

October 22, 1941  
10:00 a.m.

MEMORANDUM FOR THE DIRECTOR

Present: Mr. Bell  
Mr. Thompson  
Mrs. Klutz

Mr. Bell:

What I want to say to you people is this. I don't want to scold in front of anybody else because it is largely getting down to Civil Service. It is largely Norman that I want to talk to. I got this idea coming down this morning. We are on the verge of a war. It is only a matter, I think, of days or weeks.

Frankly, I am not satisfied with the way the Treasury is being run. Let me give you an example. I asked months ago - I used these little things as illustrations, because they have got to be changed - I asked you to look into Chick Schwarz's office. Months have passed. I will bet you it was three months ago, at least. Suddenly I am told that you are thinking of putting an office manager in Chick's office. But it takes - well, I may be wrong. It may be two or three or four months. It is a thing that could be done in a week.

I asked several weeks ago to find out how long it is taking to answer my mail, and so forth. I

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don't get an answer. That is important. Now, what I think, there are too many things that take too long. My suggestion that I want to make is, I think that you should have in your office, Norman, a little bureau of efficiency experts or trouble shooters that you can send continuously everywhere in the Treasury and not wait until somebody writes me that our lists are duplicated or that I get dissatisfied because my mail - I get a complaint.

In other words, I don't want to wait always until I get a complaint, but if you had a little group of really efficient people who would drop in to Customs, is their work being done, is Coast Guard up to date, is this thing being done up to date and then when they are not, see that the thing is being done, but I have got to rely on you Civil Service fellows to see that they get into this thing.

Thompson: We are thinking exactly alike, because I had a meeting with Charlie Bell and Charlie Schoeneman yesterday and talked that very thing.

H.M. Jr: You and Roosevelt. You dreamed about it.

Klotz: It is not such an easy thing, Mr. Morgenthau, as it sounds. I wasn't asked for my opinion, but --

Thompson: We have a Budget Improvement Committee and Charles Schoeneman is chairman of it, and I said, "I think we have either got to take your committee and have sub-committees and trouble shooters there who can go out or we have got to get more men who will just be assigned to that." I think the best idea is to get more men, because those committee members don't have time.

H.M. Jr: Look, I would much rather have you say, "Well, Mr. Morgenthau, I have got a couple of fellows

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sitting around that I am just training, not doing anything, but I am just training them," than to have you or me come in both looking tired and overworked.

Klotz:

He is.

H.M.Jr:

I know it. Let me give you another story. I am sorry Harold Graves isn't here because it is also a criticism of him. Now, there isn't a finer man in the service than Cliff Mack, but through the set-up that he has got I am beginning to gather that the thing is run too economically and they haven't got enough people and they are not getting the orders out. Up to now everybody says they are wonderful, they get out their orders. Now suddenly they give me a shock, comparing them with other departments, and I find we are not so wonderful. But now somebody has got to come and give me a complaint. I don't want it.

Now, we went all through this originally. Mack used to do quite a lot of it and I would be pushing Mack and he would go to one place after another. We would pick up this and that. I have been here eight years and it is time for everybody to go to seed again. The Bureau of the Budget doesn't do it.

Bell:

You don't want them to do it either.

H.M.Jr:

All right.

Bell:

You don't want them to do it.

H.M.Jr:

All right. You are feeding right into my hands. And you don't want the Comptroller General's office to do it. But if we stay, Dan, this way and we don't, somebody will do it. They will set up some organization to do it.

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- Bell: Well, you probably can't prevent them. They will be along pretty soon doing it but really, it is very expensive and they set up an organization and nobody can keep track of it and it is terrible.
- H.M.Jr: Then it is all the more reason that we should have a Section of Efficiency who would take the initiative under Norman Thompson and would be constantly checking.
- Klotz: Well, that is what you had when you had that Ballinger man here and you know what - that was a terrible mess.
- Thompson: I do have one man left.
- H.M.Jr: No, wait a minute. It wasn't a mess as long as he was doing one bureau at a time and he did a good job over at the Coast Guard, but when he came and set up as the head of Personnel, then it became a mess, when he became the boss over the whole thing. But when he was doing one bureau at a time, Mrs. Klotz, with a definite assignment, he did a good job.
- Thompson: I have one man left of his committee who is a very good man, Mr. Lawson, and I can use him in that connection.
- H.M.Jr: But Norman, if you don't mind, I think you ought to get people with a fresh viewpoint. I don't think that you should use your regular people. Now, you mentioned Schoeneman. Well, nobody can be in the Treasury twenty-five years and not have all of these fellows as his friends. It is the same complaint that I have. It is unfair to ask Mr. Knudsen to tell all his friends that he has grown up with all his life, "If you don't make good on this order, I am going to take it away from you." It is unfair to ask Schoeneman

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to go up against the fellow that he plays cards with and plays golf with weekends, that he is not doing a good job, he is behind on some mail or he is behind on this or he is behind on that, and you have got to have some new blood and this thing is going to get - God, if I had the time I could dig up plenty myself, but that isn't my job.

- Thompson: No, and it is going to get worse.
- H.M.Jr: I don't want it to get worse. I mean, the load is going to get worse, but I want you fellows to think about this a couple of days and I want you to come back and make a recommendation to me, you see.
- Bell: It is awfully hard.
- Klotz: Mr. Thompson and I were talking about this yesterday, not about this, but --
- H.M.Jr: Not about this?
- Klotz: Well, we were. I said that I don't, I mean, I just get a small feeling of it, you see, and I said that I don't know how he and Charlie Bell carry this load, because from my work I can tell how heavy theirs has gotten. It has gotten terrific and they are here until all hours and they work very hard, and I said, "You are going to break down, the two of you."
- H.M.Jr: Well, I foresee that.
- Klotz: Yes.
- H.M.Jr: I foresee that. I sense this thing. Just take the mail alone.
- Klotz: That is what we were talking about.

Thompson:

Yes.

H.M.Jr:

Because we happen to be an old department there is no reason why we shouldn't take on a couple of hundred people or a couple of thousand people, if it is necessary, to do whatever is necessary. I want you people to get in to this thing. I don't want the regular fellows that have always been doing this thing to go around because it is unfair to ask them. You have got to have - well, the kind of fellows McReynolds and Graves were twenty years ago.

Thompson:

That is the kind of men we want. I have one or two lined up.

H.M.Jr:

Well now, what do you think, Norman?

Thompson:

I think it is a very good plan.

H.M.Jr:

There is no such section, is there?

Thompson:

No, sir, there isn't.

H.M.Jr:

What do you think, Dan?

Bell:

Well, I wouldn't have somebody to go around and tell other people how to do their work. I don't think it can be done, only on a theoretical basis, and it is always bad. I think it might be well to have somebody in Thompson's office to check what the man responsible for the job is doing.

Now, take Loans and Currency. Thompson knows that we have been looking at that set-up now for six months. I haven't been satisfied with it. I haven't been satisfied with the mail and I haven't been satisfied with the personnel handling it. We have set up a new Personnel Division. We have transferred the Assistant Chief of the Division, who was lax, to another

job. We are putting in a new Assistant Chief of the Division, who we think is going to be good. We are reorganizing Loans and Currency and I think Thompson, if he had a man who knows the general department pretty well to see whether we have got the right set-up, it is all right for him to check up. The man responsible for the job knows more about the work and the channels than anybody else. If he is a little dead on the job we have got to stimulate him.

H.M.Jr: There is no difference. The point I am making is this: Let me go over it once more.

Bell: Let me finish. Take the Treasurer's office. I think it has been dead for fifty years. What I would like to do, and I would like for Thompson to be in on that thing, I would like to decentralize the Treasurer's office and put it in the twelve Federal Reserve Banks. But I don't think any employee or any man coming in with a theoretical knowledge of our organization can do that job.

H.M.Jr: But Dan, the thing is not being done. We have no group under Thompson who goes out and foresees bottlenecks and finds the thing and brings it to the head of the Division or the Bureau. Your division is behind. You are not handling it. Either you are going to do this thing or we will get somebody else that will. Norman doesn't do that.

Thompson: The two men I have had in mind --

H.M.Jr: Norman doesn't do it.

Thompson: ...for the last couple of weeks are John Fox and Shane McCarthy. I think John Fox would be an excellent man to do that.

H.M.Jr: Well, John Fox upsets too many people.

- Klotz: Don't look to me, I am biased. I don't want to get in it.
- H.M.Jr: He upsets too many people.
- Bell: That is another thing you have got to be careful of, is the fellow's tact. They don't get their education in tact. They are born that way.
- Klotz: That is the first requisite and it is a hard type of person to find. You take a fellow like Charlie Bell, for instance. He has got just that. He is the man for that kind of a job.
- Bell: There is no one mad when he goes into their office. He can get anything they have and come out and be still friends with them.
- Klotz: That is right.
- H.M.Jr: Let's agree on this. We all agree that the thing I am asking should be done and isn't done. That is the first thing. We all agree that it should be under you.
- Thompson: Yes.
- H.M.Jr: And we all agree you need more help.
- Thompson: That is right.
- H.M.Jr: And we all agree we have got to move a little faster. I think also that if we don't do it somebody will come in and do it for us, which we don't want.
- Bell: I think we can take another step, that the heads of these offices need a little more help. They are snowed under with detail.
- H.M.Jr: Dan, the point is, those are things which, as this



work gets tied up - I mean, I am going to get a little less tolerant. When I ask for something I am going to insist on quicker pick-up, you see. I mean, I want more snap to the organization. This is a challenge to the regular Civil Service employees, and I am putting it up to them. I am putting it up to you people as the top men. This is a challenge to the Civil Service.

Now, can you satisfy me and give me what I want? I know you can, but it is a challenge to the Civil Service organization of the Treasury to give me what I need and so I don't have to go outside or the President doesn't have to go outside to bring somebody in. That is what it gets down to. I am going to be a little bit more demanding, a little bit more demanding, and you will have to be a little tough here and there. Maybe it will be with somebody you grew up with.

Thompson:

That is all right.

H.M.Jr:

But I don't want to always wait until I get a complaint in a letter or get it from outside sources, and I wish that within a couple of days you would come back and we will have another talk. But this is purely my own idea. You didn't have the faintest idea of this.

Klotz:

I didn't know what you were going to say, but you know how I feel about it. I didn't know whether you wanted me to express it, but I did.

H.M.Jr:

I didn't want you to sit here just to be ornamental.

Bell:

She is very good for that purpose, though.

Klotz:

Thank you, Mr. Bell.

- H.M.Jr: Do you disagree in any way?
- Klotz: I agree fully, but if there is anything that I think is terrible, I think it is an efficiency expert, because I have been here long enough to know that that is terrible. Eight years ago I would have said yes.
- Thompson: We could have it more in the nature, as the Secretary said, of a trouble shooter to send out and see if a man is in trouble.
- H.M.Jr: It is the kind of work that Harold Graves did for me. He did that kind of work for me. He is all bogged down now. He can't do it. But there must be a young Harold Graves or young McReynolds.
- Klotz: Yes, there are, but they can't come in and do it. The heads of the bureaus will not take it.
- H.M.Jr: Well, who is going to tell the head of the bureau, "You have either got to turn over a new leaf or get out"? Who is going to tell them that?
- Klotz: These boys.
- H.M.Jr: Who is going to get the information it is based on? He has got to have his facts.
- Klotz: Yes, but these young fellows, Mr. Morgenthau, I don't care how able they are, when they go in they cannot see what really exists.
- H.M.Jr: But how is Norman Thompson going to get his facts?
- Klotz: That is why it is so hard to answer.
- H.M.Jr: Well, that is what I am putting up to him.

- Bell: That is the reason I say that you have got to have somebody from Norman's office go with somebody from the division who can explain each step of the work, the chief or the assistant chief or somebody like that.
- H.M.Jr: Where we find somebody doing some good work, there is no reason why somebody shouldn't go down and give a talk to the group and say, "We are pleased with what you are doing," or go down to another group and say, "This group just isn't working, and you have just got to turn over a new leaf or else."
- Klotz: I don't think that has ever been done and I think it would be a wonderful thing if they had closer touch with the people on top.
- H.M.Jr: I would be willing to do it. Now, you people are functioning fine and I want to compliment you. I am delighted. I went over that day to the Foreign Funds after they were up Saturday and Sunday. I went over and thanked them for what they did. They slept in the rooms there during the night. I thanked them. I would be just as willing to go down and tell a group they are lousy. "Now, either you people get together and make good or else there is going to be a complete change."
- Klotz: But with what you have got facing you, you can't take those things on.
- H.M.Jr: Well anyway, you know how I feel.
- Thompson: We are a little stymied on --
- H.M.Jr: My criticism isn't unfair, is it?
- Thompson: No, sir.
- H.M.Jr: It is justified?

Thompson: It is all right, and I will get some men lined up.

H.M.Jr: And for God's sake, Norman, get yourself some help. Start right in your own shop. I will hire an efficiency expert to do you over.

Klotz: May I have the job?

H.M.Jr: Yes.

Klotz: I would like to help him.

October 22, 1941  
10:23 a.m.

HMJr: What I've been trying to do for one year -  
hello.....

Norman  
Thompson: Yes.

HMJr: .....is to get somebody in Gaston's office  
when he's not there that I can talk to and  
more assistance in there. Hello.

T: Yes.

HMJr: So that's one thing that you can be thinking  
about.

T: All right, sir.

HMJr: So that when Gaston goes away for a week to  
make a speech, there's somebody in town that  
knows what's going on with the various bureaus  
that he has under him.

T: Yes. Well, Frank Rose is supposed to be  
there.

HMJr: I know, but he's never there when I want  
him and he never seems to know anything  
anyway. I've said that a dozen times.

T: Yeah.

HMJr: I've said that Frank Rose doesn't satisfy  
me.

T: Yeah. Okay.

HMJr: And when it comes up and I ask him and things  
get hot - we've got Coast Guard on the firing  
line and I want something - I've yet to find  
that Frank Rose ever knows anything.

T: Yeah.

HMJr: At least he doesn't when I want it.

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T: Yeah. Well, all right, I'll go into that.

HMJr: I wish you would.

T: Okay, sir.

OFFICE FOR EMERGENCY MANAGEMENT  
DIVISION OF DEFENSE AID REPORTS  
WASHINGTON, D. C.

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October 22, 1941.

Dear Secretary Morgenthau:

Ferdie has just told me about your leaving the decision on Alan Barth up to him.

Again, I am impressed by how broad-gaged you are. I know of enough cases around town where persons in positions comparable to yours do not leave the decision up to the man sought after. So that is another reason why I particularly appreciate your generosity.

Sincerely,

*Oscar Lot*

The Honorable

The Secretary of the Treasury

October 22, 1941  
10:31 a.m.

Archibald  
MacLeish:

Good morning, Henry.

HMJr:

How are you?

M:

Fine, thank you.

HMJr:

I understand - I may be wrong, but if I'm wrong, you set me right - that you're going to take over this facts and figures business.

M:

Well, Henry, it's one of those very complicated things that seems to get more complicated the farther it goes.

HMJr:

Well, isn't it.....

M:

They seem to be fairly clear about it, but it's hung up in the Budget twisted fifty different ways.

HMJr:

Well, may I explain my interest?

M:

Of course.

HMJr:

We have a man working for us - I mean, I'm not trying to pry into your personal business - I ought to tell you why I'm calling you and then you - I don't want to pry into it.

We have a man by the name of Allan Barth, who works for us.

M:

Yes.

HMJr:

I think you see his weekly letter.

M:

Yeah, I do.

HMJr:

Yesterday Stettinius came over to see me.

M:

Uh huh.

HMJr:

Could he have Allan Barth?

M:

Uh huh.



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HMJr: Well, I told Allan Barth if you were going to go into this thing and if he wants to leave the Treasury - which I hope he won't.....

M: Yeah.

HMJr: I thought that he could do a far better job for you than he could for Stettinius.

M: Well, that's very generous of you, Henry.

HMJr: And that's the reason I'm calling you.

M: I appreciate that a lot.

HMJr: I hope he won't go. I'm urging him not to go, but the decision is his, you see.

M: I see.

HMJr: But he'd be - that letter and everything would come far better from your office and the kind of work, than it would out of Stettinius'.

M: Uh huh. I appreciate your thought of that very much, indeed; because if the thing does clear through the Budget, we're going to be in desperate need of exactly that kind of person.

By the way, do you suppose you would have a little time anywhere in the near future to let me talk to you about this whole thing?

HMJr: Any time. Just give me a half a day's notice.

M: All right, Henry. I want very much to tell you what the situation is and get your advice.

HMJr: Just give me a half a day's notice.

M: All right, Henry. I will.

HMJr: Now - then, I take it, at the moment you don't want to see Allan.....

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M: At the moment, I just have no status.  
HMJr: I'll tell him that.  
M: Right. Thank you.  
HMJr: And any time you give me a call.  
M: All right, swell.  
HMJr: Thank you.  
M: Thank you.

October 22, 1941  
10:49 a.m.

HMJr: Hello.

Robert  
Doughton: Hello, Mr. Secretary.

HMJr: Hello, Bob, how are you?

D: All right, Henry, how are you?

HMJr: Fine.

D: I'm reliably informed that you've received an invitation - one extended to you yesterday - by the Southern States Industrial Council, to deliver an address on the seventh at their annual meeting, on Friday, November the seventh, at New Orleans. What about it?

HMJr: Well, it hasn't got to me yet, Bob.

D: I understood that it was delivered to your secretary yesterday. A friend of mine, who's counsel for this Industrial Council - the Southern States Industrial Council, Tyre Taylor, is in my office now.....

HMJr: Oh.

D: .....and he said he had delivered this invitation yesterday - I think he said - to your secretary.

HMJr: Well.....

D: Well, you'll get it. Of course, I don't know what your plans are.

HMJr: Well, I didn't do any mail yesterday. I was working on financing, so I didn't see my mail yesterday.

D: I see. Well, I just wanted to say that I would want to join in the invitation - it's not in my state, but it's from the South - and if you could go, I think it would be

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very helpful. We'd all appreciate it very greatly if you could arrange your affairs so you could go. I just wanted to let you know that I have my interest in it and how much I'd appreciate if you could go.

- HMJr: Well, I feel highly complimented that you want me to go, and I'll give it very serious consideration.
- D: Thank you, and let us know as soon as you can.
- HMJr: I will.
- D: Thank you very kindly.

TREASURY DEPARTMENT  
Washington

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FOR IMMEDIATE RELEASE,  
Wednesday, October 22, 1941.

Press Service  
No. 28-14

Secretary of the Treasury Morgenthau today announced the final subscription and allotment figures with respect to the current offering of 2-1/2 percent Treasury Bonds of 1967-72. In addition to the amount allotted on public subscriptions, \$93,256,950 of the bonds have been allotted to Government investment accounts, within the \$100,000,000 reservation.

Subscriptions and allotments were divided among the several Federal Reserve Districts and the Treasury as follows:

Federal Reserve District	Total Cash Subscriptions Received	Total Cash Subscriptions Allotted	Total Exchange Subscriptions Received (Allotted in full)	Total Subscriptions Allotted
Boston	\$ 951,726,650	\$ 119,071,100	\$ 12,907,700	\$ 131,978,800
New York	4,921,587,550	615,575,950	127,640,100	743,216,050
Philadelphia	616,842,550	77,328,350	7,763,300	65,091,650
Cleveland	691,193,300	86,556,300	3,294,700	89,851,000
Richmond	418,370,400	52,392,900	2,562,900	54,955,800
Atlanta	535,350,350	67,069,950	509,200	67,579,150
Chicago	1,091,686,900	136,678,450	13,634,300	150,312,750
St. Louis	255,191,450	32,022,100	3,334,800	35,356,900
Minneapolis	163,917,350	20,541,900	9,114,600	29,656,500
Kansas City	137,529,200	17,275,800	1,347,000	18,622,800
Dallas	193,407,050	24,267,600	2,351,500	26,519,100
San Francisco	446,072,050	55,526,900	3,997,500	59,824,400
Treasury	22,466,300	2,812,100	513,600	3,325,700
Government Investment Accounts		93,256,950		93,256,950
TOTAL	\$10,445,341,100	\$1,400,676,350	\$166,971,200	\$1,589,647,550

October 22, 1941  
10:57 a.m.

HMJr: How's things look this morning?

Allen  
Sproul: They look all right. The maturing notes are fifteen-seventeen in the market, and there's been some strengthening of the March Treasury two or three thirty-seconds. The market seems to have taken the announcement without any - without a quiver.

HMJr: You say the rights are up to what?

S: The rights are up to fifteen-seventeen, that is, the RFC's and the OCC's.

HMJr: Well, what do you think we can do now?

S: Well, after we talked to principal banks that have rights or interest in the short-term market and to some of the dealers and based on what we got from them and our own views of it, we think that the best issue would be a March 15 forty-six one.

HMJr: The one we spoke about yesterday?

S: Yee.

HMJr: March 15.

S: March 15, forty-six, one per cent.

HMJr: Yeah. Now what do you think that'll sell at?

S: We think about a half premium roundly - a half to five-eighths, say.

HMJr: From sixteen thirty-seconds up to.....

S: Up to eighteen or twenty.

HMJr: Well, that's about where we had it. Piser doesn't agree, you know.

S: He does not?

HMJr: No, he thought yesterday to sell at par.

S: Well, I must disagree with him, then.

HMJr: Yeah, but our boys are right in the same level that you are.

S: Yeah.

HMJr: But there'll be no trouble with it up there.

S: Not that we can see, no; and that was the attitude reflected by the market yesterday and there's no change this morning.

HMJr: I see. Well, Eccles is coming over at eleven-thirty and then right after that I'll give you a ring if you'll be around.

S: We'll be here.

HMJr: Now, I'm sending Dave Morris up to New York again to be with you for a couple of days, because I want him to learn the business.

S: Fine.

HMJr: So will you take care of him?

S: We'll be glad to.

HMJr: And give him a chance to - it's the Government financing that I want him to watch.

S: Well, we'll show him everything we have.

HMJr: He seems like a very good man to me.

S: Well, he looks that way to us, too.

HMJr: As I say, I think it's a good idea, don't you, that after we have somebody - somebody from Treasury comes up and sits a couple of days.

S: Yes, I do. I think it's good for you and good for us, too.

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HMJr: Good.

Robert Rouse: He took hold very quickly, those two or three days he spent with us on the occasion of the two and a half's.

HMJr: Who's this, Rouse?

R: Yeah.

S: Yeah.

HMJr: He does - does he seem to have a feel for it?

S: Yes, I think he does. I was quite surprised at the quickness with which he picked it up.

HMJr: Good. Good. Well, I've got to have somebody here besides Bell that will devote himself exclusively to that, you see; and that's what I have in mind.

S: Yeah. Well, we'll work with him and give him everything we have; and I think he has the flair for it.

HMJr: Good. Tell me, weren't the people pleased that they're going to get the rights?

S: Very much so.

HMJr: Yeah. Well, the way I feel is this: after all, the people that bought these things - I have no complaint. They've always been very fair with me; and why do something to punish them unnecessarily?

S: Well, I don't think you would punish them unnecessarily if you gave them a little notice on any change in.....

HMJr: Well, I may do that after this is over.....

S: Well, that's perfectly.....



- HMJr: .....but I don't feel that I gave them enough notice; and after all, I want them to make money out of it.
- S: Well, I think that's a perfectly reasonable point of view, and I think that there's been some question as to whether they had enough notice on this issue.
- HMJr: I mean, I definitely want them to make money out of it. I want them to be happy.
- S: Well, I think they ought to make some money out of it. I don't think it's immoral for them to make money out of.....
- HMJr: Well, I've never said so and I've never felt that way.
- S: No.
- HMJr: Righto. I'll be calling you in about a half or three-quarters of an hour.
- S: All right, fine. Good-bye.

October 22, 1941  
11:02 a.m.

Nathan  
Straus: Am I interrupting you in a very busy day,  
as usual?

HMJr: No, you never interrupt me.

S: (Laughs) Well, I'd like very much if I  
could come over and have a little chat with  
you some time, just to suit your convenience.  
It won't take very long.

HMJr: Now let me just look, Nathan. Nathan, if I'd  
put you off until tomorrow, is that too far  
off?

S: No, I wouldn't say that it's too far off  
at all, if you could make it in the morning.

HMJr: No, I can't, I'm all tied up in the morning.

S: Because I've got to go up to New York and  
see Senator Wagner about the same thing in  
the afternoon.

HMJr: Oh.

S: And today's bad for you, you mean?

HMJr: Yeah, I'm financing today.

S: Oh, I thought you were financing yesterday.

HMJr: No, today and tomorrow - I mean, yesterday  
and today - I mean I've got to price it. We  
haven't priced it yet. Let me just see a  
minute. Hello. Hello. Well, let's say  
four o'clock today?

S: I'll be over then. It won't take very long.

HMJr: All right, Nathan.

S: Good-bye.

HMJr: Thank you.

October 22, 1941  
11:10 a.m.

HMJr: Chester Barnard is here with me now, and Randolph Paul.

John Sullivan: Oh, I've been waiting for Randolph here. Do you wish me to come in?

HMJr: No, no. What I can say I can tell you on the phone. (Laughs)

S: Righto.

HMJr: What Barnard says is, he can't go any further until you tell him what your tax program is, in writing.

S: Yes.

HMJr: So when are you going to have a tax program?

S: Well, that never takes more than five or six minutes. We have a general outline ready now, sir; we'll give that to him.

HMJr: In writing?

S: Yes. I had it for you the other day.

HMJr: Well, he hasn't seen it.

S: No, I don't think he has.

HMJr: Well, he's waiting on you.

S: All right, I'll give it to him.

HMJr: When?

S: Just as soon as he leaves your office.

HMJr: Just as soon as he leaves my office. All right, he can drop by and knock on your door for it.

S: What time this afternoon do you think I'll

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have an opportunity to go over that talk with you?

HMJr: Oh, with me?

S: Yes, sir.

HMJr: Has Kuhn got it?

S: Ferdie has it now.

HMJr: I'll try to do it before lunch if I can.

S: All right, sir. Thank you very much.

HMJr: Before lunch.

S: Right.

October 22, 1941  
11:20 a.m.

RE FINANCING

Present: Mr. Hadley  
Mr. Bell  
Mr. Murphy  
Mr. Haas  
Mr. Morris  
Mr. Eccles  
Mr. Piser

H.M.Jr: I thought we could have a little meeting before Eccles comes over. Did you give copies to anybody else?

Hadley: Yes, they have copies.

H.M.Jr: This is you independently of those fellows?

Hadley: That is right. We reached the same estimate, though, working independently.

H.M.Jr: What has happened to the market this morning, Hadley, do you know?

Hadley: There has been nothing taking place in the issues that we are interested in. Last night the rights moved from five thirty-seconds up to sixteen thirty-seconds, and they have stayed

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at about that point today.

H.M.Jr: That book only takes it to yesterday, doesn't it?

Haas: Last night's close.

H.M.Jr: Let me have it, George. This is up to last night?

Haas: Yes, sir.

H.M.Jr: The damn things have been going down, haven't they?

Bell: They went down after the rights announcement.

H.M.Jr: Have we got any notes here that are taxable? It doesn't show on here.

Bell: Three quarters.

Haas: It shows out in front. Then you can look them up.

H.M.Jr: Oh!

Bell: It doesn't show what they are. They are three quarters December and three quarters March.

H.M.Jr: Well, George, another time, put "T" in. Even I can read it.

Haas: Yes.

H.M.Jr: Is that the only other one?

Murphy: The last one.

H.M.Jr: Will knocking off those rights knock the

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whole thing off?

Hadley: It knocked everything in the short market down.

H.M.Jr: How much?

Hadley: In the shorter Treasury notes as much as ten or twelve thirty-seconds. They are starting to gain it back now. You see, they are going to get full rights on this one.

H.M.Jr: Short bonds, for instance, the '44-'46, they haven't--

Hadley: Well, they are not quite short enough.

H.M.Jr: None of these have turned the corner. They are all going down. I didn't realize that they had gone off as much as they had.

Hadley: Of course, some of those short ones, even though the price was going down, they are still giving the same yield because they are cutting it off - cutting the premium off to maturity.

H.M.Jr: The long fellows, though, haven't gone up as much.

Murphy: They are not affected by this discussion at all. The price doesn't matter.

Bell: You mean long bonds or long notes.

H.M.Jr: Long bonds.

Bell: Long bonds are not much interested in this discussion of rights at this point. They may be later.

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Haas: Fifteen years from now.

H.M.Jr: '47-'52 is where they begin to go down. Isn't that funny? Does that show up on your chart?

Murphy: '47-'52's would have a tendency to go down because they are very high coupon.

H.M.Jr: But I mean that is the dividing line. Now, the two percent, '47's, that is where they divide, isn't it?

Bell: Well, that is where your banks hold.

H.M.Jr: What?

Bell: In that area from there down.

H.M.Jr: Were you fellows conscious of that?

Hadley: Yes. In your shorter issues, if the price did the same, it would be equivalent to the price going up as time moves along.

H.M.Jr: But not within the last--

Hadley: If they have a high coupon.

H.M.Jr: This is just this month. Anyway, that is the dividing line.

Morris: Well, they were all hit on that rights business.

H.M.Jr: Well, they reached a high on--

Bell: Your banks - the people that were thinking about the rights were the banks and if there was any selling or offering, it was in the bank field.

H.M.Jr: Is everybody settled on March 15, '46?



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Morris: I still think you can do September if you want to.

Haas: Too exciting.

Bell: I would like to see a September. I am a little afraid of November 1 reserve date, but the premium on a September, as Hadley figures, is just right, eight to twelve thirty-seconds.

Hadley: That is a good enough premium if you get support in the market. If they just exchange their RFC and CCC notes for the new one and then don't buy any on the market that might not be enough.

H.M.Jr: Well, what about June?

Hadley: June has very heavy maturity of bonds amounting to about a billion nine hundred million, call dates.

Bell: Callable bonds.

H.M.Jr: How much?

Hadley: A billion nine hundred.

Morris: That is one advantage for September.

H.M.Jr: George, what do we usually allow?

Haas: About sixteen thirty-seconds.

Bell: We have cut it a little fine on a few occasions when it is straight exchange, haven't we?

Haas: Yes. I looked it up Saturday and about a half is an average.

- Bell: We have usually missed it. We have always said that is about what we would like to give, and then the market has gone up right afterward; we have given them a little more.
- Haas: The thing about this, Mr. Secretary, is that we figured, and it will probably work out that you will have a bunch of higher premiums and you won't like it, but, on the other hand, you take September, there is definite risk in it.
- Bell: Yes, I have to admit that.
- H.M.Jr: You do?
- Bell: I have to admit there is some risk in September.
- H.M.Jr: Well, what about June?
- Bell: June is all right except that you are heavy.
- H.M.Jr: Well, there is no fixed obligation.
- Bell: No, they are callable and if your interest rates stay where they are you wouldn't be justified in passing over them. But, again, you say you won't be here. Maybe the rest of us will, anyway. We will take the blame.
- H.M.Jr: If you fellows think September is risky, I don't want to do it. Do you think September is risky?
- Hadley: I think it is unless you can get some information from the market that they are going to support a one percent. Devine is the only one that says you can do a one percent, but even he is wondering whether the market would support it.

- H.M.Jr: He is the only one who says I can do a one percent?
- Hadley: Yes. All the others have said a one percent March or a one and one eighth September. I think it might be interesting to talk to Mr. Devine and find out how he feels about it.
- H.M.Jr: I don't want to talk to him.
- Hadley: You might get the Federal to buy some of them and get rid of some of their longer bonds. I don't think you ought to start out on the assumption you are going to have to support it. You have got to put out something that won't need support at least when we start.
- H.M.Jr: Did anybody say June?
- Bell: No, you have got a June here. It is twelve to sixteen thirty-seconds, and that is all right. If you leave March with less than five hundred million, when you come around to that period, you can always get rid of half of your June by refunding in March, so that you can relieve that load there.
- H.M.Jr: What is the matter with June?
- Bell: June is all right.
- Hadley: Too heavy a maturity.
- H.M.Jr: But forgetting about that.
- Hadley: The bond issues in that area have been a little easy because it is rather loaded.
- H.M.Jr: What do you think, Dave?

- Morris: I can't deny there certainly is some risk. I don't think the risk is nearly as great as the others do, but it is there definitely.
- H.M.Jr: How would you feel if I put it into June?
- Morris: Well, I think it is all right. It is a little safer, but just on the question of maturities, there is something to be said for having it in September because there isn't anything there. People looking to spread the maturities have an advantage in having it there.
- H.M.Jr: Well, there is nothing in March, either.
- Morris: Well, March is absolutely - well, there is a little something.
- Bell: Four hundred eighty-nine million.
- H.M.Jr: How about letting them put up fifty cents or something? That is not so dumb.
- Bell: Well, put out one and an eighth September.
- H.M.Jr: No, I won't do that.  
(Mr. Eccles and Mr. Piser entered the conference.)
- Bell: You couldn't ask for a half point. You would have to ask for a quarter.
- H.M.Jr: This is where we are, to tell you where we are. We are down now - New York wants a one at March 15, '46.
- Eccles: One percent? One percent coupon?
- H.M.Jr: Yes.  
  
And they say from sixteen to eighteen thirty-seconds would be the low.

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Eccles: They say from what?

H.M.Jr: The low would be sixteen to eighteen thirty-seconds. They think it will sell at about a half, from there up.

Bell: Well, it is up. Eighteen to twenty-one, Hadley has got. What have you got, George?

Haas: Sixteen to twenty-two.

Eccles: So it is above the half.

H.M.Jr: Has Piser got to go with these fellows or is he still the lone wolf?

Eccles: I will speak for Piser. In his figure, estimates, it was based upon what he understood in talking to Dan was going to be four hundred thousand cash. He was figuring that you were going to get a million dollars here, five hundred thousand refunding and - or six hundred thousand and four hundred thousand of money, which of course would have made some difference if you were putting out that much more.

Bell: Sure. I am sorry he misunderstood me.

Eccles: Knocking out that cash end of it, I couldn't understand just what the difference was, but that is--

H.M.Jr: Well, now we are talking about the same thing, and where is he?

Eccles: Speak for yourself.

Piser: Well, I have a rather wide range for the March '46 from a premium of six thirty-seconds to thirty thirty-seconds.

- H.M.Jr: Gee!
- Piser: And my best guess on it would be about a half point, which is the same as New York.
- Eccles: Well, that is your average of what you have got.
- Piser: It is on the low side of the average.
- H.M.Jr: Well, some of the boys here think that is a little rich, Marriner, and we were just--
- Eccles: I was just talking to Piser coming over in the car, and he said that he thought that the March would be the safe one. There would be no question about March because even at the most pessimistic approach, it is still a little above par, and if you are optimistic it is nearly a one point premium. I said if you put out March, I wouldn't be - I would think that June would be all right, that the idea was to price this issue rather closely. It is a short issue, and you didn't want to put it out and then find immediately there was a three-quarters or one point premium on it. It is pretty difficult to see how at this time a one percent issue is going to go below par. It may some time a little later on, I don't know, but certainly right now the way this market looks, I wouldn't be afraid of an issue - it is all refunding. It isn't like you are getting new money.
- H.M.Jr: That is right.
- Eccles: And I wouldn't be a bit afraid of a June. My preference would be June.
- H.M.Jr: Well, the trouble is, they point out there will be two big issues which have a call date

on them. I talked the say way you did when these boys brought to my attention that in June we have got a billion thirty-six in '46-'47's and eight hundred nineteen million of '46-'49's.

- Eccles: I wouldn't worry about that because you have got a different problem. You have got a five hundred thousand note issue here. Those are bonds you are talking about. It is in entirely different hands, different holders.
- H.M.Jr: Well, you just came in, and I was at the same point. I made a suggestion that I would like to make to you on account of this stuff, that we make them pay us a little premium.
- Eccles: I don't like the premium idea.
- H.M.Jr: Just add a little cash so when they refund they will give us a little cash.
- Eccles: That is the way to equalize it, but I think the reaction wouldn't be very good on it and it is another change. It is something that we haven't done.
- H.M.Jr: No, we did it.
- Bell: We have done it, but we haven't done very much of it, and we haven't done it for quite a while.
- Eccles: And they didn't like it when you did it.
- Bell: Oh, I don't know.
- Eccles: Did they?
- Bell: I don't know.

- Eccles: I tell you, if you were putting out an existing issue and it was selling at a premium and the premium was fairly substantial, I think there might be some justification. I have thought in times past instead of issuing new issues, it would be better to open up existing issues and sell them at a premium. This is a small issue, and the premium would certainly be awfully small, wouldn't it?
- H.M.Jr: You said a quarter, didn't you?
- Hadley: About a quarter, yes. A quarter of a point would cut the premium down to about ten thirty-seconds, something like that.
- Eccles: Well, that is shaving it - it may be shaving it fairly close on that.
- H.M.Jr: Do you mind if I just ask the boys in New York to think this over for a minute?
- Eccles: No, I think it is a good thing.
- H.M.Jr: Let me just ask them to think it over and get their reaction and then I would like to know.
- Eccles: I don't personally like it offhand.
- H.M.Jr: You think it is shaving it too close?
- Eccles: I think so. I would sooner take the June issue. I wouldn't be afraid of the refunding five years hence on that. I wouldn't walk away from that at all because you have got bonds coming due. They are entirely a different type of investment. This is a note that is coming due.
- H.M.Jr: It is piling an awful lot in on one date.



Piser: Well, part of it could be anticipated, say three months in advance, and the rest of it allowed to run to June '46.

Eccles: It is awfully hard to see five years hence. What might look big now as a maturity might look awfully small then.

H.M.Jr: How many thirty-seconds would it lop off if we did it in June?

Haas: About six, I think.

H.M.Jr: Six?

Haas: That is the way I figured.

Hadley: About six off, five or six lower.

H.M.Jr: If you put a quarter premium on it, how many would it lop off?

Hadley: It would lop off eight.

Eccles: You put the quarter premium on and it would be just about the equivalent of the June issue. My preference would be June in spite of your maturity.

H.M.Jr: How do you feel, Piser?

Piser: Well, I think my first preference would be March with no premium.

H.M.Jr: That would be your first?

Piser: My second would be June with no premium, and the third would be March with a premium.

- Bell: You could knock off a few thirty-seconds by making it May, not very much but three or four thirty-seconds.
- H.M.Jr: Put that in your pocket.
- Eccles: Is this a new one?
- Bell: If you make it August 1, it is just the equivalent of twenty-five cents.
- H.M.Jr: Oh, I don't want to do that.
- Eccles: Dan, really what you say here, you say here is a four and a half year borrowing at one per cent and the Treasury isn't satisfied to give the market four and a half years at one per cent. They want to give them a premium.

(The Secretary held a telephone conversation with Mr. Sproul and Mr. Rouse as follows):

October 22, 1941  
11:43 a.m.

HMJr: Hello.

Operator: Sproul and Rouse.

HMJr: Hello.

Allen Sproul: Yes, sir.

HMJr: You're on the loudspeaker, and Chairman Eccles is here. We're having a very friendly discussion and we're down to this. Hello.

S: Yes.

HMJr: Some of our boys in the Treasury think that the March 15 might be a little rich; so there's two alternatives. Mr. Eccles suggests that we go to June and some of our boys say make it March 15 and charge a quarter premium.

S: At March 15 what?

HMJr: With a quarter premium.

S: Oh, yes.

HMJr: And we just wondered how you people would feel down there.

S: Well, I myself don't think the March '46 will be too rich. There's that possibility, but I think coming up to November 1st with the change in reserve requirements going into effect with the New York City banks' excess reserves being down substantially - although still ample in any ordinary situation - still in relation to what they have been, down substantially; and that there has been some firming of short-term interest rates and there may be a little more, although I don't think the March '46 on balance is likely to prove too rich.

HMJr: I see. You don't really think so?

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- S: No.
- HMJr: How do the people feel that you've been talking to - I mean, anybody want to go out beyond March?
- S: No, I should say that most of them said that you might go out to September '46, but it would be thin.
- HMJr: Yeah.
- S: One, the Chase Bank, thought that a March '46 one was perhaps a little thin, but they've been playing very close to the market there, and their ideas on short rates perhaps are a little high at the moment.
- HMJr: Well, do you think that with November 1st so close, some of the banks may let some of these run off?
- S: No, I don't, because I don't think there's going to be a great deal of trading in these. I think that most of them are going into banks and stay there. But I don't think they'll be out buying them in the market in addition to what they get on allotments.....
- HMJr: I see.
- S: .....or on exchange. I don't think there'll be much buying in the market by the banks here.
- HMJr: I see.
- S: And if you're dependent for some buying on the banks out around the country, it, I think, would look better on a March '46 one than on a September one.
- HMJr: I see. Well, what about June, Mr. Eccles wants to know.
- S: Well, I think that would be better than September; but my own mind - in my own view -

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the March is close enough to the market, and gives you a little better protection on the issue.

HMJr: Now, if you'll just mind standing by a minute we.....

S: And furthermore in June, you have a billion eight, I think, of other securities maturing.

HMJr: That's right. Now would you mind just holding the wire a minute or two?

S: Not a bit.

HMJr: We'll try to settle it.

(Secretary talks aside)

HMJr: Hello. If you'll wait a minute, I'll call you back so you won't have to be standing there. It'll be two or three minutes.

S: All right. We'll be here.

HMJr: I'll call you back in two or three minutes.

S: Right.

11:55 a.m.

HMJr: Hello.

Operator: Go ahead.

HMJr: Hello.

Allan Soroul: Hello.

HMJr: Washington is going to be big hearted and generous. March 15, '46.

S: Well, I think you'll get an adequate response

for that generosity.

HMJr: Well, Dan says it's getting close to Christmas.

S: (Laughs)

Rousee: (Laughs)

S: Santa Claus is just around the corner.

HMJr: Well, we know we're being big hearted.

S: Yeah.

HMJr: So the boys will go to work.

S: Well, it'll leave a much better taste than the other.

HMJr: What?

S: It'll leave a much better taste than the other.

HMJr: Oh, yeah. Eight thirty-seconds better taste.

S: (Laughs)

HMJr: All right.

S: All right. Thank you.

HMJr: Thank you.

R: Good-bye.

HMJr: Good-bye.

S: Good-bye.

H.M.Jr: What do you think, Dan?

Bell: Well, Certainly the March 15 is the safest issue and it will probably make us feel good if it does go up. But the only thing that will worry me is the statement on rights, and have them get a great deal more than we anticipated them getting.

In view of all that has been said, I expect March is the safest. I certainly wouldn't go beyond June.

H.M.Jr: Hadley?

Hadley: I would prefer March to June. I think the premium in June is enough, but I don't like that having the maturity of two billion and a half on one date when you can avoid it.

H.M.Jr: Henry?

Murphy: I prefer March.

H.M.Jr: George?

Haas: Same, March.

H.M.Jr: Dave?

Morris: I take March and a premium, and it would have the added advantage of getting them used to that kind of a thing, which may give you a little greater flexibility later on, and I also think there is a lot in what Dan said about not giving it too big a premium when you have been trying to cut down the rights, and you are going to try to cut down in them in the future on the refunding of these guaranteed issues.

Bell: I think we have to do this, Mr. Secretary, too, when we have got some markers out

there. We haven't got the markers on these taxable securities. This is sort of a void place, and the boys are guessing on the prices. We are in the same position here as we were on the two and a halves. It is a little bit uncharted territory.

Piser: March with no premium.

H.M.Jr: Marriner, you have the last say.

Eccles: Well, I think the difference is a small item. I don't feel like Allan does. If this wasn't a refunding issue - now, these banks that hold these securities haven't got another place in the world to put their securities, and they can't sell them. They can't sell them and buy anything else.

What is happening today, FHA loans throughout the country, instalment credit loans are diminishing rapidly and I have talked to enough bankers to know that they are going to be strictly up against it for earnings, for a place to put the money, and I am not a bit concerned about - wouldn't be a bit concerned about that June issue. I wouldn't be concerned, because you have got that maturity. I think that another five hundred thousand maturing, being a note issue - and you have got bonds, you have got two different classes of investors. It is a question of refunding at that time so as to meet the demand of the investors. You have got two different types holding these securities that will mature.

At the same time, if the Treasury feels, as apparently some of the boys do, that the fact you have got that big maturity in June takes June out of the picture, I would say March. I am not in favor of the premium at this time.



I wouldn't put the premium on.

H.M.Jr:

March?

Eccles:

I would put March, without the premium. My first choice would still be June, because I am sure that that doesn't give you too much of a premium, and I fear March is going to give you a fair - a premium that is possibly more than expected or justified, but I wouldn't object to taking that chance. It is a small matter.

H.M.Jr:

Well, I think we would be criticized for doing June.

Eccles:

On account of the maturities?

H.M.Jr:

Yes.

Eccles:

I think you may be, but that is --

Murphy:

Mr. Secretary, if the --

H.M.Jr:

Louder, Henry.

Murphy:

If the issue were to be thinned down, I think there is something to be said for June as a date in the abstract, as opposed to March. The things which fall in June will not be urgent. There is a three and a three and an eighth. They are both the first call date. You have two years in one case, and three years in the other. On the other hand, March is no bed of roses. You have a three and three quarter that is callable then, and because of the higher coupon, it is more urgent. In the second place, on April 15 you have a final maturity of the three and a quarter. Now, as the Chairman has said, five years is quite a time in advance, and possibly that three and a quarter will be running to maturity, and if so, it

is a must, whereas the call dates aren't, so I think between March and June it is more or less of a toss-up. I just wanted to put that thought in.

H.M.Jr: Well, I feel this way. Normally those men down there - Sproul has been very good, you know.

Eccles: Oh, yes. Sproul is working for the Government.

H.M.Jr: And he is a little bit worried and a little bit cautious, and so I would rather do the March, and if they get eight or ten thirty-seconds too much, what the hell. You never know tomorrow what the war news will be, and they can say what they want, but the market does react.

Eccles: I feel that the banks and credit institutions, if you give them a little better earning, I feel that it takes the pressure off from them trying to expand. What we are trying to say to the institutions is, "Don't go out and loan a lot of money, and don't go out and bid up the price of bonds, and don't try to get this stuff in the hands of savers." Now, if we want them to do that, then we can't cut them so damn close that they can't exist, and they have got to go out. So from that standpoint --

H.M.Jr: You are satisfied?

Eccles: I am perfectly satisfied to give the banks this extra profit if you want to call it that. That is what it is. We will ask them therefore to cooperate otherwise, I think, even though it gives them the premium.

H.M.Jr: Then let's say March 15. It has only got to

be open two days, but you can get an awful lot of bad war news in two days.

Piser: This issue is pretty highly concentrated in a number of institutions. I think one day is enough.

Eccles: Oh, I think two.

Bell: I would make it two days. Every time we have closed it in one day we have had a lot of criticism.

Eccles: Thursday and Friday?

Bell: Close it Friday night.

Eccles: You would announce it today to the market?

H.M.Jr: No, tomorrow morning. Notices go out at noon for tomorrow morning's papers.

All right, Marriner?

Eccles: I wouldn't be afraid of leaving it open, from the standpoint of whatever the news may be.

H.M.Jr: It is a little rich, and I don't like it particularly, but I am between the devil and the blue sea.

Bell: Some of these times on these issues, we will probably want to give consideration to the possibility of charging a premium for exchanges on the second day, so it will force the big fellows in New York in on the first day and then these country stragglers who miss out because they forget it, penalize them a little bit. When you have to give three days on an issue that is pretty widely held, the big fellows hold right to the last day and they

have got you in a pocket if you have got bad news.

