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October 15, 1941  
12:18 p.m.

HMJr: Hello.

Operator: Mayor LaGuardia.

HMJr: Hello.

Fiorello  
LaGuardia: Hello.

HMJr: Fiorello.....

L: Good morning, Henry.

HMJr: Good morning. I sent McQuillan's men to both of those places yesterday.....

L: Yes.

HMJr: .....that you mentioned, and there were no Treasury people on the premises.

L: Good.

HMJr: So I think whoever told you that had his information wrong.

L: Good, I hope so. Now, if we get any, may I give it direct to McQuillan?

HMJr: Yes.

L: If I get any information.

HMJr: Yes, yes. McQuillan sent his people there to both those places - Courtland Street and up on Southern Boulevard.....

L: Yeah.

HMJr: .....what was it - Concord.

L: Yes.

HMJr: And there were no Treasury people on the premises.

L: That's fine. Then if I get any more, I can give

it to McQuillan and he can check it quick.

HMJr: Yeah.

L: Thank you so much.

HMJr: Thank you.

## TREASURY DEPARTMENT

Washington

FOR IMMEDIATE RELEASE,  
Wednesday, October 15, 1941.

Press Service  
No. 28-5.

The Secretary of the Treasury today announced the subscription figures and the basis of allotment for the cash offering of 2-1/2 percent Treasury Bonds of 1967-72.

Reports received from the Federal Reserve Banks show that subscriptions aggregate \$10,446,000,000. All subscriptions were allotted 12-1/2 percent, on a straight percentage basis, with adjustments, where necessary, to the \$100 denomination.

About 92 percent of the Treasury notes maturing December 15, 1941, were exchanged for the new bonds.

Original delivery of the new issue, except in the case of registered bonds, will be made in the form of interim certificates, title to which will pass by delivery, as in the case of coupon bonds. Definitive coupon bonds will probably be available to replace the interim certificates early in January.

Details as to subscriptions and allotments will be announced when final reports are received from the Federal Reserve Banks.

October 15, 1941  
2:15 P.M.

RE FINANCING

Present: Mr. Kilby  
Mr. Bell  
Mr. Morris  
Mr. Stewart  
Mr. Sproul

Bell: The total subscriptions were ten billion four hundred forty-six million, and if we take the customary ten percent over, it would be one billion three hundred million dollars, one billion three hundred twenty million dollars. I say if we took the customary ten percent, it would be a hundred and twenty million, or a total subscription of one billion three hundred twenty. One per cent amounts to a hundred and four million. Twelve per cent would be one, two-fifty-three, which is fifty million over the offering. Thirteen per cent is one, three-fifty-eight, or about thirty-eight million over the ten per cent. Twelve and a half per cent is one, three zero five, which is fifteen million less than the ten per cent.

Ordinarily we don't split a percentage, because of the difficulty in the banks in figuring it, but twelve and a half comes to one eighth and that is simple, so I recommend a twelve and a half. It keeps us within our customary ten per cent. Does that seem all right to you, Allan?

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Sproul: Yes, it does.

Bell: Would you recommend going above the ten?

Sproul: No.

H.M.Jr: You would not?

Sproul: No.

H.M.Jr: You think that would be a mistake?

Sproul: Yes.

Bell: Would you be in favor in December of announcing prior to the issue that you will reserve the right to take up the fifteen per cent --

Sproul: Yes, I would. I think right now you are pretty well limited to the ten per cent, but I would like to be rid of the limit.

Bell: Like to fluctuate it hereafter?

Sproul: Yes.

Bell: I think that is a good idea.

H.M.Jr: Would you mind a half a per cent?

Sproul: You mean twelve and a half and thirteen?

H.M.Jr: No, it is between twelve and twelve and a half.

Sproul: Well, you would be getting down well below the ten per cent if you did it at twelve, and I don't think you need do that.

H.M.Jr: Thirteen per cent you wouldn't go over?

Sproul: I wouldn't go over it. I don't think it is desirable in this case. There is a long record of not more than ten per cent.

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H.M.Jr: Twelve and a half is how much under that?

Bell: That is just fifteen million. Adjustments may bring that up within ten million.

Sproul: I think that is perfectly in order, and the twelve and a half per cent doesn't involve any great difficulties.

H.M.Jr: It is all right with me. It is lucky I said, "All right." You have got every damn thing written. (Laughter)

Bell: No, it is blank. We didn't put it in. I left it blank this time. This is the press release. This is approving New York action of policing the subscriptions.

H.M.Jr: Do I approve it? How do I know they did a good job?

Bell: They tell you in their telegram what they did. There is about a hundred and ten million cut out, all told, throughout the system, policing.

H.M.Jr: O.K.

Sproul: We are really not saying we did a good job, but you are protecting us on what we did do.

Bell: They have to have backing.

H.M.Jr: Allan, give this thing a thought and give me a ring tomorrow or Friday morning, will you do that?

Sproul: Yes, I shall.

H.M.Jr: And I will get a memo from you (Bell) and Morris tomorrow.

Bell: I hope so.

H.M.Jr: Tomorrow is - you have got time.

Sproul: We were just talking about that, and in these terms, that if without sacrificing your major objective of getting rid of these guaranteed issues and the rights question which is involved, you can give - make a gesture of some notice to the markets, then we think it would be desirable. If you can do it without sacrificing the major objective of getting rid of the guaranteed issues.

H.M.Jr: O.K.

October 15, 1941  
2:53 p.m.

HMJr: Get Norman Thompson on the wire.

Operator: All right. Mr. Thompson.

HMJr: Norman.....

Norman  
Thompson: Yes, sir.

HMJr: What happened with J. Homer Butler, this agent  
that came back?

T: Well, he was dismissed. He filed his answer  
and the answer was simply a plea of ignorance  
of the fact that the United States would object  
to trying to get by the British Blockade on  
something that this country would like to have.  
It's a very feeble answer.

HMJr: Well, I mean, don't you have a hearing on a thing  
like that?

T: No, sir.

HMJr: You don't?

T: No. If the answer is considered unsatisfactory  
as requiring a hearing or anything, we never  
give a hearing.

HMJr: I see. Well, who passed on it?

T: I passed on it. Ted Wilson, in the Personnel  
Division; Bill Johnson - Johnson passed on it  
first and sent over the recommendation for the  
dismissal.

HMJr: But Johnson recommended it?

T: Yes, sir.

HMJr: And then you and Ted Wilson passed on it.

T: That's right.

October 15, 1941  
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HMJr: Norman.....

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dismissal.

HMJr: But Johnson recommended it?

T: Yes, sir.

HMJr: And then you and Ted Wilson passed on it.

T: That's right.

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HMJr: And he didn't in any way explain?

T: No. I thought his letter was very weak. It was simply a plea of ignorance of the fact that this country would object to attempt to run the British blockade on something that this country would need.

HMJr: Well, the man.....

T: It just didn't make sense.

HMJr: No. The man just has poor judgment.

T: Why yes. It's terrible.

HMJr: Okay.

T: All right, sir.

October 15, 1941  
4:57 p.m.

HMJr: Hello.

Operator: Mr. Currie. Go ahead.

HMJr: Hello, Lauch.

Lauchlin  
Currie: Hello, Mr. Secretary.

HMJr: Go ahead.

C: Would you like to give - grant freedom of the  
Port of San Francisco to a hundred and twelve  
Chinese privates?

HMJr: A hundred and twelve what?

C: Chinese privates and radio and armorers and  
interpreters.

HMJr: When do they get in?

C: Sunday.

HMJr: Oh.

C: This is a request of General Yount.

HMJr: Freedom of the port?

C: Yeah. I don't know what it means. I was sure  
that you would know what it meant.

HMJr: No, we don't do it any more; we sort of - I  
tell you.....

C: You gave it to some Australian flyers recently.....

HMJr: Did I?

C: Yeah.

HMJr: Well, I didn't know.....

C: .....who came in through there, and this General

- 2 -

over there, I don't know who he is, he is a commanding general, said it would be very helpful if these pilots and everything could be granted that so they wouldn't be locked up somewhere.....

HMJr: Oh. Well, I tell you.....

C: .....and he said they want to train them and what not.

HMJr: .....Gaston gets in tomorrow, and I'll bring it to his attention.....

C: Fine.

HMJr: .....and if we've done it for the Australians, I'd surely do it for my Chinese friends.

C: I knew you would. All right. That was all.

HMJr: A hundred and twelve.

C: Hundred and twelve.

HMJr: What are you going to do with them?

C: Train them here - give them advanced training.

HMJr: I see. All right. I'll give you a yes or no tomorrow.

C: All right. Thanks.

From the Act 15, 1941  
by [unclear]

Family and Economic Stabilization Reserves,  
and Treasury Certificates for Dismissal and Part Time Compensation

The plan subjoined is intended to accomplish the following purposes:

- a. To protect individuals and their families against economic depression and losses of income during the post-defense readjustment period.
- b. To protect businesses from post-defense insolvency, thereby protecting against unemployment/<sup>and</sup> minimizing defaults on contract obligations.
- c. To aid in restricting consumption of essential materials and commodities in the interest of defense.
- d. To protect the public against rising prices and defense inflation.
- e. To decrease the cost of defense to the Government.
- f. To help finance defense, to avoid extreme taxation, and to protect taxable revenues.

Three types of required contributions to reserves are proposed, of which the first two relate to individuals, and the third to businesses:

1. A contribution of 5% of all salaries and wages in excess of \$1,000.
2. A contribution varying from 25% to 50% of the increase in spendable income of individuals from all sources in any year over that of the previous year.
3. A contribution of from 50% to 100% of distributable net income of businesses, i.e., after income and excess profits taxes, in excess of 6%.

A voluntary dismissal and part time compensation plan is also included to aid in the general purposes to be accomplished.

### Section 1. Payroll Contributions

Family reserves are to be contributed in two ways, contribution from which will be merged in one reserve. The first is a contribution of 5% on the amount of all gross salaries and wages of \$1,000 to be withheld at the source to create a reserve for each individual affected, to be held in trust by the Social Security Administration. Probably necessary to have some exempt classes, e.g., State employees.

The methods of disbursement or repayment will be stated under Section 3.

### Section 2. Increase of Income Contribution

The second source of contributions to family reserves is to be the increase of spendable income in any year over the previous year. A payment, made contemporaneous with income tax payments, is to be made for the increase, if any, of income from all sources during the taxable year above that of the previous year. Spendable income is defined as the taxable net income, less the amount of currently payable income taxes, less the amount of salary and wage reserve contribution paid in the taxable year (in Section 1 above, i.e., 5% of payroll receipts above \$1,000).

When the amount of net taxable income is \$2,000 or less, the percentage of the increase of spendable income to be contributed will be 25%; where the taxable income is more than \$2,000 the percentage of increase of spendable income <sup>to be contributed</sup> will be 50%.

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### Section 3. Withdrawals from reserves

Contributions provided for in both Section 1 and Section 2 become merged in the same reserve for the affected individual. Withdrawals from such reserves are to be made as follows:

a. Before the end of the emergency.

At any time before the end of the emergency (including the waiting period thereafter provided for in (b) below), a person in financial distress due to illness, etc., or a person out of employment, may withdraw his reserve; but no withdrawal by reason of unemployment shall be permitted until after rights to unemployment compensation, if any, shall have been exhausted.

Payment to widow (or heirs) will also be made immediately in the event of death.

b. After the end of the emergency.

(1) A person unemployed after the end of the emergency may withdraw reserves at the rate of \$25 per month or one-tenth of the reserve, whichever is larger; but no such payment will be made until after unemployment compensation, if any, is exhausted.

(2) Beginning one year after the end of the emergency, the reserve created in the first year of the operation of the plan will be repaid, with interest, and in each subsequent year the reserve created in the corresponding year of the period in which contributions are collected will be paid until the reserve is exhausted. For example, if one \$100 were paid in in 1942, \$150 in 1943, and \$160 in 1944 and the emergency declared ended on January 1, 1945, then January 1, 1946, \$100 plus

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interest, on January 1, 1947, \$150 plus interest, and January 1, 1948, \$160 plus interest would be repaid.

Interest at  $2\frac{1}{2}\%$  compounded semi-annually will be paid on the amount of the reserve at the end of the year in which it is created, interest to run from that date.

Optional alternative to the above contributions.

Those who buy savings bonds, Series F, in twice the amount required as contributions above, will be relieved of making the contribution; but in computing the net increase of spendable income no allowance shall be made for such purchases.

Business Stabilization Reserves

Contributions to business stabilization reserves are calculable on all distributable net income, i.e., income after deducting the amount of income and excess profits taxes from taxable net income. The amount to be contributed will be invested in Business Reserve Certificates of the Treasury, in the proportions of distributable income stated below, depending upon the rate of such income to the same capital base as is used in calculating excess profits, on the following schedule:

Per cent contribution on	distributable profits	where rate is	more than	not but over
25	"	"	"	6% 8%
50	" additional	"	"	8% 10%
75	" "	"	"	10% 15%
100	" "	"	"	above 15%

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Business Reserve Certificates are to be issued by the Treasury in the name of the contributor, not transferable, and are payable as follows:

- a. Whenever and to the extent necessary to prevent a deficit after payment of expenses, taxes and contract interest (but not dividends).
- b. To a receiver on involuntary liquidation.
- c. On voluntary liquidation; but the amount so distributed to be accounted as an earned dividend payment to stockholders.
- d. Beginning at the end of two years after the termination of the emergency, one year's reserve each year, in the order of accumulation, as in Section 3 above.

No alternative purchase of bonds permitted.

Interest at 2½%.

Contributions provided for in Section 1 are to cease as of the 1st of the month following the date at which the emergency is declared to be ended. Those provided for in Section 2 will not be made for increases of income during the year in which the emergency is declared ended. Business Stabilization Reserve Certificates will not be required to be purchased after the emergency is declared ended.

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### Voluntary Dismissal and Part Time Compensation

Any employer may provide for dismissal compensation for his employees by purchasing Treasury Dismissal Compensation Certificates to be issued in denominations of \$500, \$1,000, \$10,000, \$25,000 and \$100,000, bearing interest at  $\frac{1}{2}\%$  from the 1st day of the month following issue. The amount of such certificates purchased in any year will be <sup>allowable</sup> as an expense in computing taxable net income and excess profits taxes (or individual income taxes). Subsequent to January 1, 1942, payments to any trust fund established for this purpose shall not be deductible. (This concentrates such future funds in the Treasury).

Treasury Dismissal Compensation Certificates may be redeemed through Federal Reserve Banks:

a. On proof of payment of dismissal compensation or of compensation for part time lay off to the amount so paid.

b. <sup>or</sup> ~~in~~ payment of the income and profit taxes, if any, due on re-computing the tax for the year in which the certificate was issued, less interest at  $2\frac{1}{2}\%$  on the amount of this delinquency.

This plan is not an alternative to those previously set forth above, but is a voluntary additional plan. To the extent availed of, it will

- (1) increase the cash income of the Treasury by anticipating the tax payments thus avoided, plus the amount of the untaxed residue, this residue varying from 20% to 200% or more of the avoided tax payment;
- (2) will increase the amount of contributions to business stabilization reserves by a percentage of the amount of dismissal compensation

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certificates, varying from 0 to 100%, depending upon the income and excess profits tax status of the employer and the relation of net distributable income to the excess profits valuation base (Section 3 above). It would reduce the current tax receipts, but increase the amount of funds obtained at  $\frac{1}{2}\%$ .

TREASURY DEPARTMENT

19

INTER OFFICE COMMUNICATION

DATE October 15, 1941

TO Secretary Morgenthau

FROM Mr. Barnard

In accordance with your instructions, I have sent my memorandum on reserves to Messrs. Bell, Foley, Sullivan, White, Haas, Blough and Stewart.

I made slight additions, namely the note at the bottom of page 2 and the note to paragraph b on page 6.

*CB*

Family and Economic Stabilisation Reserves,  
and Treasury Certificates for Dismissal and Part Time Compensation

The plan subjoined is intended to accomplish the following purposes:

a. To protect individuals and their families against economic depression and losses of income during the post-defense readjustment period.

b. To protect businesses from post-defense insolvency, thereby protecting against unemployment and minimizing defaults on contract obligations.

c. To aid in restricting consumption of essential materials and commodities in the interest of defense.

d. To protect the public against rising prices and defense inflation.

e. To decrease the cost of defense to the Government.

f. To help finance defense, to avoid extreme taxation, and to protect taxable revenues.

Three types of required contributions to reserves are proposed, of which the first two relate to individuals, and the third to businesses:

1. A contribution of 5% of all salaries and wages in excess of \$1,000.

2. A contribution varying from 25% to 50% of the increase in spendable income of individuals from all sources in any year over that of the previous year.

3. A contribution of from 50% to 100% of distributable net income of businesses, i.e., after income and excess profits taxes, in excess of 6%.

A voluntary dismissal and part time compensation plan is also included to aid in the general purposes to be accomplished.

Section 1. Payroll Contributions

Family reserves are to be contributed in two ways, contribution

from which will be merged in one reserve. The first is a contribution of 5% on the amount of all gross salaries and wages <sup>over</sup> of \$1,000 to be withheld at the source to create a reserve for each individual affected, to be held in trust by the Social Security Administration. Probably necessary to have some exempt classes, e.g., State employees.

The methods of disbursement or repayment will be stated under Section 3.

#### Section 2. Increase of Income Contribution

The second source of contributions to family reserves is to be the increase of spendable income in any year over the previous year. A payment, made contemporaneous with income tax payments, is to be made for the increase, if any, of income from all sources during the taxable year above that of the previous year. Spendable income is defined as the taxable net income, less the amount of currently payable income taxes, less the amount of salary and wage reserve contribution paid in the taxable year (in Section 1 above, i.e., 5% of payroll receipts above \$1,000).

When the amount of net taxable income is \$2,000 or less, the percentage of the increase of spendable income to be contributed will be 25%; where the taxable income is more than \$2,000 the percentage of increase of spendable income to be contributed will be 50%.

Note: A special rule must be devised to cover increases for 1941 over 1942 or forego the contribution. A cumbersome but perhaps practicable method would be to calculate 1940 returns on the 1941 tax schedule, and find the constructive increase of spendable income in this way.

Section 3. Withdrawals from reserves

Contributions provided for in both Section 1 and Section 2 become merged in the same reserve for the affected individual. Withdrawals from such reserves are to be made as follows:

a. Before the end of the emergency.

At any time before the end of the emergency (including the waiting period thereafter provided for in (b) below), a person in financial distress due to illness, etc., or a person out of employment, may withdraw his reserve; but no withdrawal by reason of unemployment shall be permitted until after rights to unemployment compensation, if any, shall have been exhausted.

Payment to widow (or heirs) will also be made immediately in the event of death.

b. After the end of the emergency.

(1) A person unemployed after the end of the emergency may withdraw reserves at the rate of \$25 per month or one-tenth of the reserve, whichever is larger; but no such payment will be made until after unemployment compensation, if any, is exhausted.

(2) Beginning one year after the end of the emergency, the reserve created in the first year of the operation of the plan will be repaid, with interest, and in each subsequent year the reserve created in the corresponding year of the period in which contributions are collected will be paid until the reserve is exhausted. For example, if one \$100 were paid in in 1942, \$150 in 1943, and \$160 in 1944 and the emergency declared ended on January 1, 1945, then January 1, 1946, \$100 plus interest, on January 1, 1947, \$150 plus interest, and January 1, 1948, \$160 plus interest would be repaid.

