

DIARY

Book 448

October 4 - 7, 1941

- B -

	Book	Page
Boeing Aircraft		
See War Conditions: Airplanes		
Brandeis, Louis D. (Justice, Supreme Court)		
Acheson and Frankfurter remarks at funeral services - 10/7/41.....	448	264, 265
HMJr's "appreciation" sent to Rabbi Wise for Opinion: See Book 451, page 86		
a) Rabbi Wise's note of thanks: Book 453, page 125		
HMJr's "appreciation" for <u>New Palestine</u> : Book 452, page 328		
Business Conditions		
Haas memorandum on situation for week ending October 4, 1941.....		148

- C -

China		
See War Conditions		
Coast Guard		
See Morgenthau, Henry, Jr.		
Correspondence		
Mrs. Forbush's resume: Complaints and consideration thereof discussed by HMJr with Thompson - 10/6/41.....		144

- D -

Defense Savings Bonds		
See Financing, Government		

- F -

Financing, Government		
Conference; present: HMJr, Bell, Morris, Haas, Hadley, and Murphy - 10/6/41.....		82
a) Postal Savings System - Investment Account: Morris memorandum - 10/4/41.....		2
b) Funds administered by Secretary of Treasury - Morris memorandum - 10/4/41.....		5
c) Current investment program for special 2% notes held by Postal Savings System, Federal Deposit Insurance Corporation, United States Government Life Insurance Fund, Federal Savings and Loan Insurance Corporation.....		5
d) Consideration of interest rate reductions on special obligations - Haas memorandum.....		90
Open Market Committee conference - 10/7/41.....		209
a) Comments received from dealers and banks by Federal Reserve Bank of New York with regard to new 2-3/8 Treasury bonds.....		230
b) Hadley memoranda.....		233, 234
c) Goldenweiser memorandum on long-time financing program.....		235
Lewis Douglas consulted by HMJr - 10/7/41.....		240

- F - (Continued)

	Book	Page
Financing, Government (Continued)		
Defense Savings Bonds:		
Field Organization News Letter, No. 20 - 10/4/41.....	448	10
Food		
See War Conditions: United Kingdom		
France		
See War Conditions: Gold		

- G -

Gold		
See War Conditions: Gold; U.S.S.R.		

- L -

Latin America		
Mexico:		
Loan discussed by HMJr, Welles, Bell, Foley, Bernstein, and White - 10/6/41.....		97
Suarez (Finance Minister) and Ambassador Najera, together with Collado, of State Department, call on HMJr, Bell, and White - 10/7/41.....		253
Announcement discussed at 9:30 meeting - 10/9/41: See Book 449, page 200		
a) Silver industrial usage in United States now up to 80 million ounces		

- M -

Mexico		
See Latin America		
Morgenthau, Henry, Jr.		
Airplane accident discussed with Jones - 10/6/41..		141
a) Waesche's instructions on future flights - 10/7/41.....		259

- O -

Odlum, Floyd		
See War Conditions: Office of Production Management		
Office of Production Management		
See War Conditions		

- P -

Poland		
See War Conditions		
Postal Savings System		
See Financing, Government		

- R -

	Book	Page
Revenue Revision		
Excess Profits Tax:		
Patterson (Under Secretary of War) testimony - Foley memorandum - 10/6/41.....	448	65

- S -

Silver Purchases		
See Latin America: Mexico; War Conditions		

- T -

Taxation		
See Revenue Revision		
Taylor, William H.		
See War Conditions: China		

- U -

Unemployment Relief		
Work Projects Administration for week ending September 24, 1941.....		133
U. S. S. R.		
See War Conditions		
United Kingdom		
See War Conditions: Military Planning; United Kingdom		

- W -

War Conditions		
Airplanes:		
Shipments to United Kingdom and overseas commands - British Air Commission report - 10/6/41.....		163
a) Boeing manufacture of Boston III's questioned by Kamarck.....		162
China:		
Yunnan Province: Stabilization Board American Alternate William H. Taylor reports on conditions - 10/6/41.....		175,181,198
Exchange market resume' - 10/4/41, etc.....		29,204,268
Export Control:		
Exports of petroleum products, scrap iron, and scrap steel from United States to Japan, Russia, Spain, and Great Britain, week ending October 4, 1941.....		161
Gold:		
Bank of France holdings still in French West Africa - message from American Consulate, Dakar - 10/5/41.....		42

	Book	Page
War Conditions (Continued)		
Military Planning:		
Report from London transmitted by Campbell - 10/7/41.....	448	269
Office of Production Management:		
Odlum (Floyd) assured by Treasury of cooperation in spreading work policy: Tires and tubes - contracts already awarded for six months beginning October 1, 1941 - 10/6/41.....		76
a) Odlum-HMJr conversation - 10/8/41: See Book 449, page 71		
b) Barnard-HMJr conversation - 10/8/41: Book 449, page 73		
c) HMJr's letter to Odlum - 10/14/41: Book 450, page 337		
Poland:		
Account with Export-Import Bank discussed by Jones and HMJr - 10/6/41.....		142
Purchasing Mission:		
Federal Reserve Bank of New York statement showing dollar disbursements, week ending September 24, 1941.....		164
Vesting order sales - 10/6/41.....		169,170
Silver Purchases:		
Dietrich resume' - 10/7/41.....		266
U.S.S.R.:		
Financial position discussed by HMJr, Welles, Bell, Foley, Bernstein, and White - 10/6/41.....		108
Financial arrangements between United Kingdom and U.S.S.R., and United States and U.S.S.R., involving gold payments, discussed by HMJr, Hull, Jones, Hopkins, and White - 10/7/41...		254
a) HMJr-Hopkins conversation - 10/8/41: Book 449, page 5		
1) HMJr told Russians "\$50 million worth of material ready now; \$50 million in gold can be delivered any time during next six months"		
b) Hull-HMJr conversation - 10/8/41: Book 449, page 68		
c) Charge'd'Affaires and president of Amtorg discuss with HMJr cargo of two Russian ships on way to United States - 10/9/41: Book 449, pages 322, 323, and 324		
United Kingdom		
Food situation as described to HMJr by Coe repeated at Cabinet - 10/6/41.....		57
Work Projects Administration		
See Unemployment Relief		

TO:

Secretary Morgenthau

Attached is data you requested concerning

1. Postal Savings bonds held by the Postal Savings System, and
2. Relatively large blocks of U.S. bonds, 2-7/8%, 1955-60 held by various funds administered by the Secretary of the Treasury.

From: Dave F. Morris Jr. *DMJ*



TREASURY DEPARTMENT

WASHINGTON

October 4, 1941.

TO MR. MORRIS:

RE: Investment Account - Postal Savings System.

Postal Savings Bonds - \$31,683,000.

From 1910, when the Postal Savings System was established, until July 1, 1935, any depositor in a Postal Savings depository could surrender his deposit, or any part thereof, in sums of \$20, \$40, \$60, \$80, \$100, etc., and receive in lieu of such surrendered deposits, under regulations established by the Board of Trustees of the System, the amount of the surrendered deposits in United States coupon or registered bonds of the denominations of \$20, \$40, \$60, \$80, \$100, and \$500, bearing interest at the rate of 2-1/2% per annum, payable semiannually, and redeemable at the pleasure of the United States after one year from date of issue and payable 20 years from such date.

The Treasury issued two series of Postal Savings bonds each year, dated January 1 and July 1. Further issues of the bonds were prohibited after July 1, 1935 by the Banking Act of 1935, approved February 4, 1935.

Postal Savings bonds outstanding July 31, 1935 amounted to \$122,000,000 and the amount outstanding September 30, 1940 was approximately \$117,000,000. The bonds outstanding will run off in the next 14 years. Of the amount outstanding about \$31,000,000 is held by the Postal Savings System, \$14,000,000 by 5,803 commercial banks, and \$1,000,000 by 570 fire, casualty and marine insurance companies which report their ownership of Government securities to the Treasury. The balance of \$71,000,000 is held by all other investors.

The bonds held as investments by the Postal Savings System were acquired under the regulations of the System which provide that upon the application of any holder of Postal Savings bonds the Board of Trustees will purchase them at their par value and accrued interest to date of purchase. After purchase by the Board they are held until maturity.

2-7/8% Treasury Bonds of 1955-60 - \$162,000,000.

The large amount of 2-7/8% Treasury Bonds of 1955-60 held in the investment account of the Postal Savings System and other investment accounts is due to two situations: (1) When the Treasury purchases securities on the market for investment accounts it authorizes the purchase of bonds on the basis of the highest yields obtainable at the time of purchase and for a long while subsequent to the issue of 2-7/8% bonds on March 15, 1935 this issue enjoyed a high yield as compared with other issues, and (2) The market for this issue during 1935 was particularly weak and cash purchases in that year were concentrated in this issue.

The following table shows the amount of this issue held by the Postal Savings System and by all accounts at various dates:

<u>Date</u>	<u>Postal Savings System</u> (In millions)	<u>Total, All Accounts</u> (In millions)
March 20, 1935	\$17	\$33
April 3, 1935	39	52
May 1, 1935	39	55
June 5, 1935	67	87
July 3, 1935	67	115
August 7, 1935	67	127
September 4, 1935	89	152
October 2, 1935	92	159
November 6, 1935	93	166
December 31, 1935	93	179
December 31, 1936	148	296
December 31, 1937	160	328
December 31, 1938	150	326
December 31, 1939	160	337

You will note that most of these bonds were acquired in 1935 and 1936. About \$25,000,000 of these bonds were acquired by Postal Savings System from July 1 to October 31, 1935. During this time the Treasury redeemed \$55,000,000 of the special 2% Postal Savings notes in order to furnish the System cash to make such purchases.

The market quotations for this issue during 1935 and 1936 ranged as follows:

<u>Date</u>	<u>Low</u>	<u>High</u>
<u>1935</u>		
March	100.18	101.06
April	101.08	101.24
May	101.07	101.23
June	101.06	101.20
July	101.19	101.27
August	99.12	101.20
September	98.30	100.07
October	98.31	100.09
November	99.24	100.10
December	99.24	100.01
<u>1936</u>		
January	100.02	100.21
February	100.07	101.02
March	101.02	101.30

Prices rose from April, 1936 until March, 1937 when these bonds were selling at nearly 105 to yield about 2.5% to call. Prices went off in April, 1937 down to as low as 99.12 to yield 2.92% and fluctuated around par until November, 1937 when prices again advanced.

*ms*

TREASURY DEPARTMENT

5

INTER OFFICE COMMUNICATION

DATE October 4, 1941.

TO Secretary Morgenthau

FROM Dave H. Morris, Jr.

Subject: I. Funds administered by the Secretary of the Treasury; and  
 II. Current investment program for special 2-percent notes held by the

- (a) Postal Savings System.
- (b) Federal Deposit Insurance Corporation.
- (c) United States Government Life Insurance Fund, and
- (d) Federal Savings and Loan Insurance Corporation.

I. Because of the magnitude and importance of the problems involved in the question of determining investment policies for funds handled under the direction of the Secretary of the Treasury, there has not been sufficient time for investigation and thought to enable me to render any final recommendations. However, because of the important relationship of the problem to Treasury financing, and in view of the immediately pending financing, I feel compelled to give some preliminary conclusions. These are, that at this time, I see no reasons for any general changes in broad policy.

In case it is of any interest to have an outline of the more important reasons leading me to the above conclusions, they may be found in Appendix A. It may also not be amiss to state that since preparing this material I have seen a copy of a memorandum from Mr. Haas, to Mr. D. W. Bell, dated October 4, 1941, on the subject of "Consideration of interest rates on special obligations." That memorandum seems to lead to the same general conclusions as outlined above.

II. Based on the general policies currently being pursued (and currently recommended to be pursued), the situation with respect to the special 2-percent notes and the funds in which they are held is as follows:

	Current Holdings	Estimated Normal Minimum	Maximum Available for Refunding in October Financing
(in millions of dollars)			
Postal Savings System	\$ 88	\$ 50	\$ 38
Federal Deposit Insurance Corporation	120	75	45
U. S. Government Life Insurance Fund	37	10	27
Federal Savings and Loan Insurance Corporation	5	10	-0-
Totals	\$250	\$145	\$110

Attachment: Appendix A.

October 4, 1941.

## APPENDIX A

If any of the funds administered by the Secretary of the Treasury were operated on what might be termed an "independent" basis, it probably would be desirable for them, on the one hand, to increase their working cash balances and their holdings of Treasury bills and notes; and on the other hand, to increase somewhat their long-term holdings.

However, in the case of these funds it seems impossible to look at them except as being in a dual role. This is perhaps best illustrated by reference to part of the 1939 amendments to the Social Security Act, wherein provision is made for the issuance, from time to time, to the Fund of special United States obligations bearing interest (subject to certain technical qualifications) at a rate equal to the average rate of interest on the then outstanding public debt. There is then further provision that:

"Such special obligations shall be issued only if the Managing Trustee determines that the purchase of other interest-bearing obligations of the United States, or of obligations guaranteed as to both principal and interest by the United States on original issue or at the market price, is not in the public interest."

In an effort to determine the meaning, in this provision, of "in the public interest," the matter was discussed with the office of the General Counsel. That office, after taking into consideration all the factors and history which they deem pertinent, conclude:

". . . that the standard 'not in the public interest' may, when considered in its context, be properly construed as vesting authority in the Secretary of the Treasury to issue special obligations in any case in which he determines that such action is required either in the interest of orderly fiscal management or in the interest of securing an adequate return upon the surplus portion of the Trust Fund.

"It is further submitted that in view of the submission to the Congress by the Board of Trustees of the Federal Old-Age and Survivors Insurance Trust Fund of a report on the operation and status of the Trust Fund for the fiscal year ended June 30, 1940, Congress may be deemed to have ratified the issuance of special obligations during that period in the absence of any criticism by it of such action."

With the above background in mind, the following observations may be made with respect to the special 2-percent notes:

7

1. From the point of view of each fund, these notes constitute an emergency "backlog"; and from the point of view of the Treasury they are, over a series of years, somewhat of a convenience as they can, on occasion, be used to provide a technical means for the purchase in the open market of Treasury bonds during periods of weakness. While it is perfectly possible that a period of market weakness might coincide with a period where the various funds also needed cash, it appears so far in recent years they have not so coincided. If they did, the practical result would probably not be much different so far as the Treasury problems are concerned, because the Treasury would, in any event, have to raise the funds "to take care of" these agencies.

2. If these funds were <sup>operated</sup> ~~owned~~ on an independent basis they would, whenever they had money for long-term investment, go into the market and buy. In many instances this would tend to put up prices as a result of such special demand, with the consequent reaction in prices when the demand was satisfied. By investing this money temporarily in the special 2-percent notes, it provides an investment medium which satisfies the agencies; and which can be refunded into regular Treasury bonds at a time convenient to the Treasury. It is to be noted that the independent agencies, by being willing to take the 2-percent notes, have in general, over the last few years, sacrificed some income over short periods, as higher investment yield issues were normally available to them in the market.

*J. W. [unclear]*

## UNITED STATES SAVINGS BONDS

Comparative Statement of Sales During  
First Three Business Days of August, September, and October, 1941  
(August 1-4, September 1-4, October 1-3)  
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	\$ 5,470	\$ 5,359	\$ 6,573	\$ 111	-\$1,214	2.1%	- 18.5%
Series E - Banks	<u>9,114</u>	<u>7,858</u>	<u>10,702</u>	<u>1,256</u>	- <u>2,844</u>	<u>16.0</u>	- <u>26.6</u>
Series E - Total	14,583	13,217	17,275	1,366	- 4,058	10.3	- 23.5
Series F - Banks	3,218	2,412	3,780	806	- 1,368	33.4	- 36.2
Series G - Banks	<u>18,918</u>	<u>16,146</u>	<u>23,780</u>	<u>2,772</u>	- <u>7,634</u>	<u>17.2</u>	- <u>32.1</u>
Total	<u>\$36,720</u>	<u>\$31,775</u>	<u>\$44,835</u>	<u>\$4,945</u>	- <u>\$13,060</u>	<u>15.6%</u>	- <u>29.1%</u>

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

October 4, 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.

UNITED STATES SAVINGS BONDS  
 Daily Sales - October 1941  
 On Basis of Issue Price  
 (In thousands of dollars)

Date	Post Office Bond Sales			Bank Bond Sales			All Bond Sales		
	Series H	Series M	Total	Series H	Series M	Total	Series F	Series G	Total
October 1941	\$ 1,450	\$ 3,029	\$ 4,479	\$ 4,479	\$ 1,286	\$ 5,765	\$ 2,271	\$ 4,324	\$ 6,595
1	\$ 1,870	\$ 2,786	\$ 4,656	\$ 4,656	\$ 867	\$ 5,523	\$ 4,324	\$ 4,324	\$ 9,847
2	\$ 2,150	\$ 3,299	\$ 5,449	\$ 5,449	\$ 1,065	\$ 6,514	\$ 6,323	\$ 6,323	\$ 12,837
3	\$ 5,470	\$ 9,114	\$ 14,584	\$ 14,584	\$ 3,218	\$ 17,792	\$ 18,918	\$ 18,918	\$ 36,710
Total									

Office of the Secretary of the Treasury, Division of Research and Statistics, October 4, 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.

FOR DEFENSE



# FIELD ORGANIZATION *News Letter*<sup>10</sup>

DEFENSE SAVINGS STAFF

TREASURY DEPARTMENT, WASHINGTON, D. C.



October 4, 1941

Number 20

New York, N. Y.

TO THE FIELD STAFF:

The sixth month of the Defense Savings Program will be marked by several outstanding developments that augur well for long range success.

Foremost is the leadership of the retailers of the nation, who during the month just past opened up more than a half million new outlets for stamp sales. The 80,000,000 Americans who visit retail stores each week will now have the convenient opportunity of purchasing Defense Stamps there - Stamps which eventually will be turned into Bonds.

The already widespread popularity of payroll allotment plans with both labor and management continues to grow as many newly established plans are reported.

American banks in ever increasing numbers report willingness to install and promote "Buy-A-Bond-A-Month" clubs through convenient depositor draft plans.

The National Association of Life Underwriters has offered the services of its members to state and local Defense Savings Committees, thus joining with other important national groups which are rendering service to the program.

By the end of this month, Defense Savings Committees will be functioning actively or will be in the process of formation in at least 40 States.

The public reaction to the many Defense Savings activities which made September an outstanding month for our program was so encouraging that a successful Fall effort seems assured.

Sincerely yours,

GALE F. JOHNSTON

Field Director, Defense Savings Staff

## FIELD ORGANIZATION NEWS

### Leaders Appointed in Utah and Wyoming.

To the roster of Governors now serving as Honorary Chairmen of Defense Savings Committees we are honored to add the names of Herbert B. Maw, Governor of Utah, and Nels H. Smith, Governor of Wyoming. In addition, in Wyoming, the active Chairman, Don H. Wageman, Vice-President of the American National Bank of Cheyenne, has been appointed.

### West Virginia Committee Organizes

The organization meeting of the State Defense Savings Committee for West Virginia was held in the Senate Chamber in Charleston, September 24. All members of the committee were either present or were represented and total attendance, including various state officials, was more than fifty.

State Administrator Roy Yoke presided. Governor Matthew M. Neely, Honorary Chairman, made a strong statement in behalf of the Program and announced that a salary allotment plan would be available to all state government employees. State Chairman Albert Snodoker, Field Director Gale F. Johnston, and Deputy State Administrator Robert W. Pritchard also addressed the meeting.

Speedy organization of local committees in West Virginia's 55 counties and in the larger cities of the state was arranged; and plans were made to enlist the full support of all banks, to arouse the enthusiastic cooperation of organized labor, and to secure the installation of pay roll allotment plans in some of the leading firms of the state.

\* \* \* \* \*

### IN THIS ISSUE

KANSAS Committees Active - Page 3

GENE Autry in Oklahoma - Page 4

TEXAS Reports Widespread Activity - Page 5

TREASURY House on Boston Common - Page 6

MEMPHIS Committee Sets Fast Pace - Page 7

NEW YORK Stages Televised Pageant - Page 8

DENVER Installs Allotment Plan - Page 8

MORE Window Displays - Page 9

TO The Ladies - Pages 10 and 11 \*\*\*

UNION Organizes For Defense Savings - Page 12

WOODWORKERS Petition For Allotment Plan - Page 13

SONS of Georgia Invest - Page 13

NEGRO Leaders Ask Support for Program - Page 14

NEW POSTERS in Industries Cooperation Series - Page 15

RADIO Programs for Coming Week - Page 16

\*\*\* To The Ladies is a new section prepared especially for women members of Defense Savings Committees.

## K A N S A S

Program Moving Into High Gear; Local Committees Forming

EFFECTIVE COOPERATION is being received from many state and local organizations, including:

The Kansas Association of Postmasters, which has urged its members to try to get all postal employees in their offices enrolled as regular purchasers of Defense Bonds or Stamps. The Association reports that the Kansas City, Kansas, Post Office can boast of 90% participation in a regular purchase plan.

The Capitol Post of the American Legion in Topeka, which recently devoted the front page of its magazine to "Any Bonds Today?"

The Labor Bulletin of Kansas City, which devoted a full page in its September 15 issue to say in its biggest, boldest type: "Don't Delay: Buy Defense Bonds Today! Protect America!"

The Kansas Oil Men's Association, which carries Defense Savings messages in its semi-monthly "Bulletin".

LOCAL COMMITTEES have formed and gone into action in Wichita, Salina, Topeka, Leavenworth, Manhattan, Newton, and many other Kansas cities.

IN WICHITA, a particularly active committee, consisting of more than 150 persons, has been formed under the leadership of Leo R. Porter, general agent for the Lincoln National Life Insurance Company. The airplane industry has increased Wichita's population by 40,000 in the past year and this city is "defense-minded." The Wichita Committee recently staged a spectacular demonstration:

Headed by the Mayor, a delegation of state and local Defense Savings leaders made a tour of the city, accompanied by a fire truck and a band, stopping at five business centers for brief speeches on Stamps and Bonds. The last stop was made just after noon, at the busiest downtown intersection. . . Members of the local musicians union donated their services; radio station KFBI provided a sound truck; and both the police and fire departments cooperated to make the affair entertaining and highly successful.

IN LEAVENWORTH, Mayor Martin J. Eggert has proposed that a payroll allotment plan be installed for city employees.

IN MANHATTAN, the local Council of the Knights of Columbus voted to (1) invest their reserve funds in Defense Bonds; and (2) give Defense Stamps as prizes for the best Columbus Day essays submitted by school children.

IN NEWTON, eleven different labor unions have so far expressed willingness to do everything possible to promote the sale of Defense Bonds among their members. These include various locals of several Railway Brotherhoods and other unions of railway employees and the local typographical, motion picture operators and painters unions. . . . All Fox Theatre employees here are enrolled in a Defense Savings payroll allotment plan.

## SINGING COWBOY TAKES OKLAHOMA BY STORM

Gene Autry, the Nation's most popular radio and movie cowboy entertainer, returns to the State where he formerly lived, to boost the sale of Defense Bonds and Stamps.



### EVERY SEAT IS TAKEN!

50,000 people in Oklahoma City, Tulsa, Fort Sill, and Enid heard Gene Autry talk and sing for Defense Savings. Above, 8,500 people fill Oklahoma City's Municipal Auditorium; (below, right) 10,000 cram Tulsa's Coliseum.

**A DIRECT APPEAL.** Gene Autry pauses in his program of song and entertainment to urge his audience to give full support to the Defense Savings Program.



**RIDING HIGH!** Left, a plane, made available by the Phillips Petroleum Co., made it possible for Autry to appear before four audiences in 24 hours. Below, at the Tulsa Airport, from left to right: Administrator Jones, Gene Autry, Governor Phillips, Airport Manager Short, and State Chairman Wentz.

T E X A S  
State Leaders Addressing Many Rallies

MANY MEETINGS and rallies on Defense Savings are being attended and addressed these days by State Administrator Frank Scofield and members of his committee. During the past few weeks Mr. Scofield has consulted with State Committeeman Ed H. Krohn and County Chairman Forrest M. Smith in EL PASO; conferred with executives of the Texas Chain Store Association in DALLAS; met with the Cherokee County Committee in JACKSONVILLE; attended a Defense Bond chicken supper sponsored jointly by the Chamber of Commerce and Lions' Club in GIDDINGS; spoke at the annual barbecue in HILLSBORO; addressed the annual meeting of the State Banker's Association in AUSTIN; and spoke to an audience of more than 2,000 at the Community Fair in MANOR.

STATE CHAIRMAN, TOM MILLER has filled speaking engagements at the Bloys Camp Meeting at FORT DAVIS and at a big meeting staged by the Polk County Committee in LIVINGSTONE; and Lewell Lafferty, the active Chairman of the Tarrant County Committee in Fort Worth, addressed a patriotic gathering in THROCKMORTON.

FAIR SEASON is now at hand and at the State Fair in Dallas (October 4 - 11) and many local fairs - for example in Manor, Giddings, Granger, Georgetown and Taylor - Defense Savings Booths have been arranged. . . . Stamps sell well at these events. At the Manor Fair \$725.40 worth were sold in three days with a local farm boy, C. C. Nelle, who bought \$8 worth at one time with money he earned picking cotton, making the largest single purchase.

HIGHLIGHTS:

\*\*\* Amerst, Texas has a "one-man" Defense Savings Committee in L. J. Crawley. Agent of the Santa Fe there for many years. Deciding that more time was needed to arouse people to the point of buying Defense Bonds and Stamps and that the time had come for direct action, he secured a supply of stamps and albums and began buttonholing everyone he knew - and some others he didn't - asking them to buy at least one stamp. Results were highly gratifying. For example:

"I sold a stamp to one woman", reports Mr. Crawley, "and the next day she went to the postoffice and said she didn't want to keep the stamp but would turn it in on a bond. She paid \$18.50 and the \$.25 stamp and left with a \$25 bond."

\*\*\* Wyatt Food Stores in Dallas will give a \$.25 Defense Savings Stamp in exchange for receipts for cash purchases totaling ten dollars.

\*\*\* Every carrier and every employee of the Plainview Herald is a stamp or bond holder.

\*\*\* Highland Park city employees have adopted salary allotment 100%.

\*\*\* Texas A. & M. College Band intends to play "Any Bonds Today" at every football game this fall.



Cutting the ribbon to officially open Boston's Treasury House, from left to right: Commissioner of Parks Wm. P. Long, State Administrator Daniel J. Doherty, Mayor Maurice J. Tobin cutting the ribbon, Mr. J. C. Richdale, Vice President of the Colonial Beacon Oil Co., and General Francis B. Wilby, Commanding General of the First Corps Area.

MARCH TO THE FLAGPOLE: BASEBALL DEFENSE BOND DAY IN WASHINGTON



Treasury officials and an Army Band helped the Washington Senators and the Cleveland Indians celebrate Baseball's Defense Bond Day at Griffith Stadium last month. Left to right: Clark Griffith, President, Washington Baseball Club; Daniel W. Bell, Under Secretary of the Treasury; W. N. Thompson, Administrative Assistant to the Secretary of the Treasury; Guy T. Helvering, Commissioner of Internal Revenue; H. L. Rust, Jr., Chairman, District of Columbia Defense Savings Committee; and Gale F. Johnston, Field Director, Defense Savings Staff.

## T E N N E S S E E

Memphis Committee Making Entire Community Defense Bond Conscious

"If it is to remind you to buy a Defense Savings Bond you can untie that piece of string around your finger. . . . There will be reminder enough without that to make you Defense Bond conscious."

- Memphis Commercial Appeal

THE AGGRESSIVE CAMPAIGN of the Memphis Defense Savings Committee to make every citizen of this Southern Metropolis Defense Bond conscious has many aspects. For example:

All local users of billboards in Shelby County have agreed to have a small sticker or "snipe" added to each board to advertise Defense Bonds and Stamps. (The General Outdoor Advertising Company is putting up these little posters without charge and the Toof Company is printing them without cost to either the Defense Savings Staff or the advertiser.) . . . . The City of Memphis has donated its large billboard in Court Square. . . . And a traveling billboard is being erected on a truck car of the Memphis Street Railway Company and it is planned to run this over streetcar lines in the city eight hours every day.

Special Defense Bond posters are being distributed by the Tennessee Brewing Company.

All barber shops have agreed to display posters and distribute Defense Bond folders.

A systematic canvass is now underway of all business houses and manufacturing concerns in the city by representatives of the pay roll allotment division of the Memphis Committee. This division is headed by E. H. Crump, Jr., and is composed of some 200 Memphis insurance men. Pay roll allotment is also a major concern of Sid A. Law, Chairman of the Railway Employees Defense Bond Committee and M. E. Finch, Chairman of the Industrial Division of the Memphis Committee.

A Negro Division of the Memphis Committee has developed the following five point program to boom the sale of Defense Bonds and Stamps: (1) canvass of all Negro business houses to explain the allotment plan (2) "Buy-a-Bond" Sunday (3) a speakers bureau to serve clubs and lodges (4) school parades and (5) distribution of placards by Negro Boy Scouts. This division is headed by Lt. George W. Loë.

ALL OF THIS ACTIVITY is being developed under the direction of the active Chairman for Memphis and Shelby County, Milton K. Revill. Committees in other large cities in Tennessee and elsewhere are going to find in Memphis real competition for top-flight honors in Defense Bond promotion. Hats Off to Mr. Revill!

## Highlights From Other States:

## NEW YORK

DEVOTING HIS FULL TIME to the Program, Col. Richard C. Patterson Jr., Chairman of the New York State Committee is working steadily to develop an organization to carry the message of Defense Savings to all of the thirteen and one half million citizens of the Empire State - more than one-tenth of the entire population of the country.

THE ENTIRE 27TH FLOOR of the R. K. O. Building in Radio City is being used by Chairman Patterson and his assistants as headquarters for the New York State Division of the Defense Savings Staff.

IN BUFFALO, headquarters for the "Up-State" divisions have been established under Edward H. Letchworth, General Counsel of the Marine Trust Company, who will serve with Col. Patterson as Co-chairman of the State Committee.

THE FIRST BIG SPECIAL EVENT sponsored by the State Committee was a fashion pageant "Styled for Defense". This was held in the Sunken Plaza of Rockefeller Center, with "Treasury House" providing a background for the colorful spectacle:

A host of celebrities from the stage, screen and radio were among the 500 especially invited guest. . . . New York's leading fashion creators showed their latest styles. . . . Lucy Monroe, Barry Wood and Conrad Thiebault and an Army Band from Fort Jay provided music. . . . William Gaxton, Howard Lindsey and Arthur "Jeeves" Treacher provided entertainment. . . . and Grover A. Whalon, Col. Patterson, John B. Kennedy and Bert Lytell addressed the audience. . . . The entire event was televised and, as it was the first outdoor event of its kind ever shown by television in America, wide publicity was obtained not only in New York but elsewhere.

## COLORADO

FIRST MUNICIPAL GOVERNMENT in the Rocky Mountains area to install a pay roll allotment plan was the Consolidated City and County of Denver. This installation sets an example which will have great influence with municipal officials not only in the West but in other parts of the Country as well.

NEWS REEL camera men "covered" the ceremonies when Mayor B. F. Stapleton signed the first pay roll allotment authorization card.

ONE OF THE FIRST large Denver manufacturing concerns to make an allotment plan available for its employees was the Mine and Smelter Supply Company. More than 90% of its 250 employees are participating in the plan. To encourage participation, the Company pledged itself to give a \$100 Bond to each employee who invests \$75 in Defense Bonds during the next ten months. "100% participation within the very near future" is the confident prediction of Albert E. Seep, President of the Company and J. D. Nicholson, Branch Manager.

Oreck's—Duluth, Minnesota



**MORE WINDOW DISPLAYS**

Readers For Defense Week prepared many attractive defense bond and stamp windows. Here are a few.

Woolworth—Denver, Colorado



Grant—Indianapolis, Indiana



New State Hardware—Ardmore, Oklahoma



Outlet—Providence, R. I.



© 1945 by the United States Government. All rights reserved.

TO THE LADIES



Women's Publication Program Off to Flying Start

The publication of "We Gals Have to Stick Together", a 12-page illustrated pamphlet designed for distribution to women, marks the beginning of the women's publication program of the Defense Savings Staff. Illustrated with cartoons contributed by the NEA cartoonist, Herblock, the folder is easy to look at as well as easy to read. It describes the background of the Defense Savings Program, and tells women why it is important for them to buy Bonds and Stamps. More specifically, it outlines a "Design for Saving," and offers practical suggestions for buying Bonds and Stamps and using them for gifts and prizes.

This publication is especially suitable for distribution at general women's club meetings, conventions of women's organizations and at Defense booths set up in retail stores.

Many Leaflets, Booklets and Study Guides to Come Off Presses in October

Publications covering every phase of women's activity in the Defense Savings Program are now being prepared by the National Women's Division of the Defense Savings Staff. It is hoped that all publications described below will be ready for distribution by November 1:

- (1) The Women's Submanual is probably the most important single publication in this program. This will serve as a guide to women who are organizing State and Local Defense Savings Subcommittees and will also be the key to the use of the other women's publications scheduled.
- (2) "Madame Chairmen!" is a program guide for women's club presidents and group leaders. It carries into great detail ten practical suggestions for Defense Savings activity in women's clubs.
- (3) Two booklets for club study groups have already gone to press. The first, "Mrs. Brown Buys a Bond," is an explanation of the Defense Savings Program written in story form. It is 32 pages long, illustrated with photographs and printed in two colors. The second, "Borrowing for Defense," is a lucid explanation of defense economics. The textual information is simplified by the use of charts and graphs.
- (4) Leaflets now available for general distribution among women include, "It Is Not Too Late" by Eva Curie, and "We Gals Have to Stick Together". A third, "The Farmer's Wife Buys a Bond" - is in preparation.

TO THE LADIES  
(Continued)

The Ladies Are Lending

In JIM HOGG COUNTY, TEXAS, women's clubs are using Defense Stamps as prizes at bridge parties, according to C. W. Hellen, Chairman of the Jim Hogg County Defense Savings Committee.

From the Bozeman Country Club in BOZEMAN, MONTANA, comes a report that the women members are buying a \$100 Bond with surplus funds accumulated from their weekly luncheons.



Money that had been set aside for the purchase of furniture by the Catholic Women of DALLAS, TEXAS, an organization headed by Mrs. R. D. Vaughn, was recently used to buy a Defense Bond.

\* \* \* \* \*

FOOD FOR THOUGHT  
A Field Man Writes from Utah

VERNAL is a one-street border town in Eastern Utah. The only place to get anything to eat is one of those counter lunch rooms frequented by cow-boys and sheep herders - occasionally by tourists. While I was waiting for my ham sandwich and coffee, I started plugging nickels in the juke box to play "Any Bonds Today?" It wasn't long before I could hear somebody in the back room whistling the tune, and one of the waitresses humming it.

A young woman, apparently the proprietress, asked me, "What're you playing that tune all the time for? You interested in Bonds?" When I told her that I was, she said she didn't know anything about them. "Well," I said, "If you have three minutes I'll try to tell you something about them."

"Do things that you buy for this restaurant cost more now than they did a few months ago?" She nodded, "I'll say they do."

"Well, let me tell you one reason why. The Government is spending billions of dollars to buy the same things that you're buying - food for soldiers, steel that goes into refrigerators, and so on. This year the American people are earning about 20% more than last year, and they are all trying to spend these extra billions on the same things. Well, if there were only a few dozen sandwiches left in Vernal and everybody in town had lots of money and wanted to buy them, what would happen to the price of sandwiches?"

"Gee," she said, "It certainly would go up."

"That's exactly what happens when the American people have billions of dollars more than they had last year and are all trying to buy the same things. Now, the way to keep prices down is for all of us to save and invest in Defense Bonds.

"My," said the young woman, "I'd never thought of it that way before. I would like to buy some of those Bonds."

BIG UNION GOES "ALL-OUT" FOR DEFENSE SAVINGS

PURCHASE OF DEFENSE BONDS "to the limit", \$50,000, by the General Office of the Amalgamated Clothing Workers of America launched this powerful union's Defense Bond drive on May 1. But this was only the first step in what has developed into one of the most interesting and impressive efforts on behalf of Defense Savings of any organization or association of any kind in the country.

TO THE ROCHESTER, NEW YORK LOCALS of this union goes the credit for initiating the plan for systematic purchase of Defense Stamps, which under the name "The Rochester Plan," has now spread to all of the cities in which the more than 250,000 Amalgamated members work.

UNDER THE ROCHESTER PLAN, in each city the central finance office of the Joint Board representing all locals affiliated with the union lays in a supply of Defense Savings Stamps and bond albums. Then, shop chairmen in the various factories where members work organize Defense Bond clubs. Once each week, these chairmen ask their members how many stamps they want to buy and collect the money and, on the next day, secure the stamps and deliver them.

IN ROCHESTER, Amalgamated members have purchased, or committed themselves to purchase, \$425,000 worth of Defense Bonds. Shop chairmen there vie with one another to see who can secure the largest percentage of participation in their Bond Clubs.

IN BUFFALO, three out of every four Amalgamated members are taking part in the savings program and are investing in Defense Stamps at the rate of about \$1,000 a week. Similar reports are being received at the union's headquarters from other clothing centers.

"AMALGAMATED MEN AND DOLLARS FOR DEFENSE" is the title of the eight-page magazine issued by the union to boost the sale of Defense Bonds and Stamps. The first issue lists many locals which have invested in Defense Bonds, and pictures typical individual purchasers and gives their reasons for buying Defense Bonds or Stamps.

"It is with a deep sense of privilege and obligation that we add our voice to the voice of the President of the United States, the Secretary of the Treasury, and thousands of distinguished Americans, to urge Amalgamated members to purchase Defense Bonds.

"Buying these bonds—today—is a patriotic duty. . . It is a privilege, an opportunity to repay to some extent the great debt which every one of us owes to our democracy and its institutions. . . Time is short. We must act now. . . Buy a Defense Bond today. Do your part to defend democracy at home and abroad."

Jacob S. Potofsky, General Secretary-Treasurer.  
Frank Rosenblum, Executive Vice-President.  
Amalgamated Clothing Workers of America.

## LOCAL UNION REQUESTS INSTALLATION OF ALLOTMENT PLAN

Stanley Wilson, secretary of the Wauna, Oreg., local of the International Woodworkers of America hands O. L. Torrey, manager of the Wauna Lumber Co., a copy of the resolution, passed unanimously, requesting the installation of a pay roll allotment plan for the purchase of Defense Bonds while members of the union committee look on. This was the first local union in Oregon to take such action. Others are expected to follow suit in the near future.



## MAYOR LAUNCHES ALLOTMENT PLAN



Inauguration of an allotment plan by the city and county of Denver was marked by appropriate ceremonies. From left to right: State Administrator Ralph A. Nicholas, Mayor Benjamin F. Stapleton, and State chairman Richard J. Osenbaugh.

## DARING MOTORCYCLIST BUYS BOND



"Lucky Teter" buys a bond at the Defense Bond booth at the Eastern States Exposition in Springfield, Mass. From left to right: Louis Doherty, Springfield chairman; Alvin W. Gray, and Mrs. Yvette Gravelin of the Springfield National Bank; and Lucky Teter.

## SONS OF GEORGIA INVEST \$10,000 IN DEFENSE BONDS



Scene of the office of the New York State Committee when representatives of the "Sons of Georgia", a Negro welfare society composed of former Georgians, now residents of Harlem, invested reserve funds in Defense Bonds. From left to right: Commander Henry H. Heiman, executive assistant to Col. Patterson; William Pickens, staff assistant, Defense Savings Staff; Col. Richard C. Patterson, Jr., State Chairman; Roberts S. Williams, president; and B. G. Godfrey, treasurer of the Society.

PROMINENT NEGRO LEADERS CALL FOR FULL SUPPORT  
OF DEFENSE SAVINGS PROGRAM

A. T. Spaulding, of Durham, North Carolina, President of the National Negro Insurance Association, in a communication to all members:

"Over the air and through the press a national emergency is proclaimed. Hundreds of young men from our various communities have been called to service. . . to prepare to offer their lives, if need be, in the defense of our country. . .

"We too are being called upon to do our part for National Defense. . . What can we do? We can buy Defense Savings Bonds!

"As President of the National Negro Insurance Association, I recommend the purchase of these Bonds and request member companies and associations to urge their employees and members to adopt a systematic program of purchasing Defense Savings Bonds and Stamps. I do this with the belief that in so doing we will serve ourselves well.

"I earnestly urge you to answer this call to National Defense, and believe you will, for no group is more loyal and patriotic than ours, nor greater advocates of thrift."

William D. Pickens, an officer of the National Association for the Advancement of Colored People and staff assistant, Defense Savings Staff, in a recent address before the National Negro Business League:

"Democracy in America is in the making, and will be in the making for generations. Although it is the mightiest and the most advanced democracy in the world today, it has not caught up with the star on which its founders first gazed.

"Anybody can point out many of the faults of this democratic society. . . But in a time like this, I want to call attention to some of its virtues. The life of the Negro Business League and the progress of Negro business men for the last forty years - these are an index of the true character of this democratic country. . .

"You and your comrades, can bring to the attention of colored people and all people the manifold meaning of the program of the United States Treasury to unite American Citizens in Defense Savings. . ."

\*\*\*FIRST NEGRO BUSINESS organization in Charlotte, N. C. to report that all of its employees were buying Defense Bonds and Stamps was the Blake Realty and Insurance Agency, W. Cottrill Blake, president.

*There's no place like*  
**HOME**



**BUY**

UNITED STATES  
**DEFENSE BONDS**  
AND STAMPS

THIS POSTER SUPPLIED BY  
**SYLVANIA**  
DIVISION Sylvania CORPORATION  
RADIO TUBES

*FOLLOW THE ARROW*



**BUY**

UNITED STATES  
**DEFENSE BONDS**  
AND STAMPS

THIS POSTER SUPPLIED BY  
**ARROW SHIRTS**  
AUTHORIZED SELLER

Manufacturers whose names are household words are now lending those names—and their famous slogans—to advertising Defense Bonds and Stamps. In News Letter No. 18, we showed you posters prepared and delivered to retailers by Borden's, The Comic Weekly, Nucoa, and Sherwin-Williams. Here are four more posters in this great "Industries Cooperation Series"; 50,000 copies of each have been printed for national distribution.

*"...and God bless*  
**AMERICA"**



**BUY**

UNITED STATES  
**DEFENSE BONDS**  
AND STAMPS

THIS POSTER SUPPLIED BY  
**SIMMONS COMPANY**  
MAKER OF THE FAMOUS BEAUFORT MATTRESS

*"Beam of Light"*  
**FOR AMERICA!**



*Buy-*

UNITED STATES  
**DEFENSE BONDS**  
AND STAMPS

THIS POSTER SUPPLIED BY  
**PHILCO**  
RADIO-ELECTRIC RADIO TRANSMISSIONS  
"Made in U.S.A. Beam of Light"



**Treasury Department**

TELEGRAPH OFFICE

w43

wv105 px 9 TOUR

WV 105 48 12 70

BARRINGTON ILL 1025A OCT 4 1941

HENRY MORGENTHAU JR

SECY OF TREASURY

WILL BE IN YOUR OFFICE TUESDAY MORNING OCTOBER SEVENTH

GEORGE BUFFINGTON

1236p

STANDARD FORM NO. 14-A  
 APPROVED BY THE PRESIDENT  
 MARCH 10, 1925

# TELEGRAM

OFFICIAL BUSINESS—GOVERNMENT RATES

William Green, President,  
 American Federation of Labor  
 Olympic Hotel,  
 Seattle, Washington.

AM SINCERELY DISAPPOINTED TO FIND THAT UNAVOIDABLE REQUIREMENTS OF PUBLIC BUSINESS WILL PREVENT ME FROM ATTENDING YOUR CONVENTION THIS COMING WEEK AS I HAD PLANNED. WOULD LIKE TO SEND ASSISTANT SECRETARY HERBERT GASTON TO FILL MY PLACE ON YOUR PROGRAM. PLEASE LET ME KNOW FRANKLY IF THIS IS AGREEABLE TO YOU. PLEASE WIRE ME AT TREASURY, WASHINGTON.