H.M.Jr: That is right. It is a good idea.

Eccles: I am glad that we did one thing yesterday, and that is that we didn't decide to eliminate rights.

H.M.Jr: You are?

Eccles: Yes, I am, and I am glad we decided not to go fifty per cent. Now, I think this whole question of rights needs a lot of thought and consideration.

H.M.Jr: I agree with you.

Eccles: And that before we just arbitrarily decide to cut out - go ahead on your telephone conversation, and I will talk later.

(The Secretary held a telephone conversation with Mr. Sproul and Mr. Rouse as follows):

*have no  
record*

- Eccles: I was saying that this question of rights, I think, is a very, very important issue, and there is a lot of - there are a lot of arguments, it seems to me, for continuing rights.
- H.M.Jr: You know, I didn't say anything.
- Eccles: No, I know you didn't, and I think we may have made a great mistake if we had decided to do what Sproul indicated, give them fifty, or to discontinue them altogether. I would like to have a discussion of this whole question from every point of view before that issue is decided as a matter of policy.
- H.M.Jr: Let's do this, Marriner. Let's have another Treasury - Federal Reserve meeting say next Wednesday for lunch.
- Eccles: And discuss --
- H.M.Jr: This or anything else. Rights and so forth.
- Eccles: I think the question of rights is a matter that --
- H.M.Jr: Excuse me a minute.
- (The Secretary left the conference).
- Eccles: I would like to see Allan and Rouse consider this whole thing and have them come down and then I would like for our fellows here to have a chance to discuss it, and then come over and meet with you people here. The sole purpose would be merely the discussion of this question of rights, what should be the future policy.
- Bell: I am not in favor of --

- Eccles: I don't think you can lay out any long term financing program without crossing that bridge, considering that. I think it is an integral part of your whole future financing, and I think it is awfully important right now, awfully important.
- Bell: I am not in favor of eliminating, but I am in favor of cutting them down a little in price and making it a little closer. I think this half on a one per cent March will just about give them what they thought they were going to get in the first place. That is the way I think it will pan out.
- Eccles: I have also been in favor, Dan, of pricing. As long as you are doing your open market financing it is good business to price your stuff just as nearly as you can to the market and don't give any more than is absolutely necessary. That is good financing.
- Bell: But damn it, we are always up against some emergency. Every time we do any financing something just around the corner is liable to happen.
- Eccles: That has made all the difference in the world. That is what you have been up against, two things. Now, I have always figured that we have been too generous in our pricing, and you will find that I have always been on the closer pricing side, all the way along.
- Bell: Yes, but you have got to bear in mind that this fellow here has the burden on his shoulders that if this damn thing fails just because of a few thirty-seconds, it is always best to take those few thirty-seconds, better than to go back the other way and have it fail. We have always been up against that.

Eccles:

I think normally that has been true. You are in an emergency today, you are in a war economy, and I think we more and more have got to look to Federal Reserve and Treasury controlling the market, and less and less to what we speak of as the "natural" market. That is the way I feel about it. We have been in the past, and I suppose properly so, depending upon open market financing, looking at what we termed a "natural" market, although it wasn't natural, as gold, silver, excess reserve picture was the thing that made the market, and not any natural condition at all, but you are going into a war economy of tremendous proportions, and we have got to be prepared to exercise more and more controls, not only in the field of defense requirements, but in the field of defense financing, and I think that we have got to take a look at the British picture, and a look at what other countries are doing, and I am much less concerned about financing in the future if we will look at it from that standpoint, and I can assure you that the Reserve System is clear over now. I mean, they were open market, natural market, but they have come an awful long way on the other side of the picture, an awful long way in the field of completely and fully cooperating with the Treasury in the matter of a long range pattern, using the full power that they have in conjunction with what the Treasury has, and I am sure that we can do anything that is necessary to be done. We don't need to be afraid.

Bell:

What are you going to do after the war is over and we have ten billion dollars of Savings Bonds out, and they all come in to cash them?

Eccles:

I wouldn't worry about it.

Bell: Wouldn't you?

Eccles: No, for this reason. Let me tell you why. People that are going to cash Savings Bonds are going to have - they want to spend that money and that is what you want. Now, the Government will have to refund - it is a process of refunding. If you didn't have the refunding, you would have new financing to do, see, to supply - to provide expenditures to take care of, possibly, unemployment.

Bell: I think that is fine, if they don't come too fast.

Eccles: Well, I hope they will come fast enough to provide spending power. I would sooner see the Treasury refund Savings Bonds because the savers are spending the money than to have the Treasury go out and have to borrow new money to provide for public expenditures.

Bell: We will probably have to do both.

(The Secretary returned to the conference).

Eccles: Well, some of both, but the faster the savers will come the less you will have to do the other way, Dan.

H.M.Jr: Well, Marriner, thanks for your time. I feel the way you do. It isn't something you just pass off lightly, and I am glad that you are satisfied that we didn't do half. I just didn't want to to it. It is all very nice. There are two sides to this story about rights.

Eccles: I will say there are.

H.M.Jr: There are two sides to this thing and we have been pretty successful, and before we change the system I want to consider it pretty carefully.



- Eccles: You have got less reason to change it now than you have had before.
- H.M.Jr: That is right, and if you would come over Wednesday, and if you would let me know who you would like to bring with you.
- Eccles: What I was going to suggest is that I would like to have Sproul and Rouse study this thing and I would like to have them come down and have our Executive Committee, the Open Market, take the responsibility for this along with Rouse. Of course, Allan is on the Committee. And then I would like to have that committee meet with whoever you want, and I think we should possibly better have a meeting instead of a luncheon on that.
- H.M.Jr: Well, it is this group in the room here.
- Eccles: Well, let's meet whenever you want to.
- Bell: When will you have them coming to town? If you will let me know when they are coming to town, I will make arrangements to meet them after you have your meeting.
- Eccles: Why don't we say next Wednesday?
- Bell: That is fine.
- Eccles: For discussing this whole question of rights.
- H.M.Jr: Then you will get in touch with Dan?
- Eccles: Yes.
- H.M.Jr: All right, thank you very much.

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October 22, 1941

Secretary Morgenthau

W. H. Hadley

NEW TREASURY NOTES

<u>Coupon</u>	<u>Maturity</u>	<u>Yield</u>	<u>Probable Price</u>	<u>Premiums</u>
1%	Mar. 15, 1946 (4 yrs.-4 1/2 mos.)	0.85 0.87	100.21 100.18	21/32nds 18/32nds
	May 1, 1946 (4 1/2 yrs.)	0.87 0.90	100.18 100.14	18/32nds 14/32nds
	June 15, 1946 (4 yrs.-7 1/2 mos.)	0.89 0.92	100.16 100.12	16/32nds 12/32nds
	Aug. 1, 1946 (4 yrs.-9 mos.)	0.90 0.93	100.14 100.10	14/32nds 10/32nds
	Sept. 15, 1946 (4 yrs.-10 1/2 mos.)	0.92 0.95	100.12 100.8	12/32nds 8/32nds
	1-1/8%	Sept. 15, 1946 (4 yrs.-10 1/2 mos.)	0.92 0.95	100.31 100.27
	Nov. 1, 1946 (5 years)	0.95 1.00	100.27 100.20	27/32nds 20/32nds

REOPEN OLD NOTE ISSUE

<u>Issue</u>	<u>Outstdg.</u>	<u>Present Price</u>	<u>Probable Price</u>	<u>Reopen at</u>	<u>Premium</u>
3/4% 3/15/43 (1 yr.-4 1/2 mos.)	66 mil.	100.22	100.18	100 100-1/8	18/32nds 10/32nds

October 22, 1941

Secretary Morgenthau

Mr. Morris

Subject: Advance information on industrial and municipal financing.

After discussion with Messrs. Bell and Haas, we all agree that the information currently available from regular sources is of almost no value with respect to keeping track of "timing." It is suggested that, subject to your approval, I explore with the New York Federal Reserve Bank only (but NOT talking, at this time, to anyone else) the matter of their talking to dealers in their district, purely on the basis of obtaining information as to timing, and discuss arrangements for a weekly report plus special daily reports if an important change occurs. If this test case were satisfactory, it could be expanded to the other Federal Reserve Districts.

It is also suggested that, in order to keep informed on the collateral problem of capital expenditures, you designate someone to discuss this with Donald Nelson's organization.

*W.M.*

UNITED STATES SAVINGS BONDS

Comparative Statement of Sales During  
 First Eighteen Business Days of August, September, and October, 1941  
 (August 1-21, September 1-22, October 1-21)  
 On Basis of Issue Price

(Amounts in thousands of dollars)

Item	Sales			Amount of Increase or Decrease (-)		Percentage of Increase or Decrease (-)	
	October	September	August	October over September	September over August	October over September	September over August
	Series E - Post Offices	\$ 28,720	\$ 28,534	\$ 29,527	\$ 186	-\$ 993	0.7%
Series E - Banks	<u>53,532</u>	<u>48,700</u>	<u>55,703</u>	<u>4,832</u>	<u>- 7,003</u>	<u>9.9</u>	<u>- 12.6</u>
Series E - Total	82,252	77,233	85,230	5,019	- 7,997	6.5	- 9.4
Series F - Banks	15,136	12,280	15,180	2,856	- 2,900	23.3	- 19.1
Series G - Banks	<u>\$1,783</u>	<u>76,913</u>	<u>93,698</u>	<u>4,870</u>	<u>- 16,785</u>	<u>6.3</u>	<u>- 17.9</u>
Total	<u>\$179,171</u>	<u>\$166,427</u>	<u>\$194,108</u>	<u>\$12,744</u>	<u>-\$27,681</u>	<u>7.7%</u>	<u>- 14.3%</u>

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

October 22, 1941.

Source: All figures are deposits with the Treasurer of the United States on account of proceeds of sales of United States Savings Bonds.

Note: Figures have been rounded to nearest thousand and will not necessarily add to totals.

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UNITED STATES SAVINGS BONDSDaily Sales - October 1941  
On Basis of Issue Price

(In thousands of dollars)

Date	Post Office Bond Sales	Bank Bond Sales				All Bond Sales			
		Series E	Series F	Series G	Total	Series E	Series F	Series G	Total
October 1941									
1	\$ 1,450	\$ 3,029	\$ 1,286	\$ 8,271	\$ 12,587	\$ 4,479	\$ 1,286	\$ 8,271	\$ 14,036
2	1,870	2,786	867	4,324	7,977	4,656	867	4,324	9,847
3	2,150	3,299	1,065	6,323	10,687	5,449	1,065	6,323	12,837
4	1,270	1,696	612	6,400	8,707	2,966	612	6,400	9,978
6	3,449	4,778	1,444	9,286	15,508	8,226	1,444	9,286	18,956
7	1,207	2,595	572	2,913	6,080	3,802	572	2,913	7,287
8	1,363	3,674	821	3,611	8,106	5,037	821	3,611	9,469
9	1,652	4,270	903	3,654	8,827	5,923	903	3,654	10,479
10	1,495	3,672	989	5,272	9,933	5,167	989	5,272	11,428
11	1,291	2,400	632	4,098	7,129	3,690	632	4,098	8,420
13	2,515	3,624	1,164	4,989	9,778	6,139	1,164	4,989	12,293
14	437	1,022	261	511	1,794	1,459	261	511	2,231
15	879	2,175	759	3,482	6,417	3,055	759	3,482	7,296
16	1,376	3,054	724	3,908	7,685	4,429	724	3,908	9,060
17	1,422	3,609	860	4,969	9,438	5,031	860	4,969	10,861
18	1,180	2,424	846	3,013	6,283	3,604	846	3,013	7,463
20	2,827	3,395	895	3,800	8,091	6,222	895	3,800	10,918
21	887	2,029	436	2,959	5,425	2,917	436	2,959	6,312
Total	\$ 28,720	\$ 53,532	\$ 15,136	\$ 81,783	\$150,451	\$ 82,252	\$ 15,136	\$ 81,783	\$179,171

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

October 22, 1941.

Sources: All figures are deposits with the Treasurer of the United States on account of proceeds of sales of United States Savings Bonds.

Note: Figures have been rounded to nearest thousand and will not necessarily add to totals.

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October 22, 1941  
4:05 p.m.

HMJr: Hello.

Operator: Go ahead.

HMJr: Hello.

Admiral  
Waesche: Waesche, Mr. Secretary.

HMJr: Yes, Admiral.

W: Mr. Secretary, I'm over here in the State  
Department now with Captain Thomas of the  
Navy.....

HMJr: Yes.

W: .....who was over in Russia with this  
Harriman mission.....

HMJr: Wonderful.

W: .....and he has a mass of data on that with  
the names of all the ships.

HMJr: Yes.

W: Rather than my copying all this data, I  
would suggest that - and he's willing to  
come over to your office with me tomorrow  
morning at nine o'clock. Is that agreeable?

HMJr: Perfect.

W: All right, sir. Then we'll be there tomorrow  
morning at nine o'clock with practically all the  
data you want.

HMJr: Will we have somebody who knows those con-  
ditions?

W: Yes, sir.

HMJr: Perfect.

W: Yes, sir.

HMJr: Thank you.

October 22, 1941  
4:24 p.m.

HMJr: Hello.

Morris  
Wilson: Hello. Morris Wilson speaking.

HMJr: How do you do?

W: Good afternoon. That Russian list - if you're still interested in it, the copy is on my desk and I'll send it over by safe hand.

HMJr: Yes.

W: I'll send it over right away.

HMJr: Right.

W: No covering letter; and when you're through with it, please tear it up.

HMJr: Thank you.

W: Thank you. Good-bye.

October 22, 1941  
4:50 a.m.

HMJr: Admiral Waesche has discovered a man in the Navy - a Captain - who has all the information at his fingertips on Russian ports.

Averill  
Herriman: Is that the man that went with me?

HMJr: I imagine so. If you'll name him, I'll tell you whether it sounds.....

H: Ah.....

HMJr: Some Captain in the Navy.

H: Captain Braine?

HMJr: That sounds right.

H: Or Captain Thomas.

HMJr: Thomas.

H: Captain Thomas and Captain Braine went with.....

HMJr: Well, I think it was Thomas. Well, anyway, he's coming to my office with Waesche tomorrow morning, at nine.

H: Fine. I asked him to give me a memorandum for you and so I thought I'd have him come and see you.

HMJr: They're coming at nine tomorrow. And then - I just wanted to let you know I discovered that there is.....

H: Oh, no. I see it's Captain Braine has been asked - I've just got a note here - by the Coast Guard Admiral to meet with you tomorrow morning at nine o'clock.

HMJr: Which one is it?



H: Braine.

HMJr: Braine.

H: B-r-a-i-n-e.

HMJr: Is he good?

H: He went - oh, yes. He's fine. He went with Admiral Stanley on our part of the mission.

HMJr: Well, I understand that he has the things that.....

H: Would you want me to be there?

HMJr: I'd love to have you.

H: I'll come and listen.

HMJr: Would you like to?

H: Sure.

HMJr: We'll settle it on the spot.

H: Sure.

HMJr: At nine o'clock.

H: All right, I'll be at your office at nine o'clock. I'll try to pull myself out of bed that early.

HMJr: Do you want me to send a Coast Guard man around?

H: What?

HMJr: Want me to send a Coast Guard man around?

H: Oh, you'll send a Coast Guard man around to wake me up, huh? (Laughs) All right, fine.

HMJr: Good-bye.

TO:

10/22

Miss. Klutz

The secretary asked  
me to get for him,  
as soon as possible, a  
copy of Wickards  
testimony yesterday before  
the Banking and Currency  
Committee. Will you see  
that he gets it? Thanks.

From: MR. O'CONNELL

TREASURY DEPARTMENT

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INTER-OFFICE COMMUNICATION

DATE

October 22, 1941

TO Secretary Morgenthau

FROM Mr. O'Connell

Attached is an unrevised copy of the testimony given by Secretary Wickard yesterday before the House Banking and Currency Committee. His prepared statement occupies the first three and one-half pages of the pamphlet and the portion which relates to parity prices for farm products appears on pages 1879 and 1880.

His defense of the 110 percent of parity provision of the bill is contained in the marked portion on page 1880. The amendment which he suggests to clarify section 3(a) of the bill does not, as I see it, change its substance at all. The first three lines of his suggested amendment contain merely a shorthand expression of his defense of the 110 percent of parity provision in the bill.

I have not examined in detail all of the discussion included in the attached committee print as I understood you wished to obtain an accurate statement of what Secretary Wickard said before the Committee as soon as possible.

*Joseph P. O'Connell*

# The New York Times.

OCT 22 1941

## BACKS FARM PRICE AT PARITY PLUS 10%

### No Lower Legislative Curb Would Be Fair, Wickard Says at Control Bill Hearing

Special to The New York Times

WASHINGTON, Oct. 21—Secretary Wickard told the House Banking and Currency Committee today that he approved price-control legislation, but that no ceiling should be put on farm prices at less than 110 per cent of parity, or the average price of farm commodities in the base period before the World War.

To put the ceiling at parity, the Secretary of Agriculture said, would mean that prices would fluctuate between parity and some lower point, with the result that the farmer, after twenty lean years, would still not receive what Congress in several enactments since 1933 had decreed as a fair price.

The witness said he desired with the farmers generally to avoid a ruinous inflation such as that which accompanied the World War. Despite accusations of "greediness" on the part of the farmers, he said, agricultural prices, which had risen rapidly recently, were still not out of line.

#### Says Price and Cost Rises Differ

"I can testify from my own experience of the past thirty years," Mr. Wickard added, "that whenever farmers get a price rise, it is usually swift but brief; whereas when a farmer's costs rise, they may not go up as swiftly, but once they get up, they stay there."

"The recent increases in farm prices have been unusually rapid, but I want to make it plain that in my opinion they are not yet out of line, for the reason that these are increases from levels which were abnormally low."

"In 1939, before the war broke out, prices of farm products were so low that the farmer's purchasing power was only about three-fourths of what it had been in 1910-14. Only within the past month or two has the purchasing power approached the parity level. This is the first time in two decades that the farmer's purchasing power has reached parity."

#### Sees Objective Realized

"Inasmuch as the attainment of parity has been the objective declared by Congress in our agricultural legislation ever since 1933, the realization of this objective, it seems to me, ought to be cause for general satisfaction."

Price control alone, Mr. Wickard said, could not prevent inflation. Aside from increased taxation, controlled installment buying and savings by individuals, he said that greater production was needed to curb inflation.

"We are expecting and working for a total agricultural production in 1942 that will be the greatest in our history," he observed. "This will be true despite reduced plantings of wheat and cotton, of which we have large surpluses. The increase will come in meat and milk and eggs, the foods we need most."

**PRICE-CONTROL BILL**

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**HEARINGS**

BEFORE THE

**COMMITTEE ON BANKING AND CURRENCY**

**HOUSE OF REPRESENTATIVES**

**SEVENTY-SEVENTH CONGRESS**

**FIRST SESSION**

ON

**H. R. 5479**

A BILL TO FURTHER THE NATIONAL DEFENSE AND SECURITY  
BY CHECKING SPECULATIVE AND EXCESSIVE PRICE  
RISES, PRICE DISLOCATIONS, AND INFLATIONARY  
TENDENCIES, AND FOR OTHER PURPOSES

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**PART 32**

OCTOBER 21, 1941

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Printed for the use of the Committee on Banking and Currency



UNITED STATES  
GOVERNMENT PRINTING OFFICE  
WASHINGTON : 1941

### COMMITTEE ON BANKING AND CURRENCY

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MERLIN HULL, Wisconsin

JASPER DOUGLAS BROWN, *Clerk*

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## PRICE-CONTROL BILL

TUESDAY, OCTOBER 21, 1941

HOUSE OF REPRESENTATIVES,  
COMMITTEE ON BANKING AND CURRENCY,  
*Washington, D. C.*

The committee met at 10:30 a. m., Hon. Henry B. Steagall (chairman) presiding.

Members present were as follows: Messrs. Steagall, Williams, Spence, Ford, Brown, Patman, Gore, Mills, Mooroney, Koppleman, Boggs, Wolcott, Gifford, Crawford, Kean, Miss Sumner, Messrs. Rolph, Dewey, and Hull.

The CHAIRMAN: The committee will come to order. We have with us the Secretary of Agriculture, Mr. Wickard. Mr. Secretary, I am sure the committee will be glad to hear you discuss this bill. If you desire to submit a prepared statement, I am sure the committee will be glad to hear you without interruption. You may proceed.

STATEMENTS OF HON. CLAUDE R. WICKARD, SECRETARY OF AGRICULTURE; DR. KENNETH GALBRAITH, DIRECTOR OF PRICE OPERATION, OFFICE OF PRICE ADMINISTRATION; AND DR. H. H. TOLLEY, BUREAU OF AGRICULTURAL ECONOMICS, DEPARTMENT OF AGRICULTURE

Secretary WICKARD: Mr. Chairman and members of the committee, I agree thoroughly with the objectives of the pending bill.

Price control alone cannot, of course, prevent inflation. The Congress and the administration have already recognized this by steps taken to dampen the tremendous increase in consumer purchasing power, by increased taxation, by increased savings by individuals, and by checking uncontrolled installment selling. But beyond all these, important as they are, is the necessity for increased production. That is the surest preventive of inflation.

Farmers of the United States have a right to be proud of their record of production. Total agricultural production in 1941 will probably be 113 percent of the 1924-29 level, as compared with 105 percent of that level in 1936-40. We are expecting and working for a total agricultural production in 1942 that will be the greatest in our history. This will be true despite reduced plantings of wheat and cotton, of which we have large surpluses. The increase will come in meat and milk and eggs, the foods we most need.

I know from personal experience what inflation does to agriculture. I was farming before the World War, during it, and after it. I saw prices double in 3 or 4 years, and along with a lot of other

farmers got quite excited about it. Then I saw the bottom drop out of prices, and that memory has stayed with me. Inflation feels fine while you are in the midst of it. It is the deflationary bump that hurts.

Like other farmers, I have watched with mingled pleasure and fear these recent price increases for farm products. I think the pleasure is understandable enough after 20 years of unfairly low farm prices. Even greater than the pleasure, though, is the fear of what happens when prices get too high. They are certainly not there now. But speaking as a one farmer, I hope they never do get there. I want to make that clear. I do not think they are too high now.

The thing about farm prices is that in a period like this they always go up earlier and faster than other prices. Farm costs, meanwhile, lag behind. That was true the last time. It wasn't until early in 1920 that some farm costs had caught up with or passed prices. And it was even later than 1920 before such other costs as taxes stopped rising.

Then when that first deflationary bump came in 1920, farm prices led the procession downward just as they had led it up, and again they went faster and farther. But this time farm costs never did drop as far as farm prices. This downward spiral of farm prices, furthermore, was not only weeks and months ahead, it was years ahead of the decline in farm costs. In fact, some farm costs, such as farm taxes, farm mortgage debt, and interest payments, kept on increasing for several years after the 1921 break in prices. Not until the depression of 1929 did some of these costs really begin to drop. During the twenties farm taxes got as high as two and a half times pre-war; city wage rates two and a quarter times; freight rates and farm machinery charges two-thirds above pre-war. When these costs did finally level off, they stayed significantly above the pre-war level.

The long deflation really got in its worst lies on land values, tax delinquencies, foreclosures, and bank failures. Between 1923 and 1932 at least one farm in every five involuntarily changed hands. It is true that between 1931 and 1936 the total farm mortgage debt was reduced by some \$3,000,000,000, but it was reduced largely through foreclosures. The effects of this deflation in farm prices and farm land values did not stop with the farm. You will recall that between 1921 and 1934 nearly 14,000 banks failed, and 80 percent of these were country banks. I do not believe that the American economy can stand a repetition of anything like that.

Not merely hundreds, not merely thousands, but hundreds of thousands of hard-working American farmers between 1920 and 1933 lost their land and their homes. A farmer who lost his farm as a result of deflation doesn't need any sermons on the dangers of inflation.

Perhaps, to my mind, the most unfortunate group of all was that of the young men who were released from the Army and Navy in 1918 and 1919 and who started farming immediately after they were ushered out of service. Many of them put their savings and what money they could borrow in the purchase of farm equipment and sometimes farm lands, at the inflated price levels existing during 1918-1919. During the deflation which took place in the twenties

and early thirties these young men in too many cases lost all the property they had and the labor from their most productive period of life.

The rise in land values was exciting and pleasurable while it lasted. The country over, the value of an acre of plowed land went from \$58 in 1916 to \$90 in 1920. In Iowa improved land that was valued at \$134 an acre in 1915 reached \$255 by 1920. We all remember what happened since then. In the years after 1920, farm land values not only dropped as much as they had risen during the war; they dropped on the average 27 percent below the modest pre-war values. Yet farmers had to pay debts and taxes, and interest, and other charges on the basis of land values nearly double the pre-war level. Of course, you can't do that and stay in business.

In short, I can testify from my own experience of the past 30 years that whenever farmers get a price rise, it is usually swift but brief; whereas when a farmer's costs rise, they may not go up as swiftly, but once they get up, they stay there.

Thus far, the parallel between World War I and World War II, as far as farm prices and costs are concerned, is too close for comfort. I am sure that this committee has already studied charts of price behavior during the two wars and has noticed that priced during 1914-16 and again during 1939-41 seemed to be following an almost identical course. These price charts, together with other things we are happening daily, make it appear that we may be starting on the same ruinous inflation we set out upon at about the same time in the last war.

No farmer who remembers the bitter experiences of the last post-war period wants to see this kind of inflation again. He knows that prices pushed up by speculative influences or other distortions cannot be sustained. No farmer wants another 1921, nor 1932. I don't believe that major economic depressions are inevitable, but I am sure that the only way to prevent them is to prevent the inflation which breeds them.

The recent increases in farm prices have been unusually rapid, but I want to make it plain that in my opinion they are not yet out of line, for the simple reason that these are increases from levels which were abnormally low. In 1939, before the war broke out, prices of farm products were so low that the farmer's purchasing power was only about three-fourths of what it had been in 1910-14. Only within the past month or two has the purchasing power approached the parity level. This is the first time in two decades that the farmer's purchasing power has reached parity. Inasmuch as the attainment of parity has been the objective declared by Congress in our agricultural legislation ever since 1933, the realization of this objective, it seems to me, ought to be cause for general satisfaction.

One of the merits of the pending bill is its acceptance of the parity principle. I assume that the bill uses the parity principle for farm prices because it is fair to both farmers and consumers. It asks no more of consumers than that they should pay prices sufficient to keep farmers producing under conditions which will permit a decent standard of living. Fair-minded consumers will admit that farm-product prices have been bargain prices during most of the last 20 years. While the price increases have been relatively sharp in some



commodities, as recently as September food was still the cheapest component of the cost of living, standing at 84.4 percent of the 1924-29 average as compared with 86.5 percent for all living costs combined.

As I understand the purpose of the pending bill, it is to cut off the inflationary spiral before it really gets started. The administrative effort will necessarily be to maintain a fair relationship among prices, and a practical margin between prices and costs. If a producer's prices are fixed at a given level, obviously his costs cannot be permitted to rise so high as to wipe out his net income. One advantage of the parity formula is that it reflects changes in the costs of production. The prices of industrial goods bought by farmers include the wages paid by industry, and a change in wage rates sufficient to change the price of the item will change the index of prices paid by farmers.

Section 3 of the bill provides that no price ceiling shall be established on any agricultural commodity below 110 percent of the parity price or comparable price for such commodity, or the market price prevailing for such commodity on July 29, 1941. There has been a good deal of discussion of this 110 percent figure.

Farmers have been accused of greediness; of not being content with parity. Let me say here and now that accusations of that sort are, in my opinion, unjustified and unfair. The farm price-ceiling provision of this bill is certainly no basis for such a conclusion.

There is a perfectly practical and obvious reason for stipulating that no ceiling should be imposed on farm products at less than 110 percent of parity, rather than exactly at parity. As every farmer knows, farm products prices fluctuate every day. The supply of a commodity coming on the market changes from day to day, and the demand changes from day to day. Prices fluctuate accordingly. Price fluctuations may be desirable to stop the flooding of markets at certain periods. As a rule, daily price fluctuations are relatively small, but they ought to be allowed for, in order to keep to a minimum the amount of administrative supervision necessary. If ceilings were placed exactly at parity, the daily fluctuations in the market would necessarily all be between parity and some lower figure, and as a result, farmers could not possibly average parity. The real purpose of restricting ceilings to a point somewhat above parity is to make it reasonably sure that all farmers will have an opportunity to get parity. After all, it happens to be the expressed policy of Congress and the administration to achieve and maintain farm prices at parity.

In order that the intent of section 3 shall be clear, and in order that the instructions for administration of the section may be as specific as feasible, I should like to suggest to the committee certain clarifying changes in the language, as follows:

Sec. 3. (a) So as not to prevent the season's average prices for any agricultural commodity from averaging 100 per centum of parity, no ceiling shall be established for any agricultural commodity below (1) the market price equivalent to 110 per centum of the parity price or comparable price for such commodity, adjusted for grade, location, and seasonal differentials, as determined and published by the Secretary of Agriculture; or (2) the market price prevailing for such commodity on July 29, 1941.

These changes in language are designed to leave no doubt of the intention of Congress to obtain parity for farm products. The re-

vised language also uses the term "market price equivalent." Since a parity price is a farm or local market price, it is necessary, for purposes of administration, to determine at regular and frequent intervals the market-price equivalent of parity at the major terminal markets for any commodity. It is also necessary, as the new language suggests, to take into account, in the administration of this section, necessary adjustments for differences in the grade of a commodity, location, and for seasonal factors.

That concludes my statement, Mr. Chairman.

The CHAIRMAN. Mr. Secretary, do you think that the mere writing into the bill whatever figure might be agreed upon by the committee as the parity basis, would be of itself a sufficient protection incorporated into the bill to insure the object we have in mind? What I have in mind is this: Is the mere provision of a ceiling at parity, or at parity plus 10 percent, a sufficient protection to hold the benefits of the parity legislation passed by Congress?

Secretary WICKARD. Well, there must be a lot of other things.

The CHAIRMAN. What I had in mind was this: I did not mean to say that whoever might be in charge of the administration of this law would not respect and carry out the purposes that Congress had indicated by the provisions now in the law, but since all legislation rests, more or less, upon a mistrust, in any event legislation should carry the necessary provisions and language to insure its fulfillment, and, in view of that, should not there be in the bill some provision that would prevent the possibility of the nullification of the purposes of the bill by a ceiling that might be based on the finished goods or the processed article made from agricultural commodities?

Secretary WICKARD. I have in the revised language that I have suggested tried to cover that. I suggest there that there ought to be an established price for agricultural commodities which would bear the relationship to the commodities that 110 percent of parity would bear to the raw material, such as cotton. If you established a ceiling on cotton goods which would not permit paying the parity price, or 110 percent of the parity price of cotton, of course that would nullify the parity price objective, as I see it. I do not know whether that is what you refer to, or not, but I think there should be some way of securing a price basis for processed agricultural commodities that would be in line with the objective stated in the bill.

The CHAIRMAN. Would this be true—and I am not speaking of cotton alone, but of other commodities—that it would not be necessary to fix a ceiling at parity to beat down the price of the commodity below parity, or could that be done by discriminatory ceilings placed upon the processed goods?

Secretary WICKARD. I think, of course, that you could nullify it in that way.

The CHAIRMAN. So that, if we want to make sure that the parity provision in this bill is carried out, we will have to put some provision in the bill that will insure it?

Secretary WICKARD. Yes, sir; and I tried to suggest something that would do that.

The CHAIRMAN. I was listening with great interest to your statement, but I was not quite sure about it.

Secretary WICKARD. That is what I had in mind. I was trying to accomplish that.

The CHAIRMAN. I was not quite sure whether the language you suggested would quite reach the situation.

Secretary WICKARD. I agree with you on the objective, and it should be carried in the law.

The CHAIRMAN. That is what you had in mind in submitting the suggested language?

Secretary WICKARD. Yes, sir.

The CHAIRMAN. I did not want to find fault with the language you suggested, because I have not had an opportunity to study it from the technical standpoint.

Mr. GIFFORD. Mr. Secretary, you are familiar with what has been done in the matter of cotton goods during the last day or two, are you not?

Secretary WICKARD. I did not know any new rules were put out. I know that some were put out sometime ago.

Mr. GIFFORD. Who authorized the putting of a ceiling on cotton goods prices, such as has been put on in the last day or two? Do you know how that affects spot cotton prices?

Secretary WICKARD. I am not familiar with what has happened in the last day or two. I did not know there were some new ceilings.

Mr. GIFFORD. This committee should be made more familiar with it. I would like to tell you what happened yesterday. Cotton went down. There has been no cotton goods sold, and they could not buy them for several weeks until the ceiling was determined. On yesterday, of course, the order went out that the ceiling could be raised or brought down. The order was that it would be raised up or brought down according to the price of raw cotton. Did you know about that?

Secretary WICKARD. No, sir; I did not know that.

Mr. GIFFORD. So that people today are buying cotton for half a cent a pound, or buying cotton goods for a half cent a pound less than they had to pay yesterday. Tomorrow if the price of cotton changes a little, the ceiling will change. Now, I do not see where you put any ceiling whatever on spot cotton or raw cotton in that respect, if that has to prevail in every operation, such as Mr. Henderson indicated the other day. I know of one buyer of cotton who could not buy. Up to yesterday they said they would not sell. They said, "We will sell it to you tomorrow, and you can take it or leave it." Now, that cotton cost this buyer \$50,000 yesterday, because he had to pay \$50,000 more for cotton yesterday. He had to pay that much more than he could have bought it for today. If he could have bought it today, he could have saved \$50,000. He has to go along with that situation, because there is no ceiling on the product in the end. Mr. Henderson, or any administrator, would take the article from the starting point, and I do not see any limitation there on your price of spot cotton. I want to ask you about parity: You have talked about parity, and I want to know whether that parity has any relation to any other products, as in the case of cotton, or is that parity on the basis of a fixed parity period?

Secretary WICKARD. We are adjusting the prices about once each month.

Mr. GIFFORD. It is based on a certain definite period?

Secretary WICKARD. It is based on the 1910-14 period.

Mr. GIFFORD. If it is based on a certain period, it would bear no relationship to the prices of other products. Of course, prices are changing constantly.

Secretary WICKARD. That is done each month. There is issued each month what we call the price index which shows the prices of products, and the relationship between farm prices now as compared with the farm prices in the 1910-14 period.

Mr. GIFFORD. You have worked it out on the basis of the 1910-14 period?

Secretary WICKARD. That is the starting place.

Mr. GIFFORD. That is all the authority you have so far as parity goes under this bill?

Secretary WICKARD. We establish parity prices monthly.

Mr. GIFFORD. But based on that period?

Secretary WICKARD. Yes, sir.

Mr. GIFFORD. There are many elements of cost. There are other things to consider, including the wages you pay.

Secretary WICKARD. The parity index gives that.

Mr. GIFFORD. The parity covers all that?

Secretary WICKARD. Yes, sir.

Mr. GIFFORD. I do not see how you can control the spiral in that way.

Secretary WICKARD. That is what parity means—maintaining a proper relationship between farm costs and farm prices.

Mr. GIFFORD. You say you did not know of what was done in the last few days?

Secretary WICKARD. No, sir.

Mr. GIFFORD. Do you have any comment to make on that?

Secretary WICKARD. I cannot tell you, because I am not familiar with what was done.

Mr. GIFFORD. You cannot tell us about that?

Secretary WICKARD. I cannot tell you about something I am not familiar with.

Mr. GIFFORD. I was in very much the attitude of the newspapers when they say that we have no courage, and are playing politics with this bill. I resent that, because we are not doing that. I resent very much this attitude on the part of some people who are telling us what we ought to do, when they are advocating their own interests. Certainly we have all of the industries to look after. Labor has been represented before this committee, and they have contended that the labor costs are so low that they do not affect price. Then the farmers come in, and I want it made perfectly plain to my mind what they mean by parity. Does parity mean that the price may go up every day, on the basis of the farm products taken in relation to other things? Now, you have this cotton business before you, but you do not want to express an opinion on what was done in the last few days with reference to cotton?

Secretary WICKARD. No, sir; I do not know anything about that.

Mr. GIFFORD. Is cotton of no particular interest to the Secretary of Agriculture?

Secretary WICKARD. Cotton prices are one of our chief interests.

Mr. GIFFORD. You like to see cotton prices go up?

Secretary WICKARD. Yes, sir.

Mr. GIFFORD. I think that a great many people would be nervous about that. If this committee acts, I for one want it understood that I want to do something that will let every man in the Nation know where he stands day by day. How will they know how to buy spot cotton, or how will they be able to figure ahead? You say you have no opinion about that?

Secretary WICKARD. I am not quite clear as to what Mr. Henderson did or intends to do in the future.

Mr. GIFFORD. Suppose he did what I said he did, and that the price of cotton goods will be fixed day by day, according as spot cotton goes up or down?

Secretary WICKARD. I do not see anything wrong about that.

Mr. GIFFORD. Do you approve that?

Secretary WICKARD. It seems to me that that has always happened, because there has been a direct relationship between the price of the raw material and the price of the finished cotton product.

Mr. GIFFORD. But do you appreciate the buyers' seat in the cotton market, where the people in the cotton industry do not know what will be the price of raw cotton? If you did not know what it would be the next day, because of these ceilings, I think you would be a very nervous individual if you occupied the buyer's seat.

Miss SUMNER. I do not understand just what Mr. Henderson did. Did he attempt to control the price of cotton?

Mr. GIFFORD. He was trying to protect it.

Miss SUMNER. Exactly what did he do? Did he increase the natural fluctuation in the cotton market?

Mr. GIFFORD. The cotton goods market dropped yesterday, and cotton prices were going down. Because the buyer could not buy it today, they waited until they could buy it, and this man I referred to paid \$50,000 more than he would otherwise have paid. He wants to know what about tomorrow. I am asking the Secretary about that, and it appears that what they did is news to him, and he cannot discuss it.

Mr. PATMAN. It is not the same way with everything else!

Mr. GIFFORD. If so, I do not know what people can do about buying futures contracts.

Mr. PATMAN. They cannot know what the future price will be.

Mr. ROLPH. Why did not the fellow in that case sell yesterday?

Mr. GIFFORD. He tried to sell.

Mr. ROLPH. It seems to me that was a question between the buyer and the seller.

Mr. GIFFORD. The buyer will not sell today, and cotton goes off tomorrow. You may be able to do business that way, and I do not say it is wrong, but I want your opinion about that, Mr. Secretary.

Secretary WICKARD. I do not know about that. What I had in mind was that it would be wise to permit the natural market price fluctuations in agricultural commodities.

Mr. GIFFORD. Have you been in the buyer's seat?

Secretary WICKARD. I never sat in the buyer's seat.

Mr. GIFFORD. You should sit in the buyer's seat before you discuss it, or before you tell us what to do. You have an inventory of cotton goods, and you are buying cotton. You buy cotton, and there is a slump in your inventory.

Secretary WICKARD. It is all at the risk of the buyer I never knew of any insurance against that kind of thing.

The CHAIRMAN. I do not know whether I can help you, or not, on this question here, but from the short statement I read in the press, I do not understand that there would necessarily be a reissue of price orders or ceilings every day, but if I understand what was done—and I am not sure I do—there would be a scale of fluctuation established so that as the price of the raw material advanced a certain number of points, half a cent or three-quarters of a cent, there would be an adjustment. I read it hastily, and I am not sure that I understand it.

But it would be based on a scale which, when the fluctuation in the market price of the raw material advances a certain amount, that the price of the finished product shall be readjusted proportionately, but that would not by any means result in a daily change of the price ceiling.

Mr. GIFFORD. I think I should make this plain. The seller keeps the buyer waiting for weeks, and the buyer needs it for business purposes. The seller says, "I will sell you a million yards of cotton this afternoon at 5 o'clock," but when the news came out the buyer says he does not want it today, but he says, "We will buy it tomorrow; there has been a statement put out in print, and we might buy it cheaper tomorrow." The seller says, "We are not going to sell you tomorrow. You will take it today or not at all." And he took it.

The CHAIRMAN. This might be said in this connection. There is not any question about this. If we are going to accomplish the desired relationship of parity in the price level, it is absolutely necessary that there be frequency in the adjustments.

Take the case of cotton. That is one of the things I am a little bit familiar with.

If you had only a 30-day period for readjustment of that relationship cotton might go up 5 cents a pound, or it might go down 5 cents a pound during the 90 days, and you can see that if the relationship is to be kept as contemplated by the proposal, it is absolutely necessary or indispensable that there be frequent adjustment of prices.

Mr. GIFFORD. I am ashamed of myself, and I am scared. I know something should be done. But I am worried and others are worried.

Secretary WICKARD. We have always had day-by-day fluctuations in market prices.

Mr. GIFFORD. I am worried lest I approve something that I may not want to approve, and I want to know what you think about it, whether you approve of that.

Secretary WICKARD. I think if you are going to maintain the prices of finished products they ought to be maintained somewhat in relation to the raw products.

Mr. GIFFORD. Something must be done, because once before they would not sell anything for 3 weeks, waiting for the adjustment. You could not buy cotton on the market for 3 weeks, waiting for that adjustment. The sellers would not sell and the buyers could not buy.

The CHAIRMAN. I am sure the committee would like to understand what is involved in the order now under discussion.

Dr. GALBRAITH is here. He is associated with Mr. Henderson in the stabilization organization, and I am sure he can tell us what was done in reference to this matter we have been discussing. I am sure the committee would like to have you do that, Dr. Galbraith.

Dr. GALBRAITH. Mr. Chairman, I think, if I may say so, that there is a misunderstanding that needs to be cleared up.

The original ceilings placed on cotton goods and yarns and subsequently on cotton gray goods and a fixed price. We took the price of cotton as it stood at that time and allowed for a little leeway, a little movement in the price of cotton before establishing the fixed price.

The result was cotton fluctuated; when it moved up it pinched the mills, and when it moved down the margin was larger than it should have been.

When it moved up the mills approached us to change the ceiling, to raise it, to give them a more adequate margin. That was something that, for reasons of fairness, had to be discussed and examined, and it took time and trading was at a standstill while that was going on.

Mr. GIFFORD. How long was it at a standstill?

Dr. GALBRAITH. It was known in Worth Street that discussions were going on in Washington.

Mr. GIFFORD. About how long?

Dr. GALBRAITH. There was one period of 2 or 3 weeks.

Mr. GIFFORD. I wrote Mr. Henderson a letter approving that, and congratulating him for doing it.

Will you tell us why that did not succeed?

Dr. GALBRAITH. As early as 3 months ago the buyers of cotton approached us and asked us to consider this arrangement which was put into effect on Saturday, to give them an automatic adjustment upward or downward as the cotton fluctuated or moved, so there would not be these delays in trading while adjustments were under consideration.

Mr. GIFFORD. Was I correct in what I said about this last 3 weeks?

Dr. GALBRAITH. The last 3 weeks have been slow weeks in Worth Street, but that does not mean that production has been handicapped. There is a distinction between production and sales. The mills are sold out for months ahead, and the sales that are taking place on Worth Street at the present time are for deliveries next spring. So the mills are going in production at full blast today.

Mr. GIFFORD. Do you mean to say that with the Government ordering millions of sand bags, and wanting them quickly, that production was not delayed on those?

Dr. GALBRAITH. No, production was not delayed.

Mr. GIFFORD. I mean on the sand bags.

Dr. GALBRAITH. I do not know about the particular case of sand bags. I assume we are making a great many of them out of burlap.

Mr. GIFFORD. Why were they so terribly anxious to buy yesterday?

Dr. GALBRAITH. I will come to that in a minute.

I do not think I am letting out any secrets when I say that the office was originally reluctant to accept this automatic adjustment

because it looked like an escalator clause, and we have been rather unhappy about escalator clauses, because there is no firm basis for the pricing, and there is a tendency for a soft sort of price which is rather easy to slip up.

But after lengthy discussions with the trade, discussions that ran over a period of several weeks, we worked out the formula that was announced on Saturday for doing what we had always promised the trade we would do, adjust prices when the basic situation changed. So, what we did on Saturday was to make that adjustment automatic and prompt, rather than something that had to be talked over at length in the office.

Mr. GIFFORD. You think it would be an advantage to make that over a certain period rather than day by day?

Dr. GALBRAITH. It is not expected, and it will not come about, that those prices will change every day. There will be weeks when the price of cotton will not change, that is, the price of gray goods, and finished and semifinished products will not change. The base price, let us say, is 15.99, and the price of print cloth will stay at 42½ or 43 cents a pound until that price of cotton moves up a whole 50 points, or 50 cents, and then the price of gray goods will move up. That is, if the price of cotton moves up another 50 cents, then there will be another readjustment.

Mr. GIFFORD. Will you tell the committee what you would say or do if there was a demand for increase in wages? Was that matter brought into your considerations?

Dr. GALBRAITH. That question does not come in here. We are not faced with the problem of constant, or relatively frequent upward or downward adjustments in wages or costs.

Mr. GIFFORD. This is wholly in relation to the supply of cotton?

Dr. GALBRAITH. It is on the average price of the 10 spot markets.

If I may explain, let me say this: Tonight, at the close of the spot markets, the Agricultural Marketing Service takes the closing price on the 10 spot markets. That price will establish the price on gray goods for tomorrow's trading. If it has moved half a cent in this scale—I will be glad to give you copies of the whole plan—if it moves half a cent upward or downward, then the finished goods will increase or drop half a cent.

Coming to the volume of trading yesterday, there was something that happened yesterday, one of the things we recognized would happen. The 10 spot markets closed yesterday below the trip point, below 15.99, closing at 15.81. That meant that on today's trading the price on print cloth, sheetings, and so forth, would drop.

The buyers and millmen are shrewd businessmen, and recognizing that they got as many sales under the wire yesterday as they could, we expect that today's selling will be considerably lighter, and if cotton drops again today, if it should happen to drop below the next trip point, I would not be surprised if, late this afternoon, there would be another volume of trading.

Mr. GIFFORD. Late yesterday afternoon, for instance, the seller would make a telephone call to the buyer and say, "Will you take this or not?" The buyer says he will wait until tomorrow, but the seller says he will not sell it tomorrow, so the buyer takes it and pays.

Dr. GALBRAITH. I do not think that is a particularly serious situation, do you?

Mr. GIFFORD. I am glad you think it is not. It worried me.

Dr. GALBRAITH. This was worked out with the buyers of cotton. It was something that had been considered for months.

Mr. GIFFORD. That is as to the large buyers; how about the small buyers?

Dr. GALBRAITH. We worked that out with both of them, and we have gone over the thing with all of them, with the larger converters, the large retail houses—all of them.

They are not worried about it.

Mr. GIFFORD. I suppose they all approved of it, but I am afraid of it. Is this illustrative of other things as to which they would have done likewise?

Dr. GALBRAITH. No. I would like to emphasize for the record what I said, that we came to this after a great deal of hesitation, and in the press announcement accompanying the order for the selling, and in the previous press announcement of several weeks ago announcing that we were going to do it—about a month ago—we announced that this was going to be worked out, and we stated that this was a specific measure to meet a specific situation, and we did not expect and did not propose that it should become a precedent for any other action we were taking. It was designed to meet a situation where there is an industry that has an important raw material cost, and I might say that in all of the important raw material costs, that is still subject to some degree of market fluctuation.

Mr. GIFFORD. Let me ask you this question, which I think is an important point today. You said, as I understood you, that there would be a low market because the prices have gone down, and the buyer will have trouble in getting the product, and perhaps they have to wait weeks until the cotton price changes. So they will not sell on a low market.

