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October 1, 1941  
12:18 P.M.

HMJr: Hello, John.

John  
Boettiger: Yes, sir.

HMJr: How are you?

B: Fine.

HMJr: How's Anna?

B: She's fine.

HMJr: Good. John, the reason I'm calling you is this. I am giving serious consideration of leaving here on the night of the eighth, on the invitation of the A. F. of L. to come out and talk to them about Defense Savings Bonds and Stamps. Hello.

B: Yes.

HMJr: And Mr. Green has invited me. Now, I just wondered. Is there anything in the Seattle situation which would - why I shouldn't come out there?

B: No, I don't think so. We'd love to have you come out. There is - there was some question in my mind. I heard about this last night.

HMJr: Yes.

B: Graves called Haas and Haas called me.

HMJr: Yes.

B: There is only this in my mind, that Frances Perkins is coming out here; and I don't know what's going to come out of that. She's making a speech, and I suppose she'll be courteously treated and what not. There is also - there was also in my mind the question as to why you should address the American Federation of Labor,

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but when it was explained that it was on the Defense Bond drive, why I felt sure that would be fine.

- HMJr: Well, it's only on that. It's on the payroll deduction plan.
- B: Yeah. I don't know how well received you would be on the question of economics or cutting down expenses and such things like that, but.....
- HMJr: I'm not going to talk.....
- B: .....on the Defense Bonds business, it would be excellent.
- HMJr: Only on Defense Bonds.
- B: Yeah.
- HMJr: And labor's stake in this whole World War thing.
- B: Yeah. Well, I think that it would be fine. I don't know, as I say, what's going to happen when Frances Perkins comes out here. Also, Haas reminded me that there's a threatened strike of the welders.
- HMJr: Yeah.
- B: But that wouldn't have any possible effect on you - I mean, not even remote.
- HMJr: Well, supposing Frances Perkins got a bad reception? How would it affect me?
- B: Well, in a sort of a way I thought that you might be - well, if she got a bad reception it wouldn't be - it wouldn't affect you, no, but I didn't want to get you in the position of following her or playing second fiddle or anything of that sort.
- HMJr: Oh. Well, that doesn't bother - I mean, well, I don't - I'm just coming - why, that wouldn't bother me.

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B: What kind of a meeting is this on the eighth? I haven't even heard of it.

HMJr: Well, it's - well, for two weeks in your town they're having their National annual meeting of the whole A. F. of L.

B: Of course, I know that. They're having a couple of big dinners, you see, and I wondered whether this was a dinner meeting or.....

HMJr: No, no, I wouldn't.....

B: .....a business session or what.

HMJr: This would be on the morning of the ninth, at eleven o'clock - a business session.

B: Oh, I see.

HMJr: No, not at their dinner. A business session, and I was going to come out there as a salesman.

B: Yeah. That's a week from tomorrow.

HMJr: Yeah.

B: Well, I think it would be swell, Henry. I would love it, because it would give us a chance to see you besides.

HMJr: Well, that was part of the temptation.

B: Yeah.

HMJr: Now, it's.....

B: By all means you should come.

HMJr: .....it's a little risky, but.....

B: It would help the defense drive here a great deal, and will be - I'm sure it will be extremely well received by the community and it's needed.

HMJr: Well, it was - my coming was purely to get the A. F. of L. interested more than they are - they're all on record and all like that - in our payroll deduction plan.

B: Yeah. The President of the Teamsters, Dan Tobin, gave out an interview here yesterday saying he wanted to buy two million dollars' worth of Defense Bonds and you wouldn't allow him to buy more than fifty thousand.

HMJr: That's right. That's right.

B: He said that the law ought to be amended to permit greater investment.

HMJr: Well, I'm not interested in the million dollar subscriptions. I'm interested in the two dollars a week.

B: Yeah.

HMJr: No, Tobin tried to bull it through with me. He's tried - he's gone over my head to the President, and we've turned him down. I turned down Mayor LaGuardia, too.

B: Is that so?

HMJr: You see he wanted to invest twenty million dollars for the City of New York payroll deduction plan, but we're not paying two per cent interest for that. That's what they want. They want the high interest rate.

B: I see.

HMJr: What?

B: Yeah, I get you.

HMJr: See? So does Mr. Roosevelt. He'd like it also.

B: Yeah.

HMJr: He likes high interest rates on his own money.

B: Would Elinor come out with you?

HMJr: No. No, I'd just come alone.

B: Yeah. I didn't think she could, because I gather that she's pretty well enveloped now in the OCD.

HMJr: But - well then, I think I'll come, John. I haven't formally accepted. I was waiting until I had talked to you.

B: Well, that's fine.

HMJr: And.....

B: How long will you stay?

HMJr: Well, I thought I'd stay Thursday and Friday and leave there Friday night. I'd like to see something of it and I'd like to see something of you and Anna and I'd like to see something of Seattle.

B: Well, you'll stay at our house, won't you?

HMJr: I hadn't thought of it.

B: Oh, absolutely. We've got a very nice private apartment all set here for you.

HMJr: Wonderful. I'd love to.

B: Good.

HMJr: And then if I could see something of Seattle and hear something for a day or two, it would be swell.

B: Well, you'll come then on the - you'll arrive here - are you coming by plane?

HMJr: By plane - commercial - United Air Lines.

B: And you'd arrive here on Thursday morning would you, or.....

HMJr: Thursday morning.

B: .....or Wednesday?

HMJr: Thursday morning and leave there Friday night.

B: You might miss connections with the airplanes. The service has been pretty bad, I understand, over the mountains.

HMJr: Well, then I'd have to talk Friday if I missed.

B: Yeah. I guess that would work out all right.

HMJr: Yeah.

B: Well, will you wire us the time of your arrival so that we can meet you there?

HMJr: Oh, you don't want to do that.

B: Oh, yes we do.

HMJr: Well, I'll let you know; but you needn't bother.

B: Oh, yes. We'll meet you there and we want to do that, Henry.

HMJr: Well, you think it over.

B: You'll wire us when you arrive, will you?

HMJr: All right.

B: When you're on, I mean.

HMJr: Okay.

B: I had a long talk yesterday with this agent, Henry.

HMJr: Yes.

B: But I'll tell you about that when I see you.  
He's going back to report to Irey.

HMJr: Frank.

B: Yeah.

HMJr: Yeah.

B: I'll tell you about that when we see you.

HMJr: Okay.

B: Good-bye, Henry.

HMJr: Thank you.

B: Good-bye.

October 1, 1941.

Dear Mr. Green:

It will give me great pleasure to come to Seattle to speak to the Annual Convention of the American Federation of Labor. The most convenient time for me would be Thursday morning, October 9th. If you confirm this time, I propose to leave by plane on Wednesday night and arrive in Seattle early Thursday morning.

Thank you very much for your warm and friendly invitation. I am looking forward with keen interest to this opportunity of meeting the A. F. of L.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. William Green,  
President, American Federation of Labor,  
A. F. of L. Building,  
Washington, D. C.

By Messenger 3:30 Blackwell

Miss H. M. Clancy  
Exp. to Thompson

FK/cgk  
10/1/41



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WIRE TELEPHONE NATIONAL 4870-1-2-3-4  
CABLE ADDRESS AALL

Washington, D. C.

September 30, 1941

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

My dear Mr. Secretary:

I extend to you a cordial invitation to attend and address the 61st Annual Convention of the American Federation of Labor which will be held in Seattle, Washington, beginning October 6, 1941. Although the Convention will remain in session until Thursday, October 16th, - Thursday, October 9th or Friday, October 10th, would be most acceptable and satisfactory for you to address our Convention. I hope one of these days will meet your convenience. I express the hope that you can arrange to come to Seattle as the guest of the American Federation of Labor.

I shall be very happy indeed if you respond to this invitation and I assure you that if you do you will be accorded a warm and hearty welcome by the officers and delegates in attendance at the Convention.

Very sincerely,

President,  
American Federation of Labor

STANDARD FORM NO. 14 A  
 APPROVED BY THE PRESIDENT  
 MARCH 10, 1926

# TELEGRAM

OFFICIAL BUSINESS—GOVERNMENT RATES

## TREASURY DEPARTMENT

WASHINGTON

CHARGE TREASURY DEPARTMENT, APPROPRIATION FOR

**October 1, 1941 (official)**

(The appropriation from which payable must be stated on above line)

U. S. GOVERNMENT PRINTING OFFICE

2-14117

MR. GEORGE W BOFFINGTON  
 CONTINENTAL ILLINOIS BANK BUILDING  
 CHICAGO, ILLINOIS

WOULD APPRECIATE IT IF YOU WOULD COME TO MY ROOM STEVENS HOTEL  
 NINE (NINE) THURSDAY MORNING PLEASE ASK AT DESK FOR MR. AVE  
 NORMAN

HENRY MORGENTHAU JR

Treasury Department  
Division of Monetary Research 11

Date.....Oct. 2, 1941

To: Secretary Morgenthau

From: H. D. White

Mr. Wallace had requested me, after a meeting of the Economic Defense Board, to comment on some data he had received from Mr. Bean. The appended letter was in response to that request.

October 1, 1941.

My Dear Mr. Vice President:

I have examined the figures with regard to the national income and consumers' purchasing power given by Mr. Bean in his letter of September 17. I am in substantial agreement with Mr. Bean on these figures, insofar as they relate to the past.

I presume that you were especially interested in estimating any increases or decreases in the money and real purchasing power of the various income groups as well as of the nation as a whole. But apparently Mr. Bean did not intend to estimate the income available for consumption that would be in the hands of the public and its various significant sub-groups, as he makes no deduction for taxes, nor allowance for saving.

In the past few weeks there have been substantial changes in the factors that will affect the amount of purchasing power that the various groups have, as well as the amount of goods available for them to buy. The decided acceleration of our national defense activities since the setting up of the SPAB, the anticipated greatly increased scope of priorities and rationing, the greatly increased tax program, the contemplated extended Social Security program, the increased controls over capital expenditure and consumer credit, and the expanded program of exports of consumers' goods to foreign countries under the Lend-Lease — all these introduce important modifications into the basic factors which determine the magnitude of the monetary and real national income.

We are now attempting an evaluation of the effect of these changes on the national income, the supply of consumer goods, the volume of money which will be available to the major income groups, etc. I know you are interested in all these matters and shall therefore send you a copy of our results as soon as the work has been completed.

Yours respectfully,

*H. D. White*

H. D. White  
Assistant to the Secretary.

The Vice President,

The United States Senate.

HDW:OS:dln  
10/1/41.

### Change of Atmosphere

"The price control bill," said Mr. Leon Henderson in a speech on Monday, "is right in not directly controlling wages and the bill is right in not directly controlling profits."

And earlier on the same day, Mariner Eccles, chairman of the Federal Reserve Board, told a Congressional committee "the fact is that you cannot leave wages and salaries, which are the main factors in prices, to rise indiscriminately and be realistic about preventing inflation."

Both gentlemen are right.

A statutory wage ceiling would be impossible of enforcement. If it could be enforced, it would still be bad for it would arouse a resentment that would be fatal to the very thing which it sought and that is a maximum of production at the lowest cost.

Yet wages and salaries are, as Mr. Eccles said, "the main factors in prices and if they are to be allowed to spiral out of all control, it is quite foolish to talk about controlling prices."

The way out of the dilemma is suggested in a dispatch to The Wall Street Journal of September 29 from George V. Ormsby, London correspondent. Mr. Ormsby pointed out that while the Trades Union Congress has rejected wage control, that body is fully cognizant of the dangers of inflation and is ready to cooperate with the government in combatting it. The Congress stands against the principle of direct limitation of earnings.

Somewhere in our government and somewhere among the leaders of organized labor there must be the courage and skill that can bring about a similar understanding. To believe otherwise is to believe that labor leadership had adopted a policy of take all you can get now regardless of tomorrow and that the government lacks the courage to bring home the fallacy of that attitude.

We need neither a new law nor new government machinery. We do need a change of atmosphere.

Wall Street Journal

October 1, 1941

*Pertinent parts of dispatch given on page attached hereto*

*← Reference to English Res. (to date) of legislative wage control - about which I spoke to on Chicago Trip.*

*H. H. Morris, Jr.  
Oct 6, 1941.*

Extract from The Wall Street Journal, September 29, 1941, which  
is the basis of an editorial in that paper on October 1, 1941.

"Economic Trends in Britain

"By G. V. Ormsby

"Staff Correspondent of The Wall Street Journal

"London (By Air Mail) - . . .

"At first sight the rejection of the Trades Union Congress of the policy of wage control set out in the recently issued government White Paper on price stabilization is a setback for the government's drive against inflation. But the Congress did not oppose a purely negative attitude to the government's plea. The unions realize the dangers of inflation and provided the wage fixing system is not interfered with the unions are ready to support an extension of rationing and control of prices, the subsidizing of essential commodities and the stimulation of maximum savings. Sir Walter Citrine, the secretary of the Congress, who stated the unions case, went further when he admitted that if private savings were insufficient to bridge the inflationary gap between revenue and expenditure the unions would have to face more stringent measures. It is any direct limitation of earnings to which the trade unions object and they made a practical proposal that excessive hours of work should be reduced. If this were done they maintain that output would not fall but overtime rates of pay would be considerably reduced.

"On the whole the results of the Congress were negative mainly because the government has so far never annunciated a definite comprehensive plan of wartime industrial production.

. . . "

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The Secretary discussed this verbally  
with Mr. Eccles.

Since this was dictated last night, I had to go before the Committee again this morning. They pressed me specifically on the AG excess profits matter. As soon as I get a transcript, I'll send my reply over to you in case you are interested in seeing it--but I think it went all right. I said we agreed on keeping excess profits down and I discussed the basis of assessing the tax to accomplish it and you and I both favored.

A handwritten signature in dark ink, appearing to be 'M. G.', written over a horizontal line.

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON



OFFICE OF THE CHAIRMAN

October 4, 1941.

Dear Henry:

Just to keep the record straight, I am enclosing from the unrevized print of the hearings on the price control bill, what I said on two points, namely the excess reserves problem and the excess profits tax, because the press erroneously gives the impression that I advocated further action on the reserves and that I opposed what you had said in regard to excess profits. The fact is that I was very careful, as the transcript shows, to reiterate that the subject of reserves was a matter of consultation and that "whatever may be done in the over-all credit control field must be done always with an eye to the Treasury's problem of its financing, and therefore must be done in full and complete cooperation with the Treasury ..."

I was not asked whether I favored any specific tax plan, or whether I agreed or not with what you had stated. In fact, to head off questions so far as I could, I simply referred to what I had stated previously and testified to before the Ways and Means Committee when the tax measure was before it.

While I feel that you do not have any mistaken impressions about it, I wanted to pass the transcript along to you as a matter of record and information.

Sincerely,

*Harvey*

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

It is not possible in this country, and it is not possible in any other country for the banking authorities under emergency conditions to not with independence. It has not been possible in Britain or Canada or any other country, and it is not either possible or desirable in my opinion in this country, that whatever may be done in the over-all credit control field must be done always with an eye to the Treasury's problem of its financing, and therefore must be done in full and complete cooperation with the Treasury, and in the public interest.

That does not necessarily mean that I may not have certain views as to what should be done and the way it should be done. It does not mean that my views with reference to the place of over-all credit control may not conform to the views of the others, but I am sure you will all agree that in times of emergency that the coordination and cooperation between banking authorities with the Treasury is an absolute essential in the public interest, and to that end the Secretary of the Treasury and I issued a statement a few days ago which was an effort to point out the close interest—I mean the common

interest—that we had in the problem and the need of the closest kind of cooperation, the futility of either of us undertaking to act separately and independently. So far as the Board is concerned, or the Treasury is concerned, any recommendation that may be made with reference to this whole field will be done jointly, after further consultation. That is speaking for the future. That does not mean that my views as have been expressed and are in the record have necessarily changed.

Now, let me ask you this question, if you care to answer it: Do you believe that Congress should consider legislation right now to permit further increases of reserve requirements, subject to the limitation that they shall not be increased to more than double the maximum requirements under the present law?

I think that that is referred to specifically, that formula, in your report of about last December.

Will you give us a comment on that?

Mr. Eccles, Yes. It is rather difficult to avoid a comment on it under all of the circumstances. As I stated this morning, any increased powers over the reserve situation, over the over-all credit situation presents a matter in which the Treasury, with its large amount of financing necessity, is tremendously interested.

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For that reason, if increased power, whether the kind is indicated by in some other form, were given to the Board as an independent agency, not that the Board would act without consultation or consideration with the Treasury, but if that power were given, the Government financing situation could be very greatly affected by any action taken, and therefore its inflation problem and monetary and fiscal problems are so interwoven that any recommendation that may be made to this committee with reference to monetary legislation should be made with the approval of and in conjunction with the Treasury.

Otherwise I do not believe that effective results could be secured.

Does that answer the question?

Mr. CRAWFORD. I think that that is correct, and I agree with your observations in that respect.

But let me say it this way: Assuming that Congress will draw the legislation in such a way that left it entirely to the discretion of the Board working in conjunction with and coordinating with the Treasury Department, are you in position to recommend to the committee that it now consider or enact legislation which would authorize the Board to, using this same language, increase reserve requirements, subject to the limitation that they shall not be increased more than double the maximum requirements under the present law, and let you and the Treasury proceed to work out what you want to do after that type of legislation is enacted?

Would you go so far as to recommend to us that we give you that authority?

Mr. ECCLES. No; I could not; I would not at this time do that; and let me just read what I assume you have heard before, and I think that this is possibly a full and complete answer to the reasons why I could not answer your question.

Mr. CRAWFORD. Are you referring to the joint statement?

Mr. ECCLES. Yes.

Mr. CRAWFORD. We have that in the record.

Mr. ECCLES. It is—

Recommendations on the question of what additional powers, if any, over bank reserves the Board should have during the present emergency, and what form these powers should take, will be made whenever the Treasury and the Board, after further consideration, determine that such action is necessary to help in combating inflationary developments.

So that in the light of that statement, and in the light of the conferences and the consultations that the Board and the Treasury have been carrying on for some months, it would seem inadvisable and contrary to the understanding as expressed herein that either we or the Board should make any recommendations with reference to this subject of bank reserves.

The following is the only discussion of the form of excess profits taxes:

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The CHAIRMAN. While you are on that, let me ask you, just now far do you think the Government should go in the recapturing of excess profits, or profits?

Mr. ECCLES. Well, it ought to go a long way. Certainly the taxation should start from the top and come down, and not the bottom and go up.

I have expressed my views with reference to this corporate tax question before the Ways and Means Committee of the House. I also have expressed them elsewhere.

Mr. KEAN. May I interrupt there? Was that in the hearing on the bill just passed?

Mr. ECCLES. Yes, sir.

Mr. KEAN. In the Ways and Means Committee?

Mr. ECCLES. That is right.

To be more specific, I have greatly favored what is known as a floor and a ceiling plan, based upon a base period of earnings. I suggested the 10-percent ceiling plan and a 5-percent floor plan. In other words, whatever base period is used, if a corporation made less on its invested capital than a 5-percent return—and I realize that there is a question of definition of invested capital which is important—that it would not then be permitted to make more than 5 percent before it was subjected to the excess-profits tax. If a corporation had been making more than 10 percent during the base period it would not be permitted to make more than 10 percent before it would be subject to the excess-profits tax.

The excess-profits tax should be greatly increased over what had prevailed. I feel that possibly with the \$5,000 exemption, maybe less than that, but certainly no more, that the excess-profits rate of taxation, instead of being what it had been, I think 20 percent, should possibly start out at 40 percent, and maybe as high as 50 percent, and when the earnings had reached, say 12 percent, anything above that, or 15, that then the tax should be at least 35 percent.

## Calendar of Direct and Guaranteed Bonds and Notes 1/

October 1, 1941

(In millions of dollars)

Date	Description	Fixed maturities		Callable issues			
		Direct	Guaran- teed	First callable		Final maturities	
				Direct	Guaran- teed	Direct	Guaran- teed
1941-Jan. Feb. Mar. Apr. May June July Aug. Sept. Oct. Nov. 1 Nov. 1 Nov. 15 Dec. 15	RFC 7/8% USHA 1/4% CCC 1% Note 1-1/4%		300 112 204				
	Total	204	616				
1942-Jan. 15 Jan. 15 Feb. Mar. 1 Mar. 15 Apr. May June July 1 July 1 Aug. Sept. 15 Oct. 15 Nov. Dec. 15	RFC 7/8% FFMC 3% (1942-47) FFMC 2-3/4% (1942-47) Note 1-3/4% RFC 1% HOLC 2-1/4% (1942-44) Note 2% RFC 7/8% Note 1-3/4%		310 426 276 342 320(T) 232		236 103 875		
	Total	1,000	906		1,218		
1943-Jan. Feb. Mar. 15 Apr. May 1 June 15 June 15 July 15 Aug. Sept. 15 Oct. 15 Nov. Dec. 15	Note 3/4% CCC 3/4% Note 1-1/8% Bond 3-3/8% (1943-47) RFC 1-1/8% Note 1% Bond 3-1/4% (1943-45) Note 1-1/8%		.66(T) 289 629 324(T) 279 421		454 1,401		
	Total	1,335	13	1,655			
1944-Jan. Feb. 1 Mar. 15 Mar. 15 Apr. 15 Apr. 15 May 1 May 15 June 15 July 1 Aug. Sept. 15 Sept. 15 Oct. Nov. Dec. 15	USHA 1-3/8% Note 1% FFMC 3-1/4% (1944-54) Bond 3-1/4% (1944-46) RFC 1% HOLC 3% (1944-52) FFMC 3% (1944-49) Note 3/4% HOLC 2-1/4% (1942-44) Note 1% Note 3/4% Bond 4% (1944-54)		114 515 571(T) 416 283 635(T)		.95 1,519 779 835 875 1,037		
	Total	1,840	865	2,598	1,708		75

1/ Excludes special issues, issues redeemable at option of holder, postal savings bonds, FHA debentures, and depository bonds.

## Calendar of Direct and Guaranteed Bonds and Notes 1/

October 1, 1941

1941

(In millions of dollars)

Date	Description	Fixed maturities		Callable issues			
		Direct	Guaranteed	First callable		Final maturities	
				Direct	Guaranteed	Direct	Guaranteed
1945-Jan.			412(T)				
Feb. 15	CGO 1-1/8%						
Mar. 15	Note 3/4%	718					
Apr.							
May					755		
June 1	HOLC 1-1/2% (1945-47)						
July							
Aug.							
Sept. 15	Bond 2-3/4% (1945-47)			1,214			
Oct. 15	Bond 3-1/4% (1943-45)					1,401	
Nov.							
Dec. 15	Bond 2-1/2%	541					
Dec. 15	Note 3/4%	531(T)					
	Total	1,790	412	1,214	755	1,401	
1946-Jan. 1	Conversion 3%	16					
Feb.							
Mar. 15	Bond 3-3/4% (1946-56)			489			
Apr. 15	Bond 3-1/4% (1944-46)					1,519	
May							
June 15	Bond 3% (1946-48)			1,036			
June 15	Bond 3-1/8% (1946-49)			819			
July							
Aug.							
Sept.							
Oct.							
Nov.							
Dec.							
	Total	16		2,344		1,519	
1947-Jan. 1	Conversion 3%	13					
Jan. 15	FFMC 3% (1942-47)						236
Feb.							
Mar. 1	FFMC 2-3/4% (1942-47)						103
Apr.							
May							
June 1	HOLC 1-1/2% (1945-47)						755
June 15	Bond 3-3/8% (1943-47)					454	
July							
Aug.							
Sept. 15	Bond 2-3/4% (1945-47)					1,214	
Oct. 15	Bond 4-1/4% (1947-52)			759			
Nov.							
Dec. 15	Bond 2%	701					
	Total	714		759		1,668	1,994
1948-Jan.							
Feb.							
Mar. 15	Bond 2% (1948-50)			1,115(T)			
Mar. 15	Bond 2-3/4% (1948-51)			1,223			
Apr.							
May							
June 15	Bond 3% (1946-48)					1,036	
July							
Aug.							
Sept. 15	Bond 2-1/2%	451					
Oct.							
Nov.							
Dec. 15	Bond 2% (1948-50)			571			
	Total	451		2,909		1,036	

1/ Excludes special issues, issues redeemable at option of holder, postal savings bonds, FHA debentures, and depositary bonds.

Calendar of Direct and Guaranteed Bonds and Notes <sup>1/</sup>

October 1, 1941

23

(In millions of dollars)

Date	Description	Fixed maturities		Callable issues			
		Direct	Guaran- teed	First callable		Final maturities	
				Direct	Guaran- teed	Direct	Guaran- teed
1949-Jan. Feb. Mar. Apr. May 15 June 15 July Aug. Sept. Oct. Nov. Dec. 15 Dec. 15	FFMC 3% (1944-49) Bond 3-1/8% (1946-49)					819	835
	Bond 3-1/8% (1949-52) Bond 2-1/2% (1949-53)			491 1,786			
	Total			2,277		819	835
1950-Jan. Feb. Mar. 15 Apr. May June July Aug. Sept. 15 Oct. Nov. Dec. 15	Bond 2% (1948-50)					1,115(T)	
	Bond 2-1/2% (1950-52)			1,186			
	Bond 2% (1948-50)					571	
	Total			1,186		1,686	
1951-Jan. Feb. Mar. 15 Apr. May June 15 July Aug. Sept. 15 Oct. Nov. Dec. 15	Bond 2-3/4% (1948-51)					1,223	
	Bond 2-3/4% (1951-54)			1,627			
	Bond 3% (1951-55)			755			
	Bond 2-1/4% (1951-53)			1,118			
	Total			3,500		1,223	
1952-Jan. Feb. Mar. 15 Apr. May 1 June July Aug. Sept. 15 Oct. 15 Nov. Dec. 15	Bond 2-1/2% (1952-54)			1,024(T)			
	HOLC 3% (1944-52)						779
	Bond 2-1/2% (1950-52)					1,186	
	Bond 4-1/4% (1947-52)					759	
	Bond 3-1/8% (1949-52)					491	
	Total			1,024		2,430	779

<sup>1/</sup> Excludes special issues, issues redeemable at option of holder, postal savings bonds, FHA debentures, and depositary bonds.

Calendar of Direct and Guaranteed Bonds and Notes <sup>1/</sup>

October 1, 1941

24

(In millions of dollars)

Date	Description	Fixed maturities		Callable issues				
		Direct	Guaran- teed	First callable		Final maturities		
				Direct	Guaran- teed	Direct	Guaran- teed	
1953-Jan. Feb. Mar. Apr. May June 15 July Aug. Sept. Oct. Nov. Dec. 15 Dec. 15	Bond 2% (1953-55)           Bond 2-1/2% (1949-53) Bond 2-1/4% (1951-53)			.725			1,786 1,118	
	Total			725			2,904	
1954-Jan. Feb. Mar. 15 Apr. May June 15 June 15 July Aug. Sept. Oct. Nov. Dec. 15	Bond 2-1/2% (1952-54)    Bond 2-3/4% (1951-54) Bond 2-1/4% (1954-56)    Bond 4% (1944-54)						1,024(T) 1,627 681	
	Total			681			3,688	
1955-Jan. Feb. Mar. 15 Apr. May June 15 July Aug. Sept. 15 Oct. Nov. Dec.	Bond 2-7/8% (1955-60)    Bond 2% (1953-55)   Bond 3% (1951-55)			2,611			.725 755	
	Total			2,611			1,480	
1956-Jan. Feb. Mar. 15 Mar. 15 Apr. May June 15 July Aug. Sept. 15 Oct. Nov. Dec.	Bond 3-3/4% (1946-56) Bond 2-1/2% (1956-58)   Bond 2-1/4% (1954-56)   Bond 2-3/4% (1956-59)						489 1,449(T) 68	
	Total			982			1,170	

<sup>1/</sup> Excludes special issues, issues redeemable at option of holder, postal savings bonds, FHA debentures, and depositary bonds.

Calendar of Direct and Guaranteed Bonds and Notes <sup>1/</sup>

October 1, 1941

25

(In millions of dollars)

Date	Description	Fixed maturities		Callable issues			
		Direct	Guaran- teed	First callable		Final maturities	
				Direct	Guaran- teed	Direct	Guaran- teed
1957-Jan. Feb. Mar. Apr. May June July Aug. Sept. Oct. Nov. Dec.							
	Total						
1958-Jan. Feb. Mar. 15 Apr. May June 15 July Aug. Sept. Oct. Nov. Dec.	Bond 2-1/2% (1956-58)					1,449(7)	
	Bond 2-3/4% (1958-63)			919			
	Total			919		1,449	
1959-Jan. Feb. Mar. Apr. May June July Aug. Sept. 15 Oct. Nov. Dec.	Bond 2-3/4% (1956-59)					982	
	Total					982	
1960-Jan. Feb. Mar. 15 Apr. May June July Aug. Sept. Oct. Nov. Dec. 15	Bond 2-7/8% (1955-60)					2,611	
	Bond 2-3/4% (1960-65)			1,485			
	Total			1,485		2,611	

<sup>1/</sup> Excludes special issues, issues redeemable at option of holder, postal savings bonds, FHA debentures, and depository bonds.

October 1, 1941

(In millions of dollars)

26

Date	Description	Fixed maturities		Callable issues			
		Direct	Guaranteed	First callable		Final maturities	
				Direct	Guaranteed	Direct	Guaranteed
1961-Jan. Feb. Mar. Apr. May June 1 July Aug. Sept. Oct. Nov. Dec.	Panama 3% -----	50					
	Total	50					
1962-Jan. Feb. Mar. Apr. May June July Aug. Sept. Oct. Nov. Dec.							
	Total						
1963-Jan. Feb. Mar. Apr. May June 15 July Aug. Sept. Oct. Nov. Dec.	Bond 2-3/4% (1958-63) -----					919	
	Total					919	
1964-Jan. Feb. Mar. 15 Apr. May June July Aug. Sept. Oct. Nov. Dec.	FFMC 3-1/4% (1944-64) -----						95
	Total						95
1965-Jan. Feb. Mar. Apr. May June July Aug. Sept. Oct. Nov. Dec. 15	Bond 2-3/4% (1960-65) -----					1,485	
	Total					1,485	

<sup>1/</sup> Excludes special issues, issues redeemable at option of holder, postal savings bonds, FHA debentures, and depository bonds.

Prepared by: Mr. Foy  
Mr. Murphy  
Mr. Haas

DEPARTMENT  
OF COMMUNICATION

27

DATE October 1, 1941

TO: Secretary Morgenthau  
FROM: Mr. Haas  
Subject: Current Developments in the High-grade Security Markets; Effects of Previous Changes in Reserve Requirements on Prices and Holdings of United States Securities

SUMMARY

- (1) United States securities rose in price the day following the announcement of the increase in reserve requirements. During the past two weeks the prices of Treasury bonds gained about one-quarter of a point, while Treasury notes decreased slightly (Chart I).
- (2) After remaining constant at 2.64 percent from September 15 to 29, the Treasury average yield of five high-grade corporate bonds declined one basis point yesterday (Chart II). The market for municipal securities reached a record low yield of 2.00 percent for the week ending September 27 (Chart III).
- (3) The reaction of the market to previous changes in reserve requirements has not been uniform (Chart IV). Some changes have had very little market effect and others a great deal; while the market movements have coincided, sometimes with the "announcement" dates of the changes, sometimes with the "effective" dates, and sometimes with inspired premonitions that a change was going to take place. The increases in reserve requirements in 1936-37 appear to have caused a protracted decline in the holdings of Government securities by New York City banks (Chart V).
- (4) Over 80 percent of the total privately-held supply of the three outstanding taxable bonds is held by banks and insurance companies covered by the Treasury Survey of the Ownership of United States Securities. The distribution of the outstanding issues indicates that a new issue of taxable securities due in 1950, or before, would be absorbed principally by commercial banks, while an issue due later than 1960 would have to be held largely by insurance companies and mutual savings banks.

Secretary Morgenthau - 2

I. United States Government Securities

Net price changes of Government securities during the past two weeks have been mixed (Chart I). Bonds have gained about one-quarter of a point, short-term notes have remained unchanged on balance, and long-term notes have declined about one-tenth of a point. Taxable bonds have manifested greater strength than comparable tax-exempt bonds, while taxable notes have been weaker than tax-exempt notes. The market for Government securities continues to be thin.

Market reaction to the announcement of the increase in member bank reserve requirements was favorable. Intermediate- and long-term bonds experienced price increases from 6/32 to 15/32, and short maturities of both direct and guaranteed securities gained up to 4/32 on the day of the announcement.

Price changes by maturity classes for the eight days preceding the Federal Reserve announcement and for the seven days following the announcement, together with the net change during the two weeks, are presented in the following table:

	Average price change		
	September 15 - 23	September 23 - 30	September 15 - 30
	(In thirty-seconds)		
<u>Notes</u>			
1 to 3 years	- 2	+ 2	0
3 to 5 years	- 6	+ 3	- 3
<u>Bonds</u>			
5 to 15 years to call	- 4	+11	+ 7
15 years and over to call	+ 2	+11	+13

The average yield of long-term partially tax-exempt Treasury bonds, moving inversely to prices, has declined four basis points during the past two weeks -- from 1.96 percent on September 15 to 1.92 percent at last night's close (Chart II).

## II. Other Domestic High-Grade Securities

The long anticipated allotment by competitive bidding of the \$90 millions American Telephone and Telegraph Company 2-3/4 percent debentures of 1976 was made Monday to a group of three insurance companies whose bid of 101.842 makes this issue yield 2.66 percent to first date callable at par. This was about 5/6 of a point higher than the bid of the syndicate headed by Morgan, Stanley and Company and more than a point and a half above the bid of the syndicate headed by Halsey, Stuart and Company and Mellon Securities Corporation. Of the \$90 millions, Metropolitan Life Insurance Company is taking \$50 millions, Mutual Life Insurance Company \$25 millions, and New York Life Insurance Company \$15 millions.

Although the Treasury average yield of five high-grade corporate bonds had remained absolutely constant since September 15 at 2.64 percent until yesterday, when it declined one basis point (Chart II), the volume of new offerings has increased since the lull during August and the first half of September. Whereas public offerings for the two weeks ending September 12 totalled only \$10.6 millions, offerings for the next two weeks ending September 26 amounted to \$45.4 millions. The only corporate securities issued these two weeks, as during the previous half-month, consisted of railroad issues.

The market for municipal securities has continued firm and, for the week ending September 27, the Dow-Jones weekly average yield of high-grade municipal bonds, moving inversely to prices, achieved a new record low of 2.00 percent (Chart III). This is one basis point below the previous low of the weeks of August 2 and 9.

## III. Effects of Previous Changes in Reserve Requirements on Prices and Holdings of United States Securities

The action of the United States security market in rising from 1/4 to 1/2 point on the day following the recent announcement of the increase in reserve requirements, makes it interesting to examine the effects of former changes in reserve requirements on the prices and holdings of United States securities.

Chart IV compares changes in yields of long-term Treasury bonds and of 3-5 year Treasury notes respectively with changes in reserve requirements for the years 1936-38 inclusive. The

Secretary Morgenthau - 4

"announcement" dates of increases in reserve requirements are represented on the chart by solid red lines, while the "effective" dates of such increases are represented by dashed lines. The one decrease in reserve requirements occurring during the period (the announcement date and the effective date of which were practically simultaneous) is indicated by a green line.

The chart does not appear to show any uniform correlation of price changes with either the "announcement" or "effective" dates of past increases in reserve requirements.

The first increase, announced in July 1936 and effective in August, caused scarcely a ripple in the market.

While the prices of Treasury notes declined sharply from December 1936 to April 1937, and this decline is attributed generally (and we believe correctly) to the second series of increases in reserve requirements occurring during the first half of 1937, its timing correlates only partially with the announcement date of these increases and not at all with their effective dates. (The sharp decline in note prices in December 1936, more than a month before the announcement date, is sometimes associated with a semi-official "leak" occurring at that time.)

Long-term bonds, on the other hand, continued strong until immediately following the first effective date (a full month after the announcement date) at which time they broke sharply, thereby disappointing the official expectation of the Board that the increase would affect short-term rates only.

The decrease in reserve requirements occurring in April 1938, was more immediate in its effect on prices, both notes and bonds rising sharply as shown in the chart.

Chart V showing changes in United States security holdings by weekly reporting member banks against the background of changes in reserve requirements casts some light on the factors behind the price fluctuations just discussed.

The most interesting thing shown on this chart is the long decline in the holdings of United States securities by weekly reporting member banks in New York City from \$4.6 billions on July 1, 1936 to \$3.2 billions on September 29, 1937.

Secretary Morgenthau - 5

This decline, it should be noted, began two weeks before the announcement of the first increase in reserve requirements. Holdings of United States securities by weekly reporting member banks outside of New York City, on the other hand, did not reach their high of \$6.5 billions until January 6, 1937 after which they declined to \$5.6 billions on June 8, 1938. These decreases in bank holdings were probably caused primarily by the increases in reserve requirements, and were in turn primarily responsible for the price movements in these securities. It should be noted that the decrease in bank holdings was particularly sharp in March 1937, the month of the greatest price decline.

The decrease in reserve requirements in April 1938 was not immediately effective in stimulating bank holdings, although it was doubtless one of the factors which laid the base for the increase in such holdings which occurred in subsequent years.

#### IV. Distribution of Holdings of Outstanding Taxable Bonds

It is interesting to examine who holds the outstanding issues of taxable bonds as a clue to who is likely to purchase new taxable medium- or long-term securities if offered in the near future.

Eighty-six percent of the entire privately-held supply\* of the 2's of 1948-50 is held by banks and insurance companies covered by the Treasury Survey of the Ownership of United States Securities. The corresponding proportions of the 2-1/2's of 1952-54 and the 2-1/2's of 1956-58 so held are 77 percent and 82 percent respectively. If data were available for banks and insurance companies not covered by the survey, and for other types of institutional investors, each of these figures would be increased by, perhaps, as much as 10 percent. It appears, therefore, that non-institutional absorption of the new taxable bonds has so far been extremely small. This is

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\* Total amount outstanding less amount held by Government agencies and trust funds, and by Federal Reserve Banks.

not surprising, considering the small rate of non-institutional debt absorption during the entire period since the Bank Holiday and the much better investment opportunities for individuals now offered by savings bonds.

Holdings of the new taxable bonds by classes of institutions covered by the survey, are as follows:

Holdings of Taxable Bonds by Institutions  
Covered by the Treasury Survey  
July 31, 1941

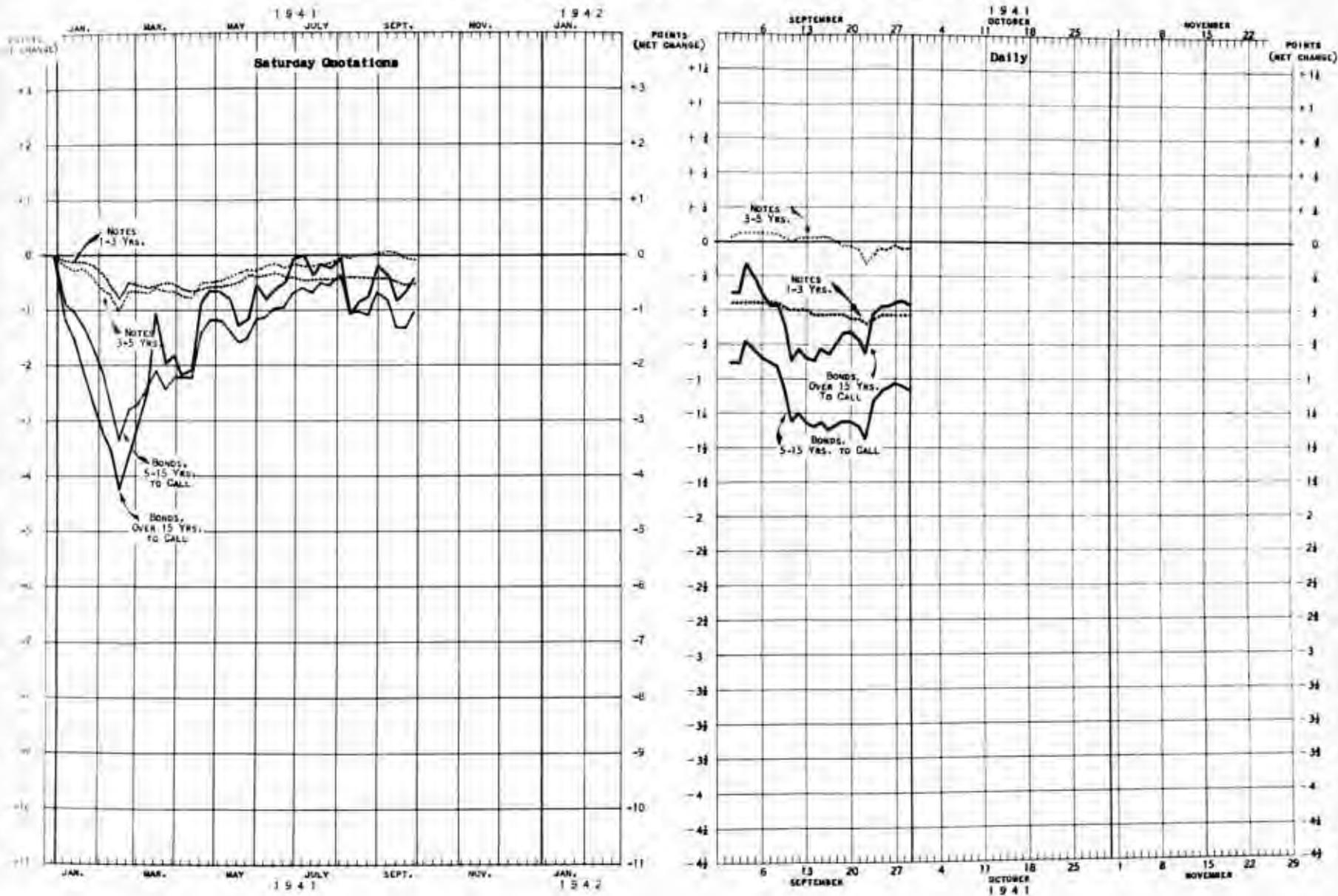
(In percent of total privately-held supply)

	: Commercial : Banks	: Mutual : Savings : Banks	: Insurance : Companies	:: Total ::
2's 1948-50	54	19	13	86
2-1/2's 1952-54	32	33	12	77
2-1/2's 1956-58	30	25	27	82

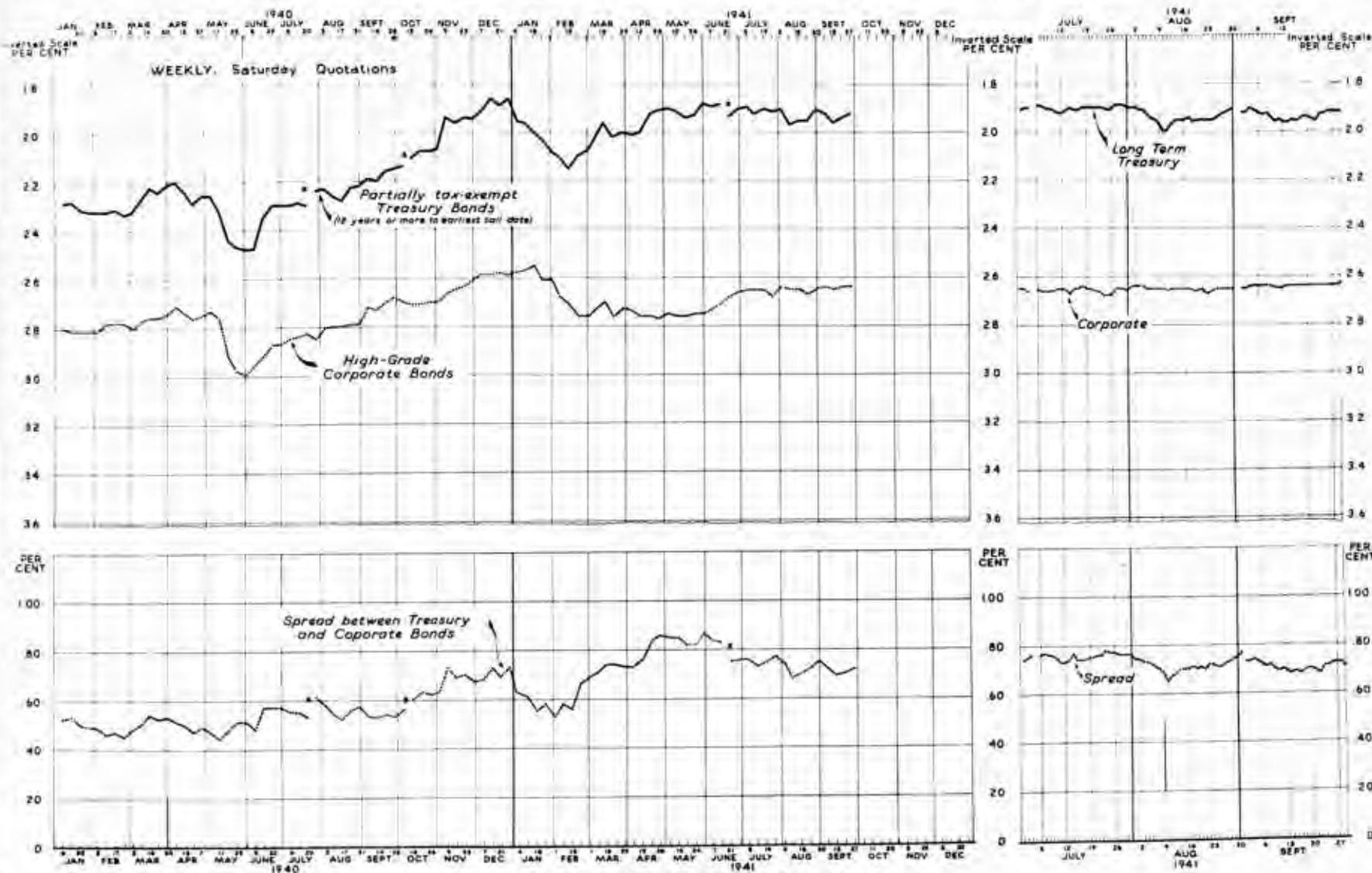
Based on the investor preferences shown in the above table, it would appear that an issue put out at the present time due in 1950 or before would be absorbed principally by commercial banks; whereas, an issue due in the 60's or later would have to find permanent lodgement largely with insurance companies and mutual savings banks.

Attachments.

CHANGES IN THE PRICES OF U.S. SECURITIES  
 Points Plotted Represent the Difference from December 28, 1940 Price of Each Maturity Class



AVERAGE YIELDS OF LONG-TERM TREASURY AND CORPORATE BONDS

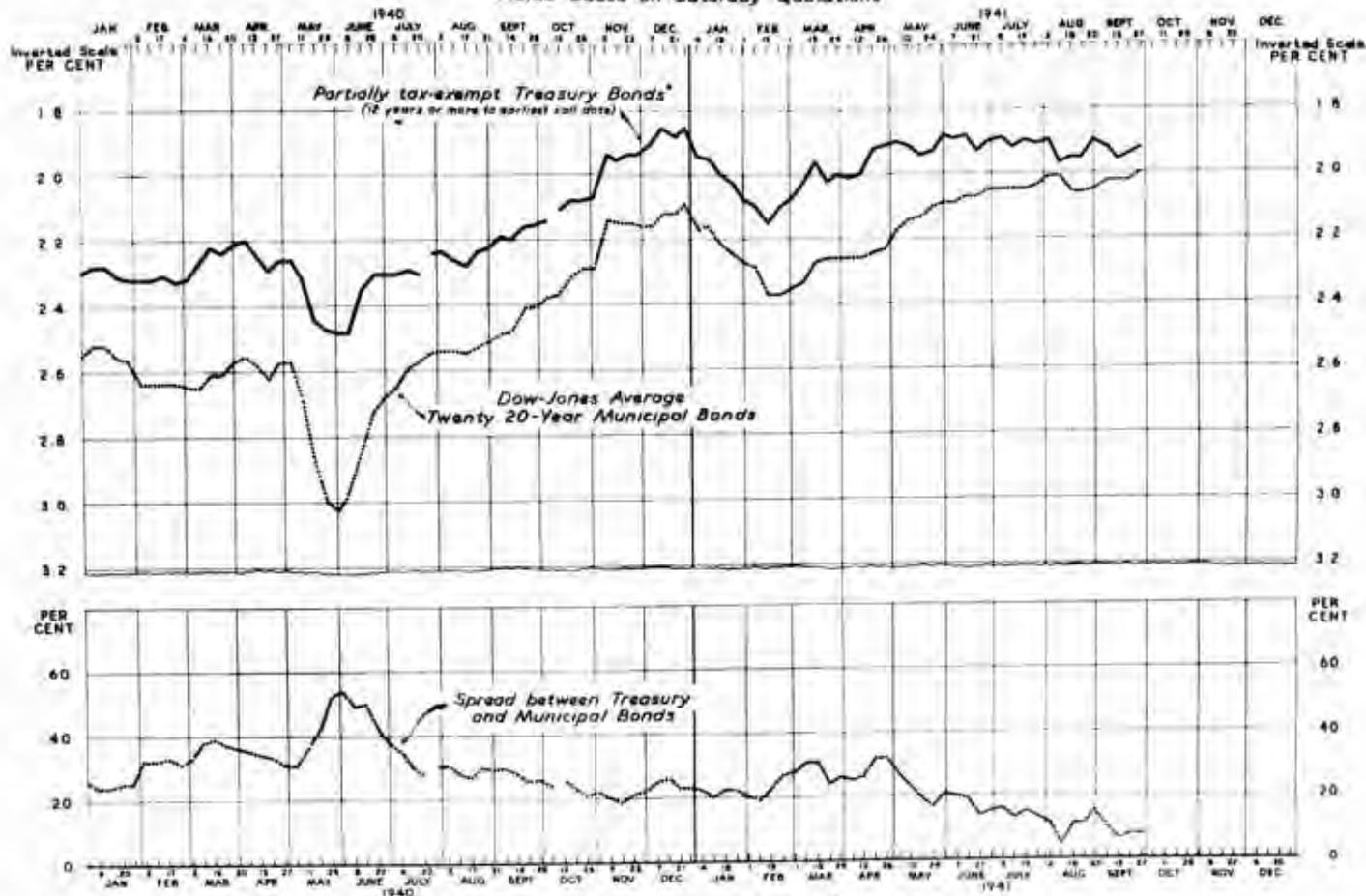


\* Change in composition of long term Treasury average

Chart III

AVERAGE YIELDS OF LONG-TERM TREASURY AND MUNICIPAL BONDS

Yields Based on Saturday Quotations



\*Result of the wholesale change in composition of long term Treasury holdings.