JLH:EM

Henry Morgenthau, Jr.  
 Secretary of the Treasury.

TREASURY DEPARTMENT  
 WASHINGTON

CHARGE TREASURY DEPARTMENT, APPROPRIATION FOR

Expenses of Loans - Defense Savings Staff

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

U. S. GOVERNMENT PRINTING OFFICE 2-4417  
 October 4, 1941 1:30 P.M.

## ASSISTANT SECRETARY OF THE TREASURY

October 4, 1941.

To: Secretary Morgenthau  
From: Mr. Gaston

Before I knew about the Seattle trip I had given permission to Admiral Waesche to go to Chicago next week to attend meetings of the National Safety Council. He is Chairman of the Coastal Regions Section of that organization. He is scheduled to preside at a meeting of the Marine Safety group on Wednesday morning and to address the entire Council on Thursday. He had planned to be back on Friday, leaving here Tuesday afternoon. This is a meeting of some importance and I hope it may be possible for you to make an exception in this case to the general rule so as to permit him to go. He will of course be in close touch with Headquarters here through the Chicago office.



TREASURY DEPARTMENT

29

INTER-OFFICE COMMUNICATION

DATE October 4, 1941

TO Secretary Morgenthau

FROM Mr. Dietrich

**CONFIDENTIAL**

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£26,000
Purchased from commercial concerns	£ 4,000

Open market sterling remained at 4.03-3/4. The only reported transaction consisted of £2,000 sold by a New York bank to a bank in Colombia. This is the first open market sale to a foreign bank that has been reported in several months.

The Cuban peso discount narrowed fractionally to 1/16%, a new high.

The Uruguayan free peso advanced to a final quotation of .4500. Today's movement raises this week's gain in the peso quotation to 100 points (1¢).

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

Canadian dollar	11-1/4% discount
Argentine peso (free)	.2340
Brazilian milreis (free)	.0505
Colombian peso	.5775
Mexican peso	.2070
Venezuelan bolivar	.2700

We purchased \$1,500,000 in gold from the earmarked account of the Central Bank of the Uruguayan Republic.

No new gold engagements were reported.

Hotel Richemond,  
Geneva, Switzerland.

4 October 1941.

My dear Mr. Secretary,

I am sending off by this valise some more notes, this time about self-determination problems in Central and South-Eastern Europe. I think they may interest you. I am convinced that the next peace will not work better than the last one did unless these questions are wisely dealt with, which to my mind means that the United States must take them in hand. I feel so strongly on the subject that I should like to have these notes seen by the President. Could you ask him to look at them?

I have confirmation that the French are still refusing to pay the Germans occupation costs in gold and exchangeable currencies. The deadlock remains unbroken.

Here in Switzerland, the market-price of gold continues to decline. As it is still well above the Swiss National Bank's buying-price, it may decline further, especially as it seems the new Swiss sales tax of 2% may be levied on transactions in gold. There is recurrent talk in Switzerland about revaluing the franc so as to bring it back to the level departed from in the fall of 1936, when a 30% devaluation occurred.

Certainly, the Swiss Franc is getting to be the standard currency in Europe. The Reichsmark bill has fallen steeply of late on the free market, and at present is quoted at around or under 30 Swiss Francs = 100 Reichsmarks, as against an open rate of about 74 a year ago and an official rate of 172 Swiss Francs = 100 Reichsmarks.

The

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

The Germans try to divert attention from this feebleness of the Reichsmark and to tip the scales in trade to their advantage by forcing the countries more or less under their control to line up their exchanges with the Reichsmark. The Hungarians, although they have steadily refused to increase their premium on the Reichsmark, have just yielded to German pressure to the extent of reducing their premium on Swiss Francs from around 35% to 21  $\frac{3}{4}$ % (the same premium they pay on the Reichsmark). This means that as the Hungarians have to quote the Reichsmark at 100 RM = 166 Pengö, although the cross-rate resulting from the free market quotation for bills in Switzerland is about 100 RM = 75 Pengö, they will now have to quote (officially) the Swiss Franc at 100 Pengö = 102 Swiss Francs instead of 100 Pengö = 84 Swiss Francs, the rate that had prevailed for some time previously. This might be a nuisance for the Hungarians if any trade they may still do with Switzerland, now that Germany engulfs almost all Switzerland can be made to export, had to be transacted at the published rates. In fact, the Hungarians always discover means of overcoming such little difficulties. And it does not seem to bother Dr. Funk to see the open-market value of the Pengö bill rise from roughly 43% of the official quotation to 52%, at a time when the Reichsmark bill has sunk to 17% of its official value and still appears to be sinking. Thus the performance of the Reichsmark, "the best currency in Europe" according to Dr. Funk, is worse even than that of the Lira, the free market quotation of which (bills) is about 30% of the official rate.

It must be remembered that the utilization factor affects free market quotations for bills. Hungary has the sense to permit the import of Pengö notes (though not their export) without limit. In Germany and in Italy the import of domestic notes is illegal, and anyone caught attempting it is ferociously punished. The fact that the Lira has stood up on the free market better (being quoted around 30% of the official parity) than the Reichsmark is probably due to its being less dangerous to smuggle Lire into Italy than Reichsmarks into Germany.

Naturally, one result of this crude German rate-rigging is to make the victimized countries desire to obtain Swiss Francs, in payment, in preference to their own currencies. It seems that when the BIS recently declared its dividend all the continental European shareholders were offered payment in their own currencies calculated at an exchange rate which the BIS hoped would prove attractive, but that they all insisted on payment in Swiss Francs.

-3-

The Germans, although they have imposed upon Switzerland a trade agreement under which Switzerland has to chalk up an export surplus towards Germany to the tune of 400 million Swiss Francs per annum, which means Switzerland pays her own exporters, or, in other words, feeds off her own tail as far as trade with Germany goes, have recently been selling appreciable quantities of gold against Swiss Francs.

An amusing side-light (forgive me, if you know it already) on the USA-Japanese situation: After Japan joined the Axis, the Japs took to getting the German on the BIS Board to present any remarks they wished to make. Quite recently, since the freezing of Jap balances in the U.S.A., a Japanese official resident in Berlin has come personally to Basel for the purpose.

I hear the BIS goes through any proposition coming from the Japanese with a fine-tooth comb to make sure that it does not aim at defeating the freezing measure.

There is a yarn from Germany that GÖring now despairs of securing a complete defeat of the Russian armies and sees the only hope of victory in attempting to occupy the British Isles next spring, putting all Germany has into this throw, with 100,000 planes and poison-gas. Thus, some Germans seem to fear that their Balkan and Russian ventures have not only lost them a year, but have so extended their lines and increased their materiel and fuel consumption as to threaten Germany with disaster unless she can down Britain in 1942.

Believe me, with kind personal regards,

Sincerely yours,

*Royall Tyler*  
Royall Tyler

C  
O  
P  
Y

DEPARTMENT OF STATE  
WASHINGTON

33

In reply refer to  
EA 855.51/836

October 4, 1941

STRICTLY CONFIDENTIAL

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and transmits herewith a copy of a strictly confidential despatch from the American Consulate General at Algiers, dated September 11, 1941, concerning Belgian and Polish gold.

Enclosures:

From Consulate General, Algiers,  
September 11, 1941.

STRICTLY  
CONFIDENTIAL

AMERICAN CONSULATE GENERAL

Algiers, Algeria, September 11, 1941.

Subject: Belgian and Polish gold.

THE HONORABLE

THE SECRETARY OF STATE

WASHINGTON

Sir:

I have the honor to report that during the past months I have made a number of inquiries regarding the rumors that have been current since last Spring of the removal of part or all of the Belgian and Polish gold which I reported in my telegram of January 14 from Lisbon as stored in French West Africa, principally at Kaye, Senegal.

According to a reliable French official now in Algiers who has served as a member of the French economic mission to the German Armistice Commission at Wiesbaden during the past year, the negotiations in which he participated regarding the gold in question have dragged on for months. He said that in both cases the gold was in the form of a deposit with the Bank of France by the Central bank of the country involved. The claim against the Bank of France with which it was deposited formed the basis of the negotiation in each case.

The German Armistice Commission from a juridical point of view simply supported the claims of the Bank of Belgium and the Bank of Poland on the ground that Germany, the occupying power, had the responsibility of protecting the interests of these central banks. It appears that the reorganization of the Bank of Belgium was a much simpler matter legally than that of the Bank of Poland. The division of the territory of Poland between Russia and Germany apparently led to many moot legal points which enabled the French during many months to oppose the claim for the return of the

deposit. This was more difficult in the case of Belgium. The legal structure of the latter institution apparently is but little changed.

The French position - aside from any sentimental considerations - apparently is based on the apprehension that after the war the Belgian and Polish Governments, now established in England, will hold France responsible for the release of the gold to the present central banks in occupied territory which is only a facade for delivery to Germany. Therefore the French have every reason to procrastinate even though they have felt themselves in no position, due to the danger of serious reprisals affecting every phase of the national existence, to refuse flatly.

The officials in question said that the French case was greatly weakened by the initial negotiations conducted by M. Laval in the fall of 1940 at which time Laval agreed with the German authorities to the release of the Belgian and Polish gold held by France in Africa.

In addition to arguments of a juridical nature the French have employed others of a practical character such as the lack and danger of transport. The official told me that some months ago a trial shipment of several tons of gold was sent in four transport planes over the Mediterranean. In some mysterious manner, he said with a wink, the British ascertained the course of the planes and the type of merchandise they were carrying. British war planes turned the planes back in their course without attacking them and their gold cargo was again deposited in a safe place in French Africa. That incident provided the French at Wiesbaden with an excellent basis for protracted correspondence on the subject. The danger of sea transport also was emphasized throughout. I inquired regarding the transport of a substantial quantity of Belgian and Polish gold by the French cruiser Georges Leygues from Dakar to Casablanca (see Casablanca's 428 August 31, 12 noon). I am informed that General Weygand's organization knows nothing whatever regarding this alleged shipment. I am told that the Admiralty at Vichy has kept the matter a close secret. My informants do not deny the shipment of gold by that vessel but say they are not informed what if any amount of gold was carried on the reported voyage.

I have heard rumors that all of the Belgian and Polish gold with the exception of a very small quantity which is said to have been shipped to Europe some time ago, is now stored in the vaults of the Bank of Algeria and other banking institutions in Algiers. My informants say that this is not the case. They do not know exactly how much has arrived here contenting themselves with the statement that it is a substantial amount but far from the total. Practically all of the amount which has arrived, they say, has come by truck and rail to Algiers as slowly as possible. They are certain that there will be no haste in its shipment to Europe and its shipment thus far is designed to persuade the Germans of their compliance with the agreement to release the gold which apparently was arrived at after the exhaustion of every legal and practical subterfuge which the French could devise.

One official told me that the vault space of the Algiers banks would be inadequate to store all of the Belgian and Polish gold which has been parked in French West Africa. According to the information reported to the Department in my January 14, 1941, this amounted to about 250 tons of Belgian gold and approximately 53 tons of Polish gold. I have had no opportunity to verify the accuracy of this estimate.

I shall report promptly any additional information which I may obtain on this subject.

Respectfully yours

Robert D. Murphy  
Counselor of Embassy

Copies:

In triplicate to the Department  
American Embassy, Vichy, (via Lisbon pouch)  
Diplomatic Agency, Tangier,  
American Consulate General, Casablanca.

Copy:bj:10-7-41

COPY

37

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Tokyo, Japan, via  
Shanghai and N.R.

DATE: October 4, 1941.

NO. : 1562

See telegram No. 550, dated August 20, 1941, 9 p.m.,  
from the Department and telegram No. 1042, dated September 6,  
1941, 1 a.m., from the Embassy.

Representatives of Chile and Brazil in Tokyo have now  
informed the Embassy that as far as they know no efforts  
have been made by Japan to induce their countries by means  
of trade reprisals or threats of (?) to supply Japan with  
primary materials. Even though trade between Chile and  
Brazil and Japan has recently been greatly curtailed, the  
representatives indicate that Japan has maintained a  
circumspect approach towards its commercial relations with  
Chile and Brazil and has evidenced every desire that the  
exchange of products will be continued. (See Embassy's  
telegram, reference above.) Chile and Brazil, according  
to the informants of the Embassy, apparently have no  
intention to court commercial favors from Japan. However,  
they are not rejecting such opportunities as present them-  
selves and which conform with the present commercial  
policies of each to trade with the Japanese.

The particulars which follow have been imparted to  
the Embassy in regard to the current trade situation  
between Japan and Brazil, Japan and Chile and are

repeated in supplement to the information, in regard to the matter, which the Department may have already.

1. CHILE. Since the U.S. freezing order, only two ships have sailed for Chilean ports. It is known that in the near future one more is scheduled to sail. At the present time, three or more Japanese ships are returning from Chile. Two of the Japanese ships are bringing nitrate cargoes.

Certain Japanese interests have a contract with the Import Nitrate Export Company. Under this contract, the Company is to supply 100,000 tons of nitrate each year until June 30, 1943, under which 65,000 tons were exported to Japan in the year ending (1940); and during 1941 less than 10,000 tons--this latter figure comprises the two cargoes which are at the present time being shipped to Japan.

The Embassy was not furnished with figures for the present imports of copper by the Japanese. However, it is understood that the amount of these imports is small. It is also understood that the contract for the purchase of copper by Japan will expire at the end of the year 1941 and it is probable that there will be no renewal of the contract.

There are several reasons for the drastic curtailment of Japanese imports of the two materials mentioned and such materials are much needed in Tokyo.

The main export to Chile by the Japanese has been cotton

goods. However, the import market for this product has already been oversold. In any case, the import trade for this product is limited.

With but few exceptions, Japan is unable to supply other goods (such as machinery, automotive equipment, electrical appliances, et cetera) which is required by Chile and which Chile is willing to buy in Tokyo.

Japanese credits in Chile are exhausted at the present time. This is because of the inability of Japan to secure Chilean funds by means of Japanese exports to transfer funds from other countries to the accounts of Chile due to a freezing order. The Embassy has been informed by the Import Commercial Attache that, as evidence of this fact, Japanese importers advised him that they have used up the last of the Japanese funds in Chile as payment for the two shipments of nitrates (which are mentioned above).

The import authorities have been approached by the Japanese to the end of effecting arrangements for trade on a basis of barter. In turn, the suggestion has been made by the Chileans that a branch be established in Chile of the Yokohama Specie Bank, in order to clear financial transactions direct between the two countries. However, the bank has declined to do so thus far.

2. BRAZIL. Only three ships during the past four months have sailed from Japan to Brazil. One of the ships departed after the freezing order of the U.S. At the end

of this month, a further sailing is scheduled. On September 1, the TOA MARU left Japan. It carried a shipment to Brazil of \$US106,000 worth of silk thread.

In spite of the stoppage of exports to Japan of such materials as minerals, diamonds, and mica -- which Japan is most anxious to secure (?) -- it is felt that there is room for a good deal of trade in other items, especially cotton, which are not on the prescribed list. According to expectations, it will be possible for the trade to be financed between yen and milreis through the Japanese branch banks in Brazil. The main problem in implementing the trade is that of shipping. Japanese ships are now required to make trips around South America and this factor apparently detains Japan from sending many ships to Brazil.

The Japanese Government, in connection with this shipping difficulty (?), is urgently requesting the authorities of Brazil to intercede with the U.S. Government to make an exception in the case of Brazilian cargo ships and to allow such vessels which are en route to and from Japan to pass through the Panama Canal.

This is the end of the message.

GREW

894.24/1732

EA:PAK

Copy:bj:10-14-41

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Mexico, D.F., Mexico

DATE: October 4, 1941, noon

NO.: 814

RUSHED

The Embassy has been informed that the Banco de Comercio in Mexico City received an inquiry from the Union de Banques Suisses of Zurich as to the price of freely exportable gold bars against dollars; such inquiry being made by telegraph. It is probable that this inquiry is an indication of the uneasiness over Swiss dollar deposits in America and an effort to convert such dollar deposits into gold bars.

There was no indication in the telegram from Switzerland as to the destination of such exportable bars or of the quantity of gold bars that were desired.

The Banques Suisses is being advised by the Banco de Comercio that the sole exporter of gold is the Bank of Mexico. Shall follow this through with the latter.

EASPAK FL

812, 516/637

 MacDONALD  
 10/10/41

10/10/41

C  
O  
P  
Y

42

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Consulate, Dakar, French West Africa

DATE: October 5, 1941, 4 p.m.

NO. : 343

THE FOLLOWING IS FOR THE TREASURY DEPARTMENT.

In spite of the efforts of the Germans to secure part or all of the gold which belongs to the Banque de France, it is still in French West Africa. The information was given to the Consulate by the Governor General. Various places in the interior store the gold. A small amount of the gold was sent to France. However, according to Boisson, this gold was replaced by the same weight of gold produced in the dependency.

The Department knows what has become of the Belgian and the Polish gold, according to a statement made by the Governor General.

WASSON

EA:PAK

851.51/2908

Copy:bj:10-9-41

**Treasury Department**

TELEGRAPH OFFICE

W 6 WV 54 36

Y SEATTLE WASHN OCT 4 1941 308P

HON HENRY MORGENTHAU JR

1941 OCT AM 8 42

WASHNDC

REGRET TO LEARN YOU FIND IT IMPOSSIBLE TO ATTEND AND ADDRESS THE  
AMERICAN FEDERATION OF LABOR CONVENTION HOWEVER IT WILL BE ACCEPTABLE  
AND SATISFACTORY FOR ASSISTANT SECRETARY GASTON TO SUBSTITUTE FOR  
YOU ON OUR SPEAKING PROGRAM.

WILLIAM GREEN

740A

October 6, 1941  
9:30 a.m.

GROUP MEETING

Present: Mr. Bell  
Mr. Waesche  
Mr. Morris  
Mr. Johnson  
Mr. Hans  
Mr. Graves  
Mr. Kuhn  
Mr. Foley  
Mr. Blough  
Mr. Barnard  
Mr. Sullivan  
Mr. Thompson  
Mr. White  
Mr. Schwarz  
Mrs. Klotz

H.M.Jr: I take it that Mr. Gaston is on his way to Seattle?

Kuhn: He left last night.

H.M.Jr: You have all met Mr. Barnard?  
Norman?

Thompson: Nothing this morning of importance.

H.M.Jr: If you will put that cushion under your elbow, Blough, you will all have more room. You all look so uncomfortable there.

Daniel?

- 2 -

Bell: Bob Rouse and Allan Sproul are in town today for a meeting, and they wondered if you wanted them both here tomorrow morning for that other meeting.

H.M.Jr: Yes, because I am not going to Seattle. I don't want to be rushed. I may not want to do this until Thursday.

Bell: That is all right.

H.M.Jr: Because I find myself at the present in complete disagreement with everybody in the Treasury.

Bell: Really?

H.M.Jr: On the financing. You see? I am in complete disagreement with every memorandum I have gotten so far. So I will need more time.

Bell: I can tell you any time you want to of my talks in New York.

What I thought I could do is this: I am going to ask Mr. Barnard to stay for a few minutes after this meeting, and then right after that I would like to see you (Bell) and Haas and Hadley and Morris, and then after that I want to see Harry White on Mexico.

Mr. Barnard, if you would make a note, at eleven-thirty we are having a meeting here on Social Security. That is one of the things I would like you to sit in on.

Barnard: This morning?

H.M.Jr: At eleven-thirty, and Roy Blough is down there. If you would get in touch with him, he could bring you up to date on what we are doing. Altmeyer is coming over here. They

- 3 -

want us to go on the whole plan. So far we have only gone half way. I don't know whether I am right or wrong. He is coming over and try to sell me on the whole plan. So after you leave here, if you would contact Roy Blough.

Barnard: Very well.

H.M.Jr: He knows at least as much as I do, which won't be difficult.

Senator George and Mr. Doughton are having lunch with me, and so is Mr. Sullivan. I sent them that message from the plane, and just before we attempted a landing, I got an answer. It said Senator George and Mr. Doughton were going to lunch with me, and I thought afterward, "Well, I guess they don't want to eat with me after all."

I would like those boys in.

Bell: Well, that makes both of them out of New York, you realize, at the same time. Of course, if you are going to do it Thursday, I don't think it makes a lot of difference. It doesn't make so much difference anyhow because they will be back there Wednesday morning.

H.M.Jr: I would kind of rather do it Thursday.

Bell: That is all right.

H.M.Jr: Wednesday rushes me a little bit.

Bell: Thursday is all right.

H.M.Jr: I think I am going to have to take more time to get the market ready if I can convince you to go my way. All right, Dan.

- 4 -

Bell: I see where Mr. Hull said that this news on Mexico is a little premature. They had been talking about signing this week, but apparently they are not ready.

H.M.Jr: I said I wouldn't even see Mr. Suarez until Mr. Welles personally came over and told me what it was all about, and he is coming at eleven.

Bell: I see.

H.M.Jr: Are you in on this, on the Mexican thing?

Bell: Well, I have been on the agreement.

H.M.Jr: Will you and White come at eleven, please. I refuse to move until I learn what it is all about.

Bell: We will be ready, I think--

H.M.Jr: I want to know just where my money goes.

White: The Legal Division has participated just as much as any of the others, if not more, on the Mexican thing. They should be in on it.

H.M.Jr: You mean they are almost as good as the economists on this?

White: They are even better.

Bell: That is admitting a lot.

White: Since it is bad economics, it is just as well-- (Laughter)

H.M.Jr: Are you feeling all right, Harry?

White: I am feeling fine.

H.M.Jr: Which lawyer.

Foley: Bernie.

H.M.Jr: Want to send him in? Eleven o'clock.

Bell: We will be ready in the next day or so to sign an agreement with Iceland, provided we can get the necessary authority.

H.M.Jr: Well, now, before you do the Iceland thing, at Cabinet - there is twenty or thirty million dollars worth of Iceland cod that they want to sell, and there is a big hullabaloo about that. I wish you would inquire about that.

Bell: Iceland what?

H.M.Jr: Salt cod, thirty million dollars worth.

Bell: I understood there was quite a discussion at Cabinet, but I thought the President had approved the Lend-Lease idea.

H.M.Jr: Well, the President - they said that the Army couldn't feed them salt cod, and the President said that - who is Secretary of Commerce - he was known as "Pink Whiskers" under Wilson.

Bell: Redfield?

H.M.Jr: They took dogfish and cut their heads off and called them liberty fish and sold them to the Army. (Laughter) Anyway, why don't you ask Welles about it?

Bell: Berle is handling it.

H.M.Jr: Well, I would ask Welles.

Bell: This is quite an emergency situation. They

are down--

H.M.Jr: I told the President we are ready to go ahead.

Bell: They are down to their last dollars, and they have no place to buy their material except in the United States. They need dollars with which to do it.

H.M.Jr: Well, the point that I am making, if the Army or Navy go ahead, that was the thought, and buy this cod and give them thirty million dollars, they may not need our two.

Bell: That would still take some time, probably, to carry it through. What they need dollars for is in the next few weeks to carry them over.

H.M.Jr: What else?

Bell: You remember we asked the bank examiners to ask a number of banks around the cities where they are making examinations as to whether or not they had complete knowledge of the tax notes and whether they were giving us service. Every one of them replied that they had complete knowledge regarding these tax notes, and that they were advising their customers and helping them file applications. Of course, many of them came to small communities and said the inquiries were very small in number. Too, these were national banks, and they are liable to know more about it than the country banks, state banks.

I have a draft of a notice to go out to the banks which I expect to have in final form this week. That was the thing you asked for, you remember, to go to the banks to be inserted in the depositors' account sheets. Ros Magill took it with him over that weekend,

but apparently Ros is having quite a bit of trouble with his eyes, and he sent it back and said he couldn't read it, that he was sorry.

Here is a list of the appointments to go tomorrow morning.

H.M.Jr: Oh, good. I am glad you got it.

Bell: We got one from Philadelphia this morning, too. We have never had Philadelphia.

H.M.Jr: Remind me, I am to call up Lew Douglas tomorrow sometime. That Detroit man was very good.

Bell: Very good. We just didn't get anybody from Detroit this morning. The time was limited. We still could work them in, if you would like to.

H.M.Jr: Why don't we have a few in the afternoon?

Bell: All right.

H.M.Jr: Or better yet, if we are going to wait until Wednesday, why can't I do some Wednesday?

Bell: Wednesday morning?

H.M.Jr: We will start at nine Wednesday morning.

Bell: Would you like to have that Baltimore man back?

H.M.Jr: That Baltimore man was excellent and the Detroit man was excellent.

Bell: All right.

H.M.Jr: I will tell you who we haven't had in a long time. Davidson of the - what is the other trust? The one that is so big in foreign exchange.

Bell: Guaranty?

H.M.Jr: Guaranty.

Bell: That is Garner.

- 8 -

H.M.Jr: No, Davidson, isn't he chairman?

Morris: Central Hanover?

H.M.Jr: Central Hanover.

Morris: He is not very active now. He is good when you can get him.

H.M.Jr: Well, he came down and he was quite critical, had quite a critical attitude, but he was all right. Davidson, isn't it?

Morris: Yes, Central Hanover.

H.M.Jr: Central Hanover. Isn't he active?

Morris: Not very, now.

H.M.Jr: Who is the president now?

Morris: Gray, Bill Gray.

H.M.Jr: Would he know anything?

Morris: He is pretty good.

H.M.Jr: There are three Grays in that bank.

Morris: William S. Gray, Jr., is the president.

H.M.Jr: Rather than Davidson?

Morris: You have had Davidson. You maybe like him better for the particular purpose.

H.M.Jr: Well, he was very frank.

Morris: He is a grand person.

H.M.Jr: Let's ask Davidson. He knows his --

Morris: Oh yes, he knows it. I just said he was not

- 3 -

as active as he used to be.

- H.M.Jr: Well, if you told him what it was, he would know. I liked his criticism. They do have a lot of correspondents.
- Morris: Yes, a great amount of correspondents.
- H.M.Jr: And I want George Harrison, please. O.K.?
- Bell: Good.
- H.M.Jr: All right.
- Bell: I saw the people in the Guaranty and Chase and the National City and I also saw Discount, so the only duplicate on that list is Discount.
- H.M.Jr: Anything else, Dan?
- Bell: That is all I have.
- H.M.Jr: Harold?
- Graves: You mentioned that you were to call Lew Douglas tomorrow.
- H.M.Jr: He called me and I told him O.K.
- Graves: Oh, as serving as a member of our committee?
- H.M.Jr: Yes.
- Graves: Fine. I got your telegram about McLean yesterday afternoon and have so far got nothing about that. I am ready to tell you that since you gave me that advertisement the other day I have turned that over to Mr. Poland with the suggestion that he see McLean and he had some arrangement to get in touch with him this afternoon. It is doubtless the same thing that you have in mind.

- 10 -

H.M.Jr: Well, that would save it - just as long as it is done.

Graves: Well, it is in progress. I thought maybe you would like to let this go.

H.M.Jr: Right.

Graves: You gave me some letters on Friday for Mr. Odium on the subject of spreading --

H.M.Jr: Yes.

Graves: ...contracts into little companies. I have talked since with Mr. Mack, who --

H.M.Jr: I want you (Barnard) to listen to this particularly.

Graves: ...who thinks that a good deal in that direction can be done on their Lease-Lend and Red Cross purchases but that there will be difficulty about the regular purchases in view of the provisions of 3709, but he suggests that he would like to talk this over with Odium's people. I said, "3709, that is the statute which requires competition." Mr. Manning has prepared, at Mr. Mack's request, a letter to Odium.

H.M.Jr: I will tell you what I would like to do. I would like to get Mr. Barnard in on this.

Graves: Fine.

H.M.Jr: Well, I can sign it.

Graves: Then I can put Mr. Barnard in touch with Mr. Mack, that is, if you think well of it.

H.M.Jr: Yes.

Graves: And they can arrange to get in touch with Mr. Odium.

- 11 -

H.M.Jr: Yes. I think that Mr. Odium - well, supposing I let Mr. Barnard read this and then he can return it to Mrs. Klotz.

Graves: Fine.

H.M.Jr: Want to read this, Mr. Barnard? You can give it back to Mrs. Klotz. What else?

Graves: I have two or three little things relating to our bond program which perhaps you would rather I would defer.

H.M.Jr: Wait.

Graves: I have nothing else.

H.M.Jr: Do you want to use me on Thursday for anything on your bonds? I can let you have eleven to twelve Thursday, if you want to do anything. Want to bring the fellow back from Detroit and let us know how he is getting along?

Graves: Yes, that might be a nice thing to do.

H.M.Jr: Supposing we say at eleven to twelve on Thursday. By that time we will know if our financing is a success. Eleven o'clock Thursday.

Graves: Yes, sir.

H.M.Jr: You use that hour for what you think is the most --

Graves: Fine.

H.M.Jr: But I would like to know how the Detroit labor thing is going.

Graves: Yes. Well, I will have Mr. Iseby in here.

H.M.Jr: O.K. If you want some time, ask Fitzgerald.

- 12 -

Graves: Thank you.

H.M.Jr: Harry?

White: This brief telegram in response to Winant's telegram, if it is O.K. with you.

H.M.Jr: Harry, you get it afterward. That information that you sent me about the weekly goods going to occupied China and free China and that group of stuff, you see.

White: Yes.

H.M.Jr: I make the suggestion, if possible, I would like also what goes to Vichy France and Free France. Now, what you gave me up to date, if you have got a pencil, if you would prepare a letter, I want to send that, but one country to a page, rather than the way you have it.

White: You want to send it to whom?

H.M.Jr: The President, the Vice-President, Secretary of State, War, Navy, Commerce and Hopkins. I will sign it.

White: That raises this problem. The Department of Commerce, with whom we have been in conference in an attempt to get them to take this thing over because it is growing pretty large - we now have twenty men up there because we are taking all the blocked countries for purposes of foreign exchange; they feel they can't do so, and so long as it is for the use of the Treasury they are willing to let us do it.

If, however, this is going outside the Treasury and we are informally supplying Dean Acheson with the information, if it is going to a list of this kind, they will feel very definitely

that it is a slight on their handling of it and will probably want to take measures to get additional funds to handle it themselves.

H.M.Jr: Well, it is more important to get the information for the time being and we will worry about the other thing.

White: Then we will send it to this group?

H.M.Jr: If you please. Do I O.K. this cable, Harry? What?

White: It is a very brief cable. It was from Winant to yourself asking for some man to be appointed from this Government to sit in with the British to discuss the exports under the Lend-Lease, et cetera. It was taken up with Cox and we preferred to have the principle settled here.

H.M.Jr: Well, I don't understand it. Must I read it?

White: The cable and everything is there. I think you will agree with the cable but if you want the whole story it is in your hands.

H.M.Jr: Has it gone?

White: No, it is awaiting your approval.

H.M.Jr: Well, when you come in on Mexico, explain it to me, will you please?

White: All right.

H.M.Jr: Harry, when you come in on Mexico. I don't understand it.

White: Some time this week we would like to set aside an hour, almost an hour, to completely recanvass the British situation. I think it is necessary to do that.

- 14 -

- H.M.Jr: Well, I am going into seclusion until I have solved this financing, so I am not going to make any appointments until I have made up my mind what the financing is, but as soon as that is, I will begin to make other appointments. Until the financing is over, I am not going to make any appointments.
- White: You may be interested to know that the Argentine Congress has adjourned for seven months without - despite a message sent by the Acting President of the peremptory urgency of taking advantage of these stabilization operations, so there is a bitter political feud between the two parties and that is being made part of the football of that feud so they are not likely to come for that loan in the near future.
- H.M.Jr: All right. We had the darndest time trying to get South America to take any money from us.
- Bell: Mexico will take it.
- White: With respect to the cable which you sent me, have you already spoken to those men? You sent me a cable to have Coe see these men.
- H.M.Jr: No, but if you will write a little note for me or have Fitzgerald call them up - at Cabinet, you see, I brought up the thing. I said, "I would like to tell you, Mr. President - you may know all about this thing - but the British people are hungry and how can you expect them to fight on empty bellies?" Well, that started a half an hour's discussion and I began to quote Coe, and fortunately - I mean, then Wickard got going, saying yes, that that was what he understood and it got on to the whole question of - I want Coe to tell them just this business of what he found amongst the poorer classes of the English people.

- White: Then Mr. Fitzgerald will call and make an appointment in your name for Mr. Coe?
- H.M.Jr: That is right. But I got half an hour's discussion, and then I am very much interested to see that Appleby the next day came out and said while he was there, they were hungry.
- Bell: He had quite a statement in the paper about it.
- H.M.Jr: Well, that was after. I started this thing going. But Wickard takes the attitude that the fault lies entirely in England.
- White: Well, that is all.
- H.M.Jr: But tell Coe not - just to talk the way he did to me, just on the food situation and about Lord Woolton and his chain of food stores in Scotland, and how he is more interested in those than he is in cutting out the little profiteer in the locality. I mentioned that at Cabinet.
- Schwarz: In the light of our recent radio activities, I would like to be allowed to approve a request from the "We the People" program. They want to have our man who destroys the old money at the Bureau of Engraving on their program. Now, that is a sponsored program. I told them if we could have one of the engravers - one of the printers who prints Defense Bonds on the same program, I might be able to swing it. I think we --
- H.M.Jr: I am just in the humor on any sponsored program this morning that the answer would be "No". Talk it over with Kuhn.

Schwarz: Shall I take it up again?

H.M.Jr: No, don't take it up with me. Take it up with Kuhn. I am off all sponsored programs, particularly when they have to do with instruments. (Laughter).

Schwarz: That is all.

H.M.Jr: George?

Haas: We are showing an increase on the charts.

H.M.Jr: Well, say it louder so that Harold Graves can hear it.

Haas: I guess he heard it.

Graves: Yes. I have a copy.

H.M.Jr: How many days?

Haas: Three, I think.

H.M.Jr: What, the total?

Haas: The first three business days in October show an increase over the corresponding days in the previous month.

H.M.Jr: What was that record? "Louder, brother, louder." Admiral?

Waesche: I have a report here, Mr. Secretary, and a copy of all those messages you wanted.

H.M.Jr: One thing which I thought was very amusing. Mrs. Roosevelt was at the house yesterday and she was asking me, and I told her the only time I was at all squeamish was when I thought I was going to have to jump. They said, "How did you feel?" I said, "I was

- 17 -

a little squeamish." They all walked back toward me, and I thought I was going to have to jump. She said, "Did you know what to do?" I said, "No," and she said, "I have always wanted to know. Let's take lessons in parachute jumping." The first thing that I woke up this morning, Mrs. Morgenthau said, "Now, when are we going to take those lessons in parachute jumping?" I said, "Oh, I am thinking of my financing." As a matter of fact, isn't there some place where they do have - you go off a small tower on a wire?

Foley: World's Fair.

H.M.Jr: You saw that in the movies.

Waesche: The primary instructions for the Army for parachute jumping have something of that kind. Of course, they also had it at the World's Fair.

H.M.Jr: It is not so dumb, you know.

Waesche: Oh, yes, I think it is necessary for your preliminary instructions.

H.M.Jr: Have you ever taken any?

Waesche: No, sir. (Laughter). I have taken lessons in life preservers and jumping overboard at sea, but not parachute jumping.

H.M.Jr: Well, you stay here, Admiral, until Mr. Gaston comes back, will you?

Waesche: All right.

Kuhn: Herbert Gaston intends to make the same kind of speech in Seattle that you were thinking of making on Defense Savings Bonds. It will

be very short. I am sending him a draft of it this afternoon.

H.M. Jr: He went by train?

Kuhn: He went by train, yes.

Only one other thing, you wanted us to send wires to high officials of the Army and Navy and Marine Corps whenever we plan to put on an Army, Navy, or Marine broadcast. I have a lists of twenty such people. Do you want us to send the wires out under your name?

H.M. Jr: Please.

Kuhn: Would you like to see the lists?

H.M. Jr: No.

Kuhn: That is all.

H.M. Jr: I almost sent a wire the other day to Harold Graves after the accident. "Don't you wish you were with me?"

Graves: Yes, I thought about that. (Laughter).

H.M. Jr: Mr. Graves took his first flight to Detroit with me a couple of weeks ago.

Anything else?

Kuhn: That is all.

H.M. Jr: Blough?

Well, you will see....

Johnson: I have nothing special.

Morris: I think you might be amused by this cartoon if you haven't seen it.

Do you want a preliminary report on these trust funds, and so on now?

H.M.Jr: On what?

Morris: On these funds administered by the Secretary?

H.M.Jr: I will take it.

Everything else all right?

Morris: Yes, sir.

Sullivan: One o'clock?

H.M.Jr: One o'clock. You had better be here about five minutes of, because I have got a message from the President on it. How is your golf? The last I heard it was seventy-three, wasn't it?

Sullivan: It got a little worse after that.

H.M.Jr: Is the family back?

Sullivan: No, they will be back in about a week. I came down with Secretary Knox this morning. He wanted to wish you "Happy Landings".

H.M.Jr: Was he yesterday at New Hackensack?

Sullivan: No.

H.M.Jr: Did you see that violent cartoon on Frank Knox in today's Washington Herald?

Sullivan: Yes, we read it coming up from the field.

H.M.Jr: The cartoon?

Sullivan: Yes. He cut it out and sent it to Mrs. Knox. He thought it would burn her up.

H.M.Jr: Are you serious?

Sullivan: Yes.

H.M.Jr: Why would it burn her up?

Sullivan: Oh, it amused him and he thought it would make her pretty provoked.

Klotz: He is kidding.

H.M.Jr: No, I don't think he is.

At Cabinet I told the President there were two conventions last week, one in Indianapolis and one in Chicago. The Chicago one was O.K.

Sullivan: Good.

H.M.Jr: That started Frank Knox off on what a wonderful reception he had gotten from the lawyers.

Sullivan: Yes, he was very much pleased by that. He spoke about it this morning, coming down.

H.M.Jr: Would you (Bell) speak to somebody at the Federal Reserve and say, do they want to take on Paul McNutt or do we? He made a speech in which he said it was the undemocratic and the fascist way, to cut down on installment buying. That was in Sunday's paper. Somebody ought to send him the President's executive order. Somebody ought to call him on it. I think it should be the Federal's job.

Bell: Yes, I do too.

Haas: I think that same speech talked in opposition of increased Social Security taxes, too, in the press statement I saw.

H.M.Jr: Well, let's start by getting Paul McNutt's speech. He did, according to that, but that I thought --

Haas: That fits in swell, using that for a fiscal device. You get all the benefits and no taxes.

H.M.Jr: You might get his speech.

Bell: All right.

H.M.Jr: Ed?

Foley: Here is that memorandum you asked for on Patterson's testimony.

H.M.Jr: What else?

Foley: Nothing else.

Barnard: Nothing.

H.M.Jr: Well, Dan, give me a few minutes, and then I will see you and I will talk with Mr. Barnard.

TREASURY DEPARTMENT 

65

## INTER-OFFICE COMMUNICATION

DATE OCT 6 1941

TO Secretary Morgenthau  
FROM E. H. Foley, Jr.

I have had a check made of what Under Secretary Patterson had to say regarding excess profits when he appeared before the House Banking and Currency Committee last Friday. Attached is a copy of the pertinent part of his testimony and certain comments by Representative Crawford of Michigan.

In general it can be said that Secretary Patterson expressed himself as in accord with your views as expressed by you somewhat earlier before the same Committee. Mr. Ginsburg, counsel to Mr. Henderson, informs me that Secretary Patterson knew in advance that he would probably be asked such questions and that he had apparently given the matter some thought before expressing himself.

They hope that next week will conclude the hearings in the House. The CIO, the National Association of Manufacturers, United States Chamber of Commerce, representatives of small business and one or two other groups are still scheduled to be heard.

Excerpts from the hearing of  
October 3, 1941, by the House  
Committee on Banking and Currency  
on H. R. 5479, "Emergency Price  
Control Act of 1941"

Mr. Patman: I want to ask one or two questions.

Mr. Secretary, it was suggested by  
Mr. Morgenthau, when he was testifying before the  
Committee on this bill, that he believed that  
during the emergency, profits should be restricted  
to 6 percent on the invested capital, and that  
all above that should be taken by the Government.

Do you have any opinion on that proposal  
that you would care to express?

Mr. Patterson: I agree, in the main, that  
it would be well to have a tax structure that  
would prevent profiteering, and prevent any  
excessive profits. The only question is whether  
a flat limit like that is too much of a hindrance  
against individual incentive and initiative.

I agree with the object sought by him. It  
may be that some relaxation should be made along

- 2 -

those lines for the benefit of production, in order to still give a man an opportunity to use some initiative, but, in the main, of course the tax structure ought to be such that we would have no recurrence of any millionaires made out of the defense program.

\* \* \*

Mr. Crawford: Mr. Patman, may I interrupt you to make an observation here?

Mr. Patman: I have finished.

Mr. Crawford: It applies to one of your questions.

Secretary Morgenthau said this:

"I can tell my own philosophy very briefly. I think that in times like this, if a corporation earns six per cent on invested capital, it ought to be satisfied, and I think that everything over and above that, of course, with such exceptions as equity calls for, should go to the Government until this

- 3 -

emergency is past and we have paid for these extraordinary expenditures."

That language, "with such exceptions as equity calls for," is the saving grace of his whole approach to this question.

Mr. Patman: Yes, that is a good qualification to put in there.

*S. H. H.*

October 6, 1941.

Mr. Chester I. Barnard,  
Washington, D. C.

Sir:

You are hereby appointed an Assistant to the Secretary of the Treasury, with compensation at the rate of \$1.00 per annum, payable from the appropriation "Salaries, Office of the Secretary", the appointment to be effective as of this date.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

H

n m c  
Original given to Mr. Chapman to deliver

October 6, 1941  
10:12 a.m.

HMJr: Hello.

Operator: Mr. Mack. Go ahead.

HMJr: Hello, Clif?

Clifton Mack: Yes, sir.

HMJr: Good morning. How are you?

M: Fine. Thank you, sir.

HMJr: Clif, did Harold Graves tell you about Mr. Barnard coming down to help me?

M: He spoke of someone coming down.

HMJr: His name is Chester Barnard.

M: Oh, I see.

HMJr: Of New Jersey Bell Telephone.....

M: Yes.

HMJr: .....on leave to help me. Hello.

M: Yes.

HMJr: Now, Harold's been too busy to be mother confessor to you - father confessor - and I have been; so I want Mr. Barnard - any time you've got any knotty problem, that you feel that you can go and talk to him.

M: Splendid.

HMJr: And also, I'm going to ask him to familiarize himself with what you're doing.

M: Fine.

HMJr: And the thing is, that you're over there and I don't - I just don't see enough of you.

M: All right.

HMJr: And the thing that I want him to do particularly is to kind of sit around with Morris Wilson and some of these people, the way I used to with Purvis, and let them blow off their troubles.

M: Yes.

HMJr: You see? Particularly on the English. Not only with us, any troubles that they have.

M: All right.

HMJr: Now, this in no sense is any reflection on you, because you know I'm delighted with what you're doing.....

M: Well, I appreciate that.

HMJr: .....but I just feel that I want you a little closer in the family and Mr. Barnard will be representing me.

M: Well, that's fine; and we'll.....

HMJr: And that doesn't mean that any time you say to him, "Well, let's go see the boss," that you can't walk in and see me also.

M: All right.

HMJr: But it's somebody that you can go to and tell your troubles when you have them.

M: Well, very good; and we'll work with him a thousand per cent.

HMJr: And he'll be getting in touch with you.

M: All right, sir.

HMJr: But it's particularly I want him to sit around a little bit with Morris Wilson, who's not here - evidently he runs the purchasing three days a week, which isn't so good, and - who is in charge

- 3 -

of the - actually the purchasing now?

M: Sir Clive Baillieu.

HMJr: Sir Clive Baillieu?

M: Yes. And we keep in fairly close touch with him, but there are a number of things that someone in Mr. Barnard's position that has the time to contact him, would be able to do.