Dr. GALBRAITH. But they will sell for March, April, May, and even June delivery next year. These are not spot sales of textiles.

Mr. WILLIAMS. Mr. Secretary, there are a number of individual farm commodities now, as I understand it, considerably above parity.

Secretary WICKARD. I do not know what they are.

Mr. WILLIAMS. We had a record of them, I think, introduced by one of the previous witnesses. For instance, as I recall, wool is one of them.

Secretary WICKARD. And beef.

Mr. WILLIAMS. And cottonseed oil.

Secretary WICKARD. Cottonseed oil; yes.

Mr. WILLIAMS. And cottonseed oil, as I recall. I do not recall the individual commodities, but there were quite a number of them, and some of them, as I remember, were something like 50 percent above parity.

Dr. TOLLEY. Very few as high as 50 percent.

Secretary WICKARD. I believe cottonseed is about 25 percent.

Mr. WILLIAMS. What is wool, approximately 150?

Secretary WICKARD. 145.

Mr. WILLIAMS. Do you think that those individual prices are too high, where they have gone up, as you say, to approximately 150 percent of parity, for instance?

Secretary WICKARD. Well, there always has been some question, I think, about beef and wool prices. There has been some debate as to whether they are out of line with the so-called basic commodities.

I sometimes think there might be some readjustment of those parities. Wool seems to be one that perhaps might be nearest out of line, as far as parity is concerned.

Mr. WILLIAMS. At least under this bill the Administrator would have jurisdiction to reduce the price?

Secretary WICKARD. He would have authority, as now stated; that is right.

Mr. WILLIAMS. I understand you are in favor of this bill.

Secretary WICKARD. Yes, sir.

Mr. WILLIAMS. You are in favor of the selective method of price fixing rather than an over-all ceiling?

Secretary WICKARD. Yes; I think I would say that I was, perhaps, if for no other reason than that I think that the over-all type would be very difficult of administration.

It seems to me if I were given this job of administering the bill I would want to go slowly and try to administer it only on those commodities which I thought were basic rather than to go into every commodity, because of the administrative difficulties that might be involved. Experience might tell us later about the desirability of each one of the approaches. But I prefer the selective type to start with.

Mr. WILLIAMS. This bill, as I understand it, would give the economic forces of supply and demand some play in determining prices.

Secretary WICKARD. It would on farm prices, that is right.

Mr. WILLIAMS. And any other prices.

Secretary WICKARD. That is right. These are only ceilings.

Mr. WILLIAMS. You mentioned something about a market price equivalent. I am not sure that I understand that expression. Will you explain that?

Secretary WICKARD. What I am advocating there is that there not be a market price equivalent on finished goods which would prevent the raw-material price from reaching a desired parity level.

Mr. WILLIAMS. As I understand it, you mean by that that the Administrator should not fix a price on the processed article—

Secretary WICKARD. That is right.

Mr. WILLIAMS. Which would prevent raw material from reaching parity.

Secretary WICKARD. That is right; that is what I mean.

Mr. WILLIAMS. What is your opinion about including some kind of wage scale in this legislation?

Secretary WICKARD. The provision for the parity principle takes care of the farm prices very well because, as I explained a while ago, the farm price that we take into consideration goes to the things the farmers have to buy and includes the cost of wages, so it seems to me when we think about that, as far as the relationship is concerned, the parity principle comes into play and takes care of that situation.

You are asking, I suspect, whether I should be in favor of a wage ceiling.

Mr. WILLIAMS. Of a wage-fixing principle in this bill.

Secretary WICKARD. I do not think I would advocate that in this bill. I think there are at the present time certain acts of Congress and administrative bodies which accomplish the purpose of fixing wages and fair prices, and I think they do it as they meet each situation, and I suspect we might get into a tremendous lot of difficulty if we fixed all wages for all industries.

I think we might again find that it would be difficult for us to supply the labor needs in this one particular industry or some other industry. I do not think at the present time there is need for putting on an absolute wage ceiling, although, of course, subsequent conditions may make it necessary for Congress to examine that matter at a later time. At the present time it seems to me that the Mediation Board as well as the National Labor Relations Board have authority and have been effective in working out average wage prices.

Mr. WILLIAMS. You have not any suggestion to this committee with reference to any kind of a wage policy to be placed in this bill—or have you? If you have, we would like to have it.

Secretary WICKARD. No; I do not think I would have any suggestion to place on this bill at the present time.

Mr. WILLIAMS. You feel like our present legislation concerning labor difficulties or the settlement of labor disputes is sufficient to meet the present sufficient?

Secretary WICKARD. It does as well as any method we could try. I do not think the establishment of wage ceilings by law or any administrative body will necessarily prevent strikes because, after all, it is one thing to name a wage and another thing to get men to work at it.

Mr. WILLIAMS. In the establishment of the parity relation, the price which a farmer receives for his commodities necessarily include the wage element?

Secretary WICKARD. The wages paid for the articles he purchases, or in producing those articles; that is right.

Mr. WILLIAMS. And in the articles he sells, the price he receives for his commodity necessarily includes that element of cost, too, does it not?

Secretary WICKARD. Yes; but in the farm-labor cost we do not take into consideration in fixing parity prices which the farmer pays for labor on his own farm.

Mr. WILLIAMS. Do you mean you deduct that from the price he receives?

Secretary WICKARD. It is not taken into consideration. Congress did not include that as one of the things to be taken into consideration.

Mr. WILLIAMS. Here is an industrial product, such as steel, or anything else that is manufactured. The producer sells it to the farmer in the shape of a plow or a harrow.

Secretary WICKARD. The labor cost is included in that price.

Mr. WILLIAMS. The labor it costs to produce that is in the price?

Secretary WICKARD. That is right.

Mr. WILLIAMS. By the same token, is not the labor cost which it takes to produce a farm commodity in the price which a farmer receives for his wheat and cotton?

Secretary WICKARD. When it is included in the cost of the thing he buys, that is right.

Maybe I should not have mentioned it, but if you hire a man by the month on your farm, the farm-labor scale throughout the country is not included in the establishment of parity, but all the prices the farmers pay are included in establishing a parity-price relationship, and the prices he pays are governed by the labor cost of the manufacturer or producer of the things he buys. That is what I am trying to make clear.

Mr. WILLIAMS. Then parity is a question of price; is it not?

Secretary WICKARD. Yes.

Mr. WILLIAMS. It is a parity price; it is not a parity price of production.

Secretary WICKARD. It is the relationship between what the farmer sells and what he buys.

Mr. WILLIAMS. It is a relationship of prices.

Secretary WICKARD. That is right.

Mr. WILLIAMS. I cannot conceive of a price the farmer receives for a commodity which will not include the labor element as a part of the cost of production. I do not see how it can be otherwise.

Dr. TOLLEY. You are thinking of the price of labor, the cost of the labor that it takes at the elevator for the wheat, or the cost involved in plowing the land for the wheat, and your question is if that is reflected back in the farmer's price of the wheat. That is certainly correct in figuring the cost of producing the wheat.

Mr. WILLIAMS. I am talking about the labor that is used on the farm in producing the bushel of wheat, bale of cotton, and so on. It makes no difference, it seems to me, whether the farmer pays a man a dollar a day or whether he does the work himself, the element of the labor cost is in the price which he receives for the commodity when he sells the commodity. Is that not right?

Dr. TOLLEY. That is correct. The point that the Secretary made is that in computing parity price the index of the price, that is, the farmer's share, for what he buys, plus interest and taxes, on September 15, stood at 139 over what it was in 1910-14. But wages of farm labor are not included, because Congress has legislated that it not be included.

Mr. WILLIAMS. Why should it be?

Dr. TOLLEY. Why should it be?

Mr. WILLIAMS. Or why should it not be?

Dr. TOLLEY. Why should it not be? Of course, definitely, it is one of the elements of a farmer's cost; I agree with you; but it is not included because the Congress has legislated that it shall not be included.

Mr. WILLIAMS. His interest and taxes, as a matter of fact, were included twice.

Dr. TOLLEY. I do not get that.

Mr. WILLIAMS. Simply because Congress said the farmer would be given credit for the change in the interest rate and the tax rate.

Dr. TOLLEY. Yes; but that was only included once.

Mr. WILLIAMS. They are included when he pays the tax and the interest as an element of cost.

Secretary WICKARD. That is right.

Mr. WILLIAMS. And it is reflected in the price which he receives.

Dr. TOLLEY. It is reflected; that is right.

Mr. WILLIAMS. Then, what is the difference; what is the difference between that and the interest and taxes which the industrialist pays?

Dr. TOLLEY. All right; the interest and taxes are reflected in the price; they are reflected in the parity-price index.

Mr. WILLIAMS. And the interest and taxes which the farmer pays are reflected in the price which he receives.

Dr. TOLLEY. In his parity price; that is right.

Mr. WILLIAMS. Then I come back to the proposition that the farmer is permitted to include his taxes and interest twice, while the producer, the industrialist, is not.

Dr. TOLLEY. No; I do not see that; I am sorry.

Mr. WILLIAMS. Let us suppose now we did not have this interest and tax provision in the law.

Dr. TOLLEY. Yes.

Mr. WILLIAMS. What would be the parity relationship now? It would be 133 to 139?

Dr. TOLLEY. The relationship on September 15—the price average was 139—133 to 139; yes.

Mr. WILLIAMS. What would it be if there was no consideration given to the fact that Congress wrote into the law a permission to adjust the interest and taxes in favor of the farmer?

Dr. TOLLEY. I think I can figure that out.

Mr. PATMAN. What law are you talking about permitting adjustments?

Mr. WILLIAMS. That is in the parity statute itself.

Mr. PATMAN. Could you put that statute in the record?

Mr. WILLIAMS. That is in the 1939 statute.

Dr. TOLLEY. With permission to correct the record if this figure is wrong: On September 15 the farmer's parity prices were 101 percent of parity, computing interest and taxes as provided in the act; if you compute it every way parity would have been about 105 percent.

Mr. WILLIAMS. The relationship, as I remember the figures which you yourself gave us, is that the industrial price level was 133, and for agricultural commodities it was 139, on September 15.

Dr. TOLLEY. 137 rather than 139.

Mr. WILLIAMS. That included taxes and interest.

Dr. TOLLEY. Yes.

Mr. WILLIAMS. Which the farmer got in order to raise the price, commodity price, to 137, and if there was no such provision, the commodity level would be 133.

Dr. TOLLEY. I think you and I are perhaps at a little cross purpose. I am wondering whether you are talking about parity price or the prevailing price.

Mr. WILLIAMS. I am talking about parity price.

Dr. TOLLEY. Well, let me try again, if you will.

Farm prices, prices paid by farmers, figuring interest and taxes, on September 15, were 137, and in order to get parity you multiply the base price 1910-14 by 137. If interest and taxes were not included, that 137 figure would be 133.

Mr. WILLIAMS. Exactly.

Dr. TOLLEY. And parity price would be the base price times 133, which would be somewhat lower than the parity price as computed according to the formula provided by Congress.

Mr. WILLIAMS. In other words, computing it with interest and taxes in there—

Dr. TOLLEY (interposing). Increases the parity price.

Mr. WILLIAMS. Increase parity price.

Dr. TOLLEY. Increases parity some 4 or 5 points.

Mr. FORD. Why would it not?

Mr. WILLIAMS. Why should it not? Now, I come back to the original proposition which I made, and that is that it is included in the price.

Dr. TOLLEY. In the parity price.

Mr. WILLIAMS. Yes.

Dr. TOLLEY. Not necessarily in the price that the farmer gets for a bushel of wheat or for his hogs when he gets to town and actually sells the commodity.

Mr. WILLIAMS. Why is not that included?

Dr. TOLLEY. Because there are some fluctuations entering into the price.

Mr. WILLIAMS. But every element of cost in the production of farm commodities is reflected in the price which the farmer receives, is it not?

Secretary WICKARD. I wish it were, as a farmer, but as a technical matter it is not.

Mr. WILLIAMS. Why is it not? I cannot see any reason why you can say it is not, and I am not saying anything about whether it is just compensation or whether the price is as much as it ought to be or not; that is not the question, but the fact is that it is a fact, is it not? I cannot see it otherwise.

Secretary WICKARD. Well, I do not know how it could be done. I remember in 1932 as a farmer I had to sell some of the farm to pay taxes.

Mr. WILLIAMS. Well, I am not discussing or talking about the equity, or whether enough is received; whether the farmer's labor is paid enough, or whether he has sufficient income to represent a fair return on his investment; I am talking about the fact that the price which the farmer receives for his commodity includes in it all of the elements of cost.

Secretary WICKARD. I do not know whether you can go that far.

Mr. WILLIAMS. But they are included. Suppose the industrialist operates at a loss what would you say about it then?

Secretary WICKARD. Well, he would shut down.

Mr. WILLIAMS. But the same thing is true in arriving at the cost.

Secretary WICKARD. The farmer does not shut down; he goes on working; that is the reason, perhaps, why it is not reflected.

Mr. WILLIAMS. Even at a loss.

Secretary WICKARD. Yes.

Mr. WILLIAMS. Well, that might be true of the industrialist.

Secretary WICKARD. I think you understand my point, however.

Mr. WILLIAMS. But what I am interested in is that the cost is in the price, whether a sufficient amount is received to pay for the operating cost or not. You might have one businesslike farmer, for example,

whose tax is so much, his interest is so much and his labor is so much, or you may have a manufacturer who has so much for interest, taxes, and labor, and so much for his raw material who may not receive enough income to cover all the costs, and who may be running at a loss. But I am not talking about that question; I am discussing the question of whether or not the farmer, in the price he receives, has to consider all of those elements of cost. In other words, why single out interest and taxes? They are only one element in the cost.

Mr. FORD. They put in fertilizer.

Mr. WILLIAMS. Why talk about fertilizer; why put that in?

Mr. PATMAN. Could I ask you a question, Mr. Williams?

Mr. WILLIAMS. Yes.

Mr. PATMAN. Suppose it costs the farmer as much in farm labor as he receives for the commodity he produces; would you then say that all these elements have been added in?

Mr. WILLIAMS. Just as much as in industry itself; because industry, as I say, may operate at a loss.

Mr. PATMAN. I know of cases where farmers have paid as much for farm labor as they have received for cotton.

Mr. WILLIAMS. All right.

Mr. PATMAN. That being true, would you still say that all of the other items of cost were included in that bale of cotton?

Mr. WILLIAMS. Yes; proportionately, just exactly the same as in industry. Industry may pay out in wages every dollar that it gets for its product without considering at all the cost of the raw material. That could happen as applied to industry just as much as if applied to agriculture, but when it comes to the farmer is it not a fact that those elements of cost are included in that price? Now, as I say, the price may not equal the entire cost.

Secretary WICKARD. When you say proportionately I think probably that would be correct.

Mr. BROWN. But if you do not figure in the interest and taxes the farmer could not figure in the cost for labor.

Secretary WICKARD. That is right.

Mr. WILLIAMS. But it is all included in the price just the same. And as I say, I am not discussing whether the compensation he receives is enough, adequate or not, but if there is any difference in principle between agriculture and industry I would like to have someone enlighten me along that line.

Secretary WICKARD. You might consider this in the operation, that whenever industry cannot meet what it has to pay out in the way of paying salaries and costs of raw materials and wages and other costs it closes down. Men are thrown out of work, where in the agricultural field the farmer starts out at the beginning of the year and when he plants his crop he does not know what he is going to get but he goes ahead just the same because, as I pointed out before, he has no way to close down.

Mr. WILLIAMS. But that does not explain the difference in principle—

Secretary WICKARD (interposing). I was just pointing out the difference in the manner of operation.

Mr. WILLIAMS. Can you explain the difference in the principle involved here?

Secretary WICKARD. Well, I think that costs of what industry produces as well as what the farmer produces include interest and taxes; that is right.

Mr. PATMAN. If the product sells for as much as it costs.

Secretary WICKARD. Congressman Williams' point was would he not also have to include in the cost interest as well as industry?

Mr. WILLIAMS. The thing that has been in my mind all of the time is that there seems to have been a lot of talk about the difference in principle involved and I cannot see it, and nobody has as yet explained it to my satisfaction.

Now, the compensation, the income which industry receives, may be larger than that of the farmer in some cases and in some cases it may not be. You may take a farmer who operates temporarily at a loss and you may find the same thing is true in industry. Neither one of them, of course, could continue to operate indefinitely at a loss. On the other hand, industry or the farmer, farming activities or industrial activities, among the low-cost producers, run on with their operations and make a profit; they have enough to pay their overhead, their labor, and every other element of cost, raw material, and so on, that go into the cost of producing and selling the article on which they make a profit. That is true of industry or agriculture. Now, if there is any difference as a business proposition in principle between these operations, I would like for somebody to point that out.

Mr. SPENCE. If you took into consideration the element of labor, would that add to the parity price?

Secretary WICKARD. You are talking about the farmer's labor?

Mr. SPENCE. What he does himself.

Secretary WICKARD. I think the inclusion of that at the present time would raise the parity price two or three points.

Mr. WILLIAMS. Right on that same point: What difference does it make whether he owns his own farm and does his own work, his own labor, perhaps because he cannot afford to do otherwise, or whether he is a farmer who is able, by reason of other income, perhaps, to pay for the labor to do the work; what difference should that make in labor costs in the product he produces?

Secretary WICKARD. One should be considered as much as the other.

Mr. WILLIAMS. Yes. Then why should you consider leaving the one out?

Secretary WICKARD. Well, the thing we were talking about was figuring parity price and we did not include the average farm labor costs in arriving at the relationship between parity price of farm commodities and industrial prices.

Mr. SPENCE. As a matter of policy do you not think it should be included? Why should it be left out?

Secretary WICKARD. At the time that it was provided or put in by Congress it resulted in a price which might lower the price index.

Mr. SPENCE. I would like to know how the inclusion of labor costs on the farm would lower the parity price of the product.

Secretary WICKARD. It would raise it now.

Mr. SPENCE. How would it lower it under the other conditions?

Secretary WICKARD. In considering parity the labor cost at some time is below the 1910-14 figure, and at other times it is above. Now it happens to be above.



Dr. TOLLEY. That is farm labor. We are talking about 165 percent of what it was in 1910-14, but when you go back to the 110 percent of what it was in 1910-14 you would have secured an index which would result in lowering the parity price.

Secretary WICKARD. Using 110 as against 165.

Mr. WILLIAMS. If you applied the adjustment to industry what effect would that have on parity price for industry? Your industrial labor costs are involved just as much as they are on the farm, and why should the adjustment be made only with regard to farm costs?

Mr. SPENCE. You are talking about the relationship in one case and price in the other?

Mr. WILLIAMS. I am talking about the relationship in both cases.

Secretary WICKARD. Your suggestion is that suppose we had a parity relationship for industry? It might be a good thing; I do not know.

Mr. WILLIAMS. There would be no objection to adjusting the labor costs in industry to the 1910-14 base period cost?

Secretary WICKARD. I did not say anything about that; I understood you to say something about why not include those things in arriving at a fair price for industry. A parity price for industry might be all right, and if you did that I suppose you would have to include, if you arrive at a parity price for industry, you would have to include wages as well as raw materials, salaries, and things of that kind.

Mr. WILLIAMS. There is not any question but what this provision in the law, which permits the adjustment of taxes and interest, has been in the interest of the farmer, is there?

Secretary WICKARD. That is right; it has been in the interest of the farmer.

Mr. WILLIAMS. And if labor cost was also adjusted at least now, as you say, it would be in his interest.

Secretary WICKARD. Yes.

Mr. WILLIAMS. But the thing that I am talking about is why not make the same adjustment as to industry?

Secretary WICKARD. I do not think you have a parity law for industry, have you?

Mr. WILLIAMS. It is reflected in the price which the farmer gets.

Secretary WICKARD. Yes.

Mr. WILLIAMS. In the relationship between the price for the agricultural and industrial products.

Secretary WICKARD. Yes; for agriculture.

Mr. WILLIAMS. In the relationship.

Secretary WICKARD. Yes.

Mr. WILLIAMS. Having then figured that in one case I cannot see why it should not be done in the other if you are going to maintain parity as it existed in 1910-14.

Secretary WICKARD. What you are saying is that you think you ought to figure parity for industrial labor cost; is that what you are saying?

Mr. WILLIAMS. If you are going to have it for agricultural labor, why not apply the same principle to industrial labor; that is what I am saying.

Secretary WICKARD. I have not given that matter any thought; I do not know. Of course, there labor would want to know about the cost, the cost of labor that is going to be established.

Mr. WILLIAMS. In that very case, as the law has it now, there is an adjustment of taxes and interest in favor of the farmer; there is an adjustment provided in the law.

Secretary WICKARD. That is right.

Mr. WILLIAMS. I mean with reference to the base period.

Secretary WICKARD. Yes; we have an index of the relationship of present prices to costs for the base period.

Mr. WILLIAMS. And the relationship between the rate of interest and taxes is figured in under the provisions of the law now.

Secretary WICKARD. That is right.

Mr. WILLIAMS. As applied to agriculture.

Secretary WICKARD. Yes.

Mr. WILLIAMS. Now, why not apply that principle to industry?

Secretary WICKARD. You mean in fixing industrial prices?

Mr. WILLIAMS. In fixing prices, yes, or in determining the difference in the rate of interest and taxes which industry pays as well as the farmers. In other words, adjust the taxes and the interest which industry pays to the base period just like you adjust the taxes and interest which the farmer pays.

Secretary WICKARD. In what operation would you do that; where would you propose that be done?

Mr. WILLIAMS. How do you apply it now, as applied to agriculture?

Secretary WICKARD. In figuring out the price index there is included the cost for wages in trying to establish parity price for agricultural commodities.

Mr. WILLIAMS. And my question was, Why not do the same thing as to industry?

Secretary WICKARD. For industry?

Mr. WILLIAMS. Yes.

Secretary WICKARD. I do not know; that might be done. It is a new thought to me. But parity, to me, is a fair principle because it tries to produce fairness for all parties that are concerned in establishing that price; for agriculture it is a fair principle just as well as it is for industry.

Mr. WILLIAMS. The base period relationship you mean was the fair one.

Secretary WICKARD. Yes.

Mr. FORD. Mr. Secretary, you talked about a price established on a selective system.

Secretary WICKARD. Yes.

Mr. FORD. As I understand this bill, as it is drawn, if you were to provide in the bill for a selective system, there is nothing in the bill that would prevent the Administrator from extending the price ceiling to any commodity that might get out of line. There is nothing in the bill that would prevent that.

Secretary WICKARD. I think that is correct, Congressman Ford.

Mr. FORD. Then undoubtedly this is an all-inclusive ceiling bill if the Administrator desires to take that step.

Secretary WICKARD. I do not think it refers to wages, or rents, or certain other items.

Mr. Ford. But whenever you fix the price on a commodity, a ceiling, you automatically fix the wages, because suppose the wage earners come in and want an increase in pay in the production of some commodity that has a ceiling price established for it, if you are going on the principle of including wages, and there is no margin between what they are getting for the commodity and what it costs to produce it, why, then they would have to resist the effort to raise wages.

Secretary WICKARD. I think that would be one effect of this bill.

Mr. Ford. Then in effect a ceiling on commodities is a ceiling on wages.

Secretary WICKARD. It would tend to have that effect.

Mr. Ford. An indirect way of doing it.

Secretary WICKARD. Yes.

Mr. Ford. Now, under this bill there are two philosophies: One for those who want to fix a ceiling on everything, all inclusive; the other who want a selective system, such that will give discretion to the Administrator as he goes along; but there is nothing to prevent him from putting a ceiling on any commodity, outside of wages, that gets out of line, is there?

Secretary WICKARD. No; I think not; I do not think there is any restriction, as far as commodities are concerned.

Mr. Ford. Any commodity, like copper—of course, copper has been preempted for defense—but assuming you had a good supply of the amount that could be used for commercial purposes, or of some other commodity that got out of line, then the Administrator can step in and put a ceiling on the price of that commodity just the same, and this bill does not limit the number of commodities on which he could put a ceiling price. In other words, it is as broad as the number of commodities, so the bill would accomplish, in my judgment, exactly what an all-ceiling system would.

Secretary WICKARD. But I think it gives discretion—

Mr. Ford (interposing). Yes; with less confusion in it.

Secretary WICKARD. It does; but there is not a mandate to establish prices on all commodities.

Mr. Ford. No; the Administrator has the discretion, instead of placing a ceiling on all commodities, to put a ceiling on a commodity only when the commodity gets out of line.

Secretary WICKARD. That is right.

Mr. Ford. And whenever a commodity gets out of line he could put a ceiling on its price.

Secretary WICKARD. Yes.

Mr. Ford. That is the purpose of it, and an over-all or all-out ceiling on all prices would of necessity, in my judgment, create a lot of injustices at this time, whereas if he is given discretion he will act with respect to commodities that get out of line, with the injustices that it might create, and therefore tend to check inflation that the getting out of line might cause.

Secretary WICKARD. It seems to me, Mr. Ford, that there is another benefit that might result, and that is the prevention of speculation. In other words, those who wish to speculate, if they knew the price could be fixed it would have a tendency to deter their speculative activities.

Mr. Ford. Yes.

Secretary WICKARD. I believe that would go a long ways toward checking inflation, the mere fact that the authority existed to fix a ceiling.

Mr. Ford. In other words, act as a kind of traffic cop on the corner.

Secretary WICKARD. That is right.

Mr. Ford. That is one of the things we are trying to correct.

Secretary WICKARD. That is my thought, Congressman.

Mr. SPENCE. How closely do prices of raw agricultural products respond to the price of the manufactured, processed article?

Secretary WICKARD. You mean what is the relationship, or how rapidly does it respond?

Mr. SPENCE. I mean by the regulation of prices, of manufactured prices, could you increase the price of raw commodities. You notice the regulation of raw materials is very narrow, providing for 10 percent above parity. What effect would regulation of prices of manufactured products have; would extending the powers of the Administrator effect a greater influence over the price of agricultural products as written in the bill?

Secretary WICKARD. Well, I think the power to regulate the price of the processed commodity would, without question, affect the price of the raw material; that is, you could just as effectively, perhaps, control the price of the raw material.

Mr. SPENCE. To what extent would you say that would do it? How quickly does it respond and how accurately does it respond to the price of the manufactured product?

Secretary WICKARD. Pretty quickly, I think; pretty accurately. I think, for instance, in the case of bread, the recent rise in the price of wheat would only justify an increase of about one-quarter of a cent in the price of a loaf of bread, because there are so many other things involved in the price of a loaf of bread.

The same way with a cotton shirt. At the present time, say, there is an increase in the price of a cotton shirt of 25 cents. Perhaps the producer would get one-fifth of that, or 5 cents out of that.

Mr. BROWN. I would like the record to show what the price should be of raw wheat or cotton to sustain the prices they are getting now, that the consumer is paying.

Secretary WICKARD. You would like what?

Mr. BROWN. What should be the ceiling on wheat to sustain the price that the consumer pays; what should be the ceiling on cotton to sustain the price that the consumer is paying for cotton goods today.

Secretary WICKARD. Well, I do not know.

Mr. BROWN. If you can figure that out, put it in the record for those specific things.

Secretary WICKARD. Of course, retail prices tend to lag behind wholesale prices and wholesale prices somewhat behind raw-material prices.

Mr. BROWN. I know; but the consumer buys from the retailer.

Secretary WICKARD. Yes. At the present time there has been some lag. I think at the present time, just offhand, perhaps the relationship may not be out of line.

Mr. SPENCE. Indirectly, he can control the price of the raw material by controlling the price of the manufactured product?

Secretary WICKARD. That can be done, without question.

Mr. SPENCE. Cotton has held the spotlight so much I have hardly mentioned the cash crop of my people, but how is tobacco with reference to parity now?

Secretary WICKARD. Well, the percentage of difference between the total cost of the finished product as compared with the raw material going into that product is very wide; there is an extremely wide difference because of the high taxes on cigarettes or other tobaccos, and also because of the packaging and distribution and all that sort of thing. There I suspect that regulating the price of the finished product would only have a remote effect upon the raw product, but eventually would if you fixed a low enough level.

Mr. SPENCE. Has tobacco reached parity now?

Secretary WICKARD. Most of the grades have, I think. Are you interested in burley?

Mr. KOPPELMANN. Leaf as well.

Secretary WICKARD. We will give you the prices in just a minute. These are as of September 15.

Dr. TOLLEY. Flue-cured was 108 percent of parity on September 15 and Maryland was 108 percent. Those were the only markets open on September 15.

Mr. SPENCE. Have you burley?

Dr. TOLLEY. Not as of September 15, because the market was not open at that time.

Mr. SPENCE. What is the latest you have?

Dr. TOLLEY. I have not the figures for this year. Last year the prices of burley were below parity.

Mr. KOPPELMANN. Dr. Tolley, in connection with that same question, have you any information as to the prices of the various grades we have, and tobacco that is sun grown and shade?

Dr. TOLLEY. Cigar leaf is the only one I have here in front of me, and those markets were not open September 15, and all I have is in connection with last year.

Mr. KOPPELMANN. Can you put that in the record?

Dr. TOLLEY. Last year the prices of cigar leaf were below parity.

Mr. MILLS. What is the base period for tobacco?

Mr. SPENCE. For burley, it is 1934 to 1939, I believe.

Dr. TOLLEY. Burley is 1934 to 1938.

Mr. BROWN. Was not that originally 1909 to 1914?

Dr. TOLLEY. No; originally it was 1919 to 1929; that was the original period.

Mr. BROWN. Why did they change it?

Dr. TOLLEY. Congress changed it.

Mr. SPENCE. All of these farm journals are writing of parity as a price. Parity is purely a relationship, is it not?

Secretary WICKARD. That is right.

Mr. SPENCE. It is the relationship existing now as compared to the relationship that existed in the base period?

Secretary WICKARD. That is right.

Mr. SPENCE. And that relationship fluctuates all the time?

Secretary WICKARD. Yes; it does.

Mr. SPENCE. And probably fluctuates from day to day?

Secretary WICKARD. Yes. We compute it once a month, but it has changed very rapidly during recent months. It has gone from 131 to 139 in 6 months; it has gone up 8 or 10 points.

Mr. SPENCE. Do you think there will be any fluctuation of agricultural products to meet the established ceiling, or do you think the fixing of a ceiling will freeze the price at that point?

Secretary WICKARD. No, sir. For most commodities I think there will be a fluctuation below the established ceiling.

Mr. SPENCE. What effect do you think the fixing of a ceiling will have on price?

Secretary WICKARD. It will just cut off a few high points at the time the ceiling is fixed.

Mr. SPENCE. Do you think there would also be a fluctuation of price beneath the ceiling?

Secretary WICKARD. Yes; unless we happened to have a drought or some unusual circumstance. I think for most agricultural commodities you are going to see a fluctuation below the ceiling.

Mr. SPENCE. Congressman Williams brought up wool and cattle awhile ago, and cottonseed and beef. That would not be true there, would it?

Secretary WICKARD. I am not sure what would happen; but, according to the present law, the administrator of the bill would have the right to lower the wool and beef prices. Whether he would do it, or not, I do not know, because this does not put a mandate on the administrator to put a ceiling on; it merely gives authority to the administrator to put a ceiling on when the price reaches 110 percent of parity.

Mr. SPENCE. Do you think farm labor should be included, or should be excluded as it is at present?

Secretary WICKARD. Well, I think, to be quite honest about it, it should be included. But whenever you would start, as I see it, to open up this question of parities and try to raise them all a little, as our natural tendency would be, we might get into a lot of difficulty, and I am a little doubtful at the present time whether we should open it up, although you could argue on one commodity, for one reason or another, it should be opened up. But I think we have an established relationship here which is, for the most part, pretty fair, and I have no idea that maybe it might be just as fair, or even more so, as any new attempt to carry out the legislation. That is my personal opinion.

Mr. SPENCE. There may be an effort to put it back in, after your testimony this morning.

Secretary WICKARD. I think this question has been raised before. The Senate has a committee studying parity prices at the present time, as you know. I think you appeared before that committee.

Dr. TOLLEY. That is right.

Miss SUMNER. And he appeared in this record, too.

Mr. BROWN. Under this section 3, the parity section providing for 110 and fixing the ceiling price as of September—

Secretary WICKARD. July, was it not?

Mr. BROWN. All right, July—why was that section put in?

Secretary WICKARD. You are asking why July 29 was put in rather than just leaving it at 110 percent of parity?

Mr. BROWN. That is right.

Secretary WICKARD. The bill was introduced on the 28th—

The CHAIRMAN. Let me explain; I had a little to do with that.

Secretary WICKARD. I was wondering if somebody would volunteer to help me out on that. [Laughter.]

Mr. BROWN. I think I have an idea, but I just want to know the reason.

The CHAIRMAN. Well, it does not seem to be without good grounds. Such a plan as the Canadian plan was based somewhat on that very idea, if I understand it. But here is what was in my mind about it. There were suggestions about a base period to be considered in establishing a ceiling, and the bill has such a reference, so this thought occurred to me, that the day prior to the time that the legislative proposal was made would be a date uninfluenced by congressional action and administrative action, and would be a fair time to consider. And as the 29th was the day before the President's message was sent to Congress, which was the first official recommendation for legislation to control prices, that date was selected.

Mr. BROWN. Now, Mr. Chairman, in connection with that, I am not kicking; I am just pointing out this thought, that if you fix the price as of the 29th of July, you will be fixing the price of some commodities around 150.

Secretary WICKARD. That is right.

Mr. BROWN. Now, what I am coming to is this: These other commodities are going to have equality, and I am asking this question for this reason solely; I want to put in another proviso "but not over the prevailing average price from 1919 to 1929." I want to add that, because a great many of these commodities will not come up to some other commodities on July 29, 1941, and I want to add another section because I know some other commodities will not be treated fairly unless we have one of three periods, taking whichever is the highest.

That is the only way you are going to get equality for all classes of agricultural producers. I have one or two major crops that will not get equality unless that provision is put in there, compared with the prices on the 29th of July for some agricultural products.

Secretary WICKARD. May I correct my testimony on that? I think this July 29 provision would make it impossible to put a ceiling on the price of wool at 110 percent of parity, because at that time it was above 110 percent of parity.

I want to correct my testimony, as I see I am in error. I forgot about the July 29 price provision, and he would not have authority to reduce the price of wool.

Mr. WILLIAMS. That is what I want to ask—if that would be fair to freeze farm commodities as of the July 29 price if it was unreasonably high on that date?

Secretary WICKARD. Well, it does not necessarily freeze it. We cannot put a ceiling below that.

Mr. WILLIAMS. Well, it permits it to go there, but the Administrator cannot monkey with it.

Secretary WICKARD. He cannot fix the price below that.

Mr. WILLIAMS. That is right; notwithstanding the fact it might be out of all reason on that date, he cannot touch that price.

Mr. KOPPELMANN. It still is not clear to me from your answer. Let us take something specific, something that is in my district—leaf tobacco. Supposing leaf tobacco is not at parity on July 29, supposing it has not reached parity; under your interpretation of this bill could a price be set by the Administrator on leaf tobacco which

would make that price less than parity, or does he wait until it reaches parity before he sets the price?

Secretary WICKARD. It must reach 110 percent of parity before he could set the price, as I understand it. In other words, if the price of leaf tobacco was still, say, 90 percent of parity on July 29, then it would not be possible for the Administrator to put a ceiling on the price of leaf tobacco at less than 110 percent of parity, because then the 110-percent limitation would govern, rather than the July 29.

Mr. KOPPELMANN. I see. Then the July 29 provision does not affect either tobacco or any farm product?

Secretary WICKARD. Other than those that are above 110 percent of parity, such as wool, beef, and cottonseed.

Mr. KOPPELMANN. That clears it up in my mind.

Mr. BOGGS. Mr. Secretary, has the Administrator already set ceilings on various agricultural products?

Secretary WICKARD. Yes, sir.

Mr. BOGGS. Which ones?

Secretary WICKARD. Upon processed commodities, such as cotton. I do not know of any other right now.

Mr. BOGGS. What about sugar?

Secretary WICKARD. Oh, excuse me.

Mr. BOGGS. Is that 110 percent of parity?

Secretary WICKARD. I believe the sugar price is at parity, or parity income, is it not?

Dr. GALBRAITH. Taking the national average, sugar is a little above parity with the payments.

Secretary WICKARD. With the payments included, he says sugar is a little above parity.

Mr. BOGGS. You said taking the national average: What do you mean by "national average"?

Dr. TOLLEY. You are thinking about these parity prices?

Mr. BOGGS. Yes, sir.

Dr. TOLLEY. The average farm prices of wheat, cotton, and sugar—sugar is not good on this, because it is processed before it has a price; but the average farm price on wheat, I will say, is the average of all the prices that the farmers get for selling wheat on the day on which the price is reported for all grades and all varieties—and in all places in the country. The price is what the farmer actually gets who takes his wheat to the elevator in the State of Washington, the State of Louisiana, the State of New York, the State of Kansas, or any other place; it is the price at which he happens to be selling that day in the various markets, and they are all averaged up.

Mr. BOGGS. In connection with that, do you take a national average on tobacco; that is, on all of the grades of tobacco—leaf tobacco, Maryland tobacco, Virginia tobacco, Connecticut tobacco—and average them, or do you take the average on each separate type of tobacco?

Dr. TOLLEY. That is right—on each separate type of tobacco.

Mr. BOGGS. Now, should not there be a national average on beet sugar and a national average on cane sugar?

Dr. TOLLEY. Sugar has been defined as "sugar" by the Congress, and no differentiations have ever been applied on sugar. I do not know whether this is the point you are getting at, or not, but the average farm prices, you see, when we are thinking about controlling the price

of pork, you could not quite separate those average farm prices all over, and what it seems to us is needed, and it is in the Secretary's testimony, is that there should be determined the market place equivalent of these parity farm prices, instead of trying to control the parity price of wheat at \$1.21 cents, we will say. What does that mean for No. 1 Hard Northern wheat in Minneapolis; what does it mean for No. 2 winter wheat in Chicago; what does it mean for white Pacific coast wheat at Portland, which would be different from that \$1.21 average for all of them? And it seems to us, for the purposes in mind in this bill, that figures such as those, allowing for the difference between the average farm prices and the price at the market place, must be determined and that would be the price that the Administrator of the price-control bill would fix.

Mr. FORD. What date would you take for those three things to call parity?

Secretary WICKARD. I did not get that.

Mr. FORD. You say July 29 would leave cattle and cottonseed and some other commodity above parity.

Secretary WICKARD. Wool.

Mr. FORD. What date would you take them at?

Secretary WICKARD. How far would you have to go back?

Mr. FORD. Yes.

Secretary WICKARD. You have to go back not very far on cotton, and you would have to go back a pretty good piece on cattle and wool.

Dr. TOLLEY. Wool has been more than 110 percent of parity since early in 1940, I think. Beef cattle has been more than 110 percent parity since early in 1940. Cottonseed has been above 110 percent parity only since July 15 of this year.

Mr. FORD. Let me ask you this question: When you say "cottonseed," you do not mean the cottonseed that they plant, you mean the cottonseed that they process?

Dr. TOLLEY. Yes; the cottonseed that comes out of the gin and goes into processed commodities.

Mr. FORD. The seed that you process?

Secretary WICKARD. Right.

The CHAIRMAN. What about the price of cottonseed right now? There has been a slump, has there not?

Secretary WICKARD. That is right. I do not have that before me. All I have is September 15.

The CHAIRMAN. As of what date are your figures?

Secretary WICKARD. September 15. The price of cottonseed was 161 percent of parity on September 15. There has been some change since that time. I do not have it exactly.

The CHAIRMAN. I am sure this has already been brought out, but of course the 1909-14 basis for cottonseed would not be a fair base period on which to figure parity?

Secretary WICKARD. That is right.

The CHAIRMAN. That has already been made clear, has it not?

Secretary WICKARD. I think when I was up here before I talked to some member of the committee about that, and we pointed out the present provision of law for establishing comparable prices, and cottonseed was one of the things to which we needed to give attention.

The CHAIRMAN. I wanted the record to disclose that we just recently found out what cottonseed was. In 1909 we were feeding it to cows and utilizing it for fertilizer.

Mr. FORD. We import commodities such as wool and cotton; we have no imports of cottonseed.

Dr. TOLLEY. No; but we have imports of oil to help make up the oil supply of the country.

Mr. FORD. Would the imports of beef and wool be sufficient to bring the price down to something reasonable?

Dr. TOLLEY. No. We have been importing wool, about all we could get, for some time.

Mr. FORD. We always imported about one-half of it?

Dr. TOLLEY. Yes.

Mr. FORD. And as far as cattle are concerned, this new treaty with Argentina—would not that control the situation to some extent?

Secretary WICKARD. Not much. At the present time the new treaty with Argentina does not permit the bringing in of fresh beef, because of sanitary provisions, and I think the British are buying about all of their canned beef and other beef that the Argentine people have to sell.

Mr. FORD. Then as this bill is written at the present time, it would leave cottonseed, wool, and beef out of the picture; they would be as they were?

Secretary WICKARD. They could not go any higher than they were on July 29. You see what I mean; they could go higher than they are now.

(The committee thereupon took a recess until 2:30 p. m.)

## AFTER RECESS

The committee resumed its session at 2:30 p. m., Hon. Henry B. Steagall (chairman) presiding.

The CHAIRMAN. The committee will be in order. We have with us again this afternoon Secretary Wickard. Will you proceed with your examination, Mr. Crawford?

Mr. CRAWFORD. Mr. Secretary, since the morning session I have had an opportunity to look over your formal statement, and I wish to ask a few questions about some of your observations. Then I will have a few others in connection with the bill generally.

From the statement made by Mr. Henderson, I get the impression that his conception of this bill is to the effect that it is a measure to move in the direction of preventing inflation. From Dr. Lubin's testimony I get the impression that he believes that the approach to the objective, practically speaking, is to have a material increase in production. It is Mr. Henderson's idea to use a price ceiling as the mechanism, and Dr. Lubin's idea is to materially increase production, so that the increased production will have a tendency to operate against the forces of inflation.

Now, in your opening statement, or, I should say, in the opening sentence of your statement, you say, "I agree thoroughly with the objectives of the pending bill." Would you mind stating, as briefly as you care to, what, in your opinion, are the objectives of this bill?

Secretary WICKARD. I think, stating it very briefly, that the objective is to prevent inflationary spirals, such as we had during the World War No. 1, and which went on for some time.

Mr. CRAWFORD. Would you say that primarily we could prevent this inflationary spiral by fixing price ceilings or by doing some other things?

Secretary WICKARD. I think that is one of the things that should be used in preventing price spirals. My opinion is that the best way, and, perhaps, the most powerful deterrent of inflationary spirals, would be sufficient production to prevent that sort of thing, so you would not have a speculative situation.

Mr. CRAWFORD. Going over your statement, I gathered that impression from what you had to say. That is the reason I raised this question as to what in your conception are the objectives of this bill. Now, as I read this bill and think about the bill, there is very little, if anything, in it which, in my opinion, would tend to increase production. I think that the fixing of price ceilings would materially tend to decrease or hold back or prevent production. That is the reason I want to have just a little discussion with you so I could get clear in my own mind, if possible, what your conception of the objectives of this bill may be.

Secretary WICKARD. I think that it may be necessary to have price control, such as this bill provides. However, when it is not possible to produce as much as the market will take, or when there is some sort of a manipulation or speculation, then I think that to supplement it, some other measures can be used and should be used to prevent inflationary spirals.

Mr. CRAWFORD. But, which would you say are not included in the bill?

Secretary WICKARD. Do you mean the other measures?

Mr. CRAWFORD. Yes.

Secretary WICKARD. I hardly think they should be included in the bill.

Mr. CRAWFORD. Then they are measures which are not included in the bill?

Secretary WICKARD. Yes, sir.

Mr. CRAWFORD. In other words, you agree thoroughly with the price ceiling objective as set forth in this pending bill?

Secretary WICKARD. Yes, sir.

Mr. CRAWFORD. Now, as to those other factors that are not in the bill, you have not discussed them. They were not discussed this morning. Do you have a copy of your statement with you?

Secretary WICKARD. Yes, sir.

Mr. CRAWFORD. Going down right to the last part of the second paragraph, you say, "That is the surest preventive of inflation." You are referring there to increased production. Now, Mr. Henderson had considerable to say about the inflationary gap. Do you know what I mean by that language, "inflationary gap"?

Secretary WICKARD. I am not positive about that. I am not familiar with that.

Mr. CRAWFORD. It means that he takes the position, generally, that some of this increased purchasing power which is put into the stream of trade is pulled off, say, by increased taxes and other operations, but

there is still left several billion dollars which can be used specifically for the purpose of building up prices. So we will call that the inflationary gap. Now, referring to that last statement of yours, which I will read:

But beyond all these, important as they are, is the necessity for increased production; that is the surest preventive of inflation—

The observation I would like to make is this: The inflationary gap has not been closed, not even nearly so, nor can present laws be used to do so, as Governor Eccles testified. Now, what do you think this committee should do, with your statement before us with reference to the increase of production and with the observation of Governor Eccles with reference to the inflationary gap not being closed, and with reference to the present laws not giving authority to go in and close it, by reason of the lack of power to assess greater taxes, bring about enforced savings, and so forth, in order to draw off increased purchasing power. Furthermore, with Mr. Henderson's observation before us, that this bill will not prevent inflation, do you have any other suggestion to give us along that line as to what you think we should do?

Secretary WICKARD. I do not know whether you are referring to what should be in bill or what we should adopt as a national policy, but I do think that increased savings and some method of reaching the place where some of the increased purchasing power could be held in reserve and not used now might accomplish two things: It might prevent inflation and bring about more stable production in business activities which, because of the defense, have run down. I would say that is one thing that should be done. I want to go back, also, to what I said in my testimony about the necessity for increased production. If you have enough of these commodities, of course, some of the purchasing power will go into them probably; but, because of the defense demands, we do not have enough of steel, copper, fertilizer, or things like that to go around. So there is an inflationary gap, which means that there is no place for funds to go except to bid for the amount of materials which are not plentiful. So, again, increased production, I think, is the best thing to do. It is not possible in the war game, however, to always have increased production, or as much as you would like to have. You must set up production facilities, and there may not be enough raw materials to go around.

Mr. CRAWFORD. Would it be fair for me to put it this way: I will ask you, as a member of the Cabinet, if you feel that this committee would be doing a constructive thing, or would be taking a constructive step in dealing with this particular problem if, in addition to the provisions set forth in this bill, we should go further, for instance, and try to deal with the question of drawing off the additional buying power from this inflation gap in the way of enforced savings or the control of commercial credit, and even going into the monetary powers? Would you care to express yourself on that?

Secretary WICKARD. I think I said I thought it would be a very good thing to provide for increased savings. Whether it should be done in this bill is a question in my mind. I am not sure that it should be done in this bill. I think, however, that it would be a good national policy.

Mr. CRAWFORD. That is far enough. I wanted a general expression from you on that. You agree with the general statement to the effect that inflation is the cause of deflation, do you not?

Secretary WICKARD. Of course, whatever goes up has to come down. It would not come down if it had not gone up.

Mr. CRAWFORD. Do you agree with the general statement to the effect that inflation precedes deflation?

Secretary WICKARD. Yes, sir; I think that is true. I do not think we would have deflation unless we had inflation.

