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September 22, 1941
10:15 a.m.

RE EXCESS RESERVES

Present: Mr. Morris
Mr. Haas
Mr. Stewart
Mr. White
Mr. Bell

H.M.Jr: Well, where do we stand?

Bell: Well, we don't stand very much together. We had a meeting Saturday morning with the Federal Reserve Board people and Mr. Haas had drawn up quite a lengthy joint statement, draft of a joint statement, and the Federal Reserve Board had also drawn a statement which wasn't supposed to be joint, but which was very short and the whole question between the two staffs --

H.M.Jr: May I interrupt you? Is the Treasury together?

Bell: I think the Treasury is pretty well together. I think there may be a difference of opinion on the effect of raising reserve requirements or whether it is necessary, but I think the Treasury would go along on raising reserve requirements to the present limit provided there is a statement to the effect that there would be no request for additional authority at this time. We will let the market know we are not going to ask for authority unless we consider at some later time that it is absolutely essential. It is on the second

point that the board--

H.M.Jr: Do you mind if I interrupt you? Is there any dissension from that, George? You don't mind, do you?

Bell: No, no.

Haas: No, I think, Mr. Secretary, that the statement which Dan asked me to try to draft so as to bring the meeting to a head--

H.M.Jr: Could all of you come closer so I don't have to wear my bifocals.

Haas: I think this statement as now revised, that everybody in the Treasury would be happy with it. We don't know what your opinion would be.

Bell: We would be happy to make a recommendation to the Secretary for his decision.

Haas: That is right, along this line.

H.M.Jr: Well, what is it?

Haas: It is about three pages. You can read it.

H.M.Jr: We will read it. Has Walter Stewart seen it?

Stewart: Just glanced at it hurriedly.

H.M.Jr: Have you seen it, Harry?

White: Yes, I have.

H.M.Jr: Are you--

White: With one phrase, which might be the significant one--

Haas: I think I fixed it.

Bell: Well, you saw it Saturday.

Now, George has revised it.

H.M.Jr: We will put it this way, Harry: if there is any place that you don't, just raise your hand, will you? Go ahead.

Haas: "The Secretary of the Treasury, the Board of Governors of the Federal Reserve System, the Supply Priorities and Allocations Board, and the Office of Price Administration today made the following joint announcement:

"The Board of Governors of the Federal Reserve System--"

H.M.Jr: Wait a minute. Who is going to make this?

Haas: "The Secretary of the Treasury, the Board of Governors of the Federal Reserve System, the Supply Priorities and Allocations Board - " that is Nelson - "and the Office of Price Administration."

H.M.Jr: All right. You are going to make this joint?

Haas: Yes. "Today made the following joint announcement.

"The Board of Governors of the Federal Reserve System has today increased the reserve requirements for member banks by approximately one-seventh. This increase in reserve requirements will become effective at the opening of business on _____, 1941. The new level of required reserves is the maximum authorized by existing statute.

"The following table shows present requirements and the new requirements which go into effect on _____, 1941:"

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Then there is a table.

"Excess reserves of member banks on September 17, 1941, amounted to approximately \$5,250,000,000, a decrease of approximately \$1,690,000,000 since the all-time high reached on October 23, 1940. A survey of the reserve position of individual member banks shows that a large majority of the _____ member banks will be able to meet the increase in requirements out of existing excess reserves, and all but a very few of the remainder will be able to make up the difference by drawing upon a portion of their balances with correspondent banks. A few scattered banks may not find it possible immediately to meet the increase in requirements out of liquid funds now at their disposal. The Board is prepared to take steps to give such banks ample time to make the necessary adjustments.

"The probable reserve position of the major classes of member banks before and after the increase in requirements, as estimated on the basis of present distribution of reserves and deposits, is shown in the following table.

"The action of the Board of Governors in increasing reserve requirements to the existing statutory limits was taken after consultation with and with the full approval of the Secretary of the Treasury. The Board of Governors considers the present increase in reserve requirements adequate, and has no present intention of asking the Congress to raise the existing statutory limits, or otherwise increase the powers of the Board over member bank reserve requirements."

H. M. Jr:

Excuse me. This is a technical thing. Does this Congress go out on the first of January?

Bell: Yes, sir, it does.

H.M.Jr: I am just wondering if we said, "asking this Congress," you see.

White: We discussed that.

H.M.Jr: What is this Congress, the seventy-sixth or seventy-seventh?

Bell: I thought it was the seventy-second. I don't know. I look at it every day and I don't know.

H.M.Jr: Well, anyway, it is just a point. They may not want to commit themselves forever.

White: They said they wouldn't. We raised that point. That is one bargaining point.

White: To commit themselves to this Congress.

Bell: I am not so sure that this Congress does go out. This is the first session of it.

Stewart: This session goes to '42, doesn't it?

Bell: Yes, it is this session of the present Congress, that is the way it ought to read.

H.M.Jr: I am sorry, George.

Haas: That is all right.

"The Secretary of the Treasury and the Board of Governors of the Federal Reserve System will do everything possible, through the exercise of the powers under this control to cooperate with the Supply Priorities and Allocations Board and the Office of Price Administration in combating inflation and in securing the best possible allocation of our

national resources to the difficult tasks which confront us. The Supply Priorities and Allocations Board and the Office of Price Administration will likewise cooperate fully with the Treasury and the Board of Governors by the use of their powers to restrain the aggregate volume of non-essential capital expenditures and to prevent unwarranted price increases.

"It is the opinion of both the Secretary and the Board of Governors that none of these purposes would be served by a further increase in reserve requirements in the foreseeable future. The situation calls--"

H.M.Jr: Wait a minute. What does that mean?

Haas: Well, at the moment we can't see that anything will be served by a further increase in reserves.

H.M.Jr: Well, after this has been done?

Haas: That is right.

H.M.Jr: Oh, we are not--

Haas: Further increases. I will read it again.

"It is the opinion of both the Secretary and the Board of Governors that none of these purposes would be served by a further increase in reserve requirements--"

H.M.Jr: Well, you have got to make--

Haas: I see the point, after you have done this.

H.M.Jr: After you have done this, there is no use doing anything further, but the future - if a fellow was reading, he might think - you see what I mean?

Haas: Yes, it is ambiguous.

"The situation calls rather for the application of selective controls, designed both to stimulate expansion in fields necessary for the defense effort and to check it in non-essential fields.

"The most important task confronting us is to crush the forces of aggression, and the next most important is to preserve our economy and avoid inflation. With this in view, the Secretary of the Treasury wishes to emphasize that Treasury policy is guided by the primary criterion of achieving the greatest results upon the physical level; and the Board of Governors wishes to emphasize that its monetary policy will be directed for the duration of the emergency primarily to assisting the Treasury in achieving this end."

H.M.Jr: Well, the last is a little soap-boxy, but I guess it is all right.

White: The fight is over two sentences, the one that you picked on--

H.M.Jr: Which?

Bell: The one is about going to Congress, and the other is about further increases.

White: That they refused to accept up until last night.

Bell: That is right. And while there isn't any fight or - we thought that for psychological reasons and the reaction of the public that there ought to be a joint statement.

H.M.Jr: Well, that is all right.

Bell: And every time we have gotten a statement from

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the Board, they have put it on the basis of a single organization making a statement. I assume that they don't like the joint statement. I think they have a feeling that the question of raising reserve requirements is entirely one for the Federal Reserve Board and that if they didn't assume that responsibility that Congress would say, "Well, you are not doing your duty. We made you independent." And I think maybe Ronald Ransom feels that that would be the attitude of his Board when he takes it to them. I don't think he cares so much.

H.M.Jr: Eccles always wanted a joint statement.

White: Well, there is something more than that I think that lay behind our feeling that that sort of an approach would be desirable. We felt that that would be an assurance to the people as a whole, that the problem of inflation has to be tackled on many fronts and that it - it puts the raising of the Reserve requirements in its proper perspective and that by getting these various agencies who have an important part in this fight against inflation to come out together, I should think on the whole it would be very reassuring to people who are worrying about it, and I don't see that they in any way give up any of their responsibility by saying that they are collaborating with all the agencies who have to attack this because they admit quite freely that raising reserve requirements is at best only a very minor act.

H.M.Jr: Well, I had a pretty good cross-section Friday.

There was every bank present and some of the officers and every savings bank and every

industrial bank in Detroit. They were there for lunch Wednesday.

They asked me about it. They didn't suppose I would want to talk. I said, "Sure, I will talk. What do you want to know about reserve requirements?"

What is the head of the First National there?

Bell: McLucas.

H.M.Jr: Yes, pretty capable but a conservative citizen and also an official of his bank was there.

What McLucas said was this. It pretty well represented what they said. "We are pretty well prepared for you to raise the reserve requirements, and it doesn't bother us. We don't think it is very important one way or the other. But what we don't like is this threat holding over our head that you are going to go for additional authority. If that was removed, then we would go on about our business and be perfectly happy, but we don't want that thing hanging over our head."

That was the way that group felt. I mean, it was the uncertainty, you see, of the Federal Reserve going to ask for more authority.

Bell: I got the same thing this morning from Jack Riddle who was the economist of the Bankers Trust.

H.M.Jr: Who?

Bell: Jack Riddle.

H.M.Jr: Who was the--

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Bell: The economist of the Bankers Trust Company in New York. He called me and said that his bank feels the same way about it. He thinks you might go ahead and raise the reserve requirements up to the present limit but leave the authority for the additional.

H.M.Jr: I tell you how I feel from what you tell me. I don't think the Federal Reserve has given an inch. I think the usual typical thing, they come over here with pretty words and when it gets down to the final analysis they don't give an inch. My own feeling is, and I want you to check me carefully on this, Walter, I don't think that the actual effect of holding down prices at this particular junction of raising the requirements - I don't think it will have hardly any effect at all, and particularly - we have had one meeting which you didn't attend and which was terribly important and which Bell organized.

We met Henderson and Eccles - I mean Nelson and a man by the name of Galbraith representing Henderson and the Federal Reserve. The thought at that luncheon was, this was Wednesday, that if Nelson does a good job he can pretty well control the supply of raw materials at their source and if he does that, then this whole question of credit plays a very secondary importance. In other words, he has told Mayor LaGuardia he can't have steel for the city of New York. He can't have any steel. Well, that takes care - if he does that for every city, that takes care of are the cities going to borrow, and if he says there is so much steel to go into private housing and so much for refrigerators and so much for automobiles, the question of the fellow borrowing, how long they borrow for these things, would be secondary, isn't that right? So I am willing

to go along and raise the requirements but I am not willing to have hanging over the - my head or the bank - heads of these people that we are going to go up and ask for legislation. So if they won't do it my way, Dan, I am willing to play along with Nelson and Henderson and just sit still and say nothing, and I will explain why, that the Federal Reserve, one, wouldn't make a joint statement with me and these other two agencies and two, that I was willing to do this but I don't want this hanging over the head of the Treasury and the people to whom we have to sell the bonds.

Bell: Well, I hope you won't have to do that.

White: Isn't there a compromise possibility to achieve that?

H.M. Jr: Listen, do you want to bet me a stick of chewing gum? I will state my bet first. I will bet you a stick of chewing gum that the Federal Reserve doesn't give one inch on going to Congress. Wait a minute, let me finish...on going to Congress for additional authority. I will bet one five cent package of chewing gum that they won't give.

White: Not if you say something, and this is the compromise I had in mind. I am afraid they won't give either because of the way they ended up.

H.M. Jr: A package of chewing gum, come on, be a sport.

White: But supposing you were to take this position, that they can make any statement they want about raising present reserve requirements, and then you, in your own

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press conference, you say that you are willing to go along with this but that you are opposed to the other step, but that the Federal Reserve Board, for reasons of their commitment, don't feel that they can go along with you but they are willing to say, or they have said, that they will not ask for these powers unless they have your acquiescence. I thought Ransom said that.

Bell: At least he said that there would be no action taken on the reserve front without the full concurrence of the Treasury Department.

H.M.Jr: Listen, Dan, I have been in this town for eight years and they tell me that. Who got Senator Taft to introduce the Federal Reserve Bill?

Bell: I shouldn't think they did. If anything killed it, that did.

H.M.Jr: You know darned well - I mean they had their statement and simultaneously they had their bill and they didn't know anything about it. You are getting in Dutch the first day in the Government, Morris, at its lowest level. Is that right, Walter?

Stewart: I am afraid that is true. One of its typical levels, anyway.

White: I think if you kept your position they would have to come around to your position so if you want to stick to that position, they will have to come to it because they cannot afford to come and ask for powers which are in opposition to the view of the Treasury.

H.M.Jr: Harry, I am perfectly willing and if they don't come I will say it at the A.B.A. meeting,

that I was in favor of raising the requirements but I don't want it hanging over my head or the banking fraternity that they are going to go up at this time until we see - give Nelson and Henderson the balance of this year to see whether their thing can work.

Stewart: I don't think it is very convincing so far as the banking fraternity is concerned. It is not to be expected that the banking fraternity wants it hanging over their head. That is the point of their business.

H.M. Jr: I don't want it over my head either. I was perfectly willing to go along with them and I suggested that the four agencies make a joint statement and they turned me down on that.

Haas: Well, isn't it the point that you have --

Bell: I wouldn't say they have turned you down yet, Mr. Secretary. They are perfectly willing to raise reserve requirements and say nothing about the additional authority, just let that stand for future discussion, but they think that that compels you to make a statement.

H.M. Jr: What?

Bell: Supposing they just said we will raise

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reserve requirements up to the present limit and say nothing about going to Congress for additional authority.

White: Eccles said he didn't think that would be fair, and it wouldn't be.

Bell: Eccles said that wouldn't be fair to the Treasury because he said our position is clear.

We have made a recommendation to Congress for additional authority and then we go to the Treasury and say, "How do you feel about it?"

And then you have got to make a statement which shows that the two are not together and he doesn't like that.

H.M.Jr: Since December, or whenever it was when the Federal Reserve made that statement, we have traveled a long way. The long way we have traveled was, from that time to this, how much of reserves have dropped?

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- Haas: A billion six hundred million.
- H.M.Jr: And they will continue to drop, but they don't recognize it.
- Haas: They don't want that statement in there either, by the way.
- White: I think you have the trump card, but it is a question of how much you will have to use it.
- Bell: Here is a statement we got this morning.
- H.M.Jr: I won't do it. They have got to recognize the fact that reserves are going down, that they have gone down over a billion and a half, and that they will continue to go down, and that there is a possibility of developing an entirely new technique, and it is an entirely new situation, and if they don't want to recognize that, it is just too bad, and I am not going to fool around. I have no time to waste. I have got a lot of things to settle.
- Bell: We got a draft yesterday --
- H.M.Jr: Wait a minute, give Walter a chance. Come on Walter, let's have it.
- Stewart: The trouble with this is it absolutely fulfills my worst forebodings, to start in with a discussion about what you are going to do about a general situation. You end in a quarrel with the Reserve Board, after having gone through one of these preliminary love feasts and a long discussion between the two staffs, you end where you started.
- White: No, we don't. We started - I can speak for

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myself. We started with the idea of not letting them have any increase, and it seems to me we have compromised to give them the increase they ask for now, provided they now say they will not ask for further.

It seems to me we have gone a long way.

Stewart: I meant in terms of what actual effect you get. In effect, what you get is an increase in reserve requirements which the New York banks have been expecting, and have adjusted themselves for.

Bell: That is pretty well discounted, yes.

Stewart: The second point is an affirmation that four Boards are going to work together on a common problem. It is to be expected. There is no news in that.

H.M.Jr: Oh yes, there is, if you are in Washington.

Stewart: And there won't be any more working together than there has hitherto in consequence. You may or may not work with the other two, but not with the Reserve Board.

H.M.Jr: Walter, will there ever be as long as Eccles is there?

Stewart: As we said before, these personalities were here all the time, and were here in every other crisis we have faced, and that isn't any different.

H.M.Jr: I suppose the fact that they have taken Maynard Keynes out of the Board of the Bank of England is a straw in the wind.

Bell: What is that, cooperation?

H.M.Jr: How would you do it, Walter?

Stewart: I don't know. I don't like to make a criticism when I have nothing constructive to suggest. But this ends about where I thought it would end, in nothing.

Bell: I haven't given up hopes yet that we can get together. I really haven't.

H.M.Jr: I thought that Ronald Ransom had a change of heart. I have seen him do this milk and honey stuff before. And it always ends up the same way. But I thought, "Well now, this is an emergency and they recognize that it is an emergency." But evidently they don't.

Bell: Well, they have had this change of heart, that they certainly will do nothing in this picture without the full concurrence of the Treasury. There has been that much change of heart.

Now, I think they feel just about like every other Government department in Washington, that when they exhaust their authority, they ought to have some more authority. That is the way they feel about it.

H.M.Jr: Well, what would you suggest. What would you suggest my doing?

Bell: I think the two staffs have got to continue to work, and I think maybe you and Eccles have got to get together and discuss it. I haven't given up hopes that we can't get to some agreement on this now. I think they have come around quite a bit, not a lot, but here is what Goldenweiser sent us, and he doesn't know whether the Board will agree to this, and it doesn't satisfy us: "By

taking the present action, the Board exhausts its power over reserves of member banks under existing law. The question of what additional powers the Board should have and what form these additional powers should take is one for the Congress to determine."

Now, he puts that in because he said it might not even take the form of additional authority over reserves, that we might tackle it from another angle, such as selective control or the ceiling plan that he has in mind.

"In the meantime the Treasury and the Board will continue to watch the situation and to cooperate in every way with other agencies of the Government in an effort to prevent the development of inflation."

There is a basis for agreement in that paragraph, I think, if he will do something about "Congress is to determine it". Don't you feel that way, George?

White:

I definitely feel we have got a lot closer together in the discussion. This doesn't wholly represent, I think, the degree of agreement, but there is that basic disagreement that they have made a commitment --

Pell:

Yes, unfortunately they have got that recommendation before Congress, very unfortunately.

H.M.Jr:

Well, I am changing my mind. I am saying I am willing to let them raise it.

White:

Well, they say they haven't changed their mind on the desirability of further powers.

- H.M.Jr: All right, then do they want to take away the gold devaluation from the President, and do they want to do the Thomas currency and the silver? Do they want to do all of that in there? What about that?
- Haas: That is what I asked them.
- H.M.Jr: They come out directly taking away power from the President that he wanted. Where does he stand on that?
- Bell: I know Donald feels that - of course it can't be undone - it was a big mistake to ever have issued the January statement. He told us that.
- H.M.Jr: But they won't say so publicly.
- Bell: No, that is pretty hard for them to do.
- H.M.Jr: Dan, you might just as well have it a knock-out, drag-out today, because you won't - you might just as well decide it today. I am certainly going to have to decide it if I testify Wednesday, because I am going to be asked Wednesday.
- White: Yes. Did you see those questions? It sounds very much like somebody very conversant with the discussions that have been going on wrote that for Crawford. It was somebody in the Federal Reserve Board. It is very cleverly worded questions. Have you seen them yet?
- H.M.Jr: No.
- White: You will simply have to make up your mind before Wednesday, because those questions are so worded that you can't possibly dodge them.

H.M.Jr: He sent me some questions?

White: Dan sent them to me.

Bell: Ted Goldsmith gave me a list of eight or nine questions which Crawford is going to ask you when you get on the stand, and they are about the reserve requirements, largely. They are about your speech, and so forth.

H.M.Jr: Can you bring them to the eleven o'clock meeting?

White: I have them on my desk.

H.M.Jr: That is fine. Between now and Wednesday we will settle it.

White: You have to, because you cannot avoid answering it. The way those questions are worded and the way they are tied up with your speech, there is simply no way of getting out of them, and to make sure there is no way, four or five questions are different methods of approaching the same thing.

H.M.Jr: Who do you think wrote them for them?

White: Somebody who knows a good deal about the situation wrote it. Who wrote it, I don't know.

Bell: It is a typical Goldsmith --

White: Maybe Goldsmith, because he wants an answer to those questions for his own bulletin.

Bell: I think he writes a lot of questions on the Hill.

H.M.Jr: That is all the more reason they can settle it today or tomorrow or I will settle it on the stand, that is all.

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Bell: I think Ransom would like to have you and Eccles get together for an hour before Wednesday.

H.M.Jr: Eccles isn't here.

Bell: Yes, the whole Board is in town today.

H.M.Jr: Well, then --

Haas: Don't you go up Wednesday?

H.M.Jr: I thought I went up Wednesday.

Bell: He wants you to get together for an hour before the Wednesday luncheon.

I told him if you had to go up Wednesday the luncheon would probably be postponed.

White: Mr. Secretary, I think with your statement we ought to be able to go back. Up to now, Dan has told them that he has not approached you on the statement as we had presently devised it, and therefore it hadn't come to you yet.

Now that it has come to you, and you have turned it down --

Bell: But I did tell them I thought we could get the Secretary to agree on raising the requirements if he could get an agreement that they would not ask for additional authority.

White: Now you can go back to them and say you are ready to agree with that, but not to more, and then give us a chance to work out something, and then maybe we can avoid all that stuff.

- H.M.Jr: Dan, you know where I stood.
- Bell: Yes, but we had an agreement among ourselves that I would not say that I had discussed it with you.
- H.M.Jr: Well, that is all right. But you knew where I was.
- Bell: I knew where you stood.
- White: We will give them another chance before it comes to you.
- H.M.Jr: Is Eccles coming here at eleven o'clock?
- White: Why not call off this eleven o'clock meeting and instead of having it in your office, let's have another meeting in Dan's office, and, Dan strengthened with your position, let's see whether we can't work out something and save most of that discussion here. If we can't, we can't. There is no harm in trying.
- H.M.Jr: What do you think, Walter?
- Bell: I would like to have another ten or twelve hours at it just to see if we can't get somewhere and not --
- H.M.Jr: Let me say this. You might just as well - I am just as glad to say it so you people can here it.
- *(Discussion off the record).
- Stewart: They have a position stated before Congress as of December. They take an action which then gives rise to something in Congress. You have to appear on Wednesday. You also go out to the American Bankers' Association and make a speech. Now, somewhere in that

area, whether you take any action here further or not, or whether you agree on any joint statements, some sort of publicity comes out of those two things, and my feeling would be that whatever publicity comes out of it, you ought not to end in the statement that there is going to be no kind of control except this selective and administrative control with other Boards.

Bell: You say we should not do that?

Stewart: Should not come out when there is the general credit control still left. I wouldn't shut that door myself.

H.M.Jr: Now, wait a minute. All I am saying is this: I am perfectly willing to have them raise the reserve requirements, but I want to give Nelson and Henderson the rest of this year to try out this new technique before we rush up to get these people additional authority. Now, if before the end of the year Nelson and Henderson throw up their hands and say, "We can't do it," O.K., because I think that this is an idle gesture, a futile gesture. I think that Treasury and these two other agencies have worked out something quite new. The Federal Reserve show no indication through their control of credit that they mean business, I mean, on the installment buying. So all I am saying to them is, "Gentlemen, I will go along." I don't give a damn whether it is a joint statement. If they don't - if they simply say after consultation with me, I am not going to force myself on them, but what I say is, give these other two agencies a chance to see whether their thing can work, and don't go running up to Congress and asking for a lot more stuff.

Now, Walter, if they are at all reasonable and if their pride isn't much bigger than they have any right to have, I think my position is a tenable and a fair one.

White:

Well, you don't mind their asking for more powers, provided they don't ask for that specific power. It seems to me that is our concern. They can ask for other powers, provided they are willing to say now that they are not going to ask for powers in the foreseeable future to raise reserve requirements.

Bell:

I don't think they should ask for any powers unless the Treasury is in agreement with them. I don't think that we ought to say definitely that the Board should not have in the immediate future powers to further raise reserve requirements, because this situation is changing so fast that in three months from now we may be the ones that say, "The only way to do this is raise reserve requirements."

H.M. Jr.:

But what I am saying is this, Dan. When they raise reserve requirements, I don't want them to say simultaneously, "And we are immediately going up to get additional powers."

Bell:

I agree with that, and I think the situation ought to be studied and watched as this indicates, and if an emergency comes and we want to raise reserve requirements again and we have to go to Congress, which takes time, they ought to go - we ought to go together and ask for it. I told Ransom that I thought you would be willing, if such an emergency arose, to borrow money and lock it up until such time as they got those reserve authorities, and then they could unlock it. Would you be willing to do that?

- H.M.Jr: Dan, I am willing to do anything humanly possible to stop this spiral from going up.
- Bell: Well, I think that might help them. I don't know whether it would or not. It puts the control in you.
- H.M.Jr: The thing - the situation - any fair-minded person - the situation since last December and today has completely changed. I mean, they thought - they were stupid enough to think that this excess reserves was going to keep going up. They didn't see that gold was going to stop coming in, and they didn't see what was going to happen. They went ahead the whole business and shot the works. Now they want to just continue in the same groove.
- Morris: I hate to ask any questions because I have come in on this so late, but something that always scares me in this kind of a thing in the ultimate future is, you may want to reverse yourself under certain conditions in the distant future, and this Board seems to be very difficult to reverse itself. Shouldn't we be very careful to keep in mind that we may want to do certain things for two months, six months or a year, but in eighteen months you may want to reverse yourself.
- Bell: That is just my point.
- White: The statement says "in the foreseeable future". I think that is a perfectly sound statement. That doesn't mean forever.
- H.M.Jr: You are perfectly right, and what we always do here is, I never lock my hands beyond sunset.

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- Morris: We have got to prevent these other people from locking their hands so they can't reverse themselves.
- Haas: They can reverse under the existing statute.
- Bell: But he has got the same point I had, George, that we don't want to say we are not going to Congress at all to ask for additional authority for the Federal Reserve Board because in thirty or sixty days we might be the ones urging it.
- Haas: It says "the foreseeable future", though.
- White: If there is any danger, any possibility that within thirty or sixty days you are going to reverse your position with regard to excess reserves, I think the time to do that is now, but I don't think on any possible foreseeable grounds would you want to reverse it that quick. Next year, a year from now.
- Bell: I can't see it now, Harry, but I don't know what will happen in the next sixty days.
- White: You have got to analyze your economic situation in terms of some anticipated events, and if anything is certain, it is certain that we will not want to raise reserve requirements again within a month or two months.
- H.M.Jr: Dan, do you know where I stand?
- Bell: Yes.
- H.M.Jr: All right. I think whoever made the suggestion that you take these fellows on, seeing you are so full of fresh air and sunshine - it would be very good, and then

if you want me tomorrow morning, I am available. We will have to move and let's say definitely we will go on Wednesday. I should go on Wednesday.

Bell: That isn't definite yet from the Committee.

H.M.Jr: Let's tell them - I talked to Ed yesterday. As far as we know, I am expected Wednesday morning.

Bell: Are you?

H.M.Jr: So we have got to make up our minds. Otherwise, this thing will keep on forever. All right, you take them on. Will you stick with them, Stewart?

Stewart: Yes, indeed.

H.M.Jr: And I want you (Morris) to stick with this excess reserve thing.

Dan, will you see that - just carry him along and whoever is working - I mean, there is no use giving him another assignment until this thing is settled, you see.

Bell: This is a big one.

H.M.Jr: Yes.

PROPOSED PRESS RELEASE

The Secretary of the Treasury, the Board of Governors of the Federal Reserve System, the Supply Priorities and Allocations Board, and the Office of Price Administration today made the following joint announcement:

The Board of Governors of the Federal Reserve System has today increased the reserve requirements for member banks by approximately one-seventh. This increase in reserve requirements will become effective at the opening of business on _____, 1941. The new level of required reserves is the maximum authorized by existing statute.

The following table shows present requirements and the new requirements which go into effect on _____, 1941:

Member Bank Reserve Requirements
(Percent of deposits)

Classes of deposits and banks	Present requirements	New requirements
On <u>not</u> demand deposits:		
Central reserve city banks	22 ³ / ₄	26
Reserve city banks	17 ¹ / ₂	20
Country banks	12	14
On <u>time</u> deposits:		
All member banks	5	6

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Excess reserves of member banks on September 17, 1941, amounted to approximately \$5,250,000,000, a decrease of approximately \$1,650,000,000 since the all-time high reached on October 23, 1940. A survey of the reserve position of individual member banks shows that a large majority of the _____ member banks will be able to meet the increase in requirements out of existing excess reserves, and all but a very few of the remainder will be able to make up the difference by drawing upon a portion of their balances with correspondent banks. A few scattered banks may not find it possible immediately to meet the increase in requirements out of liquid funds now at their disposal. The Board is prepared to take steps to give such banks ample time to make the necessary adjustments.

The probable reserve position of the major classes of member banks before and after the increase in requirements, as estimated on the basis of present distribution of reserves and deposits, is shown in the following table:

**Approximate Reserve Position of Member Banks
(In millions of dollars)**

	Excess reserves		Percent of excess above requirements	
	Before increase in requirements	After increase in requirements	Before increase	After increase
Total reserves				
Central reserve city banks.....				
Reserve city banks.....				
Country banks				
All member banks				

The action of the Board of Governors in increasing reserve requirements to the existing statutory limits was taken after consultation with and with the full approval of the Secretary of the Treasury. The Board of Governors considers the present increase in reserve requirements adequate, and has no present intention of asking the Congress to raise the existing statutory limits, or otherwise increase the powers of the Board over member bank reserve requirements.

The Secretary of the Treasury and the Board of Governors of the Federal Reserve System will do everything possible,

through the exercise of the powers under their control to cooperate with the Supply Priorities and Allocations Board and the Office of Price Administration in combating inflation and in securing the best possible allocation of our national resources to the difficult tasks which confront us. The Supply Priorities and Allocations Board and the Office of Price Administration will likewise cooperate fully with the Treasury and the Board of Governors by the use of their powers to restrain the aggregate volume of non-essential capital expenditures and to prevent unwarranted price increases.

It is the opinion of both the Secretary and the Board of Governors that none of these purposes would be served by a further increase in reserve requirements in the foreseeable future. The situation calls rather for the application of selective controls, designed both to stimulate expansion in fields necessary for the defense effort and to check it in non-essential fields.

The most important task confronting us is to crush the forces of aggression, and the next most important is to preserve our economy and avoid inflation. With this in view, the Secretary of the Treasury wishes to emphasize that Treasury policy is guided by the primary criterion of achieving the greatest results upon the physical level; and the Board of Governors wishes to emphasize that its monetary policy will be directed for the duration of the emergency primarily to assisting the Treasury in achieving this end.

September 22, 1941
11:20 a.m.

HMJr: Is this Cliff Mack?

Clifton Mack: Yes, indeed.

HMJr: You call up Florence Kerr. I haven't got the time to, see?

M: Yes.

HMJr: And tell her that Mrs. Roosevelt asked me this last week.

M: Yes.

HMJr: Now, I'm dining with Mrs. Roosevelt tonight and Florence Kerr better make up her mind if that stuff is surplus.

M: Yes.

HMJr: Today. To hell with all these surveys. I've got to give Mrs. Roosevelt an answer tonight.

M: That's so. Well, now, as I pointed out in the memorandum.....

HMJr: Yes.

M:even though it is declared surplus.....

HMJr: Yes.

M:there is no provision under the law for us to transfer it. It would have to be given back to the WPA.

HMJr: Well, listen, now, Cliff. Cliff. Now don't you go Washington on me. Can't you let them have it at a dollar a year - the whole lot - or something? Work out some way with the lawyers that we can let Los Angeles have them. The point is, Mrs. Kerr has no money. She's laying off women. Mrs. Roosevelt wants the women to do something.

M: Yes.

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HMJr: The Los Angeles County says they can give the women work if they get the sewing machines.

M: That's right.

HMJr: Now you find out some way, between you and Mrs. Kerr, between now and five o'clock, see?

M: Yes.

HMJr: Now, you can lease them to them or something or other, but don't give me the run-around.

M: Yes. Well, all right.

HMJr: And don't let Mrs. Kerr give you the run-around.

M: All right, fine. Then we'll get busy on that.

HMJr: You tell her that I - that the Treasury just can't - you put it this way, that the Treasury cannot give Mrs. Roosevelt the run-around and she better not try to give it to us.

M: Yes. All right. Fine. I'll get busy.....

HMJr: The point is that Mrs. Kerr says she has no money to employ the women.

M: Yes.

HMJr: Los Angeles County says, "We've got the women, we have no sewing machines."

M: But they don't have the equipment.

HMJr: Yeah.

M: That's that.

HMJr: Now you're smart enough. You could work that out.

M: Well, very good. I'll get busy on it.

HMJr: Okay.

M: Fine.

September 22, 1941
11:50 a.m.

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Gov. Charles
Edison: Good morning.

HMJr: Hello. How are you, Charlie?

E: Well, pretty good.

HMJr: Only pretty good?

E: What?

HMJr: Only pretty good?

E: Oh, well, no. I'm just fine, as a matter
of fact. They've got me run a little ragged,
that's all.

HMJr: Yeah. The reason I'm calling you is this.
Chester Barnard of the Bell Telephone.....

E: Yeah.

HMJr:has been recommended to me as a very able
and useful citizen. We might use him in the
Treasury, and I wanted to know what you thought
of him and whether he took any part in politics
one way or the other up there.

E: Why, Chester Barnard is one of the finest
citizens we got up here in this state.

HMJr: Yeah.

E: Now he is a Republican.....

HMJr: Yeah.

E:but on the other hand, he's very civic
minded, broad gauge fellow.....

HMJr: Yeah.

E:not at all partisan.

HMJr: Yeah.

E: I mean, no petty stuff.

HMJr: Yeah.

E: And he was head of the Relief Administration here before the WPA.

HMJr: Did he do a good job?

E: He did a splendid job.

HMJr: Uh huh.

E: He has the highest respect of everybody.....

HMJr: Yeah.

E:and I can't say enough in his favor.

HMJr: Good. Did he - do you suppose he voted for you?

E: I don't know whether he did or not.

HMJr: Yeah. But he's quiet about his politics?

E: Oh, yea. Yeah. He's not out making speeches against Roosevelt and things of that kind. Wait a minute now, and I'll get another check for you.

(Speaks aside) Chester Barnard - would you say that description of him was all right? Did you hear what I said about him? I said he was one of our finest citizens, that he wasn't at all partisan in a petty way, he was a Republican but he was kind of quiet about it?

Well, yeah. That checks with the newspaper men in here.

HMJr: What?

E: I say I just checked with a fellow that knew the newspaper angle.....

HMJr: Yeah.

E:here.

HMJr: But he's never attacked the President publicly?

E: I don't think he's ever attacked him publicly.

HMJr: Good.

E: Or privately either, for that matter.

HMJr: Good. Well, you've given me what I wanted. That checks with what I've got, but I didn't want to - I don't know whether he's interested in - but I was going to see him, and I - everybody seems to be enthusiastic about him.

E: Well, I don't know a finer man in the state.

HMJr: As I say, he may not be interested at all in what I want to talk to him about, but.....

E: I know of no time that he's ever attacked either publicly or privately the President. I think he thought very well of the President. I haven't seen him in a year or so.

HMJr: Yeah.

E: I know when I talked to him he was glowing in his praise of a lot of things that the President had done.

HMJr: Fine.

E: He's a pretty broad-gauge fellow.

HMJr: Thank you, Charlie.

E: Say, Henry.....

HMJr: Yeah.

E:I wrote you some time ago.....

HMJr: Yeah.

E:around September 11 about that John Borg case.

HMJr: Yeah. I answered you.

E: Yeah, I got that. Now if there's anything you want me to do on it, why let me know, will you?

HMJr: I'll do that.

E: You're going to go to the bottom of that, aren't you?

HMJr: Oh, yeah. Just like we did in Atlantic City. That was good enough, wasn't it?

E: (Laughs) Well if you do that, that suits me to death.

HMJr: What?

E: I say if you do that - if you go through with it - that would suit me to death. You know, he's a violent Roosevelt hater and he runs that paper up there and.....

HMJr: Well, we'll do as good a job as we did on Nucky Johnson.

E: That boy ought to have his ears pinned back.

HMJr: Okay.

E: All right, fine. Thanks a lot.

HMJr: Good-bye.

E: Good-bye.

From: Who's Who in America
1940-1941 Vol. 21.

9-22-41 38

*Angus saw him today
at lunch and
he will come to
work for the company*

BARNARD, Chester Irving,
telephone official; b. Malden, Mass. Nov. 7,
1886; s. Charles H. and Mary E. (Putnam) B.; student
Harvard, 1906-09; LL.D (Newark U. 1937; D. Sc.
Rutgers U. 1936; m. Grace F. Noera of Saugus, Mass.
Dec. 6, 1911; 1 dau., Frances. Began in statis.
dept. Am. Telephone & Telegraph Co., 1909; com-
mercial engr., 1913-22; asst. v.p. and gen. mgr.
Bell Telephone Co. of Pa. and associated cos.,
1922-23, gen. mgr., 1923-25, v. p. and gen. mgr.
1925-26, v. p. in charge operations 1926-27; first
pres. N. J. Bell Telephone Co. since 1927; dir.
Fidelity Union Trust Co., Prudential Ins. Co. of
America, Am. Ins. Co. L. Bamberger & Co., N. J.
Bell Telephone Co. First state dir. Emergency Relief
for N. J. 1931, resigned Feb. 28, 1933, again served
Apr.-July 1935 (resigned); chmn. State Relief Council,
N. J. 1935. Mem. N. J. Unemployment Relief Comm.;
tech. adviser to rate com. and operating bd. U. S.
Telephone Adminstrn., World War, Alumni trustee
The Northfield Schools, Inc. Mt. Hermon, Mass.;
trustee Rutgers U.; trustee U. of Newark; dir.
Nat. Bur. of Economic Research, Inc.; mem. Nat.
Advisory Com. N. Y. World's Fair of 1939. Fellow
Am. Acad. Arts and Science; mem. Stable Money
Assn. (mem. N. J. state council), N. J. State Chamber
of Commerce, Chamber of Commerce and Civics of the
Oranges and Maplewood, N. E. Soc. of Orange, N. J.
(counselor), Bach Soc. of N. J. Telephone Pioneers
of America, Newcomen Soc. Author of "The Functions
of the Executive." Clubs Essex, Downtown, Newark
Athletic (Newark); Harvard (New Jersey); Harvard
(New York); Carteret (Jersey City); Seaview Gulf (Absecon)
Essex County Country, Lake Mohawk Country. Home:
333 Forest Rd., South Orange, N. J. Address: 540
Broad Street, Newark, N. J.

September 22, 1941

Memorandum for the Secretary:

Mr. Mack telephoned this afternoon and asked me to give you the following message:

"I talked with Mrs. Kerr this afternoon, and arrangements are being made to effect transfer of the sewing machines to the County of Los Angeles, through CCC, who has statutory authority to make transfers to state agencies. Neither WPA nor Procurement has this authority. Mrs. Kerr will send us a list of the sewing machines right away to expedite action.

"If there is any difficulty in handling the matter this way, we have thought of another approach, and the matter will be expedited."

Mrs. McHugh

September 22, 1941
3:30 p.m.

Operator: Mr. Mack.

HMJr: Hello, Clifton.

Clifton

Mack: Yes, sir.

HMJr: I see you found a way.

M: I saw Mrs. Kerr this afternoon, Mr. Morgenthau, and we're going to try it this way. CCC has authority to transfer to a state organization, and we're going to arrange for a surplus crop to be transferred to them and they can transfer to this organization.

HMJr: When can I tell Mrs. Roosevelt that'll be done?

M: Well, now, as a matter of fact, we're working on it right now.

HMJr: Yeah.

M: And we can do that - we can do that pretty readily if we can get the approval of CCC. I imagine that would be - would be just a matter of a few days if we can get their approval on it.

HMJr: Oh, why don't you call them up and tell them I'm seeing Mrs. Roosevelt tonight and I'd like to know - I'd like to get a "yes" this afternoon.

M: Yes. Well, it will be worked out.

HMJr: Yeah, but I want to be able to tell her it's done.

M: Yes, I see.

HMJr: Can't you call them and.....

M: Yes, I will. I'll do that. I'll call up and find out if they're going to - if that's agreeable to everybody all along the line.

HMJr: Sure. It's just as easy to do it this afternoon as it is in a week.

M: Sure enough. I'll do that.

HMJr: Get on it.

M: All right, fine.

HMJr: Thank you.

September 22, 1941
4:15 p.m.

RE INFLATION

Present:

Mr. Kuhn
Mr. White
Mr. Foley
Mr. O'Connell
Miss Michener

H.M.Jr:

Now, what is this, is this O'Connell
at his best?

O'Connell:

No, I wouldn't say that. (Laughter).

H.M.Jr:

Come a little closer. Somebody read this.

White:

Ferdie.

H.M.Jr:

Harry, you treat me as though I had halli-
tosis. All right, go on, children.

Kuhn:

Shall I read it?

"I am glad to testify in behalf of this Bill
not only because I am in accord with its
objectives, but also because I am convinced
that the problem this Bill seeks to help
solve is terribly urgent.

"As the President said two months ago in
recommending to Congress a bill to control
prices

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

H.M.Jr:

Excuse me, isn't Haas in on this?

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White: He hasn't been, but he should be.

H.M.Jr: Shouldn't he be?

White: Yes, why not --

Foley: He has been working on that Federal Reserve thing.

H.M.Jr: He is on the Federal thing?

Foley: Yes, that is why he hasn't come in on it.

Kuhn: "In the facts and figures already presented to this Committee there has been ample demonstration of the accuracy and timeliness of the President's warning. Examination of almost any part of the price data presented to this Committee points to the same conclusion, namely, that the pattern of price rises in the past two years is frighteningly similar to the price movements during the first two years of World War No. 1.

"In the last war we waited too long. It was not until August, 1917, that the first step was taken to check price rises. The Lever Act empowering the President to control some prices was not introduced until May 7, 1917."

Foley: June,

O'Connell: The date is wrong.

White: That is the date you gave me.

O'Connell: I know, but there were two bills.

(Miss Michener entered the conference).

H.M.Jr: Miss Michener, I want your organization to know about this.

Kuhn: Page two.
"Despite the fact that prices were rising" --

H.M.Jr: I want you to know about it and make suggestions.

Kuhn: "Despite the fact that prices" --

H.M.Jr: Listen, I am another generation. I don't know what the Lever Act is.

Kuhn: It says so, "empowering the President to control some prices."

O'Connell: I changed that, "Lever Act empowering the President to control food and fuel prices was not introduced until June 11, 1917 and was not enacted," and so forth.

H.M.Jr: How was it going to do it? What did it use?

O'Connell: It was a general power to the President to fix prices of foods and fuels.

Foley: Later held unconstitutional.

O'Connell: But it was law until then.

H.M.Jr: Instead of saying "some prices" can't you say "food and fuel"?

O'Connell: I changed that to read "food and fuel prices."

Foley: And he struck out that part --

H.M.Jr: I gave you this idea yesterday, didn't I?

Foley: Yes.

H.M.Jr: Go ahead.

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- Kuhn: "By that time the damage had already been done. Prices had risen more than 75 per cent and there were already set into motion powerful forces making for further price rises which could not be stopped."
- H.M.Jr: What went up seventy-five per cent, food and fuel?
- O'Connell: All the prices.
- H.M.Jr: Well, you had better identify it. Please identify it. I mean, is it the Department of Labor price level, is it the cost of living?
- White: We will.
- H.M.Jr: All right, go ahead.
- Kuhn: "During the thirteen weeks in which the Bill was being debated, wholesale prices rose more than two per cent and farm prices rose almost four per cent."
- H.M.Jr: Let's strike that out, that is not enough.
- O'Connell: It looks like it wasn't thirteen weeks, anyway. The Bill was considered only two months. They made much better progress on that Bill than the one under consideration now. They only had one day of hearings, and it was only two months from the time it was introduced until it became law.
- H.M.Jr: Make up your mind whether you want to cite it because it is a bad example or good example.
- O'Connell: I think the point you made was the best one, that they didn't do anything until 1917.

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Foley: And then it was too late because the prices had already risen over a hundred per cent.

H.M.Jr: But in other words, they didn't get around to the Lever Act until August --

Foley: August, 1917, and by that time prices had gone up a hundred per cent.

