

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 3, 1941

TO Mrs. Klotz

FROM Mr. Morgenthau

I want to write a formal letter to the President in answer to his where he puts me on his four-man board. In my letter to the President I want to, in a sense, resign as his representative with these various foreign missions. I want to resign as of March 1st, reminding him that I gave him this memorandum of Phillip Young's on the Russian situation, and it was agreeable to him that this be taken up by the 4-man board. I want to trace what I have done from the beginning when Jean Monnet first came over here, and I want to point out that from now on I am willing to share the responsibility with the other three members because I feel that I cannot any longer take the sole responsibility on handling these various foreign purchasing missions.

(see meeting held on 3/3/41 at 9:00 A.M. and letter dated 3/5/41 -

March 3, 1941

9:00 a.m.

PRESENT: Mr. Kuhn
Mr. Young
Mrs. Klotz

HM JR: What I want to do is I want to use this letter from the President on the four-man board to notify him in a letter that the cash-on-the-barrelhead era for foreign purchasing has ended, or that era is coming to an end when he signs the Bill, and I want to be relieved of that responsibility in order to take on my new responsibility of the four-man board. Now this is something like what I have in mind. I'll give you my general ideas and then you can work it out.

I don't want to slide out and I don't want to be pushed out. I want to resign; I want to be able to tell these people I am no longer responsible. I had a terrific job; I want to terminate it myself. Do you see? I'll give you an idea of how I think it should be done. This isn't a plan. I am simply sketching it and you'll do the work. You can start out this way:

I will be delighted to be a member of the Advisory Committee to assist the President in administering the Lend-Lease bill. On the signing of this bill, the cash-on-the-barrelhead era for foreign orders will come to an end. Beginning with November or December, 1938 (?), the President sent Jean Monnet to see me to assist him to purchase planes for France in this country. From that date on, I have served in a personal capacity as coordinator and nurse for the French, Chinese, English, Dutch - in all, 15 or 20 various foreign countries who wished to place their orders here. The fact that the President asked me to do this I considered both a privilege, an honor and a labor of love, and all the difficulties, including an investigation of the Senate, I have felt have been distinctly worth while. All the heartaches that I have had have been compensated for by the fact that I have been able to be of some assistance to these Democratic countries who have been fighting for the Democratic principles, and by encouraging them in their purchases, we were able to put our airplane manufacturers on a production basis and gain valuable time.

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During this era, I was first ably assisted by Admiral Peoples and then by his successor, Captain Collins, but when this work became too big for the Director of Procurement, I brought in Mr. Philip Young, and created a small section under him to handle this work. This work has grown so it is not only the contact of the various 20 or 30 purchasing missions, but also assisting them in blank things.

I have already begun to turn over a part of my work to Harry Hopkins and, in accordance with the President's letter of February 25th, I have offered him the assistance of any one that he needs in the Treasury to get ready to administer the Lend-Lease Bill.

You see what I want to tell him is that I am willing to take my share of the responsibility as a member of this Advisory Committee but I would like to be completely relieved of my old responsibilities as I feel that the two are not compatible.

Then you can go on and say that on March 1st I brought to his attention in the presence of the other members of this Advisory Committee the problem of the Russian Purchasing Mission, and he stated that he felt this came within the purview of this committee. With this in mind, I would like to turn over all of the work that we have been doing to the committee to be administered by Mr. Hopkins, and whatever he decides to do - well, I want him to know that I am in the process of turning these various things over to somebody.

I would just like you men to work on that and have something for me after my press conference. I mean I would like to take my responsibility which I will have on this committee, but I want to completely divest myself of the things I have been doing through this cash era.

Now Phillip said, "Well, what about the people who pay cash?" Well, I don't know but I don't want to nurse them. Hopkins thinks one thing can be done with one hand and the other with the left hand, but I don't know. You two fellows thrash it out and then come back. Phillip will ruin himself physically.

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Young: Well, the point I wanted to make was that the same organization should do both; they should not be separated physically.

Kuhn: The thing I noticed about the letter was that you didn't mention anything about the people who still had the cash to pay for the goods.

HM Jr: Well, as far as that goes, I would like to be relieved of that, too. I only want the same responsibility under this four-man board that any other member has, and I want to get rid of this old sole responsibility.

Young: Should be a fresh start.

Mrs. Klotz: I think it serves many purposes. It is really very smart.

HM Jr: I just want to get that to him. I mean all the heartaches and everything didn't matter to me; the job was worth while. I kept off his doorstep this whole Senatorial investigation about the Frenchman in the plane smashup, but I don't want anything to leave a bad tone, you see?

Now this Executive Order which was written on December 6, 1939:

"I have created an informal committee to represent the Amn. Government in its contacts with the interested foreign governments in all matters relating to the purchase of war materials in the United States, consisting of the following:

"(a) The Director of Procurement, Treasury Department; (b) The Quartermaster General of the Army; (c) the Paymaster General of the Navy.

"This committee will serve as the exclusive liaison with reference to procurement matters between this government and the interested foreign governments. It will hold sessions at least once weekly, and at such more frequent intervals as may be necessary. At these sessions, it will receive an accredited representative of the embassy of any interested foreign government for the purpose of giving

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consideration to the requirements of such government for supplies, equipment, and materials, in relation to: (a) availability of the desired articles; (b) priorities, and (c) prices. The committee will submit a complete report of its proceedings, acts and recommendations, at least weekly to the President through Mr. McReynolds.

"The Secretary of State has informed the British and French Ambassadors of this arrangement.

"Will you please inform the Paymaster General of his designation as a member of this committee."

Young: That's that original order?

HM Jr: It's a letter. You see this is a funny thing. I have nothing to show that I should be doing this. I have no official status whatsoever. This letter just created this informal committee.

Now this one of June 9, 1940, just changes the Quartermaster General - that's all. It just puts in General Burns.

Kuhn: There has been no written request to you to take this thing over from the President?

HM Jr: Nothing.

Kuhn: He just spoke to you about it?

HM Jr: The President's letter put it through McReynolds.

I lay great stress on this letter. It is terribly important. I want to review what I have done.

There's nothing in here (letter from the President dated 12/6/39) telling me to do this. I have nothing. What I tried to do was to get him to make it through me rather than McReynolds, but he didn't do it.

Kuhn: Your letter doesn't seem to show that there will still be some countries paying cash for their goods, like Canada and the Dutch and others, and then

there will be others coming under the Lend-Lease Bill.

HM Jr: I would like to have something after press on this. I want to be sure to have that.

(Thereafter followed an informal discussion.)

December 6, 1959.

My dear Mr. Secretary:

I have created an informal committee to represent the American Government in its contacts with the interested foreign governments in all matters relating to the purchase of war materials in the United States, consisting of the following:

(a) The Director of Procurement, Treasury Department; (b) The Quartermaster General of the Army; (c) The Paymaster General of the Navy.

This committee will serve as the exclusive liaison with reference to procurement matters between this Government and the interested foreign governments. It will hold sessions at least once weekly, and at such more frequent intervals as may be necessary. At these sessions, it will receive an accredited representative of the embassy of any interested foreign government for the purpose of giving consideration to the requirements of such government for supplies, equipment, and materials, in relation to: (a) availability of the desired articles, (b) priorities, and (c) prices. The committee will submit a complete report of its proceedings, acts and recommendations, at least weekly, to the President through Mr. McReynolds.

The Secretary of State has informed the British and French Ambassadors of this arrangement.

Will you please inform the Paymaster General of his designation as a member of this committee.

Sincerely,

Signed by President

Hon. Charles Edison,

Acting Secretary of Navy.

copy

March 3, 1941
9:30 a.m.

GROUP MEETING

Present: Mr. Wiley
Mr. Thompson
Mr. Gaston
Mr. Sullivan
Mr. Haas
Mr. Stewart
Mr. Graves
Mr. Pehle
Mr. Young
Mr. Kuhn
Mr. Schwarz
Mr. White
Mr. Foley
Mr. Cochran
Mrs. Klotz

H.M.Jr: Go ahead, Norman.

Thompson: Mr. Helvering has recommended the reappointment of William H. Burke as collector in Kansas. He resigned to run for Governor of Kansas and has now come back as collector.

H.M.Jr: What is this I hear about you getting a harmonica?

Thompson: A friend of mine in New York sent me one.

H.M.Jr: I know. Don't we draw lots for it?

Gaston: Is there just one?

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H.M.Jr: Don't we draw lots? Phil says he wants it.

Thompson: O.K. I can't play it, so I will let him use it.

Gaston: We had two that were cleared by the proper channels. One was Burke and the other was John Bright Hill.

H.M.Jr: There is only one there.

Thompson: Yes, Hill is coming along some time in June.

Graves: I am intending to get in touch with Mr. Lubin today. I wonder if you would like to talk to him yourself?

H.M.Jr: I can't.

(Mr. Foley entered the conference.)

H.M.Jr: There is a chair up here, Ed. How is the gasoline supply?

Foley: O.K. I was here.

H.M.Jr: Merle Cochran tells me shortly after nine this morning he got a call from Ray Atherton in which he says Hull wants us to go ahead and freeze Belgium.

Pehle: Bulgaria.

H.M.Jr: But I would like to do this other thing all at one time.

Foley: I would too, and we have got a redraft of the order and Bernie worked yesterday on it. We are ready now, and we can call Shea and Acheson and get together with them as soon as they are available and get it cleared.

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there, and I think we can get almost as fast action that way on the larger order which would include Bulgaria as we could by treating Bulgaria separately, and I would rather do it that way if it is agreeable with you.

- H.M.Jr: It is not only agreeable, that is what I would like. How can we get Atherton and Acheson together?
- Cochran: I asked Atherton if he knew what the result was of the meeting on Saturday, and he said he hadn't seen Acheson.
- H.M.Jr: Do you think it would be good if I called Dean?
- Foley: Yes.
- H.M.Jr: John Wiley, the point that I am taking, you see - and see if you think I am wrong or right - we get word they want us to freeze Bulgaria. We have an order now - this is triple confidential in the room - for freezing all of Europe with the exception of Jugoslavia, Greece, and Turkey, and Russia.
- Foley: And Spain and Portugal.
- H.M.Jr: Yes. Now, I would like to do it all at once, you see.
- Wiley: I heard about it last evening from a colleague in the State Department.
- H.M.Jr: If we are going to do it today, don't you think we ought to do it all at once and not in two bites?
- Wiley: Yes. Of course, I think the alternate may be unfortunate.

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H.M.Jr: Talk louder.

Wiley: Finland is going to be frozen and the Soviet Union will not be frozen and there may be a lot of questions asked about that.

H.M.Jr: Well, that is unfortunately a minor thing. Just let's leave it aside for a minute. Whether the country is right or wrong, but if the one is going to go through within 24 hours - if it is going to go through in 24 hours, wouldn't it be better to do it in one bite instead of two, that is all I want to know.

(Mrs. Klotz entered the conference.)

Wiley: I don't think it would make a great deal of difference.

H.M.Jr: I think it shows - I should think the idea would be that it shows displeasure on the part of the United States toward Germany and Italy, and therefore we are freezing the whole bunch at one time.

Wiley: Well, of course, to freeze Bulgaria shows displeasure. If it is a question of 24 hours, I don't see that it makes a great deal of difference. We have waited so long.

H.M.Jr: Well, displeasure with Germany and Italy. You don't think it makes any difference?

Wiley: I don't think so.

H.M.Jr: Harry, I want to compliment you and your group who prepared this British asset thing and a few minutes before we get through here, if you will ask the people who are mentioned in here, I would like to meet them and thank

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them, because I think it is an outstanding accomplishment. You mentioned the various people. When you see the meeting is about through here, if you will send for those people.

White: They would be very pleased.

H.M.Jr: If you want the list of names that is here, they are Kamark and --

(Unrecorded telephone conversation with Dean Acheson.)

White: When did they tell you that Switzerland would be all right with them?

H.M.Jr: Just now.

Foley: Saturday.

White: Oh, did they?

Foley: Well, we forced it down their throat. John told them the Secretary wouldn't go along unless they included Switzerland.

H.M.Jr: I told that to you?

Foley: That is right.

H.M.Jr: Well, some day maybe some of these people in the administration will recognize that we are not doing business with a lot of toy soldiers, and that this is a world war and that some day we are going to have to pull every stop in New York on the machine, economic and otherwise, to defend ourselves.

Harold? I am going to see you at about a quarter of four. You know, there was a memo

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that came to your desk the other night.

Graves:

Yes.

H.M.Jr:

You and Kuhn and Schwarz, I want you to come in and give me some - ten minutes of four - some stuff to use at my press conference. I would like to tell them some things that we are doing on the Defense Savings Bonds. Right?

Graves:

That is right.

H.M.Jr:

I mean give me some stuff. I want to have something from now on at every press conference.

Graves:

Yes, sir.

H.M.Jr:

These investment bankers were here and this whole group of savings banks were in here.

Schwarz:

Are you going to give them that this afternoon?

H.M.Jr:

Yes, I want to feed them something all the time.

Schwarz:

Swell.

H.M.Jr:

Harry?

White:

I have nothing.

H.M.Jr:

Mr. Stewart is here today to assist me on this question of the cash position of the English, and just as soon as this meeting adjourns, I would like you (White) and Cochran to get together with him and give him everything that you can between now and eleven, and then if the three of you

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will come in at eleven, we will go into a huddle, plus my letter which I want to send.

Cochran: I have cleared that with Mr. Stewart, and I am waiting to hear from the State Department and then I will show it to Mr. White.

H.M. Jr: Yes.

Schwarz: Here are a few stories which I have just given to Stephens. One is from the West Coast quoting John Hanes on these taxes and Ros Magill --

H.M. Jr: I saw it. I would like to get the full story on Magill. There were two things. They bunched them together.

Schwarz: One is apparently not out yet. It is the March issue of Investors Magazine.

H.M. Jr: Are you going to get that?

Schwarz: I will get that, yes, sir.

H.M. Jr: Right. And then - there is nobody here representing Bell. Get me what O'Neill said on the Farm Bureau, will you? (Thompson) I told Bell to stay home for two days.

Schwarz: That is all.

H.M. Jr: Find out from Bell's office and just give it to Stephens, what is the correct amount as of today of the percentage of turn-ins on the notes and the bonds.

White: Mr. Bell is not going to be here. Do you want to wait until he comes back to pursue the Chinese negotiations? We were waiting on Mr. Bell.

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- H.M.Jr: Harry, I am so far removed from China, and I have got just ten times more than I can do in the next two days.
- White: Well, then, it is all right with you if we just wait?
- H.M.Jr: Well my God, it has been going for two months. I don't know anything about it. It doesn't interest me. Bell is handling it. I don't know a thing about it. I just couldn't - the thing today that I am interested in is English direct investments, English cash position, plus the Lend-Lease Bill. I mean, I am just desperate on time, so anything else, I have just got ten times more than I can take care of today and for the next two days.
- White: All right.
- H.M.Jr: I don't know anything about China. I haven't heard, or anything about the Argentine.
- White: Well, we have been making progress and have had several conferences, and we were waiting for Mr. Bell to get an opportunity to have the next one.
- H.M.Jr: Well, he will be back Wednesday morning.
- White: Yes.
- H.M.Jr: The Director of the Budget never gets in. I don't know what time that man ever gets to his office, do you?
- Foley: No, I don't know.
- H.M.Jr: About 11 in the morning.
Chick?

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Schwarz: I am through.

H.M.Jr: George?

Haas: Here are those reports (handing reports to the Secretary). It is the highest week on those engines, I think.

H.M.Jr: I told Knudsen and his man, Meigs, any time they wanted to stop doing this - and they said they can give me the service on airplanes and engines. I am willing to quit. Have you heard from Meigs?

Haas: I haven't heard from anybody, Mr. Secretary.

H.M.Jr: Well, I told them.

Haas: There is a man named Jameson from Forrestal's office called this morning and wanted to know if he could get some information prior to the make-up of the report. I don't know who he is, do you?

H.M.Jr: I wouldn't fuss with these people any more because we are going to slip out of this thing just as soon as Knudsen takes over.

Haas: That is all.

Young: No problems.

Kuhn: Nothing.

Pehle: Nothing.

H.M.Jr: Well, now, when can you go to town on the big freezing order?

Pehle: Well, there are some decisions that have to be

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made; and, as Mr. Foley knows, there are regulations which have to go out and general licenses that have to go out simultaneously with the order in order to make the thing work.

H.M.Jr: Who has to make the decisions? Am I holding up anything?

Pehle: Well, I think this afternoon we will be ready for some things that you ought to focus on.

H.M.Jr: Well, it is up to Foley and you to get in to see me.

Pehle: All right.

One of the problems, for example, is how strong measures we are going to take in the case of the Italian banks in New York where you almost have to let them continue as operating institutions unless you just want to shut them flat down, where they have local depositors in New York, whether we don't want to put somebody in there, a bank examiner or somebody, to regulate them.

H.M.Jr: Well, whenever you are ready. Is it agreeable to you to serve as Secretary, then?

Pehle: Yes, sir.

H.M.Jr: At the usual salary?

Pehle: Yes, sir.

H.M.Jr: Walter?

Stewart: Nothing.

H.M.Jr: You will go into a huddle with these fellows right after the meeting, won't you?

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Stewart:

Yes.

H.M.Jr:

Just so that you know, and I want this kept in the room, I wouldn't touch anything other than the freezing thing, the thing that I offered - this export control and all that - I don't know just where you are, but I just want you to know it, you see. The day is passed that I would have anything to do with it, you see. We will do the freezing and nothing else. If Mr. Hull, which he won't, would go on bended knee and ask me to take it on and run it, I wouldn't do it today for anybody. So I just wanted you to know that I am completely washed up on any of it. The day is passed when I am touching it. If that in any way affects you (Wiley) or Herbert--

Gaston:

Well, it doesn't affect me.

Dean Acheson was in on Saturday, and I talked to him about export control, suggesting that he look into those things. He shows quite a cooperative attitude and not suggesting that we wanted anything to do with it but indicating that it was their problem.

H.M.Jr:

Well, just so it is perfectly plain to this group, I don't want anything to do with it, and I am preparing a letter to the President which I will show to some of you in which I am pointing out that the end of the cash on the barrel head era will pass when he signs the Lend-Lease Bill, and I want to divest myself of all of the things, which I have done, under that era.

Gaston:

The only thing we will have is the policing end of the ports which we have had heretofore. I think that is wholly right.

H.M.Jr:

I will show you the letter. I am telling you I have done this from November '38 to date, and

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when the Lend-Lease Bill passes, I want to stop.

(Unrecorded telephone conversation with Mr. Harold Smith.)

H.M.Jr: You (Thompson) had better give somebody to Foley from Bell's office to go over there with him so he doesn't have to repeat it all to Bell. What is that man's name?

Thompson: Heffelfinger.

H.M.Jr: Yes. And then Bell would know. Because the situation is terrible.

Now where were we? How far did we get?

Sullivan: To me.

H.M.Jr: You? Good. Thank you very much.

Cochran: Nothing.

H.M.Jr: Thank you.

Would you see - I gave the two copies I had of your Coast Guard letter, one to the President and one to Hopkins. Would you please make sure that Mrs. Klotz has one, because I only have two.

Gaston: Yes, I will get one. We have no word yet from the - we have priority orders in the Navy yards. We have no word yet as to just what the changes will have to be on the cutters.

H.M.Jr: Is everything all right?

Gaston: Yes. I don't suppose you want to read a seven page memorandum on political and economic conditions in Japan that came from our Assistant Treasury Attache. It is rather interesting.

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- H.M.Jr: To show how far back I am in my reading, I haven't even read the last three issues of the Saturday Evening Post.
- White: You are improving. (Laughter)
- H.M.Jr: I have read the New Republic, though. Do you know who is supposed to have done that job for the New Republic on national defense? Michael Straight is supposed to have done the whole job. You know who he is?
- Kuhn: In the New Republic?
- H.M.Jr: That is right.
- Foley: Huntington says that what you want to do can be done in so far as the direct investments are concerned.
- H.M.Jr: Could Huntington sit in with us at 11 as your representative?
- Foley: Sure.
- H.M.Jr: And he can keep you posted.
- Foley: Yes.
- H.M.Jr: That is fine. That is encouraging. And then on that Underwood-Hartford thing--
- Foley: You haven't any financial interest in it?
- H.M.Jr: Yes, I have.
- Foley: Oh, I didn't know that.
- H.M.Jr: Wouldn't O'Connell be as good a man as anybody? I would like him, if he isn't too busy - he isn't very busy?

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Foley: Well, I mean today and tomorrow he is busy with their hearings on the TNEC, but they will be all over on Wednesday.

H.M.Jr: Who can you let me have this morning?

Foley: I think he could do it this morning.

H.M.Jr: I want him to call up Congressman Koppleman and find out is the strike still on, say he is handling it for me, and I want to get the labor union signed, NLRB signed, and let him call up the Underwood, Mr. Waggoner, the President, and tell them to find out their thing so he can get it all bound up today and have it tomorrow morning, and assimilate it and let me know. I mean NLRB, Labor Department, the labor union, and the Underwood Typewriter, Let them each know that it is me. Wouldn't O'Connell be as good as any?

Foley: Sure.

H.M.Jr: Is there somebody who can do it better?

Foley: No, he can do it.

H.M.Jr: It means getting on the phone for an hour.

Foley: If O'Connell is tied up, Bernard can do it.

H.M.Jr: No.

Foley: All right, O'Connell.

H.M.Jr: I would like that.

Foley: I will tell him.

H.M.Jr: O.K. Thank you all.

March 3, 1941

CONVERSATIONS NOT RECORDED * MACHINE NOT WORKING.

9:36 a.m. -- Dean Acheson
9:50 a.m. -- Harold Smith - Budget
10:30 a.m. -- Cordell Hull

March 3, 1941
10:30 p.m.

RE AID TO BRITAIN

Present: Mr. Cairns
Mr. Stewart
Mr. White
Mr. Cochran

H.M.Jr: Mr. Eccles was telling me all his troubles over who should be president of the bank of Chicago, and I find myself in complete sympathy with Eccles versus Jesse Jones. It is an amusing situation. What they did is, they never told him a word. They called a meeting and Walter Cummings goes in with a block of five votes and tries to put Emil Schram through, and then, the story I get from him and other sources, is that the reason that Jones is doing this is because he wants to get rid of Emil Schram, so the Board has --

Stewart: Well, we passed from the phase of getting private bankers into the Reserve system to getting them out of the government into the Reserve system.

H.M.Jr: He says he can't let his system be dominated by Jesse Jones and Walter Cummings. I am in complete agreement with him. The Board said any one of five they suggested would be agreeable to them. There were five names and they never mentioned Schram. But there were five people and all of them very good people.

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Professor Leland of Chicago is working on it with them. He is a Board member. Do you know him?

Stewart: I don't know him.

H.M.Jr: You know who he is. But it is a funny situation. I don't know why I - the fights I don't create myself I am always invited into. This is a nice fight.

Stewart: If Marriner has reached the stage where he comes and weeps on your shoulder, that is an achievement.

H.M.Jr: What I thought he was coming for, we decided we would make a test of it and we sent out twelve telegrams and letters Friday night to the twelve presidents of the Federal Reserve Banks asking them to check these Defense Savings Bonds, their interest rates, and we didn't go through the Board. I thought he was coming over to talk about that. Normally, that would have been a cause for a fight, but this is so much more important. We think we ought to be able to go to these heads of our fiscal agencies without always having to clear through the Board and let them know about it, but we don't always have to say, "please." Now, if you gentlemen will come a little closer.

This is what I know about this situation, and then where I am not up to date or am out of date or haven't got it right, you can tell me.

✓ This situation, as I see the thing, is one, Sir Frederick Phillips comes in to see me last week and says that as of the first of March they will have 69 million dollars cash on hand and that is about the end of their rope, and they don't know where to go from there on. I tell them in no

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uncertain terms that they have just got to find the cash until the Lend-Lease Bill passes. Do you get it so far; are we together?

Cochran: Yes, sir.

H.M.Jr: I mean it is just up to them. I also called Sir Frederick Phillips on the telephone Thursday or Friday and let him know my complete displeasure when I am called on by a representative of the S.E.C. that they haven't sold a single direct investment and won't even see the people. I said, "It is an impossible situation that I am in, aside from your own, and here you say you are going to be out of cash, but you don't sell your direct investments," and there is the other proposal, a letter delivered by Halifax then followed up by a letter from Peacock, and my answer to it, which I take it you have all seen.

Cochran: Yes. Harry has initialed it and Stewart has seen it.

H.M.Jr: Well, I don't care so much - I mean, I would like you (Cairns) to see it, but that isn't why you are invited into the thing. Now, in the course of the conversation - am I right so far?

Cochran: The only thing that might be a little wrong, they have seen a number of visitors up in New York. They hadn't seen the specific ones that Schenker of the S.E.C. mentioned. They have been seeing visitors.

H.M.Jr: But they still haven't sold any?

Cochran: No, sir, they have not.

H.M.Jr: Is the picture about the way I painted it, Harry?

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White: Yes, that is right.

H.M.Jr: Now, I had all I could do to keep myself from sending for Lord Halifax yesterday and telling him what I thought of the British Government, but fortunately I was so busy I didn't do it, but I am just boiling over. Here I clear up the 30 million dollars worth of ordnance for them each week and take my reputation in my hands by doing it, and they don't make a God damn move on this thing; and I am still not convinced that they really want to sell their securities and I will show you why from this list which is prepared by White. Then in the course of this conversation with Phillips, I brought up certain things. They didn't know how much Canada would or would not repatriate in the way of securities and how much gold they had to keep for that purpose, and therefore I said, "Well, at my request, my suggestion, invite Mr. Clark down here and let's put our cards on the table so we know where we are at," and that is why Clark is coming down. Check? My memory still all right?

Cochran: All right.

H.M.Jr: My memory all right still? So Clark is coming in at 3:00 to have a talk. You (Stewart) know him?

Stewart: Yes.

H.M.Jr: And tell us what they will do because - well, as to what the Canadians will or won't do. It depends upon how much gold Canada has to hold back against - I mean England has to hold back gold in Canada to pay for these repatriations of securities.

Now, on the Belgian thing, I told them, "Why

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don't you pick up some of that Belgian?"
Well, a lot of palaver and somebody in Belgium, the Finance Minister - who was the man they mentioned?

Cochran: Gutt is the one they mentioned. He is in London. We had dealings with him before. Anyway, he is dealing with the British, but he wants to consult Tunis, who is in New York.

H.M.Jr: Well, all of this stuff - nobody does anything on this thing. They just sit there and expect I should do the worrying for them and the thinking. Now, yesterday - I mean, I have always taken the attitude, never mind how much the English are annoying me, it is my job to try to keep this thing going, and I got this idea yesterday which I gave to Foley and asked him to give to somebody, and he said Huntington could pass on a possible method of raising money for the English against their securities, and I would like to hear that report first.

Cairns: The method that you proposed, as I got it from Ed, was entirely satisfactory.

H.M.Jr: What was the method that I proposed?

Cairns: That an American corporation will take title to American securities or property owned by the British government or British nationals. At the time the title is taken, part of the purchase price will be paid. The remainder of the purchase price will be paid at some subsequent time, such as when the securities are disposed of, or some other time, dependent upon the contract arrangements. Now that plan does not violate either Section 7 of the Neutrality Act or the Johnson Act.

H.M.Jr: What I said is this, for instance. If an invest-

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ment trust group, which is organized, would say, "Now here is a hundred million dollars worth of assets. We have examined them and their book value is a hundred million dollars." Would you be willing to advance 50 per cent after you have looked at the thing, and then as you begin to dispose of them, the difference between the sales price and what you advance, pay these people off. Is that right?

Cairns: That is right.

H.M.Jr: That is all right, is it?

Cairns: That is all right.

White: I thought you were referring only to securities.

Cairns: This memorandum speaks only of securities, but the principle is equally applicable to the real estate holdings in New York.

H.M.Jr: That was my idea, and I can't understand why somebody didn't think of it and why it isn't all right. Now, that isn't what they wanted J.P. Morgan to do, is it? Did you sit in on that?

Cairns: No.

H.M.Jr: Who sat in on that before you?

Cochran: Foley had been sitting in on them himself.

White: As he reported it, it was quite different. It was a loan against collateral.

Cairns: You mean the two corporations, the --

H.M.Jr: No, as I understand --

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White: Viscose could --

Cairns: Yes. Well, I prepared a memorandum on that.

H.M.Jr: What about that?

Cairns: That was legal too, but that isn't this plan.

H.M.Jr: What is the matter with this plan?

Cairns: Nothing.

White: If I understand it, they will take over all these securities and extend 50 per cent of the book value of them and the market value of the securities, is that the proposal?

Cairns: I don't know about the percentages.

H.M.Jr: I would just say 50 per cent of the sales value, what they think they can sell the business for. Let's say they say a business --

White: Let's say the British say a billion.

H.M.Jr: The British - well, take this list of from one to 10 million dollars, you see. Well, here, gentlemen, are a bunch of businesses. Now, you pick over these, you see, and you find that these are worth a hundred million dollars. You satisfy yourself they are worth a hundred million dollars.

Well, the British government sells you these properties and you advance 50 million dollars. Then you proceed to sell these at a price agreeable - I mean, something has to be worked out, but the point I am getting at, if you could get a bank - a group of investment trusts or a bunch of banks or anybody that this would make available that this thing hangs on for another couple of weeks another 50 to 100 million dollars. It gives

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them another breathing spell. That is what I am trying to get for them. As to the price and how they would do it, they might advance 75 per cent to them - I said 50. They might say 75, but here is a way of raising legally a bunch of money for these people.

Cochran: That leaves a lot of evaluation and examination, of course, for a later time. Whether they would be willing to advance a big amount or a big per cent on that basis, I don't know.

H.M.Jr: Well, the main thing, Merle, it is the idea that this is legal, this would move fast, these people could say - well, I don't know as to how the property - they might get some ex-judge of the Supreme Court of New York whom they could hire to sit and have hearings and decide on the value of the British and the company and the buyer placing the thing before them - Judge Crane, for instance --

Cairns: Yes, or it could be a cost plus basis.

H.M.Jr: I mean Judge Crane, who is a retired judge of the Supreme Court of New York, a very fine gentleman. I mean, a man like that could sit - wouldn't that be perfectly - highly ethical, and they would appear before him and introduce their testimony, and he would be the man to decide.

Cairns: He is an excellent man.

H.M.Jr: Isn't he one of the best?

Cairns: One of the best.

H.M.Jr: Do you know him?

Stewart: No.

H.M.Jr: Well, he is a Republican from Brooklyn and a very

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high-class gentleman. Wouldn't that be a procedure? I am shooting from the hip.

Cairns: Yes, that is perfectly legal, or there are corporations whose business it is to appraise property, and they could agree to hire such a corporation to do it.

H.M.Jr: But all of that testimony could be introduced before Judge Crane who, after hearing the testimony, could say, "Well, after listening to all you gentlemen, this is a fair price, and I set such and such a price."

I know these appraisal corporations, and they are not worth a damn. Right? Walter?

Stewart: It is what I - what I understand is that you are proposing a corporation which would make an installment payment against a collection of companies, the value of no one of them having yet been determined, but an amount within the limits of the total, to be recovered through the final sale of these when evaluated and sold to the public.

H.M.Jr: That is right.

Stewart: It sounds all right to me except that I imagine that each one of those companies has a very particularly unique situation, and the difficulty in time is that each one of them has a particular situation. You are dealing not with a listed company or with a security. You are dealing with each one as a unique thing with a special set of accounts and history and ownership and so on.

White: For three or four hundred million dollars worth, you would be dealing with securities, so that would give them --

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- Stewart: Did you intend to put the --
- White: You could give them cash at once for that part.
- H.M.Jr: I was thinking - mind you, with all these things, this has been kind of a subconscious thinking. I have been groping and asked everybody else to make a suggestion. No one has made one, and the English haven't. This was my suggestion. I was thinking in terms of direct investments. If you want to sweeten the pot a little bit and put in some Atchison or some New York Central or something like that and make it both negotiable and non-negotiable securities, that would make it that much easier, but what is my object? My object is to get them so they don't default on their payment while this bill is pending and enough afterward so they don't default, because there is no reason why they should, you see.
- Stewart: Is the loan equally legal as against the purchase, if a company made an advance against it? Could a corporation make an advance rather than making it as a loan or purchase?
- Cairns: Title ought to pass.
- H.M.Jr: That is the point, you see. Nobody has - it has always been this other thing, but my thought is that the title passes. I thought I was right.
- White: They might like a little better than that. One modification of that might be to permit those transactions to take place only with respect to the particular ventures which they select and as they need the money instead of in one complete batch. In other words, if they need a hundred million dollars this month, they could decide either to take the securities and do that, or they could decide to take some securities plus some of the particular investments which they

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have selected, so they will not be in a position to have to decide to turn over all their securities but only as they need the cash. I imagine they would like that better.

H.M.Jr: Well, again that is a modification, but you see, Harry, I think I have got hold of something.

White: Yes.

H.M.Jr: Imagine, if these people - the bill passes the day - passes and the day after the bill passes these people should default, look at the spot I am in. And these people have got to sell these properties to keep good faith with me and the American public. They have just got to do it, and I am still not convinced that they want to do it. Now, all these things and all this delay and all that, but they simply have to keep faith with me, who has gone up on the Hill and has said this thing, that they were going to sell this stuff and divest themselves, and they have just got to do it and - is there any doubt in your mind?

Stewart: Not in my mind about the outcome.

(The Secretary left the conference.)

They probably have trotted out all of their difficult cases, but I have heard, for example, of distilling concerns which have the formulae for distilling gins, and then do you sell the trade-mark and produce here and sell them abroad? There are a lot of things.

White: Yes, that is why I think it is better to let them select the ones which lend themselves most easily to an evaluation and leaving a good many of the - leaving all the difficult ones, the very difficult ones, which incidentally include a lot

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of those of small value. There must be a couple of hundred there that may yield you a hundred million dollars at most and will give you 90 per cent of your headaches. I think those could be left, when, if, and as it is necessary. As time goes on the situation will be more clarified, and the war may end, they may be able to make their commitments. To call upon them to sell at once all their investments for subsequent evaluation would be popular with some people in this country, but I think it is --

Cairns: Well, of course you have got a precedent in the Lever Act during the last war. I don't know how that worked out, but the government paid 75 per cent - if the government and the seller could not agree on the price, the government paid 75 per cent of its estimated price. The seller then sued in a court of claims for the balance.

White: Oh, I am sure it could be worked out legally, but there is a question of good relations between the good governments and a question of feeling that they got a - and that we certainly ought to be generous in this matter, because in the last analysis it doesn't make any difference. You are talking in terms of - you are ready to lend them billions and why stop at the question of a hundred or two hundred million dollars? It is no time to be meticulous in an evaluation.

Cairns: Not this government but the bankers who are going to put up the money are going to be very meticulous.

White: Yes, and there, I say, avoid those --

Stewart: Do we know that there are a group of bankers who are prepared to carry out this procedure?

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Cairns: I know nothing about it.

White: This has never been suggested, but this has been suggested by some groups along this line, but there are some groups who are already to do it with respect to groups and holdings.

Cairns: Oh, I know. I have had a lawyer in Baltimore approach me representing a number of clients who would like to do this.

Cochran: This very thing?

Cairns? To acquire some British assets somehow. There are some plums there.

White: I don't think there would be any question of their ability to arrange within a few weeks at the most half a billion dollars to take care of what securities they have got left and some of the clearest investment cases of the other.

Stewart: I do.

White: You think there would be difficulty?

Stewart: I think so. I mean on a pig in the poke. A half billion dollars is definitely subscribed to be used to pay a percentage of something the value of which is not appraised.

White: They all know about 350 or 400 million of the securities are marketable.

Stewart: I am confining myself to the direct.

White: Oh, no, I mean securities.

Stewart: I think there is no doubt about that. I think you can take the listed securities, and I think you can take ten or twenty per cent off and say, "This is what we will take it at," and I

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think the British could well afford to do that, and they would.

- White: My suggestion to the Secretary was, let them sell whatever they - this way, let this corporation buy as they need it. Let them then make their own sales, when and if they want. The only thing in which this corporation would step forward is if they needed 50 million dollars, but let that take up only the slack.
- Cochran: They could do this first with the securities. We agree that could be easily done.
- White: Easily done. Those bankers who were in here that day --
- (The Secretary returned to the conference.)
- H.M.Jr: This is - well, am I all right on this?
- Stewart: I think you are over-simplifying it myself in terms of time. I think you will find in your emphasis --
- H.M.Jr: But as to having it done?
- Stewart: It is one of the legal procedures. Have you got any bankers lined up who will follow through on it?
- H.M.Jr: Oh no, I only got this yesterday. I am so proud of myself - well, all these bright young men are around here, you know, and all the English, why didn't somebody else suggest this?
- White: Oh, we had half a dozen schemes very much like it, Mr. Secretary. Not exactly like it.
- H.M.Jr: That would work and get by these fellows?
- White: I think so. They proposed a couple themselves.

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- H.M.Jr: Well, not one of them would work. Show it to me.
- White: I will be glad to. I don't know if it is as good as these, but they are very much like it.
- H.M.Jr: Maybe they are better. Between now and 3:00 o'clock see if anybody has anything. I would like to see anything that anybody has that would get by the lawyers.
- White: I think that this - if you want - didn't want to take it all over, I think this could be a very simple arrangement. If you let them take it over only as they need the cash.
- H.M.Jr: Well, now, let me get this. What do I want to do? I want to raise a hundred million dollars cash for these. I don't want to fool with anything less than that. Which means, let them select or anything else, put up two hundred million dollars, part factories and part negotiable stuff. Then what I would do is, I would go to S.E.C. and say, "Now, gentlemen, here is the proposal. Will you call down a group for me and tell them what this is. You fix me up a group, see. I don't know who it would be, but you fix me up a group. I want a group down here not later than Wednesday, providing the English are willing, and you fix me up a group."
- Wouldn't that be the way to do it?
- Stewart: Yes.
- H.M.Jr: And let them meet over at the S.E.C. Let the S.E.C. do it. It is a question of the 20-day registration and all the rest of that stuff that S.E.C. would have to waive and all the rest of that stuff.

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White: It certainly ought to be under their governmental auspices if there is going to be any --

H.M.Jr: I don't want to get mixed up in it.

Stewart: Oh, no.

White: And they have been in on evaluation of some of these securities.

H.M.Jr: Yes, they offered us their evaluation section. What is the matter with this, Walter?

Stewart: I see no difficulty with the listed securities. I have some reservation as to how rapidly you can move on the direct investments. I think for the impression created, it is very important for them to part with some of their direct investments.

H.M.Jr: Now one thing that I would insist on with this corporation limited to so very modest a field. I should think they ought to do it at two or three per cent, something like that. Is that too low?

Cairns: Why would they take any fee?

Stewart: You have to think of depreciation.

Cairns: The bankers would organize the corporations and the corporation would buy these securities and investments.

H.M.Jr: But I want them to give them a hundred cents on the dollar for what they get for these things and do it on a fixed-fee basis and not get their profit out of juggling the stock. In other words, the more they got the more they would earn if it were on a percentage basis. There would be no incentive for them - the incentive for them

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would be to get the British just as much as they could.

- White: If they work on a percentage basis, the incentive might be to sell the stocks even though they don't get very much.
- Cochran: Yes, I think the British would have some reservation there that they don't have sufficient control over the price.
- H.M.Jr: Well, you come in - if you want a man, I just thought of him - a man like Judge Crane to sit - what do you call it, in chancery, what do you call that?
- Cairns: As an arbitrator?
- H.M.Jr: As an arbitrator. I think of Judge Crane. There are other judges of a superior court who enjoy a very high reputation who would sit and arbitrate.
- Cochran: The British wanted to appeal to the President as the arbitrator.
- H.M.Jr: Well, that is out. I am protecting the President of the United States.
- Cochran: But whether the government would be agreeable to accepting some judge, no matter how high he is in this country, as a final arbitrator --
- H.M.Jr: Well, in the room, Merle, get this - only in the room - I am telling them, I am not asking them at this stage, you see. I mean, that is - I am telling these fellows. I have reached the end of my rope. I have never been more outraged or angry at any people than I am at the English right now and I am telling them. Now, certainly the President or I - he is not going to be put in that position, nor am I. But there is no

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reason in the world why this corporation - I don't know what would be the fee. I am thinking of two or three per cent.

Stewart: You are thinking of it as a agency to take and sell.

H.M.Jr: That is right.

Stewart: I think that would be much more difficult.

Cairns: That increases the difficulty, not the legal difficulties.

H.M.Jr: They are not going to keep these things.

Cairns: I thought it was to be an outright sale by the British to American interests.

H.M.Jr: No, let's take the investment trust group, you see. In some cases they will want to keep the things, and in some cases they will want to dispose of them. If they want to buy them themselves, all right, if they want to sell them to some outsiders, all right, but you are not going to get any group to say, "We are going to buy these things and keep them", because there will be some of the things that they don't want to keep and on that basis they wouldn't let the English pick; they would want to pick.

Cairns: But it is your thought that the total purchase price, total sales price derived by the corporation, is to go back to the British less the percentage?

H.M.Jr: That is right.

White: So that this corporation will be acting somewhat in the character of a public servant with a reasonable reward for its services.

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H.M.Jr: That is right.

White: And make possible the British receiving the cash in - when and as they need it. But the purchase price would not be known until the total amount that they would get - it would not be known until the final liquidation.

Cairns: That is all right legally, but I am thinking of it from the point of view of the American bankers who are putting up a hundred million dollars.

White: But they are only putting up a portion of a value which they think is reasonable, so they are not taking any risk. At the same time, the British would get the cash. The actual sale might even take the form either that this group would say, "We will hold on to this at such and such a price," or they might sell it.

Cairns: It would be a liquidating and management corporation.

H.M.Jr: That is right.

White: The management is rather important.

Stewart: I can see that on the listed securities. I don't see it on the direct investments. On the liquid securities I can see them doing it, and I think the British government could well afford to make a real percentage sacrifice. You can take a whole lump and deal with them on that form, I think. On the direct investments, the theory that they can take these direct investments and then sell them to the public and take a commission, I don't see that.

H.M.Jr: Well, Walter, I always have one idea until you tell me I am wrong. What is my idea? I want to

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get these fellows a hundred million dollars. What is my objective? That is my objective.

Stewart: You can raise that if you don't want to bring in the direct investments.

White: There are some you could bring in very easily. For example, there was a gentleman in here who stated there was a very reputable group. He was from the S.E.C., and he said they were reputable. I don't know who they are. He said they had 60 to 100 million dollars in cash that they were ready to put down on the barrelhead, to use his expression, in order to take over the Viscose Company. Now, I take it there would be some range over which they could agree as to the current value of the Viscose Company. They might be ten or fifteen million dollars apart. I think the British unfortunately on the initial companies may have to be reconciled to taking possibly a sacrifice in order to make a sale. There are several of such companies and they could raise within a month or two on direct investments a couple of hundred million dollars without any trouble.

Cochran: They were to receive those very people in New York today and talk with them.

H.M.Jr: I have read this thing. You take Brown and Williamson Tobacco Corporation. Given time to negotiate the thing, another one of these American tobacco companies would buy it up.

Cairns: Well, that is a stock transaction.

H.M.Jr: Yes. What I was thinking of in this corporation, they would have some banks who would supply the money. You would have some investment trusts and some companies in the distributing business, but S.E.C. could quickly do this thing or get up a group of national banks in New York. They have got the money and then let them hire somebody else to do the selling. The quickest way, maybe, would be just to go and invite any New York bank or any

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bank that wanted to come in. I don't know.

Cochran: May I offer a suggestion?

H.M.Jr: Yes.

Cochran: I think you told them the right thing the other day, Mr. Secretary, that you were depending upon them to go through with this and that they have got to count on their own resources to get finished, and I think they can. I think they can make arrangements to turn over those direct investments. I think they can make a touch on Canada temporarily. I think they might borrow gold from the Union of South Africa or something of that sort, and I wouldn't risk putting forward a suggestion like this at present. I would leave them to their own resources.

White: Then they shouldn't bother the Secretary that they are running out of cash.

H.M.Jr: And you (Cochran) bother me, too.

Cochran: Of course I do. I want to keep you up on this.

H.M.Jr: Well, that is right too, but I am under this pressure, and that is your job to keep after me. But I don't believe that they are going to do it. Now, I would like to throw in their teeth a suggestion like this and say, "This is legal, gentlemen, now you take it. The S.E.C. says they are here waiting to see you. Now you take it." I would like to --

Cochran: I would leave it to their judgment to take it or not. I wouldn't say, "You have got to take it."

H.M.Jr: Oh, I wouldn't say, "You have got to take it."

Cochran: Well, that is what you intimated a while ago, Mr.

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Secretary.

- H.M.Jr: When I get down to terms - I am getting very restless with them.
- White: But Merle, if this is suggested as a way out --
- H.M.Jr: Excuse me. It is just the way I told these people in my room here, and I finally smoked them out, and they hadn't been on the up and up with me, and I said, "You can sell ten million dollars worth of stuff a week." Were you here when I told them that, Walter?
- Stewart: No.
- H.M.Jr: And they said, "We can't do more than one to three," and it turned out because Gifford put his chin out that his instructions were not to sell more than one to three, and they have never told me that. Now, I don't know that they have issued the instructions to sell these direct investments. I don't know that they have. It is very nice to put it all in the lap of the President of the United States, and I would like to say to them this afternoon, "Gentlemen, now here is a way that you can do this thing legally. I have thought this thing out for you myself. Now, the S.E.C. is willing to help you. Here is a way to do it. Now, I don't want you to come back in six weeks. I would like you to come back tomorrow and tell me what you think of it. And don't come around and tell me that you haven't got the money, because here is a way to raise it."
- Cairns: Have you thought of a mortgage of the direct investments?
- H.M.Jr: I don't know whether I know what you mean.
- Cairns: Have the British corporations mortgage their

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plants here to American banks.

