savings.

Space is not available to discuss further deficiencies of our tax system and their more ephemeral remedies. We have given little thought to the whole subject of incentive taxation,[36] and the use of taxation as an instrument of economic control. Much can be said in favor of a flexible rate schedule which would rise along with, but at a faster rate than, the level of productive activity measured by the indexes of the Federal Reserve Board and the Bureau of Labor Statistics.[37] And, finally, Mr. Keynes has suggested to his countrymen an ingenious plan for financing war.[38] Unfortunately Mr. Keynes has called his plan "radical."

[34] It may be that in the upmost brackets our income taxes are at the point of diminishing returns. The answer to this question is elusive; the subject needs more study than has been given to it.

[35] Many advocate the virtual elimination of our impersonal corporate taxes. The elimination of these taxes, except possibly the excess profits tax, may be highly desirable, but so far none of the substitutes offered seems workable. See *Facing the Tax Problem* (New York, Twentieth Century Fund, 1937), pp. 164, 307; Dennison, Filene, Flanders, and Leeds, op. cit., p. 233; Greer, op. cit., pp. 650, 660.

[36] For a detailed discussion of incentive taxation, see Gerhard Colm, "Full Employment Through Tax Policy?," 7 *Social Research* (November, 1940). On November 21, 1938, a Senate finance subcommittee began a series of hearings to explore the idea that business may be induced to employ certain practices beneficial to labor and industry as a whole by giving corporations conforming to such practices some reduction in tax. The hearings were held until the middle of December, 1938.

[37] Greer, op. cit., pp. 650, 657–658. See Gerhard Colm, 21 *Savings Bank Journal* 47 (October, 1940), suggesting that the absence of a flexible tax upon consumption in a period of full mobilization of productive forces is "like driving a high speed motor car equipped only with an old hand brake." See also Dennison, Filene, Flanders, and Leeds, op. cit., p. 9.

The difficulty is that we do not know long in advance when a state of *practically* full employment will be reached. It is probable that expansion may be limited by a lack of facilities or of workers of specific skill at a time when there are still some millions unemployed. Such a limitation may then be removed by the construction of new facilities and the training of skilled workers which will permit further expansion until a new ceiling is reached. Such are the questions leading to the flexible tax policy proposal. See Gerhard Colm, *Fiscal Policy and Recovery* (New York, National Tax Conference, 1940).

[38] John Maynard Keynes, *How to Pay for the War* (New York, Harcourt, Brace and Company, 1940).

Such nomenclature may be enough to condemn the plan in some quarters. As a matter of fact, the plan is not radical in any invidious sense; rather it should be called far-reaching. It is a combination of an income tax and forced loan, or, as Mr. Keynes later termed it, a delayed payment of wages. A contribution, fairly high in relation to total income, is levied. Part of the contribution is regarded as a bank credit to, or loan by, the taxpayer, to be evidenced by securities repayable in installments after the termination of the war. The proportion of the total contribution credited to the taxpayer and repayable to him is in inverse ratio to his income. The higher the income, the lower is the portion credited and repayable.[39] Certainly it is worthy of serious consideration whether such a plan would be adaptable, with modifications, to conditions which may later arise in this country.[40]

Conclusion

It is not easy for those who pay to swallow a heavy dose of increased taxation. Medicine that does good is rarely pleasant to take. But friends of the capitalistic system should not act like protesting children when their most vital interests are at stake. If they refuse to accept the requisite dose of income, estate, and gift taxes, their own interests will suffer more than any other interests. For it is they that have the financial stake in the capitalistic system. If they will not consent to a balanced use of consumption taxes and taxes on savings, it will be their savings, not the savings of those who pay consumption taxes, that will stand in peril of complete disappearance. It is as clear as anything may be in these opaque times that an undue burden of consumption taxes will halt, and perhaps break, our national economy. It will prevent the economy from rising to meet the emergency. The rest of the story will be increased unemployment and the hardship for the many that goes with undue deflation. This is the real threat to the capitalistic system. The part of wisdom in such an emergency is graceful acceptance of the inevitable and an intelligent control over what is only difficult. As an Englishman, who knew America better than many Americans know their country today, observed in another less eventful century, "To yield a little may be prudent, for the tree that cannot bend to the blast may be broken."[41]

The final point may be one of attitude. In taxation there is always a school of thought which cloaks timidity in the garb of further research necessities. Some will urge "finicky limitations" and "doctrinaire formulas" drawn from the general language of the Constitution "as a means of circumscribing the discretion of legislatures in the necessarily empirical process of tapping new revenue or stopping new devices for evasion."[42] But we cannot be Constitutional pedagogues when emergency calls for action; nor can we be too hot for absolute certainties when delays have dangerous ends. At such a time we may do better to call upon our Constitution's larger spirit and true theory, which is experiment.[43] The eventualities of intelligent experiment are unlikely to be as perilous as those inherent in paralysis.

[39] Jerome Frank, Speech before the Army Industrial College, April 8, 1940. See also 21 *Savings Bank Journal* 52 (October, 1940). Mr. Keynes has also urged a capital levy after the war, but this suggestion is independent of the so-called Keynes Plan and should not be considered inherent in that plan.

[40] John Maynard Keynes, "The United States and the Keynes Plan," *New Republic*, Special Section, p. 156 (July 29, 1940).

[41] James Bryce, *The American Commonwealth* (New York, The Macmillan Company, 1910), Vol. 1, p. 274.

[42] Felix Frankfurter, *Law and Politics* (New York, Harcourt, Brace and Company, 1939), p. 78.

[43] Justice Holmes, dissenting in *Abrams v. United States*, 250 U.S. 616, 630 (1919).

September 2, 1941

MEMORANDUM FOR THE SECRETARY

Subject: Changes in the Revenue Bill of 1941 as approved by the Senate Finance Committee over the Bill as passed by the House of Representatives.

HMS

	Revenue change (In millions of dollars)
1. Individual income tax.	+ 332.4
(a) Exemptions reduced from $800 for single person and $2,000 for married person to $750 and $1,500, respectively.	
(b) Rates revised to integrate the defense tax.	
(c) Optional simplified tax schedule provided for persons with gross income of $3,000 or less.	
(d) Privilege of filing on basis of community property eliminated.	
(e) Alimony and separate maintenance payments are to be taxed to the beneficiaries.	
2. Corporation income and excess profits tax	+ 71.8
(a) Rates revised to integrate the defense tax and round the normal tax rates upward.	+ 19.0
(b) Surtax rates increased from 5% on surtax net income not in excess of $25,000 and 6% on surtax net income in excess of $25,000 to 6 and 7%, respectively.	+ 120.5
(c) Special 10% excess profits tax eliminated. (d) The exemption for corporations engaged in mining certain strategic metals which was eliminated by the House is restored.	- 67.7

	Revenue change (In millions of dollars)
3. Capital stock tax.	- 38.4
Allowed annual valuation instead of valuation every three years.	
4. Estate and gift tax.	+ 5.7
Rates revised to integrate the defense tax.	
5. Manufacturers' and retailers' excise taxes.	+ 19.3
Distilled spirits.	+ .7
The rate on brandy is increased to be the same as on other distilled spirits.	
Wines.	+ 9.4
Rates on still wine increased from 8, 24 and 50 cents per gallon to 10, 35 and 65 cents per gallon with corresponding changes in artificially carbonated wines, sparkling wines and liqueurs.	
Sporting goods	- .3
Artificial lures, baits and flies eliminated from base.	
Electrical appliances.	+ 19.2
Base expanded to include gas and oil appliances.	
Photographic apparatus	- .1
Unexposed motion picture film for use in making news reels is exempted.	
Washing machines.	+ 5.0
Base revised to include household type.	

		Revenue change (In millions of dollars)
5. Manufacturers' and retailers' excise taxes (continued)		
Soft drinks.	-	22.6
Tax eliminated.		
Electric light bulbs	+	8.0
10 percent of manufacturers' sale price.		
6. Miscellaneous taxes.	+	65.2
Admissions	+	37.8

(a) Eliminate exemption of less than 10 cents.

(b) Increase rates from 1 cent for each 10 cents to rates graduated from 1 cent if the amount charged is not over 10 cents to 15 percent of the amount charged over 50 cents.

(c) Exemption of admissions to agricultural fairs and to certain concerts conducted by civic or community membership associations eliminated by the House, are restored.

Telephone, telegraph, radio and cable facilities	-	2.3

(a) On telegraph, cable or radio messages a flat tax of 10 percent of the amount charged is substituted for the graduated rates of 5 cents for each 50 cents, where charge is more than 24 cents.

	Revenue change (In millions of dollars)
Telephone, telegraph, radio and cable facilities (continued)	
(b) The rate for certain classes of leased wires (including teletypewriters or talking circuit special service) are increased from 5 to 10 percent.	
(c) Burglar and fire alarm services and news ticker services furnishing general news similar to public press service are exempt from the leased wire tax subject to the 5 percent rate.	
Telephone bill.	+ 43.6
The rate is increased from 5 to 10 percent.	
Bowling alleys and billiard and pool tables.	- .7
The rate is reduced from \$15 to \$10 per annum.	
Coin operated amusement and gambling devices	+ 1.0
(a) The rate on pinball and other similar machines is reduced from \$25 to \$10 per annum.	
(b) The rate on slot machines is increased from \$25 to \$200 per annum.	
Radio broadcasting.	- 12.5
The tax is eliminated.	
Outdoor advertising	- 1.7
The tax is eliminated.	

Total excise and miscellaneous taxes. . .	$+ 84.5	million
Net revenue change.	+ 456.0	"
Revenue under House bill.	3,216.4	"
Revenue under Senate Finance Committee bill.	3,672.4	"

NOTE: It is anticipated that the Committee on conference may act (1) to restore the tax on soft drinks, (2) to restore the special excess profits tax of 10 percent, and (3) to remove the excess profits tax exemption of corporate profits from the mining of certain strategic metals, thus upholding the provisions of the House Bill in these respects.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE September 2, 1941.

TO Secretary Morgenthau

FROM General Counsel

For Your Information

On the morning of August 7, 1941, at your request, this office prepared a summary of Senate action on the President's veto of the National Defense Highway Act of 1941 (S. 1580), a digest of the veto message, and a statement for your use in press conference supporting the veto which had been overridden by the Senate. As you no doubt recall, the House that afternoon narrowly sustained the President's veto.

On August 11, 1941 a substitute bill, S. 1840, bearing the same title,was introduced in the Senate. The new bill has passed the Senate, and on August 18 was referred to the House Committee on Roads, where it is now pending.

The principal objection to the previous bill in the veto message was that the appropriation authorized to correct critical deficiencies in strategic highways could be spent only under the state-apportionment-by-population provisions of the Federal Highway Act. The President had requested $25,000,000 for this strategic highway work to be available without the apportionment restriction. Although the previous bill had increased this amount fivefold, the President felt that necessary flexibility in the use of the moneys could not be had under the restriction.

The new bill authorizes the use of a $25,000,000 sum unrestricted by apportionment requirements and also authorizes a $100,000,000 sum subject to apportionment restrictions. The other objections in the veto message have been substantially met in the new bill.

It is apparent that the Senate in the new bill has attempted to meet the President's objections, while at the same time retaining as much as possible of the pork barrel feature of the vetoed bill.

Attached is a memorandum comparing the provisions of the new bill with those of the vetoed bill in more detail.

S.n.-7L

Memorandum on S. 1840, new defense highway bill designed to meet the objections in the veto message on previous bill, S. 1580.

On August 11, 1941 S. 1840 was introduced in the Senate to substitute for S. 1580, "Defense Highway Act of 1941", which had been vetoed by the President and which veto was narrowly sustained by the House. The new bill bearing the same title and short title (Defense Highway Act of 1941) is designed to obviate the objections of the President to the previous bill as outlined in the veto message. The new bill has passed the Senate and on August 18 was referred to the Committee on Roads in the House.

The President objected to the authorization of $125,000,000 for strategic highway work because of the requirement of apportionment in the use of the funds in a manner delineated by section 21 of the Federal Highway Act. The new bill carries the same authorization but requires apportionment of only $100,000,000 with the remaining $25,000,000 to be expended for the purposes of the bill without the restriction of said section 21. It is to be noted in this respect that the original recommendation of the President was for a $25,000,000 sum. The new bill, therefore, adopts this recommendation but also adopts the sum meeting the approval of the two Houses in their original passage of the previous bill. The new bill provides that these funds shall become available (after appropriation) upon approval in the same manner as is normally followed under the Highway Act (U.S.C., Sup. V, title 23, sec. 21a). The President in his veto message had objected to the procedure provided in the previous bill which permitted the incurring of an obligation of the Federal Treasury without further review by the executive or legislative branches of the Government. This objection would appear to be met by the last-mentioned addition.

The amount provided in the new bill for access roads has been reduced as compared with the previous bill from $150,000,000 to $100,000,000 which latter amount is that which the President had originally recommended.

The section of the previous bill which had authorized the use of portions of the funds for off-street parking facilities, to which the President had expressly objected, has been deleted in the revised bill.

Under the previous bill authorization was given to use not exceeding $25,000,000 to reimburse the several states for emergency repairs made necessary by Army maneuvers. The new bill authorizes reimbursement for such damage without express limit on amount but modifies the procedure to make it conform with that followed in making whole other claimants against the Government. The previous bill had authorized the Commissioner of Public Roads to make reimbursement. Under the revised bill the Commissioner is authorized to determine the amount of the claim and thereafter to certify to Congress for payment out of subsequent appropriations.

The revised bill modified the language of the previous bill as regards the detail of employees as students at technical institutions at the expense of the Federal Government by limiting the number of such detailed employees to ten in any fiscal year. The objection of the President apparently was directed to the unlimited authorization to detail employees as students.

The provision in the previous bill authorizing a recall of retired employees, notwithstanding provisions of the Civil Service Retirement Act and other laws, has been deleted from the revised bill.

In most other respects the language of the revised bill is identical with that of the previous bill. There is one change in phraseology which might be mentioned. In sections 4 and 5 the wording of the revised bill authorizes appropriations during the continuance of the emergency declared by the President on May 27, 1941 for carrying out the purposes of the respective sections. The language of the previous bill appears to me to have been subject to the construction that performance of the functions (development of flight strips and carrying out advance engineering surveys) should be limited to the continuance of the emergency rather than that the authority to appropriate should be so limited. The desirability of this change of phraseology is, I think, obvious. In section 4 of the revised bill, authority is granted for the construction of "flight strips", whereas the previous bill referred to "experimental flight strips". The change is not explained in the Senate committee report.

It would appear that the Senate by this new bill has attempted to meet the objections outlined in the President's veto message, while at the same time retaining the pork barrel features of the previous bill.

EXECUTIVE ORDER

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AMENDING EXECUTIVE ORDER NO. 8771 OF JUNE 6, 1941 ENTITLED, "AUTHORIZING THE UNITED STATES MARITIME COMMISSION TO TAKE OVER CERTAIN FOREIGN MERCHANT VESSELS"

By virtue of and pursuant to the authority vested in me by the act of Congress entitled, "An Act to authorize the acquisition by the United States of title to or the use of domestic or foreign merchant vessels for urgent needs of commerce and national defense, and for other purposes", approved June 6, 1941 (Public Law 101, 77th Congress), Executive Order No. 8771 of June 6, 1941 entitled, "Authorizing the United States Maritime Commission to Take Over Certain Foreign Merchant Vessels" is hereby amended so that the provisions thereof shall be applicable to any or all foreign merchant vessels, including all appurtenances thereto as described in said order, lying idle in waters within the jurisdiction of the United States, including the Philippine Islands and the Canal Zone, at any time after June 6, 1941 and up to and including June 30, 1942.

FRANKLIN D. ROOSEVELT

THE WHITE HOUSE,

September 2, 1941.

Prepared by: Mr. Barnett
Mr. Foy
Mr. Murphy
Mr. Haas

82

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 2, 1941

TO Secretary Morgenthau

FROM Mr. Haas

Subject: Excess Reserves, Credit Controls, and Treasury Financing

SUMMARY

This memorandum is prepared at the request of Mr. Gaston made following a telephone call which he received from Chairman Eccles while you were away. A copy of Mr. Gaston's memorandum to you summarizing his conversation with Chairman Eccles is attached hereto.

Chairman Eccles asks that the Treasury concur with the Reserve Board in raising reserve requirements to the present statutory limits and in requesting from Congress a further increase in such limits. He recognizes that such action will depress the market for Government securities, but believes it necessary in order to combat inflation. He urges therefore, that long-term financing be deferred until after the announcement of such a program in order that both the Treasury and the Reserve Board may be spared any accusation of bad faith.

Excess reserves now amount to about $5.0 billions, a decrease of $1.9 billions since the all-time high reached on October 23, 1940. Barring changes in official policy or the import of substantial amounts of gold from Russia, total reserves appear likely to fluctuate within a narrow range for the next year or so. Any further decrease in excess reserves, therefore, is likely to come only from an increase in required reserves due to continued deposit expansion.

Such transformation of excess reserves into deposits -- at a ratio of about $5 of deposits to $1 of excess reserves -- would be inflationary, rather than deflationary, in its implications.

While the immediate effect of raising reserve requirements is to increase interest rates, its stated objective is to combat inflation. This objective would be achieved in some degree by the mere psychological effect of the increase. In order to be of permanent value as an anti-inflationary measure, however, an increase in reserve requirements must result in squeezing some borrowers out of the market. This would be done by making borrowing more expensive and so causing the Government and the defense industries to compete with other borrowers on a price basis. This naturally leads to the question of whether an increase in interest rates is the best method of squeezing non-essential borrowers out of the market.

A consideration of this question leads to the conclusion that the direct exclusion of non-essential borrowers from the market would be preferable to exclusion by rate competition. Selective credit controls -- such as control of consumer credit, of housing credit, of new capital issues, of stock exchange loans, and of bank loans for non-defense purposes -- appear, therefore, to be superior to the general credit control proposed by Chairman Eccles.

It is consequently suggested that you should not concur in Chairman Eccles' request that you join with the Reserve Board in recommending an increase in reserve requirements. In such a case there seems to be no reason to defer long-term Treasury financing beyond the time when it would otherwise be advisable.

I. Chairman Eccles' Proposal

On August 22, Chairman Eccles called Mr. Gaston to express his hope that the Treasury would offer no long-term securities in September or at any time up to December, but that such new money as might be required in the meantime should be procured by means of Treasury bills. A copy of Mr. Gaston's memorandum to you summarizing his telephone conversation is attached hereto. Mr. Gaston requested us to consult with members of the staff of the Board of Governors concerning Chairman Eccles' proposal and to prepare a memorandum to you.

Chairman Eccles' reasoning is as follows:

The present level of Government bond prices is justified only by the existence of a large volume of excess reserves. It is desirable in the interest of the control of inflation that this volume of excess reserves be reduced sharply. He would like to have the Treasury concur with the Reserve Board in increasing reserve requirements up to the present statutory limits and in asking Congress to increase these limits, thereby giving the Reserve System authority to increase reserve requirements yet further. These actions would probably cause a substantial decline in the bond market. He is particularly concerned about this decline in the case of the two new long-term taxable issues, as he believes that the tax-exempt issues and all short-term issues can take care of themselves. He is very anxious, therefore, that no new long-term taxable issues be put out at the present level of the market. To do so at this time, and shortly thereafter to take the action which he considers necessary with respect to reserve requirements, would, he believes, subject both the Treasury and the Reserve Board to justifiable accusations of bad faith.

Chairman Eccles' views appear to present the following questions:

(1) Is it desirable to increase reserve requirements at this time?

(2) If this is not desirable, should any alternative measures be taken?

(3) If reserve requirements are to be raised, should long-term financing be postponed until such action has been taken or at least recommended to Congress by the Reserve Board and the Treasury?

(4) Could the Treasury finance itself for some months entirely by short-term borrowing, as suggested by Chairman Eccles?

The last two questions present much the easier problems and may be considered first.

Action of the character proposed would be likely to cause a substantial decline in the market. The Treasury would, therefore, be open to a justifiable accusation of bad faith if it should undertake long-term financing while contemplating joining in such a recommendation.