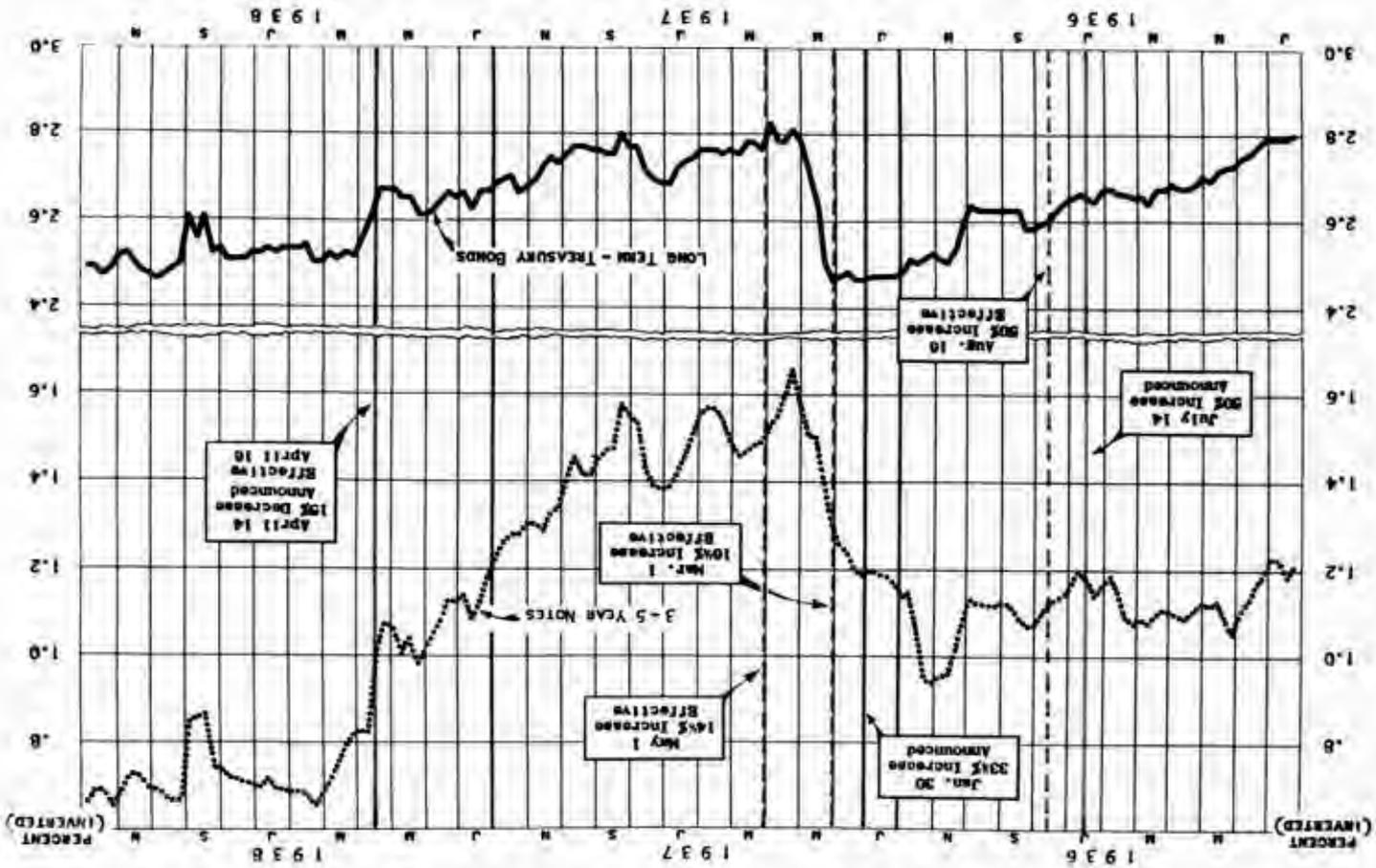
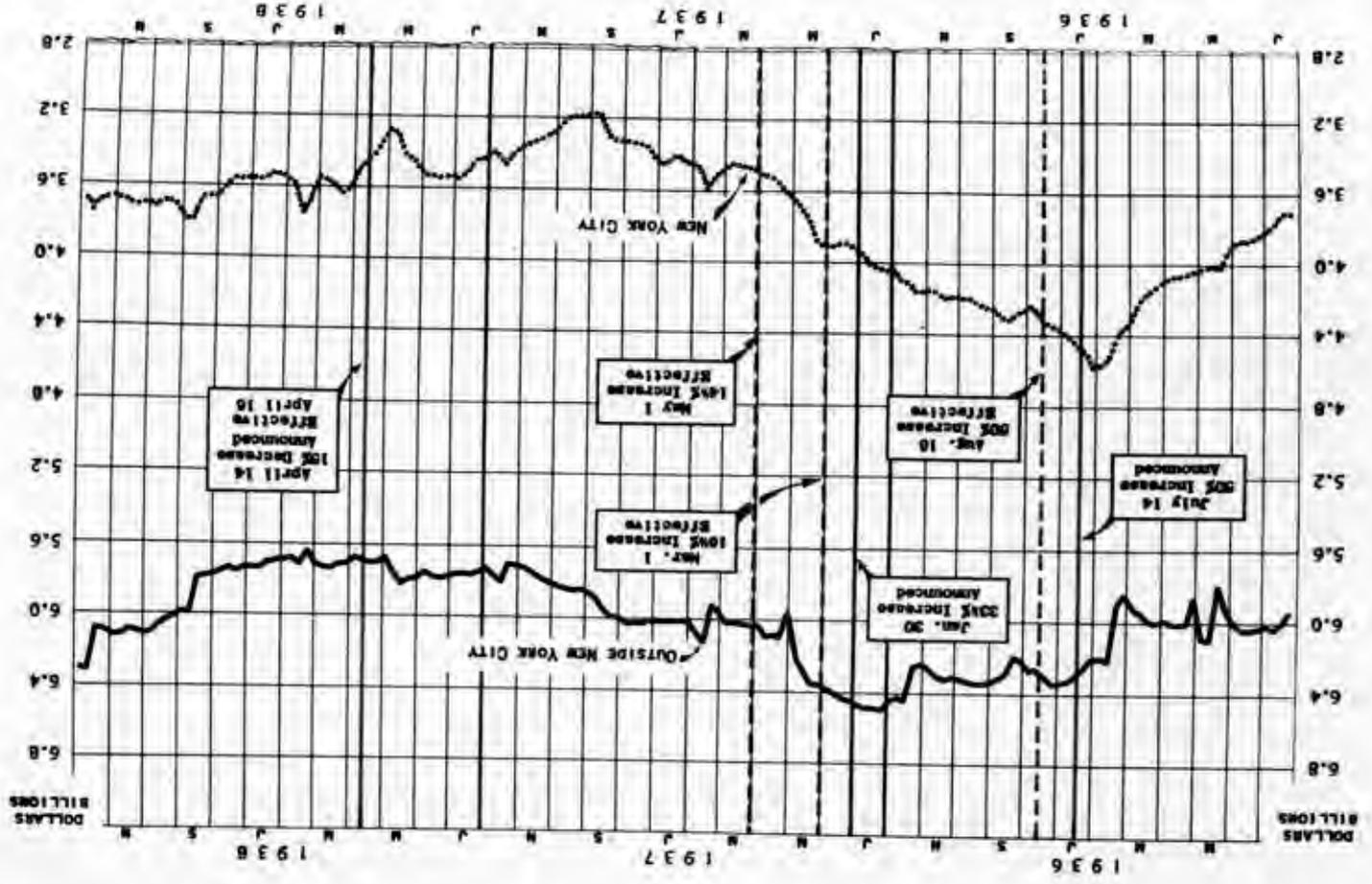


Chart IV  
EFFECT OF PAST CHANGES IN RESERVE REQUIREMENTS  
ON YIELDS OF U. S. SECURITIES

EFFECT OF PART CHANGES IN RESERVE REQUIREMENTS ON HOLDINGS OF U.S. SECURITIES BY MEMBER REPORTING MEMBER BANKS

Chart A



W.T.1117/260/41

SAFE HAND.

BRITISH EMBASSY,  
WASHINGTON, D.C.,

October 1st, 1941.

Dear Mr. Dietrich,

I think you would like to see the enclosed copies of statements made in answer to questions in Parliament on the 9th and 10th September. We have also sent copies to Mr. Dean Acheson at the State Department.

Yours sincerely,

/s/ W. Ritchie

Mr. Frank Dietrich,  
Room 279, U.S. Treasury Department,  
Washington, D.C.

PARLIAMENTARY QUESTIONAnglo-Japanese Trade

30. Lieut.-Colonel Sir Thomas Moore asked the Minister of Economic Warfare whether, in view of public anxiety, he can make any statement on the trade-barter agreement with Japan; and why it is regarded by His Majesty's Government as necessary?

Mr. Foot: No general barter arrangement, nor anything inconsistent with the strict enforcement of the freezing Order, has ever been contemplated. The use of frozen funds for new exports to Japan is not permitted. If it should be found desirable exceptionally to license any particular imports from Japan, it would be a matter for consideration what exports should be allowed against such imports and how payments should be effected. It is probable that this would best be done by setting up a separate clearing account, if and when the need for it should arise. At present, however, no such imports have been licensed and consequently no question of payments arises.

Sir T. Moore: As Japan is a partner in the Axis, would not such a proposal be almost equivalent to trading with the enemy? Would it not be unwise for the Government to be a party in any way to a transaction with Japan?

Mr. Foot: I think it is clear from the terms of my answer that no trade is taking place between the two countries at all.

Mr. Noel-Baker: Does that also apply to the Colonial Empire?

Mr. Foot: This question refers only to the United Kingdom. In these matters the Colonial Empire generally follows suit. Perhaps my hon. Friend would put a separate Question down.

10th September, 1941.

PARLIAMENTARY QUESTIONJAPAN

33. Mr. A. Edwards asked the President of the Board of Trade the Government's policy with regard to trading with Japan; and to what extent in the last three months shipments of materials which can be used for munitions of war have been made to Japan?

Sir A. Duncan: All Japanese assets in the United Kingdom were frozen by an Order dated 26th July, and export of all goods from the United Kingdom to the Japanese Empire was made subject to licence from 15th August. No licences have been granted for exports to Japan since the date of the Freezing Order, and I see no prospect that any such licences will be granted in the near future. No materials which, so far as is known, can be used as munitions of war have been exported from the United Kingdom to Japan during the last three months.

9th September, 1941.

OCT 1 1941

My dear Mr. Charge d'Affaires:

I wish to refer to the agreement dated August 15, 1941 relative to the purchase of 301,000 fine troy ounces of gold by the Secretary of the Treasury from the Government of the Union of Soviet Socialist Republics, against which an advance of \$10,000,000 was made on August 16, 1941.

I take pleasure in enclosing for your information two copies of the assay report of the United States Mint at San Francisco giving an analysis of the gold which arrived on the SS *MEMJENSKI* and deposited by your Government on September 19 for the account of the Secretary of the Treasury.

You will observe from the enclosed report that the shipment, after melting and upon assay, was determined to contain 161,448.886 fine troy ounces of gold and to have a value of \$5,650,711.01. After the deduction of the amount of \$14,288.28, representing the 1/4% handling charge of \$14,126.78 plus the Mint charges of \$161.50, the net value of the gold was \$5,636,422.73. This amount of gold has been applied by the Treasury against the amount of gold agreed to be purchased by the Secretary of the Treasury under the agreement of August 15, 1941.

Sincerely yours,

(Signed) D. W. BELL

Secretary of the Treasury.

Mr. Andrei A. Gromyko,  
Charge d'Affaires ad interim,  
Union of Soviet Socialist Republics.

Enclosures.

FD: new 9/30/41

UNITED STATES MINT  
SAN FRANCISCO, CAL.

BULLION DEPOSIT - MEMO REPORT

42

Mint Form 428

Box 4522

Date Sept. 18, 1941

Memo Required  
by Depositor

Silver Price  
or Class FINE GOLD

SOURCE DATA

San Francisco  
FEDERAL RESERVE BANK OF SAN FRANCISCO

Other Data

MLT. CHG. ON TOT. WT.

State RUSSIA

County

Mine

FEDERAL RESERVE BANK OF NEW YORK  
OR SECRETARY OF THE TREASURY, SPECIAL ACCOUNT

AGE 1	Description of Deposit	Assay Number	WEIGHTS				ASSAY CERTIFICATE FINENESS			Refining chg.-cts. per oz.	FINE OUNCES		OUNCES	
			Before Melt Ounces	Dec	After Melt Ounces	Dec	Gold	Silver	Base		GOLD Ounces	Dec	SILVER Ounces	Dec
29	1-4	5151	7845.75		7535.08		999.9	(000.1)		7534.384				
29	5-8	5152	7585.92		7385.21		999.9	(000.1)		7384.471				
29	9-12	5153	7606.14		7606.21		999.9	(000.1)		7607.449				
29	13-16	5154	7785.96		7714.71		999.9	(000.1)		7713.938				
29	17-20	5155	7618.99		7570.85		999.9	(000.1)		7570.092				
29	21-24	5156	7531.10		7678.67		999.9	(000.1)		7677.134				
29	25-28	5157	7578.27		7559.74		999.9	(000.1)		7558.944				
29	29-32	5158	7584.47		7790.98		999.9	(000.1)		7790.200				
29	33-36	5159	7467.35		7315.01		999.9	(000.1)		7314.278				
29	37-40	5160	7580.18		7613.83		999.9	(000.1)		7613.068				
29	41-42	5161	3845.45		3488.02		999.9	(000.1)		3487.651				
										Total	79,851.551			Total

TABLE BY CHECK  
AS NOTED

NOTE - THIS REPORT IS FOR THE INFORMATION  
OF THE DEPOSITOR AND IS OF NO OTHER VALUE.

V A L U E S		C H A R G E S				Total
GOLD	SILVER	Melting	Refining	Handling		
\$	\$	\$	\$	\$	\$	\$
		Bars				\$
		Cash				
		Check				
						NET VALUE

UNITED STATES GOVERNMENT  
 DEPARTMENT OF THE TREASURY  
 BUREAU OF MINTS AND METALS  
 SAN FRANCISCO, CAL. 4522

BULLION DEPOSIT - MEMO REPORT

MINT FORM 425  
 SOURCE DATA

DATE: Sept. 18, 1941

Memo Required  
 by Depositor  
 Other Data

Silver Price: FINE GOLD  
 or Class

State: RUSSIA  
 County:  
 Mine:

FEDERAL RESERVE BANK OF SAN FRANCISCO  
 FEDERAL RESERVE BANK OF NEW YORK  
 OR, SECRETARY OF THE TREASURY, SPECIAL ACCOUNT.

MLT. CHG. ON TOT. WT.

PAGE #	Description of Deposit	Assay Number	WEIGHTS				ASSAY CERTIFICATE FINENESS			RATES OF CHGS		FINE GOLD		OUNCES SILVER	
			Before Melt	After Melt	Gold	Silver	Base	Mlt	Ref	Ounces	Dec	Ounces	Dec		
30	1-4	5162	7618.09	7220.76	999.9	(000.1)					7220.027				
30	5-8	5163	7603.62	7600.34	999.9	(000.2)					7600.819				
30	9-12	5164	7514.77	7673.20	999.9	(000.1)					7672.432				
30	13-16	5165	7560.31	7255.28	999.9	(000.1)					7257.522				
30	17-20	5166	7728.70	7709.78	999.9	(000.1)					7709.009				
30	21-24	5167	7590.76	7629.38	999.9	(000.1)					7628.617				
30	25-28	5168	7544.20	7849.69	999.9	(000.1)					7848.905				
30	29-32	5169	7412.70	7443.45	999.9	(000.1)					7444.705				
30	33-36	5170	7511.95	7613.52	999.9	(000.1)					7612.758				
30	37-40	5171	7577.44	7576.25	999.9	(000.1)					7576.072				
18	41-45	5172	5547.22	5649.05	999.9	(000.1)					5648.465				
			161,472.20	161,466.57							161,448,806			Total	

PAID BY CHECK  
 AS NOTED

NOTE: THIS REPORT IS FOR THE INFORMATION OF THE DEPOSITOR AND IS OF NO OTHER VALUE

VALUES		CHARGES			Total
GOLD	SILVER	Melt	Refine	Handling	
\$ 650,711.01	\$	161.20	\$	2,126.78	\$ 650,422.73
					NET VALUE

DEPARTMENT OF STATE

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CONFIDENTIAL

PARAPHRASE

Telegram no. 1739

Dated: 10/1/41 noon.

From: MOSCOW.

Rec'd: 10/1/41 10:30 a.m.

FROM HARRIMAN FOR HOPKINS AND SECRETARY MORGENTHAU.

The information contained in your 1089 has been received with thanks.

In the conferences here, no one has as yet raised the subject of finance, and I have not raised the subject myself, in as much as I have received no instructions on the matter.

STEINHARDT.

SA/K:DCB:REJ

10/1/41.

Copies to:

Mr. Hopkins (3)

Secretary Morgenthau (3)

TREASURY DEPARTMENT

45

INTER-OFFICE COMMUNICATION

DATE October 1, 1941

TO Secretary Morgenthau

FROM D. S. Bell *DSB*

STABILIZATION AGREEMENTS

China: On July 14, 1937 the Treasury entered into an agreement with the Central Bank of China to purchase yuan up to a total of \$50,000,000 U.S. currency. The agreement has been renewed each six months and now expires December 31, 1941. At present we hold 69,000,000 yuan, whose book dollar value is \$18,112,500, and against which \$19,379,015.65 in gold is held at the Federal Reserve Bank of New York as collateral. The rate of interest is 1/2% above the current rediscount rate of the Federal Reserve Bank of New York.

Brazil: On July 15, 1937, the Treasury entered into an agreement with the United States of Brazil, which expires on July 15, 1942. We agreed to purchase milreis up to a total value of \$60,000,000, with Brazil leaving on deposit in New York gold collateral to guarantee the repurchase of the milreis by Brazil. The rate of interest is 1/2 of 1% above the current rediscount rate of the Federal Reserve Bank of New York. There have been transactions under this arrangement, but at present we are holding no milreis. This agreement also provides for the sale of up to a maximum amount of \$60,000,000 in gold by the United States to be held under earmark in our vaults for the account of Brazil. This agreement was modified on September 2, 1938, to permit Brazil to ship gold from abroad to be held in this earmarked account. Up to August 30, 1941, \$29,455,770.90 in gold had been sold by us to Brazil and \$11,532,769.15 had been shipped by Brazil to New York to be held under earmark.

Argentina: On January 1, 1941, the Treasury entered into an agreement with the Banco Central de la Republica Argentina and the Government of Argentina. Under this agreement we undertake to purchase Argentine pesos up to the equivalent of \$50,000,000 U.S. currency. No collateral is required. The interest rate is fixed at 1-1/2%. The agreement comes into operation and effect upon ratification and confirmation by Argentina of the authority under its constitution and laws to enter into this agreement. Up to the present time the foregoing conditions have not been met and the agreement is inoperative. The agreement was drafted to expire on June 30, 1941. An extension of the agreement has also been drafted, but cannot be made effective until the agreement itself becomes operative.

China: On April 1, 1941, the Treasury entered into an agreement with the National Government of the Republic of China and the Central Bank of China. This calls for the purchase by the Treasury of Chinese yuan up to the equivalent of \$50,000,000 U.S. currency. No collateral is required. The agreement expires June 30, 1942. Interest is at the rate of 1-1/2%. China has not yet called for the \$50,000,000. The Chinese-American-British Stabilization Board in China, on which W. A. Ransel Fox is the American representative, did, however, begin to operate in the middle of August. The Chinese Government banks have deposited with the Federal Reserve Bank of New York their contribution of \$20,000,000 to the Joint Stabilization Fund. During the period from August 15, 1941 to close of business on September 27, 1941,

the Chinese Stabilization Board approved application for \$6,894,108 and of this amount made actual payments of \$6,545,407.

Mexico: An agreement with the Government of the Republic of Mexico and the Banco de Mexico is practically ready for signature. This involves purchases of Mexican pesos by the United States up to the equivalent of \$40,000,000 U.S. currency. There is no collateral. The rate of interest is at 1-1/2%. The repurchase clause with Mexico gives that country 180 days' notice and then an additional 180 days within which to repurchase. This is a generous departure from our usual 30 days' notice. The Department of State expects its related negotiations with Mexico to be consummated in time for the signing of the Stabilization agreement before September 16. The Treasury is also to agree to purchase up to 6,000,000 ounces of silver monthly from Mexico, under an arrangement similar to that which we have with Canada.

Colombia: The Ambassador of Colombia has recently returned from his country to which he went a few weeks ago with a draft Stabilization agreement with the Stabilization Fund of the Government of Colombia, the Banco de la Republica, Bogota, Colombia, and the Government of the Republic of Colombia, under which the United States would buy Colombian pesos up to the equivalent of \$3,000,000 U.S. currency. No collateral is involved. The interest rate would be 1-1/2%. We should have further discussions with the Colombian Ambassador shortly.

Ecuador: When the Ecuadorian Minister of Finance visited Washington in August he discussed with the Secretary, and subsequently with the Secretary's assistants, the question of a Stabilization agreement which might provide as much as \$5,000,000 U.S. currency. It is not believed that more than perhaps half of such a sum could at all be justified. The Department of State has requested that we continue negotiations with the Ecuadorian Ambassador.

Bolivia: We have promised the State Department that we would consider a Bolivian request for monetary assistance.

Iceland: On September 30 Mr. Berle of the State Department outlined to Mr. Bell a proposition for a Stabilization agreement for \$2,000,000 with Iceland. In order to repay this amount it is anticipated that Iceland will sell its commodities to the United States Government for which it will receive dollars. Such commodities would then be Lend-Leased to Great Britain.

\* \* \* \* \*

Russia: On August 15 we agreed to purchase from the Government of the U.S.S.R. approximately \$10,535,000 in gold for delivery within ninety days. On September 19 the Russians deposited approximately \$5,650,000 in gold with the San Francisco Mint for the account of the Secretary of the Treasury. The gold was eventually sold to the Treasurer of the United States and payment in dollars received by the Fund. At the present time the Russians still owe us approximately \$4,885,000 in gold.

October 1, 1941

Dr. Feis

D. V. Hall

Will you please send the following cable to the American Consul, Hong Kong:  
"For Feis from the Treasury."

In order for the Treasury to be certain that it receives all cables sent to it by you would you please number such cables consecutively prefixing the number with 'T.F.' for identification purposes. Such numbers should be used for cables dispatched by you irrespective of whether the cables are sent through the State Department or the Treasury representatives at Hong Kong or Shanghai. Would you please initiate this program as soon as possible and if convenient allow numbers for the cables previously sent by you."

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**TREASURY DEPARTMENT**

**INTER OFFICE COMMUNICATION**

DATE October 1, 1941

TO Secretary Morgenthau

FROM A. D. White

Subject: Request from the Secretary for comments on survey released by "Contemporary China"

Summary of Appended Memorandum

1. "Contemporary China" states that at the current rate of consumption, Japan will have exhausted her reserves of oil and gasoline by the end of March, 1942.

This underestimates Japan's petroleum reserves. Our earlier studies indicated that they are probably sufficient for about a year, rather than for the six months suggested by the press.

2. "Contemporary China" concludes that Japan will have used up her stocks of imported iron and scrap before the end of the current year.

Japan may exhaust her stocks of imported iron and steel before the end of this year. However, since Japan is reducing the amount of scrap used in the mixture with pig iron, her total stock of scrap, i.e., domestic as well as imported, may possibly be sufficient for a year. Of more importance is her shortage of iron ore, pig iron, manganese ore and coal.

3. "Contemporary China" claims that the silk industry will be at least two-thirds ruined next spring.

This conclusion seems to be based on the pre-1939 importance of foreign markets to Japan's silk industry. During this year considerably more than half of Japan's production of silk is for domestic consumption.

4. "Contemporary China" states that the cotton industry will be operating at 25 percent of normal capacity next spring.

This estimate is probably too low. Our figures seem to indicate that if Japan is cut off from all non-yen bloc supplies of raw cotton, her cotton industry will probably be operating at about 55 percent of normal output in the near future.

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If, however, Japan is able to continue obtaining supplies from Latin America, her cotton textile industry will have sufficient raw cotton to maintain production at more than 50 percent of normal output.

Sent to Mr. White by Mr. Fitzgerald.

Comment by Secretary: "How accurate is this?"

## JAPAN'S POSITION HELD PRECARIOUS

Survey Shows That Economic  
Pressure May Force Tokyo  
to Sue for Terms

### RESERVES BEING USED UP

Silk and Cotton Industries Are  
Facing Ruin—Steel and  
Oil Supplies Needed

A preliminary study of the virtual economic blockade of Japan by the United States and the British Commonwealth through the stoppage of trade gives an indication that if this blockade is maintained beyond six months Japan will have "to plead for an economic truce with America and Britain and sue for a military armistice with China."

The current survey, released today by Contemporary China, a reference digest issued every two weeks by the Trans-Pacific News Service at Rockefeller Center, bases its conclusions on analyses of the two most vital war materials for Japan, oil and steel, and the two most essential peace industries, silk and cotton.

Using figures since 1927 on imports, exports and home production of the war and peace essentials, the survey reaches four chief conclusions that foreshadow an acute distress for Japan.

### Exhaustion of Reserves

1. At the current rate of consumption Japan will have exhausted her reserves of oil and gasoline by the end of March next year.
2. At the current rate of consumption Japan will have used up her stocks of imported iron and steel scrap before the end of December this year.
3. The silk industry, the most important industry in Japanese domestic economy and foreign trade, will be at least two-thirds ruined next Spring.
4. The cotton industry, as important in the export field as the silk industry, will be operating at 25 per cent of normal capacity next Spring.

Estimating the consumption of oil and gasoline by Japan since the war with China at 25,000,000 barrels a year, the survey points out that the annual production of this vital material in Japan was less than 3,000,000 barrels, with 93 per cent of the supply coming from the United States and the Netherlands Indies. A comparison of the amount of oil imported by Japan with the rate of consumption results in an estimate that the Japanese now do not have more than 20,000,000 barrels of oil in reserve.

### "Losing Life Blood"

"Without the continual supply of oil the Japanese war machine cannot long operate," the survey states. "At present that war machine is virtually suffering from a serious continual hemorrhage, every day losing a considerable amount of life blood. If there is no transfusion the machine will bleed to death in the course of 200 days."

In figures on the iron and steel industry the survey points out that about 80 per cent of the scrap used in steel production has come from foreign countries, mainly the United States.

"Since the stocks of imported scrap and imported ore are rapidly being exhausted, and if the United States does not send another pound of scrap to Japan and British Malaya and the Philippines not another pound of ore, the Japanese production of iron and steel in the coming year will be decreased by at least one-half," the survey continues.

The silk industry is reported to be facing ruin because of Japanese dependence upon the export of about 90 per cent of Japan's silk to the United States, and the cotton industry is said to be facing similar disintegration because no cotton is produced in Japan and all raw materials previously have had to be imported.

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE September 26, 1941.

TO Mr. White  
 FROM Mr. Friedman

Subject: Japan's petroleum resources and her iron and steel, silk and cotton industries.

Conclusions:

No sharp decline or collapse in Japan's iron and steel, silk and cotton industries, nor exhaustion of her petroleum reserves can be anticipated within the next year, unless further restrictive measures are taken by the anti-Axis countries. Japan's margin of safety has become so narrow that it would be difficult for her to take retaliatory measures against further actions. However, if the U. S. and the Allied countries supply Japan with necessary raw materials, her margin of safety will correspondingly widen, strengthening her position vis-a-vis the anti-Axis countries.

1. Japan's reserves of petroleum products are probably sufficient for about one year at the present level of consumption. Japan's stocks of petroleum products, according to an estimate made by this Division, are probably closer to 35 million barrels than the 20 million barrels estimated by Contemporary China. Furthermore, while her total consumption is about 35 million barrels per year, Japanese military consumption of petroleum, based on 1938 data, aggregates about 12,000,000 barrels annually. Therefore, by further curbing civilian consumption, the available stocks may not be exhausted within the year. The Government has already announced that the use of gasoline for taxis, buses and private cars is prohibited unless special permission is received and the ratio of alcohol being mixed with gasoline for automobile use has been increased from 15% to 20%. However, the necessity to carefully nurse her oil supplies will act as a hampering and limiting factor on Japan's economic and military activities, as long as the American, British and Dutch Governments do not allow Japan to import any more petroleum products from their respective countries.

2. A substantial decline in Japanese steel production can be anticipated as a result of Japan's shortage of iron and manganese ores and coal. If Japan had sufficient supplies of these materials, her need for iron and steel scrap would be comparatively little since Japan has been reducing the importance of scrap iron in the steel industry by increasing her pig iron capacity and constructing furnaces for the "one heat" process by which iron ore becomes

- 2 -

steel in one continuous process. Japan, however, has depended upon non-yen sources for more than 50% of her iron and manganese ores. Furthermore, her coal production is proving insufficient to maintain her entire industrial machine, a factor of special importance in this connection since the increased use of the poor-grade Japanese and Manchurian ores would require even greater quantities of coal. Therefore, the depletion of her stocks of scrap iron and steel is now a significant factor since the substitute methods also require materials in which Japan is far from self-sufficient. Japan has been building up her stocks of scrap and probably about 25% of the approximately 2 million tons of scrap imported from the U. S. in 1939 was for the accumulation of reserves. These stocks, however, are not sufficient to maintain the Japanese steel industry at its present level of producing about 1 million tons per year. Even if the available scrap can be conserved for more than a year, as is possible, by reducing the percentage of scrap used, it means increasing the amount of pig iron and iron ore used for which Japan is even more dependent upon outside sources than for scrap.

There have been a number of indications of Japan's shortage of raw materials, such as reduction in automotive production, the priority being given to iron ore, pig iron and steel in the allocation of shipping space, the scrap iron collection campaign begun last spring resulting in the gathering up of railway cars, autos, etc., the increasing number of steel articles which are no longer being manufactured, such as razor blades and the Government's giving compensation for losses incurred in importing Manchurian pig iron.

The iron ore resources of occupied China, Manchuria and the Japanese empire are potentially capable of meeting Japan's need, but Japan has been unable to fulfill plans made for increasing the output of iron ore. Of course, if Japan is given access to the resources of the British and American Empires, particularly the British Empire since it is the chief source of supply of iron ore, pig iron and manganese ore, Japan will be able to continue to produce at much the present level the iron and steel so necessary for her war machine.

3. The Japanese silk industry which employs about 1/3 of Japan's farming families and more than 320,000 additional workers in the weaving stages, faces serious, but not disastrous, dislocation as a result of the stoppage of its exports to the U. S. It must be noted that the silk industry is no longer as completely dependent upon foreign markets, mainly the U. S., as it has been until recently. As a result of Japan's general shortage of textiles, domestic consumption of silk which before the war was less than 1/3 of production has tended to increase and in 1939, for the first time in

- 3 -

the 20th century, domestic silk consumption exceeded silk exports. The Government, moreover, has been steadily pursuing a policy of reducing silk production in favor of foodstuffs by uprooting mulberry gardens and supplying less silkworm eggs to the farms, while at the same time purchasing silk to maintain prices. Under a new control scheme adopted this summer before the freezing of Japanese assets by the U. S., Japanese silk production was to be restricted to about 550,000 bales. Since in 1939-40 about 400,000 bales were domestically consumed, and even greater quantities could have been used in view of Japan's textile shortage, it can be assumed that most of Japan's current output of silk can be domestically consumed, while the Government could continue its policy of buying the surplus. There is definite evidence that the Japanese are anxious to continue exporting their silk to the U. S., but the main incentive comes from a desire to obtain much needed products from the U. S., rather than need to maintain exports of silk per se.

4. A sharp curtailment in the Japan cotton textile industry in the near future is not to be expected unless exports of raw cotton both from Latin America to Japan and from the U. S. to occupied China cease. Japanese cotton requirements for 1941-42 are estimated to be about 1,600,000 bales, of which 600,000 bales are for domestic requirements and 1,000,000 bales are for textile exports. Latin America provides about 550,000 and China another 200,000 bales. Moreover, existing Japanese stocks are estimated at about 350,000 bales. In addition, there is the possibility of securing large quantities of raw cotton from the U. S. via Shanghai. Assuming that Latin America and China continue to be major direct and indirect sources of supply, Japan will be able to produce about 70% of her present output during the next year. However, the Japanese may have no cause to maintain manufactures at even this level if she is excluded from her important markets in the British and Dutch Empires. In addition she has 800,000 bales of stocks of cotton fabrics with which to continue much of her export trade without using her raw cotton for such purposes. If, however, Japan is refused access to all non-yen bloc sources of raw cotton, her imports from China coupled with available stocks will be sufficient only to meet domestic cotton textile requirements during the next year and this would mean decreasing the present output of the industry by about 65%. Of course, if Japanese textiles are excluded from their non-yen bloc market but Japan continues to obtain raw cotton from Latin America and possibly the U. S., she will be able to accumulate a reserve of raw cotton for future domestic use.

No. to Embassy,  
China

AMERICAN CONSULATE GENERAL  
Shanghai, October 1, 1941.

Subject: Position of American Business Community  
in Shanghai Regarding United States Trade  
Control Measures.

THE HONORABLE  
THE SECRETARY OF STATE,  
WASHINGTON.

Sir:

I have the honor to invite the Department's attention to the fact that the various trade control measures as now enforced on American trade with Shanghai are arousing much concern over the ability of American firms operating in this market to retain their established positions - even on a limited scale. Local representatives of such firms express entire sympathy with present American policy designed to keep essential products from unfriendly consumers, and have indicated their readiness to cooperate wholeheartedly in accomplishing this purpose. But they are hopeful that in doing so, they may still be permitted to obtain sufficient supplies from exportable surpluses in the United States to serve legitimate local needs and thus maintain their positions in the China trade.

-2-

It is quite understandable that the "freezing" measures recently applied to China by the Treasury Department, with the subsequent restrictive regulations for control of foreign exchange applied by the Chinese Stabilization Board, added to the American export license requirements already in effect, have caused much confusion among business firms in Shanghai and aroused sincere misgivings regarding their future operations.

Typifying somewhat the present disturbed feeling of the American business community in Shanghai is the enclosed

1/ copy of a letter of September 12, 1941, to the American Chamber of Commerce, Shanghai, from Mr. N. F. Allman, senior partner in the Shanghai American law firm of Allman, Davies & Eops. In a memorandum to the Chamber of Commerce commenting on Mr. Allman's letter, Mr. L. R. Moore, Shanghai representative of the Dupont Company, expresses a viewpoint widely held by other American representatives here; a copy of Mr. Moore's

2/ memorandum is also enclosed.

Mr. Allman's aspersions on the administration of the China Trade Act are not shared by this office. The desires of Mr. Allman and some of his local clients to obtain registration under the China Trade Act have at times run counter to the limitations of that Act, either in spirit or letter; to some extent this may have engendered the critical tone adopted by him in this connection.

-3-

regarding other points raised by Mr. Allman, particularly in reference to the possibilities of continuing business operations under present restrictions, it is believed that his letter reflects the views of a large number of American business representatives here. These representatives wholeheartedly endorse the American Government's efforts to confine the distribution of our products exclusively to friendly channels; but there is considerable anxiety that this policy may be carried to a point where both friend and foe will be cut off from sources of supply and that American business interests developed in Shanghai through many years accordingly may be forced to close.

Relative to Mr. Allman's assertion that local British firms are receiving more liberal treatment from their Government control agencies than American firms receive from their own authorities, the investigations of this office disclose little grounds for this belief at the present time; some instances undoubtedly have occurred in recent months which might justify such a view, but scarcely on the broad basis implied by Mr. Allman.

Since the near-term commercial policy applied to Shanghai by the American Government must be contingent on the constantly changing political situation in the Far East, it seems obvious that no assurances can be given to American

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business interests of this community covering any long-term period. It is believed, however, that a policy on the part of our Government that would permit American business interests in Shanghai to obtain supplies sufficient to meet the more urgent current needs of their "friendly" clientele might safely be adopted. Such a policy might safeguard the extensive stake which American firms have in this market, and at the same time undoubtedly would be considered by the American trade interests, and also by the local community, as a clear indication that their welfare is not being disregarded by our Government.

Respectfully yours,

Frank P. Lockhart  
American Consul General

Enclosures:

- 1/- Copy of letter from Allman, Davies & Kops to American Chamber of Commerce, dated September 12, 1941.
- 2/- Copy of comments by Mr. L. B. Moore dated September 17, 1941.

690  
HLG MB

Original and five copies to Department.

Copy to Embassy, Chungking.

Copy to Embassy, Peiping.

Copy to Consulate General, Hong Kong.

Copy:lc:11/27/41

Enclosure no. 1 to despatch no. 790 of Frank P. Lockhart  
American Consul General at Shanghai, dated September 27, 1941,  
on the subject: "Position of American Business Community  
in Shanghai Regarding U.S. Control Measures."

Body

ALLAN, DAVIS AND KOPS

September 12, 1941.

The American Chamber of Commerce,  
209 Foochow Road,  
Shanghai.

Gentlemen.

I wonder if the present is not an appropriate time to  
consider, or plan for, the future of American trade in China?

Although the British have been engaged in a full-dress  
war, British merchants in China have nevertheless gone ahead  
with the promotion of various companies and with particular  
reference to the textile industry. You have probably noted  
the recent large increase in capitalization of the China  
Cotton Mills, Ltd. This is just an example of what has been  
happening during the past four years in spite of wars here  
and in Europe. These companies have been incorporated under  
the Hongkong Ordinances and it can be taken for granted that  
capital for the most part is from Chinese sources. The  
remarks made herein are not in any manner to be considered  
as criticism of the British but, on the contrary, as admira-  
tion for their foresight and boldness. By incorporating  
these companies under the Hongkong Ordinances the British  
are placing themselves in a position to control, or at  
least to influence, trade whenever trading conditions be-  
come possible or easier. Here again, they are to be admired  
for their foresight.

As contrasted to this foresight and boldness there  
appears to be too much timidity on the part of Americans,  
both in official and business circles, in regard to the  
Far East. Instead of boldly planning expansion there has  
been too much of a tendency to retreat. Some of the companies  
promoted under the Hongkong Ordinances referred to above de-  
sired to incorporate under the China Trade Act. However,  
during the past four years companies attempting to incorporate  
under the China Trade Act have met with not only an un-  
sympathetic attitude but actual hostility. It is already

-2-

known to the Chamber that this Act was for a long period completely sabotaged by refusal on the part of the officials to act on applications for incorporation and matters before them. The Act itself is a simple straightforward law and free of technicalities and red tape. Companies operating under the law and applicants for incorporation have nevertheless been discouraged by unreasonable interpretation and by reading into the law technicalities and red tape that do not exist in the law itself. Consequently, people who usually incorporate still find it more desirable and simpler to do so under the Hongkong Ordinances.

The Chamber itself is being inconsistent in admission of members. With its left hand it admits aliens as representatives of American companies, while with its right hand it excludes firms which it considers not to be pure Aryan American. The Chamber ought to encourage American firms to employ Americans, or at least ought to adopt a policy of reciprocity in this regard. It would be interesting to know if any single American is a member of any non-American Chamber of Commerce anywhere in China. It would be impractical to insist that all employees of American firms in China should be Americans, but the fact remains that American firms are far more prone to employ non-Americans than are other nationalities.

It is still probably true that trade follows the flag, and instead of trying to run Americans out of China those who are here should be encouraged to remain and more brought in, if at all possible. The evacuation of Americans from dangerous areas are presumably on two grounds: (1) their safety; and (2) to save the State Department trouble and work. Most Americans are probably willing to take the hazards of their trade together with the hazards of the place where this trade is carried on. As to the validity of the second reason, it speaks for itself.

Another item that has some bearing on our foreign trade is the policy of the American banks. Without meaning any criticism of the local staffs of any of these banks, the fact remains that there is a certain amount of resentment in commercial circles at the somewhat illiberal banking policy followed by these banks. If we lay a sound foundation for expansion of trade, as we should do, our banks should be allowed to operate a little more freely and to have more identity of interest with the commercial interests in the fields where they operate. To put the matter bluntly, there is a feeling that non-American banks will give merchants better treatment than the American banks will give them.

In the matter of export permits and restricted commodities, we get the impression that the British, although engaged in a full-dress war, are going to greater efforts to supply old customers than are we. British firms and old customers here can still get both raw materials and finished products from Canada and other British possessions, and even from England. On the other hand, the United States is simply prohibiting the export of some materials and has made the obtaining of export licenses respecting certain other commodities so difficult as to amount to actual embargo. Certainly, all good Americans are in sympathy with our war efforts, yet this should be tempered with a sincere effort to maintain our customers and connections in the interests of our future foreign trade.

We all know how the Germans have penetrated commercially into almost every country, and, aside from their political capers, they will no doubt hold on industrially and commercially in most of these countries. Here in China the Germans had, and probably still have, a very strong commercial connection with the Chinese, and even with the Chinese Government. Their connections with the Ministry of War were very close, and may still be for that matter, while the Japanese are grabbing off everything in sight by force or by any other means that occur to them. The British Government is carrying on an active economic warfare and the commercial information collected through this phase of the war is likely to be of more use in post war competition than in the actual present conduct of the war. We, on the other hand, do not seem to be making any special effort to maintain existing trade, let alone towards developing post war trade.

We have made the Wheat and Cotton Loan, the Stabilization Loan, and are now advancing funds and/or materials under the Lease-Lend Bill. Have we any assurance that these somewhat altruistic enterprises will not benefit the Germans, the Japanese, the British and everyone else as much or more than our own nationals? It seems very possible that the Lend-Lease Bill provides the actual means for Great Britain to carry on her trade.

When we started in foreign trade seriously about thirty years ago the infant mortality in our foreign trade ventures was very high. Perseverance, however, during those thirty years has given us a respectable volume of foreign trade and it is up to merchants and professional men to maintain and expand same. We can count on no substantial help from diplomacy. Americans had little to say about the events leading up to the first world war. Nevertheless we paid very

largely for that war. In the intervening 25 years American diplomacy has occasionally railed at European and Far Eastern diplomacy. For the most part, this American voice has merely been one in the wilderness. Lack of candor and decency in European and Far Eastern diplomacy has now led us to the second world war. No one has to be a financial genius to find out who is going to pay for this second war. To help America pay for both of these wars foreign trade will be just as necessary as domestic trade, and the sooner merchants and professional men take a stronger stand in keeping commerce from being choked to death by bureaucracy and red tape, whether domestic or international, the better.

With the ever increasing official restrictions on trade, some of which are liable to become permanent, whether good or bad, and in view of the plans that are being made by other nationals to expand their trade in China, is it not time that our Chamber considered the matter and urged the removal wherever possible of undue restrictions, delaying red tape agencies, or other hindrances to our trade? Also, to devise or consider plans for trade expansion rather than acquiesce in any withdrawals of American business or persons.

Yours very truly,

M. F. Allman

Copy:lc:11/27/41

Enclosure No. 2 to despatch no. F90 of Frank P. Lockhart,  
Consul General at Shanghai on "Position of American Business  
Community in Shanghai Regarding U.S. Trade Control Measures."

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Comments of Mr. L. R. Moore, Shanghai Manager for E. I. Du  
Pont de Nemours & Co., on Mr. Allman's letter of September 12,  
1941, to Chamber of Commerce, Shanghai.

Shanghai, September 17, 1941

Mr. Allman's views are important and to a great extent  
the key to the future rests in our continuing to supply China  
(including Occupied China) with certain materials and services  
between now and the end of World War No. 2. China is now  
practically shut off from European sources of supply and Japan  
is too badly off materially to make up the deficit, so if  
China is to get a modicum of the foreign goods which she requires,  
it will have to come largely from the United States.

It is my understanding that an important group in the  
Chungking Government is opposed to giving any assistance to  
Shanghai, on the grounds that this port's activities are of a  
parasitical nature. I understand also that our Government de-  
sires to restrict supplies to Shanghai very drastically lest a  
treasure fall into the hands of a potential enemy should a break  
occur in the Pacific. These are barriers which if closely guarded  
will strangle Shanghai quickly, and Shanghai is after all still  
the distributing point for the major part of the foreign goods  
which find their way into the interior of China. I am highly  
in favor of controlling these operations, to prevent excesses,  
but I see no benefit accruing to anyone by stifling this com-  
mercially and industrially important port.

It is to be expected that people must suffer privations during time of war, therefore, China cannot expect the free flow of goods of normal times. The Chinese, particularly in the occupied areas, have been suffering these privations for more than four years already. If the Chungking Government and other Democratic Powers want the support of those millions of people in the occupied areas, it seems to me that they would do well to give them a little material support. Neglect may be just the straw that will throw them into the other camp.

On the question of danger of Shanghai stocks falling into the hands of an unfriendly power, I think the consequences of such an event are exaggerated. It is indeed likely to happen, but if it did, the results as far as the outcome of the present war would be insignificant. According to Customs statistics, recorded imports into Shanghai during the year 1940 and January-July 1941 were US\$186,000,000 and U.S.\$120,000,000 respectively. Included in those figures are textile materials and foodstuffs, including wines, spirits and tobacco, amounting to US\$108,000,000 for the year 1940 and US\$76,000,000 for the period January-July 1941; in other words clothing and food. It is reasonable to believe that there would not be more than the equivalent of one year's imports in stock at any one time. The United States is rapidly approaching a war effort of US\$40,000,000 per day, and in the next year or two should be up to a figure of US\$50,000,000 daily. Great Britain's war effort is estimated at US\$40,000,000

-3-

daily, and is increasing. Modern warfare is basically a material conflict. Shanghai's entire stores, if requisitioned by an unfriendly power, would be insignificant as far as the war is concerned.

A modicum of supplies will do much toward preventing Shanghai's decay, will sustain, in a manner, those agencies which have helped to make it the important business center it is and preserve some good will and prestige for the future. The risk involved is slight compared with risks confronting us elsewhere. I suggest that we keep the matter before our State Department representatives regularly.

(sgd.) L. R. Moore

LRM:AK

Copied by: JCB  
Compared with: EAM

Copy:lc:11/27/41

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W.T.1117/257/41

BRITISH EMBASSY,

WASHINGTON, D.C.,

SAFE HAND

October 1st, 1941.

Dear Mr. Dietrich,

I have just received copies of the following documents in connection with the freezing by India of Japanese and Chinese assets:-

1. Notification dated 28th July introducing Rule 92C into the Defence of India Rules.
2. Notification dated 28th July under Rule 92C freezing Japanese assets.
3. Notification dated 30th July under Rule 92C freezing Chinese assets.
4. Circular of Reserve Bank of India dated 26th July relating to Japanese and Manchurian accounts.
5. Press Communique dated 26th July.
6. Circular of Reserve Bank of India dated 20th July (? 30th) relating to Chinese accounts.

I think you would like to have the enclosed copies for your records.

Yours sincerely,

(s) W. Ritchie

Mr. Frank Dietrich,  
Room 279, U.S. Treasury Dept.,  
Washington, D.C.

## NOTIFICATION.

Simla, the 28th July, 1941.

No. 958-OR/41. - In exercise of the powers conferred by section 2 of the Defence of India Act, 1939 (XXXV of 1939), the Central Government is pleased to direct that the following further amendment shall be made in the Defence of India Rules, namely:-

After rule 92B of the said Rules, the following rule shall be inserted, namely:-

"92C. (1) If the Central Government is of opinion that it is necessary or expedient so to do for securing the defence of British India or the efficient prosecution of war, the Central Government may give general or special directions prohibiting, either absolutely or to such extent as may be specified in the directions, the carrying out of any order given by or on behalf of -

Power to prohibit action on certain orders as to gold, etc.

- (a) any State which may be specified in the directions, the Sovereign thereof, or any person resident therein, or
- (b) any body corporate which is incorporated under the laws of that State or is under the control of that State or the Sovereign thereof of any person resident therein,

in so far as the order -

- (i) requires the person to whom the order is given to make any payment or to part with any gold or securities, or
- (ii) requires any change to be made in the persons to whose credit any sum is to stand or to whose order any gold or securities are to be held.

(2) If any person contravenes any direction given under this rule, he shall be punishable with imprisonment for a term which may extend to five years, or with fine, or with both."

A. de C. WILLIAMS,  
Secretary to the Government  
of India.

NOTIFICATION.

Simla, the 28th July, 1941.

No. D./C.-1859-F./41. - In exercise of the powers conferred by rule 92C of the Defence of India Rules, the Central Government is pleased to prohibit the carrying out, except with permission granted by or on behalf of the Reserve Bank of India, of any order given by or on behalf of -

- (a) any of the States specified in the Schedule annexed hereto, the Sovereign thereof, or any person resident therein, or
- (b) any body corporate which is incorporated under the laws of any of the said States or which is under the control of any of them or of any person resident therein,

in so far as the order -

- (i) requires the person to whom the order is given to make any payment or to part with any gold or securities, or
- (ii) requires any change to be made in the persons to whose credit any sum is to stand or to whose order any gold or securities are to be sold.

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Schedule.

- (1) The Empire of Japan, including Japan proper, Korea, Formosa, Karafuto, Kwantung leased territory and Islands in the Pacific under Japanese Mandate.
- (2) The Republic of China (Manchuria).

C. E. JONES.

Secretary to the Government  
of India.

## FINANCE DEPARTMENT.

NOTIFICATION.

Simla, the 30th July, 1941.

No. D./C.1911-F. - In exercise of the powers conferred by rule 92C of the Defence of India Rules, the Central Government is pleased to prohibit the carrying out, except with permission granted by or on behalf of the Reserve Bank of India, of any order given by or on behalf of -

- (a) China or any person resident therein, or
- (b) any body corporate which is incorporated under Chinese laws (including the laws of any territory forming part of China) or which is under the control of China or any person resident therein,

In so far as the order -

- (i) requires the person to whom the order is given to make any payment or to part with any gold or securities, or
- (ii) requires any change to be made in the persons to whose credit any sum is to stand or to whose order any gold or securities are to be held,

except that the following are permitted -

- (i) any payment in the sterling area authorised by the National Government of the Republic of China or any person duly authorised to act on its behalf.
- (ii) Transfers into or out of any Chinese special accounts which may be set up under the orders of the Reserve Bank of India.

C.E. JONES  
Secretary to the Government of India.

Circular No. A.D.57

Bombay, 20th July, 1941.

To

All Scheduled Banks.

Dear Sir,

CHINESE ACCOUNTS.

Banks are advised that the following restrictions have been imposed by the Reserve Bank of India on Chinese accounts,

- (a) accounts of all persons or firms resident in the Republic of China including the International Settlement Shanghai or accounts of all firms and companies incorporated therein or under the control of residents in these territories and operating in India are to be blocked.
- (b) they may honour obligations under confirmed credits opened on or before 30th July 1941 on behalf of persons stated in (a).
- (c) they may accept bills or pay cheques drawn by persons mentioned in (a) and presented by residents in India or Burma who became holders for value on or before 30th July, 1941.

2. The following accounts are exempted but are released for payments within the sterling area only:

Central Bank of China.

Bank of China.

Bank of Communications.

Farmers Bank of China.

The National Government of the Republic of China or any agency thereof.

For the time being the exemption also applies to the accounts in India of Chinese branches of authorized dealers in foreign exchange.

3./

3. Applications for private remittances to China should be refused. Commercial remittances may be credited in rupees or sterling to any account exempted as stated in Paragraph 2 or to a blocked rupee account of a resident in China.

4. The private accounts of Chinese residents in India are unrestricted.

5. The statement in Para. 2 that the accounts of the banks and concerns named therein may be released for payments within the sterling area means that transfers may only be made from these accounts to the accounts of residents in the sterling area or to another of the exempted accounts stated in that paragraph. Amounts may not be transferred from an exempted Chinese rupee account to any unexempted Chinese account or to the account of any resident in any other country outside the sterling area.

Yours faithfully,

(Sgd) G. Sulrahmanyam

P. ASSISTANT CONTROLLER.

Copy:bj:hr:10-2-41.

PRESS COMMUNIQUE

The Reserve Bank of India has issued instructions to all banks that accounts of all persons or firms resident in the Empire of Japan (Japan proper, Korea, Formosa, Karafuto, Kwantung Leased Territory, islands in the Pacific under Japanese Mandate) and Republic of China (Manchuria) or the accounts of all firms and companies incorporated therein or under the control of residents in these territories and operating in India shall be blocked. Banks have been informed they may honour their obligations under confirmed credits opened on or before the 26th July 1941 on behalf of residents in these countries and may also accept bills or pay cheques drawn by such persons provided they are presented by residents in India who became holders for value on or before the 26th July 1941.

Private remittances to the countries mentioned in the previous paragraph are no longer permitted and remittances required for commercial purposes have to be credited to blocked accounts.

Permission will be given on application, to persons or firms of Japanese nationality to draw reasonable requirements from their bank accounts for living expenses or in payment of wages.

Japanese banks are permitted to make payment in respect of contracts entered into on or before the 26th July 1941 and also to operate the accounts of customers resident in India and not of Japanese nationality.

RESERVE BANK OF INDIA,    }  
Central Office,            }  
Bombay, 26th July, 1941.   }

CIRCULAR NO. A.D. 55

To all Scheduled Banks.

Dear Sir,

Japanese and Manchurian Accounts.

Banks are advised that the following restrictions have been imposed by the Reserve Bank of India on the above accounts.

(a) the accounts of all persons or firms resident in the Empire of Japan (Japan proper, Korea, Formosa, Karafuto, Kwantung Leased Territory, islands in the Pacific under Japanese Mandate) and Republic of China (Manchuria) or the accounts of all firms and companies incorporated therein or under the control of residents in these territories and operating in India shall be blocked.

(b) Banks may honour obligations under confirmed credits opened on or before the 26th July 1941 on behalf of persons stated in (a).

(c) they may accept bills or pay cheques and drafts drawn by persons mentioned in (a) and presented by residents in India who became holders for value on or before the 26th July, 1941.

(d) all unconfirmed credits should be cancelled.

2. Applications for private remittances to places named in (a) above should be refused and commercial remittances credited to blocked accounts. All applications to credit blocked accounts will require the previous approval of the Reserve Bank and the full name and address of the beneficiary must be given in each case.

3. Permission may be granted to Japanese persons and firms to draw reasonable requirements for living expenses or payment of wages, with the prior approval of the Reserve Bank.

4. A copy of a communique issued by the Reserve Bank of India in the matter is enclosed for your information.

Yours faithfully,

for DEPUTY CONTROLLER.

October 1, 1941

Files

Mr. Dietrich

Reference is made to cable No. 343 dated September 4, 1941, 5 p.m.,  
from the American Consulate General in Hong Kong.

We have been advised by the State Department that the first number in  
the last line of this cable should read 4780,651, and not 43,780,651.

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## LEGATION OF SWEDEN

630 Fifth Avenue  
New York, N. Y.

October 1, 1941

Mr. L. Werner Knoke  
Vice President  
Federal Reserve Bank of New York  
New York, New York

Dear Mr. Knoke:

For your information I beg to quote below a telegram dated today, received from Sveriges Riksbank:

"RIKSRANKENS BUYING RATE FOR DOLLAR NOTES  
TODAY REDUCED FROM 4.15 to 3.90"

This change is caused by the present transport difficulties and the low rates prevailing in Switzerland for dollar notes.

Very truly yours,

(Signed) H. Magnusson

4.15 = .240963

3.90 = .256410

Buying rate for dollar cable transfers

4.10 = .238663

Copy:alm 10-6-41

CONFIDENTIAL

75

AO 020.1 (9-19-41)GD-F.