Cochran: That was --

White: That was one of their suggestions, and that was thought to be a subterfuge.

H.M.Jr: We want title to pass. I want to have them - I told Congress - it is all on the record - that they are going to divest themselves of nine hundred million dollars worth of property and that that is their good will offer to us in exchange for which - as a minimum, I was thinking of it this way - as a minimum I have to raise a billion dollars more taxes out of the American tax-payers in one year, and all we are asking them to do is to sell a billion dollars worth of direct securities in one year. As a minimum. And it is going to be maybe two or three times that in order to pay for the stuff that we are going to give them. Now, as a token of good will - good faith, not good will, all we are saying is, we have said it publicly, "In order to get this stuff through, gentlemen, the English say that they will do this." Now, I want them to live up to it. I think, Merle, it is time I talked to them the way I am talking here, because I am fed up with them.

Cochran: I appreciate the urgency of their having to sell them and all that, and I have told them that on Friday when I talked with them; but my hope was that you wouldn't put this up as the one way that they had to act.

H.M.Jr: Oh, I am not going to say that. I am going to say, "Here is a legal, ethical way for you to do it. It is highly ethical and it is highly legal."

White: I think what the Secretary does by presenting them with that is making impossible any further

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representations with respect to the lack of cash necessary to meet their commitments, because there is always this way open, and particularly if he doesn't even suggest that they turn them all over but that here is a group ready to take whatever they are willing to offer, then it seems to me that incident and episode is closed. Whenever they feel short of cash or think they are going to be short of cash within a month, they have that avenue to raise a little more cash. I see that objection as to that.

- Stewart: I think the Secretary requires that as an insurance policy against them, not merely - I am doubtful whether or not the direct investments will raise money rapidly. I think the listed investments will, but I think you will need something which is a catch-all.
- H.M.Jr: And that is why I want to insist that in this corporation some of the things they put - the bulk that they put are direct investments.
- White: The S.E.C. weren't doubtful about their ability --
- H.M.Jr: I am going to have them over here at 3:00 o'clock.
- White: That they could raise money on - not on all of them but the small ones, which may total a couple of million of this.
- Stewart: I have done some of this business, and when you sit down with an individual company, with the accountants and the lawyers to find out just what the elements are to dispose and transfer of title, you have a long job ahead of you, and it can't be done merely by forming a corporation. Part of your irritation is just that fact and not the government --

(Telephone conversation with Mr. Jerome Frank follows.)

March 3, 1941
11:45 a.m.

H.M.Jr: Hello.

Operator: Chairman Frank.

H.M.Jr: Hello, Jerome.

Jerome Frank: Yes, Henry.

H.M.Jr: The English are coming in at 3:00 today and I was going to put up a proposal to them along these lines: - Have you got a minute?

F: Yes.

H.M.Jr: That they permit somebody under your supervision to form a corporation that will buy some of their direct investments and some of their stocks and advance against these purchases 50% of the purchase price and that then they go ahead and have these things evaluated, you see?

F: Yes.

H.M.Jr: I was thinking something along these lines: that the corporation would be compensated on a percentage - I don't what's fair, 1-2-3% - of whatever the value is of the properties that they dispose of, and that so that it would be fair that they would take somebody - for a better name I was thinking of somebody like Judge Crane in New York who would act as an arbitrator. You see?

F: Yeah.

H.M.Jr: But that this corporation would be formed - who is to come in it - with the help of the S.E.C. Now Huntington Cairns has been over this thing as to the legality of it against the Neutrality Act and against the Johnson Act and he says the title passes, it's all right.

F: Yes.

H.M.Jr: Now you see the situation we're in - they tell us every day they haven't made any sales because

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it takes such a long time and I have told Congress that they would divest themselves and they've just got to keep faith with me which they haven't done up to now.

F: Of course. Well, they're just going to ruin - you don't know what'll happen up on the Hill if they don't.

H.M.Jr: That's right. Now, I wondered whether you and anybody you want to bring with you could come over and sit with me at 3:00. Could you?

F: Surely.

H.M.Jr: And if you wanted to know anything more about it or want any of the facts, Huntington Cairns is available and Harry White - they could come and see you before 3:00.

F: Fine. I'll get at it.

H.M.Jr: Thank you.

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- H.M.Jr: This is the answer, gentlemen. It is the answer as far as I am concerned so they don't come around and weep on my shoulders any more. If I just had nothing else to do and could go down and hire a room in a hotel or a room in the Federal Reserve and just pick up the telephone, I bet you I could organize a corporation in a day. Why, it is nice business. There is no risk concerned, is there?
- Stewart: It isn't nice business at two or three per cent, I can tell you that. When you are dealing with direct investments, the cost of --
- White: Well, the expense is added on to it --
- H.M.Jr: Walter, I am using figures. What I am trying to get over is their cost plus a reasonable percentage. Put it that way.
- Stewart: Yes. I make an entirely different classification of the direct and indirect for this purpose.
- H.M.Jr: But you agree with me in this corporation should go as many direct as possible?
- Stewart: Yes, I do.
- H.M.Jr: As many direct as possible, and sweeten it with some stock exchange stocks. Right?
- Stewart: Yes. I don't care for this purpose except for the necessity of raising cash. I wouldn't put the stock exchange stuff in at all except for that.
- H.M.Jr: I would want whoever did it to make all expenses plus a reasonable profit. Now, they can borrow money for six months from the banks, certainly not to exceed half of one per cent on this kind of collateral. For a year, most likely, they would pay one per cent. And I take it during the process of the thing they would be getting the

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earnings of the business, the dividend. You see, I would like to get only those banking groups in who are really anxious to help England and would do it as a sort of public service. Now, they distribute these things after the stock exchange closes at an over-all one and a half per cent. But that is a quick turn over, one and a half per cent.

Stewart: Yes, there is no risk. They fixed the price of those.

H.M.Jr: Yes. All I am saying is, take a bank like Chase or Winthrop Aldrich who is very, very anxious to help - I mean people who are very sympathetic to England, they would be invited in.

Stewart: Well, they could lend the money, that is all they could do, isn't it? The Chase couldn't take any direct participation, could it?

Cairns: You mean because of some charter limitations?

Stewart: I thought the national banks couldn't take any direct purchase.

White: They could lend money to a corporation that did.

H.M.Jr: They would have to borrow it, the hundred million dollars from a bunch of banks. The banks would get their - whatever they are rated. I don't follow those things, half of one percent, one per cent, whatever it is. We borrowed money for two years at three-quarters, and I am sure they would be willing to lend money for one year at one per cent. All of that, the people who are doing it every day, they know what the rates are. I can look these fellows in the eye and say, "Look, you so and so's, here is a method. Now, here is a way that you can raise enough money to keep yourselves going for six months," because they say they need 450 million dollars from now until the first of July. Isn't that what they say?

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- Cochran: Subtracting whatever Canada may help them.
- H.M.Jr: But that is the figure. I have got my figures straight?
- Cochran: That is right.
- H.M.Jr: Well, I will tell you what I would like you people to do, the four of you, if you could go someplace and just poke, poke, poke, see whether you can find something wrong with this, and I am seeing you (Stewart) at lunch alone. Would you do that for another hour, or as long as necessary? Huntington?
- Cairns: Yes indeed.
- H.M.Jr: And get the thing if you could - well, if there are any changes between now and 3:00 o'clock as a result of Jerome Frank, let me know.
- Cairns: Yes.
- White: I think it would be more profitable if we had a little time to talk it over with them, since they are so much more familiar.
- H.M.Jr: Who?
- White: Jerry Frank and whoever else he wants, because any bugs or any difficulties would be something that they would be much more apt to be familiar with.
- H.M.Jr: Well, you have got from now until 3:00 o'clock. Three hours and five minutes. All you need is five minutes for lunch. (Laughter.)
- All right. I feel very happy. I think it is a good day's work.
- Stewart: Right.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 3, 1941

TO Secretary Morgenthau
FROM Mr. Foley

It is understood that a group of American bankers propose to organize, under the laws of one of the states, a corporation which will purchase American securities now held by the Government of the United Kingdom and by subjects thereof. The American corporation will take title to the securities at the time of making an initial down-payment thereon. The remainder of the purchase price will be paid when the securities have in turn been sold by the American corporation, and will depend on the price realized on such resale.

A question has arisen whether the foregoing procedure will constitute a violation of Section 7 of the Neutrality Act of 1939, 54 Stat. 8 (U.S.C., Sup. V, title 22, sec. 245j-6), or of the provisions of the so-called Johnson Act, Act of April 13, 1934, 48 Stat. 574 (U.S.C. title 31, sec. 804(a)). It is my opinion that the procedure would not constitute a violation of either of those statutes.

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Section 7 of the Neutrality Act of 1939 provides, in relevant part:

"Whenever the President shall have issued a proclamation under the authority of section 1(a), it shall thereafter be unlawful for any person within the United States to purchase, sell, or exchange bonds, securities, or other obligations of the government of any state named in such proclamation, or of any political subdivision of any such state, or of any person acting for or on behalf of the government of any such state, or political subdivision thereof, issued after the date of such proclamation, or to make any loan or extend any credit (other than necessary credits accruing in connection with the transmission of telegraph, cable, wireless and telephone services) to any such government, political subdivision, or person."

There is no proposal here to "purchase, sell, or exchange" any securities of a government named in a Neutrality Act Proclamation, or of any political subdivision of such government, or of any person acting for it. The proposal is to purchase American securities. The proposed corporation will not make any loan or extend any credit to the Government of the United Kingdom or its subdivisions or subjects. On the contrary, they will extend credit to the proposed corporation.

The so-called Johnson Act provides, in relevant part:

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"That hereafter it shall be unlawful within the United States or any place subject to the jurisdiction of the United States for any person to purchase or sell the bonds, securities, or other obligations of, any foreign government or political subdivision thereof or any organization or association acting for or on behalf of a foreign government or political subdivision thereof, issued after the passage of this Act, or to make any loan to such foreign government, political subdivision, organization, or association, except a renewal or adjustment of existing indebtedness while such government, political subdivision, organization, or association, is in default in the payment of its obligations, or any part thereof, to the Government of the United States."

The considerations mentioned above with respect to belligerent governments under Section 7 of the Neutrality Act of 1939 are equally applicable to defaulting governments under the Johnson Act.

Both the Johnson Act and Section 7 of the Neutrality Act of 1939 are criminal statutes highly penal. The Senate Report on the so-called Johnson Act refers to that statute as "a brief penal statute". (1933) Sen. Rep. No. 20, 73d Cong., 1st Sess., 2. It is well settled, of course, that criminal or penal statutes must be strictly construed. France v. United States, (1897) 164 U.S. 676, 682-3; Prussian v. United States, (1931) 282 U.S. 675, 677;

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United States v. Resnick, (1936) 299 U.S. 207, 209.
Attorney General Cummings applied that rule to the
so-called Johnson Act in (1934) 37 Op. Atty. Gen. 506,
507.

*E. H. Foley, Jr.
by N.S.*

March 3, 1941
10:33 a.m.

- H.M.Jr: * * * * * let you know what we're doing so we can work together. Foley and Cox are going over at 11:00 to see Harold Smith, the Director of the Budget.
- Stimson: Foley and Cox are going over at 11:00 to see Smith.
- H.M.Jr: Yes, and then Smith is coming over to see me at 4:30 and I just called up Cordell Hull and suggested that we all meet at his office at 9:15 tomorrow before these Senators come so that the Treasury can report what the position is of the Bureau of the Budget.
- S: Well, McCloy is in here now and we were thinking this thing over and trying to talk it over. I am worried about the compromise that was in my mind last night - yesterday. It's got to be graduated as to certain types. No small percentage would do at all if it applied to separate categories. What I mean if it applied to a type of airplanes or anything like that, we might very well want to send the whole damn thing to Great Britain. You see?
- H.M.Jr: Well, would you like to do this.
- S: The one thing I want to do - I want to keep in touch with this myself, personally, if I can because I'm frightfully busy.
- H.M.Jr: Well, I have one or two things also but this thing is No. 1. How about having McCloy meet over at 11:00 with our men when they see the Director of the Budget?
- S: (Talks aside) I think that would be a very good idea.
- H.M.Jr: Well, why not let McCloy go over to Harold Smith's at 11:00 and then we'll sit there together.
- S: Are you going?
- H.M.Jr: No. Foley and Cox are going.

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- S: Yes. But I think he'd be useful not only receptively but I think he could give you some ideas because we've been talking pretty hard on it.
- H.M.Jr: And then he could come to my office at 4:30.
- S: 4:30 this afternoon?
- H.M.Jr: Yes, and then - you see, I've asked Hull whether we could meet at 9:15 - 45 minutes before the Senators come.
- S: The Senators are coming at 10:00?
- H.M.Jr: Yes, and so we could sort of have a meeting before and he wanted me to call you - he didn't want to call himself.
- S: Yes. All right.
- H.M.Jr: Is that all right?
- S: That's all right. Now let me see if I've just got these correct. The first meeting with Smith of the Budget is at 11:00 at the Budget office, and the second meeting is at 4:00 with you
- H.M.Jr: 4:30.
- S:4:30 with you, McGloy representing me this afternoon, and the preliminary meeting tomorrow morning has been agreed to by Hull and is at 9:15, and 10:00 the Senators are coming in.
- H.M.Jr: That's right.
- S: All right, I think I've got that all right.
- H.M.Jr: Thank you.
- S: Thank you very much for calling me up.

March 3, 1941
10:38 a.m.

H.M.Jr: Hello.

James
Forrestal: Good morning, Henry.

H.M.Jr: Good morning, Jim. I admire your youth and energy. I wish I could do it.

F: (Laughs). I don't know whether it's that or insanity.

H.M.Jr: My wife said she thought it terribly unfair to make you say, "hello, Henry" while you were running up-hill.

F: (Laughs). I had somewhat the same view myself.

H.M.Jr: (Laughs) . But you did get it out like a little man. What I'm calling for - I've been trying to work here with my crowd to get together with the Director of the Budget, and Foley and Cox and I just talked to Stimson - he's sending McCloy - are going over to the Director of the Budget at 11:00 and I wondered if you didn't want to send your lawyer over there.

F: You bet. I'd like to have you consider him - just direct him where you - anything outside that you want.

H.M.Jr: Well, if you'll send Lockwood over there at 11:00.....

F: O.K.

H.M.Jr: Then the Director of the Budget is coming to my office at 4:30 this afternoon and if Lockwood would be here at that time representing you.....

F: O.K.

H.M.Jr: Now, one other thing. I called up Hull and said could we get together 45 minutes in advance of the Senators, namely, at 9:15 - I mean, you Stimson and I, plus our attorneys, and he said O.K.

- 2 -

F: Right.

H.M.Jr: That would give us 45 minutes to thrash the thing out.

F: That's tomorrow morning.

H.M.Jr: At 9:15.

F: Where - at your office?

H.M.Jr: No, Hull's.

F: Hull's office. O.K., Henry. Now just to repeat: Lockwood will be at Smith's office at 11:00 and your office at 4:30.

H.M.Jr: And you tomorrow morning at Hull's at 9:15.

F: O.K.

H.M.Jr: Do you always run in the evening?

F: (Laughs). Well

H.M.Jr: Or just Sundays?

F: Well, I walk home sometimes and sometimes I go over and run for awhile.

H.M.Jr: Pick me up sometime and I'll try to sprint along behind you.

F: Well, how about walking home some night?

H.M.Jr: Wonderful.

F: O.K.

H.M.Jr: All right.

March 3, 1941
11:55 a.m.

H.M.Jr: Hello.

Operator: Mr. Delano.

H.M.Jr: Hello, Delano.

Preston
Delano: Yes, Mr. Secretary.

H.M.Jr: How are you?

D: Pretty good, sir.

H.M.Jr: Did you get a memo from me to see whether you could find me a Roosevelt banker?

D: Danny Bell spoke to me about it and we're actively trying to find one. I gave you a tentative name - Paul Davis who is a brother of Norman Davis.

H.M.Jr: Paul Davis.

D: Yes, he's a brother of Norman Davis and a friend of Hull's.

H.M.Jr: I don't hear you.

D: Paul Davis, who is head of a bank down in Nashville, Tennessee, and we have a couple of others and we're trying to find out what their politics are - that we think favorably of.

H.M.Jr: Well, Paul Davis, as I remember, that was all mixed up wasn't it with R.F.O. and

D: I'm a little bit afraid of that thing. I told Danny that the one thing I thought might be dangerous in that fact was that he was a little bit too close to Jesse Jones.

H.M.Jr: Yeah. Well, I don't know how dangerous it is but I read the story about how he got his stock and it didn't sound too ethical to me.

D: Well, I think that's right; that's the one thing that stood against that particular fellow.

- 2 -

Now we have another chap named Turner that we're investigating and we were looking into a fellow up in Boston that we're investigating. I've got these fellows - all my district chiefs are in here today and I'm going to pursue it vigorously and just as soon as we can get something further why we'll give you a report on it.

H.M.Jr: Yeah. I don't think that that Paul Davis sounds so hot.

D: Right. I rather agree with that - I just put it forward as a thing that I thought of at the moment.

H.M.Jr: Now, did Harold Graves get in touch with you?

D: Yes, I've just finished a talk with Sloan and this new man, you see, and I've given them what figures they want about banks and I've also given them what meager advice I can as to the problem which they're facing.

H.M.Jr: Good. Thank you.

D: Right-o, sir.

March 3, 1941
12:05 p.m.

H.M.Jr: I didn't recognize your voice.

Harry
Hopkins: Well, my voice is changing.

H.M.Jr: Up or down?

H: (Laughs). I hope not up.

H.M.Jr: Well, with that fellow staying over at the
White House I don't - (laughs).

H: (Laughs) God, not over the White House
telephone brother.

H.M.Jr: How many rooms away from you is he?

H: Well, he's away - he's on the other side of
the hall.

H.M.Jr: A man came for one week and he's staying
how many?

H: (Laughs).

H.M.Jr: Well, anyway, I just thought I'd let you
know what I'm doing. Foley, Cox and Stimson's
lawyer McCloy and Forrestal's lawyer all went
over at 11:00 at my request to see the Director
of the Budget because I think - well, he's a
little bit interested in what Jimmy Byrnes is
doing, you see, and I think somewhat in
sympathy with it. See?

H: Yeah.

H.M.Jr: Then the Director of the Budget and this whole
crowd is coming over to see me at 4:30 to see
whether we can get together, and I called up
Cordell and asked whether we couldn't come
over 45 minutes before the Senators did
tomorrow so that he and Stimson and Forrestal,
plus our lawyers, could get together. He said
all right provided I'd call each person up
so I had to call everybody up. So that's what
the situation is and if you'd like to know after
4:30 what happens I'll give you a ring.

- 2 -

- H: Well, yes, I'd like very much to know.
- H.M.Jr: See?
- H: Yeah.
- H.M.Jr: Now, there is some finagling going on back here I don't quite understand.
- H: Do you see any advantage in having the President tell Harold Smith a few things this afternoon?
- H.M.Jr: Well, let's wait and see just what he has done, you see, and as soon as the crowd leaves I'll call up and if there are too many details I'll send one of the boys over to give it to you first hand. I can send Oscar over, you see.
- H: All right, fine.
- H.M.Jr: And he can give it to you first hand, but nobody was doing anything today and I wanted to smoke Harold Smith out.
- H: Yeah, I think you've used a very good technic.
- H.M.Jr: Smith's attitude is that McCloy is kind of needling Stimson and that McCloy is all wet on this. That's what Harold Smith says. He says that there are two things: one is the appropriation and the other thing is production and the two things have not got anything to do with each other.
- H: Well, I don't know.
- H.M.Jr: But anyway between 4:30 and 5:00 I'll know where we are.
- H: That sounds fine.
- H.M.Jr: Is there anything that you can tell me that happened between the President and and the leaders?
- H: No. No.

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H.M.Jr: You don't know.

H: No. I don't think anything has happened.

H.M.Jr: This is what they tell me is the difference between the way they are handling it in the Senate and the House, and this I would like you to tell the President. In the House, while the bill was up, every morning the Democratic members of Foreign Affairs, plus the Speaker, plus McCormack, met for an hour and decided what the strategy would be. Then they went in united.

H: Yeah.

H.M.Jr: And Barkley is not doing that, or George, in the Senate, and at that meeting our men sat in with them. See?

H: You mean Oscar.

H.M.Jr: Oscar. So we knew all the time what was going on, and they'd go on the Floor, put up a swell fight and a united front.

H: Yeah. I think that's a damn good idea.

H.M.Jr: Now, if Barkley would do that beginning with tomorrow morning

H: And ask Oscar again?

H.M.Jr: Sure, and then he could let you and me know and that way the President would know by noon just where the thing stood.

H: That's a damn good idea. I'll suggest that the President call up Barkley and suggest it to him.

H.M.Jr: And my boys agree with me that some of these other amendments are a damn-sight worse than the one that Stimson is worrying about.

H: Yeah.

H.M.Jr: And that would keep it in hand.

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H: Yeah.

H.M.Jr: O.K.?

H: I'll talk to the President right away.

H.M.Jr: I hope your voice stays low.

H: All right, don't worry.

H.M.Jr: (Laughs). Good-bye.

H: Good-bye.

March 3, 1941
1:08 p.m.

Ed Foley: ***** strike up in Hartford was settled and the workmen went back to work today.

H.M.Jr: Wonderful.

F: I think they met the demands - the company did - partially. I think they gave them a 3¢ increase; I think they were asking for 10¢. Now I wondered if under those circumstances you wanted Joe to call Wagner.

H.M.Jr: No, but I'd like to find out

F: We'll get the rest of the story and put it in a memorandum for you. I just wanted to be clear on that.

H.M.Jr: Good.

F: We had a pretty good meeting over there with Smith and we all agreed on language that would still preserve what we want and perhaps save the faces of Byrnes and the other fellows.

H.M.Jr: Well, do you think Smith is all right himself?

F: Yes, Smith is all right now. I think this fellow with whom Jimmy Byrnes talks over there was the bad actor. I gathered that from what Kemp said. Ed Kemp, you know, is Murphy's man over there. He's Smith's counsel, and he said, "I don't want you to get me wrong but this is the way I thought it ought to have been done all the time."

H.M.Jr: Well, I'll be damned.

F: And he said he suggested that last Saturday and they sort of pooh-hoed it because they didn't think it could be done. But it's a fundamental thing and they've got to make a fight for it.

H.M.Jr: O.K., Mr. Stimson.

F: All right, sir. (Laughs).

2 -

H.M.Jr: Don't go War Department on me now.

F: I won't.

H.M.Jr: Listen, Ed. I'm just tickled to death; I think I've got the answer for the British and I've invited you to be in at 3:00.

F: All right, fine. I got the message.

H.M.Jr: Yeah, I think it's all right. Jerome is coming over.

F: Good. Well, I'll talk to Huntington before 3:00. I haven't had a chance to see him yet.

H.M.Jr: Well, that was what I'm trying to get over to you.

F: Yeah, I get it.

H.M.Jr: All right.

F: Thanks.

March 3, 1941
2:07 p.m.

H.M.Jr: Hello.

Operator: Foley.

H.M.Jr: Ed, tell me, is the Vatican in or out of this freezing order.

Ed Foley: Well, it's out of the - (talks aside) - it's out of the freezing order but I think that we'll have to have some general licenses right away because most of their people would have their balances frozen because they are Italian citizens, you see.

H.M.Jr: But the Vatican as such though

F: The Vatican as such is out and then we'll have to clarify it after the order is signed.

H.M.Jr: But, I mean, when it goes out they'll be treated just the same

F: They'll be treated just the same as Yugoslavia and Portugal and Spain and Russia

H.M.Jr: And a little bit better.

F: And a little better, yeah. (Laughs).

H.M.Jr: O.K.

F: Could John and I speak to you just a second about this thing?

H.M.Jr: John who?

F: Pehle and I.

H.M.Jr: Sure. Come in.

F: All right, thanks.

March 3, 1941
2:10 p.m.

Dean
Acheson: Henry?

H.M.Jr: Yes, Dean.

A: I spoke to Mr. Hull about the Bulgarian thing and he said anyway you wanted to do it was all right with him.

H.M.Jr: All right. Now, when do you think you'll have the other one ready?

A: Well, Bernie says that we are going to start here as soon as Frank Shea comes and stay in session until we get it ready and with those intimidating words I'm going to work on it and I think we'll get it ready tonight.

H.M.Jr: Well, then we'd be ready to shoot it in the morning.

A: I think so. Bernie knows more than I do about what is involved in this.

H.M.Jr: Well, my crowd from what I talked to them about this morning seem to think that they can get it ready during this afternoon and tonight.

A: Well, as I say, Bernie thinks it can be done and we'll do everything we can to do it.

H.M.Jr: Has Mr. Hull expressed any doubts?

A: About getting it done?

H.M.Jr: No, no, about doing it all at once.

A: About putting Bulgaria in with the others?

H.M.Jr: Yes.

A: Oh, no. He just thought that you ought to freeze Bulgaria. He has no idea how long it's going to take to do the whole order.

H.M.Jr: Well, I'm planning to have it ready at nine tomorrow morning.

- 2 -

- A: Well, if there should be anything come up, which I don't anticipate, and we shouldn't do it then I suppose we'd just go ahead with Bulgaria separately.
- H.M.Jr: If something seems insurmountable and we can't do it then we will go ahead, yes, but let's try awfully hard.
- A: Oh, yes. Well, I don't think there'll be anything from us on the
- H.M.Jr: Well, if it isn't from you it'll be done.
- A: All right, sir.
- H.M.Jr: O.K.

March 3, 1941
2:55 p.m.

RE AID TO BRITAIN

Present: Mr. Wrong
Mr. Pinsent
Mr. Stewart
Mr. White
Mr. Cochran
Mr. Phillips
Mr. Clark

H.M.Jr: On advice of counsel, in front of the Canadian representative I am not going to unburden myself.

White: Did you talk with the S.E.C.?

H.M.Jr: I called off the meeting.

White: But you didn't get their view?

H.M.Jr: No.

White: Well, I can repeat it in a sentence. They felt that you ought to wait before taking it up with the British until they had more time to discuss it. They thought of several obstacles, one particularly that they thought might disturb you with respect to some of these corporations getting in on the inside of these large companies and managing them in such a way that it might have serious repercussions. They wanted more time to think over the aspects. They did think that the listed securities might be handled that way, but they wanted a little more time to handle it.

H.M.Jr: When did you see them?

- 2 -

- White: We were there about two hours, from about 11:30 to 1:30.
- H.M.Jr: I sent the message at 2:00 to call off the meeting.
- White: They must have thought it was a consequence of their conclusions.
- H.M.Jr: That is good, isn't it? I am a mind reader, you see. (Facetiously.)
- White: They undoubtedly thought that was a result, because that was what they recommended, and I just had time to come back in and tell you about it.
- Stewart: What is it you do hope mostly to get out of these men today?
- H.M.Jr: Well, what I hoped to get out of them most today is a reconciliation of figures as between the English and Canadians.
- Stewart: Let Clark tell his story about what they are doing and how they propose to do and so forth and so on.
- H.M.Jr: Yes. Now, this letter to Sir Edward Peacock, do I hand that to Pinsent or do I hand that to Phillips?
- Cochran: I would say Pinsent, because it is addressed in care of the Embassy.
- H.M.Jr: That is what I thought.
- White: Even if they are unable to sell some of their securities, I still feel that they can get cash somehow.

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- H.M.Jr: I am not going to worry about it. I am going to let them worry.
- White: I don't know where, but they can get some.
(Messrs. Phillips, Clark, Pinsent, and Wrong entered the conference.)
- H.M.Jr: What are you, Chargé here?
- Wrong: No, the new minister is arriving very shortly, and I am coming back with him.
- H.M.Jr: Have you been in Canada?
- Wrong: Only for about a month. I only left England after the New Year. I have been in London for the last fifteen months or so.
- H.M.Jr: Well, Mr. Clark, Sir Frederick Phillips and I were talking about the bank balance of England, and in the course of the conversation he said he didn't know just what Canada was thinking of doing, say between now and the first of July. Is that a good time?
- Phillips: That is a good time, sir.
- H.M.Jr: Or between now and September?
- Phillips: I know what they are thinking of doing, doing the best they could for us, but we haven't gotten the figures.
- H.M.Jr: Well, anyway you put it.
- Phillips: That is quite right.
- H.M.Jr: I think the English people date their year from now until September, and if you would care to tell me - I mean, that was the idea of my invi-

- 4 -

tation.

Clark:

I see.

H.M. Jr:

I mean, because it affects the British Treasury. I mean, I don't know whether you are prepared to talk.

Clark:

Well, I didn't come prepared to do that. I would have to go back, I think, and consult my own government. As Sir Frederick has said, the general principle we have been following is to do the maximum which we can do by way of assistance to England, either by way of repatriation of securities or accumulation of sterling added on top of, superimposed upon, our own direct military program. Now for the second year of war, we started out the first - for the first six months' period aiming at a hundred and fifty million. We have --

H.M. Jr:

A hundred and fifty million what?

Clark:

Canadian dollars. We have done, I think it is about three hundred and twenty million dollars altogether in that period.

H.M. Jr:

Of repatriation?

Clark:

Repatriation plus an accumulation of sterling, only to - oh, I guess less than half of that amount, but it would be represented by repatriation of securities. The normal process has been to accumulate sterling until we were ready for a repatriation operation, which would be of substantial size. I think the last repatriation job we did was in October or November, and then since that time we have been accumulating sterling primarily.

H.M. Jr:

Well, I thought that you knew why I wanted to

- 5 -

see you.

Phillips: Well, I explained to Dr. Clark, sir, the difficulty in setting a figure simultaneously for Canada and the United States, that we couldn't present you with a very clear picture until we had had some discussion with him as to the position of Canada.

Clark: Yes.

Phillips: But I think you will see the position as we go on, sir. I think you will get the hang of it pretty quickly.

H.M.Jr: All right. Please.

Clark: Well, as I say, we have done about 320 million, I think, since - in the last six months. We didn't expect to be able to continue that rate. The fact is that we are superimposing repatriation or accumulation of sterling on top of a major war job. Now, to give you some idea of that, we introduced in the House of Commons the appropriation for the new fiscal year. That involved an expenditure of about one million - one billion three hundred million against a program of a billion four hundred seventy-four million, representing our direct war effort.

Well, to that billion 474 should be added about 433 million of non-war expenditures. At that time, my minister counted about 400 million of repatriation for the year. Then you have certain essential municipal and provincial governmental expenditures. Well, if you add all those up together, you get a total of something like 52 per cent, 52 or 53 per cent of the estimated national income of the country.

Well, now, how much more we can add to that by

- 6 -

accumulation of sterling is - it is a question. We want to stretch - we started up there with the assumption that we will do absolutely the maximum and that we will not chisel on the extent to which our resources are used for the war effort. One way or another, we will do absolutely the maximum that can be done.

Now, one element that has - a new element that has entered the picture since I have been down here is that the estimates of the British expenditures in Canada in the next six months are larger than we previously had been assuming, and that will - that should have its effect on the national income that we have been counting on, and if we raise that national income, I think that we can increase the amount of repatriation, or rather, of assistance to the United Kingdom that we are doing. There is, on the basis of the present estimates, a very large gap to be made up for the next six months, while your estimated holdings in Canada are of the order of six hundred million - it is about that, isn't it?

Phillips: I think so.

Clark: In the six months' period I don't see how we could do all of that. You couldn't get that out of our economy added on to the other things we are doing. We could go a considerable proportion of the way, how far I don't know. I had assumed that we would have a chance here to explore various possibilities of meeting that deficit.

H.M. Jr: Well, how would you suggest you proceed?

Clark: Well, I am not so sure but the best way would be to have Sir Frederick and myself sit down with some of your officers and discuss it, Mr. Secretary.

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- H.M.Jr: It is entirely acceptable to me. I think that would be fine. Then when you have got something on a piece of paper --
- Phillips: Well, I have got some figures worked out, sir, but they are no more gospel than any other estimates made for the next six months. I think we can get an idea of the real magnitude of it - they are not very accurate.
- H.M.Jr: Well, for whatever they are worth, but --
- Clark: The best that can be done at the present time.
- H.M.Jr: But these three gentlemen are available now.
- Clark: Well, I would appreciate the opportunity of talking to them in detail about these figures.
- H.M.Jr: Well, why don't you go down to Dr. White's office and sit down and talk. Shall we say, "go to it?"

March 3, 1941

H.M. Jr:

Sir Frederick Phillips stayed behind to tell me that he had word from England that he was pretty sure that they were going to be able to borrow a hundred million dollars of the Belgian gold located in Canada.

He said that if he didn't hear by tomorrow night, he would send another cable.

I asked him to whom Sir Edward Peacock was responsible, and he said he thought the Ambassador.

I said, "How is he getting along?"

"Well," he said, "he thought he would have something to show pretty soon on the Viscose Company, but," he said, "you are not half as annoyed as I am," and he said, "I know just how you feel," and he gave me the impression that he didn't blame me for being upset with the extreme slowness of the progress or lack of progress of Sir Edward Peacock.

March 3, 1941

Memorandum to: Mr. Harry White
From: Secretary Morgenthau

Sir Frederick Phillips stayed behind to tell me that he had word from England that he was pretty sure that they were going to be able to borrow a hundred million dollars of the Belgian gold located in Canada.

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Copy to:

Mr. Merle Cochran

March 3, 1941

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Copy to:

Mr. Merle Cochran

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 5, 1941

TO Secretary Morgenthau

FROM H. D. White

Subject: March 3 Conference on Canadian Exchange Problem

Present: Sir Frederick Phillips and Mr. Pinsent for the British, Mr. Clark and Mr. Wrong for Canada, and Messrs. Stewart, Cochran, Coe and White for the U. S. Treasury.

Mr. Clark said that Canada expected in the fiscal year beginning in April to attain an "all out" war effort and he presented figures from a recent budget message to show that under this program Canadian Government would try to collect about 56 percent of the Nation's income. Mr. Clark believed that Canada would soon exhaust its dollar exchange assets. He pointed out that contrary to the impression which the U.S. Treasury seemed to have, the United Kingdom was paying little gold or U.S. dollars to Canada and that it was not guaranteeing in the future to pay any at all. He said that in the last six months, the United Kingdom had had a deficit of \$380 million (Canadian \$) with Canada, had met only \$60 million (Canadian \$) of this in gold, and had for the rest given sterling balances and Canadian bonds.

Sir Frederick said that the British expected the deficit of the United Kingdom with respect to Canada for the next four months to be \$385 million (U.S.\$) and that although he was not saying that Canada would get no gold, it was clear that Britain could not meet Canadian deficits of this magnitude with gold or U.S. dollars. In the course of the discussion it developed that the Canadians are now discarding the figures which the British recently gave Secretary Morgenthau respecting their balance of payments with Canada.

Mr. Clark asked for advice on how Canada could meet the approaching exchange problem. He promised to submit more complete figures along the lines of those given us by the British. Sir Frederick said that he was going to suggest to the Secretary that Canada's orders in the United States for goods to be processed in Canada and sent to the British should be placed directly by the British Government under the Lend-Lease program. He thought this would solve only part of the problem, perhaps to the extent of \$100 million.

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Division of Monetary
Research

Sir Frederick was asked whether in view of the fact that Britain was not paying gold or U.S. dollars to Canada, as was understood in the recent discussion, the British Government had more gold and dollar assets to meet its needs than in this country. Sir Frederick replied that the British had growing third country needs and that they must retain a balance.

In answer to queries about figures of British gold holdings, Mr. Pinsent stated that the recent British statement of immediate available resources included only that gold which could be immediately sold in New York. At another point in the conversation there was reference to the amount of French gold which remained in Canada available for switching operations and it was not made clear whether all the newly-mined gold was being sold to the United States. Sir Frederick alluded to the probable unwillingness of the British Government to send gold to this country in anything but battleships and to the fact that it would be difficult for the British to release battleships for this purpose.

March 3, 1941

TO:

The Secretary

Secretary Hull at his press (12 noon)
conference a few minutes ago
told the boys that he favored
a freezing order against Bul-
garia. Asked about other axis
nations, he said that the State
Department had given considera-
tion to that matter from time
to time and had reported its
opinion to the Treasury. @

3/3/41

From: MR. SCHWARZ

March 3, 1941
3:55 p.m.

RE FOREIGN FUNDS CONTROL

Present: Mr. Graves.
Mr. Kuhn
Mr. Schwarz

H.M. Jr:

I got word at five minutes past nine this morning that they wanted us to freeze Bulgaria. We have got this other order in the works, and I thought I would do a little finagling and kind of hold it and do it all at the same time. So I told this to Dean Acheson and said to put it up to Mr. Hull. He said, "All right, let's do it all at once. Why do two?" So he calls back and says Mr. Hull says that is all right. Then Hull holds a press conference and tells them he has turned this thing over to me. I don't know what they call that in the Tennessee mountains but up in the Hudson Valley they call it the double cross.

Kuhn:

I saw it on the ticker.

Schwarz:

The boys walked in and said, "what happened to the messenger?"

H.M. Jr:

Now what am I going to tell them with the foreign press here? I think just tell them the truth, that the banks are closed and we are watching it. So far, there is only one transaction of 20 thousand dollars from Bulgaria to

- 2 -

Yugoslavia. I will just simply say we have got the request, and we are working on it and we will have something in the morning.

- Schwarz: You are sure we will have something?
- H.M.Jr: Oh, yes, because I told him if we didn't clear the other order we would do Bulgaria anyway in the morning.
- Schwarz: Good. That is better. Just have something, without saying what it is.
- H.M.Jr: No, we will have something in the morning. Can you imagine the so and so saying that? Well, you haven't got what I thought you would have. I thought, what harm would there be in simply saying that we have pretty well arrived at, amongst ourselves, what we thought - I would say after consultation with the Federal Reserve Board, what we want, but in order to field test the thing, we sent it out Friday to the presidents of 12 Federal Reserve banks to have a look at it, and after all, how do we know what interest rates would seem attractive in San Francisco and Dallas, and Minneapolis? The only way to find out is to send out into the field, and I hope to have the thing set by the end of the week.
- Graves: I would advise against that.
- Schwarz: They will immediately go to the Federal Reserve presidents.
- Kuhn: They will go to Elliott Thurston and get the stuff, you know.
- Graves: It is still in the studying department.
- Schwarz: If you are not sure whether they will talk--

- 3 -

Kuhn: I might explain what the first part is--

H.M. Jr: I am not going to saying anything. They will have enough with the other.

March 3, 1941
4:30 p.m.

RE AID TO BRITAIN

Present: Mr. Foley
Mr. Cox
Mr. Lockwood
Mr. Hackworth
Mr. Smith
Mr. McCloy

H.M.Jr: The Stenotype is a very useful thing. We go back sometimes for two or three years. Does it bother you?

McCloy: No.

H.M.Jr: I can't remember. I don't bother to try to remember. There are so many things going on all day.

Colonel Dowling took me aside one time and said, "What are you going to do to protect yourself when you are investigated?" So I told him. He said, "You are all right." He said, "You are really going to be investigated. You might as well know it." So he says, "Have you really got a record?" and I said, "I have got a record." He says, "You are all right," because he really had the job of investigating all the Democrats who came in during the World War. When they

- 2 -

get down to this military stuff - or anything else. And I never read it, except we have it all cross-referenced, and it is all filed and everything with my librarian. But then these things come up, and they have happened two or three years ago, what about this Executive order and that Executive order? and it is there and it is very useful.

McCloy: Yes. Of course you are apt to say things in connection - you are apt to say - I don't think that is a good idea, just when you are thinking out loud.

H.M. Jr: I know, but there is only one copy, and it is in the safe. The man who always gets up and walks out of the room - not always, but usually, is Herbert Feis. It just infuriates him. Let's work. Harold Smith is always late anyway.

Foley: All the changes are in two or three (referring to draft of H.R. 1776, 77th Congress). That first change is merely transposing the language on lines 16, 17, and 18 down to line 25. The committee is going to do that anyway. We are just facilitating this. That thing got in the wrong place. The committee put it in the wrong place.

H.M. Jr: Tell me what - I don't want to read all this, Foley - what does it boil down to?

Foley: Well, what we are doing here is saying that in addition to the limitation of a billion three on appropriations that have been made at the time this act takes effect, there will be further limitations. The defense articles may be disposed of under authority of this statute here unless Congress in the appropriation acts prescribes a further limitation.

H.M. Jr: They may be what?

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Foley: They may be disposed of.

H.M.Jr: Say what you said before that.

Foley: The defense articles to be paid for from future appropriations may be disposed of under the Lease-Lend Bill unless in the appropriation acts Congress imposes restrictions.

H.M.Jr: In other words, if they don't do anything, it is all right.

Foley: It can all be disposed of.

H.M.Jr: And the way it was before was that unless Congress did something, nothing could be disposed of.

Foley: That is it.

H.M.Jr: Right?

Foley: Right.

H.M.Jr: Well, it is O.K. by me.

McCloy: Now, will Byrnes take that?

H.M.Jr: That is something else.
How about your two bosses?

McCloy: Well, Secretary Stimson said he still feels it is unwise, of course, to make any restrictions, but if you have to do something by way of a political compromise on it, this is all right, but it means that we will have to make a fight on every appropriation bill against any restriction which would be hampering British aid.

Foley: You would have to do that anyway.

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- Lockwood: Mr. Forrestal feels the same way, but he feels you would have to do it anyway whether you have this clause in here or not. This is only declaratory of the law, he thinks.
- H.M.Jr: I think you would have to do it anyway.
- McCloy: I think that is probably so. We are going to have to go up this Wednesday. We have got a big bill, three billion eight, of which all but two or three hundred million is for supplies, all of which supplies, practically speaking, we want to have available to switch to the aid of any country whose defense is vital to ours. We want to - we would be willing to have a hundred percent restriction against the items in that appropriation bill which relate to the maintenance of troops and barracks and what not, but as soon as you get talking about guns, we can't tell. We might very well want to send over any particular item, every item in that program, to Great Britain.
- Lockwood: That bill won't be passed until after the Lease-Lend Bill, anyway, will it?
- H.M.Jr: You want to make sure about that because it was brought out if it is, then the 10 percent rule applies.
- Lockwood: That is right. You have got a problem of timing there.
- Foley: I was talking to Jack just before we came in here about what the effect would be.
- (Mr. Hackworth entered the conference.)
- Foley: I was talking to Jack as to the effect of the Byrd amendment, and he says in so far as the Army is concerned, the Byrd amendment goes in,

- 5 -

and what they would do is to hide in the appropriations to carry out the Lease-Lend Bill most of the things that they need and they want to make available to Great Britain. In other words, if their normal requirement was five thousand fighters for next year and they would want to get five thousand for Great Britain, if the Byrd amendment went in, they would ask for a thousand, for instance, and under the - that would be under the regular appropriation, and then they would ask for nine thousand under the Lend-Lease.

H.M.Jr: I think Mr. McCloy is a very smart gentleman, but I don't think he is that smart, that he can hide five thousand airplanes. (Laughter)

Foley: On the other hand, if the Byrd amendment didn't go through, if they actually needed five for themselves and five for the British, they would ask for ten for themselves, and they wouldn't ask for any under the Lend-Lease Bill. I think that is the effect of it.

McCloy: You see, what we are doing now, for instance - we have got a land force projected of a million men. We are going to have arms for them. They are going to be pretty well equipped. They are going to be able to really fight this summer. We are now going ahead with another one million men for our land army, making a total of two million. But we won't ever call those second million, if we are not at war. What we want to do is to create the capacity and the weapons for that two million force, and in order to create capacity, you have got to get airplanes and those airplanes, when we get them, will be useless to us unless we can send them over to England to maintain the defense of England, and that is the very thing that we are going up to Congress for now.

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H.M.Jr: Well, I think if they take this as a matter of strategy, I don't think it will be so bad, because I am not nearly so worried about this as I am about the Ellender amendment.

(Mr. Harold Smith entered the conference.)

Smith: Is this the same or a revision?

Foley: This is the same, no changes.

McCloy: How do you figure that Lodge is going to vote?

Foley: Well, Walsh is against the bill. I figure Lodge is against the bill.

McCloy: Lodge told Marshall this morning after a session that we had with him that he was going to vote for the bill.

Foley: He did? Well, he didn't vote for all the emasculating amendments, then because he was for that proposal of Taft's that the thing to do was to make a lump sum available to Great Britain and not to have this delegation of power.

McCloy: They talked about the Byrd amendment this morning.

H.M.Jr: Are you (Smith) satisfied with this?

Smith: Yes.

H.M.Jr: Now, you are at a disadvantage, you and I, because we didn't meet with these people.

Mr. Hackworth, would you like to ask some questions of the Director of the Budget?

Hackworth: I will tell you my position. Since I wasn't at the meeting yesterday, I am more or less in the

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role today of observer. I am not in a position to talk intelligently on the subject.

H.M.Jr: Well, what I wanted was to give you the opportunity to ask these gentlemen any questions, and then we are meeting with Mr. Hull at 9:15 tomorrow morning, and I thought you could get this to Mr. Hull tonight, and he wouldn't get it cold in the morning.

Hackworth: When I read this over, if I have any questions, I would like to.

