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TREASURY DEPARTMENT  
Washington

FOR RELEASE, MORNING NEWSPAPERS,  
Tuesday, March 18, 1941.  
3/17/41

Press Service  
No. 24-7

The Secretary of the Treasury announced last evening that the tenders for \$200,000,000, or thereabouts, of 91-day Treasury bills, to be dated March 19 and to mature June 18, 1941, which were offered on March 14, were opened at the Federal Reserve Banks on March 17.

The details of this issue are as follows:

Total applied for - \$442,380,000  
Total accepted - 200,167,000

Range of accepted bids:

High - 100.  
Low - 99.966 Equivalent rate approximately 0.135 percent  
Average price - 99.971 " " " 0.117 "

(86 percent of the amount bid for at the low price was accepted)

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March 18, 1941  
9:15 a.m.

RE FINANCING

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

H.M.Jr: I hope you people are in better shape than I am today. You (Bell) were a little tired yourself yesterday.

Bell: I was really sick when I went home.

H.M.Jr: I knew I wasn't clicking, and my nervous system told me there was something the matter with you.

Bell: Really? I went home about half past five and took a drink, something I never do. It kind of pepped me up a little.

H.M.Jr: Did you go to that very exclusive party last night?

Bell: Yes. Wasn't it exclusive? I am going down with the general public sometime.

Haas: It won't be so crowded.

Klotz: That is very cute. There were a million people last night.

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H.M.Jr: Did you go, George?

Haas: Yes, sir.

H.M.Jr: Did you faint?

Haas: No, sir, I came through.

H.M.Jr: Do you want to talk first?

Bell: No, I don't want to talk. I am more confused this morning than I was yesterday morning. I was pretty clear yesterday.

H.M.Jr: Yes, these fellows upset me all day yesterday.

Now, George, what happened back in your shop?

Haas: There was only one thing that impressed me, and that was the probability of rights being sold with people choosing to buy the bond on a subscription. That would make the thing technically bad.

H.M.Jr: Wait a minute, say it again.

Haas: If a man holds rights and you have got a premium on it and you are offering a refunding and the cash at the same time, he would say, "Here is a thing with a premium of a hundred and one and a fraction. I will sell that and get my hundred and one and a fraction and get the bond which I want in a cash subscription, get it for a hundred." He will do that if he thinks the allotments are going to be large. That will make a bad technical situation. Now, Mr. Hadley suggested a way to get around that, but it is not an entirely happy solution, and I think I would stay - I mean for my own opinion, I would stay on the 52-54. I didn't hear anything that would

change that. I wouldn't go out any further.

H.M.Jr: Well, I am listening. I have got some ideas myself. Go ahead, Hadley.

Hadley: My suggestion comes as a result of the fact that Mr. Devine and some of the others said, and I had heard it before, that a billion dollar issue is going to be rather heavy until we get a better bearing on this taxable bond area and his suggestion was to do a two and a half per cent and a two and three quarters and split the cash between each of them.

H.M.Jr: Do what?

Hadley: A two and a half per cent, say for two hundred fifty million, and two and three quarters for two hundred fifty.

H.M.Jr: No.

Hadley: I think that is a good idea, but on the other hand, we are not too sure of that two and three quarters and --

H.M.Jr: No, it is no good.

Hadley: To me there was another out, if you want to keep your cash on your two and a half per cent bond down and that is to say that the last three quarters note which we put out, which was only thirty-two million, ten of which is in the Federal Reserve and ten in one other bank, leaving twelve on the market, to say, "We are going to open that up for two hundred million cash." That leaves only an eight hundred million issue in your two and a half per cent or less, and the difference between that and a billion dollars might give this issue a wonderful start. In other words, you

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would only have three hundred million in cash available for subscriptions. Your allotments would be low, and it would leave a better taste in their mouths if the allotments are much lower than they were last time.

H.M.Jr: Now let me just - I got what you said. Let me just ask you this, whether this makes sense. They all seemed to think that on the refunding of the note we should do the bond and the two year note - not all of them. Let's just say for a minute we do this. Then the fellow that has the rights can either take this note or the bond and having the two year note there at a more or less fixed level will keep the rights from going below a certain point. Am I right on that?

Murphy: Yes, sir.

H.M.Jr: I want to get that awfully sure, you see. And if the rights won't go, sink below a certain point, it also ought to have some effect on the offering for the new money, because it eases up the pressure. Am I right? Just think of that a minute.

Bell: I am not so sure that your rights will hold or your notes will hold.

H.M.Jr: Well, I just want to get this one thing clear in my - the rights - if the thing works the same way it did last time, and let's say this three quarters per cent two year note will stay about par or two thirds, somewhere in there, that puts an underpinning to the rights. What effect on one thing will it have? Will it affect the price of the new bond if we offer the bond and the two year note for the refunding and if the same thing happens, let's

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say that the old three quarter two years will stay right around that level, does that have any effect on the price of the new bond? Do I make my question clear?

Bell: You mean the new bond out now or the one you issued?

H.M.Jr: The one we are going to issue. Shall I state it again?

Haas: The when-issued price?

H.M.Jr: Shall I state it again? If for the refunding we get out a 52-54 and offer them also a two year note, let's say the two year note will work again the way it did last time, it will be fairly steady, around par twenty, and the man - he sits there, anyhow; he says, "I own these rights and when the new bond, 52-54, goes below a certain point, well I won't take it, I will go into the old note." It relieves the pressure on the 52-54. Am I right? Or won't it have any effect?

Hadley: I am a little bit in doubt about that, because we didn't have any trading in that new note last time. We don't know whether the quotations were strong or not, and the new note might fall just the same way the bond did if there was any trading worked into it. That is something we have to leave to conjecture. We are not sure whether the note really stopped the bond or whether they met in coincidence.

H.M.Jr: Now, what you suggested was, on the new money I give them the note and the bond?

Hadley: Right.

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H.M.Jr: Well, I wouldn't do it that way. I am just thinking. If I am afraid of the new money, then for the note I would offer them the choice of the note or the bond.

Hadley: Well, I would do it for both.

H.M.Jr: You would do it for both?

Murphy: It would be two of one and three of the other.

H.M.Jr: I think that is an awful sign of weakness.

Haas: That is the only thing that --

H.M.Jr: I think that is an awful sign of weakness.

Murphy: That is the difficulty, but Bill thought that could be gotten around by explaining that you wanted to build up that note into a trading vehicle.

H.M.Jr: Dan, any time you want to, will you butt in? Are you all right now?

Bell: Yes, I feel pretty good this morning.

H.M.Jr: These men came down here yesterday and certainly were convinced in their minds that we shouldn't price it in connection with the corporate market. Now, that at least is their own thinking. I don't know whether you have got that, but all who came down said, "You mustn't price it to the corporate bond market, you must price it so many basic points difference between the taxable and non-taxable.

Bell: That is right.

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- H.M.Jr: That is their thinking, but at least that is the way they do the figuring. Now, let me ask you this. You mean - let's take these two (Haas and Murphy) first. You figure this new bond by comparing it with the corporate or comparing it - how do you arrive at the pricing? Just you two.
- Haas: We arrived at the price by comparing it with the Government market. We also looked at the corporate market, but decided that it was not a safe basis to use as a guide.
- H.M.Jr: Then you people agree with the fellows that I saw yesterday, in other words, you are pricing it by comparing it with the Government bond market and not the corporate?
- Haas: That is right.
- H.M.Jr: What did you do?
- Hadley: I did it the same way, but I arrived at a little different answer. That memorandum yesterday sort of surprised me after I read it to find that I was pricing my bonds on the corporate market. I do use them as a guide, but I don't put primary basis on the corporates.
- Bell: I think they both used practically the same method. It is a question of where they arrived on the chart, isn't it?
- Haas: Henry didn't think that and neither did I at the time he wrote that.
- Murphy: It is a question of emphasis. Hadley told us to use the corporate market as a guide, and we don't see how you can arrive at a

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54-56 without having a real guide. We didn't use it as a guide. We merely used it to make us feel a little more optimistic about a price arrived at purely by an intra-Government comparison.

H.M.Jr: How far apart were you men in your pricing? What kind of a bond did you (Hadley) suggest?

Hadley: I started out with a 54-56, which is two years farther on than theirs and after listening to these people yesterday and the fact that only one of them was for that and rest were for shorter bonds and they are going to make the quotations when it comes out, I pulled down to 53-55. That is one year difference. Although some of the people yesterday said it doesn't make any difference what month you make the issue as long as it is within a certain year. Mr. Devine said March or December, '52. It doesn't make any difference, just the name '52 is what counts.

H.M.Jr: Where are you now?

Hadley: I would say 12-14 years.

H.M.Jr: Give it to me in years.

Hadley: 53-55.

H.M.Jr: 53-55? And where were you?

Bell: You were what, 52-54?

Murphy: Yes, still 52-54.

H.M.Jr: Were you 11-13 yesterday?

Murphy: That is right. The main difference between yesterday and today was we thought we would

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probably compromise a little over Hadley's direction, but now we feel that opposition is really a compromise position. We feel because we had a number of suggestions - for example, Pope says you put out a 51-53 and if you are lucky, it will go. I think that is extremely pessimistic. But the 52-54 doesn't seem to have the big margin in it today that it did yesterday.

Bell: But they all were in either 52-54 or 53-55?

Murphy: Except Pope.

H.M.Jr: Now, there was one man from the savings bank who was 51-53, and I thought he was about as shrewd as any of them.

Murphy: Pope was also 51-53, if you didn't do his note. He said 53-4 if you put out the five hundred million of the note, but 51-3 if you did it all in two and a half bonds.

H.M.Jr: But weren't you people impressed with this man Ihlefeld of the Mutual Savings Bank? You weren't?

Murphy: No.

Haas: He has got such a bias for high interest rates. He would like to get four, I think. He is smart all right, but he has an extreme bias.

Bell: I don't think he watches the market as close as some of the other fellows.

H.M.Jr: Well, gentlemen, I just think at this time that if we can't borrow five hundred million dollars on a bond - I would much rather do

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this, if you are afraid. I would much rather have the note into a note.

Hadley: I think that would be worse.

H.M.Jr: Why?

Hadley: Because you have already done over a billion dollars worth of notes for new money and they say that that area is upset and that would mean five hundred million in your notes.

Murphy: One thing, it would be a very sharp decline value of rights, which would disappoint the people. They have thought they were going to get a bond and the rights have presumptively got to the hands of people who are expecting the bond.

H.M.Jr: What are the rights?

Hadley: They are going to run five to seven.

Murphy: They would have to go down to about twenty.

H.M.Jr: Every one of these fellows who came down yesterday with the exception of Discount lost their shirts in the last three weeks in the bond market, and therefore - Pope particularly, so --

Haas: That isn't good either.

H.M.Jr: And I thought Discount - I thought they talked kind of mean.

Bell: Yes, I was surprised at Dudley Mills. I have never seen him as nervous and jittery as he was yesterday.

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- H.M.Jr: Oh, I thought he was mean. I mean, the whole thing yesterday was - left me - I was very much upset.
- Haas: I didn't think, Mr. Secretary, that as we quizzed these people, you know, on their proposal --
- H.M.Jr: Yes.
- Haas: Several of those didn't seem to - they made a proposal thinking, "Well, you won't take it," and it didn't seem, you know that they were willing to stand by that. In other words, if you took it and called on them for help - I got that feeling, but you couldn't prove anything.
- Bell: I think there was a little feeling over the last issue that you asked so many people to come down and advise you, and everybody said something different from what you put out except Devine and I think there was a feeling.
- H.M.Jr: What is that, Dan?
- Bell: I thought there was a feeling yesterday that they had come down here before to advise the Treasury, and we didn't accept anybody's advice except Devine's, and that was pretty well over the Street, wasn't it, that this is a Devine bond, this 48-50, and I think there is a feeling --
- H.M.Jr: Oh, that is what he meant. He spoke of it. He didn't just say it in so many words.
- Bell: That is right.
- Hadley: He was actually high pressuring his customers to buy this issue. He says, "It is my baby,

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it is a good bond," and that is why the volume was so high on it. He was lucky that he was in there all right.

Bell: There was one thing about this suggestion of Hadley's. The chances are that the most of your refunding will go into the bond, so in effect you would take five hundred million dollars out of the note market, which would give you some relief and you put back two hundred so the net effect would be three hundred million out of the note market. I don't like it, but it does --

H.M.Jr: What is that?

Bell: I say I don't like it, but it has that advantage.

H.M.Jr: Let me ask you this. Postal Savings, how many special two's have they got, Postal Savings and FDIC?

Bell: I think they have got 90 million, and I think the FDIC has about 60.

H.M.Jr: How close are those?

Bell: I can get it in two minutes.

H.M.Jr: Can't you (Hadley) get it?

Bell: No, it is on my desk.

(Mr. Bell left the conference and returned with data.)

Bell: Postal Savings has about five hundred thousand and the FDIC has about ninety. There is about twenty-five million dollars in cash.

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H.M.Jr: How much has the Federal Reserve got of these maturing things?

Bell: I don't know, do you?

Hadley: No, I am not sure.

H.M.Jr: Well, I can ask them. I will tell you, gentlemen, after what I announced that I was going to go ahead and the bond market went up, didn't it?

Murphy: Yes, sir.

H.M.Jr: I would much rather make it extra sweet, give them on a mathematical basis a hundred and two, you see, but I just can not with what I know is before us sit here and compromise with these fellows by - for cash - say I am so frank and I can only do two hundred fifty of a bond and two hundred fifty of a note. I can't do it. I have just got to pull this thing through, and I would much rather give them an extra half point and then if the thing drops the way the last one did, it is all right and on that basis they will buy it and if they don't, I will; but you can not sit here, the United States Government, and say we can't borrow five hundred million dollars on bonds, the two and a half per cent bond. We just can't do it, not with the program that is ahead of us. So I would rather go on the sweet side.

Mathematically, what is there in the 52-54, how many - you know, I like it on a basis of a hundred and one over whatever it is.

Murphy: Our estimated price that we have for it is about one hundred one and thirteen thirty-seconds.

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- H.M.Jr: It isn't enough. I will say that now.
- Hadley: Mine runs from one hundred one and three quarters up, the same bond.
- Murphy: As your estimate of that bond?
- Haas: You can't save yours, Mr. Secretary, make yours certain by making it sweet, because if you sweeten it, it may not be there when the bond is quoted.
- H.M.Jr: Price it for me at a hundred and two. Give me a two and a half per cent bond that mathematically sells at a hundred and two.
- Hadley: I think there are some technical features --
- H.M.Jr: Just a minute, wait a minute.
- Murphy: How about September 53-5? We have one hundred one, twenty-five for that. If you cut that back to June 51-3, we have about one hundred two for it.
- Hadley: We have got three bonds in that area, and they are going to be a detrimental influence on any new bond.
- H.M.Jr: But they are partially tax-free.
- Hadley: That is all right, but that area is concentrated and if you get 52-53, you get in a new area where there would be more openings on the maturity schedules for these investors.
- H.M.Jr: Well, what can we do with the two and three eighths? It doesn't have to be a two and a half.
- Bell: Isn't it costing us quite a bit of money for that extra - say three years there?

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- Murphy: It is costing us tremendously. It is costing us better than two and a half per cent.
- Bell: Two and a half per cent for '48 to '51.
- Murphy: If you push beyond that, it will cost you relatively little, that is for the extension from 45-50 to 51-3 or 52-4. You pay around three and a half per cent for the period which you extend it. Beyond that, it costs you very little as the curve extends. It is in the most expensive position.
- H.M.Jr: What is the next position, what would it go?
- Murphy: Going up?
- H.M.Jr: I mean beyond that.
- Murphy: You would have to go out to a two and three quarter.
- H.M.Jr: What about a two and five eighths.
- Hadley: 1955 or '56, somewhere in there, but that is an odd size and it looks sort of funny.
- H.M.Jr: Well that doesn't make any difference. Just because all the financial writers say two and a half per cent, they are most likely wrong, the very fact that they all write it. You fellows have kind of gotten frozen on this two and a half per cent business.
- Hadley: On the theory you didn't want to go higher.
- H.M.Jr: There is no theory. There is nothing in this thing. We want to make our bond go.
- Haas: I think a two and a half would probably go better, Mr. Secretary, than shaving it.

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- Murphy: I think a two and five eighths wouldn't set well. It would give more impression that we were afraid than even a note.
- Bell: I think we might run into the same difficulty we had before that we talked one type of financing and shifted to another.
- Now, we have been talking two and a half here in the last day with all these people. Now we shift to a two and five eighths, and it looks funny; and they are going to kind of look it over a couple of days and that is going to hurt it. I am inclined to think we ought to stick to the two and a half and put it some place in that 52-53 area.
- Haas: Maybe this concern about this rights selling isn't so real. I was impressed by it. Maybe Rouse wouldn't think so much of that.
- Murphy: Johnson didn't see any trouble about it at all.
- Haas: Devine wouldn't trouble.
- Bell: No, Mills was really the one that is really troubled, and yet we have had the same problem right along and I suppose the only thing that accentuates it at this time is the fact that we might get higher allotments, but I am not very much impressed with my argument. You might sweeten the refunding a little, by giving interest up to June 15.
- H.M.Jr: Pope said to do it the other way, charge them a premium, didn't he?
- Bell: He said charge them a premium on the notes.
- Murphy: That was for cash, wasn't it?

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Bell: No, on the refunding and the notes. Well, I guess it was cash.

Murphy: You could offer a par and twenty hundredths notes.

H.M.Jr: It amuses me. These people come down here and they are the great wizards of Wall Street and are they confused.

Bell: Well, there are not any two of them that have the same opinion about the whole situation.

H.M.Jr: Here is the president of the Metropolitan Life who has the greatest pool of capital in the world, and all he can say is, "I need a three per cent bond."

(Telephone conversation with Mr. Rouse and Mr. Sproul follows:)

March 18, 1941  
9:45 a.m.

H.M.Jr: Hello.

Operator: Mr. Sproul and Rouse.

H.M.Jr: Hello.

Sproul: Good morning, Mr. Secretary.

H.M.Jr: How are you gentlemen?

Rouse: Good morning, sir.

H.M.Jr: Fine. How do you people feel today. What would you recommend?

S: I'll let Mr. Rouse speak.

R: As you know, both Allan and I were in Washington yesterday at the Open Market Committee meeting and we didn't have the benefit of the interviews which you did and the feel of the market.

H.M.Jr: Well, I didn't know you were both here.

R: Well, I thought you did.

H.M.Jr: I think that is most unfortunate.

R: It was. In checking the market so far this morning, we find that in a couple of the spots which you interviewed yesterday, that is, First Boston Corporation and Devine and Company - their ideas are somewhat below what we would think. I .....

H.M.Jr: Excuse me. I think it's a great mistake that one of you weren't in New York yesterday. I didn't know that you were down here. I think it is most unfortunate. I mean, I don't want to hear what the people I saw - I mean, I don't have to go all through that again.

R: That's right, and our ideas here - we're interviewing people again this morning and we'll have a check on the ideas that we had over the weekend in half an hour, if that's all right with you.

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H.M.Jr: Well, what were your ideas over the weekend before you talk to anybody?

R: 2½ of 1953-55.

H.M.Jr: And that's for the new money?

R: That includes new money.

H.M.Jr: And for the refunding?

R: And for the refunding.

H.M.Jr: I mean, do the whole thing in the bond?

R: Do the whole thing in the bond. If you wanted to re-open the 2's of the 2-year note that you offered last time, fine.

H.M.Jr: I'm really very much upset to think that on a Monday before a financing that the Federal Reserve in New York is down here in Washington. That doesn't do me any good. My heavens! I mean, I just can't understand that.

R: (Pause). Well, that was - didn't the Board check with you? About the Open Market Committee meeting?

H.M.Jr: No. I didn't even know there was one.

R: I'm sorry.

Sproul: Well, Mr. Secretary, we took it up with them and told them there was probably a Treasury financing coming up. It was the organization meeting of the Committee and when it was called, we had to be there. We were in touch with the market through the day, however, and had our plans laid for the final check today. I don't think we could know any more about the market at the time necessary to make a decision today than we will know.

H.M.Jr: Well, I can only repeat that I'm terribly disappointed.

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S: Well, we'll have to make certain that the same combination of events doesn't happen again. That's all.

H.M.Jr: Well, it just can't happen again, that's all. It just musn't.

S: Well, we'll take care of that.

H.M.Jr: Well, then really you know nothing .....

S: Will it be convenient for us to ring you back in about three-quarters of an hour?

H.M.Jr: Well .....

S: Half an hour?

H.M.Jr: Let me just see a minute. Supposing you call me back and give yourself, say, until quarter of eleven? Hello?

R: Yeah.

S: Yeah.

H.M.Jr: Quarter of eleven?

R: That'll be fine.

H.M.Jr: Will you both call me back?

R: We'll do that, yeah.

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

R. & S.: Yeah. All right.

H.M.Jr: Thank you.

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- Bell: You see, they had a reorganization of the committee yesterday.
- H.M.Jr: It is just unbelievable that these two men should be down here having a talk fest with the people when I am sitting here sweating. I mean, it is the most asinine performance I ever heard of. What good does Bob Rouse do down here to one of these debating society meetings of the Federal Reserve?
- Bell: He is the secretary of the Open Market Committee and he had to make his annual report.
- H.M.Jr: Well, they could have it on Sunday, they could have it on Monday - I mean they would have it any day except Monday and Tuesday.
- Bell: That was the reason Eccles told you the other day that he wanted you to put it off until Wednesday.
- H.M.Jr: They don't know anything more today than what they knew as of Saturday. You (Bell) evidently knew they were going to have this. Both of them are going to be there.
- Bell: I didn't know who was going to be there. I assumed Rouse would be there because he is secretary, and had to make his annual report. But it was discussed at the meeting the other day. You have just forgotten it.
- H.M.Jr: I couldn't believe that both - it made no impression. I didn't even know Rouse was secretary. They just don't know what was going on.
- Bell: All the presidents were here. They had to re-elect their executive committee.

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H.M.Jr: Well, couldn't they postpone it a week?

Bell: Well, I suppose it has been postponed since January.

H.M.Jr: Well, it just won't happen again.

Bell: Well, that is the reason Eccles asked you to put it off until Wednesday.

H.M.Jr: Well, that is no reason.

Bell: Well, certainly the market expects this issue to be in the 51-54 area, doesn't it?

Hadley: Yes.

H.M.Jr: That is exactly where they expect it to be put.

Murphy: You mean as first call dates?

H.M.Jr: Have you got where the vacancies are, what comes down from 50 on? Has anybody got a chart?

Haas: There is a book --

H.M.Jr: George, it comes here when you give it to me, not before.

Murphy: Sorry, Mr. Secretary. I should have had that sheet with me.

Hadley: The first vacancy is in March, 1952.  
(Mr. Hadley showed book of reports to the Secretary.)

H.M.Jr: I can't read them that way.

Haas: Have you got a sheet, Murphy? I will get it.

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H.M.Jr: Does this give it?

Haas: Yes, sir.

H.M.Jr: Well, show it to me. There is nothing,  
for instance, in '49, is there?

Hadley: Until December.

(Telephone conversation with Mr. Burgess  
follows:)

March 18, 1941  
9:52 a.m.

H.M.Jr: Hello, Randolph. Do you know anything about the Government bond market?

Randolph Burgess: Well, I've heard of it. It's mentioned around here once in a while.

H.M.Jr: Well, are you thinking about our refunding and financing?

B: Yes, I've been doing some thinking about it.

H.M.Jr: Well, could you share it with me?

B: Well, I think the next step is the one Dan talked about last time some, to put out something in the middle fifties at a 2½ coupon. That's what the market rather expects. I think it would go very well.

H.M.Jr: Well, now, let's divide it into two pieces, Randolph. What about the refunding?

B: Well, I'd do the refunding into the same issue. The question is whether you wanted to open up a note issue in addition. There is no harm in opening up that same note you sold last time if you want to for the exchange. I wouldn't open it up for the cash. I don't think it makes very much difference. I don't think people would take it very much, but it might give you an anchor to windward on the exchange.

H.M.Jr: Well, you could do it on the cash, couldn't you?

B: Oh, let them take some of the note for cash?

H.M.Jr: I mean, just to offer it to them and - we have done it without fixing the amount, haven't we - or do you have to fix the amount?

B: I should doubt if that was desirable, Henry. It would look a little as though you weren't very certain about yourself. We've usually

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fixed the amount and I think that to do something that is kind of different might not go so very well. I'm sure you can sell \$500 million cash.

H.M.Jr: Have you any doubts?

B: No.

H.M.Jr: Well, the people who came down here yesterday - they were awfully uncertain of themselves.

B: They were?

H.M.Jr: Yeah. But of course they lost some money, you know, the dealers.

B: Yeah. Everybody is prepared to stand by, I think. I know we are. I think it would be very wise for somebody to talk with the insurance people. They all ought to go along; I think they will.

H.M.Jr: Well, let me ask you this, just so I get it. You're feeling is that - where would you put the bond, Randolph?

B: I'd make it about a '53-55.

H.M.Jr: '53-55, and your first blush was we could do it entirely in a bond.

B: Yeah.

H.M.Jr: But if you wanted to be a little safe, let the refunding also re-open that note.

B: Yeah. Then you'd be sure of that.

H.M.Jr: And you, yourself, seem to think it would be all right?

B: I think it would, yes.

H.M.Jr: Where do you think that '53-55 would sell - about what price?

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B: About 101. I don't think these things are going to go to very big premiums, you know, because people know they can get some more at par a little later.

H.M.Jr: I see.

B: So I think that this business of running up the premium to 102 - I think that's a thing of the past. I don't believe you can expect that now.

H.M.Jr: I see. Do you own any of the rights?

B: Yes, we have about 25 million.

H.M.Jr: What would you do with them?

B: We'll convert into the bond and we'll subscribe to cash our full limit.

H.M.Jr: How much is that?

B: Well, it's .....

H.M.Jr: 50 million?

B: You'd presume to have in half the capital and surplus, wouldn't you?

H.M.Jr: Yeah.

B: About 75 million.

H.M.Jr: I mean, you'd be down for 75 million.

B: Yeah.

H.M.Jr: I see. Well, that sounds good.

B: Well, I think everybody would do that.

H.M.Jr: I see.

B: I think it's important to talk with the insurance fellows first. I've always felt that calling fellows up ahead of time was a way of selling your bond. You really ask them about it and then they are sort of committed to go along.

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H.M.Jr: I see.

B: So I think if you were to call old Mr. Eker, and Parkinson and have Dan call Steadman at the Prudential and Lew Douglas and oh two or three others, you know, you kind of sell your issue in advance.

H.M.Jr: I see.

B: But I know what the Mutual Board - I'm on that - they'll go along I'm sure.

H.M.Jr: Well, if during the day you change your opinion, would you call me between now and 2:30?

B: All right.

H.M.Jr: If for any reason you change, call me before 2:30.

B: Very good.

H.M.Jr: I'd appreciate it.

B: Fine, Henry.

H.M.Jr: Thank you.

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H.M.Jr: I have got an idea.

Haas: You probably can see better on the table.

H.M.Jr: I think you fellows have got an awful lot of intestinal fortitude.

Murphy: This area begins with a '51 to '54.

H.M.Jr: How much is that?

Murphy: Dollars are over there. That is the price history of the issue over there.

H.M.Jr: You see, Burgess said --

Murphy: '53-5.

Haas: We just put up one --

H.M.Jr: This is what I was thinking about. Would an issue to a fixed date be any sweeter?

Haas: Yes.

Bell: Probably would.

Hadley: It would help a little.

H.M.Jr: We have done that, you know, twice or three times in my time. I did it '47 and I did it '48 when I was hard pressed.

Murphy: I don't think it is nearly as sweet for what you get for it, Mr. Secretary. That is, you would have to put your fixed date note more than six months ahead of what would otherwise be the callable issue. I would a lot rather cut the issue back.

Hadley: I think if you can do a 53-5 you can do a 54

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straight bond easily.

- Haas: I think that would raise questions in peoples' minds.
- H.M.Jr: Well, I am just rasing it. I am still convinced I can do it, see. I have just sold seventy-five million right now over the telephone. You heard it. I mean, there is seventy-five sold there and I bet you in fifteen minutes I can sell this issue. I am going to do it. I am going to sell it right now.
- Bell: I think all those big banks will subscribe their issues. They did last time.
- H.M.Jr: I am going to sell the issue in the next half hour or I won't.
- Bell: George, what is your price on the --
- H.M.Jr: Is it one or two hcur's difference between here and Chicago?
- Bell: One hour.
- Hadley: One hour.
- Bell: What is your price on the 53-55 bond? Have you got a minimum?
- Murphy: For a March '53-5, we have par thirty.
- Bell: Par thirty? Burgess said it would sell around a hundred and one. Hadley has got a hundred and one eleven.
- Hadley: Yes.
- Haas: Our price and Burgess' is just about the same.

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Bell: Yes.

Haas: I think it ought to be a little sweeter.

Bell: What do you suppose Parkinson does?

Haas: I think he lives in Connecticut. He goes up there and stays two or three days a week. He is probably like the old Mr. Ecker. He is gradually retiring.

What have you got a September 52-54 priced at?

Murphy: One hundred one, six. Hadley has got as a minimum one hundred sixteen - one and a half.

Hadley: Right.

Bell: I would cut it back a year from what they were suggesting, or at least six months, September 52-54 and reopen the note.

H.M.Jr: Well, I have never considered the 53-55.

Bell: You say you never have?

H.M.Jr: No. I just don't - I haven't been considering it. You boys suggested March 15, 52-54.

Bell: Is that it?

Murphy: Yes, March 15.

H.M.Jr: What is the matter with that, Dan?

Bell: That is all right.

Hadley: I will go along with that. I think it is being more conservative than you need to be.

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H.M.Jr: Can't be. You think it is conservative?

Hadley: I think it will show a slight sign of weakness, that that is as far out as you dare go, but on the other hand I don't see any reason for not doing it.

H.M.Jr: Well, how can you talk about a slight sign of weakness when you say you are recommending I only sell two hundred fifty million of bonds for cash?

Hadley: I was saying three hundred because you have got your five hundred refunding. That is an eight hundred million dollar issue. On a technical basis that the market didn't act right on the last billion dollar issue and it might be better to get the market set up on a smaller issue and then move ahead next time.

H.M.Jr: It doesn't ring a bell with me.

Hadley: Last time the issue sold off because there were a lot of right holders that wanted a long bond. They are getting a long bond, and this may go right up to the ceiling.

H.M.Jr: I think the reason it didn't sell last time, I don't think the people knew how to figure.

(Telephone conversation with Mr. Lewis Douglas follows:)

March 18, 1941  
10:05 a.m.

H.M.Jr: Hello.

Operator: Lewis Douglas.

Lewis Douglas: Hello, Henry.

H.M.Jr: How are you?

D: I'm fine, thank you. How are you?

H.M.Jr: I'm all right.

D: That's good.

H.M.Jr: Lew, have you been figuring at all on this Government bond market?

D: I haven't in the last few days, Henry.

H.M.Jr: Well, could you think about it and maybe call me back?

D: Yes, now in connection with what particular thing, Henry?

H.M.Jr: Well, tomorrow we have to announce a refunding of the 500 million of notes and we're asking the public to subscribe to 500 million of cash, and it's in that connection.

D: I see, and you'd like to have my judgment about what the rate should be and the maturity?

H.M.Jr: That's right.

D: About both items.

H.M.Jr: Yes.

D: All right, Henry. Were you thinking of a long-term issue?

H.M.Jr: Well, this is the way we're thinking. We're thinking on the refunding to offer

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them their choice of a  $2\frac{1}{2}\%$  bond and to re-open that last 2-year note. They can take their choice.

D:  $2\frac{1}{2}$  and .....

H.M.Jr: The  $\frac{3}{4}\%$ , 2-year note, and then for cash the  $2\frac{1}{2}\%$  bond.

D: And it is in connection really with the maturity that .....

H.M.Jr: Well, the whole thing. It would be the same bond, you see.

D: Yeah.

H.M.Jr: It'd be the same bond but, I mean, whether that seems attractive, whether you people would be at all interested in that bond.

D: Yes, I see, Henry. Have you any ideas - could I ask you about what you were thinking of in terms of the maturity for the  $2\frac{1}{2}$ ?

H.M.Jr: Well, it varies from '52-54 to '53-55 - somewhere in that range.

D: All right, Henry. Might I think about that and could I call you back this afternoon?

H.M.Jr: No, I'd like to have you call me back if you could, oh, between now - within an hour if possible.

D: All right, Henry. I'll do that.

H.M.Jr: Within an hour.

D: I'll do that.

H.M.Jr: And, as I say, also whether this bond at all comes within the range that you people would be in the market.

D: Yes. In other words whether there would be some support from us.

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H.M.Jr: Well, I mean, whether you are potential customers or not.

D: Quite.

H.M.Jr: See? I'm selling shoes today.

D: (Laughs). All right, Henry.

H.M.Jr: Thank you.

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H.M.Jr: I want to call up Walter - what is his name out in Chicago?

Bell: Cummings?

H.M.Jr: Yes. I get a couple of good customers, a couple of seventy-five million dollar customers, I am going to quit worrying.

Murphy: Why don't you call up Travelers? They have been your best customer throughout the whole pull.

H.M.Jr: Travelers?

Murphy: Yes. They were the first to go into the Government bond market.

H.M.Jr: Who is the president of it?

Murphy: Sacher.

H.M.Jr: How do you spell it?

Murphy: S-a-c-h-e-r.

H.M.Jr: Do you know him?

Bell: Baker we have had down here.

Murphy: They were the first to go into the Government bond market, and as far as I know, they have been the largest on it and they have gone into Governments exclusively to corporates and I think they represent a representative point of view.

H.M.Jr: Could you (Bell) call him? I don't know him.

Murphy: I have never met him. I have talked to Baker, the treasurer.

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Bell: Yes, we have had Baker down here.

H.M.Jr: Would you call him down here? As soon as we get this next call, we will break and come back at a quarter of eleven. How do you (Murphy) know this?

Haas: I sent him up one time at your suggestion.

H.M.Jr: You should have had him down here.

Bell: We had Baker on the list the last time, and we had too many.

H.M.Jr: Supposing you call him.

Bell: All right.

H.M.Jr: Who else did I have?

Bell: Would you like to have me call Stedman, also, of the Prudential?

H.M.Jr: Yes, would you? When are we going to see the Federal crowd? Two thirty?

Bell: It is a little late.

H.M.Jr: Can't help it.

Bell: The thing that worries me about it, your cash is only open one day and if you don't catch a train before six o'clock, they don't get out.

H.M.Jr: Train?

Bell: You see you have got to catch a train for all of these Federal Reserve cities and we do send night letters to every place where

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they think the train won't get there.

H.M.Jr:

Well, you will have to send them all  
night letters.

(Telephone conversation with Mr. George  
Harrison follows:)

March 18, 1941  
10:11 a.m.

H.M.Jr: Hello.

Operator: Harrison.

George Harrison: Hello.

H.M.Jr: George?

H: Good morning, Henry. How are you?

H.M.Jr: Oh, I'm alive. How are you?

H: (Laughs). Just about the same. I stayed up too late last night.

H.M.Jr: Oh, you were dedicating the Gallery, huh?

H: Yes, I saw your picture - at a distance - I didn't see you there.

H.M.Jr: Well, you know, distance lends glamour. George, are you still interested in Government bonds?

H: Very much.

H.M.Jr: Or just in art?

H: No, very much in your bonds.

H.M.Jr: Do you know anything about it?

H: Not very much.

H.M.Jr: Well, how long would it take you to find out so you could give me some advice?

H: Well, I can .....

H.M.Jr: I mean, how long would it take you to call up Marriner and ask him?

H: (Laughs). Thank you, I'll give you some independent advice.

H.M.Jr: Yeah. Seriously.

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H: No, I'll be glad to come down if you'll let me.

H.M.Jr: Where are you?

H: I'm right here at the corner.

H.M.Jr: Well, come on down. How long before you can get dressed?

H: I'm all dressed, all set to go.

H.M.Jr: Well, come right away.

H: I'll be right over.

H.M.Jr: Thank you.

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H.M.Jr: That is the way to talk to a --

Bell: He is the president of an insurance company.

Klotz: How long before you can call Marriner? That is terrible.

Bell: And how long will it take you to get dressed?

H.M.Jr: Now, Walter --

Bell: Cummings, Continental.

H.M.Jr: So we don't double up, you do this and we will meet back here again at a quarter of.

Bell: Quarter of eleven?

H.M.Jr: Yes.

March 18, 1941  
10:19 a.m.

H.M.Jr: Hello.

Operator: Mr. Cummings.

Walter  
Cummings: Hello.

H.M.Jr: Walter Cummings?

C: Yes, Henry.

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

C: Yeah, this is Walter.

H.M.Jr: Are you through a switchboard?

C: No, I'm talking direct now.

Operator: Just a moment, please.

H.M.Jr: What?

Operator: Just a moment.

H.M.Jr: I can't hear him.

C: Just a minute. Hello. Can you hear me now?

H.M.Jr: A little bit better - not too well.

C: All right.

Operator: Hello, operator.

H.M.Jr: Who is that breaking in?

Operator: Just a moment, please. I'm going to get a better extension for you, Secretary Morgenthau.

10:20 a.m.

H.M.Jr: Hello.

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Operator: Mr. Cummings.

C: Hello, Henry.

H.M.Jr: I hear you better now.

C: All right.

H.M.Jr: Walter, have you been following this Government bond market?

C: Yes, we have, very close.

H.M.Jr: Well, you know we're doing a refunding and we want 500 million cash. Got any ideas?

C: Yes, we had in mind, Henry, that you'd put out about a 14-or 15-year, 2½%.

H.M.Jr: 14 to 15 years, 2½.

C: Yeah. That kind of matches in with the rest of the stuff on today's market, you know, and that would fit in better than anything else in my opinion.

H.M.Jr: Well, now, do you think we can do the whole thing into that bond?

C: Yes. I think you could do it all.

H.M.Jr: You think so.

C: Yes.

H.M.Jr: Well, let me just see. I'm just looking at what they've got here.

C: This is the new money?

H.M.Jr: Well, I was asking both for the refunding and the new money.

C: Oh. Well, then if you're going to do both, Henry, I'd put out a short bond because they won't want it but give them a choice on it.

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H.M.Jr: Well, how about re-opening the last note?

C: Well, not very many took that, you know.

H.M.Jr: I know, but it would just be there.

C: That would be all right because you give them their chance then.

H.M.Jr: Just on the refunding.

C: Yeah, just on the refunding. Give them their pick on it.

H.M.Jr: Yeah, either the medium - the 2½% bond or the last note.

C: Yeah, that's right.

H.M.Jr: On the refunding.

C: Yeah, that's right. That would go.

H.M.Jr: What?

C: That would be all right.

H.M.Jr: But for the new money use the same bond.

C: Yes.

H.M.Jr: You don't have any doubts about it?

C: No, I'm pretty sure of that - as sure as I can be. That would hit right in with the market. I know so far as we're concerned, we'd come in and take all we could get.

H.M.Jr: You'd take your limit, huh?

C: Oh, yes. We'd take out limit then we'd come out and buy them.

H.M.Jr: What's that?

C: Then I'd do better than that; I'd come in and buy them on the market.

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H.M.Jr: I see. Some of the fellows in New York are a little bit - oh, a little pessimistic, I mean, they're talking about .....

C: They're not pessimistic on the 2½ are they?

H.M.Jr: Yeah, they question whether I can sell 500 million for cash of the 2½'s.

C: Well, Henry, you can sell 500 million at 2½% for cash without any question. They're just talking about something that they're not sure of.

H.M.Jr: Well, how are some of the banks out there that you do business with?

C: Well, everyone out here in the Middle West will take them, Henry.

H.M.Jr: They will.

C: This crowd out here in the Middle West will all come in and take these 2½'s.

H.M.Jr: They will.

C: I'm sure of that, Henry.

H.M.Jr: Well, that's what I want to find out. I was confident myself but some of the people who came up from New York yesterday kind of scared me.

C: If I could do it legally, I'd underwrite the 500 million for you but I can't do it.

H.M.Jr: Well, they had me down so that we were talking about 11-13 years instead of 14-15.

C: No, you don't have to do that.

H.M.Jr: What?

C: You don't have to do the 11, 12 or 13 unless it fits in better with your scheme.

H.M.Jr: No, it's just that these New York fellows are scared.

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C: No, I just think they are wrong, Henry.

H.M.Jr: You think they are wrong.

C: I think they are wrong, yeah.

H.M.Jr: Because you are out in the center of things I wanted to call you.

C: Well, we've studied this every day, Henry. We're following it awfully closely. I sent Knight down to talk to Danny about it sometime ago.

H.M.Jr: Yeah. Well, I'm glad to get the encouraging word because you know New York, when they're blue, how blue they are.

C: Yes, I know that but out here in the Middle West we'll all take it.

H.M.Jr: Fine.

C: It'll go well out here.

H.M.Jr: Thank you.

C: All right, Henry. How're <sup>you</sup>/feeling?

H.M.Jr: I'm all right. I'm going to get away Thursday or Friday for a week or 10-day holiday.

C: Going down to Sea Island?

H.M.Jr: No, we're going down to Arizona.

C: Oh, good. I was out there at Chandler for a couple of weeks.

H.M.Jr: Well, we go down south of Tucson.

C: That's out of Tucson, isn't it?

H.M.Jr: Yeah.

C: Well, I hope you have a nice time. Take care of yourself.

H.M.Jr: Thank you.

March 18, 1941  
10:27 a.m.

H.M.Jr: Hello.

Operator: Hopkins.

Harry Hopkins: Hello, Henry.

H.M.Jr: Good morning.

H: Henry, we didn't get to talk that thing through with the President last night.

H.M.Jr: Pardon me?

H: We didn't get that great conference with the President last night. Now, I've got to move on this thing and I've decided to ask General Burns to look after this thing while I'm away, and I'm anxious to talk to Phil Young today about this business I want him to do and I'm going to have a talk with him.