October 1, 1941.

Designation as Defense Aid Director.

Thru: Office of the Chief of Staff.  
//

To: Colonel Henry S. Aurnum, General Staff Corps.

Colonel Henry S. Aurnum (O-3784), General Staff Corps, now on duty in the office of the Chief of Staff, Washington, D. C., is designated as Defense Aid Director.

By order of the Secretary of War:

M. H. Dalley

Adjutant General.

## Distribution:

The Secretary of State.  
 → The Secretary of Treasury.  
 The Secretary of Navy.  
 The Under Secretary of War.  
 The Assistant Secretary of War.  
 The Chief of Staff.  
 Mr. Harry L. Hopkins, Lend Lease Administrator.  
 Mr. Wm. S. Knudsen, Office of Production Management.  
 The Chairman, British Supply Council in North America.  
 Budget Officer of the War Department.  
 Defense Aid Division.

CONFIDENTIAL

## TREASURY DEPARTMENT

76

## INTER-OFFICE COMMUNICATION

DATE October 1, 1941.

TO Secretary Morgenthau

FROM Mr. Dietrich

**CONFIDENTIAL**

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£ 71,000
Purchased from commercial concerns	£175,000

Of the latter amount, £125,000 reportedly represents proceeds of machinery exports.

Open market sterling held steady at 4.03-1/2. The only reported transaction consisted of £5,000 sold to a commercial concern.

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

Canadian dollar	11-1/4% discount
Argentine peso (free)	.2347
Brazilian milreis (free)	.0505
Colombian peso	.5775
Mexican peso	.2070
Uruguayan peso (free)	.4425
Venezuelan bolivar	.2700
Cuban peso	5/16% discount

There were no gold transactions consummated by us today.

The Federal Reserve Bank of New York reported that the Bank of Canada shipped \$2,432,000 in gold from Canada to the Federal for account of the Government of Canada, for sale to the New York Assay Office.

Spot and forward silver were again fixed in London at 23-1/2d and 23-7/16d respectively. The U.S. equivalents were 42.67¢ and 42.55¢.

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

We made two purchases of new production silver amounting to 500,000 ounces under the Silver Purchase Act. All of this silver came from Peru, and was bought for forward delivery.

The Federal Reserve Bank's report of September 24, listing deposits of banks in Asia with the New York agencies of Japanese banks, showed that such deposits totaled \$50,583,000, a decline of \$373,000 since September 17. Also reported were selected items from the statement of the Yokohama Specie Bank's New York Agency: the only appreciable change here was a decline of \$569,000 in U.S. Treasury bills and commercial paper which the Agency holds for account of banks in Japan and Manchuria.

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RESTRICTED

G-2/2657-220; No. 507 M.I.D., W.D. 11:00 A.M., October 1, 1941

SITUATION REPORT

I. Eastern Theater.

Ground: Strong Russian counterattacks at Leningrad continue.

Russians continue to hold western portion of Oesel (Saare) Island and Dago Island.

Russians continuing their strong defense at Melitopol and east of Poltava.

Air: D.N.B. dispatches said that strong formations of German fighters and bombers had penetrated the entire Russian front yesterday and attacked railway facilities and troop concentrations with destructive effect.

Moscow claims heavy Rumanian air losses in the Odessa area.

II. Western Theater.

Air: The British admitted strongest German air attack of recent days principally centered upon Newcastle.

British action was said to have resulted in large fires in Stettin and Hamburg. Coastal Command claims attacks on shipyards and oil depots at Nantes, and St. Nazaire was again bombed.

III. Middle Eastern Theater.

Ground: Native Ethiopian troops have for some days been harassing Italian forces in the Gondar area of Ethiopia.

Air: Air attacks on North Africa, Sicily and Sardinia were announced as renewed. However, no specific objectives were announced.

RESTRICTED

October 2, 1941  
11:05 a.m.

RE AID TO BRITAIN  
(Conference held in Mr. White's office)

Present: Mr. Bewley  
Mr. Keyes  
Mr. Coe  
Mr. Hicks  
Mr. Ballantyne  
Mr. Chance  
Mr. Robinson  
Mr. Brown  
Miss Kistler

White: We have a brief agenda and it shouldn't take us long to get through with it. You are getting that data that the committee asked for?

Hicks: Yes. Mr. Bewley and Mr. Chance will see me later.

White: What has been the progress on the transfer of plants? You remember the last time Sir Frederick Phillips said that they would go ahead with the details of that.

Do you know whether they have made any progress?

Bewley: No, what happened was that Phillips was going to speak to Mr. Jesse Jones about bringing in some more. It is now eleven billions, as I understand it, in addition to the fifty-five or seventy millions that is already under consideration. But as I understand, certain arrangements

- 2 -

had been made about the seventy million dollars.

Robinson:

Well, we have been keeping after these fellows and we have gotten to the point now where we have given them the figures on two of the larger facilities and every time that I get in touch with them they are working on them.

The Curtiss Wright people came in to see me a couple of weeks ago and had a talk about it. I called again yesterday to find out what it was, but nothing had been done. So I think two things ought to be done. One is that the thing ought to be speeded up on the things they are actually doing and the other is, the base ought to be considerably broadened.

In other words, they are only attempting to work on two out of eleven different things at once, and there is no reason that I can see why they shouldn't working on five or six of them at once.

White:

How much have you got to date actually?  
How much cash has actually --

Robinson:

We have gotten the ten powder facilities in.

White:

That is all?

Robinson:

That is all. Well, excuse me. We have been getting some on machine gun contracts, but those --

White:

Let's see, how much was that?

Robinson:

In facilities those were about twenty-four million. We haven't gotten it all back yet, but those I consider finished because it is just a matter of working out details, and

- 3 -

and that is coming back, and we count it as having come back.

- White: Have you received - what portion of that have you received, actually?
- Bewley: I am not sure what figure we have received.
- Robinson: There have been about three or four million come back. Two of the plants they are doing piecemeal in that they are passing over tools as they come in and on one of those two they turned over the plant as well.
- On the other two they are waiting until the plants are completed and they are going to do the whole thing at once.
- White: Then they have actually in cash some three or four million dollars?
- Robinson: Oh, yes, they have actually gotten some in cash. The things are signed and the procedure is worked out.
- White: And they have got about twenty-eight million --
- Robinson: That is going along.
- White: In the bag, so to speak.
- Robinson: Yes, definitely in the bag. There is no question. That is why I have never been thinking about that.
- Bewley: Memphis, how much is that?
- Robinson: Twenty-one million we have already gotten out of twenty-five. Really, I can say we are going to get twenty-four.

- 4 -

White: Well, that is forty-five ~~is~~ certain, of which you have already received twenty-two?

Bewley: About twenty-five.

Robinson: Now, there are two others.

Bewley: What about Vultee?

Robinson: Vultee, the contract with the Army has been signed and I am advised that we will get more money, which is about eleven million, within the next - oh, within three or four weeks. It just has to go through the mill in the Army and get the actual paying people to come through, so there is no reason why we shouldn't get that. That is eleven.

White: And you will get that all?

Robinson: We will get that all, I think. I don't believe there are any deductions for that.

Remington Rifle and Savage, which aggregate about fifty or more, look pretty good at the moment.

The Army has all signed the contracts up. That I am talking now, not facilities. I am talking product because Remington is one of the facilities that the Defense Plant is proposing to take over, but it hasn't gotten to it yet.

Savage is one of the ones that are new. Those I think you will get, maybe not the full amount, but we will get pretty nearly the full amount.

- 5 -

In other words, this chart that we had the other day - this chart that we had the other day that we presented is substantially the same in so far as the certain or almost certain column is concerned.

So far as the probable column which was the four - the facilities, fifty-five million, that is just as probable as it was, and no more probable, and no less probable. It is just no further along.

- White: Which fifty-five is that?
- Robinson: That is the eleven original companies. It cost them seventy-nine, estimated recovery at fifty-five.
- White: And that is still - no progress has been made on that?
- Robinson: Exactly where it was.
- White: Now, so far as that point goes, what do you suggest might be done to put increased pressure on that?
- Robinson: I think the only thing that can be done is to have Mr. Jones advised of it.
- White: To have Mr. Jones --
- Robinson: In his own organization, because that is where it sits.
- White: It is in his organization?
- Robinson: Yes.
- Bewley: Mr. Jones or the Ordnance?

- 6 -

Robinson:

The Ordnance has nothing to do with it. They have agreed and said "Sure" and they will give them the take-out letter.

White:

Mr. Jones has agreed in principle some time past. Therefore, it is a question merely of administering it somewhere down the line. Is it your feeling, based on your familiarity with the problem, that there is no reason why the thing shouldn't move faster?

Robinson:

I don't see any reason. There are two problems. One is, they have to check over the accounts. They have to send their engineers out, and the second is that there is a limit to their personnel. I suppose there is. And the number of things they can be doing at once. But, at the same time, no progress that I have been able to notice - they may have been doing something - has been made since our last meeting, which I believe was more than about a month ago.

White:

Let's go back further than that. How - they have had this under review, under examination --

Robinson:

About six months.

White:

For six months. Now, what portion of that six months, in your recollection, was taken up with determination and consideration of the higher policy? It wasn't six months when they first decided to do it.

Robinson:

It was about April, wasn't it? It was about April when Mr. McCloy had the meeting with Mr. Jones, and at that meeting I believe Mr. Purvis submitted a list of these companies. About April, approximately.

- 7 -

- White: Well, it is six months since it has been an administrative matter, and from your familiarity with it, you see no reason why it couldn't be done in a shorter time?
- Robinson: Well, you see, if we didn't have a prototype, then there might be some objection to it but Tennessee Powder, and the machine gun plants are perfect prototypes.
- White: Then it is a question of bringing this to the attention of Mr. Jones.
- Robinson: That is right.
- White: And we might ask Secretary Morgenthau to speak to Mr. Jones about it and see what --
- Robinson: As a matter of fact, if I recall correctly the last time we had it up at the committee here, that was suggested as the next move. It was left for Sir Frederick to speak to the Secretary.
- White: But I thought the Secretary was going to speak to Secretary Stimson with reference to that. --
- Hewley: I think that is right.
- White: So it is past that stage, and it may be necessary to call it to the attention of Mr. Jones, whether by the Secretary or someone else. And that if and when that is done there is every reason to expect that that fifty million dollars will be available. There should be no hitches there.
- Robinson: Not that I know of.
- White: So it is merely a question of getting it down. Well, that takes us through all the

- 8 -

transfer on the old program, and it is your feeling, Mr. Bewley, or is it your knowledge, that Sir Frederick felt the - that in view of the delay on the others there was no reason - no use in bringing attention to the other items, thirty-one million dollars?

Bewley: I think he felt we might make a little progress with the fifty-five millions before pressing the smaller additional cases. I think that was rather the feeling at the meeting, that we had better get some progress on the outstanding ones first.

White: I thought that you felt that they might go along all together, but in any case --

Bewley: He may have mentioned it to Mr. Jones, for all I know, but he didn't tell me.

Chance: If I may say so, the idea was that Sir Frederick should discuss it, at least in principle.

White: That is right.

Chance: In the hopes that the principle might at least be agreed and then the details follow along. That was the point.

Bewley: I don't know whether he spoke to Mr. Jones or not.

White: I see. Well then, in discussing this matter with the Secretary, if he does see fit to have someone take it up with Mr. Jones, he will confine himself to the earlier amounts, because we are not sure the other amount has been discussed.

- Bewley: I think that is right.
- White: The supply contract transfer program. First let me report on the items that the Secretary was to speak to Secretary Stimson about.
- Bewley: Yes.
- White: Assistant Secretary McCloy twice has urged or requested that he be given just a little more time before the matter be taken up.
- Bewley: This is the hundred millions?
- White: That is the hundred million dollars. And the last note was only a few days ago.
- Bewley: He was still asking for more time?
- White: Just a little more time this time. He is getting to be naturally a little more embarrassed about asking for it, but I don't know that the little more time will bring any results, but what it will do is, it will hasten the time at which Secretary Morgenthau will take it up with Secretary Stimson, so that in one sense there is no progress and in another sense, there may be something going on that we don't know about, but Assistant Secretary McCloy feels very keenly on the matter, apparently. Can you throw some light on that?
- Robinson: My information yesterday was that McCloy has finally given up and that he is proposing to write a letter --
- White: I see. Indicating that there are no funds available?
- Robinson: That they can't find the money to do these, and when he says "these", I think he means

the tank and tank engine items, which are pre-March 11, the aircraft items which are pre-March 11, and the approximately thirty million of tank items since March 11, which you may recall we thought there were forty million dollars worth in the Ordnance, but which has since disappeared.

White: That totals more than a hundred million, doesn't it?

Robinson: Yes, that is the forty - well, tank and tank engines, forty-four. Well, forty and seventy-four is about what we had in mind, plus that great big batch which we have left off this chart completely now, the hundred and eighty-odd millions.

In other words, we hoped that these tanks and tank engines, those two contracts prior to March 11, which were matching orders, which were forty-four, we hoped that something could be developed there, and also hoped that something could be developed in the thirty millions of tank contracts to replace the since March 11.

(Mr. Brown entered the conference).

So that problem seems to be very black.

White: That relates to the forty-four.

Robinson: Approximately seventy-four, yes, sir.

White: Now, there was thirty more than that. There was about --

Robinson: Well, there were some more airplane engine contracts placed since March 11 for about forty more.

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White: Yes, that made it a hundred and ten.

Robinson: About a hundred and ten.

White: Now, of those there is - the total of those are up to date out, on the grounds that there is not the money available?

Robinson: Well, I believe that is the ground, because I don't think there has ever been any objection in principle. I think the difficulty was that so far as the pre-March 11 group was concerned, that it was a matter of taking it out of regular Army Ordnance items. Not Ordnance, but Ordnance and Air appropriations, and they said they couldn't find that.

So far as the subsequent March 11 is concerned, there is nothing left in Lend-Lease.

White: Have you reviewed the situation sufficiently so that you would venture an opinion as to whether you think further examination might reveal items about which there is doubt as to their availability or not?

Robinson: Well, I of course only know what I am told when I talk to the people on this side, and I was told some weeks ago that the forty million dollars which Colonel Aurand was originally said to have earmarked for these take-overs since the March 11 contracts is no longer available for that purpose.

White: Yes.

Robinson: And I was told, as I say, yesterday, that Mr. McCloy is now of the view that it is not possible to dig up anything out of the regular Army Ordnance.

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- White: Well, that is the situation to date, and the next thing is, it is to be placed in the Secretary's hands.
- Bewley: My understanding is then that the Secretary will take up the matter with Mr. Jones and when Mr. McCloy says the time is ripe, he will take up the matter with Mr. Stimson, is that right?
- White: Whether he will take it up personally with Mr. Jones and --
- Bewley: Well, the Treasury will take it up with Mr. Jones' office.
- White: That is right, and make inquiries. I think that he will take this other matter up with Mr. Stimson on receipt of the letter.
- Brown: I should rather not go on record about the letter, because it is just what I was told.
- White: Then that information will be forthcoming in due time, but apparently the Secretary will have to take it up.
- Now, the Todd ship contracts. I understand, Mr. Brown, you definitely say they are out.
- Brown: I am afraid so, sir. I spoke to the Maritime Commission about it, and they felt that they would not be able to do it on the basis of leasing the ships with an obligation to purchase at the end of the lease, because that really amounts to a time sale, and they didn't feel that they were either legally authorized or - to do that, or should do it as a matter of policy.

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White: Well, the legal problem is something that I imagine is a question of fact. As a question of policy, do you feel that they have got a sound ground for holding that it would be unsound policy to make an arrangement of that character?

Brown: Yes, I do, because it is a straight financing proposition. I didn't say this to the Maritime Commission until I had heard what their decision was, but what it would amount to would be that they would use their appropriation to take over ships which the British were already getting under their own contracts, releasing those dollars to the British and then sell the ships back to the British again at the end of the period of time. So it is a straight financing operation which is not within the jurisdiction of the Maritime Commission, and I think their feeling in that respect is - I mean, if I had been advising them I would have --

White: I see. Well, let's approach it this way. Had these ships been oil burners there would have been no question about taking them over.

Brown: No, sir, because it would have been perfectly justifiable. The Maritime Commission funds are being used to buy ships which are and will be in addition to the American Merchant Marine, of a kind that we use, that fit in with our program and are consistent, and then it could have been leased to the British under the express and clear statutory authority.

White: And then they would have had these ships.

Brown: Then we would have had the ships, and had the kind of ships that were necessary.

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White:

Then let's raise this hypothetical question, because I don't quite see the whole argument of their position. Let us assume that they would have no use for oil burners after the war, as many oil burners as they have got. On grounds of policy now, not grounds of law, on grounds of policy do you think that they ought - they would be wise in taking a step which would give them oil burners which they couldn't use?

Brown:

I think that might perhaps be some question, but I would say it was an infinitely easier position to defend than the other one.

White:

But at any rate, if they knew definitely they couldn't use it on the ground of broader of broader policy and from the point of view - from the fiscal point of view of making expenditures on commodities which would be of no use to them, as against making an expenditure on a commodity which would have a salable value, it would seem to be something which they should take into consideration which might affect their decision.

Brown:

Definitely, but I think that their position with respect to the original proposal, which was based on the understanding that the ships were oil burners, was that they were willing to go along and help out to give this dollar relief and could do so in a way which they could reasonably defend. I don't think they ever would have initiated the idea in the first place if they had been left alone.

White:

Well, what I am moving toward is this thought, that it might appear that they are defending a course of action which would be more costly to the United States

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Government than some other course of action, provided this assumption holds, and we will want to examine that assumption in a moment, namely, that they will need all the oil burners that they are going to build and have built after the war.

Brown:

They are not defending the course of action, Mr. White. They are - because they are not going to do it and - but they were prepared to take the risk of defending that course of action, because they felt that they could go that far and not subject themselves to - not put themselves in an untenable position, but they felt that to take over ships of the type that they can't fit into their program at all, which are already available to the British Government, and then to turn them over to the British Government and have the British Government agree to reimburse them - or to buy them back, was so clearly a function that should better be performed by some agency like the RFC, that they didn't think they could go into that field.

- White: I am raising this question because I thought if you were at all impressed with that line of reasoning you might want to reopen the case with them, but I take it that your position --
- Brown: I would hesitate to because I got turned down so cold --
- White: Your position is then that they can defend their position, that they may or may not need those oil burners after the war and nobody can tell.
- Brown: Well, they aren't taking that position because the facts don't exist.
- White: But I say, therefore they may or may not need them and therefore they say we are getting something which we may need.
- Brown: Sure.
- White: Now, when you introduce the question of them getting something which they know they can't use, then they are on less defensible grounds in their argument, in their legal argument, though from certainly a broader perspective it seems far more dubious that they will need all the oil burning ships they would get.
- Brown: I think they are worried about the question, "Why did you do this thing at all?"
- White: I take it that you gave them the answer to that.
- Brown: Yes, but they appreciate the force of the objective we are trying to achieve here and I think they wouldn't want to be given coal burning ships and the proposal that

the British should buy them back again at the end of the emergency. They would not want to answer that question.

White:

You feel, then, that their opinion is sufficiently definite so that it is not worth while re-opening it?

Brown:

Well, I feel that -- yes, I do. I would hesitate to re-open it because I don't think they would like it a bit.

White:

Do you have any feelings on the matter, Mr. Bewley?

Bewley:

Well, obviously I am not competent to answer the point on this specific case. What we feel is that we need these dollars. Various ways were suggested and if this particular way is impossible, it is impossible, but it makes it much more difficult for us if each of these ways falls down in turn, which does seem what is happening because we are told on the other case that there aren't any dollars available to the War Department on the facilities. I don't say it has fallen down at all but to say, have I any views, I have. I would like to get the dollars somehow or other.

White:

I can appreciate that and I am wholly in sympathy with you. What I meant was whether you have any views in the particular transaction which might enable us to seek a justification for re-opening the case with them on the merits of the particular case and not on the pre-supposition of our entire interest in the case. I didn't know but what there might be some angle that had occurred to you that we might have overlooked.

- Bewley: I find it rather hard to answer in that particular case. But, as I say, it would be much easier if some of these things could go through at least.
- White: Well, I quite agree with you.
- Bewley: It is all of them falling down together which is so disappointing.
- White: Well, we will have to report to the Secretary that this is definitely out.
- Brown: I am afraid so.
- White: Which, as you say, may increase the necessity for pressure on other things. Were there any other developments that have occurred since the last meeting that you would want to raise?
- Bewley: I don't know - do you think we ought to bring up --
- Robinson: There is a point not related to that. There was one other thing which is also on the negative side. We had an idea that we could have taken over under the old Lease-Lend a comparatively large number of machine tool contracts which had been placed since March 11th. We thought they were going to be good because in the categories of the Lease-Lend Appropriations Bill the machine tool one didn't seem to have as heavy a drain on it as the rest and there seemed to be some money in it. Well, some of these requisitions have been put in. I don't think many of them have. But it has now been discovered that there is no longer any category of machine tools in

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the original Lease-Lend thing so I am afraid that is another thing that is out.

White:

How much did that total?

Robinson:

About two million, as I recall it. There were a great quantity of little ones which were all committed for since March 11th. We figured that the clear ones where there was no question of priority was about two millions. It is not put in the list, but it is one thing we were hopeful about.

Brown:

It may interest you to know that at the hearings on the Appropriation Bill which have recently been concluded, the question was specifically asked whether any of the seven billion dollars had been used to take over British commitments existing at the time of the original Lend-Lease Act and also further the statement --

White:

Pardon me, what was that?

Brown:

The question was specifically asked whether any of the Lend-Lease money had been used to take over British contracts existing at the time of the passage of the statute and also the gentleman stated, "And further it is not contemplated that any of this new money will be used to take over any British contracts, present or past."

Robinson:

Is that the question?

Brown:

That was the question, and we are at present working on the answer to that.

White:

The first part of that question was asked of Mr. Bell, if you remember.

Brown: Yes.

White: Mr. Bell did not answer it.

Brown: No, Mr. Stettinius answered it.

White: They have submitted a similar question in writing?

Brown: No, they just asked later on the same kind of question with respect to the new bill.

White: When you said you were considering the answer, didn't you give an answer at the time?

Brown: Yes, but you are always at liberty to correct your answers.

Robinson: Did that first question, Win, apply to commitments as well as before?

Brown: No, the second part of the question did. That is what bothers us. But you see that that point was still in the minds of the Congressmen.

Bewley: But is what you are saying that the procedure of machine tools particularly, placing - trying to get it under Lend-Lease with an interim commitment in order to be quicker, will not work in the future? If so, it will be extremely awkward on machine tools. I don't know that it is a matter --

Brown: No, I don't think we have committed ourselves in such a way that it would not be possible to work it.

(Discussion off the record).

- Brown: It is correct, as far as the seven billion is concerned; we have not used any of the seven billion to take over the British contract commitments existing on March 11th. Some contracts have been taken over which existed on March 11th but we used a billion three of the Army's own money, transferred out a billion three in those cases, and in the cases of other contracts the only ones that we have considered have been ones where there have been uncompleted negotiations at the time of the passage of the statute, although they may have ripened into a contract subsequently.
- White: Was there anything else that you had in mind?
- Bewley: Well, Mr. Patterson, as I understand it, argues that it is illegal to take out any contract.
- Brown: That is Major Patterson, not Judge Patterson. We have had disagreements with him before.
- Bewley: What is your attitude on that?
- Brown: In our opinion, it is legal for us to use all the seven billion dollars to take over British contracts if we want to, legal. . . But at the appropriation hearings on the first Appropriation Act, the Director of the Budget and Mr. Stinson gave an assurance to the committee that as a matter of policy it would not be used to take over --
- Bewley: Pre March 11th?
- Brown: Pre March 11th commitments. Now, as a matter of policy and to meet that moral assurance, we have taken the position that if you have a commitment on March 11th we can't help it but we see no legal obstacles; there is nothing in the statute that would prevent us from doing it.
- Bewley: What about these specific cases which Major

Patterson has raised?

Brown: Well, Major Patterson is just wrong.

Bewley: Well, how is the conflict going to be resolved?

Brown: Well, that is a matter which is now being taken up between the higher authorities concerned. We have a number of cases like that where people in the legal staffs down the line in the various departments have raised questions as to Lend-Leaseability and of course the responsibility for determining that question lies with us because we are the agency charged with administering the funds.

Bewley: And what you want us to do is just to do nothing?

Brown: Just let us know every time you get one of them and we will take care of it.

Bewley: I see, and you don't want us to do anything more? We have told you and that is all there is to it?

Brown: That is all you need do. We will take care of it.

Kades: Where is Patterson?

White: Is he in the Judge Advocate's office?

Brown: Yes.

White: Kades, do you want to say something on the tax convention?

Kades: I thought I might bring you up to date on that. The convention has been agreed upon by Justice, State and ourselves. Upon the concurrence by

the London authorities it can be submitted to the Senate for ratification. We are simply awaiting confirmation from London. Mr. Roseborough is in accord with us.

Bewley: Is it definite that it has to be ratified by the Senate? At one time the suggestion was made that it needn't be.

Kades: That is a possibility but - there is a legal possibility but as a matter of policy it was decided by the Secretary of State that it should be submitted to the Senate.

Bewley: I see.

Kades: Incidentally, in that connection I don't recall whether between the time we had our last discussion of the tax convention and now, the question arose as to the broadening of the convention to include Burma and the various dependencies of the British Empire. I think we did have it up as well as our own dependencies. In view of recent developments it has now been decided that we will limit it to the United Kingdom and the United States, Alaska and Hawaii, not including the dependencies or possessions of either the British or American Government.

Bewley: I can only add to that a brief telegram, the text of which asked London for a very early reply.

Kades: We are also coming in to a position where we will be submitting a Canadian tax convention soon. That is an additional reason why we thought this should be submitted, because the Canadian convention definitely should be and it would only raise a question if we submitted the one without the other.

White: You have here an item on disposal of trusts.

Kades: That was in connection with a letter that Mr. Bewley wrote you as to the reasons why the dollars hadn't been utilized through the sale of trust assets. I think we ought to have some additional information on that because on the basis of that letter alone it seems to me our position is weak. In the first place, only one trust is looked at and it all, of course, turns upon the nature and the conditions in the trust instrument. Also, if possible, I think we ought to have the opinion of counsel on that trust.

Bewley: English counsel or American counsel?

Kades: There was an opinion, as I understand it, from the American counsel to the trustee stating that the trustee could not invest in British securities. He must have rested that upon the terms of the trust instrument. We don't have either the trust instrument or his opinion. It may not be necessary to have both, but he might be wrong and it might be that the terms of the particular trust on which he was passing were peculiar and weren't the same as the terms of the other trust, and I don't see what basis there is for saying that if this trustee resigns the court wouldn't appoint an English trustee. If the beneficiaries of the trust asked the court to appoint a British trustee and the British trustee were willing to submit to the jurisdiction of the court, I don't see what possible objection there would be except that the present trustee obviously doesn't want to surrender a very lucrative trust.

Bewley: You surely don't want to see the terms - I don't know how many there are but it must run into thousands.

- Kades: Well, if - I don't know how large this one trust is that was --
- Bewley: Well, it was a big one.
- Kades: As I understand it, the Secretary took the position that if possible he would require that the direct investments in these trusts be sold.
- Bewley: Yes.
- Kades: Now, in carrying out that pledge, all that has happened is that one trust instrument has been looked at and on the basis of that one trust instrument it has been determined that none of the three hundred million dollars can be realized. Well, that is a very weak --
- Brown: Hasn't Childs got some thoughts on that subject, the legal rights and duties involved?
- Kades: I don't know. All I know is what was contained in Mr. Bewley's letter.
- Bewley: I thought it was generally agreed that trusts set up under American law could only be dealt with under American law. I thought that was accepted as a general view.
- Kades: There is nothing - I mean, there is nothing to indicate that under the particular trust instruments --
- Brown: Yes, but Chuck, as a matter of principle, what jurisdiction has the British government got over an American trustee appointed by an American court?
- Kades: None, but they have jurisdiction over the beneficiaries.

- Brown: But the beneficiary can't touch the assets, probably.
- Kades: But if the beneficiary - but the trustee can.
- Brown: Yes, but they have no jurisdiction over the trustee.
- Bewley: The trustees are all American.
- Kades: But this trustee puts it upon legal grounds, as I understand it, and says that he cannot invest in British securities.
- Brown: I don't see how that is relevant.
- Kades: Well, he indicates that he would if he could. I mean, I am just purely - I am basing everything I say upon the letter that Mr. Bewley wrote.
- Brown: Well, I haven't seen the letter.
- Bewley: The point in this case, Mr. Brown, was that we had gone to one of the largest of the trusts and in order to try and get dollars, the suggestion made was that they should sell out dollar securities and invest in sterling securities. The result naturally would be that the English control would get the dollars, which we could spend over here or what-not, but we were unable to get it to work. The trustees refused. But if Mr. Kades would like to write me a letter saying what further information you would like, I would be glad to get it.
- Brown: Are the beneficiaries here in this country?
- Bewley: No, the beneficiaries are in England.

- Brown: I see.
- Sawley: And then they wanted to appoint English trustees and it turned out that couldn't be done either. The trustees had to be American.
- Kades: Suppose, for example, the trustee wanted to borrow on terms of the trust - on the trust from the RFC, and the beneficiaries acquiesced. The court would be very reluctant.
- Brown: But, as I understand it, it was a question of - but as a matter of legal right, the Government could not compel the liquidation of these trusts or their transformation into dollars. I think that is the - if that be the fact, then our position, as stated in that memorandum that Mr. Bell submitted, is a perfectly tenable one, and regardless of what the amiability of the particular trustee or beneficiary may be. I mean, if some of the trustees willingly give up legal protection that they have, the British position is so much the better, but I don't --
- White: Can the beneficiary request a change in trustees?
- Kades: Sure.
- Brown: I think we can only ask the British Government to exercise whatever legal rights they have.
- White: Well, could a beneficiary request a change in trustees --
- Brown: But in ninety-nine cases out of a hundred you have got infants and possible unborn people whose interests have to be protected and --
- White: I have reference only to one trust fund which

I think Sir Edward Peacock remarked were desirous of selling and turning the dollars over. In other words, here you have a beneficiary who would wish to see it done but there stands in the way a certain trustee. Now, I may not have grasped the significance of what you are saying.

Brown: It is very frequently the case, sir, that all the beneficiaries, all of them who are alive, want to end the trust or change it, but the court won't permit them to do so.

White: The court won't permit them to do so on grounds which it considers --

Brown: There might be infants or their might be possible --

White: But the court could change trustees if the court saw fit under a given situation, clearly, couldn't it? If the beneficiary requested a change in trustees and the court felt that that change was desirable --

Brown: It could be done.

White: It could be done and a trustee could be appointed who would invest in British securities and --

Brown: But nobody could be compelled to do that.

Bewley: But as I understood, the advice which we were given by this trust, whatever the trustee wanted to do, the court wouldn't permit him to invest in British securities. That was the advice he gave. In certain circumstances the risk of British securities was such that no court would permit the investment.

- White: Wouldn't regard it as justifiable.
- Bewley: Yes.
- Brown: I think you would find that a very general holding, don't you?
- Kades: It all depends on the terms of the trust instrument.
- Brown: Even if we had unlimited authority in the trust he couldn't sell American Can Company and invest in a British --
- Kades: In a government bond? In a bond of the government of Great Britain?
- Brown: I think it is doubtful if he could do it at all.
- Kades: I don't say it is - I didn't say it was perfectly clear but he could ask the court. If the court authorized him to, he certainly would be protected.
- Brown: But isn't the issue whether the British Government is in a position to realize on these securities in the trust? That is the only issue.
- Kades: Well, that is not the issue that was presented to me. The issue that was presented to me --
- Brown: But that is the issue with which we are faced in making up this statement of the British dollar position. Is the British Government in a position to realize upon these assets?

- Kades: Well, the British Government is in a position to take over the beneficiaries' interest in a trust.
- Brown: Yes, I suppose so. I don't know over here whether they can or not.
- Kades: Well, over there, the beneficiaries are all in England, as I understand it.
- Bewley: Oh, I think so.
- Brown: But he could take the income.
- Bewley: We do take the income. Any income there is, we take the dollars and give the beneficiary sterling.
- Kades: Any income that gets over there?
- Bewley: Any income that gets over there, yes.
- Brown: In other words, they are already taking everything they can get.
- Kades: Well, are you - do you think they are limited to taking the income? Don't you think they can take the interest itself?

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- Brown: I don't think they can force the liquidation of the--
- Kades: But why can't they take the life interest?
- Brown: They could. All that means in terms of dollars is the income.
- Kades: But the anticipated income as well as the income--
- Brown: That is what they are doing.
- Kades: Have you taken the entire life interest? I didn't understand that.
- Brown: You are taking all the income as it comes along, aren't you?
- Bewley: Yes.
- Kades: But they haven't anticipated that. Why can't they take the beneficiaries' life interest itself? That can be appraised.
- Bewley: But what would be the advantage? I don't know whether we could or not, but what would be the advantage anyhow? We couldn't realize in dollars.
- Kades: Well, now, see there is the difference in the approach. You say they can't legally require realization in dollars, and I agree with you; but, as I understood it, it wasn't a question of what they legally could do. It was a question of what could be accomplished if the beneficiaries cooperated. Now, that was the problem that I was assigned by you (White.) Now, I agree that there is nothing that the British Government can't legally require an American court to change trustees or require the shifting of the investments in the British securities. There is no problem there at all.

That is not - the point though, I understood that what you wanted to accomplish, if possible, was the realization of the trusts in dollars.

White:

Why don't we leave the question this way. I think possibly enough has been said to indicate that the lawyers feel, or at least our lawyers feel, that they are not justified in making the definite statement that they can be, and that is why we have changed it to, they may not be. The next step would be a further examination to see whether they would want to alter that opinion in all cases or in none of the cases or in some of the cases.

Whether that further investigation is desired would be a question which I should like to ask the Secretary. He might feel that even if--

Brown:

My only point is that I would just like to suggest that it probably wouldn't be worth a candle. The trouble that would be involved--

White:

That is pre-judging the case.

Brown:

You are getting a lot of legal opinions you have to pay for and spend dollars for. It would be a pity.

Kades:

Well, they have already got the opinion, as I understand.

Brown:

Only in one case.

Kades:

Well, the one opinion that you refer to in the letter, I don't know--

Bewley:

I would be very glad to leave it. If you will write to me and ask for any further information you want, I will see what I can do.

White:

Let's leave it this way. I am not quite certain as to whether or not there hasn't been a changed status and why we should be interested in pursuing this any further is something I want to check with the Secretary. The only thing that we wanted to get from the lawyers to protect us was to be able in our statement to say either they are not or they may not. The Legal Division is not certain, and therefore they have advised us to say, "May not."

Now, whether in the light of that the Secretary wants to pursue the investigation any further is something I would want to check with him. He may well say, "Well, it is something that we are not interested in beyond this point at this time, though we may have been interested - may be interested at some time in the future." And if he is not interested at this time, we will just drop it. So we will leave it that way. Therefore, you will not pursue the investigation unless I get a request from the Secretary, but in any case, if we ever decide, that is, the Treasury, as to whether or not these are available, we shall also reply until we have further information that they may be.

Bewley:

Yes.

White:

Is that--

Bewley:

We may say, "They may not be."

White:

They may be or they may not be. I think that is what we did say, and we would repeat that.

So as to a bid by the demands of our Legal Department whom we have asked and who have given us that answer, we have no other alternative. Is that satisfactory?

Kades: They may not be.

White: Now you have asked another question here, Mr. Kades. Do you want to state it yourself?

Kades: Suppose I state it. I had a call from the Procurement Division. They said they had received - Brown may be more familiar with this than I am in view of the fact that he has been down at the hearings - that they had been criticized for purchasing from companies that were British owned, and then lend-leasing the articles which were obtained from those companies to the British. The questioner apparently thought that the British-owned companies should be willing to take sterling and then it wouldn't be necessary to have those items come under the Lend-Lease Act. He did ask for a list to be submitted, which we had submitted of those purchases which we made from all the British-owned or controlled companies, and I thought you ought to know about that. That is simply informative.

White: Perhaps I know a little more about it or a little less, I am not sure. I think it was I who asked for that list on the basis of the question which Congressman Scrugham asked. I thought that it might be possible, in the light of what Cliff Mack told me at first, that there might be only one or two on the list and we might ignore it. He said he would investigate it, and he thought there were more. I said, "Well, might you give me a list on them?" which he did.

Now, since the Congressman hasn't asked us, to my knowledge - hasn't asked us officially for that, I think we can ignore it. If I am mistaken, then we will have to pursue the question further. If he has asked it, in

any case there is an appropriate economic answer to that.

Brown: Oh, sure, Mr. Bell covered that very thoroughly.

Kades: I simply wanted you - I didn't know you were already informed of this. But I got from Manning, the Chief Counsel of Procurement, he thought that Congressman Scrugham had asked for the list.

White: I will recheck on that.

Brown: I went - unless he asked Mr. Bell, because I went through Mack's testimony very carefully without - with that in mind, and there is no request and no promise for that list.

Kades: I see.

White: And there was a request and a promise that that list would be given to me. The request came from me based on something that Mack called me up about, so we will recheck on that.

Kades: Well, here is the original of the list, so I will hand it to you.

White: We will recheck on it as to whether or not that list was requested by the Committee and whether or not an answer is called for.

Kades: Well, all that Manning knows he got from Mack, you see. He wasn't there.

White: If an answer is called for, we will make one in terms of the list and also in terms of an explanation.

Brown: It would only be in connection with Mr. Bell's

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testimony because I am sure--

- White: No, there is nothing in Mr. Bell's testimony that calls for it.
- Brown: And there is nothing in Mr. Mack's.
- White: You are positive? Then the only thing that remains is for me to check with Mack as to why he gave me this list, and he will probably tell me because I asked him.
- Bewley: Do you feel that we ought to try to determine what steps are necessary?
- White: I don't think it is a matter that rests with yourselves so much as with the Procurement Division.
- Bewley: We put in a requisition to you, and you put it out to the lowest bidder, I think.
- White: I don't think it rests with yourselves, but it is a question as to whether or not the Procurement Division in purchasing goods from the Dunlop Tire Company should say in following the line of thought of the particular Congressman who asked the question, "Now, you are a British concern. Hence, there is no reason why we should pay you in dollars. We will pay you in sterling." The obvious answer to that is--
- Bewley: All costs are in dollars.
- White: And that the profits were already accrued.
- Brown: And it happened that the particular company we discussed had lost money for the last several years, as Mr. Brown pointed out.
- White: Fortunately we had investigated that.

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- Kades: If it is the same company I think you have in mind, we have had some inquiries about the purchase of that, the stock of that company, in the event it is placed by the RFC.
- Brown: That is the same source, I am quite sure.
- White: They are anticipating a boom in business for certain reasons, and their interest was centered not so much on their past performance as on the value of the concern in the light of their future performance, but I don't think we need do anything about this yet. That takes up the three points which you had in mind.
- Kades: That is right.
- White: There has been some discussion by the Secretary on the matter of British dollar expenditures here outside the lend-lease. Are there any figures that you have with any significant break-downs of the dollar expenditures which are being made here outside the lend-lease.
- Bewley: What type of expenditures do you mean?
- White: Anything.
- Bewley: Everything?
- White: Outside the lend-lease and outside of the - you remember that there were a list of items - there were some expenditures that you were going to make in dollars provided they were under a certain amount.
- Bewley: Oh, we give you those regularly.
- White: Now, I am wondering whether there are any dollar expenditures by - by the British peoples outside of lend-lease.

- Bewley: Oh yes, I think there are a certain number of things bought here which are paid for in dollars which we don't know anything about.
- White: And there isn't any way that has developed since we last spoke of it in which you could obtain that?
- Bewley: I am sorry, I didn't know you asked for it.
- White: We spoke of the desirability of getting it sometime past, and the answer was that there was no way of analyzing those.
- Bewley: At that meeting, I wasn't there. I didn't know that.
- White: There had been no developments to your knowledge?
- Bewley: I haven't thought about it at all. We ought to be able to give it to you in bulk. Whether we can give it to you in break-downs is another matter. But we ought to be able to give it to you in bulk.
- White: If we could get--
- Bewley: Of course you get the bulk results.
- White: Yes, we get them - our figures of June on the exports to the British Empire - we have just got June. We didn't know about that - that there were some developments in that direction which gave the more nearly current picture of the dollars which you were permitting the individual to expend.
- Bewley: I will look into that. I didn't quite know, but I will certainly look into that and find out.

- White: One of the difficulties of our figures on our exports is that we have them including all items under Lend-Lease and elsewhere, past contracts and other matters, and in order to segregate those into the categories that we are interested in from the point of view of value, we find it almost an impossible task, and the Secretary is of the opinion that we have them, and he feels that we ought to be able to get it.
- Bewley: You get all the Supply Council figures, don't you? You get them regularly.
- White: We get the Supply Council figures, but we don't get the others except as they appeared in this recent estimate.
- Bewley: Yes, I see. Well, I will see what I can find out about that.
- White: And I should like to be able to tell him, if it were possible, that in the month of August the U. K. expended outside of the British Supply Council so many dollars. Also, if that is a large amount, some break-down, some rather general break-down. Now, I don't know what your machinery is there.
- Bewley: It seems as though we could keep track of these things. I don't know how well we could give you that.
- White: I should imagine that somebody gets permission to spend dollars.
- Bewley: Oh, yes, but then you have hundreds and thousands of E and D1 forms, as they are called, drifting into the banks of England. It takes a lot of time.
- White: Well, I don't know, but I am wondering whether

somebody keeps track of the total.

Bewley: Somebody keeps track of the total, and we know the total number of dollars lost, of course.

To give you a picture of our dollar and gold balances, which does in fact show - it doesn't show what countries it has been spent in.

White: It doesn't show anything in relation to this. We know the net figure, but it doesn't enable me to answer the Secretary's question, "How much is U. K. spending outside of the British Supply Council?" The answer to that I don't know, and I haven't the slightest idea.

Bewley: I don't either, but I will do my best.

White: If we can get that, we might avoid further questioning on his part as to why we can't get it.

Bewley: Yes.

White: Now, there is one other item, possibly, that we might pass over quickly and that is a report of the conference of the Dominion representatives on their requisitions. Is there anything that you have made progress on?

Hicks: I believe Mr. Brown was going to tell us of that.

Brown: I beg your pardon?

White: On the conferences with the Dominion representatives?

Brown: Yes, we have had a number of talks with the

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Australians and the people from New Zealand and - I don't think any from South Africa. We have one man now whose sole responsibility is to deal with Dominion matters and who is available for consultation by Dominion representatives in advance of the filing of a requisition so that they can know pretty definitely whether the thing will be eligible under the Lend-Lease or not. I hope that is going to be - and we are always formulating - have unofficially formulated the general set of principles as to what we feel is broadly eligible and broadly not eligible for Lend-Lease, which serves as a working guide which we hope will be helpful.

White: And that applies to Australia, New Zealand?

Brown: And in South Africa we just haven't had any talks on that, I don't think, have we?

Callantyne: No, you haven't. India has been in, and, as a matter of fact we have told them of what you have done. They are immensely pleased to have someone to whom they can go directly and get that special help that they are getting from Smith.

Brown: And then this morning we had a talk on various steel requisitions dealing with the Crown Colonies and so forth, and we are trying as much as possible to talk over any doubtful case beforehand and get it cleared so that instead of having a whole requisition come in with one thing in it that is not quite right, we can have it all right before it comes in. It will save a lot of work, I think.

White: Well, the only item left then is the requisitions which you have.

Reyes: Yes, I have a report on those. I also have

a report of dollar commitments. Here are the dollar commitments since the last meeting. It is broken down.

White: Well, you can leave this set here?

Keyes: Yes.

White: These are the - are there any items here, Mr. Brown, that you wanted to raise for discussion, any doubtful items?

Brown: No, those have all been cleared with - those are all sheets we have talked about, Alex, aren't they?

Keyes: Yes.

White: And you are satisfied that there is nothing--

Keyes: I think Mr. Bewley is satisfied.

Bewley: Yes, I think so.

White: This covers all the time?

Keyes: The period since the last meeting, that is right.

White: Is there anything else that you want to raise?

Bewley: I would just like to ask Mr. Brown, as I see him there, whether we can get any position soon about the tax on copper?

Brown: Well, I am afraid I am not quite up to date about that. As I understand it, there are about three different ways the thing can be handled, any one of which is a question of deciding which is the most feasible. You apparently do not want to pay the money to get it back by drawback because it would tie it up three or four months anyway.

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- Bewley: That is right. My instructions are that we want to avoid that if we possibly can.
- Brown: Well, it is something that we feel we can take care of under Lend-Lease. We don't like to do it because that means that just that much money is taken out of the appropriation which could be used to purchase some other article, but basically that choice is yours, of course. We have one further thing, we were seeing if we could shift the whole procurement to the Navy, and hand that article to the Navy and see if we could get it under the Navy statute.
- White: How much is involved?
- Brown: Two hundred fifty thousand dollars.
- Bewley: This is copper which we are handing over without payment to be used in Lend-Lease articles to be eventually handed back to us.
- Kades: We wrote a letter to Justice on that in which we indicated that it was handled through the Navy route, that the duty would not be imposed.
- White: Well, that is all I have unless someone else has anything.
- Do you have anything, Mr. Brown?
- Brown: I have nothing, sir.
- Kades: I would like to translate that tax convention into dollars in view of the fact that we have been talking about dollars that we weren't getting. That is supposed to mean thirty million dollars.
- White: In how long a period?

Kistler: For a year, isn't it?

Kades: Well, the British estimated that it would cost thirty million dollars in the event that the tax convention did not--

Bewley: That is on the contracts outstanding, I think, isn't it?

Kades: Where deliveries have not yet been made.

Bewley: Yes.

White: So the longer the tax convention takes, the smaller the sum?

Bewley: The smaller the sum, yes.

Kades: It covers real, personal property, and also transaction taxes.

White: How long do you think the convention will take before it becomes - before it is effective?

Kades: It is simply a question of the time - it becomes effective the day after ratifications are exchanged.

Bewley: Would ratification take long?

Kades: I don't know. I shouldn't think it would take long. It has to go through the Senate, and I think it has to be ratified on your side, too.

Bewley: I don't know.

Kades: I don't know.

White: Well, the thirty million is melting away.

Kades: Yes.

White: Every month reduces that substantially.

Kades: But it has melted away so far only about a million dollars or two million dollars.

White: All right, gentlemen.

Kades: I will do my best with the Senate. (Laughter)

Agenda for 11:00 o'clock Meeting  
Thursday, October 2, 1941

1. Plant transfer program
  - (a) Progress on transfer of old program,
  - (b) Progress on new \$31 million program.
2. Supply contract transfer program.
  - (a) Todd Ship contracts,
  - (b) Other developments.
3. Report of conferences with Dominion representatives on their requisitions.

EH:rel  
10/2/41

TREASURY DEPARTMENT  
INTER OFFICE COMMUNICATION

124

DATE October 2, 1941

TO Secretary Morgenthau  
FROM Mr. Kamarcik

Subject: Airplane Deliveries to the British

Summary

1. The latest statement received reports the shipment of 41 planes to the British. All of these, except two Douglas Boston bombers to the Middle East, were destined for England.

2. Last week the first of the new model of the heavy four-motor Consolidated Liberator bombers was flown to England.

3. The first Glenn Martin Baltimore medium bomber is reported as shipped in this latest statement. The Martin 127 Baltimore is a two-motor bomber and a cousin of the Martin 167 Maryland. It was specifically designed, however, to R. A. F. requirements and will probably supersede the Maryland.

Division of Monetary  
Research

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Airplane Shipments to the British  
(From February 1 to September 27 by air  
January 11 to September 6 by sea)

Table A. - Shipments by Area.

	Latest Week	Total Reported To Date	
<u>To the United Kingdom</u>			
Light and medium bombers	35	915	
Heavy bombers	1	44	
Naval patrol bombers	0	73	
Pursuit	<u>3</u>	<u>67</u>	
Total to United Kingdom	39		1,099
<u>To the Middle East</u>			
Light and medium bombers	2	202	
Pursuit	<u>0</u>	<u>516</u>	
Total to Middle East	2		718
<u>To the Far East</u>			
Light and medium bombers	0	18	
Naval patrol bombers	0	9	
Pursuit	0	145	
Trainers	<u>0</u>	<u>55</u>	
Total to Far East	0		227
<u>Totals</u>			
Light and medium bombers	37	1,135	
Heavy bombers	1	44	
Naval patrol bombers	0	82	
Pursuit	3	728	
Trainers	<u>0</u>	<u>55</u>	
Grand Total	41		2,044

Division of Monetary  
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Table B. - Shipments by Types

	Latest Week	Total Reported To Date
Bell Airacobra	3	58
Boeing B-17	0	21
Brewster Buffalo	0	145
Consolidated Catalina	0	82
Liberator	0	22
Liberator II	1	1
Curtiss Tomahawk	0	516
Douglas Boston I	0	1
Boston II	0	72
Boston III	8	240
Glenn Martin Maryland (Model 167)	0	150
Baltimore (Model 187)	1	1
Grumman Martlet II	0	9
Lockheed Hudson I	0	1
Hudson III	28 *	257
Hudson IV	0	18
Hudson V	0	344
North American Harvard II	0	55
United Chesapeake	<u>0</u>	<u>51</u>
Grand Total-All Types	41	2,044

\* One reported overdue at destination. One reported crashed at Dundalk.

Table C. - Plane Deliveries to the British by Weeks

Week Ended	Light and Medium Bombers	Heavy Bombers	Naval Patrol Bombers	Pursuit	Trainers	Total
Feb. 8*	22	-	3	-	-	25
Feb. 15*	39	-	-	100	-	139
Feb. 22*	35	-	-	27	-	62
Mar. 1*	7	-	5	25	-	37
Mar. 8*	16	-	3	10	-	29
Mar. 15*	26	1	4	-	-	31
Mar. 22*	17	-	2	22	-	41
Mar. 29*	25	-	3	18	-	46
Apr. 5*	21	-	7	73	-	101
Apr. 12*	21	2	2	27	-	52
Apr. 19*	20	3	4	5	-	32
Apr. 26*	23	2	3	-	28	56
May 3*	61	1	2	15	27	106
May 10*	36	1	8	10	-	55
May 17*	61	13	7	19	-	100
May 25*	30	10	-	25	-	65
June 1*	28	5	5	21	-	59
June 8*	37	2	7	-	-	46
June 15*	26	1	4	20	-	51
June 22*	28	-	4	52	-	84
June 29*	45	-	1	50	-	96
July 6*	19	-	3	20	-	42
July 13*	34	-	3	48	-	85
July 20*	41	-	1	32	-	74
July 27*	45	-	-	24	-	69
Aug. 3*	45	-	-	11	-	56
Aug. 10*	53	1	-	15	-	69
Aug. 17*	49	-	-	12	-	61
Aug. 24*	36	1	-	11	-	48
Aug. 30*	44	-	-	5	-	49
Sept. 6*	29	-	1	4	-	34
Sept. 13*	34	-	-	17	-	51
Sept. 20*	45	-	-	7	-	52
Sept. 27*	37	1	-	3	-	41
	<u>1,135</u>	<u>44</u>	<u>82</u>	<u>728</u>	<u>55</u>	<u>2,044</u>

\* The date given is for shipments by air. Shipments by water start three weeks earlier. That is, the statement reporting the shipment of planes by air for the week ending September 27 would report the shipment of planes by water for the week ending September 6.

October 2, 1941.

MEMORANDUM FOR THE SECRETARY'S FILES

A meeting relative to the administration of Executive Order 8389 was held in Mr. Foley's office at 4 p. m. on October 1, 1941, attended from time to time by the following:

Messrs. Foley (Chairman), Pehle, B. Bernstein, Lawler, White, Dietrich and Timmons for the Treasury; Messrs. Acheson, Fisher, Luthringer and Miller for State; Messrs. Shea, Kreeger, Jurenev and Swidler for Justice; Mr. Knapp for the Board of Governors of the Federal Reserve System; and Messrs. Knoke and Kimball of the Federal Reserve Bank of New York.

Mr. Foley read to the meeting a letter received from Mr. Marshall of the New York State Bankers Association, stating that the Association was most appreciative of the fact that the Treasury had sent Messrs. Towson and Murphy to explain freezing control and Form TFR-300 to the recent meetings of the Association held throughout New York State. Mr. Foley said that plans were presently being developed to bring representatives of the other Federal Reserve Banks to Washington to formulate a program for similar meetings to be held in other Federal Reserve Districts.

Reference was made to application No. NY 253863 filed by the Socony-Vacuum Oil Company to purchase 15% of the stock of the Maywood Chemical Company against payment of part of the blocked reichmarks balance of Socony-Vacuum's subsidiary in Germany. Such stock is presently owned by Mrs. Amalia Janner, a resident of Germany. If the transfer is allowed, Socony-Vacuum proposes to sell such stock to Emory University and credit the proceeds of the sale (approximately \$300,000) to its German subsidiary in reduction of debt. This application was previously denied by this Committee, and the only difference between the old and the new application is that it is now proposed to place the proceeds of the sale in a blocked account. It is stated, however, that such blocked account shall at all times be the property of the Socony-Vacuum Oil Company. In view of all the facts and circumstances, and the general policy of this Committee in regard to similar cases, it was unanimously agreed that the application should be denied.