Interest at  $2\frac{1}{2}\%$  compounded semi-annually will be paid on the amount of the reserve at the end of the year in which it is created, interest to run from that date.

Optional alternative to the above contributions.

Those who buy savings bonds, Series  $\bar{F}$ , <sup>or G</sup> in twice the amount required as contributions above, will be relieved of making the contribution; but in computing the net increase of spendable income no allowance shall be made for such purchases.

**Business Stabilisation Reserves**

Contributions to business stabilisation reserves are calculable on all distributable net income, i.e., income after deducting the amount of income and excess profits taxes from taxable net income. The amount to be contributed will be invested in Business Reserve Certificates of the Treasury, in the proportions of distributable income stated below, depending upon the rate of such income to the same capital base as is used in calculating excess profits, on the following schedule:

Per cent contribution on	distributable profits	where rate is	more than	not but over
25	"	"	"	6% 8%
50	" additional	"	"	8% 10%
75	" "	"	"	10% 15%
100	" "	"	"	above 15%

Business Reserve Certificates are to be issued by the Treasury in the name of the contributor, not transferable, and are payable as follows:

a. Whenever and to the extent necessary to prevent a deficit after payment of expenses, taxes and contract interest (but not dividends).

b. To a receiver on involuntary liquidation.

c. On voluntary liquidation; but the amount so distributed to be accounted as an earned dividend payment to stockholders.

Note: Probably desirable to develop some practicable scheme for making certificates cashable where insolvency is threatened not by deficits but by temporary illiquidity.

d. Beginning at the end of two years after the termination of the emergency, one year's reserve each year, in the order of accumulation, as in Section 2 above.

No alternative purchase of bonds permitted.

Interest at  $2\frac{1}{2}\%$ .

Contributions provided for in Section 1 are to cease as of the first of the month following the date at which the emergency is declared to be ended. Those provided for in Section 2 will not be made for increases of income during the year in which the emergency is declared ended. Business Stabilization Reserve Certificates will not be required to be purchased after the emergency is declared ended.

#### Voluntary Plan for Dismissal and Part Time Compensation

Any employer may provide for dismissal compensation for his employees by purchasing Treasury Dismissal Compensation Certificates to be issued in denominations of \$500, \$1,000, \$10,000, \$25,000, and \$100,000, bearing interest at  $\frac{1}{2}\%$  from the 1st day of the month following issue. The amount of such certificates purchased in any year will be as an expense in computing taxable net income and excess profits taxes (or individual income taxes). Subsequent to January 1, 1942, payments to any trust fund established for this

purpose shall not be deductible. (This concentrates such future funds in the Treasury).

Treasury Dismissal Compensation Certificates may be redeemed through Federal Reserve Banks:

a. On proof of payment of dismissal compensation or of compensation for part time lay-off to the amount so paid.

b. On payment of the income and profit taxes, if any, due on recomputing the tax for the year in which the certificate was issued, less interest at 5% on the amount of this delinquency.\*

This plan is not an alternative to those previously set forth above, but is a voluntary additional plan. To the extent availed of, it will (1) increase the cash income of the Treasury by anticipating the tax payments thus avoided, plus the amount of the untaxed residue, this residue varying from 20% to 200% or more of the avoided tax payment; (2) will increase the amount of contributions to business stabilization reserves by a percentage of the amount of dismissal compensation certificates, varying from 0 to 100%, depending upon the income and excess profits tax status of the employer and the relation of net distributable income to the excess profits valuation base (Section 3 above). It would reduce the current tax receipts, but increase the amount of funds obtained at  $\frac{1}{2}$ %.

\* Purpose of this rate is to diminish the incentive to recapture of these funds without making the plan irrevocable and at the same time to permit recapture where funds in excess of needs are accumulated.

Treasury Department  
Division of Research and Statistics 26

Date Oct. 15, 1941

To: Secretary Morgenthau

From: Mr. Haas

Attached is a copy of the memorandum "Restriction of Capital Issues Competing with Government Securities" submitted to you earlier, which has been brought up to date at the request of Mr. Bell and copies have been given to Mr. Bell, Dr. Viner, Mr. Morris and Mr. Buffington.

COPY

TREASURY DEPARTMENT

37

INTER OFFICE COMMUNICATION

DATE April 17, 1941

TO Secretary Morgenthau  
FROM Mr. Haas  
Subject: Restriction of Capital Issues Competing with Government Securities

SUMMARY

- (1) The problem of restricting capital issues competing with Government securities is a twofold problem. On the financial level it is a problem of allocating the available supply of funds between defense and non-defense uses. On the physical level it is a problem of utilizing the available supply of labor and materials in the manner most conducive to the defense effort.
- (2) Restriction of capital issues during the World War was undertaken early in 1918 by an informal Capital Issues Committee, under the general supervision of the Federal Reserve Board of which the Secretary of the Treasury was then ex officio chairman. This Committee was supplanted after about four months by a new Capital Issues Committee established by Congress. Neither committee had any authority, even to require that it be notified of proposed capital issues; but both were reasonably successful, due largely to the patriotic cooperation of the financial and business community.
- (3) Restriction of new capital flotations does not seem to be either necessary or desirable at this time. The volume of new money financing in competition with Government securities has been negligible for some years past and as yet shows no signs of an appreciable increase. In view of the fact that the defense program may soon absorb the entire annual savings of the nation, however, it might be desirable for the Treasury to set up suitable machinery to be used when and if it becomes necessary.

### I. General Character of Problem

The problem of restricting security flotations entering into competition with Government borrowing presents itself on two levels -- the financial and the physical. On the financial level, the problem is that of competition between the Government and other borrowers for the available supply of funds. If the competition is not intense the problem may be merely one of timing. If the competition is more intense, however, the Government may have to choose between the alternatives of either restricting new capital issues for purposes not essential to the defense effort or of competing with them on a price basis for a limited supply of funds. The latter course would be clearly undesirable, especially in view of the fact that price competition would not tend to increase materially the supply of capital available for distribution between essential and non-essential uses.

On the physical level the problem is one of the conservation of labor and materials. Here the question is not merely how much money is proposed to be raised, but how it is proposed to be spent. It may be desirable, for example, to restrict new capital issues for purposes not essential to the defense effort if they are likely to absorb labor and materials needed for defense purposes; but to leave untrammelled other issues, the purposes of which are equally non-essential, if their proceeds are not likely to be expended for goods and services necessary for defense.

### II. Control of Capital Issues During the World War

Restriction of capital issues during the World War was undertaken with both the financial and the physical problems in mind. On the financial level the problem was one of so limiting the supply of investment securities that the cost of Government borrowing might be kept down, and that the market value of bank portfolios -- at that time savings banks were the principal class of bank holding bonds in substantial amounts -- might be maintained insofar as possible in the face of competition from Liberty bonds bearing coupon rates in excess of 4 percent. On the physical level the problem was, as stated above, to conserve labor and materials for essential war uses.

Recognition of the immediacy of the problem came in the latter part of 1917 when the Secretary of the Treasury made a public request that all organizations or persons contemplating new capital flotations submit their proposals to him and

Secretary Morgenthau - 3

secure his opinion as to whether they were in the public interest. This task of passing on proposed capital issues was subsequently turned over to a Capital Issues Committee, organized in January 1918 under the Federal Reserve Board of which the Secretary of the Treasury was then *ex officio* chairman. The Committee was composed of three members\* of the Board with an advisory staff. It had no powers of compulsion. Nevertheless for a period of about four months until the War Finance Corporation Act took effect, it succeeded, with the cooperation of banking organizations, in maintaining a fairly effective control of new capital flotations.

Originally the Committee passed only on flotations of \$250,000 or more, but this limit was subsequently reduced, with respect to both municipals and corporates, to \$100,000. Despite the success of this Committee it was felt that it should be given legal status. For that purpose provision was included in the War Finance Corporation Act (Title II), approved April 5, 1918, for the establishment of a new Capital Issues Committee. As originally written in accordance with the recommendation of the Secretary of the Treasury, the bill provided for a formally organized and salaried committee with carefully defined powers. Due to objections on the part of the Investment Bankers' Association and others, however, the Act as finally passed merely set up a new Capital Issues Committee of seven members\* which, while it had definite statutory recognition, had no more authority than the old -- i.e., it did not have the power to require that new issues be submitted to it or even that it be notified of them.

The new Committee functioned from May 17, 1918 until shortly after the signing of the Armistice. Sub-committees -- composed principally of bankers serving without compensation -- were organized in each Federal Reserve district and the plan as a whole worked reasonably well until the Armistice. The Committee discontinued operations in December 1918. The results of the work of the two Capital Issues Committees are indicated in the following table:

---

\* The members of the first Committee were Paul M. Warburg, Charles S. Hamlin, and Frederick A. Delano, all of the Federal Reserve Board. The second Committee consisted of Messrs. Hamlin and Delano; Comptroller of the Currency John S. Williams; James B. Brown, President of the National Bank of Commerce of Louisville; John S. Drum, President of the Savings Union Bank and Trust Company of San Francisco; Henry C. Flower, President of the Fidelity Trust Company of Kansas City; and Frederick H. Goff, President of the Cleveland Trust Company.

Secretary Morgenthau - 4

Operations of the First Capital Issues Committee  
January 12 - May 17, 1918 \*

(Millions of dollars)

	: Municipal :	Public : : Utility :	Industrial :	: Total
Amount applied for	87	172	220	478
Amount approved			-	
Refunding	21	126	111	259
New issues	<u>46</u>	<u>40</u>	<u>68</u>	<u>154</u>
Total	67	166	179	413

Operations of the Second Capital Issues Committee  
May 17 - December 31, 1918 \*

(Millions of dollars)

	: Municipal :	Public : : Utility :	Industrial :	: Total
Amount applied for	245	810	2,722	3,777
Amount approved				
Refunding	37	279	429	745
New issues	<u>139</u>	<u>504</u>	<u>1,473</u>	<u>2,114</u>
Total	176	783	1,902	2,860

\* The reports of the two committees do not show separately the amounts of new money and refunding involved in the rejected applications. It is difficult, therefore, to obtain a clear idea of the amount of new money financing which was obviated by the operations of the committees.

### III. The Need for Restricting Capital Issues

Under ordinary conditions any restriction of capital issues, by preventing the investment of savings, would tend to depress business and to increase unemployment. With the defense effort in full swing, however, it might be a matter of essential and non-essential employments competing for a limited labor supply. In the latter case, of course, restriction of capital issues would be clearly desirable. It should be borne in mind, however, that until the ability of the defense effort to absorb the unemployed labor supply can be demonstrated, it would be premature to undertake restriction of capital issues.

It may be necessary, of course, to engage in selective measures of restriction before the total volume of unemployment is absorbed. Particular materials and particular types of labor skill will become scarce before others. As far as materials are concerned, however, all necessary restriction can probably be adequately handled by the direct application of priorities. Shortages of particular types of labor are, of course, more difficult to deal with in this way, but such shortages as now exist, or are likely to occur in the immediate future, do not seem to be aggravated to any important extent by demands created by new capital issues for non-essential purposes.

On the financial level the competition between Government and all other issues does not appear yet to be intense. As the table on the following page, showing new money raised by security offerings during the years 1933-40, inclusive, indicates, this competition has been negligible during the past eight years. As a matter of fact while the United States Government and its agencies raised \$26.2 billions of new money (net) during this period, all other issuers effected a net retirement of securities to the extent of \$0.2 billion.

The data with respect to new issues during this period are presented from a somewhat different point of view for bond issues only in the attached chart which shows total domestic bond flotations, monthly, for the period 1929 to the present, classified according as they are new capital or refunding, and corporate or municipal. This chart shows

Secretary Morgenthau - 6

New Money Raised by Security Offerings 1/  
1933-1940

Year	U. S. Government and its agencies issuing guaranteed obligations <u>2/</u>	All other issuers	Total new money raised
(In billions of dollars)			
1933	2.4	-0.6	1.8
1934	5.7	-0.6	5.1
1935	2.0	-0.2	1.8
1936	4.1	+0.7	4.8
1937	2.9	-0.2	2.7
1938	2.6	+0.6	3.2
1939	3.2	-0.2	3.0
1940	<u>3.3</u>	<u>+0.1</u>	<u>3.4</u>
Total	26.2	-0.4	25.8

1/ Data from SEC releases. Negative figures denote excess of retirements over proceeds of new issues. New money is defined to mean proceeds of new securities issues less the amount of outstanding securities retired.

2/ Excludes securities issued in exchange for previously outstanding farm and home mortgages. Includes borrowings represented by special Treasury issues made to Government agencies and trust funds. Total increase in the direct and guaranteed interest-bearing public debt of the United States during this period amounted to \$29.9 billions.

Secretary Morgenthau - 7

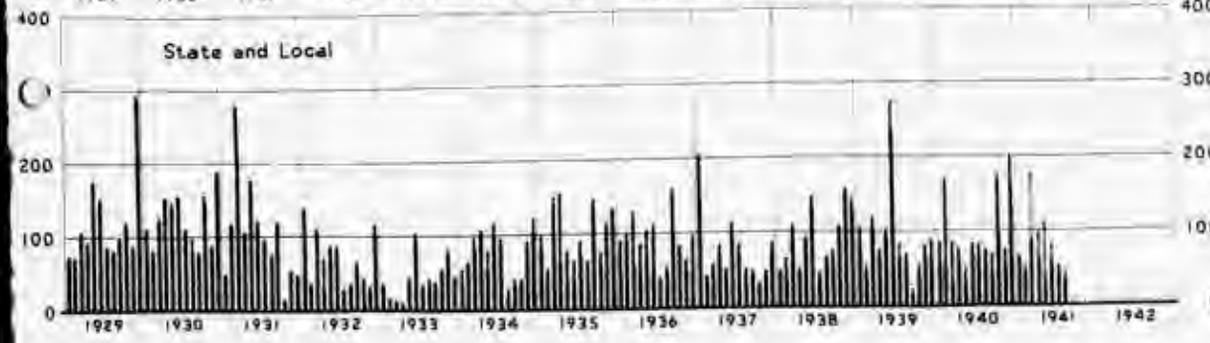
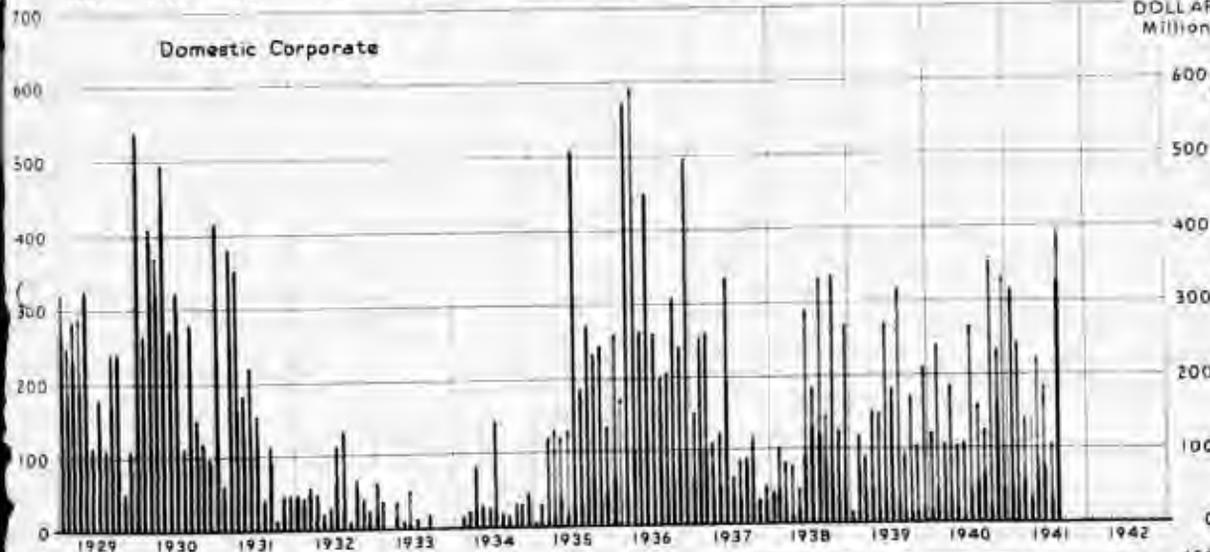
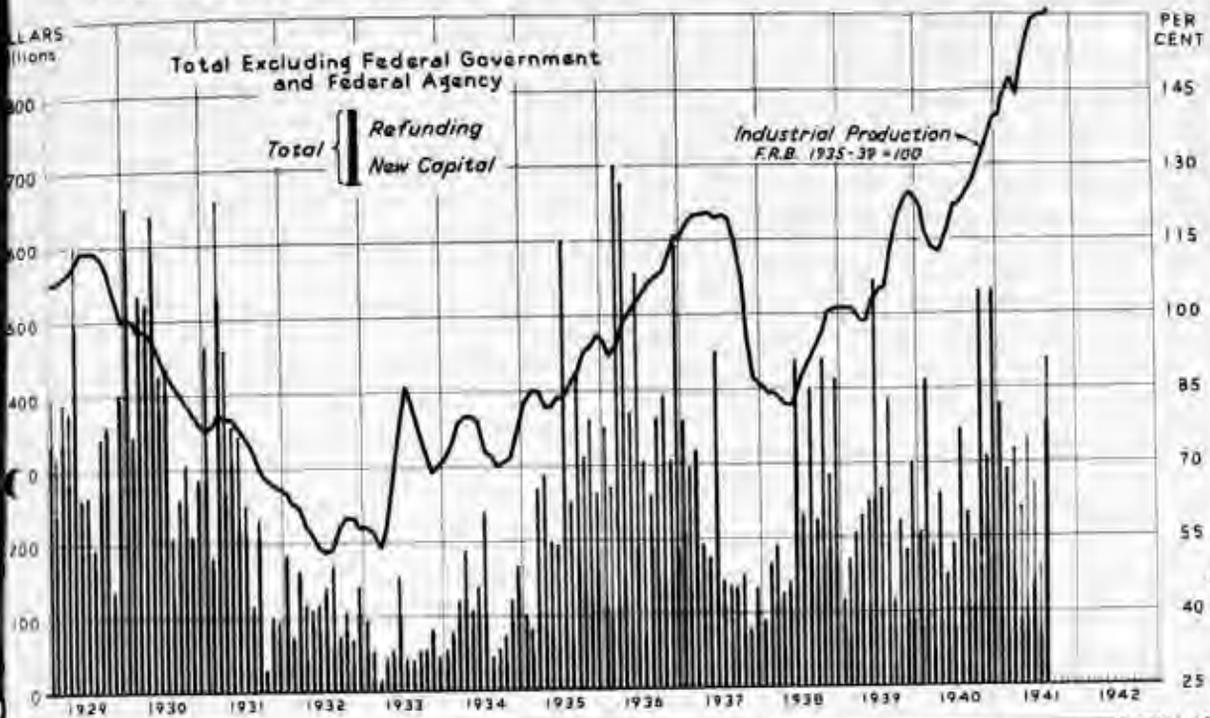
a total amount of "new capital" of \$10.1 billions raised by bond flotations during the period 1933-40, but, as indicated in the table, more than the whole of this amount plus the whole of the amount raised by stock issues was offset by retirements of outstanding securities by other issuers. The chart also compares the fluctuations of bond flotations with those of industrial production and shows only a fair relationship.

