

DIARY

Book 372

February 12 - 14, 1941

- A -

	Book	Page
Arkansas, State of		
Jones asks HMJr about offering of \$130 million in road bonds - 2/14/41.....	372	272
a) Haas answer - 2/14/41.....		295
(See also Book 373, pages 346 and 347)		
b) Jones reports he bought entire offering - 2/27/41; See Book 375, pages 158 and 159		

- C -

Canada		
See War Conditions: Lend-Lease Legislation		
Civilian Economic Defense Committee		
See Defense, United States		
Coast Guard		
See War Conditions: Greenland		
Contracts (Government)		
See Defense, United States		
Cox, Oscar S.		
HMJr will approve deferment - 2/14/41.....		273

- D -

Defense, United States		
Taking of commissions in connection with Government contracts discussed by Eaton (Whaley-Eaton) and Gaston - 2/13/41.....		101
Civilian Economic Defense Committee: Draft of Executive Order establishing - 2/14/41.....		245
Contracts: Question of publication of details discussed in Sullivan memorandum to HMJr - 2/14/41..		281
Combat Planes: Resume' by War Department of number on hand suitable for use against a modern air force - grave situation - 2/14/41.....		297

- E -

Economic Defense		
See Defense, United States		
Engraving and Printing, Bureau of		
Graves asked to investigate slowness of program - 2/14/41.....		294
Ernst, Morris L.		
See Revenue Revision		

- F -

	Book	Page
Financing, Government		
<u>3/15/41</u> : Conference; present: HMJr, Bell, Haas, Murphy, and Hadley - 2/14/41.....	372	159
United States Savings Bonds: Proposed new forms (Haas memorandum).....		190
a) Pictures for discussed at 9:30 meeting - 2/19/41: See Book <u>373</u> , page 274		
Defense Financing Program: Statistics on holdings of public debt and guaranteed securities by various classes of investors suggested by Haas - 2/14/41.....		284, 285
Flynn, John T.		
See War Conditions: Lend-Lease Legislation		

- G -

Greenland		
See War Conditions		

- I -

Imports		
See War Conditions: United Kingdom		

- J -

Japan		
See War Conditions		

- M -

Mint, Bureau of		
Establishment of new mint: Congressman Cochran tells HMJr of antagonism on part of Congressman Somers (Chairman, Committee on Coinage, Weights, and Measures); HMJr told Treasury will have to request hearing if one is held - 2/12/41.....		2
Molybdenum		
See War Conditions: U.S.S.R.		

- P -

Press Relations, Division of		
Graves' report on investigation - 2/13/41.....		104

- R -

Revenue Revision		
Tax-exempt Corporations: Ernst (Morris L.) letter concerning - 2/14/41.....		299

- S -

	Book	Page
Silver		
See War Conditions		
Spain		
See War Conditions: Silver		
Statements by HMJr		
Before subcommittee of Senate Finance Committee, on debt limitation - 2/12/41.....	372	31

- T -

Taxation		
See Revenue Revision		

- U -

U. S. S. R.		
See War Conditions		
United States Savings Bonds		
See Financing, Government		
United Kingdom		
See War Conditions: Military Planning; United Kingdom		

- W -

War Conditions		
Airplanes:		
Combat planes: Resume' by War Department of number on hand suitable for use against a modern air force - grave situation - 2/14/41...		297
Exchange market resume' - 2/13/41, 2/14/41.....		110, 279
Foreign Funds Control:		
Civilian Economic Defense Committee: Draft of Executive Order establishing - 2/14/41.....		245
a) Conference between Bernstein and Shea (Justice) following discussion between Shea and State Department concerning freezing control and export control - 2/14/41.....		260
Extension to cover at least property of Axis powers in United States again urged by HMJr in memorandum to FDR - 2/14/41.....		207
a) Hull reported to have reassured correspondents there is no idea of freezing of American assets of any "non-occupied countries".....		209
b) Hull's memorandum to FDR - 2/14/41.....		210
1) Discussion by HMJr, Bell, Young, White, Foley, Cochran, Bernstein, Pehle, and Kuhn - 2/14/41.....		215
2) HMJr suggests to Hull discussion with Attorney General present.....		237

	Book	Page
War Conditions (Continued)		
Greenland:		
Coast Guard told to cooperate with Army and Navy in making survey and study of air fields - 2/13/41.....	372	95
Japan:		
Grew's annual report on economic condition - 2/13/41.....		113
Lend-Lease Legislation:		
See also War Conditions: Purchasing Mission		
Policy question for determination in connection with appropriations - 2/12/41.....		18
a) Discussed at HMJr's house by Knox, Stimson, Wickard, Smith, Cox, McGloy, Young, Bell, and Foley - 2/13/41.....		57
1) Four-man board: Stimson's memorandum on.....		69
a) FDR initials: See Book 373, page 258		
2) FDR informed of meeting.....		72
Barkley-HMJr discussion - 2/12/41.....		24
Canada's assets: HMJr advised to stick to argument about the British "family" if questioned - 2/13/41.....		102
Flynn, John T.: Summary of criticism - 2/14/41...		289
H.R. 1776: Editorial opinion summarized in Barth memorandum - 2/14/41.....		290
(See also Book 374, page 243 - 2/21/41)		
Military Planning:		
Reports from London transmitted by Halifax - 2/12/41, 2/14/41.....		44,300
Purchasing Mission:		
Placement of orders and special fund allocations for week beginning February 10, 1941, approved by Treasury - 2/12/41.....		54
British Financial Position (See also War Conditions: Lend-Lease Legislation): Peacock has been in country two weeks; HMJr tells Phillips speed in making a few sales will be most helpful - 2/14/41.....		83
a) Stimson-HMJr conversation - 2/13/41.....		91
b) Reconstruction Finance Corporation's position in regard to financing of purchase of British firms discussed - 2/13/41.....		89,90
Airplanes and Pilots: Purvis reports on numbers, May 10, 1940--January 31, 1941.....		99
Silver:		
Spain: Resume' of shipments of Spanish silver coin arranged by De los Rios and purchased by United States Treasury during 1938 - 2/12/41.....		5
U. S. S. R.:		
Molybdenum: Hochschild (American Metal Company, Ltd.) told by HMJr he wishes to be informed of developments in negotiations for - 2/13/41.....		103
a) See also conference with representative of Climax Molybdenum Corporation - 2/18/41: Book 373, page 227		

- W - (Continued)

	Book	Page
War Conditions (Continued)		
United Kingdom:		
Tonnage of imports into, 1939-November, 1940	372	79
a) FDR sent copy of chart - 2/13/41.....		75

February 12, 1941

Mr. Haas

Secretary Morgenthau

I would like to have you and Mr. Hamm of Leon Henderson's office for lunch. I also think that there are some other persons that Leon Henderson has over there, a lawyer or somebody who works with Hamm, and I'd invite him over for lunch too. I just want to give them an opportunity to tell them my troubles. When you know how many people there will be for lunch, please let Mrs. McHugh know so that she can order the lunch. And at lunch, have prepared for me any outstanding price rises, or if any particular commodities have fallen in the last week or two, I would also like to be acquainted with that. Also I am particularly interested in lumber, wool, and any particular foods which are out of line.

February 12, 1941
12:45 p.m.

H.M.Jr: Hello.

Cong. John
Cochran: Dan?

H.M.Jr: Morgenthau.

C: Oh. I asked for Dan but that's all right.
Mr. Secretary, this is Cochran of Missouri.

H.M.Jr: How do you do.

C: Say, you've got a bill down here asking for
another mint.

H.M.Jr: Yeah.

C: Somers - between you and I, off the record, is
sore as hell at the Treasury Department.

H.M.Jr: Really?

C: Yeah. He said the Bureau of Internal Revenue,
or somebody, published up in his home town papers
the fact that he owed the Government a lot of
money for income tax. He said it practically
ruined him politically but

H.M.Jr: Which Somers is that?

C: Somers - Chairman of the Committee on Coinage,
Weights and Measures. Always been your friend,
you know.

H.M.Jr: Oh, yeah, Andrew.

C: I told him I couldn't understand how that was
done. I thought it was contrary to law to do
that, but anyhow, he won't call a hearing on
that unless he gets a request from the Treasury
Department.

H.M.Jr: I see.

C: But in any event I thought that somebody up
there - Dan or Mrs. Ross or somebody - make
a request to call a hearing on that because
we want that mint and I want it for St. Louis.

- 2 -

H.M.Jr: I see.

C: I want it for two reasons: I want it because you want it and I want it, second, because you see we can put it in St. Louis.

H.M.Jr: Well, this is all news to me and I'm glad you called me and I'll look into it.

C: All right. I don't know what the hell it is but he's mad.

H.M.Jr: Well, I'll look into it. I thought he was my friend.

C: Well, he always has been, but he's awfully peeved about something. He said it was published that he owed you income tax money. I said, I don't know how in the hell he can do that. I didn't know they could do that under the law. They can publish refunds but I didn't know they could publish the fact that anybody owed them unless it was a fraud case.

H.M.Jr: That's right.

C: See?

H.M.Jr: Well, I'm glad you called me and I'll look into it.

C: All right, and then write him a letter or have somebody write him a letter and ask for a hearing so we can get that bill out and get it passed.

H.M.Jr: I'll do that today.

C: All right.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Buenos Aires, Argentina.

DATE: February 12, 4 p.m.

NO. : 124

A sale of cotton amounting to 120,000 bales to the Spanish Government was confirmed by an officer of the cotton board. The sale was on credit and payment is to be made quarterly over a two year period. By means of the sale the Argentine Government has disposed of almost all of the 1940 crop exportable surplus. The cotton for the most part is low grade and represents cotton against which the Argentine Government has made loans at the rate of 500 pesos per metric ton. Have been informed that the British approve and that the Spanish Government has vessels available to ship cotton. Probable that similar credits for wheat and meat may be arranged.

eh: copy

10 JUNE 1941
15 JUNE 1941
20 JUNE 1941
25 JUNE 1941
30 JUNE 1941
1 JULY 1941
2 JULY 1941
3 JULY 1941
4 JULY 1941
5 JULY 1941
6 JULY 1941
7 JULY 1941
8 JULY 1941
9 JULY 1941
10 JULY 1941
11 JULY 1941
12 JULY 1941
13 JULY 1941
14 JULY 1941
15 JULY 1941
16 JULY 1941
17 JULY 1941
18 JULY 1941
19 JULY 1941
20 JULY 1941
21 JULY 1941
22 JULY 1941
23 JULY 1941
24 JULY 1941
25 JULY 1941
26 JULY 1941
27 JULY 1941
28 JULY 1941
29 JULY 1941
30 JULY 1941
31 JULY 1941
1 AUGUST 1941
2 AUGUST 1941
3 AUGUST 1941
4 AUGUST 1941
5 AUGUST 1941
6 AUGUST 1941
7 AUGUST 1941
8 AUGUST 1941
9 AUGUST 1941
10 AUGUST 1941
11 AUGUST 1941
12 AUGUST 1941
13 AUGUST 1941
14 AUGUST 1941
15 AUGUST 1941
16 AUGUST 1941
17 AUGUST 1941
18 AUGUST 1941
19 AUGUST 1941
20 AUGUST 1941
21 AUGUST 1941
22 AUGUST 1941
23 AUGUST 1941
24 AUGUST 1941
25 AUGUST 1941
26 AUGUST 1941
27 AUGUST 1941
28 AUGUST 1941
29 AUGUST 1941
30 AUGUST 1941
31 AUGUST 1941
1 SEPTEMBER 1941
2 SEPTEMBER 1941
3 SEPTEMBER 1941
4 SEPTEMBER 1941
5 SEPTEMBER 1941
6 SEPTEMBER 1941
7 SEPTEMBER 1941
8 SEPTEMBER 1941
9 SEPTEMBER 1941
10 SEPTEMBER 1941
11 SEPTEMBER 1941
12 SEPTEMBER 1941
13 SEPTEMBER 1941
14 SEPTEMBER 1941
15 SEPTEMBER 1941
16 SEPTEMBER 1941
17 SEPTEMBER 1941
18 SEPTEMBER 1941
19 SEPTEMBER 1941
20 SEPTEMBER 1941
21 SEPTEMBER 1941
22 SEPTEMBER 1941
23 SEPTEMBER 1941
24 SEPTEMBER 1941
25 SEPTEMBER 1941
26 SEPTEMBER 1941
27 SEPTEMBER 1941
28 SEPTEMBER 1941
29 SEPTEMBER 1941
30 SEPTEMBER 1941
OCTOBER 1941
NOVEMBER 1941
DECEMBER 1941

MEMORANDUM: Summarizing information dealing with shipments of Spanish silver coin arranged by De los Rios and purchased by the United States Treasury during the year 1938.
(References are to folio numbers of the printed transcript of record)

FIRST SHIPMENT. The contract was formed by the offer of Federal Reserve Bank of New York addressed to Bank of Spain (148-151) and by the cable of Negrin of April 1, 1938 accepting the offer (164,165). The offer of Federal Reserve Bank is to buy up to 5,000,000 ounces of silver .999 fine, at 43¢ per ounce, 95% of the cost of the silver to be paid upon its delivery. The offer also states that "If you deliver silver coin *** you agree that we arrange at your expense and risk for melting and refining such silver into good delivery bars" (150,151). The cable of Negrin states that he will deliver silver coin.

The silver thus purchased was shipped by SS. NORMANDIE and arrived in New York on May 30, 1938 (116). An advance payment of \$2,007,500 was made to De los Rios by check dated June 2, 1938 and endorsed and cashed by De los Rios on June 3, 1938 (172-174, 184). If 5,000,000 ounces, .999 fine, were shipped the total amount due would be \$2,150,000 of which \$2,007,500 was paid, leaving a balance due of \$142,500 on this shipment, less adjustments required for expense in "melting and refining such silver into good delivery bars" (151).

SECOND SHIPMENT. The contract was formed by the offer of the Secretary of the Treasury to the Government of Spain of June 3, 1938 (187-192) and the acceptance contained in the note of De los Rios dated June 6, 1938 (194). The offer is to purchase approximately 5,000,000 ounces of silver .999 fine at 43¢ per ounce, 95% of the purchase price to be paid on delivery. The offer also states (190) that "any reasonable and necessary costs and expenses incurred by the United States in connection with such silver shall be for your account". That is, for the account of the Government of Spain. The offer contains a provision that expense of melting coin into bars shall be borne by the Government of Spain.

The silver thus purchased was shipped on SS. PRESIDENT HARDING and arrived at New York on July 2, 1938 in the form of silver coin (121,122). An advance payment of \$1,997,800 was made in respect of this shipment on July 14, 1938 by check for that sum, which was endorsed and cashed by De los Rios on July 15, 1938. If 5,000,000 ounces .999 fine were shipped, the total amount payable would be \$2,150,000, of which \$1,997,800 was paid, leaving a balance due on this shipment of \$152,200 less any adjustment required for melting coin into silver bars and for "reasonable and necessary costs and expenses incurred by the United States in connection with such silver".

THIRD SHIPMENT. The contract was formed by the offer of Secretary Morgenthau to the Government of Spain dated July 8, 1938 (214-219) and the acceptance thereof contained in the note of De los Rios to Secretary Morgenthau dated July 10, 1938 (220-222). The offer is to purchase approximately 5,000,000 ounces of silver,

- 3 -

.999 fine, at 43¢ per ounce, 95% of the purchase price to be paid on delivery. The offer also states (217, 218) that "any reasonable and necessary costs and expenses incurred by the United States in connection with such silver" shall be for the account of the Government of Spain. The offer contains a provision that the expense of melting coin into bars shall be borne by the Government of Spain.

The silver thus purchased was shipped on SS. WASHINGTON and arrived at New York on July 22, 1938 in the form of silver coin (126). An advance payment of \$1,997,800 was made in respect of this shipment on August 4, 1938 by check for that sum, which was endorsed and cashed by De los Rios on August 5, 1938. If 5,000,000 ounces, .999 fine, were shipped, the total amount payable would be \$2,150,000, of which \$1,997,800 was paid, leaving a balance due on this shipment of \$152,200 less any adjustment required for melting coin into silver bars and for "reasonable and necessary costs and expenses incurred by the United States in connection with such silver".

The three shipments above described were involved in the suits brought on behalf of Banco de Espana against the Federal Reserve Bank, United States Lines, and the Superintendent of the Assay Office, and which were before the District Court on defendant's motion for judgment and were appealed to the Circuit Court of Appeals. They were the shipments described and considered in the printed transcript of record.

In addition to the above three shipments, there were two more shipments, the details of which are unknown. A short description of these shipments follows:

FOURTH SHIPMENT: This shipment consisted of 4,668 cases of Spanish coins which arrived in New York on SS. MANHATTAN on September 30, 1938. The estimated value in dollars of the shipment is \$4,300,000 (see affidavit of Valls, page 232 of Transcript). If 95% of the purchase price has been paid to De los Rios, then 5%, or \$215,000, remains unpaid as to this shipment less appropriate adjustments.

FIFTH SHIPMENT. This shipment consisted of 4,668 cases of Spanish coins which arrived in New York on SS. ROOSEVELT on November 5, 1938. The estimated value in dollars of the shipment is \$4,300,000 (see affidavit of Valls, page 232 of Transcript). If 95% of the purchase price has been paid to De los Rios, then 5%, or \$215,000, remains unpaid as to this shipment less appropriate adjustments.

Reference may be made to the following passage in the affidavit of Secretary Morgenthau (folio 127 of Transcript):

"The contracts with respect to each of such purchases of silver provided for the payment, against delivery, of 95% of the purchase price of the silver, final settlement to be made on the basis of figures established by a United States Mint, and/or Assay Office, and/or recognized American refineries. Such final settlement has not as yet been made with respect to any of such shipments."

From the information set forth above, therefore, it appears that the following amounts remain unpaid on the respective shipments:

- 3 -

First shipment	-	\$142,500
Second "	-	152,200
Third "	-	152,200
Fourth "	-	215,000
Fifth "	-	<u>215,000</u>
Total		\$876,900

This amount is subject to reduction and adjustment pursuant to the provisions of the respective contracts.

The figures in this memorandum are approximate only and are based on estimates of the value of the shipments.

WASHINGTON, D. C., February 4, 1941.

COPY

February 12, 1941
3:55 P.M.

8

Arthur
Purvis: Henry.

H.M.Jr: Arthur.

P: Yes, sir.

H.M.Jr: Weren't you going to let me have something for my -

P: Yes, sir. We're having at this very moment a Supply Council meeting going over the figures that their fellows have been working on. It's rather difficult to get them together at such short notice but we're just going over to make sure that they reasonably cover the ground along the same bases. It's a pretty big subject -

H.M.Jr: Well, when am I going to get them?

P: Well, you're going to get it this afternoon without question. I think it may take us another hour to work it out.

H.M.Jr: Uh, uh.

P: It's pretty hard going.

H.M.Jr: Well, now let me think. I've got to leave my house tonight -

P: Yes.

H.M.Jr: - at twenty minutes of eight.

P: Yes.

H.M.Jr: Do they need explaining?

P: Well, I'm assuming that all you will want this time is something very condensed and very clear. In other words, what we're proposing to give you is a breakdown ~~under~~ the following headings:

1. Aircraft of engines
2. Tanks, ordnance and ammunition
3. Machine tools
4. Iron and steel
5. New merchant ships
6. Miscellaneous including agricultural products which is very much in the nature of a guess

- 2 -

and then trying to break it down into that part of it which requires to be placed prior to June 30, 1941 and that part which could be placed after June 30, 1941 divided into actual orders and functions on orders - that kind of thing.

H.M.Jr: Well, Arthur, would it interfere with your plans if you personally gave it to me at the house at 7:15?

P: I will undoubtedly do that.

H.M.Jr: I mean have you a dinner engagement?

P: No, that will be excellent. I'll be there at 7:15 if that will suit you.

H.M.Jr: Yes, because I'll be going to the White House at twenty minutes of eight.

P: I'll be there at 7:15 sharp.

H.M.Jr: I don't know what you address the Luxemburg people; all I know is that they used to print stamps there.

P: What - what was that?

H.M.Jr: I don't know - my wife said, "How do you address these Luxemburgers who are going to be there tonight?" you know.

P: Oh I see. Oh, of course. Oh yes.

H.M.Jr: I don't know whether it's your highness, your duchess or the crown prince or what.

P: (Laughs) I'll have the information.

H.M.Jr: I say all I know is that they used to print stamps and raise their revenue -

P: They did. I remember they were very good looking ones.

H.M.Jr: And that's the way they paid for their revenue.

P: (Laughs) Yes, that's quite true. They did. You're not making a suggestion are you, Henry? (Laughs)

H.M.Jr: Well, it's an idea.

P: (Laughs)

- 3 -

H.M.Jr: Anyway, if it is convenient; you're sure it doesn't interfere.

P: Not a bit. I shall be there at 7:15 -

H.M.Jr: Because I would like to get it by -

P: And you do want it in simple form, don't you, even if it's over simplified for the moment.

H.M.Jr: Well then I might understand it....

P: Yes. All right.

H.M.Jr: r... if it's simple enough.

P: (Laughs) All right. Thank you.

February 12, 1941
4:40 p.m.

RE AID TO BRITAIN

Present: Mr. Bell
Mr. Young
Mr. Cox
Mr. Foley

H.M.Jr: Is this what I am to give these fellows tomorrow? (referring to summary of policy questions in connection with Lend-Lease appropriations, dated February 12, 1941)

Have you (Bell) seen this?

Bell: No.

H.M.Jr: The meeting is off. That is too long anyway.

Cox: The notion wasn't that you would give it to them, but that you would be --

Bell: Is the meeting off?

H.M.Jr: This meeting is off.

Bell: I thought you meant tomorrow morning.

H.M.Jr: No, the meeting is on, but there is no use fooling with that memorandum. Don't read it in here if you haven't read it. (Laughter) - I have got lots to do.

Bell: Is this something that was made up today?

- 2 -

Cox: This afternoon.

Bell: No, I haven't seen it.

H.M.Jr: Now look, Dan. I will be available at 8:30 tomorrow morning.

Bell: I will, too.

H.M.Jr: At the house, and so will these three gentlemen. For you (Foley) it is 8:15. (Laughter) - Get your skates and you can coast down.

Foley: I will be there. I don't run out of gas - I hope.

Bell: He was pretty late this morning for some reason or other.

H.M.Jr: Nobody knows what happened to him from six to eleven?

Bell: Yes.

Foley: Six thirty, as long as we are making a record here.-(Laughter) - It was 6:30 to 9:30, and I was in bed sound asleep. Nobody woke me up.

Bell: That is a good record.

Foley: I didn't know you had this hearing today. I thought it was yesterday.

H.M.Jr: Can I call up Miss Foley and find out?

Foley: She slept late because Forrestal is in Florida. I was relying on her to call me.

H.M.Jr: I will get no help from Miss Foley.

- 3 -

(Discussion off the record)

- H.M.Jr: Dan, you had better get this together and lick it into shape for me, and I will see these people at 8:30 tomorrow morning. You know what I want. I am afraid to give that --
- Cox: The thought was not to give this to them, but to acquaint you with the major part of the policy question.
- H.M.Jr: Well, the fellow to acquaint is Bell, and I am sort of going to expect him to take the leadership tomorrow because he has had a number of conversations with the Director of the Budget, and you fellows had better get together.
- Bell: Weren't you over there today?
- Cox: Bartelt and I were over all morning.
- Bell: I just haven't seen them since they came back.
- H.M.Jr: I still say I am going to count on you on this and - God bless the English. I told - it must have been Monday afternoon - Arthur Purvis, who let me know Monday morning, I was having this secret meeting. It is at the house.
- Foley: Yes, I got it. That is nearer.
- H.M.Jr: I asked him how much he thought he might need, and I called him up a little while ago. "Oh," he said, "we are just in the midst of a discussion." So I asked him to drop into the house tonight at 7:15

- 4 -

to leave me some kind of a figure to give these fellows tomorrow, you see, but the thing that amuses me is that I am always pushing the English. Here we are in the Treasury always three or four jumps ahead of them, and instead of their always pushing me, we are always ahead of them. I hope they - some day they catch up.

Young: I think it is a forlorn hope.

Bell: I think it might be very wise to take two or three bites at this in view of the fact that you have said that you didn't know what it was going to cost, we had no estimate, you didn't know what we were going to be doing three or four months from now, but you would go up with a reasonable appropriation, I don't care, two or three billion dollars, and just say, "This will run them and we will be up again when this is out." They are going to be here pretty steadily.

You said last week that we don't know what this thing is going to amount to, and if you come up next week with an estimate of some five or six billion dollars and this is our figure, they would say, "Well, where was this last week?"

H.M.Jr: Well, Danny boy, here it is seven minutes of five, and I haven't got it now.

Bell: That is the reason I say that --

H.M.Jr: I am perfectly sincere, and this fellow Purvis hasn't got it. Right now at five o'clock if I called him back he couldn't

- 5 -

give me a figure, so my testimony is sincere.

- Bell: I know it was sincere, and I want to keep it that way. I don't want to go up there with a figure of five or six billion which will still be a guess, and it seems to me it would be much better to take two bites at it at least, and maybe three, while this Congress is here.
- H.M.Jr: Well, I am not sure that you are right, but remember, nobody from the Treasury is going to have to testify, and Knox and Stimson and the Secretary of Agriculture are going to do the testifying. That is the shape it is still in since you (Young) have been gone.
- Cox: Well, Danny, the figure you ask for is going to be dependent in part on what the War Department wants to do. They want to ask for more for their own purposes without earmarking it for 1776.
- Bell: They do, but is it going to eventually come out that way?
- Cox: Well, if they ask for and get more money than they would ordinarily ask for and they have got the power to dispose of stuff which they procured for their own purposes to Britain, Greece, and China, then you would of necessity ask for a much smaller amount for the direct purposes of carrying out the bill.
- H.M.Jr: Well, I think if tomorrow we can get old Stimson and Knox and Claude Wickard to thinking about this thing, because they haven't done much thinking, and have

- 6 -

another meeting or so so we can kind of get together and then go to the President, that is about all we can hope for. The meeting is adjourned, and I will see you all at 8:30 tomorrow morning.

Bell: Except Foley.

H.M.Jr: Except Foley, and that is 8:15. Hell, he slept all morning.

Foley: I just talked to Senator Byrnes and he called about the origin of the revolving fund, and he wanted to know if there was any special provision for that, and I told him no, we had merely taken it out of the South American bill and carried it forward from there.

Well, he said he thought he might give that up if there was any opposition to the floor or if there was concerted opposition in the committee tomorrow. I told him that I didn't know whether the Army would object now or not. They didn't urge that the thing go in in the first place, and it got in there because it was in the other bill. I didn't think it was awfully important. He said he didn't see how much money could go back to be made available within the discretion of the director of the Budget for the appropriation from which the materials were made available, you see, and I think if he gives it up we are not losing much.

Bell: The cash is the only item they are concerned with, and there won't be any.

Foley: Within the period when we are operating under this bill. The cash will come maybe later if there is a settlement.

- 7 -

Bell: They are having a meeting of the full committee tomorrow morning, the Senate Finance, to consider this bill.

H.M.Jr: Yes.

Bell: And they want me there, and of course, Sullivan.

H.M.Jr: What time?

Bell: Eleven o'clock.

H.M.Jr: That is all right.

Foley: Bernard has been down there all afternoon. They have agreed to report it out, the subcommittee, to the full committee.

Bell: They hope to pass it Friday.

Foley: They hope to be able to get up ahead of the Lease-Lend Bill, which won't come up until Monday, and that they can get a full committee report tomorrow and take it up on Friday and pass it then.

H.M.Jr: That will be wonderful.

Foley: Ahead of the other bill.

H.M.Jr: Wonderful.

FEB 12 1941

POLICY QUESTIONS FOR DETERMINATION
IN CONNECTION WITH LEND-LEASE APPROPRIATIONS

Three major policy questions are presented in connection with the funds necessary to carry out H.R. 1776:

(1) Should the War Department, Navy Department, and the other agencies concerned, request appropriations exclusively or primarily for their own needs, with the thought in mind that defense articles procured out of such appropriations can ultimately be disposed of under H.R. 1776?

(2) Should a request be made for appropriations to carry out H.R. 1776, and have this fund used to reimburse the War Department, the Navy Department, or the other agency concerned, for defense articles disposed of to any foreign government, or have the fund used, either directly or through War, Navy, or the other agency concerned, to purchase defense articles for disposition under H.R. 1776? or

(3) Should a combination of these two foregoing policies be worked out so that the moneys to carry out H.R. 1776 are used only to procure defense articles for disposition under H.R. 1776, but not to reimburse the War Department, Navy Department, etc. for defense articles transferred to foreign governments under the bill?

- 2 -

(1)

Requests for Appropriations by War
Department, Navy Department, etc.

Consideration should be given as to whether or not it is possible or desirable for the War Department, the Navy Department, etc. to get appropriations for their own needs, but large enough to carry out the purposes of H.R. 1776 without any earmarking for that purpose.

As to certain of the purposes of H.R. 1776, it would seem practical to have the War and Navy Departments request appropriations for their own needs. This is illustrated in the case of funds necessary to expand productive capacity. Land and plants purchased and constructed to manufacture planes for Britain would, for example, be a case in point. The planes could be transferred to Britain under H.R. 1776. The land and plant could not. What is more, the productive facilities would always be available for United States Army and Navy needs at a moment's notice. The planes, if engaged in combat by Britain, might never be directly useable by the Army and Navy. In other words, it could be reasonably said that, as a practical matter,

the expansion of productive facilities was much more for direct Army and Navy needs than planes procured for Britain.

For these reasons, it would seem that consideration should be given to the inclusion of funds for expediting production in the Army and Navy requests for their own appropriations.

Consideration should also doubtless be given to a re-examination of the present fundamental bases upon which Army and Navy requests for appropriations are being made. In the first place, it should be noted that virtually none of the requests of the War and Navy Departments have overshot the mark. Without criticism, but probably because events have changed so quickly, the War and Navy Departments have underestimated their needs. Thus, for the fiscal year 1941, there have already been more than sixteen appropriations for the War and Navy Departments. There will doubtless be more. In the second place, the War and Navy Departments' requests for appropriations are made on the basis of an assumed number of men, an assumed number of tactical units, etc. Thus, for example, the number of aircraft for which appropriations are requested is conditioned largely by such factors. However, if it were assumed that our main purpose is to out-match the Axis Powers in the productive capacity for aircraft and in the number of aircraft on hand, then the War and Navy Departments'

requests for the expansion of aircraft facilities and the procurement of aircraft would unquestionably be much larger. This is, of course, a question which involves elements of military strategy, as well as policy, and should be determined by the Secretary of War and the Secretary of the Navy. It should be noted, however, that if, on such a different fundamental basis, the War and Navy obtain larger appropriations, it will decrease the dollar amount which need be requested for appropriations to carry out H.R. 1776

(2)

A Separate Appropriation to Carry
Out H.R. 1776.

Some thought should also be given to the question of requesting a separate appropriation to the President or to some other officer or department of the Government for the purposes of carrying out H.R. 1776. One way of using this appropriation might be to provide for reimbursement out of it to the War Department, to the Navy, or to any other department or agency concerned for defense articles transferred under Bill H.R. 1776. Also, such a fund could be used, for example, for allocation to the Department of Agriculture to purchase feed-stuffs for Britain or to reimburse the Department of Agriculture for the transfer or purchase of such feed-stuffs.

- 5 -

Such a fund would have to be large enough to cover, on an over-all basis, the total value of all expenditures made under H.R. 1776. In other words, such an appropriation would clearly show the total cost of carrying on all of the operations under the bill. There is little question that such a separate over-all appropriation for carrying out H.R. 1776 would show up the cost more clearly than it would be if the policy set forth in (1) above were adopted. On the other hand, there would be some difficulty in digging out and putting together the figures on: (a) the defense articles disposed of under the \$1,300,000,000 limitation; (b) the defense articles disposed of out of direct appropriations made to the Army and Navy after the passage of H.R. 1776 and not covered by the \$1,300,000,000 limitation; and (c) the articles disposed of under funds appropriated specifically for the purposes of H.R. 1776. Ultimately, however, the total figure representing all these items would doubtless have to be given if Congress or the public demanded it strongly enough.

(3)

A Combination of Appropriations to the
Army and Navy, etc., and a Separate Fund
for H.R. 1776.

It may be that after study and consideration is given to the two foregoing major alternatives, it will be deemed wise to compromise

and combine them. Obviously, one way of doing this would be: (a) To have the War and Navy Departments and the other agencies concerned ask for an increase in their appropriations to cover their own needs and to cover plant expansion to produce articles intended for disposition under H.R. 1776; and (b) To have the President ask for a separate appropriation to cover the disposition of articles specifically manufactured or procured under H.R. 1776. In this way, a degree of flexibility could be obtained by having various departments and agencies of the Government manufacture or procure defense articles for the purpose of disposition under H.R. 1776. At the same time, with a relatively smaller amount requested to manufacture or procure under H.R. 1776, the War and Navy Departments, etc., could also dispose of defense articles out of existing stocks up to the \$1,500,000,000 limit, and, in addition, could dispose of defense articles for which appropriations are made directly to the Army and Navy after the date of the enactment of H.R. 1776.

OSS:djb:ja
2/12/41

February 12, 1941

Memorandum for:

Mr. Bell ✓ *ret'd.*
Mr. Foley *ret'd.*
Mr. Sullivan *ret'd.*

The Secretary asked that a copy of this be furnished to you. He does not want you to keep a copy or to make any notes. Please return to me in Room 285.

Nell M. Chauncey

February 12, 1941
5:00 p.m.

H.M.Jr: Hello.

Operator: Senator Barkley.

H.M.Jr: Hello, Alben.

Sen.
Barkley: Hello.

H.M.Jr: Henry. How are you?

B: Fine. How are you?

H.M.Jr: I'm all right. Alben, we appeared today before Prentiss Brown, Sub-Committee on Finance on our bill and the boys tell me they think they are going to report it out tomorrow and I also gather that they have hopes of getting it onto the Floor Friday.

B: Yes, sir.

H.M.Jr: Now, do you think that is going to be possible?

B: Yeah, I've just talked to them and told them that if they reported it out tomorrow, and I don't see why they can't, why we'll take it up Friday.

H.M.Jr: Well, that would be wonderful.

B: I want to get it out of the way before this other bill comes on.

H.M.Jr: Yeah, because we're really right up against the gun on this financing and if it could be done, I'd greatly appreciate it.

B: Well, that's what we're planning to do.

H.M.Jr: Well, I wanted to know whether I could count on you and if I could then I've got nothing to worry about.

B: Well, I've already arranged with them to do it and I told Pat this morning that I

- 2 -

thought they ought to get it out tomorrow and then we'd take it up Friday and pass it and I talked to Prentiss Brown and told him the same thing, so they're meeting at 11 o'clock in the morning to try to get it reported by 12:00 so if we do that why we'll get it up Friday.

H.M.Jr: Thank you so much.

B: Say, there's a matter I wanted to mention to you since you called me. You know in this bill, Lend-Lease Bill, that you wrote and Cordell Hull wrote and Stimson wrote and Knox wrote and all of you denied writing it, so that I had to finally claim parenthood in order to give it some show of legitimacy, you understand

H.M.Jr: I know.

B: (Laughs). In that provision there, you know, where the President is authorized to do all these things notwithstanding the existence of any other law, there has been a bugaboo created on the ground that it gives him a blank check and that it, notwithstanding any lack of appropriations - that he can go ahead and make all sorts of contracts for this stuff which interpretation the Director of the Budget somewhat confirms.

H.M.Jr: Yeah.

B: Now it doesn't do any harm but I think it will allay some of that fear to provide in that section there that this is subject to appropriations to be made by Congress and to authorizations for the making of contracts from time to time which Congress may confer upon the President. That's the customary language we put in frequently and it has been in all these Defense articles, these Defense measures, where you appropriate say \$3 billion and then you authorize a billion more in contracts (I just use that as an illustration) so that if you come in here after this bill is passed with an appropriation, or asking for

- 3 -

an appropriation of \$3½ billions, the same bill could also authorize the President to enter into contracts for another billion or two.

H.M.Jr: Yeah.

B: So that it does the same thing without in any way affecting the meat of the bill and it will satisfy some fellows. I talked to the President this morning about it and he said it was all right.

H.M.Jr: I see.

B: And I thought you'd like to know that I'm trying to work that out.

H.M.Jr: Well, you think you're going to work it out that way?

B: Yeah.

H.M.Jr: Well, of course I'd like to talk it over with my boys but if the President has agreed to it I suppose it's too late.

B: Well, we've already agreed to the amendment. We formed a sub-committee this morning on it and Jimmy Byrnes and I have been working it out and I talked to the President about it and it is all right with him.

H.M.Jr: Well, if it's all right

B: It doesn't hurt the bill but it just sort of gives the impression that Congress after all is keeping its hands on it.

H.M.Jr: I see. Well, I appreciate your telling me.

B: Well, I thought you'd like to know it.

H.M.Jr: Thank you, Alben.

B: Well, be good.

H.M.Jr: I try awfully hard.

- 4 -

B: What?

H.M.Jr: I try awfully hard.

B: Don't try too hard. You don't want to make a fool of yourself trying to be good.

H.M.Jr: (Laughs).

B: (Laughs).

H.M.Jr: Listen, as long as you're a -----

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, (Paris) Vichy

DATE: February 12, 1941, 6 p.m.

NO.: 189

FOR THE TREASURY DEPARTMENT FROM MATTHEWS.

Yesterday Rueff had lunch with me. He said that on the Belgian gold question, Janssen of the Belgian National Bank had "behaved magnificently". Every effort had been put forth by the Germans to try to get Janssen to ask for delivery of the gold in the name of the National Bank of Belgium, but he had steadfastly refused to do so. However, it was the policy of Bouthillier to "play the German game" to the fullest, Rueff said. It was consequently Bouthillier who had ordered the French to deliver the gold to the Germans. Rueff said that he understands delivery is taking place quite slowly because of transport difficulties both real and deliberate, but he did not have any figures on the amount already turned over to the Germans.

END SECTION ONE.

LEAHY.

EA:LWW

SECTION TWO.

Reference telegram of February 4, noon, telegram no. 154 from the Embassy. The delivery of the cases of securities belonging to the National Bank of Belgium is a different matter. Janassen had asked for them. Although the kind of securities in the cases was not known to the Bank of France, Rueff was under the impression that Belgian Government paper made up the most part.

Rueff said that the French have now been asked by the Germans to bring back to France their own gold stored at Kayes, but they have not been too insistent as yet. He said that the French have been able to use successfully the argument of serious transport difficulties.

END OF MESSAGE.

LEAHY.

TO THE DIRECTOR
SECURITY SERVICE
OFFICE OF THE

FEB 12 1943

RECEIVED

EA:LWW

February 12, 1941

Reading copy of the Secretary's testimony on
Debt Limit Bill at hearing held by Sub-Committee of
the Senate Finance Committee, February 12, 1941.

I am appearing before you today in support of H. R. 2959, which raises the debt limit to \$65,000,000,000, provides for the elimination of the present partition in the debt limit, provides greater flexibility in our financing operations, and provides that the income from all future issues of Federal securities, both direct and indirect, be subject to all Federal taxes.

The 1942 Budget submitted to the Congress last month indicates that our contemplated National Defense program has now been increased to approximately \$28,500,000,000 in appropriations, contract authorizations and recommendations.

- 2 -

It also indicates that the estimated expenditure programs will result in combined deficits for the fiscal years 1941 and 1942 of \$15,400,000,000. The balance of the borrowing authority on January 31, 1941, was \$1,123,000,000 under the general limitation, and \$1,628,000,000 under the National Defense limitation. This combined total of \$2,751,000,000 provides the Treasury with borrowing authority sufficient only for the next four months, and even in that period we would be restricted to short-term obligations for a larger part of our financing operations than seems advisable at this time.