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An application filed by the General Dyestuffs Corporation to purchase 1,500,000 shares of the stock of General Aniline & Film Corporation, such stock constituting control of that Corporation, from the Internationale Gesellschaft fur Chemische Unternehmungen A. G. was considered at length by the Committee and was unanimously denied.

Mr. Bernstein reported that Mr. White, the New York State Superintendent of Banks, will be in Washington tomorrow morning to discuss with the State and Treasury Departments the question of the solvency of the Yokohama Specie Bank.

Mr. Bernstein also submitted to the Committee a statement of the policy which has been adopted with respect to reports of patents and patent licenses on Form TFR-300. A report of all licenses under American owned patents issued by the United States is not to be required merely because one of the licensees is a foreign national. It is sufficient that a report be required merely of such licensees who are nationals of a foreign country. A report on Form TFR-300 is not to be required of American owned patents where the sole national interest arises by virtue of issuance by a foreign country. A report on Form TFR-300 will not be required with respect to licenses under American owned patents issued by a foreign country. However, reports on Form TFR-300 should be made of all contracts existing between American corporations and foreign nationals by which any rights would accrue under American owned patents taken out in foreign countries, and any agreements providing for the interchange of technical data, know-how, or otherwise.

Mr. Pehle referred to a recent visit from Mr. Nishiyama, the Japanese Financial Attache, who has proposed two methods of payment for the oil which Export Control will license for shipment to Japan. The proposal is that the oil will be purchased either (a) by shipping gold from Japan to the United States or (b) by the import into the United States of United States currency from Japan and/or China. It was agreed by the Committee that it should be made perfectly clear to the Japanese that the Treasury stands always ready to buy gold from any source. However, the

question of the disposal of the dollars resulting from such sale is a question which comes within the purview of this Committee. Mr. Acheson said that Secretary Hull has again indicated to him that he does not want any clear statement made on the question of oil exports to Japan, but rather prefers that a direct answer be delayed as long as possible. In view of this, Mr. Pehle suggested that Mr. Nishiyama should be told that the Committee has his last proposal under advisement. The Committee agreed to this suggestion.

Mr. Pehle informed the Committee that approximately 100 applications are pending before the Foreign Funds Control to send merchandise to Japan. The largest items involved are cotton and fur waste. It was agreed by the Committee that applications to export merchandise to Japan, except petroleum products, should be denied.

Mr. Bernstein mentioned that a small group in the Treasury has been working on a memorandum which sets forth ways in which increased economic pressure can be brought to bear on Japan if such action seems desirable.

Mr. Pehle raised with the Committee a proposal to amend General License No. 32 so as to require that remittances to all blocked countries be made either by the purchase of the necessary foreign exchange from a licensed seller or by deposit of the dollar amount of the remittance in a blocked account. Remittances to France and French Colonies, Japan, China, Portugal, Sweden, Switzerland and Spain are presently being effected in this way. It was pointed out that the present General License No. 32 allows Germany and Italy to collect large amounts of free dollars which they can then transfer to South America or use for undesirable purposes in this country. Mr. Acheson said that he would like to have a memorandum explaining the meaning of the proposed change. Mr. Miller is to prepare such a memorandum.

Mr. Howard Smith, Vice President and Treasurer of the American Express Company called on Mr. Pehle today and said that the American Express Company has a chance to sell its building

in Berlin and receive payment for it out of the blocked account of the Banque de Paris et des Pays Bas, Brussels. It was unanimously agreed by the Committee that this application should be denied.

It was proposed by the Treasury Department that the present General License No. 42 be modified by issuing a General License No. 42-A, which will license as generally licensed nationals all individuals who have been residing in the United States at all times on or since June 17, 1940, but who have not come within the provisions of such General License only by reason of the fact that they were not domiciled here. The Treasury has ruled that persons on visitors visas cannot be said to be domiciled in the United States. The banks which release accounts under General License No. 42-A will be required to submit reports indicating each account so treated. If it is found that any undesirable accounts are being released such accounts can be excluded from the operation of General License No. 42-A. The Committee agreed that this license should be issued.

Mr. Acheson reported that it was the view of the State Department that the pending application to transfer \$300,000 to the United Kingdom Continental Corporation in reimbursement for a shipment of food from Turkey to Greece paid for by such Corporation should be approved. It was agreed that three other applications, two involving the transfer of funds to Switzerland for the purchase of food and medicines for Greece and one involving a similar shipment to Belgium, should be denied.

Mr. Acheson said that the German, Italian and Japanese newspaper correspondents in the United States are complaining that they are not receiving funds. In the case of the Japanese correspondents, payments to them have been licensed but the funds for such payments would have to be provided out of the account of the Yokohama Specie Bank and such payments are not being permitted pending a study of the solvency of such institution. This matter will be examined with a view to seeing if funds can be provided from some other source.

Mr. Acheson read to the Committee a letter from Mr. Noel Hall of the British Embassy inquiring whether the Hollandsche Bank Unie has been asked to follow the same policy

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as American, British and Canadian banks will follow with regard to persons or firms on the Proclaimed List and the Statutory List. The Minister of Economic Warfare in London has also informed Mr. Hall that they are taking steps to request the Societe Generale and the Banque Italo-Belge to follow the same instructions as have been given to American and British banks. It was agreed that this matter should be brought to the attention of the Dutch Legation with a request for cooperation.

Mr. Kreeger said in checking through a number of reports filed under General License No. 72 it had been found that several patents taken out by Germans had been assigned to I. G. Farben. Mr. Kreeger inquired if there was any way in which the issuance of these patents could be delayed. Mr. Bernstein pointed out that it would be unwise to suspend the operation of the General License at this time, since no program for dealing with such patent problems had as yet been adequately worked out and to suspend the issuance of the patents might prematurely arouse public opposition from those who fear regulation of patents. Mr. Bernstein suggested that the matter be referred to a sub-committee for careful study and that Messrs. Kreeger and Murphy should discuss the problem with the Office of the Commissioner of Patents.

Mr. Acheson mentioned the fact that it might be desirable to exempt foreign service officers from the necessity of having to report on Form TFR-300. It was agreed that the Treasury should announce this ruling in a public circular.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

STRICTLY CONFIDENTIAL

DATE October 2, 1941

TO Secretary Morgenthau  
FROM Mr. Klaus

After consulting with FBI, and largely on the basis of the newspaper article which you gave me, an instruction was issued yesterday, October 1, by Mr. Foley, blocking the accounts of Anastasi Andre Vonsiatsky and his wife. This article added to FBI's file, I am informed, enough material concerning Vonsiatsky's purpose to move FBI to present once again to the Department of Justice the proposition of taking criminal action against Vonsiatsky.

Keep me informed. Samuel Klaus

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

134

DATE October 2, 1941.

TO Secretary Morgenthau  
FROM Mr. Thompson

In your memorandum of October 1, you ask if we have a Speakers' Bureau and suggest that we ought to have somebody.

By Treasury Order Number 1 of November 20, 1933, it was ordered that "all statements to the Press or to the public through interviews, speeches, or public addresses by any officer or employee of the Treasury Department shall be submitted before release for approval by Mr. Herbert E. Gaston, Assistant to the Secretary."

Mr. Gaston saw that there was a rigid compliance with these requirements. He arranged for memoranda to be sent to him of any speaking engagements accepted by any official or employee of the Department, it being indicated in each instance the time and place of the address and the name of the organization under whose auspices the address was to be delivered.

When Mr. Gaston became Assistant Secretary, Mr. Duffield was charged with these responsibilities. Subsequently, it became the duty of Chick Schwarz. I think that Chick should see that the prescribed procedure is followed, although it might be that you would want the order amended directing Mr. Kuhn to handle requests for speakers and matters relating to public addresses, leaving to Chick the responsibility as to all other public relations matters.

*Ym*

ADDRESS OF SECRETARY MORGENTHAU  
DELIVERED BEFORE THE CONVENTION OF THE  
AMERICAN BANKERS ASSOCIATION

CHICAGO

October 2, 1941

Three weeks ago, in a speech at Boston, I said that we were in the early stages of a serious price inflation, and that we must deal with the danger at once. I said then, and I should like to repeat it at the very start of this talk today, that if we do not check the spiral of rising prices, and check it now, the consequences will haunt us and our children for years to come.

I outlined then a twin program for fighting inflation, on the one hand by reducing excess purchasing power in the hands of the public, and on the other hand by increasing the supply of goods, like farm products, which do not compete with the over-riding needs of our national defense effort.

I said then - and I feel very deeply about it - that it was "sheer folly" for the farmer to seek higher prices for his crops at this time, for labor leaders to seek continual new increases in wages, or for landlords, businessmen, bankers, or any group to exploit the present emergency for selfish gain. And I asked for the understanding and support of 130 million Americans in fighting the evil of inflation by every means in our power.

There is no need to tell this audience of bankers of the need of common effort, on the part of every group and every individual in the community, if inflation is to be averted.

You have shown abundantly in the past year that you are conscious of your duties and your responsibilities to the country. You have given magnificent help, and given it unselfishly and cheerfully, in the selling of Defense Savings Bonds and Stamps. You have given further help in the sale of tax anticipation notes which make it possible for every taxpayer to meet next year's heavy tax bill more easily. You have cooperated willingly with the Treasury's control of foreign funds, even though it interferes with the free handling of your business affairs and subjects you to many complicated regulations and questionnaires.

In all these and other ways you have been such real partners of the government that I am very glad to be with you this morning, to thank you personally for all that you have done.

But the most important task of American bankers lies immediately ahead, and it is a broader and bigger task than any you have yet been called upon to perform. That is the task of doing everything in your power, not only as bankers but as influential and respected leaders in your communities, to fight this evil of inflation wherever it rears its head.

Many of you will remember, from your own experience of twenty-five years ago, that inflation is just as damaging to bankers as to farmers, wage earners or businessmen.

We now know that the doubling of bank loans and investments from 1916 to 1920, and the resulting doubling of deposits in the same five years, contributed to the great increase in prices which brought such hardship to American consumers and such disastrous after-effects to American farmers.

We now know that the inflation of a quarter-century ago, with all of its injustices and dislocations, could to some extent have been avoided if the Government of those days had acted more promptly, if it had taxed more heavily and borrowed more widely from genuine savings.

When the inevitable collapse came, no fewer than 2,910 banks with 790 million dollars of deposits were compelled to suspend operations in the five-year period from 1921 to 1925. Humpty Dumpty had fallen from the top of a very high wall, and many years of effort were needed to pick up the pieces. It is our job at the Treasury and the Federal Reserve, and yours as custodians of the people's money, to make sure that any present-day descendants of Humpty Dumpty shall not go climbing up that wall of expanded credit and higher prices again.

That is why my first plea to you as bankers is that you scrutinize closely your own lists of applications for loans.

Those lists contain within them much of the ammunition of inflation. You have in your hands, therefore, one of the most effective weapons for checking inflation at its source. You are sure to find, on looking over your lists, many applications for money for non-defense projects that would involve competition for steel or copper or any of the thousand and one materials now needed so desperately for our defense effort. If you can postpone all such unnecessary loans until a later day, without waiting for the priorities to become broader, you will be doing a real and lasting service to your country.

I hope that in the not too distant future the priority system will become so effective that the supply of practically all raw materials for all purposes will be under full control in the interests of national defense. That should mean that materials which must be used for defense purposes will not go into any unnecessary civilian projects. But until that day comes, I hope that you will constitute yourselves the sentinels of the nation, in your own bank and your own community, in guarding against any private encroachment upon the stock of resources needed for the national effort.

Another essential service which you can perform is, quite simply, to teach the people of your communities the facts about inflation and defense financing. You see in your daily work men and women from many walks of life. You are in a key position to advise them, and your advice carries as much weight as that of a family doctor to his patient or a lawyer to his client. I know that in these serious times you will give the right kind of advice, and that your influence collectively and individually will be joined with that of your Government in its efforts to keep the cost of living in check.

There is a real need of convincing the average citizen, right now, that he will have to accept far greater taxation.

There is a real need of preparing him to make greater savings in his daily life to ensure the long-run survival and improvement of his standard of living. Above all, there is a real need of explaining to him that this war cannot be won quickly or cheaply or easily.

It will require all-out effort on our part to tip the scales in this war. It will require every ounce of strength that our giant industrial system can give. It will demand sweat and sacrifice on the part of producers, workers, managers and consumers alike. And it will mean the greatest public expenditure that has ever been pumped into the arteries of our economic system.

Defense expenditures have now risen slowly to more than a billion and a quarter dollars a month. They will soon be a billion and a half, but even then they will be utterly inadequate compared to the need. Perhaps "inadequate" is too mild and charitable a word. We are trying to make ourselves the arsenal of democracy by devoting only 20 per cent of our factory and mining output to defense, only 30 per cent of our output of durable goods, only 10 per cent of our output of non-durable goods, and only 16 per cent of our national income. That, surely, is very far from total defense or all-out effort.

Nobody can emphasize too often or too strongly the magnitude of the job which we American people have set out to do. Let me give you a few simple illustrations. At present prices the cost of the total defense program as now planned will be more than 50 billion dollars. This is 10 billion dollars more than the original value of all building construction in the United States since 1927. It is twice as much as the total investment in American railways. It is twice as much as the total value of all passenger automobiles produced in this country during the past fourteen years.

Yet there is no reason whatever for us to be discouraged over the mere size of the job ahead. In spite of a slow start, we are now on the road to an expansion of production which will confound those of narrow vision and little faith who cried, "It can't be done." The capacity of America to produce over the long pull is almost limitless. We Americans can do any job that we set ourselves to do.

It is not so much the size of the undertaking as the limited time at our command which causes our economic system to heave and strain. To telescope such a vast construction or production job within, not twenty years or ten years, but within one, two or three years, is bound to affect profoundly every aspect of our economic and social life.

Under the impact of our comparatively modest defense expenditures up to now, our national income has increased by fourteen billion dollars in a year, and we are feeling all the preliminary symptoms of a serious price inflation. What will the inflationary forces be six months from now, when we shall be spending much faster and when the supplies of materials for civilian use will be smaller than they are today? Where will prices be then, if we do not act courageously to check them now?

It is imperative that we set aside a great part of that national income, and especially the increase in the national income, if we are to put an effective brake upon inflation.

One indispensable method of paying for defense without inflation is "all-out" taxation, a method that has not yet been tried in spite of the good start that Congress has made in raising \$3,500,000,000 in additional revenue. With the help of the new Revenue Act of 1941, our tax structure will yield about fourteen billion dollars in revenue, but in my opinion it still contains many inequalities and many omissions which will have to be corrected next year.

The tax bill next year will have to be a genuinely "all-out" bill, a genuine levy upon all in accordance with their ability to pay, if it is to raise the necessary revenue, place the necessary check upon inflation, and take the profit out of war.

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The second indispensable method of drawing off excess consumer purchases is by borrowing as much as possible from the genuine savings of individuals throughout the country. I know I can count on your wholehearted cooperation whenever we have to come to your banks for funds. The way to proceed now, however, is to finance our needs as far as possible without adding unnecessarily to bank deposits, to borrow instead from private investors, large and small, and thus to reduce the inflationary pressure of our swiftly rising national income.

The Defense Savings Program has now been in progress for five months. It has yielded us a billion and a half dollars from two and one-half million individual investors.

The result so far is certainly not below our expectations, but just as certainly it falls far short of our needs. It falls short especially in that it has only begun to reach workers' payrolls. Every one of the great national labor organizations has given its endorsement to systematic saving, and voluntary payroll allotment plans are now in operation in more than five thousand companies employing between five and six million workers. Our strongest efforts must now be made in our great industrial centers, and must be directed at the good sense and patriotism of the workers themselves.

I can find no usefulness, for our present purposes, in the old Liberty Loan method of fixing money quotas for communities, trades, labor unions, school classes or individuals in this Defense Savings Program. I can see no value, either in terms of economics or of morale, in high-pressuring people to take money out of bank savings accounts or out of life insurance. But I do see a great benefit, financial and moral, in persuading spenders to set aside, systematically, week after week, a part of their current income for their own good and their country's good.

The kind of spending that the Treasury is most anxious to divert into Defense Savings Bonds is the spending produced by pay increases and bonuses, and by increased dividend payments. I should like to offer as a suggestion, for example, that every Christmas bonus in the United States be paid in Defense Savings Bonds or Stamps this year. The banks of America can start the fashion so that it will sweep the country. The total amount of such bonuses may be small, but there could be no finer example to the public, no more striking reminder of the spirit of these times, no better safeguard for the days of economic strain that are sure to follow the war.

We at the Treasury believe that the voluntary Defense Savings Program has already awakened a greater sense of pride in America and a greater sense of participation in the national effort. We shall continue along that road of voluntary cooperation, and I am perfectly confident that we shall reach vast numbers who are willing and eager to put their savings to work for their country.

In this effort the Treasury will continue to depend greatly upon the bankers of America, not only as its agents in selling Defense Bonds but also as missionaries in spreading the gospel of savings in times like these.

There are no commissions for bankers in this work, and you have asked for none. But in order to enable you to give wider distribution to Defense Savings Bonds, I am happy to announce to you this morning that it will no longer be necessary for you to put up collateral for the series E bonds which you keep in stock for customers. I hope that this will relieve the banks, especially the small banks, of a real burden, and I hope that you will not hesitate to tell us at the Treasury of any similar burdens which you feel may be hampering you in the sale of these bonds.

Wider savings and greater taxes will not, of course, be enough in themselves to cope with the inflation that now confronts us.

You have seen the joint statement issued last week by the Federal Reserve System and the Treasury, dealing with the raising of bank reserve requirements to the limit of the law, and pledging full cooperation with the Office of Price Administration and the new Supply and Priorities Allocations Board.

That joint statement was a reminder of the fact that the Government already has powerful weapons of control in its hands, and that if it needs more power it will ask Congress for whatever it needs, in the fight against rising prices and falling living standards.

It is now asking for additional power through the price-control bill, which I hope will be passed by Congress without delay.

I have already suggested an extension of the social security program as a possible method of absorbing several billion dollars of next year's national income and thus building a further reserve for the future. I have already suggested, not once but repeatedly, that the Government cut down immediately on non-defense expenditure, not only as sound financial policy but as sound anti-inflationary practice.

Of course, such a combination of emergency taxes, priorities, savings and price-control will cause some inconvenience; of course it will cause some hardship, some sacrifice. We are now engaged in a world struggle that demands all our energies and all the qualities that have made America great. As a result of that effort we are compelled to fight another enemy, the enemy of inflation, on the home front. How can we hope to win unless we first throw onto the rubbish heap all ideas of business as usual, pleasures as usual and comforts as usual? In my opinion, complacency is our major source of weakness today in building our defenses, for it saps our will and clouds our minds, and blinds us to the stupendous size of the job that confronts us.

We can conquer inflation on the home front if we act now, just as we can ensure the defeat of foreign tyranny if we rouse ourselves in time. Most Americans, I think, are beginning to see that they have a personal stake in the fight against inflation, just as most of them began long ago to see their individual stake in the destruction of the Axis war machine. I am confident about the outcome on both fronts, because I have a deep and abiding faith in the common sense of the American people.

TREASURY DEPARTMENT  
Washington

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(The following address by SECRETARY MORGENTHAU before the Annual Convention of the American Bankers Association in Chicago is scheduled to be delivered at 10:30 a.m., Central Standard Time, Thursday, October 2, 1941, and is for release upon delivery at that time.)

Three weeks ago, in a speech at Boston, I said that we were in the early stages of a serious price inflation, and that we must deal with the danger at once. I said then, and I should like to repeat it at the very start of this talk today, that if we do not check the spiral of rising prices, and check it now, the consequences will haunt us and our children for years to come.

I outlined then a twin program for fighting inflation, on the one hand by reducing excess purchasing power in the hands of the public, and on the other hand by increasing the supply of goods, like farm products, which do not compete with the overriding needs of our national defense effort.

I said then - and I feel very deeply about it - that it was "sheer folly" for the farmer to seek higher prices for his

crops at this time, for labor leaders to seek continual new increases in wages, or for landlords, businessmen, bankers, or any group to exploit the present emergency for selfish gain. And I asked for the understanding and support of 130 million Americans in fighting the evil of inflation by every means in our power.

There is no need to tell this audience of bankers of the need of common effort, on the part of every group and every individual in the community, if inflation is to be averted. You have shown abundantly in the past year that you are conscious of your duties and your responsibilities to the country. You have given magnificent help, and given it unselfishly and cheerfully, in the selling of Defense Savings Bonds and Stamps. You have given further help in the sale of tax anticipation notes which make it possible for every taxpayer to meet next year's heavy tax bill more easily. You have cooperated willingly with the Treasury's control of foreign funds, even though it interferes with the free handling of your business affairs and subjects you to many complicated regulations and questionnaires.

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But the most important task of American bankers lies immediately ahead, and it is a broader and bigger task than any you have yet been called upon to perform. That is the task of doing everything in your power, not only as bankers but as influential and respected leaders in your communities, to fight this evil of inflation wherever it rears its head.

Many of you will remember, from your own experience of twenty-five years ago, that inflation is just as damaging to bankers as to farmers, wage earners or businessmen.

We now know that the doubling of bank loans and investments from 1916 to 1920, and the resulting doubling of deposits in the same five years, contributed to the great increase in prices which brought such hardship to American consumers and such disastrous after-effects to American farmers.

We now know that the inflation of a quarter-century ago, with all of its injustices and dislocations, could to some extent have been avoided if the Government of those days had acted more promptly, if it had taxed more heavily and borrowed more widely from genuine savings.

When the inevitable collapse came, no fewer than 2,910 banks with 790 million dollars of deposits were compelled to suspend operations in the five-year period from 1921 to 1925. Humpty Dumpty had fallen from the top of a very high wall, and many years of effort were needed to pick up the pieces. It is our job at the Treasury and the Federal Reserve, and yours as custodians of the people's money, to make sure that any present-day descendants of Humpty Dumpty shall not go climbing up that wall of expanded credit and higher prices again.

That is why my first plea to you as bankers is that you scrutinize closely your own lists of applications for loans. Those lists contain within them much of the ammunition of inflation. You have in your hands, therefore, one of the most effective weapons for checking inflation at its source. You are sure to find, on looking over your lists, many applications for money for non-defense projects that would involve competition for steel or copper or any of the thousand and one materials now needed so desperately for our defense effort. If you can postpone all such unnecessary loans until a later day, without waiting for the priorities to become broader, you will be doing a real and lasting service to your country.

I hope that in the not too distant future the priority system will become so effective that the supply of practically all raw materials for all purposes will be under full control in the interests of national defense. That should mean that materials which must be used for defense purposes will not go into any unnecessary civilian projects. But until that day comes, I hope that you will constitute yourselves the sentinels of the nation, in your own bank and your own community, in guarding against any private encroachment upon the stock of resources needed for the national effort.

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There is a real need of convincing the average citizen, right now, that he will have to accept far greater taxation. There is a real need of preparing him to make greater savings in his daily life to ensure the long-run survival and improvement of his standard of living. Above all, there is a real need of explaining to him that this war cannot be won quickly or cheaply or easily.

It will require all-out effort on our part to tip the scales in this war. It will require every ounce of strength that our giant industrial system can give. It will demand sweat and sacrifice on the part of producers, workers, managers and consumers alike. And it will mean the greatest public expenditure that has ever been pumped into the arteries of our economic system.

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output of durable goods, only 10 per cent of our output of non-durable goods, and only 16 per cent of our national income. That, surely, is very far from total defense or all-out effort.

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help of the new Revenue Act of 1941, our tax structure will yield about fourteen billion dollars in revenue, but in my opinion it still contains many inequalities and many omissions which will have to be corrected next year.

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I can find no usefulness, for our present purposes, in the old Liberty Loan method of fixing money quotas for communities, trades, labor unions, school classes or individuals in this Defense Savings Program. I can see no value, either in terms of economics or of morale, in high-pressuring people to take money out of bank savings accounts or out of life insurance. But I do see a great benefit, financial and moral, in persuading spenders to set aside, systematically, week after week, a part of their current income for their own good and their country's good.

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pay increases and bonuses, and by increased dividend payments. I should like to offer as a suggestion, for example, that every Christmas bonus in the United States be paid in Defense Savings Bonds or Stamps this year. The banks of America can start the fashion so that it will sweep the country. The total amount of such bonuses may be small, but there could be no finer example to the public, no more striking reminder of the spirit of these times, no better safeguard for the days of economic strain that are sure to follow the war.

We at the Treasury believe that the voluntary Defense Savings Program has already awakened a greater sense of pride in America and a greater sense of participation in the national effort. We shall continue along that road of voluntary cooperation, and I am perfectly confident that we shall reach vast numbers who are willing and eager to put their savings to work for their country.

In this effort the Treasury will continue to depend greatly upon the bankers of America, not only as its agents in selling Defense Bonds but also as missionaries in spreading the gospel of savings in times like these.

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wider distribution to Defense Savings Bonds, I am happy to announce to you this morning that it will no longer be necessary for you to put up collateral for the Series E bonds which you keep in stock for customers. I hope that this will relieve the banks, especially the small banks, of a real burden, and I hope that you will not hesitate to tell us at the Treasury of any similar burdens which you feel may be hampering you in the sale of these bonds.

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through the price-control bill, which I hope will be passed by Congress without delay.

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Of course, such a combination of emergency taxes, priorities, savings and price-control will cause some inconvenience; of course it will cause some hardship, some sacrifice. We are now engaged in a world struggle that demands all our energies and all the qualities that have made America great. As a result of that effort we are compelled to fight another enemy, the enemy of inflation, on the home front. How can we hope to win unless we first throw onto the rubbish heap all ideas of business as usual, pleasures as usual and comforts as usual? In my opinion, complacency is our major source of weakness today in building our defenses, for it saps our will and clouds our minds, and blinds us to the stupendous size of the job that confronts us.

We can conquer inflation on the home front if we act now, just as we can ensure the defeat of foreign tyranny if we rouse ourselves in time. Most Americans, I think, are beginning to see that they have a personal stake in the fight against inflation, just as most of them began long ago to see their individual stake in the destruction of the Axis war machine. I am confident about the outcome on both fronts, because I have a deep and abiding faith in the common sense of the American people.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE October 2, 1941

TO Secretary Morgenthau  
FROM Mr. Kuhn

Here are Neville Chamberlain's statements, which I mentioned to you the other day, about taking the profit out of war.

As you requested, I am also attaching a summary prepared in Mr. Blough's office dealing with British taxation of profits.

*J.K.*

Att.

Neville Chamberlain, speaking in the House of Commons on April 26, 1939, said:

"I wish to make clear that the time when the country is engaged in a major war is not the time when individuals should be increasing their fortunes out of the conditions which war creates. It is the Government's intention, therefore, if such a war broke out, that legislation be enacted which would impose special penalties on profiteering and provide that any increases in profit or individual wealth should be appropriately curtailed to benefit the state."

Speaking in the House of Commons on the following day, April 27, 1939, Mr. Chamberlain said:

"In the last war we had to proceed in our endeavors to limit profits by trial and error. We learned by experience, and toward the end of the war (the World War) we knew what was the best of the ways that had been tried, to use the common phrase, to take the profit out of war. Next time we shall start where we left off and along with measures which are designed to check and control the rise of prices of necessities we intend that a system shall be introduced to deal with all profits arising out of war and not merely profits arising out of armaments."

This pledge by the leader of the Tory party was the basis of the excess profits taxation introduced immediately after the outbreak of the war.

Speaking on January 9th, 1940, at the Lord Mayor's Luncheon at Mansion House, Mr. Chamberlain said:

"Our system of contracting and cost accounting has gone a long way to prevent any unreasonable profits being made out of armaments. If such profits, either reasonable or unreasonable, should still be made, out of let us say, increased output, well then, there is the excess profits tax which soon sweeps away a good part of them.

"Barely a year ago, speaking in the House of Commons, I warned the country that it was the intention of His Majesty's Government that direct taxes, which were already so heavy as to constitute conscription of wealth, would be still further increased. Well, that prediction was fulfilled when my heavy-handed friend and colleague (the Chancellor of the Exchequer, Sir John Simon) last September placed his little finger upon the shoulder of the income-tax payer; and we have been getting at the income-tax payer in other and more indirect ways."

Winston Churchill explained his personal philosophy about profits in a speech in the House of Commons on June 1, 1937, when he strongly opposed the proposed tax on the growth of profits. He said then that it would be an abandonment of the capitalist system to "penalize the spirit of individual daring and initiative" which, he said, the proposed tax would do. His speech also contained this passage:

"Personally, I do not mind saying that I would have gone as far after the war (the World War) as a capital levy. It seemed to me and I think to others that it would have been quite fair to say that no one should come out of the war richer than he went in. I think that that ought to be considered in case we have another unfortunate experience of that kind."

British National Defense Contribution and  
Excess Profits Tax

1. National Defense Contribution

The National Defense Contribution imposed by the Finance Act of July 30, 1937, as amended by the Finance Acts of July 29, 1938 and June 27, 1940, is a tax on the total profits, arising in each chargeable accounting period falling within the five years beginning on April 1, 1937-March 31, 1942, from all trades and businesses.

When the excess profits tax was first imposed by the Finance Act (No. 2) of 1939, the National Defense Contribution was continued from April 1, 1939 as an alternative tax to the excess profits tax.

Rate of tax

The rate of tax is 5 percent in the case of a company and 4 percent for an individual or partnership.

Exemptions

Trades and businesses whose profits do not exceed 2,000 pounds are exempted; and those whose profits exceed 2,000 pounds, but are less than 12,000 pounds, receive a tax base credit equal to one-fifth of the difference between the amount of the profits and 12,000 pounds.

Relation of national defense contribution to income tax

The national defense contribution is an allowable deduction in computing the profits of a trade or business for the purposes of the income tax, but in calculating the profits for the national defense contribution no deduction is allowed for income tax or national defense contribution payments.

Relation of excess profits tax to national defense contribution

Under provisions of Section 19 of the Finance Act (No. 2) of 1939, as amended by the Finance Act of 1940, the excess profits tax and the national defense contribution are each computed without regard to the other, and the taxpayer is charged whichever tax is the higher.

## II. Excess Profits Tax

The excess profits tax enacted by the Finance (No. 2) Act of 1939 applies to all trades and businesses conducted by individuals, partnerships and corporations. Professions depending wholly or mainly on personal qualifications are exempt.

### Rate of tax

In the Finance (No. 2) Act of 1939 the rate was 60 percent of the profits in excess of the standard profits arising in any chargeable accounting period beginning on or after April 1, 1939. The Finance Act of June 27, 1940 increased the rate to 100 percent with respect to an excess of profits arising in any chargeable accounting period beginning on or after April 1, 1940.

Under the Finance Act of 1941, 20 percent of the net amount of excess profits tax paid by every concern for any years during which the 100 percent excess profits tax rate is in effect is treated as a post-war credit. The amount of such credit is to be refunded after the War at such time as Parliament may determine.

### Basis of tax

In general the tax is based on standard profits determined as follows:

(a) If the business was commenced before 1935, the taxpayer may choose 1935 profits, 1936 profits or the average of 1935 and 1937, or 1936 and 1937 profits;

(b) If the business was commenced in 1935, the taxpayer may choose 1936 profits or the average of 1936 and 1937 profits;

(c) If the business was commenced during the first half of the calendar year 1936, normal profits are those of the succeeding year. For business commenced after July 1, 1936, standard profits are: 8 percent of invested capital for corporations and 10 percent for individuals and partnerships.

### Profits

Profits are computed in the same manner as those for income tax purposes.

Exceptional depreciation is however, allowed in cases of plant expansion after the beginning of the year 1937, if the new facilities will be subject to exceptional depreciation and will become obsolete as a consequence of the present war. Pending final determination, the Commissioners may allow extraordinary depreciation in an amount not exceeding 10 percent of the net cost of the new facilities.

#### Minimum allowances

Any trade or business, regardless of the date of its beginning or its form of business organization, is allowed a minimum standard profit of 1,000 pounds in any chargeable accounting period. In the case of a sole proprietorship, partnership or a director-controlled corporation, the minimum is raised to such greater sum, not exceeding 6,000 pounds, as is arrived at by allowing 1,500 pounds for each "working proprietor." However, when the Commissioners are satisfied that the 6,000 is inadequate, considering the nature of the business and the size of its assets, the 1,500 pounds may be increased by as much as 1,000 pounds in respect of not more than four working proprietors.

#### Relation of excess profits tax to income tax

The amount of the excess profits tax payable in any chargeable accounting period is allowed to be deducted as an expense incurred in that period for the purposes of the income tax, but no deduction is allowed for income tax, national defense contribution or excess profits tax in computing excess profits.

1-1/4 Percent Treasury Notes Maturing December 15, 1941

Amount Owned on August 31, 1941 by the Twenty-Five  
Largest Holders Reporting to the Treasury

(In millions of dollars)

National City Bank, New York.....	12.6
Metropolitan Life Insurance Co., New York, N.Y.....	7.5
First National Bank, New York, N.Y.....	6.0
American National Bank, St. Paul, Minn.....	3.5
Commonwealth Bank, Detroit, Mich.....	3.0
Central Trust Co., Cincinnati, Ohio.....	2.5
American Mutual Liability Ins. Co., Boston, Mass.....	2.0
Seamen's Bank for Savings, New York, N.Y.....	1.9
Bank of California, N.A., San Francisco, Cal.....	1.8
Emigrant Industrial Savings Bank, New York, N.Y.....	1.5
Mutual Life Insurance Co., New York, N.Y.....	1.3
Ohio National Bank, Columbus, Ohio.....	1.1
Central Missouri Trust Co., Jefferson City, Mo.....	1.0
State Mutual Life Assurance Co., Worcester, Mass.....	1.0
Worcester County Trust Co., Worcester, Mass.....	1.0
Miners National Bank, Pottsville, Pa.....	.9
First National Bank, Chicago, Ill.....	.9
First Galesburg Nat. Bk. & Tr. Co., Galesburg, Ill...	.8
Lincoln National Bank, Washington, D. C.....	.7
Bankers Life Insurance Co., Lincoln, Neb.....	.6
Fulton Trust Co., New York, N.Y.....	.6
Strafford Savings Bank, Dover, N.H.....	.6
Guaranty Trust Co., New York, N.Y.....	.6
Maryland Trust Co., Baltimore, Md.....	.5
Industrial Trust Co., Philadelphia, Pa.....	.5
Total amount owned by 25 largest holders.....	<u>54.3</u>
Total privately held supply.....	<u>161.3</u>
Percent of privately held supply owned by 25 largest holders.....	33.7

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

October 2, 1941

## UNITED STATES SAVINGS BONDS

Sales since May 1, 1941, by Months  
On Basis of Issue Price

(In thousands of dollars)

Item	May	June	July	August	September	Total
Series E - Post Offices	\$ 42,836	\$ 40,788	\$ 50,558	\$ 40,725	\$ 38,117	\$ 213,025
Series E - Banks	<u>57,745</u>	<u>61,729</u>	<u>94,717</u>	<u>76,878</u>	<u>67,123</u>	<u>358,191</u>
Series E - Total	100,581	102,517	145,274	117,603	105,241	571,217
Series F - Banks	37,817	28,876	27,359	20,318	18,099	132,469
Series G - Banks	<u>211,420</u>	<u>183,134</u>	<u>169,498</u>	<u>127,685</u>	<u>108,987</u>	<u>800,725</u>
Total	<u>\$349,813</u>	<u>\$314,527</u>	<u>\$342,132</u>	<u>\$265,606</u>	<u>\$232,327</u>	<u>\$1,504,411</u>

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

October 1, 1941.

Source: All figures are deposits with the Treasurer of the United States on account of sales of United States Savings Bonds.

Note: Figures have been rounded to nearest thousand and will not necessarily add to totals.

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## UNITED STATES SAVINGS BONDS

Comparative Statement of Sales During  
First Business Day of August, September, and October, 1941  
(August 1, September 2, October 1)  
On Basis of Issue Price

(Amounts in thousands of dollars)

Item	Sales			Amount of Increase or Decrease (-)		Percentage of Increase or Decrease (-)	
	October	September	August	October over September	September over August	October over September	September over August
Series E - Post Offices	\$ 1,450	\$ 3,021	\$ 1,467	-\$1,571	\$1,554	- 52.0%	105.9%
Series E - Banks	<u>3,029</u>	<u>3,185</u>	<u>3,296</u>	- <u>356</u>	<u>89</u>	- <u>10.5</u>	<u>2.7</u>
Series E - Total	4,479	6,406	4,763	- 1,927	1,643	- 30.1	34.5
Series F - Banks	1,286	1,182	1,163	104	19	8.8	1.6
Series G - Banks	<u>8,271</u>	<u>5,510</u>	<u>7,586</u>	<u>2,761</u>	- <u>2,076</u>	<u>50.1</u>	- <u>27.4</u>
Total	<u>\$14,036</u>	<u>\$13,098</u>	<u>\$13,512</u>	<u>\$ 938</u>	- <u>\$ 414</u>	<u>7.2%</u>	- <u>3.1%</u>

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

October 2, 1941.

Source: All figures are deposits with the Treasurer of the United States on account of proceeds of sales of United States Savings Bonds.

Note: Figures have been rounded to nearest thousand and will not necessarily add to totals.

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## UNITED STATES SAVINGS BONDS

Daily Sales - October 1941  
On Basis of Issue Price

(In thousands of dollars)

Date	Post Office Bond Sales  Series E	Bank Bond Sales				All Bond Sales			
		Series E	Series F	Series G	Total	Series E	Series F	Series G	Total
October 1941 1	\$ 1,450	\$ 3,029	\$ 1,286	\$ 8,271	\$ 12,567	\$ 4,479	\$ 1,286	\$ 8,271	\$ 14,036

October 2, 1941.

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

Source: All figures are deposits with the Treasurer of the United States on account of proceeds of sales of United States Savings Bonds.

Note: Figures have been rounded to nearest thousand and will not necessarily add to totals.

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OFFICE OF STATE ADMINISTRATOR  
Chicago, Illinois

## TREASURY DEPARTMENT

185

### DEFENSE SAVINGS STAFF

October 2, 1941

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

My Dear Mr. Secretary:

Messrs. Ned Brown, Phil Clarke and Walter Cummings know very little of the person we were discussing. However, I was able to contact Mr. R. M. Kimball, Vice-President of the Continental Illinois National Bank & Trust Company, who states that he has known our subject since he was a baby.

Mr. Kimball gives him a very fine recommendation, states that he has an analytical mind, is tireless in effort, tactful, a born salesman, and is respected by all the people he knows. His home life is most desirable, and he does not care for society.

He comes of a fine family, and one of his sisters married Ben Wham, who is receiver for the Chicago and Eastern Illinois Railroad Company. He also confirms a checking I had made through Hill's Reports, Inc., who states this party has an office at 231 South LaSalle Street, where he deals in securities.

Prior to 1934 he was with Eastman, Dillon and Co., the Illinois Merchants National Bank, and with Winthrop, Mitchell & Co. from January 1, 1934 to June, 1938.

He is forty-one years of age, married, and has three children. He owns his own home, built eleven years ago, in Barrington, Illinois. Formerly he lived at 1103 Spruce Street, Evanston, Illinois, which home was sold in 1938.

He married a Sarah Louise Buffington, daughter of E. J. Buffington, which of course makes them legal cousins. The family disowned the daughter at first, but became reconciled, later leaving \$2,000,000 to \$3,000,000 to two girls, one of whom now lives in North Carolina.



TREASURY DEPARTMENT

186

DEFENSE SAVINGS STAFF

October 2, 1941

OFFICE OF STATE ADMINISTRATOR  
Chicago, Illinois

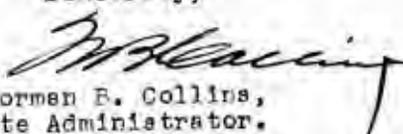
The Honorable H. J. Morgenthau, Jr.,  
Page 2.

They are apparently in very comfortable circumstances. While at Winthrop, Mitchell & Co., he was reputed to earn \$10,000 to \$15,000 a year, but other sources say his earnings in recent years run from \$40,000 to \$50,000 annually.

His commercial record is clear. He is a member of the Union League and Attic Clubs in Chicago.

I believe the foregoing will aid you materially in the information you seek, but if I can be of further assistance, please advise.

Sincerely,

  
Norman B. Collins,  
State Administrator.

Norman

95 ROUND HILL  
NORTHAMPTON  
MASSACHUSETTS

187

October 8, 41.

Dear Henry:

Just a line to tell you that I found it unfeasible to shorten my ~~concert~~ ~~for~~ ~~concert~~. Instead I have proposed to Mr. Volney of the Defense Savings Staff a movement of the ~~concert~~ ~~which~~ ~~lasts~~ just over 9 minutes. He was quite enthusiastic about this solution especially if I could play the concerto in my piece which I shall very gladly do; Alfred Kalichstein will be the conductor. It so happens that the weekend of the 11th October both our children will be in New York which will be nice for all of us. We are looking forward to the performance.

Love from us both to you both



TREASURY DEPARTMENT

158

INTER OFFICE COMMUNICATION

DATE October 2, 1941

TO Secretary Morgenthau  
 FROM Mr. Kuhn

The Radio Corporation of America, which makes Victor records, has sent me the following information in reply to your inquiry.

The four most popular conductors are:

1. Toscanini
2. Koussevitsky, conductor of the Boston Symphony
3. Stokowski
4. Eugene Ormandy, the new conductor of the Philadelphia Orchestra

The twelve most popular compositions, on the basis of sales of records, are the following in this order:

- ✓ 1. Tschaikovsky, Nutcracker Suite
2. Beethoven, Fifth Symphony
- ✓ 3. Tschaikovsky, Piano Concerto
4. Schubert, Unfinished Symphony
5. Rimski-Korsakov, The Scheherazade Suite
6. Cesar Franck, Symphony in D minor
7. Tschaikovsky, Sixth Symphony (Pathetique)
8. Dvorak, New World Symphony
9. Strauss, Blue Danube Waltz
10. Wagner, Orchestral music from Tristan & Isolde
11. Brahms, Second Hungarian Rhapsody
12. Mozart, Symphony in G minor

This information is confidential, and I assured the RCA people that we would make no use of it outside of the Treasury.

Treasury Department 189  
Division of Monetary Research

Date Oct. 3, 1941 19

To: Secretary Morgenthau

You might like to know  
that in the week ending September 30,  
1941, total exports to Russia amounted  
only to about \$750,000. It may, of  
course, be due to shipping problems.

*Harry White - Soviet  
exports to Vichy-France  
and Free France.*

MR. WHITE  
Branch 2058 - Room 214½

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE October 2, 1941.

TO Secretary Morgenthau

FROM Mr. White

SUBJECT: Exports to Russia, China and Japan as reported to the Treasury Department during the week ending September 20, 1941

1. Exports to Russia

Exports to Russia as reported to the Treasury during the week ending September 20, 1941 amounted only to about \$750,000 as compared with over \$5,000,000 during the previous week. Gasoline was the only item of any significance. (See Appendix B.)

2. Exports to China

Exports to Free China as reported to the Treasury during the week under review amounted to nearly \$4,000,000, a considerable increase as compared with the previous week. Exports to Occupied China amounted to only \$156,000, a low for the last two months.

(a) Exports to Free China consisted mainly of trucks. In addition, significant quantities of aircraft engines and parts, auto parts, tires and blankets were reported to have been shipped. (See Appendix C.)

(b) Exports to Occupied China included leather, miscellaneous food products, cigarettes, medicinal preparations and miscellaneous office supplies. (See Appendix D.)

3. Exports to Japan

Exports to Japan as reported during the week under review were negligible, consisting only of one shipment of cigarettes valued at \$114. Of course, Japan may very well be the ultimate destination of much of the goods exported to Occupied China.

## Appendix A

Exports from the U. S. to China, Japan and U.S.S.R. as reported to the  
Treasury Department, July 28, 1941 -- September 20, 1941  
(Thousands of dollars) <sup>1/</sup>

	Total	Exports to China		Exports to Japan	Exports to U. S. S. R.
		To Japanese controlled ports	To Chinese controlled ports		
July 28 - Aug. 2	937	542	395	1,657	4,523
Aug. 4 - Aug. 9	2,794	2,794	--	159	551
Aug. 11 - Aug. 16	1,278	969	309	42	986
Aug. 18 - Aug. 23	1,352	1,350	2	6	2,735
Aug. 25 - Aug. 30	736	735	1	--	1,023
Sept. 2 - Sept. 6	897	693	204	--	4,280
Sept. 8 - Sept. 13	2,038 <sup>2/</sup>	757	2,281 <sup>2/</sup>	--	5,217
Sept. 15 - Sept. 20	<u>3,978</u>	<u>156</u>	<u>3,822</u>	<u>--</u>	<u>752</u>
Total	14,010	7,996	6,014	1,864	20,067

<sup>1/</sup> These figures are in part taken from copies of shipping manifests.

<sup>2/</sup> Beginning with this week figures for exports to Free China include exports to Rangoon which are not reported as being for re-export to Free China but which are presumed to be because of the consignees.

## Appendix B

Principal Exports from U. S. to U.S.S.R.  
as reported to the Treasury Department  
during the week ending September 20, 1941  
(Thousands of dollars)

Total exports	\$ 752
Principal Items	
Gasoline	305
Drilling units and appurtenances	171
Gas oil	93
Rotary drill units and parts	68
Power shovel, spare parts	40

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Treasury Department, Division of Monetary Research

## Appendix C

Principal Exports from U. S. to Free China  
 as reported to the Treasury Department  
 during the week ending September 20, 1941  
 (Thousands of dollars)

Total exports to Free China (including exports to Burma presumed to be destined for Free China)	\$ 3,822
To Free China	2,707
To Burma	1,115
Principal Items	
Gasoline & Diesel Trucks	2,458
Aircraft engines, instruments and parts	199
Auto parts for assembly and replacement	192
Auto and truck tires and tubes	162
Cotton and wool blankets	131
Iron & steel sheets, plates, bars and rods	86
Passenger cars	24

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Treasury Department, Division of Monetary Research

## Appendix D

Principal Exports from U. S. to Occupied China  
as reported to the Treasury Department  
during the week ending September 20, 1941  
(Thousands of dollars)

Total Exports	\$ 156
Principal Items	
Leather	42
Miscellaneous food products	25
Cigarettes	20
Medicinal preparations	14
Miscellaneous office supplies	8

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Treasury Department, Division of Monetary Research

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Noted :  
N. E. District

TELEGRAM SENT

TRE

GRAY

October 2, 1941

6 p.m.

AMERICAN CONSUL,  
HONG KONG, (CHINA).

312.

FOR FOX FROM SECRETARY OF THE TREASURY.

QUOTE With reference to No. 304 of September  
29 please correct paragraph six to read "points  
ten to thirteen". END QUOTE.

HULL  
(FL).

EA:FL:MCE

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Chungking, China, via H.R.

DATE: October 2, 1941, 2 p.m.

NO.: 408

THE FOLLOWING IS FOR THE SECRETARY OF THE TREASURY FROM FOX.

Reference is made to the Department's telegram of September 29, which was received last night, No. 304.

With regard to the relegation of the Central Bank to the same position as that of the "cooperating banks" and the decentralization of the control of remittances, I strongly advise against such action.

At the very time when the Ministry of Finance and the Central Bank are most eager to cooperate with America, it is highly inadvisable politically to alienate them.

(a) Yesterday afternoon at a long and cordial conference with the Minister and the Vice Ministers, they volunteered to turn over to the Board export proceeds and remittances. The officials mentioned above were merely awaiting my return to have such a resolution adopted by the Exchange Control Commission. The need for strengthening the Central Bank is recognized by them. They are about to approach you in the matter of assigning an American banking expert to them.

(b) No real difficulty, in the present atmosphere, should be experienced in the working out of a satisfactory Exchange Control Commission-Board arrangement on the lines  
of the

-2-

of the Manila plan. Should your 304 be adopted, the Finance Ministry will not cooperate, and, in order to push through any modifications, great pressure will undoubtedly be needed.

While, for obvious reasons, the British do not mind (1) Ministry and Central Bank, the very real basis of cooperation that has slowly been built up with the latter would be destroyed by an overt show of distrust of them on our part. It is more essential than ever to treat the agencies of the Chinese Government with some delicacy in view of the fact that (1) is to be held in Hong Kong and not in Chungking.

2. With regard to the Department's points G-2 and E1 both are undesirable. Five of the institutions, which are already on general license 89, have no exchange business; three probably (and more) of the others have never handled remittances on any scale. Among the institutions remaining, some have cooperated poorly and lip service has been given by others. To decentralize remittances and give all banks powers under E is needlessly throwing temptation in the way of the banks and of Shanghai, especially as the Board has no facilities in Shanghai and only limited facilities elsewhere to keep a check satisfactorily on the cooperation of the banks. In view of its anxiety to play ball, I would much rather take my chance with the Central Bank -- (2) imperfect as it is (1). One of the Central Bank's best

222

-3-

man has already been delegated to Manila to work out the problem of remittances. I am confident that this representative will do a good job at Manila.

It is suggested that the following be adopted at once:

1. The Department's A-1 is all right.
2. The Department's A-2 is all right for Shanghai and possibly for Hong Kong but the central bank for other (?) areas.
3. The Department's A-3 is splendid, especially the emphasis to have "the general license by express language" indicate that the banks must cooperate with the Board and with the addition of three or four Chinese commercial banks, (Yesterday I learned that this is being officially recommended by the Ministry of Finance to the Department.) and the removal of Sassoons, Cook, American Express Company, and underwriters. At Chungking there is no information available with regard to the Banque Belge pour l'Etranger. However, from information gathered in Hong Kong, it occupies quite an unimportant position.
4. The Department's B-1 is satisfactory.
5. The Department's C-1 is acceptable. In the Department's C-2, it is suggested that a substitution be made for "the Central Bank of China" for the Department's phrase "one of the cooperating banks" and that the last parenthetical sentence be omitted.

6. The

-4-

6. The Department's paragraph D is all right as it stands.

7. The Department's paragraph E should be omitted entirely.

In my telegram of September 25, I emphasized speed in connection with the controlling of imports into Shanghai but this should not hold matters up.

GAMES

\*\*\*omission apparently

HAIPAK

893,51/7318

THE SECRETARY  
TECHNICAL ASSISTANT  
OFFICE OF THE

10 OCT 2 PM 3 05

TREASURY DEPARTMENT  
RECEIVED

23

C  
O  
P  
Y

PLAIN

200

Shanghai via N. E.

Dated October 2, 1941

Rec'd 12:50 a.m., 3d.

Secretary of State,

Washington.

1403, Second. (SECTION ONE).

Special financial importers who fail to obtain exchange at official rates from Stabilization Board to cover outstanding or new bills strenuously endeavoring to obtain cover either from unlicensed banks, exporters (linking transactions), speculators having unliquidated long exchange position, holders of free United States dollars, or owners of United States dollars notes. Licensed banks complain about dearth of export bills and steady depletion their foreign exchange resources due to above mentioned factors plus further reduction in Shanghai exports. Unlicensed banks permit customers speculators with outstanding long exchange positions to switch exchange to importers charging commission of 1/8 cent United States currency. Black market rates now around 4 1/2 cents in isolated cases involving free United States dollars some business is reported at 4 3/16 cents. United States dollar notes now quoted about 4 7/16 cents. Importers recently shipped considerable amount of United States dollars notes to United States to defray import bills. This depletion of United States dollars note supply in Shanghai and tributary area expected to continue some time.

LOCKHART

ALG

BS

PLAIN

Shanghai via H. R.

Dated October 3, 1941

Rec'd. 7:45 a.m.

Secretary of State,

Washington.

1403, Third. (SECTION TWO)

View insistent merchant demand premium undoubtedly would be even greater but hoarders are apprehensive United States may ban repatriation of currency as British have done, therefore, many are inclined to sell at prevailing rates. Naturally all black market operations are done clandestinely with no public evidence of transactions but believe above reflects true situation. Chinese bankers express opinion that Stabilization Board, in cooperation with American, British authorities can further close many loopholes, but the fact that considerable portion of the Shanghai trade is with South sea and Southeastern Asiatic countries makes control difficult, including fact that Thailand tical is still a free country and that the Hong Kong currency control is partially ineffective because of loopholes in Macon and elsewhere. Beginning October first Shanghai paper gold bar speculative market makes another attempt to revive activities. November delivery paper gold bars were quoted yesterday as high as yuan 7600 based on the black market Hong Kong dollar exchange rate of 18-3/8 cents Hong Kong currency as compared with the official rate of 21-1/2 cents. Inform Commerce and Treasury. Sent Department. Repeated to Chungking and Hong Kong.

(END OF MESSAGE)

LOCKHART

MG

Copy:hr:10-6-41.

TELEGRAM SENT

Noted  
F. Dietrich

TWB

GRAY

October 2, 1941

5 p.m.

AMERICAN CONSUL,  
HONG KONG, (CHINA)

311.

FOR FOX FROM THE TREASURY.

