

DIARY

Book 382

March 14 - 17, 1941

- A -

Allison Engineering Company
See War Conditions: Airplane (Engines)

Book Page

- B -

Business Conditions

Haas memorandum on situation for week ending
March 15, 1941.....

382 367

- D -

Defense Savings Bonds, United States
See Financing, Government

- F -

Financing, Government

3/15/41:

Refunding and possibly some new cash discussed
by HMJr, Haas, Murphy, Hadley, Bell, Eccles,
Draper, Szymczak, Piser, and Sproul - 3/14/41.. 38
a) Bid prices of new Treasury certificates
hourly, February 25 and 26, 1941..... 76
Newspapermen to be told "financing next week
will be \$500 million cash and a refunding" -
3/14/41..... 110
"Bond to be used in the financing": Haas
memorandum - 3/17/41..... 289
a) Discussion by HMJr, Haas, Bell, Hadley,
and Murphy..... 284
HMJr's pencilled notes made during conferences
with various bankers..... 299
Over-the-counter closing quotations on United
States securities - 3/17/41..... 306
Defense Savings Bonds, United States:
Odegard's standards for campaign as set forth in
memorandum to Powel (Harford) - 3/14/41..... 138

- G -

Gardner, Max

See War Conditions: Purchasing Mission (British Financial
Position)

General Counsel, Office of

Report of projects during February 1941.....

381

Gold

See War Conditions

Greenland

See War Conditions

- O -

Odegard, Peter H.

See Financing, Government (Defense Savings Bonds,
United States)

Book Page

- P -

Public Health Service

Parran arranging for 1000 United States doctors to
go to England; HMJr asks Hopkins to arrange for
interview with FDR - 3/16/41.....

382 251

- R -

Revenue Revision

Inter-governmental tax immunity: HMJr's letter to
FDR - 3/17/41.....

342

a) Copies sent to Justice, Navy, War, Hillman,
and Knudsen.....

337

- S -

Salter, Sir Arthur

See War Conditions: Purchasing Mission

- T -

Taxation

See Revenue Revision

- U -

Unemployment Relief

Work Projects Administration report for week
ending March 5, 1941.....

396

United Kingdom

See War Conditions: Military Planning

- W -

War Conditions

Airplanes:

Engines:

Allison Engineering Company: Shipments -

3/17/41.....

364,365

Exchange market resume' - 3/14/41, etc.....

167,238,363

Export Control:

Exports of petroleum products, scrap iron, and
scrap steel from United States to Japan,
Russia, Spain, and Great Britain, week ending
March 15, 1941.....

366

	Book	Page
War Conditions (Continued)		
Gold:		
Yugoslavia: \$22,500,000 of gold which Yugoslavia wishes to sell discussed in Cochran memorandum - 3/14/41.....	382	136,194,273
a) Welles' reaction to situation reported by HMJr to Bell, Cochran, Foley, and Bernstein - 3/17/41.....		309,314,318,330
b) Cochran memorandum - 3/18/41: Book 383, p.65		
Greenland:		
Cox memorandum to Hopkins on air base - 3/17/41..		270
Lend-Lease:		
See also War Conditions: Purchasing Mission		
"Quid pro quo": Further discussion by Treasury group - 3/14/41.....		1
a) Draft attached.....		28
b) "Possible sources of payments for materials sent to England under Lend-Lease": White memorandum - 3/14/41.....		34
c) Discussion between FDR, Hopkins, HMJr, Bell, and Foley - 3/14/41.....		77
1) "Whereas" substituted for "agreement"		82,83
2) Copy.....		
d) Acheson-HMJr discussion of Hull's attitude - 3/14/41.....		103
Chancellor of Exchequer congratulates HMJr on passage of bill - 3/14/41.....		93
British placing of all future orders under Lend-Lease recommended to Purvis by HMJr - 3/15/41.....		223,224
"Aid to Britain in next 120 days": Cox memorandum to Hopkins - 3/15/41.....		229
(See also Book 383, page 354 - 3/19/41)		
"Summary of how operations may be conducted from practical point of view and on organized basis": Young memorandum to Hopkins - 3/17/41.....		262
Military Planning:		
Reports from London transmitted by Halifax - 3/14/41.....		173,177,409
War Department bulletin: "The Photographic Reconnaissance Unit of the British Coastal Command" - 3/17/41.....		400
Purchasing Mission:		
See also War Conditions: Lend-Lease		
Salter (Sir Arthur) to join staff of British Supply Council and to be charged with matters arising out of shipping - 3/14/41.....		88,92
Federal Reserve Bank of New York statement showing dollar disbursements, week ending March 5, 1941..		162
Vesting order sales - 3/17/41.....		362

- W - (Continued)

	Book	Page
War Conditions (Continued)		
Purchasing Mission (Continued):		
British Financial Position:		
Direct investments - sale of: Situation in connection with Lend-Lease testimony discussed by Phillips, Allen, Playfair, and Cochran - 3/15/41.....	382	191
a) American Viscose Company: Position of little companies which are hoping for no precipitant action presented to HMJr by Max Gardner - 3/15/41.....		221
1) Halifax tells HMJr Viscose deal will be announced Monday morning - 3/15/41.....		226, 250, 252, 254
a) Treasury representative may be allowed to work with Peacock now		
b) HMJr congratulates Peacock..		326, 329
c) Alsop-Kintner reaction corrected by Treasury.....		335
Securities and Exchange Commission:		
List of securities issues covering which registration statements have been filed with Securities and Exchange Commission and which may become effective and publicly offered during week beginning March 17, 1941.....		357
a) Frank-HMJr conversation - 3/17/41.....		323
Work Projects Administration		
See Unemployment Relief		

- Y -

Yugoslavia
 See War Conditions: Gold

March 14, 1941
8:45 a.m.

AID TO BRITAIN

Present: Mr. Foley
Mr. Bell
Mr. Cox
Mr. Bernstein
Mr. Kuhn
Mr. White
Mr. Young

Foley: "Agreement dated as of March 11, 1941 at the City of Washington, District of Columbia, between His Majesty's Government in the United Kingdom (hereinafter called the United Kingdom) and the United States of America (hereinafter called the United States).

"Whereas, the President of the United States (hereinafter called the President) has determined that the defense of the United Kingdom is vital to the defense of the United States,

"Now, therefore, it is agreed as follows:

"1. Pursuant to the Act of the Congress of the United States of March 11, 1941 (Public No. 11, 77th Congress and hereinafter called

- 2 -

the Act) the United States will transfer, exchange, lease, lend, sell, or otherwise dispose of certain defense articles and defense information to the United Kingdom, as listed and valued in schedules, appropriately identified, now or hereafter to be attached to this Agreement.

"2. Within such period or periods as determined by the President:

"(a) The United Kingdom agrees to return to the United States such defense articles which, in the opinion of the President, are not used up, worn out, destroyed, or otherwise rendered incapable of effective use."

And that would be the Coast Guard destroyers and things that are of more durable and lasting quality and that are all right, and the President can just simply take them back.

"(b) The United Kingdom agrees, in the case of defense articles, other than agricultural commodities, which in the opinion of the President are used up, worn out, destroyed, or otherwise rendered incapable of effective use, to return to the United States an equivalent amount of similar defense articles, which, in the opinion of the President, are of a quality and efficiency substantially equal to the defense articles transferred hereunder to the United Kingdom."

And that would be the combustible stuff. the powder and the ordnance and the stuff that you use up and don't get back.

H.M.Jr:

Have you seen this, Dan?

- 3 -

Bell: Well, I saw the draft. It has been changed since I saw it.

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

Foley: That takes care of the permanent stuff and the stuff that is used up.

"(c) The United Kingdom agrees,

"(i) in return for agricultural commodities -"

That will be the consumer stuff.

"and"

"(ii) in return for other defense articles and defense information

"transferred to it hereunder and for which the United States has not otherwise received full reimbursement, to deliver to the United States an equivalent dollar value of tin, rubber, jute, and other products and commodities produced in the British Empire and which, in the opinion of the President, are needed by the United States. Such products and commodities shall be delivered in such quantities and at such time or times as shall be determined by the President."

Then the over-all.

"(d) The United Kingdom may at its option and in lieu of the return of the defense articles or similar defense articles, as provided in Paragraphs (a) and (b) above, deliver to the United States any other raw materials, services, facilities, or other consideration or benefits acceptable to the President."

H.M.Jr: What does that mean?

Foley: Well, that means that if they can't return in kind the defense articles that have been worn out or exhausted or if they can't return - or if they can't make up, rather, an equivalent dollar value of the stuff that they don't return in kind out of these raw - these raw materials or commodities produced in the British Empire which the President determines as a need, then they can give us other things, raw materials, services, facilities or considerations or benefits, which the President deems acceptable.

H.M.Jr: At the President's option?

Foley: Acceptable to the President. They have got to make it all up, and they have got to make it up either by returning the stuff that we gave them, by giving us similar stuff, by giving us an equivalent dollar value of these raw materials, or by giving other benefits or services or commodities or raw materials which the President is willing to take.

Bell: This might mean we would have our battle ships repaired in their docks or any other benefit.

Foley: Then we--

H.M.Jr: I am going all over it once more.

Foley: Then we give another option.

"3. By future agreement, the parties may substitute, in lieu of Section 2, any other payment or repayment in kind or property,

- 5 -

or any other direct or indirect benefit to the United States, which which the President deems satisfactory."

In other words, the situation as such - if you want to name the stuff that you want back, if the things you envisage in 2, (a), (b), (c), and (d), are not subject to being made available to the United States, why then the parties can agree on something else at that time.

"4. The President shall determine the fair value of any defense article or other consideration or benefit received by the United States from the United Kingdom; and the United Kingdom shall be credited therefor on account of the defense articles and defense information transferred to the United Kingdom hereunder."

In other words, he is the fellow who determines the value of the stuff that they give back. That may seem harsh, but they are putting themselves in our hands anyway, and I don't see why he isn't the proper person to determine the fair value of what they want to give back of the stuff that he evaluates at the time he makes the lease.

- Bell: That will be a little hard to swallow.
- H.M.Jr: It will save a lot of argument.
- Bell: Well, they might be willing to trust the present President, but we might have another Coolidge when it comes down time to repay.
- White: Well, it is a sovereign government. They don't have to pay if they don't want to.

- 6 -

- Foley: It is a sovereign government dealing with another sovereign government at a time when Great Britain desperately needs the things; and, while I don't like to take advantage of the bargaining power that we have, doing it any other way only leads to interminable controversy and delay.
- White: Just as they depend on good faith to make this stuff available, I think they will have to depend on good faith that you will give them a reasonable treatment; and, if you don't give them a reasonable treatment, they simply may not pay just as in the past they haven't when they felt it was unreasonable.
- H.M.Jr: Mr. Coolidge didn't do so well on the collection end.
- Bell: But he had that horrible attitude toward the debtors.
- Foley: Well, that is why, Dan; and I think no matter what you put in an agreement, the attitude you assume toward the debtor at the time you make the collections depends on what you get. There he said, "They hired the money. Let them pay back the interest and let them pay back the principal."
- Bell: Well, of course when it comes back you won't be under war conditions.
- Foley: This next clause is out of the statute.
- "5. The United Kingdom agrees that it will not, without the consent of the President, transfer title to or possession of any defense article or defense information, transferred to the United Kingdom hereunder or permit its use by anyone not an officer,

employee, or agent of the United Kingdom.

"6. If, as a result of the transfer to the United Kingdom of any defense articles or defense information, it is necessary, for the United Kingdom to take any action or make any payment in order fully to protect, pursuant to the Act, any of the rights of any citizen of the United States who has patent rights in any to any such defense article or information, the United Kingdom will do so, when so requested by the President."

That is out of the statute.

"7. The President may exercise any power or authority conferred on him hereunder through such officer or agency as he shall direct for that purpose. The terms "defense article" and "defense information" as used in this Agreement shall have the same meaning as defined in the Act."

This relating to the authority of the people who bind their respective governments. It is a stock clause.

"8. The parties to this Agreement, and the officials signing this Agreement on their behalf, each for itself, himself, or themselves, represent and agree that the execution and delivery of this Agreement have in all respects been duly authorized, and that all acts, conditions, and legal formalities which should have been performed and completed prior to the making of this Agreement have been performed and completed as required by, and in conformity with, respectively, the laws of the United States and the United Kingdom."

- 8 -

- H.M.Jr: Either I explained it awfully well or you people are awfully intelligent. I think it is an excellent document.
- Foley: Thank you very much. It will take a big load off our minds.
- H.M.Jr: I don't see, in view of - going back to the President's position as of Monday, how we could hit this thing any better. I just don't see how we can hit this thing any better. Now, I just would like to approach this thing a little bit in a novel way, you see. Ferdie, supposing, if you can, put yourself in the place of this pressman Lord Halifax has over here, you see. What is his name?
- Kuhn: Childs.
- Cox: No, Charles Peak.
- H.M.Jr: He is back in London again. That is pressman in the foreign office. This document was laid on his desk 24 hours before it was released. How do you think he would react, and the British public would react to a thing like this right now? That is a fair question, you see.
- Kuhn: I think the British public, from what I have seen in their papers, forgets the words "Lease-Lend Bill." There has been so much said about our giving this. It will be something of a shock to them to come back to the actual words in the title of the bill, "Lease and Lend", and to the analogy of the garden hose and so on, but if they come back to that, I don't see how they can have any kick. This is completely in line with the President's press conference last December when he drew

- 9 -

that picture of the garden hose, isn't it?

H.M.Jr: You see, as I say, the hour I had with him Monday, when I came back, you remember, I dictated. I said I had never pressed him so hard. Not pressed him, probed him is the word. I probed him, you see. "Are you thinking of a mortgage on the battleships? Are you thinking of their islands? Are you thinking of this? Are you thinking of that?" And everything I got, "No, I am not." And so - also my conversation with Harry, I don't think Harry probed him the way I have. I think, and from his letter, you see - "I wish you would undertake to negotiate." Then he said, "I should think it would be best to work out some kind of over-all agreement. I should like to discuss it with you when you have developed further the informal program which we talked about the other day." So he goes back to the Monday conference, you see. I think this hits it pretty well. Let me just ask you, Dan. Supposing he took it or something very close to this. Then as each thing was transferred, I take it this document will be constantly added to?

Bell: Yes, sir.

H.M.Jr: And the thing would be filed here with the Treasury?

Bell: Be attached to this agreement in the vaults of the Treasury.

H.M.Jr: And that is all there would be to it?

Bell: Yes. There would be a little form that they fill out giving the specifications of the material and somebody would sign that.

- 10 -

Maybe both ways, we don't know yet.

Foley:

And the value.

Bell:

And the value. That would come over to the Treasury, and that would be a part of our records both from an accounting standpoint and as a part of this document.

H.M.Jr:

And that is all there would be. Then when the war is over, this document would be taken out and dusted off and whoever is President then would sit down and say, "Well, so forth and so on."

Bell:

Yes, and there would be credited against this document all the material of that kind that comes back.

H.M.Jr:

I don't think it would take more than one sheet of paper.

Bell:

To cover the credits? No.

H.M.Jr:

(Secretary talking on White House phone.)

Hello....

Hello....

You tell him that I have his letter of March 13 which he asked me to work out a form for the quid pro quo....

No, on the billion three....

Now wait a minute. Hello? Quid pro quo....

And on the billion three....

And I am ready. We would like to come over,

- 11 -

and we would like - when we are there we would like to have Hopkins there, too....

What?....

Oh, I will bring Bell and Foley....

The sooner the better....

Quid pro quo on the billion three....

And that is not a fish, either....

O.K.....

H.M.Jr. signing off. Goodbye.

H.M.Jr:

I make a mistake. I always ought to write these things to him because he can't remember. As Fox, the President's - what was he, chief gunner's mate or whatever he is over there, Assistant to Admiral McIntyre. We were there one day and I was telling him a naughty story and Watson asked me a couple of times to go over it. When he left Fox says, "You know, he will be back here tomorrow morning and say, 'What was that story the Secretary told yesterday?' He can't remember from one day to the next. But with it all, he is an awfully nice fellow."

Now let me just study this thing a minute. Has anybody got an extra copy for Mrs. Klotz? Now, I understand 1. Now, 2, it ends up with periods. Does that mean on this first lot of mosquito boats he has got to name the period?

Foley:

No, that is left for whenever he wants to sit down and arrange with them for the kind of reimbursement he wants and at that time he

- 12 -

can say it will be over a period of five years or it will be at one time or make the next arrangements at that time.

- Bell: He said, I believe, didn't he, that within five years after the war - this leaves it for his later determination.
- H.M.Jr: Have you all been on this? Does anybody see anything the matter with number 1, section 1?
- Harry, have you been on this?
- White: I didn't see the final draft. This is mostly the lawyers' work.
- H.M.Jr: What were you doing since seven o'clock?
(Facetiously)
- White: Ed suggested and I thought it was a good idea--
- H.M.Jr: About two minutes later everybody was here and I asked him - he said, "I was here. Nobody else was here."
- White: It happens once a year. I had better make the most of it. He suggested that I draw a list of all the possible quids that you could get.
- H.M.Jr: Possible what?
- White: Quids for the pros that you could get.
- H.M.Jr: Tits for tats.
- White: Well, quids for all the possible ones that could be obtained without recommending any one of them so that you would know all the possibilities, whether for this lot or for

- 13 -

the next lot, so I have three pages broken down to their proper classification, just a single line at the bottom of each one.

H.M.Jr: Are those coming along?

White: That is ready.

H.M.Jr: It isn't typed yet?

White: It should be typed now.

H.M.Jr: But that is for us to work with?

White: I thought you might want to look at it after in case the President might ask what other things could be got or now about this or how about that.

H.M.Jr: One looks all right to me. Now, 2. That looks good. Three, now let me just - listen you two (Cox and Bernstein). Can you envisage something where the United Kingdom wouldn't be the United Kingdom? Let me just raise one. This is very far fetched. Supposing England is destroyed, Canada remaining as the only part of the United Kingdom. Is Canada alone, as the sole remaining part, liable for this?

White: Oh, no.

Bernstein: Not unless she voluntarily assumes it.

White: Or unless the U. K. Government left U. K. just as the Dutch Government has left Holland, but the Canadian Dominion is not responsible for the obligations of the British.

H.M.Jr: If that is true, then the things which we lend-lease to Canada, we should lend-lease

- 14 -

to Canada and not do what they ask us to do. In other words, they don't want to sign it. You know the story, don't you?

Bell:

No.

H.M.Jr:

Clark came down here, your opposite number, and he said, "Now, we will want to lend-lease from you some airplane engines, from the United States, which are going into chassis of planes which are being made in Canada but the engines are being made here. We would like to lend-lease the engines instead of paying you cash. But we are not going to sign for those. England will have to sign for them because the completed plane goes to England." He gave that as an illustration.

Bell:

That might be all right.

H.M.Jr:

I am just showing you how they are working, you see, and I thought - well, I will take it up with Merle, anyway. We will let Clark cook until I come back from Tuscon. But I just - in other words, then if England should go under, this thing is worthless, which comes back to what Bernie was talking about yesterday, a first mortgage. Do you still thing that is so good, you mortgage broker, you.

Foley:

He is no mortgage broker. He was trying to get away from it and you pinned him with it. He is no Bronx lawyer. (Laughter)

H.M.Jr:

That is an insult to Eddie Flynn. (Laughter)

Foley:

He was trying to get away from that context entirely, and you wouldn't let him off the base.

- 15 -

- Bernstein: I will let my counsel speak for me.
- H.M.Jr: Harry White found he hasn't gotten so far that way so he does his own talking. I mean on his trip to Mexico.
- Bell: They are both pretty cagey about that. They are afraid to talk in each other's presence.
- H.M.Jr: So we understand each other, if England should go under, this piece of paper is worthless, Canada or Australia or New Zealand do not assume this obligation?
- Foley: No.
- White: But it raises the further question, it is worthless only in the sense that they are unable to pay. I don't know whether it is worthless if it gives you the justification of trying to collect by force. That is a legal problem.
- Foley: Collecting by force isn't a legal problem. You are talking about Hitler. (Laughter)
- White: I can't see that. You mean it will become illegal. You wouldn't consider changing that "or" to an "and" for the record, would you?
- H.M.Jr: No.
- White: Do you want to pursue that question just one step further? I am wondering what the status would be of the British private individuals' possessions in the Western Hemisphere and elsewhere in the event of a flight of the U. K. Government or an elimination of the U. K. Government. There are still some very valuable things lying around.

- 16 -

- Foley: Well, in so far as the individuals are concerned, their holdings wouldn't be effected by a document signed by the sovereign. The sovereign's holdings might be affected if he could enforce it. In other words, if you said, "Well, England has gone down, but she owed us seven billion dollars and now we are going to take over all her possessions in the Western Hemisphere," and sent the fleet and the Marines down to enforce it, I suppose you would have a color of legal right to do that.
- H.M.Jr: But let's say that Lord Astor's real estate which they say is trustee - let's say that he remains in England as a prisoner and the Germans take England and Astor and Lady Astor.
- Foley: And the title to his property in the United States is vested in the United Kingdom?
- H.M.Jr: Yes.
- Foley: We have got a claim against it.
- H.M.Jr: Ahead of the Germans?
- Foley: I should say so, because possession will be nine-tenths of the law.
- White: It is not vested in the United Kingdom, it is vested in a private corporation.
- Foley: No, if they requisition it and give Lord Astor some sterling for it, and they have got the title to it, I should say we would have the first claim at it.
- H.M.Jr: Well, in a case where they have, and how about that case where they haven't taken the title.

- 17 -

- Foley: Well, that is a legal matter. We wouldn't be in such a good position. Maybe as a practical matter you might be able to work something out.
- White: In other words, you are lending this stuff to the Government and not to the British people.
- Bell: What you have to have in that case, it seems to me, is an act of Congress taking over all that property.
- H.M.Jr: What did you say?
- Bell: I should think if you had a situation like you described, you would have to have an act of Congress to take over all the property in this country.
- H.M.Jr: Well, these are hypothetical questions which the lawyers can play with. If they see any danger. I am just raising them. I have got to press pretty hard to find something the matter, you see. If you get pressed very hard, you can retain Eddie Flynn.
- Where is the first time it says the President is going to decide?
- Foley: It is paragraph 1. The over-all clause, Mr. Secretary, is three on page three, or four on page three, rather. "The President shall determine the fair values." It runs all the way through there.
- Kuhn: (b) on page 2, the President has to decide whether these returned implements are of a quality and so on.
- Bell: I think it is in every paragraph, almost.

- 18 -

- Foley: Well, a fair return shall be determined. And then down here we say, "In the opinion of the President of a quality equal to that of what was transferred."
- White: I think it is important, Mr. Secretary, to point out that there is one power which the British Government has under this which does not retain under the present jurisdiction.
- H.M.Jr: Wait a minute. Attention please. (Referring to Bernstein and Cox)
- White: And that, I take it, that they have the choice of returning the equipment which is not used and which is effectively available, and if they want to return a ship, say, then they can. The President would have the power to appraise the value thereof, but they would have the power to return any equipment that was effectively used.
- H.M.Jr: Effectively used?
- White: Effectively usable. Beyond that, everything is determined by the President.
- H.M.Jr: Now, wait a minute, that is terribly important. You mean to say, for instance - that doesn't sound right to me. If we give them a Coast Guard cutter, valued at a million dollars, it is their option whether they return a Coast Guard cutter or anything else?
- White: No, it is their - they can return the Coast Guard cutter if they wish. If they don't wish to, then the President may require it, but if they do wish to, the President can say, "No, won't take it, if it is not effectively usable."

- 19 -

- H.M.Jr: Is that right?
- White: That is in the first clause. The optional clause applies only to the value, whether it is effectively usable--
- H.M.Jr: That is not good.
- Foley: No. The United Kingdom, on page 1, (a), within such period or - 2, (a). "Within such period or periods as determined by the President: (a) The United Kingdom agrees to return to the United States such defense articles which, in the opinion of the President, are not used up, worn out, destroyed, or otherwise rendered incapable or ineffectively usable."
- White: Oh, I think I am correct, Mr. Secretary. It is a legal interpretation.
- H.M.Jr: "Which in the opinion of the President." All he has got to say is, "They are used up or worn out, and I don't want them."
- White: That is all right, if he wants to say they are used up and they are worn out, that is all right.
- H.M.Jr: Well, I don't need any lawyer to tell me that.
- Foley: Well, in (d) you only say that they can return things which are acceptable to the President.
- Bernstein: I take it, Harry's point is, supposing there is a Coast Guard boat which is still pretty good, and they don't want to return it but want to give us something else for it?
- White: No, they do want to return it, and the President has to accept it.

- 20 -

H.M.Jr: No. He would either have to say it is used up or it is worn out or it is not effective.

Cox: That is right.

Bernstein: Before he fixes the value?

White: I think we are in agreement.

Foley: He (White) is talking the converse, Mr. Secretary, of your point. If they have a Coast Guard cutter and the President wants it back, they have got to return it, but the President can say how valuable that is and then they have got to make up, out of other things--

White: I am afraid I haven't made myself clear.

H.M.Jr: May I state it? Let me see if I understand him. As I understand Harry's point, Harry's point says if they have a Coast Guard cutter - who should go to Dean Acheson? I want him to see this. Which of these two men do you want to send over there.

(Telephone conversation with Mr. Acheson follows:)

March 14, 1941
9:23 a.m.

H.M.Jr: Dean, the President sent me a letter late last night asking me to work out a quid pro quo on the billion three. Hello.

Dean Acheson: Yes.

H.M.Jr: We have our first draft, which I'd like very much for you to see and get your criticism, and I also would like for Mr. Hull to see it and get his criticism.

A: Yes.

H.M.Jr: Now, if one of our attorneys came over now, could you see him, because I hope to see the President by 11:00.

A: All right, first rate. I can see him right away and should I tell Mr. Hull?

H.M.Jr: Yes. After you get it if you get a chance - well, it's a legal document, I'd like to get your own criticisms, you see.

A: Is this on the substance of it or on the legality of it?

H.M.Jr: Both.

A: I mean, does the quid pro quo on the billion three - is that - has the President decided what he wants and the question is now to put it in form?

H.M.Jr: I had a talk with him Monday. This is what I think he wants; I don't know, but everybody seems to be in doubt. Harry doesn't know. The President asked us to do it in a formal letter. This is what I think. I hope to see him this morning, and I'd like to get your reaction as a lawyer and then as a public servant.

A: Yeah. This is a thing that I suppose Mr. Hull ought to be consulted about, don't you?

- 2 -

H.M.Jr: Well, that's why I'm calling you. I'd very much like to get the benefit of Mr. Hull's advice.

A: Yes. All right, sir.

H.M.Jr: I very much would like to have it.

A: Yes.

H.M.Jr: And either Cox or Bernstein will come right over - one or the other.

A: And this document contains in the substance of it what, from your conversation with the President, you think he wants as a quid pro quo.

H.M.Jr: That's right.

A: Fine. Well, if either one comes over, I will go right over it immediately and then arrange so we can all go in and see the Secretary.

H.M.Jr: Right. Thank you.

A: Fine.

- 21 -

- H.M.Jr: He says if whoever you send will come over, he will see you and show it immediately to Mr. Hull.
- Foley: Do you both want to go? Let them both go. (Mr. Bernstein and Mr. Cox)
- H.M.Jr: All right. As soon as I have a photostat of the President's letter to me, I will send one over to Acheson.
- Cox: May I leave just one thought? Cochran yesterday asked what about the consideration from the Greeks, and I said, "I understood they had no money and that hasn't been mentioned in connection with the letter which you have. Possibly they might be interested in taking some pictures of the Parthenon, I don't know." But you are going to be asked the same question, I think, on the Greek thing.
- H.M.Jr: Well, this thing would apply to Greece.
- Cox: That is right. What change?
- H.M.Jr: Change the United Kingdom to Royal Greek Government.
- Cox: That is all right.
- Foley: We would have to revise it a little bit.
- H.M.Jr: How is Mr. Hull going to like our doing this? We are showing it to him. Make it clear the President hasn't seen this yet, and as soon as this letter is photostated, I will send a copy over to you for a man to put it in your hands, and then you give it to Dean Acheson.
- Bernstein: On the Greek thing, you won't have the raw material consideration.

- 22 -

H.M.Jr: How do you know?

White: It is pretty flexible.

H.M.Jr: They have tobacco, olive oil, marble. They grow a lot of raisins.

Foley: They have got birds, too.

(Mr. Cox and Mr. Bernstein left the conference.)

H.M.Jr: Ed, just to cut this thing short - I haven't got time. I think Harry is wrong. I think it rests with the option of the President; one, he can either request that a Coast Guard cutter be returned, or he can say, "I don't want it. I want something else." Am I right?

White: No.

H.M.Jr: Well, do you mind saving my time, but that is where you differ.

White: That is right.

H.M.Jr: You think the English can--

Young: Harry doesn't really believe it.

White: Oh, quite the contrary, I think that I am right, but I wouldn't set my mind against three legal-ites. The President can say - he can either say it is unused or--

H.M.Jr: I have got to get on this financing now with the Federal Reserve and--

Foley: We could clear up any point that Harry has here.