How soon the situation indicated by the table and chart may change, and bond flotations by issuers other than the Federal Government may present a substantial obstacle to the financing of the defense program, is a matter of some doubt. While the funds needed for private capital expansion in connection with the program itself are largely supplied by the Government, the expansion of consumer income incident to the program might result in a substantial increase in capital issues. Such an increase might be undesirable, particularly in view of the fact that current estimates indicate that practically the whole savings of the country for the next fiscal year will be required in financing the defense program. It would appear, therefore, that it might be advisable for the Treasury at the present time to set up suitable machinery for the restriction of capital issues, to be used when and if it becomes necessary.

Attachment

The extraordinarily large amount of new money raised by domestic corporations in August is accounted for principally by the \$234 millions American Telephone and Telegraph convertible bond issue offered to stockholders. (This issue was for new money and is to be distinguished from the \$90 millions issue recently sold to insurance companies which was for refunding purposes.)

# 39- TOTAL DOMESTIC BOND FLOTATIONS (EXCLUDING FEDERAL) AND INDUSTRIAL PRODUCTION



Treasury Department  
Division of Research and Statistics

Date 10/15/41 ..... 194

To: Secretary Morgenthau

From: Mr. [Signature]

Domestic Bond Plotations (Excluding Federal)  
Corporate Issues of \$10 Million or More  
State and Municipal Issues of \$5 Million or More

(In thousands of Dollars)

Issue	Corporate			Municipal
	New Capital	Refunding	Mixed or Unknown	***
<u>January 1941</u>				
Pennsylvania R. R. Equipment Trust Certificates	11,925			
Union Pacific R. R. Equipment Trust Certificates	12,570 *			
Bell Telephone of Pennsylvania		20,000 *		
Consolidated Gas Electric Light and Power Co. of Baltimore		12,000		
Illinois Bell Telephone Co.		46,250		
Philadelphia Suburban Water Company		15,950 *		
Southern Counties Gas Company of California		11,500		
Jones and Laughlin Steel Corporation		23,000		
Phillips Petroleum Company		20,000		
Phillips Petroleum Co. Notes		15,000		
Shell Union Oil Corp. Notes		10,000		
Shell Union Oil Corporation		15,000		
Panhandle Eastern Pipe Line Co.		12,000		
Chicago, Illinois Park District				5,300
Consumers Public Power District (Nebraska)				6,750
Florida Counties (Refunding Issues)				14,000
Oklahoma City, Oklahoma				6,911
<u>February 1941</u>				
Chesapeake & Ohio Railway		11,000		
Monongahela Railway		11,418		
New York Central Equipment Trust	10,900**			
Georgia Power Company		101,271 *		
Philadelphia Suburban Water Co.		15,900 *		
Wisconsin Public Service Co.		26,500		

For footnotes see last page.

(In thousands of Dollars)

Issue	Corporate			Municipal
	New Capital	Refunding	Mixed or Unknown	***
<u>March 1941</u>				
Ohio Power Company	15,000			
Pacific Gas and Electric			20,000	
Public Service of Oklahoma		16,000		
Wheeling Steel Corporation		30,000		
Sun Oil Company		10,000 *		
Commercial Investment Trust			15,000 *	
Arkansas				35,000 1/
Cook County, Illinois				6,568
Miami, Florida (Water)				7,663
New York State				19,600
New York, New York				21,215
<u>April 1941</u>				
Central Hudson Gas & Electric Corporation		13,265 *		
Koppers Company		22,000		
Sun Oil Company			10,000 *	
Swift & Company		12,500		
Swift & Company		12,500		
Arkansas				13,539
Consumers Public Power District, (Nebraska)				22,000
Louisiana				6,145
Merced Irrigation District, (California)				10,500
<u>May 1941</u>				
Southern Pacific Co. Equipment Trust Certificates	14,625			
Union Electric Company of Missouri		80,000		
Firestone Tire & Rubber Co. Detroit, Michigan	5,400	44,600		51,157
North Bergen Township, N. J.				14,988

For footnotes see last page.

(In thousands of dollars)

Issue	Corporate			Municipal
	New Capital	Refunding	Mixed or Unknown	***
<u>June 1941</u>				
New York Central Equipment Trust Certificates	15,000			
Southern Railway Equipment Trust Certificates	11,250**			
Philadelphia Company		48,000		
Philadelphia Company		12,000		
Southern Natural Gas Co.		13,000		
International Paper Co. Maryland		26,500 *		6,000
New York State Philadelphia, Pennsylvania				15,000
				9,390
<u>July 1941</u>				
New York State Electric & Gas Corporation		35,393 *		
McKesson & Robbins, Inc.		13,700		
Remington Rand, Inc.		15,000		
Boston, Massachusetts Pennsylvania				5,680
				135,000 2/
<u>August 1941</u>				
Atchison, Topeka and Santa Fe Ry. Equipment Trust Certificates	20,000			
American Telephone & Telegraph Company	233,585			
Peoples Gas Light & Coke Co.		22,000 *		
Peoples Gas Light & Coke Co.		15,000 *		
Wisconsin Power & Light Co.		30,000		
Standard Oil Company of California		25,000		
Standard Oil Company of California				15,000
Safeway Stores, Inc.				14,000 *

For footnotes see last page.

FOOTNOTES

- \* Placed privately.
- \*\* Portion of issue placed privately.
- \*\*\* As listed by Bond Buyer. Total maturities under one year are excluded.
- 1/ The Commercial and Financial Chronicle figure is \$77,804,557, representing the total amount of State of Arkansas bonds resold during the month by the Reconstruction Finance Corporation. Of this amount \$35 millions were offered publicly during March.
- 2/ Represents short-term financing, a substantial portion maturing within one year. It appears that this issue was not included in the Commercial and Financial Chronicle figures.

Sources: Commercial and Financial Chronicle - Corporate bond offerings.  
Bond Buyer - Municipal bond offerings.

Treasury Department  
Division of Research and Statistics

October 15, 1941

Sales of Treasury Notes - Tax Series A and Tax Series B

During the months of August and September 1941

Classified by denomination

(Par amounts in millions of dollars - As reported by the Federal Reserve Banks)

Series and denomination	August	September	Total
<b>Tax Series A</b>			
\$ 25.....	.6	.3	.9
50.....	.8	.4	1.2
100.....	<u>18.3</u>	<u>6.4</u>	<u>24.7</u>
<b>Total - Tax Series A</b>	<u><u>19.7</u></u>	<u><u>7.1</u></u>	<u><u>26.8</u></u>
<b>Tax Series B</b>			
\$100.....	1.2	.5	1.7
500.....	2.8	1.2	4.0
1,000.....	27.5	12.7	40.2
10,000.....	120.5	44.8	165.3
100,000.....	374.9	103.2	478.1
500,000.....	63.0	28.0	91.0
1,000,000.....	<u>485.0</u>	<u>91.0</u>	<u>576.0</u>
<b>Total-Tax Series B</b>	<u><u>1,074.9</u></u>	<u><u>281.4</u></u>	<u><u>1,356.3</u></u>
<b>Total - Both Series</b>	<u><u>1,094.6</u></u>	<u><u>288.5</u></u>	<u><u>1,383.1</u></u>

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

October 15, 1941

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Classification by Type of Purchaser of the Sales of Treasury Notes

Tax Series A and Tax Series B

During the months of August and September 1941

(Par amounts in millions of dollars - As reported by the Federal Reserve Banks)

Type of purchaser and month	Tax Series A	Tax Series B	Total
<u>Individuals</u> <sup>1/</sup>			
August.....	16.0	50.0	66.0
September.....	<u>6.2</u>	<u>21.1</u>	<u>27.3</u>
Total.....	<u>22.2</u>	<u>71.1</u>	<u>93.3</u>
<u>Corporations</u>			
August.....	3.7	1,024.9	1,028.6
September.....	<u>.9</u>	<u>260.3</u>	<u>261.2</u>
Total.....	<u>4.6</u>	<u>1,285.2</u>	<u>1,289.8</u>
<u>Total Sales</u>			
August.....	19.7	1,074.9	1,094.6
September.....	<u>7.1</u>	<u>281.4</u>	<u>288.5</u>
Total.....	<u>26.8</u>	<u>1,356.3</u>	<u>1,383.1</u>

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

October 15, 1941

<sup>1/</sup> Includes partnerships and fiduciaries.

## UNITED STATES SAVINGS BONDS

Comparative Statement of Sales During  
First Twelve Business Days of August, September, and October, 1941  
(August 1-14, September 1-15, October 1-14)  
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	\$ 20,149	\$ 19,972	\$ 20,987	\$ 177	-\$ 1,015	0.9%	- 4.8%
Series E - Banks	<u>36,845</u>	<u>32,661</u>	<u>39,749</u>	<u>4,184</u>	- <u>7,088</u>	<u>12.8</u>	- <u>17.8</u>
Series E - Total	56,994	52,632	60,735	4,362	- 8,103	8.3	- 13.3
Series F - Banks	10,616	8,520	11,484	2,096	- 2,964	24.6	- 25.8
Series G - Banks	<u>59,652</u>	<u>55,455</u>	<u>71,724</u>	<u>4,197</u>	- <u>16,269</u>	<u>7.6</u>	- <u>22.7</u>
Total	<u>\$127,261</u>	<u>\$116,608</u>	<u>\$143,943</u>	<u>\$10,653</u>	- <u>\$27,335</u>	<u>9.1%</u>	- <u>19.0%</u>

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

October 15, 1941.

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

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

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## UNITED STATES SAVINGS BONDS

Daily Sales - October 1941  
On Basis of Issue Price

(In thousands of dollars)

Date	Post Office Bond Sales  Series E	Bank Bond Sales				All Bond Sales			
		Series E	Series F	Series G	Total	Series E	Series F	Series G	Total
October 1941									
1	\$ 1,450	\$ 3,029	\$ 1,286	\$ 8,271	\$ 12,587	\$ 4,479	\$ 1,286	\$ 8,271	\$ 14,036
2	1,870	2,786	867	4,324	7,977	4,656	867	4,324	9,847
3	2,150	3,299	1,065	6,323	10,687	5,449	1,065	6,323	12,837
4	1,270	1,696	612	6,400	8,707	2,966	612	6,400	9,978
6	3,449	4,778	1,444	9,286	15,508	8,226	1,444	9,286	18,956
7	1,207	2,595	572	2,913	6,080	3,802	572	2,913	7,287
8	1,363	3,674	821	3,611	8,106	5,037	821	3,611	9,469
9	1,652	4,270	903	3,654	8,827	5,923	903	3,654	10,479
10	1,495	3,672	989	5,272	9,933	5,167	989	5,272	11,428
11	1,291	2,400	632	4,098	7,129	3,690	632	4,098	8,420
13	2,515	3,624	1,164	4,989	9,778	6,139	1,164	4,989	12,293
14	437	1,022	261	511	1,794	1,459	261	511	2,231
Total	\$ 20,149	\$ 36,845	\$ 10,616	\$ 59,652	\$107,113	\$ 56,994	\$ 10,616	\$ 59,652	\$127,261

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

October 15, 1941.

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

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

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Prepared by: Mr. Poy  
Mr. Barnett  
Mr. Murphy  
Mr. Haas

RY DEPARTMENT

44

INTERNAL SECURITY COMMUNICATION

DATE October 15, 1941

TO Secretary Morgenthau

FROM Mr. Haas

Subject: Current Developments in the High-grade Security Markets;  
Borrowing Costs for Medium- and Long-term Money

SUMMARY

- (1) Prices of Treasury bonds have gained on the average  $4/32$  of a point during the past two weeks, while prices of Treasury notes have declined about  $6/32$  (Chart I). Bid prices for "rights" to the new issue opened on the first day of trading following announcement of offering at  $103-16/32$ . The bonds "when-issued" have since declined to  $102-31/32$  (Chart II).
- (2) The Treasury average yield of high-grade corporate securities declined three basis points during the last two weeks to 2.60 percent at yesterday's close (Chart III). The Dow-Jones weekly average yield of municipal bonds reached a new all-time low of 1.88 percent and, for the first time, was below the average yield of long-term partially tax-exempt Treasury bonds (Chart IV).
- (3) As the maturity of bond issues pushes out into new territory, the cost per year of additional maturity, in terms of increased yield, falls rapidly (Chart V). The rate at which this leveling off takes place is indicated by computation based upon existing market relationships to be equivalent to a  $2-3/4$  percent borrowing rate after 1948 (see text for fuller explanation).
- (4) Deposits of all member banks have increased every month since August 1939. Deposits of weekly reporting member banks outside of New York City reached a new high October 8, while deposits of weekly reporting banks in New York City had declined as of that date by about \$500 millions from their all-time high reached on May 28 (Chart VI).
- (5) The British Government has announced a new tap issue of  $2-1/2$  percent National War Bonds due 1949-50. This replaces a previous tap issue of  $2-1/2$ 's due 1946-48.

Secretary Morgenthau - 2

I. United States Government Securities

During the past two weeks, prices of Treasury bonds gained on the average about  $\frac{4}{32}$  of a point, while prices of Treasury notes declined about  $\frac{6}{32}$  (Chart I). Tax-exempt bonds did somewhat better than taxables.

Chart II presents, at half-hour intervals, bid prices of the "rights" on day of announcement and bid prices of the new bonds in the three trading days elapsed since announcement. "Rights" opened last Thursday at a price of  $103\frac{16}{32}$ , equivalent to a yield of 2.32 percent on the new bond. The new bond, traded "when-issued", has since declined to a price of  $102\frac{31}{32}$  and yield of 2.35 percent at last night's close.

Price changes by maturity classes for taxable and tax-exempt issues are presented in the following table:

			Average price change September 30 - October 14		
			Taxable issues	Tax-exempt issues	All issues

(In thirty-seconds)

Notes

1 to 3 years	- 5	- 6	- 6
3 to 5 years	- 9	- 6	- 8

Bonds

5 to 15 years	- 6	+ 5	+ 4
15 years and over to call	-	+ 7	+ 7

The average yield of long-term partially tax-exempt Treasury bonds, moving inversely to prices, has declined two basis points during the past two weeks to a level of 1.90 percent at last night's close (Chart III).

Secretary Mergenthau - 3

## II. Other High-grade Security Markets

Last week's volume of new offerings continued to show an upward movement, amounting to \$56.3 millions for the two weeks ending October 10, as compared to \$45.4 for the previous two weeks. It is probable that the total of offerings for October will rise above \$125 millions.

The Treasury average yield of five high-grade corporate securities has shown only minor movements since September 30, declining from 2.63 percent to 2.60 percent at yesterday's close (Chart III).

The Dow-Jones weekly average yield of twenty 20-year municipal bonds reached a new record low of 1.88 percent on October 11 (Chart IV). The average yield of long-term partially tax-exempt Treasury bonds on the same date was 1.89 percent. This is the first time that the Dow-Jones average of municipal bond yields has been lower than that of partially tax-exempt Treasury bonds. In June 1940, before the commencement of the intensive drive for the elimination of tax-exempt securities, the Dow-Jones municipals yielded 0.54 percent more than partially tax-exempt Treasury bonds; and, as recently as April of this year, the spread was 0.32 percent.

## III. Borrowing Costs for Medium- and Long-term Money

The four taxable bonds now outstanding range from 6-1/2 years to 26 years to first call date, with maturities approximately corresponding. The yields on these issues range from 1.48 percent for the shortest to 2.35 percent for the longest.

Chart V is arranged in such a manner as to show the increased cost in terms of yield of lengthening maturities on the new taxable issues. The red curve shows the yields on these issues, rising successively from 1.48 percent to 1.91 percent, to 2.13 percent, to 2.35 percent with increasing maturity. The triangles formed by the arrows underneath the curve show the number of years and the increase in yield between each issue. The horizontal line lower on the chart

shows the cost, in terms of yield, of each additional year between successive issues. This cost is .11 percent a year for the 4 years from 1948 to 1952, .06 percent a year for the 4 years from 1952 to 1956, and only .02 percent a year for the 11-1/2 years between 1956 and 1967.

It is clear that each year of increasing maturity is bought at a lower cost in terms of increased yield. An extension from 1967 to perpetuity could probably be purchased more cheaply than the 4 years from 1948 to 1952.

The above analysis is only one side of the story, however. Every increase in yield incurred as a result of increased maturity must be paid from the very first day of issuance of the security, although money might be borrowed during the early years at a lower rate. The saving which might be made by borrowing at a low rate for a short initial period would offset a rather substantial increase in yield during the latter portion of the period. For example, it would be cheaper to borrow money for 5 years at 1 percent rather than for 10 years at 2 percent, unless it were anticipated that the rate on 5-year money 5 years hence would be 3 percent or higher.

The example just given furnishes a clue to a method by which the significance of the apparently decreasing cost for each additional year of maturity of medium- and long-term issues may be evaluated. Suppose, for example, that the choice lay between borrowing new money until 1948 or until 1952. Taking the yield of 1.48 percent on the 2's callable in 1948 and the yield of 1.91 percent on the 2-1/2's callable in 1952, at what rate of interest would borrowing have to be done for the four years from 1948 to 1952 in order that the total interest cost on two loans, the first running from 1941 to 1948 and the second from 1948 to 1952, would be the same as the 1.91 percent interest cost on one loan for the entire period? The answer is 2.61 percent. If the same question is asked with respect to the rate at which money would have to be borrowed during the period between 1956 and 1967 in order to permit the 2-1/2's of 1956-58 and the 2-1/2's of 1967-72 to "break even", the answer is, strangely enough, nearly the same; namely, 2.63 percent.\*

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\* In the actual case cited, the 2's of 1948-50 and the 2-1/2's of 1956-58 would not be called in 1948 and 1956, respectively, if they had to be refunded by new securities on a 2.61 percent or a 2.63 percent basis.

Secretary Morgenthau - 5

The constancy of the figure just referred to seems to furnish an explanation of the rate of tapering off of the increase in yield of the outstanding securities as maturity lengthens. Allowing for the fact that the coupon rate on a new security would have to be somewhat higher than its yield, it would appear that the present yield differentials between outstanding taxable bonds of different maturities are justified only on the assumption that the cost of borrowing from 1948 onward is going to be about 2-3/4 percent.\* Whether or not long-term securities are a "good deal" from the fiscal point of view depends, therefore, upon how one's personal forecast of the future of the rate of interest compares with the rate of 2-3/4 percent implied by existing market relationships.

It should be emphasized that the preceding discussion is written purely from a fiscal point of view. It does not take account of the great advantage, from the standpoint of credit control, of issuing long-term bonds at the present time, and so is only one side of the picture. It is valuable, however, to analyze, purely from the point of view of fiscal economy, the implications of issuing securities of different maturities.

#### IV. Recent Movements in Bank Deposits

In view of the comment made by several bankers in the conferences preceding the financing that their deposits have run off substantially in recent months, it may be of some interest to review the recent course of total bank deposits.

The upper grid of Chart VI shows the movement of the deposits of all member banks monthly from August 1939 through August 1941. It will be noted that deposits of all member banks were still moving upward as of the date of the most recent figures now available.