QUOTE In order for the Treasury to be certain that it receives all cables sent to it by you would you please number such cables consecutively prefixing the number with "T.F." for identification purposes. Such numbers should be used for cables dispatched by you irrespective of whether the cables are sent through the State Department or the Treasury representatives at Hong Kong or Shanghai. Would you please initiate this program as soon as possible and if convenient allow numbers for the cables previously sent by you. END QUOTE.

HULL  
(FL)

EA:FLMCE

## DEPARTMENT OF STATE

Washington

In reply refer to  
EA 840.51 Frozen  
Credits/3660

October 2, 1941

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses a copy of telegram No. 403, dated September 29, 1941, noon, from the American Legation, Sofia, Bulgaria, in regard to the account of the Argentine Charge d'Affaires in the National City Bank which, apparently, has not been unblocked.

The Secretary of State would appreciate being advised as to what reply may be communicated to the American Legation at Sofia.

## Enclosure:

From Legation, Sofia,  
No. 403, September 29,  
1941.

eh:copy  
10-3-41

des

GRAY

Sofia

Dated September 29, 1941

Rec'd 10:34 a.m.

Secretary of State,

Washington.

403, September 29, noon.

Department's 58, May 9.

Apparently the account of the Argentine Charge d'Affaires in the National City Bank has not (repeat not) been unblocked. The bank continues to refuse to execute payment orders on grounds of blocking regulations. It will be appreciated if the Department will again intervene energetically.

It may be noted that the Charge has informed the Legation that he cannot but regard the difficulties being placed in his way as unfriendly.

EARLE

ALC

sh:copy  
10-3-41

Cable through the State Department to the Icelandic Trade Delegation from the Iceland Government which was probably sent several days ago.

"Dollar shortage now becoming embarrassing. Telegraph whether Landsbanki can now draw on amount of \$500,000\* mentioned in your 15."

\*Iceland thought Treasury depositing \$500,000. Deposit actually made was only \$300,000.

(Telephoned to Mr. Dietrich by Mr. Cummings in the State Department on October 2, 1941, at 4:40 p.m.)

Excerpts  
from  
Memorandum from Chairman of the Icelandic Delegation

October 2, 1941

"As mentioned in our memorandum of September 9, 1941 the amount which Iceland is obliged to resell to the British Government, if and when any surplus dollar currency is available, was, on September 1, 1941, as follows:

Canadian Dollars .....	1,525,000
U. S. Dollars .....	663,000

In addition to these figures, the British Currency Control has sanctioned to Icelandic importers an amount of dollars, 2,071,000, which, however, had not been effected on September 1.

"As Icelandic U. S. Dollar holdings have been very scarce and no Canadian Dollars available, I presume that a substantial part of this amount has been transferred and provided by the British Government since September 1 and accordingly comes under the above-mentioned re-payment clause."

-----

"From information available to the Delegation we estimate the Icelandic Government Bond loans in Great Britain now amount to approximately 1,140,000 £ sterling but about 520,000 £ sterling is to be redeemed on November 1, leaving a balance of 620,000 £ sterling.

"Other Bond loans guaranteed by the Icelandic Government we estimate at about 200,000 £ sterling.

"These figures are only approximate but we have cabled to our Government for exact figures, including information about annual installments and interest and hope to be able to submit these figures in a few days."

(Received by phone from Mr. Cumming in the State Dept., Oct. 2/41 - ek)

COPY

DEPARTMENT OF STATE  
WASHINGTONIn reply refer to  
SA/E

October 2, 1941

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses three copies of a paraphrase of telegram no. 1739, dated October 1, 1941, noon, from the American Embassy, Moscow, transmitting a message from Mr. Harriman for Mr. Hopkins and Secretary Morgenthau.

## Enclosure:

From Embassy, Moscow,  
No. 1739, October 1,  
1941 (3 copies of para-  
phrase of telegram)

COPY:lap-10/3/41

## DEPARTMENT OF STATE

COPY

CONFIDENTIAL

## PARAPHRASE

Telegram no. 1739

Dated: 10/1/41 noon.

From: Moscow

Rec'd: 10/1/41 10:35 a.m.

FROM HARRIMAN FOR HOPKINS AND SECRETARY MORGENTHAU.

The information contained in your 1089 has been received with thanks.

In the conferences here, no one has as yet raised the subject of finance, and I have not raised the subject myself, in as much as I have received no instructions on the matter.

STEINHARDT.

SA/E:DCB:MBJ

10/1/41.

Copies to:

Mr. Hopkins (3)

Secretary Morgenthau (3)

COPY:lap

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DEPARTMENT OF STATE

WASHINGTON

In reply refer to  
LA 840.51 Frozen  
Credits/3724

October 2, 1941.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses two copies of a paraphrase of telegram No. 272, dated September 30, 1941, 5 p.m., from the American Legation, La Paz, Bolivia, concerning a check or draft in the amount of \$571.89, dated September 26, drawn by the Banco de Bolivia to the order of the Neues Messlein and Company. This check covers a payment to the Juan Elener and Cia which is on the Proclaimed List.

The Secretary of State would appreciate being advised as to what reply may be communicated to the American Legation at La Paz.

Enclosure:

From Legation, La Paz,  
No. 272, September 30,  
1941. (2 copies of para-  
phrase.)

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, La Paz, Bolivia

DATE: September 30, 1941, 5 p.m.

NO.: 272

Under date of September 26, a check or draft in the amount of \$571.89 was drawn by the Banco de Bolivia to the order of the Neuss Hesselein and Co. This check or draft was probably drawn on the Chase National Bank or the Chemical Bank and Trust Company. The name of Juan Elsner and Cia is on the proclaimed list and this check or draft (for \$571.89) covers a payment to this company.

The Legation urgently suggests that action be taken to prevent the payment on this transaction. The prevention of transactions of the banks here on behalf of firms which are on the Proclaimed List (such as the above) would discourage the local banks from aiding Axis interests to circumvent the freezing order and would thereby strengthen the Legation's hand in obtaining the full cooperation of the banks. See the Legation's telegram, dated September 23, 1941, 4 p.m., No. 263 for Proclaimed List firms.

It is requested that the Legation be informed of any such action which may be taken in this matter.

JENKINS

EA:PAK

840.51 Frozen Credits/3724

Copy:hr:10-2-41.

## TREASURY DEPARTMENT

COPY

Telegraph Office

Extra Rush

October 2, 1941  
3:21 p.m.

Mexico City.

Henry Morgenthau, Jr.  
Treasury Department

We are very glad to inform you that we hereby authorize Mr. Antonio Espinosa de los Monteros to sign on behalf of the Bank of Mexico the Stabilization Agreement involving the purchase of Mexican pesos by the United States Treasury. The duly and formally issued powers will be sent forward as soon as properly executed.

Banco de Mexico  
S. A. Eduardo Villasenor  
Director General

COPY:lap-10/2/41

## TREASURY DEPARTMENT

212

## INTER-OFFICE COMMUNICATION

DATE October 2, 1941

TO Secretary Morgenthau

FROM Mr. Dietrich

**CONFIDENTIAL**

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	L55,000
Purchased from commercial concerns	L24,000

Open market sterling remained at 4.03-1/2. The only reported transactions consisted of L2,000 sold to and L1,000 purchased from commercial concerns.

The Argentine free peso again declined to close at .2340. Yesterday's final quotation was .2347.

The Uruguayan free peso, which rose 1/4¢ to .4425 two days ago, advanced 1/2¢ today to close at .4475.

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

Canadian dollar	11-1/8% discount
Brazilian milreis (free)	.0505
Colombian peso	.5775
Mexican peso	.2070
Venezuelan bolivar	.2700
Cuban peso	5/16% discount

There were no purchases or sales of gold effected by us with foreign countries today.

No new gold engagements were reported.

In London, spot and forward silver were again fixed at 23-1/2d and 23-7/16d, respectively. The U.S. equivalents were 42.67¢ and 42.55¢.

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

We made three purchases of new production silver amounting to 210,000 ounces under the Silver Purchase Act. All of this silver came from Honduras, and was bought for forward delivery.

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The report of September 24, 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 \$4,485,000, an increase of \$952,000 in the short position since September 17. Net changes were as follows:

Country	Short Position September 17	Short Position September 24	Change in Short Position*
England**	\$1,342,000 (Long)	\$ 272,000 (Long)	+ \$1,070,000
Europe	2,683,000	2,615,000	- 68,000
Canada	170,000 (Long)	162,000 (Long)	+ 8,000
Latin America	6,000 (Long)	46,000 (Long)	- 40,000
Japan	274,000	310,000	+ 36,000
Other Asia	2,196,000	2,093,000	- 103,000
All others	102,000 (Long)	53,000 (Long)	+ 49,000
Total	\$3,533,000	\$4,485,000	+ \$952,000

\*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



RESTRICTED

E-2/2657-220; No. 508 M.I.D., W.D. 11:00 A.M., October 2, 1941

SITUATION REPORTI. Eastern Theater.

Ground: Finns report the capture of Petrozavodsk (not admitted by Russians).

Germans report the arrival of new Russian troops on the Volkhov River front southeast of Leningrad.

No further information on the Smolensk—Bryansk front.

The German line has been straightened from Belopoye to the south through Lebedin.

Germans report that they are advancing slowly to the south on the isthmus of Perekop. Russian forces (strength unknown) appear to be operating against the Germans on the isthmus west of the Crimea.

II. Western Theater.

Air: The R.A.F. offensive was principally directed last night against the manufacturing center of Stuttgart. Raids covered western and southwestern Germany, along with Calais, Boulogne and Ostend.

The Luftwaffe directed its attack against port facilities of Hull and Dover, and also unnamed British air force.

Official German figures reported 683,000 tons of shipping sunk during September, with submarine action accounting for 452,000 tons of this.

III. Middle Eastern Theater.

Ground: In Ethiopia the Italians conducted reconnaissance within the British lines.

Air: British planes last night raided Tripoli and Benghazi, while Cyprus was subjected to Axis attack.

RESTRICTED

October 3, 1941  
9:30 a.m.

MEETING

Present:

Mr. Graves  
Mr. Blough  
Mr. Haas  
Mr. Gaston  
Mr. Foley  
Mr. Morris  
Mr. Thompson  
Mr. White  
Mr. Schwarz  
Mr. Kuhn  
Mrs. Klotz

Mr. Graves:

Harold, here is something from Floyd Odum, complaining about Procurement. He says he wants to see me. Let what's-his-name get me a memo on it for Monday.

What are you doing here, Roy?

Blough:

I would like to talk to you sometime today about the proposed tax treaty with Canada.

Mr. Graves:

Say, all of you fellows that think you are going out of town, I think you had better stay here. Are you going tonight?

Blough:

No, I was going Sunday.

Mr. Graves:

I can't talk to you. I just haven't got the time. I am absolutely booked right through this morning. Are you (White) going this evening? When are you going to Cuba?

Blough:

Today is Friday. Tonight.

Mr. Graves:

Well, who is going to stay here and tell me

-2-

about Mexico, and the Minister of Finance is coming here Monday.

White: He is here now.

W.C. Jr: But who is going to take care of that?

White: Anybody you say.

W.C. Jr: Well, I just don't - there is nobody here. I can't handle this stuff all alone, gentlemen.

White: Well, the Mexican thing is all settled.

W.C. Jr: I don't know a single thing about it, not a thing. I don't know anything about this business. I can't very - I just can't have you people running all over the country, and I have got to carry the whole burden myself. I don't know anything about Mexico and I don't know anything about Canada. You see what happens, you gentlemen leave and then I have got to carry the whole thing. I can't do it.

White: Well, if you have something else in your mind about Mexico, you may be right, but if what you have in mind is Mexico, it will take five minutes to let you know what is to be done.

W.C. Jr: I can't - I don't know the whole Mexican thing. I am not going to do this thing until I know the whole Mexican deal.

White: Daniel Bell thought that he would be able to take care of the Social Security work which I would do, if that met with your approval.

W.C. Jr: I am not going to do it, that is all. Look, if you leave town, I am not going to touch Social Security.

- Blough: Then I had better not go.
- H.M.Jr: And I am not going to worry about Mexico.
- White: Mr. Secretary, don't get the notion this Cuban thing is a jaunt. The Cuban government is reorganizing its monetary and banking system. There is a lot of work there that needs to be done to initiate the studies. They have asked the United States to do it. If the Treasury doesn't do it, I don't see who can or who will. It is in no sense a jaunt. It is hard work. It will be about three or four days down. I will fly back by the end of the week. It is something I don't think you can avoid the responsibility on and though I have been kidding about it, I don't like the impression that it is a jaunt.
- H.M.Jr: I sent Roswell Magill down there a couple of years ago. He did a good job. Did the Cubans ever do anything about it?
- White: Well, yes, they have done some things and they may do more now that this thing which has been cooking for four years - they were up here four years ago and I mis-spent almost a month with them. They were up here two years ago and we spent very much less time with them and the Federal Reserve Bank spent more. They are now ready to go through with something, perhaps.
- H.M.Jr: Well, I am doing something which I have never done before. I am out half the time trying to talk about inflation and Defense Savings Bonds and so forth and so on, which is something entirely - I have never done this before, and I am going to continue to do it as long as I get a good reception. With that in mind,

- 4 -

the other people who I have made heads of bureaus have got to take additional stuff and carry it. Now, John Sullivan has been away for over three weeks. All this stuff - been away for three weeks. I won't illustrate everybody.

Next Monday, Tuesday and Wednesday I have got to do just two things. I have got to, with Kuhn's help, write a speech for the A.F. of L. and I have got to raise a billion dollars.

Now, I have got to do that in three days, and Mr. Wells calls up, will I see this man. I don't know anything about it. I want to know about the Mexican thing. No one has told me a thing.

I want to know the whole deal. I have refused to see him until Mr. Wells comes over, and I can't have my key men leaving town if I am going to leave town. This is something new. I never used to leave town.

I have never said a word. If somebody wants to go this place or that place, I pick up their responsibilities and carry it. I am not going to do it any more.

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- White: Well, Mr. Secretary, I think this Cuban thing --
- H.M.Jr: I am not going to do it. I am not going to carry other people's work, from now on.
- White: This Cuban thing I think is Treasury responsibility, and if you can arrange, which I think you could, that if I don't go, that I can send my assistant, that suits me perfectly, but as the understanding is now, if the Treasury wasn't going to go, they were going to put somebody in the Federal Reserve Board to take charge, and I think that is an unfortunate development.
- H.M.Jr: But gentlemen, without illustrating it, when anybody is gone I have always picked up their work and I have carried it, and I have done it. I am not going to do it any more.
- White: Well, who is responsible for this Mexican thing?
- H.M.Jr: You have carried it up to date.
- White: I think so, but I didn't know that you thought so.
- H.M.Jr: Who else has? You have and I don't know a thing about it, but I have got to face this man and he starts this thing and he starts that. I don't know about the oil deal that the State Department has made, and I am not going to make a Stabilization loan unless I know the whole story. Now, you have carried it up to this point. You rushed me into having this fellow come, and he is here now Monday, and I should see him alone when you have got all the details.

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White: Well, I am sure Dan has as many details as I have, but aside from that --

H.M.Jr: Dan isn't here and Dan has got to do my financing.

White: I certainly am not going to argue myself into going, but I would like to ask you to cooperate. We have done quite a little on this Cuban thing. I do think Treasury ought to have the responsibility. If you would call up Welles and ask him to - to let me send my assistant.

H.M.Jr: You call him up.

White: With your authority?

H.M.Jr: You are Assistant to the Secretary. You call him up.

White: With your authority I can call up to send my assistant down. It will be satisfactory to me, because he is conversant with our views and problems, and we can pick it up at a later date.

H.M.Jr: That was my understanding originally.

White: I want the Treasury to continue to have the responsibility for that investigation.

H.M.Jr: Harry, I told you when you first talked to me about it --

White: Well, it is a question as to who is going to be responsible, who is going to be in charge. It is not a question as to what men go down.

H.M.Jr: You can tell Mr. Welles I want a Treasury man in charge. Who are you going to send down?

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- White: I will send Frank Southard. Now who can you send to Canada --
- Elough: If you are willing for Eldon King to represent the Treasury in Canada - I understand you and Mr. Sullivan preferred to have someone else there also, but I am not asking to go to Canada, far from it.
- H.M.Jr: The same thing is true, Roy. I am not going to be here with this thing popping any time. You have carried the responsibility on Social Security. Now it should all be dumped on my shoulders. I am not going to take it. I mean, I have done John Sullivan's work for three weeks. I am not going to do it any more. For three weeks I have done John Sullivan's work. I am just not going to do anybody else's work from now on. I have covered up for more people here, and I am not going to do it any more. You fellows will have to cover up for me. John King or John Sullivan can go. I am not angry. It is just a new deal in the Treasury, that is all. I am sure you all agree. But you will have to let King go. As far as I am concerned, John Sullivan can go. I mean - well, I am not going to say anything more. I have said enough.
- Norman?
- Thompson: I have nothing this morning.
- H.M.Jr: Harold?
- Graves: I have nothing that won't carry over, except this. Mr. Bruere, who was to come in at eleven thirty, went down to get his plane this morning and found that the flights from New York were cancelled, and he is coming down by train, to reach here at one. Whether you can --

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H.M.Jr: Out. That is good. That gives me a little more time. I can't do it.

Graves: Mr. John Blair is in town. I suppose you wouldn't be able to see him.

H.M.Jr: Who is he?

Graves: He is our man from Warren, Pennsylvania, that advises us on direct mail advertising. Mr. Bob Jackson's friend. You know him too.

H.M.Jr: Is there any particular reason why I should see him?

Graves: No, except that you have expressed before the desire to have him come in.

H.M.Jr: Do you want that eleven thirty for him?

Graves: That would be very nice.

H.M.Jr: And when they come in, could you have the stuff? I am very much interested in the report that they sold ninety thousand of stuff in connection with my speech. I don't understand what he means when he keeps saying commercial lists, they have sold a million dollars on commercial lists.

Graves: That means the corporations to which they have sent literature about F and G Bonds. That is what he means.

H.M.Jr: And bring in his man.

Graves: I will have Mr. Buckley come too.

H.M.Jr: Right. I just want to say this. If White and Blough weren't so indispensable to me, I would say "Go," but the fact that you

people have made yourselves so indispensable, I can't spare you. I am paying you the highest kind of a compliment. If I didn't need you - I am very sincere now. If you fellows hadn't made yourselves indispensable, I would say, "God bless you," and "Go." "Go to wherever you want." But I have given you responsibility. You do beautiful jobs, both of you, and I leave it to you up to the point I have got to sign, and then I am completely in ignorance, and I have got to spend two days finding out what you fellows can tell me in fifteen minutes. If you weren't so indispensable, I would say, "Go, and good riddance," but, I am very sincere, you have made yourselves indispensable. If I thought you needed the vacation, I would be the first to ask you to go --

White:

It is nothing in that class at all.

H.M.Jr:

So it isn't that. Harry, look at me. I am talking to both of you. It is the fact that both of you are indispensable, and I want you around me, and I don't want you away. I may not be doing it in the most diplomatic manner, but I am not scolding, I am praising, and I am just annoyed at the thought of having you out of town. So long as we understand each other. O.K.

White:

Yes, I was concerned only that the Treasury --

H.M.Jr:

And my only concern is that both of you have been handling very difficult situations, and I don't want to take the time to learn my homework, and I want you both here when Social Security or anything else comes up. I am paying you the highest compliment I can. If I didn't need you, I would let you go.

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White:

Mr. Wallace, at the end of the last meeting on economic defense, had a little memorandum from Louis Bean, which contained some estimates of the effect on prices and what not. He asked me to check on it. I didn't have a chance. I left it on my desk. He called me about it. I sent him a letter saying that we were studying the effect of the new taxes and the contemplated Social Security program, and so forth, on the price level, and that I would be glad to let him have a copy of it when it was done. I sent a copy of the answer to you. While he was on the phone he said that one thing he was interested in and wondered whether I would look into it, was something which he had spoken about before, but I didn't pay much attention to, and that was a kind of an excise tax or a sales tax on certain commodities whose consumption we wish to restrict, but the tax to take the form, rather, of saving.

In other words, a man pays a tax and it represents a saving stamp or something. He was rather vague about it, but it was that objective. I said that we would look into it and prepare a memorandum on it, and he spoke to Louis Bean who later spoke to me, to get in touch with me on it, so I am letting you know that we are working on something like that. It is a small matter, and I will present the memo to you before we give anything to him.

H.M.Jr:

Now, there is one - is that all?

White:

That is all.

H.M.Jr:

Here comes a thing, confidential, from Harriman for Hopkins and Secretary Morgenthau.

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(Discussion off the record).

White: Mr. Bewley spoke to me again. He urgently requested a reply to that memorandum. ~~The~~ The Russians haven't appeared.

H.M.Jr: All right?

White: The Finance Minister, Suarez, wants to discuss, according to his assistant, freezing funds. He would like to see Mr. Foley. Would you prefer that he waited until after he had seen you?

H.M.Jr: No, I would let him go ahead. I have given him three o'clock Monday, but I insisted that Mr. Welles come over here first to tell me the whole Mexican deal at eleven, which I would like you to be here for. So if you (Foley) would see them.

White: Well, if you are not going to be here tomorrow --

H.M.Jr: I will not be here.

White: And if you are going to be busy Monday morning, I think if you set aside ten minutes today, we can bring you up to date on the Mexican negotiations, so that when Mr. Welles comes here you will know what we have been doing.

H.M.Jr: You couldn't put it in a memo I could take up to the farm?

White: Very easily.

H.M.Jr: Thank you.

White: That is all.

H.M.Jr: Chick?

Schwarz: United Aircraft has notified us that they are contemplating action against McCall's Magazine, which last month ran a piece by Pearson and Allen in which they say that you had to threaten them in order to get them to license engines so that other American manufacturers could make them, that they had licensed German manufacturers over the protest of Cordell Hull. And then they quoted you as saying, "Since you have licensed your patents to Germany, you can license them to the United States Government. And we are going to re-license them to any company we think will speed up production, even if they are competitors of yours."

H.M.Jr: Well, let Foley handle that whole thing. He handled it --

Foley: Truth is the best defense. We said it.

H.M.Jr: Turn it over to Ed because he handled the whole thing. God knows what he said at the time. (Laughter).

Schwarz: They wanted our collaboration.

H.M.Jr: Well, I don't know. Ed says we said it.

Foley: It sounds familiar.

H.M.Jr: The New York Times ran my speech again?

Schwarz: They ran a full text of it.

Kuhn: So did the Wall Street Journal.

Schwarz: The Wall Street Journal has a very good editorial.

H.M.Jr: Well, B.M. Edward wanted me to tell - you see if I tell the story right. He says, "You tell that man Ed Foley at least we got a good New Deal resolution from the Bankers."

- 18 -

I don't think Ed did as well out at Indianapolis. He said they tried to impeach the President. Where was Ed Foley when they were trying to impeach the President?

Foley: Yes, look. Look at that (handing clippings to Secretary). (Laughter). Look at that, "upholds the President."

White: Must be local papers. (Laughter).

Foley: I am glad you mentioned it. I would have been too modest.

H.W.Jr: This is the Syracuse Sentinel. (Laughter).

White: He didn't tell you his pal was editor, did he?

H.W.Jr: No wonder, Syracuse Sentinel.

White: I think it is very interesting, that that speech was published again, because when I read it I expressed the opinion that I didn't think it would be.

H.W.Jr: You mean Foley's?

White: No, your speech. Not because it wasn't a good speech, but because it didn't have any startling news in there. The fact it was printed I think is very significant. It indicates a carry-over of the general interest and it - it indicates a different level and I think it is far more significant than had it been printed because it had some kind of a punch in it like six per cent profits or something.

Swartz: The Wall Street Journal editorial says it bears repeating. They are glad to repeat it.

H.W.Jr: I am not asking for compliments, Harry, but I don't quite understand you. Oh, I see, you read the Wall Street Journal where it says it is worth repeating.

White: No, I didn't know it was in there. I was surprised it was reprinted.

H.W.Jr: Well, I am too. Why do you suppose they did it?

- White: Well, I say the significance of the reprinting to me is, without having read any of their comments, is the fact that they are now interested in your speeches. In other words, let me put it this way. I think if the next speech you make is a bum one, it will still be printed. (Laughter)
- Klotz: That is a wonderful compliment.
- H.M.Jr: Now you see why I want you to stay around here?
- White: I am just getting even. (Laughter)
- Foley: It is liable to be bum.
- H.M.Jr: Ferdie, I can't use such high-faluting language, but when the speech was in progress, tell them what Peter Odegard said about it, which I think was priceless.
- Kuhn: The first time Peter Odegard saw the draft of the speech and said, "Mr. Secretary, I think this speech is argumentative, hortatory, petulent, and peevish. (Laughter)
- H.M.Jr: Other ways it was good.  
Anything else Chick?
- Schwarz: That is all.
- H.M.Jr: George?
- Haas: I have a few things.
- H.M.Jr: George, I wish - well, you give me the reports first.
- Haas: Here is the four months' figure.

H.M.Jr: I see. You got down to seven percent. That isn't bad. Where are the notes?

Haas: I don't have them.

H.M.Jr: It is not bad.

Haas: I haven't done all of that yet.

H.M.Jr: I have got to do this this morning. I would like to see - fifteen minutes after this meeting breaks up, I would like to see you (Haas) and Madley and Henry Murphy and Dave Morris. Fifteen minutes after this meeting breaks up. And George, if you would have this in mind when Mr. Chester Barnard comes, one of the assignments I am going to give you is to prepare material for me as a member of this so-called economy committee, you see. I gave you all that stuff of the American Farm Bureau Federation.

Haas: Can I tell you in half a minute about how good that is?

H.M.Jr: How good is it?

Haas: They say in times like these they should economize. They have made this study which is very thick to prove that the administration of all these acts which are spending so much money should be improved, and if you would improve them you would save a third on the administration, which is thirty million dollars. This just doesn't mean anything. They are just diverting off onto another tangent.

H.M.Jr: I see.

Haas: Do you want this acknowledged? I would be inclined, if I were you, to have it acknowledged by the Administrative Assistant.

H.M.Jr: No, I acknowledged it when he gave it to me.

Haas: It doesn't mean anything in terms of economy.

H.M.Jr: George, I wish you would be thinking about it, and also Harry would you be thinking about it, what kind of stuff we should feed to Chester Barnard. I am going to ask him to be my alternate on that committee, the so-called Byrd committee.

Haas: The resolution to reduce expenditures.

White: How to reduce expenditures?

H.M.Jr: Yes.

Haas: I have a couple of minor things. Did you want to take up the question of these memoranda which are out of the ordinary?

H.M.Jr: Not today. Just hold them.

Haas: I have got two of them. I think you will approve them without question.

H.M.Jr: Will it take long?

Haas: About a minute.

H.M.Jr: Go ahead.

Haas: One was in connection with the Federal Reserve and those meetings on excess reserves. They are continuing the meetings. Bell had another meeting, and they worked up jointly with us a series of memoranda and we are preparing them jointly with Harry's staff on excess reserves and controlled credit.

H.M.Jr: That is all right.

Haas: The other thing is that the Budget Bureau

sent one of their men over after they received these estimates on '43, and Smith would like to see what would happen to his budget in case of a rather severe inflation. They want us to make a series of estimates, assuming a thirty percent price increase and fifty percent and so on.

H.M.Jr: O.K.

Haas: That is too much work.

H.M.Jr: Oh, you want me to say no?

Haas: Yes, right at that point. So I settled with him on this basis. We will work out one more estimate, assuming prices went as they did during the last World War. They thought that was swell.

H.M.Jr: Good.

Morris?

Morris: Nothing.

H.M.Jr: Ferdinand? Are you seeing Gardiner Jackson or have you seen Gardiner Jackson?

Kuhn: I am going to today.

H.M.Jr: Will you make my apologies?

Kuhn: Yes. This is the Neville Chamberlain material on profits and taking the profit out of war, and this is the sales of records in the order of popularity that you asked about.

H.M.Jr: Oh, very interesting. I want to take that to the farm.

Who is going to be out at Seattle? Is Gardiner

Jackson going to be out there?

Graves: No, Mr. Hyatt from our staff, our labor man whom you have met.

H.M.Jr: And he is leaving today?

Graves: He has gone, hasn't he Ferdie?

Kuhn: He went to Denver first to clear up some matter out there.

H.M.Jr: But he will be out there?

Graves: He will be there.

H.M.Jr: Well, where does Gardiner Jackson get in on this?

Klotz: He wanted to come in with it, and Mr. Hyatt wasn't supposed to leave until tonight.

H.M.Jr: But he has gone?

Graves: Yes.

H.M.Jr: Well, if you (Kuhn) would send for Gardiner Jackson and tell him I am all tied up today. If he still wants to see me next week, I would be glad to see him.

Kuhn: Mr. Secretary, the National Association of Insurance Agents is meeting at Kansas City to talk about payroll allotments. They would like you to talk from your desk for a few minutes on October 13, I believe, thirteenth to seventeenth, and Harold and I both think that it is something that ought to be done, even if it is only for five minutes.

H.M.Jr: Is that where I could make the bum speech?

Kuhn: Oh, that could be a fine one.

White: No, you can make the bum speech any time.  
(Laughter)

Foley: Take it easy, Harry.

White: That didn't start out that way.

Foley: Remember where you are.

H.M.Jr: I have got the best crowd in Washington.  
O.K.

Kuhn: I am asking you now because they would like to know.

H.M.Jr: The answer is yes.

Kuhn: Fine. That is all.

Blough: I just want to say on this Canadian business, I don't want to go to Canada, and I don't - I think it will be taken care of all right, so I wouldn't - I will be around.

H.M.Jr: O.K. It is all right. You and Harry both can treat each other. It is a privilege to stay here and work.

Blough: There is something to that, too.

H.M.Jr: All right. I will have to see Altmeyer Monday, too, because he has asked. Tell Altmeyer ten-thirty Monday and tell Fitz, will you? And you be here, please. Well, let's make it eleven-thirty. Welles is coming at eleven.

Blough: No signs of a White House conference yet?

H.M.Jr: No.

Foley: Everything lovely?

Here is a report on the trip up State from John and me.

H.M.Jr: Oh, yes. I will take that to the farm.

Foley: And here is a program on public relations of Foreign Funds Control and a proposed letter for you to send to all the banks.

H.M.Jr: Fine. Were you able to get back on Bob Patterson's plane? I hear you had quite a time getting on it.

Foley: No, I didn't come back with Bob Patterson. I came back with Francis Biddle on the train.

H.M.Jr: But I mean I hear you tried to get back on it. Weren't you able to fix it up?

Foley: No, I didn't have any trouble. Eddie was going to go, and Eddie said if I wanted to come back with them, I could.

H.M.Jr: That isn't the way I heard the story.

Foley: What did you hear? I didn't even try. I came back on the train with Francis Biddle Tuesday afternoon. I got in Wednesday morning about ten o'clock.

H.M.Jr: I heard you were trying to get onto Patterson's plane. False rumor?

Foley: Guess it must have been.

H.M.Jr: Ask your secretary. Anything else?

Foley: No.

H.M.Jr: There was no real hostile feeling toward the

President, was there?

Foley: Oh, I didn't encounter any at all. When I made the speech on his defense powers, there was complete agreement. There were no questions at all. There were some questions - at the speech on Foreign Funds control, there was a much bigger crowd there. There were about four hundred at that. All the insurance lawyers - that is the biggest section in the Bar. I think it is a good thing--

H.M.Jr: Well, evidently you did very well.  
Has Sullivan been?

Foley: Yes, Sullivan was there. He is mentioned in the article. That is what I wanted to show it to you for. (Laughter) It said he was there.

White: Also.

H.M.Jr: Have you shown that to Mrs. Foley?

Foley: No, not yet. I haven't seen her.

H.M.Jr: Is that all?

Foley: Yes.

H.M.Jr: Herbert?

Gaston: You raised a question about one of these candidates for appointment as ensign. The boy is twenty-three years old. I think both as to his qualifications and his eligibility for draft - well, here is a report as to his qualifications, and they seem pretty good. He has had a lot of experience with small boats, and he is a student of the University of Washington Navigation School, and he is

- 22 -

recommended by a Captain in the Navy who is a professor at the University of Washington. As to his age, as to being subject to the draft, the Coast Guard is, by arrangement with the Selective Service Board and with the Army and the Navy, soliciting - recruiting for the Reserve boys who are within the draft ages and who are in class one, so long as they have not actually been called for examination.

Now, all these Reserve officers whom we are commissioning are going right into active service. It isn't a case of their taking--

H.M.Jr: But this man has some technical qualifications?

Gaston: Yes, here is the story. It looks pretty good. They first raised a question as to him, and then they went back and got further information from Captain Barr at the University of Washington, and it seems to look all right.

H.M.Jr: Well, it says here he received what was recommended - and was rejected by Headquarters--

Gaston: By Headquarters here.

H.M.Jr: .... on account of lack of practical experience.

Gaston: Yes. "Further information submitted by the commander revealed that he was continuously studying seamanship and navigation. Captain Barr recommended him for the appointment. Thomas has considerably more practical experience than was first indicated, and he has been employed for about five years in various capacities on power yachts, which seems to look all right."

H.M.Jr: That is all right. Send the thing back, and I will sign it.

Gaston: All right.

There is another thing about that, and that is that I didn't know that you had asked that these be submitted to you. I had been signing the commissions in the Reserve. The first time I heard about this arrangement through Stephens was from Miss Chauncey day-before-yesterday.

H.M.Jr: Well, I simply asked that anything put on my desk, that they be justified, and then I also told them - I went all through this thing a month ago.

Thompson: The only instructions I had were with respect to the regular commissioned personnel.

H.M.Jr: No, the only thing I was interested in was for the Reserves. I think I must have taken it up with Admiral Waesche.

Gaston: You took it up with Stephens and Stephens talked to O'Neill, but nobody told me about it and--

H.M.Jr: Then I had a review made of all previous appointments.

Gaston: Did you?

H.M.Jr: Oh, yes.

Gaston: I didn't--

H.M.Jr: Well, the Coast Guard knows about it. I asked for a justification of all appointments. I guess Admiral Waesche assured me that there were no political appointments. I went all

through that. I don't care - I didn't issue any orders that I wanted to sign them, but I did issue instructions to Headquarters that I didn't want anybody given a commission unless he had technical qualifications. That is all.

Gaston: Yes.

H.M.Jr: I don't want to be bothered, but be sure that somebody's Senator or Congressman doesn't have a boy given a commission for political reasons, but if the men are qualified, O.K., but I want to make very sure that they are qualified.

Gaston: Yes. Well, I think that is being pretty well looked after, but I wanted to let you know that I have signed upward of a hundred commissions in the Reserves.

H.M.Jr: Well, if you are satisfied that none of them are political, that is all right, but if you don't mind, I would like to hold you responsible.

Gaston: Yes, I will watch it very closely.

H.M.Jr: I mean, I don't want to appoint anybody because he is somebody's son or somebody's friend or so forth, because he has got to have the qualifications.

Gaston: Yes, sure.

H.M.Jr: And that is what I explained to somebody, I can't remember who. Ask Waesche if he doesn't know about it.

Gaston: Yes.

H.M.Jr: All right?

If Kuhn and Graves would stay, please.

October 3, 1941  
10:55 a.m.

Daniel  
Bell: Did you have a good trip?

HMJr: Yes.

B: Tiresome?

HMJr: No.

B: Well, fine. Even made the headlines.

HMJr: Well, I suppose I would.

B: Now, I wondered if - as long as I'm starting some discussion up here with these dealers, if you didn't want to say something about financing.

HMJr: Oh.

B: They've - of course, the first question is as to how much we're going to raise, and I've made it quite a range. I said, "I don't know yet." That you haven't considered it and that.....

HMJr: Well, what's on your mind?

B: Well, this is the situation. We have a billion three forty going out of September.

HMJr: What's that?

B: A billion three forty.

HMJr: Wait a minute. I've got the group outside.

B: Yeah.

HMJr: Just hold on. Go ahead, Dan, and talk. The men are here.

B: I say we have - we had - a billion three hundred forty million at the close of September. If

- 2 -

we raise a billion dollars cash in October, get two hundred and fifty million of cash notes - I mean, tax notes - two hundred fifty million of Savings Bonds, and then raise an additional six hundred fifty million for RFC and United States Housing at the end of October, we would go out of October with about a billion nine hundred and fifty million.

HMJr: Now you've got to repeat it again, Dan, please.

B: If we raise a billion dollars in cash for the Treasury at this time.....

HMJr: Right.

B: .....get as much as two hundred and fifty million dollars in tax notes.....

HMJr: Yeah.

B: .....two hundred and fifty million on Savings Bonds.....

HMJr: Yeah.

B: .....and at the end of the month raise six hundred and fifty million for RFC and United States Housing.....

HMJr: Yeah.

B: .....we would go out of October with a billion nine hundred and fifty million.

HMJr: Yes. That's if we raise a billion?

B: Yes, sir.

HMJr: Yeah.

B: Now, we go out of November with no further financing in November other than Savings Bonds and Tax Notes.....

HMJr: Yeah.

- 3 -

B: .....with nine hundred and seven million.

HMJr: Yeah.

B: Now, that probably is a little low.

HMJr: Yeah.

B: And maybe we'll be getting towards the quarter period when they'll - the companies will take more tax notes.....

HMJr: Yeah.

B: .....and our balance may be a little above that.

HMJr: Yeah.

B: But, of course, we could have a couple of Treasury bills if it got low.

HMJr: Yeah.

B: So it looks as though with that program, we ought to have at least a billion dollars at this time; and I don't know whether you'd want to go any higher than that or not.

HMJr: I'm willing to go higher.

B: Now whether you'd want to put it out as a range. You'd want to - you're going to have a new cash offering of as much as a billion to a billion and a quarter.

HMJr: That's all right.

B: Is that all right?

HMJr: That's all right.

B: And do you want to say that it's going to be a long bond?

HMJr: Well, I.....

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B: I said you're going to give it consideration.

HMJr: No, I don't think I'd say that today.

B: You don't.

HMJr: No, I can say that Monday afternoon.

B: Yes, you can say that Monday afternoon.

HMJr: I'd just give them the amount.

B: Uh huh.

HMJr: But I haven't had a chance to discuss it with my boys.

B: Well, I - if you can give the range on it from a billion to a billion and a quarter, I think that might help.

HMJr: I'll do that, Dan.

B: All right.

HMJr: I'd like to do it all in a bond.

B: All in a bond?

HMJr: If possible.

B: Well, I just talked to Dudley Mills, and he feels you can do it in a bond; and he had his trading man with him. They feel that a billion and a quarter can be done in a straight bond. They think the insurance companies will take it and savings banks will take it.

HMJr: Yeah.

B: The banks will take it on the first issue, but, of course, they'll sell it to the insurance companies, and they might find savings banks selling some of their present holdings to the banks and going into the longer bond. They don't think it will affect

the market any, although there'll be some trading.

HMJr: Well, I sat next to Randolph yesterday and I talked a little shop and I asked him how he felt about bonds - all bonds - two and a half bonds, and he said, "No trouble whatsoever. They're hungry for it."

B: Uh huh.

HMJr: He said, "The banks may buy it and they'll re-sell it," but he said, "what harm if they do re-distribute?"

B: None.

HMJr: What?

B: No harm in that.

HMJr: No.

B: Just a little churning, but I think it might help a little.

HMJr: Well, I think I'll say a billion to a billion and a quarter, but I'm a little bit previous. I haven't had a chance to talk with my own people or the others.

B: Well, I think that's right. The only thing, you could say that we certainly would give consideration to a long bond.

HMJr: I don't think I'll say that. I think I'll just say I'm going to borrow between a billion and a billion and a quarter.

B: And that's in line with your previous policy - giving out the amount and then indicate later what the type is.

HMJr: Yes. And shall we make up our mind earlier Monday - oh, I think if they have it four o'clock and they read it Tuesday, that gives them a day's time to check and.....

B: Yeah. Yeah.

HMJr: What?

B: You'll say something right away then.

HMJr: Now?

B: Yeah.

HMJr: Oh, you mean not.....

B: About the billion and a quarter.

HMJr: .....wait until four o'clock?

B: Well, I'm talking to the dealers.

HMJr: Oh.

B: See? And I'm afraid they're going out, and I've have quite a range, from seven hundred million to a billion and a quarter.

HMJr: Oh, you want me to put it out right away?

B: I'd like to just let it leak out that you're thinking of this figure so that I won't give any wrong indication up here.

HMJr: I - well, I'll - I didn't get that.....

B: Don't you think it's better.

HMJr: I'm all confused. I thought I had press today. I don't have any press today. I'll do it at once. I think you're right.

B: Yeah. Now, the other thing is, I assume in view of the time that you don't want to see any of these boys - the dealers?

HMJr: I'm just thinking.

B: You've got eleven o'clock Tuesday.

HMJr: Well, I tell you what we can do. I could

- 7 -

start in at eight-thirty Tuesday and run from then until eleven o'clock - every half hour. I could run in a lot.

B: Yeah.

HMJr: You'd better fix it up down there.

B: Do you want to do that?

HMJr: Yeah.

B: You're getting too much in there now, if you're.....

HMJr: No, no. Start - run me from eight-thirty to ten-thirty. That's, I think, two hours - I ought to be able to see eight people - eight groups.

B: Yeah. Eight-thirty to ten-thirty.

HMJr: Yeah. Eight-thirty to ten-thirty I could run in eight groups. It's too many. I wouldn't bring in more than a half a dozen groups.

B: Okay. You want to see people different from whom I'm seeing? Except you might want to see Discount. I've seen Dudley Mills.

HMJr: Well, I'd like to see the Discount boys and also - what's-his-name?

B: Devine.

HMJr: Devine.

B: Well, I'm not seeing Devine.

HMJr: Well, let me see the Discount boys and Devine.

B: And then we'll fix up some others.

HMJr: Yes, and one life insurance fellow.

- 8 -

B: Okay.

HMJr: What?

B: Yeah.

HMJr: You might bring me down Lewis Douglas and his man.

B: Lewis Douglas and his man? Bring Lew down?

HMJr: Bring Lew down.

B: Lew, I think, would like to talk to you anyhow, about another matter.

HMJr: Well, bring Lew down.

B: Okay.

HMJr: Tell him I can't talk about fight for freedom until I've got some money.

B: Well, Lew wants to talk to you about committee work.

HMJr: Yeah.

B: Up here.

HMJr: All right.

B: And I think it might be a good thing for him to come down.

HMJr: Okay.

B: One more.

HMJr: Yeah.

B: I've got a meeting tomorrow morning with the State Department on Iceland.

HMJr: Yeah.

- 9 -

B: And they called me this morning and said that situation - the dollar situation in Iceland is rather serious.

HMJr: Yeah.

B: Would you be willing to go along with a two million dollar Stabilization loan there?

HMJr: Sure.

B: I think it might be a good thing, and I think we can get it back.

HMJr: I'd a great deal rather do that than this - what was it - two million or five million we gave to Nicaragua.

B: Ecuador?

HMJr: Ec - no, Nicaragua.

B: I'd much rather do it here than Ecuador.

HMJr: Don't you remember the Nicaragua one?

B: No, I didn't hear that one.

HMJr: Sure. We gave it to the fellow who killed his uncle in order to become president.

B: (Laughs) Yeah. Well, I think this is better than some of them. Well, I'll go ahead on that basis then - Saturday morning.

HMJr: That's all right.

B: All right.

HMJr: Thank you.

B: Thank you.

October 3, 1941.

MEMORANDUM FOR THE SECRETARY'S FILES

The Minister of South Africa, R. W. Close, called on Secretary Morgenthau at 11:30 a.m. today. Mr. White was present.

The Minister stated that his country was urgently in need of steel mills to produce additional steel in South Africa. The applications for the material had been forwarded to the United States, and the Minister was hopeful that Secretary Morgenthau would help the Union of South Africa obtain the desired material. If such material could not be appropriately procured under Lend-Lease, his Government hoped that they would be able to purchase them for cash. The second item which the Minister stated his Government urgently needed was some gold-mining machinery.

The Minister stated that apparently little was known in this country about the large contribution his country was making. He stated, for example, that with white population of 2,000,000 they had fully equipped an army of 100,000 men to fight in the British forces. He stated that they needed to increase their gold production in order to increase their purchases so they could give the maximum assistance to the forces fighting Germany.

He left with the Secretary three memoranda, copies of which are appended, and a budget statement of the Union of South Africa.

The Secretary replied that he would do what he could to help the Union of South Africa obtain the steel that it needed and that he would consider the matter of gold-mining machinery. Secretary Morgenthau cautioned the Minister not to expect too much, as the question of priorities of goods going to South Africa was only indirectly related to the question of the dollar position to the Union of South Africa.

H. D. White

GOLD MINING STEEL PLATES.

REQUISITION.

1. 1200 long tons Mild Steel Plates for South African Gold Mines.
2. Under Lend Lease by Regulation 3305/802 of 1st August 1941. Control Reference S.A. 67/LL/R 301.

NOTE. Shipment desired October - March at say 2000 tons per month.

3. Memo at foot of requisition.

"These plates are required for Plant Maintenance  
"on the Witwatersrand Gold Mines the continued  
"operation of which is essential to South Africa's  
"economic structure and war effort. The Mine  
Workshops are also actively engaged in production of  
"bomb casings, etc".

4. After requisition in - by telephone there was a query over the telephone as to the part played by the Gold Mines in South African war effort. ?????
5. General Smuts: Realised the grave danger that if that view obtains no chance of obtaining material for the mines !!!.

Memo "Belgian Congo".

SOUTH AFRICA'S PART IN WAR.

be regarded as to three spheres -

1. War Effort in the Field.
2. War Economy.
3. Production of War Material.

I. IN THE FIELD.

194 <sup>had been</sup>  
In November 100,000 army raised and large part sent  
to Abyssinnia. Fully equipped in all branches  
6000000 !!

Equipment and its maintenance

Entirely Union responsibility  
Largely Union manufacture.

Ex nihilo.

3. Allied armies received from Union large supplies  
equipment ranging from armoured trucks and vehicles to  
shells, ammunition and boots (2000000 in three months).

We make howitzers.

4. Mainly work of Mines, Railways, Iscor.  
Mines share highly important.

5. Delhi Conference. Heavy future commitments.

6. In all these matters Mines played a vital part  
it would be a grave disaster if anything were to happen  
to stop production.

7. Field Marshal Smuts regards so gravely risk of  
jeopardising the supply of material for mines that he twice  
or more in September cabled to London to represent to the  
British Government that it was fundamental to regard Gold  
Mining production as part of the war effort.

8. Witwatersrand University on Gold Mining Area - Long  
before this question had taken present form General Smuts in  
speech to University declared that the Mines were probably  
contributing as much to the South African War Effort as  
our own fighting forces in the Field (Soldier Statesman)

Pardonable in view of their record (and his)  
to say "And that's that".

*Pardonable in view of their record (and his) to say "And that's that". - 3/ -*



2. Indirect Taxation.

Customs and Railways re Mining Stores  
(machinery, chemicals, etc. etc.)

even in 1939 - over £34000000

6. Employees wages (394000 personnel.)

Natives and European.- (6.7 ratio black to white)

Personal taxation by all.

Income tax by large percentage European.

3. Dependent on Mines.

(1) Many factors directly dependent on Mines:  
Manufacturing supplies (machine parts, steel drills and  
explosives, etc.)

(2) Explosives Manufacturers -

Cape Explosive Works.

One of greatest South of Equator.

Done splendid war work: supplying all South African  
civil and military needs: and sending large supplies to  
other war centres.

Intimate connection with and dependence on Mines <sup>above.</sup>

(3) S.A.R. & H. Annual Budget (explain),

In importance rivals Union Budget, (National Railways).

Major portion its revenue is from haulage of Mines.

(4) Agriculture - Farmers rising into hundreds of thousands  
depend directly or indirectly on Mines.

4. Sterling Support.

(1) General <sup>took</sup> ~~mutts~~ under ~~stand~~ to make available to the  
United Kingdom the equivalent in gold of the value of  
goods obtained by us in U.S.A., i.e. virtually we pay  
cash.

(2) Transfer to U.K. serves to help finance the war for rest  
of British Commonwealth.

International Aspect.

Could not wish for more convincing statement than that made by the Secretary himself.

FINAL.

Read summaries or paraphrases of General Smuts telegrams.

October, 1941.

MINISTER'S COPY

no 171 e/d

PRIME MINISTER TELEGRAM TO HIGH COMMISSIONER LONDON:

1. Clearly fundamental to regard gold mining production as part of the war effort of the Union.
2. Opportunity therefore of getting from U.S.A. the <sup>material</sup> material necessary for gold mining should not be put in jeopardy
3. Gold Mining Production essential -
  - (a) Because of British Dollar Exchange.
  - (b) Because the gold mines contribute so very greatly to the Public Revenue of the Union as follows:-
    - (i) Direct Contribution: 1/3 of total Union Public Revenue.
    - (ii) Indirect Contribution - probably practically the same share - 1/3.

GOLD AND STEEL

Telegram 147: 1st September, 1941, conveys text telegram to High Commissioner, London, to inform Dominion Secretary.

- (1) We wish to make use of Lease Lend to maximum extent for all purchases so far as held applicable.
- (2) To the United Kingdom Government we will make available in gold - the equivalent of Lease Lend use.
- (3) Promise from 1st September complete control of exports and imports per Import Permits, also where needed Essentiality Certificates plus for goods bought in U.S.A. priority ratings.
- (4) Control of
  - (a) Use and distribution promised - via National Control Board.
  - (b) Prices - through Price Controller.
- (5) Therefore can assure U.S.A. that Lease Lend conditions will be fulfilled, viz:
  - (a) Centralisation of orders by S.A.P.C. in New York - presented by B.P.C.
  - (b) Purchases will be those essential to war effort and community vital needs.
  - (c) Purchases in U.S.A. by Union private persons of such commodities will cease.
  - (d) Undue profit by agents (distributors) will be stopped.
  - (e) But Government will be secured re use and distribution for its purposes.
  - (f) "Re-Export" of Lease Lend things from Union will be prohibited - unless arranged with U.S.A. - e.g. other African British territories like Rhodesia.
- (6) List of articles to be dealt under these was given including commercial motor cars. Difficulty with passenger motor cars but hope for share for Union in quota allocated by U.S.A. *Steel was already included*
- (7) Sapurcom will be advised of priority ratings and import permits - and told to act in collaboration with War Transport Ministry in New York to arrange necessary sea freight.

MINISTER'S COPY

TELEGRAM.

EXTERNAL AFFAIRS (7) PRETORIA.

SOUTH AFRICAN LEGATION, WASHINGTON, D.C.

2nd October, 1941.

SECRET

Further to my telegram 171 McColm telegraphed Swingler  
a very comprehensive statement of activities Mines Incor and Railways  
direct production of material for Africa and Middle East. Such  
production on the part of gold mines depends entirely on maintenance  
of work and even partial closing down would gravely affect output of  
minerals. Gold mines also provide principal market for many manufacturing  
industries which are turning out clothing footwear and foodstuffs for  
countries that owe their existence and maintenance to mining industry and re-  
quire its employees. Continuity of gold production is as vital to  
South Africa's economic existence and therefore to our war efforts as  
the maintenance of export trade is to United Kingdom. Please read this (cont.)  
in conjunction with McColm's telegram to Swingler.

22nd September, 1941.

My dear Mr. Secretary,

I have the honour, on instructions of my Government, to inform you that the South African Purchasing Commission, 37 Wall Street, New York City, has submitted, on behalf of the South African Iron and Steel Industrial Corporation, Limited, of Pretoria, South Africa, through the British Purchasing Commission, its formal applications for the procurement of one <sup>two</sup> high blooming and slabbing mill and one plate mill with all accessories.

The above applications were forwarded to the Director: Procurement, Government of the United States, on form 1 of Requisition for Defence Articles (Under Act March 11, 1941) under British references SO/SA83/LL/E311 and SO/SA84/E348 dated the 22nd August, 1941. The e applications were accompanied by an explanatory memorandum showing the urgent necessity for the Union of South Africa to obtain this equipment at the earliest possible date. A copy of this memorandum is enclosed herewith for ease of reference.

My Government has instructed me to support the above applications and to confirm that these mills are essential to the Union's war effort being developed to the limit of its resources, particularly for the equipping and the maintaining of South African and other Forces in the Middle East and for assisting in the making of our full contribution to the effort of the Eastern Group.

With the acquisition of these mills the available steel output of the Union of South Africa will

be increased by an estimated additional two hundred and fifty thousand tons per annum. This additional steel in the Union of South Africa will be invaluable in view of the difficult shipping position and in view of the Union's geographical position relative to the Middle East operations.

The Union Government would be grateful if the most favourable consideration could be given to the applications referred to above and if the United States authorities would allot so high a priority rating for the material as would allow of the quickest possible delivery thereof.

Should the United States Government, however, feel that these mills cannot be procured appropriately under Lend Lease, the Union Government trusts that the acquisition of the urgently required equipment against cash would be authorised.

I am, my dear Mr. Secretary,  
Yours very sincerely,

Honourable the Secretary of State,  
Department of State,  
WASHINGTON, D.C.