Financing Treasury needs for the next few months exclusively by short-term issues would appear to present no special difficulties, except that most of the securities so sold would go into commercial banks and so would result in increasing bank deposits. Such an increase could be easily justified, however, if it were merely the first step in a program which would result in the long run in the sale of fewer, rather than more, securities to commercial banks.

It would seem, on the other hand, if you do not propose to concur with the Reserve Board in recommending an increase in reserve requirements, that there is no need for postponing long-term financing longer than might be indicated by the other factors in the situation.

The advisability of adopting Chairman Eccles' specific suggestions with respect to current financing operations, therefore, turns upon the broader question of the advisability or inadvisability of concurring with the Reserve Board in their proposal to increase reserve requirements.

II. The Present Situation with Respect to Excess Reserves

Excess reserves amounted, on August 27, to $5.0 billions. This is a decrease of $1.9 billions since the all-time high reached on October 23, 1940. The factors accounting for this decrease are shown in the following table:

Factors Accounting for Decrease in Excess Reserves, October 23, 1940, to August 27, 1941

(In billions of dollars)

Factors absorbing excess reserves:		
Increase in money in circulation	1.7	
Increase in Treasury cash and deposits in the Federal Reserve Banks	.5	
Increase in required reserves	.8	
All other	.4	
		3.4
Factors creating excess reserves:		
Increase in monetary gold stock	1.3	
All other	.2	
		1.5
Decrease in excess reserves		1.9

It will be observed from the above table that total reserves declined during this period by only $1.1 billions -- the remaining $0.8 billions of the decline in excess reserves being caused by an increase in required reserves resulting from deposit expansion during the period.

About $0.7 billions of the decrease in total reserves was caused by an increase in Treasury deposits and other more or less non-recurring factors. The remaining $0.4 billions of the decrease was caused by the excess of the increase in money in circulation over the increase in monetary gold stock. The movements of these two factors are likely to dominate future movements in total reserves for some time to come.

As nearly as can be estimated -- barring changes in official policy, or the import of substantial amounts of gold from Russia -- total reserves appear likely to fluctuate within a relatively narrow range for the next year or so. This means that any further substantial decrease in excess reserves is likely to come only from an increase in required reserves due to continued deposit expansion. Such a decrease in excess reserves would, of course, be inflationary, rather than deflationary, in its implications, as it would mean that some of the previously existing excess reserves had been transformed into deposits — at a ratio of about $5 of deposits to $1 of excess reserves — and had so moved one step further toward the spending stream.

III. Probable Consequences of an Increase in Reserve Requirements

The objective of raising reserve requirements is to assist in preventing inflation. The immediate effect of such an increase would be to reduce the available supply of bank credit and so to make banks less ready to lend and to purchase securities. It might also incline many of them to sell securities already held. This would be especially true as an increase in reserve requirements would hit the New York City banks the hardest and other banks are inclined to follow the lead of the New York City banks in handling their security portfolios. 1/

1/ The following table indicates the distribution by classes of cities of excess reserves on June 25, 1941, and the amounts to which they would be reduced if reserve requirements were increased to the present statutory limits:

	Actual Excess Reserves	Excess Reserves if Requirements Increased to Statutory Limits
	(In millions of dollars)	
Central reserve cities	2,612	1,976
Reserve cities	1,750	1,398
Country banks	869	684
Total	5,231	4,058

The above table makes no allowance for withdrawals of inter-bank balances incident to increasing reserve requirements. The staff of the Board of Governors estimates that such withdrawals would not exceed $75 millions.

(This footnote continued on next page)

An increase in reserve requirements would consequently increase interest rates and put down bond prices. This was agreed to by all members of the staff of the Reserve Board with whom the matter was discussed.

The extent of the increase in interest rates -- and decrease in bond prices -- would depend upon the character of the action taken and is difficult to predict. An increase in requirements to the present statutory limits, coupled with a definite assurance that no further increase was contemplated, might have very little market effect. A contemplated increase in requirements above thepresent statutory limit, however, would be bearish to an indeterminate degree depending upon its impact upon banker psychology. An increase in reserve requirements sufficient to reduce excess reserves below $1 billion could very easily put new long-term borrowing on a 3 percent basis and put down the price of the new taxable 2-1/2's of 1956-58 by as much as 10 points. (This is about the same as the average decline in the prices of long-term Treasury bonds between the high reached in June 1939 and the low after the outbreak of the war.)

An increase in reserve requirements would also put down sharply the prices of all outstanding partially tax-exempt securities. It is true, of course, that such securities, because of their growing scarcity, would have a better chance of staging a recovery than would taxable securities, the supply of which is being constantly increased, but such a recovery might be a matter of years.

If reserve requirements were raised substantially, it would also probably be necessary to start new series of savings bonds at substantially higher rates than those now being offered and to refund into such new series many of the outstanding bonds which would be presented for cash redemption in order to take advantage of the higher rate. It might even be necessary (for reasons of public morale) to make the higher rates retroactive on savings bonds already sold.

(Footnote 1/ continued from preceding page)

If reserve requirements were increased to 25 percent above the present statutory maximum, the excess reserves of central reserve city banks would have been reduced as of June 25 to about $712 millions and the aggregate reserve deficiency of all banks having reserve deficiencies would have been about $600 millions.

Since June 25, the date to which the above figures apply, aggregate excess reserves of all member banks have decreased about $241 millions.

Increasing the cost of borrowing to the Government would not in itself help solve the problem of inflation. It should be considered rather as a disadvantage of the proposed method of attack and should be weighed against its supposed advantages.

The first benefit in the fight against inflation likely to be derived from increasing reserve requirements is psychological. Increasing reserve requirements is a traditional method of combating the inflation incident to business booms and its use at the present juncture would probably be interpreted as a token of sincerity. The announcement of such a policy might tend, therefore, to dampen speculation in the commodity markets.

Such a psychological advantage would be short-lived, however, unless the increase in requirements had more fundamental consequences also. The primary consequence of the increase would be, as we have seen, a stiffening in interest rates. This stiffening would apply to all borrowers -- governmental and non-governmental, essential and non-essential alike. It would be effective in controlling prices, however, only as it actually reduced borrowing and hence spending. <u>In order for the action to be effective, some borrowers would have to be squeezed out of the market</u>. The Government and the defense industries would not be among the borrowers so squeezed out. They would have to pay whatever rate was necessary in order to obtain the requisite credit. This leads naturally to the question of whether an increase in rates is the best method of squeezing non-essential borrowers out of the market. This is the fundamental problem of the relative desirability of general vs. selective credit controls and will be considered in the next section.

IV. Relative Merit of General and Selective Credit Controls in the Present Situation

It is the purpose of all credit controls to reduce borrowing and hence spending, and so to restrain price increases judged to be undesirable. Credit controls may be classified as general and selective.

General credit controls operate by causing an all-around scarcity of lendable funds, thereby putting a general pressure on all borrowers to reduce their borrowings and hence their spendings. General credit controls to be effective <u>must</u> bring about an increase in the rate of interest, since it is through such an increase that general pressure is brought to bear upon borrowers. An increase in member bank reserve requirements is a general credit control. Open market operations (selling Government securities) by the Federal Reserve Banks constitute another.

Selective credit controls operate by wholly or partially shutting out a given class of borrowers from access to the existing supply of lendable funds. In this way, total borrowing -- and hence total spending -- is cut down without any necessity for a rise in the rate of interest. Selective credit controls already in operation consist of some limitation of stock market borrowing (by means of margin requirements) and some limitation of consumer credit. Other selective controls which might be availed of at the present time would be limitation of housing credit, restriction of new capital issues, and restriction of bank loans for other than national defense purposes.

The relative appropriateness of the application of general or selective credit controls to any situation showing evidences of incipient inflation, depends upon the character of the situation. If a more or less uniform contraction of borrowing all along the line is desired, general credit controls are more appropriate. If, on the other hand, it is desired to contract borrowing only in certain fields, selective controls are indicated. It is, of course, by no means barred that the appropriate remedy for some situations might be the application of both general and selective controls of varying degrees of intensity.

The present situation appears to call for the application of special and not general controls. The reasons for this conclusion are simple. The application of general controls would place a pressure (reflected by higher interest rates) upon borrowers all along the line. There are two very important classes of borrowers, however, who will not contract their borrowings a cent under this pressure, nor is it socially desirable that they should. These borrowers are the Federal Government and the national defense industries. Between them they will probably account during the current fiscal year for at least three-quarters of total borrowing, and they will have to pay whatever rate is necessary to secure the needed funds.

The pressure engendered by general credit controls, therefore, can be effective only with respect to the remaining borrowers who together will probably account for not over one-quarter of total borrowing. Even these borrowers furthermore, under present incipient boom conditions, will be very hard to discourage by means of rate increases. The net effect of applying stringent general credit controls at the present time, therefore, would be to increase greatly the cost of borrowing to the Federal Government and to the national defense industries, in order to effect a relatively small contraction in borrowing for other purposes. Mild general credit controls would have a less drastic effect on interest rates, but by the same token, would be even less effective in combating inflation since it is only through the medium of an increase in interest rates that general credit controls are able to effect reductions in borrowing and spending.

Selective credit controls, on the other hand, may be concentrated solely on those areas of the economy where contraction is desired. Borrowing may be wholly or partially blocked out in these areas, thereby increasing the proportion of the total supply of funds available to the Government and the national defense industries. This seems more desirable than tightening credit conditions generally and forcing the Government and other defense borrowers to compete on a price basis for an expanding proportion of a limited supply of credit. The use of selective credit controls might be compared in this respect to the present policy of prohibiting the use of aluminum for pots and pans and so permitting its purchase for national defense purposes at a moderate price. The use of general credit controls could, by the same token, be compared with a policy of out-bidding the pot and pan industry for the available supply of aluminum. Either policy might be made to result in a diversion to defense needs of any given proportion of the total supply of aluminum -- but at very different costs.

V. Conclusions

It appears that selective, rather than general, credit controls should be relied upon for use in the present situation. Such controls will be more effective in checking inflation and may be applied without increasing the cost of borrowing to the Government and the defense industries.

Selective controls are already being applied to stock market loans and to consumer credit. Stock market loans at the present time constitute no problem. If at some time in the future they should give signs of doing so, the existing controls should be tightened as much as necessary. The Reserve Board has just commenced the regulation of consumer credit. The initial regulations are very mild and will have to be tightened very considerably if the volume of such credit is to be substantially reduced.

Other fields in which selective credit controls may be necessary are housing, new capital issues, and bank loans for other than national defense purposes.

Housing credit could be reduced very substantially by the application of selective controls. At the present time the expansion of such credit is being actually promoted by advertising campaigns by the FHA and other agencies.

New capital issues do not present an important problem at the present time, but should be regulated by selective controls when and if they do.

Perhaps the most fruitful and immediate -- as well as the most complex -- field for the operation of selective credit controls is that of non-defense loans by banks. Member bank loans expanded by $2.8 billions during the fiscal year 1941 -- a great deal of which must have been for non-defense purposes. If this expansion is in whole or part undesirable -- a necessary premise for the adoption of general credit controls -- some attempt should be made to get at it directly. The British have attempted to do this and their success in this regard has been an important factor in accounting for the low rate at which they have been able to finance the war. British banks have been instructed to relax their standards for defense borrowers, but to exercise rigid control over all credit for non-defense purposes. As a result, despite the increase in loans for defense purposes, total "Advances" of the London Clearing Banks have declined by about £126 millions since the beginning of the war, and an equal sum has consequently been placed at the disposal of the Government without an increase in bank deposits.

If, as suggested above, you should decide not to concur with the Reserve Board in a recommendation to raise reserve requirements, there would appear to be no necessity to defer long-term financing longer than might be indicated by factors in the situation other than the proposed increase in reserve requirements.

C O P Y

August 22, 1941.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston

Marriner Eccles called me today to say that he was leaving tonight to be gone for three or four weeks and he would like to give us his thoughts on September financing, if there should be any, a subject on which he had not had an opportunity to talk to the Secretary although he had mentioned it briefly to Mr. Bell.

Mr. Eccles hopes there will be no long term securities offered in September or at any time up to December, but that such new money as we may require may be procured by means of bills. His reason was that the market today is based on a large volume of excess reserves. There are few long term taxable bonds outstanding. The two issues out are both selling on a two per cent yield basis. If there should be any new long term financing in September it would naturally be priced at near today's market. This would mean in effect freezing of the present situation. By that he meant that our hands would be tied as to any action to change reserve requirements. We have not yet used the present power to increase reserves, which amounts to about a billion and a quarter. He thinks Federal Reserve should consider with the Treasury an increase in the reserve requirements up to the limit of existing power. Not only should this be done before any new long term securities are issued, but he thinks that the Treasury and the Federal Reserve should join in saying that it seems advisable to get further powers for increasing reserve requirements and that both these things should be done so that the market can absorb their effect before any new long term securities are put out. Otherwise he thinks the Administration, including the Federal Reserve as well as the Treasury, would be open to charges of bad faith.

Copy to:
Mr. D. W. Bell

September 2, 1941

MEMORANDUM FOR THE SECRETARY:

Pursuant to your instructions the attached report on the subject of dismissal compensation has been prepared and is respectfully submitted by an informal committee consisting of Messrs. J. J. O'Connell, Henry Murphy, George Eddy, and Roy Blough.

Roy Blough

for the committee

MEMORANDUM ON DISMISSAL COMPENSATION

Treasury Department

September 2, 1941

MEMORANDUM ON DISMISSAL COMPENSATION

Summary

1. A dismissal compensation or severance wage plan at this time would contribute to serving two needs:

(a) The need to defer expenditure of part of the country's current money income as a partial solution of the inflation problem, and

(b) The need to make provision for maintaining purchasing power in the post-war period when there is danger that many workers in all kinds of industries will be laid off.

2. Investment of dismissal compensation reserves in government securities would furnish the Treasury with funds to meet defense deficits. However, the fiscal problem of the government would be only temporarily improved thereby since when the benefit payments were made, additional revenue or borrowing would be necessary to meet such payments.

3. No dismissal compensation plan now in operation includes the features necessary to be of substantial help in meeting the inflation problem. However, the plan by that name, drawn up by Professors J. Douglas Brown and Everett D. Hawkins, while it has not been tried anywhere, appears to be a reasonably workable proposal.

4. The main features of the plan as modified in this report include:

(a) Collection of payroll taxes during the defense period, totaling 5 percent initially, the tax to be eliminated at the end of the emergency defense period.

(b) The tax to be imposed primarily on employees but also on employers. Specifically, it is suggested that employers pay the tax on the first $10 a week of each employee's wages and that the balance of the tax be deducted from the employee's wages.

(c) Workers covered to comprise those included in the old-age and survivors' insurance system, plus railroad employees, plus Federal Government employees, totaling approximately 50 million workers.

(d) Contributions by employers and employees to be set up in individual reserves for the account of each worker; each worker to get back his entire reserve at the time of dismissal in the post-defense period or subsequently whether or not he has been dismissed.

(e) Each worker's reserves to be available to him in personal emergencies even during the defense period.

(f) Reserves to be invested in accounts like savings accounts kept by the Social Security Board, paying 2½ percent interest, the proceeds to be turned over to the Treasury.

5. At the suggested rate of 5 percent the anticipated collections for calendar 1942 are $2.8 billion. If collections continued at this rate for three years they would total over $8 billion, which amount should have substantial effects both during the period of collection and when redistributed in the post-defense period.

6. In a few days the Social Security Board is expected to make proposals for developing and expanding the social security program. If these proposals are adopted the payroll taxes for social security will increase from 5 percent to 10 percent, in which case a further additional 5 percent rate for dismissal compensation might be too heavy for acceptance at this time. To some extent the Social Security Board's

proposals would accomplish the results sought to be achieved by dismissal compensation. For these reasons it seems highly desirable to work out a full agreement with the Social Security Board. The desirability of discussions with the Board is increased by the fact that under the suggested plan of dismissal compensation the individual reserve accounts would be kept by the Board.

7. Administering dismissal compensation would involve considerable expense but if coverage is limited as suggested there should be no unusually difficult administrative problems.

8. Opposition to dismissal compensation may be expected to be vigorous and to arise from both labor spokesmen and employers. Opponents will probably point out that to a considerable extent the plan involves neither dismissal nor compensation but in large degree provides a form of deferred income or compulsory saving. However, dismissal compensation is likely to be more acceptable, at least to workers, than deferred income or compulsory saving because of the partial employer contributions and because it is related to the hazard of dismissal. Its probable greater acceptability is the principal advantage of dismissal compensation over a plan for deferred income.

9. The danger of inflation is so great that the problem should be attacked on many fronts. A plan of dismissal compensation would not be the whole answer to the inflation problem but it would contribute importantly to its solution. Either dismissal compensation or some other plan similarly withdrawing purchasing power from the wage-earning group (with provision for subsequent reimbursement) should be adopted and put into operation promptly.

MEMORANDUM ON DISMISSAL COMPENSATION

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MEMORANDUM ON DISMISSAL COMPENSATION

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I. Introduction

1. Nature of dismissal compensation

Strictly speaking the terms "dismissal compensation" and "severance wages" connote a type of special payment made by an employer to an employee at the time the latter is permanently laid off, the payment being made in liquidation of the legal and moral rights of the worker to his job. Dismissal compensation plans of this kind are reported to have been used by some 500 employers in the United States and are required in one form or another by the laws of several foreign countries as an alternative to serving notice on employees before discharge. The employer under these arrangements pays the whole compensation. No tax features are involved and reserves may or may not be kept. Legislation requiring this kind of dismissal compensation would operate to strenghthen workers' job rights and increase economic security, but would have little if any fiscal significance or effect on inflation.

The name "dismissal compensation" has been applied also to a quite different plan developed by Professors J.Douglas Brown and Everett D. Hawkins. This plan, with suggested modifications, involves the following principal features:

(a) The plan would cover all those covered by the present old-age and survivors' insurance and railroad retirement systems, and Federal employees other than those in the armed forces. Approximately 50 million persons would be involved.

(b) A Federal payroll tax (suggested as 5 percent of payrolls) would be collected during the period of the defense emergency, part to be paid by the employers and part to be deducted from wages.

(c) After the end of the defense emergency period, an employee who was permanently laid off or discharged without cause would receive (with interest) the amounts collected both from his wages and from his employer with respect to his employment.

(d) For a person not laid off after the end of the defense emergency, the amounts collected (with interest) with respect to his employment would eventually be paid to him, the payment to take place perhaps after large-scale dismissals had ended (or perhaps before that time.)

The present memorandum is concerned with this plan and possible variations of it. Several points should be noted in connection with the plan:

(a) The plan involves large-scale tax collections during the emergency period, amounting to possibly $2.5 billions a year, and large-scale benefit payments thereafter. It thus has important fiscal significance.

(b) To the extent that the collections are from employers, the benefit payments are correctly referred to as compensation. To the extent that collections are deducted from employees' wages, the benefit payments are not compensation but rather deferred wages, and constitute a type of compulsory saving.

(c) The plan has no insurance elements. Every worker would receive the tax collections (plus interest) with respect to his employment whether they were large or small and no one would receive more than that.

(d) The benefit payments would be closely related to dismissal only during the immediate post-defense period. Eventually every worker with respect to whose employment taxes were paid would receive the benefit payments whether or not he was dismissed.

(e) The plan would not be limited to defense industries. In an earlier proposal, Professor Brown suggested that the plan apply to defense industries, but this was later seen to be impractical (since employment in defense industry is impossible of workable distinction from other related employment) and inadequate (since large-scale dismissals are anticipated in other than defense industries.)

(f) The reserve funds would presumably be borrowed by the Treasury in the same manner as social security funds. When disbursements took place, other sources of revenue or additional borrowing would be required.

2. Distinction from unemployment insurance and forced savings.

Dismissal compensation differs in important respects from other plans proposed to achieve the same or similar objectives.

(a) Distinction from unemployment insurance.