Mr. CRAWFORD. Turning to page 2 of your statement, I read from the last sentence at the bottom of the page where you say:

In the years after 1920, farm-land values not only dropped as much as they had risen during the war; they dropped on the average 27 percent below the modest pre-war values. Yet farmers had to pay debts and taxes and interest, and other charges on the basis of land values nearly double the pre-war level.

Will you state briefly, why that was the situation?

Secretary WICKARD. Well, during the first World War period there was, as I state here, a very rapid rise in the price of farm commodities and other commodities. There was a rapid increase in the value of farm commodities, and a rapid increase in all kinds of values. With it there was an increase in taxes and an increase in charges of all kinds. Then, when the prices went down, those values did not go down, but the farmers had to assume an indebtedness based upon the high values. They had to pay off the indebtedness on the basis of low values and prices, and that is where the trouble arose. What really happened was that the farmers, or hundreds or thousands of farmers, tried to keep in the farming game under those conditions, and hundreds of thousands of them did not succeed. Therefore, we had foreclosures. We had a formal writing off of indebtedness, with failures of one kind or another. That was simply due to the fact that the indebtedness was based on a high scale of values, and that was the reason they could not stay in business. They had to go out of business.

Mr. CRAWFORD. Mr. Secretary, are you familiar enough with current statistics to tell us whether, or not, the farm mortgage debt is now declining at a fairly rapid rate, or is it rising?

Secretary WICKARD. I cannot give you the most recent figures. For months back the farmers were paying off their indebtedness, and we found that to be particularly true in connection with the Farm Security Administration's activities. Someone told me the other day that those people, or the clients who owe the rehabilitation loans, are paying them off faster than ever before. I believe that the collections are running three or four times higher than they were 2 or 3 years ago. However, there is some evidence of inquiries being made for the purchase of farms. People are asking if this is a good time to come into the farm business. They are asking, "Do you think this would be a good time to buy a piece of land?" Then the prices of land go up. When they bid on the land the value of the land goes up, the assessed valuation goes up, and you make a mortgage on the basis of that high valuation. That is where the trouble begins. That is the way trouble began the last time; and if that keeps up, it will develop sooner or later.

Mr. CRAWFORD. Within the last 10 days or 2 weeks some New York papers, the Wall Street Journal in particular, have been running some

very interesting front-page or second-page columns of matter on this very question. I think you will find that they have sent inquiries out throughout the country, particularly in the Central West, to bankers and businessmen generally, asking what is taking place on the current market, or what the current market quotations on farmlands are. In connection with this subject I want to ask this question: In your opinion, what are farmers likely to do during the next 6 or 12 months? Will they use their increased income to materially reduce their mortgage debt, or are they likely to buy more land because of the advance in prices, or are they likely to consider selling their lands that they have carried for years for the purpose of liquidating all of their present indebtedness of every kind, and going out of business?

Secretary WICKARD. I think there would be a little of selling. That is my own personal opinion. As you know, generally speaking, they have farms not only as a business, but as homes, and they do not like to sell their farms any more than other people like to sell their homes, even though they wish to liquidate their indebtedness. As to whether they are going to use their increased income in buying more land or will use it to pay off their indebtedness, perhaps will depend upon how things go. If this inflationary spiral gets going, I suspect that they will do what they did during the last World War period, when one raised the other in bidding on pieces of land. They bid it up and bought it, in the hope of selling it when the price went up. I suspect that may happen again when the inflationary spiral takes place, if it does. I might add that I do not know what the papers show.

Mr. CRAWFORD. They show this, that there is a tremendously increased interest in the acquisition of land, with the prices moving upward. Of course, there would be an increase in the prices of farm products, and land prices will be much higher. I am told by one group that they have sent men to the Central West with authority to purchase \$500,000 worth of farms. They do not tell them to refer the matter back to them, but to go ahead and buy the farms with as much care and consideration as possible. They are told to get the land.

Secretary WICKARD. We have run into some evidence that that is happening, and that is why the Government Farm Credit called a meeting of the people in the country to talk things over. I am of the opinion that it would be a good thing for us to get together and talk things over in order to prevent this sort of thing occurring. There has been some evidence that the movement was starting, and it could go rapidly. Those movements gather momentum unless there is something to check them. I am concerned about it. I have had meetings with farm leaders from every State, and have suggested that this would be a good time to pay off farm indebtedness rather than to expand, and not to get into the place where they were before.

Mr. DEWEY. Is the Federal Land Bank system still operating?

Secretary WICKARD. Yes, sir.

Mr. DEWEY. Are they increasing their loans?

Secretary WICKARD. Do you mean the valuations?

Mr. DEWEY. I mean the loans through the Federal land-bank system.

Secretary WICKARD. I do not know that there has been an increase in their activities, and I do not know that there has been any particular decrease.



Mr. DEWEY. That is where I think a great deal of the credit for purchase of farms comes from. I know it was the last time, and I was wondering whether they were still in operation.

Mr. BROWN. The land banks are practically out of business in our section.

Mr. DEWEY. In 1926, when there was a big spiral upwards, it started with the intermediate credit banks, joint-stock land banks, and so forth.

Secretary WICKARD. I am sure that so far as the governor of the Farm Credit Administration is able to do so, they want such a tendency as that to be checked. I know that there is a lot of competition among the lenders of money, and that the borrowers are finding it easier to get interest rates reduced. If we do not watch out, this same thing will happen again. A man will say, "I want to borrow \$50 to buy a piece of land," and he will find somebody who will lend it to him.

Mr. DEWEY. Is there any coordination or cooperation with you in connection with things like that?

Secretary WICKARD. Yes, sir.

Mr. DEWEY. The chairman of the Federal Farm Loan Board does that?

Secretary WICKARD. Yes, sir; he is in charge of the meetings I spoke of. Most of the people seem to think that if we have a better understanding of it, we can work it out together and prevent another situation like that we had before from arising, with competition among the people in the purchase of land.

Mr. DEWEY. Of course, every time you sell a farm somebody must buy it. It would be better if they paid off the mortgages.

Secretary WICKARD. I think so. I think they would be in a better position to stand the shock that will come later. I hope there will not be any shocks if we can prevent inflation. If we can prevent inflation, I think it will be very small. It seems to me that it would be good business sense to get their financial houses in order now.

Mr. GIFFORD. Mr. Secretary, I think Mr. Crawford's questions went a little further than that. I think he had in mind that monetary control would be necessary. I want to remind you that in the other inflationary period prices were not mentioned as the cause of the distress. When I first came to Congress, in 1921, when the trouble came, prices were not even mentioned as causing it, but it was the matter of money control. It was due to a lack of money. Now, if we have so much money, is this not also a matter of monetary control, and is it not as important as price fixing or anything else that is suggested, or even more so? After the other inflationary period, nothing else was mentioned. The farmer did not complain that it was on account of prices, but on account of the lack of money.

Secretary WICKARD. I remember it very well. I was a farmer myself, and as an individual farmer, if I had livestock and other things on hand when the bottom started to drop out, I would be in serious difficulty. There was complaint that it was because of a too rapid deflation. I do not know whether the difficulty of the farmers was entirely due to that. The policy of the Federal Reserve Board at that time had nothing to do with putting them in a bad predicament.

Of course, the farmers would have liked to see the prices stay up until they could get through the difficulty.

Mr. BROWN. The farmers were called on to pay their debts all at once.

Secretary WICKARD. I agree that there was a too drastic descent.

Mr. GIFFORD. It was the complaint that that was the reason. They did not say that the prices did it.

Secretary WICKARD. The Federal Reserve Board would not be in a position to drive prices down if they had not been so high.

Mr. GIFFORD. With the action of the Federal Reserve Board, the prices necessarily fell. They were forced to do it.

Secretary WICKARD. It was a combination of the two.

Mr. GIFFORD. What we are getting at is the necessity for monetary control.

Mr. CRAWFORD. On that same point, some figures came to my attention this morning from the Comptroller of the Currency which show demand deposits, deposits of corporations, individuals, and so forth, as of the latest determination date for all the banks in the country. I believe that was June 30, 1941, and the figures showed a little over \$35,000,000,000.

Secretary WICKARD. How much was that?

Mr. CRAWFORD. \$35,000,000,000. The circulation statement shows a little over \$9,000,000,000 in currency and coin, making a total in excess of \$44,000,000,000, representing the monetary stock at the moment.

On page 1838 of these hearings you will find this statement by Dr. Fisher:

Income velocity expresses this process, being the ratio of money income to money volume, and is almost always about 3.1 to 1. This implies that if we fix the volume of money at \$20,000,000,000 we thereby fix the money income at about 3.1 times that, or \$62,000,000,000.

Then, at the bottom of the page, he shows the ratios from 1909 through to 1939, where it is shown to be at almost the exact average of about 3 to 1. Then, beginning in 1931, and running through 1932 and up to 1941, inclusive, it is from 2.1 up to 2.7, or an average of about 2.5. Now, our present national income is running between \$95,000,000,000 and \$100,000,000,000. I am particular interested in this because the \$44,000,000,000 now available will move rapidly towards \$60,000,000,000 or \$70,000,000,000. Then, if we proceed with the sale of these new securities which the Treasury will have to dispose of for the purpose of financing the defense program, you can see where it will reach. Personally, I do not see any way or how we can stagger the inflationary movement, unless we move into a broader field. I do not want to take up the time of the committee to discuss that now.

At this point, I think Miss Sumner wants to ask you a question.

Miss SUMNER. On the point about the comparison with the situation in the World War, the statement has been made several times in this committee that you did not want to have the farmers have the same thing happen as happened after the last war. You attributed the distress to the high prices.

Why is that singularly the cause of the farmers' distress? The other industries have high prices. Is it affecting them similarly?

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Secretary WICKARD. I shall try to explain that. I testified this morning that what usually happens when industry starts to lose money is that they shut their doors, whereas farmers have to keep on going.

Miss SUMNER. Would you say that in the situation of the World War, that that was caused by the high prices? In other words, was it not because the farmers were expanded? Is not that the real cause?

Secretary WICKARD. Then there was encouragement, just as there is encouragement now, that Mr. Crawford told us about, to acquire more land. There was encouragement to incur indebtedness, and it was incurred at a high valuation.

Miss SUMNER. Would you say that at that time they had inflation, in the 1920 period?

Secretary WICKARD. Yes.

Miss SUMNER. Did city money go into farms as much then, as compared with today?

Secretary WICKARD. It was added to the competitive field.

Miss SUMNER. Have you any figures showing the extent of that?

Secretary WICKARD. The extent to which the money went in—no, I do not. In Indiana we did not have the extreme inflation in land values which we had in Iowa or some of the other States. So my observation would be that there was some tendency on the part of the city people to invest funds in land values.

Miss SUMNER. You have no Government survey showing that?

Secretary WICKARD. No; we have not. I heard that question asked during the conference I referred to awhile ago, where sales are taking place because the city people have invested money.

Miss SUMNER. Have you made a Government survey to determine how much of the situation is based on that?

Secretary WICKARD. There seems to be a disagreement on that.

Miss SUMNER. You do not have any investigation made on that?

Secretary WICKARD. No.

Miss SUMNER. We all have different views on that, depending on the locality from which we come.

Secretary WICKARD. Certainly.

Miss SUMNER. In my State all of our banks have a place for city money. They can get all the money they need to buy as many farms as are available. In other words, they have a surplus of city money to be used in buying farms. But the farmers are not buying the land. Those prices are going up to even a greater extent than in the World War, causing the same situation you described, but there are no high prices on products. What are we going to do about that?

In other words, you have the thing that has caused higher prices, and that is causing high taxes, but we do not have high prices for farm products. We have high prices for land, causing high prices which will cause the economic ruin of the farmer, if those are the things that cause economic ruin, but without the concurrent circumstance of high prices for farm commodities.

Secretary WICKARD. Is your question why city people want to buy that land? Are you asking me why city people want to buy farm land?

Miss SUMNER. No; I know that. They have been buying it for some years, in anticipation of the inflation caused by spending. We all know that.

I am saying that whereas you said that in the last war high prices of commodities started high prices of farm land and, therefore, caused

high taxes and brought ruination of the farmer, we are getting inflation today which causes high land values and high taxes, and we will have the same ruin today, but we do not have the same high farm prices for commodities.

Secretary WICKARD. I do not think you will have a great increase in land values until you have prices going up. I think what you are talking about is the competitive situation for money. But I do not think you can run prices up much higher without some more increases in farm prices.

Miss SUMNER. I only know my own district very well, and I am familiar with that district because I was a county judge there, and before that I did a lot of inheritance and estate-tax work, so I had to keep statistics in my office about land sales.

In 1936 you could get your land appraised for inheritance-tax purposes for \$60. But within a couple of years after that you could not get it for less than \$100. Today there are sales all around there where it would cost \$200, and the general price is around \$150. In other words, there has been a rise of \$100 an acre in some places. At the same time the banks tell me they have plenty of city money available without anybody who will sell at a price.

Secretary WICKARD. I will say this, that if it is good Illinois land as it is in that district, \$50 or \$60 was too low. It reflected some of the disaster in the twenties and early thirties.

Miss SUMNER. It reflected foreclosures in 1932, 1933, and 1934.

Secretary WICKARD. There has been a world-wide improvement in the agricultural situation, in prices and in farm income during the last 3 or 4 years, and I suppose it is possible that people have a little more confidence than they had 5, 6, or 7 years ago in the abilities of the farms to pay their own way, and a lot of people are putting money into them with the hope that they will pay their own way.

Miss SUMNER. So far as that situation is concerned, in the last World War people felt that now we are going to have high prices from now on. They had no experience. They expanded and expected that the war would be quite long.

Now, they do not have what they had in the World War, and they have the lenders' pressure to pay their debts.

Also, they have this feeling about inflation, saying that they are going to hold on to their land; and also they feel that, due to the statements they have read in the papers, that there will not be any undersupply of grain and that, therefore, prices will not go up very much. Is that general?

Secretary WICKARD. I think it is pretty much among farmers, but it may not be among uninformed city people.

Miss SUMNER. I do not see any tendency among farmers to buy more land, but I see a tendency to sell land. Is not that true?

Secretary WICKARD. I do not think there is, comparatively speaking, much of a tendency for farmers to reach out after land at this time as there was during the World War. I think the factors you have listed account for that. I would agree with that.

Miss SUMNER. Have you the figures of the farm debt in the World War as compared with the figures of the farm debt today?

Secretary WICKARD. I do not have them at hand, but I will be glad to put them in the record.

Miss SUMNER. I will be glad to have you do that.

Mr. CRAWFORD. Mr. Secretary, you dropped one remark that I cannot agree with. Here is what it deals with.

As we proceed to fix prices and ceilings on commodities, I am of the firm opinion that we will drive the so-called speculators first to corporate securities and then to land, or to those two assets simultaneously.

Secretary WICKARD. If we fix prices?

Mr. CRAWFORD. If we fix a ceiling on prices. In other words, I think we are considering a matter that ultimately will bring about one of the wildest inflationary movements in corporate and equity securities and lands that we have ever seen in this country.

Secretary WICKARD. Why?

Mr. CRAWFORD. Because we are going to limit the field of operations, restrict the field.

Secretary WICKARD. I see.

Mr. CRAWFORD. That is No. 1. No. 2 is that we have such an unbelievable source of liquid funds in the form of currency and demand deposits that we have to operate immediately. No. 3: We are going to increase those funds just as sure as we live out of this bill, without the immediate enactment of something to exercise control over these monetary and credit forces which add so materially to inflation.

I believe, as Secretary of Agriculture, you are going to find a surge on the part of nonfarmer individuals or the speculating public, whatever you want to call it, moving into the ownership of farms as fast as they can shake the actual farm operator from ownership.

I feel it very keenly because I have had reliable information showing that things are moving in that direction.

Going to the top of page 4 of your statement, you make an observation with reference to the swift and brief price rise and the lingering rise in costs.

Roughly what is the advance in the price of farm commodities as compared to the low point of 1932 and 1933, whichever was the lowest? Do you recall that, roughly?

Secretary WICKARD. Not quite double.

Mr. CRAWFORD. Two hundred percent?

Secretary WICKARD. Yes; a 100-percent increase, or not quite that; some place near that.

Mr. BROWN. Was that on farm products or farm prices?

Secretary WICKARD. Farm prices.

Mr. CRAWFORD. You have not any opposition whatsoever to the increase in farm prices which have occurred up to date, insofar as an inflationary movement is concerned?

Secretary WICKARD. No, sir. I think the prices of nearly all of these commodities are now about on a parity level, a level we have been trying to achieve for quite a long while. I do not think they are out of line. There might be a very few, but I do not think that situation should last so long.

Mr. CRAWFORD. Going to the fourth paragraph on page 4 of your statement you say that, "The recent increases in farm prices have been unusually rapid, but I want to make it plain that in my opinion they are not yet out of line."

When you say "not yet out of line," do you mean to gear that to the proposition of the inflationary movement? In other words, you

do not feel they have been out of line as they are described, insofar as the problem of inflation is concerned?

Secretary WICKARD. No; I think I intended to say primarily out of line with other commodities, but I think on the other hand the present price levels do not tend toward unwarranted inflation if they do not keep on going up. It is the tendency which gives me some concern. At present values it seems to me they are pretty decent sort of values, from that standpoint.

Mr. CRAWFORD. I emphasize these questions because of the Brookings report and the many comments and editorials that have been released in connection therewith. Incidentally, I disagree with the Brookings report.

Mr. DEWEY. May I ask a question at this point?

Mr. CRAWFORD. Certainly.

Mr. DEWEY. Do you still adhere to the 1926 averages as representing 100 as being pretty sound for this situation, because we seem to have thrown them out of the window and only are thinking of the August 1939 figure as being the level at which we must figure everything.

Secretary WICKARD. I would rather make use of the 1910-14 level, because that level is the level set up by law. I think if you get too many levels you get too much confusion.

Mr. DEWEY. We have tied parity itself to the 1926 averages with which we have worked for 8 years, and we are jumping to August 1939.

Secretary WICKARD. I am talking about farm prices, and I would like to make my comparisons from there.

Mr. BROWN. Mr. Dewey asked you about 1926, and that is with reference to the four basic crops, and if you take cotton and wheat for those 10 years from 1919 to 1929, the average of 1926 would be \$1.32 a bushel for wheat and the average for cotton would be 21.6, and for corn about the same thing. You refer to all agricultural commodities, and the three basic commodities are cotton, corn, and wheat.

Secretary WICKARD. Yes.

Mr. BROWN. I think the question Mr. Dewey asked you was, Is it fair to take parity fixed in 1939?

Secretary WICKARD. What I was trying to say was this, that I want to stay with one comparison, and since 1910-14 is in the law for most of these commodities, I want to use that as a period on which to make my comparison.

Mr. WILLIAMS. It seems to me you are talking about two different things. You are talking about the parity base period, and the 1926 level is the last commodity price level which has been taken as the base. That is an entirely different thing.

Mr. CRAWFORD. I want to ask this question, for the benefit of my friend, Mr. Brown.

In the October 1 issue of the Agricultural Situation, on page 8 it shows the parity price for September 1937 on cotton, 16.7.

Now, the August 1941 Agricultural Situation, on page 3, shows the cotton parity price of July 1941, as 16.49. As to the relative prices on manufactured things which the farmers buy, taking the figure on the last date as compared with what they were in 1937, that would bring the parity price on cotton to almost that exact figure. Is that the situation?

Secretary WICKARD. Yes; that must be true.

Mr. CRAWFORD. That seems to me to be absolutely true. If there has not been any real material advance in the price of manufactured articles which a farmer buys, which enters into these computations between 1937 and 1941, it seems to me we have certainly stirred up a tremendous commotion here about inflation when, in 1937, we said nothing about it whatsoever.

If the calculations are correct, and I do not question them, I cannot understand why those two parities come so closely together unless we are concerned about a price advance now much more than we were in 1936 and 1937.

Secretary WICKARD. Of course, I think it is the tendency to go up, and the factors are here now that we did not have in 1937 for a price rise, and they all went down after 1937. Now they are coming up again, and there certain things which were referred to awhile ago which may keep prices going up, such as the increased pay rolls and the increased amount of funds available.

Mr. CRAWFORD. In 1937 we did become so much disturbed, at least the administration did, that they ordered an increase in excess reserves, a very drastic increase. They put the brakes on Government spending, and they took so many steps that Mr. Henderson began to predict a great slump, which incidentally occurred.

But in this case, instead of doing those very things, people come down here and ask for a sweeping control to be given to an administrator over the industry of this country.

I simply bring that out because to me it is very pertinent to this bill, and to what we are leaving out of the bill and the forces we are entirely overlooking, the tools in this arsenal for the prevention of inflation that we used before and which we are not now apparently willing to use. I do not quite get the approach.

Miss SUMNER. I think I know a way by which you could prevent a lot of inflation. It is not only from the point of view of my district, but I think it must be general.

When I was home recently I talked with a person who had a mortgage on his farm, and he said he had some Federal land-bank mortgages and he also had some insurance-company mortgages, and he said, "If prices rise the thing for me to do is to pay off the principal." And I gather from his statement that that feeling is general, that the farmers would like to pay off their debts. He says, "I would like to pay off my debts, but I am prevented by the people to whom I owe money, because of the provision in the mortgage, my insurance-company mortgage, by which I can pay so much a year on my principal."

Have you given any consideration to that? It seems to me one of the most important things we can do if prices do rise—and they have not yet risen in my part of the country on basic commodities—but if they do rise to that point, do you not think it would be well for Congress to pass some kind of a law permitting contracts to be set aside if men can pay the principal on their debts?

Secretary WICKARD. I do not want to bring up again a constitutional question.

Miss SUMNER. That is not a constitutional question, because that only applies to contract laws in the States.

There is nothing to prevent Congress from passing legislation of that type.

Secretary WICKARD. The objective is all right. We are doing everything we can to encourage farmers to pay off indebtedness, and I wish everybody who held such mortgages were giving the farmers that opportunity. We are encouraging the people under the Farm Security Administration to pay off their indebtedness as far as we can. We have direct control there.

Miss SUMNER. There are certain big insurance companies that have a tremendous volume of mortgages throughout the United States which do not permit you to pay more than a certain amount on the principal in any given year. If a farmer is able to pay off his mortgages it seems to me it is very important that he should be given that right. Do you not agree with that?

Secretary WICKARD. Yes; I think so.

Miss SUMNER. Do you not think the policy should be to make them operate to take what steps they can to help the farmer?

Secretary WICKARD. I think that would be a laudable step.

Miss SUMNER. Have you given that any consideration in your Department?

Secretary WICKARD. No; except we had this conference in which we talked to those people about paying it off.

Miss SUMNER. Did they bring up the point about some farmers not being able to pay off their indebtedness?

Secretary WICKARD. No; I had not heard that. A lot of these mortgages are written so you can pay at any interest rate.

Miss SUMNER. On one side you have a group of farmers who are very much alive to what happened in the last war, and they do not want that to happen again. They do not want to be in any post-war depression and be in the same situation they were in before.

You also have these insurance companies who do not want inflation, and they are trying to prevent the farmers who are able to do so to pay off their debts.

Mr. DEWEY. Why not let them buy defense bonds and have their savings at the same time?

Miss SUMNER. They get 1 or 2 percent on defense bonds, and on their mortgages they have to pay 5 or 6 percent.

Secretary WICKARD. I think this tendency you speak about is more due to the high rate of interest which they want to keep in effect as long as possible.

Miss SUMNER. If I have a farm and want to change my mortgage to the Federal land bank, having gotten my loan from an insurance company, and want to change the mortgage to the land bank that does business in my community, I cannot transfer to a Federal land bank and have the advantage of a low rate of interest.

Secretary WICKARD. I expect if that is the provision in the mortgage contract, you will have to abide by the contract.

Mr. CRAWFORD. Mr. Secretary, going back to your statement on page 4, you say that "Only within the past month or two has the purchasing power approached the parity level."

I want to ask you this question: Do you mean to say by that that these prices standing at parity are not a part of an inflationary spiral? You take that position, do you not?

Secretary WICKARD. What I was saying there—

Mr. CRAWFORD. Let me tell you why I ask this question. I think we are going to have quite a fight on this bill as between agriculture and labor, and if you can, I would like you to say to me very emphatically what your position is, as to whether or not that statement means that so long as prices are no higher than parity they do not contribute to an inflationary spiral.

Do I make myself clear?

Secretary WICKARD. The statement is made there to indicate that at the present time farm prices are about on a level with what farmers have to pay as the prices for their products, and they have reached that point so we are only at about the same relationship as in 1910 to 1914.

Mr. CRAWFORD. Will you go so far as to say in addition to what you have said that, therefore, you do not believe that so long as they are within that range they contribute to an inflationary spiral?

Secretary WICKARD. No; I think you may have everything going up to where you would get into inflation even though they might remain the same relationship.

Mr. CRAWFORD. So long as farm prices remain at parity do you take the position that so far as farm prices are concerned inflation is obviated?

Secretary WICKARD. No; farm prices might double what they are and still be at parity; or they might go to half what they are and still be at parity.

Mr. CRAWFORD. In other words, we cannot take the position that vastly increasing of farm prices do not contribute to inflation as organized labor has taken the position, as I believe their records will show, that the increase in wages has not contributed to inflation.

Miss SUMNER. He is right, but they are wrong, because if you increase the purchasing power through increasing wages obviously that is going to have a tendency to cause inflation.

Secretary WICKARD. Unless some other factors are considered. If you have the products they want to buy available for them to buy, without some artificial reason, prices may not be inflated.

Mr. CRAWFORD. May I ask the question in this way to get it clear in my mind. Would you say that if farm prices go up 25, 50, or 100 percent above the price level, but at the same time remain at parity, that that will be a contributing factor to the inflationary spiral?

Secretary WICKARD. I think that there would be a tendency in that way.

Miss SUMNER. There are two ways in which you can have a contribution to inflation: A rise in wages may contribute to inflation, or a decrease in the production in that particular industry, which would give rise to an increased demand; that might contribute to inflation. So there are two ways in which that can contribute to inflation, and labor recently undertook to show that recent wages did not raise the price of automobiles.

Mr. CRAWFORD. At the top of page 4, Mr. Secretary, you make this observation:

Inasmuch as attaining parity has been the objective declared by Congress in agricultural legislation ever since 1883, the realization of this objective, it seems to me, ought to be the cause for general satisfaction.

Now after what you have already indicated above as the rise in price level of farm commodities does contribute to the inflationary

spiral, do you feel that we should desert that program in our effort to prevent or to detract from or subtract from the forces which bring that about?

Secretary WICKARD. You mean the parity program?

Mr. CRAWFORD. Yes.

Secretary WICKARD. No; I do not think we should, and I do not think we need to.

Mr. CRAWFORD. Well, if we stick to the statement that parity is going to add to the inflationary spiral, as you have stated before—

Secretary WICKARD (interposing). I did not necessarily say that; it depends upon where the price level goes, and that is what this bill is dealing with, one of the things it is supposed to deal with.

Mr. CRAWFORD. Yes; but if we stick to that statement—

Secretary WICKARD (interposing). We can have a price level for farm commodities, and prices continue to remain at parity without necessarily having inflation.

Mr. CRAWFORD. I am trying to pin this down to agriculture.

Secretary WICKARD. Yes.

Mr. CRAWFORD. If by sticking to parity, the parity principle, the parity formula, we move the price of agricultural products up 25, 50, or 100 percent, along with other prices, thereby contributing to the inflationary spiral, should we, as the representatives of agriculture forces propose to forfeit the principle that contributes to an inflationary spiral, if it does that?

Secretary WICKARD. I do not think that would be fair; I do not think so. I think it would put the farmers to an immediate disadvantage in comparison with others.

Mr. CRAWFORD. I do not think so, but unless somebody else is willing to take the step I do not know how you can yet away from it, unless somebody is willing to take the step first.

Mr. MILLS. May I interpose this question?

Mr. CRAWFORD. Yes.

Mr. MILLS. I wonder, Mr. Secretary, if in this discussion we are not failing to distinguish between normalcy and inflation? You say that possibly agricultural products, even at parity, might contribute, under certain circumstances, to the inflationary spiral, and I am wondering if agricultural commodities always remain at parity, with that relationship continuing, if we would not have a normal period rather than an inflationary period.

Secretary WICKARD. You would have a normal relationship, but I am not sure that there might not be an inflationary period or a deflationary period.

Mr. MILLS. That brings me to this point: The question of inflation or deflation or normalcy does not depend upon the price of commodities at all; that relationship depends upon other factors in the economy, purchasing power in relation to the productive capacity.

Secretary WICKARD. And the amount of products available, the savings, and all of those things.

Mr. MILLS. But you could not say that agricultural products at parity, above parity, or below parity would be a contributing factor to inflation, just as a concrete matter?

Secretary WICKARD. Not as a definite flat statement.

Mr. MILLS. In other words, you could not give a flat answer to Mr.

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## PRICE-CONTROL BILL

Crawford's statement or question?

Secretary WICKARD. I may have misunderstood his question or statement. As I understood the question, Mr. Crawford, you say that if farm prices went up 25, 50, or 100 percent above what they are now, but still were at parity that might have some indication of an inflationary tendency, and I said that it might have.

Mr. MILLS. It might have or it might not.

Secretary WICKARD. Or it might not. It would depend upon many other factors.

Mr. MILLS. Such as whether or not you have excess purchasing power in relation to productive capacity.

Secretary WICKARD. That is one of the contributing causes.

Mr. MILLS. No; that is not one of the contributing causes, if you will permit me to say so, because if that situation exists you have got inflation. Deflation is the reverse.

Secretary WICKARD. Yes. I think perhaps that it usually takes place in a price rise when you have more money available than you have products to purchase.

Mr. MILLS. That is the point I am talking about.

Secretary WICKARD. Not necessarily.

Mr. CRAWFORD. In you speaking of this objective having been realized and that it ought to be the cause of general satisfaction, I wish to bring out this point: It seems to me that we are about to get tangled up here in the bulrushes, in bringing this thought to the people, to the effect that farm parity prices result from war emergency, or came about only because of a war inflationary spiral operating. I would not want to see the record left that way.

Secretary WICKARD. That is right. I do not think that that has been the case.

Mr. CRAWFORD. Neither do I, but I am afraid the statement you made would enable somebody to point to some agricultural people that parity is due primarily to the effect of war inflationary price spiral in operation, that they are getting something simply as a result of an emergency proposition and that when the emergency passes they do not get it.

Secretary WICKARD. I think that much of the farm price increase, farm prices, has been due to acts of Congress, the price-supporting laws that have been put into effect, 85 percent of parity loans; and I think quite a lot of the price increase has been due to that in getting farm prices up from the extremely low level.

Mr. CRAWFORD. Going to the top of page 5 of your statement, you say this:

One of the merits of the pending bill is its acceptance of the parity principle.

You mean to say that the bill accepts the parity principle as a means to control inflation, or to offer a shock to inflation, or to prevent inflation. Is that the reason this bill accepts the principle of parity?

Secretary WICKARD. No; it recognizes parity as a thing that is desirable, to keep a normal relationship, a fair relationship between prices of things that the farmers have to buy and the things they have to sell.

Mr. CRAWFORD. Recognizing the parity principle from the standpoint of, say, relativity or relationship, but do I understand you to say

now that it does not recognize the parity principle as one of the things which will prevent the inflationary spiral?

Secretary WICKARD. I do not think the attainment of parity necessarily will prevent the inflationary spiral.

Mr. CRAWFORD. I do not want to press you for an answer to this question, but if granting parity will contribute to the inflationary spiral why should this bill carry it?

Secretary WICKARD. I did not say that it would necessarily do that.

Mr. CRAWFORD. No; I did not say it would, or that you said it would. But if the granting of the principle of parity will contribute or does contribute to the inflationary spiral why should this bill recognize it at all?

Secretary WICKARD. Recognize parity?

Mr. CRAWFORD. No; if the acceptance of the principle of parity does contribute to the inflationary spiral why should it recognize it?

Secretary WICKARD. I did not say it did.

Mr. CRAWFORD. I know; but why should the bill, designed to prevent inflation, recognize the principle of parity if it does contribute to the inflationary spiral.

Secretary WICKARD. What I am trying to say is that I am happy that we do have legislation that recognizes the parity principle and uses it as one of the standards for legislation; that is the purport of my statement.

Mr. CRAWFORD. Well, let me go back to my previous statement, and to the earlier comment that it might contribute to the inflationary spiral. I am submitting the question so that if the recognition of the parity principle does contribute to the inflationary spiral—and I am not saying that it does, and I am not saying that anybody said so—but if it does contribute to the inflationary spiral why should a bill designed to prevent inflation recognize that principle? I think there is only one answer to that.

Secretary WICKARD. Well I do not know, Congressman. What I am saying is that I am happy, first, that we attained parity and I am glad that it is being recognized as a fair principle. I recognize that parity may mean either inflation or deflation and I cannot go further than that statement.

Mr. CRAWFORD. Let me call attention to this further statement, where you say:

I assume that the bill uses the parity principle for farm prices because it is fair to both farmers and consumers.

Now, I would like to ask you this question: Does fairness assure inflation control?

Secretary WICKARD. No.

Mr. CRAWFORD. In other words, fairness should not be a wartime objective, should it?

Secretary WICKARD. I think it is a good wartime, peacetime, or in-between-time objective.

Mr. CRAWFORD. I agree with you.

Continuing down you make the statement on page 5:

The administrative efforts will necessarily be in maintaining a fair relationship among the prices and a practical margin between prices and costs.

In your opinion would that insure inflation control?

Secretary WICKARD. Where are you reading from?

Mr. CRAWFORD. I am reading the second sentence in the second paragraph on page 5:

The administrative efforts will necessarily be to maintain a fair relationship among the prices and a practical market between prices and costs.

My question was would that effort, carried to consummation, assure inflationary control so far as agriculture is concerned, in your opinion?

Secretary WICKARD. Well, I think it all depends upon the general price level, outside of agricultural products.

Mr. CRAWFORD. Going on a little further you use language, "as to wipe out his net income."

Do you have any definition, any practical definition of net income that you can give us?

Secretary WICKARD. Do I have a definition of net income?

Mr. CRAWFORD. A practical definition of net income as used in this connection?

Secretary WICKARD. Well, I think in determining his net income you would have to consider cost and depreciation. It would be his cost and depreciation, difference between that and what he received; that would be his net income.

Mr. CRAWFORD. On page 6 of your statement, at the close of the middle paragraph you state:

After all it happens to be the expressed policy of Congress and the administration to achieve and maintain farm prices at parity.

Would you go so far as to say also, to control inflation and deflation?

Secretary WICKARD. Well, I do not know—

Mr. CRAWFORD (continuing). In other words, that the parity principle is at least partially to prevent the undue deflation of farm prices.

Secretary WICKARD. I do not think that parity was a principle established for that purpose; no.

Mr. CRAWFORD. You do not think the parity principle was established for what?

Secretary WICKARD. It was established because it recognized a fair relationship between farm prices and the cost of the things that the farmer buys.

Mr. CRAWFORD. Well, to prevent undue inflation?

Secretary WICKARD. Deflation?

Mr. CRAWFORD. Deflation in the price of farm commodities.

Secretary WICKARD. Yes; to prevent prices going down faster than prices of things he had to buy.

Mr. CRAWFORD. Yes. Was it not a parity floor rather than a ceiling?

Secretary WICKARD. Was it what?

Mr. CRAWFORD. Is not parity a floor rather than a ceiling?

Secretary WICKARD. Well, parity is an objective.

Mr. CRAWFORD. I was going to add, "as an objective." Now, here is my question. Was not parity a floor rather than a ceiling as an objective? Do you agree with that?

Secretary WICKARD. Well, parity, as I said, was an objective; it is neither a floor—it all depends upon the kind of legislation; the parity level is a standard.

Mr. CRAWFORD. Well, can we not go so far as to say it was an objective, during a time of deflation, at the time we started talking about parity principle? I am trying to get clear the general purpose of parity. We had a deflationary condition in agriculture when we started promoting the philosophy of parity prices, did we not?

Secretary WICKARD. Had a deflationary condition?

Mr. CRAWFORD. Yes.

Secretary WICKARD. I thought we were trying to get farm prices up; I think we were.

Mr. CRAWFORD. Yes; but when the people and the Congress started out advocating the parity principle for farm prices did we not have a deflationary condition in this country so far as agricultural products were concerned?

Secretary WICKARD. Did we not have a deflationary condition?

Mr. CRAWFORD. Well, were not farm prices extremely low at that time?

Secretary WICKARD. 1910 to 1914?

Mr. CRAWFORD. No; when we started to advocate the parity principle.

Secretary WICKARD. Yes; I think the parity legislation came about because of the extreme low price of farm commodities.

Mr. CRAWFORD. Yes. In other words, it was a floor rather than a ceiling as an objective in the deflationary condition at the time.

Secretary WICKARD. It was an effort to try to raise farm prices up to a fair level in relation with other commodities. And I do not think it was necessarily a floor or a ceiling when we first started considering it; it was an objective to try to get farm prices at a fair relationship with other prices.

Mr. CRAWFORD. When actually applied, to serve as a floor.

Secretary WICKARD. When you have proper legislation and funds, and so on.

Mr. CRAWFORD. Yes.

Secretary WICKARD. And a program which tended to raise farm prices to a proper relationship with other prices, I suppose in that sense you could call it a floor.

Mr. CRAWFORD. I am just trying to get some enlightenment as to what is involved in this parity principle, and my distinction is—and if I am not correct, I want you to correct me—when the parity principle is fully applied, through the application of loans, commodity credit, surplus, control, legislative implementation appropriations, and so on, it does have as one of the objectives to serve as a floor.

Secretary WICKARD. Not simply as the objective, because we have only recently been able to get prices up to something near parity level although we started back some 8 years ago.

Mr. CRAWFORD. Yes; but not until just recently had the objective been obtained or put into operation, and when it is in operation—that is the point I was making—when it is in operation it does put a floor under prices.

Secretary WICKARD. It does tend to do that.

Mr. CRAWFORD. Does it just tend to do that, and, if so, why do you as Secretary of Agriculture then advocate it as the salvation for the economic welfare of the American farmer? I do not believe that it just tends to do so; I think it does, and I wanted to see if you agreed with that.

Secretary WICKARD. No; I do not think it actually does it every day for every commodity.

Mr. CRAWFORD. Well, I am not suggesting that you say that it does for every commodity, every day, but on the things on which it is operating, does it not do so? If not, should you not be asking for something more than parity, because if it does not do so I think we are entitled to have at least what parity is supposed to give us.

Secretary WICKARD. There are a few commodities at the present time that are reaching parity, as stated this morning.

I do not know just what your judgment may be, but I cannot say what apparently you think you should say, that parity is an absolute floor to prices, as it has operated thus far.

Mr. CRAWFORD. No; I am not trying to get you to say that.

Secretary WICKARD. It does tend to support prices.

Mr. CRAWFORD. Now let me ask you this question: With these inflationary spirals in operation, and if we are to stand on the parity principle in our general approach, should that, in your opinion, operate as a ceiling objective?

Secretary WICKARD. Parity?

Mr. CRAWFORD. Yes.

Secretary WICKARD. I said this morning in my testimony that I do not think you should have a ceiling put into effect, except when prices got up to 110 percent of parity so their might be an opportunity for prices to reach an average of parity.

Mr. CRAWFORD. You think we should contend for more than parity?

Secretary WICKARD. No; I do not think we should try to get prices to average more than parity because that would be unfair just the same.

Mr. CRAWFORD. If we permit some deviation in order to make up for the failure of deflation control will that not somewhat assure the failure to prevent inflation?

Secretary WICKARD. I do not know that I get what you mean by deflation control. What do you mean by that?

Mr. CRAWFORD. Well, I do not know that I can make it much clearer than I have already stated. Suppose we are headed for a deflationary storm! Personally, I can separate these two, that deflation follows inflation, and sooner or later you may be up here advocating before the Agriculture Committee or this committee that we should do certain things to prevent deflation. Now you are advocating it to prevent inflation. Now my question was this: If we permit a deviation to make up—that is from parity—to make up for the failure of deflationary control will that not assure a similar failure in handling an inflationary control? I do not wish to press that question, but just throw it out.

Secretary WICKARD. You are talking about 110 percent of parity?

Mr. CRAWFORD. Yes; there is a deviation in this bill of 10 percent.

Secretary WICKARD. Yes; as I have said, I think we should have that range.

Mr. CRAWFORD. Well, I will not press that question further.

Now, would it be fair for me to take the position that farm prices tend to rise out of line with other prices in a period of inflation?

Secretary WICKARD. That has been the history.

Mr. CRAWFORD. Now, in that case it seems to me that, if that is absolutely true—and I am not arguing it one way or the other—that

putting 110 percent of parity in the bill will serve to somewhat assure and guarantee a faster rise than would occur otherwise. Now, if deflationary conditions are sure to follow, what purpose can there be in setting a ceiling at all?

Secretary WICKARD. Well, I think ceilings are necessary, as I said, to take care of the inflationary price tendencies which arise out of less production, or less commodities, than there is purchasing power. And I am of the opinion it should be used when necessary to prevent speculation and things of that kind occurring, under those conditions.

Mr. CRAWFORD. Just one other remark. My remarks with reference to your advocacy I want to clear up in this way: I know that you have agriculture at heart very greatly and you have somewhat led me to believe that you do not feel the parity principle will actually do the job.

Secretary WICKARD. Of what?

Mr. CRAWFORD. Of giving the farmer a fair price for his labor in the form of the products which he sells.

Secretary WICKARD. Oh, yes; I think I cannot agree that I said that. If I did, I made a mistake; I did not intend to say that.

Mr. CRAWFORD. I do not say you said that, but you led me to believe you did not feel it would be absolutely efficacious.

Secretary WICKARD. I am sorry I misled you.

Mr. HULL. May I ask a question there? Do you feel, Mr. Secretary, that the farmer will get the cost of production by having 110 percent of parity?

Secretary WICKARD. Well, I do not know. You and I might not agree upon what cost of production was. I think that we have established here by law the parity principle and I believe that, with other parts of the agricultural program that is being put into effect, offers an opportunity to get some place near parity prices for farmers, including the payments that are given to them under the various appropriations.

Mr. HULL. But that would not take into consideration the farm labor cost of the product, would it?

Secretary WICKARD. No; this parity index does not take into consideration the farm labor cost.

Mr. HULL. It will not take into consideration the relationship between farm income and national income, will it?

Secretary WICKARD. No; this is entirely a price parity.

Mr. HULL. It will not be parity between farm income and the income of industry, for instance, will it?

Secretary WICKARD. No, because income for either industry or farming is made up of two things—volume sold times price. We have been talking here about price; I understand this is price control.

Mr. HULL. It is hardly a matter of fixing what might be called a parity price of industry as compared with the price of what the farmer buys. It depends on what the farmer is supposed to buy; is not that true?

Secretary WICKARD. Yes.

Mr. HULL. And when that basis was established, the farm income was at that time approximately 14 percent of the national income and now it is down to about 7 percent or 8 percent and will not be increased because of the increased prices he is getting nowadays; the percentage



of the national income will remain just about the same if you get the parity price, at whatever percent?

Secretary WICKARD. The way the national farm income is growing, it may be much more than what is indicated, because we are selling a greater volume of products, as well as getting better prices for them.

Mr. HULL. Yes; on the other hand, your Department has estimated that about a billion and a half dollars will be added to the farm income this year by these increases in prices.

Secretary WICKARD. For 1941; yes, sir.

Mr. HULL. Now, then, you have estimated at the same time you are going to have about a \$24,000,000,000 increase in the national income. So, relatively, the farm income will be lower with higher prices than it has been with lower prices; is not that true?

Secretary WICKARD. I do not know. Is there going to be a \$24,000,000,000 increase in the national income this year?

Mr. HULL. I am just taking the newspaper reports that come out from your Department; that is all I am giving you. I do not know myself.

Secretary WICKARD. I do not know. I am not going to speak to the figures you just gave, but it is my opinion that the farm income this year is the best it has been for several years.

Mr. HULL. The general farm income?

Secretary WICKARD. The general farm income; that is right.

Mr. HULL. Of course the farm income embraces a lot of things, but it does not embrace the farmer's labor and, for instance—I mentioned this once before—you grow corn on your farm?

Secretary WICKARD. Yes, sir; among other things.

Mr. HULL. That is income, is it not?

Secretary WICKARD. Yes, sir.

Mr. HULL. You feed it to hogs, and you sell the hogs; that is income?

Secretary WICKARD. Yes, sir.

Mr. HULL. And even if you eat the hogs, that is income, according to your Department?

Secretary WICKARD. Yes.

Mr. HULL. Now, then, there are three incomes on one crop, so that when you get right down to the actual cash obtained by the farmer, it is far below the corn fed to stock, the amount of hay fed to stock, and all of the rest of the feedstuff marked off, when they go into meat products, dairy products, or poultry; but they are all figured in there as part of the national income and are figured three times in many cases.

Secretary WICKARD. Is that true? I do not know.

Mr. HULL. All I know is from the agricultural statistics of the Department of Agriculture.

Secretary WICKARD. Here is Dr. Tolley, who gets out the statistics. I would like you to ask him.

Mr. HULL. I asked the same question of Dr. Tolley the other day, and I just want to get your thought.

Secretary WICKARD. You just want to see what the discrepancy is between the two? [Laughter.]

Mr. HULL. Is it fair to base the income of agriculture on any plan of parity or otherwise, where it does not figure in the cost of production? Is there any other line of industry in the world, where you put the product on the market and do not fix the price at cost of production, that won't drive that industry into bankruptcy?

Secretary WICKARD. Well, I do not think any other industry would undertake it unless it thought it could get the cost of production—would undertake to manufacture the product unless they thought they would at least break even on it.

Mr. HULL. Surely, or they would go into bankruptcy?

Secretary WICKARD. Yes.

Mr. HULL. Well, is the rule any different as to the farm income?

Secretary WICKARD. No; it depends somewhat on other things, Congressman. I mean why do farmers stay in production, stay in farming year after year, as you say—

Mr. HULL. You know why they stay in production—because that is about all they can do.

Secretary WICKARD. That may be on thing; another thing is it offers security.

Mr. HULL. Is it fair to base agricultural income on a parity scheme or any other scheme that does not involve cost of production, when all other lines of industry and commerce do figure their price on cost of production? You have one system for the farmers and another for the others.

Secretary WICKARD. Yes; but they have some things for the farmer that you do not have for industry.

Mr. HULL. What?

Secretary WICKARD. Ability of the people who live on farms to have a home as long as it is not taken away from them; to produce the things they need for their own protection. The factory door does not close; the war effort does not come along and put them completely out of business as it does when the Priorities Commission or Board suddenly annuls any order they might have had for commodities which they needed in their production. Now, I think—

Mr. HULL. I do not want you to go into that too fully—

Secretary WICKARD. Let me finish my statement. My opinion is, Congressman, if we can obtain parity for the farmers, I think we will go a long, long way toward solving the farmer's income as well.

Mr. HULL. Yes; for some farmers; but when we had Dr. Robins here a few weeks ago, he said the farmers might receive parity and still go into bankruptcy.

Secretary WICKARD. I think that is true; I think it is possible. As I say, we have an objective put out here by the Congress, and I am very happy to see us come as near reaching parity as we have during the last few months.

Now, as to the cost of production, I think it is pretty difficult for you and I to agree upon an answer to that question when we cannot perhaps agree on what rate ought to be taken into consideration to determine the cost of production; because the cost of production for one farmer will not be the cost of production for another farmer at all, even though they live in the same neighborhood.

Mr. HULL. Now, we appreciate that all farmers may not live in Georgia or Alabama, and the purchases they make do not compare with what they make in your State or mine.