TREASURY DEPARTMENT

259

INTER OFFICE COMMUNICATION

DATE *Oct 3, 1941*

TO: Secretary Morgenthau  
 FROM: Messrs. Foley and Pehle  
 RE: Foreign Funds Control Public Relations Program

Pursuant to instructions, Norman Towson and Joseph Murphy attended meetings of Groups of the New York State Bankers' Association, and discussed the freezing Order. The meetings were held in the following cities on the dates indicated; the approximate attendance at each meeting is also shown:

Sept. 18, 1941	Binghamton, N.Y.	182
" 19 "	Albany, N.Y.	258
" 22 "	Buffalo, N.Y.	334
" 23 "	Rochester, N.Y.	210
" 24 "	Syracuse, N.Y.	341
" 25 "	West Caldwell, N.J.	350
" 26 "	New York City	1352

In addition to the evening meetings as scheduled, there were arranged in each of the last five cities, and in Newark, New Jersey, informal round table question and answer periods devoted entirely to Foreign Funds Control. Each of these meetings lasted about two hours.

The evening meetings were more formal in character, consisting of a presentation of Regulation W (consumer credit) by V. Rouns and Mr. Treiber of the Federal Reserve Bank of New York, with impromptu questions and answers concerning that Regulation. Following an intermission, Executive Order No. 8389, as amended, was discussed by Towson, and its legal aspects by Murphy. This was followed by a question and answer period devoted to the Order.

The presentation of the Order was on the theme that it is an essential, integral part of national economic defense, that the banks are in the front line of such defense, and that their cooperation is needed. The explanation of the legal aspects was in such terms as to arouse questions and so to develop a broader discussion of the problems involved in the effective administration of Foreign Funds Control.

A summary was kept of the types of questions asked, which may be used in connection with further public relations programs.

Informal contacts with members of the audiences, and the comments made by officers of the Bankers' Association, indicate that the program was well received, the bankers feeling gratified at the attention paid to them and their problems by the Treasury Department, and pleased at the willingness of representatives of the Department to answer their questions and to assist them in the solution of their problems. In all the cities visited, the party was entertained at dinner, and in most of them at lunch. The attitude of the bank officers who attended was informal and cordial.

Towson and Murphy report having gained the following impressions:

1. A large number of the bankers were obviously ignorant of the scope of the freezing regulations, and many seemed to have disregarded them entirely.
2. The relationship between freezing and economic defense was new to most persons.
3. Many banks had given only slight consideration to the tests by which to determine whether accounts should be blocked, and consequently, numerous questions were asked as to how far they were required to go in effectuating the program.
4. There was a full, whole-hearted response to the request for cooperation as soon as it was realized that Foreign Funds Control is a defense measure of broad scope.

*J. F. Foley*  
S. W. Foley

TREASURY DEPARTMENT

351

INTER OFFICE COMMUNICATION

DATE *Oct 3, 1944*

TO: Secretary Morgenthau  
 FROM: Messrs. Foley and Pehle  
 RE: Foreign Funds Control Public Relations Program

On the basis of the experience of Norman Towson and Joseph Murphy, in their speaking tour of New York State, the following further program is recommended:

1. An initial address by you over a nation-wide radio hook-up, emphasizing the national economic defense aspects of freezing, and the importance of the Foreign Funds Control program.
2. Additional radio addresses, from time to time, by officers of the State, Treasury and Justice Departments on various aspects of freezing in which the public should be interested. Round table radio discussions between government officials and representatives of various groups, such as banks, insurance, shipping, importing, and other interests, might also be arranged.
3. Newspaper and magazine articles having general circulation, as well as appropriate trade papers, prepared by well-known writers after discussion with Treasury officers, on various phases of the Control.
4. A conference to be held immediately in Washington, to be attended by a representative of each Federal Reserve Bank, at which the public relations program of Foreign Funds Control will be worked out in detail.
5. A series of public meetings to be held in each of the cities where Federal Reserve Banks and their branches are located, to be addressed by representatives of Foreign Funds Control. These meetings would be followed by smaller round table discussions with particular groups affected by the Control.

6. A letter, bearing your signature, to be sent to the president of each bank in the country, urging the full cooperation of his bank in the program of the Control. Thereafter, a semi-monthly letter from Foreign Funds Control to the officer designated by each bank to handle freezing matters, discussing matters of mutual interest, and presenting questions and answers. A suggested draft is attached. If this is satisfactory, steps can be taken at once to have it multilithed and sent out.
7. The assignment to Foreign Funds Control of a full time competent public relations man, with adequate staff, to coordinate and develop the above program.

THE SECRETARY OF THE TREASURY  
WASHINGTON



Dear Sir:

Here in Washington we are anxious to learn more about the difficulties you are encountering with respect to freezing control.

It is no easy task to administer freezing control. I know that it has raised a number of serious problems for you. I should like to hear from you about these problems and at the same time receive your views on how we can do a better job.

What can we do to make your job easier? Do you have enough information? If not, what else can we send you? What kind of problems are causing you difficulty? Are the Federal Reserve Banks and the Treasury Department giving you the kind of assistance you need? Do you see loopholes we are missing? If so, how can we plug them? Are we unnecessarily strict in some areas? Where?

You are on the firing line. You know what help you need better than we do. Please give us your suggestions. I hope that in this way we can better understand your problems and improve our effort. Many of the general problems and questions raised we hope to discuss and distribute in pamphlet form.

Please let me hear from you very soon.

Sincerely yours,

Secretary of the Treasury

TREASURY DEPARTMENT,  
Washington

FOR RELEASE, MORNING NEWSPAPERS,  
Friday, October 3, 1941.

The Secretary of the Treasury, by this public notice, invites tenders for \$100,000,000, or thereabouts, of 91-day Treasury bills, to be issued on a discount basis under competitive bidding. The bills of this series will be dated October 8, 1941, and will mature January 7, 1942, when the face amount will be payable without interest. They will be issued in bearer form only, and in denominations of \$1,000, \$5,000, \$10,000, \$100,000, \$500,000, and \$1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, two o'clock p. m., Eastern Standard time, Monday, October 6, 1941. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of \$1,000, and the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from

others must be accompanied by payment of 10 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Secretary of the Treasury of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Payment of accepted tenders at the prices offered must be made or completed at the Federal Reserve Bank in cash or other immediately available funds on October 8, 1941.

The income derived from Treasury bills, whether interest or gain from the sale or other disposition of the bills, shall not have any exemption, as such, and loss from the sale or other disposition of Treasury bills shall not have any special treatment, as such, under Federal tax Acts now or hereafter enacted. The bills 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. For purposes of taxation the amount of discount at which Treasury bills are originally sold by the United States shall be considered to be interest. Under Sections 42 and 117 (a) (1) of the Internal Revenue Code, as amended by Section 115 of the Revenue Act of 1941, the amount of discount at which bills issued hereunder are sold shall not be considered to accrue until such bills shall be sold, redeemed or otherwise disposed of, and such bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder need include in his income tax return only the difference between the price paid for such bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made, as ordinary gain or loss.

Treasury Department Circular No. 418, as amended, and this notice, prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

Copies of this memorandum  
have been given to  
Mr. D. W. Bell and Mr. Morris

Prepared by: Mr. Sandelin  
Mr. Foy  
Mr. Tickton  
Mr. Lindow  
Mr. Murphy  
Mr. Haas

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 3,  
1941

TO Secretary Morgenthau  
FROM Mr. Hass  
Subject: October Financing

The major technical problem presented by the October financing is whether it should be concentrated entirely in a long-term issue or divided between a medium- and a long-term issue. A minor problem is the proper treatment of the \$204 millions of 1-1/4 percent notes maturing on December 15. The first and second sections of this memorandum are devoted to a consideration of these problems and the third to a discussion of particular proposed issues. It is assumed that the amount of new money desired to be raised at this time is about \$1 billion.

I. The Market for a New Medium- or Long-term Issue

The market for a new medium- or long-term issue is overwhelmingly an institutional one. August 31 figures, just available, show that about 81 percent of the total privately-held supply of the three taxable issues put out this spring is held by banks and insurance companies covered by the Treasury Survey of the Ownership of Government Securities. If the holdings of banks and insurance companies not covered by the Survey and of other classes of institutions were known, this figure might be raised by, perhaps, as much as 10 percent.

Prospects are not good, furthermore, of increasing the non-institutional absorption of medium- and long-term marketable securities in the near future. Individuals plus all institutions other than banks and insurance companies absorbed less than 2 percent of the net increase in the privately-held marketable supply of Government debt during the eight years ended June 30, 1940. Holdings of marketable securities by individuals alone probably declined during this period despite an increase of over \$18 billions in the privately-held supply of such securities. Individual purchasers at the present time, moreover, have a much more

Secretary Morgenthau - 2

attractive outlet for funds up to \$53,750 a year in savings bonds (\$107,500 for married couples, plus additional amounts for children). It may be concluded, therefore, that the market for the new financing must be primarily institutional.

A medium-term issue would be attractive principally to commercial banks; a long-term issue would have to find permanent lodgment principally with insurance companies and mutual savings banks, although a large part of it might be placed temporarily, and a smaller part permanently, with commercial banks. The preferences of these different classes of institutions, as indicated by their holdings of the three outstanding taxable issues as of August 31, 1941, are shown in the following table:

Holdings of Taxable Bonds by Institutions  
Covered by the Treasury Survey  
August 31, 1941

(In percent of total privately-held supply)

	Commercial Banks	Mutual Savings Banks	Insurance Companies	Total
2's 1948-50	53	20	13	86
2-1/2's 1952-54	31	33	12	76
2-1/2's 1956-58	<u>27</u>	<u>26</u>	<u>28</u>	<u>81</u>
Total	36	26	19	81

Life insurance companies are currently in a very strong cash position. Cash holdings of 36 large legal reserve life insurance companies having 82 percent of total admitted assets of all legal reserve life insurance companies in the United States amounted to \$1,171 millions on July 31. This is about the same as in the preceding five months, but is

Secretary Morgenthau - 3

sharply above the levels prevailing prior to February of this year, as is shown by the attached chart. While it is, of course, unlikely that the major portion of this cash balance would be used at any one time for the acquisition of United States securities, it is, nevertheless, probable that the life insurance companies would be willing to draw on their cash balances to the extent of, say, \$200 to \$300 millions to purchase an issue especially appealing to them.

From the longer-run point of view, however, the amount of Government securities which life insurance companies may be expected to purchase from new funds is more important than any single-shot purchase which might be made from accumulated cash. The average monthly increase in total funds available for investment of the 36 large companies was only \$115 millions during the year ended July 31, 1941. The average monthly increase in holdings of United States securities was only \$25 millions.

Cash balances of mutual savings banks at \$968 millions on June 30, 1941 were around their all-time high. These cash holdings which amounted to about 9.1 percent of total deposits might be drawn down by perhaps \$100 to \$200 millions to purchase an issue particularly attractive to the mutuals.

The long-run absorptive capacity of mutuals is not good, however. During the year ended June 30, 1941, their total deposits increased only \$17 millions. The increase of \$313 millions in their Government holdings during this period was made possible, therefore, only by a liquidation of other loans and investments. During the six months ended June 30, 1941, mutual savings banks acquired about \$521 millions of new taxable bonds, but financed about \$600 millions of these by the liquidation of other Government securities. Since the securities liquidated were presumptively sold mostly to commercial banks, little was gained from the standpoint of restraining the increase in bank deposits by selling the new securities to the mutuals.

It appears, therefore, that the absorptive capacity of insurance companies and mutual savings banks is very limited. Commercial banks, on the other hand, will still have about \$4 billions of excess reserves remaining after giving effect to the recent increase in reserve requirements and, therefore, are still able to absorb about \$20 billions in additional loans and investments.

Secretary Morgenthau - 4

It follows from the above figures that the only classes of investors capable of absorbing a large proportion of the huge deficit financing ahead are individuals and commercial banks. Individuals cannot be reached effectively by open market securities, while sales to commercial banks result in an expansion of deposits. Institutional investors other than commercial banks do not have the capacity to absorb any substantial proportion of the deficit except by reselling existing securities to commercial banks -- a procedure fully as inflationary as if the securities were sold to commercial banks in the first instance. A greatly increased sale of savings bonds appears to be the only way by which a major proportion of the deficit may be financed otherwise than through direct or indirect sales of securities to commercial banks.

Under the circumstances, it would seem wise not to bear too heavily on the long-term market at the present time. We should suggest, therefore, that the proposed new money financing be divided about equally between a medium-term issue attractive principally to commercial banks and a long-term issue attractive primarily to other institutional investors.

## II. The 1-1/4's Due December 15, 1941

The refunding of the 1-1/4 percent notes, due December 15, presents no important problem. These are outstanding in the amount of only \$204 millions, of which \$43 millions are held by the Federal Reserve Banks. Of the remaining \$161 millions, \$88 millions are owned by holders covered by the Treasury Survey of the Ownership of Government Securities -- \$64 millions by commercial banks, and \$24 millions by insurance companies and mutual savings banks combined. (The relatively large amount of this issue -- \$73 millions -- owned by "other holders", as compared with recent issues, is explained by the fact that this issue is wholly tax-exempt, and hence attractive to individuals.)

Due to the small amount of the maturing notes, two separate cash issues offered at the present time, with an option for the notes to exchange into either, would present no especial problem as there would be no objection to the bulk of the notes going into either one or the other of the new issues. (If the amount of the maturing notes were larger, it would be desirable, if two new-money issues were to be offered, that their premiums be approximately equal in order to prevent the bulk of the exchanges going either one way or the other.)

### III. Suggested Issues

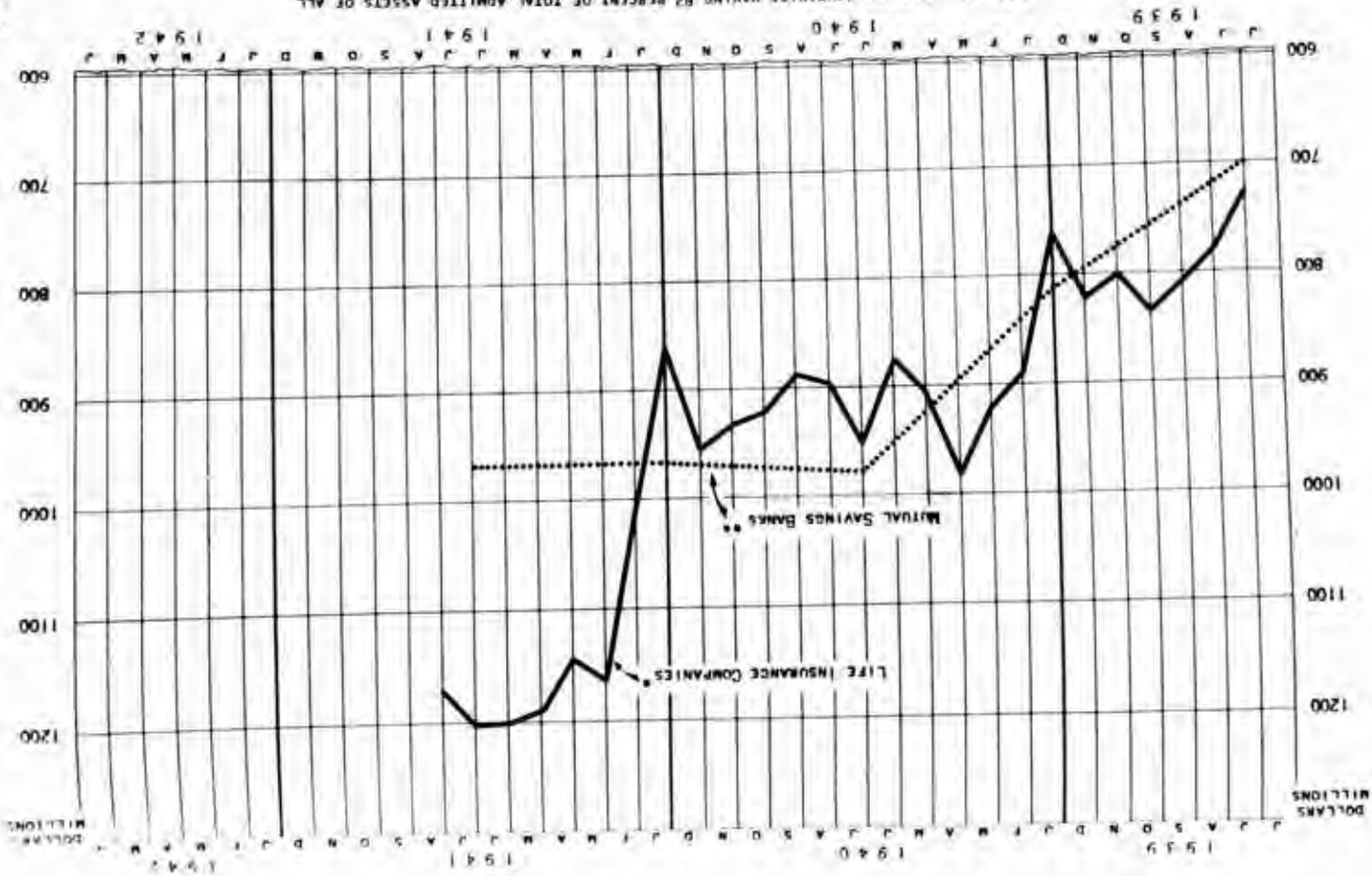
An indication of what might be obtained in terms of interest rates and maturities at the present time is given by the specific issues listed below. The pricing of these issues is preliminary and is based on the supposition that the financing will be divided approximately equally between two issues, one in each category. If the entire financing should be concentrated in one issue, the issue selected would have to be slightly shorter than indicated in the table:

	: Estimated :	Probable
	: Yield :	Price
	: Basis* :	
	(Percent)	
<u>Issues Primarily Attractive to Commercial Banks</u>		
1-1/2 percent bond due March 15, 1948 (6 years, 5 months)	1.37	100-25/32
2 percent bond due September 15, 1952-54 (10 years, 11 months - 12 years, 11 months)	1.85	101-15/32
2 percent bond due September 15, 1952-55 (10 years, 11 months - 13 years, 11 months)	1.88	101- 6/32
<u>Issues Primarily Attractive to Insurance Companies and Mutual Savings Banks</u>		
2-1/4 percent bond due September 15, 1956-61 (14 years, 11 months - 19 years, 11 months)	2.13	101-17/32
2-1/2 percent bond due September 15, 1971-76 (29 years, 11 months - 34 years, 11 months)	2.43	101-15/32

\* Based on closing bid prices October 1, 1941.

Attachment

LIFE INSURANCE COMPANY AND MUTUAL SAVINGS BANK CASH HOLDINGS



\* 36 LEGAL RESERVE COMPANIES HAVING 82 PERCENT OF TOTAL ADMITTED ASSETS OF ALL UNITED STATES LEGAL RESERVE LIFE INSURANCE COMPANIES.  
 \*\* DATA AVAILABLE ONLY ON JUNE 30 AND DECEMBER 31.

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## TREASURY DEPARTMENT

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## INTER-OFFICE COMMUNICATION

DATE October 3, 1941

TO Secretary Morgenthau

FROM W. H. Hadley

PROPOSED TREASURY FINANCING

The present market indicates that it could very easily take \$1 billion in cash and refunding of the \$200 million December note in one long issue. However, it would seem advisable to make a split offering of, say, \$700 or \$600 million in a long issue and \$500 million in a shorter issue so as not to overload the longer end of the market.

TWO ISSUES:

A long 2-1/2% issue could be offered with the first call date in the neighborhood of 27 to 30 years. This is roughly 15 years longer than our last 2-1/2% offering in May. The best shorter issue that could be offered in conjunction with a 2-1/2% bond would appear to be a 2% with 10 or 11 years to first call date. If such an offering is made, the holders of the December notes should be given the opportunity to exchange into either issue, although most of them would probably take the long issue.

ONE ISSUE:

For a single bond offering, my preference would be a 2-3/8% issue of about 20 years to first call date. This would not only represent a saving in interest over a 2-1/2% but would give us a better basis for determining rates on future long offerings. At the present time a 2-1/2% appears as though it could be placed as early as 1968 but probably as long as 1972 or 1973 to first call date.

Premiums Based on Offering 2 Bonds

<u>Coupon</u>	<u>Maturity</u>	<u>Yield</u>	<u>Probable Price</u>	<u>Premium</u>
2%	10-12 yrs. (1951-53)	1.81 1.83	101.23 101.18	1 pt. 23/32nds 1 pt. 18/32nds
	11-13 yrs. (1952-54)	1.88 1.90	101.7 101.	1 pt. 7/32nds 1 point
2-1/4%	15-17 yrs. (1956-58)	2.10 2.12	101.30 101.21	1 pt. 30/32nds 1 pt. 21/32nds
	16-18 yrs. (1957-59)	2.14 2.16	101.16 101.7	1 pt. 16/32nds 1 pt. 7/32nds
2-3/8%	20-23 yrs. (1961-64)	2.24 2.26	102.5 101.27	2 pts. 5/32nds 1 pt. 27/32nds
	21-24 yrs. (1962-65)	2.27 2.29	101.25 101.13	1 pt. 25/32nds 1 pt. 13/32nds
2-1/2%	27-32 yrs. (1968-73)	2.36 2.38	102.23 102.11	2 pts. 23/32nds 2 pts. 11/32nds
	30-35 yrs. (1971-76)	2.41 2.43	101.29 101.16	1 pt. 29/32nds 1 pt. 16/32nds

Premiums Based on Offering Only 1 Bond

<u>Coupon</u>	<u>Maturity</u>	<u>Yield</u>	<u>Probable Price</u>	<u>Premium</u>
2-1/4%	14-16 yrs. (1955-57)	2.10	101.27	1 pt. 27/32nds
		2.12	101.19	1 pt. 19/32nds
	15-17 yrs. (1956-58)	2.14	101.13	1 pt. 13/32nds
		2.16	101.4	1 pt. 4/32nds
2-3/8%	19-22 yrs. (1960-63)	2.26	101.25	1 pt. 25/32nds
		2.28	101.14	1 pt. 14/32nds
	20-23 yrs. (1961-64)	2.28	101.17	1 pt. 17/32nds
		2.30	101.7	1 pt. 7/32nds
2-1/2%	27-32 yrs. (1968-73)	2.38	102.11	2 pts. 11/32nds
		2.40	101.31	1 pt. 31/32nds
	30-35 yrs. (1971-76)	2.42	101.23	1 pt. 23/32nds
		2.44	101.10	1 pt. 10/32nds

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 3, 1941

TO: Secretary Morgenthau

FROM: D. H. Morris, Jr.

Subject: Suggestions Concerning October Financing Resulting from a Meeting of Messrs. Haas, Murphy, Hadley, and Morris

Special reference is made to the first paragraph on page four of Mr. Haas' memorandum dated October 3. Elaborating somewhat on that paragraph, it is pointed out that the biggest total dollar field available from individuals is that area covered primarily by wages, which, in effect, means that this field can only successfully be tapped through the savings bond program and through an extension of social security or some similar program.

On the background of Mr. Haas' memorandum of October 3, plus the above comment, it is suggested that the October financing be divided approximately as follows:

A 2-1/2 percent issue, due 1971-76. The amounts to be provided under this issue are estimated to line up about as follows:

Announced amount of new money.....	\$750,000,000
10 percent tolerance.....	75,000,000
Exchange from 1-1/4 percent 12-15-41 issue.....	150,000,000
Trust fund, preliminary estimate.....	<u>100,000,000</u>
Total.....	\$1,075,000,000

The balance of the financing to be by a 2 percent issue, due 1952-55. It is estimated this will amount to between five and six hundred million dollars.

A single issue is felt to be inadvisable at this time for several reasons. First of all, in spite of the fact that part would be in the nature of refunding operations, nevertheless the total issue would be pretty big, as is shown by the following estimate:

New money as announced.....	\$1,250,000,000
10 percent tolerance.....	125,000,000
Exchange from 1-1/4 percent issue 12-15-41.....	204,000,000
Trust funds, preliminary estimate.....	<u>100,000,000</u>
Total.....	\$1,679,000,000

If such an issue carried a 2-1/2 percent rate and was placed in a long maturity schedule, such as 1971-76, it would be exploring new ground in a pretty radical way. Furthermore, not only if this type of issue were used, but also even if a 2-3/8 of about 1961-66 were put out, it still seems likely at this time that much of any such financing would simply displace shorter issues held by some institutions, and the shorter issues would be taken up by the commercial banks. Thus very little would be accomplished in the way of placing these funds with true savers (for further details, see memorandum from Mr. Haas). If a 2-1/4 percent coupon were used, the maturity would probably have to be brought down somewhere in the 1955-61 group and here we run into some years which are already pretty well filled up on maturity schedules.

*Handwritten signature*

October 3, 1941.

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To: Mr. Harold N. Graves  
Subject: PROGRESS REPORT FROM DEFENSE SAVINGS STAFF

### SALE OF BONDS

Sales of Defense Savings Bonds reached \$1,504,411,000 as of September 30. Actual cash receipts from the sale of E, F, and G Bonds from September 1st through September 30th were \$232,327,000, which is a decrease of 12.5 per cent over the month of August. Sales from August 1st through August 31st were \$265,606,000. Sales from July 1st through July 31st were \$342,132,000.

Total sales of all three series of Bonds turned upward in the week September 15-20, advancing more sharply in the last week of September. Sales of Series E showed an upward trend in that week. Sales of Series F and G turned up in the third week of September, continuing their rise in the last week. (See graph attached)

### "ANY BONDS TODAY?"

The Automatic Phonograph Manufacturers' Association and representatives of all the major recording companies telegraphed Secretary Morgenthau on October 2 pledging support in helping the Government "publicize, promote and sell Defense Savings Bonds and Stamps". They are taking steps to have a recording of "Any Bonds Today" placed in No. 1 position on all the 300,000 automatic phonographs in the country, to be followed

by other defense bond records as available. K.R.K. Publications are printing the words of "Any Bonds Today" in their latest "Broadcast Song Hits", circulation 425,000.

#### AMERICA PREFERRED

Union meetings are using the film extensively. One request alone was for 500 showings in Detroit. All the 13,000 schools in Texas will see the picture, and it is being booked in other States.

#### TREASURY HOUSES

New York Treasury House closed September 29 with total stamp sales of \$28,034.10; Stamps sold, 65,120; albums started, 7,612. Boston Treasury House in 25 days sold 42,724 Stamps, at \$36,814.60; 4,821 albums were started.

#### DIRECT MAIL

The mailing to 410,000 corporations, associations, etc. has brought orders for \$1,955,577 in 22 days and orders are still coming in. Approximately 44 per cent are for Series F Bonds, the balance for Series G. Total orders 597.

A mailing to customers started the middle of September and not yet completed shows \$508,123 in direct sales from 1020 orders in 12 days. More than 50 per cent of the people ordering are signing up on the Regular Purchase Plan, underlying purpose of the mailing. Approximately 56 per cent of the orders are for Series E Bonds, 34 per cent for G and the balance for F.

FIELD OFFICE

Since September 26 three States, Idaho, Indiana, and Tennessee, and the Territory of Hawaii have moved from the blue to the red group; Kentucky has progressed from the white group to the yellow. (See map attached)

State Administrators received this week Field Bulletin No. 7 on the installation and operation of the Payroll Allotment Plan. A central record file of data covering all employers of 100 or more persons in the United States as of June 30 last is now being classified, and active promotion concentrated on firms employing 500 or more persons.

Since September 26 one new Field Representative has started work in the field, another has completed his course of training, and three new men reported for training on October 1. Two others will report on October 6th.

Mr. Johnston spoke on payroll allotment at the convention of the National Association of Comptrollers, New York; and delivered three addresses at the convention of the National Association of Life Underwriters, Cincinnati. Mr. Sparks addressed the 2000 members of the American Bankers Association Convention of Chicago.

RAMBO

Announcements were carried on the Louis-Nova fight broadcast coast to coast September 29th. Announcements are being carried on all World Series broadcasts.

Complete program for "For America We Sing" on Navy Day, October 27, will be dedicated to the Navy. Hildegard is to be the singing star on this date. Song writing contest was launched

on this program September 29.

Incomplete reports show 407 stations used 12,000 Retailers-For-Defense Week announcements; women's program announcements were used by 878 stations in September. So far six five-minute interviews sent to all stations in September have been broadcast 475 times over 118 stations.

Printed football announcements for all stations are being released weekly to all sponsors of college and professional football games, as well as to stations carrying football broadcasts, pre-game programs and follow-up scores. (See copy of release attached)

#### PRESS

Important magazine publishers approached with the suggestion that they incorporate "Buy Defense Bonds" emblems in their cover designs are indicating interest. Among the organizations considering this form of cooperation are Crowell, Hearst, McCall's, Time-Life, and Curtis Publishing Company.

The Philadelphia Evening Bulletin reports that the second week of their carrier campaign resulted in the actual sale of 130,000 Defense Savings Stamps, a 30 per cent increase over the first week of the canvass. The Bulletin has purchased 150,000 Stamps for the third week, and is using space in other newspapers to advertise its cooperation in the Defense Savings Program. (See advertisement in the Washington Star attached)

A unit has been set up in the Press Section to supply the labor press (reader coverage 15,000,000) with news and informa-

tion stimulating labor participation in the Program.

Conspicuous among the newspaper syndicate artists cooperating in the Program was the widely-syndicated Webster, with his "Life's Darkest Moments" cartoon published September 30.  
(See attached)



GUILTY CONSCIENCE

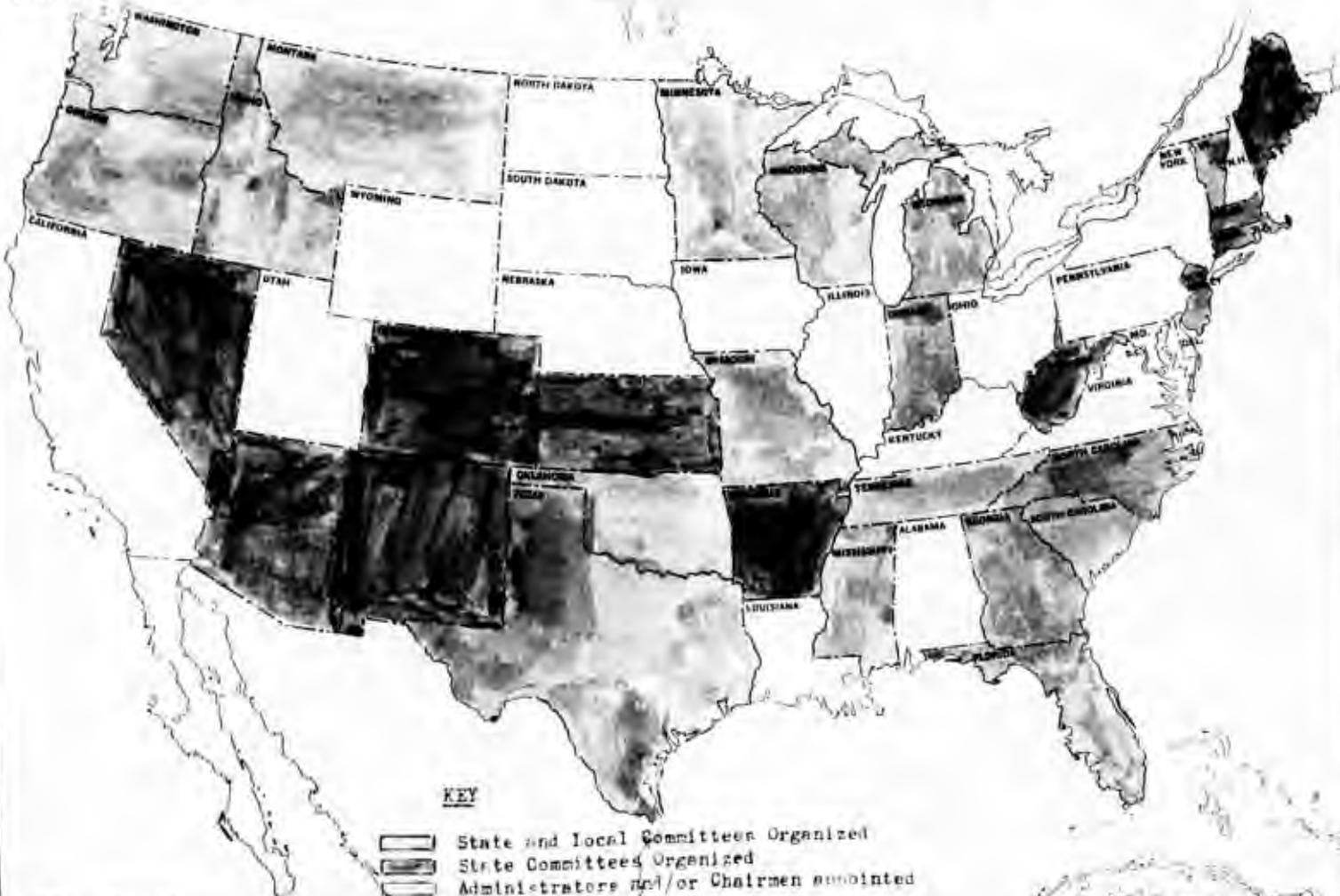
AS OF OCTOBER 3, 1961

RAND McNALLY

LOOSE LEAF OUTLINE MAP

UNITED STATES

Alaska



**KEY**

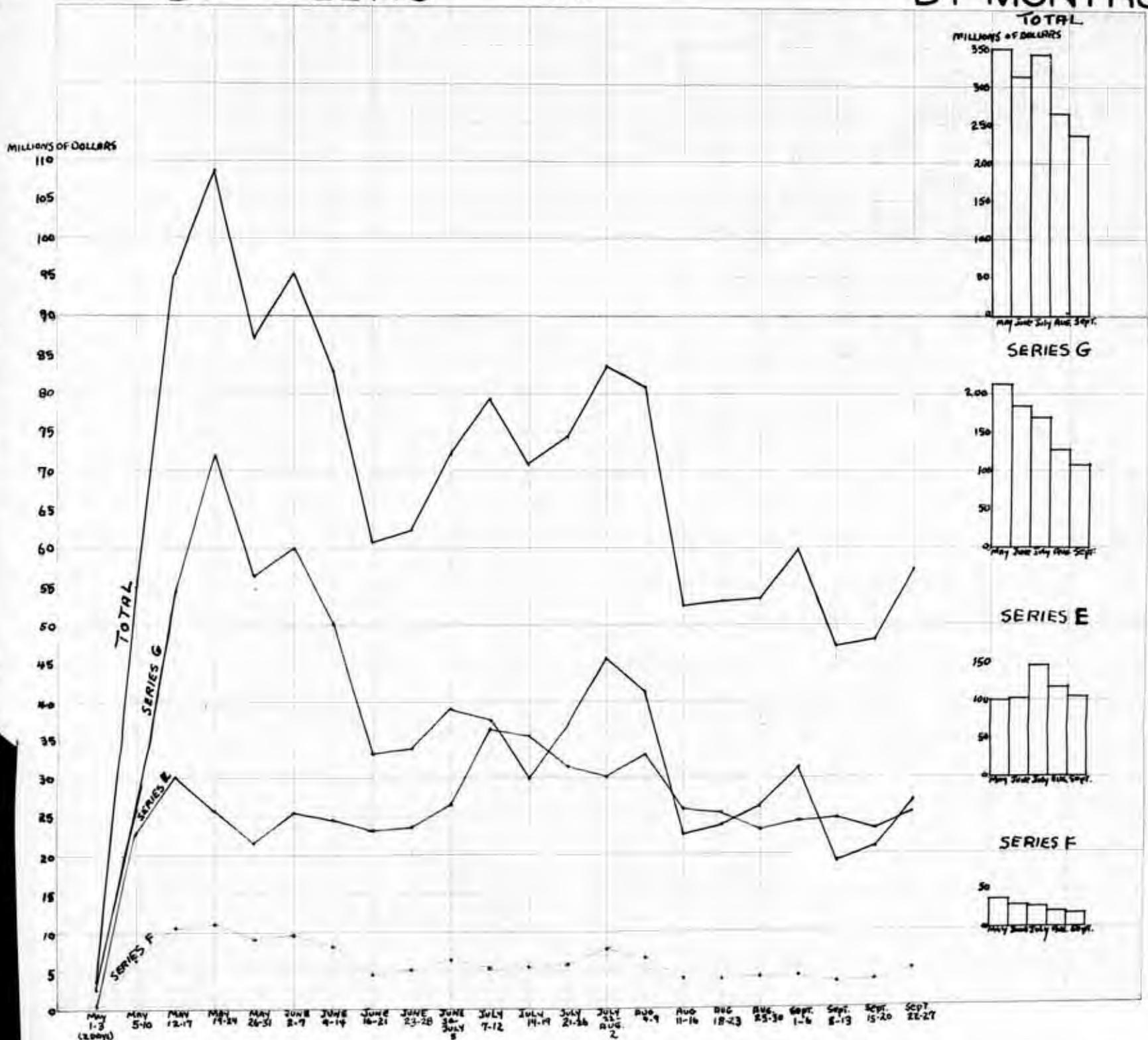
-  State and local committees organized
-  State committees organized
-  Administrators and/or Chairmen appointed
-  Not started

Hawaii

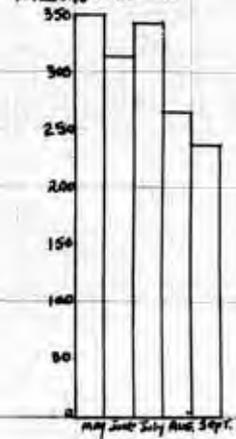
# SALES of E, F and G BONDS BY WEEKS

285

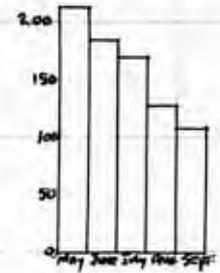
# SALES of E, F and G BONDS BY MONTHS



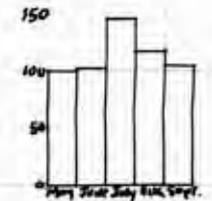
TOTAL  
MILLIONS OF DOLLARS



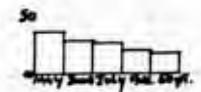
SERIES G



SERIES E



SERIES F



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# U.S. DEFENSE IS NOW HOME DELIVERED

Meet an Official U. S. Defense Agent.

He's one of thousands in Philadelphia. The Evening Bulletin newspaper boys have banded together voluntarily to help bridge the gap between those who sell and those who buy U. S. Defense Stamps.

These youngsters elected to take on a Defense job in addition to their regular job.

The idea was not merely to tell about Defense Stamps—the boys were actually offered a chance to sell them!

This is not the regular job of these young Americans. Their regular job is the sale and delivery of The Evening Bulletin to thousands of families. Storms don't stop them. They take year-round weather in their stride. The work they do is honest and earnest. The dollars they make are theirs to use or save. Delivering newspapers is big business to these little business men.

★ They've taken on another job, an extra job. They get nothing out of it except the pride and satisfaction of doing an outstanding work for National Defense.

★ Philadelphia is teeming with Defense activity. The leading newspaper in the city offered these boys a unique chance to serve their country. There was no pressure. No command.

★ A plan to sell Defense Stamps was worked out for them by The Evening Bulletin with the Treasury Department. It was the first such plan to be initiated by any newspaper in the country. The very first week that The Bulletin newspaper boys went into action, sales of Defense Stamps in Philadelphia increased over one-third. The boys sold 103,000 the first week, 150,000 the second week—and they say they've just started!

**NOTE:** It is not likely that all the success of this plan grew out of the close relationship which exists in Philadelphia between The Bulletin, its newspaper boys and its readers. Other newspapers and other companies can adopt the plan. They are welcome to see the experience of The Bulletin in speeding the nation's investment in defense. The details of The Bulletin plan are available. . . . Just address The Evening Bulletin, Philadelphia, Pa.

**IN PHILADELPHIA—NEARLY EVERYBODY READS THE BULLETIN**



Football

Announcement

TREASURY DEPARTMENT • DEFENSE SAVINGS STAFF

For Football Broadcasts, Pre-game Programs and Score Summations During the Second Week End of October. I-A

Today our country is poised for a touchdown. Ours is a dash for liberty, for freedom, and for justice. One hundred and thirty million people are playing the game of National Defense. Every American can carry the ball over the goal line. Uncle Sam is depending on every citizen for active support! You must do more than root on the sidelines. Billions are needed for defense—billions to keep the wheels of industry humming, billions to stem the tide of tyranny and dictatorship which is engulfing the world. Get back of your Government and push it over the goal line. Put your dollars and dimes to work for the defense of America. Buy United States Defense Bonds and Stamps now! Buy them as often as you can! Invest your savings regularly in United States Defense Bonds and Stamps. Let the roar of the crowd proclaim liberty and justice throughout all the world!





Football

Announcement

TREASURY DEPARTMENT • DEFENSE SAVINGS STAFF

For Football Broadcasts, Pre-game Programs and Score  
Summations During the Second Week End of October.

1-B

Score a touchdown for National Defense today! Buy United  
States Defense Bonds and Stamps and put your dollars and dimes  
to work pushing America over the goal line.





Football

Announcement

TREASURY DEPARTMENT • DEFENSE SAVINGS STAFF

**For Football Broadcasts, Pre-game Programs and Score  
Summations During the Second Week End of October. 1-C**

The signals have been called and America sweeps down the field to victory. Our opponents are tough, tyrannical. Make our side the winning side by buying as many United States Defense Bonds and Stamps as you can afford. There must be no fouls, no offsides in this great play for National Defense.





**Football**

**Announcement**

**TREASURY DEPARTMENT • DEFENSE SAVINGS STAFF**

**For Football Broadcasts, Pre-game Programs and Score  
Summations During the Second Week End of October. 1-D**

The roar of all-out production for National Defense is drowning out the roar of the football crowds. You, too, can root for your country's defense by buying United States Defense Bonds and Stamps often and regularly. Kick off for victory today and every day this fall.



OCT 3 1941

Dear Mr. Kavanagh:

I was very glad to have your nice note of September 24. My visit to Detroit was one of the most enjoyable experiences I have had during my service at the Treasury, and for this I am very grateful to yourself and Mr. Isbey.

With many thanks for your good wishes,  
I am

Sincerely,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

Honorable Giles Kavanagh,  
State Administrator,  
Defense Savings Staff,  
334 Buhl Building,  
Detroit, Michigan.

HNG:fns

*Copy to Mr. Thompson  
H. M. C.*



OFFICE OF THE COLLECTOR  
OF THE INTERNAL REVENUE

IN REPLYING PLEASE TO

CK:MF

TREASURY DEPARTMENT

INTERNAL REVENUE SERVICE

DETROIT, MICH.

September 24, 1941

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

Dear Mr. Secretary :

The reaction to your visit here has been so pleasing to me that I feel I should pass this word on to you.

Quite a number of persons in various walks of life have informed me that they believe your visit was a fine gesture. I find that the impression made on Labor has been excellent. One man said to me "I always thought a Secretary of the Treasury was a sort of super bank president, and as far from reach as one of these fellows, but this Morgenthau is a regular guy, and seems to be one of us." The concensus, as a result of reading the accounts in the daily papers, seems to be that that was the fine way to get the feel of the people. It is my opinion that you have contributed tremendously to the morale of the Michigan citizenry through this venture.

Indeed, if it were not for the inhibitions that I have felt since Senator Hatch provided a modern decalogue, I might have a suggestion to make with reference to 1944. Anyway, I am quite pleased about the whole thing.

You will be interested to know that since your visit, I have had an opportunity to discuss the payroll deduction plan with some officials of the Ford Motor Company, and it looks to me as if we will be able to put that over at Dearborn in a very short time.

With good wishes, I am

Sincerely yours,

GILES KAVANAGH  
Collector of Internal Revenue

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OCT 3 1941

Dear Madam Secretary:

In connection with the Treasury's continuing campaign to sell Defense Savings Bonds and Stamps, we are proposing a voluntary payroll allotment plan which I believe will contribute very materially to the success of our efforts in this vital work. The gist of the plan is that, at the voluntary request of an employee made in writing to his employer, the employer will place such amount of the employee's salary for each pay period as the employee may have designated in a trust account to be accumulated until sufficient for the purchase of a Defense Savings Bond, such bond to be purchased in the name of the employee and immediately turned over to him. The plan provides that the employee's authorization for the allotment of part of his salary for this purpose may be withdrawn by him at any time and that he can then receive whatever accumulations there may be to his credit. The employer will not receive any profit, direct or indirect, from the allotment plan.

Since we desire to put the plan into nation-wide effect and since virtually all large employers now have

Government contracts, the question has arisen whether the plan is contrary to any of the statutes requiring the payment of minimum wages or prohibiting kick-backs. These statutes are the Fair Labor Standards Act, the Walsh-Healey Public Contracts Act, and the Copeland Kick-back Act.

I attach a copy of a letter of August 13, 1941, from Administrator Walling of the Division of Public Contracts of your Department and a copy of a letter of August 12, 1941, from Administrator Fleming of the Wage and Hour Division of your Department, indicating that the Treasury's voluntary payroll allotment plan is not prohibited by the Walsh-Healey Act and the Fair Labor Standards Act, respectively.

The same considerations are applicable to the Kick-back statute. The Treasury Department is of the considered opinion that the plan cannot be construed to violate either the letter or the spirit of this statute. Indeed, it would seem that the Kick-back statute is even more clearly inapplicable to the situation than the Walsh-Healey Act, which your Department has already ruled does not prohibit our plan.

In order that any possible doubts of employers may be dispelled, and the Treasury may effectively proceed

to put its plan into nation-wide operation, I should greatly appreciate a letter from you, which could be made public, indicating that none of the statutes which I have referred to should be construed to prohibit the operation of the plan.

The voluntary payroll allotment plan will prove a very effective means of furthering the sale of Defense Savings Bonds. I need not tell you how deeply interested I am in this very important phase of the defense program. I know that you share my interest, and I wish, therefore, to express the hope that you will give this matter your personal attention and that I may hear from you on it within the next few days.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The Honorable,  
The Secretary of Labor.

*Bleakwell*  
By Messenger 3 20

SJS:mfw  
10/2/41

*cc - Miss Agency  
cc - Mr. Thompson*

C O P Y

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U. S. DEPARTMENT OF LABOR  
Wage and Hour Division  
Washington

Office of the  
Administrator

August 12, 1941

Mr. Gale J. Johnston  
Field Director  
Defense Savings Staff  
United States Treasury Department  
Washington, D. C.

Dear Mr. Johnston:

In accordance with the telephone conversation between Mr. Hill of the Solicitor's office of the Department of Labor and Mr. O'Malley of the Treasury Department, I am writing you in regard to the propriety under the Fair Labor Standards Act of making deductions for defense stamps and bonds.

It is our opinion that where an employer is directed by a voluntary assignment or order of his employee subject to the act to pay a sum for the benefit of the employee to a creditor, donee, or other independent third party, deduction from wages of the actual sum so paid is not prohibited provided that neither the employer nor any person acting in his behalf directly or indirectly derives any benefit or profit from the transaction. In such case payment to the independent third person for the benefit and credit of the employee will be considered equivalent for the purpose of the Fair Labor Standards Act to payment to the employee.

Since deductions for defense stamps or bonds from the wages of the employee cannot involve any direct or indirect profit to the employer, we believe that such deductions are proper provided that the individual employee voluntarily consents to such deductions.

Please do not hesitate to call upon us again if there is any further information you desire in this matter.

Sincerely yours,

(Signed) Philip B. Fleming

Philip B. Fleming  
Administrator

C O P Y

DEPARTMENT OF LABOR  
DIVISION OF PUBLIC CONTRACTS  
WASHINGTON

In reply refer to  
rsh/bld

August 13, 1941

Mr. Gale F. Johnston  
Field Director  
Defense Savings Staff  
U. S. Treasury Department  
Washington, D. C.

Dear Mr. Johnston:

This will confirm the information given verbally to a member of your staff by Mr. Haslam of the legal staff of this office to the effect that section 1(b) of the Walsh-Healey Public Contracts Act does not prohibit an employer subject to that Act and a minimum wage determination under it from paying from amounts due to an employee as wages sums for the purchase of Defense Savings Stamps and bonds, provided that certain conditions are met.

Payments for employees for the purposes stated are not considered deductions prohibited by the Act, provided the employee affected authorizes, in writing, his employer to pay for such purchases, and provided further that the authorization may be withdrawn by the employee at any time.

Very truly yours,  
(Signed) L. Metcalfe Walling  
Administrator

ASSISTANT SECRETARY OF THE TREASURY

October 3, 1941.

Memorandum

TO: Secretary Morgenthau  
FROM: Mr. Gaston

We have had to transfer two men out of our Defense personnel investigative staff for making statements contrary to Administration policy. The first such case was that of Roswell J. Russell, an employee of the Alcohol Tax Unit. He was the man who interviewed Henry Paynter, formerly of P.M., who wrote a personal letter to you about the matter.

We have just acted this week in the case of Roy V. Fox of the Customs Agency Service, formerly a Treasury representative in Berlin. Both of these men volunteered to candidates under examination statements very much along the line of the speeches of Lindbergh, Wheeler and Nye. Fox denied making the statements, but we find that he made similar statements in discussions with fellow investigators and do not believe his denial. The original report on which we acted in his case came to me from David Cushman Coyle.

✓ < W.G.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE October 3, 1941

TO Ferdinand Kuhn, Jr.

FROM Alan Barth

EDITORIAL OPINION  
ON FOREIGN AFFAIRS:  
RESPONSE TO THE PRESIDENT

Symbol

Following the lead of the influential metropolitan papers, the press as a whole has now indicated a preference for repeal, rather than mere modification, of the Neutrality Law. It seeks a final and definitive test on the direction of foreign policy.

"It is the Lease-Lend Act, not the Neutrality Act," says The St. Louis Post-Dispatch, "that represents today's national policy. Wherever they conflict, it is inevitable that the Neutrality Act will give way." This observation, from a leading midwestern newspaper which vehemently opposed enactment of the Lease-Lend Act, affords a striking example of the reorientation of editorial thinking which has taken place throughout the country. The St. Paul Pioneer Press, also formerly isolationist, reasons: "The Neutrality Act has gone to pieces under the pressure of the realities of war because it was based on a superficial analysis of America's position in the world. America has not been able to ignore the war by looking the other way."

Innumerable editorials recite the contention that the Act has proved to be ineffectual and outmoded. But to many commentators, the simple erasure of its inhibitions does not seem to be sufficient; they consider it symbolic, and desire its complete repeal as a means of restating the American position. The Detroit News gives a representative expression of this point of view: "It is true no attempt to repeal the Neutrality Act is apt to succeed without opposition. But the subject of debate will not be the law's substance, now valueless. It will be the law as a symbol of American hope regarding the war. And that, again, is no longer a hope of keeping out but only of keeping as far out as possible, while still winning the victory which virtually all Americans now accept as necessary to national welfare and safety."

Authorization to arm merchant ships, even the lifting of restrictions against the movement of American vessels into belligerent zones, does not satisfy these critics. Some of them acknowledge that these things could be done by Executive order without recourse to Congress. But they are inclined to view as thinly legalistic such rulings as that recently rendered by Attorney General Biddle. They want an unqualified demonstration that the course pursued by the Administration

In foreign affairs commands the full support of Congress and the country. Such a demonstration, they believe, will have a profound moral effect, both at home and abroad.

Trend

A Gallup Poll taken last April disclosed that only 30 percent of the people responded affirmatively to the question: "Do you think American merchant ships with American crews should be used to carry war materials to Britain?" Sixty-one percent recorded opposition; nine percent were in the no opinion column. The results published October 1 in response to a similar question revealed 46 percent voting Yes, 40 percent voting No and 14 percent expressing no opinion.

It should be noted that this division of opinion is in respect to a subject which is still in the area of discussion and on which the President has, as yet, recommended no specific action. It is to concrete executive action that the public responds. For example, when Gallup asked recently, "In general, do you approve or disapprove of having the United States shoot at German submarines or warships on sight?" 62 percent approved, 29 percent disapproved and ten percent remained undecided.

The bulk of the American public has confidence in President Roosevelt's leadership. It is prepared to endorse his acts.

But this does not mean that it will propel him toward measures which are proposed by subsidiary leaders and on which he himself remains uncommitted. The determining factor in the crystallization of public opinion is the President's own unequivocally expressed attitude and action.

The Gallup Poll figures, taken in conjunction with these studies of newspaper editorials, show clearly that popular opinion and editorial opinion alike are moving in a swift current toward more forceful American intervention. Editorial thinking has been somewhat in advance of popular thinking. But the consistency with which the public, as reflected in Gallup Polls, has taken up the positions advocated by the press indicates an unmistakable trend. The inference seems warranted that the people, as well as the newspapers, will overwhelmingly support neutrality repeal -- provided the demand for repeal comes from Mr. Roosevelt.

#### Comrades

All newspapers available at this date have been unanimous in decrying the President's reference to Article 124 of the Soviet Constitution. In current newspaper usage, the term "Communist" has significance only as an epithet; it is employed commonly as a synonym for "anti-Christ." As the label

for a political and social philosophy, the word has become virtually devoid of meaning.