Dismissal compensation resembles unemployment insurance in that both are compulsory plans involving the collection of taxes with respect to employment, both involve benefit payments to workers, and benefit payments under both are brought into operation by the loss of employment. There are, however, very important differences. The duration of payment of unemployment insurance depends on the worker remaining unemployed; dismissal compensation is paid when he is permanently laid off regardless of whether he continues to be unemployed or not. Unemployment insurance is operated on the insurance principle, that is, some workers may never receive any benefit payments because they are never unemployed, while others may receive many times the amounts of taxes collected with respect to their employment; dismissal compensation does not operate on the insurance principle and every worker eventually gets back all of the taxes paid with respect to his employment. Minor differences are that unemployment insurance payments are made in a series of weekly payments over the period of unemployment while dismissal compensation possibly would be paid in a lump sum. For the most part unemployment insurance taxes are borne by the employer; under the dismissal compensation plan as large a share as was feasible would be collected as a deduction from the wages of the worker. Unemployment insurance is a permanent plan while dismissal compensation would be imposed to meet the needs of a particular period of time, namely the period of defense emergency when the danger is inflation and the immediate post-defense period when the danger is depression and personal hardship. The benefit payments under old-age, survivors, and proposed disability insurances are dependent not on dismissal or even unemployment but on retirement, death of wage earner, or physical disability respectively. The fiscal effects are, however, somewhat more similar to those of dismissal compensation than this would suggest, since the benefit payments under these types of insurance would be greater during depression periods than during prosperity periods. For example, retirements are much higher when persons over age 65 are unable to find work.

(b) Distinction from forced savings.

As previously indicated, dismissal compensation involves forced saving insofar as a portion of the worker's wage is withheld during the defense emergency period and is paid to him after the end of the period. It differs, however, from forced saving in several respects:

(1) Under forced saving there would be no employer contribution such as is contemplated under dismissal compensation;

(2) Under forced saving the timing of the repayment would have nothing to do with dismissal, which might be of importance fiscally since dismissals would in general indicate or forecast the depression while the repayment of forced savings might be made at a time when they would cause an inflationary boom;

(3) Under forced saving the deductions would probably be made from interest, rents and other payments besides wages; under dismissal compensation taxes would not be imposed on such payments since the problem of "dismissal" does not arise with respect to stockholders, bondholders, real estate owners and other suppliers of capital in the same sense at least as it does for wage earners.

II. Critique of dismissal compensation

1. Usefulness for inflation control

Although dismissal compensation was conceived and developed as a form of protection and security to workers, its principal significance as a plan of compulsory and general application during this period is in connection with its possible value as a method of restraining or controlling inflationary price movements.

The national defense program is creating a dangerour price situation. Fuller employment and higher wage rates are expanding consumer incomes. At the same time, increasing proportions of the nation's productive efforts are being concentrated on the production of defense commodities. The production of civilian commodities is increasing less rapidly and in some areas is being curtailed. In consequence, consumer demand for civilian goods is rapidly outrunning the supply. Prices are rising and positive steps are re-required to interrupt the inflationary tendencies.

As part of a concerted attack on this problem, means must be found for reducing or temporarily withholding the income which otherwise is available to consumers for expenditure on civilian goods and services.

The amount of reduction in purchasing power which must be effected in the interest of the price situation cannot be stated in precise terms. Moreover, it will vary as the defense program progresses. There is no doubt, however, that even under conditions prevailing today, the curtailment of consumer purchasing power must be of an annual magnitude of several billion dollars, if it is to help appreciably in retarding price inflation. Likewise, there is no doubt that much of its burden must fall on those deriving their income primarily from wages - the laboring population with relatively low incomes. The bulk of consumer purchasing power is in their hands.

The Federal tax program and the defense savings program are in part directed to these ends. The tax program diminishes the supply of purchasing power currently in the hands of consumers and the savings program not only diminishes the immediate supply of purchasing power but at the same time provides a reservoir of purchasing power to be used at some time in the future.

The tax program and the savings program, however, are not sufficient. They fail to take sufficient quantities of purchasing power away from those in the low income groups. The bulk of the national income and large portions of the increased income resulting from the defense program are concentrated in the low income groups - those who save little and pay no direct taxes to the Federal Government, but represent the bulk of the population. The supply of purchasing power in the hands of consumers cannot be effectively curtailed until the purchasing power of the low income groups is curtailed.

The present price situation appears to call for some type of a plan by which an appreciable deduction from workers' wages can be made. Such a plan would not be the whole answer to the inflation problem, but the same may be said of each of the other proposed remedies taken by itself. The problem of inflation must be attacked on all fronts if it is to be successfully solved.

Any proposal for a tax deducted at the source extending down to the lowest paid class of workers probably ought to be accompanied by some proposal for the repayment of these deductions in the future. There are three reasons for this conclusion: (1) Such a promise is probably psychologically necessary in order to secure the enactment of the tax at all; (2) the earnings of the lowest paid classes of workers do not constitute a suitable tax base under normal conditions, so that a tax levied on them during an emergency period might very well be refunded for equitable reasons alone; and (3) the refunding of the tax will contribute substantially both to the solution of important social problems and the problems of individual workers at the close of the armament boom.

Any tax levied upon employees must probably be accompanied by a tax upon employers in order to make it psychologically acceptable. A tax upon employers presents special difficulties, however, and would not be nearly as effective dollar-for-dollar in combating inflation as a tax on employees. The tax on employees, therefore, should be made as large relative to the tax upon employers as is practicable.

The extent to which an employer tax would reduce the amount of purchasing power available for consumer's goods would depend upon its incidence. Part of the tax would indirectly fall on the Federal Government since it would reduce liability for income and profits taxes. If the balance of the tax were absorbed entirely by the employers, without forward shifting through increased prices or backward shifting through reduced wages, the reduction in consumer's purchasing power and especially in consumer's expenditures would not be appreciable.

If the tax on employers were shifted forward through price increases, it would affect purchasing power in the same manner as inflation. In the case of producers working on cost-plus-fixed-fee defense contracts, the tax would probably be shifted forward to the government. The tax would be passed forward through higher prices in areas where a scarcity of commodities has developed or where monopolistic conditions tend to prevail.

If the tax were shifted back through lower wages the effect on purchasing power would be the same as in the case of a direct tax on employees. The tax would tend to be shifted back to labor in areas where labor was ineffectively organized and no labor scarcity has developed. This would also tend to be the indirect effect in cases where the payment of the tax by the employer served as an effective argument against demands for wage increases.

A tax collected from employees would have more direct effects. Such a tax would be deducted from the earnings of the employees and would reduce their immediate purchasing power. The net effect on purchasing power, however, might be less than the full amount of the tax in that the pressure for wage increases might be greater and more extensive use might be made of consumer credit facilities.

Although taxes based on wages but assessed against employers would indirectly effect some reduction in purchasing power, they are distinctly inferior to employee taxes from the point of view of the inflation problem. For that reason the relative importance of employee taxes should be kept at a maximum.

The relative merits of taxes for dismissal compensation, forced saving and social insurance in restraining inflation depend in part on the methods of imposing the taxes. Social insurance taxes would probably fall on both employers and employees, as would taxes for dismissal compensation. Since the coverage would be substantially the same, the relative effect would depend largely on the relative proportions coming from employer and employee. Taxes for forced saving, however, would fall entirely on the worker and not at all on the employer (in his capacity as an employer). Moreover they could be extended to include all kinds of income payments and thus reach a wider area. Accordingly forced saving would appear to be the most effective of the three for inflation control.

2. Effects on post-defense deflation

The tax collections for dismissal compensation would cease upon the conclusion of the emergency defense period, as designated by Presidential proclamation or in some other suitable manner. The restraint on inflation would thereupon cease, as it should, assuming that the proclamation coincided with the beginning of the readjustment period. Furthermore, as dismissals from defense and other industries took place the benefit payments would start on a large scale. These payments would help to maintain purchasing power at a time when the decline in employment was reducing it. The effect would thus be to soften the impact of the depression and maintain a higher level of business than would otherwise prevail.

The timing of tax elimination and benefit payments might not be as perfect as the above paragraph would indicate. A boom might conceivably follow the end of the defense period, as it did in 1919 and if the end of the emergency was declared at that time, taxes might be eliminated and benefit payments begun at a time when inflation control was still necessary. Dismissals in defense industries might be followed by new jobs elsewhere during the boom, so that the plan could work out quite opposite to the intention. If the payments made later to all workers who had not been dismissed were substantial in amount and came during a boom period they might accentuate the boom. Perhaps a more likely situation would be one where it was desirable to pay the benefit payments to all workers just before the downswing of business, which would require abandoning dismissal as the test of benefit payment.

Although dismissal compensation might thus not contribute effectively to ameliorating the post-defense deflation and depression, the probabilities are greatly in favor of its being effective.

Forced saving could also be made effective during the post-defense period, but substantial administrative discretion would be required in determining when the tax should be dropped and the savings made available to the taxed savers.

Unemployment insurance benefit payments would be effective in maintaining purchasing power in the post-defense period since payments would be closely related to unemployment. The other social insurances such as old-age insurance and the projected disability insurance would be less effective since while the increase in benefit payments during depression periods would be substantial it would not be as great as in the other methods. Furthermore, the social insurance tax rates would presumably remain at high levels during the depression period thus maintaining the deflationary effects in a period when the desire was to overcome deflation rather than to restrain inflation.

3. Ability to meet needs of workers

The deductions from wages to meet dismissal compensation would constitute relatively little burden for those families with increased wage and salary incomes during the defense emergency period, but families which had no additions to income might find the burden a grievous one, especially as costs of living increased. This burden, however, would be felt under any other plan which took taxes out of this income level, as in the case of increased social security taxes. Compulsory saving might be adjusted by exempting the very lowest income, thus to some extent avoiding the hardship.

Some provision would undoubtedly be made in dismissal compensation for making the tax funds available to families passing through some acute need for funds, even during the defense emergency period. Similar provision could be made in the case of compulsory savings. A provision of this kind would not be in harmony with unemployment insurance or old-age and survivors' insurance, or even with disability insurance, except to the extent that acute family needs for funds would in many cases arise out of situations under which benefits would be paid by these insurances.

During the period when dismissal compensation benefits were being paid at dismissal, many family needs would be met through the benefits. Cash, for example, would be available to move the family to a job in a different city. Unemployment insurance would be supplemented. Per dollar of benefit payments, however, the needs met would not be as great as in the case of unemployment insurance since many people would receive benefits who were not in any particular need, especially in the case of the benefit payments made to persons who were not dismissed.

4. Relation of dismissal compensation to the legislative program of the Social Security Board

The steps that might be taken to reduce the purchasing power in the hands of the working population through the dismissal compensation plan are in part affected by the Social Security Board's legislative program for the current year. A draft memorandum, with a letter from the Chairman dated August 22, 1941, has been received from the Social Security Board, which recommends drastic changes in the Social Security program. It is understood that the memorandum is intended to be presented to the President shortly after Labor Day.

The Social Security Board is proposing that the present payroll taxes totaling 5 percent, which are scheduled to increase to 7 percent in January 1943, be advanced to 8 percent in January 1942. The Board also suggests that an additional 2 percent contribution be levied on workers while the defense program is carried out. The net effect of these rate changes would be to increase the payroll taxes from 5 percent (4 percent on employer and 1 percent on employee) to 10 percent (5 percent on employer and 5 percent on employee).

The Social Security Board's proposal contemplates the establishment of a single national social insurance system. The scope of Federal old-age and survivor's protection and the unemployment insurance system would be expanded and combined. Federal aid to the States for public assistance purposes would be increased and liberalized.

With respect to old-age and survivor's insurance, the Board is recommending:

(a) The extension of payroll taxation and coverage to farmers, agricultural labor, domestic service workers, employees in non-profit institutions, government employees, business men and non-covered groups;

(b) The broadening of the insurance program to include cash benefits for unemployment due to temporary disability and permanent disability and cash hospital benefits.

With respect to unemployment insurance, the Board is recommending:

(a) The liberalization of benefits with a view to improving the protection afforded those who under existing laws are disqualified from benefits after a few weeks and to those whose protection is now inadequate;

(b) The extension of payroll taxation and coverage to all wage workers;

(c) The conversion of the present Federal-State unemployment insurance system to a straight Federal system.

The Board is recommending the consolidation of all social security programs into one national security system to provide for a more uniform program, including the collection of one social security contribution in lieu of the present separate taxes. In this connection, it is also recommending that the collection of taxes and the administration of benefits be placed under one agency.

The Board estimates that if all of its recommendations, including broadened coverage and higher tax rates for the entire social security system, are adopted, total payroll tax collections during the four-year period 1942-1945 (including those under present law) will amount to $12 billion.

The Board's proposals, like a system of dismissal compensation, would affect income from wages and would apply primarily to the working population. Moreover, the adoption of either plan would automatically reduce the likelihood of the enactment of the other unless a compromise were worked out between the two.

5. Equity

Although the objectives sought through dismissal compensation are of such importance that some deficiency in equity can be justified, it is important that equity be promoted to the greatest possible extent. The suggested dismissal compensation plan does not appear to contain serious inequities among workers. The covered groups would be required to make temporary sacrifices not imposed on others. An offsetting consideration, however, is that these groups would receive the contributions of the employer. The payment of interest on the funds is not a significant point since even voluntary savers would receive the interest.

The maintenance of the equity to employees requires, however, that the purchasing power of the funds when they are actually paid shall not be substantially lower than at the time the tax was imposed. Otherwise the groups which were not subject to the dismissal compensation plan would have an advantage in the higher purchasing power of their money.

Employers who were deriving no benefit from defense and were struggling to maintain the solvency of their businesses despite the impact of priorities, the destruction of foreign trade and other factors would be hit unusually hard by the part of the tax applying to the employer. Some may in fact be driven out of business.

The forced saving plan might be more widely spread and might be more adequately cushioned with exemptions and other special features to reduce to a minimum the hardship and inequities caused by the levy. The social insurances would be subject to the same criticisms as dismissal compensation, perhaps to an even greater degree.

6. Constitutional problems

No study of possible constitutional difficulties has been made in preparing this memorandum. It is suggested that dismissal compensation is not likely to be held unconstitutional, but that since the insurance principle is not applied the Supreme Court decisions on social insurance may not necessarily apply. Forced savings would be subject to greater doubt in this connection than dismissal compensation, since there is no direct relation of forced savings to the protection of the working population.

7. Administrative problems

A number of administrative difficulties would undoubtedly be met in a system of dismissal compensation. The collection of the tax should involve no new problems, since the bases are the same as those employed in existing taxes and deductions, except as the division of the tax between employer and employee was not uniform for all employers, as suggested in the discussion of the detailed provisions of the plan.

Keeping the reserve accounts should likewise present no new problems although the magnitude of the task would add greatly to the number of employees required to keep the present social security accounts.

The provisions for payment to workers who have personal financial emergencies during the defense period would involve problems of checking and investigation. This would require a staff the magnitude of which would depend on the number of applications for payment.

In the post-defense period, certifications by employers could be the basis for the payment of benefits. Since all employees would eventually receive their reserves, incorrect certifications, although undesirable, would be much less harmful than if such were not the case.

The final distribution to all employees with reserves not used up by dismissal should involve no unusual difficulties. In all aspects of the plan, however, it should be clearly recognized that the keeping of individual accounts for some 50 million people would be a matter of substantial expense.

8. Problems of public acceptance

At the present time there appears to be no considerable sentiment in favor of dismissal compensation. Mr. William Green, President of the American Federation of Labor, testifying before the Tolan Committee on Defense Migration, recommended the study of a supplementary system of contributory dismissal wages in defense employments to overcome disadvantages of the temporary nature of such employment. This proposal would appear to have little in common with the one described in this memorandum.

It is not known what attitude labor organizations would take towards a dismissal compensation plan, but it may be expected to be hostile. The publications of the C.I.O. appear not yet to recognize the dangers of inflation, expressing the belief that sufficient increases in goods can readily be effected. Furthermore, labor organizations may be expected to insist on all or a major share being borne by employers, while as previously indicated the inflationary problem makes it desirable to place the bulk of the tax on the workers. Employers, on the other hand, would object vigorously to increased payroll taxes.

If the plan is to be made acceptable it might be feasible to start from the benefits side. Members of labor organizations as well as other people are not likely to be impressed much with the importance of paying part of their own wages to prevent inflation even though they may give intellectual assent to the danger of inflation. Strong emphasis on the advantages of having the additional purchasing power at the end of the defense period might be persuasive.

The attitude towards compulsory savings seems entirely hostile where the matter has been considered at all, except among academic circles. It may be questioned whether compulsory savings would have any chance of acceptance unless and until it became apparent that the only alternative was to impose the tax with no repayment whatever.

Dismissal compensation should thus have a less difficult job of being publicly accepted than forced savings, although the task in either case appears formidable.

Social security expansion might have a somewhat easier time in securing public acceptance. The Board is suggesting extension of benefits to include disability. The hazard of disability is one of the very great fears of laboring people. They might be willing to accept substantially increased tax burdens if protection against this hazard were to be provided. Increased unemployment insurance would probably bring insistence on financing by the employer after the fashion of the present unemployment insurance plan in the bulk of the States.

9. Financing benefit payments

As soon as collections for the dismissal compensation reserves are stopped the plan will result in net cash expenditures. Nominally the outpayments will comprise merely a change in the form (but not amount) of the public debt, but the Treasury will have to raise cash nevertheless. The problem of securing cash for dismissal compensation may be complicated by possible simultaneous large-scale redemptions of savings bonds, withdrawals from the social security reserves, discharge allowances to the armed services, a public works program, and other expenditures.

III. Provisions of a dismissal compensation plan

1. The Hawkins Plan

A program of compulsory dismissal compensation has been worked out by Professor Everett D. Hawkins of Mt. Holyoke College, under the supervision of Professor J. Douglas Brown of Princeton University, who have studied the problem for a number of years. Their program may be summarized as follows:

(a) Coverage at least as broad as the present Old-Age and Survivors Insurance and Railroad Retirement Systems, with voluntary participation in the plan open to everyone.

(b) A special discharge allowance for men in the armed forces.

(c) Contributions at the rate of 5 percent of payrolls by employees and an additional 5 percent by employers. Both contributions are limited to the first $3,000 of each individual's yearly earnings.

(d) Alternative plans are presented for handling the reserve funds, though the differences are superficial. One uses Social Security accounts, the other defense compensation stamps and bonds.

(e) Each individual's funds to be withdrawable at any time for personal emergencies.

(f) Contributions to cease at the close of the defense program.

(g) For one year thereafter, an employee permanently discharged to obtain as much of the reserve accumulated in his account as he desires.

(h) After one year following the close of the defense program employees to obtain all of their reserves at will.

This Hawkins program, with a few modifications, seems to be as serviceable a plan for dismissal compensation as we can devise. The only important change which we would recommend is in the rate of contribution. A full 5 percent of payrolls levied upon employers (in addition to 5 percent of payrolls levied upon employees) seems unfair to employers. Other minor changes recommended are the coverage of Federal Government employees and a somewhat more flexible, discretionary plan for releasing funds after the war. The payment to men discharged from the armed forces is not taken up in this paper, as their pay seems too low to warrant compulsory contributions, and the Government should not be made to set aside reserves now for postwar payments.

The following sections discuss the reasons for adopting each of the major features of the recommended program.

2. Coverage

Factors to be considered in planning the coverage of the proposed dismissal compensation plan include the following:

(a) Protection for as many people as possible who are in danger of being dismissed after the armaments boom.

(b) Release of funds after the boom in as large volume as feasible, in order to forestall a general business depression.

(c) Inclusion of a sufficient number to accumulate a reserve big enough to constitute a substantial but equitable sterilization of purchasing power.

(d) Exclusion of classes of individuals whose coverage would lead to too many abuses and create excessive administrative difficulties.

(e) Desire to regulate use of individuals' and business' income to the smallest degree consistent with dealing with the inflation problem successfully.