H.M.Jr: We will just wait while you read it now. We have got enough lawyers around here.

Did you take the bar exam, Harold?

Smith: No.

H.M.Jr: You and I, we are just a couple of farmers. You see my lawyer has got in such shape he brings it in, and he says, "Here, take it and like it;" and I say, "Yes, sir," and that ends that argument.

McCloy: What is a client for?

H.M.Jr: Just to say, "Yes, sir."

Hackworth: Well, Mr. Secretary, I don't see anything in here that would seem to change the situation materially. I may not understand these amendments, but I don't see that the situation is materially changed except that you limit the amount that may be turned over under existing appropriations and leave it to the department of the Government having control over these things to determine their value. Isn't that about the size of it?

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- McCloy: That is the first part of it. The second part of it is the meat of it.
- H.M.Jr: Can I put it in a very crude way, the way it was explained, so that I can understand it? The way the Byrd amendment read was that unless a subsequent bill specifically said that a certain percentage could be allotted for lend-lease purposes, none of it could be done. This says that it is all right to give all of it for lend-lease unless in an appropriation bill a limitation is set up. Is that right?
- Foley: That is right.
- H.M.Jr: Now, that is the difference. That is a very important difference.
- Hackworth: Yes, I see. That is in the second part.
- Foley: That is right. The Byrd amendment hasn't been adopted yet, but this is legislative strategy to head off the Byrd amendment. It has been explained to us by George that Byrd wants to put Congress on notice that unless in the subsequent appropriations for the Army and the Navy they specifically deal with the amount of those articles that will be purchased with those appropriations that may be made available to another country, all of them could be made available to another country and instead of putting it - instead of saying that none of the articles could be made available to another country, unless Congress specifically said in the appropriation that a portion of them could be made available, which would be the effect of the Byrd amendment, this puts Congress on notice another way and says that unless affirmative action is taken in the subsequent appropriation for the Army and the Navy, all of it could be made available to another country.

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Hackworth: Yes.

Smith: And all of this, as I understand it, pertains to appropriations subsequent to the date of the adoption of the Lend-Lease Bill.

Foley: And as to appropriations prior, there is a billion three limitation.

Smith: That is right.

Foley: On the value that could be made available. Here is the Byrd amendment, Mr. Hackworth.

Hackworth: Yes, this is the reverse. It seems to me questionable whether he will take it.

H.M.Jr: Well, from remarks that Senator George made, we thought that he would, at least that Byrnes would take it. I don't know whether Byrd would, but Byrnes would. Good luck.

Cox: Thank you.
(Mr. Cox left the conference.)

Hackworth: Well, I don't see anything wrong with it myself.

H.M.Jr: Then we will cut it short that we will all be at Mr. Hull's office at 9:15 tomorrow morning.
Harold, have you got a few minutes you could talk with me?

Smith: Yes.

Calendar No. 51

77TH CONGRESS
1ST SESSION**H. R. 1776**

[Report No. 45]

IN THE SENATE OF THE UNITED STATES

FEBRUARY 10, 1941

Read twice and referred to the Committee on Foreign Relations

FEBRUARY 13, 1941

Reported by Mr. GEORGE, with amendments

(Omit the part struck through and insert the part printed in italic)

AN ACT

Further to promote the defense of the United States, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
 2 *tives of the United States of America in Congress assembled,*
 3 That this Act may be cited as "An Act to Promote the
 4 Defense of the United States".

5 SEC. 2. As used in this Act—

6 (a) The term "defense article" means—

7 (1) Any weapon, munition, aircraft, vessel, or
 8 boat;

9 (2) Any machinery, facility, tool, material, or
 10 supply necessary for the manufacture, production, proc-

1 essing, repair, servicing, or operation of any article
2 described in this subsection;

3 (3) Any component material or part of or equip-
4 ment for any article described in this subsection;

5 (4) Any other commodity or article for defense.
6 Such term "defense article" includes any article described
7 in this subsection: Manufactured or procured pursuant to
8 section 3, or to which the United States or any foreign
9 government has or hereafter acquires title, possession, or
10 control.

11 (b) The term "defense information" means any plan,
12 specification, design, prototype, or information pertaining to
13 any defense article.

14 SEC. 3. (a) Notwithstanding the provisions of any
15 other law, the President may, from time to time, when he
16 deems it in the interest of national defense, ~~to the extent~~
17 ~~to which funds are made available or contracts are from~~
18 ~~time to time authorized by Congress~~, authorize the Secre-
19 tary of War, the Secretary of the Navy, or the head
20 of any other department or agency of the Government—

21 (1) To manufacture in arsenals, factories, and ship-
22 yards under their jurisdiction, or otherwise procure, any
23 defense article for the government of any country whose
24 defense the President deems vital to the defense of the

25 United States/~~to the extent to which funds are made available~~
 ~~or contracts are from time to time authorized by Congress.~~

(2) To sell, transfer, exchange, lease, lend, or otherwise dispose of, to any such government any defense article, but no defense article not manufactured or procured under paragraph (1) shall in any way be disposed of under this paragraph, except after consultation with the Chief of Staff of the Army or the Chief of Naval Operations of the Navy, or both. The value of defense articles disposed of in any way under authority of this paragraph, and procured from funds heretofore appro-

The value of such defense articles shall be determined by the head of the department or agency concerned or such other department, agency or officer as and in the manner provided in the rules and regulations issued hereunder. Defense articles procured out of funds hereafter appropriated may be disposed of under the authority of this paragraph unless Congress in such appropriation acts or otherwise provides to the contrary.

(3) To test, inspect, prove, repair, outfit, recondition, or otherwise to place in good working order any

defense article for any such government, to the extent which funds are made available or contracts are from time to time authorized by Congress.

(4) To communicate to any such government any defense information, pertaining to any defense article furnished to such government under paragraph (2) of this subsection.

(5) To release for export any defense article to any such government.

(b) The terms and conditions upon which any such foreign government receives any aid authorized under subsection (a) shall be those which the President deems satisfactory, and the benefit to the United States may be payment or repayment in kind or property, or any other

1 direct or indirect benefit which the President deems
2 satisfactory.

3 (e) Neither the President nor the head of any depart-
4 ment or agency shall, after June 30, 1943, exercise any
5 of the powers conferred by or pursuant to subsection (a);
6 nor shall such powers be exercised if terminated by a con-
7 current resolution by both Houses of the Congress, except
8 that until July 1, 1946, such powers may be exercised to
9 the extent necessary to carry out a contract or agreement
10 with such a government made before July 1, 1943.

11 (c) After June 30, 1943, or after the passage of a con-
12 current resolution by the two Houses before June 30, 1943,
13 which declares that the powers conferred by or pursuant to
14 subsection (a) are no longer necessary to promote the defense
15 of the United States, neither the President nor the head of any
16 department or agency shall exercise any of the powers con-
17 ferred by or pursuant to subsection (a); except that until
18 July 1, 1946, any of such powers may be exercised to the
19 extent necessary to carry out a contract or agreement with
20 such a foreign government made before July 1, 1943, or
21 before the passage of such concurrent resolution, whichever is
22 the earlier.

23 (d) Nothing in this Act shall be construed to author-
24 ize or to permit the authorization of convoying vessels by
25 naval vessels of the United States.

1 (e) Nothing in this Act shall be construed to authorize
2 or to permit the authorization of the entry of any American
3 vessel into a combat area in violation of section 3 of the
4 Neutrality Act of 1939.

5 SEC. 4. All contracts or agreements made for the dis-
6 position of any defense article or defense information pur-
7 suant to section 3 shall contain a clause by which the foreign
8 government undertakes that it will not, without the consent
9 of the President, transfer title to or possession of such defense
10 article or defense information by gift, sale, or otherwise,
11 or permit its use by anyone not an officer, employee, or
12 agent of such foreign government.

13 SEC. 5. (a) The Secretary of War, the Secretary of the
14 Navy, or the head of any other department or agency of
15 the Government involved shall, when any such defense arti-
16 cle or defense information is exported, immediately inform
17 the department or agency designated by the President to
18 administer section 6 of the Act of July 2, 1940 (54 Stat.
19 714), of the quantities, character, value, terms of disposi-
20 tion, and destination of the article and information so
21 exported.

22 (b) The President from time to time, but not less fre-
23 quently than once every ninety days, shall transmit to the
24 Congress a report of operations under this Act except such
25 information as he deems incompatible with the public interest

1 to disclose. Reports provided for under this subsection shall
2 be transmitted to the Secretary of the Senate or the Clerk
3 of the House of Representatives, as the case may be, if the
4 Senate or the House of Representatives, as the case may be,
5 is not in session.

6 SEC. 6. (a) There is hereby authorized to be appro-
7 priated from time to time, out of any money in the Treasury
8 not otherwise appropriated, such amounts as may be neces-
9 sary to carry out the provisions and accomplish the purposes
10 of this Act.

11 (b) All money and all property which is converted
12 into money received under section 3 from any government
13 shall, with the approval of the Director of the Budget,
14 revert to the respective appropriation or appropriations out
15 of which funds were expended with respect to the defense
16 article or defense information for which such consideration
17 is received, and shall be available for expenditure for the
18 purpose for which such expended funds were appropriated
19 by law, during the fiscal year in which such funds are
20 received and the ensuing fiscal year; *but in no event shall any*
21 *funds so received be available for expenditure after June*
22 *30, 1946.*

23 SEC. 7. The Secretary of War, the Secretary of the
24 Navy, and the head of the department or agency shall in all
25 contracts or agreements for the disposition of any defense

1 article or defense information fully protect the rights of all
2 citizens of the United States who have patent rights in and
3 to any such article or information which is hereby authorized
4 to be disposed of and the payments collected for royalties on
5 such patents shall be paid to the owners and holders of such
6 patents.

7 SEC. 8. The Secretaries of War and of the Navy are
8 hereby authorized to purchase or otherwise acquire arms,
9 ammunition, and implements of war produced within the
10 jurisdiction of any country to which section 3 is applicable,
11 whenever the President deems such purchase or acquisition
12 to be necessary in the interests of the defense of the United
13 States.

14 SEC. 9. The President may, from time to time, promul-
15 gate such rules and regulations as may be necessary and
16 proper to carry out any of the provisions of this Act; and he
17 may exercise any power or authority conferred on him by
18 this Act through such department, agency, or officer as he
19 shall direct.

Passed the House of Representatives February 8, 1941.

Attest:

SOUTH TRIMBLE,

Clerk.

By H. NEWLIN MEGILL.

March 3, 1941
5:08 p.m.

H.M.Jr: Hello.

Operator: Hopkins.

Harry Hopkins: Hello.

H.M.Jr: (In falsetto voice) Harry, how are you?

H: (Laughs).

H.M.Jr: This is Henry.

H: Go to hell!

H.M.Jr: (Laughs).

H: A little of that is very funny.

H.M.Jr: What?

H: A little of that is very funny. By God, you're getting under my skin now.

H.M.Jr: (Laughs). Oh, am I? Really?

H: (Laughs). Yeah.

H.M.Jr: I sent Cox over to see you. Has he come?

H: Not yet.

H.M.Jr: Well, he'll be over there. They got this thing - they met in the morning with Harold and they all came here with a lawyer from State, War and Navy and we got in agreement, and we're sending you over a copy. I thought you might show it to the President tonight.

H: How is it going to go with the leaders?

H.M.Jr: Well, and Cox after he sees you is going to try to see Barkley, Byrnes and George tonight.

H: Yet tonight.

H.M.Jr: Yet tonight. We worked hard.

- 2 -

H: Good. You didn't have a meeting with Hull.

H.M.Jr: No, that's scheduled at 9:15 tomorrow morning.

H: With the Senators?

H.M.Jr: Well,, at 9:15 with us - I mean the Departments - and at 10:00 o'clock with the Senators.

H: Do you feel a little better about it all?

H.M.Jr: Just this particular amendment, if they'll take it, this will do it. But as to the bill, I don't know what has happened so I don't know. Do you - anything on the bill?

H: Well, I saw Bob Jackson and he told me he saw Austin last night and Austin told him he thought the bill wasn't going to pass for a couple of weeks, which is bad news.

H.M.Jr: Well, nothing has happened as far as I'm concerned since I've talked to you to cheer you up - to cheer me up, and there you are.

H: Yeah. All right, Henry. I'll see Cox.

H.M.Jr: Right.

March 3, 1941
5:10 p.m.

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

Arthur Purvis: Good afternoon, Henry.

H.M.Jr: Are you calling me?

P: Yes, I was calling you. Arthur Purvis.

H.M.Jr: Right, Henry Morgenthau, Jr.

P: (Laughs). Henry, I have here a little booklet which covers not only the appropriations for the Army and Navy, but also for the "C" class items.

H.M.Jr: Yeah.

P: I would like to give that to you or better still I'd like to send it over to you.

H.M.Jr: Well, I'm available.

P: Are you?

H.M.Jr: Yeah, I'm kind of lonesome. I haven't seen you in a week.

P: All right. Well, I'll come over.

H.M.Jr: Haven't seen you in a week.

P: Well, I tell you, I've been in bed for two days with one of those wretched influenza colds.

H.M.Jr: Oh, for heaven sakes!

P: I went to bed on Friday morning and stayed until yesterday evening.

H.M.Jr: Well, I'll be - can you get over in ten minutes?

P: Splendid. I'll be there.

H.M.Jr: Have you had your tea yet?

P: No.

H.M.Jr: I'll have some for you.

P: Thank you very much.

March 3, 1941
5:23 p.m.

H.M.Jr: Hello.

Operator: Secretary Jones.

H.M.Jr: Hello, Jesse.

Jesse
Jones: How're you getting along?

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

J: I want to sell you some Arkansas bonds.
(Laughs).

H.M.Jr: Well, I don't know. (Laughs). You got a
wonderful press on it.

J: Oh, I knew I'd get that. I'll be getting that
for two months. I knew that.

H.M.Jr: Well, we had 94% turn-in on our refunding.

J: 94.

H.M.Jr: Yeah, 98 on the notes and 89 on the bonds
which is good.

J: That's fine.

H.M.Jr: So that's all right.

J: Well, the bonds - the 7-9's are going good
aren't they.

H.M.Jr: Yeah. They're going all right. So that's all
right and we'll just kind of let it simmer
and maybe at the end of the week or next week
we'll talk to you about maybe getting a little
money for you.

J: Well, that's what I was going to ask you
when you had in mind because if we make any
of these Arkansas bonds available for the
present owners we'll have to be working on
it with you in the next week or 7 or 8 days.

- 2 -

H.M.Jr: Well, why don't you have - Dan will be back Wednesday; I ordered him to take off two days - have your fellow - what's his name?

J: Mulligan.

H.M.Jr: Have Mulligan get in touch with him Wednesday or Thursday. How will that be?

J: That'll be fine, and about when do you think it ought to be done?

H.M.Jr: Well, I don't know. I'd want to talk it over with Dan too. Certainly not this week but

J: Maybe the early part of next week.

H.M.Jr: Yeah. I just don't know. I'd have to do a little talking but if Mulligan would contact Dan, say, Wednesday or Thursday, they we'll put our minds to it.

J: O.K.

H.M.Jr: How's that?

J: That'll be fine.

H.M.Jr: O.K.

J: Thanks.

March 3, 1941

6:45 p.m.

Present: Mr. Foley
Mr. White
Mr. Kuhn
Mr. Bernstein
Mr. Schwarz

HM Jr: Well, it didn't work (Laughter).

The President said he isn't going to take any memorandum from Cordell Hull through me. It should come direct from the State Department through the regular channels he said, and he wants the Secretary of State's initials and mine on the Executive Order before he signs it. He said, "What does that mean?" I said, "I don't know," and then he said, "I want an agreement. I want his name on it."

White: Well, I guess that we better go through with Bulgaria then.

HM Jr: That's what the Germans are doing (laughter).

White: That's pretty good. Is it the first time you said that?

HM Jr: Of course, it's the first time. How could I get the repartee? That reminds me of my friend, Nathan Straus. Every time I say anything witty to him he always says, "Is that original?"

Of course, I think the President is perfectly right, and I have been saying right along - saying to the President - this is the way he wants the thing. He wants us to agree.

White: That's right.

Bernstein: Acheson feels very unhappy. He kept saying several times what a terrible hot spot he was in. I guess he wanted me to appreciate it.

- 2 -

Foley: He thought he was in the clear and he so indicated to the Secretary this morning.

Bernstein: He didn't know this was going to happen. Apparently there is a conflict of views in the State Department.

(At this point, HM Jr talked to Robert Jackson on the telephone and the following is HM Jr's end of the conversation:)

"I talked with the President and read him this and told him of my conversation with you. He said, 'Why do I get a memorandum from the Secretary of State through you?' So I said, 'Well, Dean Acheson gave it to us and Hull gave it to him.' The President said, 'Well, I'm not going to take it. I asked that you and Bob Jackson and Hull get together and do something.' Then he said, 'Send it back to the State Department. What does that mean?' and I said, 'I really don't know.'

"I don't blame the President. I think he is right.

"No, I think it is hard on Dean Acheson because he has tried hard, but I am going to send it back immediately to Acheson. And the President told me this - that before he signs any Executive Order he wants Hull, yourself and me to initial it. I think what we will do is to go ahead and do Bulgaria. Have you signed that?

"Well, where could the boys reach you?

"You will be at home. How long?

"I can't. I'm due at Hull's office at 9:15 tomorrow.

"Yes. On this lend-lease bill.

"I am going to ask Hull first to sign the Executive Order on Bulgaria and then I will sign it, and if you will leave word with the switchboard where the boys could reach you so that you could sign it - have you a copy of it?

(Foley told HM Jr it was the same as all the other orders.)

- 3 -

"Oh, Foley says it is just the same. Yes, Foley and Bernstein are here.

"Has Townsend got a copy of it?

(Foley again mentioned to HM Jr that it was the same order only that the name "Bulgaria" is used. Foley also said that Townsend doesn't have a copy of it.)

"Yes, we can get a copy of it to Townsend.

"Pardon?

"Well, the President won't sign it unless your name is on it.

"Townsend can sign it?

"You will tell Townsend. Well, that's all right. Well, I'm going to insist that Hull sign it first.

"Thank you. Thank you."

HM Jr: Well, that's that. Now you boys can go to work.

DEPARTMENT OF STATE

THE SECRETARY

March 3, 1941.

Memorandum for the President

I have examined the draft of the proposed executive order amending #8389 of April 10, 1940, and it is my opinion that the ~~proposed~~ draft meets and complies with your recent order or memorandum to the Secretary of the Treasury, the Attorney General, and the Secretary of State, directing action along these lines.

You of course are aware of the doubts and misgivings I have expressed during past weeks as to the proposed action, but now that you have decided the matter I shall cheerfully do my part in carrying out your instructions.

CH

EXECUTIVE ORDER

ESTABLISHING A FOREIGN EXCHANGE AND FOREIGN-OWNED PROPERTY CONTROL COMMITTEE, REGULATING TRANSACTIONS IN FOREIGN EXCHANGE AND FOREIGN-OWNED PROPERTY, PROVIDING FOR THE REPORTING OF ALL FOREIGN-OWNED PROPERTY, AND RELATED MATTERS.

By virtue of and pursuant to the authority vested in me by Section 5(b) of the Act of October 6, 1917 (40 Stat. 415), as amended, by virtue of all other authority vested in me, and by virtue of the continued existence of a period of national emergency, and finding that this Order is in the public interest and is necessary in the interest of national defense and security, I, FRANKLIN D. ROOSEVELT, PRESIDENT of the UNITED STATES OF AMERICA, do prescribe the following:

TITLE I

Section 1. There is hereby established a Foreign Exchange and Foreign-Owned Property Control Committee (hereinafter referred to as the "Committee"). The Committee shall consist of the Secretary of State, the Secretary of the Treasury and the Attorney General. The Committee shall formulate policies relating to the carrying out of the purposes of this Order. It shall have a Secretary and such staff as it deems necessary. Any member of the Committee may act through a designee.

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Section 2. Subject to the supervision of and policies formulated by the Committee, this Order shall be administered by the Secretary of the Treasury. The Secretary of the Treasury shall keep the Committee currently and fully informed as to the administration of the Order.

TITLE II

Executive Order No. 8369 of April 10, 1940, as amended, is amended to read as follows:

Section 1. All of the following transactions are prohibited, except as specifically authorized by the Secretary of the Treasury by means of regulations, rulings, instructions, licenses, or otherwise, if (i) such transactions are by, or on behalf of, or pursuant to the direction of any foreign country designated in this Order, or any national thereof, or (ii) such transactions involve property in which any foreign country designated in this Order, or any national thereof, has at any time on or since the effective date of this Order had any interest of any nature whatsoever, direct or indirect;

A. All transfers of credit between any banking institutions within the United States; and all transfers of credit between any banking institution within the United States and any banking institution outside the United States

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(including any principal, agent, home office, branch, or correspondent outside the United States, of a banking institution within the United States);

B. All payments by or to any banking institution within the United States;

C. All transactions in foreign exchange by any person within the United States;

D. The export or withdrawal from the United States, or the earmarking of gold or silver coin or bullion or currency by any person within the United States;

E. All transfers, withdrawals or exportations of, or dealings in, any evidences of indebtedness or evidences of ownership of property by any person within the United States; and

F. Any transaction for the purpose or which has the effect of evading or avoiding the foregoing prohibitions.

Section 2.

A. All of the following transactions are prohibited, except as specifically authorized by the Secretary of the Treasury by means of regulations, rulings, instructions, licenses, or otherwise:

(1) The acquisition, disposition or transfer of, or other dealing in, or with respect to, any security or evidence thereof

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on which there is stamped or imprinted, or to which there is affixed or otherwise attached, a tax stamp or other stamp of a foreign country designated in this Order or a notarial or similar seal which by its contents indicates that it was stamped, imprinted, affixed or attached within such foreign country, or where the attendant circumstances disclose or indicate that such stamp or seal may, at any time, have been stamped, imprinted, affixed or attached thereto; and

(2) The acquisition by, or transfer to, any person within the United States of any interest in any security or evidence thereof if the attendant circumstances disclose or indicate that the security or evidence thereof is not physically situated within the United States.

B. The Secretary of the Treasury may investigate, regulate, or prohibit under such regulations, rulings, or instructions as he may prescribe, by means of licenses or otherwise, the sending, mailing, importing or otherwise bringing, directly or indirectly, into the United States, from any foreign country, of any securities or evidences thereof or the receiving or holding in the United States of any securities or evidences thereof so brought into the United States.

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Section 3. The term "foreign country designated in this Order" means a foreign country included in the following schedule, and the term "effective date of this Order" means with respect to any such foreign country, or any national thereof, the date specified in the following schedules:

- (a) April 8, 1940—
Norway and
Denmark;
- (b) May 10, 1940—
The Netherlands,
Belgium and
Luxembourg;
- (c) June 17, 1940—
France (including Monaco);
- (d) July 10, 1940—
Latvia, Estonia and
Lithuania;
- (e) October 9, 1940—
Rumania; and
- (f) March 4, 1941—
Albania,
Austria,
Bulgaria,
Czechoslovakia,
Denzig,
Finland,
Germany,
Hungary,
Italy,
Liechtenstein,
Poland,
San Marino,
Sweden, and
Switzerland.

The "effective date of this Order" with respect to any foreign country not designated in this Order shall be deemed to be March 4, 1941.

Section 4.

1. The Secretary of the Treasury may require, by means of regulations, rulings, instructions, or otherwise, any person to furnish under oath, in the form of reports or otherwise, from time to time and at such time or times as he may designate, complete information relative to any transaction referred to in section 3(b) of the Act of October 6, 1917 (40 Stat. 415), as amended, or with respect to the interest of any foreign country or any national thereof in any property, including the production of any books of account, contracts, letters, or other papers, in connection therewith, in the custody or control of such person, either before or after such transaction is completed; and the Secretary of the Treasury may, through any agency that he may designate, investigate any such transaction or act, or any violation of the provisions of this Order. The Secretary of the Treasury shall by regulations require the filing of reports with respect to all foreign-owned property in the United States.

2. Every person engaging in any of the transactions referred to in Sections 1 and 2 of this Order shall keep a full record of each such transaction engaged in by him, regardless of whether such transaction is effected pursuant to license or otherwise, and such record shall be available for examination by a representative of the Treasury Department for at least one year after the date of such transaction.

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Section 5.

A. As used in the first paragraph of Section 1 of this Order "transactions [which] involve property in which any foreign country designated in this Order, or any national thereof, has * * * any interest of any nature whatsoever, direct or indirect," shall include, but not by way of limitation (i) any payment or transfer to any such foreign country or national thereof, (ii) any export or withdrawal from the United States to such foreign country, and (iii) any transfer of credit, or payment of an obligation, expressed in terms of the currency of such foreign country.

B. The term "United States" means the United States and any place subject to the jurisdiction thereof; the term "continental United States" means the states of the United States, the District of Columbia, and the Territory of Alaska.

C. The term "person" means an individual, partnership, association, corporation, or other organization.

D. The term "foreign country" shall include, but not by way of limitation,

(i) The state and the government thereof on the effective date of this Order as well as any political subdivision, agency or instrumentality thereof or any territory, dependency, colony, protectorate, mandate, dominion, possession or place subject to the jurisdiction thereof,

(ii) Any other government (including any political subdivision, agency, or instrumentality thereof) to the extent and only to the extent that such government exercises or claims to exercise de jure or de facto sovereignty over the area which on such effective date constituted such foreign country, and

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(iii) Any person to the extent that such person is, or has been, or to the extent that there is reasonable cause to believe that such person is, or has been, since such effective date, acting or purporting to act directly or indirectly for the benefit or on behalf of any of the foregoing.

E. The term "national" shall include,

(i) Any person who has been deniciled in, or a subject, citizen or resident of a foreign country at any time on or since the effective date of this Order, but shall not, except as hereinafter provided, include any individual deniciled in and residing only in the United States at all times on and since such effective date and at all times on and since June 17, 1940, if such effective date is subsequent to June 17, 1940,

(ii) Any partnership, association, corporation or other organization, organized under the laws of, or which on or since the effective date of this Order had or has had its principal place of business in such foreign country, or which on or since such effective date was or has been controlled by, or 25 per centum or more of the outstanding voting securities (or the equivalent thereof) of which was or has been owned or controlled by, directly or indirectly, such foreign country and/or one or more nationals thereof as herein defined,

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(iii) Any person to the extent that such person is, or has been, since such effective date, acting or purporting to act directly or indirectly for the benefit or on behalf of any national of such foreign country, and

(iv) Any other person who there is reasonable cause to believe is a "national" as herein defined.

In any case in which by virtue of the foregoing definition a person is a national of more than one foreign country, such person shall be deemed to be a national of each such foreign country. In any case in which the combined interests of two or more foreign countries designated in this Order and/or nationals thereof are sufficient in the aggregate to constitute, within the meaning of the foregoing, control or 25 per centum or more of the voting securities (or the equivalent thereof) of a partnership, association, corporation or other organization, but such control or voting interest is not held by any one such foreign country and/or nationals thereof, such partnership, association, corporation or other organization shall be deemed to be a national of each of such foreign countries.

F. The term "banking institution" as used in this Order shall include any person engaged primarily or incidentally in the business of banking, of granting or transferring credits, or of purchasing or selling

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foreign exchange or procuring purchasers and sellers thereof, as principal or agent, or any person holding credits for others as a direct or incidental part of his business, or brokers; and, each principal, agent, home office, branch or correspondent of any person so engaged shall be regarded as a separate "banking institution".

8. The term "this Order", as used in this Title, shall mean Executive Order No. 6389 of April 10, 1940, as amended.

Section 6. Executive Order No. 6389 of April 10, 1940, as amended, shall no longer be deemed to be an amendment to or a part of Executive Order No. 6560 of January 15, 1934. Executive Order No. 6560 of January 15, 1934, and the Regulations of November 12, 1934, are hereby modified in so far as they are inconsistent with the provisions of this Order, and except as so modified, continue in full force and effect. Nothing herein shall be deemed to revoke any license, ruling, or instruction now in effect and issued pursuant to Executive Order No. 6560 of January 15, 1934, as amended, or pursuant to this Order; provided, however, that all such licenses, rulings, or instructions, shall be subject to the provisions hereof. Any amendment, modification or revocation by or pursuant to the provisions of this Order of any orders, regulations, rulings, instructions or licenses shall not affect any act done, or any suit or proceeding had or commenced in any civil or criminal case prior to such amendment, modification or revocation, and all penalties, forfeitures and liabilities under any such orders, regulations, rulings, instructions or licenses shall continue and

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may be enforced as if such amendment, modification or revocation had not been made.

Section 7. The Secretary of the Treasury is authorized and empowered to prescribe from time to time regulations, rulings, and instructions to carry out the purposes of this Order and to provide therein or otherwise the conditions under which licenses may be granted by or through such officers or agencies as the Secretary of the Treasury may designate, and the decision of the Secretary with respect to the granting, denial or other disposition of an application or license shall be final.

Section 8. It shall be conclusively presumed that any regulation, license, ruling, instructions or other action by the Secretary of the Treasury purporting to be under this Order has been issued or taken in accordance with and subject to the supervision of and the policies formulated by the Committee.

Section 9. Section 5(b) of the Act of October 6, 1917, as amended, provides in part:

• • • Whoever willfully violates any of the provisions of this subdivision or of any license, order, rule or regulation issued thereunder, shall, upon conviction, be fined not more than \$10,000, or, if a natural person, may be imprisoned for not more than ten years, or both; and any officer, director, or agent of any corporation who knowingly participates in such violation

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may be punished by a like fine, imprisonment,
or both."

Section 10. This Order and any regulations, rulings,
licenses or instructions issued hereunder may be amended,
modified or revoked at any time.

THE WHITE HOUSE,

, 1941.

REGULATIONS
Office of the Secretary,
March 4, 1941.

REGULATIONS UNDER EXECUTIVE ORDER NO. 8389, AS AMENDED.

Relating to Transactions in Foreign Exchanges
and Foreign-Owned Property, the Reporting
of all Foreign-Owned Property and Related
Matters. (e)

The Regulations of April 10, 1940, as amended (Section 130.1 to 130.6), are amended to read as follows:

Section 130.1. Authority for regulations. These regulations are prescribed and issued under authority of Section 5(b) of the Act of October 6, 1917 (40 Stat. 411), as amended, and Executive Order No. 8389 of April 10, 1940, as amended by Executive Order No. of March 4, 1941. (e)

Section 130.2. Definitions.

(a) The term "Order" shall refer to Executive Order No. 8389 of April 10, 1940, as amended by Title II of Executive Order No. of March 4, 1941.

(b) The term "Regulations" shall refer to these regulations.

(c) The terms "property" and "property interest" or "property interests" shall include, but not by way of limitation, money, checks, drafts, bullion, bank deposits, savings accounts, any debts, indebtedness or obligations, financial securities commonly dealt in by bankers, brokers, and investment houses, notes, debentures, stocks, bonds, coupons, bankers' acceptances, mortgages, pledges, liens or other right in the nature of security, warehouse receipts, bills of lading, trust receipts, bills of sale, any other evidences of title, ownership or indebtedness, goods, various merchandise, chattels, stocks on hand, ships, goods on ships, real estate mortgages, vendors' sales agreements, land contracts, irrevocable estate and any interest therein, leaseholds, ground rents, options, negotiable instruments, trade acceptances, royalties, bank accounts, accounts payable, judgments, patents, trademarks, copyrights, contracts or licenses affecting or involving patents, trademarks or copyrights, insurance policies, safe deposit boxes and their contents, annuities, pooling agreements, contracts of any nature whatsoever, or others.

(d) Safe deposit boxes shall be deemed to be in the "custody" not only of all persons having access thereto but also of the lessors of such boxes whether or not such lessors have access to such boxes. The foregoing shall not in any way be regarded as a limitation upon the meaning of the term "custody".

^e Sections 130.1 to 130.6e - Sec. 5(b), 40 Stat. 415 and 966; Sec. 2 48 Stat. 41 54 Stat. 1793; Ex. Order 8389, April 10, 1940, as amended by Ex. Order of March 4, 1941.

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(a) For the meaning of other terms reference should be made to the definitions contained in the Order. In interpreting rulings, licenses, instructions, etc., issued pursuant to the Order and regulations, particular attention is directed to the provisions of General Ruling No. 4, as from time to time hereafter amended. (e)

Section 130.3. Licenses. Applications for licenses to engage in any transaction referred to in sections 1 or 2 of the Order shall be filed in triplicate with the Federal Reserve Bank of the district or the Governor or High Commissioner of the territory or possession of the United States in which the applicant resides or has his principal place of business or principal office or agency, or if the applicant has no legal residence or principal place of business or principal office or agency in a Federal Reserve district or a territory or possession of the United States then with the Federal Reserve Bank of New York or the Federal Reserve Bank of San Francisco. Application forms may be obtained from any Federal Reserve Bank, the Governor or High Commissioner of a territory or possession of the United States, or the Secretary of the Treasury, Washington, D.C. The original of each application shall be executed under oath before an officer authorized to administer oaths, or if executed outside of the United States, before a diplomatic or consular officer of the United States. The applicant shall furnish such further information as shall be requested of him by the Secretary of the Treasury or the Federal Reserve Bank or other agency at which the application is filed. Licenses will be issued by the Secretary of the Treasury, acting directly or through any officers or agencies that he may designate, and by the Federal Reserve Banks, acting in accordance with such regulations, rulings, and instructions as the Secretary of the Treasury may from time to time prescribe, in such cases or classes of cases as the Secretary of the Treasury may determine. The Federal Reserve Bank or other agency at which an application is filed will advise the applicant of the decision respecting the application. Licenses for exports, withdrawals or imports, after having been cancelled by the collector of customs or the postmaster through whom the exportation, withdrawal or importation was made, may be returned by such collector of customs or postmaster to the licensee. Appropriate forms for applications and licenses will be prescribed by the Secretary of the Treasury. Licensees may be required to file reports upon the consummation of the transactions. The decision of the Secretary of the Treasury with respect to an application for license shall be final. (e)

Section 130.4. Reports of Property Interests of All Foreign Countries and Nationals Thereof.

(a) On or before April 4, 1943, reports shall be filed on Form TFR-300, duly executed under oath, containing the information called for in such Form, with respect to all property subject to the jurisdiction of the United States on the opening of business on June 1, 1940, and with respect to all property subject to the jurisdiction of the United States on the opening of business on March 4, 1943, in which the respective dates any foreign country or any national thereof had an interest of any nature whatsoever, direct or indirect, regardless whether a report on Form TFR-100 with respect to any such property had previously been filed. Such reports shall be filed by:

- (1) Every person in the United States, directly or indirectly holding, or having title to, or custody, control or possession of

such property on either or both of the aforementioned respective dates.

(2) Every agent or representative in the United States for any foreign country or any national thereof having any information with respect to such property.

Provided, That no report on Form TFR-300 need be filed where the total value of all property interests of any foreign country or national to be reported is less than \$1,000.

Without any limitation whatsoever of the foregoing, reports on Form TFR-300, filed as required above, shall be filed by every partner-ship, association, corporation, or other organization organized under the laws of the United States or any state, territory, or district of the United States or having its principal place of business in the United States, with respect to any shares of its stock or any of its debentures, notes, bonds, coupons or other obligations or securities or any equity therein, in which any foreign country or any national thereof had an interest or both of the aforementioned respective dates, any interest of any nature whatsoever, direct or indirect.

(b) Reports shall be executed and filed in triplicate with the Federal Reserve Bank of the district or the Governor or High Commissioner of the territory or possession of the United States in which the party filing the report resides or has his principal place of business or principal office or agency, or if such party has no legal residence or principal place of business or principal office or agency in a Federal Reserve district or a territory or possession of the United States, then with the Federal Reserve Bank of New York or the Federal Reserve Bank of San Francisco. A report shall be deemed to have been filed when it is received by the proper Federal Reserve Bank or other agency or when it is properly addressed and mailed and bears a postmark dated prior to midnight of the date upon which the report is due. Each Federal Reserve Bank or other agency shall promptly forward two copies of every report filed with it to the Secretary of the Treasury.

(c) (1) All spaces in the report must be properly filled in. Reports found not to be in proper form, or lacking in essential details, shall not be deemed to have been filed in compliance with the Order.

(2) Where space in the report form does not permit full answers to questions, the information required may be set forth in supplementary papers incorporated by reference in the report and submitted therewith. Supplementary documents and papers must be referred to in the principal statement in chronological or other appropriate order and be described in such manner that they can be identified.

(d) A separate report under oath must be filed by each person required to file a report except that persons holding property jointly may file a joint report.

(e) The Secretary of the Treasury may, in his discretion, grant such extensions of time as he deems advisable for the making of any or all of the reports required by these regulations.

- 4 -

(f) Report Form TFR-300 may be obtained from any Federal Reserve Bank, the Governor or High Commissioner of a territory or possession of the United States, or the Secretary of the Treasury, Washington, D. C. (*)

Section 130.5. Penalties. Section 5(b) of the Act of October 6, 1917, as amended, provides in part:

* * * Whoever willfully violates any of the provisions of this subdivision or of any license, order, rule or regulation issued thereunder, shall, upon conviction, be fined not more than \$10,000, or, if a natural person, may be imprisoned for not more than ten years, or both; and any officer, director, or agent of any corporation who knowingly participates in such violation may be punished by a like fine, imprisonment, or both. (*)

Section 130.6. These regulations and any rulings, licenses, or instructions issued hereunder shall not be deemed to authorize any transaction prohibited by reason of any other law, proclamation, order or regulation. (*)

Section 130.7. Amendment, Modification, or Revocation. These regulations and any rulings, licenses, instructions, or forms issued hereunder may be amended, modified, or revoked at any time. (*)

Secretary of the Treasury.

COPY

March 3, 1941.

Proposed Disposition of Immediate Problems Raised byExtension of Freezing Control

It is assumed that the fabric of the current freezing control technique as embodied in outstanding general licenses, general rulings, general authorizations to the Federal Reserve Banks, and in large part the principles guiding the issuance currently of licenses, will constitute the nucleus of extended control. This memorandum is, therefore, confined to additional matters which it is felt would have to be dealt with immediately.

(1) New general licenses.

- (a) Payment of certain checks, drafts, etc.
- (b) Freeing accounts of United States foreign service officers.
- (c) Payment of payroll expenses based on practices in recent period.
- (d) Freeing official accounts of Vatican City State.

(2) New general authorizations.

- (a) To issue licenses where circumstances require immediate action.
- (b) To issue licenses to permit continuance of business operations pending further study of each business concern.
- (c) To permit transfers between blocked accounts in the same name.
- (d) To permit purchase and sale of listed securities and securities issued by Federal, state and local governments.

The foregoing general authorizations will be issued to the New York Federal Reserve Bank and to other Federal Reserve Banks to the extent that it appears necessary.

(3) Foreign banks.

There are a number of Italian and Swiss banks, principally in New York, which will be immediately affected. At least in the case of some of these banks, if the general license is not immediately issued, it will necessitate the closing of the bank. Accordingly, for the interim the following course should be taken: Grant these banks general licenses which will put them in the same position as American banks. Such general license will, of course, not permit the Swiss and Italian banks to pay

- 2 -

out funds belonging to blocked nationals or do anything else, as, for example, remit money to a blocked area which could not be done by an American bank. Set up a group under the supervision of the Bank Examiner at the Federal Reserve Bank of New York. This group will put one or more representative in each of the Swiss and Italian banks to supervise the transactions of such banks and to stop any transaction not consistent with the purpose of the Executive Order. This group would also obtain immediate and complete reports with respect to the assets of the Swiss and Italian banks, particularly those assets that could be readily disposed of without our knowledge, and make appropriate arrangements for holding such assets in a form that they could not be disposed of without knowledge. The Swiss and Italian banks will, of course, be made to understand that unless they cooperate fully their licenses will be revoked and other appropriate action taken. We are already working with the New York Federal for setting up such an organization consisting of bank examiners from the Federal Reserve Bank, Comptroller of the Currency's office and the New York State Banking Department. People fully familiar with Foreign Funds Control will also work with this group. It may be that the F.B.I. will also want their representatives to work with this group.

(4) Clarification of existing administrative proceedings.

For some time we have been working on a new general ruling which will define certain terms in such a manner as to facilitate the administration of freezing control both from the point of view of the Government and of the public. In this connection, we have also worked on revisions of some of the important outstanding licenses. It would seem preferable, before actually issuing same, to give certain of the important private banks who have considerable activities in connection with freezing control problems a few days' opportunity to study the proposed changes and make suggestions.

(5) Switzerland. See memorandum attached.

(6) Expenses for diplomatic and consular services.

Presumably we will let each blocked country have whatever it states it needs for such purposes. Reports will, of course, be filed and checked by the Government to see that the amounts are reasonable.

(7) Publicity. To be discussed.

PROPOSED TREATMENT OF SWITZERLAND
UNDER FREEZING CONTROL.

I Treatment under existing or proposed general licenses will permit

- A. Payment into the blocked accounts.
- B. Debiting blocked accounts for certain banking charges.
- C. Payment of certain outstanding checks and drafts.
- D. (i) Sale of listed securities and obligations of United States, states and local governments.

(ii) "Blanket" licenses will be issued to Swiss banking institutions doing business in the United States which will enable them to buy such securities for Swiss accounts.
- E. Payments to the United States.
- F. Purchase and sale of commodities futures contracts.
- G. Payments for living and traveling expenses in the United States.
- H. Access to safe deposit boxes under certain conditions.
- I. The operation of Swiss banks in the United States on the same basis as American banks with Government representatives on the premises to check each transaction, etc. We will have to explain to the Swiss why we are treating them differently than other blocked banks like the Banque Belge pour l'Etranger which has a general license.
- J. Remittances to Switzerland for support purposes.

II Matters to be dealt with by specific licenses:

- A. Non-listed securities and investments other than in securities. Licenses will be granted in specific cases if the transactions are legitimate from the point of view of the Order.
- B. Exports to and imports from Switzerland. Licenses will be granted either on a specific or blanket basis where we are satisfied that there is a no Axis interest; and perhaps even if there is an Axis interest, leaving it to the British blockade to take care of the matter.

- 2 -

- C. Swiss owned business enterprises in the United States. These will be given licenses comparable to existing licenses given to blocked business enterprises. It may be, as things develop, that we will wish to put Government representatives into some of such institutions and to require more extensive reports or otherwise limit the licenses granted to them. This will be particularly true with respect to any such Swiss business enterprise which is acting for or on behalf of the Axis.
- D. Transfer from one blocked Swiss account to another. This will be clearly permitted if the transfers are in the same name. If the transfers are not in the same name it will turn on the facts of the case. For example, we would not grant a license which would permit the transfer from a blocked Swiss account to the Swiss Central Bank, the effect of which will be to enable a German having funds in this country in a Swiss account to obtain Swiss francs therefor and thereafter be able to convert the Swiss francs into other currencies. If, however, a genuine Swiss national having dollar funds needs Swiss francs for working capital in Switzerland or for living expenses there, we would license the transfer to the Swiss Central Bank.

C O P Y

BRITISH EMBASSY,

WASHINGTON, D. C.

March 3rd, 1941

Dear Cochran,

I have now received from London a reply to my enquiry as to the basis of composition of the lists of securities believed to have fallen into enemy hands, which I have sent you at various times, the last being on the 27th of January.

The reply says that a press notice was issued at the request of the British Treasury at the end of June 1940 inviting the public to forward to the Bank of England particulars of any bearer securities which they believed had fallen into enemy hands. A circular was also addressed to banks and bankers in the United Kingdom by the Bank of England on the 28th of June 1940. A copy of this circular is on its way from England.

You will see, therefore, that the information received is reliable, though it is not exhaustive.

Yours sincerely,

(Signed) R. J. Stopford

Mr. Merle Cochran,
Room 279,
U. S. Treasury Department,
Washington, D. C.

dm

TREASURY DEPARTMENT **166**
Office of the Secretary
Technical Assistant to the Secretary

Date March 3, 1941

TO:

Secretary Morgenthau

Room

Mr. Livesey telephoned me at 12 noon today that Secretary Hull had initialed the draft which we had provided him of the attached letter. Messrs. Cairns and White have also initialed it.


From: MR. COCHRAN

MAR 3 1941

Dear Sir Edwards:

Please accept my sincere thanks for your courtesy in providing with your letter of February 25, 1941, a memorandum setting forth the difference between the instructions under which you came to the United States, for the purpose of disposing of British direct investments in this country, and the plan which your Ambassador proposed when he called at the Treasury on February 24, accompanied by Mr. Purvis and yourself.

The Ambassador's proposal, together with a copy of the statement which he made in explaining the views of his Government, was presented to the President by me. I have also had the benefit of consultation with my colleague, Secretary of State Hall.

We are genuinely appreciative of the desire manifested by the British Government to arrange for the disposal of British direct investments in this country in the manner that may prove most efficient. The merits of the plan outlined in the Ambassador's memorandum will continue to have our careful study and consideration. It is our suggestion, however, that work be pursued as actively as may be along the lines which you have established since your recent arrival, with such calls on us for consultation and advice as you may desire, and

- 2 -

that improvements in the methods of procedure can best be made as progress is achieved and as experience is gained.

Very sincerely yours,

Secretary of the Treasury

Sir Edward R. Peacock, G. C. V. O.,

In care of His Excellency, the British Ambassador.

ADR
JMF
HQ: 100-3/3/43

MAR 3 1941

Dear Sir Edward:

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- 2 -

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progress is achieved and as experience is gained.

Very sincerely yours,

Secretary of the Treasury

Sir Edward R. Peacock, C. C. V. O.,

In care of His Excellency, the British Ambassador.