H.M.Jr: O. K.

H: I had a talk with Phillips.

H.M.Jr: Yes.

H: And they said if we'd put up the money - promise to pay them back - they'd do it. Now, they've got a whole list of stuff - God knows what - and I told them that I understood the arrangement was that up to \$600 million, but the less the better, that we'd pay out of the \$7 billion, and that I didn't want to go into the detail of what it was, that it was a financial - over-all financial transaction, and as far as I was concerned, they could order anything they pleased but that I didn't want to discuss the items with them.

H.M.Jr: Yeah.

- 2 -

H: I told them that they should be careful not to put items in that would be embarrassing later to us - politically - for the President.

H.M.Jr: I see.

H: If they were in doubt about it, they ought to remember that the President's going to make this list public and they also should avoid putting items in that they're going to have a hell of a fight with the Army and Navy about.

H.M.Jr: Yeah.

H: And they all seemed very agreeable with that, and I told Phillips that I didn't think our Government would put anything in writing, that he'd have to take it from you and from me, that that was the intent of the Government and we meant business.

H.M.Jr: Right.

H: All right, Henry.

H.M.Jr: Thank you.

March 18, 1941  
10:45 a.m.

RE FINANCING

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

H.M.Jr: Well, while you people were out of the room, Walter Cummings says 14 to 15 years. He says it will go over and he personally, if he could legally, would underwrite the whole issue.

Chicago. "I will take the whole issue if you will let me take it." And the only other person I have had is George Harrison, who says that they have eighty million and they will take twenty million of it if they can get it.

Haas: Did Cummings mean that 14 to 15--

H.M.Jr: He just said 14 to 15 years. He just said --

Bell: That puts it out there.

H.M.Jr: Pardon?

Bell: Even the maturity date puts it out beyond anything we have been thinking about. Fourteen would be '55.

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H.M.Jr: I had to look to get down to 14 to 15 years. I couldn't find it. But he says, "I will underwrite it, I will take the whole thing."

Hadley: I was --

H.M.Jr: Just a minute, please. What luck did you have?

Bell: The Travelers say that a two and a half per cent in the amount of five hundred million, '52-'55 area, will be all right from their standpoint, and that they have always been large subscribers to Treasury offerings and they would be a large subscriber to this one. The president couldn't say how much, he didn't have the figures before him, but he said they would like to have a substantial block of it.

He said he didn't have any of the notes and he wasn't interested in the note, the re-funding. He would prefer, of course, two and seven eighths, but he says they always take whatever the Treasury offers and are glad to get whatever they can get out of it.

Stedman was not quite so enthusiastic. He said, "What we want, of course, is a two and three quarters." He said, "We could sell the five hundred million two and a half and it will go," but he said, "there might be some subsequent shifts and churning of the market," but he said, they will take their share and they certainly will hold them for awhile, but they wouldn't want as many of the two and a halves as they would if they were two and three quarters. They have twenty-four per cent of their assets in Governments at the present time.

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H.M.Jr: Which company is that?

Bell: That is the Prudential.

H.M.Jr: That is over in Newark, isn't it?

Bell: Well, he is in New York.

Sacker said, "We have always been heavy subscribers and we will be to this one, and we hope we will get a substantial block."

They still have some doubt in New York about the bill.

H.M.Jr: Have you been talking to them?

Bell: I just picked up the phone as I started in here and just got in two words.

H.M.Jr: Kind of beat the gun on me, did you?

Bell: No, Rouse called me.

H.M.Jr: What you have got to make up your mind is, New York is a little bit bluer than any place else, and if Chicago is all right and the insurance companies are all right and the mutual savings companies are all right, we can just forget New York.

Hadley: I was just talking to some of the people in New York, and I think we saw all pessimists yesterday, because the trading desk at Discount is saying at least 54-6, Salomon Brothers is saying '56-'58, G. W. Rich is saying around '54 or '55, and we didn't get near that yesterday.

Murphy: I talked to Piser while we were out, and he wants a March '52-4 now --

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H.M.Jr:           Just hold it, please.

(Telephone conversation with Mr. Sproul  
and Mr. Rouse follows:)

March 18, 1941  
10:56 a.m.

H.M.Jr: Sproul and Rouse.

Robert  
Rouse: Hello. We're both on the wire, Mr. Secretary.

H.M.Jr: Good.

R: We've reviewed very carefully this thing, going back over the past few days and the factors that we believe one would have to consider here. As far as the condition of the market is concerned, we're satisfied it's a good market on which to do it. The news is all right, nothing very positive about it and I think from that standpoint it might be regarded that way this morning.

H.M.Jr: Yes.

R: The statements last night in respect to the discontinuance of the bill - the R.F.C. financing - and no Treasury financing after this until May I think was very helpful and is definitely regarded this morning.

H.M.Jr: Good.

R: The market both yesterday and today is in a waiting period for the announcement. Nothing much went on yesterday.

H.M.Jr: Right.

R: But in reviewing the thing - you remember Allan told you - we felt that a billion dollars could be done but it was the maximum.

H.M.Jr: Yeah.

R: We still feel that same way and we think it's advisable, if possible, to have a positive success of this financing rather than a negative success. In the light of that, we'd recommend that you do a 2½% bond and, because of the condition of the corporate market and for further testing

- 2 -

of the Treasury bond market, do an additional issue but not in the 2 and  $\frac{3}{4}$  range. We'd suggest you offer the  $2\frac{1}{2}\%$  bond of 1952-54 for exchange.

H.M.Jr: What month?

R: March.

H.M.Jr: 52-54. Yeah.

R: That you offer 300 million of the same bond for cash and 200 million of the 2-year note and let the holders of the rights exchange into either.

H.M.Jr: Well, I don't know whether they've got any vitamin pills down there but I wish you'd - you fellows would take a few and then take another look at it.

R: (Laughs). Well, as far as the maturity of the bonds are concerned, a year doesn't make very much difference. We wouldn't go any shorter than 52 and we wouldn't quarrel with 53-55.

H.M.Jr: No, as of this moment, March 15th, 52-54 suits me all right. If I went anywhere, I'd go shorter.

R: I see.

H.M.Jr: Now, as to the refunding, I'm all right on the bond and re-open the old note, see. The only place that we differ is on the 500 million. United States Treasury can borrow 500 million from a bond properly priced.

R: Well, I don't think there is any question as to your borrowing it. We're thinking in terms of the secondary market. There has been no clarification of the tax situation .....

H.M.Jr: And there won't be until - put this down in your book. If you know what the next tax bill is going to be by the first of July, you'll be lucky.

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- R: I can well believe that.
- H.M.Jr: So you've got that before you from now until the first of July.
- R: But there will be a good deal of talk about it and some indication won't there?
- H.M.Jr: Plenty, and you saw what Chairman Doughton did yesterday. He completely discredited all the talk and so did I. I said, "As far as the Treasury is concerned, we haven't talked to anybody." But there will be that constantly from now until the first of July. Now let me give you something why I feel that the thing can be done. George Harrison was down - just left a few minutes ago - and he'll take the 2 $\frac{1}{2}$ ; he'll take 20 million. Walter Cummings, Chicago, said he'd take the whole issue if he could get it. Hello?
- R: Yes.
- H.M.Jr: He said he'd underwrite the whole issue; he said it would go big. Randolph Burgess says they'll take the limit - 75 million. Now that's just a few. Dan talked to the Travelers up in Hartford, Connecticut, and they'll take what they can get. Now, Mutual Savings fellows were down here and - they've been the most - they wanted a 51-53, but they said they were good for 400 million.
- R: Well, there's no question of the backed-up buying power.
- H.M.Jr: See, they said they were good for 400 million. Well, I've given you - the Mutual's plus a couple of banks and the issue is sold.
- R: Well, there's no question of selling it. Will those fellows buy an additional supply over their allotment in the market at a premium?
- H.M.Jr: That I don't know.

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R: That's the problem that bothers me.

H.M.Jr: Now, I tell you what I'd like you to do for me. I wish you could get - whoever the highest man is you can reach at the Chase and talk to him and call me back. I'd like to know what they'd do on a 2 $\frac{1}{2}$ , 52-5 $\frac{1}{4}$  for cash. Hello.

R: Very well, I'll do that. I've talked with the senior man on bonds over there this morning. Their tentative ideas as to a 2 $\frac{1}{2}$  would be a 53-5 or 54-6. As to what they would do I didn't ask him. I will.

H.M.Jr: Well, ask them what they'll do. Just a minute, Bell is saying something. (Pause) And the Guaranty.

R: Right.

H.M.Jr: Those two - I'd like to know what they'd do on the line.

R: I'll do it and call you back.

H.M.Jr: Now one other thing. Just a second, please. (Pause). On the secondary market, there is a fellow by the name of Morgenthau, see, and he's got \$200 million to invest. Hello?

R: Yes, sir.

H.M.Jr: I've got \$200 million to invest for Postal Savings and F.D.I.C. and just keep that in mind. Hello?

R: Yes, sir.

H.M.Jr: See? I've got 200 million in those two institutions. So see if you can't work up a little enthusiasm, sincerely. I don't want you to advise me anything - you know. But ask the Guaranty and the Chase right on the line what would they do.

R: Well, Mr. Secretary, I can say right now, if you have 200 million to help support

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the secondary market, then you can do the whole thing with a 52-54, plus opening the note for exchange, and that's that.

- H.M.Jr: Well, I've got 200 million.
- R: Well, then I'd say you can do the whole thing with a 52-54.
- H.M.Jr: Well, I'm going to use the note on the refunding because I think that that is smart. Now let me ask you this. What is the Federal's position on these notes - how many do they own?
- R: 58 millions.
- H.M.Jr: 58 millions. I see.
- R: There are about 266 million that can be accounted for. The savings banks have very few, I think the insurance companies have 60 odd million the last figures I saw, the New York banks 100 million and out-of-town banks account for about another 75 million, so far as we know of the holdings.
- H.M.Jr: Well, if I could find out what the Guaranty will actually do, plus, let's say, the Bankers, plus the Chase - hello?
- R. and S.: Yeah.
- H.M.Jr: Those three and then would you call me back?
- R: Right.
- H.M.Jr: If you please.
- R: Right.
- H.M.Jr: Thank you.

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- H.M.Jr: You say these fellows - where did you get that information from?
- Hadley: At the Federal Reserve.
- H.M.Jr: What did you say?
- Hadley: From the trading desk of the Federal Reserve, and they have gotten it from people on the Street.
- H.M.Jr: What did they say?
- Hadley: Dominick says '55-'56. Salomon Brothers says '56 up to '58. Discounts trading men say '54-'56. Mr. Mills yesterday had a '53-5, but he was a little bit skeptical of that, and sometimes you get a different picture when you talk to people that are actually doing the trading.
- H.M.Jr: Well, they are all much more cheerful than anybody else.
- Hadley: Than any that we have talked to.
- H.M.Jr: George, you have been sitting there like a sphinx. I apologize. I thought that was you belching. (laughter)
- He (Dano) is right in line, and I heard these belches and I said, "Well, well, well."
- Bell: You notice, too, that it came when you mentioned Chase.
- H.M.Jr: Dano went "pffft."
- Come on, George, put yourself right on the line.

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- Haas: Well, I feel that a '52-'54, that is our story and we are stuck with it. We will stay there.
- H.M.Jr: For cash?
- Haas: For both?
- H.M.Jr: Yes, but five hundred million for cash?
- Haas: I think that is the thing you should do, but it is not ironclad, Mr. Secretary. The ironclad is this - unless you get assurances from them up there and with these insurance companies you have it practically sold, you are all right, but it is not ironclad. I think the chances are nine to ten it will be all right; but I don't think it is ironclad. There is one out in it, the thing I mentioned when I first came in, that might develop.
- H.M.Jr: What is that?
- Haas: That issue is a billion dollars, and the market may expect large allotments, and there may be a tendency at the onset to sell their rights thinking they can buy the bond at par on subscription. But that may not develop. It may go off fine.
- H.M.Jr: Well, if the offering is going to be big allotments and they put less allotments, they don't get what they want, there is your secondary market.
- Bell: The savings bank man figured on an 18 per cent allotment.
- H.M.Jr: Well, they would take less.
- Haas: Well, the point is, Mr. Secretary, if they expect a small allotment they will hesitate

March 18, 1941  
11:10 a.m.

H.M.Jr: Hello.

Operator: Lewis Douglas.

Lewis Douglas: Hello, Henry.

H.M.Jr: Lew, how many shoes do you think you can use?

D: Henry, let me deal with the two phases of the operation.

H.M.Jr: Go ahead.

D: The new money first.

H.M.Jr: Please.

D: A 2½, 52-54 would be attractive, and we would like to get 10 millions of them. Now, might I ask you this, Henry, that is, of course, subject to the approval of the Finance Committee that meets tomorrow afternoon.

H.M.Jr: Yes.

D: On what basis do you allocate subscriptions? Generally on the basis of the cash balance at the end of the previous year, isn't it?

H.M.Jr: No.

D: Now, we have tried to pull our cash balance down and we're going to continue to do it and if subscriptions are made on that basis, we are rather hurt by trying to keep our money at work. You see what I mean?

H.M.Jr: Well, a bank, it's one-half of their capital and surplus and we try to do the same thing with an insurance company. See?

D: I see.

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H.M.Jr: We try to do it on the same basis.

D: That's rather difficult to do with a mutual, isn't it.

H.M.Jr: Yes.

D: But you see what I mean, Henry .....

H.M.Jr: But, normally, what would happen is, let's say just supposing the thing - we got \$2 billion worth of subscriptions - there'd be a 25% allotment.

D: Yes, I see.

H.M.Jr: That's the way, depending upon how much you put in. If you subscribe for 10 million and the allotment was 25%, you'd get 2½ million.

D: Yes.

H.M.Jr: Does that answer your question?

D: Yes.

H.M.Jr: That's the way it is usually done.

D: I see. All right, Henry. That takes care of the new money. The 53-55 wouldn't be as attractive to us as the 52-54, but we would still take them.

H.M.Jr: But your people feel 52-54 - I mean, how would you describe it?

D: Well, that would be quite attractive to us.

H.M.Jr: Well, that's all I wanted to know.

D: All right. Now, on the refunding operation, we would turn over - we have about 16 millions \$ and we would turn them over into the 2½% bond.

H.M.Jr: I see.

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D: And the note, Henry, I think I wasn't clear. What was the rate on the note?

H.M.Jr: Well, it's the note we offered last time. It's a 2-year note with a  $3/4$ 's of  $1\%$  coupon.

D: I'm afraid that I missed that detail.

H.M.Jr: Well, that's just there as a catch-all. Last time we only sold 30 million of them. We just offer it again as a sort of a catch-all so that the people don't say, who have the notes, that we are forcing them into a bond. If they want to take a note why it's there.

D: I get it. Well, we would turn over our 16.8 millions of the  $1-3/8$ 's for the  $2\frac{1}{2}\%$  bond, Henry, and we'd like like the devil to get 10 millions of the new issue.

H.M.Jr: Well, that's very good news and it's a clean-cut answer and that's just what I wanted.

D: Well, there's one further thing I would like to tell you because I don't want to conceal anything from you. We might sell a small part of our 48-52's, taxables, and buy some more of the new issue,  $2\frac{1}{2}$  at 52-54, in the market.

H.M.Jr: Well, that's interesting. That's all right.

D: But I wanted to tell you, Henry.

H.M.Jr: Well, that's all right.

D: We wouldn't sell enough obviously to disturb the market.

H.M.Jr: No. That's all right. The market is open and we're going to keep it open.

D: O.K., Henry. Does that dispose of it?

H.M.Jr: Entirely. Thank you so much.

D: Thank you ever so much. Good-bye.

H.M.Jr: Good-bye.

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selling --

H.M.Jr: You said a big allotment.

Haas: Well, if they expect a big allotment and they are certain of it, then they can sell their rights and buy the bond in the subscription because they are going to get big allotments, but if they expect small allotments, they will hesitate selling the rights and the way to cut that down is to cut down the size of the issue and put some risk on the down side, on the allotments. If they thought it was going to be heavily over-subscribed and they would get a small allotment, that would remedy that situation, and the device that Hadley suggested is one way to do that; but I don't like it for the same reason you don't like it.

H.M.Jr: Now listen, George, as of this minute, ten minutes past eleven, yes or no --

Haas: I will go with the way you are thinking.

H.M.Jr: All right. That is all I want to know.

(Telephone conversation with Louis Douglas follows:)

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- H.M.Jr: That is a clean-cut answer.
- Bell: You see they want the higher earnings.
- Hadley: Some of your savings banks may do the same thing, those that got our last two per cent bond might sell them and pick up this new one.
- H.M.Jr: Now, what I think I will do now, gentlemen, is this. Why don't we let everything cook until two o'clock. I will meet with you at two and Danny, don't hesitate to spend a little money on night letters tonight.
- Bell: We always do.
- H.M.Jr: Who decides whether there should be a night letter or not?
- Bell: The Federal Reserve Banks. We always tell them in a telegram that if they feel that the mail will not get into the hands of the banks by the next morning, then they are directed to send night letters in every case; and there are always night letters in the West because the mail is poor and trains are not very - don't run so often.
- H.M.Jr: All right, I will see you all at two o'clock.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE March 15, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

At 11:10 this morning Assistant Secretary of State Acheson told me that Under Secretary of State Welles had received two cablegrams from Minister Lane at Belgrade. Mr. Welles had discussed the Yugoslav situation with President Roosevelt, but the latter is not willing to take a decision on freezing in present circumstances. Mr. Welles had also consulted Secretary Hull in the premises and the latter feels that the amount of gold involved is too insignificant in comparison with the attending political question. Furthermore, Mr. Lane had recommended that the gold transaction be put through, after he had discussed the question with various officials in the Yugoslav Government and Central Bank. Consequently, Mr. Welles was to receive the Yugoslav Minister at 11:15 this morning. It was planned to tell the latter that the transaction under question would be permitted but that any further withdrawal of gold from the Yugoslav National Bank account in New York would lead to immediate freezing of Yugoslav assets here. Mr. Acheson told me that he had been unable to get this information to Secretary Morgenthau, since the latter was engaged in a financing conference. It was agreed that I should drop by Mr. Acheson's office to see the telegrams under reference, and then report to Secretary Morgenthau at the noon hour.

I called at the State Department shortly before 12:00 and read the two cablegrams in Mr. Acheson's office as well as current cablegrams from the Balkans in Secretary Hull's office. The messages from Belgrade indicated that the Yugoslav officials explained the transfer of their assets from New York principally upon the ground that they feared their total reserves here might be tied up under a general freezing order of the Balkan States. They did not wish to risk all of their gold on this one market, but promised that the balance of some \$40,000,000 would be left here if the two payments to Argentina and Brazil are permitted. The Government gave various assurances to Minister Lane with respect to their determination to resist Nazi aggression. It was in view of such promises that Minister Lane recommended that the transaction be permitted.

I reported the foregoing to the Secretary at 1 o'clock and also mentioned the pending application involving the B.I.S. withdrawing \$1,800,000 from this market to purchase Swiss francs for Yugoslavia. In view of the State Department's attitude, the Secretary authorized me to clear both the gold transaction and the B.I.S. application. I told him that before so doing I would endeavor to have one more talk with Mr. Acheson to see what the result of Acting Secretary Welles' conference with the Yugoslav Minister had been.

I reached Mr. Acheson at 1:10 p.m. He spoke with Mr. Welles over another phone while I held the wire. Another cablegram had been received from Belgrade since I had called at the State Department, reporting that the Yugoslav Minister of Court thought that the United States was using financial pressure to force Yugoslavia into an alliance with the British, and there were other indications that resentment was growing at our

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holding up the gold transaction. The Prime Minister and Foreign Minister of Yugoslavia were leaving shortly for Berlin where it was expected that some one or more agreements with Germany would be concluded. The exact character thereof cannot be known perhaps before the end of the week. Mr. Acheson told me that Mr. Welles thought that neither his conversation with the Yugoslav Minister nor the latest cablegram changed in any way the position. That is, the Treasury should go ahead with an approval of the pending financial transactions in which Yugoslavia is involved.

Immediately after this conversation I telephoned Mr. Knoke at the Federal Reserve Bank of New York, whom I had previously asked at 12:40 to stand by. I summarized to Mr. Knoke the developments to date and told him that the Stabilization Fund would now buy the gold offered for sale by the Yugoslav National Bank, and that this should be delivered to the Assay Office today. The Federal was then free to carry out the instructions received from Belgrade as to the disposal of the dollar proceeds of this transaction. I told Mr. Knoke that I had also spoken with the Secretary in regard to the B.I.S. transaction, and that I would communicate on this with Mr. Pehle.

At 1:20 I telephoned Mr. Pehle and also summarized to him the morning's conversations and cablegrams, mentioning particularly the Secretary's approval of the clearing up today of pending Yugoslav financial transactions. It was understood that Mr. Pehle would clear the B. I. S. application through Under Secretary Bell, since this matter had been discussed with the latter at our group meeting yesterday evening.

At 3 o'clock this afternoon I reported developments to the Secretary and also let him know that an official of the British Embassy had told me in strict confidence that his Ambassador had received instructions to take up with the Department of State the reported request of the National Bank of Yugoslavia for the transfer of funds from this market to Brazil and Argentina, and to use this as pressure on Yugoslavia vis-a-vis Germany. I let the Secretary know that I had told the British official that the State and Treasury Departments were already fully aware of the situation and doing what they properly could.



## TREASURY DEPARTMENT

## INTER-OFFICE COMMUNICATION

DATE March 18, 1941

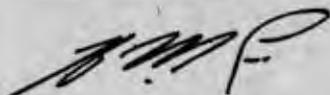
TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

After making an appointment by telephone this morning, I called on Admiral Noyes at the Navy at 11:45 a.m. I handed him a typed draft of a message which he should send today to the Naval Attache at London for delivery to the Chancellor of the Exchequer setting forth our offer to purchase \$120,000,000 of gold. I worded the contract identically with that for the last shipment. Admiral Noyes showed me the text of a message which he was despatching to his ship at Pernambuco instructing the vessel for her voyage to South Africa. He asked me to raise the question with the British as to the possible obtaining of 8,000 barrels of bunker oil by the American Naval vessel at the port where the gold cargo is taken on, since the ship cannot carry enough oil from Brazil to last through the home trip from South Africa.

Upon returning to the Department, I telephoned Mr. Pinsent to the effect that the message was being despatched to London today. Pinsent has now wired the Treasury that this is expected. Pinsent also is taking the necessary steps with his people to assure the availability of the desired bunker oil above mentioned. He let me know that word had now been received that the port of embarkation of the gold will be the same as last time. I have, in turn, communicated this to Admiral Noyes. The latter decided, however, to instruct the ship to proceed to the larger nearby port, and will indicate the smaller port only as the ship nears its destination. At his request, I asked Pinsent this evening to make sure that the cargo would be ready by March 29. We are all to keep in touch and confirm later the prospective date of arrival.



Naval Attache please present personally following message:

"From the President and the Secretary of the Treasury to the Chancellor of the Exchequer:

"Pursuant to and in confirmation of the conversations had in Washington with Sir Frederick Phillips:

"(1) An American Naval vessel will proceed to agreed port where the Commander will embark approximately 120 long tons gold representing approximately 120,000,000 dollars. Detailed inventories with description packages and estimated value will be given this official who will give a receipt.

"(2) Title to such gold shall pass to Government of United States upon packages being taken in charge by Commander of American Naval vessel. All risk of loss remains with British Government until delivery at United States Assay Office in New York. Insurance is to be covered by British Government.

"(3) Upon receipt of cabled advice from British Government as to exact weight and fineness of gold in cargo and after American Naval Commander has reported to this Government that gold is safe on board, Secretary of Treasury will direct Federal Reserve Bank New York to credit as an advance to British Government account 95 percent of total value calculated at 35 dollars per fine ounce. Final adjustment will be made after gold weighed and tested New York Assay Office with usual charge of one-quarter percent and deductions for handling, Mint and trucking charges. British Government agrees to reimburse and indemnify Government of United States and Secretary of Treasury for any advance payments and expenses in the event of any loss of gold or underweight."

26/11/1917  
 Your Honor  
 of 11111111  
 case  
 from the President and the  
 Secretary of the Treasury and  
 the Chancellor of the Exchequer

Pursuant to and in con-  
 firmation of the conversation  
 had in Washington with Sir  
 Frederick Phillips:

(1) The ~~Government~~ of Great  
 Britain ~~will~~ proceed to ~~send~~ <sup>send</sup> ~~the~~ <sup>the</sup> ~~gold~~ <sup>gold</sup> ~~to~~ <sup>to</sup> ~~the~~ <sup>the</sup> ~~U.S.~~ <sup>U.S.</sup> ~~Government~~ <sup>Government</sup> ~~for~~ <sup>for</sup> ~~the~~ <sup>the</sup> ~~purpose~~ <sup>purpose</sup> ~~of~~ <sup>of</sup> ~~the~~ <sup>the</sup> ~~loan~~ <sup>loan</sup> ~~of~~ <sup>of</sup> ~~100~~ <sup>100</sup> ~~million~~ <sup>million</sup> ~~dollars~~ <sup>dollars</sup>.

Detailed inventories with description  
 packages and estimated value  
 will be given this official who  
 will give a receipt.

Title to such gold will pass to the  
 Government of United States  
 will take title to the gold



Washington and  
the British Govt agreed to  
interchange the United States  
with the Secretary of the Treasury  
for any advances <sup>and expenses</sup> payments,  
in the event of any loss of gold  
or withdrawal.

March 18, 1941  
11:48 a.m.

H.M.Jr: Hello.

Operator: Mr. Purvis.

H.M.Jr: Hello, Arthur.

Arthur  
Purvis: Good morning. How are you?

H.M.Jr: O.K. Arthur, just so there can be no possible misunderstanding between you or Sir Frederick Phillips or myself and the United States Treasury, I just want to let you know that as of the 15th of March, the Treasury or the people who work for me in no way feel any responsibility for what happens to the placing of your orders after the 15th.

P: I see.

H.M.Jr: Hello?

P: Yes. Feel no responsibility for placing orders after the 15th.

H.M.Jr: Now, any arrangement that you make with Mr. Hopkins - you look to him and not to me.

P: No, I understand that. May I ask you one question on it? It does not mean, I take it - in fact, I'm sure it doesn't from what you've told me before - that you are in any way unsympathetic to the idea of new contracts coming under the Lease-Lend Bill later if - I mean, when the Appropriation Bill comes through that it would be retro-active.

H.M.Jr: No, no.

P: You simply mean that the responsibility lies .....

H.M.Jr: I'm entirely sympathetic with the idea; I'm the instigator of it.

- 2 -

- P: That's what I felt. I just wanted to make sure I hadn't lost your help on that if later it were necessary.
- H.M.Jr: No, I'm the instigator and I'm entirely in sympathy, but, as I tried to explain to you and to Lord Halifax, I've done business for seven years by word of mouth.....
- P: That's correct.
- H.M.Jr: ..... and again with the British Treasury we're on the plane where I have complete faith in them, but you are going into a new transaction again by word of mouth, and I want you to feel that in no way can you look to me.
- P: No, no, except for your sort of sympathetic help without responsibility. Is that right?
- H.M.Jr: Sympathetic help .....
- P: Without responsibility.
- H.M.Jr: Perfect.
- P: (Laughs). Henry, I've got it well in mind.
- H.M.Jr: Perfect, and I'm going to tell exactly the same thing to Phillips. I mean, I'm not in any way - I just want to be for your sake - before Hopkins gets on that train tomorrow that you have a clean-cut understanding with him.
- P: Yes. You couldn't tell me about what time he's going could you?
- H.M.Jr: No. Because I've carried this 100% myself and I can't carry a divided responsibility.
- P: No, and, Henry, I know it myself. It can not be done successfully.
- H.M.Jr: And so I just don't want to feel that I'm sharing it with anybody.

- 3 -

- P: No, no. He's a little bit inclined, you see, in talking with me to bring you in all the time and I am assuming really that what you're saying is that when Cox helps him, Cox is helping him as his man.
- H.M.Jr: When he's helping him, he is helping him as his man and not talking for the Treasury.
- P: No. I'm rather glad to have it stark and clear although I think I understood it well enough.
- H.M.Jr: Well, it is too much involved and I do everything on good faith and I don't want that in any way disrupted.
- P: No. Well, now that's splendid. Thank you, Henry. May I ask you one thing while I'm on the telephone?
- H.M.Jr: Please.
- P: You have been very good in being willing to facilitate our getting some Coast Guard cutters. A little question has arisen that Philip may have mentioned to you or not. - I sent Commander Gilbraith over to him - but I wanted to get your advice if I could. There would be a great value if some of those could be 20 knoters, and I understand there are some 20 knoters. On the other hand, I have rather understood that the situation has developed on the basis of 16 knoters. Now, I'd really like to ask you this. If this 20 knot thing turned out, after further telephoning to London, as being a very vital matter, would it be wise or would it not, in view of the help on the convoys, to bring that up, or would it be better to leave it stand at the 16 knoters - just as a pure horseback opinion.
- H.M.Jr: Bring it up. After all what we want to give you is something which will be useful, not decorative.

- 4 -

P: (Laughs). Yes. You're grand. Thank  
you, Henry.

H.M.Jr: All right.

P: Thank you, Henry.

H.M.Jr: Good-bye.

March 18, 1941  
11:56 a.m.

H.M.Jr: Hello.

Operator: Sir Frederick Phillips.

Sir Frederick Phillips: Yes.

H.M.Jr: Morgenthau speaking.

P: Oh, yes.

H.M.Jr: Hello, Phillips.

P: Good morning, sir.

H.M.Jr: Phillips, so that there can be no possible misunderstanding between your Treasury and mine, because there hasn't been for seven years, I just wanted to tell you officially that any orders which are placed by your Government after the 15th - hello?

P: After the 15th.

H.M.Jr: Yes. That I am in no way responsible for them. Hello?

P: You're in no way responsible.

H.M.Jr: No.

P: Well, that means that .....

H.M.Jr: That you have to look to Hopkins.

P: Yes, that's right. I think that's quite clearly understood.

H.M.Jr: But I mean any steel, or any understanding you have with him on the side, will be between you and Hopkins. You see?

P: Yes. Everyone clearly understands that.

H.M.Jr: Well, I just wanted to make terribly sure because we've gotten along so fine and while I've carried the whole responsibility there has been no trouble.

P: What particular danger were you fearing, sir?

H.M.Jr: Well, nothing except that I thought that you might be looking to both of us on this - for the next two weeks. You know what I mean.

P: Oh, I see. Well, I think that's quite clear here. We actually saw the gentleman yesterday.

H.M.Jr: Well, just so that you understand that the agreement is between you and Hopkins. That's all I want.

P: Yes, that's right. That was our understanding.

H.M.Jr: Now, I've said the same thing to Purvis and he summed it up this way. He asked me, am I sympathetic. Yes, but I don't want to assume any responsibility. Does that make it clear?

P: That makes it quite clear, sir.

H.M.Jr: I'm entirely sympathetic but in no way responsible.

P: Right.

H.M.Jr: And I got your message on the gold and I'm very much pleased and I hope to see you and Clarke sometime tomorrow.

P: Yes, right. Thank you, sir.

H.M.Jr: Thank you.

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE March 18, 1941

TO Secretary Morgenthau  
 FROM W. H. Hadley

Opening

10 am.

TREASURY BONDS

<u>Coupon</u>	<u>Term</u>	<u>Yield</u>	<u>Price</u>	<u>Premium</u>
2 1/2%	11 - 13 yrs. (3/15/52-54)	2.27	102.7	2 pts. 7/32
		2.32	101.23	1 pt. 23/32
	11 1/4 - 13 1/4 yrs. (6/15/52-54)	2.29	102.3	2 pts. 3/32
		2.34	101.19	1 pt. 19/32
—	11 1/2 - 13 1/2 yrs. (9/15/52-54)	2.30	102	2 pts.
		2.35	101.16	1 pt. 16/32
	12 - 14 yrs. (3/15/53-55)	2.32	101.28	1 pt. 23/32
		2.37	101.12	1 pt. 12/32
	12 1/2 - 14 1/2 yrs. (9/15/53-55)	2.35	101.20	1 pt. 20/32
		2.40	101.2	1 pt. 2/32
	13 - 15 yrs. (3/15/54-56)	2.37	101.15	1 pt. 15/32
		2.42	100.28	28/32
2 3/4%	20 - 22 yrs. (3/15/61-63)	2.60	102.10	2 pts. 10/32
		2.65	101.17	1 pt. 17/32

## TREASURY DEPARTMENT

## INTER-OFFICE COMMUNICATION

DATE March 18, 1941

TO Secretary Morgenthau

2:00 P. M.

FROM W. H. Hadley

TREASURY BONDS

<u>Coupon</u>	<u>Term</u>	<u>Yield</u>	<u>Price</u>	<u>Premium</u>
2 1/2%	10 - 12 yrs. (3/15/51-53)	2.25	102.8	2 pts. 8/32
		2.30	101.25	1 pt. 25/32
	11 - 13 yrs. (3/15/52-54)	2.30	101.30	1 pt. 30/32
		2.35	101.14	1 pt. 14/32
	11 1/4 - 13 1/4 yrs. (6/15/52-54)	2.32	101.25	1 pt. 25/32
		2.37	101.9	1 pt. 9/32
	11 1/2 - 13 1/2 yrs. (9/15/52-54)	2.33	101.25	1 pt. 25/32
		2.38	101.7	1 pt. 7/32
	12 - 14 yrs. (3/15/53-55)	2.35	101.18	1 pt. 18/32
		2.40	101.1	1 pt. 1/32
	12 1/2 - 14 1/2 yrs. (9/15/53-55)	2.38	101.9	1 pt. 9/32
		2.43	100.25	25/32nds
	13 yrs. (3/15/54)	2.32	102.	2 points
		2.37	101.14	1 pt. 14/32
2 3/4%	20 - 22 yrs. (3/15/51-53)	2.60	102.10	2 pts. 10/32
		2.65	101.17	1 pt. 17/32

March 18, 1941  
2:00 a.m.

RE FINANCING

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

H.M.Jr: There was a call in from Sproul, but I didn't talk to him.

Bell: I got Rouse. He said he tried to get you and he called me.

H.M.Jr: What was the news?

Bell: Bankers Trust Company has five and a half million of the rights which they will exchange for the bonds. Their limit of subscription would be 37 and a half million and they will put in the limit. They wouldn't say that they would hold them personally, but they would not unload them on the market at any time when it would not take them.

Chase has no rights. Its limit is a hundred million and it will subscribe for the hundred million, or at least Green said he doesn't think there is any doubt but what they will.

- 2 -

Aldrich is in Washington. He said before he went to Washington he talked to him and they talked about 52-54 security.

H.M.Jr: Did they?

Bell: Yes. And he is quite certain--

H.M.Jr: He talked about 52-54.

Bell: That is right, and he said he is quite certain that they will go the limit as usual. Guaranty has a few rights. What-is-his-name didn't know the amount, but he said he thought it was less than 10 million, and they will convert. He said they are not the type of bond that they would ordinarily like, but they would subscribe for a moderate amount and take them as an underwriting matter. They would sell out to their customers and so forth. They would certainly take as much as 25 million, although their limit is a hundred and 30 million on their capital surplus.

Knight of Chicago called in to Rouse while he was doing this telephoning, and they are talking about a 54-56, and of course they will do what Cummings told you, and they will buy the bonds if they go down to a hundred and one and buy them in substantial amounts in the market.

Burgess says the same thing, that when the bonds get to 101 they will buy them and they will buy them down as they go, and he knew what he told you about subscriptions. He says the market is - the people they talked with this morning are doing a great deal of talking about a 53-55 or a 54-56, and they think it is important that you go to 53

- 3 -

because that gives you a five-year spread between the 48 and 53, and they think that is important. They think that will give some resistance to the selling of the two's and going into the three's - or into the two and a half's. So that they said they had not had their vitamin pills--

H.M.Jr: Who said that?

Bell: Rouse. And they definitely recommend that you issue the 53-55 instead of the 52-54. that is as of 12:30.

H.M.Jr: I would say he has had vitamin pills.

Bell: Yes, has had them.

H.M.Jr: Is that what he said?

Bell: Yes.

H.M.Jr: How does Mr. Bell feel after lunch?

Bell: Well, I think that is the area, but I wouldn't quarrel about a year, 52-54 suiting me all right, although I would like to get away as far as I could from that 48 call date of the two's. It gives us a little more for our money, and it sets a pattern.

H.M.Jr: George?

Haas: I feel like I would like to get out farther, but I would stay with the 52-54.

H.M.Jr: Henry?

Murphy: I haven't had my vitamin pills, so I am still with the March 52-54. I would like, if I

- 4 -

- could, Mr. Secretary, to give you the results of Mr. Piser who was most optimistic last time, maybe suffering perhaps from a little reaction of the Russian pessimism.
- H.M.Jr: He is a little under vitaminized, is he?
- Murphy: He is a little under vitaminized this time, but he has a good record over a period of time, and I think he ought to be heard. On Saturday, when we checked with him last at the time that Bill was for a 54-56 and we were for a 52-54, he was half way between us, for a 53-55. He is not a bit happy about it today, and now he is definitely for a 52-4 which he prices at par and three-quarters to 101 and a half. He says he has a lot of confidence in the bottom part of his range. A March 53-5, however, he prices at par and a quarter to 101 and a quarter, and he says he doesn't think you should go into it unless you have an agreement with Federal to support the market.
- H.M.Jr: For which?
- Murphy: Fifty three-five, but 52-4 he feels happy about.
- H.M.Jr: God, I will begin to worry now, if that is what Piser wants.
- Hadley: I think he got a nice scare last time, and he is going to be on the low side.
- H.M.Jr: If Piser is for that, then I begin to question the veracity and everything else.
- Haas: He did - he was there originally, Mr. Secretary. He came down.

- 5 -

H.M.Jr: Now, after telling me where Piser is, have you talked with Murphy?

Murphy: Murphy still thinks the March 52-4 is pretty good.

H.M.Jr: Is that what he tells you?

Murphy: That is what he tells me.

H.M.Jr: Is Murphy pretty happy about it?

Murphy: Yes, Murphy is pretty happy about it.

H.M.Jr: Has Murphy got anything else to say?

Murphy: No.

H.M.Jr: What about this fellow?

Hadley: It doesn't make any difference, 52-4 or 53-5. I think they are going to price them the same and if you think you are going to get more premium on the 52-4, I would take it, but I think 53-5 is better on a maturity basis.

H.M.Jr: Which one are you for?

Hadley: For the 53-5.

H.M.Jr: Have you got anything more from desk to desk down there?

Hadley: I got a feeling that if we had a 10-12 or a 11-13 or a 12-14 that they would price them all about the same, that they wouldn't go much above a point and a half on any of them, even though on the curve they might look like two point issues. They seemed to be holding down the premiums, as we see on this 48-50, the last bond, whereas the ones around it

- 6 -

have gone up about three quarters of a point. This last bond has just stood by itself.

H.M.Jr: How are the rights?

Hadley: The rights are up three thirty-seconds at 101, 8.

H.M.Jr: Up?

Hadley: Yes.

H.M.Jr: Is that good. I would rather see them go up than go down. That means all the talking we have done, they find out what we are doing and they think the rights are more valuable. What, Dan?

Bell: They are looking at it.

H.M.Jr: These talks certainly--

Bell: Oh, say, they go back having inside information, some of them. I think that is what hurt the boys last time. They thought they had the thing hit on the nail head and they missed it.

H.M.Jr: They thought that what-is-his-name had more than the others, Devine?

Bell: I don't know that they thought that, but I think they were surprised when we came out with a two percent, 48-50, and when they found out that was what Devine recommended, they thought we had taken Devine's advice instead of some of the others.

H.M.Jr: You didn't talk to anybody else, did you?

Bell: No, I didn't. Did you want to see Edwards before he leaves town tonight?

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H.M.Jr: Yes.

Bell: Did you make arrangements?

H.M.Jr: No.

Bell: Well, I just spent an hour with him before lunch and he is leaving tonight to go back home and go to the convention on Friday.

H.M.Jr: A quarter of four, how is that?

Bell: It is all right.

H.M.Jr: Is he going down to Louisville?

Bell: Yes, he is going down to Louisville. I think you ought to think whether you shouldn't announce before Friday the set-up. I mean, like Edwards and Johnson.

H.M.Jr: I think so.

Bell: Because we want to give a letter to Johnson that he is the Treasury representative, but that might be a little late, if it is announced beforehand, it might help.

H.M.Jr: Have we ever announced Johnson?

Bell: I would announced the staff set-up, I think, at the same time.

H.M.Jr: We could do that any time.

Bell: We gave Houston a little statement that he might make Friday morning and that will be followed by Edwards making a statement.

(Telephone conversation with Mr. Sproul and Mr. Rouse follows:)

March 18, 1941  
2:13 p.m.

H.M.Jr: Hello.

Robert Rouse: Hello, Mr. Secretary.

H.M.Jr: O.K. Did you have a good lunch?

R: We had a good lunch and we've had our vitamins and as we see it now and with that fellow, Morgenthau, with 200 million, we'd say a 53-5, 2½ would do the job.

H.M.Jr: Un-huh. Does the Federal Reserve take any participation or not in that.

R: Well, we would take the participation involved in our exchange .....

H.M.Jr: Golly, I don't think you got enough vitamins.

R: (Laughs). Well, with all the other people who want to get in on it, it doesn't look as though we would be needed any more than that.

H.M.Jr: Well, I'm still on the March 15th, 52-54. I haven't changed from that.

R: Well, we have no argument on that except that it would be a little better to be five years away from the 2's than four years away and that the one year on the 2½ won't make enough difference to give you added insurance - much added insurance. It'd be a little insurance but not much.

H.M.Jr: I don't get this five year stuff. What is that Wall Street finish?