H.M.Jr: Ed, please prepare an answer for me to the President, you see, in which I say I accept

- 23 -

this thing, so when I go over there. I am very much pleased. Now, we will go on with the financing meeting. Do you have any qualms?

Kuhn: No. It carries out the garden hose thing perfectly.

H.M.Jr: And it doesn't do any harm, the stuff I spilled in the papers about the contracts yesterday.

Kuhn: I think it cleared it up.

Foley: The thing that troubled me, you see, when we were here yesterday and when I went away I was feeling so down and out about it that I thought that you were the one that was insisting upon this specific consideration.

H.M.Jr: When did you feel that way?

Foley: Yesterday at that meeting.

H.M.Jr: After I made the talk?

Foley: Yes, while we were in here. It wasn't until after I got back at the office and you called up on the telephone that I saw a way out.

H.M.Jr: Quite the contrary. In my talk with Harry, I said, "Let's make this an over-all thing." Quite the contrary. I don't know how you did - did everybody in the room get that same impression?

Foley: Well, I think we all had it a little bit when we went out. We talked out the thing and came to the conclusion that with the facts and the information we had, this was the only way we could do it, and we thought

- 24 -

that this was the best way to do it.

Kuhn: I wasn't here.

H.M.Jr: Well, I repeat that--

Foley: No, no. I think Harry was right. It should have been "and" instead of "or."

H.M.Jr: What did that mean.

Foley: You said either I was or they are, and he said to strike out the "or" and make it "and."

H.M.Jr: All right, it is a good job anyway.

27

See also a revision which HM, Jr left with the President at lunch on April 7 and which is dated April 2nd.

3-14-41

Dear Mr. President:

Thank you for your letter of March 13 asking me to undertake to negotiate the "quid pro quo" with the British for the material which you are authorized to transfer to them. I shall be very happy to undertake this assignment.

In accordance with your suggestion, I have drafted an over-all agreement (copy attached) which I should like to discuss with you at your convenience.

Faithfully yours,

(Sgd) H. Morgenthau, Jr.

The President

The White House.

Enclosure

KVJ/fm
Rewrite 3/14'41

AGREEMENT dated as of March 11, 1941, at the City of Washington, District of Columbia, between His Majesty's Government in the United Kingdom (hereinafter called the United Kingdom) and the United States of America (hereinafter called the United States).

WHEREAS, the President of the United States (hereinafter called the President) has determined that the defense of the United Kingdom is vital to the defense of the United States,

NOW, THEREFORE, it is agreed as follows:

1. Pursuant to the Act of the Congress of the United States of March 11, 1941 (Public No. 11, 77th Congress and hereinafter called the Act) the United States will transfer, exchange, lease, lend, sell, or otherwise dispose of certain defense articles and defense information to the United Kingdom, as listed and valued in schedules, appropriately identified, now or hereafter to be attached to this Agreement.

2. Within such period or periods as determined by the President:

(a) The United Kingdom agrees to return to the United States such defense articles which, in the opinion of the President, are

- 2 -

not used up, worn out, destroyed, or otherwise rendered incapable of effective use.

(b) The United Kingdom agrees, in the case of defense articles, other than agricultural commodities, which in the opinion of the President are used up, worn out, destroyed, or otherwise rendered incapable of effective use, to return to the United States an equivalent amount of similar defense articles, which, in the opinion of the President, are of a quality and efficiency substantially equal to the defense articles transferred hereunder to the United Kingdom.

(c) The United Kingdom agrees,

- (i) in return for agricultural commodities, and
- (ii) in return for other defense articles and defense information

transferred to it hereunder and for which the United States has not otherwise received full reimbursement, to deliver to the United States an equivalent dollar value of tin, rubber, jute, and other products and commodities produced in the British Empire and which, in the opinion of the President, are needed by the United States. Such products and commodities

- 3 -

shall be delivered in such quantities and at such time or times as shall be determined by the President.

(d) The United Kingdom may at its option and in lieu of the return of the defense articles or similar defense articles, as provided in Paragraphs (a) and (b) above, deliver to the United States any other raw materials, services, facilities, or other consideration or benefits acceptable to the President.

3. By future agreement, the parties may substitute, in lieu of Section 2, any other payment or repayment in kind or property, or any other direct or indirect benefit to the United States, which the President deems satisfactory.

4. The President shall determine the fair value of any defense article or other consideration or benefit received by the United States from the United Kingdom; and the United Kingdom shall be credited therefor on account of the defense articles and defense information transferred to the United Kingdom hereunder.

5. The United Kingdom agrees that it will not, without the consent of the President, transfer title to or possession of any defense article or defense information, transferred to the United Kingdom hereunder or

- 4 -

permit its use by anyone not an officer, employee, or agent of the United Kingdom.

6. If, as a result of the transfer to the United Kingdom of any defense articles or defense information, it is necessary, for the United Kingdom to take any action or make any payment in order fully to protect, pursuant to the Act, any of the rights of any citizen of the United States who has patent rights in and to any such defense article or information, the United Kingdom will do so, when so requested by the President.

7. The President may exercise any power or authority conferred on him hereunder through such officer or agency as he shall direct for that purpose. The terms "defense article" and "defense information" as used in this Agreement shall have the same meaning as defined in the Act.

8. The parties to this Agreement, and the officials signing this Agreement on their behalf, each for itself, himself, or themselves, represent and agree that the execution and delivery of this Agreement have in all respects been duly authorized, and that all acts, conditions, and legal formalities which should have been performed and completed prior to the making

- 5 -

of this Agreement have been performed and completed as required by, and in conformity with, respectively, the laws of the United States and the United Kingdom.

IN WITNESS WHEREOF the parties hereto have executed this Agreement in duplicate.

THE UNITED STATES OF AMERICA.

By

(Title)

HIS MAJESTY'S GOVERNMENT IN THE
UNITED KINGDOM.

By

(Title)

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE March 14, 1941

TO Secretary Morgenthau

FROM H. D. White

Subject: Possible Sources of Payment for Materials Sent to England under the Lease-Lend Act.

Many of the kinds of compensation listed below have grave disadvantages. They are included only as an indication of possible sources of compensation.

A. Financial

1. British investments in Latin America (nominal value over \$3 billion).
2. British investments in Asia and Africa, exclusive of Empire (nominal value in excess of \$2 billion).
3. British investments in the Empire (nominal value over \$5 billion).
4. British Government promises to pay in sterling (either in bonds or blocked sterling balances).
5. Portion of remaining Empire gold reserves.
6. Balances of the United Kingdom held in terms of foreign currencies other than dollars.
7. Gold, dollar balances and dollar securities owned by Britain's allies and ex-allies (\$4 billion in U.S. and over \$1 billion in British Empire).

B. Naval, Military, and Aviation Material and Equipment

1. Used and unused military equipment acceptable to the U.S.
2. Naval and military equipment built for U.S. order after the war.
3. Technical information, patent rights and designs.
4. Ships, including naval, commercial, transport and tankers.

C. Facilities

1. Naval bases, military and commercial airports (for use, lease or ownership in all parts of the British Empire).
2. Oil and coaling stations.
3. Harbor, dock and repair facilities.

D. Raw Materials and Non-Military Goods

1. Stocks of strategic commodities noncompetitive with American production, e.g. nickel, tin, rubber, jute, wool, platinum, radium, chromite, copra, mica, gum, pyrites, industrial diamonds, etc. (These articles either to be accumulated for stock piles or to be delivered over a period of years to be resold for commercial purposes in the U. S.)
2. Mines, plantations and factories in Western Hemisphere producing materials in which U. S. is in a deficit position.
3. Manufactured products of the British Empire that do not compete with American products.

E. Services

1. Scholarships in British universities for American students.
2. Special Empire tourist rates for Americans.

F. Economic and Political Arrangements

1. Agreement to cooperate in plans for controlling world commodity surpluses.
 - (a) Articles we produce: wheat, timber, cotton, oil, copper, aluminum, asbestos, iron and steel, shipping chemicals, rayon, etc.
 - (b) Articles we consume: rubber, tin, cocoa, sugar, tea, nickel, platinum, radium, wool, etc.

2. Regulation of world output of newly mined gold.
3. Agreements about exchange control, clearing and payments arrangements and other aspects of foreign exchange policy.
4. Commercial agreements, including most-favored-nation treatment, elimination of bilateralism, quota allocations, tariffs, preferentials, export subsidies, dumping protection.
5. Shipping agreements, including allocation of routes and rate conferences.
6. Communications agreements, including cables, radio, etc.
7. Hours and wages conventions.
8. Passport and visa agreements.
9. Aviation agreements, including airplane routes.
10. Agreement on traffic in arms, narcotics, etc.
11. Continuance of equal opportunity for investment in British spheres of influence; agreement for joint action in other areas.
12. Provision for joint action in areas of common interest, e.g. Latin America and the Far East.
13. Agreement to collaborate on peace aims.
14. Commitments covering the eventuality of the invasion of the United Kingdom.

G. Territories

1. United Kingdom island and mainland dependencies in the America.
2. Joint sovereignty over Hongkong, Singapore, and strategically placed islands (or portions thereof) in the Pacific.

March 14, 1941
9:31 a.m.

H.M.Jr: Hello.

Wm. S.
Knudsen: This is Bill.

H.M.Jr: Good morning. It's Henry.

K: Good morning. How are you? I'm probably going over to testify before the committee this morning. What is the maximum you've paid out in any one month so far in the Defense Program?

H.M.Jr: I've paid out?

K: Yes. You have the sheet of what you pay out, haven't you?

H.M.Jr: Yeah. We have that in our daily statement. How soon are you going over?

K: Oh, I suppose I'll be going over inside of twenty minutes.

H.M.Jr: Well, who can they phone it to in your office?

K: Phone it to me. I don't want anybody else to get in on it.

H.M.Jr: What?

K: I don't want anybody else to get in on this. Phone it to me.

H.M.Jr: I see. Well, give me three minutes and I'll have it phoned to you.

K: I'm on REpublic 7596.

H.M.Jr: Republic 7596.. Have it to you in five minutes.

K: Thank you very much.

March 14, 1941
9:33 a.m.

RE FINANCING

Present: Mr. Sproul ✓
Mr. Draper ✓
Mr. Piser ✓
Mr. Szymczak ✓
Mr. Haas ✓
Mr. Murphy ✓
Mr. Eccles ✓
Mr. Hadley ✓
Mr. Bell ✓

H.M.Jr: Well, after talking with the Federal Reserve in New York yesterday, they cheered me up a little bit and I took a dive and the water wasn't too cold and the financial community seemed to like it.

Sproul: Reacted very well.

H.M.Jr: And I was pleased. I suppose they thought I must know some good news that they didn't.

Szymczak: And no disappointment.

H.M.Jr: So what we would like to do is do this refunding and get some cash. I don't think April is going to be any more cheerful than March, as far as the war news goes. I haven't had any chance to

- 2 -

work on this other than - I want to do it. Marriner, have you got any ideas?

Eccles:

Well, I have got some. I don't know whether they are any good. We favor refunding. There is some question about getting new money in the minds of some of us. That was yesterday before the market closed. Of course it did close last night on a much more favorable note than was evident earlier in the day. My feeling is that we ought to do the refunding now at least. The two and a half percent bond which has been discussed would be my choice. First, it seems to me that it would supply a market that has not been supplied or was not supplied to insurance companies and the mutual savings banks, in particular some of the trustees, but the institutions that are not paying taxes would - a two and a half percent longer bond - or long bond, as long as you could get it in that range, would seem to meet that demand for those groups. It would also help to determine what the spread between the taxable and the non-taxable securities in that range ought to be. The two percent we find has been priced almost at the entire tax differential. I must say that I didn't expect it to be as weak as it has been. I thought that there would be not as much of a spread as has developed. I believe as the securities get longer that the demand coming from the institutions that are not paying taxes would not make it necessary to have possibly more than certainly three-fourths of the tax differential. Speaking then of a two and a half percent bond, it would put it somewhere in the range of 52-54, 53-55, the way the market looks now. That would give it, figuring three-fourths of the tax differential, around a hundred and one and somewhere between 16 and 20 thirty-seconds, which it seems to me would be plenty, that is, if it was 52-54. Now,

- 3 -

with reference to getting new money, I think it is possible to get some new money. Personally, I don't believe I would do it. I would sooner see us wait until the market has absorbed or distributed the two's a little better than it has and also see what these securities that are being refunded - of course, they are notes and the bonds will likely go to a different type of investor than the investor that has been holding these notes. There will be, I would think, considerable secondary market, and I would personally sooner see the market tested out on the two and a half taxable securities before putting out a billion dollars in that category. And then later on, in the latter part of April or the first part of May, put out a large issue of - a billion dollars of bonds and possibly some additional two and a half's and also some two's, giving an option, maybe putting out some notes as well, that is giving the market an option. That in general is about the way I feel about the thing. You expressed yourself yesterday, Matt, along somewhat the same lines.

Szymczak: Yes. Of course my first feeling was to do nothing, and this morning it is refunding plus new money, but that is the tempo of the market.

H.M.Jr: I don't know what happened. But it seems to me that the announcement showed that we had enough confidence and the fact that we had the confidence, the market got the confidence from that. Is that so or is that hokey?

Sproul: I think it really had never lost its confidence. That dip we had was a speculative dip on a thin market, and the confidence was there all the time, but I think the fact that you came out emphasized that situation.

- 4 -

Hadley: There was a feeling--

Szymczak: A two and a half percent bond with a possibility of also cleaning up this three-quarter note, I think would take. I think we ought to do 500 million of new money plus the refunding. That is the way it looks this morning.

H.M.Jr: Draper?

Draper: I feel a little more optimistic about the chances of getting new money, but I can't determine in my own mind whether that is because of psychological or actual feelings.

H.M.Jr: This is the way I feel, and some of the men in the Treasury feel, that I don't see how the war news can - it can only go one way in April and that is getting worse. I mean, I don't see how it possibly can get any better as we get near spring, and we have to do something for Jesse Jones. He needs 500 million.

Szymczak: That is 500 million. When does he need that?

H.M.Jr: Well, he ought to get it in April.

Szymczak: Could you just do your refunding now and then go in in April and give him 500 million and take 500 million new money and in that time you would be able to test your two and a half percent bond?

(Mr. Bell entered the conference.)

H.M.Jr: Did you take care of Knudsen?

Bell: Yes. He wanted quite a story before I got

- 5 -

through it.

- H.M.Jr: Did you give it to him?
- Bell: Yes.
- H.M.Jr: He wrote it down?
- Bell: Yes.
- H.M.Jr: Thank you very much. But it keeps him satisfied.
- Bell: Yes, he said he was satisfied.
- H.M.Jr: Well, we are just talking. Marriner Eccles would just like to do the refunding, two and a half percent. Szymczak - maybe he will go a little bit further. Draper hasn't said, have you?
- Draper: That is right. I haven't said anything definitely because I can't make up my mind as to whether the demand is actual or whether it is more or less stimulated by an encouraging statement of the Treasury. I have a feeling that it is actual.
- Szymczak: Well, I feel pretty much like Marriner does; that is, do your refunding now and get your money next month after you have tested out the market on a two and a half percent taxable bond.
- H.M.Jr: Excuse me. These people are going up to testify and they all want to talk to me before they go up.
- Sproul: Horse shedding, I take it.
- H.M.Jr: No, I begged off, you see, on going before

- 6 -

the committee so not being there, they want to talk. I am sorry, Szymczak.

Szymczak: That is all right. I say, the way the market looks this morning I think you can get 500 million of new money without any trouble, but then comes the question as to what--

Eccles: I don't think the April situation is going to - I am not thinking of that from the standpoint of an improved international situation. I agree with you fully.

H.M.Jr: Excuse me. I am sorry, but these people have to be serviced.

(Telephone conversation with Mr. Harold Smith follows:)

March 14, 1941
10:45 a.m.

H.M.Jr: Hello, Harold.

Harold
Smith:

Yeah. Say, I was just going to tell you that these hearings are resumed this morning. I'm going down there. They got through with the formal testimony and they spent all afternoon quizzing Knox and Stimson and Hull.

H.M.Jr: Yeah.

S: Now, I'll call you when I get back. The only thing that I think we have any concern about, as I see it, unless they put me on the pan pretty heavily this morning, is British assets. Two or three of the Republicans were hammering on that and everybody dodged it. Now, whether we'll be able to dodge it indefinitely I don't know.

H.M.Jr: Well, what I'd like is, if you could say to them, well, now, if you'll just write your question out, the Treasury will supply the answer in a written answer.

S: All right. Now, the President did tell them the other day when they were over there - Woodrum mentioned that, I think - that they were liquidating now something like - so many million dollars worth of United States steel investment and apparently everybody - I think Hull was saying, well, this problem is being currently worked on. That's true, isn't it?

H.M.Jr: Yes, but the trouble is this, Harold, and that's where I'm in an awful difficult spot, and I don't want to make an appearance - and this is for you. They have not sold one single dollars worth of their direct investments. They are selling their listed securities at the rate of about \$10 million a week, but on their direct investments, they haven't sold a dollar.

S: They are selling their listed?

- 2 -

- H.M.Jr: At the rate of about 10 million a week. That's about what they're averaging. But the other thing, which they've promised me to do faithfully, they haven't.
- S: Is that due to the possibility of loss in forcing that or is it - I mean, they want more time on it.
- H.M.Jr: Well, what they say is - their story is that when they go into a thing and try to sell it - dispose of a property like Viscose, they find that there are no records, they've got to have appraisals made, they've got to bring the English manager over and are having great difficulty in finding out what the worth is. Now, that's their story, and they assure me that they are moving heaven and earth to sell them, but it's damn hard to explain to the Congress why they haven't sold one single property, which they haven't.
- S: That's right.
- H.M.Jr: And that's why I want to try and duck it.
- S: Well, I can see that it's going to be embarrassing.
- H.M.Jr: Because it makes an awful poor appearance.
- S: And it doesn't have a devil of a lot of bearing upon the immediate situation, if they could just be assured that the thing was going to be done.
- H.M.Jr: Well, that the English - I have their word on that they will sell all of their direct investments in this country, but they're just damn slow about getting started. Hello?
- S: Yes.
- H.M.Jr: And I go up there and they say, well, you told us six or seven weeks ago that they were going to do it; why haven't they done it, and aren't they keeping faith and all the rest of that stuff.

- 3 -

S: Yeah.

H.M.Jr: And if they press me, I've just got to say, well, they haven't sold them. Now, as far as

S: Your suggestion is that they prepare some definite questions that they want answered and

H.M.Jr: We'll answer them.

S: And I can say, well, I'm very confident or I have the assurance - no, maybe I shouldn't bring it in too personally. I'll say, I'm confident that the Secretary of the Treasury will be able to give you all the information that you need.

H.M.Jr: That's right. I think if you can do that, you'll save a lot of embarrassment for the whole Administration.

S: Well, that's what I wanted to get your reaction on, and I'll let you know when I get back

H.M.Jr: And the other thing, Harold. If you pick up the Journal of Commerce, you'll see how they are going after us on this tax thing and tying it up with the \$7 billion.

S: Yeah.

H.M.Jr: Give me a ring when you get back.

S: O.K. Thank you.

H.M.Jr: Thank you.

- 7 -

- H.M.Jr: Do you agree with me? The point is, he says three or four Republican Congressmen have asked, "Well, what about the British assets? What is happening?" you see, and it seems that the President told them a little bit about how they were selling us steel and that sort of thing. Evidently they want to know what else, but I am in the damnedest spot, you see, because they haven't sold a single factory, and I have just the - the pressure that I have put on them is just unbelievable. I mean, I have begged them, I implored them, and cajoled them, and threatened them.
- Szymczak: Why don't they do it?
- Draper: Why, they don't want to sell anything if they can help it.
- H.M.Jr: Well, they say they are going to sell them, that there is this difficulty and that, they can't get the thing appraised, they don't know what it is worth.
- Eccles: I guess it isn't the easiest matter in the world.
- H.M.Jr: And the records are bad, and they have found factories they didn't know existed, and there is a great mystery about the things and so forth and so on.
- Bell: It is lucky it wasn't the other way, Mar-riner, that they thought they owned it and they didn't.
- H.M.Jr: As a matter of fact, the study which Harry White made with eight people, we find their direct investments are nearer a billion than they are 900 million. We have got a

- 8 -

damn good idea of what they are worth because we have gone into the income tax returns of all of them.

Eccles: The difficulty with a thing of that sort, the market for it, for plants and companies, is usually pretty limited.

H.M.Jr: Well, in the room, Marriner, SEC - I shush all these people over there. I don't like to get in on this thing. We have got the Treasury clean, and I want to keep it clean. I don't want a lot of brokers around. So I send them over to the SEC. And they say they have got a man ready to plunk down 90 million dollars for Viscose and this and that. Of course this is all in the room. Well, to go up on the Hill and say the British won't sell their real estate would be terrible.

Eccles: It wouldn't help get the bill through.

Draper: That would be bad.

H.M.Jr: And now, Mr. Morgenthau, how much are you going to increase our taxes in order to finance this seven billion dollars?

Eccles: Yes, the public doesn't accept very well increasing the taxes with the British holding on to a lot of assets.

It isn't timed very well, is it?

H.M.Jr: Well, this is the Journal of Commerce.

Eccles: They should have gotten the bill through and then talked about taxes.

Draper: There is a lot of talk about 5 percent payroll

- 9 -

tax.

Bell: I don't know where that comes from.

Haas: Economy League.

H.M.Jr: This is Victor Ridder who always - he owns this German paper in New York, you know. What is it called, that big German paper?

Draper: Staats-Zeitung.

H.M.Jr: I suppose that is his idea.

Sproul: Aren't there some smaller properties they could sell relatively quickly and have a symbolical sign of activity.

H.M.Jr: I have done everything but physically get on my knees to these fellows in order to implore them, as a token, to sell one. I have done it since last June, and I have - I have done everything humanly possible in order to get those people to sell one property. There are hundreds. Now I have got to take the position until I am proven wrong that they really want to do it, but I can't convince some of these hard-boiled babies up on the Hill that that is true. On their securities, this man Gifford has done a nice job. He goes along and has done it but - I think everybody in the room wants to see the seven billion go through, but I have been trying awfully hard not to have to go up on the Hill and testify.

Szymczak: Do they know this now, that that question is being put to the committee and what it means to that bill? They should know that.

H.M.Jr: Since Monday, I have refused to receive any

- 10 -

British representative until they give me the answer. I laid down the law on Monday to Halifax in person. Of course this is all very much - and I said, "Until you can send somebody to me to say you sold the property, I don't want to see anybody." That is how far I have gone.

Draper: You can't go much further than that.

H.M.Jr: I told them I would have to testify and explained the whole thing to Halifax himself. I said, "I will not receive anybody now."

Szymczak: Can't he hear in both ears? Maybe you got the wrong ear.

H.M.Jr: I mean, you can't go any further than that.

Draper: No, I don't see how you can.

H.M.Jr: I say, "Please, please, let's keep it just as a Treasury - one of our secrets we are not trying to advertise." I can't do any more than that, and I haven't seen anybody since Monday, and I am not going to see anybody. That is why I gave that statement out yesterday, because it was all around town that we were going to take over all their contracts, so I gave out the facts just how much we were and no more.

Eccles: They are not helping much, are they?

H.M.Jr: They are not helping at all, Marriner. Well, anyway, I didn't want to bother you, but they don't make life any easier for you.

Szymczak: That is the strangest thing about this market this morning. Seven billion in the paper

- 11 -

and all of this and the market is so strong this morning.

H.M.Jr: I think that luck is still with us, and we had better take advantage of it.

Eccles: The - I am not thinking of - as I started to say when you got on the phone, I am not thinking of the marketing - conditions being any more favorable so far as the war is concerned later on. The market will be, it seems to me, more accustomed to taxable securities. At the present time it hasn't entirely absorbed the two's. There is a certain amount of secondary distribution that is going on. Now, putting out the two's and a half, you will have the same thing. It just seems to me that in 30 days the market will have had an opportunity to appraise the relative values of the relationship between your two issues of taxable bonds and the issues of the non-taxables. It is easier, it seems to me, for the market to do that without new financing, and then have the new financing come on at whatever amount is necessary with all the courage in the world because I think that is the attitude we have got to take. We have got to assume that in the final analysis a financing has got to be done, and between the Treasury and the Federal Reserve System, it is going to be done and it is going to be done on a basis that is reasonable, and it is going to be done with courage and I think that is the attitude we have got to take and I don't - my hesitancy to put out new money is not for the reason that I don't think that we have got to take advantage of this market when it comes and pick another market. I think we have got to do whatever financing we need to have done whenever we

- 12 -

need it. We don't need the new money immediately. As I understand it, you have about a billion dollars of balances with the - with your note - I mean your bill market.

(Mr. Foley entered the conference.)

H.M.Jr: Will you just excuse me one minute?

(Discussion off the record with Mr. Foley.)

(Mr. Foley left the conference.)

H.M.Jr: You think it is a mistake?

Bell: Yes.

H.M.Jr: All right.

I am sorry, Marriner.

Eccles: It is all right.

Szymczak: Marriner is still on the refunding.

Eccles: No, I am through. I think I said my story on it.

H.M.Jr: About three times, wasn't it?

Well, I have got - you think do the refunding and wait?

Eccles: Yes, I think that, but it isn't because I don't think you could get new money, necessarily, and I don't think that the conditions are going to be more favorable, but I just think that it is easier to price a five hundred million and then test your market out now when you don't need new money so

- 13 -

that when you do go out for new money, go out for whatever you need. I don't think we have got to face this thing except with courage. The thing can be handled, and we have got to get what we need, and I for one am only willing to pay what is a fair price. Now, that is that. But I do think that in the absence of taxable securities, we have only had one issue, and that is the two's, that the market hasn't had very much of a chance up to date to establish what may be the relationship between the taxable and the non-taxable and to add to 500 million of refunding another 500 million of new money at this time just seems to me, inasmuch as you don't have to have the money, to not be advisable, that the smartest thing to do in order to get this market tested for new money is to do the refunding, and that would tend to establish a price relationship. Now, that is the way I feel about it.

- Szymczak: Particularly because you are refunding notes with bonds.
- Eccles: That is right, that is another reason.
- Bell: Do you think that just a cash offering alone and leave the refunding until later might be a better test of the market?
- Eccles: Well--
- Szymczak: Probably would.
- Eccles: I think the logical thing to do, though, is do the refunding. The point is, you don't need the new money immediately and to take it now is to indicate you are afraid you can't get it later. I think it shows courage

- 14 -

to do your refunding and let it be known that with the financing with bills that your cash situation is taken care of for a month except this RFC and that along in the first part of May you expect to get whatever new cash you need.

- H.M.Jr: Well, you don't mind if I differ with you?
- Eccles: No, no, not at all. I am used to people differing.
- Draper: He has a lot of that over in our shop.
- Eccles: Yes, I am accustomed to it. I wouldn't be happy if I didn't.
- H.M.Jr: The way I feel is this, Marriner. We have got to do somewhere around 4 billion dollars in the next 12 or 15 months.
- Bell: You will have to do more than that.
- Szymczak: I thought about six.
- Bell: Yes, nearer six. It all depends of course on our campaign which we are going to start May 1, but it is nearer six.
- H.M.Jr: And I wouldn't go into the market if I felt it was weak, but all the indications are that the market can take it, and I think we have just got to press a little bit.
- Eccles: I think the market will take it.
- H.M.Jr: I mean we have just got to press a little bit.
- Eccles: You could pay a little more maybe, than you need to, if you put out a billion instead of

- 16 -

500 million.

- Szymczak: I don't doubt you can get your new money without any trouble, but you have got to watch it a little closer than if you did your refunding.
- H.M.Jr: I think it would be a mistake, from what they tell me, to do 500 million of notes for Jesse just now because the note market hasn't straightened out yet, but the other thing, I think the market will take it, and I don't like to, as you people know - I have got an eccentricity, I don't like to reopen old issues, so if we did 500 hundred, say of two and a half's, refunding, I wouldn't like to, say, a couple of weeks from now reopen another 500 million of the same issue. We have got so much to do that I would like to keep the issues over a billion.
- Szymczak: Would you offer- give an option of the old note?
- Bell: Reopen the old note just for safety.
- Szymczak: That is right.
- H.M.Jr: Unless New York tells me now that the market is sick and it is a bad time, I would like to go ahead. Sproul has been very good. He has listened to all of this.
- Sproul: I differ somewhat from Marriner on this occasion. I assume that you need some cash or will be more comfortable getting some cash now, that you will have the RFC to do in April and you will have a substantial job to do in both May and June, about a billion dollars in each month, so that there is going

- 17 -

to be no lack of financing to do in those months. I would rather get my cash at this time by opening up the two and a half percent area than by continuing to issue bills beyond April 2, which is using entirely the bank credit mechanism to get your money. I think this is an appropriate time to begin getting some of the funds of institutions such as insurance companies and savings banks, which would be attracted by the two and a half. I wouldn't want to do that if at this stage you were going to be forced to put such a rate on your offering that you were going to set a tone, or arrange for your whole future program, which would be too high, but I don't think a two and a half percent obligation at this time at the - and at the maturity which I think you can go to, which is somewhere around 13 years, would be setting too high a rate for your whole financing program. I think it would be within the range where you would not be embarrassed in the future if and when you come to the conclusion that the roof on the financing of this program is such and such a rate. I don't think this two and a half percent offering would embarrass you on that. I should think you could do a two and a half percent bond of somewhere around 13 years, reopen the last note issue, and that you would take care of your own needs and satisfy a requirement of the market at this time because I think that longer market is a little starved at the moment and it is a good place to get some cash, and I would rather get it there right now than by further use of bills which I think is a flexible instrument. You throw it in as you did the last time, a very good place to use it. You are going to have other times when you will need to use it, and I wouldn't

- 18 -

want to over work it right now.