JR

PLAIN

London

Dated March 3, 1941

Rec'd 3:20 p.m.

Secretary of State,

Washington.

1308, third.

For Treasury.

The British Treasury order has now been issued adding to the sterling area French Empire territories listed in the Embassy's no. 1208 of March 27, 6 p.m. and also Iceland and the Faroe Islands. A blanket conversion transaction for the eligible municipal loans (see Embassy's no. 1082 dated March 19) is being worked out, a 3-1/2 per cent long-term loan at par being expected by the market, with redemption notices on May 1 of three or six months according to original loan prospectuses.

WINANT

CSB

eh: copy

172 ✓

Treasury Department
Division of Monetary Research

Date March 6 19

To: Secretary Morgenthau

This is a brief account
of the "subrogated securities"
episode which took place
during the last war.

In view of current dis-
cussions I think you will be
interested in reading the
summary.

MR. WHITE
Branch 2058 - Room 214½

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TREASURY DEPARTMENT
INTER-OFFICE COMMUNICATION

DATE March 3, 1961

to Mr. Shlitz
from Mr. Kegan and Mr. Hebbard
Subject: Subrogated Securities

Summary

1. In 1918, the United States Treasury advanced \$285,000,000 to the British Government to take up certain secured notes floated in this country by J. P. Morgan & Company and nineteen other banks. In return, the United States obtained the right of "subrogation" to the securities originally pledged as collateral for the British notes. (The Treasury made no appraisal of the total value of the subrogated securities.)

2. Subrogation gave the United States Treasury the right to call upon the British Government to pledge to the United States the collateral formerly pledged to the private banks. The British Government was "obligated at the request of the Secretary of the Treasury to deposit it with the Treasurer of the United States".

Thus, the right of subrogation did not involve a present deposit of the collateral and it did not contemplate immediate physical possession.

This collateral was never in the possession of the United States Treasury. It was held in the custody of J. P. Morgan & Company.

3. In 1919 and 1920, the Treasury contemplated the release of the subrogated securities in connection with negotiations for a debt settlement. These negotiations were broken off by the British in May 1920, and, therefore, the Treasury's rights with respect to the subrogated securities were retained. (At this time, the subrogated securities amounted to a nominal value of about \$344,000,000.)

4. The release of the subrogated securities was finally made by Secretary Mellon in a letter dated June 19, 1923, in connection with the funding arrangement of that year. The letter stated that "the United States will not require the deposit by Great Britain of any of the so-called subrogated securities".

The principal reason given at the time for waiving the right of subrogation was that it would be "grotesque" to retain collateral for only \$285 million or 6 percent of the total British war debt of \$4,600 million.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE March 3, 1941

TO Mr. White
FROM Mr. Kegan and Mr. Hebbard
Subject: Subrogated Securities

1. In 1918, the United States Treasury advanced \$285,000,000 to the British Government to take up certain secured notes floated in this country by J. P. Morgan & Company and nineteen other banks. In return, the United States Treasury obtained the right of "subrogation" to the securities pledged as collateral for these British notes.

On February 1, 1918, there became due about \$92,000,000 of an issue of One Year 5½% Secured Notes of Great Britain. The collateral for these notes was a large amount of securities (aggregate nominal value about \$300,000,000) which either were owned by the British Government or had been lent the British Government by its citizens upon certain understandings as to their return.

The securities were pledged and deposited by the British Government with the Bankers Trust Company as trustee under a trust agreement dated February 1, 1917. The trust agreement provided that:

- (1) Britain might proportionately withdraw the collateral security so deposited as the notes were paid or surrendered for conversion;
- (2) in case of British failure to pay when due, the collateral security might be sold and the proceeds of such sales applied to the payment of the debt;
- (3) the pledged securities might be released upon the substitution of other securities of the same group and of equal aggregate value.

The Secretary of the Treasury was satisfied that the issue could be refunded upon our markets in the existing situation only at a rate of interest so high and secured by so great an amount of collateral as would gravely impair the credit of Great Britain and the ability of the United States to carry through successfully its own financing.

In these circumstances, the Treasury assented to the use by the British Government of Treasury advances to meet the \$92,000,000 maturity of February 1, 1918. Such assent was given, however, upon the understanding that the United States Treasury have the right of subrogation to the securities pledged as collateral for the matured notes.

On September 1, 1918, there became due about \$193,000,000 of an issue of Two Year 5% Secured Gold Notes of Great Britain. These notes were secured on the same terms as those which matured on February 1, 1918, and the security was pledged and deposited with the Farmers' Loan and Trust Company under a trust agreement dated September 1, 1916.

With the greatly increased program of United States expenditures at that time and the tremendous issues of Treasury certificates which were then being made, the Treasury considered it impossible for the British to finance a renewal of these notes on reasonable terms. It was considered that borrowing by the British Government on extortionate terms would be injurious to British credit and would create an unfavorable impression as to the extent of sympathy between the British and the United States Governments.

The Treasury also thought that it would be unwise to permit the British to resume sales of securities, as this would have a depressing effect on the stock market and would tend to make it difficult for the United States Treasury to get the money it needed.

The Treasury therefore assented to the use by the British Government of Treasury advances to meet the \$193,000,000 maturity of September 1, 1918 upon the same conditions as in the case of the February maturity.

2. Subrogation gave the United States Treasury the right to call upon the British Government to pledge to the United States the collateral formerly pledged to the private banks.

While the principle of subrogation was agreed upon by interchange of cables and by oral discussions at the time the advances were made, it was not formally defined until July 9, 1919, in a letter by Sir. S. Hardman Lever, Financial Secretary of the British Treasury to Albert Rathbone, Assistant Secretary of the United States Treasury.

This agreement to subrogate was an executory agreement; Great Britain was "obligated at the request of the Secretary of the Treasury to deposit with the Treasurer of the United States or, in case the Secretary of the Treasury shall so request, with such depository as (the British Government) shall approve". Thus, the right of subrogation did not involve a present deposit of the collateral and it did not contemplate immediate physical possession.

Having regard to the British view that public knowledge of the agreement to subrogate would create an unfavorable impression in England and in the enemy countries, the Treasury never asked for the physical delivery of the subrogated securities. This collateral was never in the possession of the United States Treasury. It was held in the custody of J. P. Morgan & Company. The collateral was simply held subject to the United States Treasury's order.

The Treasury made no appraisal of the total value of the subrogated securities at the time of the Treasury's advances. The original trust agreements contained lists of the pledged securities and of the unit value, but did not indicate the amount pledged of each security. It is estimated that the approximate value of the subrogated securities was \$344,000,000 in 1919. The Treasury obtained appraisals only in connection with substitutions, which were a small part of the total. A considerable part of these substitutions consisted of foreign securities.

3. In addition to the right of subrogation, the Treasury had the secondary right to be consulted in regard to the disposition of all British owned securities in this country.

When the Treasury advanced funds to the British Government to meet the note maturity of February 1, 1918, the agreement entered into also provided for the British not to use or dispose of, until the termination of the war, any of the securities which the British owned or controlled and which were physically within the United States on February 1, 1918, without the prior consent of the Secretary of the Treasury.

The purpose of this agreement was to protect the American market against depreciation from inopportune liquidation of British owned American securities and to enable the United States Treasury to indicate its views as to the most effective use which could be made of these securities.

4. In 1919 and 1920, the Treasury contemplated the release of the subrogated securities in connection with negotiations for a debt settlement. These negotiations were broken off by the British in May 1920, and, therefore, the Treasury's rights with respect to the subrogated securities were retained.

After the war, the British desired to obtain the release of these securities because they claimed that the securities were not owned by the British Government but merely loaned to the Government by their owners. It cost the British Treasury $\frac{1}{2}$ per annum on the nominal value to retain them. However, since no payment was made which diminished the principal amount of the debt to the United States in respect to which the British Government was obligated to pledge the subrogated securities, the United States Treasury retained the right of subrogation.

The Treasury contemplated the release of the subrogated securities only as an inducement to and in connection with the debt settlement which Mr. Rathbone was sent to Europe to effect in 1919-1920. The British broke off the negotiations in May, 1920, and therefore there was no release of the

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Division of Monetary
Research

subrogated securities. Mr. Rathbone's abortive funding agreement with Great Britain, containing the provision for the release of the subrogated securities, were reported by the Treasury to the Senate Finance Committee in July, 1921.

5. The release of the subrogated securities was finally made by Secretary Mellon in a letter dated June 19, 1923, in connection with the funding arrangement of that year.

This final release was written in connection with the proposal dated June 18, 1923, for the funding of the debt of Great Britain to the United States. It stated that "in accordance with the understanding reached at the time of the agreement for the settlement of the debt the United States Treasury will not require the deposit by Great Britain of any of the so-called subrogated securities".

At this time, the subrogated securities amounted to a nominal value of about \$300,000,000. They were subrogated for a British debt of \$285,000,000.

The following reasons were given at the time for waiving the right of subrogation:

- (1) it would be "grotesque" to retain collateral for only \$285 million or 6 percent of the total British war debt of \$4,600 million,
- (2) it would embarrass British financing in this country. This would depress sterling exchange and this would tend to weaken all other exchanges. As a consequence, Europe's power to purchase American products would be reduced, and
- (3) the original reasons for subrogation no longer existed.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 3, 1941

TO Secretary Morgenthau
FROM Mr. Foley

There are about five Italian banks and three Swiss banks in New York which will be effected by the proposed Executive Order. The preferable way to deal with them is as follows:

Issue general licenses enabling the Italian and Swiss banks to do the same things as any American bank could do. Such general licenses would not, of course, permit the Italian and Swiss banks to send funds to Italy or to Switzerland or otherwise deal with funds belonging to Italy or Switzerland in any way except pursuant to such licenses as would have to be obtained by American banks.

Set up a staff of people composed of bank examiners from the New York Federal, the Comptroller's of the Currency Office, the New York State Banking Commission, representatives of the Foreign Funds Control, and perhaps representatives of the Federal Bureau of Investigation. This group will work in New York under the direct supervision of the Chief Bank Examiner of the Federal Reserve of New York. This group will have one or more representatives in each of the Italian and Swiss banks. These representatives will have the opportunity to pass on every transaction to see that it is within the purpose of the Order and to stop any undesirable transaction. Too, these Government representatives will also immediately make a full report of all of the assets of such banks, particularly those assets which might be readily disposed of without our knowledge. The Swiss and Italian banks will, of course, understand that unless they cooperate with us fully their licenses will be revoked and other appropriate action taken.

This proposal has been discussed with Upham and Folger of the Comptroller's Office and with Knoke, who in turn discussed it with Sproul and other officials of the Federal Reserve Bank. All concerned think the proposal reasonable and workable and feel that the New York State Banking Department should be asked to participate in this proposal.

- 2 -

The Federal has asked that the Treasury authorize it to discuss the matter with the State Banking Department so that an organization can immediately be set up.

If you agree, we can tell the New York Federal to go ahead and, at the same time, advise State and Justice of what we are doing with a view to getting their approval.

L. H.

Bill
✓

FEDERAL RESERVE BANK
OF NEW YORK

March 3, 1941.

Dear Mr. Secretary:

You have requested a report of "what happened and why" on Tuesday and Wednesday last, with respect to the Treasury's refunding of its March 15th maturities.

The criticisms in the market of the refunding offer arise primarily from the omission from the offering of a higher rate, longer term security, and from the current uncertainties as to tax and monetary legislation and long range fiscal plans.

The background for the financing you sketched clearly at our preliminary meeting in Washington on February 19. Following that meeting the Treasury interviewed representatives of the principal sections of the market, as did we. It may fairly be said of our interviews here that preponderant opinion favored two bond issues - one of the type offered, together with a higher rate longer bond more suitable for insurance company and savings bank investment. It was believed that two such bonds would leave a much smaller amount of securities demanding secondary distribution and that a secondary market at a premium could be more readily established. However, there was no unanimity as to the value of or method of valuing the higher rate bonds, particularly the 2 3/4% coupon. You will recall that it was our opinion that the Treasury could successfully refund its March maturities by an offer of one intermediate bond, to be either a 2 1/4% bond callable 1950-52 or a 2% bond of 1948-50. We also advised you that it was the market opinion that the issue should consist of a combination of two bonds, and on that basis we recommended a 2% bond of 1948-50 combined with a 2 1/2% bond of 1954-56 or 57.

The following questions and comments appear pertinent to your request:

1. Was the market prepared for the offer?

No, the market was not prepared for the offering in that it had expected two bond issues and that one of them would be a 2 1/2% or a 2 3/4% issue. There had been comparatively little liquidation of "rights" prior to the offering because of this expectation. The inclusion of the generous two-year 3/4% note was regarded by the market as representing extreme caution, or fear on the part of the Treasury of very unsettling developments while the books were open.

The market was confused both before and after the offering as to the proper method of valuing a Treasury taxable bond. The action of the market since the announcement has furnished confirmation of this opinion.

1/3/41.

2. Why did "rights" open about 101 5/8 and sell steadily lower during Tuesday?

It was generally agreed that the 2% bond of 1948-50 was generously priced but it was quickly realized that it was a one security offer unless the worst happened and the "storm-cellar" note came into play. The new bond was attractive particularly to banks but initially there appeared to be little interest at a premium. The banks appeared to believe that they would, over the near months, obtain an adequate supply of new securities at par and that accordingly there was no need to pay a premium now. There was also a tendency, because of the low coupon, to calculate the new bond to its maturity date rather than its call date. As the value of the "rights" declined, due to the weight of offerings, potential investors in the new issue became more cautious and holders of "rights" attempted to liquidate their holdings before prices reached a level which represented either a loss or their conversion value into the two-year note. It was at the latter point that stabilization came into the market.

3. What was the source of the selling?

- (a) Holders of "rights" who had expected and wanted a 2 1/2% or a 2 3/4% bond.
- (b) Trust accounts, corporations and individuals.
- (c) Speculators in all classes.
- (d) Banks, especially smaller ones, which are now paying or on the borderline of paying taxes and do not want a taxable bond. Many of these sales were on swaps into tax exempt issues.

4. Who were the buyers?

Savings banks and a few large commercial banks and trading sources, outright and on swaps out of tax-exempt securities.

5. Why did not investors to whom tax exemption is of no value buy the new issue?

At present there are only three Treasury bonds outstanding with a coupon as low as 2% and they are the 2s of 1947, the old 2s of 1948-50 and the 2s of 1953-55. Generally speaking, the other Treasury bonds are providing investors (particularly insurance companies and savings banks) a better return than 2% so that there was little inducement for investors to give up tax-exempts providing a yield of 2% or more and buy a taxable bond on a yield slightly under 2%. Such buying as may be expected from this class of investor should come largely through outright purchases, at least until their cash needs are filled. However, most of them preferred to watch the market or expected to do better on future offerings. Nevertheless, there was a fair amount of purchases of the new issue on swaps, particularly on Wednesday, by savings banks. Most of these

3/3/41.

swaps involved the sale of comparable maturities of tax-exempt Treasury bonds and to some extent the sale of National Defense notes.

6. Were insurance companies attracted by the offering?

Generally speaking, no; nor did we hear of any sizable swapping on the part of insurance companies into the new 2s. This does not mean that insurance companies would not have swapped had they been able to acquire a new taxable bond providing them with a higher return than they are currently receiving on their tax-exempt holdings.

7. Is there still a large secondary distribution to take place?

This is indicated. Many of the new 2s have been taken by temporary holders on arbitrage or hedge transactions by investors who feel that the new 2s are attractive in comparison with tax-exempt issues; also, many of the new 2s have been taken in exchange for "rights" by commercial banks, especially the large ones, which may liquidate them once the market becomes firmly established.

8. Has the corporate bond market been affected by the refunding offering?

No. On Tuesday small fractional gains were recorded in the morning but these were lost in the afternoon trading and in some instances losses of one-eighth of a point were recorded. On Wednesday the market was firm throughout the day with prices slightly higher. On Thursday a firm tone again prevailed and prices remained unchanged to a shade higher. Trading on these three days was light.

9. Was the pending tax legislation a factor in the market?

Yes, it definitely added to the uncertainties in the minds of investors.

While these questions and answers omit incidents such as the introduction by Senator Taft of a bill affecting reserve requirements and a request for additional appropriations, they furnish matters for consideration in connection with future financing. The underlying problem appears to lie in the proper preparation of the market so that the Treasury can count on secondary distribution of future issues at a satisfactory premium. Although in such consideration different weights may be applied to each of the criticisms offered, and all may be important, nevertheless, it is our opinion that until there is better understanding between the Treasury and the market as to its long term borrowing program and the rates at which it is to be done, no correction of individual factors will assure the immediate success of individual issues. We had this

FEDERAL RESERVE BANK OF NEW YORK #4. Hon. Henry Morgenthau, Jr.

3/3/41.

in mind when we suggested prior to this issue that through the press the Treasury could informally give a lead to the market without final commitments on its part as to its fiscal program over the near months and its general plans with regard to its longer program. It is even more important now that there be a better understanding between the Treasury and the market if future issues are not to be subject to similar difficulties.

Yours faithfully,

Robert G. Rouse
Robert G. Rouse,
Vice President.

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

RECEIVED
MAR 3 1941
FEDERAL RESERVE BANK OF NEW YORK

March 3, 1941

Mr. Greves

Secretary Morgenthau

I want something new to say about our drive on the defense savings bonds at my four o'clock press conference. Please be in my office a little bit before four with Ferdinand Kuhn and Chick Schwarz. I would like to see all three of you at about ten minutes to four. I think I want to say something now at each of my press conferences of the progress we are making in our campaign.

March 3, 1941

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Material furnished by Mr. Graves to the Secretary for use at his press conference today.

- I--Treasury Savings Bonds will be continued. There will be a new series, but the special Defense Series will preserve all the essential characteristics of the present Savings Bonds.
- II--The new Defense Series of Savings Bonds will be available throughout the country in about 60 days.
- III--We are contemplating an immediate increase in the number of outlets, for both savings bonds and savings stamps.

Postal Savings Stamps are now available at about 7,500 post offices; Savings Bonds at 16,000 post offices.

We are expecting to approach the banks with a view to securing their cooperation--if possible, we hope to have Defense Savings Bonds and postal savings stamps on sale at all, or most all, banks, in addition to post offices. Mention the offer of the National Association of Mutual Savings Banks.

- IV--Ultimately, we expect to have postal savings stamps available at thousands of retail outlets (stores, etc), in addition to post offices and banks.

ALLISON SHIPMENTS

Period	British			Army				Grand total
	C	E	Total	G	E	F	Total	
Dec. 29 - Jan. 4	8	-	8	1	3	-	4	12
Jan. 5 - 11	83	-	83	-	2	-	2	85
Jan. 12 - 18	41	-	41	-	2	-	2	43
Jan. 19 - 25	33	-	33	-	-	-	-	33
Jan. 26 - Feb. 1	31	-	31	-	1	-	1	32
Feb. 2 - 8	60	-	60	25	1	-	26	86
Feb. 9 - 15	30	1	31	32	2	1	35	66
Feb. 16 - 22	-	-	-	77	2	1	80	80
Feb. 23 - Mar. 1	-	-	-	88	3	-	91	91
TOTAL Dec. 29 - Mar. 1	286	1	287	223	16	2	241	528

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

March 3, 1941.

ALLISON ENGINEERING COMPANY
Shipments of Airplane Engines

	: Actual : shipments	: Estimated shipments : on existing orders
1940		
January.....	10	
May 24 - June 22.....	28	
June 23 - July 20.....	43	
July 21 - Aug. 17.....	47	
Aug. 18 - Sept. 14.....	140	
Sept. 15 - Oct. 12.....	263	
Oct. 13 - Nov. 9.....	233	
Nov. 10 - Dec. 7.....	154	
Dec. 8 - Jan. 4.....	228	
1941		
January 5 - 11.....	85	
January 12 - 18.....	43	
January 19 - 25.....	33	
January 26 - February 1....	32	
February 2 - 8.....	86	
February 9 - 15.....	66	
February 16 - 22.....	80	
February 23 - March 1.....	91	
March 2 - 31.....		409
April.....		408
May.....		456
June.....		500
July.....		475
August.....		550
September.....		625
October.....		750
November.....		800
December.....		800
1942		
January.....		529
February.....		304
March.....		225
April.....		225
May.....		225
June.....		124

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

March 3, 1941.

EXPORTS OF PETROLEUM PRODUCTS, SCRAP IRON AND SCRAP STEEL
FROM THE UNITED STATES TO JAPAN, RUSSIA, SPAIN, AND GREAT BRITAIN
AS SHOWN BY DEPARTURE PERMITS GRANTED

Week ended March 1, 1941

	JAPAN	RUSSIA	SPAIN	GREAT BRITAIN
PETROLEUM PRODUCTS				
Fuel and Gas Oil (including Diesel Oil)	31,170 Bbls.	--	--	191,501 Bbls.
Crude -				
Blended or California High Octane Crude*	67,100 Bbls.	--	--	--
All Other Crude	101,000 Bbls.	--	--	--
Gasoline -				
Gasoline A**	--	--	--	--
Gasoline B*	--	--	--	--
All Other Gasoline	--	--	8,000 Bbls.	60,579 Bbls.
Lubricating Oil -				
Aviation Lubricating Oil***	1,019 Bbls.	--	--	24,454 Bbls.
All Other Lubricating Oil	1,020 Bbls.	--	22,000 Bbls.	74,029 Bbls.
Tetraethyl Lead***	--	--	--	--
*"Boosters", such as Iso-Octane, Iso-Hexane, or Iso-Pentane	--	--	--	--
SCRAP IRON AND SCRAP STEEL				
Number 1 Heavy Melting Scrap	--	--	--	10,254 Tons
All Other Scrap	--	--	--	6,126 Tons

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

March 3, 1941.

Source: Office of Merchant Ship Control, Treasury Department.

* Any material from which by commercial distillation there can be separated more than 3 percent of aviation motor fuel, hydrocarbon or hydrocarbon mixture - President's regulations of July 26, 1940.

** Aviation Gasoline.

*** As defined in the President's regulations of July 26, 1940.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 3, 1941.

TO Secretary Morgenthau
FROM Mr. Haas *[Signature]*

v/27
In Mr. Hamm's recent note, indicating what he was doing with regard to price increases in imported commodities, he did not specifically answer the question as to whether he was to take this matter up with the President or wished you to do so.

I telephoned Mr. Hamm today with regard to this question and he said that Mr. Henry Dennison was handling the matter for him, and that the Maritime Commission was now setting up an organization to handle shipping priorities and to establish shipping rate controls. Mr. Hamm said he had written Admiral Land but had not as yet received a reply. In any case Mr. Hamm feels that since the Maritime Commission has just undertaken this task it would be better to give them about ten days or two weeks to produce results before taking any further action.

3/13/41

190

Mr. O'Connell advised today that he has no further information on this matter, and that the file should be closed.

3/3/41

191

At the 9:30 meeting this morning
the Secretary asked Mr. Foley to have
O. O'Connell investigate this matter
immediately and report to him.

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE March 3, 1941

TO Mrs. Klotz
FROM Mr. Morgenthau

Please talk to me about the letter from Congressman
Kopplemann. I want to do something about getting correct
information about the strike at the Underwood factory.
That is one of the first things I want to do this morning.

*(see attached copies of
letter and memo -)*

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE MAR 3 1941

TO Secretary Morgenthau

FROM E. H. Foley, Jr.

The strike which has tied up the Hartford plant of the Underwood-Elliott Fisher Company for the past month has been settled. The workers voted yesterday to approve an agreement reached by the strikers' committee and the management on Saturday, and the men all went back to work this morning. The major point in issue was apparently one of wages. The new agreement provides for a 3 cent an hour increase in the hourly rate of pay and a 4 per cent increase in the piece work rate. The settlement reached was apparently a compromise between the original demands of the Unions and concessions which the management was at first willing to make. There were two Unions involved, both affiliated with the American Federation of Labor.

Mr. O'Connell also discussed the general setup with Mr. Peter Tracy, Secretary of the Machinists Union. Mr. Tracy indicated that the company's labor policy has been very unsatisfactory to the workers for a long period of time, and that time alone will tell whether the new agreement represents a "change of heart" on the part of the management. Mr. Tracy seems to feel that the attitude of the personnel manager, a Mr. Stowell, has been an important factor in causing discontent among the workers. He also stated that the vice president and plant manager apparently had to go to New York before he could make any decision involving labor policy, and that this made the workers feel that the bad features of the company's labor policy should be blamed on the group referred to in Mr. Tracy's letter to Congressman Kopplemann. Mr. Tracy is going to prepare a complete statement covering the entire situation as he sees it and send it down here tonight or tomorrow.

The records of the Office of the Production Manager do not show that the Hartford plant of the Underwood Company has any prime contracts for defense.

I will see to it that additional information is brought to your attention immediately upon receipt.

S. N. 76

My dear Mr. Kopplemann:

I am in receipt of your letter of February 27, 1941 with the enclosed letter from Mr. Tracy with regard to the strike at the Underwood-Elliott Fisher plant in Hartford.

I appreciate the thought which prompted you to make this situation known to me, and intend to give the matter immediate attention.

Sincerely yours,

Secretary of the Treasury.

Hon. Herman P. Kopplemann,
House of Representatives
Washington, D. C.

JJO^c.Jr/LW

3-3-41

(Initialed) J. J. O'G. J. J.

MAR 3 1941

The Honorable,

The Secretary of the Navy.

Subject: Proposed Coast Guard Cruising Cutters;
characteristics.

- References: (a) Letter from the Acting Secretary of the Treasury to the Secretary of the Navy, May 1, 1930, CONFIDENTIAL, with 1st Endorsement, Acting Chief of Naval Operations, 6 May, 1939 (Op-23B-EJM (SG) QSL3/SI-1, Serial 5954; 2d Endorsement, The Assistant Secretary of the Navy, 10 May, 1939 (SOSED-O-1-Kr-5/9, (SG) QSL3/SI-1; 3rd Endorsement, Bureau of Engineering, 17 May, 1939, C-QSL3 (5-1-Bd); Fourth Endorsement, The Chief of the Bureau of Ordnance, May 22, 1939, QSL3/SI-1(2)/6 (T11-6, D9, F12, L10, M14); Fifth Endorsement, Bureau of Construction and Repair, June 8, 1939, QSL3-(12)(DF); and Sixth Endorsement, The Chief of the Bureau of Ordnance, June 16, 1939, QSL3/SI-1(2)/6 (T11).
- (b) Letter, Navy Department (Bureau of Ordnance), to Coast Guard, March 24, 1928, KTL4/S73 (16).

- Inclosures: 1. Reference (a).
2. Three blueprints of Contract Plan No. 83-85 CR0101-4, 327-Ft. Cruising Cutters Nos. 83-85, "Profiles".
3. Three blueprints of Contract Plan No. 83-85 CR0101-3, 327-Ft. Cruising Cutters Nos. 83-85, "Arrangement of Decks".

Sir:

It is expected that funds in the amount of \$11,370,000 will be made available to the Coast Guard for the construction of three Cutters of the HAMILTON Class. These vessels were authorized by the 76th Congress, as reported to the Secretary of the Navy in reference (a). The appropriation takes into

CONFIDENTIAL

account the general policy outlined in reference (b), that the Bureau of Ordnance, Navy Department, will furnish the original equipment of guns and mounts, together with battery tools, spare parts and accessories, without charge to the Coast Guard except for preparation, handling and transportation.

The design indicates four 5"/38 cal. guns and three 1.1 guns, with appropriate directors, but the cost of these items is not included in the appropriation. The views of the Navy Department on the proposed armament of these Cutters will be appreciated.

Within the limits of the appropriation, Navy requirements will be incorporated in the Cutters when built, to minimize the cost and time required for changes, should Navy duties be undertaken.

In view of the heavy work loads in Navy Yards, the Coast Guard is planning to invite bids from private contractors and assumes that the Navy will interpose no objection to their construction in a yard with capacity to handle vessels of this character. It is desired that the vessels be completed within thirty months from date of award.

Very truly yours,

(Signed) H. McLaughlin, Jr.

Secretary of the Treasury.

*Copy of enclosures
to Chief Engineer's Office, C. G.*

GtoEinC

RHL/WRB

File to Mr. Thompson

By Message 4¹⁵ - beach

March 3, 1941.

The Honorable

The Secretary of State.

Sir:

Reference is made to your letter dated January 8, 1941, addressed to Secretary Morgenthau, in regard to the exportation of toluol to Sweden.

You are advised that the Swedish vessel CASTOR sailed on February 28, 1941 from New Orleans, via Port Arthur, Texas, for a port in Sweden, with a cargo of some 500 tons of toluol.

By direction of the Secretary:

Very truly yours,

(Signed) Herbert E. Gaston

Herbert E. Gaston,
Assistant Secretary of the Treasury.

HA:ga

DEPARTMENT OF STATE

WASHINGTON

In reply refer to
RA

March 3, 1941

My dear Mr. Secretary:

The Ambassador of Chile has submitted to the Department an informal memorandum, a copy of which is attached, concerning the possibility that the Government of the United States might be willing to consider an agreement regarding the purchase of silver produced in Chile. In referring to the agreement "existing between the United States and Mexico", the memorandum presumably refers to the agreement with Mexico which expired in 1938.

The Department would appreciate an indication of the views of the Treasury Department in this matter so that it may reply to the memorandum of the Ambassador of Chile.

Sincerely yours,

For the Secretary of State:

(Signed) Sumner Welles

Under Secretary

Enclosure:

From Ambassador of
Chile, February 26,
1941.

The Honorable
Henry Morgenthau, Jr.,
Secretary of the Treasury.

dm

EMBAJADA DE CHILE
WASHINGTON

(Informal)

MEMORANDUM

The Ambassador of Chile wishes to inquire of the Under-secretary of State concerning the possibility that the Government of the United States might be willing to consider conversations with respect to some agreement, such as that existing between the United States and Mexico, regarding the silver production of Chile.

The annual production of silver in Chile may be estimated at one million troy ounces, which is distributed in the following manner:

In gold concentrates	140,000 troy ounces
" copper concentrates	110,000 " "
" mixed ores	150,000 " "
" copper bars	480,000 " "
" precipitates	<u>120,000 " "</u>
TOTAL	1,000,000

We may deduct from this total the silver in bar copper, 480,000 ounces, and that combined with ores and concentrates, but it must be taken into consideration that there are plants for the cyaniding of silver ores which now do not operate with this class of ore, so that to the 120,000 ounces noted above in precipitates, there must be added some 180,000 ounces more, permitting an estimate to be made of the production in precipitates, which, in turn, can be reduced to 300,000 ounces of metallic silver annually.

Washington - D. C.

February 26, 1941.

dm

(translation of copy of note addressed to Secretary of State and handed on March 7 to Under Secretary Hall by Mr. Lasser-Garret.)

Referring to his note of February 11, 1941, the Ambassador of France wishes to call the attention of His Excellency the Secretary of State to the financial problem envisaged by the French Government over the emigration of refugees holding visas for countries on the American continent. It is, in effect, absolutely necessary to find funds in foreign exchange which will make it possible to furnish the emigrants with the minimum amount required by them for their voyage and admission to such country.

The French Government considers the only possible solution to be the utilization for this purpose, with the authorization of the United States Treasury, of funds withdrawn from the French credits now blocked in the United States. Full guarantees would be extended should these credits be unblocked, since the countries eventually receiving the refugees are situated on the American continent, and there is no possibility that Germany might benefit from such unblocking.

The French Government is prepared to study all practical means of enabling the American authorities to verify that the unblocked funds are used solely to defray the emigrants' traveling expenses. A special dollar account, for example, could be opened and the French authorities would turn over to the emigrants checks drawn on this account.

The Ambassador of France would appreciate receiving from His Excellency the Secretary of State an expression of the attitude of the United States Government toward this proposition.

Mr. Henry-Roye is pleased to take this occasion to renew to the Honorable Cordell Hall the assurances of his highest consideration.

Washington, March 3, 1941.

His Excellency
The Honorable Cordell Hall,
Secretary of State of the United States,
Washington,
D. C.

Translation: lcp

TREASURY DEPARTMENT
INTER-OFFICE COMMUNICATION

DATE March 3, 1941

TO Secretary Morgenthau
FROM Mr. Haas *JA*

A decrease of 8,000 persons from the previous week's employment is indicated by the Work Projects Administration report of 1,885,000 persons employed during the week ended February 19, 1941.

Attachments

a

WORK PROJECTS ADMINISTRATION
Number of Workers Employed - Weekly
United States

Week ending	Number of Workers (In thousands)
1940-41	
July 3	1,608
July 10	1,620
July 17	1,659
July 24	1,690
July 31	1,701
August 7	1,709
August 14	1,708
August 21	1,698
August 28	1,691
September 4	1,690
September 11	1,687
September 18	1,689
September 25	1,704
October 2	1,747
October 9	1,762
October 16	1,768
October 23	1,776
October 30	1,779
November 6	1,783
November 13	1,785
November 20	1,806
November 27	1,820
December 4	1,832
December 11	1,855
December 18	1,872
December 25	1,878
January 1	1,880
January 8	1,887
January 15	1,893
January 22	1,896
January 29	1,895
February 5	1,892
February 12	1,893
February 19	1,885

Source: Work Projects Administration

WORK PROJECTS ADMINISTRATION
Number of Workers Employed - Monthly
United States

	Number of Workers (In thousands)
1938	
July	3,053
August	3,171
September	3,228
October	3,346
November	3,287
December	3,094
1939	
January	2,986
February	3,043
March	2,980
April	2,751
May	2,600
June	2,551
July	2,200
August	1,842
September	1,790
October	1,902
November	2,024
December	2,152
1940	
January	2,266
February	2,324
March	2,288
April	2,092
May	1,926
June	1,665
July	1,701
August	1,691
September	1,704
October	1,779
November	1,820
December	1,878
1941	
January	1,895

Source: Work Projects Administration

Monthly figures are weekly figures for the latest week of the month.

They include certified and noncertified workers.

For Miss Chauncey

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 3, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns.....£41,000
 Purchased from commercial concerns.....£44,000

Open market sterling was first quoted at 4.03-3/4. It moved to 4.03-1/2 around mid-afternoon, and closed at that level. Transactions of the reporting banks were as follows:

Sold to commercial concerns.....£ 5,000
 Purchased from commercial concerns..... -0-

The Argentine free peso, which fell at the end of last week from .2365 to .2342, weakened today to .2305 at the close. The new Argentine regulations described in our daily report of February 28, which tend to reduce the utility of the free peso, were undoubtedly the main factor in the continued decline of the rate.

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

Canadian dollar	14-1/2% discount
Swiss franc (commercial)	.2323
Swedish krona	.2386
Reichsmark	.4005
Lira	.0505
Brazilian milreis (free)	.0505
Mexican peso	.2066
Cuban peso	6-15/16% discount

In Shanghai, the U.S. equivalent of the yuan was 5-17/32¢, off 3/32¢. Sterling was quoted at 3.91-1/2, off 2¢. In Hong Kong, the H.K. dollar expressed in terms of our currency was 24-7/16¢, off 1/16¢. Sterling was also lower at 3.91, off 1¢.

There were no gold transactions consummated by us today.

In London, the prices fixed for spot and forward silver both declined 1/16d to 23-5/16d and 23-1/4d respectively. The U.S. equivalents were 42.33¢ and 42.21¢.

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

-2-

We made four purchases of silver totaling 560,000 ounces under the Silver Purchase Act, all of which consisted of new production from foreign countries, for forward delivery.

The Federal Reserve Bank's report of February 26, listing deposits of banks in Asia with the New York agencies of Japanese banks, showed that such deposits totaled \$101,502,000, a decrease of \$7,294,000 since February 19. Most of the change in deposits took place on the books of the Yokohama Specie Bank's New York agency. The latter's principal dollar liabilities to and dollar claims on Japanese banks in Asia stood as follows on February 26:

	<u>February 26</u>	<u>Change from February 19</u>
Liabilities: Deposits for Japan and Manchuria.....	\$56,372,000	- \$5,256,000
Deposits for China.....	35,588,000	- 824,000
: U.S. Treas. Bills, comm. paper, etc.....	23,730,000	- 1,135,000
Claims : Loans.....	\$54,547,000	- \$2,810,000
: Other - mainly Jap. import bills.....	9,645,000	- 6,613,000

It will be seen that the decline of \$7,215,000 in Japanese bank deposits and holdings of bills with the Agency was accompanied by a \$9,423,000 reduction in the Agency's claims on such banks.

J. M. S.

CONFIDENTIAL

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

CONFIDENTIAL

DATE March 3, 1941

TO Secretary Morgenthau
FROM Mr. Haas
Subject: The Business Situation,
Week ending March 1, 1941.

Summary

(1) Priorities, whether mandatory or voluntary, on raw materials for defense production are already affecting the supply of some consumer goods, especially those using non-ferrous metals. The danger is that shortage of a few essentials such as aluminum and zinc may curtail production in an entire group of related purchases, such as those required in home building.

(2) National income payments in January increased to \$79.0 billions (on an annual basis) compared with \$74.1 billions in January 1940. Total earnings of factory workers in January showed an increase of 20 per cent over January 1940. The general gain in purchasing power has caused sharp increases in retail purchases.

(3) New orders for steel have continued to run substantially ahead of shipments, with forward buying an important factor. A report released last week, prepared by Gano Dunn, estimated that surplus steel capacity would amount to 10,000,000 tons in 1941 and 2,000,000 tons in 1942. These estimates, however, are based on the assumption that national income will total 80 billion dollars in 1941 and 90 billion in 1942, and that certain additional facilities will be provided. These and certain other assumptions may be open to question.

(4) Lighterage freight in storage in New York increased to a new high of 11,361 cars in the week ended February 21, owing to a greater reduction in export shipments than in receipts for exports. Storage space, however, remains fully adequate.

(5) Prices of imported commodities continued to increase sharply last week, largely because of expected ocean freight shortages and higher ocean freight rates. Prices of domestic products were also somewhat higher, primarily because of proposed new agricultural legislation.

- - - - -

- 2 -

Defense priorities impede consumer buying

During the past week the first mandatory priorities were imposed by the Defense Commission -- on machine tools and aluminum -- marking a departure from the system of so-called voluntary rationing which has been in effect in various industries. This move toward stringent official rationing is certain to have some restrictive influence on the production of civilian goods. It begins to bring pointedly to attention the effect of previous failures to provide adequate capacity for the production of strategic materials.

Priorities, whether voluntary or mandatory, which have been forced on producers by the exigencies of the defense emergency are already affecting a number of consumer goods, especially those which use large quantities of non-ferrous metals. Producers are introducing substitute materials or, where that is impossible, reconciling themselves to the certainty that consumers of their goods will use substitute products.

The mandatory priorities imposed on aluminum last week are having repercussions on the consumer goods markets, as producers of goods using aluminum search for substitute products. In the case of certain other products, where mandatory priorities have not yet been imposed, civilian consumption is already being cut down by voluntary rationing. Some curtailment in brass production is apparent because of the zinc shortage. In view of the essential character of brass in munitions manufacture, consumer industries are attempting to find zinc substitutes. One observer has estimated that the automobile industry's consumption of zinc may be cut by as much as 75 per cent.

A critical disadvantage of priorities is that the shortage of a few essentials may prevent consumer buying of an entire group of products. For example, absence of supplies of zinc or brass might actually cut down new home building, where zinc and other non-ferrous metals are, at present, necessary for many types of equipment. Furthermore, in their attempts to acquire certain essential components at almost any price, manufacturers may seriously distort the price structures for these materials.

Builders and building supply manufacturers are becoming aware that shortages of non-ferrous metals may interfere with the supply of certain types of home equipment and even retard home building. Plumbing supplies are already a problem. Brass pipe may not be available, and the zinc shortage may prevent alternate use of galvanized pipe. Chromium bathroom

- 3 -

fixtures may shortly have to be replaced with other materials. A large electrical parts manufacturer has already reported difficulty in securing stainless steel, which is a nickel alloy, and stated that it is most difficult to find substitutes.

Consumer purchasing power increasing

National income payments showed a further increase in January to \$79.0 billions (on an annual basis after adjusting for seasonal variation) as compared with \$74.1 billions in January 1940 and \$82.1 billions for the year 1929. (See Chart 1.) If allowance is made for changes in the cost of living since 1929, the "purchasing power" of income payments in January was equivalent to \$92.0 billions, as compared with \$82.1 billions in 1929. (Refer to Chart 1.)

Earnings of factory workers have been decidedly improved during 1940, as the following table indicates:

Earnings of factory workers

	<u>December</u> <u>1939</u>	<u>December</u> <u>1940</u>	<u>Percentage</u> <u>Increase</u>
Average wage rate, dollars per hour	.662	.683	+ 3.2
	<u>January</u> <u>1940</u>	<u>January</u> <u>1941</u>	<u>Percentage</u> <u>Increase</u>
Average earnings, dollars per week	25.51	27.59	+ 8.2
Total earnings (BLS payrolls index 1923-25 = 100)	99.8	120.2	+20.4

The average wage rate per hour increased 3.2 per cent in the year ending December 1940. (January figures are not yet available.) Average weekly earnings, on the other hand, increased 8.2 per cent in the year ended January 1941, indicating the degree of improvement in the position of the individual worker. As weekly earnings have increased relatively more than hourly rates, the average number of hours worked per week must have expanded substantially. Total earnings of factory workers, indicating the purchasing power of factory workers as a group, increased 20.4 per cent in the year ended January 1941.

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Position of individual factory worker improved

The improved economic status of individual factory workers can be seen from Chart 2. Average weekly earnings of factory workers rose to 119.2 in January (1935-1939 = 100), as compared with an average of 118.1 in the final quarter of 1940; which in turn was considerably higher than the highest quarterly figure for 1937.

The relative increase in earnings is the more pronounced in view of the stability of the cost of living. Chart 2 shows an index of the cost of goods purchased by wage earners and lower-salaried workers in large cities, as compiled by the Bureau of Labor Statistics. The series has recently been revised, using weights based on family expenditures in 1934-1936. Beginning October 1940, the index is available monthly.

This increased purchasing power of workers explains, in part, the recent strong advance in retail sales, as mentioned previously. Various reports appearing last week give further evidence of the same tendency:

(1) The National Electrical Manufacturers' Association indicated sales of 350,000 household refrigerators to distributors and dealers in January compared with 218,000 units in January 1940, an increase of 60 per cent.

(2) The Vacuum Cleaner Manufacturers' Association reported sales in January 23 per cent over January 1940.

(3) Sales of washing machines in January were the highest ever recorded, totaling 133,411 units, an increase of 12 per cent over January 1940.

(4) Sales of ironers were also at a new high in January of 20,986 units, an increase of 102 per cent over January 1940.

Heavy buying of steel continues

New business booked by steel producers has continued to run substantially ahead of shipments, with forward buying, prompted by the desire to cover future requirements, an important factor. New orders received by the U. S. Steel Corporation during the week ended February 20 rose 12 per cent to 155 per cent of capacity. The Iron Age reports that

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the volume of new orders for steel has been so heavy that producers' books are almost completely filled for the second quarter, and in addition there have been large bookings for the third quarter and some for the last quarter. The Iron Age sees the possibility that the mills may be sold out for the year by May 1.

Steel scrap prices were unchanged last week, but concern is expressed in trade circles over the slowness with which scrap is becoming available at the current price level. Steel operations last week were scheduled at 96.3 per cent of capacity as compared with 94.6 per cent in the previous week. However, actual production may have been slightly lower due to a strike, which has since been settled, at the Bethlehem Steel Corporation's Lackawanna plant. Steel operations in the current week are scheduled at a new high rate of 97.5 per cent of capacity.

The Gano Dunn report

The report prepared for the President by Mr. Gano Dunn and released last week is an attempt to appraise the adequacy of productive facilities in the steel industry. It is still too early to know how the report has been received by steel buyers, but if its findings are accepted, the result may be some abatement in the current heavy pressure of consumers to buy steel.

The statement, if accepted at its face value, is a reassuring one as to steel capacity. Certain of its basic assumptions, however, may be open to question, particularly in view of the fact that the steel industry is falling progressively further behind in its efforts to meet current demands. As the New York Times says in commenting upon the report: "It is to be hoped that the aluminum experience is not to be repeated."

Proceeding from basic assumptions of estimated national income of 80 billions of dollars in 1941 and 90 billions in 1942, the report finds that if certain measures are undertaken there will be a surplus steel capacity of 10,000,000 tons in 1941 and 2,000,000 tons in 1942. In arriving at these figures, the Dunn report estimated capacity of the industry at the beginning of 1941 at 87.6 million tons as compared with 84.2 million tons reported by the American Iron and Steel Institute. The increase noted was obtained by including facilities for the production of additional steel castings

- 6 -

and cutting down on the time heretofore consumed in carrying out repairs. Calculating capacity on the same basis, completion of facilities now under way would carry capacity up to 91.1 million tons by the end of the year.

On the other hand, the report indicated that if the steel industry were to operate at capacity throughout 1941 on the basis above mentioned, pig iron facilities existing at the beginning of the year would be 2.3 per cent short of requirements, while coke facilities would be 12 per cent short. Pending the construction of additional facilities, the report suggests that any shortages that might arise in these products should be met by (1) increasing the ratio of scrap to pig iron going into ingots, and (2) by diverting coke from use in home and commercial units.

Export freight accumulating in New York harbor

Because of the slow movement of ocean shipping, lighterage freight in storage and on hand for unloading in New York harbor reached a new high of 11,361 cars in the week ended February 21, as compared with a peak of 10,845 cars in the week ended January 4. (See Chart 3.) Storage space is fully adequate, however, as only about one-third the space available is now in use.