R: Well, it's not just a finish, it's that the 2½ is only four years away from the 2. It might lead to a little weakness in the 2's - a selling of the 2's in order to buy the 2½'s.

H.M.Jr: Well, you know, I have only four toes - I don't have five toes. I count everything on my toes.

- 2 -

- R: You don't work by the usual digit method them.
- H.M.Jr: No, so four years looks better to me than five.
- R: Well, that might react a little against the 2's.
- H.M.Jr: Well, that's true, but I'm frankly not thinking about the 2's, and I think on the pricing 52-54 is closer.
- R: Well, I was interested in the people that called in and the people with whom we talked.
- H.M.Jr: How many toes did they have?
- R: They all had five toes, and they're thinking in terms - oh, for example, the Continental called in here and talked with me and they told me they were thinking in terms of 54-6. Ben told me substantially I gather what the chairman had told you, and Randy called in, Randy Burgess, and he was talking 53-5. Two or three of the dealers called in talking 53-5 or 54-6. In fact, the savings bank group and Chris Devine are the only two who've talked 52-4 or 51-3.
- H.M.Jr: The savings banks are 51-3.
- R: Yeah.
- H.M.Jr: How is this fellow Ihlfeld?
- R: Well, I hoped that Johnson would go down. He's the man that I've had most dealings with and he I think knows more about it than Mr. Ihlfeld, but they've been very good in the past and they've always done what they said they would do. I think you can take it that they speak pretty well for the general run of savings banks whether they're wise or not. That's another question. I think they have some wisdom, but they do seem to speak for the savings banks and to know what their reactions will be.

- 3 -

H.M.Jr: Of course, they were a life-saver last time.

R: Yeah.

H.M.Jr: Chris Devine is where?

R: Chris Devine is in favor of two issues, and he was talking 52-54.

H.M.Jr: And the other issue is what?

R: His other issue was 60-63.

H.M.Jr: Oh, well that's crazy.

R: I think if any of those people who are on the short side knew that you were able and willing if necessary to support the secondary market, that they'd certainly move up a year.

H.M.Jr: Well, that's something I hope I won't have to do but we will do it and do it cheerfully and fast. We won't have to call any Board meeting.

R: Well, it's partly with that possibility, although I don't think it would be likely, but the possibility and the certainty that you'd be there that we would have no hesitation about the 53-5.

H.M.Jr: Have you told Eccles about my underwriting?

R: No, we have not. We didn't think that was our business to tell him, that you could if you wanted to.

H.M.Jr: O.K. I just wondered. I'm glad you didn't because I'm going to have a little fun with him on it.

R: Well, we didn't tell him that.

H.M.Jr: O.K.

- 4 -

R: There's one more thing. The Continental got specific about their buying in the market and for the issue and their idea of price to start anyway is 101, and Burgess also said if the market weakened that he would be a buyer in the market.

H.M.Jr: Good.

R: I judged on a scale down from 101.

H.M.Jr: 101.

R: Yeah.

H.M.Jr: Well, the Board will be over here in about ten minutes and as soon as they leave we'll give you a ring.

R: Fine.

H.M.Jr: We'll give you a ring as soon as they leave.

R:& S.: We'll be here.

H.M.Jr: Thank you. I'm glad you took a few vitamins.

R: Well, we're feeling much stronger since lunch.

S: We had a rough ride coming home on that train last night.

H.M.Jr: Well, I'm sorry. (Laughs).

R. & S.: (Laughs). All right.

H.M.Jr: Good-bye.

R. & S.: Good-bye.

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Bell:

He didn't expect that last remark. He expected something else.

March 18, 1941

I cleared with the President at 2:20 pm  
today on financing.

March 18, 1941  
2:30 p.m.

RE FINANCING

Present: Mr. Bell  
Mr. Murphy  
Mr. Haas  
Mr. Hadley  
Mr. Eccles  
Mr. Ransom  
Mr. Piser  
Mr. Goldenweiser  
Mr. McKee  
Mr. Jones

H.M.Jr: Well, I have been talking to a lot of people that have got the blues, that is, in New York. Chicago feels pretty good. How does the Federal Reserve feel?

Eccles: We feel all right. You can't tell anything about the country by the way New York feels. We decided that a long time ago. Do you want me to --

H.M.Jr: Sure, sound off.

Eccles: Well, we discussed this just a few minutes since we were over here the last time, and we understood it had been decided to get five hundred million of new money, refund the June issue, and that it had pretty well determined upon a two and a half per cent coupon.

- 2 -

(Mr. Bell entered the conference.)

Eccles:

So that it seemed to get down to a question of pricing. I think we would favor a 53-55. There has been some talk of a 52-54. Fifty-three--fifty-five might, on the face of it, look a little thin. We are of the opinion that the two and a half per cent bond with the higher coupon, that there will be less interest in a one year -- I mean, there will be less attention paid to whether it is a 52-54 or 53-55 than there would on a lower yield, that the investor in this higher yield security is looking at the yield, I think, a little bit more than the maturity.

(Mr. Jones entered the conference.)

Jones:

My name is Cummings.

H.M.Jr:

I have to laugh because Jesse said Cummings was his name.

Eccles:

I heard him the first time.

H.M.Jr:

Go ahead.

Jones:

Walter Cummings.

Eccles:

I didn't think he had any guilty conscience. I was just saying that a maturity of one year more or less with a coupon of two and a half is going to make, I think, very little difference. The reason we favor the 53-55, it is a five-year longer maturity than the two's that were last issued.

H.M.Jr:

You are another one of these fellows that counts everything on his toes. That is what I have been telling New York. I told them I have only

- 3 -

got four toes.

Eccles: Well, I hadn't thought about that.

H.M.Jr: What do you do if you have four toes?

Eccles: You don't want to encourage a switching from the two's that were issued last time to the two's and a half. I understand there is some little selling out of the two's now in anticipation of taking the two's and a half. The shorter the maturity of the two's and a half, I think the more encouragement it would give to a switching operation. I think we would favor leaving it open for the cash offering - leaving it open for two days on small subscriptions, closing it one day on the bigger ones, giving it possibly two days on the smaller ones. I don't know what amount. Somewhere around fifty thousand. That usually amounts to five or ten thousand dollars, what they finally get, so if you allot on a basis of the allotment - on the refunding, handle it just like it was handled before, leave it open for an extra day for the small holders --

H.M.Jr: Well, to go backward on the thing, we thought that two days for the note holders was enough, because we don't think there are any small holders of these notes. The fellows that have their notes, most of them know their way around town.

Eccles: Well, I think that is generally true, but there may have been some small owners who, of course, bought the rights just for the purpose of getting in on this. I don't think it is important. The only - should there be small holders, they would merely have a little more time to

- 4 -

come in.

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

Eccles: I do think, though, the fact that it is notes, what you say is true, they are pretty well held by the big outfits.

H.M.Jr: I doubt if anybody has under a hundred thousand dollars of notes.

Eccles: So - are they that closely held?

H.M.Jr: We think so, yes.

Bell: Half of them are.

Eccles: Then you wouldn't need to leave them open an extra day.

H.M.Jr: We were planning two days.

Eccles: Last time you gave two days and an extra day for the small holders.

H.M.Jr: That was a bond. Dan is taking extra trouble this time to tell them if there is any question at all to send night letters, but the other one was a bond.

Eccles: Well, there was more involved, too. There was both a bond and a note, and you had a billion two involved.

H.M.Jr: We don't think there are any small holders. If there are, we greatly question it.

Eccles: Well, it would be following the same pattern that you did before. I don't think it is important whether you do or you don't.

- 5 -

- H.M. Jr: Do you people feel strongly about that?
- McKee: I feel very strongly, Mr. Secretary, that sooner or later you ought to do something for the Twelfth District and places like that where your issue is closed before they really get a notice of it, an official notice --
- H.M. Jr: Is the Twelfth San Francisco?
- McKee: Yes. Their territory is so far reaching. The idea has been presented to us by Mr. Day out there, that if in certain sections of this country they just had a little more notice --
- H.M. Jr: Well, I --
- McKee: You might be able to eliminate those people who have stimulated to some extent your secondary market for your securities --
- H.M. Jr: Well, we pay for the telegrams, don't we?
- Bell: Yes, but the trouble is that so many of those small banks delay putting in subscriptions, and we had a number of kicks on the last issue, even extending it over a day they didn't get in because they were waiting for the application forms to arrive. Now, most banks have been in this business with us long enough to know that we will take a telegraphic application, to be confirmed by a formal application later. Yet they wouldn't do that. We have got to educate them all over again, I suppose.
- McKee: I don't mean to prolong this thing, but I think it would be interesting to you. These bankers have got themselves into a habit that they don't subscribe, they buy after the issue

- 6 -

is out, and the so-called underwriters, the dealers and so on, furnish them with their bonds just through the market. Otherwise, if they had an opportunity - I don't know that this is the issue to do it, but sooner or later I think you ought to consider it.

Eccles: Well, is it your - did you have any objection to leaving the issue open an extra day on new subscriptions for small subscribers?

H.M.Jr: Well, it is the first time it has been brought up. I don't have any --

Bell: We intend to put into the bond the provision that they can subscribe for five thousand dollars and take it registered for 90 days the same as we did on the other bond issue.

H.M.Jr: How long do you give them on that?

Bell: We haven't given them any extra time, I don't believe, on that. We discussed it once and some thought that it was wrong and others felt that it might be a good thing, so we eliminated it for further discussion later on, and it never came to any conclusion. I don't know that it would do a bit of harm leaving that open an extra day for a cash subscription on the five thousand limit.

Eccles: That is what I suggested, that it wouldn't do any harm, and it may cover some of these little subscribers and especially where the time is against them.

H.M.Jr: I am willing to do that.

Bell: It might cover a lot of the banks in the territories John mentioned.

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McKee: And you are getting into a cash coupon. It is going to bring in an interest that you haven't seen here for some time, that "X" amount. They are not going to pay so much attention to your maturity as they are that cash coupon.

H.M.Jr: We can give them an extra day for the five thousand.

Eccles: Yes. You accept subscriptions in full up to five thousand?

Bell: That is right, we lock the full.

H.M.Jr: We will give those fellows an extra day. What do you think, Jesse?

Jones: Sounds all right to me. Desirable.

H.M.Jr: All right. Now, we are working backward. The notes we will keep open just two days, though.

Bell: Exchange, yes.

Eccles: Yes, I think that the way they are held there would be no point in keeping them open longer. I was thinking of what we did last time.

H.M.Jr: Now, see if we are together. For the exchange of the note, we were thinking of the bond and reopening the two-year note which we offered before.

Eccles: That is right.

H.M.Jr: Two years, three quarters of one per cent. We only sold thirty million of it, but it was very useful. It helped stiffen the whole thing.

Jones: Leave that open?

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H.M.Jr: Yes, reopen it.

Eccles: That is on the refunding.

H.M.Jr: That is on the refunding. Are you fellows together on that?

McKee: Yes.

Eccles: Yes.

H.M.Jr: Now, the only difference is this. On this two and a half, we were thinking of a 10-12 year, the 15th of March, 51-53. Now, this --

Bell: Fifty-two --

H.M.Jr: I mean 52-54. I misspoke myself.

Eccles: You had me scared for a minute.

H.M.Jr: Well, he changed sheets of paper on me.

Hadley: Those are revised quotations.

Bell: Here is your sheet here. You have got hold of the wrong sheet.

H.M.Jr: I have got three sheets now. This is the sheet I was working from. Changed sheets on me. 52-54. The reason - this morning when we started - just get this - everybody was arguing with us that we couldn't sell more than three hundred millions for cash, but they said 54-56, some of them, and I had a great time arguing with the people in New York that we - the United States Treasury could sell five hundred million and the people would take them. Well, then, I began to call up a few customers. I said, "I don't want you to price them; I want to know, will you buy them." And enough told me

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that I sold the issue over the telephone, a couple of times over. I said, "I just wanted to know how much will you buy." Well, then I was satisfied, but I still feel that I would like that extra cushion after what I went through three weeks ago. Now, there is about 10 or 12 thirty-seconds.

Bell: Ten or twelve thirty-seconds.

McKee: Do you think that is a market expression predicated on maturities and not enough of consideration given to this increase to two and a half per cent and bringing in the demand that you haven't had because you haven't had two and a half per cent bonds?

H.M.Jr: I don't know. Now, we were very conservative last time, and it saved our skins, you see. We would have been under water. This time I would still like to be on the conservative side. I mean, if these people this morning can argue - now, all these people we talked to this morning said, "You mustn't sell more than three hundred million for cash." This afternoon they say, "Oh, go out," I am not talking about you people - "Five hundred million. Let her go." I can't change that fast.

McKee: No, you can't. They are either right in the first place, or they are right the second time. If you get two opinions in the same day, there is something wrong.

H.M.Jr: I can't change that fast before lunch and after lunch.

Eccles: Was that the New York bank point of view?

Bell: No, they were reflecting what they got from the Street.

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H.M.Jr: I say I can't change so fast before lunch and after lunch.

McKee: Well, our country is in a hell of a shape if the people are not going to buy a two and a half per cent bond for twelve or fourteen years. I think they will do it.

H.M.Jr: I do too, but the trouble is a lot of these dealers got burned the last time and they are very, very blue, and they reflect it.

Eccles: They are not in the red, any of them, over the year now. They are doing all right.

H.M.Jr: They lost a lot of money - no, this last time.

Eccles: Yes, this last time, but my God, they don't expect to make a cleaning every time, do they?

H.M.Jr: No, but they are perfectly willing to take it out on me. How far apart are we on our --

McKee: One year.

Eccles: One year is all.

H.M.Jr: No, as to our estimates.

Bell: What do you price the 52-54, Piser?

Piser: I have a range of par and three quarters to 101 and a half. Par and three quarters was being just as pessimistic as I could be.

H.M.Jr: To what, Piser?

Piser: One hundred one and a half.

McKee: That is a spread of one and a quarter. It is

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a lot, isn't it?

Piser:- That is a spread of three quarters of a point.

McKee: Three quarters.

Eccles: And that is figuring nine-tenths of the full tax equivalent, which is a - if this was a lower-yield security, it seems to me you would be justified in figuring that much of the tax equivalent, but your market for these securities is with those institutions that don't pay taxes, pretty largely, insurance companies and the mutual savings. At least they will be among your biggest customers in this kind of an issue.

H.M.Jr: Well, the savings banks were the only people that came to our rescue last time.

Eccles: On the twos?

H.M.Jr: Yes. They saved our lives. They came down here, and they wanted a 51-53 and they saved our lives last time.

McKee: Mr. Secretary, have you any - probably this is a question for your boys - are you fearful that shorting your maturity on your two and a half, that you are not going to put further pressure on your twos?

H.M.Jr: Well, I will be awfully honest with you. I want to make this issue go. I think I need this much velvet, and I am not thinking about the other twos. Is that an honest answer?

McKee: Sure.

H.M.Jr: It gives you my honest opinion.

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Eccles: In other words, you don't care so much even if they trade out of the two's to go into this?

H.M.Jr: I am sure they will.

Eccles: The two's may go down pretty close to par, then.

H.M.Jr: Well, if they do then I can't help it but --

Eccles: What would you think --

H.M.Jr: I told --

Eccles: .....if --

H.M.Jr: .....the original subscribers it only cost them par, so if it stays at par or better there is no kick coming, is there, Jesse?

Jones: I would take the 51-53.

H.M.Jr: That is what the savings bank fellows said.

Jones: I am conservative like a savings bank fellow. I do it on this theory, Henry, that you - it would be nice for them to go on up and be strong, because you are going to have to come again.

H.M.Jr: And again and again.

Jones: And again and again, and the two's will take care of themselves. Let these go on up.

Eccles: Except, Jesse, what you are doing, you are giving almost half a point more, or if you give them a 51-53 you have only got a three-year longer maturity and you are raising the rate from two to two and a half, which is pretty - which is awfully sweet for that - I think four is - four-year spread is plenty.

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I would prefer to see five.

- McKee: You do that, and your next issue is going to be two and three quarters.
- Eccles: These fellows are going to keep on pushing you as long as they can.
- H.M.Jr: Well, they haven't been very successful at it. I don't lose sight of the fact that there hasn't been a successful flotation in I don't know when. I don't know when there has been a successful flotation for new money.
- McKee: You mean outside the Government?
- H.M.Jr: Outside the Government. I don't know when was the last one. It has been a hell of a while, anyway.
- Eccles: Piser, what are some of the recent --
- H.M.Jr: For new money.
- McKee: Republic was pulled off the Street.
- Eccles: But the way they priced some of that stuff was terrific. These latter flotations have been priced on a lower yield basis than even Governments.
- H.M.Jr: I know, but as the President said, we are just supposed to be a bunch of amateurs, but I can't report even one failure.
- Jones: Well, I would vote for the top ones.
- H.M.Jr: Which is your top one there?
- Bell: Fifty-one--fifty-three.

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Jones: Fifty-one--fifty-three.

H.M.Jr: I am talking 52-54, and they are talking 53-55.

Jones: I would go --

H.M.Jr: On the conservative side?

Jones: I would take the 51-53.

Eccles: Of course, the lower you go, the more you give the distributors.

Jones: You are going to pay the same interest anyway.

Eccles: What is it?

Jones: You are going to pay the same interest anyway.

McKee: The fall-off is going to be a little different.

Jones: What fall-off?

McKee: Any new money that you are going to get. If this was the last five hundred million you were going to borrow, I could agree with you, too.

Bell: It makes that three years a little expensive, 48-51. Four is bad enough, but I think it is a cushion that is rather desirable at this time.

Eccles: What would you think of the Fed, say later in the week or the first of next week, if those two show some weakness - because there may be this switching of them - if we would consider exchanging some of the tax-free securities we have got for some of those two's? I mean, a switching operation which would tend to support the taxable two's and the market seems to be

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stronger for the tax-free securities, and we thought possibly having increased the portfolio we might do that and help the market for the two's if there is any shifting from the two's and half into the two's. Just think about it.

- McKee: Marriner, I don't believe we ought to do that unless the Treasury would see fit to join us with your trust funds and go 50-50.
- Eccles: Well, I think it is up to - I just mentioned it.
- H.M.Jr: Well, I seriously doubt whether the Treasury ought to sell any more tax exempts.
- Eccles: Yes, I think that is right.
- H.M.Jr: Now, we have got a couple of billion dollars worth of tax exempts for our trust funds, and I can't see the difference of selling those to the public or issuing some new ones.
- Eccles: Not a bit. Of course, that same argument would apply to us except from a market operation.
- H.M.Jr: True, but I just wonder whether you want to do it unless --
- Eccles: We wouldn't want to do it from a yield point of view. We wouldn't want to do it unless it was advisable from a standpoint of helping stabilize the market situation.
- H.M.Jr: What I would rather do, until we had time to really sit down and talk it out, would be that you would sell - if you needed some cash, would be to sell some of these rights that you have got. I don't know how many you have got of these.

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McKee: Fifty-eight million.

H.M.Jr: I would rather see you sell fifty million of the rights and put that money there against buying some twos or even this --

McKee: Or even switch what you get for twos.

Eccles: Well, that is all right, yes. I wasn't --

H.M.Jr: Do I make myself plain?

McKee: Yes, I think that is all right.

H.M.Jr: I would rather have you sell some of these rights --

Eccles: You mean the short term. That is what the rights really amount to.

McKee: Mr. Secretary, we are going to put a load by doing that on your secondary market.

H.M.Jr: Well, I am not afraid of that, and if you men want to - say fifty million in the kitty, so to speak, for next week, to use either for the new bond or for the one we sold three weeks ago, why then you would have fifty million there.

Eccles: Yes, we could do that.

H.M.Jr: And we would be glad to match you in that.

McKee: That is what I had in mind. I think we ought to go along that thing.

H.M.Jr: Oh, I do.

McKee: And cut off at the same time, if and when.

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- H.M.Jr: Now, we have the money on hand for - both in Postal Savings and in FDIC, so we would be glad to put up fifty million either for the old two's or for the new two and halves. In fact, I would be glad to put up a hundred million. I would be glad to put up a hundred million.
- McKee: Then with that potential buying power, and with us with fifty-eight million - with your notes, only five hundred million of new money, I would certainly hate to blacken your future record by shortening this maturity too much.
- H.M.Jr: Well, I will tell you, John, the thing that I went through three weeks ago was so damned uncomfortable that I want those extra ten or twelve points. I don't like to make a prophecy, but I am pretty sure that the thing is going to go and go well this time, but God, it was too damned uncomfortable last time.
- McKee: If the dealers got caught the last time they are going to be cautious this time. Half of one per cent is going to mean an awful lot in their picture.
- H.M.Jr: I am as confident as I can be that the thing is going to go and go well. I mean, it will go up but after all, without trying - I don't want to rub it in. The Fed last time figured the thing wrong, and if we had taken their figures, we would have been under water, and it just scares me because I could be wrong this time, and you could be right. We are all human.
- McKee: Well, I have been wrong more than I have been right.
- H.M.Jr: Well, I don't know.

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- McKee: So you are on the safe side.
- H.M.Jr: And here is old Jesse Jones, who is below both of us.
- Jones: I don't think it matters how sweet it is, since you are going to pay two and a half per cent.
- McKee: That is what I figure now, Jesse. That means something to me.
- Jones: Yes, and you want it to go with a bang and you want it to be good. I don't think it is going to depress any other bond. I don't think it necessarily is going to increase the rate on your next one. But if you have got your mind made up to pay two and a half, I would stop on the 10-12 year.
- H.M.Jr: Well, unless anybody gets very excited - we have worked awfully hard on this - we would like to do the 52-54 on the 15th of March. All right?
- Eccles: I think that is a good compromise. Jesse goes 51-53 and we go 52-54, so you go right in between them.
- McKee: We are just putting this other out on the table for your information, that is all.
- H.M.Jr: And as I understand it - I am going Thursday night, but I will leave orders here with Dan to go up to a hundred million dollars either on the two or renew two and a half, with you people putting up a hundred.
- McKee: Of course, ours will be a switching proposition.

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- Eccles: In so far as the operation is concerned, we can either carry a switching operation or increase our portfolio, we can put up half of it, or we can put up all of it. It isn't a question of limitation with us.
- H.M.Jr: Well, I think I would like to - whatever you do on this thing, I think it is good for the public that the Treasury and the Federal Reserve go 50-50.
- Eccles: Well, you have got the funds to invest, so it is a good time to do it.
- H.M.Jr: Yes.
- Eccles: The time to invest funds is when the market is weak and not when it is strong, isn't it?
- H.M.Jr: You and I may argue about ideologies of finance, but when we have to put the dollar on the line, if we are together, that is important.
- McKee: Well, Marriner, you will have to take it up with your committee, of course. You (Secretary) understand that.
- H.M.Jr: Oh yes, I understand that.
- Eccles: Well, I don't think there will be any question.
- H.M.Jr: Well, you might let me know tomorrow. Jesse, when do they offer these Arkansas bonds of yours?
- Jones: When did they?
- H.M.Jr: Well, I gather that you sold some this morning. Now, they don't buy these for an investment. When do they re-offer them to the public?

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Jones: Thirty-five million are being offered today.

H.M.Jr: Today?

Jones: This morning, by Chase. Fifteen million will be offered on April 1 by Stewart.

H.M.Jr: I thought you were going to do this last week.

Jones: Well, we were working on it last week. It just came to a head.

H.M.Jr: But there will be - will there be any public offering tomorrow?

Jones: Today, thirty-five million.

H.M.Jr: Thirty-five million?

Bell: Do you know how it went?

Jones: It is going all right.

Bell: Going all right?

Jones: Yes.

Eccles: On what basis, Jesse, were they offered? On what basis are they offering them?

Jones: About three yield.

Eccles: About a three. They are totally tax exempt, too, aren't they?

Jones: Yes. Three, two is the rate, or three, one, nineteen, and they paid us a premium of one and a half points, and they add two points to the syndicate for selling. That is three and a half. That is a little under three per cent yield.

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- Eccles: I don't believe that will be competitive at all with this financing, because it is entirely a tax-free security and it will go to an entirely different market.
- Jones: There are two different markets, anyway.
- Eccles: Than these taxable?
- Bell: I hope sometime it doesn't interfere. Generally speaking, it doesn't interfere, but I hope sometime it doesn't.
- H.M.Jr: All right, thank you.

March 18, 1941  
2:31 p.m.

H.M.Jr: Hello, Jesse.

Jesse  
Jones: How are you?

H.M.Jr: Oh, I've been busy and I see you've been busy.

J: Yeah, doing a little business.

H.M.Jr: I see. When do those go on the market?

J: They went on this morning.

H.M.Jr: I see.

J: I called you earlier this morning when I read in the paper about yours and I got Dan, I didn't get you.

H.M.Jr: He told me.

J: He said it wouldn't bother you; it might bother the other fellow.

H.M.Jr: Yeah.

J: What is your plan? Have you announced yours yet?

H.M.Jr: No. Eccles and his gang are coming over here - they're due here now. We're thinking of a 2½% bond 11 to 13 years.

J: That ought to go all right, Henry.

H.M.Jr: I think so. On the exchange we'd give them the offer of the bond or the same note that we did last time.

J: Yeah.

H.M.Jr: What happened to the syndicate? Have they re-offered them today?

J: (Laughs). Well, I've had a monkey and a pair of toms in here for three days. I'll have to tell you about it.

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H.M.Jr: Yeah.

J: Because it has really been - it's been more than three days - four or five days. Last night I finally reached an agreement with them about 7:00 o'clock. Did you get a copy of my release?

H.M.Jr: No.

J: I sent it over there not long ago. What time are you meeting with Marriner?

H.M.Jr: Right now.

J: Why don't you invite me over?

H.M.Jr: I've been waiting for you. Come on over.

J: Because I'm going to leave town tomorrow for ten days and I'd like to come down and have a word with you.

H.M.Jr: Come over right away.

J: I'll be right over.

H.M.Jr: You can come over and help me listen to Marriner.

J: Fine.

H.M.Jr: Come on.

March 18, 1941

Mr. Jesse Jones was here and he asked me about his introducing legislation which would make it legal for him to lend money against British securities or properties. I asked him not to do anything about it until the \$7,000,000,000 appropriation had passed. He agreed to that, and then he said in view of my testimony in regard to British assets and the fact that I was handling the whole matter, he would do nothing until after the legislation passed before discussing the matter with me.

March 18, 1941  
2:35 p.m.

Captain  
Callaghan: Hello, Mr. Secretary. I'm sorry to interrupt you.

H.M.Jr: Go ahead.

C: But you wanted some information on the shipping methods from the British Ministry in connection with the routing of convoys. You made an inquiry that came back to the Navy Department on the thing.

H.M.Jr: Well, not the routing. The President asked me Friday a week ago to look into this whole convoy thing as a result of a letter that Stimson had got from ex-President Hoover, and the President asked me to look into the whole thing for him.

C: I see. Well, now, Mr. Secretary, we've just had three officers who have been up there looking into that whole matter and they've made a complete report on it. Would that fill the bill? They've got the system.

H.M.Jr: Well, if I could see it - after I read it I could say whether it does or not.

C: I see.

H.M.Jr: But the President at Cabinet Friday a week ago asked me to look into the whole thing for him. If you'll send it over to me - how long is it?

C: Well, suppose I have them send it over to you, sir.

H.M.Jr: How long is it?

C: I don't know definitely, but I think it is five or six pages long.

H.M.Jr: Well, if they'll send it over and deliver it to Lieutenant Stephens in my outer office, I'd like very much to see it.

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C: All right, sir. I'll do that.

H.M.Jr: Not only - it was the whole question of the loading and the turn-around. That's what he was interested in. See?

C: I see.

H.M.Jr: And then the suggestion was made that they might form their convoys close off our shore rather than going up to Halifax and have another wait there.

C: I see. Yes, sir.

H.M.Jr: But I'd be glad to read it and see whether it fills the bill.

C: All right, sir. I'll have them send it over to you right away.

H.M.Jr: Thank you.

C: Right, sir.

March 18, 1941  
3:30 p.m.

RE AID TO BRITAIN

Present: Mr. Young  
Mr. Foley  
Mr. Cochran  
Mr. Bell  
Mrs. Klotz  
Mr. Cox

H.M. Jr: Now, where is the great Oscar?

Young: He wrote up two drafts of the letter of which I have copies here, and he is now writing a third one, I think, which ought to be ready.

H.M.Jr: He was going to have it in twenty minutes this morning. When did we see him, around 10:00 or 11:00 o'clock?

Klotz: That was the first one. This is the third.

H.M.Jr: I understand when they say twenty minutes, you should say fifteen, and you will get a good letter.

Young: As long as he isn't here, I will show you mine. (Attachment 1 unavailable.)

H.M.Jr: What time were you here with him when he said he would have it in about twenty minutes?

Young: It was about 12:00.

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H.M.Jr: This is yours?

Young: Yes, I wrote one.

H.M.Jr: My heavens!

"Dear Harry: In connection with the decision that was reached yesterday, I would like to make it clear that the Treasury has no responsibility as to new orders placed by the British after March 15 or pursuant to that decision. As it is, you know, I am sympathetic to the matter which was discussed, and I make this statement in order that there can be no possible misunderstanding between you and me."

(Mr. Cox entered the conference.)

H.M.Jr: From now on, when you say twenty minutes, I am going to say ten.

Cox: McCloy was on the phone, and I couldn't get him off.

H.M.Jr: I don't care for this draft.

Cox: I have got three different versions here.

H.M.Jr: So that you people can be moderately intelligent and helpful, I want you all to know the different reasons. There are three different versions here?

Cox: Yes.

H.M.Jr: How long have you been working for me, to come in with three different versions? Anyway, the point is, yesterday morning - it goes back to Sunday or Saturday. I got this idea that,

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beginning with Monday, they ought to Lend-Lease all their orders, you see, in various stages, so they didn't have to pay any more cash beginning with the 17th, the British. We won't go through all the various stages that it has happened in. Monday, Hopkins said would I talk to the President at lunch and ask him if they placed 300 million dollars worth of orders in the next two weeks, 20 per cent down, that when the seven billion dollar bill passed, the British would be reimbursed out of the seven billion for that, you see. The President said, "Yes." Then I stopped by to see Harry in his room, and he wanted to know whether I could immediately see Purvis, and I said, "No," I had my financing. So he said he would send for Purvis, and I said, "You had better send for Phillips." Which he did, and put this thing up to them, and they agreed that they would go ahead and do this thing and when the seven billion dollar thing passed, they would be reimbursed.

Then I got to worrying about the different remarks that Harry dropped, would they or wouldn't they. I wasn't there yesterday afternoon when they met. I don't know what they said. Cox and Young weren't there. So the agreement was made in which Hopkins kept referring to me as though I was part of it, but I don't know what it is, and I don't know what the reservations are, and I have been trying to get this thing finished as of the 15th, and then Hopkins would handle it on new orders. So this morning I called up both Phillips and Purvis, and I said, "Just so there will be no misunderstanding, whatever arrangements you enter into with Hopkins have my sympathetic support, but I am in no way responsible, so you have got to look to Hopkins

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to be reimbursed out of the seven billion. Don't look to me. Because," I said, "as far as - I have got along with you fellows, and if I take the sole responsibility - I will see you through," that is what I said to myself - but I am not going to have a joint responsibility and then have Hopkins say, "Well, 50 million of this the Army objects to, so we can only reimburse you to 250." They have been assured on the 300. The clinch is, I want to write a letter to Harry squarely placing the responsibility on him before he leaves tomorrow. I will gamble with anybody that when they come back there are going to be a lot of disagreeable things about this, and the English are going to have great trouble getting their 300 million back, and I don't want anything to do with it, and I want to wash my hands clean and stay clean, and I want everybody in the Treasury to have no part of the responsibility for this, because I am sure there is going to be trouble. That is the background.

Now these men have been at this thing since when this morning?

Cox: Eleven o'clock.

H.M.Jr: And they come in with three letters. What would you do with them?

Cox: I would recommend the top one if you feel the same --

H.M.Jr: You know what I call them? "The Harry Hopkins Bedroom Boys."

(Laughter.)

Foley: What are the English going to do while Harry is

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away?

H.M. Jr:

What?

Foley:

What are the English going to do while Harry is away?

H.M. Jr:

You will have to ask Harry that. The point is, they are not going to come here, because I have tried now nicely - I have said it so often they most likely think I have something hidden in meaning, but I don't think they do, because they know me so well. "I will take from the President of the United States, as his agent, full responsibility of looking after the English, but I will not share that with anybody outside - who isn't in the Treasury," and that is what I am trying to make plain.

I mean, I will take the full responsibility or none, but I will not share it, because it is too delicate. It is all by word of mouth. It is just like Jones said, well, he didn't remember that he wasn't to sell any Arkansas this week but last week. He just forgot about it. Well, Harry may forget. He might say, "Well, you know, we couldn't do anything that the Army doesn't want to approve," so if you have got 303 ammunition in there for ten million dollars and 25 will be guns for the English, and all the rest of that stuff, and so forth.

This is the one you want me to sign?

Cox:

I would recommend the top one if you want to put it as strongly as you put it this morning.  
(See Attachment 2.)

"Dear Harry: So that there can be no possible misunderstanding between you and me, my clear understanding is that the Treasury is in no way responsible for any orders placed by the British after March 15, 1941."

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You see, I will use Treasury. That would mean any Treasury employee, wouldn't it?

"I was and am sympathetic to the matter which was discussed yesterday. I do, however, want to point out that the Treasury has no duty in the execution of the decision that was reached yesterday and no obligation as to new orders placed by the British after March 15th."

Well, that is pretty ambiguous. Would that be clear to you?

- Foley: That is a little strong, isn't it? I mean, the tone of that --
- Cox: That is the feeling I have, that the tone is pretty strong.
- H.M.Jr: I didn't write it that way.
- Cox: Well, that was the substance of what you said.
- Young: It is almost word for word.
- H.M.Jr: No, sir. Mrs. Klotz took it down, and she can read it.
- Klotz: Shall I get it?
- H.M.Jr: Please. This is No. 2?
- Cox: Well, that is substantially the same. The one that is softest in tone is the last one. (See Attachment 4.)
- H.M.Jr: "My dear Harry: I am sympathetic to the decision reached yesterday on the problem of the British orders, and I will, of course, be glad to help its execution in any way which I reasonably can. However, I do want to make it clear, in order to avoid any misunderstanding,

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that the Treasury is in no way responsible for any orders placed by the British after March 15, 1941."

- Foley: That is better.
- H.M.Jr: I didn't say anything about "I am sympathetic."
- Bell: You have to say that sympathetic part.
- H.M.Jr: No.
- Bell: Couldn't you state it that "in order to avoid all possible confusion? I think it should be made clear that the British representatives, after March 15, should contact you on all future orders."
- H.M.Jr: We asked for that in a letter to the President, and we got nowhere.
- Bell: That is saying another thing, only putting it on the British instead of saying that the Treasury should have no responsibility. Does this come as a shock to Harry? He knows all about it, doesn't he?
- Cox: Oh, he knows what the problem is.
- Young: This represents our understanding of something that has already been done. It is a confirmation.
- Klotz: I can't find it.
- Cox: I have got it right in my pocket.
- Young: You remember it.
- Cox: "So there can be no possible misunderstanding

- 8 -

between you and me, the Treasury is in no way responsible for any orders placed by the British after March 15."

H.M.Jr: That is verbatim so far?

Cox: Yes. That was all you said. Then you said to --

H.M.Jr: I didn't say anything about I am sympathetic to this.

Cox: No, but you said to put it together --

H.M.Jr: I didn't say that.

Bell: You said it in your telephone conversation with Purvis.

H.M.Jr: Yes.

Bell: You can put it on the other ground, too. You can say that "I have advised Purvis and Phillips that the Treasury will have no responsibility in the placing of orders for the British after March 15. They should deal directly with you and not through my Treasury officials."

H.M.Jr: I think that is smart.

"Dear Harry: So there can be no possible misunderstanding between you and me, I have today communicated by telephone with Mr. Arthur Purvis and Sir Frederick Phillips that they should look to you as the sole authority in connection with placing all future orders after March 15."

Young: I don't think that does the job.

Bell: You don't?

- 9 -

- Young: No, because I think Mrs. Klotz is absolutely right. It doesn't put the responsibility where you want to put it.
- Cochran: May I try this, Mr. Secretary?
- H.M.Jr: Yes, go ahead.
- Cochran: "Dear Harry: Please accept my sincere thanks for your receiving Messrs. Purvis and Phillips yesterday.
- "I feel that this meeting should represent the institution of a new system whereunder the responsibility of handling British orders should be definitely transferred to you alone. With this thought in mind, I have advised Phillips and Purvis accordingly."
- Bell: That is a diplomatic way of putting it.
- H.M.Jr: Does that relieve me of this order business? I don't think it does.
- Cochran: If it constitutes the institution of a new system, I think it would.
- H.M.Jr: Now this thing here, "So there can be no possible misunderstanding, the Treasury is in no way responsible for any British orders placed after March 15."
- I could say, "In view of your departure tomorrow, I want to have a clear-cut understanding with you."
- The way I have got it now, I have just cut this out. "So there can be no misunderstanding between you and me, the Treasury is in no way responsible for any orders placed by the British after March 15."

- 10 -

"I do, however, want to make it clear that the Treasury has no duty in the execution of the decision that was reached yesterday and no responsibility as to the new orders placed by the British after March 15 or pursuant to that decision."

Young: I think it is all right the way it is.

H.M.Jr: Just cutting out "I was sympathetic."

Young: If you want to.

H.M.Jr: Yes, I think that weakens it.

Bell: Do you want to speak of a misunderstanding between you and Harry? You could say, "In order to avoid confusion and possible misunderstanding," and leave out "between you and me." "I want to make it clear that the Treasury has no responsibility."

H.M.Jr: Say that again, Dan.

Bell: "In order to avoid confusion and possible misunderstanding, I want to make it clear that the Treasury has no responsibility."

H.M.Jr: I will just take that down. Say it again, slowly. I will write it.

Bell: "In order to avoid confusion and any possible misunderstanding -" now drop down to your second paragraph where you begin, "I want to make it clear," and so forth.

H.M.Jr: "I want to make it clear" -- "I want to make it perfectly clear?"

Bell: Clear is all right. I think clear is all

- 11 -

right.

H.M.Jr:

"Perfectly?"

Bell:

Well, that is a little sharp.

H.M.Jr:

All right.

"I want to make it clear that the Treasury has no duty in the execution of the decision which was reached yesterday." "Between you - decision that was reached yesterday between you and" -- I will put it, "Arthur Purvis and Frederick Phillips, and no responsibility" - I think that is - let's see.

"In order to avoid confusion and any possible misunderstanding, I want to make clear that the Treasury has no duty in the execution of the decision which was reached yesterday between you and Arthur Purvis and Sir Frederick Phillips and no responsibility as to new orders placed by the British after" - you said that once before. Oh no, you were going to change it, weren't you? You started out this way.

Bell:

That is right.

H.M.Jr:

I think that is all right

Bell:

Just one paragraph.

H.M.Jr:

I think that is all right.

"Dear Harry: In order to avoid confusion or any possible misunderstanding, I want to make it clear that the Treasury has no duty in the execution of the decision which was reached yesterday between you and Arthur Purvis and Sir Frederick Phillips and no responsibility

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as to new orders placed by the British after March 15 or pursuant to that decision."

That is a clean-out statement. What?

Cox: Yes.

Klotz: I am not too crazy about that.

H.M.Jr: But it says what I want to say. I think that is all right. Ed?

Foley: It is all right.

H.M.Jr: That says what I want to say, doesn't it?

Foley: It is perfectly clear.

Bell: That doesn't sound sharp, does it?

Foley: No, I don't think it sounds too sharp. It is a moderate tone.

Klotz: I would rather have some other way of introducing it.

H.M.Jr: Well, I could say--

Foley: You could - "As I am leaving."

H.M.Jr: No, "I am writing--"

Foley: "As I am leaving at the end of the week."

H.M.Jr: No. "I am writing you this letter because you are leaving town tomorrow afternoon."

Foley: Well, I mean if you put it the other way and say, "As I am leaving town tomorrow afternoon."

- 13 -

Cochran: Say, "Since we are both leaving town this week."

Foley: All right, "Since we are both leaving town."

Bell: Is there any way of saying, "Confirming my telephone conversation with you today"?

H.M.Jr: No. I didn't say that.

Bell: I see.

H.M.Jr: Why not try it, "Since we are both leaving town this week."

Young: The point isn't that you are leaving town, the point is that you have gone on to a lend-lease basis.

H.M.Jr: That is right.

Foley: Well, that is perfectly true, Phil, but --

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

Take this.

"Dear Harry:

"In order to avoid confusion and any possible misunderstanding, I want to make it clear that the Treasury has no duty in the execution of the decision that was reached yesterday between you and Mr. Arthur Purvis and Sir Frederick Phillips and no responsibility as to new orders placed by the British after March 15 or pursuant to that decision.

Sincerely yours.

(The Reporter left the room with the notes

- 14 -

of the preceding letter for immediate transcription.)

H.M.Jr: I am just going to let it go. I am willing to take the repercussion. If he doesn't like it, he will call me up. I have begged, I have cajoled, I have tried everything possible to get a letter out of the President.

"Dear Harry:

"In order to avoid any possible confusion - " that was your (Bell's) contribution. You (Klotz) still don't like it?

Klotz: No. I think it is important to get something from the record, but I don't think of anything right at the moment.

H.M.Jr: Well, they had from 11:00 o'clock until 3:30, and they couldn't do anything.

Do you (Foley) feel that it is a mistake?

Foley: Well, I don't know how your relations are with Harry. You can write that kind of a letter and say all that without having it so severe. You can write it in a very off-hand and friendly way, and you still accomplish your purpose.

H.M.Jr: Well, how would you do it? God Almighty, these men have had since 11:00 this morning.

Cox: I think, just guessing --

H.M.Jr: When I ask you to do it, I consider it important. I have been on a financing all day, and here I have been now twenty-nine minutes trying to write a letter that I asked two

- 5 -

of you to write for me at 11:00. I mean, just a half page letter. You haven't been able to produce it in half an hour. We are all sitting around here chewing the fat over it.

