

CONFIDENTIAL

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE February 17, 1941

TO Secretary Morgenthau
FROM Mr. Haas
Subject: The Business Situation,
Week ending February 15, 1941.

Summary

(1) Commodity prices last week showed mixed trends. Grains and various other products moved lower, influenced in part by a sharp decline in the security markets. Prices of imported commodities, on the other hand, were generally higher on fears of increased shipping difficulties.

(2) Estimated earnings of industrial corporations for the last quarter of 1940 remained at a high level, although they failed to reflect the full rise in industrial production. Earnings of industrial corporations in 1940, according to Standard Statistics estimates, were 24 per cent higher than in 1939.

(3) Railroad earnings have improved as a result of the increase in freight shipments. Net railway operating income of Class I railroads in December reached the highest December level since 1928. New orders for freight cars were sharply increased in January.

(4) The heavy volume of automobile production in recent months has been accompanied by heavy retail sales of new cars. General Motors new car sales to consumers in January broke all records for that month, and as a result the ratio of new car stocks to sales at the end of January was below the levels shown on the same date in the past several years.

(5) Steel mills continue to book new orders in heavy volume. New orders received by the U. S. Steel Corporation in January reached a new high since October 1939, and in the first week of the current month they have shown a further gain. Steel production in January broke all monthly records for the industry.

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Weakness in speculative markets

Many commodity prices moved lower last week, influenced in part by a sharp decline in security prices, in which disquieting foreign news and increased uncertainties about future tax burdens were apparently the primary influences. Nevertheless, prices of a number of commodities rose to higher levels, with futures prices of coffee, rubber, silk, hides, tin, lead, and zinc showing noticeable strength. Prices of imported commodities generally rose because of fear of a shortage of shipping facilities, with additional concern about shipping from the Far East.

The weekly BLS all-commodity index has sagged for two weeks in succession (weeks ended February 1 and 8), after rising steadily for some weeks. Declines in farm and food products were the primary factors. For the month of January the cost of living, as reported by the National Industrial Conference Board, advanced only fractionally to 86.0 (1923 = 100) as compared with 85.9 in December, the main element in the change being an increase in the cost of food. The cost of living index in January was but moderately higher than the 1940 low of 84.6.

Steel buying mounts. January production sets record.

No let-up has occurred in the heavy volume of steel orders, which apparently includes a considerable volume of anticipatory buying. The Iron Age reports that in some products mills are almost entirely booked up for the second quarter and are taking orders for the third quarter and later. Backlogs are reported to have become so large, and buying so extended into the future, that the question of priorities is assuming increasing importance.

Some measure of the scope of forward buying may be gathered from a recent report by the Detroit Purchasing Agents Association that 62 per cent of its members were buying materials (other items as well as steel) for six months to a year ahead, as compared with 36 per cent a month ago and only 12 per cent a year ago. It was further stated that materials going directly into armament manufacture are now being ordered for 1942 delivery in some cases.

The volume of actual orders for steel for defense uses is increasing, and ordering in some cases has been speeded up. Deliveries of steel for 200 merchant ships to be built in accordance with a program announced by the President at the beginning of January, which were to have started about July 1, have been moved up to start in March.

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Reports of heavy steel buying in January are borne out by new orders reported by the U. S. Steel Corporation for the month, which showed a rise to a new high since October 1939. (See Chart 1, upper section.) Shipments of finished steel by the company during January reached the best level since May 1929 when shipments were only a trifle higher. Despite the further rise in steel shipments, the company's estimated backlog of unfilled orders continued to expand. (Refer to Chart 1, lower section.) During the first week of the current month, new orders received by the U. S. Steel Corporation rose to 161 per cent of capacity.

Steel production of the entire industry, as reported by the American Iron and Steel Institute, reached a new record high in January with a total output of nearly 7,000,000 tons. This figure exceeded by nearly 5 per cent the previous peak reached last October.

During the current week steel operations are scheduled at 94.6 per cent of capacity, as compared with 97.1 per cent last week. Labor troubles in the Youngstown and Buffalo districts and repair work in the Chicago district have been factors in this reduction, according to press reports.

Automobile production and sales booming

An outstanding feature of the unusually high level of industrial production in recent months has been the sustained heavy volume production of automobiles. Production in October, November, December, and January broke all records for the respective months with one exception. (December 1936 slightly exceeded December 1940.)

In view of this heavy output, repeated references have appeared in the press intimating that manufacturers have been rushing production as a safeguard against possible curtailment later arising from defense requirements. The question arises whether an unwieldy situation in new car stocks may have been built up by the industry, as suggested by a recent press report that warehouse facilities in automotive centers were jammed with new cars.

Our figures indicate that stocks of new cars are relatively low, considering the present volume of retail sales. Although General Motors' reports show that new car stocks have been built up considerably since August, and at the end of January were 24 per cent higher than a year earlier, the January ratio of car stocks to sales fell below that of January 1940. (See Chart 2, upper section.) Moreover, the

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current situation stands out in marked contrast to that prevailing at the end of January 1938, when new car stocks were more than three times larger than the month's sales.

Used car stocks also showed a more favorable ratio to sales at the end of January 1941 than on the corresponding date of the past few years, according to the General Motors figures. Nevertheless, it should be noted that the actual number of used cars in stock rose to the highest point in recent years. Thus, if any development should suddenly occur to cut into the present high sales rate, dealers would probably find current used car stocks excessive.

The rising trend of employment and incomes has doubtless been primarily responsible for the heavy volume of automobile sales in recent months, although sales may have been stimulated to some extent by fear of possible production curtailment. General Motors' retail sales of 1941 model cars have run substantially above the corresponding periods of the past few years. (See Chart 3.) Sales made an unusually good showing in January, as they declined much less than seasonally and ran no less than 39 per cent above January 1940, establishing a new high for the month in the company's history.

Railroad earnings improve. Equipment buying increases.

Although the seasonal peak in freight carloadings last October fell below that of 1939, traffic again began running ahead of year-earlier levels by the latter part of November, and the year-to-year gain has since widened. (See Chart 4, upper section.)

As a result of the improved volume of traffic, earnings of Class I railroads in December rose to the highest level for that month since 1928. (See Chart 4, middle section.) Contrary to the usual seasonal trend, net railway operating income in December showed a gain of 11 per cent over the previous month, and 29 per cent over December 1939. Aided by this good showing in the final month of the year, net railway operating income in 1940 showed an increase of 16 per cent over 1939 and reached the highest figure since 1930.

The improvement in traffic and earnings of the railroads has been accompanied by a stepping up in equipment purchases. Thus, as will be noted in the lower section of Chart 4, the increase in new freight car orders which began last fall has continued into the current year, with orders in January rising to 14,100 cars. Although new locomotive orders in January declined slightly to 78 from a total of 80 in the previous month, they were still well above the January 1940 total of 50.

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Industrial earnings at high level in 1940

Earnings of industrial corporations in the last quarter of 1940 remained at a high level, although the Standard Statistics preliminary estimate shows earnings in that quarter slightly under those in the final quarter of 1939. (See Chart 5.)

Although increased tax reserves, and perhaps other factors, have prevented the reported earnings of industrial corporations from fully reflecting the rise in industrial production in 1940, the Standard Statistics figures for the full year show a gain of 24 per cent over earnings in 1939. In view of the present rate of earnings, it would seem difficult for corporations generally to justify price increases for their products.

The estimates of earnings for the last quarter and the full year must be considered tentative, as the reports are still incomplete.

New orders index higher

Our new orders index advanced to 191.5 for the week ended February 8, a new high for the year to date. (See Chart 6.) Increases in the steel and textile components more than offset a slight decline in the remaining group.

Prices of imported commodities higher

Prices of imported commodities have increased noticeably for 2 weeks in succession. (See Chart 7, upper section.) Uncertainty about shipping space and fear of increased shipping difficulties helped to raise prices of cocoa, shellac, rubber, tin, and burlap. For the week ended February 15 the price index of imported commodities reached 123.8 (August 1939 = 100) compared with 122.3 in the previous week.

Cocoa spot prices increased 7.4 per cent in the period between February 7 and 14 and futures prices reached the highest levels in 9 months. (See Chart 7, lower section.) Reports on the probability of a quota arrangement similar to that for coffee were a major influence, together with fear of a shipping shortage.

Wool prices rose slightly further, despite increasing imports of foreign wool. Wool imports received in Boston, New York and Philadelphia totaled 51,400,000 pounds in the

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4 weeks ended January 25 compared with 41,100,000 in the preceding 4-week period. Wool stocks in the United States at the end of 1940 were slightly higher than at the same time in the preceding year.

Of the imported commodities, only flaxseed declined. Fear of a shipping shortage is evidently offset by expectation of large carryover in Argentina and reports that the quality of the current crop there is inferior.

Prices of domestic commodities slightly higher

Prices of domestic commodities were slightly higher for the week in spite of declines in wheat and other foods. (Refer to Chart 7.)

Wheat spot prices declined considerably while futures reached the lowest point since last October. The weakness in securities was a predominant influence, as well as the large domestic wheat supply.

The increase in reported lard prices is apparently the result of a changed basis of trading. Futures prices have been weak, partly reflecting the increasing storage holdings. Holdings on February 1 were at the very high figure of 300.5 million pounds, which compares with a 5-year average of 138.4.

Consumption of cotton by mills during January rose to 843,000 bales, the highest on record, compared with 775,000 in December and a previous record of 777,000 in March 1937.

The price of lead was increased \$3.00 a ton to \$110.00 last week by the American Smelting and Refining Company, followed by other companies.

Weekly business indexes

With all but two components showing declines after allowance for seasonal factors, the New York Times index of business activity during the week ended February 8 declined 1.4 to 121.1.

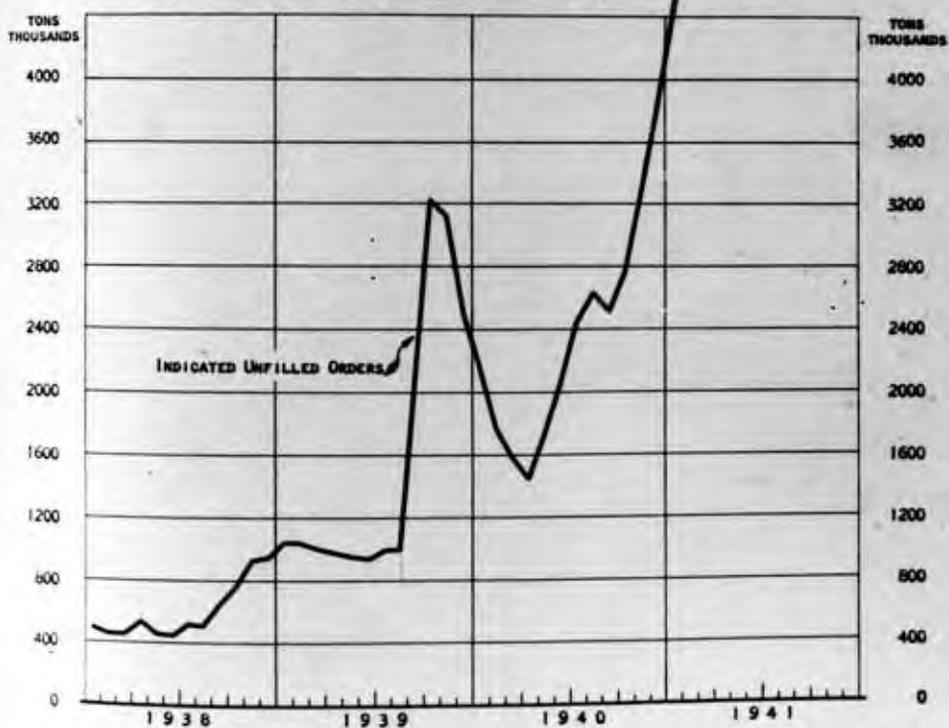
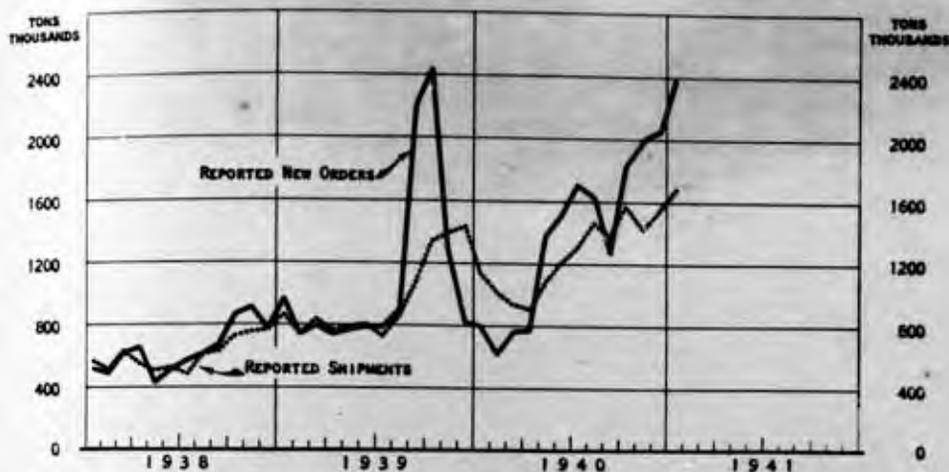
The principal factors were a contra-seasonal decrease in freight carloadings and a noticeable drop in the adjusted index of paperboard production. In addition, all other components of the index showed declines except lumber and automobile production. The last named component showed another sharp rise as a result of a contra-seasonal increase in actual production.

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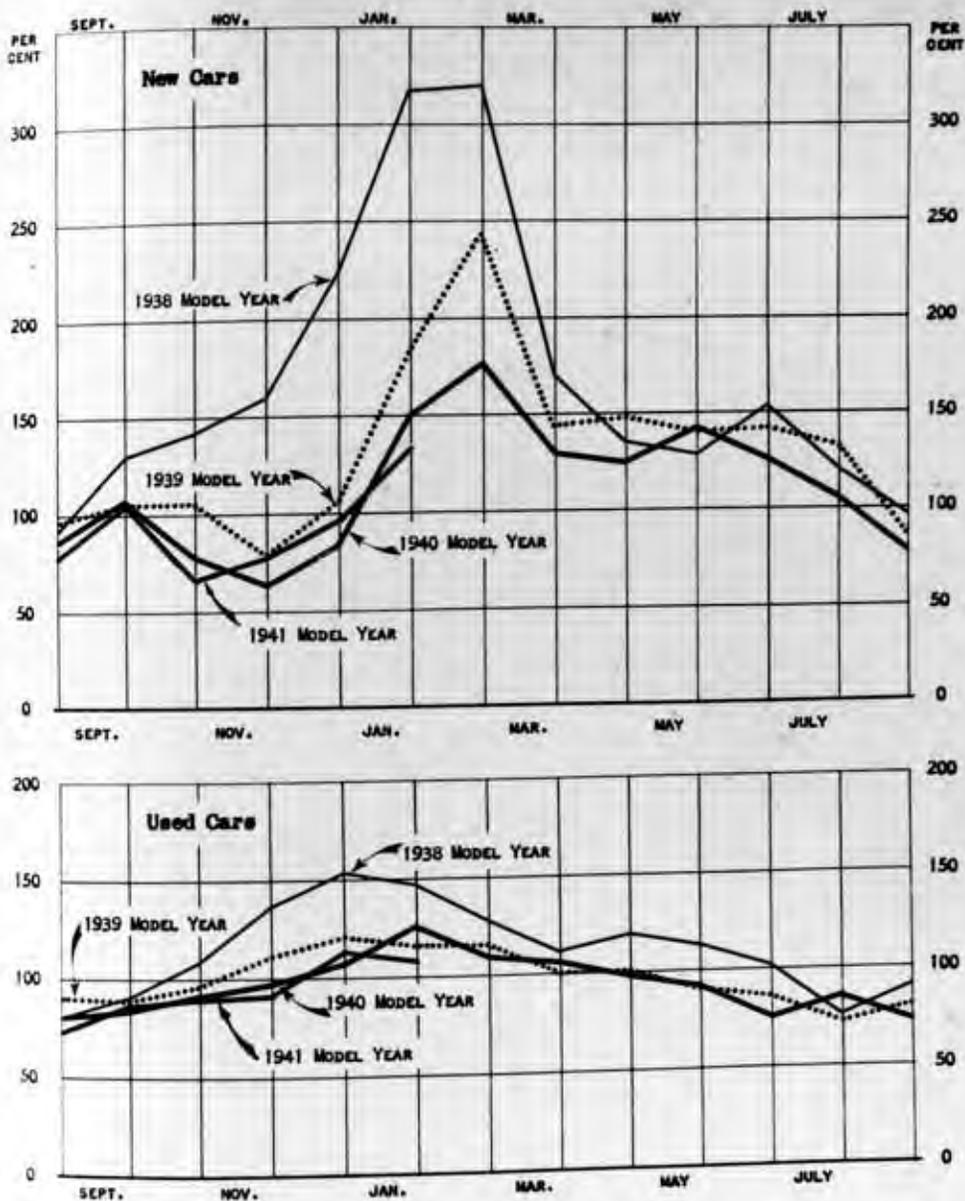
Barron's index of business activity ran counter to the Times index during the week ended February 8, rising 1.9 points.

Preliminary data for the week ended February 15 reveal a trifling rise in the adjusted index of steel ingot production. The automobile index will show a noticeable drop, despite an almost unchanged output, since the seasonal factor calls for a rise in production during the week mentioned.

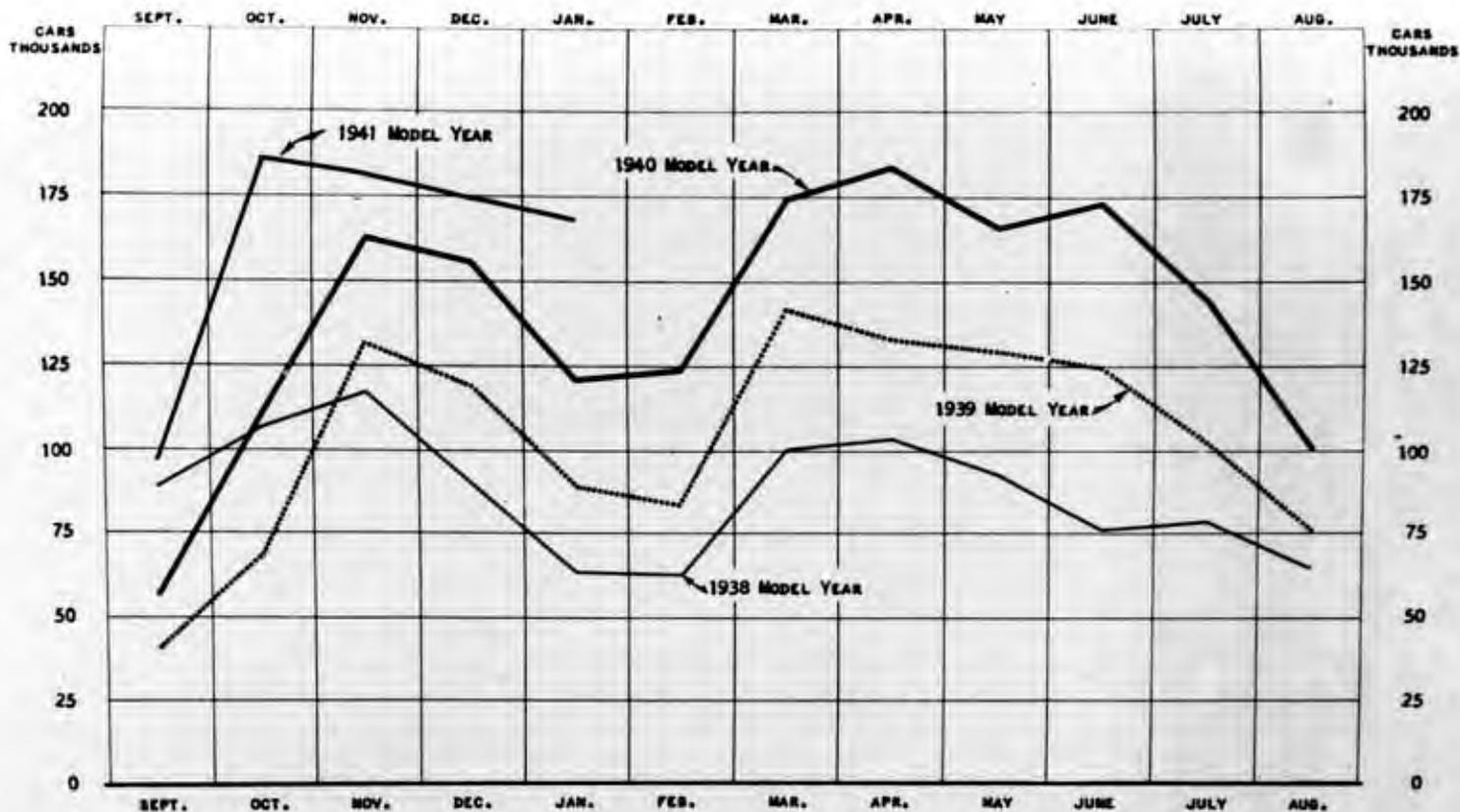
REPORTED NEW ORDERS, SHIPMENTS, AND INDICATED UNFILLED ORDERS OF THE U.S. STEEL CORPORATION



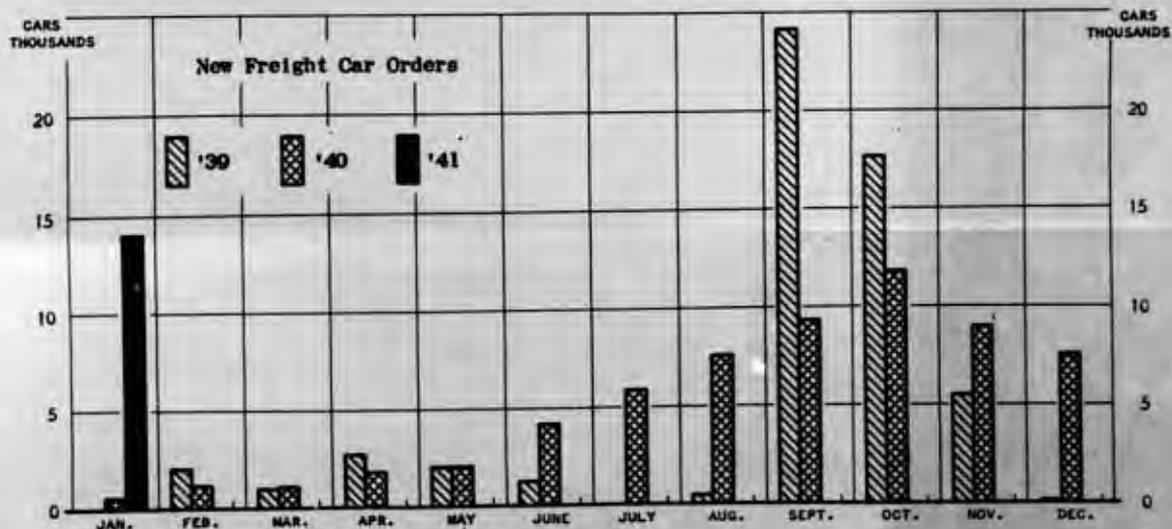
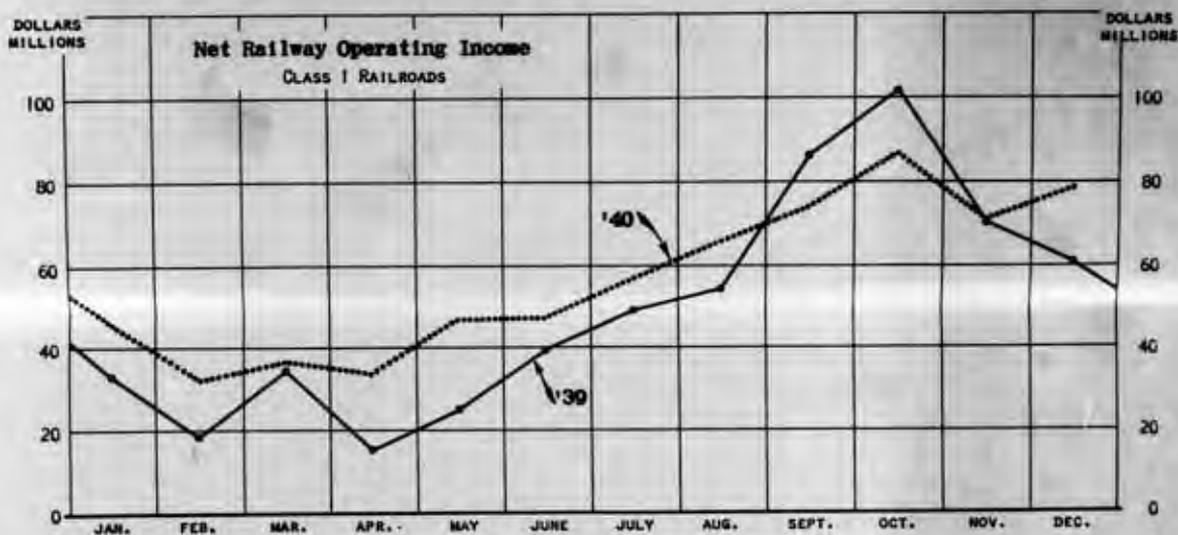
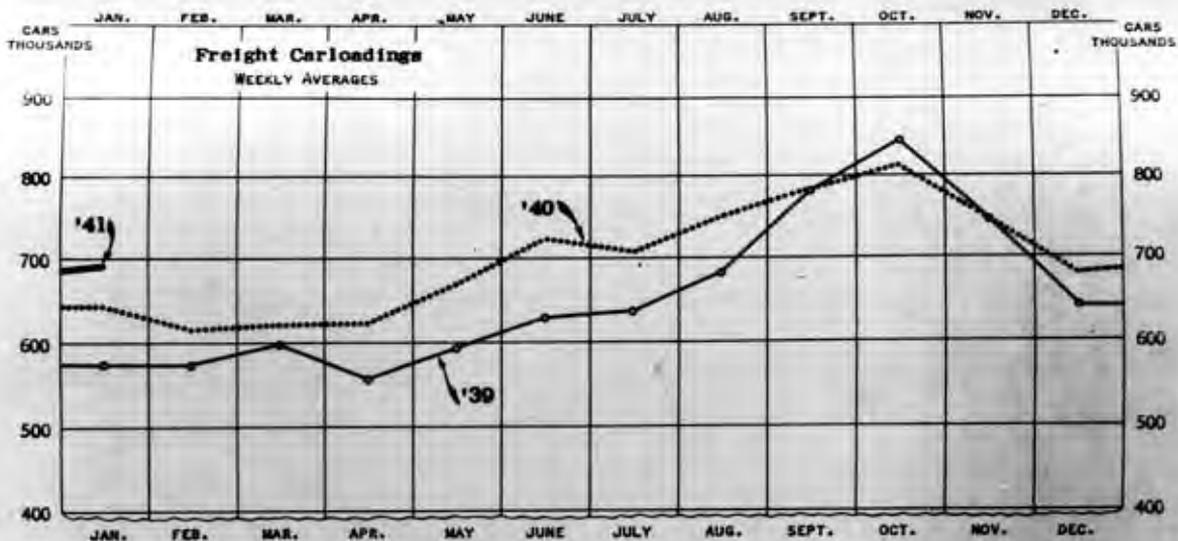
GENERAL MOTORS
Stocks of New and Used Cars, Ratio to Sales