Receipts of freight for export at New York (see Chart 4) have been maintained in recent weeks at a higher level than actual exports, which have tended to decline. (See Chart 5.) Thus in the week ended February 21, receipts of export freight at New York totalled 4,341 cars, while indicated exports were only 4,053 cars.

New orders continue at high level

No let-up has occurred in the heavy volume of new business booked by industrial companies in recent months, and our index of new orders for the week ended February 22 rose 6 per cent above the previous week. (See Chart 6.) The principal factor in the rise was an increase in new steel orders, although new textile business also showed a fair sized gain, and other items in the aggregate maintained the level of the previous week unchanged.

- 7 -

Prices of imported commodities sharply higher

Prices of imported commodities advanced again last week, with the tight ocean freight situation a primary influence. News appeared that a system of priorities may be set up in the ocean freight market to reserve American flag vessels, if necessary, for materials needed under the defense program. The steep increase in the prices of imported commodities since early February (see Chart 7, upper section) in practically all instances reflect present or prospective shortages of ocean freight, together with increased shipping costs. One proposal for alleviating the ocean freight shortage came from Philippine planters, who suggest using for commercial freight purposes Army transports returning light from Government bases in the Pacific, following the practice of World War days.

Freight rate increases of about 25 per cent have been announced on shipments from the Far East, effective April 1. From South America, rates on freight have been increased 20 to 25 per cent, effective April 1. Rates on cocoa from the West African coast have now been increased about 45 per cent.

Prices of domestic agricultural products higher

Prices of domestic commodities advanced in the week ended February 28 with cotton, wheat, and other agricultural products in the lead. (See Chart 7, lower section.) Two bills have been proposed for the benefit of agriculture through higher loan rates on farm products, and other plans, either of which would represent the first major change in farm legislation since 1938. The trade interprets these proposals as meaning higher prices for such farm products as wheat and cotton. The prices of domestic oils and fats, including cottonseed oil, tallow, and lard are higher partly because the tight ocean freight situation may curtail supplies of imported oils.

General commodity prices climbing higher

Viewed in perspective, the BLS all-commodity price index has been rising very sharply with no interruption since last August (see Chart 8, upper section), while the cost of living has pursued an irregular but gradually upward course.

While the monthly all-commodity index is not yet available for February, the weekly index (lower section of Chart 8) levelled out during that month, which suggests that the

- 3 -

monthly index will show little change from the January figure. This levelling out, however, seems likely to be followed by a further rise, in view of the renewed upturn in prices of basic commodities during the past several weeks.

Weekly business indexes

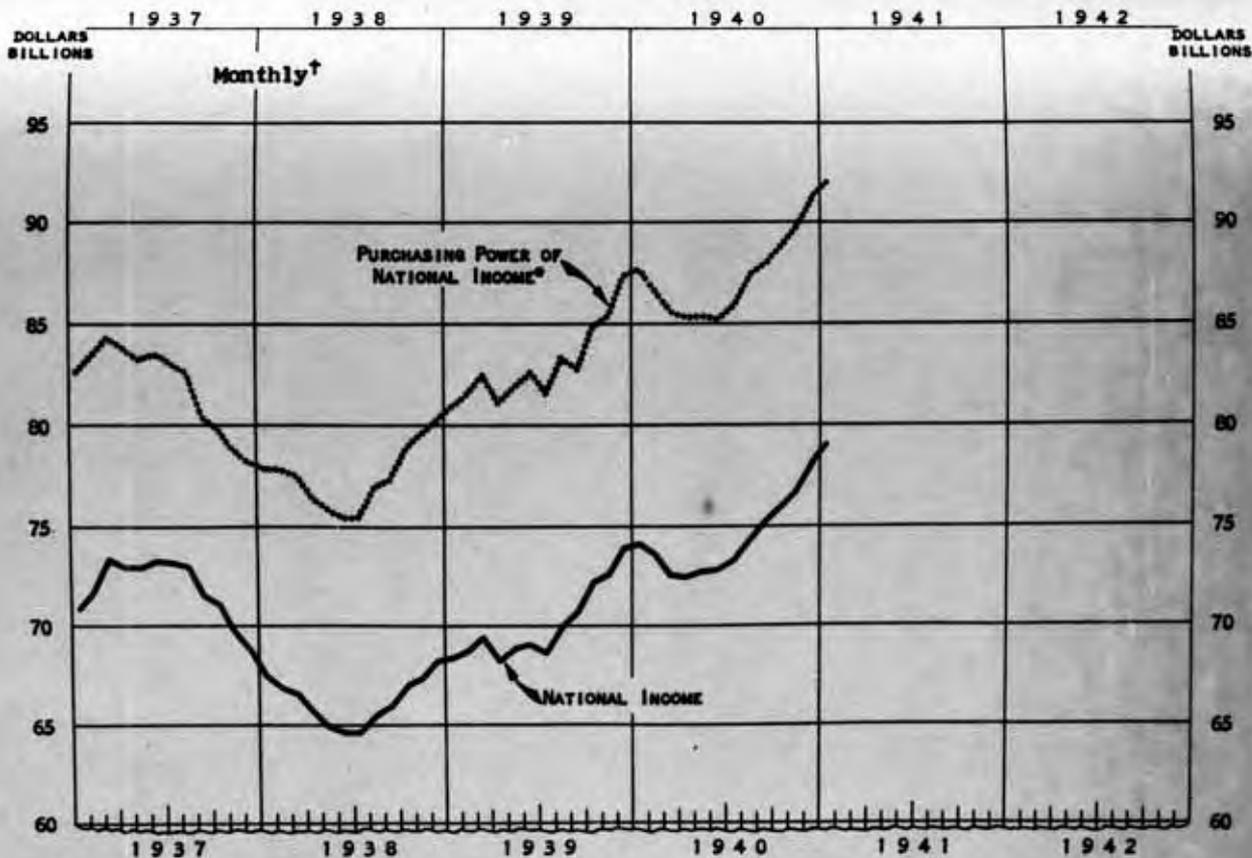
Gains moderately outweighed losses among the various components of the New York Times index of business activity during the week ended February 22, and as a result, the index advanced 0.4 to 121.5.

A contra-seasonal rise in electric power output and a less than seasonal decline in "all other" freight carloadings were principally responsible for the slight gain in the combined index. In addition, the adjusted index of cotton mill activity rose 2 points and the adjusted index of paperboard production showed a very slight rise. All other components of the index declined, but after allowance for seasonal factors the only one to show a loss of more than $\frac{1}{2}$ point was the index of lumber production. This component declined because of a less than seasonal rise in actual lumber output.

Barron's index of business activity also showed only a small change during the week ended February 22, and declined slightly to 130.0 from 130.2 in the previous week.

Preliminary data for the week ended March 1 reveal a slight rise in the adjusted index of steel ingot production, and a small decline in the adjusted index of automobile production as a result of a decrease of 1,200 units in actual output. However, the total for the week of nearly 127,000 units was still near the best levels of production on 1941 model cars, and represented a gain of no less than 25 per cent over output in the corresponding week of 1940.

NATIONAL INCOME AND ITS EQUIVALENT PURCHASING POWER



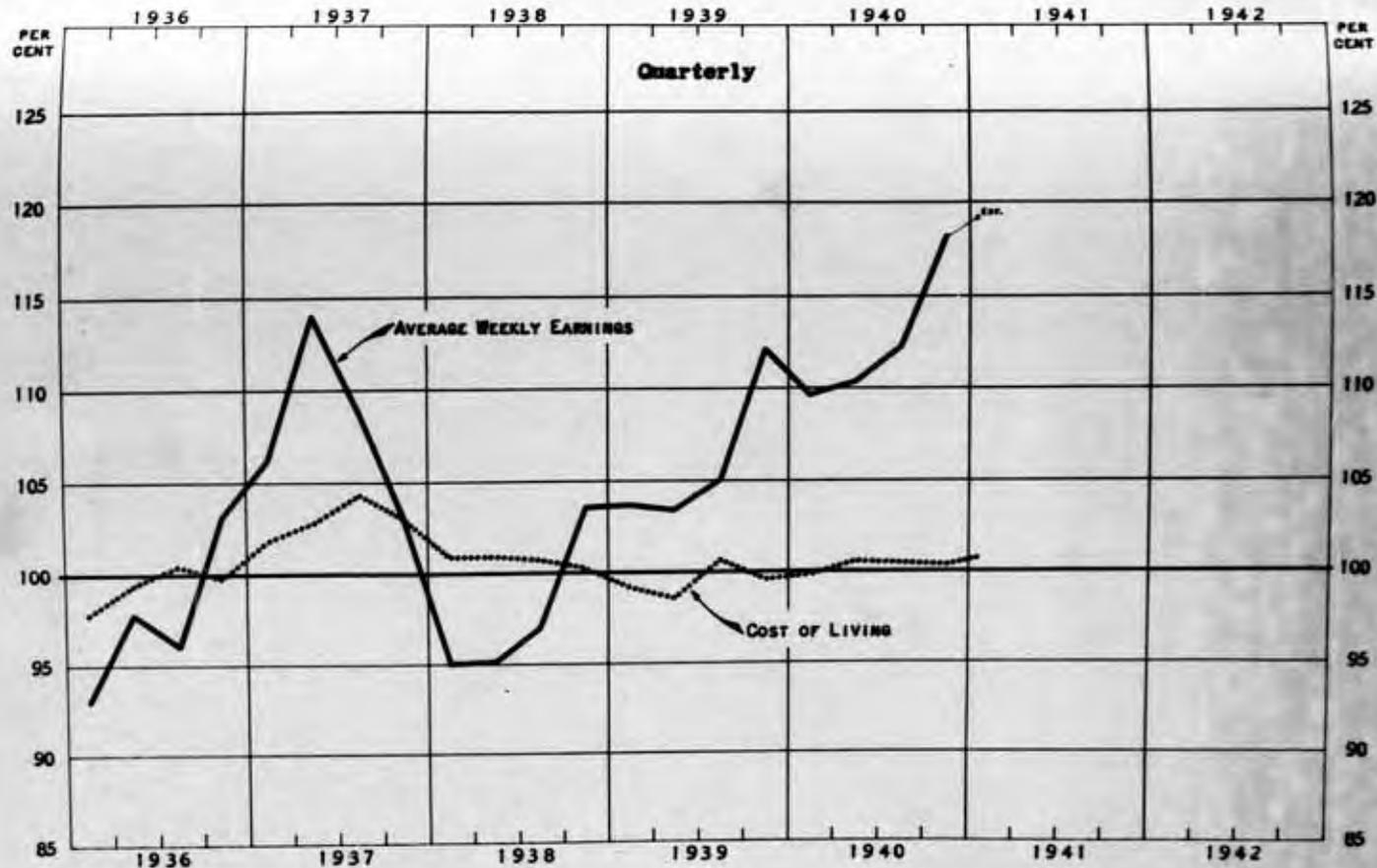
*BASED ON COST OF LIVING INDEX OF NAT'L. IND. CONF. BD., 1929=100
 †SEASONALLY ADJUSTED. MONTHLY FIGURES MULTIPLIED BY 12

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

C - 374 - 1

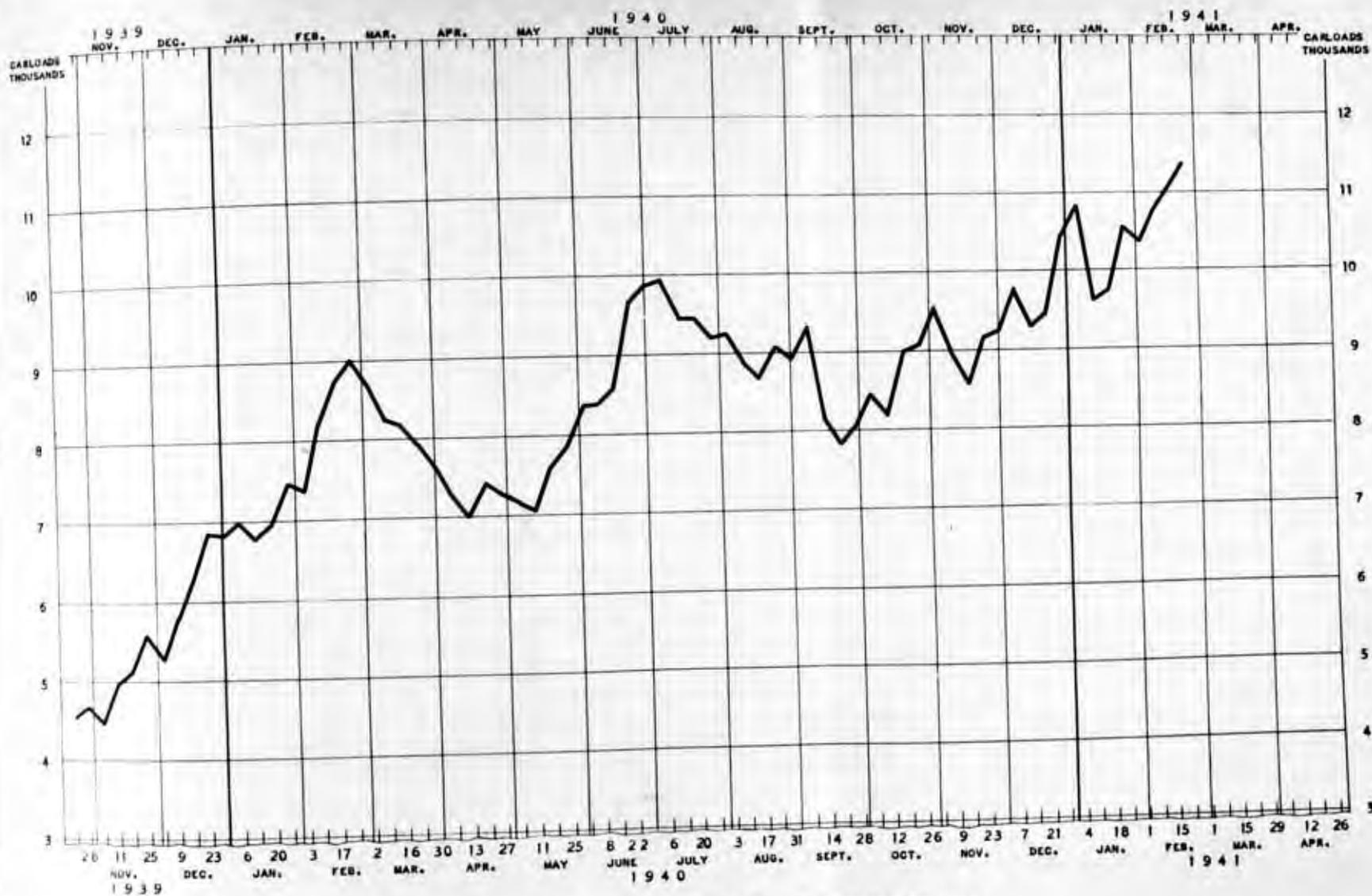
Chapter 1
 215

EARNINGS OF FACTORY WORKERS AND COST OF LIVING
1935-'39 = 100



SOURCE: B.L.S.

LIGHTERAGE FREIGHT IN STORAGE
AND ON HAND FOR UNLOADING IN NEW YORK HARBOR*



*LARGELY EXPORT FREIGHT, BUT ABOUT 10% REPRESENTS FREIGHT FOR LOCAL AND COASTAL SHIPMENT. FIGURES EXCLUDE GRAIN.

RECEIPTS OF FREIGHT FOR EXPORT AT NEW YORK
AND AT 9 OTHER NORTH ATLANTIC PORTS

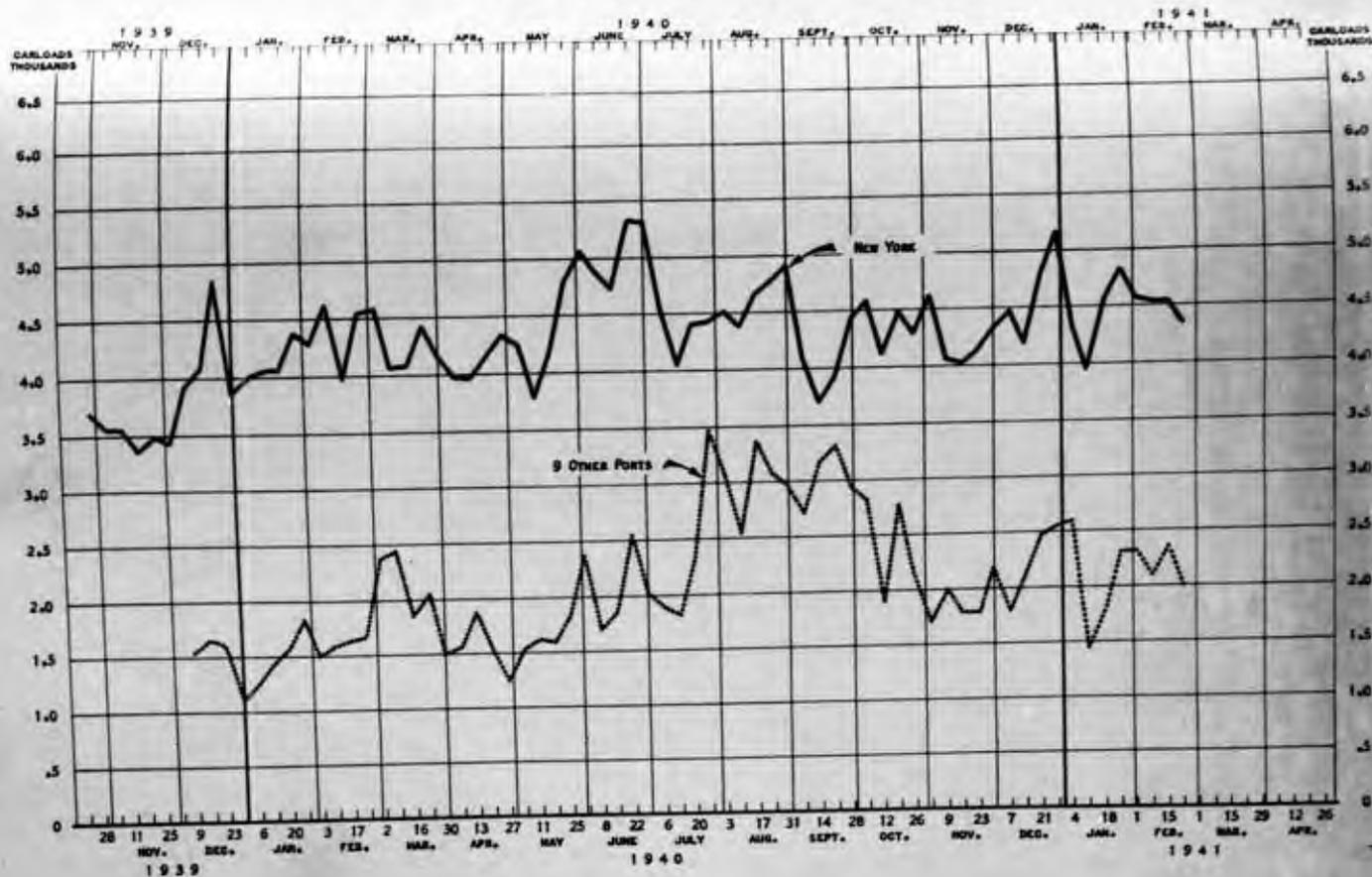
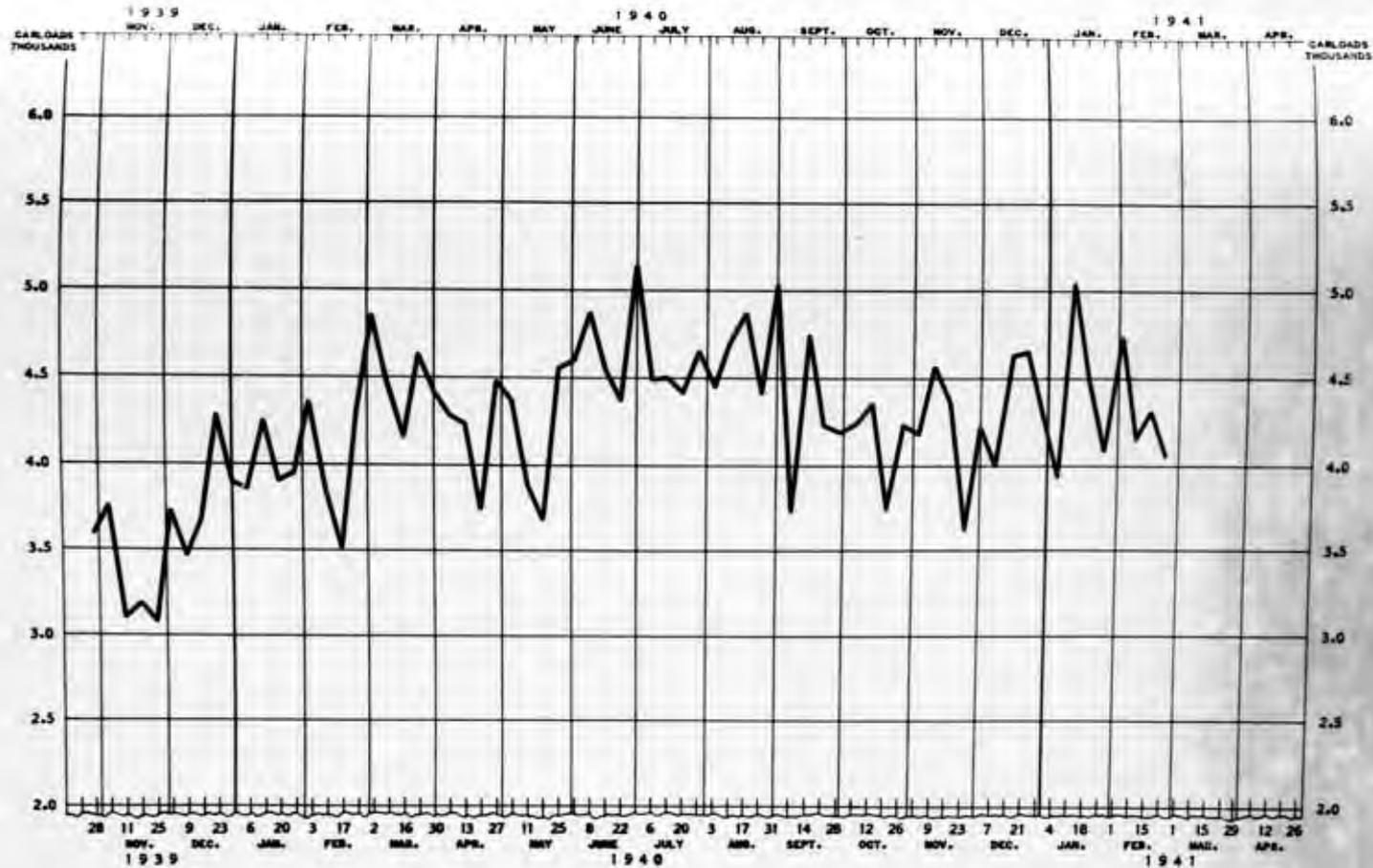


Chart 4
218

CARLOADS OF FREIGHT EXPORTED FROM NEW YORK*



*AS ESTIMATED FROM DATA OF GENERAL SHIPPERS' ASSOCIATION OF NEW YORK.

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

C - 308 - A

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Chart 5

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

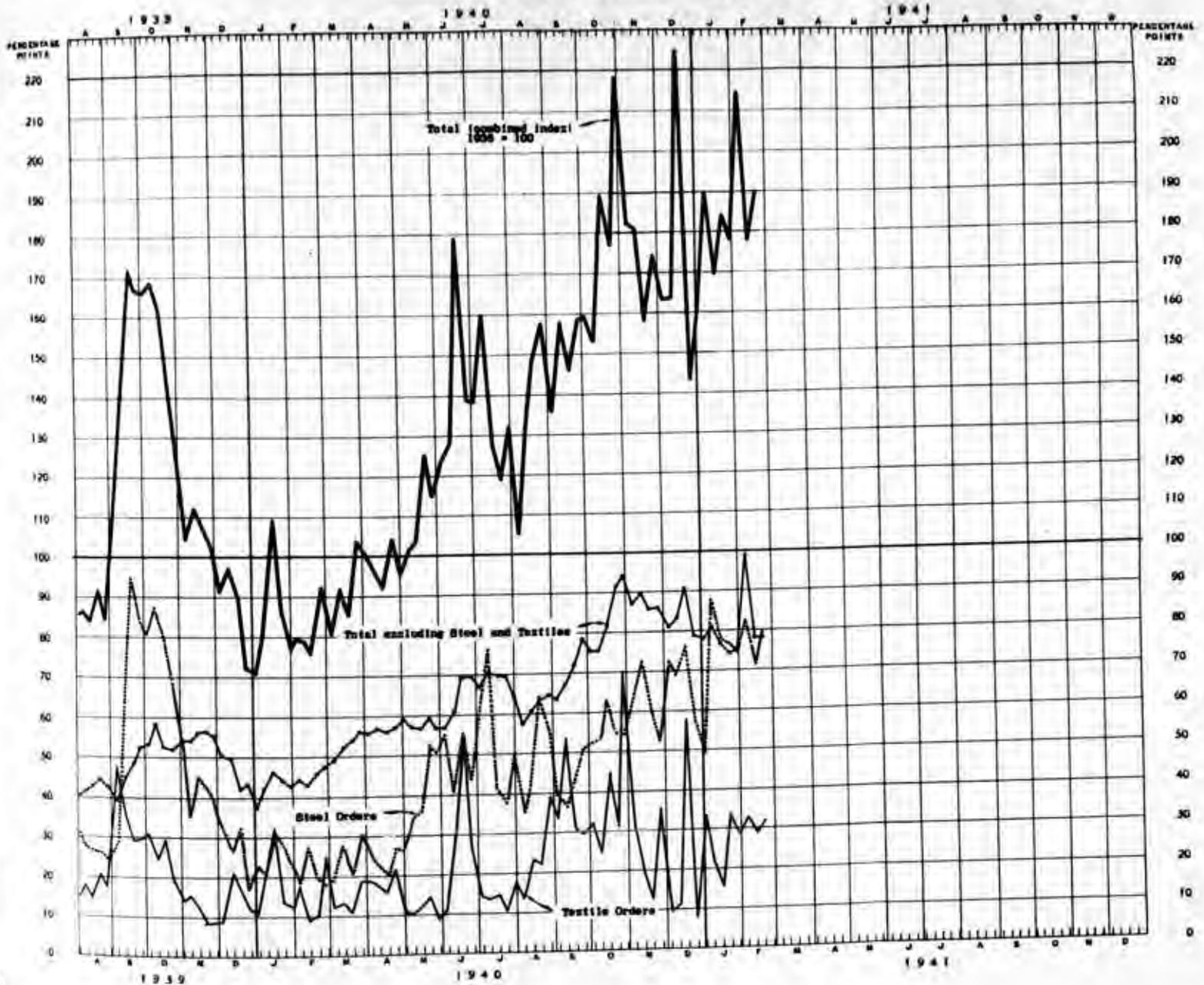
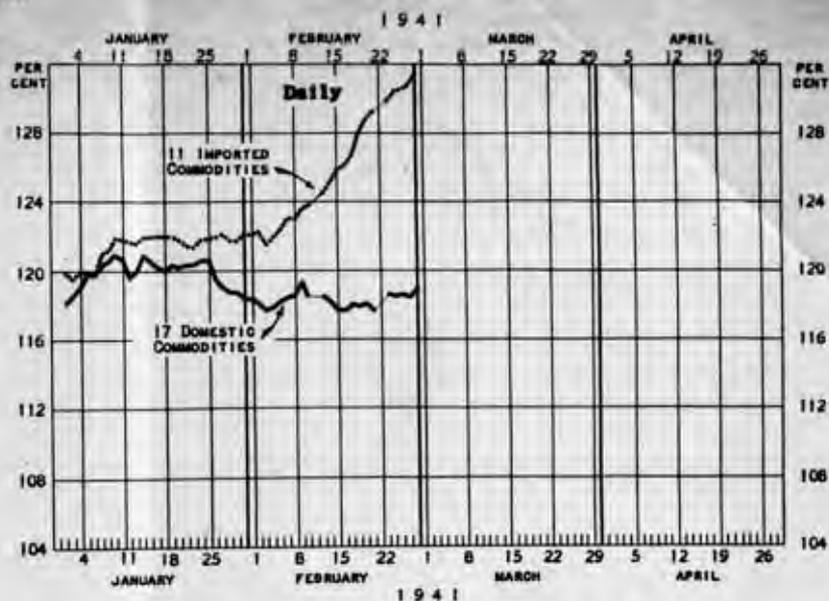
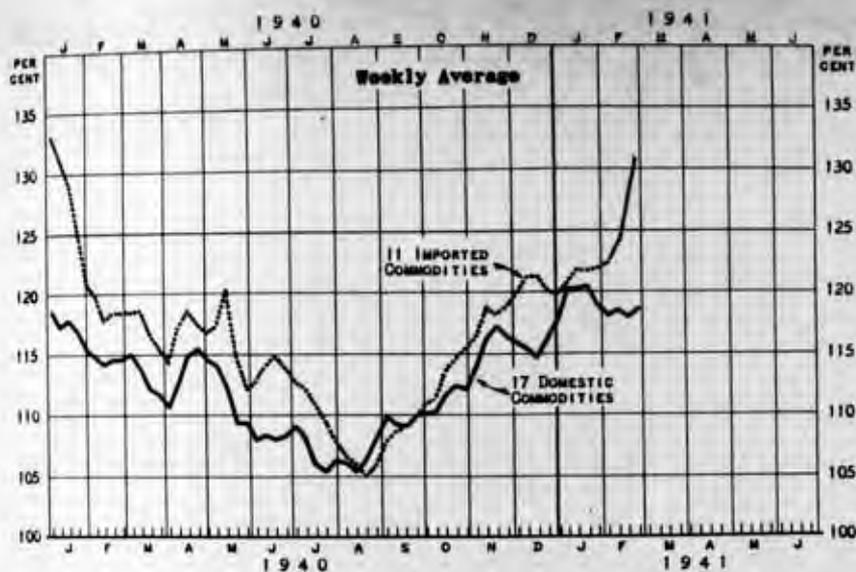


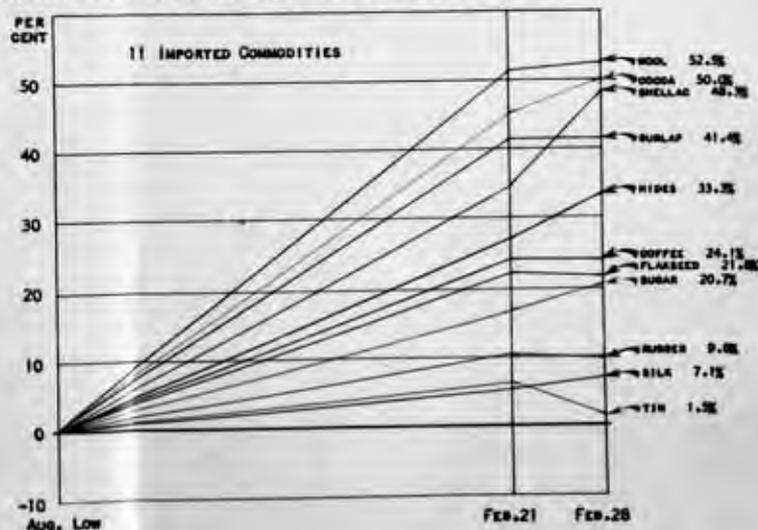
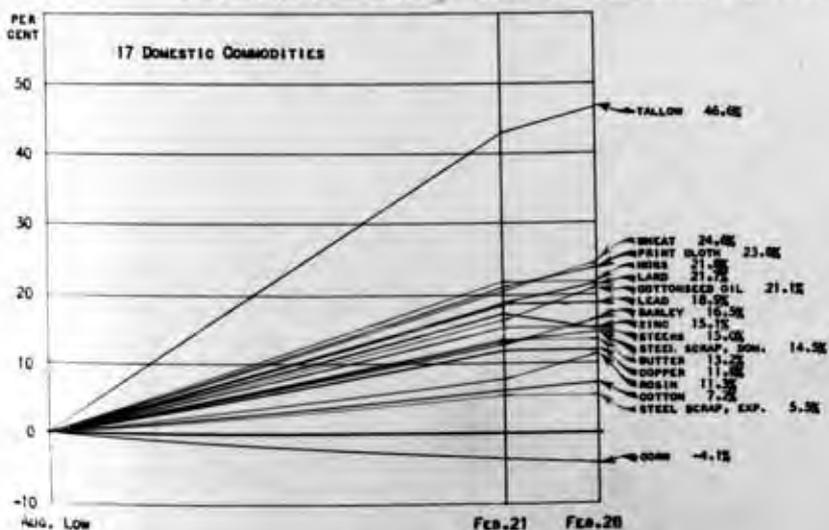
Chart 6
 CONFIDENTIAL

MOVEMENT OF BASIC COMMODITY PRICES Domestic and Imported

AUGUST 1939 = 100

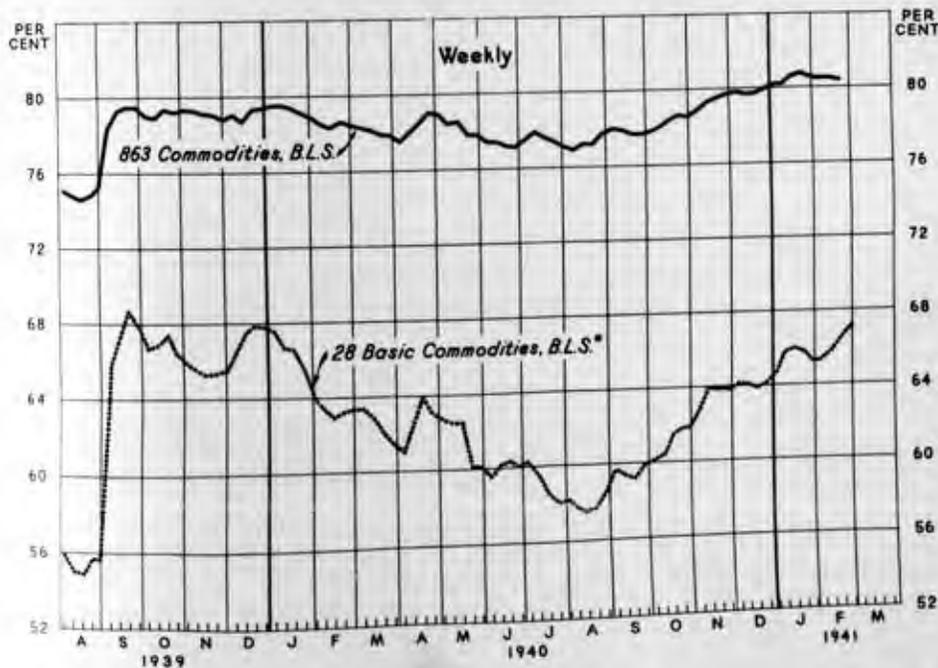
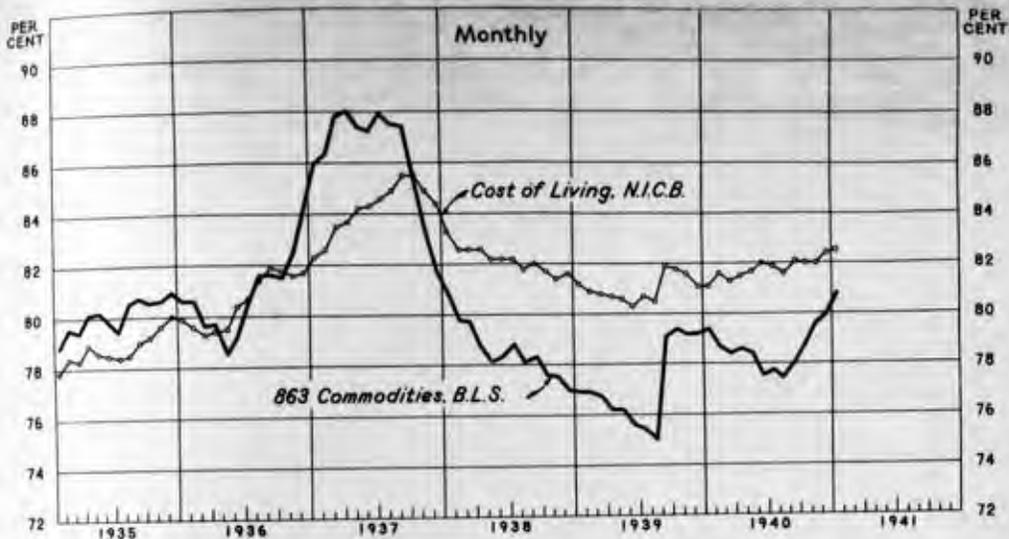


Percentage Change for Individual Commodities, August 1940 Low to February 21, 1941, and to February 26, 1941



COMMODITY PRICES AND COST OF LIVING

1926 = 100



*30 Commodities Prior to January 1940

To:

223

Secretary Morgenthau

D

3/8/41

For your information.

Left with ^{OSC} Mr Hopkins
3/4.

MR. COX

MAR 3 1941

Terms of Disposition of Defense
Articles to Britain Under H.R. 1776

One of the first questions to come up after H.R. 1776 is passed will be: What benefit is the United States to receive for the transfer of defense articles from existing stocks?

Since the appropriation request to carry out the bill will then be pending or made soon thereafter, the question is of strategic importance. The public and Congressional reaction to the appropriation request will be influenced by the terms of the first disposition. The opponents to the bill have led the public to believe that the Government will receive nothing.

It may be well carefully to consider some of the following possibilities for the first transfer pending a determination of a master plan:

- 1) The transfer to the United States of the United Kingdom's capital interest in munitions and aircraft plants located in this country subject to the right of the United Kingdom

- 2 -

to have the use of such plants for the duration of the war unless the United States exercises its option to such use before then.

The United Kingdom has a capital investment of about \$134,000,000 in such plants located in the United States.

- 2) The transfer of an agreed amount of Bolivian tin per year stretched over a comparatively long period of time, if there is sufficient ownership by British nationals for Britain to enter into such an agreement;

My impression is that there may be power in the British Government to do this. We are now building smelters in this country to smelt and refine Bolivian tin.

At least it might be well to investigate the situation.

- 3) The transfer of an extra copy of Magna Carta and a small part of the rare books of interest

- 3 -

to the United States held by dealers in
Britain so that they can be under the con-
trol of the Library of Congress.

The foregoing are only suggested possibilities. There
are, of course, many others. The important thing is to
start consideration of this problem as soon as possible
even if it is finally deemed wise to require no consideration.

OSC:aja
3/3/41

Typed: djb - 3/8/41

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OSC:aja
3/3/41

Typed: djb - 3/8/41

TO:

230

Secretary Morgenthau

For your information.

6 March 1941

Lot

Went to Mr Hopkins
3/4/41 at 8 am.

MR. COX

COPY

MAR 3 1941

MEMORANDUM

To: Mr. Harry Hopkins
From: O. S. Cox

You may want to keep in mind the following two considerations in connection with the lend-lease planning and appropriations:

- 1) The need for outstripping the Axis powers in productive capacity for defense articles and the amount of such articles on hand within a specified time limit;
- 2) The relationship between appropriations for expansion of productive capacity and appropriations to buy finished defense articles.

(1)

Outstripping the Axis Powers

One of the major defects in the French and British war effort was the fact that they did not adequately face or state their needs for war equipment. As a result, they

- 2 -

have had to restate and expand their needs innumerable times with the result that much valuable time was lost. We have been making the same mistakes.

Consideration should, therefore, doubtless be given to a re-examination of the fundamental bases upon which War and Navy requests for appropriations are being made. To date none of these requests have overshot the mark--they have fallen short. Thus, for the fiscal year 1941 alone, there have already been more than sixteen appropriations for the War and Navy Departments. There will doubtless be more.

Generally, the War and Navy Departments' requests for appropriations are made on the basis of an assumed number of men, an assumed number of tactical units, etc. Thus, for example, the number of aircraft for which appropriations have been requested have been conditioned largely by such factors. However, if it were assumed that our main purpose is to outmatch the Axis powers, as soon as possible, in the productive capacity for the best available

- 3 -

aircraft and in the number of such aircraft on hand, then the War and Navy Departments' requests for the expansion of aircraft facilities and the procurement of aircraft would unquestionably be much larger. The appropriation requests for aluminum and magnesium capacity and the productive capacity for machine tools and aircraft engines would also be commensurately larger.

If it is decided and known that we want and have the funds to develop a productive capacity for and have 60,000 planes of stated types in fifteen months, the job will be done differently than if we want 36,000 planes of the same type in twenty months.

(2)

Expansion of Production and Procurement

As each new appropriation has been made to the War and Navy Departments, it has generally been necessary to retrace steps to get adequate productive capacity. To produce the same number of a given weapon or plane has and is taking longer than if our needs had originally been

better stated and expansion of productive capacity had been handled accordingly.

In many instances the speed of production of a given number of defense articles within a stated time is directly affected by the ratio of plant expansion to procurement. Thus, for example, if the amount of money appropriated to expand productive capacity for turret lathes or other machine tools is 1% of the amount appropriated to purchase them, it is not possible to get as many of such machine tools produced in a given period as it would be if 15% or 20% of the procurement money was put into expansion of productive capacity.

If for policy reasons it is decided not to ask in one swoop for all of the appropriations necessary to satisfy our own and British needs--to outmatch the Axis powers--then care should doubtless be taken to include the funds to get the productive capacity for the whole task in the first request. Once the capacity is there, it will be much easier and quicker to get the finished article with subsequently appropriated funds.

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OSC:a:ja
3/3/41

Typed: djb--3/6/41

BRITISH EMBASSY,
WASHINGTON, D. C.

March 3rd, 1941.

Personal and Secret.

Dear Mr. Secretary,

I enclose herein for your personal and secret information copies of the two latest reports 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 from London dated February 28th

1. Naval. A/P Trawler mined and sunk off Humber night of 26th/27th.
2. R.M. Minesweeper "Garna" mined and sunk in Suez Canal on 25th February.
3. During the night after the capture of Castelloroxzo Island two enemy motor torpedo boats raided the Island but withdrew before contact could be made. Reported "Ladybird" withdrew after heavy raid when she was damaged slightly.
4. Reference to air and U-boat attack on outward convoy 26th/27th, position as now known:- fourteen ships attacked, three sunk and three set on fire, eight damaged, of which one in tow and two proceeding under own steam to United Kingdom.
5. On 27th, East Coast convoy twice bombed and machine-gunned. One ship sunk, one damaged, one reported being attacked, but no further details.
6. Glasgow and raider. Now made clear Glasgow's only available aircraft did sighting and shadowing, Glasgow seventy miles distant with maximum speed of 24 knots. Position of "Canadian Cruiser" 480 miles E.S.E. Kompassa and Dutch ship was 280 miles E.S.E. of "Canadian Cruiser".
7. "Leander" a.m. 27th, 250 miles W.S.W. of the Maldive Islands intercepted Italian ship "Ramb 1." The ship under red ensign. When ordered to stop, hoisted Italian colours and opened fire. Five salvos from "Leander" ended the engagement, "Ramb 1." then set on fire, abandoned and sank within one hour, 100 prisoners.
8. Military. Libya. Considerable movement of mechanical transport has been reported in coastal area between a point fifty miles W. of Agheila and Misurata. About fifty enemy aircraft were seen on the ground in Misurata area.

-2-

Advance elements of our mechanized forces drive back a reconnaissance unit of armored fighting vehicles, believed German, west of Agheila.

9. Royal Air Force. Night of 26th/27th. Three aircraft (not four reported yesterday) are missing, three crashed on return, one of the crew saved.
10. A night fighter on offensive patrol probably destroyed one enemy aircraft, and damaged another over an aerodrome in Northern France.
11. 27th and 27th/28th. No operations took place.
12. Malta. On 25th Hurricanes shot down two enemy bombers, probably destroyed another, and damaged a third.
13. Albania. Nineteen Blenheims with fighter escort dropped 3½ tons of bombs in Tepelene area and 4 tons on Fier with good results. Italian Fleet headquarters and two ships off Valona were machine-gunned.
14. German Air Force. 27th. About fifty enemy aircraft were operating. An aircraft factory was attacked, also 12 Royal Air Force Stations and 2 military establishments. Production at factory will be reduced by about 50% for 48 hours.
15. Night of 27th/28th. No enemy activity.
16. Malta. It is now reported that during the attack on Luqa aerodrome on 26th four further Wellingtons were damaged.

Telegram from London dated March 1st.

1. Naval. Of convoy reported attacked February 26th/27th now learnt one damaged ship has not been located and one damaged now been abandoned in sinking condition.
2. British force in Kasteloritzo was withdrawn night of February 27th/28th. During withdrawal Jaguar attacked with torpedoes, ship located in inner harbour, four explosions heard. Later she located an enemy destroyer which escaped although hit twice.
3. Military. Eritrea. To 7 p.m. February 27th. February 25th our forces in the North were in contact with enemy fifteen miles northeast of Keren. Free French force sustained fifty casualties during attack.
4. Libya. German reconnaissance units and possibly also units of an armoured division are operating in Libya. There is no evidence that a large German force has arrived.
5. Royal Air Force. February 28th. Three medium bombers attacked Hotel at Quiberon believed occupied by submarine ; three direct hits were scored. Our fighters on Channel patrol probably shot down one bomber.
6. Night of February 28th/March 1st. One hundred and sixteen aircraft attacked targets at Wilhelmshaven including "Tirpitz" and six bombed port of Boulogne. One aircraft is missing. Results unobserved.
7. Albania. On 27th, nine medium bombers escorted by 9 Hurricanes attacked aerodrome at Valona with good results. Hurricanes shot down seven enemy fighters and two more were destroyed in collision. On February 28th, 25 Italian aircraft shot down and nine more probably destroyed over Greek lines.
8. German Air Force. 28th and 28th/1st, very little enemy activity.
9. Malta./

-2-

9. Malta. Early on 28th parachute mines were dropped in and near Grand Harbour, two exploded in Valetta and caused considerable damage to property. Anti-aircraft fire detonated one in the air and probably destroyed one enemy aircraft.