HMJr: Fine. Well, you tell him about those, will you?

M: I'll do that.

HMJr: Right.

M: Yes, sir.

HMJr: Thank you.

October 6, 1941  
10:34 a.m.

HMJr: Hello.

Operator: Mr. Thompson.

HMJr: Hello.

Norman  
Thompson: Yes, sir.

HMJr: Norman.....

T: Yeah.

HMJr: .....I just wanted to tell you what I was  
telling Chester Barnard, so that you'd know.....

T: Yes.

HMJr: .....and follow through. I've already arranged  
with Graves and Mack that he should sort of look  
after Procurement, particularly as it affects  
the English.

T: I see.

HMJr: You see?

T: Yes, sir.

HMJr: There's nobody sat around and held the English'  
hand when they had troubles, and also Mack's,  
if he has any troubles. Graves has been too  
busy.

T: Yes.

HMJr: So that's agreeable.

T: Well, that's fine.

HMJr: On Social Security - he's made a lifetime study  
of that.....

T: I see.

HMJr: .....and he's going to help on that.

T: That's fine.

HMJr: And then - you see what I call the Harry Byrd Committee, this committee on the Hill.....

T: Oh, yes.

HMJr: .....to help prepare the stuff for me.....

T: Yes, sir.

HMJr: You see?

T: Yes, sir.

HMJr: So I've given him those three things.

T: Well, that's fine.

HMJr: And all things which I haven't been able to give enough attention to.

T: Yes.

HMJr: And I called up Morris Wilson to try to have him over to lunch and introduce him. He's up in Canada. He only works at this game about three days a week.

T: Yes.

HMJr: He's no Arthur Purvis.

T: Yes, that's right.

HMJr: But I want you to know, and then I thought that you might - and a little thing that just happened - I said, "Now, if you send for Roy Blough, he'll come up and see you and explain it to you." And he said, "Any rules why I can't walk down and see him?"

T: (Laughs) Yeah.

HMJr: I said, "None." But - so follow through for me,

- 3 -

will you?

T: Yes, I will. I think.....

HMJr: And Mack was delighted. He said he's got a lot of things he'd like to talk over with somebody.

T: Yeah. Well, that's grand.

HMJr: And Graves just hasn't had time.

T: Yeah. Well, that'll work out beautifully, I'm sure.

HMJr: Okay.

T: All right. Thank you, sir.

OCT 6 1941

Mr. Floyd B. Odum, Director  
Division of Contract Distribution,  
Office of Production Management,  
Social Security Building,  
Washington, D. C.

Sir:

I have your letters of September 30, 1941, in connection with the spreading work policy set forth in the Executive order of September 4, 1941.

You may rest assured that the Treasury Department will cooperate with you in every possible manner in effectuating the purposes of this order.

I have requested the Director of Procurement to make a complete study of the problems involved and to fully discuss the same with you when you are ready to take them up with him.

In regard to tires and tubes, the Director of Procurement informs me that he has already awarded the contracts for the period of six months commencing October 1, 1941. These contracts, however, were awarded to fourteen different companies, also on a regional basis consisting of thirteen areas.

Very truly yours,

(Signed) E. Morgenthau, Jr.

Secretary of the Treasury

By Messenger 12/25 Blackwell

TAM:CB

J. H. [unclear]  
[unclear]

October 4, 1941

**MEMORANDUM TO MR. GRAVES:**

**Re: Contract Distribution**

In reference to Mr. Odlum's letters for the Secretary, we have been anticipating the general problem of spreading our purchases. These under Red Cross Relief, Strategic Materials, and Lend-Lease are subject to negotiation and for this reason I do not feel that there will be any real problem and that we can work out the policy with Mr. Odlum's office.

Our regular and Emergency Relief purchasing presents a different problem and we have been approaching such problem from these angles: (1) negotiation of contracts (a legal question now being considered by the General Counsel's Office); (2) making General Schedule contracts for shorter periods and for definite quantities and tying them in with allocations of materials subject to priorities which will automatically spread the contracts to as many allocatees as may be named; and, (3) any necessary legislation.

The last approach is the least desirable and in my opinion should be resorted to only if the problem can not be worked out under the first two angles being considered.

In regard to the proposals for tires and tubes, contracts have already been awarded for the period of six months commencing October 1, 1941. These contracts, however, have been awarded to fourteen different companies, also on a regional basis consisting of thirteen areas.

It is my intention to take up the general problem with Mr. Odlum and attempt to work out a general plan of operation which will be submitted to you and the Secretary for approval.

I am enclosing a proposed letter of reply to Mr. Odlum.

  
Director of Procurement.

TAM:CB

OFFICE OF PRODUCTION MANAGEMENT  
SOCIAL SECURITY BUILDING  
WASHINGTON, D. C.

FLOYD B. OGLUM, Director  
Division of Contract Distribution

September 30, 1941

My dear Mr. Secretary:

Since writing the attached letter I have received a memorandum from Mr. A. J. Browning, who is working with Donald Nelson on certain matters covering this same tire situation. Because it sets forth more in detail the methods that might be adopted, I am enclosing a copy herewith.

Sincerely yours,

*Floyd B. Oglum*  
Floyd B. Oglum, Director  
Division of Contract Distribution.

The Honorable  
The Secretary of the Treasury

OFFICE OF PRODUCTION MANAGEMENT

SOCIAL SECURITY BUILDING

WASHINGTON, D. C.

September 30, 1941

My dear Mr. Secretary:

As Director of the new Division of Contract Distribution of OPM, I have been on the job now about three weeks trying to carry out the spread work policy set forth in the Executive Order of September 4, 1941.

Because the orders for the greater part stem from either the Army or the Navy, I have been, of course, giving first attention in these two directions. Various procedures have been worked out and results obtained to date include the breaking up into small tenders for bids types of supplies that can be bid on in small batches rather than in large blocks.

At an early date I would like to have the privilege of discussing this policy as applied to Treasury Procurement. Today I was told that the Treasury Procurement has called for tenders in the matter of tires on an all or none basis. Such a basis automatically eliminates many of the smaller rubber companies qualified to make tires and in need of the work. Some of the big rubber companies have recently indicated their entire willingness to have some of this simple work passed on to the smaller companies.

This particular situation is brought to your attention now in advance of the broader discussions because it is so much in point and perhaps has not passed the stage where the method of procurement on an all or none basis can be changed to better meet the objectives of the President's announced policy.

Sincerely yours,

*Floyd B. Odlum*  
Floyd B. Odlum, Director  
Division of Contract Distribution.

The Honorable  
The Secretary of the Treasury

COPY

September 30, 1941

MEMORANDUM:

TO: Mr. Floyd Odum

FROM: A. J. Browning

SUBJECT: Treasurer Procurement Bids

We are getting considerable complaints from small tire manufacturers that they are unable to bid on the tires for Treasury Procurement for the following reasons:

- (1) Most of the invitations to bid come out on an "all or none basis".
- (2) Most of the invitations do not ask for specific quantities.
- (3) With the present allocation program a rubber manufacturer does not know what he is going to get beyond January 1 so as far as possible invitations should require and permit completion of the contract before December 31st.

I strongly recommend that in order to spread this business the quantities to any manufacturer be limited. In other words, if they are asking for a bid on 60,000 tires they limit the quantities that any one manufacturer can receive to 10% or 15%. This would give the large manufacturer some of the business and would permit spreading the balance among the smaller manufacturers.

This method is going to increase the cost to the Government for its tires because the small manufacturer cannot produce tires as cheaply as the larger manufacturer. However, in order to follow the policy of the President in distributing the business it will be necessary to pay more money for the items purchased.

I would also suggest that the Treasury Procurement discuss with your department and Mr. Murray of the Rubber Section their program plans for tires and other rubber goods for the next three months.

October 6, 1941  
10:45 a.m.

RE FINANCING

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

H.V.Jr: Dan, I have got from now until eleven, when  
Summer Welles comes.

Have you got anything in New York?

Bell: Yes. I talked to four groups. First I  
talked to Discount Corporation. That was  
before you made your announcement, but in  
my talk with them, I asked them what they  
would advise you on financing, ranging  
anywhere from, say, eight hundred million to  
a billion two.

I didn't know the exact figure at that time,  
but any place within that area. Dudley  
Mills said that this is a very strong market,  
and there is a lot of money around, waiting  
to be invested, that what you ought to put  
out at this time is an issue for insurance  
companies and savings banks. Savings banks  
would take a long issue. They might have  
to sell some securities, shorter securities  
out of their portfolios, but the banks  
would take those up, and it would be putting

- 2 -

a long issue just where it ought to go. He has one order from an insurance company for fifty-five million dollars.

Getting down to figures, he said that he would put out one issue at two and a half per cent, '69 - '71. Seventy-one maturity, and sixty-nine call.

H.M.Jr: One issue?

Call: One issue. He said that on a 2.40 basis would sell at a hundred, and a hundred and two. He figured that the insurance company --

H.M.Jr: What coupon is that?

Call: That is two and a half per cent.

H.M.Jr: He likes them rich. All right, I am listening.

Call: He said the insurance company balances were high. There are probably a billion and a quarter or better, and he thought they would be large buyers in that area. Later in the afternoon he called me and said that he had switched a little, and that he would like to recommend two issues, although in the morning he was strong for one issue.

Bob Garner of the Guaranty said that he was a little bearish on the market, that he thought that the market was entirely too high, although there is a good buying power there. Lots of money. He said the bond - the market has been starved for bonds. We haven't had an issue since May, although he said, looking at the situation, it certainly looks to him as though there is going to be quite a steady supply of bonds from here on. He thought from that standpoint,

- 3 -

the market was just a little bit vulnerable on which to finance.

H.M.Jos

Who is this?

Hall:

Bob Garner. But he said, you can do anything you want and he would recommend a two and a half per cent bond for around thirty years for the largest part of your financing, and he would recommend a small amount, four or five hundred million, in the one and a half or two per cent area. That would be your forty-seven to fifty-one.

Sheldon Green of the Chase didn't have much to offer. He said if he were in your place he would put out a two and a half per cent callable bond in thirty years, with no maturity, just a straight callable bond. Or a two and a quarter per cent in the early sixties. He said he thought that the Treasury sometime along the way here ought to give some consideration to short paper, such as Treasury Bills, particularly if we are going to go to Congress and ask for additional authority for the Federal Reserve Board. He said the Treasury Bills have been an excellent medium for permitting the banks to adjust themselves to the new reserve requirements, and that he thought that while we were a party to anything of that kind we ought to help the market out by giving them some additional Treasury Bills.

Burgess and Leo Kane, of the National City. They said that it is an excellent market and you can do just about anything you want to, and Gordon Rentschler, I saw him later, and he confirmed what they said at this conference. They said you could easily float a billion dollars in one issue. The larger proportion of that

- 4 -

would go to insurance companies and other permanent investors such as savings banks, and so forth. He thought the banks would be in there, but on a smaller base, and he thought the banks would come in on the subscriptions very heavily, and they would then be redistributed. He would put out a two and a half per cent wherever it falls, and I asked him where he thought it would fall, and he said a sixty-one to sixty-six. I said, "Well, you certainly like them rich." He said, "Well, you are out in a new area," but I think they hadn't looked at the chart, and they would be inclined to change that later. I told him - I talked to him right after I talked with you, and I said that I thought you were coming out with an announcement that the financing would be in the neighborhood of a billion to a billion and a quarter, and would that change his views. He said no, that you could still do a billion and a quarter bond, one issue, and it would not be serious.

However, later in the day he sent word that he was inclined to split the issue.

Well, that is the story as I got it. I talked to Tommy Tompkins in the afternoon. He thought about the same thing as the rest of them thought, that you could do just about as you pleased in this market when it was so strong. He thought you ought to put out a long bond because of the strength of the market. It would help it materially. He thought you could put a two and a half per cent out into the early seventy area. It would go, and it would go well, and you could do it in one issue, but he thought that from your standpoint it might be better if you put it into the two issues, one small, or the short, and the larger part

- 5 -

of it in the long. But he said it would go and it would go well. He leaned toward the two issues.

H.M.Jr: Well now, let me just tell you where I stand. These people have just got to get used to billion dollar issues.

Bell: I think they recognize that.

H.M.Jr: They have just got to get used to them. We can't fool around. Now, in order to meet you fellows half-way, I have got a suggestion. The present note holders, we never like to ask them to convert into a long bond, and I would be willing to open up some other note for these note holders, December note holders, Dan.

Bell: They don't want the note. Nobody talked about a note.

H.M.Jr: Well, that doesn't mean anything.

Bell: Too small a coupon.

H.M.Jr: Well, you would give these people - you could do this. You could give the two hundred million dollar note holders a chance to go into the new bond or an existing note.

Murphy: It wouldn't be the same as the existing note, though, because it would be taxable and it would be a different trading unit. You see --

H.M.Jr: But I mean, supposing a fellow - all these notes are held by banks.

Haas: No. They are - a very large part of them are held by individuals because they are holding them on account of this tax thing.

- 6 -

Bell: These are pretty well scattered.

Easa: They are scattered because of that reason. It is unusually small in amount, Mr. Secretary.

Murphy: There are only three that you could open.

Bell: That is right. You can't open the others.

Murphy: Three cashable notes are the only ones.

H.M.Jr: Which are the ones?

Murphy: The two Defense notes which are due on 12/15/45 and 9/15/41, and the three quarter on 3/15/43.

H.M.Jr: Where are you reading from?

Murphy: The ones that have a "T" opposite them on that sheet.

Hadley: Even if you gave them the option, they would all take the long ones, because of the difference in price.

H.M.Jr: What is this selling at? Well, it would cut the issue down.

Hadley: It would if you didn't give them the option. If you give them the option to go into the long bond then it won't cut the issue down.

H.M.Jr: Well, there isn't enough gravy in this.

Well, think about it. Don't throw it in the ashcan so quickly. It would cut the issue down by two hundred million.

Hadley: If you didn't give them a choice, you could do it.

- 7 -

- H.M.Jr: You don't have to do it. My suggestion was to let them convert into an outstanding taxable note and that would make the issue two hundred million smaller.
- Murphy: Well, the question, Mr. Secretary, in the announcement you made Friday, didn't you tell Mr. Schwarz to say that they would have the option --
- H.M.Jr: No.
- Bell: Of either issue?
- H.M.Jr: No, I didn't say that. All I said was, I told Schwarz to say we were going to offer between a billion and a billion and a quarter and would call the note.
- Haas: I think I read in the press what he did give out - I don't recall exactly, but the impression I got was that you were going to allow them to go into such issues as you offered.
- Murphy: I think they have that on their mind, and they would be awfully unhappy if they weren't allowed to do it.
- Bell: You see, we opened up that one note - at least, we had a note there and opened it up twice or three times, of sixty-six million dollars.
- H.M.Jr: That is a little fellow.
- Haas: You might run into the thing of not refunding any of them, either. They will take the cash.
- Bell: They will take the cash in December, maybe.
- H.M.Jr: Well, I am throwing it out as a possibility.

- 8 -

If you don't like it, it is all right, but you fellows are going to have an awfully hard time to sell me more than one bond. You have just got to face the thing. There will never be a better time. I may be selling two billion dollars next time. We have just got to grit our teeth, gentlemen.

Bell:

We may have to sell a billion and a half dollar bond issue in December.

Prepared by: Mr. Lindow  
Mr. Murphy  
Mr. Haas

This memorandum was prepared at  
the request of Mr. D. W. Bell.  
Mr. Bell and Mr. Morris have been  
given copies.

90

INTER OFFICE COMMUNICATION

DATE Oct. 6, 1941.

TO Secretary Morgenthau  
FROM Mr. Haas  
Subject: Consideration of interest rate reductions on  
special obligations

Most of the special issues now outstanding bear interest rates either as determined by statutory formula or as set indirectly by statute through specification of interest rates to be paid on their own liabilities by the particular funds or accounts holding the securities. There are four 2 percent issues outstanding, however, in which the interest rate appears to have been determined by the Treasury mainly on the basis of market considerations, and which accordingly may be reduced if the Treasury so desires. The remainder of this memorandum will be directed to considering whether the interest rate on the various 2 percent special issues should be reduced.

I. Issues outstanding

The four 2 percent issues are as follows, with the amounts outstanding as of September 30, 1941:

	<u>Amount</u>
	(In millions of dollars)
2 percent Postal Savings System series, maturing June 30, 1943-45	88
2 percent Government Life Insurance Fund series, maturing June 30, 1943-46	37
2 percent Federal Deposit Insurance Corporation series, maturing December 1, 1943-45	120
2 percent Federal Savings and Loan Insurance Corporation series, maturing June 30, 1945	5

It is the custom to issue these securities with a maturity not exceeding five years, but they customarily are redeemable on demand of the holder. The Secretary may call them, on four months' notice, after one year from date of issuance.

## II. Background for various issues

### 1. Postal Savings System Series

The 2 percent Postal Savings System series were issued with the approval of the President upon request from Secretary Morgenthau in a letter dated June 19, 1934. In this letter, the Secretary stated:

"For the funds which are now available for investment I propose to issue to the System a 5-year 2 percent Treasury note in the amount of not to exceed \$35,000,000, which is comparable to the yield on a 5-year Treasury note now outstanding. As additional funds become available, I shall also issue to the System Treasury notes at such rates of interest and with such maturities as are comparable to similar Government securities then outstanding in the market."

The last statement in the above quotation has never been revised in any subsequent letter to the President, and yet only one type of obligation has been issued -- 2 percent notes with a maturity not exceeding five years. The last issue of this type authorized was on January 13, 1941. At that time 5-year Treasury obligations were selling very substantially below a 2 percent basis, and the new issue therefore involved an interest subsidy.

The economic reasons for the issue of special obligations in 1934 are indicated by the following quotation from the Secretary's letter dated June 19, 1934, to the President:

"Each month the Postal Savings System received a large amount of funds returned from depository banks which do not desire to pay the required interest thereon. As the Postal Savings System pays a fixed rate of interest to its depositors, it is necessary that all of the funds of the system be kept invested, so far as practicable. In view of the strength of the present Government security market, it is not possible to invest these funds in Government securities through purchases in the market without seriously disrupting it."

The need of the Postal Savings System for a 2 percent rate on its earning assets is indicated when consideration is given to the fact that the rate paid on deposits is 2 percent in practically all States. There is no possibility under present conditions of putting a substantial amount of funds in depository banks and it is possible to get 2 percent on Government securities only by investing in longer term issues. The 2 percent special issues held by the System, however, amounted to only 7 percent of its total investments as of the end of August 1941.

## 2. FDIC Series

The special 2 percent obligations held by the Federal Deposit Insurance Corporation were authorized in a similar manner to the Postal Savings special 2 percent issues.

In a letter dated December 5, 1934, to President Roosevelt, Acting Secretary Coolidge said:

"For the funds which are now available for investment, I propose to issue to the Federal Deposit Insurance Corporation a five-year 2 percent Treasury note in the amount of not to exceed \$60,000,000, which is comparable to the approximate yield on a five-year Treasury note now outstanding. As additional funds become available to the Corporation, I shall also issue to the Corporation if it is deemed advisable from the standpoint of the market, Treasury notes at such rates of interest and with such maturities as are comparable to similar Government securities outstanding in the market."

As in the case of the special issues to the Postal Savings System, no revision of the Treasury's policy with respect to rates has been made, although special 2 percent obligations of up to five years' maturity are still being issued to the Federal Deposit Insurance Corporation. The last issue was on August 1, 1941, when the Treasury issued to the Federal Deposit Insurance Corporation \$15,000,000 2 percent 4-1/4-year notes. At that time comparable Treasury obligations were selling under a 1 percent yield.

The economic reasons for the issuance of special obligations to the Federal Deposit Insurance Corporation are stated as follows in Acting Secretary Coolidge's letter to the President dated December 5, 1934:

"There is available for investment for account of the Federal Deposit Insurance Corporation the sum of approximately \$60,000,000. It is necessary that the funds of the Corporation be kept invested so far as practicable in order that the earnings on the capital will at least pay the expenses of the operation of the Corporation. During the past two months it has not been good policy to disrupt the Government security market by the purchase of large blocks of securities on the market for this and other investment accounts."

### 3. Federal Savings and Loan Insurance Corporation Series

A similar situation obtains with respect to the special obligations to the Federal Savings and Loan Insurance Corporation. In this case, however, the original letter to the President dated November 16, 1940, written by Acting Secretary Bell, did not suggest that future issues would be priced in line with the market.

### 4. Government Life Insurance Fund Series

The issuance of 2 percent special notes to the United States Government Life Insurance Fund was approved by President Roosevelt through his signing a letter dated June 15, 1938, written by Wayne C. Taylor, Acting Secretary of the Treasury.

In this letter Mr. Taylor stated:

" . . . In view of this situation, it seems advisable to have the investments of the Government Life Insurance Fund made in special series of certificates of indebtedness and Treasury notes bearing interest at the rate of 2 percent per annum, payable on June 30 of each year or on prior redemption.

"With your approval, the Treasury has issued from time to time to the Federal Deposit Insurance Corporation and to the Board of Trustees, Postal Savings System special 2 percent Treasury notes for the purpose of providing an investment obligation to these agencies. . . It is, therefore, proposed to make investments on account of the Government Life Insurance Fund in special series of 2 percent certificates of indebtedness and Treasury notes until such time as, in the discretion of the Secretary of the Treasury, investments for the funds can be made more advantageously in the interest of the Government by the purchase of obligations in the market."

From the phrasing of the above it seems clear that the Treasury may continue to issue 2 percent notes to the Government Life Insurance Fund if it so wishes or may instead invest the funds in marketable issues.

In this letter Mr. Taylor also said:

" . . . Since the enactment of the Adjusted Compensation Payment Act in January 1936, the moneys in the Government Life Insurance Fund, not needed for other purposes have been invested by the Secretary of the Treasury by the purchase in the market of outstanding interest-bearing obligations of the United States. In view of the fact that all outstanding bonds and notes of the United States are selling in the market at substantial premiums and are yielding investors from 1/2 percent to a maximum of approximately 2-1/2 percent depending upon maturity, the Treasury has only been able to obtain a yield of approximately 2-1/2 percent or thereabouts on investments made for account of the Government Life Insurance Fund. As the volume of moneys available to the fund increases, the investment of such moneys operates to place in the market a demand for bonds and has a tendency to further enhance the demand for such bonds and consequently acts to increase the premiums which must be paid therefor, with a resultant decrease in the investment yield."

The Act approved June 7, 1924, indicated Congressional desire that the fund be operated on actuarial principles.

It said:

"The bureau is authorized to set aside out of the fund so collected such reserve funds as may be required, under accepted actuarial principles, to meet all liabilities under such insurance; and the Secretary of the Treasury is hereby authorized to invest and reinvest the said United States Government Life Insurance Fund, or any part thereof, in interest-bearing obligations of the United States or bonds of the Federal farm-loan banks and to sell said obligations of the United States or the bonds of the Federal farm-loan banks for the purposes of such fund."

### III. Considerations involved in reducing the interest rate

There are a number of factors involved in considering a reduction in the interest rate on any of the 2 percent

special obligations. The 2 percent rate seems to have been originally set on the basis that the obligations had maturities of up to five years and the market indicated this rate for such terms. Unfortunately, however, the five-year basis has little relevance, because the obligations are redeemable on demand of the holder. Hence, the question poses itself: What is the proper rate to pay such funds and accounts on demand deposits? Purely market comparisons indicate that such a rate at the present time would be virtually zero. Other considerations, however, lead to the belief that the market rate at the present time may not be the best criterion.

In the first place, the Treasury has a trustee function in the case of these obligations. Interest rates have been declining steadily during the last few years. It might be contended, therefore, that the Treasury should long ago have transferred these funds from special obligations into higher-rate public issues, in which case the present question would not have arisen. The argument that it would have disturbed the market if the amounts involved had been used to purchase public issues can hardly have applied to such a long period during which the Treasury was able to sell many billions of new issues. Moreover, the Treasury has been viewing the 2 percent special obligations as a possible reserve to support the bond market if necessity arises. Accordingly, it is not unreasonable for the Treasury to be somewhat generous in dealing with the funds at the present time.

On the other hand, the recurrent difficulty of determining the proper interest rate for such special obligations could be completely eliminated if the policy were adopted of transferring the funds into public issues as soon as possible. The transfers may be made with no effects on the market itself if a portion of new issues in the future were set aside to be issued to replace the 2 percent special obligations. The particular requirements of the various funds and accounts should be analyzed first so that it may be determined whether short, medium, or long issues should be used. Once this decision has been reached, then the 2 percent obligations could be carried forward until the first time a new issue of the appropriate term became available.

The complete elimination of the 2 percent special obligations, however, would remove these funds as a possible source of support for the bond market. If this is deemed a desirable resource to maintain, it should be fully recognized that the interest rate on the special obligations ought to

be set by the Treasury from time to time so that the beneficiaries will not have suffered as a result of the Treasury's method of investing the funds. This raises the dilemma of the Treasury's conflicting interests as trustee and as borrower. A generous interest rate designed to keep the position as trustee above reproach may make it appear that as borrower the Treasury is paying unnecessarily high interest rates. Moreover, it would be difficult to explain that a given interest rate on the special obligations represented in part the application of market rates and in part an adjustment due to the fact that the funds were being maintained to support the market.

As a vehicle for supporting the market, it should be noted that the 2 percent special obligations provide only a legal mechanism for purchases rather than actual cash. The cash would have to come out of the General Fund, where it was deposited when received at the time the special obligations were issued.

Nevertheless, if it is decided that it is desirable to maintain the special obligations in order to support the market, the question of the proper interest rate will have to be faced. For this purpose it would be well to consider the needs of the individual funds and accounts with respect to the appropriate maturities for investments, and then to issue such securities at the indicated market rates.

Another possibility would be to view the special obligations here involved as long-term deposit accounts. On this basis the interest rate could be maintained as a stable rate -- regardless of changes in interest rates generally -- much as an insurance company maintains a stable rate of interest on a policy throughout its life.

If it is decided to maintain the special obligations under consideration rather than to replace them with public issues, it would probably be desirable for the Treasury to publish, perhaps in the Annual Report, a statement for each fund or account explaining the background and basis of handling of the various special issues.

October 6, 1941  
11:00 a.m.

97

RE MEXICAN LOAN  
(Also Russian Financial Situation, page 11)

Present: Mr. Bell  
Mr. Welles  
Mr. Foley  
Mr. Bernstein  
Mr. White  
Miss Chauncey

H.W.Jr: These people have all been working on this Mexican thing and I haven't. Will you give me just a thumbnail sketch of the over-all picture and just where the Treasury fits in?

Welles: Yes.

H.W.Jr: I would appreciate it. I have never had the over-all thing explained to me.

Welles: I take it for granted, Henry, that so far as the Treasury side of it is concerned, you already know the picture, so you want the other pieces of the picture.

H.W.Jr: I am not holding back, but I would just like to be - know the other pieces.

Welles: Yes, indeed. It goes back a good many years. It goes back, in fact, to about 1934, one year after this Administration came in, when we found that there existed at least four very serious controversies between this Government and Mexico and seven or eight less important but nevertheless troublesome controversies that existed. The immediate objective was to explore as fully as possible just how this particular controversy could be settled,

- 2 -

the objective being to clean up everything that there was in the field of international relations between Mexico and ourselves, to give them fair and reasonable treatment, and I would put in parentheses there that the treatment we had given them on various occasions was neither fair nor neither fundamentally conceivable in decent relations with another country.

The very serious controversies that existed were the question of water rights involving the use of the water from the Colorado River, which was of great political importance in the Colorado River basin states and the rights to the waters of the Rio Grande, which were important to people in western Texas.

Another very serious controversy was the controversy known as the Chamozal controversy in which the United States refused to abide by the award of the arbitrator. I won't mention all of them. All of them are extremely serious in their potentialities. As the international situation got worse and worse, it became all the more imperative that something be done to see to it that Mexico and the United States had not the same kind of relationship that they had in 1916 and '17.

Unfortunately, just at that time when we had just about got around to getting a basis of settlement, as a result of the, to my mind, singularly inept policy of the American oil companies that had interests in Mexico, the result was the expropriation by the Mexican Government of the oil properties of the American and British and other foreign companies. That created special issues and for that reason, the over-all settlement that we had in mind went by the board with

the hope that some means of settling the expropriation issue could be found. The situation today is that we have found a formula which, at least I think, advances the possibility of a reasonable settlement of the expropriation of oil issue; the bases in principle for adjustment of the other controversies have been found, and as a part of the picture in which we would be giving some quid pro quo, there arose immediately the practical way in which we could cooperate with the Mexican Government in the commercial field and the financial field.

In the commercial field, I think that has been taken care of through the negotiation of the trade agreement which is already in its preliminary stages. That is where the various Treasury matters that have, as you say, been put before you to sign, come into the picture. In other words, if the Treasury does not cooperate, the other pieces of the Treasury will not be put together. It is an integral part of our relations with Mexico.

H.M. Jr: Do I understand that you want us to go ahead? Does the State Department want us to go ahead immediately now and sign this?

Welles: Well, when you say "immediately" I don't mean today or tomorrow. What I would like to do is to have the Treasury withhold signing until one or two details connected with the oil settlement have been worked out. They have already been agreed in principle and I think we can reach an adjustment definitely today or tomorrow.

My thought was that it would be a very - and the Mexican thought as well - it would be a very happy thing if the series of agreements, Treasury as well as State Department, can be

signed on the 12th of October. It is Columbus' birthday, which is the most important inter-American holiday there is.

H.M.Jr: That is a Sunday.

Welles: That is a Sunday, I know.

H.M.Jr: I thought there was always a controversy.

Welles: The controversy is buried. I don't know the way in which it was born.

H.M.Jr: I thought maybe it was on the Greek calendar, or something.

Bell: Weren't all the agreements to be signed at the same time or an announcement of the acceptance?

Welles: My hope was that they all could be signed at the same time and the joint announcement made by Mexico and ourselves.

Bell: So that on the 12th everything would have been agreed to.

Welles: Yes.

H.M.Jr: Well, everybody can fly up to the farm with me. Flying is wonderful these days.

Welles: With that precedent you created, I don't think they would be very anxious to.

Bell: Might be up Saturday.

H.M.Jr: Well, as far as we are concerned, Dan, we are all set on it, aren't we?

Bell: We are set to go. We have been prepared to sign for some time. We have got all the documents, haven't we, Bernie, and everything?

- Bernstein: Yes.
- H.M.Jr: Then when Mr. Suarez comes in this afternoon, I ask him how his wife, who is the seventeenth daughter of a seventeenth son, how she is feeling, and so forth and so on?
- Welles: Well, he will have a few things he wants to talk to you about. He will want to talk to you about silver. I don't know what it is he wants to say and I presume you do.
- White: Well, there is a silver arrangement that has already been agreed upon. Unless he wants to pursue the subject further or raise some other questions.
- Welles: This is third hand. My understanding is that he simply wants to make some general observations outside of the scope of this agreement. I don't know what they are. He may not even do it.
- Bell: You will recall, Mr. Secretary, that they wanted a silver agreement and have the price much higher than the market and they wanted to use the difference between the market and what we gave them for military purposes, and we declined them and told them we would enter into a silver arrangement somewhat similar to the one they had before and like the one we have with Canada, at the market price. Now, whether you ought to agree to accept all of the production or not, I am not --
- H.M.Jr: Last time it was six million ounces, wasn't it?
- White: That is what the final arrangement was.
- Bell: Six million ounces?

- 6 -

White: That is, this time it is six million.

H.M.Jr: Wasn't it six the time before?

White: Five.

H.M.Jr: Was it five?

Bell: I didn't know we agreed to any definite figure.

White: I thought we did.

H.M.Jr: Five?

White: Five was last time. Six was this time.

Bell: That is about all the production, isn't it?

White: That is almost all, ninety percent of it.

Bell: If we take all the production we are going to --

White: They produce about eighty-five million ounces a year and this would be seventy-two.

H.M.Jr: How much does industry - the arts use in this country?

White: Well, the arts use thirty million ounces but it doesn't only come from Mexico.

Bell: A lot of it does from Mexico.

White: Well, the remainder --

H.M.Jr: The State Department knows, when I appeared before the Finance Committee recently, they asked me about silver. I said, as far as I was concerned, I would be willing to have all the legislation struck off the books. So that is why I am hedging - I mean, I don't

- 7 -

want to make a commitment beyond the month because while I am not going out and advocating publicly at this time that silver legislation be struck off, if anybody wants to put me on the spot, by saying do I favor retaining it, my answer is "no." I think the Mexicans know that. They most likely saw that.

Welles: I think that is understood very clearly.

White: I think it is.

H.M.Jr: I know it was published in London and everything else. I just don't want to be under pressure afterward. I gracefully gave in when you people asked us to cancel the Mexican thing originally - maybe not too gracefully, but I did anyway. I just don't want to be in the position that the Department says it is a matter of foreign affairs that we keep on buying silver and so on.

Welles: I understand.

H.M.Jr: If that is clear?

Welles: Yes.

White: It is also clear to them that if the market price of silver should rise here by virtue of the fact that there isn't enough foreign silver to meet the industrial demands, that our purchase price which you accept or the offer which you make will be at the price that you decide and if it is lower than the market price they will simply sell at the market price and therefore keep it down.

H.M.Jr: You have got to say it again, Harry.

White: Supposing, by virtue of circumstances, that the amount which is offered on the market is

so small that the price rises from thirty-five. They can get thirty-six or thirty-seven cents on the market.

- H.M.Jr: In Mexico?
- White: They can get it in New York for any silver.
- H.M.Jr: Yes.
- White: And you continue to offer thirty-five. If they don't feel it is satisfactory, they sell it in the New York market for thirty-six cents and prevent the market from rising. In other words, you don't take all they produce at a price which is determined by the New York price but you determine the New York price, that is what it amounts to.
- H.M.Jr: Well, that is what the situation has been.
- White: That is what it has been and I think they understand that.
- H.M.Jr: Let's put it the other way around. What actually happens is, I have no intention of increasing the price of silver. Now, if it goes up due to a shortage, they are going to sell it because they want the high dollar.
- White: That is right.
- H.M.Jr: They are not going to do us a favor if they can get more money.
- White: Therefore, the price cannot rise beyond the level at which you wish.

- 9 -

H.M.Jr: If that is all - who will be here for the State Department at three when Mr. Suarez comes?

Welles: Has any arrangement been made for anyone from the Department?

White: No.

Welles: Do you want someone?

H.M.Jr: Very much so.

Welles: I think I had better ask Collado to come over then.

H.M.Jr: I would like somebody.

Well: If that is agreeable to you. That is at three?

H.M.Jr: Three.

Welles: May I mention when you are speaking about what he might talk about, he also wants to talk to you about his settlement of the bondholders debt. Are you familiar, Dr. White, with that?

White: Only with respect to their debt to England. Do you think he wants to raise that question?

Welles: He wants to raise that question. Now, he has been in touch with Lamont and I think there is a perfectly good feeling of cooperation there between the two of them. The situation - briefly, as I remember it, is this: The Bondholders Committee only has about fifteen to twenty millions in the United States. About fifty millions has been repatriated to Mexico. About fifty to sixty millions is held in London. All the rest of it, which is the major portion,

has been now seized by the Germans in un-occupied - in occupied France, Belgium, Holland, in addition to what the Germans may have had.

It is regarding the fifty or sixty millions in London that he wants to talk this afternoon, I believe, and ask the cooperation of the Treasury.

White: They want to offer at least the market price. He indicated they would be willing to pay more than the market price for the Mexican securities which are held in Britain. The market price has risen from one or two cents to about seven in the past few years, and I think that most of the holders probably bought it at low price. But that involves the question of what would happen to the dollars if Great Britain got them in the light of your handling the dollar situation of Great Britain, so I thought after he raised the question if you want to consider it we would - nobody has considered it here at all, because he hasn't raised it officially.

H.M.Jr: Well, the first question that comes up, have the English, as they call it, vested these securities?

White: I don't think so.

H.M.Jr: Do they belong to the British Treasury or are they still in the hands of the individual?

White: I think they are still in the hands of the individual.

Welles: I believe they belong to the British Treasury from what he said to me.

White: I don't see why they should have vested them because they are not selling them to us.

Bernstein: In either event, it is just a matter of the British Treasury issuing an order saying those are vested in the Treasury.

Bell: If they want to take them over.

White: If they haven't got them, they can get them.

H.M.Jr: From the Mexican standpoint, I should think it would be good.

Welles: Decidedly so.

White: Very good.

H.M.Jr: Well, that leaves me - is that all then?

Welles: That is all.

H.M.Jr: I think - I can't have him at the house because our house isn't in order, but I thought I would have him for lunch if he would come Wednesday or Thursday. Are you free either day?

Welles: I am free Thursday. I have to go up there to speak to him tonight, and I won't be back Wednesday until two or three.

H.M.Jr: I will ask him which day is convenient.

Now, talking about the British Treasury, let me just take a minute to explain this thing. You may or may not be familiar with the fact that we are almost in daily contact with the English, with the Canadians, with the Chinese, on their dollar position. Since the fifteenth of March - I don't look after their purchases under Lend-Lease, but I do look after their dollar purchases. I mean, I hold myself responsible to advise the President if any of these countries are reaching the point where

they can't pay their running expenses. We have had a terrific amount of trouble with the English.

Now, Mr. Bewley, the Financial Attache, walks in here about ten days ago and lays on my desk a memorandum whereby they want to enter into certain transactions with the Russian Government which would entail buying in the United States for Russia with dollars. They wanted my permission. They also wanted to be paid in gold, in part, by Russia for what they bought. Now, we will just leave that for a minute.

I bought ten million dollars worth of gold against future delivery from the Russians back about the tenth or fifteenth of August, of which they paid back a little over half. Since then Jones has advanced them ten million, and I understood he was to advance them another thirty or thirty-five, which I don't know whether he has. But before that came, the President called me up at the house and asked me whether I couldn't tide them over in this situation. This was about a week or so ago. The only way I could do it was again through buying more gold, but I couldn't give them a Stabilization loan because I have said at least twice in getting my legislation through that if a country at war wanted a Stabilization loan, I would come up and ask the sanction of Congress, which would be just as easy to get as it would be to get Congress to agree to let them have it under Lend-Lease.

Well, in the course of conversation, to give you the whole picture, Bewley said - made certain statements that Jones said he could or could not do certain things. I repeated this to the President, and the President said, "What does Jones have to do with this?" "I don't know, Mr. President, I am just

repeating." "Well, Jones has got nothing to do with this."

So I called Bewley, "I am going to send this over to the President and ask him for guidance."

Well, I got the answer from the President, so I sent a copy to Harry Hopkins, and Harry says, "Well, I think that you ought to handle the dollar position of the Russians just the way you do for the other countries." I said, "Well, somebody ought to do it. I don't know who, but somebody should do it."

Well, again nothing happened so I wrote last Thursday or Friday - oh, incidentally, there was a cable - the President suggested Friday a week ago that I inform Harriman of the gold conversation, on buying gold, which I did through your Department, and the answer came back from Harriman, "I have no instructions on this."

When I wrote the President, which is October 3, "I would appreciate receiving instructions from you as to how I am to answer the memorandum from the English which I sent you on September 25, as the British Financial Attache, Mr. Bewley, is urgently requesting a reply to this memorandum."

Grace Tully calls me up and said, "The President said you should take this up with Cordell Hull and with Hopkins." I would be delighted to go over and see Cordell Hull if we could have Hopkins over, because here you have got the English tied up in a knot. They can't do anything for Russia. Russia is tied up, and we are tied up, and I think that somebody along the line ought to say, "Well, such and such a person is going to look after the dollar

situation of Russia, not only in this country but vis-a-vis England or wherever there are dollars.

Welles: Sure. Who else is there to do it except yourself?

H.M.Jr: Well, I don't know of anybody, but I am not seeking it, but in order to be cleared up--

Welles: I don't see anyone else to do it.

H.M.Jr: But I had this thing prepared for you. I think that this is it. I would like you, if you wouldn't mind, to take this and give it to Cordell Hull and say, if he would invite Mr. Hopkins and myself to come over I would be very glad--

(Miss Chauncey entered the conference.)

H.M.Jr: Miss Chauncey, good morning. Is this the set of copies for Mr. Welles?

Chauncey: Yes, those are all extra copies. He may have them.

Welles: I will do that right away.

(Miss Chauncey left the conference.)

H.M.Jr: Has Jesse given them some money, the other thirty or thirty-five, do you know?

Welles: I don't know.

Bell: I think it is just a commitment, Mr. Secretary, that they agreed to purchase some strategic war materials, and they made ten million dollars in advance payment.

H.M.Jr: Well, let me give you a thumbnail sketch where

- 15 -

it stood about a week ago. Jones had given them ten million dollars in September and promised them another ten million on the first of October. They said that they had twenty-two million dollars of outstanding commitments which would all come due before the tenth of October. They wanted a hundred million dollars. Hopkins said that there was fifty million dollars worth of material they could buy immediately and get delivery. I haven't the faintest idea, but every time I see the Russians, they cry on my shoulder. I don't know. I do know that they are waging a fight against a common enemy and it seems - here is England tied up in a knot, because what they want to do is - they put it up to me, and I have been unable to give them an answer. As far as they know it is still on the President's desk.

- Welles: I see. I will take it up at once.
- H.M.Jr: It seems to me an unnecessary bottle-neck which ought to be eliminated.
- Welles: Jesse has talked to me about his negotiations with them, and the way he was handling it, and what he intended to do, but I don't know whether he actually has gone ahead or whether he hasn't.
- H.M.Jr: Well, they might want Jones present, even though the President didn't suggest it.
- Welles: Wouldn't it help you a good deal to clarify this situation if he were there.
- H.M.Jr: I think it would, because then everybody--
- Welles: That has anything to do with it knows where he is.

H.M.Jr: .... would be there. It is pretty important, don't you think so.

Welles: I think it is vitally important. The sooner the better. I will take it up at once.

H.M.Jr: Right.

Welles: Do you have anything else for me? May I just mention, before I go, two things. That is, the Ecuador Stabilization Agreement, which I hope can be pushed through and the fact that I believe the Bolivians are now ready to talk with you. Again, if it can be done--

H.M.Jr: Well, I asked Harry White to stay because I just couldn't - there is Ecuador and Bolivia and Mexico and what-have-you.

Bell: Any news on Colombia?

Welles: I haven't any, no.

TREASURY DEPARTMENT

113

INTER-OFFICE COMMUNICATION

DATE October 6, 1941

TO Secretary Morgenthau  
 FROM Mr. Dietrich

In talking with Mr. Knoke today I mentioned the difficulty we experienced with the Russian gold shipment before it was finally deposited, on September 19, with the Mint at San Francisco for the account of the Secretary of the Treasury, at the request of the Russian Embassy. I suggested that, in order to obviate a recurrence of the trouble we had at that time, Mr. Knoke communicate with Mr. Funck of the Chase Bank in New York, who should advise his men in San Francisco to watch out for any future Russian gold shipments. If any such shipments come in he should get in touch with Mr. Funck before depositing the gold for sale. By following this procedure the Treasury will have an opportunity to contact the Russian Embassy in case the Russians should wish to apply the shipments against the amount of gold they have yet to deliver under the agreement of August 15, 1941.

*D*

October 8, 1941  
11:40 a.m

THE SOCIAL SECURITY

Present: Mr. Altmeyer  
Mr. Blough  
Mr. Barnard  
Mr. Bell

W.M.Jr: Well, Arthur, how long do you want to sell me on your whole program?

Altmeyer: Not any longer than you want.

W.M.Jr: What did Paul McNutt say about taxes?

Blough: He asked a rhetorical question.

W.M.Jr: What was his rhetorical question?

Blough: He said, "We impose drastic restrictions on installment buying and consider seriously the acceleration of the payroll-tax increase for our Old Age Insurance Program.

"These are apparently simple and easy ways to check inflation.

"But consider the result.

"To be effective, such devices must put it beyond the power of millions of industrial

- 2 -

workers to obtain these articles.