H.M.Jr: Well, you have got seventy-five here.

Foley: Well, whatever it is. It is a hundred here in this copy. They changed it on us.

H.M.Jr: You (Michener) have come into a very - I hope you have better success than I am in following them, Miss Michener, and incidentally, you had better check all these things. I have my doubts.

White: Well, this --

Foley: He is offended now.

White: The Price Division will have a chance to check them all.

Kuhn: "Are we to repeat that mistake?"

"It seems to me we have already gone" --

H.M.Jr: You will have to fix this up. What is the mistake? The mistake was they didn't introduce the Lever Bill --

Foley: "Are we again to wait too long?"

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

Kuhn: "It seems to me we have already gone as far as we dare without calling a halt."

"The wholesale prices of farm products have risen 37 per cent in the past year, and of that rise, 6 per cent has occurred in the last month. All commodities have risen 18 per cent in the last year and 2 per cent in the last month alone. Similarly down the line: foods are up 25 per cent, hides and leather up 13 per cent; textiles up 23 per cent; building materials up 12 per cent; and chemicals up 14 per cent."

H.M.Jr: Now again, this is the first time anybody is going to bring up the Lever Act in this testimony, am I right?

O'Connell: Well, it was mentioned in a memorandum that was submitted in support of the constitutionality of the Bill they are considering, because the question was raised --

H.M.Jr: But there has been no newspaper discussion of it. What I want to know is this, is somebody going to say, "Well, under the Lever Act the power flowed to the President, and under this it doesn't"?

O'Connell: They both go to the President.

H.M.Jr: They both do?

O'Connell: Yes, sir.

H.M.Jr: In other words, there is nothing in the Lever Act which they could throw in my face and say, "Well, that was a better way."

O'Connell: The only thing that might be questioned is that the Lever Act was later held to be unconstitutional, but the reason that it was was because there were no standards in the Bill, and the criminal provision barely

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made it illegal or unlawful for a man to charge what the Bill referred to as an unreasonable price.

- H.M.Jr: You are going to be up there with me?
- O'Connell: Yes.
- H.M.Jr: Then I can call on you. But there is nothing they can throw in my face and embarrass me on it?
- O'Connell: No, indeed.
- Kuhn: "The public is amply aware of what is happening. The housewife knows that pork chops that were 29 cents a pound in January, were 30 in February, 31 in April, 32 in May, 35 in June, 37 in July, 38 in August and 41 at the moment."
- H.M.Jr: "Sold to American Tobacco." (Laughter).
- Kuhn: "A total rise of 40 per cent" --
- H.M.Jr: What did they do, ring a bell on a cash drawer?
- Kuhn: And then they have some kind of a cry, what is that yodeling that they do?
- H.M.Jr: We will give the American Tobacco warble.
- Kuhn: "The housewife knows that eggs have risen 34 per cent since January, that coffee is up 24 per cent, and that sugar and flour are 18 and 17 per cent, respectively. The housewife, the business man, the wage earner, and the government employee all know from their daily experiences that prices are rising. They fear that inflation is imminent."

"Periods of war or of intense preparedness have brought about these price rises for very simple reasons. Either a war or an all-out defense program is a major undertaking for any nation. The government at such a time finds it necessary to order an enormous quantity of all types of goods, which reduces the amounts of such goods available for the general public to buy. At the same time, the people find themselves receiving larger incomes than previously. With more income to spend upon goods, and less goods to buy, it is inevitable that, in the absence of some offsetting action, the prices of available goods will rise."

H.M.Jr:

Who knocked my boiler out?

Kuhn:

That burst.

White:

It burst in Boston.

H.M.Jr:

Harry, it was full of beans. (Laughter).

White:

That is the place for it to burst.

Kuhn:

"Our defense expenditures are rapidly increasing. During the fiscal year 1942 they are expected to exceed \$20 billion, and in the year following they may reach \$30 billion or even \$40 billion.

"As the defense program grows, additional income is provided for large sections of the public without correspondingly increasing the supply of consumption goods upon which that income would ordinarily be spent. It has been estimated that \$10 billion of additional money income will go into the pockets of the people of the United States during the fiscal year. Naturally they will want to spend part of that additional

money upon consumption goods. In so doing, the same stimulus to prices that brought the inflations of the Revolution, of the War of 1812, of the Civil War, and of the World War will be at work."

H.M.Jr: How about the "boudoir"? (Laughter).

White: I don't know. Ed, how about it?

H.M.Jr: I was looking at him (White). You are a little slow, Harry.

White: Yes, I was slow.

Kuhn: "But while the forces at work today are the same as those that brought our previous inflations, there is, fortunately, one difference in the situation, which, I believe, can save us from the disaster of inflation. That difference is that today the public and the government are aware of what is happening, and able, if they choose, to take positive, effective, preventative measures."

Michener: This is one thing that bothers me. I am just wondering if the housewife knows precisely that percentage of how much prices have gone up.

O'Connell: She will know if she reads the Secretary's statement.

Michener: Now, when it comes to actual prices in cents that is different, but when it comes down to 34 per cent and 24 per cent and 18 per cent and 17 per cent, I just don't know whether she does, but I don't know what you could do about it. It sounds pretty precise for the average housewife's figuring.

- Kuhn: Well, her experience has been that eggs have risen or something like that.
- Michener: I think something concrete like this is better if you can use it.
- Foley: I know my wife knows how much lamb has gone up. She has told me.
- White: We might say, "Eggs have risen about a third, coffee about a fourth, sugar and flour about a fifth."
- Michener: Something like that. The exact percentage down to seventeen or eighteen --
- Foley: I think that is a good suggestion.
- H.M.Jr: You have rehashed that thing from Boston. The beans have been warmed up. Excuse me for being facetious. But go on. I am taking it, you know. I am going to say the darn thing.
- Kuhn: "That is what the Congress is being asked to do today. Passage of this Bill would be one additional step forward in the war against inflation.
- "It is true, of course, that price control alone will not conquer inflation. It would be a disservice both to this Bill and to the cause of preventing inflation if the impression were created that the Bill will accomplish more than it actually can. This Bill cannot perform a miracle. This Bill alone cannot stop price rises. Every Government that has attempted to check inflation has found that direct price controls alone cannot hold down the lid when the income of the consuming public is increasing and the amount of goods available to the consumer is decreasing. Additional steps are necessary.

"The Government has already taken some of them:

"(1) The Congress has passed, and the President has just approved, a tax bill designed to raise almost \$4 billion of additional revenue. This is a major accomplishment in the anti-inflation effort, for it will absorb a substantial portion of the swollen incomes that are initially responsible for price rises.

"(2) Secondly, the Treasury is engaged in a borrowing program designed to absorb still more of this excess income. Through the sale of defense savings bonds and stamps the Treasury is trying to borrow its funds from current consumer incomes, rather than from banks."

H.M.Jr:

Do you think at that time you could stop and play "Any Bonds Today?"

Kuhn:

I have got a girl who is appearing at the Capitol Theater who wants to come over and sing for you tomorrow or Wednesday. She might come over to the Hill. She is doing a seven minute show at the Capital Theater and I think she has got a new bond song.

H.M.Jr:

Have you seen her?

Kuhn:

No, but I am told she puts on a good show.

Foley:

I have got a note on my desk. Miss Maguire saw it. She said she is awfully good and she impersonates a high-hat lady in New York and a French woman and some woman on the farm buying Defense Bonds, and she does extremely well. She thinks it would be good for you to hear her because you might want to put her on the program.

H.M.Jr: Up on the Hill?

Foley: Or on the Hour.

Kuhn: She can only come, though, between two and three. That is the only time she is not on in the show, except in the morning, and she suggested two to three Tuesday or Wednesday.

H.M.Jr: That is the time I usually rest.

Foley: She might be restful. (Laughter).

H.M.Jr: All right, let's go.

Kuhn: "The importance of this measure is apparent from the fact that in the past four months \$1½ billion of defense savings bonds and stamps have been sold.

"(3) Thirdly, a new form of borrowing - the tax anticipation note - has been issued," --

That word "issued" is wrong.

"....designed to absorb consumer incomes before the date at which income taxes fall due. During the month of August more than \$1 billion of these notes were sold, absorbing that much more income that might otherwise be pushing up prices in the market place.

"(4) Fourthly, the Board of Governors of the Federal Reserve System has recently been given authority to control consumer installment credit. This measure is designed to restrict the spending of anticipated income.

"(5) Finally, the Office of Price Administration has been exerting every effort to control prices through the cooperation of

producers and consumers.

"These are the more important steps that the government is now taking to check price rises. But they are not enough.

"As I said in a recent address in Boston, we must also, if we are to be sure of victory in the war against inflation, prepare further to increase taxes, perhaps to extend the general controls over bank credit; perhaps to reduce capital expenditures for non-defense needs, and further to expand the sale of defense savings bonds and stamps."

- H.M.Jr: If you don't mind, that "perhaps to reduce it" sounds too casual. "Perhaps to extend the general" --
- Kuhn: You didn't say "perhaps" in most of them. Was it perhaps?
- H.M.Jr: Well, "perhaps" is here. I mean the word "perhaps" is kind of - you know, let's go to an afternoon tea and maybe extend general controls. It is just too casual.
- Foley: "Be prepared to extend them."
- H.M.Jr: That is all right.
- Foley: "General controls over bank credit."
- H.M.Jr: That is all right. Who actually wrote this, please, you, Harry? Is this written by you?
- White: Mostly. Some of it is a rehash.
- H.M.Jr: Go ahead.
- White: I tried to get in, as much as I could, of the statement that we all had agreed on for this hearing, except what was taken out for

the Boston speech I tried to rephrase, but about a third of it is probably new.

H.M.Jr:

'here is nothing new in here, is there?

White:

There is, about -- there is in phraseology. There is no new idea. There is one slight one, one or two.

H.M.Jr:

Do you all think I should make this statement?

Foley:

Sure.

H.M.Jr:

Have I got to have a statement?

Foley:

Sure. That part about the Lever Act in 1917, that is new.

Kuhn:

Doesn't Congress expect you to give them a statement, that even though it goes over some of the ground of the public address you have made --

H.M.Jr:

I don't know, I am asking you fellows.

White:

Oh, yes, I think it bears the weight of your opinion on it. I don't think there is anything new that Baruch said except one thing which was wrong.

H.M.Jr:

What was that, Harry?

White:

When he said that after the war if we had high prices we would be in a bad - we wouldn't be able to compete with foreign nations. It is economically unsound. If other countries have higher prices it depends on exchange rates and so on. But that was the one new thought I don't think anybody else has mentioned. None the less, his speech was effective.

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- H.M.Jr: Who wrote his speech for him?
- White: I can't find out who did. Maybe he did it himself.
- H.M.Jr: No, he couldn't have. Go ahead.
- Kuhn: "In this connection I want to say that as a result of some personal contacts with labor unions, I have been very greatly impressed with their desire to fully cooperate in the purchase of savings bonds and stamps. I am confident that the wage earners will be willing to lend to the Government a substantial portion of their increased earnings and that they will do so of their own free will. They will do so because they are fully in accord with this Government's foreign policy, because they know their own security individually and collectively depends on the success of our all-out defense effort and because they fully appreciate that the prevention of inflation is in their interests as well as the interests of others."
- O'Connell: Don't you think that is in the wrong place? Shouldn't that go up about two pages ahead where you talk about the program? It doesn't follow.
- White: Well, you are saying that more has to be done.
- H.M.Jr: Well, Harry, would you make a note, please, an important note - not on the speech. When we have our questions and answers between the - the way we did, one of the questions, what is my position going to be on the ceiling on wages. Will you put that down, please?
- White: O'Connell has that down.
- H.M.Jr: All right, go ahead.

Kuhn:

"It would be wise to extend the social security program to absorb purchasing power and pave the way for increased purchasing power after the emergency. Similarly, it would be wise to institute new social legislation such as a severance wage plan that would absorb some of the incomes of employed workers at the present and provide a fund from which to continue wage payments if their employment should be terminated. It would also help if Federal and State and local governments reduced non-defense spending as much as possible.

"All of these things remain to be done if the war against inflation is to be won. But, in addition, we must attack the problem from the other side. Rising prices can be retarded by measures that would increase the supplies of goods which do not compete with defense needs."

H.M.Jr:

Will you put something down which you may or may not like, both of you?

I don't think I have used this before. It is not new.

"The war against inflation is to be won," the idea that the war of inflation is our home front, you see. That is the front at home.

Kuhn: You can say, "in the war on the home front."

Foley: "Inflation war on the home front."

H.M.Jr: Something about the idea of its being the home front. Use the word "war" where we wage war at home against inflation. If you don't like it, chuck it out, but I have given it to you.

Go on.

Kuhn: "We are in a position do do just that. The government has in its warehouses vast quantities of cotton, wheat, corn, and many other agricultural staples. Our granary doors should now be opened, enough at least to prevent unreasonable price rises. Such a step would be in agreement with our established agricultural policy - the ever-normal granary. Having accumulated stocks in times of surplus, they should be distributed in times of shortage. To do so--"

H.M.Jr: Wait a minute. Would this be a time of shortage or would this be a time of high prices?

O'Connell: I think both.

Michener: Not a time of shortage, is it?

H.M.Jr: This isn't a time of shortage, is it, Miss Michener?

Michener: I don't think so. Not in some lines, anyway.

H.M.Jr: Well, just put a question mark after that. It would be in time of - well, having accumulated stocks in times of low prices, they should be distributed in times of high prices.

White: Yes.

H.M.Jr: That is an honest statement. Right?

White: That is better.

H.M.Jr: Is that all right, Miss Michener?

Michener: All right.

H.M.Jr: It is a new definition of an ever-normal granary, but it is all right.

Kuhn: "To do so is the natural complement of our previous policy and the necessary preparation for reaccumulation when and if surpluses again develop. Now is the time to empty our bins, both as an anti-inflation measure, and as a preparation for refilling them if that should again become necessary.

"The concept of an ever-normal granary, which calls for a floor under falling farm prices, seems to me, to call equally for a ceiling over rising farm prices. This Bill, however, specifically restricts the authority of the price control administration over farm prices. That is, I believe, the major defect of the Bill. I strongly recommend that this inflexibility in the Bill be removed - in the interests of the attack upon inflation, in the interest of the standard of living of our people, and in the long-run interests of farmers as well."

H.M.Jr: "If you believe that, what about a ceiling on wages also."

We will have to have a good talk on that.

Kuhn: "I am not disturbed by the general level of

agricultural prices now prevailing, but I am deeply concerned about the danger that agricultural prices will continue to rise as they did in the World War. Such a rise would contribute importantly to general inflation, would restrict the standard of living, and even interfere with the health and morale of our citizenry, and would again drive farm prices up to levels that could not be supported after the present emergency has passed."

H.M.Jr: Please change the word "citizenry." It is hard for me to pronounce.

Foley: "Our people."

Kuhn: "Before closing, I feel it my particular responsibility as Secretary of the Treasury to point out to you the special interests the government and the Treasury have at stake in stopping prices from rising further.

"As the nation's largest purchaser, the government is concerned with the problem in a very direct way. We have a defense program which has already passed the \$50 billion mark and the end is not yet in sight."

H.M.Jr: Please put in that that is only appropriated.

Kuhn: "Fifty billion dollar mark in appropriations."

H.M.Jr: Yes.

Foley: Why not say, "We have already appropriated more than fifty billion dollars"?

H.M.Jr: Say, "Congress has."

Foley: "Congress has already appropriated more than fifty billion dollars for the defense program

and the end is not yet in sight."

H.M.Jr: That is very good. I think if you will look it up you will see that is the way I said it in Boston.

Kuhn: "If prices behave as they did during the World War, we will find that our defense program will cost us double without giving us a single additional gun or plane for that extra expenditure.

"The price rise which has taken place since September 1939 will cost the taxpayer at least \$10 billion. In fact the price rise which has taken place during the seven weeks in which Congress is deliberating over this Bill will cost the taxpayer almost \$1 billion on next year's expenditures alone."

H.M.Jr: Just a minute. "The price which has risen since September costs the taxpayer - " how will it cost them ten billion dollars?

White: Well, on a fifty billion dollar program, which is only the beginning, you get a--

H.M.Jr: Well, tie it back. You wouldn't know whether it was on - on government expenditures. On government expenditures.

White: On the government defense program.

H.M.Jr: Whatever it is.

White: Government expenditures for defense.

H.M.Jr: Make it - you see, not that it costs the taxpayer another billion of their own money or the government--

Foley: The government has to spend that much more.

H.M.Jr: I know what they mean, but I want to clear up that one billion also, that is the - it is on the defense program.

White: At least ten billion dollars on the defense program.

H.M.Jr: Well, you know what I mean, Harry. And on the one billion, clear it up too, will you.

White: I want to call your attention to that one billion. I am not sure it is wise to put it in. This seems to imply that because they have taken seven weeks, it will cost another billion. What I am really saying there is that prices have risen during this seven weeks so that it will cost a billion.

Now, it is true as stated, if you want to say it that way.

O'Connell: I don't think it is needed.

H.M.Jr: I don't either.

Foley: You might insult the Committee.

H.M.Jr: Well, we are. The answer is no.

Foley: Yes.

H.M.Jr: O.K.

White: Out?

H.M.Jr: Out.

O'Connell: Leon brought up the same point this morning. His figures are a little bit different. He figures a one and a half percent increase in the over-all price level since the Committee started considering the bill.

Kuhn: "We not only are the nation's largest purchaser of goods, but we are the nation's largest employer. And as the nation's largest employer, rising prices present another serious problem to us. Apart from the armed forces, the government employs more than one million people with a payroll now running at the rate of \$2½ billion a year. A substantial rise in the cost of living will raise for us as an employer a choice of evils; to permit the real incomes of our employees to be unjustly reduced, or to increase still further the payroll that we must meet."

H.M.Jr: Now just one minute, please. I would like to put in - I don't know what the right place is, but I will give you two things here, the super budget of non-defense (speaking of newspaper clipping), which completely left out any talk about economy. That is for you, Harry.

"A reduction of a non-defense spending by a billion dollars will have the same effect in reducing the demand for goods as would an increased amount in taxes."

I want to get in something about this Committee, you know, which is a creation now, a little something more about economy. I mean, I want something in there. I saw in the Tribune - I evidently didn't cut it out - oh, yes, here it is. The amazing thing, the non-defense expenditures in '17 and '18 were even bigger than they are now. That surprised me.

Kuhn: How come? On what?

H.M.Jr: I don't know. There is a statement in the paper. And I want something about this Committee--

White: It doesn't make sense to me. I will look it up.

H.M.Jr: Anyway, I want something in there about this Committee and that every dollar we can save is also, just the way they say, anti-inflationary. This Committee has great opportunity. In other words, I want to give it a bow.

Kuhn: That can go in where there is a sentence about economy in state and federal expenditures.

H.M.Jr: I want to give this Committee a bow. Harry is going to be my principal assistant.

White: Only in bowing. (Laughter)

H.M.Jr: After all, he is my expert on how to save NYA and CCC.

White: Save by spending more is our slogan. (Laughter)

H.M.Jr: All right, where were we?

Kuhn: Page thirteen.

H.M.Jr: If he won't serve, I will give it to Lauch Currie or Jerome Frank.

Kuhn: "Moreover, millions of people who are now responding to our pleas for cooperation in financing our defense effort have the right to expect that we prevent inflation. These people were asked to invest in defense savings bonds partly as a means of preventing inflation. They have a right to ask that the government do everything in its power to prevent inflation."

It has got to be rewritten there. .

"I fully appreciate that it requires courage on the part of Congress to pass this Bill. It always requires courage to put brakes on rising prices. There is nothing more attractive to

the business man than higher prices for his products. The farmer can hardly be blamed if after decades of low incomes he finally sees the opportunity to recoup his fortune in higher prices for farm products. Nor can organized labor be taken too easily to talk for following the general parade and exploiting the opportunity for higher wages, particularly in view of the rising cost of living. Nor is the landlord to be blamed for adhering to the principle of charging what the traffic will bear since that principle is the foundation stone of our competitive system.

"Each of these groups and many of their special friends here in Washington regard increases in the income for their particular group as a just dessert long overdue."

- H.M. Jr: I am not going to say anything about that.
- White: I was surprised you got by that sentence.
- H.M. Jr: I won't say any of that.
- Foley: That is right.
- H.M. Jr: I will either say it the way I did, attacking each group, that they mustn't ask for these increases, or I won't say anything, but I won't say any of that. I mean, I won't say the farmer can hardly be blamed after a decade and that about labor and so forth. I mean, I either attack them forthrightly --
- White: "It always requires courage to put brakes on prices." Skip from there on.
- H.M. Jr: I would rather say, as I said in Boston, the landlord can't and the banker can't and the farmer musn't.

Kuhn: Would you mind quoting?

H.M.Jr: No, but this thing is--

White: This thing is more nearly true.

H.M.Jr: Well, that is what you think. I mean, it is nearly - it represents--

White: I don't think it is as well to say it.

H.M.Jr: Well, I don't want to say it.

White: Yes.

H.M.Jr: If you feel the necessity of saying something, then I would like to say, as I said in my Boston speech, and then one, two, three, four. I mean, I paid my respects to the banker and the laborer, and so forth and so on. Each one was carefully worded, but certainly not this.

Harry knew he couldn't get away with that.

White: Joe will bear witness to that.

O'Connell: Yes, he told me yesterday it wouldn't go.

H.M.Jr: Did you two fellows work on this yesterday?

O'Connell: Yes, sir.

H.M.Jr: May I say, "Thank you," for both of you. And whoever helped you.

White: A couple of my boys.

H.M.Jr: Whoever worked yesterday for you boys, if you would bring them in tomorrow, I would like to say, "Thank you," or if they were girls.

- White: Oh, well, the girls get time off the next day.
- H.M.Jr: I would like to do it, Harry, if you don't mind, whoever worked Sunday, if you would bring them in when we are doing this, I would like to say, "Thank you."
- Kuhn: "If any lesson is to be learned from the record of the past, it should be that inflation is inevitable in times like these unless we resist its seductive appeal--unless we fight it on all fronts.
- "We should gain courage to fight against the attractions of higher money incomes from the knowledge that inflation is not only accompanied by serious evils but is followed by ever greater evils. We should never lose sight of the fact that inflation is always followed by deflation and that the ride down is a lot longer and a lot harder and a lot more painful than the short intoxicating ride up was worth to those groups which participated in it."
- Then there has to be an ending on there.
- Foley: Why don't you stop right after, "the short intoxicating ride up"?
- H.M.Jr: To everybody who worked yesterday, I say, "Thank you," and I think, considering that you had to rewrite it, I think that is a swell job. I am not going to fuss with it. I haven't got the time. I would like to place the responsibility on the people in this room to fix it up for me. I just haven't got - it is all right. I mean, I can't help but be a little sarcastic about it. I just hate to go up and give any statement in view of the Boston speech which I really enjoyed giving.

You can appreciate, Harry, can't you--

White: Sure. This wasn't intended to be anything more than a rehash of that.

H.M.Jr: Do you think I have got to do it?

White: Well-- (Laughter)

Foley: You have now, after what I told them.

H.M.Jr: No, no. I will go up but supposing I say, "Gentlemen, I am here. I am for this bill. The sooner the better. I am against inflation. What do you want to ask me?"

Foley: No, no. You had better make a statement.

White: In the first place, you don't necessarily assume that all those fellows have read your Boston speech. My guess would be that they haven't. On general principles, they don't read anybody's speech, but their own and possibly the President's. Secondly, if they did read it you have got to say something about it, and we might be able to cut out some of this. Much of this was not said in the Boston speech.

H.M.Jr: All right--

White: It is only familiar to you because you went over it in preparation of what you were going to say, but I don't think there is anything here that you said in the Boston speech, but the one thing which we say, I have said, but--

Kuhn: Only the recapitulation of what the government has done and what the government has to do. That is rehashed, but there is a lot of new stuff in here which you haven't said before.

White: It is old to you, but it wasn't used in the speech.

H.M.Jr: Well, again thank you.

What I would like to do - let me get hold of Mr. Bell and get his timetable, if he is back. What I thought was this, I will be fresh at nine o'clock, and I thought at nine o'clock we could sort of go in on some of the tough questions and some of these things, Crawford, is that his name--

White: Here you are here, if you want it.

H.M.Jr: I don't want to go into it tonight.

We settled once before on farm prices, so if it is agreeable to you--

Michener: I will speak to Mr. Haas.

H.M.Jr: Please.

At nine o'clock tomorrow morning we will let you fellows fire questions at me, and if I can't answer them, we will do what we did the other day, we will chew the fat until we get an answer. But the labor thing is the thing that bothers me most.

O'Connell: Gore, one of the Democratic members, announced today that he was going to introduce a substitute bill, which is essentially Mr. Baruch's idea including the freezing of all wage rates and also freezing or putting a ceiling on farm prices at parity.

H.M.Jr: Gore from Tennessee?

O'Connell: Yes.

Kuhn: Did you see what McCormack and Wallace said today about farm prices?

H.M.Jr: No.

Kuhn: They both came out of the White House making statements about the need of passing this price bill quickly and putting a ceiling on farm prices.

H.M.Jr: I didn't see that.

Kuhn: Wallace didn't speak of a ceiling as such but he said there has got to be a check on prices and that nobody is going to benefit from rising prices.

H.M.Jr: Well, I would like to see you all at nine tomorrow morning, and I would like to talk with Harry on a publicity matter.

White: And Miss Michener will make certain that all the figures here have been checked and corrected.

I am glad to testify in behalf of this Bill not only because I am in accord with its objectives, but also because I am convinced that the problem this Bill seeks to help solve is terribly urgent.

As the President said two months ago in recommending to Congress a bill to control prices

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

In the facts and figures already presented to this Committee there has been ample demonstration of the accuracy and timeliness of the President's warning. Examination of almost any part of the price data presented to this Committee points to the same conclusion, namely, that the pattern of price rises in the past two years is frighteningly similar to the price movements during the first two years of World War No. 1.

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In the last war we waited too long. It was not until August, 1917, that the first step was taken to check price rises. The Lever Act empowering the President to control some prices was not introduced until May 7, 1917. | Despite the fact that prices were rising daily, Congress debated the Bill for 13 weeks. By that time the damage had already been done. Prices had risen more than 75 percent and there were already set into motion powerful forces making for further price rises which could not be stopped. | During the 13 weeks in which the Bill was being debated, wholesale prices rose more than 2 percent and farm prices rose almost 4 percent.

Are we to repeat that mistake?

It seems to me that we have already gone as far as we dare without calling a halt.

The wholesale prices of farm products have risen 37 percent in the past year, and of that rise, 6 percent has occurred in the last month. All commodities have risen 18 percent in the last year and 2 percent in the last month alone.

Similarly down the line: foods are up 25 percent, hides and leather up 13 percent; textiles up 23 percent; building materials up 12 percent; and chemicals up 14 percent.

The public is amply aware of what is happening. The housewife knows that pork chops that were 29 cents a pound in January, were 30 in February, 31 in April, 32 in May, 35 in June, 37 in July, 38 in August and 41 at the moment, a total rise of 40 percent in these nine months. The housewife knows that eggs have risen 34 percent since January, that coffee is up 24 percent, and that sugar and flour are up 18 and 17 percent, respectively. The housewife, the business man, the wage earner, and the government employee all know from their daily experiences that prices are rising. They fear that inflation is imminent.

Periods of war or of intense preparedness have brought about these price rises for very simple reasons. Either a war or an all-out defense program is a major undertaking

for any nation. The government at such a time finds it necessary to order an enormous quantity of all types of goods, which reduces the amounts of such goods available for the general public to buy. At the same time, the people find themselves receiving larger incomes than previously. With more income to spend upon goods, and less goods to buy, it is inevitable that, in the absence of some offsetting action, the prices of available goods will rise. |

Our defense expenditures are rapidly increasing. During the fiscal year 1942 they are expected to exceed \$20 billion, and in the year following they may reach \$30 or even ⁴⁰\$40 billion.

As the defense program grows, additional income is provided for large sections of the public without correspondingly increasing the supply of consumption goods upon which that income would ordinarily be spent. It has been estimated that \$10 billion of additional money income will go into the pockets of the people of the United States during this fiscal

year. Naturally they will want to spend part of that additional money upon consumption goods. In so doing, the same stimulus to prices that brought the inflations of the Revolution, of the War of 1812, of the Civil War, and of the World War will be at work. |

But while the forces at work today are the same as those that brought our previous inflations, there is, fortunately, one difference in the situation, which, I believe, can save us from the disaster of inflation. That difference is that today the public and the government are aware of what is happening, and able, if they choose, to take positive, effective, preventative measures. |

That is what the Congress is being asked to do today. Passage of this Bill would be one additional step forward in the war against inflation.

It is true, of course, that price control alone will not conquer inflation. It would be a disservice both to

this Bill and to the cause of preventing inflation if the impression were created that the Bill will accomplish more than it actually can. This Bill cannot perform a miracle. This Bill alone cannot stop price rises. Every Government that has attempted to check inflation has found that direct price controls alone cannot hold down the lid when the income of the consuming public is increasing and the amount of goods available to the consumer is decreasing. Additional steps are necessary.

The Government has already taken some of them:

(1) The Congress has passed, and the President has just approved, a tax bill designed to raise almost \$4 billion of additional revenue. This is a major accomplishment in the anti-inflation effort, for it will absorb a substantial portion of the swollen incomes that are initially responsible for price rises.

(2) Secondly, the Treasury is engaged in a borrowing program designed to absorb still more of this excess income. Through the sale of defense savings bonds and stamps the Treasury is trying to borrow its funds from current consumer incomes, rather than from banks. The importance of this measure is apparent from the fact that in the past four months \$1½ billion of defense savings bonds and stamps have been sold.

(3) Thirdly, a new form of borrowing - the tax anticipation note - has been issued, designed to absorb consumer incomes before the date at which income taxes fall due. During the month of August more than \$1 billion of these notes were sold, absorbing that much more income that might otherwise be pushing up prices in the market place.

(4) Fourthly, the Board of Governors of the Federal Reserve System has recently been given the authority to con-

trol consumer installment credit. This measure is designed to restrict the spending of anticipated income.

(5) Finally, the Office of Price Administration has been exerting every effort to control prices through the cooperation of producers and consumers.

These are the more important steps that the government is now taking to check price rises. But they are not enough.

As I said in a recent address in Boston, we must also, if we are to be sure of victory in the war against inflation, prepare further to increase taxes, perhaps to extend the general controls over bank credit; perhaps to reduce capital expenditures for non-defense needs, and further to expand the sale of defense savings bonds and stamps.

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In this connection I want to say that as a result of some personal contacts with labor unions, I have been very greatly impressed with their desire to fully cooperate in the purchase of savings bonds and stamps. I am confident that the wage earners will be willing to lend to the Government a substantial portion of their increased earnings and that they will do so of their own free will. They will do so because they are fully in accord with this Government's foreign policy, because they know their own security individually and collectively depends on the success of our all-out defense effort and because they fully appreciate that the prevention of inflation is in their interests as well as the interests of others.

It would be wise to extend the social security program to absorb purchasing power and pave the way for increased purchasing power after the emergency. Similarly, it would

be wise to institute new social legislation such as a severance wage plan that would absorb some of the incomes of employed workers at the present and provide a fund from which to continue wage payments if their employment should be terminated. It would also help if Federal and State and local governments reduced non-defense spending as much as possible.

All of these things remain to be done if the war against inflation is to be won. But, in addition, we must attack the problem from the other side. Rising prices can be retarded by measures that would increase the supplies of goods which do not compete with defense needs.

We are in a position to do just that. The government has in its warehouses vast quantities of cotton, wheat, corn, and many other agricultural staples. Our granary doors should now be opened, enough at least to prevent unreasonable price rises. Such a step would be in agreement

with our established agricultural policy - the over-normal granary. Having accumulated stocks in times of surplus, they should be distributed in times of shortage. To do so is the natural complement of our previous policy and the necessary preparation for reaccumulation when and if surpluses again develop. Now is the time to empty our bins, both as an anti-inflation measure, and as a preparation for refilling them if that should again become necessary.

The concept of an over-normal granary, which calls for a floor under falling farm prices, seems to me, to call equally for a ceiling over rising farm prices. This Bill, however, specifically restricts the authority of the price control administration over farm prices. That is, I believe, the major defect of the Bill. I strongly recommend that this inflexibility in the Bill be removed - in the interests of the attack upon inflation, in the interest of the standard of living of our people, and in the long-run interests of farmers as well.

I am not disturbed by the general level of agricultural prices now prevailing, but I am deeply concerned about the danger that agricultural prices will continue to rise as they did in the World War. Such a rise would contribute importantly to general inflation, would restrict the standard of living, and even interfere with the health and morale of our citizenry, and would again drive farm prices up to levels that could not be supported after the present emergency has passed.

Before closing, I feel it my particular responsibility as Secretary of the Treasury to point out to you the special interests the government and the Treasury have at stake in stopping prices from rising further.

As the nation's largest purchaser, the government is concerned with the problem in a very direct way. We have a defense program which has already passed the \$50 billion mark and the end is not yet in sight. If prices behave

as they did during the World War, we will find that our defense program will cost us double without giving us a single additional gun or plane for that extra expenditure.

The price rise which has taken place since September 1939 will cost the taxpayer at least \$10 billion. In fact the price rise which has taken place during the seven weeks in which Congress is deliberating over this Bill will cost the taxpayer almost \$1 billion on next year's expenditures alone.

We not only are the nation's largest purchaser of goods, but we are the nation's largest employer. And as the nation's largest employer, rising prices present another serious problem to us. Apart from the armed forces, the government employs more than one million people with a payroll now running at the rate of \$2½ billion a year. A substantial rise in the cost of living will raise for us

as an employer a choice of evils; to permit the real incomes of our employees to be unjustly reduced, or to increase still further the payroll that we must meet.

Moreover, millions of people who are now responding to our pleas for cooperation in financing our defense effort have the right to expect that we prevent inflation. These people were asked to invest in defense savings bonds partly as a means of preventing inflation. They have a right to ask that the government do everything in its power to prevent inflation.

I fully appreciate that it requires courage on the part of Congress to pass this Bill. It always requires courage to put brakes on rising prices. There is nothing more attractive to the business man than higher prices for his products. The farmer can hardly be blamed if after decades of low incomes he finally sees the opportunity to recoup his fortune in higher prices for farm products. For

can organized labor be taken too easily to task for following the general parade and exploiting the opportunity for higher wages, particularly in view of the rising cost of living. Nor is the landlord to be blamed for adhering to the principle of charging what the traffic will bear since that principle is the foundation stone of our competitive system.

Each of these groups and many of their special friends here in Washington regard increases in the income for their particular group as a just desert long overdue. With each of these groups price increases for his product or services is popular.

If any lesson is to be learned from the record of the past, it should be that inflation is inevitable in times like these unless we resist its seductive appeal -- unless we fight it on all fronts.

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We should gain courage to fight against the attractions of higher money incomes from the knowledge that inflation is not only accompanied by serious evils but is followed by even greater evils. We should never lose sight of the fact that inflation is always followed by deflation and that the ride down is a lot longer and a lot harder and a lot more painful than the short intoxicating ride up was worth to those groups which participated in it.

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MDW:mag
9/22/41

Transcript of 4:15
meeting 7/22/41.

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I am glad to testify in behalf of this Bill not only because I am in accord with its objectives, but also because I am convinced that the problem this Bill seeks to help solve is terribly urgent.

As the President said two months ago in recommending to Congress a bill to control prices

"Today we stand, as we did in the closing months of 1919 at the beginning of an upward sweep of the whole price structure."

In the facts and figures already presented to this Committee there has been ample demonstration of the accuracy and timeliness of the President's warning. Examination of almost any part of the price data presented to this Committee points to the same conclusion, namely, that the pattern of price rises in the past two years is frighteningly similar to the price movements during the first two years of World War No. 1.

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In the last war we waited too long. It was not until August, 1917, that the first step was taken to check price rises. The Lever Act empowering the President to control some prices was not introduced until May 7, 1917. Despite the fact that prices were rising daily, Congress debated the Bill for 13 weeks. By that time the damage had already been done. Prices had risen more than 75 percent and there were already set into motion powerful forces making for further price rises which could not be stopped. During the 13 weeks in which the Bill was being debated, wholesale prices rose more than 2 percent and farm prices rose almost 4 percent.

Are we to repeat that mistake?

It seems to me that we have already gone as far as we date without calling a halt.

The wholesale prices of farm products have risen 37 percent in the past year, and of that rise, 6 percent has occurred in the last month. All commodities have risen 18 percent in the last year and 2 percent in the last month alone.

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Similarly down the line: foods are up 25 percent, hides and leather up 13 percent; textiles up 23 percent; building materials up 12 percent; and chemicals up 14 percent.

The public is amply aware of what is happening. The housewife knows that pork chops that were 29 cents a pound in January, were 30 in February, 31 in April, 32 in May, 35 in June, 37 in July, 38 in August and 41 at the moment, a total rise of 40 percent in those nine months. The housewife knows that eggs have risen 34 percent since January, that coffee is up 24 percent, and that sugar and flour are up 18 and 17 percent, respectively. The housewife, the business man, the wage earner, and the government employee all know from their daily experiences that prices are rising. They fear that inflation is imminent.

Periods of war or of intense preparedness have brought about these price rises for very simple reasons. Either a war or an all-out defense program is a major undertaking

for any nation. The government at such a time finds it necessary to order an enormous quantity of all types of goods, which reduces the amounts of such goods available for the general public to buy. At the same time, the people find themselves receiving larger incomes than previously. With more income to spend upon goods, and less goods to buy, it is inevitable that, in the absence of some offsetting action, the prices of available goods will rise.

Our defense expenditures are rapidly increasing. During the fiscal year 1942 they are expected to exceed \$20 billion, and in the year following they may reach \$30 or even \$40 billion.

As the defense program grows, additional income is provided for large sections of the public without correspondingly increasing the supply of consumption goods upon which that income would ordinarily be spent. It has been estimated that \$10 billion of additional money income will go into the pockets of the people of the United States during this fiscal

year. Naturally they will want to spend part of that additional money upon consumption goods. In so doing, the same stimulus to prices that brought the inflations of the Revolution, of the War of 1812, of the Civil War, and of the World War will be at work.

But while the forces at work today are the same as those that brought our previous inflations, there is, fortunately, one difference in the situation, which, I believe, can save us from the disaster of inflation. That difference is that today the public and the government are aware of what is happening, and able, if they choose, to take positive, effective, preventative measures.

That is what the Congress is being asked to do today. Passage of this Bill would be one additional step forward in the war against inflation.

It is true, of course, that price control alone will not conquer inflation. It would be a disservice both to

this Bill and to the cause of preventing inflation if the impression were created that the Bill will accomplish more than it actually can. This Bill cannot perform a miracle. This Bill alone cannot stop price rises. Every Government that has attempted to check inflation has found that direct price controls alone cannot hold down the lid when the income of the consuming public is increasing and the amount of goods available to the consumer is decreasing. Additional steps are necessary.

The Government has already taken some of them:

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This question of inflation; that is, the purchasing power of money, goes to the very heart of the social aspirations of the American people. If the great social reforms of the last eight years and the economic strides of the last five decades are to be perpetuated, it is essential to undertake to keep the currency and the credit structure sound.

For make no mistake about this - a run-away inflation with one fell swoop would wipe away the fruits of our hard-won social progress of these recent years. There can be no genuine, lasting social reforms, no real improvement in economic security and in the material well-being of the people, unless they be related to a reasonably stable currency. If, through fiscal mismanagement, through lack of courage in applying the necessary brakes and the necessary restraints in non-defense government spending, the dollar should break away from its moorings, then we would have a major social retrogression. In other words, in social terms - terms ⁱⁿ of the standard of living of 30,000,000 American families - a wild and unbridled inflation would constitute the most reactionary step conceivable.

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Such a calamity would set back genuine liberalism for more than a generation, and would leave the confused and disturbed public at the mercy of irresponsible demagogues.

When I advocate specific steps for dealing constructively with this problem, I am thinking not merely of narrow fiscal considerations, but of a matter which vitally concerns the buying power today and next year of every American housewife and the value of the long-term savings of every beneficiary of old age pensions under the Social Security Act, of every life insurance policyholder, and of every thrift depositor in the United States. I am interested in applying prudence and forbearance in the handling of Federal finances so that the dollar will continue to have the meaning intended in the commitments which government and private financial institutions have made to the millions of good citizens who trust them.

In the circumstances, this fight against inflation should be envisaged as the most popular battle conceivable for it is waged in the direct interest of every hardworking and thrifty person in the United States. If, through neglect

of proper management, a radical inflation should be unloosed, the mobile speculators alone would be nimble enough to protect themselves, and the vast multitudes of thrifty and industrious workers in agriculture, in industry, in transportation, and in government service, would be victimized.

Historians looking at effects rather than causes often mistake the motivation of social convulsions. Frequently fiscal convulsions set in motion a chain of events which overturn established forms of government. A radical inflation which robs consumers of their buying power and savers of their nest eggs tends to throw great multitudes of people at the mercy of men on horseback.

The way to prevent such a social catastrophe is to deal courageously with these fiscal problems in time. If we wait until the threatening forces reach full fruition, the preventative and remedial action may be too late. This need for financial prudence is one on which all the people can unite, and as they see the need for forbearance on the one hand and for setting up controls on the other, the people should express themselves immediately. They should

make known their views to their Congressmen and their Senators, and to the men in the executive departments who are their public servants. I have been gratified with the great interest which the public has shown in my recommendations along these lines.

I recognize that though the first step is to think clearly on these problems that mere expressions of pious policy will not be enough. The great need is for immediate action along constructive lines. In the interest of national patriotism and public welfare, we should not hesitate to pay whatever price may be necessary to translate these principles of prudence and forbearance into a concrete set of public actions.

Walter Lippmann once said that the tragedy of democracy is that the people are not interested in their own interests. I cannot accept this defeatist view. I have faith that if complicated economic questions are translated into simple terms and presented clearly to the people that they will be tremendously interested, and will be behind sincere efforts to safeguard their vital interests.

The question of timing is of paramount importance. We must deal boldly with the initial zephyrs before they reach gale proportions. It is time for all of us to recognize the immediate necessity for reversing depression-bred economic policies amidst this current expanding armament boom. If we are courageous in acting promptly we shall be sowing the seeds now for comparatively stable and orderly progress in the years to come. We shall, in this way, be safeguarding and perpetuating the social progress which would be completely eliminated by a radical inflation of the currency.

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TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE

September 22, 1941

TO Secretary Morgenthau
FROM Alan Barth

SOUTHERN PRESS OPINION ON INFLATION

The people of Alabama, Georgia, Louisiana and Texas have gleaned little awareness of inflation dangers from their daily newspapers. The subject, for the most part, has been either ignored or obscured by the press in these States.

Only the scantiest news coverage was accorded the Secretary's Boston speech in the leading newspapers of Atlanta, New Orleans, Mobile, Birmingham, Shreveport, Houston and Dallas. The New Orleans Times Picayune was the sole journal in this group which devoted an editorial to discussion of the address within the week of its delivery. The Secretary's proposals were cordially approved in this comment; but, this paper added, he "seems to ignore the prime essential of price stabilization under an economy in which the law of supply and demand has been suspended. He skips over the question of arming the price administration with full legal authority to fix price ceilings and enforce controls over the sundry factors that go into making up costs and selling prices."

In occasional general discussions of the topic of inflation, southern editorial writers indicate plainly that they are against

it, as they are against sin. The word "inflation" has ugly connotations. But they show little recognition that it may be related to the price of cotton.

The southern press is inclined to be somewhat wary of price control when it is urged by Leon Henderson, but enthusiastic about it when it is preached by Bernard Baruch. The enthusiasm, in any case, appears to be for price control in the abstract, not as it may apply to southern farm products.