- 3 -

Short-term securities would for the most part be purchased by commercial banks, thereby causing a further increase of deposits. The Treasury would like to avoid further increases of deposits as far as possible and to some extent this can be accomplished by issuing obligations attractive to permanent investors outside of the banking system. In times such as these, it is our desire to borrow as much as possible from real savers rather than from banks.

The bill, among other things, proposes to amend the Second Liberty Bond Act so as to limit the face amount of public debt obligations issued under the authority of that Act to an amount not to exceed in the aggregate \$65,000,000,000 outstanding at any one time.

- 4 -

This provision as written will repeal section 21(b) of that Act which authorizes the issuance of \$4,000,000,000 face amount of National Defense notes.

Another matter of vital importance in connection with the financing of the National Defense program is the tax-exemption feature of the debt obligations of the Federal Government and its agencies. I said last year that if it were within my power I would issue National Defense securities subject to all Federal taxes. As you know, the discretionary authority of the Treasury to issue securities subject to all Federal taxes is confined to Treasury notes with a maturity of from one to five years.

- 5 -

As to all other types of Government securities, the law itself definitely fixes the exemptions from taxation and there is no discretionary authority in any executive officer of the Government to vary these exemptions.

Anticipating that the Congress would consider the question of tax exemptions in this session, it seemed to me highly desirable that the Treasury make no further offers of long-term tax-exempt securities until the Congress had had an opportunity to consider the question again in the light of the huge defense financing program before us.

- 6 -

I began in December to issue fully taxable short-term obligations for cash to meet our immediate requirements and deferred our March 15 refunding program, which ordinarily would have been concluded three months in advance, pending the decision of this Congress on the question of eliminating tax-exemptions from all future issues of Federal securities. I conferred with some members of the Senate and of the House and discussed with them what I had in mind. It was my hope that Congress would promptly enact legislation to make the income from all future issues of securities of the Federal Government or any of its agencies subject to all Federal taxes. The program met with their hearty approval.

- 7 -

The principle involved is not new. Every administration for the past twenty years has recommended the complete elimination of tax-exempt securities. The bill now before you proposes that the United States Government actually take the first step to eliminate this undesirable feature from our financing. It is particularly appropriate that this should be initiated in connection with the financing of the National Defense program. All will be called upon to share in this task. This makes it urgent, from an equitable point of view, that all subscribers be treated alike.

- 8 -

This is impossible if the securities are issued with tax-exemption privileges which are worth nothing to the poorest subscribers but a great deal to the more wealthy subscribers. Such exemptions are incompatible with the democratic financing of the defense program and should be removed.

Our whole economy and effort should be concentrated on national defense. I once again want to urge economy in Federal expenditures. I believe, therefore, that all Federal non-defense expenditures should be re-examined with a magnifying glass to make certain that no more funds are granted than are absolutely essential in the existing circumstances.

- 9 -

In view of the enlarged program facing the Treasury, it is desirable to have greater flexibility in the types of securities which may be offered to meet the requirements of various types of investors. Therefore, this bill further amends the Second Liberty Bond Act so as to broaden the authority under which United States Savings Bonds are issued and to provide for a new class of security to be called "Treasury savings certificates." The statutory limit on the term for which Savings Bonds may be issued would continue to be twenty years, as at the present, while a limitation of ten years would be placed on the Treasury savings certificates.

- 10 -

It would also provide that both classes of securities may be issued on an interest-bearing basis, on a discount basis, or on a combination interest-bearing and discount basis, and that the Treasury may fix by regulation the amount of Savings Bonds and savings certificates which may be held by any one person at any one time.

In addition, the Treasury would be authorized to issue stamps or provide other means to evidence payments for Savings Bonds and savings certificates, and to provide for the exchange of savings certificates for Savings Bonds. This would permit the Treasury to carry on a program encouraging more popular participation in the financing.

- 11 -

In this connection, the Treasury wishes to be able to offer securities of a character which should facilitate and promote thrift and savings. We hope that a substantial part of the defense program for which we have to borrow funds can be financed out of the real savings of the people. However, in bringing these offerings to public attention I can assure you that there will be no high-pressure salesmanship or coercive propaganda.

One of the most important services the American people can render at this time is to co-operate in supplying the means for national defense.

- 12 -

We ought to make it possible for workers and farmers no less than bankers and business men to contribute to the financial needs of the Government, not only through their tax payments but through their savings as well. The bill therefore provides authority to issue securities on such terms and in such denominations as will enlist support from the largest number of subscribers. There is every reason why a substantial part of the savings resulting from the current increase in employment should be conserved by investment in United States Government securities. The small investor who puts his savings in Government securities will in this way contribute not only to national defense but also to his own individual security.

-o0o-

BRITISH EMBASSY,
WASHINGTON, D. C.

Personal and Secret

February 12th, 1941.

Dear Mr. Secretary,

I enclose herein for your personal and secret information a copy of the latest report received from London on the military situation.

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

Halifax

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

Telegram received from London
dated February 11th, 1941.

1. Naval. From 0100 to 0140/11 Erebus escorted by destroyers bombarded Ostend dock area. Aircraft bombed the area beforehand and spotted for (words undecypherable). Preliminary report states that shells well in target area, several fires started.
2. Coastal aircraft on the 10th carried out all patrols and escorted north west approach convoys.
3. East Coast convoy off Yarmouth twice attacked night of 9th/10th by enemy bombers, one ship damaged.
4. Italy Total strength of Italian Army in Albania is now thought to be about 325,000.
5. R.A.F. Successful daylight attacks were made yesterday on Dunkirk, Calais and Boulogne in each case by 6 Blenheims with strong fighter escort. Two enemy fighters were destroyed and one probably. We lost six fighters one pilot safe.
6. Night of 10th/11th 283 bombers were sent out of which 221 had industrial targets at Hanover as objectives. Here the weather was poor to start with but improved later.

Preliminary reports state many fires but no big light up. Raid considered successful. Other targets included docks at Rotterdam, Boulogne, Cherbourg, and some sea-mine laying was done.
7. Five bombers are missing; five crashed on return but the crews of 4 are safe. Pilot of the other machine was killed and the crew injured.
8. Albania In Kelcyre area our Gladiators destroyed 4 enemy fighters and three probably. One

- 2 -

Gladiator was shot down but the pilot is safe.

9. German Air Force. Night of 10th/11th. 88 aircraft were operating mainly over East Anglia. Aerodromes and sea-mining appeared the principal objectives. One enemy aircraft probably destroyed by night fighter.

10. Eritrea. At dawn on the 9th five enemy fighters attacked our aerodromes in Agordat area and destroyed 8 aircraft. A later attack by 20 enemy fighters damaged 2 more aircraft.

11. Aircraft Casualties in operations over and from the British Isles.

German: destroyed by our fighters, 2 and probable 2.

British: Six fighters lost, 5 bombers missing.

**Paragraph of Code Sublogon
Received at the War Department
at 10:07, February 12, 1941.**

London, filed 16:15, February 12, 1941.

1. On Tuesday, February 11, German cargo and naval vessels at a Norwegian coastal city were attacked by planes of the British Coastal Command. No British planes were lost in the attack. There were no British bombers in the air on this day, but planes of the Fighter Command made a sweep over the Cape Gris Nez-Boulogne and other areas in the north of France. Two British pilots and two planes were lost. During the preceding night 62 planes of the Bomber Command raided ports along the coasts of France and Holland and bombed stores of petroleum in Holland. A very severe attack was made on Luxembourg during this night by a total of 221 planes of the Bomber Command. A large number of fires were started. During the same night planes of the Coastal Command cooperated with a number of British destroyers and one cruiser in an attack on Ostend and made separate attacks on occupied Belgium and French ports. In addition, some British bombers attacked Dutch and German manufacturing plants and airfields. During these operations five British bombers were shot down in Germany and five others crashed up on landing. The crew of only one of these latter planes was lost. During daylight hours of February 10 six British fighter planes were shot down over France and German losses were two planes.

CONFIDENTIAL

2. During the night of February 11-12 six German planes were active over Egypt, Iraq and the Persian Embassy but no damage has been reported. During the preceding day German air operations consisted of a small number of planes over the Straits of Dover. One of the German planes was shot down. During attacks on Britain on the night of February 12-11 German losses were two Heinkel-110 bombers confirmed and one probable.

3. The Addis Ababa airfield, stores at Cheren, Britree, and the city of Amara, Britree, were attacked by British bombers with success. Buildings at Topolano, Albania, were successfully bombed and ten Italian planes were destroyed in a British bombing attack on an airfield on the Isle of Rhodes. It is now known that a total of 1,500 rounds of large-caliber high-explosive shells were used in the recent bombardment of Genoa.

4. Italian planes bombed the airfield at Thessalonica, Greece, and rendered it unusable. British fighter planes were up and shot down two of the attackers and damaged six others. The Galafraa airplane base and the El Bar airfield, both on Libya, were again bombed by German Junkers bombers. Axis air casualties were one plane destroyed and one damaged.

5. Recent estimates indicate that there are about 725,000 Italian soldiers in Albania at the present time;

6. As a result of Japanese activities in Thailand an additional number of Japanese bombers are being transferred by the British to the Malay states.

—

CONFIDENTIAL

7. On February 10 British torpedo bombers attacked a German naval force of six destroyers off the southern Norwegian coast. One of the destroyers was hit. In the same day two other German naval forces were identified in this area. One was made up of four destroyers and the other of three destroyers and one cruiser.

DUNELON

Distribution:

Secretary of War
State Department
Secretary of Treasury
Asst. Secretary of War
Chief of Staff
War Plans Division
Office of Naval Intelligence
Air Corps
G-3

+

CONFIDENTIAL

RESTRICTED

G-2/2657-220
No. 314

M.I.D., W.D.
February 12, 1941
12:00 U.

SITUATION REPORTI. Western Theater of War.

Air: German. Slight offensive activity by day and night.

British. Daylight fighter operations over northern France on the 11th. Limited attacks on Hanover and Bremen last night.

II. Greek Theater of War.

Ground: Patrol and artillery actions only.

Air: Axis. Widespread raids over Greece. Piraeus, port of Athens, was bombed last night. A rather heavy attack was made on the 11th on Yanina air base (British) in the combat zone.

British. Close support operations in the Tepeleni area.

III. Mediterranean and African Theaters of War.

Ground: Continued progress by British light mechanized forces in Italian Somaliland indicated by capture of Afmadu, a road junction 75 miles from the Kenya frontier. Free French forces claim to have seized several oases in the Kufra area, southeast Libya. Otherwise no change in the situation.

Air: The R.A.F. bombed airdromes on the island of Rhodes on the 10th.

Note: This military situation report is issued by the Military Intelligence Division, General Staff. In view of the occasional inclusion of political information and of opinion it is classified as Restricted.

RESTRICTED

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 12, 1941

TO Miss Chauncey

FROM Mr. Cox

Here are two copies of the letter that the Secretary spoke to you about. *Filed date of ltr 2/10*

I am very sorry that my girls failed to send you a copy when it was sent out.

It was sent to the White House by special messenger at 5:45 P.M. on February 10.

O.S.C.

February 12, 1941

Miss Chauncey

Secretary Morgenthau

I told somebody in my office that I wanted to send a letter to the President showing him that it is possible under the lend-lease bill to transfer, lease or lend agricultural products to England. Did the letter ever go to the President? Please let me know.

February 12, 1941

TO: THE SECRETARY
FROM: MISS CHAUNCEY

There is no record of a letter having been sent to the President showing him that it is possible under the lend-lease bill to transfer, lease or lend agricultural products to England.

February 18, 1941

Dear Mr. Ballantyne:

Your letter of February 11, 1941, enclosed applications for the placement of the following orders:

British Purchasing Commission	
Iron and Steel	\$ 124,817.50
Machine Tools	6,565,145.10
Ships and marine	444,697.30
Motor Vehicles	143,082.92
Ordnance	251,025.00
Explosives	9,400.00
All Other	49,875.00
Ammunition	2,325,000.00
 British Air Commission	 85,345.00
	<hr/>
Total	\$10,806,949.82

The Treasury Department has no objection to the execution of these contracts.

Sincerely,

Mr. Charles F. Ballantyne,
Secretary-General,
British Purchasing Commission,
The Willard Hotel,
Washington, D. C.

JCS:mcc

APPLICATIONS FOR PLACEMENT OF ORDERS
 BRITISH PURCHASING COMMISSION
 WEEK BEGINNING 2-10-41

Date Approved	Regular Orders Approved		Special Fund Approvals	
	Individual Lists	Cumulative	Individual Lists	Cumulative
2-11	\$ 3,604,845.96	\$ 3,604,845.96	- 0 -	\$ 8,884,710.00
2-12	10,606,889.82	14,211,735.78	- 0 -	8,884,710.00

56 117 14

copy to Phil Young

THE BRITISH SUPPLY COUNCIL IN NORTH AMERICA



TELEPHONE: REPUBLIC 7860

Box 680
BENJAMIN FRANKLIN STATION
WASHINGTON, D. C.

February 13th, 1941.

Dear Mr. Secretary,

With reference to the point you raised with me last evening, I find that there has been a misunderstanding about the authority to spend \$2 millions a week on machine tools, for which we have asked you. This \$2 millions a week forms part of the \$35 millions a week, and the proposed procedure involves no increase in the amount or change in the type or order which we would place; it is only a simplification of method.

What our people asked apparently was that we might spend this amount without requesting your agreement to each machine tool contract separately: this is a purely administrative arrangement to enable a large number of contracts, many of them very small indeed, to be placed quickly under a programme arranged by us some time ago; you have already approved a similar arrangement for a weekly allowance for orders under \$50,000 to be placed by the B.P.C. and the B.A.C. Details of each contract would be furnished to the Treasury when it had been placed.

Yours sincerely,

The Honourable
Henry Morgenthau, Jr.
United States Treasury
Washington, D. C.

*Adm. Peterson's memo on
4-man Board as att -*

Notes on Meeting at the Secretary's House, 9:00 A.M., February 13, 1941, concerning Lend-Lease Appropriations.

Those present were, Secretary Morgenthau, Secretary Knox, Secretary Stimson, Secretary Wickard, Mr. Harold Smith, Under Secretary Bell, Mr. Foley, Mr. Cox, Mr. McCloy, and Mr. Young.

The Secretary of the Treasury opened the meeting by passing around copies of the attached sheet entitled "Questions of Policy" dealing principally with appropriations to be secured for lend-lease operations. The Secretary stated that the President had said to him three times that the meeting was to be secret, that there would be no leaks, and that it was not to be known that any work was being done on the operations of the lend-lease bill in advance of its passage. The Secretary said that that was why he had called the meeting at his house and thanked the persons present for coming.

As Under Secretary Bell had done considerable work with Mr. Harold Smith on the question of the sum of the appropriations to be secured, Secretary Morgenthau asked Mr. Bell to explain the attached sheet.

Bell: In looking at the summary agenda made up you will see that 1 (a) presents the idea of a lump sum to be allocated from time to time by the President to the Departments of the Government for carrying out the purposes of the bill. This appropriation would operate in the same way as the relief or defense appropriations where the President allocates funds.

Stimson: Would Congress allow such a procedure? Is it legal?

Bell: I don't think we would have any trouble with Congress provided that it was put on a full accounting basis so that Congress would be fully acquainted with what was going on.

Stimson: The tone of the debate now being carried on by Congress indicates to me that the people there want full knowledge as to how the money will be

used. Is it your idea that this lump sum appropriation covers both the regular War Department appropriation as well as the appropriation necessary for those articles which we turn over to the British?

- Bell: l(a) does not lump the appropriations for the domestic defense program in with the lend-lease appropriation.
- Wickard: Can the President say that the lend-lease appropriation is available for any country or is it limited?
- Foley: Yes, it can be used for any country.
- McCloy: I am glad that you are not adopting Willkie's suggestion.
- Wickard: I know that the Department of Agriculture would say that the appropriation should be made directly to it, but it is my personal feeling a lump sum should go to the President for specific purposes.
- Bell: We must decide the type and form of the appropriation.
- Smith: If you lay it before Congress in detail, you reveal what you are going to use the money for, and you also may reveal valuable military information. It seems to me that if Congress is going to give the President the powers included in the bill then it should also give him the money to carry out those powers. I think that you could ask for a lump sum appropriation with some very general justification.
- Stimson: From the military point of view we certainly should not reveal what the money is going to be used for, but the feeling I get from the hearings is that Congress wants to know what the money is going to be used for. In any event, we should be prepared either way.
- H.M., Jr.: Let Bell explain the three ways outlined in the agenda.
- Knox: May I make one general statement, Henry? It was emphasized by Willkie that we must have unity, and I don't mind saying that we will have one hell

of a row if the President gets a blank check for eight or nine billion dollars. I want to consolidate the country behind him and not create more trouble. Of course, he couldn't deal with the technical projects which would come up for allocation of funds, but perhaps some way could be found around that.

- H.M., Jr.: You could do the same thing that was done by Ickes on the PWA project where a blanket approval was used. The project was written up in the form of a book and presented to the President and he would approve it on the front page. I give that as an example because Foley was Counsel for PWA then and he knows the procedure.
- Bell: Under 1(b) the various Departments would get their own appropriations just the way they do now, but part or all of these appropriations would be used for the lend-lease bill. Under 1(c) there is a combination of 1(a) and 1(b) where the President could allocate money for goods to be sent abroad and the Departments could use departmental appropriations for the building of plants and similar projects. In answer to Secretary Knox, I feel that people would feel better if the President asked for an out and out appropriation to cover the bill as such.
- Stimson: You will have great difficulty if Congress is not allowed some check on control of the situation.
- Knox: Just follow the natural process. Suppose Britain has 200 ships on order and needs 400 more. The British go to the Maritime Commission and tell Land what they need. Land sharpens his pencils and figures out the cost per ship which may be a million or a million and a half and then figures out the total bill, and that goes over to Smith and to the President; after which an appropriation measure is sent to Congress. Then Congress will go to work and fight over the ships for the British. That's the way it is going to work.
- H.M., Jr.: No, that would be terrible, that would be terrible.
- Knox: Well, that's the way it is going to work unless I am an awfully bad guesser.

- H.M., Jr.: Congress has in mind a blank check idea. Even Hamilton Fish is thinking in terms of a check for two billion dollars.
- Bell: You will have to break it down in general. If money appropriated for planes goes to the War Department, it can't be used for anything else by the War Department. You run into a lot of trouble if you try to switch it.
- Wickard: The trouble with agricultural products is that you might have to switch in a hurry. You would have great difficulty in providing for adequate transportation in such an event.
- Knox: You could lump all food, but you would have to distinguish between guns and planes.
- Cox: You may have to combine both and ask for blanket sums for specific items, and also for an un earmarked sum to be allocated by the President.
- Knox: The British will come and say what they want--suppose they want anti-aircraft guns. The only people in the Government that know anything about anti-aircraft guns are in the Army and Navy--it's a technical job. The experts have to sit down and figure out the kind of guns they want and its details so they can't say how much the cost is going to be. It seems to me that the Army and Navy are definitely going to have to do the buying.
- H.M., Jr.: There's no argument on that. The President did add, however, that he thought other items of a commercial nature like rubber and tin should be bought by Knudsen.
- Stimson: Quite right.
- Knox: It should be that way. I wouldn't want to buy for Wickard--I don't know anything about his business.
- McCloy: You can shift the appropriations within an item, but you can't shift the money from ordnance to air.
- Knox: Don't you think the English ought to come in with their needs and detailed figures, and then we can go to work on it--that is, I could work on all the naval items.

H.M., Jr.: What worries me is that no one is smart enough to know what the war will do in the next three months. There can't anyone tell whether its going to center in the Mediterrean or in Ireland. Depending on the location, the weapons may be vastly different, and under a specific appropriation Congrers- would have you all tied up just when a transfer from one type to another may be most vital.

Stimson: You have put your hand on the kernel of the whole thing. When I appeared before both Committees of Congress, I took up what the bill meant as Cordell and you passed it on to me. When I got there, they said that the Secretary of the Treasury had told them that the Secretary of War would explain it.

H.M., Jr.: I learned my tricks from Cordell.

Stimson: To me the bill means this--it would change the whole present situation by eliminating all purchasing commissions now operating in our markets; the buying would be centralized in Government hands. These purchasing commissions, which are now competing against each other for the same goods, do not know our methods. They disturb our prices and markets and they pay high prices. By keeping the title in the United States while the weapons are in production, it gives an interim period during their construction to decide where such weapons should go when they are finally finished. The members of both Congressional Committees jumped at that because they realize that the vital decision as to the distribution of the weapons of war lies in the hands of those people of the Government most interested in the National defense of the United States.

To me it seems that a number of decisions will be necessary; first, what countries vital to the defense of the United States should receive weapons--that is a matter for the State Department. Secondly, what is to be ordered in a general way--that must be determined, and I must decide if such weapons to be ordered could be used by us if the English were eliminated from the picture. We may have to take some chances on foreign types, and there will be a definite decision to draw the line as to how far you can go. I haven't considered the appropriations required very

carefully, but I have thought about the general machinery which would be required. This machinery should be as undictatorial as possible and operate in the hands of the proper Departments. McCloy and I have been working on it, and I showed it to Frank Knox, to Marshall, and to Stark, and we all think it is all right. With your permission, I would like to read this memorandum.

(Secretary Stimson read the attached memorandum entitled "Lend-Lease Organization".)

- H.M., Jr.: That's an excellent memorandum. If you get appropriations, you will certainly need something like the organization you suggest to carry it out.
- Stimson: The idea is that you will have to have some sort of a Board to sift questions before they get to the President.
- H.M., Jr.: That's exactly why this meeting has been called. We must work up a finished document with which to present the President on the whole thing.
- McCloy: It seems to me vital that the British program be worked in with our program, so that instead of two we will come out with a single United States program. That will save a lot of trouble as it will cut out the question of a "British Program" which always causes trouble. The quicker it can be done the more it will help. It will help on the Hill and it will help with the people of the country.
- H.M., Jr.: I agree. When I went to see the President, I told him I wanted to drop out of the purchasing picture, but, after thinking it over carefully, he said he didn't want me to.
- Stimson: You can't drop out—you have to stay on this job and help us.
- H.M., Jr.: He said the Treasury should continue to help the British and all the other purchasing missions. It was his suggestion that an Assistant Secretary of the Treasury should be assigned as an Aide to Purvis. From now on, however, I am going to have to be pushed into it—that's the way I feel about it.

- Stimson: You're on this Board principally because of your experience in addition to the fact that the Treasury must be the leader in working out the economic policies for the country. It was my idea that whenever any problem required the help of the head of a Department not a member of the Board, then the head of that Department should become a member ad hoc.
- H.M., Jr.: I think that each one of us ought to designate someone to work with Harold Smith on the budget, and then we could have another meeting on Saturday morning.
- Smith: We have thought a good deal about the plan of the British program and our own program. As you know, there have been a lot of changes in the Army and Navy programs and that demonstrates the need of flexibility. On the mechanics involved it seems to me that there are only two approaches: first, you can furnish goods on contract which have been paid for from existing appropriations or goods from stores. The depletion of this appropriation would have to be made up in an amount equal to that turned over to the British by transfer presumably from the President's lend-lease fund.
- Secondly, you can make a transfer from the President's fund, if he had the appropriation directly, for the amount of the goods to be sent abroad. The latter would seem to be distinctly better on the grounds of flexibility.
- Stimson: It would have an enormous advantage in that we could tell what money would be left.
- Smith: In that way Congress gets two looks, one on the reporting end, and the other at the supplemental appropriation. You could also use the central fund for new materials.
- Knox: Let me see if I get this straight. You propose to ask for certain sums for certain things. From those sums you fill British needs and then refill the appropriation from the President's fund.
- Smith: Yes, that's the idea.

- Stimson: Suppose the British want 500 more 25-pounders; suppose we also find out that Weygand needs help and that we must supply him with some guns which we have never made and never used--we can't order them under the War Department appropriations.
- Smith: You order that sort of new material from the lend-lease appropriation and keep the Army and Navy funds intact. It should be drawn broad enough to cover that sort of a situation.
- Knox: I still think that means going to Congress for a blank check.
- Bell: I don't think it's a blank check at all--it seems that there is a great distinction between a lump sum appropriation such as you already have for the Army and Navy--that's not a blank check.
- McCloy: I feel sure that we can get around it; all we have to do is merge in one program--a common United States program.
- Smith: Bell is right--they are two different things. A blind lump sum is quite different from a lump sum which is broken down in general for certain things.
- Cox: You shouldn't lose sight of the fact that the bill gives a lot of flexibility before any appropriations are passed. If they cut an appropriation of 8 billion down to 3 billion, you might get stuck in an emergency.
- Smith: You must also think of the difficulty of crowding the demand for goods into the production capacity of the country. You could probably only produce 4 billion dollars worth of goods with our present production capacity, so why ask for a lot of money you can't use now.
- Knox: I agree.
- H.M., Jr.: It is Bell's idea to take it in one, two, or three bites.
- Wickard: We must look ahead and work out a program. If you had the right to contract on a program, even if you didn't have the money, it would help to lessen market disturbances and avoid trouble. From that point of view, I don't see how you could do it piecemeal.

- Bell: You could still do it piecemeal on the appropriation but that would not affect your contract authorization.
- Smith: You also get into the whole problem of economic defense.
- Wickard: You need flexibility and directness of action. The British asked for canned pork and dried milk. Of course, we haven't any canned pork--we must match dollars with our needs and our supplies.
- H.M., Jr.: Harold, will you sum up the appropriations for me?
- Smith: This is purely tentative, but it seems to me that as we need great flexibility a central appropriation to be allocated by the President would be the easiest way out. You probably should canvass the leaders on the Hill to see what they think as their judgment on this would be much better than ours. I feel that a lump sum appropriation can be justified in a broad general way so that the Committee will not be left in the dark and so that the money can be used to the best advantage. Then you could use the appropriation if you wanted to to make up other Army and Navy funds which they have spent on goods for export, or you could use the appropriation for new orders for anyone.
- McCloy: Who would sign the contracts?
- Smith: I think the authorization should still be left with the Secretary of War and the Secretary of the Navy.
- Stimson: What happens to our regular appropriations? What if we should want to order a double amount so that we could give half to the British?
- Smith: You wouldn't do that--the British portion would come out of the lend-lease appropriation.
- Stimson: Can we do it if the President transfers the funds to us?
- Smith: Oh yes. The procedure is pretty well established, the accounting is simple, and it seems to be quite easy except for the actual planning of the goods.

H.M., Jr.: Why doesn't Smith work on it, and we will each assign a man to work with him. Then we will meet back here on Saturday morning at 9 o'clock. Harold, do you think you can have something by then?

Smith: Yes, I think so.

Wickard: You will have to confer with the leaders.

H.M., Jr.: In addition, we must see the boss first, and before that we must agree between ourselves. I shall send you a copy of the British table showing requirements for the fiscal years 1941 and 1942, and another memorandum on existing British orders by noon today.

(Meeting adjourned at 10:10 A.M.)

FDY.

Questions of Policy1. Form of Appropriations:

- (a) To the President to be allocated to other Departments of Government for expenditure in carrying out purposes of the Bill, or to reimburse other Departments for expenditures made out of existing appropriations.
- (b) To the various Departments (War, Navy, etc.) to augment their present programs.
- (c) Combination of (a) and (b). Using funds appropriated under (a) to pay for articles sent abroad and under (b) to pay for plant expansion.

2. Appraisal Committee:

To determine value of existing material to be turned over to foreign governments.

3. Policy Committee:

To determine what articles are to be turned over to foreign governments, whether on the basis of a sale, lease, loan, or gift, and the extent to which the articles procured shall be turned over to foreign governments

In this connection see the President's letter of February 25th setting up an Advisory Committee of the Secretary of State, Secretary of Treasury, Secretary of War and Secretary of Navy, but named Mr. Hopkins as Secretary of the Committee instead of Maj. Gen. Burns as Executive Secretary.

Secy Stimson's memo

LEND-LEASE ORGANIZATION

1. The War and Navy Departments feel that there are certain fundamental principles which must be adopted in connection with the passage of the lend-lease bill if our existing rearmament program, together with the requirements of the other countries whose defense is of concern to us, is to be concluded expeditiously.

These are:

First: Subject to the necessary completion of outstanding British orders and the placing of so-called emergency pick-up orders by the British Purchasing Commission, all orders for munitions, American and foreign, so far as practicable, should be placed through existing War and Navy Department procurement agencies acting in collaboration with the OPM.

Second: Subject to the limitations stated in the above paragraph, future foreign requirements for munitions shall be merged as promptly as possible with our program of equipment and thereafter the Office of Production Management and the War and Navy procurement agencies acting in their respective spheres shall do the planning necessary to meet the over-all production program thus determined upon.

Third: As the determination of the countries whose defense is of concern to us and the amount and character

- 2 -

of the munitions which may be ordered for them are matters primarily related to the foreign and defense policy of the United States, all requirements for munitions should in the first instance be examined by a board consisting of the Secretary of State, the Secretary of War and the Secretary of the Navy, to which board must be added the Secretary of the Treasury as the Cabinet member responsible for the fiscal and economic policies of the country.

Fourth: While recognition of the statement of needs of a given country may be made at the outset in determining the over-all program, such recognition, in view of the changing political and strategic conditions, cannot be finally determinative of the distribution of the munitions. Accordingly, the same board should be charged with the final recommendations to the President as to the quantity and types of weapons which may be exported as well as the recommendations concerning the countries to which such exports shall be made.

Fifth: The members of the board may designate representatives who may act for them at meetings of the board and the board shall have available to it the Chief of Staff, the Chief of Naval Operations and the Director of the Office of Production Management and their respective staffs as well as British staff and production representatives

for consultation and advice in arriving at their recommendations. The board shall also have an executive secretary and staff to conduct the administrative duties of the board. As far as the larger part of the supplies will be military rather than naval, the secretary should be an army officer of high rank, experienced in procurement and production matters. For this position, the War Department recommends that the executive secretary be Major General James H. Burns, now the Chief Executive Officer to the Under Secretary of War.

Sixth: As questions as to the consideration to be received for the transfer of supplies to foreign governments also involve foreign policy as well as strategic fiscal and economic considerations, it is suggested that the same board be authorized to deal with such questions as well but in this case it is probable that the heads of other departments (e.g. Commerce) will have to be included ad hoc as their interests may appear.

Seventh: To the extent that foreign governments request this country to supply them with raw materials or other articles not primarily related to the manufacture of munitions, it is suggested that the board, after giving such requests consideration and approval, subject to the approval of the President, request appropriate departments of the Government, such as, Treasury, R.F.C., Warlike Commission, etc., to procure such materials acting in close collaboration with the Office of Production Management.

February 13, 1941

My dear Mr. President:

At 9 o'clock this morning, the Secretaries of War, Navy and Agriculture, plus the Director of the Budget, Messrs. Bell, Young, Foley and Cox of my office, met to discuss the drafting of an appropriation Bill to be presented after the passage of the Lend-Lease Bill.

We made considerable progress and I asked Harold Smith to act as Chairman of a Sub-Committee to bring back a report. We are meeting again at my house Saturday morning at 9 o'clock.

I impressed upon everyone the necessity for secrecy.

Yours sincerely,

The President,
The White House.

February 13, 1941

My dear Mr. President:

At 9 o'clock this morning, the Secretaries of War, Navy and Agriculture, plus the Director of the Budget, Messrs. Bell, Young, Foley and Cox of my office, met to discuss the drafting of an appropriation Bill to be presented after the passage of the Lend-Lease Bill.

We made considerable progress and I asked Harold Smith to act as Chairman of a Sub-Committee to bring back a report. We are meeting again at my house Saturday morning at 9 o'clock.

I impressed upon everyone the necessity for secrecy.

Yours sincerely,

The President,
The White House.

February 13, 1941

My dear Mr. President:

At 9 o'clock this morning, the Secretaries of War, Navy and Agriculture, plus the Director of the Budget, Messrs. Bell, Young, Foley and Cox of my office, met to discuss the drafting of an appropriation Bill to be presented after the passage of the Lend-Lease Bill.

We made considerable progress and I asked Harold Smith to act as Chairman of a Sub-Committee to bring back a report. We are meeting again at my house Saturday morning at 9 o'clock.

I impressed upon everyone the necessity for secrecy.

Yours sincerely,

The President,
The White House.

February 13, 1941

My dear Mr. President:

I have had the enclosed very confidential chart prepared, based on information secured for me by O. N. I.

Please note that although the imports are below the stated requirements, they are almost equal to those of the first year of the war.

I have asked O. N. I. to please try and get the December figures as soon as possible, because I am under the impression that they will show an improvement.

Yours sincerely,

The President,
The White House.

February 13, 1941

My dear Mr. President:

I have had the enclosed very confidential chart prepared, based on information secured for me by O. N. I.

Please note that although the imports are below the stated requirements, they are almost equal to those of the first year of the war.

I have asked O. N. I. to please try and get the December figures as soon as possible, because I am under the impression that they will show an improvement.

Yours sincerely,

The President,
The White House.

February 13, 1941

My dear Mr. President:

I have had the enclosed very confidential chart prepared, based on information secured for me by O. N. I.

Please note that although the imports are below the stated requirements, they are almost equal to those of the first year of the war.

I have asked O. N. I. to please try and get the December figures as soon as possible, because I am under the impression that they will show an improvement.

Yours sincerely,

The President,
The White House.

Treasury Department
Division of Monetary Research

78

Date..... February 12, 1941 19

To: Mr. White

From: Mr. Kamarck

STRICTLY CONFIDENTIAL

This is the chart of the figures on imports.

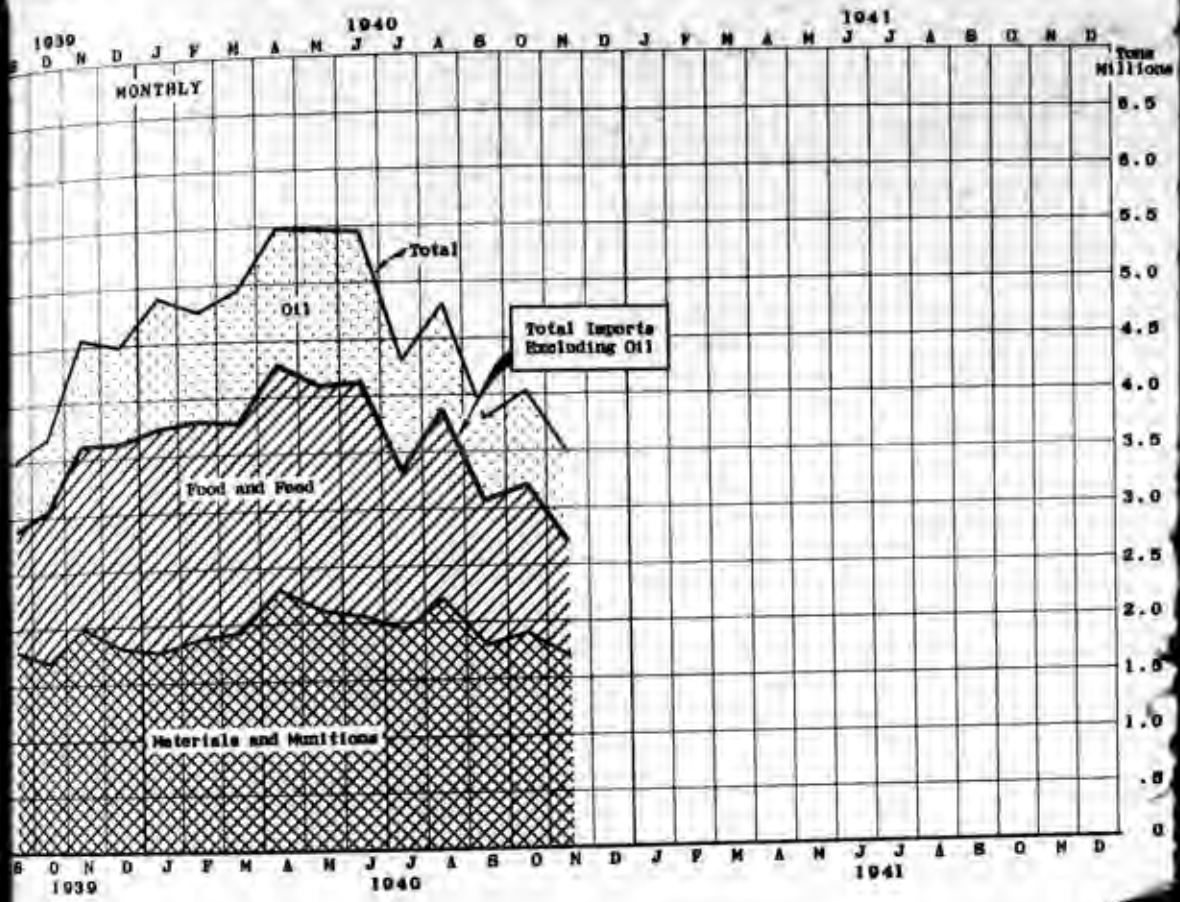
Note that though imports are below the program, they are almost equal to those of the first year of the war.

Captain Bode, Head of Foreign Intelligence, DNI, will expedite sending the December figures to us as soon as they arrive.

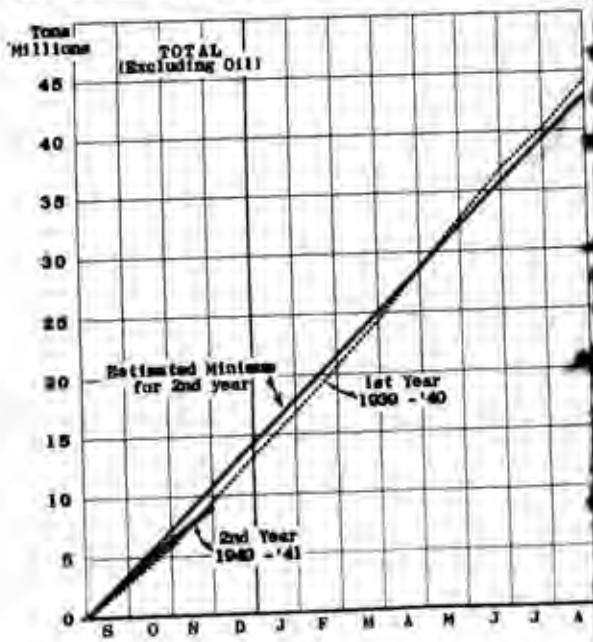
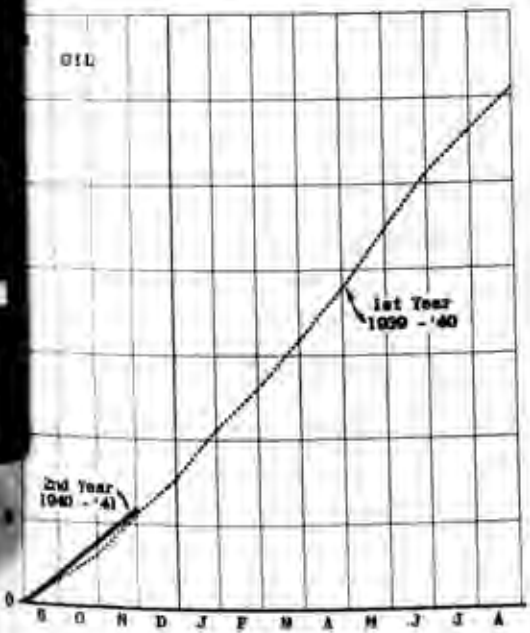
DD

MR. WHITE
Branch 2058 - Room 208

TONNAGE OF IMPORTS INTO THE UNITED KINGDOM



Cumulative Monthly, Second Year of War Compared with First Year



February 13, 1941

Dear Mr. Secretary:

At the direction of the Secretary of the Treasury, I am sending you herewith a copy of a table showing British requirements for the fiscal years 1941 and 1942, which was referred to at the meeting this morning, as well as a copy of an additional memorandum concerning British contracts.