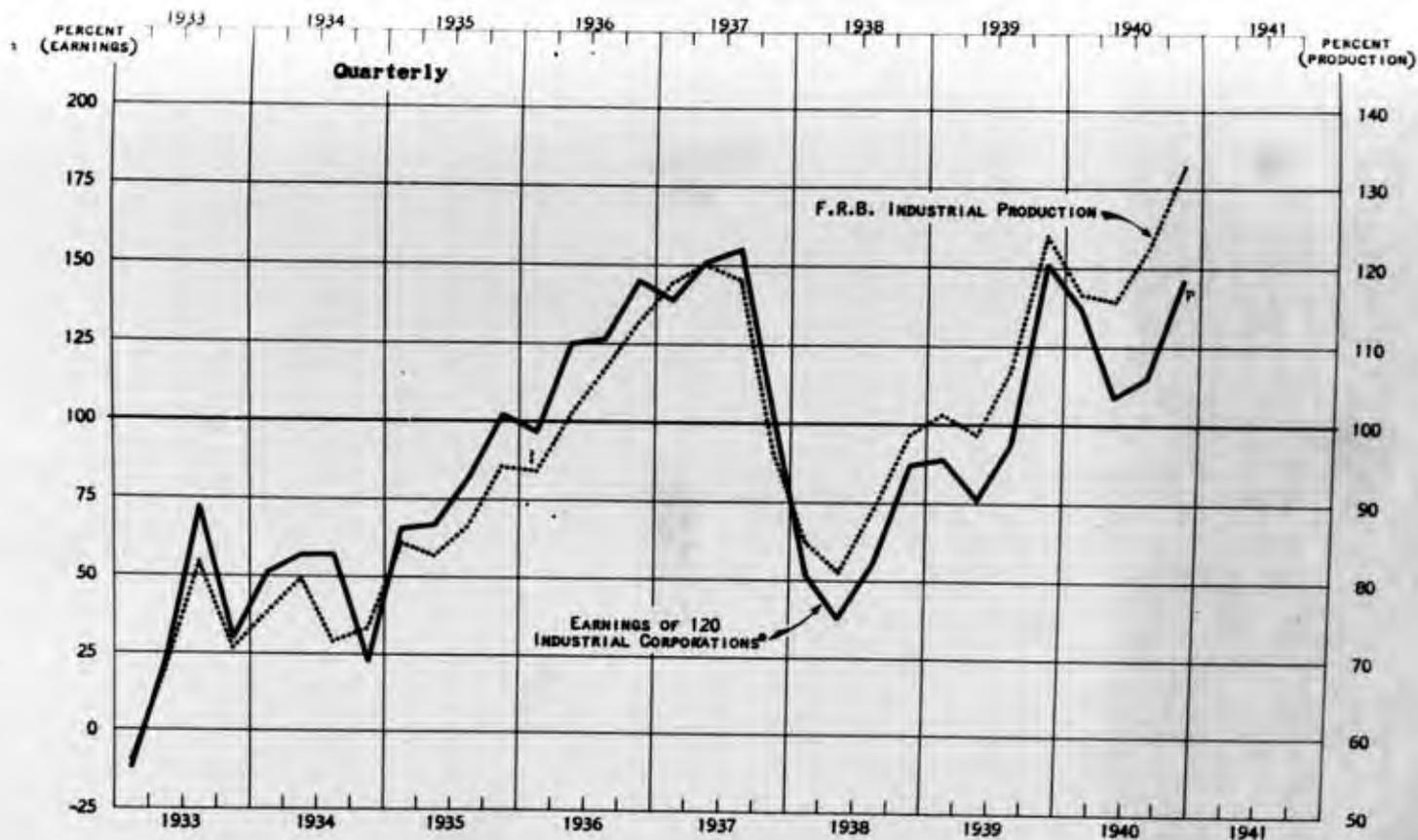
GENERAL MOTORS
Retail Sales of New Cars during Model Years 1938 - '40



RAILROAD SITUATION



INDUSTRIAL PRODUCTION AND EARNINGS OF INDUSTRIAL CORPORATIONS
1935-'39 = 100, ADJUSTED



* COMPUTED FROM STANDARD STATISTICS.

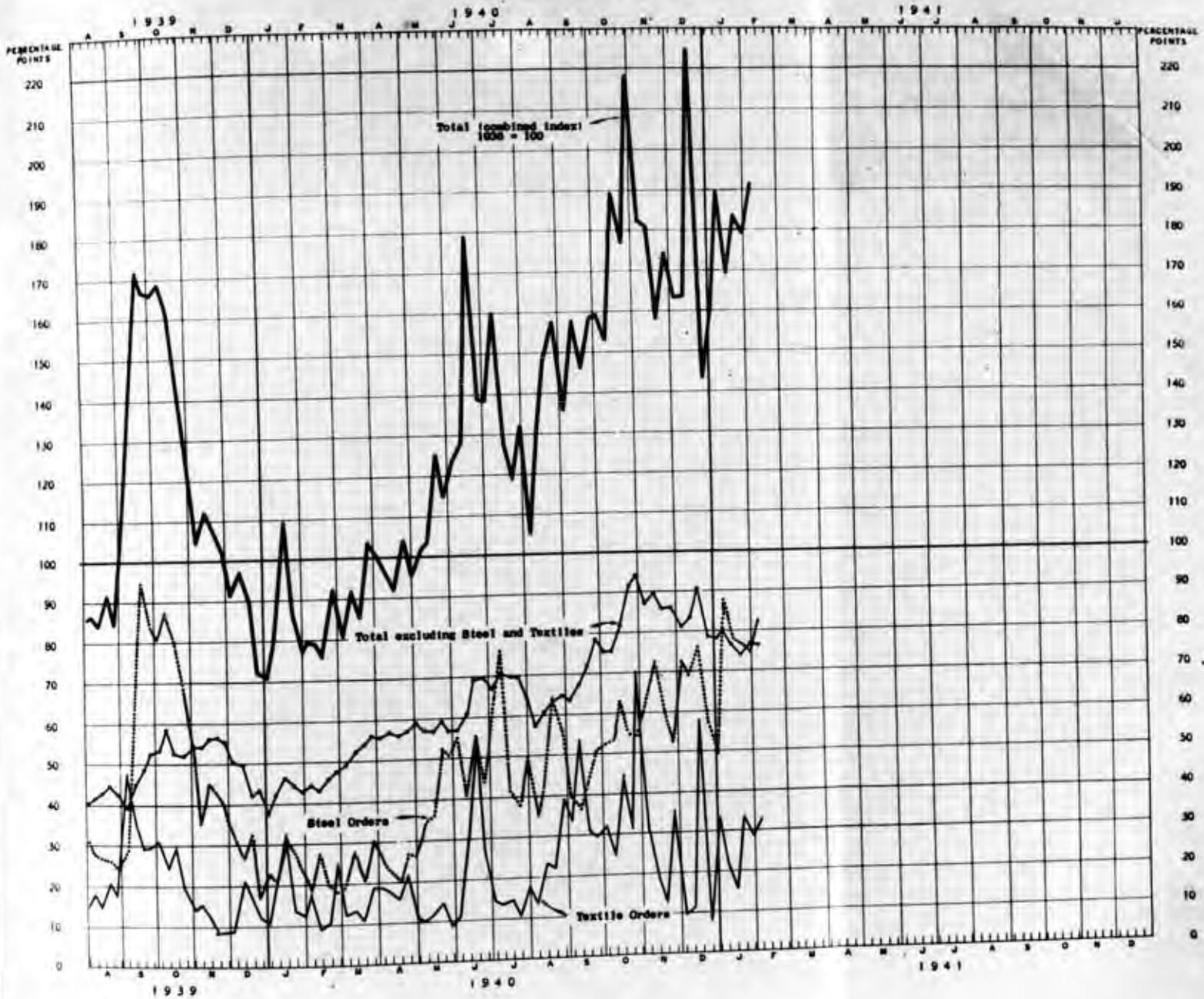
Office of the Secretary of the Treasury
Division of Research and Statistics

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Chart 5
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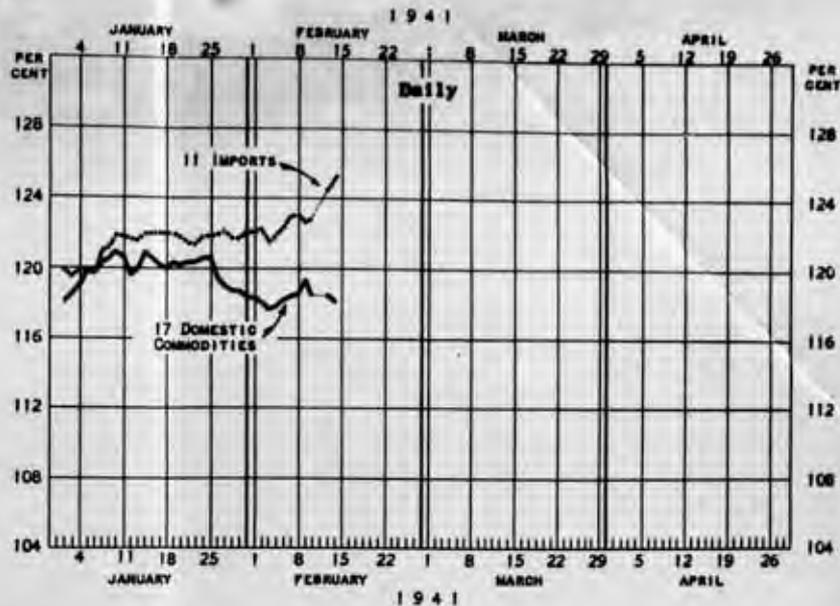
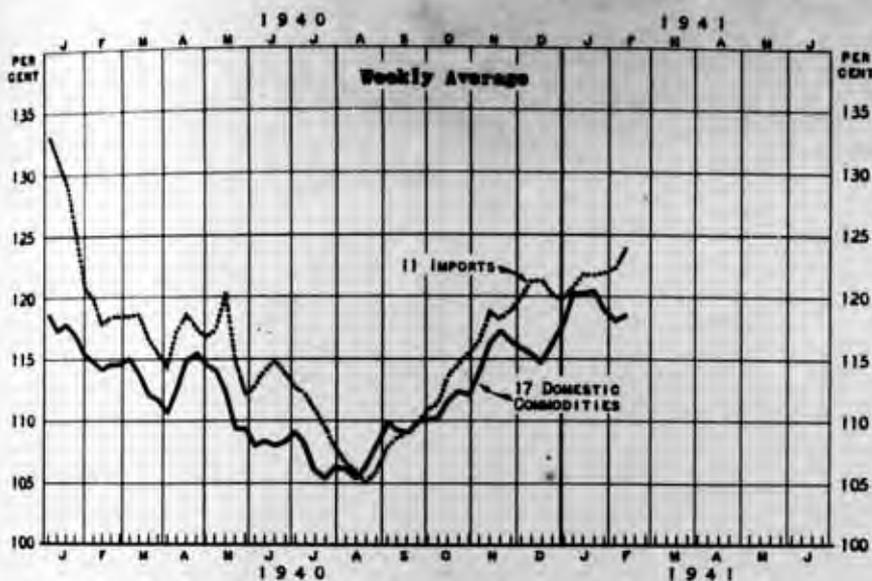
INDEXES OF NEW ORDERS
 Combined Index of New Orders and Selected Components

Chart 6
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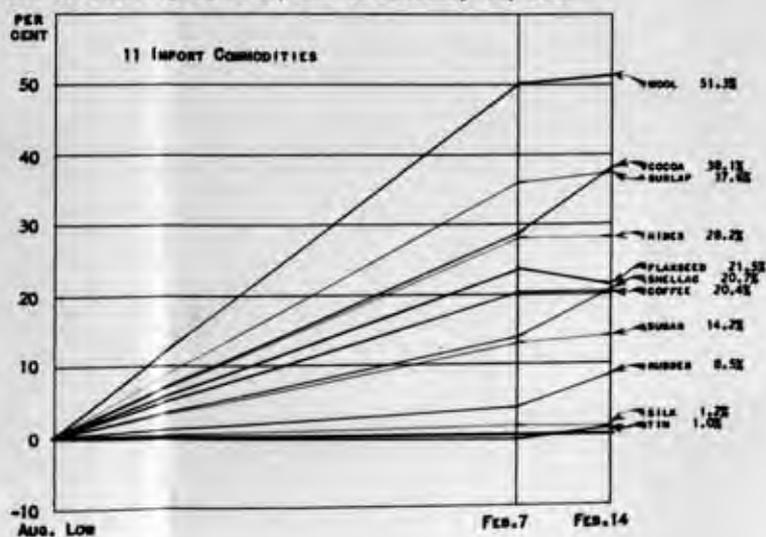
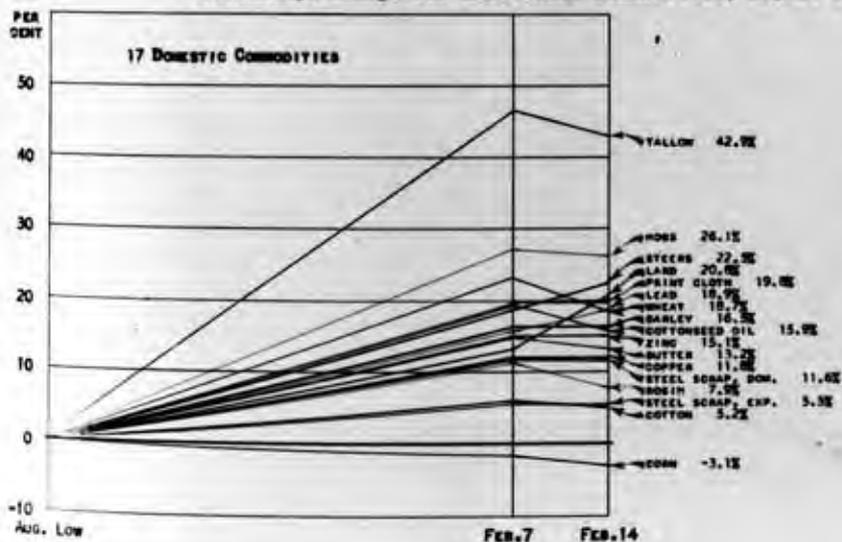


Office of the Secretary of the Treasury
 Division of Economic and Statistics

MOVEMENT OF BASIC COMMODITY PRICES
 Domestic and Import
 AUGUST 1939 = 100



Percentage Change for Individual Commodities, August 1940 Low to February 7, 1941, and to February 14, 1941



BRITISH EMBASSY,
WASHINGTON, D. C.

Personal and Secret

February 17th, 1941.

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

Halifax

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

Telegram received from London
dated February 15th, 1941.

Naval. H.M. Submarine "Rover" has successfully attacked a tanker off the South Italian coast.

2. Three naval aircraft attacked a convoy off Tripoli on night of February 13th/14th. One probable and one possible hit obtained although heavy A.A. fire encountered from destroyer escorting the convoy.

3. 14 aircraft from H.M.S. "Formidable" attacked Massawa February 13th, one ship probably hit at jetty and two were sunk. Enemy destroyer probably hit by a bomb. One British aircraft missing.

4. Six ships of the Sierra Leone convoy attacked on February 12th have reached Funchal. 13 ships still unaccounted for.

5. M.T.B. 41 mined off Harwich p.m. February 13th only three survivors.

6. Enemy mines dropped off Valletta (Malta) February 14th, and the Grand Harbour temporarily closed.

7. Kismayu occupied by our troops 14.15 G.M.T. February 14th.

8. Royal Air Force scored direct hits on a 1500 ton tanker off Bergen and 3,000 ton merchant vessel off Den Helder.

9. Military. Erythrea. Operations against Keren are proceeding but units of Northern column have had to withdraw from heights west of Keren captured on February 11th.

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10. Southern column progressing towards Arresa in difficult country where some mechanical transport and armoured fighting vehicles have been abandoned by the enemy.

11. Lybia. Italian forces remaining are estimated at about 70,000. Eritrea, Ethiopia, Italian Somaliland. The present location of Italian forces is obscure owing to withdrawal from the western and southwestern frontier. The total forces estimated at 105,000 white and 190,000 native troops.

12. Royal Air Force. Night of February 14th/15th. 88 heavy and medium bombers attacked oil plants at Hamburg and Gelsenkirchen; in addition 6 mediums attacked the docks at Ostend and 11 heavies laid mines. One aircraft is missing.

13. German Air Force. Night of February 14th/15th. About 140 enemy aircraft were operating of which 38 were mine-laying. Bombing was widely spread over the Eastern half of England and London area. No important damage and few casualties.

14. On February 12th and 13th, German aircraft dropped mines on Benghazi and bombed Benina and Berka.

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

German: one destroyed, one damaged.

British: one fighter lost, one bomber missing.

RESTRICTED

G-2/2657-220
No. 318

M.I.D., W.D.
February 17, 1941
12:00 M.

SITUATION REPORTI. Western Theater of War.

Air: German. Relatively light activity, directed against southeast England and against shipping.

British. Nominal operations against western Germany and the Channel Coast on the night of the 15th-16th. No other offensive operations.

II. Greek Theater of War.

Ground: Strong local Greek attacks continue. The Italians admit heavy fighting in the Eleventh Army or southwest sector which extends generally from the Tomarus Mountains to south of Valona. This includes the Tepelini area where it is believed the heaviest fighting is taking place.

Air: The R.A.F. gave close support to the Greek attacks.

III. Mediterranean and African Theaters of War.

Ground: Italian Somaliland. Chisimaio (Kismayu) was occupied by British forces February 14.

Abyssinia (Ethiopia). Gezan has been occupied and Kurmuk reoccupied by British forces. Southwest of Asosa an Italian detachment was routed.

Otherwise no change in the situation.

Air: Axis. German offensive operations in Libya continue. The Italian air force bombed a British air base in Crete.

British. The R.A.F. is regarded as having air superiority in East Africa, where numerous light attacks were delivered. Rhodes was again bombed on the night of February 14-15 and Catania, Syracuse and Brindisi were raided on the night of the 15th-16th.

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

Peruograms of Code Radiogram
Received at the War Department
at 6:38, February 17, 1941.

London, filed 13:50, February 17, 1941.

1. On Sunday, February 16, German merchant vessels were attacked by planes of the British Coastal and Bomber Commands near the coast of Holland. In addition, attacks were directed against merchant vessels and water-front facilities in Dutch ports. During the preceding night occupied Dutch and French coastal cities and airfields were attacked by lone British planes of both the Coastal and Bomber Commands with unobserved results due to adverse weather. However, a number of fires were observed. During the same night a large number of British bombers were active against targets on the Continent. Three attacked harbor facilities at Calais, 40 attacked Boulogne, three attacked a German warship at the port of Brest, 75 attacked oil refineries at Helten, Holland, and Stettin, Germany, and 70 others attacked the German city of Hamburg. In all, 189 bombers were used and of those five failed to return to Britain.

2. During the night of February 16-17 German air activity consisted of eight planes along the coasts of Essex and Norfolk. During the preceding day lone German raiders were plotted over Sheffield, Durham, western Scotland, Alderhot and Chester. In addition 25 German planes attacked Norfolk and Suffolk airfields, six more attacked the area between Falkstone and Deal, and two other attacked the southwestern section of London. The weather was bad and only two of the attackers

were shot down. One undamaged German plane landed and was captured. Some results of the German attacks on England during the night of February 15-16 have been reported. Harbor facilities at Ghatton were considerably damaged but a British U-boat in the harbor was not hurt. A fire of considerable size was started at the Woolwich Arsenal but it was extinguished in a short time.

5. Malta-based British planes started fires among a group of Italian planes on the ground and at airframe buildings during a heavy attack on Sicilian airfields. In other Mediterranean and African theaters the advances of land forces were supported by the Royal Air Force.

4. Malta was unsuccessfully attacked by one Axis plane and the Libyan city of Murzuq was attacked by Italian bombers.

SEARCH**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

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February 18, 1941.

MEMORANDUM FOR THE SECRETARY'S DIARY

There was a conference in Dean Acheson's office at the State Department on Monday, February 17, held following a telephone call from Mr. Acheson to Mr. Foley on February 15. Present at the meeting were Messrs. Acheson, Berle, Feis and Pasvolsky of the State Department and Messrs. Foley, White, Pehle and Bernstein of the Treasury. It was decided to limit the discussion to the problem of freezing control.

The Treasury representatives explained at some length the underlying problems involved in extension of the control; pointed out that what we were doing was really foreign exchange control, and it was perhaps unfortunate the word "freezing control" was used to describe it; that practically all countries of the world had systems of foreign exchange control, even though the reasons for the imposition of foreign exchange control in other countries may be somewhat different. The important policy aspects of the extension of freezing control were also mentioned, and emphasis was laid on the value of foreign exchange control as a flexible mechanism for carrying out in the field of economic defense any of the policies which the Government may from time to time develop. In response to an inquiry from Mr. Pasvolsky, Bernstein quoted from a memorandum received by the Treasury from the British indicating the nature of foreign exchange and enemy property control in Britain, the effect of which was to indicate that what we were proposing is very similar to what England already has.

In connection with the proposal of the State Department that there be registration of foreign assets and ad hoc freezing, it was pointed out by the Treasury representatives that if there were registration without freezing, the situation at the time the reports would be received by the Government would be so different from that shown in the reports as to have comparatively little value, since registration would have the effect of increasing the rate at which funds are withdrawn from the country, and would also cause foreigners to attempt to hide true ownership of the funds. The point was also made by the Treasury representatives that although

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it would be of some interest to know more precisely the amount of funds in this country belonging to each foreign country and nationals thereof, that was not very important in considering the problem at hand since we knew that there were very substantial sums belonging to certain of the foreign countries which ought to be dealt with, and furthermore, regardless of the amount of funds now remaining in the country belonging to these foreign countries, we had to consider the desirability of controlling the use of monetary and banking facilities in this country by the Axis countries and other countries acting on their behalf. With respect to ad hoc freezing, the Treasury representatives pointed out that this would involve a great deal of snooping and "gestapo" work; that the Government would find it extremely difficult and embarrassing to pick out individual companies and say that they not only were subject to foreign influence, but were acting in a manner inimical to the interests of this country, and that it was not likely that very many companies or other persons would be put under freezing control through this method. Furthermore, even if it were found that the Axis countries were using certain accounts or certain companies to carry on their affairs, once those accounts or companies were blocked, the Axis powers would use other accounts or companies to carry on their activities.

Pasvolsky kept emphasizing the fact that although we had some basis of explanation for freezing the assets of invaded countries, we would be unable to have a satisfactory explanation to make to non-invaded countries whose assets we would freeze. The Treasury representatives pointed out to him that there would not be any great difficulty in offering explanations to such countries for the imposition of the proposed foreign exchange control, and that certainly we could justify the action as a measure of self-defense, which Secretary Hull has so frequently stressed as a justification for action in the field of international relations. The Treasury representatives also pointed out that the mere imposition of freezing control did not necessarily mean that no transactions whatever would be permitted with respect to the assets of any foreign country. It would remain a policy question, for the appropriate governmental agents and officials to determine, what line of action should be followed with respect to any particular country.