- Szymczak: Allan, you don't mean to say you would discontinue the present program on bills?
- Sproul: I would discontinue it as of April 2, say. You will have gotten 500 million as of then?
- Bell: I would do it the week before. I believe I would go until the 26th.
- Sproul: That all depends on how much cash you want to go through April with. You can stop a week sooner or later, depending on how much cash you want to go through April with.
- H.M.Jr: You are figuring one more than I am. That is a detail. It is a hundred million one way or the other.
- Eccles: By 13 years, you mean a 13 call date?
- Sproul: I think you could do it for that, but the market now is not looking so much at call dates because they don't think you will call these issues on the call date, they will probably go to maturity, so I would want to have a short call period, and I think--
- Szymczak: A longer maturity? That is, two or three years?
- Sproul: Twelve-thirteen or a fourteen-fifteen, because your call period isn't being looked at so now.
- Bell: A two year call period is nice for a billion dollar issue.
- Szymczak: Yes.

- 19 -

- Sproul: One other thing, I think I would go for a billion or less rather than crowd it too much now because there is still some re-distribution on the two's and if your need for cash isn't pressing, I don't think you should crowd the market too much on the two and a half issue.
- H.M.Jr: You were talking 54-56. Is that what you were talking about?
- Sproul: Yes, or 53-55, if you want to split it in there.
- Eccles: We will know what the market is Monday. Today, the way the market closed, 53-55 looks all right, I think.
- H.M.Jr: Well, I will tell you the way I feel, gentlemen, unless somebody says to me, "Look, you can't get it; it is a mistake," I would like very much to go ahead.
- Szymczak: Five hundred?
- Eccles: I don't think there is any question about getting it.
- H.M.Jr: I would like to get six hundred because I would like to get the - well, around - you know, a billion or 11 hundred million. Is that crowding it a little bit?
- Sproul: I think so, but no one can be dogmatic about that.
- Bell: Allan Rich says that the market in the two and a half and two and three-quarter area is starved, that it takes very little buying to shove all those bonds from 53 on up to the 65's right out the roof. It takes very little buying to shove those up.

- 20 -

Eccles: Isn't that the tax free--

Bell: That is the tax free aspect, and he says the institutions will go for this taxable bond. They are not worried about the tax exempt features.

Eccles: You mean the ones that are not paying taxes?

Bell: That is right. There will be a lot of them that would rather have this higher yield bond.

Sproul: But when you are going to have to come back month after month after month, I don't think you want to over crowd them on this first issue. You want to keep their appetite a little keen for security.

Bell: Well, if we come out with a billion dollars worth of bonds now, we won't have any other bond until May. That gives them a month and a half to digest it. The only thing they will have will be a short RFC.

Sproul: There may be some corporate financing in between, too.

H.M.Jr: But not for us, and if we told them that if we do this there would be RFC in April, and we would stay out of the market for April--

Bell: I think so.

H.M.Jr: Would you want me to say that?

Bell: I would say Monday when you announce this that you will not be in the market again until about the middle of April for RFC.

Sproul: I would definitely say that, to give them a

- 21 -

little look ahead.

- Bell: The Treasury won't be in the market until, on its own account, until possibly May.
- H.M.Jr: That is a long time to commit me.
- Sproul: Well, you will have a sizable balance, and if you get in a jam you can have bills again.
- Eccles: Well, don't you think, though, if you are going to get new money you will have a better market if you do say that? They know there is no chance of having anything offered until that time.
- Bell: I think so. I think the market would like to have some sort of a program, and I think they would like to know that the Treasury is getting back on its old basis, refunding ahead of time and taking its cash ahead of time.
- H.M.Jr: Well, Dan, supposing we do what you say, supposing we take - go to the market twice more. You wanted to go the bills twice more?
- Bell: Yes. I would like to go through March and take 400 million of bills.
- H.M.Jr: You would?
- Bell: Yes.
- H.M.Jr: But if you did that and 600 of cash, where would we be about the first of May?
- Bell: Well, I have got 400 million bills and 500 million cash. We would go out of March with about a billion seven, and I have got

- 22 -

750 million RFC in April, and we have got some very heavy commitments which we have got to analyze and it may reduce that 500 million. With that basis, we would go out of April with a billion three. It would cut that 75 down by five, then you would go out with about a billion.

H.M.Jr: That is not too bad.

Eccles: My thought was if you didn't get the new money, you would keep on putting out bills; but if you are going to get 500 million of new money, there is no point in continuing to issue bills.

H.M.Jr: I don't see why we should do the bills more than once more.

Eccles: I don't either. If you are going to get new money, I would cut out bills just as soon as possible. I agree with Allan it is preferable to get funds outside of the bank and in using the bill market, it is only with the idea that later on you can do enough financing to take up the bills.

H.M.Jr: We are committed to do the bills next week.

Eccles: Yes.

H.M.Jr: But I don't see why we shouldn't stop after next week.

Sproul: There is just a question of your cash position and not making this new issue too large, that is the way it strikes me.

H.M.Jr: I don't know whether you gentlemen saw this, but to me this is one of the most interesting charts that I have ever seen. George

- 23 -

Haas did an hourly thing on the 25th and 26th showing these two percent bonds - every time they got down to the price of our notes, they bounced back up again. I have never seen the thing as interesting as that.

- Sproul: We were watching that. That was the resistance.
- H.M.Jr: Every time they hit that note they would bounce up again.
- Sproul: Like a net under them.
- Eccles: Unless the net gave way.
- Sproul: It couldn't give way.
- H.M.Jr: But I mean I have never seen--
- Eccles: Well, of course, there would naturally be a certain amount of arbitration in there, that if it would get down where it was more profitable to buy notes, they would switch, of course. That would be a factor, wouldn't it, Allan.
- Sproul: Well, it got down to the point where there was no possible advantage in buying notes, then they went into the two's.
- Murphy: When it got down to the notes, they saw they couldn't get any lower because the exchange could go into the notes at that price and there not being any more room down, the only way was up or across, so they bounced.
- Sproul: They never go across.
- Murphy: They always want to move.

- 24 -

H.M.Jr: It was a nice demonstration of usefulness of the note even though it was only 32 million.

Sproul: They pegged them at about five and a half, didn't they?

Murphy: Yes.

H.M.Jr: If that worked then, I think it is a pretty good thing to use it again. Do you think it will work twice?

Sproul: I don't think you would need it this time.

H.M.Jr: You don't?

Sproul: I am for having the note reopened, but I don't think you will need it to perform that function this time.

Haas: But it would be there in case it was called on.

H.M.Jr: Same note at the same price.

Bell: Yes, reopen that old note.

H.M.Jr: How would you feel about it?

Eccles: I would certainly not go into another one, because you have only got 32 million of that outstanding.

H.M.Jr: Would you reopen this?

Eccles: Yes, I would reopen.

Bell: Just for the exchanges, not for cash.

H.M.Jr: Yes. Let me ask this, because we have got

- 25 -

this idea and it is kind of late. Would it be rushing things to do it Tuesday? We could do it Wednesday.

- Sproul: I would prefer to do it Wednesday, but I think you could do it Tuesday, if you wanted to. I prefer it Wednesday from this standpoint, that the two's are really just coming out, being issued on Monday, and you would have a couple of days for that mechanical operation to be cleared up before the new issue came out.
- H.M.Jr: It would help a little bit?
- Sproul: Yes, to do it Wednesday instead of Tuesday.
- H.M.Jr: You wouldn't have to leave it open on the refunding more than two days because these note holders are all big ones.
- Sproul: That is right.
- H.M.Jr: How do you feel about that?
- Bell: That is all right with me, Wednesday.
- H.M.Jr: One thing that I was interested on this bill thing that my boys told me, I guess they got it from the Federal, that this last bill was the General Motors and some of those big corporations buying.
- Eccles: They were the buyers? You see, you put 32 out. We took 10 of them in the exchange so that left 22 million.
- Bell: General Motors took how much?
- H.M.Jr: Fourteen million I think.

- 26 -

- Sproul: This is on bills.
- Eccles: Oh, the bills.
- Sproul: There was a much wider list of bidders, and I think as more people waked up to what was going on, you would have even more of that.
- H.M.Jr: I think it is interesting to know it.
- Bell: That is one reason I would like to let it go this month again, just to see what happens.
- Szymczak: You mean to spread it out a little more?
- Bell: Yes, to get people interested in that bill market.
- Eccles: The trouble is what people take compared with the banks is small.
- Bell: General Motors took 14 million and A. T. & T. was in for eight or nine million. That is just as good as selling to the public.
- Eccles: That is right, and that is so much to the good, but when you are putting out 200 million a week, you take the aggregate amount - I would like to see you consider at some time pretty soon the suggestion that I made when we were discussing that savings scheme. I think I mentioned it to you. The idea of issuing up to a two year note with the quarter for the first six months, the half for the second--
- H.M.Jr: You told me about that.
- Eccles: I am sure that you would get a lot of funds of corporations, and wealthy individuals,

- 27 -

not take less than 10 thousand, for instance, of the registered, and - so that it really is a six months' maturity or a year maturity, a year and a half, or two years, and you would keep in those funds. I think it involves idle funds that won't go into long bonds and bills because there is no yield--

H.M.Jr: You have got to do a little more selling over here, Marriner. You haven't got the Treasury quite sold on that yet.

Eccles: Well, I am going to keep on doing some talking about it because I really think that that is - you have got a field of deposits that run up into billions that we haven't found a way to get them out. Now, if you can get a bill rate of a quarter, you would get them out. But you are not going to get a quarter bill rate so long as you have got your large volume of excess reserves. You can't deal with the excess reserve problem. Therefore, this is another way--

H.M.Jr: Would you mind repeating that last?

Eccles: I said you can't deal with the excess reserve problem. (Laughter) So that until you can get a short term rate that will attract the corporate and individual idle funds, they are going to continue to be idle, and I think that before we get through financing that has to be done. We have got to find ways and means of tapping all the sources of funds that are not in use rather than create new bank deposits.

H.M.Jr: Well, could we decide it this morning? Allan, would you break out into a cold perspiration if we say 600 million new money?

- 28 -

Sproul: No, I would not. I would prefer to see you say 500 million, but I wouldn't have any palpitations if you said six.

H.M.Jr: How about you, Dan?

Bell: I wouldn't either. I think probably five is enough, and your half billion makes just a round - you would get around 40 or 50 million out of an issue, so I don't think there is much difference between five and six.

H.M.Jr: Have you got any opinion, George?

Haas: On that question I think I would take the five.

H.M.Jr: Henry?

Murphy: As between the two, the five.

Eccles: How do these boys feel? Do they figure new money?

Haas: We came in figuring just the refunding. With all the optimism around, I think we would like to think about it.

H.M.Jr: You have got to think awfully fast.

Haas: I don't feel strongly.

H.M.Jr: Which way?

Haas: I mean, I came in with the idea of just the refunding, because I thought it was safer, but I don't feel strongly that way. I think you could probably go ahead and get your cash. I am a bit bothered with the pricing.

- 29 -

H.M.Jr: You fellows have got all Saturday and Sunday. You have got nothing to do. What the hell?

Szymczak: They are not going any place.

Bell: If they are, they can cancel it.

H.M.Jr: They did a good job three or four weeks ago.

Murphy: Three weeks.

H.M.Jr: They did a good job three weeks ago. How about it?

Murphy: It is about as hard this time.

H.M.Jr: How about the pricing. I am not worrying about that.

Bell: We are going to have a lot of hard times in pricing securities between now and May 1, I am afraid.

H.M.Jr: Cash?

Murphy: I am a little disturbed about the six. I am a little concerned that there is no net under the five, but there can be. This part has to perform its act out in the open, its high trapeze act. What it really amounts to, if I can put the thing baldly, is that in order to get the prices that Hadley and Mr. Sproul give, you have got to tear up your charts and jump out the window, and I think they are probably right in doing it. You would never get 54-56 really on a chart. We have really strained ourselves and gotten out to 52-54. I think probably the thing to do is to tear up the charts, but I hate to tear up the charts, and carry a weight as I jump out the window. I tend to want to

- 30 -

keep it fairly light. I share the optimism; but, being a chart-ist, I feel a little uncomfortable after I have torn up the charts and left it behind.

- Hadley: Might I say it depends on whose charts you are going to tear up.
- Sproul: I would agree that if you don't need the cash, keeping it light, so as to not unduly burden this.
- Eccles: Piser, do you still feel as pessimistic as you did yesterday?
- Piser: No, the market reacted much better than I expected, but I would be inclined to leave the cash on the bond issue with 500 million and take another week of bills.
- Draper: I think you are pressing your luck on six, Mr. Secretary.
- Murphy: It sounds bigger than five.
- Draper: Psychologically it sounds much bigger.
- Sproul: A billion one sounds a lot bigger than a billion.
- H.M.Jr: I was talking to R. H. Macy. He wanted 99.9.
- Hadley: I am in favor of the 500 because I think that the market would be a little bit upset by an issue that is over a billion when it is in a new area. I think the smaller issue is better and later on we can put out a bigger one.
- H.M.Jr: I guess I am over-ruled. Supposing we ask

- 31 -

Bob Rouse how the thing looks. He is in New York, isn't he?

Sproul: Yes, he is.

H.M.Jr: I don't think I will argue about the 500 million because I think it would give us a little more time to prepare the market if we do it Wednesday morning. It will give you a little more time in New York, won't it?

Sproul: Yes, it will.

H.M.Jr: I mean, if we tell them - if we told them tonight there would be 500, that would be time enough, wouldn't it, after the market closes, for Saturday morning papers?

Sproul: Yes, it would.

H.M.Jr: It gives us all day to watch it.

Sproul: That is right.

H.M.Jr: Then we could have two days to watch the market on the pricing.

Bell: It gives us a little more time. Last time we didn't get the papers out of the Treasury until late and that was all right because it was a refunding, but here you have got a cash and open only one day. You really ought to give them a little more time in order to catch the evening trains.

Eccles: Speaking of pricing, do you think they ought to be priced allowing - you have got to start from either giving them the full differentiation on the taxable and the non-taxable or seven-eighths of it or three-quarters

- 32 -

of it. You have got - the pricing has got to take that into account. Now, if you give three quarters of the tax differential, would give, according to the figures I have, on a 52-54, about a hundred and one and a half. If you take seven-eighths, if you are going to allow for that, then you have got a hundred and about fifteen- or twenty-thirty-seconds. After all, pricing is just a question of what premise you start from. It isn't like it used to be when you priced it. I agree with you--

Murphy: It is original this time.

Eccles: I would go out the window on this thing. I would certainly not take into account more than three-quarters, I mean allow for more than three quarters of the tax differential. I wouldn't allow seven-eighths. Three-quarters would be - when you are talking about pricing, Allan, what do you have in mind?

Sproul: Well, we figure that - you can figure it another way, not say here is the tax exempt line and then you add a certain differential to it and it must be a taxable line. You can also take a look at what market you have for taxable securities and see where you think a Treasury taxable should fit in.

(Telephone conversation with Mr. Rouse follows?)

March 14, 1941
10:30 a.m.

H.M.Jr: Hello.

Operator: Mr. Rouse.

Robert Rouse: Good morning, Mr. Secretary.

H.M.Jr: You're on the air here and your people, Eccles, Sproul and some of us are sitting here. We want to know how the market was this morning.

R: Well, it was a very slow market, and it is firm and somewhat higher. The longer bonds are up about $\frac{3}{32}$ nds; the new bonds at 101.7 bid. There is a supply of bonds in the market at 101.5. There are fleeting, small bids to date which were filled from that source. The general situation though is firm.

H.M.Jr: Any gossip?

R: Not particularly. We talked to the dealers this morning and they were, of course, interested in this deal that was reported yesterday in the refunding of the June notes and possibly some cash. The only comment, as far as particular dating was concerned, was from the Bankers Trust Company which in looking over that ticker notice yesterday afternoon - the gossip notice - were looking at a '53-55 or '53 $\frac{1}{2}$ -5 and they were figuring pretty much the tax equivalent there. And others - Ben Levy was saying that you could do anything you wanted to do and so on. But in general the idea of doing it appealed to everybody and they thought it was good, but they weren't prepared to get down to brass tacks as far as prices were concerned.

H.M.Jr: How much cash do they think we're going to do? What are they guessing?

R: Well, the only guessing is taking its tune more or less from the press, which was guessing 500 million.

- 2 -

- H.M.Jr: I see. Just a moment, please.
- R: There has been no crystallization and not as much talk yet to have a real idea of what they are thinking.
- H.M.Jr: Just a moment. (Eccles: Ask him what the dealers' position is on the 2's? How long they are on bonds, particularly the 2's?) Chairman Eccles wants to know what the dealers' position is on the bonds, particularly in the new 2's.
- R: Well, I couldn't tell him off-hand on the 2's themselves, but their position in the 5 to 12-year group is that they are long $1\frac{1}{2}$ million, and they are short about a like amount of over 12 years, and the poor fellows have taken an awful whipsawing the last two or three weeks as far as their making money is concerned. One interesting thing, Devine's people told me this morning, is that
- H.M.Jr: Devine?
- R: Yeah. He said that they had distributed over 200 million of the 2's at '48-50 all over the country, he thought they were well placed and there was only one lot in that that was of good size - big size.
- H.M.Jr: Well, that's good news, isn't it?
- R: That's good news and they said that they had bought 75% of them in the Street; that is, from financial houses of one sort or another, some other dealers, and the like.
- H.M.Jr: Well, that's all to the good. Is there any private financing that has gone sour?
- R: The 16 million Public Service of Oklahoma last week did not go well and the Wheeling Steels this morning are moving slowly but they expect that that will work out better as the day wears along.

- 3 -

H.M. Jr: Good.

R: The New York State deal hasn't gone well.

H.M. Jr: Well, we were thinking that maybe towards tonight after thinking about it all day that we might announce for Saturday morning's papers what the deal is going to be except for the rates.

R: I see.

H.M. Jr: And we also were thinking of not doing it until Wednesday morning. What do you think?

R: I think it's all right.

H.M. Jr: Could we do it Tuesday morning if we wanted to?

R: Yes, sir. I think you can. Personally, I prefer Wednesday to have the two full days trading after the delivery of the new bonds takes place on Saturday.

H.M. Jr: Well, that's what Mr. Sproul said. We can wait until Wednesday. It gives us all a little more time. Thank you very much.

R: Yes, sir.

- 33 -

Eccles: The dealer's position looks all right. I mean, apparently they are pretty well balanced out.

H.M.Jr: Well, let's leave it this way. We will watch it and I will come back after Cabinet and talk with Dan and get in touch with you people and unless something changes, some where along at five o'clock tonight, we will give it out for tomorrow morning's papers that after consultation with the Federal Reserve System we have decided to do the refunding and 500 million cash as of next Wednesday.

Szymczak: Sounds all right.

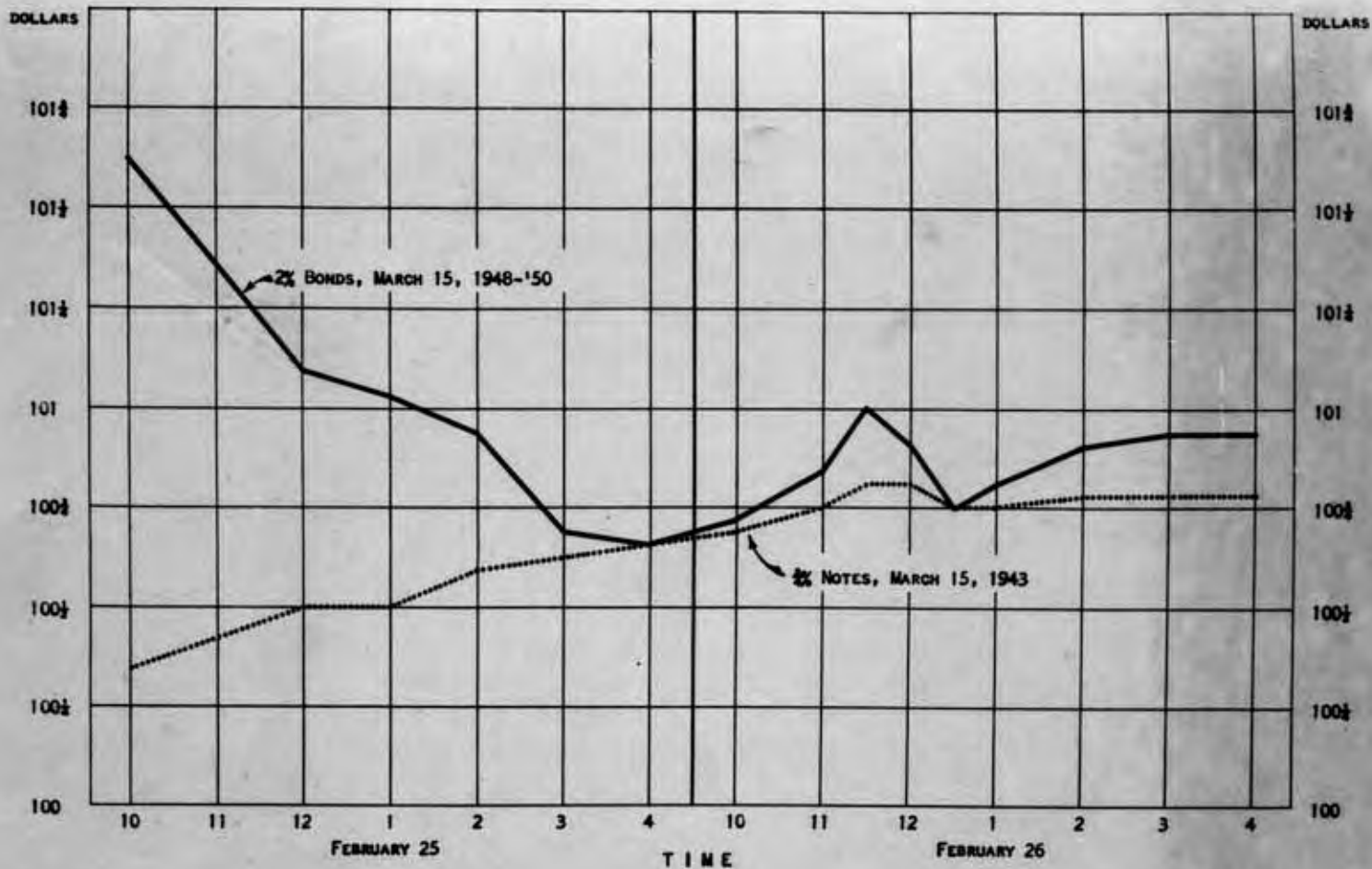
H.M.Jr: All right.

Eccles: Then it will be just a question of pricing it.

H.M.Jr: Just that and these men can--

Eccles: I hope you don't give them too much.

Hourly, February 25 and 26, 1941



March 14, 1941

MEMORANDUM FOR THE SECRETARY'S DIARY

Secretary Morgenthau, D. W. Bell, Harry Hopkins, and Ed Foley conferred today with the President on a draft overall Agreement covering the defense articles which the President is authorized to dispose of under the Lease-Lend Bill. The conference took place at the Executive Offices, starting at 11:45 and concluding at 12:30.

Secretary Morgenthau handed the President his reply to the President's letter of March 13, and the draft Agreement, (copy attached).

The President suggested that the word "Agreement" be deleted and whereases substituted. He pointed out that he did not want the contract in any way to be considered as a treaty which will require a two-thirds vote of the Senate for ratification. Mr. Foley said that the suggestion was a good one, although the document was considered to be an Executive Agreement to carry out the powers conferred by Congress on the President in the Lease-Lend Bill, and it in no sense should be looked upon as a treaty.

The President raised the question as to the mutuality of the provision in regard to the return of defense articles

- 2 -

which, in the opinion of the President, are not used up, worn out, or destroyed. The President was concerned that the British might consider this to be too harsh. After some discussion pro and con, the President said he was willing to leave it the way it was for purposes of negotiation.

In Paragraph (b), on page 2, the President suggested that the words "and relative value" be inserted after the word "efficiency" and before the word "substantially". He thought this would give him a little more leeway if he did not want exactly the same kind of articles returned by Great Britain as were made available.

On page 2, Paragraph (c), the President suggested that the words "dollar value of" be deleted and the word "in" inserted. This change, the President said, would get away from the dollar standard of value and would more nearly carry out the purposes of the lend-lease arrangement as he envisaged it. The President also suggested, in the same paragraph, that the words "or elsewhere" be inserted after the words "British Empire" and before the word "and". In this way, the President said, the British could obtain Bolivian tin for other Empire commodities, and the tin could then be made available to the United States if there was need for it.

- 3 -

On the balance of the Agreement the President had no suggestions. He asked several questions in regard to some of the provisions, but was satisfied when he was told that they were either usual or inserted because of the provisions of the statutes. When the President concluded reading the draft, the Secretary asked him how he liked it. He said he thought that it was a good first draft and embodied substantially what he had in mind. The Secretary then asked where we go from here, and the President replied that the draft should be taken up, first, with the State Department, second, with the Attorney General, and third, with the Director of the Budget.

The President said that he was in no hurry to get it signed. His tentative plans were to leave Washington on a ten-day holiday next Wednesday. He added that he did not want to sign the document until after he returns to Washington.

Secretary Morgenthau asked the President about taking the Agreement up with the British during the interval. The President said that he did not want the British brought in until after the \$7-billion appropriation measure passed the Senate. When this happened the President said he wanted the discussions with the British to commence even though he

had not returned to Washington at that time.

Secretary Morgenthau then asked the President whether the negotiations should be conducted by the Treasury or by the State Department. The President replied that, strictly speaking, the matter was one for the Treasury to handle, and drew upon his World War experience for precedents. The President pointed out, however, that he did not want to have the Secretary of State "get his nose out of joint" because the negotiations were being taken out of diplomatic channels. At this point, Secretary Morgenthau said that, for his part, he wouldn't be the least offended if the President asked Mr. Hull to take up the burden.

Harry Hopkins said he thought the Treasury should handle the negotiations since they were primarily financial. The President then suggested that Harry Hopkins speak informally to Dean Acheson and tell him that the Treasury would handle the negotiations unless this would unduly upset Cordell Hull.

The President asked Secretary Morgenthau with whom he would commence his discussions. Mr. Morgenthau said that he would take the matter up in the first instance with Sir Frederick Phillips. The President made some jocular references

- 5 -

to Sir Edward Peacock, whom he likened to Sir Ronald Lindsay, and told a humorous story of his experience with Lindsay's lack of a sense of humor.

Harry Hopkins suggested that the Agreement be changed so that the President could ask for bases in the Pacific and British defense information and experience on a two-way basis.

Secretary Morgenthau then asked that action be taken on his letter suggesting that the liaison committee for contacts with foreign purchasing missions be terminated. The President said that he wanted Harry Hopkins to handle the Polish, Iceland, Greenland, Norway, British Empire, Greece, Holland, and China missions, and the remaining purchasing missions to be handled by the State Department. The President asked Harry Hopkins to prepare a letter to accomplish this objective.

March 14, 1941

82

Dear Mr. President:

Thank you for your letter of March 13 asking me to undertake to negotiate the "quid pro quo" with the British for the material which you are authorized to transfer to them. I shall be very happy to undertake this assignment.

In accordance with your suggestion, I have drafted an over-all agreement (copy attached) which I should like to discuss with you at your convenience.

Faithfully yours,

The President

The White House.

Enclosure

RHF Jr/fa
Rewrite 3/14'41

AGREEMENT dated as of March 11, 1941, at the City of Washington, District of Columbia, between His Majesty's Government in the United Kingdom (hereinafter called the United Kingdom) and the United States of America (hereinafter called the United States).

WHEREAS, the President of the United States (hereinafter called the President) has determined that the defense of the United Kingdom is vital to the defense of the United States,

NOW, THEREFORE, it is agreed as follows:

1. Pursuant to the Act of the Congress of the United States of March 11, 1941 (Public No. 11, 77th Congress and hereinafter called the Act) the United States will transfer, exchange, lease, lend, sell, or otherwise dispose of certain defense articles and defense information to the United Kingdom, as listed and valued in schedules, appropriately identified, now or hereafter to be attached to this Agreement.

2. Within such period or periods as determined by the President:

(a) The United Kingdom agrees to return to the United States such defense articles which, in the opinion of the President, are

- 2 -

not used up, worn out, destroyed, or otherwise rendered incapable of effective use.