"The market is cut off at the bottom.

"Since there are not enough automobiles to go around, we make it difficult or impossible for the low income group to buy them.

"The man who can pay cash for a radio will have no trouble in getting one--"

H.M.Jr: I read all that stuff.

Blough: This is the rhetorical question: "Is it a democratic way of doing it."

H.M.Jr: But he said all of that?

Blough: He said all of that.

H.M.Jr: Did you write that speech?

Altmeyer: No, I don't know who wrote it. I don't think he saw it before--

Bell: Got up to the stage to deliver it?

H.M.Jr: I don't like to talk about your superior, but I think it is the damndest lot of rot I have read in a long time. There is a lot of crap comes out of Washington, but I think that takes the first prize.

Altmeyer: I haven't read it.

H.M.Jr: That is what the President says when he doesn't want to comment.

Altmeyer: No, I haven't. I heard something about it over the radio and they say it was in yesterday's papers, but I haven't read it.

- 3 -

- H.M. Jr:           Somebody ought to send him the President's order on installment buying.
- Bell:               He raises some of the very questions in the minds of the people who are enforcing the installment credit program. They are worried about those very things.
- H.M. Jr:           But for a member of the Administration - after all, this is what the President wants, Federal Reserve wants it, Treasury wants it, Henderson wants it, Nelson wants it. And then he says it isn't a democratic way. The undemocratic way would be just to issue an order "You can get out so many radios and then if you are a member of the Democrat party, you can get one."
- Bell:               That is rationing. (Laughter)
- H.M. Jr:           All right, Arthur, I will quit kidding.
- Altmeyer:          There are two points left in the air, as I understand it. One was this question of whether we should include in the program temporary disability compensation and cash hospital benefits. The second was the question of whether there should be Federal grants in aid to the states for what we call general relief.
- On the second one, it seems to me it is such a big question of policy and so interwoven with what the President is thinking of doing in these other relief or welfare fields that we can't very well dispose of it. That is to say, I don't know what his plans are for WPA and CCC and NYA. Those plans have a very important bearing upon what he would do in the field of assistance to the states for what we call direct relief.

- 4 -

- Bell: He didn't have a lot of respect for your merit organization.
- Altmeyer: Why, what did he say about those?
- Bell: Just from the notes, he said that even that wasn't the answer.
- Blough: To give money to the states, he was opposed to it because--
- Altmeyer: Oh, he hadn't caught up with the remarks we had made.
- Blough: The merit organization may take the politics out, but it often isn't very efficient.
- Altmeyer: Yes. But we have throttled people like Talmadge of Georgia. That is something.
- H.M.Jr: You see, the thing that bothers me, you asked me if some other gentlemen should be here today, and I said, "No," because I know you a little bit better. What I am saying to you, I said to McNutt. To say that if you do this, the WPA rolls will become smaller, I said to him, "That is just a pious hope." Now, what assurances have I got or the country that if we go along on this program that the WPA rolls will be lightened or any of the other aids and grants that we are making now and certainly there is no reason to believe that they will be?
- Altmeyer: Well, of course--
- H.M.Jr: You see, I read the papers and somebody has given out a story twice now over the weekend that the President is ready to send a message on this thing.
- Altmeyer: I know. You mean the Louis Stark story?

- 5 -

- H.M.Jr: I didn't tie it up with him.
- Altmyer: He came over to get some background information, but somebody else must have - of course he was off on some points, but he was pretty close to what we have been thinking of.
- H.M.Jr: Well, I think the best thing for me to do is this, because I have been through these things for eight years. I think the Treasury position will be that we will sit tight with our handsuntied, with no commitments on the part of the Treasury, so that if anybody from Treasury wants to go up and testify, we are free to testify any way we want, you see. I think that will be the best way. If this thing goes through - and according to this thing Mr. McNutt doesn't want to see the taxes increased so that this thing brings in some revenue from the Treasury.
- At this time it increases the net deficit of the Treasury. I am going to oppose it. I have got to. The figures of the Bureau of the Budget now are that it is a twelve billion dollar deficit, the way it stands now.
- Bell: Twelve and a half even with two billion dollars more revenue.
- H.M.Jr: And, in the room, I understand there is another two billion dollar War Department appropriation that is coming along. Is that right?
- Bell: Yes, sir.
- H.M.Jr: So right on the thing now, it is twelve and a half billion, isn't it?
- Bell: That is right, and the program is now up to sixty and it will go from sixty-two to sixty-three in the course of two weeks.

- H.M.Jr: Here I am trying Wednesday or Thursday to borrow a billion or a billion and a quarter, and the financial community haven't yet steeled themselves to the fact that I can borrow this in one security. They want me to divide it up into two securities. I don't want to do it, because I think from now on a billion dollars at a time is going to be - well, look reasonable. I was going to say small. I have just got to. I have got to be free. I would like to see every man, woman, and child in this country have a nice home and a piece of ground and plenty to eat and good schools and a place to worship.
- Bell: A couple of automobiles.
- H.M.Jr: No, I don't mean that. I mean decent shelter and so forth and so on, but we don't want to - it is my job to see that they don't stretch this thing so far that it snaps and if that expresses McNutt - WPA is under Carmody, isn't it?
- Altmeyer: Yes. That is just something somebody wrote, and he didn't see before he delivered it, because I just left him half an hour ago.
- H.M.Jr: Well, anyway, how do you feel, Dan? Do you want to see me - I mean, Arthur can put on a wonderful sales talk here, but I just don't think it is fair to him--
- Bell: I feel largely like you do. I like the program that they have put up, but I think two things are liable to happen. The first is that you will add this public assistance program to the budget and you will not get a reduction anything like that in the other programs, because they will go along just as they have always gone along. The other thing is that I think you have got to be careful about is that you

don't get all the benefits under this program and get none of the revenue.

H.M.Jr: This is what worries me.

Bell: Yes, that worries me too, and that is the likelihood before these committees, that that is the direction it will go. I think it is important that the President's message be very definite on that point and stress the fiscal side of this picture and that we just can't accept the benefits without the revenue. I think that is important. But I like the program as you have put it up.

H.M.Jr: I want you to tell McNutt I have changed. I told McNutt I wouldn't kick over the traces or anything. I am withdrawing that statement.

Altmeyer: Don't do that.

H.M.Jr: Yes.

Altmeyer: Just because of that statement?

H.M.Jr: Yes.

Altmeyer: If he disowns that, then we are back where we were?

H.M.Jr: He has got to do something about that. I didn't know that was the way he feels.

Altmeyer: He doesn't.

H.M.Jr: Now, Arthur, after all, in Life last week he has got a statue in the state university of Indiana. Did you read Life last week?

Altmeyer: Yes.

H.M.Jr: This is mean, what I am doing. He is quite a

fellow, and he can't give a speech like that. I mean, if that is the way he feels, then I am withdrawing what I said to him. I want to be free, because I have got to go up on the Hill and fight this thing.

Altmeyer: I am sure that that isn't - now, if he--

H.M.Jr: You had better ask McNutt vs. McNutt.

Altmeyer: What?

H.M.Jr: You had better find out where McNutt stands versus McNutt.

Altmeyer: That is right. (Laughter)

H.M.Jr: But you tell him that I - that that article has completely shaken my confidence, that he should read the Executive Order of the President of the United States on installment buying; and, if he doesn't want any taxes to pay for this thing, I just can't go to town on this thing.

Altmeyer: I am sure that we can present a united front on the question of raising the revenues to support the promised benefits.

H.M.Jr: Well, now, let me say something. I talked to him over the phone, and I said, "You know, Mr. McNutt, you haven't given any aspect to the fiscal side of this question, the Treasury side." He said, "That is right." And I have no reason to believe that he gives a damn about the Treasury's side.

That is what I am hired for. I have got to be free to go up and point it out.

- 9 -

Altmeyer: But if we - if he does support this, and I am sure he will, and if we all support the revenue end of it, then --

H.M.Jr: Well, it depends upon - I will put it this way. If we can sit in on when the message that the President is going to send - when it is written, if you can satisfy us when that message is being written, so that we are protected, so that we are satisfied, that we will go along.

Is that right, Dan?

Bell: I think that is fair enough.

Altmeyer: All right, that is fair enough.

H.M.Jr: I mean, if we can sit in on the writing of the message so that we can state the Treasury's viewpoint and get the fiscal thing in to our satisfaction, then I think we ought to go along. Right?

Bell: Right.

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

Blough: Well, I have no objections, but what about the temporary disability? Are you willing to go along on that also?

H.M.Jr: Listen, Roy, the program is going to go up as a whole. Now, after all, Louis Stark didn't get that story out of thin air. Somebody gave it to him.

Blough: Assuming the program is going up as a whole, I agree with you perfectly.

Bell: That doesn't worry me as much as the public assistance side of it.

- 10 -

- H.M.Jr: Then we have got to have in the President's message something strong from a fiscal standpoint that will protect us so that we don't have to go out and raise another couple of billion dollars.
- Altmeyer: Yes.
- H.M.Jr: Now, if the President's message is couched in satisfactory language, I think I would have to go along.
- Altmeyer: You don't feel any more strongly than I do, as you know. You know that I feel just as strong as the Treasury does about the revenue side of this, and two years ago, you know, we fought right down to the bitter end and Henry Morgenthau called me up one weekend and said, "I guess we will have to go along with this freezing of the present rate."
- H.M.Jr: Yes. But now, mind you, I haven't changed my position when I said I would be a good boy. But this thing has completely upset me.
- Altmeyer: I don't blame you for that. I think it is a very careless statement, and the only way I can explain it is that it was written for him and he didn't have a chance to edit it --
- Blough: It is a speech on democracy and why we are going to have to keep our democracy in order to have a country that is fit to live in after the war, and this is just one little segment that is put in there.
- H.M.Jr: I don't know whether the story is true. It is like the time Henry Wallace was supposed to have read a speech, and there was a footnote after paragraph, "Pause for laughter," and he read it right into his speech.

- Blough: He probably got it about then.
- Barnard: Are you satisfied with the way you are coming out, assuming you will get his revenue, that you will want to exhaust your revenue possibilities this way?
- H.M.Jr: Not satisfied, but I know when I am licked. I mean, you see, they feed the stuff out, they rush us on this thing and so forth, and so on, so that is why my only hope is to get it in sort of a thing - I mean to try to get into the President's message what we would like to see go into it.
- Now, if we are unsuccessful, then I or somebody else from the Treasury can go up and talk.
- Bell: What do you mean, Mr. Barnard, whether or not you are going to get this revenue or whether or not it takes it out of the regular revenue field?
- Barnard: I am speaking from the standpoint - there is a limit to taxation, presumably, without adverse effects in many directions. Taxes are going up pretty high. I don't know how much more you have got to get for other purposes than this. That is, it seems to me, a man on the street, that you are beginning to exhaust your margins where you will be in a very uncertain situation. I am not speaking in opposition of this question.
- Bell: But you are hitting people, are you not, particularly the individual, who don't pay very much in taxes.
- Barnard: Well now, take all the businesses that are losing money, the number of which is going

- 12 -

to increase. You have got to look out for them. Every tax you add to those fellows increases the loss and throws so much more out. Now, you are collecting both from the people who have got it and from those who haven't, on this.

Bell: You are increasing their deficits, certainly.

Barnard: Now, from those who have it you are reducing still further the margin from which you can collect. Is that sense?

H.M.Jr: You brought up something new, as far as I am concerned. It is very interesting. In other words, we are increasing the fellow's loss who is already losing money, and particularly the fellow that isn't going to be able to get his material because it happens to be strategic.

Barnard: You have got a lot of - a tremendous number of people in this country in business, small businesses. They need to be stimulated as much as possible. They are being depressed pretty darn near as much as it is possible at the present time, because they don't know where they are going to get the materials and the whole basis of doing things is shifting on them.

Blough: That perhaps is the reason your program is almost entirely on the worker and not on the employer?

Altmeyer: You see, we are recommending contributions by employees across the board.

Barnard: All right. Now another question I raise there, if you don't have any ceiling on the wage end of it, it isn't on the employee. It is on the fellow that pays it because every one of these things stimulates people to ask

- 13 -

for more money and none of them yet are seeing that you have got to cut down buying things in the last analysis. You have got to pull them in, as I see it.

- H.M.Jr: Well, you are increasing the employer's contribution from what to what?
- Altmeyer: The employer is paying now four per cent.
- H.M.Jr: Four?
- Altmeyer: Four per cent.
- H.M.Jr: It goes up to five.
- Altmeyer: The total cost is ten per cent, and he pays half of this, and it would go up to five. If we can't get by about fifty-fifty, I think we certainly can get by with sixty-fourty.
- H.M.Jr: Sixty on whom?
- Altmeyer: Employer.
- Blough: Six and four are ten. Your hope is five-five. You think six-four you could get?
- Altmeyer: I think so. I wouldn't recommend a program if we didn't get six-four. I would say that we might just as well quit if the workers aren't willing to pay for the benefits. We might just as well know it now.
- H.M.Jr: Well, I won't have the last word, but I would feel lots happier about this thing if three months had passed and we saw a little bit more what this defense is going to do to our economy. I would much rather see this thing go up in January or February than now. I don't see what the sweat is.

- 14 -

- Altmeyer: Well, if you want to get the Internal Revenue side, if you want to get the revenues in, the sooner it goes up the better. There is no question that you collect a lot more than you pay out in these first few years.
- H.M.Jr: Well, Arthur, if you leave it to me, I would be much happier to see the thing go up in January after we see what some of these dislocations are going to be.
- Barnard: If you are going to do it, I should think the quicker you do it the better.
- H.M.Jr: Really?
- Barnard: Not from the standpoint of effect on the Treasury, but from the standpoint of the reaction of the people. I don't see how they can help in general being more upset three or four months from now than they are today, and generally against everything.
- Bell: It is a help in the fight against inflation, too.
- Barnard: Unless you get a better spirit than we have got now, today would be easier than February.
- Bell: Is it your hope to get it through this session?
- Altmeyer: I had a very nice talk with Chairman Doughton. He asked me to come up last Friday. He said he would like to know something about this. I couldn't tell him anything except that the President told us last spring to develop a program that he could send up after the tax bill got out of the way, and the tax bill didn't get out of the way,

- 15 -

so it is only now coming to a head. He made the suggestion that it would help a lot if the President would call in about five members of the Ways and Means Committee, bi-partisan, with the ones who are likely to be conferees on this, and I suggested that he drop a note to the President, making that recommendation. He said he would.

H.M.Jr: Well, the way it stands now, we would like to have a chance to sit in on the drafting of the President's message.

Altmeyer: All right.

H.M.Jr: It is up to us to try to get into that what we would like, and if we can't get it on account of the President, or on account of the Social Security organization, I want to feel free. As a little by-product, if in the meantime, Mr. McNutt could clarify what he did mean, it would help a lot.

Altmeyer: All right, thank you very much.

H.M.Jr: Thank you, sir.

October 6, 1941  
12:55 P.M.

HMJr: Hello.

Operator: Mr. McNutt.

HMJr: Hello.

Paul V.  
McNutt: Hello.

HMJr: Morgenthau.

Mc: This is Paul McNutt speaking.

HMJr: Yes.

Mc: I'm just talking to Arthur Altmeyer. He heard you were disburbed about a statement or two in the speech I made Saturday.

HMJr: Yes. It seemed a little contrary to - certainly on the installment buying - as to what the President instructed all of us to do.

Mc: If you'll notice, they were not in the form of statements, but merely in the form of questions.

HMJr: Well, that's one way of getting over one's opposition.

Mc: (Laughs)

HMJr: And the other thing is sort of raising the whole question in my mind as to the question of taxes of Social Security.

Mc: No, it's not that. If you'll notice, it was in connection with the workers' side of this thing.

HMJr: Yeah.

Mc: I do have some - I wonder in my own mind whether we can hit his side; in other words, make it a fifty-fifty proposition all the way along the line.

- 2 -

I've had some doubt in my mind on that all the way through.

HMJr: Yeah. Well.....

Mc: With the rising cost of living and with his wages not going up in proportion, what's going to happen to him?

HMJr: Well, anyway, I just said this, that I was quite surprised to see it - I mean, particularly to say both things - installment buying. I don't know whether you know there's an Executive Order directing the Federal Reserve to do this in cooperation with the Treasury and OPACS, and we're simply carrying out the orders of the President on that.

And on the other thing, so I simply said, "Everybody's entitled to his views," but if that's the way you felt, why then I wanted to have a chance to add my views after the bill got up on the Hill.

Mc: Well, I don't think - certainly you would have a perfect right on that, and I - as far as I'm concerned, I'll go along with that program.

HMJr: Yeah. Well, I thought - I mean this program we went over - whose program is it if it isn't yours?

Mc: Well, that's right. And I'm perfectly willing to go along with it. The only point that I had in my mind on the question which I raised is what proportion of it is going to be put on the worker.

HMJr: Well, if you don't mind, you didn't raise that question before the President.

Mc: Well, I've raised it many times with Altmeyer.

HMJr: Oh, well. (Laughs) He's not the President.

Mc: No, I quite agree on that. And I think the President has had that in his mind for some time.

- 3 -

I'm not so sure that he thinks that it should be an equal contribution when they get into the higher brackets.

HMJr: Well, the point was that I said to him, "No misunderstanding. If and when the President writes his message, and I gather from the story that was fed over the week-end, that the thing is to go out."

Mc: Yes.

HMJr: I mean, if we have a chance to get into the Treasury's fiscal viewpoint well and good; but if we don't, why then I want to withdraw the statement I made to you in his outer office and I wouldn't kick over the traces. See?

Mc: Yes.

HMJr: That was all.

Mc: Well, I - as a matter of fact, I think you should be in on that message.

HMJr: Yeah. Well, I think we should.

Mc: Well, there's no question about that. And I would.....

HMJr: But it's moving so fast, according to the newspaper, that I doubt whether we will have a chance; and I've been around town for eight years and so - but if we don't, just for our picture, you wouldn't say, "Well, Morgenthau said he'd go along and now he goes up on the Hill and he doesn't."

Mc: No, it's not that; and I think you should see the message before it goes.

HMJr: Yeah. But if the message doesn't protect the Treasury's viewpoint, then I've got to have the right to express myself just the way you did in your speech.

Mc: Yes. Well, I don't think anybody in the world

- 4 -

would arise to deny that, and I certainly wouldn't question it.

HMJr: Well, I mean you've got doubts about the workers' end. Well, I've got a lot of doubts but my first doubt is what I'm hired for, is the Treasury.

Mc: Yes, that's right.

HMJr: Okay?

Mc: Oh, that's fine.

HMJr: All right.

Mc: And as far as - and I certainly shall ask that the Treasury viewpoint be reflected in the message.

HMJr: Thank you.

Mc: That's all right.

HMJr: Thank you.

Mc: All right. Thank you.

HMJr: Good-bye.

Mc: Good-bye.

TREASURY DEPARTMENT

133

INTER OFFICE COMMUNICATION

DATE October 6, 1941

TO Secretary Morgenthau  
FROM Mr. Haas

Another slight decline of 2,000 brought Work Projects Administration employment to 1,033,000 persons during the week ended September 24, 1941. This represents a decline of 12,000 persons from the number employed during the last week of August.

WORK PROJECTS ADMINISTRATION  
 Number of Workers Employed - Monthly  
 United States

134

	Number of Workers (In thousands)
1939	
January	2,986
February	3,043
March	2,980
April	2,751
May	2,600
June	2,551
July	2,200
August	1,842
September	1,790
October	1,902
November	2,024
December	2,152
1940	
January	2,266
February	2,324
March	2,288
April	2,092
May	1,926
June	1,665
July	1,701
August	1,691
September	1,704
October	1,779
November	1,821
December	1,878
1941	
January	1,895
February	1,867
March	1,708
April	1,560
May	1,464
June	1,368
July	1,036
August	1,045
September	1,033

Source: Work Projects Administration

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

They include certified and noncertified workers.

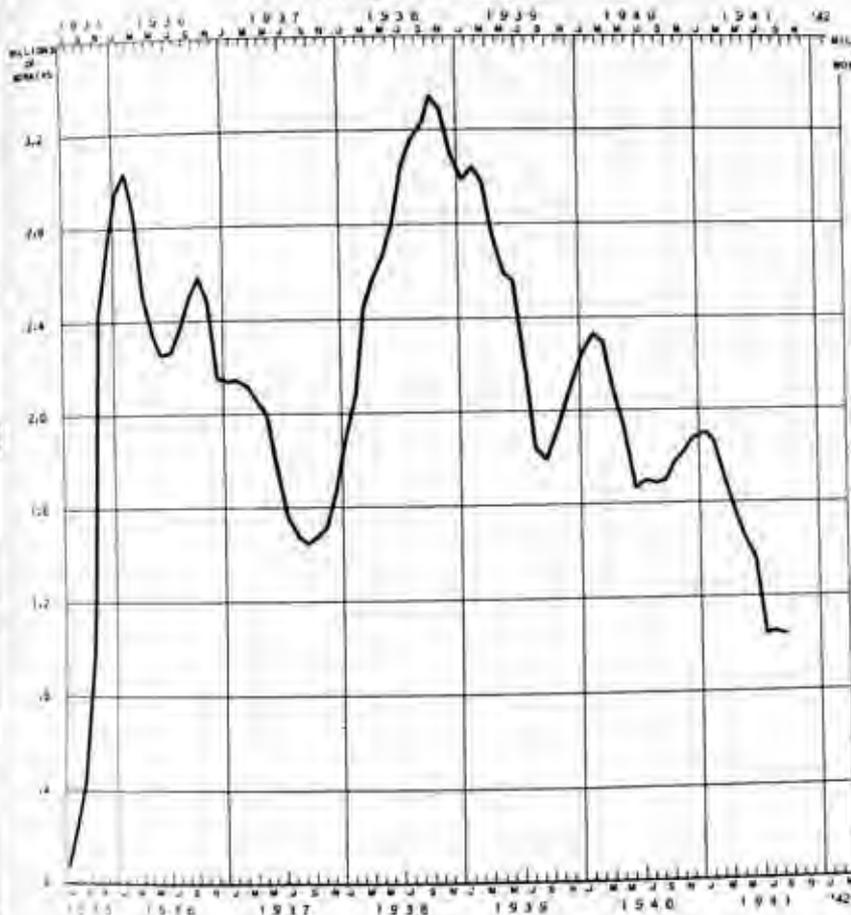
**WORK PROJECTS ADMINISTRATION**  
**Number of Workers Employed - Weekly**  
**United States**

Week ending	Number of Workers (In thousands)
1941	
February 5	1,892
February 12	1,893
February 19	1,885
February 26	1,867
March 5	1,806
March 12	1,764
March 19	1,736
March 26	1,708
April 2	1,662
April 9	1,634
April 16	1,607
April 23	1,586
April 30	1,560
May 7	1,519
May 14	1,497
May 21	1,474
May 28	1,464
June 4	1,442
June 11	1,423
June 18	1,410
June 25	1,368
July 2	1,172
July 9	1,030
July 16	1,016
July 23	1,025
July 30	1,036
August 6	1,041
August 13	1,042
August 20	1,043
August 27	1,045
September 3	1,043
September 10	1,037
September 17	1,035
September 24	1,033

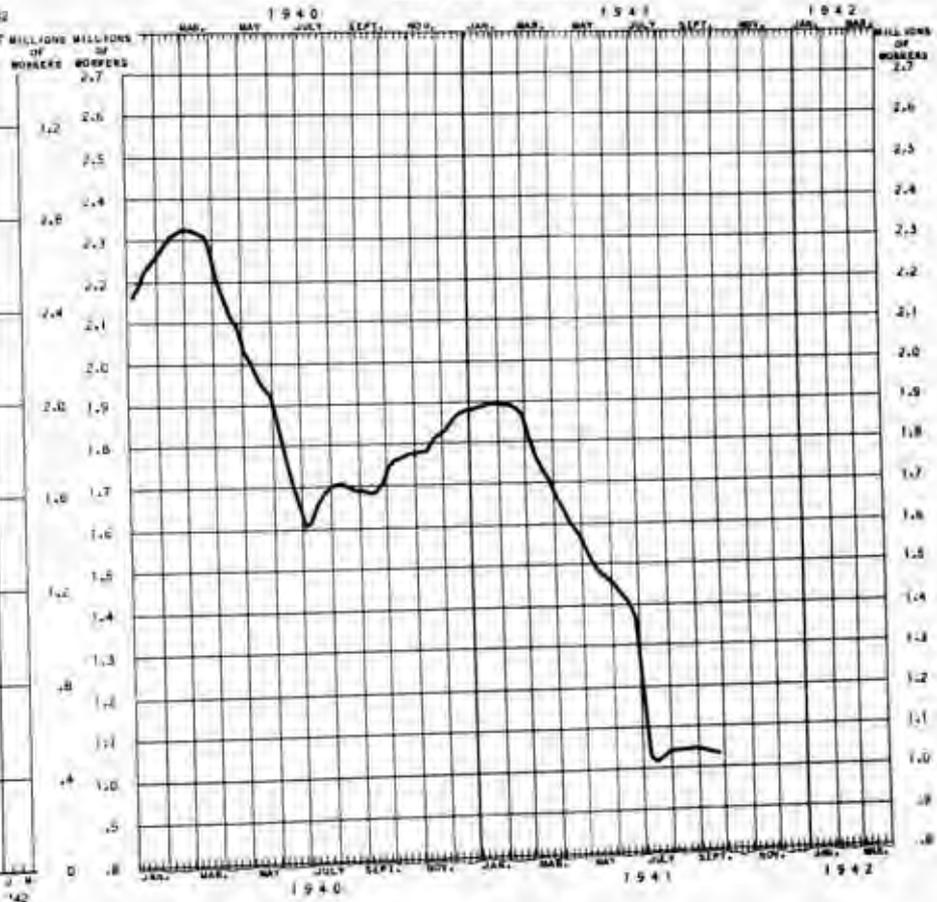
Source: Work Projects Administration

WORK PROJECTS ADMINISTRATION  
Number of Workers Employed  
United States

Monthly W.P.A. Employment



Weekly W.P.A. Employment



SOURCE: WORK PROJECTS ADMINISTRATION

MEMORANDUM

October 6, 1941.

TO: The Secretary

FROM: Mr. Sullivan

SUBJECT: Luncheon with the Secretary today. Present: Secretary Morgenthau, Senator George, Chairman Doughton, Mr. Sullivan.

The Secretary stated that at Cabinet last week the President handed him a memorandum re taxes and that inasmuch as Chairman Doughton had had a conference with the President he thought it must be a good idea for us all to get together and bring him up to date on the situation. Chairman Doughton said that the President and he had engaged in quite a discussion of Social Security taxes and that Chairman Doughton had suggested to the President that it would be a good idea if the Treasury staff and the staff of the Joint Tax Committee worked together in fullest cooperation in preparation of the next tax bill. There then ensued a discussion as to whether the President in his reference to the "new tax bill" was referring to the next revenue raising measure or to the Administrative Amendment Bill. Inasmuch as neither the Secretary nor Mr. Doughton had ever discussed the Administrative Amendment Bill with the President, it was concluded that the President was probably referring to a new revenue bill.

Senator George and Chairman Doughton expressed themselves very strongly in opposition to an early introduction of a new Social Security bill and stated that they hoped very much that before any message was sent to the Hill on this subject the President would call in the Democratic members of the House Ways and Means Committee and the Senate Finance Committee to attempt to secure an agreement in advance. Senator George stated that he thought that such a bill would take two months in the House and at least a month in the Senate. Chairman Doughton stated that he believed Senator George's estimates were low. Senator George then stated that Senator Downey did not wish to have his hearings on Amendments to Social Security in the form of old age benefits until December or January. He further stated that he had hoped we could

- 2 -

pass the Administrative Amendment Bill before Christmas.

Chairman Doughton asked if the Secretary could prevent a Presidential message until they had all had an opportunity to discuss it with the President. The Secretary assured Mr. Doughton that he was not pressing for action on it but he could not contract to delay it. Senator George stated he was going to be at the White House tomorrow and would discuss this matter with the President.

After the luncheon adjourned it was agreed that after tomorrow's meeting at the White House, Senator George would phone the Secretary and advise him of what had transpired.

It was definitely understood that the Treasury Department would make no announcement and take no action of any kind on taxes until talking again with Senator George and Chairman Doughton.

After the luncheon in the Secretary's office, Chairman Doughton spoke of his very great interest in the Economy Committee appointed under the Byrd Amendment and sought to impress the Secretary with the importance of this work. The Secretary assured Mr. Doughton he was deeply interested in this matter and was not going to regard his membership on this Committee or the work it entailed lightly.

JLS



THE PRESIDENT TO TAKE UP AT CABINET  
FRIDAY, Oct. 3, 1941

THE WHITE HOUSE  
WASHINGTON

H.M.G.

Instruct Tax Staff to  
study Tax situation with  
Joint Com Staff - report  
to Bob & me & you about  
Dec 1. confidentially -

Maintain secrecy matter,  
not heard about Taxes.

On Dec 1, we will  
all review the situation

F.H.G.

October 6, 1941  
2:45 p.m.

Jesse  
Jones: Henry.....

HMJr: Yes, Jesse.

J: In the first place I want to congratulate you.

HMJr: Yes.

J: And the next thing, I want to suggest that you carry a lawn mower along to cut off the tops of the trees.

HMJr: (Laughs) Well, both suggestions are acceptable.

J: Well, you had a.....

HMJr: I had a narrow escape. You know what it is. You went through one yourself a couple years ago.

J: Yes, sir. Yes, you did have a narrow one.

HMJr: They tell me I'm the only man that flew into a tree and flew out.

J: Well, I think maybe that's right.

HMJr: (Laughs)

J: Well.

HMJr: Well, I was very lucky. I had a good pilot and he got me back.

J: Yeah.

HMJr: But for awhile.....

J: It looked pretty.....

HMJr: .....it looked pretty hopeless.

J: Yeah, I'm sure of that. Well.....

- 2 -

HMJr: Well, I'll be seeing you tomorrow, Jesse.

J: All right. Now, Henry.....

HMJr: Yeah.

J: .....Poland owes us - owes the bank - about three million dollars.

HMJr: Who does?

J: Poland.

HMJr: Oh.

J: Wait just a minute. (Talks aside) That's about the only unpaid claim we've got now in Europe on the Export Bank loans that we've been making for several years for cotton and other things.

HMJr: Yeah.

J: They would like to pay us a couple of years' interest in sterling.

HMJr: Yeah.

J: Well, do you see any objection to our taking it or do you think you'd rather have the claim against Poland or let the debt go into default, or would you rather.....

HMJr: Oh, I think.....

J: Warren thinks we might have a chance to trade off the sterling somehow.

HMJr: Yes. I suppose, as a matter of fact, we could use it, I think, possibly in Bermuda or in Jamaica - some of our bases.

J: Yeah.

HMJr: Hello.

J: Yes, I'm listening.

- 3 -

HMJr: I think that we could - I think that I could use it up on paying for some of these bases. I don't think there's any agreement to pay in dollars.

J: Well, then, I'll tell Warren to go ahead and accept it then.

HMJr: Do that.

J: To work it out.

HMJr: Do that.

J: See you tomorrow.

HMJr: Good-bye.

October 6, 1941  
3:00 p.m.

HMJr: Norman, I want to raise this question. I get this mail that comes here as a digest that Mrs. Forbush does.

Norman  
Thompson: Yes, sir.

HMJr: Now, a lot of that stuff is complaints. A lot of it needs attention. And I just was curious to know and I want you to know it. Take a batch of it.....

T: Yes.

HMJr: Go back a month or two. Have they been answered? Are the complaints looked after? How long does it take to handle a complaint?

T: Yes.

HMJr: And who knows whether the complaint has been properly handled?

T: I'll do that right away. I know that we keep a tickler here on all of them that come in, and we follow them through to the conclusion. We always acknowledge them immediately if there's going to be a.....

HMJr: All mail? Up in Mrs. Forbush's office?

T: Oh no. Just the cases that come in that.....

HMJr: Well, look. Supposing somebody writes in and says that a Customs guard has been very rude to me and insulted me?

T: Well, that would come to me and I would acknowledge it immediately and then refer it to Johnson over in Customs to investigate it and prepare a further reply. Then we keep a tickler of that to see that that is done.

HMJr: Supposing some mail went directly to Johnson?

- 2 -

T: Then Mrs. Forbush would have the tickler on it and it would be her responsibility.

HMJr: Well, does she?

T: Well now, I'll have to check that.

HMJr: And then as to the quality of handling the complaint. Is there ever a review?

T: Oh, yes. We go over it very thoroughly.

HMJr: Well, I tell you what I'd like you to do, and I trust your choice, I'd like you to pick out from the various girls - oh, take, say, just at random, five letters that came in a month ago.....

T: I see.

HMJr: .....and that have been referred. Just pick them out at random.....

T: Yes.

HMJr: .....from Mrs. Forbush's mail.

T: I see.

HMJr: Pick up, say, five that's gone here and five there.

T: Yes.

HMJr: Just see - just pick them out at random.

T: Yes.

HMJr: And then just see how they've been handled.

T: I'll do that.

HMJr: Because I just wonder.

T: Well, I'll check that and just see how it's going.

HMJr: Will you do that?

- 3 -

T: Yes, sir.  
HMJr: Let me know.  
T: Okay, sir.

THE LIBRARIAN OF CONGRESS

127

Washington, D. C.

11

October 6, 1941

Dear Henry:

The arrangement described in your letter of September 26 is very generous indeed, and the Library is happy to accept the plan. We shall be delighted to receive all your father's papers and all your papers up to 1933 together with photostats of your papers and documents since 1933, the originals going to the President's Library and the copies in identical order coming to our Division of Manuscripts as a part of the Morgenthau Papers. We shall be very pleased indeed to place at Mr. Gaer's disposal a study room in the Library of Congress where materials can be progressively prepared for the Manuscripts Division. Dr. Sioussat, Head of the Manuscripts Division, will be pleased to work out details with Mr. Gaer.

May I add that I think the plan you propose is not only generous but highly important since it offers an effective solution of the problem posed by the existence of the Roosevelt Library at Hyde Park. Research students working in the Library of Congress will have access to the body of your papers under such conditions as you may establish and will learn of the existence of the originals at Hyde Park by virtue of the copies here and will have the whole continuity of the material before them in either original or copy. I hope you won't mind my saying that I consider what you have done an act of personal friendship as well as an act of friendship toward the Library.

Faithfully yours,

*Archibald MacLeish*

Archibald MacLeish  
The Librarian of Congress

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

## TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

CONFIDENTIAL

DATE October 6, 1941

TO Secretary Morgenthau  
FROM Mr. Haas  
Subject: The Business Situation,  
Week ending October 4, 1941

Summary

(1) Business activity, after allowance for seasonal factors, has shown no further gains recently. The New York Times and Barron's indexes of business activity in the week ended September 27 were virtually unchanged. Although such broad business indicators as freight carloadings and electric power production moved higher, the gains were less than seasonal.

(2) Factory employment and payrolls rose to record highs in August, as increases in defense work and in the canning industry more than offset a decrease in the automobile industry due to material shortages and seasonal lay-offs. The gain in factory payrolls over year-earlier levels amounted to 27 percent, in contrast with a gain in employment of 23 percent, reflecting increases in working hours, wage rates and overtime payments.

(3) The Supply Priorities and Allocations Board has approved an expansion of 10,000,000 tons in steel production facilities, which will eventually increase the industry's capacity to about 99,000,000 tons. The shortage of steel scrap continues to be a major concern of the industry, despite the recent measures taken to increase the flow of scrap from remote areas.

(4) Declines in the prices of farm products and foods carried the BLS all-commodity index down 0.3 point to 91.2 in the week ended September 27. The index of basic commodity prices has steadied, after declining moderately in the latter half of September.

(5) Substantial increases in farm parity prices, resulting from increased costs of goods bought by farmers, were announced by the Department of Agriculture last week. Nevertheless, prices of farm products in September rose even more rapidly. Cash farm income in August exceeded that of August 1940 by 49 percent.

### Business activity levels off

Business activity, after allowance for seasonal factors, continues to level out, judging from the action of weekly business indexes. In the last week of September the New York Times index showed a trifling decrease of 0.1 point to 128.2, while Barron's index was unchanged at 138.4.

Although both freight carloadings and electric power production in the last week of September moved higher, the gains did not come up to usual seasonal expectations. Furthermore, paperboard production, which reached record levels around the middle of September, declined contra-seasonally, while a moderate gain in steel operations was purely seasonal. Gains in automobile and lumber production during the week tended to offset the declines above mentioned. Automobile output in that week, however, was 20 percent below year-earlier levels, due to the OPM curtailment program, and last week this decrease widened to 27 percent when labor troubles caused some decline in production.

### Anticipatory tax buying boosts retail trade

Toward the close of last month, retail trade received a strong stimulus from anticipatory buying as consumers sought to escape the new excise taxes effective October 1. As a result, department store sales in the week ended September 27 rose 24 percent above year-earlier levels, as compared with gains ranging from 8 to 12 percent earlier in the month. In the New York area, last minute buying of liquors and numerous luxury items is reported to have been unusually heavy.

As the new excise taxes went into effect, Price Administrator Henderson appealed to manufacturers, wholesalers and retailers to exert their utmost efforts toward preventing retail price increases from exceeding the actual amounts of the additional taxes. He warned that if distributors of merchandise pyramided the new taxes, a real threat to the general price structure would ensue.

### Employment and payrolls at new highs

Employment and payrolls continued to expand in August, as increases in defense production and an unusually sharp rise in the canning industry more than offset decreases due to materials shortages and seasonal lay-offs in the automobile industry. Civil nonagricultural employment during the month

rose to a new record high of over 39,500,000 -- a total approximately 260,000 above the previous month and 3,600,000 above August 1940. Inasmuch as the country's armed forces increased 1,400,000 from August 1940 to August 1941, it will be seen that no less than 5,000,000 additional workers and enlisted men (not counting agricultural employment) were drawn from the country's labor supply during the period.

Nearly 2,000,000 more factory workers were employed in August than in the same month a year ago. Reference to Chart 1 will disclose that the indexes of factory employment and payrolls both advanced noticeably to new highs during the month. Although factory employment by August had increased 23 percent over year-earlier levels, the gain in payrolls during the same period was no less than 49 percent. This of course reflects the increase in working hours, wage rates and overtime payments that has occurred in the past year. By August the estimated average weekly earnings of factory workers was running 21 percent above year-earlier levels. (Refer to Chart 1, lower section.)

#### Lack of materials cuts employment in some industries

Although aggregate factory employment continued to rise in August, some industries reported decreases due to lack of materials. Thus the aluminum ware and die casting industries reported decreases in employment due to a dearth of materials arising from priorities rulings. The freezing of silk stocks caused employment declines in the silk, rayon, and hosiery industries. A greater than seasonal decline in automobile employment was attributed in part to restrictions imposed upon production by OPM.

One of the latest industries to be confronted with employment decreases is the electric refrigerator industry, for which the production schedule was cut last week by an OPM order effective immediately. Although the industry will still be able to produce approximately 2,000,000 units in the year ending July 31, 1942, this will be about 46 percent below output in the year ending June 30, 1941. As a result of the curtailment order, such large producers as Frigidaire and Westinghouse have already begun to lay off workers. Moreover, at the time of announcing the refrigerator curtailment program, the OPM stated that similar limitation programs relating to other consumers' durable goods industries were being prepared by the Division of Civilian Supply.

Unemployment problems due to dislocations caused by material shortages and production curtailments promise to assume increasing importance later in the year. The extent to which this may affect total employment in the months ahead has not yet been officially estimated, but the Bureau of Labor Statistics is now working on the problem.

#### Large increase in steel capacity approved

The extended controversy over the adequacy of the country's steel producing facilities was finally resolved last week by the Supply Priorities and Allocations Board, which ordered an expansion of 10,000,000 tons in the industry's ingot capacity. Since this expansion is understood to be in addition to some 3,000,000 tons now under construction, the capacity of the steel industry would total about 99,000,000 tons after the expansion is carried out.

Although the expansion program has been approved, details as to how it will be worked out have not been fully revealed. However, it is understood that the expansion is to be financed by the Government, and the new facilities in most instances are expected to be added to existing plants. How much delay will be involved before contracts are actually let is conjectural. Press reports mention that in the case of the pig iron capacity expansion of 6,500,000 tons approved 2½ months ago, contracts so far have been executed for only 2,100,000 tons, and that no contracts have yet been executed for the construction of 16 additional Great Lakes ore carriers needed to supply the new blast furnaces.

#### Steel production rising despite scrap shortage

Steel operations for this week are scheduled at 98.1 percent of capacity, as compared with 96.9 percent last week, despite the continued tight supply situation in steel scrap.

While some relief is expected to result from the recent upward price adjustments for scrap in remote areas, the Iron Age is of the opinion that results will not be up to expectations. At Detroit, the scrap shortage is reported to be especially severe, with mills losing ground in their efforts to keep scrap inflow up to consumption. The Institute of Scrap Iron and Steel reported recently that monthly average scrap consumption in the first 8 months of 1941 was up about 1,000,000 gross tons, or 28 percent over the average for the full year 1940.

New orders higher

Despite a decline in textile orders, our index of new orders in the fourth week in September rose 9 percent to the highest levels of the month. (See Chart 2.) New orders for steel, which in the previous week had fallen to the lowest levels of the year at 89 percent of capacity, rebounded to 117 percent of capacity. In addition, aggregate orders for all other products than steel and textiles showed a moderate rise.

BLS all-commodity index lower

Due entirely to further declines in farm products and foods, the BLS all-commodity index declined moderately for the second successive week in the period ended September 27. The decline carried the index down 0.3 point to 91.2, or 0.4 percent below the mid-September peak, which was the highest point reached in more than 11 years. (See Chart 3.) It will be noted that this decline was foreshadowed by the moderate reaction in basic commodity prices which occurred in the latter part of September. Since basic commodity prices have steadied recently, there is as yet no conclusive evidence that the slight downturn in the general price index is more than a temporary development.

Basic commodity prices steady

The BLS wholesale price index of 28 basic commodities at the end of last week was virtually unchanged from the previous week, a small decline in prices of import commodities almost offsetting completely a slight rise in prices of domestic commodities. (See Chart 4.) The decline in the import commodities group was largely due to decreases in prices of sugar and flaxseed. The moderate rise in domestic commodity prices was led by cotton, cottonseed oil and tallow. (Refer to Chart 4 lower section.)

Farm parity prices increased

The Department of Agriculture announced last week an increase in parity prices for all farm products as of September 15, due to increased costs of goods bought by farmers. The parity price for cotton was raised to 16.99 cents a pound from 16.74 in August, and for wheat to 121.1 cents a bushel from 119.3 cents in August.

- 6 -

Farm prices reported as of September 15 showed a sharp advance over August, the combined index (1909-1914 = 100) rising 8 points to 139. The present price positions of the leading farm products are shown in Chart 5. For the first time in 21 years, farm prices as a group in August were above parity. The higher prices have brought a marked improvement in farm incomes as compared with last year. Cash income from farm marketings and Government payments in August totalled \$1,114,000,000, which was 49 percent more than the \$749,000,000 received in August 1940.

Farm price of cotton above 10-market average

The farm price of cotton reported by growers as of the 15th of September averaged 17.53 cents a pound. The reported farm price not only was more than half a cent above the parity price of 16.99 cents, but it was also approximately equal to the average market price of Middling 15/16-inch cotton in the 10 spot markets, an unusual occurrence. (See Chart 6.) We have accordingly revised upward our estimates of daily and weekly farm prices as shown on the chart. Market prices, it will be noted, declined more than a cent a pound since the high was reached on September 9, although part of this loss has been regained.