---

\* The 2-3/4 percent rate (and the yields upon which it is based) takes account of simple interest only. If compound interest is taken into account, the required coupon rate would be raised to 2-7/8 percent.

The lower grid of Chart VI shows the deposits of weekly reporting member banks in New York City and outside of New York City, respectively. The deposits of weekly reporting member banks outside of New York City made a new high of \$18.4 billions on October 3. Deposits of weekly reporting member banks in New York City, on the other hand, have declined recently, and on October 3 were \$543 millions or about 4.5 percent below their all-time high reached on May 28.

#### V. New Tap Issue of British National War Bonds

The British Government recently announced a new tap issue to succeed the 2-1/2 percent National War Bonds, 1946-48, which have not been available through the tap since August 14. The new bonds will be 2-1/2's of 1949-50.

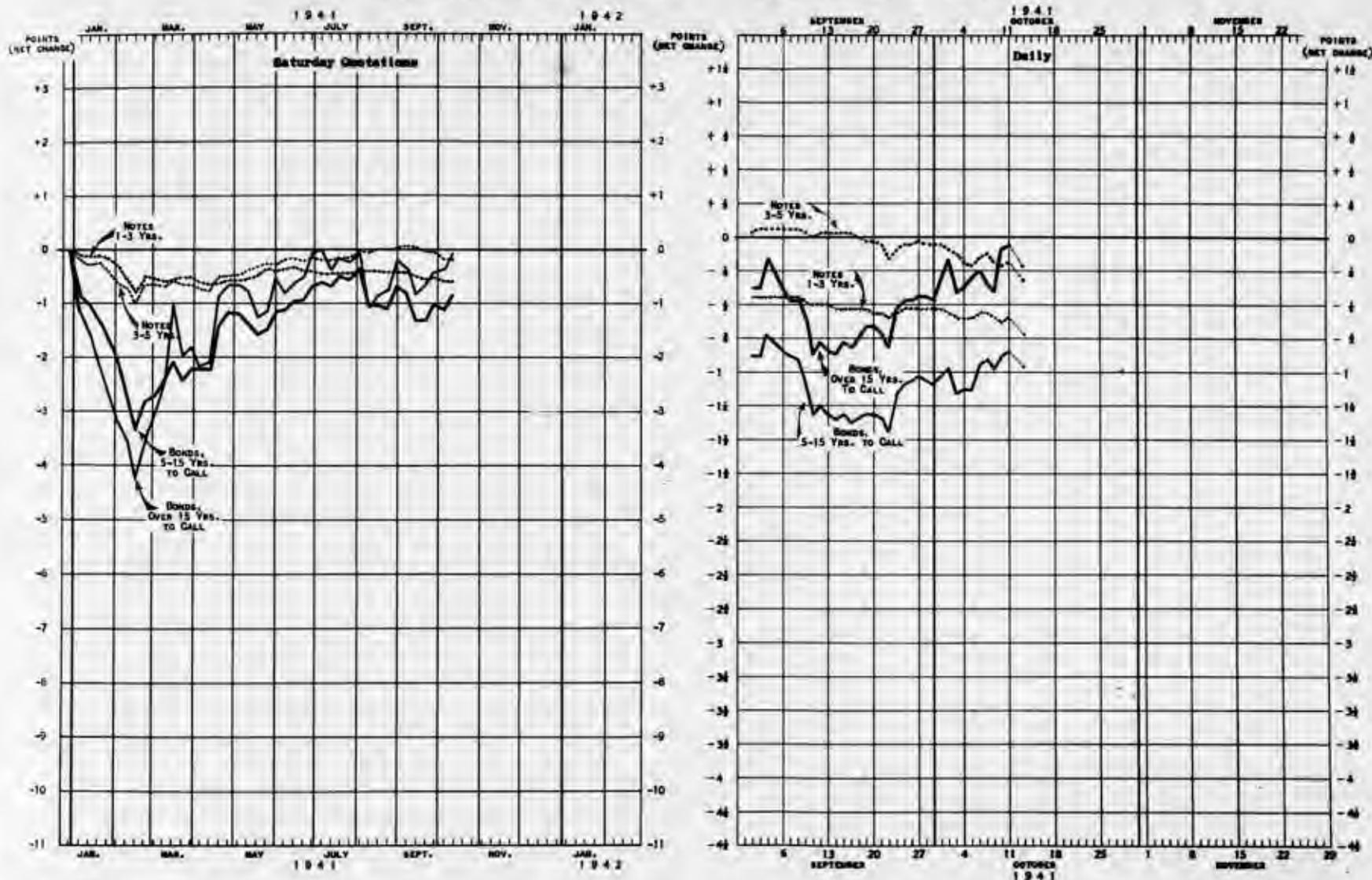
The Government bond market had been prepared for the announcement of the new issue by governmental reiteration of a cheap money policy with respect both to the war and post-war periods. A rise in the "gilt-edged" market, attributed partly to the Government's policy statement, had created a genuine two-way market in the 2-1/2 percent National War Bonds, 1945-47, and 2-1/2 percent National War Bonds, 1946-48. Both issues floated clear of the minimum price (par) during the period following the closing of the tap for the latter series on August 14. The establishment of such a market in the old tap issues was considered prerequisite to the offering of a new issue.

The last minute rush to subscribe to 2-1/2 percent National War Bonds, 1946-48, resulted in 160 millions of subscriptions during the last two days of the offering, raising the total subscriptions to that issue to 1494 millions, or the equivalent of nearly \$2,000 millions. A large share of the late subscriptions apparently consisted of conversions before maturity of Treasury Deposit Receipts held by banks, which bear interest at 1-1/8 percent, into 2-1/2 percent bonds, although additional cash purchases were substantial.

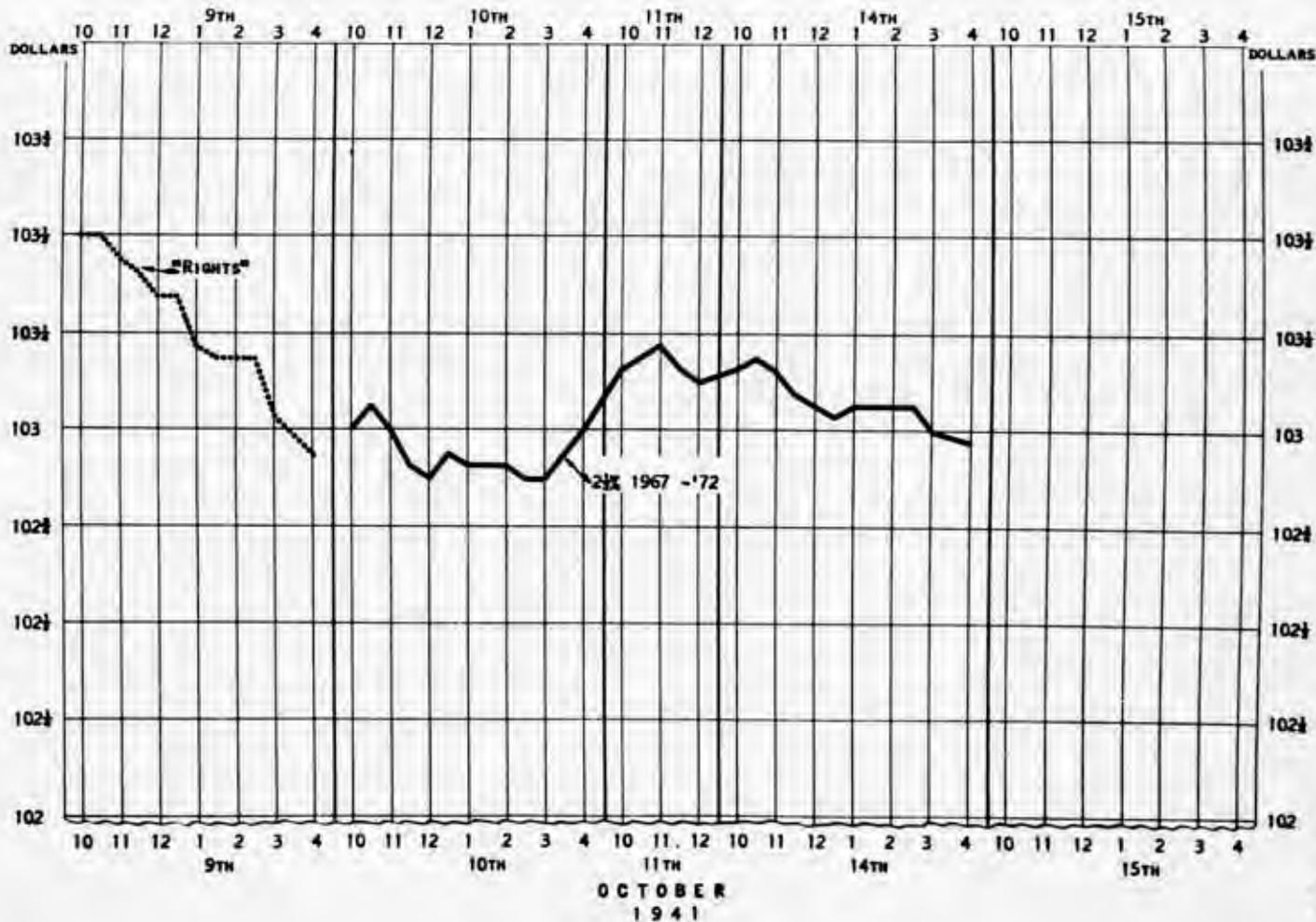
Attachments

Chart I

CHANGES IN THE PRICES OF U.S. SECURITIES  
 Points Plotted Represent the Difference from December 29, 1940 Price of Each Maturity Class

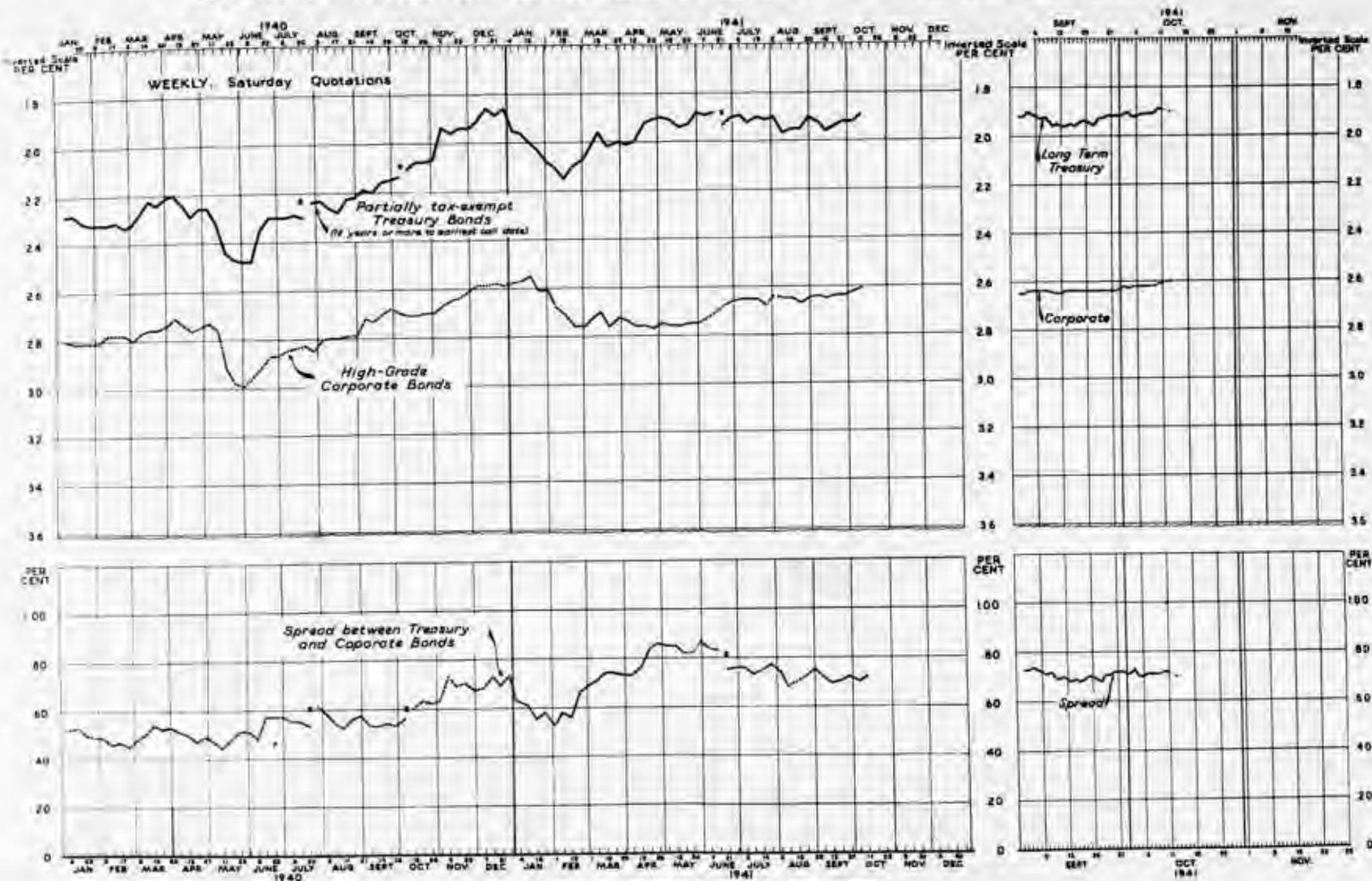


### HALF HOURLY BID PRICES OF NEW ISSUE AND RIGHTS



51

# AVERAGE YIELDS OF LONG-TERM TREASURY AND CORPORATE BONDS



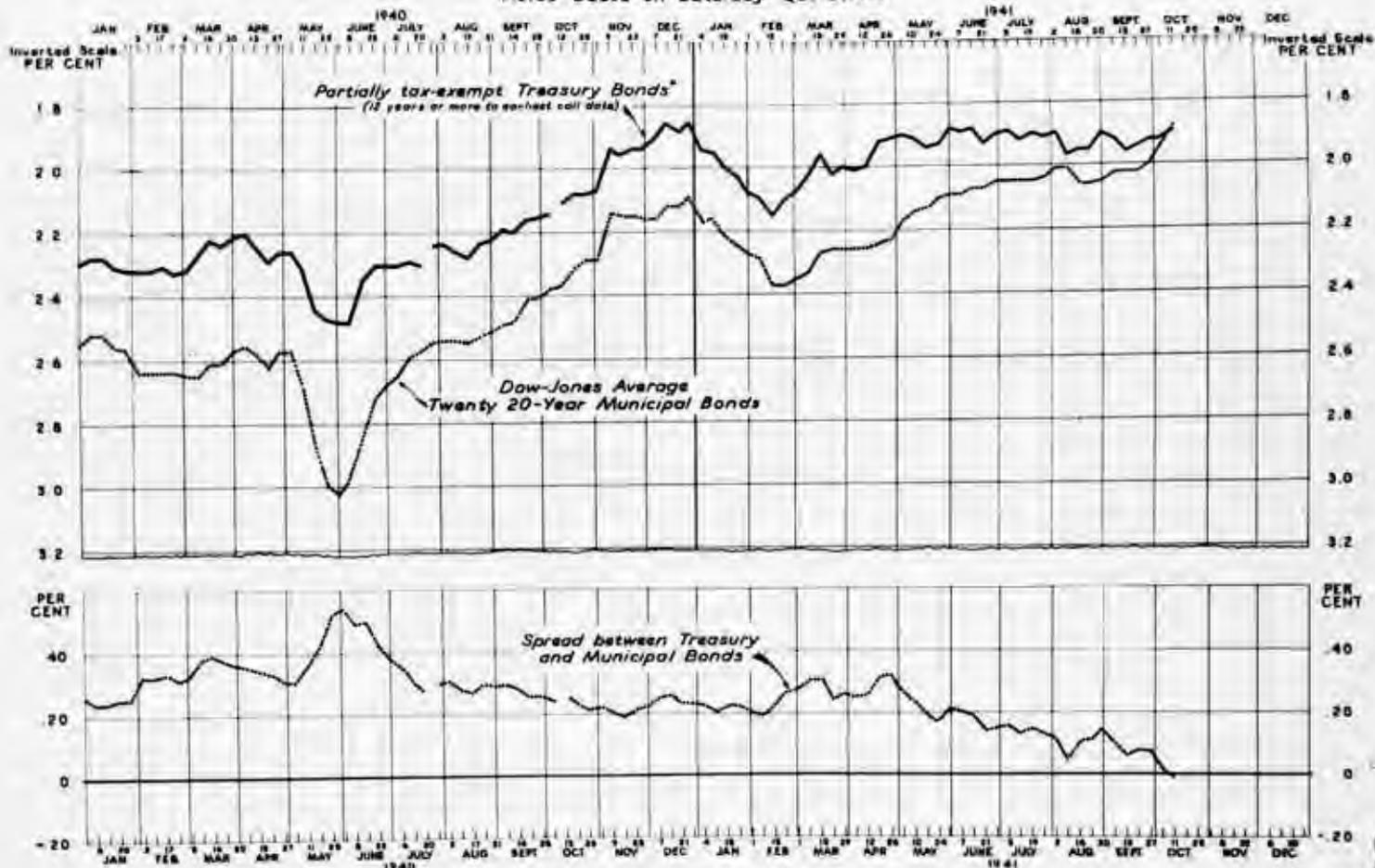
Office of the Secretary of the Treasury  
Bureau of Economic Warfare