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

German: One bomber probably destroyed.

British: One bomber missing.

RESTRICTEDG-2/2657-220
No. 329M.I.D., W.D.
March 3, 1941.
12:00 HSITUATION REPORTI. Western Theater of War

Air: German. Scattered air activity on a moderate scale. On the night of March 1-2, fairly strong attacks were made on Cardiff, Southampton and Great Yarmouth. Last night south and southwest England were raided. Operations against shipping continued.

British. Normal night offensive operations. On the night of the 1st-2d the Cologne area was heavily attacked. Last night operations were principally along the west coast of the continent. Several air fields, from Sylt south, were bombed and Brest was raided again.

II. Balkan Theater of War.

Bulgaria: Units of the German Army have marched into Bulgaria since March 2.

Albania: Ground. Patrol and artillery activity.

Air. Minor activity.

III. Mediterranean and African Theaters of War.

Ground: Libya. The Free French report that Kufra Oasis surrendered on March 1.

Italian Somaliland. The British claim the capture of over 9,000 prisoners and large quantities of war material.

Air: Axis. German planes continued active along the Libyan coast as far east as Tobruk. Malta was heavily attacked.

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

Perugia of Code Collogram
Received at the War Department
at 7:46, March 3, 1941.

London, filed 13:15, March 3, 1941.

1. On Sunday, March 2, operations of the Coastal and Bomber Commands consisted of attacks on merchant shipping and harbor facilities at Helder, the seaplane base on the island of Sylt, two airfields in Holland and two German vessels off the Norwegian coast. In addition, a direct hit was scored on a German cargo boat off the coast of Denmark and British fighter planes carried out reconnaissance over the Coast of France. During these operations the British lost no planes. During the preceding night Cologne was attacked by 131 British heavy bombers and severe fires resulted. In addition, lone British planes raided harbor facilities and airfields in the Netherlands and in northwestern Germany and three bombers raided Boulogne. The British lost three planes in these night operations. During daylight hours of February 28 three direct hits were scored by a force of three British bombers in an attack on a hotel thought to be occupied by the crews of a number of German submarines at Quiberon, France.

2. On March 2 a small number of German planes carried out attacks against the Shetland Islands, Wales and Cornwall and other German planes carried out reconnaissance over the North Sea area. There were some civilian casualties and some damage to private property but no British planes were lost. German losses were one plane destroyed and one damaged.

3. British planes from Greece successfully carried out a severe

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CONFIDENTIAL

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attack on Italian supply depots, motor transports and barracks near the Albanian town of Duri and at Valona and Berat. The British destroyed these Italian planes in this theater. Elsewhere in the Middle East Royal Air Force planes cooperated with the British land forces. In these theaters the British destroyed two Italian planes.

4. A total of 20 German fighter planes were plotted over Malta but no bombs were dropped.

5. In the Northwest Approaches on March 1 a British merchant ship was hit by a torpedo. Fires were started on two British merchant ships when German aircraft carried out raids on in-bound and out-bound convoys near Kinnaird Head. On the same day German aircraft bombed two British cargo boats from Canada just outside of Carligan Bay. Both vessels suffered severe damage.

SECRET

Distribution:

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

CONFIDENTIAL

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 4, 1941

TO Secretary Morgenthau
FROM Mr. Cochran

For Miss Chaudoy

At 9:20, Saturday morning, March 1, the Secretary called me to his office. He stated that he desired that I draft a reply to the British proposal with respect to the handling of direct investments in this country. He telephoned Secretary Hull, requesting that someone in that department be permitted to cooperate with me in this task, and asking that Secretary Hull look over the draft when completed. Secretary Hull stated that Dr. Feis was out of town, but that Mr. Livesey, whom the Secretary valued highly, was available for consultation. At Secretary Morgenthau's request, Secretary Hull replied that he would instruct Mr. Livesey to be available.

I returned to my office and drafted a letter to Sir Edward Peacock, thinking it preferable to give an informal answer rather than a formal note to the Ambassador himself, which should properly pass through the Department of State. At 11:30 I took this draft to Mr. Livesey and we amended a couple of sentences. I left the revised draft with Mr. Livesey and in my presence he dictated a memorandum to Secretary Hull, explaining the circumstances, and indicating that the Secretary of the Treasury would appreciate receiving Secretary Hull's approval to the draft by 10:30 on Monday morning, since it was to be delivered to the British in the afternoon, and perhaps to be cleared through the President at noon.

At 10:30 yesterday morning I telephoned Mr. Livesey. He promised to get in touch with Secretary Hull's office. At 12 o'clock he telephoned me back that Secretary Hull had initialed the draft in the form that it had been submitted to him. I had obtained the approval of Messrs. Stewart, White and Cairns to the draft, and the finished letter was sent to Secretary Morgenthau between 12 and 1 o'clock, and handed by him to Mr. Pinsent when the latter came to the Secretary's office at 3 o'clock yesterday afternoon to attend a conference of British, Canadian and American Treasury officials.



MAR 13 1941

Dear Sir Edward:

Please accept my sincere thanks for your courtesy in providing with your letter of February 25, 1941, a memorandum setting forth the difference between the instructions under which you came to the United States, for the purpose of disposing of British direct investments in this country, and the plan which your Ambassador proposed when he called at the Treasury on February 24, accompanied by Mr. Farris and yourself.

The Ambassador's proposal, together with a copy of the statement which he made in explaining the views of his Government, was presented to the President by me. I have also had the benefit of consultation with my colleagues, Secretary of State Hall.

We are genuinely appreciative of the desire manifested by the British Government to arrange for the disposal of British direct investments in this country in the manner that may prove most efficient. The merits of the plan outlined in the Ambassador's memorandum will continue to have our careful study and consideration. It is our suggestion, however, that work be pursued as actively as may be along the lines which you have established since your recent arrival, with such calls on us for consultation and advice as you may desire, and

- 2 -

that improvements in the methods of procedure can best be made as
progress is achieved and as experience is gained.

Very sincerely yours,

Secretary of the Treasury

Sir Edward H. Fensholt, C. C. V. O.,

In care of His Excellency, the British Ambassador.



MO:lap-3/3/41

March 4, 1941.

MEMORANDUM FOR THE SECRETARY'S DIARY

On Saturday afternoon Messrs. Foley, Pehle and Bernstein attended a conference at the office of Assistant Attorney General Francis Shea, at which Mr. Shea and Mr. Acheson were also present. The meeting presumably was called as a result of the President's memorandum to the Secretary of State, the Secretary of the Treasury and the Attorney General dated February 26.

At the meeting we went over word by word the proposed Executive Order extending freezing control on a geographic basis. Various suggested changes were adopted and considered. Mr. Acheson indicated that the State Department was opposed to the inclusion of Yugoslavia, Spain and Portugal and also hoped that Switzerland would not be included, but understood that the President wanted it included. Mr. Foley, after consulting with Secretary Morgenthau by telephone, indicated that the Treasury was willing to go along with excluding Yugoslavia, Spain, and Portugal, but that Switzerland should be included. Mr. Acheson did not seem at all surprised at the decision since he seemed to take the view that that is what the President wanted.

The meeting lasted until 7:30. By the conclusion of the meeting Acheson, Shea and Bernstein had substantially agreed on the form of the Order and had also arranged for a further conference at 2 o'clock on Monday to go over the Order in final form and also to go over the Regulations and any other problems that would have to be considered. Bernstein had indicated that the Treasury was prepared to work on the matter on Sunday but Shea stated he was going up to New York to make a speech on Sunday and Acheson stated he would be doing some work alone on the matter and then would see Secretary Hull Monday morning. Bernstein spoke to Mr. Foley late Saturday evening and advised him of the status of the matter.

On Sunday Shea called Bernstein at the Treasury, and Bernstein advised Shea that Pehle and Bernstein and members of the Treasury staff were revising the Order and Regulations,

- 2 -

general licenses and general authorizations so as to be prepared to "go" at any time. Early Monday morning Secretary Morgenthau talked to Acheson on the telephone about the problem and advised him that the Treasury had received an inquiry from Atherton of the State Department in connection with extending freezing control to Bulgaria. Secretary Morgenthau felt Bulgaria should be dealt with as a part of the broader freezing Order which was being considered. Acheson said he thought that this procedure was satisfactory. The Secretary suggested that Acheson tell Atherton.

On Monday morning Bernstein called Shea and Acheson and advised them that redrafts of the Order and Regulations were ready for immediate discussion. Nevertheless, no meeting was held Monday morning.

At 2 p.m. on Monday afternoon a meeting was held in Acheson's office, attended by Acheson and Donald Hiss of the State Department, Shea, who came in about fifteen minutes late, Bernstein and, a little later, Mr. Pehle, who had been attending a conference in Secretary Morgenthau's office relative to the problem of Swiss and Italian banks that would be covered by the extended Order. Bernstein indicated to Acheson that the Treasury had the papers all drafted and was prepared to work on the matter with the Committee as long as necessary with a view to reaching an agreement that day and submitting documents to the President so that the control could be put into effect before the opening of business the next morning. Acheson thereupon phoned Secretary Morgenthau and advised him of the State Department's attitude on freezing Bulgaria. Secretary Morgenthau indicated that the Treasury was ready to complete the extended freezing job before the opening of business on March 4, and that if it was held up it would be because of the State Department. Acheson said that Bernstein was in the office and the Committee was prepared to continue working until it agreed on all the papers that day. The group reviewed the Executive Order, and made a few changes. With these changes adopted, Bernstein phoned to the Treasury to have the Order set up in final form and also mimeographed. (Copies of the Order and Regulations as finally agreed upon are attached.) This took place around 4 o'clock. Acheson and Shea raised questions as to what should be the next move. They discussed the possibility of simply reporting back to their superiors with a view to a meeting being held by the three Cabinet officers with the President on March 4. Bernstein indicated that he

- 3 -

could not agree with this line of procedure in view of the fact that it was anticipated that an Order would be submitted to the President before the opening of business on March 4. Thereupon Shea went out of the meeting room to phone the Attorney General and Acheson went in to Secretary Hull with a copy of the Order as finally agreed upon.

Shea reported that Mr. Jackson said that if the Order was satisfactory to Shea, Mr. Jackson was prepared to sign it immediately, although he felt that it would be desirable to have a Cabinet meeting with the President and that any press release on the matter should be issued through the White House. Bernstein indicated that there was no objection whatsoever to the press release being given out through the White House rather than through the Treasury; that the Treasury was simply working on a draft of a release which would be submitted to the Committee for their consideration and approval with a view to being made public in any way the Committee thought desirable.

Acheson handed Bernstein the original of a memorandum to the President, initialed by Secretary Hull, which Acheson said was being delivered to the Treasury for submission to the President with the proposed Executive Order. A copy of this memorandum is attached. Bernstein said that since Secretary Morgenthau was waiting to be advised of what action was going to be taken, he would have to take Mr. Hull's memorandum to the Treasury, and suggested that the group continue their discussions on the basis of several memoranda which Bernstein distributed indicating further action to be taken in connection with the extended control.

After Bernstein left, Pehle continued the discussions on the basis of the memoranda, copies of which are attached. Shea raised the question as to whether the general licenses, etc., described in such memoranda were available for detailed examination by the Committee. Pehle advised him that the general licenses, etc., were being prepared by the Treasury Department and that as far as the Treasury was concerned, it would be satisfactory for the Committee to pass upon the general policy questions outlined in the memoranda. Both Shea and Acheson suggested that the Committee might keep itself abreast of all that was happening in connection with the administration of the Order, and it might be necessary for both State and Justice to have several people working in the Treasury to report to the respective Committee members. They asked Pehle whether this would be satisfactory to the Treasury, and Pehle indicated that the Treasury would want to consider the matter. Shea said that he could not see how the Attorney General could "supervise" the administration of the Order without some such procedure. Pehle replied that the term "supervision" had been included in the Order as a substitute for the Attorney

- 4 -

General's suggestion that the Regulations be approved by the Committee and that accordingly the term "supervision" was not intended to indicate that the State and Justice Departments would pass on the details arising in the administration of the Order.

Bernstein returned to the Treasury and joined the meeting in Herbert Gaston's office. Messrs. Gaston, Foley, White and Kuhn were also present. Bernstein described what had happened at the State Department and discussed Secretary Hull's memorandum. It was the view of the group that Mr. Hull's memorandum made it undesirable for the Treasury to submit the Order to the President. Mr. Foley took Mr. Hull's memorandum and went in to see the Secretary. Secretary Morgenthau called Mr. Jackson and told him what had happened. Mr. Jackson said that he was prepared to sign the Order but thought that it might be desirable to have a meeting of the cabinet officers with the President. Secretary Morgenthau told Mr. Jackson that he was going to call the President and discuss the matter with him to which Mr. Jackson agreed. Secretary Morgenthau called the President and told him what had occurred and read the memorandum to him. The President wanted to know how the memorandum had come to the Treasury rather than directly to the President, and Secretary Morgenthau explained that the State Department had given the memorandum to the Treasury for the Treasury to deliver to the President with the Order. The President told Secretary Morgenthau to return the memorandum to the State Department and to tell the State Department that the Treasury could not undertake to deliver this memorandum to the President, that the State Department could deliver it directly to the President if they desired and that the President's memorandum of February 26 called for all three cabinet officers agreeing to the Executive Order. The President indicated that in view of the attitude of the State Department, he would not be prepared to sign an Order on general freezing but that he would issue an Order extending the freezing control to Bulgaria.

Secretary Morgenthau called Mr. Jackson and told him of the conversation with the President and what the Treasury was about to do with respect to the memorandum. Secretary Morgenthau also told Mr. Jackson that we had the Order extending freezing control to Bulgaria which was going to be submitted to Secretary Hull for his approval and that if Mr. Jackson would then indicate his approval, Secretary Morgenthau would submit the Bulgarian Order to the President. Mr. Jackson agreed to this procedure.

Secretary Morgenthau then instructed Bernstein to return the memorandum to Acheson.

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Bernstein returned to Acheson's office at around 6:30 and returned to Acheson Secretary Hull's memorandum to the President. Bernstein told Acheson that the Treasury felt that it was not in a position to deliver to the President a memorandum which had been initialled by Secretary Hull; that the Treasury construed the President's memorandum of February 26 as calling for an agreement by the three cabinet officers on any freezing Order that was submitted to the President, and that this meant that the cabinet officers should actually sign any Order to be submitted; that in view of the fact that Secretary Hull was not prepared to sign an Order involving freezing on a wider geographical basis, the Treasury had prepared the freezing control Order on Bulgaria; that if Secretary Hull and the Attorney General would sign the Bulgarian freezing Order, Secretary Morgenthau would also sign it and submit it to the President that evening for approval. Bernstein also told Acheson that presumably if Secretary Hull desired the President to have his memorandum, Secretary Hull would submit it directly to the President. Acheson felt quite concerned and asked what could be done about the matter in view of the President's memorandum of February 26. Bernstein repeated that it was the Treasury construction of that memorandum that the President wanted something submitted to him only after it had been agreed to by the three cabinet officers and that nothing less than Secretary Hull's signature on the Order would constitute such agreement, and that therefore the Treasury could not submit the Order to the President.

Acheson took the Bulgarian Order up to Secretary Hull's apartment and Secretary Hull signed the Order and Regulations. Acheson brought the documents back to his office where they were reviewed by Townsend and Shea of Justice and Townsend initialed the documents on behalf of Mr. Jackson. Thereupon, after consultation with Foley, Bernstein took the documents to Secretary Morgenthau who initialed the Order and signed the Regulations. Secretary Morgenthau arranged with the White House for the documents to be signed by the President that evening. Bernstein took the Order and Regulations to the White House where the papers were signed by the President. Thereafter, the documents were telegraphed to the Federal Reserve Banks and released to the press.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 4, 1941

TO Secretary Morgenthau
 FROM Mr. Cochran

For Miss Chauncey

STRICTLY CONFIDENTIAL

In accordance with the arrangement made with Mr. Gifford, as reported in my memorandum of February 28, there appeared in the Financial Press of Monday, March 3, a further list of American securities which had been completely liquidated by the British Treasury, through Mr. Gifford.

The list as published is as follows:

Stocks: American Fork & Hoe Co. common
 Boston Edison Co.
 Buffalo, Niagara & Eastern Power Corp. 1st 5% pfd.
 Commercial Credit Co. 4-1/4% cum. conv. pfd.
 Crown Zellerbach Corp. \$5 cum. conv. pfd.
 Eagle-Picher Lead Co. common
 First National Stores, Inc., common
 Marshall Field & Co. common
 New Jersey Zinc Co.
 Republic Steel Corp. common
 Standard Oil Co. of California

Bonds: Consolidated Edison Co. of N. Y., Inc., 3-1/2% debts, due 1956
 Consolidated Edison Co. of N. Y., Inc., 3-1/4% debts., due 1946
 Japan, Imperial Govt. of, 6-1/2%, due 1954
 Southeastern Power & Light Co. 6% debts. due 2025
 Southern Ry. Co. dev & gen. mtge. "A" 6%, due 1956
 Standard Gas & Electric Co. 6% debts. "B", due 1966

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 4, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

At 9:05 yesterday morning Mr. Atherton telephoned me to the effect that Secretary of State Hull had told him on Saturday that he was to let the Treasury know when the time had come to block Bulgarian assets in the United States. Atherton stated that the time had now arrived. He said the State Department had planned originally to wait until the British Minister had left Sofia, but that this departure would not take place until Tuesday, so the State Department said to go ahead with the blocking on Monday. I asked Atherton if he knew the result of the interdepartmental group on Saturday afternoon which was considering the general question of freezing. He replied in the negative.

I immediately put in a call for the Secretary's office. I gave Mr. Pahlé the above information at 9:10. At 9:25 I spoke with the Secretary, giving him the above message. He said we would discuss it at the Staff meeting. The stenotype record covers the conversation on this point which took place at the 9:30 meeting.

At 2:30 p.m. the Secretary called me to his office and instructed me to ask President Allan Sproul to pass the word in the Federal Reserve Bank of New York and to interested banks in the city not to put through any Bulgarian transactions of any importance yesterday afternoon without first getting in touch with the Treasury. I gave this message to Mr. Sproul at 2:40 and asked him to call me personally on any such case so that I could clear it with the Secretary. In answer to my query, Mr. Sproul said that he had not been aware of any important transactions on Bulgarian account yesterday morning.

At various times between 3 and 4 o'clock Mr. Cameron telephoned me from the Federal, reporting four transactions involving Bulgarian funds. The most important of these were the following:

1. The Credit Suisse, New York Agency, is depositing with Federal a check for \$200,000 drawn on the Federal Reserve Bank of New York by the Chase National Bank for credit to the account with the Federal Reserve Bank of New York of Banque Nationale du Royaume de Yougoslavie, Belgrade, Yugoslavia, by order of Banque Credit Bulgare, Sofia, Bulgaria. The Credit Suisse, New York Agency, received their instructions from the Credit Suisse, Zurich. The amount of \$200,000 was to be debited not to the Bulgarian account but to the Credit Suisse, Zurich.
2. Bank Nacional Argentine instructed Central Hanover Bank & Trust Co. to pay Federal Reserve Bank of New York \$238,000 for account of Banque Nationale du Royaume de Yougoslavie by order of Banque Nationale Bulgare.

- 2 -

There were two other smaller transactions, one covering a payment of \$50,000 from the Hanover Trust into the Bulgarian account with the Federal. I cleared these four cases with the Secretary and telephoned Mr. Cameron to permit their consummation.

The Swiss Minister telephoned for me twice yesterday, once at 10:35 a.m. and later at 1:20 p.m. Likewise the Finnish Minister telephoned at 10 a.m. I did not accept these calls, pleading conference business, lest they might be on the freezing problem concerning which I was not in a position to speak.

At 5 o'clock yesterday afternoon Mr. Stopford of the British Embassy called on me. During the conversation he inquired as to the status of new freezing regulations. I told him that I could only provide him with a copy of the Dow Jones ticker article of March 3, 4:35 p.m., which read as follows:

**"Secretary Morgenthau Says Government to Issue Some Form of Foreign Assets
"Freezing" Order by Tomorrow Morning.**

Washington.—Secretary of Treasury Morgenthau told his press conference today some form of foreign assets "freezing" order will be issued by tomorrow morning.

Mr. Morgenthau had been asked if freezing of Bulgarian assets and all foreign assets was in prospect. He replied an announcement on this will be made "by tomorrow morning".

He declined to say whether the order would apply to Bulgarian assets only or would be much broader to include either Axis or all foreign assets in this country."

I suggested that Stopford call on Peble as he was leaving the building, since Peble would have more current information than I on this subject.

The following is an extract from that portion of the Department of State Radio Bulletin No. 51 of March 3, 1941, which covered the press conference of Secretary Hull:

"A correspondent inquired if there was any information the Secretary could give concerning the Bulgarian situation. The Secretary replied that he did not believe he had anything more than the press. Asked if the situation there now was such as to raise the question of the freezing by the United States of Bulgarian funds in the United States, the Secretary replied in the affirmative. A correspondent inquired in this connection if consideration was being given at the same time to the freezing of funds of Germany and Italy. The Secretary referred the inquiry to the Treasury. Asked if he had given the Treasury any opinion regarding the Bulgarian funds, the Secretary replied in the affirmative and said he believed it was given this morning. Asked if the press could assume from this that the Secretary approved the freezing of Bulgarian funds, the Secretary again answered in the affirmative."

B. M. F.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 4, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Following the group conference yesterday afternoon between British, Canadian and American Treasury officials, Deputy Finance Minister W. C. Clark from Ottawa dropped by my office for a chat. He mentioned that there had been registered with the Canadian Government approximately \$350,000,000 (Canadian) of United States listed, marketable securities. Under the War Act Canada can vest title to these securities. Mr. Clark asked whether it was desirable from the American Treasury viewpoint that the Canadian Government take title to these securities and commence liquidation thereof. He said this could be done, although it would give rise to a political "rumpus". He said, however, this would have to be faced sooner or later and he is willing to proceed in accordance with our wishes.

I described to Mr. Clark the arrangement which we have with the British in regard to liquidating their holdings of listed American securities. I said that naturally his aim would be similar to our own, that is, to get rid of the securities which he takes over at as good price as possible without having a depressing influence on the American market. The British had consistently marketed in an orderly fashion, and had been able to accelerate in recent months the speed at which the securities were sold.

When Mr. Clark mentioned the possibility of Canada obtaining some assistance under our Lease-Lend Act, most likely through the United States paying for those armament purchases which Great Britain makes in the Dominion, I gave the personal suggestion that if this came to pass it might be desirable from our standpoint that a liquidation of Canadian holdings of American securities commence. I told Mr. Clark, however, that this was only my first reaction, and that I would like to present the matter to the Secretary for his consideration. I reminded Mr. Clark that he was free to communicate with us directly at any time. In answer to my inquiry as to whether the Canadians had any direct investments in this country which could be marketed, Clark replied that his estimate was roughly some place between \$20,000,000 and \$40,000,000. Some of this might belong to American citizens resident in Canada who could be approached only with difficulty. Furthermore, he feared that perhaps ninety percent of this material could not be realized on in any reasonable period of time.

I mentioned this conversation to the Secretary at 11:30 this morning. I said that Mr. Clark was still in Washington. He will leave today. He did not expect any reply from us before his departure.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 4, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

After the Secretary gave me yesterday afternoon the memorandum of his conversation with Sir Frederick Phillips to the effect that arrangement was likely to be consummated whereby the British could borrow \$100,000,000 of the Belgian gold located in Canada, I reported that we had just received word from New York that \$75,000,000 in gold was to be shipped on March 4 by the Bank of Canada from Ottawa to New York for sale on account of His Britannic Majesty's Government.

In talking with Mr. Pinsent, Financial Counselor of the British Embassy, yesterday evening, I mentioned this reported \$75,000,000 shipment, and inquired whether this represented the first transaction under an arrangement with Belgium. He said that he doubted this very much. In the first place, the British Treasury people here have not yet received word of the conclusion of the Belgian arrangement. In the second place, word has come in to Washington as to further arrangements which the British Government has made in assembling and "switching" gold. I asked Pinsent to let me have full details on these points as soon as possible.

At 12:30 today Pinsent called on me. He showed me a cablegram from London indicating that the Belgian Minister of Finance Gutt is leaving London on March 20 for this country. In answer to my query Pinsent replied that his people have not yet had any word of the Belgian gold arrangement being consummated.

Pinsent had with him a work sheet on which he had reconciled the British estimate of \$69,000,000 of dollar exchange and immediately realizable gold as of February 28 with the figures of Mr. White. He also let me see a copy of a cablegram of February 26 which indicated that London would approve of arrangements for "switching" French gold in Canada against British gold held in Australia and certain scattered parts. Pinsent had not been counting such gold as immediately realizable, and gold of this type was not included in the figure for February 28. Gold of this type amounts to at least \$46,000,000. Pinsent thought that it was perhaps against "switching" of this \$46,000,000 of gold, and by adding to the proceeds \$16,000,000 of gold which the British already had in Canada that the greater part of the \$75,000,000 which is today being shipped from Canada was reached. He is not sure, however, of his figures. He is awaiting a message from London and upon its receipt promised to give us the latest detailed picture of the gold situation.

C
O
P
Y

March 3, 1941

Memorandum to: Mr. Harry White
From: Secretary Morgenthau

Sir Frederick Phillips stayed behind to tell me that he had word from England that he was pretty sure that they were going to be able to borrow a hundred million dollars of the Belgian gold located in Canada.

He said that if he didn't hear by tomorrow night, he would send another cable.

Copy to:

Mr. Merle Cochran

March 4, 1941
8:55 a.m.

H.M.Jr: (Laughs). Oh, you didn't like that yesterday.

Harry Hopkins: No!

H.M.Jr: Well, it was you who said your voice had changed.

H: (Laughs).

H.M.Jr: Listen

H: I'm having breakfast with a member of your staff.

H.M.Jr: Are you going to let me have him before I see Hull?

H: Yes, he's coming in a few minutes.

H.M.Jr: I want to know what he did last night.

H: Well, I guess he moved around, he talked to me.

H.M.Jr: What?

H: He did it.

H.M.Jr: I mean I want to get a report before

H: Where are you now?

H.M.Jr: I'm at the Treasury.

H: What time do you expect to see him?

H.M.Jr: Well, I've got to see him before I go to Hull's at 9:15.

H: All right. I'll tell him right away he'd better get going damn soon then. All right.

H.M.Jr: Now, wait a minute. That isn't what I called you up about. What does one do when one likes to help the British with ten cutters to get the President of the United States to say yes or no?

- 2 -

H: Does it have to be done under the Lend-Lease?

H.M.Jr: Yeah, as far as I know. But the point is this: you see I wrote the President a letter and I sent a man by the name of Hopkins who lives over in the White House a copy of it. (2/28)

H: Yeah. Well, if it's going to come out of the Lend-Lease bill you can't do a damn thing about it until the Lend-Lease Bill is signed.

H.M.Jr: No, you're wrong.

H: You can? You mean it doesn't come under Lend-Lease?

H.M.Jr: Well, we can get the whole thing ready with the armaments and everything and tell the British to send their crews to Halifax so that when the bill is signed these 10 and then go with the first convoy. We can do everything.

H: You mean, the President make a commitment in advance.

H.M.Jr: He doesn't have to make a commitment; he just says to me, "Henry, go ahead." See?

H: Yeah.

H.M.Jr: And I then put the pressure on the English to tell me how they want these ships fixed and we'll fix them, and tell them to send their crews over to Halifax and have them waiting there. I don't mean Lord Halifax either.

H: All you want to know is whether the President wants it done.

H.M.Jr: That's it.

H: You don't want a written memorandum.

H.M.Jr: No, just if he'll call me up or tell you - I'm not fusey who I talk to.

H: All right, Henry.

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H.M.Jr: All right?
H: Yeah.
H.M.Jr: Get Cox over here now.
H: All right. Right away.
H.M.Jr: Thank you.

MEMORANDUM OF CONFERENCE

MAR 4 1941

Place: Secretary Hull's Office.

Time: 9:15 A.M. to 10:55 A.M.

Present: Secretary of State Hull; Secretary of the Treasury Morgenthau; Secretary of War Stimson; Under Secretary of the Navy Forrestal; Director of the Budget Harold Smith; Special Assistant to the Secretary of War, John McCloy; General Counsel of the Treasury, Foley; L. B. Lockwood, Assistant to Forrestal, and Oscar Cox, Assistant to the General Counsel of the Treasury.

Senators Barkley, Byrnes and George came in between 9:40 and 9:50 A.M., and General George Marshall, Chief of Staff, came into the conference at 9:50 A.M.

The following points were covered at the conference:

- 1) Secretary Morgenthau opened the discussion by stating that since the conference on Sunday, March 2nd, the assistants of the Cabinet Officers had met with the Director of the Budget, and had drafted an amendment to take the place of the Byrd Amendment. Secretary Morgenthau stated that, after this amendment had been drafted, he had asked Oscar Cox to take copies of it to Senators George,

- 2 -

Barkley and Byrnes, and to answer any questions which they might have about it. He asked Cox to report his discussion with these three Senators.

2) Cox stated that he had delivered the material to the three Senators, and discussed it with them. He added that Senator George had said that the amendment was satisfactory to him, and that he thought Senator Byrd might well be sold on it. Senator George suggested that Cox show this amendment to Senators Barkley and Byrnes. Cox did this. Byrnes said that he did not know whether Byrd would accept the amendment in the place of his own, but added that the amendment was satisfactory to himself, and suggested that Senator George was the man to try to sell the amendment to Senator Byrd. Senator Barkley told Cox that he thought it might be unwise to raise the question at all by proposing the counter-amendment. Senator Barkley thought that it would be better merely to point out that Congress retains control of the purse strings through the appropriation acts to be subsequently passed.

- 3 -

3) Before the three Senators arrived at the meeting, Secretary Hull put forth three possible ways to meet Senator Byrd's amendment:

a) A percentage limitation on the amount of appropriations to the Army and Navy which could be used for defense articles transferred under H.R. 1776;

b) A provision in the bill to the effect that any defense articles procured from appropriations made after the passage of the bill to the Army and Navy can be transferred to Britain, etc., if, within thirty days, Congress does not disapprove the transfer by concurrent resolution; and

c) That a six months' time limit be placed on the transfer of defense articles procured from appropriations made after the passage of H.R. 1776, with the idea in mind that the greatest emergency would occur within that period, and Congress could be faced at

- 4 -

the end of that period with a request for more flexibility.

4) Senators George, Barkley and Byrnes thought that the proposed amendment to meet the Byrd Amendment ought to be presented to Senator Byrd by Senator George. Their thought was that a great deal of time would be saved by doing this. Senator Barkley still felt that it might be undesirable to offer the amendment at all.

5) Secretary Hull raised for discussion the Ellender Amendment providing that nothing in H.R. 1776 authorizes the ordering of troops outside the hemisphere. Secretary Hull pointed out the fact that such an amendment would be a fraud on the public, since nothing in the bill in any way authorizes the ordering of the troops outside of the hemisphere. Senator George pointed out that the only political argument that could be made against Secretary Hull's position was that, if nothing in the bill authorizes the ordering of the troops outside of the hemisphere, why not say so in the bill?

- 5 -

6) Senator George suggested that consideration ought to be given to an amendment making it clear that radios and newspapers are not covered by the bill. It was tentatively thought that by changing the word "facilities" in the bill to the word "plant" this could be covered.

7) General Marshall then gave a detailed analysis of how equipment originally intended for the Army could, as a military matter, be made available to Britain in our own best interests. He pointed out that in the case of guns and ammunition, for example, for an army of 1,200,000 men, there are enough guns on order so that, if Britain held out when we were in quantity production, the nine months' supply of such guns, ammunition, etc. which was contemplated to maintain the army in a time when we were at war, could be made available to Britain. He pointed out that this amount of equipment, which could soon be made available to Britain, would have a dollar value of about \$1,000,000,000. Similarly, General Marshall pointed out the situation in connection with

- 6 -

critical items, such as heavy ordnance, which has already been authorized for purchase by Congress. Here again, in circumstances similar to that, for guns and ammunition the Army could make available to the British about \$50,000,000 worth of critical items.

General Marshall also pointed out the situation in connection with aircraft. He indicated that the Army had in mind ultimately setting up 180 squadrons, consisting of 54 groups, but that its immediate requirements in minimum form were only 30 squadrons, as long as the productive capacity was such that in a very short time 180 squadrons could be equipped with aircraft. He pointed out that this assumed an adequate amount of training planes to train the pilots ultimately necessary for the 180 squadrons. He made clear that when we had reached or approximated this quantity production, we could, and it would be to our advantage, make available to the British the number of aircraft that made up the difference between the 30 and the 180 squadrons.

BSC

WAR DEPARTMENT
WASHINGTON

March 4, 1941

Honorable Henry Morgenthau, Jr.
Secretary of the Treasury
Department of the Treasury

Dear Mr. Secretary:

Enclosed is a corrected statement of the materiel about which General Marshall spoke this morning. In the original list which you had, the top right-hand figure was \$1,000,000,000, but this took into account not only actual appropriations but monies that have not yet been appropriated. The correct figure, as shown on the attached list, should be \$400,000,000.

Sincerely yours,

John J. McCloy

JOHN J. McCLOY
Special Assistant to
the Secretary of War

1 Encl: Tentative
Policies

29 - Bureau 5-1

*(11) Friday
copy of Mr. Bell
3/6/41*

TENTATIVE POLICIES reference possible releases of U. S. Material
(now under contract) to British Government.

Provided under present Appropriations

a. Material for initial equipment
and for 12 months' maintenance
in field for 1,200,000 ground
troops.

* Value - \$1,350,000,000

b. Critical items for 800,000
additional ground troops, in-
cluding 12 months' maintenance

** Value - \$650,000,000

c. Airplanes - 21,500
(11,600 combat types)

Value - \$1,745,000,000

* 2.3 billion shortage

** 0.8 billion shortage

Possible Allocation to British (UNCLAS)

Material from present appropri-
ations

Value - \$400,000,000 (rough)

All of this material

Value - \$650,000,000

8,001 Tactical types

5,400 Training types

Value - \$600,000,000

RETURNED BY MR. KUHN

THE WHITE HOUSE
WASHINGTON

March 4, 1941.

MEMORANDUM FOR HENRY MORGENTHAU, Jr.:

This was received in reply to my cable the other day. I don't know what public announcements are being made in England but this information might be put in the hands of some of our friends.

I talked to the President about the coast guard cutters a few minutes ago and I gather from what he said that he wanted to take a further look at it. He seems to think that certain older cutters could be used. At any rate, I gather he is going to talk to you about it directly.



Harry Hopkins

Enclosure (1)

1. Examples of war-time increases in taxation.

Direct taxation.

(a) The standard rate of income tax increased from 5 shillings and sixpence to 8 shillings and sixpence in the pound.

(b) The rate of Surtax (which is an additional income tax imposed on all personal incomes exceeding £2000 per annum) increased on a graduated scale, so that income above £20,000 per annum is taxed at 18 shillings in the pound. Pre-war peak was 13 shillings and 9 pence in the pound on incomes above £50,000 per annum.

(c) Examples of increases in the case of the married man with two children.

Following amounts in L sterling:

<u>Income</u>	<u>Pre-war Tax</u>	<u>Present tax</u>
£500	8.	37.
£1,000	112.	211.
£2,000	359.	600.
£5,000	1536.	2356.
£10,000	4173.	6006.

(d) Death duties also increased.

2. War Time Profits.

All company profits pay income tax at the standard rate (8 shillings and 6 pence in the £) and in addition profits of trades and businesses in excess of a pre-war standard are taxed 100%.

3. Indirect Taxation.

This covers a wide range of commodities including articles of food such as tea and sugar. The following are examples of war-time increases.

(a) Spirits. Normal pre-war price of a bottle of whiskey was 12/6d - of which 8/5½ was tax. Now 16/- to 16/6d of which 11/4½ is tax.

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(b) Beer. Average pre-war price was 6d per pint of which about 2d was tax. Now 9d including 4-3/4d tax - and the strength of beer reduced.

(c) Tobacco. Duty before April, 1939, 9/6d per lb. Now 19/6d per lb. Popular packet of 20 cigarettes has increased in price from 1/- (including 5½d tax) to 1/6d (including just over 1ld tax).

(d) Purchase Tax. New internal tax applied to a wide range of goods including clothing - hardware - furniture, etc. Rates of tax 1/6th or 1/3rd of the whole - sale value.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 4, 1941

TO Secretary Morgenthau

FROM E. H. Foley, Jr.

Subject: Liquidation of British Assets

At a meeting in Jerome Frank's office at 11:15 a.m. today, the following were present: Chairman Frank, Commissioner Pike, Mr. Schenker, Mr. Purcell, Mr. Louchheim, Mr. Kamarck, Dr. White and Mr. Cairns.

Chairman Frank stated that it was difficult for the SEC to appraise the plan proposed by Secretary Morgenthau in view of the numerous imponderables that it contained. The SEC was, therefore, advancing a new proposal. Chairman Frank thought that the problem could be met by securing a group of public spirited men who would serve without compensation as a committee. The committee, upon disclosure of British assets to it, would undertake to secure American purchasers for the assets and would advise the British whether or not the price offered was fair.

After some discussion, the SEC agreed to submit the plan in writing to the Treasury as soon as possible, probably this afternoon.

S. H. F.

March 4, 1941
11:00 a.m.

RE AID TO BRITAIN

Present: Mr. Kuhn
Mr. Gaston
Mrs. Klotz
Mr. Foley
Mr. Cox

H.M.Jr: I am waiting for Foley and Cox. What shape is the letter in now?

Gaston: Well, Phil brought it to me this morning and I didn't like the construction about it.

H.M.Jr: What don't you like about it?

Gaston: I think the order in which it is stated gives it a rather complaining tone.

H.M.Jr: Really? That is interesting. That is the advantage of showing it around. Complaining?

Gaston: Yes. It begins with a reminder of what you have done in this liaison work and then gets down to the real business of the letter, which is a suggested consolidation. I would prefer to state in a businesslike way your opinion that the - that the thing ought to be consolidated for two reasons, one is the advantage - the efficiency of consolidation, and second, that it will leave you the time that you will need for attention to the committee, and then I think that you can work in something about the history of it.

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(Messrs. Foley and Cox entered the conference.)

- H.M. Jr: Well, Herbert, maybe you have missed the point of what I am trying to get over. These other fellows - if the two of them (Foley and Cox) can read this while I am talking - they haven't seen it.
- Kuhn: Could Ed and Oscar hear Herbert's point quickly again?
- H.M. Jr: No, let me state mine first.
- Kuhn: I see, surely.
- H.M. Jr: Then if Herbert wants to state his point afterward, that is all right. What I want to do, Herbert, is this. What is motivating me? The thing that is motivating me is that for a little over two and a quarter years I have been looking at these various countries that want to buy materials for cash in this country, and when the Lend-Lease Bill passes, that era no longer exists, and I want a clean-cut break. I don't want to slide out of it, and I don't want to be pushed out of it, you see. Now, that is the purpose of the letter and after I wrote that, then Philip Young - and that is why I have got Cox - who was interested in this other thing added that other thing, the question of how it should be done. I would much rather write two letters. Do you see what I mean? The thing that I am interested in is me, this time. For two and a quarter years I have just given the best that is in me to this thing, and I just say I don't want to slide out of it or be pushed out of it. I want to formally sever my connection with the President on this particular front. Now, as to what he does with my work, that is something beside the point, but for this time I am going to think of H.M., Jr. first, you see. Then these fellows

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took it. I told them to take it. What are you going to do with the work? I would much rather write two letters. Now, having said that, you come back at me, you see. Now, you see, when you go over this thing there is nothing from the President to me ever having asked me to do this. The committee was set up and reports to the President through one McReynolds. It doesn't report through me. There is absolutely nothing to show my responsibility. Did you know that?

Gaston: On the Liaison Committee?

H.M.Jr: Not a thing. I don't exist.

Gaston: Yes, I think I can find something for you, in which the President formally stated that the Liaison Committee had reported to the President through you, in a release.

H.M.Jr: Then you are better than anybody else, but it has been that way. That has happened before. That is all right.

Klotz: But even if it is --

H.M.Jr: Well, I would like to see that, but even if it is, my first interest for once is me, you see. Now, how would that - with that introduction, how would you do the thing?

Gaston: Just the way I am proposing to do it.

H.M.Jr: You still would do it the same way?

Gaston: Yes.

H.M.Jr: In one letter?

Gaston: Yes.

H.M.Jr: Have you written it out?

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Gaston: I have written half of it - two-thirds of it.

H.M.Jr: Well, could you read what you have got?

Gaston: Yes. Did you want to get these gentlemen's (Cox and Foley) impression of the letter as it stands? Maybe I am all wrong about it.

Foley: I think for the purpose you have in mind it is all right.

H.M.Jr: Herbert thinks it is a complaining letter.

Cox: Well, I think it has that implication. I had read the letter before.

H.M.Jr: You had?

Cox: The draft of it, and I wasn't quite sure what you were trying to do. It is clear now, and I think you could say that much more directly and to the point without giving any implication of a complaint and also without necessarily covering the second thing. It seems to me that is a practical problem, whether you want to cover the second thing in the same letter or a separate letter.

Gaston: It looks to me difficult to say what you want to say without saying --

Klotz: I haven't seen the letter.

H.M.Jr: You haven't seen the letter?

Klotz: No. This must have happened after I left yesterday.

Gaston: It looks to me difficult to say what you want to say without saying that you wish to surrender this liaison work to the new committee, because

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the President has already indicated he wants the Russian purchases there and that turns out to be the business of this letter, what is in the latter part of it, a direct suggestion that the Harry Hopkins organization, that is, the new Advisory Committee, as a committee and not through you, take over the work of coordinating all foreign buying, and it seems to me that suggestion should be made directly in the beginning of the letter, and there are two reasons for it. One is that a logical coordination of work - it all belongs in one place; and the other reason is that your duties on this new committee are going to be important and you want to be free to do those and not have the thing confused by having those added words.

H.M.Jr: You wouldn't say anything about having done this?

Gaston: I would, but I am going to try to work it in smoothly and logically later in the letter. I don't think it is logically brought in in the letter as it now stands. Do you agree with me, Oscar?

Cox: Well, I think it is logically brought in, but it is a question of what you want to emphasize. It seems to me if the primary thing you want to emphasize is going off on a clean-cut break unless the President wants to turn around and specifically ask you to do it, you ought to say that at the beginning, and at the end explain a little bit about the past history.

Gaston: That is my idea of it.

H.M.Jr: Well, I would like to say something without trying to confuse it. I will tell you people now I will be ready at 3:00 o'clock to meet with you again. You can conclude by that that I consider this important. I don't want to confuse it, and I am not trying to influence you.

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But the reason that I am more sure than ever - I will wait until you finish reading it.

Klotz:

I have. I am listening to you.

H.M.Jr:

The reason I am more sure than ever, there are two things that have come up. I sent for Philip. Hopkins told Philip that with his right hand he should help him and with his left hand he should continue to see these countries who - let's say other than Great Britain, China and Greece, to over-simplify it, you see. Now, Hopkins had two hours with Purvis and he is sounding Purvis out, where should we buy - again over-simplifying it - the agricultural products and Purvis, I gather, told Hopkins, "Well, the place to do it - the only formal purchasing agency other than the Army and Navy is the Procurement in the Treasury," you see. Now, that means that I have got to do it again, and I don't want to do it, which all the more - this is the end of an era and anything that I am going to do now - first I want the President to ask me, and in the second place, I want to weigh it very carefully and talk it around and after - assuming my full 25 per cent of the responsibility with this Board after all the things we have been through this morning on the Lend-Lease - but I have got to do two things here. I have got to raise more money than anybody ever raised before in the world without having a capital levy, and two, we have got to raise a lot more taxes than we have ever raised any place; and those two things in themselves are enough for any human being. I hope I can do them. Now anything else, I think, ought to be weighed by my staff very carefully as to whether I can do them without so weighting myself down that I have failed what I am charged to do. Those two things are my first duties, and everything else is something extra.

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- Gaston: I think you are tracking absolutely right.
- H.M.Jr: And therefore, we I hear of Purvis, who is my friend but he also - he loves to see the thing come back.
- Klotz: He does.
- H.M.Jr: And Philip, who has his own problem and who is very loathe to go over and work with Hopkins and has this organization on his hands, and all of these things, that is all the more reason why I want to have a very clean-cut line.
- Gaston: Yes.
- Klotz: I am with you a hundred per cent.
- Gaston: Well, I feel that --
- H.M.Jr: And that is why I am laying so much stress on this letter.
- Cox: That is right. Of course you have got a third thing which, it seems to me, as a member of the Board and administratively, you have to handle is the financial thing because of the past background of knowing what the British investments are and because it is essentially a financial problem, and I should think in a very early stage the President would have to ask you to steer that as against the straight purchasing end.
- H.M.Jr: Well, tell them what Hopkins said.
- Cox: Hopkins said this morning that it seemed to him very clear that the whole problem of what the trade should be and the whole problem of picking up existing British orders through the Army and Navy and giving the British cash was a problem the Secretary of the Treasury ought to handle and not he. As it lined up in his mind, he thought

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he ought to concentrate on the main job of getting the British airplanes and the Finnish guns and so forth, and the financial thing ought to be separated out to the Secretary of the Treasury again.