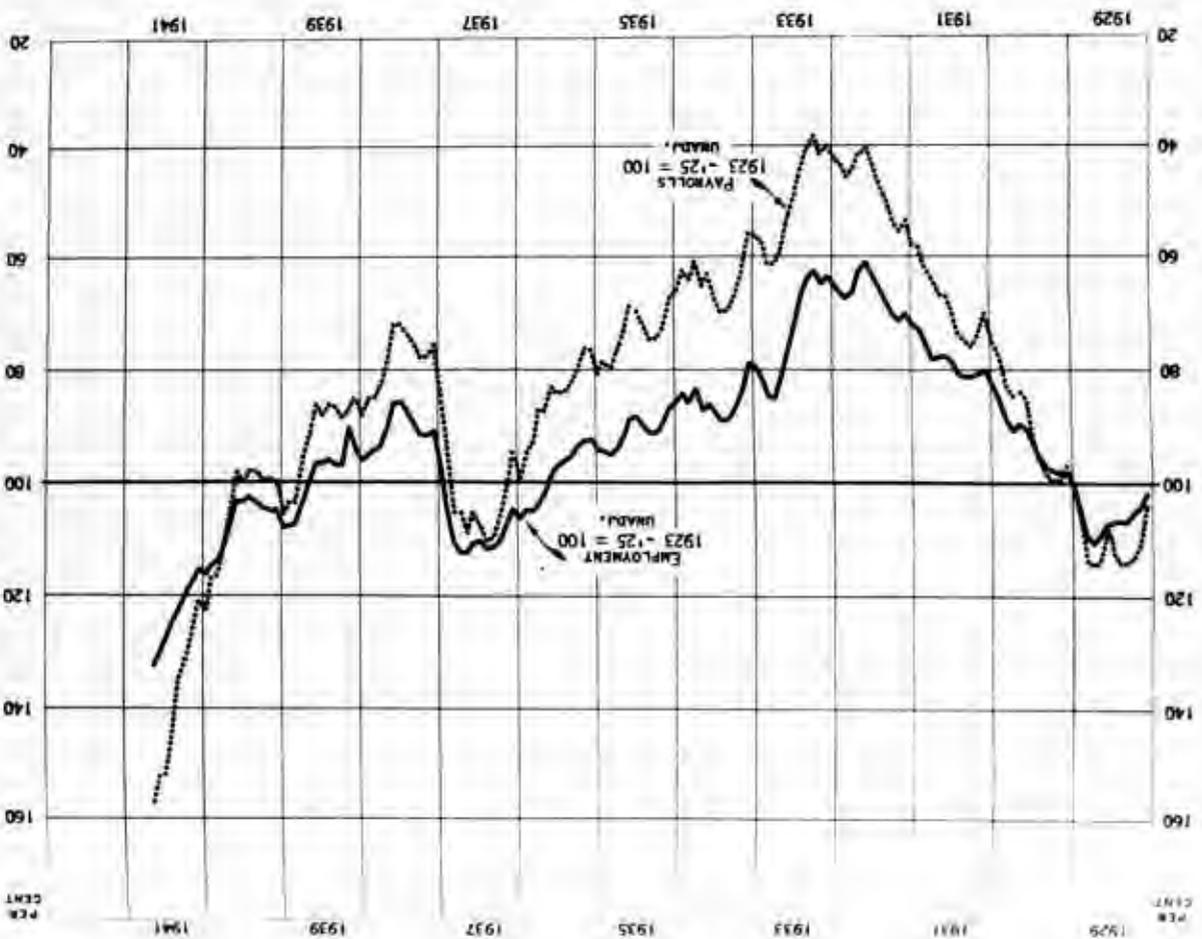
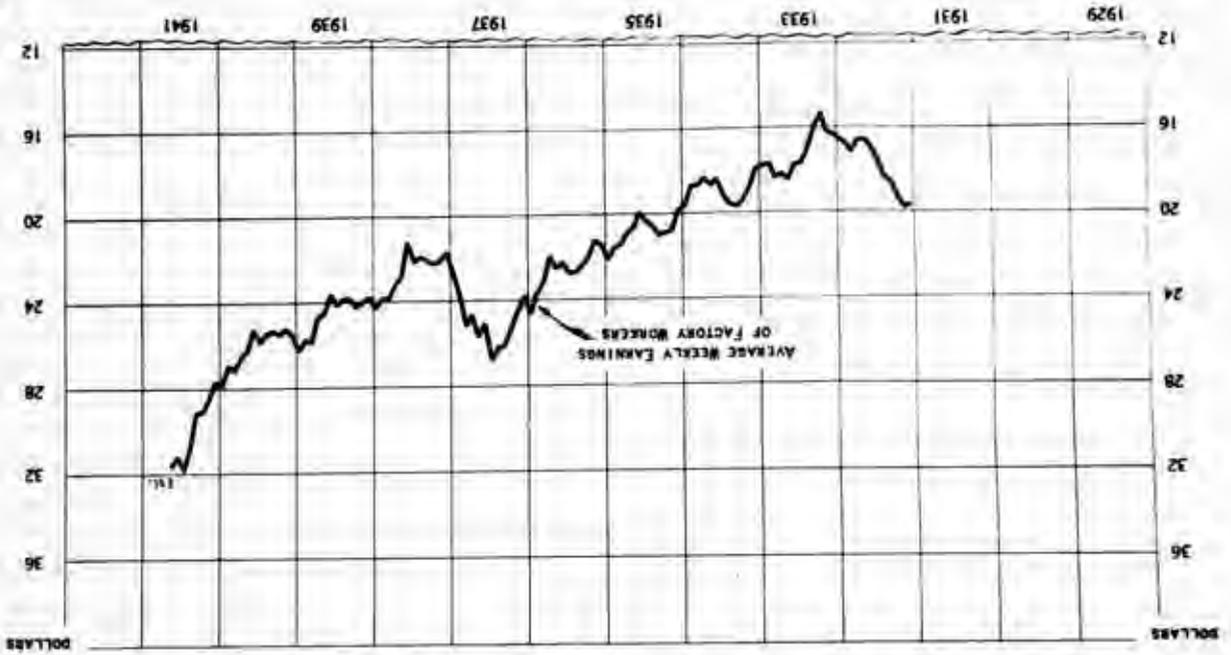
The unusually high level of the reported farm price for cotton in September may have been due in part to a possible higher average grade of the early ginnings than the basis grade of the 10-market quotations. It was more likely due, however, to an exaggerated opinion of the present value of cotton on the part of the farmer reporters, reflecting the speculative price boom.

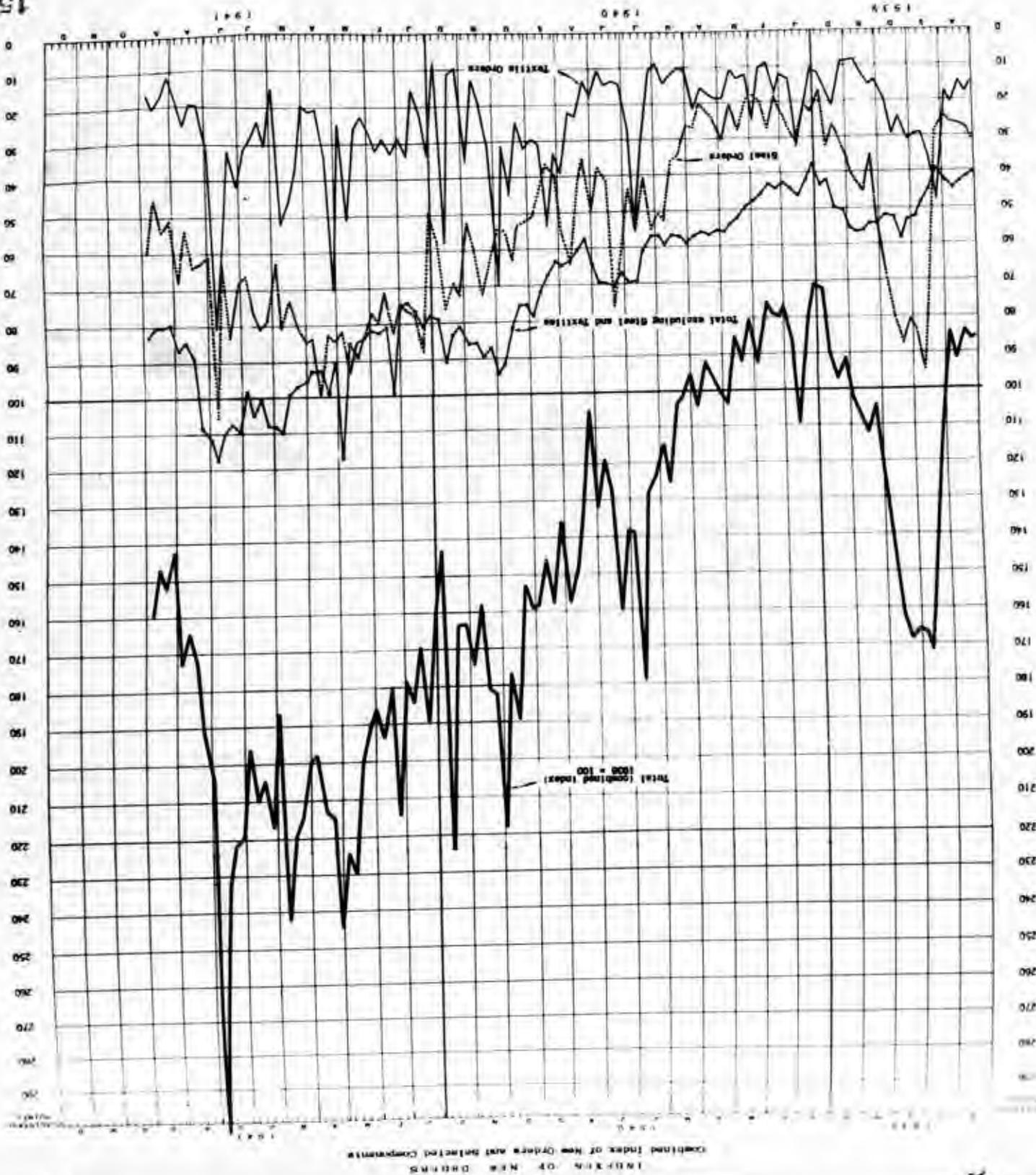
Evidence of heavy speculation in cotton appears in various trade reports. A compilation of trading volume in the various futures markets shows that cotton accounted for 30 percent of the total volume during the last week of September, a higher percentage than in any other week since November 1939. Farmers appear to be taking a large part in the speculative movement, judging from trade reports. Cotton marketings until recently have been relatively light owing to a widespread holding movement, part of which has been financed by short-term loans to growers by local banks.

Where cotton has actually been sold by growers, a considerable portion has been sold on "seller's call", by which the grower retains the privilege of determining when

to fix his base price. Thus, in effect, he is taking a speculative position in the futures market, and is subject to margin calls from the buyer. This has tended to create a weak underlying market situation, particularly since cotton once sold is no longer eligible for the Government loan. As of September 19, when the crop movement was just getting under way, about 200,000 bales of such "seller's call" sales were outstanding.

SOURCE: B.L.S.

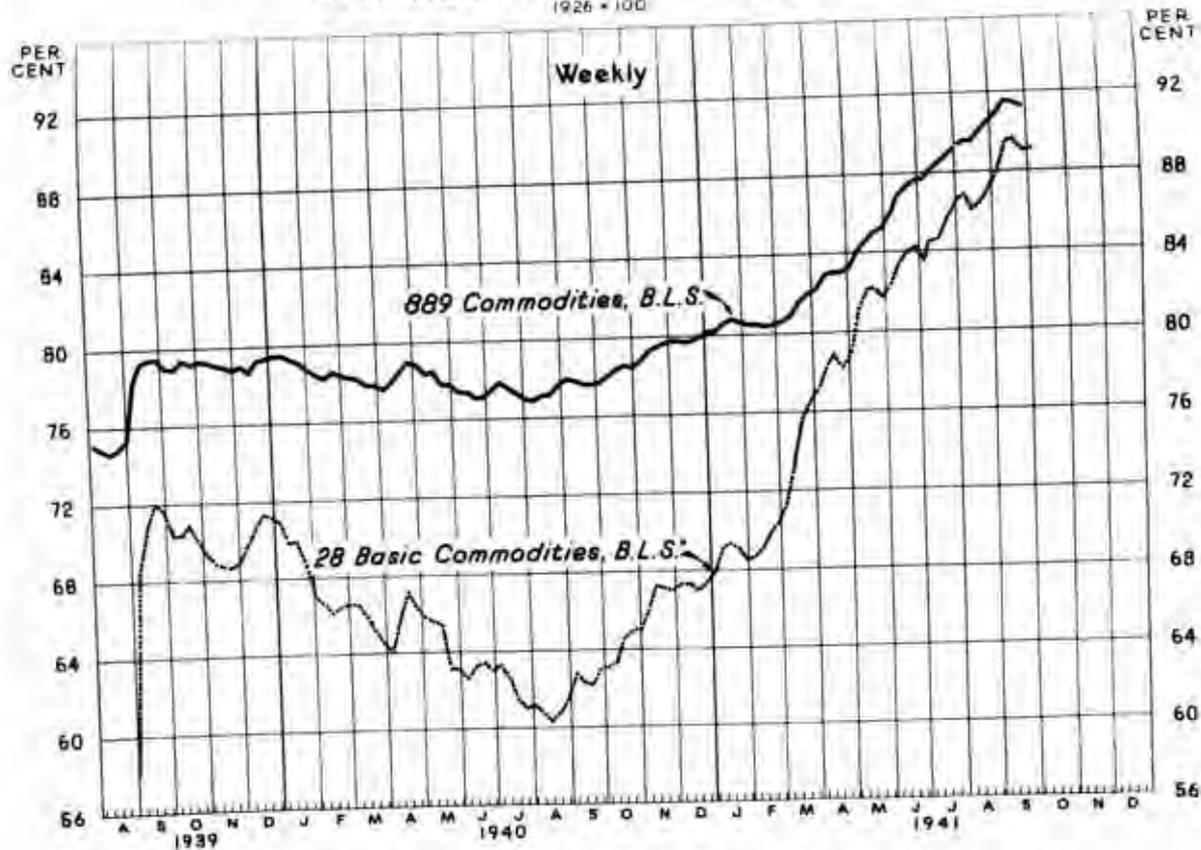




INDEX OF NEW ORDERS  
Combined Index of New Orders and Selected Components

# COMMODITY PRICE INDEXES

1926 = 100



\*30 Commodities Prior to January 1940

Office of the Secretary of the Treasury  
Bureau of Economic Warfare

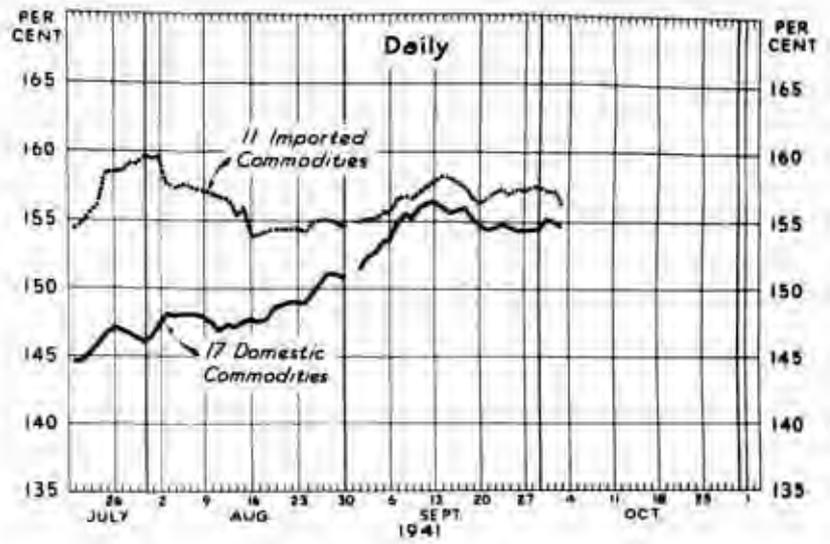
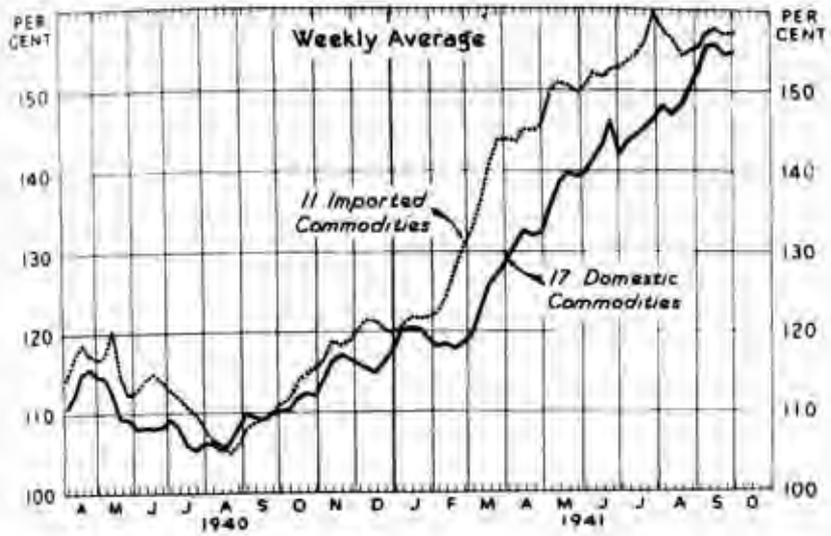
9-196-5-1

101  
6-4-40

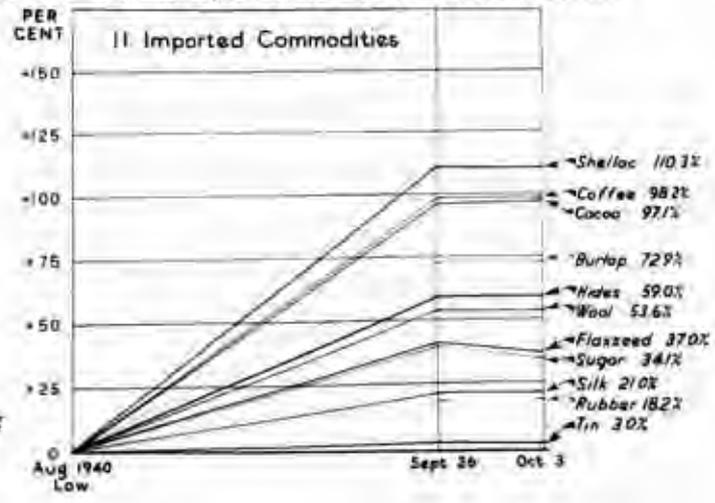
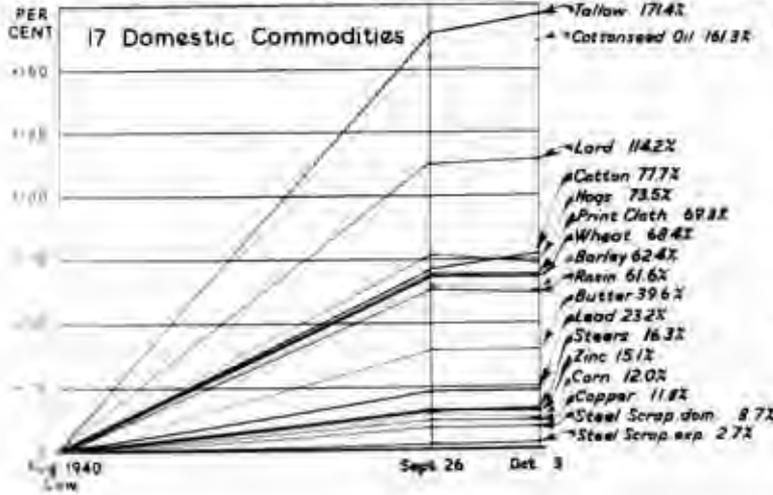
# MOVEMENT OF BASIC COMMODITY PRICES

## Domestic and Imported

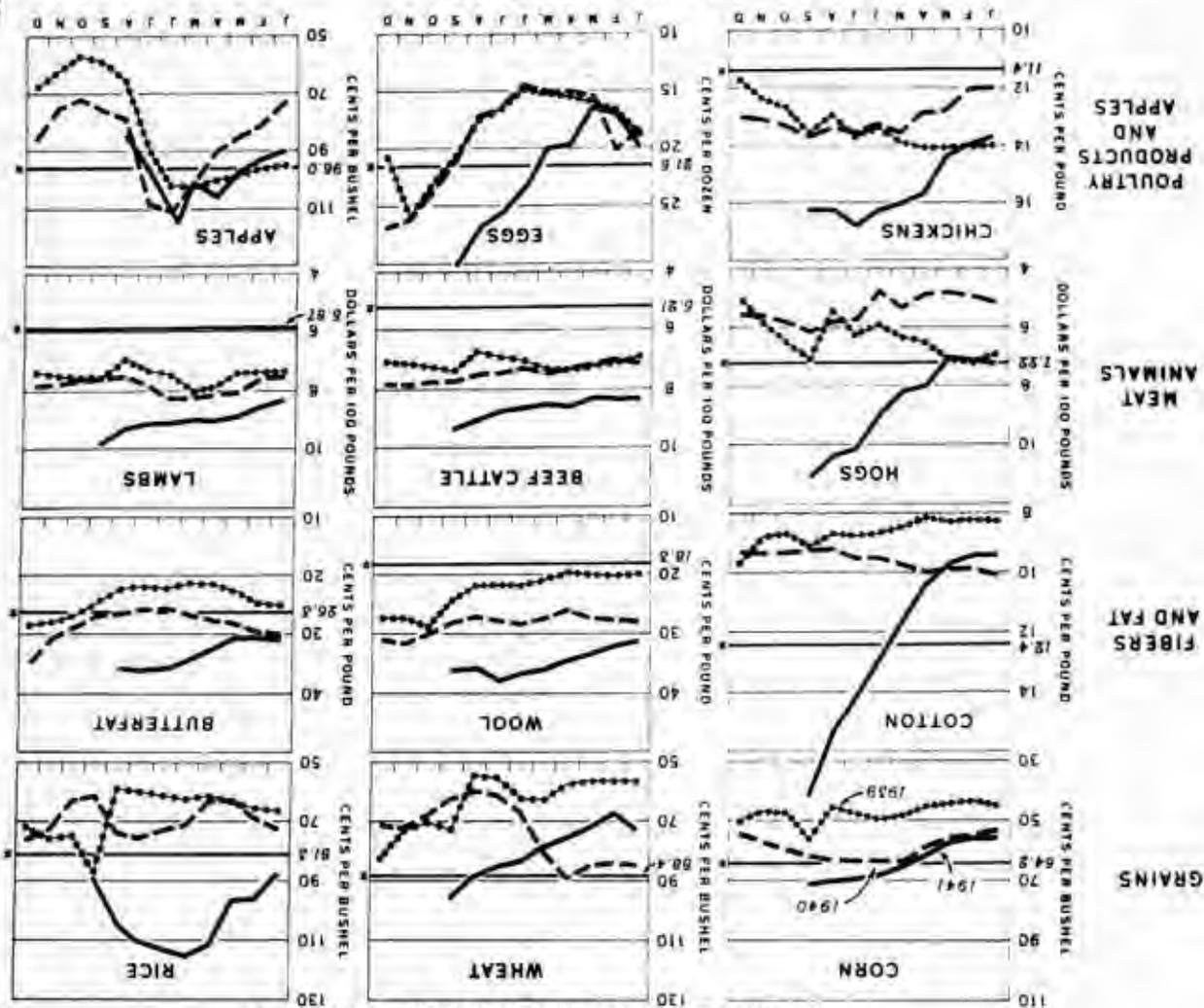
AUGUST 1939=100



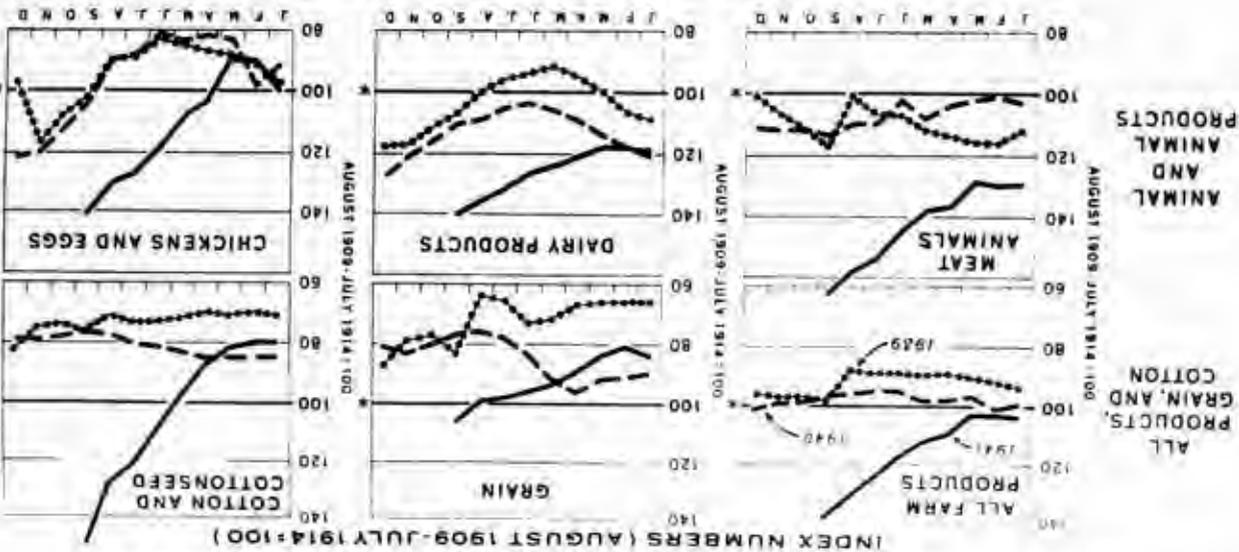
Percentage Change for Individual Commodities, August 1940 Low to September 26 and to October 3, 1941



5-YEAR AVERAGE AUGUST 1909-JULY 1914

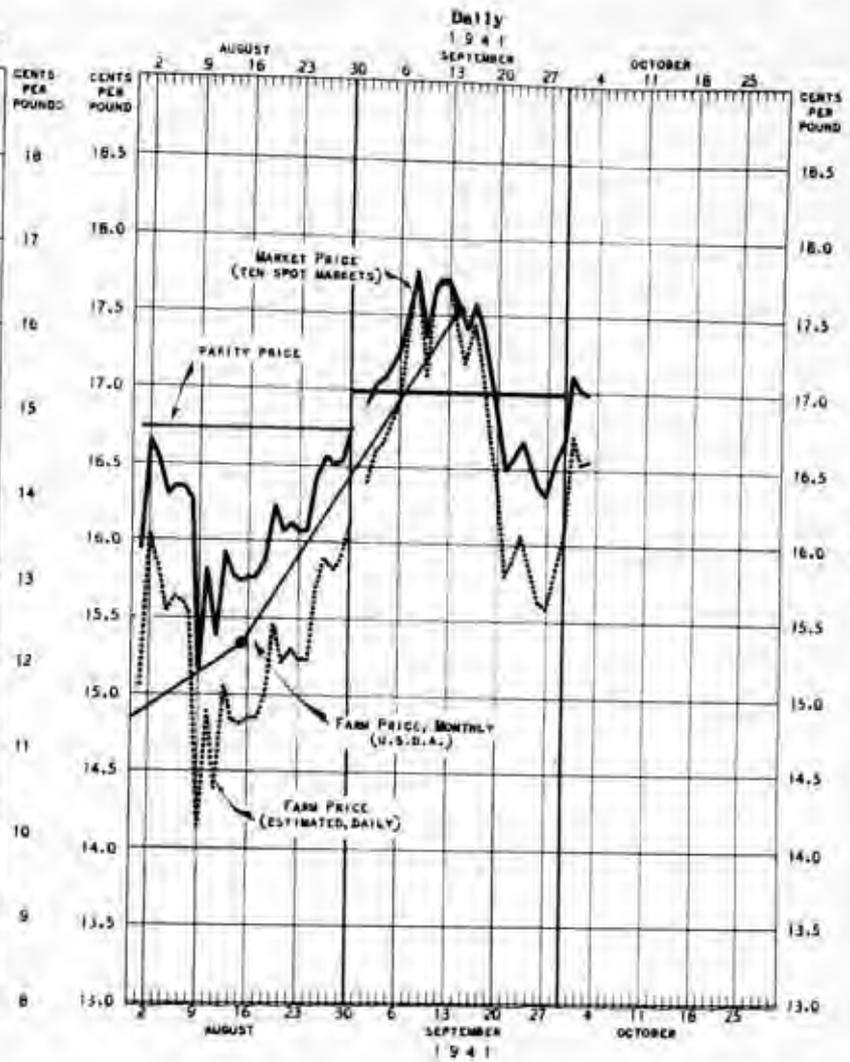
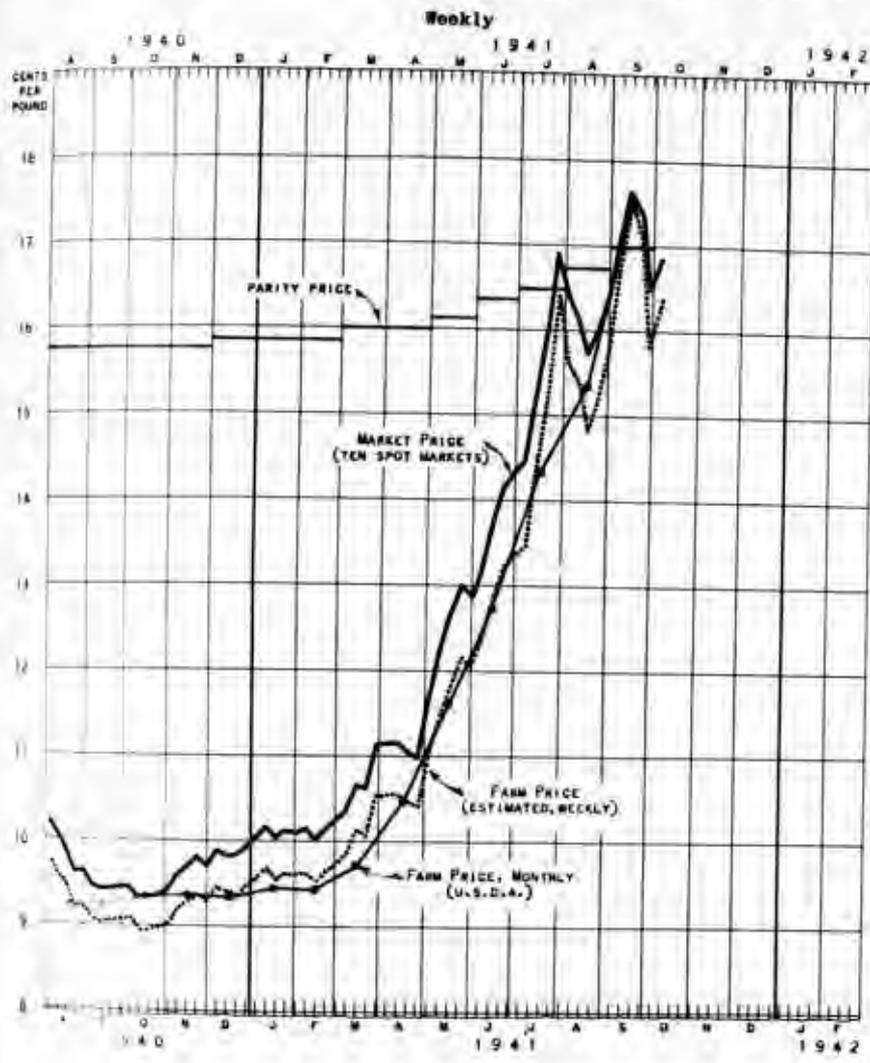


AVERAGE PRICES RECEIVED BY FARMERS



PRICES RECEIVED BY FARMERS: GRAPHIC SUMMARY FOR THE UNITED STATES  
INDEX NUMBERS (AUGUST 1909-JULY 1914=100)

# MARKET, FARM, AND PARITY PRICES OF COTTON



Printed by authority of the Treasury  
 Bureau of Economic Warfare and Statistics

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

Week ended October 4, 1941

161

	: JAPAN :	RUSSIA :	SPAIN :	GREAT BRITAIN
<b>PETROLEUM PRODUCTS</b>				
Fuel and Gas Oil (including Diesel Oil)	--	--	--	619,042 Bbls.
Crude -				
Blended or California High Octane Crude*	--	--	--	--
All Other Crude	--	--	--	--
Gasoline -				
Gasoline A**	--	56,548 Bbls.	--	320,089 Bbls.
Gasoline B*	--	100,000 Bbls.	--	478,000 Bbls.
All Other Gasoline	--	--	--	--
Lubricating Oil -				
Aviation Lubricating Oil***	--	--	--	--
All Other Lubricating Oil	--	--	--	339 Bbls.
Tetraethyl Lead***	--	--	--	--
"Boosters", such as Iso-Octane, Iso-Hexane, or Iso-Pentane	--	--	--	--
<b>SCRAP IRON AND SCRAP STEEL</b>				
Number 1 Heavy Melting Scrap	--	--	--	50 Tons
All Other Scrap	--	--	--	975 Tons

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

October 6, 1941.

Source: Office of Merchant Ship Control, Treasury Department.

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

\*\* Aviation Gasoline.

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

The attached statement shows that BOEING Boston III's and DOUGLAS Boston III's were shipped last week. Mr. Kamarck questions the accuracy of this since this is the first information received that Boeing is making the Boston III's since Douglas is the producer. ~~XXXXXXXX~~ Has he permission to contact the British?

*Sp. 161.*

STATEMENT No. 35.AIRCRAFT SHIPPED TO U. K. AND OVERSEAS COMMANDS.

TYPE	DESTINATION	ASSEMBLY POINT	By Sea	By Air
			Week ended Sept. 13, 1941	Week ended Oct. 5, 1941
<u>III</u> Vincennes	U. K.	U. K.	14	--
<u>III</u> Boston III	U. K.	U. K.	3	--
<u>III</u> Highway	U. K.	U. K.	2	--
<u>III</u> Boston III	U. K.	U. K.	8	--
Boston III	Middle East	Port Sudan	4	--
<u>III</u> Baltimore	U. K.	U. K.	1	--
<u>III</u> Boston III	New Zealand	New Zealand	6	--
Boston III	U. K.	U. K. (via Gander)	--	21
<u>II</u> Liberator II	U. K.	U. K. (via Gander)	--	2
TOTAL			38	23

British Air Commission,  
October 6, 1941.

October 6, 1941.

CONFIDENTIAL

Dear Mr. Knoks:

Permit me to acknowledge, on behalf of Secretary Hergenthan, the receipt of your letter of October 2, 1941, enclosing your compilation for the week ended September 24, 1941, showing dollar disbursements out of the British Empire and French accounts at the Federal Reserve Bank of New York and the means by which these expenditures were financed.

Faithfully yours,

Under Secretary of the Treasury.

Mr. L. V. Knoks,  
Vice President,  
Federal Reserve Bank of New York,  
New York, New York.

dm-10/6/41

For Miss Chauncey

165

C  
O  
P  
Y

FEDERAL RESERVE BANK OF NEW YORK

October 2, 1941

CONFIDENTIAL

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

I am enclosing our compilation for the week ended September 24, 1941, showing dollar disbursements out of the British Empire and French accounts at this bank and the means by which these expenditures were financed.

Faithfully yours,

/s/ Robert G. House,

Robert G. House,  
Vice President.

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

Enclosure.

Copy:alm 10-6-41

BANK OF CANADA - BALANCE SHEET

PERIOD	DEBITS			CREDITS			Net Incr. (+) or Deor. (-) in Balance	Total Debits	Expenditures (d)	Other Debits	Total Credits	Proceeds of Gold Sales	Other Credits	Net Incr. (+) or Deor. (-) in Balance	
	Total Debits	Gov't Expenditures (a)	Other Debits	Total Credits	Proceeds of Sales of Gold	Other Credits (b)									Total Credits (c)
First year of war (8/29/39-8/28/40)*	1,793.8	505.5	1,187.5	828.2	1,356.1	52.0	420.1	+ 35.0	868.3 (e)	416.6 (e)	449.7	1,098.4	900.2	155.3 (a)	-229.0
1940															
Aug. 29 - Oct. 2	218.8	244.3	78.5	308.9	271.5	6.0	31.4	- 7.9	8.6	4.4	4.2	1.8	-	1.3	- 7.3
Oct. 5 - 30	196.7	167.8	28.9	198.5	180.5	6.0	32.0	+ 1.8	0.5	0.8	0.5	0.5	-	0.6	-
Oct. 31 - Nov. 27	244.0	201.1	39.9	259.5	210.0	18.0	31.5	+ 18.5	0.8	0.1	0.7	0.7	-	0.7	- 0.1
Nov. 28 - Dec. 31	224.8	206.8	27.8	198.0	111.4	25.0	50.6	- 38.5	2.1	-	2.4	0.6	-	0.6	- 1.5
We would enough Dec.	1,485.5	1,485.5	1,485.5	783.1	2,109.5	108.0	375.6	+ 10.8	878.5	421.4	456.9	1,098.4	900.2	199.2	+220.1
1941															
Jan. 2 - 29	197.4	162.7	34.7	259.9	176.2	52.0	51.7	+ 82.5	1.7	-	1.7	0.5	-	0.8	- 1.2
Jan. 30 - Feb. 28	164.6	137.8	26.8	101.4	26.5	28.0	48.8	- 63.2	0.2	-	0.2	0.2	-	0.2	-
Feb. 27 - Apr. 2	229.7	157.6	32.1	237.9	103.7	72.0	62.2	+ 8.2	0.7	-	0.7	1.6	-	0.6	+ 0.9
Apr. 3 - Apr. 30	125.0	101.9	23.1	218.9	125.6	15.0	78.3	+ 92.9	0.9	-	0.9	0.8	-	0.8	-
May 1 - May 28	122.6	90.6	32.0	91.0	6.3	32.0	52.7	- 31.6	0.4	-	0.4	0.8	-	0.8	+ 0.4
May 29 - July 2	140.5	113.8	26.7	165.1	1.9	13.0	92.2	- 35.4	21.5	-	21.5	0.9	-	0.9	- 20.6
July 3 - July 30	101.4	75.6	28.1	61.5	-	6.0	55.5	- 33.9	0.5	-	0.5	0.3	-	0.3	- 0.2
July 31 - Aug. 27	131.7	92.2	39.5	149.2	-	4.0	145.2	+ 17.5	1.6	-	1.6	0.5	-	0.5	- 0.5
Second year of war (8/29/40-8/27/41)															
Aug. 28 - Oct. 1															
Oct. 2 - Oct. 29															
Oct. 30 - Dec. 3															
Dec. 4 - 31															
WEEK ENDED:															
Sept. 3	34.5	21.9	4.6	9.0	-	2.0	7.0	-25.5	-	-	-	0.1	-	0.1	+ 0.1
10	31.9	20.0	11.9	11.7	-	-	11.7	-20.2	-	-	-	0.1	-	0.1	+ 0.1
17	26.3	18.0	8.3	32.0	19.6	-	12.4	+ 5.7	0.1	-	0.1	0.2	-	0.2	+ 0.1
24	21.0	15.2	5.8	30.0	0.2	-	29.8 (f)	+ 9.0	-	-	-	0.1	-	0.1	+ 0.1

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

(See footnotes on reverse side)

Average Weekly Expenditures Since Outbreak of War  
 France (through June 19, 1940) \$19.6 million  
 England (through June 19, 1940) 27.6 million  
 England (since June 19, 1940) 44.7 million

Week ended Sept. 27, 1941 \$162.7  
 Cumulation from July 6, 1940

million  
 million

\* For monthly breakdown see tabulations prior to April 23, 1941.

- (a) Includes payments for account of British Supply Timber Control, and Ministry of Shipping.
- (b) Estimated figures based on transfers from the New York Agency of the Bank of Montreal, which apparently represent proceeds of official British sales of American securities, including those effected through direct negotiations. In addition to the official selling, substantial liquidation of securities for private British account occurred, particularly during the early months of the war, although the receipt of the proceeds at this Bank cannot be identified with any accuracy. According to data supplied by the British Treasury and released by Secretary Morgenthau, total official and private British liquidation of our securities through December, 1940 amounted to \$334 million.
- (c) Includes about \$85 million received during October, 1939 from the accounts of British authorized banks with New York banks, presumably reflecting the requisitioning of private dollar balances. Other large transfers from such accounts since October, 1939 apparently represent the acquisition of proceeds of exports from the sterling area and other currently securing dollar receipts.
- (d) Includes payments for account of French Air Commission and French Purchasing Commission.
- (e) Adjusted to eliminate the effect of \$80 million paid out on June 28, 1940 and returned the following day.
- (f) Includes \$25,000,000 representing second advance on \$425,000,000 loan made by the R.F.C. on British-held American securities. (Initial advance of \$100,000,000 credited on August 1.)

MINISTER OF CANADIAN AND AUSTRALIAN ACCOUNTS

(Millions of Dollars)

Year Ended Sept. 24, 1941

Strictly Confidential

PERIOD	DEBITS					CREDITS				Net Incr. (+) or Decr. (-) in Balance	DEBITS					Net Incr. (+) or Decr. (-) in Balance
	Total Debits	Transfers to Official British A/C	Other Debits	Total Credits	Proceeds of Gold Sales	Transfers from Official British A/C		Other Credits	Total Debits		Transfers to Official British A/C	Other Debits	Total Credits	Proceeds of Gold Sales	Other Credits	
						For Own A/C	For French A/C									
First year of war (8/29/39-8/28/40)*	323.0	16.6	306.4	504.7	412.7	80.9	36.7	32.4	+181.7	31.2	3.9	27.3	56.1	30.0	5.1	+ 4.9
1940																
Aug. 29 - Oct. 2	44.5	-	44.5	45.9	16.4	-	27.3	0.2	- 0.4	8.7	2.5	6.2	8.0	6.7	1.3	- 0.7
Oct. 3 - 30	28.7	-	28.7	28.6	14.0	-	14.3	0.3	+ 1.9	10.1	7.5	2.6	7.9	6.5	1.4	- 2.2
Oct. 31 - Nov. 27	35.2	-	35.2	69.6	49.2	-	16.7	3.7	+ 34.4	3.1	0.6	2.5	3.6	2.1	1.5	+ 0.5
Nov. 28 - Dec. 31	49.0	-	49.0	60.6	48.5	-	13.7	4.4	+ 12.6	4.8	-	4.8	6.8	4.8	2.0	+ 2.0
War period through Dec. 31, 1941	477.8	16.6	460.6	707.4	554.8	80.9	110.7	41.0	+230.2	57.9	14.5	43.4	62.4	50.1	12.3	+ 4.5
1941																
Jan. 2 - 29	35.7	-	35.7	33.9	16.9	-	15.0	2.0	+ 0.2	4.8	-	4.8	6.8	5.1	1.7	+ 2.0
Jan. 30 - Feb. 26	31.1	-	31.1	24.3	14.3	-	6.8	3.2	- 6.8	5.0	1.7	3.3	3.2	0.6	2.6	- 1.8
Feb. 27 - Apr. 2	60.9	-	60.9	46.0	23.1	-	19.1	3.8	- 14.9	5.8	0.8	5.0	13.7	12.5	1.2	+ 7.9
Apr. 3 - Apr. 30	34.9	-	34.9	35.9	12.5	-	10.3	12.2	+ 1.0	2.8	-	2.8	5.9	4.6	2.3	+ 3.1
May 1 - May 28	39.2	-	39.2	25.6	15.8	-	0.5	9.3	- 13.7	5.4	-	5.4	4.9	4.1	0.8	- 0.5
May 29 - July 2	43.2	-	43.2	48.2	16.3	-	-	31.2	+ 5.0	10.1	-	10.1	5.8	4.5	1.3	- 4.3
July 3 - July 30	30.6	-	30.6	21.8	15.2	-	-	6.6	- 8.6	6.4	-	6.4	6.3	4.8	1.5	- 0.1
July 31 - Aug. 27	32.5	-	32.5	23.6	10.0	1.4	-	10.2	- 8.2	7.2	-	5.2	8.3	6.6	1.7	+ 3.1
Second year of war (8/29/40-8/27/41)																
Aug. 28 - Oct. 1																
Oct. 2 - Oct. 29																
Oct. 30 - Dec. 3																
Dec. 4 - 31																
WEEK ENDING:																
Sept. 3	2.6	-	2.6	26.7	0.1	-	-	26.6	+24.1	0.9	-	0.9	-	-	-	- 0.9
10	3.5	-	3.5	3.4	2.7	-	-	0.7	- 0.1	1.0	-	1.0	0.1	-	0.1	- 0.9
17	5.8	-	5.8	4.4	3.5	-	-	0.9	- 1.4	1.4	-	1.4	0.2	-	0.2	- 1.2
24	3.7	-	3.7	10.7	9.6	-	-	1.1	+ 7.0	6.8	-	6.8	2.1	2.0	0.1	- 4.7

Weekly Average of Total Debits Since Outbreak of War Through September 24, 1941 \$ 7.4 million

\* For monthly breakdown see tabulations prior to April 23, 1941.