Secretary Wickard. That is right.

Mr. Hill. Now, as a matter of fact, Mr. Secretary, since 1929 the political parties have been meeting and have been resolving to place agriculture on a parity with industry. Did they ever, in any platform plank, pledge that they were going to base farm prices on parity-with-industry prices?

Secretary Wickard. Well, trying to achieve parity is what I thought that would mean.

Mr. Hill. Not that means parity as to purchasing power. The farmer has to pay certain prices for those goods which he buys, but to put agriculture on a parity with industry, I think 25 percent is what they will have to get in order to have a proportionate share of the national income. That is the kind of parity I am talking about.

Secretary Wickard. I have never seen any political platform that did use what you say; no, sir. I did not see it stated; no, sir.

Mr. Hill. I have taken more time than I intended. Thank you, Mr. Secretary.

Mr. Brown. Mr. Secretary, relative to the parity section of the bill—77½ percent of the parity price or comparable price for such commodity as determined and published by the Secretary of Agriculture, or (2) the market price prevailing for such commodity on July 29, 1941. You realize that the Administration, if this bill does pass, will not bring down those prices to anything like parity, that is, the products that are away above parity now.

What I want to see is equality for the farmer with labor and with industry. Now, it strikes me you have to have another section in there to take care of some agricultural products, because the last period of 1909-19 is not fair to some of the major agricultural products.

Do you have any objection to that? Now, we are not fixing the price on you; we are fixing the ceiling. It is not a parity bill; it is a price-fixing bill.

Secretary Wickard. A price-control bill.

Mr. Brown. Price control. And for that reason, we just might as well look at the thing to accomplish that view. You know the Administration is not going to bring beef cattle down to 110 percent of parity; you know he is not going to bring wool down to that; you know he is not going to bring a lot of other things down. Therefore I think it is fair there should be another section added to the bill and we might say "the average price, 1919-29."

Secretary Wickard. 1919-29?

Mr. Brown. Yes. That might bring in all of the commodities which they would be on an equality—all of the farm products. You would not have any objection to that, would you?

Secretary Wickard. I do not have any objection to keeping the products in a regular relationship to each other, as well as to the commodities.

Mr. Brown. That is what I am talking about. We want to lay the regular relationship to each other?

Secretary Wickard. But I am not sure what you said will do it.

Mr. Brown. I have no objection, as a matter of objective.

Mr. Brown. I have the figures here from your Department.

Secretary Wickard. That is all right, you say?

Mr. Brown. I have the figures here from your Department from 1919 to 1929. Now, that was the year after the war, and besides, that came up to the year 1929 when we had the worst deflation we ever had in history. That was during peacetimes. Nobody ever quarreled about the prices of farm commodities between those years.

Secretary Wickard. 1919-29?

Mr. Brown. Yes.

Secretary Wickard. I did, and plenty. I sold hogs for \$6 during that period, and at the prices I had to pay I was losing money pretty rapidly.

Mr. Brown. All right; what was the average price of hogs at that time as compared to parity now?

Secretary Wickard. You are talking about the average price during 1919-29?

Mr. Brown. Yes.

Secretary Wickard. I do not think the average price during 1919-29 was very good as compared to the price today.

Mr. Brown. Now, some of you fellows think more of hogs than you do about wheat and cotton.

Secretary Wickard. You naturally think of the things out of which you make a living.

Mr. Brown. I know that is natural, but the three main commodities, Mr. Secretary, are wheat, corn, and cotton.

Secretary Wickard. Well, hogs bring the farmer a lot more money.

Mr. Brown. I know that, but hogs are corn.

Secretary Wickard. That is right.

Mr. Brown. And cattle is corn in your section.

Secretary Wickard. To quite an extent.

Mr. Brown. And when you get it down, you cannot get away from the three main basic commodities—corn, wheat, and cotton. Now, the average price of wheat in those years was \$1.32 a bushel; your parity price fixes it at about \$1.20. The average price of cotton was 21.41 cents; your parity price is fixed at 16.99 cents. Corn stood at about the same relationship. Now, those were years when nobody thought of cotton, and in that section I want to put in there the three main commodities, because you have beef cattle and you have hogs growing out of feeding corn; you have wheat bought for bread; you have cotton and wool that goes into clothing. And, for that reason, to take care of some of the main basic commodities, we ought to have some other section.

Now, I know this section will take care of beef cattle at around 150, which was the price around about the 29th of July; something like that. But it does not take care of a lot of other things.

Another thing, Mr. Secretary, I want to ask you about is, Why should there be anything put in this bill where there is a surplus, where there is any surplus commodity? That would not have anything to do with inflation, would it?

Secretary Wickard. You mean if there was a surplus?

Mr. Brown. Any commodity where there is a surplus does not affect inflation, does not bring about inflation?

Secretary Wickard. If you have free market forces, no. I think the surplus would tend to keep down inflation, if it was given its full market effect.

Secretary WICKARD. That is right.

Mr. HULL. Now, as a matter of fact, Mr. Secretary, since 1928 the political parties have been meeting and have been resolving to place agriculture on a parity with industry. Did they ever, in any platform plank, pledge that they were going to base farm prices on parity-with-industry prices?

Secretary WICKARD. Well, trying to achieve parity is what I thought that would mean.

Mr. HULL. No; that means parity as to purchasing power. The farmer has to pay certain prices for those goods which he buys, but to put agriculture on a parity with industry, I think 23 percent is what they will have to get in order to have a proportionate share of the national income. That is the kind of parity I am talking about.

Secretary WICKARD. I have never seen any political platform that did just what you say; no, sir. I did not see it stated; no, sir.

Mr. HULL. I have taken more time than I intended. Thank you, Mr. Secretary.

Mr. BROWN. Mr. Secretary, relative to the parity section of this bill "110 percent of the parity price or comparable price for such commodity as determined and published by the Secretary of Agriculture, or (2) the market price prevailing for such commodity on July 29, 1941." You realize that the Administrator, if this bill does pass, will not bring down those prices to anything like parity, that is, the products that are away above parity now.

What I want to see is equality for the farmer with labor and with industry. Now, it strikes me you have to have another section in there to take care of some agricultural products, because the base period of 1909-19 is not fair to some of the major agricultural products.

Do you have any objection to that? Now, we are not fixing the price we get; we are fixing the ceiling. It is not a parity bill; this is a price-fixing bill.

Secretary WICKARD. A price-control bill.

Mr. BROWN. Price control. And, for that reason, we just might as well look at the thing to accomplish that view. You know the Administrator is not going to bring beef cattle down to 110 percent of parity; you know he is not going to bring wool down to that; you know he is not going to bring a lot of other things down. Therefore I think, to be fair, there should be another section added to this bill and you might say "or the average price, 1919-29."

Secretary WICKARD. 1919-29?

Mr. BROWN. Yes. That might bring in all of the commodities where they would be on an equality—all of the farm products. You would not have any objection to that, would you?

Secretary WICKARD. I do not have any objection to keeping farm products in a proper relationship to each other, as well as to other commodities.

Mr. BROWN. That is what I am talking about. We want to keep the proper relationship to each other?

Secretary WICKARD. But I am not sure what you said will do that. As I say, I have no objection, as a matter of objective.

Mr. BROWN. I have the figures here from your Department.

Secretary WICKARD. That it will do that, you say?

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Secretary WICKARD. You are talking about the average price during 1919-29?

Mr. BROWN. Yes.

Secretary WICKARD. I do not think the average price during 1919-29 was very good as compared to the price today.

Mr. BROWN. Now, some of you fellows think more of hogs than you do about wheat and cotton.

Secretary WICKARD. You naturally think of the things out of which you make a living.

Mr. BROWN. I know that is natural, but the three main commodities, Mr. Secretary, are wheat, corn, and cotton.

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Another thing, Mr. Secretary, I want to ask you about is, Why should there be anything put in this bill where there is a surplus, where there is any surplus commodity? That would not have anything to do with inflation, would it?

Secretary WICKARD. You mean if there was a surplus?

Mr. BROWN. Any commodity where there is a surplus does not affect inflation, does not bring about inflation?

Secretary WICKARD. If you have free market forces, no. I think the surplus would tend to keep down inflation, if it was given its full market effect.

Mr. BROWN. All right; we will come back to the three basic commodities again. Why should there be any ceiling on wheat, cotton, and corn, because they have a surplus in all of those?

Secretary WICKARD. I think there are two things. Crop failure might wipe out the surplus of corn, for instance, within a very few months, or there might be some speculative manipulation of one kind or another trying to drive the price up. If there was no method of controlling the price, if the surplus is allowed to play its full market force, then any control would not hurt it—would not affect the market.

Mr. BROWN. Let us do not look at minor things that might take place, but suppose you needed more wheat, more corn, and more cotton, would you want to put a ceiling there? You would want to encourage people to go into those lines of production, would you not, because all of those things are part of the national defense?

Secretary WICKARD. That is right. Of course, Congressman, I do not think you can ever have any control of inflation by everybody saying "I want the other fellow to do all the control, while mine goes scot free."

Mr. BROWN. All right, sir. I want to ask you, Do you think a ceiling price in this bill, fixing the farm commodity price on the 1919-29 average, according to the figures furnished me by your Department—do you think that would bring about that condition?

Secretary WICKARD. I have not studied that average. The only thing I have are the prices you read me, and there are a lot of other commodities involved in this whole thing.

Mr. BROWN. I know, but I am talking about the basic commodities. I am trying to get something, Mr. Secretary, besides hogs to put ceiling prices on.

Secretary WICKARD. I think, at the present time, cotton is about as near parity as corn.

Mr. BROWN. That is true, but not with hogs and cattle.

Secretary WICKARD. Hogs are very near parity now; they have gone down \$2 a hundred recently.

Mr. BROWN. And cattle is above?

Secretary WICKARD. Somewhat above.

Mr. BROWN. And you are satisfied with those prices?

Secretary WICKARD. There has been a lot of complaint on the part of consumers about cattle prices.

Mr. BROWN. Are you satisfied now with cotton prices—I mean as a ceiling—cotton prices and wheat prices, if you would put a ceiling on them around parity?

Secretary WICKARD. 110 percent is what we suggest here; yes.

Mr. BROWN. Are you for this 110 percent? I thought you were for parity. I cannot understand your position.

Secretary WICKARD. I tried to state in my testimony that it was necessary not to have a ceiling below 110 percent of parity, so that we could have an average of parity.

Mr. BROWN. I see. You believe in the 110 percent as in this bill?

Secretary WICKARD. Yes; I think we should have that.

Mr. BROWN. Now, I know you believe in equality for the farmers to industry and labor. I was very much impressed by the statement of Mr. Hull that you are going to fix a ceiling. Of course, in industrial products, labor, all wages, and the wages of managers of the corpora-

tion are all figured in the price. Then, of course, the Administrator would want this industrial corporation to make a profit. Now, when we figure on agricultural products and put a ceiling on them, we do not figure in the labor costs?

Secretary WICKARD. The farm labor cost.

Mr. BROWN. Well, as far as cotton is concerned, that is half of the cost of production. Do not you realize that?

Secretary WICKARD. I suspect it is.

Mr. BROWN. Of course, for wheat not, and for corn not; but when you come to cotton, that is half of the cost of producing cotton. Nobody knows that any more than I do, because I come from a cotton section.

Secretary WICKARD. There is quite a lot of labor.

Mr. BROWN. Now, are we going to sit by and have the price-fixing bill pass so as to give a profit in the industrial price, to figure in all of the costs of production plus a profit, and then set a ceiling on cotton that none of the cost of production is figured in?

Secretary WICKARD. Well, I do not know but what the parity price for cotton would not cover most of the cost of production. Apparently, when we framed the agricultural legislation we thought it would or we would not have said parity was a worthy objective.

Mr. BROWN. You stated this morning that the labor cost was not figured in.

Secretary WICKARD. The farm labor cost was not figured in in computing the index; but there may have been a lot of it in the price itself.

Mr. BROWN. How could it be figured in there? You did not figure anything except labor in the price of the things the farmer buys. I am talking about fixing prices in this bill. This is not a parity bill; this is a price-fixing bill.

Secretary WICKARD. Yes, sir. I simply want to try to make plain what I am saying, and that is this: That when prices were at a certain level in 1910-14 they may have covered—and perhaps did, as it was a fair period—all costs of production, including that of farm labor. Now, we do not make the adjustments in the index for farm labor; that is my point this morning; yet it may include some, or may cover it; I do not know.

Mr. BROWN. Well, what does it cover? That is what I want to know. You say it may cover some. What part of the cost is covered?

Secretary WICKARD. Parity is trying to establish a fair relationship between what the farmers have to buy and what they have to sell.

Mr. BROWN. I know; that is the relationship; yes.

Secretary WICKARD. And it goes back to 1909-14 and they said the relationship at that time was fair and reasonable, and it says we should try to maintain that relationship at the present time.

Mr. BROWN. Why do you want to take those dates; why do not you take a later date?

Secretary WICKARD. Because Congress was the one to set that in the first place, and it was the opinion of Congress and the people who advocated the legislation that was about the best period we could find for all agricultural commodities. I take it for granted that is what they were saying.

Mr. PATMAN. If I may interrupt there, I have always been told that if you selected the period from 1909 to 1929, on an average you would arrive at the same figures as to take 1909 to 1914, inclusive.

Secretary WICKARD. I do not think necessarily that would be true, and I am sure there would be a lot of variations.

I want to go back to the farm wage thing. I am sorry I brought that up if it did tend to confuse you this morning. It would only increase the index by about 3 points which, in itself, shows that including farm labor would not account for the whole value of farm labor. It would tend to give a little more weight, or give more weight, according to the cost of farm labor, but it would not either eliminate by keeping it out, or would not cover it by putting it in.

Mr. BROWN. You are talking about the national figure?

Secretary WICKARD. I am talking about farm parity.

Mr. BROWN. Do you know, when you are talking about parity, that half of the cost of producing cotton is labor, and that that cannot be correct? I am not talking about corn and wheat; I am talking about the labor in producing cotton.

Secretary WICKARD. Yes. Now, if we went back a few years, of course, when farm wages all over the country were comparatively low than they are now, of course that would tend to lower the parity index; but it would not tend, as I say, to eliminate all that would come to in agricultural commodities as far as labor is concerned.

Mr. BROWN. Do you think the same rule would apply, then, as to a product where half of the cost is labor, as would apply to an agricultural product where practically none of it is labor?

Secretary WICKARD. Well, there are other things that perhaps have almost as much farm labor cost in them as cotton.

Mr. BROWN. Well, what are they?

Secretary WICKARD. Oh, the vegetable crops; tobacco, I think, is one of them. That has a very high cost.

Mr. BROWN. Well, we have a different period for tobacco.

Secretary WICKARD. I do not think that arose out of the farm labor thing; it was because of the great difference in consumption and the use of tobacco between 1909 and 1914.

Mr. BROWN. You know the average price of cotton in 1909-1914 was around 12 cents, and you know that between 1919 and 1929 it is around 21 cents—21.6 cents. Of course that has something to do with it, as to why the average prices in those years were picked out.

Secretary WICKARD. Any period will give you a different price; that is right.

Mr. WILLIAMS. While you are doing that, why select especially cotton and say 1919-1929, when it was 40 cents a pound? That would suit Mr. Brown. But why select a period of 1929 when that is the very thing we are trying to avoid now, when those prices were absolutely unreasonable, as everybody knows? Why include that in a period in trying to fix prices here?

If you talk about parity and select that period as the basis for the parity price from 1919-1929, there may be something in that; but then to pick out a certain period here and fix that as the price in this bill for one or two or three commodities, as he suggests, I think would be absolutely out of the question, according to my mind.

Mr. BROWN. Well, I have just as much right to my opinion to pick out 10 years as anybody else has to pick out 5 years, and I am going on the idea, too, that the main commodities are wheat, corn, and cotton, and I am going on to leave out parity as far as I am concerned. I am trying to get a fair price fixed in this bill, so that these people on the farms can make a living, and I propose to offer an amendment. It is not necessary to discuss it. I do not propose to offer an amendment to do away with parity laws, but I am going to try to get fair prices, a fair ceiling price for agriculture.

Mr. WILLIAMS. Will you let me ask you a question to see if I understood your question? Do I understand you want to take the year 1909 and take that as the base period for parity?

Mr. BROWN. 1919-1920. That is, the year after the war, just before they had the greatest inflation they ever had. Why would not that be all right? That is peacetime.

Mr. WILLIAMS. That is not the question. I am asking you whether you want to take that period as the base period to establish parity, or whether you want to take the average price of those basic commodities for that period and write it into this bill?

Mr. BROWN. This is a price bill, not a parity bill. I am not trying to change the parity law. I would be glad to have the parity provision stay in there, whether 1909 or what it is, just so the average price goes in.

Mr. WILLIAMS. Well, you could not have them both in this bill.

Mr. BROWN. Well, you have two in there now; you have two prices in there—110 percent of parity, or the price the commodity was selling for on the 29th of July. That is two.

Mr. WILLIAMS. Is your proposition there to put in 10 percent above parity, or the average price from 1919 to 1929?

Mr. BROWN. Just like you have there—110 percent of parity, or the 29th of July 1941. You have two in there now.

Mr. WILLIAMS. You are going to take, then, the average price of those basic commodities that you have named, and put the ceiling on them?

Mr. BROWN. At the average price.

Mr. WILLIAMS. At the average price, or 10 percent above parity, whichever is higher; is that it?

Mr. WILLIAMS. At the average price, or 10 percent above parity. And, of course, you have in there the other provision to take care of certain agricultural commodity producers, that is, the price on the 29th of July 1941.

Mr. WILLIAMS. I did not understand your position.

Mr. BROWN. My idea is that I want to see all of the agricultural producers treated alike, and unless there is some provision like that, I do not see how it can be done.

Mr. GORE. Mr. Chairman, I have a copy of the address of Prime Minister W. L. Mackenzie King. Several members of the committee have requested other copies of the address, but I am unable to secure any more. Therefore, I ask unanimous consent to put this copy in the record.

The CHAIRMAN. The address may be inserted at this point.

(The matter referred to is as follows:)

## CONTROLLING THE COST OF LIVING

(Broadcast by Right Hon. W. L. Mackenzie King, M. P., Prime Minister of Canada, October 18, 1941)

The thoughts of us all tonight are turned, I am sure, toward the Russian front and the gathering threats in the Far East. What has happened and what is threatened to make clear that now, more than ever, Canada must rally all the power within herself to fortify her strength. If we are to be strong enough to do our duty abroad, we must be strong and united at home.

I am, therefore, going to speak to you tonight about an action which the Government proposes to take in connection with conditions within Canada. I believe that what is proposed will vitally affect our war effort, because it will affect every man, woman, and child within Canada.

The action which I am about to explain represents an experiment hitherto untried on this continent, and perhaps having regard to its breadth and variety, hitherto untried by the will and consent of any free people anywhere.

It has to do with the price of goods and services, and the price of the products of land and sea. It has to do with wages, and the price of the products of every citizen in Canada, and of particular importance to every housewife, every worker, and every farmer. It will affect the daily lives of each one of us. It will require the cooperation and support of all. It will help to intensify the effort of this country in war. It will help to prevent a repetition of distress and depression after the war.

We have heard much in recent weeks about rising prices. They have affected the budget of every family in Canada. We have heard and seen something of the dangers of inflation. But comparatively few of us, I imagine, understand those dangers fully, and what their effect may be upon our lives and our labors. By inflation we mean a rise in prices and costs brought about by abnormal conditions whereby our money is able to buy less of the things we need.

Rising prices unless controlled will make it more costly, and, therefore, more difficult, to finance the war. Rising prices, unchecked, will spread confusion and uncertainty in industry and trade. They will hinder production and the proper distribution of supplies. They will make the cost of living rise more rapidly than wages and salaries. The value of savings will be materially lessened. The result would be hardship to nearly everyone, and hardship in very unequal measure.

It is scarcely necessary for me to say that a rising cost of living is a source of acute personal anxiety to all and, particularly, to those with small incomes. And it is this very anxiety which is the danger to our war effort. For in the making of war no weapon is more powerful than peace of mind. We all know that we cannot do our best work and put forth our utmost effort if we are beset by personal fears and anxieties. And we know that a maximum war effort for Canada depends upon each and all working together in conditions that are just to all. That is why the Government, which is responsible for the direction of Canada's war effort, is deeply concerned about the effect of rapidly rising prices upon the prosecution of the war. That is why the Government has decided that hereafter prices must be controlled more rigorously than they have been during the first 2 years of war. The needs of today demand it.

It has been the experience of countries at war. In modern times at least, that at a certain stage in the conflict prices begin to rise rapidly. Many of us recall the experience in the last war. During the first 2 years there was only a modest increase in prices, but in 1918 prices began to rise suddenly and the rise continued with increasing rapidity until 1920. Much hardship resulted because the incomes of the mass of the people did not keep pace with prices. Unfortunately, in a period of rapidly rising prices they never do: a few made large fortunes; they were the people to whom the Secretary of the Treasury of the United States referred recently in reminding his fellow citizens that only the profiteer, the speculator, and the hoarder gain from inflation.

Many of us recall, too, the sudden drop in prices in 1920 which brought in its train depression and unemployment. No one wants to see those experiences repeated—much less the far worse experience of many European countries with their disastrous sequence of uncontrolled inflation, sudden deflation, prolonged depression and misery, Fascist or Nazi dictatorship, and finally war.

After 2 years of the present war, we have reached the same stage we had reached after 2 years of the last war. Prices are again rising rapidly. To speak

generally, prices are rising again because the public has more money to spend and there is less of the things people wish to buy. For 2 years the Government has been competing with the individual consumer for almost every commodity that Canada produces or imports. The Government must have the goods to build and maintain our war machine; to clothe, feed, and equip our fighting men; and to aid Britain and other allies with arms and with food. We sometimes forget that the same sheet of aluminum cannot be used to make a plane and to make pots and pans. The same gallon of gasoline cannot be used in any army tank and a pleasure motor car. The same pound of cheese cannot be eaten in Britain and in Canada. And most important of all, the same men cannot make machine guns and washing machines at the same time.

With every week that has passed since the outbreak of war, the services of more and more men have been required to meet the needs of war. Today, more than a million Canadians are engaged in war service in the forces, in the factories, and in the fields. The stage of taking up the slack of partial employment has now passed and the need for more men for the armed forces and for war industry is still growing.

We must face the fact that there are not enough men; there are not enough machines; there are not enough materials to meet the demands of consumers and the needs of war. Since the Government, with the full support of the Canadian people, is determined to maintain and to intensify the war effort, we have no choice but to reduce our consumption of goods. To us, too, has come the choice between guns and butter.

The problem we face today is more acute than the corresponding problem was in 1918. It is estimated that at no stage in the last war was more than 10 percent of our national income devoted to war purposes. In the present struggle we expect, this year, to be devoting some 40 percent of the national income to the prosecution of the war. Translated into everyday language this means that, in the last war, only one-tenth of our economic energies were consumed in waging war, while today, we are approaching the point where nearly one-half of our energies are being used for war.

It stands to reason that all the goods and services we are accustomed to enjoy in peacetime cannot be provided when only a little more than half our energies can be spared to provide them. Most goods and services are becoming increasingly scarce and will become scarcer still. We must face the problem of sharing what is scarce. If we let prices rise unduly, we know what will happen. Ask any housewife. For no one feels the effect of rising prices more than the housewife.

Rising prices—a rising cost of living—do not have the same effect on all households. The smaller the family income and the larger the family, the more serious the hardship imposed. For those with small incomes, rising prices of clothing, food, and other necessities may mean serious hardship, while for those with larger incomes only luxuries and small comforts may have to be given up.

Rising prices thus serve to aggravate the inequalities in society, and to throw the heaviest burdens on those least able to bear them. Wartime experience has shown that prices rise faster than wages or salaries, and bear more heavily still on those who live on small pensions or life savings.

Not is the position of the farmer any happier than that of the wage earner. The present war is a war of machines. Because of the heavy demands of war on industry, the scarcity of manufactured goods is likely to be greater than the scarcity of farm products. The rise in prices will consequently be unequal, if prices are left to themselves. The things farmers have to buy tend to go up in price, more than the things they have to sell.

Moreover, some farm prices left to themselves would not rise at all under present circumstances. This is notably true of the price of wheat, although there are other products in the same class. It is recognized, however, that wheat and other nonperishable products, held in reserve, constitute an invaluable war asset. Agriculture itself is a national asset which must be preserved. The uncontrolled rise of prices would throw an intolerable burden upon wheat farmers and others similarly situated. Their situation differs from what it was in the last war. At that time we had fewer acres, by many millions, in production. We produced much less wheat. There were more acres in feed.

The truth is that all but an insignificant minority of the population would be worse off as a result of rising prices, if prices were permitted to rise unchecked, and, in general, the relatively poor would suffer more than the relatively well-to-do.

## GOVERNMENT TO HALT RISE OF PRICES

I think I have said enough to make it clear why the Government is unwilling as a means of reducing consumption, to allow prices to rise unchecked. That would be the easy way out of the immediate difficulty. But it would be unfair and unjust now, and perilous for the future. Therefore, the Government has decided to halt the rise of prices; to undertake the control of all prices and, where necessary, to take other steps to control civilian consumption in fair and equitable ways.

Let me pause to interject a word of warning. There is no panacea or cesspool for the evil of rising prices. The Government does not pretend to have a single formula which can be applied. We are well aware that the task of controlling prices is very difficult. It has not been easy to control prices even in totalitarian countries which can enforce their controls by brutal methods which no free country would contemplate. In a democratic country, price control cannot succeed without the active support and cooperation of the mass of the people.

From the outset of the war, the Government has been aware that the problem of a general rise in prices would ultimately have to be faced. We felt it advisable, however, to postpone the control of all prices, until it was really necessary. Complete control involves many complications and restrictions; moreover, it requires a large staff to administer the machinery of enforcement. It was clearly undesirable to take men's services from other tasks one moment before they were needed.

It is only in recent months that the necessity for the control of prices generally has become clearly apparent. In the summer of 1939 prices were abnormally low. This was particularly true of many agricultural products. The price increases of the early months of the war were, in most cases, little more than a healthy recovery from the low levels obtaining when war broke out. This recovery of prices had the effect of stimulating the employment of labor and capital. During the next 12 months prices were relatively stable. The price increases which did occur resulted, in most cases, from one or other of the following causes: The premium on United States' funds; the rapid increase in ocean freight rates; war taxation on a wide range of commodities; and the normal recovery of excessively low agricultural prices. During this period a control of the prices of individual commodities worked satisfactorily. All price changes were, of course, carefully watched by the wartime prices and trade board. When the price of individual commodities or groups of commodities threatened to rise unduly or suddenly the board acted promptly. For example, at the beginning of the war the panic buying of sugar was quickly checked. Speculating was stopped; hoarding was stopped; profiteering was stopped. In regions where there was an acute shortage of housing, rent control was applied. This piecemeal method could be used when the problems arose piecemeal. Today we face a different situation. We have entered the period of full employment. The upward trend of prices has become too widespread and powerful to be checked adequately by controlling the prices of a few commodities. To continue to attempt to control the rise in prices, piecemeal, might only serve to augment the very evil it is desired to avoid by occasioning through fear of the future a precipitate rise in the prices of those commodities which are not already controlled. The problem is a general problem, and it calls for general treatment. It has spread just as the war has spread.

The Government has, therefore, decided to halt the rise in the prices of all goods or services sold in Canada by imposing a general ceiling on prices. By a ceiling is meant an upper limit above which prices will not be allowed to rise. Theoretically, this is a simple policy, but the Government realizes fully how great the practical administrative difficulties are. It will call for new and complicated administrative machinery. It will interfere with established methods of running business; it will impose irksome restrictions; and its success will depend, not alone upon the Government, but equally upon the willingness of all who are affected to accept, and to accept cheerfully, the limitations imposed upon them as a necessary contribution to Canada's maximum war effort.

## METHOD OF STABILIZING

This is what we propose to do. It is simple to understand. It will be more difficult to perform. On and after November 17, 1941, no person may sell any goods or supply any services at a price or rate higher than the maximum price or rate charged by him for such goods or services during the 4 weeks from September

18 to October 11 of the present year. In other words, prices are to be halted at a level they have already reached. Except in cases where minimum prices are fixed, prices will be free to fall below the ceiling.

Full details of the policy will be made public later, but I can say now that the limit or ceiling on prices will apply to all goods, except sales for export. It will also apply to all rentals. The limit will also apply to the rates charged for electricity, gas, steam heat, and water; telegraph, wireless, and telephone services; the transportation of goods and persons and the provision of dock, harbor, and pier facilities; warehousing and storage; undertaking and embalming; laundering; cleaning, tailoring and dressmaking; hairdressing and related services; plumbing and heating; painting and decorating; repairing of all kinds; the supplying of meals, refreshments, and beverages. Power is given to the wartime prices and trade board to add to this list. In the case of most agricultural products and fish the maximum prices will be based upon market prices during the 4 weeks prior to October 11, rather than upon the actual selling prices of individual farmers or fishermen.

The imposition of a price ceiling will insure that the hardships and scarcities resulting from the steadily increasing requirements of war will be more equitably spread among the whole people.

## CONTROL OF PRODUCTION COSTS: STABILIZATION OF WAGES

I come now to the next feature of the policy of controlling the cost of living. It is obvious that the prices of finished goods cannot be controlled successfully unless the cost of production is also controlled. Wages are a large element in the cost of producing the manufactured goods required by consumers. That is why the cost of living cannot be controlled unless wages are also stabilized. The policy of limiting the rise of wages is, in other words, a vital part of the policy of safeguarding the wage earners, as consumers, from the evil effects of a rising cost of living. With the policy of stabilizing wages the Government is extending its policy of safeguarding the earnings of the wage earners.

A beginning was made in working out a wage policy at the end of last year when what is called Order-in-Council P. C. 7440 was enacted. This order which was for the guidance of boards of conciliation, fixed basic wage rates in general at the relatively high level then existing. It provided that sub-normal wages could be adjusted upward and that any further upward adjustment in wages should be by way of a cost-of-living bonus. While this experiment has been widely accepted by employers and employees in industry, certain defects in the procedure must now be remedied. Industries not engaged in war production have not been subject to this control. Wage rates of many of these industries have continued to rise. In others there has been no rise to offset the increased cost of living. Even in the war industries, because of the increasing scarcity of labor and the absence of penalties for violation, the policy was not completely successful. This has been unfair to those employers and employees in industry, who loyally accepted the policy.

After consultation with representatives of the provinces, of employers and employees, the Government has found general agreement with its view that its wartime wages policy could succeed only if it were broadened and strengthened and if machinery were established for its enforcement.

The Government has, therefore, decided to extend its wartime-wage policy to cover all industry. The only exception will be certain smaller employers who are excluded solely for administrative reasons. Henceforward no employer in Canadian industry or commerce may, without permission, increase his present basic-wage rates.

After November 15 every employer will be obliged to pay a bonus in accordance with the terms specified by Government order, and to adjust the bonus regularly every 3 months in accordance with a definite formula. The bonuses now being paid will require to be adjusted to the cost of living index as of the effective date. In future all employers will pay a bonus on the same basis. Penalties will be imposed for failure to comply with the order.

The administrative machinery will consist of a national war labor board and several regional war labor boards. Each will be equally representative of employers and employees. They will supervise a cooperative inspection and



enforcement service by the joint staffs of the Dominion and Provincial Departments of Labor. One of the primary functions of the boards will be to observe how the policy works in practice and to recommend its revision or modification in the light of experience. The boards will also be expected to advise the Minister of Labor about the further development of policy in all matters relating to labor and industrial relations.

Despite the careful thought given to the plan, it will no doubt have to be improved in detail from time to time. It is a step forward into new territory; success will depend upon the cooperation accorded by employers and workers, and not least by the support of the consuming public.

#### THE POSITION OF AGRICULTURE

In undertaking to control the cost of living, particular attention has been given by the Government to the effect of its policy on the position of agriculture. The policy touches the farmer in two ways. The principle of the price ceiling will be applied to agricultural prices, while, at the same time, total agricultural income will be supported, where necessary, by Government action. In other words, while wages and the prices of farm products will be stabilized, the income of both labor and agriculture will be safeguarded.

Agricultural prices, with a few conspicuous exceptions, especially, wheat, are higher today than they have been at any time during the past 10 years. In cases where agricultural prices have not kept pace with increases in costs of production, measures are being taken to bring about a more satisfactory relationship without significantly affecting the general level of retail prices to the consumer.

The major problem of maintaining incomes in western Canada, where grain growing is the largest source of income, is closely related to the problem in eastern Canada, where feed supplies are not sufficient to enable farmers to produce the bacon and dairy products required for Britain and ourselves. Both these situations need adjustment. It is therefore the intention of the Government to make supplementary payments to farmers in the spring wheat area, on the basis of their cultivated acreage as defined under the Prairie Farm Assistance Act. For farmers in eastern Canada, the Government will provide the transportation costs on feed grain and other feed from Fort William or Port Arthur to points in eastern Canada.

In determining the price of farm products, it is obvious that the maximum price cannot be based upon the individual selling prices of individual farmers, which is the method applied to factories and stores. Instead, the Wartime Prices and Trade Board will determine maximum prices for certain farm products on the basis of maximum market prices during the 4-week period ending on October 11, last.

Other special adaptations may be found necessary. Thus, in the case of farm products whose prices rise and fall seasonally, the setting of maximum prices may also require the setting of minimum prices, or action to remove temporary surpluses from the market. In most cases, however, the demand for food products, especially the export demand, is so great as to assure that prices will not fall much, if at all, below the maximum. For example, in the cases of bacon and cheese, reasonably stable prices have been or will be assured under large-scale agreements with the United Kingdom.

The wartime prices and trade board will, before November 17, take the necessary action, or advise the Government as to the steps which should be taken, to achieve these objectives without violating the basic principle of the general price ceiling.

#### AN ESSENTIAL FACTOR IN WAR POLICY

The comprehensive measures which I have just outlined constitute a logical development of the economic and financial policy initiated by the Government at the outset of the war. But we must bear in mind that the control of prices, by itself, will not insure the cutting down of consumption, and it will only indirectly affect the direction of private spending. Other measures are required to safeguard adequate supplies of commodities needed by the Government for war purposes. To give direction to private spending, definite restrictions have already been imposed on both production and consumption.

Restrictions have already been placed on the purchase of machine tools, aluminum, and other metals, iron and steel, foreign exchange; on the production of

automobiles, stoves, washing machines, refrigerators, radios; on the sale of gasoline, bacon, and cheese. Restrictions have also been placed on new construction for purposes other than war and on the production of capital goods. These restrictions have been directed against the use of scarce commodities by civilian consumers. More recently there has been a significant broadening of this policy of restriction through the order of the wartime prices and trade board relating to installment buying.

Further restrictions will have to be imposed from time to time. These direct controls of production and consumption are essential to the development of war production. They have, however, contributed to the scarcity of civilian goods and have, therefore, been one of the factors contributing to the rise in prices which the Government is now undertaking to control. Steps may have to be taken to see that the necessities of life are fairly distributed.

In embarking upon the policy of price control by means of a general ceiling on prices, the Government realizes that it will not be possible to maintain the exact price structure, in every particular, as it exists at the date on which the prices are to be fixed. The ceiling will not be absolutely rigid and entirely unchangeable. The control and stabilization of the general price level is the considered policy, but the detail will be a matter of administration in the hands of the wartime prices and trade board.

Let me repeat: The policy of control as it affects industry, commerce, agriculture, and labor, demands a degree of restriction to which Canadians, hitherto, have been quite unaccustomed. It will demand qualities of self-discipline and self-control. It will need, as it deserves, the whole-hearted support of everyone who has the well-being of his fellow citizens at heart. In these perilous times we must not shrink from any course of action which will help to preserve and strengthen the morale of our country.

By its policy the Government hopes to avoid the fears, the sense of insecurity, the suffering and the profiteering which the inflation of prices inevitably brings in its train. The measures now being announced should help in the winning of the war, and, after the war, facilitate recovery and reconstruction.

The CHAIRMAN. Mr. Secretary, on behalf of the committee, I wish to express our thanks for your statement.

(Thereupon, the committee adjourned to meet tomorrow, Wednesday, October 22, 1941, at 10 a. m.)

X

OCT 22 1941

My dear Senator Herring:

This will acknowledge receipt of your letter of October 13, 1941 relative to contracts recently let in the Procurement Division for the conversion of a quantity of molasses into industrial alcohol under the lend-lease program.

I agree with you that, to the extent legally possible, every effort should be made to place orders, both defense and non-defense, in such a manner as to utilize to the fullest possible extent all of the productive facilities of the country. Nor need I tell you of my long-standing and continuing interest in the smaller units in industry which would, without unceasing efforts to help them, find it increasingly difficult if not impossible to participate in the National Defense program. In this connection you are of course aware of the fact that Floyd Adams was designated recently to give this problem his attention and is presently working to that end. We have been in touch with him and expect to cooperate fully with his office in this regard.

I wish to thank you again for bringing this matter to my attention and to assure you of my desire to be acquainted with any situation of concern to the Department in which you have any reason to believe complete justice is not being done.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Hon. Clyde L. Herring,  
United States Senate.

JSC:G.Jr/ml  
10/14/41

100-100000-10-20-1941

see 10-14-41

United States Senate

WASHINGTON, D. C.

October 13, 1941

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

My dear Mr. Secretary:

I appreciate very much the consideration you gave to my protest in connection with the last British application for alcohol. To make certain that you know that I was justified in my protest, I am reporting that, in spite of the assurances given you that the OPM had approved the outright allocation of this alcohol to Great Britain without compelling Great Britain to give up from its immense storage of molasses in Florida enough of this material to permit conversion of Great Britain's molasses into alcohol, the facts are that when this was called to the attention of the OPM, they immediately directed that no alcohol be allocated to Great Britain unless this "dog in the manger" attitude was changed to provide from its immense stores the raw material for conversion.

Had I not come directly to you, the Lend-Lease fund would have provided this alcohol from our own scant supplies, and England would have been permitted to retain its millions of gallons of molasses now in storage in Florida.

While I succeeded, with your assistance, to this extent, the alcohol trust in Philadelphia succeeded, through connivance and collusion, in obtaining the contract for conversion of this alcohol, and this in spite of the fact that these companies had notified the OPM that their stills were operating at capacity and they could not increase production, which increased production the OPM needed to keep thousands of little industries throughout the United States in operation.

The alcohol trust succeeded, by bidding three-eighths of a cent less than the independent plant bid, in keeping this independent plant, with a capacity of forty-five thousand gallons a day, out of production; this due to the fact that all available molasses is under option or contract to the big concerns, and only by obtaining this conversion contract could this independent plant be put in operation.

*Foley - Bennett - C. Wick - Price - [unclear] to Mrs. H.M. [unclear] & before [unclear]*

Honorable Henry Mergenthan  
Page Two  
October 13, 1941

I presented this matter to Mr. Foley, and I think perhaps he was correct in stating that he could not prevent the closing of the contract. Nevertheless, it seems to me that we have a duty beyond the mere technical fulfilling of regulations in these matters, and unless we do prevent these abuses, we will have increasing difficulty in convincing the Congress and the people that the Lend-Lease Bill is being administered in the interests of those who are paying the bill.

Again assuring you of my appreciation of your assistance, I am,

Yours very truly,



H:W

October 22, 1941

Dear Eleanor:

Here is some up-to-date information on the cost of living which you may want to use in your broadcast.

Affectionately,

(Signed) Henry

Mrs. Franklin D. Roosevelt,  
The White House.

*Delivered by Secret Service*  
5:00

*n.m.c.*

BLS cost-of-living index

The cost-of-living index computed by the Bureau of Labor Statistics is designed to measure changes in living costs of wage earners and lower-salaried workers in the large cities. Food costs are based on monthly quotations for 51 large cities. Other costs are based on quarterly quotations for 33 large cities, supplemented by monthly quotations for a limited list of items in 20 cities. Prices are taken as of the middle of the month.

The various cost groups are combined on the basis of quantities provided in the so-called "maintenance" budget. The food group is computed in terms of the "adequate diet at minimum cost" of the Bureau of Home Economics.

On this basis, the following weights are assigned to the various items making up the average worker's budget:

	Percent of total
Food	33.9
Clothing	10.5
Rent	18.1
Fuel, electricity, ice	6.4
House furnishings	4.2
Miscellaneous	26.9
Total	100.0

Indexes are computed by cities, and the individual city indexes are then combined on the basis of 1930 population data.

The Bureau of Labor Statistics cost-of-living index for September shows an increase of 1.8 percent in the single month between August 15 and September 15. This is the sharpest gain in any month since the beginning of the war. It means that the average worker in the large cities must pay 9.6 percent more for his family's maintenance than he did in the pre-war month of June 1939. Two-thirds of this increase has occurred since last March.

The major increase has been in the cost of food, which makes up about one-third of the average worker's budget. Retail food prices rose 2.6 percent between August 15 and September 15. On the latter date they were 12.6 percent higher than last March, and 18.4 percent higher than in the pre-war month of June 1939. The largest advance during September was in clothing costs, which increased 3.7 percent over the August index.

Office of the Secretary of the Treasury, October 20, 1941  
Division of Research and Statistics.

Whether the housewife buys cotton sheets for her home, shirts for her husband, or house dresses for herself, she must pay much higher prices for cotton goods than she did before the war. Since June 1939, the average retail price in New York City for a common work shirt (as of September 15) had increased 24 percent, for a woman's percale wash frock 18 percent, and for a cotton muslin sheet 20 percent. Most of the increase has occurred in the past year.

At wholesale, the price increases have been even steeper. Men's work shirts in September at wholesale were 30 percent higher than in June 1939, percale dress material was 67 percent higher, and muslin sheets were 29 percent higher. Average wholesale prices of cotton goods as a group in September were 63 percent higher than in June 1939.



Wholesale prices of typical cotton goods,  
and group index

	June 1932	Sept. 1932	Sept. 1931	Percentage increase since June 1932
Cotton sheets, plain 68x72 count, per doz.	\$10.64	\$11.39	\$13.97	29
Men's work shirts, medium weight, blue chambray, per doz.	7.25	8.00	9.45	30
Percale, 38½ in. 62x60 count, per yard	.083	.086	.139	67
Cotton goods group index 1926 = 100	64.1	69.2	104.2	63

Source: Bureau of Labor Statistics

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

October 20, 1931

**Average retail price of typical cotton goods  
in New York City**

	<u>June 1932</u>	<u>Sept. 1940</u>	<u>Sept. 1941</u>	<u>Percentage increase since June 1932</u>
Men's work shirt, cotton covert	\$ .80	\$ .92	\$ .99	24
Women's wash frock, printed percale	1.04	1.07	1.23	18
Cotton muslin sheet, 62x84 count	.98	1.05	1.18	20

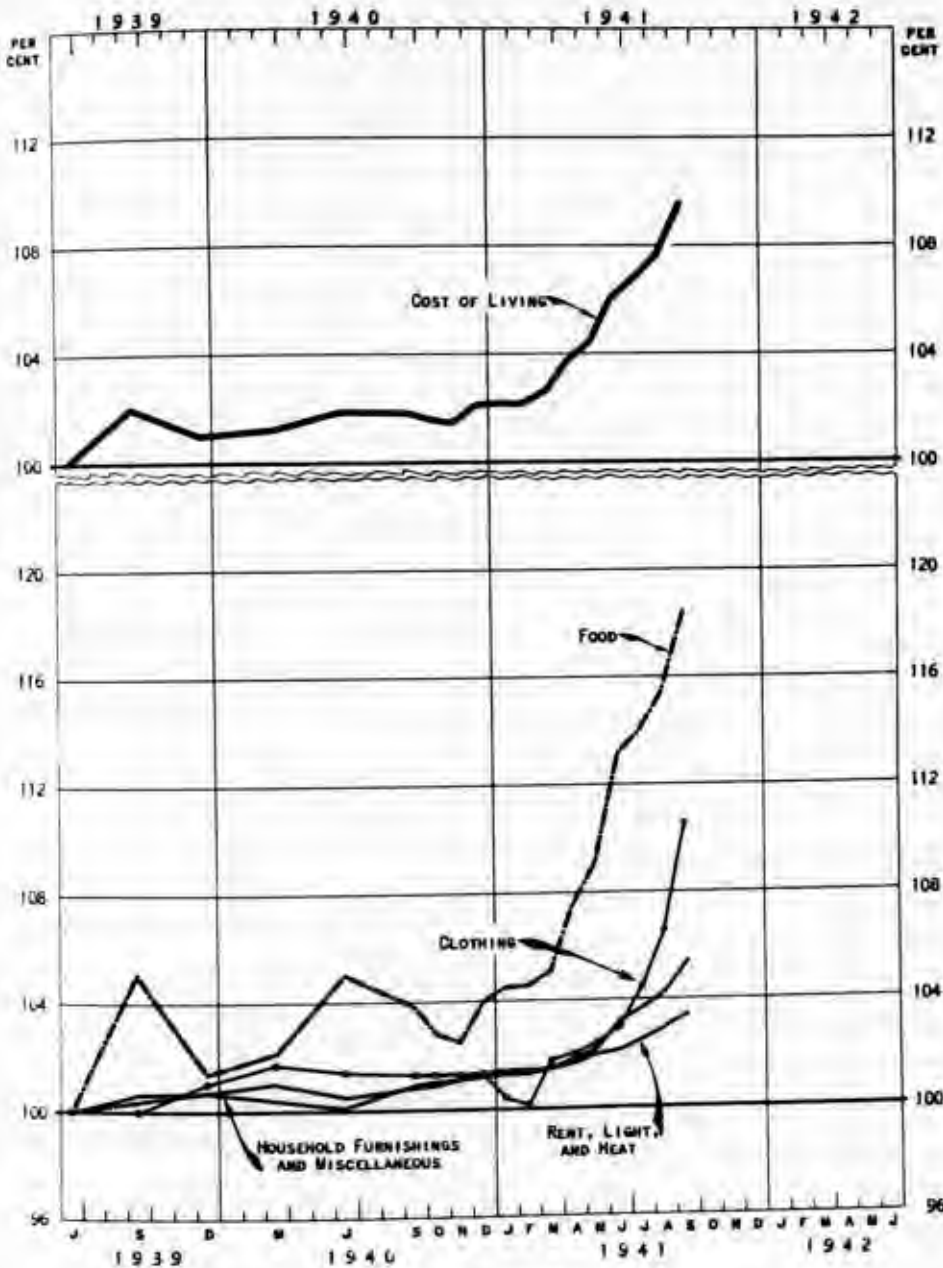
Source: Bureau of Labor Statistics

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

October 20, 1941

## COST OF LIVING AND SELECTED ITEMS

JUNE 1939 = 100



Source: B.L.S.

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE October 22, 1941

TO Secretary Morgenthau  
FROM H. D. White

A memorandum dated October 9, 1941, was received from Mr. Close, the Minister from South Africa, concerning the South African request for (1) steel plates for maintenance use in the South African gold mines, and (2) steel and steel plate mills for the South African steel industry. The following should be of interest:

1. With respect to the need for steel plates in the gold mining industry, no further specific evidence is presented. It is stated simply that gold production must be maintained because it is "one of the vital sinews of war" and "supplies the life blood for all our material war effort".

2. Steel industry. It is claimed that South Africa has not only equipped her own army of more than 100,000, but has become a most important source of supplies and equipment for the Empire forces in Egypt, Palestine and the Near and Middle East. The importance of her steel industry is indicated by the production of such equipment as guns, gun sights, shells, bombs, tanks and armored cars. It is emphasized also that South Africa has become an important repair and replacement base for tanks and aircraft, and the mercantile marine and naval forces.