F-50-10-1

Chart IV

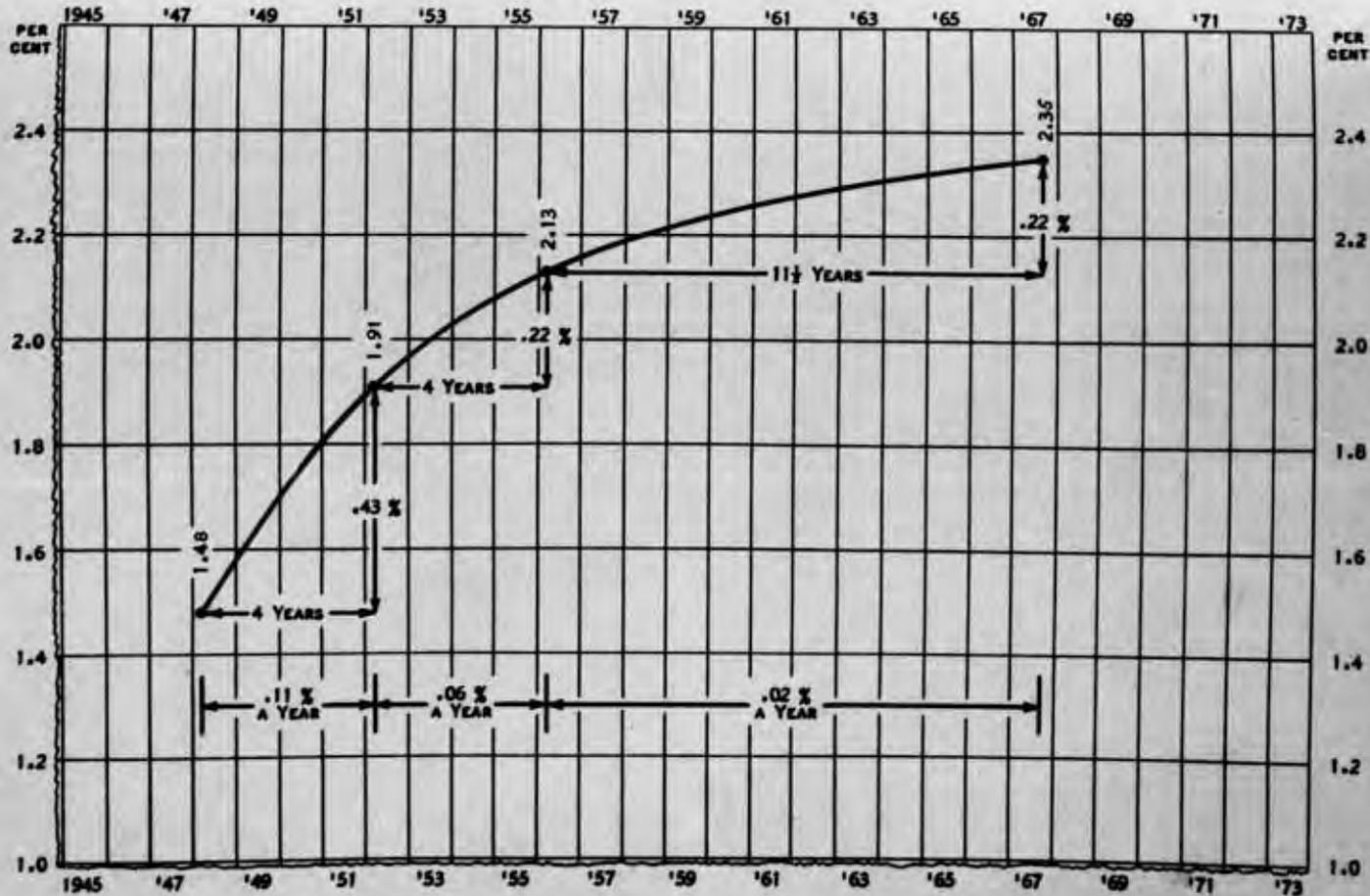
# AVERAGE YIELDS OF LONG-TERM TREASURY AND MUNICIPAL BONDS

Yields Based on Saturday Quotations



53

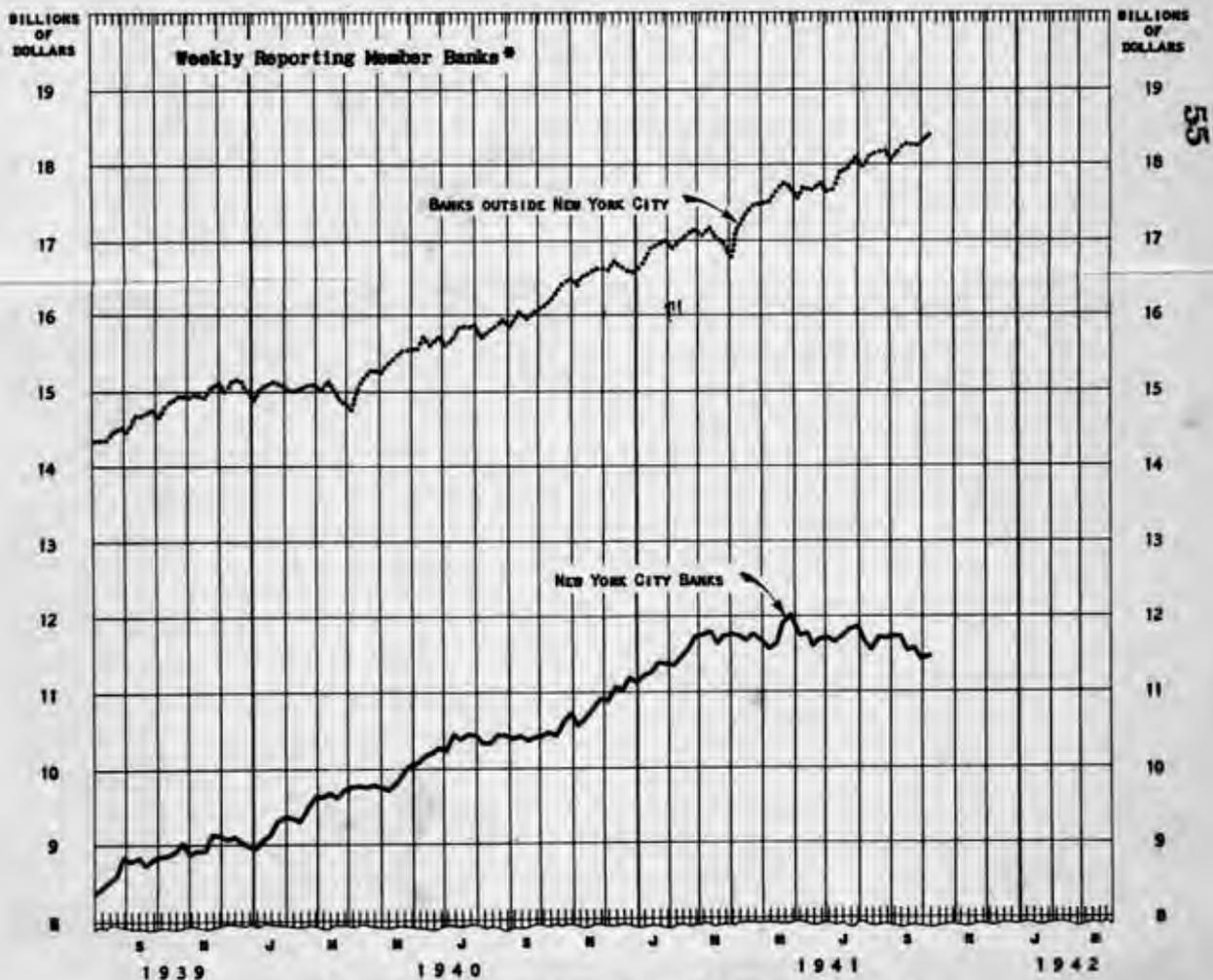
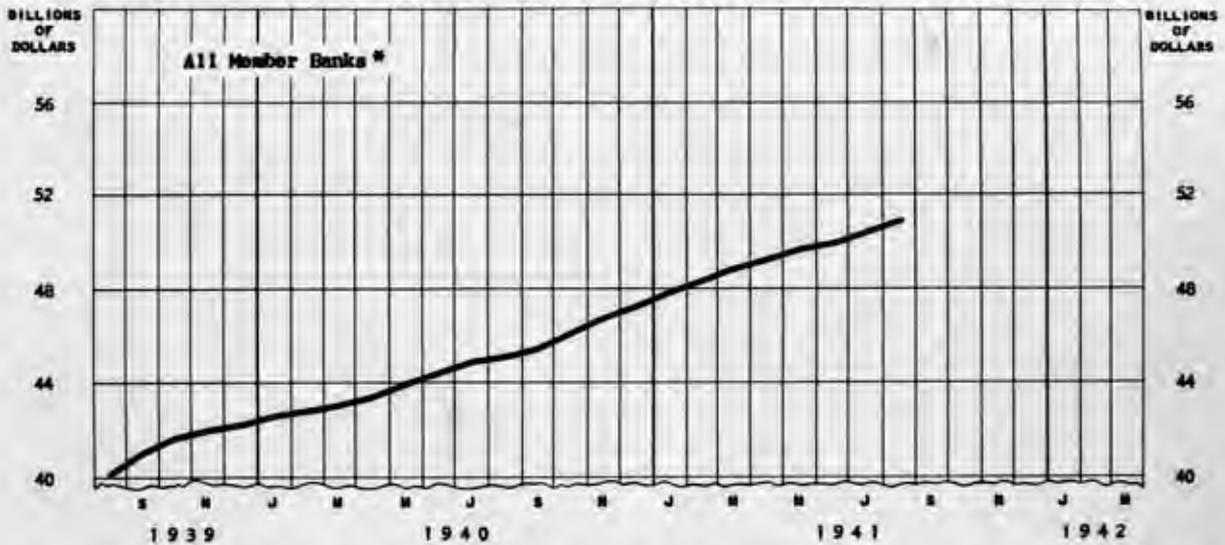
RELATIONSHIP BETWEEN YIELDS AND MATURITIES OF TAXABLE TREASURY BONDS  
Based on Closing Bid Prices, October 14, 1941



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Chart VI

MEMBER BANK DEPOSITS



\* DEPOSITS FOR ALL MEMBER BANKS ARE MONTHLY AVERAGES OF NET DEMAND PLUS TIME DEPOSITS. DEPOSITS FOR WEEKLY REPORTING MEMBER BANKS ARE WEDNESDAY FIGURES FOR ADJUSTED DEMAND PLUS TIME DEPOSITS.

OCT 15 1941

Dear Mr. Koenigs:

First of all I should like to thank you for the splendid cooperation and helpful suggestions and assistance we have been receiving from Dr. Stonier on the subject of freezing control.

I wish also to express my appreciation for the magazine Banking being made available to the Treasury as a medium for discussion of freezing control problems. Mr. Kuhns and Mr. Bratter have been especially helpful in this connection.

I am enclosing, for your information (1) a copy of a letter I am sending to the president of each bank in the United States and (2) a copy of a telegram I am sending to the secretary of the bankers association in each state.

I need not emphasize to you the importance of freezing control to our national defense and our need for the cooperation of the American Bankers Association in making this program the success that our defense effort requires.

I enjoyed meeting you in Chicago and with this letter go my best wishes for success in your new office.

Sincerely yours,

(signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Mr. Henry W. Koenigs,  
President, American Bankers Association  
22 East 40th Street  
New York, New York.

Enclosures

KHFJr/FK/BB/fm  
Typed 10/14/41

October 16, 1941

Mr. William H. Martin,  
President, Merrill Trust Company  
Bangor, Maine.

Dear Mr. Martin:

Here in Washington we are anxious to learn more about any difficulties you may be encountering with respect to the freezing of foreign funds.

It is no easy task to administer freezing control. I know that it may have raised a number of serious problems for you. I should like to hear from you about these problems and at the same time receive your views on how we can do a better job.

What can we do to make your job easier? Do you have enough information? If not, what else can we send you? What kind of problems are causing you difficulty? Are the Federal Reserve Banks and the Treasury Department giving you the kind of assistance you need? Do you see loopholes we are missing? If so, how can we plug them? Are we unnecessarily strict in some areas? Where?

You are on the firing line. If you can give us your suggestions, we at the Treasury can better understand your problems and improve our efforts. We will distribute generally our answers and discussions of general questions and problems which are raised.

If you have not already done so, I hope you will give the Federal Reserve Bank in your district the name of the senior officer of your bank who has been placed in charge of freezing control problems for your bank.

I shall appreciate very much hearing from you as soon as possible.

Sincerely yours,

(signed) H. Morgenthau, Jr.

Secretary of the Treasury.

KHFJr/FK/EB/fm  
Typed 10/15'41

200/10120  
Salaries and Expenses  
Foreign Exchange Control 1940 and 1941

OCT 15 1941

TO THE SECRETARY OF EACH  
STATE BANKING ASSOCIATION.

[See name and address on attached list]

The following is the text of a letter which I am sending tomorrow to the president of each bank in the United States.

[Here take in annexed letter]

I feel strongly about the need for a complete understanding between the banks and the Treasury on the subject of freezing control. We at the Treasury will do all that we can to achieve this end.

On the other hand, as secretary of the [See name of association on attached list] Association, you can be of invaluable aid to us in making the program a success in your state. I know we can count upon your full cooperation.

Please let me have your suggestions and comments both on the general problems and also on any special problems peculiar to the banks in your state.

(Signed) H. Morgenthau, Jr.  
Secretary of the Treasury.

M E M O R A N D U M

October 15, 1941.

To: Secretary Morgenthau  
From: Messrs. Foley and Pehle

You may be interested in reading the attached record of a conversation between Mr. Fiot, the French Vice Consul and Treasurer of the French Embassy, and an officer of Foreign Funds Control.

*J. Pehle*  
50-7L

## TREASURY DEPARTMENT

60

INTER OFFICE COMMUNICATION

STRICTLY CONFIDENTIAL

DATE October 14, 1941.

TO Mr. Pehle  
FROM Mr. Timmons

Mr. Andre Fiot, Vice Consul of France and Treasurer of the French Embassy, Washington, D. C., called on me by appointment at 3 o'clock today.

Mr. Fiot, stated that he had been sent upon an official mission of complaint, handed to me and asked that I read a letter addressed to him by the Riggs National Bank. Such letter quoted the report clause contained in the freezing control license which governs the operation of the French Embassy account.

Such report clause required detailed information with respect to all transactions through the account and limits cash withdrawals. The letter from the Riggs Bank indicated that it intended to levy a charge against the account to cover the cost of reporting.

Mr. Fiot stated that when this letter had been brought to the attention of Mr. Henry-Haye, the French Ambassador, the Ambassador had flown into a fit of rage and had demanded that the account be closed immediately or that all payments be made in cash rather than by check. I pointed out to Mr. Fiot that, as he already knew, the account of the French Embassy could not be withdrawn from the Riggs Bank except under license and that the Treasury Department could not allow the French Embassy to make all of its payments in cash. Mr. Fiot stated that he understood this perfectly and said, "privately, I agree with you wholeheartedly". He further stated that he had been instructed by the Ambassador to call upon the Treasury Department and lodge a most vehement protest about the charge the bank is levying and the report requirements in general. He stated he hoped that I understood that he was forced to make this visit and officially lodge the protest; however, he said that he considered our report requirements to be a good idea and very necessary, adding that he had "his own suspicions" regarding certain transactions. During

my conversation with Mr. Fiot he several times used the phrases "his own ideas", or "his own suspicions", in referring to the various financial transactions of the French Government in this country.

Mr. Fiot further inquired as to the status of the request of the French Financial Attache for the release of additional funds to the French Government amounting to approximately \$6,000 per month, to cover the expenses of the military and air attaches.

Mr. Fiot stated that the \$91,000 per month being currently released was not sufficient to pay these officers and that they were pressing him for their salaries and office expenses. He then added for my confidential information that he felt the military and air attaches and "all their assistants", should go back to France, for they have no business here. I indicated to Mr. Fiot that the question of release of further funds had been discussed by the Treasury and State Departments and the request had been denied.

As he rose to go, Mr. Fiot said that if I desired any information I could put questions to him frankly and he would answer frankly.

## TREASURY DEPARTMENT

62

## INTER OFFICE COMMUNICATION

DATE October 15, 1941

TO Secretary Morgenthau  
FROM Messrs. Foley and Pehle

You inquired with respect to an item in one of Pearson and Allen's columns which indicated that the Treasury recently reversed its policy of allowing the German Government to make payments for the maintenance of the German seamen from the S. S. Columbus, now interned in a camp in New Mexico. The article indicated that accordingly the Immigration and Naturalization Service in the Department of Justice has to pay for the maintenance of these seamen.

The only application which has been denied by the Treasury relative to the maintenance expenses of the interned German seamen was an application filed by Fritz Wiedemann in June, 1941, while he was still Consul General at San Francisco. This application indicated that the Consul General wanted to make payments of \$15,000 per month for this purpose but did not indicate the bank accounts from which the payments would be made nor the persons to whom the payments would be made. The Treasury indicated that it was not in a position to approve this application but that a new application would be considered which should indicate the funds from which the payments were to be made, etc. We have approved several small applications to debit an account in a small bank in New Mexico to make payments for incidental expenses in connection with the maintenance of the seamen.

This matter has been discussed with a representative of the Immigration and Naturalization Service, who indicates that all the applications which they have supported in connection with the maintenance of the crew of the S. S. Columbus have been approved by the Treasury and that they have no information which would indicate that the item in Pearson and Allen's column is accurate. The Immigration and Naturalization Service has been advised that the Treasury will be glad to consider any applications filed by or on behalf of the German Government to make any payments of this nature, the expenses of which would otherwise be borne by the United States Government.

J. W. Pehle  
S. H. 76

OCT 15 1941

My dear Senator:

Receipt is acknowledged of your letter of October 11, 1941, enclosing copies of correspondence between you and Mr. J. L. Behrens of Muscatine, Iowa, and letter from Mr. Chealy Manly of the Chicago Tribune's Washington Bureau to Mr. Behrens, concerning an article written recently by Walter Trohan on the expenditure of Lend-Lease funds.

In reference to Mr. Manly's statement that "Mr. Trohan's article was based upon actual vouchers, invoices, requisitions, and other documents of the procurement division of the Treasury", it is the policy of the Treasury Department to treat all records in connection with the Lend-Lease program as confidential and Mr. Mack, Director of Procurement, has informed me that neither he nor any official of the Procurement Division has released or authorized the release of any such documents for any purpose except to other agencies of the Government in connection with official action. Of course copies of such records are filed with other agencies of the Government, and with the exception of requisitions made by foreign governments, copies of all other documents referred to in Mr. Manly's letter are in the possession of the contractors from whom such purchases were made.

The Procurement Division has made purchases of the articles described in Mr. Trohan's article. These purchases were made as a result of requisitions received from foreign governments involved, through the Division of Defense Aid Reports which, as you know, is charged with the administration of the Lend-Lease Act.

However, the statements made by Mr. Trohan are inaccurate in many respects, and in other respects while they are accurate, they convey a misleading picture

because all of the facts in connection with the particular purchase have not been stated. The following are examples of such inaccuracies:

1. The purchases of alcohol were made in Philadelphia, not in New Jersey and were in the amount of 7,200,000 gallons; such alcohol was not "pure grain" and can not be used for beverage purposes but will be used by the British in the manufacture of munitions. The fact that the type of alcohol purchased can not be used for beverage purposes is a matter of common knowledge.
2. The phosphate referred to in the article as being purchased for 63¢ per 20 pound sack, was actually what is known as triple super phosphate and was purchased for 63¢ per 20 pounds of available P<sub>2</sub>O<sub>5</sub> (phosphoric acid). This material was in 100 pound bags, and would cost approximately \$30.00 per ton. The 495,000 tons of phosphate rock purchased with Lend-Lease funds was so bought at prices ranging from \$2.03 to \$4.15 per ton.
3. No asphalt has been purchased for Great Britain, the asphalt referred to in the article having been acquired for the Chinese government.
4. The article creates the inference that shorthand notebooks were purchased at the price of 60¢ apiece. The unit, the price of which was 60¢, was a dozen shorthand notebooks.

If there is any other information in connection with this matter which you desire, I will be glad to supply the same upon your request.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Honorable Clyde L. Herring,  
United States Senate.

By Messenger

*Simmons*  
5/10

TAM:CB

P.S. I have no objection to your releasing this letter to the press

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 14, 1941

TO Mr. Clifton E. Mack

FROM Mr. Chester I. Barnard

Herewith a letter from Senator Herring in which he asks us for a definite answer to the second paragraph of Manly's letter, which is the second letter attached.

I am afraid Senator Herring's letter of September 12th reflects a misunderstanding. Will you kindly advise a suggested reply for Senator Herring.

*CIB*

L. HERRING  
IOWA

United States Senate  
WASHINGTON, D. C.