Although the suggestion is supervicially plausible, upon closer study it seems wrong to attempt to limit the plan to employees in defense production. Some plants are wholly on defense work, but a great deal of the production going into armaments is inseparably mixed with other production. Furthermore, a post-defense depression would no doubt affect civilian industry to a considerable extent. Persons who lose jobs in civilian production would seem to require as much protection as those in defense plants. In addition to these social considerations, the purpose to defer consumer expenditure calls for as broad coverage as possible. Accordingly, all groups within the limits of the fourth and fifth points cited above should be included.

The widest practical coverage seems to be those now included in the Old-Age and Survivors Insurance benefits, plus individuals covered by Railroad Retirement benefits, plus employees of the Federal Government. All these groups are already covered by some formal plan involving payroll collections and benefits. The problems of extending the coverage should not be imposed on a dismissal compensation program, which will have a hard enough time winning support. However, as soon as other classes are brought into the Old-Age and Survivors system, they should also be included in the dismissal compensation plan.

The principal classes excluded at least temporarily from the above recommendation are:

(a) domestic servants,
(b) agricultural employees,
(c) the self-employed,
(d) employees of State and local governments, and
(e) those receiving income other than wages and salaries.

Among the reasons for the exclusion of these classes are the following:

(a) The difficulties of determining domestic servants' wages (both cash and the value of other income) and of enforcing contributions under the dismissal compensation plan by either employers or employees appear to be excessive. Treasury officials who have studied the problem with a view to extending present Social Security benefits predict that a very high percentage of evasion would occur.

(b) The same factors which favor the exclusion of domestic servants apply to the case of agricultural employees. Furthermore, a considerable proportion of agricultural employees are normally transients or move from farm to farm in one locality. "Dismissals" are so frequent that sizeable reserves could not be built up.

(c) The self-employed, believed to number 11 or 12 million, two-thirds of whom are farmers and the remainder proprietors and professionals, are essentially employers rather than employees. Consequently, the contributions levied upon both employers and employees would have to be paid by the same persons for their own account. Their possible "dismissal" by themselves would be paradoxical. The problem of enforcement would also be difficult.

(d) Constitutional objections would be raised against requiring employees of State and local governments to contribute. Still stronger objections would be raised against requiring employer contributions from State and local governments.

(e) No vestige of a dismissal is possible in the case of stockholders, bondholders, landlords, patent owners, etc. It would seem an excessive stretching of the meaning of the term to require deductions from income from these sources on the grounds that it was to provide dismissal compensation. The question should be considered, however, whether the accumulation of reserves of purchasing power should be required only of those who receive wages and salaries, who can be dismissed, rather than of those receiving income of all kinds.

The Hawkins plan recommends that facilities be arranged to permit accumulation of reserves by those excluded from the compulsory plan on the same basis as those covered. However, a 2½ percent savings account with severe limitations on withdrawal has no advantages over the purchase of Savings Bonds. There seems little point in making voluntary participation in the plan possible so long as Savings Bonds are on sale at present terms.

3. Type of benefit payments

With respect to employees the purpose of dismissal compensation is similar to the purpose of unemployment insurance. Both essentially are to protect employees against unemployment. Dismissal compensation is a lump-sum payment paid at once upon being discharged for no fault of the worker (though it is sometimes paid in instalments), regardless of when the employee finds another job. In the present plan, even those who are not discharged will sooner or later receive the same pro rata payments as those who are discharged. This feature is discussed below. Unemployment insurance payments, on the other hand, begin after a waiting period, continue in weekly amounts while the worker remains both out of work and willing to work, and stop when the worker gets another job or exhausts the payments allowed, which is 16 weeks at the most and less in a good many cases.

So far as economically meeting post-war needs of discharged workers is concerned, the unemployment insurance type of payment seems more suitable than dismissal compensation. Payments would not be made to those who obtain other jobs right away or to those who are not discharged. At the same time, larger aggregate payments would be made to those who are out of work for many weeks.

One of the most important questions to be decided in formulating a dismissal compensation plan that will be helpful to this country under present circumstances is the structure of the reserves to be accumulated. The choice lies between a single pooled reserve intended to pay dismissal compensation only to those who are discharged after the emergency, on the one hand, and, on the other, reserves for each covered individual which will be available to that individual at some time whether he is discharged or not.

The number of persons who will be discharged after the emergency cannot be predicted with any reliability. The period of their unemployment before obtaining new jobs is equally uncertain. Neither the length of the present armament boom nor the country's success in preventing a post-war depression can be more than guessed at. The impossibility of estimating the exact need, however, may not be a major consideration.

Assuming the serviceability of some intelligent estimate of the number that will be dismissed, a much smaller total reserve will, of course, be required to pay dismissal compensation of any given size only to those dismissed rather than to accumulate savings of equal size for all individuals covered by the plan. The larger the aggregate reserve to be accumulated, the greater the contribution of the proposal to the problem of preventing inflation.

If dismissal compensation is limited to those who are discharged, many workers--probably a majority--will pay contributions (assuming that some contributions are obtained from employees) who will not receive dismissal compensation. Their contributions will be paid to other workers. It seems bad public policy to tax all workers, including many in poorly paid jobs, in which there may be little danger of dismissal and still less chance of receiving an increase in income as a result of the defense effort. Some of the proceeds of such taxes would be transferred to those who have received the much higher average incomes in defense industries and who may or may not be out of work for long after war orders drop.

Perhaps a still greater objection to lump-sum payments on an insurance reserve basis, paid exclusively to those who are discharged, lies in the abuses such a system would be subject to. There would be a strong incentive to workers to be discharged and to employers to discharge their employees. Workers would want their employers to discharge them in order to obtain these payments, particularly if they were hopeful that they could obtain another job or perhaps even the same job. Existing compensation plans have not been subject to this danger because payment came out of employers' own pockets. There would be no restraint in obtaining payments for workers out of a Government reserve. Many employers would be eager to obtain payments for their employees by collusive dismissals.

In order to avoid transfers from one worker to another, and in order to secure the accumulation of a larger aggregate reserve during the present boom, only the form of dismissal compensation recommended above, i.e., individual reserves for each worker which he will obtain sooner or later regardless of whether or not he is discharged, can be recommended.

4. <u>Time and occasion for disbursement</u>

To some extent, the employee welfare aspects of the proposal are in conflict with the deferment-of-income aspects. Provision of maximum protection of the employee would allow his reserve to be drawn upon more or less whenever desired. Dismissal during the emergency boom, unemployment, removal to a different location, sickness, and other personal emergencies at any time after the inception of the plan would all call for the release of the individual's reserve. Expenditure of reserves, during the defense period, however, runs counter to the effort to prevent inflation.

It is recommended that the occasions upon which an individual's reserve may be drawn upon should be narrowly limited during the defense period. A list of the detailed conditions upon which reserves would be released while contributions are still required should be drawn up in consultation with specialists in the administrative problems of social security.

Whether individuals' reserves should be made available for expenditure swiftly or slowly after the emergency period is past depends upon the economic circumstances of that period. These cannot be predicted with any certainty. Consequently, some flexibility of control of the release of the reserves should be provided.

At the end of the last war prices continued upward for 20 months after the Armistice. It would obviously be undesirable to add the purchasing power of all the accumulated reserves to a volume of expenditure that was already excessive. On the other hand, employees would object to having their reserves bound up too rigidly. After the war emergency, individuals needing their reserve funds should be given access to them upon easier conditions than during the defense period regardless of the general economic situation. All restrictions should be removed when increased consumer buying in general is economically desirable. It may turn out that all reserves be released even before dismissals become general, in order to try to nip the depression in the bud.

5. <u>Handling the reserves</u>

The reserve to be accumulated under the proposed dismissal compensation plan is not intended to be a medium of long-term saving. Rather it is intended to conform in time to the period of the armament boom and the beginning of a period when increased consumer expenditures are desirable for general economic reasons. These considerations seem to make present defense savings bonds an inappropriate medium for investment of the individual reserves. Savings bonds do not mature for 10 years, which may be longer or shorter than the life of the dismissal compensation reserves, and they bear very low rates of interest if redeemed within a few years. The investment, furthermore, of odd amounts of contributions would cause much inconvenience and expense for the issue of stamps and bonds to each individual.

It therefore seems advisable that dismissal compensation reserves be run in a manner similar to savings bank accounts. Individuals covered by the plan would receive passbooks in which contributions and deductions would be entered. Master accounts would be kept by the Social Security Board. Interest could be computed on a flat percentage basis. Release of funds could be handled through the same channels by which savings bonds are redeemed.

An interest rate of 2½ percent, the same as now paid on the Social Security trust funds and Series F and G savings bonds, seems appropriate.

6. Employer vs. employee contributions

Dismissal compensation, in the voluntary schemes existing in this country and in the few compulsory schemes in foreign countries, has been paid by employers. The principal exceptions have been the voluntary dismissal compensation plans organized, collected, and paid by trade unions. The following considerations, however, militate against collecting contributions exclusively from employers:

(a) Payments into the dismissal compensation reserve will constitute a business expense and will reduce profits subject to income and excess-profits taxes.

(b) A business tax levied on the basis of payrolls is less equitable than other business taxes. It affects unequally employers using different proportions of labor and paying different rates of wages. A substantial additional tax levied on the basis of payrolls would no doubt cause many firms to retire from business.

(c) To curb inflation, part of the mass of income received by those below or at the bottom fringe of the income tax brackets must be syphoned off at least temporarily.

(d) If the burden of paying for a large dismissal compensation reserve can equitably and financially be placed on employers, it seems preferable to make this collection an outright tax without providing for its repayment by the government to employees. The repayment feature seems appropriate principally as a means of making employee contributions acceptable to employees. Business and individual income taxes should be as high as may justly be required. Resort to a device such as dismissal compensation reserves becomes necessary when some method must be found of obtaining considerably larger transfers of purchasing power from those with low incomes. Rather than a heavy non-repayable tax on those whose incomes are below socially desirable minima, it seems preferable to devise a plan whereby they will suffer only temporary deductions from their income, all deductions to be repaid with interest when goods may be supplied to consumers in greater abundance.

(e) The increase in labor costs of production occasioned by employer contributions would in many cases lead to higher prices. The unit price of many defense contracts would no doubt be raised. The cost of the employer contributions in those instances would therefore fall back upon the Government. In the case of civilian goods, higher prices would contribute to the price rise already in progress, thereby aggravating the inflation problem.

(f) Levying the cost of dismissal compensation solely upon employers would amount to an increase in wages and salaries obtained by

> direct Government insistence. Such a policy would be interpreted by some as an encouragement to labor to demand still higher wages on their own account and as an additional indication that the Government is hostile to employers and business in general. The wage increase, furthermore, would be smallest in the low-wage brackets and highest in the wage brackets which are already excessive.

Despite these reasons against requiring contributions by employers, it seems necessary to require such contributions at least on a small scale. This is in order to justify the title, dismissal compensation, as ordinarily understood to comprise contributions by employers, and in order also to make the plan more acceptable to employees. Employers' contributions should be kept as low as possible. A number of arrangements may be devised to provide diplomatically for a combination of modest employer contributions and substantial employee contributions. It is doubted that an airtight argument can be found for any particular arrangement. The following, however, seems a generally satisfactory compromise:

> Employers to be required to pay the dismissal compensation contributions at the desired percentage on the first $10 of weekly wage or salary of each individual covered by the plan. Contributions levied upon individuals' wages and salaries above $10 to be paid by employees and deducted from their pay. The upper limit of income subject to dismissal compensation contributions is discussed in the following section.

7. <u>Rates of contribution and aggregate total of reserves</u>

If the contribution base is the first $3,000 of each covered individual's pay per year, each percent of the contribution rate will, it is estimated, bring in a total of $560 million in 1942. If the base is not limited to the first $3,000 but extended to all wages and salaries of individuals covered, the total is estimated at $580 million per year.

The rate of contribution which can desirably be levied seems to be the resultant of the following considerations:

(a) Size of the individual reserve as a proportion of each worker's recent earnings, which it would be desirable to have accumulated by the time the armament boom ends to tide him over the readjustment period.

(b) Size of levy which the public will accept under the name of dismissal compensation.

(c) Contraction of payrolls, even though temporary, which workers can equitably be asked and will be willing to accept for all accounts, whether for dismissal compensation, old age, unemployment insurance, or what not.

(d) Restriction of consumer expenditures which is necessary in order to keep total consumer spending down to the available supply of goods at uninflated prices.

(e) Amount of additional payroll taxes which can equitably be levied on employers.

(f) The Treasury's need for funds.

(g) Magnitude of purchasing power desired to be released in the post-defense period.

The 5 percent tax on payrolls levied upon employers (matching an equal contribution by employees) as recommended in the Hawkins plan, seems much too severe. On the other hand, a combined collection rate of less than 5 percent seems inadequate both from the point of view of neutralizing current income and from the point of view of protecting workers in a post-war slump. A combined 5 percent rate on the first $3,000 of wages for the proposed coverage would produce, it is estimated, $2.8 billion in 1942. The reserve of each individual would naturally amount to 5 percent of his wages (up to $3,000, if this limit is adopted) for each year during which contributions are collected. Assuming a wage of $1,500 a year, the reserve would be $150 after two years, $225 after three years, etc.

A 5 percent rate seems a judicious compromise among the various conflicting interests.

The recommendation to halt contributions when the defense or war period ends seems to require no discussion. The suspension might be made dependent upon a Presidential proclamation.

The question whether or not to make the contributions applicable to the first $3,000 of wages only or to whatever wage or salary is received however high has arguments on both sides of approximately equal weight. At least three factors favor adoption of the $3,000 ceiling:

(a) Present unemployment insurance and old-age and survivor benefit taxes apply only to the first $3,000 of income.

(b) Incomes above that level are well within the income tax range and may be expected to be regulated through that medium.

(c) Some people consider it incongruous that high-salaried officials should be paid compulsory "dismissal compensation." It is thought that they should provide for unemployment out of voluntary savings. It should be remembered, however, that benefits under this plan are supported by each employee's contributions, above some minimum employer contribution, so that no charity is involved in allowing payment based on high incomes. The Treasury's interest is to accumulate as large reserves as possible.

There may be legal difficulty in applying the income tax to amounts deducted from income at the source and required to be segregated in unused reserves for an indefinite number of years. Although Social Security old-age payroll deductions are subject to income tax, there may be strong objection if payroll deductions are carried up into the very high brackets. The dismissal compensation deduction might constitute so large a part of the income left after Federal and State income taxes in the highest brackets that the courts would sustain objections to it.

Arguments in favor of carrying the dismissal compensation base beyond $3,000 are:

(a) It would increase the size of reserve to be accumulated out of current money income.

(b) The public might accept the idea of payroll deductions more willingly if they knew that it was being applied uniformly.

(c) If present and prospective taxes impose what may be assumed to be a fair share of the burden of financing defense upon all parts of the income range, then an additional burden to be placed on the low-income bracket should be countered by an at least equal increase of the burden upon incomes above $3,000.

APPENDICES

Appendix I

Compulsory Dismissal Compensation in Other Countries

More than twenty-five countries 1/ have adopted legislation relating to the compensation of employees separated from an established employment connection. However, in several of these countries the legislation appears in fact to be an effort to protect employees against exceptionally unjust treatment by requiring a short period of advance notice before an employee is discharged. Thus thirteen countries 2/ legally require advance notice of dismissals or compensation in lieu of notice. The notice required, however, rarely exceeds two weeks except in the case of employees of long standing.

In three countries, 3/ provision is made for the enforcement of agreements to pay dismissal compensation secured by collective bargaining or those arising out of established custom. In eight countries, 4/ employers are compelled to pay compensation when permanently

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1/ Argentina, Australia, Bolivia, Brazil, Bulgaria, Chile, China, Colombia, Dutch East Indies, Ecuador, Finland, France, Guatemala, Haiti, Honduras, Hungary, Italy, Japan, Mexico, Panama, Peru, Portugal, Rumania, Salvador, Spain and Spanish Morocco, Turkey, Uruguay, and Venezuela. Several countries under German occupation have been omitted from this discussion as uncertainties now surround the operation of their labor legislation.

2/ Argentina, Bulgaria, Chile, China, Dutch East Indies, Finland, Guatemala, Haiti, Honduras, Portugal, Rumania, Salvador, and Spanish Morocco.

3/ Australia, France and Spain.

4/ Bolivia, Chile, Colombia, Hungary, Italy, Panama, Peru and Turkey.

discharging certain classes 1/ of employees.

Six countries 2/ have adopted legislation requiring dismissal compensation which embraces all wage and salaried employees. In Bulgaria, however, long service records are required and the compensation is low. 3/ Mexico has the simplest system of compensation requiring the payment of three months' compensation to all workers. Bankrupt companies are required to pay only one month's wages. Venezuela requires the payment of one-half a month's salary for each year of service and limits the maximum compensation to six months' salary. In Brazil employees must receive one month's pay for each year of service.

1/ Except in Turkey and Hungary, these provisions apply to salaried employees; in Turkey, manual workers are entitled to fifteen days' pay for each year of service over five. In Hungary commercial employees with more than five years service receive one month's pay for each three years of service with a maximum compensation of one year's salary. In Italy, salaried employees who have been employed over five years receive one-half a month's salary for each year of service when discharged. In Peru, similar employees of three months' standing are compensated at the same rate. In Bolivia, Colombia, Chile and Panama the rate of compensation is about one month for each year of service. In Panama the minimum service requirement is ten years, however. In the latter three countries the compensation provisions are related to retirement systems.

2/ Brazil, Bulgaria, Ecuador, Mexico, Uruguay and Venezuela.

3/ Employees having five years continuous service receive one month's pay; those employed ten years receive two months' pay.

The plans having greatest value for an examination of methods of providing an assurance of compensation for displaced workers on a nationwide basis are those establishing special funds for these payments. In Uruguay, the employer must make a special contribution to the pension fund equal to one month's salary or wages for each three years of service of the discharged employee up to a maximum of three months' compensation. The Fund then pays the dismissed employee one-half a month's pay each month until the employer's contribution has been exhausted, or until the worker secures a new job. Since workers are denied compensation if they refuse suitable employment, the system is in fact a form of unemployment insurance.

Japan and Ecuador have established funds which are elements of retirement systems. In Ecuador, the employer is required each year to set aside one month's pay in a fund which cannot be alienated or transferred. When employment is terminated the employee is entitled to this reserve, unless he gave inadequate notice or was discharged for cause. This fund is also used as the basis of pensions for aged employees.

In Japan the legislation is more intricate and excludes salaried and professional employees. Three funds are established:

(1) A compulsory savings fund of two percent of annual wages to be deducted by the employer from the pay of the worker;

(2) A leaving allowance fund into which the employer must pay an amount equal to two percent of wages plus an amount determined by the authorities of not more than three present additional depending upon profit rates, and

(3) A dismissal allowance fund made up of any unclaimed balances in the leaving allowance fund.

When an employee dies or leaves the service he or his heirs are entitled to his savings out of the first fund plus interest. He is also entitled to his balance in the second fund if he complies with established regulations. It has been ruled that an employee who quits without reasom having less than three years of service should not be entitled to any payment from the second fund. His compensation can be reduced to one-third of his balance if he leaves without reason after three years service. Finally, an employee dismissed through no fault of his own is entitled to twenty days' wages if he has service of one but less than three years and to thirty-five days' wages if he has over three years of service. However, the employer is only required to pay these latter sums if there is sufficient money in the dismissal allowance fund. The employer may continue in operation any plan providing more adequate compensation than the standards established by the law. He is also offered the alternative of setting aside about 3-1/3 percent instead of from 2 to 5 percent of wages, and on separation paying a leaving allowance of twelve days' wages for each year of service plus dismissal allowances of twenty and thirty-five days' pay.

Appendix II

Proposals for Dismissal Compensation in the United States

Such dismissal compensation programs as are actually in effect in the United States have for the most part been introduced by private enterprises. Over five hundred companies have reported that they have established the policy of making payments, in excess of wages due, to men who are permanently discharged. However, it is difficult to use this data as a measure of the extent of the acceptance of the practice of compensating employees permanently separated from established employment connections since the rate of payment in many cases suggests that this policy is little more than a substitute for a short period of advance notice prior to discharge. In general, the possibilities of voluntary adoption of this practice by private enterprises seem to be confined to large corporations, producing commodities in which wages constitute a relatively minor element of the total cost and in fields in which there is little price competition.