NWN

GRAY

Hong Kong via N. R.

Dated October 22, 1941

Rec'd. 5:40 p.m. 23rd.

Secretary of State,  
Washington.

436, October 22, 9 a.m.

For Treasury from Cochran: "Arrived Hong  
Kong 9 o'clock last night from Chung King and  
leaving 10 a.m. today 21st for Shanghai.

Plan to return to Hong Kong first week  
November and take clipper from Manila 14th."

SOUTHARD

CSB

## DEPARTMENT OF STATE

Washington

October 22, 1941

reply refer to

My dear Mr. Bell:

Mr. Vilhejalmur Thor, Chairman of the Icelandic Government Trade Delegation, has expressed the hope of his Government that the United States Government has no desire to exercise any influence over the rate of exchange between the Icelandic kronur and the United States dollar.

An indication of the nature of the reply which may be made to Mr. Thor's inquiry would be appreciated.

Sincerely yours,

For the Secretary of State:

(Signed) A. A. Berle, Jr.

Adolf A. Berle, Jr.  
Assistant Secretary

The Honorable

Daniel W. Bell

Under Secretary of the Treasury.

Copy:ec:10-27-41

C  
O  
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Y

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DEPARTMENT OF STATE

Washington

In reply refer to  
FF851.51/2913

October 22, 1941

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and transmits herewith a copy of strictly confidential despatch no. 3272, dated October 10, 1941, from the American Embassy at Buenos Aires, transmitting confidential memoranda regarding stocks of gold at Dakar and purchase of gold by Portugal.

Enclosure:

Despatch no. 3272 from Buenos Aires,  
October 10, 1941.

Copy:ec:10-25-41

Buenos Aires, October 10, 1941

No. 3272

SUBJECT: STOCKS OF GOLD AT DAKAR AND PURCHASE  
OF GOLD BY PORTUGAL  
TRANSMITTING CONFIDENTIAL MEMORANDA

Strictly Confidential

The Honorable

The Secretary of State,  
Washington.

Sir:

I have the honor to transmit herewith two copies of two highly confidential memoranda prepared by the British Ministry of Economic Warfare on stocks of French gold at Dakar, and on purchases of gold since the beginning of the war by Portugal. These memoranda, the former of which is dated January 16, 1941, and the letter of which is undated, were brought to the British Embassy from London about four months ago by Mr. Walter Simon of the aforementioned Ministry (who was recently named First Secretary and Financial Counselor of the Embassy). It is understood that Mr. Simon showed them to Mr. H. Merle Cochran in the Treasury Department at Washington last April or May, but it is believed that the Departments of State and the Treasury might wish to have



COPY

copies. Mr. Simon permitted these copies to be made on the understanding that they would be considered strictly confidential and would be carefully protected.

Respectfully yours,

Enclosures as stated

File No. 851

Qn.

JWG:mc

A true copy  
of the signed  
original MC

Copy:ec:10-25-41

GOLD AT DAKAR.

At the time of the Armistice the gold under the control of the French Government is reported to have been:

	<u>U.S. \$ million</u>
Bank of France holding	2,000
Belgian Gold held by	
Bank of France as	
cover for Belgian	
notes in France	<u>20</u>
	2,020

In addition there was an unknown amount held in the Exchange Stabilisation Fund. In March 1940, \$ 709 million was transferred to the Fund, but there is no information as to how much remained unspent at the date of the Armistice.

2. There was also a considerable amount of gold, estimated at some \$220 million, hoarded in France but this, being scattered in private accounts, was outside government control and only part of it may have been got away by refugees either to unoccupied France or abroad. What was left will fall into the hands of the Germans.

3. Of the above \$2,020 (plus any gold in the Fund) the following amounts were already held abroad:-

	<u>\$ million</u>
In London	280
In Canada	376
In U.S.A.	507
In Martinique	<u>245</u>
	1,408

4. This leaves some \$612 million (plus gold in the Fund) in the process of removal into safe keeping at the time of the collapse. Gold on board ship at that time, instead of being sent to England or the United States, was diverted to Dakar.

5. In addition to any French gold we have satisfactory evidence that some \$184 million Belgian and some \$80 million Polish gold was also sent to Dakar.

6. Reports of gold arriving in Dakar refer to 900 tons (one report says 1,000 tons) and to 250 tons. It is not clear whether the 250 tons was additional or alternative to, or part of the 900 tons. But the probability is that the 250 tons was part of the 900 tons and refers to the Belgian and Polish gold (which actually would weigh about 234 tons.)

7. As the \$612 million referred to in paragraph 4 above amounts to about 545 tons, a further 121 tons (making with the 234 tons Belgian

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and Polish gold a total of 900 tons) or about \$136 million may perhaps reasonably be taken as representing the balance of the Exchange Stabilisation, so that the total French gold going to Dakar may be, very tentatively, estimated at some 666 tons or \$ 748 million.

8. The gold which arrived at Dakar is reported to have been taken inland and stored variously, along the railway, at Thies and Kayes, or at the railhead at Bamako.

9. Reports, of varying reliability, refer to the subsequent movements of the gold as follows:-

- (1) Oct. 4th-5th                    2.4 tons arrived in Lisbon from the Banque de l'Etat du Maroc. Said to have come from Dakar.
- (2) Nov. 10th                        10 tons sent from Dakar to the Bank of France.
- (3) Abt. Nov. 30th                1 ton taken by plane from Kayes northward, (reported to be Belgian gold).
- (4) Dec. 4th                         50 tons loaded at Dakar on to the cruiser "Primaguet" which left next day for an unknown destination.
- (5) Dec. 5th                         About 7 tons arrived at Banque de l'Etat du Maroc, Tangier, and was to be sent to Lisbon by air as soon as possible. Further reports leave it uncertain whether or not this has been actually flown to Lisbon.
- (6) Dec. 10th                        1/2 ton arrived in Santos, Brazil, from Casablanca consigned to the French Embassy, Rio de Janeiro.
- (7) Dec. 14th                        ss. "President Dalpiaz" was due to leave Oren for Marseilles with 6 freight cars gold (estimated at 32-56 tons) from Casablanca, said to have come from Dakar. It is possible that this is the 50 tons referred to under Dec. 4th above).
- (8) Dec. 24th                        Reported that gold was being transported regularly by train from Casablanca to Oren for France.

10. It is clear from the summary in paragraph 9 above that we have not sufficient information to decide whether there has been any considerable return of gold from West Africa to Europe or elsewhere.

11. The only suggestion of a change of ownership of the gold still in West Africa was a report (dated 16th Nov.) that 700 million gold

francs worth (? what francs) of the Belgian gold at Dakar had been sold to Germany by the Bank of Belgium. Some slight confirmation of such a transaction came (in December) from the report of a conversation with a French representative in Washington.

In paragraph 9 (1) we have confirmatory evidence from an intercept of negotiations between the Bank of France and the Bank of Portugal for the sale of Escudos 60 million (2.34 tons) of gold, similarly paragraph 9 (5) is confirmed by intercept in October showing negotiations between the same two banks for the sale of a further Escudos 171 million (6.40 tons).

16th January, 1941.

Copy:ec:10-25-41

NOTES ON PORTUGUESE GOLD.

The flow of gold from Portugal to U. S. A. began in June 1940, exports January-May 1940 being negligible. From June-October 9th shipments amounting to \$58,754,000 were reported (in a letter dated October 10th) by the British Embassy, Lisbon, and confirmed from censorship sources.

Since this date the following shipments have been noted:-

<u>DATE OF SAILING</u>	<u>SHIP</u>	<u>VALUE IN \$</u>	<u>REMARKS</u>
1. Oct. 16th ..	Exochordia ..	2,683,000	} .. Reported by Stopford .. 29.10.40 as consigned to F.R.B.
2. Oct. 17th ..	Pero d'Alenquer	1,114,000	
3. Oct. 20th ..	Excalibur ..	2,713,000	} .. Reported by Lisbon. .. Consigned to F.R.B. .. (intercept).
..	..	..	
..	..	..	
4. Oct. 27th ..	Excambion ..	3,170,000	.. Consigned to F.R.B. (intercept).
5. Oct. 28th ..	San Miguel ..	1,440,000	} .. Intercept. This is .. estimated from the .. amount of the insur- .. ance cover which is .. \$1,465,750, the net .. value of gold being .. slightly less.
..	..	..	
..	..	..	
..	..	..	
..	..	..	
..	..	..	
6. Nov. 3rd ..	Exeter ..	3,279,000	.. Reported by Lisbon.
7. Nov. 7th ..	Extavia ..	1,458,000	} .. Reported by Lisbon. .. Consigned to F.R.B. .. (intercept).
..	..	..	
..	..	..	
..	TOTAL	15,657,000	

2. Since November 7th, the only further shipment of which there is any trace is one of 500 kilograms (value \$563,000) belonging to the B.I.S. which they exported through the Bank

of Portugal on December 27th, and which the Bank bought from them immediately on its arrival in U.S.A. There is no mention in our information from any source of any other shipments. The total amount of gold exported from Portugal to U.S.A. during June-December 1940 was therefore \$75,174,000.

Messrs. Morice, Tozer & Beck handle all the insurance placed in London of gold shipments on behalf of the Bank of Portugal. They have given us, in confidence, a list of all the shipments on which they have placed insurance, and this includes all shipments on our complete list from June to November with the exception of six. These six, which amount to a total of \$3,490,000 were smaller consignments than the rest, and were shipped on Portuguese or Greek steamers, and Morice, Tozer & Beck have stated that, in view of this, it may have proved possible to place the insurance on these in Portugal, so that it must not be assumed that these were not on account of the Bank of Portugal.

To summarise, \$71,121,000 was known to have been consigned by the Bank of Portugal, while a further \$3,490,000 was exported probably also on account of the Bank, and \$563,000 were exported by the B. I. S. through the Bank.

4. Since before the war until October 1940 the published gold reserve of the Bank of Portugal remained at about 920 million escudos or \$69 million. In addition, about \$22 million were held by the Bank on account of the Portuguese Treasury, making a total of \$91 million.

On May 31st 1940 the amount of gold held by the Federal Reserve Bank for the Bank of Portugal was \$23,139,000 (Intercepted letter from Bank of Portugal to Federal Reserve Bank).

5. During the week ending October 16th, the gold reserve was increased by 272.5 million escudos or \$20 million, without any corresponding fall in foreign balances; a fortnight later there was another rise of \$2 million, so that on October 30th, the latest date for which the figures have been published, the gold reserve stood at the equivalent of \$91.4 million (See Appendix 11). It is possible that the \$22 million increase represents the Treasury gold, which may have been sold to the Bank. If this is the case, the total gold in official Portuguese possession is unchanged at \$91 million. On the other hand, gold under earmark on May 31st plus gold known to have been exported since by the Bank amounts to \$94.3 millions. (If the doubtful shipments are included the total is \$97.7 millions). This indicates that some gold must have been acquired from outside.

6. We have been informed that about \$2.4 million French gold, which the Bank Portugal had agreed to buy, arrived in Lisbon on October 4th-5th. Further French gold, to the amount of about \$7 million, to be bought by the Bank, did not arrive until the end of the year. But there may have been other earlier transactions of this nature which have

escaped our notice. Other reported consignments of French gold which possibly went to Lisbon all took place at a later date than November 7th, e.g. ten tons from Dakar to Banque de France on November 10th.

7. DESTINATION OF THE GOLD EXPORTED TO U.S.A.  
 The ultimate destination of the gold shipped to U.S.A. might be:-
- (a) to be held under earmark by the Federal Reserve Bank,
  - (b) to be sold, the proceeds being held as dollars.
  - (c) to be used to liquidate the Portuguese heavy adverse trade balance in U.S.A.
- (a) Of only one shipment, No. 7 in foregoing table, do we know definitely that it was destined to be held under earmark; but there are indications from censorship information that part of certain other consignments were to be held under earmark.
- (b) The published figures of the Bank of Portugal's balances abroad show an increase from August 7th (the lowest point) to October 31st of 176 million escudos, or about \$6 millions (see Appendix 1). These balances are not, of course, all held in dollars, though probably a large part of them are, and the increase may be partly attributed to the sale of gold for dollars in New York.
- (c) The Portuguese visible adverse balance of trade with U.S.A. for January-October 1940 was \$7 million for Portugal alone; if the Empire is included, this is increased by another \$8 millions; so that it is probable that some of the gold has been used in liquidation of the trade deficit.
8. The implication of (b) and (c) is that some of the gold has been sold, and the proceeds either going to swell Portuguese dollar balances, or pay off trade debts. But since October there has been a reverse movement. The Bank of Portugal has requested the Federal Reserve Bank to buy and hold as Portu-



guese reserves a total of \$11 millions worth of gold, the dollars being drawn from balances with various banks, and has also, on or about February 8th, bought \$2,250,000 gold in United States from the B.I.S. (See Appendix 111). This last amount includes the shipments of \$563,000 already noted, another similar one worth \$338,000 which is still in transit; the balance (\$1,351,000) comes from Danish gold held in U.S.A., which the Danes are selling. Subject to license, to the B.I.S. who are re-selling to the Bank of Portugal.

9. A possible conclusion to be drawn from these purchases of gold is that the transactions fall into two categories, namely, the export of gold for immediate realization and use, possibly undertaken on behalf of third parties, and export for eventual earmark in order to safeguard the Bank's gold.

10. During recent discussions in Lisbon on the Portuguese balance on the Special Account in U.K. Dr. Salazar is said to have welcomed the gold guarantee because it allowed him to deplete his gold reserves to acquire dollars. At the moment he is doing just the opposite.

GOLD SHIPMENTS PORTWAL TO U.S.A. 1940

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<u>APPRX. DATE OF SHIPMENT</u>	<u>NAME AND FLAG OF SHIP</u>	<u>VALUE \$</u>	<u>REMARKS</u>
June 8th	Sao Thome Port.	2,048,410	
" 22nd	Examiner U.S.	1,370,157	
" 24th	Wacosta U.S.	1,329,452	
July 2nd	Excalibur U.S.	403,439	
" 6th	Excambion U.S.	1,656,625	
" 13th	Exeter U.S.	1,799,640	
" 25th	Exochorda U.S.	2,361,043	
" 26th	Exilona U.S.	2,376,248	
" 27th	Pero de Alenquer Port	624,403	Not insured in London
Aug. 1st	Nea Hellas Greek	507,296	" " " "
" 1st	Excalibur U.S.	2,315,093	
" 8th	Excambion U.S.	2,535,931	
" 9th	Quanza Port	620,393	Not insured in London
" 15th	Exeter U.S.	2,890,213	
" 22nd	Exochorda U.S.	2,964,350	
" 23rd	Exumelia U.S.	2,821,538	
" 28th	Excalibur U.S.	2,860,723	
" 30th	Extavia U.S.	2,951,246	
Sept. 3rd	Nea Hellas Greek	573,145	Not insured in London
" 5th	Excambion U.S.	3,019,964	
" 11th	Exeter U.S.	3,033,373	
" 25th	Excalibur U.S.	3,136,006	
" 28th	Hakosaki Maru Jap.	3,136,113	
" 30th	Sao Thome Port	1,332,499	
Oct. 2nd	Excambion U.S.	3,110,968	
" 2nd	Magallanes Span.	2,550,544	
" 4th	Nea Hellas Greek	559,286	Not insured in London
" 8th	Loveen Yugos.	605,629	" " " "
" 9th	Exilin U.S.	3,260,288	
" 16th	Exochordia U.S.	2,683,000	approx) known as consigned
" 17th	Pero de Alenquer Port	1,114,000	" ) to F.R.B.
" 20th	Excalibur U.S.	2,713,000	"
" 27th	Excambion U.S.	3,170,000	" Consigned F.R.B.
" 28th	San Miguel Polish	1,140,000	"
Nov. 3rd	Exeter U.S.	3,279,000	"
" 7th	Extavia U.S.	1,456,000	" Consigned F.R.B.
TOTAL	...	74,611,000	
Dec. 27th	Exeter U.S.	563,000	Property of E.I.S.
		<u>75,174,000</u>	

APPENDIX 11

BANK OF PORTUGAL RETURNS

<u>DATE</u>	<u>G O L D</u>		<u>B A L A N C E S A B R O A D</u>			
	<u>MILLION ESC.</u>	<u>MILLION \$</u>	<u>MILLION ESC.</u>	<u>\$ MILLION</u>		
May 1st ...	920.6 ..	.. 68.8 ...	...	786.0 ..	..	28.8 ...
May 29th ...	920.6 ..	.. 68.8 ...	...	745.8 ..	..	27.3 ...
June 26th ...	920.7 ..	.. 68.8 ...	...	678.0 ..	..	24.8 ...
Aug. 7th ...	921.1 ..	.. 68.9 ...	...	612.6 ..	..	22.4 ...
Aug. 28th ...	921.6 ..	.. 68.9 ...	...	648.7 ..	..	23.4 ...
Sept. 25th ...	922.9 ..	.. 69.0 ...	...	704.9 ..	..	25.8 ...
Oct. 9th ...	923.7 ..	.. 69.1 ...	...	754.7 ..	..	27.6 ...
Oct. 16th ...	1196.2 ..	.. 89.5 ...	...	748.3 ..	..	27.4 ...
Oct. 23rd ...	1196.4 ..	.. 89.5 ...	...	783.9 ..	..	28.7 ...
Oct. 30th ...	1221.6 ..	.. 91.4 ...	...	788.2 ..	..	28.8 ...

The value of the gold escudo - \$ .0748

NOTE: It is not clear at what rate of exchange the foreign balances are now converted into escudos. Before the war the rate used was 110 escudos to £, and this has been used above.

APPENDIX 11.

Table showing dollars converted into gold under earmark for the Bank of Portugal, and the Banks from which they were drawn.

<u>DATE</u>	<u>AMOUNT TO BE HELD UNDER EARMARK</u>	<u>CHASE NATIONAL BANK</u>	<u>DRAWN BANK OF MANHATTAN</u>	<u>IRVING TRUST</u>	<u>FROM NATIONAL CITY BANK</u>	<u>FEDERAL RESERVE BANK</u>
Oct. 24th ...	4,000,000 ..	2,000,000	2,000,000	-	- ...	-
Oct. 30th ...	2,000,000 ..	200,000	900,000	300,000	600,000 ...	-
Dec. 23rd ...	1,000,000 ..	300,000	-	-	700,000 ...	-
Jan. 3rd ...	1,000,000 ..	500,000	-	-	500,000 ...	-
Jan. 14th ...	1,000,000 ..	400,000	-	600,000	- ...	-
Jan. 21st ...	2,000,000 ..	1,000,000	500,000	-	500,000 ...	-
Feb. 8th ...	<u>2,250,000</u> ..	<u>1,350,000</u>	-	-	- ...	<u>900,000</u>
<u>TOTAL</u>	<u>13,250,000</u> ..	<u>5,750,000</u>	<u>3,400,000</u>	<u>900,000</u>	<u>2,300,000</u>	<u>900,000</u>

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

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For Miss Chauncey

DATE October 22, 1941

to Secretary <sup>of the</sup> ~~Morgenthau~~ <sup>Chauncey</sup>  
 FROM Mr. Dietrich

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£44,000
Purchased from commercial concerns	£13,000

Open market sterling held steady at 4.03-1/2, and there were no reported transactions.

The Argentine free peso, which has shown a somewhat firm tendency this week, continued to improve today. The closing quotation was .2375 as compared with .2360 at the end of last week.

The Uruguayan free peso advanced twenty-five points (1/4¢) to close at .4675.

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

Canadian dollar	11-1/8% discount
Brazilian milreis (free)	.0505
Colombian peso	.5775
Mexican peso	.2070
Venezuelan bolivar	.2650
Cuban peso	1/8% discount

There were no gold transactions consummated by us today.

The Federal Reserve Bank of New York reported that the Bank of Canada shipped \$2,719,000 in gold from Canada to the Federal for account of the Government of Canada, for sale to the New York Assay Office.

In London, both spot and forward silver remained at 23-1/2d, equivalent to 42.67¢.

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 silver purchases today. In fact, no silver has been offered to us since October 2. 1/2

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G-2/2657-220; No. 525 M.I.D., W.D. 11:00 A.M., October 22, 1941

SITUATION REPORTI. Eastern Theater.

Ground: The German High Command states that, with the capture of Dagoe, the last of the former Esthonian islands covering the approaches to the Gulf of Riga is now in German hands.

West of Moscow, the Germans claim to have broken through Russian fortifications in the vicinity of Borosvk and to have established a bridgehead over the Nara River at Naro-Pominsk. The German infantry has not yet closed up on the armored divisions.

North and south of Kharkov the German advance is gathering momentum. The drive southeast of Kharkov endangers the whole industrial area of the Donets Basin.

Air: Moscow underwent a heavy continuous bombing all day yesterday and last night.

II. Western Theater.

Air: R.A.F. raids were widespread, including Bremen, Brest and Lorient docks, Aarhus in Denmark, and the Lorient submarine base.

Newcastle and Dover were Germany's principal objectives in England last night.

III. Middle Eastern Theater.

Air: Naples received the heaviest pounding of the war from the R.A.F. last night. Benghazi, in Libya, and Catania and Acireole, in Sicily, were other objectives of British planes.

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TREASURY DEPARTMENT  
Washington

FOR IMMEDIATE RELEASE,  
Thursday, October 23, 1941.

Press Service  
No. 28-19

Secretary of the Treasury Morgenthau announced today that the subscription books for the current offering of 1 percent Treasury Notes of Series A-1946 will close at the close of business Friday, October 24. This offering is open only to the holders of Reconstruction Finance Corporation Notes of Series P, maturing November 1, 1941, and of Commodity Credit Corporation Notes of Series E, maturing November 15, 1941. The offer to apply the proceeds of payment of the Series P notes and the offer to purchase Series E notes, in either case the principal proceeds of payment to be applied to payment for a like par amount of the new Treasury notes, will also terminate at the close of business Friday, October 24.

Subscriptions addressed to a Federal Reserve Bank or Branch, or to the Treasury Department, and placed in the mail before 12 o'clock midnight, Friday, October 24, will be considered as having been entered before the close of the subscription books.

Announcement of the amount of subscriptions and their division among the several Federal Reserve Districts will be made later.

-oOo-

October 23, 1941  
12:05 p.m.

Allan  
Spruell: Good morning.

EMJr: Hello, Allan. How's she going?

E: Well, she's going very well. It's another one of those cases where for the moment it's going perhaps a little too well, but I think that we'll be glad to have a little cushion there.

EMJr: Well, they tell me it's quoted par eighteen.

E: What?

EMJr: Par eighteen, they say.

E: Well, it's quoted twenty - bid twenty at twenty-three here.

EMJr: Oh, really?

E: Yeah.

EMJr: Well, that's better than what I understood.

E: Yeah. It's bid twenty at twenty-three; and there hasn't been much doing, but there's been one particular buyer - that's the Central Hanover - in the market willing to pay twenty, and that's kept it there.

EMJr: I see. Well.....

E: And there haven't been many sellers.

EMJr: There has not. I'm perfectly satisfied.

E: Well, so am I. I think we'll be all right on it.

EMJr: Good.

E: And the market is delighted with it.....



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HMJr: They are?

S: .....and with the whole operation.

HMJr: I guess they were pleasantly surprised.

S: I think they were on the full rights value. They'd pretty well decided they were going to be cut down somewhat there, but that won't do them any harm even though it's decided later to modify that situation.

HMJr: Thank you.

S: All right, sir.

HMJr: Good-bye.

October 23, 1941  
11 a.m.

RE SOCIAL SECURITY (COMPULSORY SAVINGS)

Present: Mr. Magill  
Mr. Barnard  
Mr. Blough  
Mr. Shoup  
Mr. Shere  
Mr. Groves  
Mr. Odegard  
Mr. Bell  
Mr. Kades  
Mr. Kuhn  
Mr. Foley  
Mr. White

H.M.Jr: In the first place, may I thank the visiting firemen for coming down and giving us their time. I take it that you people know what we are trying to do. If not, for a moment I will try to explain to you myself. It may not be necessary.

I feel that certainly the first responsibility that I have as Secretary of the Treasury is not to leave a stone unturned to make sure that in this defense program we do our part, and that is, that we do everything possible to mop up the extra money which is put in the hands of the workers and business people through this defense program, and that we keep, if possible, from adding to this inflation spiral.

Now, I just feel we have a responsibility. That doesn't mean that we are not going to have

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inflation. If we don't do it we are certainly adding a lot of fuel to the fire, if we let these extra millions go, and I see Mr. Shoup says there is five billion dollars to mop up.

Bell: That is a minimum.

H.M.Jr: A minimum? You gave me only credit for one billion of Defense Savings Bonds?

Shoup: No, sir, I think I gave you credit for half a billion of Defense Savings Bonds that came out of money that would otherwise have been spent. I gave you credit for four billions increase in total sales.

H.M.Jr: But the one billion was next year over this, was that it?

Shoup: Yes, comparison of increase in June sales over --

H.M.Jr: You gave me an increase of one, but you gave me credit altogether of how much?

Shoup: I believe, sir, it was an increase of four actually, but of that only a small part came out of money that otherwise would have been spent. Not much of it, in other words, really checked consumption, in my view.

H.M.Jr: How many months ago was it that we talked about it?

Shoup: It must have been four or five months ago.

H.M.Jr: At least I had it in mind then. Now, Mr. Barnard is conducting this seminar for me and if he would tell me where we are today, where we stand right now.

Barnard: Where we stand right now is that the team that I set up to start this seminar has been

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considered by all except the visiting firemen. They haven't yet caught up with this thing, and on the whole I would say there was pretty nearly unanimous, not quite unanimous, dislike for it, and objection to it (laughter).

H.M.Jr:

Does that include the visiting firemen?

Barnard:

Well, Mr. Paul is kind of leaning a bit my way. The objections are, I think, reasonably valid, although I don't accept them all because I think they are looking at the problem a little too narrowly, and it is a question of judgment.

The objections are of two main classes. I am keeping off mechanical details. I want to keep our minds on the whole broad problem and general questions before we get into the questions of mechanics. The three objections are, that to go ahead on any savings plan, compulsory savings plan scheme of any kind, will restrict the capacity of the Treasury to collect additional money by taxes. It will also very much interfere with a general tax program. The third type of objection is one that relates to philosophy of equity, and there is no particular agreement in philosophy around here, I find. The only thing I would say about that, we have got a very practical job on our hands, and we should do all the equities we can, but I am first strong for carrying this country through with a program it has got to go through with, and that is the only emphasis I make on that. Now, I am ready to talk with the gentlemen about the whole broad situation, which is Social Security, compulsory savings and the tax program. The Tax Department has what in effect is a list of tax sources that could be tapped, worked out in some detail, and I

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think those have to be considered not merely from the standpoint of what is conceivably an economic treatment, but to avoid the word "political", I would say "public relations" with which I have had some experience.

I suspect that when we examine it with a little more care, some of these things, we would possibly conclude that at the present time the country hasn't the morale nor is it in a state of mind nor has it an understanding of this situation sufficient to permit putting a very great increase in tax burden on the people, especially in the lower brackets, at the present time.

The kind of burden we are talking about is in the order of seventeen or twenty per cent supplementary income tax with reductions in the exemptions, the little men as well as the big men being hit very hard. I think that is perhaps in a few words about where we stand. The thing hasn't been talked out, and I am still boring in on my idea in order to get the whole thing developed. There doesn't seem to be a great deal of enthusiasm for compulsory savings.

H., Jr: Well, let me ask this. I would like to ask this group this question, and that is, are there any other people that aren't here who are working on this thing, that we ought to get in on it?

White: I know a few, myself.

H., Jr: You do? Who, Harry?

White: Well, I think we ought to get in people from the defense agencies who have been working on this for at least two years, to my knowledge. I think we ought to get Hansen, who

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did a great deal of work on this six months to a year ago. I think Currie ought to be in on it.

- H.M.Jr: Hansen and Currie?
- White: Hansen, Currie and somebody from Defense. I don't know just who it should be. I can find out. But I know that they have been making studies and some of their conclusions differ. I think Crouse has been making some studies. He used to be with the Federal Reserve Board, and he is now with Defense. They have been at this thing for a long time, and I think they have some different points of view. I think that there is so much work to be done to thresh this thing out in a few days, that I think it would be very helpful to get the benefit of work that they have already done, some-what along the lines of which Carl has done, but from a different angle. There may be others, but those are three that I know.
- Barnard: I would like very much if you could get Leon Henderson over here to lunch with me.
- H.M.Jr: I can next week.
- Barnard: Yes, I mean next week. They have done something that they are not revealing on this.
- White: Well, that is this group that I am talking about.
- Barnard: Have they done it for them?
- White: Yes, it is not Henderson's outfit.
- H.M.Jr: Well, the Vice-President told me about it, and he said Henderson is going to present it, and as soon as he presents it he will send it over here. I just wondered if you could handle

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any more people right now.

Barnard: Well, I wonder if we can't get this group together and talking about it and see what more we ought to do. I have no doubt others ought to be brought in, but I don't know. If we get in town meeting, we will never get anywhere on this. We have got to break it down in some practical way, and I don't see why some of the others here can't handle some of those people that we ought to bring in. If we get twenty or twenty-five people around here trying to discuss a thing as technical and as subject to differences of opinion as this is, I don't think we are going to get very far.

H.M.Jr: Then let's just leave it the way it is for today. I think if they could adjourn now to your office and go to it, then I am available at any time during the day that you want to see me.

Barnard: All right.

H.M.Jr: How is that?

Barnard: That is all right.

b'

TREASURY DEPARTMENT

280

INTER-OFFICE COMMUNICATION

DATE 10-27-41

TO Secretary Morgenthau

FROM Mr. Paul

I am, of course, in thorough agreement with the purposes reflected in Mr. Barnard's plan. Time has not permitted the painstaking analysis the plan deserves, but tentative comments will be ventured in this brief memorandum. It should be stated in advance of these comments -- some of which are adversely critical -- that a constructive plan with the twin objectives of raising increased revenues and controlling inflation is a first order of business. If Mr. Barnard's plan starts us on this journey, it has served a highly valuable purpose.

I

The first item in the plan calls for a contribution of 5 percent of all salaries and wages in excess of \$1,000 to a family reserve to be held by the Social Security Administration and released after the termination of the emergency, and previously under certain conditions.

This part of the plan amounts to a forced loan of a flat percentage of compensation above the low amount of \$1,000. No differentiation is made according to the economic status of the wage-earner. I should think any compulsory savings plan should take into more account the ability of the forced lender to make the loan, should insist upon loans from other types of income -- such as dividends, bond interest, and rents, and should be resorted to only after capacity to pay taxes has been exhausted. I should, therefore, recommend that this contribution be extended to other types of income, be graduated with increasing upper brackets, and that repayment be contemplated only in inverse proportion to size of income. Such a reservation would tend to exhaust taxpaying capacity in upper brackets, and would recognize the inability of the lower brackets to make an additional permanent contribution to defense. At the same time low bracket purchasing power would be suspended.

II

The second item of the plan calls for a contribution varying from 25 percent to 50 percent of increase in spendable income from



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all sources in any year over that of the previous year. This contribution will be reserved and repaid as in connection with item No. 1.

This proposal has the virtue of applying to all types of income, though the third item below, by preventing dividend distributions, precludes any inclusion of dividends in spendable income. I am concerned, however, about the practical operation of the plan. Its theory is no doubt to force a loan to the government of all income increases created by the emergency. I am certainly in accord with this theory, but an indiscriminating exaction of a part of increased income may take not only income arising out of the emergency, but also income having nothing to do with the emergency. For instance, it may take a part of income ascribable to ordinary development of earning power associated with increased skill, age and experience. The contribution would, therefore, hit non-windfall increases.

Moreover, this contribution fails to take account of varying economic status, as, for instance, marriage, the birth of children, the support of dependents, and misfortunes such as family illness. It seems to have the same vices as the income credit (the average earnings credit) for purposes of invested capital to which the Treasury has several times objected.

My final fear, in connection with this item, is that it freezes exemption from contribution at high levels in the case of persons having a high income in the previous year.

### III

The third item of the plan calls for a business stabilization reserve of varying percentages of distributable net income of corporations over 6 percent to 15 percent of invested capital. The percentages range from 25 percent to 100 percent. The exacted percentages are invested in business reserve certificates, bearing 2-1/2 percent interest, and are redeemable at specified times after the emergency.

I question whether this program would have much effect upon inflation. It does not exact a forced loan from spendable income. It would come from corporate surpluses. If these surpluses are not distributed, they do not affect purchasing power; if they are distributed, they go in large part to persons who spend only a relatively small proportion of their income.

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My more basic doubt about this proposal is that it resorts to enforced saving before we have absorbed corporate capacity to pay taxes without impairment of the profit motive. The exaction of enforced savings which have to be repaid, should come at the point at which corporations can no longer afford to pay taxes, which do not have to be repaid.

If this part of the program should be adopted, it would seem desirable to impose conditions upon which the savings will be refunded. If this is not done, there is no assurance that the released funds will be used to stabilize business, as by use for replacement of obsolete machinery, conversion of plant equipment, and readjustment to post-emergency conditions.

This item in the program seems to legitimize the accumulation of corporate surpluses to the extent that the surpluses are invested in business reserve certificates. We should probably investigate the effect upon income tax revenues by reason of the diminution of taxable dividends. At the least there would seem to be a considerable postponement of revenue arising out of dividend payments.

Finally, I question in regard to this item, the flat interest rate of 2-1/2 percent. This percentage might be appropriate for small loans, but it would seem better to scale the rate down for high loans, as in the case of Defense Savings bonds and Tax Anticipation notes.

#### IV

The additional item of the plan is a program for voluntary and part time compensation. In general, this item is an adoption of the present pension plan system except that the government becomes the trustee.

Every one in the practice knows how the pension plan provisions of the statute are being abused by the adoption of tax-avoiding plans in favor of key employees and stockholders. These provisions need to be tightened to prevent avoidance. Certainly private pension systems should not be extended; their purpose could be better accomplished by broadening the Social Security Program. Under such a program benefits are scientifically distributed, and are not subject to the whim and caprice of individual employers. It seems fair that the government should control benefits, since it pays a substantial part of the cost by reduced taxes.

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Conclusion

Some of the plan may be adapted to function as part of a broad affirmative program for raising revenue and controlling inflation. I would doubt whether it would absorb a very great proportion of excess spendable income, which may reach the figure of \$8,000,000,000 or more. In any event, it should be coupled with a revenue-raising and inflation control program along the following lines:

1. A broad extension and liberalization of the Social Security Program in both old-age and unemployment insurance aspects.
2. An increase of the excess-profits tax with modification of the income or average earnings credit. (Perhaps the tax could be an average of the tax computed by the income method and the invested capital method.)
3. Increases of the middle income tax brackets.
4. Increases of the estate and gift tax rates.
5. Increased manufacturers' excise taxes on goods which compete with defense industries.
6. Forced savings to the extent necessary to absorb any remaining excess spending power in respect of goods in short supply.
7. In levels of income above a reasonable subsistence level enforced savings should supplement taxation; in low levels of income enforced savings are preferable to increased taxation.

October 23, 1941.

MEMORANDUM FOR THE SECRETARY'S FILES

A meeting relative to the administration of Executive Order 8389 was held in Mr. Foley's office at 3:00 P. M. on October 22, 1941, attended from time to time by the following:

Messrs. Foley (Chairman), Pehle, B. Bernstein, White, Dietrich, and Timmons for the Treasury; Messrs. Acheson, Miller, Fisher, and Luthringer for State; Messrs. Shea, Kreeger, Jurenev, and Swidler for Justice; and Mr. Knapp for the Board of Governors of the Federal Reserve System.

Mr. Pehle reported to the committee that Mr. Nishiyama had called this morning to inquire whether a decision had been reached with respect to the use of Japanese dollar balances in South America for the purchase of oil to be sent to Japan. After discussion, it was agreed that Mr. Nishiyama should be told on the occasion of his next visit that this question was still under consideration by this committee, inasmuch as it is tied in with the whole problem of the Yokohama Specie Bank. This problem involves the position not only of the New York branch but also the branches on the West Coast, and it is a problem which is engaging the attention not only of the State and Treasury Departments but also the Superintendent of Banks of the State of New York.

Mr. Bernstein reported on the recent conference held with respect to the position of the San Francisco branch of the Yokohama Specie Bank. It appears that there are enough liquid assets available to the West Coast branches to enable them to pay off all depositors. The National Bank Examiner stationed in the San Francisco branch became worried over the possibility that the position of the New York branch of the Yokohama Specie Bank would require that funds be transferred from the West Coast to New York. So long as this is not necessary, it does not appear that because of fiscal considerations any action need be taken to close the San Francisco branch. Accordingly, no action is to be taken for the time being.

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Mr. Pehle also reported that he had raised with Mr. Nishiyama the question of remittances to American missionaries in Japan. Thus far the Japanese have refused to allow such remittances against blocked dollars, but have insisted on credit to a free dollar account. Mr. Nishiyama stated that the North American Mission Board had discussed with him the possibility of establishing a clearing account. Mr. Nishiyama suggested that it might be possible to allow remittances to American missionaries in Japan against blocked dollars if in return we release funds for the support of the Japanese Commercial Institute which is, he stated, an organization interested solely in promoting trade between the United States and Japan. Mr. Pehle stated that he had told Mr. Nishiyama that he was not in a position to indicate that this could be approved by the Treasury Department. It was unanimously agreed by the committee that this proposal should not be accepted.

Mr. Fisher read to the committee a telegram from Ambassador Grew in Tokio which requested the State Department to provide him with a definition of the term "free dollar account". It was agreed that a reply should be despatched stating that the requirement of this Government that the free dollars accruing to Japan be transferred to the Yokohama Specie Bank as a partial offset to the withdrawals from such bank to pay Japanese diplomatic expenses in this country is not inconsistent with a previous circular telegram to all diplomatic missions which stated that the proceeds of State Department drafts would be paid into a free dollar account. In this instance the withdrawals for Japanese interests in the United States far exceed similar American expenses in Japan, and further, the withdrawals by the Japanese in the United States will result in serious depletion of the assets of the Yokohama Specie Bank. Therefore, this Government is requiring that the free dollars accruing to Japan be utilized first before any blocked funds are drawn on. Should any balance remain in the free dollar account after the payment of the Japanese diplomatic expenses, such dollars may be converted into the currencies of non-blocked countries.

A telegram has been received from Governor Poindexter of Hawaii stating that an application has been made by the Yokohama Specie Bank there to disburse approximately \$24,000 in payment for the fueling and provisioning of the boats arriving there from Japan. A telegram is to be despatched to Governor Poindexter stating that he is authorized to license this withdrawal. Mr. Pehle said that he understood that the Japanese returning to Japan from the United States are to pay for their passage in yen in Japan. Admiral Nomura has told Secretary Hull that the payment for such passages is to be made in yen and Mr. Acheson stated that it does not appear that anything can be done to alter this arrangement.

Mr. Bernstein pointed out that the missions in Latin America should be sending to the Department of State the names of Japanese firms to be eventually placed on the Proclaimed List. Should it become necessary immediately to add Japanese names to the List, there are at present only about thirty-five names available. Mr. Acheson stated that the missions had been requested to do this.

Reference was made to an application filed by Edward L. Murphy, an assignee of Kleinworts & Company, an English banking house, with respect to a claim by Kleinworts against I. G. Farben. The claim amounts to approximately \$254,000. A judgment has been obtained by the plaintiff and an application has been made to transfer the funds. The British Government has stated that it needs these dollar funds for the payment of salaries and other similar expenses, and that the bringing of this suit had been cleared with Assistant Attorney General Shea. Mr. Pehle pointed out that at the time the British had approached Mr. Shea on the bringing of this suit it was obviously in our interest to tie up I. G. Farben's funds through attachment, inasmuch as the freezing control had not then been extended to Germany. Now, however, this application represents the transfer of a substantial amount of German assets out of a blocked account to the British Exchange Control. Inasmuch as applications to effect transfers to American creditors are being denied, it would not be consistent with policy to approve this application. It was unanimously agreed the application should be denied.

Mr. Pehle reported that Mr. Lincoln Johnson, Vice President of Manufacturers Trust Company, had called on him today. Mr. Johnson said that he was disturbed by the refusal of Foreign Funds Control to license the payment of interest on the German standstill obligations. Mr. Johnson stated that bank-to-bank obligations historically had always been given preference, although this was by custom and not by law, and that in almost no case had there been a default in bank-to-bank transactions except in the rare case where the individual debtor bank had become insolvent. Mr. Johnson also referred to the credit extended by New York banks to Latin America and said that the present attitude of this Government might necessitate reconsideration of the position of the banks concerned. Mr. Pehle pointed out to Mr. Johnson that the Foreign Funds Control problem in Latin America has largely been one of dealing with persons on the Proclaimed List, a problem which would not entail the settlement of claims against Latin America in a general way. Mr. Pehle told Mr. Johnson that he might wish to discuss the question of Latin American credit with Mr. Warren Pierson of the Export-Import Bank.

Mr. Pehle referred to an application filed by the American Brake Shoe and Foundry Company. In 1936 such company formed a French subsidiary to manufacture equipment for railroad cars under American patents. The American company has now received an offer from a French firm to purchase the entire stock of the French subsidiary, payment for such purchase to be made out of the account of the Banque of France with J. P. Morgan and Company. It was pointed out that this sale might possibly be under direct German pressure, or afford Germany an opportunity to purchase another French industry, as recent despatches from France have indicated that the Germans are doing. Mr. White and Mr. Acheson pointed out that the consummation of this transaction would result in an export of capital from France, a transaction which probably is not in the interest of France. Mr. Acheson felt that this was very likely a case of duress by Germany on the Banque of France to use its dollar funds to buy out American interests in France in accordance with a German program for economic domination in Europe and that Foreign Funds Control was designed to prevent such transactions. After discussion, it was agreed that the application should be denied.

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In connection with the filing of reports on Form TFR-300, Mr. B. Bernstein stated that it had been decided to grant no further general extension of time. However, in view of certain special problems raised in connection with the reporting by import and export firms and insurance companies, a circular is to be despatched to all Federal Reserve Banks granting an extension of time until November 29, 1941 to import and export firms and insurance companies. The trade groups will be informed of this extension at the time the circular is sent out.

Mr. Molekamp of the Netherlands Legation in a recent discussion with Mr. B. Bernstein asked what support the Treasury Department is prepared to give to the request that the Dutch Government might make of banks and brokers in this country to furnish the Dutch Government with information as to the Dutch-owned property in this country which information the Dutch Government would need in order to file with us reports on Form TFR-300. Mr. Bernstein added he had not encouraged Mr. Molekamp in this matter but had told him that he would raise it with this committee. Mr. Bernstein stated that he felt it would be very unwise for the Dutch to make this request at the present time. To this the committee agreed. Mr. Bernstein also added that Mr. Molekamp had said that the Dutch were not interested in taking over frozen assets to spend but that they were taking up with London the question of investing cash balances in defense bonds.

Mr. B. Bernstein also referred to the proposed circular stating that American foreign service officers' property is not to be reported on Form TFR-300. After discussion, it was agreed that such circular should be despatched.

Mr. White referred to a letter received from the Office of Production Management relative to a shipment of sugar by a Proclaimed List firm in the Dominican Republic to the United States. Mr. Pehle said that it is stated in the letter from the Office of Production Management that the sugar will be used to produce ethyl alcohol, which is needed in defense uses. Mr. Pehle



pointed out that there is no shortage of sugar and that this matter is presently receiving the attention of the Proclaimed List clearance sub-committee.

Officers of the Standard Oil Company have discussed with the State Department sales of petroleum products by Standard's Brazilian subsidiary to Condor, the German airline. Standard Oil claims that they will be sued unless they fulfill their contract to furnish gasoline to Condor. The committee agreed that the Standard Oil Company should be told that licenses are necessary for such transactions, that such licenses if applied for will not be granted and that unless full cooperation is secured, the Brazilian subsidiary will be placed on the Proclaimed List.

October 23, 1941  
3:10 p.m.

Harry White: Yes, sir.

HMJr: You're on the loudspeaker, and only Foley's in the room.

W: All right, then I'll be careful what I say. (Laughs)

HMJr: Yeah. Listen, I've just been talking - I don't know whether this has gotten to you yet - but I got terribly excited yesterday when I found out that Foreign Funds issued a general license. Let's say a man has ten thousand dollars that's frozen. He can take that money and go out and speculate in food, and has been doing it and a great many of the people have been doing that. Did you know that?

W: No, I wasn't aware of it. Now that doesn't mean that I may not have heard of it at the time it was put, but I know this is the first intimation that I've had that they could buy that much - spend that much money for commodities.

HMJr: Well, it - I mean, we - well, also stocks.

W: Well, they - I did know that they were permitted to buy and sell stocks.

HMJr: Yeah, but did you know that they could buy - for instance, they're buying potatoes, soybeans, corn and wool and.....

W: I did not know that, but my not knowing it - it may be my fault. It's doubtless my fault. No, I did not know that. I was under the impression that it was only securities.

HMJr: Because I was terribly shocked, and I jumped all over Ed. Ed wants some partners in his misery, and he said, "White sits in on those meetings."

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- W: That's very true. I would very definitely have every responsibility in it - just as much as his. But I didn't know that there was any of that being done. All the discussion that I was ever present at was in terms of securities.
- HMJr: Well, the point is this. I discovered this myself.
- W: Yeah.
- HMJr: Because I took it up with the Department of Agriculture and they know who's speculating in foods.
- W: Yeah.
- HMJr: And they, in a very nice way, let me know that we let people take money out of frozen funds and speculate in foods.
- W: Yeah. Well, the responsibility certainly is as much mine as his in that, because.....
- HMJr: Now that I tell you, what's the reaction?
- W: Well, I'm surprised that we didn't - weren't aware of it. I didn't focus on that portion of the problem.
- HMJr: Don't you think it's terrible?
- W: Well, I think it was a definite justifiable criticism that we didn't.
- HMJr: No, but I mean, imagine if Senator Smith found out.....
- W: Yeah.
- HMJr: .....that the Secretary of the Treasury was encouraging people using frozen funds to speculate in foods.
- W: Yes. I would say that it's a definite lack,

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although I would like to add to that that without any knowledge, I would be very surprised if it amounted to much; but even if it doesn't amount to much, I don't see any justification for permitting it.

HMJr: Listen, one contract in potatoes, which I saw, would be enough to damn me.

W: That's right. I agree with you.

HMJr: One contract - one fellow in potatoes.

W: I agree.

HMJr: What?

W: I said, I agree.

HMJr: And lard was another contract.

W: I agree with that.

HMJr: Yeah. Well.....

W: As a matter of fact, I would make inquiry; but I think the possibility of that and the question of that has completely escaped us, and I don't remember any discussion of the purchase of commodities. I may be mistaken. And I'm wondering whether the terms of the general license are such as would permit that.

HMJr: Oh, yes.

W: It does?

HMJr: Well, anyway, I had Pehle in and I'm going to town on it tomorrow.

W: Yeah. Well, it's a responsibility that nobody could check, because we were all there.

HMJr: Well, the point is - I mean, I'm.....

W: I think you're right that it ought to be stopped. There's no question about that.

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HMJr: Why, it's crazy. And then I'm going after the whole question of speculation in foods, but I want to first clean out my own house.

W: That's true.

HMJr: What?

W: I think you're right.