October 11, 1941

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

Dear Mr. Secretary:

Attached is copy of a letter which I received from a Mr. J. L. Behrens of Muscatine, Iowa, under date of September ninth, a copy of my reply to that letter, copy of a letter which Mr. Behrens received from Mr. Chesly Manly of the Chicago Tribune's Washington Bureau, and also the Tribune article to which I refer in my original letter.

While I do not intend to waste time in a debate by correspondence with this prejudiced newspaper writer, I should like to have from the Procurement Division of the Treasury a definite answer to the second paragraph in Manly's letter.

Yours very truly,



H:W

# COPY

CHICAGO TRIBUNE  
WASHINGTON BUREAU  
315 Albee Building  
WASHINGTON, D. C.

September 23, 1941

Mr. J. L. Behrens  
504 Hershey Building  
Muscatine, Iowa

Dear Mr. Behrens:

Your letter concerning Walter Trohan's article of September 6, together with copy of remarks made thereon by one of your senators, has been forwarded to me by Mr. Maloney.

Mr. Trohan's article was based upon actual vouchers, invoices, requisitions, and other documents of the procurement division of the Treasury, photostatic copies of which we have in our possession. They are available for inspection by your senator if he cares to see them.

Your senator states that the writer of the article could have learned, had he desired to publish the truth, that not a dollar of cash is made available to the British in this country. This argument, which is about as relevant as the usual remarks of your senator, was not even original. He lifted it from Time Magazine, which carries its viciousness to absurd limits in efforts to smear The Tribune.

Had the rubber stamp who represents you in the Senate taken the trouble to read the lend-lease bill before voting for it he would have known that it is not necessary to make cash available to the British in order to supply them with any conceivable non-military articles, material, or service. Did the story say anything about lend-lease "cash" for the British?

I trust you will not let your yes-man deceive you so glibly with his assurances. His letter had a fishy smell.

Sincerely yours,

(SIGNED)

CHESLY WANNLY.

# COPY

September 12, 1941

Mr. J. L. Behrens  
504 Hershey Building  
Muscatine, Iowa

Dear Mr. Behrens:

I have your letter of September ninth and the only comment necessary in connection with the article which you enclose is that there is not a word of truth in it.

The writer of this article could have learned, had he desired to publish the truth, that not a dollar of cash is made available to the British in this country.

All that is supplied them under the Lend-Lease Act is materials of various kinds which are bought and paid for directly through the Lend-Lease fund, after careful consideration and investigation of the necessity for the purchase.

No such items as this article indicates have been purchased with the Lend-Lease money, and if the writer did not know this to be the fact, when he wrote the article, in simple honesty he could have learned it by just one telephone call.

Yours very truly,

H:W

# COPY

J. L. BEHRENS  
504-505 Bardsley Bldg.  
Muscatine, Iowa

September 9, 1941

Mr. C. L. Herring  
Senator  
Washington, D. C.

Honorable Sir:

I am attaching hereto an article which shows that the Lease-Lend funds (U. S. Taxpayers Money) are being used to purchase various commodities which I believe are not necessary in conducting a war. It was my understanding that this fund was to purchase only war material but according to Walter Trohan it is being used to purchase articles such as shorthand books, wrist watches, alcohol and other articles too numerous to mention.

Personally I think that a matter of this kind should be investigated by Congress at the earliest possible date and if they find conditions existing as outlined in this article that they put a stop to any more grants.

May I have your opinion on this?

Yours respectfully

(Signed) J. L. Behrens

P. S. May I again respectfully request that you do not vote for convoys or an A. E. F.

# CHARGE ALKY, WATCHES TO LEND-LEASE

## They Also Get Books, Potato Diggers.

BY WALTER TROHAN.  
(Chicago Tribune Press Service.)

Washington, D. C., Sept. 6.—THE CHICAGO TRIBUNE today is able to make public a partial list of some of the bills the British government has run up in the United States against the 7 billion dollar lend-lease program voted by congress.

The list is published as President Roosevelt has before him a letter from Senator Charles Tobey (R., N.H.) asking that he furnish congress with a detailed list of the charges for whiskeys, wines and entertainment reported to have been run up by British officials at Washington restaurants and paid out of the lend-lease funds.

The request was based on a story, printed in THE TRIBUNE, which Mr. Roosevelt branded as a vicious rumor, distorted half truth and plain, dirty falsehood.

### Funds Buy Alcohol.

The records show that lend-lease funds are being spent among other things on alcohol, watches, potato diggers, writing ink, harvesters, shorthand books, fertilizer and similar non-military items.

In all cases contracts specify:

"It shall be understood that the successful contractor shall refrain from any publicity concerning the sale of this equipment to the government."

This provision keeps the manufacturers from giving the American people any information on how the lend-lease billions are being spent.

### Used to Cut Scotch Whisky.

The records show that 13 million gallons of pure grain alcohol were made in New Jersey by several companies. The British supplied molasses for the making of the alcohol and lend-lease paid the cost of the process.

Military experts expressed doubt that such a huge quantity of alcohol would be needed for military purposes. It was suggested that most likely the alcohol will go to cut Scotch whisky which the British are sending here, in which case Americans will pay for alcohol which they later purchase again in the form of Scotch whisky.

The records show that 405,000 tons of phosphate have been purchased with lend-lease funds in Florida. Some 20 ships have been engaged in carrying the phosphate, which is used in fertilizing England's fields.

### 500 Tons Ordered.

A typical phosphate contract is one executed with a phosphate mining company for 500 tons of the fertilizer in 20 pound sacks at 63 cents a sack, or \$31,175 for the lot.

A farm implement company sent 20 cultivators at \$99 each, allowing a 10 per cent "trade" discount for a total of \$1,782.

A machine company sent 30 concrete mixers and spare parts, costing \$49,463. Another company sent 280 special asphalt paving mixing machines, each driven by a Diesel engine, at a cost of \$840,000. One expert who examined the specifications said that these machines have not been used in this country or in any other country, are untried and probably worthless. Thousands of tons of steel and valuable Diesel engines went into the making of these machines.

One company sent 210,000 gallons of asphalt for these machines to mix at a total cost of \$21,892, and another 250,000 gallons at \$35,750, although Britain holds a corner on the world's supply of this substance in the famous pitch lake on the Caribbean island of Trinidad.

### 20,000 Shorthand Books.

A large publishing company got a contract for 20,000 shorthand note books, which have a unit price of 60 cents, at \$12,000. A stenographer, questioned about the price of the books, said: "they should have enough glamour to get on a British executive's lap."

The British also secured 10,000 manifold books at \$1,680 and another 10,000 at \$2,210.

A farm equipment company sent 125 potato diggers for a total of \$26,168. The detailed specifications noted 45 diggers at \$176.44 each, 25 somewhat more fancy diggers at \$190.09 each and 55 de luxe spud grubbers at \$202.18 each. Spare parts for diggers cost \$2,370.

A harvester company sent, in an shipment, 100 harvesters costing \$100,000.

### Get Hog Hair by the Ton.

A packing company secured a contract for 10,000 tons of hog hair in bales at \$47,250. Inquiry at the navy and war departments failed to disclose what part hog hair plays in war.

Records disclosed that lend-lease funds are going for wrist watches, although the total amount of the contract was not available. The watches of an internationally known make were assembled in this country from parts imported from Switzerland.

Records disclose that cheapediam, or the oil of that name, in large quantities are being exported to Britain. The dictionary reveals that the plant produces an oil used medicinally.

Other records show that the lend-lease program has purchased 100,000 pairs of shoes and 100,000 pairs of socks for the British army.

British military craft are not up to the demands of modern warfare.

In all the contracts the manufacturers have been called upon to qualify with specifications based jointly by British and American authorities. The bidder then must send his bid. This is passed upon by the procurement division of the treasury department and used by the British purchasing mission.

Each bid must be accompanied with cash on shipping. The manufacturer must state the size and weight of each package he intends to ship. A post office freight allowance is allowed. One of the general conditions of the contract reads:

Bidders are hereby notified that amounts offered for payment in less than 30 days will not be considered binding award."

TREASURY DEPARTMENT

71

INTER OFFICE COMMUNICATION

DATE October 15, 1941

TO Secretary Morgenthau

FROM Mr. Barnard

At the request of Messrs. Jesse Jones, Will Clayton, Donald Nelson and John Hamm, in their official capacities, Messrs. Harry Hopkins and Stettinius in their capacities as Lend-Lease Supervisor and Lend-Lease Administrator, respectively, have authorized the Procurement Division to make contracts for copper to be produced in the next few months at variable prices in excess of the domestic price ceiling for copper fixed by the Office of Price Administration. The amounts involved approach 9,000 tons to be produced in the next six months. The contract will be executed tomorrow provided certain stocks of copper on hand are first taken by the Dutch Government, which undoubtedly will take such stocks.

I have advised Mr. Mack that the arrangement seems properly developed and I have no suggestions.

This for your information. No action required.



**BRITISH AIR COMMISSION**

1785 MASSACHUSETTS AVENUE

WASHINGTON, D. C.

TELEPHONE HOBART 9000

PLEASE QUOTE

REFERENCE NO. \_\_\_\_\_

With the compliments of British Air Commission, who enclose Statement No. 1 (dated October 15, 1941), which is a revised and amplified version of the statement the last one of which was numbered 35.

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

October 15, 1941

STATIONS DISPATCHED FROM UNITED STATES FROM SAILED OCT. 7, 1941.

	DESTINATION	ASSEMBLY POINT	BY SEA	BY AIR FLIGHT	DELIVERED FOR USE BY CANADA
<u>UNITED STATES</u>					
Boeing	U. S.	U. S.	19	--	--
Boeing	U. S.	U. S.	6	--	--
Boeing	Canada	--	--	--	21
<u>UNITED KINGDOM</u>					
Boeing	Canada	--	--	8	--
Boeing	Australia	--	--	1	--
Boeing	U. S.	U. S.	--	1	--
<u>NETHERLANDS</u>					
Boeing	Malta	Port Sudan	23	--	--
<u>RUSSIA</u>					
Boeing	U. S.	U. S.	36	--	--
Boeing	Middle East	Port Sudan	15	--	--
<u>NEW ZEALAND</u>					
Boeing	Canada	--	--	--	1
Boeing	New Zealand	Subland	7	--	--
<u>PORTUGAL</u>					
Boeing	Middle East	Port Sudan	3	--	--
<u>WEST AMERICAN</u>					
Boeing	U. S.	U. S.	1	--	--
<b>TOTAL</b>			<b>124</b>	<b>10</b>	<b>22</b>

U. S. This list represents the original weekly statement of "AIRCRAFT SHIPPED TO U. S. AND OVERSEAS COUNTRIES" with the addition of a further column showing airplanes by air into Canada of aircraft intended for use in that country.  
British Air Commission,  
October 15, 1941.

Regraded Unclassified

October 15, 1941.

CONFIDENTIAL

Dear Mr. Knack:

Permit me to acknowledge, on behalf of Secretary Morgenthau, the receipt of your letter of October 9, 1941, enclosing your compilation for the week ended October 1, 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,

(Signed) D. W. DILL

Under Secretary of the Treasury.

Mr. L. W. Knack,  
Vice President,  
Federal Reserve Bank of New York,  
New York, New York.

cc-10/15/41

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

75

DATE October 15, 1941

TO Secretary Morgenthau

FROM Dave H. Morris, Jr.

Subject: H. R. 5336 (Introduced by Representative Fulmer, as "Farm Credit Act of 1941") which was brought to your attention by Mr. Paul Bestor. This bill has been referred to the House Committee on Agriculture. S. 1797, identical to House bill, referred to Senate Committee on Banking and Currency.

Requests (duly acknowledged) for an opinion from the Treasury Department on the above have been received as follows:

From the Senate Banking and Currency Committee, July 30, 1941,

From the Director of the Budget, September 29, 1941.

No request has been received from the House Committee on Agriculture.

In addition to requesting our opinion, the Director of the Budget also sent us a copy of a very lengthy report on the bill prepared by the Department of Agriculture.

The Treasury has been working on its reply, but the final report is not yet ready.

A check made this morning (by Lawrence J. Bernard, Assistant General Counsel) with Senator Wagner's office, confirms previous information to the effect that no current action is contemplated by the Senate Banking and Currency Committee. While having this

- 2 -

discussion with Senator Wagner's office, it was requested that should any action be contemplated on the bill, the Treasury be notified promptly, as it was indicated that the bill had some important provisions and the Treasury would like ample opportunity for consideration of the bill.

I shall, in accordance with your request, endeavor to familiarize myself somewhat with the matter.



October 15, 1941

Dear Eleanor:

Ferdinand Kuhn has prepared the inclosed memorandum. I hope that you will find it useful.

Affectionately yours,

*15/ Henry*

Mrs. Franklin D. Roosevelt,  
The White House.

October 14, 1941

Secretary Morgenthau

Mr. Kuhn

Here is some material for Mrs. Roosevelt which may be useful in her broadcast next Sunday. The letter which prompted Mrs. Roosevelt's inquiry to you dealt with (1) freedom of speech and (2) limitation of profits, so this material will deal with both.

On freedom of speech: The acid test of freedom of speech is not whether a citizen should have the right to say "yes." People are perfectly free to say "yes" in Hitler's Germany or in any of the other present-day despotisms. The real test of our freedom of expression is whether a citizen has the right to say "no". We have had that right for 150 years, and it is ours today.

In this connection it might be worth quoting from the late Justice Brandeis who said:

"Those who won our independence by revolution were not cowards. They did not fear political change. They did not exalt order at the cost of liberty. To courageous, self-reliant men, with confidence in the power of free and fearless reasoning applied through the processes of popular government, no danger flowing from speech can be deemed clear and present unless the incidence of the evil apprehended is so imminent that it may be fatal before there is opportunity for full discussion. If there be time to expose through discussion the falsehood and fallacies, to avert the evil by the processes of education, the remedy to be applied is more speech, not enforced silence."

The letter-writer who protested to Mrs. Roosevelt was particularly upset about alleged name calling on the part of those in the majority in this country. He complained particularly about the word "traitor" as applied to those

who oppose the President's foreign policy. Yet he might just as well have complained of the word "warmonger" as applied to the President and those who believe as he does. The truth is that there has been much too much name calling on both sides in our great American debate on foreign policy. It will not help the British to get a single extra plane by calling the isolationists "traitors" nor will it help the isolationists to gain a single vote in Congress by calling the President a "warmonger."

As a matter of fact we have been fortunate in the high level of our discussion on America's policy toward the war. One has only to compare the Congressional debates on the Lend-Lease bill last spring with those on the League Covenant in 1939 to see how much we have gained in seriousness and in freedom from vituperation in the past 20 years. The prevalence of name calling today does not alter the fact that our great discussion is being carried on with far less partisanship, far more fairness and far more understanding than was shown in the days of Woodrow Wilson. It may be that a few of the critics of the President's program are genuinely contemptuous of our democratic ways and genuinely anxious to be of aid to foreign powers which are out to destroy our American system. If this is the case, it would seem to call for vigilance rather than suppression.

Now as to the limitation of profits:

In almost every country it has become an accepted principle of government that a few citizens shall not be allowed to enrich themselves because of a national emergency. We in our country learned our lesson in this respect in the Civil War. The World War left millions of us feeling more strongly than ever on the subject. The proposals for profit limitation already enacted into law or suggested by Administration spokesmen are simply another attempt to act upon the deep abhorrence of all American citizens for the profiteer who enriches himself out of his country's danger.

In a statement before the Ways and Means Committee of the House on April 24th, 1941, Secretary Morgenthau discussed this question as follows:

"We all want labor to earn fair wages, the farmer to have his proper share of the national income, and business to make a fair profit. Please note that I use the term "fair" profit. No business, no American, should make inordinate and excessive profits out of this national emergency.... The American people do not intend that any of their number shall grow rich and fat out of this country's danger. They will, in my opinion, support any fair and workable tax that will help to keep this from occurring."

Ours is not the only government which has attempted to act upon this deeply felt instinct of its people. Neville Chamberlain, the head of a conservative government in England and leader of the Conservative Party, was just as emphatic as any New Dealer when he said to the House of Commons on April 26, 1939:

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

This pledge by the leader of a business-men's government in England was the basis of very strict excess profits taxation which was introduced immediately after the outbreak of war.

It might also be of interest to note that Winston Churchill spoke strongly about wartime profits in his speech in the House of Commons on June 1, 1937. Mr. Churchill then opposed any profits tax which would "penalize the spirit of individual daring and initiative" but he added this passage:

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

There has been no voice raised publicly in America to suggest unlimited business profits during the emergency. The differences have been concerned more with details than with broad principle.

In particular there are some who say that defense profits only should be curtailed. Yet how can one determine which profits are the result of the defense program and which are not? The boom conditions in American industry today are all the outgrowth of our huge defense expenditure. Some companies have earned greatly increased profits because they actually make armaments; others are earning greatly increased profits because they sell to the people who are earning higher wages in the defense program. It will be very hard to draw the line, without letting great numbers of companies escape their fair share of contribution. But the American people will insist that "whatever method is chosen, there shall be no enrichment as a result of our national effort."

D:

10/11/41

File

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I spoke this morning to Miss Thompson at the White House to ask if Mrs. Roosevelt wanted this material for her broadcast tomorrow night, October 12.

Miss Thompson said that she did not want it for this week but would like it for the following Sunday and would like to have copy by Thursday morning, the 16th.

MR. KUHN

THE WHITE HOUSE  
WASHINGTON

83

October 8, 1941

Dear Henry:

Will you please read this letter  
and give me a statement that I can use in  
my next broadcast on this whole thing.

Affectionately,



STANLEY S. STEWART  
ATTORNEY-AT-LAW  
3220 A. I. U. BUILDING  
COLUMBUS, OHIO

0014-134

84

October 1, 1941

Mrs. Franklin D. Roosevelt  
Washington D. C.

Dear Madam:

I listened with considerable interest to your broadcast on the evening of Sunday, September 28th. I heartily agree with your declaration to the effect that a democracy meant rule by majority; and that a democracy was not in danger as long as the minority had the privilege and right of free speech and expression. I believe these declarations are sound.

Your announcement, however, raises these queries: Is the right of free speech and expression guaranteed and protected by a majority which maligns the members of the minority who dare to express beliefs and opinions contrary to the beliefs and opinions by the majority? Is this right of free speech, which you opined protected democracy, safeguarded by an administration whose mouthpieces call any one a traitor who has the temerity to express an opinion differing from the opinion entertained by the majority?

Many, in the United States, who have rendered it a great service, have had the courage to differ from the national administration, and because of this difference have been called traitors, and have been accused of being in sympathy with Hitler and his ideas.

In this connection it is of interest to note, that, recently, Secretary Morgenthau stated: "I do not think we are asking a business to do any more than its share by giving up everything over six per cent." Not very long ago Mr. Hitler, speaking in Berlin, said: "In my eyes a six per cent. dividend is sufficient." There is considerable similarity between the expressions of the two gentlemen, and yet I would not, for a minute, accuse Mr. Morgenthau of being in favor of Mr. Hitler and his ambitions.

However, Mr. Morgenthau does not stand alone, in the official family, in the expression of such ideas. Mr. Adolph Berle, Jr., Assistant Secretary of State, said:

"The government will gradually come to own most of the productive plants of the United States."