(b) The United Kingdom agrees, in the case of defense articles, other than agricultural commodities, which in the opinion of the President are used up, worn out, destroyed, or otherwise rendered incapable of effective use, to return to the United States an equivalent amount of similar defense articles, which, in the opinion of the President, are of a quality and efficiency substantially equal to the defense articles transferred hereunder to the United Kingdom.

(c) The United Kingdom agrees,

- (i) in return for agricultural commodities, and
- (ii) in return for other defense articles and defense information

transferred to it hereunder and for which the United States has not otherwise received full reimbursement, to deliver to the United States an equivalent dollar value of tin, rubber, jute, and other products and commodities produced in the British Empire and which, in the opinion of the President, are needed by the United States. Such products and commodities

shall be delivered in such quantities and at such time or times as shall be determined by the President.

(d) The United Kingdom may at its option and in lieu of the return of the defense articles or similar defense articles, as provided in Paragraphs (a) and (b) above, deliver to the United States any other raw materials, services, facilities, or other consideration or benefits acceptable to the President.

5. By future agreement, the parties may substitute, in lieu of Section 2, any other payment or repayment in kind or property, or any other direct or indirect benefit to the United States, which the President deems satisfactory.

4. The President shall determine the fair value of any defense article or other consideration or benefit received by the United States from the United Kingdom; and the United Kingdom shall be credited therefor on account of the defense articles and defense information transferred to the United Kingdom hereunder.

5. The United Kingdom agrees that it will not, without the consent of the President, transfer title to or possession of any defense article or defense information, transferred to the United Kingdom hereunder or

- 4 -

permit its use by anyone not an officer, employee, or agent of the United Kingdom.

6. If, as a result of the transfer to the United Kingdom of any defense articles or defense information, it is necessary, for the United Kingdom to take any action or make any payment in order fully to protect, pursuant to the Act, any of the rights of any citizen of the United States who has patent rights in and to any such defense article or information, the United Kingdom will do so, when so requested by the President.

7. The President may exercise any power or authority conferred on him hereunder through such officer or agency as he shall direct for that purpose. The terms "defense article" and "defense information" as used in this Agreement shall have the same meaning as defined in the Act.

8. The parties to this Agreement, and the officials signing this Agreement on their behalf, each for itself, himself, or themselves, represent and agree that the execution and delivery of this Agreement have in all respects been duly authorized, and that all acts, conditions, and legal formalities which should have been performed and completed prior to the making

- 5 -

of this Agreement have been performed and completed as required by, and in conformity with, respectively, the laws of the United States and the United Kingdom.

IN WITNESS WHEREOF the parties hereto have executed this Agreement in duplicate.

THE UNITED STATES OF AMERICA.

By _____
(Title)

HIS MAJESTY'S GOVERNMENT IN
THE UNITED KINGDOM.

By _____
(Title)

March 14, 1941

Dear Mr. Ambassador:

Thank you for your letter of March 13, in which you tell me of the coming visits of Sir Arthur Salter and Mr. Brand.

I appreciate your courtesy in sending me this advance information.

Yours sincerely,

(Signed) W. Morgenthau, Jr.

His Excellency
The Right Honorable
The Viscount Halifax, A.G.
British Ambassador.

FK:nmc

By Message

March 14, 1941

Dear Mr. Ambassador:

Thank you for your letter of March 13, in which you tell me of the coming visits of Sir Arthur Salter and Mr. Brand.

I appreciate your courtesy in sending me this advance information.

Yours sincerely,

[Signed] H. Morgenthau, Jr.

His Excellency
The Right Honorable
The Viscount Halifax, A.G.
British Ambassador.

FK:mnc

By Messrs L¹⁰

March 14, 1941

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I appreciate your courtesy in sending me this advance information.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

His Excellency
The Right Honorable
The Viscount Halifax, A.G.
British Ambassador.

FK:mas

By ~~Handwritten~~

Dear Mr. Ambassador,

Thank you for your letter of March 13, in which you tell me of the coming visits of Sir Arthur Salter and Mr. Brand.

I appreciate your courtesy in ~~informing me~~ sending me this advance information.

Sincerely,

BRITISH EMBASSY,
WASHINGTON, D. C.

13th March, 1941.

Dear Mr. Secretary,

I have just had a telegram from the Prime Minister saying that Sir Arthur Salter has agreed to come out here to be particularly charged with matters arising out of the shipping position. In that capacity he will be a member of the British Supply Council. I think this will be useful.

He will bring with him a statement of our shipping and import position, and will be fully briefed to give those concerned here complete information as to the measures which His Majesty's Government are taking to meet a situation that is difficult, and to concert measures with your administration as to the best means of meeting it.

It has also been arranged that Mr. Brand should be head of the new Food Mission, and in that capacity that he also should be a member of the British Supply Council.

I am taking steps to communicate this to the State Department, but I thought it right that you also should have advance information on these matters, which are, I understand, likely to be announced in the British Press tomorrow.

I am,

Dear Mr. Secretary,

Yours sincerely,

Halifax

The Honourable Henry Morgenthau, Junior,
Secretary of the Treasury.

March 14, 1941

Dear Mr. Ambassador:

Please convey to the Chancellor of the Exchequer my good wishes and my sincere thanks for the message which he has been kind enough to send me.

Yours sincerely,

His Excellency
The Right Honorable
The Viscount Halifax, K.G.,
British Ambassador.

Sent by

message 3/15/41

March 14, 1941

Dear Mr. Ambassador:

Please convey to the Chancellor of the Exchequer my good wishes and my sincere thanks for the message which he has been kind enough to send me.

Yours sincerely,

His Excellency
The Right Honorable
The Viscount Halifax, K.G.,
British Ambassador.

March 14, 1941

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of the Exchequer my good wishes and my
sincere thanks for the message which
he has been kind enough to send me.

Yours sincerely,

His Excellency
The Right Honorable
The Viscount Halifax, K.G.,
British Ambassador.

BRITISH EMBASSY,
WASHINGTON, D.C.

Personal.

13th March 1941.


Dear Mr. Secretary,

The Chancellor of the Exchequer has telegraphed to me the following personal message which he asks me to convey to you:-

"I send you my warm congratulations on the passing of the Lease-Lend Bill and my very sincere thanks for all that you have done to secure its passage. Apart from the invaluable material help which we shall receive from you, it is a great encouragement to us all to know how strongly your people feel that the best way in which they can defend America is by helping us to defend ourselves. We shall have many problems to solve together from now onwards and I know it will be your wish, as it is mine, that we shall deal

/with

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



BRITISH EMBASSY,
WASHINGTON, D. C.

with these not merely as colleagues but
as trusted friends."

Believe me,

Dear Mr. Secretary,

Yours very sincerely,

Halifax

March 14, 1941.

EVOLUTION OF THE MINORITY

Enactment of the Lend-Lease law has transformed, but has by no means ended, the opposition to it. During the progress of the debate over the bill, this opposition was heterogeneous in character: it embraced many who favored aid to Britain, yet disliked this particular method of granting it; some who were merely timorous; a few who saw political expediency in recording their resistance to an inevitable current of events which may have tragic consequences.

But these moderate elements no longer participate in the active opposition. Their point of view was expressed by Senator Vandenberg who remarked that "ninety out of ninety-five members of the Senate voted for aid to England" and by Senator Wiley who said of the bill "we must all accept it as the law of the land." The Minority Leader of the House echoed these sentiments by voting for the Senate version of H. R. 1776. Newspaper editorials commenting on the bill's passage beseech a closing of the ranks and speak piously of national unity.

This very anxiety for national unity eloquently discloses the absence of it, bespeaking a grave uneasiness now on the part of these moderate members of the minority over the fury of the prejudices which they helped to arouse. The fight against effective aid to Britain will certainly continue. Henceforth, however, it will be in the hands of the strong-stomached, full-fledged isolationists, the fanatic fringe.

- 2 -

Senator Wheeler has already made it plain that he intends to continue his crusade for "peace." The America First Committee, which now boasts 650 chapters and 500,000 members, goes right on recruiting with the evident intention of mobilizing public opinion against the settled foreign policy of the United States. The Chicago Tribune has declared its determination to "save the Republic." The Daily Worker, Social Justice, The Tablet, William Dudley Pelley's Liberator and Senator Robert R. Reynolds' Vindicator have all donned the robes of peace, clasped American flags to their bosoms and promised to preserve America from the international bankers. John L. Lewis is reported to be ready to lead the left wing of Labor into a national political alliance of crackpots.

It is necessary to understand the character of this opposition to appreciate the menace it presents. It has achieved now a certain degree of homogeneity with distinct fascist implications. Most of the leaders bear one or more of the hallmarks of fascism: opposition to labor, anti-Semitism, rampant nationalism and resistance to all organized community efforts to improve social circumstances.

Even the "respectable" supporters -- the men who chipped in the funds to finance the America First movement -- bear a curious resemblance to the industrialist group which financed Hitler's rise to power in Germany. Notable among the major contributors are such names as Ernest T. Weir of National Steel, and Max Babb of Allis-Chalmers, notorious for their anti-unionism. If their association with John Lewis and the Communist Party seems incongruous, it is no more so than it was in the election campaign of last November, nor than the cooperation of the National Socialists, Communists and reactionaries which produced the end of the German Republic. The fanatics of the right and the left are not at opposite ends of a straight line; they are merely the tail ends of a loop and

- 3 -

have now joined hands to complete the circle.

Freed from the restraining influence of the moderates who accompanied them in the fight against H. R. 1776, this coalition can now be expected to engage in more violent tactics. Senator Burton K. Wheeler, in his radio address of March 3, gave a startling foretaste of the recklessness of which he is capable. He pictured the "international bankers joining with their friends the Royal Refugees, and with the Sessoons of the Orient -- and with the Rothchilds and the Warburgs of Europe . . ." This was conscious use of anti-Semitism as a political instrument. More of the same sort of thing can be looked for in the future. For the tactics of the isolationists, plainly, are to play upon prejudice and to exploit emotion.

The danger of these tactics lies only partially in the impediments they may place in the way of effective aid to Britain. They may succeed in frightening Americans, to some extent, away from forthright action. They have already managed to dilute enthusiasm for dealing generously with the British. Their aim is to obscure the genuine issues and undermine public confidence in the purposes of the Administration.

But a far greater danger lies in the domestic bitterness which they may evoke. By dealing in so loose a fashion with deep-seated mass emotions, they unleash internal discord and distrust which can have disastrous consequences in a future all too likely to make a vital test of American unity and morale.

The ideas which the bitter-end isolationists are propagating can be combatted only by denouncing them forthrightly for what they are-- the doctrines of Doctor Joseph Goebbels. They will be accorded

- 4 -

public patience and credence only so long as the propagators are permitted to disguise themselves as apostles of peace. It will be better to expose and answer them now than to let them germinate and spread. A few swashing blows are in order.

Stabilization Fund

MAR 14 1941

11.50

MR ROOSEVELT

WASHN - MR ROOSEVELT PRAISED THE STABILIZATION FUND FOR HAVING MADE A PROFIT SINCE 1934 AND RIDICULED WHAT HE CALLED TERRIBLE BEDTIME STORIES ABOUT ITS DEPLETION AND SECRECY - MANY INTERESTED GROUPS HAVE TRIED TO GET THEIR HANDS ON THE 2 000 000 000 DLS FUND BUT THE GOVERNMENT HAS MANAGED TO KEEP IT INTACT AND TO MAKE A 22 000 000 DLS PROFIT ON THE FUND-S TRANSACTIONS HE SAID - THE PRESIDENT DECLARED THAT THIS IS A GOOD ILLUSTRATION THAT THE AMERICAN GOVERNMENT IS NOT WHOLLY AMATEURISH IN ITS FINANCIAL DEALINGS

The Pres. Praises Stabilization Fund

PRESIDENT ROOSEVELT SAID TODAY THAT THE GOVERNMENT'S \$22,000,000 PROFIT FROM THE \$2,000,000,000 STABILIZATION FUND IS AN OUTSTANDING ACHIEVEMENT FOR FISCAL EXPERTS WHO, HE ADDED, HAD BEEN DESCRIBED AS AMATEURS BY CERTAIN WRITERS AND COLUMNISTS.

THE FUND HAS ACCOMPLISHED A GREAT DEAL IN STABILIZING WORLD TRADE BOTH PRIOR AND SUBSEQUENT TO THE OUTBREAK OF THE WAR, THE PRESIDENT SAID.

IN THE YEARS SINCE 1934, MR. ROOSEVELT SAID, SOME COLUMNISTS HAVE WRITTEN PERFECTLY TERRIBLE BEDTIME STORIES ABOUT THE FUND, INTIMATING IT WAS BEING DEPLETED WHILE THE FACTS WERE BEING KEPT FROM THE PUBLIC.

3/14--R1211P

March 14, 1941
11:53 a.m.

H.M.Jr: Hello.

Operator: Dean Acheson.

Dean Acheson: Yes, Henry.

H.M.Jr: Dean, have you had a chance to show that to the Secretary of State?

A: I've just come out and I was just talking to Bernie and Oscar about it - what happened and I'm telling them the general

H.M.Jr: Would you mind telling me because I want to get it before I go to the White House. I've got the time so I'd like to have it.

A: It's a little bit vague and confused, Henry, as you can see it would be because it's a large subject and a short time.

H.M.Jr: Oh.

A: I think there were two questions that came up and which were discussed, and I don't think the Secretary had any clear view about it; he just had some worries. First of all, he thinks this is a good basis - this is the way you would start out to do it, and everything in it he thinks is probably the way it ought to be. One thing which worried him was whether in the actual administration of this you might tend to build up such a very large claim that you might at the end of the war have the same problem as you had at the end of the last war, only presented in terms of goods instead in of terms of dollars. He did not have time to analyze that or see how it would work out. He's just thinking about it. Then the other question, which was discussed but without any conclusion or recommendation at all, is whether we were in a sufficiently strong position to have some voice in saying that these materials which we turn over should

- 2 -

be used in a way which was clearly to the national advantage in this country. In the event that the objects or the course of the war should change in some way, would we be able to say, well, now don't use these to attack some country whose defense is important to us. We don't want you attacking Brazil or China or some other place. I mean, that's merely the vaguest sort of a question which arose.

H.M.Jr: Well, that's a 2-edged sword.

A: It's very much of a 2-edged sword and that was pointed out at once, and I think probably that had better be written off as an idea.

H.M.Jr: Yeah. . That would kind of frighten me because

A: I think it would frighten the Secretary because when this was suggested, he immediately said, "Well, if you're going to run the war, you've got to go in and fight it as well as run it."

H.M.Jr: Oh, that wasn't his suggestion?

A: No, that was not his. That was brought up. He asked two or three people to come in and have this read and advise him. Now, I think what he really said is that he did not know enough about it and couldn't in the short time that he had have any view which would really be helpful, except that he thinks that this is the basis of a good agreement.

H.M.Jr: Now, may I have Dean Acheson's opinion? Well, I think it is the basis of a good agreement. My chief worry is the first one, that under this, it may be - the result may follow that you'll have such a tremendous claim against the British that it never can be liquidated and that we will have the seeds of trouble in the future. If I were the universal czar, I would just give these things to the British without anything.

- 3 -

- H.M.Jr: That's what I would do.
- A: And, therefore, I would like the quid pro quo agreement worked out in such a way that it would liquidate itself as it went along instead of waiting, perhaps, until 1948 when we don't know who is going to be in control and they might do silly things.
- H.M.Jr: Well, there is no argument with me on that, but I have stated my position that I'd like to give this stuff to them, but I think the President feels he has to do something and if he has to do something, this seems about as innocuous a draft as we can think up here.
- A: Yeah.
- H.M.Jr: Because it leaves it all to future settlement.
- A: Well, just as a technical matter, since I - the way it is now drafted it is so the depreciation wear and tear is on the British. If we could sort of sneak that in so it was on us, I'd like it a little better. If they could return a thing even if it had a few shell holes through it, that would be better with me, instead of valuing it when you turn it over and then valuing it when you get it back.
- H.M.Jr: Yeah. Well, of course, the President could do that the way it is written.
- A: He could, yeah.
- H.M.Jr: On the other hand, if they gave them some of these high-speed misquito boats, at the end of six months they are completely worn out and they're worthless.
- A: Yeah.
- H.M.Jr: But Roosevelt, or whoever is President, could - I mean, the thing that we didn't know whether the British would take, is to really leave all these decisions in the hands of the President, and they've got to take it and like it the way it is written.

- 4 -

A: Yeah.

H.M.Jr: Well, I would gather from what you tell me that there are really no basic differences other than you'd like to give the stuff, but lacking that, this is pretty good would you say?

A: Yes, I think so. That is my own view. I really don't know what the Secretary's view is because he just - you know - he gets these things and he has to sit down and think about them for a little while and he didn't have time.

H.M.Jr: Well, I'll leave it this way. We're going over to see the President shortly, and when we come back, Foley will call you and tell you just what happened.

A: All right. What is the time scheduled? Do you want to get this signed up by the British right away - today or tomorrow?

H.M.Jr: Well, the President is putting the pressure on me. Did the letter come over that he wrote me - a copy of it?

A: Yes.

H.M.Jr: You can see from the letter. I got that letter last night - somewhere around four or five last night, and the boys worked right through the night on this, so that's all the time I've had. I don't know - the President has been putting such terrific pressure on all of these things. But when we come out of the meeting, Foley will phone you and let you know just where it stands and then I'd like to get all the help I can.

A: All right. Well, we will certainly turn this place loose if we can do anything for you.

H.M.Jr: Thank you so much.

A: All right, Henry.

March 14, 1941
4:30 p.m.

GROUP MEETING

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

H.M. Jr: Herbert, it seems that the person that asked Maritime Commission to go ahead and investigate, although the President asked me to do it at Cabinet, was Stimson. He must have gone right out of Cabinet a week ago and went right over and asked the Maritime, although the President asked me to.

I said, "Somebody must have asked the Maritime," and Stimson spoke up and said he had.

Well, I mentioned the fact that they weren't loading their ships properly, and that the ships had to go to several ports, so would you send to Mr. Hull whatever you have?

- 2 -

Gaston: Yes.

(Mr. Graves entered the conference.)

H.M. Jr: And the President asked Hull to tell this to Halifax, you see. You might let me see a copy of it, but don't hold it up for me, you see.

(Mr. Bell and Mr. Cochran entered the conference.)

Gaston: All right. It seems just a little bit round about.

(Mr. White entered the conference.)

H.M. Jr: Then at Cabinet, Stimson gave this release to the President, and he wanted the President to give it out. This is for you two fellows. (Mr. Sullivan and Mr. Foley)

If you don't mind, give me back the original, and you can keep the photostat for you two boys. (See attachment No. 1)

They are all ready to have it go, and I said to the President, "Give us another 24 hours on it. I don't know whether it is good or bad." So I asked Bob Jackson to state our case on this question of going out and fighting these contractors, because they won't take Government contracts on one cent gasoline in Florida. I said to Bob, "I don't know the legal end. I can't state the case. You do it."

So he said, "Well, it is hopeless to introduce this year a bill which will make the

- 3 -

states pay Federal taxes on their bonds," and the President said, "Oh no, it isn't, oh no it isn't."

Foley: It will be if they introduce this legislation.

H.M.Jr: Well, I didn't know whether that thing was any good. Bob, you could see, wasn't interested. He said you fellows have been talking to the Solicitor General.

Foley: He doesn't want to see us.

H.M.Jr: Well, you have got 24 hours. I said to the President that you two men were in the process of filing a brief, because you thought that this was wrong, and you wanted to file this brief; and I again said to Bob, "Won't you please state the Treasury case although you don't believe in it, because it is too technical for me."

Well, he did it in a kind of half-hearted way, but at least the President said, "Well, I won't give that out until we hear from the Treasury."

Now, I don't know if that is good or bad, but I said to Stimson, "Somebody said it was a hundred million dollars, and my -" no, I said it was only forty-five million, and somebody said something else.

Foley: It isn't even forty-five. It is only around four or five.

H.M.Jr: Well anyway, I have again got my finger in the dike, and it is getting cold, my finger. (Laughter).

You fellows get busy. Where is Harry White? He should think of something.

- 4 -

White: I have, but - (Laughter) It was all right if it wouldn't have been delayed.

H.M.Jr: Well anyway, will you please relieve my finger.

White: He is asking you and not me.

Foley: I know. (Laughter)

H.M.Jr: Now what else happened over there? Oh, Chick Schwarz, where is he?

Schwarz: Right here.

H.M.Jr: Unless Bell knows something else, will you tell your newspaper cohorts for tomorrow morning that the financing for next week, still calling it next week, will be five hundred million cash and a refunding. We haven't said it yet. This is new.

Schwarz: That is right.

H.M.Jr: But the cash requirement will be five hundred million dollars, and would you say Wednesday?

Bell: I think I would unless you don't want to tie your hands.

H.M.Jr: Let's say next week.

Bell: Early next week.

Schwarz: Five hundred million in cash.

H.M.Jr: All right, Dan? I just talked to Bob Rouse.

Bell: Did you? I hadn't since 2:30 and the market was still pretty good.

- 5 -

H.M.Jr: It is all right.

Schwarz: You are not ready to tell them whether it will be one way or two ways?

H.M.Jr: No, but five hundred million cash. All right, Dan?

Bell: Fine. Very good.

H.M.Jr: All right, and notwithstanding the fact that the ticker said we were over there on taxes and the President said we were over on taxes, and when we came into the room, John, he thought we were coming over on taxes; we finally convinced him it wasn't taxes, and we didn't talk taxes. We said we wouldn't introduce any bill until the seven billion was out of the way. And then I got a good laugh, because it wasn't at my expense.

The President said, "I see by the papers, Jesse, that you are going to let the English have three hundred million dollars."

He says, "I didn't say so. That came out of the White House." I thought it was wonderful, and I just sat there and didn't say a word.

Schwarz: He had better find out when you hold your press conferences.

H.M.Jr: He knew. And that is about all that happened. I wanted to divest myself of - are you (Gaston) going to take care of Senator Bone?

Gaston: I wanted to ask you about that. It is quite unusual for a Senator to say that he wants to bring a collector of Internal Revenue down to instruct him on patronage.

- 6 -

- H.M.Jr: He didn't say that.
- Gaston: No, he said he wanted to talk things over. He made it pretty plain. I imagine John can bring him down here to indoctrinate him on Internal Revenue, but I think Ed Flynn would be very much interested in Homer Bone's idea of how they are going to handle patronage.
- H.M.Jr: Well, Homer Bone is a very difficult fellow, and I realize maybe I was a little softy, but here he is. He says he and the whole delegation from his state want to sit down and talk with this fellow. He is a swell appointment, and they have been getting all these letters and they just would like to come to an understanding with him, who is he going to fire and who not; and I said we would bring him on.
- Gaston: I think you have probably met him. He was down here as a newspaperman representing the Scripps Pacific Coast League papers here a couple of years ago.
- H.M.Jr: I doubt it. But you can see him first. Anyway, I gave him my word on it anyway.
- Gaston: All right, it can be done.
- Sullivan: I think Mr. Gaston's point is that he might very properly bring him here for something else and if while he is here he calls on his Senator and they have a lunch, that is all right; but I think Herb's point is --
- H.M.Jr: Bring him here to show him the cherry blossoms.
- Sullivan: I think that is a very good idea. (Laughter)

- 7 -

Gaston: My point is that I can't bring him here, but John can.

H.M.Jr: Bring him here to show him the cherry blossoms. Is that all right?

Sullivan: Bring him here to show him some returns.

H.M.Jr: All right. Now, what other unimportant or important business is there that won't take more than five - who wants a yes or no out of me?

Bell: Well, we want some time on these questions that are going up to the House Committee before five o'clock.

H.M.Jr: Well, you had your time. I sat around here at a quarter of two.

Bell: Well, I couldn't write the answers in that time. I want you to see the answers.

H.M.Jr: Right after this meeting?

Bell: No, they are in the machine and it will require about - nine out of twelve questions will be ready. We had the other three in process when we came in here.

H.M.Jr: How many are ready?

Bell: I would say nine will be ready. Coe is working on the other three.

Schwarz: I have asked Stephens for about two minutes.

H.M.Jr: What?

Schwarz: I asked Stephens for about two minutes.

- 8 -

H.M.Jr: I don't know what it is about.

Schwarz: It is about this matter of two thirds, one third, borrowing revenue.

H.M.Jr: Oh, well not today. Talk to this fellow (Sullivan). What is it? Do it now.

Schwarz: I would like to sign a letter to Mr. Ludlow, after talking with the newspapermen. They asked if we would handle it that way rather than for us to write the press agents.

H.M.Jr: Have you shown this to anybody else?

Schwarz: Ferdie. I showed him our alternative proposal to the heads of the press agencies.

H.M.Jr: What will happen?

Schwarz: I will send it to Ludlow with copies, and ask him to give it out and if he doesn't, we will.

H.M.Jr: All right. What else?

Bell: That is all I have got. I just wanted to get those questions up there tonight and get them in the record this evening.

H.M.Jr: I thought you would do that without showing them to me.

Bell: I didn't get any such instructions.

H.M.Jr: You (Foley) heard. Come on, what did he say?

Foley: You (Secretary) said you would be available at ten minutes of two if anybody had any instructions. Otherwise, go ahead.

- 9 -

Bell: Gosh, what a pal. (Laughter)

Foley: I will bet I will regret it.

Bell: I will bet he will, too.

Foley: I will bet I will regret that. (Laughter)

H.M.Jr: He is General Counsel to the Treasury, ain't he? I am in the Treasury. All right.

Harold?

Graves: Nothing.

H.M.Jr: Got any posters or pictures or anything amusing?

Graves: Shall I tell him?

H.M.Jr: Where is that rendition? Have you got it?

Graves: Yes.

H.M.Jr: Let's see it. I have got to have something to chin with.

Graves: You will probably make us all mad.

H.M.Jr: Who all mad?

Kuhn: We have cleared Carole Lombard's record, Mr. Secretary. (Laughter)

H.M.Jr: Did you, through the National Committee woman?

Kuhn: Irey.

H.M.Jr: But you call up - Helen Gahagan. Get in touch with Helen Gahagan, the National Democratic Committee woman from California, will you?

- 11 -

the market and having something for you Monday morning.

Bell: Monday we will talk.

H.M.Jr: All right, O.K.

Bell: You don't need to come in tomorrow.

H.M.Jr: O.K.

Haas: We can use another day on the market.

H.M.Jr: All right. Anything else? Did you ever do Gano Dunn's report?

Haas: Yes, sir, you will get it this evening.

H.M.Jr: Are you with him or against him?

Haas: Against him.

H.M.Jr: I thought you were.

Young: George is right.

H.M.Jr: Philip?

Young: I have got a contract.

H.M.Jr: Is it within the --

Young: Yes, easily.

H.M.Jr: All right.

Young: I saw Dean Acheson this afternoon. Wonders will never cease. The State Department has written a letter giving their Russian policy which they tried to pass off on me, and they showed it to me first, and I told them I wouldn't take it.

- 12 -

H.M.Jr: Right.

Young: So Dean Acheson wanted me to ask you if it were addressed to you without prejudice by the Secretary of State what would happen.

H.M.Jr: Well, you can tell him what would happen. I would send it right back to him. The President of the United States asked the Secretary of State in my presence to handle it. I don't want anything to do with it. That is what you call cooperation. (facetiously) I am very serious.

Young: I told him I thought that was your answer.

H.M.Jr: He shouldn't write me any letters. The President of the United States told him to take care of it, and I would like to see something once taken care of over there.

White: How could he write a letter without prejudice? What does that mean?

H.M.Jr: Seriously, It is between the State Department and the Soviet - USSR. We haven't got anything more to do with it. We are finished with it.

Young: Have you had any reaction on your purchasing letter?

H.M.Jr: Counselor Foley will tell you about that afterward. It is in the works. I think there will be a letter forthcoming. Talk nicely to Dean and say, "Thank you very much, but we feel that that is over, finished."

Young: That is what I told him.

H.M.Jr: Right. And if you ask Ed after, he will explain to you why I am so emphatic, because

- 13 -

the President wants the State Department to take everything except the British Empire, Greece, and Norway.

Foley: Holland?

H.M.Jr: Holland.

Bell: Dutch East Indies?

White: China?

Foley: Iceland and Greenland and China.

H.M.Jr: Right, but ask Ed what happened to that, see, will you?

Young: All right.

H.M.Jr: And I can't understand why Dean wants to send me back something on Russia when the whole thing is going over there with the exception of these countries mentioned.

Young: I am glad to hear it.

Kuhn: I haven't anything except a document that Ed probably wants to talk to you about.

H.M.Jr: All right.

Cochran: Nothing, sir.

Sullivan: Senator Mead talked with you about a taxpayer named Birdsell, who liquidated his corporation and did not comply with the requirements.

H.M.Jr: I washed my hands of it.

Sullivan: You asked me to follow it through and give

- 14 -

you a memorandum. There just isn't any authority under the law to give him any immunity whatsoever. That is my memorandum.