The Shreveport Times provides an example of the prevalent confusion: It declares that there "is widespread public dissatisfaction over the absence of any real restraints on living costs" and asks why Leon Henderson's activities have failed to halt the uptrend of prices. "The only answer obtainable from officials in Washington vested with responsibility for price controls," it goes on to say, "is that some increases must be expected. But this answer is not satisfying, when the public also knows that there are some groups in Washington which favor an inflationary trend. The suspicion grows that these groups are preventing adequate price curbs."

September 22, 1941
4:20 p.m.

HMJr: Hello.

Clifton Mack: Hello, Mr. Morgenthau.

HMJr: How're my sewing machines?

M: Well, I think it's worked out. We had to try a new tack on it because WPA was getting a little bit involved again.

HMJr: Oh, my God.

M: We're going to cut some corners, but what we're going to do is this. Tomorrow morning they will have the list over to us, telling us what they have surplus. Fifteen hundred typewriters - that's WPA.

HMJr: Not typewriters.

M: I mean, sewing machines.

HMJr: Yeah.

M: Sewing machines. We will then get out a telegram immediately to our State Procurement Officer.

HMJr: In Los Angeles.

M: In Los Angeles, telling him to communicate with the Los Angeles County Commissioners.....

HMJr: Right.

M:and that we're sending an air mail letter outlining the instructions and so forth, so that it will be taken care of - that is, word will be gotten out tomorrow.

HMJr: Wonderful.

M: Now, we're following a little unusual procedure here because if we're going to depend on WPA, it just won't happen, I know, for several days yet.

HMJr: Yeah.

M: And I think this is the most direct way of getting at it.

HMJr: Now what will be the result - what will happen tomorrow?

M: Well, tomorrow our man will be instructed to get in touch with the Commissioners and tell them that we are going to loan them the sewing machines.

HMJr: How many?

M: Fifteen hundred.

HMJr: Wonderful.

M: And that we will tomorrow - our State Procurement Officer will tomorrow get in touch with the WPA Administrator in California tomorrow.....

HMJr: Right.

M:and get the location in California and numbers and description of machines to arrange for the transfer.

HMJr: Wonderful.

M: Well.....

HMJr: In other words you just do it and then tell Mrs. Kerr it's done.

M: That's it. That's it. I called her back after I talked with you, but she had changed her mind about working through CCC; so I thought we'd better take title and work it ourselves even though we are jumping some hurdles here.

HMJr: Well, when you jump Mrs. Kerr, it's quite a high jump.

M: (Laughs)

HMJr: Do you know her?

M: No, not very well.

HMJr: Okay.

M: (Laughs)

HMJr: Well, that's what I want, because it's just damned nonsense. She's giving Mrs. Roosevelt the run-around.

M: Mr. Morgenthau, you remember awhile ago I mentioned to you about the stencil paper we're going to save some money on?

HMJr: I got it, and I'm giving it our publicity.

M: Yeah, well, fine.

HMJr: And I wrote you a letter formally congratulating you.

M: Well, I appreciate that; and there's a lot more to be done. We're just starting in on that.

HMJr: Attaboy.

M: Fine.

HMJr: Well, this is fine. This pleases me very much.

M: Yes, sir.

HMJr: I mean, it's the kind of thing that I like to do.

M: Well, very good; and we're happy to do it.

HMJr: Thank you.

M: All right.

September 22, 1941

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Memorandum:

Mr. Mack informed me by phone today that it had been decided to use British molasses for this alcohol. Mr. Mack also said that Senator Herring has contacted OPM and has been informed as to the final decision in this matter.

Mrs. McHugh

September 11, 1941

I called up Donald Nelson at 6:00 this evening over the White House telephone, and told him about Senator Clyde Herring's call on me. Clif Mack was present during this conference. I told him to look into this whole question about whether we should buy alcohol made from English molasses, or from our own molasses. I told him that Senator Herring's son was interested. Nelson promised to look into the matter and would give me a report on it tomorrow.

Please ask Clif Mack to give me a written report tomorrow without fail on the conversation which took place between Senator Herring and myself, in which he participated. *Report submitted by Mack*

9/12/41

September 22, 1941

Dear Mr. Berlin:

This is just to tell you that "Any Bonds Today" is proving to be a wonderful help to us in our Defense Bond program. You have given a real lift to American morale by writing and contributing this song.

It may interest you to know that the Cunningham Drug Stores of Detroit have asked and received permission to distribute 200,000 copies of the song through their stores at their own expense. Requests for the song are also pouring into our Defense Savings offices, and we are sending individual copies as fast as the requests come in.

I am just about the proudest copyright owner you ever saw.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. Irving Berlin,
799 Seventh Avenue,
New York, N. Y.

FK/hkb

9/19/41

File to Mr. Thompson

September 22, 1941

TO THE PRESIDENT:

Attached hereto is a draft of reply for your signature to Daniel Tobin's wire of September eighteenth.

I am sure there is a great deal of money of this character around the country which we could get if we wanted to raise the limitation of \$50,000 in any one year for Series "F" and "G" Savings Bonds. I believe that if we do raise the limitation we have to be careful not to make it profitable for holders of present marketable securities to sell such securities on the market and invest the proceeds in Savings Bonds. The limitation of \$50,000 to be acquired in any one year prevents any volume of such marketable securities from being dumped on the market.

(Signed) H. Morgenthau, Jr.

DWH:YLS

swfB

Dear Sir:

I have your telegram of September 18, 1941, regarding the investment of one or two million dollars of funds belonging to your organization in United States Defense Savings Bonds of Series G.

The Secretary of the Treasury advises me that before he issued the present regulations, he gave a great deal of consideration to the question of the limitation of \$50,000 on Series F and G Savings Bonds which can be acquired in any one year. He has had many requests to make exceptions to that limitation, but he feels that if an exception or waiver of the limitation is made in one case, it will be necessary to make it in many other cases. The Treasury recently had one request which involved the investment of approximately twenty million dollars of pension funds in Savings Bonds, which it reluctantly turned down because of the precedent it would have established.

Under all the circumstances, the Secretary feels that he is, in fairness to all groups, required to maintain for the present the limit specified in the regulations.

I am sorry not to be able to give you a more favorable reply but I am sure you will understand the Treasury's position in the matter.

Sincerely yours,

Mr. Daniel J. Tobin,
President,
International Brotherhood of Teamsters,
Indianapolis, Indiana.

2/20/42 Channing

Em SWB

THE WHITE HOUSE
WASHINGTON

123

September 19, 1941

MEMORANDUM FOR THE

SECRETARY OF THE TREASURY:

For preparation of reply.

F.D.R.

TELEGRAM

The White House

184/183 3:42PM Washington

INDIANAPOLIS, INDIANA, SEP'T. 18, 1941

THE PRESIDENT.

THE INTERNATIONAL BROTHERHOOD OF TEAMSTERS, COMPOSED OF 550,000 CITIZENS OF THE UNITED STATES, WHO PAY A PENNY A DAY AND NO ASSESSMENTS TO THE INTERNATIONAL UNION FOR THEIR PROTECTION, HAVE INSTRUCTED THE GENERAL EXECUTIVE BOARD TO INVEST ONE OR TWO MILLION DOLLARS IN SERIES G, NON-NEGOTIABLE, NON-TRANSFERABLE, DEFENSE BONDS. THIS LABOR ORGANIZATION IS NOT A PROFIT-MAKING INSTITUTION. THE TREASURY OF THE INTERNATIONAL UNION IS OWNED ENTIRELY BY THE MEMBERS. THE TREASURY DEPARTMENT HAS REFUSED TO FILL THE ORDER ON THE GROUNDS THAT THEY ARE NOT PERMITTED TO DO SO UNDER THE LAW. THE ACTION OF THE TEAMSTERS' UNION IS BASED ON THEIR DESIRE TO HELP THE GOVERNMENT FROM A PATRIOTIC PRINCIPLE AND ALSO TO ESTABLISH CONFIDENCE IN THE RANK AND FILE OF THE WORKERS OF THE NATION BY PROVING THAT IT IS THEIR OPINION THAT SUCH INVESTMENT IS ONE OF THE SAFEST THAT CAN BE MADE BY THE WORKING PEOPLE. IF LAWS NOW PLACE US IN THE SAME POSITION AS PROFIT-MAKING, GOLD-BLOODED CORPORATIONS, LAWS SHOULD BE AMENDED OR MORE LIBERALLY INTERPRETED IN BEHALF OF SUCH ORGANIZATIONS OF THE WORKERS.

DANIEL J. TOBIN.

September 22, 1941

Mr. Dave H. Morris, Jr.,
Washington, D. C.

Sir:

You are hereby appointed an Assistant to the Secretary of the Treasury, with compensation at the rate of nine thousand dollars per annum, payable from the appropriation "Salaries, Office of the Secretary," the appointment to be effective on September 22, 1941.

Very truly yours,

(Signed) E. Worgenthau, Jr.

Secretary of the Treasury.

Delivered by Mr. Thompson

Copies to Mr. Thompson

em

MEMORANDUM

September 22, 1941.

TO: Secretary Morgenthau
FROM: Mr. Sullivan

This noon time I called on Edmund F. Toland, Esquire, Counsel for the Vinson Investigating Committee, which is examining the records of Navy contractors to determine whether or not their profits on recent contracts are reasonable or exorbitant. I advised Mr. Toland that on August 5th Congressman Vinson had asked me to draft a new profit limiting bill and that I assured the Congressman that I would talk with him as soon as the pending tax bill was signed. I explained that I had tried to get Mr. Vinson on the phone this morning and learned he was in Georgia. Mr. Toland explained that Congressman Vinson had been in Georgia since August, that he would certainly not be back this week, and probably not for two or three weeks or perhaps a month.

I then referred to the story in the Merry-Go-Round, which reported that last week the President had given Mr. Vinson the green light on this legislation. Mr. Toland said there was nothing to this and not a shred of truth in that story, that Mr. Vinson had not seen the President since last April. He said, however, that the Congressman had asked him to draft such a bill, but that he did not intend to do anything about it until he talked it over with the Treasury.

He then referred to another amendment to the Internal Revenue Code, which he had drafted at the request of the Chairman, which would make labor unions taxable rather than exempt, as they now are.

I gave no indication of our attitude on a revival of the profit limiting principle and left with his assurance that nothing would be done until he talked with me.

TWS

MEMORANDUM

September 22, 1941.

TO: Secretary Morgenthau

FROM: Mr. Sullivan

The statement made by Chairman George of the Senate Finance Committee appearing in today's ticker merely announces action which he directed the Treasury to take at the time he agreed not to press the community property amendment in the recent tax bill. It is my recollection that he made a statement to this effect on the Floor of the Senate.

During the conference on the tax bill the joint conferees instructed us to submit proposals for both mandatory joint returns and the elimination of community property preference as parts of the administrative amendment bill.

JLS

A SHOWDOWN IN CONGRESS APPEARED IN PROSPECT TODAY OVER INCOME TAXES
IN COMMUNITY PROPERTY STATES--AN ISSUE WHICH WAS POSTPONED DURING 128
RECENT CONSIDERATION OF THE \$3,553,000,000 TAX BILL.

CHAIRMAN GEORGE OF THE SENATE FINANCE COMMITTEE SAID THE TREASURY
WOULD REQUEST CONSIDERATION OF THE PROVISION DURING DISCUSSION OF AN
"ADMINISTRATIVE TAX BILL" EXPECTED TO APPEAR LATE IN
OCTOBER.

THE PROPOSAL WOULD FORBID INDIVIDUALS IN THE EIGHT COMMUNITY PROPERTY STATES TO SPLIT THEIR PROPERTY EQUALLY WITH THEIR WIVES TO AVOID PAYING SURTAXES ON THE HIGHER INCOME BRACKETS. IT WAS RESISTED BY THE SENATORS FROM THOSE STATES AND ELIMINATED FROM THE REVENUE BILL. H SIGNING THE REVENUE MEASURE SATURDAY BY THE PRESIDENT, GEORGE SAID, CLEARED THE WAY FOR CONSIDERATION OF THE "ADMINISTRATIVE TAX BILL." IT IS DESIGNED TO CLEAR UP TECHNICAL POINTS IN THE EARLIER MEASURE WITHOUT AFFECTING THE RATE STRUCTURE.

9/22--R901A


September 22, 1941

Files

Mr. Cochran

At 10:35 this morning Mr. Collado telephoned me from the Department of State to the effect that Ambassador Armour had cabled from Buenos Aires that on last Saturday there had been a two-hour Cabinet meeting at which the \$110,000,000 of American credits to Argentina were discussed. The Acting President of Argentina intimated that action on these credits might be expected shortly. La Frasca, however, has forecast that there will still be opposition to these credits when the legislation reaches the Chamber. Mr. Collado expects a detailed despatch from the American Embassy at Buenos Aires shortly on this subject and will provide us with a copy.

In answer to my question, Mr. Collado stated that there was still some negotiating on the petroleum phase of the agreements with Mexico, but that he expected this to end shortly, especially since Under Secretary Welles has returned to duty today and will presumably desire to conclude the Mexican agreements as soon as possible.



RMC:lsp-9/22/41

A23

MEMORANDUM

133

FROM British Supply Council In North America

TO Mrs. Henrietta Klotz

Compliments of E.N. Gray

AIRCRAFT SHIPPED TO U. K. AND OVERSEAS COMMANDS

<u>TYPE</u>	<u>DESTINATION</u>	<u>ASSEMBLY POINT</u>	<u>By sea week ended August 30, 1941</u>	<u>By Air week ended September 21, 1941</u>
<u>BELL</u>				
Airacobra	U. K.	U. K.	7	-
<u>DOUGLAS</u>				
Boston III	U. K.	U. K.	9	-
-o-	M. E.	Port Sudan	10	-
<u>LOCKHEED</u>				
Hudson III	New Zealand	New Zealand	12	-
Hudson III	U. K.	U. K. (via Gander)	-	*14
<u>TOTALS</u>			38	14

*One aircraft reported overdue at destination.

British Air Commission
September 22, 1941

September 22, 1941.

CONFIDENTIAL

Dear Mr. Knoks:

I have pleasure in acknowledging the receipt, on behalf of Secretary Morgenthau, of your letter of September 15, 1941, enclosing your compilation for the week ended September 10, 1941, showing dollar disbursements out of the British Empire and French accounts at the Federal Reserve Bank of New York, and the means by which these expenditures were financed.

Faithfully yours,

(Signed) E. Merle Cochran

E. Merle Cochran,
Technical Assistant to the Secretary.

L. W. Knoks, Esquire,
Vice President,
Federal Reserve Bank of New York,
New York, New York.

EMC:dm:9/22/41

C
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P
Y

133

FEDERAL RESERVE BANK
of New York

September 18, 1941.

CONFIDENTIAL

Dear Mr. Secretary: Attention: Mr. H. Merle Cochran

I am enclosing our compilation for the week ended September 10, 1941, showing dollar disbursements out of the British Empire and French accounts at this bank and the means by which these expenditures were financed.

Faithfully yours,

/s/ L. W. Knoke

L. W. Knoke,
Vice President.

Honorable Henry Morgenthau, Jr.,
Secretary of the Treasury,
Washington, D. C.

Enclosure

Copy:mew 9/20/41

ANALYSIS OF BRITISH AND FRENCH ACCOUNTS
(In Millions of Dollars)

Week Ended Sept. 10, 1941.

Period
Quoted

PERIOD	UNITED STATES (UNITED STATES GOVERNMENT)							REMARKS OF FRANCE							
	Total Debit	Expendi- tures (a)	Other Debits (b)	Total Credits	Proceeds of Sales of Gold (c)	Proceeds of Imports (d)	Other Credits (e)	Net Inor. (+) or Debit (-) in Dollars (f)	Total Debit	Expendi- tures (g)	Other Debits (h)	Total Credits	of Gold Sales (i)	Other Credits (j)	Net Debit (-) in Balance
First year of war (8/29/39-8/28/40)*	1,023.2	605.4	1,187.6	828.2	1,856.1	52.0	420.1	+ 35.0	866.3	415.6	442.2	1,098.3	900.2	185.1	- 229.0
1940															
Aug. 29 - Oct. 2	516.8	244.2	78.5	308.9	271.5	6.0	31.4	- 7.9	3.8	1.3	4.2	1.3	-	1.5	- 7.3
Oct. 3 - 30	196.7	167.8	28.9	198.5	160.6	8.0	32.0	+ 1.8	0.5	0.3	0.2	0.5	-	0.8	-
Oct. 31 - Nov. 27	241.0	201.1	39.9	252.5	210.0	18.0	31.5	+ 18.5	0.8	0.1	0.7	0.7	-	0.7	- 0.1
Nov. 28 - Dec. 31	224.6	205.9	27.8	198.6	111.4	26.0	20.5	- 36.5	2.1	-	2.1	0.5	-	0.6	- 1.6
We ended through Dec. 31	2,782.2	1,485.6	1,356.2	1,931.1	2,109.5	108.0	575.6	+ 10.8	878.3	421.4	456.9	1,098.3	900.2	198.2	+ 230.1
1941															
Jan. 2 - 29	197.4	182.7	34.7	259.9	176.2	52.0	31.7	+ 52.5	1.7	-	1.7	0.5	-	0.5	- 1.2
Jan. 30 - Feb. 26	164.6	137.8	26.8	101.4	26.6	80.0	48.8	- 65.2	0.2	-	0.2	0.2	-	0.2	-
Feb. 27 - Apr. 2	229.7	157.6	52.1	237.9	103.7	72.0	62.2	+ 8.2	0.7	-	0.7	1.6	-	1.6	+ 0.9
Apr. 3 - Apr. 30	126.0	101.9	24.1	216.9	125.6	15.0	78.3	+ 22.9	0.9	-	0.9	0.9	-	0.9	-
May 1 - May 26	122.6	90.6	32.0	91.0	6.3	32.0	52.7	- 31.6	0.4	-	0.4	0.8	-	0.8	+ 0.4
May 29 - July 2	140.5	113.8	25.7	105.1	1.9	11.0	92.2	- 35.4	21.5	-	21.5	0.9	-	0.9	- 20.6
July 3 - July 30	101.4	75.6	26.3	61.5	-	6.0	55.5	- 39.9	0.5	-	0.5	0.3	-	0.3	- 0.2
July 31 - Aug. 27	131.7	92.2	19.5	142.2	-	4.0	145.2	+ 17.5	1.0	-	1.0	0.5	-	0.5	- 0.5
Second year of war (8/29/40-8/27/41)															
Aug. 28 - Oct. 1															
Oct. 2 - Oct. 29															
Oct. 30 - Dec. 3															
Dec. 4 - 31															
WEEK ENDED:															
Aug. 20	26.0	16.5	9.5	12.1	-	2.0	10.1	- 13.9	0.1	-	0.1	0.1	-	0.1	-
27	36.5	22.5	14.0	5.2	-	-	5.2	- 31.3	-	-	-	-	-	-	-
Sept. 3	34.5	29.2	4.6	9.0	-	2.0	7.0	- 25.5	-	-	-	0.1	-	0.1	+ 0.1
10	31.9	20.0	11.9	11.7	-	-	11.7	- 20.2	-	-	-	0.1	-	0.1	+ 0.1

Average Weekly Expenditures since Outbreak of War
France (through June 19, 1940) \$19.6 million

Transfers from British Purchasing Commission to
Bank of Canada for French Account

(See footnotes on reverse side)

England (through June 19, 1940) 27.6 million
England (since June 19, 1940) 45.3 million

Week ended Sept. 10, 1941
Cumulation from July 6, 1940 \$162.7

million
million

* For monthly breakdown see tabulations prior to April 25, 1941.

Regraded Unclassified

INTERNATIONAL TRADE AND FINANCE: TRADE AND FINANCE

(a) Estimated figures based on transfers from the New York Agency of the Bank of Montreal, which apparently represent the total proceeds of official British sales of American securities. Additional sales effected through direct registration in addition to the official selling, substantial liquidation of securities for private British account occurred, particularly during the early months of the war, although the receipt of the proceeds at this bank cannot be identified with any accuracy. According to data supplied by the British Treasury and released by Secretary Morgenthau, total official and private British liquidation of our securities through December, 1940 amounted to \$334 million.

(b) Includes about \$85 million received during October, 1939 from the accounts of British authorized banks with New York banks, presumably reflecting the requisitioning of private dollar balances. Other large transfers from such accounts since October, 1939 apparently represent the acquisition of proceeds of exports from the sterling area and other currently accruing dollar receipts.

(c) Includes payments for account of French Air Commission and French Purchasing Commission.

(d) Adjusted to eliminate the effect of \$20 million paid out on June 26, 1940 and returned the following day.

(e) Includes \$5 million transferred from New York accounts of British authorized banks.

STATEMENTS OF CANADIAN AND AMERICAN ACCOUNTS
(In Billions of Dollars)

Week Ending Sept. 10, 1941

Strictly
Confidential

Period	Total Debits	to Official British A/O	Other Debits	Total Credits	Excess of Gold Sales	Transactions with Official British A/O		Other Credits	Net Incr. (-) or Decr. (-) in Balance	Total Debits	to Official British A/O	Other Debits	Total Credits	of Gold Sales	Other Credits	(-) or Surp. (-) in Balance
						For Own A/O	For French A/O									
Annual total of war (1939/40-3/30/40)*	223.0	16.6	306.4	504.7	412.7	20.9	39.7	32.4	+161.7	51.2	3.9	27.3	36.1	30.0	6.1	+ 4.8
1940																
Aug. 25 - Oct. 2	44.3	-	44.3	43.9	16.4	-	27.3	0.2	- 0.4	8.7	2.5	6.2	8.0	6.7	1.3	- 0.7
Oct. 3 - 22	23.7	-	23.7	26.0	14.0	-	14.3	0.3	+ 1.9	10.1	7.5	2.6	7.9	6.5	1.4	- 2.2
Oct. 23 - Nov. 27	32.3	-	32.3	39.6	49.2	-	16.7	3.7	+ 34.4	3.1	0.6	2.5	3.6	2.1	1.5	+ 0.5
Nov. 28 - Dec. 31	42.0	-	42.0	50.6	42.5	-	13.7	4.4	+ 12.6	4.8	-	4.8	6.8	4.8	2.0	+ 2.0
1941																
Jan. 1 - March 31	417.8	16.6	460.6	707.4	534.8	20.9	110.7	41.0	+220.2	57.9	14.5	43.4	62.4	50.1	12.3	+ 4.5
1941																
Apr. 1 - 30	38.9	-	38.9	38.9	16.9	-	15.0	2.0	+ 0.2	4.8	-	4.8	6.8	5.1	1.7	+ 2.0
Apr. 31 - May 25	31.1	-	31.1	24.5	14.3	-	6.8	3.2	- 6.8	5.0	1.7	3.3	3.2	0.6	2.6	- 1.8
May 26 - Apr. 2	60.9	-	60.9	46.0	23.1	-	19.1	3.8	- 14.9	5.8	0.8	5.0	13.7	12.5	1.2	+ 7.9
Apr. 3 - Apr. 30	24.9	-	24.9	25.9	12.5	-	10.5	12.9	+ 1.0	2.8	-	2.8	5.9	4.6	1.3	+ 3.1
May 1 - May 30	39.2	-	39.2	25.6	15.8	-	0.5	9.3	- 15.7	5.4	-	5.4	4.9	4.1	0.8	- 0.5
May 31 - July 1	45.2	-	45.2	48.2	16.3	-	-	31.2	+ 5.0	10.1	-	10.1	5.8	4.5	1.3	- 4.3
July 2 - July 31	30.6	-	30.6	21.8	15.2	-	-	6.5	- 8.8	6.4	-	6.4	6.3	4.8	1.5	- 0.1
July 31 - Aug. 27	32.5	-	32.5	23.6	10.0	3.4	-	10.2	- 8.9	5.2	-	5.2	6.3	6.6	1.7	+ 3.1
1941																
Aug. 28 - Oct. 1																
Oct. 2 - Oct. 31																
1941																
Nov. 1 - Dec. 31																
1941																
Jan. 1 - 31	8.5	-	8.5	9.9	3.0	-	-	6.9	+ 1.4	0.2	-	0.2	7.0	6.4	0.6	+ 6.8
Feb. 1 - 27	10.2	-	10.2	2.9	1.5	-	-	1.4	- 7.1	2.1	-	2.1	0.7	0.2	0.5	- 1.4
Mar. 1 - 10	2.6	-	2.6	26.7	0.1	-	-	26.6	+24.1	0.9	-	0.9	-	-	-	- 0.9
Apr. 1 - 10	3.5	-	3.5	3.4	2.7	-	-	0.7	- 0.1	1.0	-	1.0	0.1	-	0.1	- 0.9

Weekly Average of Total Debits Since Outbreak of War
Through Sept. 10, 1941 \$ 7.4 million

* For monthly breakdown see tabulations prior to April 25, 1941.

TREASURY DEPARTMENT

137

INTER-OFFICE COMMUNICATION

DATE September 22, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Official sales of British-owned dollar securities under the vesting order effective February 19, 1940:

	<u>No. of Shares Sold</u>	<u>\$ Proceeds of Shares Sold</u>	<u>Nominal Value of Bonds Sold</u>	<u>\$ Proceeds of Bonds Sold</u>
Sept. 15	133	5,418	10,000	10,306
16	270	14,611	Nil	Nil
17	1,874	78,624	11,000	6,277
18	1,500	29,040	Nil	Nil
19	900	15,559	5,000	3,092
20	520	6,151	Nil	Nil
	<u>5,197</u>	<u>149,403</u>	<u>26,000</u>	<u>19,675</u>
Sales from Feb. 22, 1940 to Sept. 13, 1941	<u>9,803,956-1/2</u>	<u>280,238,446</u>	<u>45,067,716</u>	<u>37,038,106</u>
Total Feb. 22, 1940 to Sept. 20, 1941	<u>9,809,153-1/2</u>	<u>280,387,849</u>	<u>45,093,716</u>	<u>37,057,781</u>

TREASURY DEPARTMENT

138

INTER-OFFICE COMMUNICATION

For Miss C.

DATE September 22, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Official sales of British-owned dollar securities under the vesting order effective February 19, 1940:

	<u>\$ Proceeds of Shares Sold</u>	<u>\$ Proceeds of Bonds Sold</u>	<u>Total</u>	
Sept. 15	5,418	10,306	15,724	
16	14,611	Nil	14,611	
17	78,624	6,277	84,901	
18	29,040	Nil	29,040	
19	15,559	3,092	18,651	
20	6,151	Nil	6,151	
	<u>149,403</u>	<u>19,675</u>	<u>169,078</u>	
Sales from				
Feb. 22, 1940 to				
Sept. 13, 1941	<u>280,238,446</u>	<u>37,038,106</u>	<u>317,276,552</u>	
Total				
Feb. 22, 1940 to				
Sept. 20, 1941	<u>280,387,849</u>	<u>37,057,781</u>	<u>317,445,630</u>	317,445,630
\$ proceeds of non-vested securities sold				
Sept. 8, 1941 to Sept. 13, 1941			300,000	
\$ proceeds of non-vested securities sold				
Sept. 1, 1939 to Sept. 6, 1941			<u>232,900,000</u>	
\$ proceeds of non-vested securities sold				
Sept. 1, 1939 to Sept. 13, 1941			<u>233,200,000</u>	<u>233,200,000</u>
			<u>GRAND TOTAL</u>	<u>550,645,630</u>

9 Units sold from Aug. 18, 1941 to Sept. 20, 1941 for

\$42

11 Shares Stock Dividend sold from Aug. 18, 1941 to Sept. 20, 1941 for

\$123

55,537 Rights sold from July 24, 1941 to Sept. 20, 1941 for

\$102,543

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE September 22, 1941

TO Secretary *Morganthau*
FROM Mr. *Haas*
Subject: The Business Situation,
Week ending September 20, 1941

Summary

(1) Business activity has levelled off, after allowance for seasonal factors. Despite gains in the second week in September, both the New York Times and Barron's weekly indexes of business activity in the first half of the month dipped slightly below August levels.

(2) General commodity prices have continued to rise at an unslackened pace, but prices of basic commodities during the past week have turned downward. The BLS all-commodity index in the week ended September 13 rose 0.7 percent to 91.6, and is now 17.6 percent higher than a year ago. Prices of farm products included in this index are 37.1 percent higher than last year.

(3) Cotton prices show signs of weakening, and may decline during September and October under pressure from the marketing of the new crop and speculative liquidation. The cotton export subsidy on Government-owned cotton, announced last week, seems little more than a gesture, since Canadian cotton consumption amounts to less than 400,000 bales a year, and Canada has reportedly contracted for 300,000 bales of cotton in Brazil.

(4) Railroad freight traffic has reached a new high for the year but it now appears that the October peak in carloadings may fall slightly below earlier estimates. The production of new freight cars lagged badly in August, but there have been some signs of improvement during the current month.

(5) Total construction contract awards in August as reported by the F. W. Dodge Corporation rose sharply to the highest monthly figure on record. The total of \$760,000,000 was 14 percent above the previous record high reached in May 1928. Non-defense residential construction, however, has shown signs of declining as a result of material shortages and rising costs.

- - - - -

Business activity leveling off

The preliminary estimate of the FRB adjusted index of industrial production for August has been confirmed at 161, but the July figure has been revised downward 1 point to 160. Thus the index in August reached a new peak by a slight margin. A year earlier the index stood at 124, while in August 1939, just before the outbreak of the war, the figure was only 105.

After allowance for seasonal factors, business activity in the first half of September appears to have levelled off. As a matter of fact, the New York Times weekly index of business activity has dipped slightly below last month's levels despite a rise of 0.9 point in the week ended September 13, which carried the index up to 130.2. (See Chart 1, top section.) During the same week, Barron's index of business activity rose 0.8 point to 137.7. However, this figure was still fractionally under last month's average.

An important factor in the rise of the New York Times index in the second week in September was an increase in electric power production to a new record high. (Refer to Chart 1, middle section.) Another stimulating factor was a greater than seasonal increase in automobile production. Nevertheless, reference to Chart 1 will disclose that output was still 10,000 units under the corresponding week in 1940. Moreover, despite a further rise in output last week, production was still 18,000 under year-earlier levels. Later months should show much sharper declines from year-earlier levels as production curtailment becomes more evident. During the past week the OPM announced that December passenger car output would be out 48.4 percent under the same month last year. This compares with a cut of 26.5 percent for the four-month period ending November 30.

Railroad freight traffic rise less than seasonal

Although freight carloadings in the week ended September 13 rose to a new high for the year at 914,000 cars, the gain was less than seasonal. (Refer to Chart 1, lower section.) Normally a further rise in traffic of about 3.5 percent should occur before the fall peak is reached in the first half of October. On this basis the peak would be around 946,000 cars, which compares with earlier estimates of as high as 1,000,000 cars made by competent sources.

Despite the priority rating given to freight car builders some time ago, production continues to lag badly. This has been due principally to lack of steel plates and shapes, although labor troubles also have been a contributing factor. Thus

Iron Age reports that August production of domestic freight cars (excluding production in railroad shops) was only 28 percent of rated capacity, or 38 percent of practical capacity. However, the same source indicates that definite signs have appeared of a probable production increase in September as a result of efforts being made by OPM and the steel companies to allocate more supplies to car builders.

General commodity prices continue to rise

General commodity prices continue to rise at an unslackened pace. The ELS all-commodity index rose 0.7 percent to 91.6 in the week ended September 13, which compares with a gain of 0.4 percent in the previous week. The all-commodity index is 17.6 percent higher than a year ago. Wholesale prices of farm products rose 2.8 percent in the week, and are 37.1 percent higher than a year ago.

The principal advances in wholesale price groups during the week ended September 13 were in cattle feed (7.9 percent), grains (6.8), drugs (5.0), oils and fats (3.6). Among the feed grains, barley rose 14 percent and oats 13 percent. Marked advances in prices of various industrial chemicals were featured by a rise of 39 percent for glycerine and 14 percent for sklorine.

Some evidence of hesitation, however, has appeared in prices of basic commodities. The ELS indexes of basic commodity prices, both import and domestic, showed a declining trend last week, following the rapid advances in many of these commodities in previous weeks. (See Chart 2.) Of the 11 import commodities in the ELS index (lower section of chart) only one (hides) advanced, while cocoa, coffee, flaxseed and wool declined. Of the 17 domestic commodities, only 3 were higher for the week (rosin, steers and tallow), while 8 declined. Largest percentage declines were in cottonseed oil and cotton.

Cotton prices show weakening tendency

Cotton prices have shown a declining tendency during the past two weeks, after a previous sharp advance which had carried the 10-market average nearly to 18 cents. The decline was initiated by a sharp drop on September 10, the day after the Secretary of the Treasury's Boston speech. In Chart 3 we show the 10-market average spot price of 15/16-inch middling cotton weekly and daily, and an estimated trend of farm prices based on the recent relationship between farm prices and market prices. Parity prices by months are shown through August. The September parity price, which will be available near the end of the month, will doubtless show a further advance.

In the recent downturn in cotton prices, which will be noted on the chart, an increasing amount of pressure from the marketing of the new crop has been an important factor. Following the speculative rise that has been in progress for several months, during a period when marketings were seasonally light, prices have undoubtedly become vulnerable to the increase in sales which may be expected as the crop movement gets under way. It would, therefore, not be surprising if cotton prices declined rather substantially during September and October, under the combined influences of the crop movement and speculative liquidation. The Government loan level, at slightly under 14.50 cents (10-market average) will be a strong supporting factor on any decline. Growers may be expected to use the loan facilities more freely this season in view of their favorable price experience on last year's loan cotton.

Flexible ceiling prices on cotton textiles and yarns have been announced by OPA as a means of relieving the pressure on manufacturers' profits caused by the recent advance in raw cotton prices. The new plan provides for an increase of $\frac{1}{2}$ cent in the ceiling for standard print cloth with every advance of 0.43 cent in the 10-market price of spot cotton. This can have no more than limited effectiveness as an inflation control.

Cotton export subsidy

The Department of Agriculture announced last week an export subsidy on Government-owned cotton, which allows exporters to buy cotton from the Commodity Credit Corporation for export at 13-1/4 cents a pound (15/16-inch middling) in warehouses in the Carolina mill area. In compliance with existing law, "sales must not exceed 300,000 bales in any month or 1,500,000 bales per year."

Analysis of the plan shows it to be not much more than a gesture. Canada is virtually the only country in which export sales could be expanded under this plan, in view of the war and shipping situations. But the total consumption of cotton in Canada amounted to only 391,000 bales in the 12-month period ended last June, with mills apparently operating close to capacity. Furthermore, Canada is reported in the press to have already contracted in Brazil for about 300,000 bales. It is probable that even at the subsidy price of 13-1/4 cents a pound f.o.b. Carolina mill areas, Canada might get cotton of similar quality cheaper in Brazil. Compilations of the New York Cotton Exchange show that Brazilian cotton at Sao Paulo is selling currently at only 49.6 percent of the price of American cotton of normally similar value at Gulf ports.

Steel industry troubled by strikes

Steel production last week was initially scheduled at 96.1 percent of capacity - a decline of 0.8 point from the previous week. Actual production, however, may have shown a somewhat greater decline as a result of labor troubles which developed during the week. On Tuesday the Carnegie-Illinois Steel Corporation had to shut down 44 open hearth furnaces temporarily because of a sit-down strike at the Clairton Coke Works. On the same day operations at the Watervliet, New York, plant of the Allegheny Ludlum Steel Corporation were cut 50 percent by a strike. While both of these work stoppages were settled after a short delay, another strike at the McDonald, Ohio plant of the Carnegie-Illinois Steel Corporation was still in progress near the end of the week.

Of much greater importance to the steel industry, however, was the strike in captive coal mines which was called at the beginning of the week. While the strike was not finally settled, near the end of the week it was announced that miners would return to work today pending definite settlement of the dispute. Since most steel companies are reported to have had a fairly ample supply of coal above ground at the time the strike was called, steel operations do not appear to have been directly affected by the strike. Steel operations during the current week are scheduled at 96.8 percent of capacity, as compared with 96.1 percent last week.

Department store sales slackening

After the sharp spurt in consumer buying which carried department store sales in August 32 percent above year-earlier levels, sales gains have narrowed considerably thus far in September. (See Chart 4.) By the week ended September 13 the sales gain over the corresponding week in 1940 had been cut to 8 percent, which contrasts sharply with the recent extreme gain of 46 percent reported for the first week in August.

Sales in the Philadelphia district actually fell somewhat below the corresponding period of last year and in the New York area earlier wide sales gains in home furnishings and appliances are reported to have been cut to moderate proportions. In view of the fact that retail prices at department stores are higher than last year (August figures show a rise of 10 percent) the actual quantity of goods sold during the second week of September probably ran slightly below that of the same week last year.

New orders higher

After declining sharply in the first week in September, due in part at least to the Labor Day holiday, our new orders index rose 10 percent in the succeeding week. Reference to Chart 5, however, will reveal that the index recovered only about one-half of the ground lost in the holiday week despite gains shown by all components. After falling a trifle below capacity in the Labor Day week for the first time this year, new steel orders rose 6 percent to 105 percent of capacity.

Construction awards at record high

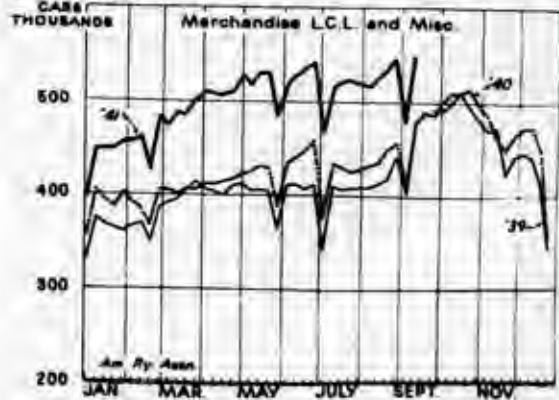
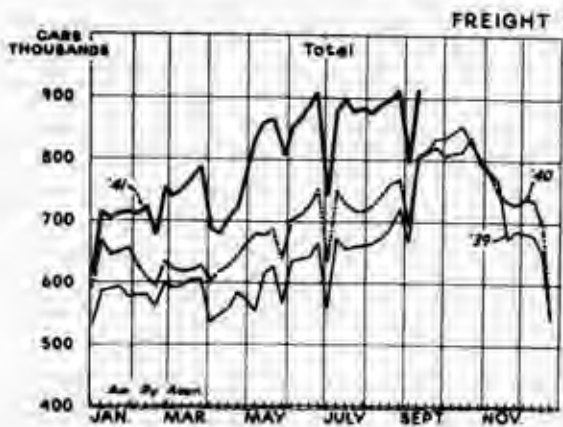
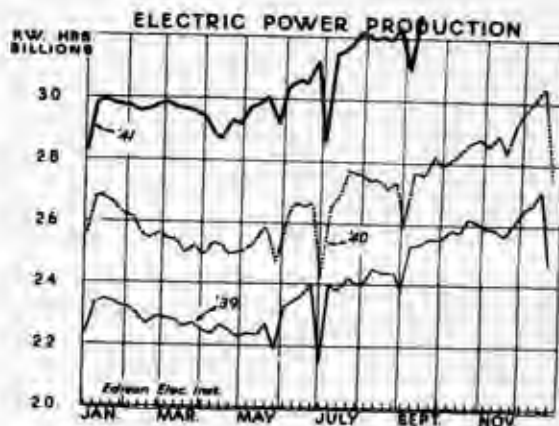
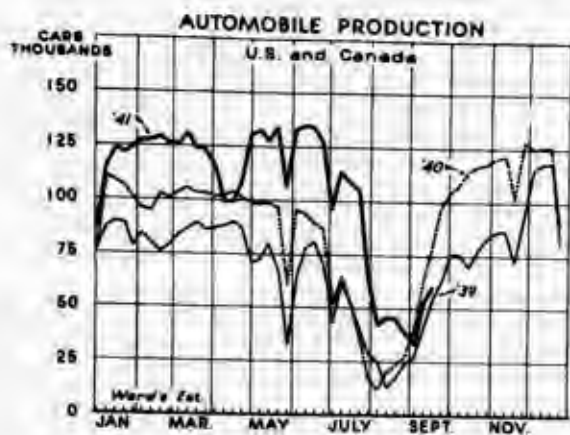
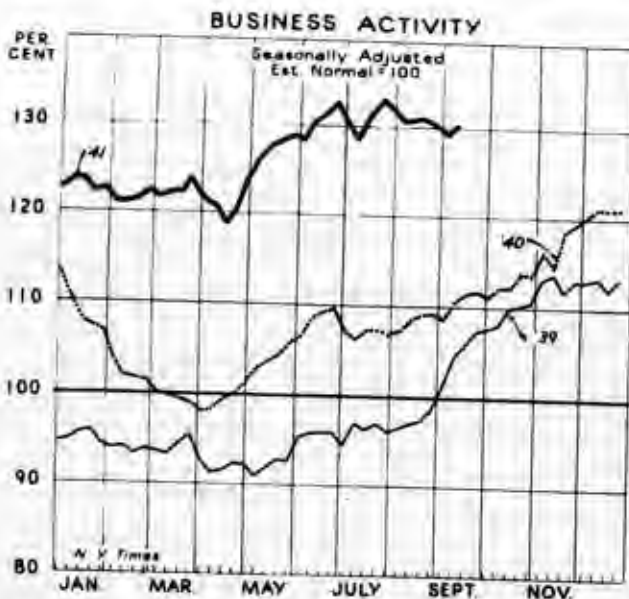
Swelled by a heavy volume of defense work, total construction contract awards as reported by the F. W. Dodge Corporation soared to a new record high in August. The total for the month, amounting to \$760,000,000, was 32 percent above the July total, and 14 percent above the previous record high reached in May 1928. The sharp rise in total awards reflected a further increase in the letting of contracts for defense construction, which rose to \$400,000,000 from \$241,000,000 in July.

Private home building declines

Although total residential construction awards rose in August as a result of defense housing activity, definite evidence of a decline in private home building has appeared. Thus new homes to be built under FHA provisions, exclusive of defense construction under Title VI, has declined substantially from the spring peak. This showing contrasts with the relatively well sustained level which was maintained throughout the summer of last year. (See Chart 6.) As a matter of fact, since mid-August the number of new homes to be built has fallen below year-earlier levels.

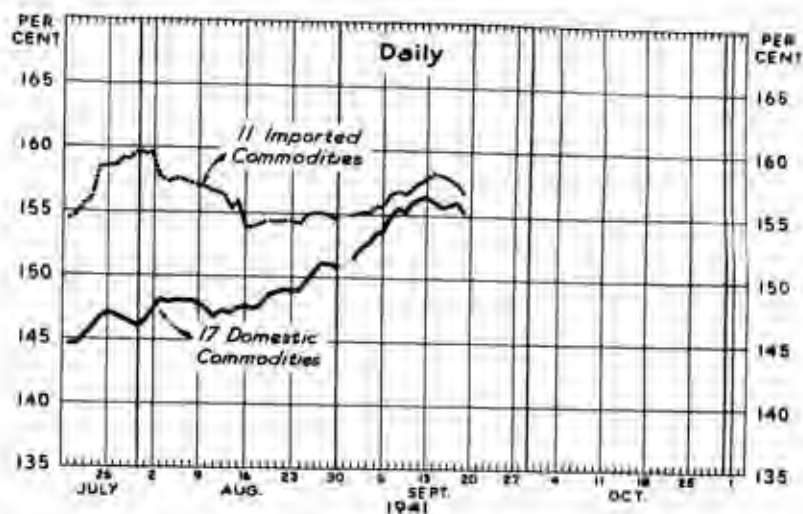
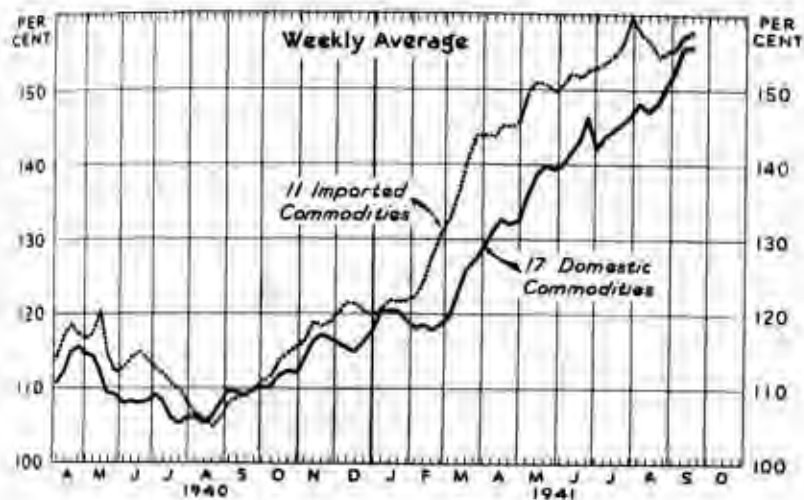
Rising costs and material shortages have been outstanding factors in the recent declining tendency in private home building activity. As a result of the difficulties which have developed in the supply of building materials, the OPM last week announced a plan for extending priorities to defense housing projects, limiting the preferential ratings to defense housing of a value not over \$6,000 per family unit. This step is expected to have the effect of further curtailing non-defense residential construction.