Sincerely,

(Signed) Philip Young

Philip Young,
Assistant to the Secretary.

The Honorable,

The Secretary of the Navy,

Washington, D. C.

PT:jm

February 13, 1941

Dear Mr. Secretary:

At the direction of the Secretary of the Treasury, I am sending you herewith a copy of a table showing British requirements for the fiscal years 1941 and 1942, which was referred to at the meeting this morning, as well as a copy of an additional memorandum concerning British contracts.

Sincerely,

(Signed) Philip Young

Philip Young,
Assistant to the Secretary.

The Honorable,

The Secretary of War,
Washington, D. C.

PT:jm

February 13, 1941

Dear Mr. Smith:

At the direction of the Secretary of the Treasury, I am sending you herewith a copy of a table showing British requirements for the fiscal years 1941 and 1942, which was referred to at the meeting this morning, as well as a copy of an additional memorandum concerning British contracts.

Sincerely,

(Signed) Philip Young

Philip Young,
Assistant to the Secretary.

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

PH:ja

February 14, 1941
10:00 a.m.

RE BRITISH PURCHASING PROGRAM

Present: Mr. Phillips
Mr. Cochran

H.M.Jr: The principal thing I asked you to come for was this: Edward Peacock has been here now I guess about two weeks at least, hasn't he?

Phillips: Two weeks? It has been more than a week, yes.

H.M.Jr: Well, he came the day I left.

Cochran: It will be two weeks today that he arrived here, in New York.

H.M.Jr: And I don't think he has sold anything yet. The reason I say that, when he was here he said before he consummated a sale he would let me know.

Phillips: Yes.

H.M.Jr: And certain things have happened - yesterday a Cabinet member made the suggestion that we ask for all your securities to be put up, you see, which I turned down and then this whole question, you see, of the sale. I said I wouldn't dream of asking it, but when these things are brewing, I like to--

Phillips: Like to see some action.

- 2 -

H.M. Jr: Yes. For your information, you would be surprised who this was. It was Stimson. Now, when Stimson begins to talk like that, you see--

Phillips: Yes.

H.M. Jr: That is bad, because - I think that a little action and a little announcement on the sale of a couple of properties would help a lot right now.

Phillips: All right, I will see what can be done. I am just about a week out of date, but I know of one that can be done.

H.M. Jr: What is that?

Phillips: Viscose.

H.M. Jr: Whatever it is, if they could do something and then announce it. I just don't know who got to Stimson or who stirred him up on this thing.

Cochran: And this Jones statement came out just the day before.

H.M. Jr: Well, I saw Jones that night and I said, "Jones, isn't your suggestion just slightly illegal?" He said, "Sure it is, but I explained that." I said, "Well, the press didn't carry it."

Phillips: Yes, All right, I will see what I can find out about that, sir, and see if we can get any action on it.

H.M. Jr: That is my story.

February 13, 1941
12:40 P.M.

85 ✓

H.M.Jr: Hello.

Operator: Secretary Jones.

H.M.Jr: Hello.

Jesse Jones: Hello, Henry?

H.M.Jr: How are you?

J: Pretty good. How are you?

H.M.Jr: I'm alive.

J: Well, that's pretty good. Henry, who handles your - this certificate business where a fellow can amortize his plant in five years? Who handles that?

H.M.Jr: Well, we do - you mean -

J: In your office -

H.M.Jr: Well, of course the fellow who's worked on that is Foley but we don't certify, you know.

J: Well, who does?

H.M.Jr: Well, Army, Navy and Defense Commission.

J: Well - they certify?

H.M.Jr: We refused to have anything to do with it.

J: I see. Well, now what do they - they certify that a plant is necessary to national defense. Is that what they do?

H.M.Jr: Well, I'm not familiar; the things change so fast but either - is there somebody that you'd like to talk to about it?

J: Yes, that's what I wanted the -

H.M.Jr: Uh -

J: - the details.

H.M.Jr: Well, you like Foley, don't you?

J: Yes, certainly I do.

H.M.Jr: When would you like him to come over to see you?

- 2 -

J: Couldn't I talk to him on the telephone?

H.M.Jr: Yes, surely.

J: I'd like to talk to him on the phone first.

H.M.Jr: Oh surely.

J: Because we've got a loan here that's - they're relying on - it's sort of a semi thing - they're relying on the amortizing in - out of profits.

H.M.Jr: Well, if you'll just stay one second I'll have you switched, if you don't mind.

J: O.K. fine. Thanks.

H.M.Jr: Hello.

J: Yes.

Operator: Operator.

H.M.Jr: Mrs. Spangler, just put Mr. Foley on this too and I'll stay on for one minute; then Mr. Jones will talk to him.

Operator: Right.

H.M.Jr: Please. One minute, Jesse.

J: Yeh. We've got our machinery all worked out now so the Army and Navy can go just as fast as they want to.

H.M.Jr: I was across the street; that's why I couldn't call. Hello.

Operator: Go ahead.

H.M.Jr: Ed -

Edward
Foley: Yes, Mr. Secretary.

H.M.Jr: Secretary Jones is on the wire and he wants to ask you on this write off business and I said you knew all about it so I'll hang up now and if you'll do that or run over there; do any thing you can to help him.

F: All right, fine.

- 3 -

J: Ed -
F: Yes, Mr. Secretary.
H.M.Jr: Hello.

February 13, 1941
12:50 P.M.

H.M.Jr: Hello.

Jesse
Jones: Yes, Henry.

H.M.Jr: It is in person.

J: Hello.

H.M.Jr: Hello, Jesse.

J: I was talking with - I got through with Ed; he's going to call me back.

H.M.Jr: Yeh.

J: Well, I started to tell you that we had worked out our machinery on all this except that we are relying of course upon the War and the Navy to do their own negotiating.

H.M.Jr: Yes.

J: 'Cause we don't want to go into that.

H.M.Jr: Yes.

J: And so I think it's all in pretty good shape now.

H.M.Jr: Good.

J: And, so I don't know anything else that's hurting, do you?

H.M.Jr: No. No - things are - I think things are moving beautifully.

J: Yeh, well it seems so to me.

H.M.Jr: Yeh.

J: And -

H.M.Jr: Everything's moving along beautifully considering that we are what we are.

J: That's good. O.K. thanks.

H.M.Jr: Thank you.

February 13, 1941.

MEMORANDUM

TO: Secretary Morgenthau

FROM: Mr. Schwarz *CS*

I talked to Norman Baxter in Jesse Jones' office and he says that apparently a few of the reporters in their hurry to get stories on the wire yesterday afternoon skipped over one step in the possible transactions outlined by Jones. He says, however, that the attached story appearing in the Washington Post this morning is an accurate report of what was said at the Jones press conference. He explained that Jesse stressed the fact that the RFC had authority to lend money to "qualified American borrowers" such as banks, insurance companies, investment trusts, etc., and that if any such organizations wanted to put up American investments as collateral, that should be all right. Baxter said there would be no objection, if you are asked to comment, to clearing up what the Loan Administrator had in mind.

Copy to Mr. Kuhn

U. S. to Finance Purchase of British Firms

The United States Government stands ready to help qualified borrowers buy up Great Britain's \$900,000,000 worth of business properties in this country, Jesse Jones, Secretary of Commerce and Federal Loan Administrator, said yesterday.

"I see no reason why we shouldn't lend money to American investors to buy American investments," Jones told a press conference, explaining, however, that such loans could not be made to individuals.

The British own a variety of properties in this country, including manufacturing enterprises, real estate, distribution companies and retail concerns.

Liquidation to Be Slow

Sir Edward Peacock, British financial agent, has been in this country several weeks, charged with the duty of disposing of these direct investments.

He said yesterday at the Treasury that he would go slowly in selling them, in order to liquidate the properties "in an orderly fashion."

Disclosure by Secretary Jones that the United States Government would lend money to prospective buyer of the British investments was expected to speed up the liquidation process.

Investment companies and other large financial institutions, but not individuals, would be qualified for the loans, Jones implied.

Other experts predicted that investment trust companies would not be likely to borrow money to acquire the British properties, but that investment bankers would probably be interested.

Two Syndicates Interested

Two investment syndicates are considering buying some of the British properties. They discussed the matter several weeks ago with Secretary of the Treasury Morgenthau and with David Schencker, investment trust expert of the Securities Exchange Commission.

If Jones' invitation is accepted by American investors, some of the best-known firms in the country may change from British to American hands.

Among them are leading insurance companies, an oil products company and a soap company.

February 13, 1941
3:13 P.M.

91 ✓

H.M.Jr: Hello.

Secretary
Stimson: Hello.

H.M.Jr: Want me to give you a hundred -

S: What?

H.M.Jr: I'd like to give you a hundred planes today.

S: (Laughs) Well, I need something. You've given me a paper here that rather appalled me.

H.M.Jr: Oh.

S: The ones that you sent -

H.M.Jr: Well, I give you all the good news.

S: Yes, all the good news.

H.M.Jr: Yeh.

S: Eighteen billions.

H.M.Jr: How much?

S: Eighteen.

H.M.Jr: Is that all?

S: Well, really, no seriously I'm staggered the way they have inched along up. I mean first they were going to take care of their commitments and their special weapons and they've dropped off one at a time. Now they're getting the whole of us. And they -

H.M.Jr: I'm sorry, Harry, what's that?

S: I - don't you hear me?

H.M.Jr: I - there was some talking here; I didn't hear you. Now I hear you.

S: I say they seem to - they are moving steadily along with us. I mean - telling us first that they could take care of the first commitments and the special weapons. Then, they drop off one at a time those; now they can't do anything.

H.M.Jr: Yeh.

- 2 -

S: And I think - I was just talking it over with McGloy here - the face of this paper -

H.M.Jr: Yeh.

S: Wouldn't it make - it's going to make a terrible impression on our people.

H.M.Jr: Yeh.

S: I mean everyone who deals with them - they'll think that they're just driving hard bargains with us and that they think we're too easy. Ought they not to - wouldn't it make a franker impression if they offered to turn over to us all these things that they're trying to realize on themselves?

H.M.Jr: You mean in the way of assets?

S: Yes. I'd say, "Here they are; now that's all they are."

H.M.Jr: Oh -

S: Take them. Realize on them; take them as security, or any way you like that way and -

H.M.Jr: Well, I think that would be an awful shock.

S: What?

H.M.Jr: I think that would be an awful shock to them. They're doing an awful good job on their selling.

S: Well, you know more about that than I do.

H.M.Jr: Well, they are.

S: I haven't - only heard the wrong end of it.

H.M.Jr: I'd be glad - well, anytime you want to see the facts, I'd be glad to show it to you. We get a daily report. I get a daily report...

S: Yes.

H.M.Jr: ... as to their securities and -

S: Well, I know. How about their other assets?

H.M.Jr: Well, Peacock just got here and he hasn't got started yet.

S: What's that?

H.M.Jr: I say Edward Peacock has just arrived.....

- 3 -

- S: Yes.
- H.M.Jr: and he's just getting organized. He hasn't started yet but they show every inclination of doing it. I - you don't - may I be very frank?
- S: I want you to be very frank.
- H.M.Jr: I don't think the two proposals make two and two make four. I don't think that because their program is so big that we should jump in and say that we're not satisfied.
- S: No, that's just a momentary reaction; I didn't mean that's a final impression but I -
- H.M.Jr: Well, do you mind -
- S: I'm trying to give you just the effect that this paper made on me and I'm a friendly witness.
- H.M.Jr: Well, listen, old man, you can give me all your impressions and then, if you don't mind, I'd like to say: Sleep on it. If you still feel that way Saturday morning, I'll talk to you about it again.
- S: Yes.
- H.M.Jr: I don't mind -
- S: Well, all right, I didn't have anything but your -
- H.M.Jr: I really think today that the British Treasury on their own are doing everything that I can ask of them.
- S: Well, that's -
- H.M.Jr: And just because -
- S: You're a much better witness than I am.
- H.M.Jr: They really are. And just because their war needs have jumped so I'd be very loath to step on their corns right now.
- S: I see. Well, all right, but -
- H.M.Jr: I'm here.
- S: Remember that we've got to make things get through here too.

H.M.Jr: I know. I know. If, after second thought, you still feel that way, call me again or we'll get together.

B: All right, that's good enough.

H.M.Jr: Thank you.

February 13, 1941

3:55 pm

Present:

Mr. Gaston
Admiral Waesche

HM, Jr: Admiral, I am dictating this.

The President told me today that -- this is very, very secret, that he has decided to send up to Greenland an expedition composed of Army, Navy and Coast Guard, Coast Guard to transport them, to make a survey and study of airfields. That they are going to work it through -- they are going to recognize Greenland as an independent State and, through the State Department, work with them and help them finance this thing.

He wants you to call on Admiral Stark and General Marshall, talk the thing over with them and get ready. Now you are also going to have to protect them. You will have to work that out, too.

Somebody told him they could go up there in April and A. Berle told me today that "Iceburg Smith" told him it's open now and you can get in any time.

Admiral Waesche: Julianebaab is where they have been talking about establishing a base. That may or may not be open. It is not open normally until the latter part of April, but this has been a free ice year and you may go into Julianebaab. Julianebaab is probably 100 or 150 miles south of Isortok Fjord and that is not open the year around and it's normally open from about April to September or October, but at times, depending upon whether the ice is heavy, heavy ice year or light, you can't get in earlier than that.

-2-

Mr. Gaston: Our relations up in Greenland are better than the Canadian.

HM, Jr: The President definitely does not want the English and Canadians to go in there.

You (Admiral Waesche) had better see Stark and keep it very "hush, hush".

Admiral Waesche: My understanding is Coast Guard is to furnish transportation and give them such other assistance as they want from Coast Guard.

oOo-oOo

February 13, 1941
5:00 P.M.

Jerome
Frank: Hello.

H.M.Jr: Jerome -

F: Yes, sir.

H.M.Jr: I was glad to see the news on the ticker for your sake - going to be a judge - and I'm sorry for my sake.

F: Thank you very much, sir. I hope this won't preclude my coming over and having that lunch on taxes one of these days.

H.M.Jr: Oh, no.

F: I'd really like to do that because it's getting hotter and hotter over here.

H.M.Jr: Taxes?

F: Well, the effect of the tax - as the taxes get higher on - giving a deduction for interest without anything equivalent for dividends.

H.M.Jr: I see.

F: We'd like really to present - show you how it works.

H.M.Jr: No, I'd be glad to see you anytime.

F: Well, all right, fine. Thank you.

H.M.Jr: When are you going on the bench?

F: Well, I'm not confirmed yet.

H.M.Jr: But I mean -

F: Well, when they confirm me. I might not be.

H.M.Jr: Oh, I wouldn't worry about that.

F: Well, thanks for calling.

H.M.Jr: I'm delighted for your sake.

F: Bye.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rio de Janeiro, Brazil.

DATE: February 13, 5 p.m.

NO. : 96

A telegram has just been received by the Bank of Brazil from the B.I.S. at Basel raising the following questions:

1. What are the conditions under which gold would be accepted for deposit by the Bank of Brazil in Rio de Janeiro for the account of the B.I.S.
2. Would the Bank of Brazil be willing to accept gold bullion in New York in exchange for gold bullion in Rio de Janeiro provided a permit for such a transaction can be obtained from the Treasury.

There is to be no reply by the Bank of Brazil immediately and in the meantime the Bank of Brazil would be interested to know our views on this matter.

It would suit the Bank of Brazil to exchange about four tons of gold in this manner in connection with its own ordinary gold operations but not more than this amount.

CAFERY

RA:JSH

eh:copy

TO THE SECRETARY
 RECEIVED FEBRUARY 13 1946
 DEPARTMENT OF STATE

FEB 13 1946

RECEIVED
 DEPARTMENT OF STATE

SECRET AND CONFIDENTIAL

	<hr/>		
	1	2	3
<u>1940</u>			
May 10	3,209	3,101	1,874
Sept. 27	3,735	4,149	1,882
Nov. 29	4,185	4,398	
Dec. 31	5,004	4,586	1,804
<u>1941</u>			
Jan. 31	5,477	4,630	1,815

Confidential

*Rec'd from A. Purvis
Feb 13th 1941*

1. Stocks Hurricanes, Spitfires, Wellingtons,
Blenheims, Whitleys, and Hampdens.

2. Pilots

3. C. R. O. (Awaiting repairs and inspection)

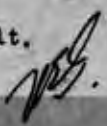
TO:

4/13/44

The Secretary

Harry Eaton told me today that the taking of commissions for ^(defense) getting government contracts has grown to large proportions; that commissions sometimes run as high as 5 per cent; that some army officers have been supporting the practice, and that the thing bears the possibility of a major scandal. He's going to write in the letter about it.

From MR. GASTON



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

February 13, 1941.

TO Secretary Morgenthau
FROM Mr. Kuhn

Harry White advises against getting into any controversy over Flynn's figures, unless you want to open up the whole question of Canada's assets here. He says that Flynn's figures about Canada are substantially correct, and that we shall be on weak ground if we try to dispute them in detail. He suggests sticking to the argument about the British "family" which you used on the Hill and at a previous press conference when you refused to tell about Canada's financial position.

If you are asked about Flynn, the following might be an answer:

"Mr. Flynn and I seem to be talking of different things. In my testimony on British assets here, I talked about the assets of the United Kingdom, the Government with which we are doing business. Mr. Flynn is talking about the assets of the British Empire, including Canada, Australia, New Zealand, South Africa, and India, all of which are carrying on war efforts of their own. Of course, Canada has assets of her own in this country; but Canada probably will need those assets for her own commitments before this war is over."

F.K.

THE AMERICAN METAL COMPANY, LIMITED
51 BROADWAY
NEW YORK

HKH:AA

February 13, 1941

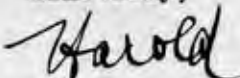
TELEPHONE BOWLING GREEN 9-1800
CABLE ADDRESS: EFFLUX, NEW YORK


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

Dear Henry:

I told Mr. Schott today that you would like to be kept posted on any important developments in connection with negotiations with the Russians for molybdenum. Schott told me that he has a written bid from them for 4000 tons of molybdenite concentrates. He has already received intimations from the State Department that no export license will be granted, but for the purpose of obtaining a clearer idea of the policy the Department wishes Climax to follow he has made an appointment with the Division of Control for 11 o'clock Tuesday morning, February 18th. At my suggestion, he will telephone you either before or after his visit to the State Department to ascertain whether you would like him to call on you, so that he may report to you verbally. If you have any other wishes, please let me know.

Sincerely,





TREASURY DEPARTMENT
WASHINGTON

February 13, 1941.

MEMORANDUM FOR THE SECRETARY:

Re: Public Relations Division

In accordance with your instructions given me some weeks ago, I have now completed an investigation of the personnel employed under Mr. Schwarz in the Public Relations Division.

You indicated to me that you lacked confidence in some, if not all, of the men working in the Public Relations Office. You indicated that you had the impression that they were not well qualified; that at least some had been failures with former employers and were hired here as the result of influence; and that some were users of alcohol to excess. You asked me particularly to investigate and report to you concerning these matters, and to advise you generally regarding the qualifications of the group.

I was assisted in the investigation by Special Agent in Charge Ralph R. Read, of the Intelligence Unit, loaned to me for the purpose by Mr. Ireys, who worked continuously on this assignment during the month of January.

-2-

The following men are employed under Mr. Schwarz's supervision:

Edward Mayl
Rex Herbert Lampman
Charles Paul Schaeffer
Francis Llewellyn King
Lee W. Schooler
Richard Stephenson

Each of these men was interviewed by Mr. Read, and the former employers of each were consulted either personally or by correspondence. The officers of the Department's several bureaus and services were questioned regarding the character and value of the work done by the members of Mr. Schwarz's staff, and their criticisms sought. In addition, Mr. Read made contact with the various press services with a view to determining their attitude and opinion regarding the efficiency and usefulness of the Treasury Public Relations Division.

Mr. Read has now given me the results of these inquiries, in the following form:

(a) A detailed individual report with relation to each of the six men above named; and

(b) A summary report containing his conclusions as a whole.

I am retaining the individual reports in my files. I attach a copy of the summary report, with the suggestion that you examine it if and when you find it possible to do so. For your convenience, however, Mr. Read's conclusions may be recapitulated as follows:

-3-

(1) With one exception (King), the six men reported upon have been recruited from the newspaper field, have had wide experience as reporters, news analysts, and writers, and are well adapted for their work. All have a good understanding of what is required of them, are industrious, and are willing to work, and do work, at all hours, day or night, when the necessity arises.

(2) The salaries paid are moderate, and it would be difficult to assemble a staff better qualified without paying much higher compensation than these men receive.

(3) The officers of the Department and its various bureaus and branches are on the whole well satisfied with the service rendered by Mr. Schwarz's staff, and the individual members of the group are uniformly well regarded within the Department.

(4) The press associations, and such newspapers as were contacted incidentally, highly commend the Treasury Public Relations Division. One press association (INS) believes it to be the most efficient in the Government. The individual members of the staff have the confidence and respect of the press representatives with whom they come in contact.

(5) Any persons connected with the Treasury Public Relations Division who may have been given to the excessive use of intoxicants, or may have been guilty of drinking during office hours, have either been separated from the service, or have ceased to offend in this particular. No offenses of this kind have occurred within the last year. The conduct of the group in this respect has for a long time been in keeping with the conduct expected of responsible officers of the Department, and is such as to reflect credit on the Treasury.

(6) There has been a steady development in the value of the members of the

-4-

staff as they have become better acquainted with the details of the Department's activities, and an observable increase in the general level of the efficiency of the office as a whole.

(7) The division is administered by Mr. Schwarz on a sound and economical basis, and under his supervision should continue to gain in value and improve in efficiency.

Recommendations

I have devoted substantial time of my own to a study of this subject with Mr. Read, and in the main I agree with his conclusions as above summarized. My opinion is that the conditions of which you spoke to me have been corrected and that Mr. Schwarz's small staff is now well disciplined, and properly qualified to perform the duties of a public information service covering the routine activities of the Treasury Department.

There is, however, opportunity for greater service to the Department by this Division. Each new special problem of public relations--for example, the lend-lease bill, defense financing, or tax-exempt securities--requires special techniques in its handling. It might be well, so far as practicable, for such matters to be discussed in advance with Mr. Schwarz, probably taking advantage of the advice of Mr. Gaston and Mr. Kuhn, so as to permit the general lines of any desired publicity campaign to

-5-


be worked out. Then Mr. Schwarz will be in a position to say whether the Public Relations Division is able to undertake the new assignment without lowering the standard of its routine functions or whether additional help might be needed temporarily.

As you yourself suggested, it seems to me that the staff of the Division might advantageously be enlarged permanently by the addition of at least one or two analysts and writers capable of skillfully presenting the broader policies and programs of the Department in relation to such important matters as taxation, financing, etc. The present personnel does very well in maintaining contacts with the press, and in keeping the public informed, through press, radio, and motion picture channels, about the Department's routine activities. It is not, in my opinion, adequate, either in numbers or, with the exception of Mr. Schwarz himself, in ability, for the larger job indicated.

This situation can be met, I believe, without drastic action. I believe that all of Mr. Schwarz's present staff are usefully employed, and that none should be replaced. My recommendation is that Mr. Schwarz should be instructed to find for his group one or two additional persons, qualified to make a study of the public relations angles of Federal taxation and financing, to write releases, and to prepare statements, reports, speeches, and material in

other forms for the use of the Secretary and other officers of the Department on these and other similar subjects.

While I have no specific knowledge of persons available for such an assignment, I believe that it would be well, as a beginning, for Mr. Schwarz to make contact with the outstanding schools of journalism of the country, such as Columbia, Missouri, etc., with a view to enlisting their aid in discovering suitable talent from among former students. I feel that if these channels are followed, it will not be a matter of great difficulty to find well qualified young writers who could add greatly to the usefulness of Mr. Schwarz's organization to you personally, and to the Department as a whole.


Harold N. Graves
Assistant to the Secretary.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 13, 1941.

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£88,000
Purchased from commercial concerns	£32,000

The Federal Reserve Bank of New York sold £5,000 in registered sterling to a non-reporting bank.

Open market sterling remained at 4.03. Transactions of the reporting banks were as follows:

Sold to commercial concerns	£11,000
Purchased from commercial concerns	£22,000

The Chinese yuan, which declined to 5-5/16¢ in Shanghai last week, has since recovered. A quotation of 5-1/2¢ was received from that center this morning, and the gain of 1/16¢ over yesterday's level was attributed to speculative selling of dollars induced by renewed uncertainty over the prospect of an extension of our foreign assets control, and rumors of growing tension between Japan and America.

As for the other currencies, there was a moderate improvement in the Canadian dollar and some decline in the Argentine and Cuban pesos. Closing quotations were:

Canadian dollar	16-7/8% discount
Swiss franc (commercial)	.2323-1/2
Swedish krona	.2386
Reichsmark	.4005
Lira	.0505
Argentine peso (free)	.2365
Brazilian milreis (free)	.0505
Cuban peso	7% discount
Mexican peso	.2066

There were no purchases or sales of gold consummated by us today.

In our report of December 13, mention was made of the repurchase, by the Bank of Brazil as fiscal agent of the Brazilian Government, of one-half of the 200,000,000 milreis originally purchased on October 15 by the U. S. Stabilization Fund. These transactions took place under the terms and conditions of the agreement set forth

(the letter of July 15, 1937 from the Secretary of the Treasury to the Brazilian Minister of Finance, as supplemented and modified. It will be recalled that (1) when the original purchase of 200,000,000 milreis was effected, the Bank of Brazil as fiscal agent of the Brazilian Government was credited with \$10,000,000 on the books of the Federal Reserve Bank of New York as fiscal agent of the United States, and approximately \$10,104,000 worth of Brazilian gold was set aside as collateral by the Federal, and (2) upon Brazil's repurchase of 100,000,000 of the milreis on December 13, the Brazilian dollar account was debited with \$5,000,000, accompanied by the release from the collateral account of about \$5,041,000 worth of gold. Today, Brazil repurchased the balance of 100,000,000 milreis by authorizing the Federal to debit the Brazilian dollar account with approximately \$5,036,000 (the \$36,000 representing the equivalent of interest accumulated in milreis under the terms of the agreement). The Federal returned the balance of about \$5,063,000 in gold from the collateral account to the earmarked account of the Bank of Brazil as fiscal agent of the Brazilian Government.

The Treasury issued licenses under both the Gold Reserve Act and Executive Order No. 8389 as amended, permitting the Federal Reserve Bank of New York to effect the following transfers of gold in its vaults:

\$451,500 from the National Bank of Denmark's account to B.I.S. account No. 2, and a like amount from B.I.S. account No. 2 to the account of the Bank of Portugal.

The above operation represents a purchase of gold by the B.I.S. from the Danish Bank and a sale of the same amount of gold by the B.I.S. to the Bank of Portugal. Payment will be made in dollars on the books of the Federal Reserve Bank of New York.

The State Department forwarded cables to us stating that the following gold shipments had been made:

\$6,630,000	from Australia, shipped by the Commonwealth Bank of Australia, Sydney, to the Federal Reserve Bank of San Francisco, for sale to the U. S. Mint. In the past, the proceeds of sales of gold sent by the Commonwealth Bank have been credited in part to British and in part to Australian account.
624,000	from Chile, shipped by the Central Bank of Chile to the Federal Reserve Bank of New York, disposition unknown.
113,000	from Australia, shipped by the Bank of New South Wales, Sydney, to the American Trust Company, San Francisco, for sale to the U. S. Mint.
<u>\$7,367,000</u>	Total

No gold or silver prices were received from Bombay today.

In London, the price fixed for spot silver was 23-5/16d, unchanged from Tuesday's level. The forward quotation was 23-1/4d, off 1/16d. The dollar equivalents were 42.33¢ and 42.21¢ respectively.

Hendy and Harman's settlement price for foreign silver was unchanged at 34-3/4¢. The Treasury's purchase price for foreign silver was also unchanged at 35¢.

CONFIDENTIAL

- 3 -

We made four purchases of silver totaling 300,000 ounces under the Silver Purchase Act. Of this amount, 250,000 ounces consisted of new production from foreign countries, for forward delivery. The other 50,000 ounces represented part of a shipment of 822,000 ounces sent to this country last month by the Central Bank of China.

**CONFIDENTIAL**

MM

PLAIN

Tokyo via Shanghai
and N.R.

Dated February 13, 1941

Rec'd 8 a.m., 15th

Secretary of State,

Washington.

ATTACHE COMMERCE.

"30 February 12th.

Annual economic review 1940 mailed February 10th.

Following is summary.

General resume. From events transpiring Japan and abroad during 1940 there emerged two crystallized objectives this country; establishment highly organized national defense system and creation greater East Asia coprosperity sphere. During greater part year therefore major efforts directed toward readjustment nation's economy along those lines considered most practicable for actual realization this objective. Inability terminate China incident and repercussions European war intensified urgency such efforts and chiefly responsible birth new national structure movement, hastening plan greater East Asia coprosperity sphere and conclusion Tripartite Pact.

- 2 -

Efforts expended during year towards economic re-organization centered almost entirely strengthening state control which extended every phase nation's life-- industrial, financial, agricultural, commercial, political and social. Despite progress made this direction one outstanding feature general economic activity 1940 was recession clearly discernable industrial production, agricultural output, financial developments, foreign trade, ordinary business transactions and profits and degree prevailing internal prosperity.

Industrial production. All available indices and reports indicate slow deterioration industry under continuous strain protracted struggle China, broad extension state control, serious shortages essential material, labor and electric power and further decline industrial efficiency. Major policy expanding nation's productive capacity encountered numerous obstacles chiefly defects in controlled economy. Materials mobilization plan met difficulties from low level mining, industrial and agricultural production and curtailed imports. Extensive economic plans for yen bloc areas also fell short their objective as receipts raw materials from occupied China

- 3 -

continued disappointing for economic penetration into that country has as yet shown little profit. Heavy industries suffered greatly from shortage materials which dilemma also extended those plants turning out consumers products but in their case was intensified by decline export demand and restrictions placed on domestic sales. For first eight months year general industrial production index showed drop three point six percent and manufacturers index four point five percent while mining was up two point eight percent consumer. Extensive recession occurred output cotton yarns and textiles, silk yarns and rayon yarns and textiles but silk textile production advanced on heavier demand as substitute for cotton goods. Principal factors responsible volume decline industrial production primarily same those regarding output previous year namely shortages skilled labor, materials, fuel, and electric power.

Cotton spinning and weaving industry operated on greatly reduced basis during 1940 decline from relatively high level activity prevailing 1939 being result slump cloth shipments foreign markets due primarily spread European hostilities and consequent inaccessibility

- 4 -

certain markets, intensification exchange and import restrictions by warring nations and their overseas possessions and to overstocked conditions certain markets result heavy speculation purchases made latter part thirty-nine. Reflecting decreased activity this industry employment indices show six point one percent decline between September thirty nine and September forty. During past year this industry was important consumer American cotton but prospects for 1941 season not bright. Whereas imports American cotton reached almost nine hundred thousand bales during cotton year ending July 31, 1940 or about forty percent total it is reliably estimated forty forty-one takings will not exceed two hundred fifty thousand to three hundred thousand bales.

Operating conditions iron and steel industry unfavorable 1940 and volume production undoubtedly below level thirty-nine due acute power and fuel shortages; sharp decline volume scrap iron imports result scarcity foreign exchange and virtual cessation imports after application licensing system by United States of America; poorer quality scrap available and reduced arrivals pig iron and iron ore from British India and British Malaya result

- 5 -

dearth shipping facilities and export restrictions. Greatest problem facing industry end year was finding solution problem created by licensing of scrap iron shipments from United States of America for shortage expected drastically curtail steel mill operations during coming year.

Agriculture. Value agricultural output approximately eight one half percent below thirty-nine, chiefly result shortage fertilizer labor and prevailing unfavorable weather conditions. Rice crop lower by eleven point seven percent comp thirty-nine and six point six percent below five year average. Cocoon production off three point six percent and barley three percent but gain occurred wheat output eight percent. Government control was extended distribution numerous agricultural products especially rice, sugar, charcoal and eggs, official price fixing regulations applied practically all farm products and rationing system staple food supplies instituted. Agricultural incomes estimated four billion yen, decline eight point six percent from thirty-nine. Plans projected widespread expansion agricultural output through medium planned production rice and other staple

- 6 -

foodstuffs, improvement tillable land and increased production fertilizers. Raw silk prices during first six months dropped from high of two four one zero yen in January to low of one three five zero at which level stabilized by government purchases totalling one hundred thousand bales. Total exports during year estimated two eight nine three eight two bales, decline twenty five percent, thirty-nine. Shipments United States of America estimated two five four eight one zero bales decrease twenty three point one percent comp thirty-nine. Decline exports other countries considerably higher. Existing depression due primarily diminished demands American importers, government price and distribution control and anti-luxury legislation prohibiting domestic sales high grade silk textiles.

Rice. Serious shortage prevailed latter part year despite imports around sixty million bushels. Reduction domestic consumption achieved by compulsory use such substitutes as bread, noodles, potatoes and beans and by mixing domestic rice with foreign rice and barley. Local rationing systems have been established various

- 7 -

parts country and it is anticipated nationwide ticket system will come into force during forty-one. In addition government regulations enforced during 1940 resulted official control supply distribution rice. Nevertheless fairly active imports foreign rice will again be necessary forty-one.

Financial developments. More pronounced strain on financial resources manifested by increase yen one one one two three seven seven thousand in note circulation, decline twelve percent rate national bond absorption, rise yen six six six eight million or almost twenty four percent national debt, enforcement substantially heavier taxes, sharp recession exports foreign currency countries, striking increase one one seven percent import excess with those areas and reduction fifty percent value exports gold. By end forty China incident had cost Japan over sixteen billion yen and still remained nation's major problem further complicated by European war developments. Demand for funds rose consistently from urgency national bond absorption and industrial production expansion program. Efforts satisfy these demands not overly successful for decided scarcity funds prevailed especially during latter half year.

- 8 -

Furthermore there appeared complete signs recession from high degree internal prosperity and economic activity attained through thirty-nine as result China incident. Rates increase bank deposit, postal savings and bond absorption dropped; business profits and value bill clearings were lower; number value dishonored bills notably higher; and marked decrease accrued number applicants for permits for capital increases and for establishment new businesses. Also there was decline in production volume, unprecedented demand for cash which stiffened money rates, substantial shrinkage in corporate debenture market and steady downward tendency throughout year in stock market transactions and prices. Ordinary banks adopted more cautious attitude toward applications for loans, there was greater participation in industrial finance and bond absorption by semi-government banks and Deposits Bureau and government control was strengthened over corporate and private funds and bank loans. Total budget allotments 1941-42 will approximate thirteen billion yen and bonds issued seven five zero zero million yen as compared yen two two seven eight million and six eight four million respectively for

- 9 -

1936 to 37. National bonds issued during 1940 totalled yen six six eight five million against yen five two eight one million in thirty-nine and yen four three three zero million in thirty-eight. Sales during year reached yen five two three four million gain yen five three one million over thirty-nine. For thirty-eight rate bond digestion was eighty seven point four percent, for thirty-nine eight nine point two percent but for forty only seventy eight point five percent, decline twelve percent from previous year. This unsatisfactory situation arose from unusually heavy demand industrial funds, prevailing tight money market, general decline business activity, higher living costs and dawning realization nation's economy cannot under existing pressure indefinitely guarantee service and face value these bonds.

Legislation. One salient feature financial trends during year was very obvious determination government conscript all available funds for wartime industries and bond absorption. To this end efforts made establish high degree planned financial by regulation credit and bringing under state control all private corporate and bank funds. Several important ordinances enforced accelerate conscription funds and promote private
investments

- 10 -

investments in bonds.

Money market. Government's major policy expanding productive capacity, higher commodity and material prices, pressure from high national bond financing and mounting stocks unsold merchandise created during year especially latter half greatest demand for cash in nation's history. Money rates were considerably higher throughout July December period maintaining level to point five five five percent against normal two point three seven two five percent.

Bill clearings. Incentive for moderate level business activity prevailing during year was not from degree internal prosperity or formal transactions as in thirty-nine but rather from high volume government disbursements exemplified by decline for first time in several years in total number bill clearings. Of even greater importance was sharp reversal in trend dishonored bills these establishing record high in number and value for past several years.

Stock market. Caution, apprehension dominated stock market sentiment and share prices followed steady downward tendency throughout year. Power shortage anticipated spread European war, tightening economic control, action

- 11 -

United States of America in placing so many essential materials under license system, evacuation Americans from Far East, tenseness international relations and official action curb speculative buying all acted as deterrents to trading and price advances.

Foreign exchange. Greater paucity foreign exchange demonstrated almost complete stoppage issuance exchange permits for export nonmilitary materials, more rigid supervision all exchange transactions and by enforcement additional control measures. Such permits as were being granted for transfer increased frozen American merchandise funds were discontinued October. Yen sterling rates fluctuated widely early part year reaching high one shilling five pence May 8th. On May 11th Yokohama Specie Bank stopped sale pound exchange bills but with stabilization New York London cross rate latter part May normal rates again became effective. Yen dollar rates were steady at twenty three seven sixteenths. Visible merchandise import balance with foreign currency countries for 1940 estimated yen eight eight zero million against yen four zero five million thirty-nine. Goods shipments only fifty percent those for previous year. Receipts from invisible payments will likewise fall far below

- 12 -

those for thirty-nine result almost complete cessation tourist travel, departure many foreigners, curtailment shipping activities and decline in foreign trade. Endeavors expedite gold production intensified through adoption premium system and other measures, but gauging production by shipments it does not appear that these efforts met with any noticeable degree success.

Life insurance contracts in force end October reached yen two nine six one one million against yen two four four nine three million at end December thirty-nine. Insurance companies took more active part general financial than heretofore and their stock exchange purchases contributed materially to degree stability shown in share prices.

Capital payments. In meeting year's demand for financial bonds and industrial expansion more extensive use was made Government funds. It also became evident from bond holdings that private banking institutions and public cannot be relied upon to carry mounting wartime expenditures. Capital payments for first eleven months reached yen nine nine eight one million up yen nine four seven million over end November thirty-nine. Payments for government and bank bonds were higher by two points

-13-

three percent and one three zero percent respectively but corporate debenture payments fell nine one half percent. Stock payments at yen two one four two million rose yen six zero two million.

Foreign trade. International commercial relations subjected numerous impacts. Absence commercial treaty with United States of America gave rise considerable anxiety over disruption trade between two countries. This apprehension well founded for during year exports wide variety products including industrial chemicals, machine tools, petroleum products, iron and steel scrap, pig iron, iron and steel finished products, abrasives, machinery, et cetera were placed under United States Government's export licensing system and shipments on items to Japan materially reduced during latter part year. Relations with Soviet Russia showed no appreciable improvement. Military advance into French Indochina had very significant economic objective as shortage Japan's rice crop made foreign supplies imperative. Closer contact made with Netherlands East Indies to insure adequate supplies oil and other products and more strenuous efforts directed towards improving trade relations with South America and Mexico. War conditions accentuated tension

-14-

with Great Britain but trade with British Empire continued very important contribution Japan's economy despite dwindling volume and restrictions on exports to Japan of several vital materials by Canada, Australia and India. Release detailed foreign trade statistics prohibited as of October 16 but from such information as available it is strikingly evident that trade results were far from satisfactory. Total for year reached yen seven six eight one million higher by eight point seven percent than for thirty-nine. Exports were disappointing with only one percent gain with larger percentage yen bloc areas and sharp decline occurring shipments foreign currency countries. Imports were up nineteen percent with purchases from foreign currency areas particularly United States of America about seven percent above thirty-nine. Trade during latter part year dwindled substantially and imports were confined almost entirely to war materials and supplies. Principal commodity value increased export trade occurred shipments marine products, rayon yarn, porcelain, iron manufactures, automobile products and machinery. These gains however were largely offset by heavy declines raw silk, canned goods, tea, lumber and vegetable oil. Imports oil yielding materials, crude

-15-

sulphate ammonia, cotton, wool, coal and pulp all registered notable gains but arrivals beans and peas dropped below thirty-nine level due shortage available supplies from Manchuria. Imports from United States of America during first nine months increased about six percent value consamer while exports remained approximately same level. Arrivals raw cotton, certain steel products, wood pulp and tinplate all registered large gains but imports scrap iron, lead, aluminum and automotive products were lower. There were substantial declines of twenty eight percent in volume and five percent in value in shipments raw silk to United States of America but exports canned crab and various miscellaneous items were heavy enough to substantially offset this loss.