HMJr: Don't you think I'm right?

W: I think you're entirely right.

HMJr: My Boston speech - I mean, they say, "Secretary of Treasury gives sanction to the speculation of foods and here he's complaining about the high cost of foods."

W: Yes. Well, I would stop it on the one hand, and then I would also have - attempt some inquiry and investigation on how much of it has been done.

HMJr: Oh, they're bringing in the reports tomorrow.

W: Yes. Yes. Well, I think you're right.

HMJr: Okay.

W: All right, sir.

TREASURY DEPARTMENT  
INTER OFFICE COMMUNICATION

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DATE October 23, 1941.

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

We have amended General License No. 32 so as to eliminate the possibility of free dollars being made available to the Axis powers by reason of the limited remittances (\$100-\$200 a month per family) that we have been permitting during the past year to non-Americans in the blocked countries. Under the new general license, remittances will be permitted only against blocked dollars credited to a bank of the country to which the remittance is made. This will not only have the effect of curtailing the amount of free dollars that the Axis will get but will also prevent Germany from acquiring Swiss francs by having remittances to all of Europe go through Switzerland.

We realize that in view of the fact that Germany has eliminated all of the banks in Poland and Greece, for example, it may be very difficult to effect remittances even against blocked dollars to Poland or Greece. We feel, however, that it is very important for us not to recognize the de facto

situation of Germany being the financial clearing house for many of the overrun countries.

As far as remittances to American citizens abroad are concerned, we are not making any substantial change in the existing general license relating to remittances to American citizens. Under that general license \$500.00 a month can be sent to an American citizen, and a single remittance of \$1000.00 to permit travel to the United States. The general license also authorizes free dollar accounts to be credited by these remittances if it is impossible to effect the remittances against blocked dollars. We are, however, announcing in the press release that we are going to drastically curtail the amount of money that may be remitted to American citizens abroad under a special license. The amount of free dollars that will become available to the Axis in this way is fairly limited and we feel that for the time being we should permit these free dollars to accrue to the Axis rather than face the outcry of cutting off these limited remittances to American citizens abroad.

The foregoing has been cleared with the Inter-Departmental Foreign Funds Control Committee.

S. W. 76

THE AMERICAN BANKERS ASSOCIATION  
OFFICE OF THE PRESIDENT

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THE SECURITY BANK  
OF PONCA CITY  
PONCA CITY, OKLAHOMA

H. W. KOENEKE  
PRESIDENT

October 23, 1941

Mr. H. Morgenthau, Jr.,  
Secretary of the Treasury,  
Washington, D. C.

Dear Mr. Morgenthau:

On behalf of the American Bankers Association I wish to express our appreciation for you taking the time from your busy life to attend our annual convention, thus making it possible for those in attendance to hear directly from the Secretary of the Treasury. Your sincere and frank discussion of the problems which confront the Treasury Department of our nation was well received.

May I assure you of the continued cooperation on the part of the Association, and I wish you to feel free to call upon our organization for any assistance we can render. It goes without saying that any member of our staff is desirous of being helpful. We shall lend every effort within our power to assist in informing the bankers throughout the nation on the subject of freezing control.

I am personally grateful for your best wishes for a successful year in office.

Sincerely yours,



H. W. Koeneke.

HL:mf



TREASURY DEPARTMENT

297

INTER OFFICE COMMUNICATION

DATE October 23, 1941

TO Secretary Morgenthau  
FROM George Buffington

Messrs. Kuhn, Schwarz, and I suggest you might like to distribute the attached folders at your Press Conference this morning. During the day we will prepare a little story to accompany the folders which we will mail out air mail today to the newspapers. I have also discussed this subject with Mr. Norman Thompson and he agrees that it might be well to accompany the folder with some kind of a short release.

G.B.

## START SAVING NOW to make tax payments easier

UNITED STATES TREASURY

You will see from the tables that if your net income for 1941 is \$5,000 and you are a single person with no dependents, you must save at the rate of \$40 every month or \$480 a year for your Federal income taxes. If you are married but have no dependents, your savings for taxes should amount to \$33 per month or \$375 a year. If you are married and have one dependent, you must save \$27 per month or \$323 a year. If you are married and have two dependents, you must save \$23 per month or \$271 a year. If you are married and have three dependents, you must save \$18 per month or \$219 a year for the payment of Federal income taxes.

## CONSULT YOUR BANK about Tax Savings Notes

The Tax Savings Notes being offered by the Treasury to make it easier for taxpayers to plan ahead are being issued in two series, both dated August 1, 1941, and maturing August 1, 1943. They bear interest only when used to pay income taxes up to and including the month when the tax payment is made. The notes cannot be presented for payment of income taxes before January 1, 1942, and must be held by the purchaser at least three months if they are to be used for that purpose. On January 1 of each year hereafter, two new series of Notes will be provided so that a taxpayer can always purchase Notes during the entire year in which he is receiving his income for use in payment of taxes due the following year. Plan now to save some part of your income during the remaining months of this calendar year to be used for payment of Federal income taxes.

The Treasury urges that you go immediately to your neighborhood bank to secure detailed information about the Tax Savings Plan and how you personally can best take advantage of it. Treasury Department Circular No. 667 describing the Tax Savings Notes in detail has been sent to all banks, where you will find someone who will be glad to answer any questions.

It is extremely important that the increased Federal income taxes vitally necessary for National Defense be provided for in your budget as you would provide for other expenses.

U. S. GOVERNMENT PRINTING OFFICE 16-32902

# KNOW YOUR TAXES



## TAX SAVINGS PLAN

## A Message to Taxpayers from the Secretary of the Treasury

Through our representatives in Congress we have decided upon an "all-out" defense program. We have also expressed our preference for paying as much as possible of the cost of defense out of current earnings.

Your Government, therefore, is anxious that each taxpayer know as promptly as possible what his income tax bill will be. As a service to the taxpayers, I have had prepared the attached tables showing what you will have to pay in the coming year, and how much of your monthly income you should set aside regularly for tax payments.

Tax Savings Notes are now being sold by the Treasury because thousands of citizens asked for a plan to enable them to save money systematically and conveniently for this purpose. When you examine the attached tables you will, I think, see the usefulness of these Treasury Notes in helping you to meet your own tax payments next year. I am sure that your neighborhood bank will be glad to help you start such a savings program. If you wish any additional information, I shall be glad to have you write to me at the Treasury Department, Washington, D. C.

Henry Morganthau Jr.  
Secretary of the Treasury

October 29, 1941.

The attached tables show how much you will have to pay in individual income taxes on 1941 salary and wage incomes of selected sizes and the savings needed to meet these payments.

If your gross income is not more than \$3,000 and consists wholly of salaries, wages, other compensation for personal services, dividends, interest, rent, annuities, or royalties, you may make your tax payments in accordance with the instructions contained in Form 1040-A. In this case your tax will be slightly different from that shown in the following tables, but the monthly savings necessary will be approximately the same.

Table showing how much you will have to pay in individual income taxes on salary and wage incomes of selected sizes and the monthly savings needed to meet these 1941 income tax payments.<sup>1</sup>

Single person—Not head of family—No dependents

If your net income from salary or wages is—	You will have to pay, under the 1941 Act—	You will need to save every month to meet 1941 tax payments—
\$750.....		
\$800.....	\$3	(2)
\$900.....	11	\$1
\$1,000.....	21	2
\$1,100.....	31	3
\$1,200.....	40	3
\$1,300.....	50	4
\$1,400.....	59	4
\$1,500.....	69	5
\$2,000.....	117	10
\$2,500.....	165	14
\$3,000.....	221	18
\$3,500.....	284	24
\$4,000.....	347	29
\$5,000.....	483	40
\$6,000.....	649	54
\$7,000.....	825	69
\$8,000.....	1,031	86
\$9,000.....	1,247	104
\$10,000.....	1,493	124
\$11,000.....	1,749	146
\$12,000.....	2,035	170
\$13,000.....	2,331	194
\$14,000.....	2,657	221
\$15,000.....	2,994	250
\$16,000.....	3,354	280
\$17,000.....	3,722	310
\$18,000.....	4,112	343
\$19,000.....	4,509	376
\$20,000.....	4,929	411
\$21,000.....	5,367	448
\$22,000.....	5,807	484
\$23,000.....	6,264	523
\$24,000.....	6,744	562
\$25,000.....	7,224	602

<sup>1</sup> Computed in the nearest dollar.  
<sup>2</sup> Less than 50 cents.

Table showing how much you will have to pay in individual income taxes on salary and wage incomes of selected sizes and the monthly savings needed to meet these 1941 income tax payments.<sup>1</sup>

**Married person living with husband or wife—No dependents**

If your net income from salary or wages is—	You will have to pay, under the 1941 Act—	You will need to save every month to meet 1941 tax payments—
\$1,500		
\$1,600	80	51
\$1,700	13	1
\$1,800	23	2
\$1,900	32	3
\$2,000	42	4
\$2,100	52	4
\$2,200	61	5
\$2,300	71	6
\$2,400	80	7
\$2,500	90	8
\$3,000	138	12
\$3,500	186	16
\$4,000	249	21
\$4,500	312	26
\$5,000	375	31
\$6,000	521	43
\$7,000	687	57
\$8,000	873	73
\$9,000	1,079	90
\$10,000	1,305	109
\$11,000	1,551	129
\$12,000	1,817	151
\$13,000	2,103	175
\$14,000	2,409	201
\$15,000	2,739	228
\$16,000	3,084	257
\$17,000	3,444	287
\$18,000	3,819	318
\$19,000	4,209	351
\$20,000	4,614	385
\$21,000	5,034	420
\$22,000	5,469	456
\$23,000	5,919	493
\$24,000	6,384	532
\$25,000	6,864	572

<sup>1</sup> Computed in the nearest dollar.

Table showing how much you will have to pay in individual income taxes on salary and wage incomes of selected sizes and the monthly savings needed to meet these 1941 income tax payments.<sup>1</sup>

**Married person living with husband or wife—One dependent**

If your net income from salary or wages is—	You will have to pay, under the 1941 Act—	You will need to save every month to meet 1941 tax payments—
\$1,500		
\$1,600		
\$1,700		
\$1,800		
\$1,900		
\$2,000	56	31
\$2,100	12	1
\$2,200	21	2
\$2,300	31	3
\$2,400	40	3
\$2,500	50	4
\$3,000	98	8
\$3,500	146	12
\$4,000	197	16
\$4,500	250	22
\$5,000	323	27
\$6,000	453	38
\$7,000	619	52
\$8,000	782	66
\$9,000	956	83
\$10,000	1,205	100
\$11,000	1,431	121
\$12,000	1,701	142
\$13,000	1,987	166
\$14,000	2,277	190
\$15,000	2,607	217
\$16,000	2,940	245
\$17,000	3,300	275
\$18,000	3,683	303
\$19,000	4,053	338
\$20,000	4,446	371
\$21,000	4,866	406
\$22,000	5,289	441
\$23,000	5,739	478
\$24,000	6,192	516
\$25,000	6,672	556

<sup>1</sup> Computed in the nearest dollar.

Table showing how much you will have to pay in individual income taxes on salary and wage incomes of selected sizes and the monthly savings needed to meet these 1941 income tax payments.<sup>1</sup>

**Married person living with husband or wife—Two dependents**

If your net income from salary or wages is—	You will have to pay, under the 1941 Act—	You will need to save every month to meet 1941 tax payments—
\$1,500		
\$1,600		
\$1,700		
\$1,800		
\$1,900		
\$2,000		
\$2,100		
\$2,200		
\$2,300		
\$2,400	86	91
\$2,500	12	1
\$3,000	58	6
\$3,500	109	9
\$4,000	154	13
\$4,500	208	17
\$5,000	271	23
\$6,000	397	33
\$7,000	561	46
\$8,000	717	60
\$9,000	911	76
\$10,000	1,117	93
\$11,000	1,351	113
\$12,000	1,597	133
\$13,000	1,871	156
\$14,000	2,167	180
\$15,000	2,475	200
\$16,000	2,805	234
\$17,000	3,156	263
\$18,000	3,516	293
\$19,000	3,897	325
\$20,000	4,267	357
\$21,000	4,668	392
\$22,000	5,119	427
\$23,000	5,559	463
\$24,000	6,009	501
\$25,000	6,460	540

<sup>1</sup> Computed in the nearest dollar.

Table showing how much you will have to pay in individual income taxes on salary and wage incomes of selected sizes and the monthly savings needed to meet these 1941 income tax payments.<sup>1</sup>

**Married person living with husband or wife—Three dependents**

If your net income from salary or wages is—	You will have to pay, under the 1941 Act—	You will need to save every month to meet 1941 tax payments—
\$1,500		
\$1,600		
\$1,700		
\$1,800		
\$1,900		
\$2,000		
\$2,100		
\$2,200		
\$2,300		
\$2,400		
\$2,500		
\$3,000	116	82
\$3,500	66	6
\$4,000	114	10
\$4,500	162	14
\$5,000	219	18
\$6,000	345	29
\$7,000	483	40
\$8,000	649	54
\$9,000	827	69
\$10,000	1,033	86
\$11,000	1,251	104
\$12,000	1,497	125
\$13,000	1,755	146
\$14,000	2,041	170
\$15,000	2,343	195
\$16,000	2,673	223
\$17,000	3,012	251
\$18,000	3,372	281
\$19,000	3,741	312
\$20,000	4,131	344
\$21,000	4,530	375
\$22,000	4,950	413
\$23,000	5,379	448
\$24,000	5,829	486
\$25,000	6,288	524

<sup>1</sup> Computed in the nearest dollar.

TREASURY DEPARTMENT  
Washington

FOR RELEASE, MORNING NEWSPAPERS,  
Sunday, October 26, 1941.  
10/23/41

Press Service  
No. 28-20

As a convenience to taxpayers, Secretary Morgenthau made public today a folder, "Know Your Taxes," which shows at a glance the approximate amount of individual income taxes due next year on 1941 salary and wage incomes of selected sizes and the amount of monthly savings needed to meet these payments.

Arrangements have been made with the Federal Reserve banks to furnish each commercial bank in their district an ample supply of these folders for enclosure in the next statement of accounts mailed to depositors. In addition, it is planned to include the folder in the December "reminder" to taxpayers mailed out by their local Collectors of Internal Revenue.

By using this simple guide, the Secretary explained, a taxpayer may ascertain with a minimum of effort the portion of his monthly income he must set aside regularly to meet next year's tax payments.

The new tax tables augment the easy savings plan inaugurated last August 1. At that time the Treasury placed on sale a new type of security known as Tax Savings Notes which enables taxpayers to save systematically and conveniently to meet next year's higher taxes. These notes bear interest when used in payment of Federal income taxes and provide the purchaser with an investment in advance to meet future taxes.

In making the announcement, Secretary Morgenthau reiterated his belief that it is extremely important for taxpayers to budget their taxes in view of the greatly increased levies, and expressed the hope that this new plan would be helpful.

The new tables disclose, for instance, that if your net income for 1941 is \$5,000 and you are a single person with no dependents, you must save at the rate of \$40 every month, or \$483 a year, for your Federal income taxes. If you are married but have no dependents, your savings for taxes should amount to \$31 per month, or \$375 a year. If you are married and have one dependent, you must save \$27 a month, or \$323 a year. If you are married and have two dependents, you must save \$23 a month, or \$271 a year. If you are married and have three dependents, you must save \$18 per month, or \$219 a year, for the payment of Federal income taxes.

-2-

These tables begin at the lowest taxable amount and include income tax classifications up to net incomes of \$25,000 a year. The Tax Savings Notes being offered by the Treasury are issued in two series, both dated August 1, 1941, and maturing August 1, 1943. They cannot be presented in payment of income taxes before January 1, 1942, and must be held by the purchaser at least three months if they are to be used for that purpose. On January 1 of each year hereafter, two new series of notes will be provided so that a taxpayer can always purchase notes during the entire year in which he is receiving his income for use in payment of taxes due the following year.

(A copy of the "Know Your Taxes" pamphlet is enclosed)

-000-

Treasury Department 301  
Division of Monetary Research

Date 10/23/41 19

To: Secretary Morgenthau

From: Mr. White

This is the cable you  
wanted sent to London.  
Please initial.

OK  
(mm)

FOR CASADAY, AMERICAN EMBASSY, LONDON,  
FROM THE SECRETARY OF THE TREASURY.

Address by John L. Sullivan, Assistant Secretary of the Treasury, before annual meeting of Associated Industries of Massachusetts, Boston, October 23, 1941, contained following answer to United States Chamber of Commerce statement comparing British and American taxation per capita and as percentage of national income:

"Recently the Chamber of Commerce of the United States issued a statement purporting to show that per capita taxes are higher today in America than they are in Great Britain, and that a larger proportion of our national income goes to the Federal Treasury in the form of taxes than in the case of Great Britain. I do not know the motive or the purpose of this statement. From my acquaintance with the officers and members of that association I am led to attribute to that statement no ulterior motive or unworthy purpose. However, I feel obliged to state to you and to the country that the information contained in that statement is at great variance with all of the information at the disposal of the United States Treasury Department.

Perhaps one reason for this difference is that the figures in the statement appeared to include Social Security taxes in the United States while excluding them and similar tax charges from the British estimate. Similarly, as a result of using as a figure for the British national income 36 billions of dollars rather than 24 billions of dollars (which we believe is the correct figure) the estimates were thrown far out of focus. The correction made in the figures as a result of our information

establishes that, whereas the Chamber of Commerce states that the per capita tax in America is \$168 per year as against a similar per capita tax paid in Great Britain of \$165, this latter figure should be changed to \$200 per year.

Similarly I wish to correct the statement about the proportion of national income being collected in taxes in the two countries. In the current fiscal year approximately 22 percent of the national income of the United States is being collected in taxes by national, state and municipal governments. In Great Britain approximately 40 percent of the national income is going this year for taxes. Since the per capita income in the United States is much higher than in Great Britain, the actual burden of current taxation upon the British people is very much greater than that upon the American people."

Please inform the Ambassador and distribute to British Treasury and others interested.

HH:bvl  
10/23/41



October 23, 1941

Mr. Feis

Mr. Dietrich

Will you please send the attached cable to the American Embassy, London,  
"Per Casaday from Secretary of the Treasury".

See attached message.

A handwritten signature or set of initials, possibly "P" or "D", written in dark ink. The signature is somewhat stylized and appears to be a single continuous stroke.

TELEGRAM SENT

PD

GRAY

October 23, 1941

10 p.m.

AMEMBASSY,

LONDON.

4670.

FOR CASADAY FROM SECRETARY OF THE TREASURY.

QUOTE Address by John L. Sullivan, Assistant Secretary of the Treasury, before annual meeting of Associated Industries of Massachusetts, Boston, October 23, 1941, contained following answer to United States Chamber of Commerce statement comparing British and American taxation per capita and as percentage of national income:

SUBQUOTE Recently the Chamber of Commerce of the United States issued a statement purporting to show that per capita taxes are higher today in America than they are in Great Britain, and that a larger proportion of our national income goes to the Federal Treasury in the form of taxes than in the case of Great Britain. I do not know the motive or the purpose of this statement. From my acquaintance with the officers and members of that association I am led to attribute to that statement  
no ulterior

-2- #4670, October 23, 1941 10 p.m. to London

no ulterior motive or unworthy purpose. However, I feel obliged to state to you and to the country that the information contained in that statement is at great variance with all of the information at the disposal of the United States Treasury Department.

Perhaps one reason for this difference is that the figures in the statement appeared to include Social Security taxes in the United States while excluding them and similar tax charges from the British estimate. Similarly, as a result of using as a figure for the British national income 36 billions of dollars rather than 24 billions of dollars (which we believe is the correct figure) the estimates were thrown far out of focus. The correction made in the figures as a result of our information establishes that, whereas the Chamber of Commerce states that the per capita tax in America is \$168 per year as against a similar per capita tax paid in Great Britain of \$165, this latter figure should be changed to \$200 per year.

Similarly I wish to correct the statement  
about the

-3- #4670, October 23, 1941, 10 p.m. to London

about the proportion of national income being collected in taxes in the two countries. In the current fiscal year approximately 22 percent of the national income of the United States is being collected in taxes by national, state and municipal governments. In Great Britain approximately 40 per cent of the national income is going this year for taxes. Since the per capita income in the United States is much higher than that in Great Britain, the actual burden of current taxation upon the British people is very much greater than that upon the American people. END SUBQUOTE.

Please inform the Ambassador and distribute to British Treasury and others interested. END QUOTE

HULL  
(HF)

EA:HF:PAK

**TREASURY DEPARTMENT**  
**INTER OFFICE COMMUNICATION**

DATE October 23, 1941

TO Mr. White  
FROM Mr. Hoflich

Subject: British Expenditures Compared to National Income,  
1940-41 and 1941-42

British Government expenditures are now consuming 70 per cent of the national income. Both total and war expenditures are expected to be higher for the fiscal year 1941-42 than in 1940-41, and will represent a somewhat greater proportion of the national income. The figures are given below:

<u>Expenditures:</u>	<u>Amount (1)</u> <u>(£ million)</u>	<u>Per cent of</u> <u>national income</u>
<u>1940-41</u>		
Defense and war	3,220	57.6 ✓
Total	3,884	69.5
<u>1941-42 (April, 1941 budget)</u>		
Defense and war	3,500	58.3 ✓
Total	4,207	70.1

National income estimates: 1940 - £ 5,586 million (2)  
1941 - 6,000 " (3)

- (1) British Treasury confidential memorandum, "United Kingdom Financial Policy," not dated, sent by Casaday from London with letter dated September 26, 1941.
- (2) For the calendar year 1940. British White Paper, "An Analysis of the Sources of War Finance and an Estimate of the National Income and Expenditures in 1938 and 1940," April, 1941.
- (3) For the calendar year 1941. British Treasury estimate (unofficial). Cable No. 4863 from Casaday, London, Oct. 12, 1941.

October 23, 1941

309

My dear Mr. Stoessel:

After telephoning you, the other day, I thought the matter over and it seemed to me unwise to follow the suggestion which I made for fear that I might hurt the feelings of some friends who have been very generous in giving of their time and services to the Treasury.

I hope at a later date I will be able to get your assistance on some of our Treasury programs.

Thanking you for your offer of cooperation, I remain

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Mr. Albert Stoessel,  
Juillard School of Music,  
130 Claremont Avenue,  
New York, N. Y.

*n.m.c.*

October 23, 1941

Dear Mr. President:

Last Tuesday evening we broadcast a ballad of the shipyards on our Treasury Hour. It was written by Herman Wouk, the same boy whose Ballad of the Leathernecks I played for you on a record a few weeks ago.

This new one seemed to me to be so good that I thought you would like to have the attached copy. You will notice that the poem is dedicated to you as Commander-in-Chief of the Navy.

Sincerely,

(Signed) E. Margenthaler, Jr.

The President,  
The White House,  
Washington, D. C.

FK/cgk

By Message 9:25 Block  
n.m.c. B  
cc. Thompson

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

311

DATE OCT 23 1941

TO Secretary Morgenthau  
FROM Mr. Foley

The authority of the Attorney General to investigate subversive activities of Federal employees is contained in the Act of June 28, 1941, Public No. 135, 77th Congress. The full text of the provision is as follows:

"Federal Bureau of Investigation

"\$8,750,000, of which at least \$100,000 shall be available exclusively to investigate the employees of every department, agency, and independent establishment of the Federal Government who are members of subversive organizations or advocate the overthrow of the Federal Government, and report its findings to Congress".

S147h.



TREASURY DEPARTMENT

312

INTER OFFICE COMMUNICATION

DATE October 23, 1941

TO Secretary Morgenthau  
FROM Mr. Thompson

At the time we took over the personnel investigations of defense employees at the request of the President, Mr. McReynolds stated that in only 73 of the 469 cases referred to the F.B.I. had completed reports been received from the F.B.I.

Mr. Irey advises that approximately 2,000 requests have gone to F.B.I. for information on pending cases and that but 132 replies have been received, of which number 128 were received during the period from June 28 to July 17, 1941.

Attached is a memorandum from Mr. Irey in more detail.

*Am*

*WJ*



## TREASURY DEPARTMENT 313

WASHINGTON

October 23, 1941.

OFFICE OF  
CHIEF, INTELLIGENCE UNIT  
BUREAU OF INTERNAL REVENUETO: Mr. Thompson  
FROM: Elmer Irey

Since the Treasury enforcement agencies began making character investigations of persons proposed for employment in the national defense agencies, we have received a total of 7634 cases. Of this number we have disposed of 3813, and at the close of business October 21, we had on hand 3821 in process of investigation. We are now receiving these cases at a greater rate than at any time. There are coming to us an average of 400 per week, there having been received during the past six weeks 2436. We are disposing of these cases at the average rate of 125 per week.

In May, 1941, I discussed with Mr. McGuire our inability to secure information from the files of the FBI relating to the persons under investigation. He suggested that we forward to him every third day a letter containing thirty names and he would arrange for the information to be furnished. Commencing May 3, 1941, we followed this procedure, and have sent to Mr. McGuire lists with a total of 2,070 names included. These lists were delivered at Mr. McGuire's office personally by Special Agent Gaston, who on each visit made request for information concerning the names in previous lists. We have received replies with respect to only 132 names, of which number 128 were received during the period from June 28 to July 17, 1941.

In his memorandum to the President in February, 1941, Mr. McReynolds stated that the Federal Bureau of Investigation had at that time disposed of 73 cases out of 469 referred to them for attention.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

314

DATE October 23, 1941

TO Secretary Morgenthau  
FROM Mr. Thompson

For your information, I am submitting the following report with respect to additional personnel:

Following receipt of your memorandum of October 6, placing upon me the responsibility for the efficient operation of Chick Schwarz' office, a study was made of his operations and the efficiency of his personnel. One employee—a stenographer assigned to newspaper work—was transferred out as she was not adaptable to the work to which assigned. It was apparent that there was need for an administrative man in the unit. Contacts have been made with several prospects and I had made a final selection to report to you this morning only to find at the last minute that the man did not stand up under investigation. I am having one or two other prospects checked and will keep back of this until it is cleared up. When this man is placed in the unit I will have him report on other possible changes to improve the office operations.

I have negotiations under way with four men, all experienced in office organization and procedures, for assignment to look into our various Treasury offices from time to time. I think that the Foreign Funds Unit which has grown like a mushroom is the first place to have its organization checked.

I have discussed with Mr. Gaston the question of an assistant in his office. He feels very strongly that Mr. Rose is fulfilling his every need, but after discussing the possibilities of the heavy load ahead, I think he would not look with disfavor on having another man around. Since in the event of war Coast Guard would go to the Navy leaving Customs as Mr. Gaston's principal assignment, I have suggested that perhaps the detail of one of the Treasury Customs Attaches might be the solution. Mr. Gaston is considering that but he also has in mind another man that he would like to think about. We will get together on the matter until it is settled.

For my immediate office, I am having checks made on several prospects, one a girl, so that Charlie Bell and I may have some direct relief shortly.

In this respect I might point out that with the appointment of the four experts proposed for organizational work, considerable relief will be felt in my immediate office.

*J. M.*

October 6, 1941

Norman Thompson

Secretary Morgenthau

I have told Ferdinand Kuhn that after he has written a speech or done anything else for me that has to be gotten out by Chick Schwarz or his office that Kuhn should go to Norman Thompson, tell him what it is he wants done for me, and let Norman Thompson see that it is done. This does not mean that I want Norman Thompson or his own office to do it, but I want Norman Thompson to see that Chick Schwarz's office does it, which means that it is up to Norman Thompson to see that Chick Schwarz's office operates efficiently. I question that it has been doing this in the past.

Please, Norman Thompson, take a look at Chick Schwarz's office. Until further notice, I would like you to personally feel that you are responsible for the efficiency of Chick Schwarz's office. Thank you.

October 23, 1941

Dear Ed:

Thank you for your prompt compliance with my request for a copy of the scoreboard". I appreciated your sending this to me very much.

Yours sincerely,

(Signed) Harry

Mr. E. R. Stettinius, Jr.,  
Lend-Lease Administrator,  
Office for Emergency Management,  
Washington, D. C.

*Handwritten note:*  
This copy was  
sent to  
Mr. Boardman  
for his  
info.

*nm c*

*Confidential*

OFFICE FOR EMERGENCY MANAGEMENT  
DIVISION OF DEFENSE AID REPORTS  
WASHINGTON, D. C.

*312*

*Barrow*

October 22, 1941


*Dear Henry*

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

Dear Henry,

As promised in my conversation  
yesterday afternoon, I send you,  
herewith, copy of the "scoreboard"  
I showed you in your office.

Sincerely yours,

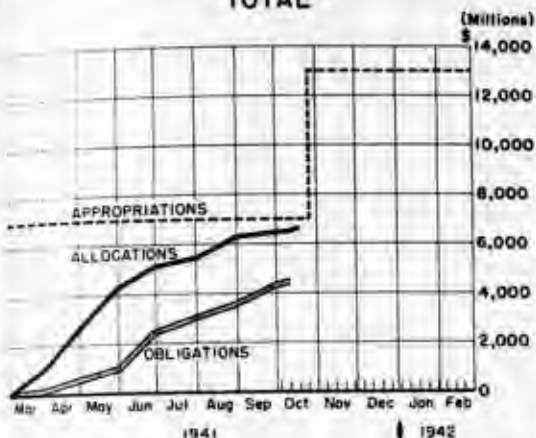
  
E. R. Stettinius, Jr.  
Lend-Lease Administrator

# ALLOCATIONS AND OBLIGATIONS

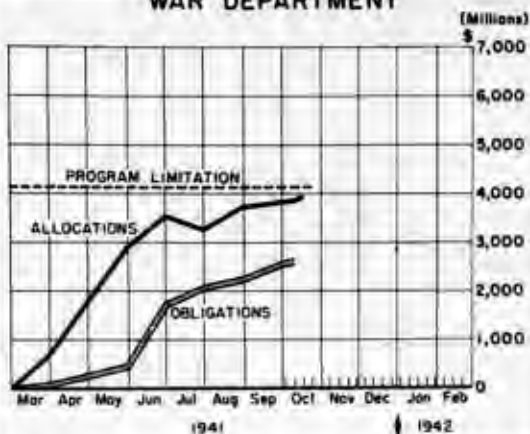
SECRET

318

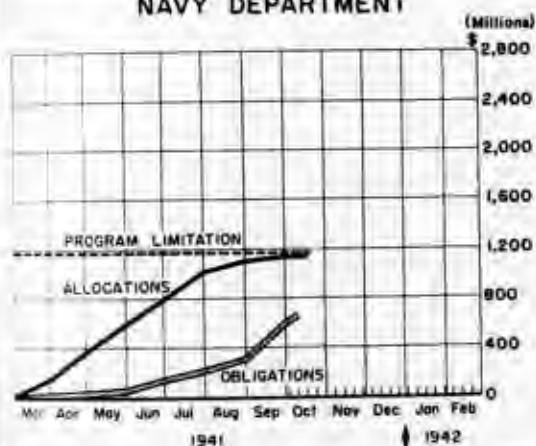
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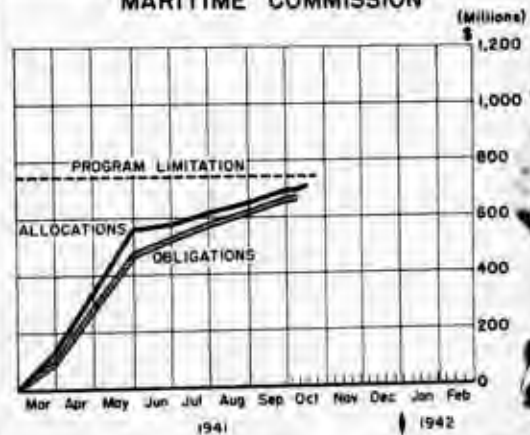
## WAR DEPARTMENT



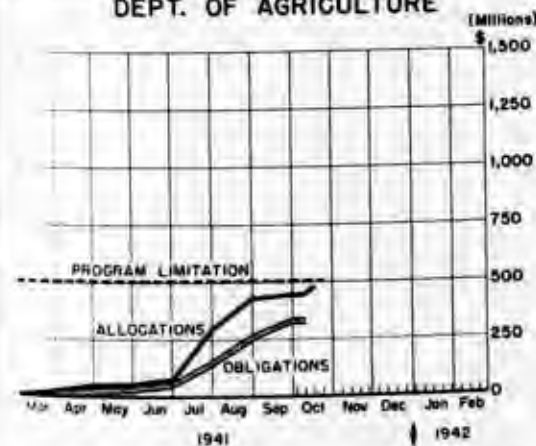
## NAVY DEPARTMENT



## MARITIME COMMISSION



## DEPT. OF AGRICULTURE



## TREASURY DEPARTMENT





C  
O  
P  
Y

FEDERAL RESERVE BANK  
OF NEW YORK

October 23, 1941

CONFIDENTIAL

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

I am enclosing our compilation for the week ended October 15, 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:imc:10/24/41



- (a) Includes payments for account of British Purchasing Commission, British Air Ministry, British Supply Board, Ministry of Supply, Timber Control, and Ministry of Shipping.
- (b) Estimated figures based on transfers from the New York Agency of the Bank of Montreal, which apparently represent the proceeds of official British sales of American securities, including those effected through direct negotiation. 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.
- (c) 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.
- (d) Includes payments for account of French Air Commission and French Purchasing Commission.
- (e) Adjusted to eliminate the effect of \$20 million paid out on June 26, 1940 and returned the following day.
- (f) Includes \$8.0 million received from accounts of British authorized banks and \$3.0 million from Commonwealth Bank of Australia.



## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE October 23, 1941

TO Mr. Thompson

FROM Mr. Haas

In further response to your request of December 26, 1939, there is submitted herewith for the Division of Research and Statistics a memorandum listing, with brief descriptions, the studies or projects completed or under way, and the names of persons working on each, for the month of August 1941.

DIVISION OF RESEARCH AND STATISTICS

324

Report of Studies or Projects Completed or Under  
Way, and the Names of Persons Working on Each,  
for the month of August 1941

For convenience of reference, the studies listed are grouped under general subject heads.

The names shown for persons working on each project include only those who participated fairly directly, as explained in the introductory note to the corresponding report submitted on December 26, 1939. No attempt has been made to cover also persons whose responsibility in each particular case was mainly in planning, supervising, or consulting.

Financial Analysis

I. Projects or studies completed

1. A review of current developments in the high-grade securities markets was prepared, and a memorandum was transmitted to the Secretary on August 5. - Mr. Haas, Mr. Murphy, Mr. Foy, Mr. Barnett

This review contained, in addition to analysis of the current situation, the following special study, on page 4:

Comparison of the yields of short- and long-term Government securities during the past 22 years. - Mr. Barnett

2. A maturity calendar for each issue of direct and guaranteed bonds and notes of the United States was prepared, showing by year, month, and day, with calendar year totals, the amounts outstanding, classified by fixed maturity issues and by callable issues, according to the maturity, first, and final callable dates. The calendar was prepared as of August 2. - Miss Lagos
3. Yield rates on United States securities, direct and guaranteed, on the basis of over-the-counter closing quotations were calculated daily. These were summarized each day in a table showing for each issue the closing price and yield that day, the changes in price and yield from the preceding day, and the price range since the

date on which first traded and also for the year 1941 to date. A chart for each issue was kept up to date showing recent daily price and yield figures, together with comparative monthly data since 1934, since the date of issue, or since the date first traded. Similar calculations are made daily on the basis of New York Stock Exchange closing quotations on direct and guaranteed bonds of the United States, for use in preparation of the publication "Market Prices and Yields of Outstanding Bonds, Notes, and Bills of the United States", described under Publications in this report. - Mr. Moody, Miss McCoy, Mr. Kroll

4. At the request of the Secretary, arrangements have been made to secure periodically from the British Empire purchasing missions certain information regarding purchases in the United States by the British Empire. Various reports and tables are prepared from this information, and all are transmitted according to instructions by the Secretary. - Mr. Haas, Mr. Lindow, Mr. Wagner, Mr. March, Mr. Mayo, Mr. Marcus

- (a) Weekly statements are received covering the itemized purchases by British Empire Governments through the various missions, the itemized purchases made by these Governments with the knowledge of the missions but not through their facilities, and inquiries made through the missions for future purchases. Similar statements are received showing, by itemized contracts, deliveries made with respect to orders placed by the United Kingdom through the missions. The details with respect to orders and deliveries are classified by some twenty-five commodity groups designed especially for the purpose.

These data are reviewed and edited in the Division each week and a report is then prepared summarizing in dollar volume the information on orders and deliveries, by commodity groups. This report consists of eight statements: the first three summarize orders placed by the individual governments of the British Empire for the current week and the totals to date; the next three statements summarize total orders of the British Empire on an historical basis; the last two statements present data on

deliveries with respect to orders placed by the United Kingdom through the British missions. These weekly commodity statements were prepared, and were transmitted on August 2, 8, 15, 22, and 29.

- (b) The Division also receives each week the data required to prepare statements giving the details concerning the physical volume of airplane and airplane engine orders in the United States by the British Empire. The material for these statements is contained in a group of work sheets prepared by the British Purchasing Commission, but it is necessary for the Division to consolidate and coordinate the information contained in the Commission's statements. The finished tables show, by company and by type of plane or engine, the following information: (1) summary of orders, deliveries, and exports; (2) history of orders; (3) history of deliveries; (4) history of exports; (5) scheduled deliveries of unfilled orders; (6) options: scheduled deliveries; (7) spare parts: orders, deliveries, unfilled orders, and options; and (8) secondhand units: orders, deliveries, and scheduled deliveries of unfilled orders. These aircraft reports were prepared, and were transmitted on August 2, 8, 15, 22, and 29.
- (c) A series of six tables has been developed to show each week the disposition of airframes and airplane engines inspected in the United States by the British purchasing missions, and the status of airframes and airplane engines on hand in the United States. Separate tables for airframes and airplane engines show, by company and by model: (1) the disposition of units inspected; (2) the status of these units; and (3) the physical location of the units awaiting export. These tables were prepared, and were transmitted on August 4, 11, 18, and 25.
- (d) Reports are prepared each week showing commitments by the British Empire Governments for capital expenditures in the United States and for extraordinary charges designed to expedite deliveries. The data for these statements are



provided by the British Purchasing Commission but the tables actually are prepared in the Division. Tables showing capital commitments were prepared, and were transmitted on August 2, 22, and 29.

- (e) A group of seven analytical tables on British Empire orders of iron and steel is prepared monthly. Four of these cover commercial iron and steel, excluding ferro-alloys and drop forgings, and are classified by product. One table covers ferro-alloys and silicon metals, and also is classified by product. The last two tables cover drop forgings and are classified by manufacturer. Statements showing British Empire orders of iron and steel as of June 30, were prepared, and were transmitted on August 15.
- (f) Arrangements have been made to receive information on a physical volume basis for the orders, deliveries, and dates of scheduled deliveries on unfilled orders, with respect to several other important commodities. For each of these commodities the following tables are being prepared: (1) current delivery status of orders; (2) history of orders; (3) history of deliveries; and (4) scheduled deliveries of unfilled orders. The data in these tables are broken down by particular products, particular models in each case, and particular manufacturers.

Statements covering various commodity groups were prepared, and were transmitted as follows:

Explosives and propellants, on August 4  
Ships, small boats, and marine engines, on August 4  
Small arms ammunition, on August 8  
Airplane propellers, on August 8 and 15  
Chemicals, on August 11 and 29  
Motor vehicles, on August 15  
Nonferrous metals, on August 18  
Sub-machine guns, revolvers, and rifles, on August 25  
Small arms (fully automatic), on August 29  
Tanks and tank equipment, on August 29

In addition tables are being prepared on the following commodity groups:

Ordnance  
Shells and bombs

- (g) Certain financial information concerning the orders placed in the United States by the British Empire is presented in a monthly report. This report consists of three tables, showing by commodity groups a summary of the status of payments on dollar orders placed; the history of payments made; and a forecast of future payments on unpaid commitments. The report was prepared, and was transmitted on August 22.
- (h) Arrangements have been made with the Citadel Merchandising Company, Ltd., a Canadian Government corporation, to receive regular reports showing orders placed for machine tools in the United States, and deliveries on these orders. From this information the Division prepares a report consisting of three tables showing the current status of orders; the history of orders; and the history of deliveries. This report was prepared, and was transmitted on August 15.
5. At the request of the Secretary, arrangements have been made to secure periodically certain information regarding purchases in the United States by the Netherlands Purchasing Commission, and by Lindeteves, Inc. -  
Mr. Haas, Mr. Lindow, Mr. Wagner, Mr. March, Mr. Mayo, Mr. Marcus

Statements are received covering the itemized purchases by the Netherlands Purchasing Commission in the United States, and the volume of deliveries made thereon. Similar statements are received concerning the activities of Lindeteves, Inc., a large private commercial organization operating in the Dutch East Indies. The details with respect to orders and deliveries for these purchasing agencies are classified by the same twenty-five commodity groups used for reporting orders placed in the United States by the British Empire.

These data are reviewed and edited in the Division. Reports are then prepared for each of these agencies summarizing the information on orders and deliveries, classified by commodity groups. These reports consist of three statements: the first shows the history of orders placed; the second shows the history of deliveries made on these orders; and the third shows the current delivery status of orders. These commodity statements covering orders of the Netherlands Purchasing Commission were prepared, and were transmitted on August 2, 8, 22, and 29. Similar statements for Lindeteves, Inc., were prepared, and were transmitted on August 2, 8, and 22. Both groups were transmitted according to instructions by the Secretary.

6. In response to a request by the Secretary on January 21, that measures be taken to obtain information to assist in carrying through the defense financing program, arrangements have been made to obtain the necessary detailed statistics on the holdings of each issue of the public debt and of guaranteed securities by the various classes of holders. - Mr. Haas, Mr. Tickton, Mrs. Wolkind, Mr. D. J. Leahy, Mr. Blitman, Mrs. Barnes, Mr. Alter, Mr. Robbins

A summary was prepared of the data received as of June 30, consisting of brief explanatory text and six tables for publication in the Bulletin of the Treasury Department for August.

The information as of July 31 received in response to our letter of July 29, from 7,000 banks and insurance companies was coded, tabulated, and analyzed. A comprehensive analysis was prepared, consisting of 100 tables, showing this information, classified by type of institution, by issue, by geographic area, by call classes, and by tax-exemption provisions.

New letters were sent out to the banks and insurance companies on August 29, requesting comparable data as of August 31.

7. At the request of the Secretary, arrangements have been made to prepare current statistical reports on the sales of United States Defense savings bonds, series E, F, and G, and Defense Postal savings stamps, on the basis of reports by the Treasurer of the United States, the Federal Reserve Banks, and the Post Office Department. The reports prepared during August were transmitted according to instructions by Mr. Graves. - Mr. Haas, Mr. Reagh, Mr. Brown, Mr. Tickton, Mr. Kroll, Mr. D. J. Leahy

- (a) A table was prepared on August 1, comparing sales in dollar volume, on the basis of the issue price, in July and in June, of savings bonds, series E, F, and G. The table showed the monthly and daily average sales by Post Offices and by banks, with totals, together with the absolute and percentage changes in July, for the month and for the daily average.
- (b) Daily tables were prepared, showing the dollar volume, on the basis of the issue price, of sales of savings bonds, series E, F, and G, by Post Offices and by banks, with totals. The table prepared on August 1 presented these data for each day of July, with totals for the month. The next table, prepared on August 2, showed these data for August 1, with totals. Succeeding tables showed the data for each additional day of August, with cumulative totals. The table prepared on August 30 covered the period from August 1 through August 29.
- (c) Three tables were prepared, showing the amount and percent of change in the dollar volume, on the basis of the issue price, of sales in August compared with the sales in July, of each of the three series of bonds, by Post Offices and by banks, with totals. The table of August 2 compared the sales for the first day of July and of August. The table of August 4 compared the sales for the first two days of each month. The table of August 5 compared the sales for the first three days of each month.

- (d) Daily tables were prepared, beginning on August 6, containing a comparative statement of sales in August, in July, and in June, for each of the three series of bonds. The dollar volume of sales was shown on the basis of the issue price, together with the absolute and percentage changes in August from July, and in July from June. The first table showed the data for the first four business days of each month, with totals. Succeeding tables showed the data for each additional business day, with cumulative totals. The table prepared on August 30 covered the first 25 business days of the month, representing the periods of June 1-30, July 1-30, and August 1-29.
- (e) A table was prepared on August 7, showing sales of savings bonds, series E, F, and G, in dollar volume, on the basis of the issue price, in the months of May, June, and July, with totals.
- (f) A table was prepared on August 1, showing sales of savings bonds, series E, F, and G, by Post Offices and by banks, in dollar volume, on the basis of the issue price, in the months of May, June, and July, with totals.
- (g) A table was prepared on August 7, showing the estimated number of units of Defense savings stamps, classified by denominations, sold in May, in June, and in July, with totals.
- (h) A table was prepared on August 20, showing the estimated number of units of savings bonds, series E, F, and G, sold by Post Offices and by banks, in May, in June, and in July, with totals.
- (i) A table was prepared on August 21, showing the estimated number of units sold of savings bonds, series E, classified by denominations, by Post Offices, and by banks, in May, in June, and in July, with totals.
- (j) Two tables were prepared on August 20, one for savings bonds, series F, the other for series G, showing the estimated number of units sold, classified by denominations, in May, in June, and in July, with totals.

- (k) A table was prepared on August 8, reporting sales of savings bonds, series E, F, and G, in May, in June, and in July, with totals, by Post Offices and by banks, by the number of bond units; the dollar volume, on the basis of the issue price; and the number of purchasers, excluding second co-owners.
- (l) Four tables were prepared, showing sales of savings bonds, series E, by Post Offices, and by banks, in dollar volume, on the basis of the issue price, classified by States. Three tables showed these data for the months of May, June, and July, respectively. The fourth table showed the totals for the three-month period. This table was prepared on August 21. The tables for May, and for June were prepared on August 22, and the table for July on August 18.
- (m) A report consisting of 150 pages, was completed on August 30, showing sales of savings bonds, series E, for the month of July, in dollar volume, on the basis of the issue price, by Federal Reserve districts, by States, by cities, and by counties, all classified by sales agents and denominations.
- (n) A table was prepared on August 1, comparing sales in dollar volume, on the basis of the issue price, of Defense savings bonds, series E, in May, in June, and in July 1941, and sales of savings bonds, series D, in the corresponding months of 1940. The absolute and percentage changes were shown.
- (o) Lists of qualified sales agents for savings bonds, series E, by Federal Reserve districts, were prepared, and were sent to the Federal Reserve Banks on August 15 for revision.
- (p) In cooperation with Mr. Kilby, a machine procedure was devised and accepted by the Federal Reserve Bank of New York as a substitute for the system previously used for reporting sales of savings bonds, series E.