Klotz: I think once you read it, it will sound worse than it did before.

Bell: I don't think it sounds so bad. I don't know that there is any feeling, is there? Would you say anything about a transition period to the Lease-Lend, from the basis we have been operating on in the past to a Lease-Lend basis, and in order to avoid a misunderstanding?

H.M.Jr: No, let me think about it, will you, and when the letter comes in, we will see.

My dear Harry:

So that there can be no possible misunderstanding between you and me, my clear understanding is that the Treasury is in no way responsible for any orders placed by the British after March 15, 1941.

I was and am sympathetic to the matter which was discussed yesterday. I do, however, want to point out that the Treasury has no duty in the execution of the decision that was reached yesterday and no obligation as to new orders placed by the British after March 15th.

Sincerely yours,

Hon. Harry Hopkins  
The White House.

OSC:aja  
3/18/41

My dear Harry:

So that there can be no possible misunderstanding between you and me, the Treasury is in no way responsible for any orders placed by the British after March 15, 1941.

I was and am sympathetic to the matter which was discussed yesterday. I do, however, want to make it clear that the Treasury has no duty in the execution of the decision that was reached yesterday and no responsibility as to new orders placed by the British after March 15th or pursuant to that decision.

Sincerely yours,

Hon. Harry Hopkins

The White House.

OSC:aja  
3/18/41

March 18, 1941.

My dear Harry:

I am sympathetic to the decision reached yesterday on the problem of the British orders, and I will, of course, be glad to help its execution in any way which I reasonably can. However, I do want to make it clear, in order to avoid any misunderstanding, that the treasury is in no way responsible for any orders placed by the British after March 15, 1941.

Sincerely yours,

Hon. Harry Hopkins  
The White House.

OSC:djb  
3-18-41

Seig wanted you  
to see.

3-19-41  
4 P.M.

March 18, 1941.

MEMORANDUM

TO: Secretary Morgenthau  
FROM: Mr. Gaston

I have talked to Admiral Land and Huntington Cairns has talked to Max Truitt about the attached memorandum telling of a proposal by a man named Herd, of Chicago, to buy all German ships in the western hemisphere, numbering 33 or 34, for \$12,500,000, and to place them under American registry and on runs to be approved by the Maritime Commission. Truitt says the deal would involve delivery of all the ships at American ports by the Germans. There are only two German ships in our harbors now. It would be necessary to get the approval of the British to put the deal through.

Land and Truitt make it plain that they think our only interest is the question whether \$12,500,000 should be paid to Germany. We have told them that we think your answer would be that it would all depend on what this country gets out of it, that the mere transfer of \$12,500,000 is not particularly important if the deal should be found to be desirable and feasible.



*Buying 33 ships  
seems to have settled  
This question.  
DWB  
4/1*

UNITED STATES MARITIME COMMISSION  
WASHINGTON

March 15, 1941

OFFICE OF THE CHAIRMAN

PERSONAL AND CONFIDENTIAL

MEMORANDUM FOR SECRETARY MORGENTHAU

A Mr. Herd of Chicago (presumably backed by a syndicate) has submitted a proposition to buy all German ships in the Western Hemisphere for \$12,500,000. There are 33 or 34 of these ships.

Mr. Herd has been in touch with officials in Berlin.

Mr. Herd has been told by the Germans that they will accept the proposition provided (1) that all crews off these ships be repatriated to Lisbon or Tokyo and (2) that the \$12,500,000 be made available to Germany in cash.

Mr. Herd purchased certain Austrian vessels under somewhat analogous conditions during World War I. Mr. Herd has been on this job for some time and has had a number of conferences with officials of the Maritime Commission and with officials of the State Department and he infers to me that the matter has been discussed by some Government official with the President.

Mr. Herd also thinks that further action on the matter is up to me. I told him yesterday that I would have to have clearance from you with regard to the \$12,500,000 being made available to Germany in cash. Will you please be good enough to advise me with regard to your reaction to this point as well as to any other points referred to above.

Mr. Herd is under the impression that I ought to take this matter up with the President and I have no intention of doing so until the matter can be presented

- 2 -

in a clear-cut and definite fashion with proper clearances from the Treasury Department and the State Department.

*Jerry Land.*

E. S. Land  
Chairman

RS

GRAY

Berlin

Dated March 18, 1941

Rec'd 3:11 p.m.

Secretary of State  
Washington.

989, March 18, noon (Section One) For Treasury from  
Heath.

For several months German business men have expected price regulations which would affect not merely the price of their products but their earnings. On November 23, 1940 an order of the Price Commissar contained the following rather vague paragraph:

If price agreements lead to excess profits on the part of individual firms the Reich Price Commissar can order that these profits be wholly or partially paid out in the matter determined by him.

The Price Commissar has now issued instructions which have been widely publicized providing that enterprises which during wartime have made greater profits than in peace time must (one) immediately lower prices and (two) pay to the Government the excess profits earned since September 1, 1939. (A translation of these rather complicated instructions will be forwarded by mail.)

MORRIS

CSB

PARAPHRASE OF SECTION TWO OF TELEGRAM NO. 989 OF  
MARCH 18, 1941, FROM THE AMERICAN EMBASSY, BERLIN

It is to be doubted whether this new combination price deflation and excess profits tax measure will be carried through with complete success, even with the present efficient control by the German Government and the discipline of German business. The Government undoubtedly, however, expects that price reductions on articles of common use may be achieved, and this the Government hopes may bolster the confidence of the public in the stability of the mark's purchasing power, and arrest the development of an inflationary psychology.

During the past week, there has been a considerable drop in quotations on the stock market which is attributable in part to these instructions by the Price Commissar. However, undoubtedly an important factor therein was the speech of Funk, the Reich's Economic Minister - reference, telegram of March 13, 4 p.m., no. 950 from the Embassy - in which he announced that dividends above six percent would be subject to prohibitive taxation, and there may have been some influence from the adoption of the Lease Lend Bill.

The index of quotations on the Berlin Stock Exchange is given in the BERLINER BOERSEN ZEITUNG as having declined to 179.6 on March 15; it had been 183.4 on March 8. There was a further marked decline in stock quotations yesterday. It is said that approximately 3/4 of the stocks ~~were~~ listed

- 2 -

were quoted at the opening of the market due to the fact that there were no buyers.

END MESSAGE.

MORRIS.

EA:LWW

March 18, 1941  
4:13 p.m.

H.M.Jr: Hello.

Sproul and Rouse: Hello, Mr. Secretary.

H.M.Jr: Well, we've decided on the 52-54, March 15th.

S: I see. Well, I think you'll have a successful offering.

H.M.Jr: I'm sure. And the Federal Reserve - what they're going to do - they're going to call a meeting. We're each to put up a \$100 million to support both the 2's, the last issue, and the new issue, if necessary. Hello?

S: I didn't get that last word.

H.M.Jr: Only if necessary.

S: Yeah.

H.M.Jr: They made the suggestion, so - I mean, on the old 2's. So I think it's all right. O.K.?

S: Yeah.

H.M.Jr: Well, thanks for all the help.

S: All right, sir. We'll watch it tomorrow.

H.M.Jr: Good. I'll be here.

R. & S.: Right.

H.M.Jr: Thank you.

R. & S.: Good-bye.

March 18, 1941  
4:25 p.m.

Harold Ickes: Hello, Henry.

H.M.Jr: I'm sorry I've been so long in answering.

I: That's all right. Say, Henry, who is sending this grain over to France.

H.M.Jr: Who is?

I: Yeah.

H.M.Jr: I don't know, Harold. I suppose Sumner Welles.

I: I heard it was the State Department.

H.M.Jr: Pardon?

I: I heard that it was the State Department.

H.M.Jr: I've had no official notice or even a discussion with anybody other than what I've seen in the paper.

I: Yeah. Well, I wasn't worried about how you felt about it.

H.M.Jr: Well, neither the President nor anybody in the State Department has discussed it with us, so I'm just as much on the outside as the cop on the corner.

I: Well, I think one thing that happened - Henry-Haye went over to see the White House, and then the President came in, and then he went out and gave an interview to the newspapers - sort of forced his hand. I wouldn't deal with an Ambassador like that. I'd send him home.

H.M.Jr: As far as we know, it is not yet an accomplished fact because we've got no orders on it.

I: Yeah. Another thing. Do you know John Ansel Ford in Los Angeles? He ran for Senator on the Democratic ticket in California?

- 2 -

H.M.Jr: No. That isn't the Congressman is it?

I: Oh, his name isn't Ford. What the devil is that fellow's name?

H.M.Jr: That's the Congressman, isn't it?

I: Yeah. That's the Congressman. Well, I have his name here. At any rate he ran for Senator on the Democratic ticket in California. He was in here yesterday.

H.M.Jr: You don't mean Jefty O'Connor? (Laughs).

I: No. They've elected a new District Attorney down there and according to him they ran across some very suspicious circumstances involving Federal income taxes.

H.M.Jr: Really?

I: Which McAdoo and Blackjack Elliot and McAdoo's former disreputable partner - what's his name - were involved.

H.M.Jr: I know who you mean.

I: And I thought I'd just pass it on to you, because I know you are interested in those things in case you want to look it up.

H.M.Jr: Sure. Have you any more details?

I: No, I haven't, but I think he'd be willing to tell what he has and I think probably you'd have to send somebody in from Washington. They have a suspicion about some of your people out there.

H.M.Jr: Well, how do we get hold of this fellow?

I: I'll get his name for you. (Aside. Bring me my list for yesterday. Who was in from California to see me yesterday?) Yeah, it was John Ansel Ford. He isn't a Congressman. John Ansel Ford - A-n-s-e-l.

H.M.Jr: And he has the story.

- 3 -

I: He has the story. He's a commissioner out there.

H.M.Jr: O.K.

I: He also said that this particular case that - I think there is some feeling that perhaps Irey isn't the one to take it up. It may be all cobwebby. I don't vouch for a damn thing. I know what good work Irey has done and the confidence you have in him.

H.M.Jr: Yeah. He's tops.

I: Yeah, I know he is, but .....

H.M.Jr: But this is just a story.

I: This is just a story.

H.M.Jr: Well, I'll have John Sullivan send for him.

I: All right. Now, he may be in town still.

H.M.Jr: Well, I'll get word to John Sullivan.

I: Yeah. All right.

H.M.Jr: Right-o.'

I: Good-bye.

March 18, 1941

4:30 pm

Present:

Mr. Foley  
Mr. Cox  
Mrs. Klotz  
Mr. Young

(Mr. Foley reading revised letter to Mr. Hopkins, final draft of which is attached.)

Mr. Foley: It is general and at the same time I think it is broad enough to cover the situation without backing up on any specific instructions you have on quid pro quo.

HM, Jr: Are you satisfied?

Mr. Young: Yes.

HM, Jr: Read it again.

Mr. Foley: "Dear Harry: I think it is important to clear up the manner in which British orders will be handled in the future. Hence this letter.

"It is my understanding that the handling of all orders and other arrangements on behalf of the British since March 15th is being done by you and the Treasury is in no way responsible after that time.

"If this is not in accordance with your understanding, I hope you will let me know before you leave town. Yours sincerely,"

-2-

Mr. Cox: Could I raise one point? On the point Phillip and I discussed. That is, starting with the second paragraph, possibly mentioning that in the light of his advising you that he has worked out arrangements with Purvis and Phillips as to the handling of British orders after March 15th and then go on into the rest of it.

HM, Jr: I have nothing from him.

Mr. Cox: In his conversation with you this morning didn't he ....

HM, Jr: That's all right. Let me go back. What about that I say simply, "Harry, it has my sympathetic support, but the responsibility..." if he calls me .... "the responsibility" -- the fact that the English spent \$300,000,000, that gives me the chance -- "the responsibility is yours and not mine and I have so advised you." He will say, "What about that \$300,000,000?" I say, "All right. You have to see that the British get reimbursed. It's on you and not on me because I have no contact with the Army and no contact with the Navy. I am not seeing the orders any more and I don't know."

Mr. Cox: That's right.

HM, Jr: So if they put in the order for the 50 kiddie-cars, I won't know it.

Mr. Cox: That's right.

HM, Jr: I think it's all right. If you begin to go into it, it takes more of the form of a legal document. This is very nice. The edges have been filed off and if he comes back, I simply say, "Harry, I cannot share this with you and you have to go through with this thing. Two people can't

-3-

do it. If he asks you (Cox), that's why I have written it.

Mr. Cox: That part is completely clear to me.

HM, Jr: Why have I written the letter? Because I don't know. General Burns won't tell me. He won't tell me. The President won't tell me. And in the \$300,000,000 there will undoubtedly be things that Stimson will not approve. Now, who will see that they get that reimbursement? Harry Hopkins and not Henry Morgenthau, Jr.

o-oOoOo-o

March 18, 1941

Dear Harry:

I think it is important to clear up the manner in which British orders will be handled in the future. Hence this letter.

It is my understanding that the handling of all orders and other arrangements on behalf of the British since March 15th is being done by you and the Treasury is in no way responsible after that time.

If this is not in accordance with your understanding, I hope you will let me know before you leave town.

Sincerely yours,

Honorable Harry Hopkins,

The White House.

Copies to:  
Mr. Bell  
Mr. Foley  
Mr. Cox  
Mr. Young  
Mr. Cochran

~~Request of ...~~  
 ... & that it is  
 important to clear  
 up the account in  
 which British ...  
 will be handled in  
 the future. Hence this  
 letter.

It is my understanding  
 that there are <sup>no</sup> ~~no~~ <sup>financial</sup> ~~financial~~ <sup>orders</sup> ~~orders~~ <sup>for</sup> ~~for~~  
 the British system  
 March 15 will <sup>be</sup> ~~will~~ <sup>using</sup>  
~~some~~ <sup>done</sup> ~~done~~ <sup>by</sup> ~~by~~ <sup>you</sup> ~~and~~  
 the Treasury <sup>will</sup> ~~will~~ <sup>in</sup>  
 no way <sup>be</sup> ~~be~~ <sup>responsible</sup>

~~the~~ of the this time  
if this is not  
recorder, I hope  
will let me  
know before you leave  
me.

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THE SECRETARY OF THE TREASURY  
WASHINGTON

My dear Harry:

In order to avoid confusion and any possible misunderstanding, I want to make it clear that the Treasury has no duty in the execution of the decision that was reached between you and Mr. Arthur Purvis and Sir Frederick Phillips, and no responsibility as to new orders placed by the British after March 15 or pursuant to that decision.

Sincerely yours,

Hon. Harry Hopkins  
The White House.



THE SECRETARY OF THE TREASURY  
WASHINGTON

My dear Harry:

So that there can be no possible misunderstanding between you and me, my clear understanding is that the Treasury is in no way responsible for any orders placed by the British after March 15, 1941.

I was and am sympathetic to the matter which was discussed yesterday. I do, however, want to point out that the Treasury has no duty in the execution of the decision that was reached yesterday and no obligation as to new orders placed by the British after March 15th.

Sincerely yours,

Hon. Harry Hopkins

The White House.



THE SECRETARY OF THE TREASURY  
WASHINGTON

March 18, 1941.

My dear Harry:

I am sympathetic to the decision reached yesterday on the problem of the British orders, and I will, of course, be glad to help its execution in any way which I reasonably can. However, I do want to make it clear, in order to avoid any misunderstanding, that the Treasury is in no way responsible for any orders placed by the British after March 15, 1941.

Sincerely yours,

Hon. Harry Hopkins  
The White House.

March 18, 1941

TO: Mr. Sullivan  
FROM: The Secretary

Harold Ickes says a man by the name of John Ansel Ford of Los Angeles has a story about crooked income tax in Los Angeles. They think he is in town.

## TREASURY DEPARTMENT

## INTER-OFFICE COMMUNICATION

DATE March 18, 1940

TO Secretary Morgenthau  
FROM Mr. Cochran

At 5 p.m. I received in my office Messrs. Phillips, Pinsent and Playfair of the British Treasury, and Deputy Finance Minister Clark of Canada and his newly appointed Financial Attache in Washington, Mr. Coynes. The Secretary had instructed me to receive these gentlemen since Under Secretary Bell was engaged in financing.

Mr. Clark referred to the promise made on his last visit that he would bring to date certain memoranda previously submitted to us, particularly reconciling statistics to the increased British purchasing in Canada. Mr. Clark handed to me the attached documents. I telephoned Dr. White, but found that he was unavailable for meeting Mr. Coynes this evening. The latter is available, however, for explaining to Mr. White or the rest of us any details on the Canadian figures which are not clear.

Mr. Clark stressed the point that the British assistance to Canada through providing gold is no longer forthcoming and that the extent to which Canada is being of assistance to Great Britain through accumulating sterling is increasing. Sir Frederick Phillips thought that this latter item would shortly be reaching a rate of \$100,000,000 Canadian per month. The Canadians have made a revision of their American listed securities and other assets, revealing a present total of approximately \$276,000,000 (U.S.). Mr. Clark will raise the question as to the best means of disposing of such securities once a re-registration and vesting thereof by the Canadian Government takes place. Mr. Clark feels that there should be some coordination with the British effort, so that the British liquidation will not be interfered with and so that our market will not suffer from too much pressure. Canada could, according to Mr. Clark, send down to New York a Ministry of Finance or Bank of Canada representative thoroughly familiar with the American security market who could take charge of the liquidation.

Both Sir Frederick Phillips and Mr. Clark brought up the question of applicability of the Lease-Lend Act to American parts and materials entering into Canadian manufactured munitions for Great Britain. Can we give them any information on this point?

Phillips also stated that the question of dollars for Canada still has not been settled. In answer to my question as to whether United States dollars would meet Clark's requirements as well as gold, he replied in the affirmative, since any gold received would necessarily be used eventually in liquidating the Canadian deficit balance with the United States.

Phillips reverted to the standing question which he has with us as to the prospective deficit of \$185,000,000 for the current six months. (It will be recalled that this estimate did not include British help to Canada along the lines which had originally been anticipated). Phillips added that this figure also contemplated that all of the calculations made by the British Purchasing Commission with respect to the applicability of the Lease-Lend Act might prove correct. To the extent that contemplated transactions do not come under the Lease-Lend Act, the deficit would correspondingly rise.

- 2 -

In spite of the press stories indicating that Mr. Jones has reached definite arrangements to take over \$46,000,000 of British financed or owned plants, Phillips stated that nothing at all has yet been closed with Mr. Jones. Nothing has developed along this line to amend the data on negotiations with the R. F. C., Army and Navy, which Phillips presented several days ago.

With the immediate application of the Lease-Lend Act and no miscalculations on the part of the British Purchasing Commission, there might be a saving of \$80,000,000. Phillips stated that the conversation which Purvis and he had yesterday with Mr. Hopkins brought about no clear cut and definite arrangement. The British are to go ahead, however, making down payments on new contracts with the understanding that the Lease-Lend people will bail them out after the legislation is in full operation. The British were warned in turn not to include any questionable items in their purchases for which they expect to be reimbursed.



(Saided by Deputy Minister of Finance Clark of Canada to Mr. Cochran in the Treasury at 5:50 p.m., March 18, 1941.)  
 Memorandum on Canada's Balance of Payments with United States

SECRET

Estimates of Canada's balance of payments with the United States for the fiscal year April 1st, 1941, to March 31st, 1942, and the quarters thereof, are set forth in the table attached to this memorandum. Figures are also given for the six months March to August, 1941. The headings and items in this table are self-explanatory and require no detailed comment. Some additional relevant information is given in the following paragraphs.

Imports for War Purposes:

The estimated value of imports for war purposes of \$428 millions during the fiscal year includes the value of imports required for British account in Canada and for producing supplies for British account, as well as imports for Canadian projects. The following table gives an estimated breakdown of this division according to general categories of import requirements. Included with the purely Canadian requirements are relatively small amounts for the account of other Dominions.

Estimates of Requirements of United States Funds for War Purposes in the Fiscal Year 1941-42

(millions of Canadian Dollars)

	Total	United Kingdom	Canada and Dominions
For direct purchases of aircraft, engines and parts.	94.5	48.1	46.4
For direct purchases of ships, motor transport, ordnance & munitions.	9.4	—	9.4
For miscellaneous direct purchases.	6.2	—	6.2
For the U.S. content of war supplies produced in Canada	242.2	154.0	88.2
For the U.S. content and U.S. equipment of capital projects for war production and defence construction.	55.7	30.5	25.2
Total as above	408.0	232.6	176.4
Add allowance for price increases	20.0	11.4	8.6
Total	428.0	244.0	184.0
Of the above figures for U.S. Content: Aircraft, engines and parts ordered by contractors from U.S.	34.6	21.1	15.5
Machine tools for capital projects receiving capital assistance.	37.5	24.0	15.5

It is also estimated that of our imports of petroleum and its products about 20.5 million dollars worth will be required for war purposes, including production of war supplies, about 17.9 million dollars worth of our imports of coal and coke, and about 57 million dollars worth of our imports of primary iron and steel, including rolling mill products. These items are included in the totals in the table above.

The distribution between the quarters of the fiscal year of these imports for British and for Canadian war purposes is estimated as follows:

	<u>Total</u>	<u>British</u>	<u>Canadian (and other Dominions)</u>
Total for fiscal year	428	244	184
1st quarter	87	52	35
2nd quarter	98	59	39
3rd quarter	117	66	51
4th quarter	126	67	59
Six months - March - Aug., 1941	181	109	72

It will be noted that the proportion of imports for war purposes which are for British account or for the production of supplies for Britain is substantially higher than in the estimates hurriedly supplied early in December when only \$75 millions of a total of \$525 millions were attributed to British requirements. The earlier estimate of the division took account only of the British share of the United States content of capital and production requirements for projects receiving capital advances. It did not include the direct purchases made in the United States for British account by the Canadian Department of Munitions and Supply, including aircraft, nor the United States content of the many British purchases in Canada which were produced without capital assistance. The largest single item in the latter category would be motor transport.

(Handed by Deputy Minister of Finance Clark of Canada to Mr. Cochran in the Treasury at 5:30 p.m., March 15, 1941.)

Estimated Canada - United States Balance of Payments  
For the  
Fiscal Year April 1st, 1941, to March 31st, 1942  
and  
Six Months, March 1st, 1941, to August 31st, 1941

(in millions of Canadian dollars)

	Fiscal Year 1941-42					Six Months
	Total	1st.Q.	2nd.Q.	3rd.Q.	4th.Q.	March-Aug., 1941
<u>Payments by Canada to U.S.A.</u>						
For imports for non-war purposes	525	127	128	155	117	255
For imports for war purposes. (See Note 1)	428	87	98	117	126	161
For interest and dividends	258	68	52	67	51	121
For freight	85	19	21	25	20	40
For tourists & travel	22	5	5	5	7	10
For other miscellaneous current items (net)	25	6	6	6	7	12
Total.....	1,525	512	510	375	528	619
<u>Receipts by Canada from U.S.A.</u>						
For exports of merchandize	475	117	125	121	111	255
For exports of gold production	215	51	55	55	56	104
For tourists & travel (see Note 5)	152	27	32	22	21	98
For freight	55	15	15	14	15	28
For interest and dividends	28	6	7	7	8	18
Total.....	925	214	283	219	209	478
Net payments by Canada to U.S.A. on Current Account	598	98	27	154	119	141
<u>Additional Items</u>						
Capital exports through-outside market offsetting tourist receipts.	25	5	11	4	5	15
Bond maturities payable in U.S.dollars held in U.S.A.	45	28	5	5	7	34
Total net payments by Canada to U.S. including capital items above	468	151	45	165	151	190
Add: net payments by Canada to other countries outside sterling area (See Note 2)	10	-2	7	-1	6	5
Total net requirements by Canada of U.S.dollars (Canadian dollar equivalent)	478	129	50	162	137	195

Notes on following page.

Regraded Unclassified

Note 1. re Imports for War purposes:

These figures include estimated values of imported oil, coal, steel, machinery, etc., required for the production of war supplies.

No provision has been made in these estimates for new capital projects which may be developed but which are not under consideration at the present time.

Note 2. re Other Countries:

These items represent the net balance of payments of Canada with other non-Empire countries which Canada settles in U.S. dollars. It is mainly made up now of merchandise trade with Latin America and Japan. The only significant "invisible" item is the amount receivable in dividends from the International Petroleum Company.

The U.S. dollar balance of payments of Newfoundland has been disregarded in the tabulation as negligible, at least on the basis of experience to date.

Note 3. re Receipts from Tourist Trade:

This figure is based upon an expectation of a substantial increase in Canadian receipts from tourists over those of the 1940 season.

(Handed by Deputy Minister of Finance Clark of Canada to Mr. Cochran in the Treasury at 5:30 p.m., March 18, 1941.)

SECRET

CANADIAN HOLDINGS OF U.S. DOLLAR ASSETS

A. The following are liquid assets in U.S. dollars or convertible into U.S. dollars, held by Canada, as of February 28th, 1941.

Gold	\$156 mm. U.S. (long)		
Dollar Balances			
1. Official-F.E.C.B.	123 mm. " "	\$8 mm. U.S. (short)	
-Minister of Finance	55 mm. " "		
2. Private	20 mm. " "		
	<u>\$512 mm. " "</u>	<u>\$8 mm.</u>	

The private holdings of \$20 millions included above do not include the cash holdings of the Canadian chartered banks or life insurance companies.

B. Canadian holdings of U.S. securities are tabulated below. This information was obtained from the registration of all foreign securities owned by Canadian residents having total holdings of a value of \$1,000 or more.

The table is based on values of listed and unlisted bonds at 31st December, 1939, and listed stocks at 28th February, 1941. These securities were originally valued as at 31st December, 1939. The valuation of the listed stocks as at 28th February, 1941, was reached by revaluing the holdings of issues held in excess of \$500,000 (which accounted at end-1939 values for over 70 per cent of the aggregate) and assuming that the prices of the balance of the stocks in each group declined to the same extent as the revalued stocks in that group.

	<u>Listed Stocks</u>	<u>Listed and Unlisted Bonds</u>	<u>Totals</u>
Industrial	\$189.9 mm.(U.S.)	\$14.4 mm. (U.S.)	\$204.3mm.(U.S.)
Mines	7.7	—	7.7
Rails	7.5	7.9	15.2
Utilities	58.9	15.5	54.4
Investment Cos.	5.7	—	5.7
Insurance Cos.	7.5	—	7.5
Banks & Trust Cos.	4.0	—	4.0
U.S. Government	—	7.0	7.0
State & Municipal	—	2.0	2.0
Real Estate	—	1.5	1.5
	<u>260.8</u>	<u>48.1</u>	<u>308.9</u>

There are approximately, 3,500 items under unlisted stocks which it has not been possible to value thoroughly. It is believed, on the basis of a partial valuation made, that the figure at which they are entered is an outside estimate. #

20.0  
528.9

Deduct:

Sales of Stocks and Bonds,  
Sept. 15/39 to Feb. 28/41 (A) 40.0

Maturities of bonds, Sept.  
15/39 to Feb. 28/41 3.0

-43.0  
285.9

Deduct:

Brokers' Loans

-10.0

(Footnotes on next page)

275.9mm.(U.S.)

Regraded Unclassified

The figures above do not include the assets of Canadian life insurance companies, banks or trust companies. The latest available figures relating to these institutional holdings were submitted in December.

An estimate of Canadian direct investments in the United States was also submitted in December and no later information on this is available. Information was also provided at that time on holdings of securities of Latin America, the total of which is so small as to make a revaluation unimportant, and on direct investments in Latin America on which there is no later information.

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# In the figures supplied in December a "rough guess" of 20 to 40 million dollars was made of the value of these unlisted stocks. Since that time a detailed appraisal has been made of all items which could be identified and valued. The total of such items amounted to about 13.5 million dollars. On the basis of this information it is believed that \$20 million is an outside estimate.

(A) This is the amount estimated from the receipts of the proceeds of sale of dollar securities. The figure may include some small amount resulting from the sale of dollar securities other than U.S. securities.

(Handed by Deputy Minister of Finance Clark of Canada to Mr. Cochran  
in the Treasury at 5:30 p.m., March 18, 1941.)  
Memorandum on Canadian - United Kingdom Balance  
of Payments, 1941-42

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Attached hereto is a table giving estimates of the balance of payments between Canada and the United Kingdom for the fiscal year April 1st, 1941, to March 31st, 1942, for the quarters thereof, and for the six month period March to August, 1941. Estimates of the net balance of payments of Canada with the rest of the sterling area are added, and also the estimated net balance of Newfoundland with the sterling area.

Estimates of these balances of payments were supplied in December for the second year of war. The present figures take into account developments and new information since that time. Use has been made of estimates supplied to Canada by the British Treasury covering the six month period March to August, 1941. The attached estimates show a somewhat smaller net balance on current account than do the British figures, and differences in certain of the items making up the totals. One principal difference is in the estimates of war supplies to be sold by Canada to the United Kingdom where the British figures appear to be based upon different forecasts of cost prices, and possibly in different anticipations regarding dates of delivery. The second major difference is in the estimates of expenditure in Britain by and for the Canadian forces there. While such expenditure is very difficult to forecast accurately, we anticipate a substantially higher figure than that in the British estimates.

## ESTIMATED CANADA-UNITED KINGDOM BALANCE OF PAYMENTS

FISCAL YEAR APRIL 1, 1941 to MARCH 31, 1942

AND

6 MONTHS PERIOD MARCH 1, 1941 to AUGUST 31, 1941

	Fiscal Year				March 1, to August 31, 1941	
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter		
<u>Payments to Canada</u>						
Deliveries of munitions etc. (Schedule 1)	803	140	181	233	249	315
Capital assistance (see Note 1)	65	33	22	9	1	59
Raw materials (Schedule 2)	318	74	80	86	78	162
Agricultural products (Schedule 3)	269	82	85	61	41	167
R.A.F. Schools in Canada - (This estimate was supplied by U.K.)	27	6	7	7	7	13
Ship disbursements and Indemnities (See Note 2)	58	14	14	15	15	30
	<u>1,540</u>	<u>349</u>	<u>389</u>	<u>411</u>	<u>391</u>	<u>746</u>
<u>Payments by Canada</u>						
Imports from U.K.	150	35	40	40	35	75
Interest and dividends (net)	56	16	15	13	12	31
Shipping services	20	5	5	5	5	10
Canadian military expenditures	223	46	70	51	56	99
Miscellaneous services	8	2	2	2	2	4
	<u>457</u>	<u>104</u>	<u>132</u>	<u>111</u>	<u>110</u>	<u>219</u>
Net balance on current account:						
with the United Kingdom (See Note 1)	1,083	245	257	300	281	527
With rest of sterling area	49	12	12	12	13	24
Newfoundland's net balance on current account with sterling area	20	5	5	5	5	10
Total net balance on current account (See Note 1)	<u>1,152</u>	<u>262</u>	<u>274</u>	<u>317</u>	<u>299</u>	<u>561</u>

- Notes: 1. No provision has been made in these estimates for new capital projects which may be developed but which are not under consideration at the present time.
2. The United Kingdom believe this may be too low by as much as \$40 millions in the full year, or \$20 millions in the six months March 1 to August 31, 1941.

Canadian Holdings of Sterling Exchange

The amount of sterling balances held by Canada as at February 28th, 1941, is as follows:

Foreign Exchange Control Board

Spot.....	£ 37.1 mm.
Futures.....	4.0 "
	41.1 mm.
Total.....	41.1 mm.
Minister of Finance Account.....	.7 "
	41.8 mm.
Total holdings.....	£ 41.8 mm.

Some indication of the value of Canadian investments in the United Kingdom and other Empire countries, and in European countries other than the United Kingdom, was given in the estimates supplied in December, 1940. As the amounts of these investments are relatively unimportant and the values are largely nominal, they have not been re-estimated.

THE WAR PROGRAM AND ITS EFFECT ON THE NATIONAL INCOME

(Millions of Dollars)

	Calendar Years		Fiscal Year
	1939	1940	1941-42
<b>Income Payments to Individuals and Income in Kind</b>			
Salaries & Wages	2,527	2,875	5,575
Dividend Income	486	512	560
Agriculture	506	509	530
Independent Business Proprietors, Professions, etc.	367	389	430
All Other	<u>189</u>	<u>186</u>	<u>130</u>
<b>Total</b>	<b>4,015</b>	<b>4,411</b>	<b>5,025</b>
<b>Transfer Payments and Income in Kind</b>			
Relief, Pensions and Other Public Welfare	275	225	200
Military - Pay and Allowances	25	183	380
- Food & Maintenance	<u>4</u>	<u>32</u>	<u>65</u>
<b>Total Transfers</b>	<b>304</b>	<b>440</b>	<b>645</b>
<b>Total Income Payments &amp; Income in Kind</b>	<b>4,319</b>	<b>4,851</b>	<b>5,670</b>
<b>Adjustments to obtain National Income Produced</b>			
Indirect Taxes Included in Government Purchases	40	95	210
Undistributed Corporate Profits	<u>40</u>	<u>60</u>	<u>70</u>
<b>National Income Produced Plus Transfers</b>	<b>4,399</b>	<b>5,006</b>	<b>5,950</b>
<b>Non-War Government Expenditures</b>			
Current Account - Dominion	475	425	420
- Provinces & Municipalities	<u>544</u>	<u>535</u>	<u>545</u>
	1,017	960	965
Wheat	55	133	150
Capital - All Governments	<u>75</u>	<u>40</u>	<u>30</u>
	1,147	1,133	1,145
<b>National Income Available after Non-War Government Expenditures</b>	<b>3,252</b>	<b>3,873</b>	<b>4,805</b>
<b>Net Favourable (-) or Unfavourable (+) Balance of Payments on Current Account Excluding Assistance to Britain (a)</b>	<b>-56</b>	<b>+115</b>	<b>+408</b>
<b>Total Income Available for War and Private Use</b>	<b>3,196</b>	<b>3,988</b>	<b>5,213</b>
<b>Expenditures on War</b>			
Canadian Expenditures	71	549	1,450
Assistance to Great Britain (b)	74	265	1,087 (c)
British Capital Assistance Program (d)	-	<u>88</u>	<u>65 (e)</u>
<b>Total War</b>	<b>145</b>	<b>902</b>	<b>2,602</b>
<b>Income Available for Private Use (d)</b>	<b>3,051</b>	<b>3,086</b>	<b>2,611</b>

(b) Repatriation of securities and accumulation of sterling. This item less (a) equals the favourable balance of payments on current account with all countries.

(c) Assumes that no gold will be received from Great Britain. Total assistance includes \$1,018 mm. to Great Britain for exports, \$65 mm. to Great Britain for the capital program, \$49 mm. on account of other sterling area countries and \$20 mm. to Newfoundland.

(d) This includes not only income available for consumption but also for private capital investment and accumulation of stocks. It excludes consumption made possible by consumption of stocks, the sale of existing capital assets to the government (such as land) which are included in government expenditures, or the failure to make good depreciation.

United Kingdom Cash Deficiency of Canadian Dollars

September 15, 1939 to February 28, 1941

(Millions of Canadian dollars)

	Sept.15/39 to Feb. 28/41 (17½ mos.)	Sept.15/39 to Feb.29/40 (5½ mos.)	Mar.1/40 to Aug.31/40 (6 mos.)	Sept.1/40 to Feb.28/41 (6 mos.)	Sept.1/40 to Nov.30/40 (3 mos.)	Dec. 1940	Jan. 1941	Feb. 1941
Net deficit (a)	736.9	115.1	262.4	359.4	185.5	45.6	73.0	55.3
Realization of assets:								
Canadian Gov't securities	256.9	78.3	71.2	107.4	17.3	46.4	36.8	6.9
Sales of vested securities and other realizations (a)	72.5	15.6	9.8	47.1	0.5	27.9	14.2	4.5
Sub-total <sup>45%</sup>	329.4	93.9	81.0	154.5	17.8	74.3	51.0	11.4
Canada's accumulation of sterling <sup>21%</sup>	157.7	19.2	(1.3)	139.8	107.7	(33.8)	22.0	43.9
Total ex gold	487.1	113.1	79.7	294.3	125.5	40.5	73.0	55.3
Sale of gold to Canada <sup>34%</sup>	249.8	2.0	182.7	65.1	60.0	5.1	-	-
	736.9	115.1	262.4	359.4	185.5	45.6	73.0	55.3

(a) Exclusive of unknown changes in private balances

(Issued by Deputy Minister of Finance Clark of Canada to Mr. Cochrane in the  
 Treasury at 5:30 p.m., March 18, 1941.)

Canada's Cash Deficiency of United States Funds

September 15, 1939 to February 28, 1941

(Millions of U. S. dollars)

SECRET

Net deficit (current account and capital) before allowing for new capital inflow

New capital inflow (a)

NET DEFICIT

Realization of foreign assets (b)

Depletion of gold and U.S. balances (official and private)

Sub-total: Decline in Canada's U.S. assets

Gold received from U. K.

Sept. 15/39 to Feb. 28/41 (17½ mos.)	Sept. 15/39 to Feb. 29/40 (5½ mos.)	Mar. 1/40 to Aug. 31/40 (6 mos.)	Sept. 1/40 to Feb. 28/41 (6 mos.)	Sept. 1/40 to Nov. 30/40 (3 mos.)	Dec. 1940	Jan. 1941	Feb. 1941
436.6	59.4	222.7	154.5	74.9	38.9	17.8	22.9
19.8	10.6	4.9	4.3	2.0	0.7	0.5	1.1
416.8	48.8	217.8	150.2	72.9	38.2	17.3	21.8
66.4	21.4	20.8	24.2	13.4	3.9	3.5	3.4
123.3	25.6	31.0	66.7	4.8	29.7	13.8	18.4
189.7	47.0	51.8	90.9	18.2	33.6	17.3	21.8
227.1	1.8	166.0	59.3	54.7	4.6	-	-
416.8	48.8	217.8	150.2	72.9	38.2	17.3	21.8

- (a) Sale of Canadian securities to non-residents for U.S. funds, new loans and direct investments, immigrants' capital, etc.
- (b) Sale of foreign securities to non-residents for U.S. funds, maturities of foreign securities payable in U.S. funds, repayment of loans, transfers by insurance companies, realization of miscellaneous assets.

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(Issued by Deputy Minister of Finance Clerk of Canada to Mr. Cochrane in the Treasury at 5:30 p.m., March 16, 1941.)

TREASURY DEPARTMENT  
INTER-OFFICE COMMUNICATION

DATE March 18, 1941

TO Secretary Morgenthau  
FROM W. H. Hadley

Mr. Rouse talked to Mr. Black of the Chase Bank and his report is that the syndicate dealers have pretty well taken all of the \$35 million Arkansas bonds. Retailing is progressing satisfactorily and, except for a few maturities, seems all right.

Outside market comment is that the issue is moving better than slowly and as well as could be expected for what they consider a second or third grade issue.

\$20 million offering by New York City today is moving very well on a serial basis of 1 to 15-year bonds, with a maximum yield of about 2.36%. These bonds are rated A.

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SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON

March 18, 1941

COPIES OF THE CHAIRMAN

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

Dear Henry:

Enclosed is the material about which I spoke to you yesterday on the phone.

Our consideration of this problem runs back to last October when the Army War College wrote us saying that they were working on a revision of their M-day plan and asking us to make suggestions as to our agency. Our reply apparently got through to Under Secretary Patterson, who liked it well enough to send it to the President. Patterson suggested to the President that we proceed at once to utilize our powers in connection with Defense.

Since that time, things have moved slowly. We did work out with Ed Stettinius the priorities arrangement described in the attached material, and we have been giving study to the general subject of capital funds control. But we have taken no further specific action because we have come more and more to the conclusion that formal coordination between the various appropriate Government agencies is necessary.

Then, as I have told you, the subject came up again in a recent luncheon I had with Jim Forrestal. It was as a result of that discussion that we prepared the enclosed material. As I told you, Jim phoned me yesterday saying he thought it was a splendid idea and urged that we should proceed without further delay towards setting up something along the lines we suggested.

The memorandum entitled "Capital Funds Control" is obviously a little heavily loaded on the side of the S.E.C. I want you to know that this is simply because we know more about the S.E.C. than we know about any other agencies and not because we wish to grab more than our share. I believe that you should be the Chairman of such a committee. There should, I think, be no difficulty on that point since you are the ranking Cabinet member.

The copy of the proposed memorandum to the President which is enclosed herewith is, of course, written from our point of view. As I think it over, it might be better if you took the initiative. If this does not appeal to you I would be glad to join with you or take the initiative myself -- anything you wish.

Sincerely yours,



Jerome N. Frank  
Chairman

### Capital Funds Control

The discussion below is confined simply to a brief examination of some of the problems which arise in connection with consideration of the problem of controlling capital funds for Defense purposes together with some suggestions for meeting the problem. It is not meant to be an economic treatise on the sources of or the mechanics for raising capital.

#### Publicly issued securities

All corporate issues exceeding \$100,000 must be registered with the S.E.C. Under a recent agreement with the Priorities Board and O.P.M. Associate Director Hillman's office, the S.E.C. has already established certain important avenues for capital issues control. Briefly, it has adopted the policy of clearing with the Defense offices all registration matters involving the construction of additional facilities or the purchase of additional machinery and equipment. Where these Defense offices indicate that either labor or materials are not forthcoming or may not be forthcoming because of the Defense effort, the S.E.C. requires that this information be prominently disclosed in the selling literature.

Of course, technically, this is not control. It relies on the power of publicity to stop financing for the purchase of materials and labor which are in competition with Defense needs.

Furthermore, the employment of this device is presently premised on protection of the investor rather than on Defense

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needs. This must be so, because of the character of the S.E.C.'s statutory authority, unless and until the Commission is given special direction (either by statute or executive order) to concern itself directly with Defense problems.