A few States have enacted legislation to insure adequate notice prior to dismissal but none have made provision for compensation when an employment connection is severed. The closest approach to the recommendation of this policy is found in some of the legislation suggested to carry out programs of unemployment insurance.

There appears to have been no formally introduced Federal legislation embodying the general application of the principle of payment of dismissal compensation. The Wheeler-Crosser Bill introduced in March 1936 would have required the railroads to compensate employees displaced as the result of consolidations. However, in May 1936, the railroads agreed to a schedule of compensation for such employees which included not only liberal payments on discharge in proportion to years of service, but also allowances for traveling expenses for transferred employees and the assumption by the railroads of losses in the value of employees' property arising out of such transfers.

Numerous proposals for compulsory dismissal compensation have been advanced by individuals. Shortly after the World War, Royal Meeker, Commissioner of Labor Statistics, and Professor Edward Ross of the University of Wisconsin urged that two weeks' pay be given displaced workers and began a succession of suggestions by students of labor problems. Before the enactment of Social Security legislation Governor Draper of the Board of Governors of the Federal Reserve System, who was then an officer of Hills Brothers Company, suggested a scale of payments varying with service and ranging from one month's pay for those having service records of six months to five years, to six months' pay for those employed more than twenty years. When the Economy Act of 1933 was introduced, President Green of the American Federation of Labor sponsored a bill providing dismissal compensation for displaced Federal employees of one year's service and later in the same year endorsed dismissal compensation for all workers. In 1935, the Federal Communications Commission suggested that any employees discharged as a result of a projected merger of Western Union and Postal Telegraph receive compensation. In testifying before the T.N.E.C., Philip Murray, then Chairman of the Steel Workers Organizing Committee, proposed dismissal compensation and the organization itself subsequently ratified resolutions urging the payment to permanently discharged workers of ten percent of their earnings over a ten-year period or a minimum of $500 to those who have worked less than ten years.

On Basis of Issue Price
(In thousands of dollars)

Date	Post Office Bond Sales	Bank Bond Sales				All Bond Sales			
	Series E	Series E	Series F	Series G	Total	Series E	Series F	Series G	Total
August 1941									
1	$ 1,467	$ 3,296	$ 1,163	$ 7,586	$ 12,045	$ 4,763	$ 1,163	$ 7,586	$ 13,512
2	1,500	3,030	726	6,101	9,857	4,530	726	6,101	11,357
4	3,606	4,376	1,892	10,092	16,361	7,983	1,892	10,092	19,967
5	1,278	2,822	928	7,334	11,084	4,099	928	7,334	12,362
6	1,810	4,195	1,156	10,752	16,103	6,005	1,156	10,752	17,912
7	1,789	3,475	652	5,636	9,763	5,264	652	5,636	11,552
8	1,812	3,069	999	3,362	7,430	4,881	999	3,362	9,242
9	1,492	3,195	958	4,101	8,255	4,688	958	4,101	9,747
11	2,683	3,686	1,187	4,308	9,181	6,370	1,187	4,308	11,865
12	873	2,281	488	4,908	7,676	3,153	488	4,908	8,549
13	1,430	3,491	639	2,949	7,079	4,921	639	2,949	8,509
14	1,246	2,833	697	4,594	8,124	4,079	697	4,594	9,370
15	1,385	2,876	566	2,972	6,415	4,261	566	2,972	7,799
16	1,020	2,140	365	2,914	5,418	3,159	365	2,914	6,437
18	2,333	3,534	1,099	4,266	8,899	5,866	1,099	4,266	11,232
19	768	1,629	466	2,986	5,082	2,398	466	2,986	5,850
20	1,495	3,191	554	4,058	7,802	4,685	554	4,058	9,296
21	1,540	2,585	646	4,779	8,010	4,125	646	4,779	9,550
22	1,372	3,496	628	4,001	8,126	4,869	628	4,001	9,498
23	1,236	2,143	489	3,731	6,364	3,380	489	3,731	7,600
25	2,213	2,660	680	3,475	6,815	4,873	680	3,475	9,028
26	973	2,153	496	4,931	7,579	3,126	496	4,931	8,553
27	1,379	2,941	643	5,526	9,110	4,321	643	5,526	10,490
28	1,414	2,579	749	2,580	5,909	3,993	749	2,580	7,322
29	1,438	3,046	750	3,989	7,785	4,484	750	3,989	9,223
30	1,172	2,157	702	5,753	8,612	3,329	702	5,753	9,784
Total	$ 40,725	$ 76,878	$ 20,318	$127,685	$224,881	$117,603	$ 20,318	$127,685	$265,606

Office of the Secretary of the Treasury, Division of Research and Statistics. September 2, 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.

CONFIDENTIAL

UNITED STATES SAVINGS BONDS

Comparative Statement of Sales During
June, July, and August, 1941
On Basis of Issue Price

(Amounts in thousands of dollars)

Item	Sales			Amount of Increase or Decrease (-)		Percentage of Increase or Decrease (-)	
	August	July	June	August over July	July over June	August over July	July over June
Series E - Post Offices	$ 40,725	$ 50,558	$ 40,788	-$ 9,833	$ 9,770	- 19.4%	24.0%
Series E - Banks	76,878	94,717	61,729	- 17,839	32,988	- 18.8	53.4
Series E - Total	117,603	145,274	102,517	- 27,671	42,757	- 19.0	41.7
Series F - Banks	20,318	27,359	28,876	- 7,041	- 1,517	- 25.7	- 5.3
Series G - Banks	127,685	169,498	183,134	- 41,813	- 13,636	- 24.7	- 7.4
Total	$265,606	$342,132	$314,527	-$76,526	$27,605	- 22.4%	8.8%

Office of the Secretary of the Treasury, Division of Research and Statistics. September 2, 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.

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CONFIDENTIAL

UNITED STATES SAVINGS BONDS

Sales since May 1, 1941, by Months
On Basis of Issue Price

(In thousands of dollars)

Item	May	June	July	August	Total
Series E - Post Offices	$ 42,836	$ 40,788	$ 50,558	$ 40,725	$ 174,908
Series E - Banks	57,745	61,729	94,717	76,878	291,068
Series E - Total	100,581	102,517	145,274	117,603	465,976
Series F - Banks	37,817	28,876	27,359	20,318	114,370
Series G - Banks	211,420	183,134	169,498	127,685	691,738
Total	$349,818	$314,527	$342,132	$265,606	$1,272,083

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

September 2, 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.

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MUSEUM OF MODERN ART'S PRIZE-WINNING POSTERS

By John C. Atherton, Ridgefield, Conn.
$500 first prize winner.

By Joseph Binder, New York, N. Y.
$250 second prize winner

By Hugh Donnell, West Reading, Conn.
$50 prize winner.

By Clara Fargo Thomas, New York, N. Y.
$50 prize winner.

PHOTOGRAPHS COURTESY MUSEUM OF MODERN ART

U. S. GOVERNMENT PRINTING OFFICE : 1941

September 2, 1941.

Memorandum for Mr. Bell
Mr. Gaston
Mr. Foley
Mr. Graves
Mr. Kuhn
Mr. Cochran
Mr. Haas
Mr. Schwarz
Mr. Mack

For your information the Secretary has designated Dr. H. D. White to be the Treasury's liaison officer for all matters of Lend-Lease arrangements and of the British dollar position.

Administrative Assistant
to the Secretary.

NMS:rg

Hand

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 2,1941

TO Secretary Morgenthau

FROM Mr. White

Subject: British Empire - American cooperation on problems of post-war reconstruction

Mr. McDougall and Mr. Bruce, Australian representatives in Washington and London, respectively, submit memoranda on U.S.A. - British Empire collaboration to raise post-war standards of living. This done at request of Secretary Morgenthau made at August 7 luncheon given by Secretary Wickard.

Mr. Bruce wants to discuss this with Secretary Morgenthau.

The Proposal

In spite of a large school of thought to the contrary, the U.K., the Dominions, and the U.S.A. ought to begin now not only to define peace aims but to lay the basis for their practical realization as promptly as possible after the war. This for two reasons:

1. Without such planned cooperation the economic dislocations of the war will result in wide-spread post-war depression and economic rivalries.

2. If definite peace plans were made now it would hasten allied victory by

(a) sustaining the morale of our own peoples,
(b) weakening the morale and will to resist of Axis peoples (must be coupled with increasing military pressure of course),
(c) giving new hope and will to resist to conquered peoples.

The President's "four freedoms" represent the best statement of the peace ideal yet given. For practical and psychological reasons we should begin by concentrating on "freedom from want," and within that area on securing an abundance of food for all.

1. Large groups of people in all our countries have never been free from want, especially as regards food. This will constitute an understandable highly popular objective.

2. "Optimum" diet is a known factor and easily within our joint productive capacities.

3. Increased food production would help solve post-war agricultural problem, would bring about rational balance of specialization, diversification, etc. in the cooperating countries.

4. Would stimulate international trade.

This program of a general world movement toward increased consumption would cost considerably but far less than indirect cost of having no program. (McDougall, Australian Legation, to Secretary Morgenthau, August 8, 1941).

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE September 2, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Official sales of British-owned dollar securities under the vesting order effective February 19, 1940:

	No. of Shares Sold	$ Proceeds of Shares Sold	Nominal Value of Bonds Sold	$ Proceeds of Bonds Sold
Aug. 25	6,470	168,401	35,000	27,440
26	9,220	250,953	34,000	30,164
27	1,320	69,022	500	550
28	669	31,900	1,000	611
29	1,605	34,455	8,000	5,575
30	100	216	Nil	Nil
	19,384	554,947	78,500	64,340
Sales from Feb.22, 1940 to Aug. 23, 1941	9,774,873-1/2	279,344,141	44,954,716	36,948,241
Total Feb.22, 1940 to Aug. 30, 1941	9,794,257-1/2	279,899,088	45,033,216	37,012,581

Aug. 30	7	units sold	$ 16
Aug. 18 - Aug. 23	2	" "	26
Total Aug. 18 - Aug. 30	9	" "	$ 42
Aug. 25	6	rights sold	$ 8
26	160	" "	234
	166	" "	$ 242
July 24 to Aug. 23	55,291	" "	102,203
July 24 to Aug.30	55,457	" "	$ 102,445

H.M.C.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE September 2, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Official sales of British-owned dollar securities under the vesting order effective February 19, 1940:

	$ Proceeds of Shares Sold	$ Proceeds of Bonds Sold	Total	
Aug. 25	168,401	27,440	195,841	
26	250,953	30,164	281,117	
27	69,022	550	69,572	
28	31,900	611	32,511	
29	34,455	5,575	40,030	
30	216	Nil	216	
	554,947	64,340	619,287	
Sales from Feb.22,1940 to Aug.23,1941	279,344,141	36,948,241	316,292,382	
Total Feb.22,1940 to Aug.30,1941	279,899,088	37,012,581	316,911,669	316,911,669

$ proceeds of non-vested securities sold Aug. 18, 1941 to Aug. 23, 1941	300,000	
$ proceeds of non-vested securities sold Sept. 1, 1939 to Aug. 16, 1941	232,000,000	
$ proceeds of non-vested securities sold Sept. 1, 1939 to Aug. 23, 1941	232,300,000	232,300,000
	GRAND TOTAL	549,211,669

Aug. 30	7 units sold	$ 16
Aug. 18 - Aug. 23	2 " "	26
Total Aug. 18-Aug. 30	9 " "	$ 42
Aug. 25	6 rights sold	$ 8
26	160 " "	234
	166 " "	$ 242
July 24 to Aug. 23	55,291 " "	102,203
July 24 to Aug. 30	55,457 " "	$ 102,445

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION CONFIDENTIAL

DATE September 2, 1941

TO Secretary Morgenthau

FROM Mr. Haas

Subject: The Business Situation,
Week ending August 30, 1941

Summary

(1) The general price level continues to move higher. The BLS all-commodity index in the week ended August 23 rose 0.4 point to 90.0. This is the highest point reached by the index since April 1930, and the rise since mid-August 1939, shortly before the war began, now amounts to 20.6 percent.

(2) Featured by conspicuous strength in fats and oils, basic commodity prices rose last week. Wheat and cotton prices gained despite the President's veto of the bill freezing Government owned stocks of cotton and wheat. Cotton prices were aided by persistent reports of serious boll weevil damage.

(3) The New York Times index of business activity in the week ended August 23 again rose slightly, advancing to 131.1 from 130.9 in the previous week. However, Barron's index of business activity declined for the fourth consecutive week, with the index dropping to 137.6 from 138.8 in the previous week.

(4) The FRB index of industrial production for August is expected to show little or no change from the July level. The July figure of 162 compares with 111 in April 1940, the low reached shortly before the start of the defense program, and with the August 1939 pre-war figure of 104.

(5) According to a mid-year survey of the American Iron and Steel Institute, steel ingot capacity of the industry was increased 2,000,000 net tons in the first half of the year to a total of 86,149,000 net tons. The schedule of maximum prices for steel scrap as fixed by OPACS is reported to have broken down. Full priorities control for iron and steel scrap is said to be imminent.

- - - - -

Commodity prices still rising

After leveling off for one week, the BLS all-commodity index resumed its extended rise in the week ended August 23 and advanced 0.4 to 90.0. This is the highest point reached by the index since April 1930, and the rise from mid-August 1939, shortly before the outbreak of the war, now amounts to 20.6 percent. Seven of the 10 major commodity groups advanced. The only groups to show declines were textile products and metals and metal products. Furthermore, the declines in these groups were very slight and reflected the imposing of price ceilings on burlap and tin by OPACS.

Rise in basic commodities led by fats and oils

Basic commodity prices moved higher in the week ended August 29 and the BLS index of 28 commodities advanced 0.9 percent to a new high, nearly 53 percent above the level prevailing in August 1939. Although the BLS index of 11 import commodities rose fractionally, the advance in the combined index was principally due to strength in domestic commodities. (See Chart 1.)

The feature of the rise in domestic commodity prices was the extension of the previous week's gains in cottonseed oil, lard, and allied commodities of the fats and oils group. (Refer to Chart 1, lower section.) As a result of the advances that had occurred, Price Administrator Henderson issued an order late Thursday forbidding purely speculative trading in fats and oils. The order stated that the prohibition was not to apply to futures trading for hedging purposes nor to purchases and sales in the course of recognized manufacturing or distributing functions. While the order apparently was aimed at forward buying of actual fats and oils rather than at trading on the futures markets, traders were confused by the order. As a result, futures trading in cottonseed oil and lard in the leading markets was suspended on Friday pending clarification of the order, and some unsettlement was felt in other commodity markets.

Wheat and cotton rise despite veto of freezing bill

In addition to the fats and oils group, cotton and wheat moved higher during the week. At the beginning of last week the President's veto of the bill freezing Government owned stocks of cotton and wheat was announced. This action apparently had been fairly well discounted, since both wheat and cotton rallied after short sell-offs following the announcement, and wheat actually closed the trading session with a slight gain. Subsequently, assurances by Department of Agriculture officials that the veto would not be a signal for immediate release of the Government owned stocks helped prices. Cotton prices also received support during the week from persistent reports of serious boll weevil infestation. An additional factor, interpreted bullishly, was an increase in the cotton parity price to 16.74 cents, as compared with 16.49 a month earlier.

The Department of Agriculture last week raised the sugar quota by 996,000 tons to a total of 9,003,000 tons. This action was taken in order to bring in part of the reserve supply held in Cuba, when it was learned that refiners faced a shortage of raw sugar by next month.

Futures index at new high

The Dow Jones index of commodity futures moved up last week and reached the highest point since April 1937. (See Chart 2, dotted line.) By the middle of last week the index had risen no less than 64 percent above the low point touched in August 1940, and 68 percent above the pre-war level of August 1939. Moreover, out of the 11 commodities comprising the index, trading has been suspended in silk and rubber while a price ceiling is in effect on hides. Trading in sugar futures was suspended around the middle of August but was resumed last week.

Despite the continued rise in prices of basic commodities, the volume of trading in the futures markets shows no real evidence of a growing speculative boom. After expanding substantially in the first week in August, the volume of futures trading as reported by the Journal of Commerce fell off sharply in the succeeding 2 weeks. (Refer to Chart 2.) The principal factor in the decline was the sharp contraction in grain trading. Last week, the volume of trading showed a moderate increase.

Weekly business indexes show divergent trends

The New York Times index of business activity in the week ended August 23 showed a fractional gain for the second consecutive week and rose 0.2 to 131.1. However, the index is still 2.2 points below the recent peak reached in the fourth week in July. (See Chart 3, top section.) Moreover, Barron's weekly index of business activity continued its downward drift for the fourth straight week and dropped 1.2 to 137.6. This index now shows an aggregate decline of 3.4 points from its recent peak.

Some evidence of a leveling off in business activity is seen in freight carloadings, which are still under peak levels reached earlier in the summer. (Refer to Chart 3, lower section.) The recent trend of freight carloadings has led some observers to predict that the fall peak in traffic will be short of earlier expectations. However, on the basis of normal seasonal factors, a further expansion in carloadings of about 10 percent should occur between the third week in August and the early part of October.

Although a number of automobile producers have been turning out 1942 model cars for several weeks, volume production in the industry as a whole has not yet gotten under way. Production during the past week declined about 6,000 units to 40,000, which is the lowest point reached this year. (Refer to Chart 3, middle section.) Due to the holiday, production during the current week will probably continue at a low level but a definite rise in production is expected to get under way next week.

FRB index for August expected around July level

Present indications to the Federal Reserve Board are that the FRB index for August will show little or no change from the level reached in July. The index of 162 for that month, representing a 5-point gain over June, compares with a low of 111 in April, reached shortly before the inauguration of the defense program, and with an August 1939 pre-war figure of 104. The FRB index is shortly to be reported on a revised basis, to reflect defense production more adequately.

Steel production capacity increased

To take account of the expansion in steel production facilities made in the first half of 1941, the American Iron and Steel Institute recently completed a mid-year survey of steel capacity, thus departing from the usual practice of rating the industry only once a year. As a result of the findings of the survey, the industry's rated production capacity, as of June 30, 1941, was raised approximately 2,000,000 tons, to a total of 86,149,000 net tons. Moreover, the figures covering weekly steel operations since the beginning of July have been revised to conform to the new base figure. The result has been to lower previously reported operating rates by about 2 points. On the new basis, steel operations last week were scheduled at 96.5 percent of capacity as compared with 96.2 percent in the previous week. During the current week, despite the holiday, operations are scheduled at 96.3 percent of capacity. (Refer to Chart 3, middle section.)

Steel scrap priorities order impends

The schedule of maximum prices for steel scrap fixed by OPACS is reported to have broken down. It is said that in some instances in the Pittsburgh area actual prices have exceeded ceiling prices by as much as $6 per ton. As a result of the violations of the price schedule and the chaotic conditions prevailing in the scrap market, defense officials have indicated that iron and steel scrap will soon be put under full priorities control. Furthermore, Price Administrator Henderson has said that as soon as the priorities order is effective he will use every power of the Government to enforce the price schedule. He is also said to have emphasized the fact that there would be no change in the general level of scrap prices although some adjustments might be considered. Meanwhile, figures recently released by the Institute of Scrap Iron and Steel revealed that scrap consumption in the first 7 months of 1941 ran 42 percent above the corresponding period of 1940.

Priorities and materials shortages causing dislocations

With the full force of the recent priorities order on steel due to be felt in September, many small metal working plants engaged in non-defense work are greatly concerned over the outlook for continued operations. Scarcity of such strategic materials as aluminum, zinc, nickel and copper have already caused difficulties, and now lack of steel supplies looms up as an additional problem. In discussing the situation created by priorities and the diversion of such materials as steel to defense work, the Iron Age anticipates the likelihood that many hundreds of small plants in Ohio, Pennsylvania and other industrial states will close down or restrict operations. In recognition of the priorities unemployment problem, as well as with a view to speeding defense production, the OPM council announced a short time ago that the Army and Navy had agreed upon drastic revisions in purchasing policies to facilitate the spread of sub-contracting throughout industry.