Business activity. While domestic business experienced certain degree prosperity this was largely offset by higher commodity prices, scarcity supplies and officially restricted business activities. Moreover inflationary trend substantially checked by government price fixing system. Dissatisfaction prevalent over inferior grade merchandise offered, shortage staple food items and apparent unympathetic attitude official class toward small and medium sized businessmen who had been forced

-16-

give up their business entirely and seek other means support. In field large business interests there were unmistakable signs that some largest and oldest established corporations were on downward from inefficient management, financial strain and effects unsound state control measures. Some these concerns are chief support for key industries.

Transportation. Japan's entire commercial transportation system is in very decrepit state. Railway equipment is old and urgently need repairs. Trucks and buses have been running for years without proper replacements and lubrication and private cars have been reduced to extremely small number through import restrictions, wear and tear, lack proper upkeep and scarcity gasoline. Majority such units have been converted into charcoal or gas burners both of which have proved most unsatisfactory. Roads have deteriorated and very few miles of new hard surface highways have been constructed during past few years. Shipping facilities likewise deteriorated largely from military conscription bottoms for transports, shortage coal and lack materials for repairs. Extreme difficulties have been met with by importers in obtaining sufficient space for coal, iron

ore and other important products acquired in East Asiatic ports. European war forced market curtailment overseas sailings, which with contraction in exports to foreign currency countries has substantially reduced receipts from invisible payments.

Employment and wages. Perceptible decline occurred in increase in rate employment Japanese industries during year. Whereas there was approximate gain ten percent during first nine months thirty-nine there was only two point four percent increase between September thirty-nine and September forty. During same period employment textile industry fell six point one percent and seven point nine percent decline occurred paper industry. Most employees added factory payrolls were engaged by large scale enterprise, that is those having more than fifty workers. Average wage rates were eight point two percent higher during first nine months than consamer. Actual income rose as result longer working hours, increase over previous year amounting ten percent. Both wage rates and earned income were significantly below rise in living costs of working class which amounted eighteen point three percent.

Commodity prices and living costs. Beginning 1940 it was obvious that question checking upward trend commodity prices and living costs was one of outstanding economic

-18- February 13 from Tokyo.

economic problems facing Japanese nation since marked rises subsequent outbreak China incident were definitely responsible higher production costs in industry and general lowering standard living of masses. Obviously no degree control instituted could check rising costs vital foreign raw materials required by defense industries but producers were compensated for higher costs of materials required by iron and steel industry by official subsidies. Subsidies were also granted prevent increasing production costs being passed on to consumers of coal and matches. Average wholesale prices during first eleven months were thirteen point three percent higher than consumer. Definite downward trend prevailed in wholesale prices from January through August but fractional gains were registered during closing months year--a development attributed more to export trade prospects than to official price control measures. Retail prices increased to even greater degree, average for year being seventeempoint three percent above thirtynine level. Average wholesale and retail price indices for first eleven months indicate former having risen by thirty percent and latter by fifty point five percent since outbreak China incident. Living costs for salaried workers were an average of seventeen point four percent higher during year than thirty-nine while gain for laboring class was even greater at eighteen point

point three percent.

Outlook for forty-one. Trend Japan's economy not only for forty-one but for many years to come depends almost entirely on outcome European war. Certain progress has been made toward realization two major objectives: establishment highly organized national defense system and creation greater East Asia co-prosperity sphere. Vast preparations for more extensive war now under way. All resources this country, China and Manchuria are being mobilized, production war materials and supplies being speeded up, labor being regimented and reallocated, financial resources being conscripted, foodstuffs being preserved and legislation enacted giving Government sweeping powers over all matters pertaining national defense. These efforts being strongly supported large majority Japanese people notwithstanding hardships and deprivations they envisage and those already being suffered from four year embroilment in war with China.

Certain degree success has been achieved in establishment greater East Asia co-prosperity sphere with subjugation good part French Indochina and improvement relations with Thailand but actual consummation this grandiose sphere depends entirely upon nature and scope interference offered by United States of America and

Great Britain.

-20- February 13 from Tokyo.

Great Britain. On this one issue rests destiny Japan. Any attempt forecast trend of developments during coming year therefore must be prefaced by emphatic if Japan is not drawn into European war.

Regardless whether Japan becomes embroiled European war her general economy during forty-one must inevitably continue recessionary trend prevailing during 1940. Demands on industrial production will certainly be intensified as will difficulties encountered securing adequate supplies raw materials, labor, coal and electric power. Vanishment United States of America as reservoir essential materials will leave wide gap in supply and demand position, one impossible bridging by shuffling sources supply. Stocks on hand are an enigma but it is believed that these represent very limited quantity. With declining efficiency transportation facilities particularly shipping it will be increasingly difficult obtain delivery even limited volume materials available Manchuria, China and French Indochina. Greater stringency must therefore also be exercised in supply civilian demands with even further curtailment daily necessities.

From financial standpoint strain of national bond absorption will be felt more acutely than heretofore for business profits will decline, commodity prices advance,
production

-21- February 13 from Tokyo.

production costs rise and living expenses mount record levels. Numerous methods will be employed augment national savings and more completely concentrate all financial resources in hands Government. Foreign exchange will be more rigidly controlled but money will be secondary importance for this is era of commodities not money. Continued tension will most likely prevail money market from loss equilibrium between supply and demand capital and all financial situations will become further weakened from surfeit national bond holdings.

International relations very problematical for if all international diplomacy is to be governed by axis motives relations with many countries, United States of America in particular, are fraught with much danger. Commercial relations therefore will be seriously impaired and foreign trade with dollar and sterling areas notably reduced despite sore need essential materials. More extensive utilization yen in settlement international accounts will be attempted ease pressure on foreign exchange balances. Export trade with other areas will be vigorously pursued through compensatory trade agreements and barter system to insure the largest possible quantities imports essential goods. Nevertheless sharp drop in both exports and imports is expected.

Further aggravation conditions expected due more pronounced shortages fertilizers, labor, farm implements and

farm

-22- February 13 from Tokyo.

farm animals despite official measures instituted augment supplies and extension state control over distribution and consumption farm products. No optimism warranted for increased grain production and outlook for raw silk industry extremely gloomy as this product faced with probable loss chief market and main source revenue. Governments price fixing policy precludes all possibilities any broad advance agricultural prices of lands. Farm income therefore will show little improvement, financial problems will be intensified and living conditions will grow worse. Furthermore national bond absorption program calls for more positive participation bond purchases by rural population. End. Signed Williams"

Inform Commerce.

GREW

HSM

TO THE SECRETARY
 ECONOMIC SERVICE
 WASHINGTON, D. C.

BY AIR MAIL FEB 13 1942

THE SECRETARY
 ECONOMIC SERVICE

DEPARTMENT OF STATE
Washington

135

February 13, 1941

In reply refer to
EA 811.5151/Control/9/11

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses a copy of despatch no. 1220 dated January 27, 1941 from the American Legation at Port-au-Prince, and a copy of despatch no. 1226 dated January 29, 1941 from the same Legation, regarding the desire of the Yokohama Specie Bank to remove its funds from the United States.

Enclosures:

1. No. 1220, January 27,
from Port-au-Prince.
2. No. 1226, January 29,
from Port-au-Prince.

eh:copy

Port-au-Prince, Haiti, January 27, 1941

Subject: Desire of the Yokohama Specie Bank to remove its funds from the United States.

CONFIDENTIAL

The Honorable

The Secretary of State,

Washington, D. C.

Sir:

In confirmation of my telegram no. 11 of January 27, 12 noon, 1941, I have the honor to report that the Fiscal Representative has informed me that the New York Office of the Yokohama Specie Bank telegraphed the Banque Nationale de la Republique d'Haiti to inquire if the latter would be prepared to take over all of its New York accounts, to receive all remittances from South America, and to carry out the instructions of the head office of the Bank in Tokio. The Fiscal Representative further reported that the Banque Nationale was replying in the affirmative.

The desire of the Yokohama Specie Bank to have the Haitian National Bank act as its clearing agent for its American and South American accounts would appear to have a most serious implication. I shall keep the Department promptly informed of all developments.

Respectfully yours,

Edward J. Sparks
Charge d'Affaires ad interim

EJS:LS

851.6

eh:copy

A true copy of the signed original.

LEGATION OF THE
UNITED STATES OF AMERICA

Port-au-Prince, Haiti, January 29, 1941

No. 1226

Subject: Desire of the Yokohama Specie Bank to remove its funds
from the United States.STRICTLY CONFIDENTIAL

The Honorable

The Secretary of State,

Washington, D. C.

Sir:

With reference to my despatch no. 1220 of January 27, 1941, I have the honor to transmit herewith, for the strictly confidential information of the Department, a copy of the letter of January 23, 1941, which the Yokohama Specie Bank, Limited, New York Agency, addressed to the Banque Nationale de la Republique d'Haiti.

Respectfully yours,

EDWARD J. SPARKS
Charge d'Affaires ad interim

Enclosure:

1. Copy of letter.

EJS:LS

851.6

eh:copy

COPI

(Received Banque Nationale 138
Jan. 27, 1941)

THE YOKOHAMA SPECIE BANK, LIMITED
New York Agency
120 Broadway
New York

In reply
Address Attention
Import Department

January 23, 1941

Banque Nationale de la Republique d'Haiti,
Port of Prince,
Haiti.

Gentlemen:

We are desirous of making an agreement with your good institution under which we will be in a position to open a deposit account with you at any time we may so decide. This account may be utilized and/or disposed of by us and/or our Tokyo Office (President Office).

Payments, representing the proceeds of our collections will be made into this account by our various correspondents in Central America and the West Indies. The collecting banks will be instructed by us to remit to you for the credit of our account. These remittances will be made in U. S. dollars, Japanese Yen or possibly your home currency.

We will thank you to inform us by return airmail regarding the following points:

- (a) Whether or not you are in a position to make agreements for such demand deposits in the currencies mentioned.
- (b) The rate of interest you are prepared to allow for such deposits.
- (c) Whether or not there are any exchange control restrictions regarding such deposits.
- (d) Whether there are any other existing regulations restricting remittances of such deposits to a third country, such as the United States, Japan or any other country in South America.
- (e) May such deposits be remitted to any designated country or countries in Yen or U. S. Dollars.

If there is any other information or suggestions that you care to supply in connection with the agreements proposed, we will appreciate it very

much.

We thank you for your kind attention to this matter.

Very truly yours,

THE YOKOHAMA SPECIE BANK, LIMITED
(signature illegible)
pp. Agent

ED
C. Hanson
N. Hanno

TO THE DIRECTOR
TECHNICAL SERVICE
OFFICE OF THE

eh:copy

24 FEB 12 5 5 30

YOKOHAMA SPECIE BANK
RECEIVED

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

February 13, 1941

To: Files
From: J. W. McKeonSubject: Banco di Napoli Trust Company of
New York

Mr. C. A. Herring of the Federal Bureau of Investigation came in on Tuesday afternoon and asked our assistance in clarifying for them the picture of the recent operations of the Banco di Napoli Trust Company of New York. The F.B.I. had learned of the recent visit made by us to the Corn Exchange Bank Trust Company of New York for the purpose of checking on some of the recent transfers made by the Banco di Napoli Trust Company from the Federal Reserve Bank to their account at the Corn Exchange Bank Trust Company. Mr. Herring and I went over my memorandum of February 6 which contains the findings of my visit.

I also referred Mr. Herring to my memorandum of February 7 regarding the weekly foreign exchange reports of the Banco di Napoli Trust Company for the weeks ended January 29 and February 5, 1941, and gave him the complete picture.

Mr. Herring telephoned this morning and asked if we knew the exact dates of the heavy cash withdrawals noted in the above-mentioned memoranda. I told him that unfortunately we do not know the exact dates but that I have reason to believe that the withdrawals were made immediately after the items had been cleared and collected.

Mr. Herring said that the information he had obtained was very helpful to the F.B.I. and that he would call us in a day or so.

JWCK:BOC

da

RESTRICTED

G-2/2657-220
No. 315

M.I.D., W.D.
February 13, 1941
12:00 M.

SITUATION REPORTI. Western Theater of War.

Air: Bad weather prevailed over Great Britain and western Europe. Minor activity only on both sides. The Germans claim a successful coordinated aerial-submarine attack on a large convoy in the eastern Atlantic in the latitude of Portugal.

II. Greek Theater of War.

Ground: Minor operations.

Air: Scattered Italian activity in the combat zone.

III. Mediterranean and African Theaters of War.

Ground: British progress continues in northern Eritrea where the important road junction of El Ghena has been captured. Elsewhere, no change in the situation.

Air: German. Attacks made on British troops and installations along the Libyan coast.

British. Fairly heavy support of the attack in the Keren area.

Note: This military situation report is issued by the Military Intelligence Division, General Staff. In view of the occasional inclusion of political information and of opinion it is classified as Restricted.

RESTRICTED

Paragraphs of Code Radiogram
Received at the War Department
at 9:19, February 13, 1941.

London, filed 14:30, February 13, 1941.

1. On Friday, February 14, planes of the British Coastal Command attacked German cargo ships and harbor installations at two ports in Holland and carried out attacks on German shipping off the Norwegian coast during which one tanker was set on fire. During the same day one British plane bombed an occupied French port. During the preceding night mines were planted along a part of the coast line of Norway by Coastal Command planes but the Bomber Command engaged in no activities on this night.

2. During the night of February 14-15 operations of the German Air Force against targets in England were more widespread and considerably heavier than in the past few weeks. A very severe attack was directed at London but the damage done has not yet been reported. There were no German losses although a number of interceptions were made by British night fighter planes. In addition German planes were plotted over the Bristol Channel, the Wash-Humber River area, and Liverpool Bay and over Bedfordshire, Buckinghamshire, Cornwall, Essex, Lincolnshire, Kent, Norfolk, Oxford and Yorkshire. During the preceding day ten German planes carried out an attack on East Kent. German aircraft casualties were one destroyed and one damaged and there was no damage to British military establishments.

3. In the Albanian theater Greek and British aircraft successfully attacked Italian troops, military buildings, and motor transports and

destroyed seven Italian planes during raids on Beirut, Dohi, Damascus, Tripoli and Tirose. British planes based in Egypt cooperated with land forces in that theater as did Sudan-based British planes with land forces in the Abyssin-Sudan region of British. A harbor on the Isle of Rhodes being used by the Italian Navy was attacked by British planes from Egypt.

4. The Libyan towns of Benghazi and Derna were attacked by German bombers with no resulting damage to military installations on February 14.

5. Invasion alert No. 3 is still in operation in London although there are no new reports on the invasion attempt. Neither is there any new data on the Far Eastern situation.

6. A tanker of British registry off the east coast of England was attacked by German bombers and damaged. Another British tanker in the Northwest Approaches was sunk by a torpedo. It is now known that the German raider which attacked a British convoy 200 miles east of the Azores on February 12 was either a cruiser of the ADMIRAL HIVER class or the German "pocket battleship" ADMIRAL GEMER. While the Germans claim the sinking of 13 vessels in this convoy and press reports indicate that six vessels were sunk, official figures put the losses at three ships totalling 15,000 tons.

DEARLAN

Distribution:

Secretary of War
 State Department
 Secretary of Treasury
 Asst. Secretary of War
 Chief of Staff
 War Plans Division
 Office of Naval Intelligence
 Air Corps
 6-3

CONFIDENTIAL

CONFIDENTIAL

**Summary of Gale Intelligence
Received at the War Department
at 0100, February 13, 1941.**

London, filed 1610, February 13, 1941.

1. On Wednesday, February 13, no British planes were over Europe. During the preceding night mines were planted along the coast of Holland and a compass base in Danish territory was bombed by Coastal Command planes. Activities of the Bomber Command consisted of 25 heavy bombers against Danvers, 79 against industrial installation in Bremen, and bombing raids against stores of petroleum in Rotterdam and against German manufacturing plants, transportation facilities, airfields and petroleum stores. Except for fires started in Danvers, Bremen, and Rotterdam and an explosion at the latter place, results of these attacks have not been reported.

2. During the night of February 12-13 Liverpool Bay and the Irish Sea were mined by a force of 25 German planes. In addition, Garry, Co. Wick, Sussex and Berkshire were visited by long German raiders. During the preceding day German planes, one of which crashed, were on reconnaissance missions over the North Sea and the Thames Estuary. Attacks by long German raiders were carried out against targets in Wiltshire, Hampshire, Suffolk, Berkshire, Norfolk and the Midlands.

3. Seabased British planes attacked supply points and motor transports at Amara and Chana in Eritrea with machine-gun fire

CONFIDENTIAL

and tanks. British bombers from Greece attacked Sypdon, Sidi (7) and Salween (7). Three Italian planes were destroyed in British attacks on three airfields at Rhodes. Four Italian planes were destroyed in raids on the Sicilian airfields of Catania and Catania. These attacks also resulted in an explosion and the starting of fires. The British advance in the Libya theater was supported by the Royal Air Force. In retreating from Benina, Libya, the Italians wrecked and left behind a total of 86 planes.

4. Malta was again attacked by German planes on February 4 but no damage resulted as all the bombs fell harmlessly into the Mediterranean.

5. The German Balkan Command is unofficially estimated as being composed of 25 divisions. Headquarters are said to be located in Bucharest. Ice on the Danube River is breaking up in this area. It is stated by the Turkish Military Attache in London that his country is ready to fight. He fails, however, to give any indication of the circumstances under which such action would be probable.

6. The German raid on Crete during the night of February 16 resulted in some damage to military establishments in the vulnerable area.

7. It is now possible for vessels up to 8,000 tons to proceed through the Suez Canal. Two German cargo boats off the Norwegian coast were sunk by a Royal Navy U-boat and three Italian vessels off Italian Sardinia were captured by the British. Ineffective fire from

a pair of 6-inch coastal defense guns was the only resistance put up by the Italians during the shelling of Genoa by the Royal Navy.

SECRET

Distribution:

- Secretary of War
- State Department
- Secretary of Treasury
- Asst. Secretary of War
- Chief of Staff
- War Plans Division
- Office of Naval Intelligence
- Air Corps
- 6-55

February 14, 1941
9:30 a.m.

GROUP MEETING

Present: Mr. Thompson
Mr. Cochran
Mr. Kuhn
Mr. Gaston
Mr. White
Mr. Graves
Mr. Bell
Mr. Haas
Mr. Schwarz
Mr. Sullivan
Mr. Young
Mr. Foley
Mr. Pehle
Mr. Haas
Miss Chauncey

H.M.Jr: Norman, what have you got? .

Thompson: I have a matter I would like to see you about
after the meeting.

H.M.Jr: Harold?

Graves: I have nothing except that I have got these
things that you were talking about.

H.M.Jr: Well, when we get through I would like to see
them.

Schwarz: There are two editorials in the Wall Street
Journal this morning, both of which are rather
kind to us.

- 2 -

H.M.Jr: Kind? Wonderful; I will look at them.

Gaston: Do we need kindness?

Schwarz: We don't need it.
That is all.

H.M.Jr: Did you have a chance to find out whether that was a new or old story of Perlmeter's?

Kuhn: I couldn't get it last night after I left. It is a story of Perlmeter's about the Secretary. Did you happen to see that?

Schwarz: I haven't seen it yet. He has been working on it for several weeks.

H.M.Jr: This is one that appeared in a West Coast paper.

Young: I saw one in a Miami story last week.

Schwarz: Was that a personal story?

Kuhn: Very personal.

Schwarz: He had been working on it for several weeks.

Young: By Perlmeter.

H.M.Jr: Very uncomplimentary.

Young: I didn't think it was too bad, but I didn't think he did very well.

White: Perlmeter here in Treasury?

H.M.Jr: Yes.

Schwarz: He said about three weeks ago they had said it was time to do one.

- 3 -

- H.M.Jr: Well, look into it, anyway.
- Schwarz: It must be the same one. They sent it out in their mail service. That is why it would appear in other parts of the country.
- H.M.Jr: Well, will you get together on it?
- White?
- White: I am surprised.
- H.M.Jr: What are you surprised at?
- White: That if he were to write an article of that kind it would be of that character.
- H.M.Jr: That is very interesting. Have you got anything yourself?
- White: No; no, he didn't mention it to me. (Laughter) But I am a little surprised that he didn't. It sounds much worse than the--
- H.M.Jr: Have you got anything you would like to bring to my attention, Mr. White?
- White: I am afraid I will first have to have a conference with Perlmeter to find out. You are speaking of Perlmeter's article?
- H.M.Jr: No. (Laughter) Harry White, come back to reality.
- White: Oh! I have here that--
- H.M.Jr: Once a beachcomber, always a beachcomber.
- White: Apparently. I wish it were. (Laughter)
- H.M.Jr: Do you want to bring anything to my attention

- 4 -

at this staff meeting?

White: No, sir. I understand your question now. My answer is no, sir.

H.M.Jr: Now, as I fixed up my schedule this morning, are you coming in at 10:15?

Bell: Yes, sir. I called the Budget and they said Mr. Smith wouldn't be in until 11:00. I guess he isn't feeling very well, and he is having a check up at the hospital.

H.M.Jr: I have studied it, and I think that this thing doesn't particularly concern Graves or Kuhn, and I would like to confine it to you and Haas, you see.

Do you want to bring anybody in?

Haas: I might bring Henry in.

H.M.Jr: All right. I would like to keep it small. In that case, this will - Harry, you say the letter to State on freezing--

White: It should be ready in half hour.

H.M.Jr: Well, put it down that it will be White and if you are still here, Bell, I would like you to sit in on it. Also Foley and Kuhn at 11:00 o'clock.

White: I think John Pehle ought to be in. There are some points here that he would know about. There might come up a discussion.

I don't know whether he is raising the question of Bulgaria this morning or not, but you might want to think about Bulgaria since there appears to be not much difference now between Bulgaria and Roumania.

- 5 -

- Pehle: I don't think there is any difference. We wrote State some time ago. I was hesitant to raise it again because of pecking away at that small part of it. I shouldn't think we would want to write to State and say, "How about Bulgaria?"
- H.M.Jr: No.
- Pehle: It is too small an item.
- H.M.Jr: It isn't small, it is important, but they won't do anything about it. They will wait until all the funds are withdrawn and then they will do something about it. Then I am seeing you at 11:00, Harry?
- White: With reference to this letter?
- H.M.Jr: Yes.
Dan?
- Bell: Mr. Gaston told you some time ago that the American Academy of Political and Social Science wanted you to make a talk on March 4, 5, or 6; and you said you would furnish a speaker. Now I have an invitation to talk. Do we want to do it? I don't mind the talking, but I do mind the preparation of the talk. It takes a lot of time, and it comes right in our financing.
- H.M.Jr: On March when?
- Bell: Fourth, fifth, or sixth.
- H.M.Jr: I would skip it.
- Bell: It would be a terrible time to be preparing speeches. That is the worst part about it.

- 6 -

H.M.Jr: I would forget about it.

Schwarz: Shouldn't somebody from the Treasury go?

H.M.Jr: No.

Bell: I don't know the organization. Maybe some of them do around here.

H.M.Jr: Isn't that the one that Burgess is the head of?

Haas: That is Patterson.

Bell: Patterson is the President.

Haas: University of Pennsylvania.

H.M.Jr: We have got too much work just now.

Bell: Herbert Hoover is Vice President. Clarence Dykstra and Carl Kelsey, whoever they are.

Gaston: I think we told them pretty flatly that we would try to provide someone from the Treasury Department.

H.M.Jr: Well, I can't spare anybody just now. I would skip it.

Bell: All right.

H.M.Jr: I am sorry, Herbert, we just can't do it.

Gaston: At that time they said any date in March.

Bell: Well, their meeting now has been scheduled for those three days.

H.M.Jr: Anything else, Dan?

Bell: That is all.

- 7 -

H.M.Jr: George:

Haas: (Handing reports to Secretary) Here are some production pictures.

H.M.Jr: Oh, can't you hold on to this and if we get through with this early maybe you can tell me about it.

Haas: Yes. It will take about five minutes.

H.M.Jr: After the financing.

Haas: All right.

H.M.Jr: Anything else?

Haas: That is all.

H.M.Jr: Phillip?

Young: Nothing.

Pehle: Nothing.

H.M.Jr: I think I told John Mack at 11:30. Have you heard?

Pehle: Yes.

H.M.Jr: He is - I think it is Lithuanian matters.

Pehle: Esthonia.

H.M.Jr: Esthonian?

Kuhn: I haven't anything.

H.M.Jr: If you don't hear this forenoon from that man that you telegraphed to in Minnesota, get George Haas. He can find it from Moody's. Get him to

- 8 -

give you the name of the President of the Pillsbury Flour Company.

- Kuhn: I heard last night that we needn't give up on Donald Harris, that he expected this kind of opposition from his boss and said that if he got such opposition, he would go over the boss' head to Pillsbury himself and probably could fix it.
- H.M.Jr: Well, who is the man I telegraphed to?
- Kuhn: Hutchinson, who is Harris' boss in Minneapolis, advertising agency.
- H.M.Jr: I thought Harris worked for Pillsbury.
- Kuhn: That agency works for Pillsbury and Harris does all the Pillsbury work.
- H.M.Jr: Isn't he also advertising manager of Pillsbury?
- Kuhn: I don't think so. But as a member of that agency, he is in effect the advertising manager of Pillsbury, as I understand it. Is that your understanding?
- Graves: That is my understanding.
- Gaston: The story I heard from somebody here was that he had been with that agency, that he had been taken over by Pillsbury and that now the agency had taken the account back as an agency account and left him as the man in charge of the account.
- H.M.Jr: If we don't hear by noon, because I have got to keep moving, if you will get the name of the president of Pillsbury, I will phone him.
- Kuhn: Well, I wired late last night to Harris to get after Pillsbury and see if he could budge him, and he will probably let me know this morning.

- 9 -

- H.M. Jr: I have either got to do it this forenoon or when I come back from Cabinet, which will be all right, but you can talk to Harris. When I come back at 4:00 it will be 2:00 o'clock out there. They are on - aren't they?
- Kuhn: Central Time, 3:00 o'clock.
- H.M. Jr: Yes. That is settled. All right.
- Cochran: Zoltowski, the Polish Financial Counsellor in New York, was in a few days ago and he asked whether the Treasury would have any objection to Poland instituting a suit against the Bank of France.
- H.M. Jr: I wouldn't want to say anything about that.
- Cochran: I talked to Bernstein about it and also to the State Department and they didn't want to make any comment on it.
- H.M. Jr: I certainly wouldn't. What else?
- Cochran: Phillips came out of the hospital yesterday and will be in this morning.
- H.M. Jr: At 10:00?
- Cochran: At 10:00. I don't think Pinsent will be able to make it. He hasn't had breakfast.
- Nicholson has been in town and he is up in New York now. Nicholson was here and is in New York now.
- H.M. Jr: You can't get a member of the English Government here by 10:00 in the morning. It is just too God damed bad. Excuse me, Miss Chauncey.
- Cochran: We had a report from Rangoon that Chen has been

- 10 -

looking into that proposition of sending tung oil down the Irawadi River in barges.

DeBruben, the Minister of Finance of Belgium, who is in London, is going to come over very shortly.

Argentina has built up her gold by 19 million dollars this last week.

Brazil yesterday repaid us the dollars. You know, we have bought 10 million dollars worth of milreis. They repaid five million two or three months ago and then repaid the balance.

- H.M.Jr: You boys had better get that all into that memorandum and consult with Cochran.
- Cochran: That is about all I have.
- Sullivan: Dr. Gulick was in yesterday morning. His Board will not let him do the job. He has some kind of a plan where he thinks he could do it on a part time basis.
- H.M.Jr: Well, John, please will you get something started on overlapping taxes - I have been talking about it for two months. Will you get something started?
- Sullivan: Yes, sir.
- H.M.Jr: And somehow, some place at the end of seven years, I would really like to get the thing started. Let's quit talking about it. Let's do something about it.
- Sullivan: I understood you wanted Gulick to do it.
- H.M.Jr: If he can't do it, out the window.
- Sullivan: He went out the window unless you want him to do it on a part-time supervising basis.

- 11 -

H.M.Jr: I want it done.

Sullivan: Then he won't do it.

H.M.Jr: Will you get it started?

Sullivan: Yes, sir.

Bell: Burgess thought he had some very good men lined up. Do you have anybody in particular you might want?

Sullivan: Burgess?

Bell: Burgess thought Gulick had some very good men lined up on this. He got in on it through the Carnegie Fund and I wondered whether some of them were good enough.

Sullivan: He never had gone to the point of trying to engage some of them.

H.M.Jr: Well, John, put your mind on it.

Sullivan: Yes, sir.

H.M.Jr: Foley?

Foley: Here is a memorandum on that Executive Order meeting.

H.M.Jr: Oh. Has Bell seen this? You might read this, Bell, and then you will come back at 11:00. Would you bring it back to me?

Bell: Yes.

H.M.Jr: What else? If you get a call from the Budget, let me know. That comes first.

Bell: I am sure it won't be before 11:00.

- 12 -

Foley: Here is a resume of that Marks case.

H.M.Jr: Well, you keep after me so we can sit down on it, will you?

Foley: Yes.

H.M.Jr: I would like you to keep after me until I do that. Anything else?

Foley: No.

H.M.Jr: Herbert?

Gaston: A man whom your office diverted to me, a man named Laroque, the President of the Federal Home Loan Bank of Winston-Salem, North Carolina, was sent over by R. J. Reynolds. His purpose was to invite you to address a meeting of the stockholders of the Home Loan Bank in Winston-Salem at a date in March to be selected by you.

H.M.Jr: What is the honorium?

Gaston: We didn't get that far in our negotiations. I wrote a memo on it.

H.M.Jr: Did you turn him down?

Gaston: I told him I thought it was unlikely. He pleaded that you shouldn't turn him down without you giving him a chance to talk to you.

H.M.Jr: Well, he is turned down?

Gaston: Yes.

H.M.Jr: If we have got a couple of minutes, I could see Graves and Kuhn.

February 14, 1941
10:18 a.m.

RE FINANCING

Present: Mr. Bell
Mr. Haas
Mr. Murphy
Mr. Hadley

Haas: I have got a couple of fellows who are going to report for road work in case you need them.

H.M.Jr: Fine. But if you would talk to Thompson, you see, and then really make him a part of this. I don't know what payroll he is on.

Bell: On the Stabilization Fund, I think.
(Mr. Hadley entered the conference.)

H.M.Jr: Hadley, if it is agreeable to you, I am going to meld you into Haas' organization so you really become part of it and not just off by yourself. Think it over. It is on the basis that you sit in on this bond stuff all the time. It doesn't mean any decrease in salary.

Bell: That is important.

H.M.Jr: Would somebody - I have read this stuff, and it is - I can't make out whether you suggest four different types of securities.

- 2 -

I have read it now, and could somebody talk to me and just tell me what you are proposing verbally.

- Bell: Go ahead, George. I like the sound of your voice, and I hate my own.
- Haas: The first proposal, Mr. Secretary, is a modification of the existing savings bonds.
- H.M.Jr: I don't see the sense of --
- Bell: The only thing they want to know is the types.
- H.M.Jr: Well, they can get it after we get settled.
- Haas: I think that is right.
- H.M.Jr: You (Hadley) can read this.
- Bell: He has read it.
- H.M.Jr: All right. Then go ahead, George.
- Haas: There are three suggestions as to types of savings bonds. The first suggestion is a modification of the present one.
- H.M.Jr: That is Number 1?
- Haas: Number 1. The first modification is a --
- H.M.Jr: Baby bonds?
- Haas:of the baby bonds. The first modification is an administrative one to reduce the amount which can be purchased any one year from ten to three thousand dollars. That is, you have got a security here which

- 3 -

is a relatively high yield, a high yield relative to the market yield, but in order to meet the small investor, you want a security of that sort, but in order to eliminate other investors which could pay the regular market yield, you reduce the amount which can be purchased to three thousand. In addition to that, we are suggesting that the redeeming schedule be modified so as to give a larger yield if held to maturity. That would tend to -

Bell: You mean in the last period?

Haas: In the last period. That would tend to make them hold it rather than redeem it, and gives the Treasury more protection.

H.M.Jr: Wouldn't that mean it would make it less attractive in the earlier stages?

Haas: That is right, but when you get to three years, Mr. Secretary, it gets up to - what is that figure, Henry?

Murphy: If you start out - going to get a yield of 2.9 for the full ten years, after you have held it for three years, you will get a yield of 3.58 if you hold it for the remainder of the ten year period.

H.M.Jr: Where is that shown in this table?

Murphy: Last column.

Haas: You see, Mr. Secretary, at three years you wouldn't part with that unless you got another security just as good as that, so that will tend to make people hold it.

- 4 -

H.M. Jr: This is a new plan?

Haas: That is the new plan.

H.M. Jr: On the present one you get 3.10, but you are going to make it more attractive?

Murphy: Having once purchased it, your incentive to hold it is much stronger. That reduces the difficulty of having to make other obligations.

Bell: You can't afford to let go of it after you hold it three or four years.

H.M. Jr: How could you do that?

Haas: Show him, Henry.

Murphy: By distributing the yield differently over the period in which you hold it. The yield for the whole period is the same, but you give them less in the early years and hold back more to give them in the latter years. That means their incentive to continue to hold it is stronger.

H.M. Jr: Where is that shown?

Murphy: This is the present plan, and this is the plan for reduced yields. You notice right now if you hold for three years --

H.M. Jr: It is these two I want to look at.

Murphy: Well, these apply to the other concept. If you hold it for three years, you get two sixteen on the present plan. You would only get one thirty-one out of the proposed plan, but for the time still to

- 5 -

run you would only get three ten under the first plan, and three fifty-eight under the other. The new plan brings you in much earlier.

Bell: You see holding it for three years and getting an average return of two sixteen is really way out of line with the current rates.

H.M.Jr: This is the - 78 is it --

Murphy: In each case they would be issued at 75 but at the end of six years - three years, you can turn them in at 80 now. We would reduce the amount you could turn them into to 78, but since you are going to get a hundred in ten years, you have got more to wait for.

H.M.Jr: The present yield is two sixteen with three twenty-one to go?

Murphy: That is right.

H.M.Jr: In six years the yield is one thirty-one if you hold it?

Murphy: That is right, with three fifty-eight to go. You notice you can compare the two on these charts. Here is the present plan, the yield for the time that you would have it, and you can see how tremendously above the rest of the market it is.

Now, our proposed one somewhat splits the difference. It is always way above the yield you get out of the market security but here is the yield for the time you have held it. When you turn that backward

- 6 -

and take it for the yield still to run, the present plan doesn't build up so rapidly because they give you more in the earlier periods, whereas our plan which holds out on you and gives you \$5.00 the first six months you hold it, rapidly builds this up. After you have held this six years, you are going to get four and a half per cent. It is still worthwhile to hold.

Bell: That is what you might run into, and this fits right into that picture.

H.M.Jr: I see. Is a woman like this Mrs. Porter any good at this sort of thing? Do you think she could contribute anything?

Bell: I really don't know, Mr. Secretary. That woman has got a lot of pep, and imagination; but I just don't know enough about her to say whether she - I think she would be active and probably write a lot of memoranda on ideas.

H.M.Jr: Well, I don't want another Edna Lonergan.

Bell: I don't know, I saw it mentioned in one of the columns yesterday about a lady bond expert from Wall Street.

H.M.Jr: If she came she would have to work under George.

Bell: Either that or in the publicity end, under Kuhn.

H.M.Jr: No. Well anyway --

Bell: She is the writing type. I don't know whether she would be much good on a decision

- 7 -

as to policies. She does write very well.

H.M.Jr: Are you pretty well sold on this?

Bell: Yes, I am. I would like to keep the present savings bond and the ten year so that the people who have started it as sort of an annuity plan can keep right on with it.

H.M.Jr: Well, I understand this pretty well. I will come back to it again, you see.

Now, what is the second one?

Haas: The second one --

H.M.Jr: I mean, I get the difference and I think that idea of \$5.00 in the last six months is very neat.

Bell: And when we put out our literature, we would like to publish a table showing what the people are giving up when they redeem these bonds before maturity. In other words, if you get out in six years, you are giving up the security from here on that is going to yield you four and a half per cent. Could you afford to do that?

Haas: It is a demand security.

H.M.Jr: Who else outside the Treasury has had a chance to criticize it?

Haas: Dan, I guess.

Bell: I hope I am not outside the Treasury - yet. We are going to send it to Eccles today.

- 8 -

H.M.Jr: Well --

Bell: I would like to have Bob Rouse down Monday or Tuesday.

H.M.Jr: I am for it.

Bell: And get Piser and Eccles over and we will have a little meeting here.

Haas: It is very important for them to see this.

H.M.Jr: All right. And I want other people to look at it, too.

Bell: You mean outside people?

H.M.Jr: Yes.

Bell: Would you take market people?

H.M.Jr: No, I was thinking more of - well, a man like Spencer of the First National of Boston. He is a very sound man. People of that type.

Bell: Tom Smith?

H.M.Jr: Yes. Those kind of people, people like that. You can call up a few people like that. You might think about it. I mean, good sound fellows, you know; people who aren't just Government bond fellows.

Bell: Well, of course these are Government bond men.

H.M.Jr: They have done very well up there.

Bell: They pulled that bank out of the red nicely.

- 9 -

- H.M.Jr: And this man in New York who manufactures trusts is a very able fellow.
- Murphy: Gibson?
- H.M.Jr: Gibson. He was the first man that I know of that went into long term Governments in a big way. That was way back.
- Bell: Do you want him to come down here, or do you want a fellow like Bob Rouse to talk to him in New York?
- H.M.Jr: I would like to talk to him myself. You can talk to me about it and we will arrange it Monday. We first can talk with Federal and Rouse and those people and so forth, and then bring in this other group.
- Bell: I have a long letter here from Pope, who wrote to Rouse about the Treasury taking too much of this type of money out of the market and telling people to dump the securities they now hold in order to go into this. You have got to be careful. I think there might be a point there that we want to look at.
- Haas: We have got a protective provision which comes up in the next --
- Bell: He also wrote me a letter yesterday in which he gave this - I didn't pay any attention to it, but it is just a matter of curiosity. He wrote or called up on the telephone about 80 banks throughout the country who - and he put two questions to them. One, are they worried; and some of them said, "Yes" and some of them said, "No."

- 10 -

The other said, "Do you and your institutions believe if confidence is restored in the Treasury -" that has to be explained - "which means that the public are impressed with the fact that the Treasury are going to continue normal procedure in raising their funds and have a policy that is sound, that the Treasury can market in a single year ten or twelve billion dollars of new money reasonably satisfactorily to the Treasury."

And out of some 80 people that answered, 64 of them said "Yes," and 16 of them said, "No." And out of the 16 who said no, 14 of them are in New York City. Isn't that interesting?

H.M.Jr: Very interesting. Well now, I have got this matter of the Number 1. Now, what is the second?

Haas: Now, Number 2 - there are three of them. You can call the other two - you can take them in any order, but I will take this one up as Number 2.

Number 2 is the same type of bond as this one.

H.M.Jr: Are you going to do the two per cent one?