Consideration should be given to the possibility that two or three hundred millions of dollars of corporate financing, scheduled to hit the market at the same time as a large Treasury offering, might play havoc with Defense financing. The S.E.C. might prevent this by refusing to accelerate the effective date of registration statements until after the Treasury operation is out of the way. It seems obvious, however, that unless this were made a generally accepted procedure as a part of the Defense program, the effect upon the market of the use of this device might be bad rather than good. It is also questionable whether the S.E.C. could appropriately employ this power for this purpose unless it had statutory or executive sanction.

#### Privately offered issues

For the most part, life insurance companies are the principal buyers of privately placed issues of securities. By far the great percentage of their purchases in recent years has been refunding bonds, which do not appear to create an immediate capital issues control problem (except where the actual offering date conflicts with Treasury plans) inasmuch as they represent merely the exchange of one security for another already outstanding.

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There is undoubtedly, however, a certain amount of stock and bond financing of companies for new money purposes done through commercial banks, fire insurance companies, institutional and private investors. It seems probable that such financing might be for purposes in conflict with National Defense. At present, however, there is no central source of information on this subject.

The subject of private placement of securities is one which the S.E.C. intends (for reasons not directly related to Defense) to cover in connection with its imminent proposals for amendments to the Securities Act. It intends to ask Congress to require the registration of most of such securities with it. This will give it the same kind of opportunity to know about them and check with the Defense offices that it now has as to the bulk of security issues and should largely meet the problem, although a check should be made with the Treasury as to whether the offering conflicts with Treasury offerings.

#### Financing other than through sales of securities

The bulk of this financing falls in the general category of commercial loans by commercial banks. These loans may run from 30 days to several years. They may reflect the acquisition of inventory, the addition of new facilities, the cost of a new sales promotion program or the refinancing of previously incurred debts. By and large, there is no immediate interest in the last because it is in

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the nature of a refunding, but there may well be cause for concern in the others wherever they may be for the purchase of goods and services in conflict with National Defense needs. Intelligent use of our resources would seem to indicate the need at least for full information about such transactions and perhaps for some form of control.

The investment policies of life insurance companies may also come into direct conflict with the Defense program in the mortgage field. The construction of a new office building with insurance funds, for example, may result in the employment of labor and materials badly needed for Defense purposes. The same is true of the construction of private homes, particularly in the type of large scale real estate developments using the same types of labor as is necessary to build Army posts and Defense housing projects.

For this reason, it seems important that some steps be taken to make sure that this type of competition is not permitted to exist. Of course, the Priorities Board can at any time step in and requisition materials designated for an office building, and Mr. Hillman's office can similarly requisition labor employed on such non-Defense projects. But the psychological difficulties of doing this after the financing has been arranged and the project is under way can readily be seen. It might be helpful to catch such situations, where possible, in the financing stage before specific priorities applications are made. Furthermore, it might be well for the Treasury to know of these kinds of financing to assist it in making its plans.

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Conclusions and recommendations

There is no need for additional legislation to meet this problem.

Sufficient machinery now exists within the Government to handle this problem, provided that machinery is authorized to be used for these purposes. There appears to be no need for the kind of reliance upon local business groups such as were used in the last war. In this connection, it should be recalled that there was at that time no Federal statute for a central clearing house for all public offerings of securities such as the S.E.C., and also that the Federal Reserve System was relatively new - only a little over three years old. Furthermore, there was no well established financial institution with the Government to finance business such as the R.F.C.

The simple solution of our present problem seems to be to coordinate the activities of existing agencies and to authorize them, where authorization is or seems necessary, to employ their existing machinery for the purpose of rendering every aid to the military, naval and general defense needs of the nation.

Probably the first function of such a coordinated group would be to open up reliable channels of information. The Government should be in a position to know at all times where all capital is going, whether it be through public or private offering of securities, through private arrangements with banks and other commercial lenders, through mortgages, or through any other channels including the investment of corporate reserves. Such a coordinated group should have unquestioned power to gather such information.

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Secondly, such a group should be able to assist bona fide defense projects to obtain the best kind of financing for their particular needs, whether it be through governmental or private channels.

Thirdly, such a group should have the latent power to control the flow of capital wherever necessary for defense purposes. It should be authorized to employ all powers existing in any of the member agencies, regardless of the original purpose for which these powers were granted, to this end. Typical would be the discount powers of the Federal Reserve System and the stop order and acceleration powers of the S.E.C.

Specifically, it is recommended that an Executive Order be prepared providing that:

(1) A National Defense Finance Board be established, comprised of the Secretary of the Treasury, the Chairman of the Board of Governors of the Federal Reserve System, the Chairman of the Securities and Exchange Commission, the Chairman of the Reconstruction Finance Corporation and the Director of Priorities.

(2) This Board be created as an integral part of the National Defense machinery, and as such directed to coordinate its activities closely with those of the War and Navy Departments and other National Defense agencies.

(3) Each member be authorized to employ to any extent necessary the powers and facilities of his particular agency for the purpose of carrying out the objectives of the Board.

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(4) This Board be authorized to establish channels of continuous information as to capital financing from all sources, with authority to compel the submission of such information wherever such compulsion becomes necessary.

(5) The Board be authorized to employ any powers existing in the agencies of any of its members to prevent or postpone capital financing in conflict with the needs of National Defense.

(6) The Board be directed to employ the facilities of any or all of the agencies of its members to facilitate the financing of bona fide National Defense businesses in need of financing or to prevent financing in conflict as to time with Treasury plans.

To commend it, this plan has the feature that no new governmental machinery and no new legislation are necessary. It is simply a coordination of existing facilities.

## EXECUTIVE ORDER

## Establishing the National Defense Finance Board in the Executive Office of the President and Defining Its Functions and Duties

By virtue of the authority vested in me by the Constitution and the statutes, and in order to define further the functions and duties of the Office for Emergency Management with respect to the national emergency as declared by the President to exist on September 8, 1939, for the purpose of effectively mobilizing, utilizing, conserving and coordinating the Nation's financial resources for production for national defense, for the purpose of preventing wasteful financing, and finding that this Order is necessary to increase the efficiency of the defense program, it is hereby ordered:

1. There shall be in the Office for Emergency Management of the Executive Office of the President a National Defense Finance Board which shall consist of (1) the Secretary of the Treasury, (2) Chairman of the Board of Governors of the Federal Reserve System, (3) Chairman of the Reconstruction Finance Corporation, (4) Chairman of the Securities and Exchange Commission, and (5) Director of Priorities, Office of Production Management. The Chairman of the Board shall be designated from among the members by the President. The members shall serve as such without compensation but shall be entitled to actual and necessary transportation, subsistence, and other expenses incidental to the performance of their duties.

2. Subject to such policies, directions and regulations as the President may from time to time prescribe, and with such

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advice and assistance as the National Defense Finance Board may require from the departments and agencies of the Federal Government, and subject to the general policy of coordinating its activities with those of the War and Navy Departments and other National Defense agencies, and utilizing the services and facilities of other departments and agencies of the Government to the fullest extent compatible with efficiency, the National Defense Finance Board shall:

a. Assemble and analyze all pertinent information from private or public sources for the purpose of utilizing and conserving the Nation's financial resources for national defense, for the purpose of coordinating the flow of capital and the Nation's requirements for national defense, and for related purposes; and take all lawful action necessary or appropriate to obtaining such information.

b. Insure and foster effective utilization, conservation and coordination of the financial resources of the Nation for national defense in connection with any capital financing; prevent any capital financing in conflict with the national defense effort; and take all lawful steps necessary and proper to these ends.

c. Determine the adequacy of existing facilities for financing business enterprise connected with defense and stimulate their maximum use; and foster the creation of such financial facilities as may be appropriate to increase, aid and expedite production for national defense.

d. Plan and take all lawful steps necessary to coordinate capital financing in accordance with priorities of deliveries of

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material as provided in Section 2(a) of the Act entitled "An Act to Expedite National Defense and For Other Purposes", approved June 28, 1940, and in accordance with such determinations and orders issued in pursuance thereof by the Office of Production Management.

e. Formulate plans for the mobilization for defense of the financial resources and facilities of the Nation; and take all lawful action necessary or appropriate to carry out such plans.

f. Utilize and coordinate for the purpose of carrying out this Order the powers and facilities available in the several departments, corporations and other agencies of the Government which are concerned with financial activities.

g. Establish and maintain liaison with the financial, fiscal and monetary agencies of the Government and with such other departments and agencies of the Government and with such persons, private and public, as the National Defense Finance Board may deem necessary to carry out this Order.

h. Advise upon proposed or existing legislation, and recommend such additional legislation as may be necessary or desirable, relating to financial activities or resources which affect the mobilization of all resources required for national defense.

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1. Keep the President informed with regard to progress made and problems encountered in carrying out this Order; and perform such other related duties as the President may from time to time assign or delegate to it.

j. Conduct such investigations, hold such hearings, make such determinations, and prescribe such rules and regulations as may be necessary or appropriate to carry out this Order.

3. The National Defense Finance Board may provide for its internal organization and conduct its business in such manner as it deems necessary to the performance of its functions and duties.

4. Within the limits of such funds as may be allocated to it by the President on the recommendation of the Bureau of the Budget, the National Defense Finance Board and the Government departments, corporations and agencies represented on the Board are authorized to employ necessary personnel and make provision for the necessary supplies, facilities, and services to carry out the provisions of this Order. However, the National Defense Finance Board shall use insofar as practicable such statistical, informational, fiscal, personnel, and other general business services and facilities as may be made available through the Office for Emergency Management or other departments and agencies of the Government.

FRANKLIN D. ROOSEVELT

THE WHITE HOUSE  
March , 1941

March 12, 1941

MEMORANDUM FOR THE PRESIDENT

Re: Control of Capital Funds

This memo results from a talk I had recently with Jim Forrestal on the subject. He agrees that steps should be taken now to prevent the flow of capital into projects which may be in competition with the Defense effort. You may recall that several months ago Judge Patterson indicated to you a similar interest in action to this end. Right now, we do not even have reliable channels of information through which we can know currently where capital is going from such sources as banks, life and fire insurance companies, other institutional investors, etc.

As a result of this discussion, I have studied the subject and am convinced that all necessary steps can be taken without additional legislation. All that is needed is a proper coordination of the various existing agencies of Government having functions related to the flow of capital and finance, both public and private. And of course those agencies should be authorized and instructed to use whatever facilities they have wherever necessary.

The S.E.C. offers a good example. After a recent talk with Stettinius and Lubin, we adopted the policy of making priorities information "material" in connection with Securities Act registrations. Now, whenever an issuer is registering to get money for new plant or equipment, we check with O.P.M. and Priorities to see if the project is in competition with National Defense as to materials or labor. If so, we require that this be prominently

disclosed in the prospectus. Of course, our emphasis here is on protection of investors and our reliance is on publicity, because that's all our statute lets us do normally. But it should be almost 100 per cent effective.

Similarly, we have the power to delay the offering of registered stocks and bonds because of inadequate disclosure, etc. But, without emergency authority from you, there is considerable doubt whether we could use this power to delay private financing which might compete with Treasury financing for Defense needs. It is, of course, not inconceivable that a couple of hundred millions of private financing might wreck the Treasury's plans if it all came on the same day.

These are just examples. Other powers exist in this Commission and in other agencies. Could you not coordinate the work of all these agencies by setting up a Defense Finance Board composed of the Secretary of the Treasury, the Chairman of the Federal Reserve Board, the Chairman of the R.F.C., the Chairman of the S.E.C. and the Director of Priorities, authorizing the employment of any facilities and powers which all these agencies have for this purpose? Jim Forrestal feels this would be most helpful.

If this is not done, yesterday's plea of Connely of the Investment Bankers Association to have a Capital Issues Committee as in the last war, may be recchoed to the point where any effort to confine this activity to existing Government agencies may be difficult. We don't need and I doubt if we want a 1917 Capital Issues Committee again.

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Jerome H. Frank  
Chairman

## Union Calendar No. 82

77TH CONGRESS  
1ST SESSION**H. R. 4050**

[Report No. 276]

## IN THE HOUSE OF REPRESENTATIVES

MARCH 18, 1941

Mr. TAYLOR, from the Committee on Appropriations, reported the following bill; which was committed to the Committee of the Whole House on the state of the Union and ordered to be printed

**A BILL**

Making supplemental appropriations for the national defense to provide aid to the government of any country whose defense the President deems vital to 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 to enable the President, through such departments or
- 4 agencies of the Government as he may designate, to carry
- 5 out the provisions of An Act to Promote the Defense of
- 6 the United States, approved March 11, 1941, and for each

1 and every purpose incident to or necessary therefor, there  
2 is hereby appropriated, out of any money in the Treasury  
3 not otherwise appropriated, the following sums for the fol-  
4 lowing respective purposes, namely:

5 (a) For the procurement, by manufacture or otherwise,  
6 of defense articles for the government of any country whose  
7 defense the President deems vital to the defense of the  
8 United States, including services and expenses in connection  
9 therewith, as follows:

10 (1) Ordnance and ordnance stores, supplies, spare  
11 parts, and materials, including armor and ammunition and  
12 components thereof, \$1,343,000,000.

13 (2) Aircraft and aeronautical material, including en-  
14 gines, spare parts, and accessories, \$2,054,000,000.

15 (3) Tanks, armored cars, automobiles, trucks, and other  
16 automotive vehicles, spare parts, and accessories, \$362,-  
17 000,000.

18 (4) Vessels, ships, boats, and other watercraft, and  
19 equipage, supplies, materials, spare parts, and accessories,  
20 \$629,000,000.

21 (5) Miscellaneous military equipment, supplies, and  
22 materials, \$260,000,000.

23 (6) Facilities and equipment, for the manufacture or  
24 production of defense articles, by construction or acquisition,

1 including the acquisition of land, and the maintenance  
 2 and operation of such facilities and equipment, \$752,000,000.

3 (7) Agricultural, industrial, and other commodities and  
 4 articles, \$1,350,000,000.

5 (b) For testing, inspecting, proving, repairing, outfit-  
 6 ting, reconditioning, or otherwise placing in good working  
 7 order any defense articles for the government of any country  
 8 whose defense the President deems vital to the defense of  
 9 the United States, including services and expenses in con-  
 10 nection therewith, \$200,000,000.

11 (c) Not to exceed 20 per centum of any of the fore-  
 12 going eight appropriations may be transferred by the Pres-  
 13 ident to any other such appropriation, but no appropriation  
 14 shall be increased by more than 30 per centum.

15 (d) For necessary services and expenses for carrying  
 16 out the purposes of such Act not specified or included in the  
 17 foregoing, \$40,000,000.

18 (e) For administrative expenses, \$10,000,000.

19 (f) In all, \$7,000,000,000, to remain available until  
 20 June 30, 1943.

21 SEC. 2. If any defense articles procured from an appro-  
 22 priation made before March 11, 1941, is disposed of, under  
 23 such Act of March 11, 1941, by any department or agency  
 24 to the government of any country whose defense the Presi-

1 dent deemed vital to the defense of the United States, the  
2 President may transfer, from the appropriations made by  
3 this Act to the appropriate appropriation of such depart-  
4 ment or agency, an amount equivalent to the value (as  
5 computed for the purposes of the \$1,300,000,000 limitation  
6 contained in section 3 (a) (2) of such Act of March 11,  
7 1941) of the defense article so disposed of, but not to exceed  
8 in the aggregate \$1,300,000,000.

9       SEC. 3. Any defense article procured from an appropri-  
10 ation made by this Act shall be retained by or transferred to  
11 and for the use of such department or agency of the United  
12 States as the President may determine, in lieu of being dis-  
13 posed of to a foreign government, whenever in the judgment  
14 of the President the defense of the United States will be  
15 best served thereby.

16       SEC. 4. No part of any appropriation contained in this  
17 Act shall be used to pay the salary or wages of any person  
18 who advocates, or who is a member of an organization  
19 that advocates, the overthrow of the Government of the  
20 United States by force or violence: *Provided*, That for the  
21 purposes hereof an affidavit shall be considered prima facie  
22 evidence that the person making the affidavit does not  
23 advocate, and is not a member of an organization that  
24 advocates, the overthrow of the Government of the United  
25 States by force or violence: *Provided further*, That any

1 person who advocates, or who is a member of an organization  
2 that advocates, the overthrow of the Government of the  
3 United States by force or violence and accepts employment  
4 the salary or wages for which are paid from any appropria-  
5 tion in this Act shall be guilty of a felony and, upon convic-  
6 tion, shall be fined not more than \$1,000 or imprisoned  
7 for not more than one year, or both: *Provided further,*  
8 That the above penalty clause shall be in addition to, and  
9 not in substitution for, any other provisions of existing law.

10 SEC. 5. This Act may be cited as the "Defense Aid  
11 Supplemental Appropriation Act, 1941."

77TH CONGRESS } HOUSE OF REPRESENTATIVES { REPORT  
1st Session } { No. 276

DEFENSE AID SUPPLEMENTAL APPROPRIATION BILL,  
1941

MARCH 18, 1941.—Committed to the Committee of the Whole House on the state  
of the Union and ordered to be printed

Mr. TAYLOR, from the Committee on Appropriations, submitted the  
following

REPORT

[To accompany H. R. 4050]

The Committee on Appropriations submits the following report in explanation of the accompanying bill entitled "A bill making supplemental appropriations for the national defense to provide aid to the Government of any country whose defense the President deems vital to the defense of the United States, and for other purposes," with a recommendation for immediate consideration and early enactment.

The purpose of the bill is to provide the necessary appropriations to carry into effect an act to promote the defense of the United States, approved March 11, 1941.

The Budget estimates upon which this bill is based were transmitted to Congress on March 12 by the President in a letter addressed to the Speaker of the House of Representatives (H. Doc. No. 139) requesting a total of direct appropriations of \$7,000,000,000.

The letter of the President to the Speaker is as follows:

THE WHITE HOUSE,  
Washington, March 18, 1941.

Hon. SAM RAYBURN,  
Speaker, House of Representatives,  
Washington, D. C.

MY DEAR MR. SPEAKER: This Nation has felt that it was imperative to the security of America, that we encourage the democracies' heroic resistance to aggressions, by not only maintaining but also increasing the flow of material

assistance from this country. Therefore, the Congress has enacted and I have signed H. R. 1776.

Through this legislation our country has determined to do its full part in creating an adequate arsenal of democracy. This great arsenal will be here in this country. It will be a bulwark of our own defense. It will be the source of the tools of defense for all democracies who are fighting to preserve themselves against aggression.

While the defense equipment produced under H. R. 1776 remains under the control of the United States until it is ready for disposition, it is the fixed policy of this Government to make for democracies every gun, plane, and munition of war that we possibly can.

To accomplish these objectives I am transmitting an estimate in the amount of \$7,000,000,000, the details of which are set forth in the accompanying letter from the Director of the Bureau of the Budget. I strongly urge the immediate enactment of this appropriation.

Respectfully,

FRANKLIN D. ROOSEVELT,

This Budget estimate was received on March 12. The committee held hearings on March 13, 14, and 15, having before it the Secretary of State, the Secretary of War, the Secretary of the Navy, the Chief of Staff of the Army, the Assistant Chief of Naval Operations, the Director General of the Office of Production Management (Mr. Knudsen), the Director of the Bureau of the Budget, and other officials concerned with the planning of the program.

The estimates upon which the bill is based were carefully prepared after a survey of the requirements to carry out the act of March 11. The work of the survey was facilitated by the furnishing by the British Government of a specific list of its needs. That list has been studied by the War and Navy Departments and other agencies concerned and by the Office of Production Management and in consultation with the representatives of that Government. The program under the \$7,000,000,000 has been coordinated and correlated with our own needs for our own defense. It represents in terms of money and quantities of defense articles the needs for assistance as they can be seen at this time. The sum is stupendous and the program is gigantic but the issue is greater than both.

The committee has incorporated in the bill the full amount of the Budget estimate of \$7,000,000,000 distributed according to the 10 categories of appropriation. The policy of aid to countries whose defense may be determined to be vital to the defense of the United States has been established with the approval of an act to promote the defense of the United States on March 11 (H. R. 1776, Public Law No. 11). The remaining step to start the full impact of that policy is to implement with funds the agencies which the President may designate to carry out the purposes of the law. In urging expedition in the granting of the appropriations the committee has in mind the legislative history of H. R. 1776. That bill was introduced in the House of Representatives on January 10, reported to the House on January 30, passed the House on February 8, reported to the Senate on February 13, passed the Senate on March 8. The House concurred in the Senate amendments on March 11 and the President signed the bill immediately. The program now needs to proceed with the utmost expedition consistent with prudence if it is to have the effect which the law contemplates and which the American people unquestionably overwhelmingly approve.

The committee invites attention to the remarks of the Secretary of State at the opening of the hearing on these appropriations. They are a clear and cogent restatement of the policy and purpose of our Government in approving an act to promote the defense of the United States and of the urgency of providing the appropriations called for by the bill. The following excerpt epitomizes the statement:

Secretary HELL. \* \* \*. Our safety and the success of the course upon which we have set ourselves demand the courage and the wisdom to go full out in furnishing adequate material aid to the nations whose defense is necessary to our defense. When we do this, we take the most effective step possible in the circumstances to keep war away from our hemisphere, from our own Nation. Doing this, we act in defense of our homes, our institutions, our liberties, our way of life. In this task, half measures will not suffice. There is much to be done and the task is urgent. We must strive with all our will, all our power, and all our resources. To be content with less would be to invite disaster. No people in history have had such opportunity to learn from the tragic example of others. We cannot slink and we must not falter.

It has been deemed advisable by the committee and in consonance with the advice of the administrative officials concerned that all of the usual minute justification of appropriations should not be discussed in the printed hearing. The total appropriation of \$7,000,000,000 and the several categories of the 10 appropriations constituting that amount have been "broken down" for the committee into component elements and the committee is possessed of the itemization used by the Government agencies concerned in making up the individual amounts of the categories of appropriation which comprise the total.

The omission of this detail from the printed hearing is not occasioned by any desire to withhold information from the Congress and the public to which they are entitled. Rather it is a desire to withhold from certain foreign governments and their diligent agents detailed information which they should not have. The procurements under the funds in this bill are for weapons and instruments of war to aid countries which are engaged in a desperate struggle and whose success in that combat is vital to us. These details have a strategic value which must be carefully preserved. The committee ventures to express the hope that what might only be considered by some to be "interesting news" to the citizens of this country shall not become "strategic news" elsewhere to the harm of the very countries we are trying to assist and to ourselves.

There has been speculation on the part of some that the production of such vast amounts of defense articles for assistance to other countries might injure our own defense. The committee desires to quote from the very pertinent testimony of the Chief of Staff of the Army in response to a question from Representative Ludlow:

Mr. LUDLOW. General, I want to ask whether, in your opinion, providing these articles in aid to Britain will in any way endanger our own defense?

General MANSFIELD. No, sir; on the contrary I think that as we now have matters arranged, the result will be to our advantage. Our own actual resources will not be diminished until the finished products come off the production line and are ready for shipment. Increased production will add to our strength until the time for distribution begins. I will go further and say this; that I would be a much happier man today if I thought we had reached a point in our production development where we actually had more capacity than we required. That would be the most favorable situation possible for us, in view of present conditions.

The committee has also been advised with respect to the utilization by the United States of the defense articles to be procured with these

funds in the event they are not disposed of for aid to any country whose defense is vital to the United States.

Secretary Stimson made this statement, which shows very commendable planning by the War Department and very commendable cooperation by the British:

\* \* \* Of the War Department items, practically all or 95 percent are those which can be used for our own Army purposes and which would be vitally useful in case Britain should fall. Only 5 percent represent purely British types of weapons, including the facilities to be erected for such weapons, as distinguished from our American types and their facilities. And even in the case of this last 5 percent, the plant facilities necessary for construction—that is, the tools and the plants for these purely British items—could be used by us on very short notice.

In other words, as you are doubtless familiar, I might give as an example that the British use the .303-caliber rifle. The facilities for the construction of that rifle which they are using in this country today, under their contracts for its erection, could be transferred so as to manufacture the .30-caliber rifle which we use, I am informed, in about 2 months. And, in the same way, the facilities for the ammunition could be transferred. And that is true largely of other British items.

The committee has received from the Director General of the Office of Production Management a résumé from last June to date of the progress of our own defense efforts. Contracts placed for matériel total \$12,600,000,000. Contracts for construction on 302 Government plants total \$1,574,000,000. A total of 421 privately financed prime contractors' plants have been certified for assistance in the amount of \$393,000,000. The total for facilities, governmental, or privately owned assisted with Federal funds, is \$2,138,000,000 on a total of 723 plants. In addition the British Government has financed 61 plants for a total of \$171,000,000. Mr. Knudsen advised the committee that if funds are provided for the facilities contemplated by the bill they can be procured in a reasonable time and will meet the needs for procurement of the matériel. Some existing facilities will be available in addition to those which the British Government has provided and which will become available rapidly as they run out of British orders.

The committee has also made inquiry as to British resources and orders placed in this country. The total of such orders placed by the British Purchasing Mission to January 1, 1941, is \$2,700,000,000. Payments on these orders to March 12 totaled \$1,682,000,000, consisting of \$1,300,000,000 paid prior to January 1, 1941, and \$382,000,000 paid during the period January 1 to March 12, 1941. All goods delivered under these orders have been paid for in cash and some goods not delivered have been partially paid for in advance. The committee has been assured that none of the \$7,000,000,000 contained in the bill will be used to pay for materials under any orders heretofore placed by the British Government and that sufficient existing dollar resources and dollars to be acquired by them will be available to pay for those orders. The estimated British holdings in the United States as of January 1 last consisted of \$616,000,000 of marketable securities, \$900,000,000 in direct investments, \$292,000,000 in gold, \$54,000,000 in official dollar balances, and \$305,000,000 in private dollar balances. These figures necessarily have changed as these resources have been drawn upon between January 1 and March 12 by \$382,000,000 to meet payments for the goods ordered. The committee is also advised that the British assets in this country insofar as they are not needed for payment on their orders here will

be given as security on defense articles which the United States may furnish to them.

Britain is engaged in a terrific struggle. The expenditures of the United Kingdom and the Dominions are currently amounting monthly to \$1,750,000,000, of which \$1,500,000,000 is by the United Kingdom and \$250,000,000 by the Dominions. Canada will spend \$1,400,000,000 in the fiscal year 1941-42 on her direct war effort, which is 25 percent of her expected national income.

The agreements with the governments to be assisted under "An act to promote the defense of the United States" rest with the President of the United States. His is the responsibility to determine the terms and conditions under which the nations receiving this aid should make a return to the United States. A nation engaged in a death struggle with a mortal enemy needs, in addition to the tools of war, the maintenance of its own economy and financial stability in order to pursue successfully its efforts. If the United States furnishes Great Britain with defense articles but upsets her economy the aims and purposes of our assistance would be defeated.

The committee desires to call attention to the form in which the appropriations are made in this bill. It is not a "blank check" appropriation. Public Law No. 11 provides that the President may authorize the head of any department or agency to procure the defense articles which that act specifies for aid to any country whose defense is vital to the United States. It is not practicable, considering the problems involved in this huge program, to appropriate specifically in terms of the normal Government appropriations in the usual detail to each of the agencies and each of the bureaus and other offices concerned and "freeze" the procuring funds in customarily rigid channels. It should be borne in mind that the appropriations in this bill are for aid to countries that are at war. That war is being fought on the high seas of the world, in Europe and in Africa, and with hostilities and moves of conquest in Asia. The important theaters of the war are shifting rapidly from one area to another. Changes are occurring constantly in the types of weapons and their use. A program of aid such as this must be as flexible as a program of use in combat. The needs may change frequently and the emphasis on certain needs may shift to others. The committee therefore feels that it is highly desirable that flexibility should be provided and to that end has approved the proposal for a 20-percent transfer between appropriations with the stipulation that not more than 30 percent can be added to any one of the first 8 of the 10 specified appropriations by virtue of the transfer.

This flexibility is particularly desirable not only with respect to the amounts for defense articles under specific categories but also with respect to the application of the amounts to any particular countries as exigencies may occur from time to time.

The bill contains 10 separate appropriations, 7 of which are devoted to categories of procurement of specific classes of defense articles and 3 of which are devoted to services. Each of these 10 appropriations is subject to allocation by the President to such department or agency, as he may deem advisable, to procure the type of defense articles needed. The total of the 7 procurement appropriations is \$6,750,000,000 and the total of those devoted to services is \$250,000,000.

A few of these categories are necessarily problematic, particularly the item of \$200,000,000 for repairing and reconditioning defense

articles. This must be so, due to inability to secure any substantial data upon which to base an estimate.

The 10 categories of appropriation into which the \$7,000,000,000 is divided consist of the following:

1. Ordnance and ordnance stores, supplies, spare parts, and materials, including armor and ammunition and components thereof, \$1,343,000,000.
2. Aircraft and aeronautical material, including engines, spare parts, and accessories, \$2,054,000,000.
3. Tanks, armored cars, automobiles, trucks, and other automotive vehicles, spare parts, and accessories, \$362,000,000.
4. Vessels, ships, boats, and other watercraft, and equipment, supplies, materials, spare parts, and accessories, \$629,000,000.
5. Miscellaneous military equipment, supplies, and materials, \$260,000,000.
6. Facilities and equipment, for the manufacture or production of defense articles by construction or acquisition, including the acquisition of land, and the maintenance and operation of such facilities and equipment, \$752,000,000.
7. Agricultural, industrial, and other commodities and articles, \$1,350,000,000.
8. Testing, inspecting, proving, repairing, outfitting, reconditioning, etc., defense articles, \$200,000,000.
9. Services and expenses not specified or included in any of the foregoing, \$40,000,000.
10. Administrative expenses, \$10,000,000.

Each of these 10 appropriations will be accounted for as though it had been made in the normal fashion. The expenditures will be audited by the General Accounting Office. Treasury statements will show the expenditures under the appropriations in this bill in the same manner as other appropriation expenditures are exhibited.

The sum of \$7,000,000,000 is a large total for any single appropriation bill. The question naturally arises as to why all the funds should be granted at one time—why not appropriate some now, some more later, and some still later—take it piecemeal instead of all in one lump—because the amount is made available until June 30, 1943. The amount is based upon the procurement of definite quantities of defense articles. They have to be acquired for this specific purpose; they are in the main, not articles of commercial use. In some instances facilities must be constructed with which to produce them. It should be recalled that these funds are all to be expended by the United States Government and the defense articles to be procured will belong to the United States until the President decides pursuant to the law what shall be done with them. No officer of the United States can enter into commitments on behalf of the United States without first having an appropriation from which the entire commitment can be paid or without having other specific authority to make a commitment on behalf of the United States. If only a part of the funds are appropriated now only that part of the commitments for defense articles can be made that can be paid for with that amount of money. The initiation of the commitments for the rest of the defense articles must wait until more money is available. Such a delay would be inexcusable and nonresponsive to the purposes and policy

expressed by the act. If all the money for all the program is available at one time, all the commitments for all the program can progress as rapidly as the executive officers can make the plans and enter into the contract. If the funds are appropriated in installments the program of procurement is apt to become an installment program in point of time. The committee was advised that substantially the entire amount of the funds provided would be required prior to July 1, 1942.

The committee has likewise canvassed the practicability of providing part of the \$7,000,000,000 in direct appropriation and part in contract authorization. So far as the obligation of the Government to pay is concerned a definite commitment through a contract made by an administrative officer against legislative authority to enter into contracts is as binding upon the United States as though the contract were made under a direct appropriation sufficient for its fulfillment. The Congress would have to appropriate to discharge the contract authority granted when the need for cash arose or repudiate obligations lawfully entered into. In effect contract authorizations granted by Congress to permit administrative officials to initiate procurement programs are deferred appropriations and the only point in giving a contract authorization is to defer the appropriation to the end that the appropriations and the cash withdrawals from the Treasury may more nearly harmonize on a fiscal-year basis. In the present instance if part of this money is given in cash and part in contract authorization it will advertise to those seeking information with respect to the military characteristics of the program what part of it is long range and what part is relatively short range. So far as a division between cash and contract is concerned there is no particular advantage to the United States in providing the funds in that fashion, but there would be circumlocution in our bookkeeping. There is a particular disadvantage to those we are seeking to aid.

The committee is advised that under the terms of the bill the procedure to be followed will be the allocation from the particular appropriations involved to a Federal agency for procuring certain defense articles or furnishing certain services authorized by the act of March 11. The agency receiving such an allotment will then proceed to procure the defense articles or perform the services in accordance with the laws which are applicable at that time to that agency in connection with making its own similar procurements or performing its own similar services. No new procedures or departures from existing practices and requirements are contemplated.

The total appropriation in this bill is \$7,000,000,000. Public Law No. 11, section 3 (a) (2), provides that the value of the defense articles procured from appropriations made before the enactment of that act and disposed of under the authority of that paragraph shall not exceed \$1,300,000,000. This sum plus the \$7,000,000,000 carried in this bill makes a total ceiling of aid of \$8,300,000,000. The committee has included in the bill, however, in modified and clarified form the Budget recommendation (sec. 2) that the President may order the transfer from any of the appropriations in the bill to the appropriate appropriation of the department or agency, which procured such a defense article and by which it was disposed of, an amount equivalent to the value of the defense article so disposed of,

but the total of such transfers shall not exceed the total of \$1,300,000,000. This transfer provision, to the extent it is availed of, will operate to reduce the ceiling of \$8,300,000,000. For example, if the entire \$1,300,000,000 in value of defense articles should be disposed of under the law and the President should determine that \$500,000,000 should be transferred to the furnishing agencies for replacement purposes, the ceiling of aid becomes a total of \$7,800,000,000 instead of \$8,300,000,000 and the amount available under this bill for new aid becomes \$6,500,000,000 instead of \$7,000,000,000. The Budget recommendation provided for transfer from the appropriations to cover the value of defense articles disposed of subject to the \$1,300,000,000 limit and the value of defense articles that might be disposed of in the future under such appropriations as might be made available hereafter for that purpose. The committee has confined the transfer proposal to the \$1,300,000,000 and prefers to cross the bridge of the future when it comes to it.

This transfer provision will also have the effect of protecting our own defenses in that it will make it possible to provide for replacement of defense articles that are disposed of under the \$1,300,000,000 that are deemed necessary to be replaced in the interest of our own defenses. It will also be in the interest of maintaining an orderly record of the cost of the entire aid program. Without some such arrangement, it might become necessary for replacement of any such defense articles to await future appropriations with consequent delay and with confusion in the cost records of the entire aid program.

The committee has suggested during the course of the hearings that the Bureau of the Budget maintain appropriate central records in connection with the finances of this program and has received assurances that the suggestion will be followed. Such central recording should include the allocation of funds for procurement and reimbursement, the periodic statement of obligation of funds, and other appropriate fiscal data in connection therewith, so that this information may be currently available for the information of Congress. The committee has also received assurances that appropriate centralized informational records will be kept of procurements and other progress so that there will be available the principal progress data for such access as the appropriate jurisdictional committees of Congress may wish.

The committee deems it advisable to incorporate section 3, which provides that any defense article procured from funds in the bill shall be retained by or transferred to and for the use of such department or agency of the United States as the President may determine, in lieu of being disposed of to a foreign government, whenever in his judgment the defense of the United States will be best served thereby. Obviously if our own need at any point in the program should precipitously become more important than the furnishing of aid to a country whose defense the President had deemed vital to the defense of the United States, the right should exist to retain and use for our own immediate necessities such defense articles as the President should consider would best serve our own interests.

The committee has included as section 4 a provision prohibiting the use of any of the money contained in the bill for paying the salary or wages of any person who advocates, or is a member of an organization that advocates, the overthrow of the Government of the United States by force or violence. This section is identical with similar provisions

adopted by the House at this session in connection with other appropriation bills.

For the convenience of the House membership there is reprinted as an appendix to this report the text of "An act to promote the defense of the United States, approved March 11, 1941" (H. R. 1776, Public Law No. 11, 77th Cong.).

The committee is aware of the very grave responsibility it has in recommending this huge appropriation. It has considered it from all angles and concludes that if effective implementation is to be given to the recent law providing for this aid there is no other course but to provide the full amount. Either the United States means what it said in "An act to promote the defense of the United States" and goes in wholeheartedly, enthusiastically, and expeditiously to become the arsenal and storehouse of defense articles for aid to the beleaguered democracies whom we have avowed to assist in order to promote our own defenses, or we become a faltering "welsber" on the promises we have held out to those brave countries and their people who are looking in this direction for the ray of sunshine that will illumine the dark pathway they are treading. We either give an all-out assistance or we fall down on the job. No halfway measures can be countenanced at this critical stage.

The committee also desires to call the attention of the executive agencies of the Government to the serious responsibility that rests upon them under any allocations the President may make for them to administer. Procurements should be made with the utmost care to protect the interests of the United States, contracts should be carefully drawn with appropriate cancellation provisions to protect the Government, and every official should regard this task as important as if his own individual life depended upon its faithful and prudent administration. The patriotic endeavors of industry, labor, and all other citizens are needed. A unified, harmonious effort by all the people of the United States behind this program will carry it forward successfully and promptly. The news of that program and this effort will be an inspiration to every citizen of every nation we are seeking to aid. That tonic and the defense articles we furnish them should be their salvation and ours.

## APPENDIX

[PUBLIC LAW 11—77TH CONGRESS]

[CHAPTER 11—1ST SESSION]

[H. R. 1776]

## AN ACT

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

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as "An Act to Promote the Defense of the United States".

Sec. 2. As used in this Act—

(a) The term "defense article" means—

- (1) Any weapon, munition, aircraft, vessel, or boat;
- (2) Any machinery, facility, tool, material, or supply necessary for the manufacture, production, processing, repair, servicing, or operation of any article described in this subsection;
- (3) Any component material or part of or equipment for any article described in this subsection;
- (4) Any agricultural, industrial or other commodity or article for defense.

Such term "defense article" includes any article described in this subsection: Manufactured or procured pursuant to section 1, or to which the United States or any foreign government has or hereafter acquires title, possession, or control.

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

Sec. 3. (a) Notwithstanding the provisions of any other law, the President may, from time to time, when he deems it in the interest of national defense, authorize the Secretary of War, the Secretary of the Navy, or the head of any other department or agency of the Government—

(1) To manufacture in arsenals, factories, and shipyards under their jurisdiction, or otherwise procure, to the extent to which funds are made available therefor, or contracts are authorized from time to time by the Congress, or both, any defense article for the government of any country whose defense the President deems vital to the defense of the United States.

(2) To sell, transfer title to, 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 appropriated, shall not exceed \$1,200,000,000. 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 shall be designated in the manner provided in the rules and regulations issued hereunder. Defense articles procured from funds hereafter appropriated to any department or agency of the Government, other than from funds authorized to be appropriated under this Act, shall not be disposed of in any way under authority of this paragraph except to the extent hereafter authorized by the Congress in the Acts appropriating such funds or otherwise.

(3) To test, inspect, prove, repair, outfit, recondition, or otherwise to place in good working order, to the extent to which funds are made available therefor, or contracts are authorized from time to time by the Congress, or both, any defense article for any such government, or to procure any or all such services by private contract.

(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 disposed of in any way under this subsection 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 direct or indirect benefit which the President deems satisfactory.

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

(d) Nothing in this Act shall be construed to authorize or to permit the authorization of convoying vessels by naval vessels of the United States.

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

Sec. 4. All contracts or agreements made for the disposition of any defense article or defense information pursuant to section 3 shall contain a clause by which the foreign government undertakes that it will not, without the consent of the President, transfer title to or possession of such defense article or defense information by gift, sale, or otherwise, or permit its use by anyone not an officer, employee, or agent of such foreign government.

Sec. 5. (a) The Secretary of War, the Secretary of the Navy, or the head of any other department or agency of the Government involved shall, when any such defense article or defense information is exported, immediately inform the department or agency designated

by the President to administer section 6 of the Act of July 2, 1940 (54 Stat. 714), of the quantities, character, value, terms of disposition, and destination of the article and information so exported.

(b) The President from time to time, but not less frequently than once every ninety days, shall transmit to the Congress a report of operations under this Act except such information as he deems incompatible with the public interest to disclose. Reports provided for under this subsection shall be transmitted to the Secretary of the Senate or the Clerk of the House of Representatives, as the case may be, if the Senate or the House of Representatives, as the case may be, is not in session.

SEC. 6. (a) There is hereby authorized to be appropriated from time to time, out of any money in the Treasury not otherwise appropriated, such amounts as may be necessary to carry out the provisions and accomplish the purposes of this Act.

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

SEC. 7. The Secretary of War, the Secretary of the Navy, and the head of the department or agency shall in all contracts or agreements for the disposition of any defense article or defense information fully protect the rights of all citizens of the United States who have patent rights in and to any such article or information which is hereby authorized to be disposed of and the payments collected for royalties on such patents shall be paid to the owners and holders of such patents.

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

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

SEC. 10. Nothing in this Act shall be construed to change existing law relating to the use of the land and naval forces of the United States, except insofar as such use relates to the manufacture, procurement, and repair of defense articles, the communication of information and other noncombatant purposes enumerated in this Act.

SEC. 11. If any provision of this Act or the application of such provision to any circumstance shall be held invalid, the validity of the remainder of the Act and the applicability of such provision to other circumstances shall not be affected thereby.

Approved, March 11, 1941.

○

COPY

SECRET AND CONFIDENTIAL

March 18, 1941

My dear Mr. Secretary:

Pursuant to the Act of March 11, 1941, I hereby authorize you during my absence and until further notice from me to:

(a) To transfer, after consultation with the Chief of Staff, to His Majesty's Government in the United Kingdom, China and the Royal Greek Government defense articles procured out of appropriations made before March 11, 1941 of a dollar value not in excess of \$5,000,000, when you deem such transfers in the interests of our defense.

(b) To place orders under that Act, for items approved by you, in an amount not in excess of \$150,000,000, in a manner similar to your traditional method of issuing conditional letters of intention, and binding on the Government when and if the appropriations are passed.

Very sincerely yours,

FRANKLIN D. ROOSEVELT (Sgd.)

The Honorable

The Secretary of War.

COPY

SECRET AND CONFIDENTIAL

March 18, 1941.