Most editorial commentators are quite ready on the simple basis of expediency to give aid to the Red Army in its resistance to the Nazis. They are convinced that any further justification of the policy is needless and even injurious. The general sentiment on this score is pithily stated in a Scripps-Howard editorial: "Let's not pretend that there is anything sweet-smelling about the commies. Give them guns, tanks, planes -- but keep on saying: 'Don't call me brother.'" The press resolutely refuses to allow its disillusion about Russia to be shattered.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

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DATE October 3, 1941

TO Ferdinand Kuhn, Jr.

FROM Herbert Merillat

PRESS COMMENT ON  
PROFITS AND PRICES

Not knowing how seriously to take Secretary Morgenthau's proposal of a 6 percent profit-limit, editorial writers in one breath have discounted the possibility of its being enacted and in the next -- as if to take no chances -- have criticized it roundly. The only endorsements yet noted have come from the liberal weeklies -- the New Republic and the Nation. This is in contrast to the cool attitude of the liberal press to most of the Secretary's proposals.

The Secretary's proposal before the House Banking Committee has been variously interpreted as an impulsive remark, as a move to soften up the business community to accept the Treasury's original excess profits tax, or as a seriously intended legislative recommendation.

Whatever their speculations on this point, most commentators have pooh-pooed the idea that the proposal will be seriously considered by Congress. These gestures of dismissal are belied, however, by the unusually full reports of criticism of the plan

and the volume of editorial denunciation. For example, the New York Times has attacked the profit-limit plan not only once, but three times within a week. So has the New York Journal of Commerce.

From coast to coast, news reports have played up the criticism by Congressional and Administration leaders. The Nation suggests that "the ill-concealed anxiety shown by conservative papers in denouncing the proposed levy revealed a defensive attitude. For though they would be the last to admit it, Wall Street spokesmen are fully aware that business got off extraordinarily lightly in the tax bill just passed."

Although the overwhelming majority of press comment has been bitterly critical of the profit-limit proposal, there have been some concessions that the plan has merit. Several papers, including one of the Frank Gannett chain, have remarked that the proposal is not so drastic as it might appear to be on first sight. Others, while not endorsing the plan, have taken the occasion to call for a much more drastic excess profits tax than that now on the books. Some conservative papers, as well as the New Republic, have pointed out that a 6 percent return on investment is high for many industries.

Adverse criticism has continued along the lines indicated in last week's report:

- (1) The proposed tax cannot properly be called an "excess profits" tax to take the profit out of war. It would tax "normal" earnings as well as earnings attributable to the defense effort.
- (2) The tax would destroy the profit motive and end private enterprise.
- (3) The tax would be particularly ruinous to small businesses which operate on a small investment.
- (4) It would stimulate, rather than check, inflation because it would encourage extravagant expenditures by corporations.

Mid-Western and Southern Comment on Price Control

The Eastern metropolitan papers were at first practically alone in showing alarm at the prospect of inflation and interest in an anti-inflation program. There are signs that in recent weeks the indifference of the press in other parts of the country has been shaken. Taking heed of the warnings of Secretary Morgenthau, Mr. Baruch, Mr. Henderson, and Mr. Eccles, the press in the Middle West and South is paying much more attention to the danger of inflation. Increasing food prices have served to point up the threat in a vivid way.

There persists, however, an uneasiness among press commentators in farming regions -- a feeling that the farmer must be

on guard against unfair treatment under the price-control bill. The omission of wage-controls is a sore point. Concerning Secretary Morgenthau's comments on wages before the Banking Committee, the Council Bluffs (Iowa) Nonpareil said bitterly: "The prices of farm products are the farmer's wages. They haven't been very good wages during the last 20 years. Now, when there is a chance for the farmer to get better wages (prices for his products) Mr. Morgenthau objects. The farmers can become peasants for all he cares."

#### Social Security Expansion

Early comment on the President's outline of an expanded social security program has been similar to that which followed Secretary Morgenthau's proposal of an increase in social security taxes. The press opposes the use of the social security system to finance emergency spending. Increased coverage and contributions, it says, should be considered only from the viewpoint of desirable improvements in that system. Opposition also is based on the ground that increased social security taxes would hit employers as well as employees and would add an intolerable tax burden to an already heavy one on corporations.

I.M.

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GEF has noted at bottom of 1st pg. and  
I have copied on my carbon set of this date.

HF 10-11-41

MEMORANDUM FOR THE SECRETARY.

October 3, 1941.

One of the heaviest weeks in "comment mail" that we have ever had followed the Secretary's limitation of profits testimony and press conference. It was unnecessary to abstract all the letters because they fell into certain definite classifications. However, it was an unusually intelligent group of letters, with many interesting side-lights on American business, many facts and figures, as well as comments and other material. Acknowledgments have cleared through Mr. Kuhn's office, and he has been kept informed of the more important come-backs of one sort and another.

Aside from those abstracted here, there have been between 300 and 400 returns on the statement. The proportion is 100 unfavorable to 29 favorable. The outstanding protest is against the blow to average business firms just as they are getting their heads above water. There is also a very large proportion of criticism of the Administration's labor policy, of Administration spending, and of the penalties put upon the small stockholder and "white collar" class of investor.

Travelling far behind the 5% letters are the comments on the Boston speech. As this has been reprinted and circularized, it is coming in intermingled with Bond letters. On the whole, the comments on this speech are favorable in the ratio of about 8 praising it to 3 criticising it. The same complaints, however, appear in these letters in regard to Union labor, the need for Government economy, etc.

There has been an increase in the anonymous abusive mail, and curiously, more of these are coming in signed, also. There are 11 communications abusing the Secretary, anonymous, to 4 signed; 10 abusing the President to 1 signed; and 5 violently abusive of all members of the Administration, signed, to 5 anonymous.

No help to Great Britain outnumbers no help to Russia by 8 to 3.

There are only two letters commenting on the Lindbergh statement -- 1 pro and 1 anti.

*J. F. Forbush*

*W. G. F.*

Henry Gentner, Jr., (General Merchandise), Farmington, Iowa. You no doubt will be glad to learn that my customers are turning down high priced merchandise -- they say, keep your goods, no reason for them being so high. I was in Keokuk, Iowa, yesterday and talked with some of the merchants I know and they told me the same thing was happening to them -- some of the customers really abused the clerks. This no doubt will help to hold down inflation. \* \* \* I never hear a good word for Lindbergh. Our family now holds some \$41,000 in U. S. Government Bonds and we have the utmost faith in our country.

Albert C. Lord, Englewood, N. J. I wish, in all sincerity, that you would explain how you can expect to maintain your reputation as an honest man with statements like that when it is obvious that "this Administration" is not only not doing everything possible to prevent inflation, but is actively promoting inflation by (1) refusing to make any substantial cut in expenses, (2) raising food prices and clothing costs by its farm legislation, and (3) continuing a labor policy which not only is raising costs enormously but is interfering with the effort the country is making to re-arm itself and to produce goods at top speed to meet its own, and others, needs.

F. A. Keck, W. Farmington, Ohio. In my opinion a big majority of the people are back of you in your campaign for the prevent of further inflation. Keep up the good work.

Thomas H. Shepard, Boston, Mass. Inflation possibly can be prevented, although I am not so absolutely sure of that, and should be prevented if it is possible, without doing a great deal of damage in preventing it. \* \* \* If we are going to keep down inflation, Union labor is something that has got to be strongly handled. We judge you realize this from your speech. As far as I have seen, the actions of the Government have done nothing to control all kinds of unreasonable and perhaps illegal strikes, or almost nothing. They have in a few cases seized plants; the owners of the plant don't know what is going to happen to them, and of course that method alone is simply going to make owners try their level best to agree with labor and pass on the results to the consumer, whether it is the Government or whoever it is. As your influence is very great, I hope you will give due consideration to these various points I have brought up.

Louis G. Loeb, Counsellor at Law, Boston, Mass. I have read a copy of your address before the Advertising Club of Boston on Sept. 9th. It is so clear and full of meat to the average man that I consider it quite a public service to the nation to have the inflationary threat so clearly presented. May I thank you as a simple citizen of this country for the service you have rendered.

Frank Furczyk, Secretary, Polish-American Businessmen's Association, Chicago, Ill. Your address on inflation recently delivered before the members of the Advertising Club of Boston was exceptionally interesting. I have carefully read it and found it to be so vitally important that I translated the complete address into Polish and published it in a Commercial Column of the Polish Daily Zgoda, thereby urging the readers to cooperate with the Administration in checking inflation.

F. T. Thompson, Bode, Iowa. Your pamphlet on inflation impressed me so much that I would like to have 50 of them to distribute among my friends. Your idea is right on this question.

Gordon H. J. Clark, Wheaton College, Wheaton, Ill. It was with pleasure that I read your speech of September 9th, received yesterday. It is the sanest thing I have recently seen from hysterical Washington. Your advice on cutting down unnecessary Governmental expenditures I heartily approve. The veto of the highway bill, however, is hardly evidence that economy is really desired. \* \* \* In so far as you have tried to speak sound sense, I commend you heartily. But what is the use of buying Bonds when everything is going to smash anyhow?

J. E. Krauss, President, P. Krauss, Inc., Lafayette, La. (Jewelers) May I take a few seconds of your time to tell you that I have read the pamphlet, "A Speech and a Pledge". More timely and understandable literature has not been gotten up. I certainly hope that this pamphlet gets into the hands of millions. With sincere best wishes for a continuing of your earnest efforts.

Joseph I. Connor, Baltimore, Md. I am of the fifth generation of my family living in Baltimore, a retired Police Sergeant, age 64. I intend to keep on buying at least a \$50 Bond monthly. Defense Bonds and Stamps are my first topic of conversation with friends and relatives. I keep telling them Uncle Sam is the safest bank in the world, and that every family in the land should hold up the President's hands in this time of stress and emergency by investing in either of them.

Jean R. Frost, Astoria, L. I., New York. Permit me to add my small voice to the many who must express their appreciation of the marvelous program which our Government has presented to its people during this summer. The fine presentation of American high-lights and stirring musical appeal certainly brings home the privilege that is ours, in calling ourselves American.

Charles N. Brings, Whittier, Calif. How can you accept the savings of hard-working and thrifty people who are trying to keep off public relief (and the children's pennies) in exchange for Defense Stamps and Bonds when you know that with Mr. Roosevelt's wild squandering and unsound methods those bonds will hardly be worth the waste paper they are written on, in buying power at maturity.

L. R. Ford, Mgr. Sargeant, Malo & Co., (Members New York Stock Exchange), Boulder, Colo. I did "my bit" on the first day the Defense Bonds were offered. Now, if as a member of the committee, comprising fourteen, you and Mr. Byrd, who seems to be the most interested in reducing non-defense expenses, will see to it that a couple of billions are looped off in this respect, you will have my further thanks and of course the thanks of millions of others. I have yet to see any reference either by you, by Mr. Henderson or by anyone else, prominent or otherwise, in the Administration, suggesting that a ceiling on wages is just as essential as a ceiling on commodities, because nothing is produced in usable shape into which wages are not injected. Nor have I heard one single expression against the thousands of strikes that are interfering with defense projects.

Mrs. Audrey Mitchell Pinkston, Procurement Div., Treasury Dept., Atlanta, Ga. I have pledged with myself to purchase one \$18.75 Bond each month, and more if possible. I do not need a REMINDER, just the 15th on the calendar and my salary check, and the First National Bank very graciously issues my Bond. So long as my job and health will last, I shall continue to do my little bit for my country. May I take this opportunity to congratulate you and your staff for the splendid work you are doing.

W. B. Rich, Los Angeles, Calif. I sincerely believe its the duty of all who are privileged to enjoy the freedom and opportunity given us all in these United States to stand back of those who have been placed in their various positions and thus make their task lighter and the future more secure.

George LaMotte, Chicago, Ill. It has been my extreme pleasure to listen to the American Defense Programs ever since they were originated by you. They are not only thrilling and patriotic, but do the job they were intended to do. However, in portraying American life, as you do on all your programs, you have never yet had an original American on one of your programs. This must be an oversight for there are many fine Indian business men, doctors, lawyers, and real artists, and it is merely a suggestion on my part that the American Indians' record in times of our country's stress, have been, in our time, always for the Government, without any "ism" or question and that representation on your patriotic programs would be in good grace.

J. F. Daley, Detroit, Mich., tells of over-purchase of Series E Bonds, on bank's advice. "By being misinformed in the bank, we purchased in excess of our \$5,000 maturity value. We have started a long series of correspondence since July 9th back and forth with your Department, trying to get the problem ironed out. The correspondence is in your Department's file #USER-USSB with a Mr. M. Wesley, Chief of the Division of Loans and Currency. I do not know whether this organization is endeavoring to start a letter writing contest or not, but if they are, they surely will win for they have more facilities to write letters than I have. We have \$1,050 in excess of the allotment of Series E. If some master mind in the Treasury will tell us what to do with this - either cash it in or transfer it to Series F Bonds, we would appreciate it. When you have straightened this out for us, we will be pleased, in our small way, to make additional purchases of Series F Bonds."

Nora C. O'Connell, Frankfort, Ky. May I thank you for your letter of Sept. 20th (re bond purchases). My mental response was so instantaneous, and so definitely pleasant, to what I conceived to be your purpose in writing that I have felt it might be valuable to you to know the reaction of the John Does of America (as represented by me). There was an immediate warm gratitude, and a satisfying sense of the worth-whileness of the small sacrifices I was making to buy monthly a Defense Bond; for, to those of us in the salary bracket into which I fit, it is necessary to cut out quite a few things which we felt contributed to our pleasure, but which we now find we can get along without quite well.

Thomas Graham, The Bankers Bond Co., Louisville, Ky. I have read with a great deal of interest the speech which you sent me on the "Fight Against Inflation". I have also read your statement in the paper today at the Price Hearing, with which, in the main, I agree. I have repeatedly written some of your assistants regarding suggestions on the sale of Defense Bonds, and Senator Barkley and some of our other representatives have talked with

your assistants for me. I believe it is just as important for the Treasury Department to keep an open mind to suggestions of the citizens of the country, as it is for the citizens to heed the splendid advice which you personally have given from time to time for the welfare of the country as a whole. I think the Defense Bond situation could be very materially helped and expedited, and I have tried to get an opportunity to see you about it, but so far, I have gotten no where with any of your assistants.

Harry Dorman, Knight Packing Co., Portland, Ore. During the last war I served my country in its armed forces. I now have my son in the Army. I am a member of the local "Defense Bond" committee, and chairman of a local draft board. I don't think that my love of country can be questioned. I pledge you, and I mean it, that if this country needs anything and all I have, down to my last pair of socks, it will be given freely and without regret. \* \* \* I have never before written such a letter to a public official, but such a proposal as you have advanced has already stopped one very loyal, fine American citizen of my acquaintance from investing his life's savings in a really constructive enterprise where all he expected was to be able to have the principal when the boom's end came. He does not see how he will have that under your program.

Fay G. Schragger, Lakewood, N. J. Last week my husband took our little son to the Post Office with \$8 in change to buy Defense Stamps. They refused to accept the money until it was converted at the bank into bills. We have been buying one bond a month, and it seems to me that any American money should be acceptable without any inconvenience to the buyer.

Elsie Hood Lissak, N. Y. C. Such a letter, at such a time, is most gratifying, and only adds to praise I have occasion to give to the Treasury Department frequently, and especially to friends not seeing eye to eye with the Administration! (Tells of income tax case.) \* \* \* Anxious to be absolutely right in the matter - long before tax time - I wrote the proper authority in your Dept., and I was amazed at the courtesy shown. Several letters sent me - until the final decision - to let me know I was not overlooked. Also several times - other than this, when uncertain about items in my income tax (a very small one!) I have gone to your officials and had them straightened out so efficiently and courteously. It always amazes me and gives me great pleasure. \* \* \* My income has suddenly been cut, nearly in half. The big taxes you are putting on everything I need, and the sum that must be put away for next March's tax, has made me immediately have to drop out all but the absolute necessities of living!

Reuil N. Bass, N. Y. C. Whenever the question of the investment of funds comes up in my relations with clients, or when acting in a fiduciary capacity, I urge and shall continue to urge that such funds be invested

in Savings Bonds. I greatly admire the manner in which you are placing these securities before the public and feel that we are fortunate in having the fiscal affairs of the Government so simply and frankly discussed by the Secretary of the Treasury. Such an approach inspires public confidence and I, for one, think that you are discharging a stupendous task in an admirable and efficient manner.

Dr. Bruce Snow, Manchester, N. H. I know you don't give a damn for what I think, except that maybe there are millions more Americans who think as I do. Last month, against my better judgment, I bought some of your Bonds, and if the money were being used to defeat Hitler, I intended to buy more. But Hitler and the war are merely window-dressing for more boon-doggling and bigger wages to labor and more dues for C.I.O. Unions - and I do not care to contribute to these. \* \* \* I should like to help beat Hitler - but I don't want to contribute to beat Hitler and have the money used to build up a C.I.O. monopoly. If our Government will stop being a subsidiary of the C.I.O. and will expect all citizens - whether business men or C.I.O. - to obey the same laws and keep their contracts with equal fairness, there will be no doubt of the unity of this nation. We will contribute to the defeat of Hitler, but not for double pay for Unions and half pay for investors. There is no sense in giving money to build ships and then have the Government let the C.I.O. refuse to sail these ships.

Comments on the Taxation Program

G. S. Stuart, Executive Director, Contractors of America. It has come to the attention of the members of this Association that the Treasury Department is sponsoring an increase in the Social Security taxes in order to restrain civilian spending power to avoid inflation. We desire to register our protest to any further increase in Social Security taxes because of the burden such increase would place upon the members of our industry. Payroll taxes are already very high, the amount of weekly benefit payment is generous, and the benefit period is sufficiently long. An examination of the huge surpluses existing in the funds from tax collections paid by employers would leave nothing to be desired in the way of additional funds.

Fred A. Sims (Lawyer), Indianapolis, Ind. At the present time I am trying to "save against the day" when my income tax report is due, for it is my intention, if possible, to pay the entire tax for the year when the report is filed. It would seem to me this would give the Government the benefit of the entire amount at the earliest possible moment.

E. T. E. Halsey, New Haven, Conn. While symbolic with your ideas of heavy taxation, I wish to call your attention to the unjust hardship in your proffered Bill to limit dividends to 6% on invested capital. There must be thousands of women whose meagre living depends upon their dividends on one or another of our few successful corporations. I know you do not want to cripple the small investor.

Eben Owens, Yonkers, N. Y. (Member A.E.F.) I have always admired your approach to all fiscal problems, but your latest assertion of a general 6% tax is too broad. Nobody wants to make a nickel out of this war. On the contrary, would be glad to lose the little I have left to stop it. But my own business lost money for 5 years. Have just turned the corner into black this year. You see all cases are different.

J. V. Norman, Jr., Louisville, Ky. I am an intense supporter of the foreign policy and the defense program of the present Administration. I agree with you that everyone must pay still higher taxes than those now in effect, and that all possible measures to prevent inflation must be taken. But I was shocked beyond expression when you, occupying the position of Secretary of the Treasury of the U. S. of America, coolly proposed that the Government should take all earnings over 6% on invested capital. This is, of course, a complete change in our philosophy of taxation, and would completely kill all business incentive for all of our most successful businesses. The advancement of such a theory by a man in your position does more to damage our war effort, to discourage initiative, and to destroy national unity than all the Nazi sympathizers could ever do.

J. Tyson Watts, Norristown, Pa. The proposed new law to limit corporate profits to 6% on invested capital, and advocated by you, concerns me and thousands of others most vitally. We who are wholly or partially dependent upon income or increment derived from security investments -- with aggregate incomes under \$750.00 or \$1,500.00, feel the enactment of this proposed law would be a most cruel and iniquitous inquisition. In most cases it would reduce the already shrunken dividend yields to one-half or less. \* \* \* We are zealous (I'm certain of myself) in the support of our Government, and especially our President, in meeting its herculean task of defeating Hitler and all he stands for, by accepting our proportionate share of a gigantic tax levy -- but not even tolerant where our very existence is needlessly and miserably threatened.

Etta M. Staub, San Francisco, Calif. Why crucify the "little people"? It is about time this Administration gave them a break. It has been enriching the labor leaders and their communistic followers.

Isadore Stillman, Woodside, L. I., New York. I enthusiastically endorse your proposal to put a limit to profits, and putting no limit to wages.

Mason B. Starring, Jr., Irvington-on-Hudson, N. Y. I was very interested in reading your statement of yesterday. I agree that we owe a debt of gratitude to those who are serving their country, but why should they only receive a dollar a day when the Government itself does everything in its power to grant absurd and uncalled for wages to the Union laboring man who is doing everything in his power to damage the defense interests of the country and to sabotage our American program. \* \* \* It is quite evident that the Government is afraid of the labor vote and expects those who have built up the industrial production of the country to make all of the sacrifices. It seems to me at a time like this, sacrifices should be borne equally by everyone and that the privileged voting classes, namely the Union laborer and the farmer, should not be exempt.

C. L. Hatchfield, Toledo, Ohio. You urge 6% limit on firm profits. I think that is the most sensible thing that has come out of Washington in a long time.

B. Hunting, Brooklyn, N. Y. The millions of small stockholders who own these corporations have invested their life savings; poor people like me; and had little return these ten years of depression. Now with realty tax, indirect tax, sales tax, etc., we are poorer than ever. You want 6% the top. What about us?

R. R. Munn, Cleveland Heights, Ohio. I want to congratulate you on the stand you have taken, as reported in today's press, regarding taxing of corporation profits. The greatest need today is morale, a will to sacrifice for defense of this country and democracy throughout the world. And the greatest impediment to sound morale is the suspicion on the part of the common people that large profits are being made out of defense industry. \* \* \* You have a responsibility of historic importance.

William Stix Wasserman, President, The Investment Corporation of Philadelphia. I feel sure that you would not consciously sabotage the national defense effort and yet in a way your tax proposals are bound to have just that sort of an effect on national defense. I happen to be a banker and every day people come in to see me with various projects that have to do with national defense. Some of these projects are new inventions that are still in the development stage, while others are borderline projects that require additional capital for raw materials, extensions of plant, payrolls, etc. For example, in one instance we financed a shipbuilding corporation which is now making merchant ships for the British and tenders for our Navy. In another instance we helped a small concern get money so it could build an essential type of bearing used in shipbuilding. In each instance we went to the general public for money. Now, of course, people with money are willing to invest at a low rate when the return is guaranteed or there is a large measure of safety. Your proposed return of a 6% is more than ample in such instances, but business is a highly hazardous venture and the private owner of capital who has any experience in these matters is well

aware of these hazards. If you restrict his possible profit to 6% on his successful ventures, you offer him absolutely no incentive to go ahead with these new risk projects which are so important in our scheme of national defense. If one is to take the law of averages into consideration, it is necessary to earn a good deal more than 6% on the successful projects to counterbalance the loss involved on the unsuccessful ones. \* \* \* By putting a ceiling of 6% on business profits you are likely to block the exploitation of very many new inventions. The whole industrial progress of this country has always been based on our willingness to further new technique. \* \* \* None of us want to see a new crop of war millionaires but there is a far cry between the creation of a string of war millionaires and the permitting of sufficient profits that will give proper inducements to prudent capital to go to work. \* \* \* Let me remind you that the President himself recently said that the rights of free labor are dependent on the rights of free enterprise. In a profit and loss system, free enterprise depends on profit.

Mrs. John Kaderly, Columbus, Ohio. I cannot refrain from expressing my anxiety over your most recent utterance regarding profits for corporations. I am a widow, dependent upon dividends received from stocks which my husband left to me. It seems that you would prefer to "Rob Peter to pay Paul". If our industries are only allowed to make a 6% profit, what is to become of the poor stockholder?

Clarence Poe, President, Progressive Farmer, Raleigh, N. C. (Telegram) I earnestly beg you to consider whether your proposal for taxing corporations would not be seriously unfair to thousands of businesses of which the Progressive Farmer is only one example. My associates and I who organized the Progressive Farmer Company thirty years ago were poor and virtually without capital. Hence, year after year we worked, struggled and sacrificed with subnormally low salaries in order to make profits enough to build up the business. Our present values represent thirty years of such subnormal salaries, while we put extra labor and overtime hours into the business because we lacked the capital which rich men's sons would have had and used. I confidentially appeal to you to prevent such companies from being discriminated against.

John E. Baumann, West Englewood, N. J. If, as you stated before the House Banking Committee, you consider it only fair that owners of corporations be allowed only a 6% return on their invested capital in the interests of patriotism and sacrifice, (1) why has not the Government stopped spending the people's money for nonessential, nondefense purposes, and (2) why does not the Government bear down upon labor and ask them to do their bit for their country?

Anonymous - Fond Du Lac, Wis. Do you want us to lose our jobs and go on relief? Capital will never "stick its neck out" if it is limited to 6% profit, with no guarantee against loss. A man in your position should know better than to preach such a damn fool doctrine. I have a good job, am paying for my home, a good boss, three square meals a day, and I want my boss to make enough money on his investment so he will not get scared and shut up shop.

G. W. Hull, Greenwich, Conn. (Clipping about 6% statement attached.) The chief trouble with this Administration is that it has sold out to labor Unions and is too damn cowardly to put a ceiling or to attempt to put a ceiling on wages or farm products, but particularly on Unions, which are dominated by racketeers for the most part, yet wages and farm prices will constitute the greatest impetus to inflation of all other causes combined.

George F. Joly, Jr., Wynnewood, Pa. This would be a bad blow to many investors who have invested their savings, not so much in the book value of securities, as in the earning ability thereof. You would take away from these investors what they had honestly paid for and are entitled to retain.

David Fox, Huntington, W. Va. (Branchland Pipe & Supply Co.) It may seem presumptuous but I feel that you may want the opinion of business men and am therefore going to inject mine. \* \* \* I cannot agree with you that a tax such as you suggest would prevent inflation, but on the contrary I think it would be one of the greatest contributing factors toward inflation. If a corporation knows that it will be taxed 100% above the 6% profit on invested capital, the tendency might be to raise wages and give bonuses to employees to consume all the excess, and we would then have one of the greatest "silk shirt" eras we have ever experienced. I only know what I read in the news dispatches and I feel that there must be some exceptions in your mind instead of making a rigid tax of 100% on earning above 6%. I think the country will approve of a simple form of tax to take up the wartime profits, but corporations will have to have some incentive to prevent them from paying out the profits in the form of wages and bonuses.

Melville Keim, Chicago, Ill. Your recommendation of taxing corporations, on earning over a certain percentage of their invested capital, would greatly curtail interest in new enterprises.

Leon L. Rice, Anderson, S. C. (Attorney) I am sure that you would welcome any assistance in seeing how your suggestion would work a hardship on stockholders' income. I have had stock in several textile corporations for several years, and many of them have not paid a dividend to the common stockholders in ten years and more. If you limit their earnings to 6%, there will arise the matter of deferred dividends, money borrowed, etc., and the stockholder will still be the "Forgotten Man". In fact, it would take several dividends to make up for losses incurred, and the probability is that the corporations earning 6%, even where they owed no money, would pass this on to reserve, and pay nothing to the common stockholders. Since a reasonable reserve is good business, why not allow 6% for reserve and not less than 8% for dividends. It also seems that some consideration is due stockholders for past loss of earnings. I trust that in your fairness to all concerned you will not advocate a ceiling over corporate earnings without taking into consideration the long neglected common stockholders.

Wm. F. Kennagh, Bayside, L. I., New York. Let me honestly commend you for your Bill to limit corporation profits to 6% during the emergency. I see no reason why these corporations should not pay for a war which they are seeking - a war for economic reasons. This again is war for Power Politics, one which we should not enter at all. The poor man should not have to pay the greater part of the burden in relation to his income.

Vir N. James, Croton, N. Y. Stick by your guns on the 100% tax on all defense profits above 6%. We are for it! Take the profits out of war! Work for union now.

Anonymous - Pleasantville, N. Y. New Deal Attempts to Rob People of Initiative! By advocating 6% earnings. The New Deal and your ideas aren't fit to hear about. If you get your way, we will have a nation without a spine or reason for working at all. Put them all on relief then.

"Poor Mother of 4 from Harlem" -- You are absolutely right when you ask 6% profit limit ceiling on prices. Let those people pay for war who are making money out of war.

Anonymous - New York City. Limiting profits to 6% will help to hold prices down, but absolutely will not yield as much taxes and positively will kill small business. Nobody is going to work for nothing. \* \* \* You are simply ruining the chances of the Allies winning, breeding fear and preventing unity. You should do the very reverse -- namely, offer to split 50-50 on all earnings over the best three-year average. Capital should always be encouraged to take risks if we are to progress, but now more than ever.

Maris Aaronson, New York City. I notice by to-night's paper that your experts are drafting a 6% ceiling bill. The first place to start is right in our Army Camps with the Post Exchange. Our selectees, whose income is less than \$1 per day, are overcharged for everything they buy at the Post Exchange. \* \* \* Even a three-cent stamp costs more at the Post Exchange -- which is against the law. A 5¢ cake of soap costs 10¢ or 15¢.

Charles B. Bohn, Chairman, Bohn Aluminum & Brass Corp., Detroit, Mich. If you are trying to reduce production of essential defense needs, I do not know a better way to accomplish it.

Alexander C. Ward, Jr., Riverton, N. J. Industry is doing its best to cooperate with the Government in this present crisis. It is wholly disheartening, therefore, to have the head of the Treasury Department so contemptuously indifferent to the elements of fair play, as they apply to the relations between Government and business, as to make the preposterous proposal of a 6% ceiling to corporation profits. If your object is to further break down the morale of the people by the imposition of this burden, then your plan is a successful one. I cannot think that you are seriously determined to pursue this measure.

August Brody, N.Y.C. I will be frank enough to say that that 6% suggestion really makes me sick. It reminds me of the early part of 1937 when, evidently for fear of a runaway inflation, a great many restrictions were being made and discouraging remarks made, all these while the patient was still sick, with the natural effect that instead of the patient recovering, he became more ill. How can you expect anybody to have any confidence in the Administration when there is no control of labor or no effort to control it, but that other things are controlled. Labor is the most expensive item there is.

Andrew J. Browne, Saint Alphonsus Church, Chicago, Ill. Permit me to offer my sincere congratulations upon your proposed measure to limit corporation profits to 6%. To my mind it is not only the only feasible method of preventing inflation, but also a most necessary cog in our economic machinery. It will go far to balance the fair distribution of wealth even in normal times, to say nothing of such times as these, when our industry is hard pressed to fill all the orders for our national needs as well as those tending to build up the defense of the so-called Democracies throughout the world. \* \* \* Profits in excess of this figure, (particularly at this time of feverish production) will go far to meet our national deficit; and at the same time, should greatly relieve the ordinary wage earner from the too drastic taxes on incomes, which are now being levied. Many economists have pointed to the necessity of establishing a profit rate. Permit me to congratulate you on being the first man in public office to suggest such a measure.

Richmond J. Reese, Counsellor at Law, N.Y.C. It is the privilege, perhaps the duty, of every voter to express his views regarding policies of his Government to those members of the official family who are formulating them. \* \* \* Newspapers report you have said that you had in mind (in the 6% statement) not only the raising of revenue but to bring the American public to the realization of the present emergency. In my humble opinion the results of such legislation would be directly contrary to this. \* \* \* It would tend to make the rich richer and the great middle class poorer for the following reasons: where legislation is confiscatory in its effect, corporations would not have an incentive to make more than 6% profit and the remainder of their earnings would be expended in raising the salaries of its executives, for after paying income taxes in the highest brackets, at least a small part would remain, while the effect on a corporation would be to earn not more than 6%. \* \* \* If you had seen the action of the stock market yesterday when your announcement was published over the news ticker, I believe there is no question but that you would have come to the same conclusion as has been arrived at by me.

Frank S. Brown, Kansas City, Mo. In connection with your tax bill, designed to impoverish the middle class and hasten Jewish Communism, I note you find the country too complacent. \* \* \* I am willing to do everything to defend this country, but we have done enough for England already, and so far as Russia is concerned, I will shed no tears, if she sinks tomorrow.

Sam S. Spalding, N.Y.C. It seems to me that you abandon absolutely sound logic when you go on to ask for the exemption of wages from Government control, when everything else seems to be controlled. The New Deal has lost all guts in dealing with labor. \* \* \* The middle class of the American people have been terribly hard hit. It seems to me, at a time like this, sacrifices should be borne equally by everyone, and that the privileged voting classes, namely the Union laborer and the farmer, should not be exempt. This is what I hear in general conversation of various people on the railroad, steamboat, and with all the people with whom I come in contact. I wish we had a few more real, sensible men like Grover Cleveland in Washington.

Drake H. Sparkman, N.Y.C. The proposed 100% taxation on earnings in excess of 6% will be the death knell to small business. The small company of which I am the head, with a capitalization of \$25,000, employing some twenty people, could not exist if its undistributed earnings of profitable years were not available to carry over the bad and provide funds for replacements which are not otherwise available to a small business.

Carl E. Schiffer, N.Y.C. I heartily endorse your 6% profits limitation proposal. I believe it would be of tremendous help not only financially, but from the point of view of morale.

Harry Sellers, N.Y.C. The power to tax is the power to destroy. Your new bill to limit earnings of corporations to 6% is not only cruel but a sabotage of the savings of the unfortunate owners and holders of these securities. \* \* \* Why continue to confiscate the earnings of the thrifty citizens in order to cover the mistakes of the Administration in their extravagant non-defensive expenditures?

Dr. Reinhold Niebuhr, Chairman, Union for Democratic Action, N.Y.C. (Telegram) The Union for Democratic Action favors speedy enactment into law of the Treasury proposal to tax excess corporate profits 100% limit on profits.

S. Gysin, N.Y.C. You say that you have every confidence that business will fully cooperate and be willing to make the sacrifices which are necessary. Are they necessary and equitable when they are so one-sided that they are going to pauperise innocent citizens who have worked for years to get some security? \* \* \* Why should a company, making 6% of invested capital on sales of \$100,000 handle an additional \$1,000,000 of sales without an additional cent of profit, but all of the added risk? I am disregarding the fact that State Corporation taxes would take the remaining 6%, or even more. \* \* \* I am fully in favor of "pay as you go"; I think that we should raise considerably more money through taxation, but you know as well as I do that your 6% plan and others of the same type and scale are inequitable, vindictive and unfair; that they hit certain people from all angles, and that Personal Income Tax (graduated as it has been for years) is the only system that can be justified.

Isaham T. Wilkinson, Xenbridge, Va. Statements like those with which you were accredited yesterday will blast defense coordination faster than the President can build it. Should Congress accept your proposals as democratic then millions of farmers and peoples in other vocations will veer to the

thought that Hitler is not wholly wrong. I sincerely hope you will clarify your position in the light of democratic principles.

A. Ross, Newerking Cleaning Fluid Co., N.Y.C. For many years I was employed in the Publishing business, and managed to save a little and spend a little. Then, when the Hoover Administration came along, after 14 years of service in one establishment, I found myself without a job. With the little I could salvage, I went into this business, and have been in it for the past eight years. The first six years of this business I utilized all my life's savings; my family of four was obliged to live on \$10 to \$15 per week. Last year, for the first time, I found myself making a little money. I paid my debts, cleaned up my bills, and I was in a position to take care of my family in better style. This year, fortunately, business is even better and we will have a profit. Now, what I would like to know -- what will happen next year if this business of mine does not show a profit, and we find that we cannot get the material we need to stay in business? My investment amounts to nothing, I cannot get material, and yet, I must give all my profits to the Government.

"Sixty Dollar a Week Machinist" You should go over to the Mellon Library and clarify your thinking. Maybe the ghost of old Andy would in part clear away some of the fog generated by your association with the professional pan-handlers, campus pin-heads, and greasy Communists.

Alfred Pincus, N. Y. C. I have read with much concern your proposal that all corporations give to the Government all monies earned over 6% of their capital invested as taxes. \* \* \* The majority of the people realize the present situation throughout the world, and are praying daily for the defeat of Hitler, and are willing to make great sacrifices. In most manufacturing industries a large percentage of cost is labor. To say that labor is no commodity in my opinion is incorrect. Unfortunately, most men holding the most responsible positions in the Government have had no experience in trying to build up a manufacturing industry. \* \* \* I realize it is difficult to create a tax law that will equalize taxation for all, but I am certain your proposal is aimed too much at a minority, and seems to favor a vast majority and has too much of the odor of politics.

Marvin H. Carter, Troy, Ala. What is fixing of farm prices but fixing of farm labor wages? You wish to fix the wage of a farm worker, the poorest paid labor by far in this country, and let the industrial worker jack up the price of everything the farmer buys. If you succeed in this, you will have committed a crime as great as any Hitler ever committed and further divide the country and injure morale. Nearly all farmers work their fields themselves and the price of their product is the measure of their wages. Down here they work for 75¢ to \$1.00 per day, not per hour. Their acreage is fixed by law and is so small that they can hardly make a living. It is true the Government pays them a pittance for their acreage reduction, but it is only a pittance. \* \* \* The farmer never strikes. Farm machinery was advanced by labor costs. Yet you are advocating fixing the farm labor and letting his costs run wild.

E.F. Wellinghoff, Cincinnati, Ohio. Let me tell you that if you sponsor a reduction of non-defense spending by several billion dollars with the same vigor and enthusiasm that you sponsored this 6% income limitation bill, you will get three cheers and terrific support from the vast middle-class in America. You know when we middle-class folk are being taxed, and taxed, and taxed, it gets a little irritating to read in the daily papers about the fall schedule of concerts by the W. P. A. Orchestra and the fall schedule of the art exhibits by the W. P. A. artists. The realization that our taxes are going out in this manner at a time when we are confronted with such a Herculean expenditure program just doesn't make a fellow feel like standing up and shouting from the house-tops.

H. E. Shaddick, Detroit, Mich. If, as stated, your 6% tax plan is being drafted to destroy the complacency of America, it will be successful. It will be even more far reaching - it will destroy also the morale of America, the initiative of America, and perhaps America!

O.E.M. Keller, President, The Toledo Small Business Men's Association. As an Association, and small business men, we wish to protest against your suggestion that business profit be limited to 6% on invested capital and the balance paid for taxes. That would work an untold hardship, particularly upon small business, which is already suffering, and which we are told will suffer still more from lack of materials, and in the case of retail business, lack of goods to sell. \* \* \* Some of the things already being done are driving firms out of business - and this certainly would do it in a much larger degree, particularly with the advent of a slump and losses, even though they might be only temporary.

Ashley Miller, N. Y. C. Please accept the congratulations of three voters here on your far-seeing and eminently courageous proposal for fixing profits at a rational figure. The nation-wide discussion of your idea will undoubtedly indicate whether patriotism or profits dominate the thoughts of our industrial leaders. Those of us who have sons in the service note and approve your comparison of them with the young Americans whom we are asking to serve their country for a dollar a day.

James F. Bell, General Mills, Inc., Minneapolis, Minn. No sacrifice is too great if it is necessary to our defense or for the defeat of those evil forces that are loosed upon the world today. The proposed limitations upon earnings fall not upon corporations, per se, but upon all the people who own American industries. As individuals we are willing to make sacrifices in our homes and in our lives, but, by the same token, we have a right to expect that Government will limit its demands and its expenditures to those things that are essential to the defense program. So far there is little evidence that this latter prevails. \* \* \* The effort of research cannot be capitalized. The enterprise may require little capital, but the profits would have to be quite large to repay the previous years of expense and effort. Is there not to be some provision for these small beginnings that may grow into vast enterprises? Ford started in a woodshed. And there are many of like nature. Today these industries are the source of great Government income. \* \* \* I am hopeful that you will find some modification in your thinking and your proposals that will accommodate these still undiscovered and still undeveloped sources of national wealth.

Roy L. Heidelberg, Manager, Hotel Heidelberg, Baton Rouge, La. What are small corporations going to do who have incurred debts maturing over a period of years? In my case, and I believe the same will apply to hundreds of other small corporations, this will mean bankruptcy unless some provision is made for amortizing long-time obligations.

Lester I. Brooks, Betty Brooks Co., Huntington Park, Calif. (Manufacturers of Service Frocks, Gym-Togs & Sportswear) Have noted your suggestion for the 6% limit on profits during the war emergency. I do not know whether 6% is correct or not, because our system is not only a profit system, it is a profit and loss system. And some opportunity ought to be accorded to accumulate profits to take care of losses. But I would rather see a 6% limit than none at all.

Charles H. Snyder, Abindon, Ill. I can't reconcile your statement of the confiscation of all earnings of corporations above 6%, and the urge to purchase more Bonds. Where will the funds come from when we who are dependent on interest and savings, for our living, and they are dried up at the source, have enough to live on and purchase Defense Bonds?

T. J. Eyerly, President, State Planters Bank, Walnut Cove, N. C. The proposition to take all income from corporations after a 6% income is allowed would break every small country bank in the country.

Julius C. Martin, Merchantville, N. J. A friend came to us asking for a loan for a very urgent purpose. He told us even though we would have to tighten our belts to accommodate him, he thought he should have the loan. We thought so too and made a sacrifice in our living standard to provide him with the funds. Time went on. This time we said, when our friend needed more money and approached us again, that he had made no change in his way of life. He had gone on spending in his customary manner for things we know are not essential, for things we know he could eliminate or at least reduce to a minimum. Our living costs are going up in leaps and bounds. This proposition is all one-sided. Why should we make these sacrifices while he spends as usual? When our friend wakes up to his responsibilities, then we shall help him again and gladly.

Mrs. Vernon C. Ward, Sr., Robersonville, N. C. You are probably receiving thousands of letters endorsing your advocacy of a fair and just 6% profit limitation on corporations. Nevertheless, I want to add my endorsement also.

Carl B. Newlon, Denver, Colorado. Many of us were greatly disturbed by the remarks of Mr. H. V. Kaltenborn over the radio yesterday. I am sure a majority of the people of this country who support your view on taxation are with you and anxious to help promote the legislation you propose.

Frank Conte, Providence, R.I. For the past couple days I have been hearing you lambasted for your 6% profit limitation proposal. \* \* \* I know that your proposal will cause as much a furor as Patrick Henry's "Give me liberty or give me death", and I hope that these, my clumsily put together congratulations for your courage, may help break the storm that will come your way. May your spirit never flag. I salute you Sir, a brave man.



*Noted. C.S.B.*  
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TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

October 3, 1941

FORWARDED TO THE SECRETARY:

Weekly Report - Lease-Lend Purchases  
(9/28/41 - 10/3/41)

<u>Requisitions</u>	<u>Estimated Cost</u>
Cleared by O.P.M.....	207,754,371.43
Awaiting clearance by O.P.M.....	11,780,342.48
<hr/>	
Total Pending Requisitions.....	219,534,713.91
Less requisitions for metals and textiles, where contracts will be made for term periods and allocations required from O.P.....	106,177,052.73
<hr/>	
Total Pending Requisitions for Spot Purchases.....	113,357,661.18
Purchases to 9/28/41.....	156,421,563.70
Purchases 9/28 to 10/3/41	9,064,054.36
<hr/>	
Total to 10/3/41.....	165,485,624.06

r. Guy Thompson of OPM has been detailed to this office to act as liaison with the Procurement Division and to serve in an advisory capacity with reference to steel purchases.

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*Clifton S. Mack*  
 Clifton S. Mack  
 Director of Procurement

Attachments-8

<u>CONTRACT NUMBER</u>	<u>CONTRACTOR'S NAME</u>	<u>DIS- VISION</u>	<u>COMMODITY</u>	<u>QUANTITY</u>	<u>TOTAL VALUE</u>
DA-TPS-1467	SKF Steels, Inc.	U.K.	Mi. Carbon Chr. Steel	554,500	207,005.25
DA-TPS-1472	Pittsburgh Steel Co.	"	Concrete Reinf. Wire rods	850GT.	49,212.30
DA-TPS-1474	Sandvik Steel, Inc.	"	Alloy Steel	62GT.	88,875.08
DA-TPS-1294 (Adj. Deduct)	Bethlehem Steel Export Corp.	"	Freight		39,710.00
DA-TPS-1241 (Adj. Add)	U.S. Steel Export Corp.	"		20,900	641.63
DA-TPS-1241 (Adj. Add)	U.S. Steel Export Corp.	"		1,386.895	1,203.44
DA-TPS-1491	Inland Steel Co.	"	Slabs and Billets	12,400GT.	503,762.00
DA-TPS-1294-1	Bethlehem Steel Export Corp.	"	Rods, Freight, Billets	2,100GT.	95,751.00
DA-TPS-1432	SKF Steels, Inc.	"	Mi Carbon Chr. Steel	112GT.	37,504.17
DA-TPS-1494	Molybdenum Corp. of America	"	Ferro Molybdenum	145,600#	100,130.40
DA-TPS-1164	Eucyrus-Erie Co.	"	Shovels	8	95,409.28
DA-TPS-1415	General Electric Supply Corp.	"	Wire	30,000#	4,836.00
DA-TPS-338 (Adj. Add)	Lancaster Iron Works Inc.	"			9,335.40
DA-TPS-339 (Adj. Add)	Lancaster Iron Works, Inc.	"			9,335.40
DA-TPS-1351	Joseph Dixon Crucible Co.	"	Graphite Flake	215#	97.20
DA-TPS-1259	U.S. Rubber Export Co.	"	Tires & Tubes	750	26,260.50
DA-TPS-1414	Westinghouse Elec. and Mfg. Co.	"	voltmeters	8	244.44
DA-TPS-1086	Caterpillar Tractors Co.	"	Spare Parts		1,892.50

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<u>CONTRACT NUMBER</u>	<u>CONTRACTOR'S NAME</u>	<u>REQUISITIONER</u>	<u>COMMODITY</u>	<u>QUANTITY</u>	<u>TOTAL VALUE</u>
DA-TPS-1065	Chicago Pneumatic Tool Co.	U.K.	Runners, Nuts, Drills, Gappers		\$ 4,408.70
DA-TPS-1291	E. C. Atkins Co.	"	Files	5doz.	8.40
DA-TPS-1292	Heller Bros. Co.	"	Files	18doz.	34.56
DA-TPS-1124	International Harvester Exp.Co.	"	Tractors		982,215.20
DA-TPS-1443	General Electric Co.	"	Ammeters	4	424.60
DA-TPS-1409	Kieckhefer Container Co.	"	Boxes, Fiber	100M	15,875.00
DA-TPS-1396	Threadwell Tap & Die Co.	"	Stocks Die	985 sets	16,551.70
DA-TPS-1383	Diataphone Corp.	"	Radio Recor.Mch. Transcribing Mch.	8 20	9,610.00
DA-TPS-1395	Greenfield Tap & Die Corp.	"	Plates, Screw	3850Sets	54,338.00
DA-TPS-1109	L.C. Smith & Corona Typewriter	"	Mach. Duplicate		5,072.24
DA-TPS-1382	Standard Record Co.	"	Cylinders	3,000	950.00
DA-TPS-1289	M. S. Bracks & Sons	"	Pins Splet	551 Gr.	52.28
DA-TPS-1324	John Morrell and Co.	"	Hog Hair	67,000#	5,360.00
DA-TPS-1336	Great Lakes Carbon Corp.	"	Calcined Petroleum coke	5000LT	106,400.00
DA-TPS-1322	The Cudahy Peehing Co.	"	Hog Hair	188,100#	14,773.87
DA-TPS-1326	The Rath Peehing Co.	"	Hog Hair	74,813#	6,268.64
DA-TPS-1290	Nicholson File Co.	"	Files	23doz	48.77
DA-TPS-1148	James J. Ryan Tool Works	"	Drivers, Screw	1315	95.50

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<u>DA-TPS</u>	<u>CONTRACTOR'S NAME</u>	<u>RESID- TIONER</u>	<u>COMMODITY</u>	<u>QUANTITY</u>	<u>TOTAL VALUE</u>
DA-TPS-1147	Damascus Steel Product Corp.	U.S.	Panades, Pin		\$ 2,568.79
DA-TPS-1288	Gronet File Corp. of America	"	Files Band		515.35
DA-TPS-1110	Ditto Inc.	"	Machine Duplicating		16,904.20
DA-TPS-1440	The Fyr. Eyster Co.	"	Fire Extinguisher	1,000	4,220.00
DA-TPS-1315	West Steel Casting Co.	"	Anvils, Blacksmith	72	3,240.00
DA-TPS-1314	Illinois Iron & Bolt Co.	"	Ditto	480	9,000.00
DA-TPS-1441	Buffalo Fire Appliance Corp."	"	Fire Extinguishers Refill Charges	1,000	520.00
DA-TPS-1398	The Pharis Fire & Rubber Co. "	"	Fires & Tubes	400ea.	3,020.00
DA-TPS-1389	Pennsylvania Rubber Co.	"	Flaps	1,000	40,130.00
DA-TPS-1386	The Goodyear Tire & Rubber Co. "	"	Tires, Tubes & Flaps	21	568.16
DA-TPS-1388	Dunlop Tire & Rubber Corp.	"	Tires Tubes & Flaps	3400	58,140.00
DA-TPS-1387	U.S. Rubber Export Co.	"	Ditto	1900	108,794.00
DA-TPS-1392	The Mohant Rubber Co.	"	Ditto	1250	28,472.50
DA-TPS-1390	The Mansfield Tire & Rubber Co. "	"	Ditto	1814	36,543.40
DA-TPS-1391	The Firestone Tire & Rubber Co. "	"	Ditto		223,172.50
DA-TPS-1436	General Electric Supply Corp.	"	Wire & Cable		51,766.37
DA-TPS-1465	Jeyerhaeuser Sales Co.	"	Douglas Fir	970,000	443,370.00

<u>CONTRACT NUMBER</u>	<u>CONTRACTOR'S NAME</u>	<u>REQUISITIONER</u>	<u>COMMODITY</u>	<u>QUANTITY</u>	<u>TOTAL VALUE</u>
DA-TPS-1466	Pacific Coast Spruce Inc.	U.K.	Douglas Fir	750,000	\$ 443,370.00
DA-TPS-1468	Pennwell Oil & Belting Co.	"	Belting Leather	2250 FT.	8,183.47
DA-TPS-1433	The Eagle Belting & Leather	"	Belting		2,394.00
DA-TPS-1150	The Harshaw Chemical Co.	"	Potassium Hydroxide		42.50
DA-TPS-1477	General Electric Supply Co.	"	Bushar Chambers		22,000.00
DA-TPS-1352	E. F. Houghton & Co.	"	Case Hardening Comp.		134.55
DA-TPS-1498	Brunswick Pulp & Paper Co.	"	Kraft Pulp		80.00
DA-TPS-1367	The Cleveland Trencher Co.	"	Trench Digging Machines		38,802.00
DA-TPS-1384	Millbarn Mills, Inc.	"	Mosquito Netting		18,000.00
DA-TPS-1478	Anderson -Tuley Co.	"	Lumber Hardwood		36,034.82
DA-TPS-1479	Angelina Hardwood Co.	"	Lumber Hardwood		2,125.00
DA-TPS-1480	Bankston Lumber & Export Co.	"	Lumber Hardwood		49,014.00
DA-TPS-1481	Brooklyn Cooperage Co.	"	Lumber Hardwood		3,401.00
DA-TPS1482	Eastman Gardiner Hardwood Co.	"	Lumber Hardwood		3,755.00
DA-TPS-1485	Sears Lumber Co.	"	Lumber Hardwood		981.00
DA-TPS-1484	Santee River Hardwood Co.	"	Lumber Hardwood		1,200.00
DA-TPS-1483	Miller & Co., Inc. of Florida	"	Lumber Hardwood		44,520.00
DA-TPS-1486	E. H. Shreener Lumber Co.	"	Lumber Hardwood		4,562.00

<u>CONTRACT NUMBER</u>	<u>CONTRACTOR'S NAME</u>	<u>REQUISITIONER</u>	<u>COMMODITY</u>	<u>QUANTITY</u>	<u>TOTAL VALUE</u>
DA-TPS-1488	Discie Lumber Co., Inc.	U.K.	Lumber Hardwood		\$ 47,950.00
DA-TPS-1243	Allis-Chalmers Mfg. Co.	"	Tractors	17	73,069.81
DA-TPS-1293	Snow Removal Equip. Co.	"	Snow Plow	1	4,830.00
DA-TPS-1307	Suik Mix Concrete Mixer Co.	"	Concrete Mixers		211,371.71
DA-TPS-1306	Construction Mch Co.	"	Concrete Mixers		128,694.00
DA-TPS-1308	The Jaeger Machine Co.	"	Concrete Mixers		59,800.00
DA-TPS-1419	Harrisburg Steel Corp.	"	Oxygen Cylinde	10,000	166,300.00
DA-TPS-1206	Caterpillar Tractor Co.	"	Tractor & Spares		5,827.90
DA-TPS-1301	International Harvester Co.	"	Power Units	200	199,070.00
DA-TPS-1536	General Elec. Supply Corp.	"	National Receivers	116	28,797.00
DA-TPS-1205	Norma-Hoffman Bearing Co.	"	Bearings Ball & Roller		92,987.50
DA-TPS-1212	General Motors Sales Corp.	"	Bearing Ball & Roller		299,700.00
DA-TPS-1512	Trojan Rectefrer & Equip. Inc."	"	Battery Chorges	50	2,723.86
DA-TPS-1475	Defense Supplies Corp.	"	Douglais Airplane		289,269.67
DA-TPS-1305	S. L. Allen & Co., Inc.	"	Hoes & Seeders	1600-800	21,247.23
DA-TPS-1239	Standard Vacuum Oil Co.	China	Aviation Gasoline	1,356,000 Gals.	334,950

<u>CONTRACT NUMBER</u>	<u>CONTRACTOR'S NAME</u>	<u>REQUISITIONER</u>	<u>COMMODITY</u>	<u>QUANTITY</u>	<u>TOTAL VALUE</u>
DA-TPS-1531	Great Lakes Steel Corp.	U.K.	Sheets	237GT.	\$ 17,756.86
DA-TPS-1385 (Adj. Add.)	U.S. Steel Export Co.	"	Steel		268.80
DA-TPS-1532	Republic Steel Corp.	"	Tinplate	779,357GT.	93,764.28
DA-TPS-959 (Adj. Add)	General Motors Overseas Corp.	"	Freight		900.00
DA-TPS-1534	Pittsburgh Steel Co.	"	Ingots	3900GT.	138,489.00
DA-TPS-1537	Jones and Laughlin Steel Corp."	"	Tinplates	481GT.	54,010.16
DA-TPS-1549	Weirton Steel Co.	"	Tinplates	1,557.5 GT.	175,004.29
DA-TPS-1552	Continental Steel Corp	"	Barbed Wire	800GT.	73,472.00
DA-TPS-1553	Keystone Steel & Wire Co.	"	Barbed Wire	1,400GT.	128,730.00
DA-TPS-1554	McLouth Steel Corp.	"	Hoop Steel	29GT.	2,944.67
DA-TPS-1555	Follansbee Steel Corp.	"	Steel Sheets	22,400	1,388.80
DA-TPS-1559	Pittsburgh Steel Corp.	"	Barbed Wire	1,300GT.	115,897.60
DA-TPS-1561	Sharon Steel Corp.	"	Rolled Strip	441 GT.	97,401.02
DA-TPS-1564	Weirton Steel Corp.	"	Sheets	480GT.	33,331.20
DA-TPS-1565	Wisconsin Steel Corp.	"	Billets	2,500GT.	111,200.00
DA-TPS-1171	Commercial Acetylen Supply Co."	"	Acetylene Cylinder	750	20,625.00
DA-TPS-1300	La Plant Choate Mfg. Co., Inc."	"	Scraper	36	74,809.44
DA-TPS-1145 (Adj. Add)	Haselate Mfg. Corp.	"			44.50

<u>CONTRACT NUMBER</u>	<u>CONTRACTOR'S NAME</u>	<u>REQUISITIONER</u>	<u>COMMODITY</u>	<u>QUANTITY</u>	<u>TOTAL VALUE</u>
DA-TPS-1518	Jones & Laughlin Steel Corp.	U.K.	Barbed Wire	1,300GT.	\$ 112,840.00
DA-TPS-1012 (Canc.)	Holo-Krome Screw Corp.	"			6,072.22
DA-TPS-1499	Laclede Steel Co.	"	Concrete Reinf. Wire rods	1,982,400	69,780.48
DA-TPS-1500	Republic Steel Corp.	"	Sheets	1,070,000#	34,186.50
DA-TPS-1503	Midstate Steel & Wire Co.	"	Barbed Wire	300GT.	28,374.00
DA-TPS-1504	Granite City Steel Co.	"	Tinplate	99GT.	12,107.00
DA-TPS-1505	Follansbee Steel Corp.	"	Tinplate	139GT.	16,884.81
DA-TPS-1507	Youngstown Sheet & Tube Co.	"	Tinplate	493GT.	56,868.41
DA-TPS-1508	Youngstown Sheet & Tube Co.	"	Wire rods, Ingots	8,500GT.	324,955.00
DA-TPS-1510	Wheeling Steel Corp.	"	Tinplate	608GT.	73,566.14
DA-TPS-1548	Northwestern Steel & Wire Co.	"	Barbed Wire	1,000GT.	92,780.00
DA-TPS-1476 (Adj. Add)	General Motors Overseas Operations		Freight		9,025.00
DA-TPS-963	General Motors Overseas Operations		Freight	10,000D.Fgs.	60,400.00
DA-TPS-958 (Adj. Add.)	General Motors Overseas Operations		Freight		2,500.00
DA-TPS-1538	Atlantic Steel Co.	"	Wire Rods	193GT.	11,110.62
DA-TPS-1540	U. S. Steel Export Co.	"	Tinplate	4,049.3GT.	479,416.19
DA-TPS-1541	Andrews Steel Co.	"	Slabs	2,000GT.	91,020.00
DA-TPS-1523	Wheeling Steel Corp.	"	Billets	6919GT.	309,355.00

<u>CONTRACT NUMBER</u>	<u>CONTRACTOR'S NAME</u>	<u>REQUISITIONER</u>	<u>COMMODITY</u>	<u>QUANTITY</u>	<u>TOTAL VALUE</u>
DA-TPS-1446	The Pharis Tire & Rubber Co. China		Tires, Tubes	525	\$ 3,905.75
DA-TPS-1445	The Nohawk Rubber Co.	"	Tires, Truck tubes	1,000	7,688.00
DA-TPS-1448	The Dayton Rubber Mfg. Co.	"	Tires Truck Tubes	800	3,096.00
DA-TPS-1447	The Firestone Tire & Rubber Co."		Truck Tires, Truck tubes	6400	29,579.00
DA-TPS-1422	American Haer & Felt Co.	"	Hair Felt	133 1/3 Yds.	50.67
DA-TPS-1375	The Washburn Co.	"	Washes, Lock, Steel		36.28
DA-TPS-1335	United-Carr Fastener Corp.	"	Fasteners		5,375.00
DA-TPS-1337	American Felt Co.	"	Grey Woolen Felt		253.75
DA-TPS-1533	The Kay & Eso Co.	"	Enamel Bl., Green	180Gals.130Gals.	491.20
DA-TPS-1265 (Adj. Deduct)	Heppenstall Co.	U.K.			-13.14
DA-TPS-1137 (Adj. Add).	SKF Steels, Inc.	"			3,332.00

Total Purchases 9/26 to 10/3/41.....\$ 9,064,054.36

October 3, 1941.