Haas: It is two per cent, yes. The over-all yield is two per cent. The purpose of that, Mr. Secretary, is this, that there are individual investors, even under the present situation, that buy the full 10,000 each year, and we are going to give them a bond which they can purchase, which is a demand bond with a bonus on the end, just like that other one, so they will hold it, they will have an

- 11 -

incentive to hold it, but we reduced the rate nearer to the market.

- H.M.Jr: Just excuse me. On the table one, the United States Saving, you are proposing \$3,000, aren't you?
- Haas: Three thousand, yes, sir, and that is available for sale as it is at the present, just to natural persons.
- H.M.Jr: Natural?
- Haas: Yes. In other words, corporations or banks cannot buy it.
- H.M.Jr: That is - and on Plan Number 2?
- Haas: Plan Number 2 is two per cent. Now, on that we had this proposal. We have got a third one, and we made this proposal, that in each year a person could buy up to \$50,000 of the two bonds. In other words, they could buy 25 of one and 25 of the other, or 40,000 of one and 10 of the other.
- H.M.Jr: Of what?
- Haas: Two and three.
- H.M.Jr: Oh, you are going to do two and three together?
- Haas: That is right.
- H.M.Jr: Now, I don't know whether I understand two. Two is a two per cent bond.
- Haas: Instead of a two, nine.

- 12 -

- H.M. Jr: And on that thing, you start with 82 and at the end of the six you would get a yield of two sixteen?
- Murphy: No, you would get 57.
- H.M. Jr: In this case it doesn't run up so fast, does it?
- Haas: No, because you only have two per cent to work on.
- Murphy: You get one tenth of one per cent cumulative yield for every six months you hold it. If you hold it a year, you get 20/100ths for the period. If you hold it a year, you get 40/100ths. The figure is made a little evener because you have to round the redemption figure.
- H.M. Jr: But two and three have got them together by --
- Haas: Fifty thousand.
- H.M. Jr: Of two. Which is three?
- Haas: Now, three we have a savings bond which has a coupon. There are certain people that can't buy it because they can't wait for ten years and get no income, so we have got one that has a combination discount and a coupon attached. That is Number 3.
- H.M. Jr: That isn't Number 3 here.
- Murphy: It is table three.
- Bell: Yes, that is the one. It would start at \$95.00 as the discount.

- 13 -

- H.M.Jr: Oh, this is one that goes down and then up?
- Bell: That is right. It goes down to \$92.50 if they redeem at any time during that period. That means that if they redeem it, they have - we pull back some of the coupon that we have given them each six months. This is 75¢ isn't it?
- Haas: Yes.
- Bell: We give them 75¢ each six months on that bond, but if they cash it during that period we pull back on it. In other words, they can't get the \$82.50. We pull back two and a half.--
- Murphy: \$3.00 at the maximum.
- Bell: Oh yes, \$3.00 of the seven and a half that we have paid them during that period.
- Murphy: That is right.
- Bell: So they have only gotten \$92.50 plus four and a half.
- Murphy: They have only gotten four and a half during the period. While these things are running off, they get 75¢ each period, and we have cut down their redemption value 50¢ so they are ahead 25¢, and that continues until they reach the end. Then we restore that at 25¢ every six months so they have in addition to that, a 75¢ coupon, 25¢ restoration of principal, and the principal is restored at the end of the ninth year. At the end of the tenth year, they get a hundred.

- 14 -

- H.M.Jr: Let me see if I get this thing. You have got the United States Savings Bond which you can buy \$3,000 worth of and you have changed the thing to make it more attractive.
- Haas: To hold.
- H.M.Jr: Then you come along with a two per cent bond which has certain features in it which you propose a man can buy up to \$50,000 worth. Right?
- Haas: And corporations - everything but commercial banks.
- Murphy: Two and three both yield three years. They have identical yields.
- H.M.Jr: And then the third plan which has a coupon which pays a dollar and a half a year but the redemption value goes down to --
- Murphy: From \$95.50 to \$92.50.
- H.M.Jr: And then it gradually goes back up again. But those are the only three securities you are offering?
- Murphy: That is right.
- H.M.Jr: That is why I said you spoke of four, but I could only see three.
- Murphy: If we spoke of four, it was an error. It was only supposed to be three.
- H.M.Jr: I went through it, and I got the impression there were three.

- 15 -

- Murphy: On page three we say securities at least three types of which are described below. And then we describe them as "A", "B", and "C".
- H.M.Jr: I guess I read it on page six.
- Haas: Or four principles.
- H.M.Jr: Yes. So there are only three different securities?
- Murphy: Three securities.
- H.M.Jr: Good. Now, on the two per cent with no coupon as against the one with the coupon, you say you could buy these two together, but not to exceed 50,000, or 50,000 of each one.
- Murphy: No. You have a limit that you can distribute as you want. You can buy \$50,000 a year of all of one, all of the other, all you want of either one.
- H.M.Jr: So you could buy 30 and 20 but not more than 50 of the two?
- Murphy: Yes.
- H.M.Jr: Could I also buy 3,000 of the other?
- Bell: Yes.
- H.M.Jr: Can I buy \$2,500 Postal Savings?
- Haas: Yes.
- Murphy: But you can only buy that once.

- 16 -

H.M.Jr: Is that statutory?

Bell: Yes, I think that is statutory. I am sure it is because Roy North called me up the other day and wanted to register.

H.M.Jr: How much?

Bell: Five thousand. They would give us the money for a short term - I mean a low rate security of two and a quarter, and that would get them out of it with their expenses.

H.M.Jr: Incidentally, I wish you would make a note, I want to talk to you some time soon about this two per cent we are allowing Postal Savings and Crowley's office. I think it is too high.

Bell: Oh, you mean on those special two's?

H.M.Jr: Yes. I think one and a half is enough. I wish you would consider dropping it on the first of March to one and a half.

Bell: Of course, that makes them want to go out and invest it in the market. That isn't long-term money. We have had that quite awhile.

H.M.Jr: Well, think about it, will you? If they want to go out and buy it, it is all right with us. They can.

Bell: Now it is, but it wouldn't have been in December.

H.M.Jr: Well, think about it. I will throw it at you.

- 17 -

- Bell: Yes.
- H.M.Jr: Well now, gentlemen, your thought on this is, I take it - why did you limit it to ten years, for instance, on these two per centers? Why don't you make it 20? What is the argument.
- Murphy: On a depreciation bond, that is offering it at compound interest for an awfully long time. It is one of the few places where the Treasury agrees to reinvest your interest as it accumulates.
- Haas: Then too, there are probably a good many people that don't want to go for 20 years without any return, you see.
- H.M.Jr: But the coupon one?
- Bell: How about on Number 3 just in order to be different, making it 15 years and put a little higher rate on it?
- Haas: You could.
- Hadley: I think that the longer maturity with the higher coupon would be - would attract a lot more people than just staying at the ten year figure. A lot of people are looking for income and don't care what the maturity is as long as they can get more income.
- Murphy: Of course, there is the question of what the Treasury gets for its maturity. In the case of an ordinary security, 15 years means 15 years. You put it out and you don't have to worry about it for 15 years; but in the case of a security that you are

- 18 -

agreeing to redeem on demand, it is a question of whether you are justified in paying a great deal more because it is 15 years as compared with ten, unless you hold back a very large portion of your return for the last - to the last five years.

- H.M.Jr: Well, I am just raising it.
- Haas: I think we can experiment with that.
- H.M.Jr: I am just thinking. I don't know how long you fellows have been working on this. How long?
- Haas: Oh, a year and a half, fooling around with it.
- H.M.Jr: Well, I am just - you have just shot this at me, and I am trying to assimilate it. I know the President has right along been talking about a higher coupon for 30 years, but you would have to give the man very little at the beginning. I am just thinking out loud. Let's say you did a 25 or 30 years, two and three quarters or something up in there. Would you have to make it redeemable at any time?
- Hadley: You mean of this type of bond?
- H.M.Jr: Yes.
- Murphy: If it is non-negotiable, it is awfully difficult to get them to take something you don't allow them to sell and won't redeem.
- H.M.Jr: They can't sell except back to the Treasury?

- 19 -

Bell: It is non-negotiable and non-transferable.

Hadley: And if you make them negotiable, you have a danger of running into competition with your other market issues.

H.M.Jr: Let's leave this to one side for a minute. What are you gentlemen thinking of on this two billion dollar financing for the 15th of March?

Bell: Well, we haven't done very much thinking about it. I think we have got to begin considering that next week, one, as to whether you want to do it all at once, or two, whether we are going to have to take two bites at it. If we do it all at once, whether we aren't going to have to have three issues, a note, an intermediate, and a long bond.

H.M.Jr: That wouldn't --

Bell: And if we have those types of issues, are we going to just allow the cash to go into one security, say the long bond, and let the holders of the other securities have an option to go into any of the securities that you offered? We have got to consider that, because if you allow cash to go into the others, then you are going into the banks, where we don't want to go; but we may have to do that anyhow.

H.M.Jr: Well, I don't think at this time, until we know better how they are going to take these things, that we can be too stiff in our regulations. If we are going to have three securities, my first blush would be to let these holders of these maturing

- 20 -

securities have the option to pick any one of three.

Bell: That is very good, yes, sir.

H.M.Jr: And then I also think I would let the public decide how much they want to buy of all three for cash. I mean, I am just thinking out loud.

Bell: You would do that?

H.M.Jr: You can limit the amount that they can buy of any one. We have done it that way, haven't we?

Bell: We have put a cash limit on, yes, that is right.

H.M.Jr: Haven't we?

Bell: Yes, we have issued - we have had two or three issues and we have said 400 million of notes and 400 million of bonds or 500 million of notes and 300 million of bonds.

H.M.Jr: What are those last two defense notes selling at?

Hadley: The one that came out last month is at ninety-nine twenty-six to eight, and the one that came out in December is ninety-nine - about eighteen to twenty.

H.M.Jr: Say that again.

Hadley: Ninety-nine twenty-six, twenty-eight. That is 6/32nds below par, and the other one is 16/32nds below par.

H.M.Jr: Not so good.

- 21 -

- Hadley: Those have sort of unsettled the market and they don't know what to make the tax factor worth on future issues. There is very little agreement as to what the tax factor is going to be worth, so we have got to be very cautious in what we price the next issue at.
- H.M.Jr: Do we have to pick up that bond on the 15th of March?
- Bell: Yes.
- Haas: In the psychology of the market, Mr. Secretary, it is all upset. It started with the Federal Reserve statement, but - and people are generally speaking with quite a degree of confidence - people in the market are feeling that there must be higher rates. You take the British experience. You probably have noticed the Consols were 70 in May 1939, and now they are 77. In other words, in a war period over there, their rates have gone down.
- H.M.Jr: That is all right. Somebody told me about it.
- Bell: I sent you a report.
- H.M.Jr: I read these things, George.
- Haas: Thank you. I was just trying to think of something that would help the psychology of the market. Everybody believes firmly with all this financing rates must go up.
- Bell: They are talking it all over the country. They won't discuss anything less than three per cent on this. From Chicago west they are all talking about a three per cent rate on this financing.

- 22 -

- H.M.Jr: What we could do - I am just thinking out loud here. I expect to give more and more time to this financing. I couldn't do this last week. I was too shot. My mind is clear now. I had a good time last night, even though I stayed late. What I was thinking about, let's say the bill passes today. I think it will. Is there any time limit on when we could begin to sell that stuff?
- Bell: There is a time limit. We can't sell -
- H.M.Jr: For thirty days?
- Bell: First of March. But there isn't any reason why we can't have an offering, say next week and have it dated March 1.
- H.M.Jr: That is what I was thinking about.
- Bell: Yes, that is all right.
- H.M.Jr: And what I was thinking about, you might surprise the boys a little and if the bill passes, do one next week.
- Bell: We could very well do that. Dudley Mills says the market is not expecting two billion dollar operations. They are expecting you to take two bites at it.
- H.M.Jr: Well, we could do one next week. You would do a refunding, wouldn't you?
- Hadley: Get the refunding out of the way first.
- H.M.Jr: Do both refundings and then leave the cash until later.

- 23 -

- Bell: We can do the cash the first week in March.
- Hadley: A refunding might give you some idea of what the taxable bond is worth.
- H.M.Jr: Do the refundings and then if you did the refundings, you could confine that to - well, a bond that looks damn attractive and make it damn attractive. A billion two of one issue would be very nice, wouldn't it?
- Bell: You mean do it all in one issue?
- H.M.Jr: I think so.
- Hadley: They think they have got enough --
- Bell: I am not so sure about that. I should think possibly we might want two issues on that. You see, you have got two kinds of people holding it. You have got individuals and insurance companies on the investing side, and you have got the banks holding them on the other side.
- H.M.Jr: Well, give them their choice and they can swing into either one. I don't want an intermediate. I take it now with all these partitions we won't speak of a note any more for five years.
- Bell: Not a defense note.
- H.M.Jr: I mean there is no distinction as between a five and a six year, and you have the same features so there isn't any difference any more. I mean, there isn't a difference - there used to be a difference between a

- 24 -

note and a bond.

Bell: Tax exemption.

H.M.Jr: Now there is no difference between a four and a six year.

Bell: That is right.

H.M.Jr: You might perfectly well, say, get out something for four years and something for 12 or 15.

Bell: The only difference would be the term, length of time.

H.M.Jr: Yes. But I was just thinking, a note always connotated something which was wholly tax exempt and now it doesn't any more.

Hadley: Estimates run that these last two defense notes are 75% in New York right now, and that the three biggest banks have one third of them and they don't - they would rather not have another note immediately until this is digested.

H.M.Jr: Yes, but Hadley, supposing we gave them something in the short range --

Bell: Put out a six year bond.

H.M.Jr: Six or seven year bond, and then something in 12 or 15 or 20 years, and then give the market its choice.

Hadley: That would be all right.

H.M.Jr: They could take either one.

- 25 -

- Hadley: That would be all right.
- Bell: I think you might want to consider - I think the banks would like to have anything up to ten years if they could get some earnings on it. You might think of anything between nine and ten and then you might think of something out beyond our present maturity. Supposing we went out to 70 and you had to pay as much as two and three quarters. It would be out there by itself and wouldn't have so much pressure on the 60-65. Do you think it would, Murphy?
- Murphy: No. I am a little surprised at the suggestion, because normally I think of going out into new territory at a time when the market is good and here we are exploring new territory, going into hostile territory, so to speak, and such things as the Edison and Boston are not worth a damn.
- H.M.Jr: They are not?
- Murphy: No, the syndicate was stuck with those for a long time.
- Hadley: The long corporate market has been too optimistic about the rates on the last few issues, and the last four or five issues have had a very poor price record, falling off as much as three and four points.
- Bell: They have done a lot of refunding in the last year and put it way out there at these small low rates, and certainly some time along the line they are going to buy them back at a fraction of the cent on the dollar.

- 26 -

- Haas: They were going all right until after the first of the year.
- Bell: They are pretty low rates for a corporate.
- Haas: Now they are having trouble doing it.
- H.M.Jr: Two and seven eighths or three and a half points?
- Murphy: The 60-65's are off three and a half points. Two and seven eighths is probably about the same. I would think something - I would be more inclined to think of something 55 to 60, just on the ground that until the market is in a better frame of mind I wouldn't explore that virgin territory.
- Bell: You might have a better chance to get the real investment money.
- Murphy: At the higher coupon.
- Bell: The banks wouldn't go in there, probably. We might want to give a suggestion, too, to the possibility of announcing it, when you announce it, that you say that this is a security under the new law, fully taxable, and you want to give people plenty of time to think it over and leave it open two days.
- H.M.Jr: How many days?
- Bell: Two days for cash, because there is probably going to come a time along here some place when we will have to leave it open two days and if you do it before you are forced to it, they might have a different reaction.

- 27 -

H.M.Jr: Well, if we did it next Thursday, when we are refunding, we would give these people two and a half days.

Bell: On a refunding, yes.

H.M.Jr: They would have Thursday, Friday, and Saturday. That would give them --

Hadley: Saturday is a holiday next week.

Bell: That is right, it is a holiday all over the country.

H.M.Jr: Well, that wouldn't be so good, would it?

Bell: No.

Hadley: You can do it Wednesday.

H.M.Jr: Well, that is awfully short.

Bell: Monday is the 24th, isn't it? It is getting pretty close for two issues then.

H.M.Jr: Have to do it on Wednesday.

Bell: Yes.

H.M.Jr: Could do that.

Bell: Could be done. It would rush us to make up our mind a little.

H.M.Jr: Well, if I just made up my mind I am not going to do anything else for two days - you have seen me work before - and get these people down here. What, Dan?

- 28 -

Bell: That is right.

H.M.Jr: Just concentrate on this thing for two days solid, and we could do it.

Bell: You would have to see that the bill was signed Tuesday. I don't suppose it will be held up in conference or anything.

H.M.Jr: Oh.

Haas: Are they going to put in the USHA provision?

Bell: No, that was knocked out.

H.M.Jr: Was it knocked out?

Bell: Yes. They voted in the subcommittee that they thought it might raise a question and be controversial on the floor. U. S. Housing is not very popular on the Hill, and certain Senators see red every time you mention it, so they thought it was better to leave it off for a separate bill.

H.M.Jr: Is it different in the Senate than it is in the House? Has it got to go back to the floor?

Bell: Yes, you have got some post office amendments in the Senate, but we shouldn't have any difficulty.

H.M.Jr: Dan, you told me you would be all right on Monday through the tenth of March.

Bell: That is right, I will.

H.M.Jr: So if you did this thing on the 24th and then went in for cash for the week of the

- 29 -

10th to the 15th, that is two weeks elapsed.

Bell: Well, the time is all right. We don't have to make it on the 15th. We could date it the 20th.

H.M.Jr: But what I am getting at, supposing we offered a refunding on the 24th, you see, and then we waited for two weeks, give the market a chance, and then we went in on the 10th to get our cash.

Bell: Yes. Just a little short time between the 10th and the 15th. We could date it the 18th. There is nothing sacred about the 15th.

H.M.Jr: No, no.

Bell: We will have plenty of money. Taxes will be coming in pretty heavy then.

H.M.Jr: Why can't you date it on the 15th?

Bell: Well, after you announce it the 10th, you see, they have got to print the securities and get them into all the Federal Reserve Banks. That gives you not more than six days at the most.

H.M.Jr: We can still date it --

Hadley: Your maturity date would be the 15th.

Murphy: If you dated it back to the 15th, you would have to pay some accrued interest when you picked them up, and that would make it messy.

- 30 -

Bell: We can date it the 18th and it will mature on the 15th.

H.M.Jr: That is all right. If we did it on the 24th and we waited two weeks and then went back for cash, there is two weeks elapsed there.

Hadley: Yes.

H.M.Jr: Dan?

Bell: Yes.

H.M.Jr: That isn't pressing them too much?

Bell: No, I don't think so.

H.M.Jr: We always used to do the stuff --

Bell: Not when they are well distributed.

H.M.Jr: We used to do the stuff on Monday, you know.

Hadley: They are very anxious to get this refunding out of the way so that might help the cash over.

H.M.Jr: I think we had better figure on a refunding on the 24th and go into the cash on the 10th.

Bell: That is all right. It is a good program.

H.M.Jr: I think if we aim for that, it will be all right.

Hadley: Open your books on the 24th or the 25th? You see, you will have Saturday and Sunday,

- 31 -

two days there on the week-end with no market.

- H.M.Jr: We have done that before. We could do it on the 25th, wait until Monday and see if there is anything over the week-end. We used to do that - we have done that, too.
- Bell: This is all right. You are going to leave it open three days anyhow.
- H.M.Jr: Announce it on the morning of the 25th.
- Bell: All the banks will have gotten their notice.
- H.M.Jr: But offer it on the morning of the 25th.
- Bell: If it weren't for the - getting a market at the last moment, we could really send out our notices Saturday morning anyhow and - we will probably want to take a look at the market so we will leave it until Monday noon.
- H.M.Jr: We used to do that. Well, gentlemen, it has been very instructive to me. I will stop now. You get how I feel?
- Haas: Yes.
- H.M.Jr: And I will be talking to you again Monday.
- Haas: Want to look at this thing?
- H.M.Jr: I can't now. I have another crowd waiting.
- Bell: Hadley suggested you might have a bond with a coupon changing every year, starting with one per cent the first year and --
- H.M.Jr: Let him bring that up the next time.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE February 12, 1941

TO Secretary Morgenthau
FROM Mr. Haag *HA*
Subject: Proposed New Forms of United States Savings Bonds

I. The Problem of Demand Obligations

From the point of view of the Treasury probably the principal problem raised by United States savings bonds is that these securities may be redeemed at any time at the option of the holders. Thus, the Treasury faces the possibility of demands for redemption on a large scale. The magnitude of this problem, of course, will grow as the volume of savings bonds outstanding increases.

Demands for redemption may arise either in consequence of rising interest rates which lead investors to seek more remunerative investments, or of increased expenditures for consumption by the holders.

The risk of demands occasioned by rising interest rates can be mitigated, but it cannot be avoided entirely. The principal means of reducing this risk is to make the yields on savings bonds low during the earlier portion of their term relative to their yield if held to maturity. The return so withheld during the earlier period is then automatically added to that still to be received in the later period. This makes the bond a more and more attractive instrument to hold as it approaches maturity, and so discourages redemption.

This has been done to a moderate degree under the present savings bond plan. Thus, the yield to maturity of United States savings bonds is 2.90 percent, while the yield if the bonds are held only five years is but 2.28 percent, and the yield for the remaining five years if held to maturity is 3.52 percent. It would be possible, however, to increase the encouragement given to the holders to retain their bonds for the full ten-year period by withholding a larger portion of the ultimate yield than is now the case, until the latter portion of the ten-year term. All of the plans described in the second section of this memorandum employ this principle to a greater degree than does the present plan.

Secretary Morgenthau - 2

The risk of premature redemption due to rising interest rates would attain importance if the level of interest rates in the bond market should rise above the yield for the remainder of their period to maturity of a considerable portion of the outstanding savings bonds. The holders of these savings bonds would then have a pecuniary incentive for switching from them into market obligations priced to yield a higher return. As this condition has never existed since the issuance of savings bonds commenced in 1935, the redemption experience of the present bonds is a poor guide to what might be expected under higher interest rates.

Although the existence of outstanding demand obligations exposes the Treasury to the risk of large-scale redemptions if interest rates rise, it should be noted that there would be compensating disadvantages attached to the issuance of term securities designed to attract funds from the same sources. Such securities would fall to a substantial discount if interest rates increased. The Liberty bonds which were issued during the World War were securities of the latter type. These bonds fell considerably below par shortly after the end of the War, causing great popular dissatisfaction. (The 4-1/4 percent Second Liberty bonds, for example, fell to a low of 82 on May 20, 1920.)

Demands for redemption for the purpose of increasing consumption expenditures might occur either in periods of depression and unemployment or in periods of full employment. In periods of unemployment, there would be no objection to satisfying such demands freely and raising the necessary funds from other sources, including the sale of securities to banks. In periods of full employment, on the other hand, it would be best to redeem such securities, as far as possible, from tax revenues. To the extent that this should not be possible, it would be necessary to refund them into higher rate securities sold to real savers.

A widespread demand for redemption of United States savings bonds, whether for consumption purposes or because of increased interest rates, would undoubtedly impose a burden on the Treasury. As already pointed out, term securities, such as Liberty bonds, if outstanding under similar circumstances, would suffer substantial depreciation in market value, thereby throwing a corresponding burden on their holders. The real question, therefore, is merely whether the burden should be borne by the Treasury or by the individual holders of the bonds. On balance, it would appear more socially desirable that the Treasury should bear the burden than the individual holders.

Secretary Morgenthau - 3

The refunding of Government securities through the Treasury would undoubtedly prove less demoralizing than widespread market liquidation, such as occurred after the World War.

II. Three Proposed New Series of United States Savings Bonds

At the present time it would appear to be particularly desirable to encourage holding of United States savings bonds for the full ten-year period, and at the same time to place as large a proportion as possible of future increases in the public debt in the hands of bona fide savers. To attain the first of these objectives, it is recommended that a new series of savings bonds be issued similar to the present bonds, with a maturity yield of 2.90 percent, but with reduced intermediate yields, the limit on individual purchases of such bonds to be \$3,000 in any one calendar year.

In order to attract a large volume of savings without increasing unnecessarily the interest charge on the public debt, it is recommended that there also be issued two new series of bonds with both maturity and intermediate yields lower than those on the bonds proposed above, the limit on individual purchases to be substantially greater than the \$10,000 permitted for the present series. These two bonds would be alike, except that one would be of the appreciation type, while the other would carry a current interest return. It is believed that by thus offering two types of investment security a broader market would be tapped than by the offering of an appreciation bond alone.

Securities of these three types are described below:

(a) Bonds with reduced intermediate yields. The present plan of issuance of United States savings bonds is compared with that proposed in this subsection in Table I and in Charts I and II. It will be seen that under the proposed plan a larger part of the total appreciation in value is withheld until the final years of the period. In consequence, under the proposed plan the increase in yield with the period held lags behind that of outstanding United States savings bonds under the present plan, as is shown in Chart I, but these yields are, nevertheless, higher than those currently available on market issues of Treasury bonds for every regular semiannual redemption date.

The size of the bonus offered under the proposed plan for holding savings bonds until final maturity is indicated in Chart II. This chart shows the yields if held to maturity

Secretary Morgenthau - 4

from any intermediate date. Under the present plan providing a 2.90 percent over-all yield, this figure reaches a maximum of only 4.31 percent at the end of the fourteenth semiannual period, and thereafter falls back gradually to 4.08 percent at the end of the nineteenth semiannual period. In the proposed plan, on the other hand, this figure rises continuously throughout the whole life of the bond to a level slightly over 10.50 percent at the end of the nineteenth semiannual period.

There would seem to be special justification for thus reducing the return on savings bonds if not held until final maturity. The disparity between the rate of return on savings bonds and that on open market obligations is greater for intermediate periods than for the full ten years. Furthermore, it may be argued that intermediate redemption should be considered as a special privilege, which should be accorded to the holders of the bonds only at some sacrifice below the standard rate of return to maturity. If such a reduction of intermediate redemption values should make savings bonds somewhat less attractive to persons who contemplate holding them only for temporary investment, this would seem to be a positive advantage.

It is also proposed that purchases by any individual during a given year be limited to \$3,000. Subscriptions to this series would be limited to natural persons, as is the case under the present plan. This reduction from the present limit of \$10,000 would not materially impair the availability of the bonds to the lower income classes. It might be pertinent to observe in this connection that the maximum amount of Postal Savings deposits permitted to be held by any one person at any one time is only \$2,500. Thus, it would be possible with a limit of \$3,000 per year for an individual to acquire aggregate holdings of savings bonds (at maturity value) twelve times as great as the maximum Postal Savings deposits.

The low limit on annual purchases should in some degree reenforce the tendency of reduced intermediate yields to mitigate the problem of demand obligations referred to above. This limit would tend to make the bonds relatively more attractive to those persons of moderate means whose investment policies do not tend to change in response to variations in the market rate of interest. These persons would be less likely to switch out of savings bonds into other issues in the event of a future rise of interest rates than would those with larger total means.

(b) Bonds with reduced yield to maturity. It is proposed that, in addition to the bonds just discussed, an issue of savings bonds bearing a maturity yield of 2.00 percent be offered.

Secretary Morgenthau - 5

The proposed plan is compared with the present plan in Table II and in Charts III and IV.

This plan is based on the underlying thought that the cumulative return for the period held should be equal to 0.20 percent for each year held, working out to an even 2.00 percent yield if held for the full ten-year period. This ideal has had to be departed from slightly, due to rounding. Thus, the issue price as worked out is \$82.00 and the yield, if held to maturity, is 1.99 percent.

Under this plan, it may be seen, the yield during period held rises much more slowly in the early part of the period than it does under the present plan (Chart III), and that in consequence the yield during the remainder of the ten-year period, if held to maturity, builds up more rapidly (Chart IV).

The proposal to introduce this type of savings bond and the type with a current return described in (c) below, in addition to modifying the schedule of redemption values of savings bonds issued under the present plan accords with the sound merchandising principle of offering each type of investor the security best suited to his own individual needs, so far as this can be done without sacrifice of the interest of the Treasury. It also makes it possible in some degree to separate the fiscal aspects of the savings bond scheme from its other aspects, and thus to obtain a large volume of savings from individual savers with a minimum of fiscal diseconomy.

The bonds recommended in this subsection, with both reduced intermediate and maturity yields, would provide an investment outlet for those who will very largely be barred from the regular series by the \$3,000 limit. These persons constitute, for the most part, a group with relatively large individual resources whose principal investment need is a security carrying no risk of market depreciation. These are not the persons whose thrift it was thought to encourage by the issuance of savings bonds. It is unlikely that their purchases would be materially diminished by a reduction in the maturity yield.

It should be possible by the issuance of the two types of savings bonds described in this and the preceding subsection to encourage the investment of small savings in Government securities and, at the same time, to place as large a proportion as possible of future increases in the

Secretary Morgenthau - 6

public debt in the hands of private investors without paying an unnecessary bonus in the form of excessive interest charges to attain this end. In this connection, it is suggested that the limit on annual subscriptions to this series be considerably larger than the \$10,000 permitted under present savings bond regulations -- possibly \$50,000 a year. Subscriptions would be accepted from all classes of subscribers, except commercial banks. The purpose of a limit is to prevent, as far as possible, switching from market issues of Government securities, and to protect the Treasury from the effects of disparities in the attractiveness of savings bonds and other Treasury securities such as are likely to arise when one security is offered for continuous sale. It should, of course, be independent of that imposed upon purchases of the savings bonds yielding 2.90 percent.

(c) Bonds with a current return. It is further proposed that a special type of savings bond be issued with the same yield to maturity as that just discussed, but with a regular current interest payment.

The proposed new type of savings bond would have an issue price of \$95.50 and would mature at the close of ten years at \$100.00. It would pay a current return of 75 cents each semi-annual period over its entire life, thus giving a uniform current return of 1.57 percent on the issue price. Its redemption value would decrease by 50 cents upon the payment of each of the first six semiannual interest payments of 75 cents each, reaching a low of \$92.50 at the end of the sixth semi-annual period. The redemption value would thereafter increase by 25 cents each semiannual period until it again reached the original issue price of \$95.50 at the end of the eighteenth semiannual period, at which amount it would remain until final redemption at \$100.00. The computed yield for the entire period would be 2.00 percent, compounded semiannually.

The proposed plan is compared in Table III with the previously proposed plan without current return, but with approximately the same maturity yield, in the three respects of (1) yield during period held, (2) yield during remainder of ten-year period if held to maturity, and (3) yield if held one additional period. Chart V shows the yield during period held for each plan and also compares each of them with the present plan, and with the yields on Treasury bonds and notes on February 6, 1941. Chart VI compares the two plans with each other and with the present plan on the basis of yield during remainder of ten-year period if held to maturity.

Secretary Morgenthau - 7

This type of savings bond is recommended for the purpose of meeting an important segment of investor demand -- the demand for a security which combines protection from market depreciation and a regular income. This demand, it should be noted, is most insistent in the very sector of the market where savings bonds could be placed with best advantage -- namely, with investors whose principal is sufficiently large to make income a worthwhile consideration, but who are not so wealthy (nor so possessed of other sources of income) that they can afford to forego income for ten years while awaiting an appreciation of principal. The reality of this demand is well attested by the ingenuity which has been devoted by investment counsellors to the construction of purchase plans designed to make the present series of savings bonds yield a regular income.

Four principles appeared paramount in devising a plan for savings bonds of the type here contemplated. The first two of them appeared desirable in order to maximize the attraction of the security to the investor, and the last two seemed necessary in order to safeguard the interests of the Government. These principles are as follows:

- (1) The current return of the bonds should be as large as possible consistent with the total return allowed over the whole ten-year period.
- (2) The current return should, if possible, begin at once and be level over the whole ten-year period.
- (3) The total return during the first few years should not greatly exceed that available on market securities or on the concurrently offered appreciation series of savings bonds. This is necessary in order that the securities should definitely not be attractive to investors contemplating holding them for a short time only.
- (4) The "yield during remainder of ten-year period if held to maturity" should be built up as rapidly as possible in order to safeguard the Government against premature redemption of the bonds in the event of a rise in interest rates.

Secretary Morgenthau - 8

The proposed plan conforms to these criteria reasonably well. It offers:

- (1) A current return of 1.57 percent on the issue price. This is over three-quarters of the total maturity yield of 2.00 percent.
- (2) The current return begins immediately and is level over the entire period.
- (3) The "yield during period held" does not rise above 0.53 percent until after the end of the third year. This compares with a yield of 0.57 percent at the end of the same period on the proposed appreciation series, and with a return of about 0.45 percent (plus an unknown amount of "rights" value) on Treasury notes of three years maturity.
- (4) The "yield during remainder of ten-year period if held to maturity" builds up from 2.00 percent at issuance to 2.91 percent at the end of five years. This safeguards the Treasury against a rise in interest rates of nearly 1 percent during the next five years.

These various advantages can only be obtained by some reduction in redemption value during the first few years. The alternative is a sharp reduction in current return during the early years. The security is meant to appeal, however, primarily to investors who want a generous income return on a long-time basis. If they have to withdraw prematurely, they will receive a fair return on their money for the period invested. In proportion, however, as they are worried over the immediate redemption value, they are not bona fide long-term investors and their purchases of the bonds would prove more a source of embarrassment than of profit to the Treasury.

It is proposed that the limit on purchases by a single subscriber of the 2.00 percent appreciation series be applied to this series also, the subscriber being permitted to distribute his purchases within that limit between the two series as he sees fit. There is no difference in the economic effects of the purchase of the two series, so there would appear to be no reason why the same classes of investors should not be permitted to subscribe to each series and to divide their subscriptions between the two series as they desire.

Attachments

United States Savings Bonds
Comparison of Present Plan with Plan for Reduced Intermediate Yields

Number of semi-annual periods held	Redemption value		Yield during period held		Yield during remainder of 10-year period	
	Present plan	Plan for reduced intermediate yields	Present plan	Plan for reduced intermediate yields	Present plan	Plan for reduced intermediate yields
0	\$75.00	\$75.00	.00%	.00%	2.90%	2.90%
1	75.00	75.00	.00	.00	3.05	3.05
2	76.00	75.50	1.33	.67	3.07	3.15
3	77.00	76.00	1.76	.88	3.10	3.25
4	78.00	76.50	1.97	.99	3.13	3.38
5	79.00	77.00	2.09	1.06	3.17	3.52
6	80.00	78.00	2.16	1.31	3.21	3.58
7	81.00	79.00	2.21	1.49	3.27	3.66
8	82.00	80.00	2.24	1.62	3.34	3.75
9	83.00	81.00	2.26	1.72	3.42	3.87
10	84.00	82.00	2.28	1.79	3.52	4.01
11	85.00	83.00	2.29	1.85	3.64	4.18
12	86.00	84.00	2.29	1.90	3.81	4.41
13	87.00	85.00	2.30	1.93	4.02	4.70
14	88.00	86.00	2.30	1.96	4.31	5.09
15	90.00	87.50	2.45	2.07	4.26	5.41
16	92.00	89.00	2.57	2.15	4.21	5.91
17	94.00	91.00	2.67	2.29	4.17	6.39
18	96.00	93.00	2.76	2.40	4.12	7.39
19	98.00	95.00	2.84	2.50	4.08	10.53
20	100.00	100.00	2.90	2.90	-	-

Treasury Department, Division of Research and Statistics.

Yields are nominal annual rates compounded semiannually.

United States Savings Bonds
Comparison of Present Plan with Proposed 2 Percent Plan

Number of semi-annual periods held	Redemption value		Yield during period held		Yield during remainder of 10-year period	
	Present plan	2 Percent plan	Present plan	2 Percent plan	Present plan	2 Percent plan
0	\$75.00	\$82.00	.00%	.00%	2.90%	1.99%
1	75.00	82.00	.00	.00	3.05	2.10
2	76.00	82.20	1.33	.24	3.07	2.19
3	77.00	82.40	1.76	.32	3.10	2.29
4	78.00	82.60	1.97	.36	3.13	2.40
5	79.00	83.00	2.09	.49	3.17	2.50
6	80.00	83.40	2.16	.57	3.21	2.61
7	81.00	84.00	2.21	.69	3.27	2.70
8	82.00	84.60	2.24	.78	3.34	2.81
9	83.00	85.40	2.26	.90	3.42	2.89
10	84.00	86.20	2.28	1.00	3.52	2.99
11	85.00	87.20	2.29	1.12	3.64	3.07
12	86.00	88.20	2.29	1.22	3.81	3.16
13	87.00	89.20	2.30	1.30	4.02	3.29
14	88.00	90.40	2.30	1.40	4.31	3.39
15	90.00	91.80	2.45	1.51	4.26	3.45
16	92.00	93.20	2.57	1.61	4.21	3.55
17	94.00	94.60	2.67	1.69	4.17	3.74
18	96.00	96.40	2.76	1.81	4.12	3.70
19	98.00	98.20	2.84	1.91	4.08	3.67
20	100.00	100.00	2.90	1.99	-	-

Treasury Department, Division of Research and Statistics.

Yields are nominal annual rates compounded semiannually.