My dear Mr. Secretary:

Pursuant to the Act of March 11, 1941, I hereby authorize you during my absence and until further notice from me to:

(a) To transfer, after consultation with the Chief of Naval Operations, to His Majesty's Government in the United Kingdom, China and the Royal Greek Government defense articles procured out of appropriations made before March 11, 1941 of a dollar value not in excess of \$1,000,000 when you deem such transfers in the interests of our defense.

(b) To place orders under that Act, for items approved by you, in the amount not in excess of \$15,000,000 in a manner similar to your traditional method of issuing conditional letters of intention, and binding on the Government when and if the appropriations are passed.

Very sincerely yours,

FRANKLIN D. ROOSEVELT (Sgd.)

The Honorable

The Secretary of the Navy.

COPY

SECRET AND CONFIDENTIAL

March 18, 1941.

My dear Admiral Land:

Pursuant to the Act of March 11, 1941, I hereby authorize you during my absence and until further notice from me to place orders under Section 3(a)(1) or 3(a)(3) in an amount not in excess of \$1,000,000 in a manner similar to traditional Government method of issuing conditional letters of intention, and binding on the Government when and if the appropriations are passed.

Very sincerely yours,

FRANKLIN D. ROOSEVELT (Sgd.)

Honorable Emory S. Land,  
Maritime Commission,  
Washington, D. C.

COPY

SECRET AND CONFIDENTIAL

March 19, 1941.

My dear Mr. Secretary:

This will cancel my authority to you relative to the transfer of 45 planes to the Royal Greek Government.

Consultation having been had with the Chief of Naval Operations of the Navy, I find that:

(1) The defense of the United Kingdom is vital to the defense of the United States;

(2) Sections 4 and 7 of the Act of March 11, 1941 have been complied with by the necessary agreement on the part of His Majesty's Government in the United Kingdom;

(3) It would be in the interests of our national defense to transfer the defense articles set forth in the annexed schedule.

I therefore authorize you immediately to make the transfer to His Majesty's Government in the United Kingdom of the defense articles set forth in the annexed schedule.

I would appreciate it if you would arrange with the Chairman of the British Supply Council in North America for the time, method, and other details of the disposition.

Very sincerely yours,

Franklin D. Roosevelt (Sgd.)

The Honorable

The Secretary of the Navy.

DEFENSE ARTICLES AUTHORIZED FOR TRANSFER  
BY THE SECRETARY OF THE NAVY TO THE UNITED KINGDOM

-----

30 Grummond Planes

March 19, 1941

Cox gave to Harry Hopkins on  
3/18/41. ✓

MEMORANDUM

To: Mr. Hopkins  
From: Mr. Cox  
Subject: Napier-Saber Engine.

The British are under the impression that Mr. Knudsen thinks no order can be placed for this engine under the Lease-Lend Act until it is adopted by the Army or Navy.

Since these engines are critical items for the British, unnecessary delay may be caused by waiting for their adoption by the Army or Navy.

As you know, this engine is now being tested by the Army.

It would seem that the testing should be speeded up so that a decision can be reached by the time the Lease-Lend appropriation is enacted either to have the engine manufactured for both the United States and Britain, or for Britain alone.

OSC:aja  
3/18/41

March 18, 1941

Ferdinand Kuhn

Secretary Morgenthau

If you were successful in killing that story with Kintner and Alsop, I would suggest that you call up Charles Peake of the British Embassy, and tell him what you have done, and also tell him where the newspapermen got the information from; namely, that the bankers were told that they had to make a sale within a week. Whoever gave out that information certainly does not know anything about public relations. I think you ought to tell the whole story to Charles Peake. If you do not agree with me, please discuss it with me. If you do agree, please go ahead and talk to Mr. Peake.

TREASURY DEPARTMENT  
INTER OFFICE COMMUNICATION

DATE March 18, 1941.

TO Secretary Morgenthau  
FROM Mr. Kuhn

It was not possible to kill the Kintner and Alsop story on American Viscose, as the story had already gone out on the wires to their client papers. I did, however, tell Charles Peake, at the British Embassy, that the story of pressure on the British to sell the Viscose Company had been spread by the bankers in New York, who heard it from Peacock himself. Apparently Peacock said nothing about any American pressure, but merely told the bankers that he had had orders from his government to sell the company by Monday, March 14.

Secretary Morgenthau agreed this morning that it was unwise to make any further efforts with Alsop and Kintner, as the story had already gone out. Kintner himself telephoned this morning and read the story to me.

F.K.

JT

PLAIN

LONDON

Dated March 18, 1941

Rec'd 11:50 a.m.

Secretary of State,  
Washington.

1052, eighteenth.

FOR TREASURY FROM BUTTERWORTH.

In announcing the Viscose sale the British Treasury statement comments as follows:

"The sale of this valuable holding to American interests is evidence of the determination of the British Government to use every possible means of self-help at a time when they are receiving from the Government of the United States the measures of assistance set out in President Roosevelt's great speech of last Saturday and in arriving at this transaction Sir Edward Peacock has acted with the full knowledge and approval of the United States Administration."

Press comment indicates that this deal, with the realization that others will follow, hurts more than the liquidation of securities. The TIMES city editor, after pointing out that any idea that prolonged negotiations would

-2- 1052, March 18, from London

would be involved has now been quickly dispelled, states <sup>that</sup> /  
 "the transactions must represent a serious loss to  
 British industry but such sacrifices had been envisaged."

The MANCHESTER GUARDIAN describes the deal as a  
 "sharp reminder that the Lease and Lend Bill has not  
 solved our dollar problem" and states that "these losses  
 are even more painful than those of general investments  
 in United States stocks and shares."

Oscar Hobson of the NEWS CHRONICLE uses the phrase  
 "a first step in that melancholy process of turning out  
 our pockets" and concludes "it would be little short of  
 a tragedy were the British insurance companies driven to  
 throw on the market the valuable goodwill of the exten-  
 sive American business they have built up over many decades.

Einzig in the FINANCIAL NEWS deplores the sale of such  
 a valuable asset when the needed dollars could in fact be  
 raised by adequate proceedings against exchange evaders.

The FINANCIAL TIMES in an editorial describes the  
 deal as representing a big sacrifice for Courtaulds and  
 for Britain and states, "regrettable as the transaction  
 must be from the company's standpoint it is regrettable  
 too from that of the nation" and the deal is but one more  
 reflection of the determination of the British people  
 to make every sacrifice necessary to win the war."

The rise of Courtaulds shares yesterday from 26  
 shillings 9 pence to 29 shillings is described by the

TIMES

-3- 1052, March 18, from London

TIMES as hardly more than a technical adjustment due to the inclination of dealers to prefer the short rather than the long of the shares, a capital repayment by the company being expected, while the ultimate effect on Courtauld's profits is less easy to assess.

WINANT

OSB

(Handed by Mr. Stone in the Department of State to Mr. Cochran of the Treasury when the latter called at the office of the Secretary of State at 3:30 p.m., March 27, 1941)

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, London, England

DATE: March 18, 1941, 8 p.m.

NO.: 1060

The following is strictly confidential for the President, the Acting Secretary and the Secretary of the Treasury.

Deep concern is expressed by the Prime Minister over the report which his Chancellor of the Exchequer gave him that a much smaller part of their existing commitments in the United States would be taken over under the Lease Lend Bill than had been anticipated by the British Government. The British had apparently thought that there would be released to them about £195,000,000 on account of past payments on existing commitments. They have now been informed that not more than £90,000,000 will be released for this purpose, and the amount may be very considerably less. Also, they will have to provide future payments on account of the greater part of commitments already made.

The British believe that in view of the foregoing, it will be extremely difficult for them, considering their other requirements, to meet their own and Canadian exchange requirements in the United States; in order to function properly in meeting the war emergency, they feel they should have not less than £150,000,000 for a working balance.

It is the strong belief of the Prime Minister that they should have more leeway and freedom than are given in the arrangements

- 2 -

arrangements now contemplated. He expressed the hope that the British situation might be sympathetically reconsidered by the President and Secretary Morgenthau. The thought occurs to me that it may be Secretary Morgenthau anticipates more rapid liquidation of securities and investments of the British than is believed practicable by the Chancellor of the Exchequer. In order to help you to get the picture as it was put to the Prime Minister and the Chancellor of the Exchequer, I quote below the letter of March 17 from Under Secretary Waley to Mr. Ben Cohen:

(The letter in paraphrase):

" My dear Mr. Cohen:

I set forth below the figures which I mentioned to you in our talk this morning. It is necessary for us to take care of

Commitments in the amount of 360,000,000 on existing contracts made by the U.K. in the U.S.A.

Approximately 150,000,000 in payments by the sterling area to Canadian gold or dollars.

150,000,000 will be needed to reconstitute a working balance.

Those payments by the U.K. to the U.S.A. which the Lease Lend Bill does not cover.

The foregoing would total, say, 660,000,000 in addition to (omission).

It has not been possible for us to estimate the figure for

- 3 -

for the last-mentioned item, as we have not yet had the necessary information.

The United Kingdom has the following to apply towards meeting the aforementioned needs:

Visible and invisible exports in the amount of 45,000,000 from the United Kingdom to the United States of America.

An amount of 25,000,000 for the favorable balance of the rest of the sterling area.

A net total of 90,000,000 in new gold (120,000,000 mined, but 30,000,000 taken off for gold outgoings elsewhere).

An amount of (omission) from the sale of marketable securities and direct investments.

These items would total 160,000,000, plus (omission).

To estimate the last figure for any particular period of time it is again difficult; however, it would seem difficult to figure on an amount more than 150,000,000 within a year.

Taking all of the above figures into account, it would be indicated that more than £700,000,000 would be needed, of which there is in sight not more than approximately £300,000,000. Therefore it would appear that the U.K. might well find, when it is in a position to figure more closely, that it will be necessary that commitments on existing orders in the U.S.A. amounting to £360,000,000 will have to be taken care of for it, and that the U.K. receive £195,000,000 in reimbursement for advance payments  
and

- 4 -

and capital, in order to be in a position to bridge the gap -  
or at any rate, a large proportion of this assistance will  
be necessary.

Sincerely yours, S. D. Waley."

WINANT.

EA:LW

TREASURY DEPARTMENT  
INTER OFFICE COMMUNICATION

DATE March 18, 1941

TO Secretary Morgenthau  
FROM Mr. Cochran

**CONFIDENTIAL**

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£70,000
Purchased from commercial concerns	£26,000

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

Sold to commercial concerns	£1,000
Purchased from commercial concerns	£2,000

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

Canadian dollar	15-1/8% discount
Swiss franc (commercial)	.2321
Swedish krona	.2384-1/2
Reichsmark	.4005
Lira	.0505
Argentine peso (free)	.2315
Brazilian milreis (free)	.0505
Cuban peso	5-5/8% discount
Mexican peso	.2066

In Shanghai, the yuan advanced 1/16¢ to 5-7/16¢. Sterling was quoted at 3.93, up 2¢.

We purchased \$22,507,000 in gold from the earmarked account of the National Bank of the Kingdom of Yugoslavia.

No new gold engagements were reported.

In London, the spot and forward silver prices were fixed at 23-1/2d and 23-7/16d, respectively. The U. S. equivalents were 42.67¢ and 42.56¢.

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

We made three purchases of silver totaling 200,000 ounces under the Silver Purchase Act, all of which consisted of new production from foreign countries, for forward delivery.

- 2 -

The report of March 12 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 \$6,851,000, a decrease of \$435,000 in the short position. Net changes were as follows:

Country	Short Position March 5	Short Position March 12	Change in Short Position*
England**	\$ 515,000	\$ 410,000	- \$105,000
Europe	3,207,000	3,091,000	- 116,000
Canada	173,000 (Long)	245,000 (Long)	- 72,000
Latin America	126,000	139,000	+ 13,000
Japan	2,316,000	2,273,000	- 43,000
Other Asia	1,329,000	1,243,000	- 86,000
All others	34,000 (Long)	60,000 (Long)	- 26,000
Total	\$7,286,000	\$6,851,000	- \$435,000

\*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

BRITISH EMBASSY,  
WASHINGTON, D. C.

18th March, 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.

TELEGRAPH FROM LONDON DATED MARCH 15TH, 1941.NAVAL

1. During an air attack on the Clyde area night of March 13th/14th two destroyers building damaged. Other ships superficial damage only.
2. At Liverpool night of March 12th/13th 7 merchant vessels were damaged.
3. Off Lowestoft and Yarmouth night of March 14th/15th E-Boats were active. "Versatile" on escort missed by 2 torpedoes.
4. Early on March 15th coastal aircraft bombed docks at Brest also warship which may have been a German cruiser.
5. ROYAL AIR FORCE

Night of March 13th/14th. Attack on industries and shipyards at Hamburg very ferocious; 84 tons of high explosive and 13,000 incendiaries dropped under good conditions.

6. NIGHT OF MARCH 14th/15th

159 aircraft sent out with main objective synthetic oil plants at Gelsenkirchen (101 aircraft), other objectives industrial centres at Dusseldorf (24), petroleum, harbour at Rotterdam (13), also some mine laying. Two of our aircraft missing. Four fighters also carried out offensive operations over aerodromes in north west France.

7. RHODES. Same night 14 aircraft attacked 4 aerodromes with satisfactory results.

8. GERMAN AIR FORCE

Reports show that during the night of March 13th/14th, 15 enemy aircraft were destroyed and 6 damaged.

9. MARCH 14th. Activity limited to reconnaissance flights and sea patrols.

10. NIGHT OF 14th-15th. About 310 bombers and 69 mine-layers came over. Attacks widespread and scattered although main concentration was in Glasgow area. From preliminary reports 3 enemy aircraft destroyed and one probably destroyed

2. (Telegram from London Mar. 15/41)

by fighters, also one by anti-aircraft.

11. Aircraft casualties in operations over and from British Isles night of March 14th/15th.

German: destroyed 4, probable 1  
British: 2 bombers missing.

12. LIBYA. On March 11th enemy aircraft made 8 low flying attacks on our forward troops at Agheila. Result: 2 casualties, 4 enemy aircraft shot down by anti-aircraft fire.

13. HOME SECURITY. Night of March 14th/15th. Glasgow. Fire caused among residential property and at 2 factories, 3 tenement buildings demolished. Leeds Telephone Exchange hit. Considerable damage to shop and industrial property, mainly by fire. London. Some damage at Tilbury Docks. Plymouth. Some damage was caused in Naval Dockyard and a training establishment was hit.

14. Casualties. Night of March 12th/13th. Liverpool and Birkenhead 156 killed and 70 seriously injured.

Night of March 13th/14th. Glasgow, Clyde Bank. 115 killed. March 15th. Ordnance factory at Dalnair, production temporarily stopped owing to interruption of utility services. No extensive damage reported.

THEIRBAH FROM LONDON DATED MARCH 16th, 1941.

NAVAL

Bombardt bombed in the Bay on March 15th has proceeded to harbour. Officer commanding and 68 killed.

2. P.M. March 15th. Four British merchant ships in area about seven hundred miles west - North-west from Azores made enemy radar signals, two reported being shelled.

Further signal received indicated one ship being abandoned.

3. During air raid on Manchester 11/12th 10 merchant ships damaged in varying degrees. One sank.

4. A.M. March 16th. British forces successfully landed east and west of HERBERA supported by bombardment by His Majesty's ships.

5. Photographs A.M. of March 15th show HIPPER class cruiser alongside torpedo boat stations; Three merchant ships off Ostend attacked by bomber command aircraft P.M. March 15th. One ship near miss. LORIENT attacked by aircraft night of March 15th/16th. Seventeen mines were detonated home waters March 15th.

6. R.A.F. Night of March 15th/16th. Weather conditions reduced operations; 57 aircraft were sent to LORIENT submarine base and 21 to industrial target at Dusseldorf; one aircraft has not returned.

7. Albania. Over Kolyre on March 14th fifteen British fighters intercepted an enemy formation of 15 bombers escorted by 36 fighters and definitely destroyed seven enemy aircraft and probably five more. Two of our fighters shot down but pilots saved.

8. German Airforce. March 15th. Strong defensive patrols were maintained in Dover Straits. A few aircraft penetrated a short distance over Kent; our fighters probably destroyed one Messerschmidt 109.

9. Night of March 15th/16th. About 100 enemy aircraft

/wire

## 2. (Telegram from London Mar. 16/41.)

were operating over wide areas although London was the chief objective. Country was clear shortly after midnight. Owing to deteriorating weather conditions action by our night fighters was almost impossible.

10.       Aircraft casualties in operations over and from the British Isles. German: destroyed one, probable one, damaged one. British: one bomber missing.

11.       Home Security. Night of March 15th/16th. Several bombs were dropped in London and Home Counties but no important damage reported although casualties, considering the scale of the attack appear rather high: preliminary estimate 70 killed and 200 wounded. Some fires were started in the dock area, at a paint factory and a gas works but were soon put out.

12.       Clyde Bank. Situation reported completely in hand although damage especially to dwelling houses is extensive.

      An orderly voluntary evacuation from the area of about 205,000 has taken place. Morale is excellent. Casualties night of March 14th/15th reported 120 killed and 394 wounded.

RESTRICTED

G-2/2657-220  
No. 342

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

SITUATION REPORTI. Western Theater of War.

Air: German. Light activity by day and night. Some bombs were dropped on Newcastle-on-Tyne and along the east coast of Scotland last night.

British. Moderate offensive activity last night centering on Bremen and Wilhelmshaven.

II. Balkan Theater of War.

Ground: Bulgaria. No change.

Albania. Normal activity by patrols and artillery.

Air: No reports of activity.

III. Mediterranean and African Theaters of War.

Ground: British Somaliland. Berbera, the seaport and capital of British Somaliland, which fell to the Italians last August was recaptured by British forces March 16.

Eritrea. The British claim they have captured important heights in positions covering Cheren.

Air: Sharp fighting by small forces incident to the capture of Berbera.

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

# CONFIDENTIAL

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Paragraph of Code Collection  
Received at the War Department  
at 8:35, March 18, 1941.

Bucharest, filed 17:00, March 17, 1941.

1. Twenty-four German divisions are now in Bulgaria. This number includes three armored divisions. There is also now based on Bulgarian airbases, a German Air Corps of two air divisions.

2. Ten further German divisions are still in Rumania. These are distributed as follows:

Bukovina - 6 divisions  
Bukovina - 2 divisions  
Instructional Units distributed over  
country - 2 divisions

3. There are also two German air divisions based on Rumanian airfields. There are, therefore, four German air divisions in all in the Balkan area. These air forces are serviced by a large force of ground personnel.

4. Forty trains arrive daily in Rumania from Germany with large shipments of military equipment and supplies. In addition, other supplies are arriving on Danube river barges. It is estimated that about 50% of all these supplies are destined for troops now in the Balkan area while the other 50% are reserved for German divisions which are yet to arrive. The construction of barracks and hangars in Rumania is on such a large scale that it would seem that Germany intends to maintain in Rumania a force of between 25 and 30 divisions.

5. A high ranking German air officer in Bucharest stated recently that while attending Dictator Antonescu on a trip to Vienna, he had talked to Goering. Goering said,

# CONFIDENTIAL

**CONFIDENTIAL**

"The new order of Europe is now being established, peacefully where possible, when not, with the aid of German troops. The past winter was a difficult one. We will gain the victory at our price. Even if the U.S.A. should succeed in filling Great Britain with guns, such an achievement would not ensure an English victory."

6. Another high ranking German in Eastwest stated,

"Our program is to push the British off the continent. Watch how we push them out of the Balkans. Then shortly you will see the same performance on the Iberian Peninsula."

**SECRET**

**Distribution:**

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

**CONFIDENTIAL**

**Surveillance of Gale Intelligence  
Received at the War Department  
at 11:57, March 18, 1941.**

London, filed 17:00, March 18, 1941.

1. During the night of March 17-18 there were no British planes over the Continent. On Monday, March 17 stores of gasoline at Flushing was the target of one British plane. The result of this raid could not be determined. During the night of March 16-17 there were no activities on the part of the Royal Air Force.

2. During the night of March 17-18 ten German planes were plotted over Britain. One was over Gosport, another over Flamborough Head, two over Wick, and six over Whitby and Darvick. The extent of the damage done by these raids has not been determined. During the preceding day one German bomber was active over Inverness, Scotland, and two others were over the East area. The Germans maintained patrols over the Dover Straits and a small number of German planes were active over the Bristol Channel on reconnaissance missions. British fighters damaged the one German bomber which attacked Inverness.

3. Reports of the damage wrought by German attacks during the night of March 16-17 have now become available. At Avonmouth the National Docking Works suffered serious damage. During the German raid on Bristol on this night fires were started by the German raiders which were employed in the initial phase of the attack. These raiders were followed by German bombers that dropped high explosive bombs and incendiary bombs. Private residences and the public water and gas distributing systems suffered severe damage.

4. Operations of the British in Middle Eastern theaters were as follows: in Eritrea, the high ground overlooking the city of Asmara was taken by British land forces and British bombers attacked Italian positions near this city; in Albania, Italian airfields at Valona and Tirana were attacked by British bombers; in Libya, British bombers started fires and destroyed four Axis planes during attacks on the Murka airbase at Marsa and the Castel Benito airbase near Tripoli; in Ethiopia, seven Italian planes on the ground at Dire Dawa were destroyed by British fighters.

5. There are no reports of Axis air activity in Middle Eastern theaters.

6. According to British War Office information refugees in considerable numbers are moving from eastern Macedonia and Thrace to the west. According to the same source civilian morale in Salonika was not nearly as satisfactory as it was in Athens.

7. Four of the German mines recently planted in the Suez Canal have not yet been exploded. For this reason the south end of the Canal is not yet open to traffic.

8. During the afternoon of March 16 a German warship attacked three British cargo boats in the Atlantic. The extent of the damage done has not yet been reported.

**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**

**CONFIDENTIAL**

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**Paragraphs of Code Intelligence  
Received at the War Department  
at 16:05, March 18, 1941.**

**Background, filed March 18, 1941.**

**Command Air Force Units are now on Mexico and in the near future will be operating effectively. This information has been furnished me by the Command Air Attacks.**

**RMAT**

**Distribution:**

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

**CONFIDENTIAL**

TREASURY DEPARTMENT  
WashingtonFOR RELEASE, MORNING NEWSPAPERS,  
Wednesday, March 19, 1941.  
3/18/41Press Service  
No. 24-7

Secretary of the Treasury Morgenthau today offered for cash subscription, through the Federal Reserve Banks, at par and accrued interest, \$500,000,000, or thereabouts, of 11-13-year 2-1/2 percent Treasury Bonds of 1952-54, and at the same time offered the holders of 1-3/8 percent Treasury Notes of Series B-1941, maturing June 15, the privilege of exchanging such notes for additional amounts of the Treasury bonds now offered for cash subscription, or for 3/4 percent Treasury Notes of Series D-1943, dated March 15, 1941, the exchanges in either case to be made par for par, with interest adjustments as of March 31, 1941. An additional amount of \$50,000,000, or thereabouts, of the bonds may be sold to Government Investment Accounts during the next month. For the benefit of small investors, preferential allotment will be given to cash subscribers up to \$5,000 of the bonds, where delivery in registered bonds 90 days after the issue date is specified; those who enter such a subscription for preferential allotment may not enter any other cash subscription.

The Treasury Bonds of 1952-54, now offered for cash subscription and in exchange for the notes due June 15, 1941, will be dated March 31, 1941, and will bear interest from that date at the rate of 2-1/2 percent per annum, payable semiannually. The first coupon due September 15, 1941, will be for a fractional period. The bonds

- 2 -

will mature March 15, 1954, but may be redeemed, at the option of the United States, on and after March 15, 1952. They will be issued in two forms: bearer bonds with interest coupons attached, and bonds registered both as to principal and interest. Both forms will be issued in the denominations of \$50, \$100, \$500, \$1,000, \$5,000, \$10,000 and \$100,000.

Pursuant to the provisions of the Public Debt Act of 1941, interest upon the bonds now offered shall not have any exemption, as such, under Federal Tax Acts now or hereafter enacted. Otherwise the securities will be accorded the same exemptions from taxation as are accorded other issues of Treasury bonds now outstanding. These provisions are specifically set forth in the official circular released today.

The 3/4 percent Treasury Notes of Series D-1943 now offered in exchange for the notes maturing June 15, 1941, will be an addition to and will form a part of the series issued pursuant to Treasury Department Circular No. 650, dated February 25, 1941. They are identical in all respects with such notes, with which they will be freely interchangeable. The notes are dated March 15, 1941, and bear interest from that date. They will mature March 15, 1943, and will not be subject to call for redemption before maturity. As set forth in the official circular released today, interest upon the notes shall not have any exemption, as such, under Federal Tax Acts now or hereafter enacted.

- 3 -

Subscriptions will be received at the Federal Reserve Banks and Branches, and at the Treasury Department, Washington. Banking institutions generally may submit subscriptions for account of customers, but only the Federal Reserve Banks and the Treasury Department are authorized to act as official agencies. Cash subscriptions for the bonds from banks and trust companies for their own account will be received without deposit but will be restricted in each case to an amount not exceeding one-half of the combined capital and surplus of the subscribing bank or trust company. Cash subscriptions from all others must be accompanied by payment of 10 percent of the amount of bonds applied for. Exchange subscriptions should be accompanied by a like face amount of 1-3/8 percent Treasury Notes of Series B-1941, due for payment on June 15, 1941, with final coupon due June 15, 1941, attached. If the maturing notes are tendered in exchange for the new Treasury bonds, accrued interest from December 15, 1940 to March 31, 1941, about \$4.004 per \$1,000 face amount, will be paid the owners of the surrendered notes following their acceptance. If the maturing notes are tendered in exchange for 3/4 percent Treasury Notes of Series D-1943, the difference between the accrued interest from December 15, 1940 to March 31, 1941, on the surrendered notes and the accrued interest from March 15 to March 31, 1941, on the notes to be issued, about \$3.678 per \$1,000 face amount, will be paid the owners of the surrendered notes following their acceptance.

The right is reserved to close the books as to any or all subscriptions or classes of subscriptions at any time without notice.

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Subject to the reservations set forth in the official circulars, all exchange subscriptions will be allotted in full. The basis of allotment of cash subscriptions will be publicly announced, and payment for any bonds allotted must be made or completed on or before March 31, 1941, or on later allotment.

There are now outstanding \$503,877,500 of 1-3/8 percent Treasury Notes of Series B-1941, maturing June 15, 1941. The present offerings of Treasury bonds and Treasury notes afford to holders of the maturing notes an opportunity to exchange them for other interest-bearing obligations of the United States. Any notes not so exchanged at this time will be paid in cash following their presentation on and after June 15, 1941.

The texts of the official circulars follow:

## UNITED STATES OF AMERICA

## 2-1/2 PERCENT TREASURY BONDS OF 1952-54

Dated and bearing interest from March 31, 1941      Due March 15, 1954

REDEEMABLE AT THE OPTION OF THE UNITED STATES AT PAR AND ACCRUED  
INTEREST ON AND AFTER MARCH 15, 1952

Interest payable March 15 and September 15

1941  
Department Circular No. 651

TREASURY DEPARTMENT,  
Office of the Secretary,  
Washington, March 19, 1941.

Fiscal Service  
Bureau of the Public Debt

## I. OFFERING OF BONDS

1. The Secretary of the Treasury, pursuant to the authority of the Second Liberty Bond Act, as amended, invites subscriptions, at par and accrued interest, from the people of the United States for 2-1/2 percent bonds of the United States, designated Treasury Bonds of 1952-54. The amount of the public offering is \$500,000,000, or thereabouts, with the right reserved to the Secretary of the Treasury to increase the offering by an amount sufficient to accept all subscriptions for which Treasury Notes of Series B-1941, maturing June 15, 1941, are tendered in payment and accepted. In addition to the amount offered for public subscription, \$50,000,000, or thereabouts, of these bonds may be allotted to Government investment accounts against cash payment.

## II. DESCRIPTION OF BONDS

1. The bonds will be dated March 31, 1941, and will bear interest from that date at the rate of 2-1/2 percent per annum, payable on a semiannual basis on September 15, 1941, and thereafter on March 15 and September 15 in each year until the principal

- 2 -

amount becomes payable. They will mature March 15, 1954, but may be redeemed at the option of the United States on and after March 15, 1952, in whole or in part, at par and accrued interest, on any interest day or days, on four months' notice of redemption given in such manner as the Secretary of the Treasury shall prescribe. In case of partial redemption the bonds to be redeemed will be determined by such method as may be prescribed by the Secretary of the Treasury. From the date of redemption designated in any such notice, interest on the bonds called for redemption shall cease.

2. The income derived from the bonds shall be subject to all Federal taxes, now or hereafter imposed. The bonds shall be subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but shall be exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority.

3. The bonds will be acceptable to secure deposits of public moneys, but will not bear the circulation privilege and will not be entitled to any privilege of conversion.

4. Bearer bonds with interest coupons attached, and bonds registered as to principal and interest, will be issued in denominations of \$50, \$100, \$500, \$1,000, \$5,000, \$10,000 and \$100,000. Provision will be made for the interchange of bonds of different denominations and of coupon and registered bonds, and for the transfer of registered bonds, under rules and regulations prescribed by the Secretary of the Treasury.

5. The bonds will be subject to the general regulations of the Treasury Department, now or hereafter prescribed, governing United States bonds.

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## III. SUBSCRIPTION AND ALLOTMENT

1. Subscriptions will be received at the Federal Reserve Banks and Branches and at the Treasury Department, Washington. Subscribers must agree not to sell or otherwise dispose of their subscriptions, or of the securities which may be allotted thereon, prior to the closing of the subscription books. Banking institutions generally may submit subscriptions for account of customers, but only the Federal Reserve Banks and the Treasury Department are authorized to act as official agencies. Others than banking institutions will not be permitted to enter subscriptions except for their own account. Cash subscriptions from banks and trust companies for their own account will be received without deposit but will be restricted in each case to an amount not exceeding one-half of the combined capital and surplus of the subscribing bank or trust company. Cash subscriptions from all others must be accompanied by payment of 10 percent of the amount of bonds applied for.

2. The Secretary of the Treasury reserves the right to reject any subscription, in whole or in part, to allot less than the amount of bonds applied for, and to close the books as to any or all subscriptions at any time without notice; and any action he may take in these respects shall be final. Cash subscriptions for amounts up to and including \$5,000 where the subscribers specify that delivery be made in registered bonds 90 days after the issue date will be given preferred allotment. In each such case a sub-

- 4 -

subscriber may not enter any other cash subscription, and payment must be made as provided in Section IV of this circular. Subject to these reservations, subscriptions in payment of which Treasury Notes of Series B-1941 are tendered will be allotted in full. Allotment notices will be sent out promptly upon allotment, and the basis of the allotment will be publicly announced.

#### IV. PAYMENT

1. Payment at par and accrued interest, if any, for bonds allotted to the public on cash subscriptions hereunder must be made or completed on or before March 31, 1941, or on later allotment. In every case where payment is not so completed, the payment with application up to 10 percent of the amount of bonds applied for shall, upon declaration made by the Secretary of the Treasury in his discretion, be forfeited to the United States. Any qualified depository will be permitted to make payment by credit for bonds allotted to it for itself and its customers up to any amount for which it shall be qualified in excess of existing deposits, when so notified by the Federal Reserve Bank of its district. Treasury Notes of Series B-1941, maturing June 15, 1941, with coupon dated June 15, 1941, attached, will be accepted at par in payment for any bonds subscribed for and allotted, and should accompany the subscription. Accrued interest from December 15, 1940 to March 31, 1941 (\$4.00412 per \$1,000), will be paid following acceptance of the notes.

V. GENERAL PROVISIONS

1. As fiscal agents of the United States, Federal Reserve Banks are authorized and requested to receive subscriptions, to make allotments on the basis and up to the amounts indicated by the Secretary of the Treasury to the Federal Reserve Banks of the respective districts, to issue allotment notices, to receive payment for bonds allotted, to make delivery of bonds on full-paid subscriptions allotted, and they may issue interim receipts pending delivery of the definitive bonds.

2. The Secretary of the Treasury may at any time, or from time to time, prescribe supplemental or amendatory rules and regulations governing the offering, which will be communicated promptly to the Federal Reserve Banks.

HENRY MORGENTHAU, JR.  
Secretary of the Treasury.

## UNITED STATES OF AMERICA

## 3/4 PERCENT TREASURY NOTES OF SERIES D-1943

Dated and bearing interest from March 15, 1941 - Due March 15, 1943

Interest payable March 15 and September 15

## ADDITIONAL ISSUE

1941  
Department Circular No. 652

TREASURY DEPARTMENT,  
Office of the Secretary,  
Washington, March 19, 1941.

Fiscal Service  
Bureau of the Public Debt

## I. OFFERING OF NOTES

1. The Secretary of the Treasury, pursuant to the authority of the Second Liberty Bond Act, as amended, invites subscriptions, at par and accrued interest, from the people of the United States for 3/4 percent notes of the United States, designated Treasury Notes of Series D-1943, in payment of which only Treasury Notes of Series B-1941, maturing June 15, 1941, may be tendered. The amount of the offering under this circular will be limited to the amount of Treasury Notes of Series B-1941 tendered and accepted.

## II. DESCRIPTION OF NOTES

1. The notes now offered will be an addition to and will form a part of the series of 3/4 percent Treasury Notes of Series D-1943 issued pursuant to Department Circular No. 650, dated February 25, 1941, will be freely interchangeable therewith, are identical in all respects therewith, and are described in the following quotation from Department Circular No. 650:

"1. The notes will be dated March 15, 1941, and will bear interest from that date at the rate of 3/4 percent per annum,

- 2 -

payable semiannually on September 15, 1941, and thereafter on March 15 and September 15 in each year until the principal amount becomes payable. They will mature March 15, 1943, and will not be subject to call for redemption prior to maturity.

"2. The income derived from the notes shall be subject to all Federal taxes, now or hereafter imposed. The notes shall be subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but shall be exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority.

"3. The notes will be accepted at par during such time and under such rules and regulations as shall be prescribed or approved by the Secretary of the Treasury in payment of income and profits taxes payable at the maturity of the notes.

"4. The notes will be acceptable to secure deposits of public moneys, but will not bear the circulation privilege.

"5. Bearer notes with interest coupons attached will be issued in denominations of \$100, \$500, \$1,000, \$5,000, \$10,000 and \$100,000. The notes will not be issued in registered form.

"6. The notes will be subject to the general regulations of the Treasury Department, now or hereafter prescribed, governing United States notes."

### III. SUBSCRIPTION AND ALLOTMENT

1. Subscriptions will be received at the Federal Reserve Banks and Branches and at the Treasury Department, Washington. Banking institutions generally may submit subscriptions for account of customers, but only the Federal Reserve Banks and the Treasury Department are authorized to act as official agencies.

2. The Secretary of the Treasury reserves the right to reject any subscription, in whole or in part, and to close the books as to any or all subscriptions at any time without notice; and any action he may take in these respects shall be final.

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Subject to these reservations, all subscriptions will be allotted in full. Allotment notices will be sent out promptly upon allotment.

#### IV. PAYMENT

1. Payment at par and accrued interest for notes allotted hereunder must be made or completed on or before March 31, 1941, on or later allotment, and may be made only in Treasury Notes of Series B-1941, maturing June 15, 1941, which will be accepted at par, and should accompany the subscription. Coupons dated June 15, 1941 should be attached, and accrued interest from December 15, 1940 to March 31, 1941 (\$4.00412 per \$1,000) on the maturing notes will be credited, and accrued interest from March 15 to March 31, 1941 (\$0.32609 per \$1,000) on the new notes will be charged, to subscribers. The difference (\$3.67803 per \$1,000) will be paid following acceptance of the notes.

#### V. GENERAL PROVISIONS

1. As fiscal agents of the United States, Federal Reserve Banks are authorized and requested to receive subscriptions, to make allotments on the basis and up to the amounts indicated by the Secretary of the Treasury to the Federal Reserve Banks of the respective districts, to issue allotment notices, to receive payment for notes allotted, to make delivery of notes on full-paid subscriptions allotted, and they may issue interim receipts pending delivery of the definitive notes.

- 4 -

2. The Secretary of the Treasury may at any time, or from time to time, prescribe supplemental or amendatory rules and regulations governing the offering, which will be communicated promptly to the Federal Reserve Banks.

HENRY MORGENTHAU, JR.,  
Secretary of the Treasury.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE March 19, 1941

TO Secretary Morgenthau  
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

At 9:20 this morning Mr. Knoks telephoned me that late yesterday evening the Federal Reserve Bank at New York had received from the National Bank of Yugoslavia a cablegram confirming their order for the sale of \$22,500,000 of gold, but cancelling the order for the transfer of one half of the proceeds to the account of the Central Bank of Argentina with the Federal. Since the Federal had already sent a cablegram to Argentina notifying the Central Bank of the transfer ordered by the Yugoslav National Bank, a follow-up message was sent citing the instruction from Yugoslavia. This morning a reply was received from Argentina to the effect that the Central Bank of that country had not received any instructions from Belgrade to expect this transfer of funds from the Yugoslav National Bank and consequently accepted the cancellation of the transfer. The situation is, therefore, that we purchased the gold as of yesterday and that one half of the proceeds has been paid over to the Chase to the account of the Banco do Brasil, and that the other half of the proceeds remains in the dollar account of the Yugoslav National Bank with the Federal.

At the 9:30 staff meeting I reported this development to the Secretary.

At 10:00 I telephoned this information to Assistant Secretary of State Acheson, who felt that this indicated that our representations to the Yugoslav Government had been at least 50 percent successful, and that this action on the part of the Yugoslavs might be interpreted as a good sign. He said he would promptly convey the information to Action Secretary Welles.



March 19, 1941  
9:30 a.m.

GROUP MEETING

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

H.M.Jr: You people have most likely been wondering why we haven't had any staff meetings, but I just did it to save embarrassment for the friendly sons of St. Patrick who have been so conspicuous by their absence.

Sullivan: It wouldn't have embarrassed us a bit yesterday.

H.M.Jr: Tell the story about it.

Sullivan: About what?

H.M.Jr: About how Ed felt that he didn't --

Sullivan: Oh, we were going to get up very early and some how or other we didn't, so I went in

- 2 -

Ed's room and I called to find out if there had been a nine thirty meeting. No. Did the Secretary call? No. I said, "Call Mr. Foley's office and see if he called in there." No. He can't do that to us, they can't run that place without us. (Laughter)

My mother is leaving on the ten o'clock, and she is in my office, and I would like to take her to the train unless there is something special. May I be excused?

H.M.Jr: Please. There are two things. Have you heard anything about the bond issues this morning?

Bell: No, it is pretty early.

H.M.Jr: I have this memorandum which came in last night from Jerome Frank which I haven't had a chance to read.

Bell: I just glanced through it hurriedly. It has some merit, but you had better look at it.

H.M.Jr: You let both Haas and White see it. It has to do with, as I understand it, something that the Army asked them in connection with future financing, you see, capital.

Bell: It is along the lines of the old capital issues committee during the last war.

H.M.Jr: Well, if there is going to be any such thing, it is going to be here.

Bell: I think that is absolutely right.

H.M.Jr: Where is George? George, somebody gave me this morning a very interesting chart which I have never seen one like it before. He has taken the net corporate receipts going

- 3 -

back to '26 and compared it with the working capital of the corporation, and in this thing he shows that the spiral in '37 started downward due to a lack of working capital. Using - that if business net receipts go above 60 billion dollars, he thinks we will need 30 billion dollars of working capital, and we will be short about five this year; and for plant expansion another five to ten billion, you see.

Now, have you any such studies in your place?

Haas: We are working on that same problem in connection with the --

H.M.Jr: Well, will you do it just this way and see what you get? The net corporation receipts and working capital, going back - he went back to '26. He is convinced that the downward spiral in '37 was a result of a shortage of working capital. That was one of the factors.

Two, that for this year there will be a shortage of around five billion on working capital and for plant expansion another five or ten; in other words, between ten and fifteen billion dollars shortage. That fits in with this thing of Frank's, doesn't it?

Bell: It fits in as a part of that study, yes.

H.M.Jr: I would like very much when I get back to have an answer on this working capital thing, George, please.

Haas: I have got some people working on that same problem.

H.M.Jr: Well, let me have something, will you? It has never been put up to me like that before.

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Haas: It ties in also with your Treasury financing.

H.M.Jr: Well, what do you think I mentioned it for?

Haas: I thought maybe you were considering it from the point of view of the effect on business.

H.M.Jr: No.

Haas: It works both ways.

H.M.Jr: It is the same thing. And then this thing coming in last night from Jerome Frank brings it to a head.

Herbert?

Gaston: You sent me in a memorandum yesterday in regard to cutters. There didn't appear to be anything that we are to do on that. It appeared to be taken up through other channels.

H.M.Jr: That is right.

Gaston: And then this material here that Mr. --

H.M.Jr: Have you read it?

Gaston: Yes.

H.M.Jr: Then just send it back to me.

Gaston: You didn't want anybody else in our organization to have a look at it?

H.M.Jr: Well, Waesche.

Gaston: Yes. Well, that is what I was thinking, I might let him look at it.

H.M.Jr: And then get it back - not Purvis' letter, but

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the rest of it goes back to Captain Callahan. Purvis' letter belongs to me, and Captain Callahan, the aide to the President, sent the rest of it to me. There is a note in there from him.

Gaston: Yes, but I didn't recognize anything as being a Purvis letter. Is it this one here? No, I didn't see any Purvis letter. Oh, here it is. I just didn't see that.

You wanted to speak to me some time about this book and the Rueckswander Mark some time today or tomorrow and if the decision is final as to the cutters, we need to take up through some channel the question of weather service ships and I presume if we get the proper authority, we can take it up through Land.

H.M.Jr: Well, Herbert, you will just have to fight your own battle. I can't get to do any more on it, and if they pull these ships out, I just wouldn't worry about the weather business. The way to do things now days is just to pull the ships out. Don't give them any weather service. And then let somebody holler.