TREASURY DEPARTMENT

169

INTER-OFFICE COMMUNICATION

DATE October 6, 1941

to Secretary Morgenthau

FROM Mr. Bell

*sub* STRICTLY CONFIDENTIAL

Official sales of British-owned dollar securities under the vesting order effective February 19, 1940:

	Proceeds of Shares Sold	Proceeds of Bonds Sold	Total	
Cont. 39	16,943	7,669	24,612	
30	16,125	7,568	23,693	
Notes 1	22,487	4,924	27,411	
2	59,743	6,620	66,363	
3	66,199	6,965	73,164	
4	8,747	-	8,747	
	<u>190,244</u>	<u>33,746</u>	<u>223,990</u>	
Sales from Feb. 22, 1940 to Sept. 27, 1941	<u>280,430,442</u>	<u>37,084,927</u>	<u>317,515,369</u>	
Total Feb. 22, 1940 to Oct. 4, 1941	<u>280,620,686</u>	<u>37,118,673</u>	<u>317,739,359</u>	317,739,359
proceeds of non-vested securities sold Sept. 22, 1941 to Sept. 27, 1941			400,000	
proceeds of non-vested securities sold Sept. 1, 1939 to Sept. 20, 1941			<u>233,600,000</u>	
proceeds of non-vested securities sold Sept. 1, 1939 to Sept. 27, 1941			<u>234,000,000</u>	<u>234,000,000</u>
			GRAND TOTAL	<u>551,739,359</u>
9 units sold from Aug. 18, 1941 to Oct. 4, 1941 for				\$42
11 Share Stock Dividend sold from Aug. 18, 1941 to Oct. 4, 1941 for				\$123
55,578 Rights sold from July 24, 1941 to Oct. 4, 1941 for				<u>\$102,590</u>

TREASURY DEPARTMENT

170

INTER-OFFICE COMMUNICATION

DATE October 6, 1941

TO Secretary Morgenthau

FROM Mr. Bell

*AWB*

STRICTLY CONFIDENTIAL

Official sales of British-owned dollar securities under the vesting order effective February 19, 1940:

	<u>No. of Shares Sold</u>	<u>\$ Proceeds of Shares Sold</u>	<u>Nominal Value of Bonds Sold</u>	<u>\$ Proceeds of Bonds Sold</u>
Sept. 29	330	16,943	13,000	7,669
30	355	16,125	12,000	7,568
Oct. 1	720	22,487	7,000	4,924
2	1,665	59,743	10,000	6,620
3	1,262	66,199	10,000	6,965
4	220	8,747	Nil	Nil
	4,552	190,244	52,000	33,746
Sales from				
Feb. 22, 1940 to	<u>9,810,386-1/2</u>	<u>280,430,442</u>	<u>45,141,216</u>	<u>37,084,927</u>
Sept. 27, 1941				
Total				
Feb. 22, 1940 to	<u>9,814,938-1/2</u>	<u>280,620,686</u>	<u>45,193,216</u>	<u>37,118,673</u>
Oct. 4, 1941				

October 6, 1941

Files

Mr. Dietrich

With reference to Mr. Cochran's memorandum of August 28 in which Federal Bureau is mentioned, the attached letter (V.F.1039/233/41) regarding this firm was received today by Mr. Dietrich from Mr. Ritchie of the British Embassy.

Mr. Dietrich called Mr. Knabe and let him know the contents of this letter and upon offering to send a copy of it to him Mr. Knabe replied that it was not necessary to do so.

K

FD:dm:10/6/41

COPY

172

By safe hand

W.T.1039/233/41

British Embassy,  
Washington, D.C.  
October 1, 1941

Dear Mr. Dietrich,

Pascual Hermanos

I have been endeavouring to obtain some information about this firm at the request of Mr. Cochran who was anxious to know in particular whether it was true, as appeared from a number of memoranda which we sent him, that this firm was exporting U.S. currency on behalf of the Axis.

Our Embassy in Buenos Aires reported that this firm was one of the oldest in the money changing business in Argentina, having been established some 40 years ago by the brothers Arturo, Alberto and Marcos Pascual, and was held in high esteem by the local including British banks. More recently, our representative in Buenos Aires made enquiries in reliable quarters there about the firm and has interviewed the partners several times during the last few months. All the information given to him about them has been favourable and he himself has not observed any intention on their part to assist the enemy. He says:

"Just as many other money-changers in this city, they are free dealers in notes as between Buenos Aires, New York, Rio and Lisbon. Although we may not like the traffic, there is nothing illegal in buying up dollar, franc, yen, etc. notes here and selling them to other money-changers in Rio or Lisbon, so long as there are no grounds for believing that the transactions are for enemy account.

"My impression of Pascual's is that on the lowest motive, they are so anxious to keep on the right side of us and the U.S. Government that they would hesitate at undertaking any operation, which might give us reasonable cause for thinking they were assisting the enemy."

With particular reference to the traffic in U.S. currency, Pascual informed our representative that they had no reason to suspect enemy origin or destination of dollar or other notes which they have purchased or sold, and in order to prove their bona fide they have undertaken that all their future remittances abroad and from abroad will be made via routes controlled by Britain.

Yours sincerely,

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

(s) W. Ritchie

Copy:bj:10-6-41

October 6, 1941

File

Mr. Dietrich

During a conversation today with Mr. Cameron of the Federal Reserve Bank of New York he mentioned that the National Bank of Iceland had not cabled receipt of the Federal's test key.

Mr. Cameron explained that the test key was delivered to Mr. Thor Thors, Consul General of Iceland in New York, on August 13, and that the code books were delivered to him on August 19. According to Mr. Cameron, both the test key and the code books were sent to Iceland on a ship leaving here on September 12. The Federal in their letters to the National Bank of Iceland had requested that the test cable the word "EMIR" to acknowledge receipt of the test key, and the word "EMIG" for the code books.

On October 3 the Federal received from the National Bank of Iceland an untested message in English advising that they had received the code books. By the present time no advice has been received regarding the test key.

I volunteered to communicate with Mr. Vilhjalmur Thor, Managing Director of the National Bank of Iceland, who is now in Washington regarding this matter. Mr. Thor explained that in all probability the code books left on the S. S. Solfoss which left a port in Canada on September 22, and that the test key was sent forward on the S. S. Solfoss which left a port in Canada on September 29. Mr. Thor thought that the Federal should hear shortly on the receipt of the test key, since the S. S. Solfoss is due in Reykjavik sometime this week. In any event, Mr. Thor said he would cable to the National Bank advising that they immediately advise the Federal upon receipt of the test key.

I called Mr. Cameron and gave him the above information obtained from Mr. Thor and Mr. Cameron said that the Federal would also cable the National Bank tonight regarding the test key.

October 6, 1941

Files

Mr. Dietrich

Mr. Cameron of the Federal Reserve Bank of New York today spoke to me about the status of the envelope which the Federal desired to be delivered to the Central Bank of the U.S.S.R. which was the subject of Mr. Cameron's memorandum of August 7, 1941.

I called Mr. Page at the State Department and was informed by Mr. Lightner that Mr. Page was now in Russia but that he, Mr. Lightner, was handling the work formerly taken care of by Mr. Page. I explained to Mr. Lightner that the envelope of the Federal was to go forward in the special diplomatic pouch which was being taken by an Assistant Naval Attaché who was going to Moscow sometime after August 7. I asked Mr. Lightner to check the records of the contents of the pouches which have gone by special courier to Moscow and to give me the date that this particular letter was dispatched. Mr. Lightner called back and said that he was unable to locate the Federal's letter on the list of pouches sent which he thought was not unusual inasmuch as personal letters to members of the Embassy are not listed when they are enclosed in a special pouch. Mr. Lightner did offer the information that on August 18 Lieutenant Commander Allen, who had been assigned as Assistant Naval Attaché at Moscow, left with a diplomatic pouch and it is quite possible the Federal's letter went forward in this pouch. Mr. Lightner stated that Lieutenant Commander Allen has reached Moscow.

I called Mr. Cameron and let him know the information which I had obtained from the State Department regarding the above-mentioned matter and Mr. Cameron stated that he would wait a week or ten days before he would decide what the Federal would do regarding the letter to the State Bank of the U.S.S.R. At the conclusion of our conversation Mr. Cameron volunteered the information that the contents of the letter contained a new test key which was to take the place of a previous one which the State Bank had been using.

(Init.) T. D.

JD: dm: 10/6/41



OFFICE OF  
THE ATTACHE  
SHANGHAI

CONFIDENTIAL MEMORANDUM

October 5, 1941.

To the Secretary:

Dr. Wm. H. Taylor, American Alternate to Stabilization Board, just returned from Kunming where he has been making a general survey of conditions in Yunnan Province for the Stabilization Board.

In addition to the attached copy of Dr. Taylor's report to the Board the following is a synopsis of his conversation with the writer relative to the current political situation in Yunnan Province:

1. Conflicting stories are heard about the actual political situation in Yunnan. At the outbreak of the war Yunnan was virtually an independent government with General Lung Yun (龍雲), warlord and nominally "Governor of Yunnan" but officially Chairman of the Yunnan Provincial Government. Even today its personalities remain largely the same and Governor Lung is the only Warlord Governor since 1937 who still retains his position. The underlying situation has, however, changed drastically and there are keen observers who assert that the power of the Central Government in Yunnan is actually greater than it is in Szechuen. Others dispute this but only to the extent of wondering whether the control of the Central Government is 45 or 55% effective.
2. In the situation that prevails in China today and for many a decade past armies, and their numbers and equipment, are the decisive element. At present there are no Yunnanese troops outside their own province and their numbers total about 300,000. Half of these are "modernly" equipped, i.e., they have steel helmets, late-type carbines, and good training. The other half is the old-style Chinese

Regraded Unclassified

Chinese army with totally inadequate equipment and insufficient discipline and leadership. Central Government troops in Yunnan probably number 250,000. These troops are from other provinces and bear no local loyalty to Yunnan except as it is a province of China. They are excellently equipped according to Chinese standards with light arms, machine guns of light and heavy caliber, trucks, and some light artillery. They are deficient in tanks and heavy artillery. To offset this they could count on the support of a limited but growing air force stationed in Yunnan. And with the arrival in Yunnan of an increasing number of American planes with American personnel there can be no question who controls from a martial point of view.

3. The story of the growth of the influence of the Central Government gathered from reliable sources on the spot marks a transition point in modern Chinese politics. For Yunnan was not conquered but rather subject to a gradual process of penetration, which has grown in volume as it has gone along. In 1937, at the opening of the year, Yunnan controlled its own military and financial destiny. There were no Central Government troops in the province. There was no branch of any of the four government banks. Yunnan controlled its own foreign trade, had its own foreign exchange control, issued its own provincial bank notes, had its own banking system although in this field it met with rather severe competition with the Kunming branch of the Banque de l'Indo-chine.

4. The picture, four years later, is far different. Today all of the four government banks have large branches in Kunming and more than a score of agencies elsewhere in the province. Foreign exchange control is subject to Chungking law and administration and will become increasingly severe. The province no longer issues its own banknotes, though there are still Yunnan \$400,000,000 outstanding or the equivalent in CN dollars of 200,000,000. The

banking system is subject to competition of the government banks and a number of leading commercial banks. Such Shanghai banks as the Shanghai Commercial and Savings Bank, the Kincheng Banking Corporation, the National Commercial Bank, the Sin Hwa Trust and Savings Bank, and the Agricultural and Industrial Bank of China now play an active role in commercial financing. The Banque de l'Indo-chine has become definitely a second rate concern and the piastre has almost disappeared as a currency of calculation.

5. Governor Lung has been and is an astute politician. He came to power and retains it by division of authority. He has refused to give undivided responsibility to any particular subordinate, lest a rival be created. He has played off one individual against another. The parade of these favored ones has been continuous and the life of many temporary. But three names stand out above all others -- General Lu Han (盧漢), the commander-in-chief of the provincial armies; C. M. Miao (繆嘉銘), the reputed "Dr. Schacht" of South-west China, and T. J. Loh (Lu) (陸崇仁), Provincial Commissioner of Finance. First one, then the other has been in the ascendancy with Loh the No. 1 favorite of 1941.

6. General Lu Han has been forced into the background somewhat by war events and the coming of Central Government generals to Yunnan. The Governor has made of Miao and Loh not alone rivals but enemies. One can hardly do anything without a counter-move by the other. Miao is an American-educated mining engineer who has gravitated toward banking and in politics would be termed progressive. Loh is an old-fashioned conservative, willing if forced to utilize the ways of the west to gain his ends but neither caring for nor understanding western culture. Miao is the director-general of the New Futien Bank, the Yunnan provincial bank of issue. Loh is Provincial Commissioner of Finance and head of the provincially owned Shin Wen Bank, which acts as the treasury bank of the government.

7. Since the beginning of the war Miao has been an advocate of cooperation with the Central Government. Half-willingly and half under the pressure of events he has surrendered to the Central Government function after function of his bank, always careful nonetheless to gain compensation or expansion in other directions.

In 1937 the New Futien Bank had five functions:

- 1/ It was the sole bank of note issue in the province;
- 2/ It was an exchange bank, controlling both the inflow and outflow of goods and the receipts thereof;
- 3/ It was a commercial bank, underwriting merchant needs;
- 4/ It was an agricultural bank, making loans to farmers;
- 5/ It was an industrial bank, engaging in small-time financing of the limited industrial activity of Yunnan.

Since 1937 the bank has surrendered the right to issue more notes though notes outstanding are still in circulation. It has turned over the control of foreign trade and foreign exchange to Chungking in compensation whereof it receives UKL1,500,000 from the Central Government per annum. It has voluntarily withdrawn from commercial banking, but is now fostering a provincial-wide program of cooperative banking for the farmers. But it is in the field of industrial financing that the Bank has made its greatest strides and it has taken a leading part in the industrial transformation that has come to Yunnan with the war years and the opening up of the Southwest. It now has part ownership in iron mines, coal mines, small steel mills, cotton factories, electric light and power generation, and tin smelting. Miao is a director in 36 companies and manager of at least a score of these. On several occasions he has cooperated with the Four Government Banks in the joint underwriting of new industrial units.

8. Loh has been no sluggard. He has transformed Yunnan's biggest pawnshop into a modern commercial bank, the Shin Wen Bank, governmentally-owned. In 1939 this bank opened a branch in Rangoon and in 1940 another at Lashio; these serve the triple purpose of gaining control of the remittances of Yunnanese immigrants to Burma, acting as the

purchasing agents for the government, and also as transportation agents on the Burma Road for the Province of Yunnan. Loh is engaged today in transforming three small native banks (Kwang Nieh, Chuan Nieh and Yee Whua) over which the government has gained control, into semi-modern mining and commercial banks.

9. Chiang Kai-shek has taken advantage of this personal rivalry to further the power of the Central Government in Yunnan. He has favored Miao but without antagonizing Loh to too great an extent. He has been as equally as adept and agile, some people would say even more so, as Governor Lung in riding two horses at the same time. And the division long-fostered by Governor Lung prevented the formation of a united front against Central Government encroachment.

10. The Chungking Government by constructing an inter-provincial highway through Yunnan to connect with the Burma Road, by extending railway lines, and by undertaking the construction of the Yunnan-Burma Railroad, and by connecting Kunming with interior points through air transport has changed the basic economy of Yunnan. This has been further disrupted by the severance of an old-established route of traffic with the cutting of the Indochina-Yunnan Railway shortly after the fall of France in mid-1940. As the "backdoor" of China to the outside world Yunnan has felt the full brunt of westernizing influences. Kunming, the capital, has advanced from 50,000 population in 1937 to over 300,000 today, the increase being due mainly to infiltration of people from other provinces.

11. The latest manifestation of Chungking's power over the Provincial Government of Yunnan came in July of 1941. At that time Chungking took over the administration and collection of the land tax which had long been the foundation stone of provincial revenue. The blow was softened by a central-government grant-in-aid to replace the land tax. Many observers expected violent expressions of protest but the event passed without misadventure.

12. In recent years smuggling has become a matter of some magnitude in Yunnan. Chinese truck drivers on the Burma Road are greatly underpaid (about CN\$750.00 per month) and supplement their meager income by smuggling in luxury goods, automobile parts, and some bank notes from Burma. The military, both provincial and central troops, are in control of the French Indo-china border and the Customs authorities are bitter in their denunciation of smuggling carried on either with the tacit or express approval of the military. This smuggling has led to the creation of and will tend to perpetuate black market currency operations in Kunming.

Respectfully,

*M. R. Nicholson*

Treasury Attaché

OBSERVATIONS ON KUNMING SITUATION

By  
Wm H. Taylor, Esq.

1. Banking and commercial concerns in Kunming were upon our arrival completely in the dark as to what they might or might not do with respect to foreign exchange and incidental thereto items such as freight, insurance, and personal remittances.
2. The fact that certain banks have quoted open market rates during August and September, though not to be condoned, arises from the following circumstances. Neither the Board nor the Chinese Government were making foreign exchange available. After September 8th, in particular it became increasingly difficult to get foreign exchange with the tightening up in the control. Some contracts and obligations of merchants and importers had to be met and their only recourse was to the open market. When the government banks and leading commercial banks refused to provide such cover recourse was had to less reputable commercial banks, native banks, and the Banque de l'Indochine.
3. Some Chinese commercial banks, it was reported, however, are still currently able to obtain HK dollars. This is done by remitting to Shanghai and transporting Shanghai dollars to Hong Kong for HK dollar sales. Such credits could then be used for sale at open market rates or could be converted into Burmese rupees for open market transaction.
4. Pre-zero commercial commitments and contracts and bank reimbursements for credits advanced necessitate early consideration and clarification.
5. Many of the Yunnan provincial officials are personally engaged in commercial or industrial operations dependent upon importations from or remittances to abroad. These local authorities are not always diligent in their observation of rules and regulations emanating from the Central Government authorities.
6. Many of the Chinese immigrants to Burma are Yunnanese. They could make remittances to Yunnan in the past through the Lashio and Rangoon branches of the government-owned bank, the Shin Wen Bank. Collections can still be effected in Burmese rupees and upon notification to the head office in Kunming payments made in CN dollars. Through this avenue the open market may be supported.
7. Some importing firms, many of them Burmese, have been importing goods under the pretext of subsequent export to Free China. These goods have been held in godowns in Rangoon and to a lesser extent in Lashio. Motor trucks have been held in Rangoon many weeks in anticipation of price rises. At one time trucks procurable in the United States at \$900 were selling in Rangoon for as high as \$2,500. When the Chinese Government recently announced restrictions on the transportation of commercial cargo over the Burma Road the prices fell to \$1,500 but has since recovered to \$1,900.
8. Lease-lead materials and Universal Trading Co. assignments are landed freight paid to Rangoon. Freight from that point on, where necessary must be paid for by the Chinese Government or its agencies with foreign exchange through Sumat.
9. It has been the custom of some companies to order goods consigned to Manila or Hong Kong. Such goods could then be sent to Free China, if desirable, or shipped elsewhere if conditions were more favorable.
10. There is little likelihood of the Board obtaining much market cover in Free China. Such major exports as tin, wolfram, tung oil, antimony briquettes, tea are under the National Government export control with the proceeds being utilized to satisfy payments due to the Governments of the United States, United Kingdom, and Soviet Russia for credits extended. Such "free exports" as sausage casings, pig intestines, etc. must turn over 20% of their foreign exchange to the Foreign Trade Commission.

11. Neither the Board nor the Chinese National Government have established official rates of exchange for French Indochinese piastres, Siamese bahts, or Swiss francs. Presumably these are "open rate" currencies, and reference was made constantly to the fact that active trading in such currencies might develop with exports being quoted in such currencies.
12. Smuggling into Free China via Yunnan is an undisputed fact. Officials in charge of the Burma Road and the Customs Administration in charge of the Indochinese border are well aware of the problem, and have done and are doing their best to discourage such practices.
13. Where commodities have been smuggled in by such routes in the past it should not be difficult to bring in foreign currency notes of less bulk and higher value. In view of the fluctuating value of the Chinese dollar in recent years and the abundance of capital in Kunming there will be no lack of demand for such notes. Smuggling whether of commodities or notes must necessarily remain limited in amount due to the physical hazards of importation and such operations should not impair the work of the Board.
14. Governmental and semi-governmental organizations in the past have imported goods and paid freights through conversion of Chinese national dollars into foreign exchange at open market rates, e.g. the Salt Administration, the Central Electrical Works, the Yunnan-Burma Railroad, etc.
15. The banking facilities of the Four Government banks should be adequate to handle the financial problems involved as Licensed and/or Authorized Banks. Whereas not one of these banks had a branch in Yunnan in 1937 there are now 26 such branches or agencies in the Province of Yunnan. Further expansion is being provided for by some of these banks at the present time.
16. The effects upon foreign-currency remitters and recipients (exporters, importers, employees of foreign companies and foreign-government agencies paid in foreign currencies, etc.) of the Board's official rates will be much greater in the interior than in Shanghai for whereas the rate prevailing in Shanghai when the Board made its first announcement was approximately CN\$21 to US\$1 the rate in Kunming was CN\$30 to US\$1 and for other points in the interior was likewise different.
17. By special arrangement the Kunming remittance rate on Shanghai has been reduced from 132 on September 3rd (1941 high, 144.5) to 114 on September 30th. Remittances of the Bank of China, a party to the agreement, jumped from CN\$381,919 in August to CN\$60,482,103 in September.
18. In respect to remittances a peculiar situation now prevails. The Bank of China rates are for cash in Shanghai, but most recipients of large amounts in Shanghai prefer wei wuh or clearing credits. For wei wuh, customers in Kunming are willing to pay 3% above the prevailing cash rate. Commercial banks except such business, remit through the Bank of China to a branch or correspondent in Shanghai which collects in cash and pays in wei wuh to the individual receiver.
19. It was not possible in Kunming to gather full and reliable data regarding the value of imports, commercial or governmental into Free China. Government imports, particularly materials under Lessor-Lend are regarded as secret and only isolated data is available in Kunming. Commercial imports over the Burma Road are not under the control of the Customs Administration centered in Kunming. Appended is a list of imports in recent months into Kunming, broken down by major categories and tonnage.
20. The difficulty of estimating exchange requirements is well demonstrated in the case of the oil companies. Asiatic Petroleum Co. and Standard Oil Co. are the big distributors in Free China with Texaco just beginning to operate.

Interviews with the local representatives indicated they had no idea of the volume or value of petroleum products imported into Free China. They did know what was consigned to Kunming for local distribution and data regarding foreign exchange requirements for local sales are attached. Free China must also pay for petroleum products ex-Lashio, ex-Wanting, ex-Chungking, ex-Kweilin, ex-Kweiyang, ex-Hengyang, ex-Liuchow, etc. A similar situation prevails in respect to importation of commercial trucks and automobile accessories with the added complication that the numbers of distributors and importers are almost infinite.

21. The provincial-government-owned bank, the New Fu-tien Bank, by accord with Chungking gets UK\$1,600,000 per annum from the Central Government.
22. Most of the large factories and industrial establishments in the interior present a problem for consideration of the Board. For example, The Yunnan Consolidated Tin Corporation was organized in 1940 as a private enterprise. The capital of CN\$50,000,000, however, was provided for as follows:

\$20,000,000 from the Yunnan Provincial Government  
15,000,000 from the Bank of China  
15,000,000 from the National Resources Commission

In addition, the Bank of China and the New Fu-tien Bank have advanced a loan of \$50,000,000 to the Corporation. The Board of Directors includes Governor Lung, Minister of Economics Cng, Yunnan Commissioner of Finance Loh, and Mr. Miao, the head of the Yunnan government bank of issue.

23. In the case of imports to Free China over the Burma Road, almost every import transaction will be accompanied by two separate applications for exchange; one, CIF Rangoon, and two, for freights and other charges from Rangoon to Kunming.

*Report to the Currency Stabilization Board  
of China. (Oct. 1941)*

Oct 1941.

1. It would appear desirable that the Board should issue as early as practicable clear and definite instructions to licensed and/or authorized banks applicable not alone to Kunming but to all of Free China. To gain the widest possible circulation, the advisability of simultaneously publicizing these instructions through the Ministry of Finance, the Head Offices of the Four Government Banks, and the Stabilization Board might be entertained.
2. The Ministry of Finance should be requested to issue an order stipulating that no government bank, agency or official shall buy or sell foreign exchange except at the official rates as determined by the Stabilization Board.
3. In collaboration with the Hong Kong Government Exchange Control authorities an attempt should be made to prevent the flow of Shanghai dollars to Hong Kong for conversion into Hong Kong dollar accounts.
4. The same rules and regulations adopted by the Board for pre-zero commitments in Shanghai should be extended to be applicable to Free China.
5. The fact that some provincial government officials are not always zealous in their observation of the Central Government would seem to be a political problem.
6. The proper British authorities in Burma should be petitioned to exercise close scrutiny and control over the branches or agencies of Chinese banks in Burma, specifically the Lashio and Rangoon branches of the Provincial Shin Wen Bank.
7. Board instructions should contain a clause stipulating that if importers re-sell goods in whole or in part before reaching China (while in Rangoon or Lashio) they must refund equivalent sum in foreign exchange to the Board with full particulars. The Board should consider the advisability of setting a time limit within which goods after arrival at Rangoon must be imported into China. The Burmese Government currently allows three months for transit trucks, after which the regular customs duty of 33.3% is levied without recourse to refund.
8. For Lease-Lend materials and Universal Trading Corporation consignments, freight and other charges from Rangoon to Kunming would appear to be a direct responsibility of the Central Government authorities.
9. The Board should consider the desirability of instructing the licensed and/or authorized banks to inform importers that they must import directly to Burma or China and not for way points such as Hong Kong and Manila. Shipments from Hong Kong and Manila to Burma and China can be covered by applications filed in the usual manner.
10. In regard to commercial exports not controlled directly by the National Government to set off against contractual obligations, there seems to be little reason why such limited export cover should not revert to the Board. Further, there is reason to believe that such commercial exports could be increased. Dr. J. E. Baker states in an attached letter that Chinese exports could be increased if the present Control Freight Rate on outgoing cargo were lowered to give preferential treatment to types of goods that cannot bear the higher levies. Concretely such items as low grade ores, pig intestines, sausage casings, etc. would move at preferential rates. It is stated that about 65% of all trucks return empty to Lashio from Kunming.

11. The Ministry of Finance should be petitioned to announce official rates of exchange for such foreign currencies as the Indochinese piastre, Siamese bahts, Swiss francs, etc. to avoid the likelihood of these becoming uncontrolled "open market" currencies. Such rates should be determined in conformity with the Board's official rates for U.S. dollars and U.K. pounds sterling.
12. The Board should do all within its power to cooperate with the Customs Administration and the South West Transportation Company to discourage smuggling.
13. Only by close collaboration with the British authorities in Burma can the smuggling of foreign currency notes from this area be adequately run down at the source. It would not be possible to ask for such collaboration in the case of Indochina.
14. The Ministry of Finance should be petitioned to issue a clear-cut announcement as to what Government and Semi-government imports will be provided for by the National Government and through what agency or agencies applications for exchange may be filed. Or the Board might undertake to provide foreign exchange on the basis of individual applications filed with it by Government agencies provided that the Ministry agrees to turn over to the Board an equivalent amount of exchange when so requested. The question of provincial government imports is of a different nature, and seemingly can be settled only in consultation with central and provincial government authorities.
15. The advisability of obtaining U. S. general licenses and U.K. Treasury sanction for exchange transaction of leading Chinese commercial banks is understood to be a matter already under consideration by the Board.
16. Foreign embassies should be requested to instruct their consuls and registered companies to buy and sell only through licensed and/or authorized banks at the official rates as determined by the Board.
17. It is recommended that the consequences of the lowering of the interior remittance rates upon Shanghai should be made the subject of a special study by the economic section of the Board's Staff.
18. If the Board takes over the responsibility for interior remittance rates it should extend the agreement to cover all of the licensed and/or authorized banks, and should consider the desirability of allowing quotations for cash and wei wah.
19. The Chinese Maritime Customs administration should be officially requested by the Board to submit a report on the value and volume of commercial imports into Free China, together with an estimate of the extent of smuggling activity.
20. It should be possible to get a fairly reliable estimate of the value of petroleum products and commercial trucks entering Free China via Burma from the British Export Control offices in Rangoon or Lashio.
21. The managing-director of the New Fu-tien Bank, Mr. Miao, requests the Board, through its Kunming observer, to obtain a license for the foreign exchange obtained from the Central Government which is kept for the most part in New York accounts. Since the Bank obtained these funds from the Central Government it does not desire to turn these funds back to the Government as provided for in U. S. General License 80. The Bank would agree to abide by any rules and regulations of the Board. If the Board acts on this request it is suggested that it do so only after direct communication with Mr. Miao.

22. The Yunnan Consolidated Tin Corporation, though organized as a private company, might well be classified as a semi-government organization. As there are many companies of similar nature in Free China, a Board ruling on this point would clarify a situation that can otherwise only result in continued confusion.
23. Double applications filed at different times by the same importer for cargo entering Free China via the Burma Road will necessitate the establishment of a well-coordinated accounting and examination procedure.
24. The Board in its instructions for Free China should clearly designate the buying and selling rates for banks, as distinct from the Board's official rate.
25. The Four Government Banks in an appended letter have requested the Board to establish an agency in Kunming, because of its importance as a distributive and financial center for Free China. If such meets with the approval of the Board, it is suggested that the Board's agent or representative should be given discretionary power to approve or disapprove applications clearly in conformity with the Board's instructions, and to refer contentious issues back to the Board. It would seem advisable that such an agent or representative should operate under clear and definite rulings, drawn up in advance and amended by telegraphic order from the Board as circumstances warrant. It is felt that due to the particular circumstances prevailing in Kunming, the Board's agent or representative should be a Chinese or a foreigner with some knowledge of the Chinese language. (NOTE: Dr. W.Y. Lin believes that the agent or representative should be a foreigner on the grounds that a foreigner would best be able to withstand local pressures. To Dr. Lin the question of language competency is a matter of secondary importance.)
26. If the Board establishes an agency in Kunming it should issue the necessary instructions to the Four Government Banks to act as depositories for CN dollars against the sales of US dollars and UK pounds sterling, in accord with the Stabilization agreements.
27. In respect to Free China insofar as the demand for foreign exchange is very largely for US dollars and Burmese rupees the Board might consider the feasibility of making arrangements with one or more leading banks in Rangoon for Board rupee accounts. Such a procedure would avoid the difficulty and trouble of the applying Bank converting rupees into UK pounds sterling in its application to the Board and then reconverting sterling into rupees for the satisfaction of Burmese creditors. Settlement, it would seem, could be made with the Rangoon banks involved direct in UK pounds sterling.

APPENDIX

1. Petition from four Government Banks for the establishment of a Stabilization Board of China Representative in Kunming.
2. Questions submitted by Central Bank of China, Kunming, at a conference of four Government Banks.
3. Government and Commercial Banks - Kunming
4. Burma Road Transport: Trucks outbound from China
5. Kunming: Oil Companies Foreign Exchange Collection.
6. Remittances from Kunming to Shanghai
7. Shanghai Dollar T. T. Quotations in Kunming
8. Remittances from Abroad to Kunming through the Bank of China
9. Foreign exchange sold by leading banks - January to September 1941
10. Foreign exchange bought by leading banks - January to September 1941
11. Estimate of volume of import cargo arriving at Kunming by months - January to August 1941.

PETITION FROM FOUR GOVERNMENT BANKS FOR THE ESTABLISHMENT  
OF A STABILIZATION BOARD OF CHINA REPRESENTATIVE IN KUNMING

Kunming  
September 26, 1941

Mr. William H. Taylor  
Stabilization Board of China  
c/o Bank of China  
Kunming

Dear Sir:

Confirming our conversation with you this morning, we thank you that you agree to submit to the Board our suggestion that a special office should be established here in order to facilitate our operations of applying foreign exchange from the Board for the importers.

Kunming has been, in the past two years, the only gateway for foreign trade with Free China. Commercial demands for foreign exchange have been so numerous that it is most difficult for us to meet the enormous requirements without an office of your Board established here to guide us. It takes too long a time for applications to reach the Board through our Hongkong Offices and return with your approval. It is, therefore, considered quite inconvenient to our clients, especially those who are in need of foreign exchange to meet urgent requirements.

We believe it is important for us to have your guidance near at hand, at least at the beginning of the new foreign exchange practice, so as to avoid possible mistakes and delay on our part. You will be able to watch local developments and requirements more clearly if you have a representative or a special office established here with full authority to approve applications or to render special permission to certain reasonable requirements when necessary. And it might be possible for us, with your strong support, to minimize the activities of local black market in the near future.

Trusting that you will give our suggestion favorable consideration and submit to the Board at Hongkong for approval,

Yours truly,  
For Central Bank of China, Bank of China  
H. M. Kung /s/                      C. S. Fan /s/  
Manager                                  Asst. Manager

Bank of Communications      Farmers Bank of China  
S. C. Wu /s/                          Tseng Chang /s/  
Manager                                  Manager

QUESTIONS SUBMITTED BY CENTRAL BANK OF CHINA, KUNMING,  
AT A CONFERENCE OF FOUR GOVERNMENT BANKS

September 24, 1941

1. Individuals applying for Rupees for travelling expenses to Rangoon. May we sell it to them? If yes, is there any limit in amounts?
2. Merchants or government organs applying for foreign exchange to defray transportation expenses, may we sell it to them? If yes, is there any limit in amounts?
3. Suppose a merchant has paid a part of the price of his merchandise for a contract signed before August 19 and, having no foreign exchange deposit with this bank, applies for the needed exchange to pay the balance, what shall be the proper procedure for us to take?
4. Individuals having debts in foreign currency but can't get it in the black market for its repayment, may we sell foreign exchange to applicants in such cases?
5. Suppose individuals wishing to purchase daily necessities in small quantities in Rangoon and apply for foreign exchange for that purpose? If yes, is there any limit?
6. Suppose a merchant sells a truck or car to another merchant in Rangoon and the latter applies for foreign exchange for that purpose, may we sell it to him?
7. Suppose merchants purchasing unprohibited goods without contracts in Rangoon to be transported into China for sale and apply for foreign exchange for that purpose, may we grant foreign exchange to them upon the presentation of reliable bank guarantee?
8. Cases like that in the previous query, it seems unnecessary for the applicant to purchase foreign exchange in Kunming, since he tends to spend the exchange in Rangoon, may we tell him to get the exchange in Rangoon?
9. Is it right that both the Central Bank of China and the Bank of China are to take care of foreign operations in the same manner, or is there any other arrangement?
10. In cases when the applicant for outstanding reasons, has to return the foreign exchange sold to him and is unable to do so, the guarantor is (as) a matter of course responsible for its refund, but the guarantor also has no foreign exchange to fulfill the refund, what shall be the proper step for us to take?
11. Suppose the son of a family is studying in the States and his family having US dollar deposit in this bank asks us to make US dollar remittances to the States, may we do it or is there any other special arrangement?
12. Suppose the son of a family is studying in the States and his family, having no US dollar account, applies for the purchase and remittance of US dollars, may we sell and remit as requested?

GOVERNMENT AND COMMERCIAL BANKS - KUNMING

<u>Central Government Banks</u>	<u>Head Office</u>	<u>Capital</u>
Central Bank of China	Chungking	\$100,000,000.00
Bank of China	"	40,000,000.00
Bank of Communications	"	20,000,000.00
The Farmers Bank of China	"	10,000,000.00
Postal Remittances & Savings Bank	"	3,670,000.00##
 <u>Provincial Government Banks</u>		
New Fu-tien Bank (Yunnan)	Kunming	20,000,000.00#
Shin Wen Bank (Yunnan)	"	4,000,000.00
Kwantung Provincial Bank	Chukiang	10,000,000.00
Bank of Sikong Province	Kongting	5,000,000.00
 <u>Commercial Banks</u>		
National Commercial Bank	Shanghai	4,000,000.00
The Sin Hua Trust & Savings Bank	"	2,000,000.00
The Agricultural & Industrial Bank Of China	"	5,000,000.00
Shanghai Commercial & Savings Bank	"	5,000,000.00
Kincheng Banking Corporation	"	7,000,000.00
Chu Hsin Chen Bank (Young Bros. Banking Corp.)	Chungking	4,000,000.00
Kunming Banking Corporation	Kunming	4,000,000.00
Mei Feng Bank of Szechuen	Chungking	5,000,000.00
Chungking Bank	"	5,000,000.00
Chuan Kong Bank	"	4,000,000.00
Chun Yia Bank	Kunming	2,000,000.00
Mining Bank	"	2,000,000.00
Ho Cheng Bank	Chungking	2,000,000.00
The Salt Industry Bank of Szechuen	"	5,000,000.00
Shanghai Trust Co.	Shanghai	1,000,000.00
Benque de l'Indochine	Kunming (branch)	--

# Yunnan dollars

## Reserved Funds

BURMA ROAD TRANSPORT: TRUCKS OUTBOUND FROM CHINA

Gen. Yu Fei-peng

Chairman

September 27, 1941

Your Excellency:

At present a large proportion of the Southwest trucks return westward empty. As the number delivered by the U. S. Lend-Lease authorities increases, the number returning westward empty will increase.

One reason for high prices is the lack of foreign exchange. If more Chinese goods were sold abroad there would be more foreign exchange, and prices should decrease.

Formerly, China exported many commodities which at present are not going abroad, due to high transport expenses. Possibly some of these could be shipped abroad at present if the rate of transport from Kunming to Lashio were something less than the present Control Rate. If so, it would be good national policy to give specially low rates to such goods, without disturbing the rate on the present Government commodities such as Tung Oil, Wolfram, Bristles, Tin, Etc.

I suggest that you request the Transport Control Board to grant permission to haul such special commodities at special rates, as a matter of principle, and to notify the Foreign Trade Commission of their action, leaving to the latter the duty of finding such commodities and of devising the means of shipping them to Kunming or some other suitable shipping point.

Respectfully,

J. E. Baker /s/

KUNMING: OIL COMPANIES FOREIGN EXCHANGE COLLECTIONS

## (1) Standard-Vacuum Oil Company

January 1941	US\$	7,922
February "		6,308
March "		80,098
April "		73,903
May "		62,550
June "		70,428
July "		136,814
August "		62,285

## (2) Asiatic Petroleum Co. Ltd.

	<u>US\$</u>	<u>Rupess</u>
January 1941	4,570	27,800/-
February "	21,104	-
March "	60,574	-
April "	68,362	1,663/4/-
May "	61,426	-
June "	104,649	-
July "	61,077	-
August "	98,000	-
September "	55,000	-
October "	200,000 (x)	-
November "	80,000	-
December "	90,000	-

(x) In view of important applications in suspense during the previous month.

REMITTANCES FROM KUNMING TO SHANGHAI  
(IN CHINESE NATIONAL DOLLARS)

<u>MONTHS</u>	<u>Bank of China</u>	<u>Shanghai C. &amp; S. Bank</u>
January	1,006,640.99	1,892,600.00
February	693,307.79	1,674,200.00
March	622,566.70	1,400,425.00
April	112,871.13	846,600.00
May	144,143.05	2,079,600.00
June	1,136,945.32	3,971,000.00
July	329,867.35	2,797,500.00
August	381,919.08	3,193,700.00
September	60,482,102.89	2,258,600.00
<u>TOTAL</u>	<u>64,910,364.30</u>	<u>20,114,225.00</u>
<u>MONTHLY AVERAGE</u>	<u>6,767,818.26</u>	<u>2,234,913.89</u>

SHANGHAI DOLLAR T.T. QUOTATIONS IN KUNMINGDURING THE YEAR OF 1940

HIGHEST	FEB. 1st	1240
LOWEST	FEB. 26th	1210
HIGHEST	MAR. 26th	1540
LOWEST	MAR. 5th	1218
HIGHEST	APR. 3rd	1450
LOWEST	APR. 26th	1330
HIGHEST	MAY 31st	1400
LOWEST	MAY 1st	1300
HIGHEST	JUNE 4th	1380
LOWEST	JUNE 28th	1215
HIGHEST	JULY 29th	1290
LOWEST	JULY 3rd	1215
HIGHEST	AUG. 6th	1338
LOWEST	AUG. 16th	1285
HIGHEST	SEPT. 3rd	1325
LOWEST	SEPT. 14th	1275
HIGHEST	OCT. 1st	1280
LOWEST	OCT. 14th	1210
HIGHEST	NOV. 8th	1226
LOWEST	NOV. 25th	1195
HIGHEST	DEC. 3rd	1205
LOWEST	DEC. 11th	1190

DURING THE YEAR OF 1941

HIGHEST	JAN. 20th	1208
LOWEST	JAN. 9th	1192
HIGHEST	FEB. 6th	1290
LOWEST	FEB. 1st	1210
HIGHEST	MAR. 22nd	1298
LOWEST	MAR. 6th	1231
HIGHEST	APR. 17th	1315
LOWEST	APR. 10th	1283
HIGHEST	MAY 28th	1355
LOWEST	MAY 10th	1295
HIGHEST	JUNE 13th	1440
LOWEST	JUNE 2nd	1350
HIGHEST	JULY 12th	1445
LOWEST	JULY 31st	1320
HIGHEST	AUG. 8th	1350
LOWEST	AUG. 5th	1240
HIGHEST	SEPT. 8rd	1320
LOWEST	SEPT. 30th	1140

REMITTANCES FROM ABROAD TO KUNMING  
THROUGH THE BANK OF CHINA

<u>MONTH</u>	<u>U.S.\$</u>	<u>£</u>	<u>H.K.\$</u>	<u>RS.</u>	<u>C.N.\$</u>
Jan. 1941			459.88		1,036,888.60
Feb. "	24,485.50				467,659.60
Mar. "	20,273.94				1,260,477.70
Apr. "	1,184.84	4-0-0	580.00		655,287.85
May "		5-0-0	1,644.58		1,329,736.14
June "	6,236.00	283-0-0	2,215.63		485,176.18
July "	630.00		347.66		1,366,178.77
Aug. "	13,997.55			100-0-0	951,826.71
Sept. "	30,955.00			224-0-0	856,606.87
<b>TOTAL</b>	<u>97,762.83</u>	<u>292-0-0</u>	<u>5,247.75</u>	<u>324-0-0</u>	<u>8,409,838.42</u>

NOTES:

- (1) The Bank of China transacts the largest volume of inward remittances from foreign countries.
- (2) Probably the bank of secondary importance in this regard is the provincially-owned Shin Wen Bank, of which Provincial Commissioner of Finance is the Chairman. This bank operates branches in Lashio and Rangoon. No figures were obtainable for its operations.