Gaston: Well, that is another major job with some reference to that and also to the other duties of the -- the other very increased load to the Secretary ought to go into the record.

H.M.Jr: I think yes, which isn't in at all, and don't forget, Herbert, you are going to show me where the President said in a release that I am the fellow.

Gaston: Yes.

H.M.Jr: Ed, you are being quiet for once. Are you exhausted? Did Mr. Hull exhaust you?

Gaston: Just let me say this, that I think that using this review of what has been done toward the latter part of the letter gives more that impression of finality, you see, and the logical impression of finality that you are washing your hands of it than to start out with it.

Klotz: That is right. I don't like the letter at all.

H.M.Jr: Well, why don't we all meet again at 3:00 o'clock, and if you fellows could meet in Gaston's office a little bit before that and whenever he is ready - so that you will have a little preliminary boxing match, you see.

Gaston: I will try to get my idea of a draft out within the next hour and send copies to these three gentlemen, and then we can meet on it before 3:00 o'clock.

H.M.Jr: I wasn't entirely satisfied with the ending. It

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seemed to kind of slough off there. But I don't think - have another try at it, see, because you see - am I right, Oscar, that Harry Hopkins is groping?

Cox: That is right.

H.M.Jr: And by using all of our people, we could help direct it either here or away from here?

Cox: That is right.

H.M.Jr: Now, you see the great trouble is - I mean, you men have been working on me on this Lend-Lease Bill, and when you see that there is nobody else around here who is doing the leg work except us and - it is the same thing on this other thing. I don't want Hopkins as a front and the Treasury taking the full burden of everything.

Can't we get the N.Y.A. to give us a couple of cabinet members as a defense project?

(Telephone conversation with Secretary Stimson follows.)

March 4, 1941
11:16 a.m.

Henry
Stimson: Hello, Henry.

H.M.Jr: Hello, Harry.

S: I've been thinking over this thing and talking it over and I am profoundly disturbed by the leadership - or absence of it - in the House - in the Senate.

H.M.Jr: You and me both.

S: Well now I talked to the President the other night and reported to him the first conference and then I just called him up a few minutes ago - he still was in his room - and I told him about this.

H.M.Jr: Yeah.

S: I had urged him to strike for night sessions on Saturday when I talked with him and he says that he is meeting opposition on that; Pat Harrison is the only one who is earnest in his support of that, and the thing that troubles me most is the absence of liaison direct with my department on matters that the Army is concerned in since we've gotten over in the Senate. You see the House asked for help. Cox and McCloy were up there.

H.M.Jr: Yes.

S: I wonder if we can't get them to - if it wouldn't be a good plan to - for me to call up George and offer to have them come up and confer and be ready for inquiry.

H.M.Jr: I'd be delighted if you would.

S: I think that it's appropriate for me to do it because as you see after Marshall speaks they understand how directly it hits us.

H.M.Jr: Yeah. I would be delighted. You know - well there's no use going all over it - but fully

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two months ago I called up the President and asked him whether he wouldn't ask Hull to consider this his responsibility. You see.

S: Yes.

H.M.Jr: And the President never did it. I followed up on it and he never did it. Now, yesterday or the day before, I told Harry Hopkins how they used to meet in the House every morning - the leaders in the majority, the Democrats in the committee - and spend an hour going over this thing and our men were up there with them.

S: While this thing was going through the House, you mean.

H.M.Jr: Yes, and Harry said, "That's fine. I'll go right in and tell the President and get him to call up Barkley to do the same thing," and nothing happened.

S: Is Barkley the man to do it? Doesn't George have the carriage of the bill through the Senate? He's Chairman of the committee that reported it.

H.M.Jr: Well, yes, I suppose so, but don't underestimate Barkley, you know.

S: Oh, no. I'm not under-estimating him at all; but I didn't want to put somebody's nose out of joint by going to the wrong man.

H.M.Jr: No, I think that if you called up George and asked him this I think it would be all to the good, because if he wants a couple of men by his side it would be much better for him to ask for it than to have Barkley tell him to do it.

S: Yes. It seems to me so.

H.M.Jr: All right. Now what we're doing, we're going to put down on a piece of paper - my men are - what we can or cannot do with airplanes which are on order or airplanes which we've already taken delivery on because I am not

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- S: Other stuff that we've taken delivery on.
- H.M.Jr: Anything.
- S: Frankly, I blame myself very much for I didn't catch the danger that I think inheres in that amendment about the one billion three. It applies to all articles hereafter - I mean, heretofore appropriated for and that means almost anything.
- H.M.Jr: Of course I am not satisfied and nobody has yet explained to me how you are going to transfer 100 articles of war either which are on contract or which you have taken delivery on under the present legislation.
- S: Well, on contract I can see possibly that we might use money from the Lease-Lend Bill to pay for the downpayments to replace those and
- H.M.Jr: But it will depend upon how the appropriation bill is written.
- S: Yeah.
- H.M.Jr: Well, I tell you, our boys are doing it and as soon as it's written I'll send you over a copy for your criticism.
- S: You mean a copy of the proposed appropriation?
- H.M.Jr: No. Just an analysis of what the situation is today and what we would need, because the Budget and the Treasury don't see alike on this and we can't afford to have the thing pass.
- S: No, we can't afford to have any splits on our side.
- H.M.Jr: No. So as soon as that is done, Harry, I'll send it over to you.
- S: I'll be very glad to see it and I'll try - as soon as there's a chance of getting at George, I suppose he's on the floor now

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

S: I'll try to get him and

H.M.Jr: Well, if you'll call up Colonel Halsey he'll get him for you.

S: Colonel Halsey up there?

H.M.Jr: Yes.

S: Who does he represent? War Department or Treasury?

H.M.Jr: He's the Secretary of the Senate.

S: Oh. Secretary of the Senate. All right.

H.M.Jr: Being a Colonel I suppose he represents you.

S: (Laughs). Well, I'm not as well acquainted with these heathen on the Hill. I used to be.

H.M.Jr: Well, Colonel Halsey is very nice and he's with us.

S: He's Secretary of the Senate.

H.M.Jr: And he's one of us.

S: Well, that's good.

H.M.Jr: Yeah. More power to you.

S: Thank you. Same to you.

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Gaston: The name of the vice-president is Henry Wallace.

(Laughter.)

(Mr. Stephens entered the conference.)

Stephens: Mr. Young was over at the Defense Commission and he is on his way back.

H.M.Jr: Well, tell him to go back there. It is too late now.

Klotz: Poor Steve. He doesn't know whether you are kidding or not.

(Mr. Stephens left the conference.)

H.M.Jr: The Coast Guard gives me an aide, and in the first two years I teach him how to get a sense of humor, and in the next two years I teach them not to use it too much. By that time their tour of duty is over.

Klotz: That is true.

H.M.Jr: All right, Herbert, I am glad you expressed yourself on these things and the more people that see it, the better, and I will see you all at 3:00, and that is that.

Draft referred to by Mr. Gaston on page 1 as having been turned over to him by Mr. Young this morning.

My dear Mr. President:

I shall be delighted to be a member of the Advisory Committee to assist you in administering the Lend-Lease Bill.

With the signing of this bill, the era of cash-on-the-barrelhead will come to an end for most foreign orders. It began in December 1938, when you asked Jean Monnet to see me so that I could help him to purchase planes for France in this country. From that date on, I have served in a personal capacity, at your request, as coordinator and nurse for the British, French, Chinese, Dutch, and many others—altogether twenty-six foreign countries which have placed their orders here.

The fact that you asked me to do this I considered a privilege and an honor. The work has been a labor of love. There have been many difficulties, including an investigation by the Senate; but all the heartaches have had constant compensation in the fact that I have been able to be of some help to the democratic countries which have been fighting for democratic principles. You have made it possible for me to encourage them in their purchases, and at the same time to put our aircraft manufacturers on a larger scale production basis so that we could gain valuable time for our own rearmament.

During this period of more than two years, I was first ably assisted by Admiral Peoples and then by his successor, Captain Collins. When the work became too big for the Director of Procurement, I brought in Mr. Philip Young and created a small section under him to handle it. This work has grown so that it has involved much more than contact with the various purchasing missions. The purchasers have been put in touch with the right manufacturers; priorities have been worked out among the foreign buyers; foreign needs have been reported and surveyed; everything possible

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has been done to see that foreign requirements were met and the goods delivered. More than 1,500 separate requests from foreign purchasers have been handled in the past eight months, about 1,000 of them British, 300 Dutch, and the remainder from other countries.

As I take on my share of the responsibility as a member of your Advisory Committee, I should like to be relieved completely of my old duties as I feel that I cannot do full justice to the one without neglecting the other. On March 1st I brought to your attention in the presence of other members of the Advisory Committee, the problem of Russian purchasing, and you stated that you felt this came within the purview of the new committee. Some foreign purchasers, like Canada and the Netherlands, will continue to pay for their American orders in cash; the Dutch expect to continue paying cash for the duration of the war. If Harry Hopkins is going to handle our aid to Great Britain and other countries under the Lend-Lease Bill, it seems to me that the same organization ought to handle cash purchasing as well. In fact it would be desirable and practical to have all foreign Government purchasing, military and commercial, coordinated in one place so that it can be fitted into United States production. *as*

With this in mind I should like to turn over all of the work that we have been doing to the committee to be administered by Mr. Hopkins. I have begun already to turn over a part of my work to Mr. Hopkins, and, complying with the request stated in your letter of February 25th, I have offered him the assistance of anyone that he needs in the Treasury to get ready to administer the Lend-Lease Bill.

Sincerely,

The President,

The White House.

FK:bj
3/3/41

March 4, 1941
3:00 p.m.

RE AID TO BRITAIN

Present: Mr. Gaston
Mr. Kuhn
Mr. Young
Mr. Foley
Mr. Cox
Mrs. Klotz

Gaston: Mr. Young has made some relatively minor suggestions which I think are good for changes, but I haven't had time to incorporate them in that draft. I have a note of them here in pencil.

H.M.Jr: Oh, oh. Well, why don't you read it to me with the changes?

Gaston: Yes, I will read it to you.

"My dear Mr. President:

"With the signing of the Lend-Lease Bill, the era of cash-on-the-barrelhead will come to an end for the great bulk of foreign orders. The new system means a great extension of our own effort, and it obviously calls for a completely different form of organization."

H.M.Jr: Say it again, Herbert.

Gaston: "The new system means a great extension of

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our own effort and it obviously calls for a completely different form of organization."

- H.M.Jr: When you say "our", who do you refer to?
- Gaston: The United States.
- H.M.Jr: Do you mind saying, "The new system means a great extension"?
- Gaston: "Of our national effort"?
- H.M.Jr: That is all right. "Our national" or --
- Klotz: "Administration."
- Gaston: I think "national effort" is better.
- H.M.Jr: "Of our"?
- Gaston: Yes.
- Foley: "National effort."
- Gaston: "And it obviously calls for a completely different form of organization. I fully approve your decision to set up an Advisory Committee --"
- H.M.Jr: Oh no, he wouldn't like that. I don't like that, "fully approve." That is patronizing. "I fully approve --"
- Cox: Why not start off by saying, "Your decision to set up an Advisory Commission --"
- Gaston: Yes, "Your decision to set up an Advisory Committee to assist you seems to me to have been very wise."

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- H.M.Jr: That is all right. Or would you say, "Is a step in the right direction"?
- Cox: Yes.
- H.M.Jr: I would say, "It is a step in the right direction. It is a step in the right direction."
- Gaston: Well, that is sort of derogatory.
- Foley: I think so, too. Why don't you say, "I think it is wholly wise and I feel greatly honored --"
- Gaston: "And I feel greatly honored that you have asked me to be a member of this Committee."
- H.M.Jr: All right.
- Gaston: "I shall of course be delighted to do anything and everything I can to forward its work.

"Co-ordination of all foreign buying will, in my opinion, be not less but even more necessary under the new system than under the old cash sales plan."
- H.M.Jr: Just a second. Is that a little involved?
"But not less than --"
- Gaston: We will just say, "Complete coordination in my opinion will be even more necessary --"
- H.M.Jr: That is right.
- Gaston: "Under the new system than under the old cash sales plan. I therefore wish to suggest that the liaison work on foreign purchases, heretofore done in the Treasury under my

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direction, be consolidated with the work to be done by Harry Hopkins as secretary of the new Advisory Committee.

"You will recall that at the first meeting on March 1, of the newly constituted Advisory Committee, I brought to your attention the problem of Russian purchasing, and you stated that you felt that this came within the scope of work of the new committee. I think the same considerations should apply --"

H.M.Jr: Do you mind using the word "purview", because that is the word I used. Don't like it?

Gaston: Well, purview means contemplation.

H.M.Jr: All right, scope is all right.

Gaston: "I think the same consideration should apply to negotiations with all other foreign purchasers. Some, like Canada and the Netherlands, will continue to pay for their American orders in cash, and the Dutch expect to continue paying cash for the remainder of the year."

Foley: "War."

Gaston: "War. Since the same questions of available supply and knowledge of American capacity will apply, it seems to me that the same group that handles our aid to Great Britain and other countries under the Lend-Lease Act, should also handle such foreign purchases as are made for cash."

H.M.Jr: Excuse me just a second.

Foley: Going to change this?

H.M.Jr: All right. "In fact --"

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Gaston: "In fact, it would seem both desirable and practicable to have all foreign government purchasing, commercial as well as military, coordinated in one place so that it can be fitted smoothly into United States production.

"An added personal reason for this consolidation is that it will leave me much freer to concentrate on the work that I shall undertake as a member of the Advisory Committee."

H.M.Jr: Wait a minute. "An added personal reason -" well, isn't what you want to say, "An added personal reason for my recommending this consolidation"?

Gaston: Well, it is, "An added reason personal to me for this consolidation."

H.M.Jr: I just don't like the way it is worded.

Gaston: Well, let's say, "for my recommendation."
"An added personal reason for my recommendation."

Young: "Suggestion."

H.M.Jr: Couldn't you say, "My recommendation is influenced by my personal desire to be much freer to concentrate --"

Gaston: I don't think it is as much a personal desire as a matter of necessity.

H.M.Jr: All right. That is all right.

Gaston: All right. "An added personal reason for my recommendation is that it will leave me - this recommendation --"

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- Cox: Well, that is both personal and departmental. Wouldn't it be clearer to say, "An added reason for this consolidation"?
- H.M.Jr: Yes.
- Gaston: Let's just leave out the "personal." How would that be? "An added reason for this consolidation is that it will leave me much freer to concentrate on the work that I shall undertake as a member of the Advisory Committee. If I were to retain any part of the liaison work along with my new duties, I feel that I could not do full justice to one activity without neglecting the other. That is all the more true because I anticipate - in fact I know - that the strictly fiscal responsibilities of the Treasury Department, including those in connection with the Lend-Lease Act and the enlarged financing program will add greatly to the demands on my time and energies. I feel, therefore, that it will be physically impossible for me to continue to give to the foreign purchase contacts the time and attention I have been giving them."
- H.M.Jr: I am not crazy about it. Go ahead.
- Foley: Oscar has got a - and I have got a suggestion on that paragraph.
- H.M.Jr: I am not crazy about it.
- Foley: You don't say anything about the taxes in connection with the enlarged financing program.
- Gaston: Yes, I thought of that.
- Foley: Enlarged tax and financing program.

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- Gaston: "Enlarged tax and financing program," I think that is good.
- Foley: And when you are talking about "physically impossible," I don't know what - it seems to me that you are not really doing what you want to do when you say, "physically impossible."
- Klotz: That is right.
- Foley: You mean, you are willing to do this if he wants to give it back to us and give us a free hand so we don't want to foreclose that.
- Gaston: All right, let's just drop that sentence.
- Foley: Yes, I would take the whole sentence out.
- H.M.Jr: That is right.
- Gaston: The argument is too good.
- H.M.Jr: These bright young men are always reaching for something more. (Laughter)
- Foley: You can't say that we are not around you here. Almost a circle. I was wondering if it was entirely correct to say, "If I were to retain my part of the liaison work along with my new duties, I feel I could not do full justice to one without neglecting the other." I don't think that is quite factually true.
- Gaston: There I simply picked up the sentence that was written before.
- Klotz: Yes, I know.

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- Gaston: Well, amplified by saying "that is all the more true." I think that is probably true also.
- Foley: You say, "any part."
- Gaston: Well, suppose we say, "just to retain the direct liaison work," instead of, "any part of the liaison work."
- Foley: All right, that is better.
- Gaston: "If I were to retain the direct liaison work."
- Foley: That is better.
- H.M.Jr: I just question that whole paragraph. I question the whole paragraph.
- Young: Can't you take the whole paragraph out?
- Klotz: Instead of stating it, I would just leave it - I mean, he will read it into there.
- H.M.Jr: I question the whole thing. He isn't interested in how much work I have got to do.
- Klotz: He would say, "Everybody is doing more than they can physically do."
- Gaston: That leaves the rest of it hanging in the air.
- Foley: I think they put it in there, Mr. Secretary, because they thought that is what you said this morning.
- H.M.Jr: Yes, but you are taking three and a half pages to say what I said.
- Foley: Well, this is the heart of what you suggested

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about your personal desires and the enlargement of your own Treasury activities being an additional burden.

H.M.Jr: Well, fix it up and I may lift it out anyway. Make it smooth, and I can --

Gaston: All right.

"If I were to retain the direct liaison work along with my new duties, I feel that I could not do full justice to one activity without neglecting the other. That is all the more true because I anticipate - in fact I know - that the strictly fiscal responsibilities of the Treasury Department, including those in connection with the Lend-Lease Act and the enlarged financing program will add greatly to the demands on my time and energies. I feel, therefore, that it will be physically impossible for me to continue to give to the foreign purchase contacts the time and attention I have been giving them.

"For more than two years, since you set up the Liaison Committee and informally asked me to undertake supervision of it, it has been absorbing an increasing amount of my effort. I felt that you looked to me to contribute the driving efforts and guidance necessary to get results, and I have been contributing them joyfully and to the best of my ability. I was even willing to neglect some details of Treasury responsibility by assigning them to others, because I felt that there could be nothing more important in the whole field of our National effort than strengthening ourselves by adding to the defense of the nations that were and are fighting to preserve democracy."

H.M.Jr: I don't like that at all. That is what

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Mrs. Morgenthau calls being self-righteous.

Well, let's go on. I don't like either of these paragraphs on this page.

Gaston: Drop all of that --

H.M.Jr: I don't like that.

Gaston: You can drop all of that except the first sentence. It would absorb an increasing amount of my effort. Shall we do that?

H.M.Jr: Yes.

Gaston: "The physical work here in the Treasury has constantly increased. I had able help in the beginning from Admiral Peoples and later from his successor, Captain Collins. Then the volume of detail became too great for the Director of Procurement, and I created a small section under Philip Young to handle it. The scope of the work has expanded far beyond contacts with the various purchasing missions. The purchasers have been put in touch with the right manufacturers; priorities have been worked out among the foreign buyers; foreign needs have been reported and surveyed; everything possible has been done to see that foreign requirements were met and the goods delivered. Before your Advisory Commission on National Defense was set up, and even since then, we have done a great deal, as you know, to iron out kinks in production and directly to induce manufacturers to expand their productive effort. In the last eight months we have dealt with more than 1,600 requests from foreign countries, of which 1,000 were from the British, 300 from the Dutch and 300 even more time-consuming requests from other countries.

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"We have seen others converted to the point of view you and I had in 1938 and the work of cooperation with the other democracies has now assumed an extent and magnitude where, as you have been quick to realize, responsibility must be further shared. I feel strongly that this sharing of responsibility must be clean-cut; that we can not have confusion and twilight zones of responsibility; and, further, that you would not wish me to waste my energies by scattering them."

- Foley: I think that last clause should come out.
- H.M.Jr: I just don't like any of it. Go ahead, Herbert. We will finish reading it, please.
- Gaston: "Therefore, I request most urgently that I be relieved as speedily as possible of all further responsibility with respect to contacts with foreign purchasers, except such responsibility as I shall have along with the others who are to be members of your Advisory Committee under the Lease-Lend Act. I should like, with your permission, to turn over immediately to this committee, to be administered by Harry Hopkins, all of the foreign purchase contact work we have been doing. I have already begun to turn over a part of this work to him, and complying with the request stated in your letter of February 25, I have offered him the assistance of anyone he needs in the Treasury to prepare for his task.

"Since this letter will, I hope, constitute a final surrender of my responsibility as the Presidential liaison officer of the Liaison Committee on foreign purchases, I should like to express my pleasure and satisfaction at having been granted the privilege of doing this work under you for a cause to which both of us are so deeply attached, and to assure

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you that I shall continue to devote not less cheerfully all the energy I possess to any new tasks you may set for me.

Faithfully,

Secretary of the Treasury"

H.M.Jr: No, where is my letter, Herbert, the one we had this morning?

Gaston: Who has it --

Young: You have it.

Klotz: You mean the original that you dictated?

Foley: I don't have it, Mr. Secretary.

Gaston: I thought I brought it in here with me. I will go back and get it if I didn't. I didn't hand it to you, did I?

Kuhn: I may have a copy.

Gaston: It is on my desk if I didn't bring it in.

H.M.Jr: Do you want to ask your girl? You can pick up the phone.

Klotz: You mean the original one you dictated?

H.M.Jr: Yes.

Klotz: I have got that whole thing you gave me.

Young: You mean the thing I had this morning?

H.M.Jr: I want the letter as I brought it in this morning.
Was that with the corrections we made overnight?

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- Young: Yes, sir. It wasn't retyped with the corrections in it.
- H.M.Jr: No, this is trying to tell them how to do it, the whole Lend-Lease Bill. I can say it in one page. I don't want to tell them this whole thing. I will take it home tonight and see what I can do with it. I will show it to you people in the morning.
- You were right on that release. You could have bet me ten to one. I don't think I ever saw it.
- Gaston: Yes, I think you saw it.
- Klotz: It is a White House release, that is why.
- H.M.Jr: I don't think I ever saw it. Is this the only copy of this letter you have got?
- Gaston: I got that from Schwarz. I don't know whether he has other copies or not.
- H.M.Jr: I am amazed. But if you people will just leave these two with me, I will take it home tonight and see what I can do with it. Thank you all very much.
- Foley, I want to do one thing with you on this Palestinian thing, that story. I understand that each individual word - did you mean yes or did you mean no?
- Foley: Oh, that? No.
- H.M.Jr: Who was that great astronomer.
- Young: Galileo?
- H.M.Jr: No, the German astronomer at Princeton.

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Young: Einstein.

Foley: I believe this is not a propitious time to promote any type of loan, the effect of which is to give dollars to the British Government.

H.M.Jr: Now, do you agree?

Klotz: Mr. Foley asked me to dig up this memo and for you to give a yes or no.

H.M.Jr: You want me to say yes, that I agree with you?

Klotz: That we don't give it to them.

Foley: Yes, that is right, that we don't encourage the British to raise money by way of loan.

H.M.Jr: That is right.

Foley: And if you agree, just say, "O.K., H.M.Juror." That is all. That is enough.

H.M.Jr: By order of Foley.

Foley: That ain't fair. (Laughter)

H.M.Jr: Signed, not fair to Foley. I will picket you.

Foley: It ain't cricket to picket.

Klotz: Where does that leave me?

Foley: You keep it, and I will tell Pinsent it is confirmed, ratified, approved and adopted.

Klotz: I can give you a photostat.

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Foley: I don't need anything. I will just tell him.

H.M.Jr: School dismissed.

Gaston: Do you want another rewrite on this today?

H.M.Jr: Yes, if I could, it would be very helpful, and if you would give me a rewrite plus this and give it to Stephens. I will be leaving here about 4:30.

Gaston: About 4:30? All right.

H.M.Jr: Please. Thank you very much.

Foley: You don't want to do anything on the Lend-Lease?

H.M.Jr: Not now.

March 4, 1941.

My dear Mr. President:

With the signing of the Lend-Lease bill the era of cash-on-the-barrelhead will come to an end for the great bulk of foreign orders. The new system means a great extension of our own effort and it obviously calls for a completely different form of organization. I fully approve your decision to set up an Advisory Committee to assist you in administering the provisions of the bill soon to be passed, and I feel greatly honored that you have asked me to be a member of this new committee. I shall of course be delighted to do anything and everything I can to forward its work.

Co-ordination of all foreign buying will, in my opinion, be not less but even more necessary under the new system than under the old cash sales plan. I therefore wish to suggest that the liaison work on foreign purchases, hertofore done in the Treasury under my direction, be consolidated with the work to be done by Harry Hopkins as secretary of the new advisory committee.

You will recall that at the first meeting, on March 1, of the newly constituted Advisory Committee I brought to your attention the problem of Russian purchasing, and you stated that you felt that this came within the scope of work of the new committee. I think the same considerations should apply to negotiations with all other foreign purchasers. Some, like Canada and the Netherlands, will continue to pay for their American orders in cash, and the Dutch expect to continue paying cash for the remainder of the war.

Since the same questions of available supply and knowledge of American capacity will apply, it seems to me that the same group that handles our aid to Great Britain and other countries under the Lend-Lease Act,

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should also handle such foreign purchases as are made for cash. In fact, it would seem both desirable and practicable to have all foreign government purchasing, commercial as well as military, coordinated in one place so that it can be fitted smoothly into United States production.

An added personal reason for this consolidation is that it will leave me much freer to concentrate on the work that I shall undertake as a member of the Advisory Committee. If I were to retain any part of the liaison work along with my new duties I feel that I could not do full justice to one activity without neglecting the other. That is all the more true because I anticipate--in fact I know--that the strictly fiscal responsibilities of the Treasury Department, including those in connection with the Lend-Lease Act and the enlarged financing program will add greatly to the demands on my time and energies. I feel, therefore, that it will be physically impossible for me to continue to give to the foreign purchase contacts the time and attention I have been giving them.

For more than two years, since you set up the Liaison Committee and informally asked me to undertake supervision of it, it has been absorbing an increasing amount of my effort. I felt that you looked to me to contribute the driving effort and guidance necessary to get results, and I have been contributing them joyfully and to the best of my ability. I was even willing to neglect some details of Treasury responsibility by assigning them to others, because I felt that there could be nothing more important in the whole field of our National effort than strengthening ourselves by adding to the defenses of the nations that were and are fighting to preserve democracy.

The physical work here in the Treasury has constantly increased. I had able help in the beginning from Admiral Peoples and later from his successor, Captain Collins. Then the volume of detail became too great for the Director of Procurement and I created a small section

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under Philip Young to handle it. The scope of the work has expanded far beyond contacts with the various purchasing missions. The purchasers have been put in touch with the right manufacturers; priorities have been worked out among the foreign buyers; foreign needs have been reported and surveyed; everything possible has been done to see that foreign requirements were met and the goods delivered. Before your Advisory Commission on National Defense was set up, and even since then, we have done a great deal, as you know, to iron out kinks in production and directly to induce manufacturers to expand their productive effort. In the last eight months we have dealt with more than 1,600 requests from foreign countries, of which 1,000 were from the British, 300 from the Dutch and 300 even more time-consuming requests from other countries.

We have seen others converted to the point of view you and I had in 1938 and the work of cooperation with the other democracies has now assumed an extent and magnitude where, as you have been quick to realize, responsibility must be further shared. I feel strongly that this sharing of responsibility must be clean-cut; that we can not have confusion and twilight zones of responsibility; and, further, that you would not wish me to waste my energies by scattering them.

Therefore I request most urgently that I be relieved as speedily as possible of all further responsibility with respect to contacts with foreign purchasers, except such responsibility as I shall have along with the others who are to be members of your Advisory Committee under the Lease-Lend Act. I should like, with your permission, to turn over immediately to this committee, to be administered by Harry Hopkins, all of the foreign purchase contact work we have been doing. I have already begun to turn over a part of this work to him, and, complying with the request stated in your letter of February 25, I have offered him the assistance of anyone he needs in the Treasury to prepare for his task.

Since this letter will, I hope, constitute a final surrender of my responsibility as the Presidential liaison

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officer of the Liaison Committee on foreign purchases, I should like to express my pleasure and satisfaction at having been granted the privilege of doing this work under you for a cause to which both of us are so deeply attached, and to assure you that I shall continue to devote not less cheerfully all the energy I possess to any new tasks you may set for me.

Faithfully,

Secretary of the Treasury.

The President,

The White House.

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Mr. Gaston's re-write which was given to the Secretary at about 4:30 pm on March 4. The Secretary turned it over to Mr. Kuhn who revised it as it was signed by the Secretary on March 5th.



THE SECRETARY OF THE TREASURY
WASHINGTON

March 4, 1941.

My dear Mr. President:

With the signing of the Lend-Lease bill the period of cash-on-the-barrelhead will come to an end for the great bulk of foreign orders. The new system means a great extension of our National effort and it obviously calls for a different form of organization. Your decision to set up an advisory committee to assist you in administering the provisions of the bill soon to be passed seems to me to have been wise, and I feel greatly honored that you have asked me to be a member of this new committee. I shall of course be delighted to do anything and everything I can to forward its work.

Complete coordination of all foreign buying will, in my opinion, be even more necessary under the new system than under the old cash sales plan. I therefore wish to suggest that all the liaison work on foreign purchases, heretofore done in the Treasury under my direction, be consolidated with the work to be done by Harry Hopkins as secretary of the new advisory committee.

You will recall that at the first meeting, on March 1, of the newly constituted advisory committee I brought to your attention the problem of Russian purchasing, and you stated that you felt that this came within the scope of work of the new committee. I think the same considerations should apply to negotiations with all other foreign purchasers. Some, like Canada and the Netherlands, will continue to pay for their American orders in cash, and the Dutch expect to continue paying cash for the remainder of the war.

Since the same problems of availability, prices and priorities will apply, it seems to me that the same group that handles our aid to Great Britain and other countries under the Lend-Lease Act, should also handle

- 2 -

such foreign purchases as are made for cash. In fact, it would seem both desirable and practicable to have all foreign government purchasing, commercial as well as military, coordinated in one place so that it can be fitted smoothly into United States production.

Therefore I request most urgently that I be relieved as speedily as possible of all further responsibility with respect to foreign purchases, except such responsibility as I shall have along with the others who are to be members of your advisory committee under the Lend-Lease Act. I should like, with your permission, to turn over immediately to this committee, to be administered by Harry Hopkins, all of the foreign purchase contact work we have been doing. I have already begun to turn over a part of this work to him, and, complying with the request stated in your letter of February 25, I have offered him the assistance of anyone he needs in the Treasury to prepare for his task.

Faithfully,

Secretary of the Treasury.

The President,

The White House.

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE March 4, 1941

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Gifford telephoned me from New York at 3:15 this afternoon. He wanted to let me know that the large transaction which he had mentioned to me week before last as being in prospect is being consummated today. This will total between \$11,000,000 and \$11,500,000. The market was off a little today or the figure would have been between \$11,500,000 and \$12,000,000. The stock concerned is United States Steel and is being distributed through Barney. I thanked Mr. Gifford for giving us this information.

I remarked that Mr. Gifford's statement for March 1 showed a sale of some United States Government securities and added that he had made a little profit thereon by not selling during any one of the first four days of the week. He admitted that we had given him a good tip. He thought that the proceeds of his sales had been really good the past few days, considering the trend of international events and the fluctuation of the New York market.

J.M.P.

March 4, 1941
4:10 p.m.

RE AID TO BRITAIN

Present: Mr. Clark
Mr. Cochran
Mr. White

H.M.Jr: At Hull's press conference, "Secretary Hull referred to the Treasury Department the question of whether the order on freezing Bulgarian funds indicated the Government abandoned the full policy of freezing German and Italian funds at the same time."

I don't know what they do up in Canada, but I am sure they never pass the buck, do they?

Clark: No, we try not to. Well now, I am afraid that I wasn't speaking just - wasn't aware of quite what was expected of me yesterday, and I am afraid I may have left you with a very inadequate picture of our point of view, and I thought before leaving Washington I would put down in a very brief memorandum some of the essentials of our position. I have done that.

If you look at the table there in the center of the first page, you will see that - what the various items in our Governmental costs are, taking 400 million for assistance to U.K., you see, which was the figure mentioned by Mr. Ilsley in his speech to the House.

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Well now, on the next page I referred to the very best estimate that we could make a month or two ago of our national income for the next fiscal year, which we - for which we arrived at a figure of five billion three with the higher estimate of the British purchases in Canada, which they are now making, I think that that figure may perhaps be a little bit low, and I have used as well another figure of national income of five billion six there. I would like to go home and prove that a little bit further, but for the purposes of that table at the bottom, you see, I used those two assumptions as to the national income and showed what each item of Government cost involved in relation to the national income.

You can see that the direct war expenditures there are 26 to 28 per cent of the national income.

Now, the figure at the top of page three shows you what we would be taking out of the Canadian people. The first line, assuming the assistance to U.K. is 400 million dollars, it would be 57.9 per cent in the one - in the lower in the income figure, and 53 per cent in the other. If we assume that that aid goes up to a billion dollars, it would run from 58.7 to 68.3.

Now, I don't know where it is going to fall in between there. I am perfectly sure that you can't in the North American countries get 68 per cent out of the public. If that other --

H.M.Jr:

Wait a minute, I don't understand. Why the difference between the 58 and the 66?

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- Clark: This column assumes that our national income is five billion three. This assumes it is five billion six.
- H.M.Jr: Three hundred million can't possibly make a difference of 12 per cent. It must be a mistake.
- Clark: No --
- H.M.Jr: Three hundred million dollars can't make a difference of 12 per cent.
- Clark: Let's see. My mathematics were very hurried this morning.
- White: It is on a five billion income so 300 million is --
- H.M.Jr: Can't make a difference of 12 per cent.
- White: Almost eight per cent.
- H.M.Jr: The difference between five billion three and five, six, goes from 58 to 66.
- Clark: Yes, that does look like a mathematical error there. Let's see, it would be five billion six. Two billion 992, and you would add 600 to that. Three billion - 3592, divided by 56. No, it looks like 64 per cent, 64.1 per cent. Just let me take the other figure. Yes, those two figures are --
- H.M.Jr: Somebody has made a mathematical error, but I just couldn't understand it. We will go over it for you.
- Clark: Yes, I am glad you caught that. The difference, apparently, should be about four per cent, and

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I think it is 64 and 68, something of that sort.

H.M.Jr: Well, the basic figures are there.

Clark: Yes, the basic figures are there. Now, apart from that, all I have shown in addition to that is a little bit more of our exchange position with you and with U.K. and I would like to refer for a minute to the last section there --

H.M.Jr: What page is that?

Clark: On page six. I think your feeling has been that we have been getting gold constantly from U.K. to balance their deficit with us. Actually, we haven't had any gold since the first of December.

H.M.Jr: I see.

Clark: They gave us five million gold in December. Since that time, we have been meeting the total deficit of the sterling area with Canada by repatriation of - by accumulation of sterling or repatriation of securities.

H.M.Jr: That is something, isn't it?

Clark: Yes. Now, whether we can keep that up, I don't know. I don't think we can keep up at that rate. And that is the problem which we are now faced with. I would say the one thing I want to discuss with you is this.

The increase in our own scale of war expenditures and the higher estimates of the British purchases in Canada means that the drain on our United States dollar position is going to increase pretty substantially. I think

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the figures are going to be quite higher than those I gave you in December.

Now, that brings us much closer to the day when we have to consider with you the liquidation of securities in this market and if that were agreeable to you, I would propose to go home this afternoon and immediately start discussions up there and probably get the first steps under way --

H.M.Jr: Well, when you get to that, I just wondered whether there was somebody - some way of coordinating what you propose to do with what Gifford is doing, you see, I mean I just --

Clark: You want the same methods or you want the two to dovetail?

H.M.Jr: I don't know. I have asked, only this week, the Securities and Exchange Commission to look into this thing, but if and when you decide that you would like to sell American securities in our markets, I would like you to come down again.

Clark: I see.

H.M.Jr: And talk about it and meet with the members of our Securities and Exchange Commission and sit down with them.

Clark: I see. Well, we would be very glad to do that.

H.M.Jr: I would like you to come down again.

Clark: I am going back to see what steps are necessary, and it is very probable that we will have to

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require a registration of our securities before we actually pass that. You see, the last registration was as of November 1, I think, 1939. Well, there would be a good deal of changing of hands of those securities in the last year and a half, and we probably would have to require reregistration before we can take - we can actually vest and start to sell, but I will do that; and then before we take any overt steps, I will have somebody down here to see you about it and the SEC.

H.M. Jr: Would you do that?

Clark: Yes.

Now, the other thing, considering the weight of that, meeting that British deficit over and above our very large direct military effort, the one thing that has occurred to me as a possibility for reducing the strain on the Canadian economy is this: If it were possible for you to allow the British to lease-lend the United States component of the munitions that we are making for them.

Now, that may mean airplane engines and --

H.M. Jr: I don't understand. Give me an example.

Clark: Well, let's say the British are buying 500 million dollars worth of munitions in Canada, various kinds.

H.M. Jr: Yes.

Clark: It is practically certain that from 20 to 25 per cent of that 500 million dollars will represent purchases in the United States.

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H.M.Jr: I see.

Clark: Our economies are so closely tied together that we buy from you materials and component parts, you see, equal on the average in our industrial processes to from 20 to 25 per cent of what is done up there.

Now, that would consist, in our case, in the case of the British orders in Canada, in part of airplane engines and airplane parts, gadgets of one kind and another --

H.M.Jr: What you are asking me is, could you get 125 million dollars worth of materials here on a lend-lease basis?

Clark: Could the British be allowed to use --

H.M.Jr: British or Canada? Why couldn't we do it right with Canada?

Clark: Well, this is - these are munitions for Great Britain herself. If we came in and lease-loaned the American component of those orders, it would mean that we were assuming the ultimately built --

H.M.Jr: I see.

Clark: For the British, for what is a British order, you see.

H.M.Jr: Again you are raising something which I would like to think about and talk about with some of my associates. I don't know. It is a very important question, and if I gave you a snap answer, it wouldn't be worth very much.

Clark: I quite agree, sir.

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H.M.Jr: But it is within the realms of possibility.

Clark: Now, in considering that, there would be certain technical difficulties. It is all right so far as machine tools and airplane engines and aircraft and large pieces of equipment are concerned, but you might find it difficult to do it in respect of all the materials, all the United States materials that go into our manufactures up there. It would include coal, for instance, and oil, and so on.

H.M.Jr: You will have to excuse me, because you are asking me something which I can't answer, and your friend Cochran said you wanted ten minutes - five minutes. I have got what you want. The thing that you are raising is:

One, if you want to sell securities, how about it? I say "Come down and see us first."

Two, can you get in on the Lend-Lease Bill? And I say, "Let me think it over."

Clark: That is all I have to say, Mr. Secretary.

H.M.Jr: I have got an idea, and I have thought it through, and I may give you a ring on the phone and ask you to come back.

Clark: Thanks very much, Mr. Secretary.

H.M.Jr: I am always glad to see you.

Clark: Thank you very much indeed.

*Copies to Mr White
Mrs Cochran*

3/6/41

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CANADIAN LEGATION
WASHINGTON

March 4th, 1941.

Dear Mr. Morgenthau:

In conference with your officials yesterday, I gave such figures as I had with me relating to certain aspects of Canada's war effort and exchange position. These figures were limited, however, as I had not been made acquainted with what was to be expected from me at yesterday's conference, and in view of apparent misunderstandings as to Canada's position and as to the assistance we have rendered to the United Kingdom during the last three months, I promised your officials that when I returned to Ottawa I would revise and bring up-to-date the data and estimates I submitted in December and would place the revised statement in your hands as soon as possible.

I felt, however, that before leaving Washington it might be well to place on record for your information a very brief statement of some of the essentials of our war effort and our position. I attach such a statement hereto. It is necessarily inadequate, but is the best I can do with the figures that are at my disposal here.

It also seems to me essential that we should keep you better informed at all times in regard to our budgetary and exchange position, and I propose to see that as much information as possible is made available to you, at least once a month. Needless to say, we will also be only too ready to respond as best we can to any specific requests for special information which you may desire at any time.

Yours very sincerely,

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

SECRET.

March 4th, 1941.

A. CANADA'S WAR EFFORT AND BUDGETARY POSITION.

The Dominion Government's Main Estimates (when passed, these become the appropriations for our non-war expenditures) and first War Appropriation Bill for the new fiscal year have recently been introduced into Parliament. These enable us to form a judgment as to the magnitude of Canada's war effort during the new fiscal year (which runs from April 1, 1941, to March 31, 1942) and of the burden which it will place on the Canadian economy.

The facts may be summarized as follows:

Dominion Government

Estimated war expenditures, at least	\$1,474,000,000 ⁽¹⁾
Non-war expenditures (Main Estimates)	433,000,000
Additional cost for wheat	<u>140,000,000⁽²⁾</u>
Total	\$2,017,000,000

Provincial & Municipal Expenditures

Depending on relief costs, estimated at from \$550,000,000 to	<u>575,000,000</u>
Total	\$2,592,000,000

Assistance to United Kingdom by way
of repatriation or accumulation of
sterling.

Amount assumed by Minister of Finance	<u>400,000,000</u>
Grand Total	\$2,992,000,000

- (1) Amount asked for in first War Appropriation Bill is \$1,300,000,000, but the Defence Departments are going ahead with a war program that is estimated to cost at least \$1,474,000,000, and inevitably additions will have to be made to the program from time to time during the year.
- (2) The Minister of Finance did not attempt to estimate the cost of this item in his statement to Parliament, but it will amount to at least the figure shown here.

The significance of the above figures can only be grasped if they are related to the national income.

When we were endeavouring to determine the maximum size of the direct war effort of which Canada was capable, we made a detailed estimate of the probable magnitude of Canada's national income for the new fiscal year and arrived at a figure of \$5,300,000,000. Figures just received from the United Kingdom showing their estimated purchases from Canada during the next six months are somewhat higher than were assumed for the purpose of the above calculation, and it is possible that we should now revise upwards our estimate of the national income, perhaps to as much as \$5,600,000,000, but certainly no higher.

Using these two estimates of the national income, we are enabled to work out the following table of percentages of the national income which will be taken in 1941-42 by Canadian Governments for various purposes:

	On basis of assumed national income	
	of \$5,300,000,000	of \$5,600,000,000
<u>1. Dominion Government</u>		
(a) Non-war expenditures (incl. wheat)	10.8%	10.2%
(b) Direct war expenditures	27.8	26.3
(c) Assistance to H.K. if \$400,000,000 is assumed	7.5	7.0
if \$1,000,000,000 is assumed	18.9	18.0
(d) Total war effort, direct & indirect - assuming aid to U.K. of \$400,000,000	36.3	33.0
assuming aid to U.K. of \$1,000,000,000	46.7	44.3
(e) Total Dominion expenditures - assuming aid to U.K. of \$400,000,000	47.1	43.2
assuming aid to U.K. of \$1,000,000,000	57.5	46.5
<u>2. Provincial & Municipal Governments</u>	10.8	10.2

<u>Grand Total</u>		
Assuming aid to U.K. of \$400,000,000	57.9%	53.2%
Assuming aid to U.K. of \$1,000,000,000	68.3	56.7

These figures speak for themselves. No matter which of the two estimates of national income be taken and no matter whether we assume that Canada's financial assistance to the United Kingdom is \$400,000,000 or \$1,000,000,000, or any figure in between these two extremes, it cannot be said that Canada is not endeavouring to make an "all-out" national effort. Even if we take the most optimistic estimate of the national income and the minimum estimate of the financial assistance to be given to the United Kingdom over and above what Canada is doing in her direct war program, any realistic observer must agree that the program which Canada has set herself is fully as difficult for her (a North American country remote from the scene of war and with a federal form of government) as the programs which the active European participants in the war have set for themselves.

This may be more readily appreciated by applying the percentages shown in the immediately preceding table to the national income of the United States. It is believed that the most competent estimates of the United States national income for the fiscal year 1941-42 indicate a national income of at least \$80,000,000,000. On the basis of the lowest figure shown in the table (namely, 53.2%), all governments in the United States would have to take for defence and other governmental purposes \$42,560,000,000; while, on the basis of the highest figure shown in the table (namely, 68.3%), all governments in the United States would have to take for defence and other governmental purposes \$54,640,000,000.

B. CANADA'S EXCHANGE POSITION VIS-A-VIS THE UNITED STATES.

In the confidential memorandum submitted to the United States Treasury in December last, it was estimated that Canada would have a deficit in her balance of payments with the United States estimated at \$448,000,000 (Can.) for the second year of war (September 1, 1940, to August 31, 1941). This estimate took into account the repayment of Canadian obligations in the amount of \$55,000,000 which were to mature in the United States during the period.

For December, January, and February, the estimated deficits (in Canadian dollars) were \$48 millions, \$32 millions, and \$24 millions, respectively. Figures now available indicated that the actual deficits for these three months were \$54.8 millions, \$22.7 millions, and \$25 millions, respectively. On the other hand, there were capital receipts during the period of \$14.7 millions. Taking these into account, we did better than we expected during these three months by \$16.5 millions.