Table III

United States Savings Bonds

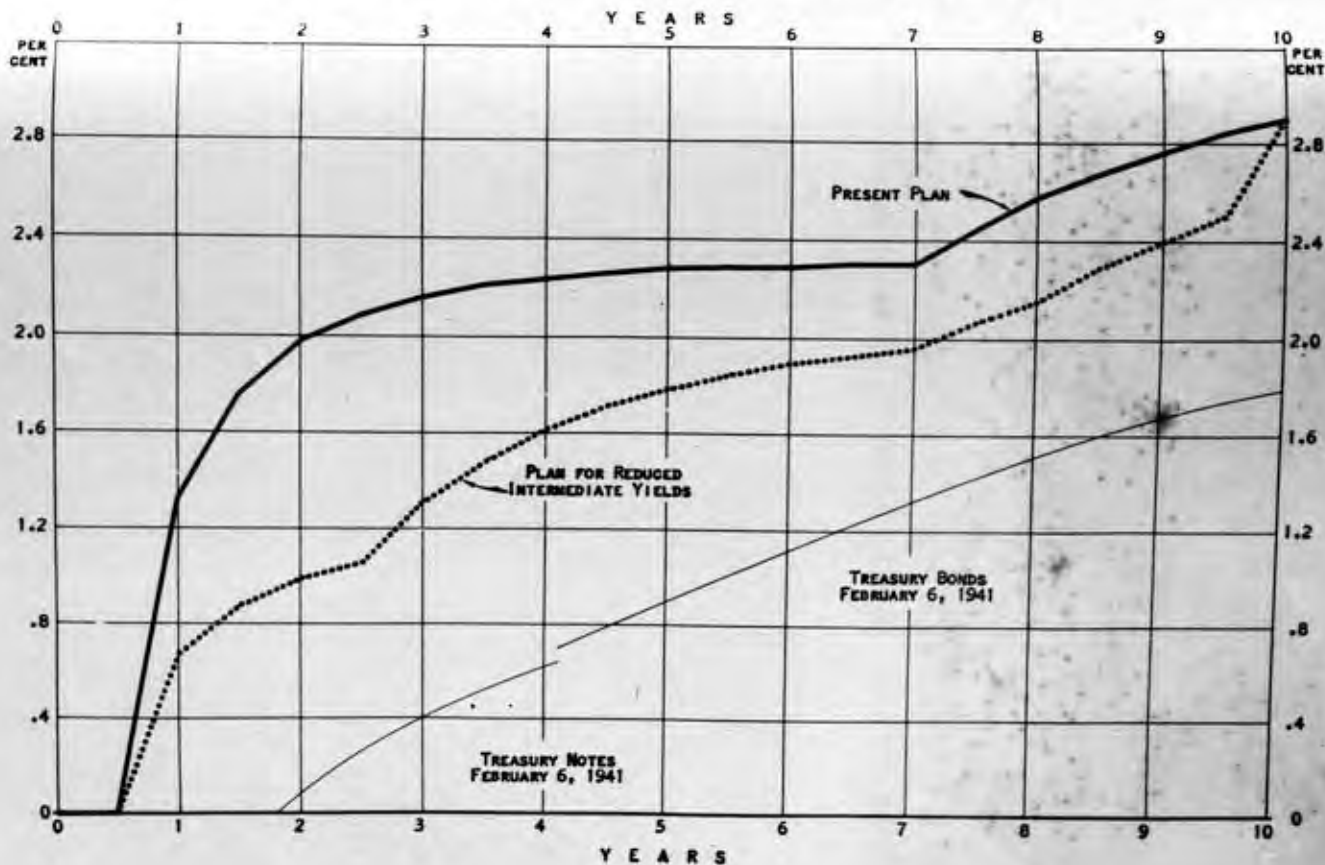
Comparison of 2 Percent Plans with and without Current Return

Number of semi-annual periods held	Plan without Current Return				Plan with Current Return of 75 cents each Semiannual Period			
	Redemption Value	Yield during:			Redemption Value	Yield during:		
		Period held	Remainder of 10-yr period	One add'l period		Period held	Remainder of 10-yr period	One add'l period
0	\$82.00	.00%	1.99%	.00%	\$95.50	.00%	2.00%	.52%
1	82.00	.00	2.10	.49	95.00	.52	2.08	.53
2	82.20	.24	2.19	.49	94.50	.52	2.16	.53
3	82.40	.32	2.29	.49	94.00	.53	2.28	.53
4	82.60	.36	2.40	.97	93.50	.53	2.40	.53
5	83.00	.49	2.50	.96	93.00	.53	2.53	.54
6	83.40	.57	2.61	1.44	92.50	.53	2.68	2.16
7	84.00	.69	2.70	1.43	92.75	.76	2.72	2.16
8	84.60	.78	2.81	1.89	93.00	.93	2.77	2.15
9	85.40	.90	2.89	1.87	93.25	1.06	2.83	2.14
10	86.20	1.00	2.99	2.32	93.50	1.16	2.91	2.14
11	87.20	1.12	3.07	2.29	93.75	1.25	2.99	2.13
12	88.20	1.22	3.16	2.27	94.00	1.32	3.11	2.13
13	89.20	1.30	3.29	2.69	94.25	1.38	3.25	2.12
14	90.40	1.40	3.39	3.10	94.50	1.43	3.45	2.12
15	91.80	1.51	3.45	3.05	94.75	1.47	3.72	2.11
16	93.20	1.61	3.55	3.00	95.00	1.51	4.13	2.11
17	94.60	1.69	3.74	3.81	95.25	1.54	4.82	2.10
18	96.40	1.81	3.70	3.73	95.50	1.57	6.21	1.57
19	98.20	1.91	3.67	3.67	95.50	1.57	10.99	10.99
20	100.00	1.99	-	-	100.00	2.00	-	-

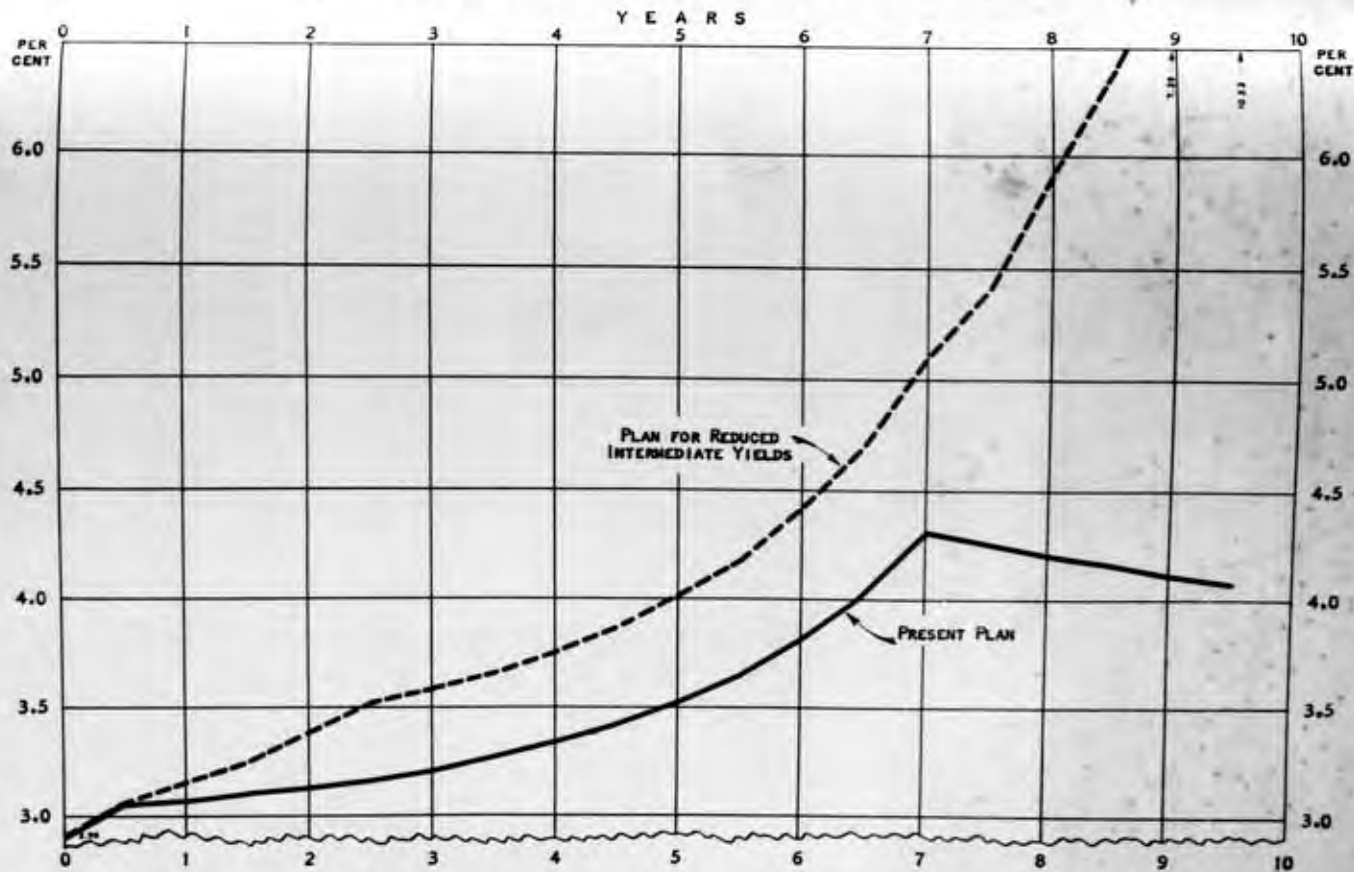
Division of Research and Statistics.

Yields are nominal annual rates compounded semiannually.

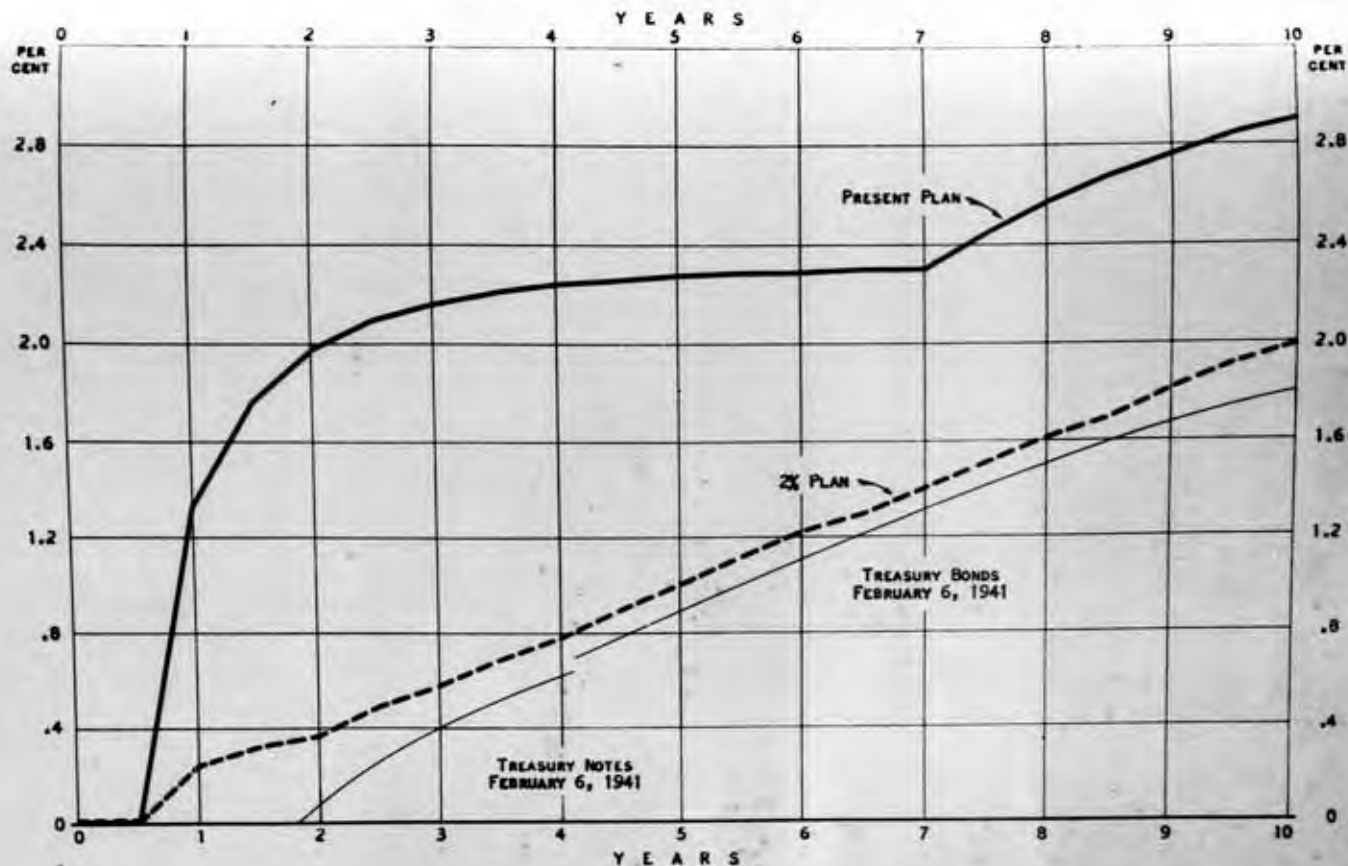
UNITED STATES SAVINGS BONDS
Yield During Period Held, Present Plan and Proposed Plan
for Reduced Intermediate Yields and Yields of Treasury Bonds and Notes



UNITED STATES SAVINGS BONDS
Yield During Remainder of 10 Year Period if Held to Maturity,
Present Plan and Proposed Plan for Reduced Intermediate Yields



UNITED STATES SAVINGS BONDS
 Yield During Period Held, Proposed 2% Plan Compared with Present Plan
 and Yields of Treasury Bonds and Note



UNITED STATES SAVINGS BONDS
Yield During Remainder of 10 Year Period if Held to Maturity, Present Plan and Proposed 2% Plan

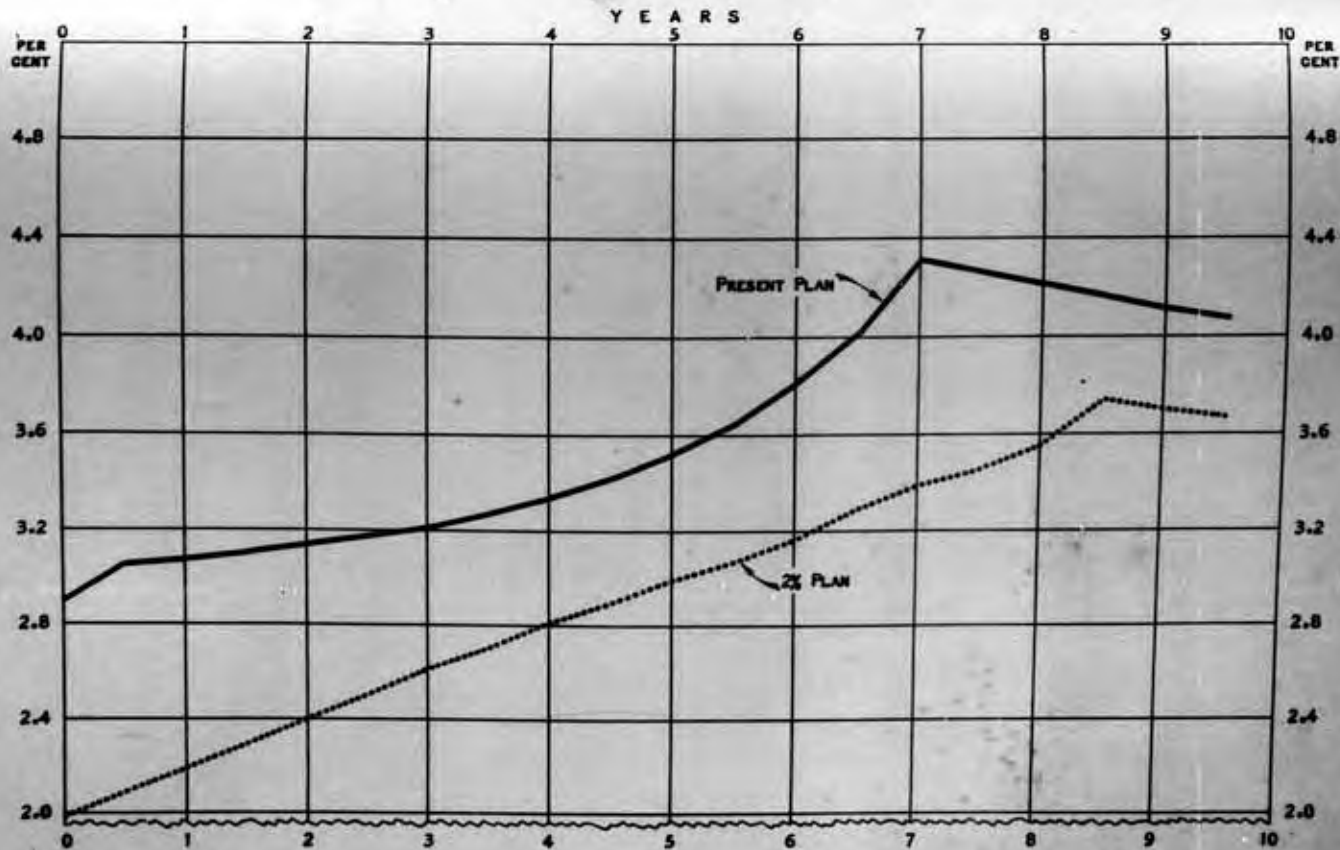
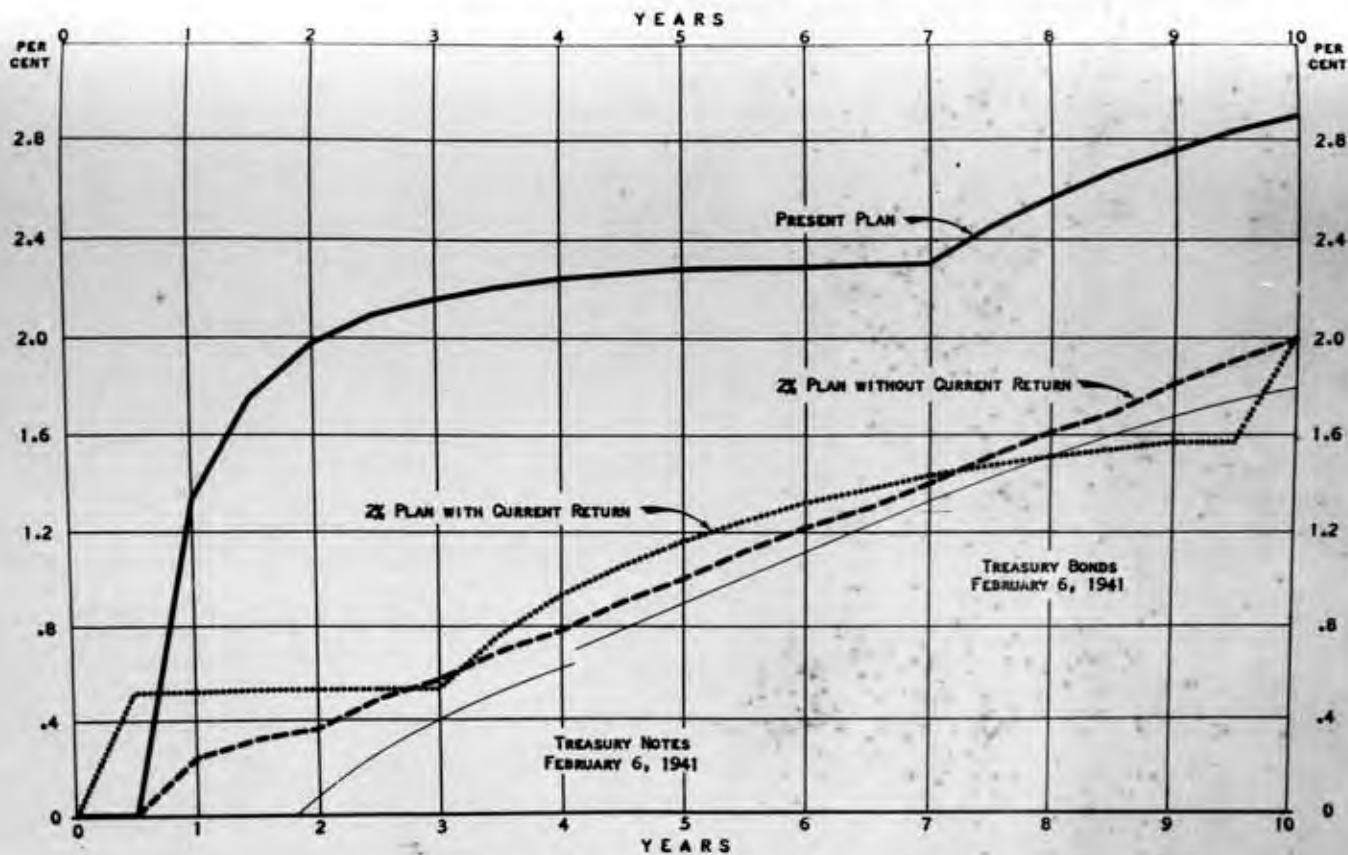
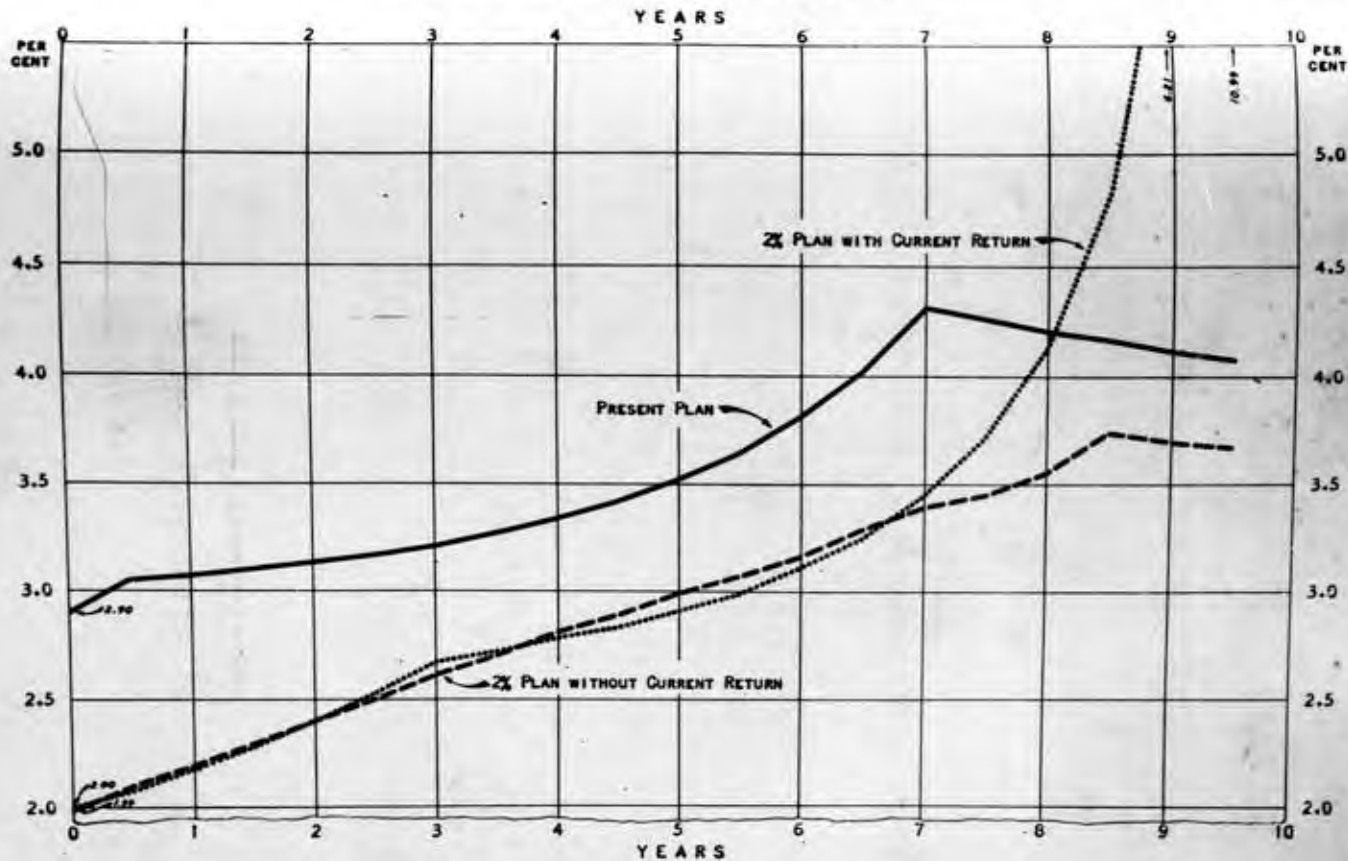


CHART
UNITED STATES SAVINGS BONDS
 Yield During Period Held, Proposed 2% Plans Compared with Present Plan
 and Yields of Outstanding Treasury Bonds and Notes



UNITED STATES SAVINGS BONDS
Yield During Remainder of 10-Year Period if Held to Maturity,
Present Plan and Proposed 2% Plans



February 14, 1941

The Secretary left with the President at
Cabinet today the ribbon copy of the attached memorandum.

Since last June I have been urging the extension of freezing control to cover at least the property of the Axis powers in this country. Here are a few examples that have come to my attention in the last couple of days, which show the need of action and the danger of delay.

1. Since the first of the year Italian agents have withdrawn from a single bank in New York over \$6 million in U. S. currency, with old bills always specified.

2. The Italian Government has built up a \$10 million account with the Bank of Brazil.

3. In the past month alone the Yokohama Specie Bank in New York has transferred to Brazil over \$6 million, and we have just received word that the Yokohama Specie Bank is negotiating with the National Bank of Haiti to take over all the New York accounts of the Yokohama Specie Bank and to handle all its Western Hemisphere business from Haiti.

4. Companies ostensibly of Swiss and Swedish ownership have been creating dummy corporations in Haiti and Panama to hold American securities.

5. Mitsubishi is planning to deposit all of its dollar notes with the New York branch of a Brazilian bank.

HDW:rel
2/14/41

CONFIDENTIAL

February 14, 1941.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Schwarz (C)


I have just learned that Secretary Hull yesterday morning called in some of the State Department regulars for an "off-the-record" press conference---only ten correspondents were invited-- in order to dispel the idea that freezing of American assets of any non-occupied countries is imminent. He didn't specify the reasons for talking to them at this time but the correspondents got the impression from other State Department officials that he had been prompted by your statement at Monday's press conference that you were "optimistic" about freezing and yesterday's United Press story predicting issuance of freezing orders after passage of the lend-lease bill.

Mr. Hull said to the boys that the problem was still under study, that he didn't think any action was imminent and insisted that there was no difference of opinion within the Cabinet. He said that there are many ramifications to the questions, some of which were very delicate, causing him to believe the problem would be under study for some time to come.

The Secretary of State said it was assumed that if we froze German or Japanese assets in this country, they would take the same or more drastic steps with respect to American assets within their boundaries and added that we had assets in Germany worth three or four times as much as Germans hold here and assets in Japan of several times the value of Japanese assets here.

He said we didn't know what Russia is up to at the moment and that, if we are not careful, we might drive Russia and Japan into each other's arms.

He admitted the advantages of immediate freezing as it might help to curb espionage and subversive activities but contended that the disadvantages were greater.



THE SECRETARY OF STATE
WASHINGTON

February 14, 1941.

see meeting
at 11 am
2/14

Dear Henry:

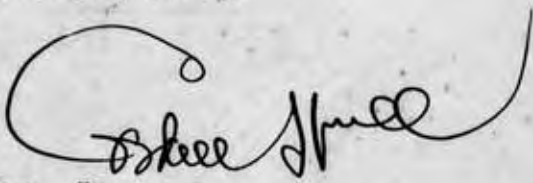
I herewith enclose copy of memorandum
I am sending to the President, at his request,
on the freezing of foreign funds.

Sincerely yours,

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.



MEMORANDUM ON THE FREEZING OF FOREIGN FUNDS

The questions before us are to what extent and by what methods this Government should extend its control over assets and properties within the United States owned by foreigners.

Our freezing system as applied at the present time was adopted for the definite purpose of conserving for their rightful owners the assets of the nationals of certain invaded countries and, incidentally, of keeping such assets out of the hands of the invaders. It is a system under which not alone the movement of frozen funds across our boundaries but also their use within the country are forbidden, except under license.

The question now under consideration concerns methods of extending such control for the purpose of preventing, so far as that is possible through financial means, first, subversive and other hostile acts by foreign interests in this country, and, second, the use of foreign funds for purposes prejudicial to our policy of aid to Great Britain.

To serve these important ends, it is essential to have knowledge as to the extent, control and use of foreign-owned funds and properties in this country and mobility of action. The initial step indicated is to
require

require registration of foreign financial interests, with full disclosure of their actual ownership and control. The second step is requirement for cash reporting thereafter of transactions in specific accounts as the officials responsible may require. The third step is the creation and exercise of power to freeze any account, individual, corporate or governmental, which is found to be used either in subversive activities or in purchases or other transactions which it is desired to regulate and which are not subject to other controls.

A universal freezing order or one directed geographically against the funds of particular countries, raises the dangers of reprisals (American investments in Axis controlled areas probably exceed Axis assets here by over three to one) and of possible complications of our relations with the countries selected for freezing. At the same time, it does not even provide a sufficiently flexible instrument of control. Freezing of specific accounts provides far greater mobility of action and minimizes international complications. Moreover, to the extent that it may be used as an aid to the British blockade of the Axis Powers, it would operate effectively for this purpose without publicly advertising the fact.

General freezing applied to specific countries would
create

↓

create complications with respect to South American relations and relations with friendly European nations (Switzerland, Portugal, Sweden), the harmful effects of which would far outweigh any benefits obtained. This would both permit evasion and do unnecessary harm. An example of the latter would be general freezing applied to Swiss interests. The effect of this might well be to throw Swiss economy into such confusion that financial collapse might do what neither German military pressure nor German propaganda has yet been able to achieve. An example of the former would be that freezing applied to the Axis Powers, even with Russia added, would still make it possible by transactions through South American and other countries whose interests could not be wisely frozen to achieve by the Axis Powers the object which the order would intend to prevent.

Flexibility of action requires that the authorities in control of freezing know the facts, continually keep abreast of them, and have authority to freeze specific accounts used for purposes which this Government desires to prevent. In the exercise of such flexible powers the authorities should not be limited to the nationals of any country, but should be free to proceed wherever the necessity may arise. The exercise of such power should be conducted through close collaboration between the
Treasury,

+

Treasury, which is charged with its administration, the Department of State, which must deal with its international repercussions, and the Department of Justice, which is charged with the prevention within the country of subversive activities and other violations of law. Furthermore, all three Departments have sources of information which should be pooled in the exercise of these powers.

It is, therefore, believed that the national interest would best be served at the present time by adoption of the following measures: first, registration of foreign holdings in this country and for full disclosure of the actual control over these funds; second, continuous reporting of transactions in these funds wherever this may appear necessary; and third, the application of freezing power to specific accounts whenever, in the opinion of the Secretaries of the Treasury and State and the Attorney General, such action is essential for the furtherance of the defense of the United States.

CH

February 14, 1941
11:00 a.m.

RE FREEZING

Present: Mr. Young
Mr. White
Mr. Foley
Mr. Cochran
Mr. Bernstein
Mr. Pehle
Mr. Bell
Mr. Kuhn
Miss Chauncey

H.M.Jr: I very hastily read Mr. Hull's letter to me.
Will you summarize it?

Foley: Mr. Hull says at the President's request he submitted the attached memorandum dealing with freeze control. He recommends first that there be a registration of all foreign holdings; second, that there will be a continuous reporting of all transactions in those funds whenever that may appear to be necessary; and, third, that the application of freeze power, the ad hoc, that is to specify transactions on the finding of the Attorney General, that subversive activities are being carried on or other suspicious things are being done in respect to those particular funds.

Now, it seems to us, in the light of this memorandum which State has submitted to the President, that the draft which Ferdie Kuhn got up has been superseded, and that we should now do two things.

- 2 -

First, you should ask for time if they bring it up at the Cabinet meeting this afternoon on the ground that this proposal has just been given to you this morning, and you haven't had sufficient time to consider it, and that you - and then that we be given an opportunity to prepare a reply presenting our objections to the State Department proposal, and then laying before the President our case for geographical freezing control.

- H.M.Jr: Now, does Hull say anything in there about where he is going to put export control?
- Foley: He doesn't deal with that at all.
- H.M.Jr: What happened was, in strictest confidence, at lunch Monday I raised the question with the President, and he took out a pencil and wrote a note and said, "What are we going to tell Henry Morgenthau when he returns about freezing," and sent that over Monday.
- Foley: This was dated the 14th of February, today, and says, "I am sending to the President at his request the attached memorandum," so presumably it went over this morning.
- H.M.Jr: That is right.
- Foley: Now this--
- H.M.Jr: Well, this is just what they said when we walked in the room, and although Berle and Feis both agreed it was not the way to do it, he is still doing it.
- Foley: It is the same proposal, Mr. Secretary, and it also is the same proposal that is embodied in the draft of the Executive order that Shea showed to Bernie last night, so it presumably

- 3 -

has the support of both Justice and State, and that is why we think it is so important that the thing should not come up for discussion at the Cabinet today, but that you should ask for time, and over the weekend we can work up a memorandum opposing what the State Department suggests and setting forth our case for geographical freeze control, and then perhaps it might be well for us to talk to Bob Jackson and see if we can get Bob Jackson on our side.

- H.M.Jr: Well, his reference to Switzerland, I just think he is all wet on that.
- Foley: I think that is right, too. Harry thinks his whole memorandum is all wet.
- White: The more we talk it over, the worse their proposal becomes. It is much worse than nothing. I think a very excellent case can be made if we have a few days, and I also think Bob Jackson can be won over. He doesn't see the implications and deficiencies of this as against the other.
- H.M.Jr: I don't believe he knows about it.
- Bell: Your memorandum indicated that Shea was opposed to it.
- Foley: Not this order, the other order. The second order the State Department submitted to Justice and didn't submit to the Treasury which would set up a policy control--
- Bell: He is against that?
- Foley: Counsel for foreign affairs and freezing and subversive activities.
- H.M.Jr: I will let you gentlemen listen to this telephone

- 4 -

conversation, but please be very quiet while you are listening.

Foley:

The significant thing about that second order, Dan, is that the State Department is the chairman of the committee, and that the administrator of export control who would be put under the State Department is the secretary of the committee, and all of the objections that they made to our order when we proposed having export control in the Treasury on the ground that they shouldn't be the chairman and that they should have a veto power and shouldn't be sharing their voice in foreign affairs with other Cabinet members and all that, are present. All those difficulties and objections are present. All those objections can be urged against their orders even to a greater degree than they could be against ours, which shows that they were supercilious and that they weren't really the real objections.

H.M. Jr:

Well, I am surprised that Dean Acheson takes a position like that without talking to somebody here in the Treasury.

White:

I don't think he understands it.

Foley:

I think he has been completely taken in.

Bell:

He hasn't been there long enough.

(Telephone conversation with Attorney General Jackson follows:)

February 14, 1941 219 ✓
11:14 A.M.

H.M.Jr: Hello.

Operator: The Attorney General.

H.M.Jr: Hello. Hello. Hello.

Operator: That must have been his secretary I was talking to.

H.M.Jr: All right. Hello.

Operator: I'm sorry. I thought it was Mr. Jackson.

H.M.Jr: Hello.

Operator: Can I call you back?

H.M.Jr: Please.

Operator: Right.

11:15 A.M.

H.M.Jr: Hello.

Robert
Jackson: Good morning, Henry.

H.M.Jr: How are you?

J: Well, pretty well.

H.M.Jr: Bob, I just got a memorandum from Secretary Hull which is a copy of one he sent the President on this freezing business. I don't know whether he sent you one or not.

J: Well, if he has it hasn't come to my attention yet.

H.M.Jr: Well, that's the last thing and then working backwards - Bernstein was over there working with Shea yesterday.

J: Yeh.

H.M.Jr: And this Executive Order now seems to be completely turned around. I don't know whether Shea has brought it to your attention or not.

J: I haven't seen the - I've seen what the State Department suggested but I haven't seen what they've finally worked out, if anything.

- H.M.Jr: Well, the way I get it and I think I'm correct is that it seemed to me that Shea was proposing we freeze individual companies on certification from the Attorney General.
- J: No, I don't think that's - I don't want to certify - damn thing to do with it and -
- H.M.Jr: Well, that's what I told Mr. Hull that there was just going to be a witch hunt and that I didn't want anything to do with it; I told him that ten days ago.
- J: No, I'm not taking the responsibility of whose funds should be frozen and whose shouldn't.
- H.M.Jr: Well, that's the way Shea's got it and I got a memorandum here from Bernstein of the meeting yesterday and I tell you what I'd like to do if you had the time because I'm afraid it's going to be brought up in Cabinet. Could Ed Foley and Bernstein drop over and see you right now?
- J: I don't see how I can this morning. I don't think it will come up. Of course, I don't know what the Secretary may have in mind but I don't want this department to have anything to do with that.
- H.M.Jr: Well, that's the way - that's the way I understand it was drawn by Shea on your behalf yesterday.
- J: Well, you can tell these fellows a hundred times that you don't want the jurisdiction of your department extended but they will try to do it.
- H.M.Jr: Yeh.
- J: I don't want a damn thing to do with that; I've got more headaches than I can handle now. (Laughs)
- H.M.Jr: Well, frankly, Bob, I was amazed because I think it was you that dropped the seed to me that this thing would be a witch hunt and in listening to you I thought I didn't want anything to do with it because what our position is on the freezing I think you know we want to do it on a geographical basis and not by companies in America.
- J: Well, the Secretary objects to that.
- H.M.Jr: I know.
- J: And that is a matter to which the jurisdiction

of these things I don't care anything about except I don't want any more of them.

H.M.Jr: Well, will you do this for me? Could you get hold of Shea? At least, tell him to stop operating until you can catch up with him.

J: Yes, I'll get whatever it is and get informed about it before meeting.

H.M.Jr: Before Cabinet.

J: Yes.

H.M.Jr: And then when you're ready will you let me know and our boys can come over or will you send for -

J: Well, I think that what ought to be done on this thing is to - for Hull and you and I to sit down and talk this over.

H.M.Jr: Yeh.

J: Now, we had long sessions with Berle and then the final draft which they finally came back with didn't resemble anything we talked about. I think we might as well settle this at the Head of the Department and I'm about through wasting time with it because, after all, there are questions of policy to be decided as the basis of this order and I think that you and Hull are the people who've got to decide them but I - or the President - but I don't think there's much use of working on drafts of documents that nobody is ready to accept. You see what I mean?

H.M.Jr: Yeh. Well -

J: Don't you think so?

H.M.Jr: Well, I do. I frankly was quite upset but I was more upset because I was willing to bet three to one that you'd be completely out of sympathy.

J: I don't want this freezing responsibility.

H.M.Jr: Well, supposing I do this: I write a little note to Hull - an acknowledgment of his - and simply say I'd like to at his earliest convenience sit down with Hull and you and myself.

J: That would be fine.

H.M.Jr: How would that be?

J: That would be all right.

H.M.Jr: Thank you, Bob.

J: Bye, Henry.

- 5 -

- H.M.Jr: Who bet me three to one?
- Bell: You didn't have any takers.
- Bernstein: Mr. Secretary, before I left, I asked Shea how Jackson felt about this, and he said he thought that Jackson and he saw eye to eye.
- H.M.Jr: Well, I am a moderate compared to Jackson. I am very moderate about this thing.
- Foley: Nothing could be worse, as Harry says, than have the G-man put on his derby and black coat and walk in and say, "Any subversive activities today, boys?" Nothing could be worse than that.
- White: I still think there ought to be this preparation of the letter and a statement of the case, even though you are going to talk it over with those men. I still think there ought to be that preparation.
- H.M.Jr: Well, what I want to do, gentlemen, and I would like to have this - even if we get into an argument, I would like to have on a sheet of paper for Cabinet - this thing that has happened about the money going down to Brazil and bring this thing up to date, the stuff that you (Cochran) told us about how much money has gone into the Argentine. I would like to bring this up to date so I have something in my hand, so I can say it is all very nice to talk about American money, but look what has happened during the last couple of months in the Argentine and Brazil, and look at the balances which are being built up here, and now we are sitting here arguing about something, and every day the money is going up and everybody knows that if England had a setback, they could change the government. Argentine and Brazil in two weeks, using the money to do it.

- 6 -

- White: I think that is good, but I am afraid the reaction to that will be "of course, then why not go through with a plan such as we have." Apparently the question no longer is one of imposition of control because the State Department accedes that that is desirable. It has now become a question of the method.
- (Miss Chauncey entered the conference.)
- H.M.Jr: They don't. I read it very hastily. They don't accede that any recommendation--
- White: They will say, "We will go right forward and find out these companies who are transferring their money and stop them tomorrow."
- H.M.Jr: I am not going to argue. I want these facts when I go over. If somebody will give me these facts. Now, if - you (Cochran) gave them something new, you see, at 9:30. Now, if--
- Cochran: That is hardly big enough to make much of a case on, Mr. Secretary. I will give it to Harry, if he is writing the memo.
- H.M.Jr: Let me decide that. I do want you to give me those things, and if White and Kuhn and Bernie will get together, and you (Pehle), too, and give me something just the way you (Kuhn) had it, only bring it up to date.
- Kuhn: On both subjects, first the money that is leaving and then what they are doing to our businesses, or do you want to leave the second out?
- H.M.Jr: That wasn't good enough. It wasn't very good.
- Kuhn: It wasn't very convincing. I would leave it out.
- H.M.Jr: All I would like to say is this to the President,

- 7 -

if I could have it on a sheet of paper so that you could put it in my hand at five minutes of two: "Now look, Mr. President, I have been talking about this thing - " did you get the date, how long?

White: We said since last fall, because it was early in December. If you want to go back that far, it was a year.

Foley: Since last June.

H.M.Jr: "Now look, Mr. President, I have been talking about this. I may need this. I am going to use my own judgment. Since last June I have been talking about freezing these countries. Now, what has happened, there have been constant leaks and constant publicity in the papers, and every time there is a leak, these fellows take their money until they have built up their balances in Brazil to such and such an extent, and they have built up their balances in the Argentine to such and such an extent, and the longer this thing goes, you are building up a potential weapon. Now, they say they didn't overthrow Vargas, that they only spent five million dollars. Now, they have got down there at least 10, and I don't know how much more that they can lay their hands on, and this time they will spend 10 million dollars, and they will overthrow Vargas," and I want that to use until it comes up, and I will say all of this stuff about the other thing, I will let Mr. Jackson talk about. He is supposed to do it, and I won't do it. But I have got to have something like that.