Mr. Berle also said:

"In the sense that a bank is entitled to a profit or a reward for something or other there seems to be no reason for its existence."

Sometime ago Mr. Tugwell, closely associated with the administration, said: "Business will logically be required to disappear. This is no overstatement for the effect of emphasis. It is literally meant." Then, after commenting about the necessity of the government allocating support and supplies to business, Mr. Tugwell said: "The first step to control would be to limit the allocation."

Today our newspapers are filled with comments regarding the dangers of the disappearance of small business, because the allocations are to the major business institutions of the country, and the small business cannot obtain material to continue their operations. This destroys both the small business and the jobs of the employees in the small business. The expressions of other people connected with the federal administration for the last several years could be quoted, indicating that there is a design on a part of those connected with the federal administration, to destroy competitive business and to destroy the results of independent thought and action, whether it be of the majority or the minority.

Mr. Morgenthau, at the time he made the statement above quoted, had a very laudable reason for the utterance, but it sounds so like statements made by other people connected with the national administration, when the present emergency did not exist, that it all sounds like a part of one great scheme. It seems to many of us here in the Middle West that those who have had the temerity to oppose the administration have the welfare of the country at heart more than, and at least as much as, the administration itself.

I think I should not have addressed you this letter had you not said something, in your broadcast, last Sunday night with reference to the privilege of talking back. In one of your many broadcasts it would be interesting to have some comment from you about the doctrines of the men quoted herein.

Respectfully yours,

SSS:pw



October 15, 1941

Dear Rabbi Wise:

Here is my note on Justice Brandeis which  
you requested for the November issue of Opinion.

Sincerely yours,

Rabbi Stephen S. Wise  
122 East 42nd Street  
New York City

JG:TE

Justice Louis D. Brandeis was a great advocate of the people and, as such, his place will not soon be filled. He devoted his life to the guarantee of rights of all citizens, the assurance of freedom of all men, and the opening of the gates of opportunity to all the people.

Very early in his career Brandeis took up the struggle for any cause, however unpopular at the moment. If he was convinced of the justice. By 1916, when he was nominated to a place on the Supreme Court Bench, he had already won national fame for his successful participation in a number of legal fights in defense of labor, women suffrage, consumer protection, and various issues affecting the general public. He fought most vigorously in the interests of freedom of speech, freedom of press, and the rights of the individual to his privacy, which he considered the essential guarantees of democracy. To say that Brandeis worked throughout his life unselfishly for the good of the people does not sufficiently describe his great contribution in interpreting the rights of the people as a whole versus a privileged few. By the light of his great reasoning power and in the warmth of his love for his fellowman, he helped to secure the foundations of our democratic institutions.

It was the rare gift of being able to foresee the direction of events and to know which roads led toward the valley of confusion and which led to 'the new freedom', which he so clearly visualized as America's destiny. The motivation behind all of his actions was summed up by President

Wilson when he described him: "He is a friend of all just men and a lover of the right."

The importance of the contributions Brandeis made will continue to grow with the passing of time and his name will always be associated with those who have labored in the cause of justice and humanity. My personal knowledge and contacts with Brandeis served to fortify me in my faith in the democratic process and my conviction that only a nation in which all the people are equally considered and protected can endure.

Henry Mergenthan, Jr.

# OPINION

A Journal of Jewish Life and Letters

42 E. 10th Street

New York

89

October 10, 1941

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

Dear *Mr. Secretary*:

OPINION had long planned fittingly to celebrate the eighty-fifth birthday of a great American, Justice Louis D. Brandeis, - November 13th, 1941. Justice Brandeis has, alas, passed before it became possible thus to celebrate his birthday. But OPINION still wishes to make and preserve a record of the reverence and honor in which Justice Brandeis was held by his own contemporaries, by the men and women who, like him, have left their imprint upon this generation.

Instead of asking you to send a birthday tribute, I venture, as OPINION's editor, to ask you to render the service of sending me, not later than October 20th, for the November Issue of OPINION, a tribute to the memory of Justice Brandeis, which shall convey your sense of his value to American life as one of its truly great sons. It should, if possible, be brought within the limits of three to five hundred words.

With appreciation of your valued cooperation,

Faithfully yours,

*Wise*

SSW:EW

Rabbi Stephen S. Wise

# Brandeis Man of Great Integrity

By John D. Morris

The Americans he was another "people's lawyer."

That was one of the many tributes to Justice Louis D. Brandeis on his death last Sunday.

Mr. Brandeis—the people's lawyer—who became "the people's lawyer"—does not go down in history as another Lincoln, he was often criticized as the "people's lawyer" of many Lincolnian qualities.

Not one test of these was his personal integrity, his integrity refers to the justice's personal integrity, and their conduct of his life give examples to posterity on the Puritanical.

Take the instance of the refused

As a corporation lawyer, Brandeis had served as counsel to the United Shoe Manufacturing Co. on various occasions. Because of disagreements with the company's business policies, which he regarded as monopolistic, he severed all connection with the firm.

Later, other shoe manufacturers banded together in an organization called the Shoe Manufacturers' Alliance in an effort to break up a monopoly which they said the United held over machinery for making footwear. They went to Brandeis, asked him to represent them in anti-trust proceedings. He accepted,

## Reimbursed Own Firm

Brandeis drew from the Alliance \$25,000. He not only refused to take any fee out of his pocket, but he had his own law firm for the time he spent in representing the Alliance.

His action did not become known until years later, when a Senate committee was considering his nomination by President Wilson for the Supreme Court. Brandeis' opponents accused him of double dealing, of knifing his former clients for the money he could get out of it. The story of Brandeis' refusal of the fee was drawn from another lawyer retained by United. It was the unanswerable answer to the charges of double dealing.

Senator William E. Chilton, West Virginia Democrat, who served on the committee which considered the nomination, summed up the charges thus:

"The most significant fact in this case is that Mr. Brandeis voluntarily and with no prospect for profit to himself gave up his connection with a profitable client as soon as he became convinced that the policy it was pursuing, and would not change, was wrong.

"Four years later, and again without desire for profit to himself, he gave his assistance to the effort to stop what he believed would be the future and increasing effect upon the community of the wrong policy.

"It may well be asked: How long does an employment mortgage the lawyer's conscience?"

Brandeis' integrity came to public attention again during his first years on the Supreme Court bench. The court was to consider the constitutionality of an act of Congress authorizing the Minimum Wage Board of the District of Columbia to prescribe wage standards.

Brandeis refused to participate

in the proceedings because his daughter, Elizabeth, was secretary of the Minimum Wage Board. The act was invalidated.

Perhaps the best known of Brandeis' fights for what he considered just and right was his opposition of the J. P. Morgan interests' attempt to control all rail, trolley and coastal steamship lines of New England under the New York, New Haven and Hartford Railroad.

## 'Counsel for the Public'

Brandeis' part in the fight was as counsel for the public, a self-appointed title. But in opposing the merger he was identified with William B. Lawrence, a large stockholder in one of the railroads which the Morgan interests sought to absorb.

Brandeis declined to accept a fee from Lawrence, maintaining his task was to look out for the public's interest; Lawrence's interest was incidental.

Nevertheless, Brandeis personally paid to his own law firm the fee which he would have charged Lawrence had he served as the stockholder's counsel. The amount was \$25,000.

It was such characteristic actions on the part of Brandeis that President Wilson summed up in a message to the Senate during the fight against seating "the people's lawyer" on the Supreme Court.

"He is a friend of all just men and a lover of the right," wrote Wilson, "and he knows more than how to talk about the right—he knows how to set it forward in the face of its enemies."

The Washington Post — Sunday, Oct. 12, 1941

Brandeis, Louis Dembitz

Jurist; b. Louisville, Ky., Nov. 13, 1856; s. Adolph and Fredericka (Dembitz) B.; ed. pvt, and high schools, Louisville; Annen Realschule, Dresden, 1873-75; LL.B., Harvard, 1877, hon. A.M., 1891; m. Alice Goldmark, of New York, Mar. 23, 1891; children--Susan (Mrs. Jacob H. Gilbert), Elizabeth (Mrs. Paul A. Raushenbush). Admitted to bar, St. Louis, Mo., 1878; practice, Boston, 1879-1916; mem. Warren & Brandeis, 1879-97, Brandeis, Dunbar & Muttter, 1897-1916. Counsel for Mr. Glavis in Ballinger-Pinchot investigation, 1910, and for shippers in advanced freight rate investigation before Interstate Commerce Commn, 1910-11; spl. counsel Interstate Commerce Commn. in the second advance freight rate case, 1913-14; spl. counsel for the Govt, in the Riggs Nat. Bank case, 1915; counsel for the people in proceedings involving constitutionality of Ore. and Ill. women's ten-hour laws, Ohio nine-hour law, Calif. eight-hour law, and Oregon minimum wage law, 1907-14, and in preserving Boston municipal subways system, establishing Boston sliding-scale gas system, 1900-07, and the Mass. savings bank insurance, 1907, and in opposing the New Haven monopoly of transportation in N.E., 1907-13; chmn. arbitration bd, New York garment workers' strike, 1910, and under the protocol, 1910-14. Chmn. of Provisional Com. for General Zionist Affairs, 1914-16. Apptd. asso. justice Supreme Court of U. S., Jan. 28, 1916, and assumed office June 5, 1916; retired Feb. 13, 1939. Hon. mem. Phi Beta Kappa (Harvard). Author: Other People's Money, 1914; Business, a Profession, 1914; The Curse of Bigness; also articles on pub. franchises, life ins., wage-earners, life ins. (savings bank ins.), scientific management, labor problems, railroads and the trusts, Zionism and Jewish problems, etc. Contbr. to legal revs. Home: Florence Court West, Washington, D.C.; (summer) Chatham, Mass.

TREASURY DEPARTMENT

92

INTER OFFICE COMMUNICATION

DATE October 15, 1941.

TO Secretary Morgenthau

FROM Mr. White

There is attached a list of memoranda and reports prepared in the Division of Monetary Research during July, August, and September, 1941.

RECEIVED

OCT 15 1941

OFFICE

Memoranda Prepared in the Division of Monetary Research  
during July, August, and September, 1941.

The Need for a Fiscal-Defense-Planning Committee.

The Present Price Situation.

Reports of daily information regarding our trade with Japan, China, and Russia; also daily data of what leaves Philippine Islands and where it goes.

Estimated Loss in Customs Revenues from Six Principal Concessions to Argentina.

Ecuador's request for a stabilization credit.

Dollar Relief to the British Treasury.

Summary and analysis of "A Deferred Income Plan".

Technical Errors in Farm "Parity Prices" and other farm subsidy concepts.

Developments of special interest in the Far Eastern Situation.

Russian Financial Resources.

Plan to train Latin American men.

Methods of Economic Warfare.

Digest of Mr. Hemingway's Letter on China.

British Empire-American Cooperation on Problems of Post-War Reconstruction.

Various memoranda to the Secretary summarizing Mr. Coe's reports from England.

Exports of petroleum products to Spain and Portugal.

Exports to China, Japan and Russia as reported to the Treasury since July 28, 1941.

Labor Supply and National Defense.

Developments in the British Lend-Lease Program.

Summary of "Interim Reports on the Program for the Acquisition of Strategic and Critical Materials".

Stabilization negotiations with Ecuador.

Economic Defense Functions Administered by the Treasury.

Negotiations between the Bank of England and the Yokohama Specie Bank for the establishment of an Anglo-Japanese Barter account.

Japanese short-term funds in the United States.  
Safeguarding the Confidential Nature of TFR-300.  
The Federal Reserve Proposal to raise Reserve Requirements.  
Report on the Control of Capital Expenditure.  
Mr. Bean's memorandum to Vice President Wallace.  
A fiscal Program for the Calendar Year 1942.  
Specific Objections to the Barnard Plan.  
British public opinion and paying for the war.  
Nickel Priorities and Coinage by the Mint.  
Statements on inflation in 1915 and 1916.  
Suggested Revisions in the Defense Savings Bonds Program.  
Iceland's Dollar Balances in the United States.  
Economic Conditions in Iceland.  
Swedish reaction to terrorism in Norway.  
Wage Controls in England.  
Icelandic Trade Agreement.  
The situation of the United States with regard to sisal.  
The United States Wool Situation.  
Additional data on apparel wool requirements and supplies in the United States.  
Foreign Trade - Colombia.  
British payments arrangements with Latin America.  
Disposition of the Australian wool reserve.  
Federal Reserve control of installment credit.  
Comments on present tax bill.  
Recommendation on new unemployment needs.

Proposed Statement by the Secretary on inflation and the purchase of savings bonds.

Effects on the United States economy of stopping Japanese trade.

Demand Deposits and Currency in the Total Supply of Money.

Report on hearings on the price control bill.

Short statement on the increase in currency in circulation (in terms intended for use before the public).

The Federal Reserve Proposal to Raise Reserve Requirements.

Tentative Plan to Control Expansion of Bank Credit.

Summary of report on English banking policies.

Germany's Tax Revenue and Policy.

The Food Situation in Continental Europe.

The Economist confirms our conclusions on the European food situation.

The importance of French North African phosphate supplies for continental European agriculture.

Recent Developments in German War Finance.

Recent Economic Developments in France.

Recent financial developments in the Netherlands.

Evidence of discrimination against Americans by the Japanese in Japan and Occupied China.

Japan's foreign exchange position and its new significance as a result of the freezing of her assets.

General transportation conditions affecting the shipment of supplies through Burma into China.

Developments of special interest in the Far Eastern situation.

Exports to China and Japan as reported to the Treasury since July 28, 1941.

Price Control Measures in Japan since 1937.

Desirability of continuing daily reports on exports to China, Japan and U.S.S.R.

Evidence that Japan is veering from Axis.

Questions raised and suggestions made by Mr. Fox which have not been adequately considered here.

The importance of Kunming as a Foreign Exchange Market.

British press clippings on U.K. food situation.

Proposal that the United States conclude a trade agreement with China.

Policy with respect to sale of American-owned property in Germany or German-occupied countries.

Contribution of Swiss industry to the German War Effort.

Silver Purchase Program and National Defense.

Preliminary Estimate of Canadian Investments in Latin America.

Reduction of India's Sterling Debt.

Foreign long-term investments in the Philippines.

Study of "Canadian Direct Investments in the U. S."

Dollar Relief to the British Treasury.

Conference in Mr. Gaston's office August 26th to discuss draft telegram to Winant on distribution of Lend-Lease goods.

Review of the negotiations on the transfer of British plant facilities to the United States.

Developments in the British lend-lease program during the past few weeks.

Russian armament purchases as a source of dollar relief to the British.

Analysis of B.P.M. Commitments and Payments by date of signing of contract.

Press Reports on Secretary's Testimony on Price Control Bill.

Questions and answers from the Secretary's press conference of June 28 on the sale of British securities and investments pledged to the R.F.C.

Earnings of British-owned borax and potash.

Conference July 12 on the problem of Blocked Nationals Residing in Latin America.

Comment on F.B.I. Study of July 16, transmitted to the Secretary of the Treasury.

Information to be secured by the Economic Defense Board from General Maxwell.

Foreign insurance companies in the United States.

F.B.I. Investigation of Finnish American Trading Corporation.

Elimination of the Italian Air Line to South America.

Preclusive selling in Japanese markets in neutral countries.

Dr. Max von der Porten.

Summary of "Recommended Plan for Government Control of Coffee Imports".

Exports of U.S. Merchandise to New Zealand, India, Australia, Union of South Africa, United Kingdom, British Malaya.

Summary of Committee Action on British Requisitions Examined.

Dollar Relief to be granted to the British Treasury.

British Dollar Position.

Comments on Canadian estimates of their balance of payments vis-a-vis the United States for 1941.

Highlights of meetings with the British in Secretary's office on July 10 and July 18.

The Canadian-U.S. Dollar Problem.

Price Control in Canada.

Development on "Aid-to-Britain" since August 15th.

- 7 -

Requisition of Canadian Holdings of U.S. securities and other investments.

Highlights of material received from Mr. Coe.

The British Dollar Exchange Position - Memorandum for the President.

Sterling requirements of the U.S. Government and the proposed master agreement with the United Kingdom.

Ecuadorean Finance Minister's Replies to questions during meeting at Treasury on August 18th.

Preliminary estimates of investments in Latin America held by Axis and Axis-occupied countries and Spain.

Study on Bolivia.

Observations concerning the author of "The Functions of the Executive".

Interim Report of the Committee on skilled men in the Service.

Prime Minister's statement on war production, July 29.

Price and income parity for agriculture.

Suggested Revisions in the Defense Savings Bonds Program.

Collado's Report to Under Secretary Bell on Progress in Mexican Negotiations.

Formento Corporation's application for a \$5 million 10-year credit.

Request by Peru for minting of 4 million one-half sol coins.

Legal Basis of the Colombian Stabilization Fund.

Progress of the Argentine and Uruguayan Trade Agreements.

Cooperation with Coordinator Rockefeller's training program for Latin Americans.

Telephone conversation with Manuel Fox, August 29, on Chinese Stabilization Problems.

Sending of Treasury men to Central America.

Should freezing control be extended to Latin America?

Status of Mexican, Colombian and Ecuadorean negotiations.

Bolivia: Summary of Laurence Duggen's Report to Mr. Welles,  
June 1941.

Economist to edit the Inter-American Treasury Bulletin.

Colombia's gold position.

Current cocoa situation in the United States.

Study on Colombia.

Proposed Cuban currency issue.

Factors relating to Cuban proposals.

Petroleum situation in Japan.

Suggested proposal for preclusive purchase by the United States  
of North African Fats and Oils.

U. S. Exports of Petroleum Products to Spain, 1937-1941.

U. S. Firms with German connections.

Licensed exports to French North Africa.

Letter to the Secretary of the Treasury re ownership and  
activities of the Bata Shoe Company, Inc.

Summary of State's "Aide-Memoire" concerning conditions under  
which licenses will be granted to Italian consular and other  
agencies.

Suggested Treatment of Debts owed "Nationals" by U.S. Firms.

Export Policy of FFC.

Proposed Editorial Committee for Monthly Bulletin.

Should American firms be permitted to receive payments of dividends  
and royalties from their Danish and Norwegian subsidiaries when  
such payments are made by debiting the blocked dollar accounts of  
Danish and Norwegian nationals?

Ford Motor Company's application for license.

How the Administration of Export Control Works.

General Motors application, requesting permission to sell Reichsmarks paid to General Motors Overseas Operations by its German subsidiary, Adam Opel.

Foreign Funds Control and Import Policy.

Should American firms and individuals be granted licenses to sell their property rights in Germany or German controlled countries?

Meeting to discuss problem of meeting amortization requirements of securities of nationals.

Under what circumstances should American banks be licensed to receive payment of the credits due under the German-American Standstill Agreement?

Current Trade Agreement Negotiations with the British Empire.

British foreign exchange control.

Meeting of July 17 on the problem of German repurchase of their Standstill debts.

Proposed Export Policy for FFC.

Present methods of the British in employing Exchange Control as a bargaining instrument in world trade.

Time Lag Study covering applications submitted and licenses issued under General Authorizations and Special Licenses.

Applications involving a projected sale of certain American direct investments in Polish Silesia and Galicia to a Swiss interest for about \$3,570,000 with probable ultimate resale by the Swiss to German interests.