H.M.Jr: What do I do?

Sullivan: Do you want me to call Senator Mead and advise him?

H.M.Jr: If you don't mind.

Sullivan: I will be glad to. If you want to see me some time on the returns of members of the diplomatic corps --

H.M.Jr: But there no hurry. Where is the last - the President got one, the last thing showing how much taxes came in. He got it in Cabinet.

Bell: He asked about it this morning, so I thought you might want it.

H.M.Jr: How is it?

Bell: A hundred and sixty-four million up to date. We are about six million ahead of the estimates.

H.M.Jr: Good.

Sullivan: Over at the Bureau, they have been running about sixty-four hundred returns a day. I mean people here in the District going in there and filling out returns. They have got desks set up in the hallways and lobbies and so on. About five a minute.

H.M.Jr: Ask me about the diplomatic corps again some time.

Sullivan: I will, sir.

- 15 -

H.M.Jr: Everything all right?

Sullivan: Yes, sir.

Foley: John Pehle --

H.M.Jr: Excuse me. Will you (Sullivan) see that you and I talk with Doughton before I leave next Thursday night?

Sullivan: I will.

H.M.Jr: Please. I talked with Pat. Pat called me before he left.

Sullivan: Yes. He asked us if you wanted to have any conferences to talk with George, Connally, and Brown.

H.M.Jr: All right, sir, I am listening.

Foley: Pehle wants permission to call Dean Acheson and suggest that Acheson call in the Hungarian Charge D' Affaires and say that we would be much happier if we knew why they had withdrawn the nine hundred thousand dollars. They only got the six, you know. The nine hundred got away.

H.M.Jr: They got the nine but not the six?

Foley: That is right. The six was blocked, but they got the nine. Ask them why they withdrew the nine, and ask them if --

H.M.Jr: What happened was --

Foley: If they would redeposit the nine.

H.M.Jr: What happened, you can ask them, but it will bring this to light. The Charge of the Hungarian Legation called on one A. A. Berle and

- 16 -

explained the whole thing to them, and A. A. Berle forgot to tell us, and when Dean Acheson heard about it, to repeat his own language, he said, "I just gave A. A. Berle unshirted hell." That is what he said. He came in and explained the whole thing. I am very glad to have Pehle go through the motions, because that will bring out the fact that the fellow went in to see Berle and we haven't yet got any report other than what Dean told me over the telephone; namely, that the Hungarians wanted it to pay the expenses for all of their Legations and Consular Offices in the western hemisphere, but I am all for John asking.

- Foley: All right. They can still suggest that the money be deposited, blocked, and then we will give them a license.
- H.M.Jr: What else?
- Foley: We have --
- H.M.Jr: This is not a regular conference. You know it is ten minutes to five. I mean, it isn't nine thirty. (Laughter)
- Foley: We have got a release on this action in connection with taxing the income from the Port Authority bonds. Ferdie has gone over it very carefully and --
- H.M.Jr: Well look, gents, is that what we settled?
- Foley: Yes.
- H.M.Jr: Do I have to take you for another ride around the block?
- Foley: No, but I just wanted you to know about it,

- 17 -

because I think there will probably be quite an uproar when the thing goes out.

H.M.Jr: Is it all right?

Foley: I think it is all right, yes. I think the press release is very good, and I think it sets forth our case as well as it can be set forth; and Ferdie tells me he thinks it has in it now everything that a newspaperman would like to know in order to write a complete story.

H.M.Jr: It is dynamite?

Foley: Yes.

H.M.Jr: Good.

Bell: Will it hurt our bond market on Monday?

Foley: It may.

Bell: Better have it Friday of next week.

Foley: Well, you see the statute runs tomorrow on those returns.

H.M.Jr: Why can't it be in tomorrow morning's paper?

Foley: It will. We can release it tonight, can't we, Ferdie? I am ready.

Kuhn: Sure.

H.M.Jr: That is all right.

Foley: I don't know how much it is going to affect - I don't see how it can affect your market, because yours are all taxable anyway. It is bound to have an effect on the municipal market.

- 18 -

H.M.Jr: I am surprised at Dan on two counts. One, that you want to postpone some financial knowledge just before, and second, it might help us indirectly by knocking down the municipals.

Foley: That is right.

Bell: I am worried about the municipals. I am worried about this other bond market. I don't want something to happen like happened before when we get out an issue. I don't know just what effect it will have on our market.

H.M.Jr: I don't think so.

Foley: Not so much now, since all our stuff is taxable.

Bell: I am a little jittery.

H.M.Jr: I think it is all right.

Foley: It will be interesting to see how much effect it has on the Port Authority bonds.

H.M.Jr: It is all right, I will take a chance on it.

Foley: Let her go?

H.M.Jr: Let her go. Anything else?

Foley: The men are A. J. Shamberg, Howard Cullman, Mauris Bouvier, Henrietta Bouvier, Willis Sharp Kilmer, Dr. D. N. Bell, and Martin S. Paine.

Gaston: Since you are to be here tomorrow, shall I write that letter? Shall I make it for your signature?

- 19 -

H.M.Jr: No, you do it. Just let it go.

Gaston: All right. Do you have any feeling about a member of the Treasury staff going to the Italian Embassy for dinner?

H.M.Jr: No.

Gaston: O.K. It is not me.

H.M.Jr: No, I have no feeling about it. Who is it?

Gaston: Johnson. Ballerini, the Commercial Counselor, has been right chummy with him, and evidently had him invited.

H.M.Jr: No. Well, I am not crazy about it, but has he accepted?

Gaston: No, he hasn't. He asked my advice.

H.M.Jr: I would let it go. Sure, he can go. I hope he doesn't ask me, though, before he goes to the German Embassy.

All right, I am at your service.

Sullivan: Are we going to see the picture?

Bell: It looks good.

H.M.Jr: Carole Lombard? Let's see it, Harold.
(Mr. Graves exhibits posters.)

Graves: These are several --

H.M.Jr: Can you bring it closer? I can't see it.

Graves: That is a bad sign to begin with. (Laughter)

- 20 -

White: Not so hot from here. (Laughter)

H.M.Jr: Class is dismissed.

For the President

My attention has been called by the War and Navy Departments to a serious condition caused by uncertainty as to the application of state sales and similar taxes levied on contractors engaged on national defense projects on a cost-plus-a-fixed-fee basis.

Eighteen states have held that taxes of this nature are not applicable because of Federal immunity, and a number have not ruled on the question. However, several states have held that such taxes do apply and have taken active steps to make collection. The position taken by these states has caused such uncertainty that materielmen are threatening not to sell and contractors are threatening to stop work. It is obvious that, if these taxes are paid, certain favored states will be unduly enriched at the expense of the national defense program and of other states.

^{Suggesting} I am having a bill prepared for ~~submission~~ ^{to} Congress

^{ation} designed to clarify this situation. ↑ Until the matter is adjusted, the Government will refrain, where practicable, from placing any cost-plus-a-fixed-fee contracts in those states which insist upon applying their taxes to transactions covered by such contracts.

March 14, 1941
12:57 p.m.

Judge
Samuel
Rosenman:

Sam.

H.M.Jr:

Yes, Sam.

R:

I just wanted to say thanks for the kind words.

H.M.Jr:

Oh. Well, I meant them.

R:

Kindest words I've heard in Washington.

H.M.Jr:

I don't know whether you're kidding me.

R:

No, I mean it. This is not a place for kind words.

H.M.Jr:

I still don't know. Are you serious?

R:

I'm serious. I mean it.

H.M.Jr:

Well, I meant it.

R:

I appreciate it a whole lot.

H.M.Jr:

O.K., Sam.

R:

I want you to know I do, because I know what this place is and you don't hear kind words very often.

H.M.Jr:

You're telling me.

R:

(Laughs). Good luck.

H.M.Jr:

Thank you.

R:

Remember me at home.

H.M.Jr:

I'll do that.

R:

All right.

H.M.Jr:

Good-bye.

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You're telling me.

R:

(Laughs). Good luck.

H.M.Jr:

Thank you.

R:

Remember me at home.

H.M.Jr:

I'll do that.

R:

All right.

H.M.Jr:

Good-bye.

March 14, 1941
4:27 p.m.

H.M. Jr: Rouse.

Robert
Rouse: Yes.

H.M. Jr: What happened during the day?

R: Well, it has been a rather quiet day -
 mostly switching and pretty healthy on the
 whole.

H.M. Jr: Pretty healthy on the whole.

R: Some of the notes have been better and
 the rights were better. They were better
 in the late market and they are about where
 they were in the late market last night.
 On the long bonds, the longest bonds are
 2-3/32nds better. They fluctuated during
 the day but nothing big. I've talked to a
 number of people to get a preliminary idea
 and - well, the last one was Garner at the
 Guaranty. He thought that a 2 1/2% bond of
 13 to 15 years, that's '54-56, would be
 worth on 2.35 basis about 1 1/2 points, that
 if there was nothing else to compare with
 it, it would be regarded as very attractive.
 He said, because of the 2-7/8ths and that
 break which succeeds that it might not be
 regarded as highly as it otherwise would,
 but it seemed like a natural to him. He
 thought that a billion would be O.K., but
 it would be on the other hand the maximum.
 He said he would not offer a short bond or
 a 5-year note to go with it. As far as a
 2-year note was concerned, he didn't think
 it would make any difference. He made a
 point that the banks had been surfeited
 with securities in recent months with the
 two defense notes, and so on, and this last
 bond, and that you'd have insurance
 company, savings bank and country bank
 support as well as the big banks being
 willing to take some of it.

H.M. Jr: Yes.

- 2 -

R: Burgess called this morning and - it seems I have to find my note on the - well, in any event he said that he thought the next step in this financing, although they'd like to see a 2-3/4% bond, that the next step would probably be a 2 $\frac{1}{2}$ in the mid-fifties.

H.M.Jr: I see.

R: He had in mind that they'd refine it later, say, next week, but 11 to 13 years or possibly 12 to 14 years. He said that as far as the amount is concerned he definitely wouldn't want to go over a billion dollars.

H.M.Jr: Now, are you going to be there in the morning?

R: Yes, I'm coming in.

H.M.Jr: I'll call you again.

R: All right, fine.

H.M.Jr: Thank you.

WAR DEPARTMENT
WASHINGTON

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3/19/41 131

March 14, 1941.

The Honorable

The Secretary of the Treasury

Dear Mr. Secretary:

Reference is made to your letter dated February ^{16.} 28, 1941, concerning British requests for clearance pending in the War Department.

I am pleased to inform you that the comments of the War Department on the requests listed have been forwarded to the Office of Production Management in accordance with the usual procedure.

I regret that there has been delay on these items and can assure you that requests of this kind will be more expeditiously handled in the future.

Sincerely yours,

Henry L. Stimson

Secretary of War.

March 14, 1941.

The Honorable

The Secretary of the Treasury

Dear Mr. Secretary:

Reference is made to your letter dated February 26, 1941, concerning British requests for clearance pending in the War Department.

I am pleased to inform you that the comments of the War Department on the requests listed have been forwarded to the Office of Production Management in accordance with the usual procedure.

I regret that there has been delay on these items and can assure you that requests of this kind will be more expeditiously handled in the future.

Sincerely yours,

Secretary of War.

TREASURY DEPARTMENT

WASHINGTON

March 14, 1941

MEMORANDUM FOR THE SECRETARY'S DIARY:

On Friday, March 14, 1941, Pehle asked Foley to mention to the Secretary that he should like to ask State to call the Hungarian Charge d'Affaires in and request him to redeposit in the Legation's account at the Riggs National Bank the \$900,000 in cash which he recently withdrew from such account. Foley, later in the day, advised Pehle that the Secretary was agreeable to this course of action.

Pehle called Acheson Saturday morning, March 15, 1941, and explained the matter to him. Acheson said that such action would appear to be proper and that he would take the matter up further in the State Department. Shortly thereafter Mr. Livesey mentioned to Pehle that the Hungarian Charge d'Affaires was coming in to see him and was advised of Pehle's conversation with Acheson.

A short time later Mr. Livesey called Pehle back and said that the Hungarian Charge d'Affaires was at his desk and that he had discussed with the Charge d'Affaires the cash withdrawals. Livesey said the Hungarian Charge d'Affaires had indicated that the cash was being held in the Legation and wanted to discuss how the licensing system would work with regard to the funds which the Hungarians had in the United States. The Charge d'Affaires had mentioned to Livesey that he believed the Hungarian Central Bank had \$5,000,000 at the Federal Reserve Bank of New York. Livesey said that the Hungarian Charge d'Affaires wanted to know what to cable his government with respect to the reasons why the freezing order was applied to Hungary. With regard to this latter inquiry Pehle told Livesey that he was not prepared to discuss this matter under the circumstances, nor to participate in this informal way of handling the matter. With regard to the Hungarian funds in the United States Pehle advised Livesey that applications might be filed in the normal way and would be given careful consideration by this Department. With regard to the cash being held at the Legation Livesey was told that Pehle did not think we should be in the position of bargaining with the Charge d'Affaires with respect to the licenses which would be granted if the funds were redeposited in the account.

- 2 -

A short time later Mr. Gaston called Pehle to say that Berle had called him and indicated that Acheson had advised him of Pehle's conversation with Acheson and that Berle was going to handle the matter. Pehle told Gaston that Livesey was in Pehle's other office on another matter and that Livesey had just told Pehle that the Hungarian Charge d'Affaires had told him that Berle had been advised of the cash withdrawal by the Hungarian Charge d'Affaires at the time it was made. Mr. Gaston said that Berle was willing to take the matter up with the Charge d'Affaires, but that he wanted to be able to give the Charge d'Affaires some idea of the licenses we would be willing to grant and put it on the basis that it would be in the Charge d'Affaires' own interest to have the funds redeposited to the account. Berle had also said that the Hungarians would probably want to be able to pay for their diplomatic expenses in London out of their funds here. Pehle told Gaston that in order to give the Hungarian Legation some assurances on the matter without binding this Government too much it might be advisable to advise the Charge d'Affaires that the State Department was prepared to recommend to the Treasury that appropriate licenses be granted covering diplomatic and consular expenses in the Western Hemisphere and London. In this way if conditions changed State could tell the Hungarians that the Treasury had refused to follow its recommendations. Pehle also told Gaston we would not be troubled by payment of diplomatic expenses in London out of Hungarian funds here.

Berle subsequently telephoned Pehle and made the following points:

1. That he felt that the mere act of asking the Hungarians to put the cash back into the account suggested assurances that they would be allowed to use them.
2. That the Hungarian Charge d'Affaires told him about the cash withdrawals the same day but after they were made and at the same time he was told that they intended to withdraw the \$600,000 also.
3. That the suggestion that the State Department would advise the Hungarians that it was prepared to recommend certain action to the Treasury was not particularly agreeable to him since he felt it envisaged that the Treasury might not follow the recommendations of the State Department. Pehle told him the suggestion with regard to using the "recommendation" approach was merely to take care of changed factual situations and it was not to be assumed that the Treasury would not follow the State Depart-

- 3 -

ment's recommendations if the State Department wanted them followed.

4. That he did not know why the Treasury pressed for freezing of Hungarian funds. Pehle explained the circumstances with regard to our information as to the cash withdrawal and pointed out that the freezing of Hungarian funds had been participated in by the State Department.

Berle was called away by Secretary Hull, but called back at 2:30 to say that he had joined in the recommendation that Hungarian funds be frozen; that he had done so because the State Department was of the view that there was nothing to be lost in freezing Hungary and that the Treasury undoubtedly had some information on which it had based its recommendation that Hungary be frozen. He said, with regard to the treatment to be accorded Hungary under the license system, that we should keep in mind that the present Governmental group in Hungary was anti-Nazi when it was in a position to be and pro-Magyar, and that if given a chance it seemed likely they might be of some help in the future in the general Balkan picture.



March 14, 1941

Mr. Cochran

Mr. Dietrich

With reference to the \$22,500,000 in gold which the National Bank of Yugoslavia wishes to sell, Mr. Cameron, of the Federal, informs me that it has instructions to pay \$11,225,000 out of the account of the Yugoslavian Bank to the Chase National Bank for account of the National Bank of Yugoslavia. The Chase has instructions from Yugoslavia to transfer this amount to the account of the Banco de Brasil.

He also informs me that on March 12 the Federal received a cable from the B.I.S. to debit its account \$500,000 and pay that amount to the Chase Bank by order and for account of the National Bank of Yugoslavia. The Federal applied for a license to make this transfer, which was received today, and the payment was made. Mr. Cameron also informs me that the Chase had instructions to pay \$1,100,000 from the Yugoslavian account to Turkish account.

He also stated that the Federal had paid today from the Yugoslavian Bank \$917,000 to Chase. He thought that this payment and the one from the B.I.S. may be the same transaction inasmuch as there was a delay in granting the license for the B.I.S. payment. These two payments combined make a total of approximately \$1,600,000 paid to Chase by order of and for account of the Yugoslavian Bank.

The Federal also received instructions today from the B.I.S. to transfer on its books \$1,800,000 to the Swiss National Bank. The B.I.S. explained that this amount represented counter value of Swiss francs bought by the B.I.S. from the Swiss National Bank by order and for account of the National Bank of Yugoslavia to cover the latter's payments within Switzerland. The Federal is applying for a license to cover this transaction.

FD:ek:lsp:3/14/41

30

137

Secretary Morgenthau:

This is a copy of the brief note
which I sent to Mr. Powel last
week, and which was mentioned in
our conversation last evening.

3/14/41.

Arthur Hays Sulzberger

~~SECRET~~

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

March 14, 1941

TO Harford Powl

FROM Peter H. Odegard

If I were setting out to sell securities for a private business concern I would place great emphasis on the basic goals, resources, stability and future prospects of the enterprise in which I was asking people to invest. Following this line of thought, we should not lose sight in our own program of the goals, tremendous resources, power and stability of the United States of America.

For many years the American people have been wearing sack-cloth and ashes. They have been conscious of their trials and tribulations and not conscious enough of their triumphs. They have been inundated with propaganda of a defeatist variety emphasizing the weaknesses in our economic and political structure. Not even the heroic efforts of the New Deal have succeeded in dissipating this psychology of frustration and failure. The result is that many of our people have fallen prey to the specious claims of Nazi, Fascist and Communist superiority in solving the insistent problems of contemporary life. There has been a tendency, not alone among the underprivileged and the semi-literate but among others more highly placed, to gasp in amazement and admiration at Hitler's public works, at the Communist "liquidation of illiteracy", at Fascist achievements in "solving the problem of unemployment". The time is over ripe for a campaign to restore confidence in ourselves and to restore the balance between immolation and self-righteousness, between cynicism and complacency. I am not suggesting that we become Pollyannas but only that we cease listening exclusively to the voice of Cassandra. Time and circumstance demand that we discard our sack-cloth and ashes and don our working clothes.

More particularly I would like to see running through all of our copy a note of faith, courage, confidence and determination. Faith in our destiny, in the people and institutions of America, in the method of freedom and in equal justice under law; courage to meet the challenge of despotism; confidence in our inner strength, in our unity and integrity of purpose, in our capacity to solve our problems by the cooperation of men standing upright and not on their knees; determination that we shall leave no stone unturned to accomplish this end.

I would emphasize the truly spectacular achievements of the American people in every walk of life; the tremendous size, resources and potentialities of the Nation. I would remind people insistently and continually of the activities of their Government in serving them; ask them to look

- 2 -

around their own communities to note the schools, the highways, playgrounds and other public works; to remind them of the innumerable services rendered by national, state and local governments. Never let them forget that these things have been done without sacrificing their freedom of expression, their right to worship as they please, and without subjecting them to the terror of an insidious and all pervasive secret police. I would ask the American farmers to compare their lot with that of farmers living in totalitarian countries. Remind the worker of the difference between a society which protects his right to organize with those which deny it as a matter of principle. In like manner I would try to impress upon every major group in the Nation the advantages which come to it through living under the stars and stripes.

I would do all this without excessive flag waving, without insisting that we have achieved Nirvana. I would not deny the existence of inequities nor the fact that we have not solved all our problems but I would place major emphasis on the plus rather than the minus side.

So far as possible, I would avoid abstractions except as these can be particularized and even personalized. The story of Black Beauty is vastly more effective in promoting kindness to animals than reams of statistics or dozens of abstractions relating to the common kinship of all living things. In the same way a better appreciation of what this country means and stands for can be conveyed by personalized stories of Anthony Zebrowsky, the steel worker, Silas Dean, the farmer, and Johnny Jones, the school boy.

The basic material for this kind of a campaign can be found in abundance in the literature available in Washington: - The Offices of Information in Agriculture, in the Department of Labor, in the Public Health Service and in over one hundred other service agencies of the United States Government. We can also use the data provided by business organizations, labor unions, patriotic societies, and other groups which take an affirmative view of American life.

I mention all this because I am persuaded that the success of our Savings campaign will depend in the final analysis upon the extent to which we can get the American people to believe in themselves. I wouldn't like to try to sell securities for a concern that my prospects believed was on the verge of bankruptcy or that had a record of failure. I realize that to write to you in this vein is like carrying coals to Newcastle. But if we are to do our job of selling Government securities to the largest possible number of investors we can do so only to the extent that we contribute to the strengthening of national morale.

MAR 14 1941

My dear Mr. Ludlow:

It has come to my attention that the printed record of the hearings December 17, 1940, on the Treasury-Post Office Appropriation Bill for the 1942 fiscal year incorrectly indicates that I believed the cost of Government, as increased by national defense needs, should be financed on a ratio of one-third from revenues and two-thirds from borrowing. This unfortunate impression has since been referred to as fact by a number of reporters and editorial writers.

On February 12, 1941, in testimony on the Public Debt Act of 1941 before a subcommittee of the Senate Finance Committee, I responded as follows to a question by Senator Byrd:

"If the Congress would adopt a program under which we could raise through revenues an amount sufficient to finance two-thirds of all expenditures, and one-third from borrowing, I think it would be a very wholesome method to follow."

I shall appreciate any help you can give me in clearing up my position in the minds of members of the Congress, writers and others interested.

With sincere personal regards, I am

Faithfully yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The Honorable Louis Ludlow, Chairman,
Subcommittee on Appropriations for Treasury
and Post Office Departments,
House of Representatives,
Washington, D. C.

CS:efc

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE March 14, 1941

TO Secretary Morgenthau
FROM Mr. Haas *DA*
Subject: Comments on Gano Dunn steel report

I am submitting herewith, in response to your request, an analysis of the Gano Dunn report on the adequacy of our steel capacity.

This analysis, while not carried out in extensive detail, is sufficient to reveal that the apparent surplus of steel capacity indicated by the Dunn report is based on a number of unrealistic and erroneous assumptions. When allowance is made for these, it seems very likely that any surplus may be wiped out before the end of this year, and certainly by 1942.

Since the entire question of the speed of our defense effort is bound up in the adequacy of our steel capacity, it would seem that any differences of opinion should be resolved on the side of providing too much capacity rather than too little.

Attachments

Haas speaks to me

DA

Prepared by: Mr. Daggit
Mr. Lindow
Mr. Haas

Comments on the Gano Dunn Steel Report

I. The Treasury's relation to the question of steel capacity

1. For some time, concern has been felt in various quarters over the adequacy of our steel capacity. On December 18, 1940, a letter was sent to the President by the Secretary of the Treasury in which he expressed concern over this problem, saying that "no expert knowledge is necessary to see that the steel industry will be unable to handle the volume of orders that lies ahead." The need was indicated for an immediate expansion of steel capacity in order to forestall potential inflationary developments, which would react unfavorably on the economy of the country as well as on our whole fiscal program, and to guard against possible shortages of defense materials. ^{1/}
2. The President appointed Mr. Gano Dunn to make a thorough study of the steel industry and to submit a report, comparing probable steel requirements with the capacity of the steel industry to meet those requirements. Mr. Dunn conferred with Secretary Morgenthau regarding the Treasury's interest in the subject, and was offered all information on steel requirements available in the Treasury.
3. On January 17, 1941, the Division of Research and Statistics completed a statement converting into equivalent terms of ingot steel the quantities of various commodities required by Great Britain, as listed in a secret document prepared in London and presented to Secretary Morgenthau early in January by Mr. Arthur B. Purvis, Chairman of the British Supply Council in North America. The rates of conversion used by the Treasury were very conservative, and were determined after consultation with the steel expert of the Bureau of Research and Statistics of the National Defense Commission. In line with Secretary Morgenthau's offer of assistance to Mr. Dunn, the statement was sent to him by the Secretary immediately upon completion.
4. On January 22, Mr. Philip Young sent Mr. Dunn a copy of the December monthly report of the British Iron and Steel Corporation, the purchasing agent of the United Kingdom for commercial steel in the United States. This report presented, among other things, certain figures which were stated to be estimates of the future monthly exports of commercial steel.

^{1/} A copy of this letter, together with other letters referred to, is attached to this report.

- 2 -

5. On January 27, Mr. Dunn wrote the Secretary raising certain questions about the Treasury conversions of British requirements. In the absence of the Secretary, the questions raised by Mr. Dunn were answered in a letter of Acting Secretary Gaston, dated February 3. In order that Mr. Dunn might make his own conversions into ingot steel, Mr. Gaston also enclosed for his confidential use a copy of the estimates of requirements for selected commodities shown in the "London secret document" previously referred to.

II. Some general comments on the report

1. The conclusions of the Dunn report may be briefly summarized as follows:

(a) Steel capacity is larger than calculated by the American Iron and Steel Institute because the inactive time allowed for repairs and maintenance may be reduced, and certain capacity for making steel castings may be added.

(b) The total steel requirements for defense, British, and civilian needs are sufficiently lower than capacity to indicate a surplus for the calendar year 1941 of from 10 to 14 million tons, depending upon whether national income is \$80 billions or \$77 billions. For 1942, the surplus would be from 2 to 6 million tons depending upon whether national income were \$90 billions or \$87 billions.

(c) To make the calculated steel capacities effective it would be necessary to make certain increases in blast furnace and coke capacity.

2. No comprehensive analysis of the Dunn report can be made without undertaking a lengthy project. No such analysis is necessary, however, to conclude that the position taken in Secretary Morgenthau's letter of December 18 was well advised. This may be seen by considering some of the assumptions and calculations in the report which appear to be erroneous. Most of these seem to arise as a result of what appears to be a consistent effort in the report to use every possible means to increase the indicated steel plant capacity and to decrease the indicated requirements for steel.

III. Considerations in Dunn report regarding plant capacity

1. The Dunn report exaggerates the ingot capacity of the steel industry by assuming that the industry can operate at an average of 102½ per cent of capacity, as rated by the American Iron and Steel Institute. Even allowing for additional capacity coming into production, an average rate of 102½ per cent seems an excessive expectation, particularly in 1941, for the following reasons:

(a) Since much old and obsolete capacity has been brought into production, repairs will be more frequent and a high operating rate more difficult to attain.

(b) The steel rate has not currently risen higher than 98.8 per cent of rated capacity, despite all the pressure on steel production facilities that has been exerted in recent months.

Since the first quarter of 1941 is nearly past, with the steel rate averaging only 97 per cent of capacity, the rate would have to go immediately to nearly 104½ and hold at that level for the remainder of the year to average 102½ per cent in 1941.

(c) Historical precedent provides no basis for such an expectation. Even during the World War period this rate was not reached. The Dunn report contains a chart (labelled Appendix A) and table (Appendix B) purporting to show that during the World War the output of steel reached a peak of 101.6 per cent of rated capacity in the year 1916. The figures used in this chart and table, however, do not accurately represent the rate of output, since they are based on capacity at the end of the previous year (a customary but fallacious method) which fails to take into account the effect of increases in capacity during the year. In another section of the report (page 29), Mr. Dunn recognizes the desirability of taking such increases into account, saying "If such capacities had been added as they came into operation, the percentages by which production exceeded capacity would be reduced." Using his figures (Appendix B of the report) the average rate of steel output in 1916, based on average capacity during the year, was 97.6 per cent.

- 4 -

2. The steel capacity figure is exaggerated by the addition of 1,320,000 tons of capacity for "outside steel castings" as of December 31, 1940 and 1,387,000 tons as of December 31, 1941. If these are included in the capacity figures, steel castings should also have been included in the estimates of steel requirements.
3. The Dunn report similarly exaggerates the pig iron capacity by assuming that blast furnaces can operate at an average of 102½ per cent of rated capacity in 1941 and 1942. In view of the fact that the pig iron rate in January 1941, as estimated by the American Iron and Steel Institute, was only 95.5 per cent of capacity, and in February only 95.2 per cent, the rate would have to rise immediately to 104 per cent of capacity and hold at that level until the end of the year to average 102½ per cent in 1941.

IV. Considerations in Dunn report regarding requirements

1. A serious understatement of steel requirements is made in presenting the estimates as for the calendar years 1941 and 1942, when in reality the essential data apply to the years ending 6 months earlier. Thus it is said (page 50) that "the estimates in this report are in terms of calendar years" and the estimates of total steel requirements are given as 77.5 million tons "for the calendar year 1941" (page 62) and 89.0 million tons "for the calendar year 1942" (page 63). Yet the figure of 61.0 million tons of steel used for civilian requirements in the estimate for calendar year 1941, for example, is the de Chazeau estimate of requirements during the year ending June 30, 1941, (not "at the end of the year" as stated in the report) and similarly for calendar year 1942. To correct this one item, it would be necessary to project the de Chazeau estimate 6 months ahead, which would add 4.5 million tons to civilian requirements in calendar year 1941.