8. At the request of Under Secretary Bell and Assistant Secretary Sullivan on August 7, a memorandum was prepared on the additional cost of borrowing by means of the issuance of taxable securities. Copies were transmitted to the Under Secretary and to the Assistant Secretary on that date. - Mr. Murphy, Mr. Conrad
9. A revision was completed on August 29, of the Treasury publication "Market Prices and Yields of Outstanding Bonds, Notes, and Bills of the United States". The revision included an expansion to include securities guaranteed by the United States and securities of Federal agencies not guaranteed by the United States; substitution of prices and yields on an over-the-counter basis for the Stock Exchange basis; certain changes in yield computations; and some changes in form. - Mr. Murphy, Mr. Reagh Mr. Lindow, Mr. Tickton, Mr. Lynch, Mr. Barnett, Mr. Rosen
10. At the request of Under Secretary Bell on July 28, a draft was completed of a speech on the financing of the Defense program broadcast by him on August 11 in the Washington Star Radio Forum. - Mr. Murphy, Mr. Villard
11. At the request of Mr. Sloan on August 19, a review was made of a number of Defense bond quizzes prepared by the Defense Savings Staff, and a memorandum suggesting certain revisions was transmitted to Mr. Sloan on August 21. - Mr. Murphy, Mr. Villard
12. At the request of Under Secretary Bell on August 11, a memorandum was prepared, and was transmitted to him on August 13, on the regulation of consumer credit. - Mr. Haas, Mr. Murphy, Mr. Sandelin
13. At the request of the Secretary, cooperation was given the Division of Monetary Research and the Division of Tax Research in the preparation of a report for the Secretary on "Dismissal Compensation". - Mr. Murphy, Mr. Breithut
14. At the request of the Secretary on August 4, a study was made of the price movements of selected "war" and "peace" stocks, in relation to important news events,

weekly from August 1939 to date, and daily from May 1941 to date. Indexes were constructed, and a chart was prepared which was transmitted to the Secretary on August 4. - Mr. Daggit, Mr. Colclough, Mr. Smith, Miss Hagedorn

15. A study was completed of the "United Kingdom: Treasury Deposit System". - Mr. Matlock
16. A study was completed of the Canadian excise taxes on automobiles. - Mr. Matlock
17. An analysis of a study of savings bond mortality by Miss Hilda Hoffman, Bowery Savings Bank, transmitted by Mr. Theodore R. Goldsmith on March 13, has been abandoned. - Mr. Murphy
18. In response to an invitation in a letter of July 25, from Mr. C. C. Fichtner, Chief, Division of Regional Economy, the Division was represented at a training conference for the regional business consultants of the United States Department of Commerce, on August 1. An outline of the work of the Division having to do with financing operations was presented and a description was given of Treasury publications providing certain basic information regarding Treasury operations. - Mr. Murphy, Mr. Lindow

## II. Projects or studies under way

1. A study is being made of the relative interest costs of short- and long-term borrowing. - Mr. Foy, Mr. Barnett, Mr. Rosen
2. A study is being made of the available sources of funds for Treasury financing. - Mr. Villard
3. A memorandum is being prepared on a negotiable "tap" security. - Mr. Sandelin, Mr. Murphy
4. A study is being made of the probable excess reserves in 1941-42. - Mr. Barnett
5. Tables are being prepared which will present various data on new Treasury notes and bonds and on guaranteed new issues. - Mr. Conrad, Mr. Rosen



6. A memorandum is being prepared on the advantages and disadvantages of increasing the short-term debt. - Mr. Foy
7. A revision is being made as of June 30, 1941, of the estimates of the ultimate increase in interest costs which would result from removal of the tax-exemption privilege from all public securities. - Mr. Conrad
8. A memorandum is being prepared recommending legislation terminating miscellaneous types of tax exemption analogous to the exemption of interest on Federal securities, but unaffected by the Public Debt Act of 1941. - Mr. Foy
9. A study is being made of war-financing measures in belligerent countries in the present war. - Mr. Matlock
10. A comparison is being made of the British Fiscal Program 1941-42 with the Keynes plan proposed in "How to Pay for the War", by Mr. J. M. Keynes. - Mr. Matlock
11. At the request of Under Secretary Bell on October 14, a memorandum is being prepared on a memorandum submitted by Mr. John Evans, President of the First National Bank of Denver, Colorado, in reference to United States Government bonds now owned by the Federal Reserve System and its member banks, and suggestions concerning a refunding and change in form which would appear to be in interest of the Treasury Department, the Federal Reserve System, the member banks, the Federal Deposit Insurance Corporation, and the public generally whose money is deposited in member banks. - Mr. Murphy
12. In response to a request by Under Secretary Bell on January 27, comments are being prepared on a memorandum by Mr. George Eddy to Mr. White, in regard to a plan of Mr. W. E. Peterson, entitled, "A Means of Financing the Defense Program". - Mr. Murphy
13. At the request of Under Secretary Bell on February 5, an analysis is being made of his plan for investing savings banks' and insurance companies' funds in special 2 percent Treasury certificates. - Mr. Tickton

14. At the request of Under Secretary Bell on February 11, a memorandum is being prepared to the Secretary regarding a letter from Mrs. Sylvia F. Porter, New York Post, dated January 22, suggesting a plan for the distribution of United States Government securities. - Mr. Haas, Mr. Murphy
15. At the request of Under Secretary Bell on April 21, a memorandum is being prepared on Mr. Salant's memorandum on "Limitation on Purchases of Defense Savings Bonds". - Mr. Murphy
16. At the request of Assistant Secretary Gaston on August 29, a memorandum for the Secretary is being prepared on "Excess Reserves, Credit Controls, and Treasury Financing". - Mr. Haas, Mr. Murphy, Mr. Foy, Mr. Barnett
17. In connection with the sale of Defense savings bonds, reviews are being made of various announcements and interviews for use in radio programs, and manuscripts being prepared by the Defense Savings Staff - Mr. Villard
18. At the request of the office of the General Counsel on August 14, a reply is being prepared to a letter from the Senate Committee on Banking and Currency, requesting the opinion of the Secretary on S. 1797, the Farm Credit Act of 1941. - Mr. Foy
19. At the request of Under Secretary Bell replies are being prepared to certain questions asked by the Wagner Committee preparatory to its investigation of banking and monetary conditions pursuant to Senate Resolution 125. - Mr. Haas, Mr. Murphy, Mr. Foy
20. At the request of Under Secretary Bell on May 24, co-operation is being given Mr. Bartelt and Mr. Blough in preparing replies to the list of questions accompanying a letter from Senator Tydings of May 5. The replies are for use by the Senate Committee created to find ways and means of automatically balancing the Federal Budget in times of peace. - Mr. Murphy, Mr. Foy

Revenue Estimates

I. Projects or studies completed

1. The regular monthly statement was prepared, showing the latest revised estimates of receipts, by months and by principal sources of revenue, for the period August 1941-June 1942, and actual receipts for the fiscal year 1941. The statement was transmitted to the Bureau of Accounts on August 3. - Mr. Delcher
2. The regular monthly summary comparison was prepared showing estimated receipts and actual receipts in July 1941 on the daily Treasury statement basis. - Mr. Delcher
3. The regular monthly detailed comparison was prepared showing estimated and actual receipts in July 1941, and for the fiscal year 1941, based on the collections classification. - Mr. Delcher
4. Revised estimates of the population of the Continental United States were prepared as of the end of each month from June 30, 1940 through June 30, 1942, to take account of additional data released on August 2 by the Bureau of the Census. The estimates were transmitted in memoranda to Miss Barr, and to Mr. Weber on August 22. A tabular presentation of the population estimate as of June 30, 1941, by States, was transmitted under cover of a memorandum to Mr. Mulroney on August 22. - Mr. Butters
5. At the request of the Secretary on August 5, revenue figures for 1920, 1921, and 1922 were obtained and were telephoned to Dr. Lubin on that date. - Miss Richener
6. In connection with the hearings on H.R. 5417, the Revenue Bill of 1941, a number of revenue estimates, listed below, were prepared for use of Assistant Secretary Sullivan and the Division of Tax Research. - Mr. O'Donnell, Mr. Leahy, Mr. Bronfenbrenner, Mr. Butters, Mr. T. L. Smith

- (a) A table was prepared, and was transmitted to Assistant Secretary Sullivan on August 1, showing the estimated revenue increase, at income levels forecast for the calendar year 1941, of income tax revisions incorporating the Treasury excess-profits tax plan and the increase under H.R. 5417; and a comparison of the estimated yield from the Treasury plan with that from H.R. 5417 as introduced by Representative Doughton on July 24.
- (b) Estimates were prepared, and were transmitted to Assistant Secretary Sullivan in a memorandum on August 5, of the number of individual income tax returns and of the number of taxable individual income tax returns which will be filed on calendar year 1941 incomes. Of the estimated increase in net incomes over those filed for the preceding year there were shown the respective portions attributable to the increase in incomes and to the provisions of H.R. 5417.
- (c) An estimate was prepared, and was transmitted to Assistant Secretary Sullivan in a memorandum on August 6, of the additional number of individual income tax returns which would be made taxable by reducing the exemptions for married persons and single heads of families to \$1,500 and the exemption for single persons to \$750.
- (d) Revised estimates were prepared, to take account of the elimination of the provision for mandatory joint returns, in accordance with the Revenue Bill of 1941, as passed by the House of Representatives on August 4, of the number of individual income tax returns and of the number of taxable individual income tax returns which will be filed on calendar year 1941 incomes. Of the estimated increase in returns over those filed for the preceding year there were shown the respective portions attributable to increased incomes and to the provisions of H.R. 5417. The estimates were transmitted to Assistant Secretary Sullivan and to Mr. Blough in memoranda on August 6 and August 7, respectively.

- (e) An estimate was prepared, and was transmitted to Assistant Secretary Sullivan in a memorandum on August 2, of the gross individual income tax liabilities, at income levels forecast for the calendar year 1941, if the exemptions for married persons and single heads of families were reduced to \$1,500 and the exemption for single persons to \$750. Accompanying this estimate was an estimate of the net yield from the individual income tax levied under H.R. 5417 modified by this substitution.
- (f) Five excess-profits tax schedules with revenue estimates were transmitted in a table under cover of a memorandum to Assistant Secretary Sullivan on August 2. The estimates were prepared on the basis of income levels forecast for the calendar year 1941, on the adjusted excess-profits net income tax brackets as contained in H.R. 5417, which would raise an amount of revenue equivalent to that raised by the provision for mandatory joint returns.
- (g) Estimates were prepared, and were transmitted to Assistant Secretary Sullivan on August 4, of the total increase in yield in the calendar year 1941 from the provision for mandatory joint returns. Of this increase there were estimated the gross and net amounts which would be received from the States of Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, and Washington combined.
- (h) An estimate was prepared of the percentage increase in the corporation surtax rate in H.R. 5417 necessary to offset, at income levels forecast for the calendar year 1941, the net loss in revenue from corporations which would be caused by repealing the capital stock tax and the declared value excess-profits tax. An estimate of the effect of an alternative percentage increase in the corporation surtax rate also was prepared. These estimates were transmitted to Assistant Secretary Sullivan in a memorandum on August 5.

- (i) A tabular presentation was made of the percentage distribution, by broad categories of revenue, of receipts forecast in the latest revised Budget estimates for the fiscal year 1942, and similar estimates from the increases in taxes from the provisions of H.R. 5417 as it passed the House of Representatives on August 4. The table was transmitted to Assistant Secretary Sullivan under cover of a memorandum on August 5.
- (j) A table was prepared showing the preliminary estimated increase or decrease in revenue from tax changes as incorporated in H.R. 5417 as it passed the House of Representatives on August 4. The table showed a detailed classification under income, capital stock, estate, and gift taxes, excise taxes, and miscellaneous taxes, with totals. The table was transmitted to Assistant Secretary Sullivan on August 5.
- (k) An estimate was made of the revenue effect of extending to married taxpayers throughout the United States the privilege of filing community property returns on their 1941 income tax liabilities under H.R. 5417. The estimate was transmitted to Mr. Blough in a memorandum on August 7.
- (l) An estimate was made of the proportion of the collections from the capital stock tax under the rates contained in H.R. 5417 which would be collected in the fiscal year 1942 from corporations with net deficit. The estimate was transmitted to Assistant Secretary Sullivan in a memorandum on August 7.
- (m) Highly tentative estimates were prepared of the effect on revenue yield as compared with the revenue estimated from H.R. 5417 from the elimination of percentage depletion and of the tax-exemption privilege on interest from future issues of State and local governmental securities. The estimates were transmitted to Assistant Secretary Sullivan in a memorandum on August 7.

- (n) For the use of the Secretary in connection with his statement before the Senate Finance Committee on August 5, a table was prepared and was transmitted to Assistant Secretary Sullivan on that date. The table contained estimates of the increase in revenue yield at forecast income levels used in estimates of revenue effects of H.R. 5417, from the following Treasury proposals:
1. Under the Treasury excess-profits tax plan, modified by reversing the precedence of deduction of the income and excess-profits taxes, to decrease the effective rate of the excess-profits tax to the adjusted excess-profits net income, in order to secure the same increase in the yield from the excess-profits tax as raised by H.R. 5417.
  2. Reduction of the present exemptions of \$2,000 and \$300 to \$1,500 and \$750, respectively.
  3. Requiring of mandatory joint returns and allowing preferential treatment of earned income.
  4. Abolishment of the method of computing depletion based on statutory percentages of gross income.
  5. Making subject to all Federal income taxes the interest on all future issues of State and local securities.
  6. Reduction of the specific exemption under both the estate and gift taxes from \$40,000 to \$25,000 and the insurance exclusion under the estate tax from \$40,000 to \$25,000  
(a) under the Treasury rate schedules and  
(b) under the schedules in H.R. 5417.

- (o) Three tables were prepared, and were transmitted to Assistant Secretary Sullivan on August 11, for inclusion in the record of the hearings before the Senate Finance Committee on H.R. 5417, on August 8, as follows:
1. Yield under Treasury excess-profits plan, with proposed brackets and rates compared with yield from H.R. 5417.
  2. Detailed estimates of fiscal year 1942 receipts from miscellaneous internal revenue under the present law and estimated full year effect of H.R. 5417 at levels of income forecast for the fiscal year 1942.
  3. Estimated increase or decrease in revenue yield due to H.R. 5417, as described in item (j) above.
- (p) A memorandum was prepared, and was transmitted to Assistant Secretary Sullivan on August 13, for use in connection with an inquiry by Senator George. Estimates were given of the income tax liabilities for the calendar year 1941 under the present law and under H.R. 5417, and an explanation was made of the difficulties involved in estimating tax liabilities at this time for the calendar year 1942.
- (q) An estimate was made, and was transmitted to Assistant Secretary Sullivan in a memorandum on August 15, of the revenue effect, at income levels forecast for the fiscal year 1942, of exempting men in military uniform from the tax on admissions to theatres, as compared with the yield from the admissions tax under H.R. 5417.
- (r) An estimate was made, and was transmitted to Assistant Secretary Sullivan in a memorandum on August 21, of the revenue effect, if under the proposed floor stocks tax on distilled spirits an exemption of 100 gallons were allowed.
- (s) Estimates were prepared, and were transmitted to Mr. Blough in a memorandum with table, on August 25, of the gross and net revenue increase in individual income tax liabilities for the calendar year 1941 from the following proposals:



1. Substitution of a specified individual income tax surtax rate schedule, with the modified earned income credit described below, for the surtax rate schedule and the defense tax of the individual income tax in H.R. 5417.

The earned income credit is modified in the following respects: (1) the upper limit of \$14,000 in the present law is reduced to \$10,000, and (2) the credit is allowed as a credit against tax at the rate of 1 percent of earned net income but not in excess of 1 percent of net income. No change is made in the definition of earned income, the first \$3,000 of net income being treated as earned whether earned or not.

2. Same as 1, except that the present limit of \$14,000 with respect to the earned income is retained.
  3. Same as 1 and 2 above, but with the assumption that joint returns (with the Treasury relief for earned income) were required, both under the rates in H.R. 5417 and the suggested substitutes.
  4. Same as 1 and 2 above, with personal exemptions reduced to \$750 for a single person and \$1,500 for married couples under both H.R. 5417 and the suggested substitutes.
- (t) Estimates were prepared, and were transmitted to Mr. Blough in a memorandum on August 26, of the revenue effect of limiting the earned income credit as outlined in (s) above, to 50 percent of the total tax.
- (u) Three schedules were prepared, and were distributed to the Senate Finance Committee on August 25, showing proposed estate, gift, and individual income taxes, designed to yield the same revenue as the schedules contained in H.R. 5417 plus the defense tax.

- (v) An estimate was prepared of the gross and net revenue, with personal exemptions of \$1,500 and \$750, if a proposed surtax schedule were substituted for that adopted by the Senate Finance Committee. The estimate was transmitted to Mr. Blough in a memorandum on August 29.
- (w) A table was prepared, and was transmitted on August 29, for insertion in the record of the Senate Finance Committee, showing estimated calendar year 1941 income tax liabilities under the present law and estimated increased income tax liabilities under a full year's effect of the income tax provisions of H.R. 5417, at levels of income forecast for the calendar year 1941.
- (x) A mimeographed table was prepared, and was transmitted to Assistant Secretary Sullivan on August 29, showing excess-profits tax schedules, with tax brackets based on percentages of excess-profits credit designed to yield the same revenue as the excess-profits tax provisions of H.R. 5417.
- (y) A mimeographed table was prepared, and was transmitted to Assistant Secretary Sullivan on August 29, showing the estimated increase in income taxes over the present law, at levels of income forecast for the calendar year 1941 from (1) the increase under H.R. 5417 and (2) income tax revisions incorporating the Treasury excess-profits plan.
- (z) A mimeographed table was prepared, and was transmitted on August 29, for use by the Senate Finance Committee, showing the estimated revenue effect of H.R. 5417 as passed by the House of Representatives on August 4, 1941, and as tentatively agreed to by the Senate Finance Committee on August 29, 1941.
- (a') Preliminary and tentative estimates were prepared, and were transmitted to Mr. Blough in a memorandum on August 30, assuming that the coverage for dismissal compensation corresponds to (1) the coverage under the employment taxes imposed by Sections 1400 and 1410 of the Internal Revenue Code, plus (2) the coverage under the employment taxes imposed under Sections 1500, 1510, and 1520 of the Internal Revenue Code, plus (3) all Federal employees, not including those in the armed services.

(b<sup>1</sup>) Estimates were prepared, and were transmitted to Mr. Blough in a memorandum with table, on August 27, of the revenue effect of Senator Lonergan's proposed estate tax amendment with respect to insurance debentures (S. 4791, 74th Congress, 2d Session, June 15, 1936). Most probable and maximum estimates, at income levels forecast for the fiscal year 1942, were shown for the first full year of operation and the eventual annual effect under the present law and under the revised basis proposed by the Treasury during the hearings by the Committee on Ways and Means on the Revenue Bill of 1941.

(c<sup>1</sup>) Estimates were prepared, and were transmitted to Mr. Blough in a memorandum with table, on August 27, of the revenue effect of Representative Dewey's proposal to allow as a deduction from the gross estate, estate tax prepayments made in the form of Federal estate tax anticipation notes. Most probable and maximum estimates, at income levels forecast for the fiscal year 1942, were shown for the first full year of operation and the eventual annual effect under the present law and under the revised basis proposed by the Treasury during the hearings by the Committee on Ways and Means on the Revenue Bill of 1941.

7. At the request of Assistant Secretary Sullivan, a reply was prepared for his signature to a letter from Mr. P. W. Awalt, dated August 6, in connection with the estimate of revenue from the tax on soft drinks in H.R. 5417 as it passed the House of Representatives. The letter was mailed on August 14. - Mr. O'Donnell.

8. At the request of Assistant Secretary Sullivan on August 28, a letter was prepared for his signature to Senator La Follette, giving the details of the estimated receipts of income taxes for the fiscal year 1942, which were released in summary form by the Bureau of the Budget on June 1, 1942. The letter was mailed on August 28. - Mr. Leahy

II. Projects or studies under way

1. At the request of the Division of Tax Research on July 12, 1940, an estimate is being made of the additional revenue which would be derived if mutual insurance companies other than life insurance companies taxable under Section 207 of the Internal Revenue Code were made taxable in the same manner as stock insurance companies other than life insurance companies taxable under Section 204, and at the same time the exemption under Section 101(11) were restricted to local mutual companies of the assessment type. - Mr. Leahy
2. A review has been begun of the revenue revisions made so far by the Congress, in order to prepare studies for the next revenue estimate. Changes in rates have been analyzed, testimony given before the House Ways and Means Committee has been studied, and material for certain taxes has been gathered. - Miss Spiegel, Miss Hagedorn, Mr. Colclough
3. Further progress was made on the following projects for revising and improving methods of estimating revenues from the taxes listed below: - Mr. Daggit, Miss Spiegel, Mr. R. R. Smith, Mr. Colclough
  - (a) Admissions to theatres, concerts, cabarets, etc.
  - (b) Passenger automobiles and motorcycles
  - (c) Distilled spirits, domestic and imported combined
  - (d) Fermented malt liquors
  - (e) Electrical energy
  - (f) Cigarettes (small)
4. New studies were begun of the following projects for revising and improving methods of estimating revenues from the taxes listed below: - Mr. Daggit, Miss Spiegel, Mr. R. R. Smith
  - (a) Automobile trucks
  - (b) Tires and inner tubes

- (c) Firearms and shells
- (d) Wines, domestic and imported
- (e) Mechanical refrigerators
- (f) Automobile parts and accessories
- (g) Radio sets
- (h) Cigars (large)
- (i) Lubricating oil

Economic Conditions Related to Fiscal  
and Revenue Matters

1. Projects or studies completed

1. Memoranda on the business and price situation were prepared, and were transmitted to the Secretary on August 5, 11, 18, and 25. - Mr. Haas, Mr. Daggit, Mr. Murphy, Mr. Chevreux, Miss Michener

These memoranda contained in addition to analysis of the current situation the following special studies:

- (a) Industrial production monthly from 1939 to date compared with that from 1914 to 1917. (Chart in memorandum of August 5. Also described below under Economic Conditions, I, as item 12). - Mr. Daggit
  - (b) Construction costs of a standard 6-room frame house in St. Louis monthly from July 1940 to date. (Chart in memorandum of August 11. Also described below under Economic Conditions, I, as item 8). - Mr. Daggit, Miss Hagedorn
2. Monthly or weekly reports are received from 25 individual companies, in response to the Secretary's requests, giving confidential data on new orders and sales. The data in these reports are tabulated and charted currently for the Secretary's information, and are also combined into an index of new orders, which accompanies the weekly memorandum on the business situation. - Miss Washabaugh

3. Memoranda on employment under the Work Projects Administration were prepared on August 4, 11, and 18. - Miss Hagedorn
4. At the request of the Secretary, a table is prepared each week summarizing exports of petroleum products, scrap iron, and scrap steel, from the United States to Japan, the U.S.S.R., Spain, and Great Britain, as indicated by departure permits reported daily by the Office of Merchant Ship Control. The tables were prepared for the weeks ending August 2, 9, 16, and 23. On August 4, 11, 18, and 25 the original and 13 photostats were transmitted to Assistant Secretary Gaston. - Mr. Tickton, Mr. D. J. Leahy
5. Compilations were made of daily quotations on selected commodities, and daily and weekly figures on selected business indexes, foreign and domestic security transactions, security prices, exchange rates, as well as other data for the Secretary's chart book. - Mr. Chevreaux
6. At the request of Mr. Leon Henderson on July 19, copies of eight charts on commodity prices and the cost of living were transmitted to him.

The monthly movements of the NICB cost-of-living index compared with the BLS index of 889 commodities were shown from 1935 to date. On the same chart were shown the weekly movements of the BLS index of 889 commodities compared with the BLS index of 28 basic commodities from August 1939 to date. Both comparisons were on the basis that 1926 = 100. Four charts, as of July 26, August 2, 9, and 16, were transmitted on August 4, 11, 18, and 26, respectively.

The fifth and sixth charts showed weekly and daily movements of the indexes of 11 basic imported commodities and 17 basic domestic commodities from April 1940 to date, on the basis that August 1939 = 100. On the same charts were shown percentages for each of the 28 commodities from the August 1940 low. One chart showed the changes to August 1 and 15, 1941; the other the changes to August 15 and 22, 1941. These charts were transmitted on August 18 and 26, respectively.

The seventh and eight charts showed the movement of 28 basic commodity prices, consisting of 16 industrial raw materials and 12 foodstuffs, on the basis that August 1939=100. For the indexes of 16 industrial raw materials and 12 foodstuffs, weekly average movements were shown from August 1940 to date, daily changes were shown from May 1941 to date. One chart showed the percentage changes for the individual commodities from the August 1940 low to July 18 and to August 1, 1941; and the other from the August 1940 low to August 1 and to August 8, 1941. These charts were transmitted on August 4 and 11, respectively. - Mr. Daggit

7. At the request of the Secretary on August 6, a study was made of wholesale prices and industrial production from 1910 to date. A chart was prepared showing the BLS all-commodity index (1926=100); the Standard Statistics index of industrial production (1926=100), adjusted, 1910 through 1919; and the FRB index of industrial production (1935-39=100), adjusted, 1919 to date. This was transmitted to the Secretary on August 12. - Mr. Daggit, Miss Hagedorn
8. An analysis was made of the construction costs of a standard 6-room frame house in St. Louis. Total costs, and the cost of labor, materials, and such items as contractors' profits and overhead, insurance, and taxes were shown in a chart, monthly from July 1940 to date, on the basis that July 1940=100. - Mr. Daggit, Miss Hagedorn
9. At the request of the Secretary on August 7, a review was made of recent changes in the basis for calculating parity prices of farm products, and was incorporated in a memorandum transmitted to the Secretary on August 8. - Mr. Daggit, Miss Hagedorn
10. At the request of the Secretary on August 11, an analysis was made of the "wheat and cotton freezing" bill, H. R. 5300, and was completed on August 16. - Mr. Daggit
11. At the request of the Secretary on August 2, a detailed analysis of the silk situation was made in cooperation with the Division of Monetary Research, with reference to the effect of the current shortage in the silk textile industry. The availability of silk substitutes and the

problems of adjustment were discussed and suggestions for alleviating the situation were made. A memorandum was transmitted to Mr. White on August 7. - Mr. Haas, Mr. Daggit, Miss Hagedorn

12. A comparison was made of industrial production from 1939 to date as indicated by the FRS index, on the basis that the first 6 months of 1939 = 100, adjusted, compared with production from 1914 to 1917, as shown by the Standard Statistics index, on the basis that the first 6 months of 1914 = 100, adjusted. - Mr. Daggit
13. A letter was received on July 28 from Mr. Leon E. Truesdell, Bureau of the Census, requesting comments on proposed table forms showing data obtainable from proposed labor force tabulations for States and large cities. The forms were reviewed, and a reply indicating that no comments would be made was mailed on August 7, confirming telephone report on August 5. - Mr. O'Donnell, Mr. Villard
14. At the request of the Secretary on August 11, an analysis was made of H.R. 5300, to amend Public Law numbered 74 of the Seventy-Seventh Congress, relating to wheat-marketing quotas under the Agricultural Adjustment Act of 1938. - Mr. Daggit
15. At the request of Under Secretary Bell on August 15, a letter was prepared for signature of the Administrative Assistant to the Secretary, in reply to a letter from the Director of the Bureau of the Budget, dated August 14, requesting a report on H.R. 5300. The proposed reply, recommending that the President veto the bill, was transmitted to the Under Secretary on August 15, together with a suggested draft of a message to the House of Representatives from the President. - Mr. Haas, Mr. Daggit

## II. Projects or studies under way

1. With respect to the "Index of consumer expenditures, in dollar value", progress has been made in developing individual series, in determining their suitability for inclusion and the necessary adjustments. These series have been classified in two broad groups: durable goods and non-durable goods. The purpose of the index is to



cover as large as possible a proportion of the purchases of ultimate consumers. During the month further progress was made in selecting appropriate series with a view to making this index more useful in connection with defense studies. - Mr. Colclough

2. A study of the volume of installment buying and consumer credit has been nearly completed. This study is designed eventually to provide a monthly index of the volume of buying on deferred payments, which at times is an important business factor. Newly-published data from the Department of Commerce and the National Bureau of Economic Research have been assembled. A preliminary study is under way to determine how they may be used in a combined index. Further work is awaiting additional data to be released by the Department of Commerce. - Mr. Daggit
3. A project in process is designed to develop an index of industrial production that will indicate week by week the approximate level of the FRB index. It will include a larger number of weekly series than are included in any current business indices, with weightings and seasonal adjustments approximating those in the FRB index. - Mr. Daggit, Mr. Smith
4. Further progress was made on a study of the selling prices of commodities on which taxes are imposed, in order to determine the percentage which the tax represents of the actual price. - Miss Spiegel, Mr. Colclough, Mr. Smith, Miss Hagedorn
5. A revision is in progress of our method of forecasting the BLS index of factory payrolls on the basis of the January 1941 revision. - Mr. Daggit, Miss Spiegel
6. For use in revenue estimating, progress was made on a study to be used as a basis for forecasting salaries and wages of the United States Department of Commerce series on a quarterly basis, the July 1941 revision, from the United States Department of Labor index of factory payrolls, the January 1941 revision. - Mr. Daggit, Miss Spiegel
7. An analysis is being made of the State distribution of United States Defense savings bonds series E, during July, in relation to payrolls, and to national income, by States. - Mr. Haas, Mr. Daggit, Mr. Colclough, Mr. R.R. Smith

8. At the request of Under Secretary Bell on January 29, a memorandum for the Secretary is being prepared, illustrated by five charts, on the possibility of a freight car shortage in October 1941, when car loadings are at their seasonal peak, and containing a forecast of freight car loadings for October, a forecast of the number of freight cars that may be required, and outlining steps which would alleviate or prevent such a shortage. - Mr. Daggit, Mr. Chevreux
9. For use in revenue estimating a revision has been begun of our method of forecasting the ELS index of factory payrolls on the basis of the revision of January 1941. - Mr. Daggit, Miss Spiegel
10. At the request of the Secretary on August 6, preliminary drafts were prepared of a proposed statement to be made by the Secretary before the House Committee on Banking and Currency on H. R. 5479, a bill to further the national defense and security by checking speculative and excessive price rises, price dislocations, and inflationary tendencies, and for other purposes. - Mr. Haas, Mr. Murphy, Mr. Daggit, Miss Michener

#### Actuarial Problems

##### I. Projects or studies completed

No projects were completed during this month.

##### II. Projects or studies under way

1. The Board of Actuaries of the Civil Service Retirement and Disability Fund is laying out detailed plans for tabulating and processing data for use in preparing the regular five-year valuation of the Civil Service Retirement Fund for the purpose of determining the liabilities of the Government under the Civil Service Retirement law. Under the law, such a valuation must be prepared as of July 1, 1940. - Mr. Reagh, Mr. Brown
2. The Foreign Service Retirement Law, as approved April 24, 1939, Section 26(m), provides that the "Treasury Department shall prepare the estimates of the annual appropriations required to be made to the Foreign Service Retirement and Disability Fund and shall make actuarial valuation at intervals of five years, or oftener if deemed

necessary by the Secretary of the Treasury". The State Department has requested an estimate of the appropriation required for the fiscal year 1943. An outline of the data required for making an actuarial valuation has been submitted to the State Department. The data are now in process of preparation. - Mr. Reagh, Mr. Brown

3. At the request of Mr. A. R. Pilkerton, Auditor of the District of Columbia, actuarial valuations are being made of the Policemen's and Firemen's Pension Fund, and Teachers' Retirement Fund of the District of Columbia. These valuations will be made by the Treasury Department in accordance with the 1942 District of Columbia Appropriations Act, approved July 1, 1941. - Mr. Reagh
4. At the request of Under Secretary Bell on July 10, a memorandum is being prepared in regard to the 1941 legislative program of the Social Security Board. - Mr. Reagh
5. A letter has been received under date of August 14, from the office of the General Counsel, transmitting a copy of S. 1500, a bill to amend further the Civil Service Retirement Act, as amended, for a voluntary report if desired. - Mr. Reagh

#### Other Projects or Studies

1. At the request of the Legal Division on July 1, in response to a request from Senator Elbert D. Thomas in a letter of June 27, a report is being prepared on S. 1666, a bill to coordinate Federal reporting services, to eliminate duplication and reduce the cost of such services, and to minimize the burdens of furnishing reports and information to governmental agencies. Memoranda requesting comments on the bill were prepared for signature of the Administrative Assistant to the Secretary, and were forwarded to the various bureaus and divisions of the Department on July 16. Replies have been received and a report is in preparation. - Miss Michener

2. At the request of Mr. C. S. Bell on August 8, a tabulation was made of the data on the questionnaires regarding the mode of travel of Treasury Department employees to and from work. The results were incorporated in a memorandum transmitted to Mr. Bell on August 19. - Mr. Reagh, Mr. Larson

3. Publications

- (a) For the August issue of the Treasury Bulletin data were prepared on average yields of long-term Treasury bonds and high-grade corporate bonds. - Mr. Barnett

All the material submitted for the August issue was reviewed and edited.

Revisions are being considered for future issues. - Mr. Lindow, Mr. Lynch

- (b) For the publication Market Prices and Yields of Outstanding Bonds, Notes, and Bills of the United States, computations were made and copy was prepared for the issue covering the month of July. This publication shows by securities the rates of interest, maturities, interest payment dates, and amounts outstanding; and for each day of the month, together with a monthly average, closing market quotations (accrued interest to be added), and yields. - Mr. Moody, Miss McCoy

- (c) Manuscript for the Annual Report of the Secretary of the Treasury for the fiscal year 1941 is being given an editorial review as received. The usual handling of the material is going forward. - Miss Westerman, Mr. Tickton

- (d) At the request of Assistant Secretary Gaston on July 17, an article is being prepared on the operations of the Treasury Department during the year 1941 to be incorporated in the 1942 Americana Annual. - Mr. Barnett

4. Correspondence

Replies were prepared to letters received on subjects relating to the work of the Division, and letters drafted elsewhere and submitted to the Division for that purpose were reviewed. - Miss Michener, Mr. Lindow, Miss Ziegler, and other members of the staff in appropriate fields of work.

During August 280 letters were received in the Division and 298 were handled as required.

5. Charts

Charts are prepared and continually brought up to date for use in memoranda and in chart books on special subjects, and corresponding photographic, photostatic, and multilith work is carried on. This is done in the Graphic Section under the supervision of Mr. Banyas. A statistical report on the work of the Graphic Section for the month of August is attached.

Work completed in the Graphic Section, Division of  
Research and Statistics, during August 1941

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Type of work	For Division of R & S	For Others	Total
<u>Graphic:</u>			
<u>New charts:</u>			
Total charts completed	29	14	43
Bond book charts completed	58	-	58
<u>Charts brought up to date:</u>			
3 bond chart books brought up to date	26 (times)	-	26 (t)
All other charts brought up to date	701	26	727
<u>Miscellaneous:</u>			
Total jobs	19	12	31
<u>Photographic:</u>			
<u>Photographs:</u>			
Total jobs	46	13	59
Number of-			
Negatives	151	22	173
Contact prints	119	535	654
Enlargements	271	64	335
<u>Photostats:</u>			
Total jobs	188	14	202
Number of-			
Lettersize copies	1,119	168	1,287
All other copies	4,623	653	5,276
<u>Multilith:</u>			
Total jobs	6	4	10
Number of-			
Zinc plates	112	54	166
<u>Miscellaneous:</u>			
Total jobs	21	16	37

LH:wlt  
9-10-41

Statistical Report on Work Completed by the  
Graphic Section, Division of Research and Statistics, by months,  
beginning July 1941.

Type of work	July	Aug.	Sept.	Oct.	Nov.	Dec.	Total
<b>A. Graphic:</b>							
New charts completed	34	43					
Charts brought up to date	721	727					
Bond book charts completed	2	58					
Bond books brought up to date	26(times)	26 (t)					
Miscellaneous	27	31					
<b>B. Photographic:</b>							
<u>Photographs:</u>							
Total jobs	91	59					
Number of-							
Negatives	193	173					
Contact prints	254	654					
Enlargements	141	335					
<u>Photostats:</u>							
Total jobs	169	202					
Number of-							
Lettersize copies	2,802	1,387					
All other copies	7,519	5,278					
<u>Multilith:</u>							
Total jobs	22	22					
Number of-							
Zinc plates	153	166					
<u>Miscellaneous:</u>							
Total jobs	34	37					

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## ASSISTANT SECRETARY OF THE TREASURY

October 23, 1941.

MEMORANDUM

TO: Secretary Morgenthau  
FROM: Mr. Gaston

Admiral Waesche has received from Admiral Stark a letter of commendation of Commander E. H. (Iceberg) Smith as follows:

"The Chief of Naval Operations desires to bring to the attention of the Commandant, U. S. Coast Guard, his gratification at the manner in which Commander E. H. Smith, U. S. Coast Guard, has performed his duties as the Commander, Northeast Greenland Patrol during the summer of 1941. His energy, his initiative, and accurate estimate of the probable action of Axis-controlled agencies have contributed materially to the success of the operations of his command in performing a difficult task under arduous conditions."

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**COPY**

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DEPARTMENT OF STATE  
WASHINGTON

In reply refer to  
FF 893.51/7329

October 23, 1941

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and transmits herewith for his information a copy of a telegram dated October 23, 1941, 4 p.m., from the American Consulate General at Shanghai to the American Consulate General at Hong Kong for Mr. A. Manuel Fox, relating to the allocation of exchange for the importation of flour or wheat into Shanghai.

Enclosure:

From Consulate General, Shanghai,  
October 23, 1941, 4 p.m.  
(5 copies).

GS

GRAY

Shanghai via N.R.

Dated October 23, 1941

Rec'd 9:20 p.m., 22nd

Secretary of State,  
Washington.

October 23, 4 p.m.

FOR FOX

In connection with the Shanghai Municipal Council's telegraph request of October 20 for the allocation of exchange covering 900,000 bags of flour to take care of the one month's requirements and cover a reserve of controlled flour or wheat and for a further allotment covering 300,000 bags (or ten thousand tons of wheat) each month beginning in November, the approximate value of 300,000 bags being United States dollars 325,000, I desire to add my endorsement to the Council's request. The municipal Council is making an earnest and determined effort to put into force a rigid control of certain essential foods and the above mentioned over exchange is a part of that plan which contemplates the prevention of profiteering and hoarding. The question of food supplies and reserves is becoming acute and the Council in my judgment should be encouraged to provide adequate supplies

at

-2- October 23, 4 p.m. from Shanghai via N.R.

at reasonable prices. It has been successful in regulating the supply of rice and there is no reason to suppose that it will not be equally successful in regulating the supply and price of flour and wheat. Any assistance which the Board may be able to render the council in the future will be greatly appreciated by the foreign and Chinese communities resident in the settlement.

Sent to Hong Kong, repeated to the Department and Chungking.

LOCKHART

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DEPARTMENT OF STATE  
WASHINGTON

In reply refer to  
FF 641.6131/231

October 23, 1941

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses herewith a copy of strictly confidential despatch No. 1717, and its enclosure, dated October 3, 1941, from the American Embassy, London, England, transmitting the text of the Anglo-Russian Inter-Bank Agreement of September 4, 1941, implementing the Anglo-Russian Inter-Governmental Agreement of August 16, 1941.

Enclosure:

From Embassy, London,  
No. 1717, October 3, 1941,  
With enclosure.

Duplicate

1 LONDON, October 3, 1941.

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No. 1717

SUBJECT: Transmission of text of Anglo-Russian Inter-Bank Agreement of September 4, 1941, implementing the Anglo-Russian Inter-Governmental Agreement of August 16, 1941.

STRICTLY CONFIDENTIAL

The Honorable,  
The Secretary of State,  
Washington.

Sir:

I have the honor to refer to this Embassy's telegrams No. 4155, September 8, 1941, and No. 4087, September 4, 1941, in which it was stated that the text of the agreement between the Bank of England and the State Bank of the U.S.S.R., implementing the Anglo-Russian Inter-Governmental Agreement of August 16, 1941, would be forwarded when available. Reference is also respectfully made to the Embassy's telegram No. 4695, October 3, 5 p.m., announcing the forwarding of the enclosed text by air. The text of the Inter-Bank Agreement was made available to the Embassy yesterday and three copies are forwarded herewith, one of which should go to the Treasury Department.

The British Government officials who furnished the text urge

that it be held strictly confidential as it is an Inter-Bank Agreement and not a government document. These officials would not like to be held responsible for giving the agreement circulation without the knowledge of the Bank of England.

Respectfully yours,  
For the Ambassador

Herschel V. Johnson  
Counselor of Embassy

Enclosure:

1. Copy of Agreement between the Bank of England and the State Bank of the U.S.S.R., in triplicate.

C O P Y

AGREEMENT  
BETWEEN THE BANK OF ENGLAND AND THE STATE BANK  
OF THE UNION OF SOVIET SOCIALIST REPUBLICS

In order to implement the Agreement of the 16th August 1941 between the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of the Union of Soviet Socialist Republics concerning mutual deliveries, credit and methods of payment (hereinafter referred to as the Inter-Governmental Agreement) the Bank of England and the State Bank of the Union of Soviet Socialist Republics have agreed as follows:-

ARTICLE 1.

The Bank of England shall open in its books a separate account in sterling in the name of the State Bank of the Union of Soviet Socialist Republics designated the "No. 1 Account" to which may be credited:-

(a) Sterling arising from deliveries of goods by the Government of the Union of Soviet Socialist Republics and Soviet organizations to the Government of the United Kingdom or to any department, organization or persons under the terms of the Inter-Governmental Agreement.

(b) Sterling arising from the sale to the Bank of England, acting as agents for His Majesty's Treasury, of U.S. dollars or gold in accordance with the provisions of Article 5 (a) of the Inter-Governmental Agreement and with Article 4 of the present Agreement.

(c) Sterling arising from advances made by the Government of the United Kingdom in accordance with the provisions of Article 6(b) of the Inter-Governmental Agreement, or under the Supplementary Agreement thereto dated 1st September 1941.

(d) Sterling arising from other sources as may be agreed from time to time between the Bank of England and the State Bank of the Union of Soviet Socialist Republics with the approval of their respective Governments.

The No. 1 Account may be debited as follows:-

(e) For payments due under the terms of the relevant contracts in respect of the value of goods delivered to the Government of the Union of Soviet Socialist Republics and Soviet organizations under the terms of the Inter-Governmental Agreement.

(f) For repayment of sums due by the Government of the Union of Soviet Socialist Republics under the 1936 Export Credits Guarantee Agreement in accordance with the provisions of Article 5 (b) of the Inter-Governmental Agreement.

(g) For such other sterling payments as may be agreed from time to time between the Bank of England and the State Bank of the Union of Soviet Socialist Republics with the approval of their respective Governments.

ARTICLE II

The Bank of England shall advise the State Bank of the Union of Soviet Socialist Republics by cable of amounts received for the credit of the No. 1 Account.

Payments under the provisions of Article 1 (e), (f) and (g) of the present Agreement shall be effected by the Bank of England upon receipt of telegraphic instructions from the State Bank of the Union of Soviet Socialist Republics.

All transactions passing through the No. 1 Account shall be effected free of commission.

ARTICLE III.

The Bank of England shall open in its books a "State Bank of the Union of Soviet Socialist Republics Suspense Account" to which shall be credited the sterling proceeds of sales of platinum to the Government of the United Kingdom and of dollars or gold to the Bank of England, acting as agents for His Majesty's Treasury, in anticipation of the quarterly settlements. However, during the period between settlement dates, balances on this account shall be at the free disposal of the State Bank of the Union of Soviet Socialist Republics and in particular may be transferred to the ordinary account of the State Bank at the Bank of England.

ARTICLE IV.

The No. 1 Account shall be balanced on the 31st October 1941 and at the end of every three calendar months thereafter. Any debit balance thereon which is a multiple of £250,000 shall be settled in accordance with the provisions of Article 6 of the Inter-Governmental Agreement. For the purpose of implementing the provisions of Article 6 (a) of the Inter-Governmental Agreement the Bank of England is authorised by the State Bank of the Union of Soviet Socialist Republics to transfer, at the end of any accounting period, the necessary amounts from the "State Bank of the Union of Soviet Socialist Republics Suspense Account" to the No. 1 Account. At the same time the Bank of England shall advise the State Bank of the Union of Soviet Socialist Republics by cable of the amounts so transferred and in the event of the balance on the "State Bank of the Union of Soviet Socialist Republics Suspense Account" not being sufficient to meet the payments due, the State Bank shall sell to the Bank of England U.S. dollars, or gold delivered in such places as shall be agreed between the two Banks.

Any credit balance remaining on the No. 1 Account at the end of any accounting period shall be placed in multiples of £250,000 at the free disposal of the State Bank of the Union of Soviet Socialist Republics and in particular may be transferred to the ordinary account of the State Bank at the Bank of England.



ARTICLE V.

With regard to the sales of U.S. dollars or gold referred to in Article 1 (b) of the present Agreement, the Bank of England will purchase:-

(a) U.S. dollars at the London middle official rate for U.S. dollars ( at present U.S. dollars 4.03 = £1).

(b) Gold, delivered in North America, at the official price of gold in New York on the day of sale, in which case U.S. dollars will be converted into Pounds Sterling at the middle official rate for U.S. dollars in London on the day of sale.

Gold, delivered elsewhere, at prices agreed between the Bank of England and the State Bank of the Union of Soviet Socialist Republics, but not lower than the official buying price of the Bank of England (at present 168/- per fine ounce) or, at the option of the State Bank of the Union of Soviet Socialist Republics, at the official price of gold in New York on the day of sale adjusted to allow for the cost of freight and insurance of gold from the place of delivery to the U.S.A.

ARTICLE VI.

On the termination of the present Agreement, the No. 1 Account shall be balanced at the next following quarterly settlement date, or on such other date as may be agreed between the Bank of England and the State Bank of the Union of Soviet Socialist Republics with the approval of their respective Governments, and settlement shall effected in accordance with the provisions of Article 6 of the Inter-Governmental Agreement and Article 4 of the present Agreement. Any credit balance thereafter remaining on the No. 1 Account or on the "State Bank of the Union of Soviet Socialist Republics Suspense Account" shall be dealt with in accordance with the second paragraph of Article 4 of the present Agreement.

For the purpose of the final closing of the accounts, the stipulation regarding settlement in multiples of £250,000 provided for in Article 4 of the present Agreement shall not apply.

FINAL ARTICLE

This Agreement shall come into force on the date of signature and shall remain in force until the termination of the Inter-Governmental Agreement.

Done in duplicate the \_\_\_\_\_ day of

nineteen hundred and forty-one, in English and

Russian, both texts having equal force.

For and on behalf of  
the Bank of England.

For and on behalf of the State  
Bank of the Union of Soviet  
Socialist Republics

(Sd.) A.I. Mikoyan.

## TREASURY DEPARTMENT

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## INTER-OFFICE COMMUNICATION

DATE October 23, 1941.

TO *Miss Chauncey*  
Secretary Morgenthau

FROM Mr. Dietrich

**CONFIDENTIAL**

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£40,000
Purchased from commercial concerns	£12,000

Open market sterling remained at 4.03-1/2, and there were no reported transactions.

The Canadian dollar discount narrowed to 11%, as compared with 11-1/2% yesterday.

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

Argentine peso (free)	.2373
Brazilian milreals (free)	.0505
Colombian peso	.5775
Mexican peso	.2070
Uruguayan peso (free)	.4675
Venezuelan bolivar	.2640
Cuban peso	1/8% discount

The Federal Reserve Bank reported that it purchased 200,000 Swiss francs and 80,000 Swedish kronor in New York yesterday by order and for account of the Central Bank of the Uruguayan Republic. According to the Central Bank, the foreign exchange was needed to meet overdrafts arising from commercial transactions. The Swiss francs were bought at .2333 and the kronor at .2385-1/2.

There were no gold transactions consummated by us today.

No new gold engagements were reported.

In London, both spot and forward silver remained at 23-1/2d, equivalent to 42.67¢.

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 silver purchases today.