196

MONING

## FOREIGN EXCHANGE SOLD BY LEADING BANKS

JANUARY TO SEPTEMBER 1941

	<u>Jan.-June</u>	<u>July</u>	<u>August</u>	<u>September</u>	
<u>Bank of China</u>					
U.S.\$	2,587,000	684,421	365,396	258,866	
U.K.& Sterling	16,000	6	47,310	84,890	
H.K.\$	3,660,000	855,637	443,000	294,608	
Rupees	8,076,000	1,669,337	810,788	1,131,023	
Piastres	55,000	15	416	2,340	
Approx. Total in US\$	6,069,767	1,464,802	836,066	716,267	<u>TOTAL</u> \$9,086,902
<u>Bank of Communications</u>					
U.S.\$	18,698	--	--	--	
H.K.\$	199,011	16,597	--	--	
Rupees	84,521	33,231	5,030	38,446	
Approx. Total in US\$	87,046	11,460	1,107	8,458	<u>TOTAL</u> 108,071
<u>Central Bank of China</u>					
U.S.\$	25,767	--	--	11,632	
U.K.& Sterling	553	20	40	--	
H.K.\$	--	--	--	1,600	
Rupees	--	--	--	--	
Piastres	--	--	--	--	
Approx. Total in US\$	27,979	80	160	12,032	<u>TOTAL</u> 40,251
<u>Shanghai Commercial &amp; Savings Bank</u>					
U.S.\$	600,510	101,600	--	--	
U.K.& Sterling	1,100	--	--	--	
H.K.\$	971,324	365,500	270,640	295,900	
Rupees	3,262,568	439,900	576,890	641,300	
Approx. Total in US\$	1,564,999	289,753	184,578	315,000	

## FOREIGN EXCHANGE BOUGHT BY LEADING BANKS

JANUARY TO SEPTEMBER 1941

	Jan.-June	July	August	September		
<u>Bank of China</u>						
U.S.\$	2,878,000	908,385	220,635	238,939		
U.K.& Sterling	34,000	1,832	96,624	56,080		
H.K.\$	3,878,000	203,334	1,118,713	111,628		
Rupees	8,296,000	987,432	1,349,749	1,056,643		
Piastres	56,000	1,339	25			
Approx.Total in US\$	11,941,820	1,324,349	1,354,731	839,047		
					<u>TOTAL</u>	16,951,321
<u>Bank of Communications</u>						
U.S.\$	20,003	--	5	--		
H.K.\$	171,272	57	106	--		
Rupees	200,353	8,253	643	84		
Approx.Total in US\$	106,899	1,830	173	19		
					<u>TOTAL</u>	108,920
<u>Central Bank of China</u>						
U.S.\$	--	--	--	1,445		
U.K.& Sterling	--	--	--	10		
H.K.\$	--	--	--	403		
Rupees	--	--	--	100		
Piastres	26,068	--	2,540	--		
Approx.Total in US\$	4,635	--	559	1,619		
					<u>TOTAL</u>	6,813
<u>Farmers Bank</u>						
U.S.\$	--	--	--	--		
U.K.& Sterling	--	--	--	--		
H.K.\$	--	--	--	--		
Rupees	--	--	--	7,350		
Piastres	--	--	--	--		
Approx. Total in US\$	--	--	--	2,450		
					<u>TOTAL</u>	2,450
<u>Shanghai Commercial &amp; Savings Bank</u>						

## UNITED STATES TREASURY DEPARTMENT

OFFICE OF  
THE ATTACHE  
SHANGHAI

CONFIDENTIAL MEMORANDUM

September 25, 1941.

To the Secretary:

Government sale of six important commodities: The Ministry of Finance in Chungking is preparing to set up a governmental monopoly sale of six most important articles of daily consumption. For each of these six, tea, matches, wine, cigarettes, sugar and salt, a special company will be organized, with its branches throughout the different provinces. The six special companies will be directed and supervised by the Central Sales Bureau under the Ministry. Each will have several sales areas in the country, and in each of these areas there will be a branch sales bureau. This national plan will be completed by the end of September, 1941, and by the end of the current year all large distributing merchants will be registered for this purpose. It is expected that by the beginning of January next year the government sale will actually be carried out. This will of course have a very ramifying effect on finance and the national economy.

It is estimated that some 2,000,000,000 Chinese dollars profit will accrue as a result of this new financial project. Of this estimated sum, salt alone is expected to yield a profit of 800,000,000 Chinese dollars. When the government sales begin next January, therefore, the prices of ordinary consumers' goods may further advance by 150 to 200 percent. Already the price of salt has gone up considerably within the past three weeks, in South China as well as in Szechuen and Yunnan.

Salt has been long under government control and the price of salt in China really represents a consumption tax. As the government management becomes worse and the price becomes higher and higher,

Regraded Unclassified

the health of the people is being seriously affected. This is especially true in the country districts, where due to lack of salt the labour power of the poor peasants is declining.

Government factories for food: It has been reported that the Ministry of Food Administration in Chungking is planning to set up, together with the Central Trust Bank of the Ministry of Finance, three new factories. One factory for making bread, another for polishing rice, and a third for milling wheat flour; all three will be managed by the China Grain Industry Company, for which the Food Ministry and the Central Trust Bank will advance NC\$8,000,000 as capital.

The cost of living in Kwangtung: Kukong, the provincial capital of Kwangtung during war time, is a railway center in the northern part of the province, near the Kiangsi border. Here there has been a very rapid increase in the cost of living. Two months ago a catty of pork (1 1/3 lbs) cost NC\$1.20 at present it is selling at NC\$3.80 to 4.00. Two months ago one Chinese dollar in Kukong would buy a dozen eggs, but now only four and a half eggs can be had for the same price. In April one Chinese dollar could buy two catties (2 2/3 lbs) of medium grade rice, now it will buy only a little more than half a catty. One box of matches costs half a Chinese dollar, and one catty of salt costs more than five Chinese dollars.

The way that the Provincial Government deals with this situation is very interesting. It places the blame for high cost of living on people's spending. The four theatres in Kukong city are allowed to open only two days a week; no new tea houses are allowed to open for business; sales of certain luxury articles are forbidden. These measures, however, have not done the slightest good in stemming the tide of increasing prices.

In the middle and southern parts of Kwangtung: The livelihood of the people in this area is becoming increasingly difficult. Inflation and cornering of commodities have recently caused another wave of price increases. The monthly living expenditure of a middle class adult is now NC\$80 per person, which means that for the average middle class family about NC\$350 to 450 per month is required. Yet the monthly salary for middle school teachers in the districts of Kaiping, Enping, Tai-shan and Sunwei - all representative districts - is only NC\$70 to 100. That for primary schools is not more than NC\$60.

Many teachers have deserted their profession, and have become small merchants or tradesmen. Some of them have been compelled to engage in smuggling business. This general demoralization and the utter neglect of public school education are bringing about very serious results in every district.

Respectfully,

*M. R. Richardson*

Treasury Attaché

## PARAPHRASE OF TELEGRAM RECEIVED

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

DATE: October 6, 1941, 3 p.m.

NO.: 411

TF-B

THE FOLLOWING IS STRICTLY CONFIDENTIAL.

FOR THE SECRETARY OF THE TREASURY FROM FOX.

1. I shall attempt to number all of my telegrams when I reach Hong Kong. This will not be an easy task. (For reference see Department's telegram No. 311, dated October 2, 1941, 5 p.m.) Meanwhile, this message is TF-B; TF-A being my message of October 2.

2. The remaining portion of the Department's telegram No. 304 (dated September 29, 1941 sent to Hong Kong) (2 B 6) was received on the evening of October 4. I see no need for a modification to be made of my recommendations which were given in TF-A (October 2).

The reactions of the Minister of Finance and his Vice Ministers were extremely unfavorable with regard to the proposed revisions which were transmitted in TF-A. As suggested, this information was obtained informally. It was indicated by the Minister that the Government would wholeheartedly support anything that would help to channelize exchange which accrued from remittances and exports and which would strengthen the Board.

The Minister made the statement that the Exchange

Control

Control Commission would pass the following resolutions at its meeting on Tuesday:

- (A) Turn over exchange from remittances and exports to the Board;
- (B) Request the Government of the U. S. to add to General License No. 59 Chinese Commercial banks.

The Vice Ministers and Kung are thus opposed to the decentralization of the remittances as well as the placing of the other banks on the same plane as that of the Central Bank. They manifested concern as to how cooperation could be assured of all of the licensed banks so that it would be to the advantage of China and to the Board. They felt that the broadening of powers which has been proposed for other licensed banks would go far toward the nullification of the advantages of the freezing order.

3. With regard to the Department's No. 2-B and D, see my TF-A of October 2, 1941 (one "B").

The Department's 2-C presupposes a degree of cooperation of banks which is simply not forthcoming. Having in mind Mr. Mackay's letter of September 17, it would be foolhardy for the Board to expect that in the absence of police powers there would be any considerable return cover from the banks.

With regard to the Department's 2-E: There is general agreement on the desirability of tightening up on the exports into Shanghai, canalizing (?) and exchange from exports, both of which at the present time flow to the

Board

Board even on the previous arrangement. This is merely a question of mechanism. I contend that there will be serious antagonism should the very broad powers which have once been given the staffs be withdrawn.

4. In any event, it would be of great help to the Board if some arrangement could be worked out with the customs authorities in the U. S. and the Philippines, and possibly the shipping companies, which would be similar to the Department's Roman numeral III - C (2) of the Department's "Manila" plan which would serve as a check on the amount of exchange that accrues from exports and as a deterrent to evasion.

5. This afternoon, I am leaving for Hong Kong. At the earliest opportunity, I shall telegraph the response of the Board members to the proposed plan. I am sure that the response of the Chinese will be unfavorable while the response of the British will be favorable.

I shall remain in Hong Kong until the termination of the conference. At the earliest opportunity, I shall return to Chungking in order to carry forward the program which was initiated sometime ago with regard to financial studies.

GAUSS

EA:PAK FL

Copy:hr:10-9-41.

## TREASURY DEPARTMENT

204

## INTER-OFFICE COMMUNICATION

DATE October 6, 1941.

TO Secretary Morgenthau

FROM Mr. Dietrich

**CONFIDENTIAL**

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£45,000
Purchased from commercial concerns	£44,000

Open market sterling was quoted at 4.03-1/2. The only reported transaction consisted of £3,000 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)	.2340
Brasilian milreis (free)	.0505
Colombian peso	.5775
Mexican peso	.2070
Uruguayan peso (free)	.4500
Venezuelan bolivar	.2700
Cuban peso	1/16% discount

There were no gold transactions consummated by us today.

The Federal Reserve Bank of New York reported that the Bank of Mexico shipped \$467,000 in gold from Mexico to the Federal for its account, 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 no silver purchases today.

The Federal Reserve Bank's report of October 1, listing deposits of banks in Asia with the New York agencies of Japanese banks, showed that such deposits totaled \$57,453,000, an increase of \$870,000 since September 24. Also reported were selected items from the statement of the Yokohama Specie Bank's New York Agency, which revealed that dollar deposits held for banks in Japan and Manchuria rose \$738,000. This rise, however, was offset by a decline of \$739,000 in U.S. Treasury bills and commercial paper which the Agency holds for such banks.

RESTRICTED

G-2/2657-220; No. 511 M.I.D., W.D. 11:00 A.M., October 6, 1941

SITUATION REPORT

I. Eastern Theater.

Ground: Germans claim the capture of the island of Abruksa, south of Oesel Island, and to have stopped the Russian attempts to break out of Leningrad.

There are indications that German operations on the south central and southern front are under way.

Hard fighting in vicinity of Melitopol and on the Isthmus of Perekop.

Air: Soviet sources report extremely successful air action against ground forces in the Ukraine sector.

II. Western Theater.

Air: Unfavorable weather over the Continent grounded the R.A.F. last night. The British communique tells of slight German activity over the coastal areas but adds that there was no word of any bombs having been dropped.

III. Middle Eastern Theater.

Ground: No information of importance.

Air: Both Italian and German sources claim the torpedoing of the British aircraft carrier, ARK ROYAL, in an Italian air-surface attack.

Axis aircraft attacked Cairo and Suez Canal area early this morning. There was little damage.

The R.A.F. raided Catania, Sicily, Benghazi and Barce, in Libya, Gondar in Ethiopia.

RESTRICTED

OFFICIAL

OCTOBER 7, 1941

MR AND MRS JOHN BOETTIGER  
SEATTLE POST INTELLIGENCER  
SEATTLE WASHINGTON

VERY SORRY UNABLE COME TO SEATTLE AS I HAVE TO RAISE A LOT OF  
MONEY THIS WEEK TO FINANCE THE GOVERNMENT. HERBERT GASTON  
IS GOING TO REPRESENT ME AND SPEAK BEFORE THE AFofL CONVENTION  
AFFECTIONATE REGARDS

HENRY MORGENTHAU JR

TREASURY DEPARTMENT  
Washington

207

FOR RELEASE, MORNING NEWSPAPERS,  
Tuesday, October 7, 1941.  
10/8/41

Press Service  
No. 27-89

The Secretary of the Treasury announced last evening that the tenders for \$100,000,000, or thereabouts, of 91-day Treasury bills, to be dated October 8, 1941, and to mature January 7, 1942, which were offered on October 3, were opened at the Federal Reserve Banks on October 6.

The details of this issue are as follows:

Total applied for - \$368,817,000  
Total accepted - 100,433,000

Range of accepted bids:

High	-	100.003					
Low	-	99.999	Equivalent rate	approximately	0.004	percent	
Average							
Price	-	99.9996	"	"	"	0.002	"

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

- o o o -

October 7, 1941.

11:00 a.m.

FINANCING (OPEN MARKET)

Present: Mr. Rouse  
Mr. Sproul  
Mr. Jones  
Mr. Goldenweiser  
Mr. Eccles  
Mr. Leach  
Mr. Piser  
Mr. McKee  
Mr. Draper  
Mr. Morris  
Mr. Hadley  
Mr. Haas  
Mr. Murphy  
Mr. Bell

H.M.Jr: Mr. Jones is coming over, but he is late, so we will start. Dan, if you could tell these gentlemen, including myself, how much money you think we will need from now until the first of the year. We will start off that way.

Wall: Well, we went out of September with a balance of a billion three hundred and forty million, and these estimates are based on the assumption that we will borrow in October a billion dollars for the Treasury and five hundred million dollars for the RFC. Then we would borrow again in November a hundred and fifty million dollars for the United States Housing Authority, and in December we would borrow a billion and a half for the Treasury.

- 2 -

On those estimates we would go out of October with a billion eight hundred and six million. We would go out of November with nine hundred and seven million. We would go into January with a billion five hundred and nine million.

There would be some shift in those, because we are talking now about a billion to a billion and a quarter, and the Housing Authority would probably be brought back into October instead of November, so that our estimates might be up as much as two hundred million, making two billion going out of October, and a billion one going out of November, and a billion seven, probably, going into January.

(Mr. Jones entered the conference).

- H.M.Jr: We have got a chair up here for you. You had better tell it again for Mr. Jones.
- Jones: Sorry to be late.
- H.M.Jr: That is all right. We have distributed a twenty dollar gold piece to everybody, so you missed that.
- McKee: You can't have mine, either.
- Bell: He doesn't like gold.
- H.M.Jr: Some of that Russian gold.
- Jones: Yes.
- H.M.Jr: Tell them again.
- Bell: I was just saying that our balance going out of September was a billion three hundred and forty million, and we contemplate

- 3 -

borrowing a billion dollars in October for the Treasury, five hundred million for the RFC, and then probably in November a hundred and fifty million for United States Housing Authority, and then in December a billion and a half new cash for the Treasury.

On those estimates we would go out of October with a cash balance of a billion eight, and out of November with nine hundred million, and go into January with about a billion and a half.

Now, there will be some changes in that, because we will probably borrow a little more than a billion and maybe - those balances will probably be up two hundred million dollars from what they are estimated, or close to that.

Jones: That is, your new money would be a billion, would it?

H.M.Jr: We haven't settled between a billion and a billion and a quarter, but I have seen some of the people - we had half a dozen people down this morning, and what they tell me is this: some of them want two issues, two and a half per cent long, and something medium, and then those that don't want that want us all to get out one two and a half per cent issue, which would go out thirty or thirty-five years.

There are a couple of things I would like to tell you about how I feel, and that is this: I feel that from now on that we might just as well break the ice. We can't be fooling around with a lot of little issues, because I have got to finance about every other month.

- 4 -

I think that the market might just as well get used to a billion or a billion and a half at a time now, and there is never a good time. There will always be some reason why we shouldn't do it. But we have got this tremendous financing to do.

I also would like to have you gentlemen think, and this affects Mr. Jones as much as anybody - I would very much like to be able to keep the five-year period free from any financing so that if and when something goes sour, which I am sure it will if we have bad news, that the Treasury can go in the way we have had to go in three or four times before, and borrow for eighteen months or two years.

Now, if we have to keep going in and filling up the next five years with the guaranteed obligations, then when we have a Black Friday or something like we have had two or three times, that period is filled up and I won't be able to do a job for the Government, so I would like you to think about that, and along the same line, you take United States Housing with two issues. I would like to consider picking them up and paying them off with cash and lending them the money at a reasonable rate, but not having a couple of issues for United States Housing, a hundred and twelve million or whatever it is, kicking around and just coming at a time when I might want to do something for the RFC or Commodity Credit, or for ourselves, so it really would get down to just having three people in Commodity Credit - I might even - I am raising the question of even possibly taking Commodity Credit out of the market and just leave it to the RFC and to the Treasury. But these things keep kicking

- 5 -

me. I have got three of them coming due now this month, and it just makes things that much more difficult. I mean, I am just throwing this out. I mean, I have been doing a lot of thinking about it, and I am looking ahead against the Black Friday which is pretty sure to come, and I would like if possible to have it free. Then if it is free, we can borrow the money on the direct obligation of the Treasury, and we can let the guaranteed obligations - we can always lend you the money if you haven't it. But I am just throwing it out.

McKee:

Do I understand you want to keep everybody out of the five-year period, is that right?

H.M. Jr.:

I am raising the question. I would like to keep everybody, including the United States Treasury - not do any more borrowing in the five-year period, against the day - well, I don't want to say what, but let's say something happens that we hope won't happen and the financial community gets scared the way it has three or four times since I have been here, and they will come in and say, "Well, you might go out as long as two years, Mr. Morgenthau." I have had them tell me that. "As long as two years." That has happened to me several times. Well, the time to get ready for that is now.

McKee:

Can all these, including yourself (Jones), under your present legislation, stay out of the five-year market?

Jones:

I would have to find out.

H.M. Jr.:

Well, it doesn't have to be settled today, but I am raising it. The purpose is for me to talk to you gentlemen frankly. You can

- 6 -

say to me, "Morgenthau, you are right," or "wrong". I want to think about it. I am raising the point about paying off in cash United States Housing, getting them out of the way. They have only got two little issues, and possibly Commodity Credit.

- Jones: I certainly think the Housing suggestion is good. Commodity Credit is pretty well established, and while I see no objection to stopping it, it is an outstanding part of our whole economy.
- H.M.Jr: We would lend them the money.
- Jones: Yes. How much have you got out now?
- H.M.Jr: Jesse, the Commodity Credit is a busted concern and we have got to go to Congress and ask for a hundred million dollars a year to make up the deficit, isn't it?
- Bell: Well, it varies. The total we have asked for is something around --
- Jones: Sounds as if they were making money.
- H.M.Jr: We have gone to Congress twice now for ninety to a hundred million to make up their deficit, so the only thing that they sell them on is the guarantee of the Treasury. The thing is no good. The piece of paper is worthless.
- Jones: That is right. They won't let you sell the securities.
- H.M.Jr: Did you know that we had to go twice now?
- Jones: No, I hadn't kept up with you.
- H.M.Jr: Twice. It is somewhere between ninety and a hundred million dollars. Twice, to make

- 7 -

up the deficit. So it is a busted concern.

- Bell: There is about nine hundred million dollars of their securities outstanding, and they have two hundred and four million maturing November 15th. You have been borrowing that money, and they also are getting some money back in the next few months through Lend-Lease, so that we could pay off a hundred million dollars of the two hundred and four million dollars maturity very easily out of their cash. We might as well pay the other one off.
- Jones: We pay them interest when we need their money.
- Bell: That is right. So that we could pay that one off very easily. We will pay half of it off probably, anyhow.
- Jones: That would give you another look.
- H.M.Jr: Yes.
- Jones: Certainly with what is before us, you are very wise in considering all of these eventualities.
- H.M.Jr: Before they happen.
- Jones: Before they happen.
- H.M.Jr: Marriner, would you let me have the benefit of what the Fed is thinking about?
- Eccles: Well, I don't know that we are thinking about much of anything. We don't know what you are thinking about. We assumed that there was likely to be a long bond at this time, that this new financing of a billion or a billion

- 8 -

and a quarter which was announced from the announcement that I saw of it, was a case of needing new money.

We discussed the thing yesterday afternoon and it was our unanimous view that a long issue should be put out and one issue should be put out only.

Now, a two and a half per cent issue of twenty-five to thirty years or possibly thirty to thirty-five. That thirty to thirty-five looked a little bit long. The reason for that long issue would be that it would fulfill rather an urgent need and demand at this time, coming from the insurance companies and the savings banks and investors generally, that there would be less of that possibly taken by the banking system and more of it would go into the hands of the investors.

The two and a half per cent rate seemed to be a fair rate or reasonable rate, and a rate that is pretty generally needed by the insurance companies and the mutual savings banks, and we would sooner see an issue put out of that sort. Whatever rate is established on a long term issue is likely to tend to freeze the rate at that level, because you couldn't put out an issue at a two and a quarter or a two, we will say, and then have it drop below par without making difficulty for future financing. The lowest rate that you finance on, it seems to me, is pretty likely to tend to freeze that rate because to finance at an excessively low rate may well mean that the market goes down and it would make future financing rather difficult. I know the British point of view has been to try to hold the present rate, or

- 9 -

even gradually reduce the rate of future financing so as to make the issues that have been put out sell at a slight premium, and I think it may be easier to hold a two and a half per cent for a long-term issue, and as I say, it would tend to meet the demand.

Any long-term financing that is done at this time, I am personally a little concerned about whether it tends to freeze the banking situation, that is, we will say, the excess reserves situation, whether it is possible that at any future time now to do anything with that problem.

I think it would be less possible on a less than a two and a half per cent rate than it would on a two and a half per cent rate.

- H.M.Jr: It would be less?
- Eccles: I think it would be more difficult to make any adjustment of the reserve pictures of the banks, more difficult if an issue was put out at a lower rate than two and a half. I think a two and a half percent rate, long issue, would be less influenced or affected if we should decide at any time in the future to do anything about the reserve picture than would be the case if a security of a less rate was put out. You see, we have out the two's and a half taxable securities that are selling today on about a two percent basis.
- Jones: How long a maturity?
- Eccles: What is that, '55-'58?
- H.M.Jr: That is the last one.
- Eccles: That is selling at slightly over a two percent yield basis. To put out an issue of fifteen years to price it on today's market, you would have to put it out at not more than two and a quarter which would be a new low for a taxable fifteen-year issue, and I am just wondering if we want to tend to establish a new low.
- H.M.Jr: Well, if I could just go back a minute, because there are two things that I would like to decide with the help of you gentlemen this morning. One is, first, how much money do we want to borrow? That is the first thing.
- Dan, how much do you want to borrow?
- Bell: I would like to borrow a billion two.
- H.M.Jr: A billion two.

- 11 -

Eccles: I would think a billion two is just as easy as a billion.

Sproul: A billion two plus the refunding?

Eccles: A billion and a half including refunding.

H.M.Jr: Plus refunding and plus a hundred million for Government account. We would put in a hundred million for Government account. That takes care of Postal Savings and FDIC and our trust funds. Right?

Bell: That is right.

H.M.Jr: Is that all right, Morris?

Morris: Yes, sir.

H.M.Jr: Is that enough?

Bell: You could absorb a lot more, but that is what I put down, is a hundred million.

H.M.Jr: A billion two plus one would be a billion three plus the refunding.

Bell: That is right.

Jones: I think that is all right.

H.M.Jr: Anybody worried about a billion two?

Jones: I see no reason to make it any less than that. As has been observed, a billion two is as easy as a billion.

H.M.Jr: There are two things I want to get settled. One is the amount and, we will say for the moment a billion two plus a hundred million for Government account plus the refunding. Then, is it to be one issue?

- 12 -

- Eccles: I would favor one. In fact, that is the view of all of us in our discussions.
- H.M.Jr: Well, that is the way I feel.
- Eccles: Strongly about it, we do.
- H.M.Jr: That is the way I feel. So then if we have that, after this meeting is over we can tell the market that much anyway. It would be how much money and it would be one issue. Then it gets down to arguing about the rate.
- Now, I am in disagreement with everybody that has come down to see me, and I will tell you why these fellows - let me explain. The last issue, Jesse, we got out was last May for roughly a billion four hundred and forty-nine million and it was two and a half percent and it was '56-'58.
- Now, these fellows say get out another two and a half, and if you did, it would run out some where to what, '70 or '75?
- Beal: Early seventies.
- H.M.Jr: That is way out beyond anything on a taxable not to compare it with and it is apt - we are apt to make a mistake. These very fellows that I am arguing with, everyone of them will take it and hold it - not all of them, but a lot of them will, and sell it just as soon as they can. If the thing should be worse in December, we would have this issue as a chance of selling at low par. My thought is, and this is what I have been trying out on everybody, is a two and three-eighths which would go out five years longer than the one we did, which is quite a step out.
- Jones: Twenty years.

- H.M.Jr: A twenty-year bond, and we could estimate that because I mean we could compare it with the one last May. You have to compare them with a taxable note. It would go to the banks. If in November or December when we finance again, if we - we can always go back to two and a half, and I don't want to freeze the rate, the thing that Marriner is talking about, you see. I don't want to have to say, "Well, the Government is going to finance at two and a half, and then when things get a little worse we have got to shorten them up," and I have asked everybody to come down, and they will say, "Well, we don't like it, but it will go."
- Eccles: I think anything will go. It is just a question--
- H.M.Jr: They don't like it, but they say it will go. So I am just throwing that into the hopper.
- Eccles: But you don't want any issues you put out to drop down. It is going to make future financing pretty particularly difficult if rates should go up.
- H.M.Jr: But why should a twenty-year bond go down faster? I should think it would go down less fast if things got bad than a thirty or thirty-five year bond.
- Eccles: I think the insurance companies and the mutual savings institutions and things of that sort are not so interested in the maturity. I think that whether it is a 25- 30 or 30- 35 makes very little difference to them. They are interested in the yield, primarily, and I think that a two and a half issue would pretty largely lodge in that place and would stay there. It doesn't go to the speculator. The banks would not be inclined to take those

- 14 -

issues to hold. I think that at this time a substantial amount of two's and a half, very long issues, is just what is needed, and I think they would go in the hands of those holders, and they would stay right there and the market would - you are not likely to have it go down. You may argue the same thing for a two and three eighths, it is a question of degree, that is true. There is only an eighth difference and--

- H.M.Jr: May I interrupt? The boys knocked me down five years if I make it one issue on a long two and a half because they said the weight of the issue makes me shorten it up five years. That is a hell of a lot to pay just because I want to get out one issue.
- Eccles: What did they want, 25- 30?
- H.M.Jr: Isn't that right, Dan? They knocked us down--
- Bell: Some of them said that if you were going to put it out as one issue you would have to probably lower the maturity, shorten the maturity five years.
- Jones: If you cut it down to two and three eighths?
- H.M.Jr: No, two and a half, all one issue.
- Jones: They would like it twenty-five?
- H.M.Jr: They would like it twenty-five.
- Eccles: 25- 30 or 20- 25.
- Jones: They don't want a thirty.
- Bell: The two and a half would be about 25-30 or a little better.

- 15 -

- Draper: That is '66-'71 you are talking about, Dan.
- Bell: A lot of them are talking '68-'75, '69-'71, and one or two of them want '70-'75.
- Jones: The thing they are interested in is the two and a half.
- Bell: That is right.
- H.M.Jr: And they are perfectly willing to let me shorten it down to twenty-five years.
- Eccles: But they would take it if you didn't.
- H.M.Jr: I don't think they are entirely honest with me.
- Jones: They are selfish, naturally.
- H.M.Jr: Naturally. They have got the old pocket book.
- Jones: Yes. I like the two and three eighths better than I do the two and a half at this time. I think, as you indicate, it is too early to freeze the rate at two and a half. Another thing, whether it is two and a half or two and three eighths, if somebody gets socked in the jaw a little hard sometime, the bond is liable to go down. You are liable to have these Black Fridays just as much with a two and a half as you are with two and three eighths. My judgment would be - I haven't said it as much as the rest of you - my horseback opinion would be that I would rather have the two and three eighths bond at this time. I wouldn't care whether it was twenty years or nineteen years or eighteen years or something like that. I would rather have the time fit the rate than the rate fit the time.
- H.M.Jr: Have you got any ideas, Allan?

Sproul: Yes. I would say it will go, but I don't like it.

H.M.Jr: That is what they have been telling me all morning.

Sproul: My idea would be that this issue ought to be loaded against bank buying and holding as much as possible by its terms, and that you want to put some legs under the oft repeated expression that we want to do as much of our financing outside of the banks as possible. I think the way to do that with a long-term issue is with a two and a half. A two and three eighths will not be so satisfactory to your investors, and yet it won't be a bank obligation, so I think it is neither a fish, flesh, nor fowl.

A long-term two and a half, it seems to me, does meet the desires and requirements of your investors. However, on the maturity, I would price - I would have the maturity short rather than long, that is, twenty-five to thirty. You don't know whether it is going to go to the call date or the maturity date out that far anyway.

The ultimate results of what we have done with respect to excess reserves I don't think has been observed yet, and I would not be afraid of having a substantial premium on this issue temporarily, because I think you want something to ride with here.

To have an issue financed now on the line, whether it is two and three eighths or two and a half, would be risky financing. It would be capitalizing an existing situation which I think is not likely to continue to be supported.

H.M.Jr: We want--

- 17 -

- Sproul: I think if you put it two and a half you have a difficulty in pricing, that you have more of a cushion there than if you price it two and three eights right on the line. I am not concerned myself whether the bond within a period of time goes to a hundred and two or a hundred and three or not in this situation. I think it is more important to get the issue into the hands of the people you want it in and to have an issue which will take care of itself as far as possible in this period when we may have a large group of investors wondering, considering whether either the interest rate structure has been stabilized, is not going to continue down or whether it may even be turning up slightly.
- Jones: Why would a bank buy a twenty year bond when it wouldn't buy a twenty-five year bond?
- Sproul: I don't think they would like it and I don't think they would buy it by and large for holding, but I think the investors would like the twenty-five year bond with a two and a half percent coupon better, and that therefore it would be a better underwriting risk for the banks because they have a larger and better market for it. They would take it largely as underwriters and expect to sell it out over a period.
- H.M.Jr: The two and a half?
- Sproul: Yes.
- H.M.Jr: You seem to go just the other way.
- Jones: I think the banks would keep them.
- McKee: Well, those banks that could offset it with

savings deposits, I think, would keep it.

Sproul: Well, the figures on recent issues, long issues and taxable issues, don't show that the banks have bought them in large amounts to keep.

Eccles: They have sold them and bought the shorter stuff on the market.

Sproul: And the partially non-taxable.

H.M.Jr: Piser, have you got anything fresh to throw into this pot?

Piser: Nothing very fresh, but I would prefer the two and a half issue for the reasons that have been given, that it will be more of a non-banking bond and where the market is in condition to absorb it and other investors have a substantial demand for such an issue, I think this would be an excellent time to further the program of selling issues to non-banking investors.

H.M.Jr: I am perfectly safe in saying this, am I not, to get this out, that it is going to be a bond, it is going to be a long bond, and it is going to be one issue and it is going to be a billion two hundred million? Is that right? Is that all right with the Board?

Eccles: Well, I understand the only point of difference is the question of the rate here.

H.M.Jr: Then what I would like to have, I want another twenty-four hours and if you gentlemen could come back, if you are free to come back at 2:30 tomorrow, we can settle the rate. The people that we have talked to this morning, I hope they will leak. I am sure that they will leak.

- 19 -

- Sproul: Haven't they leaked yet?
- H.M.Jr: Not according to Rouse. He made a little test down there in New York, but it was a little early. I think the telephone wires to New York were congested. But it will give us another day and then everybody - I mean, it is down to whether it is two and three eights or two and a half, Marriner, isn't that what it amounts to?
- Eccles: The way it looks.
- McKee: I think you should in this rate really consider in your own mind whether or not we have something to look forward to by the adjustments of portfolio to meet the reserve increase November first. Personally, I don't know what will happen. I don't think any of us do, but we have that hill to get over right in the middle of this and your next financing.
- H.M.Jr: Which one do you think would help them get over the hurdle?
- McKee: I think the more sugar you put on it the better off you will be and I would prefer the two and a half and I don't give a damn about the maturity.
- H.M.Jr: I do.
- Eccles: The reason I favor it, it gives you some room, I think, for some adjustment moving, whereas if you price it close at a lower rate that does tend more to freeze you at a lower rate. It is going to be very difficult to do future financing if your market is showing weakness instead of strength. Financing has got to be done on a basis to keep it strong, it seems to me.

- McKee: And you have pretty much a pattern of rates now in your series of bonds. Your two and a half for - was it, twelve years?
- H.M.Jr: But you have got nothing to compare this with. If you go out thirty or thirty-five years there is nothing to compare it with. You are out in unexplored territory.
- McKee: Isn't that more reason why you shouldn't get that two and three eighths rate?
- H.M.Jr: Of course I am thinking that on the taxable thing if you move out five years in a taxable bond, that that is quite a big step. Then you test that out. If that is all right and they like it, after all, we are talking about an instrumentality which we have never used before --
- Eccles: Don't you think that the maturity, when it gets up beyond twenty years, isn't nearly so important? There is a lot of difference between one year and five years or five and ten, but it seems to me when you get into the realm of whether it is twenty-five-thirty, or thirty-thirty-five --
- Jones: Psychological.
- Eccles: It is very - because you have got - they all go to the fiduciary institutions. The long term investor who is interested in rate much more than maturity --
- H.M.Jr: I haven't been able to cross that hurdle, that is the thing. I haven't been able to get out there myself, but if you would all come back at 2:30 tomorrow we will settle it.
- Eccles: We would be glad to.
- Bell: It is going to crowd us a little.

- H.M.Jr: You are all right, Dan.
- Eccles: Yes, we had quite a discussion. You may call it academic.
- H.M.Jr: Would you rather have it in the morning?
- Bell: If we could have it at twelve it would give us more time. We don't get it in the hands of the banks and it worries me a little. If you don't catch those night trains, Mr. Secretary, particularly in the west.
- Rouse: If we are going to shoot Thursday morning, this problem of banks, particularly in the western parts, getting the information to the public on the following morning, is an extreme one and we ought to have it perfectly at least by twelve o'clock. If you want to stretch it a little beyond there we can do it, but --
- H.M.Jr: You mean the word by twelve?
- Bell: If we get the telegrams out of here by one o'clock, it enables all of the banks to reach their trains leaving town by six o'clock. Now, you have a problem even in New York, as close as you are and as congested as your district is, reaching the six o'clock train.
- H.M.Jr: O.K., eleven o'clock tomorrow.
- McKee: Eleven o'clock suits me.
- Eccles: Yes, eleven o'clock is all right.
- H.M.Jr: Can you drop in, Jesse?
- Jones: Be glad to.
- McKee: May we be excused? Good luck to you. I hope you get it right.

10/7/41

230

Furnished by Federal Reserve Bank of  
New York over the telephone.

250

Comments received from several dealers and banks  
with regard to a new 2-3/8% Treasury bond:

It would take the edge off the popularity of a new issue. There is a definite feeling that the Treasury would be shortening the maturity in order to shade the rate 1/8% instead of meeting the demand for a 2-1/2% bond which the market is prepared to take.

A 2-3/8% bond would go but would not be popular. The market is prepared for a 2-1/2% 25 to 30-year bond and would rather take a longer maturity than a lower rate. An offering is either a marvelous success or a "flop" and 1/8% in the rate might represent the difference in how the issue is received. Would not monkey around with a successful deal, which will go a long way to accomplishing what the Treasury has in mind with respect to the distribution of its securities, by shading the rate 1/8%.

The Treasury wants to reach insurance companies and savings banks and it would be a mistake not to give them a 2-1/2% bond with an optional date around 1965 to 1967. Insurance companies and savings banks have reluctantly made up their minds that a 2-1/2% rate is the best they can get and it would be disconcerting and a disappointment to them to get less.

There is an excellent feeling in the market about the Treasury's financing operations which should be maintained in view of the large amount of financing to be done now and later. This confidence might be shaken with an unpopular issue. From the selfish viewpoint of a bank, it would prefer to buy the shorter bond but it realizes the Treasury should aim to satisfy insurance companies, savings banks and other permanent holders who prefer a 2-1/2% long bond. A successful issue of long bonds at this time will also make it easier for the Treasury to enter the market for agency financing in the near future.

The nearest favorable remark that we heard was that if a 2-3/8% is all the Treasury will give they suppose they will have to take it.

Additional Comment:

A 2-3/8% bond would be attractive but it would be a disappointment to the market which wants a 2-1/2% bond. The trading department of their bank has a number of buying orders on hand for a new 2-1/2% bond but they believe their customers might cool off on a 2-3/8% bond. They recommend a 2-1/2% bond which will go to the people that the Treasury wants them to go to.

TREASURY DEPARTMENT

233

INTER-OFFICE COMMUNICATION

DATE October 7, 1941

TO Secretary Morgenthau  
FROM W. H. Hadley

TREASURY FINANCING

<u>Coupon</u>	<u>Maturity</u>	<u>Yield</u>	<u>Prob. Price</u>	<u>Premium</u>
1-1/2%	6 years	1.24	101.16	1 pt. 16/32
	(10/15/47)	1.26	101.12	1 pt. 12/32
	6 yrs. 8 mos.	1.35	101.	1 point
	(6/15/48)	1.37	100.28	28/32nds
	6 - 8 yrs.	1.34	100.29	29/32nds
	(1947-49)	1.36	100.25	25/32nds
2%	10 - 12 yrs.	1.84	101.15	1 pt. 15/32
	(1951-53)	1.86	101.10	1 pt. 10/32
	12 yrs.	1.86	101.16	1 pt. 16/32
	(1953)	1.88	101.9	1 pt. 9/32
2-1/4%	15 - 17 yrs.	2.14	101.13	1 pt. 13/32
	(1956-58)	2.16	101.5	1 pt. 5/32
2-3/8%	19 - 22 yrs.	2.24	102.3	2 pts. 3/32
	(1960-63)	2.26	101.25	1 pt. 25/32
	20 - 23 yrs.	2.27	101.22	1 pt. 22/32
	(1961-64)	2.29	101.12	1 pt. 12/32
2-1/2%	27 - 32 yrs.	2.40	102.	2 points
	(1968-73)	2.42	101.19	1 pt. 19/32
	28 - 30 yrs.	2.40	102.1	2 pts. 1/32
	(1969-71)	2.42	101.20	1 pt. 20/32
	28 - 33 yrs.	2.41	101.27	1 pt. 27/32
	(1969-74)	2.43	101.13	1 pt. 13/32
	29 - 34 yrs.	2.42	101.22	1 pt. 22/32
	(1970-75)	2.44	101.8	1 pt. 8/32
	30 - 35 yrs.	2.43	101.17	1 pt. 17/32
(1971-76)	2.45	101.2	1 pt. 2/32	

TREASURY DEPARTMENT

234

INTER-OFFICE COMMUNICATION

DATE October 7, 1941

3:00 P.M.

TO Secretary Morgenthau

FROM W. H. Hadley

TREASURY FINANCING

<u>Coupon</u>	<u>Maturity</u>	<u>Yield</u>	<u>Prob. Price</u>	<u>Premium</u>	
2-3/8%	18-20 yrs. (1959-61)	2.23 2.25	102.4 101.25	2 pts. 4/32 1 pt. 25/32	
	18-21 yrs. (1959-62)	2.24 2.26	102. 101.22	2 points 1 pt. 22/32	
	19-21 yrs. (1960-62)	2.25 2.27	101.30 101.19	1 pt. 30/32 1 pt. 19/32	
	19-22 yrs. (1960-63)	2.26 2.28	101.25 101.14	1 pt. 25/32 1 pt. 14/32	
	20-22 yrs. (1961-63)	2.27 2.29	101.22 101.12	1 pt. 22/32 1 pt. 12/32	
	20-23 yrs. (1961-64)	2.28 2.30	101.17 101.7	1 pt. 17/32 1 pt. 7/32	
	2-1/2%	26-31 yrs. (1967-72)	2.38 2.40	102.10 101.30	2 pts. 10/32 1 pt. 30/32
		27-32 yrs. (1968-73)	2.40 2.42	102. 101.19	2 points 1 pt. 19/32
		28-30 yrs. (1969-71)	2.40 2.42	102.1 101.20	2 pts. 1/32 1 pt. 20/32
		28-33 yrs. (1969-74)	2.41 2.43	101.27 101.13	1 pt. 27/32 1 pt. 13/32
		29-34 yrs. (1970-75)	2.42 2.44	101.22 101.8	1 pt. 22/32 1 pt. 8/32
		30-35 yrs. (1971-76)	2.43 2.45	101.17 101.2	1 pt. 17/32 1 pt. 2/32
25-30 yrs. (1966-71)		2.36 2.38	102.20 102.8	2 pts. 20/32 2 pts. 8/32	

Anna J. Gollan

235

CONFIDENTIAL

October 7, 1941

FINANCING PROGRAM

In view of the enormous amount of financing that the Treasury will have to do in the next few years, it is essential to formulate as soon as possible a long-time policy in regard to the character of the debt structure that it is proposed to build and the interest rates at which the funds should be obtained.

Monetary policy, at this time, is closely related to and dependent on the financing policy of the Treasury. Both should be related to the Government's general program to fight inflation. By itself monetary action can accomplish little, but it can play an important part in a general program pursued by the Government in all fields.

The following observations are presented for consideration with a view to having the method of Treasury financing contribute to the achievement of the general objective of preventing inflation.

In the long run it will not be in the public interest, and consequently not in the interest of the Treasury, which represents the public, to obtain funds at rates so low as to lead to serious consequences in other fields. A rate on open-market offerings that is too low will have the effect of discouraging purchases by individuals, insurance companies, trusts, endowments, and educational and philanthropic institutions. They will suffer from the low rates on their holdings of Government's and will tend to seek outlets in other securities or to hold their funds idle. On the other hand, banks, having a large supply of idle funds, will tend to buy more Government

- 2 -

securities in order to make up in volume of holdings for the decline in rates and to maintain earnings at a level sufficient to meet expenses and dividends.

Allowing rates to go too low, therefore, would work against the purpose of the Treasury to finance the maximum possible amount of its requirements through sales of securities to others than commercial banks; as the rate goes down others will buy less and banks will buy more Government securities. Such purchases will swell the already excessive volume of deposits. The deposits so created will, in turn, add to the buying power pressing on the limited amount of goods available. They will be an inflationary factor.

Except for the fact that sales of securities to banks require interest payments and do not increase but rather utilize bank reserves, the process of financing defense or war through the sale of Government obligations to the banks has the same economic effects as financing through the printing press. In either case fiscal needs are met by the creation of new money rather than by the use of money already in existence. Both courses of action are inflationary.

Experience shows that inflation, aside from its other economic, financial and social consequences, results in a rapid rise in interest rates. Every inflation in history has been accompanied by high, sometimes by fantastic rates of interest. When the value of money is shrinking, when the amount of goods a dollar will buy is declining, holders of money are eager to exchange it for land or goods, but are reluctant to lend it, for

- 3 -

fear that the buying power of the principal will decline. Others are eager to borrow in order to convert the proceeds into real values. When lenders are reluctant and borrowers eager, a rise in interest rates is inevitable.

The extraordinarily low yields that prevail in the market this autumn were brought about largely by bank purchases and could probably not be sustained without continued large-scale bank participation. To capitalize on the present low level of long-time yields would tend to continue the spiral of lower rates, more bank purchases, more money, still lower rates, and ultimately, as inflation progresses, a sharp rise in rates and a severe drop in the price of all fixed interest-bearing obligations, including Government securities.