SELECTED BUSINESS INDICES

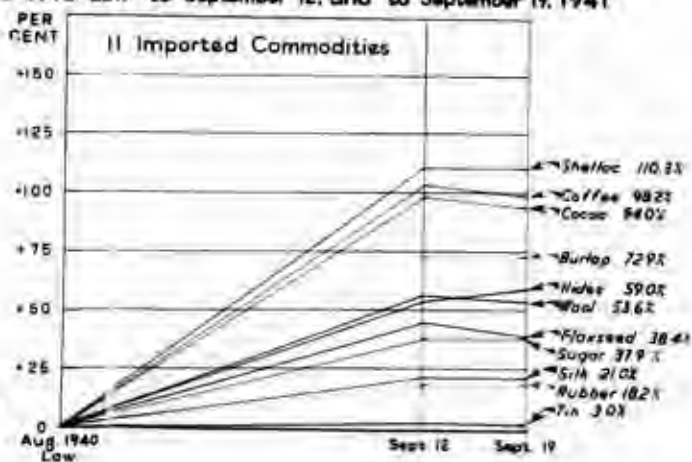
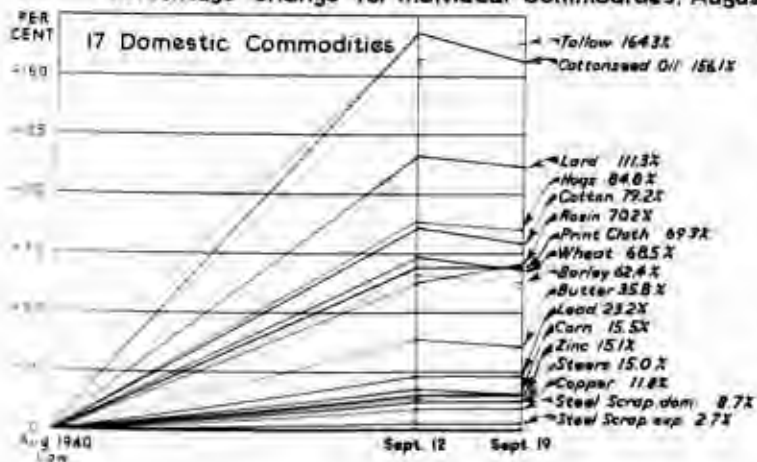


MOVEMENT OF BASIC COMMODITY PRICES Domestic and Imported

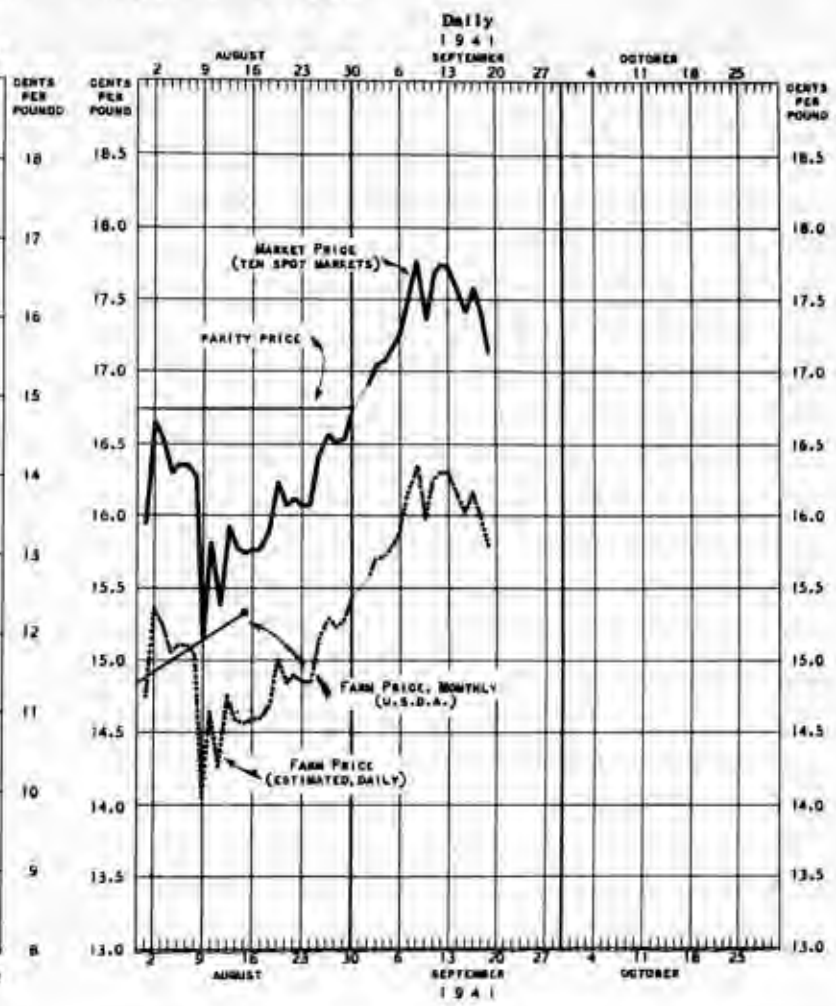
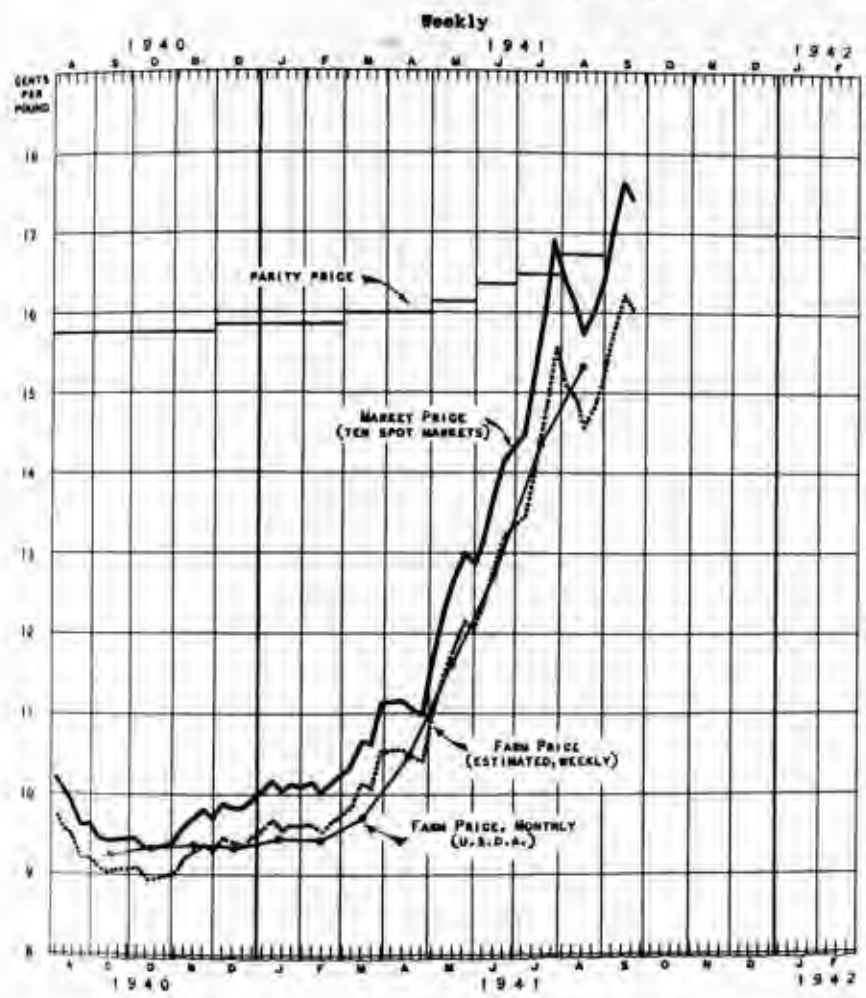
AUGUST 1939 = 100



Percentage Change for Individual Commodities, August 1940 Low to September 12, and to September 19, 1941

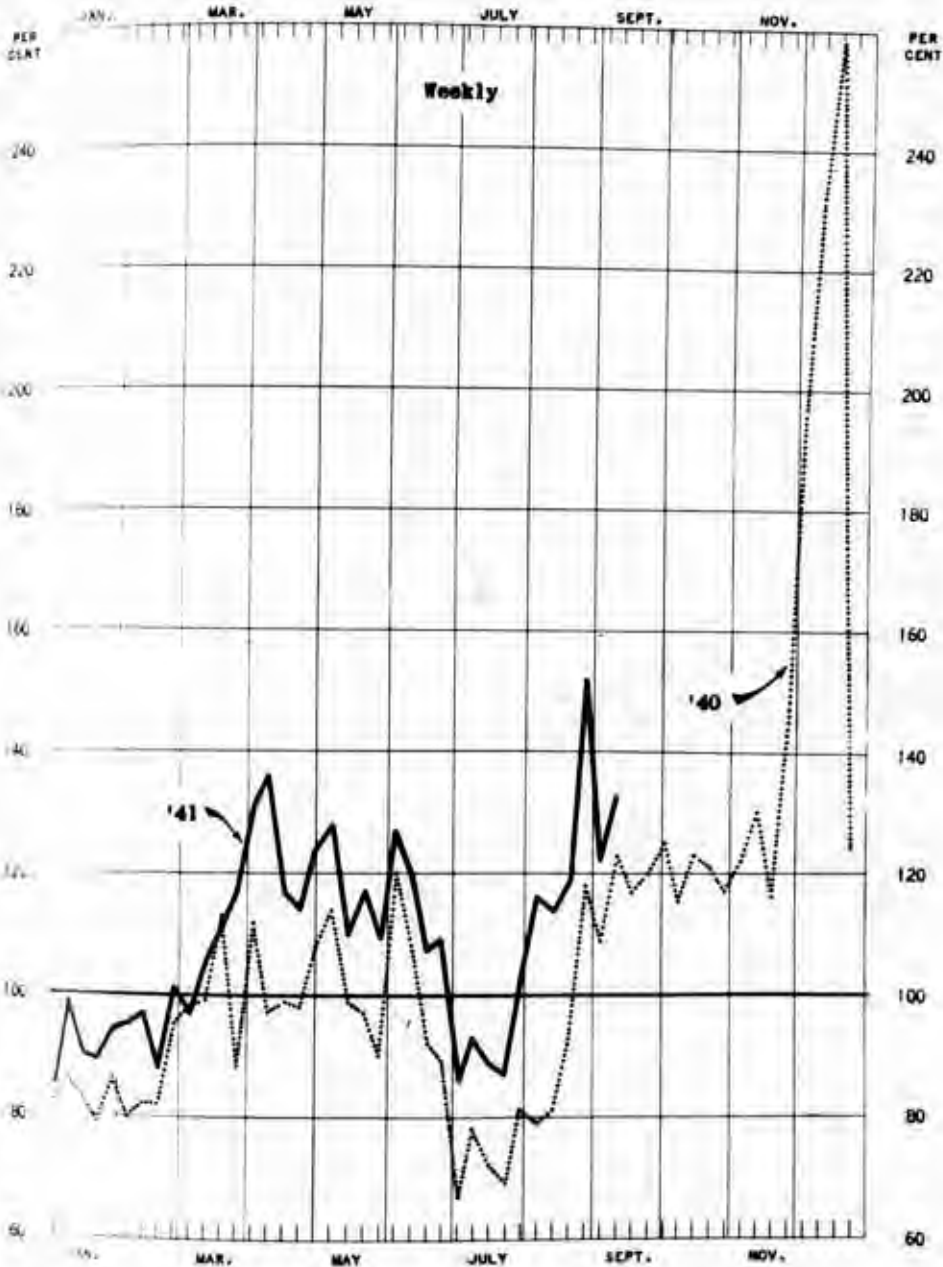


MARKET, FARM, AND PARITY PRICES OF COTTON



DEPARTMENT STORE SALES

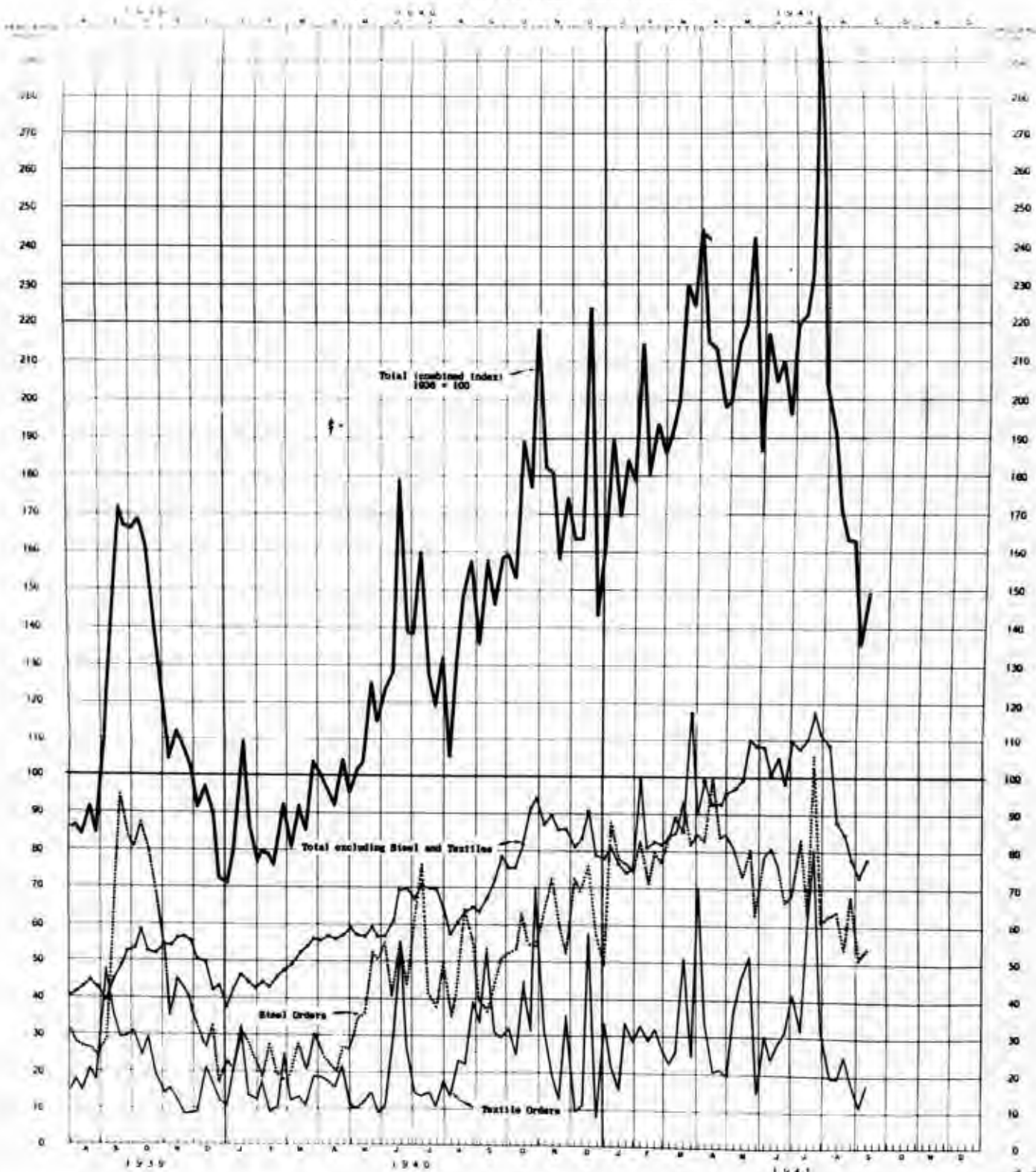
1935 - '39 = 100, UNADJUSTED



Office of the Director of the Treasury
Bureau of Economic Warfare

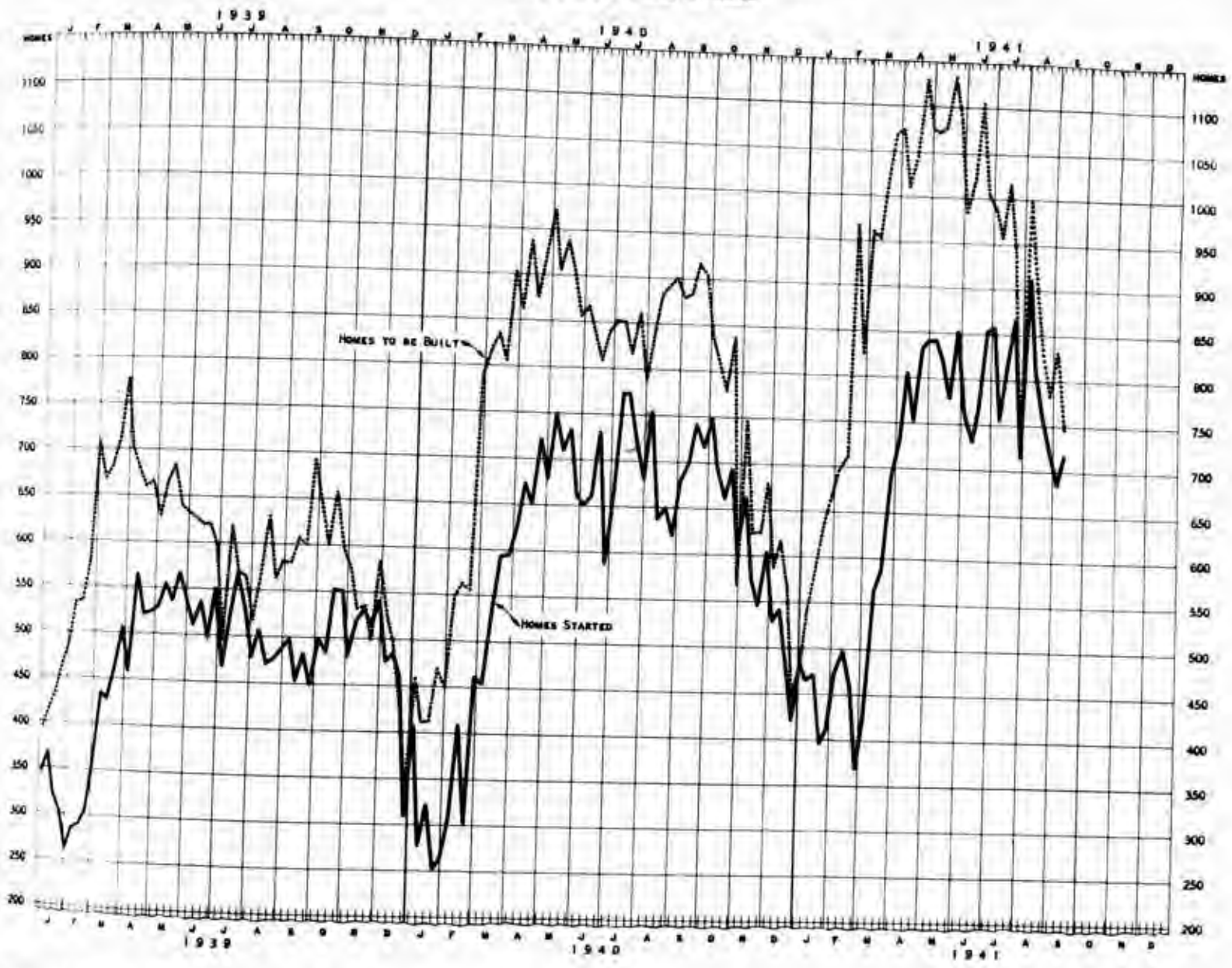
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INDEXES OF NEW ORDERS
 Combined Index of New Orders and Selected Components



U.S. GOVERNMENT PRINTING OFFICE
 WASHINGTON, D.C.

NEW HOME CONSTRUCTION, F.H.A. Daily Average Number of Homes



Office of the Secretary of the Treasury
Bureau of Economic and Statistics

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151

Shanghai, China.

September 22, 1941.

For Secretary of the Treasury:

Commencing October first the new rate to be used for settlement of all transactions in paper gold bar market will be based in future on the Hong Kong--Shanghai exchange rates. The formula of calculations is as follows:

X equals 10 ounce Shanghai gold bar,

10 ounce Shanghai gold bar equals 9.92
Shanghai pure gold,

9.953 ounces Hong Kong pure gold equals
1,400 Hong Kong dollars,

1,730 Hong Kong dollars (presume this is
the exchange rate of day of settlement)
equals 10,000 Shanghai fapi.

Thus X equals 10 times 9.92 times 1400 over 10 times
9.953 equals 1305.40. Thus X equals 10 times 9.92 times
1400 times 10,000 over 10 times 9.953 times 1730 equals
8066 Shanghai fapi.

Nicholeon

Copy:hr:9-24-41.

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152

AF

PLAIN

Hong Kong via N. R.

Dated Sept. 22, 1941

Rec'd 12:38 p.m.; 23rd

Secretary of State,
Washington.

379, September 22

My 317, August 21, 1941

Hong Kong Government Gazette of September 19
adds China to list of countries for which export
or reexport licenses for all goods from Hong Kong
are required.

SOUTHARD

RR

Copy:bj:9-26-41

DES

GRAY

HONG KONG VIA N.R.

Dated September 22, 1941

Rec'd 3:15 p.m., 23d.

Secretary of State,
Washington.

378, September 22, 3 p.m.

CONFIDENTIAL FROM FOX FOR THE SECRETARY OF THE
TREASURY.

"After deliberations with Southard and Aikin am firmly convinced of inadvisability of replacing Aarons and Aikin. Assistance on freezing was badly needed in August but situation now largely straightened out. Moreover to replace Aikin and Aarons with new and comparatively inexperienced men now merely tends to keep two separate speculative markets such as Shanghai and Hong Kong stirred up. Therefore strongly recommend neither Saxon nor Anderson be sent here but have no objection to either or both men assigned to assist Lockhart if Lockhart so desires and assumes full responsibility for them and if their work is limited to freezing".

SOUTHARD

CSB

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154

DEPARTMENT OF STATE
WASHINGTON

In reply refer to
EA 840.51 Frozen
Credits/3562

September 22, 1941.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses a copy of telegram No. 385, dated September 18, 1941, 11 a.m., from the American Legation, Sofia, Bulgaria, in regard to an order which has been issued by the Council of Ministers that blocks, as from September 1, 1941, the funds of American nationals in Bulgaria and the occupied territories of Greece and Macedonia.

Enclosure:

From Legation, Sofia,
No. 385, September 18,
1941.

MO

GRAY

155

Sofia

Dated September 18, 1941

Rec'd 11:55 a.m. 20th

Secretary of State,
Washington.

385, September 18, 11 a.m.

The Secretary General of the Ministry of Foreign Affairs has just informed the Legation that as a result of the failure of negotiations it has been conducting through its Legation in Washington to obtain the withdrawal of the Executive Order of March 4, 1941 blocking the funds of Bulgarian nationals in the United States, the Council of Ministers has issued an order blocking as from September 1, 1941 the funds of American nationals in Bulgaria and the occupied territories of Greece and Macedonia. The Secretary General states that the Bulgarian decision is strictly reciprocal emphasizing that it contains a clause to the effect that it will remain in force only so long as the American order continues in effect. He states that the Bulgarian Government is officially informing the Department of the decision through its Legation at Washington.

The Secretary General did not have a copy of his Government's decision, but I will transmit its text as soon as obtainable.

EARLE

NFL

Copy:bj:9-23-41

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

156

Week ended September 20, 1941

	: JAPAN :	RUSSIA :	SPAIN :	GREAT BRITAIN :
PETROLEUM PRODUCTS				
Fuel and Gas Oil (including Diesel Oil)	--	--	15,500 Bbls.	725,950 Bbls.
Crude -				
Blended or California High Octane Crude*	--	--	--	--
All Other Crude	--	--	--	--
Gasoline -				
Gasoline A**	--	9,585 Bbls.	--	631,000 Bbls.
Gasoline B*	--	--	62,700 Bbls.	919,000 Bbls.
All Other Gasoline	--	--	--	--
Lubricating Oil -				
Aviation Lubricating Oil***	--	--	1,550 Bbls.	--
All Other Lubricating Oil	--	--	--	82,392 Bbls.
Tetraethyl Lead***	--	--	--	--
"Boosters", such as Iso-Octane, Iso-Hexane, or Iso-Pentane	--	6,874 Bbls.	--	--
SCRAP IRON AND SCRAP STEEL				
Number 1 Heavy Melting Scrap	--	--	--	10,374 Tons
All Other Scrap	--	--	--	9,392 Tons

Office of the Secretary of the Treasury, Division of Research and Statistics.
September 22, 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.

For Miss Chauncey,

TREASURY DEPARTMENT

157

INTER-OFFICE COMMUNICATION

DATE September 22, 1941.

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£36,000
Purchased from commercial concerns	£20,000

The Federal Reserve Bank of New York sold £10,000 in registered sterling to the American Express Company.

Open market sterling was quoted at 4.03-1/2. The only reported transaction consisted of £2,000 purchased from a commercial concern.

The discount on the Canadian dollar widened to 11-1/4% by the close today, as compared with 11% on Saturday.

The Cuban peso, which closed at a discount of 9/16% on Saturday, improved to 7/16% today.

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

Argentine peso (free)	.2363
Brazilian milreis (free)	.0505
Colombian peso	.5800
Mexican peso	.2070
Venezuelan bolivar	.2755
Uruguayan peso (free)	.4400

We sold \$20,000,000 in gold to the Swiss National Bank, which was added to its earmarked account.

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 no purchases of silver today.



CONFIDENTIAL

MILITARY INTELLIGENCE DIVISION
WAR DEPARTMENT
Washington, September 22, 1941

TENTATIVE LESSONS BULLETIN
No. 161
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.

OPERATIONS IN GREECE
APRIL 11, 1941 - APRIL 30, 1941

SOURCE

This bulletin, which is the second of a series of three on these operations, is based upon a report submitted on April 21, 1941, by an American official observer in Athens.

CONTENTS

1. FORCES
2. PLANS
3. OPERATIONS
4. LOSSES

CONFIDENTIAL

OPERATIONS IN GREECE*
APRIL 11, 1941 - APRIL 20, 1941

1. FORCES

a. Strength

(1) Greek

The Greek forces in Albania and northern Greece on April 11 are believed to have numbered about 300,000. As the bulk of this force was still engaged against the Italians in Albania, only an army corps of two or three divisions was available to confront the German thrust from Yugoslavia. These troops were equipped as mountain divisions and were greatly lacking in armament, mechanical transport, and modern equipment. They had very few antiaircraft and antitank guns, no armored vehicles, and very little motor transportation and modern signal equipment. Their artillery was mostly of the light mountain type, and they had practically no mobile guns of medium or heavy caliber. The army corps mentioned above was concentrated generally in the vicinity of Florina and Kastoria. As far as can be ascertained, the Greek Air Force had become a negligible factor by this time. Whether their planes had been destroyed on the ground or in the air is not known.

(2) British

The British forces consisted principally of an Australian division, a New Zealand division, and a British armored brigade, with British auxiliary engineer, signal, medical, and motor transport detachments, and additional British field artillery and antiaircraft artillery units. The British expeditionary force was provided lavishly with motor transportation, enabling the personnel and materiel to be moved to the anticipated theater of operations east, northeast, and north of Kosani, and also permitting the movement of most of the necessary supplies by motor from the two principal ports of Piraeus and Volo, thus avoiding overburdening the one railway line running to the north. The British units, however, did not appear to be motorized as fully, completely, and independently as German armored and motorized divisions. The British Air Force in Greece at this time consisted of slightly less than 100 serviceable planes, based principally in the vicinity of Athens and Larissa, with small advance bases at Yanina and Paranythea.

*Attached to this bulletin is a map which shows the location of all places mentioned in this series of reports on the Greek campaign.

(3) German

Estimates as to the size and composition of the German forces utilized in this phase of operations in Greece vary between five and ten divisions. There is reason to believe, however, that these forces consisted of three armored divisions, several motorized divisions and at least one mountain division. Even though part of the huge concentration of German aviation was still being employed in Yugoslavia at this time, the numerical German superiority in the air in Greece was very marked.

b. Initial Concentrations

(1) Greek

The bulk of the Greek army was still engaged against the Italians in Albania, with its right flank at Pogradets, at the end of Lake Ochrida, and its left flank at Himarra. The 15,000 Greek effectives holding the defensive positions in eastern Macedonia and western Thrace, east of the Vardar River, had been cut off and had capitulated after four days of heavy fighting. To meet the German thrust from Yugoslavia into northern Greece, the Greeks could spare only a force believed to be an army corps of two or three divisions, concentrated principally in the vicinity of Florina and Kastoria.

(2) British

British concentration, in piecemeal fashion, of troops, materiel, and supplies, in the general area east, northeast, and north of Kozani, had been in progress for some weeks and is believed to have been practically completed. This concentration had been undertaken with a view to meeting an attack from the east, and the shifting of the German threat to the north undoubtedly caused a last minute change in British concentrations, particularly in the left or northern part of their sector.

(3) German

A German armored division, believed to have been followed by a motorized division, had penetrated to and occupied Salonika. German armored and motorized forces had also pushed across Yugoslavia and were concentrating in the vicinity of Monastir and Prilep.

2. PLANS

a. Greek-British

The original plan of a British-Greek defensive line running

generally north and south on the high ground just west of Ekaterini, Verria, and Edessa, to repulse an anticipated attack from the east, while at the same time the Greek army in Albania was to maintain its positions, was upset by the German penetration of southern Yugoslavia and the concentration of German forces in the Monastir area. This German concentration threatened a penetration of Greece through the Monastir Gap via Florina, with the consequent turning of the British-Greek defensive line; it endangered the right rear of the Greek forces in Albania; and it made possible a division of the British-Greek forces in northern Greece from the Greek forces in Albania. The plan of the Allied forces, therefore, was for the British forces to swing their left wing to the south, pivoting their right on the Mount Olympus area, and thus dropping back on the general line of the Aliakmon River. The Greek right, including the right wing of their forces in Albania, was to swing to the southward also, with their right flank eventually joining the left of the British in the vicinity of Grevena. In this manner the Allies were to form a continuous line from sea to sea, facing the Italians and Germans. In this connection, evidence available indicates that the pulling back of the Greek right did not commence soon enough, although it is not known whether this tardiness was due to a lack of coordination and understanding between the British and Greek commands, or whether the necessity for such action was not realized in time. It must be stressed that the allied plan of action was evidently one of purely passive defense.

Lieutenant General Henry Maitland Wilson was in command of the British forces in Greece, under General Papagos, the Greek Commander in Chief, who acted as generalissimo.

b. German

Having penetrated to Salonika and to the Monastir region, and having placed large concentrations in the latter area, the Germans evidently planned to make contact with the Italians in the vicinity of Lake Ochrida, to threaten a penetration around the right of the British line along the Aegean coast, and then to strike with their main force southward through the Monastir Gap toward Florina. The comparatively broad and level valley extending southward from Florina offered an accessible avenue of penetration for armored forces, and a penetration in this direction would threaten the right rear of the Greek forces in Albania, the left rear of the British forces in northern Greece, and would drive a wedge between the Greeks and the British.

3. OPERATIONS

a. Chronological Developments

(1) April 11

CONFIDENTIAL

On April 11 German armored forces, followed by motorized forces, pushed into Greece through the Monastir Gap in the region of Florina. These forces are believed to have consisted of the 5th and 9th Armored Divisions, a regiment of the 23d Division, the Adolf Hitler Regiment, the 73d Division, and, later, the 72d Division. This force was met, in the area just south of Florina, by a great part of the British 1st Armored Brigade, a detachment of Australian motorized infantry, and Greek infantry. In the meantime, the British main forces were pivoting back to the line of the Aliackmon River with their right flank remaining in the vicinity of Ekaterini; the Greek right in Albania and the Greek forces in the Florina-Kastoria area had also commenced their withdrawal to the south. The German armored forces were stopped, with some losses, in the Florina region; the German infantry attacked and was also held temporarily. During the night, German planes in 20 successive waves dropped magnetic mines outside the harbor of Piraeus; they also dropped a few bombs in the harbor and on the town and attacked searchlights and antiaircraft guns with machine gun fire. Three of these planes were shot down by Greek antiaircraft fire, and one by a British fighter.

British aviation bombed and machine-gunned German motor columns and concentrations in the Monastir region and at Kenali during the day. During the night, enemy concentrations in the vicinity of Veleo and Prilep, in Yugoslavia, and of Kilkis, north of Salonika, were bombed and machine-gunned. Thirteen Blenheim bombers and three Hurricanes fighters were destroyed on the ground at Larissa in a daylight assault by German fighters, who attacked from a low level and machine-gunned them with incendiary bullets.

(2) April 12 - 13

On April 12 and 13 German forces pushed farther south to the vicinity of Ptolemais. German planes, in three waves, bombed the port of Volo, and three of these planes were shot down by antiaircraft fire. During the night German planes again laid mines in the Piraeus region and dropped a few bombs on the harbor.

A squadron of six Blenheim bombers, without fighter escort, made a daylight attack on a German motor column in the vicinity of Korytsa. While returning, they were intercepted by German fighters and were all shot down.

(3) April 14

German forces advanced toward Klissoura, Kozani, and Siatista on April 14. The portion of the British armored brigade which had been engaged with the Germans fell back to the southwest to the vicinity of Grevena. The German 9th Armored Division, with at least one motorized

division, moved toward Kosani, while the 5th Armored Division and the Hitler Regiment moved toward Grevena. The German 2d Armored Division advanced from Salonika to Edessa and then to Ekaterini, followed by the 6th Mountain Division. Italian attacks against the Greek line in Albania, which was withdrawing, were repulsed, and about a hundred Italian prisoners were captured.

During the night German planes in successive waves laid mines and dropped a few bombs in the Piraeus region. Mines were laid extensively elsewhere along the Greek coasts and harbors, and German planes also machine-gunned and scattered bombs on several villages of southern Greece. Preveza and Yanina were also bombed.

British planes made repeated attacks against German columns on the march in northern Greece. During daylight German planes bombed the British airbase at Elefsis, destroying seven Hurricanes on the ground; and German fighters made a machine gun attack on the British airbase at Tatoi - Menidi - destroying five Blenheims on the ground.

(4) April 15

The situation was essentially unchanged on April 15. The British were on the line of the Aliakmon River from Grevena to Servia and thence along the high ground to the Aegean coast near Ekaterini. The Greek right in Albania was still withdrawing, and the Greek forces which had been in the Kastoria-Florina area were attempting to fall back to the southwest to establish a continuous line with the British in the Grevena area. German attacks against the British right flank in the vicinity of Ekaterini were repulsed.

German planes in great numbers made bombing and machine gun attacks on many towns and villages throughout Greece. They also laid mines extensively along the coasts, and bombed and machine-gunned shipping of all sorts, including small boats. Larissa, particularly, and Trikkala were very heavily bombed. Five German planes were shot down by British fighters and five by Greek antiaircraft fire.

Since they could be used effectively against Italian planes but were practically helpless against German planes, the six remaining British Blenheim fighters were evacuated to Crete.

(5) April 16

On April 16 the Greek line in Albania ran approximately from Himarra, on the Adriatic coast, generally northeast to Mount Grammos and remained intact in spite of heavy Italian attacks which were evidently designed to take advantage of any confusion attendant on the Greek withdrawal. The British line ran generally along the high ground from the

eastern slopes of Mount Olympus westward to the vicinity of Descati. The situation in the Grevena area was uncertain and confused, and communications with that region had been broken. At the time it was thought that German forces had penetrated beyond Grevena and were advancing toward Kalabaka, although it was later learned that the Germans had not advanced beyond Grevena.

German planes bombed lightly and machine-gunned villages and shipping along the Gulf of Euboea as far south as Chalcis.

During the night British Naval planes attacked Italian merchant ships in the harbor of Valona. British planes also bombed Veles and German motor columns between Veles and Prilep.

(6) April 17

Conditions remained essentially the same on April 17. The situation in the Grevena area was still uncertain and communications with forces in that sector had not been reestablished. The Greek line in Albania continued to fall back, pivoting with its left at Himarra.

German planes again bombed regions along the Gulf of Euboea, two German planes being shot down by British fighters and one by Greek anti-aircraft fire.

The Greek Premier, Mr. Alexander Corizis, committed suicide.

(7) April 18

On April 18 the British began withdrawing to the Thermopylae line, which consisted of high ground running generally east and west immediately south of Lamia, with their right on the Gulf of Euboea and their left protected by impassable mountain terrain. The situation in Albania was essentially unchanged, and that in the Grevena area was still uncertain.

Lamia and Chalcis were bombed by German planes.

As was subsequently learned, the first overture to the Germans concerning a capitulation of Greek forces was made by General Teclakoglou, commanding the Greek army corps in the Grevena region.

A general dissolution occurred in the ground, air, and naval forces in the interior, including the Athens area, with the demoralization centering in the officers, and particularly in the officers of rather high rank, rather than in the men. In many instances and localities officers commanding units, airfields, naval installations, or ships, told the men to disperse and to take whatever they wanted of

clothing, blankets, food, etc. During the ensuing several days this situation was partially righted by drastic action of the High Command, and units were gradually re-formed and installations re-occupied.

(8) April 19

The British retirement to the Thermopylae line continued on April 19. That evening German troops penetrated to Larissa, cutting off and dispersing some of the retiring British forces.

It was learned later that an overture was made on this day to the Germans by General Pitsikas for the capitulation of all the Greek forces in Albania and northern Greece. General Pitsikas, commanding the central and southern sectors of the Albanian front, and next in seniority and authority to General Papagos, acted from his headquarters in Yanina, but because of the ruptured communications with the Greek High Command and Government, General Pitsikas' notification of his intended action was received at Athens only after some delay and the Government's instructions forbidding the capitulation were not received by him.

German planes, which for the past several days had seriously harassed the Greek and British troops by dive-bombing and machine gun attacks, were very active in attacking the British troops and motor movements during their withdrawal to the Thermopylae Line. German planes bombed Lamia, Chalcis and Agrinion. By this time the British Air Force had been reduced practically to impotence by their losses on the ground and in the air, and the German Air Force was by then virtually without opposition.

(9) April 20

On April 20 the British completed their retirement to the Thermopylae line, leaving the plains of Thessaly completely in the hands of the Germans. The capitulation of all Greek forces in Albania and northern Greece was agreed upon at Salonika between General Pitsikas and the German Commander. At this time no Italian troops had yet effected a penetration of Greek territory, and the capitulation was to the Germans and not to the Italians. It is understood that German forces moved in between the Greek and Italian forces.

b. Influence of Weather and Terrain

The Germans, as usual, chose a propitious time for their attack, insofar as the weather and phase of the moon were concerned. The prevailing good weather during the daylight hours favored the movement of armored and motorized forces and the bombing and low-flying attacks of planes, and at night a bright moon facilitated the bombing and mine-

laying operations of German planes.

The terrain, on the other hand, definitely favored the defensive. Had the attackers not had such an overwhelming superiority in numbers and armament, particularly in airplanes, coupled with a superior determination, purpose and unity of action, it seems probable that the mountainous terrain, with its difficult defiles, should have constituted a rather severe obstacle to their advance.

c. Tactical Employment of Combined Arms

Outstanding factors in the rapid penetration of Greece by the Germans, and the resultant retreat of the British and capitulation of the Greek forces, were the coordination between the German armored and motorized forces and the coordination between their land forces and aviation.

Whenever the German armored forces were stopped in defiles by demolitions, or by enemy fire, or a combination of the two, the motorized infantry moved up and attacked on foot. This action usually forced an opening and permitted sufficient repairs to be made to roads or bridges to allow the resumption of the advance by motor vehicles.

In addition to the strategic and rear-area attacks of the German aviation, its use against enemy front line troops and installations was particularly efficacious. Apparently the air force operated on direct call from the German ground forces whenever the latter found themselves in difficulties.

4. LOSSES

Reliable information as to the losses in men and material during this particular phase of the operations is not yet available. There is reason to believe, however, that the harassing attacks by German aviation, especially during the latter part of this period, caused considerable losses in British motor transportation and equipment and in Greek motor and animal transportation and equipment, although the casualties to personnel from such attacks are not believed to have been high. These incessant harassing attacks from the air, however, appeared to have a decidedly bad effect on morale. Due to the fact that the British and Greeks, especially the British, were continually falling back, and that the Germans were principally delayed by destruction of roads in defiles, it is believed that the casualties on neither side were very heavy. The capitulation of the Greek Army, of course, when it was cut off by the German advance, resulted in the surrender of about 300,000 men. The advance of the German forces had not only driven a wedge between the Greeks and British, but had also cut off the former from their sources of supply by taking possession of the main arterial highway and the single railroad which had supplied the Greek forces in northern Greece and a great part of their forces in Albania.

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Map of Greece

Showing names mentioned in Tentative Lessons Bulletins Nos. 160, 161, 162

0 25 50 100 MILES

Drawn by E. J. Goss, Staff Sergeant M.I.D. U.S.A.

RESTRICTED

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G-2/2657-220; No. 499 M.I.D., W.D. 11:00 A.M., September 22, 1941

SITUATION REPORT

I. Eastern Theater.

Ground: German forces, crossing the Gulf of Riga from the island of Muhu (Moon) have captured the eastern half of the island of Osel, together with its chief city, Kulresaare (Arensburg). Russian resistance continues steadfast in the western half of the island.

Heavy fighting continues on the Leningrad front. Russian reports indicate that their armies on the Central (Moscow) front have registered several gains.

Kiev is in German hands.

The great battle east of Kiev between the encircling German Army and the trapped Russian divisions, continues. The Germans report that large numbers of Russian prisoners have already been taken.

Southeast of the lower Dnepr, German troops hold the town of Goreloe, on the sea of Azov.

Air: German reports stated that Leningrad was again attacked. The Soviet reported heavy attacks on German troops and mechanized units in the Ukraine.

II. Western Theater.

Air: The R.A.F. carried out a 36-hour offensive involving over 600 planes on objectives in both Germany proper and German-occupied territory.

Germany's claims for the week-end were limited to raiding of objectives on the English southeast coast.

III. Middle Eastern Theater.

Ground: The Italian High Command claims a successful naval raid, probably torpedo boats, on the port of Gibraltar, in which 3 British merchant ships were sunk and 1 damaged. There has been no British comment as yet.

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Paraphrase of Code Cables
Received at the War Department
at 1145 a.m., September 22, 1941

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London, filed: 4:44 p.m., September 22, 1941.

1. British Air Activity over the Continent.

a. Night of September 20-21. The amount of bombs dropped was as follows: Berlin, 15 tons of HE, 30 - 50 pound incendiaries and 1500 - 4 pound incendiaries; Frankfurt, 21 tons of HE, 66 - 50 pound incendiaries and 1600 - 4 pound incendiaries; and Ostend, 40 tons of HE and 2300 ordinary incendiaries. Additional bombs were dropped on secondary targets.

b. Day of September 21. A total of 566 fighters were employed as follows: 151 in the protection of shipping, 115 on interception patrols, 292 on offensive operations and 8 on special missions. The railway shops at Lille were attacked by 5 Hampdens. Bomb bursts on the target were claimed in this raid. All of these aircraft were struck by anti-aircraft fire, but none were lost. Hits were also claimed by 12 Blenheims which attacked the power station at Gosnay from 14,000 feet.

c. Night of September 21-22. Bad weather prevailed and no bombers were dispatched.