Mr. Berle made the point that extension of freezing control to continental Europe would inevitably lead to extension of freezing control to the rest of the world, because of the possibility of evasions. The Treasury representatives said that there were reasons pro and con for extending freezing control to the whole world, including Russia, Japan and South America, but that it was perfectly logical to limit the extension of freezing control to continental Europe, excluding Russia and Britain; that when the Treasury originally suggested extending freezing control to the whole world, State Department and Justice thought this was going too far and found extension of freezing control to Europe more acceptable. Mr. Berle said he learns as he goes along, implying that on reflection he would think world-wide control would be preferable to continental European control. Mr. Acheson also made a number of inquiries with regard to the possibility of evasion, but it was pointed out that this possibility certainly existed; at no time could it be expected to be eradicated completely; that it even existed in countries at war like Britain and Germany, and that did not mean that the action was not worth taking.

Mr. Fais, who only attended part of the meeting, seemed to be quite troubled about the possible effect of extending freezing control to the values of stock in Swiss companies that had large assets in this country. He felt that the freezing control would be administered by the Treasury in such a way as to seriously decrease the value of Swiss stocks where Swiss corporations held assets in this country.

In the course of the meeting Mr. Foley made the point very precisely and on several occasions that the real issue is whether or not to extend freezing control on a geographic basis or to do nothing at all; that the half-way measure proposed by the State Department was entirely undesirable and should in no event be adopted. It did not seem that there was any challenge to these remarks by the State Department representatives.

At the conclusion of the meeting Mr. Acheson said that he had found the discussion very worthwhile and helpful to him, at least, and left us feeling that we had made a very substantial impression upon him by our arguments.

S. 11-76

February 18, 1941

CONFERENCE AT THE WHITE HOUSE, 12:30 P. M., FEBRUARY 17, 1941

Those present besides the President were: Secretaries Morgenthau, Stinson, Knox, and Wickard; Director of the Budget Smith, Messrs. Harry Hopkins and Bell.

The President discussed for a few moments Harry Hopkins' trip to London. He said he had practically lived with British officials and had come back with first-hand information; he had talked with Harry the night before until 2 A. M. and they had not finished yet. One important thing which we had overlooked was the coming need for food supplies. He thought that was something which should be looked into immediately by the Secretary of Agriculture.

The President said that he had talked with the Congressional leaders that morning about the total requirements under the Lend-Lease Bill. He asked them how the Congress would feel about his submission of estimates, whether they would like to have a total at once, say 3 or \$4,000,000,000 in cash and 3 or \$4,000,000,000 in contract authorizations or whether they would like to have it divided into several submissions. They were unanimous in recommending that it be divided and that the amounts required be submitted from time to time, including just enough cash and contract authorizations to come within the capacity of the country to produce the articles.

Secretary Stinson commented that this was important and he said that as we all knew, they have been working through Mr. Jones in the EPC in order to build up the capacity of the country and to keep that capacity producing in the interim while the Lend-Lease Bill has been pending.

At this point the Secretary handed the President the memorandum which had been prepared in the Bureau of the Budget as a result of the conference held at his house on Saturday morning. He told the President that this was a memorandum of procedure which the four Cabinet officers present had agreed upon, but he was not so sure that his Director of the Budget was happy about it. He was there and could speak for himself.

The President then read the first paragraphs of this memorandum, which are a summary of I and II detailed procedure and said it was all right with him but he was not quite sure it would be all right at the Hill. He asked about percentage of flexibility and whether or not ten per cent would be sufficient. The Secretary said fifteen per cent had been suggested at the conference held at his house on Saturday. He personally was not able to say what that percentage should be. Mr. Smith stated that obviously some percentage would have to be worked out as it was necessary to have flexibility in operating the program.

The President then asked as to what proportion would the funds be split between I and II, and just as a rough guess, someone suggested that it might be \$3,000,000,000 cash and contract authorizations to the War and Navy, and \$1,000,000,000 cash and contract authorizations as a lump sum which would take care of all the Departments, including Agriculture, Maritime Commission, etc. The exact figures would have to wait on the breakdown of the British program and its integration with the present National Defense program. The War and Navy Departments are now working on that.

Mr. Smith then made his point, that while he was willing to go along on this program, he still was of the opinion that it was not the best method of procedure. He had discussed it at some length with the members of his own staff and they, with all of their background and experience, felt that it was wrong to split up this program among the many items of appropriations on the books of the War and Navy Departments. He said that he thought there was a great chance of losing budgetary control by the Budget Bureau and accounting control by the Treasury over the appropriation procedures. He was quite certain it was not as simple as had been outlined and before we were through, we would have to go back to Congress many times to get authority for additional flexibility.

The President said that he agreed with Mr. Smith in general but he was quite certain that the Congress would not give him a lump sum appropriation as large as we will need to carry out the provisions of the Lend-Lease Bill. He thought it would be better to handle it in the manner outlined in the memorandum, than as the materials or articles come off the manufacturing line it then be determined which were to go to the British and which were to form a permanent part of our National defense. He then asked me if I did not think this the best way to account for them and at that time have an account with the British to which these articles would be charged. I said that that was the only way to handle the matter under this proposed procedure, but I wanted to point out it should be understood that the only way the Treasury can handle the expenditures under this whole program is in the first instance charge them to our National defense so that each day when our Daily Statement is published it will show a large National defense expenditure, part of which will be for the account of the British and which will not be determined until weeks or possibly months later. As the documents

- 3 -

are signed leasing or loaning these articles and materials to the British and those documents are filed in the Treasury, that is the first opportunity the Treasury will have to charge the British and credit our own National defense expenditures, and by that process reduce our previously published National defense expenditures. The one objection to this is that the expenditures in the first instance will be made, say in 1941, and the credits for the British may be made in 1942. In other words, you will have credits against 1942 expenditures for an adjustment of 1941 expenditures. While this is not the best thing, it is the only practical way that we can work it out without a great accounting organization.

There was some discussion as to the drafting of the bill but it was concluded that there was no necessity for this as the regular budgetary procedure would be followed. The War and Navy Departments would submit their estimates to the Director of the Budget who would prepare the necessary documents for the President to submit to the Congress, which would be referred to the appropriation committee and on which that committee would hold hearings in the usual way.

DWB:ce

CONFIDENTIALTO KEEP YOU POSTED

February 18, 1941

To: The Secretary
From: Mr. Young

Re: The Million Enfield Rifles

Major Francis T. Sanford, President of the National Arms Corporation, and a Mr. Davis, Vice President of the same corporation, were referred to me by Lt. Stephens. I had a conference with them today at 2:30, and it turned out that it had to do with the old million Enfield rifle story.

You may recall that about the middle of January letters addressed to the President and Mr. Marvin H. McIntyre, dated December 28, 1940, and signed by the Mr. Sanford mentioned above, were referred to you for reply. I prepared a reply which was signed by you on January 27th. The ground covered in the conference today with these gentlemen is substantially the same as the information contained in the letters noted above. Neither of the two gentlemen would furnish me with additional information although Mr. Davis has promised to submit a photostat of certain correspondence he has had with the War Department.

Briefly, the proposition is this: National Arms Corporation has developed a new automatic rifle called the "Pedersen" which is similar to the Garand. National Arms will solicit an order from the Army for 125,000 Pedersen rifles. National Arms will accept in payment one million Lee Enfield rifles from surplus stocks. National Arms will put up \$12,500,000 in escrow for the period it takes to get the Pedersen rifle into production. The million Enfield rifles will be turned over to the British or to Canada at sufficient profit to pay for financing the tools and plant expansion required for producing the Pedersen. Major Sanford said that MacKenzie King would authorize the purchase even with the profit included.

Major Sanford had already talked with Major Smith at the War Department and the latter advised him that only an order from the

- 2 -

President could dislodge the Enfields. I advised Major Sanford and Mr. Davis to divorce the Enfield rifle deal from the Pedersen business and ask the Army directly for money to carry on developmental production. This, these gentlemen did not want to do.

There is undoubtedly something very peculiar in the whole picture which has never seen the light of day as they insist that the Pedersen cannot be developed without turning over Enfields to the British.

So far as I know, there is nothing to be done on this situation although, of course, I shall notify the British Purchasing Commission.

RM.

February 18, 1941
3:00 p.m.

H.M.Jr: Hello, Herbert.

Herbert
Gaston: Yes.

H.M.Jr: I wouldn't dream of doing any personal investigations for the Defense Commission.

G: You wouldn't?

H.M.Jr: Oh, my God! I mean that jack-ass of a Sherwood got everybody at the White House down on him and McReynolds. I wouldn't touch it with a ten-foot pole.

G: I would say the F.B.I. got everybody down.

H.M.Jr: No, it's Sherwood. Sherwood knew that Mrs. Helm was Mrs. Roosevelt's secretary and went ahead and had her investigated.

G: Uh-huh.

H.M.Jr: And Sherwood and McReynolds and all the rest of them. I wouldn't touch it, Herbert. I don't want anything to do with them.

G: No investigations for them at all.

H.M.Jr: No, they didn't come to us in the first place.

G: I thought they came first to us and then later went to F.B.I.

H.M.Jr: Well, you can check that but I don't want anything to do with them. Anyone who plays with them just gets burnt.

G: All right.

H.M.Jr: I'm sure F.B.I. turned them down because they got in dutch with the White House.

G: Oh, of course. That's perfectly obvious.

H.M.Jr: Well, please, please, don't touch it.

G: All right.

MEMORANDUM FOR THE SECRETARY'S RECORD

Report of Conference Held in Secretary's Office

February 18, 1941 at 3:15

PRESENT: Secretary Morgenthau
Mr. Schott
Mr. Pedotti
Mr. White

Mr. Schott of the Climax Molybdenum Corporation stated that he wanted to inform the Secretary of the latest developments with respect to possible shipments of molybdenum to Russia. He stated that Russia wished to purchase 4,000 tons of molybdenum and had agreed to guarantee in writing that none of it would be made available in any form to Germany and had met every other requirement the Climax Molybdenum Corporation imposed. They had not intended to ship the molybdenum to Russia but had come to Washington to learn which was the best procedure for explaining their refusal to accept the Russian order. After discussion with Mr. Henderson of the State Department it was agreed that the best thing to do would be not to request a license for export but rather to inform the Russians that in view of our own defense program and the rapidly growing demand for molybdenum none could be spared for export to Russia.

The Secretary thanked him and reminded Mr. Schott that the Secretary had made a commitment to the nickel producers last year with respect to restriction of exports to Russia and Japan and would therefore like to be informed before any exports of molybdenum to Russia were contemplated. Mr. Schott stated that that was why he was here and that he would bear that definitely in mind.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 18, 1941.

TO Secretary Morgenthau
FROM Edward H. Foley, Jr.

In Phil Young's presence, I called Attorney General Jackson last night around 8:00 o'clock.

The Attorney General said that he was disturbed about the item on the Ticker to the effect that Consolidated bombers were being flight-delivered to Britain over United States territory by British crews. I explained to him that the Ticker report was inaccurate; that I had learned that the bombers were flown to LaGuardia Field from San Diego by Consolidated crews, and that title to the bombers was to remain in Consolidated until they had passed over the territorial boundaries of the United States. I also informed the Attorney General that one or two British subjects, not a part of their military service, rode in the planes across the country as passengers but did not take part in the operation of the planes.

The Attorney General asked how the planes were to be flown out of the United States. I explained that it was originally intended to put British crews aboard at LaGuardia Field and fly them out of the United States to Bermuda with British crews; since title to the planes would not pass to the British until the planes crossed the three-mile limit, I pointed out that this procedure seemed to me to be technically within the law.

The Attorney General then asked if this was not a departure from the manner in which the planes had been delivered in the past. I told him that this was so, and that arrangements had now been made to have the planes flown to Halifax by Consolidated crews; title to the planes to pass to the British as the planes crossed the Maine-New Brunswick boundary line. After the planes arrived at Halifax British crews would be put aboard and they would then be flown to England. The Attorney General indicated that this was entirely satisfactory to him since it followed his understanding of the arrangement which had been

- 2 -

worked out previously for delivering planes, and which had been approved by the State Department.

The Attorney General cautioned that no British subjects should accompany the planes but that the people who were actually to fly the planes to England get to Halifax by some other means. I told the Attorney General that we would pass this information along to Purvis and if there were any changes we would get in touch with him. He said, on this basis, he would be entirely satisfied.

I told the Attorney General that we had not had any knowledge of the objectionable manner in which the planes were being delivered until the matter had been brought to our attention yesterday. He said he had assumed this to be true and called us only after he had received a telephone call from the State Department. The Attorney General said his only interest was to avoid any possible difficulties which might arise to embarrass the passage of the Lease-Lend Bill.

E. W. 76.

February 18, 1941

My dear Mr. President:

As a follow-up to our conversation of yesterday, I would like to suggest to you that you appoint Fiorello LaGuardia to do a job in the airplane industry in this country along the same lines that Lord Beaverbrook is doing for England.

Yours sincerely,

The President,
The White House.

STRICTLY CONFIDENTIAL

February 18, 1941

My dear Mr. President:

As a follow-up to our conversation of yesterday, I would like to suggest to you that you appoint Fiorello LaGuardia to do a job in the airplane industry in this country along the same lines that Lord Beaverbrook is doing for England.

Yours sincerely,

The President,
The White House.

STRICTLY CONFIDENTIAL

FEB 18 1941

Dear Mr. President:

I thought that you might be interested, as indicative of the present state of the security markets, in the postponement of contemplated security offerings by three prominent industrial corporations.

The Republic Steel Corporation had contemplated selling \$90 millions of new bonds, which, together with a proposed bank loan of \$16-1/2 millions, would have refunded the entire debt of the company. This deal has been postponed.

Philip Morris and Company had contemplated a preferred stock offering of \$15 millions. This deal has also been postponed. A third company which has postponed new financing because of the condition of the markets is the Standard Oil Company of Ohio which had expected to sell \$15 millions of preferred stock.

Faithfully,

(Signed) H. Morgenthau, Jr.

The President,

The White House.

GCH:ek

FILE COPY

BA

By Memorandum 350

264
Embassy, China.

Confidential

AMERICAN CONSULATE GENERAL

Shanghai, China, February 18, 1941.

SUBJECT: CHINA TIMES Recommendations Regarding the handling
of a Chinese Currency Stabilization Fund.

THE HONORABLE

THE SECRETARY OF STATE

WASHINGTON.

SIR:

I have the honor to invite the Department's attention to the substance of an editorial appearing apparently on January 31 in the CHINA TIMES, influential Chungking daily paper having close relationships with the large Chinese official banks. A summary of the editorial appeared in Shanghai newspapers of February 1 as supplied by Reuter's news services.

The editorial comments on China's exchange problems and makes the following recommendations: (1) The control should no longer sell exchange at Shanghai; (2) The control should exercise rigid supervision over Chinese currency at Hong Kong; (3) The control should not announce the amount of any new stabilization fund; (4) The control should not make known in any way the rates at which the Chinese currency is to be stabilized; (5) The control should sell only to bonafide American, British and Chinese merchants.

It

- 2 -

It is believed these sentiments reflect reasonably faithfully the views of the Chinese official banks on the subject and that the editorial was inspired by them possibly as a prelude to the visit of Dr. Lauchlin Currie to Chungking.

Respectfully yours,

Frank P. Lockhart,
American Consul General.

851
ABC:MKD

In quintuplicate
Copy to Embassy, Peiping
Copy to Embassy, Chungking

A true copy of
the signed orig.

eh:copy

(CONFIDENTIAL)

PARAPHRASE

A telegram of February 18, 1941 from the American Consul at Kunming reads substantially as follows:

Although the number of trucks on the Burma Highway seems small, the pontoon ferry across the Mekong River apparently was taking care of such traffic as comes over the Burma highway, according to reports from Americans who have arrived most recently in Kunming by way of the highway. The number of trucks--700 according to the most recent unofficial figure--arriving in Kunming for the week of February 7-13, is not greatly different from the average number arriving before the bombing of the bridges. Although, according to reports, there was little more damage to communications, it has been learned that on February 9 and 12 the Mekong ferry was bombed.

mg

COPY

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 18, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£276,000
Purchased from commercial concerns	£241,000

The Federal Reserve Bank of New York sold £15,000 in registered sterling to a non-reporting bank.

Open market sterling was quoted all day at 4.03. Transactions of the reporting banks were as follows:

Sold to commercial concerns	£ 9,000
Purchased from commercial concerns	£19,000

In Shanghai the Chinese yuan and sterling both continued to improve against the dollar. The yuan was quoted at 5-3/4¢, up 1/16¢ and sterling was \$3.94-1/4, up 1-3/4¢. In Hong Kong sterling was quoted at \$3.93, up 2¢. The decline in the value of the dollar in Shanghai and Hong Kong was attributed to the continued tension in the Far Eastern situation and the possible involvement of the United States in that area.

Closing quotations for the other currencies were as follows:

Canadian dollar	15-1/2% discount
Swiss franc (commercial)	.2323-1/2
Swedish krona	.2385
Reichsmark	.4005
Lira	.0505
Argentine peso (free)	.2365
Brazilian milreis (free)	.0505
Mexican peso	.2066
Cuban peso	6-6/15% discount

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

The United States equivalent of the Bombay quotation for gold is \$34.31.

In London the price fixed for both spot and forward silver was 33-5/16d, up 1/16d for both deliveries. The United States dollar equivalent of these prices is 42.33¢.

- 2 -

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

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

The report of February 11 received from the Federal Reserve Bank of New York, giving foreign exchange positions of banks and bankers in its district, revealed that the total position of all countries was short the equivalent of \$7,866,000, a decrease of \$550,000 in the short position. Net changes were as follows:

Country	Short Position February 5	Short Position February 11	Change in Short Position*
England**	\$ 456,000	\$ 2,000 (Long)	- \$458,000
Europe	3,385,000	3,392,000	+ 7,000
Canada	318,000 (Long)	245,000 (Long)	+ 73,000
Latin America	91,000	108,000	+ 17,000
Japan	3,598,000	3,470,000	- 128,000
Other Asia	1,219,000	1,239,000	+ 20,000
All others	15,000 (Long)	96,000 (Long)	- 81,000
Total	\$8,416,000	\$7,866,000	- \$550,000

*Plus sign (+) indicates increase in short position, or decrease in long position.
Minus sign(-) indicates decrease in short position, or increase in long position.

**Combined position in registered and open market sterling.

J. M. S.

CONFIDENTIAL

BRITISH EMBASSY,
WASHINGTON, D.C.

Personal and Secret.

February 18th 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,

Hahja

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D.C.

TELEGRAM FROM LONDON DATED FEBRUARY 17th 1941.1. NAVAL.

Attacks on shipping by aircraft. One naval mine sweeping trawler was sunk off the Scottish coast. A Coastal Convoy was attacked in the Thames approaches but was not damaged.

2. ROYAL AIR FORCE.

Nights of February 16th./17th. All operations cancelled.

3. SICILY.

Night of 15th/16th. Aerodromes were attacked; administrative buildings at Catania were hit and some aircraft were left burning. At Comiso fires were caused.

4. ALBANIA.

On February 15th our medium bombers attacked gun positions and buildings at Bushi.

5. EAST AFRICA.

Our air offensive has been maintained on all fronts, successful attacks were made against railway targets in Keren Sector and fires were caused at the Caproni workshops at Mai Adaga.

6. GERMAN AIR FORCE.

Night of February 16th/17th.

No enemy activity.

7. MALTA: was attacked on night of February

15th/16th and again on February 16th. One Hurricane was shot down (pilot safe), no reports of damage received.

8. Air casualties in operations over and from the British Isles. Germans: 1 Bomber destroyed

British: Nil.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Berlin, via Bern

DATE: February 18, 1941.

Rec'd 20th.

NO.: 609

FOR TREASURY FROM HEATH.

I learn from a usually reliable source that the Germans have been successful in efforts to press the French Government and the National Bank of Belgium to turn over to the Reichsbank a part of the Belgian gold reserve equivalent to five hundred million gold marks which had been deposited in the Bank of France and then sent for safekeeping to Dakar, French West Africa. The gold has been taken to Oran, according to my informant, and it is to be transported in submarines across the Mediterranean, or is being so transported now. At the present moment I cannot verify or disprove this story at the Reichsbank. However, because of the usual reliability of the source I am reporting it, and it may be that elsewhere the report can be checked.

MORRIS.
 TO THE COMMISSARY
 TECHNICAL SERVICES
 OFFICE OF THE

RA 2 MAR 2 1941

INVESTIGATION DEPARTMENT
 RECEIVED

EA:LWW

*No distribution on this
Handled by H. M. Cohen.*

241

ADDRESS OFFICIAL COMMUNICATIONS TO
THE SECRETARY OF STATE
WASHINGTON, D. C.

McLachlan

swB



DEPARTMENT OF STATE
WASHINGTON

February 18, 1941

In reply refer to
BU 860D.51/471

File H. M. Cohen

CONFIDENTIAL

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses as of possible interest to Mr. Morgenthau paraphrases of telegrams nos. 30 and 31 dated respectively February 4, noon and February 4, 1 p.m. from the American Minister at Helsinki, Finland. In the latter-mentioned telegram the Minister makes reference to the last paragraph of his telegram no. 28 of January 28. This paragraph reads in paraphrase as follows:

"Alluding to the internal financial situation in Finland, President Ryti told me that the one billion Finnmark internal loan which had just been opened would be fully subscribed and that hereafter, as a result of taxation and related measures, the deflation of Finnish currency would be progressive. The President went on to say that, while additional dollar credits were desirable, he felt that as far as the internal credit position of Finland was concerned, the country could manage without such credits, provided the European war was not of too long duration. Finland did need, however, foreign credits at this time for the importation of raw materials necessary to prevent stagnation in Finnish industry. Heavy

outlays

-2-

outlays were being made by Finland to build up its defense, expenditures being principally for work on fortifications and in the purchase of material."

Enclosure:

Paraphrases of telegrams
nos. 30 and 31, Febru-
ary 4, noon, and Febru-
ary 4, o p.m. respectively.

RECEIVED

PARAPHRASE OF TELEGRAM

243

To: Secretary of State
From: American Minister, Helsinki
Date: February 4, 1 p.m.
No: 31

STRICTLY CONFIDENTIAL

With reference to the Legation's telegram no. 28 of January 28, last paragraph, I have the honor to report that the Finnish officials mentioned in my telegram no. 30 of today informed me that the Finnish Government desire to obtain additional credits from the United States, including a credit in the amount of \$7,000,000 to purchase American agricultural commodities of especial interest to the Finnish Ministry of Supply. I obtained the impression that the Finnish Government had not yet made a formal request to us for a loan. They asked for my support for United States credits to Finland and in response to my request promised to furnish me with a memorandum of the details of their needs for additional credits.

SCHOENFELD

PARAPHRASE OF TELEGRAM

To: Secretary of State
From: American Minister, Helsinki
Date: February 4, 1941, noon
No: 30

Representatives of the Finnish Ministry of Supply came in to see me this morning to emphasize the serious nature of the shortage in Finland of bread grains and the urgent need to receive such products from South America and the United States. It had been expected that Finland would be able to receive under its recently concluded trade agreement with the Soviet Union considerable quantities of grains but the difficulties encountered in receiving the grain from this source had led to a situation at this time where existing grain supplies were decreasing to a danger point without promising possibilities for obtaining further supplies. Subsequent to November last navicerts have been granted by the British for Finnish imports of 40,388 tons of wheat and rye and flour which quantity it was anticipated would suffice until the end of March 1941, provided the quantities anticipated from Russia were forthcoming. Since it did not appear now
that

-2-

that the latter supplies would be delivered, Finland needed to import an additional 16,800 tons from other sources. The Finnish officials requested our cooperation in obtaining navicerts from the British for this additional quantity of grain to be imported from the United States or from Latin American countries.

The Finnish officials went on to discuss the possibility of bringing in additional grain supplies through the Baltic rather than through Petsamo where the port and subsidiary transportation facilities were so restricted.

In closing, the Finnish officials stated that existing grain supplies in Finland will suffice to the end of the present month and that if the supplies now on the high seas destined for Finland should be received, they would have supplies of grain sufficient for an additional two weeks.

SCHOENFELD

RESTRICTED

G-2/2657-220
No. 319

M.I.D., W.D.
February 18, 1941
12:00 M.

SITUATION REPORTI. Western Theater of War.

Air: German. Scattered activity over the British Isles and against shipping. Last night a serious incendiary attack was made on London, the intensity of which, however, apparently was below the "normal" of December, 1940.

British. No important offensive operations.

II. Greek Theater of War.

Ground. The Greeks report making strong and successful local attacks.

Air. No information available.

III. Mediterranean and African Theaters of War.

Ground: Italian Somaliland. Italian forces have been driven back to the line of the Juba (Giuba) River.

Abyssinia (Ethiopia). The British movement toward Gondar has been resumed.

Libya and Eritrea. The situation unchanged.

Air: Axis. German operations in Libya continue.