Gaston: And just to call their attention to what it does.

H.M.Jr: We will just pull the ships out.

Gaston: All right.

H.M.Jr: Pull the ships out. You can't sit around in Washington these days and wait for somebody to act. Just pull these ships out and then let Pan American shriek.

Gaston: Yes. It won't be only Pan American, it will be the English.

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- H.M.Jr: Pull them out and then let somebody yell about it, and then maybe the President will act.
- Gaston: All right. I don't know whether a memorandum came to you which I wrote yesterday on a letter which I - a letter or a memorandum which I think you hadn't seen from Land about the acquisition of-a scheme for the acquisition of 33 German ships.
- H.M.Jr: I won't look at it before I go away.
- Gaston: You won't?
- H.M.Jr: No, sir.
- Gaston: They asked our views solely on the question of whether we would have objections to the payment of twelve and a half million to the Germans for the ships and we have indicated to them that that isn't a particularly material point, that if they insist on deciding the main question themselves as to whether we should allow Americans to buy these 33 German ships, that that is the question and the mere question of the transfers of twelve and a half million dollars of American funds to Germany isn't particularly important.
- H.M.Jr: I won't be able to absorb anything new.
- Gaston: All right. Well, we can go ahead and express our view on the thing.
- H.M.Jr: Bell is Acting Secretary.
- Gaston: O.K.
- H.M.Jr: Sorry, but I just can't. I am going to try to clean up.

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Gaston: Fine. All right.

H.M.Jr: Did you get my message about those two tickets?

Gaston: Yes, I did. I sent a note to you yesterday, but he wasn't able to deliver it.

H.M.Jr: Oh. All right. Is there a note on it?

Gaston: I sent a note, but it didn't get to you. It is in my pocket.

H.M.Jr: Do you want to give it to me?

Gaston: Yes. He handed it back to me this morning.

H.M.Jr: All right. Ed?

Foley: Sam Clark wanted us to come over to a meeting to help draft that legislation on the defense activities from sales taxes and transaction taxes.

H.M.Jr: Not until Thursday afternoon.

Foley: Right.

H.M.Jr: Anything else? That is putting somebody with Peacock. I think we will let that go. We will take it up after I get back.

Foley: Right.

H.M.Jr: Merle?

Cochran: Knoke just telephoned at 9:20 on the transaction of the Yugoslavs. The Bank of Yugoslavia canceled the transaction with Argentina. It is only the Brazilian this time.

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H.M.Jr: How much was to go to Argentina?

Cochran: Eleven million two hundred twenty-five thousand.

H.M.Jr: They are leaving that here?

Cochran: That is left here. They had already paid it out, and then they got Argentina to give it back again. Argentina had had no instructions on it. It is out of the twenty-two and a half sold so we just lose the eleven and a quarter.

H.M.Jr: That is 50 per cent gold?

Cochran: Yes.

H.M.Jr: The fact that they are leaving eleven million with us is a little bit cheering, isn't it?

Cochran: I think so. I will tell Mr. Acheson about it this morning.

Cochran: The Canadians and British were in this morning and left some documents. I am having them photostated, and will leave them. I have made a little memo of what they want to talk about this morning. They are coming in in two groups. I will pass the photostats around because I think you might want Mr. Foley and Mr. Cox there.

H.M.Jr: Who else? Bell, White --

Cochran: And either Mr. Foley or Mr. Cox on the Lend-Lease.

H.M.Jr: Mr. Foley or whoever he wants to bring with him.

Foley: In here?

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H.M.Jr: Yes, five minutes of eleven.

Cochran: I will get the documents to them.

H.M.Jr: That will be good.

Cochran: Then I had a cable from Butterworth giving the British press comment on the Viscose sale. Do you want to see that?

H.M.Jr: No, just tell me. Is it good or bad?

Cochran: It is mixed. They think it is a serious matter, getting rid of these, but it shows they are sincere and so on.

Pehle: I have nothing.

H.M.Jr: Good.

Kuhn: Nothing.

H.M.Jr: Yes you have. Now, when are we going to - when am I going to be shown this various publicity for the defense savings bonds for Friday morning.

Bell: Harold wanted to stay a few minutes after this --

H.M.Jr: He isn't going to be able to.

Bell: He is not?

H.M.Jr: No. We will do business right now.

Graves: Well, we have a release in draft subject to some revisions that Mr. Kuhn is making. We will be ready any time. In fact, I asked for that release without fail by the close of today to make sure that it would be ready.

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H.M. Jr: What I was thinking of was this. I have mentioned in two press conferences - I can't take it. So I thought we could do it all at the 10:30 press conference and tell them it is a release for Friday morning newspapers.

Bell: Tomorrow morning.

H.M. Jr: Yes.

Schwarz: Give it to them tomorrow for Friday.

H.M. Jr: Do you agree?

Schwarz: Yes.

H.M. Jr: Then what you fellows had better do is come in here at about 10:15 tomorrow morning and go over the whole thing with me and have it all ready. All right, Chick?

Schwarz: Fine.

H.M. Jr: From the way these men talk, Chick, I think you are going to have to get after them.

Bell: Is that going to give you enough time in case you want to make any changes?

H.M. Jr: Well, when will they have it ready?

Bell: I think this afternoon we could show it to you.

H.M. Jr: Four o'clock?

Graves: Yes, sir.

H.M. Jr: I thought we would announce who was going to work. That was Bell's suggestion. The whole business. I mean, the people we brought down

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and Marion Edwards and all the rest of it.  
Yes? No?

Graves: Well, I have here a release that I think we ought to get out today on Edwards, because Edwards is going to Louisville as your representative.

Bell: And that also covers the others, doesn't it?

Graves: In the first place, we never got around to fixing his status. We prepared an appointment for him as Assistant to the Secretary, which Dan and I think should be --

H.M.Jr: Well, that doesn't mean that that uses up that - there are six of them.

Thompson: No, if you have a memo, we can switch them over. Mr. Pehle can go on Foreign Funds and so on.

Bell: Mr. Secretary, he said he only wanted expenses. He can't get expenses out of \$5.00 a day, so we are paying him \$22.00 a day as an assistant, and he can work as many days as he wants to and put in as many days expenses on that basis.

Graves: Here is a letter which Dan and I think you should sign, to Mr. Houston, notifying him that Mr. Edwards is there as your representative.

H.M.Jr: All right. Now what about the publicity?

Graves: This is the publicity on him which I think we ought to get out right away, because he is functioning down there today.

H.M.Jr: "Secretary Morgenthau today appointed Mr. B. M. Edwards, president of the South Carolina National Bank and the only National Bank who

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voted for Franklin D. Roosevelt."

Schwarz:

All 15 branches.

H.M.Jr:

What do you think of that, Herbert?

Gaston:

That is all right. (Laughter)

Haas:

So much to the good.

H.M.Jr:

Mr. Edwards - these pretty young men are full of ideas.

Gaston:

I would strike out "only." There might be one other.

H.M.Jr:

"Mr. Edwards, who is also a director of the of the Charlotte branch of the Richmond Federal Reserve Bank, will serve as liaison officer between the Treasury and the nation's banks in connection with the defense financing program. His assignment will cover various phases of the effort to sell savings stamps and bonds of small denominations, as well as securities of larger denominations.

"Mr. Edwards is a member of the Reconstruction Finance Corporation's advisory board at Charlotte, North Carolina, the South Carolina Council for Defense, and a director of the Columbia, South Carolina, Chamber of Commerce."

Shall we put that in too? It sort of waters it down. Do you like him?

Graves:

Very much. He has made more headway in two days on our stuff than I thought it would be possible for any one to do. He is fine. The only trouble is, he is a pessimist and perhaps one other little trouble is, he wants to go back and work for his own bank.

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H.M.Jr: Well, we will cure him of that.

Graves: He is grand. He is A-1 in every respect.

H.M.Jr: When is he coming back?

Graves: He will be here Tuesday.

H.M.Jr: Four o'clock then?

Kuhn: Four o'clock, sir.

H.M.Jr: The Kintner and Alsop thing was all right, all except the last paragraph, but that was their personal opinion, which they are entitled to. Did you like Edward?

Kuhn: Very much. He was in at a meeting with Dan Bell yesterday, and I think Dan will agree about him.

Bell: He is very good.

H.M.Jr: Philip? I have had nothing from the bedroom on the second floor.

Young: I am going on the bedroom circuit at ten, and I will ask to be excused. Perhaps I will call it the short circuit.

H.M.Jr: You are going on the bedroom circuit? (Laughter) When?

Young: At ten o'clock. I will ask to be excused. A memorandum is being typed up for you on this Mexican airman whom Wallace spoke to you about.

H.M.Jr: I am lunching with him.

Young: I will have it sent in to Mrs. Klotz in case I don't get back in time for you to sign it.

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H.M.Jr: Right.

Young: It is all right to tell the Bedroom Boys that we are planning on beginning to liquidate tomorrow on the foreign end?

H.M.Jr: Tell who?

Young: Harry.

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H.M.Jr: Yes. You know, Cox and Young, I have nicknamed them the Harry Hopkins Bedroom Boys. (Laughter) All right.

Incidentally, you know, you might suggest to Harry, you might get a double decker and then you could go to bed too.

Young: Those posts are too tall. It would be too high up.

H.M.Jr: Good luck,

Young: Thank you.

H.M.Jr: George?

That is the bed Lincoln died in.

Klotz: He didn't die there. That is not in the White House.

H.M.Jr: Yes. They have got the bed that he died in.

Haas: You wrote that (handing memorandum to Secretary) after you talked to Mr. Foley.

H.M.Jr: I have already talked to him.

Haas: All right. There is one thing on that that bothers me a little bit. Part of our disagreement, a large part, is on that very confidential document, and it is all right talking to the person that wrote it, but I mean to go outside - I wanted to get your idea on that.

H.M.Jr: I guess you had better not.

Haas: I will confine it, then, to the author.

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- H.M.Jr: Yes. Anything else, George.
- Haas: That is all I have. Did you want me to send anybody up to New York on this thing? I forgot to ask you.
- H.M.Jr: Did you get anything last time?
- Haas: Well, he got some experience and picked up some information. I based that chart on some of the things I told him to get while he was up there.
- H.M.Jr: Then send him up.
- Klotz: He got some experience up there. (Laughter)
- Haas: That is where the Navy sends their men to sea.
- Bell: And Herbert.
- H.M.Jr: Sure. Come on, children.
- Schwarz: Here are the stories on the Government bond market this morning. Since you have already read Kintner and Alsop--
- H.M.Jr: Right.
- Schwarz: The District WPA, the Writers' Project, has done a book for junior high school children about Government departments in the District. Of six services they picked the Treasury as one and we supplied some of the material. Now they are asking if you would write a foreword for it. They have suggested a draft which, if you are willing, Ferdie and I could edit.
- H.M.Jr: PWA?

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- Schwarz: WPA Project. It is sold by private publishers but the royalties come back and help keep the Project solvent.
- H.M.Jr: I have never done it.
- Schwarz: The angle that it is a private--
- H.M.Jr: Private?
- Schwarz: Private publisher. It is sold by Funk.
- H.M.Jr: What do you think, Herbert?
- Gaston: I don't think so. Just the royalties coming back--
- Schwarz: The publisher still makes a profit.
- Gaston: It is a money-making venture, and I don't think so.
- H.M.Jr: Out.
- Kuhn: It was done by the state governors on the WPA guides, which were private projects, but the state government was the only one. I have never seen it done otherwise.
- Schwarz: We don't do a lot of things that governors do. I think the whole group might want to know--
- H.M.Jr: Look at Pehle's expression.
- Schwarz: The whole group might want to know about the formation of a - finally, of a youth group supporting the Administration foreign policy. They have been sending you some of their publications. Mrs. Roosevelt seems to become interested in them.

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They are called the Student Defenders of Democracy. Somebody might mention they sent you that publication.

H.M.Jr: All right. Is that all?

Schwarz: Yes.

White: I have nothing.

Graves: I spent a little time at Olin Dow's since Monday. He has been in to see me three times. He is not going to be able to take the post that you had in mind for him, but he is entirely willing to come here from time to time to give us his advice--

H.M.Jr: Good.

Graves: .... and suggestions, and he has already left some suggestions with me about people that he might do business with. He was exceedingly nice. But he feels that he can't do it.

H.M.Jr: Get everything you can out of him, you see. He is painting that thing.

Graves: That is right. I thought it was Hyde Park.

H.M.Jr: Is it? I don't know. Well, get what you can out of him.

Graves: Yes. That is right.

H.M.Jr: Are you going to show me any more posters before I go? Four o'clock is a good time.

Graves: Well, I don't think it is necessary to show you any more posters because yesterday we had the artists' submissions on posters that we had asked for at the same time we asked

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the Bureau for its suggestions, and we all decided that the Bureau poster was better than any other thing that had been submitted, so we turned that back to Mr. Hall to do a model in greater detail, so we have nothing for you to see about posters, but we can tell you that we are going ahead on the basis of the poster which we showed you before. And, incidentally, one of the things that we are doing is to try to work all of our printing business, including posters and stamp albums and that sort of thing, through the Government Printing Office instead of by private contractors, turning this poster over. We have made an arrangement under which the Public Printer is going to assign one of his staff half time to work with us on all of our publications, which is going to be a great help to us because we are in difficulty with paper shortage and things of that kind, all of which the Public Printer is in a better position to take care of than we are.

H.M. Jr:

Good.

All right?

Graves:

Yes.

H.M. Jr:

I wish - I don't think I will get time. I read a very good report by Elmer Irey on Nucky Johnson of Atlantic City, and what he needs now is to be sure the thing is tried before a good judge and he thinks it ought to be one outside of the State of New Jersey. When you boil the whole thing down, that is what I get out of it. Elmer is under you, isn't he?

Gaston:

Not as to his tax cases, only as to the

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coordination.

H.M.Jr: Anyway, send for him and talk to him about it. If you and he feel, after talking about it, that you want five minutes with me, I would be glad to give it to you, and it is a case I am particularly interested in, you see. I will have five minutes this afternoon. I don't know just who all gets in on that, but I want to make sure that he gets a good judge.

Gaston: Well, Ed can probably give us some help if necessary.

H.M.Jr: Well, whoever can, but if you see him and Elmer feels he still wants to see me, around five o'clock.

Gaston: Sometime this afternoon?

H.M.Jr: Yes. But it is a case I am very much interested in, and I want to be sure that he gets all the backing. I don't know whether it has been brought to Ed's attention or not.

Foley: I know about it.

H.M.Jr: Well, I want to make it a case that - everything that we can do to help him. Make sure that he gets a good trial and a good United States District Attorney. There are so many people interested in it. If he can get a conviction there, it will be a refreshing thing for me. Elmer has been on it three years, I guess. Would you?

Gaston: Yes.

H.M.Jr: Are you through?

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- Graves: Through.
- H.M.Jr: Bell?
- Bell: In view of our consideration of the financing at a two and a half percent rate, Mr. Haas and Murphy have gone over our rates on the savings bonds, and they think that we will probably be better off if we raised that two and four-tenths to about two and a half and worked out schedules along that line. It is really only raising it one-tenth of one percent, and I think it is a pretty good thing to do.
- H.M.Jr: Do you recommend it?
- Bell: Yes, I do.
- H.M.Jr: Accepted.
- Bell: Our schedules are all completed, and we can go right ahead today on it.
- H.M.Jr: They haven't already put it on the face of the bonds?
- Bell: No, I have approved it, but they are just in an approved form so they can readily be changed.
- H.M.Jr: All right.
- Bell: You remember we asked the Secretary of War and the Secretary of the Navy - or Secretary of Commerce, the Federal Loan Administrator, to give us information as to what they are doing with respect to taking over contracts from the British and putting them under the Lease-Lend. I just have a letter from the Secretary of War, and he says that the amount involved in their taking over contracts is

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about 230 million, and that Jesse is considering a hundred and ninety-seven million but we will get the details from him. That makes a total of 427 million 560 thousand which is under consideration. I will give Phil Young a copy of that.

H.M.Jr: Well, and Harry White and Merle Cochran and Foley.

Cochran: We could use that in today's meeting.

Bell: Will it come up today?

Cochran: Oh, yes, that is the main thing.

White: Oh, there is no hurry about that, you know.

H.M.Jr: Anything else?

Bell: I was to remind you that you should talk to Glass.

H.M.Jr: The second we are through, I am calling up.

Bell: I have a memorandum here for your files on the Harold Smith question which I thought ought to go into the record.

H.M.Jr: Good.

White: They called up again yesterday, Dan, and the committee wanted to know again what our appropriations for war were with respect to the British. They weren't satisfied with the answer. I explained them again, so they will be satisfied with what the British Empire spent as compared with what we have spent. Your office is furnishing what we have spent, and we are furnishing what the British have spent. I will send it up to

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them this morning.

Bell: There has been some correspondence between the President and Congressman Downs with respect to furnishing additional relief to Finland, and the last letter that he got - the President got from Congressman Downs, he referred it jointly to you.

H.M.Jr: You know they did it yesterday.

Bell: Yes, and the Secretary of State for preparation of a reply, and we have been working on a reply, but in view of what was done yesterday, the reply was changed just to say, "With reference to your letter of February 18 regarding extension of further credit to Finland, I take pleasure in informing you that the Export-Import Bank of Washington has opened an additional credit to Finland in the amount of five million." That is the draft of the reply, and the Secretary of State wants to say to the President in his memorandum, "that I am advised that the Secretary of the Treasury concurs in submitting this draft." I will initial that.

H.M.Jr: All right. Who knew before the Export-Import Bank made that five million loan? Did anybody in the Treasury know?

White: I didn't know. I was informed that there was going to be a meeting yesterday noon. As a result of coincidence, I didn't attend, but in any case I didn't know ahead of time what they were going to take up. I have spoken twice about being - I asked if it wasn't possible to be forewarned as to what is being taken up. Jones stated that it would be possible, but I haven't heard about it.

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- H.M.Jr: For instance, he was here yesterday afternoon, and he said, "We had an executive committee meeting of the Export-Import Bank and decided to do the five million dollars."
- I am perfectly willing, if you will write a letter, I will sign it, and simply say that if my representative - the Treasury representative can not be advised in advance of an important transaction like this, I would feel it would be much better if the Treasury were not represented. Think it over. Talk it over with Bell, will you? Because I mean he is very high-handed, to put it moderately, understate it. Dan?
- Bell:- That is all I have.
- White: The Treasury did not approve that loan, didn't vote.
- H.M.Jr: Well, I think it would be much better if we just didn't have representation.
- Cochran: Doesn't the law require a representative from the Treasury Department?
- H.M.Jr: Well, we can get the law changed. I don't know. We can get it changed.
- Foley: A corporation was set up under the District of Columbia laws. It is a regular banking corporation.
- H.M.Jr: Well, we can resign and leave it vacant.
- Cochran: But Procopé had come in and talked about his desire for a loan.
- H.M.Jr: Well, Jesse is very high-handed.

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- Thompson: The President yesterday signed an Executive order that will permit the General Counsel to become the Acting Secretary.
- H.M.Jr: Wonderful. That means that Mr. Bell can go away, Mr. Sullivan can go away - wonderful. That means that every Saturday you fellows can go and play golf.
- Sullivan: And Ed doesn't play.
- Gaston: On a certain contingency.
- H.M.Jr: That is what I mean.
- Sullivan: That is what I wanted him to get.
- Gaston: That is wonderful. Now, beyond this point, you get every other Saturday, and you fellows used to get every fifth Saturday? How does that work?
- H.M.Jr: Ed is here every other Saturday, and we are here every fourth Saturday. (Laughter)
- Schwarz: Fair enough.
- Sullivan: That is a better deal than you made last summer.
- H.M.Jr: Well, I am glad you brought it up, because I just wanted to say, I don't know whether it is four or five weeks or four or five years that I have been here since my last trip to Arizona, and everybody here has been perfectly grand in helping me through one of the most difficult periods we have been through, the Lease-Land, two financings. I don't expect to call up. If I do, it will only be because you people ask me something. So I would like everybody to take it easy for the next two weeks. We have all been

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through some very, very difficult times. But I think we have help up our own end. I say unless I get calls, I will not be calling, so the callee will have to be in the Treasury.

- Thompson: Mr. Bell and Mr. Foley and I want to speak to you about two promotions.
- H.M.Jr: Bell and Foley and you? Well, I have already been talked to about this. Is anybody against it?
- Thompson: We can't legally promote Mr. Cox on his present payroll or on the General Counsel's roll, so we could put him on Foreign Funds temporarily.
- H.M.Jr: No. What about Kades?
- Thompson: The only alternative would be to wait until we get an administrative expense account under the Lend-Lease administration.
- H.M.Jr: What about Kades.
- Thompson: Kades is all right, but there is a technical question involved. The General Counsel advises me that it is O.K., but the Comptroller General might raise a question on it.
- Foley: No, I don't think so.
- H.M.Jr: Do you want to do the one without the other? Wouldn't that be bad medicine?
- Foley: Well, let's do Kades and then we can do the other one when we get some money.
- Bell: We ought to get an allotment under the Lease-Lend pretty soon.

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Foley: You see, that won't affect him.

H.M.Jr: But why do Kades - wouldn't it raise a question in Cox's mind, why Kades and not himself?

Klotz: Well, you can tell him.

Foley: We tried to.

H.M.Jr: Tried to what?

Foley: Do him too.

H.M.Jr: Will you tell him that?

Foley: Yes.

H.M.Jr: Well, why do you jump Kades a thousand? Why not five hundred?

Foley: Because Huntington and Bernie are getting nine and I think he is entitled to it.

H.M.Jr: All right.

Anything else?

Thompson: I have a letter written on the Cadillac, but I haven't gotten an answer yet.

H.M.Jr: Before I do it, I want to see one. I want to make sure that the ceilings are high and the windows are big, because this car has got - it is exceptionally roomy. Maybe I can look at McReynolds' or somebody's, because he has a new one.

Thompson: I think he has the same as yours.

H.M.Jr: No, the chauffeur said he just got another one.

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Sullivan: Are we going to see Mr. Doughton today?

H.M.Jr: No, I am through with Doughton.

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At 9:30 meeting today Mr. Graves reported to the Secretary that he had talked with Olin D. O., and that it would be impossible for Mr. Dows to take full charge of the Treasury's art work but that he would be glad to give the Department any advice and assistance he could. HM Jr said this was all right and told Mr. Graves he should use him as much as possible.

March 7, 1941

Harold Graves

Secretary Morgenthau

Please talk to me today about Olin Dows, the artist who lives at Rhinebeck, New York. Both Mrs. Morgenthau and I think he would be tops, and I want to personally get in touch with him, and ask him to come down and take full charge of our art work. Olin Dows used to work under Ned Bruce and was part of that organization. It was Mrs. Morgenthau's suggestion, and we could look for years and could not find a finer young man than Olin Dows.

March 10, 1941.

MEMORANDUM FOR MISS CHAUNCEY:

Re: The Secretary's memorandum of March 7 to Mr. Graves about Olin Dows.

Mr. Graves called Mr. Dows at his home at Rhinebeck, N. Y., on Friday, March 7, and succeeded in reaching him at about 3:00 p.m.

Mr. Dows stated that he had to come to Washington on March 17, and that he very much did not want to make two trips. After some persuasion on Mr. Graves' part, he consented to come to Washington on Monday, March 10, as the Secretary had indicated to Mr. Graves he wished, if the Secretary wouldn't let him postpone his trip until the following week.

Mr. Graves spoke to the Secretary following the showing of the motion picture on Saturday, March 8, and Mr. Morgenthau consented to the postponement of Mr. Dows' trip until March 17.

Mr. Graves wired Mr. Dows accordingly on Saturday, March 8. A copy of the telegram is attached.

MFF

EXPEDITE

STANDARD FORM No. 14A  
 APPROVED BY THE PRESIDENT  
 MARCH 10, 1926

**TELEGRAM**

OFFICIAL BUSINESS—GOVERNMENT RATES

TREASURY DEPARTMENT

WASHINGTON

CHARGE TREASURY DEPARTMENT, APPROPRIATION FOR

Expenses of loans

(The appropriation from which payable must be stated on above line)

U. S. GOVERNMENT PRINTING OFFICE 5-14117

Olin Dows,  
 Rhinebeck, N. Y.

March 8, 1941.

It will be satisfactory to Mr. Morgenthau for you to come in Monday, March seventeen. Would appreciate your phoning me that day.

Harold N. Graves  
 Assistant to the Secretary.

*French*CONFIDENTIAL

March 19, 1941

To: The Secretary  
From: Mr. Young

Re: Conference with Lt. Radames Gaxiola

On March 17th, the Vice President called me to say that he was greatly interested in seeing what could be done for Lt. Gaxiola who wanted to purchase some planes for the Mexican Air Force. Evidently the Vice President had spoken to the President about the matter, and, although Lt. Gaxiola wished to purchase a large quantity under the provisions of the Lend-Lease Act, the President's reaction was that ten or twelve trainers might be made available.

Mr. Wallace went on to say that the Mexican Air Force now had four planes and that those were obsolete. Further, the Vice President advised me that the President had suggested that Lt. Gaxiola talk with the Chief of Staff. I told Mr. Wallace that I would get in touch with Lt. Gaxiola immediately and do what I could to help.

I called Lt. Gaxiola at the Roosevelt Hotel, and he came in to see me the same afternoon. He told me that the Mexican Air Force now had four planes in service which were of the light attack and observation type. These planes were of 1930 vintage and insufficient to accommodate the 175 pilots already in the Mexican Air Force. In addition to these four planes, Mexico had six trainers.

Lt. Gaxiola wanted to purchase from 150 to 300 assorted planes, of which about ten percent would be trainers, and the rest, attack, observation, and pursuit ships. He was considering the 950 horsepower class of either North American or Vultee attack and observation ships, the Curtiss P-36 for a pursuit ship, and the Fairchild or Harlow for trainers.

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I told the Lieutenant that, of course, the aircraft situation was very tight and it would be very difficult to get any planes to say nothing of the quantity which he desired. He replied that Mexico would be perfectly willing to take delayed delivery, that is, six or seven planes a month for an extended period rather than all of them at once.

I explained to Lt. Gaxiola that there was a joint aircraft committee, under the chairmanship of General Arnold, which allocated production capacity and deliveries, and that it would be necessary to put in a request with this committee before any action could be taken. I added that I thought there might be some possibility of getting a few trainers, but that I was very doubtful about the attack or pursuit ships due to the scarcity of engines.

I inquired as to the status of the old Bellanca planes in Mexico, which had served as the basis for so many fantastic stories, with the thought in mind that perhaps the old engines could be made available if new frames could be procured. I gathered, however, that this idea was not feasible, and I subsequently heard from a different source that those engines had been sold to Canada.

I told Lt. Gaxiola that I would make an appointment for him to see the Chief of Staff and General Arnold. Gaxiola said that he already knew General Arnold and had been talking with him about the plane which Gaxiola had flown from Mexico demonstrating the use of butane as fuel.

After Lt. Gaxiola's departure, I called the War Department and found that General Marshall was out of the city on an inspection trip, so I made an appointment for Lt. Gaxiola to see General Arnold yesterday (March 18th). In talking with General Arnold over the telephone, he advised me that he knew Gaxiola and that I knew as well as the General did that it would be very difficult for planes to be made available for the Mexican Air Force, however, Arnold said he would talk with Gaxiola about it. I have had no report or indication as to the result of this conference.

In connection with the foregoing, it might be possible for Mexico to secure a few CW-22's, a two-place observation and light attack ship manufactured by Curtiss Wright at its St. Louis plant. An arrangement is just being worked out now by the joint aircraft committee whereby about 100 of these CW-22's will be manufactured over and above orders existing on the books for delivery some time in the late summer and fall. This is the type of ship which Mexico would like to have and for which there is no great demand in the U.S. defense program. Presumably, part of these CW-22's will be allocated to the Netherlands East Indies.

Dy

March 19, 1941  
10:18 a.m.

H.M.Jr: Hello.

Allan  
Sproul: Hello, Mr. Secretary.

H.M.Jr: Who is this?

S: This is Allan Sproul and Bob Rouse is right here with me. He can tell you what has been going on.

H.M.Jr: Right.

Rouse: There was a little early talk among the brokers around 10 $\frac{1}{2}$  and as soon as the real market developed - developed around 9:11 and 10:12 - and the general reception has been excellent.

H.M.Jr: Good.

R: There is some trading out of the taxable 2's and other surrounding issues with a view of going into the new bonds, but so far they are holding very well as far as price is concerned, the 2's being about par .31 to 101.1. So, so far, I think we can be very well pleased.

H.M.Jr: Tell me, has the last 2, has that sold off any.

R: Oh, I don't think there is any change there. Nobody has paid any attention to them this morning.

H.M.Jr: I see.

R: (Talks aside). You mean the last two bonds or the 2's of 48-50.

H.M.Jr: The 2's of 48-50.

R: They are .31 to 101.1 and there is some selling of those with the idea of buying the new 2 $\frac{1}{2}$ 's.

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

R: But the market is in good shape. One dealer reported he had more rights than he could handle but by and large they're not seeing very much selling of rights.

H.M.Jr: Well, that was the First Boston, wasn't it?

R: Yeah.

H.M.Jr: I hear they were spreading the gloom particularly.

R: Well, from things we heard we thought so, but in talking with the man who is alleged to have been doing it this morning, he denied it completely. He said he had a joke with another fellow in another trading house.

H.M.Jr: That's Lanston.

R: Yeah, but that apparently wasn't so.

H.M.Jr: Well, now, you won't help out the First Boston, will you, by relieving them of any of their rights?

S: No, we're not doing anything of that sort, but I think they are playing the game, Mr. Secretary, as far as the public is concerned.

H.M.Jr: Well, I'd watch them.

S: They talk frankly to us but I know they are trying to do a constructive job.

H.M.Jr: Well, I mean, I don't want to bail them out.

S: Right.

H.M.Jr: Some other people have come in and been helpful, but I don't think the First Boston has been helpful. I mean, before you do anything, I'd like you to talk to me. Will you?

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S: Yeah.

H.M.Jr: I don't like the way Pope talked when he was down here.

S: Uh-huh.

H.M.Jr: I mean he was kind of ugly.

S: Really?

H.M.Jr: Oh, yeah.

S: Yeah, I am surprised.

H.M.Jr: No, I didn't like - that's just between us.

S: Yeah, I understand.

H.M.Jr: I didn't like the way he talked. I mean, I don't have grudges - I can't afford to - but I just thought before you did anything - I mean if you got soft-hearted, I'd like you to talk to me. All right?

S: Well, so far, as far as any subscriptions and so on, they'll get treated just like anybody else.

H.M.Jr: Well, that's all that I'd care about.

S: As far as outstanding jobs that have been done, Devine did an outstanding job on the 2's.

H.M.Jr: I know he did.

S: He carried a real load there and did a swell job.

H.M.Jr: I know he did.

S: Fine.

H.M.Jr: But the thing has got off to a good start.

S: Yes, sir.

H.M.Jr: Thank you so much.

R. & S.: Fine.

March 19, 1941  
10:29 a.m.

H.M.Jr: Hello.

Operator: Mr. Bell.

H.M.Jr: Yes, Dan.

D. W. Bell: Sir Frederick would like to know if he could have five minutes alone with you at the beginning of the meeting this morning?

H.M.Jr: Yeah. Well, the others will just have to wait.

B: Yeah.

H.M.Jr: We'll start at five minutes of 11:00 .....

D: No, he didn't mean that. He meant just to come in at the regular time, but if you'd just see him for five minutes.

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

B: Alone, yes.

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

B: Thank you.

March 19, 1941  
11:03 a.m.

RE AID TO CANADA

Present: Mr. Foley  
Mr. Bell  
Mr. Cochran  
Mr. White

H.M.Jr: We started in yesterday morning. In the first place, they called a meeting Monday over at Federal Reserve, and they tie everybody up just to listen to an annual report, so that the men that are my eyes and ears in New York have got to be down here to listen to the Open Market Committee. That was number one. And then when we started yesterday morning, everybody practically put the Pressure on. We couldn't sell 500 million dollars of bonds for cash at any price. Is that right? And I kidded the fellows in New York and said, "Take some vitamin pills, I am going to do it." Is that right? I am not exaggerating, am I?

Bell: No.

H.M.Jr: And they tried every way they could to say, "Make it 300 million of the bond and 200 million of the note." Is that the way they wanted it?

Bell: Yes.

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H.M.Jr: And I said, "Well, the United States Government can sell it."

Then when we came around after lunch, they wanted me to go out a year further, and I wouldn't do it. I said, "If in the morning you can't sell it at any price, in the afternoon you switch and say, 'It is too sweet, it ought to be further-'" and I have never gotten more conflicting advice. And the First of Boston was all over the street telling their customers the bond is no good, and it is going down to a hundred at least so don't do anything, and they are just sitting there loaded with rights. But I mean, you just can't--

Bell: You say they deny it?

H.M.Jr: Yes. You just can't believe it. The thing that Dan and I went through the last couple of days, there wasn't any of the New York crowd until we started to go to the fellows that had the money, and the fellow out in Chicago said, "I don't know whether I can take it, but I will take the whole issue." And as soon as you got out to Chicago, you get a different atmosphere. I really, when I come back, would like to sit down with that SEC crowd. There must be something that they can do legally and properly in the handling of the New York financial crowd. There must be some way to do something that these fellows are not all the time - all the time this beating them over the head. We are going to have to get an awful lot of money and so is private industry, and I have never, never seen the fellows so licked, have you?

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Bell: They are awfully blue.

H.M.Jr: And there hasn't been a private issue for new money that has been a success, I think, this year. Maybe a little, but not much.

Bell: Not a big one.

H.M.Jr: There hasn't been a big one. I don't blame it altogether - but I blame it in the sense of their doing nothing on the affirmative side to cheer the fellows up. In a perfectly legal, proper, equitable way, go ahead and do some business.

Bell: I don't think this competitive business is right.

H.M.Jr: That I don't know, but there is something definitely wrong, Dan, when you have got to go through what we have the last two days on our own issues. I think it is worth exploring. I don't know what is the matter.

Bell: Competitive bidding may be all right under limited control, but I think the company that sells an issue to an underwriting group ought to be interested in the success of that from their own company's credit standpoint. Instead of that, they go out and they sell it to the highest bidder, and then it is a drug on the market and it doesn't hurt the people who are underwriting it, it hurts the credit of the company, and many a company has had their credit hurt by this process.

H.M.Jr: All I know is what is the condition and the amount of money that is needed, and it isn't

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that - I am facing a great success day, so I am all right, but it knocked the hell out of me to do it. Dan was sick as a dog Monday. You fellows get around and - you know them over there. Sit around and gossip with them a little while I am gone and, what is the matter with the New York crowd, what are you doing? You know, Harry and Ed, you know them all over there. What is the trouble, fellows? I mean, where is the fault? Is it our fault or is it their fault? Would you do that?

Foley: Yes.

H.M.Jr: Because it is very important, also, who they put in as chairman of the SEC and what his attitude is going to be. I needn't explain to you people - I mean, I don't want anything done, no lessening of the regulations, but it is just on state of mind. It is like I call them up yesterday and I say, "You fellows are deficient in vitamins. Go out and take some vitamin pills." They call me back and say, "We have had our vitamins, and we think we can do it." Isn't that what they said?

Bell: Yes.

H.M.Jr: I mean, you kid them and cajole them and slap them on the back. I don't give up one inch as to what we are fighting for.

White: Instead of them advising you, you are advising them.

H.M.Jr: Seriously, Harry, I told the Federal in New York, I said, "Go out and - you are deficient in vitamins." They called back, "Hello, we

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have had our vitamins. We think we can do it." Now, what happens? Nothing. It is just a cheery word, a little kidding, a little joking. I have got confidence. They think it over and they get it. That is all. Have I given up anything? Nothing except my physical energy. If I sat here and said, "It can't be done," and I gave in and said, "I can't sell 500 million - " I haven't given up anything with the New Deal, that is what I mean, you see, and I just wondered if SEC couldn't do the same thing, without giving up anything. But I just suspect there is something - and the facts are, you can't sell a new issue today at a fair rate. Now, there is something wrong. And I think if you - you fellows could very well spend a couple of days gossiping and having lunch or supper with them and just talking with them. Don't you think so, Dan?

Bell: Yes.

H.M.Jr: Because you don't know these fellows intimately and they do. Do you?

Bell: No.

H.M.Jr: They do.

All right, gents.

Cochran: The Canadians left a number of documents here. I have distributed them to the group. They haven't had much chance to look at them yet, and I wrote just a little memo as to what I thought they were going to talk about. They are going to raise this question of the Canadian's selling their securities here and Clark said they could send someone down

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to New York thoroughly competent to take charge, I mean someone from the Minister of Finance or the Bank of Canada, and that they would like to coordinate with the British so that Gifford's sales wouldn't be slowed up or the market wouldn't be beared down. And they have recalculated their American securities, which they place at 276 million dollars. So that is that point.

- Bell: What was it before, Merle?
- Cochran: Three hundred and fifty. That was 350, Canadian, incidentally. This is 276, U. S. . Then they are going to bring up this same question--
- H.M.Jr: What is the Canadian dollar worth, 82 cents?
- Bell: It is about 89, isn't it?
- White: It is 87, I think.
- Cochran: And then they are going to bring up this question as to whether the Lease-Lend Bill or Act is applicable in the case of these parts which are manufactured in the United States and sent to Canada to be put in munitions exports to Great Britain.
- Bell: It is no longer Treasury Department business.
- H.M.Jr: No, and the British Government should take that up. If the British Government wants to get some engines here and put them into planes, it is up to the British Government, and that is up to Purvis.
- Foley: That is right.

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Bell: And Hopkins.

H.M.Jr: Yes.

Cochran: Then the question of what contracts can be taken over - that is, existing contracts under the Lease-Lend. They will have that same thing.

H.M.Jr: That is all right.

Cochran: And they have had no information from Mr. Jones or from the Army and Navy since they submitted their last report to us, and that meant they didn't know anything that was going to be done. So those are the main points, and then also this question as to whether - Phillips will raise the point as to what assistance they can give Canada. We have almost excluded their sending any gold up. Clark says that he doesn't need the gold, but he does need dollar proceeds of gold.

H.M.Jr: All right.

Cochran: And they raised the same point, that in the data which we submitted to the Congressional committees there was envisaged some payment of dollars or gold to third countries, including Canada. That is that.

Bell: What was that figure, Harry?

White: Six hundred twenty million.

Cochran: Then the point that Phillips wants to see you about, I just now learned from Pinsent, they are unhappy about some of the statements made by Mr. Smith.

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- H.M.Jr: Now, I think I had better see them.
- White: If they don't like Smith's testimony now - if they had seen it as it was originally, it is pretty good now.
- Bell: It is going to be worse when it is before the Senate.
- H.M.Jr: He asked to see me five minutes alone.
- Cochran: The only other thing was this letter on the Army contracts.
- H.M.Jr: I promise you, knowing this man, it will not be more than five minutes, so if you will wait in Bell's room.

March 19, 1941  
11:14 a.m.

H.M.Jr: Hello.

Operator: Senator Barkley.

H.M.Jr: Hello, Alben.

Sen. Alben Barkley: Yeah.

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

B: Fine.

H.M.Jr: Alben, I'm going up on the Hill today to have lunch with Henry Wallace and I wondered if after that Bell, Foley and I could see you and possibly Senator Glass and Senator Adams for a few minutes, because I'm leaving town tomorrow night, and I wanted to have an understanding with you on information that you might want in connection with the \$7 billion bill, you see, as far as the Treasury is concerned.

B: Yeah. Well, what time is your lunch with Henry?

H.M.Jr: Well, I'll be available at 2:00.

B: Well, that's all right. I've got to go before the Agriculture Committee - I mean the Appropriations Committee on Agriculture at 2:30.

H.M.Jr: Yeah. Well, I can be there at sharp 2:00.

B: Well, where will you want to meet?

H.M.Jr: That's your pleasure.

B: Well, meet somewhere over in the Capitol.

H.M.Jr: Well, you name it. I don't know where Wallace .....

B: Wallace, I guess, would be - we're not in session today.

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H.M.Jr: Yeah, I don't know where Wallace would meet.

B: Where are you going to eat with him?

H.M.Jr: He hasn't told me.

B: Oh. Well, it it's over at the Capitol why that's the best place to meet. In his office or meet in mine which is right next - my Library Committee, which is right next to the Appropriations Committee.

H.M.Jr: Well, I'll be there at 2:00 that's all.

B: Well, suppose you come - it won't be any inconvenience for Adams and Glass to come into - just right next door - my office there in the Library Committee and Henry can come there too.

H.M.Jr: Right. Two o'clock at the Library Committee.

B: That's right. It's on the ground floor right in the corner, right beside the Appropriations Committee.

H.M.Jr: Right.

B: Opposite the Committee on Education and Labor.

H.M.Jr: Good. Glass and Adams are the right fellows to have there, aren't they?

B: Yes.

H.M.Jr: Adams, I think, is sort of Sub-Chairman, isn't he?

B: He's Subcommittee Chairman but I don't think he's very enthusiastic about this bill.

H.M.Jr: Well, let's leave it this way. I do want to see you and Glass and you invite anybody else .....

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B: Well, suppose you get - I think, Adams and Byrnes, because they are on the Subcommittee, and if Adams is going to handle the bill, of course he ought to be present.

H.M.Jr: Well, will you decide that?

B: All right.

H.M.Jr: And you'll have them there?

B: All right.

H.M.Jr: And I'll be there at 2 o'clock.

B: All right.

H.M.Jr: Thank you.

B: Good-bye.

March 19, 1941  
11:28 a.m.

RE AID TO CANADA

Present: Mr. Coyne  
Mr. Clark  
Mr. Wrong  
Mr. Playfair  
Mr. Pinsent  
Mr. Phillips  
Mr. Bell  
Mr. Cochran  
Mr. White  
Mr. Foley

H.M.Jr: Do you mind, Sir Frederick, if I clear up the thing of the testimony, first.