Further dislocations of non-defense business are likely to result from a new broad priorities order issued last week by OPM. This order, entitled "Priorities Regulation Number 1", extends to all materials or equipment the same kind of preferential treatment for defense orders previously accorded to such items as pig iron and steel. Under the provisions of the order, all manufacturers, producers, and distributors are required to accept defense orders, with a few limitations, even if this will delay or prevent deliveries on non-defense orders.

Further expansion in shipbuilding program

The steel industry has been under particularly heavy pressure to turn out plates and other types of steel needed in the vastly expanded shipbuilding program. Despite the high priorities ratings accorded to this steel, the Maritime Commission recently stated that emergency ship construction was being slowed up due to lack of steel. The Commission stated that there were 10 shipways on which keels could be laid if steel companies had met the expedited schedules of the shipyards.

Shipbuilding activity has been rising almost without interruption since the beginning of 1939, although the largest part of the rise has occurred since the middle of last year. Thus, by July 1941 the FRB seasonally-adjusted index of shipbuilding activity had risen to 478 from 189 in July 1940. (See Chart 4, upper section.)

Due largely to the awarding of very large contracts for ship construction earlier this year, merchant vessels under contract or construction by August 1 had already risen to 883 vessels totaling 5,400,000 gross tons, an increase of nearly 4,000,000 gross tons since the corresponding date in 1940. (Refer to Chart 4, lower section.) Furthermore, since the figures mentioned cover only ships built to American Bureau of Shipping Classification, they do not include 62 vessels totaling 428,000 gross tons, nearly all of which are being built for Great Britain.

On top of the very heavy naval and merchant shipbuilding program already under way, the Maritime Commission during the past week indicated that plans for the construction of no less than 566 additional merchant ships had reached the contract stage. Orders were given for 66 of the ships, and specifications for the remaining 500 will depend upon availability of materials. In addition to the orders for ship construction, contracts were also awarded for 23 of the 48 additional shipways which are to be built under this newly enlarged phase of the shipbuilding program.

Employment and payrolls at new highs

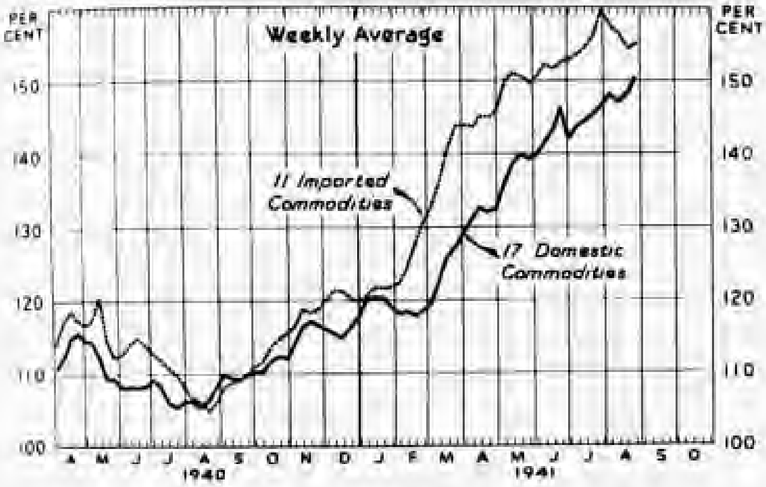
Both factory employment and payrolls have continued to expand, and in July reached record high levels. Total non-agricultural employment rose to a new high of 39,240,000, an increase of 3,785,000 over July 1940. Despite the overall rise in employment, substantial declines occurred in the aluminum ware and die casting industries, due to lack of materials. Significant shortages of materials also were reported in the silk and rayon, hardware, electric household appliance, plumbing supply, heating equipment, radio, non-ferrous metal and cork products industries. The increase in factory employment and payrolls over the previous month and over July 1940 are shown in the following table:

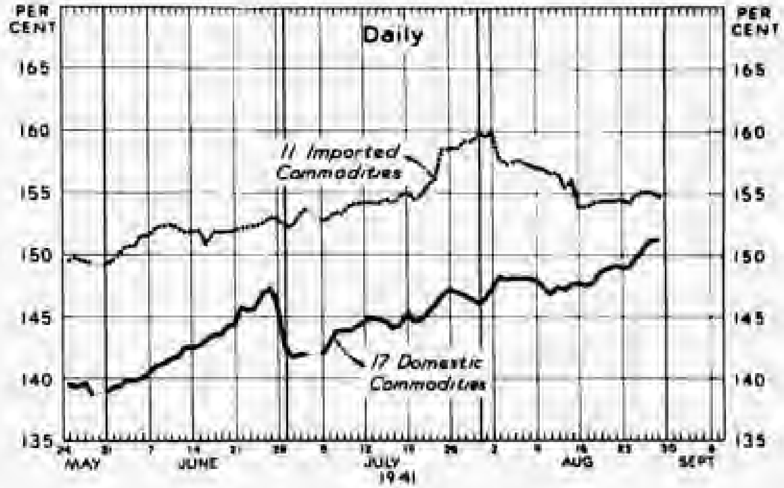
	July 1941	June 1941	July 1940
Factory employment (BLS, 1923-25 = 100)	130.5	127.6	103.2
Factory payrolls (BLS, 1923-25 = 100)	152.5	152.0	98.2

New orders index again lower

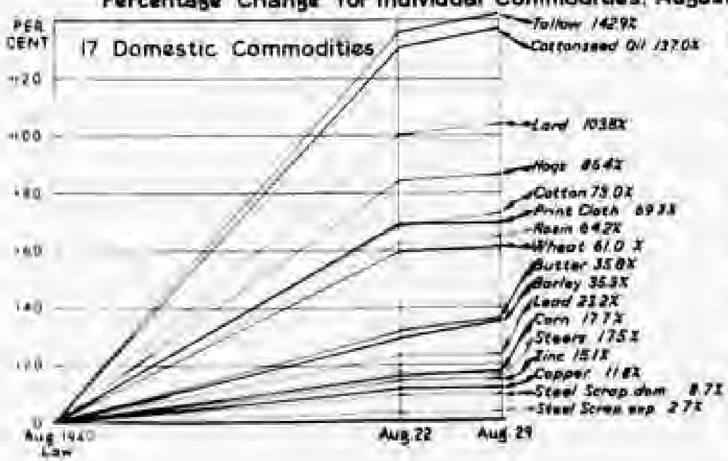
Despite an increase in textile buying, our index of new orders declined 4 percent in the week ended August 23. (See Chart 5.) New orders for steel dropped to 105 percent of capacity from 125 percent in the previous week, while orders for products other than steel and textiles declined moderately. This drop in our index of new orders was the fourth consecutive decline from the recent peak reached in the fourth week in July.

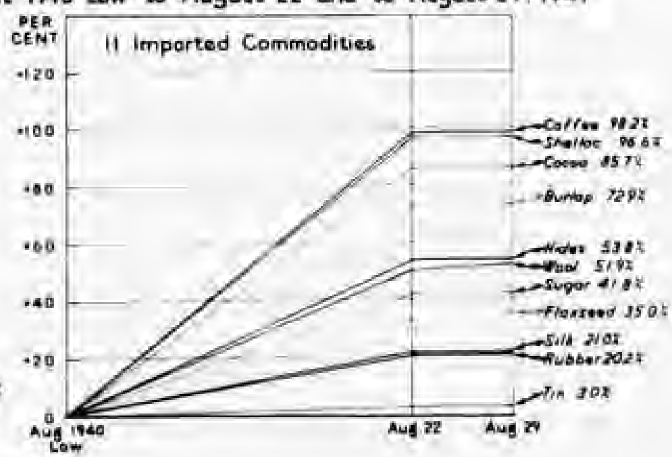
MOVEMENT OF BASIC COMMODITY PRICES
Domestic and Imported
AUGUST 1939 = 100



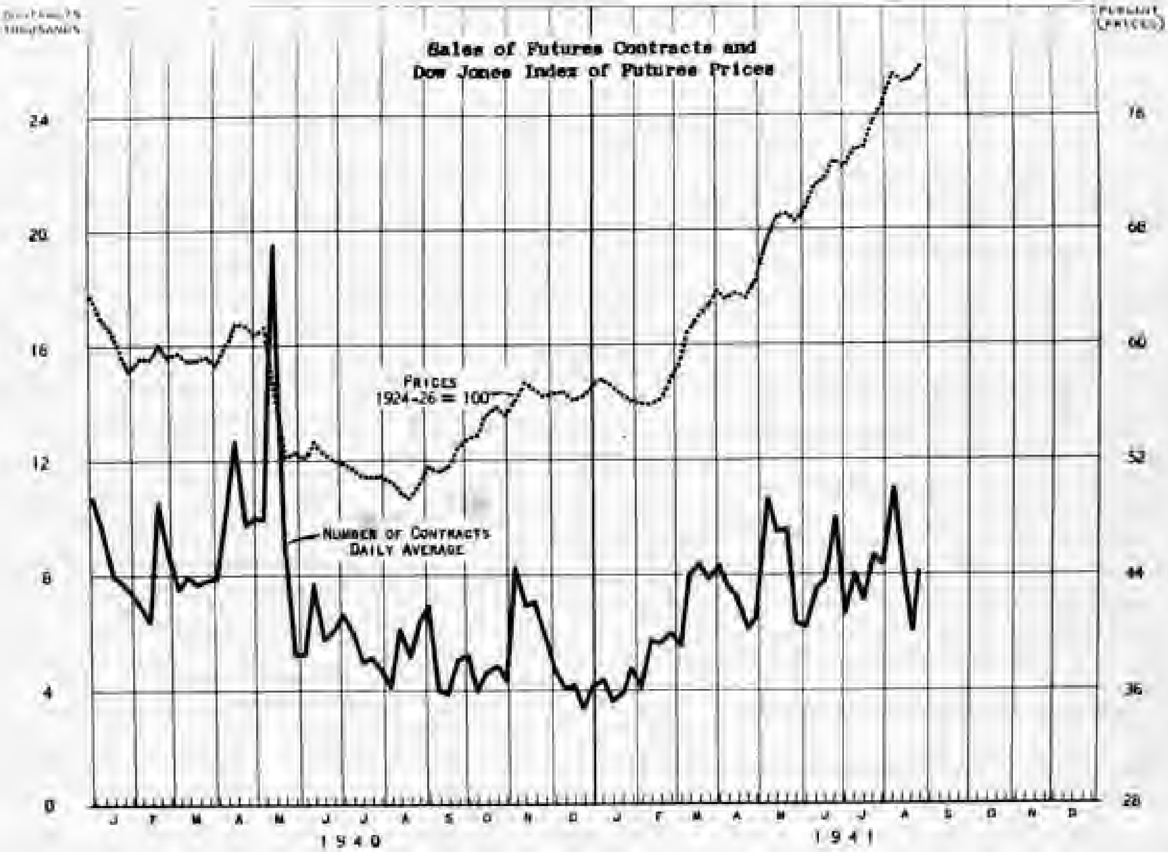


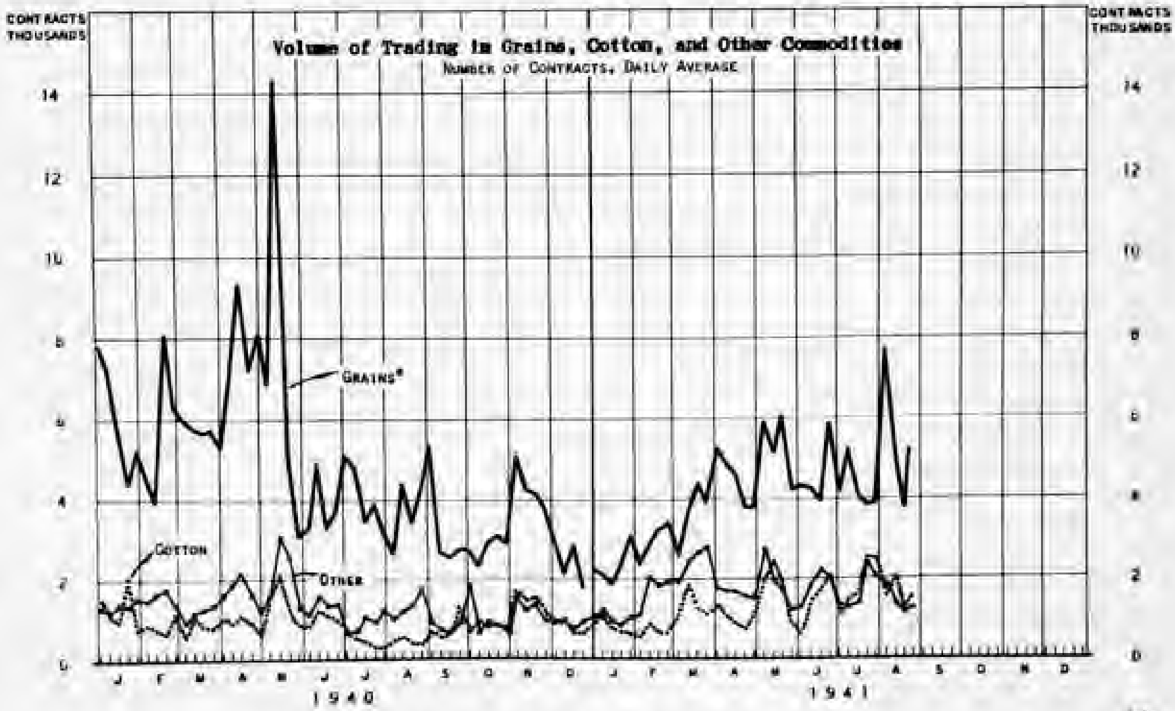
Percentage Change for Individual Commodities, August 1940 Low to August 22 and to August 29, 1941





VOLUME OF TRADING AND FUTURES PRICES





* BEGINNING JANUARY 1941 INCLUDES SOYBEANS

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

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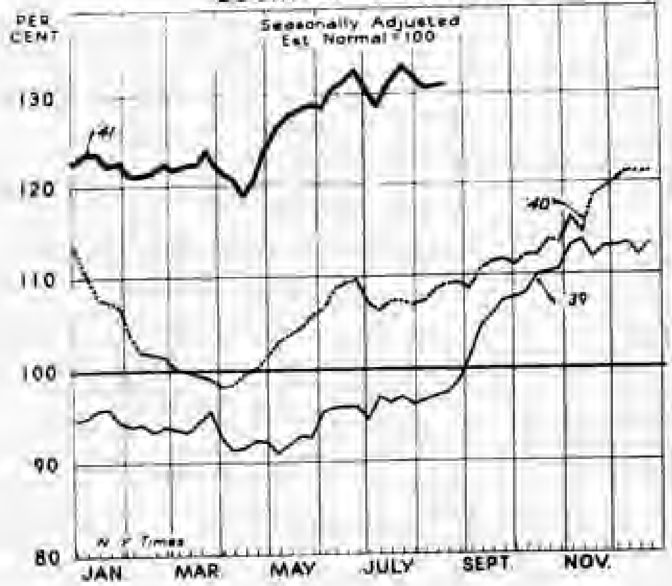
Chart 2