British. Shipping was attacked in the Mediterranean. The Dodecanese Islands were bombed again.

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

Paraphrase of Code Radiogram
Received at the War Department
at 11:33, February 18, 1941.

London, filed 15:18, February 18, 1941.

1. On Monday, February 17, planes of the Coastal Command engaged in the usual patrols. A Lockheed-Hudson bomber from this Command scored one near miss when it attacked eight German cargo boats near the Norwegian coast. During this day and the preceding night the Bomber Command engaged in no activities. During daylight hours of February 16 British planes bombed the Netherlands parts of Middelburg, Hellevoetsluis, Roerbrugge and Helder. This was the first British attack on Hellevoetsluis.

2. During the night of February 17-18 the Thames Estuary and airfields in Norfolk and Suffolk were raided by the Germans in an attack beginning at 11:00 o'clock. The extent of the damage done is not known. Another attack of 4-hour duration was directed at the suburbs southeast of London and at Surrey. There have been no reports of damage done. During these operations one German bomber burned after crashing. On the preceding day a suburb of London was bombed by one German plane and nine other German bombers were plotted over Scotland, Shetland and Kent. In addition, the English Channel and the Straits of Dover were patrolled by large numbers of German planes. British fighter planes were up and destroyed two of the attacking Junkers bombers and one Heinkel bomber.

3. Two Italian planes were destroyed by German-based British

fighter planes and the Caproni Aircraft assembly plant and the airfield at Mai Adaga, Britton, was severely attacked by British bombers. A railroad bridge east of Addis Ababa and the city of Dessale in southern Ethiopia were attacked by British bombers based in Aden. In the Lihyan theater a German bombing plane was shot down by a British plane in the vicinity of Bengazi. In Albania, the motor road between Gusha (T) and Bani (T) and the airfield at Brindisi were attacked by British bombers. A motor transport concentration, supply dumps and Italian land forces in the vicinity of Supoloni were attacked by British planes. Italian motor transport vehicles, numbering more than 100, in the Bardera and Jelib (Salib) areas of Italian Somaliland were attacked by Kenya-based bombers. These bombers also launched a severe attack against the city of Jelib (Salib) which is about 60 miles north of Kismayu (Chisimio).

SECTION

Distribution:

State Department
 Secretary of War
 Secretary of Treasury
 Asst. Secretary of War
 Chief of Staff
 War Plans Division
 Office of Naval Intelligence
 Air Corps
 8-3

CONFIDENTIAL

349

Paraphrase of Code Radiogram
Received at the War Department
at 10:26, February 18, 1941.

Regraded, filed 13:50, February 18, 1941.

Should German troops occupy Bulgaria no action would be taken by Yugoslavia as peace is desired at all costs. This information transmitted to the British Military Attaché by the Yugoslav Minister of War.

FORN

Distribution:

Secretary of War
State Department
Secretary of Treasury
Asst. Secretary of War
Chief of Staff
War Plans Division
Office of Naval Intelligence

CONFIDENTIAL

February 19, 1941
9:30 a.m.

GROUP MEETING

Present: Mr. Bell
Mr. Gaston
Mr. Sullivan
Mr. Pehle
Mr. Young
Mr. Cochran
Mr. Haas
Mr. Kuhn
Professor Odegarde
Mr. White
Mr. Foley
Mr. Graves
Mr. Thompson
Mrs. Klotz

H.M.Jr: Herbert?

Gaston: On a matter I mentioned to you yesterday, we have hanging over about 75 cases which are under investigation, and if it is all right with you, we will go ahead and complete that character - the character investigations for the National Defense Advisory Commission. We have had a total of 275. They have been coming right along. There are still 75 uncompleted. If it is all right with you, we will complete those cases and not take any more.

H.M.Jr: I didn't know that you had any.

Gaston: That is the original arrangement you talked over with Mac. They have been giving us a

- 2 -

certain number of cases all along. We have had a total of 275; FBI has had about a thousand, and Civil Service Commission has had 400.

(Mrs. Klotz and Mr. Bell entered the conference.)

Gaston: They got a few fairly recently on this Research Committee.

H.M.Jr: Well, the United States Government should have some organization who can check these things. They can hire a couple of hundred more dollar a year men to do it.

Gaston: Is that all right with you, that we complete those we have on hand and take no more?

H.M.Jr: Yes. And incidentally, every once in awhile I hear of somebody else that OPM has stolen from me. You know, I have got an arrangement with you (Thompson) that nobody is to go to OPM unless I approve. There isn't a day passes but what I hear somebody has gone over there.

Thompson: The only people I know of are some of our emergency people whom we would be dropping, and it helps them to get jobs.

H.M.Jr: Well now White told me yesterday he has lost eight people. How many have gone to OPM?

White: OPM?

H.M.Jr: That is a new cigarette. -(Laughter) - It burns slowly, though.

White: Does OPM include all the Council of Defense? I don't know what it includes. I didn't say that we lost eight people to OPM, at least I don't remember saying that.

- 3 -

H.M.Jr: No, you said you lost eight people, and I want to know how many of them went to National Defense.

White: Well, I think three, but that hasn't been --

H.M.Jr: Well, watch it, will you, Norman?

Thompson: Resignations have been coming through without any indications that they have another place.

Bell: He said he lost eight. I wondered how many he had taken on. I have signed a lot of papers.

White: The only thing that stopped us from taking on more is the stuff piled on your desk, Danny. (Laughter)

Bell: I am holding up those appointments.

H.M.Jr: Herbert?

Gaston: I haven't anything else.

H.M.Jr: Well, Herbert, would you mind, if you are going to do 75 more, would you mind getting those and seeing how many of them work for the President of the United States so we don't do what J. Edgar Hoover did?

Gaston: I will take a look at just what cases we have, but I don't think our boys will slip up on anything like that.

H.M.Jr: Well, just take a look and see how many of them are in the White House.

Gaston: Yes. It might interest you to know that we have had a total of 275 cases that Elmer has had under that original arrangement you

- 4 -

had with Mack. They have cleaned up and reported on 200. The FBI has had about 1,100 cases, of which they have completed 12.

H.M.Jr: I still say, take a look at the 75 left, will you please?

Gaston: Yes.

H.M.Jr: I don't want to be investigating General Watson or something. - (Laughter)- Or Miss LeHand.

Gaston: You don't?

H.M.Jr: No.

Gaston: They know Miss LeHand. I don't know if they know General Watson.

H.M.Jr: Anything else?

Gaston: No, nothing else.

H.M.Jr: Ed?

Foley: We had another talk with Dean Acheson and Pasvolsky yesterday.

H.M.Jr: Who?

Foley: Pasvolsky.

H.M.Jr: I have got Ed so he can't pronounce it.

Foley: That is right. And we are going to go over and see Dean again at four o'clock.

H.M.Jr: On alternate days you meet here --

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- Foley: I would let him come over here, but I thought he had a problem on his hands, so I thought we would make it easier for him by going over there today. He wants to put down on a sheet of paper, on one side the advantages and on the other side the disadvantages. We covered the advantages yesterday, and we get to the disadvantages this afternoon. Isn't that right, Harry?
- White: I think so.
- Gaston: You have got to have a system of waiting.
- Foley: Tom Childs of the British Purchasing Commission wants to come in this morning on that sale of stock that I spoke to you about on Saturday.
- H.M.Jr: Yes. Herbert said he was coming in. Take a look at it. I won't be able to see him. Take a look at it anyway.
- Foley: All right. Sullivan and Cromwell, that represent the Bank of Belgium in this action against the Bank of France for 260 million dollars for the conversion of the Belgian gold, and in order for them to establish jurisdiction in the New York Supreme Court, they have to be able to show that the agency in New York of the Bank of France is engaged in banking business in New York State. Jaretzke came in to see me yesterday to find out from us what we can tell him, so far as the activities of the Bank of France are concerned. I told him that I would find out first whether or not we could make any information of that character available to him, and second, what information we had, if we could make it available to him, that might be useful.

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It seems to me that our sympathies lie on the side of the Belgian Bank, and without revealing any matters of confidential character, I think that we might very well let him talk to people in the Federal Reserve Bank in New York and some people here as to the character of the business and volume of the transactions and the accounts and so forth that the bank of France has here in this country.

- H.M.Jr: I consider it highly unethical to reveal any transactions on the Bank of France, particularly to the ex-lawyers of General Franco.
- Foley: You don't want to help them at all?
- H.M.Jr: Not a bit. It is purely on ethical grounds.
- Foley: O.K.
- H.M.Jr: Case dismissed.
- Foley: It is so ordered.
- White: They had better change their lawyers, Ed.
- Bell: Are both of those accounts operated through the the Federal as our fiscal agents?
- Foley: Dan, I don't know. He can't find out, you see, very much about the activity of that bank because it is neither a State Bank nor a National Bank, and I suppose the Treasury have more information in so far as the activities of that bank are concerned in connection with the French Purchasing Mission --
- H.M.Jr: I consider it highly unethical.

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Foley: Oscar Cox --

H.M.Jr: Do you question my ethics?

Bell: No.

H.M.Jr: Or my motives?

Foley: It is a question of sympathy, it seems to me, and I thought our sympathies laid with the Belgian Bank.

H.M.Jr: Would you mind putting it on ethical grounds?

Foley: I would be very glad to. That is the way I brought it up.

H.M.Jr: Merle Cochran has drilled into me for years that if you are Custodian for a Central Bank, that here is the Treasury and the upstarts have come along and gradually we have sort of pushed our way along; and if we are going to keep the confidence of the BIS, we have got to treat the Central Bank accounts --

White: And other defunct organizations.

H.M.Jr: Isn't that right?

Cochran: That is right.

H.M.Jr: Now, as your pupil --

Cochran: We encouraged them to set up these accounts through the Treasury, just to protect them against such a tax.

H.M.Jr: That is right.

Bell: That is what I question, as to whether they

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were operating these bank accounts - Central Bank accounts as fiscal agents. Are they all under that scheme?

- Cochran: They are not all under it, and they can't find out where the Bank of France money is, that is the question.
- H.M.Jr: It is a shell game.
- Cochran: Yes.
- Bell: If we are not fiscal agents, it isn't any of our affair, I don't believe.
- Cochran: Part of it is and part of it isn't.
- H.M.Jr: As far as it is our affair, we are not going to help them. That certainly is all right, isn't it?
- Bell: That is all right.
- H.M.Jr: What else?
- Foley: Oscar Cox has gotten up a draft of the regulations, proposed regulations which the President will issue under 1776 when it is signed. He has shown them to Phil Young, and Ferdie Kuhn, and some of the other people in the shop. I think it might be helpful if we could take them up with, say McCloy in the War Department and somebody in the Navy, and get their criticisms and suggestions so we would be that much farther along.
- H.M.Jr: And at that meeting didn't the President say he wanted Hopkins to help on that?
- Bell: He wanted Hopkins to be a sort of a secretary

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to that committee, he said, and that if anybody wanted to see the President about any of the program or procedures going through that committee, it ought to go in through Hopkins, as I understood it.

H.M.Jr: And the President also initialed the Stimson memorandum setting up a four man board, Hull, Stimson, Knox, and myself, so I think you had better show it to Hull and Stimson and Knox or their agents, plus Hopkins.

Foley: Well, how would you like to handle it? Should we write letters for your signature to these men?

H.M.Jr: Yes.

Foley: And ask them to give us their criticisms and suggestions?

H.M.Jr: And say that if they care to discuss it, they could send for Oscar Cox.

Foley: All right.

H.M.Jr: How is that?

Foley: Fine.

H.M.Jr: Incidentally, you owe me a letter.

Foley: I have got it.

H.M.Jr: I was going to get that yesterday. I woke up in the middle of the night --

Foley: I am sorry to spoil your sleep.

H.M.Jr: And I thought, "Where is that Foley letter?" That is a good letter. For your information,

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in case anybody is approached, I am turning down Congressman McKeough and telling him we do not interfere once a case leaves our hands and goes to the Department of Justice. It is a case of the Marks Brothers, but this is only two of them and they come from Chicago.

- Schwarz: It isn't funny enough?
- Foley: Only one part of the law firm. What was the old law firm, Finagle, Finagle, Finagle and Bump. (Laughter)
- H.M.Jr: What else? You know Johnny Hanes always used to bring that map.
- Sullivan: This is just a little sketch that I have. I thought if you wanted to hang it up over here you could start them going on the reciprocals.
- H.M.Jr: That is a Johnny Hanes map.
- Sullivan: That is not a Johnny Hanes map. That is a Johnny Sullivan map.
- Foley: It has got an eagle on it.
- White: It is Johnny Hanes, because it says on the back, "Will it help recovery?" (Laughter)
- H.M.Jr: Well, put it where the gang can see it. What is it?
- Sullivan: This shows all of the Federal and State securities, and I thought if we are starting the drive on reciprocals, the repeal of exemption on state and municipals, it might be well to have it hanging up here during a press conference or something.

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White: Where is the enemy located in that one?
(Laughter)

You know, it looks to me like the yard
out there in Pennsylvania Union Station.
You haven't got a traffic jam, have you?

Sullivan: No, except in St. Louis.

Foley: I think you ought to take it to St. Louis.

Sullivan: I don't.

White: It looks like an orthopedic lecture.

H.M.Jr: Well, hang it up there, John. I don't
want to hurt your feelings.

Sullivan: You won't hurt my feelings at all, whatever
you do with it.

H.M.Jr: Personally, I think it has high blood
pressure.

Sullivan: It has. - (Laughter) - If you leave it there for
a press conference, somebody else may get high
blood pressure.

White: Why the German eagle on top?

Sullivan: Oh, get naturalized, Harry. That is an
American eagle.

White: I am naturalized, the bird isn't. (Laughter)

H.M.Jr: What else have you got?

Sullivan: That is all. I am leaving tomorrow noon
to go out there.

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- H.M.Jr: And you are leaving this to speak for you?
- Sullivan: I think that is quite eloquent.
- H.M.Jr: Who can explain it?
- Sullivan: Well, if you have the right glasses, you can see the figures, if you need any explanation. The red are the State and local securities, and following the red lines through it shows that the largest proportion of those, seven billion nine, are held by individuals, and the next largest proportion is held by active banks, three billion six, and the red line shows where all of those wholly exempt State securities are. The yellow undotted shows where all the wholly exempt Federal securities are held, and it --
- H.M.Jr: Those are the yellow ones?
- Sullivan: Yes, and the yellow freckles are the partially exempt Federal securities and the plain green are the Federal agencies that are wholly exempt, two billion one, and the green freckles for the partially exempt federal agencies.
- H.M.Jr: Who picked the colors?
- Sullivan: I don't know. Would you rather have a little royal purple in there?
- H.M.Jr: All right, I will look at it. Is that all, John?
- Sullivan: That is all, sir.
- H.M.Jr: Merle?

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- Cochran: I had your message about Gifford, but he was on the way down town when I phoned him awhile ago.
- H.M.Jr: Just as soon as you can, get that in, will you please?
- Cochran: All right, fine. I had some samples here from Nicholson of the puppet currency out in China. Want to see them?
- H.M.Jr: Harry specializes in that.
- Cochran: You might own some of these some time.
- H.M.Jr: Anything else?
- Cochran: No, sir.
- H.M.Jr: Chick?
- Schwarz: I told John Pehle a story in the New York News this morning on the Danish ship registration. They are predicting very imminent transfer to American registry.
- H.M.Jr: Odegarde, are you all right? You had quite a spell, didn't you?
- Odegarde: Fine, thank you. I had a little siege.
- H.M.Jr: Well, when you fellows get organized, let me know. I want to see you. Anything on your mind right now?
- Odegarde: On my mind?
- H.M.Jr: Yes.
- Odegarde: No. I am going to spend some time with Powel this morning.

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- H.M. Jr: He looks like a good man.
- Odegarde: I think he is a good man.
- H.M. Jr: Ferdinand?
- Kuhn: I have nothing.
- Young: I had a little chat with Jacquin yesterday who came in to see me. He has been down inspecting planes in Martinique. He says they are in very good condition, good shape, but however he says they can't move them under orders from the German Government. They tried to get them out to Indo-China, but without any success. Evidently they have had instructions not to transfer any war material in any of the French colonies without permission from one to another. He called just to tell me that a man from Indo-China is on the job purchasing, and will probably be along to see us for pistols, principally.
- H.M. Jr: Have your fingers crossed on Jacquin, will you please, from now on?
- Young: Right. Guy Vaughn is coming in this morning to talk about the Curtiss Wright export division. His problem there is simply the fact that it has always been supported by a certain amount of money included in the sale price to a foreign purchaser and no sum is contributed by the corporation.
- H.M. Jr: You will have to do the best you can with them.
- Young: I have seven million dollars of British contracts --

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H.M.Jr: If you will stay behind, I would like to look at that.

Young: Right. That is all.

H.M.Jr: George?

Haas: (Handing reports to the Secretary) You might want to read this, Mr. Secretary.

H.M.Jr: Harold Graves. Harold, you are not supposed to pay over twelve cents for copper and you paid - well, no, it is .05.

Haas: Oh, that is all right. A nickel on a hundred pounds.

H.M.Jr: Yes. Find out why they did that.

Graves: I know this story now.

H.M.Jr: What is the story?

Graves: The Mint had trouble buying copper for our bronze coins. They opened bids, as I remember, on the 20th of January and got no bids. That is to say, they had an opening but they could get no copper, and the companies they contacted said that they had no copper, that such as they had was reserved for defense purposes, and it left the Mint with no copper to make pennies. So we turned this over to the Procurement Division, who had not heretofore done any buying for the Mint.

H.M.Jr: Of the Treasury?

Graves: Of the Treasury, and they were similarly situated and they went to the Defense people who contacted Kennecott and induced Kennecott to make a bid on another advertising. As I

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recall, that was the sole bid. That was the only company that could be induced to tender copper for the Mint, and we took the bid. I think the rate is right at the rate paid previously. The difference - there may be a difference, but it is very slight. In other words, we were in desperate need of copper.

Haas: If they are going to maintain the price, they would have to allocate the copper to the Mints.

H.M.Jr: We have got to get our pennies.

White: Can't you use imported copper?

Graves: We had to have it right away, Harry. We had to have delivery in a matter of 72 hours or else suspend the manufacture of coins.

H.M.Jr: Whatever happened to that question on the 100,000 tons of copper from Chile and the refund on taxes?

White: They decided that they couldn't refund the taxes, but they did buy some copper; but I don't know whether there would be any restrictions against it, but it would be a bookkeeping transaction. You would get the Customs duty.

H.M.Jr: Well, there is more than that.

Sullivan: Mr. Clayton called me about ten days ago and wanted to know if they advanced 10,000 tons of the stocks now held in New York, and they were made up from the first shipment of 10,000 that came up from Chile, would that be a taxable transaction; and I said I thought not, and I made an arrangement

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for his people to meet with Mooney at the Bureau the next morning, and then he called back and said that his people couldn't move that fast. Then yesterday morning he called me again and he said, "Our people are ready to go ahead now, and they want a closing agreement; and whom should they see," and I made an appointment for them with Mr. Mooney and they saw him at nine o'clock this morning.

H.M.Jr: How did they do that?

Sullivan: They have on order --

H.M.Jr: Who is they?

Sullivan: The National Defense organization has a hundred thousand tons on order from Chile, but they want some right away, and there are 10,000 tons that are held in New York and they prevailed upon the New York crowd to lend them the 10,000 tons in New York, and that will be repaid out of shipments of the 100,000 tons from Chile.

H.M.Jr: I see.

Sullivan: But they wanted to make sure --

H.M.Jr: What price did they pay for that?

Sullivan: I don't know.

H.M.Jr: You see, let me explain something to you. You may or may not know it. They have had several discussions on this at Cabinet, and nobody seemed to know the answer. Jesse Jones buys this copper with what I think is called the Metal Reserves Corporation.

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Gaston: Yes, that is what he told them.

H.M.Jr: And somebody said that the Navy could do it.

Gaston: There is a law that permits the Navy to make - the Secretary of the Navy and the Secretary of the Navy only to make emergency purchases of war materials abroad, and those purchases are free of duty; but they have to be purchases made abroad by the Secretary of the Navy; and we have told them that we will not go behind this certificate --

H.M.Jr: Did you know that?

White: No.

Gaston: We have told them that we would not go behind --

White: We have a finding to the contrary. That is news.

Gaston: Well, I told everybody.

H.M.Jr: That is the purpose of these meetings.

Gaston: We have told them that we would not go behind the certification of the Secretary of the Navy, that if he says as to any shipment of copper or any other material that comes in from abroad that it is an emergency purchase of war material made abroad by the Secretary of the Navy, why, we will not collect duty. We will leave it on their conscience as to the facts behind that.

H.M.Jr: As I get it, Jones pays in Chile ten and a half cents, and by the time he gets it here and pays the duty, he has got to get 14 cents.

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Gaston: Yes, yes.

H.M.Jr: And he refuses to take a loss. Now, what the amount wanted was, if this stuff could be put in various warehouses in bond and then the industry withdraw on it, but under this Act which Herbert speaks of and whoever is handling this, if the Navy itself wants so much and if the Navy would use up - confine its copper to the Chile copper, it would relieve the pressure for somebody else.

Gaston: But the Navy doesn't have to certify that this copper is for use by the Navy. All they have to certify is that it is war material, and that it is an emergency purchase made abroad by the Secretary.

H.M.Jr: How many people are in on this thing?

White: I am in on it only from the Chilean end.

Gaston: I have been in on it from the duty end.

H.M.Jr: How about you?

Sullivan: I have been in on it from the tax end.

H.M.Jr: Would you, Herbert, and Foley and Sullivan and White please get together right after this meeting, because this is something the President is very anxious to do, and then if you can give me a memorandum on it, I will send it to the President. Let it say this is the way the thing can be done.

Gaston: I told them that at the Cabinet meeting, and Bob Jackson agreed.

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- H.M.Jr: That shows it hasn't been happening because here they are floundering around trying to get 10,000 tons. All they would have to do, if Herbert is right, is to have the Secretary of the Navy certify it.
- Sullivan: No, this is 10,000 tons that is privately owned in this country today, sir. They merely want a loan of that so they can start right in and relieve the present pressure.
- H.M.Jr: That would still leave 90,000 tons.
- Sullivan: That is correct.
- Gaston: We told them another out. That is, we told Clayton and I assume that is the method he is following on this particular shipment. We told them that even though copper was not imported under that Act, if it were imported by any department of the Government, we could release it prior to appraisal subject to billing to that department, and later they could get that duty wiped out by statute if they wished. That was the only other way out we could see.
- H.M.Jr: If you gentlemen could find out first, has Clayton taken advantage of this method and if he hasn't let's bring it to his attention. I don't want to bother the President unless it is necessary. All right?
- Gaston: Right.
- H.M.Jr: How far had I gotten? George?
- Haas: Do you think it might be a good idea for Harold to talk to Hamm?

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- H.M.Jr: Harold is too busy. Leave Harold out of this.
- Graves: Clayton, by the way, is the man who made this deal for us. It was Clayton who called Kennecott and told them how desperately we were in need of copper.
- H.M.Jr: Well, tell that to Hamm. The trouble with that lousy outfit over there, the OPM, is that nobody talks to each other.
- Haas: That is right. On that Arkansas thing, I will have a report in to you very soon after this meeting. I know something about it now. They had the election, and it went off favorably in Arkansas, 120 to 1. (Laughter)
- H.M.Jr: What is his name wants to let me know and I want to know in connection with my financing.
- Haas: Whether or not they are going to open bids on the 27th.
- H.M.Jr: Yes.
- Haas: I will find that out.
- H.M.Jr: Pehle?
- Pehle: Nothing.
- H.M.Jr: White?
- White: Under Mr. Bell's instructions, Mr. Southard interviewed the businessmen in New York who have foreign enterprises. He has a report here. - (February 10, 1941) - I think the first two pages you would be interested in reading.

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- H.M.Jr: Right.
- White: Here is this letter with reference to getting the SEC to investigate the insurance companies.
- H.M.Jr: Has Bell initialed this?
- White: Bell has not initialed that.
- H.M.Jr: Well, I will sign it, but I want Bell to know about it. I want him to be satisfied.
- White: Here is - you might be interested in the present situation on Japanese oil.
- H.M.Jr: All right.
- White: One of the men has noticed what appears to be a new development with respect to direct British investments in this country which are not subject under the present British laws to the vesting order. They are a rather substantial amount, including, for example, the Astor trust. The Astor estate can be put under trust, and it will be not available for sale. You mentioned it --
- H.M.Jr: Just a second, do that with Foley. I have got to save my time. Foley passes on every sale before they make it, and they come to see him.
- White: All right.
- H.M.Jr: If there is something on that, take it up with Foley, will you?
- White: Yes. That is all.

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H.M.Jr: Something like that --

White: It isn't something they are doing, but it is all right, I will take it up with him.

H.M.Jr: Take it up with Foley.

Harold?

Graves: Nothing.

H.M.Jr: Bell?