2. German Air Activity over Britain.

a. Day of September 20. 15 reconnaissance aircraft and 5 long range bombers were used.

b. Night of September 20-21. 45 long range bombers and 15 fighters were employed.

c. Day of September 21. Defensive patrols were maintained in the area of Calais.

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d. Night of September 21-22. Night fighters were active near Brest. Sea mining and operations against shipping took place from Flamborough Head to Dover.

3. Aircraft Losses Reported.

a. British losses. 13 Spitfires, 1 Hurricane and 11 pilots were lost and 2 Spitfires were damaged on September 21.

b. Axis losses. On September 21 these were as follows: 23 Me-109's and 1 unidentified aircraft shot down; 8 Me-109's probably destroyed; and 13 Me-109's damaged.

LEE

I. B. # 22, 2:37P, 9/22/41

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TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, September 23, 1941.
5/22/41

Press Service
No. 27-64

The Secretary of the Treasury announced last evening that the tenders for \$100,000,000, or thereabouts, of 91-day Treasury bills, to be dated September 24, and to mature December 24, 1941, which were offered on September 19, were opened at the Federal Reserve Banks on September 22.

The details of this issue are as follows:

Total applied for - \$404,215,000
Total accepted - 100,742,000

Range of accepted bids:

High	-	100.			
Low	-	99.989	Equivalent rate approximately	0.044	percent
Average Price	-	99.991	"	"	"
				0.037	"

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

- o o o -

September 23, 1941
8:53 a.m.

HMJr: Cliff Mack, I wish you'd check up if you don't know, is there any supervision of the buying that Amtorg does for the Russian Government - I mean, do they go into the market and compete with us, or is there some kind of supervision?

Clifton Mack: I'll get you specific information on that. Generally their buying has been independent.....

HMJr: Well, it should.....

M:until recently.

HMJr: Well, find out.

M: I'll do that and let you know right away.

HMJr: Well, write me a note on it.

M: Yes, sir.

HMJr: Thank you.



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

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September 23, 1941.

MEMORANDUM TO THE SECRETARY

Mr. Douglas MacKeachie, Director of Purchases, Office of Production Management, informs me that purchases proposed to be made by Amtorg are now being submitted to the Office of Production Management for review for possible interference with our military and domestic requirements and for instruction as to sources of supply and information as to current prices. Purchases are being concluded by Amtorg for their own account.

The present procedure is presumably an interim arrangement as Mr. MacKeachie informs me that a meeting is being held at 9.30 on the morning of September 24th in the Office of the Lend-Lease Administrator for the purpose of further discussion of Amtorg purchases.

It is understood from Mr. George Hill of R.F.C. that purchases aggregating some ten million dollars, mostly for machinery, have already been made by Amtorg. Full particulars concerning these latter are to be furnished by Amtorg to R.F.C. They cover transactions which were initiated prior to the establishment of credits by the advance of R.F.C. funds.

Lend-Lease aid has not been extended to Russia and no purchases under the Lend-Lease program for Russia have, therefore, been made. There is, however, in process of preparation a Red Cross requisition for the purchase of medical and surgical supplies for refugee relief in Russia.

Clifton E. Mack
Clifton E. Mack,
Director of Procurement.

September 23, 1941
9 a.m.

RE INFLATION

Present:

Mr. Kuhn
Mr. Haas
Mr. O'Connell
Mr. Morris
Mr. Foley
Mr. Bell
Mr. White

H.M.Jr:

I have got a swell peroration here, supposedly from my Chicago speech, but it is so good I want it on the Hill. I will read it to you.

Kuhn:

Which is it?

H.M.Jr:

Nobody has seen it.

Kuhn:

I have seen a copy of it.

H.M.Jr:

Did you read it?

Kuhn:

Yes.

H.M.Jr:

Isn't that wonderful?

Kuhn:

Some of it.

H.M.Jr:

It is good. It has got some new ideas.

Kuhn:

I don't like the emphasis on currency in it.

H.M.Jr:

I think he is right. I think that is a swell statement. He talked it to me and I sent him in Mrs. Klotz's office and had him dictate it.

Kuhn:

I had lunch with him yesterday. There is a

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lot that can be used in this. Simply that inflation puts the mass of people at the mercy of the nimble, quick-witted ones who can get away with murder.

H.M.Jr:

This statement, "This question of inflation; that is, the purchasing power of money, goes to the very heart of the social aspirations of the American people. If the great social reforms of the last eight years and the economic strides of the last five decades are to be perpetuated, it is essential to undertake to keep the currency and the credit structure sound."

He has got some awfully good stuff.

Well, I don't know where the rest of these people are. Let's start off on this question. Incidentally, I was amazed to see that Leon Henderson threw down Bernie Baruch's statement flat.

O'Connell:

I expected him to do that, sir, because after all, the Bill that he is defending is not the same type of Bill as Baruch wants.

H.M.Jr:

I tell you what I would like you to do for me. Outline for me the difference between the Baruch and Henderson - do that, will you. What is the difference?

O'Connell:

I can do that quickly. The difference, essentially, is that the Bill that Henderson is supporting is one which provides what they call a selective method of price control. You don't fix any ceilings until you see that a particular price is out of line, and then you, after investigation, Henderson or whoever is administering the Bill, would fix the price ceiling for that particular commodity, and he will operate on

as many commodities as he has time to and is able to.

Baruch says that instead of doing that way, you should fix, as of a certain date, an over-all ceiling for all prices, including wages, rents and commissions, everything in the price structure. You should decide that on the first of October the Bill will say, "There will be no increases in any prices. The price level as it exists today is the price level."

Then the Administrator would make exceptions or make adjustments in that over-all price level when it was demonstrated to him by a particular industry or some particular commodity that the price as fixed was not fair, was too low. Baruch's proposal includes wages, includes everything in the price structure, including retail prices of everything.

(Mr. Bell entered the conference).

H.M.Jr:

I asked him to explain the difference between the Henderson and Baruch theories.

Let me ask you this: This is what I am shy on and if your office has it they should go to work on it. I would like just as fast as possible - he (Foley) has got plenty of people - I mean in very short sentences the dates, when did they begin to have legislation in '16, '17, '18, and '19, and if you could do this kind of a thing in cooperation with George Haas, this would give it to me visually the best, a price chart. If you want to take --

Haas:

All commodities?

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- H.M.Jr: The commodity index, and then give George the dates, you see, and he could put in this chart the various types of legislation that went into effect and then you could have for me on a sheet of paper just a very short description of what the laws were.
- O'Connell: You see the difference is - the fact is that there was practically no legislation.
- H.M.Jr: All right, I just haven't got it. I mean, supposing they say to me - has anybody done this? Have you seen this commodity chart with what happened to the commodities and then what kind, if any kind of legislation there was?
- O'Connell: No, there hasn't been anything like that. There are plenty of commodity charts.
- H.M.Jr: I may not want to use it, but I would like to see it, you see, George.
- Bell: You mean showing the effect that the legislation had?
- Haas: No, just the date it was enacted.
- H.M.Jr: And the date that the Baruch board was created by a letter from Woodrow Wilson.
- O'Connell: That was all done around the middle of 1917, as a matter of fact, but there are differences in terms of months.
- H.M.Jr: And then look up for me too, what did Woodrow Wilson say about inflation, and what did Baruch say at that time. You can get that from the New York Times Index from the Library of Congress. What did Wilson say or what did Baruch say? What did they say in '14, '15, '16, '17, and '18? I would go through to '20.

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From '14 to '20, inclusive, what did either Wilson or Baruch say, you see, and then while you are doing it, you might as well find out what has Roosevelt said publicly to date on that.

Bell: I would also find out if the Secretary of the Treasury said anything.

H.M.Jr: Yes, also Mr. McAdoo and the Federal Reserve Board, what did they say from '14 to '20. If you don't - let me pin it on you (O'Connell) and if you want any assistance, call on other people. Is that all right, Ed?

Foley: Sure.

H.M.Jr: It is just a question of going up to the Library of Congress, or maybe you can get it in our own library.

O'Connell: I think we can get it here.

H.M.Jr: From '14 to '20. McAdoo, the Board, Federal Reserve Bank of New York, Strong, is that who it was?

Bell: Yes.

H.M.Jr: It was Strong, wasn't it?

Bell: Yes.

(Mr. White entered the conference).

H.M.Jr: Hello, Harry. Harry, just so we are not duplicating, you haven't got in your shop the things that were said on inflation from '14 to '20, inclusive by Wilson and McAdoo and the Federal Reserve Board, have you?

White: No, we looked through. We made the survey

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and found that the first mention was in 1916.
We have got that --

H.M.Jr: Whatever you have, will you give it to
O'Connell? He is lining it up for me. Will
you?

White: Yes, I will.

H.M.Jr: How are you feeling?

White: All right, sir.

H.M.Jr: Honest?

White: Yes.

H.M.Jr: Did your wife O.K. your coming? You know,
I talked to her, so you had better tell
me the truth.

Foley: He didn't ask her, he says.

H.M.Jr: A nice fellow. Well, let me have that, you
see. I was at the White House for supper
last night and - well, one statement the
President made I would like you to check
up because he made it to Mrs. Morgenthau.
He told Mrs. Roosevelt that the Department
of Agriculture is now selling cotton. I
would like the facts on it. I think he
has been misinformed, unless he calls what
they --

Haas: That Canadian thing is just a gesture.

Foley: They had nine million bales in the warehouses
at the beginning of the summer, and they
have got six now, so that they have sold
some three million bales during the summer.

Bell: That is out of the loan.

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- O'Connell: They didn't sell it, you see. People that had borrowed money on it just got it back. They hadn't acquired title to it.
- H.M.Jr: And I said to the President, "What should I say when they ask me about a ceiling over labor?" and he says, "Duck it."
- Haas: Did you see Lippmann this morning on that?
- H.M.Jr: No, what did he say?
- Haas: He brings up the two questions of farm prices and he said the thing to accept there is parity. That is what I take it you are going to - he said, "Now, as to wages, you can't consider labor as a commodity or property in a free economy." He thought the reasonable thing to do there for the duration of the emergency is to base it on the - get the labor - the labor leaders, he thought, would agree to base it on cost of living, in other words, keep real wages constant.
- H.M.Jr: I said that to Mrs. Roosevelt last night, tie it up with cost of living. I want to go on record that I said that last night. I thought that was a good out for me.
- Haas: You can also put in a plug, incidentally, at the same time for your excess profits tax, you know on an investment basis.
- H.M.Jr: Well, that was what I - I tried to get you (O'Connell) last night to tell you when I got home. I wanted you to sleep on it. I talked with Mrs. Roosevelt and tried her out as to what she thought of tying it up with the cost of living, and she thought that was all right.
- White: I think if they ask you that question, the

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easiest way to dodge it is something along that line and say that the most effective way to keep wages down is to keep the cost of living down, which is exactly what this Bill is designed to do and why you want that change, and to increase taxes on profits, and if you do that on both those things, I don't think you will have any trouble with wages. That is a kind of way of dodging it --

H.M.Jr: It doesn't satisfy me.

Kuhn: Henderson said it yesterday.

H.M.Jr: That doesn't satisfy me. I mean, what I would like to say is, why not come out and say, as you suggest, not wait for - as a suggestion.

White: Well, why tie the wages down --

H.M.Jr: Wait a minute, wait a minute. If you have parity for the farmers, why can't you have some sort of parity for labor?

White: The two are not comparable.

H.M.Jr: They have got something to sell.

O'Connell: It seems to me you shouldn't talk about a ceiling on wages unless you have got a ceiling on profits. I think labor is not a commodity, and this Bill is a Bill to regulate commodity prices, and if you had a good excess profits tax or if you had a profits tax which put an absolute ceiling on profits, I think then it would be more logical to consider putting a ceiling on your wages.

White: There is this fundamental --

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- H.M.Jr: Wait a minute, Harry, I will give you a chance. Just wait your turn.
- O'Connell: It seems to me unless you get a ceiling on profits it isn't yet the time to talk about a ceiling on wages.
- H.M.Jr: Let me ask you this. Mr. O'Connell, what would you suggest as the ceiling on profits?
- O'Connell: I would say an almost confiscatory excess profits over a fair rate of profit. Take a major part, if not all of the profits, over and above a reasonable rate on invested capital. If you get that, then you can talk to labor about unreasonable demands on their part, but we have no ceiling on profits today.
- H.M.Jr: Well, rather than - I mean, if I can make up my own mind as to what I think is right, would you want me to say that in a statement, rather than waiting for the question?
- O'Connell: The question will come to you pretty quickly, I think. I would think it better not to be in the statement. I don't know how the other people feel about that.
- H.M.Jr: Now we will give Harry a chance. Harry, your turn.
- White: That approach which I have heard from several sources on parity prices and parity wages has this fundamental weakness. I feel a little concerned if you don't keep away from it. When the farmer gets the same price for his wheat, it still leaves it - makes it possible for him to produce much more wheat over a twenty-year period and he gets the full advantage of it. A bushel of wheat buys more, not an hour of his labor. An

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hour of his labor makes more wheat. The way in which the wage earner has his wages increased is through the benefits of technological development, improvement, and if you say to him that we are not going to let an hour of your work buy any more goods now than it did twenty years ago, you are taking away from him the benefits of the development and giving somebody else the profit of it.

- Haas: I think that is true, Harry, in a normal period, but during this emergency if you put a ceiling on profits I think that is something you could do during that period.
- White: If I tie it up with profits, but not with parity that the farmer gets for his product.
- H.M.Jr: Then supposing I don't tie it up with parity, but I simply say that after all, again quoting Mrs. Roosevelt, she said, "The unfair thing -- I am going to use the example, it may not be correct - let me talk about the hosiery worker who has an unusually low wage. It may be a poor example, but I will use it. To say that you will freeze the hosiery workers at this level is just unfair. You can't go ahead and just freeze some people because they haven't struck who haven't been able to raise their wages to a fair level. But if you could somehow or other tie it up to the cost of living, I think that would be fair." I could get nothing out of the President, but I did get a lot out of her.
- Kuhn: Isn't wages a factor in the cost of living itself?
- White: Of course, but the whole attack of conservatives has always been against labor. Any

time you want to fix prices the same thing occurred in England. Even in England they are not fixing wages or even depriving them of the right to strike in effect, and the point is that after all, the Government - workers constitute over ninety percent of the public, and that is their way of getting --

H.M.Jr: Harry, don't worry, I am just taking off my vest.

White: Fine. (Laughter). If you get hot I will.

And I don't like to see the Secretary fall in that line. That is the attack of the conservatives. It sounds plausible and feasible. "Why don't you do something to wages?" They know very well you can't get away with it. Therefore you don't do anything on any other score. The thing that is comparable and if you are consistent, the thing that you have got to stick with, is the very point which Joe and the Secretary have raised. If you are going to put a ceiling on wages or if you are going to tie wages up with the cost of living, then do the same thing with profits.

Kuhn: Right, but isn't it illogical just to tie up wages with the cost of living? That is why I raised the question, because I think the Secretary would be falling into a hole there.

White: Well, it is less unreasonable because already many wage-earners have taken a ten percent cut in their real purchasing power because the unorganized labor which constitutes the bulk of labor has not benefited the way some of the outstanding labor unions have, and to say that you are going to tie it up with the cost of living is better than freezing it.

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- Kuhn: But it is illogical, though. I mean, it is open to all kinds of rebuttal.
- White: Well, I would like to hear it.
- Haas: What do you think of this approach? It is a little bit different from the other. You can say that the - that you will have less difficulty with the labor problem once you take care of the profit angle and this price control, try to keep prices down, with the means that are available and then that labor is not a commodity, is not a piece of property, and there is a Board - I mean, Washington Board that settles those things.
- H.M.Jr: Well, is there?
- White: Well, there is in Labor. There is a Mediation Board.
- O'Connell: There is a machinery for settling disputes.
- H.M.Jr: Well, I can say, "What have you got a Labor Board for?" Do they settle it?
- O'Connell: The Mediation Board does. Fundamentally the theory is that it is bargaining between the employer and employee, but you go to the Mediation Board if you can't settle it.
- H.M.Jr: Joe, sketch for me what is the route that a strike goes today through the various Government agencies.
- O'Connell: Well, the only route that it takes once you have your labor organized, if they can't settle with management, they strike, or rather before the strike the case is referred to the Mediation Board, headed by Davis and that group, which the President set up.

H.M.Jr: Doesn't Miss Perkins have to find something?

O'Connell: Well, she automatically certifies practically all --

H.M.Jr: Goes to her first?

O'Connell: Yes, sir, goes to the Labor Department --

H.M.Jr: Wait a minute, go slow. Doesn't it go first to the Department of Labor?

O'Connell: That is right.

H.M.Jr: And she has to certify as to what? Does she do it, Secretary of Labor, or is it some bureau in there?

O'Connell: They have a Conciliation Service, which is a Government agency that first impinges on a dispute between organized labor and the employer.

H.M.Jr: That is first. Now, they have a whack at it first?

O'Connell: That is right.

H.M.Jr: And the Conciliation Service?

O'Connell: That is right. If they are unable to settle it by informal negotiation, they, or rather the Secretary of Labor as their superior, certifies it to the Mediation Board, the fact that there is a dispute which will result in a strike unless they settle it. Then they call in the organized labor and management, and they usually try to give - to provide for a sort of cooling off period. They say, "Don't strike for thirty days, while we sit down and consider it."

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- H.M.Jr: First the Conciliation Board, then Miss Perkins has a look at it, and if she thinks it is hopeless, she certifies it, then it goes to the Mediation Board.
- O'Connell: That is right.
- H.M.Jr: Then is there any appeal from the Mediation Board?
- O'Connell: If they can't settle it, it is a strike.
- H.M.Jr: And through that process the price is --
- O'Connell: That is right.
- H.M.Jr: Then what is that other Board, Labor Relations Board?
- O'Connell: They have nothing to do with strikes.
- H.M.Jr: What do they do?
- O'Connell: They are to protect the right of labor to organize and to bargain collectively, but they do not enter into the bargaining.
- White: They don't have to accept the findings of the Mediation Board.
- O'Connell: Oh, no, it is purely voluntary.
- H.M.Jr: I understand. But that takes care of the - I mean, that is the Federal Government's approach.
- O'Connell: That is right.
- H.M.Jr: Well, why, to sum up the thing, why is - if I am asked this thing about ceiling, I will say that I don't feel that you can - in the first place, if they say, "If you

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are in favor of parity for farmers, why aren't you in favor of a ceiling over the labor," I will simply say, "Well, in one case they are talking about human lives, and in the other case they are talking about a commodity." That is number one. What?

Kuhn: The farmer won't agree there.

They are entirely different in one respect. Parity itself assumes a fair relationship between the price of your farm products and the price of other things determined by a legislative formula.

H.M.Jr: Harry doesn't want me to talk about it that way.

White: Wait, parity prices deal with a relationship between a bushel of wheat and a pair of shoes, presumably, what a bushel of wheat will buy. It doesn't have anything to do with how many bushels of wheat a farmer can produce, and if technological improvement has made possible, as it has made possible, an increased production of wheat per hour of the farmer's time, maybe even as much as fifty per cent, I don't know, then what the farmer is getting when you have parity of wheat over shoes, he gets fifty per cent more shoes, so the farmer doesn't object to parity.

H.M.Jr: May I interrupt you? The study that was made in his shop shows that they don't in any way make any allowance for the difference of production of a pair of mules and a modern tractor, is that right?

White: That is one of the technological developments.

H.M.Jr: They make no allowance in parity payment.

- White: Whereas a wage earner's hour is an hour.
- O'Connell: But to compare farm prices and the price of labor is like comparing apples and stones. They are not comparable at all because in your farm proposition you have a concept of equity or fairness in the parity concept. You don't have that factor at all in connection with wages. As Mrs. Roosevelt said, you assume something that isn't existent if you try to freeze the wages where they are, because the wage level may have nothing to do with fairness in a given industry, whereas parity assumes fairness.
- Haas: Parity is not a ceiling, it is an equitable ratio.
- Bell: That is what it seems to me is not comparable, your parity payments and your ceiling.
- Haas: It is not a ceiling, it is an equitable --
- Foley: Harry says your formula is on the high side because it doesn't take into consideration technical developments.
- Bell: I hate to see the Secretary get into a discussion as to whether there is any difference between labor as a commodity and other forms of commodities. I don't think he ought to get into that discussion. He probably could discuss it for a week, but certainly labor is an element in this rising prices, and whenever you raise wages you are going to have price rises on the other side. You can't keep it on another level. Couldn't he say that - I don't know whether it is true or not, but I think it is, that the only countries in the world that have put a ceiling on wages have been the dictator countries.

- Haas: That is what it means when you say labor is not a commodity. In Germany it is a commodity.
- Bell: Then use your argument about tying it up with the cost of living.
- H.M.Jr: How do they handle it in England?
- Bell: They haven't been able to do it.
- White: In England they have permitted some wage increases. They have permitted wage increases until recently, and even now there are supposed to have been over two million people that have struck this year in England for higher wages, even though they have what amounts to a law against strikes, they still don't want to clamp down. And there is a good deal of difficulty in England, though in England they have long since tied it up with the cost of living. The trade union policy is - when the cost of living goes up they demand higher --
- O'Connell: But it is on a voluntary basis. There is no legislation in England putting a ceiling on wages.
- Kuhn: But in England they have a complete ceiling on profits, a very low ceiling on profits, so that no matter how rich a man is, he can't earn more than a certain amount in practice of income a year.
- White: Well, it is not complete, it is eighty per cent.
- Kuhn: What is the highest amount that a man can earn in income in a year?
- White: He gets twenty percent back later, after the emergency.

- H.M.Jr: Now wait just one minute. Let me get this. Give me a couple of examples later today, O'Connell, of some industries which they could say - well, supposing I say I don't want to freeze it because some industries are underpaid. I want a couple of glaring examples. I don't know whether the hosiery industry is a good one or not.
- White: Low pay? The textile industry would be the best.
- H.M.Jr: Well, get it for me, will you, Joe?
- O'Connell: Sure.
- Kuhn: Wouldn't the farmer come back again and cite certain crops that are under-priced?
- O'Connell: Parity takes care of that. We would let them go to parity if they can.
- H.M.Jr: I want to ask George this question of parity, which is a little mixed in my mind. That statement of the President's, where he came out for parity payments in May of this year, he is in favor of parity payments but only eighty-five per cent loan on the five key commodities, is that right, eighty-five per cent loan?
- Haas: An eighty-five per cent loan on those key commodities, but he said in addition to that that the amount loaned plus the parity payment plus the conservation payment should not exceed the parity price.
- H.M.Jr: Now, say that again.
- Haas: He said - he approved the resolution but added this, that a farmer could get an eighty-five

per cent loan, but the sum of this eighty-five per cent loan plus the parity payment plus the soil conservation payment should not add up, the three of them, add up to more than the parity price; if it should, then you would reduce the loans.

H.M.Jr: Well, have that statement. If I look to you, have it there.

Haas: I will have it.

H.M.Jr: You didn't know, did you, that I ran a school for my own benefit, Mr. Morris? That is what we are running here.

O'Connell: Incidentally, Mr. Secretary, yesterday Congressman Gore, Democrat from Tennessee --

H.M.Jr: I know about that, what you call the Baruch Bill, carrying out Baruch's ideas.

O'Connell: That is right, and he does propose to freeze farm prices at parity. I wanted to be sure you knew that, and freeze wages as of the level of a certain day, and so on.

H.M.Jr: Well, now, just to sum up, how would you sum up what you would like to see me say, just in view of this discussion here this morning?

O'Connell: On wages?

H.M.Jr: Yes.

O'Connell: Well, if I were to ask --

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

O'Connell: I wrote something here, but this is a week or two old, and doesn't include the things

we have discussed this morning. If I were asked whether I thought labor - wage rates should be included in this bill, I would say, "No". In the first place, I would be of the opinion that there are enough existing indirect and direct controls over wage rates so that so far as I can see the situation, wage rates are not apt to go through the roof the way commodity prices are, and that until the situation becomes serious enough, it seems to me we should not attempt to go into that terribly difficult field of attempting to put a ceiling on wage rates. We can't stop the men from striking, anyway. In addition, I would say that until you put a ceiling on profits, it isn't fair to attempt to put a ceiling on wages, that the cost of the wage rates are not necessarily fair in all areas at the present time, and it seems to me that the traditional bargaining between the employer and the employee, with such mediation services and conciliation boards and so forth that we have is enough to take care of the cost of labor as of now.

H.M.Jr:

Let me ask you something. Why do you think that the price of wages will take care of itself?

O'Connell:

I don't think the price of wages will take care of itself, but I think there are controls, there are indirect and direct controls, the bargaining power of the employer, the fact that it is almost becoming unpatriotic to strike in some areas, if labor in a given industry is unreasonable, the Government can take over the plant, and they have done it in certain cases, those are all factors which distinguish labor and the labor situation from the situation that this bill is intended to hit. This bill is intended to hit commodity prices, which unless they are controlled directly, are going to go through the roof.

H.M.Jr: And it is the price of wages which is acting as the yeast to stir up labor to ask for higher wages.

O'Connell: That is perfectly true, if you take care of the price level of commodities, and keep the cost of living from going up too high or too rapidly, you have taken away the most potent argument for increases in wages. Of course, so long as you don't control profits, it seems to me you are going to have some yeast in the labor situation too, but since we don't control profits, I don't see how we can put a ceiling on wages.

H.M.Jr: Again, why? Why does the fact that there is no ceiling on profits, why does that stimulate wage increases?

O'Connell: If I were working for the Consolidated Aircraft Company and I saw the price of the stock had doubled in the past six months and that they were preparing a hundred per cent stock dividend, or if I were to read financial papers and see that the earnings of the steel corporation, of the big companies, of the company for which I worked, that the earnings are very large, and my wages are sixty cents an hour or seventy cents or whatever you have, I would be inclined to feel that I should get a little bigger share of the take, so to speak, and so long as industrial profits continue to rise and are not taken away from the corporations by the Government, there will be that pressure upon the labor to demand increases in wages. They just see there is money being made, and they want some of it.

H.M.Jr: Harry, give me a thumbnail - how do they handle excess profits now in England?

- White: Well, they have a very steep excess profits tax, but the way they have arranged it now, the employer gets back twenty per cent of his excess profits which is taxed. It is a sort of forced saving for twenty per cent of the portion, so that it is not a complete confiscation above what they regard as a normal rate. I have forgotten what level that is. I will find out this noon and give you a schedule of rates.
- Bell: Does that apply to corporations, too, Harry?
- White: Yes.
- Haas: Yes. First they had it at a hundred per cent.
- White: First they had it at a hundred and then they gave them back twenty per cent.
- Bell: This is the Keynes plan, you remember.
- H.M.Jr: At seven o'clock this morning I just remembered, I doubted whether you had let Blough know not to come, so I called him up.
- Bell: Yes, I did.
- H.M.Jr: Had you?
- Bell: Let his secretary know and told him to wait for a further call.
- H.M.Jr: Well, I am counting on you (O'Connell) to corral the people who will go up tomorrow with me, you see, so get in touch with Roy. I will want him on the Hill, because if they get into what is the English tax plan, I am not going to attempt to get in on it. I had better have Roy there, don't you think so?

O'Connell: Yes.

H.M.Jr: Be sure Roy is here to go up on the Hill. When will we know, Ed, if we are going up on the Hill or not?

Foley: I suppose not until late this afternoon.

O'Connell: We might very well know this noon. I talked to Leon last night and he said he hoped he would be through at noon. He has a meeting of the new SPAB board at 3:45. He expects to be through at 12:30 or 2:30 this afternoon.

H.M.Jr: Let me know as soon as you know.

Bell: On the other hand, Eccles is grounded. They had a big storm out there and no planes coming through, and the wires were all broken down last night. They couldn't get a wire to Eccles for three or four hours. So they were trying to get in touch with him and we will try to clear that thing over the telephone. If they couldn't they didn't know whether you would want to postpone your hearing until Thursday.

H.M.Jr: Oh, no, I can't help it. Eccles has been away for three or four weeks. I can't wait for Eccles.

Bell: I hope this will be cleared before you go up.

H.M.Jr: I can't call up and say, "Eccles is grounded, will you please let me go over?" They want to work tomorrow, don't they?

O'Connell: Yes.

H.M.Jr: Listen, that Board, there is how many members of the Board besides Eccles?

- Bell: Four.
- H.M.Jr: Well, isn't this a democracy?
- Bell: Well, it is a courtesy to consult the chairman.
- H.M.Jr: Well, they can certainly get through - where is he, in Utah?
- Bell: Yes. They couldn't last night. They said they were going to see if they could get through.
- Haas: The radio commentators last night said that at Ogden, Utah, the lines were down.
- Bell: Is that where he is?
- H.M.Jr: He has got bank headquarters in Salt Lake. No, Dan, that would be a mistake, wouldn't it, to call up Steagall and say, "I can't come," and when he says, "Why?" to say that I can't testify until I ask Eccles' permission?
- O'Connell: If they are through with Leon today, they really want you to testify tomorrow.
- H.M.Jr: I am going to go to town.
- Kuhn: Mr. Secretary, wasn't there something in your tax statement before the Senate Finance Committee saying that uncontrolled excess profits or inadequately controlled excess profits were the main incitement for labor to ask for higher wages continually and that until you took effective action to check these unreasonable profits you would get continual demands for wage increases?
- H.M.Jr: Well, if it is, put it back in again.

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Kuhn: You have said that, not once, but several times, and Congress disregarded your advice, and now you are being asked again about wage increases.

H.M.Jr: Ferdie is so courteous about it. "Mr. Secretary, don't you remember what you said?" You know damn well it was in there, don't you?

Kuhn: It wasn't mine, it was Roy Blough's. If it were mine I mightn't be so polite. (Laughter). Isn't it a good idea to refer back to what you said before?

H.M.Jr: Yes, do that.

Haas: Mr. Secretary, may I ask a question?

H.M.Jr: Sure.

Haas: Are you going to have any charts up there?

H.M.Jr: Got any pretty ones?

Haas: I have got the same ones brought up to date that you looked at before.

H.M.Jr: They have been charted to death.

O'Connell: Literally hundreds of charts in the hearing so far.

Haas: Well, it suits me.

H.M.Jr: Have you got a favorite chart you want me to use?

Haas: No, I just wanted to be ready.

O'Connell: Do you have a chart on what has happened to wage rates?

Haas: Yes.

O'Connell: That is what I would like to see.

Haas: We can make that into one. That is wages and food prices. That may come up, you know.

O'Connell: This is hourly wage rate for what?

Haas: Factory workers.

H.M.Jr: Well, they go together.

O'Connell: Is it possible to get an over-all figure?

Haas: No, the over-all is lower than that. That is the best.

O'Connell: Well, that would be high, because that is organized labor.

White: That exaggerates the wage increase over --

Haas: Sure. But somebody may ask the Secretary, "Why do you talk about food prices? How about wages going up?"

H.M.Jr: Well, just pass this around. I don't know why we shouldn't use this, if necessary. It shows wage rates. Just follow along behind with food prices. That is hourly wages.

Haas: Factory workers, and it is an exaggeration because wage rates for all laborers are lower than that. Those are the best situated laborers, you see.

Bell: It goes right along with the cost of living. They lag, too.

Kuhn: Shouldn't there also be a line in there on industrial profits?

- Haas: Well, the trouble is that it is becoming increasingly hard to ascertain the profits of a business, because they have got these tax reserves and all that stuff. I can get something, but I can't keep it up to date.
- H.M.Jr: Well, the President sent me this study - it is only '39 - on, this commission in Washington made it on profits by industries. It isn't the tariff. What is it?
- Bell: Federal Trade Commission?
- H.M.Jr: Federal Trade. Have you seen that bulletin they have gotten out on profits?
- Haas: I have seen it, but I haven't studied it.
- H.M.Jr: Well, that is based on '39. It is very interesting. I mean, based on - and it is all on earnings on invested capital.
- Haas: I will get it out and study it.
- H.M.Jr: The chairman sent it to him and he sent it over to me. Anything else, George?
- Haas: There is a - in the recent issue of the Department of Agriculture's publication called "Price Situation", on the front of it they have a chart which shows agricultural income and income other than agricultural. Other than agricultural is way up, you know, and the chart is a phoney, so to speak, because why wouldn't it be up, because you are employing ten to twelve million people who were unemployed. Of course that would be up. I suppose that Agriculture should keep a balance with that curve. You may be confronted with something like that, is the reason I am calling it to your attention.

H.M.Jr: Well, you be prepared to answer it.

Haas: I will do the best I can.

H.M.Jr: Ed, any suggestions?

Foley: No.

H.M.Jr: Got any ideas?

Foley: No.

H.M.Jr: Harry?

White: You mean on this wage?

H.M.Jr: No, on my testimony.

White: Oh, well, there are these questions --

H.M.Jr: All right, let's go around on the wage thing and then we will take up those others.

White: On the wage thing I still feel that if somewhere in your testimony you could draw distinction in addition to the things that have been said that wages cannot be treated like commodities because the essence of the difference between democracies and totalitarian Governments, as well as the historical distinction which has always been made, and you have the support of a whole body of literature going all the way back to the beginning, that labor is not a commodity, and you cannot treat it that way, and if that statement were new, then I would hesitate, as Bell says, to get into it, but anyone who is familiar with the discussion on this point which has cropped up again and again historically I think will appreciate the significance of that statement, and certainly labor would like to have you say it.

H.M.Jr: I wish you would see what I have said about that and also what have I said about the ceiling on profits. Have I said anything on the ceiling on profits?

Kuhn: No, as I remember it, you simply said that unless there is effective control of profits, profits going beyond the profits of defense industries, you cannot hope for labor to keep its demands in check.

H.M.Jr: Well, is it your thought, Ferdie, that I should say this for question and answer, that before we do anything else we should first put a ceiling on profits?

- Kuhn: I would like to see it in your statement.
- H.M. Jr: I would like to see it in my statement.
- Kuhn: I think it is safer and it is more effective to get a rounded statement, so the people won't say, "Well, you didn't say anything about this or that."
- H.M. Jr: Do you want to have Roy Blough come in to help you on that?
- Kuhn: I think I can get the material out of what you have already said.
- H.M. Jr: He can come in.
- Kuhn: I can get it in my office and bring it in.
- H.M. Jr: Well, wait a minute. Here is a statement by Steagall. "Steagall said today the House Banking Committee probably would report price control legislation along the lines of the Administration within the next few weeks. Steagall said he believed the majority of the group felt some form of government price control would be necessary. He predicted that the hearings would close within the next ten days. Secretary Morgenthau and Chairman Eccles of the Federal Reserve are to testify this week after the Committee has finished with Mr. Henderson."
- You would like to see it in and I would like to see what it looks like.
- Kuhn: I think it was good and it was logical.
- H.M. Jr: Something about a ceiling on profits.
- Kuhn: Well, getting at the profits on the invested

capital basis.

White: Well, you are beginning to water it down now. Look at what you are saying. You are beginning to say that we can't put a ceiling on profits. You have said that. Because if you take away all the profits, all of it, a hundred percent, you will eliminate the incentive of the entrepreneur or the capitalist to expand his business and give you his best. Therefore, we can't take away a hundred percent so we take away something less. But when it comes to the worker you are going to take away a hundred percent of any increase that he has --

Kuhn: The Secretary says you have got to allow six percent or the eight percent which is an incentive.

White: But he didn't say that about a ceiling. That is a very different thing. That is, for the Secretary now to say he is in favor of placing a ceiling on profits is something different than what he has said before. It may be worth while but it needs some careful consideration. What he has said before is to tax profits very heavily. I don't remember exactly how he stated it.

Kuhn: Yes, allowing them only the reasonable incentive of six percent or eight percent, but everything beyond that tax.

White: A hundred percent, wasn't it, beyond that?

O'Connell: Not a hundred percent tax.

White: I don't remember his saying that.

Haas: You know, even these ceilings on commodities, Mr. Secretary, are not a rigid thing. You take on cotton cloth. The ceilings that Henderson has put on commodities are not all rigid. On cotton cloth they raised it with a forty-three hundredths of a cent rise in the cotton price, they let it go up a half a cent in the cotton cloth, wasn't that right, Joe?

O'Connell: They tied the two prices together, which is a rather dangerous thing to do. They have only done it in that one instance, in the case of textiles, but they found it impossible to keep the textile ceiling in effect so long as cotton prices kept going up.

H.M.Jr: You look up what I have said in the past on profits, will you?

Kuhn: Would you like me to get it now?

H.M.Jr: Yes, if you would.

White: I would like to hear it because it is an important point if you are going to change the character.

H.M.Jr: Morris?

White: There is one further point. I think the point that Joe suggested could be well developed and I think you would be on very sound ground and that is that there is no force short of this price control bill that tends to keep prices down except the forces of competition, when you are talking about commodities. But in labor you have several forces and there is nothing comparable. For example,

with mediation. There is no government agency that mediates between the buyer and the seller on prices and there is this powerful mediation board that operates in railway labor, it operates over the other fields of labor, as well as the other factors he mentioned, the right of the government to take over a plant --

O'Connell: There is another factor, Harry, it seems to me. It may not be important in the more highly organized industries but you still have a substantially large group of unemployed people in the United States. Until you get a complete employment, your wage rate does not tend to become inflationary. It may in a given industry but when you consider that the bulk of labor is unorganized, without the bargaining power that the highly organized unions have, they are not in a position to put much pressure on the price level these days except as the pressure of rising prices make it impossible for them to survive on a lower standard of living.

H.M., Jr: Just repeat that. I have got to soak this all in. Say that all over again, because you are saying something sensible.

O'Connell: In the case of commodities, as Harry pointed out, you have a tremendous demand and an inadequate supply and nothing to keep the supply within bounds or keep the price of the supply within bounds except the pressure of a bill such as this, which operates directly on the commodity.

In the case of labor, while you do have some highly organized groups of labor, the fact is that you still have an unemployed

group of - what have you, five or six million people in this country, plus the fact that the great bulk of labor in this country is not organized and that they are in no position to enforce demands or desires that they may have for a higher price for the thing they have to sell, that being their services, and I don't think that there is anything in the situation which would justify the conclusion that the over-all wage picture is one which is inflationary in the sense that you are - that the commodity structure, price structure is, and until that becomes so we shouldn't attempt to do it because it is almost impossible to deal with. You shouldn't try to do it unless you know you have got a problem.

White: How much organized labor is there? There is probably about eight million and a half, isn't there?

H.M.Jr: Have you got something else? I have got to keep moving.

White: That is all on wages.

Morris: It seemed to me wise to tie in certainly this excess profits tax before you do anything else. I think that wages is a factor and I think it is probably the last one to tie in but it seems to me at some point it has got to be tied in and perhaps ultimately it ought to be tied into the cost of living through some means but that we probably ought to exhaust all these other things that we can do much more quickly first and keep studying that one because I don't think you can quite throw it out.

- O'Connell: I have a little paragraph here that I wrote a week or so ago. May I read it?
- H.M.Jr: Sure.
- O'Connell: "If we can control the general level in the prices through expansion of production, through an adequate tax program and other devices to which I have referred and through the means provided in this bill, the cost of living will not rise to such an extent as to exert dangerous pressure on wages, and the level of wages will not present any substantial problem. Of course should it later develop that wage rates are not being kept within reasonable bounds, other measures will have to be considered. As yet I see no necessity for them."
- H.M.Jr: I would like to say that.
- White: You want that in your written statement, you say?
- H.M.Jr: I think so. Let's see how it looks.
- Foley: Toward the end.
- O'Connell: Just say something about wages, that is all.
- Haas: There is one other very important question that we probably have discussed but I haven't heard it discussed here this morning. It is a fundamental one. Have you got a minute? I can just raise it.
- H.M.Jr: Sure.
- Haas: Somebody may ask you, with this enlarged stream of purchasing power which is greatly

exceeding and will further exceed the production, point out that that increase has got to be absorbed or this bill will be of no avail and Henderson has said so and they will ask you as Secretary of the Treasury, "What are you going to do about that, absorbing this increased purchasing power that has come out?" It is greatly exceeding the production valued at current prices. It is a great inflationary force. You have got more money than goods and the price has gone up. We started on saving bonds - real savers to tend to absorb it. The tax bill is another way. Don't you think that question, Harry, will come up?

White: Quite definitely. It is in your statement.

Haas: They will say you haven't done enough.

H.M.Jr: I don't get the point of what you are saying, George.

Haas: There is a greatly enlarged stream of purchasing power going into the hands of the consumers and this is much larger than the goods being produced.

H.M.Jr: Sure.

Haas: So they will say you should take the leadership in that as Secretary of the Treasury. Even though you don't have to do it all, what are you going to do about it, and Henderson testified that his bill would be nothing unless that was taken care of.

H.M.Jr: What can I do about it? I can't go out

and make the goods. What the hell can I do as Secretary of the Treasury?

Haas: I want to raise the question because they will ask you that.

White: Well, you can't --

H.M.Jr: Just a minute, Harry, give a fellow a chance. You can't - I can't go out and manufacture --

Haas: No, you can't. That is one way, you could relieve the situation by increasing the supply.

H.M.Jr: Well, I say all that in my Boston speech.

Haas: I think there are some people, Mr. Secretary, that feel that we haven't gone far enough in that direction.

H.M.Jr: Well, what can I do? I am the last person, as Secretary of the Treasury, other than to keep pointing it out and pointing it out, but it isn't within my hands to create more goods for civilian population. I have got nothing to do with the allotment.

Haas: You could absorb the purchasing power to a larger extent.

H.M.Jr: We do that through our bonds and notes and taxes and so forth, but then after that, what the hell can I do to create more goods?

Haas: I think creating more goods is out but some people would say that you could recommend or could put on a more vigorous - I am just saying what the opposition will say. They could say you could put on a much more vigorous campaign to sell savings bonds.

They could say you could put in a separation wage.

H.M.Jr: I agree with you as Secretary of the Treasury I should plug for that, which is the absorption thing, but when it gets to the plus side to create more goods -- if it isn't in there, Ferdie can say it.

Kuhn: It is in the statement.

O'Connell: It is in the statement.

H.M.Jr: In other words, I should do everything that I can as a sponge.

Haas: That is right, that is what I am talking about.

H.M.Jr: To soak this stuff up, but when it comes, on the other hand, to creating more goods for people to buy, I can't do it.

Haas: You are absolutely right.

H.M.Jr: Now, Mr. Harry.

White: No, you have answered it. That is the answer.

H.M.Jr: Have you got something else?

White: No, that is the answer to that.

H.M.Jr: I have got to give each person a chance but I have got to get through. Have you got something else now?

White: Not on wages, but there are other things, monetary things.

H.M.Jr: All right. Ferdie, one suggestion, I would

like to repeat a couple of times this idea that I am waging a fight on the home front. I would like to bring that in a couple of times, you see, that this is a fight at home. Now, what is the next thing to take up?

McConnell:

Well, I think that the question that you will probably be asked, I don't know that you will have to answer it very - that you should answer it, is as to whether you would prefer the type of plan proposed by Mr. Baruch to the plan - the type of operation envisaged by this bill. It seems to me the answer that you should make is that you are interested in the control of prices, commodities, and that you do not purport to be a specialist in the particular device that is best calculated to do the job, that the committee has been considering experts, Mr. Baruch and Mr. Henderson for three or four weeks, and apparently there is much to be said for either way of operating.

Clearly you have indicated already that you don't want to fix a ceiling for wages, which is a part of Baruch's bill, and if you felt that you knew enough about the two ways of doing it, you might say that you preferred the way proposed in this bill, which is what we called a selective approach.

H. H. Jr.:

Can I say that in as much as Mr. Baruch is for Henderson and Henderson is against Baruch's plan, I am for Morgenthau's plan? I can't understand - it seems to me if I was a Congressman today I would get up and say, "Well, here is Baruch backing Henderson for the job, but Henderson says he doesn't want to do it the way Baruch

does, so how does that make him a candidate?