Young: Does the fact tie in that the War and Navy Departments have established a board to determine economic policies for South American countries?

H.M.Jr: One second. Give me that letter, Foley. I want

- 8 -

him to have this right away.

"My dear Cordell:

Thank you for your letter of February 14 enclosing a copy of your memorandum to the President on the freezing of foreign funds.

At your earliest convenience, I would like to meet with you and the Attorney General and discuss this whole matter.

Yours sincerely."

If you will get that to me right away. Bring it in yourself and type it yourself.

Chauncey:

Yes, sir.

H.M.Jr:

That is the whole thing, and I know - listen, I know the President. I know what is worrying him. I know how conscious he is of the South Americans. I know - how can we on the one hand talk about being worried about Dakar and the Germans coming down the African coast the way Berle told me yesterday, that they are inching their way down from Spanish Morocco down this way; and, on the other hand, we sit here absolutely impotent and let them build up these balances to finance a revolution. Ten or fifteen million dollars in Brazil or the Argentine will buy both Governments and overthrow them.

White:

What - they have got five million dollars of currency.

H.M.Jr:

I want that so I can have it. Do you think this thing - it is wrong to bring this thing up?

Bell:

If brought up at Cabinet, you mean?

- 9 -

- H.M.Jr: If Hull brings it up on this selective freezing.
- Bell: No, I don't think it is wrong.
- H.M.Jr: I have got to have something.
- Bell: You have got to have something. You can't make a decision on the basis of that memorandum of his.
- H.M.Jr: When he brings it up, I am going to wait and the Attorney General is going to say, "I won't have anything to do with it."
- White: I don't think that is the method of handling there.
- H.M.Jr: He will say that. I know Bob Jackson. On these kind of things - nobody is going to stop him. That is his whole creed in life, and nobody is going to stop him. After he gets through, if there is anything necessary, I am going to come out and say, "But look what is happening." Now, as to this - he doesn't mention this export control or the rest of it. Let's just keep this thing on the basis of the freezing, and we will let this battle of where export control goes - let it seek its own level, you see.
- Foley: Yes. I think we are on weak grounds when we talk about that. We are out of our field a little, and we are fighting for more power there, but here we are dealing in our own field, a field which we share partially with the State Department because it involves foreign affairs, but they are suggesting a method for exercising control over these funds which is completely in our field. It is a financial matter now. It isn't foreign affairs matter any longer when they suggest that you do it on an ad hoc basis. If we say that is the wrong approach, that is ineffectual and harmful. We are merely expressing

- 10 -

our opinion in our own field where we have a right to say.

- Bell: But if the decision is made to freeze on the basis of that memorandum, then I take it the Treasury doesn't want to be the one to carry that out.
- White: No.
- Foley: We won't have anything to do with it.
- White: It won't be effective.
- H.M.Jr: I won't have anything to do with it. But I don't have to say that. I am in an impossible position when Bob Jackson says he needs that. But Bob Jackson says he doesn't want anything to do with it. And I just - I know Bob Jackson. That is the kind of thing he boils over about, and he won't let anybody put anything over on him, witch hunting and all this business.
- Foley: Well, I know how he feels about it - Hoover and the G-men over there, and how worried he is about their activities, and certainly he isn't going to--
- H.M.Jr: I am all right now. Now, you fellows can prepare - see that this thing is copied. It is only three copies, and have enough copies that everybody in the room gets one, and I want this back here - well, here is Miss Chauncey. I will get her to do it.
- White: I think there is one additional point you might like to mention in addition to what you said. That is, it is not only the funds which they are drawing down and transferring which gives them potential power, but it is dollars which are currently available and which they are using.

- 11 -

Therefore, even though the balances are not large--

H.M. Jr: How, Harry? How are they using them?

White: Well, they get dollars all the time for various transactions, differences which they receive.

H.M. Jr: How?

White: They own stocks and they receive dividends. They have payments coming to them from exports. They get dollars. Now, some of those dollars they are currently using. Not only are they piling up for future use--

H.M. Jr: Where, Harry?

White: All over Latin America. They transfer the dollars and they don't appear. Their balances in Brazil, for example, do not increase as much as they would if they weren't spending currently that money. It is not only that they are piling it up, but they are using it all the time.

H.M. Jr: Well, Harry, I can't use that. It isn't clear what you mean.

Bernstein: And fitted into the argument that Hull himself made in his office, there is a tremendous amount of German and Nazi propaganda going on in South America, Harry is simply saying that they must be using American dollars to finance it.

H.M. Jr: Well, why didn't he say so? All right. Look, you are going to give me something to use at Cabinet, and I will look to Kuhn to see he puts it in my hands at five minutes of two. Just what is going on with this money.

Kuhn: Briefly. You want a brief statement?

- 12 -

H.M. Jr: Yes.

White: A table.

Kuhn: Yes.

H.M. Jr: Five minutes of two, put in my hand.
Pehle, you will see our man.

THE SECRETARY OF STATE
Washington

February 14, 1941.

Dear Henry:

I herewith enclose copy of memorandum
I am sending to the President, at his request,
on the freeing of foreign funds.

Sincerely yours,

/s/ Cordell Hull

The Honorable Henry Morgenthau, Jr.,
Secretary of the Treasury.

MEMORANDUM ON THE FREEZING OF FOREIGN FUNDS

The questions before us are to what extent and by what methods this Government should extend its control over assets and properties within the United States owned by foreigners.

Our freezing system as applied at the present time was adopted for the definite purpose of conserving for their rightful owners the assets of the nationals of certain invaded countries and, incidentally, of keeping such assets out of the hands of the invaders. It is a system under which not alone the movement of frozen funds across our boundaries but also their use within the country are forbidden, except under license.

The question now under consideration concerns methods of extending such control for the purpose of preventing, so far as that is possible through financial means, first, subversive and other hostile acts by foreign interests in this country, and, second, the use of foreign funds for purposes prejudicial to our policy of aid to Great Britain.

To serve these important ends, it is essential to have knowledge as to the extent, control and use of ^{owned} foreign-owned funds and properties in this country and mobility of action. The initial step indicated is to
require

require registration of foreign financial interests, with full disclosure of their actual ownership and control. The second step is requirement for such reporting thereafter of transactions in specific accounts as the officials responsible may require. The third step is the creation and exercise of power to freeze any account, individual, corporate or governmental, which is found to be used either in subversive activities or in purchases or other transactions which it is desired to regulate and which are not subject to other controls.

A universal freezing order or one directed geographically against the funds of particular countries, raises the dangers of reprisals (American investments in Axis controlled areas probably exceed Axis assets here by over three to one) and of possible complications of our relations with the countries selected for freezing. At the same time, it does not even provide a sufficiently flexible instrument of control. Freezing of specific accounts provides ^{far} greater mobility of action and minimizes international complications. Moreover, to the extent that it may be used as an aid to the British blockade of the Axis powers, it would operate effectively for this purpose without publicly advertising the fact.

General freezing applied to specific countries would

create

create complications with respect to South American relations and relations with friendly European nations (Switzerland, Portugal, Sweden), the harmful effects of which would far outweigh any benefits obtained. This would both permit evasion and do unnecessary harm. An example of the latter would be general freezing applied to Swiss interests. The effect of this might well be to throw Swiss economy into such confusion that financial collapse might do what neither German military pressure nor German propaganda has yet been able to achieve. An example of the former would be that freezing applied to the Axis Powers, even with Russia added, would still make it possible by transactions through South American and other countries whose interests could not be wisely frozen to achieve by the Axis Powers the object which the order would intend to prevent.

Mobility of action requires that the authorities in control of freezing know the facts, continually keep abreast of them, and have authority to freeze specific accounts used for purposes which this Government desires to prevent. In the exercise of such mobile powers the authorities should not be limited to the nationals of any country, but should be free to proceed wherever the necessity may arise. The exercise of such power should be conducted through close collaboration between the
Treasury,

- 4 -

Treasury, which is charged with its administration, the Department of State, which must deal with its international repercussions, and the Department of Justice, which is charged with the prevention within the country of subversive activities and other violations of law. Furthermore, all three Departments have sources of information which should be pooled in the exercise of these powers.

It is, therefore, believed that the national interest would best be served at the present time by adoption of the following measures: first, registration of foreign holdings in this country and for full disclosure of the actual control over these funds; second, continuous reporting of transactions in these funds wherever this may appear necessary; and third, the application of freezing power to specific accounts whenever, in the opinion of the Secretaries of the Treasury and State and the Attorney General, such action is essential for the furtherance of the defense of the United States.

Copies furnished to Messrs. Foley, Bernstein, Kuhn, Young,
White, Cochran, Bell and Pehle.

February 14, 1941

My dear Cordell:

Thank you for your letter of February 14th, enclosing a copy of your memorandum to the President on freezing of foreign funds.

At your convenience, I would like to meet with you and the Attorney General and discuss this whole matter.

Yours sincerely,

Honorable Cordell Hull,
Secretary of State.

February 14, 1941

My dear Cordell:

Thank you for your letter of February 14th, enclosing a copy of your memorandum to the President on freezing of foreign funds.

At your convenience, I would like to meet with you and the Attorney General and discuss this whole matter.

Yours sincerely,

Honorable Cordell Hull,
Secretary of State.

February 14, 1941

My dear Cordell:

Thank you for your letter of February 14th, enclosing a copy of your memorandum to the President on freeing of foreign funds.

At your convenience, I would like to meet with you and the Attorney General and discuss this whole matter.

Yours sincerely,

Honorable Cordell Hall,
Secretary of State.

(COPY)

THE SECRETARY OF STATE
Washington

February 14, 1951.

Dear Henry:

I herewith enclose copy of memorandum
I am sending to the President, at his request,
on the freezing of foreign funds.

Sincerely yours,

/s/ Cordell Hull

The Honorable

Henry Morgenthau, Jr.

Secretary of the Treasury.

MEMORANDUM ON THE FREEZING OF FOREIGN FUNDS

The questions before us are to what extent and by what methods this Government should extend its control over assets and properties within the United States owned by foreigners.

Our freezing system as applied at the present time was adopted for the definite purpose of conserving for their rightful owners the assets of the nationals of certain invaded countries and, incidentally, of keeping such assets out of the hands of the invaders. It is a system under which not alone the movement of frozen funds across our boundaries but also their use within the country are forbidden, except under license.

The question now under consideration concerns methods of extending such control for the purpose of preventing, so far as that is possible through financial means, first, subversive and other hostile acts by foreign interests in this country, and, second, the use of foreign funds for purposes prejudicial to our policy of aid to Great Britain.

To serve these important ends, it is essential to have knowledge as to the extent, control and use of foreign-owned funds and properties in this country and mobility of action. The initial step indicated is to require

require registration of foreign financial interests, with full disclosure of their actual ownership and control. The second step is requirement for such reporting thereafter of transactions in specific accounts as the officials responsible may require. The third step is the creation and exercise of power to freeze any account, individual, corporate or governmental, which is found to be used either in subversive activities or in purchases or other transactions which it is desired to regulate and which are not subject to other controls.

A universal freezing order or one directed geographically against the funds of particular countries, raises the dangers of reprisals (American investments in Axis controlled areas probably exceed Axis assets here by over three to one) and of possible complications of our relations with the countries selected for freezing. At the same time, it does not even provide a sufficiently flexible instrument of control. Freezing of specific accounts provides ^{far} ~~for~~ greater mobility of action and minimizes international complications. Moreover, to the extent that it may be used as an aid to the British blockade of the Axis powers, it would operate effectively for this purpose without publicly advertising the fact.

General freezing applied to specific countries would

create

- 3 -

creates complications with respect to South American relations and relations with friendly European nations (Switzerland, Portugal, Sweden), the harmful effects of which would far outweigh any benefits obtained. This would both permit evasion and do unnecessary harm. An example of the latter would be general freezing applied to Swiss interests. The effect of this might well be to throw Swiss economy into such confusion that financial collapse might do what neither German military pressure nor German propaganda has yet been able to achieve. An example of the former would be that freezing applied to the Axis Powers, even with Russia added, would still make it possible by transactions through South American and other countries whose interests could not be wisely frozen to achieve by the Axis Powers the object which the order would intend to prevent.

Mobility of action requires that the authorities in control of freezing know the facts, continually keep abreast of them, and have authority to freeze specific accounts used for purposes which this Government desires to prevent. In the exercise of such mobile powers the authorities should not be limited to the nationals of any country, but should be free to proceed wherever the necessity may arise. The exercise of such power should be conducted through close collaboration between the
Treasury,

- 4 -

Treasury, which is charged with its administration, the Department of State, which must deal with its international repercussions, and the Department of Justice, which is charged with the prevention within the country of subversive activities and other violations of law. Furthermore, all three Departments have sources of information which should be pooled in the exercise of these powers.

It is, therefore, believed that the national interest would best be served at the present time by adoption of the following measures: first, registration of foreign holdings in this country and for full disclosure of the actual control over these funds; second, continuous reporting of transactions in these funds wherever this may appear necessary; and third, the application of freezing power to specific accounts whenever, in the opinion of the Secretaries of the Treasury and State and the Attorney General, such action is essential for the furtherance of the defense of the United States.

EXECUTIVE ORDER

ESTABLISHING A CIVILIAN ECONOMIC DEFENSE COMMITTEE,
REGULATING TRANSACTIONS IN FOREIGN EXCHANGE, FOREIGN
PROPERTY AND FOREIGN BUYING, CONTROLLING THE EXPORT
AND OTHER DEALINGS IN DEFENSE MATERIALS, THE REQUISITIONING
THEREOF, SHIP MOVEMENTS, AND THE PROTECTION
OF DEFENSE PRODUCTION FROM RESTRAINTS AND FOREIGN
CONTROL, AND RELATED MATTERS.

By virtue of and pursuant to the authority vested in me by the Constitution, by section 1 of Title II of the Act of June 15, 1917 (40 Stat. 220), by section 5(b) of the Act of October 6, 1917 (40 Stat. 415), as amended, by section 2(a) of the Act of June 28, 1940 (54 Stat. 676), by section 6 of the Act of July 2, 1940 (54 Stat. 714), by the Act of October 10, 1940 (54 Stat. 1090), and by virtue of all other authority vested in me, and by virtue of the continued existence of a period of national emergency, and finding that this Order is in the public interest and is necessary in the interest of national defense and security, it is hereby ordered as follows:

TITLE I

Section 1. There is hereby established a Civilian Economic Defense Committee (hereinafter referred to as the "Committee"). The Committee shall consist of the Secretary

of State, the Secretary of the Treasury, the Attorney General, the Federal Loan Administrator, and a member of the Office of Production Management to be appointed by it. The Committee, with the assent of the Secretary of State in respect of policies under Titles II and III hereof, and acting either directly or through such subcommittees, agencies or personnel as the Committee may designate or employ, shall formulate policies relating to the carrying out of the purposes of this Order.

Section 2. Subject to policies formulated by the Committee (a) Titles II and III of this Order shall be administered by the Secretary of the Treasury, and (b) Title IV of this Order shall be administered by the Attorney General.

Title II

Executive Order No. 8389 of April 10, 1940, as amended, amending Executive Order No. 6560 of January 15, 1934, is amended to read as follows:

Section 9. Notwithstanding any of the provisions of sections 1 to 8, inclusive, of this Order, all of the following transactions are prohibited, except as specifically authorized by the Secretary of the Treasury by means of regulations, rulings, instructions, licenses, or otherwise, if involving property in which any foreign country designated in this Order, or any national thereof, has at any time on or since the effective date of this Order had any interest of any nature whatsoever, direct or indirect:

A. All transfers of credit between any banking institutions within the United States; and all transfers of credit between any banking institution within the United States and any banking institution outside the United States (including any principal, agent, home office, branch, or correspondent outside the United States, of a banking institution within the United States);

B. All payments by or to any banking institution within the United States;

C. All transactions in foreign exchange by any person within the United States;

D. The export or withdrawal from the United States, or the earmarking of gold or silver coin or bullion or currency by any person within the United States;

E. All transfers, withdrawals or exportations of, or dealings in, any evidences of indebtedness or evidences of ownership of property by any person within the United States; and

F. Any transaction for the purpose or which has the effect of evading or avoiding the foregoing prohibitions.

Section 10.

A. All of the following transactions are prohibited, except as specifically authorized by the Secretary of the Treasury by means of regulations,

rulings, instructions, licenses, or otherwise:

(1) The acquisition, disposition or transfer of, or other dealing in, or with respect to, any security or evidence thereof on which there is stamped or imprinted, or to which there is affixed or otherwise attached, a tax stamp or other stamp of a foreign country designated in this Order or a notarial or similar seal which by its contents indicates that it was stamped, imprinted, affixed or attached within such foreign country, or where the attendant circumstances disclose or indicate that such stamp or seal may, at any time, have been stamped, imprinted, affixed or attached thereto; and

(2) The acquisition by, or transfer to, any person within the United States of any interest in any security or evidence thereof if the attendant circumstances disclose or indicate that the security or evidence thereof is not physically situated within the United States.

B. The Secretary of the Treasury may investigate, regulate, or prohibit under such regulations, rulings, or instructions as he may prescribe, by means of licenses or otherwise, the sending, mailing, importing or otherwise bringing, directly or indirectly, into the United States, from any

foreign country, of any securities or evidences thereof or the receiving or holding in the United States of any securities or evidences thereof so brought into the United States.

Section 11. The term "foreign country designated in this Order" means a foreign country included in the following schedule, and the term "effective date of this Order" means with respect to any such foreign country, or any national thereof, the date specified in the following schedule:

- (a) April 8, 1940 -
Norway and
Denmark;
- (b) May 10, 1940 -
the Netherlands,
Belgium and
Luxembourg;
- (c) June 17, 1940 -
France;
- (d) July 10, 1940 -
Latvia, Estonia and
Lithuania;
- (e) October 9, 1940 -
Rumania; and
- (f) , 1941 -
Albania,
Andorra,
Austria,
Bulgaria,
Czechoslovakia,
Danzig,
Finland,
Germany,
Hungary,
Italy,
Liechtenstein,
Poland,
Portugal,
San Marino,
Spain,
Sweden,

- 6 -

Switzerland and
Yugoslavia.

The "effective date of this Order" with respect to any foreign country not designated in this Order shall be deemed to be _____, 1941.

Section 12.

A. The Secretary of the Treasury may require, by means of regulations, rulings, instructions, or otherwise, any person to furnish under oath, in the form of reports or otherwise, from time to time and at such time or times as he may designate, complete information relative to any transaction referred to in section 5(b) of the Act of October 6, 1917 (40 Stat. 415), as amended, or with respect to the interest of any foreign country or any national thereof in any property, including the production of any books of account, contracts, letters, or other papers, in connection therewith, in the custody or control of such person, either before or after such transaction is completed; and the Secretary of the Treasury may, through any agency that he may designate, investigate any such transaction or act, or any violation of the provisions of this Order.

B. Every person engaging in any of the transactions referred to in sections 9 and 10 of this Order shall keep a full record of each such transaction engaged in by him, regardless of whether such transaction is effected pursuant to license or otherwise, and such

record shall be available for examination by a representative of the Treasury Department for at least one year after the date of such transaction.

Section 13.

A. The term "transactions * * * involving property in which any foreign country designated in this Order, or any national thereof, has * * * any interest" shall include, but not by way of limitation, (i) any payment or transfer to such foreign country or any national thereof, (ii) any export or withdrawal from the United States to such foreign country and (iii) any transfer of credit expressed in terms of the currency of such foreign country.

B. The term "foreign country" shall include, but not by way of limitation, the state and the government thereof on the effective date of this Order as well as any political subdivision, agency or instrumentality thereof or any territory, dependency, colony, protectorate, mandate, dominion, possession or place subject to the jurisdiction thereof; and shall also include any other government (including any political subdivision, agency, or instrumentality thereof) to the extent and only to the extent that such government exercises or claims to exercise de jure or de facto sovereignty over the area which on such effective date constituted such foreign country; and shall further include any person to the extent that such person is, or has been, or to

the extent that there is reasonable cause to believe that such person is, or has been, since such effective date, acting or purporting to act directly or indirectly for the benefit or on behalf of any of the foregoing.

C. The term "national" shall include any person who has been domiciled in, or a subject, citizen or resident of a foreign country at any time on or since the effective date of this Order, but shall not, except as hereinafter provided, include any individual domiciled in and residing only in the United States at all times on and since such effective date or on and since June 17, 1940, if such effective date is subsequent to June 17, 1940, and shall also include any partnership, association, corporation or other organization organized under the laws of, or which on or since the effective date of this Order had or has had its principal place of business in such foreign country, or which on or since such effective date was or has been controlled by, or a substantial part of the stock, shares, bonds, debentures, notes, drafts, or other securities or obligations of which was or has been owned or controlled by, directly or indirectly, such foreign country and/or one or more nationals thereof as herein defined; and shall further include any person to the extent that such person is, or has been, since such effective date, acting or purporting to act directly or indirectly for the benefit or on behalf of such foreign country or national thereof; and shall further include any other person who there is reasonable cause to believe is a "national" as herein defined. In any

case in which by virtue of the foregoing definition a person is a national of more than one foreign country, such person shall be deemed to be a national of each such foreign country. The Secretary of the Treasury shall have full power to determine who is or shall be deemed to be a "national" within the meaning of this definition. Without limitation of the foregoing, the term "national" shall also include any other person who is determined by the Secretary of the Treasury to be, or to have been, since such effective date, acting or purporting to act directly or indirectly under the direction of a designated foreign country or national thereof, as herein defined. The term "direction", as used herein, shall include any power to guide, shape, determine or ascertain the activities or policies of any person, because of any relationship in fact, because of any contract, patent pool, understanding, agreement, including any licensing, marketing, or royalty agreement, any agreement to exchange information, or any other agreement, whether or not legally enforceable.

D. The term "banking institution" as used in section 9 shall include any person engaged primarily or incidentally in the business of banking, of granting or transferring credits, or of purchasing or selling foreign exchange or procuring purchasers or sellers thereof, as principal or agent, or any person holding credits for others as a direct or incidental part of

his business, or brokers; and, each principal, agent, home office, branch or correspondent of any person so engaged shall be regarded as a separate "banking institution".

E. The term "this Order", as used in this Title, shall mean Executive Order No. 6560 of January 15, 1934, as amended.

Section 14. The Regulations of November 12, 1934, are hereby modified in so far as they are inconsistent with the provisions of sections 9 to 14, inclusive, of this Order, and except as so modified are hereby continued in full force and effect.

TITLE III

Section 1. Coordination of Foreign Buying. Subject to the policies formulated by the Committee, the Secretary of the Treasury shall coordinate the buying, or other acquisition, including negotiations therefor, by or on behalf of any foreign country or national thereof, of all defense articles, including all military equipment and munitions, component parts thereof, and machinery, tools, and material and supplies necessary for the manufacture, servicing or operation of defense articles, in such a manner as will most effectively further the interests of national defense. For such purpose the Secretary of the Treasury shall serve as the liaison officer between this Government and foreign countries and nationals thereof. The Secretary of the Treasury shall keep the Committee currently and fully informed of his activities in connection herewith.

233-

Section 2. Export Embargoes. The Proclamations, Orders, and Regulations heretofore issued under Section 6 of the Act of July 2, 1940 (54 Stat. 714) shall, except as herein or otherwise amended, remain in full force and effect, and the Administrator of Export Control and his staff shall be subject to the supervision and control of the Secretary of the Treasury, acting subject to the policies formulated by the Committee and to the directions of the Secretary of State in regard to all matters which in the judgment of the Secretary of State affect our foreign relations; and the licensing procedure in effect as of the date of this Order shall remain in effect until modified, amended or revoked by regulations hereafter issued by the Secretary of the Treasury with the approval of the Secretary of State.

Section 3. Requisitioning of Materials Denied Export. The Executive Order and Regulations heretofore issued under the Act of October 10, 1940 (54 Stat. 1090) shall, except as herein or otherwise amended, remain in full force and effect, except that the powers therein vested in the Secretary of War and the Secretary of the Navy, acting jointly through the Army and Navy Munitions Board, are hereby transferred to the Committee, acting with the approval of the Army and Navy Munitions Board, and the functions of the Administrator of Export Control and his staff shall be subject to the supervision and control of the Secretary of the Treasury subject to the policies formulated by the Committee.

Section 4. Control of Ship Movements. The Proclamation and the Regulations issued under section 1 of Title II of the Act of June 15, 1917 (40 Stat. 220) shall remain in full force and effect, except that the administration thereof shall be under the Secretary of the Treasury acting subject to the

policies formulated by the Committee.

TITLE IV

Section 1. Protection of Defense Production from Restraints and Foreign Control. With such advice and assistance as he may require from the several departments and agencies of the Federal Government, the Attorney General shall, acting in accordance with the policies formulated by the Committee and pursuant to the authority hereinbefore referred to, or pursuant to any other authority:

(a) Conduct investigations, bring grand jury proceedings, recommend legislative or other programs, and take such other action as may be appropriate for the purpose of dealing with restrictions, hindrances or conduct detrimental to national defense or security, and affecting production, trade and other operations incidental thereto, by reason of or imposed by:

(i) any foreign control or influence over or interest in, directly or indirectly, any business or industrial establishment, enterprise, activity;

(ii) any agreements, licenses, patent arrangements, conspiracies or other practices or devices;

(iii) industrial espionage or sabotage or the obtaining of information by any foreign interest.

(b) In aid of national defense and security, furnish information and render such assistance as the Attorney General may deem appropriate, with regard to

- 13 -

the foregoing matters upon request of the Office of Production Management or any other interested agency of the Government.

(c) Perform such other related functions as the Committee, with the approval of the Attorney General, may from time to time assign or delegate to him.

TITLE V

Section 1. Recommendations by the Committee. The Committee shall engage in such studies and shall make such recommendations to the President, to the Congress and to the appropriate departments and agencies of the Government as the Committee deems in the interests of the economic defense of the United States.

Section 2. Continued Validity of Prior Actions and Saving Clause. Except as otherwise provided, this Order shall not be deemed to revoke any regulation, license, ruling, instruction or other action issued or taken pursuant to any law, proclamation, order or regulation heretofore referred to which is in effect as of the date of this Order; provided, however, that all such regulations, licenses, rulings, instructions, or other actions shall be subject to the provisions of this Order and the regulations, licenses, rulings, instructions or other actions issued or taken thereunder. Any amendment, modification or revocation by or pursuant to the provisions of this Order of any orders, proclamations, regulations, rulings, instructions or licenses shall not affect any act done or

- 14 -

any suit or proceeding had or commenced in any civil or criminal case prior to such amendment, modification or revocation, and all penalties, forfeitures and liabilities under any such orders, proclamations, regulations, rulings, instructions or licenses shall continue and may be enforced as if such amendment, modification or revocation had not been made.

Section 3. Regulations. Except with respect to Title IV, the Secretary of the Treasury is authorized and empowered to prescribe from time to time regulations, rulings, and instructions to carry out the purposes of this Order and the proclamations and orders herein referred to, and to provide therein or otherwise the conditions under which licenses may be granted by or through such officers or agencies as the Secretary of the Treasury may designate, and the decision of the Secretary with respect to the granting, denial or other disposition of a license shall be final.

Section 4. It shall be conclusively presumed that any regulation, license, ruling, instruction or other action by the Secretary of the Treasury or the Attorney General under the Order has been issued or taken in accordance with and subject to the policies formulated by the Committee and with the assent of the Secretary of State in respect of policies under Titles II and III hereof.

Section 5. Revocation. This Executive Order and any regulations, rulings, licenses or instructions issued

- 15 -

hereunder may be amended, modified or revoked at any
time.

THE WHITE HOUSE,
 , 1941.

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

260

*See copy held in file
DO 2/14
+ 11 am meeting
of 2/14*

DATE February 14, 1941.

TO The Secretary
FROM Mr. Foley

Late yesterday afternoon Assistant Attorney General Frank Shea asked Bernstein to come to his office and discuss some changes in the Economic Defense Order. It was apparent from the discussion that Shea and Dean Acheson and others of the State Department had theretofore been discussing ways of dealing with freezing control and export control along lines satisfactory to the Justice and State Departments.

Shea showed Bernstein a draft of an Executive Order relating to freezing control enabling the Attorney General or the Secretary of the Treasury to require reports of all foreign-owned assets in the United States, to make investigations with respect to the same; and also enabling the Attorney General to determine that a person subject to the influence or control of a foreign state, or national thereof, has been acting so as to interfere with or endanger the national defense. Upon the Attorney General's making the determination such person's accounts would be blocked and subject to regulation by the Secretary of the Treasury under freezing control. Bernstein discussed with Shea some of the objections to this proposed order both from the point of view of policy as well as from

- 2 -

the point of view of drafting.

Shea also showed Bernstein two drafts of the provisions dealing with export control, one of which, dictated by Acheson, put the whole control under the Secretary of State; and the other, drafted by Shea, would have put the administration under the Secretary of the Treasury with full veto power in the Secretary of State as far as any question of foreign relations was involved.

Towards the conclusion of the discussion Shea received a phone call from Acheson and Shea reported Acheson as saying that State was agreeable to Justice's draft of the freezing control order above mentioned and that State would insist on the export control being under its jurisdiction.

Shea asked Bernstein to let him have his comments on the language of the order. Shea also indicated that he had hoped to have the Executive Order submitted to the President at the Cabinet meeting of February 14. Shea also said that he hoped Mr. Jackson would try to get Mr. Hull and Mr. Morgenthau together to sit down and discuss the matter.

During the conference Shea also showed Bernstein a draft of an Executive Order which he had received from State, but which had not as yet been furnished to the Treasury. This Executive Order simply provided for the setting up of a

- 3 -

committee consisting of most of the Cabinet officers, the Loan administrator, and the director of OPM. This committee was to act under the chairmanship of the Secretary of State and have the Administrator of Export Control as its secretary. All problems relating to international trade and finance handled by the Departments and agencies were to be funneled through this committee so as to make for a coordinated and synchronized policy. Shea indicated his opposition to this order.

E. W. F. L.

Substitute for sections 2 and 3 of Title II.

Whenever the Attorney General shall determine, pursuant to an investigation under Section 1 of this title, or otherwise, that any activity of any person is subject to the influence or control of any foreign state or any national or political subdivision thereof, and that such activity hinders, interferes with, or endangers the national defense, such person shall be deemed a national of such foreign state, and effective upon publication of this determination of the Attorney General in the Federal Register all of the following transactions by, on behalf of, pursuant to the directions of, or in which there shall be any interest of any such person, are prohibited subject to such rules and regulations as the Secretary of the Treasury may prescribe by means of licenses or otherwise:

A. All transfers of credit between any banking institutions within the United States; and all transfers of credit between any banking institution within the United States and any banking institution outside the United States (including any principal, agent, home office, branch, or correspondent outside the United States, of a banking institution within the United States);

B. All payments by or to any banking institution within the United States;

- 2 -

C. All transactions in foreign exchange;

D. The export or withdrawal from the United States, or the earmarking of gold or silver coin or bullion or currency;

E. All transfers, withdrawals or exportations of, or dealings in, any evidences of indebtedness or evidences of ownership of property in which any foreign state or a national or political subdivision thereof has or at any time since May 7, 1940, has had, any interest;

F. Any transaction for the purpose or which has the effect of evading or avoiding the foregoing prohibitions.

SECTION 2 OF TITLE III

Section 2. Export Embargoes. The proclamations, orders, and regulations heretofore issued under Section 6 of the Act of July 2, 1940 (54 Stat. 714) shall, except as herein or otherwise amended, remain in full force and effect, and the Administrator of Export Control and his staff shall be subject to the supervision and control of the Secretary of the Treasury, acting subject to the policies formulated by the Committee and to the directions of the Secretary of State in regard to all matters which in the judgment of the Secretary of State affect our foreign relations; and the licensing procedure in effect as of the date of this Order shall remain in effect until modified, amended or revoked by regulations hereafter issued by the Secretary of the Treasury with the approval of the Secretary of State.

ACHESON'S DRAFT

SECTION 2 OF TITLE III

Export Control. The proclamations, orders and regulations heretofore issued under Section 6 of the Act of July 2, 1940 (54 Stat. 714) shall, except as herein or otherwise amended, remain in full force and effect, and the Administrator of Export Control in the preparation of his budget, the request for and expenditure of funds, and the employment and utilization of personnel shall act under the supervision and control of the Secretary of State. The procedures now in effect pertaining to the placing of commodities under export control and the granting or refusing of applications for export licenses shall continue in effect until altered, modified or superseded by regulations issued by the Secretary of State with the approval of the Committee.

TITLE II.

Section 1. The Attorney General may require, by means of regulations, rulings, instructions, or otherwise, any person to furnish under oath, in the form of reports or otherwise, from time to time and at such time or times as he may designate, complete information relative to any transaction referred to in subdivision (b) of Section 5 of the Act of October 6, 1917 (40 Stat. 411), as amended, or with respect to the interest of any foreign state or any national or political subdivision thereof in any property, including the production of any books of account, contracts, letters, or other papers, in connection therewith, in the custody or control of such person, either before or after such transaction is completed; and the Attorney General may, through any agency that he may designate, investigate any such transaction or act, or any violation of any prohibition, regulation, license, or order issued pursuant to the provisions of this title.

Section 2. Whenever the Attorney General shall determine, pursuant to an investigation under Section 1 of this title, or otherwise, that any activity of any person is subject to the influence or control of any foreign state or any national or political subdivision thereof and that such activity hinders, interferes with, or endangers the national defense, he may request the Secretary of the Treasury to exercise the powers conferred under Section 3 of this title.

Section 3. The Secretary of the Treasury may, pursuant to a request of the Attorney General under Section 2 hereof, regulate or prohibit, under such rules and regulations as he may prescribe, by means of licenses or otherwise, any or all of the following transactions by, on behalf of, pursuant to the directions of, or in which there shall be any interest of, any person in respect of whom or in respect of whose activities a determination may be made by the Attorney General under Section 2 hereof;

A. All transfers of credit between any banking institutions within the United States; and all transfers of credit between any banking institution within the United States and any banking institution outside the United States (including any principal, agent, home office, branch, or correspondent outside the United States, of a banking institution within the United States);

B. All payments by or to any banking institution within the United States;

C. All transactions in foreign exchange;

D. The export or withdrawal from the United States, or the earmarking of gold or silver coin or bullion or currency;

E. All transfers, withdrawals or exportations of, or dealings in, any evidences of indebtedness or evidences of ownership of property in which any foreign state or a national or political subdivision thereof has or at any time since May 7, 1940, has had, any interest;

F. Any transaction for the purpose or which has the effect of evading or avoiding the foregoing prohibitions.

Section 4.

A. The term "person" means any individual, partnership, association, or corporation.

B. The term "banking institution" includes any person engaged primarily or incidentally in the business of banking, of granting or transferring credits, or of purchasing or selling foreign exchange or procuring purchasers or sellers thereof as principal or agent, or any person holding credits for others as a direct or incidental part of his business, or brokers, and each principal, agent, home office, branch, or correspondent of any person so engaged shall be regarded as a separate "banking institution".

C. The term "transfers * * * of property in which any foreign state or a national or political subdivision thereof has * * * any interest" shall include, but not by way of limitation, (1) any payment or transfer to any foreign state or a national or a political subdivision thereof, (2) any export or withdrawal from the United States to such foreign state, (3) any transfer of credit expressed in terms of the currency of such foreign state, and (4) any transfer over which any foreign state or any national or political subdivision thereof shall have influence or control.

D. The term "influence or control" shall include, but not by way of limitation, any power to guide, shape, determine or ascertain the activities or policies of any person, because of any relationship in fact, because of any contract, patent pool, understanding, agreement, includ-

ing any licensing, marketing, or royalty agreement, any agreement to exchange information, or any other agreement, whether or not legally enforceable.

E. The term "national" shall include any person who has been domiciled in, or a subject, citizen or resident of a foreign country at any time on or since May 7, 1940, and shall also include any partnership, association, corporation or other organization organized under the laws of, or which on or since such date had or has had its principal place of business in such foreign country, or which on or since such date was or has been controlled by, or a substantial part of the stock, shares, bonds, debentures, notes, drafts, or other securities or obligations of which was or has been owned or controlled by, directly or indirectly, such foreign state, political subdivision and/or one or more nationals thereof as herein defined; and shall further include any person to the extent that such person is, or has been, since such effective date, acting or purporting to act directly or indirectly for the benefit or on behalf of such foreign state or national or political subdivision thereof; and shall further include any other person who there is reasonable cause to believe is a "national" as herein defined. In any case in which by virtue of the foregoing definition a person is a national of more than one foreign country, such person shall be deemed to be a national of each such foreign country. The Attorney General shall have full power to determine who is or shall be deemed to be a "national" within the meaning of this definition.

Section 5. Nothing herein shall be construed to modify, amend, or revoke Executive Order No. 8389 of April 3, 1940, as amended, amending Executive Order No. 6560 of August 15, 1934, or any regulation, license, order, or direction taken thereunder.

(Copy of draft Francis Shea gave to Bernstein at conference at 4 p.m. in Shea's office on 7/13/41)

February 14, 1941
4:21 p.m.

H.M.Jr: Hello.

Operator: Haas.

H.M.Jr: George.

George
Haas: Yes, Mr. Secretary.

H.M.Jr: After Cabinet Jesse Jones took me aside and said that the State of Arkansas is going to offer 130 million more or less of road bonds tomorrow - big syndicate.

H: Yeah.

H.M.Jr: They've asked him to take a part of it. Average - from one to thirty years but the average fifteen years and I think he said they are going to charge $3\frac{1}{2}\%$ and he wanted to know what we thought about it and we suggested he might offer to take half of it at 3% . See?

H: Yeah.

H.M.Jr: I don't know a damn thing about it but I imagine that Hadley does. Do you know anything about it?

H: No, but we can check up on it.

H.M.Jr: Well, get it fast and if I have gone shoot it up to the house and mark it urgent, will you, because Jones is going to call me on it.

H: And you want to know whether that 3% is satisfactory for him to take.

H.M.Jr: I want to know all the details about the whole deal - is 3% a good rate or not.

H: All right. I'll see that you get

H.M.Jr: And if not, what is a good rate.

H: I'll see that you get it, Mr. Secretary.

H.M.Jr: All right.

February 14, 1941
4:29 p.m.

H.M.Jr: Ed?

Ed Foley: Yes, Mr. Secretary.

H.M.Jr: O'Brien, the general counsel for O.P.M, was in here just now and he's very, very hard up and he wants to take Bernard because he hears he is a good man. I told him, no, but I said I'd pass it along to Bernard through you and Bernard could make up his own mind.

F: Yeah.

H.M.Jr: But I said I'm not going to - he said, oh, they're so hard up. I said, what do you suppose I've got to do here in the Treasury. I said, it takes five years to train a man and then you want to come along and take him.

F: Yeah.

H.M.Jr: So you can tell Bernard.

F: I'll tell him. That's that same thing that came up once before you know. Blackie Smith is the fellow that put O'Brien up to that and Blackie wanted to get Bernard.

H.M.Jr: Well, I was very hard-boiled, but I told him I'd pass it along.

F: O. K. We've got another thing that we'll have to consider. Cox's number is - he's gotten the information from the Draft Board now. I think his number is around 1600 or 1700 and we'll have to consider whether we want to ask for an exemption for him. He's thirty-five, he has two children and he's married.

H.M.Jr: Yeah. Well in his case the answer is yes.

F: Yeah, I think we ought to ask it in his case because I think we need him.

H.M.Jr: But mention it to Thompson.

- 2 -

F: Yeah, I will.

H.M.Jr: Yeah, I'd unhesitatingly say yes.