Bell: The Joint Stock Land Banks, the bonds of which are tax-exempt - I think there are about 32 of them out of 80, and they are all in liquidation. There were three of them that have bonds called, one of which is payable on March 1, and the other is April and one is May 1. Yesterday when I was down to Farm Credit, they said that they had made plans to go ahead and issue additional securities, dating them the 27th of February, so that they could be tax exempt to pay off those bonds when they are coming due. I told them they certainly couldn't do the two that were called for April and May, but they had to make their plans for the one that was on March 1, it was getting so close that they had to make their arrangements with the banks and so forth, and the amount involved is less than a million dollars, and they want to date that one the 27th of February so that they will have the funds; and as a matter of fact, they have already gone ahead and made their arrangements with the bank and had the bonds printed, and I think it is a little late now to change it to the other type of bond.

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H.M.Jr: I wish you would write a letter for me to the Secretary of Agriculture saying I am very much displeased. I would like to make a record of it.

Bell: Well, the bill was only signed yesterday.

H.M.Jr: It is pretty small stuff. I would like to write Wickard a letter.

Bell: We have got the other two out. They have gone ahead and made arrangements. Governor Black said, "I just don't think you can do it without being criticized, certainly for the two."

H.M.Jr: How much is the third?

Bell: All told there are about three million dollars, but this one is less than a million dollars, I think about \$800,000.

H.M.Jr: Do you think it is worth a letter?

Sullivan: I do, sir.

Bell: No, I don't. I think I would let it go because they didn't know when this bill was going to pass, and they had to make plans.

H.M.Jr: Yes, they did.

Bell: And they had to print their bonds.

H.M.Jr: You do?

Sullivan: I would like a letter for a record, because we are going to be up against the problem of giving some leeway to the states here.

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- Bell: You know they are privately owned bonds and the only thing that brings them in under the Act, the Act says they are instrumentalities of the United States, and tax exempt.
- H.M.Jr: What harm would it be to write a letter to Wickard and go on record?
- Bell: Well, I don't see that you gain anything. I think you can tell them over the phone we don't like it, but in view of everything that has been done, we won't object. But I would object to the other two, because they have plenty of time.
- Sullivan: In your letter are you going to write a letter objecting to the other two?
- Bell: I am not going to write a letter, just say we object. Governor Black has really joined us in the other two. He said he wouldn't go along on that.
- H.M.Jr: Well, I will abide with your decision.
- Bell: This is the report to the President on the Stabilization Fund, and within a day or two I will have the one to Congress. I would like to start thinking about some other denominations of savings bonds. Do you have any particular thought on the portrait that should go on there?
- H.M.Jr: Yes, Benjamin Franklin.
- Bell: Well, that was first on my list, but I don't think a 5,000 and a 10,000 denomination would fit Franklin very well, and we have got Washington on the \$25.00 one. I would like to put Monroe on. I don't know what

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politics he had, but the Monroe Doctrine comes into the picture.

- H.M.Jr: They say that man Chase was pretty good. Has it got to be a President?
- Bell: No. Chase was on currency, \$10,000 note. He isn't on any of the bonds.
- Schwarz: Albert Gallatin.
- Bell: Gallatin is on the hundred thousand dollar Treasury Bill. - (Laughter) - That is the only thing he is on.
- White: Why don't you put Mellon on? It would be appropriate. (Laughter)
- H.M.Jr: You took the Mellon out of my mouth.
- White: It was a dream I had. (Laughter)
- Bell: How about Teddy Roosevelt?
- H.M.Jr: Oh, the President would love that.
- Bell: Would he?
- H.M.Jr: Sure.
- Bell: Monroe and Roosevelt.
- H.M.Jr: He would love that. Fine.
- Bell: It takes quite awhile to get these portraits in shape.
- H.M.Jr: Good.
- Bell: That is all I have.

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H.M.Jr: So would Alice Longworth. All right.

Bell: We can put any portrait on as long as it is a portrait of somebody that is deceased.

H.M.Jr: That would be fine. Are you and George coming in to give me a little preliminary?

Bell: We can.

H.M.Jr: At about a quarter of eleven?

Bell: Yes.

H.M.Jr: And I asked Thompson to leave Hadley where he is until financing is over. I will talk about it later.

All right, Philip, I will do you next.

February 19, 1941
10:23 a.m.

H.M.Jr: Hello.

Operator: Mr. Purvis.

Arthur
Purvis: Good morning, Henry.

H.M.Jr: Arthur, are you where you can talk?

P: Yes.

H.M.Jr: Do you remember last night you told me if
necessary to be blunt?

P: Yes, yes.

H.M.Jr: Will you take an order from me?

P: With the greatest pleasure.

H.M.Jr: All right. Now, I want you to leave Thursday
night and go up to your place and ski and not
show up again until Tuesday morning.

P: (Laughs).

H.M.Jr: , And no fooling.

P: You know I think that's - I believe you're
right. (Laughs).

H.M.Jr: I want you to do it. I'm very, very serious.

P: I don't know where you got the idea, that's
the only thing.

H.M.Jr: Well, I just got the idea from looking at you.

P: Well, I believe you're right.

H.M.Jr: Definitely. No, after you left last night
I got to worrying and I really think you
ought to do it.

P: Yes. I believe you're right.

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H.M.Jr: Will you do it?

P: I think I will. I think you're right. This is the last weekend too before the Lease-Lend Bill will be through.

H.M.Jr: And I figured if you would go up there nobody could get at you.

P: I think that's a very good idea. I really think I'll do that, Henry.

H.M.Jr: Promise.

P: Yes, I will. (Laughs) I will.

H.M.Jr: You are a very good boy.

P: All right, fine. I'm going to take your instructions, Henry.

H.M.Jr: Right.

P: Thank you very much.

H.M.Jr: Good-bye.

P: Good-bye.

February 19, 1941
10:43 a.m.

H.M.Jr: Hello.

Jerome
Frank: Yes, Henry.

H.M.Jr: Jerome, we've started working on our big refunding now and I don't know whether - we hope to open it on the 25th and close on the 27th of this month, next Tuesday, and I don't know whether any private offerings are coming along but I wish you'd check it. You see?

F: Yes. Danny called me the other day and I tried to get him yesterday afternoon. I've asked the fellows in the various divisions who would know about it to confer with Danny. Would that be all right? And let him know?

H.M.Jr: Surely.

F: Well, I'll suggest they call him right away then.

H.M.Jr: Now is there anybody amongst the Commissioners

F: I beg your pardon?

H.M.Jr: Anybody amongst the commissioners who is particularly market-minded, who watches that particularly - the markets?

F: Well, we all do but our technicians really know more about it than we do.

H.M.Jr: Well, now who is it?

F: Well, I was going to suggest that if we got Bane, who is head of Registration; Purcell, head of Trading and Exchange; and Weiner, head of Utilities, they'll know what the situation there is, and I thought one or the three of them could come over and talk to Danny and find out what you want to know and keep you currently supplied with the information.

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H.M.Jr: Well, it's just in this period and it's this whole market situation, and I'd like somebody that I could talk to - one person, who can sort of give me the feel of the market.

F: All right, I'll ask Purcell to come over and talk to you then. Shall I?

H.M.Jr: Purcell is good, I mean, if he could

F: Yes, he can canvass everybody and come over and give you the general view of it.

H.M.Jr: I tell you what I'd like you to do, and then if I could work right with him. If he could be over here at 4:00 today

F: Very good. I'll ask him to come over.

H.M.Jr: And while I'm on this thing, I'll tell him what we're thinking of and then he could keep you fellows informed. But the thing is this, Jerome, these fellows in New York - I don't know whether they've gone on a strike or what but it's for higher interest rates anyway.

F: Sure.

H.M.Jr: This is our first big financing with fully tax exempts.....

F: Well, I think they're up to something.

H.M.Jr: and I want all the help I can get.

F: Well, we'll give you everything we can, and I think Purcell would be the best fellow to handle the information to you and to us.

H.M.Jr: Well, could you start him today so when he comes over at 4:00 he'll be posted?

F: Right.

H.M.Jr: But there is something going on and I don't like it.

F: All right. We'll dig into it.

H.M.Jr: Thank you.

February 19, 1941
10:45 A.M.

RE OPEN MARKET

Present:

Mr. Bell
Mr. Haas
Mr. Murphy
Mr. Hadley
Mr. Rouse
Mr. Piser
Dr. Goldenweiser
Mr. Szymczak
Mr. Ransom
Mr. Eccles
Mr. Sproul
Mr. Sinclair

Hadley:

They originally held about 18 million, and they haven't sold too much of it.

H.M.Jr:

Is it a memo? I want it over the telephone. I want it as of today.

Hadley:

All right, I will get that.

H.M.Jr:

Tell them that. I thought if the English would keep selling - if they only got 15 million, I would like to have them sell it in block and get out of the market. I mean, it is very easy. Any government bond house will buy the block from them so they won't be selling next week.

Bell:

They might be hanging over the market. I thought

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they disposed of their governments.

- H.M.Jr: That is what I was checking.
- Bell: Last fall. They missed the boat, didn't they? Two or three dollars a hundred that they have lost.
- Haas: Those are those very confidential figures you got Burgess to give you sometime ago, Mr. Secretary, on dealers' position.
- H.M.Jr: Who gets this for me?
- Haas: Well, they telephone it in to our office every day.
- H.M.Jr: And they are short?
- Haas: Yes. The biggest short position they have had since way back, you see.
- H.M.Jr: That is good, isn't it?
- Haas: No, that means they are bearish.
- H.M.Jr: No, but it is an underlying strength, because they will have --
- Haas: Well, they think they can cover it at more favorable terms than the present market. The net short on bond is 26 million, and up on the notes. It looks - here is the latest defense note, I think that is what that is, they still have some of it, probably, so the net short is only 20.
- Bell: That isn't very short.
- Haas: Not very much, no.

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- H.M.Jr: What is that "minus 51 million."
- Haas: Well, that is the short on bonds, the long on bonds, and the net position, you see, is minus.
- H.M.Jr: I would much rather have them short than long, because they have got to cover.
- Bell: They would have a lot to sell if they were long, wouldn't they?
- Haas: Yes, it is the negative of having an inventory hanging over. It is just the opposite.
- Hadley: When they are short, they can take in all groups of people.
- H.M.Jr: I say I would much rather have that.
- Hadley: As long as they don't get too short. If they are too short, then it is an advantage to them for the market to go down.
- Murphy: They are the shortest they have been in about two years.
- H.M.Jr: I have just called up Frank and asked him to designate somebody to watch the market who could work directly with me, and he has given that to Purcell, and Purcell is coming in at four. You make a note.
- Bell: Is Purcell the one who has been watching it? I called him the first of the week.
- H.M.Jr: Who?
- Bell: Jerry.

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- H.M.Jr: He said he tried to get you yesterday, and the answer was he hadn't done anything. He mentioned three different people, and I said, "that is no good, I want the Commission to say one, anybody market-minded." "Well, we are all market-minded." I said to myself, "nuts," and I said, "one man." I think Purcell is the best man, don't you?
- Bell: Well I think he is all right on some phases of the market. I don't think he is much good at watching the bond market.
- H.M.Jr: No, I didn't ask him. It was the stock market.
- Bell: Yes, he is all right on that.
- H.M.Jr: Only the stock market, Dan.
- Bell: He and that other fellow are very good on the stock market. Louchheim is very good.
- H.M.Jr: I want somebody to watch the stock market. Well, what does it look like today, gentlemen?
- Bell: Well, I had some questions written out here to be decided, but in your press conference yesterday you decided it would be a refunding first and - I have that one down, as to whether we would do the whole financing job at one time.
- H.M.Jr: You knew that last week.
- Bell: Day before yesterday we announced that we would do a refunding job.
- Hadley: That is the way it was written up in the press, that we would do a refunding on the coming week, and then after the first --
- H.M.Jr: Two weeks. Well, that is what you told me you wanted me to do.

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- Bell: Well, I am sorry I went that way. I said we have the question to consider as to whether we do it at all or whether we split it or do the cash two or three weeks from now. But I think probably it would be the decision anyhow, that is, whether we should split the issues and have a cash refunding later. There was another alternative, that we might have a refunding and a small amount of cash, three or four hundred million dollars, and then raise some additional cash through Treasury bills. That might help the situation a little.
- Haas: You still can do the bills.
- Bell: Can still do the bill thing now and do the refunding and start right in with bills if you want to do that.
- Haas: I think that would help the market.
- H.M.Jr: The bills?
- Haas: Yes. The market would know then even if you go out with a term security for cash, they would know it would be much smaller than you anticipated. You were taking it up with bills.
- Bell: And you can take bills out of the market any time you want to through refunding.
- Haas: And you kept your bills low to help you out when you needed help.
- H.M.Jr: Well, you always announce, though, Thursday. Have you announced what you are

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going to do Monday in the way of bills?

Bell: No, that hasn't gone out yet. It is supposed to go out today.

H.M.Jr: Can you hold it?

Bell: Yes.

H.M.Jr: Hold it. What would you do, borrow an extra fifty or an extra hundred?

Bell: You can do either one, 50 or 100. We have always done it 50 at a time heretofore. Of course, it would take a long time - it takes eight weeks to get four hundred million dollars.

H.M.Jr: How much are we borrowing now, a hundred million?

Bell: A hundred million, yes. Well, our balances are holding up pretty good. The corporations are not spending any money at all. We ought to have about 800 million going into March.

H.M.Jr: Half a billion?

Bell: Eight hundred million, going into March, and we will lose money in the first ten days of March, probably pretty rapidly. We will lose somewhere between a hundred and a hundred and fifty million dollars, so that our balance might go down as low as 650 million dollars at the tenth of March. From there on, we begin to get income taxes pretty fast, and we ought to go out of the month without any financing with about 700 million dollars, providing, of course -

H.M.Jr: With no financing?

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- Bell: If we have no financing in March, we ought to go out. We get big income tax payments, you see, of about 700 million. We have two or three things hanging over which I don't think will hit us. One is the Housing of about 50 million, and the other is the Arkansas refunding of about 50 million, and I don't think that will go out until April.
- H.M.Jr: Is the Arkansas thing going through?
- Haas: Did you get the note I sent in?
- H.M.Jr: No.
- Murphy: Is there any reason if the Arkansas thing does go through that it should hit you until and if the Reciprocal Tax Exemption Bill is passed? As I understand it, the reason the R.F.C. wasn't to take these is that they want not to take delivery until July 1 in order to save the state from paying double interest, and if so, it wouldn't hit you until July 1.
- Bell: Well, we got from Mr. Mulligan that it was pending, and apparently he didn't know the reasons.
- Haas: If the bill goes through up on the Hill on Reciprocal Taxes, they will do it right away.
- Murphy: The R.F.C. can demand delivery at any time, and then the state would have to start paying double interest, but they wanted to put it off as long as they could, but they wanted to get them under the wire.
- Bell: Well, Mulligan didn't know the details.
- H.M.Jr: Does Mulligan watch the market pretty closely?

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- Bell: The bond market?
- H.M.Jr: Yes.
- Bell: I don't think so.
- H.M.Jr: Who does that for Jesse?
- Bell: Well, I don't know as he has anybody that watches the whole market, but he has some people that will watch the market for particular securities, like railroad bonds.
- H.M.Jr: Well, Jones was going to call me before he did anything.
- Haas: Well, I don't believe he can back out, Mr. Secretary. He may not have done anything formally, but he is so tied into the thing, I doubt if he can back out.
- Murphy: Mulligan told me this morning that the R.F.C. hadn't made any legal commitment of any kind and that he couldn't say whether Jones or Schram made any commitments and suggested I speak to Mr. Schram. I was only able to get through to Mr. Schram this morning. But Mulligan's statement is that they haven't made any legal commitment, but certainly the newspapers have been discussing it as though the R.F.C. were set to go into it.
- H.M.Jr: Just to digress one second, George, how many people are there under Murphy on this bond thing, government bond thing? How many people has Murphy got besides himself?
- Haas: Oh, I guess we will have to name them off, Henry. Go ahead.

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Murphy: I have about ten.

H.M.Jr: Have you? Just on government bonds?

Murphy: Well, the whole field of finance. It covers a lot of detail that really doesn't very directly appertain to the government bond market.

H.M.Jr: But those are all economists?

Murphy: Yes.

Haas: Junior, from 2000 up. We have put some on recently since you told me.

H.M.Jr: How many have you put on?

Haas: Well, altogether we have got about six, counting those who are coming in at the first of the month.

Murphy: I think there are only four we have hired.

Haas: Then there are three others that we are working on.

Murphy: Yes, but I think those four are the only firm commitments we have made.

Haas: Well, that was the formal set-up. I worked with them very closely on different aspects of it.

H.M.Jr: I would like to get a memorandum from you and sit down with you and Bell. I would like a little memorandum, just who is working on government financing.

Haas: And would you like to say, too, what they are working on?

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- H.M.Jr: Yes, I would like to go over it. I would like to know. I would like to know what they are doing.
- Haas; All right.
- Bell: Well, we could go through the month of March with a comfortable margin and not finance for cash, but then that would - might throw a very heavy burden for cash in April, and you want to finance also for Jesse sometime in there.
- H.M.Jr: Well, wouldn't it be smart to begin to increase on bills so then the market would know we didn't have to do it? If we began to take another hundred million a week?
- Bell: I think it might help that bill rate a little.
- Hadley: It would also help the refunding.
- H.M.Jr: Would?
- Haas: Oh, it would help it tremendously.
- H.M.Jr: Why?
- Hadley: They would know there wasn't so much pressure for cash. The way they look at this refunding, if they do this now and they know something has to be done next month, or they think it does --
- Haas: I think, Mr. Secretary, the sooner you get back like you were before --
- Bell: They have got us in a pocket now. Bob Rouse has some apprehension about two major jobs here within the course of two weeks;

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he doesn't think that this refunding will have been distributed, say by the tenth or the twelfth. He thinks it is going to take a little longer, and he would rather see it all done at once if you are going to come out for major cash, so that it would all be there at this time rather than having this other major operation hanging over the market just within a period of two weeks. Of course, we could put it off until the twentieth.

H.M.Jr: One other thing, before those fellows come. Who, besides Eccles over there, works the most on government bond markets?

Bell: I think Ransom.

H.M.Jr: He doesn't come to these meetings, does he?

Bell: No, he is only vice-chairman, and they alternate the members of the Board on this Committee. In three months it will be Chester Davis and John McKee, and the next three months it may be Szymczak and Davis. That is the same way you do with your banks and you have alternates, except the chairman - the president of the Federal Reserve Bank in New York is on it permanently.

H.M.Jr: But Ransom doesn't come?

Bell: Only in the absence of the chairman.

(Messrs. Rouse, Piser, Goldenweiser, Szymczak, Ransom, Eccles, Sproul, and Sinclair entered the conference.)

H.M.Jr: Well, gentlemen, I think we are going to have a little bit more difficult task than usual

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because we sort of laid ourselves open to this by delaying our financing in order to get our legislation through, but at least the strategy worked. We got our legislation through in record time, and I think some of the people in New York kind of think they have got us where the hair is short. There is all this talk, and everybody is so blue you would think that the bottom had fallen out of things. They have called off all these refundings and so forth and so on.

But we have been through much more difficult situations than this one, and I am not blue, and I think that the combined brains that are here can outsmart them and borrow at a reasonable rate.

Now, as you people know, we have got two refundings which amount to a billion two, and we need some cash. Mr. Bell was just telling me - I will tell you in more detail - we don't have to borrow in March. We could sneak through without it, but that would make it that much more difficult in April, and I think that the best way to start the opening would be to have Bell give you the picture as we see it from now until the first of July. That is looking a long way ahead these days.

- Eccles: That is a good thing to look at.
- H.M. Jr: Bell can tell you what our needs are.
- Bell: Well, these figures are based on the last Budget, and I thought then that the figures were too high, and I think they are too high now. Before we have our cash offering, I am going to revise them and put them on the

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basis that I think expenditures will come out to. I think they are at least a half billion high and possibly three quarters of a billion high on the debts of this year. But we will go out - into March with about 800 million dollars, and the low point of our working balance will come about the tenth, and that will go down to 700 million, with a possibility of another hundred or hundred and fifty coming in. It is in the picture, but I don't think it will come in until later.

We could go through the month without any financing and go out of the month at about \$700,000,000, \$720,000,000.

Eccles: That is based on an estimated tax revenue for March?

Bell: That is right. Of course, the tax revenue is way up in March over what any other month would be. And then, of course, in April we just couldn't go through April without financing, because it looks as though we might have \$900,000,000 deficit in April on the basis of the present program, and in May we would also have approximately 900 million or a billion dollar deficit, so that we would have to have money in April and possibly May.

What we contemplated was having an R.F.C. financing for about 500 million in April and a Treasury financing again in May. That was the original program. If we had a 500 million in May and, say, 800 million in March, we would possibly have to raise another 800 million or a billion in both May and June. June, of course, to carry on the July and August expenditures. That would take us out

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of the year with possibly a billion and a quarter or a billion three hundred million dollars.

In June we have 504 million dollars of Treasury notes maturing, and we also have 840 million of the three and a quarter per cent Treasury bonds maturing in August which we probably ought to pick up in June if financing isn't too big. I think we might discuss a little as to whether this financing ought to be one or two, split it with a refunding in cash.

H.M.Jr:

Have you people got any ideas on that?

Eccles,

Yes. Mr. Bell was good enough to have Mr. Rouse and Mr. Piser meet with your group on Monday so that they spent all afternoon discussing the thing, and I asked them to prepare a program covering this picture that Dan has presented that we would have something to consider; and then I called our Committee together yesterday afternoon, and we spent a couple of hours discussing all of the aspects of the problem, and then we met again this morning for about a half hour, so that I think we have a pretty general idea of what the problem is, and I think we are in pretty general agreement. I don't mean by that that there may not be some that have some disagreement, but I mean generally.

We didn't try to draw up a detailed program here. We didn't have time to present it in written form.

Now, I think - I know I agree and I think most of us agree that there is no reason whatever to be pessimistic about the situation, that there really is no financial problem at this time except one, and that is

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the difficulty of pricing, because of the fact that there has never before been a government bond put out on a tax-free basis, so that there is, of course --

Szymczak:

Not tax free.

Eccles:

I mean taxable basis, so that is the present problem until the market - until we find out what the market is for that type of security.

H.M.Jr:

And we burn our bridges.

Eccles:

That is right, and that is the only problem, and it isn't - there is no other problem in so far as the supply of funds is concerned and the lack of investment opportunity for the available supply.

Now, the market - I think it is fortunate that what we may term a "fluff" that has been on the market, the market has had an adjustment, and it seems to me the problem today of financing is easier than it possibly would have been with the market three or four points higher, because there is much less likelihood of a weak market developing now than there would have been if the market had been a good deal higher than it is at the present time. Now, that is just a general statement.

Now, getting down to the specific problem --

H.M.Jr:

Before you leave that, let me just ask a question. In view of what has happened and everything else, there isn't any chance of the Federal Reserve Board making a sort of a clarifying statement on its position on excess reserves?

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- Eccles: : No, none that I know of. There has been no discussion. Personally, I would not favor - well, we have met with the Council yesterday and day before yesterday, and there was no suggestion made by any member of the Advisory Council or the Board with reference to making any statement, and there is no statement contemplated either now or as far as I know in the future. The statement was made, which was general so far as the whole picture is concerned.
- Szymczak: You mean the other way around, however?
- H.M.Jr: Yes, to sort of lift that off the market. I mean that there wasn't anything contemplated.
- Eccles: No, there is nothing contemplated.
- H.M.Jr: That is what I meant.
- Eccles: As a matter of fact, the Federal Reserve System --
- H.M.Jr: Thank you.
- Szymczak: I am trying to help you out a little.
- H.M.Jr: I needed it.
- Eccles: The Federal Reserve System - of course, there is no legislation introduced.
- H.M.Jr: Well, Taft.
- Eccles: But that didn't come under excess reserves.
- H.M.Jr: But it covered all those things.

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- Eccles: All the Taft Bill was --
- Ransom: You are talking about the Reed Bill, Mr. Secretary, I believe, which was introduced yesterday.
- H.M.Jr: No, the Taft Bill.
- Eccles: That is just a re-introduction of a bill they introduced last year. There is nothing new in the Taft Bill. He introduced the bill last year, and he re-introduced it in the new Congress, and there has been no bill introduced covering the --
- Szymczak: There was a bill like that, but Taft didn't introduce it.
- Bell: Somers.
- Ransom: It is Townsend's bill, as I recall it, at the previous session of Congress, and as I recall it, Taft picked up the essentials out of the Townsend. The Townsend was a resolution, not a bill, and then yesterday, Reed, in the House introduced a bill.
- Szymczak: I don't think any of these go at the reserves. They go at the repeal, I think.
- H.M.Jr: I see. I was thinking about the reserves.
- Szymczak: None of them have it.
- Eccles: I don't know of any bill that covers it. Well now --
- H.M.Jr: Well, there is nothing coming out, any Federal Reserve bulletin which could bar the market or anything like that?
- Eccles: Doctor, what about it?