The only possible justification for this might be that the author wished to be conservative as to national income levels. That is to say, the Dunn report may have taken the de Chazeau national income figures on a fiscal year basis as a calendar year estimate. If this be the case, the Dunn report assumes a level of national income 5 billion dollars lower in the calendar year 1941, and a correspondingly lower volume of steel requirements for civilian consumption, than is consistent with the de Chazeau basic estimates which the Dunn report claims to accept.

- 5 -

2. The estimates of steel required for direct defense needs of the United States are obviously too low,

(a) Because they are based only on appropriations actually made (for the Army, Navy, and Maritime Commission) as of the end of November. The actual requirements, particularly in view of the passage of the lend-lease bill, will obviously exceed appropriations as of that date.

(b) Because they are for fiscal years, and cover periods 6 months earlier than the calendar years to which the estimates of total requirements are stated to apply. A correction for this error would add 700,000 tons to direct defense requirements for the calendar year 1941, without allowance for any requirements in excess of those for which appropriations had actually been made as of the end of November.

(c) Because, except for requirements of the Bureau of Docks of the Navy, they make no allowance for the construction steel directly or indirectly required for the defense program. These requirements are not included in any other category.

3. The Dunn report does not allow for ingot steel required for American plant expansion to take care of certain projected British programs in this country. This item is mentioned in connection with British requirements for export with the explanation that it is being transferred to the classification of civilian consumption, but the amount involved has not been added to the other items included in estimates of civilian consumption in the Dunn report. The Treasury statement had included British estimates for this item as prepared by the British Purchasing Commission.

4. British requirements for steel, according to the Dunn report, are reduced considerably as compared with the figures arrived at by the Treasury through translating into ingot steel the requirements listed in the "London secret document". The reductions are achieved by various means, but all are unwarranted. In this connection, the Dunn report gives the impression that the Treasury itself estimated what the British needs were, rather than merely translating into steel ingots the specific quantities of particular items cited in the "London secret document".

- 6 -

The major weaknesses in this section of the Dunn report may be described briefly as follows:

(a) The figures used for commercial steel are based on exports considerably lower than were indicated as requirements in the "London secret document." The latter figures were in Mr. Dunn's hands but instead he used information taken from the monthly report of the British Iron and Steel Corporation. The commercial steel figures in the Corporation's report are not as comprehensive nor as newly estimated as those in the "London secret document."

(b) The Dunn report allows ingot steel for British ships to the amount of only 120 ships per year, whereas the "London secret document" calls for 2½ to 3 times as many. From the Treasury conversions of figures cited in the "London secret document", the Dunn report calculates that 334 ships are involved in 1941 and 300 in 1942 but deems these quantities excessive "...in view of the capacity of our yards built, building and to be built; and the large additional demands upon them for the construction of American ships."

(c) The Dunn report also reduces the Treasury conversion figure for ammunition in 1942 on grounds that the rate of conversion was too high. No change was made, however, in the Treasury figure for 1941, although exactly the same ammunition items were covered and the same conversion factor was used.

(d) To offset all these reductions, the Dunn report sets up a special allowance which is intended to appear as being generous in providing for British export, but the allowance is so small that it is only a gesture when compared with the amounts by which British requirements were written down.

(e) The Dunn report makes its figures for British export compare favorably with the Treasury figures by adjusting the Treasury figures to take out something which is not in them. The adjustment is made by taking out almost 2,000,000 tons of pig iron and scrap iron assumed to be in the Treasury figures for ingot steel, which were not so included.

5. The discussion in the Dunn report of the Treasury conversions inadvertently releases to the public important derivative information from the "London secret document." From the converted figures, it is possible by converting backwards to determine the magnitude of items listed in that highly confidential report. The Dunn report did this in the case of ships and actually cited an exact number of

- 7 -

ships as computed from the Treasury conversions of the secret figures. As it stands, the British stated requirements for ships is accurately portrayed in the Dunn report which has been made available for public inspection.

V. Summary and conclusions

In an apparent effort to magnify the indicated steel plant capacity and to minimize indicated requirements for steel, the Dunn report makes use of a number of unrealistic and erroneous assumptions, leading to conclusions regarding the adequacy of our steel capacity which are untenable.

1. He assumes that steel furnaces can operate at a rate $2\frac{1}{2}$ per cent higher than the capacity as rated by the American Iron and Steel Institute, despite a lack of historical precedent, despite an increased number of over-age plants, and despite the evidence afforded by lower current operating rates.
2. He adds a substantial tonnage of steel casting capacity, although steel castings are not included in the estimates of requirements.
3. He under-estimates direct defense requirements by including only actual appropriations as of the end of November 1940, by using figures for fiscal years and applying them to calendar years ending six months later, and by failing to include most of the construction steel directly and indirectly involved in the defense program.
4. He under-states British steel requirements by failing to use the most comprehensive and recent of the British figures. Instead, he uses older and smaller figures for commercial steel requirements, and drastically writes down the amount involved in British ship requirements.
5. He under-states the United States civilian requirements as compared with the de Chazeau estimates, by using fiscal year estimates to apply to the calendar years ending six months later.

After allowances are made for the various erroneous assumptions underlying the estimates in the Dunn report, and particularly if provision be made for steel requirements in excess of those for which appropriations actually had been made as of November 1940, it seems very likely that the steel surplus envisaged in the Dunn report may be completely wiped out before the end of this year, and certainly by 1942.

- 8 -

Since the entire question of the speed of our defense effort is bound up in the adequacy of our steel capacity, it would seem that any differences of opinion should be resolved on the side of providing too much capacity rather than too little.

STRICTLY CONFIDENTIAL
150

COPY

December 15, 1940

My dear Mr. President:

My interest in forestalling potential inflationary developments that would react unfavorably on the economy of the country, as well as our whole fiscal program, and in guarding against possible shortages of defense materials, leads me to express my serious concern over the growing congestion in the steel industry.

No expert knowledge is necessary to see that the steel industry will be unable to handle the volume of orders that lies ahead. In addition to the huge British orders that are now in prospect, the bulk of our defense orders are still to be placed with the steel mills, and the ordinary non-defense demand will undoubtedly be enlarged as the national income rises. As you will note on the chart which I am attaching, there is very little capacity available in any steel district for a further increase in output.

A system of priorities, applied except as a temporary expedient, would seriously hamper the program for achieving full employment of labor and resources.

I have not been greatly encouraged by recent press announcements of expansion plans by certain steel companies. In an attached table I have listed all of the proposed increases in steel ingot capacity that I know about, plus the new capacity (electric furnace) completed this year or under construction. Taken together, this amounts to a prospective increase in ingot capacity of only 2.7 per cent, the bulk of which apparently will not be completed for 12 to 18 months.

You will recall the large steel expansion that was found necessary during the World War, when the ingot capacity was increased about one-third between 1914 and 1918. In view of the increasingly urgent need for more steel, it seems to me that an immediate major expansion program for the steel industry is clearly called for.

Faithfully yours,

(Signed) H. Morgenthau, Jr.

The President,

The White House.

C O P Y

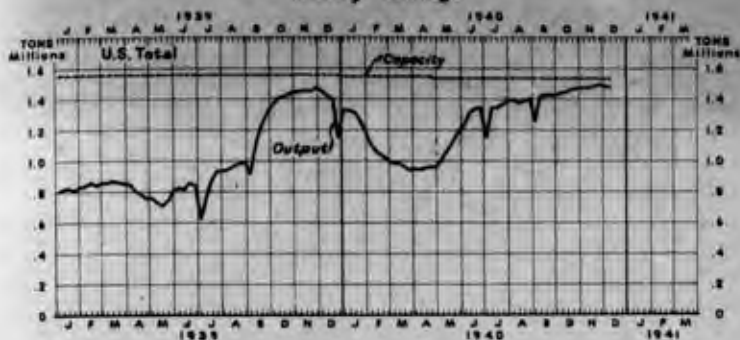
New steel capacity completed, under construction
or authorized since January 1, 1940

	Net tons
Bethlehem Steel Corporation	850,000
U. S. Steel Corporation	400,000
American Rolling Mill	50,000

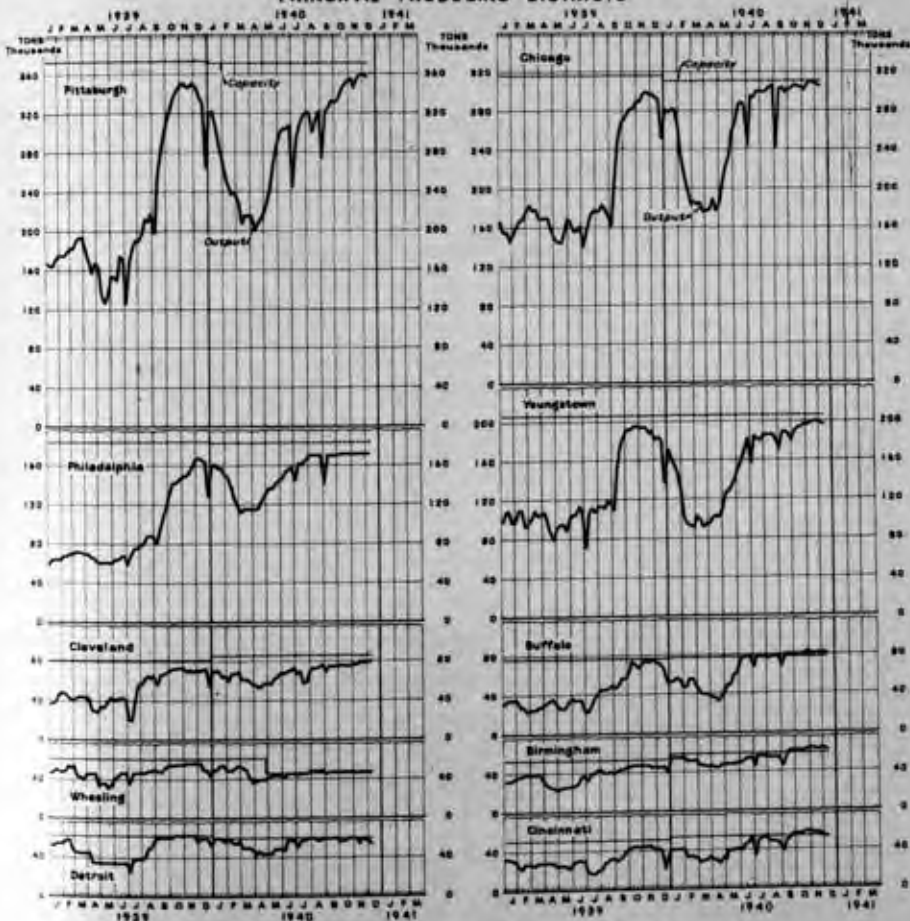
Electric furnaces
(American Iron and Steel Institute
estimate of capacity of 21 new
electric furnaces now in operation,
or expected to be in production
early in 1941)

	<u>900,000</u>
	2,200,000

STEEL OUTPUT AND RATED CAPACITY* Weekly Tonnage



PRINCIPAL PRODUCING DISTRICTS



*Based on Iron Age data

This is the property of the United States Government and should not be distributed outside its limits.

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153

COPY

THE SECRETARY OF THE TREASURY
WASHINGTON

January 17, 1941

Dear Mr. Dunn:

With reference to our conversation last week, I am sending you herewith an estimate of British Government requirements for steel in the United States, which is based upon a British Government report just recently compiled.

Sincerely,

(signed) H. Morgenthau, Jr.

Mr. Gano Dunn,
Senior Consultant,
Advisory Commission on National Defense,
Room 2807 Munitions Building,
Washington, D. C.

COPY

ESTIMATED BRITISH GOVERNMENT REQUIREMENTS FOR STEEL
IN THE UNITED STATES, IN TERMS OF INGOTS

The attached table shows the estimates which we have made on the amount of steel required by the British Government in the United States during 1941 and 1942. These estimates were made on the basis of the most recent information available concerning British requirements but they are known to represent an understatement in view of the fact that requirement figures were not available except for major items.

The total estimate for the two years is 25,000,000 tons of ingots, of which about two-thirds is for commercial steel items and one-third for steel in manufactured goods, including steel required for plant expansion purposes. The total requirements thus represent an ingot output of slightly more than 1,000,000 tons per month. This compares with a present capacity of about 7,000,000 tons of ingots per month. The British requirements would thus take up approximately 15 percent of the capacity — assuming the demands were spread over the two years. It is probable that the actual immediate need is even larger, since the British estimate of requirements must have been framed with allowance for United States priorities and for the availability of bottoms.

It should be noted that our estimates do not include the requirements of Canada or the other Dominions, and exclude British requirements in connection with certain manufactured items for which no data are available.

Attachment

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

January 17, 1941.

COPY

ESTIMATED BRITISH GOVERNMENT REQUIREMENTS

FOR STEEL, IN TERMS OF STEEL INGOTS

(In thousands of tons)

Form of requirement	Total	1941	1942
Commercial steel	16,502	8,251	8,251
Manufactured goods			
Ships	2,857	1,504	1,353
Aircraft	347	122	225
Tanks	371	234	137
Ordnance	220	182	38
Ammunition	3,197	918	2,279
Machine tools	66	33	33
Total manufactured goods	7,058	2,993	4,065
Plant expansion	960	480	480
Total requirements	24,520	11,724	12,796

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

January 17, 1941

COPY

THE ADVISORY COMMISSION TO THE COUNCIL OF NATIONAL DEFENSE
Washington, D. C.

Monday
January 27, 1941

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

Dear Mr. Secretary:

I want to thank you for the estimate of British Government requirements for steel in the United States, which you sent me in your letter of January 17 and which I have carefully studied.

Since receiving your letter I have received the Monthly Program Statement of the British Iron and Steel Corporation, Ltd., giving their estimates for the coming year. There is considerable difference between these estimates, which I should like to submit for your advice as to whether they can be harmonized.

The British figures from their Institute indicate for the calendar year 1941 approximately 5 million gross tons in semi-finished and finished commercial carbon steels. If we assume (which may not be warranted) that 60% of this amount is in semi-finished steel and convertible into ingots at an inverse ratio of 85%, and if we assume that 40% is similarly convertible at an inverse ratio of 72%, it yields an annual delivery of 6,380,000 gross tons, which is equal to 7,120,000 net tons. The figure in your estimate is 8,251,000 net tons, or 1,131,000 net tons more.

In your estimate 1,504,000 net tons is set aside for ships during 1941, but I am informed that these ships, which are of a

cargo type, call for 3,500 net tons of finished steel of which the ingot equivalent is approximately 4,000 net tons. At the rate of 1,504,000 net tons of requirements this would represent 376 ships, which seems way beyond what might be expected to be the right number, as it is beyond the present and future capacity of our shipyards. I am informed that the British program at present calls for only 60 ships of which only half are expected to be off the ways this year.

Would not 500,000 tons for ships seem nearer the possible requirements than 1,504,000 tons?

The estimate with which you have been kind enough to supply me gives for the calendar year 1941 918,000 net tons for ammunition. It is my understanding that a large portion of this ammunition steel is for demolition bombs, which are not made of ingot steel but of cast steel in foundries whose steel-making capacity is not included in the ingot capacity figures reported by the American Iron and Steel Institute for the steel industry. It would seem, if I am not in error, that a reduction by 500,000 tons to 418,000 tons would be a more likely figure for the ingot steel for ammunition.

Your estimate also gives 480,000 tons for plant expansion, but is it not true that this plant expansion is in the United States, in which case the whole of this item would be included in the figures for United States civilian consumption and should not be entered in the export requirements?

-3 -

If we add together the differences so far accumulated between your estimates and the estimates of the British Iron and Steel Corporation, Ltd., they amount to 3,115,000 net tons, and if we subtract this from your figure for 1941 of 11,724,000 net tons, it leaves for British export 8,609,000 net tons instead of the 11,724,000 tons of your estimate.

If to the British export we add 1,800,000 tons for Canada and 2,000,000 tons for other exports, we will get a total export figure of 12,409,000 tons, which is considerably within the figure of 14,500,000, which up to now we have been using.

Your estimates did not indicate whether the tons were gross or net, but inquiry from your office brought the reply that they were net, excepting for possibly a few items of small amount which were gross, of which the inclusion would not materially affect the result.

Appreciating very much your help in this matter, I am

Sincerely yours,

(signed) Gano Dunn

Gano Dunn
Senior Consultant
Industrial Materials Division

STRICTLY CONFIDENTIAL

COPY

THE SECRETARY OF THE TREASURY
WASHINGTON

159

February 3, 1941

Dear Mr. Dunn:

Receipt is acknowledged of your letter of January 27, in which you discuss the estimates of British Government requirements for steel in the United States.

The first three questions which you raise concerning the Treasury estimates submitted to you apparently arise because of a difference in the basic data considered. The Treasury estimates (except for plant expansion) were based on a secret comprehensive statement of British requirements which was recently received from Mr. Furvis. This statement showed, for selected items, the estimated quantity or dollar value required from the United States in 1941 and 1942. Naturally, in some cases, these requirements represent an amount greater than present available productive capacity in the United States. This is the case with ships. If the British are to secure the ships which they estimate they need, however, it will of course be necessary to attack the problem of increasing ship-building capacity where it is deficient, as well as supplying the steel for the ships.

For your confidential use, I am attaching a table listing the requirements of selected items referred to above. It should be noted that the figures for commercial steel have now been cleared up as to the basis of measurement, and the original Treasury estimates will have to be revised upward accordingly. Your attention is also called to the fact that no demolition bombs are included in the ammunition figures, so that the Treasury estimates do not include cast steel for their manufacture, as you suggest.

The last question that you raise concerns the amount of steel required for plant expansion in order to meet British requirements in this country. The estimate for plant expansion included in the statement of British steel requirements prepared by the Treasury was taken from data prepared by the British Purchasing Commission recently but prior to receipt of the secret comprehensive statement of British requirements referred to above. This means that the estimate was based on

Mr. Dunn - 2

a less comprehensive list of requirements than is now available, and the figure included in the Treasury table is therefore probably too low.

In any event, you suggest that steel required for plant expansion to cover British export requirements should be considered as already allowed for in estimates of civilian consumption of steel, and that, therefore, such requirements should not be considered along with the British needs for export. One question occurs to me, however, in connection with estimates made from the point of view of domestic consumption. Is it possible for such estimates of steel requirements to cover plant expansion required for British export needs beyond the orders or inquiries already known to manufacturers? On the other hand, the estimate for plant expansion in the Treasury table covered not only such orders but also programs which were in the initial stages of development.

I should like to call to your attention the fact that the attached list itself is not all-inclusive, but covers only the principal kinds of articles required. For example, no estimate is included for motor vehicles, although it is obvious that British purchases of trucks, scout cars, and the like will call for at least a small amount of steel.

Sincerely yours,

(signed) Herbert E. Gaston

Acting Secretary of the Treasury

Mr. Gano Dunn, Senior Consultant,
Industrial Materials Division,
The Advisory Commission to the
Council of National Defense,
Washington, D. C.

Attachment

Note: The table referred to in the letter to
Mr. Dunn is not included because of its
very confidential character.

Miss Chouncey

March 14, 1941

CONFIDENTIAL

Dear Mr. Knabe:

Permit me to acknowledge, in behalf of the Secretary, the receipt of your letter of March 5, 1941, with which you transmitted your compilation for the week ended March 5, 1941, showing dollar disbursements out of the British Empire and French accounts at the Federal Reserve Bank of New York and the means by which such expenditures were financed.

Faithfully yours,

(Signed) H. Merle Cochran

H. Merle Cochran
Technical Assistant to the Secretary

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

ENG:lap-3/14/41

FEDERAL RESERVE BANK
OF NEW YORK



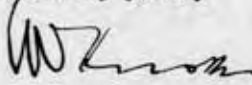
March 15, 1941.

CONFIDENTIAL

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

I am enclosing herewith our compilation for the week ended March 5, 1941, showing dollar disbursements out of the British Empire and French accounts at this bank and the means by which these expenditures were financed.

Faithfully yours,



L. W. Knoke,
Vice President.

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

Enclosure

MAR 15 1941

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

Week ended March 5, 1944

Confidential

PERIOD	DEBITS			CREDITS		
	Total	Govt	Other	Total	Govt	Other
Aug. 27 - Sept. 27, 1939	54.3	2.6	51.7	11.3	-	11.3
Aug. 28 - Nov. 1, 1940	106.4	5.8	100.6	41.8	35.0	6.8
Nov. 2 - 28	191.7	8.8	182.9	55.1	57.8	- 2.7
Nov. 29 - Jan. 3, 1941	97.7	5.7	92.0	32.5	15.3	17.2
Jan. 4 - 31	54.8	15.8	39.0	50.1	6.8	43.3
Feb. 1 - 28	124.2	15.4	108.8	54.8	16.7	38.1
Feb. 29 - Apr. 3	115.5	14.5	101.0	29.6	18.0	11.6
Apr. 4 - May 1	113.4	28.1	85.3	19.2	15.0	4.2
May 2 - 29	100.8	22.6	78.2	15.2	11.0	4.2
May 30 - July 5	283.8	145.3	138.5	350.6	188.4	162.2
July 6 - 31	249.7	93.0	156.7	3.0	0.2	2.8
Aug. 1 - 26	261.1	80.2	180.9	192.1	2.0	190.1
Aug. 27 - 31	180.2	80.9	99.3	192.1	2.0	190.1
First year of war	1,098.2	608.8	489.4	1,250.2	1.2	1,249.0
Oct. 3 - 30	186.7	162.8	23.9	186.7	0.5	186.2
Oct. 31 - Nov. 27	241.0	201.1	39.9	241.0	0.7	240.3
Nov. 28 - Dec. 31	224.6	206.8	17.8	198.2	0.6	197.6
Dec. 1 - 31	128.3	128.3	-	128.3	0.2	128.1
Jan. 1 - 31	128.3	128.3	-	128.3	0.2	128.1
Feb. 1 - 28	128.3	128.3	-	128.3	0.2	128.1
Feb. 29 - Apr. 3	128.3	128.3	-	128.3	0.2	128.1
Apr. 4 - May 1	128.3	128.3	-	128.3	0.2	128.1
May 2 - 29	128.3	128.3	-	128.3	0.2	128.1
May 30 - July 5	128.3	128.3	-	128.3	0.2	128.1
July 6 - 31	128.3	128.3	-	128.3	0.2	128.1
Aug. 1 - 26	128.3	128.3	-	128.3	0.2	128.1
Aug. 27 - 31	128.3	128.3	-	128.3	0.2	128.1
Sept. 1 - 30	128.3	128.3	-	128.3	0.2	128.1
Oct. 1 - 31	128.3	128.3	-	128.3	0.2	128.1
Nov. 1 - 30	128.3	128.3	-	128.3	0.2	128.1
Dec. 1 - 31	128.3	128.3	-	128.3	0.2	128.1
1940	1,098.2	608.8	489.4	1,250.2	1.2	1,249.0
1941	1,098.2	608.8	489.4	1,250.2	1.2	1,249.0
1942	1,098.2	608.8	489.4	1,250.2	1.2	1,249.0
1943	1,098.2	608.8	489.4	1,250.2	1.2	1,249.0
1944	1,098.2	608.8	489.4	1,250.2	1.2	1,249.0

Average Weekly Expenditures

State

Outbreak of War

\$19.6 million

\$27.6 million

\$55.2 million

England (through June 19)

France (through June 19)

England (since June 19)

France (since June 19)

England (since June 19)

France (since June 19)

Transfer from British Purchasing Commission to

Bank of Canada for French Account

Week ended March 5

\$ 2.3 million

\$ 13.0 million

Quantities from July 6

(See footnotes on reverse side)

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

Week Ended March 5, 1940.

Confidential

PERIOD	BANK OF ENGLAND (BRITISH GOVERNMENT)								BANK OF FRANCE						Net Incr. (+) or Deer. (-) in Balance
	DEBITS				CREDITS				DEBITS			CREDITS			
	Total Debits	Gov't Expendi- tures(a)	Other Debits	Total Credits	Proceeds of Sales of			Net Incr. (+) or Deer. (-) in Balance	Total Debits	Gov't Expendi- tures (d)	Other Debits	Total Credits	Proceeds of Gold Sales	Other Credits	
				Gold	Securities Official (b)	Other Credits(c)									
1939															
Aug. 31 - Sept. 27	94.3	3.6	90.7	207.8	185.4	-	22.4	+115.5	19.4	6.0	13.4	11.3	-	11.3	- 8.1
Sept. 28 - Nov. 1	105.7	5.8	100.9	142.0	5.2	-	138.8	+ 35.3	88.6	61.8	105.4	76.2	35.0	41.2	- 15.4
Nov. 2 - 29	191.7	8.9	182.8	105.8	57.8	-	48.0	- 85.9	78.6	-	-	82.9	55.1	27.8	+ 4.3
Nov. 30 - Jan. 3	97.7	8.7	89.0	75.2	50.6	-	24.5	- 22.5	86.8	28.1	58.7	103.2	92.9	15.3	+ 22.4
1940															
Jan. 4 - 31	54.8	16.8	38.0	43.4	20.6	-	22.8	- 11.4	61.5	31.5	30.0	55.9	50.1	5.8	- 5.6
Feb. 1 - 28	124.8	15.4	108.8	103.3	56.7	-	51.6	- 15.9	72.7	32.8	39.9	71.5	54.8	16.7	- 1.2
Feb. 29 - Apr. 3	115.5	14.5	101.0	94.0	60.9	14.0	19.1	- 21.5	99.6	35.9	53.7	105.0	75.4	29.6	+ 3.4
Apr. 4 - May 1	113.4	26.1	87.3	86.4	45.8	20.0	19.6	- 27.0	84.8	23.4	55.4	78.7	60.7	18.0	+ 6.1
May 2 - 29	100.9	23.6	77.3	126.2	93.2	12.0	21.0	+ 25.3	101.4	57.0	44.4	145.4	126.2	19.2	+ 44.0
May 30 - July 3	283.2	145.3	137.9	319.3	301.3	5.0	15.0	+ 36.1	156.7(e)	127.3(e)	29.4	345.1(e)	335.6	9.5(e)	+188.4
July 5 - 31	249.7	156.7	93.0	225.0	212.2	2.0	10.8	- 24.7	7.3	3.3	1.0	3.2	3.0	0.2	- 4.1
Aug. 1 - 28	261.1	180.2	80.9	294.8	267.4	1.0	26.4	+ 33.7	8.9	0.5	6.4	10.9	10.4	0.5	+ 7.0
First year of war	1,795.2	605.6	1,189.6	1,828.2	1,356.1	52.0	420.1	+ 35.0	865.3	416.6	449.7	1,025.3	900.2	195.1	+223.0
Aug. 29 - Oct. 2	316.8	244.3	72.5	308.9	271.5	6.0	31.4	- 7.9	8.6	4.4	4.2	1.3	-	1.3	- 7.3
Oct. 3 - 30	196.7	167.8	28.9	198.5	160.5	6.0	32.0	+ 1.8	0.5	0.3	0.2	0.5	-	0.5	-
Oct. 31 - Nov. 27	241.0	201.1	39.9	259.5	210.0	18.0	31.5	+ 18.5	0.8	0.1	0.7	0.7	-	0.7	- 0.1
Nov. 28 - Dec. 31	234.6	206.8	27.8	198.0	111.4	28.0	80.6	- 36.6	2.1	-	2.1	0.6	-	0.6	- 1.5
War period through Dec. 31	2,782.3	1,425.6	1,356.7	2,733.1	2,109.5	108.0	575.6	+ 10.8	878.3	421.4	456.9	1,026.4	900.2	196.2	+220.1
Jan. 1 - 28	197.1	182.7	14.4	259.9	176.2	52.0	31.7	+ 22.2	1.7	-	1.7	0.9	-	0.9	- 1.1
Jan. 29 - Feb. 28	164.6	137.8	26.8	101.4	26.6	26.0	48.0	- 63.2	0.2	-	0.2	0.2	-	0.2	-
Feb. 29 - Apr. 3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
WEEK ENDING:															
Feb. 11	37.4	31.9	5.5	14.1	-	6.0	8.1	-23.3	-	-	-	0.1	-	0.1	+ 0.1
17	49.7	38.2	11.5	19.6	-	6.0	13.6	-21.1	0.2	-	0.1	0.1	-	0.1	-
24	40.0	27.0	13.0	44.5	26.6	4.0	13.9	+ 4.5	-	-	-	-	-	-	-
Mar. 5	56.7	42.0	14.7	50.1	24.8	19.0	6.3	- 6.6	-	-	-	-	-	-	-

Average Weekly Expenditures Since Outbreak of War
France (through June 19) \$19.6 million
England (through June 19) 27.6 million
England (since June 19) 55.2 million

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

Week ended March 5 \$ 2.3 million
Cumulation from July 6 \$ 134.6 million

(See footnotes on reverse side)

- (a) Includes payments for account of British Purchasing Commission, British Air Ministry, British Supply Board, Ministry of Supply, Timber Control, and Ministry of Shipping.
- (b) Estimated figures based on transfers from the New York Agency of the Bank of Montreal, which apparently represent the proceeds of official British sales of American securities, including those effected through direct negotiation. In addition to the official selling, substantial liquidation of securities for private British account occurred, particularly during the early months of the war, although the receipt of the proceeds at this Bank cannot be identified with any accuracy. According to data supplied by the British Treasury and released by Secretary Morgenthau, total official and private British liquidation of our securities through December 1940 amounted to \$334 million.
- (c) Includes about \$85 million received during October from the accounts of British-authorized banks with New York banks, presumably reflecting the requisitioning of private dollar balances. Other large transfers from such accounts during more recent months apparently represent the acquisition of proceeds of exports from the sterling area and other currently accruing dollar receipts.
- (d) Includes payments for account of French Air Commission and French Purchasing Commission.
- (e) Adjusted to eliminate the effect of \$20 million paid out on June 26 and returned the following day.