White: That makes him smarter than Baruch.

H.M.Jr: Now who has got those questions of Crawford's?

White: Right here.

H.M.Jr: Do I have to read them all, Harry?

Bell: They are quite long, aren't they?

White: Those are specifically what he is going to ask you, according to this note, verbatim, so you can read the first one and discuss it, and it covers most of the remainder.

Foley: Who is going to ask the questions, Harry?

H.M.Jr: If you don't mind, I don't want to insult you but if you would pretend to be Mr. Crawford for this purpose --

Bell: Has anything been written out in answer?

White: No.

Foley: You know, Crawford is the same kind of a fellow as that horse doctor from Ohio. He asks the questions and he doesn't give a damn about the answers and he asks the next question and the next question and he doesn't even wait to get the answers.

Bell: Oh, no, I don't think so.

H.M.Jr: Wait a minute, isn't Crawford the short, thick-set fellow?

Foley: Crawford is the fellow --

O'Connell: That is Walker.

- Foley: He is smart. He went down to the Panama Canal Zone to look over the defense down there or something.
- H.M.Jr: He is smart.
- Foley: This fellow wears these tortoise shell glasses with a ribbon on them. He is one of these guys that wants to ask you a question. "Now let me ask you this one." He asks the question and looks around to see how everybody takes it and he wants to ask the next one but he doesn't care about the answer. He is not smart.
- Bell: He is a lot smarter than Smith, in my opinion.
- H.M.Jr: And Smith isn't a horse doctor, either.
- Bell: Don't you think he is a lot smarter than Smith?
- O'Connell: I don't even know him.
- H.M.Jr: He doctors something else.
- O'Connell: He did in asking Henderson questions, do exactly what Ed described. He would read a question and as soon as Henderson stopped talking he would read the next question.
- Foley: That is what he did with us.
(Discussion off the record).
- H.M.Jr: Go ahead, Mr. Crawford.
- White: I think Mr. Goldsmith wrote these questions himself so that he could get the answers so that he could write something in his bond

review. Now let me read them.

"Mr. Secretary, I listened to your speech in Boston on September 9th on the entire inflation question with a great deal of interest. I am strongly in accord with all the views you expressed. I am wondering, however, whether you would like to expand somewhat on one subject which you mentioned, which although technical, is a vital concern to this committee. I refer to your statement which read, 'We may have to extend general controls over bank credit.'

"I presume this reference was to a possible increase in reserve requirements of member banks. In the same address you said, 'In 1918 the cost of living began to rise sharply but there were few who saw its significance. It was only when prices had risen by seventy percent that President Wilson recommended any steps to prevent inflation. In fact, the country was so blind to its dangers that as late as June, 1917, Congress actually hastened the rise in prices by reducing the reserve requirements for member banks of the Federal Reserve System. The consequences were so serious for every American that there must be housewives even today who can remember it.'

"Mr. Leon Henderson, in his testimony before this Committee several weeks ago, stated that he believed Congress should consider legislation right now to give the Federal Reserve Board the power to raise reserve requirements substantially above the legal limit as recommended by the Federal Reserve Board in their special report to Congress dated December 31, 1940. Do you believe Congress should consider such legislation

at the present time?"

That is the first one.

H.M.Jr:

Now one second. Would you three gentlemen get something into my hands before one o'clock, what I am proposing to say on labor, so I can show it to Sidney Hillman at lunch? If I am going to say anything on labor, I want to have something before me - if there is a question to answer, I would like to say, "This is what I am going to say formally and this is what I am going to say in answer to a question."

Could I have it by one o'clock? George, you are in on that too. Excuse me, Harry, go ahead.

White:

That is the end of the question.

H.M.Jr:

All right. Now --

White:

The essence is, do you believe Congress should consider such legislation?

H.M.Jr:

Bell, do you mind ad libbing on this? How should I answer?

Bell:

Well, if this --

H.M.Jr:

And I would like to sit on the side lines.

Bell:

If this statement is given out that we prepared with the Federal Reserve Board, you can say that one step has been taken in the direction of raising reserve requirements and that the statement states that the whole situation is being watched and that when the time comes to ask for additional powers, why, recommendations will

be made after the two agencies consider the matter, following largely the language of the statement.

H.M.Jr: Can I stand on that statement?

Bell: Yes, and you stand on that statement. I think you might say, if they push you, that it doesn't seem to be a matter of immediate urgency to get legislation but we are watching the situation and when that time comes we will come together to Congress and ask for it.

H.M.Jr: Well now, what the Board ought to do is to give out that statement tonight for tomorrow morning's press.

Bell: That is right, that is what we are trying to get.

Morris: You don't want to say come to Congress, that you will ask for it.

Bell: You will have to go to Congress if you want additional legislation.

Morris: Oh yes, if you want additional legislation. Excuse me.

Bell: That is what the question is, I think, but of course the statement is so worded that the recommendations may be made to the President and get authority under his emergency powers.

- H.M.Jr: Well, now, just a second. If I have that statement, doesn't that, Harry, take care of that?
- White: Yes, because he should never have put all these questions in one question, because all you want to do is answer the last one. The others would have been more troublesome. (Laughter) The second question.
- H.M.Jr: Excuse me just one second. Well, we can cross that bridge. If they don't come through, then we will have to have a big pow-wow as to what I will say, but don't let's worry about that. We will wait. Go ahead, Harry.
- White: The second question is, "The impression prevailed earlier this year--"
- H.M.Jr: Excuse me, does it bother you to read?
- White: No.
- H.M.Jr: Why don't you take it.
- Foley: "The impression prevailed earlier this year that you were very cool to the Federal Reserve System's request for additional powers to increase reserve requirements beyond the present legal limit. If those impressions were substantially correct, would you mind telling us why you changed your opinion on this question? Perhaps changed economic conditions and the greater danger of inflation, matters which this Committee should study carefully, have influenced your opinion."
- White: That depends on the statement, what you say.
- H.M.Jr: That isn't significant.
- White: That depends on the statement.

H.M.Jr: I can simply say yes.

White: You have changed your mind?

Bell: There has been a decided change.

H.M.Jr: Sure, Dan says, "Yes, the whole situation has changed."

Bell: As a matter of fact--

Haas: Did the Secretary ever publicly make any statement?

H.M.Jr: No.

Haas: So you can say you haven't changed at all. I think it is stronger.

O'Connell: You can say the situation has changed and let them--

H.M.Jr: The situation changes. I haven't. I have just been studying it continuously.

Foley: Why sure, you have been following the matter daily.

H.M.Jr: As George says, I never said anything. The newspapers worked this up.

Bell: I think I would say that, that you haven't given out any statement that you have been opposed to this.

H.M.Jr: We will make damn sure I haven't, Ferdie.

Kuhn: You said something in a press conference once.

H.M.Jr: Well, show what I did say.

- Foley: I wouldn't answer it. I would say, "I have been following the matter very closely."
- Bell: "And have been all along."
- Foley: "I have been all along, and if the Federal Reserve System needs additional powers, I will be the first one to come down here and tell this Committee that they should give additional powers to the Federal Reserve System."
- H.M.Jr: All right. That is all right. Next one.
- Bell: The second, not the first.
- Haas: You forgot to say period, Ed. (Laughter)
- H.M.Jr: I think George is right, I can take the position that I haven't changed. I didn't make any public statement. Ferdie will make sure. All right.
- Foley: As the situation changes, you follow the situation. You tried to study it.
- "3. I understand that the spokesman for the Federal Reserve Board are now saying that the Board will not take any action under its present powers or under future powers it may obtain from Congress during the emergency without prior consent of the Treasury. Have you and the Federal Reserve Board been studying this question together recently; and, if so, could you give us any indication as to the extent of cooperation between your Department and the Federal Reserve Board?"
- H.M.Jr: I stand on the statement.
- Bell: Your answer to the first question answers that.

- H.M.Jr: Has the Federal seen these questions?
- Bell: I don't know.
- H.M.Jr: Oh, God, they ought to see them.
- Bell: What does the note say on the side, Harry?
- White: The note says he doesn't want anybody to know you have seen them.
- Foley: "Mr. Bell, here are the questions that Congressman Crawford of Michigan plans to ask the Secretary."
- H.M.Jr: Well, may I say this? If you get to the point that Ronald says he can't give an answer, well, here are the questions, he has got to answer it.
- Foley: "I am passing it along with the understanding that no one in the Treasury will tell him I have done so. Ted Goldsmith." (Laughter)
- White: What a smart boy. He writes it for him and that gets him in right with Crawford, you see, and then he tells us to get in right with us.
- Foley: Sure, and then he gets his letter for next week.
- H.M.Jr: You ought to tell Ronald about this right away if he hasn't talked to Eccles yet. Tell him that Morgenthau has got to answer these tomorrow.
- Bell: He may have a set of them, I don't know.
- Foley: They probably gave them some too and said, "Don't tell the Treasury or Crawford I gave them to you."

H.M.Jr: Do you mind telling him? Dan, if he hasn't started on the wire, tell him that is the whole thing, that I have got to do this thing. I don't want to go up there and say I can't get together with Eccles, but the Federal Reserve Board and I are in agreement.

(Mr. Bell left the conference.)

H.M.Jr: He didn't tell the Federal that one of the reasons we have to have an answer is on account of these questions, so I told him to tell the Federal.

Foley: Well, that wasn't quite all of that question.

H.M.Jr: I am sorry.

Foley: "Will the Treasury and the Federal Reserve Board cooperate in determining possible future action to raise reserve requirements if Congress increases the Board's powers?" That is an "iffy" question.

H.M.Jr: I can take care of that.

Foley: "4. My attention is called to the fact that the Treasury has not done any financing on the quarterly date of September 15. Could you tell us whether this delay has been due in part to a desire to clear the air as far as credit control legislation is concerned? I suppose purchasers of government securities might have reason to resent it if you sold a long-term bond issue after this whole question had been under private discussion and before general future credit policies had been made public."

White: He might as well have been sitting right here on these conferences from those questions.

H.M.Jr: All right.

Foley: Number 5. "Elimination of some of the excess reserves outstanding by possible successive increases in reserve requirements would, I presume, result in somewhat higher interest rates and, therefore, somewhat lower bond prices. I realize this is a difficult question to answer and to discuss, but I just wonder whether, in very general terms, you could give us your thoughts as to the probable increase of the cost of money to the Treasury which would result from the application of legislation permitting the Federal Reserve Board to raise reserve requirements?"

H.M.Jr: Well, my answer to that question is very simple. Nobody can tell - but even if it went to fifty or a hundred million dollars, how does it compare with the cost of inflation, the general cost to the government. I mean, the two things aren't comparable. The two things aren't comparable. One way we may get soaked ten billion and the other way we may get soaked - how much would a half a percent be on the whole public debt?

White: A half percent of fifty billion. It would be half a billion a year.

O'Connell: Two hundred fifty million.

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

O'Connell: That assumes you have to borrow on fifty million too.

Haas: Mr. Secretary, there is one danger--

H.M.Jr: I just said that - I would say, if you had to borrow the half percent on the whole debt--

- Foley: It would be two hundred fifty million dollars.
- H.M.Jr: Compared to the fact that this other thing might be ten billion dollars.
- Haas: I think there is another angle to that. If you answered that way, the fellow in the market will say, "The Secretary of the Treasury is going along on this thing. He has made up his mind. I am willing to take the cost, even if it does hit the bond market pretty heavily."
- H.M.Jr: That is all right, isn't it, George?
- Haas: No, I don't think so.
- H.M.Jr: What is the opposite of filing your trigger on your six-shooter so you can shoot faster to slow yourself down?
- O'Connell: Turn the trigger back.
- White: Let it rust.
- H.M.Jr: Let a little rust accumulate. You are getting to be a regular trigger man. That isn't good, what was it?
- Foley: I don't know. Slow down your fire.
- White: Dampen your powder.
- Haas: That is a good one. Currie wanted to put in the statement, Mr. Secretary, something to the effect that would take care of this thing. He says Great Britain and Canada have sort of indicated they are going to finance this war on a certain reasonable level and so on, and he says you shouldn't get the market feeling that this is the top. From there on bond prices are going down. That is not in it, but Currie was very important over there at

that meeting yesterday in getting the Board, I think - it is just a matter of opinion. They asked him which statement he liked, and he liked the one we brought over. They had a little modification. He said he liked the first one. He also added, which I thought was important, that the President these days is very busy, that he certainly wouldn't want to make a decision on any problem like this and put it over. I think he was quite instrumental.

H.M.Jr: Good. I got a report that Currie - now this is important. I have got to look at my apple prices. All right.

White: This question, Mr. Secretary, is directed at something a little bit different. It is very specifically directed at getting you on record as to whether you think bond prices are going to go lower.

Haas: That is right.

White: That is what he wants to know.

H.M.Jr: Well, I have always handled that, Harry. I know how to handle that. That is something - I always say it is in the lap of the gods. How does anybody know? No, I have never gone around making forecasts.

Foley: Number six. "When you appeared before the Ways and Means Committee in connection with amendments to the Liberty Bond Act to give you a greater discretion in setting up the defense bond issues now on sale, you stressed the necessity of selling as many of the deficit Treasury securities as possible-- "

H.M.Jr: As many as what?

- Foley: "Of the deficit Treasury securities as possible to bona fide investors other than commercial banks. On this point your opinion and that of the Federal Reserve Board has always appeared to be in agreement. Do you believe legislation increasing maximum reserve requirements will contribute toward the attainment of this objective?"
- H.M.Jr: I don't know how to answer that one.
(Mr. Bell returned to the conference.)
- Foley: Want me to read it again so Dan can hear it?
- Bell: They are talking to Eccles, so I had to get Goldenweiser in and have him tell Ronald while he was on the phone, and he said he would.
- H.M.Jr: Did you tell him about these questions?
- Bell: Yes, to tell him that you would be faced with these questions and that you will have an embarrassing time getting out of them and it is essential that they settle that matter today.
- Foley: The question, Dan, is: Do you believe legislation increasing reserve requirements will facilitate the sale of defense bonds to the public as distinguished from commercial banks?"
- Haas: No, it doesn't increase a man - a real saver's desire to buy securities. What it does is shut the banks off so they can't buy them.
- H.M.Jr: Is that right? It makes it more difficult for the banks.
- Haas: What this does, it absorbs the banks' funds

so if a man doesn't have any money, certainly he can't buy it, but certainly it doesn't increase the desire of the buyer to buy more.

- White: It forces you to pay a higher interest rate, and if you pay a higher interest rate and shut the banks off, sure you will sell more to the public.
- H.M.Jr: If it has any effect at all, it will make it more attractive to the non-banking investors.
- Bell: It will have no effect at all on the present set-up, but if this action, carried to the full extent, increases interest rates, then you would have to increase interest rates on your savings bond, which would in turn make them more attractive to the individual and which would probably make them easier to sell, if you want to go through that step. Is that right?
- Haas: Well, some people would even argue with that. They claim that by increasing the rate you won't sell any more.
- Morris: I said, "Do you need to say any of that?"
- Haas: No, I don't think so.
- H.M.Jr: All I could say is, if it has any effect at all, it would make it more difficult for the banks to buy and easier for the investors.
- White: "If it has any effect at all, it will be to raise interest rates." That is what I would say.
- Kuhn: If you suggested the interest rates on savings bonds may be changed upward, people would hold off, wouldn't they?
- Bell: They might.

Haas: I think that would be a deterrent.

White: This is the big argument against raising reserve requirements.

Bell: I think it is better to say it will have no immediate effect.

Haas: Yes, that is right. I wouldn't go into the details.

Bell: That is right.

H.M.Jr: Will you hold everything on that while I take this telephone call.

(The Secretary left the conference for fifteen minutes and returned.)

H.M.Jr: Where were we?

Foley: We were on number six.

H.M.Jr: Go ahead.

Foley: The one that all these people believe is the nub of the--

H.M.Jr: What is that?

Foley: The smartest question of all these questions that Goldsmith has put down here.

H.M.Jr: The one that is coming?

Foley: No, the one we just read.

H.M.Jr: I see. All right. This is fun.

Foley: Dave wrote out a "duck" on that one.

H.M.Jr: Let's have it.

- Morris: "As to any immediate direct effect, no; as to possible future effects, probably of an indirect nature, that is one of the many things we are studying as already covered in the Federal Reserve statement."
- H.M.Jr: Wonderful.
- Foley: Number seven--
- Bell: Either that or just brush it off, Mr. Secretary, by--
- Foley: Saying that "Eccles and I are getting along fine."
- H.M.Jr: Can anybody imagine Eccles' blood pressure today? Here I am going to go on and here he is out there and here is this thing that he has been fighting for and he can't get at me and so forth and so on. He has got to do it over the phone. Can you imagine?
- Bell: I don't believe they will follow up on this question.
- Foley: I don't think Crawford will follow up on any of these questions. He will just read them and look blank and you can answer it anyway you want to and he will go on to the next question.
- H.M.Jr: I will look natural.
- Foley: Number seven. "Mr. Secretary, in your Boston speech you said, 'We may have to create controls over selected capital expenditures.' Could you tell us what you meant by that term? Does it imply additional steps to raise credit along lines of the recent installment credit regulations?"

- Bell: Read it again, Ed.
- H.M.Jr: Well, I meant that and possibly more.
- Foley: "'We may have to - ' in your recent Boston speech you said, 'We may have to create controls over selected capital expenditures.' Could you tell us what you meant by that?"
- White: That is what we are studying now.
- Foley: "Does it imply additional steps to raise credit along the lines of the recent installment credit regulations?"
- O'Connell: Raise credit or limit credit?
- Foley: Raise credit.
- Bell: It may take that angle. It may mean a capital expenditures and issues committee to control all the capital expenditures.
- White: He has that question to answer.
- Bell: That is one of the many things that needs to be studied.
- Foley: Number eight. "Does control over selected capital expenditures imply any direct control over the use of existing surpluses of corporations? Would you propose controls other than priorities and so forth on the utilization of existing corporation surplus if it contemplated the erection of a new plant? I asked this question because the cash surplus of many corporations is likely to increase when the present large, but in many cases non-replaceable, inventories have been utilized."
- H.M.Jr: Well, I can say I am not prepared to answer

that question.

Haas: You are studying it.

Bell: You could say that those cash balances are an important factor in the situation.

White: Those are the very things we are studying now.

Bell: And that is the very thing we are studying and cooperating with the two organizations that are trying to control prices.

O'Connell: That isn't a credit matter anyway. You couldn't control it except by priorities very well, could you?

Bell: A capital issues and expenditures committee could control it.

A lot of those investments are being spent in tax anticipation notes.

Foley: This is the last. Number nine. "Do you think restrictions should, under present conditions, be imposed on credit granted for residential building construction? I notice installment credit of this nature was specifically excluded from the President's Executive Order which furnished the basis for the recent installment credit regulations."

H.M.Jr: Start over.

Foley: "Do you think restrictions should, under present conditions, be imposed on credit granted for residential building construction? I notice installment credit of this nature was specifically excluded from the President's Executive Order which furnished the basis for the recent installment credit regulations."

In other words, should Congress pass legislation to curtail government subsidized credit such as FHA and building and loan insurance at the present time?

- White: Couldn't you say that the limitation on building is already being taken care of by priorities?
- Foley: By priorities?
- White: And you are not in favor - you don't think any legislation is needed at this time.
- Bell: Well, I don't believe it is needed anyhow, is it?
- Haas: But we are studying and watching the situation.
- H.M.Jr: What?
- Bell: I don't believe it is needed anyhow. I think it is in the hands of the administrative agencies to control it. Jones can lower the limit on mortgages from ninety to eighty or seventy.
- O'Connell: Not only that, but OPM has given a priority to certain types of residential building up to a certain maximum of six thousand dollars of cost.
- Bell: And three hundred thousand of--
- O'Connell: That is where you have to start to make the decision anyway.
- H.M.Jr: Nelson told us at lunch that he was going to limit it to two hundred thousand houses, and then I saw in the paper, three hundred thousand.

Bell: I wondered if those houses were largely confined to defense areas, that three hundred thousand, do you know?

O'Connell: I don't think that they were.

Bell: Do you think that was over and above the defense area housing?

O'Connell: No, I think it was without regard to defense area housing.

Bell: Or any area?

O'Connell: Yes, because I think they thought the demand would probably take care of the situation rather than to have them attempt to pick out what was the--

H.M.Jr: Those aren't bad.

Now, let's go around the room and see who can think up something tough. I might get asked something. Wait just a second, do you mind, Ed?

Foley: No.

H.M.Jr: Let's go around.

Bell: I haven't thought of any.

H.M.Jr: You will get a second chance.

Morris: No, sir.

H.M.Jr: Harry?

White: I think they are apt to ask you several questions on gold, silver, et cetera, than they particularly - somebody is apt to trot out the Federal Reserve Board four points which

they said would stand in the way of inflation, and they are going to ask you whether you agree with them either individually or separately.

H.M.Jr: One is silver.

White: Silver, which is easy to handle.

H.M.Jr: I have handled that. Thomas currency, I know how to handle that.

White: Powers of the President.

H.M.Jr: I know how to handle that.

Bell: Stabilization.

White: And the issue of gold coins.

H.M.Jr: I know how to handle that.

White: And the Federal Reserve Board open market operations. Well, that isn't important, those four.

H.M.Jr: I am all right on those. My mind is clear on those.

White: An additional argument in favor of keeping the presidential powers to alter the gold content was provided by Baruch's statement, should it come up and should you feel it necessary, that he says, "After the war we might find ourselves in a position in which we are unable to compete." That is exactly why you want the powers to meet that situation should it arise. All you have to do is alter the buying price of gold.

H.M.Jr: I thought you said that was the one statement where you said he was wrong.

White: Because he didn't understand that that power exists.

H.M.Jr: But I can use it?

White: If they push you.

H.M.Jr: What else, Harry?

White: Well, they will probably ask how about the gold that is coming in, and they may ask you questions of how much gold you are getting from various countries, from Russia particularly. We have the factual answers to all the materials. I think most of the other questions they will ask you will be factual which we will have ready for you.

H.M.Jr: Good.

What else?

Well, you will get a second chance. We will come back to you. I will come back to you.

Ed?

Foley: The thing I wanted to raise was the discussion you and I had about Williams, O'Connell.

O'Connell: I think somebody ought to mention that. It is along the lines of what Harry was talking about.

H.M.Jr: Williams?

Foley: Congressman Williams from Missouri who is the ranking democratic member of the Committee. He is interested in some monetary matters that he would like to question you about. He called Joe and said that he would like to ask you some questions, but he didn't want to take

you unawares and he wanted to discuss with Harry White and other people here at the Treasury what he had in mind so that you would know in advance what he was going to ask you.

O'Connell: That is right. He asked me Monday if it would be possible for me to arrange to have him have maybe an hour with Harry White or someone in advance of your testimony so that he could clarify his own thinking on the administration policy as regards gold and also so that you would know the type of question that he expected to ask you tomorrow so that you would have in the record the answers to the questions that bothered him. He is very friendly on the point, I am positive, and I told him that I would see if I couldn't get him together with Harry White today.

H.M.Jr: When can you do it, Harry?

O'Connell: I thought after we leave here that I would go down and if I can arrange to see Williams, I could call you (White) and make an appointment for whenever convenient to both of you.

H.M.Jr: All right.

White: Here are some questions that Wolcott asked.

Foley: Well, Wolcott isn't there, is he, Joe?

O'Connell: No. He may be back. I have got a whole list of questions that he indicated he would ask practically all the witnesses, but I don't think we need to worry about him.

Foley: Can you find out from his office if he is going to be here? If he is, I think we ought to go over the questions. If he is not going to be here--

H.M.Jr: Well, I would rather - unless you know -
I mean, you can have a--

O'Connell: I wrote down from what he said to Henderson
just a few words. He wants to talk about
government spending, excess reserves, interest
rates, increased volume of currency, remonetization
of silver, the gold and silver purchase
policy, expansion of purchasing power by
expanding payrolls, obligations of the United
States as security for the issuance of re-
serve notes, the President's authority to
issue three billion dollars of greenbacks,
influence of taxes, the influence of sterili-
zation of gold and silver so that they can
not be used as a basis of credit. That of
course is as broad as all outdoors.
It is what he indicated he wanted to ask
Henderson about.

H.M.Jr: I hope I won't be there.

Bell: He is the smartest fellow on the Committee.

H.M.Jr: I know he is.

Foley: He is the best man on the Committee.

White: They will ask you what things you think can
be cut in government expenditures.

H.M.Jr: I can take care of that. If I can't, White
will.

Bell: That is for another committee.

H.M.Jr: All right, Ed?

Foley: Yes.

H.M.Jr: George?

Haas: I don't think of anything.

H.M.Jr: Joe?

O'Connell: Well, on the bill particularly, in your statement you indicated that you do not like the hundred and ten percent ceiling of farm prices. Now, I take it they will probably ask you what you would like, and I suppose--

H.M.Jr: Then I trot out the President's statement. You fellows knocked that into me at breakfast about a month ago at my house.

O'Connell: Would you want to - they might ask you a question about rents. There is a provision in the bill for a limited control of rents, only in defense areas, and only rental of apartments where the roomrent is less than fifteen dollars a month as of the time it starts. Now, Baruch suggested that the rent control provision should be as broad as the rest of the statute, that is, that if you want to control rents you ought to be able to control them all over.

Now, I don't know whether you would want to comment on that. It is part of the cost of living but the problem is a little different.

H.M.Jr: What do you think I should say?

O'Connell: I think I should go along with the provision in the bill. The problem is most acute in defense areas except that the President has a pretty broad power to define what a defense area is.

H.M.Jr: It wouldn't be too bad to agree with Mr. Baruch on that if they ask me if I do agree?

- Haas: Sure.
- Bell: Why wouldn't it be well to say that you think the bill ought to contain as broad powers as possible.
- O'Connell: One is the legal reason. I think when you get into attempting to control rents in local areas where there is no defense area involved, there is a much more serious constitutional question about the power of the federal government to enter into that field.
- H.M.Jr: How would it be, Joe, if I said if it was legally possible, I would like to see it cover the whole country?
- O'Connell: If you are - I had a rather feeling, though, that administratively it would be very difficult for Henderson or anyone else from Washington to do a good job on controlling rents all over the country.
- H.M.Jr: But from the standpoint of the public, if I can make a gesture in that direction, it doesn't do any harm.
- O'Connell: Leon wouldn't object to that either because the main objection I heard to broadening it was the legal objection and--
- H.M.Jr: Is Leon going to be up there while I testify? He sat right at Baruch's elbow, I noticed, in the picture. Didn't he?
- O'Connell: Yes, he was there. I don't know whether he will be there tomorrow or not. I will find out.
- H.M.Jr: Would it be helpful to me?
- O'Connell: No, I don't think so.

H.M.Jr: What do you think, Ed?

Foley: No.

O'Connell: I don't think you need his help.

White: They must be tired of looking at him.

Foley: No, because he - well, he is such a bombastic fellow. He gets started, and he will keep right on talking. I would rather not have him there.

H.M.Jr: Why not say nothing and just let's see what happens? I don't want to tell him to be there or not to be there, but the chances are he won't be there because he most likely has got a lot of work to do.

Foley: That is right, and I assume the reason he was there with Baruch was because Baruch asked him to be there.

O'Connell: I am quite sure of that.

H.M.Jr: Let nature take its course.

 What else, Joe?

O'Connell: Those are the main things that bothered me.

H.M.Jr: All right. Ferdie?

Kuhn: Nothing.

H.M.Jr: Harry, any after-thoughts?

White: No. There will be a lot of questions on money, but they will be the same ones you have been asked before.

H.M.Jr: Let me get my timetable straightened out. I

have Bewley coming here at three. Do you know what he wants? Something to do with the Russian thing.

White: He spoke to me. He said he wanted to discuss it with you.

H.M.Jr: Do you (Bell) want to sit in on it?

Bell: Yes.

H.M.Jr: All right. And I told Cochran to be here. Now, will you be ready for me at three-fifteen with my draft of my speech?

Kuhn: With a complete draft?

H.M.Jr: Yes.

Kuhn: It is a little early if we have to get the labor thing thrashed out this morning, but I will do my best.

H.M.Jr: Well, I mean if it is--

Kuhn: Three-fifteen this afternoon?

H.M.Jr: It is pretty near a deadline, because I mean--

Kuhn: Especially if we are going to have to go over it again.

H.M.Jr: Yes.

Kuhn: Especially if you want some more changes.

H.M.Jr: If this same group can come back at three-fifteen; and Bell, if Morris has any spare time, let him - for instance, in between these, while he is waiting around, if he has got any spare time, let him - turn him over to whoever your man is who looks after our

trust funds. Who is that?

Bell: Heffelfinger.

H.M.Jr: Then put him up against Heffelfinger.

Bell: He does most of the watching.

H.M.Jr: If he has any time, put him up against Heffelfinger. I would like him to go into that next, to familiarize himself with that.

Bell: All right.

(Telephone conversation with Mr. Currie follows:)

September 23, 1941
10:45 a.m.

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HMJr: You were very helpful yesterday over at that meeting.

Lauchlin
Currie: Oh, I'm pleased to hear it. I just hadn't realized I was.

HMJr: No, the boys said you were very helpful.

C: Fine. I think we softened them up a little bit.

HMJr: They tell me that the last hour or two they've been on the wire with Marriner.

C: Oh. He's out somewhere, is he?

HMJr: Yes. He's still in the Rockies.

C: Oh, really?

HMJr: Yeah.

C: My God.

HMJr: Can you imagine how he must be feeling?

C: (Laughs) Yeah.

HMJr: What?

C: He must be running up quite a telephone bill.

HMJr: I'd hate to take his blood pressure.

C: (Laughs)

HMJr: Well, anyway.....

C: Well, can he - can they get agreement by.....

HMJr: I don't know, but I'm going over the final draft of my speech at three fifteen.

C: Uh huh.

HMJr: And I'd like very much, if you're not tied up, to be here.

C: Fine. I would like to.

HMJr: And then also by that time we'll know one way or the other.....

C: Yeah.

HMJr:whether the Board and I are together or the Board and I are - and Marriner - are separate, see?

C: Yeah. One very useful purpose of that meeting yesterday was that it indicates that the Board - the rest of the Board is prepared to go along on that statement, you see.

HMJr: Right.

C: So it does leave Marriner a bit alone on it.

HMJr: Well, if - the three fifteen, we'll know it.

C: Try.

HMJr: And.....

C: You wouldn't mind if I skip out for awhile about four for the President's press conference, would you? I.....

HMJr: No, no.

C: I usually attend it.

HMJr: Well, we ought to - oh, no they can - and you can put in a call here and tell them to let you know if he's running late.

C: Yeah, yeah.

HMJr: Oh, sure. Sure.

C: Fine.

HMJr: And thank you.

C: Okay.

HMJr: Good-bye.

H.M.Jr: Well, I can't tell you how much I appreciate this and--

Bell: Any indication that you would get through tomorrow morning?

H.M.Jr: I don't know.

Bell: Joe, do you know whether they will go around the Committee like they have in the past?

O'Connell: I don't think they will go around the Committee the way they did with Henderson. With Baruch, each man was given an opportunity. They were much--

Bell: He finished in one morning, didn't he?

O'Connell: No, he came back in the afternoon. His statement was longer than the Secretary's, I think. It took him about three-quarters of an hour to give the statement, and they recessed at twelve o'clock. I think Williams and one other man are the only two that questioned him before lunch, and I didn't go back after lunch, so I don't know how long they kept him.

H.M.Jr: I think you could blue-pencil that statement some.

Kuhn: Cut it, you mean?

H.M.Jr: I think so.

Kuhn: All right.

H.M.Jr: Harry, are you available now?

White: Yes, I am.

H.M.Jr: You seem worried about something.

White: I was just wondering about the bill for appropriations on the lend-lease.

Bell: I haven't heard a thing on that.

White: You said, "Tuesday."

Bell: They started those, and I thought maybe the fact that they were trying to rush it through, with the President's assistance, that maybe they would leave us in testifying.

H.M.Jr: I look to you if the Treasury wants something, don't I? I mean, if they want something of the Treasury.

Bell: They do.

Cannon sent word that he wanted somebody from the Treasury up there to testify, and they didn't give the date.

White: Well, we have got the statements prepared on their assets.

H.M.Jr: Who is going to give it?

Bell: I understood you to say you wanted Harry to go to handle it.

White: No, I think it would be a mistake not to have Mr. Bell.

Bell: He wants me to go.

Foley: Well, the two of them can go up.

Bell: Well, Harry would have to go in any case. I don't mind it. I think Harry probably can handle it.

H.M.Jr: Do you mind going?

Bell: No, I don't mind.

Foley: Dan stands so well with that Committee, I think Dan ought to make the statement.

White: We have got the stuff ready, and I told Bewley we would like to have his government's permission, and that is taken care of.

Bell: They have agreed to that?

White: Well, he has given us data and we are fixing it up and giving it back to him this morning, and he is going to approve it.

H.M.Jr: Are you willing to give it?

Bell: Oh, yes, I don't mind.

H.M.Jr: Harry thinks he would like to have you do it.

Bell: Yes, I will do it.

White: Yes, I definitely think he should do it.

Bell: Harry can go along with me.

White: There isn't any statement. He is just going to read in the record certain facts and be ready to answer any questions they put.

H.M.Jr: Well, if there is any policy question, talk to me, will you?

O.K., I would just like to talk to Morris a minute.

Thank you all. I have had a good time. I hope you have.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Statement for the Press

For release in morning newspapers of
Wednesday, September 24, 1941.

September 23, 1941.

As a further step in the Government's program for combating inflation, the Board of Governors of the Federal Reserve System, after consultation with the Secretary of the Treasury, has today increased reserve requirements for member banks to the present statutory limit, effective November 1. This action, unanimously agreed upon, increases reserve requirements by about one-seventh.

The requirements beginning on that date will be: for demand deposits, 26 per cent at central reserve city banks, 20 per cent at reserve city banks, and 14 per cent at country banks; for time deposits, 6 per cent at all classes of member banks. This action will result in a reduction of excess reserves from about \$5.2 billion to about \$4 billion for member banks taken as a whole. At central reserve city banks excess reserves will be reduced approximately from \$2,400,000,000 to \$1,700,000,000; at reserve city banks, from \$1,350,000,000 to \$1,500,000,000, and at country banks from nearly \$1,000,000,000 to \$800,000,000.

The action will leave the banks as a whole with ample funds to meet all bank credit needs of the defense program and all legitimate requirements of their customers. A survey made recently by the Board showed that a large majority of the member banks will be able to meet the increased requirements out of existing excess reserves and all but a few of

- 2 -

the remainder by drawing upon a portion of their deposits with city correspondents.

The Board determined that penalties for deficient reserves prior to December 1, 1941 shall be based upon reserve requirements in effect October 31, 1941.

The following table compares the new requirements with present requirements which have been in effect since April 16, 1938.

Member Bank Reserve Requirements
(Per cent of deposits)

Classes of deposits and banks	Present requirements	New requirements
On net demand deposits:		
Central reserve city banks	22 $\frac{3}{4}$	26
Reserve city banks	17 $\frac{1}{2}$	20
"Country" banks	12	14
On time deposits:		
All member banks	5	6

STATEMENT FOR THE PRESS

For release in morning newspapers of
Wednesday, September 24, 1941.

September 23, 1941.

In connection with the action taken today by the Board of Governors of the Federal Reserve System to increase reserve requirements, the Secretary of the Treasury and the Chairman of the Board issued the following statement in which the Board of Governors concurs:

"The Treasury and the Board of Governors will continue to watch the economic situation and to cooperate with other agencies of the Government in their efforts, through priorities, allocations, price regulation, and otherwise, to fight inflation. Recommendations on the question of what additional powers, if any, over bank reserves the Board should have during the present emergency and what form these powers should take will be made whenever the Treasury and the Board, after further consultation, determine that such action is necessary to help in combating inflationary developments."

September 23, 1941
10:55 a.m.

HMJr: Hello.

Operator: Mr. Thompson. Go ahead.

HMJr: Norman.

Norman
Thompson: Yes, sir.

HMJr: Beginning with the twenty-second of September,
Dave Morris - pay him nine thousand a year.

T: Yes, sir.

HMJr: Take care of that.

T: Assistant to the Secretary.

HMJr: September 22.

T: Yes. Okay, sir.

HMJr: All right. Thank you.

T: All right.

September 23, 1941
12:00 Noon.

HMJr: Hello.

Operator: Mr. Hopkins is busy talking. I have Mr. McNutt.

HMJr: Thank you. Hello.

Paul V. McNutt: Hello, Mr. Secretary.

HMJr: How are you?

Mc: I'm fine. Oh, well, I've got a cold. I'll have to be honest about that.

HMJr: Doesn't Public Health look after you?

Mc: Well, I was just saying I shouldn't be that way. But this memorandum from the President concerning the discussion of the expanded Social Security Program.....

HMJr: Yes.

Mc:I thought that I'd better call you first and find out when you would be free before I tried to make the arrangement with the White House.

HMJr: Oh, did he give you a copy of my memo?

Mc: Yes, I have that in front of me.

HMJr: Good. It's all right, isn't it?

Mc: Oh, it's grand to have you there.

HMJr: Well, I'll tell you. Here's my troubles. I'm supposed to go up tomorrow morning to follow Henderson. Hello.

Mc: Oh, yes.

HMJr: So I don't think they'll hold me more than one day, so.....

Mc: Would you suggest - would Thursday be all right?

HMJr: Thursday's all right.

Mc: Well, let me.....

HMJr: Friday would be safer. They might keep me two days. Friday morning would be perfect, but of course.....

Mc: Well then, fine. And we should have at least two hours.

HMJr: Friday morning would be perfect as far as I'm concerned.

Mc: Well, if we can arrange that - well, I'll call the White House then right away.....

HMJr: Thanks for the.....

Mc:and ask them to do it. Well, I'm awfully glad you're coming.....

HMJr: I'd like to come.

Mc:because I think you agree with what we're trying to do here.

HMJr: In principle, yes. Our only thing is, we just, quite frankly, don't feel that you pay enough attention to the fiscal aspect, that's all. Hello.

Mc: Well, I realize that.

HMJr: And - that's all. And your job is one and mine's the other, but there's no reason why we can't get together.

Mc: I quite agree on it.

HMJr: Thank you.

Mc: Well, I'll call right away. Thank you very much.

HMJr: Good-bye.

Mc: Good-bye.

September 23, 1941
12:05 a.m.

HMJr: That telegram.

Herbert
Gaston: Yes.

HMJr: And this man is entitled to counsel.

G: Of course, he is. We're taking that up with Justice, and it's a precedent. He should be defended by Justice.

HMJr: Well now, if you don't get word by this afternoon he's going to be defended, I'll call up the Attorney General myself.

G: All right.

HMJr: But I definitely want to know before sunset.

G: Right.

HMJr: And if you don't get it, let me - I'll call him up. I'm going to insist on counsel.

G: You bet. Yeah.

HMJr: All right.

G: Thanks very much.

September 28, 1941.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston

Fisher, Assistant to Wendell Berge, Assistant Attorney General in charge of the Criminal Division, has prepared a dispatch to the District Attorney at Honolulu authorizing and instructing the District Attorney to act as defense counsel for Yueng, the Customs Guard who shot the Navy Lieutenant, if his inquiry indicates that the guard was acting in line of duty. This message is expected to go out tonight. If we should run into any further difficulty, I shall let you know.

September 23, 1941
12:55 a.m.

256

Harry Hopkins: Hello, Henry.

HMJr: How are you?

H: This is Harry. Henry, is there any chance of the Russians selling us any more gold?

HMJr: Any chance?

H: Uh huh.

HMJr: Sure, if they want to.

H: Well, I know; but that's the point. Do you think there's any chance of their doing it?

HMJr: Well, Harry, I don't know a thing about it. I haven't been in on any of the conferences. I don't know what.....

H: Well, that's funny, because the President told me he understood you were buying all the gold and offering all the gold - offering to buy all the gold the Russians would buy.

HMJr: The President had in Jesse Jones with Oumansky - or at least I suppose he did.

H: Well, that was on that.....

HMJr: And I don't know. The President.....

H: That was on that deal of Jesse's.

HMJr: I know less about it than Arthur Krock.

H: Well, I'm sorry, because the thing's in a hell of a mess.....

HMJr: Well, no one.....

H:and I'll have to get the President, I guess, to see if he can make an appointment with you.

HMJr: Well, I.....

H: We're just getting licked right and left here on this God damned thing. I don't blame you, but it's probably my fault, I suppose.

HMJr: Well, Harry, I sat here and - anxious to help - and I swear I'm completely on the outside.

H: Well, it's up to the President. I can't control his time and his appointments, I guess. I'll go after him again, though, Henry, because I.....

HMJr: All I can say.....

H:know it's very important and nobody offers to loan them any money and they can't.....

HMJr: Well.....

H:they can't use Lease-Lend, and we made this large size commitment and now, by God, we can't deliver on it.

HMJr: Well.....

H: It's just God damned discouraging.

HMJr: Averill Harriman had supper with me. I gave him the best that I had.

H: Uh huh.

HMJr: He was going to have me and Jones go over and see the President.

H: Uh huh.

HMJr: But they evidently didn't think it was necessary to have me - not that I.....

H: Well, that conference, I happen to know about, Henry. That conference was a conference with Jones in order to get Jones to buy a hundred million dollars worth of raw material.

HMJr: Yeah.

H: That was the whole purpose of that conference.

HMJr: Well, I don't - I didn't.....

H: And Jones has now made a commitment to buy the damn stuff.

HMJr: He has?

H: Yes. He's promised to buy a hundred million dollars worth - two hundred million dollars worth.

HMJr: Well, don't misunderstand me. I mean, if the President and you are doing what you think should be done, and - but.....

H: Well, all I know is the President told me yesterday that he understood that you were trying to get the Russians to sell us gold. That's all I know about it.

HMJr: No, the President's wrong.

H: All right.

HMJr: But just remember this, that no matter what happens, I've got only one object in life and that is to see that Hitler gets licked.

H: Oh, I know that, all right.

HMJr: So no matter what anybody does to me in town, I don't give a damn.

H: You don't have to tell me that.....

HMJr: See?

H:God damn it.

HMJr: So.....

H: Well, of course, I know that either the purchase of gold or the purchase of raw materials added up together is not going to do what is

on the cards to be done.

HMJr: Well, just so you know I'm here.

H: Well, I know you are, old boy.

HMJr: Okay.

H: All right, good-bye, Henry.

HMJr: Good-bye.

September 23, 1941

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My dear Mr. President:

I was considerably disturbed by my telephone call from Harry Hopkins this morning in regard to the Russian financial situation. Quite frankly, I do not know anything about Russia's current financial needs.

I am in almost daily contact with Treasury representatives of England, Canada and China. If you wish me to do something in regard to the Russian financial situation, I would be glad to take it on, provided that you will explain to me personally just what it is you would like me to do.

Yours sincerely,

(signed) H. Morgenthau Jr.

The President,
The White House.

Copy to: Mr. Harry Hopkins
(Initialled by HM Jr)

Sent by Secret Service 3:40 p.m.

September 23, 1941
2:03 p.m.

261

HMJr: Hello.

Lowell
Wellest: Hello.

HMJr: Hello, Lowell.

M: Henry, how are you?

HMJr: I'm alive.

M: Well, that's to your credit.

HMJr: All right.

M: Sturdy fellow. Say, Henry, American Retail
Federation is having a one day business session
in Washington, October tenth....

HMJr: Yeah.

M:at the Mayflower - luncheon - and they
want you to talk at that luncheon. Now, you'll
be getting an invitation from Louie Kirsten
himself, who's the head of it, except apparently
he feels some embarrassment because of some
relationship. I don't know what that is. (Laughs)

HMJr: No.

M: I didn't know you were related.

HMJr: I'm not.

M: What?

HMJr: I'm not.