Phillips: No.

H.M.Jr: In this thing of the testimony of Mr. Smith, it is not correct, according to my understanding with the President of the United States. The understanding which we had, which I went over with him Monday a week ago, was that we looked to the British government to pay for all outstanding contracts from the proceeds of the sale of their listed securities, which as of the first of January, was six hundred million. Their direct investments as of the first of January were nine hundred million, and their proceeds from South Africa and Australia in gold were four hundred million, or a total of a billion nine. Is my addition correct?

Bell: Something like that, I think.

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- Cochran: Well, the gold production went up to 555.
- H.M.Jr: Is that what it was? Less - now, this is where the testimony is incorrect - less what the Army and the R.F.C. would take over of contracts which, according to their letter now is how much, Dan?
- Bell: Well, potentially four hundred million.
- H.M.Jr: Let's say between three and four hundred million.
- Cochran: I think that is a little high, because that includes some contracts for which the British are not yet committed.
- H.M.Jr: Let's put it this way. Less what the Army and the R.F.C. could take over, the Army taking over the contracts where you have a down payment on the order, and the R.F.C. taking over those contracts where you had investment in plants. Is that correct? Well anyway, that is my understanding with the President.
- Bell: Yes, but that wasn't your testimony before the committee.
- H.M.Jr: As of the first of January. But this is my understanding with the President.
- Bell: Well, I think that is all right, but I don't think you said that before the committee, and I think if you make that statement before this Appropriations Committee, you will get into difficulties.
- H.M.Jr: I am not. I am telling Sir Frederick what my understanding is with the President.

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Bell: That is all right.

H.M.Jr: I am telling him what my understanding with the President was and is and still is, and there has been no change in my understanding with the President, and my understanding is that there would be no change unless some circumstance arose, and then we would discuss it again, but I want him to be able to tell this to his government, but the reason we can't testify on this thing is because I made the statement that the British government had practically stopped placing orders, and if I tell them all of this, then I have got to show that you people have been placing about 35 million in orders a week, which is not stopping, and my neck would be out so far it might wobble off.

Phillips: Yes.

H.M.Jr: But there is no misunderstanding as to what I - what my understanding is with the President. It is purely between the President and myself, and I have told Mr. Hopkins what it is, so he understands. Just another word on it. My understanding with the President is that I am solely responsible to him and nobody else for the liquidation of your contracts up to the 15th of March, and from then on Mr. Hopkins takes over on anything that you purchase. This may or may not interest Canada, but it interests England a great deal. As I say, I can't say it publicly, because I just don't want to get into this whole explanation of why you people have been placing around 35 million a week.

Phillips: It is a pity you couldn't have said some such phrase like program orders. Of course, the truth was we haven't placed any new program orders, but there were things like iron and

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steel and machine tools which are in a continuous progress which we can't obviously discontinue.

H.M.Jr: When I made the statement, I really believed that all orders would come to a stop.

Phillips: I think we should have been out of the war by now, or pretty soon, if we had stopped steel or machine tools.

H.M.Jr: Well, I risked my job by okaying them every day, but I thought it was worth while. I have no regrets, but it would be damn difficult to go up and explain it on the Hill. I want you to know we are going to have a private meeting this afternoon with the Vice-President and Senator Barkley and Senator Glass and Senator Adams, and I am going to explain the thing to them and also tell them I am leaving town tomorrow night for two weeks, not because I don't want to testify, but I want - the brain cells have to be allowed to re-multiply again. But these gentlemen will know what the situation is. So don't worry too much what the Budget Director says.

Phillips: Yes.

H.M.Jr: Now I am at your service.

Clark: Well, Mr. Secretary, you will remember that when I was down here a couple of weeks ago, I promised to go back and have a complete revision of our statistics both in regard to our internal situation and our balance of payments with you and with U.K., and that I would get those back to you, your officials, as soon as possible. Now, we took them down yesterday and prepared copies to Mr. Cochran, and they are perhaps a bit technical, but Mr. Coyne will remain here

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as financial attache for us and will be ready to discuss them with your officials at any time if there are any points that are not fully clear. The reason for the revisions in our statements are, first, the considerable expansion of our own war program for the new fiscal year, which begins in a couple of weeks; and secondly, the much higher estimates placed on the deficit of United Kingdom with Canada. Perhaps I might just mention one or two points - one or two of the high spots in these figures after a very careful examination of the British-Canadian figures.

We placed the - we estimate the deficit of United Kingdom with Canada for the coming fiscal year at a billion one hundred twenty-five million dollars. The make-up of that is here in detail. During the next six months that will be 561 million dollars. Now, I present in another table what the British deficit has been since the beginning of the war with Canada, and I have shown in the table here how that has been met by various periods. Briefly, if you take the period from the beginning of the war, or rather the beginning of exchange control, which is the basis of our figures, to the end of February last, you will find that we have financed the deficit by repatriation of securities to approximately 45 per cent of the total, by the accumulation of sterling balances to the extent of 21 per cent of the total, and the balance of 34 per cent has been financed by the sale of gold - by the transfer of gold to Canada by the United Kingdom.

The trends over the period, I think, are rather interesting. I think I called your attention during the last meeting to the fact that in the last three months it has been - the

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deficit has been met almost wholly by accumulation of sterling balances or repatriation, by accumulation of sterling balances. In other words, we haven't had any gold from the United Kingdom since the early part of December. Then we have made a complete revision of our deficit - of our balance of payments with the United States, and taking into account current and capital items, perhaps allowing a little generous estimate of tourist receipts during this coming year, we are hoping for a pretty considerable increase as compared with last year. Our net deficit there in the twelve months - in the twelve months from April 1, we figure at 478 millions of dollars. That is higher than the first estimate I gave you last December, and it results partly from our own expanded war program and partly from the larger estimate of United Kingdom purchases in Canada. I also --

- H.M. Jr: Excuse me. You didn't mind what I said to the Press the other day. You see, Monday there was a story in our papers coming out of London, England, and I thought it was just as - I mean, the only thing I could say was that the last time I had seen you, you said you were all right, and I thought it was much better to say it that way than to hesitate about it. It is time to tell them when you are not all right, isn't it?
- Clark: I think that is quite all right, Mr. Secretary.
- H.M. Jr: You can always hold up on the bad news. But there was some story in the New York Times coming out of London which - about the Canadian dollars and so forth.
- Clark: I see. Then I also show a historical statement covering our deficit with you by various periods since the outbreak of war and how that

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deficit has been met, and finally we made a revision, a complete and very thorough investigation - revision of our national income for the next fiscal year, raising - you will remember that I told you the last time I was here that Mr. Ilsley, the Minister of Finance, in his presentation of the War Appropriation Bill to the House of Commons, had assumed for next year a national income of five billion three hundred million. I said that that would probably be larger as a result of new information we had received here recently, for the purpose of my discussion with you, assumed a five billion three or a five billion six hundred million national income.

Well now, we actually, by methods that perhaps may be a little generous, get that national income up to five billion nine hundred fifty million dollars for next year. That is gross income produced, including all transfer payments. Then I show in the table that I left with Mr. Cochran, the expenditures on non-war items of the Dominion and the provinces and municipalities. I show our total war expenditures and the assistance that will probably have to be rendered to the United Kingdom. The net result of this table shows that while we had three billion fifty-one million dollars in 1939, the calendar year of 1939, available for civilian use out of the national income, that is to say, either for consumption, civilian consumption or private investment, and in the following year, 1940, had three billion eight hundred - three billion eight hundred - three billion eighty-six million dollars. Next year, after taking out these expenditures of governments, there would appear to be two billion six hundred eleven million dollars available for consumption or investment by the public. That is a decline as compared with last year of

- 8 -

nearly five hundred million dollars. Or look at it another way. We estimate that the total burden on the Canadian economy in the new fiscal year of governments for war and non-war items would be 56 per cent of that estimated national income. Now, we feel up there that that is - that represents an absolutely all-out national effort. We think we are going to have a really very serious problem of financing that, but that is what we are trying to do. We are going to try and tackle it with such courage and skill as we possess.

I think that is all I have to say at the moment. I merely wanted to --

- H.M.Jr: That is 56 per cent on your war, but on your total budget, it is about 30, isn't it?
- Clark: No, that is 56 per cent of the total national income.
- H.M.Jr: But that is for your war efforts.
- Clark: No, that is for the war, plus the expenditures of governments for non-war work.
- Bell: The war would be less.
- H.M.Jr: But the war was - I saw a figure of around 30 per cent for war only.
- Clark: Yes. Well, that would be roughly correct, wouldn't it?
- H.M.Jr: I meant for the war only.
- Clark: It would be over 40 per cent, including the assistance to the United Kingdom.

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- Phillips: Wasn't that figure, Mr. White, 25 or 30, their direct war expenditures?
- White: I think so.
- Clark: That is what it was meant to be.
- Wrong: Canadian military forces.
- H.M.Jr: Somebody gave me a figure of 30 per cent.
- Clark: The direct war effort would be about 24 or 25 per cent of the total national income.
- H.M.Jr: Well, it is plenty, anyway.
- Clark: Well, we don't think we have got a small problem up there. It is going to take all that we possess, I think, to solve the next year.
- H.M.Jr: Well, that is a very clear presentation of your picture. We are glad to have it, and we will study it very closely. Now, have you got any immediate problems.
- Clark: Well, I don't know that they are necessarily immediate, Mr. Secretary. I know you are planning to leave tomorrow, and I raised with you last time I was here the fact that new problems perhaps would arise from the fact that our deficit in United States dollars would be larger than we had expected, and I said to you that, to my mind, that would bring nearer the day when we would have to consider liquidation of securities or some other methods of financing that deficit. I raised also with you the possibility of Lease-Lending the British - or the United States component of the British war orders in Canada, which would ease the strain - the drain on our dollars to

- 10 -

some extent.

H.M.Jr: Well now, let's take one thing at a time. To the question of your securities, are you ready - have you reached the point yet where you want to sell them or not, the United States securities?

Clark: Well, we are ready to be guided by, first, the problem itself; and secondly, your own views as to what is the best thing for us to do here. One worry that I think we all have in relation to the sale of Canadian securities here is whether the - if we dump more securities on your market, whether the net effect of that will not be merely to reduce the amount of United States dollars which the United Kingdom gets from the sale of securities in your market.

H.M.Jr: Well, could I approach it a little bit from a different angle? I was so rash as to give some advice last June or July to England, which they didn't take, that they raise the money before the needed it, and I don't think there is much question but what you are going to need it.

Clark: We will need it - perhaps not immediately. We can go on for awhile without actual sale of securities.

H.M.Jr: Well, if I were in your shoes, what I would do is, I would get the machinery set up here to sell your securities. I would have an office either with or next to Mr. Gifford, who has handled himself very skillfully, and every time there is a chance to sell some securities on a rising market, I would do it, and then I would put the money away, but if you wait three or four months until you are

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right up against it - well, there might be a condition of the market that you couldn't. I would get the machinery set up, and every time that there is a little strength in our market, I would sell something.

Bell: How soon do you think you might need to sell them, Mr. Clark?

Clark: Well, it is pretty difficult to say. It depends on how far you want to let your reserve of gold and United States dollars run down, you see. If we are willing to let them run down to nothing, then you could carry on for several months. If you want to stop before you get too near the bottom, before you get completely broke in respect to cash, you would start earlier than that. It is true, I think, that once the spring months, the summer months open up, we will get a little bulge, we will get a little improvement from tourist receipts, you see. The monthly drain would probably not be quite as large as it would be during the winter months, and that may postpone for a little while, a few months, at least, the time at which we absolutely have to begin selling.

H.M.Jr: Well, for whatever it is worth, I don't give advice lightly, but I give it for what it is worth, I give it to you.

Clark: Yes. You believe thoroughly that the - that there should be coordination between the sales of the two countries.

H.M.Jr: Oh, definitely. Well, Gifford has handled this thing beautifully, and after all, you can benefit by his experience, and it should be coordinated, but I wouldn't wait until you need it.

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- Clark: Have the machinery set up anyway.
- H.M.Jr: Yes, and then if there is a good market, sell something.
- Clark: You don't think the effect would be merely that the total receipts of the two countries would only be equivalent to what the United Kingdom is now getting?
- H.M.Jr: No, because here recently Gifford has been able to dispose of - well, in one day what he was doing in November in one week.
- Clark: Well, we have had to - we gave you a list of our marketable securities last December. They were based on valuations, I think, at the end of the previous year. Well now, the market values of those securities are about 52 million dollars below what we put in that estimate for you.
- H.M.Jr: Don't ask me whether they are going to go up or down. If I knew that --
- Clark: I would get you to sell our securities.
- H.M.Jr: No, that is the way I feel, and if on the other hand, you wait and you still have stuff to sell and you need the money, then you may be getting in each other's way. How do you feel about that, Sir Frederick?
- Phillips: Well, I had a word with Mr. Clark before, sir, and we were quite in agreement that it would be very nice to go on to the selling.
- H.M.Jr: But how about my advice to have them set up their office now?
- Phillips: Well, I think he has got some work to do. I

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think he has got some work to do in registering --

Clark: Yes, we will have to re-register. That would be our first step, I think, Mr. Secretary.

Phillips: It would take anyhow a month or two before he could start.

H.M.Jr: But you don't differ?

Phillips: Oh no, I don't differ at all.

Clark: Would it be necessary, Mr. Morgenthau, to make any arrangements with the Securities and Exchange Commission?

H.M.Jr: All you do is, whoever the man is, we do just what we did with Mr. Gifford. We will introduce you to the chairman and let him know, and I think - Mr. Gifford, I think, sends us the figures, and we let the Securities and Exchange know, but I don't think - I think they took the position they didn't want to know what the securities were, because they couldn't guarantee secrecy, so therefore, they asked us not to show them to them.

Clark: I see.

H.M.Jr: But I think the best thing to say would be if you would be willing to put yourself in our hands, we would follow the same routine that we did with Mr. Gifford.

Clark: Yes.

H.M.Jr: And we could get the same information, but they did not want the details because they said they would not guarantee secrecy. We have been able to guarantee secrecy.

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Clark: Yes. Well, we will be very glad to give you all the information.

H.M.Jr: We are not held responsible for what Kintner and Alsop write, I hope.

Clark: Well, the second point was whether it would be possible for - to arrange some lease-lending provisions in regard to the United States component of the British purchases in Canada.

H.M.Jr: That answer is, you will have to see Mr. Hopkins. He has taken that over, so you will have to arrange through your Legation here to see him, or whatever way it is. But he is the person to see. That is now out of my hands. I am glad to say that.

Clark: Well, I think that is all I have, Mr. Secretary.

H.M.Jr: All right. Mr. Wrong, anything on your mind?

Wrong: No, I don't think so, Mr. Secretary. Mr. Clark has stated all we have.

H.M.Jr: Has your Minister arrived?

Wrong: Yes.

H.M.Jr: Dan, have I said anything I shouldn't?

Bell: No, sir. You have covered it pretty well.

H.M.Jr: Have I?

Bell: It is all right.

H.M.Jr: Phillips, have you got anything on your mind?

Phillips: No, sir. I have made it quite clear that I am

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not in a position to make any payments to Canada.

Clark: Well, I think that point relates to whether the United Kingdom would be able to meet any part of her deficit with Canada by the transfer of any gold or United States dollars to Canada.

H.M.Jr: Well, we understand what their position viz a viz us is, and I think we understand what there position is viz a viz you.

I think these meetings are very good, and I think we ought to do them at least once a month, and certainly we are going to do everything we can to be helpful, certainly on the financial front where we are all together. I recognize that. We will do all we can.

Clark: Yes. Well, to the extent that gold comes to us or United States dollars or that the British forces lease-lend it, of course, we merely do something to solve our problem with you. We defer the day, so to speak, when we have to do other things to meet - take other actions to meet the deficit with you.

Bell: These parts that you buy in the United States to go into British orders in Canada, do they amount to very much money?

Clark: We estimate in these figures that I have given to you that in the coming twelve months that will amount to about two hundred forty-four million of Canadian dollars, isn't it, about two hundred twenty million of United States dollars.

Bell: That is quite a substantial item, then.

Clark: It is quite a substantial item in our deficit

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with you, and it is due to British purchases rather than our own stuff, you see.

Phillips:

It is like everything else, Mr. Bell. You start with a perfectly clear case like an airplane engine, and it obviously could easily be brought under the Lend-Lease Bill. When you have every kind of intermediate case, you wind up with something more difficult, machine tools and that sort of thing, so 248 is the theoretical figure.

H.M. Jr:

All right, gentlemen.

(Handed by Financial Attache Coynes of the Canadian Embassy to Mr. Cochran in the Treasury at 12 noon, March 19, 1941.)

CANADA'S WAR EXPENDITURES

(Millions of Canadian dollars)

	<u>Fiscal Years April-March</u>			Total to
	1939-40	1940-41	1941-42	March 1942
		(Prelim.)	(Est.)	(Approx.).
Direct war expenditures - army, navy, air force, munitions, etc.	118	875	1,450	2,443
Financing of British purchases - by repatriation of securities, accumulation of sterling balances, etc.	113	434	1,152 <sup>(1)</sup>	1,699
Total for war, direct and indirect	231	1,309	2,602 <sup>(2)</sup>	4,142
N.B. Compare non-war federal expenditures - ordinary capital and special, excluding wheat	535	440	433	1,408

Notes: (1) Estimated British deficiency of Canadian dollars, before allowing for any transfer of gold or United States dollars from Great Britain to Canada.

(2) This represents \$226 per head of population

295 ✓

Treasury Department

PO7 MA

TELEGRAPH OFFICE

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HON HENRY MORGENTHAU

TREAS DEPT WASHDC

SORRY ILLNESS FAMILY PREVENTED COMMUNICATING WITH YOU YESTERDAY

STOP EQUITABLE SUBSCRIBING ONE FIFTH TOTAL

THOS I PARKINSON

1222p.

*Mrs Parkinson - flowers*

March 19, 1941  
3:11 p.m.

Rudolf  
Forster: Hello, Mr. Secretary.

H.M.Jr: Yes, Forster.

F: I've just gotten over here one of your "strictly confidential" envelopes. If there is any hurry in this you'd better let me send it back to you and you put it in the form of a wire.

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

F: I don't either.

H.M.Jr: Open it.

F: I never open anything from you that comes marked "strictly confidential".

H.M.Jr: Well, I'm asking you to now.

F: Well, I'll do that now then.

H.M.Jr: I'll hold on.

F: All right. (Pause) It's an estimate of income tax deposits of March, 1941. (Laughs).

H.M.Jr: (Laughs).

F: Marked D.W.B., initialed.

H.M.Jr: The name is Bell.

F: Daniel W. Bell.

H.M.Jr: All right.

F: All right.

H.M.Jr: Thank you.

F: Thank you, sir.

March 19, 1941

My dear Mr. Forster:

I thought you might like to have a photostat of the inclosed letter to the President for your files.

Yours sincerely,

H. S. Klets,  
Private Secretary.

Mr. Rudolf Forster,  
Executive Clerk,  
The White House.

Enclosure. ✓

By Messenger 5<sup>15</sup>

March 19, 1941

My dear Mr. Forster:

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Yours sincerely,

H. S. Klats,  
Private Secretary.

Mr. Rudolf Forster,  
Executive Clerk,  
The White House.

Enclosure.

By Messenger



THE SECRETARY OF THE TREASURY  
WASHINGTON

March 17, 1941.

My dear Mr. President:

I should like to renew my objection to the attached draft of a press release submitted by Secretary Stimson on Friday.

Secretary Stimson's proposed press release states:

"The position taken by these states [which impose sales and similar taxes] has caused such uncertainty that materielmen are threatening not to sell and contractors are threatening to stop work."

So long as the Federal Government continues to reimburse contractors for state and local sales taxes as part of the contract cost, there is no reasonable basis for any contractor who works for the Government on a cost-plus-a-fixed-fee basis to threaten to stop work because of such state and local taxes.

The proposed press release also states:

"It is obvious that, if these taxes are paid, certain favored states will be unduly enriched at the expense of the national defense program and of other states."

This seeks to isolate one small phase of the whole field of Federal and state tax immunities and fails to take into consideration the broader aspects of the inter-governmental

- 2 -

immunity problem.

The legislation suggested in the press statement proposed by Secretary Stimson would compel us to give up our present efforts (1) to end the exemption from Federal taxation of the income from future obligations of state and local governments, and (2) to give state and local governments the right to tax the income from future Federal obligations.

Furthermore, it would place us in the untenable position of trying to collect taxes on all private income, even if it is derived from a state or municipal government, while at the same time preventing the states from taxing in a non-discriminatory manner purchases of private contractors because they have a contract with the Federal Government.

You and I have been disturbed for some time by the overlapping of Federal, state and municipal taxation and by the inequalities resulting from the doctrine of reciprocal immunity. The Treasury has been trying to clarify this situation in Congress and in the courts.

In carrying out the program to end tax-exemption, the Bureau of Internal Revenue last Friday began a test case against seven bondholders of the Port of New York Authority, for the purpose of settling the constitutionality of a

Federal income tax on future state and local obligations. Once the courts have established the validity of such a tax, it will greatly facilitate the enactment by Congress of the short and simple statute twice recommended by you to end the immunity from income tax of these issues.

An immunity bill of the sort suggested by Secretary Stimson would, in my opinion, frustrate our efforts in this direction and might remove for many years any hope of repealing the exemption in the Internal Revenue Code of state and municipal issues. The question of the taxability of state and municipal bondholders upon the interest they receive is closely analogous to that of the taxability of articles bought or used by a Federal contractor. In both cases the expenses of the Government might be lessened if an exemption were granted, but this is not an adequate basis for asserting immunity. The sound test is whether the taxing statute discriminates against the Federal Government or against a Federal contractor in favor of other taxpayers. To prohibit the imposition of state sales taxes as suggested by Secretary Stimson abandons this test and substitutes by legislation the reciprocal immunity doctrine only recently discarded by the Supreme Court.

The taxes of which the contractors now complain are not discriminatory. They are state sales taxes, gasoline taxes and the like, which are applied equally to Federal contractors and to all other taxpayers.

The burden on the Federal Government resulting from state sales taxes is a normal incident of the organization within the same territory of two governments, each possessed of the taxing power.

Our Treasury estimates, incidentally, show that the additional cost to the Army and Navy as a result of such state and municipal taxes would not exceed \$5,000,000 a year, and that the total additional cost of cost-plus contracts for the whole 28 1/2 billion dollar defense program would not be over \$15,000,000. On the other hand the Treasury will ultimately receive additional revenue of \$200,000,000 a year if it succeeds in its attempt to end tax-exemption of interest from future state and municipal securities. This figure is, of course, based upon present income-tax rates, and will be increased materially by the higher rates we shall have to impose to finance national defense.

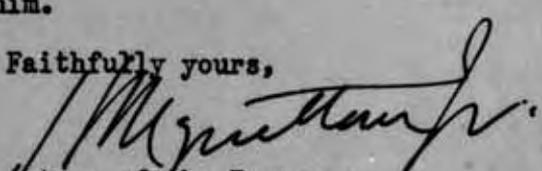
Moreover, Secretary Stimson's proposal would also prevent the states and municipalities from deriving additional revenue from Federal defense activities to pay for expenses

incurred as a result of those activities.

If we must choose between Secretary Stimson's proposal and the Treasury's program, it seems to me that we should choose the legislation which will not only result in a far greater saving to the Government but which will help us to build a more equitable tax system as well.

I strongly recommend against the issuance of Secretary Stimson's press release and the introduction of the legislation suggested by him.

Faithfully yours,

  
Secretary of the Treasury

The President

The White House

Enclosure

For the President

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

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

I am having a bill <sup>being</sup> prepared for submission to Congress designed to clarify this situation. <sup>It</sup> Until the matter is adjusted, the Government will refrain, where practicable, from placing any cost-plus-a-fixed-fee contracts in those states which insist upon applying their taxes to transactions covered by such contracts.

March 19, 1941  
3:30 p.m.

H.M.Jr: Hello.

Operator: Admiral Waesche.

Admiral  
Waesche: Waesche speaking, Mr. Secretary.

H.M.Jr: You called yesterday.

W: Yes, sir.

H.M.Jr: What was on your mind?

W: I just wanted to report back after I had investigated the matter of your plane - that the plane was in shape. I think you probably know the whole story now.

H.M.Jr: I know it now, yeah.

W: Yes. That was the only thing. I wanted to report back on the situation regarding your plane.

H.M.Jr: Thank you.

W: All right, sir.

March 19, 1941.

MEMORANDUM FOR THE SECRETARY'S DIARY

At 3:30 Messrs. Foley and Bernstein saw Mr. Istorik relative to the proposal to borrow money in this country for the purposes of the Anglo-Palestine Bank and the Palestine Foundation Fund. At 3:45 the group went in to see Secretary Morgenthau and the proposal was described to the Secretary. The Secretary's immediate reaction was that the proposition was not a business proposition nor one that this Government could participate in, but that the proposal involved an appeal to the "heart". Secretary Morgenthau told Mr. Istorik that Bernstein would discuss the matter with him with a view to seeing if something could be worked out whereby an appeal could be made to private people in this country to contribute funds to the Anglo-Palestine Bank on a more or less philanthropic basis, receiving perhaps a certificate of stock in the bank for their contribution.

Secretary Morgenthau also told Mr. Istorik that Pinsent of the British Embassy had submitted the matter to us previously and that the Department had disapproved of the proposal for any Government loan.

March 19, 1941  
3:45 p.m.

RE DEFENSE SAVINGS BONDS

Present: Mr. Bell  
Mr. Graves  
Mr. Kuhn  
Mr. Schwarz  
Mr. Gaston

H.M.Jr: All right, gents, at your service.

Graves: The first thing, I suspect, is this proposed press release.

H.M.Jr: Well, read it out loud in your melodious voice. You are getting it at the same time I am, Herbert, so you have no advantage over me, or I over you.

Gaston: I didn't expect to get an advantage over you.  
(Laughter.)

Graves: This is for release in the morning newspapers, Friday, March 21.

"Secretary of the Treasury Morgenthau today announced the new issues of United States Savings Bonds and Stamps to go on sale May 1, which have been developed to help in financing the National Defense program.

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"In meeting the cost of this tremendous effort', the Secretary said, 'the Government must do more than find billions of dollars. It must find these dollars in a way that will best safeguard the nation against the evils of inflation, and will give all American citizens a sense of taking a direct part in the defense of the country."

That ends the quote.

H.M. Jr:

Who are you quoting?

Bell:

You. You are making the statement.

H.M. Jr:

Oh.

Graves:

"Three new kinds of United States Savings Bonds will be sold. The first kind, called the Defense Savings Bond, will be almost identical with the present United States Savings Bond or "baby bond," which has become the most widely held single security in the country. More than \$5,000,000,000 worth, at maturity values, have been bought by more than two million men and women."

H.M. Jr:

No children?

Graves:

As a matter of fact, children could go into it.

Gaston:

Very large in number, relative numbers.

Graves:

I think maybe that would be a nice thing.

H.M. Jr:

Sure, children, men, and women.

Graves:

Men, women, and children.

H.M. Jr:

All right.

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- Graves: "The Defense Savings Bond will be offered for 75 per cent of its maturity value, with maturity of 10 years. Thus, a Defense Savings Bond bought in May, 1941, for \$18.75 will be redeemable in May, 1951, for \$25.00. This is an increase of  $33 \frac{1}{3}$  per cent, equal to an annual interest rate of 2.9 per cent. This bond is not transferable, will not fluctuate in value, and may be redeemed at any time before maturity at values printed on its face. Intended chiefly for people of small income, ownership is restricted to individuals in their own right, with a limit upon holdings of \$5,000 maturity value in any one calendar year."
- Gaston: Did you say a limit of holdings?
- Graves: Yes, I had in the copy that I last saw the word "purchases," and I made a check on that.
- Gaston: Yes, you don't mean holdings.
- Graves: It is a limit on purchases. "Denominations are \$25, \$50, \$100, \$500, and \$1,000."
- Bell: Should we say that the present Series F Savings bonds will be discontinued May 1? We will have a lot of inquiries on that.
- Graves: I think it is a good thing to say.
- Gaston: Ought to be a little careful about that.
- Schwarz: You say new issues in your lead. You don't say replacing. As a matter of fact, it wouldn't make a whole lot of difference, because we say that the new bond is almost identical to the present savings bond.
- Bell: You are saving answering a lot of inquiries.

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Graves:

Yes.

"The new Series F Savings Bond, intended for larger investors, for trustees, and for reserve funds, is offered for 74 per cent of its maturity value, with maturity of 12 years. It can be held not only by individuals, but by trustees, associations, pension funds, and corporations, except banks for their own account, with a limit of \$50,000 maturity value issued in any one calendar year, alone or in combination with Series G. If held to maturity, the interest rate is 2.53 per cent a year. The Series F Bond is not transferable, and may be redeemed at any time after six months from date of issue in accordance with a table of redemption values printed on its face. Denominations are \$100, \$500, \$1,000, \$5,000 and \$10,000.

"To meet demand for a current income bond, the new Series G Savings Bond, to be issued at par, bears interest during its 12-year term at 2.5 per cent, paid semi-annually by Treasury check. Intended for both small and large investors, the Series G Bond is not transferable, and can be registered like Series F in the name of individuals, associations, and corporations, except banks for their own account, up to a total of \$50,000 maturity value, alone or in combination with Series F. Denominations are \$500, \$1,000, \$5,000, and \$10,000."

That again has got to be corrected to make sure that they understand it is annual purchases and not annual holdings.

H.M.Jr:

It does good to read it out loud, doesn't it?

Graves:

Yes.

- 5 -

"Denominations are \$500, \$1,000, \$5,000, and \$10,000.

"Like the other two bonds, Series G is redeemable before maturity at fixed redemption values printed on its face. In fixing these values, inducement is given to holders to retain their bonds until final maturity."

Bell: Like the other two, do you want the thirty days in here the same as in the others?

Graves: Yes.

"Sales Agencies: Defense Savings Bonds will be on sale May 1, 1941, at 16,000 United States Post Offices, at Federal Reserve Banks, at all fiscal agencies of the United States, and direct by mail from the Treasury. Series F and G Savings Bonds will be on sale at all these agencies --"

H.M.Jr: The banks haven't said they would do that, have they?

Graves: No, we say all Federal Reserve Banks

H.M.Jr: You don't say all?

Bell: They are all doing it now.

Gaston: We can order them to do it.

H.M.Jr: We go on now about the banks.

Graves: "Arrangements are now being made through which orders for bonds of all three series will be accepted at commercial and savings banks."

H.M.Jr: That is all right.

- 6 -

Graves: "Postal Savings Stamps: Great emphasis is laid by Secretary Morgenthau upon the importance of Postal Savings Stamps as a means of encouraging steady savings among the youth of America and all others to whom payment of \$18.75 at one time for the smallest Defense Savings Bond is not convenient.

The Postmaster General has approved a new series of stamps, of special design, priced at 10¢, 25¢, 50¢, \$1, and \$5. Purchasers will be given attractive pocket albums in which to mount them. An album containing 75 of the 25¢ stamps has a cash value of \$18.75 and can be exchanged for a Defense Savings Bond which in 10 years will be worth \$25. There are similar albums for mounting the 50¢, \$1, and \$5 stamps, exchangeable for \$50 or \$100 bonds."

Bell: Are you going to put out the ten cent stamp right now, the album?

Graves: We have the stamp out but we have no album, Dan. They are going to use the card that they have always been using.

Bell: You see, that is a hiatus. The denominations are ten, but you have no album and you have no exchange into a bond or other stamps.

Graves: As a matter of fact, we don't expect that to be very much used, but actually it does exist in the Series F Postal Savings Stamps.

Bell: Do you think it ought to be in there?

Graves: It has really got to be in there, because that is the denomination that is included. But we don't have an album for it. They have got to continue to use the card that

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they have always been using for that denomination.

"Organization: 'Every man, woman and child in America will be given full details of this National Defense savings plan, and easy ways to take part in it,' Secretary Morgenthau said. A new division of the Treasury Department, called the Defense Savings Staff, has been created under the supervision of Harold N. Graves, Assistant to the Secretary. It includes Eugene W. Sloan, administrative director, Gale F. Johnston, field director, and Harford Powel, director of information."

I emphasized that because that is the first time you have heard, perhaps, of that new term. Mr. Bell and I have decided it is an appropriate name.

H.M.Jr:           What do you call yourselves?

Bell:               Defense Savings Staff.

Gaston:           Brigadier Generals.

Graves:            Defense Savings Staff.

Gaston:           I would suggest, Harold, that instead of saying that the issue of the savings bonds will be discontinued, I would say that the savings - this security, that it will replace your savings bonds and will be available to all the regular purchasers of United States Savings Bonds.

Graves:            Fine.

Bell:               This is somewhat comparable to what we had during the war. We had a War Loan Staff, Mr. Secretary.

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H.M.Jr: Is this agreeable to you?

Bell: Yes. Isn't that the one I initialed?

Graves: Yes.

Bell: I thought I had.

Gaston: There is nothing in there about redemption, is there?

Bell: Yes, be redeemed --

Schwarz: Thirty days.

Graves: We say in each case, Herbert, will be redeemed at any time before maturity at values printed on the face of the bond.

H.M.Jr: You don't want to put in the name of Mr. Odegarde as consultant?

Graves: We thought that we would from time to time have other things to release. Mr. Odegarde is right now working on an advisory group, and I think that perhaps the time to mention Odegarde would be when there is publicity about that advisory group.

Kuhn: I would like to keep it to the three steadies, I think, at this time.

H.M.Jr: All right.

Graves: We have got to do some changing on this to meet the points that have been discovered here.

H.M.Jr: Now, this goes out - is it released tomorrow morning at 10:30 for the following morning?

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- Schwarz: That is right.
- H.M.Jr: And how do you get this into the field? Do you give this to the various people to give to newspapers?
- Bell: We can send this by wire to all the Federal Reserve Banks and ask them to release it, to give it out in their cities, send it to all the banks for release Friday morning.
- Schwarz: We give it to a hundred correspondents here who will send a large part of it to their papers so it gets to the bigger papers.
- H.M.Jr: And you do it to the Federal Reserve?
- Bell: We could. That is the way we do our financing. Now, the trouble with giving it to the papers, they don't send it by wire to the Coast. It is too expensive.
- Schwarz: That is right.
- Bell: But if we sent it to the banks to release there, you would probably get it quoted in the papers.
- Kuhn: Another thing, we could send out copies tonight by air mail to ten or twelve of the big newspapers that might be most likely to comment on the thing editorially and send it to their editors so that the editors will have the full statement before them at the time it is released in Washington. There is no possible chance of a slip-up there because you send it only to morning papers, and they will have gone to press already by the time --
- H.M.Jr: When do you send it to them?

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Kuhn: Well, it could be sent tonight to arrive in Chicago and New York and Boston in the morning.

Bell: It can be in the hands of several thousand banks Friday morning, if you wanted to have the Fed send it out tomorrow night.

H.M.Jr: Yes. Well, the Fed could send it out tomorrow morning.

Bell: Yes, so they get it up tomorrow night. They have to mimeograph it and get it into the mail tomorrow afternoon.

H.M.Jr: But that doesn't do any good, to get it in the Friday morning's papers.

Schwarz: It is too late.

Bell: I am thinking in addition to the papers, get it into the hands of the banks as a statement.

H.M.Jr: Oh, that is all right. Well, let me just - let's just get - I would handle it, number 1, from your end, as any publicity financial statement that we want the Federal Reserve System to get in the hands of the newspapers, so that they will put it in the Friday morning's papers. Let's do it that way. I mean, just like my bond issue.

Bell: That is right.

H.M.Jr: I mean handle it that way, you see. That would be number one.

Bell: That is all right.

H.M.Jr: Is that all right?

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Bell: Yes, sir.

H.M.Jr: I mean, that would go out tomorrow morning on the Federal Reserve wire system.

Bell: That is right.

H.M.Jr: For Friday morning release. That would be one way, just like a Treasury financing. That is Number 1. Then Number 2, you (Kuhn) want to send it to key papers. That is all right, and we give it out here at 10:30. I think that is pretty good coverage, isn't it?

Schwarz: That is good first coverage, and we can keep pushing from there.

H.M.Jr: And I think it ought to go, besides that - The Post Office has a system and we ought to ask them to put it in the hands of every postmaster in the United States.

Bell: They could quote it in their - when does that come out, their journal, bulletin?

Graves: Oh, they will undoubtedly put it in their bulletin.

H.M.Jr: I think if Dan does it just like a financial statement through the Federal Reserve System, just as though - we would like every newspaper in the United States through the Federal Reserve System to get an announcement for this thing. That is the system. We do that through the Federal Reserve, and we do it here besides. It is a little duplication, but there is no difficulty.

Kuhn: I was thinking rather of the people who would comment on that.

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Bell: Do that, too.

H.M.Jr: Oh, I would do that to some of them. I think that is good. Herbert, any comment?

Gaston: No, I think that line-up is all right. I suppose you are later going to have some local organization stories?

Graves: Yes, as Mr. Morgenthau just said, we can get out later distribution through postmasters to reach cities of ten thousand and less. It ought to be somewhat different.

Gaston: No, but I mean you are going to have stories of local organizations which will be coming up later for local distribution.

Graves: Later.

H.M.Jr: There is just one thing that I would like to have. You couldn't give me a cut of the stamp and have a mat made which could be sent out for distribution?

Graves: No. We can't print that stamp. Am I right, Dan?

H.M.Jr: No, you are wrong. I cleared that with Secret Service. It is printed now in any catalog or --

Kuhn: I make this suggestion --

Graves: Has that been changed?

H.M.Jr: Yes.

Bell: I think it has been changed a number of times. With the approval of the Secretary, I think it is all right.

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H.M.Jr: You pick up a Scott catalog. They now reproduce all the stamps.

Gaston: Yes. There is a special law on the subject now. They have to be off-size.

Graves: Yes.

Gaston: By a certain degree from postage stamps.

H.M.Jr: But I would like to have a mat prepared, you see, of this stamp. I don't care what size it is. If it isn't a regular size, take the twenty-five cent - what is the next size above the ten?

Graves: Twenty-five.

H.M.Jr: Is that an odd size?

Graves: No, it is a postage stamp size.

H.M.Jr: Well, what is the next size?

Graves: Well, we have no stamp of that size.

Gaston: We have to magnify them in order to let them print them. I think it has to be at least one and a half times the size. You can blow it up to any size.

H.M.Jr: If I was going to do it, I would like to use the ten cent stamp.

Graves: You don't mean in connection with this release?

H.M.Jr: Oh no, just as soon as we can.

Bell: And you would send that out, too, to everybody so they can see what they look like?

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H.M.Jr: That is right.

Graves: We haven't yet had the formal approval of these stamps by the Postmaster General.

H.M.Jr: The minute you get it, I would have ten thousand mats made, and if your weekly newspapers and all that kind of stuff --

Kuhn: Later on.

H.M.Jr: Well, within a couple of weeks. Just as soon as the stamp is finished.

Graves: The stamps are finished now, that is, we have the proofs of them.

H.M.Jr: Well, just as soon as you can get it, I would like to see a cut of the stamp, the boiler-plate stuff. Isn't that what you call it?

Schwarz: That is right.

H.M.Jr: To go out.

Schwarz: As a matter of fact, we won't have to stand the expense of those mats. We can get Western Newspaper Union and NAA and others to send them out.

H.M.Jr: Whatever way you can do it, Chick.

Schwarz: Ferdie and I were talking over some of the questions that might be asked tomorrow. I think you might like to talk about them.

H.M.Jr: Yes. What else?

Kuhn: I had only this suggestion to make, that in the press conference tomorrow we stick to the actual issues that we are putting out, the

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actual financial details, and lay off any details of our publicity schemes or our promotion devices or the design of the stamps or the legend on the posters, because the more we tell of that in the beginning, the more we hurt our publicity later.

- H.M.Jr: I will stick to that.
- Kuhn: Do you agree?
- H.M.Jr: Yes. That is all right.
- Gaston: The issues and the economics of it. That is the story. The other isn't the story.
- Kuhn: The publicity is for later on.
- H.M.Jr: I want both Bell and Graves at my press conference tomorrow, and Kuhn. You can all three be here tomorrow.
- Graves: May I bring up a slightly different thing about this?
- H.M.Jr: If the nurse is there, I want to take that inoculation, but otherwise --
- Graves: We have here letters to the heads of the broadcasting systems and a draft of a letter which we intend to duplicate with your approval to send out to all of the independent stations in the country, leading to our radio advertising. We are paving the way for an approach to our radio people.
- H.M.Jr: Do you want to blot these for me?
- Graves: Sure.
- H.M.Jr: Did you check your movie actress with the

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National Committeewoman from California?

- Kuhn: Not yet, because we have been talking to Will Hays' office, who says we can get a large number of top-flight movie stars in our first trailer, easy, without any trouble, and also there is a chance of getting the publicity man from Metro-Goldwyn-Mayer to work for us one day a week, and he is the best man in the industry.
- Schwarz: Howard Dietz? He is very good.
- H.M.Jr: How is he going to come here?
- Kuhn: Apparently he is in New York quite a lot.
- Graves: Mr. Hays called me a while ago merely to say that they were planning to cooperate with us.
- H.M.Jr: Wonderful.
- Graves: Fully.
- H.M.Jr: Wonderful.
- Kuhn: They say there is no trouble about making a trailer to appear all over the country about the 15th of May, if we pay the out-of-pocket costs of making the prints and shooting, and they will have a trailer with Ginger Rogers and everybody under the sun in it.
- Gaston: Oh, I thought it was going to be an automobile trailer with Ginger Rogers.
- (Laughter.)
- H.M.Jr: If we have Ginger Rogers, I insist she has got to dance. I want Ginger Rogers and Fred Astaire

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to do a trailer. I want them dancing again,  
the two of them. They are the best dancing  
team in America. That is nice work. Every-  
body all right?

Bell:

Yes, sir.