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- Szymczak: There is a bulletin --
- Goldenweiser: I don't think there is anything in it --
- H.M.Jr: Any more about reserves?
- Goldenweiser: No.
- H.M.Jr: Interest rates?
- Goldenweiser: I don't think there is any - you see, the February bulletin is out, and the March bulletin hasn't been planned very much in detail yet, and I don't think that - we can see to it that there is nothing in it. We don't intend to have anything in it.
- Sinclair: You haven't got sight of it yet?
- Goldenweiser: No.
- Eccles: It is our feeling that the refunding of the billion two should be done at this time and no new money from bonds should be undertaken, that the refunding on a basis of an intermediate bond, one issue - on today's market it would look like it would be a 52 and a quarter and a 52 - 54.
- H.M.Jr: Two and a quarter?
- Eccles: If you go to the 52-54 maturity. That is about two-thirds of the difference between what the - well, the tax benefit would mean - this would mean about two-thirds of what the tax benefit would be. In other words, it isn't allowing for the full differential between the taxable and the non-taxable, but allowing for about two-thirds of the differential. Now get such new money as you need on the bill market by getting a hundred million new money a week for a period of

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months - a period of weeks, I should say, until the market has a chance to weigh the relative price of the taxable and the non-taxable, so that it would be easier than to price issues. The fact that you put out no new bonds at this time would be a general support to the whole market, would make the success of this issue, from the fact that it is a refunding issue, more assured than if you undertook to do the refunding plus a new issue.

There was this thought expressed by some of the members, that it may be advisable to try a small issue for cash along - four or five hundred million, along with the refunding of the same bond. This thought was expressed, that if that was done, that then if you attempted to raise some cash, that you may want to make this issue a 50-52 rather than a 52-54, if you were raising cash.

It was the market opinion, I think, that it would be better to put out the 52-54 issue and not raise any money by a new bond issue but get such new money as you need from using the bill market.

- H.M.Jr: Could I interrupt you a minute?
- Eccles: Yes.
- H.M.Jr: Before we get down to too many refinements, I would like to just sort of discuss should we do a refunding and cash or just a refunding.
- Szymczak: You mean cash and a bond rather than bills?
- H.M.Jr: Yes.

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- Eccles: Well, I was giving you the whole pictures.
- H.M.Jr: Well, could I - I can get it better, if you don't mind.
- Eccles: Go ahead.
- H.M.Jr: We were talking here just for a few minutes, Bell and the rest, and I guess they have had the benefit of the men from New York, and they thought it would be smart to go and get another hundred million a month in bills. That was their suggestion, because that would sort of get us out of this situation. You know, a lot of the people at different times have wanted me to have three or four billion dollars worth of bills, and I have always said "no, I want to keep that for an emergency." Well, now we have got an emergency, and it seems to me - it looked like cheap money and they say how much England had and - you have heard all that.
- Eccles: Well, as a matter of fact, as far as your bill market is concerned, you have got 10 billion. It is unlimited.
- H.M.Jr: But you have always heard me say I wanted to keep it for an emergency.
- Szymczak: A hundred million a month or a week?
- H.M.Jr: A week, extra. Now, it looked to me as though this was the kind of a time that I would be willing to use that device, and then when things got better, we could let them slough off.
- Eccles: You can always refund them. They are 90-day bills.

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- H.M.Jr: But I would like to kind of settle that sort of thing first, because I think it is very important, and I wondered if the men who have been close to the market feel that, first, there would be any trouble in selling an extra hundred million, and second, what they thought of that. If you don't mind, I would like to hear from them.
- Sproul: On first question, I think there will be no trouble at all selling an extra hundred million a week. On the second question, it seems you have now come into the period of big financing of the defense program and that it will from time to time present the sort of emergency you have reserved the bill borrowing capacity for, that it is a flexible instrument to get 500 million now. If, two or three months later, you can refund it, all right, and then do it again at some other tight time, or if you can't refund it later, you roll along the increased volume of bills.
- It seems to me it is made to order for us in such a period.
- Bell: Do you think it would help the market out, take the pressure off?
- Sproul: I don't think it would hurt it, and I think it might help the market by taking the pressure off.
- H.M.Jr: It would take pressure off?
- Sproul: I think it would.
- Eccles: Rouse?

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- Rouse: That pretty well covers it. What Mr. Sproul has said I think pretty well covers it there. To amplify it a little bit, there has been some questioning because of statements that the magnitude of the financing program would be a half billion or a billion dollars a month of financing. I think if we come on with that regularity and at necessarily increasing rates, I think it would take away a great deal of that talk and be a constructive thing in the situation rather than the reverse.
- H.M.Jr:- I would like to just digress a minute, but it is important.
- Allan Sproul, who sees the press for you in New York every day?
- Sproul: Mr. Roelse, I don't know whether you know him, who is in charge of our Research and Statistical Department, sees them ordinarily or his immediate assistant, Mr. Sanford, sees them otherwise, and I see them once in a while.
- H.M.Jr: Would you mind after we are through, staying behind and meeting Mr. Kuhn and talking with him a couple of minutes, because I think that there is a job that can be done - the story that we need this money for national defense and we have to have it.
- Sproul: That is another thing. On this financing now, that note certainly should and can be struck.
- H.M.Jr: I would like it if you could stay behind and Mr. Eccles, if he is interested. I want to find out how it is done in New York.

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- Sproul: Yes, we will. I would be glad to do that.
- H.M.Jr: I would like to know who they see and all the rest of it. The right note has not yet been struck. I read the financial column, and I think a job could be done there. Would you --
- Sproul: Be glad to do it.
- Eccles: I will be glad to stay.
- H.M.Jr: I would just like to know what the mechanics are. I have had Kuhn working on it today. We are checking all the people who write financial letters out of Washington, just to find out. I think there is a note to be struck in the market service also, and all that sort of thing.
- Sproul: Yes.
- H.M.Jr: I just - I know Burgess used to see them years ago.
- Sproul: Well, I have seen them since he left, and now I have turned it over in the last month or so to these other men, but if we are doing this job, I would see them.
- H.M.Jr: They wouldn't be surprised if you handled them for the next few days?
- Sproul: Oh, no.
- H.M.Jr: I understand you have them every day.
- Sproul: They come in every day and someone sees them every day.

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- H.M.Jr: I think it is important. Where were we, Dan? We were on the bills?
- Bell: With Marriner.
- Eccles: You were ascertaining whether or not there would be any problem in connection with the bill market.
- H.M.Jr: And Rouse, had you finished?
- Rouse: Yes.
- H.M.Jr: Well, let's just for the moment put that in a pigeon hole and say we will take it up again, but we think that that is the thing to do.
- We have got to make up our minds this afternoon on this, for Monday, you see. I mean, the mechanics go out today, so we have to make up our minds right here today.
- Eccles: That is, if you are going to use the bills?
- H.M.Jr: Yes. We have to decide that. Is that all right, Dan?
- Bell: If you are going to start next week.
- H.M.Jr: Well, I want to. I like it.
- Eccles: I think it is the only sensible thing to do. There is no need of putting any new bonds out until you test out your market on this refunding.
- H.M.Jr: What do you think, Sinclair?
- Sinclair: Well, Mr. Secretary, for the reasons that you have and these other men have already

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discussed, I think that is what I would call the cautious thing to do. I think there is considerable real demand for bonds, even apart from the refunding, and I just changed around in my mind a bit the advisability of not taking all the cash you wish, but say, take half a billion or 400 million of cash in addition to your refunding, and do the rest in bills. However, I don't feel terribly strongly about that.

I recognize these other factors, but I wouldn't want to dismiss it with a wave of the hand. I would want to think pretty carefully about it.

- H.M.Jr: There are three important financings this week that have been postponed, and we are trying to find out about that Arkansas one which was due on the 27th. We haven't been able to find out whether it is going through or not.
- Sinclair: I think it is the safe thing to do, but I would want to consider the other pretty carefully.
- H.M.Jr: Szymczak?
- Szymczak: I think I would stick to the refunding, and if we need more money, get it in bills.
- H.M.Jr: Ronald?
- Ransom: Definitely, I would stick to the bills and new money at the present time.
- H.M.Jr: Piser?
- Piser: I would agree to that too.

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H.M.Jr: Goldenweiser?

Goldenweiser: I feel that way rather strongly. I think there is no use going out with the other at this time. You have got your source of money from the bills, that is easy; and this is a period of adjustment, and I think you might just as well wait and find where your market is before you try for more money.

H.M.Jr: I think it is made to order, gentlemen. I mean, this is the thing that we have been saving it for.

Eccles: Don't you think that these other issues being held up - it is perfectly natural, because how can they possibly price those issues which are taxable when they don't know what the price is going to be on government taxable issues. They have got to wait to find out what they are going to have to compete with in the market and --

H.M.Jr: Well, I am not convinced that there isn't a minor conspiracy to sit back and try to shove up the interest rates and get all they can and fix it, get it on a good level and make us pay a good stiff price.

Sproul: I think conspiracy is the wrong word --

H.M.Jr: I said "minor" -- (Laughter.)

Szymczak: Minor, which means New York.

H.M.Jr: How would you put it?

Sproul: I would put it this way, that there is an opinion that there is a lot of financing to be done and that maybe the rate will go up, and we can wait and get it on the next

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issue if we don't get it on this. But conspiracy in my mind visualizes people getting together and making this decision. I don't think there has even been a minor conspiracy.

H.M.Jr: You would call it an opinion?

Sproul: Arrived at independently rather than by conspiring.

H.M.Jr: But they arrived at it by a meeting of minds.

Sproul: Yes.

H.M.Jr: You just don't like my adjectives, is that right?

Sproul: Nor your noun, either.

H.M.Jr: You object to the "minor"?

Sproul: No.

Sinclair: Mr. Secretary, I wonder if I may just say a word in connection with this subject, not because I object to your use of the term at all, but in discussing it frankly in our territory, which is not a big money market, I assure you, with the insurance companies and savings funds and banks also, I think there is a recognition, full recognition, of the heavy financing program which is ahead of the government, and that they must be prepared to play their part; and I think when it comes to that point of view - there is always a sharpening of the pencil which men involved in investing always do.

However, I think there is a recognition that insurance companies and savings funds are

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are prepared to take bonds in reasonable and even substantial amounts, and what we hear talked about mostly is a change in attitude of around two and a quarter per cent. That is not talking necessarily above two and a half on the other side. They are talking about a much longer bond which they are prepared to consider and to take, but I think this is not the time for us to discuss that particular question; but I think there is a very good recognition, and a sincere recognition of their determination to play the full part in the financing program.

H.M. Jr: But it hasn't got in the public press yet?

Sinclair: I think there is a great deal in there, but I think when you talk among these men and their groups, you will find that is quite a sincere point of view.

Eccles: Isn't there a combination of factors now that is perfectly natural? In the first place, in December the interest rate did hit - in spite of the fact that it has been constantly dropping, it hit a new low and bonds hit a new high again, so that you were at that time confronted with the highest bond market and the lowest interest rate by far that we had had, and we have been thinking it has been low for sometime, and then right at that time there was this - the Federal Reserve statement indicating that the interest rate structure was excessively low and the bond market very high and that possibly something should be - we should be prepared to do something, if, as, and when the condition warranted.

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On top of that, there was a Budget program of 17 billion, and since that there has been the aid to England with a very large amount, so that it has been apparent more and more that the volume of financing was going to be unprecedented. Then right along with that comes the elimination of the tax exemption feature, so that when you take the combination, I think that the market has behaved fairly well and that has not - here is a chart on the government bond market. It is still at as low a point as it has ever been except that one period here in December.

- H.M.Jr: We are off three and a half to four points.
- Eccles: But they are still as low as they have ever been. They are lower than they were. Here is when the war started, and there is where they went. In every other point - so that they are outside of - for a 60-day period here in December and January, your bonds today are as low as they have been at any time.
- Bell: There is this thought, Mr. Secretary, on the Treasury Bill. The next issue will be tax exempt. You see, we don't issue anything taxable until after March 1.
- Szymczak: That is right, March 1.
- H.M.Jr: The next one will be what?
- Bell: If we issued this for cash on the 26th - this is the 19th, isn't it? On the 26th it would be tax exempt.
- Eccles: You mean the bills?

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- H.M.Jr: No, why not a defense note?
- Bell: It is a bill.
- H.M.Jr: Why can't you - I thought you had been converting them all into defense bills.
- Bell: But they are tax exempt. It is only the defense note that you can make taxable.
- Haas: Is that a problem when they are only 90 days?
- Bell: No, but I am wondering if anybody would say anything about the Treasury issuing a tax-exempt security four days before the act became effective.
- Eccles: Why don't you wait a week?
- Bell: I think we might wait a week. That would leave one week delay. We could make it on March 4.
- H.M.Jr: But then we could announce.
- Bell: Yes, we could announce now that you are going to raise some money by Treasury bills.
- H.M.Jr: Oh, but the defense notes aren't --
- Bell: They are taxable, but that is under the note provision. Now, these are Treasury bills and the --
- H.M.Jr: Why can't I get out a hundred million of defense notes for 90 days?
- Bell: You have to put a coupon on them. I believe we do have authority.
- Murphy: Isn't there a minimum maturity of one year?

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Bell: Yes.

Haas: You have no discretion.

H.M.Jr: You mean the defense notes have to be --

Murphy: One to five years.

Eccles: You would have to put out a bill, and it would be tax free.

Szymczak: Until March 1.

H.M.Jr: But, Dan, I thought you had been converting this stuff.

Bell: We just called it National Defense Series in order to get us some borrowing authority under the general program, that was all it was for.

H.M.Jr: But they are --

Bell: Fully tax exempt. Only the two issues of notes are taxable.

H.M.Jr: And if it is less than a year it would be tax exempt?

Bell: That is right.

Sinclair: What about a certificate?

Bell: That has to be tax exempt, too. He only has authority on the notes.

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

Bell: I am afraid we would be subject to criticism.

H.M.Jr: We could announce it, beginning March 4.

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- Bell: Today is March --
- Eccles: They will surmise there will be no new financing, and we don't need to say anything about it.
- H.M.Jr: Well, we can simply say we are going to start on the 4th of March a series of an extra hundred million a week.
- Bell: March 5 is the first Wednesday.
- Eccles: Don't you feel, though, speaking of this market being off four points, that it is a good thing to have - to finance in a market which had that adjustment when you have got - otherwise, if you had financed on the basis of your highest market, then the problem always is to be able to sustain that market over a period of time, because you have got a lot of financing during the next year and the next year; and it seems to me that you are a lot better off financing this market and you have got less chance of running into discount securities that you put out than if you were doing your financing at the very highest market. The problem of sustaining that market --
- H.M.Jr: Listen, don't push me, because then I have got to go back and say something about your statement. (Laughter.)
- Eccles: That statement is only part of it. Personally, I think this market is a sounder market to finance in.
- Sinclair: Mr. Secretary, I was glad that your chair could move while you were listening. (Laughter.)

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- H.M.Jr: Are you willing to skip it?
- Eccles: Talk to the rest of them. These other birds were in it.
- H.M.Jr: Well, they are all laughing, so I think on - you gave yourself away. You were a little too tense at that moment. Now, what is the next one?
- Eccles: Well, it is just a question of the terms. If you want to discuss the terms.
- H.M.Jr: Yes, and I would like to raise this. I would like to argue a little bit about if we are going to do the refunding, the pros and cons of offering them one piece of merchandise or two and let them take their choice.
- Eccles: It was our view that we would offer them one, that it would be an easier job to try to price to, that it would come in the 52-54 maturity for a two and a quarter, that that would be - wouldn't give them quite as much, of course, as the 50-52.
- Some of the boys thought to be absolutely safe we ought to give them a full amount of the differential between the taxable and the non-taxable. The majority of us, I think, feel that that is not necessary, to give them the full amount of the differential, and especially if you put out - get no new money and just do a refunding, and that would bring it in the 52-54, one issue. That was the majority opinion.
- H.M.Jr: Well, now, let's just take a look at - take a look at the other.

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How would you do it if you were going to offer them two pieces?

Eccles:

Piser?

Piser:

Well, I think in that case I would be inclined to issue the intermediate bond and tack on a note, a five-year note; but I don't think that would be as desirable as just the intermediate bond, because I don't think you would get many subscriptions into the note. I don't think I would include a long-term bond, because I question whether the market would take it very readily at the present time.

Szymczak:

Well, they may take it, but it would be so difficult to price it properly.

Piser:

Yes.

H.M.Jr:

Well, that two and a quarter field is an awfully congested field.

Szymczak:

52-54?

H.M.Jr:

Very congested. I don't have to look.

Hadley:

We have no call date in 1952.

H.M.Jr:

No, but what are the things which would mature in there?

Bell:

There is a billion 627 callable June 15, '51. Seven hundred fifty-five million in September, a billion 118 million in December, '51. Those could all be switched over and called on any interest date subsequently, which might be a good thing, too.

H.M.Jr:

Give me the maturity dates.

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- Bell: Nothing in '52.
- Rouse: Four hundred ninety-one million of three and an eighth due in December, '52.
- H.M.Jr: Is that all?
- Rouse: There is a billion 186 of two and a half due in September, '52.
- Murphy: That is right.
- Rouse: They are the only two issues.
- H.M.Jr: And what is '53?
- Bell: Those two and a half's are callable in '49.
- Rouse: In '53 you have a billion 786 in December of two and a half's. You have a billion 118, two and a quarters due in December, '53, and you have 725 billions of two's, callable in '53.
- H.M.Jr: The Federal Reserve crowd all lean toward one piece of merchandise?
- Eccles: Yes. If you don't, you go either into the note or a long bond, and either one of them looks undesirable at the present time until after the pricing - until after you determine what the differential would be.
- H.M.Jr: Do you fellows want to argue, make a statement?
- Haas: No, instead of arguing, I would like to say this, that we are inclined to think that way too, Mr. Secretary, for practically the same reasons, that when you have two issues, the theory was that you have some safety on it. I doubt if it would add any safety at this

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time, particularly putting a five-year note on it. I would be inclined to go one issue. How do you feel about it?

Murphy:

I am inclined strongly for one issue. If you had an additional issue, it seems to me it would have to be quite short, perhaps two years, and I don't see any need for that; but I don't think it would give you the safety factor that you want unless it was shortened up that much. Five years looks like awfully sterile territory to me.

Bell:

You would shorten it two or three years?

Murphy:

Yes. We found that shortening it from five to three and a half didn't prove very effective. I think you would have to take a big reef in it if you wanted to get any place and make it a safety valve, and I don't think you have to do that.

H.M.Jr:

What I would like to do is this, if it is agreeable to you people. Bell and I are seeing a lot of people in the next couple of days. Would you (Eccles) be free around 11:00 Friday? I mean and some of you gentlemen, to come back over at 11:00 Friday?

Eccles:

Of course Allan is going back to New York.

H.M.Jr:

I meant the Board people.

Sinclair:

I have my Board meeting Friday. I am perfectly willing to be here, but I think I can check with you on the phone if I have any different point of view.

H.M.Jr:

I meant the members who are here, and I

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wondered if it was agreeable if you would send out telegrams to the presidents, or whatever you call them now, of the twelve banks and say that I would like to talk to them Monday between ten and twelve, their time. I would like to call them direct and get their direct reaction.

Eccles: On the telephone?

H.M.Jr: But you could telegraph them. Is that all right?

Eccles: We will do that.

H.M.Jr: Between ten and twelve their time, if you would say that I would be calling them direct and asking them --

Eccles: They were all here yesterday.

H.M.Jr: Well, I didn't see any of them.

Ransom: There are a few of them here today.

H.M.Jr: Is that all right with you, if you would send them the telegram?

Eccles: Yes.

Piser: That is between ten and twelve their time on Friday?

H.M.Jr: On Monday. And then we will meet again?

Bell: I would like to raise this question. In view of the fact that you have made your decision to raise your new money on bills, you don't have to do this refunding next week, but you would like to get it out? There would be nothing in that first ten days of March.

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- H.M.Jr: I would like to do it very much.
- Eccles: And you could do the new money on the 15th. You would let the question of new money ride along until the situation looked --
- H.M.Jr: Well, if the thing straightened out, I would go ahead two weeks later and do it.
- Bell: Yes, you can afford then to take a chance.
- Sproul: I think the deciding factor is, if you want to get a test of the market, you ought to do this as soon as possible and then wait until you think you have had that test before you do anything else.
- Eccles: The sooner it is done, the sooner his market is going to stabilize.
- Bell: We could do it Wednesday or Thursday of next week, in which case we ought to - the re-funding.
- H.M.Jr: I want to do it on the 5th, Tuesday.
- Bell: Does that mean we send it out Monday evening to open up Tuesday morning?
- H.M.Jr: Yes. The war news isn't going to get any better, Dan.
- Sinclair: I think that is an important factor.
- H.M.Jr: What I thought we could do was this. I will see these gentlemen at 11:00 Friday. I will talk to these people Monday morning, and then I am going to ask them if they will be kind enough to come back at 2:30 again Monday afternoon, and we will sit down and make up our minds then. How is that?

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Eccles: That is fine.

H.M.Jr: Two-thirty on Monday.

Eccles: Do you want us here on Friday?

H.M.Jr: Friday at 11:00 and Monday at 2:30, if that isn't asking too much.

Eccles: All right. Is that all right with you people, do you have any other plans?

Ransom: I am not on the Executive Committee except for the fact --

Eccles: Oh, he is on for Chester Davis. Chester was up on the Hill. O.K.

H.M.Jr: 2:30 Monday. That gives us two more chances to check, and I will be talking to the presidents of your banks Monday morning between ten and twelve their time.

Piser: Mr. Secretary, could I ask a question?

H.M.Jr: Please.

Piser: In connection with our announcement on bills, that announcement will be made this afternoon, will it, or --

H.M.Jr: No, I have a regular press conference on Thursday morning. I would make it tomorrow morning.

Piser: And at that time are you intending to announce that there will be no cash in this current financing?

H.M.Jr: In the first one, yes.

Bell: Only refunding next week?

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H.M.Jr: Yes.

Bell: And you will also announce that you are going to raise some additional cash by bills beginning March 5th.

H.M.Jr: Yes.

Rouse: May I suggest two things that I think would help the market, if you can say them, it would clarify the situation a good deal if you could say that as far as savings bonds are a direct attraction to savings funds, they would have a limitation on them. There has been a good deal of feeling among the savings banks and insurance companies that something would be tailored to their specific needs which would be available to them in substantial amounts and at preferred prices, and that is the sense that has gotten around.

H.M.Jr: I am going to ask Bell, if he hasn't already done it, in strictest confidence to give you people our first draft of what we have in mind on these savings bonds, and then if you people would look it over and get us some answer back by Friday, we could discuss it.

Eccles: You might discuss the savings feature, too.

H.M.Jr: Yes.

Eccles: That is the change in the Baby Bond and in addition the two others.

H.M.Jr: Yes.

Bell: The Board has that memorandum and Bob Rouse knows the details.

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H.M.Jr: Then we could discuss that again on Friday.

Eccles: We haven't discussed it.

H.M.Jr: Would you between now and Friday?

Eccles: Yes, we will.

Rouse: A second thing would be if you could take the market into your confidence a little bit with respect to your term program, that is, that this refunding and your bills pretty well get you over your hump, at least for a couple of months, as far as direct financing is concerned.

H.M.Jr: Well, does it, Dan?

Sinclair: You are thinking of more cash?

Rouse: Yes, it does. The only thing then on this program would be your April financing, as far as guarantees are concerned.

Bell: It would be if you carried it on far enough.

Rouse: Just over the near term picture.

H.M.Jr: If you, Rouse, before you go back, will sit down with Bell and fix me up a little sheet of paper that I can have tomorrow morning before 10:30, I will look over it and say just as much of it as I can. How is that?

Rouse: That is fine.

H.M.Jr: If you will sit down with Bell and just as much as you think would help the market, I will try to say all of it if I can.

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Rouse: The last thing I wanted to say --

H.M.Jr: But give Bell something for me tomorrow morning.

Rouse; Yes, sir. That a two and a quarter per cent coupon carries you only up to where the commercial banks will still come in to financing, and it carries you far enough to bring in savings banks and insurance companies. It is the broadest - it reaches the broadest market of any set-up that we can visualize now.

Bell: We save a million dollars on interest.

H.M.Jr: How?

Bell; Well, we refund three and three-eighths per cent bonds and one and a half per cent notes put on it at two and a quarter, so on the operation we save about a hundred thousand.

H.M.Jr: A year?

Bell: It pays for your and my salaries.

H.M.Jr: Just about.

Sinclair: And traveling expenses.

Szymczak: Didn't think you were taking any salary.

Bell: We are not dollar-a-year men.

Eccles: You hope.

H.M.Jr: Treasury is one of the few places in Washington where we pay salaries. I didn't say we pay what they are worth, but we pay salaries.

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Well, I think that is about that; and then if Mr. Eccles and Mr. Sproul could stay behind a minute and Mr. Bell, we could talk with my men on this publicity feature.

Eccles:

Yes, I would like to see what you had in mind.

Ransom:

May I ask how long that would take, because we have a meeting following that.

H.M.Jr:

I would say five minutes would be plenty long.

February 19, 1941
3:32 p.m.

H.M.Jr: Hello.

Cong. Raymond
McKeough: Mr. Secretary.

H.M.Jr: Talking.

McK: Thank you at least for your prompt reply.
I am naturally terribly disappointed.

H.M.Jr: Well, I'm sorry. I gave it a great deal of
time.

McK: I know you did.

H.M.Jr: And I just don't see how I can interfere with
the Department of Justice without bringing
their wrath down on me and it is something
I've never done in eight years.