M: Well, anyhow, he seemed to feel that - told
his man here - well, his man here, he didn't
feel like he could talk to you. He talked to
me. This outfit, you probably know all about
it, is the biggest of the retail operations.

HMJr: Yeah.

M: It's an over-all organization of all the retail organizations, and they go along pretty much with your Boston speech - they're very keen about that.

HMJr: That's funny.

M: And - well, it's a fact. And the most active fellow in this outfit is Fred Lazarus at Columbus.

HMJr: Oh, yeah.

M: And he's very keen about your Boston speech.

HMJr: Yeah.

M: And - now they wanted you to talk at this luncheon. You'll be the only speaker, probably.

HMJr: Well, I'll have to talk to my management, you see. I'm under contract.

M: (Laughs) Yeah?

HMJr: Yeah.

M: Your musical manager.

HMJr: Yeah. I only can sing it so many times a week.

M: Uh huh.

HMJr: But.....

M: Well, you couldn't hit a better crowd here.

HMJr: Lowell, coming from you, I give it great weight; and the boys will be in after while and I'll talk to them about it.

M: All right. Now, if they don't know this operation - perhaps they do.

HMJr: Yee, they know about it.

M: It's the one that the President spoke to two

years ago, you know, instead of Chamber of Commerce.

HMJr: Yes.

M: And this time they're not going to have a banquet. They're going to have a business session and lunch.

HMJr: I see.

M: They're going to try to get Leon to talk to them and Milo Perkins to talk to them during the afternoon some time.

HMJr: They want me at lunch.

M: But they want you for the lunch speech.

HMJr: Do I have to eat the lunch?

M: Well, anybody that can eat those damned crackers you have over at your office, ought to be able to eat anybody's lunch.

HMJr: All right. All right.

M: Yeah?

HMJr: Okay.

M: (Laughs) All right.

HMJr: I tell you, even though my heart is weak, my head's all right.

M: Yeah.

HMJr: Yeah. That was some letter.

M: Also your stomach.

HMJr: What?

M: Also your stomach, for that matter.

HMJr: All right. That was the letter I understood

you wrote to a publisher.

M: Oh, did I write a letter like that?

HMJr: Didn't you?

M: About you?

HMJr: No, for the President to sign.

M: Oh. No, I - yeah, I said that his head was weak, yes.

HMJr: I said, "Well, my heart's weak, but my head's all right."

M: (Laughs) I didn't write that letter. The President wrote it.

HMJr: (Laughs) All right.

M: Say, I had lunch - I had Sunday with that little buzzard.

HMJr: Yeah.

M: I was over on his yacht at Annapolis.....

HMJr: Yeah.

M:and just between you and me and the gate post, he's still working on that damn problem.

HMJr: I see.

M: I think a way can be found to turn him clear around.

HMJr: Good God.

M: And his village papers, of course.

HMJr: Yeah.

M: Don't give a damn about him.

HMJr: Yeah. Well, that would be something.

M: Yes, it would be useful.

HMJr: Right.

M: That would only leave the Hearst and the McCormick group then.

HMJr: Right. That would be wonderful.

M: Yeah.

HMJr: Well, more power to you.

M: Righto, Henry. Will you let me know, then, or.....

HMJr: Yes, I will. I'll let you know.

M: Righto.

HMJr: That's August - October tenth.

M: October ten, yes.

HMJr: Right, thank you.

M: Righto. Thank you.

September 23, 1941
3:15 p.m.

RE INFLATION

Present: Mr. Currie
Mr. Morris
Mr. Kuhn
Mr. Foley
Mr. O'Connell
Mr. Bell
Mr. Haas

H.M.Jr: They tell me, believe it or not, that after two and a half hours Mr. Eccles has agreed to this thing. In view of that, don't you think while we are doing this, in the room here, so that he doesn't get a chance to change his mind - the statement is going to be given out tonight to the press - that Leon could give way for one day to me and let me go up there?

O'Connell: Well, Leon has planned to go to a conference of some sort in Detroit on Thursday.

H.M.Jr: Well, it is just too bad about Leon's conferences. I have postponed this conference and that conference and everything else. Now, if he wants me to go up and testify, he had better let me go up tomorrow. I am sick and tired of it. They have had me on the end of a rope here while he - he could quit talking if he wanted to. He will talk himself out of the Bill anyway.

Currie: I should think he would be glad to be free for a day or so.

H.M.Jr: Where is he?

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- O'Connell: He is testifying this afternoon.
- H.M.Jr: Well, you had better go up on the Hill. I don't know of anything more important that you can do. Let's make sure -- Bell is in there with Goldenweiser and the minute they come in and say it is settled I want you to go up on the Hill and you tell Leon I want to go up tomorrow. It is important. He can call off his Detroit conference and everything else. If he wants me to go up, I want to go up tomorrow. Paul McNutt wants a conference with the President on Social Security. I told him I was going to testify tomorrow, and we would be ready Thursday or Friday to see the President on Social Security. I can't stand around and wait for this thing.
- White: I think he would be glad to do it.
- H.M.Jr: Get him to come out and talk to me on the phone. Let him stop a minute.
- Foley: You can call Steagall and Steagall will come out.
- H.M.Jr: I think the best thing you (O'Connell) can do for me is to get in a car and go up there. Do you know Steagall pretty well?
- Foley: I think that is kind of putting Joe on the spot. I think I had better go.
- H.M.Jr: I would just as lief ask Steagall to step out and talk to you.
- Foley: All right, I know Steagall better than Joe does.

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- H.M.Jr: Supposing I get Chairman Steagall.
- Foley: That is the way to do it. Tell him that you have put off your engagements in expectation of testifying. You have got an important conference with the President that you have put off until tomorrow - until Thursday, and you have cancelled everything for tomorrow to devote to this thing, and you are all ready and --
- H.M.Jr: I cancelled everything for Monday, Tuesday and Wednesday.
- Foley: Yes. You would like to come down and get it off your chest so you can go on to other things.
- H.M.Jr: Do you know, before I get into this, Currie, have some cables come in from Moscow of something or other, do you know?
- Currie: I don't know anything about it at all, Mr. Secretary.
- H.M.Jr: What is the President's warning?
- Kuhn: Warning that we are at the beginning of an upward sweep of the whole price structure which is just like the one we had in 1915.
- H.M.Jr: Oh, you are referring --
- Kuhn: The one that you quoted.
- H.M.Jr: I see. Anybody got any question about page one? At the bottom of page two, "It seems to me we have already gone as far as we dare without calling a halt."
- White: I don't think that statement is necessary.

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H.M.Jr: I don't either. That sentence, Harry.

White: I mean that sentence. It can be deleted without any loss --

H.M.Jr: Harry, come up closer, won't you? Everybody, so I can see you. I don't like that.

Kuhn: Leave out the sentence.

H.M.Jr: Do you mind?

Kuhn: It would be much better without it.

H.M.Jr: Anybody like the sentence? It is a little --

Kuhn: Anticlimactic.

H.M.Jr: That is a two dollar word.

(Telephone conversation with Chairman Steagall follows):

September 23, 1940
3:40 p.m.

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HMJr: Hello.

Operator: Chairman Steagall.

HMJr: Thank you. Hello.

Cong. Henry Steagall: Hey, how are you?

HMJr: I'm fine. This is Henry talking.

S: Yes.

HMJr: How are you?

S: I'm very good, thank you. I hope you are.

HMJr: I'm pretty well.

S: I know what you want.

HMJr: Well, is the answer yes?

S: Well, let me explain.

HMJr: Yeah.

S: We have a sort of procedure here that's a little more dignified than usual. It has brought about some delay. We thought we ought to let every man have his say with Mr. Henderson.

HMJr: Yeah.

S: And it's dragged the discussions out far beyond what I dreamed of at the beginning. But we have two men absent, but I don't look for them back, and we have two men on our side of the committee and one on my left who are to discuss this bill with Mr. Henderson. I figure that we'll hardly get to do that this afternoon, but that we can do it certainly tomorrow. If we could get through, I'd love to have you tomorrow and if not, I'd like for you to wait until Thursday if it suits your convenience.

HMJr: Well, here's my trouble.

S: Well, now listen. We'll accomodate the situation to suit you. You come ahead of the others. The only reason I have was that I thought if we could - we're near the end now, and if we could just shoot along through that, then we'd finish with him finally and in that way save a little time. But it won't amount to much, and if it suits your convenience, why we can let you come tomorrow and finish with him next day if you want to do that.

HMJr: Well, that's what I'd like; and I'll tell you why.

S: Well, you don't have to tell me why.

HMJr: I'd like to tell you.

S: If that's what you want to do, we'll do it to suit you.

HMJr: Well, that's what I'd like; and here's my situation. I just set aside everything for Monday, Tuesday and Wednesday to devote to preparing myself for this statement, and we've got, confidentially, the President is thinking about something on Social Security. And Paul McNutt has been riding hell out of me to get ready to meet with him with the President.

S: Yes.

HMJr: So I told him to give me through Wednesday, and I'd be ready Thursday to go with him to see the President, you see.

S: Yes.

HMJr: So it would be really quite embarrassing to me all around if I wasn't free Thursday and Friday in case the President wanted me on this other matter.

S: Let me ask you this.

HMJr: Yeah.

S: How much time would you have to have with the President Thursday?

HMJr: Well, all I can tell you is what Paul McNutt said. He's asking for two hours.

S: That would probably be in the afternoon, wouldn't it?

HMJr: No, it would be more apt to be in the morning.

S: Would it? I was going to say if that was coming in the afternoon, you could come down here that morning and if you didn't finish it, have you back the next morning.

HMJr: No.

If you could put me on tomorrow....

S: I'll do that if it takes that to suit your convenience.

HMJr: It would help me a lot.

S: There's only one thing about that that I'd like you to let me do. I had told Mr. Dewey, who'll probably be the last man to be heard on the minority side, who, by the way, is a former Assistant Secretary of the Treasury and a very intelligent fellow, and will probably be helpful in the passage of this bill.

HMJr: Uh huh.

S: And I had told him that if he didn't finish this afternoon that he could go on in the morning, and I would like to speak to him about this so that he won't feel that I've just gone off and made other arrangements without talking to him. I know he won't say a word, but I'd rather speak to him and then give you an answer on it directly. But you can be sure that we'll let you come in the morning if that suits your convenience.

HMJr: Well, that's what I'd like very much.

S: Well, we'll arrange it that way.

HMJr: Well, will I hear from you again or.....

S: I'll phone you back again about it, but it won't be necessary. You can just know now that that's what we'll do.

HMJr: What time would you like me?

S: Well, we usually start here at ten-thirty, but if it's convenient for you, I should think we ought to start at ten.

HMJr: I'll be there.

S: Because if we can do it, you see, we'd like to finish with you in one day instead of dragging you back here.

HMJr: That would suit me beautifully.

S: Then we'll do that if we possibly can.

HMJr: Sounds like good old Southern hospitality.

S: Well, of course, you're entitled to first consideration here in this situation, and I'm glad to do it anyhow. I'm getting to the point that I'm awful anxious to make time.

HMJr: Yeah.

S: We've just gone so far here and dragged this thing out. Of course, we had to let Mr. Henderson discuss this bill very freely. The fact of the business is, that he knows so darned much about it that he doesn't waste time. He's all the time telling us something we need to know.

HMJr: Surely.

S: And then I wanted each member to have his say, because it makes for - it's good strategy, you know.

HMJr: Yeah.

S: But I think after we finish with him, we can begin there to cut people off and shut them down to certain time and get out of here with this bill, sooner or later.

HMJr: Well, now, Henry, as I understand it, if I don't hear from you.....

S: If you don't hear from me in the next thirty minutes - or say in the next hour - I might not want to leave the committee room - why you may know that we put you on tomorrow morning at ten o'clock.

HMJr: Thank you.

S: Fine. Good-bye.

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- Foley: He came in hard after he said suit your convenience. To suit your convenience, but --
- White: Congressman Williams said that Henderson is filibustering his own Bill. He is talking three times as much as he used to.
- H.M.Jr: I just can't get my mind off that Russian thing.
- White: I think George Haas ought to be here.
- H.M.Jr: He is helping Bell on that statement. They have got a statistical statement to prepare, Harry.
- White: O.K.
- H.M.Jr: "The wholesale prices of farm products have risen 37 per cent in the" - we have had all that, haven't we?
- Kuhn: Instead of saying the housewife knows that eggs have risen a certain percentage, we put it in terms of a third and a fourth and a fifth.
- H.M.Jr: In other words, she knows her onions. Now where do we get something else new?
- Kuhn: Well, there has been a lot of cutting all the way through. The bottom of page four is new.
- H.M.Jr: I am glad I called him up myself, because I guess I would have had to.
- Kuhn: The war on the home front is in there now.
- H.M.Jr: That is all right. Hasn't George seen this?

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White: Yes.

O'Connell: I don't know whether he has seen it this way.

Kuhn: He hasn't seen it in the final form, but I pointed out this morning the changes that would be made.

H.M.Jr: All right. Has anybody got anything? Lauch?

Currie: No.

H.M.Jr: What? Anybody?

On the top of page seven you keep using the word "war". Can't we say "a victory in the fight against inflation"?

Kuhn: Oh, yes.

H.M.Jr: You keep talking about a war all the time. "Fight", what?

Kuhn: Yes.

H.M.Jr: When we come to my economy plank, what is known as the Harry White plank, will you point it out to me?

White: It is in the appendix.

H.M.Jr: Lauch, I had the greatest trouble keeping it out, but Harry insisted. (Laughter).

Kuhn: Page eight is another one.

H.M.Jr: Oh yes. That is good. Did Lauch Currie write that?

Kuhn: Every word.

- H.M.Jr: All right. That is all right.
- Kuhn: The second paragraph of page eight, the "but" at the end of the first line should come out.
- Currie: Might I go back a moment, Mr. Secretary?
- H.M.Jr: Please, that is what you are here for.
- Currie: On page seven, although you put - on the severance wage, although you put it in a rather tentative fashion, I think it may have the effect there of putting you more or less on record on this as favoring this thing before - I am not quite sure if you have actually decided on that.
- H.M.Jr: That is right, I haven't.
- White: Somebody might use the word "perhaps" but Ferdie thought it might be "might".
- Kuhn: You wanted that out. You said it sounded like a tea party.
- H.M.Jr: Why not leave that sentence out. I think I would leave it out.
- White: "Such as severance wage" could be left out. The rest of the sentence could be left in.
- H.M.Jr: Specially going over to see the President, the President might say, "Well, when you go up and tell them how to write it, why do you come to see me at all?"
- Stop right after "the emergency". Is that what you had in mind?
- Currie: Yes.

H.M.Jr: I think that is better. Any other suggestions? Lauch?

Currie: No.

H.M.Jr: I never spent less time on a statement. I hope it is all right.

White: You spent a lot of time on it, but it was three weeks ago.

H.M.Jr: There might be some wording I don't like in this, but I will trust you fellows on it. It is a little risky.

Currie: On page nine, Mr. Secretary, I don't know if you want to be quite as provocative to say "to empty bins". We have got eleven million bales of cotton, I think. That is putting it a little bit strong. "To draw upon our supplies" would be a milder word. You don't want to be interpreted as saying we should get rid of eleven million bales of cotton in a year.

H.M.Jr: He is right. Fix it up.

(Mr. Bell entered the conference).

H.M.Jr: Hello, Daniel. Sit down. You look as though you had swallowed the cat's pajamas.

Bell: Do you want to do this now?

H.M.Jr: Sure.

Bell: Shall I read it?

H.M.Jr: Sure.

Bell: The first draft of the statement was just one statement, you remember, that the Board would issue. We had a two and a half hour telephone conversation with Eccles this morning and he preferred two statements, one a joint statement by the Board and the Treasury, and the other a single statement by the Board, giving the statistics. The single statement takes - or the statement of the Board takes the first paragraph out of our draft statement and starts off their statement. It says, "As a further step in the Government's program for combating inflation" --

H.M.Jr: Wait a minute.

Bell: "As a further step in the Government's program for combating inflation, the Board of Governors of the Federal Reserve System, after consultation with the Treasury, has today increased reserve requirements for member banks to the present statutory limit, effective November 1. This action, unanimously agreed upon, increases reserve requirements by about one seventh."

Then they go on and give the --

H.M.Jr: Just read that once more.

Bell: "As a further step in the Government's program for combating inflation, the Board of Governors of the Federal Reserve System, after consultation with the Treasury, has today increased reserve requirements for member banks to the present statutory limit, effective November 1. This action, unanimously agreed upon, increases reserve requirements by about one seventh."

I don't think we had unanimously agreed upon --

H.M.Jr: That is to be their statement?

Bell: That is in their statement. That is followed by the statistics showing twenty-six per cent in the central Reserve cities, twenty per cent in the Reserve cities, fourteen per cent in the country banks, six per cent for all classes of time deposits.

Foley: Why don't you say, "After consultation with the Secretary of the Treasury," instead of the Treasury?

Bell: Well, it is the Board of Governors.

Foley: "After consultation with the Secretary of the Treasury."

Bell: That is all right with me. Would you rather have that?

White: I think it is better.

Foley: I think it is better.

Bell: I don't think they would kick on that. I take it the reason they put in "Treasury" is because they were dealing with an organization over there, the Board.

Foley: It is the Board of Governors and the Secretary of the Treasury.

Bell: Yes, that is right. The last paragraph is, "The action will lead the banks as a whole" --

H.M.Jr: Excuse me. Does that sound all right to you?

White: It depends on the rest of it.

H.M.Jr: This is their statement. Then the next is joint.

Bell: No, I am going on with this statement and I am leaving out the statistics, because that is just factual.

H.M., Jr: All right. When is it joint?

Bell: I will tell you in a minute. "The action will leave the banks, as a whole, with ample funds to meet all bank credit needs of the defense program and all legitimate requirements of their customers. A survey made recently by the Board shows that a large majority of the member banks will be able to meet the increased requirements out of existing excess reserves, and all but a few of the remainder by drawing upon a portion of their deposits with city correspondents. The Board determined that penalties for deficient reserves prior to December 1, 1941 shall be based upon reserve requirements in effect October 31, 1941." That is a waiver of penalties for deficiency in reserves in order to give them more time to adjust their position if necessary. This is joint.

Then there is a little table showing exactly what the reserves would be in each place. This is the joint statement of the Secretary and the Board:

"In connection with the action taken today by the Board of Governors of the Federal Reserve System to increase reserve requirements, the Secretary of the Treasury and the Chairman of the Board issued the following statement in which the Board of Governors concur:

"The Treasury and the Board of Governors will continue to watch the economic situation and to cooperate with other agencies of the Government in their efforts through priorities,

allocations, price regulation, and otherwise to fight inflation. Recommendations on the question of what additional powers, if any, over bank reserves the Board should have during the present emergency, and what form these powers should take will be made whenever the Treasury and the Board, after further consultation, determine that such action is necessary to help in combating inflationary developments."

H.M.Jr: That last paragraph again.

Bell: Last paragraph?

H.M.Jr: "In the light of the present emergency."

Bell: Yes. That was changed to read this way:

"Recommendations on the question of what additional powers, if any, over bank reserves" -- and they stuck in bank reserves there -- "any additional powers, if any."

H.M.Jr: Oh, it isn't over reserves?

Bell: Over bank reserves. "The Board should have during the present emergency" --

H.M.Jr: They stuck in "if any"?

Bell: No, we did that.

H.M.Jr: I see.

Bell: ".... and what form these powers should take will be made whenever the Treasury and the Board, after further consultation, determine that such action is necessary to help in combating inflationary developments."

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We had "in the interests of the country" and they put in "combating inflationary developments," and they put in "bank reserves".

Morris:

That is a limitation.

Bell:

That is right. And they put - the reason they put in "the Chairman of the Board," Eccles is away and he didn't want it to appear in the public eye that this had to be done while he was away, and that there was still a fight on.

H.M.Jr:

So they have done what?

Bell:

They put in the Chairman of the Board and you issue this statement with the concurrence of the Board of Governors.

White:

That is a good idea.

Bell:

Yes, I thought that was a good idea.

H.M.Jr:

Well, I congratulate you, Dan.

Bell:

Is this O.K.?

White:

I think it is fine.

Bell:

The Board is meeting and will issue this statement any time you say if Henderson is going to continue on tomorrow, and you are going to go over, they would prefer to wait until after Henderson finishes, because they don't want Henderson to have to handle part of this statement.

Bell:

I just got through talking with Steagall and Steagall said to me I am to go on tomorrow morning unless I hear from him within the hour.

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So they should hold up until they hear from you?

- H.M.Jr: Well, Henderson - I mean, am I reporting it correctly?
- White: Yes.
- H.M.Jr: Did he mention the time?
- Foley: He said he would call you within the hour. He wanted to talk to Dewey because he promised Dewey he could say something tomorrow morning and he didn't want him to think that he had changed those plans without giving Dewey a chance to be heard.
- H.M.Jr: My suggestion is that they mimeograph it for tomorrow morning's paper and if I don't hear from what is his name by five o'clock, I will call him.
- Bell: Call Steagall? And then we will call the Board?
- H.M.Jr: Yes.
- White: I didn't understand that to be the arrangement. You were to go on if you didn't hear from him.
- Foley: He said, "Give me an hour and if you don't hear from me within the hour, you will come down at ten o'clock."
- Bell: It is important enough for this to check, I think.
- O'Connell: I am sure Steagall will call, either way.
- H.M.Jr: Time means nothing to the people from the South. You ought to know that, Ed, being married to a southern girl.

- Foley: It doesn't apply throughout the South.
- Bell: She is insistent he get home before six o'clock.
- Currie: In the opening sentence, do you want to say this is to combat inflation, that you are doing this?
- Bell: In the opening sentence of the --
- Currie: Of the first paragraph. I was just thinking ahead a little bit to the implications of it.
- Bell: "Program for combating inflation," is that what you mean? "As a further step in the Government's program for combating inflation, the Board of Governors has today increased reserve requirements."
- Currie: I am probably being too academic about it. It does establish the precedent that if you raise the requirements one seventh now to combat inflation and you are still left with excess reserves, the implication is that you should keep on raising them until you have no excess reserves.
- Bell: No, it seems to me this is a further step.
- H.M.Jr: What did you say, Harry?
- White: That was the fight. It would be better if that weren't in there, but --
- Currie: I remember Ronald Ransom defended it. He said he did not expect this measure to affect interest rates or prices or anything. It is merely precautionary.
- White: You say it is a further precautionary measure?

H.M.Jr: It has been in here all the time.

Bell: Yes, it was in there yesterday.

Currie: It is kind of late to raise it now?

H.M.Jr: It is a little bit late. You see, I have had this since last night. I think you are quite right, but then you might say, "Well, why are they doing it? What excuse are they going to give?"

Currie: If we went along with this to combat inflation, why shouldn't we go along with all further ideas to combat inflation, you see?

White: Their point is, if you don't say that, why are they doing it?

H.M.Jr: Lauch, this is their statement, this isn't a part of the joint. This is the first part of the statement.

Bell: Well, I think we almost have to go along with that because that is what we are doing it for. We don't think it will have the effect they think it will have, but it is a step in that direction.

H.M.Jr: Is your sense of humor all right? How would this be, "As a gesture"?

White: "As a gesture in the right direction."
(Laughter).

H.M.Jr: No, it has been in there since last night. I don't think it is fair to Dan to raise it at this time.

Currie: It is all right.

Bell: I think if it isn't a step in the direction, even though it is only --

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H.M.Jr: They don't want Leon to explain this?

Bell: No, they would rather not have Leon testify on it.

H.M.Jr: I wonder why.

Bell: Well, I think that is right, because he hasn't had this background.

H.M.Jr: Isn't somebody --

Bell: Donald wants to talk to you, Mr. Secretary, before the evening is over.

H.M.Jr: I will be here.

Bell: O.K.
(Mr. Bell left the conference).

H.M.Jr: Now, where were we?

Kuhn: We were on page ten.

H.M.Jr: You know, nobody has even questioned our calling up the President to tell him about this.

White: What are you going to tell him, that you are going to favor a Bill that he has presented?

H.M.Jr: No, no, on the reserves.

Currie: My God, that is right.

White: Of course that is his responsibility. He was here. I mean, if you don't do it, Eccles - but I think he ought to know.

The papers will make it out to be a very important step, and if he has to read it in the papers --

- H.M.Jr: I think I will tell him about it. What?
- Foley: Sure, I think you ought to.
- Kuhn: He is having a press conference now.
- Currie: I am glad you thought of that. (Laughter).
- H.M.Jr: Look at him mop his brow. Are you really perspiring?
- Currie: I thought this was going on for some time. I hadn't realized that it was going to be announced today. I thought there would be plenty of opportunity to clear it.
- H.M.Jr: Would the Street believe that that was possible?
- Morris: No.
- White: I think after all, the President probably has a true appreciation of its importance. I mean, the group has.
- Currie: I think the President is - his only concern would be agreement.
- H.M.Jr: It raises about a billion, doesn't it?
- Currie: A billion two, I think.
- H.M.Jr: Well, as you say, why was Lauch Currie here?

- Foley: Yes, why did we have him over here?
- H.M.Jr: That is what he was sweating about. It is an amazing incident, isn't it?
- Foley: Yes.
- H.M.Jr: That is a pretty good evidence of democracy, that you don't think you have got to speak to the leader first, before you can think. It is a pretty good demonstration of democracy, isn't it?
- Morris: Yes, very interesting.
- H.M.Jr: All right. I still say I hope this damn speech is right with all these interruptions.
- Kuhn: Well, the new stuff is that labor stuff at the bottom of page ten.
- H.M.Jr: All right. Is that a direct quote from Walter Lippmann?
- Kuhn: Gee, I doubt it.
- White: It is good even if Lippmann did say it.
- Kuhn: Walter Lippmann would never say that, would he?
- Foley: He came close to it.
- O'Connell: I don't like that paragraph.
- H.M.Jr: You know who put it in, don't you? Sidney Hillman.
- O'Connell: I know. What we are defending, as I understand it, is not putting wages in this bill. That sentence says that the major portion of labor is protected by collective bargaining

deals and yet what we are saying in general is that the rest of the people don't need any protection against labor in terms of a price ceiling.

Kuhn: You mean that the public is protected against wage increases--

O'Connell: If we say a major portion of our defense industries today are protected by collective bargaining agreements, that is one thing; but we say the major portion of labor in our defense industry is being protected. It isn't labor who wants protection. It is labor we want protection against. We are trying to meet the people who say we want a price ceiling, a protection against labor.

In this sentence, it sounds as though it was labor who wanted protection.

Foley: Joe is right. If you take out "labor in"--

H.M.Jr: I will make you a compromise. How about saying, "Get the major portion of industry and labor in defense, both"? Why not say "industry and labor"?

Kuhn: That is on the theory that collective bargaining protects industry?

H.M.Jr: Does it?

O'Connell: Why not say that "the major portion of our defense industry is covered today by collective bargaining, and only a sharp rise will--"

H.M.Jr: "Our labor industries, and the labor." Why are you afraid of saying "the labor"?

O'Connell: I thought if you said "the industries are covered by," it would mean both capital and labor.

H.M.Jr: Would a laboring man understand that?

Listen, fellow, I sat in this thing, and I heard them talk - you know how they talk to each other? It is all brother and sister. Really. When they get up, they address each other - "Now, brother," and, "Now, sister."

Do you think the fellow talking about brother and sister will understand this? (Laughter) That was an eye-opener to me.

Kuhn: Collective bargaining means labor.

H.M.Jr: I will take all the time that is necessary. This is terribly important, and particularly since Sidney Hillman knows he gave me this thing. Then I twisted it.

Foley: You are giving it a twist to help Sidney Hillman.

H.M.Jr: Am I? How do I say it, Joe?

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

Foley: You can say, "major portion of."

H.M.Jr: "Is protected by our bargaining contract. The major portion of our defense industries today is covered by - " how?

O'Connell: Then it reads right on, "by collective bargaining contracts."

It hasn't been my impression that a collective bargaining agreement in any one of these given cases affords any definite protection against the possibilities of strike. If they feel that corporate profits in that industry are too high or there is another reason why they ought to get a wage increase, they will

strike anyway.

H.M.Jr: But it is a stabilizing effect.

O'Connell: It is helpful, but I think this would indicate that it has more of a stabilizing effect than most people believe. There are a lot of contracts that have a year or two to run that have been repudiated or they strike in spite of the contract.

H.M.Jr: I think it is a good point. I like that. What? Isn't it a fact that the thing that would upset these things is that the - is a sharp increase in the cost of living? Isn't that the thing that upsets them?

O'Connell: Yes, but this sounds as though the major stabilizing factor in the picture was the existing collective bargaining agreements in defense contracts, and I think that very greatly over-emphasizing the stabilizing effect of that particular thing.

White: Look, Joe, he starts out by saying, "I appreciate that wages affect the cost of production," after he has made the statement that he is not in favor of a wage ceiling. Then he says, "I appreciate that wages affect the cost of production and the cost of living." Yet he says, "We have a very important stabilizing factor so long as we keep the cost of living down, namely, the major portion of labor in our defense industry today is covered by collective bargaining contracts and only a sharp rise would upset those contracts." I feel, therefore, that the demand for higher wages will not present any substantial problem if we now control the cost of living and if we catch profits.

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

O'Connell: It is merely a matter of emphasis. I would like to tell you the way I think it ought to go. I don't think this is as good as another way of saying what may be substantially the same thing.

H.M.Jr: How would you say it?

O'Connell: I would say this: "I fully appreciate that wages affect the cost of production and the cost of living. However, I feel very definitely that if we can control the general level of prices, the cost of living will not rise to such an extent as to exert dangerous pressure on wages. Furthermore, adequate taxation of excess profits will remove or at least greatly reduce the pressure for wage increases that inordinately high corporate profits inevitably cause. Furthermore, a substantial portion of our defense industries today is protected by collective bargaining contracts and only a sharp rise in the cost of living will upset those contracts."

Then go on to say what you said in Boston, and say, "However, if, in spite of price control and adequate excess profits taxation, your cost of living rises or your wage increases go on, then you have to do something else."

But I mean, it may be only a matter of emphasis--

H.M.Jr: What about the President, Dan?

Bell: They think that is all right if you will clear it, and it is a question of whether you want to clear it before you get definite word from Steagall.

H.M.Jr: Oh, yes.

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Bell: But they would - they agree and appreciate it. It might be a good thing. Do you think he would say anything about it if it isn't given out today or tomorrow?

H.M.Jr: No.

(Secretary on White House phone.)

Hello.....

Grace, is the President finished with the press conference?.....

Here is the point.....

The Treasury and the Federal Reserve want to give out a statement we have agreed on in connection with excess reserves for tomorrow morning's papers, and I would like to tell him about it.....

Lauch Currie has sat in on all the meetings, and he is here now and he is agreed. So it is Eccles and the Federal Reserve Board and ourselves and Lauch Currie who are all in agreement.....

Yes.....

Telephone is all right.....

You do it for me?.....

Thank you.....

H.M.Jr: Now, have you sold everybody on your plan, O'Connell?

O'Connell: I don't know. I haven't done any lobbying.

H.M.Jr: Harry has. (Laughter)

Foley: He has got agreement now. It is O.K. to put the question.

White: I got four votes while you were busy.

H.M.Jr: That is right, Ed, I don't miss much, do I?

Foley: That is right.

H.M.Jr: I haven't got a chance.

Bell: I think you lost when you picked up the telephone.

H.M.Jr: Well, let me have the result. Read it once more, and I will say, "O.K."

Bell: I think it is pretty good.

O'Connell: This is in substitution for that first paragraph.

"I fully appreciate that wage rates affect the cost of production and the cost of living. However, I feel very definitely that if we can control the general level of prices, the cost of living will not rise to such an extent as to exert dangerous pressure on wages. Furthermore, adequate taxation of excess profits will remove or at least greatly reduce the pressure for wage increases that inordinately high corporate profits inevitably cause."

I can simplify that.

H.M.Jr: That needs a little smoothing there.

O'Connell: "Furthermore--"

H.M.Jr: I mean, I get the idea. It is that it is not only the high cost of living that exerts

pressure, but it is also inadequate excess profits.

- O'Connell: That is right, high corporate profits put pressure on wages.
- White: Use the other language.
- O'Connell: We had some other language.
- H.M.Jr: The way you had it this morning. The thought is correct.
- Right, gentlemen?
- O'Connell: "Furthermore, the major portion of our defense industries today is covered by collective bargaining contracts and only a sharp rise in the cost of living would upset those contracts." Then go on to the next paragraph.
- H.M.Jr: Well, if Kuhn will take it and sit down afterward and smooth it out, it is all right with me.
- White: I think it might be pointed out, Mr. Secretary, and you may be wholly aware of it, that there is reason to expect that the editorial writers will pick on that paragraph and kind of pan you for it.
- H.M.Jr: I had hoped that you fellows would all come in here and say that I am forcing wages and everything else. I have got a beautiful press on this, and now my press is all shot.
- White: You won't get a beautiful press on this unless you read the right papers.
- H.M.Jr: What are the right papers?

White: The left papers in this case will be the right papers.

H.M.Jr: I appreciate your putting up the signal, but I am quite conscious - I appreciate what you have done. "My brothers and sisters, you see."

White: Maybe you can have your songwriters write a song entitled, "Let's Do It the Michigan Way."

Kuhn: Will you sing it, Harry?

White: If they write it, I will sing it.

H.M.Jr: Harry is getting good. Did you take some tea, Harry?

White: No, thank you, I am getting good without it.

H.M.Jr: Oh boy! All right, let's go. Where were we? I am down to the foreclosing. Are you all right on the way he has got this? Did he whisper to you too?

Bell: No, he didn't. There are two many "however's" and "furthermore's."

H.M.Jr: It is the thoughts.

Kuhn: At the bottom of page twelve, Mr. Secretary--

H.M.Jr: I am not quite there yet.

Kuhn: I am sorry.

H.M.Jr: What is the bottom?

Kuhn: "If prices behave as they did during the World War, we may find that our defense program would cost us double," instead of "will."

H.M.Jr: That is all right.

Morris: If prices are allowed to behave, because we are talking about not letting them.

H.M.Jr: He is right.

Kuhn: Yes.

H.M.Jr: "The Government employs more than one million people in--"

Kuhn: No, nearly one and a half million.

H.M.Jr: Civilians, separate from the Army.

White: Yes, outside the armed forces.

Bell: Apart from the armed forces.

H.M.Jr: Does it say so?

Foley: Yes, apart from the armed forces.

H.M.Jr: You haven't included unemployed, WPA.

Bell: No, these are civilian employees.

H.M.Jr: Then say they are regular Government employees, exclusive of WPA.

Bell: You would say the civilian employees of the Government.

Haas: Executive branches.

H.M.Jr: We will make it clear.

White: Do they usually think of WPA workers as Government employees?

Kuhn: Not in that connection that you are using.

H.M.Jr: What do we do if we hire WPA?

Bell: They are on projects.

Foley: Apart from the armed forces and relief.

Kuhn: Those on relief.

Foley: And those on relief.

H.M.Jr: Yes. No, you people have got to - I hope Lauch can stay long enough to go over that paragraph on the labor and the profits and all that, to have it absolutely so that--

White: I think that is the punch paragraph.

H.M.Jr: Yes, that is, so I want every word weighed, you see, and put yourselves on both sides of the fence.

Bell: You could eliminate the paragraph--

H.M.Jr: Lauch, if you could stay long enough.

Bell: At the top of page 12, if you could eliminate that, you go right into it in the next paragraph.

H.M.Jr: Will you stay long enough?

Currie: Oh, yes, I will stay right through.

H.M.Jr: What is that?

Bell: The first paragraph on page 12 doesn't add much.

White: Before closing?

Bell: Yes. "As the nation's largest purchaser, the Government is concerned with the problem in a very direct way."

- Kuhn: That would make it the problem of wage rates.
- White: I sometimes think it gives the hearers a little hope that you are coming to the end. (Laughter)
- H.M.Jr: Well, anyway, argue about it. Dan has made his point. You fellows can weigh it. I tell you, Dan, I am doing a little bit different on this. I make a point, you make a point and they can settle it.
- Bell: They can settle it tonight.
- H.M.Jr: I have never spent so little time on words as I have on this because I just can't do it.
- Currie: I wonder, Mr. Secretary, if we could make the point in that second paragraph on page twelve that already the rise in prices has cost the Government more in its purchases than any amount we can hope to spend for the curtailment of nonessential expenditures? I think it is true.
- H.M.Jr: Yes, but I don't--
- Currie: It is not generally appreciated that already our bill has gone way up because of the increase in costs.
- H.M.Jr: But I don't like the implication of that, if you don't mind.
- White: Well, we had it in there that already the bill amounts to more than five billion dollars and we took it out.
- H.M.Jr: If you put that back, would it accomplish what you had in mind?

Currie: The implication here is that it is for the future. If we don't stop now--

H.M.Jr: Well, we had it in.

White: We did have it in.

H.M.Jr: Put something back in, Ferdie, how much it has already cost. In fact, we had how much it had cost us while they were listening to the bill. We said it cost a billion dollars while they were talking up there.

Bell: That is kind of rough on them.

H.M.Jr: I think when we took that out, we took the other thing out.

Kuhn: It is hard to find a figure.

White: Several billion.

H.M.Jr: I throw it in your lap and you can consider it.

Is that "intoxicating ride up" Baruch's or is it Morgenthau's?

White: No, it is Treasury.

H.M.Jr: It is all right.

Bell: You couldn't say "promptly pass this bill" could you?

Kuhn: Yes.

H.M.Jr: All right.

Foley: I would put a period after "pass this bill." So you can indicate that they can do whatever

else may be necessary.

- Kuhn: You have said in this speech that this bill isn't going to do it alone. There are lots of other things that have got to be done.
- Bell: And whatever else we may find necessary.
- H.M.Jr: Does the Board know I am going to tell the President?
- Bell: They don't know Steagall had called you, but I told them you would give Steagall a ring around five.
- H.M.Jr: I thought Ronald was to call me.
- Bell: He wants to talk to you about what you and Eccles should say in this statement.
- Foley: That is why I regard it as vitally important for Congress to promptly pass this bill.
- H.M.Jr: Why don't I call up Ronald and tell him that I am going to put in a call for the President?
- Bell: I just thought if you got this through, you could tell him both at once and save a call.
- Foley: "Vitaly important for Congress to pass this bill and pass it promptly."
- H.M.Jr: You don't think Congress is a little sick of having someone tell them it takes courage to do this?
- Kuhn: Who has told it to them?
- H.M.Jr: I don't know. Do they like that? Or do they like to think--

White: I think it kind of pats them on the back.

H.M.Jr: Would it be better to say, "I know that Congress has the courage to do this," rather than saying, "It takes courage to do this"?

O'Connell: I don't think so.

H.M.Jr: No? All right.

Kuhn: They haven't shown it.

H.M.Jr: I wonder if Leon knows what has happened to him? That is his worry.

O'Connell: He probably does by now.

Foley: I don't see how he can object very much.

H.M.Jr: I shouldn't think so.

Foley: You are helping him.

H.M.Jr: I agree whoever pulled the wisecrack, I think he is filibustering against his own bill.

O'Connell: That was Congressman Williams at lunch today. He is getting a little bit tired of it.

H.M.Jr: Is he going to ask any questions?

O'Connell: A few.

White: Has he got any left?

O'Connell: He may ask you (Secretary) some of the same questions he asked Harry. They will be very simple.

White: He will do it only to - his answers will be in his questions.

- O'Connell: Yes, he wants to get something in the record which will be a sort of thing which he thinks he understands--
- H.M.Jr: Excuse me. Not to tie up my writing staff, you fellows must be getting tired, and don't you want to adjourn, and I will just sit here and wait until the President comes along.
- Currie: May I make another suggestion? Going back to page ten, I made a little check as I went along. The sentence at the end of that paragraph, I think, might be made stronger. You are talking about farm prices. You can say, "Farm prices up to levels that can not be supported after the present emergency is passed." They may say, "That is all right." If you put that in a more positive fashion, I think it can be sustained that the chief sufferers in the last inflation, the thing that bogged agriculture down for years and years, was inflation.
- H.M.Jr: I said that in my Boston speech.
- Currie: Did you?
- H.M.Jr: I said this thing lasted for twelve or thirteen years. I can repeat it if you want me to. I said it took them thirteen years to get out of that 1920 flop.
- Currie: Yes. It puts you on a little safer ground. You are doing this not only for the general community, but for the farmers themselves.
- Kuhn: "It would again drive farm prices up only to bring a result and the collapse and misery of the kind our farmers knew for twelve or thirteen years."
- Currie: Or you could make it even stronger. "I think

the farmers eventually are the chief sufferers of inflation."

H.M.Jr: I think I am correct. Just the way commodity prices go up first, then wholesale, then retail, in the reverse thing, the retail goes down first and the farmer suffers in that - I mean, it goes back the same way, doesn't it? You get your collapse in your retail first and then your wholesale.

O'Connell: Farm prices have always tended to go down more rapidly than industrial prices.

H.M.Jr: Again I say if you want to go into Kuhn's room where you write it, just as soon as I hear from the President, I will let you all know. I am terribly much obliged I will just sit here.

Kuhn: Mr. Secretary, do you want a reading copy of this at your house tonight or tomorrow at nine o'clock on your desk?

H.M.Jr: To play safe, I think I will take it tonight.

Kuhn: Right. Can I ask - have Miss Chauncey or somebody do it?

H.M.Jr: I will have her stand by.

Kuhn: Shall I give it a check before we have it mimeographed or do you want to see it again?

H.M.Jr: Not if you want to stay on friendly terms with me.

DRAFT OF SECRETARY MORGENTHAU'S
STATEMENT ON THE PRICE-CONTROL BILL

306

I am glad to testify in behalf of this Bill not only because I am in accord with its objectives, but also because I am convinced of the terrible urgency of the problem which this Bill would help to solve.

As the President said two months ago in recommending to Congress a bill to control prices:

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

In the facts and figures already presented to this Committee there has been ample demonstration of the accuracy and timeliness of the President's warning. Almost any part of the price data presented to this Committee points to the same conclusion, namely, that the pattern of price rises in

the past two years is showing an alarming similarity to the price movements during the first two years of World War No. 1.

In the last war we waited too long. It was not until August, 1917, that the first step was taken to check price rises. The Lever Act empowering the President to control food and fuel prices was not introduced until June 11, 1917, and did not become law until August of that year.

By that time the damage had already been done. The general price level had risen more than 75 percent and the forces making for further price rises had become so powerful that they could not be stopped.

Are we again to wait until prices have risen 75 percent before we take bold and effective action?

It seems to me that we have already gone as far as we dare without calling a halt.

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It seems to me that we have already gone as far as we dare without calling a halt.

The wholesale prices of farm products have risen 37 percent in the past year, and of that rise, 6 percent has occurred in the last month. All commodities have risen 18 percent in the last year and 2 percent in the last month alone. Similarly down the line: foods are up 25 percent, hides and leather up 13 percent; textiles up 23 percent; building materials up 12 percent; and chemicals up 14 percent.

The public is amply aware of what is happening. The housewife knows that pork chops that were 29 cents a pound in January were 30 in February, 31 in April, 32 in May, 35 in June, 37 in July, 38 in August and 41 at the moment, a total rise of 40 percent in those nine months. The housewife knows that eggs have risen more than a third since January, that coffee is up about one-fourth in the same period, and that sugar and flour are up almost a fifth in

the same period, respectively. The housewife, the business man, the wage-earner, and the government employee all know from their daily experiences that prices are rising.

The forces at work today are the same as those that brought our inflations in previous periods of war or rearmament. Yet there is fortunately one difference in the situation which, I believe, can save us from the disaster of inflation now. This time the public and the government are aware of what happened before and what is happening now. All of us are able, if we choose, to take positive, effective, preventive measures in time.

That is what the Congress is being asked to do today. Passage of this Bill would be one additional step forward in the war against inflation, the war on our home front, the war that must be fought and won if we are to preserve our American heritage.