It is obvious that the greatly accelerated tempo of Canada's war effort and the much higher estimates of United Kingdom purchases in Canada (referred to in Section C of this memorandum) are going to mean that Canada's purchases in the United States for war purposes will be greater, probably substantially greater, than were anticipated last December. This will, of course, mean that the drain on Canada's supply of gold and United States dollars will be more rapid than was expected, and as a consequence will, if acceptable to the United States Government, make it necessary to expedite the program of liquidating United States securities owned by Canadian residents.

As at February 28th, Canada's official holdings of gold and United States dollar balances were as follows:

Foreign Exchange Control Board

Gold	\$136,000,000 (U.S.)
U.S. dollars, long	\$123,000,000
short	<u>8,000,000</u>
Net over-all position	\$115,000,000 (U.S.)
Minister of Finance, U.S. balances	33,000,000 (U.S.)

A reconciliation of these figures with the figures given in the memorandum of December 12th will be submitted later.

C. CANADA'S EXCHANGE POSITION VIS-A-VIS UNITED KINGDOM AND THE STERLING AREA.

In the memorandum of December 12th, 1940, it was estimated that during the second year of war, Canada would have a favourable balance with the United Kingdom of \$843,000,000 (Can.) and with the sterling area as a whole \$998,000,000 (Can.). Estimates now made by British officials appear to indicate that the above figures were underestimates and that during the six months period March 1 to August 31, 1941, the United Kingdom deficit with Canada may amount to \$634,000,000 and that the sterling area deficit with Canada to \$658,000,000. These estimates will have to be further examined and I would propose to submit to you at a later date, but as soon as possible, a detailed statement of our prospective balance of payments with the United Kingdom and the sterling area, as well as a complete revision on an up-to-date basis of the Canadian position as outlined in the memorandum of December 12, 1940.

There would appear to be a misunderstanding of

the/

the way in which United Kingdom's deficit with Canada during the last few months has been taken care of. In the memorandum referred to above, it was pointed out that Canada had agreed to repatriate securities to the extent of \$150,000,000 during the six months beginning August 1, 1940, that this was subject to revision upwards during the period, and that while no agreement had been reached as to the specific amount of assistance to be given by Canada in the subsequent period, nevertheless Canada's commitment from the beginning of the war was to give the utmost assistance of which she was capable, over and above her direct military effort.

What has actually happened since last August is that Canada has given financial assistance to the United Kingdom by way of repatriation of securities or accumulation of sterling to the extent of \$293,000,000. The United Kingdom shipped gold to Canada to the extent of \$42,000,000 (Can.) in August, \$60,000,000 (Can.) in November, and \$5,000,000 (Can.) in December, but since early December Canada has met all the deficit of the sterling area vis-a-vis Canada either by the repatriation of securities or the accumulation of sterling, chiefly the latter.

Canada wishes to continue to give the maximum assistance of which she is capable, but what the extent of this "maximum" may be must be considered in the light of the figures presented in Section A of this memorandum and particularly the fact that she is already committed to expend 26.3% to 27.8% of her estimated national income on her direct contribution to the war effort.

March 4, 1941
4:20 p.m.

RE AID TO BRITAIN

Present: Mr. Foley
Mr. Cox

H.M.Jr: All that Canada wanted was two things, how could they sell \$350,000,000 worth of securities, one; and how could they get in on the Lend-Lease Bill, two; but they want to get in - that England should get in on the Lend-Lease on things that they buy in this country to be manufactured in Canada, but Canada doesn't want to sign its name to it, England should sign its name to it.

Cox: That is called, "acting through his undisclosed principal."

H.M.Jr: We have got a new system here. Everybody in the White House uses White House envelopes. So I called up and I raised a little fuss. They all use it, and you get all kinds of stuff.

Well, come on, children.

Foley: Do you want to do this? (handing papers to the Secretary.)

H.M.Jr: Hell no.

Foley: What do you mean?

- 2 -

H.M.Jr: Oh, I am tired. I have had a lot of unpleasant things happen today. I get so tired of doing other people's work.

To make it simple for me, what can't you do?

Cox: Well, if Congress limits you in future appropriations in any way, then you are bound by those limitations as to defense articles on order, which are to be paid for out of subsequent appropriations.

H.M.Jr: My mind isn't working. What I would like you to do is this. I would like to have you show it to McCloy, I would like to have you show it to --

Cox: Lockwood?

H.M.Jr: Lockwood, yes, and also to the Budget. Send it over tonight and ask them where they agree or disagree; and I would like the Adjutant General - who is the chief of the law unit?

Foley: Judge Advocate General.

Cox: And of the Navy, too?

H.M.Jr: Yes, because he is the fellow that Marshall --

Cox: would have to get to interpret it.

H.M.Jr: Yes. Let the thing be processed, and then by that time my head will be clear.

Cox: Also we can save you some time by getting you something that everybody has agreed on.

H.M.Jr: That is right.

Some of the Ways in Which H.R. 1776
Can Work with Respect to Defense
Articles on Hand and on Order

- - - -

The following are some of the ways in which H.R. 1776, in its present form, can operate in connection with defense articles on hand and on order.

(1)

Defense Articles Already Delivered
to the Army and Navy.

There are several possible ways in which defense articles on hand can be disposed of to Britain:

- a) Within the \$1,300,000,000 limit, any defense articles now on hand can be transferred to Britain. This applies not only to defense articles acquired years ago, but also to those procured out of appropriations made before H.R. 1776 is enacted.
- b) Outside of the \$1,300,000,000, aircraft now on hand--whether or not they are surplus--

- 2 -

can be traded in for new models. Then these older aircraft can be procured under Sec. 3(a)(1) for Britain. To so procure them for Britain, subsequent Lend-Lease appropriations would be necessary. The wisdom of this kind of transaction should be carefully considered.

- c) Other types of war materiel on hand can be traded in if they are surplus, obsolete, deteriorated or unserviceable and handled in the same way as aircraft. Here again it should be seriously considered whether it is wise to do this.

- d) Traded-in aircraft and other war materiel can also be handled in still another way. If some of Britain's present orders, capital commitments or other obligations are taken over through the use of regular Army and Navy appropriations or under 3(a)(1) of the bill, that will release dollars to the British. Those

- 3 -

dollars can be used to buy the traded-in materiel from the manufacturers to whom they are delivered, if it is deemed wise to do this.

(2)

Defense Articles on Order

Here again there are several ways in which H.R. 1776 can be made to operate:

- a) Within the \$1,300,000,000, defense articles which are on order under appropriations made before H.R. 1776 is passed can be transferred to Britain.
- b) Defense articles which are now being produced under contract authorizations to be backed up by appropriations made after H.R. 1776 is passed can be transferred without limit unless Congress puts a limit into such subsequent Army and Navy, etc., appropriation acts.

I understand that a very substantial amount of equipment is being produced or can be reasonably shifted to production under

- 4 -

contract authorization. Under Secretary D. W. Bell is now getting up the figures on the dollar amount of outstanding contract authorizations which have not yet been backed up by appropriations.

- c) Defense articles which are now on order under appropriations made before H.R. 1776 is passed can be made available to the British by a procedure similar to the deferment procedure now being used. These Army and Navy orders can be transferred into 3(a)(1) orders and the Army or Navy can agree to take later delivery of more modern or the same type of defense articles. To be able to transfer these Army and Navy orders to Lend-Lease orders, appropriations to carry out H.R. 1776 will, of course, be necessary.
- d) Defense articles on order out of appropriations made after H.R. 1776 is passed can be transferred to the British unless Congress prohibits

- 5 -

or limits such transfer in these subsequent appropriation acts. In the main, two types of situations will be presented: 1) Appropriation requests such as the pending War Department supplemental request for about 3 billion 8 hundred million dollars; and 2) The appropriation requests to carry out H.R. 1776. Congress may well handle each appropriation request differently. It may say that none, all or any part of the defense articles so procured can be transferred under H.R. 1776.

MAR 4 1941

Some of the Ways in Which H.R. 1776
Will Work With Respect to Defense
Articles on Hand and on Order

- - - -

The way H.R. 1776 in its present form will operate in connection with defense articles on hand and on order can be illustrated by several concrete examples.

(1)

Defense Articles Already Delivered
to the Army and Navy.

There are several possible ways in which defense articles on hand can be disposed of to Britain, for example, under H.R. 1776 in its present form:

- a) Within the \$1,300,000,000 limit, any defense articles now on hand can be transferred to Britain. This applies not only to defense articles acquired years ago, but also to those procured out of appropriations made before H.R. 1776 is enacted.

- 2 -

- b) Outside of the \$1,300,000,000, aircraft now on hand--whether or not they are surplus-- can be traded in for new models. Then these older aircraft can be procured under Sec. 3(a)(1) for Britain. For this, subsequent Lend-Lease appropriations would be necessary. The wisdom of this kind of transaction should be carefully considered.
- c) Other types of war materiel on hand can be traded in if they are surplus, obsolete, deteriorated or unserviceable and handled in the same way as aircraft.
- d) Traded-in aircraft and other war materiel can also be handled in still another way. If some of Britain's present orders, capital commitments or other obligations are taken over under 3(a)(1) of the bill, that will release dollars to the British. Those dollars can be used to buy the traded-in materiel from the manufacturers to whom they are delivered.

- 3 -

(2)

Defense Articles on Order

Here again there are several ways in which H.R. 1776 can be made to operate:

- a) Defense articles which are now being produced under contract authorizations to be backed up by appropriations made after H.R. 1776 is passed can be transferred without limit unless Congress puts a limit into such subsequent Army and Navy, etc., appropriation acts.

I understand that a very substantial amount of equipment is being produced or can be reasonably shifted to production under contract authorization. Under Secretary D. W. Bell is now getting up the figures on the dollar amount of outstanding contract authorizations which have not yet been backed.

- b) Defense articles which are now on order under appropriations made before H.R. 1776 is passed

- 4 -

can be made available to the British by a procedure now being used. These Army and Navy orders can be transferred into 3(a)(1) orders and the Army or Navy can agree to take later delivery of more modern or the same type of defense articles.

- c) Defense articles on order out of appropriations made after H.R. 1776 is passed can be transferred to the British unless Congress prohibits or limits such transfer in these subsequent appropriation acts. In the main, two types of situations will be presented: 1) Appropriation requests such as the present War Department request for about 3 billion 8 hundred million dollars; and 2) The appropriation requests to carry out H.R. 1776. Congress may well handle them differently. It may say that none, all or any part of the equipment so procured can be transferred under H.R. 1776.

March 4, 1941
4:38 p.m.

H.M.Jr: Hello.

Justice
Frankfurter: Hello, Henry.

H.M.Jr: How are you?

F: Very well. I was terribly sorry I couldn't come to your party Sunday night but, as I told you, I went to New York to see Christie.

H.M.Jr: Well, how did you find him?

F: I did what is called a "mitzer".

H.M.Jr: Pardon?

F: I went up and did a

H.M.Jr: A good deed.

F: (Laughs). Yeah. Well, I mean, to myself - you know - a very dear friend, you're very unhappy if you don't see them. Oh, Alfred Cohen sort of saved his life. He was at the Rockefeller.

H.M.Jr: Good.

F: Henry, what's happened since I saw you last?

H.M.Jr: Well, at the meeting happened just what I thought, that they could think of lots of reasons why it couldn't be done and - I suppose that I should have known it beforehand - but I'd like to see you. It's hard to do it on the telephone.

F: All right. When?

H.M.Jr: Well, I don't know. Tomorrow is awful bad.

F: How about on the way down in the morning?
Take me down.

- 2 -

H.M.Jr: Well, here's the thing: how early can you
be ready?

F: I'll be ready as early as you want me to be.

H.M.Jr: Could you be ready at quarter of nine?

F: Sure. Easily.

H.M.Jr: I'll pick you up.

F: Fine.

March 4, 1941.

Dear Mr. Clark,

I am sorry you did not receive the further reply that you should have had to your letter of November 22, 1940.

The Secretary was much interested in it and asked to have an investigation made, but was away from the office at the time the memorandum came in, and through an oversight, the statement was not passed on to you. I am now enclosing a copy of Mr. Leon Sanderson's report on the situation you described.

With thanks for your courtesy in bringing the matter to Mr. Morgenthau's attention,

Sincerely yours,

H. S. Klets,
Private Secretary.

Mr. H. V. Clark,
San Gabriel Concrete Tile Company,
1125 La Jolla Drive,
San Gabriel, California.

Enclosure. ✓ GSP/cls

March 4, 1941.

Dear Mr. Clark:

I am sorry you did not receive the further reply that you should have had to your letter of November 26, 1940.

The Secretary was much interested in it and asked to have an investigation made, but was away from the office at the time the memorandum came in, and through an oversight, the statement was not passed on to you. I am now enclosing a copy of Mr. Leon Henderson's report on the situation you described.

With thanks for your courtesy in bringing the matter to Mr. Morgenthau's attention,

Sincerely yours,

H. S. Klotz,
Private Secretary.

Mr. H. V. Clark,
San Gabriel Concrete Tile Company,
1125 La Presa Drive,
San Gabriel, California.

Enclosure.

HSK/4bc

March 4, 1941.

Dear Mr. Clark:

I am sorry you did not receive the further reply that you should have had to your letter of November 25, 1940.

The Secretary was much interested in it and asked to have an investigation made, but was away from the office at the time the memorandum came in, and through an oversight, the statement was not passed on to you. I am now enclosing a copy of Mr. Leon Henderson's report on the situation you described.

With thanks for your courtesy in bringing the matter to Mr. Morgenthau's attention,

Sincerely yours,

H. S. Klotz,
Private Secretary.

Mr. H. V. Clark,
San Gabriel Concrete Tile Company,
1188 La Presa Drive,
San Gabriel, California.

Enclosure.

HSK/abc

San Gabriel Concrete Tile Co.
"Made the Best"
SAN GABRIEL + CALIFORNIA

1126 La Presa Drive
ATLantic 2-1266

Hamm

February 18, 1941.

Hon. Henry Morgantheau Jr.,
Secretary Treasury,
Washington,
D.C.

Dear Mr. Secretary,

Your letter of the third of December 1940.

Nothing has come from your advice that you
would have it looked into.

It is my conviction that the sand and gravel
business of this territory is telling them and it seems the
Government could handle the situation,

Yours very truly,

San Gabriel Concrete Tile Co.

RECEIVED

FEB 21 1941

U.S. DEPARTMENT OF THE TREASURY

THE ADVISORY COMMISSION TO THE COUNCIL OF NATIONAL DEFENSE
 FEDERAL RESERVE BUILDING
 WASHINGTON, D. C.

December 12, 1940

Dear Mr. Morgenthau:

The inquiry from Mr. H. V. Clark of San Gabriel, California, transmitted with your letter of December 3, reflects primarily a local situation and not a national trend. Index numbers compiled by the Bureau of Labor Statistics show that, on the average, producers' prices of cement, sand and gravel were slightly lower at the end of November, 1940 than they were in August, 1939. This means, of course, that while there were price increases in certain localities, such as San Gabriel, prices in other parts of the country either were unchanged or declined.

The market areas for sand and gravel, because of the availability of materials and of the weight of the product, are usually much narrower than for other building materials, some of which are distributed nation-wide by large manufacturers. Therefore, prices of sand and gravel in any individual wholesale market do not reflect the national situation as well as do the prices of most building materials.

The Los Angeles area, which includes San Gabriel, is one of the most erratic sand and gravel markets for which data are collected by the Bureau of Labor Statistics. Although little is known here about the competitive situation in this locality, statistics show that delivered prices of sand, gravel and crushed stone have fluctuated violently from 1935 to date. The figures below, quoted by a large producer, show the range in each of the years 1935 to 1939 and the monthly data in 1940. These prices are producer to contractor, per ton, delivered to job in Los Angeles.

Date	Sand	Gravel	Stone
1935	\$1.15-\$1.25	\$1.35-\$1.70	\$1.35-\$1.70
1936	1.02- 1.10	1.16- 1.45	1.16- 1.45
1937	1.11- 1.68	1.21- 1.98	1.21- 1.98

- 2 -

Date	Sand	Gravel	Stone
1938	\$1.54-\$1.68	\$1.84-\$1.98	\$1.84-\$1.98
1939	1.00- 1.54	.96- 1.84	.96- 1.84
Jan.-1940	1.04	1.04	1.04
Feb.	1.04	1.04	1.04
Mar.	1.04	1.04	1.04
April	1.04	1.04	1.04
May	1.04	1.04	1.04
June	1.05	1.05	1.05
July	1.05	1.05	1.05
Aug.	1.05	1.05	1.05
Sept.	1.05	1.05	1.05
Oct.	1.05	1.05	1.05
Nov.	1.15	1.25	1.25

The current price levels do not equal the prices which prevailed during the last six years. However, we shall look into the situation and check on the change in Bunker - delivered price relationships, which is the basis of the complaint.

The prices of cement in this area have not changed nearly as much as for sand and gravel. The barrel net delivered prices ranged as follows:

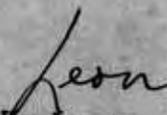
	1937 - \$1.72-\$1.76
	1938 - 1.50- 1.80
	1939 - 1.40- 1.50
Jan. 1940	1.50
Feb.	1.50
Mar.	1.50
Apr.	1.50
May	1.50
June	1.50
July	1.50
Aug.	1.50
Sept.	1.50
Oct.	1.60
Nov.	1.70

An examination of delivered prices for all these materials indicates that the present levels are little, if any, out of line with prices in other areas. However,

- 3 -

Mr. Clark's and other similar letters are useful in pointing out areas where rapid price changes are being initiated. This is a very important type of cooperation and we appreciate his interest in bringing the situation to our attention.

Sincerely,



Leon Henderson
Commissioner

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

File
11-40 per [unclear]

December 8, 1940

My dear Mr. Clark:

This will acknowledge receipt of your letter of November 25th. Thank you very much for bringing this matter to my attention. I am having it looked into at once.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Mr. H. V. Clark,
San Gabriel Concrete Tile Company,
1126 La Presa Drive,
San Gabriel, California.

December 3, 1940

Dear Leon:

I am sending you herewith a copy of a letter dated November 25th which I have received from Mr. H. V. Clark of the San Gabriel Concrete Tile Company.

Will you please let me know what to tell this man. He seems to have some very interesting information.

Yours sincerely,

Henry

Mr. Leon Henderson,
Commissioner of National Defense,
Advisory Commission to the Council
of National Defense,
1244 Federal Reserve Building,
Washington, D.C.

Enclosure.

By Messenger

San Gabriel Concrete Tile Co.

"Made the Best"

SAN GABRIEL • CALIFORNIA

1126 La Press Drive
ATLANTIC 3-1266

November 25th, 1940.

Hon. Henry Morganthau Jr.,
Secretary of the Treasury,
Washington,
D.C.

Dear Sir,

The writer has been very much afraid of inflation and until you were reported to tell the press that you would see there would not be inflation did I feel different.

On the third of October the Cement Companies raised cement ten cents a barrel, on the fifteenth of November they added ten cents a barrel which looks as if they were feeling their way.

The Sand and Rock producers showed less tack they came out with an increase at the Bunker of an advance of 80% on sand and 120% on gravel.

The sand was advanced at the delivery point 10% and on gravel which was an advance of 25% plus.

This price puts any one with a truck out of the game and and it shows that was one purpose of the prepared prices.

I am informed that this is a feeler and will or may be further advanced.

I am told that the sand companies have so much business from the Government that it gives them a chance to get higher prices with out fear of a loss or closing down.

You can go twenty miles east and you will find million and millions tons of gravel that is piled up and no sale.

Gravel is naturally a byproduct of sand and why it should be so much higher...no one can tell.

I am giving you this as it is a start and a fast one on inflation.

Yours truly,

San Gabriel Concrete Tile Co.

[Handwritten signature]

TREASURY DEPARTMENT

353

INTER OFFICE COMMUNICATION

DATE March 4, 1941.

TO Secretary Morgenthau

FROM Mr. Hass

Attached is a memorandum from Mr. Hamm, of Leon Henderson's office, on "Increased Authority for the Control of Prices: an Office of Price Administration".

Mr. Hamm and Mr. Ginsburg would like to discuss this matter with you at your early convenience.

MEMORANDUM TO SECRETARY MORGENTHAU

Attention: George Hays

From: John E. Hamm

Subject: Increased Authority for the Control of Prices: an Office of Price Administration

1. While the price indexes have not as yet moved up to an alarming degree, the rise of some prices has been acute, and the price situation today is explosive. Three new factors are operative: First, priorities for Army and Navy orders are diverting capacity and materials of all kinds from ordinary channels to military uses; shortages are developing; second, disruption of foreign sources of supply, lack of bottoms, increase of charter rates, war risk insurance, etc., are adding to the cost, and hence the price, of the imported products; third, the release of year-end balance sheets and the announcement of large profit figures from defense orders are provoking demands for higher wages, which in turn lead to increased prices. Unless basic prices are not only stabilized but reduced, with a consequent reduction in the profitability of operations, these wage demands must be met.

2. The movement of certain prices has already adversely affected the position of groups both of producers and of consumers, and further acute injury must be expected unless the situation is brought under control at once. These price movements will not only create grave injustices which are disruptive of morale; they will encourage the speculative withholding of goods from production and seriously impede the defense program. In a number of instances this has already taken place.

3. Since these price movements inevitably have repercussions of a cumulative character throughout the economy, every day of delay renders more difficult the task of maintaining stability and balance in the price structure.

4. Legislation providing the power to maintain stability and balance in the price structure is vitally important, and should be sought when the lease-lend bill is out of the way. Such legislation is now being drafted. In the meantime, it is equally important that a price administration be established which will make every effort to control further speculative price increases.

5. It is proposed, accordingly, that an Office of Price Administration, coordinate with the Office of Production Management, be set up in the Office of Emergency Management.

(a) The Price Stabilization Division of the NDAC is today purely advisory. It has little power except exhortation,

- 2 -

and no sanction except publicity. Furthermore, the creation of the OPM has reduced the Division's status so far as to render it largely ineffectual. Price control calls for executive rather than advisory powers.

- (b) The function of price control in the civilian economy is wholly different from the function of production, pricing, and procurement of defense material, and the considerations which should determine policy are different in the two cases. Although these functions need to be coordinated, they need also to be separate. If civilian interests and morale are to be protected, price control must not be subordinated to the military-industrial group in OPM now charged with production for defense.

In view of the broad interests involved and the far-reaching consequences of price control, it is important that price administration be directly responsible to the President. Therefore, there should be an Office of Price Administration, not under but coordinate with the OPM and, like it, responsible to the President through the OEM.

- (c) All emergency price powers which are required to deal with shortages (fiscal and monetary powers are thus excluded) should be centralized in this agency. In order to make price control effective — to prevent bootlegging and subterfuges from breaking through price ceilings — these powers should include authority to control the residual supply (that portion of production which is not required for military uses). The establishment of such civilian distribution quotas is likewise necessary for the performance of the broad function of price administration, namely, the maintenance of a balanced economy.

6. A draft of an Executive Order establishing an Office of Price Administration has already been submitted to and discussed with Harold Smith in the Bureau of the Budget. He agreed that action should be taken as soon as possible, but indicated that the President might be reluctant to move until other elements in the Defense Commission besides price (consumer, agriculture, and transportation) were taken care of. We emphasize that delay is dangerous; price rises can be prevented, but high prices can be reduced only rarely and with great effort, and then only in certain basic, closely-controlled industries. If Leon is to be charged with any responsibility for prices, his office must be given increased status and authority. Efforts toward the maintenance of price stability under present circumstances are increasingly futile. Action for the establishment of an Office of Price Administration should be taken, if at all possible, before the lend-lease bill is passed. Dave Ginsburg and I would like to discuss this with you at your early convenience.

March 4, 1941

Telegram from Shanghai March 4th 1941

From secret Japanese sources in Hongkong it is learned that Japanese intend shortly fully occupy Thailand militarily and may defer taking further military dispositions French Indo China for fear latter may obtain autonomy from Vichy and conclude some secret alliance with the United States and Britain for combined blockading action against Japan A Japanese named WACHI YONI head of Japanese intelligence service in South Seas now residing Bangkok and handling all political action in Thailand and French Indo China

Copy:alm

C O P Y

BRITISH EMBASSY,

WASHINGTON, D. C.

March 4th, 1941.

Dear Cochran,

I am informed by London that they have in principle agreed that wool and silk should be exported from Syria to the U.S. in exchange for exports from the U.S. of newsprint and foodstuffs. They have authorized our Consul General at Beirut to issue the necessary certificates of origin and that as soon as they know quantities and details of these consignments and of the consignments which it is proposed to export in return, they will consider applications for navicerts for such exports.

I have no information as to what arrangements have been made on the financial side and should be grateful if you can tell me anything about them. I hope that the proceeds of the exports from Syria will not be allowed to go into the free account of the Bank of Syria with the French American Banking Corporation, but will in some way be earmarked so that they can only be used for the counterbalancing exports from the U.S.

Yours sincerely,

(Signed) R. J. Stopford

Mr. Merle Cochran,
Room 279,
U. S. Treasury Department,
Washington, D. C.

dm

March 4, 1941

Dear Mr. Merrill:

On behalf of the Secretary may I express the Treasury's sincere appreciation of your kindness in transmitting under cover of your letter dated February 27, 1941, a copy of a communication from the Federal Reserve Bank of New York, written on February 11, 1941, in regard to movements of United States currency between this and foreign countries.

Faithfully yours,



E. Marie Cochran,
Technical Assistant to the Secretary.

Director Merrill, Esquire,
Secretary of the Board of Governors
of the Federal Reserve System,
Washington, D. C.

HMC: dm: 3.4.41

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 27, 1941

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

Dear Mr. Secretary:

For the confidential information of your Department, there is enclosed with this letter a copy of a letter received from the Federal Reserve Bank of New York under date of February 11, 1941, on the subject of the movement of United States currency between this country and abroad.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Enclosure

C O P YFEDERAL RESERVE BANK
OF
NEW YORK

February 11, 1941

S i r s :

In the past we have, pursuant to Governor McKee's request of February 13, 1937, drawn the Board's attention to significant developments in the movement of United States currency between this country and abroad. We should like to take this opportunity to review the movement during recent months.

Shipments of American bank notes to Europe, which amounted to about \$5,000,000 in both January and February of last year, have declined steadily since that time, particularly after the invasion of the Low Countries in May, 1940 and the defeat of France in the following month. Although shipments to the German-occupied countries have stopped entirely, the recent reduction in exports to Europe has been due largely to a decline in shipments to Switzerland, which previously had been the principal European recipient. It will be remembered that following the collapse of French resistance a substantial repatriation of Swiss funds began and that the flight from dollars was subsequently stimulated by fears that Swiss assets in the United States might be "frozen." Since July, 1940 total shipments to Europe have amounted to well under \$500,000 a month, practically all of which has gone to Portugal, one of the few neutral European countries to which articles may be sent by air mail under the postal regulations.

February 11, 1941

Although the European demand for American currency has dwindled to negligible proportions, shipments have continued to the Latin American countries, the largest amounts going to Cuba. Small, though rather steady, shipments have also been made in recent months to the Dominican Republic, owing, no doubt, to the growing colony of European refugees there. These shipments, however, have been only part of a two-way traffic; small amounts have been received from this Republic, presumably representing bills which refugees have brought with them from Europe.

The most significant development in the return flow of currency to the United States has been the receipt of \$420,000 of American bank notes from Germany during the three months ended in January. These were the first such shipments since September, 1939 and were the largest since June, 1938, when \$515,000 were shipped. Prior to the war the import of United States currency from Germany amounted to around \$20,000 a month and represented chiefly the return of bank notes taken abroad by American tourists. The receipts during the past three months have all been reported by one New York City bank. From this bank we have learned that these shipments were of various denominations and arrived by air mail via South America. The assumption is that they were flown by Italian planes from Italy via Africa to Brazil, although there were no indications that Brazil had been touched. We have also learned that in addition to the currency, a few small checks have gone through Trinidad where, surprisingly enough, they have been passed by the British censor. In all cases the contents

Federal Reserve Bank of New York--3

February 11, 1941

of the envelopes have been examined pursuant to the Treasury Department's General Ruling No. 5 pertaining to the import of securities.

While the current shipments have not been large, they may quite possibly represent the systematic disposal of currency acquired from German-occupied European countries, which have long been hoarders of American bank notes.

Faithfully yours,

(Signed) L. W. Knocks

L. W. Knocks,
Vice President.

Board of Governors of the
Federal Reserve System,
Washington, D. C.

Enclosure

SHIPMENTS AND RECEIPTS OF U. S. PAPER CURRENCY
TO AND FROM FOREIGN COUNTRIES IN THE MONTH OF JANUARY, 1941

SHIPMENTS

	By 10 Monthly Reporting Banks				Total	*By Other Banks and Firms	Total Shipments
	\$1 & \$2	\$5 to \$20	Over \$20				
	Bills	Bills F.R. Notes	Bills F.R. Notes				
Europe							
Portugal					\$170,000	\$170,000	
Caribbean Countries:							
Dominican Republic	\$50,000	\$75,000		\$125,000		125,000	
Central America							
Costa Rica		200	\$3,000	3,200		3,200	
Canada	3,600	27,000	5,500	36,100	6,500	42,600	
Total	\$53,600	\$102,200	\$8,500	\$164,300	\$176,500	\$340,800	

RECEIPTS

10 Reporting Banks

Europe					
Germany	\$120,000				
Switzerland	6,000				
Total				\$126,000	
Caribbean Countries					
British West Indies	63,700				
Cuba	1,000				
Dominican Republic	69,000				
Puerto Rico	88,000				
Virgin Islands	105,000				
Total				326,700	
Central & South America					
Brasil	1,000				
Costa Rica	20,000				
Nicaragua	40,000				
Uruguay	1,000				
Total				62,000	
Canada					249,500
Asia					8,400
China					19,000
Australia					\$791,600
Total Receipts					340,800
Total Shipments					450,800
Receipts over Shipments					

10 Questionnaires sent out - monthly series
8 Banks had transactions
2 Banks had no transactions

Denominations of currency shipped not known

MR. MORGENTHAU'S OFFICE TO-

Mr. Bell	Mr. Thompson
Mr. Gaston	Mr. Foley
Mr. Sullivan	Mr. Graves

Mr. Allen	Mr. Harper
Mr. Ballinger	Mr. Helvering
Mr. Bartelt	Mr. Irey
Mr. C. S. Bell	Mr. Julian
Mr. Berkshire	Mr. Kilby
Mr. Bernard	Mr. Kuhn
Mr. Birgfeld	Mr. Mack
Mr. Blough	Mr. Mulvihill
Mr. Broughton	Mr. Pehle
Mr. Bryan	Mr. Rose
Mr. DeCham	Mrs. Ross
Mr. Coilie	Mr. Schwarz
Mr. Delano	Mr. Sloan
Miss Diamond	Mr. Spangler
Mr. Dunn	Mr. Tarleau
Miss Flanagan	Mr. Upham
Mr. Haas	Mr. White
Mr. Hall	Mr. Wilson
Mr. Hanna	Mr. Young

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 4, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£64,000
Purchased from commercial concerns	£34,000

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

Sold to commercial concerns	£3,000
Purchased from commercial concerns	£6,000

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

Canadian dollar	14-1/2% discount
Swiss franc (commercial)	.2323
Swedish krona	.2385
Reichsmark	.4005
Lira	.0505
Argentine peso (free)	.2305
Brazilian milreis (free)	.0505
Mexican peso	.2066
Cuban peso	6-7/8% discount

In Shanghai, the U.S. equivalent of the yuan was 5-9/16¢, up 1/32¢. Sterling advanced 3¢ to 3.94-1/2.

There were no gold transactions consummated by us today.

The Federal Reserve Bank of New York reported that the Bank of Canada shipped \$75,002,000 in gold from Canada to the Federal for account of His Britannic Majesty's Government, for sale to the New York Assay Office.

The prices fixed in London for spot and forward silver were both 1/16d higher, at 23-3/8d and 23-5/16d, respectively. The U.S. equivalents were 42.44¢ and 42.33¢.

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¢.

- 2 -

We made three purchases of silver totaling 300,000 ounces under the Silver Purchase Act, all of which consisted of new production from foreign countries, for forward delivery.

The Bureau of Foreign and Domestic Commerce reported on March 3 a shipment of \$265,000 worth of foreign silver coin, sent by the Guaranty Trust Co., New York, to the Netherlands Indies Government, Batavia, Java. We understand that the Netherlands Indies Government instructed the Guaranty some time ago to purchase 6,000,000 ounces of silver for coinage purposes. In all probability, the above shipment consisted of new coins minted under this order.

The report of February 26 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 \$7,608,000, a decrease of \$473,000 in the short position. Net changes were as follows:

Country	Short Position February 19	Short Position February 26	Change in Short Position*
England**	\$ 185,000	\$ 263,000	+ \$ 78,000
Europe	3,547,000	3,292,000	- 255,000
Canada	133,000 (Long)	109,000 (Long)	+ 24,000
Latin America	114,000	211,000	+ 97,000
Japan	3,106,000	2,559,000	- 547,000
Other Asia	1,276,000	1,352,000	+ 76,000
All Others	14,000 (Long)	40,000	+ 54,000
Total	\$8,081,000	\$7,608,000	- \$473,000

* 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.

CONFIDENTIAL



HOTEL NEW YORKER
THIRTY-FOURTH STREET AT EIGHTH AVENUE, NEW YORK

March 4, 1941

Dear Mrs. Klotz,

The Secretary used to like an occasional report of something which was not a criticism or a complaint. You may want to pass this along?

I came up on the train with Walter Stewart who said he was glad to go to Washington whenever Henry Morgenthau asked him to, but that the Secretary was the only man in Washington for whom he would do that. Lynn (over)

— Sorry to miss that lunch
today.
cy

BRITISH EMBASSY,
WASHINGTON, D.C.

PERSONAL AND
SECRET

March 4th, 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 MARCH 3rd, 1941.1. NAVAL

Three coastal aircraft a.m. second attacked convoy of seven merchant vessels off Danish coast. One 2,000 ton was hit amid-ships with torpedo.

2. There is evidence that Italian reinforcements have recently arrived in Tripoli. No details of strength are now available but identifications are being sought.

3. ROYAL AIR FORCE.

Night of 2nd/3rd. 71 bombers were sent out, principal target being cruiser at Brest. No reports at present available.

4. GERMAN AIR FORCE.

March 2nd. Activity slight consisting chiefly of North Sea reconnaissances. A Hurricane shot down one enemy bomber off east coast and 2 Hurricanes damaged a Focke-Wulf off Shetland. Night of 2nd/3rd, enemy activity negligible.

5. Aircraft casualties in operations over and from Great Britain.

German bombers destroyed, 1, damaged, 1.

British: 6 bombers missing.

Noted by Mr. Kamachi
369 3/7

BRITISH EMBASSY,
WASHINGTON, D. C.
March 4th, 1941.

Personal and Secret.

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 from London dated March 2nd.

1. Naval. Since commencement of hostilities 54,693 ships have been convoyed, out of which 192 British and 31 allied and 19 neutral have been lost. Imports into Great Britain by ships in convoy week ending February 22nd 931,433 tons. Merchant ships lost by enemy up to February 26th:

German 268 of 1,345,000 tons,

Italian 133 of 683,000 tons.

In addition 34 ships of 61,000 gross tons under enemy control or useful to enemy have been sunk.

2. During daylight March 1st, two Merchant ships from Canada were bombed and severely damaged off Cardigan Bay. East and West-bound convoys also attacked off Kinnaird Head, 2 ships being hit and set on fire, 1 ship torpedoed in North West approaches.

3. Military. Italian Somaliland. Our troops occupied Bardera on February 27th; up to the afternoon of February 28th, prisoners taken during our advance along the coast and at Mogadishu numbered 9,000 and many more are surrendering in Mogadishu.

4. Royal Air Force. Yesterday our fighters made an offensive sweep over Northern France and destroyed 3 enemy fighters.

5. Night of March 1st/2nd. 131 aircraft attacked industrial targets in Cologne and three bombed Channel ports. Results unobserved.

6. Eritrea. February 28th. Our aircraft dropped over 6 tons of bombs on Asmara railway station, scoring several direct hits.

7. German Air Force. March 1st. Daylight activity slight. A bomber was destroyed by our fighters off the

-2-

Iale of Wight.

8. Night of March 1st/2nd. 110 aircraft were over this country, bombing was widespread and not intense. One enemy bomber was destroyed off the coast of Scotland.

9. At Malta six J.U. 88's escorted by fighters made an attack on March 1st. Many bombs were dropped, but only slight damage was done.

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

German: three fighters destroyed and two bombers destroyed.

British: nil.

11. Home Security. Night of March 1st/2nd. Some residential damage was caused at Hull rendering several persons homeless and a bus depot was damaged by fire at Southampton.

RESTRICTED

TENTATIVE LESSONS AVIATION
No. 10
G-2/183-345

MILITARY INTELLIGENCE DIVISION
WAR DEPARTMENT
WASHINGTON, March 4, 1941.

NOTICE

The information contained in this series of bulletins will be restricted to items from official sources which are reasonably confirmed. The lessons necessarily are tentative and in no sense mature studies.

This document is being given an approved distribution, and no additional copies are available in the Military Intelligence Division. For provisions governing its reproduction see Letter TAG 350.05 (9-19-40) M-B-M.

AN R.A.F. AERIAL GUNNERY AND BOMBING SCHOOLSOURCE

Late in November, 1940, an American official observer made a visit to an R.A.F. aerial gunnery and bombing school. This bulletin is based upon his observations.

CONTENTS

1. ORGANIZATION
2. EQUIPMENT AND TRAINING FACILITIES
3. CONDUCT OF TRAINING
4. SUMMARY

RESTRICTED

RESTRICTEDAN R.A.F. AERIAL GUNNERY AND BOMBING SCHOOL1. ORGANIZATION

At the gunnery and bombing school, as throughout the R.A.F., the station itself does all the housekeeping. This includes running messes, performing supply functions, and handling range details, both operational and maintenance. Thus squadrons are left absolutely no function except actual training. In the case of this school, the station goes even further and performs all maintenance work on aircraft except daily inspections, which are carried on by squadrons at dispersal points. This "full garage" system has not been used at other R.A.F. stations recently visited.

There are three training squadrons at the school - one charged with gunnery training, one with bombing training, and the third with towing. This break-down of work makes for smooth functioning and is probably largely responsible for the great number of aerial gunners and bombardiers turned out.

2. EQUIPMENT AND TRAINING FACILITIESa. Airplanes

The station is equipped with 70 Fairey Battles. This airplane is excellent for gunnery training but not for bombing training. The station furnishes 12 planes to each training squadron daily, with several reserves in commission to replace any that develop trouble during the day.

b. Bombing Trainers

There are four bombing trainers available, and all are used to the maximum degree. Each trainer consists of a light-proof room with a film projector which is located in the ceiling and which throws a moving mosaic on the floor. The speed of the image may be changed to simulate various bombing speeds and altitudes, and the "pilot", who sits back of the bombardier, can change the direction of travel of the image on the floor by using his rudder bar. The whole effect is quite similar to that of actual bomb sighting from an airplane, and the bombing instructor states that the results are highly satisfactory.

c. Ranges

The school is conveniently located for gunnery and bombing training. It is adjacent to a large shallow arm of the North Channel, where four gunnery ranges and three bombing targets are operated concurrently. Scoring for bombing is all done by the two-tower triangulation method. No attempt has been made to record practice bombing

RESTRICTED

RESTRICTED

results by photography, possibly because of the shortage of photographic equipment.

d. Moving Gunnery Target

Convenient to the station is the ground gunnery range. This consists of a full scale model of an Me-110, which provides a fixed target at a range of 500 yards and may be used for both day and night firing, and a moving target for practice in handling turrets and deflection shooting.

The moving target is a scale model of an Me-109 mounted on an electric trolley. The track is laid out in the shape of a triangle 200 yards to the side, with an apex located 100 yards from the turret station. The target travels at 30 miles per hour around this triangle and offers opportunity for the standard stern quarter attack used by pursuits, as well as for a quartering going-away shot and a crossing shot. Observation of the fire of a four-gun Boulton Paul turret and a two-gun Frazier-Nash turret at this target shows this form of gunnery practice far superior to any previously encountered. The R.A.F. range officer stated that the cost of the entire installation was approximately \$20,000.

e. Spotlight Gunnery Trainers

Spotlight gunnery training was not observed, since it is still in the formative stage. The trainer consists of a hemisphere with a diameter of approximately 25 feet and a standard Frazier-Nash turret mounted opposite the center of this hemisphere. A motion picture machine projects the image of a fighter plane flying at different ranges and angles on the inside of the hemisphere. The student maneuvers his turret until his sights are lined up, and when he presses the trigger a spot of light is projected where the bullet would have hit; the projector automatically takes care of the bullet trail and drop for different ranges and deflections. The whole mechanism can be stopped when the shot is fired, and the student's errors can be analyzed. The principal advantages of this trainer appear to be the excellent facilities offered for practice in range estimation, deflection shooting, and turret operation.

f. Gun Cameras

Gun cameras are used extensively during the early part of the course given at the school. It is the opinion of the staff of the school that their sole value is for checking progress in training on range estimation. It is a common error to suppose that gun cameras are of value in training for deflection shooting.

RESTRICTED

RESTRICTED3. CONDUCT OF TRAININGa. Aerial Gunners

The students in the aerial gunnery class have previously had a three months' course as radio operators. Classes average 130 students, divided into sections of 15 each for control. Their course lasts four weeks.

b. Aerial Bombardiers

Each class of aerial bombardiers consists of about 60 students who have previously completed the three months' course in aerial navigation. In each combat crew one man - usually a sergeant - is navigator, bombardier, and gunner. The course lasts eight weeks, with time about equally divided between bombing and gunnery. Bombing training involves about 20 bombs at low altitude - 2,000 to 4,000 feet - and about 60 bombs at high altitude - 12,000 feet. All bombing is level, and no night bombing is practiced; this is notable because in actual operations practically all bombing is done at night from a power-off glide. Some practice simulating actual conditions is obtained in operational training squadrons, which are intermediary between the school and actual operating units.

4. COMMENT

It appears from careful observation at this school in operation that, while the R.A.F. is well ahead of our service in aerial gunnery training, we are more advanced in training of bombardiers. With the exception of the bombing trainer in use at this school, which is a definite improvement on our own, our equipment and methods seem more effective.

We could learn many lessons in aerial gunnery from the British. Many hours and all available equipment of the proper type are devoted to training in range estimation, which the British consider the very foundation of aerial gunnery. In addition, their facilities for ground training much more nearly approximate actual air firing than our own.

RESTRICTED

RESTRICTED

G-2/2657-220
No. 330

M.I.D., W.D.
March 4, 1941
12:00 M.

SITUATION REPORTI. Western Theater of War.

Air: German. Activity over Great Britain last night was on the largest scale since last December. Cardiff was heavily attacked. Newcastle and various British airfields also were bombed.

British. Fragmentary reports indicate normal activity along the Channel coast.

II. Balkan Theater of War.

Bulgaria: The German High Command announces that the march of German troops into Bulgaria continues according to plan.

Albania: Ground. Activity by small infantry units and intense artillery action is reported by the Greeks.

Air. No important operations reported.

III. Mediterranean and African Theaters of War.

Ground: Italian Somaliland. British troops have occupied Villaggio Duca Abruzzi, which is 50 miles northeast of Mogadiscio; Bullo Burti, on the Uebi Shebeli, about 100 miles due north of Villaggio Duca Abruzzi; and Ischia Baidoa, about 150 miles northwest of Mogadiscio.

North Africa. The Italians report that another attack by British mechanized troops on Jarabub has been repulsed. They also report another clash between German and British armored forces in Libya.

Air: No reports of operations available.

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

Sec. Three

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CONFIDENTIAL

Summary of Code Indigens
Received at the War Department
at 9:00, March 6, 1941.

London, Signal 12415, March 6, 1941.

1. On Monday, March 5, planes of the British Coastal Command carried out the usual patrols and no British bombers were in the air. During the preceding night airfields in the Netherlands and in northern France and harbor facilities at Rotterdam were bombed by formations made up of small numbers of British planes. In addition, an attack was carried out by 71 British heavy bombers against Brest. A German cruiser of the *ASUBAL KIPPER* class is at port there and this cruiser was the principal objective of the attack. It is thought that the cruiser was damaged in spite of the fact that no direct hits were observed. Six of the British bombers taking part in these attacks failed to return to their bases.

2. During the night of March 5-6 the Germans carried out a raid over London which lasted for a longer period than any during the past several weeks. As a result there was some damage to the towns on the outskirts of London. In addition, a number of civilians were killed and private property was considerably damaged in the Cardiff-Bristol area which was the object of a severe German attack during the same night. It is maintained by the British that there was no damage to military installations.

3. The airfield at Beirut, Libya, was severely bombed by British planes based in Greece. In all other Middle Eastern theaters planes of the Royal Air Force supported the operations of land forces.

CONFIDENTIAL

4. There has been no report of Axis air operations in the Mediterranean theater.

5. The character of German air attacks against Britain during the past few weeks indicates that the principal German air effort will now be directed against British merchant shipping and against British ports rather than against inland cities. This new policy is intended to lend support to the recent increase in German submarine activity.

6. It is estimated by the British that in the vicinity of Sirte, Libya, there are 50 German airplanes and one German brigade group accompanied by light armored fighting vehicles. Additional Italian reinforcements are arriving in Tripoli. It is also thought by the War Office that German forces in Sicily and in southern Italy total two small armored divisions with accompanying light armored fighting vehicles.

7. Since the recent reinforcement of Italian troops in Albania it is estimated that there are now approximately 300,000 Italian soldiers there.

SECRET

Distribution:

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