McK: Well, I can thoroughly sense your delicacy of
position and I want you to know, even though
I'm terribly disturbed and upset as a result
of your finding, that I'm grateful to you for
at least giving me the opportunity to present
as poorly as I did the interest that I have
in the case.

H.M.Jr: Well, you've been most fair and I'm only sorry
but

McK: I know you are and I can appreciate your
position and I regret very much that Justice
is so adamant about it and my only thought
was that unofficially, if you could see your
way clear to do it, if you could ask Mr. Jackson
if he'd permit me to see him and again discuss
it with him - or could you do that?

H.M.Jr: I don't see how I could, but I don't see how
he could refuse to see you.

McK: Well, he has.

H.M.Jr: Well, then I'm very sorry.

- 2 -

McK: He won't see me.

H.M.Jr: I'm awfully sorry.

McK: I know you are and again thank you sincerely and I hope that maybe on the next occasion that I seek your intervention you can see your way clear to help me.

H.M.Jr: Well, I'll always try to do the best I can.

McK: You couldn't do anything else and be who you are.

H.M.Jr: Thank you so much.

McK: Thank you, Mr. Secretary.

H.M.Jr: All right.

McK: Good-bye.

- 2 -

McK: He won't see me.

H.M.Jr: I'm awfully sorry.

McK: I know you are and again thank you sincerely and I hope that maybe on the next occasion that I seek your intervention you can see your way clear to help me.

H.M.Jr: Well, I'll always try to do the best I can.

McK: You couldn't do anything else and be who you are.

H.M.Jr: Thank you so much.

McK: Thank you, Mr. Secretary.

H.M.Jr: All right.

McK: Good-bye.

February 19, 1941
3:41 p.m.

H.M.Jr: Arthur?

Arthur
Purvis: Yes, Henry.

H.M.Jr: I just spoke to the President and I told him about this - that you were anxious to show this to Chief of Staff and Chief of Naval Operations.

P: Yes.

H.M.Jr: He said it was all right provided you didn't leave the copy with them.

P: Oh, quite.

H.M.Jr: To show it to them but not to leave it with them.

P: Permission to show, yes.

H.M.Jr: But not to leave.

P: All right. That's fine. I'll be guided accordingly. Henry, I suppose it wouldn't by any chance be convenient for me to just bring in Sir Clive to be introduced to you later this afternoon after the Supply Council Meeting or would it be better next week?

H.M.Jr: I think you ought to wax your skis after the Supply Council Meeting.

P: (Laughs). All right. Well, we'll make it next week then. I want to bring him across.

H.M.Jr: How are your skis? Do they need waxing?

P: No, they're all ready to put right on when I get there.

H.M.Jr: (Laughs). All right.

P: (Laughs). I'm going to do it too, I think.

H.M.Jr: Well, you gave me your word.

- 2 -

P: Yes, I'm hooked. (Laughs). Pleasantly hooked.

H.M.Jr: And I won't scold if you don't come back until Wednesday instead of Tuesday.

P: (Laughs). You're very good.

H.M.Jr: All right.

P: All right, good-bye.

FEB 19 1941

My dear Mr. President:

Pursuant to the practice heretofore adopted, I am sending you herewith a report of the audit of the Exchange Stabilization Fund covering the fiscal year ending June 30, 1940.

After you have examined this report, I shall be glad if you will return it for the permanent files of the Treasury.

There is now in course of preparation an annual report of the Exchange Stabilization Fund which is required pursuant to section 10(a) of the Gold Reserve Act of 1934, as amended, to be submitted to the Congress. This report will be available at an early date.

Faithfully,

(sgd) H. Morganthau, Jr.

Secretary of the Treasury.

The President,

The White House.

Enclosure.

WTH:vf
February 11, 1941.

FEB 19 1941

My Dear Senator:

In answer to your letter dated February 17, 1941, I have pleasure in providing the following information in regard to the status of operations of the Stabilization Fund with regard to China and Argentina.

Negotiations have not yet been completed in so far as our new arrangement with China is concerned. An agreement with Argentina and the Central Bank of Argentina was signed on December 27, 1940, but has not yet come into operation pending the enactment of legislation in Argentina relating to the guaranty of the arrangement by the Argentine Government. Consequently, there has been no dollar exchange actually made available by the Stabilization Fund to China or Argentina under these two arrangements.

Under the agreement consummated with China of July 16, 1937, which has been extended until June 30, 1941, the Stabilization Fund holds Chinese yuan valued at \$19,112,800, the repurchase of which is secured by \$19,378,018.68 of gold collateral deposited with the Federal Reserve Bank of New York. Under this arrangement the Stabilization Fund hold as high as \$48,487,800 of yuan as of February 10, 1938, collateralized by \$48,838,340.88 of gold, but the Central Bank of China has since that date repurchased two amounts of yuan, reducing the total to the value given above, namely, \$19,112,800.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Honorable Robert A. Taft,
United States Senate.

RB:men
2/18/41

File to Mr. Thompson
(To be returned to
Mr. Cochran's Office)

By Messenger / 15

(COPY)

UNITED STATES SENATE
Committee on Finance

February 17, 1941.

The Honorable
Henry Morgenthau, Jr.
Secretary of the Treasury

My dear Mr. Secretary:

I am anxious to obtain, at the earliest possible date, information regarding the present status of the advances to China and Argentina from the Stabilization Fund.

I am particularly anxious to know the amounts which have been advanced to these two countries to date, and, if possible, when the balances due are likely to be called for.

Sincerely yours,

/s/ Robert A. Taft

February 19, 1941

Merle Cochran

Secretary Morgenthau

Please the first thing this morning get in touch with Mr. Gifford and ask him to give you the exact amount and the description of all United States Government bonds that he has for sale, and just as soon as you get this information, give a copy of it to Dan Bell and one to me.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 19, 1941

TO Secretary Morgenthau
 FROM H. Merle Cochran

After the staff meeting this morning I telephoned Mr. Gifford in New York. The latter stated that the information requested by Secretary Morgenthau would be available at 11:30. Consequently, I telephoned him back at this hour and obtained the following itemization of United States Government securities which are now vested and in the hands of Mr. Gifford in New York, available for sale. It should be noted, however, that those securities indicated by an asterisk are to be held for sale to a British insurance trust fund which is being established in this country. Mr. Gifford is sending by air mail this afternoon a letter giving the above information, together with data concerning United States Government securities which have been registered by the British authorities but which are not yet in this country and available for sale.

<u>Treasury Bonds</u>	<u>Amount</u>
3 1/4% 1941	\$ 2,200
3 1/4% 1943-45	17,950
3 3/8% 1943-47	1,291,000 *
3 1/4% 1944-46	45,500 *
4% 1944-54	75,700
2 1/2% 1945	5,500
2 3/4% 1945-47	502,200 *
3 3/4% 1945-56	1,900
3% 1946-48	127,500
5 1/8% 1946-49	17,350
2% 1947	15,500 *
4 1/4% 1947-52	33,600
2 3/4% 1948-51	500
2 1/2% 1948	200
2 1/2% 1949-53	340,800 *
2 1/2% 1950-52	9,850
2 3/4% 1951-54	260,200 *
3% 1951-55	1,100
2 7/8% 1955-60	581,250 *
2 3/4% 1956-59	187,500 *
2 3/4% 1958-63	17,900
2 3/4% 1960-65	7,450
	<u>\$3,543,650</u>

Treasury Notes

	<u>Amount</u>
1 1/4% 12/15/41	\$ 500
1% 9/15/44	800
3/4% 6/15/44	800
	<u>\$2,100</u>
F.F.M.C. 3% 5/15/44-49	\$ 600
Federal Land Bank 3 1/4% 1945-55	\$ 700
H.O.L.C. 2 1/4% 7/1/42-44	\$ 725

Total Amount of Treasury Bonds	\$ 3,543,650
" " Treasury Notes	2,100
" " Guaranteed Issues	<u>2,025</u>
GRAND TOTAL	\$ 3,547,775

J.M.P.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 19, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

At 12:10 this noon I gave the Secretary a memorandum setting out figures which had just been received by telephone from Mr. Gifford with respect to the United States Treasury securities which Mr. Gifford has on hand immediately available for sale. I told the Secretary that the British had vested title in approximately \$18,000,000 of United States Government securities in January. Some of these have already been sold by Mr. Gifford; those mentioned in my memorandum are immediately available; and the balance are either in Canada, or enroute to the United States, or being assembled in England for shipment here.

After leaving the Secretary's office I got in touch with Mr. Gifford's office again and was informed that the total of United States Government securities sold by Mr. Gifford out of the \$17,600,000 thereof vested in January amounted to \$7,700,000 as of February 19. This information was given by Mr. Gifford's assistant. I then spoke with Mr. Gifford and told him that the Secretary would appreciate his cooperation if he refrained entirely from offering on Monday, Tuesday, Wednesday and Thursday of next week any of his United States Government securities. If Mr. Gifford felt that he needed to realize on all or any part of the \$3,548,000 of such securities now on hand, the Treasury would be glad to provide a purchaser immediately therefor. Mr. Gifford promised the desired cooperation and said he would let me hear tomorrow if he desired to accept the Secretary's offer of a customer. Mr. Gifford let me know, however, as he had early in the day, that he had within the past week been offering small amounts of Government securities principally to keep up his daily totals during a time when stocks were falling.

At 4:45 this evening Mr. Haas gave me a message from the Secretary. I immediately telephoned Mr. Gifford and asked him if he could give us an idea as to his plans for the first four days of next week. He replied that his plans necessarily depended upon the market. He was quick to add, however, that he would be happy to meet any suggestions which we had to make. He reminded me that there had been a steady and rapid falling last week until Friday. Stocks had recovered some on Saturday and Monday, but were off again today. Therefore, there is little chance of distributing any important offerings. He let me know that he had succeeded today in consummating a very special transaction whereby 21,000 shares of United Corporation Preferred were sold to Super Power. He said this sort of a deal could occasionally be made when the market is not favorable, but that secondary distributors hesitate to undertake any transactions of importance when such a pessimistic tone prevails as at present. As to the official market, Gifford said that he did not desire to put in any sale orders which would depress the market further. Consequently he will not take the initiative next week in "hitting the market", unless the Treasury presses him to keep up his sales.

- 2 -

He mentioned that there had been a plan for the issue of Republic Steel bonds, but that this idea has been withdrawn now, considering the market.

Likewise there was proposed a distribution of Inland Steel Common, in which the British might have joined, but market conditions have now obliged this plan to be suppressed.

Gifford mentioned that the Kress issue of common stock last week had stuck with the dealers, and that the general pessimism in the daily news discourages the market.

As to his own plans, Gifford had little to add to the above except to say that he was still toying with the idea of a special distribution of one security which would amount to around \$12,000,000, but that he would not attempt it if there are market conditions which are likely at all to cause its failure.



T. J. CARLYLE GIFFORD
AGENT

15 BROAD STREET
NEW YORK

TELEPHONE HANOVER 2-2400
EXTENSION 9238

19th February 1941.

Dear Mr. Cochran,

As arranged I enclose a statement showing the position in the United States Government Bonds under my control.

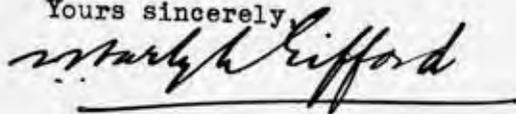
In this statement the column "Total Registered" shows the amount which has been registered by holders with the Bank of England as being subject to requisition and represents therefore the total amount which should ultimately come into my hands under the Vesting order. The difference between this figure and the combined totals of bonds sold and bonds ready for sale is represented by holdings in transit or in course of transfer into saleable form. Some part of this difference may not materialise owing to possible erroneous registrations, but this amount should be small. It is not possible to estimate when or at what rate the balance will be available for sale, this being subject to all the difficulties of communication imposed by the war.

As I explained to you this morning, a number of holdings have been earmarked for sale to British Insurance Trust Funds in this country. I have already sold bonds of a nominal amount of \$465,000. in this way and a balance of in all approximately \$3,400,000. remains to be so transferred. This is being delayed by the failure of the amounts so far received in the issues concerned to come up to the required totals.

Confirming the information given you by my assistant this morning the United States Government Bonds included in the Vesting order and noted in the accompanying statement represent all significant British holdings of this kind.

I hope this gives you all the information you require.

Yours sincerely,


Stanley Rifford

H. Merle Cochran, Esq.,
U. S. Treasury Department,
Washington, D. C.

19th February 1941.

UNITED STATES GOVERNMENT BONDS

<u>Security</u>	<u>Total Registered</u>	<u>Total sold to date</u>	<u>Ready for sale</u>
U.S. Treasury Bonds 3 1/4%			
" " " 1941	\$120,900	\$95,000	\$2,200
" " " 3 1/4%			
1943/45	859,150	670,000	17,950
" " " 3 3/8%			
1943/47	6,685,000	4,760,000	1,291,000*
" " " 3 1/4%			
1944/46	234,950	-	45,500*
" " " 4%			
1944/54	705,900	411,000	75,700
" " " 2 1/2%			
1945	33,650	5,000	5,500
" " " 2 3/4%			
1945/47	815,550	-	502,200*
" " " 3 3/4%			
1946/56	44,300	11,000	1,900
" " " 3%			
1946/48	230,100	62,000	127,500
" " " 3 1/8%			
1946/49	36,850	10,000	17,350
" " " 2%			
1947	762,950	-	16,500*
" " " 4 1/4%			
1947/52	798,400	426,000	33,600
" " " 2 3/4%			
1948/51	33,500	-	500
" " " 2 1/2%			
1948	122,200	84,000	200
" " " 3 1/8%			
1949/52	63,400	54,000	-
" " " 2 1/2%			
1949/53	596,550	-	340,800*
" " " 2 1/2%			
1950/52	275,650	195,000	9,850
" " " 2 3/4%			
1951/54	460,200	-	260,200*
" " " 3%			
1951/55	689,500	216,000	1,100
" " " 2 7/8%			
1955/60	1,732,650	-	581,250*
" " " 2 3/4%			
1956/59	343,450	-	187,500*
" " " 2 3/4%			
1958/63	195,700	56,000	17,900
" " " 2 3/4%			
1960/65	501,100	97,000	7,450

<u>Security</u>	<u>Total Registered</u>	<u>Total sold to date</u>	<u>Ready for sale</u>
U.S. Treasury Notes 1 1/4%			
" " " 12/15/41	42,000	2,000	500
" " " 1 3/4%			
" " " 12/15/42	117,700	105,000	-
" " " 2%			
" " " 9/15/42	177,000	150,000	-
" " " 1 1/8%			
" " " 6/15/43	17,000	8,000	-
" " " 1 1/8%			
" " " 12/15/43	188,000	20,000	-
" " " 1%			
" " " 3/15/44	5,500	-	-
" " " 1%			
" " " 9/15/44	25,800	23,000	800
" " " 3/4%			
" " " 6/15/44	75,000	73,000	800
Federal Farm Mortgage Corp. 3% of 5/15/44-49	155,500	33,000	600
Federal Land Bank (Cons. Farm Loan) 3 1/4% 1945/55	48,700	24,000	700
Federal Land Bank (Cons.) Farm Loan) 3% 5/1/46-56)	158,600	14,000	-
Federal Land Bank (Cons.) Farm Loan) 3% 1/1/46-56)		-	-
Home Owners Loan Corp. 2 1/4% "G" 7/1/42-44	124,575	92,000	725
Home Owners Loan Corp. 1 1/2% "M" 6/1/45-47	164,400	-	-
<i>Grand Total</i>	<u>17,637,375</u>	<u>7,696,000</u>	<u>3,547,775</u>

* Held for sale to British Insurance Trust Funds

<i>Totals</i>	<i>Tre. Bonds</i> 16,337,600	7,152,000	3,543,650
	<i>Tre. Notes</i> 648,000	381,000	2,100
	<i>Stds. etc.</i> 651,775	163,000	2,025

February 19, 1941

Norman Thompson
Secretary Morgenthau

Please get in touch with Mr. Forster at the White House and make sure that the President signs the \$65,000,000,000 debt limit bill before he leaves on Friday. It would be much better if he could sign it today or tomorrow. Please report to me.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 19, 1941.

TO Secretary Morgenthau

FROM Mr. Thompson

The \$65,000,000,000 debt limit bill is now in the President's hands. Mr. Forster tells me that the President took it with him to his rooms last night, and that just as soon as it is signed he will let me know. He promises to keep back of it and I will keep after him.

Am

February 19, 1941.

MEMORANDUM FOR THE SECRETARY'S DIARY

Mr. Tom Childs and Mr. Playfair came to Mr. Foley's office this morning and discussed with Mr. Foley and Mr. Bernstein the question of the possible loan by Morgan's to Courtald secured by the Viscose stock. Childs left the annexed documents. Mr. Foley stated that Secretary Morgenthau had talked to Arthur Purvis and expressed to him the point of view that it would be utterly undesirable to handle this matter on any kind of a loan basis, and that the securities should be sold. Mr. Playfair said that the current proposal was different from the first one that they had mentioned last week, which involves an outright loan for about a five-year period. The current proposal was to make a loan for a short period while Courtald was trying to sell the stock, and that apparently Purvis had misunderstood the Secretary and did not know that the Secretary's remarks were intended to apply to the current proposal also. Mr. Foley said that they were very definitely intended to so apply, and it would be thoroughly unwise in any way to seek to raise money through the loan device. Mr. Playfair then assured Mr. Foley that the British would be guided absolutely by what we said and would make no effort whatever to borrow the money and would go ahead trying to negotiate sales.

E. H. F. H.

February , 1941.

J. P. Morgan & Co. Inc.,
23 Wall Street,
New York, N. Y.

Dear Sirs:

We, A, an English company, own approximately 95% of the outstanding capital stock (all of one class) of B, an American corporation. We have handed to you the balance sheet as of December 31, 1940 and earnings statements for the ten years ending December 31, 1940, as prepared by Messrs. Price, Waterhouse & Co.

Our holdings of the stock of the B corporation are subject to the overriding rights of the British Government and our information is that these rights may be exercised unless we are able to work out some plan whereby the requirements of the British Government as related to us can otherwise be satisfied. We believe we can meet the requirements of the British Government either through the recapitalization of the B corporation and the sale of senior securities thereof in the American market, or through an orderly liquidation of our present holding, or in some other way, but any such steps would require additional time in order to effect them properly. Additional time to consider such plans, we believe, will be allowed, if we put ourselves promptly in a position to purchase sterling to the equivalent of X dollars. With this in view, we are, in the interests of our company and its stockholders, requesting you to arrange for us a temporary loan from yourselves and other banking institutions to be associated with you.

This temporary loan would be made to the A company in the amount of X dollars upon its unconditional promise to repay the same on or before ninety days from the date thereof with interest at the rate of % per annum, such loan to be subject to three renewals of ninety days each. It is understood that repayment can be arranged only with the appropriate license from the British exchange authorities but non-payment for any cause shall, of course, constitute a default. This loan would be secured by the pledge of all of the stock of the B corporation owned by us. The note evidencing this loan shall be satisfactory to you and shall contain such provisions as are usually contained in the form of note generally used by banks in the making of collateral loans, and in addition shall contain such covenants as may be agreed upon, including the following:

J. P. Morgan & Co. Inc.

February , 1941.

(a) We shall proceed with reasonable dispatch to use our best efforts to work out a plan as outlined on page one of this letter and any proceeds received from any such operation will be applied by us promptly to the payment of the notes.

(b) So long as the notes shall remain outstanding, we shall cause the B corporation to refrain from pledging or mortgaging any of its property or conducting its business otherwise than in the usual course, unless the consent thereto of the holders of the notes is first obtained.

Very truly yours,

English parent company incorporated under laws of and domiciled in England owns substantially all equity securities of American industrial subsidiary. The British parent company may be engaged in production of war materials or other supplies for sale to the British Government. Each company is owned by private investors, and in no sense owned by the British Government.

Parent Company desires to borrow U.S. dollars from U.S. banks. Loan would be made solely on basis of parent company's credit and secured by pledge of securities of American subsidiary owned by parent.

U.S. dollars received by parent under proposed loan would become subject to English fiscal laws, which would require parent to sell such dollars to British Government for sterling. Accordingly, promptly after completing loan, British parent will sell such U.S. dollars to British Government for sterling.

American banks who would extend such loan would like assurance that such loan contravenes neither the so-called Johnson Act of 1934 nor Section 7 (a) of the Neutrality Act of 1939.

The Johnson Act would forbid the making within the U.S. by any person of any such loan to the British Government or to any organization or association acting for or on behalf of the British Government. 'Person' is defined in the Johnson Act to include an individual, partnership, corporation, or association other than a public corporation created by or pursuant to special authorization of Congress, or a corporation in which the Government of the U. S. has or exercises a controlling interest through stock ownership or otherwise.

The Neutrality Act would forbid any person within the U.S. to make any such loan to the British Government or to any person acting for or on behalf of the British Government. 'Person' is defined in the Neutrality Act to include a partnership, company, association, or corporation, as well as a natural person.

No loan is contemplated to the British Government. The loan is proposed to be made by U. S. banks to the British parent company. The British Government in no way participates in, nor becomes liable directly or indirectly, on the proposed loan. The lenders would look solely to the credit of the British parent company and to the collateral to be pledged as security for the loan. They could in no sense hold the British Government responsible for, nor look to the British Government for repayment of, the loan. After the loan is completed, the British parent company would, as an independent transaction, sell the dollars obtained under the loan to the British Government in exchange for pounds sterling. With the completion of such purchase and sale of pounds sterling, the British Government has no further relationship to the transaction.

February 18, 1941

George Haas

Secretary Morgenthau

Please let me know as soon as possible what happened to the proposed issue for the State of Arkansas. I haven't heard anything more about it. Have they postponed it or are they going ahead with it?

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE Febr. 19, 1941

TO Secretary Morgenthau
FROM Mr. Hase *JHA*

I talked with Mr. Schram, of the RFC, about the Arkansas bond refunding deal and his version confirms the information which we had previously received from Mr. Mulligan, of the RFC. He said that the last day on which bids may be submitted is February 27. He pointed out that the banking group would not be able to submit a bid on the \$90 million portion until the RFC had committed itself on the \$47 millions which are callable on July 1. He stated that he expected the banking group would be in to see the RFC sometime before Thursday the 27th, but so far they have not been in, the RFC has made no commitment, and no deal has been worked out as yet.

February 19, 1941

My dear Mr. President:

I am enclosing herewith the most recent confidential figures on deliveries of airplanes, up to February 15, 1941.

Yours sincerely,

Henry

The President,
The White House.

By Messenger 315

February 19, 1941

My dear Mr. President:

I am enclosing herewith the most recent confidential figures on deliveries of airplanes, up to February 15, 1941.

Yours sincerely,

Henry

The President,
The White House.

By Messrs.

February 19, 1941

My dear Mr. President:

I am enclosing herewith the most recent confidential figures on deliveries of airplanes, up to February 15, 1941.

Yours sincerely,

Henry

The President,
The White House.