F: O. K. Thanks.

H.M.Jr: But tell Bernard and let me know what the answer is.

F: I will.

H.M.Jr: You know this fellow comes in and he sits here and he says, "I'm very hard pressed, I've got a lot to do," and I said, "Yes, and all I've got to do is to raise a billion dollars a month."

F: (Laughs).

H.M.Jr: I said, "That's all. It takes me five years to train him and you and McReynolds - McReynolds wants seven chauffeurs and you want my legislative representative." I was very mean.

F: They all think that their job is the most unfortunate

H.M.Jr: Oh, yes. I mean, the cocky little so-and-so, you know.

F: Sure.

H.M.Jr: I mean, he said - - - - -

February 14, 1941
4:41 p.m.

H.M.Jr: Hello.

Operator: Mr. Mellett.

H.M.Jr: Hello, Lowell.

Lowell
Mellett: Hello. Did they break up your vacation for you?

H.M.Jr: (Laughs).

M: You didn't get to stay your time out there, did you?

H.M.Jr: What?

M: You didn't stay your time out, did you?

H.M.Jr: One week. That's all I figured on.

M: Say, Henry, how deeply interested are you in John Crider?

H.M.Jr: Am I what?

M: How deeply interested in John Crider?

H.M.Jr: You are.

M: How deeply interested are you?

H.M.Jr: In John Crider?

M: Yeah.

H.M.Jr: I'm not interested at all.

M: Well, that's the answer then.

H.M.Jr: Well, I mean, I don't know what you mean.

M: Well, it seems that he was suggested to the War Department for the Press Section and was referred to me suggested by you.

- 2 -

H.M.Jr: John Crider?

M: Used to be with the New York Times.

H.M.Jr: Oh, yes, but - the reason I seem more dumb than usual is that I just didn't know what you were talking about. No, I haven't suggested him to anybody. I haven't seen him for months.

M: Well, that's O.K. then. He's all right, of course, but somehow they got the impression that

H.M.Jr: That I was backing him?

M: Yes.

H.M.Jr: No, it isn't true. No, no one has mentioned his name to me in six months.

M: Well, that's all I need to know and I'm much obliged.

H.M.Jr: Fair enough.

M: Right-o.

February 14, 1941
5:14 p.m.

Cong. John
McCormack:

Hello.

H.M.Jr:

Hello, John.

McC:

Yeah. How are you?

H.M.Jr:

Gosh, I missed you about four times."

McC:

(Laughs). Well

H.M.Jr:

How are you?

McC:

Fine thank you. Did you get a letter I sent you last night?

H.M.Jr:

Yeah.

McC:

That's what I wanted to talk to you about - to look into it. I explained in the letter Jim Wadsworth thought that there ought to be some provision in there that would protect the President in determining values so that the President will have under rules and regulations established the estimates and the values and so forth.

H.M.Jr:

Now, John, Ed Foley happens to be here and he's been studying it for me - I gave him your letter. Could he talk to ^{you} right now?

McC:

Yes.

H.M.Jr:

Just a second. I'll put him on the other phone.

Ed Foley:

John.

McC:

Yes, Ed.

F:

We talked with Senator Byrnes and Senator George about that yesterday. Apparently Speaker Rayburn had gone to Senator Byrnes with the suggestion and it was too late to do anything because the bill had been reported out, but we got up an amendment which would give authority to the head of

- 2 -

appropriate department to determine the value of the material that would be made available and that, under the rules and regulations that would be issued by the President to carry out not only that provision but other features of the bill, would be conclusive and the Comptroller General couldn't question the value that the head of the department fixed on that material, and George is going to offer that amendment if he gets an opportunity on the Floor.

McC: That's fine, Ed. You see it came from a very constructive source friendly to the bill and it wasn't addressed at all to the other part of his amendment and I thought there might be something to it and that's why I was concerned because I could see where unless something like that was done, unless the existing law took care of it, that there might be some difficulties or embarrassments encountered in the future.

F: Well, that's right and we might have trouble with the Comptroller General unless that is inserted, because he would disagree perhaps with the value that the head of the department fixed and even though we might take the position that he didn't have anything to say about it since it didn't involve the transfer of funds, nevertheless he might take the contrary view, and I think we ought to eliminate that question if it's possible to do it.

McC: I didn't know the Speaker had talked with him because I discussed it with the Speaker too.

F: Well, I think after you brought it to his attention he called in Senator Byrnes and he raised the question with us and we worked out the language and Senator George has got it.

McC: Well, that's fine, Ed.

F: O. K., John.

McC: All right.

F: Thank you.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 14, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£63,000
Purchased from commercial concerns	£30,000

In the open market, sterling was first quoted at 4.03. Around noontime, it moved to 4.03-1/4, and closed at that level. Transactions of the reporting banks were as follows:

Sold to commercial concerns	-0-
Purchased from commercial concerns	£1,000

The only appreciable movement in the other currencies consisted of a continued improvement in the Canadian dollar. Closing quotations were:

Canadian dollar	16-1/2% discount
Swiss franc (commercial)	.2323-1/2
Swedish krona	.2385
Reichsmark	.4005
Lira	.0505
Argentine peso (free)	.2363
Brazilian milreis (free)	.0505
Cuban peso	7% discount
Mexican peso	.2066
Chinese yuan	.05-9/16

We sold the following amounts of gold to the banks indicated, to be added to their earmarked accounts:

\$6,000,000	to the Bank of Java
998,000	to the Central Bank of the Uruguayan Republic
<u>\$6,998,000</u>	Total

The Federal Reserve Bank of New York reported the following two gold engagements, both of which will be sold to the New York Assay Office:

\$3,808,000	from Canada, shipped by the Bank of Canada to the Federal for account of the Government of Canada.
2,620,000	from South Africa, shipped by the South African Reserve Bank to the New York agency of the Banque Belge pour l'Etranger, for account of the Banque du Congo Belge.
<u>\$6,428,000</u>	Total

- 2 -

The State Department forwarded a cable to us stating that the Chase National Bank, London, shipped \$203,000 in gold from London to its head office, for sale to the New York Assay Office.

The Federal Reserve Bank of New York informed us that the Chase National Bank, from which the Federal has been obtaining daily gold and silver prices in the Bombay market, had decided to discontinue receiving such quotations unless the gold price falls below the equivalent of \$34.00 or the silver price rises above the equivalent of 45.57¢. The last Bombay quotations reported to us were \$33.96 for gold on February 10, and 44.87¢ for silver on February 7.

In London, the price fixed for spot silver was 23-1/4d, off 1/16d. The forward quotation was also 23-1/4d, unchanged. The dollar equivalent of this price is 42.21¢.

Handy and Harman's settlement price for foreign silver was unchanged at 34-3/4¢. The Treasury's purchase price for foreign silver was also unchanged at 35¢.

We made one purchase of silver amounting to 50,000 ounces under the Silver Purchase Act. This consisted of new production from foreign countries, for forward delivery.

We also purchased 50,000 ounces of silver from the Bank of Canada under our regular monthly agreement.

W. M. D.

CONFIDENTIAL

MEMORANDUM

February 14, 1941.

TO: Secretary Morgenthau
FROM: Mr. Sullivan

In accordance with our conversation last night, I checked this morning with Mr. Eichholz, now with the Certifying Office of the National Defense Commission, on the question of the publication of contracts. He advised me that up until about a month ago both the War and Navy Departments published in the Federal Register a fairly complete resume of every contract. For the past month, however, they have published a notice that a contract has been awarded to such and such a concern in accordance with provisions of previously announced contracts. I attach hereto notice of a change order in the Federal Register for February 13th.

I asked Mr. Eichholz if the contracts themselves were available to the public and to newspaper men at either the War Department or the Navy Department and he advised me that they were not, and that in his opinion so much of the information was necessarily confidential that it would be unwise to make them available to the public.

JTS

for which are solicited on or after March 6, 1941 (49 Stat. 2086).

Dated February 8, 1941.

(SEAL) FRANCIS PERKINS,
Secretary.

(F. R. Doc. 41-1056; Filed, February 12, 1941;
11:45 a. m.)

Part 202—MINIMUM WAGE DETERMINATIONS

**IN THE MATTER OF AN EXTENSION OF THE
MINIMUM WAGE DETERMINATION FOR THE
MEN'S RAINCOAT INDUSTRY**

This matter is before me pursuant to section 1 (b) of the Act of June 30, 1938 (49 Stat. 2036; 41 U.S.C. Sup. III 35), entitled "An Act to provide conditions for the purchase of supplies and the making of contracts by the United States, and for other purposes", (hereinafter called the Act).

On December 18, 1940, the Administrator of the Division of Public Contracts issued a notice of opportunity to show cause (5 F.R. 5209) why my decision dated July 28, 1937 (2 P.R. 1330) in the Matter of the Determination of the Prevailing Minimum Wages in the Men's Raincoat Industry should not be amended to include the manufacture of oiled waterproof cotton outer garments and other types of rainwear.

This notice was based upon evidence before the Department showing that companies engaged in the manufacture of these commodities are engaged in interstate commerce and consequently are subject to the Apparel Industry Wage Order (issued by the Administrator of the Fair Labor Standards Act, effective July 15, 1940, which order requires the payment of a minimum wage of 40 cents per hour, and further, upon evidence to the effect that the wages paid in the manufacture of oiled waterproof cotton outer garments and other types of rainwear generally are similar to those paid in the Men's Raincoat Industry.

The notice of opportunity to show cause was sent to all known members of the industry, to trade unions, trade publications, and to trade associations in the field. Notice was given to all other interested parties by publication in the FEDERAL REGISTER (5 F.R. 5209).

Responses to the notice were received from several interested parties. With one exception, these communications indicated that the minimum wage now being paid by companies engaged in the manufacture of such commodities is 40 cents per hour or \$16.00 per week of forty hours.

Upon the basis of the evidence, it is my opinion that the prevailing minimum wage for the manufacture of oiled waterproof cotton outer garments and other types of rainwear is 40 cents an hour or \$16.00 per week of forty hours, and I so find. Therefore,

I hereby determine:

1 202.4 Men's raincoats. The minimum wage for the manufacture and fur-

nishing of oiled waterproof cotton outer garments and other types of rainwear shall be 40 cents per hour or \$16.00 per week of forty hours, arrived at either upon a time or piece work basis.

This determination shall be effective and the minimum wages hereby established shall apply to all contracts for these commodities with agencies of the United States Government subject to the provisions of the Act of June 30, 1938 (49 Stat. 2036; 41 U.S.C. Sup. III 35), bids for which are solicited on or after March 6, 1941.

Dated: February 8, 1941.

(SEAL) FRANCIS PERKINS,
Secretary.

(F. R. Doc. 41-1055; Filed, February 12, 1941;
11:45 a. m.)

Notices

WAR DEPARTMENT.

[Serial No. 2345 Date 9/14/40.]

**AIR CORPS, MATERIEL DIVISION, WRIGHT
FIELD, DAYTON, OHIO**

**THE GLENN L. MARTIN COMPANY, BALTIMORE,
MARYLAND**

Change Order

Subject: Additional Airplanes.

Affecting Contract W 535 ac-13243.

The Government hereby elects to exercise its right and option contained in Article 24B of Contract W 535 ac-13243 to increase the number of airplanes to be furnished under the terms of Item 1 of Article 16 of said contract and to purchase certain spare parts for such airplanes in accordance with the terms of the option contained in Article 24B of said contract as set forth hereinbelow:

The lot quantity of airplanes, . . . being purchased under the terms of Contract W 535 ac-13243, is hereby increased to . . . Total additional cost for the airplanes, \$12,972,405.74.

The Contractor shall furnish and deliver to the Government certain spare parts for the airplanes hereinbefore called for at a total price not exceeding, \$1,297,240.57.

Advance payments may be made from time to time for the articles called for under the terms of this Change Order when the Secretary of War deems such action necessary in the interest of the National Defense.

Price adjustment. The prices set forth in this Change Order and applicable only to the articles called for herein are subject to adjustments for changes in labor and material costs.

It is expressly agreed that quotes for labor will not be altered on account of delays in the completion of the articles called for.

1 Change No. 4 to Contract No. W 535 ac-13243; Dated September 9, 1939.

The supplies and services to be obtained by this instrument are authorized by, are for the purpose set forth in and are chargeable to Procurement Authority AC 34 P 12-3087 A 0705-01, AC 35 P 23-3087 A 0705-01 the available balance of which is sufficient to cover cost of same.

This change order authorized under the option contained in Contract W 535 ac-13243, and under the provisions of Section 1 (a) of the Act of July 2, 1940.

FRANK W. BOLLOCK,
Major, Signal Corps,
Assistant to the Director of
Purchase and Contracting

(F. R. Doc. 41-1044; Filed, February 12, 1941;
9:50 a. m.)

DEPARTMENT OF THE INTERIOR

Bituminous Coal Division.

[Dockets Nos. A-29, A-49, A-99, A-388]

PETITIONS OF DISTRICT BOARD NO. 11, DISTRICT BOARD NO. 10, SAHARA COAL COMPANY AND UNITED ELECTRIC COAL COMPANY CONCERNING ADOPTION OF SHIPMENTS OF OFF-LINE RAILROAD LOCOMOTIVE FUEL TO THE GRAND WESTERN RAILROAD AND OTHER RAILROADS BY PRODUCERS LOCATED IN CONTRACTS 10 AND 11.

NOTICE OF AND ORDER FOR LIMITED HEARING.

Original petitions having been filed by the above-named parties, pursuant to section 4 II (d) of the Bituminous Coal Act of 1937; and

A hearing having been held thereon before W. A. Cuff, a duly designated Examiner of the Division on November 12-15, 1940, in a Hearing Room of the Division, Washington, D. C.; and

A Second Amended Petition, dated November 29, 1940, having been filed in Docket No. A-29 by District Board No. 11; and

The Director, by his Order dated February 7, 1941, having received said Second Amended Petition, and having ordered that the hearing be reopened for the limited purpose of receiving further evidence on the issues raised by the said Second Amended Petition;

Now, therefore, it is ordered, That the hearing in the above-entitled matter be reopened, under the applicable provisions of said Act and the rules of the Division, on February 20, 1941, at ten o'clock in the forenoon of that day, at a hearing room of the Bituminous Coal Division, 734 Fifteenth Street N.W., Washington, D. C. On such day the Chief of the Records Section in Room 503 will advise as to the room where such hearing will be held.

It is further ordered, That Thurston G. Lewis, or any other officer or officer of the Bituminous Coal Division designated by the Director thereof for that purpose shall preside at the reopened hearing in this matter. The officer so designated to preside at such hearing is hereby author-

JT

GRAY

MADRID

Dated February 14, 1941

Rec'd 7:02 p.m.

Secretary of State,
Washington.

118, February 14, 3 p.m.

The Argentine Ambassador informed me yesterday that no contracts have been signed on behalf of the Argentine Government for either the sale of cotton or wheat referred to in my No. 100, February 9, 1 p.m. He stated that the basis of an arrangement had been agreed upon in principle covering the sale of cotton, but that as yet his government had not instructed its negotiators to sign the contract.

WEDDELL

NPL

COPY:aja

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE February 14, 1941

TO Secretary Morgenthau

FROM Mr. Haas

Subject: Request for authorization to obtain necessary detailed statistics on the holdings of the public debt and guaranteed securities by the various classes of investors.

1. In response to your request that we take immediate steps to obtain information that will assist you in carrying through the defense financing program most effectively, I am submitting for your consideration a proposal to obtain directly from investors a series of reports on their Government security holdings. These reports would show for each investor owning as much as \$100,000 of Government securities the par amount of each issue held. They would be submitted to the Treasury on a prepared form -- once a month by banks and insurance companies, and once a quarter by other investors. It is proposed that the form be mailed out with a letter over your signature explaining the necessity for the data.

2. In obtaining the foregoing data, we shall have to contact approximately 15,000 holders of Government securities, whose holdings, we expect, amount to approximately two-thirds of the privately-held public debt issues outstanding. Without these data it is not possible for you to know the extent to which the defense financing program is being provided for out of "real savings". Neither can answers be supplied to a great many other important questions -- some of which appear in the appendix to this memorandum -- which are certain to arise.

3. It appears to me that the data suggested above are essential if you are to be provided with adequate information on all phases of the defense financing program. During the period of depression financing, detailed data on "Who hold Governments" were not so important in connection with financing operations. In the depression years, bank absorption of Government securities was desirable in order to accelerate the expansion of bank credit. In the defense financing program, you have already indicated the desirability of limiting bank absorption of

Secretary Morgenthau - 2

Government securities in order to prevent an undue credit expansion. The success of the defense financing program might well be measured, as a matter of fact, by the extent to which a large proportion of the new issues are permanently placed in the portfolios of "real savers".

4. The defense financing program, it might be pointed out, will differ basically from the financing program undertaken during the World War. When the World War financing program started, the public debt stood at approximately \$1 billion. In the present instance, new debt issues must be superimposed upon a direct and guaranteed public debt structure already aggregating \$50 billions. It will not be sufficient, therefore, just to sell a great volume of new issues of the defense securities to individuals. Such buyers might pay for the purchases by the transfer of other issues they already own to commercial banking institutions -- a procedure that they followed, on net balance, throughout the period of depression financing. If "real savings" are to be tapped, it is essential instead that the buyers of defense securities offered by the Government pay for their purchases out of their "real savings" and not out of the proceeds of other Government issues liquidated in the market.

5. A frequent review of new acquisitions and disposals of individual issues of Government securities by the various classes of holders will be necessary if the Treasury is to be fully apprised of changing trends in the investment markets.

Questions that will arise in connection with the defense financing program that might be answered by data on holdings of Government securities, by issues.

General

What classes of investors are buying defense securities?

Are some investors selling other U. S. securities in order to buy defense issues?

Does it appear that the purchase of new issues is being financed by the expansion of bank credit?

Banks

Are big banks buying defense issues? Or is the buying concentrated in small banks?

Is bank buying concentrated in big cities?

What effect are new acquisitions of securities having on the composition of bank portfolios?

What is the effect on bank earnings of the purchase of defense issues?

Are banks shortening up on other issues in order to buy long defense issues?

Insurance Companies

What kinds of issues are insurance companies buying?

Are they selling short issues in order to buy long defense series?

Are they replacing old issues with defense issues?

Are they buying defense issues on new subscription? Or are they buying new issues mainly during the secondary distribution in the market?

Wealthy Individuals

Are persons with large incomes buying any considerable portion of the defense issues?

Are they liquidating other U. S. issues in order to buy defense issues?

Are they investing the funds derived from the retirement at maturity of tax-exempt notes in new taxable issues?

Are they liquidating taxable issues at every opportunity?

Market Movements

During market declines, where does the selling come from? And who are the buyers?

Is the selling concentrated in defense issues or in old issues?

Are sales lighter when the price of an issue drops below par?

What is the effect on bank capital of market declines in prices?

Rights

Are "rights" in the hands of banks?

Are they in New York City?

Did the holders obtain them recently?

Are they likely to have purchased them at speculative prices?

Taxable vs. Tax-exempt Issues

What are tax-exempt institutions doing with their tax-exempt securities?

If such institutions are buying defense issues, are they selling tax-exempt series to offset these purchases?

What effect does the purchase of taxable securities have on the taxable income of the various classes of investors?

To what extent is the income of defense issues actually being subjected to taxes?

February 14, 1941.

MEMORANDUM FOR THE SECRETARY

From: Alan Barth

Re: John T. Flynn

John T. Flynn has devoted his newspaper columns during the past month almost exclusively to attacks on H. R. 1776 and the general policy of all-out aid to Britain. His arguments have followed three main lines: (1.) that Britain is able to finance her own war effort and is seeking to swindle the United States; (2.) that aid to Britain will inevitably take the United States into war; (3.) that financing of the war, or participation in it, will produce economic disaster.

The nub of Flynn's criticism of Treasury statements on British assets is that they fail to embrace the entire British Empire. In a column of January 26, he states: "Why the needs and bills of the empire should have been given while only the assets of the British Isles were given as Britain's dollar assets here I do not know." By adding the values of British gold, security holdings and direct investments in the United States, other countries and British dominions, he calculates for the Empire total assets convertible into \$12,800,000,000. He admits that this figure probably contains some duplication.

Flynn raises a query also as to the disposal of British assets in this country since the commencement of the war. He catalogues as belonging to the British Government the entire \$7,115,000,000 of Empire holdings in the United States reported by the Federal Reserve Board. In addition, he says, Britain has since sent here, according to Reserve Board data, \$5,054,767,000 in gold, of which at least 20 per cent, or a billion dollars, must belong to Britain. British war and peacetime purchases in the United States last year, according to an estimate for which he gives no authority, were only \$1,500,000,000 in excess of sales to this country. Therefore, the British had here available for conversion on January 1, 1941, assets worth \$6,600,000,000, as compared with the Treasury estimate of \$1,811,000,000.

Flynn charges that the Treasury statements on British finances were designed to "obscure and confuse the subject" and to make as strong a case as possible for H. R. 1776.

In several columns, Flynn has assailed aid to Britain on the grounds that it will inflame American opinion into regarding Germany as an outright enemy and will thus make active participation inevitable. He views as particularly dangerous the provision of H. R. 1776 which would permit repair of British warships in American ports, since this might prompt a German attack upon us. A recent shipment of British gold in an American warship struck him as inviting involvement. Depletion of the American merchant marine to assist British shipping

seems to him a naive gift of maritime supremacy to a commercial rival, as well as a serious weakening the United States Navy which, he asserts, is deficient in auxiliary vessels. "... poor old sappy Uncle Sam will wind up with a smaller merchant marine than he had when the war began while Britain will end, despite the losses, with a larger one."

Flynn's basic premises are that Hitler will be too busy consolidating his European victories to endanger the United States and that Fascism is the probable consequence of engagement in war, whether victorious or not. He argues that Britain's staggering debt, together with the desire of the aristocracy to hold on to what may be left, will promote Fascism there. He discerns a trend toward it here in the efforts of industrialists to employ the defense crisis as a pretext for destroying labor legislation.

Over a long period, Flynn has been bitterly critical of Administration fiscal policy. In a column of January 18, he remarked: "Every sane authority in national finance thinks the budget ought to be balanced. But unfortunately the Government is not being run by sane authorities, but by politicians." He looks upon aid to Britain as an attempt to create a New Deal for the whole world. Since, in his opinion, the New Deal has failed disastrously at home (it has cost \$60 billion and increased the national debt by \$26 billion) the end of this road must be utter chaos.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 14, 1941.

TO Secretary Morgenthau
FROM Alan Barth

EDITORIAL OPINION ON H. R. 1776.GENERAL REACTION

Editorial acceptance of H. R. 1776 in the modified form approved by the House is now general. Only a handful of newspapers, opposed to any effective aid to Britain, still assail its main features. While many editorial pages continue to urge restrictions on the delegation of authority to the President, it is apparent from their tone that they are no longer hostile to the measure itself.

The restriction most persistently advocated is the one recommended by Wendell Willkie, that the beneficiary countries be specified by Congress. The basis of this contention appears to be a desire to exclude the Soviet Union from any possible assistance from the United States.

Editorials in general reveal a growing sense of urgency respecting the bill. The House and Senate Committee hearings seem to have satisfied the anxiety of most commentators for a full and fair hearing for both sides. At present the tendency is to emphasize the point that time is of the essence in aiding Britain. Judging from the current temper of their comment, newspapers will exhibit little patience with any efforts to postpone Senate action on H. R. 1776 by filibuster or delay tactics.

NATURE OF NEW CRITICISM

A number of recent editorials contain rather significant criticism of the methods which the Administration is alleged to have followed in advancing H. R. 1776. Since these come for the most part from papers essentially favorable to the measure,

- 2 -

they may be worth noting.

The most interesting of these is the contention that the testimony of Administration leaders in support of the bill was wholly negative in nature and based on the psychology of fear. Passage was urged because, without it, Britain might fall and leave the United States exposed to insurmountable dangers. The physical danger to the United States has been overstated, these critics complain, in an effort to scare the country into adoption of the Lend-Lease proposal.

Almost every newspaper examined has been vigorously critical of the President's press conference comment on the Dodd diary statement that Senator Wheeler some years ago prophesied Nazi domination of Europe. Even the Southern newspapers most heartily supporting H. R. 1776 condemned this action as carrying the argument ad hominem and lowering the dignity of the President's office. Reaction to this was in marked contrast to the general approval accorded the courtesy shown to Colonel Lindbergh. Editorial writers favorable to the Lease-Lend bill felt free to deride Lindbergh, since he had been given a fair hearing; but they apparently felt obliged to defend Wheeler, since he had been the victim of a personal slap from the President.

REACTION TO TREASURY STATEMENT

It is evident that many editorial writers remain unconvinced that Great Britain is genuinely at the end of her dollar resources. There is exceedingly widespread expression of uneasiness as to the financial consequences to this country of continued deficit financing on the scale necessary to maintain the British war effort.

But if there is reluctance to acknowledge that England can be bankrupt, there is at least an awakening recognition that the English have been making great

- 3 -

sacrifices. While some commentators insist that the British assets be wholly liquidated before granting any assistance from the United States, most are inclined to refrain from squeezing too rigorously. The comparison of British and American tax rates contained in the Secretary's statement before the Senate Foreign Relations Committee occasioned rather sympathetic response. It may be desirable to stress the point that the British are by no means asking the Americans to bear all the costs of the British war effort.

February 14, 1941

Memorandum

I want to call on Guy Helvering at the hospital.
Please remind me.

Please find out whether George Harrison is going to be in Washington Saturday or Sunday. If so, I want to see him. If he is not going to be here Saturday or Sunday, I would like to telephone him and see if I can't get him to come down here Monday to talk to him about our next financing; also about our savings stamp campaign.

February 14, 1941

Harold Graves

Secretary Morgenthau

I cannot understand why it should take the Bureau of Engraving one month to turn out some stamps. I have always felt that their method of manufacturing is antiquated. I wish you would give Hall a call and try to justify why it takes a full month to turn out some stamps.

Prepared by: Mr. Murphy
Mr. Hadley
Mr. Haas

DEPARTMENT *see memo*

INTER-OFFICE COMMUNICATION

DATE February 14, 1941

TO Secretary Morgenthau

FROM Mr. Haas

Subject: Proposed Arkansas Bond Refunding Deal

The State of Arkansas has outstanding about \$137 millions of bonds payable from highway revenues. Of these, about \$90 millions are callable on April 1 and \$47 millions on July 1 -- at least thirty days' notice being required in each case. The average coupon rate on the outstanding bonds is 4.11 percent, or, if the fact that the higher coupon bonds are the longest is taken into consideration, 4.44 percent.

It is proposed that the entire highway debt be refunded. A banking syndicate would bid for an amount of new bonds sufficient to replace the \$90 millions of old bonds callable on April 1, and the RFC for an amount of new bonds sufficient to replace the \$47 millions of old bonds callable on July 1. The RFC would accept delayed delivery on July 1 on its share of the bonds in order to save the State from paying double interest. The RFC will reserve the right, however, to demand earlier delivery in case it feels that the preservation of its rights requires this. The principal contingency which the RFC has here in mind is the possibility of legislation preventing the future issuance of tax-exempt bonds by State and local governments. In such an event the RFC would procure delivery of its bonds in time "to get under the wire" on the tax-exemption privilege, and the State would have to pay double interest from that date until July 1.

All but \$30 millions of the new bonds would be serial bonds due in from 1 to 30-35 years, not callable prior to maturity. The remaining \$30 millions would be in term bonds due in the same year as the final serial maturity and callable \$1 million a year. The RFC would take a cross section of the entire issue, its bonds being divided between term bonds and serial bonds, and between the various maturities of the serial bonds in the same way as the bankers' share.

Secretary Morgenthau - 2

The rate on the bonds would be determined by the bids of the bankers, and the RFC would take the same coupon rates as the bankers. According to Mr. Mulligan, Treasurer of the RFC, the RFC does not intend to influence the rate bid by the bankers. He estimates very approximately that the average coupon rate on the new bonds would be about 3-1/4 percent.

The bonds would be payable from gasoline and auto license revenues. The State guarantees that the net amount of such revenues available for the highway fund would be not less than \$10,250,000 a year. Of this, 30 percent would be devoted to highway maintenance and 70 percent, or \$7,175,000, would be devoted to bond service. If the bonds have an average coupon of 3-1/4 percent, this would be sufficient to pay them out in about 30 years. A higher coupon on the bonds would require a longer pay-off period, but the maximum period permitted by law would be 35 years.

The State of Arkansas is not a high-grade risk. Its debt is high relative to its resources and population, and there was a forced refunding of its bonds during the depression. Its presently outstanding debt is rated Ba and B by Moody's. The bonds will probably pay out, however, and may be a good deal for the RFC if the future issuance of tax-exempt securities by State and local governments is prohibited, thereby giving the outstanding issues a scarcity value.

There is a special election in Arkansas tomorrow (Saturday) to ratify the proposed refunding. The RFC has not yet formally committed itself, but will be asked to approve various legal forms either tomorrow or Monday. Approving these would be tantamount to a moral commitment.

Bids will be opened on the new issue on February 27. It should be noted that if refunding of the March securities by the Treasury is announced on the morning of February 25, as discussed in your office this morning, and is open for three days, February 27 would be the final day of such three-day period.

WAR DEPARTMENT
WASHINGTON

February 14, 1941

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

Dear Mr. Secretary:

In the second week of January I reported to you, by direction of the Secretary of War, the situation of the Air Corps as of January 8 with respect to the number of combat planes on hand which might be used at once against a modern air force. These figures are being carried forward monthly for comparison purposes and I am setting out below, by types, the number of combat planes on hand as of February 1, suitable for use against a modern air force, as compared with figures on January 8 previously reported to you:

	<u>January 8, 1941</u>	<u>February 1, 1941</u>
Heavy Bombers (B-17)	63	57
Medium Bombers (B-23)	33	33
Light Bombers (A-20A)	0	13
Pursuit (P-40)	188	173
(P-39)	<u>5</u>	<u>3</u>
	289	279

None of the above planes are equipped with armor or leak-proof tanks; as of February 1, 16 had adequate fire power. The same situation existed with respect to armor and leak-proof tanks on January 8, and at that time only 5 planes had adequate fire power. The net reduction in the total of combat planes of the character mentioned above arises, for the most part, from the delivery of 20 B-17 bombers to the British and the immobilization of 12 more in order to provide spare parts for them.

The above figures clearly indicate the grave situation faced by the Air Corps as a result of many factors.

The point has now been reached where the GHQ air force is not receiving planes of modern combat type in sufficient numbers to enable the pilots to become familiar with them under service conditions. There are approximately three pilots for each airplane in

SECRET

Honorable Henry Morgenthau, Jr. 2

February 14, 1941

the GHQ air force at present.

The question of morale among the young and eager pilots and the essential ground crews is beginning to cause some concern, and enough modern combat equipment to provide facilities for flying under service conditions is becoming urgently needed.

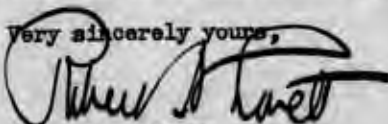
On present optimum schedules, allowing for the presently planned diversion of planes to the British, the Air Corps will not receive adequate planes to equip the 25 groups originally planned for April 1, 1941. The 25-group program will be at least 3 months late in its completion. The second step program of 54 groups originally scheduled for completion by April 1, 1942 will, it is estimated, be about 6 months late under the presently established program of plane distribution.

Of the 20 B-17's released to the British by the Air Corps, 12 are now at McChord Field, all changes required by the British having been completed by the Boeing Company with the exception of leak-proof tanks. Eight more of these planes are on the factory floor for changes, and these should all be delivered by February 21. They will likewise be without leak-proof tanks since the 20 self-sealing tanks which Boeing had obtained, and on which the Army took a deferment, proved to be unsatisfactory during installation at the Boeing plant. Installation of the self-sealing equipment should be relatively simple when it has been received. Meanwhile, the planes are suitable for training and adequate British crews are not as yet available. This same situation may develop this month in a lesser degree in connection with the B-24 deliveries from the Consolidated plant at San Diego. Consolidated advises the sixth plane will be completed by February 28th. We have drawn the attention of the appropriate British authorities in Washington to this situation.

During the month of January, the Army received only 19 tactical planes, including 6 requisitioned from the Swedish Government. In the same period the Navy received 125 tactical planes and the British 308 tactical planes.

We have reason to expect a considerable improvement in plane deliveries to the Air Corps beginning next month but the situation for sometime to come will continue to be unsatisfactory.

Very sincerely yours,



ROBERT A. LOVETT,
Special Assistant to the
Secretary of War

SECRET

299

GREENBAUM, WOLFF & ERNST
285 MADISON AVENUE
NEW YORK

TELEPHONE CALEDONIA 2-1882

February 14, 1941.

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

Dear Henry:

On various occasions over the last few years, I have spoken to the President about the wisdom of being better informed as to the finances of what are presently tax exempt corporations. I take it that no one now knows whether the total expenditures of such organizations run to a million dollars or a billion dollars, or more.

At the President's suggestion I sent him a memorandum on the subject and he has sent me a copy of your memorandum in answer thereto. I have spoken at various times to Ed Foley and your boys about the matter and now, at the President's suggestion, I am writing to see when you can see me about it. I can come down pretty nearly any day next week that you suggest, or, if your calendar is in such shape, I can let you know when I am coming down on other matters.

For my part I don't see how democracy can fight against the communist and nazi underground movements unless we realize that life under the Bill of Rights negates the necessity of anonymity in public matters.

Best to you and Ellie,

Yours,

Henry R.

*had apppt. for
10 15
WEDNESDAY
2/19/41
did not keep
due to a
change in
plans
- call later -*

BRITISH EMBASSY,
WASHINGTON, D. C.

Personal and Secret

February 14th, 1941.

Dear Mr. Secretary,

I enclose herein for your
personal and secret information copy
of the latest report received from
London on the military situation.

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

Halifax

The Honourable

Henry Morgenthau Jr.,

United States Treasury,

Washington, D. C.

Telegram received from London
dated February 13th, 1941.

301

1. Naval. Convoy 200 miles East of the Azores was shelled by raider a.m. of February 12th. Several ships reported sunk or sinking, further reports awaited.
2. Enemy aircraft suspected laying mines in Liverpool Bay night of February 12th-13th - and on February 12th sixteen enemy mines were exploded in the Humber.
3. A-P. drifter "Eager" shot down one J.U.88 p.m. of February 12th in the Thames Estuary. Enemy aircraft also attacked unsuccessfully motor-ship "Bangor" and A-P trawler off the East coast of Scotland.
4. Four Italian ships now known to have been captured on February 11th.
5. On February 12th off the South East Coast of Italian Somaliland - Italian "Leonardo da Vinci" 7515 tons was captured and German "Uckermark" when intercepted attempted to scuttle herself and is likely to sink.
6. On (words undecypherable) British "Baron Minto" was wrecked and abandoned on Ratray Head at 18.45 February 12th enemy aircraft bombed and machine-gunned the wreck.
7. Royal Air Force. February 12th. No operations other than routine and reconnaissance undertaking owing to adverse weather. One Beaufort is missing. Night operations were cancelled.
8. Night of February 10th. Rhodes. Six and a half
tons/

- 2 -

tons of bombs were dropped on aerodrome at Maritica, Cebate and Kattania; buildings were hit and three enemy aircraft burned.

9. Libya 86 unserviceable aircraft were found abandoned at Venina aerodrome.

10. Sicily February 11-12th. Four Wellingtons from Malta bombed Comiso and Catania aerodromes and destroyed at least four enemy aircraft.

11. German Air Force. Daylight February 12th and night of February 12th-13th. Enemy activity on a very small scale. One J.U. 88 crashed in Scotland during the morning of February 12th.

12. Malta. Yesterday three German bombers with fighter escort ineffectively attacked Malta. One fighter intercepted. Two Hurricanes are missing, pilot of one is safe.

13. Greece. Enemy attacked Janina and Heraklio (Crete) aerodromes with fighters and destroyed one Bombay, and damaged two Gladiators.

14. Aircraft casualties over and from the British Isles.

Germans 2

British 5

RESTRICTED

G-2/2657-220
No. 316

M.I.D., W.D.
February 14, 1941
12:00 M.

SITUATION REPORT

I. Western Theater of War.

Air: Minor activity only on both sides.

II. Greek Theater of War.

Ground: No important operations.

Air: Italian air effort somewhat diminished in intensity.

III. Mediterranean and African Theaters of War.

Ground: No significant changes in the situation.

Air: Axis. No large scale operations. German aviation continues active in eastern Libya.

British. Sporadic activity in East Africa. The Italians report the destruction of a party of British parachutists who attempted to land near Calabria in the "toe" of Italy, presumably for sabotage purposes.

Note: This military situation report is issued by the Military Intelligence Division, General Staff. In view of the occasional inclusion of political information and of opinion it is classified as Restricted.

RESTRICTED

Paragraph of Code Sublogram
Received at the War Department
at 9:23, February 14, 1941.

London, filed 14:30, February 14, 1941.

1. On Thursday, February 14, and during the preceding night there were no British planes over the Continent because of adverse weather conditions.

2. During the night of February 13-14 private properties in London were considerably damaged by one German plane which carried out a hit-and-run attack. In addition 25 German planes were plotted over Norfolk and Suffolk but the damage done has not been reported. Royal Air Force night fighters were up and made a total of three interceptions but results could not be determined. During the preceding day German raiders engaged in an attack on Norfolk and Suffolk and R.A.F. fighter planes shot down three of the attackers. In addition, strong German defensive patrols were over the Straits of Dover.

3. British bombers based in Egypt attacked Italian troops at Derna (?). Heavy Italian airfield on the Isle of Rhodes was attacked by British bombers. In the Albanian theater British bombers attacked an Italian supply point at Duki (?) and an Italian camp at Elbasa. In Eritrea British planes bombed Italian headquarters at Eruva in addition to supporting the advance of land troops in this sector.

4. One Axis plane which took part in one of several minor attacks on Malta was destroyed by the British. There was no damage to military installations on Malta. One Axis bomber ineffectively attacked

CONFIDENTIAL

British forces at El Wak on the Suddo-Sudanian Peninsula.

5. The British War Office is considerably disturbed over the Far Eastern situation. All the information it has concerning this situation is covered in the daily newspapers.

6. On February 11 a German cargo boat was scuttled by her crew and an Italian vessel off the east coast of Africa was captured by the British. On the following day four other Italian cargo vessels were captured in the same waters.

7. On February 12 a German surface raider attacked a large British convoy 200 miles east of the Azores and sank several vessels. Details of the attack have not yet been determined.

SECRET

Distribution:

Secretary of War
State Department
Secretary of Treasury
Asst. Secretary of War
Chief of Staff
War Plans Division
Office of Naval Intelligence
Air Corps
C-3

-4-

CONFIDENTIAL

Paraphrase of Code Sublogram
Received at the War Department
at 11:56, February 14, 1941.

Bucharest, filed February 13, 1941.

1. It has been confirmed that German scout and listening detachments are in Bulgaria, that crossings over the Danube are being prepared and that thousands of Germans in mufti are in the country preparing air fields, communications, housing, etc. No German troops in uniform have as yet crossed into Bulgaria.

2. It is believed that in the near future German troops, especially members of the air force will enter Bulgaria. These troops to the number of 20,000 or 30,000 will have the mission of protecting Rumania against British bombing attacks. If effective bombing is accomplished by British air based in Greece, these bases will be attacked by the German air force based in Rumania and in Italy. German ground forces will march through Bulgaria against Greece. Whether Turkey will be also attacked will depend upon her attitude.

3. The German army in Rumania, in my opinion, is primarily directed against Russia. A move south by German forces depends upon developments, and I am not entirely convinced that it is going to take place.

RAMY

Distribution:

Secretary of War
State Department
Secretary of Treasury
Asst. Secretary of War
Chief of Staff
War Plans Division
Office of Naval Intelligence

CONFIDENTIAL