A saving of interest to the Treasury from a further lowering of the coupon rate on long bonds to be issued now, therefore, would be only a temporary saving which would in all probability result in greater difficulties and much higher costs for Treasury financing in the not too distant future. It would also increase the risk of subjecting the country to other consequences of inflation.

On the other hand, the selection now of a sustainable rate to constitute the core of a pattern of rates would stabilize the situation, facilitate the development of a program of credit control, and help to avoid grave difficulties in months and years to come.

October 7, 1941  
2:05 p.m.

HMJr: Hello.

Leo  
Crowley: Hello, Mr. Secretary.

HMJr: Leo.....

C: Yeah.

HMJr: .....when I saw Marriner, I told him just  
what I was going to say.....

C: Yeah.

HMJr: .....intimated I'd heard by the grapevine,  
so he said, "Well," he said, he'd discussed  
this thing with the President a year ago, and  
then he brought it up again three months ago.  
The President wanted them to do some building  
there. So I said, "Well, I don't know. The  
President never discussed it with me." But I  
said, "I've got an interest in both agencies,  
Marriner. Before you take any serious moves,  
I wish you'd please talk to me."

C: That's right.

HMJr: I said, "I'm interested." And I said, "Of course,  
I know there's nothing to this, but," I said, "the  
gossip has it that you want to get it in the  
building and the next thing you want to swallow  
them up."

C: That's right.

HMJr: So he said, "Oh, that's - you couldn't do that  
without legislation." I said, "Well, now, don't  
go any further without first talking to me."

C: Fine. Well, that will likely stop the whole  
thing now.

HMJr: So he said, "Well," and I said, "Now listen,  
Marriner, don't tell me that the President with

- 2 -

everything he's got on his mind is interested in this." So I think that - well, at least if he's going to do anything - so he said, "Well, this is a bad time to build with priorities and everything." So I said, "Do you want to sell the piece of property? I sold it to you originally. I'll buy it back."

C: That's right.

HMJr: So he said, "No, I don't want to sell it." So he said, "But I suppose with priorities we couldn't get the steel." I said, "I'm sure you can't."

C: Well, that's the best way to leave it, but if he wants to sell the property, why you buy it.

HMJr: I offered to buy it.

C: Fine. And then if we have to do something sometime, why we'll do it together.

HMJr: You bet.

C: All right. Thanks.

HMJr: Good-bye.

October 7, 1941  
2:15 p.m.

HMJr: Hello, Lew, how are you?

Lewis  
Douglas: All right, thank you. How are you? Henry,  
I didn't mention Saturday morning, because  
I hadn't read the newspaper of your narrow  
escape.

HMJr: Well.....

D: Gee, I was terribly shocked when I read about  
it.

HMJr: That's all right.

D: I'm glad it wasn't just a half an inch lower.

HMJr: You and me both.

D: Oh, boy.

HMJr: It would have cost you some money.

D: That was a terribly shocking thing.

HMJr: Lewis.

D: Yes.

HMJr: It would have cost you some money.

D: I didn't know that.

HMJr: I've got a policy with you.

D: Have you? (Laughs) Oh, well, it would have  
cost me more than that, Henry.

HMJr: Yeah.

D: We're awfully glad, but I was shocked at the  
closeness of it.

HMJr: Well, it was pretty close.

- 2 -

D: Very.

HMJr: Thank you. Lew, now have you had any time to think over this financing? I've given out on the ticker that we're going to borrow a billion two hundred million new money.....

D: Yes.

HMJr: .....and it's going to be a long bond.....

D: Yes.

HMJr: .....so it gets down now to a coupon.

D: Yes.

HMJr: That's the situation as of this afternoon.

D: Well, when you say long, you mean up to twenty-twenty.....

HMJr: Well, the thing rests as between two and three eighths and two and a half.

D: Uh huh.

HMJr: That's where the situation is.

D: I see. Well, obviously, Henry, you know that we would rather have the two and a half than two and three eighths.

HMJr: Oh, would you?

D: Yes, I think so, Henry.

HMJr: I see.

D: Now, I think that our appetite for that would be - I don't think that we can get it on subscription.

HMJr: Yes.

D: But I think our appetite for it would be somewhere

- 3 -

between twenty and twenty-five million.

HMJr: Well, that's a lot.

D: Yes, that is a lot.

HMJr: How would your appetite be on two and three eighths?

D: Well, I don't think it would be quite as great, Henry, but it would still be very substantial.

HMJr: I see. You'd still be a little hungry?

D: Yes, sir.

HMJr: (Laughs)

D: (Laughs)

HMJr: Well, I'm going to keep you hungry until Thursday night, anyway.

D: Well, we'll be hungry until Thursday night.

HMJr: All right.

D: Don't worry about that.

HMJr: Well, it's down to that and we've crossed these various bridges; and I wanted to know a little bit more of where I stood until I talked to you, that's why I postponed calling you.

D: Yes. Well, Henry, on the two and a half we would take probably twenty-five million.

HMJr: I see.

D: If we could get it.

HMJr: Yes. And.....

D: At two and a half, I would think that it would - the issue would be selling at a premium of

- 4 -

between a hundred and two and a hundred and three.

HMJr: Is that right?

D: I should think so.

HMJr: Yeah.

D: That is, say, if the maturity was somewhere around '70.

HMJr: Yeah.

D: Do you see what I mean?

HMJr: I follow you. I'm listening.

D: Are you going to put out any short.....

HMJr: No, we're going to make it one issue.

D: One issue?

HMJr: One issue.

D: Well, I'm - personally, I'm glad to see you do it.

HMJr: Good.

D: Our fellows here felt that it might be advisable to split it.....

HMJr: No, I tell you, Lew.....

D: .....sixty-forty, but I'm awfully glad to see you're reaching out into the distance.

HMJr: The country's got to get used to these big issues. They might just as well get used to it now.

D: I agree with you, Henry; and I think it will go.

HMJr: Good.

D: I would - of course, you understand, Henry, I'm trying to be as objective as possible.....

HMJr: I know.

D: But.....

HMJr: You've got your own business.

D: .....I may be prejudiced in this, but I should think the two and a half would probably go better than the two and three eighths.

HMJr: Well, that's the thing I've got to decide within the next twenty-four hours.

D: As I say, you've got to bear in mind that you may - you ought to perhaps discount what I say.

HMJr: Right. Well, Lew, thank you; and don't forget, if you should see Mrs. Purvis, please give her my best.

D: Henry, I saw her yesterday afternoon.

HMJr: Oh, you saw her yesterday?

D: Yes.

HMJr: Yes.

D: And I gave her your love.

HMJr: Yes. How is she?

D: Oh, Henry, she's - she looks so small.....

HMJr: Oh, I'm sorry.

D: .....and so forlorn.....

HMJr: Oh, I'm sorry.

D: .....and so lonely, and she broke down completely yesterday.

HMJr: Oh, I'm sorry.

D: Well, I think it was good for her.

HMJr: Well.....

D: Because she's a rather restrained person, you know.

HMJr: Yeah, I know, very.

D: And I think it gave her an opportunity to get a little relief.

HMJr: Does the boy live at home?

D: No, he's in school - at Bishop's College - that's forty or fifty miles south of Montreal.

HMJr: Is she there all alone?

D: And she has been up in the mountains.....

HMJr: Oh.

D: .....with those English children.....

HMJr: Oh, well, that's.....

D: .....at her mother's.

HMJr: Oh, her mother.

D: Yes.

HMJr: I see.

D: But she was in Montreal yesterday, and she's going to be in Montreal this week.

HMJr: I see.

D: She's a darling person, Henry.

HMJr: Yes, she is.

D: Oh, she's a lovely person.

- 7 -

HMJr: Yes, she is.

D: They were a great couple.

HMJr: Thank you, Lew.

D: Henry, one more question.

HMJr: Please.

D: I've decided that I'd like very much to be helpful in this Savings Bond program.

HMJr: Good. Fine. That's good news.

D: And I'm going to be down in Washington next week on Friday, and I wondered if I could drop in and see you.

HMJr: This week?

D: No, it will be a week from Friday.

HMJr: Gosh, Lew, next week's a lifetime, but I'll make a note of it.

D: All right.

HMJr: And I'll call you the day before.

D: Fine, Henry. I'd love to discuss some things with you.

HMJr: Well, I'll call you the day before.

D: Fine.

HMJr: But - I don't know how you work, but that's a lifetime.

D: I know it is.

HMJr: Well, I tell you what I'm going to do. I'm going to put you down tentatively for ten-thirty.

D: For ten-thirty.

HMJr: For Friday a week.

D: Fine, Henry. Thank you very much, and then you call it off. Be perfectly free to just kick me around any old place.

HMJr: Well, I won't do that; but that goes both ways.

D: All right.

HMJr: Okay.

D: Good-bye, Henry.

HMJr: Good-bye.

October 7, 1941

248

My dear Mrs. Purvis:

Lew Douglas tells me that he saw you, which reminds me that I would very much like to have a good picture of Arthur.

If you plan at any time to come to either New York or Washington, I hope that you will let me know so that I can call on you. I think of you often.

Yours sincerely,

(Signed) Henry Morgenthau, Jr.

Mrs. Arthur B. Purvis,  
1020 Pine Avenue,  
Montreal,  
Province of Quebec,  
Canada.

*Air Mail*  
*S. M. Cheney*

October 7, 1941  
2:25 p.m.

HMJr: Norman Thompson.

Operator: Right. He's not in his own office. I'll find him in just a moment.

HMJr: Hello.

Operator: Mr. Thompson. Go ahead.

HMJr: Norman.....

Norman Thompson: Yes, sir.

HMJr: Please look into the status of Harry White's Civil Service.

T: Yes, we're taking care of that, Mr. Secretary. We kept him on as Director of Monetary Research so that he could get his Civil Service.

HMJr: Well, I'd like to have an up-to-the-minute report.

T: Yes, sir.

HMJr: Will you give it to me within the next day or two?

T: Yes, sir.

HMJr: An up-to-the-minute report.

T: Okay.

HMJr: Thank you.

T: Righto.

October 7, 1941  
2:35 p.m.

HMJr: Hello.

Harry  
Hopkins: Henry.

HMJr: That's my name.

H: This is Harry. How are you?

HMJr: I'm fine. How are you all?

H: Well, I saw a picture of you in the paper and you look pretty good.

HMJr: When - did you see the picture in the United States Daily of you and me in an automobile?

H: No.

HMJr: Well, it's a picture of you and me - my driving you somewhere.

H: Uh huh.

HMJr: And I swear, I can't remember when it was. It must have been years ago.

H: It might have been up at your farm.

HMJr: You look young and handsome.

H: (Laughs) How long ago was it?

HMJr: Well, it doesn't say. It's in United States Daily.

H: I mean, how long ago was the United States Daily?

HMJr: Just out yesterday.

H: Well, I'm going to get it and see if I can place it.

HMJr: Yeah.

- 2 -

H: Henry.....

HMJr: Yeah.

H: .....I've got a meeting of that Staff Board this afternoon and I've been notified about a meeting over at Hull's office.

HMJr: Yes.

H: Do you think I should cancel the Staff Board?

HMJr: Well, here's - I got this notice from the President Friday, that you, Hull and I should settle this Russian thing.

H: Well, what - you mean on the money?

HMJr: The money.

H: Yeah.

HMJr: So I got the notice yesterday from Hull, asking.....

H: Well, that's very important.

HMJr: And Jesse's going to be there. It's the whole Russian financial thing.

H: Yeah. Well, I'm going to cancel the Staff thing.

HMJr: What?

H: That's far more important than going.....

HMJr: Well, it's - at least it's more imminent.

H: Oh, hell.

HMJr: What?

H: Oh, I should say so.

HMJr: Okay?

- 3 -

H: All right, old boy.

HMJr: I'll be seeing you.

H: Yeah. Good-bye.

October 7, 1941.

MEMORANDUM FOR THE SECRETARY'S FILES

The Finance Minister of Mexico, Mr. Suarez, called on the Secretary at 3 o'clock, October 6, 1941.

Present: Mr. Najera, Mexican Ambassador  
Mr. Suarez  
Mr. Monteros  
Mr. Collado  
Messrs. Bell and White

Mr. Suarez expressed the gratitude of his Government for Secretary Morgenthau's sympathetic cooperation.

He presented to Secretary Morgenthau a document containing authority for Mr. Monteros to sign the Agreement for the Bank of Mexico. The Secretary stated that it was his understanding that all the papers were to be signed on October 12th.

Mr. Suarez said he would like to discuss the question of repatriating the Mexican Government's bonds held by the British. The Secretary suggested that Mr. White discuss this matter with him and bring in a report. Mr. Suarez also stated he would like to learn something about our method of handling frozen funds. The Secretary said that Mr. Bell would make an appointment with Mr. Foley who would be glad to explain all about our administration of frozen funds.

The Secretary invited the Mexicans for lunch on Thursday. They accepted with thanks.

*W*

Conference held in Secretary Hull's Office  
at 4:00 o'clock, October 7, 1941

Subject: Financial arrangements, between United Kingdom and Russia, and  
United States and Russia, involving gold payments.

Present: Secretary Hull  
Secretary Morgenthau  
Secretary Jones  
Mr. Harry Hopkins  
Mr. White

Secretary Morgenthau explained that the President had assigned to that group the responsibility for deciding the question raised by the British Treasury in a memorandum left with Secretary Morgenthau about ten days previously. The memorandum from the British Treasury stated that financial arrangements being made between the British Government and Russia regarding the financing of supplies to Russia included provision that:

- (a) 40 percent of the export balance of civilian supplies going from the sterling area to Russia should be payable in gold or its equivalent, and
- (b) military supplies bought for dollars in the United States under pre-Lend-Lease contracts should be paid for in gold or its equivalent.

The British Government requested the view of the U. S. Government to such arrangements. Secretary Morgenthau had referred the inquiry to the President and the President had asked Secretary Morgenthau to take up the matter with the above cabinet members and Mr. Hopkins.

After some discussion it was unanimously agreed by those present that:

- (1) everything should be done to facilitate the rapid exportation of needed war goods to Russia;
- (2) that congressional opinion might be unfavorable should it appear that Great Britain was being paid in gold for some of the goods it shipped to Russia while the United States was getting none for goods it sent;
- (3) therefore, that the best arrangement would be to inform the British that the U. S. Government had no objection to British receiving gold for the exportation of commodities in both categories referred to provided that:

Copies to:  
Secretary Hull  
Secretary Jones  
Mr. Hopkins

- (a) not more than \$100 million was received, and
- (b) for every ounce (figuratively speaking) of gold paid to the British by the Russians the latter would send an equal amount to the Americans for goods shipped from the United States.

It was further agreed that Secretary Morgenthau should so inform the British of this decision, and should also inform the Russians. Mr. Hopkins was to inform the President.

Mr. Hopkins then requested the opinion of the group on the desirability of utilizing Lend-Lease funds to finance shipments of war material to Russia. The financing he proposed would begin after Congress had defeated an amendment, which Mr. Hopkins expected would be offered, prohibiting the use of Lend-Lease funds for armaments to Russia. The contemplated terms of the financing were long-term loans at 3 percent interest. It was unanimously agreed that the best way to finance shipments of materials to Russia appeared to be under Lend-Lease as outlined by Mr. Hopkins.

Sir Gerald Campbell, Acting British Ambassador, and Mr. Bewley, the British Financial Attache, called on Secretary Morgenthau at his request at 6:15 o'clock that afternoon. Mr. White was also present. Secretary Morgenthau transmitted to them the decision which had been arrived at in the afternoon conference. Mr. Bewley stated that he did not think there were more than a few million dollars worth of goods which they had bought from the United States which they were sending to Russia, and that he did not think that the total amount of goods that would fall in that category would be very large. He thought that they would total substantially less than \$100 million. Secretary Morgenthau also informed the British that he would inform the Russians of the decision.

Secretary Morgenthau then spoke to them of the difficulty that the Russians were having in raising cash for immediate purchases, and hoped that if the British had any suggestions as to how the situation might be met they would communicate the suggestions to Secretary Morgenthau. British representatives seemed dubious of having any suggestion, but said they would think about it.

At 9:15 that evening Mr. Gromyko, Acting Russian Ambassador, called at the Secretary's request. Mr. White was also present. Secretary Morgenthau informed Mr. Gromyko of the decision made at the afternoon conference with respect to payments of gold by the Russian Government to the British Government and to the American Government. He also informed Mr. Gromyko that the British had already been advised of the decision.

Secretary Morgenthau then asked why the Russians had not yet responded to the offer which he had made ten days previously to buy gold from the Russians for future delivery. He told Mr. Gromyko that Mr. Hopkins had mentioned that afternoon that there was some \$50 million worth of war materials needed by the Russians ready to be shipped at once. Mr. Gromyko replied he had not yet received an answer from his Government and did not know why. He stated that he had not known there was so much material ready to be shipped. He stated that he had several million dollars in cash on hand more than was needed to buy the amount of goods which he had been told was actually available. He stated that in the light of the new information he would cable his Government at once with respect to the sale of gold to provide the dollars to buy the additional material which Mr. Hopkins referred to. Mr. Gromyko hoped to get a reply very soon.

MEMORANDUM

October 7, 1941.

TO: The Secretary

FROM: Mr. Sullivan

At 9:15 this morning Mr. Doughton phoned to refresh his memory as to yesterday's understanding. He specifically inquired if he was to call his Committee together today to poll their views on tax and Social Security legislation or whether he should wait until he had heard from Senator George. I advised him that there was no agreement upon this exact point but I thought it would be well to wait until he had heard from the Senator in regard to the Senator's conference with the President today.

He then asked our views on the proposed change in amortization certification and particularly whether we approved the Senate amendment. I told him that this was a difference of opinion between the Army and Navy on one side and the Defense Commission on the other, that this problem did not involve the Treasury Department, and that we neither approved or disapproved the Senate amendment.

After again discussing the Mills Kitchen candidacy for the Customs Court he stated that he was afraid he had not made it clear yesterday that he was at the White House last week at the invitation of the President and not because he himself had asked for the conference. He further stated that on thinking over what had transpired at the White House he believed the President had in mind an Administrative Amendment Bill rather than a revenue raising bill when he suggested no action until December 1st.

JHS

MEMORANDUM

October 7, 1941.

To: The Secretary  
From: Mr. Sullivan

At 10:50 Deputy Commissioner Mooney phoned to tell me that a Mr. Shaugnessey who is serving under Mr. Toland, Counsel for the Vinson Investigating Committee, had asked him to go up to the Hill immediately. Mr. Mooney said he thought Mr. Shaugnessey had called the wrong party because Mr. Sullivan of the Treasury handled all of these matters, and he referred Mr. Shaugnessey to me. A minute later Mr. Toland called me and asked if I would send someone right up in a cab to go over the profit limiting bill Congressman Vinson was to introduce this noon. I told him all of our best men of the Legislative Counsel's office were away on vacation but that even if they were here we would not be able to take a position on a bill of major importance within the hour. I explained to him that after we had analyzed the bill we would then have to submit our recommendations to the Secretary before we would be able to officially approve or disapprove. He seemed to appreciate the situation and said that the Congressman had not intended to introduce this bill until Thursday but as someone from Tennessee had introduced another profit limiting bill yesterday, Congressman Vinson thought he would be obliged to put his in this noon.

I asked Mr. Toland to send me a copy of the bill and he agreed to do so.

TKS

7 October, 1941

From: Commandant  
To : Lieutenant W. E. Sinton.  
Subject: Instructions when flying the Secretary of the Treasury.

1. Hereafter when a flight is contemplated and the Secretary of the Treasury will be a passenger you shall determine whether flying conditions are safe or unsafe. If you determine that the flight is unsafe, you shall advise the Secretary of the Treasury accordingly, giving your reasons therefor and the flight shall not be made. If the flight has already commenced and in your opinion it is unsafe to continue the flight, you shall so advise the Secretary of the Treasury and return to a port where you are assured of a safe landing. If you have a choice of several airports, you shall ask the Secretary at which one he would prefer to land.

2. If the safety of the flight is a borderline case and a clear-cut decision as to whether the flight is safe or unsafe cannot be determined, your decision shall be that the flight is unsafe.

3. The Secretary of the Treasury will not take part in making the decision as to whether the flight is safe or unsafe. The decision shall be made definitely by you and the Secretary advised.

R. R. WAESCHE

Copy to: The Secretary of the Treasury  
Assistant Secretary Gaston

**Treasury Department**

TELEGRAPH OFFICE

W28 MA

WV80 37 GOVT COLLECT

UG CHICAGO ILL OCT 7 1941 1050A

1-077 7 PM 12 19

HENRY MORGENTHAU JR

TREASURY DEPT

HAVE FINALLY LOCATED PERSONS WHO KNOW BUFFINGTON WELL. ALL REPORTS  
AGREE THAT HE IS ABLE, FRIENDLY, DIPLOMATIC. A GOOD ADMINISTRATOR,  
OF UNQUESTIONED INTEGRITY AND HAS BEEN UNIFORMLY SUCCESSFUL  
FINANCIALLY IN HIS UNDERTAKINGS. GRADUATE OF NORTHWESTERN UNIVERSITY

JACOB VINER

1213PM.

*W L I*  
*- [unclear] [unclear]*

October 7, 1941

TO: Secretary Morgenthau

From: Mr. Foley.

At the Inter-departmental meeting on foreign fund control held on September 17, 1941, Assistant Secretary of State Acheson reported that the Navy Department had received from the French authorities at Martinique a request that the light cruiser "Emil Bertin" be allowed to proceed to drydock for scraping. The French Navy's first request was that she be allowed to proceed to Dakar, to which the Navy objected. The second request was that she be allowed to go into drydock in Brazil, to which the Navy likewise objected. It was then suggested that she go to Puerto Rico. The Navy Department has inquired of the State Department whether the Foreign Funds Control will release sufficient frozen French funds to cover the cost of drydocking and scraping. It was agreed by the Committee that Mr. Acheson should inform the Navy Department that this is primarily a State-Navy problem, that the Treasury assumes it has been cleared with the President, and that the request of the Navy Department for the release of the necessary funds should be made to the Treasury in writing.

A copy of the letter received from the Navy Department under date of September 24, 1941, is attached hereto. Such letter has been acknowledged but no further reply has been made.

(Initialed) E.H.F., Jr.

NAVY DEPARTMENT  
Washington

Serial No. 030413  
(SC) S7/EF28

CONFIDENTIAL

Sir:

September 24, 1941

The Navy Department has received a request from Admiral Robert in Martinique via the French Naval Attaché in Washington for the drydocking of the French cruiser EMIL BERTIN, which has been at Martinique since the French collapse, for a routine cleaning, scraping and painting of her bottom.

The French Naval Attaché first suggested the possibility of drydocking at Dakar or Rio de Janeiro, but probably realizing the concern of the United States regarding the possibility of the transportation of the gold from Martinique he has suggested her drydocking at San Juan, Perto Rico.

The Navy Department after consideration of the various aspects of the question sees no valid reason for refusal of the request for drydocking of the EMIL BERTIN a San Juan and recommends that such credits as may be necessary to pay the cost thereof be released for this purpose.

It is understood that an official request will be received from the French Embassy through the State Department.

Although it is impossible to state the exact cost of drydocking, it will be necessary for the French government, prior thereto, to deposit with the Navy Working Fund an amount adequate to cover the estimated cost. The Navy Department will suggest to the French Embassy that in the request submitted by it, there be set forth the exact nature of the work to be done. Upon receipt of that information the Navy Department will then determine the amount to be deposited.

Respectfully,

/s/ Forrestal  
JAMES FORRESTAL  
Acting Secretary of the Navy.

The Honorable

The Secretary of the Treasury.

10-7-41

Supreme Court of the United States.

Memorandum.

263

House ..... 194

Dear Henry

Your wife and  
you may care to  
see this.

Yours Ever  
[Signature]

Remarks of the Honorable Dean Acheson at the Funeral Services of the late  
Mr. Justice Brandeis on October 7, 1941.

October 20, 1941

In this moment of farewell to the Justice, I should like to speak very briefly of what he has meant in the lives of a score of men who have had the great joy and the great fortune of serving him so intimately as his secretaries. We are the fortunate ones, but what he has meant to us is not very different from what he has meant to hundreds of young men and women who have grown up under his influence. We are scattered over the country, some are on the bench, some are teaching, some are in the practice of law, some are in the service of the government. But today to all of us there comes a surge of memories. It is almost impossible from among the strands of memory to select those which are most significant, but there are two strands, I believe, which have been woven deeply into our lives.

I need not say how great an influence upon us it was to begin our work under the guiding hand of the Justice and to know the brilliance of his mind, but our relationship was far more than that between young men and one of the greatest and most revered figures of our time. What gave it life, what gave it endurance was the depth of affection which the warmth of his interest and solicitude for us inspired. Throughout these years we have brought him all of our problems and all our troubles, and he had time for all of us. In talk with him the problems answered themselves. A question, a comment, and the difficulties began to disappear; the dross and shoddy began to appear for what it was, and we wondered why the matter had ever seemed difficult.

I have talked, over the past twenty years, with the Justice about these men. I have heard him speak of some achievement of one of us with all the pride and of some sorrow or disappointment of another with all the tenderness of a father speaking of his sons. He entered so deeply into our lives because he took us so deeply into his.

The other strand in these memories is all the more vivid because of the times in which we have lived. We are the generation which has lived during and between two wars. We have lived in the desert years of the human spirit. We have lived in the barren years of dissolution -- years when the cry was "What is truth?" -- years when men with a little new found knowledge believed that they had pried into the main-springs of the human mind and spirit, and could make mankind work for any end by playing upon its fears and appetites.

These were years during which we were with the Justice and saw in action his burning faith that the verities to which men had clung through the ages were verities; that evil never could be good; that falsehood was not truth, not even if all the ingenuity of science reiterated it in waves that encircled the earth.

We have heard him say almost in the words of St. Paul, "Whatever things are true, whatever things are honest, whatever things are just, whatever things are pure, whatever things are of good report -- think on these things."

But to him truth was less than truth unless it were expounded so that people could understand and believe. During these years of retreat from reason, his faith in the human mind and in the will and capacity of people to understand and grasp the truth never wavered or tired. In a time of moral and intellectual anarchy and frustration he handed on the great tradition of faith in the mind and spirit of man which is the faith of the prophets and poets, of Socrates, of Lincoln.

And so today, whatever dark days may lie ahead, the memory of the Justice will be a voice always saying to us, "Lift up your hearts!"

Remarks of Mr. Justice Frankfurter at the  
funeral services of Mr. Justice Brandeis

October 7, 1941

Two dominant sources of our culture are Hebraism and Hellenism. They express the intellectual and moral impulses of man. Not often have these two streams of Western civilization been so happily fused as they were in the great man whom we are bidding farewell.

His pursuit of reason and his love of beauty were Hellenic. But Carlyle would never have said of Louis Brandeis what he said of Socrates, that Socrates was "terribly at ease in Zion". Justice Brandeis found it impossible to be at ease in Zion. The moral law was a goad. That was his Hebraic gift. It gave him ceaseless striving for perfection, it also gave him inner harmony.

To speak adequately of our friend those of kindred stature must speak for us. A Greek has expressed the significance of departed greatness:

"The whole earth is the sepulchre of famous men; and their story is not graven only on stone over their native earth, but lives on far away, without visible symbol, woven into the stuff of other men's lives. For us now it remains to rival what they have done and, knowing the secret of happiness to be freedom and the secret of freedom a brave heart, not idly to stand aside."

The quality of the life to which we pay reverence Hebrew prophets have foretold with accuracy:

"The law of truth was in his mouth, and unrighteousness was not found in his lips; he walked with me in peace and equity, and did turn many away from iniquity."

\*\*\*\*\*

"Behold, a king shall reign in righteousness, and princes shall rule in judgment.

"And a man shall be as an hiding place from the wind, and a covert from the tempest; as rivers of water in a dry place, as the shadow of a great rock in a weary land." So he lived, and when the summons came he was ready.

"After this it was noised abroad that Mr. Valiant-for-truth was taken with a Summons and had this for a Token that the Summons was true, That his Pitcher was broken at the Fountain. When he understood it, he called for his Friends, and told them of it. Then said he, I am going to my Fathers, and tho' with great difficulty I am got hither, yet now I do not repent me of all the Trouble I have been at to arrive where I am. My Sword I give to him that shall succeed me in my Pilgrimage, and my Courage and Skill to him that can get it. My Marks and Scars I carry with me, to be a witness for me that I have fought his Battles who now will be my Rewarder. When the day that he must go hence was come, many accompanied him to the River-side, into which as he went he said, Death, where is thy Sting? And as he went down deeper he said, Grave, where is thy Victory? So he passed over, and all the Trumpets sounded for him on the other side."

TREASURY DEPARTMENT

266

INTER-OFFICE COMMUNICATION

DATE October 7, 1941.

TO Secretary Morgenthau

FROM Mr. Dietrich

The following table presents a breakdown of our silver purchases by sources. It should be noted that our purchases during September were the lowest in two years.

Sources of Silver Purchased Under  
the Silver Purchase Act — 1941

<u>Country of Origin</u>	<u>Jan.-July</u>	<u>August</u>	<u>Sept.</u>	<u>Jan.-Sept.</u>
	(In thousands of dollars)			
<u>New Production Silver</u>				
Argentina	\$ 201	\$ 80	—	\$ 281
Canada	1,683	420	\$ 157	2,260
Honduras	738	147	95	980
Java	239	—	—	239
Peru	2,321	280	254	2,855
Not Designated*	<u>3,761</u>	<u>538</u>	<u>126</u>	<u>4,425</u>
Total New Prod.	<u>\$ 8,943</u>	<u>\$ 1,465</u>	<u>\$ 632</u>	<u>\$11,040</u>
<u>Other Silver</u>				
China	\$ 282	—	—	\$ 282
Japan	918	—	—	918
Mexico	175	—	—	175
Not Designated*	<u>490</u>	<u>\$ 201</u>	<u>—</u>	<u>691</u>
Total Other	<u>\$ 1,865</u>	<u>\$ 201</u>	<u>—</u>	<u>\$ 2,066</u>
<u>Grand Total</u>	<u>\$10,808</u>	<u>\$ 1,666</u>	<u>\$ 632</u>	<u>\$13,106</u>

\*A large part of the "Not Designated" silver is believed to represent imports from Mexico. For comparison, total silver imports into the U.S. from Mexico are given below, according to type of silver:

	<u>Jan.-July</u>	<u>August</u>	<u>Sept.</u>	<u>Jan.-Sept.</u>
	(In thousands of dollars)			
New Production	\$ 3,375	\$ 201	\$ 174	\$ 3,750
Other (refined)	<u>12,023</u>	<u>1,889</u>	<u>1,942</u>	<u>15,854</u>
Total	\$15,398	\$ 2,090	\$ 2,116	\$19,604

October 7, 1941

Flem

Mr. Dietrich

With reference to my memorandum of October 6 regarding a letter sent by the Federal Reserve Bank of New York to the State Bank of the U.S.S.R., containing a new test key, which was dispatched to Russia through the medium of the State Department, Mr. Cameron called today and said that his bank had now received advice from the State Bank of the U.S.S.R. that it had received the new test key.



FD:lap-10/7/41

## TREASURY DEPARTMENT

268

## INTER-OFFICE COMMUNICATION

DATE October 7, 1941.

TO *Secretary Morgenthau*

FROM Mr. Dietrich

**CONFIDENTIAL**

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£39,000
Purchased from commercial concerns	£ 9,000

Open market sterling held steady at 4.03-1/2. The only reported transaction consisted of £15,000 purchased from a commercial concern.

The Uruguayan free peso, which experienced a gain of 1¢ last week, advanced another 1/2¢ today. The final quotation was .4550.

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

Canadian dollar	11-5/16% discount
Argentine peso (free)	.2345
Brazilian milreis (free)	.0505
Colombian peso	.5775
Mexican peso	.2070
Venezuelan bolivar	.2700
Cuban peso	1/16% discount.

The Federal Reserve Bank of New York reported that it had purchased 50,000 Swedish kronor yesterday afternoon upon instructions from and for account of the Central Bank of the Uruguayan Republic. The kronor were bought from the Irving Trust Company at .2385-1/2, and we understand that a certification was received from the Swedish Representative in New York for this transaction.

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

No new gold engagements were reported.

We were informed that the Bombay gold price on October 4 was equivalent to \$34.14, unchanged from the quotation of September 27. Silver in Bombay was priced at the equivalent of 44.70¢, or 1/8¢ higher than the September 27 price.

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¢. Eddy and Harman's settlement price for foreign silver was also unchanged at 34-3/4¢.

We made no silver purchases today.

269

BRITISH EMBASSY,  
WASHINGTON, D. C.  
October 7th, 1941.

PERSONAL  
AND SECRET

Dear Mr. Secretary,

I enclose herein for your  
personal and secret information  
copies of the latest reports  
received from London on the  
military situation.

Believe me,

Dear Mr. Secretary,

Yours very sincerely,

*R. J. Campbell*

His Honourable

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

TELEGRAM FROM LONDON DATED OCTOBER 3rd, 1941.

- September 10th His Majesty's submarine torpedoed 3,000 ton ship in Camilla Harbour. September 10th. She scored one possible hit on transport off Midoro Island.
2. Royal Air Force. October 1st/2nd. Off Dutch Coast Warships hit 2,000 ton merchant vessel and dropped bombs close to 2,500 ton tanker.
3. On October 2nd Reconnaissance aircraft off Norway made direct hits on two merchant ships of 1,000 and 2,000 tons. Same aircraft bombed the docks of Jevik (sic) where factory building hit. Another aircraft off Aalesund attacked merchant ship estimated at 10,000 tons claimed three direct hits but bombs did not explode. Two Hurricanes attacked and left sinking large armoured barge off Snocks. During offensive operations our fighters shot down six enemy aircraft certain, three probably and damaged four. We lost four but one pilot safe.
4. Night of 2nd/3rd. Enemy warships Great attacked by five aircraft. Smoke screen prevented observation of results.
5. Southshields and Dover attacked night 2nd/3rd. 60 aircraft crossed the coast; night fighters shot down three. Considerable damage to Syneside but not serious.
6. Russia. German Drive towards Murkov is meeting strong Russian resistance.

TELEGRAM FROM LONDON DATED DECEMBER 4th, 1941.

October 3rd. 800 miles west of Finister His Majesty's Ship *HEMIA* sighted enemy supply ship and U-boat. The supply ship attempted to escape but was ..... and blew up. Shortly afterwards submerged submarine and four life-boats full of Germans seen in vicinity.

2. News item that unnamed Italian liner sunk night of September 18th-19th north of Dover was probably the *Dalle* 23,636 tons.

3. H.M. Submarine sunk 1,000 ton ship in Solvay Sound near North Cape on September 27th.

4. Submarine attacked two ships 2,000 tons, 5,000 tons, in Petsamo Harbour on October 2nd. She entered the Harbour contrary to orders, fired torpedoes at ships alongside, claimed two hits. Though heavily attacked with depth-charges and having been entangled in a net, she got clear after two hours.

5. A.P. October 3rd, enemy coastal guns fired 18 rounds at trawler(s) about five miles off Dover; no casualties, slight damage from splinters.

6. Survivors of American tanker 7,000 tons under Panamanian colours report torpedoed 450 miles east of Portsmouth, September 27th.

7. October 3rd. Poles Half aircraft were driven off the airways and damaged by Catalina and a Hudson.

8. Royal Air Force. October 3rd. Submarine attacked off Brevinnes 700 tons escorted

/overcast

- 2 -

merchant vessel escorted by 7 anti-aircraft ships. One anti-aircraft ship sunk 3 set on fire and 3 damaged; merchant vessel left in flames. Blenheim escorted by 8 squadrons of fighters bombed warehouses at Ostend, started 3 large fires. One enemy fighter destroyed; 3 Spitfires missing.

9. October 3rd-4th. Nearly 110 aircraft sent out as follows: all returned safely. Dunkirk, Rotterdam, Antwerp, Brest, and Lorient. One shot down by enemy bomber over Northumberland. Preliminary reports state that most of the aircraft successfully bombed their objectives; large warehouse and munitions dump hit at Rotterdam, substantial fires started at Dunkirk and Antwerp.

10. Southern Italy. October 3rd. Blenheim from Malta attacked power station, munitions factory and engine-sheds of important railway junction near Catanzaro. Hits obtained on all objectives with considerable damage. Stationary Train machine-gunned.

11. Libya. October 1st-2nd. Benghazi harbour again attacked by Wellingtons, hits scored on heavy anti-aircraft battery. Six naval aircraft dive-bombed stores dumps Bardia starting two large fires. October 2nd. Nine Marylands continuously attacked these dumps.

12. German Air Force. October 3rd, 4th. Some aircraft engaged in anti-shipping operations and few reported over Eastern Counties.

13. Russia. Germans have improved their position in Krasnodar area and advanced Eastwards and Southwards from Dniepropetrovsk bridgehead.

TELEGRAM FROM LONDON DATED OCTOBER 5th, 1941.

Reference telegram October 2nd.

British tanker twelve thousand tons again torpedoed October 2nd. American destroyer found her still afloat and sunk her by gun fire. Preliminary report a.m. October 5th Swordfish attacked convoy in the Mediterranean about 50 miles N.W. of Tripoli, 3 merchant ships probably sunk or damaged.

2. Reports in convoy during week ending September 27 totalled 939,290 tons with 775,903 tons during previous week and average of 945,203 tons for the past ten weeks.

3. Royal Air Force. 3rd/4th October. Only 2 Stirlings attacked Brest owing to cloud through which bombs seen to burst. 9 coastal aircraft attacked aerodromes in Northern Denmark. October 4th Beaufort obtained 2 near misses on merchant ship off Norwegian Coast. October 4th/5th. No bomber operations owing to bad weather.

4. Libya. October 2nd/3rd. Wellingtons attacked Benghazi Harbour, Bardia, and Bares.

5. German Air Force. October 4th/5th. A few aircraft operated off East Coast.

Libya. Tobruk bombed October 2nd-3rd and October 3rd no serious damage reported.

Cyprus. October 2nd/3rd five enemy aircraft bombed Limassol aerodrome, slightly damaging run way.

6. Russia. Germans advancing Southeast of Roslavl East of Bryansk, Eastwards from Glukhov area, and Southwards from East of Dniepropetrovsk.

RESTRICTED

G-2/2657-220; No. 512 M.I.D., W.D. 11:00 A.M., October 7, 1941

SITUATION REPORTI. Eastern Theater.

Ground: The siege of Leningrad continues.

Germans apparently are on the defensive along the Volkhov River—Lake Ilmen—Seliger Lake—upper reaches of the Volga River line.

The German Army has launched a general attack from just north of Smolensk to the vicinity of Konotop.

Germans state that the line of fortifications along the Desna River has been broken along the entire front, and that an armored attack from the vicinity of Glukhov, northeast of Konotop, has reached Orel and Karachev.

Pressure is continuing against the Kharkov front.

On the southern front, a German armored force is moving to the southeast, east of Melitopol, in rear of the Russian attack to relieve the Crimea. The German High Command claims a great victory north of the Sea of Azov.

Air: The British EXCHANGE TELEGRAPH quoted the military correspondent of the Swiss publication DIE NATION as estimating that the Luftwaffe was losing about 80 planes per day on the Russian front.

D.N.B. claimed heavy plane losses for the Russians during yesterday.

II. Western Theater.

Air: Nothing has been received to indicate the extent of activity in this theater yesterday.

III. Middle Eastern Theater.

Ground: The British Admiralty claims the destruction of 4 Italian ships and serious damage to 7 others by submarines in the Mediterranean. There was no confirmation of the damage claimed to the ARK ROYAL.

Air: Axis sources claim several thousand pounds of explosives were dumped on Tobruk yesterday.

RESTRICTED

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE October 7, 1941

TO Secretary Morgenthau

FROM Mr. White

Subject: Request of South Africa Regarding Priorities

1. When Mr. Close, the Minister from South Africa, called on you last week, he left memoranda making two requests of you as follows:

(a) He hoped you would use your good offices to help South Africa obtain from the Priorities Committee 12,000 long tons of steel plates for maintenance use in the South African gold mines. These plates are requested at a rate of 2,000 a month from September to March. South Africa would like to obtain the steel with Lend-Lease funds, but if this is not possible, they are willing to pay cash.

The request is made on the grounds that South Africa is making a great war effort, and that continued gold production is vital both to the war effort of the Empire, and to the economy of South Africa. To the Empire, gold production provides a major source of dollar exchange, and to the South Africans it provides a major source of employment and public revenue.

(b) The second memorandum seeks your support in obtaining from the Priorities Committee steel and steel plate mills with accessories to be shipped to South Africa. The request was submitted to the Priorities Committee August 22. The South African Government feels that the geographical position and the difficulty of shipping makes additional production of steel in her territory desirable, and deems these steel mills necessary to help her equip and maintain military forces in the Middle East and to contribute to full war effort. The South African Government hopes to obtain these steel mills under the Lend-Lease arrangements but they are prepared to pay cash if necessary.

2. With respect to the second request, namely, that for steel and steel mills to be shipped to South Africa, I do not feel that the Treasury should take any position with the Priorities Committee. If priority were to be granted to South Africa on the steel mills, we might then wish to express our view as to whether or not they might appropriately come under Lend-Lease, since the question would then concern the dollar assets of the British Empire in which we are definitely interested. So long, however, as the question remains one of priorities, it would seem to be a matter outside the Treasury's responsibility. Furthermore, the Treasury does not have any special information enabling it to comment intelligently upon the usefulness of steel mills in South Africa as against the usefulness of that same steel at home. Certainly the Treasury has less pertinent information upon which to base a judgment on that subject than has the Priorities Committee. I would suggest, therefore, that some such reply might be given to the South African Minister.

3. The first request, namely, steel for gold mining, presents a more difficult problem for the Treasury and one which does fall within the Treasury's purview since it deals with the question of dollar assets and gold.

I believe that an examination of the several aspects of the situation would not warrant our putting pressure on the Priorities Committee to permit steel to be shipped to South Africa to enable that country to maintain her present gold production or increase her gold production at this time. In view of our Lend-Lease, the Empire is no longer vitally dependent for its continued war effort upon the maintenance of the present level of gold production as a needed source of dollar exchange.

It also needs to be determined that so much steel should be absolutely necessary for maintenance as distinct from expansion of gold mining in South Africa. So far as we know, gold mining equipment wears out slowly, and gold production should be able to continue at near present levels for some time without replacement of capital facilities. The steel requested is not needed to maintain all gold production in South Africa but only to make possible a little more than would otherwise be the case. How much more, we do not have enough information to judge but I suspect that somehow or other South Africa would be able to maintain her equipment in good enough condition to continue her gold production at, or almost at, present level for the next year at least.

Though failure to obtain the steel requested from the United States may result in a lower level of gold production for South Africa and hence may necessitate more Lend-Lease aid on our part (though this does not necessarily follow since the decision as to whether or not goods shall be sent under Lend-Lease is, I believe, determined independently of the question whether or not South Africa produces \$100 million more or less gold), it is very doubtful that steel going into gold mining would contribute as much to war effort from our point of view as steel going into armaments.

(In evaluating the aid to war effort provided by gold mining, it is interesting that the South African Minister should point out in his memorandum that the explosives industry of South Africa is dependent upon the continued operation of the gold mines.)

Whether or not the steel that might go to South Africa would reduce steel available here for armaments rather than steel available for industrial purposes, is something we do not know, but the Priorities Committee would. In any case, the popular reaction to the Treasury requesting the Priorities Committee to send steel plates to South Africa in order to enable South Africa to mine more gold would, I think, be highly critical of Treasury policy. The critics of the Administration monetary policy and of our war effort might make much out of the spectacle of our sending steel, of which there is presumably an acute shortage, to South Africa in order to increase our already super-abundant supply of gold.

I suggest, therefore, that the South African Minister be informed that the Treasury does not see its way clear on the basis of the information at its disposal to request at this time the Priorities Committee to send steel to South Africa to help in the production of gold there.

*Noted  
BWB*