Dear Mr. Bewley:

Many thanks for your letter of October 3rd,  
setting forth the figures on gold and dollar  
balance at the close of business on September 26th.

Sincerely yours,

*(Signed) H. D. White*

H. D. White,  
Director of Monetary Research.

Mr. F. E. Bewley,  
The British Supply Council  
in North America,  
Willard Hotel,  
Washington, D. C.

ls  
10/3/41

THE BRITISH SUPPLY COUNCIL IN NORTH AMERICA 337

TELEPHONE: REPUBLIC 7850



BOX 680  
BENJAMIN FRANKLIN STATION  
WASHINGTON, D. C.

October 3, 1941.

SECRET

Dear Dr. White:

The figures at the close of business on September 26th are as follows:

Total Gold (including Belgian)	272
Official dollar balance	<u>27</u>
TOTAL GOLD AND DOLLARS	309
Less Belgian Gold	105
Scattered Gold	21
Reserve against immediate liabilities	<u>10</u>
AVAILABLE GOLD AND DOLLARS	<u><u>173</u></u>

The increase is accounted for, among other things, by the receipt of a second instalment of \$25 million under the recent B.F.C. Loan.

A further instalment of \$75 million was received on the 1st October and should appear in future figures.

Yours sincerely,

*T. K. Bewley*  
T. K. Bewley

Dr. H. D. White  
Director of Monetary Research  
United States Treasury  
Washington, D. C.

10/6/41

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Copy furnished to Mr. Welles today when  
he called on the Secretary.

October 3, 1941

My dear Mr. President:

I would appreciate receiving instructions from you as to how I should answer the memorandum from the English which I sent to you on September 25th, as the British Financial Attache, Mr. T. K. Bewley, is urgently requesting a reply to this memorandum.

Sincerely yours,

(S:med) W. Borahofsky, Jr.

The President,

The White House.

*Sent by Secret Service*

*man 11:40 A.M. - 10/9/41 -*

Treasury Department 340  
Division of Monetary Research

Date 12/4/41 19

To: Miss Chauncey

Mr. White thought you would probably want this original letter in your files. Photostats were sent to Mr. Bell and Mr. Cochran some time ago.

L. Shanahan

MR. WHITE  
Branch 2058 - Room 214½

London, October 3, 1941.

Dear Mr. Secretary:

Enclosed is a copy of the Agreement between the Bank of England and the State Bank of the U.S.S.R., signed September 4, 1941, implementing the Anglo-Russian Inter-Bank Agreement of August 16, 1941. As explained in the Embassy's cable No. 4695 of today's date, the document should be held strictly confidential until and unless released by the Bank of England.

Three copies are being forwarded today by air mail despatch, one of which is to go to Treasury. It was decided after some consultation here that the text should go forward by despatch rather than by cable. I am taking this means of sending you one copy direct.

Sincerely yours,



L. W. Casaday

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

COPY

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AGREEMENT  
BETWEEN THE BANK OF ENGLAND AND THE STATE BANK  
OF THE UNION OF SOVIET SOCIALIST REPUBLICS

In order to implement the Agreement of the 16th August 1941 between the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of the Union of Soviet Socialist Republics concerning mutual deliveries, credit and methods of payment (hereinafter referred to as the Inter-Governmental Agreement) the Bank of England and the State Bank of the Union of Soviet Socialist Republics have agreed as follows:-

ARTICLE I.

The Bank of England shall open in its books a separate account in sterling in the name of the State Bank of the Union of Soviet Socialist Republics designated the "No. 1 Account" to which may be credited:-

(a) Sterling arising from deliveries of goods by the Government of the Union of Soviet Socialist Republics and Soviet organizations to the Government of the United Kingdom or to any department, organization or persons under the terms of the Inter-Governmental Agreement.

(b) Sterling arising from the sale to the Bank of England, acting as agents for His Majesty's Treasury, of U.S. dollars or gold in accordance with the provisions of Article 6 (a) of the Inter-Governmental Agreement and with Article 4 of the present Agreement.

(c) Sterling arising from advances made by the Government of the United Kingdom in accordance with the provisions of Article 6(b) of the Inter-Governmental Agreement, or under the Supplementary Agreement thereto dated 1st September 1941.

(d) Sterling arising from other sources as may be agreed from time to time between the Bank of England and the State Bank of the Union of Soviet Socialist Republics with the approval of their respective Governments.

The No. 1. Account may be debited as follows:-

(e) For payments due under the terms of the relevant contracts in respect of the value of goods delivered to the Government of the Union of Soviet Socialist Republics and Soviet organizations under the terms of the Inter-Governmental Agreement.

(f) For repayment of sums due by the Government of the Union of Soviet Socialist Republics under the 1936 Export Credits Guarantee Agreement in accordance with the provisions of Article 5 (b) of the Inter-Governmental Agreement.

(g) For such other sterling payments as may be agreed from time to time between the Bank of England and the State Bank of the Union of Soviet Socialist Republics with the approval of their respective Governments.

ARTICLE II

The Bank of England shall advise the State Bank of the Union of Soviet Socialist Republics by cable of amounts received for the credit of the No. 1 Account.

Payments under the provisions of Article 1 (e), (f) and (g) of the present Agreement shall be effected by the Bank of England upon receipt of telegraphic instructions from the State Bank of the Union of Soviet Socialist Republics.

All transactions passing through the No. 1 Account shall be effected free of commission.

ARTICLE III.

The Bank of England shall open in its books a "State Bank of the Union of Soviet Socialist Republics Suspense Account" to which shall be credited the sterling proceeds of sales of platinum to the Government of the United Kingdom and of dollars or gold to the Bank of England, acting as agents for His Majesty's Treasury, in anticipation of the quarterly settlements. However, during the period between settlement dates, balances on this account shall be at the free disposal of the State Bank of the Union of Soviet Socialist Republics and in particular may be transferred to the ordinary account of the State Bank at the Bank of England.

ARTICLE IV.

The No. 1 Account shall be balanced on the 31st October 1941 and at the end of every three calendar months thereafter. Any debit balance thereon which is a multiple of £250,000 shall be settled in accordance with the provisions of Article 6 of the Inter-Governmental Agreement. For the purpose of implementing the provisions of Article 6 (a) of the Inter-Governmental Agreement the Bank of England is authorized by the State Bank of the Union of Soviet Socialist Republics to transfer, at the end of any accounting period, the necessary amounts from the "State Bank of the Union of Soviet Socialist Republics Suspense Account" to the No. 1 Account. At the same time the Bank of England shall advise the State Bank of the Union of Soviet Socialist Republics by cable of the amounts so transferred and in the event of the balance on the "State Bank of the Union of Soviet Socialist Republics Suspense Account" not being sufficient to meet the payments due, the State Bank shall sell to the Bank of England U.S. dollars, or gold delivered in such places as shall be agreed between the two Banks.

Any credit balance remaining on the No. 1 Account at the end of any accounting period shall be placed in multiples of £250,000 at the free disposal of the State Bank of the Union of Soviet Socialist Republics and in particular may be transferred to the ordinary account of the State Bank at the Bank of England.

ARTICLE V.

With regard to the sales of U.S. dollars or gold referred to in Article 1 (b) of the present Agreement, the Bank of England will purchase:-

(a) U.S. dollars at the London middle official rate for U.S. dollars (at present U.S. dollars 4.03 = £1).



1941  
ASSISTANT SECRETARY OF THE TREASURY

October 3, 1941.

Memorandum

TO: Secretary Morgenthau  
FROM: Mr. Gaston

The attached letter to the President is largely self-explanatory. The matter arose primarily from our desire to do something about the Japanese fishing boat situation on the Pacific Coast, about which there have been many rumors of espionage, and also our desire to institute better protection in such important harbors as New York against stray craft that might be used for sabotage. I had a meeting in my office on September 10, at which the Navy, State Department, F.B.I. and Bureau of Navigation of Commerce were represented. At that time I said we would explore our power to control the situation through anchorage regulations. Navy was very strong for our doing it and the others had no objections. The file contains specific approval from State, Navy, Commerce and F.B.I. We have had several meetings internally, with Coast Guard, Customs and the General Counsel's office represented, and I think the regulations are now in pretty satisfactory shape.

Although they mean an increased pressure of work on the Coast Guard, I believe they are necessary and recommend that you sign the letter to the President.

*MGS*

OCT 3 1941

My dear Mr. President:

Under the anchorage regulations, approved by you June 27, 1940 and October 29, 1940, as amended, the departure and movement of vessels in American waters not required to secure customs clearance are not subject to control by the Government.

Section 7 of the regulations of June 27, 1940, requires a departure permit of vessels for which clearance is required. It is the view of the Department of the Treasury that the scope of this section should be broadened to cover vessels stopping at American ports for the purpose only of loading fuel and ship's stores. An amendment of section 7 is accordingly submitted for your approval.

It has come to the attention of the Department of the Treasury that some vessels not included in either of the above categories are engaging in activities detrimental to the interests of national defense. In order to put an end to those activities, this Department proposes the promulgation of certain added provisions to the existing regulations. Those added provisions would give to the Coast Guard the power to license, specifically or generally, the operation of vessels not controlled under section 7 and to require documents

of identification to be carried by persons on board all vessels, but to allow discretion in the captains of the port to waive the identification requirements in appropriate cases. They also will provide authority to prevent the mooring of a vessel, or to compel the shifting of a vessel if moored, in situations where the involved dock, wharf, pier, or other water front structure is found unsafe for such mooring.

The amendments proposed will provide an efficient means for checking attempts at sabotage and espionage on the water and on fixed water front property, where at present other effective means of enforcement are not available. They also will afford great flexibility in the application of controls, while at the same time provide for uniformity of administration where that is appropriate.

The control measures provided by the proposed amendments to the regulations have been urged by the Navy Department. The Secretaries of State, Navy and Commerce, and the Director, Federal Bureau of Investigation, Department of Justice, also have expressed their approval of the draft of these proposed amendments.

Because of the great public interest involved here during the present national emergency, I strongly recommend to you the approval of these amendments to the regulations.

Faithfully yours,

(Signed) H. Sargent, Sec

Secretary of the Treasury.

The President,

The White House.

Typed 10-1-41  
ESM:sh

*Blackwell*  
By Message 3:34

cc - Miss Charnsey  
cc - Mr. Stoughton

TITLE 36 - NAVIGATION AND NAVIGABLE WATERS  
CHAPTER I - COAST GUARD  
AMENDMENT TO PART 6 - ANCHORAGE REGULATIONS  
REGULATIONS FOR THE CONTROL OF VESSELS IN THE  
TERRITORIAL WATERS OF THE UNITED STATES.

TO COLLECTORS OF CUSTOMS, CAPTAINS OF PORTS, AND OTHERS CONCERNED:

Pursuant to the authority contained in section 1, Title II of the Espionage Act, approved June 18, 1917, 40 Stat. 280 (U.S.C. title 50, sec. 191), and by virtue of a Proclamation issued on the twenty-seventh day of June, 1940 (5 Fed. Reg. 2419), the Regulations relating to the control of vessels in the territorial waters of the United States (5 Fed. Reg. 2442), issued by the Secretary of the Treasury and approved by the President on June 27, 1940, are hereby amended as follows:

Section 4 is amended to read as follows:

(4) (a) The captain of the port or other officer designated by the Secretary of the Treasury pursuant to section (2) hereof is hereby authorized to cause to be inspected and searched at any time any vessel, foreign or domestic, or any person or package thereon, within the territorial waters of the United States, and to remove therefrom any or all persons not specially authorized by him to go or to remain on board thereof.

(b) Every person on board any vessel, foreign or domestic, within the territorial waters of the United States shall carry personal identification papers satisfactory to the captain of the port consisting of a card to which is affixed the photograph

of the bearer and containing such identifying data as name, signature, fingerprint, date and place of birth, nationality, alien registration number (in the case of resident aliens), height, weight, color of hair and eyes, such card to be furnished by the captain of the port or the identification data shown thereon to be in a form acceptable to him. In lieu of such card, the captain of the port may, in his discretion, accept any other satisfactory means of identification, such as a continuous discharge book, or a certificate of identification issued under authority of section 4561 of the Revised Statutes, as amended (U.S.C. title 46, sec. 645), or a passport. The captain of the port is further authorized, in his discretion, to exempt any or all persons on board of any such vessel, or any or all persons on board any class of vessels, from the requirement of personal identification. He may also, upon notification to the customs, agents, masters, or operators thereof, exclude individual vessels from a class of vessels to which is granted a general exemption from the requirement of personal identification. For the purposes of this paragraph, the Commandant, with the approval of the Secretary of the Treasury, may classify vessels as provided in section 6(4). The issuance of identification cards and the exercise of discretion by captains of ports with respect to the identification requirements contained in this paragraph shall be subject to the supervision of the Secretary of the Treasury, acting through the Commandant of the Coast Guard, and the Commandant may, subject to approval by the Secretary of the Treasury, issue such instructions to captains of the port as he may deem necessary to provide general uniformity.

Section 8, to be effective fifteen days after the date of publication in the Federal Register, is amended to read as follows:

(a) Except with respect to the departure of a vessel for which a departure permit is required by section 7 of these regulations, no vessel shall depart from any port or place in the United States, or from any port or place subject to the jurisdiction of the United States, for a point outside the territorial waters of the United States unless the owner, agent, or master of such vessel shall first obtain from the captain of the port in whose jurisdiction the vessel is to depart a license authorizing such departure.

(b) Except with respect to the departure of a vessel for which a departure permit is required by section 7 of these regulations, or for which a departure license is required by paragraph (a) of this section, no vessel shall move in territorial waters of the United States unless the owner, agent, or master of such vessel shall first obtain from the captain of the port in whose jurisdiction the vessel is to move a license authorizing such movement. The captain of the port may, in his discretion, issue such license covering the requirements of this paragraph and paragraph (a) of this section.

(c) Every application for license under the provisions of this section shall be filed with the captain of the port in duplicate and shall include a statement by the owner, agent, or master of such vessel describing the purpose for which the vessel is to be operated and its destination or the area in which it will operate. If the captain of the port finds that the granting of a license under the circumstances would not be inimical to the interests of national defense and of the safety

and protection of vessels or the territorial waters, he shall approve the application by endorsing it accordingly and shall return to the owner, agent, or master one copy thereof so endorsed. An application when so approved shall constitute a license to depart or move for the purpose and to the destination or in the area specified in the application. Such license shall be carried on the vessel for which it is issued while the vessel is operated, shall be exhibited for inspection upon the request of any officer charged with the enforcement of these Regulations, and shall be valid for repeated departures or movements of the subject vessel for the same purpose and to the same destination or area until revoked by the issuing officer or until the expiration of the time limit, if any, fixed in the license. The captain of the port who issued the license, or any captain of the port in whose jurisdiction the vessel may be, may revoke a license by notice to the holder thereof if he shall find that (1) there has been any violation of the terms thereof, or (2) any person on board of the subject vessel has failed to comply with the identification requirements of section 4(b) of these Regulations, or (3) further exercise of the license would be inimical to the interests of national defense or of the safety and protection of vessels or the territorial waters. The issuance and revocation of licenses by captains of the port shall be subject to the supervision of the Secretary of the Treasury, acting through the Commandant of the Coast Guard, and the Commandant may, subject to approval by the Secretary of the Treasury, issue such instructions to the captain of the port as he may deem necessary to provide general uniformity.

(4) The Commandant of the Coast Guard, with the approval of the Secretary of the Treasury, may issue a general license for any class or classes of vessels for which a departure or movement license is required by this section if he finds that the granting of such a general license would not be inimical to the interests of national defense and of the safety and protection of vessels or the territorial waters; he may exclude individual vessels from a general license at the time of issuance or subsequently upon notification to the owners, agents, masters, or operators thereof; Provided, that any vessel so excluded may nevertheless be granted a license under the provisions of paragraphs (a), (b) and (c) of this section; and he may revoke any general license if he finds that continuance of the license in force would be inimical to such interests. For the purposes of this section, the Commandant, with the approval of the Secretary of the Treasury, may classify vessels upon any reasonable basis, including, but not limited to, control, ownership, use, area of operation, type, length, beam, draft, or tonnage.

Section 7 is amended to read as follows:

(7) No vessel shall depart from any port or place in the United States, or from any port or place subject to the jurisdiction of the United States, on a voyage for which clearance by a customs officer of the United States is required or for which no such clearance is required because the vessel is exempted from making entry by section 441(4) of the Tariff Act of 1930, 48 Stat. 712, as amended (U.S.C., Sup. V, title 19, sec. 1441(4)), unless the principal customs officer in charge of the port of departure shall have been authorized by the Secretary of the Treasury to permit departure.

AMENDMENT TO PART 7 - ANCHORAGE AND MOVEMENTS  
OF VESSELS AND THE LOADING AND DISCHARGING OF  
EXPLOSIVE OR INFLAMMABLE MATERIAL, OR OTHER  
DANGEROUS CARGO.

Pursuant to the authority contained in section 1, Title II  
of the Act of June 15, 1917, 40 Stat. 220 (U.S.C. title 50,  
sec. 191), and a Proclamation issued June 27, 1940, the Rules  
and Regulations Concerning the Anchorages and Movements of Vessels  
and the Loading and Discharging of Explosives or Inflammable  
Material, or Other Dangerous Cargo, approved October 29, 1940  
(5 Fed. Reg. 4401), are hereby amended by the addition of a new  
paragraph to the regulations for anchorages in general under  
the General Rules and Regulations which is designated § 7.6 (b)  
(13) (designation is to numbering as it will appear in Code of  
Federal Regulations, title 50, chapter 1, part 7; the new  
paragraph is added following paragraph 11 of part I under sub-  
division A of the aforementioned regulations as they appear in  
5 Fed. Reg. 4401 and paragraph 12 added by the amendment approved  
June 17, 1941, 6 Fed. Reg. 2922), and which shall read as follows:

§ 7.6 General Rules and Regulations.

. . . . .

(b) . . . . .

(13) Whenever the captain of the port finds that the mooring  
of any vessel to a wharf, dock, pier, or other water front structure  
would endanger such vessel, or any other vessel, or the harbor,  
or would be inimical to the maritime interests of the United States,  
or the national defense, by reason of conditions existing on or

about each wharf, dock, pier, or other water front structure, including, but not limited to, inadequate guard service, insufficient lighting, fire hazards, inadequate fire protection, unsafe machinery, internal disturbance, or unsatisfactory operation, the captain of the port may prevent the mooring of any vessel to such wharf, dock, pier, or other water front structure until the unsatisfactory condition or conditions so found are corrected, and he may, in the case of a like finding after any vessel has been moored, compel the shifting of such vessel from any such wharf, dock, pier, or other water front structure.

Secretary of the Treasury.

Approved:

The White House,

, 1941.

KCH:GHE:mb

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE October 3, 1941

TO Secretary Morgenthau

FROM Mr. White

Subject: Status of the Mexican stabilization and silver negotiations

1. Drafts of both a stabilization agreement and a silver purchase agreement have been approved in general by you and in detail by Under Secretary Bell and other Treasury officials. The Mexican negotiator -- Mr. Monteros -- has informed us that his government has also approved both drafts.
2. Finance Minister Suarez is now in Washington, prepared to sign the stabilization agreement on behalf of the Mexican Government and Mr. Monteros has been authorized to sign on behalf of the Bank of Mexico. These signatures will have to be on an ad referendum basis pending legislative approval in Mexico.
3. Stabilization Agreement

(a) We agree to purchase pesos up to \$40 million. There is no limit to the amount which can be purchased at any one time up to a total of \$40 million.

In this respect it differs from the agreement we had prepared with Argentina, which provided for monthly amounts.

Although we agree to purchase up to \$40 million, actually the Bank of Mexico will be able to utilize only up to \$30 million of the sum because their laws require them to keep 25 percent gold or foreign exchange as a reserve against the pesos on deposit.

Your obligation to purchase pesos under this agreement will terminate on June 30, 1943 subject to earlier termination by you on 30 days' notice.

(b) The Bank of Mexico must repurchase any pesos 180 days after the receipt of notice from you, repayment to be effected in six equal instalments during the next succeeding 180 days.

The pesos we buy will of course be repurchased at the price we paid for them so that there will be no loss through changes in the exchange rate.

(c) The exchange rate shall be the New York Telegraphic transfer rate on Mexican pesos and the rate of interest shall be 1-1/2 percent per annum on the daily balances. The interest rate may be reconsidered at any meeting between the parties concerned, of which there shall be not less than two per year.

(d) Mexico agrees to make no substantial change in dollar-peso rate of exchange and to introduce no important exchange control measure without providing you with an opportunity for consultation. Mexico further agrees to use the dollars as a revolving fund to stabilize the peso-dollar rate and to exercise due diligence to prevent the permanent exhaustion of the fund and to prevent such internal currency and credit expansion as would cause an undue drain on dollars.

4. Silver purchase agreement. This agreement will be in the form of a letter to the Bank of Mexico from the Federal Reserve Bank which you will authorize the Federal Reserve Bank of New York to send.

(a) The purchase agreement will be on a month-to-month basis with the price to be quoted on a daily basis and the total obligation to purchase limited to 6 million ounces per month.

(b) The Bank of Mexico must ship the silver to a designated United States mint or assay office at its risk and payment will be made by the Federal on delivery of the silver to the mint or assay office.

This silver agreement is similar to the one in force prior to 1938 except that you are agreeing to purchase 6 million ounces per month whereas in the earlier agreement it was 5 million ounces per month.

There is appended a copy of the Stabilization arrangement and the Silver Purchase Agreement. I have marked the most important parts in red crayon.

DRAFT 8/25/41

(Differs from Draft 8/6/41 by minor changes in Sec. 8)

AGREEMENT made as of the 1st day of September, 1941, at the City of Washington, District of Columbia, between the Secretary of the Treasury of the United States of America (hereinafter called the Secretary), the Banco de Mexico (hereinafter called the Bank) and the Government of the Republic of Mexico (hereinafter called Mexico).

WHEREAS, the monetary and financial cooperation of the United States of America and the Republic of Mexico and the stabilization of the United States dollar-Mexican peso rate of exchange are important factors in promoting trade and in fostering the welfare and friendly relationships of the two countries;

NOW, THEREFORE, in order to further such objectives and in consideration of the premises and of the mutual covenants herein contained, it is agreed as follows:

1. The Secretary, through the Federal Reserve Bank of New York as Fiscal Agent of the United States (hereinafter in its capacity as Fiscal Agent of the United States called the Federal) shall, as hereinafter provided, purchase Mexican pesos from the Bank from time to time as requested by the Bank, the United States dollars paid therefor to be used exclusively for the purpose of stabilizing the exchange value of the Mexican peso with respect to the United States dollar. The total amount of pesos thus purchased by the Secretary, exclusive of accrued interest thereon and of any pesos repurchased, shall not at any time exceed in the aggregate the equivalent of United States \$40,000,000 computed at the rate at which such pesos are purchased as hereinafter provided. The pesos so purchased shall be credited to the Federal on the books of the Bank in a special account to be opened in the name of "Federal Reserve Bank of New York as Fiscal Agent of the United States". Upon receipt by the Federal Reserve

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Bank of New York of advice from the Bank by telex telegram that this account has been credited with a stated amount of Mexican pesos, the Federal will in turn, in payment therefor, credit the Bank in a special account to be opened by the Federal in the name of "Banco de Mexico, Special Account", in an amount in United States dollars equivalent, at the then prevailing buying rate of exchange in New York for telegraphic transfers payable in Mexican pesos on Mexico, D. F., to the amount in Mexican pesos so credited to the account in the name of the Federal on the books of the Bank.

2. The Bank shall credit interest to the special peso account in the name of the Federal on the last day of each successive month from and after the date hereof. Such interest shall be computed at the rate of  $1\frac{1}{2}\%$  (one and one-half percent) per annum on the daily balance of such pesos in such special account as were purchased by the Secretary under this Agreement. The matter of the rate at which the Bank shall credit interest to such special peso account may be reconsidered at any meeting provided for in paragraph 8 of this Agreement.

3. (a) One hundred and eighty days after the receipt of notice from the Secretary or the Federal containing such request, the Bank shall repurchase, or cause to be repurchased (and in the case of accrued interest, purchase, or cause to be purchased), in six equal instalments at the end of each thirty-day period during the next succeeding one hundred and eighty days, in United States dollars (utilizing, if necessary, the gold resources of the Bank and Mexico), by payments at the Federal Reserve Bank of New York:

(1) Any or all of the pesos purchased by the Secretary through the Federal at the same rate or rates of exchange at which such pesos were purchased; and

(ii) Any or all of the pesos representing interest accrued on, and whether or not credited to, the special peso account on the books of the Bank in the name of the Federal at the average rate of exchange at which the pesos, upon which such interest has accrued, were purchased by the Secretary through the Federal.

(b) Notwithstanding the foregoing, in the absence of such a request by the Secretary or the Federal, pesos in the amount of such accrued interest shall be purchased or caused to be purchased by the Bank by payment in United States dollars at the Federal Reserve Bank of New York on the last day of each successive three-months' period from and after the date hereof and upon the termination of this Agreement, at the rate of exchange described in subdivision (c)(ii) of paragraph 3.

(c) The aforementioned special peso account, the pesos credited thereto (including interest), and all transactions respecting such account, and the other obligations of the Bank and Mexico under this Agreement shall, in so far as the rights, powers and privileges of the Secretary or the Federal may thereby be affected, be exempt and immune from any taxes, fees, charges, restrictions, and controls of any nature under the laws of Mexico or any political subdivision or taxing authority thereof.

4. The Bank may also at any time by making payments at the Federal Reserve Bank of New York in United States dollars at the rate of exchange provided in paragraph 3, repurchase the pesos described in paragraph 3, with available funds from any source.

5. In the event of any failure to repurchase (or, in the case of interest, purchase) the pesos as provided in paragraph 3 or of any other act, done or omitted, not in accordance with the provisions of this Agreement, the Bank shall, if and when the Secretary, acting directly

- 4 -

or through the Federal, so elects by giving notice to the Bank and/or Mexico to such effect, become forthwith obligated to repurchase or cause to be repurchased, or in the case of interest, purchase or cause to be purchased, all of the pesos at a total purchase price in United States dollars determined as provided in paragraph 3 by payment at the Federal Reserve Bank of New York and the dollars remaining in the "Banco de Mexico, Special Account" shall be retained by the Federal and applied by the Secretary or the Federal as a payment on account of such purchase price. No failure or delay on the part of the Secretary in exercising any of his rights, powers, or privileges in whole or in part, under this Agreement shall constitute a waiver thereof, or of any other rights, powers or privileges granted to the Secretary under this Agreement. It is understood that the Federal Reserve Bank of New York will act only as fiscal agent of the United States in carrying out this Agreement and in doing and performing any acts or transactions in connection with this Agreement, and that it will not incur any liability for any acts done or omitted pursuant to instructions of the Secretary. The Federal is authorized to accept and act upon any writing relating to the purchase of pesos under this Agreement or to the "Banco de Mexico, Special Account" which is received by the Federal in the name of the Bank and which is believed by the Federal to be genuine, and upon any cablegram, radiogram or telegram relating to the foregoing which is received by the Federal in the name of the Bank and which conforms to existing or future arrangements agreed upon between the Bank and the Federal Reserve Bank of New York, or to arrangements hereafter agreed upon between the Bank and the Federal with regard to the authentication of cablegrams, radiograms or telegrams by the use of test numbers, and all such writings, cablegrams, radiograms and telegrams shall be binding upon the Bank and Mexico.

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6. Mexico hereby unconditionally guarantees the full performance by the Bank of all the obligations, duties and liabilities of the Bank under this Agreement and any arrangements made pursuant thereto.

7. Any notice given by the Secretary or the Federal either to the Bank or to Mexico shall be deemed and taken as full notice to both of them, and such notice may be given by the Secretary or the Federal to the Bank at its head office in Mexico, D. F., or to Mexico at the office of the Minister of Finance of Mexico at Mexico, D. F., or to the Mexican Embassy at Washington, D. C. The Bank and Mexico hereby waive diligence, protest, notice and demand of every kind, except as expressly provided for in this Agreement.

8. Mexico, the Bank and the Secretary agree that at periodic intervals of approximately six months from and after the date of this Agreement (the precise dates to be agreed upon) there shall be held a conference to be attended by the representatives of each of such parties to discuss and consider the United States dollar-Mexican peso rate of exchange, problems of mutual interest in connection therewith and all other monetary, financial and economic problems of mutual interest. The Bank and Mexico agree that, without providing the Secretary with an opportunity for consultation, no substantial change in the United States dollar-Mexican peso rate of exchange will be made, and no important exchange control measures will be introduced. At such consultation due consideration will be given to all relevant factors, especially to comparative price levels. The Bank and Mexico further agree that the dollars made available under this Agreement will be used as a revolving fund for the stabilization of the exchange value of the Mexican peso with respect to the United States dollar, and that due diligence will be exercised to prevent the permanent exhaustion of the fund. In particular, the Bank and Mexico

agree to take all reasonable measures to prevent unwarranted internal currency and credit expansion such as would cause an undue drain on the dollars made available hereunder.

9. Each of the parties to this Agreement shall take and cause to be taken all the necessary measures to effectuate the purposes and intent of this Agreement and to provide each other with such information in their possession relative to foreign exchange transactions, stabilization operations and other matters of mutual interest as is relevant to the proper functioning of this Agreement.

10. Any obligation of the Secretary pursuant to this Agreement shall be conditional and dependent upon the prior performance by the Bank and/or Mexico of any obligations to be performed or liabilities to be discharged by them, or either of them, under this Agreement and any arrangements made pursuant thereto.

11. Any obligation of the Secretary to purchase pesos under this Agreement shall terminate on June 30, 1943, subject to earlier termination at any time thirty days after receipt by the Bank of a written communication or telegram from the Secretary or the Federal to that effect. The termination of any such obligation of the Secretary shall not affect any of the rights, powers or privileges of the Secretary or of the Federal, or any of the duties, liabilities or obligations of the Bank or of Mexico hereunder, all of which shall continue in effect until the Bank and Mexico shall have fully performed their said duties and obligations and discharged said liabilities. If an extension of the Agreement is agreed upon, the Agreement shall continue in full force and effect during the period thus agreed upon. In the event that the Bank and Mexico wish an extension of this Agreement, they will give the Secretary

notice to that effect in writing or by telegram at least thirty days prior to the termination of the Agreement.

12. This Agreement shall come into operation and effect as between the parties hereto when Mexico shall file with the State Department of the United States appropriate documents satisfactorily evidencing the authority of the Bank and Mexico under the constitution, laws, statutes, decrees and regulations of Mexico, and under the statutes, by-laws, regulations, resolutions and rules of the Bank, to enter into this Agreement, or satisfactorily evidencing ratification of the action of the Bank and Mexico in entering into this Agreement. The Bank and Mexico each for itself represents and agrees that upon the delivery of the aforementioned documents, the execution and delivery of this Agreement shall have in all respects been duly authorized or ratified, and that all acts, conditions and legal formalities which should have been completed prior to this Agreement becoming effective shall have been completed as required by the constitution, laws, statutes, decrees and regulations of Mexico, and under the statutes, by-laws, regulations, resolutions and rules of the Bank, and in conformity therewith.

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

SECRETARY OF THE TREASURY OF THE UNITED STATES

BANCO DE MEXICO

By \_\_\_\_\_

GOVERNMENT OF THE REPUBLIC OF MEXICO

By \_\_\_\_\_

DRAFT "A" - 8/6/41

364

Banco de Mexico, S.A.,  
Mexico City, Mexico.

Dear Sirs:

Agreement to Purchase Silver

We refer to the conversations which the Secretary of the Treasury of the United States has had with Mr. Antonio Espinosa de los Monteros, representative of the Mexican Ambassador in Washington during *August and September, 1941* relative to the purchase of Mexican silver by the United States. We beg to advise you that we, as fiscal agent of the United States, are now authorized by the Secretary of the Treasury to enter into the following arrangement with you:

We, as fiscal agent of the United States, will purchase from you during the month of *November*, 1941, for delivery on board American steamer at Vera Cruz or for delivery on board train at Monterrey, up to 6,000,000 ounces of silver newly mined in Mexico in refined silver bars of the customary size, of the degrees of fineness and carrying the marks required "for good delivery" in the New York market, which according to the production dates marked thereon were produced in Mexico during *September, October, or November*, 1941 (hereinafter referred to as "silver"), as follows:

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(a) We will advise you daily during *November*, 1941, by telegram, the price at which we, as fiscal agent of the United States, will purchase from you on that day such amount of silver as you may elect, within the foregoing limitations, to sell to us on that day. Cash quotation will be in terms of United States cents per ounce of silver .999 fine delivered on board American steamer at Vera Cruz or on board train at Monterrey, which will be specified.

(b) If on any day during the month of *November*, 1941, you elect to sell silver to us at the price specified in our telegram to you of that day, you shall so advise us by telegram dispatched from Mexico City not later than 4:00 p.m. your time of the same day, stating the amount of silver which you have so elected to sell to us.

(c) The receipt by us of any such telegram from you shall conclude a contract between us for the sale by you and purchase by us, as fiscal agent of the United States, of the amount of silver stated in such telegram, at the price specified for the day such telegram is dispatched.

(d) You shall, at your expense, cause the silver covered by each such contract to be shipped, consigned to us, to such United States mint or assay office as we may designate so that it will be delivered there within 30 days from the date of each such contract.

(e) You shall assume the risk of loss of the silver during transit, i.e., you agree to hold us harmless from any loss of or damage

to the silver while it is in transit from the time it is delivered on board American steamer or on board train, as hereinabove provided, until it reaches its ultimate destination at a United States mint or assay office, as hereinabove in paragraph (d) provided, and from any costs and expense arising from any such loss or damage.

(f) Payment for the silver purchased by us as aforesaid will be made by a credit to your account on our books at the contract price for each such purchase, such credit to be made upon the delivery of the silver to the United States mint or assay office designated by us. A full set of "on board" bills of lading or the express company's receipt, showing Federal Reserve Bank of New York as consignee and bar lists in duplicate, all in good order, to be forwarded directly to Federal Reserve Bank of New York. Any reasonable or necessary expenses incurred by us with respect to such silver will be debited by us to your account on our books. <sup>shall</sup>

If you wish to consider renewing this or entering into a similar arrangement for the month of *December*, 1941, and for month-to-month thereafter, will you kindly so advise us on or before the fifteenth day of *November* 1941, and on or before the fifteenth day of each succeeding month, and we will advise you as soon as possible thereafter whether any such arrangement would be acceptable.

If you will confirm to us, by letter or tested cable, that the foregoing is acceptable to you, we shall place the arrangement in operation by advising you on ? 1941, as contemplated by paragraph "(a)" above, of the price at which we, as fiscal agent of the United States, will purchase silver from you and we, as such fiscal agent, will thereafter purchase silver from you in accordance with the terms and conditions of this letter.

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CONFIDENTIAL

PARAPHRASE

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A telegram of October 3, 1941 from the American Consul at Kunming reads substantially as follows:

According to reports in the press, beginning October 1, one-fourth of all the commercial trucks will be permitted to bring in commercial cargo which is two months virtual ban on commercial cargo. In a conversation on October 3 this was confirmed by General Yu Fei-peng who said that the measure was a temporary one and that the permanent plan was to acquire a permit issued by the Ministry of Economic Affairs for all imports of commercial goods. The Ministry of Economic Affairs would certify permits to the transport control authorities who then would allot freight space as such became available for imports of this kind. General Yu Fei-peng said also that in November or December the rate of arrivals at Kunming would be increased to twenty thousand tons monthly from the recent nine thousand tons. General Yu did not make it clear how this was to be accomplished. General Yu estimates about three thousand tons recently carried monthly to Chungking along two (?).

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Service on Kunming's telegram of October 3, re:  
Burma Road.

Insert in line three between "commercial cargo,  
which is" and "two months" the following: " a relaxation  
of".

Insert as last word of message "highways".

RECEIVED  
OFFICE OF THE  
DIRECTOR

OCT 12 1941

RECEIVED

Copy:bj:10-13-41

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By Safe Hand

No. W.T. 1049/104/41

British Embassy,  
Washington, D.C.  
October 3, 1941

Dear Mr. Dietrich,

With reference to my letter W.T. 1049/103/41 of September 29th, I am sending you a translation of a decree regarding the new Argentine Exchange Regulations in case you have not seen it.

In the course of a personal letter regarding these regulations, our representative in Buenos Aires said that he had received the impression from his conversation with the Central Bank on the subject that the Bank was preparing the ground technically for more complete blocking measures if circumstances forced the Argentine Government's hand. If later on the Central Bank should be instructed by the Argentine Government to block the pesos corresponding to remittances to Axis countries, their machinery would be at hand in these regulations to secure this end without publicly pillorying these countries. The present policy of the Acting President and Cabinet is to avoid offending the Axis in any way possible. Thus, should the Argentine Government be forced to make a move, a veiled procedure would appeal to them.

Yours sincerely,

/s/ R. J. Stopford

Mr. Frank Dietrich,  
U.S. Treasury Department,  
Stabilization Office, Room 279,  
Washington, D. C.

Copy:alm 10-11-41

Buenos Aires,  
September 1, 1941

1570

In accordance with Decree No. 66230, all remittances to countries with which Argentina has compensation or payments agreements (at present: the British Empire, Germany, Spain and France) must be effected through the accounts established in the respective agreements and the movement of funds or securities outside such accounts may only be effected with the special authorization of the Central Bank.

In order to simplify the procedure in regard to these latter operations, the Central Bank has decided to allow the authorized banks, subject to the necessary prior examination, to authorize direct the applications which may be presented to them in accordance with the provisions of this circular, in which, in order to avoid confusion, all the preceding regulations applicable to such operations have been recapitulated.

Operations which may be authorized by the banks themselves:

- (1) Transfers of funds through the compensation or payments accounts which may continue to be effected as hitherto under the conditions established for each country in accordance with the regulations in force.
- (2) The receipt of funds (credits or deposits) in the accounts in Argentine pesos opened in the authorized banks in the names of persons resident in the countries affected by the above-mentioned Decree, always provided that such receipts relate to direct operations between Argentina and the countries in which the respective account-holders reside.
- (3) Payments of funds (debits or withdrawals) from the accounts referred to in the previous paragraph when such funds are utilized for:
  - (a) Remittances effected through the compensation or payments accounts.
  - (b) Transfers to other accounts in Argentine pesos opened in the authorized banks in the names of persons resident in the same country in which the holder of the account from which the transfer is made resides.
  - (v) The following expenses, payments or investments in the country:
    - Cable and postage expenses, taxes and bank charges and commission
    - Current expenditure arising from property situated in the country, belonging to the account-holder, which is administered by the authorized bank issuing the permit.
    - Payments to shipping companies and agencies and ships' captains provided the funds are required to meet the expenses of ships in Argentine ports.
    - Payments to insurance companies established in the country provided such payments relate to the fulfilment of re-insurance contracts.
    - The purchase of Argentine bonds and securities provided they are deposited in the name of the same account-holders.

- (4) The authorized banks will inform the Central Bank fortnightly in regard to the permits they have granted showing the amounts of, and reasons for, the operations covered by paragraphs (2) and (3) above.

Operations in respect of which permits will be required from the Central Bank .

- (1) All transactions in the accounts referred to in Argentine pesos which are not expressly dealt with in the preceding paragraphs.
- (2) Transfers of funds to the countries referred to which may not be effected through the compensation or payments accounts nor through the accounts in Argentine pesos above-referred to.
- (3) Withdrawals from the accounts in bonds or securities and accounts in foreign currencies opened in the names of persons resident in the countries above-specified.
- (4) Remittances of all classes of bonds or securities to persons domiciled in such countries.

Changes of address of holders of accounts subject to the provisions of Decree No. 66230 may only be registered in the respective accounts with the prior authorization of the Central Bank.

Copy:bj:alm:hr:10-4-41.

PARAPHRASE OF TELEGRAM RECEIVED

372

FROM: AMEMBASSY, BOGOTA

TO : Secretary of State, Washington

DATED: October 3, 1941

NO. : 453

STRICTLY CONFIDENTIAL

The local representative of the Case Company, Jorge Lambert, claims Case had a special license to ship to Helda and that there were still to come forward three pieces of machinery. The case is so flagrant that it is hard to believe that licenses would have been given. If this information is not correct it is recommended that consideration be given to prosecuting criminally the Case Company for violating the Freezing Control Order and the President's Proclamation of July 17. It is also suggested that licenses be not granted for shipments which are pending. On the United Fruit Company steamship Abangarez a shipment of screws valued at \$807 from Charles Parker of New York was received by Helda on September 18.

BRADEN

eh:copy  
10-6-41

KD

GRAY

Berlin

Dated October 3, 1941

Rec'd 10:09 a.m.

Secretary of State,

Washington.

3659, October 3, 9 a.m.

In a speech by Reich Economics Minister Funk in Dresden on September 29 reported in the local press of last night and this morning he asserted once more that Germany wished to carry on trade with other nations but required that the entire European economy be directed exclusively toward the realization of continental European interests. He stated that the institution of private property and hence also private forms of enterprise, private initiative, and the responsibility of business itself must be recognized but also private risk. If there were no risk personal ambition would be stifled. Funk stated that there had been plans before the war for changes in the corporative organizations of business but their realization had been postponed because of the war.

Funk spoke very strongly against the view that "money is not important." All money set free by restrictions on consumption must be used for war financing. The recent measures on the Bourse were, he said, not aimed against genuine investments, but against investments in stocks of which only a limited quantity is available

of temporarily idle funds of war profits not yet "skimmed". This he said leads to a false evaluation of an important part of the national wealth, confuses the situation as regards yields, and gives an entirely false picture of the profit possibilities of the German economy. The Bourse must be kept in a condition in which it can continue to function since it is very important to war financing. The recent Bourse measures prove, he said, that no war profits will be tolerated. He stated that interest rates could not be decreased further without discouraging savings. Funk said that demands on business would increase and new difficulties would arise and be overcome. Germany, he stated, has only one goal and that is victory which means a happy future for the German people and a free mighty Greater German Reich.

Press comment on Funk's speech emphasizes particularly the statements made against under-evaluation of the role of money and the necessity of making all funds available for war financing. His statement that war profits will not be tolerated is interpreted to mean that still other means might be employed to prevent them either through price or taxation policy.

MORRIS.

NPL

Copy:bj:10-11-41

22443

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GRAY

Rome

Dated October 3, 1941

Rec'd. 10:53 a.m.

Secretary of State,

Washington.

1546, October 3, 1 p. m.

By decree published in the Official Gazette of October 2 the Minister of War is authorized to assume obligations for services et cetera "depending on the state of war" up to an additional amount of twenty-four billion lire the necessary appropriations as needed to be inscribed in the budget.

Illustrative of the policy of spreading payments for important war orders over a period of years the present authorization is given within the general provisions of a decree (number 27) of January 13, 1941 which empowers the Minister of War Marine and Aeronautics to effect payments relating to contracts representing not less than twenty million lire by issuing annual certificates in series covering periods not exceeding 10 years.

Recipients requiring cash can finance themselves within limits to be determined by the Finance Minister by surrendering

-2- #1546, October 3, 1 p.m., from Rome.

by surrendering the certificates to the "Consortium  
for Advances against Industrial Securities."

PHILLIPS.

EDA

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377

FROM: AMERICAN EMBASSY, ROME  
TO : Secretary of State, Washington.  
DATED: October 3, 1941, 2 p.m.  
NO. : 1547

CONFIDENTIAL -- NOT FOR PUBLICATION

Reference is made to my October 3, 1 p.m., no. 1546.

Since this decree was dated August 31, only two months after the beginning of financial year, this may conceivably be of report that Government is spending twelve billion lire monthly as mentioned in my September 29, 11 a.m., no 1504.

PHILLIPS

Copy:bj:10-8-41

378

BRITISH EMBASSY,  
WASHINGTON, D.C.

PERSONAL AND  
SECRET

October 3rd, 1941

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

*Halifax*

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D.C.

TELEGRAM RECEIVED FROM LONDON  
DATED OCTOBER 1st, 1941

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NAVAL

Three motor torpedo boats supported by motor gun boats attacked enemy convoy steaming westward through Straits of Dover night of September 30th-October 1st, and escorting trawler was probably sunk. We suffered no casualties.

RUSSIA.

Russians stubbornly resisting German thrust from Poltava towards Kharkov and in Melitopol area appear to have held up German advances.

ROYAL AIR FORCE.

September 30th-October 1st, over 160 aircraft sent against Hamburg Stettin Cherbourg and Nantes. One aircraft missing.

TREASURY DEPARTMENT

380

INTER-OFFICE COMMUNICATION

DATE October 3, 1941

TO <sup>Miss Gandy</sup> Secretary Morgenthau

FROM Mr. Dietrich

STRICTLY CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£47,000
Purchased from commercial concerns	£ 9,000

Open market sterling was quoted at 4.03-1/2 most of the day, and advanced to 4.03-3/4 at the close. The only reported transactions consisted of £5,000 purchased from a commercial concern.

The Cuban peso, which has shown a firm tendency for many weeks, improved to 1/8% discount today, the best rate in several years. New York banks expressed the opinion that the peso was strong, and would continue to show strength, as a result of the improved sugar situation and expanding sugar exports.

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

Canadian dollar	11-1/8% discount
Argentine peso (free)	.2340
Brazilian milreis (free)	.0505
Colombian peso	.5775
Mexican peso	.2070
Uruguayan peso (free)	.4475
Venezuelan bolivar	.2700

There were no purchases or sales of gold effected by us with foreign countries today.

No new gold engagements were reported.

In London, spot and forward silver prices remained at 23-1/2d and 23-7/16d, respectively. The U. S. equivalents were 42.67¢ and 42.55¢.

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

We made no silver purchases today.

RESTRICTED

381

G-2/2657-220; No. 509 M.I.D., W.D. 11:00 A.M., October 3, 1941

SITUATION REPORT

I. Eastern Theater.

Ground: Russians claim the capture of Stryelna, west of Leningrad; also making strong attacks southeast of Leningrad, pushing the Germans back to the Line Kolpino—Schluesselburg.

There is no further news from the Central Front. The Germans are apparently feeling their way forward north and south of Kharkov and east of Poltava, reporting the capture of a town 78 miles south of Kharkov.

Russians are still holding the narrow bridgehead west of Melitopol and holding the German advance on the Crimean Peninsula.

Russians report that Odessa has been reinforced by a division by sea.

Air: Berlin says that the German Air Force is playing havoc with Soviet communications in the south, smashing at vital points far to the rear of the main battle line.

II. Western Theater.

Air: Nazi war planes last night raided targets on the east and southeast coasts of Britain, in answer to the recently strengthened British offensive in this theater. Newcastle was announced as the chief target.

Action against Brest and St. Nazaire, on the occupied French coast, featured the British action in last night's operations. Each side claimed losses of six planes for the other during the day's operations.

III. Middle Eastern Theater.

Ground: No action of interest reported.

Air: Italian planes attacked British air bases on Cyprus for the second consecutive day. Other Axis raids were made on Tobruk and Matruh, while the British again bombed Benghazi.

RESTRICTED