By ~~Message~~

DELIVERIES OF AIRPLANES, BY PURCHASERS AND BY TYPES OF PLANES

STRICTLY CONFIDENTIAL

January 1, 1940 - February 15, 1941

	Bombers	Pursuits	Trainers	Other Military planes	Commercial planes	Total
TOTAL ALL PURCHASERS						
Jan. 1 - June 22	554	500	806	100	379	2,341
June 23 - July 20	101	198	234	14	81	628
July 21 - Aug. 17	111	179	270	10	105	665
Aug. 18 - Sept. 14	70	146	303	20	98	637
Sept. 15 - Oct. 12	53	220	373	17	151	808
Oct. 13 - Nov. 9	66	156	343	17	63	647
Nov. 10 - Dec. 7	100	211	275	16	56	658
Dec. 8 - Jan. 4	156	247	315	6	98	824
Subtotal June 23 - Jan. 4	659	1,350	2,117	100	642	4,868
Jan. 5 - Jan. 16	60	97	168	5	36	406
Jan. 19 - Feb. 1	79	151	323	33	22	608
Feb. 2 - Feb. 15	79	113	155	13	31	391
Total Jan. 1, 1940 - Feb. 15, 1941	1,451	2,211	3,591	251	1,110	8,614
ARMY						
Jan. 1 - June 22	20	31	461	61	-	581
June 23 - July 20	14	40	131	6	-	191
July 21 - Aug. 17	16	59	156	5	-	244
Aug. 18 - Sept. 14	12	54	161	7	-	244
Sept. 15 - Oct. 12	10	86	173	-	-	269
Oct. 13 - Nov. 9	12	20	159	-	-	191
Nov. 10 - Dec. 7	8	14	189	2	-	153
Dec. 8 - Jan. 4	4	19	75	-	-	98
Subtotal June 23 - Jan. 4	78	302	984	20	-	1,384
Jan. 5 - Jan. 16	6	6	86	-	-	98
Jan. 19 - Feb. 1	1	2	166	-	-	169
Feb. 2 - Feb. 15	13	9	74	4	-	100
Total Jan. 1, 1940 - Feb. 15, 1941	126	350	1,771	85	-	2,332
NAVY						
Jan. 1 - June 22	49	1	78	35	-	156
June 23 - July 20	-	2	26	6	-	34
July 21 - Aug. 17	5	-	14	5	-	24
Aug. 18 - Sept. 14	10	3	17	13	-	43
Sept. 15 - Oct. 12	16	13	49	17	-	95
Oct. 13 - Nov. 9	22	23	35	17	-	97
Nov. 10 - Dec. 7	17	11	82	14	-	124
Dec. 8 - Jan. 4	16	16	76	6	-	116
Subtotal June 23 - Jan. 4	66	76	299	78	-	539
Jan. 5 - Jan. 16	17	14	79	5	-	115
Jan. 19 - Feb. 1	35	11	113	33	-	192
Feb. 2 - Feb. 15	21	17	41	8	-	87
Total Jan. 1, 1940 - Feb. 15, 1941	201	119	610	159	-	1,089
BRITISH EMPIRE AND FRANCE*						
Jan. 1 - June 22	469	289	164	2	9	933
June 23 - July 20	86	139	56	2	1	284
July 21 - Aug. 17	86	95	69	-	4	254
Aug. 18 - Sept. 14	10	63	52	-	1	126
Sept. 15 - Oct. 12	24	121	50	-	10	205
Oct. 13 - Nov. 9	26	99	57	-	3	185
Nov. 10 - Dec. 7	75	147	48	-	8	278
Dec. 8 - Jan. 4	128	194	144	-	-	466
Subtotal June 23 - Jan. 4	455	878	476	2	27	1,838
Jan. 5 - Jan. 16	57	69	9	-	5	140
Jan. 19 - Feb. 1	43	125	40	-	-	209
Feb. 2 - Feb. 15	44	67	26	1	10	168
Total Jan. 1, 1940 - Feb. 15, 1941	1,068	1,449	715	5	51	3,288
OTHER						
Jan. 1 - June 22	15	179	105	2	370	671
June 23 - July 20	1	17	21	-	80	119
July 21 - Aug. 17	2	6	31	-	101	140
Aug. 18 - Sept. 14	18	-	73	-	97	188
Sept. 15 - Oct. 12	3	-	105	-	131	239
Oct. 13 - Nov. 9	5	16	92	-	60	174
Nov. 10 - Dec. 7	-	39	16	-	48	103
Dec. 8 - Jan. 4	10	16	20	-	98	144
Subtotal June 23 - Jan. 4	40	94	358	-	615	1,107
Jan. 5 - Jan. 16	-	8	14	-	31	53
Jan. 19 - Feb. 1	-	12	4	-	22	38
Feb. 2 - Feb. 15	1	-	14	-	21	36
Total Jan. 1, 1940 - Feb. 15, 1941	56	293	495	2	1,059	1,905

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

February 19, 1941

* Deliveries under French contracts were made up to June 30, 1940.

Regraded Unclassified

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE Feb. 19, 1941

TO Secretary Morgenthau
FROM Mr. Haas
Subject: Editorial of the Wall Street Journal on Savings Banks and the Savings Bond Program.

The editors of the Wall Street Journal point out, on the whole correctly, in the attached editorial, that nothing would be gained by savings banks lending to their depositors to purchase Government securities. Such action would merely force the savings banks to liquidate some of their existing security holdings, except to the extent that they were able to draw on their cash to finance the new loans. As of June 30, 1940, however, cash of mutual savings banks amounted to only \$979 millions, or 9.2 percent of their total deposits (\$10,631 millions).

The editors also point out that withdrawals from savings banks by their depositors are similarly limited to the uninvested cash of the savings banks. The essential point, they maintain, is that the defense program should be financed out of real savings which are not already invested. It would be of no advantage to the defense program if existing securities were liquidated and the proceeds placed in Government securities, for the securities liquidated would have to be purchased from the uninvested funds of other savers.

The editorial states further that "the amount of savings grows from year to year." Although this is true in the main, little can be expected from mutual savings banks in this respect. During the calendar year 1940 their deposits increased by only \$137 millions or 1.3 percent.

Attachment.

*Gene Haas, what do you think
H. W. A.?*

THE WA

relations by preventing the freest consumption of their products may lead them.

Savings and Defense Bonds

That savings banks should lend money to their depositors for the purpose of buying government obligations—as proposed by New York State Superintendent of Banking William R. White—is incontrovertible, provided that the loans are made from *uninvested* bank funds. It is important that both savings banks and their depositors should clearly understand the relation of both to the governmental borrowing that is ahead of us.

Savings banks are essentially *investment* concerns, not commercial banks. They act as investment trustees for their depositors, and this function is their primary concern. The bulk of their assets consists of securities and obligations of one kind and another, and normally their holdings of cash constitute a small proportion of the whole. From time to time there occur periods when depositors' withdrawals are stimulated by necessities real or fancied but, as in the case of life insurance companies, the amount of savings grows from year to year, deposits exceed withdrawals and bank portfolios acquire a continually increasing content of investments.

For the purpose of the defense program these investments are sterile. There would be no advantage to the government in an exchange of these investments for government bonds, for such exchange would provide no new money and new money is the need. So, too, there is no advantage in a savings bank depositor withdrawing money to buy governments, if his withdrawal forces the bank to liquidate or hypothecate any part of its portfolio. The only funds of savings banks which are naturally available for financing defense consist of cash awaiting investment.

Superintendent White stated that New York savings banks at present hold about \$500,000,000 of cash. Much of this can presumably be considered available for use by government, either by direct investment or by loans to depositors for that purpose. The present situation of these banks in the matter of cash is well known, as are its causes. Average interest payment to depositors for the whole country in the case of mutual savings banks has dropped to less than two percent. Many of these banks have rigorously restricted their acceptance of additional deposits to what they regard as true "savings money," owing to the difficulty of finding investments yielding a reasonable rate of return.

If as now seems probable we are to have a comprehensive appeal to private investors for new government money, the savings banks will do well to make clear to their depositors that their deposit balances should not be drawn upon to buy government bonds, and why not. The same applies to whatever publicity program is to be adopted on the government side in connection with the selling campaign.

MEMORANDUM

February 19, 1941.

TO: Secretary Morgenthau

FROM: Mr. Sullivan

SUBJECT: Tax consequences of proposed sale of copper to Metals Reserve Company by Mines Products Corporation.

Mr. C. T. Ulrich, Vice President, and Mr. R. C. Klugescheid, Secretary and General Manager of the Kennecott Copper Corporation, called today at the office of the Deputy Commissioner of the Income Tax Unit, to discuss this matter.

It was stated that the Mines Products Corporation, a domestic corporation, has in the past purchased copper ore from the Braden Copper Company, a 100% owned subsidiary of the Kennecott Copper Company, in Chile, and has sold that ore in foreign countries, never having previously sold in the United States any copper ore purchased from the Braden Copper Company. The contract under which Mines Products Corporation acquires the commodity from the Braden Copper Company permits the Mines Products Corporation to realize only an established profit on the resale of that commodity to other parties. The Mines Products Corporation has a certain amount of copper ore in the United States which has been treated here and which it was anticipated would be sold abroad. The Metals Reserve Company has requested the Mines Products Corporation to sell this commodity to them. The Mines Products Corporation is willing to sell this commodity to the Metals Reserve Company, provided it is definitely established before the sale, for tax purposes, that the Mines Products Corporation will be recognized as the owner and the vendor of the commodity and that the gain realized upon the sale will be considered as have all sales in the past to foreign countries, that is, sales by the Mines Products Corporation and not the Braden Copper Company, with the exception of course that the gain from the sale by the Mines Products Corporation will be recognized as having been realized within the United States.

The representatives of the taxpayer take the position that if the sale of this copper is made to foreign countries, as has been done in the past, there will be no question but that the Bureau of Internal Revenue would recognize the corporate entity of the Mines Products Corporation and consider that sales were made and profit realized by it in accordance with the terms of its contract with the Braden Copper Company. They, therefore, take the position if this sale is now made in the United States to an agency of the United States Government and at the request of the Government, they should be given assurance by the Bureau of Internal Revenue that the sale will be considered as having been made by the Mines Products Corporation and not the Braden Copper Company.

- 2 -

It is understood that the proposed sale involves 20,000 short tons of copper at 10 cents per pound, which it is also understood is approximately 2 cents below the present market price.

A request for a ruling and closing agreement in this respect will probably be filed by the taxpayer in the next few days and prompt action will be taken.

JTS

ADDRESS OFFICIAL COMMUNICATIONS TO
THE SECRETARY OF STATE
WASHINGTON, D. C.



DEPARTMENT OF STATE
WASHINGTON

In reply refer to
EA 012.3/3723

February 19, 1941

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and transmits herewith copies of telegram no. 137 from the American Legation at Bucharest, dated February 12, 1941, transmitting a deposition made by the former Minister of Finance and Governor of the National Bank of Rumania concerning a credit extended by the National Bank of Rumania to the Bank Polski and the relation thereto of certain gold left in Rumania by the Bank Polski. The Department of State has transmitted the text to the Rumanian Chargé d'Affaires.

Enclosure:

From Bucharest, no. 137,
February 12, 1941.

h. 204

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JR

PLAIN

Bucharest

Dated February 12, 1941

Rec'd 2 a.m., 13th.

Secretary of State,
Washington.

137, twelfth.

The National Bank of Rumania has requested that the Legation telegraph at the bank's expense the following translation of an affidavit executed at the Legation on February 10 for transmission to the Rumanian Charge d' Affaires and states that the original document is being forwarded to him by air mail:

"The undersigned Mitita Constantinescu former Minister of Finance and Governor of the National Bank of Rumania deposes hereby under oath as follows:

In the month of October 1939 as Minister of Finance I had knowledge on the one hand of the fact that the National Bank of Rumania had become a direct creditor of the Bank Polski for the amount of 240163877 lei, resulting from the repurchase of 12113585 Polish zloti bank notes issued by the Bank Polski and on the other hand I had knowledge that the manner of payment of this credit of the National Bank of Rumania offered by the Polish Government through a letter of the Polish Ambassador in Bucharest

-2- #137, February 12, from Bucharest.

Bucharest number 21/R 2 of September 11, 1939, had become inoperative through the occupation by another state of the whole Polish territory.

Both as Minister of Finance and as Governor of the National Bank of Rumania I was aware of the fact that from its stock of gold the Bank Polski had left in Rumania a quantity of 2737.100 kg. fine gold in deposit at the National Bank of Rumania.

I declare formally that both the Government and the National Bank of Rumania have understood from the beginning that by making the above-mentioned deposit the National Bank of Rumania would have a safer guarantee for the redemption of its credits granted to the Bank Polski.

The functioning of the guarantee for this deposit was not established by formal deeds inasmuch as it was thought by the Government and the National Bank of Rumania that the prohibitions established by the law for the circulation of precious metals prevented the National Bank of Rumania from any possibility of transfer or transportation of the gold deposited without authorization given as a mandatory of the state on which occasion it may validate any legal right.

In

-3- #137, February 12, from Bucharest.

In view of which I am signing under oath the present deposition made this tenth day of February 1941 at the Legation of the United States of America in Bucharest before the American Consul. Signed M. Constantinescu".

GUNTHER

HSM

FEDERAL RESERVE BANK
OF NEW YORK

360

OFFICE CORRESPONDENCE

CONFIDENTIAL

DATE February 19, 1941.

TO Mr. Knoks
FROM W. H. Rosell

SUBJECT: Gold and Dollar Resources of
Bulgaria, Yugoslavia, and
Turkey

(Copies to Messrs. Sproul, Rounds, Williams, Roelse (Sanford), McKeon (Cameron).)

Available data on the gold and dollar resources of Bulgaria, Yugoslavia, and Turkey indicate that, should the recent turn of events in the Balkans lead eventually to the "freezing" of the American accounts of any of these countries, only Yugoslavia would be seriously affected. On December 31, the reported gold reserves of that country amounted to \$81.7 million, of which \$61.6 million, or 75 per cent, was held under earmark at this bank. In addition, the National Bank of Yugoslavia held \$5 million on deposit at this bank on the same date and \$6 million in balances due to Yugoslavia were maintained in the market. Yugoslav long term investments in this country are only of negligible proportions, the Department of Commerce estimating these holding at only \$1.2 million, as of the end of 1939, \$0.9 million of which were in stocks. Yugoslavia's total gold and dollar resources, therefore, may be estimated at about \$94 million, all but \$20 million of which would appear to be subject to an American "freezing" order. America's financial stake in Yugoslavia, on the other hand, amounts to only about \$40 million, most of which represents holdings of government or government-guaranteed dollar bonds.

Turkey also holds nearly \$90 million in gold, but, unlike Yugoslavia, only \$4.7 million is under earmark at this bank. Therefore, although total holdings of gold and of dollar assets, which are composed largely of \$16 million in bank balances, aggregate over \$100 million, any extension of our

-2-

"freezing" control to Turkey would add only about \$20 million to the foreign funds already under Treasury control. This amount is approximately the same as our investments in Turkey, which include "direct" investments of about \$14 million and about \$10 million of Turkish Government bonds payable in dollars.

Bulgaria holds only an estimated \$25 million of gold and dollar assets, virtually all of which is composed of the gold reserves. Since none of this gold, which is last reported at \$24.4 million on December 7, is held in the United States, Bulgarian resources in this country are probably extremely small. Our investments in that country are probably under \$10 million.

The estimated gold and dollar holdings of these three countries and American investments there are summarized in the tables below.

ESTIMATED HOLDINGS OF GOLD AND AMERICAN ASSETS

(In millions of dollars)

	<u>Bulgaria</u>	<u>Yugoslavia</u>	<u>Turkey</u>
<u>Gold</u>			
Earmarked at F. R. Bank	-	61.6 (a)	4.7 (b)
Elsewhere	24.4	20.1	82.2
Total	24.4 (Dec. 7)	81.7 (Dec. 31)	86.9 (Dec. 7)
<u>Dollar Balances in Second District</u>			
Official at F. R. Bank	0.3	5.0 (d)	6.3 (d)
Other	(c)	6.0	9.7
Total (Dec. 31)	0.3	11.0	16.0
Long Term Investments (End of 1939)	(e)	1.2	0.7
Total Gold and Dollar Assets	24.7	93.9	103.6
Estimated Holdings in U. S. (Excluding gold elsewhere)	0.3	73.8	21.4

- (a) \$64.4 million at present.
 (b) The same at present.
 (c) Unavailable, but probably not large.
 (d) Somewhat higher at present.
 (e) Less than \$100,000.

ESTIMATED UNITED STATES INVESTMENTS ABROAD

As of End of 1939
 (In millions of dollars)

	<u>Bulgaria</u>	<u>Yugoslavia</u>	<u>Turkey</u>
Estimated Holdings of Dollar Bonds	4.8	32.5	10.7
Direct Investments	2.0	3.9	14.0
Total (a)	6.8	36.4	24.7

- (a) Exclusive of short term assets, figures on which are not available, but probably small.

SHR:EC

No. 143

Nanking, China,
February 19, 1941.

Subject: Regulations promulgated by the
"Central Reserve Bank" intended
to control exchange.

The Honorable

The Secretary of State,

Washington, D. C.

Sir:

I have the honor to refer to this office's despatch No. 132 of January 25, and its telegram No. 33 of February 1, 5 p.m. and previous reports with regard to developments concerning the "Central Reserve Bank" of the Nanking regime.

1/ In this connection there is now enclosed a translation of "Regulations for the Exchange of 'New' and Old Fapi". The second point of the regulations providing that no discount is to be made on "new Fapi" notes when exchanged for the old would seem to substantiate the allegation, already reported, that discounts are being currently made where possible to do so secretly. Otherwise there would be no occasion for mentioning this prohibition.

The fourth point relieving branches of the Bank from accepting notes of large denominations, under certain conditions, would seem to indicate that counterfeits are in circulation. One type of semi-

- 2 -

counterfeit or facsimile note already in limited circulation has been reported in this office's despatch No. 142 of February 17, 1941.

Respectfully yours,

For the Consul General
at Shanghai:

J. Hall Paxton
American Consul

Enclosure:

1 - Translation of "Regulations for the Exchange of 'New' and Old Fapi".

Original and four copies to the Department
One copy to the Embassy, Peiping
One copy to the Embassy, Chungking
One copy to the Embassy, Tokyo
One copy to the Consulate General, Shanghai

851.6
JHP:N

Copy:jpt

Enclosure to Despatch No. 143
of J. Hall Parton, American
Consul at Hanking, China,
February 19, 1941.

SOURCE: Hanking Sing Pao
Hanking, China.
February 19, 1941.

Translation of the Regulations for the
Exchange of New and Old Fapi.

1. Old fapi to be received by the bank shall be limited to the notes of the Central Bank of China, the Bank of China and the Bank of Communications, irrespective of varieties.
2. Central Reserve Bank notes presented for exchange for old fapi shall be accepted in full.
3. When subsidiary notes are presented for exchange only one-dollar bills of the bank shall be given in return.
4. The \$100 and \$50 notes of the Central Bank of China, the Bank of China, and the Bank of Communications as well as the new notes printed in the year 1940, in the event they are not in extensive circulation in the locality, shall not be accepted.

Translated: WST

Checked: JHP

Typed: N

Copy: jpt

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BRITISH EMBASSY,

WASHINGTON, D. C.

19th February 1941.

Dear Merle,

Our Ambassador at Chung King telegraphed to London on the 5th February that Chiang Kai Shek had remarked that, in order to make proper use of credits which the British and United States Governments were granting for currency purposes, the Chinese Government suggested discontinuing the support of the market in Shanghai. Chiang Kai Shek asked for a fresh expression of the British Government's views in the light of the present situation in Shanghai.

A reply was telegraphed from London to Chung King on the 11th February, in the following terms:-

"We should consider it a fatal mistake to reverse the policy of supporting FA-PI unless and until some other constructive policy can be adopted in its place. We doubt if such constructive policy can comprise exchange control in China, which would not be effectively administered under existing conditions in China."

Yours sincerely,

(Signed) Jerry Pinsent

Mr. H. Merle Cochran,
U. S. Treasury,
Washington, D. C.

dm



DEPARTMENT OF STATE
WASHINGTON

In reply refer to
EA 859.5151/133

February 19, 1941

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses a copy of a paraphrase of telegram no. 38 dated February 3, 1941 from the American Legation, Copenhagen, regarding a proposal to increase the value of the Danish crown by a maximum of 24 percent.

Enclosure:

No. 38, February 3,
from Copenhagen.

28

PARAPHRASE OF TELEGRAM

To: Secretary of State
From: American Legation, Copenhagen
Date: February 3, 2 p.m.
No: 38

I have the honor to report that the local press is now discussing openly a proposal to increase the value of the Danish crown by a maximum of 24 percent. It is understood that the Minister of Commerce is in favor of such action in order to retard the increasing cost of living here. The financial paper Boersen, in approving the plan, predicts that it will be adopted in as much as the Minister mentioned is officially responsible for its initiation. Strangely enough, the German authorities are said to favor the plan. However, the Danish farmers oppose it strongly as does the newspaper of the Danish Nazis which predicts that it will not be put into effect. There has been no announcement of the Government's final decision with respect to the plan.

It has been announced by the Prime Minister that as soon as weather conditions will permit, public work relief measures amounting to half a million kroner will be inaugurated. Unemployed in Denmark as of December 31
amounted

-2-

amounted to 193,000 as compared with 130,000 on November 30 according to statistics published here January 30.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 19, 1941

TO Secretary Morgenthau
 FROM Mr. Cochran

for Miss Channoy

The Federal Reserve Bank of New York reported the following transactions in Hungarian accounts maintained with the Guaranty Trust Company of New York and the National City Bank of New York.

Guaranty Trust Company of New York

<u>Date</u>	<u>Account Debited</u>	<u>Amount Debited</u>	<u>Paid To</u>
February 19	Central Corporation of Banking Companies, Budapest	\$370,871	Chase National Bank of the City of N.Y. for account of Banco de la Nacion, Argentina, Buenos Aires, in favor of Hermes General Hungarian Exchange Office, Budapest

National City Bank of New York

<u>Date</u>	<u>Account Debited</u>	<u>Amount Debited</u>	<u>Paid To</u>
February 19	National Bank of Hun- gary, Budapest	\$100,000	Federal Reserve Bank of N.Y. in favor of Sveriges Riksbank, Stockholm

B.M.P.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 19, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£49,000
Purchased from commercial concerns	£ 3,000

Open market sterling was steady at 4.03 for the entire day. Transactions of the reporting banks were as follows:

Sold to commercial concerns	£ 3,000
Purchased from commercial concerns	-0-

In Shanghai the U.S. dollar strengthened against both the Chinese yuan and sterling. The quotation for the yuan was 5-21/32¢, off 3/32¢ and for sterling it was 3.92-1/4¢, off 3/4¢. In Hongkong sterling moved up to 3.94, up 1¢.

Closing quotations for the other currencies were as follows:

Canadian dollar	15-1/4% discount
Swiss franc (commercial)	.2323-1/2
Swedish krona	.2385-1/2
Reichsmark	.4005
Lira	.0505
Argentine peso (free)	.2367
Brazilian milreis (free)	.0505
Mexican peso	.2066
Cuban peso	6-15/16% discount

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

The Federal Reserve Bank of New York reported that the Bank of Canada, Ottawa, shipped to it gold valued at \$20,064,000 for account of His Britannic Majesty's Government for sale to the New York Assay Office.

In London the prices for both spot and forward silver were up 1/16d at 23-3/4d. The U. S. equivalent of these prices is 42.44¢.

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

We made two purchases of silver amounting to 100,000 ounces under the Silver Purchase Act. This silver consisted of new production from foreign countries, for forward delivery.

-2-

The Bureau of Foreign and Domestic Commerce reported on February 17 a shipment of 800,000 ounces of silver to London. On February 18 it also reported a shipment of 300,424 ounces of silver to the Chartered Bank of India, Australia and China, Bombay.

J.M.R.

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RESTRICTED

G-2/2657-220
No. 320

M.I.D., W.D.
February 19, 1941
12:00 M.

SITUATION REPORTI. Western Theater of War.

Air: German. Light scattered attacks on Great Britain and on shipping.

British. Apparently no offensive operations.

II. Greek Theater of War.

Ground: Heavy fighting in the southwest sector and considerable losses on both sides.

Air: No reports of operations.

III. Mediterranean and African Theaters of War.

Ground: Abyssinia (Ethiopia). The British report that the Italians have evacuated Dangela and other posts in the Gojjam (south of Lake Tana) due to native activities.

No change in the situation on other fronts.

Air: Axis. Offensive operations continue in Libya.

French. Marshal Petain today consolidated the French Air Force in North Africa into a single unified command under General Odic with headquarters at Algiers.

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

RESTRICTED

**Paragraphs of Code Radiograms
Received at the War Department
February 19, 1941.**

London, filed February 19, 1941.

1. On Tuesday, February 18, one Lockheed-Heinemann bomber of the British Coastal Command attacked harbor facilities at a port on the coast of France. On this same day and during the preceding night there were no other British planes over the Continent.

2. During the night of February 18-19 there were no German planes over England. During the preceding day German planes were over the Irish Sea and the Firth of Forth on reconnaissance missions and German bombers attacked Hereford and Gloucester. Portsmouth was the target of two other German bombing attacks and coastal airfields between Torquay and Clacton-on-Sea were also raided. The Calais-Boulogne region was heavily patrolled by German fighter aircraft.

3. British activities in the Middle East were as follows: Meele in central Eritrea was attacked by Aden-based British bombers; a railroad near Harar, Eritrea, was attacked by British bombers from the Sudan; military targets in the vicinity of Tepeloni, Albania, were bombed by British planes based in Greece; an airfield on the island of Scarpanto, near Rhodes, was attacked by British bombers; and Italian land forces near Jald (Gald) and a supply base Bardara, both in Italian Somaliland, were raided by Kenya-based British planes. No British planes were lost in these operations.

4. British fighter planes successfully drove off 16 German planes attempting an attack on Malta. Axis planes, however, attacked

British land forces in the vicinity of Agadabia, Libya, with machinegun fire and Axis bombers carried out two attacks on the Libyan city of Benghazi.

5. A total of more than 70 individuals were killed and 65 were injured seriously when a German bomber made a direct hit on a civilian air raid shelter during the night of February 17-18. Repairs to the Shatran naval docks which were damaged during a raid on the same night have now been completed. During the preceding day a great deal of damage was inflicted on the naval stations at Sidi Barrani and Ikingi el-Hayf by German raiders.

6. During the month of January, 1941, a total of 1,508 British civilians were killed as a result of German air activities and 5,514 others were injured seriously. Seven hundred fifty two, or more than half of the total, of those killed were children less than 16 years old and women, and 540 of the seriously injured were civilians of these two classes.

7. On February 17 a tanker of British registry sank in the Bristol Channel after striking a mine. On the same day two east-bound British merchant vessels were hit by torpedoes but it is believed that they may be salvaged.

8. It is still thought that the German raider which attacked a British convoy 200 miles east of the Azores on February 12 was a camouflaged cruiser of the *ARNHEM* class. Official statements now report that eight vessels from this convoy have arrived safely in England, that seven vessels with a total tonnage of 35,000 tons were sunk, and that the whereabouts of four others are not known.

SCHELEN

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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
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