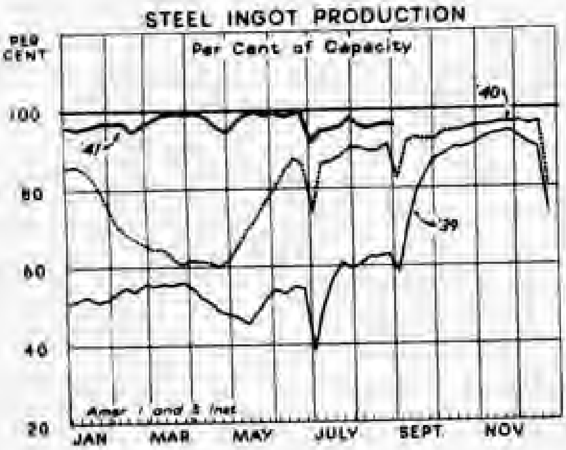
R - 212

SELECTED BUSINESS INDICES

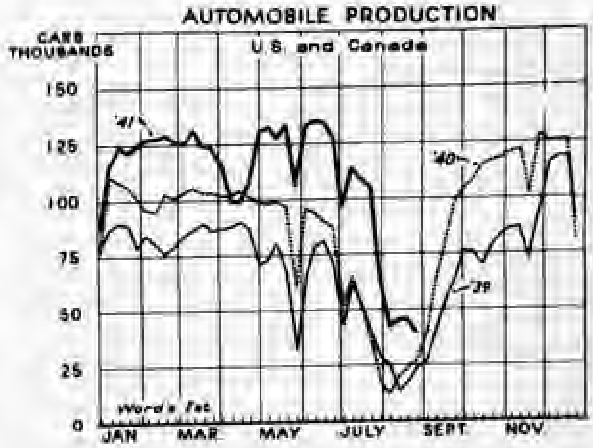
BUSINESS ACTIVITY



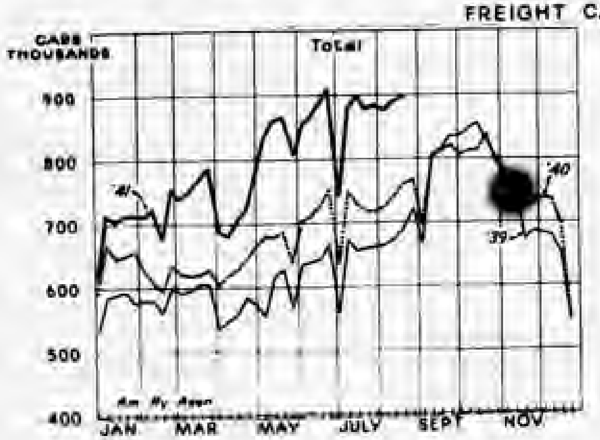
STEEL INGOT PRODUCTION



AUTOMOBILE PRODUCTION



FREIGHT CAR LOADINGS



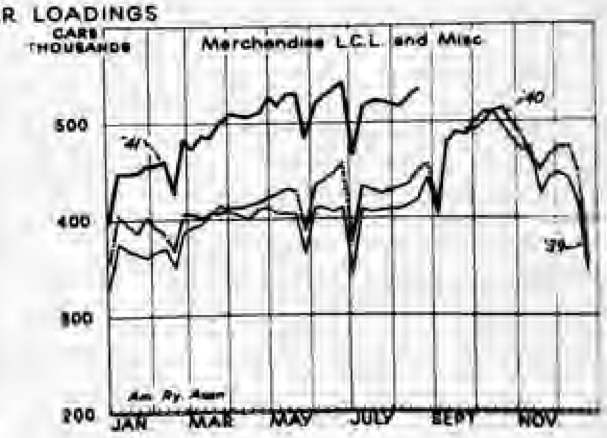


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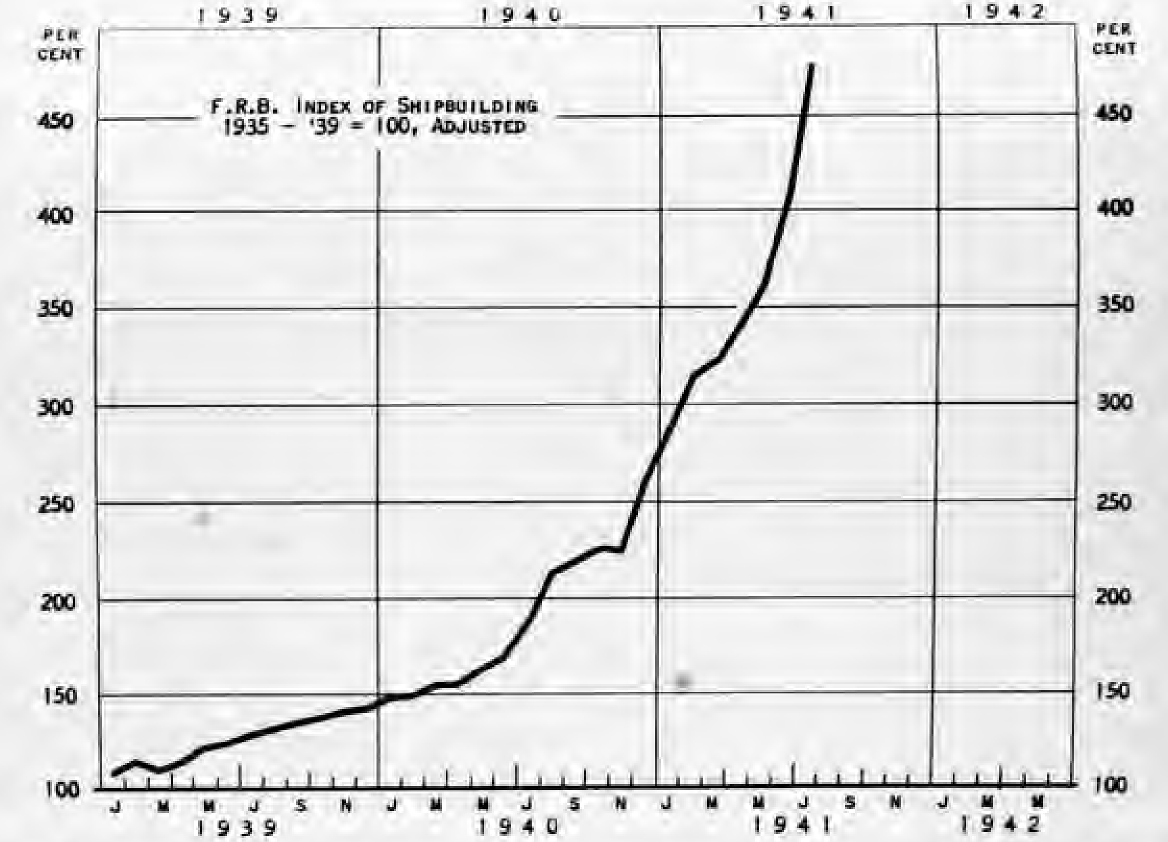
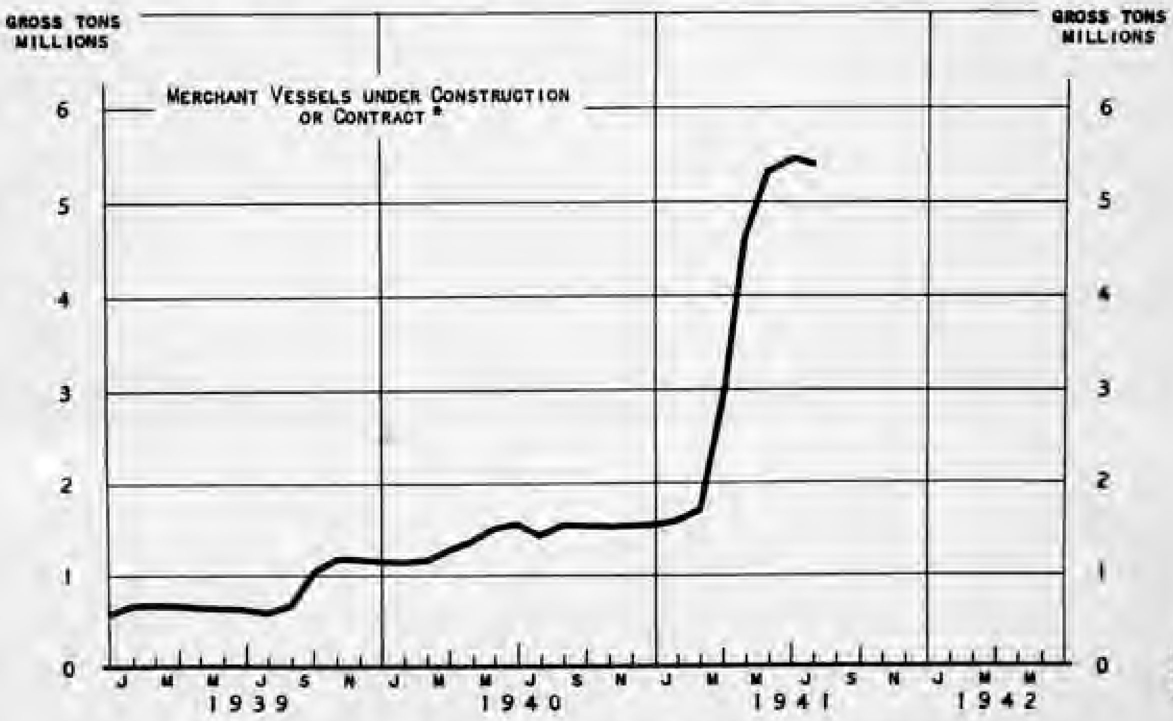
Chart 3

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

C-404-3

SHIPBUILDING ACTIVITY





*Excludes vessels not built to American Bureau of Shipping Classification

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

C - 403

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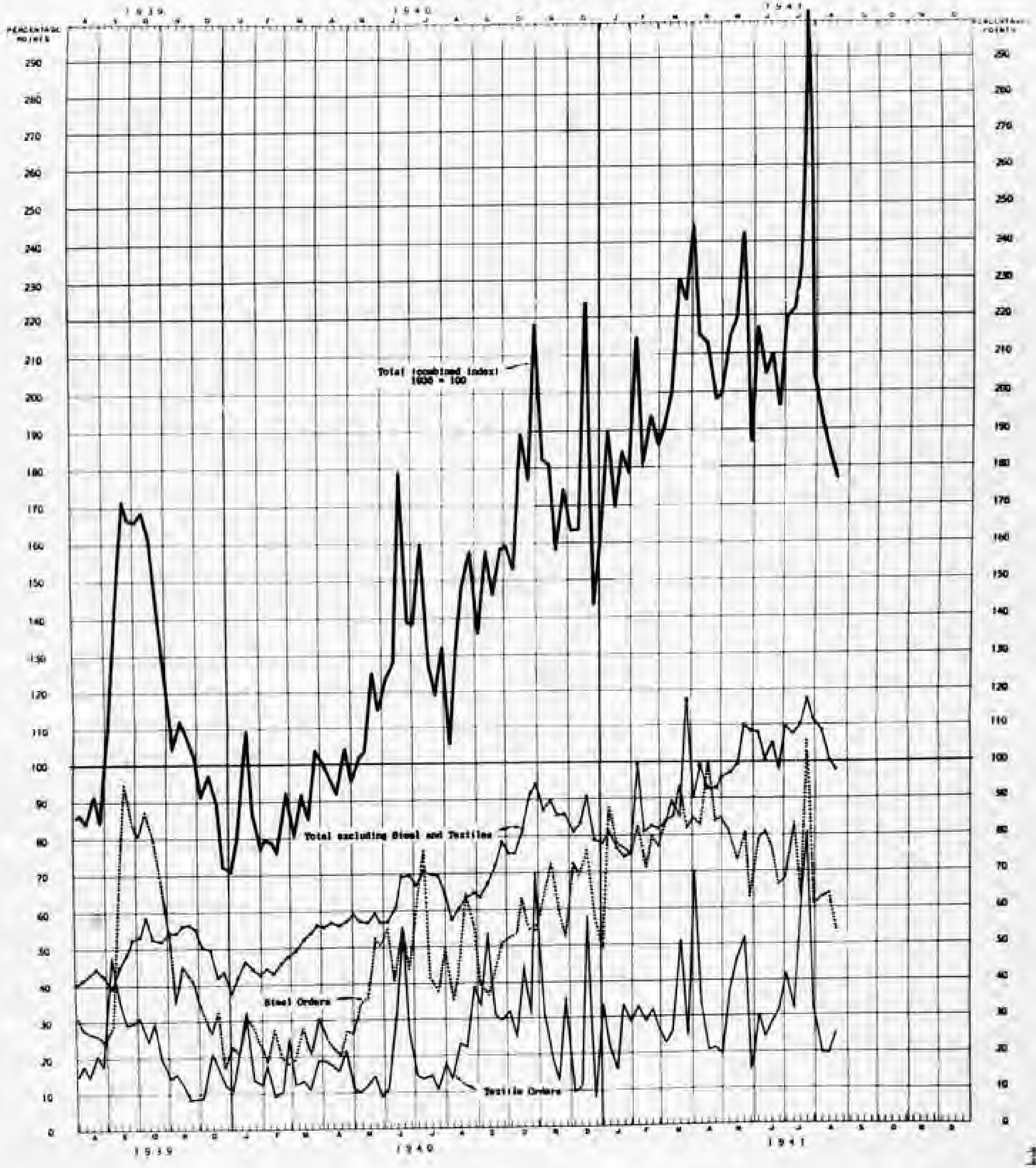
Chart 4

INDEXES OF NEW ORDERS

Combined Index of New Orders and Selected Components



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I-80-D

Chart 5

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 2, 1941

TO Secretary Morgenthau

FROM Mr. Haas

During the week ended August 20, 1941, Work Projects Administration employment increased 1,000 to 1,043,000 persons. This figure compares with 1,036,000 persons employed at the end of July.

Attachments

WORK PROJECTS ADMINISTRATION
Number of Workers Employed - Weekly
United States

Week ending 1941	Number of Workers (In thousands)
February 5	1,892
February 12	1,893
February 19	1,885
February 26	1,867
March 5	1,806
March 12	1,764
March 19	1,736
March 26	1,708
April 2	1,662
April 9	1,634
April 16	1,607
April 23	1,586
April 30	1,560
May 7	1,519
May 14	1,497
May 21	1,474
May 28	1,464
June 4	1,442
June 11	1,423
June 18	1,410
June 25	1,368
July 2	1,172
July 9	1,030
July 16	1,016
July 23	1,025
July 30	1,036
August 6	1,041
August 13	1,042
August 20	1,043

Source: Work Projects Administration.

WORK PROJECTS ADMINISTRATION
Number of Workers Employed - Monthly
United States

	Number of Workers (In thousands)
1939	
January	2,986
February	3,043
March	2,980
April	2,751
May	2,600
June	2,551
July	2,200
August	1,842
September	1,790
October	1,902
November	2,024
December	2,152
1940	
January	2,266
February	2,324
March	2,288
April	2,092
May	1,926
June	1,665
July	1,701
August	1,691
September	1,704
October	1,779
November	1,821
December	1,878
1941	
January	1,895
February	1,867
March	1,708
April	1,560
May	1,464
June	1,368
July	1,036

Source: Work Projects Administration.

Monthly figures are weekly figures for the latest week of the month.

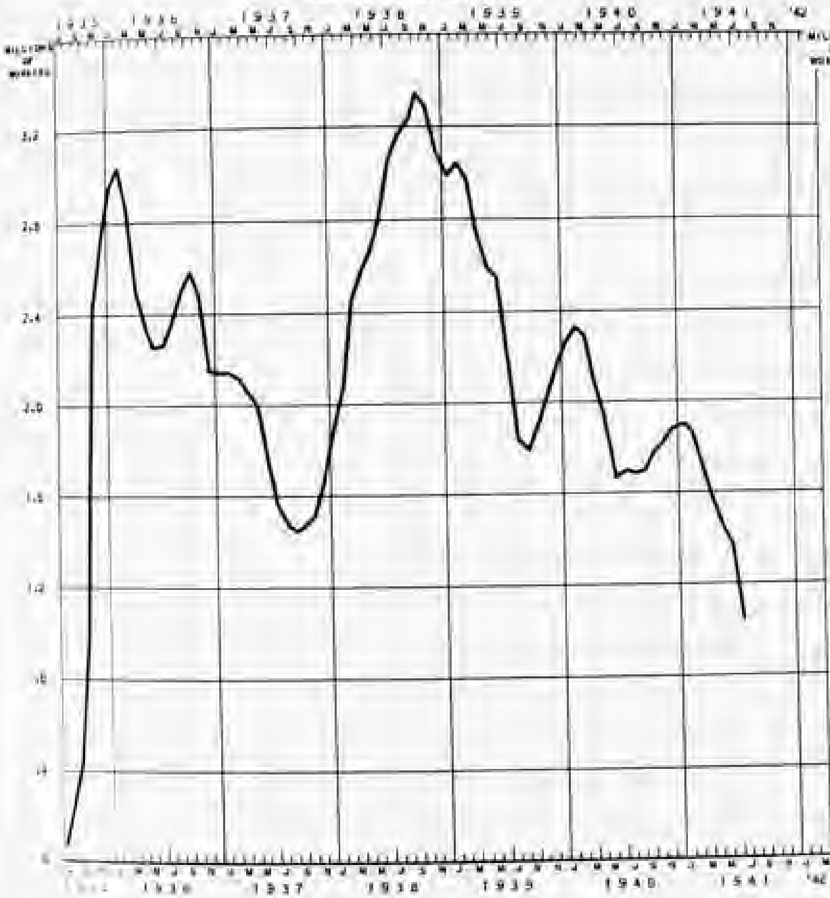
They include certified and noncertified workers.

WORK PROJECTS ADMINISTRATION

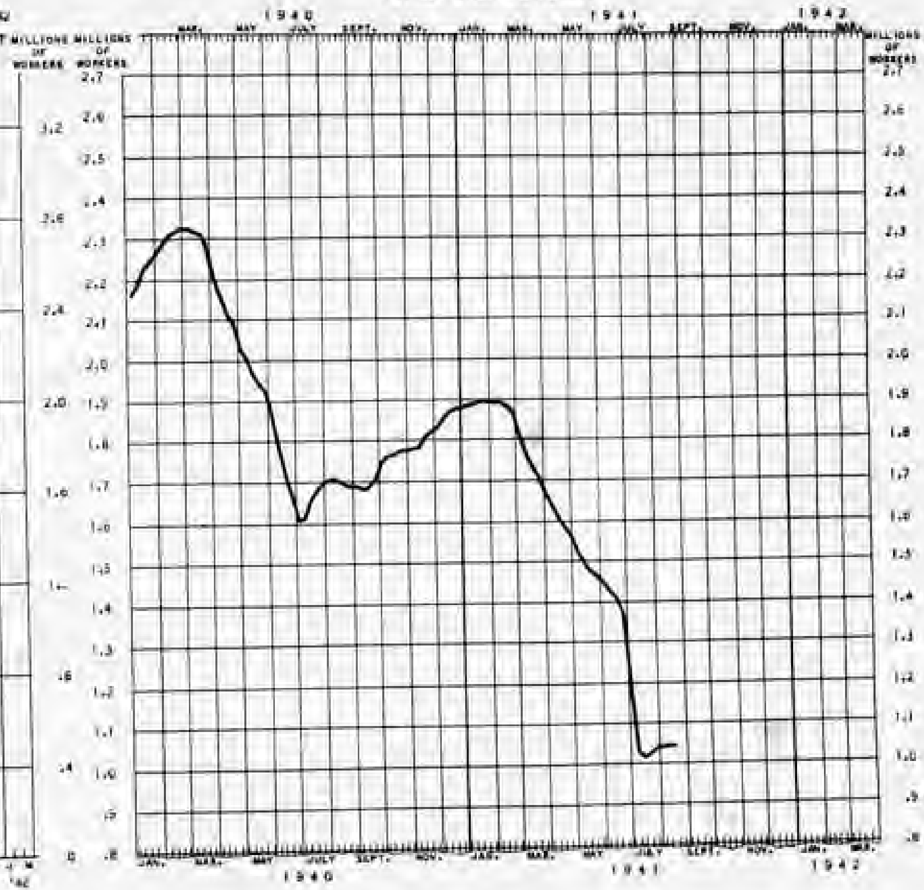
Number of Workers Employed

United States

Monthly W.P.A. Employment



Weekly W.P.A. Employment



SOURCE: WORK PROJECTS ADMINISTRATION

Z - 221 - C

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

EXPORTS OF PETROLEUM PRODUCTS, SCRAP IRON AND SCRAP STEEL FROM THE UNITED STATES TO JAPAN, RUSSIA, SPAIN, AND GREAT BRITAIN AS SHOWN BY DEPARTURE PERMITS GRANTED

Week ended August 30, 1941

	JAPAN	RUSSIA	SPAIN	GREAT BRITAIN
PETROLEUM PRODUCTS				
Fuel and Gas Oil (including Diesel Oil)	--	--	82,600 Bbls.	711,000 Bbls.
Crude -				
Blended or California High Octane Crude*	--	--	--	--
All Other Crude	--	--	--	90,000 Bbls.
Gasoline -				
Gasoline A**	--	238,260 Bbls.	--	423,000 Bbls.
Gasoline B*	--	75,000 Bbls.	--	1,100,000 Bbls.
All Other Gasoline	--	--	--	--
Lubricating Oil -				
Aviation Lubricating Oil***	--	--	--	424 Bbls.
All Other Lubricating Oil	--	--	35,500 Bbls.	48,109 Bbls.
Tetraethyl Lead***	--	--	--	--
"Boosters", such as Iso-Octane, Iso-Hexane, or Iso-Pentane	--	--	--	--
SCRAP IRON AND SCRAP STEEL				
Number 1 Heavy Melting Scrap	--	--	--	6,373 Tons
All Other Scrap	--	--	--	2,943 Tons

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

September 2, 1941.

Source: Office of Merchant Ship Control, Treasury Department.

* Any material from which by commercial distillation there can be separated more than 3 percent of aviation motor fuel, hydrocarbon or hydrocarbon mixture - President's regulations of July 26, 1940.

** Aviation Gasoline.

*** As defined in the President's regulations of July 26, 1940.

(CONFIDENTIAL)

C
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Y

PARAPHRASE

A telegram of September 2, 1941 from the American Consul at Kunming reads substantially as follows:

The Chinese authorities are reported in the Kunming press to have opened the Yunnan-Burma Highway to unrestricted transportation of commercial goods of sixteen classes. This measure was said to have been taken at the request of the Government of Burma. The goods affected are chiefly cereal foods, cotton and cotton products, metals, machine tools, cement, petroleum products, chemical materials, medicine, salt, hemp sacks, communications and electrical materials, (?), and articles for schools.

Between Ipinglang and Lufeng, a little more than one hundred kilometers from Kunming, there occured a landslide which delayed traffic five days. One-way traffic is temporarily moving as the road was repaired on August 30.

FE: JD:NHS

9-5-41

Copy:bj:9-8-41

DEPARTMENT OF STATE
Washington

In reply refer to
EA 840.51 Frozen Credits/3255

September 2, 1941

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and transmits a copy of telegram No. 341, received on August 28, 1941 from the American Consulate General in Beirut, concerning the release on August 26 by Free French authorities of British and Palestinian assets blocked by the decree of December 13, 1940.

Enclosure:

From Consulate General,
Beirut, No. 341.

C
O
P
Y

KD

GRAY

Beirut

Undated

Rec'd. August 28, 1941

11:25 a. m.

Secretary of State,

Washington.

341.

Decree issued August 26 by Free French authorities releases British and Palestinian assets blocked by decree of December 13, 1940, the text of which was transmitted to the Department with report dated December 23, 1940.

ENGERT

WSB

eh:copy
9-3-41

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TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE September 2, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£103,000
Purchased from commercial concerns	£123,000

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

The discount on the Cuban peso narrowed to 1/2% this afternoon, the best rate for that currency in more than three years. The advance was attributed to the prospect of an expansion in Cuban sugar shipments to this country under the recently increased quota. Today's announcement that a hearing would take place next week on reduction of our Cuban sugar tariff was also an important factor.

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

Canadian dollar	10-9/16% discount
Argentine peso (free)	.2374
Brazilian milreis (free)	.0505
Colombian peso	.5800
Mexican peso	.2070
Venezuelan bolivar	.2765
Uruguayan peso (free)	.4425

In the unofficial exchange market in Shanghai, the yuan was quoted at 4-3/4¢, representing a decline of 9/32¢ from the quotation of August 30. The sterling-dollar cross rate worked out to 4.05-3/8, off 1-3/8¢.