ANALYSIS OF CANADIAN AND AUSTRALIAN ACCOUNTS
(In Millions of Dollars)

Week Ended March 5, 1941

Strictly Confidential

PERIOD	BANK OF CANADA									COMMONWEALTH BANK OF AUSTRALIA							
	DEBITS			CREDITS						DEBITS			CREDITS				
	Total Debits	Transfers to Official British A/C	Other Debits	Total Credits	Proceeds of Gold Sales	Transfers from Official British A/C For Own A/C	For French A/C	Other Credits	Net Incr. (+) or Decr. (-) in Balance	Total Debits	Transfers to Official British A/C	Other Debits	Total Credits	Proceeds of Gold Sales	Other Credits	Net Incr. (+) or Decr. (-) in Balance	
1939																	
Aug. 31 - Sept. 27	17.5	0.6	16.9	21.8	15.1	0.8	-	5.9	+ 4.3	-	-	-	-	-	-	-	
Sept. 28 - Nov. 1	9.6	0.3	9.3	16.7	7.3	2.1	-	7.3	+ 7.1	-	-	-	1.9	1.9	-	+ 1.9	
Nov. 2 - 29	9.9	0.7	9.2	14.4	15.3	-	-	1.1	+ 4.5	-	-	-	-	-	-	-	
Nov. 30 - Jan. 3	30.0	-	30.0	22.8	15.3	3.0	-	6.5	- 7.2	2.5	-	2.5	5.8	5.8	-	+ 3.3	
1940																	
Jan. 4 - 31	23.5	-	23.5	25.7	21.1	-	-	4.6	+ 2.2	5.2	0.3	4.9	3.3	3.0	0.3	- 1.9	
Feb. 1 - 28	23.1	-	23.1	17.0	16.1	-	-	0.9	- 6.1	3.3	0.1	3.2	2.4	2.2	0.2	- 0.5	
Feb. 29 - Apr. 3	42.3	-	42.3	29.5	29.3	-	-	0.2	- 12.8	3.0	0.3	2.7	2.2	1.6	0.6	- 0.8	
Apr. 4 - May 1	32.2	-	32.2	42.9	24.8	15.0	-	3.1	+ 4.7	2.3	-	2.3	2.0	1.8	0.2	- 0.3	
May 2 - 29	37.9	15.0	52.9	50.2	50.0	-	-	0.2	+ 12.3	1.2	0.2	1.0	2.6	1.7	0.9	+ 1.4	
May 30 - July 3	44.1	-	44.1	72.5	72.2	-	-	0.3	+ 22.4	2.3	-	2.3	5.9	4.4	1.5	+ 3.6	
July 4 - 31	22.2	-	22.2	117.6	96.3	-	-	2.1	+ 29.4	4.6	-	4.6	5.0	4.2	0.8	- 0.4	
Aug. 1 - 28	18.7	-	18.7	73.6	53.9	-	-	19.5	0.2	+ 54.9	6.8	3.0	3.8	5.0	3.4	1.6	- 1.6
Aug. 29 - Oct. 2	323.0	16.6	306.4	504.7	412.7	20.9	32.7	32.4	+121.7	31.2	3.9	27.3	35.1	30.0	6.1	+ 4.9	
Oct. 3 - 30	44.3	-	44.3	43.9	15.4	-	27.3	0.2	- 0.4	8.7	2.5	6.2	8.0	6.7	1.3	- 0.7	
Oct. 31 - Nov. 27	26.7	-	26.7	28.6	14.0	-	14.3	0.3	+ 1.9	10.1	7.5	2.6	7.9	6.5	1.4	- 2.2	
Nov. 28 - Dec. 31	55.2	-	55.2	69.6	49.2	-	16.7	3.7	+ 34.4	3.1	0.6	2.5	3.6	2.1	1.5	- 0.5	
War period through Dec.	477.8	16.5	460.6	707.4	534.8	20.9	110.7	41.0	+230.2	57.9	14.5	43.4	62.4	50.1	12.3	+ 4.5	
Jan. 2 - 29	33.7	-	33.7	33.9	16.9	-	15.0	2.0	- 0.2	4.8	-	4.8	6.8	5.1	1.7	+ 2.0	
Jan. 30 - Feb. 26	31.1	-	31.1	24.3	14.3	-	6.8	3.2	- 6.8	5.0	1.7	3.3	3.2	0.6	2.6	- 1.8	
Feb. 27 - Apr. 2																	
WEEK ENDED:																	
Feb. 11	1.9	-	1.9	9.7	3.4	-	4.3	2.0	+ 7.8	1.0	-	1.0	0.5	-	0.5	= 0.5	
19	12.9	-	12.9	4.5	3.7	-	0.2	0.6	- 0.4	0.2	-	0.2	0.3	-	0.3	+ 0.1	
26	7.9	-	7.9	3.0	2.2	-	-	0.4	- 4.9	1.2	-	1.2	0.2	-	0.2	- 1.0	
March 5	13.6	-	13.6	7.7	4.3	-	2.3	1.1	- 5.9	1.8	0.8	1.0	6.6	6.4	0.2	+ 4.8	

Weekly Average of Total Debits Since Outbreak of War
Through March 5, 1941 \$ 7.0 million

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 14, 1941

MISS
Cochran

TO Secretary Morgenthau
FROM Mr. Cochran

Yesterday afternoon Mr. David Schenker of the Securities and Exchange Commission telephoned requesting that I receive Mr. Arthur Bunker, a partner in Lehman Brothers of New York, to obtain his observations upon the question of British disposal of direct investments in this country.

I received Mr. Bunker, accompanied by Mr. Schenker, at 3:30 p.m. Mr. Bunker told me that some days ago he had called on Sir Edward Peacock. He explained to me that he had no business to present, but did offer some suggestions. He had not been favorably impressed with the reception extended him.

At some length Mr. Bunker set out to me his own ideas as to the establishing of a corporation in New York for taking over and liquidating both direct and marketable investments of the British. As the visit was concluding, I was called out of the office, but arranged that Mr. Schenker should draw up a memorandum setting forth the Bunker proposition for submission to the Treasury.

I talked by telephone with Mr. Schenker at 11:30 this morning. He is enthusiastic over Mr. Bunker's ideas, and promised to let us have the memorandum which he is preparing as soon as completed.

[Handwritten signature]

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 14, 1941

TO Secretary Morgenthau
FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£58,000
Purchased from commercial concerns	£16,000

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

Open market sterling remained at 4.03-1/2. Transactions of the reporting banks were as follows:

Sold to commercial concerns	£2,000
Purchased from commercial concerns	£2,000

The Argentine free peso strengthened to .2315 by mid-afternoon. It closed at .2310, as against .2300 last night.

The Cuban peso, which has shown a moderately firm tone of late, improved to 6-1/16% discount today. A week ago, that currency was quoted at 6-7/8%.

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

Canadian dollar	15-1/8% discount
Swiss franc (commercial)	.2321-1/2
Swedish krona	.2384
Reichsmark	.4005
Lira	.0505
Brazilian milreis (free)	.0505
Mexican peso	.2066

In Shanghai, the yuan in terms of our currency was quoted at 5-15/32¢, off 1/32¢, and sterling was 1¢ lower at 3.92.

The Federal Reserve Bank of New York reported that the Bank of the Colombian Republic shipped \$2,332,000 in gold from Colombia to the Federal for its own account, disposition unknown.

The London spot silver price was 33-1/2d, up 1/16d. Forward silver was unchanged at 33-7/16d. The U.S. equivalents were 42.67¢ and 42.56¢.

- 2 -

Hendy and Harman's settlement price for foreign silver was unchanged at $34\frac{3}{4}\phi$.
The Treasury's purchase price for foreign silver was also unchanged at 35ϕ .

We made one purchase of silver amounting to 75,000 ounces under the Silver Purchase Act. This amount consisted of new production from foreign countries, for forward delivery.

J. M. S.

CONFIDENTIAL

EH

GRAY

Buenos Aires

Dated March 14, 1941

Rec'd 4:56 p.m.

Secretary of State,
Washington.

199, March 14, 4 p.m.

The Ministry of Agriculture informed the press yesterday that a credit of 160,000,000 pesos is being negotiated with the Spanish Government and that pending the settlement of final details the Vice President has authorized the immediate delivery of 29,347 metric tons of wheat. This latter action is attributed to the urgency of beginning shipments at once. A sale of 400,000 tons of wheat is anticipated under this credit as well as the exportable surplus of the current cotton crop estimated at about 40,000 metric tons. Consideration is being given to the sale of other products under this credit according to the press announcement.

EMB

ARMOUR

JT

PLAIN

LONDON

Dated March 14, 1941

Rec'd 12:30 p.m.

Secretary of State,
Washington.

982, March 14.

Embassy's 4058, December 12, 1940.

British Treasury today informed the Embassy of the following concessions in connection with the transfer of estate proceeds to American citizens resident in the United States:

(1) The transfer of all legacies of sterling 100 or under will be permitted as a matter of course.

(2) In cases of legacies above that amount involving particular hardship, the higher authorities in the Exchange Control will give full consideration to applications for ameliorating action.

In discussing the meaning of "hardship", the British Treasury official interviewed this morning stated that in the opinion of the Treasury and the Bank of England the application of any other standard would be distinctly unfair, in that it would give the beneficiaries of "pure windfalls" (the term applied by him to most legacies)

preference

-2-

preference over persons applying for the transfer of their own property, i.e., sterling securities and other capital assets belonging to themselves. He felt that we should, in spite of the considerations presented to the British Treasury by the Embassy on the basis of the Department's 3751, December 10, and other instructions received since then, understand their difficulties in making a broader concession. It was made fairly clear that the British Treasury is reserving a loophole as a means of handling any peculiarly embarrassing or difficult cases, i.e., in the elastic meaning that can be assigned to "hardship". The official instanced the case of substantial legacies left by a former popular actor to cousins in the United States whom he had never seen, and intimated that in such cases no transfers would be permitted. At the other end of the scale would be the usual cases of close relatives badly needing funds for necessary living expenses, etc. In a few days we should have decisions on the cases that have been presented, which should indicate the way the above standard is to be applied.

WIKANT

WSB

Copy:bj

RESTRICTED

G-2/2657-220
No. 339

M.I.D., W.D.
March 14, 1941
12:00 M.

SITUATION REPORTI. Western Theater of War.

Air: German. Last night's activity over Great Britain is estimated to have involved 300-400 bombers. Foci of attack were the Glasgow and the Liverpool areas, but widespread minor raids were also conducted. The attack on Glasgow marks a new "farthest north" in German large-scale operations.

British. An unusually heavy attack was launched against Hamburg, Bremen, Emden, and objectives in Holland were also bombed.

II. Balkan Theater of War.

Ground: Bulgaria. No change.

Albania. Heavy fighting continues in the Viosa River sector.

Air: Normal close support operations on the Albanian front. Italian shipping in Valona harbor was attacked by torpedo planes.

III. Mediterranean and African Theaters of War.

Ground: Abyssinia (Ethiopia). Iavello which is about 95 miles north of the Kenya border has been occupied by British forces.

Italian Somaliland. The British report their advance continues in all sectors.

Air: German. Usual harrassing operations in eastern Libya.

British. The Island of Rhodes was raided.

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

BRITISH EMBASSY,
WASHINGTON, D.C.

PERSONAL AND
SECRET

14th March, 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 18th MARCH, 1941.

1. NAVAL

Hipper class cruiser at Brest was exercising in Douarnenez Bay p.m. 11th. Later observed returning to Brest. She was unsuccessfully attacked by coastal aircraft night of 10th to 11th but several bombs close to target.

2. NIGHT OF 10th to 11th.

Reported eight mines dropped in three separate parts of Suez Canal. Three exploded.

3. Further report on Portsmouth raid night of 10th to 11th. Tynedale, Marshal Soult, and two tawlers slightly damaged. Two trawlers damaged.

4. Naval casualties 87 killed, 224 seriously injured. Camper Nicholson burnt out. Total of eight enemy aircraft destroyed that night.

5. Worcester escorting convoy off Southwold 1.00 a.m. March 11th drove off E boats and believed hit one with pom pom.

6. Ursula on February 22nd west of Tripoli sank Sicilia class transport heavily laden and believed carrying troops, with her were one merchant vessel and escort of three general E torpedo boats and air escort. Heavy counter attack failed to damage Ursula.

7. Report received that Italian cruiser Armando Dias troop ship Conte Rosso 18,000 tons and Citte di Messina 8,500 tons have been sunk with heavy loss of life.

8. MILITARY. YUGOSLAVIA.

Report so far unconfirmed states that

that strength of Yugoslav army nearing 800,000.

9. ROYAL AIR FORCE.

Daylight 11th. Blenheim registered direct hit on petrol storage cistern at Rotterdam.

10. NIGHT OF 11th/12th.

Twenty-seven Wellingtons despatched to attack naval ship yard at Kiel. All have returned.

11. GERMAN AIR FORCE.

NIGHT OF 10th/11th.

Now known eight enemy aircraft were destroyed.

12. DAYLIGHT 11th.

Activity slight. One enemy fighter destroyed.

13. NIGHT OF 11th/12th.

206 aircraft, 8 minelayers operated. Main effort directed against Birmingham-Coventry area though raids were widespread over Midlands, as far north as Manchester and Liverpool. One bomber probably destroyed and another damaged by night fighters.

14. Malta was attacked on night of March 10th/11th by twenty bombers. Damage was done to dockyard and Luqa aerodrome. One bomber destroyed by our fighters.

15. Aircraft casualties in operations over and from British Isles :-

GERMAN: Destroyed, bombers 6,

(Night of 10th/11th additional report)

probably destroyed, 1, damaged, 1, fighter destroyed,

1,

BRITISH: Nil.**16. HOME FRONT NIGHT OF 11th/12th.**

Manchester area suffered most. Serious fire now under control was started at Anglo-American Oil Company premises at Trafford Park. Ships in Salford Docks and Manchester Ship Canal were attacked with some success. Casualties do not appear to be heavy.

17. In Birmingham area bombs were mostly incendiaries damage was well restricted by fire-fighters.

18. At Southampton fires were started and some 250 people rendered homeless.

19. PORTSMOUTH, bombs fell on centre of city and nine people were killed and seven seriously injured.

20. In London there were only minor incidents.

BRITISH EMBASSY,
WASHINGTON, D.C.

March 14th, 1941.

PERSONAL AND
SECRET

Dear Mr. Secretary,

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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 MARCH
THIRTEEN, 1941.

1. (A) Naval. Home waters: attacks by aircraft.

Norwegian ship (1,530 tons) damaged off west coast on 10th has reached port in tow.

Night of the 11th/12th. Attack on ships in Manchester Ship Canal resulted in one British (6,000 tons) and one Swedish ship (1,200 tons) being sunk and two British ships (totalling 16,900 tons) damaged. Daylight of the 12th. One British ship (7,000 tons) in home-bound convoy with cargo of wheat seriously damaged off west English coast and two British ships (totalling 8,370 tons) were bombed off the East Coast.

(B) By mines. One Dutch ship (400 tons) damaged off the South west English coast.

2. Mediterranean. Two French ships (totalling 5,000 tons) passed Gibraltar west bound March 11th escorted by a French mine sweeper.

3. Military. Italian Somaliland. Our troops occupied Daghbur (100 miles south south east of Jijiga). On March 10th. Enemy losses since our crossing Juba River on February 17th now estimated at over 31,000.

4. Yugoslavia. All armies now mobilising. Covering troops in position on all frontiers on which attack by Germany or Italy can come.

5. Burkey. One division has moved to Reconnas area from near Usunkopru and a second division from the same area is reported to have moved to East Ergen River in support. Troops in Catalca line have been reinforced by one division.

6. Royal Air Force. Night of 12th/13th. Total of 255 aircraft dispatched. Main targets Berlin (78), Hamburg (88), Bremen (86), Boulogne and Calais (7). Preliminary

/reports

reports show that a large per cent of bombers attacked their primary targets. Seven aircraft have failed to report to their base. Five fighters were dispatched on offensive operations against aerodromes in North France. Six Beauforts carried out a special sweep in Skagerrak and a direct hit by torpedo was made on one enemy destroyer.

7. Tripoli. Night of 10th/11th. Three Wellingtons successfully attacked the harbour and another destroyed five aircraft on the ground at Makina (forty miles south of Sirte) and damaged several others.

8. Rhodes. Night of the 10th/11th. Aerodromes at Catavia and Calato were attacked by twelve bombers.

9. Albania. Daylight. Gladiators destroyed four fighters (G.50) and damaged three others.

10. All our aircraft returned safely from the above operations in the Middle East.

11. German Air Force. Daylight of the 18th. Enemy made two small fighter-sweeps off East Kent and an increased number of sea reconnaissances. After an attack on Hawkins aerodrome, our fighters destroyed one Messerschmidt 109 and damaged a second.

12. Night of the 12th/13th. 250 to 260 aircraft attacked this country, the larger proportion operating in Liverpool area. Reports so far received show that our fighters destroyed five, probably destroyed four and damaged two enemy aircraft. One enemy aircraft was destroyed by balloon barrage.

13. At home. Home security. Heaviest and most widespread attacks for some months. Greatest concentration on Merseyside where many bombs fell on docks at Liverpool, Wallasey and Birkenhead, but none of the damage appears

/vital

vital. A large floating crane was sunk. Seaford wireless station near Liverpool suffered a major breakdown. House property and utility services in Liverpool area have suffered extensively. Casualties - at present - difficult to assess but do not appear to be heavy in proportion to the scale of the attack. In the rest of the country, major incidents occurred only at Southampton where damage was caused to reservoir and to Harland and Wolff's Yard and at St. Eval aerodrome.

14. Aircraft casualties over and above British Isles:-

<u>German</u>	<u>Destroyed.</u>	<u>Probably destroyed.</u>	<u>Damaged.</u>
Bombers	8	5	5
Fighters	<u>1</u>	<u>0</u>	<u>1</u>
Totals	9	5	6

British: seven bombers missing.

CONFIDENTIAL

181

Paraphrase of Code Radiogram
Received at the War Department
at 13:16, March 14, 1941.

London, filed 17:45, March 14, 1941.

1. On Thursday, March 13, planes of the British Coastal Command scored direct hits on two of five German cargo boats attacked off the Norwegian coast. During the same day eight squadrons of British fighter planes and 13 British bombers shot down two German fighter planes and damaged one other during a successful attack on the Murat airbase near Calais. No British planes were lost during these operations. During the preceding night six Coastal Command planes torpedoed a German destroyer and carried out raids on merchant vessels in the Skagerrak. During the same night the British used a total of 254 bombers in successful attacks against various targets in Germany and France. Eighty-eight bombers were dispatched to Hamburg, 72 to Berlin, 86 to Bremen, one to Calais and seven to Boulogne. Seven of the British bombers used in these attacks failed to return. In addition, an offensive patrol was carried out by five British fighter planes over occupied airfields in northern France.

2. During the night of March 13-14 a large number of German planes were over Britain. While small raids were widely scattered over north Scotland, and over all of Britain and Wales, the main target of the German attacks was the area surrounding Glasgow and Liverpool. There was no loss of British planes and German losses as a result of the activities of British fighters were five confirmed, two probable and four damaged. During the preceding day a total of 230 German fighter planes were used over the Dover Straits on defensive patrols. The Fort William, Scotland, aluminum factory was the target of lone German raiders during this day and the

CONFIDENTIAL

airfields at Hastings and Lyones were attacked by 25 German fighter planes. German losses during these operations were five planes destroyed and one damaged.

3. During the night of March 12-13, 30 German mine laying planes, 20 fighter planes and 200 bombers were plotted over Britain and British waters. Considerable damage was inflicted on the St. Eval airfield and on a large shipbuilding yard and a public water reservoir at Southampton. Harbor facilities at Liverpool suffered considerable damage as did the Liverpool radio station. A large floating crane at this port was sunk. German aircraft losses as a result of the activities of British night fighter planes were five confirmed, four probable and two damaged.

4. On March 12 a formation of German bombers inflicted severe damage on three British cargo boats totalling 16,000 tons off the coast of Britain. During the preceding night the German raid on the Manchester ship channel caused the sinking of two British vessels and great damage to two others. The ships that were sunk totalled more than 7,000 tons and the two damaged vessels total 17,000 tons.

5. In the Middle East planes of the Royal Air Force carried out raids on airfields on the Isle of Rhodes and on the British cities of Amara and Haifa. The British lost no planes during these raids.

6. One German bomber was over Malta and a formation of German bombers carried out a raid on the airfield at the Libyan city of El Adm.

7. War Office sources indicate that Greek forces along the western one-third of the Bulgarian-Greek border are composed of three divisions, one of which has no artillery. Five German divisions, one of which is armored, are across the border from this Greek force.

8. The War Office feels that Germany is holding back in order to

see if the Italian Army in Albania can take care of the Greeks there. If the Greeks continue to be successful against the Italians in this theater, it is thought that German Forces will move through Yugoslavia,

irrespective of whether or not they have the permission of the Yugoslav government, with the intention of hitting at Salonika and at the same time cutting off the Greeks in Albania.

9. The Italians in Albania are making a desperate but unsuccessful attempt to push back the Greeks principally because of the fact that Mussolini is now in that theater.

10. Another factor thought to be holding up German operations in the Balkans is that they are waiting to see what the outcome of the Yugoslavian negotiations will be. All frontiers of Yugoslavia which might be subject to attack by Italy or Germany are now manned by covering forces of the Yugoslav Army. The complete mobilization of the Army has been ordered in Yugoslavia.

11. It is felt by the War Office that road conditions and the terrain in the Balkan theaters give an advantage to the British and Greek defenders since the operation of mechanized forces in this area would be greatly hampered.

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
6-3

THE UNDER SECRETARY OF THE TREASURY
WASHINGTON

March 15, 1941

MEMORANDUM FOR THE FILES:

Yesterday, about noon, Mr. Harold Smith handed me a list of questions which had been presented to him by Congressman Ditter, a Republican member of the subcommittee of the Appropriations Committee considering the \$7,000,000,000 estimate under the Lend-Lease Act, and asked that he furnish the answers for the record that afternoon.

Messrs. White, Cochran, Coe, and I prepared the answers in the afternoon and showed them to the Secretary about five o'clock, at which time a few suggestions were made for changes. The Secretary said that he would like to have me show the questions and answers to Sir Frederick Phillips and Mr. Playfaire of the British Treasury.

We called Sir Frederick and Mr. Playfaire over at six o'clock. They went over the questions and answers, made a number of suggested changes, which in most cases were adopted. As Sir Frederick was leaving, he said that he would like to take a copy home to show the Ambassador during the evening, and he would telephone Mr. Cochran if the Ambassador had any suggestions.

About 11:30, Sir Frederick called Mr. Cochran and said that generally speaking the answers were all right, with the exception of the statement made to the effect that the British would use all of its dollar resources and any dollars in its hands in the immediate future to meet the existing dollar liabilities in this country. The Ambassador thought, and he agreed, that some reference should be made to the possibility of the United States Government in its own interest taking over some of the existing contracts under the Lend-Lease Act, which would relieve the British of this liability. There is attached a memorandum of the questions and answers with suggested changes by the British Ambassador.

Mr. Cochran brought this matter to my attention at nine o'clock this morning and we went over the suggestions. I took the position that while the statement made in answer to the question is not literally correct and possibly some of the contracts will be taken over under the Lend-Lease Act and the British will get that temporary relief, yet from a practical

- 2 -

angle it should not make any difference because whatever relief the British get from this action, the dollars thus saved should be used on other war purchases in this country, which may not fall under the Lend-Lease Act. I instructed Mr. Cochran to advise Mr. Phillips that we had delivered the memorandum to Director Smith in the same form as he had seen it the night before and, therefore, had not adopted his suggested changes. I did not think that we should again raise this whole question before the Appropriations Committee at this time.

I related the above to the Secretary at his staff meeting this morning and he said that he thought we were absolutely right in that decision.

scwb

Final draft 3-14-41, with
changes suggested by the
British to Mr. Cochran.
These changes were not used.

Question 1: It is understood that the British orders up to January 1, 1941 were about \$3 billion, and that expenditure was about \$600 million. Is that correct? What have the British spent here since that time?

The total of the orders placed in this country by the British Purchasing Mission up to January 1, 1941, was approximately \$2.7 billion. Up to January 1, 1941, the British Purchasing Missions had made payments of approximately \$1.3 billion on these orders.

From January 1 to March 12, 1941, payments by the British Purchasing Mission were \$382 million.

Question 2: Has the policy been to pay cash or securities for orders up to this time?

The practice of the United Kingdom has been to pay cash on all orders placed in the United States up to this time. All goods delivered have been fully paid for. A substantial portion of the value of the goods delivered was paid for in advance and a portion of the value of the goods yet to be delivered has already been paid for. Generally, they have paid 25 per cent cash when orders were placed in addition to capital investments required.

The dollars to pay for these orders have been derived by the British Government partly from the sale of British investments in the United States, partly from the liquidation of British dollar balances, partly from the sale

- 2 -

of British gold holdings to the U. S. Treasury, and partly from dollars acquired from a variety of other sources.

Question 3: What is the proposal as to paying for deliveries of existing orders?

Part of the cost of the future delivery under existing orders has already been met by advance payments; ^{the} remaining liabilities of the United Kingdom in respect to such orders, ^{is met in cases in which it is in the interest of the U. S. Govt. to take over} ~~will be met from her existing~~ dollar resources and with dollars which she will acquire in the future. Such dollars will come from further sales of British holdings of U. S. securities, sale of Britain's direct investments in the United States, gold acquired by the British Government, and the net dollar proceeds of British exports of goods and services to the United States and elsewhere. ^{the contract will be met from existing U. K. resources}

Question 4: What is the value of British holdings in the United States and the Western Hemisphere outside of the United States?

The value of British holdings in the United States as of January 1, 1941, is estimated by the Treasury at \$616 millions of marketable securities and \$900 millions of direct investments.

The nominal value of United Kingdom investments in Canada is nearly the equivalent of 2 billion U. S. dollars, and of United Kingdom investments in Latin America is the equivalent of over \$3-1/2 billion. This refers to the nominal value; the market value would, of course, be much less. In the case of the Canadian investments the market value is much

- 3 -

closer to the nominal value than in the case of the Latin American investments. The United Kingdom is using a substantial amount of these each month to pay for war materials obtained from Canada. Some of the investments in Latin America are in complete default, many are in partial default, whereas nearly all are payable either in sterling or in local currencies. The liquidation value in U. S. dollars of these Latin American securities, particularly in view of widespread controls of foreign exchange transfers, is very uncertain. The details of these investments will be found on page 54 of the hearings before the House Committee on Foreign Affairs on H. R. 1776.

Question 5: What steps, if any, have been taken to meet prior commitments and what steps are to be taken as to commitments yet to be made?
As explained in the answer to question 3,
 The United Kingdom will meet her liabilities on existing orders from her existing dollar resources and from dollars which she will acquire in the future. The steps by which these dollar resources are being acquired have been indicated in the answer to question 3 above.

The British Government does not have funds adequate to meet additional commitments, *for which the Lend-Lease arrangements are designed.* ~~It is for these additional commitments that the Lend-Lease arrangements will be required.~~

Question 6: What is the monthly rate of expenditure by England and its dominions for war purposes?

The monthly rate of expenditures for United Kingdom, Canada, New Zealand, Australia, South Africa and India taken together is, according

- 4 -

to our information, roughly the equivalent of \$1-3/4 billion. Nearly \$1.5 billion of this is the expenditure of the United Kingdom alone.

Question 7: What are the British dominions, and particularly Canada, prepared to do for aid to Great Britain?

Canada is, of course, helping directly with troops, naval and air forces, and is paying all expenses of Canadian forces operating abroad as well as at home. It is anticipated that during the coming year Canada will spend a total of \$1.2 billions on her direct war effort. This alone constitutes almost 30 per cent of her expected material income. In addition, Canada is supplying Britain with large increasing amounts of goods and services in return for a considerable part of which she is getting either sterling in excess of her needs or the repatriation of Canadian securities ~~xxxxxxx~~ to the United Kingdom.