It is true, of course, that price control alone will not conquer inflation. This Bill alone cannot stop price rises. Every Government that has attempted to check inflation has found that direct price controls alone cannot hold down the lid when the income of the consuming public is increasing and the amount of goods available to the consumer is decreasing. Additional steps are necessary.

Our Government has already taken some of them:

(1) The Congress has passed, and the President has just approved, a tax bill designed to raise more than 3-1/2 billion dollars of additional revenue. This is a major accomplishment in the anti-inflation effort, for it will absorb a substantial portion of the increased incomes that are initially responsible for price rises.

(2) Secondly, the Treasury is engaged in a borrowing program designed to absorb still more of this excess income. Through the sale of defense savings bonds and stamps the Treasury is trying to borrow a large proportion its funds from current consumer incomes, rather than from banks. In the past four months \$1½ billion of defense savings bonds and stamps have been sold.

(3) Thirdly, a new form of borrowing - the tax anticipation note - has been introduced, with the object of absorbing consumer incomes before the date at which income taxes fall due. During the month of August more than \$1 billion of these notes were sold, absorbing income that might otherwise be pushing up prices in the market place.

(4) Fourthly, the Board of Governors of the Federal Reserve System has recently been given the authority to

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control consumer installment credit. This measure is designed to restrict the spending of anticipated income.

(5) Finally, the Office of Price Administration has been exerting every effort to control prices through the cooperation of producers and consumers.

These are the more important steps that the Government is now taking to check price rises. But they are not enough.

If we are to be sure of victory in the war against inflation, we must prepare further to increase taxes. We may have to extend the general controls over bank credits. We shall certainly have to reduce capital expenditures for non-defense needs, and widen the sale of defense savings bonds and stamps.

It would be wise to extend the social security program to absorb purchasing power now and pave the way for increased purchasing power after the emergency. Similarly, it might be desirable to institute new social legislation such as a severance wage plan that would draw away some of the present incomes of employed workers and provide a fund from which to continue wage payments if their employment should stop.

It will also be essential for Federal, State and local governments to reduce non-defense spending as much as possible.

I am looking forward now to an early meeting of the joint committee of the taxing and appropriating agencies of Congress, a committee that has just been created to study the whole problem of non-essential Federal expenditures. I hope that this committee will receive constant support from Congress and the country at large, for it can make a vital contribution in the anti-inflationary struggle.

We must do much more than cut down purchasing power; but we must attack the problem from the other side. Rising prices can also be retarded by increasing the supplies of goods which do not compete with defense needs.

We are in a position to do just that. The government has in its warehouses vast quantities of cotton, wheat, corn, and many other agricultural staples. Our granary doors should now be opened, enough at least to prevent unreasonable price rises.

Such a step would be in agreement with our established agricultural policy - the ever-normal granary. Having accumulated stocks in times of low prices, they should be distributed in times of high prices. Now is the time to empty our bins, both as an anti-inflation measure, and as a preparation for refilling them if that should again become necessary.

The concept of an ever-normal granary, which calls for a control of falling farm prices, seems to me to call equally for control over rising farm prices. This Bill, however, specifically restricts the authority of the price control administration over farm prices. That is, I believe, the major defect of the Bill. I strongly recommend that this inflexibility be removed - in the interest of the attack upon inflation, in the interest of the standard of living of our

people, and in the long-run interests of farmers as well.

I am not disturbed by the general level of agricultural prices now prevailing, but I am deeply concerned about the danger that agricultural prices will continue to rise as they did in the World War. Such a rise would hasten general inflation, would restrict the standard of living, and would even interfere with the health and morale of our people. It would again drive farm prices up to levels that could not be supported after the present emergency has passed.

It has been suggested during these hearings that this price-control bill should include a ceiling over wages. I should like to go on record as not sharing this view. In free countries labor is not a commodity, human beings are not property, and they should not be treated as such.

I fully appreciate that wages affect the cost of production and the cost of living. Yet the major portion of labor in our defense industries today is protected by collective bargaining contracts, and only a sharp rise in the cost of living would upset these contracts. I feel, therefore, that demands for higher wages will not present any substantial problem if we now control the general level of prices, and if we tax profits effectively.

Two weeks ago I said at Boston that it was folly for labor leaders to seek continual increases in wages every few months, and that it was equally shortsighted for farmers, businessmen, landlords or bankers to seek to exploit the present abnormal situation for selfish gain. If, despite price control and adequate excess profits taxation, it should develop later that wage rates are not being kept within reasonable bounds, other

measures will have to be considered; but as yet I see no necessity for them.

Before closing, I feel it my particular responsibility as Secretary of the Treasury to point out to you the special interests of the government and the Treasury in stopping prices from rising further.

As the nation's largest purchaser, the government is concerned with the problem in a very direct way. Congress has already appropriated more than \$50 billion for defense, and the end is not yet in sight. If prices behave as they did during the World War, we will find that our defense program will cost us double without giving us a single additional gun or plane for that extra expenditure.

We not only are the nation's largest purchaser of goods, but we are the nation's largest employer. Apart from the

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

I fully appreciate that it requires courage on the part of Congress to pass this Bill. It always requires courage to put brakes on rising prices. But if any lesson is to be learned from the record of the past, it should be that inflation is inevitable in times like these unless all of us - Congress, the Executive Departments, and the people - fight it on all fronts and with all the strength and courage at our command.

We should gain courage from the knowledge that inflation is not only accompanied by serious evils but is followed by even greater evils. We should never lose sight of the fact

that inflation is always followed by deflation and that the ride down is a lot longer and a lot harder and a lot more painful than the short intoxicating ride up.

After all, this question of inflation is one that goes to the very heart of the social aspirations of the American people. An uncontrolled price rise now would endanger the fruits of our hard-won progress of many years. If we lack the necessary realism and courage now, we shall place multitudes of American farmers, workers and Government employes at the mercy of those whom I have called "the three horsemen -- the speculator, the profiteer and the hoarder."

Every hardworking and thrifty man and woman in the United States has a direct personal stake in the success of the battle against inflation. That is why I regard it as vitally important for Congress to pass this bill, and to do whatever else may be necessary so that the battle can be won.

*Draft discussed at
meeting on 9/23/41 - 3:15 P.M.*

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322

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control consumer installment credit. This measure is designed to restrict the spending of anticipated income.

(5) Finally, the Office of Price Administration has been exerting every effort to control prices through the cooperation of producers and consumers.

Those are the more important steps that the Government is now taking to check price rises. But they are not enough.

If we are to be sure of victory in the war against inflation, we must prepare further to increase taxes. We may have to extend the general controls over bank credits. We shall certainly have to reduce capital expenditures for non-defense needs, and widen the sale of defense savings bonds and stamps.

It would be wise to extend the social security program to absorb purchasing power now and pave the way for increased purchasing power after the emergency. / Similarly, it might be desirable to institute new social legislation such as a severance wage plan that would draw away some of the present incomes of employed workers and provide a fund from which to continue wage payments if their employment should stop.

It will also be essential for Federal, State and local governments to reduce non-defense spending as much as possible.

I am looking forward now to an early meeting of the joint committee of the taxing and appropriating agencies of Congress, a committee that has just been created to study the whole problem of non-essential Federal expenditures. I hope that this committee will receive constant support from Congress and the country at large, for it can make a vital contribution in the anti-inflationary struggle.

We must do much more than cut down purchasing power; but we must attack the problem from the other side. Rising prices can also be retarded by increasing the supplies of goods which do not compete with defense needs.

We are in a position to do just that. The government has in its warehouses vast quantities of cotton, wheat, corn, and many other agricultural staples. Our granary doors should now be opened, enough at least to prevent unreasonable price rises.

Such a step would be in agreement with our established agricultural policy - the ever-normal granary. Having accumulated stocks in times of low prices, they should be distributed in times of high prices. Now is the time to empty our bins, both as an anti-inflation measure, and as a preparation for refilling them if that should again become necessary.

The concept of an ever-normal granary, which calls for a control of falling farm prices, seems to me to call equally for control over rising farm prices. This Bill, however, specifically restricts the authority of the price control administration over farm prices. That is, I believe, the major defect of the Bill. I strongly recommend that this inflexibility be removed - in the interest of the attack upon inflation, in the interest of the standard of living of our

people, and in the long-run interests of farmers as well.

I am not disturbed by the general level of agricultural prices now prevailing, but I am deeply concerned about the danger that agricultural prices will continue to rise as they did in the World War. Such a rise would hasten general inflation, would restrict the standard of living, and would even interfere with the health and morale of our people. It would again drive farm prices up to levels that could not be supported after the present emergency has passed.

It has been suggested during these hearings that this price-control bill should include a ceiling over wages. I should like to go on record as not sharing this view. In free countries labor is not a commodity, human beings are not property; and they should not be treated as such.

I fully appreciate that wages affect the cost of production and the cost of living. Yet the major portion of ~~labor~~ ^{covered} in our defense industries today is ~~protected~~ by collective bargaining contracts, and only a sharp rise in the cost of living would upset those contracts. I feel, therefore, that demands for higher wages will not present any substantial problem if we now control the general level of prices, and if we tax profits effectively.

Two weeks ago I said at Boston that it was folly for labor leaders to seek continual increases in wages every few months, and that it was equally shortsighted for farmers, businessmen, landlords or bankers to seek to exploit the present abnormal situation for selfish gain. If, despite price control and adequate excess profits taxation, it should develop later that wage rates are not being kept within reasonable bounds, other

measures will have to be considered; but as yet I see no necessity for them.

Before closing, I feel it my particular responsibility as Secretary of the Treasury to point out to you the special interests of the government and the Treasury in stopping prices from rising further.

As the nation's largest purchaser, the government is concerned with the problem in a very direct way. Congress has already appropriated more than \$50 billion for defense, and the end is not yet in sight. If prices behave as they did during the World War, we will find that our defense program will cost us double without giving us a single additional gun or plane for that extra expenditure.

We not only are the nation's largest purchaser of goods, but we are the nation's largest employer. Apart from the

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

I fully appreciate that it requires courage on the part of Congress to pass this Bill. It always requires courage to put brakes on rising prices. But if any lesson is to be learned from the record of the past, it should be that inflation is inevitable in times like these unless all of us - Congress, the Executive Departments, and the people - fight it on all fronts and with all the strength and courage at our command.

We should gain courage from the knowledge that inflation is not only accompanied by serious evils but is followed by even greater evils. We should never lose sight of the fact

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that inflation is always followed by deflation and that the ride down is a lot longer and a lot harder and a lot more painful than the short intoxicating ride up.

After all, this question of inflation is one that goes to the very heart of the social aspirations of the American people. An uncontrolled price rise now would endanger the fruits of our hard-won progress of many years. If we lack the necessary realism and courage now, we shall place multitudes of American farmers, workers and Government employes at the mercy of those whom I have called "the three horsemen -- the speculator, the profiteer and the hoarder."

Every hardworking and thrifty man and woman in the United States has a direct personal stake in the success of the battle against inflation. That is why I regard it as vitally important for Congress to pass this bill, and to do whatever else may be necessary so that the battle can be won.

3/23/41 - v

DRAFT OF SECRETARY MORGENTHAU'S
STATEMENT ON THE PRICE-CONTROL BILL

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I am glad to testify in behalf of this Bill not only because I am in accord with its objectives, but also because I am convinced of the terrible urgency of the problem which this Bill would help to solve.

As the President said two months ago in recommending to Congress a bill to control prices:

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

In the facts and figures already presented to this Committee there has been ample demonstration of the accuracy and timeliness of the President's warning. Almost any part of the price data presented to this Committee points to the same conclusion, namely, that the pattern of price rises in

the past two years is showing an alarming similarity to the price movements during the first two years of World War No. 1.

In the last war we waited too long. It was not until August, 1917, that the first step was taken to check price rises. The Lever Act empowering the President to control food and fuel prices was not introduced until June 11, 1917, and did not become law until August of that year.

By that time the damage had already been done. The general price level had risen more than 75 percent and the forces making for further price rises had become so powerful that they could not be stopped.

Are we again to wait until prices have risen 75 percent before we take bold and effective action?

~~It seems to me that we have already gone as far as we dare without calling a halt.~~

The wholesale prices of farm products have risen 37 percent in the past year, and of that rise, 6 percent has occurred in the last month. All commodities have risen 18 percent in the last year and 2 percent in the last month alone. Similarly down the line; foods are up 25 percent, hides and leather up 13 percent; textiles up 23 percent; building materials up 12 percent; and chemicals up 14 percent.

The public is amply aware of what is happening. The housewife knows that pork chops that were 29 cents a pound in January were 30 in February, 31 in April, 32 in May, 35 in June, 37 in July, 38 in August and 41 at the moment, a total rise of 40 percent in those nine months. The housewife knows that eggs have risen more than a third since January, that coffee is up about one-fourth in the same period, and that sugar and flour are up almost a fifth in

the same period, respectively. The housewife, the business man, the wage-earner, and the government employee all know from their daily experiences that prices are rising.

The forces at work today are the same as those that brought our inflations in previous periods of war or rearmament. Yet there is fortunately one difference in the situation which, I believe, can save us from the disaster of inflation now. This time the public and the government are aware of what happened before and what is happening now. All of us are able, if we choose, to take positive, effective, preventive measures in time.

That is what the Congress is being asked to do today. Passage of this Bill would be one additional step forward in the war against inflation, the war on our home front, the war that must be fought and won if we are to preserve our American heritage.

It is true, of course, that price control alone will not conquer inflation. This Bill alone cannot stop price rises. Every Government that has attempted to check inflation has found that direct price controls alone cannot hold down the lid when the income of the consuming public is increasing and the amount of goods available to the consumer is decreasing. Additional steps are necessary.

Our Government has already taken some of them:

(1) The Congress has passed, and the President has just approved, a tax bill designed to raise more than 8-1/2 billion dollars of additional revenue. This is a major accomplishment in the anti-inflation effort, for it will absorb a substantial portion of the increased incomes that are initially responsible for price rises.

(2) Secondly, the Treasury is engaged in a borrowing program designed to absorb still more of this excess income. Through the sale of defense savings bonds and stamps the Treasury is trying to borrow a large proportion of its funds from current consumer incomes, rather than from banks. In the past four months \$1½ billion of defense savings bonds and stamps have been sold.

(3) Thirdly, a new form of borrowing - the tax anticipation note - has been introduced, with the object of absorbing consumer incomes before the date at which income taxes fall due. During the month of August more than \$1 billion of these notes were sold, absorbing income that might otherwise be pushing up prices in the market place.

(4) Fourthly, the Board of Governors of the Federal Reserve System has recently been given the authority to

- 6a -

control consumer installment credit. This measure is designed to restrict the spending of anticipated income.

(5) Finally, the Office of Price Administration has been exerting every effort to control prices through the cooperation of producers and consumers.

Those are the more important steps that the Government is now taking to check price rises. But they are not enough.

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If we are to be sure of victory in the ^{fight} war against inflation, we must prepare further to increase taxes. We may have to extend the general controls over bank credits. We shall certainly have to reduce capital expenditures for non-defense needs, and widen the sale of defense savings bonds and stamps.

It would be wise to extend the social security program to absorb purchasing power now and pave the way for increased purchasing power after the emergency. ~~Similarly, it might be desirable to institute new social legislation such as a severance wage plan that would draw away some of the present incomes of employed workers and provide a fund from which to continue wage payments if their employment should stop.~~

It will also be essential for Federal, State and local governments to reduce non-defense spending as much as possible.

I am looking forward now to an early meeting of the joint committee of the taxing and appropriating agencies of Congress, a committee that has just been created to study the whole problem of non-essential Federal expenditures. I hope that this committee will receive constant support from Congress and the country at large, for it can make a vital contribution in the anti-inflationary struggle.

We must do much more than cut down purchasing power; but we must attack the problem from the other side. Rising prices can also be retarded by increasing the supplies of goods which do not compete with defense needs.

We are in a position to do just that. The government has in its warehouses vast quantities of cotton, wheat, ^{and} corn, and ~~many other agricultural staples.~~ Our granary doors should now be opened, enough at least to prevent unreasonable price rises.

Such a step would be in agreement with our established agricultural policy - the ever-normal granary. Having accumulated stocks in times of low prices, they should be distributed in times of high prices. Now is the time to ^{draw on these supplies} ~~empty~~ our ~~bins~~, both as an ^{anti-inflationary} anti-inflation measure, and as a preparation for ^{replenishing} ~~refilling~~ them if that should again become necessary.

The concept of an ever-normal granary, which calls for a control of falling farm prices, seems to me to call equally for control over rising farm prices. This Bill, however, specifically restricts the authority of the price control administration over farm prices. That is, I believe, the major defect of the Bill. I strongly recommend that this inflexibility be removed - in the interest of the attack upon inflation, in the interest of the standard of living of our

And it cannot be repeated too often that in the long run the worst sufferers from inflation are farmers themselves. After the First World War inflation, agriculture was the hardest hit and the slowest to recover.

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people, and in the long-run interests of farmers as well.

I am not disturbed by the general level of agricultural prices now prevailing, but I am deeply concerned about the danger that agricultural prices will continue to rise as they did in the World War. Such a rise would hasten general inflation, would restrict the standard of living, and would even interfere with the health and morale of our people. It

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would again drive farm prices up to levels that could not be
supported after the present emergency has passed.~~

It has been suggested during these hearings that this price-control bill should include a ceiling over wages. I should like to go on record as not sharing this view. In free countries labor is not a commodity, human beings are not property, and they should not be treated as such.

Insert

(A)

- 11 -

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~~I fully appreciate that wages affect the cost of production and the cost of living. Yet the major portion of labor in our defense industries today is protected by collective bargaining contracts, and only a sharp rise in the cost of living would upset these contracts. I feel, therefore, that demands for higher wages will not present any substantial problem if we now control the general level of prices, and if we tax profits effectively.~~

Two weeks ago I said at Boston that it was folly for labor leaders to seek continual increases in wages every few months, and that it was equally shortsighted for farmers, businessmen, landlords or bankers to seek to exploit the present abnormal situation for selfish gain. ~~If, despite price control and~~ ^{adequate} ~~adequate excess profits taxation,~~ ^{involved, and if} ~~it should develop later that~~ ^{is exacted and} ~~wage rates are not being kept within reasonable bounds, other~~

part
(B)

(A)
General level of prices.

350

I fully appreciate that wages affect the cost of production and the cost of living. However, I feel very definitely that if we can on the one hand keep the cost of living from rising, and on the other hand impose adequate taxes on excessive profits, then we will have removed the major causes for demand for general wage increases. Furthermore it is worth noting ~~in connection with this factor~~ that the major portion of our defense industries today is covered by collective bargaining ~~agreements~~ contracts, and only a sharp rise in the cost of living is likely to upset those contracts.

Insert (B) P. 11.

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If we provide ~~adequate~~ ^{effective} price control
and adequate excess profits taxation, and if
it should later develop that wage rates are ~~not~~
being kept within bounds, we shall have to consider
other measures. As yet, however, I see no
necessity for them.

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necessity for them.~~

Before closing, I feel it my particular responsibility
as Secretary of the Treasury to point out to you the special
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prices from rising further.

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concerned with the problem in a very direct way. Congress has
already appropriated more than \$50 billion for defense, and
the end is not yet in sight. ^{as intended to} If prices _^ behave as they did
during the World War, we ~~will~~ ^{may} find that our defense program
~~will~~ cost us double without giving us a single additional gun
or plane for that extra expenditure.

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but we are the nation's largest employer. ~~Apart from the~~

~~armed forces~~ ^{not a 91} The government employs ^{now} ~~more than one~~ million ^{in the executive department} people with a payroll now running at the rate of \$2-1/2 billion a year. A substantial rise in the cost of living will raise for us as an employer a choice of evils: to permit the real incomes of our employees to be unjustly reduced, or to increase still further the payroll that we must meet.

I fully appreciate that it requires courage on the part of Congress to pass this Bill. It always requires courage to put brakes on rising prices. But if any lesson is to be learned from the record of the past, it should be that inflation is inevitable in times like these unless all of us - Congress, the Executive Departments, and the people - fight it on all fronts and with all the strength and courage at our command.

We should gain courage from the knowledge that inflation is not only accompanied by serious evils but is followed by even greater evils. We should never lose sight of the fact

that inflation is always followed by deflation and that the ride down is a lot longer and a lot harder and a lot more painful than the short intoxicating ride up.

After all, this question of inflation is one that goes to the very heart of the social aspirations of the American people. An uncontrolled price rise now would endanger the fruits of our hard-won progress of many years. If we lack the necessary realism and courage now, we shall place multitudes of American farmers, workers and Government employes at the mercy of those whom I have called "the three horsemen -- the speculator, the profiteer and the hoarder."

Every hardworking and thrifty man and woman in the United States has a direct personal stake in the success of the battle against inflation. ~~That is why~~ ^I regard it as vitally important for Congress to pass this bill, and to do whatever else may be necessary ~~so that the battle can be won.~~

~~Joseph P. Kamp~~

and ~~to~~ pass it promptly.

September 23, 1941
4:45 p.m.

Clifton

Mack: Yes, sir.

HMJr: Clif.

M: Yes.

HMJr: Sometime tomorrow or so you'll be getting a call from Lauchlin Currie, one of the President's assistants.....

M: Yes, sir.

HMJr:who's looking after the Chinese end of things for the President.

M: Yes.

HMJr: He's curious to know how we worked out our own procedure with Lend-Lease.

M: Very good.

HMJr: And if you get a call, you can talk frankly; because he thinks maybe he can get the Army maybe to do something, see?

M: Well, very good. And I'll be happy to do it.

HMJr: Thank you.

M: Yes, sir.

September 23, 1941
4:48 p.m.

HMJr: Hello, Grace. Hello.

Operator: All right.

Grace
Tully: Hello.

HMJr: Yes, Grace.

T: Mr. Secretary, unfortunately I caught the President just as he was on his way out and away from the telephone; but I told him, and he said if you were all agreed, to go ahead and release it.

HMJr: We are all agreed.

T: Right. So he said if all agreed, then it would be all right to go ahead and release it.

HMJr: Everybody has. Lauch Currie is sitting right at my elbow.

T: Good.

HMJr: Now, I mean.

T: Yes, sir.

HMJr: To release it.

T: Yes, sir. That's what he said. If you're all agreed, to release it.

HMJr: We are, Grace.

T: All right. Grand, Mr. Secretary.

HMJr: You're always helpful.

T: Right, sir. I'm glad to hear it. (Laughs)
Good-bye.

HMJr: Good-bye.

September 23, 1941
4:58 p.m.

HMJr: Hello.

Operator: Governor Ransom.

HMJr: Hello. Hello, Ronald?

Ronald Ransom: Yes, Mr. Secretary.

HMJr: Well, you've done a beautiful job and I'm very happy.

R: Thank you.

HMJr: And I wish you'd tell the Board that.

R: Thank you.

HMJr: And I just got word from the White House that the President said if it was all in agreement, he was very happy and we should go ahead.

R: Fine. And you expect to testify tomorrow?

HMJr: Ten o'clock.

R: Ten o'clock tomorrow, and we will release it then for the morning press and I can tell the Board members that it has cleared with the President.

HMJr: That's right.

R: Well now, I was just talking to Marriner on the phone, and he wanted to be sure you understood that he went along with it, that he was very much pleased that we had been able to get a thing worked out and regretted deeply that the plane schedule prevented his getting here today as he had planned, and.....

HMJr: When will he get here?

R: He'll get here tomorrow morning.

HMJr: Uh huh.

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- R: Now, I told him that I was going to suggest you might take that liberty that in your testimony tomorrow if you got pressed on the question of what future powers - emergency powers - should be given the Board in this matter, that you could stand on the statement.....
- HMJr: That's right.
- R:and that I hoped if he got on the stand following you that he'd follow the same pattern of testimony.
- HMJr: Well, I'm going to stick by the statement. That's why I was so anxious.
- R: Yes.
- HMJr: I'm simply going to say, "So much for today."
- R: It speaks for itself.
- HMJr: The statement speaks for itself. You need have no worry about that.
- R: Yes. All right, Mr. Secretary.
- HMJr: So I'm delighted and think it's the best demonstration - I think the cooperation is far more important than what we're doing.
- R: Well, I think that is, myself, the far more important question involved that we can cooperate and get together and agree to work together in a common cause under these conditions of the utmost importance.
- HMJr: Is anybody listening to me?
- R: Huh?
- HMJr: Can anybody hear me but you you?
- R: No.
- HMJr: What?
- R: No.

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HMJr: Sure?

R: Absolutely.

HMJr: Well, then, for you only - from now on, whenever we want to put something through difficult, we'll do it over the long-distance phone.

R: (Laughs) Well, that may not always be necessary.

HMJr: All right.

R: May I say this - Dan has been a peach and we couldn't be where we were today except for Dan and for the fact that your boys, while they had differed at points all along the line with us, have been patient and cooperative and very determined to get a result.

HMJr: Fine.

R: And they certainly have been invaluable people to work with in such a cause.

HMJr: Well, we'll - I'm going to let them continue.

R: All right. Thanks very much, Mr. Secretary.

HMJr: Wait a minute. Hello.

R: Yes.

HMJr: I want one thing. Would you have Elliot Thurston contact Chick Schwarz?

R: What's his name?

HMJr: Schwarz.

R: Schwarz.

HMJr: So that we can - Schwarz will know about it.

Et: I'll have him contact Schwarz, and I'm going down to try to tell Leon Henderson about it.

HMJr: That's all right. But if you'll have him contact Schwarz, because we have the newspaper men covering the Treasury also.

R: And Schwarz is the man for Elliot to get in touch with.

HMJr: Yeah. He's my Elliot Thurston.

R: Thank you very much. All right.

INTERVIEW WITH ARCHIBALD MACLEISH
Librarian, Library of Congress
September 23, 1941--3:00 P. M.

The President's request that his cabinet members deposit their papers and documents at the Hyde Park Library so that that institution would have a complete collection of materials covering the New Deal, according to Mr. MacLeish, created some problems for the Library of Congress. There are many materials which would otherwise go to the Library of Congress (and which the Library of Congress would like to have) but at present might be deposited at the Hyde Park Library.

In the instance of Secretary Morgenthau's papers I made the following suggestion: All papers and documents belonging to Mr. Morgenthau, Sr. Obviously do not come under the heading of "New Deal Materials" and should be deposited in the Library of Congress. All papers and documents belonging to Mr. Morgenthau, Jr. up to 1933 should likewise be deposited in the Library of Congress in the Morgenthau Documentary Collection. All of Mr. Morgenthau, Jr.'s papers, documents, letters, etc., since 1933 should be transcribed or photostated. The transcribed and photostated copies should be deposited with the Library of Congress; and the originals, in corresponding order, in the President's Library. Thus the Morgenthau file in the Library of Congress will be complete and the President's request will at the same time be fulfilled.

Mr. MacLeish thought that an excellent solution of the problem if it meets with the approval of Secretary Morgenthau.

I then raised the question of space and assistants during the preparation of all these materials before they can be placed in the Document Division of the Library of Congress. The Library is pressed for space and is under-staffed. Collections of materials now submitted to them (such as the Taft collection) are stored away and will be held in storage indefinitely. Since I am now going over the Morgenthau materials, it was my suggestion that a room be cleared in the Annex of the Library of Congress and a stenographer assigned to transcribe and prepare these letters and documents for preservation and ultimate organization for the Document Division. The material would thus become ready progressively. This, too, seemed to Mr. MacLeish a desirable procedure. If followed, it would also spare the materials from being stored away for an indefinite period of time and would instead become available to scholars and research students at whatever date is set by the Secretary and the Library to make them available to the public.

Mr. MacLeish will discuss these suggestions with the Head of the Document Division who will then be in touch with me for further discussion.

V. Gier

INTERVIEW WITH MR. C. S. SCOFIELD
Chief of Western Irrigation
Department of Agriculture
September 23, 1941 -- 11:00 A. M.

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I asked Mr. Scofield to relate to me what he remembered of the circumstances of the "Scofield-Morgenthau Expedition--1913." This is the gist of what he told me:

In 1912, when Mr. Morgenthau attended Cornell and studied agriculture with the determination to enter into the field of farming, the Consul for Argentina, who was visiting H.M. Sr., described in glowing terms agricultural opportunities in his country. H.M. Jr. was present. He immediately resolved to take a trip through Argentina upon the completion of his course at Cornell. In planning this trip, he wished to have the benefit of advice from an agricultural expert. He, therefore, came to Washington and outlined his plan for the Argentina trip to Secretary of Agriculture Houston. The person he suggested to accompany Mr. Morgenthau on the South American expedition was C. S. Scofield, then in the Department of Agriculture. Mr. Morgenthau and Mr. Scofield met, and H.M. outlined his plans for the trip through Argentina and the objectives of the proposed trip. Mr. Scofield suggested that it would be desirable to make a prior investigation of agricultural conditions and agricultural opportunities in the United States for comparative purposes with opportunities in Argentina. Mr. Morgenthau agreed to the wisdom of this plan and they worked out an itinerary which would take them across the entire United States and would cover all the major crops and agricultural pursuits in the country. They were not interested in agriculture as such, but in successful agricultural activities, and therefore planned to see only such farms, plantations, mills, and plants, as are run on large scale successfully.

For this trip they took along Mr. Taylor, then Mr. Scofield's secretary, (and now a lawyer in Washington, D.C.), to act as their secretary and to record, as they went along, impressions gained during the trip to be incorporated in a semi-formal report. On April 14, 1913, they started out from Washington.

The further they went on this trip, which took them over three months to complete and during which they covered nearly 8,000 miles (?), the more enthusiastic Mr. Morgenthau became about farming in general and farming opportunities in the United States in particular. Upon their return, Mr. Morgenthau wished to investigate opportunities on the Atlantic seaboard. Though he originally started out with the idea of seeking his farming opportunities in far away Argentina, the more he saw of farming activities at home, the more he realized that opportunities existed much nearer at hand. He realized that it was not necessary to travel to foreign lands in search of farming opportunities.

and that it was not even necessary to travel to any state outside of his own for such opportunities. And he made up his mind to try his farming luck in New York State. Mr. Scofield accompanied him on several trips through the Hudson Valley and various parts of the state looking over desirable tracts of land and discussing types of crops to engage in. After Mr. Morgenthau had bought a farm in Dutchess County, Mr. Scofield had seen him several times to discuss and advise on certain crops and enterprises.

I asked Mr. Scofield about the manuscript on the expedition—whether it was written by Mr. Scofield or Mr. Morgenthau, or jointly. Mr. Scofield feels that the manuscript is Mr. Morgenthau's. It was his in plan and essentially his in preparation. He explained to me the method whereby that manuscript was prepared. At the end of a day or at the end of an inspection of a farm, or the investigation of an enterprise, Mr. Scofield and Mr. Morgenthau would get together and dictate to Mr. Taylor. Mr. Morgenthau would make clear what particular aspects he wanted recorded—he gave his own impressions and asked many questions. Mr. Scofield also dictated his impressions and corrected impressions on the basis of his own knowledge so that where a farmer reported his enterprise in rozier terms than Mr. Scofield, from experience, knew to be the case, he explained his point of view and that was incorporated in the script. Later when the script was typed, Mr. Morgenthau and Mr. Scofield would go over the first rough draft and make corrections. Then it was typed up again and turned over to Mr. Morgenthau who was solely responsible for all changes, revisions, and additions, which were incorporated in the second draft.

Mr. Scofield is under the impression that Mr. Morgenthau intended to publish in book form the report on which he worked, and under his own name, but had never done so. If ever that material is used, Mr. Scofield feels it should be presented as Mr. Morgenthau's report or material, which, in fact, it is. Mr. Gaer asked "How much interest do you think there would be in that material today and who would be interested in it?" Mr. Scofield felt that that report would have considerable value as a portrayal of agricultural conditions thirty years ago in the United States. Since the report had no point of view and was entirely facts of actual conditions without attempting to make any interpretation, either on economic conditions on the land or the desirability of farming as a way of living, or any other idea which one might develop from the material, the report would be very useful to students of American agriculture and American agricultural history.

Mr. Scofield also told me that after Mr. Morgenthau established himself at Hopewell Junction and decided to try his hand to develop a herd of pure-bred Holsteins, Mr. Scofield advised him against it. One of his reasons, insofar as he could remember, was that farming and dairying are things neighboring farmers would view with sympathetic interest, but the raising of pure-bred cattle would be viewed with suspicion and interpreted as a rich man's hobby. Mr. Morgenthau at that time however had an idea that one may privately experiment in pure-bred cattle toward the general improvement of dairy cattle in the State. It would seem that that idea has since been developed on a large scale through the various cattle-men's associations and State and Federal agriculture experimental stations.

J. Gaer

SEP 23 1941

My dear Mr. President:

Recently on one of the "Treasury Hour" programs over the Columbia Broadcasting System a special poem entitled "Ballad of the Leatherneck Corps" was read by Tyrone Power. This ballad is about the occupation of Iceland by the United States Marine Corps.

From every part of the United States the Treasury Department has received hundreds of requests for copies of this poem. It has become so popular that a Victor recording has been made. On the back of this recording is the new Irving Berlin song "Arms For the Love of America".

With this letter I am sending you one of these recordings which can be played on any victrola. I thought you would be interested in hearing both the "Ballad of the Leatherneck Corps" and "Arms For the Love of America".

Faithfully,

(Signed) H. Morgenthau, Jr.

The President of the United States
The White House
Washington, D. C.

Copy to Mr. Thompson

VFC/rmg

September 23, 1941

Identical letters were sent to the following:

Hon. Lowell Mellett	Admiral Harold R. Stark
Hon. Secy. of the Navy	Hon. Secy. of War
Hon. James V. Forrestal	Gen. George C. Marshall
Brig. Gen. Robert L. Denig	Hon. John J. McCloy
Brig. Gen. Frederick H. Osborn	Rear Admiral Russell R. Waesche
Rear Adm. H. A. Hepburn	Hon. Robert P. Patterson
Maj. Gen. Thomas Holcomb	Vice President Wallace

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Executive Office of the President
OFFICE FOR EMERGENCY MANAGEMENT
Washington, D.C.

MEMORANDUM

September 23, 1941

TO: Secretary Morgenthau
FROM: Oscar Cox
SUBJECT: Winant Cable on Short Supply.

Messrs. Hopkins and Stettinius have asked me if I would discuss the annexed cable with you. If you will fix a time at your convenience, I will be glad to come over. During the hearings on the second lend-lease appropriation this week, any afternoon after 4:30 P.M. will be best for me.

(In.) O.C.

C
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Y

368

GRAY

London

Undated

Rec'd September 17, 1941
6:20 a.m.

Secretary of State, Washington

4348

CONFIDENTIAL FOR SECRETARY MORGENTHAU.

In accordance with the recent statement of British export policy on Lend-Lease goods contained in the White Paper, the Board of Trade which administers exports will have to determine what goods are in short supply in the United States and what goods cannot be obtained in the United States. The Board of Trade is desirous that the United States Government should have in London a man who will be familiar with these situations. They are also, I believe, suggesting to Washington through other channels that there be set up a committee to which can be referred the difficult cases on exports.

This question is doubtless of interest to several Departments in Washington.

Coe will be back in Washington in a few days and will give you further details.

I would appreciate a copy of this message going to Mr. Hopkins and your discussing this problem with him.

WINANT

KLP

Copies to:

Mr. Morgenthau
Mr. Hopkins
Mr. Oscar Cox
Mr. Philip Young

AMERICAN EMBASSY

LONDON

FOR AMBASSADOR WINANT FROM THE SECRETARY OF THE TREASURY

Referring to your 4348 of September 17 Treasury is informed by Cox of Lend Lease that the Lend Lease Administration is setting up machinery in Washington for dealing with difficult cases on exports

Hm 2

ECONOMIC DEFENSE BOARD
WASHINGTON, D. C.

370

OFFICE OF THE CHAIRMAN

Page - 41.

The Honorable,

The Secretary of the Treasury.

Dear Henry:

At the meeting of the Economic Defense Board on September 19, there was unanimous agreement on policy with regard to future meetings. No regular time will be set for such meetings but they will be called either by the Chairman of the Board or at the request of any Cabinet Officer made to the Vice President. It was the consensus that such meetings should not be called except on major policy matters. The Executive Order establishing the Board permits each Cabinet Officer to name one alternate; I hope that you can arrange to attend future meetings yourself, however.

Following the President's Executive Order of September 15, it was felt that a great deal of the work of the Board could be done by a sub-committee composed of the alternates already designated working with the Executive Director of the Economic Defense Board as Chairman of the sub-committee. This is an effort to save time on the part of the Cabinet Officers and also an indication that future meetings of the Board will be called only to consider very important policy matters.

Sincerely yours,

J. Wallace

Chairman.

TREASURY DEPARTMENT

371

INTER OFFICE COMMUNICATION

DATE September 23, 1941

TO Secretary Morgenthau
FROM Mr. Kassarck

Subject: Commendation for services rendered to the Treasury

1. Lieutenant-Colonel W.E. Smith, Assistant Secretary of the General Staff, has been sending to the Treasury copies of the confidential reports of our military attaches for over a year.

2. Colonel T. J. Betts of the Situations Section, Military Intelligence, has been of great service to me in the past year in keeping me informed on the military situation.

Recommendation

As a measure of repayment, it might be appropriate to send an official letter of thanks to the War Department for incorporation in the service records of the two officers.

(Handed by Mr. Bewley of the British Treasury to Mr. Cochran at the United States Treasury at 6 p.m., September 24, 1941.)

Mr. Eden

Sir Ronald Campbell

7.56 p.m. Sept. 23rd, 1941

2.24 p.m. Sept. 23rd, 1941

Addressed to Washington telegram No. 5198 of Sept. 23rd, repeated to Chungking [?tel. No. 610], Shanghai telegram No. 947, Hong Kong telegram No. 985, Governor Singapore telegram No. 1415 and Government of Burma telegram No. 1676.

Your telegram No. 3988 and my telegram No. 5119.

Following for Niemeyer.

We propose to issue following announcement on September 30th.

Begins.

At the request of His Majesty's Government in the United Kingdom and on invitation of the Chinese Government Sir. O. Niemeyer has undertaken a financial and [?economic/ mission to China. He will be accompanied and assisted by Mr. James Baxter, Financial adviser to the Government of Burma.

Ends.

2. We suggest [?you should/ let Governor of Burma know when you expect to arrive at Hong Kong and arrange with him direct as to where Baxter should meet you.

3. As there is an acute shortage of accomodations at [?Chungking/ please inform His Majesty's Embassy of total number of mission.

4. Chungking please inform the Chinese Government of text and date of announcement.

:AA

PM

GRAY

La Paz

Dated September 23, 1941

Rec'd 6:43 p.m.

Secretary of State,
Washington.

263, September 23, 5 p.m.

Have received reliable information that two checks for \$1,393.37 and \$5,779.47 drawn by the Banco Popular del Peru to the orders of the Banco Minero de Bolivia on Chase National Bank of New York and forwarded on September 20 actually represent transfer of dollar funds held by Japanese interests in the Banco Popular from Peru to Bolivia and that Banco Minero will pay equivalent in Bolivianos to Ochiay and Company, a Japanese firm in La Paz, as soon as advice is received that the checks have been paid in New York.

I have also been informed that National City Bank of New York recently refused payment on a check for \$8,000 drawn by the Banco Minero to the order of Isaias Burgos, a customs agent at Villazon and La Quiaca, Argentina, who is strongly suspected of being

-2- #263, September 23, 5 p.m., from La Paz.

of being a front for Kyllman Bauer, German firm on Proclaimed List. Reports received are that Banco Minero has now drawn a substitute check for \$10,000 on National City Bank to the order of Banco Nacional D. E. Zon, which is also intended for Kyllman Bauer. The foregoing information has been received from an employee of the Banco Minero in strict confidence as to its source.

It is thought that the Treasury Department may wish to take steps to have payment of these checks stopped.

JENKINS.

WWC

For Miss Chauncey

TREASURY DEPARTMENT

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INTER-OFFICE COMMUNICATION

DATE September 23, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£38,000
Purchased from commercial concerns	£23,000

The Federal Reserve Bank of New York purchased £72,000 in registered sterling from a non-reporting New York bank; the Federal was advised that these funds represented dividends paid to the Ford Motor Company by its English affiliate.

Open market sterling held steady at 4.03-1/2. The only reported transaction consisted of £1,000 purchased from a commercial concern.

The Canadian dollar continued to weaken, closing at a discount of 11-7/8%, as compared with 11-1/4% yesterday. The current widening of the discount has been attributed mainly to a slackening of the tourist demand for Canadian dollars.

The Colombian peso, which has been quoted at .5800 for several days, moved off to .5775 today. There was also some weakness in the Venezuelan bolivar, which closed at .2735 this afternoon; the previously prevailing rate had been .2755.

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

Argentine peso (free)	.2365
Brazilian milreis (free)	.0505
Mexican peso	.2070
Uruguayan peso (free)	.4400
Cuban peso	3/8% discount

There were no gold transactions consummated by us today.

The Federal Reserve Bank of New York reported that the Bank of Canada shipped \$3,506,000 in gold from Canada to the Federal for account of the Government of Canada, for sale to the New York Assay Office.

- 2 -

The State Department forwarded a cable to us reporting the following gold shipments from Australia, both of which are for sale to the San Francisco Mint upon arrival:

\$5,959,000 shipped by the Commonwealth Bank of Australia, Sydney, to the Federal Reserve Bank of San Francisco.

150,000 shipped by the Bank of New South Wales, Sydney, to the American Trust Company, San Francisco.

\$6,109,000 Total

Spot and forward silver were again fixed in London at 23-1/2d and 23-7/16 d 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 purchased 200,000 ounces of silver from the Bank of Canada under our regular monthly agreement to buy up to 1,200,000 ounces. Today's was the first purchase from that source this month.

J.M.F. CONFIDENTIAL

RESTRICTED

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G-2/2657-220; No. 500 M.I.D., W.D. 11:00 A.M., September 23, 1941.

SITUATION REPORT

I. Eastern Theater.

Ground: The island of Dagoe, to the north of Saare (Oesel) island is still in Russian possession.

Russian forces, northeast of Lake Ilmen have forced crossings of the Volkhov river and advanced some miles to the northwest. These Russian forces are being counterattacked by German units.

Russian counterattacks continue on the Central (Moscow) front.

The battle of encirclement, east and southeast of Kiev has now entered its final stage, with the Russian forces broken into four large groups.

On September 20th, these groups were located as follows:

- (1) Around Borispol
- (2) Around Zolotonosha
- (3) Southeast of Piryatin
- (4) Southeast of Drabov

On the official communique of September 23rd, the German communique reported the rapid dissolution of these Russian groups and stated that 380,000 prisoners and much booty had already been taken.

East of these encircled Russian forces, a German infantry column had reached Dikanka to the north of Poltava.

Farther east, another German column had captured Karlovka and had then continued its advance further to the northeast.

On the lower Dnepr Sector, a German force had reached the area just west of Melitopol.

Air: Rail lines around Bryansk, Kharkov in the Ukraine and in the Crimea were bombed. Leningrad was again subjected to raids.

II. Western Theater.

Air: Weak action by British bombers against the Cologne docks. constituted the only activity in this theater.

III. Middle Eastern Theater.

Ground: No significant movements.

Air: Successful R.A.F. attacks on Axis shipping off Tripoli were carried out.

RESTRICTED

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Tokyo, Japan

DATE: September 23, 1941, 4 p.m.

NO.: 1499

The Embassy has been informed by the Foreign Office that according to a report made by Ambassador Nomura the United States Government, in connection with the arrangements for unfreezing, is requiring Japanese consuls to furnish lists of all their personal possessions.

At the present time there is a law in existence in Japan which requires the registration of possessions of all aliens and American Consular officers, who, thus far, have been exempt from the application of this law by administrative action but will undoubtedly be required to comply with it should the above-mentioned report be true. It should also be noted that there is a likelihood that in the enforcement of this law--as in the enforcement of other recent measures--the Japanese authorities will be far more exacting than the United States officials in circumstances which are similar.

EAI/PAK

840.51/3576