We purchased $1,125,000 in gold from the earmarked account of the Bank of Mexico.

No new gold engagements were reported.

In London, spot and forward silver were again fixed at 23-1/2d and 23-7/16d respectively. The U.S. equivalents were 42.67¢ and 42.55¢.

The Treasury's purchase price for foreign silver was unchanged at 35¢. Handy and Harman's settlement price for foreign silver was also unchanged at 34-3/4¢.

We made six purchases of new production silver totaling 870,000 ounces under the Silver Purchase Act, all of which was bought for forward delivery. Of this amount, 600,000 ounces came from Peru, and 270,000 ounces from Honduras.

The Federal Reserve Bank's report of August 27, listing deposits of banks in Asia with the New York agencies of Japanese banks, showed that such deposits totaled $56,224,000, an increase of $12,000 since August 20. Also reported were selected items from the statement of the Yokohama Specie Bank's New York Agency. The latter's principal dollar liabilities to and dollar claims on Japanese banks in Asia stood as follows on August 27:

		August 27	Change from August 20
Liabilities:	Deposits for Japan and Manchuria........	$41,302,000	+ $ 31,000
	Deposits for China......................	9,788,000	+ 3,000
"	: U.S. Treas. Bills, comm. paper, etc.....	25,721,000	- 119,000
Claims	: Loans..................................	$18,397,000	- 228,000
"	: Other - mainly Jap. import bills........	8,368,000	+ 785,000

CONFIDENTIAL

British Embassy,
Washington, D.C.,
September 2, 1941.

PERSONAL
AND SECRET

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

R. I. Campbell

The Honourable
Henry Morgenthau, Jr.,
United States Treasury,
Washington, D.C.

COPY OF TELEGRAM FROM LONDON DATED AUGUST 31, 1941

On 28th off West coast of Crete British S/M sank an enemy motor vessel estimated at 10,000 tons.

2. Suez Canal is open.

3. A Soviet destroyer has cut one moored mine entrance to White Sea.

4. Deucalion on arrival at harbour reported two attacks 27th by two Italian torpedo bomber aircraft. All torpedoes and bombs missed and she shot down one of the bombers during the second attack.

5. German advance south of Leningrad proceeding. If it continues grave danger of city being cut off from Russian forces to the South.

6. Royal Air Force 29th/30th Frankfurt. 100 tons H.E. and 9,000 incendiaries dropped on East Harbour and railway centre. Mannheim. 45 tons of H.E. and 9,000 incendiaries dropped. Many fires reported some of which were large. One M.E. 110 was probably destroyed by a Wellington.

7. 30th. Four coastal command Hudsons scored one hit on a 3,000 ton ship off Norway: three of them are missing.

8. Middle East 28th/29th. Twenty-six Wellingtons from Egypt bombed two aerodromes near Athens. At one four hangars were hit, two caught fire and several aircraft on the ground are believed destroyed. At the other one or more hangars were demolished and fires caused in adjacent woods.

9./

9. 29th/30th. 28½ tons of H.E. and incendiaries dropped on Tripoli (L) Harbour. One merchant vessel of 8,000 tons and another of 5,000 tons set on fire and a third of 5,000 tons blew up; petrol dump exploded and extensive fires caused in dock area. A torpedo aircraft is believed to have hit an 8,000 ton enemy merchant ship off east Sicily.

10. 30 Blenheims attacked 2 ammunition factories in Sicily and made six direct hits on power house of both factories; damage considerable.

11. German Air Force. Tobruk 27th. 40 dive bombers attacked and sank one ship. One enemy aircraft shot down and three others probably destroyed.

BRITISH EMBASSY,
WASHINGTON, D.C.,
SEPTEMBER 2, 1941.

CONFIDENTIAL

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Paraphrase of Code Cablegram
Received at the War Department
at 1:25 p.m., September 2, 1941

London, filed: 5:35 p.m., September 2, 1941.

1. British Air Activity Over the Continent.

a. Night of August 31-September 1. A total of 180 tons of HE and 22,200 incendiaries were dropped as follows: Cologne, 90 tons HE, including 5 - 4000 pound bombs, and 6800 incendiaries; Essen, 8 tons of HE and 3400 incendiaries; searchlights in the area of Cologne, 6 tons of HE; Boulogne, 6 tons HE; secondary targets 70 tons HE and 12,000 incendiaries.

b. Day of September 1. A total of 417 fighters were employed as follows: 183 in the protection of shipping, 127 on interception patrols, 80 on offensive operations, and 27 on special missions. 12 Blenheims were dispatched to attack airdromes in France but abandoned their mission because of unfavorable weather.

c. Night of September 1-2. 4 bombers were engaged in sea mining off Great Belt. 54 bombers were dispatched to attack Cologne.

2. German Air Activity over Britain.

a. Day of August 31. 10 reconnaissance aircraft were employed.

b. Night of August 31-September 1. 10 fighters, 10 reconnaissance aircraft and 40 long range bombers were used.

c. Day of September 1. Defensive fighter patrols were maintained. Reconnaissance of shipping was carried out. A small sweep was made over East Kent and an unidentified aircraft flew

CONFIDENTIAL

over Plymouth.

d. <u>Night of September 1-2</u>. Raids were carried out in the area of Newcastle and Middlesbrough. There was also some activity against shipping off the northeast coast.

3. <u>Aircraft Losses Reported</u>.

a. <u>British losses</u>. 1 Spitfire and its pilot were lost and 2 Spitfires damaged on September 1. During the night of September 1-2, 1 bomber failed to return from the raid on Cologne.

b. <u>Axis losses</u>. During the night of September 1-2, 1 Ju-88 and 1 He-111 were shot down over England by Beaufighters.

4. <u>British Air Activity, Other Theaters</u>.

a. <u>Mediterranean Theater</u>. 16 Wellingtons attacked airdromes at Calato and Maritsa, dropping 18 tons of bombs.

5. <u>Axis Air Activity, Other Theaters</u>.

a. <u>Middle Eastern Theater</u>. 14 enemy aircraft attacked Port Said and Alexandria during the night of August 30-31. Royal Air Force aircraft were able to make two interceptions. The results of these have not been reported.

LMB

I. B. # <u>23</u>, 9/2/41, 4:00 p.m.

Distribution:
- Chief of the Army Air Forces
- State Department (2)
- War Plans Division
- Office of Naval Intelligence (2)
- G. H. Q.
- Record Section
- Intelligence Branch
- Secretary of Treasury
- A.C.N.A.
- Section File
- Collection Section

- B.R.
- G-3
- A.C.
- CE,B ANS

RESTRICTED

G-2/2657-220; No. 482 M.I.D., W.D. 11:00 A.M., September 2, 1941

SITUATION REPORT

I. Eastern Theater.

Ground: German troops hold six small bridgeheads on the eastern bank of the Dnepr River below Kiev. These bridgeheads from south to north are as follows: Opposite Berislav, opposite Nikopol, Zaporozhye, opposite Dnepropetrovsk, opposite Cherkassi, opposite Kanev.

The German drive southeastward from Gomel in the direction of Kharkov made moderate progress on August 29.

The mechanized spearhead divisions of the German armies leading the drive, reached Voronezh on the Bryansk—Kiev railroad, and the north bank of the Seim River, twelve miles northeast of Konotop.

Farther to the northwest, a German infantry column has reached an area fifteen miles northeast of Chernigov. To the southwest of Chernigov, a German column has established a small bridgehead on the east bank of the Dnepr.

Russian counterattacks continue on the Yartsevo—Roslavl—Bryansk front.

To the east of Velikie Luki, a German Army has reached and occupied Toropetz.

The battle on the Leningrad front continues.

Strong German forces (at least ten divisions) advancing from Novgorod in a northeasterly direction have seized a forty-mile stretch of the Moscow—Leningrad railroad.

In the direction of Leningrad, the advance down the railroad has reached Tosno, a town 35 miles southeast of the city.

Advanced German mechanized units pushing north and northeastward from the Moscow—Leningrad railroad, have reached the Leningrad—Yaroslavl railroad at two points. Berlin claims privately that the important railroad station of MGA was captured on August 29.

Berlin also reports privately that a strong Russian group has been encircled to the north and northeast of Luga.

II. Western Theater.

Air: Cologne was bombed by night and a heavy sweep over the invasion coast this morning was reported.

Newcastle was the objective of a heavy German raid.

III. Middle Eastern Theater.

Ground: There have been minor skirmishes at Tobruk, and some Axis artillery fire along the front near Sollum.

Air: Heavy bombing of Tobruk by a hundred Axis planes was reported by the British.

RESTRICTED

September 3, 1941
8:35 a.m.

Mr. McConnell: Mr. Morgenthau?

HMJr: Talking.

Mc: McConnell.

HMJr: Hello, McConnell.

Mc: Well, how are you?

HMJr: Okay.

Mc: The apple boxes.....

HMJr: Yes.

Mc: Shipped Saturday night in NKP-19346.

HMJr: In what?

Mc: In car NKP.

HMJr: N.....

Mc: NKP.

HMJr: .....KP.....

Mc: 19346.

HMJr: 19346.

Mc: Yeah. And I'm putting our traffic man at Buffalo on it to see where it is. It should have been there before now.

HMJr: Well, your man told Arthur Hoose it was only being loaded Tuesday.

Mc: Well, there's something cock-eyed there somewhere.

HMJr: Well, the whole thing's been cock-eyed.

Mc: Yeah. Well, I.....

HMJr: I was promised some boxes by Babcock by the fifteenth of August.

Mc: Yeah. I understand that they wouldn't let them stop on a defense contract there.....

HMJr: Well, but.....

Mc: .....to pack these boxes.

HMJr: Well, it's just ordinary business courtesy to let me know that.....

Mc: Why absolutely. There's no question on that.

HMJr: What?

Mc: I'm.....

HMJr: I mean, you take better care of a regular farmer.

Mc: (Laughs) Yeah. Well, my ears are red on this, and I'm doing everything now to move that car in there. I didn't know anything about it until it came in yesterday.

HMJr: Well, it went out Saturday, you say?

Mc: Well, they - the report is Saturday night and they gave me the car number. Now, if they've.....

HMJr: Well, I don't think it left there that night, because Hoose talked Tuesday morning.....

Mc: Yeah.

HMJr: .....to your manager at Crown Point, and he said he was only loading it Tuesday.

Mc: Of this week?

HMJr: Yes. So I don't believe they shipped it Saturday.

Mc: Yeah. Well that was - Tuesday was yesterday.

HMJr: Yeah.

Mc: Well, there's something wrong there somewhere.

HMJr: No, I don't believe they shipped it Saturday.

Mc: Uh huh. Well, I'm going to find out. That's the report up there.

HMJr: No, because Hoose called up yesterday morning - I don't know the name of your manager at Crown Point - and talked to him....

Mc: Yeah.

HMJr: .....and reported to me that the car was only being loaded yesterday.

Mc: Uh huh.

HMJr: I wish - I really - I'm getting kind of tired of being kidded on the thing.

Mc: Well, I'm not trying to kid you.

HMJr: Yeah.

Mc: If my information is wrong, I'm being kidded, too.

HMJr: Well, I can only go by what Arthur Hoose - the message that I got from him.

Mc: Well now, Arthur's handling it down there, huh?

HMJr: Yes.

Mc: Well, we'll try not to bother you on it, and I'll get that car in there if we have to put a truck-load in there for you.

HMJr: Well, of course, that's what they said originally.

Mc: Yeah. I don't understand what's happened there.

HMJr: They said originally they'd send me part of it by truck by the middle of August so we could make up the boxes, and the rest would be there within a couple of weeks.

Mc: Yeah, well.....

HMJr: And I've never had.....

Mc: .....you're not half as mad as I am.

HMJr: And I never had any message and I took it for granted when Babcock said it'd be so that it would be so and I could forget about it.

Mc: Yeah, well you should have been able to.

HMJr: But here we are starting McIntosh, we're in greenings, peaches - I've got to pay locally twenty cents a box and I can't get them.

Mc: Uh huh. Well, if we can get them in there today, will it take care of you?

HMJr: Well, it'll help like hell.

Mc: Yeah. (Laughs) All right.

HMJr: But I'd really like a telegram from you. I'd like to know; because - whether the car really left there yesterday.

Mc: Yeah. All right. I'll report definitely where the thing is before the day is over.

HMJr: Well, either telephone or telegraph, because I'm really - it's got me all bothered.

Mc: Yeah. All right, Mr. Morgenthau.

HMJr: Thank you.

Mc: (Laughs) As I say, you aren't half as mad as I am about it.

HMJr: Well, I want the boxes and I'm terribly disappointed in the GLF.

Mc: Yeah, uh huh.

HMJr: Okay.

Mc: Yeah. All right.

HMJr: Thank you.

September 3, 1941
8:50 a.m.

Clifton Mack: Good morning, Mr. Morgenthau.

HMJr: Is this Cliff Mack?

M: Yes, sir.

HMJr: Good morning.

M: Good morning.

HMJr: Cliff, I've been hearing all this stuff about these various complaints that you fellows don't get out the orders fast enough.

M: Yes.

HMJr: But I don't believe it. I think - personally, I think it's just some more of this blankety-blank statistics.

M: Yes.

HMJr: Now, are you going to be able to get that straightened out?

M: Yes, I am. We're - I've talked to people over there at Lend-Lease since that report went out.....

HMJr: Yeah.

M: .....and I told them that that report didn't give a complete picture.....

HMJr: Yeah.

M: .....that it didn't identify a lot of the money which is, in effect, frozen.....

HMJr: Yeah.

M: .....that we have these orders running over a period of time.....

HMJr: Yes.

M: .....and until we get allocations from OPM.....

HMJr: Yeah.

M: .....we're - our hands are tied. We just can't make a purchase.

HMJr: Well, now, what I was thinking was this. There's a new Director of Purchase, isn't there?

M: Yes, there is.

HMJr: What's his name?

M: MacKeachie.

HMJr: MacKeachie. And if you could get together the facts, I'd like to send for MacKeachie and have you over here and let's sit down - I'd like to sit down with the two of you.

M: Very good.

HMJr: If you could sort of list your troubles.

M: Yes, I'd be happy to.

HMJr: You see?

M: Yes.

HMJr: The trouble is with MacKeachie's office, is it?

M: Yes.

HMJr: Who else?

M: Well, MacKeachie has taken over Nelson's job.

HMJr: Yeah.

M: Then the primary difficulty has been in this priority situation.

HMJr: Who would that be?

M: Well, that now is Nelson.

HMJr: Well, why couldn't I ask Nelson and MacKeachie and you?

M: Well, very good.

HMJr: Well, get the stuff ready; and as soon as you're ready to shoot, let me know and I'll ask the two of them to come over.

M: All right, sir, I'll sure do that.

HMJr: Well now, let me just say this now. Wait a minute. Could you be ready - could you be ready by three o'clock Thursday?

M: Yes.

HMJr: What?

M: Yes, I'm quite sure I could.

HMJr: Or is that crowding you too much?

M: No. I'll be ready by that time.

HMJr: What?

M: I'll be ready by that time, yes, sir.

HMJr: Well, I tell you what I'm going to do. I'll ask MacKeachie and Nelson to come here at three o'clock.....

M: Very good.

HMJr: .....on Thursday, and you be ready - should we have anybody like Philip Young or anybody?

M: Well, I think that might be a good idea if Phil Young came over, yes, sir.

HMJr: Or General Burns.

M: Well, I think Phil Young is better. He has a better picture than General Burns does.

HMJr: Philip Young.

M: Yes, sir.

HMJr: Three o'clock, and I'll invite them and I'll tell them what it's about and you be ready to state your story.

M: Very good.

HMJr: You see?

M: All right, sir.

HMJr: And don't be afraid to call a spade a spade.

M: No, that's perfectly all right. I'll be happy to do it because I think it's all - I think it's a situation that Nelson and MacKeachie and the rest will understand that has to do with allocations of materials for a long term period.

HMJr: Does Oscar Cox appear in this at all?

M: I don't believe he does. He's always very helpful, because I think he's about the most capable fellow they have over there.

HMJr: Well, I'll ask him to come, too.

M: Very good.

HMJr: And then you be ready to state your subject. But don't - I mean, tell them - just put it to them, how the hell can you buy if you don't get the clearances.

M: Well, that's it.

HMJr: What?

M: That's it. I'm trying now to work out a plan that I think will be the answer to it, and that is to get authority to make purchases according to the period of time that is specified. In other words, if the British want zinc requirements for six months.....

HMJr: Yeah.

M: .....if we could place an order for six months and get clearance from OPM on that basis, then the whole transaction is complete.

HMJr: Well, be ready to state the thing and take this attitude, if we can't do it reasonably, we'd rather not do it at all.

M: Well, of course.

HMJr: See?

M: Yes. I can well understand that.

HMJr: And have a little memorandum for me that I can sort of follow you on, you see?

M: Yes, sir, I'll.....

HMJr: To put on my desk.

M: Fine.

HMJr: Three o'clock Thursday.

M: All right, sir.

HMJr: Thank you.

September 3, 1941
9:00 a.m.

RE PRICE CONTROL

Present: Mr. White
Mr. Kuhn

H.M.Jr: I thought you (White) ought to go to that meeting with Wallace.

White: Yes, and if you don't want me to be late I will have to leave in a couple of minutes. There are two things I would like to speak of. At ten-fifteen you have a meeting on inflation. I would very much like, if it is agreeable to you, to have one of my assistants who knows --

H.M.Jr: The answer is yes.

White: ...at least as much as I do on the subject here.

H.M.Jr: At least he will be half-baked on the subject, then.

White: That is right.

H.M.Jr: The answer is yes.

White: The name is Mr. E. M. Bernstein. He is a professor of the University of North Carolina and has been with me a long time.

H.M.Jr: We won't hold that against him.

White: Secondly, Ferdie and I talked this matter of the draft over briefly and he has done all the work. This is the first time I have seen the draft. I glanced over it hurriedly. My impression is that I think on the basis of this, on a second draft, and it doesn't include many of the things we both agreed you would want in the changes, the second draft which we could have ready and I could work on the whole afternoon, it will be very close to what you want.

H.M.Jr: He is getting diplomatic.

Kuhn: He is all right.

H.M.Jr: He thinks it is a wonderful draft and by afternoon we can really fix it up and make it good.

White: No, it is a nice job and he did it all himself.

Kuhn: This is nineteen minutes. It is too short. There are three or four ideas that are missing from it and ought to be put in. That is what I think Harry means.

White: And there are one or two things --

H.M.Jr: Where are the charts of Haas'?

White: I haven't seen them.

H.M.Jr: What else do you want to get over?

White: Just those two things. All right?

H.M.Jr: Yes. I think that you ought to go to these meetings when I can't go.

White: And I have a few things to suggest for them. I will tell you about them but there is nothing - merely suggestions of what they may investigate.

H.M.Jr: What?

White: Well, there is one on - there is - the Italians still keep an important airline running from Italy to Brazil and it has immense propaganda value and it is used in Spain.

H.M.Jr: The Condor Line.

White: I was wondering whether they might not want to investigate the possibilities of telling Spain that we may curtail the supply of oil to them unless they stop refueling that plane because if they don't stop refueling it they can continue to go. Merely to explore it.

H.M.Jr: That is all right. What else?

White: This Swiss - we have got some evidence that the Swiss are being used very, very - are very useful to the Germans. I know that he is related. I thought it might be delicately suggested that the subject might be explored by a sub-committee.

H.M.Jr: Well now, not through frozen funds, are they, being used?

White: No.

H.M.Jr: How are they being used?

White: Oh, their orders are giving them - their factories are giving them tremendous supplies and they are utilizing the country just as though it was part of theirs.

H.M.Jr: That is all right.

White: That is it. Then there is a third item that slips my mind at the moment but it is of no more importance than that.

H.M.Jr: When you come back give me one page. (9-5-41)

White: I will do that.

H.M.Jr: All right, Harry.

(Mr. White left the conference).

Kuhn: I don't know about using the charts at this Boston thing.