Just as in the case of Canada, Australia, New Zealand, South Africa and India have under way and are financing themselves, a war effort of considerable magnitude in relation to their national income. In addition, these countries are acquiring excess sterling in London and repatriated securities as payment for exports of merchandise, services and gold to the United Kingdom and to the dollar exchange areas. This is a form of economic and financial assistance of considerable value to the British war economy.

Question 8: What has Great Britain, its dominions and particularly Canada, appropriated for this war?

- 5 -

This information is not readily available; but we have requested it for the committee. However, because of differences in budgetary practice, such figures will not be at all comparable with the defense appropriation figures for the United States.

Question 9: What are the potash and borax holdings of the British in the western part of the United States?

Our preliminary information is that there are three large potash and borax companies with properties in the western United States in which the value of the British investment is estimated to be roughly more than \$20 million. These properties are included in the British direct investments referred to in answer to question 4.

Question 10: What have we bought in the way of gold from Great Britain and its dominions, including Canada, since 1934 (by years)?

The net imports of gold from British Empire by years are given in the table below. It should be pointed out that London has been, prior to the war, the leading gold market of the world and hence gold imports from the British Empire were not solely for British account.

Net Imports of Gold from British Empire, 1934-1940
(Million dollars)

	<u>United Kingdom</u>	<u>Other British Empire</u>	<u>Total</u>
1934	500	183	683
1935	316	184	500
1936	174	182	356
1937	892	204	1,096
1938	1,209	144	1,353
1939	1,826	976	2,802
1940	633	2,995	3,628
Total 1934-40	5,550	4,868	10,418

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE March 15, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

When calling on me yesterday noon Mr. Pinsent, Financial Counselor of the British Embassy, asked me when the week expired for the initial sale of British direct investments. I told him it was my understanding that the week ended with today, Saturday. Pinsent told me in strict confidence that Sir Edward Peacock was on the point of consummating a very important transaction. It was hoped that this could be completed on Saturday, but there was the bare possibility that legal difficulties over patent rights might delay the closing of the deal until perhaps Tuesday of next week. Pinsent asked whether it would be satisfactory to defer mentioning this deal until it is actually terminated. I told Pinsent that it was imperative that either the Ambassador report directly to the Secretary, or that Pinsent or one of his colleagues give me word for communication to the Secretary, before Saturday night. If the transaction should not have been completed by Saturday, the actual status of the negotiations should be made known in confidence to us. I re-emphasized the importance of this question of selling British direct investments, particularly in connection with Congressional hearings on the Lease-Lend Appropriation Bill, and other financial matters which may go to Congress. Pinsent agreed that he would see that some report was made to us before Saturday evening.

Yesterday afternoon Messrs. Bell, White, Coe and I worked on answers to questions which the Budget Director had been asked in the House hearings on the Lease-Lend Appropriation Bill. When we discussed the questions with the Secretary he instructed us to let Messrs. Phillips and Playfair see what we had prepared. I came out from the Secretary's office and telephoned Phillips, asking that they come to Mr. Bell's office at 5:30. Phillips replied that he had a visitor coming in just at that hour but would try to get over at 5:45.

It was almost 6:00 when Phillips and Allen reached my office, and Playfair did not arrive until a few minutes later. As soon as Phillips and Allen came to my office I explained the situation. The Secretary himself had not felt that he could properly go before the House Appropriation Committee on this bill and give testimony, in view of the fact that he would be unable to state that the British had so far done no liquidating of their direct investments in this country. I added that this problem would continue to exist while the bill is being considered by the Senate as well as the House.

I gave the visitors copies of the questions and of the draft answers which our Treasury group had prepared. We then went to Mr. Bell's office, where we joined him and Mr. White. The discussion lasted until almost 8 o'clock. Sir Frederick Phillips had questions on the phraseology of the answers to paragraphs 3 and 5. He desired to refer this matter to his Ambassador. It was arranged with Mr. Bell that the British should call me later in the evening after the Ambassador had been consulted.

- 2 -

At 11:30 last night Mr. Playfair phoned me at my home. He said that as a result of the consultation at the Embassy, the following changes were found desirable from the British standpoint. In answer 3 there should be a period instead of a semicolon after "advance payments". The sentence beginning immediately thereafter should have a comma following "to such orders" and the following be inserted thereafter: "except in cases in which it is in the interest of the United States Government to take over the contract, will be met from existing United Kingdom dollar resources" etc. The answer to question 5 should begin as follows: "Except as explained in the answer to question 3, the United Kingdom will meet" etc. The final paragraph of the answer to question 5 should consist of one sentence, there being a comma instead of a period after "commitments", to be followed by the following: "for which the lend-lease arrangements are designed". This would eliminate the final sentence of this paragraph as originally drafted.

I told Playfair that I doubted whether our Treasury would consent to such amendments, since there was a fundamental difference on the point of raising now before the Congress the question as to whether we should take over contracts which had been entered into prior to the hearings on the Lend-Lease Bill. Playfair and I agreed that there would be no useful purpose served in trying to get the Ambassador and the Secretary together on this point of drafting. It was understood that if the Treasury could not agree to the British suggested changes, our own original draft should be sent to the Congressional Committee, with the understanding between the two Treasuries that the British thank the Americans for letting them see the questions and answers, but have not subscribed thereto.

Shortly before 9 o'clock this morning I gave the above suggested amendments to Mr. Bell's secretary and then discussed them with him. Mr. Bell decided that the suggestions were unacceptable. He reported this to the Secretary in the Staff meeting at 9:30. Mr. Bell had despatched the documents to the Office of the Director of the Budget.

At 10:40 this morning Mr. Pinsent telephoned me that Ambassador Halifax was seeking an appointment with Secretary Morgenthau for 5:30 this evening. Pinsent told me that the investment deal had not yet been completed, but was nearing conclusion. The transaction had progressed so far that it has now been necessary to communicate with twenty or thirty persons in regard thereto. There may, consequently, be some leak of information during the day. The Ambassador will discuss this transaction with the Secretary this afternoon, but the British did want to be the first ones to give the Secretary news of this transaction. Pinsent then raised the question as to whether Sir Edward Peacock should attend to any announcements and publicity. I told Pinsent that I would speak with the Secretary and call him later.

At 11:30 I saw the Secretary and reported my conversations of yesterday and this morning with Mr. Pinsent. The Secretary was glad to have an explanation of the purpose of the Ambassador's visit. He agreed that Sir Edward should attend to any publicity in connection with the sale in question. I called Pinsent back at once, but could not reach him until 12 o'clock at the British Purchasing Mission. I gave him the message in regard to Peacock being the proper one to make any communique to the press. I asked, however, that we have such information as may appropriately be given us prior to the Secretary's press conference on Monday, lest this matter might be in the press of Monday and the Secretary be questioned thereon.

- 3 -

I told Pinsent to let Sir Frederick Phillips know that the suggested amendments to the draft answers of yesterday, for use before Congress, had not been accepted by the Treasury, and that our original draft as shown to Sir Frederick yesterday evening had been despatched to the Director of the Bureau of the Budget this morning.



TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

194

DATE March 15, 1941

TO
FILES
Messrs. Cochran and Dietrich

STRICTLY CONFIDENTIAL

At 4:40 yesterday afternoon Mr. Long of the Federal Reserve Bank of New York called Mr. Dietrich and said that the National Bank of Yugoslavia wished to sell approximately \$22,500,000 in gold from its earmarked account. At about 4:45 p. m. Mr. Dietrich mentioned this matter to Mr. Cochran, when the latter stepped into his office to do some telephoning before returning to a conference in which he was participating in the Secretary's office. When Mr. Cochran was leaving the meeting in the Secretary's office five minutes later he inquired as to whether the Federal Reserve Bank had by any chance mentioned this important offer of gold to the Secretary. He replied in the negative.

When Mr. Cochran came out into the Secretary's reception room, Mr. Dietrich showed him the memorandum which the latter had just drawn up setting forth the details of contemplated and actual transactions involving the Yugoslav account. Mr. Cochran immediately showed this to Under Secretary Bell, who was with them in the reception room. Messrs. Bell and Cochran decided that the Secretary should at once be informed that the Yugoslav National Bank was requesting a transfer of almost half of the dollar gold proceeds from American to Brazilian account. Mr. Bell spoke with the Secretary by telephone and was instructed to have Mr. Cochran call Assistant Secretary Acheson in the Department of State and request the desires of that Department with respect to freezing Yugoslav accounts.

Mr. Cochran then returned to his office and found that at 4:50 Mr. Dietrich had obtained from Mr. Cameron in the Federal Reserve Bank at New York detailed information as to the payments made or to be made for Yugoslav account. As Mr. Cochran picked up the telephone a few minutes after 5:00 to call Mr. Acheson, he found Mr. Peble on the wire and told him of the instructions of the Secretary, namely, that the gold offered by Yugoslavia should not be purchased yesterday evening, and that Mr. Cochran should get in touch with Mr. Acheson, to bring him to date on developments and to learn the wishes of the Department of State in regard to extending our control to Yugoslav assets. Mr. Peble was at the Raleigh Hotel and asked Mr. Cochran to defer his telephone call to Mr. Acheson until Mr. Peble might arrive in the Treasury.

When Mr. Peble reached Mr. Cochran's office a few minutes later, they discussed the situation. Mr. Cochran then called Mr. Acheson and submitted to him the details of the contemplated gold sale, as well as the payments that had been made or were thought to be made. The question was posed as to whether or not a freezing order should be applied to Yugoslavia. After Mr. Cochran had spoken with Mr. Acheson he passed the phone to Mr. Peble who also spoke with Mr. Acheson on the question of a freezing order. Mr. Cochran had explained to Mr. Acheson that the gold would not be purchased last night. Mr. Acheson stated that he would endeavor to get a group together in the Department of State for consultation, and would give the Treasury an answer later in the evening in regard to Yugoslavia.

- 2 -

Mr. Cochran telephoned Mr. Knocks around 3:40 p.m. and advised him of the decision not to purchase the gold yesterday. Mr. Cochran further explained that the decision as to what to do with respect to Yugoslavia rested with the State Department, and that an answer might not be received until later in the evening. Mr. Knocks then brought up the question of cabling the Yugoslav Bank. After some discussion with Mr. Knocks, Messrs. Cochran and Pehle left to Mr. Knocks's judgment whether a cablegram be despatched last night by the Federal to the Central Bank of Yugoslavia to the effect that the latter's cablegram No. 119 had been executed, but that their No. 122 came "too late for action today". Mr. Knocks explained that the latter message, which is the one requesting the gold transaction, had not been delivered to the Federal Reserve Bank until 4:04 p.m. yesterday, and had then to be decoded. Mr. Knocks made the point, however, that it was the usual practice for the Federal to answer such wires on the day they were received, even though they might have arrived too late for action to be taken thereon that day. Mr. Knocks promised to forward copies of the exchanged cablegrams to the Treasury. It was agreed that Mr. Pehle or Mr. Cochran would be in touch with Mr. Knocks or Mr. Cameron later in the evening if necessary.

As the meeting between the British and American Treasury officials was about to terminate in Mr. Bell's office a little before 5 o'clock last night, Mr. Pehle came to report to Mr. Bell that Mr. Acheson had called back to state that Secretary Hall had taken up with the President the Yugoslav matter and that it had been decided that there would be no freezing this weekend. Mr. Foley had communicated with Secretary Morgenthau. It was consequently confirmed that nothing was to be done last night, following the decision that action on purchasing the Yugoslav gold should be delayed.

At 9 o'clock this morning Mr. Cochran spoke by telephone with Mr. Cameron. He stated that no decision had yet been taken toward freezing, and that Cameron should do nothing other than hold up the gold transaction. Mr. Pehle visited Mr. Cochran just before 9:30. Mr. Cochran informed Mr. Pehle of his conversation with Mr. Cameron. They agreed that there was evidently nothing that could be done in the circumstances to prevent movement of private Yugoslav capital out of American accounts today. At the 9:30 Staff meeting Mr. Pehle reported to the Secretary on the Yugoslav situation.

When Mr. Cochran saw the Secretary at 11:50, shortly after Assistant Secretary of State Acheson had called on the Secretary, Mr. Cochran inquired as to whether there was anything new on Yugoslavia. The Secretary replied that neither he nor Mr. Acheson had had any further word from the President. Instructions were, therefore, on the highest authority of the land, to hold up the gold transaction. When I asked the Secretary whether this also meant that the Federal need send no wire today to the Yugoslav Central Bank, he replied in the affirmative.

At 12 o'clock I called Mr. Cameron and gave him the above information. He said he would pass this on to Mr. Knocks, since the latter was concerned lest the Federal might have some liability for purchasing the gold, especially in view of written instructions from the Treasury to the Bank on this point, which said nothing about not purchasing gold when the Assay Office is closed. We had been basing our action of refusing to take the gold today on the ground that the Assay Office was closed to business, although no word to this effect is being communicated to Yugoslavia as of today. Mr. Knocks called me a few moments after I had spoken with Mr. Cameron, and raised this point of the Federal's liability. I told him that it was my understanding that our Chief Counsel's office had a full understanding of the situation when Mr. Foley had spoken with the Secretary last night. I promised, however, to speak with Mr. Foley at once, and let Mr. Knocks know the result of our conversation.

- 3 -

Consequently I telephoned Mr. Foley shortly after 12 o'clock. He was fully familiar with the situation. He felt that the Federal Reserve Bank at New York would have no liability. It was acting as agent for the Treasury, and our special instructions to the effect that the gold should not be purchased superseded any prior general instructions. I telephoned this word back to Mr. Knoke immediately, and suggested that the Federal's legal adviser, to whom Knoke had referred this matter, be asked to communicate directly with Mr. Foley or Mr. Bernstein if they had any question as to our position.

At 1:05 Mr. Foley telephoned to discuss this case further. He had understood that Mr. Pehle had told Knoke last night that no cablegram should be sent to the Yugoslav Central Bank. I told Mr. Foley that this was not exactly correct. Mr. Pehle was seated at my desk when this question was discussed at length with Mr. Knoke last night. Both Pehle and I indicated our preference that no cablegram be sent. When Mr. Knoke insisted, however, that central banking customs required an answer, and when he submitted a text to which we could not take exception, Pehle and I then told Knoke we left this matter to his discretion. I read to Mr. Foley the wire which Knoke had despatched last night, and also cablegram No. 125 from Yugoslavia today. I explained again that I had instructed the Federal not to send any message to the Yugoslav Central Bank today.



197 /

March 15, 1941

My dear Mr. President:

At yesterday's hearings before the Appropriation Committee on the bill to provide funds to carry out the Lend-Lease Act, the Director of the Bureau of the Budget was asked a number of questions concerning the British dollar resources in this country. I have furnished him answers to these questions and he is inserting them in the record today.

I am attaching hereto a copy of the questions and answers given to the Director this morning.

Faithfully yours,

(Signed) H. Morgenthau, Jr.

The President,

The White House.

Enc.

DWB:ca

By ~~Morgan~~ 12²⁰

2 copies to D.W. Bell
CC to Mr. Thompson

DWB

Question 1: It is understood that the British orders up to January 1, 1941 were about \$3 billion, and that expenditure was about \$600 million. Is that correct? What have the British spent here since that time?

The total of the orders placed in this country by the British Purchasing Mission up to January 1, 1941, was approximately \$2.7 billion. Up to January 1, 1941, the British Purchasing Mission had made payments of approximately \$1.3 billion on these orders.

From January 1 to March 12, 1941, payments by the British Purchasing Mission were \$382 million.

Question 2: Has the policy been to pay cash or securities for orders up to this time?

The practice of the United Kingdom has been to pay cash on all orders placed in the United States up to this time. All goods delivered have been fully paid for. A substantial portion of the value of the goods delivered was paid for in advance and a portion of the value of the goods yet to be delivered has already been paid for. Generally, they have paid 25 per cent cash when orders were placed in addition to capital investments required.

The dollars to pay for these orders have been derived by the British Government partly from the sale of British investments in the United States, partly from the liquidation of British dollar balances, partly from the sale of British gold holdings to the U. S. Treasury, and partly from dollars acquired from a variety of other sources.

Question 3: What is the proposal as to paying for deliveries of existing orders?

Part of the cost of the future delivery under existing orders has already been met by advance payments; the remaining liabilities of the United Kingdom in respect to such orders will be met from her existing dollar resources and with dollars which she will acquire in the future. Such dollars will come from further sales of British holdings of U. S. securities, sale of Britain's direct investments in the United States, gold acquired by the British Government, and the net dollar proceeds of British exports of goods and services to the United States and elsewhere.

Question 4: What is the value of British holdings in the United States and the Western Hemisphere outside of the United States?

The value of British holdings in the United States as of January 1, 1941, is estimated by the Treasury at \$616 millions of marketable securities and \$900 millions of direct investments.

The nominal value of United Kingdom investments in Canada is nearly the equivalent of 2 billion U. S. dollars, and of United Kingdom investments in Latin America is the equivalent of over \$7-1/2 billion. This refers to the nominal value; the market value would, of course, be much less. In the case of the Canadian investments the market value is much closer to the nominal value than in the case of the Latin American investments. The United Kingdom is using a substantial amount of these each month to pay for war materials obtained from Canada. Some of the investments in Latin America are in complete default, many are in partial default, whereas nearly all are payable either in sterling or in local

- 3 -

convenience. The liquidation value in U. S. dollars of these Latin American securities, particularly in view of widespread controls of foreign exchange transfers, is very uncertain. The details of these investments will be found on page 54 of the hearings before the House Committee on Foreign Affairs on H. R. 1776.

Question 5: What steps, if any, have been taken to meet prior commitments and what steps are to be taken as to commitments yet to be made?

The United Kingdom will meet her liabilities on existing orders from her existing dollar resources and from dollars which she will acquire in the future. The steps by which these dollar resources are being acquired have been indicated in the answer to question 3 above.

The British Government does not have funds adequate to meet additional commitments. It is for these additional commitments that the Lend-Lease arrangements will be required.

Question 6: What is the monthly rate of expenditure by England and its dominions for war purposes?

The monthly rate of expenditures for United Kingdom, Canada, New Zealand, Australia, South Africa and India taken together is, according to our information, roughly the equivalent of \$1-3/4 billion. Nearly \$1.5 billion of this is the expenditure of the United Kingdom alone.

Question 7: What are the British dominions, and particularly Canada, prepared to do for aid to Great Britain?

Canada is, of course, helping directly with troops, naval and air forces, and is paying all expenses of Canadian forces operating abroad

- 2 -

as well as at home. It is anticipated that during the coming year Canada will spend a total of \$1.2 billions on her direct war effort. This alone constitutes almost 30 per cent of her expected material income. In addition, Canada is supplying Britain with large increasing amounts of goods and services in return for a considerable part of which she is getting either sterling in excess of her needs or the repatriation of Canadian securities to the United Kingdom.

Just as in the case of Canada, Australia, New Zealand, South Africa and India have under way and are financing themselves, a war effort of considerable magnitude in relation to their national income. In addition, these countries are acquiring excess sterling in London and repatriated securities as payment for exports of merchandise, services and gold to the United Kingdom and to the dollar exchange areas. This is a form of economic and financial assistance of considerable value to the British war economy.

Question 8: What has Great Britain, its dominions and particularly Canada, appropriated for this war?

This information is not readily available; but we have requested it for the committee. However, because of differences in budgetary practice, such figures will not be at all comparable with the defense appropriation figures for the United States.

Question 9: What are the petach and hoax holdings of the British in the western part of the United States?

- 5 -

Our preliminary information is that there are three large petrock and borax companies with properties in the western United States in which the value of the British investment is estimated to be roughly more than \$50 million. These properties are included in the British direct investments referred to in answer to question 4.

Question 10: What have we bought in the way of gold from Great Britain and its dominions, including Canada, since 1934 (by years)?

The net imports of gold from British Empire by years are given in the table below. It should be pointed out that London has been, prior to the war, the leading gold market of the world and hence gold imports from the British Empire were not solely for British account.

Net Imports of Gold from British Empire, 1934-1940
(Million dollars)

	<u>United Kingdom</u>	<u>Other British Empire</u>	<u>Total</u>
1934	900	143	657
1935	516	104	580
1936	174	102	326
1937	892	204	1,096
1938	1,209	144	1,353
1939	1,886	976	2,862
1940	633	2,995	3,628
Total 1934-40	5,990	4,668	10,658

March 15, 1941

My dear Mr. Secretary:

For your information, there is transmitted herewith copy of a memorandum furnished the Director of the Bureau of the Budget this morning to be inserted in the record of the hearings before the Appropriation Committee on the appropriation bill to carry out the provisions of the Lend-Lease Act. The questions presented in this memorandum were given to Mr. Smith yesterday with the request that he get the answers from the Treasury.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

The Honorable,

The Secretary of the Navy.

Enc.

DWB:ce

By Messengers

2 copies to D.W. Bell
CC to Mr. Thompson

DWB

March 15, 1941

My dear Mr. Secretary:

For your information, there is transmitted herewith copy of a memorandum furnished the Director of the Bureau of the Budget this morning to be inserted in the record of the hearings before the Appropriation Committee on the appropriation bill to carry out the provisions of the Lend-Lease Act. The questions presented in this memorandum were given to Mr. Smith yesterday with the request that he get the answers from the Treasury.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

The Honorable,
The Secretary of War.

Enc.

DWB:ce

By Messenger

2 copies to D.W. Bell
CC to Mr. Thompson

swB

March 15, 1941

My dear Mr. Secretary:

For your information, there is transmitted herewith copy of a memorandum furnished the Director of the Bureau of the Budget this morning to be inserted in the record of the hearings before the Appropriation Committee on the appropriation bill to carry out the provisions of the Lend-Lease Act. The questions presented in this memorandum were given to Mr. Smith yesterday with the request that he get the answers from the Treasury.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

The Honorable,

The Secretary of State.

Enc.

By Messenger

2 copies to D.W. Bell
CC to Mr. Thompson

sub B
DWB:ce

March 15, 1941

My dear Harry:

For your information, there is transmitted herewith copy of a memorandum furnished the Director of the Bureau of the Budget this morning to be inserted in the record of the hearings before the Appropriation Committee on the appropriation bill to carry out the provisions of the Lend-Lease Act. The questions presented in this memorandum were given to Mr. Smith yesterday with the request that he get the answers from the Treasury.

Sincerely yours,

W. Henry

Honorable Harry L. Hopkins,

The White House.

Enc.

By Messenger

2 copies to D.W. Bell
CC to Mr. Thompson

sub
DWB:cc

March 15, 1941
9:30 a.m.

GROUP MEETING

Present:

Mr. Bell
Mr. Graves
Mr. Young
Mr. Thompson ,
Mr. Cochran
Mr. Kuhn
Mr. Wiley
Mr. Gaston
Mr. Pehle
Mr. White
Mr. Foley
Mrs. Klotz
Mr. Sullivan
Mr. Schwarz

H.M.Jr:

I just thought the easiest way - there are so many things happened, and I got so many telephone calls last night, that I wanted to clear my own mind and do it collectively. I thought it was a mistake, Dan, to get out our publicity on National Defense Savings Bonds on the 20th, while we still had our big thing open. I think we ought to postpone that publicity until the 21st.

Bell:

I was just talking to Harold about it. We thought about that the other day, but we didn't think it would hurt. After all, it has been in the hands of twelve Federal Reserve banks, and it is pretty well known.

- 2 -

H.M.Jr: I just don't --

Bell: I should think it might help rather than hurt. On the other hand, we have made arrangements with the A.B.A. people for a speech on Thursday, but I guess we can postpone it until Friday.

H.M.Jr: If you don't mind, on that I would like to postpone it. They are there for three days, aren't they?

Bell: Yes. He makes his speech on Thursday, however. He said he could make another one on Friday.

H.M.Jr: Well, he will have to.

Bell: Now, Harold has talked to the "Time" people, and they are not giving out any great detail, but some of it, and it comes out on Thursday.

H.M.Jr: Well, I told him to kill it.

Schwarz: We can ask them to save that until the following week.

Bell: Well, all right.

H.M.Jr: No, I told Time magazine through Harold to kill it. They have got to kill it.

Schwarz: We would rather have them postpone it.

H.M.Jr: I don't care how. I don't want the details on the thing made public until Friday, if you don't mind. I am very definite on it. I mean, there are just two things, Time magazine and this speech, and they are both going to have to wait.

Bell: Yes. All right.

H.M.Jr: Now, Yugoslavia? I am to hear from the Presi-

- 3 -

dent?

Pehle: Well, I gathered from Mr. Acheson that Mr. Hull thought the President was going to call you, but apparently he didn't.

H.M.Jr: No.

Pehle: The last we heard was, the President felt that we should not buy the gold over the weekend, but he was not prepared to freeze them on the hope that they would be taking a firm stand, and it might hurt the picture. The Yugoslavian Minister apparently cabled his government, telling them that we wanted those transfers withdrawn and that we want an explanation. Whether he will get a reply or not, we don't know.

H.M.Jr: Well, that holds it up until Monday.

Pehle: It holds the gold. Of course, any cash that is here will go ahead.

H.M.Jr: Now, John, you and Ed Foley, this is the most important thing, ought to not later than Monday morning have a brief for me on this whole question of state taxes, what we are doing here with the Port Authority, in the form of a letter for transmission to the President Monday morning, you see.

Sullivan: Yes, sir.

H.M.Jr: Because if we don't get it to the President, then nobody else will.

Sullivan: Yes, sir.

H.M.Jr: And then we can send a copy of that brief over to Mr. Stimson. I would send it just to the

- 4 -

four members of OPM. Also to the Attorney General. But I gather from what the President said he was very much in sympathy with what we are trying to do, but it is too legal for me to try to explain it to him, but if you will have it to lay on my desk Monday morning.

- Sullivan: We will have it for you.
- H.M.Jr: The kind of a brief that you prepare to a court, you see.
- Sullivan: I doubt if he would want us to go into that much detail. I mean, we can do it. We have it right now, but --
- H.M.Jr: Do you have the brief?
- Sullivan: No, I mean we have all of that material. We can assemble it very readily, and all the cases to cite and all that sort of thing.
- H.M.Jr: Well, I would do it and then a non-legal document in the form of a letter of transmission for me to the President.
- Sullivan: Right. Giving a resume of the legal principles involved?
- H.M.Jr: Does that fall in your shop or Ed's?
- Sullivan: We talked it over last night, and we were going to do it together today.
- H.M.Jr: I would like to have it Monday morning. I don't like to put so much pressure on, but I can't help it.
- Sullivan: That is all right.
- H.M.Jr: The President might like to go through the thing.

- 5 -

You never know. So give the references and so forth and so on, and then my letter would be in non-legal language, state our case, what we are doing with the Port Authority and the whole business, and I think it should go to the Attorney General and then to the four members of the OPM, and each of them have their lawyers, you see. Don't you think so?

Sullivan: Yes, I do, sir.

H.M.Jr: Right. That was one of the principal things. Is everything all right on the questions to Harold Smith?

Bell: Well, I sent them along, and we had them up last night with the British and made several changes, and they took it up with the Ambassador. We are not satisfied with one change that came back, and I didn't accept it. Merle got it at 11:30. It is in answer to Question Three, "What is the Proposal as to Paying for Deliveries of Existing Orders?"

(Mr. White entered the conference.)

H.M.Jr: What?

Bell: The question was, "What is the Proposal as to Paying for Deliveries on Existing Orders." We had it reading, "Part of the cost of the future delivery under existing orders has already been met by advance payments. There are many liabilities of the United Kingdom in respect to such orders that will be met from the existing resources and with dollars which she will acquire in the future."

Now, that is what you said before the Committee, and we realize that there is some negotiation

- 6 -

going on for taking over those contracts under the Lease-Lend Bill, but we thought the net effect would be the same, because you are forced to use the dollars they acquire otherwise to pay for other things, but the Ambassador insisted on putting in, "Remaining liabilities in the United Kingdom in respect to such orders except in cases in which it is in the interest of the United States government to take over the contract, will be met from existing United Kingdom dollars."

- H.M.Jr: What is the significance?
- Bell: What they are doing is telling Congress that the negotiations are on for taking over contracts under the Lease-Lend Bill, and I thought it would just throw the thing up in the air. That would have to be explained, and you would probably have difficulty.
- H.M.Jr: Now, what I would like you to do this morning, just as soon as you can, I want to write a letter to the President of the United States this morning, saying "My dear Mr. President: I have been asked the following questions. These were furnished to Harold Smith to take up on the Hill this morning, and my questions and answers are attached herewith." And then I don't think I would - would you say these were shown to the British? I don't think so.
- Bell: No, I don't believe I would either.
- H.M.Jr: And then also whatever I send to the President, send a copy to Harry Hopkins. Don't you suppose between now and 12:00 o'clock you can have that for me?
- Bell: Oh, yes.

- 7 -

H.M.Jr: And then I also - the letter goes to the
 President, and then one to Hull, Stimson,
 and Knox, and Hopkins a copy.

Bell: Enclosing copies of the questions?