Should licenses be granted by FFC to import vanilla beans from non-American sources?

Alleged obligation to transfer additional funds from the blocked account to Special Account A of the Bank of Indo-China.

Further Note on Indo-Chinese Withdrawal of Funds.

Importation of material from the United States into Portugal for eventual re-export into Spain.

The supply of marks for remittances under General Licenses No. 32 and No. 33.

Financial notes of interest taken from consular reports on France.

Payment of debts of Subsidiaries of American firms in occupied territories.

Policy with respect to the sale of American-owned property in Germany or German-occupied countries.

Financial notes of interest from consular reports on Spain.

Discussion with representatives of New York Banks and Brokers, July 30th.

Desirability of expanding study of servicing dollar obligations to include the Orient.

Shall Foreign Funds Control permit the reversal of funds from the accounts of certain blocked nations to the accounts of generally licensed nationals or those of other blocked nationals?

Preliminary Data on Japanese Imports of Raw Cotton and Exports of Cotton Goods.

Impact of silk shortage on employment.

Telegram of Mr. Harvey D. Gibson to the Secretary of the Treasury on the Denial of a Standstill Application.

Companies Engaged in the Production and Refining and Marketing of Oil in South America.

Wholesale Prices and Cost of Living in Germany.

Price Control Measures in Germany.

U. S. Policy with respect to the export of cotton to Japan.

The use of imports, and other means of payment for exports to Japan.

Japanese unblocked foreign exchange assets.

Japanese Lumber imports from the United States.

The importance to Japan of the American Fur Trade.

Japanese Imports of Citric Acid from the United States.

Miscellaneous Exports to Japan.

- Use of Blocked Japanese Funds to pay for exports to China.
- Application of Paramount Pictures, Inc.
- Analysis of Remittances under Special License to Spain, Portugal, Switzerland and Sweden.
- German Exchange Control.
- Japanese Regulation of Foreign Funds.
- Denials of Remittances to China.
- Application to transfer \$3,350 for benevolent mark license fees from a blocked Swiss account to blocked account in the name of the German-American Standstill Creditors.
- Considerations involved in the licensing of food parcel shipments to enemy and enemy-occupied countries.
- Application for license to unblock Hungarian dollars in order to effect interest and other payments to certain U. S. creditors.
- Application by the Swiss National Bank for a license to withdraw gold.
- Remittances under General Licenses 32 and 33 and kindred special licenses.
- Trade Applications (other than Diamonds and Pictures) involving German and Central European Nationals.
- Shall Foreign Funds Control permit presenting banks in the U.S. to return dishonored checks and bank drafts to these banks in blocked countries from which they were obtained for collection?
- Trade Applications (other than diamonds and pictures) involving French, Norwegian, Belgian and Italian Nationals.
- British control of enemy assets and of foreign exchange transactions.
- Recent Price Trends in ten leading commodities exported from Latin America to the United States, 1939-41.
- Remittance Fees charged by originating and transmitting banks and size of remittances as reported on Form TFR-132.
- Dutch East Indian dependence upon Imports from the Yen bloc.
- The administration of Foreign Funds Control as an instrument of economic defense.

Trade applications (other than diamonds and pictures) involving Japanese nationals.

Applications filed with FFC which involved imports into Spain proper, August 1 through September 3.

Applications filed with FFC which involved imports into Portugal Proper, August 1 through September 3.

Application to debit the blocked account of the Guaranty Trust Co. of N.Y., Vichy Branch, \$500,000 and credit the Texas Co., by order of its French subsidiary, Raffineries, Petrole Gironde, Paris.

Application of the Swiss National Bank for a license to withdraw gold from earmark to be exported to Portugal.

Transactions concerning centrain Foreign Dollar Bonds.

Analysis of Miscellaneous Applications report Aug. 1 - 22, 1941.

Japanese Application to purchase American-owned property in China.

Wartime Regulation of Foreign Direct Investments in Japan.

Italian Control of Foreign Industrial and Commercial Enterprises.

The "New Order" in Europe: Notes on the expansion of the German banking system.

Alien Property Control in the United Kingdom.

Dumping Cases completed:

"Masonite" wall tile from Canada.

Sisal and Henequen cordage and twine from Mexico.

Cream separators from Canada.

Harvest hat bodies of Palm leaf from Mexico.

Current reports in addition to the above:

Daily report on transactions in domestic stocks (compiled from S.E.C. figures.

Weekly table: "Balances and Earmarked Gold Held for Foreign Account".

Current reports (continued)

Weekly table: "Net Capital and Gold Movements".

Material for monthly Treasury Bulletin.

Correspondence:

111 Letters replied to.

In addition to the above, material falling into the following categories is also prepared:

1. A large number of tables on various items.
2. Reports on conferences in which this Division participates.
3. Participation in preparation of some of the statements and speeches by the Secretary.

TREASURY DEPARTMENT  
Office of the Secretary  
Technical Assistant to the Secretary

MEMORANDUM

✓ Secretary Morgenthau

Mr. Bell  
Mr. White  
Mr. Foley  
Mr. Bernstein  
Mr. Pehle  
Mr. Knoke

Mr. Jones at the State Department informed me that they have received a cable from Ambassador Gauss at Chungking stating that he fully endorses the facts of the Consulate General expressed in this cable.

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Consulate General, Shanghai, China

DATE: October 15, 1941, 9 a.m.

NO.: 1472

## THE FOLLOWING IS STRICTLY CONFIDENTIAL.

1. Local representatives of the National City Bank and the Chase Bank have given the Consulate General the following information:

The Stabilization Board recently has suggested that the Chase Bank and the National City Bank jointly rent or take over the Bank of China vaults which are in the bank (?) of the building of the bund. The building referred to is the largest and most substantial bank building in Shanghai. This building has never been occupied up to this time.

The Stabilization Board, it is understood, wishes to store a large quantity of national currency notes in the vaults for safe-keeping. (The notes referred to are stored in the above-mentioned American banks at the present time.) A telegram has been shown to me which is from the National City Bank in New York. In this cable, the statement was made that 'having consulted Washington' the National City Bank approved the vault arrangement subject to an adequate rental and provided that the Shanghai American banks secure in writing 'competently signed protection in all respects', which would include any risk on lease, any necessary vault staff, any other contents in the vault, and transportation through streets as well as interference by third parties,

political or private.

2. the requirements mentioned above would be virtually impossible to meet and at any rate I do not consider that it would be expedient for these two American banks to agree to such an arrangement because of the reasons set forth below:

a) In such a position the banks would be subject to the suspicion that they were protecting the Bank of China's valuable property;

b) In the central downsection the municipal police would be the only source of night protection, and without the special protection of the police/<sup>for the building,</sup>the risk of storing the currency in the vaults would be unwarranted; and

c) Since the building is owned by a Chinese Government Bank it is obvious that it would, without question, be among those to be seized at the outset in the event that at any time should the Japanese have gained full control of the International Settlement, (?) the building is without protection.

3. Recently the Chase National Bank made the suggestion that the (cash -?)<sup>in Shanghai</sup> of the Stabilization Board be transferred to the name of the Treasury of the United States and held for its account in the vault of the Bank of China, to be leased jointly by the Shanghai branch of the Chase National Bank and the Shanghai branch of the National City Bank as depositories

of

of the Treasury of the United States but the suggestion has been rejected by the Stabilization Board.

4. I firmly recommend that any plan contemplating the taking over, temporarily, of the building of the Bank of China, or any part of it, by American banks or any other American interests be disapproved. This would involve too great a risk of political complications and the need for finding space for storage has not been determined. One official of the National City Bank has made the suggestion that surplus Chinese national currency be destroyed, under the usual and proper safeguards. There seems to be a considerable amount of this currency in Shanghai.

I should appreciate being advised if the Department approves of the attitude which I have taken concerning this matter.

This telegram is being sent to the Department and is being repeated to Chungking.

LOCKHART

GW

EA:VCL

Copy:hr:lc:bj:10-18-41.

N O T E

110

The attached cable makes reference to TFE of October 15,  
which is presumably Cable No. 420 from Hong Kong of October 15,  
5 a.m.

F. Dietrich

DEPARTMENT OF STATE  
WASHINGTON

In reply refer to  
FF 893.51/7327

October 22, 1941

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and transmits herewith copies of telegram no. 423, dated October 20, 1941, from the American Embassy at Chungking, transmitting to the Treasury Department a message from Mr. Cochran.

Enclosures:

No. 423 from Chungking,  
October 20, 1941.

Copy:vw:10-22-41

BS

GRAY

Chungking via N. R.

Dated October 20, 1941

Rec'd. 12:04 p.m., 21st

Secretary of State,  
Washington.

423, October 20, 1 p.m. (SECTION ONE)  
FOR TREASURY FROM COCHRAN.

Following conversations with Minister Kung and other officials of the Ministry of Finance and Central Bank of China I have been handed copy of a communication dated October 20 and addressed by Kung to Chen as Chairman of Stabilization Board of China which is quoted herewith:

"I have noted your letter of October 15, 1941, together with a memorandum referring to certain meeting which the members of the Board had with Sir Neimeyer, Mr. James Baxter and James Merle Cochran at Hong Kong on October 12, 14 and 15 respectively.

While I agree generally to the views of the Board of therein contained, I have the following observations to make:

One. I think that the issue of a new license authorizing any bank in the United States to accept orders remittance out of blocked accounts of Japanese nationals as stated in paragraph one c (1) of the said memorandum may have the added danger of giving the Japanese

- 2 -

an opportunity to make use of their funds otherwise completely frozen as for instance the Chinese national currency thus acquired may be utilized for the purchase of raw materials in China.

Two. the Chinese Government desires the addition of the following Chinese banks as recommended by the Board to the list of "cooperating" banks: Shanghai Commercial and Savings Bank, the Bank of East Asia Limited, National Commercial Bank Limited, Chekiang Industrial Bank Limited, the Bank of Canton Limited, Overseas Chinese Banking Corporation, Kinching Banking Corporation, Chinese Banking Corporation.

GAUSS

HPD

Copy:lc:10/22/41

Chungking via N.R.

Dated October 20, 1941

Rec'd 3:07 p.m., 21st.

Secretary of State,

Washington.

423, October 20, 1 p.m., (SECTION TWO)

Hereafter, the addition of Chinese banks to the list of "cooperating" banks should be made on the recommendation of the Board and with the approval of the Chinese Government.

Three. The following is a list of agents designated by Central Bank of China in the following districts in connection with overseas remittances: Federated Malay States Bank of China, Singapore, Dutch East Indies Bank of China Batavia, Burma Bank of China Rangoon, India Bank of China Calcutta, England Bank of China London, United States of America Bank of China New York, South China (Hong Kong and Macao) Bank of China Hong Kong, Philippines Bank of Communications Manila Indochina Bank of Communications Saigon, Thailand Bank of Canton Bangkok.

Four. As regards paragraph VI (b), all overseas remittances collected by the Central Bank of China will be credited to the Board's account with the Central Bank of China.

A copy of this letter will be handed to Mr. Merle Cochran for communication to the United States Treasury."

Plan outlined in TFE, October 15, from Hong Kong has thus been accepted by the Chinese Government with the slight amendment

indicated.

It is the desire of the Chinese officials that Japanese remittances should not be included in this present arrangement for amending and supplementing general licenses. In the first place these officials prefer to see Japanese funds remain blocked in the United States under present regulations rather than facilitate the Japanese obtaining fapi to use in China. Secondly there would be a technical objection to the Central Bank of China doing business with Japanese enemies under the remittance plan as submitted by us.

Reference paragraph V of TFE October 15. Chinese treasury officials are conferring currently in Chungking with British representatives on serious situation in Hong Kong and toward measures for stopping leakage through black market there.

Chinese officials also plan to proceed to Hong Kong this week to pursue these negotiations.

I trust that the memorandum now leaves the United States Treasury in a position to take early action on licenses, including addition of Chinese banks, and dissemination of information in regard to the designated agents of the Central Bank of Chinese with regard to remittances.

(END OF MESSAGE.)

GAUSS

CSB

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Chungking, October 15, 1941

(2: COPY (NHS))

No. 177

Subject: Transmitting a Memorandum of Conversation  
Regarding China's Economic Condition.

Air Mail

CONFIDENTIAL

The Honorable  
The Secretary of State  
Washington, D. C.

Sir:

I have the honor to transmit herewith a memorandum of a conversation between Dr. Franklin Ho, one of the outstanding economists of the Nankai Institute of Economics, and a secretary of the Embassy, regarding the present state of China's economic condition and the necessity for taking steps to improve the existing state of affairs.

Dr. Ho usually presents a more pessimistic view of the future than most government officials. He is inclined to be frank in discussing matters and does not try to minimize the gravity of the situation.

Although it is not too late to take steps to prevent an economic collapse, which Dr. Ho fears, there is always the danger that the Government will continue a temporizing policy until conditions become so grave that few effective measures can be taken. As Dr. Ho intimated, some officials whose duty it is to exert all their energies in an effort to prevent an economic breakdown do not seem to realize the seriousness of the position at present.

The suggestions for checking inflation and rising prices advanced by Dr. Ho are very similar to the program outlined in the memorandum submitted with my despatch number 173 dated October 15, 1941.

Respectfully yours,

C. E. Gauss

Enclosure:

- 1/ Memorandum of conversation
- Original and one copy to the Department by air mail
- Three copies to the Department by pouch
- One copy for the Division of Commercial Affairs by pouch
- One copy for the Consulate General at Shanghai
- One copy for the Embassy at Peiping

JJM/wr  
850

Memorandum of Conversation

Present: Dr. Franklin Ho, Nankai Institute of Economics  
Mr. John J. Macdonald, Second Secretary of Embassy

I called on Dr. Franklin Ho yesterday afternoon to discuss various economic problems and found him apprehensive and pessimistic regarding China's economic condition. He pointed out that rising prices and increasing inflation are weakening China's power of resistance and fears the possibility of an economic collapse unless new note issues are reduced and the rate at which prices are increasing is checked. The country's deteriorating economic condition which is being intensified by rapid inflation should be viewed with considerable concern according to Dr. Ho. He believes there is far more danger of a Chinese defeat due to economic causes than to military weakness. Therefore it is imperative that the Government exert every effort to check inflation and rising prices in order to continue resistance against Japan.

Dr. Ho remarked on the difficulty in obtaining accurate figures pertaining to government expenditures and revenue. However, judging from information he has obtained recently at conferences and from conversations with various officials he considers the monthly expenditures to amount to \$1,800,000,000 (Chinese national currency) of which not much more than 10 per cent is collected in revenue. Consequently the major part of the deficit is covered by increasing the note issue. He stated that he was not in a position to state definitely how much the currency is being increased monthly but estimates that \$800,000,000 (Chinese national currency) is fairly accurate. (Other persons have informed the Embassy that monthly expenditures are approximately \$800,000,000 and that new banknotes are being issued to the value of about \$200,000,000 a month)

The Government banks have obtained notes of 500 dollar denomination recently and have been considering placing them in circulation. At a meeting of the executives of the Government banks a few days ago which Dr. Ho attended in an advisory capacity he strongly counseled against issuing the 500 dollar notes. He believes that placing these notes in circulation (the 100 dollar notes are the largest denomination at present) would have a very bad psychological effect on the public and cause another rise of prices. He reminded the bankers of the appreciable increase in prices just one year ago following the appearance of the 100 dollar notes. In this regard he remarked that a sharp rise in prices occurred during the past ten days to which he attributed rumors that 500 dollar notes were to be issued shortly.

Dr. Ho remarked that he has been gathering statistics on bank interest rates and deposits during the past few years and that he has been alarmed to find that, regardless of unprecedently high interest rates offered by banks during recent months, bank deposits have not increased. This is one of the irrefutable signs of serious and increasing inflation. The failure of bank deposits to increase indicates, as Dr. Ho added, that the velocity of currency circulation is increasing at an abnormal rate which is indicative that the public is losing confidence in the currency as a medium of exchange and is converting it into commodities as quickly as possible.

Another sign indicative of advanced inflation which Dr. Ho expects to manifest itself in three or four months is a marked decrease in industrial production. Increasing wages and costs of raw materials are going to force many factories to cease operating. Dr. Ho said that many factories started to close down early in July this year when the price of rice, in which a large portion of wages are paid, reached a new high. Any reduction in the production of manufactured commodities will cause prices to rise still higher. The supply of commodities now is far from sufficient to meet demand.

The proposal for government monopolies on sugar, matches, tobacco, tea and wine is looked upon by Dr. Ho as a serious threat to the already weakened economic condition. He believes that the additional inflation which would result from establishing these state monopolies would be more than the country could stand at present. Not only would the volume of currency have to be increased to dangerous proportions in order to finance the establishment of monopolies but prices of commodities over which the monopolies were established would have to be raised. This would result in an immediate increase in the price of all other commodities. Dr. Ho assured me that he missed no opportunity to persuade all interested officials to drop the monopoly proposals. Except for a group in the Ministry of Finance he believes that most officials see the folly of state monopolies in China at present.

With regard to the activities of the Stabilization Board and the results of the freezing orders Dr. Ho said that he could not see that they had any effect in unoccupied China. He stated that the Stabilization Board can and is maintaining a fictitious external value or purchasing power of the currency. Dr. Ho explained that he saw no real necessity for maintaining the present external value of fapi in as much as supplies required from abroad that are necessary for China's war effort are obtained now under "lend lease" which eliminates the necessity for paying for these articles in a depreciated currency.

Before terminating my call Dr. Ho again expressed his fear of a general economic collapse unless additional steps are taken to check inflation. He remarked that the adoption of price control measures are suggested periodically and proposals along these lines are considered but he believes that their adoption would do more harm than good. It is no

longer possible to stabilize prices at present levels and the aim in view, therefore, should be to retard as much as possible the rate at which prices are advancing. No matter what measures are taken a gradual increase must be expected. It is the acceleration of increase now that is alarming and not the mere fact that prices are advancing.

Inflation is the primary cause for the latest rise in prices and therefore the Government must attack the problem from that angle. The remedy rests obviously in reducing expenditures and increasing revenue. Dr. Ho said that a start has been made in regard to increasing taxes (see my despatch no. 54 dated July 2, 1949) but insists that much more can and must be done. He added that no sincere effort has been made to reduce expenditures. The provinces as well as the Central Government are going ahead with new development and reconstruction plans that require large appropriations. Dr. Ho approves in principle of these plans but insists most emphatically that they should be postponed until the cessation of hostilities. This is not the time to be spending public funds on any projects that do not contribute in some direct way to the war effort.

JJM

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## PARAPHRASE OF TELEGRAM RECEIVED

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FROM: AMERICAN LEGATION, HELSINKI  
TO: Secretary of State, Washington  
DATED: October 15, 1941, 1 p.m.  
NO.: 497

CONFIDENTIAL — NOT FOR PUBLICATION

The Finnish budget estimates, as reported in our despatch 2179 of October 14, going forward by pouch leaving October 18, may be summarized somewhat as follows:

Budget estimates for 1942 call for income and expenditures of 11 billion marks as compared with more than 18 billion marks in 1941 budget. The two budgets show a difference which is accounted for by the fact that extraordinary expenditures are foreseen in next year's estimates on account of war time compensation reconstruction and resettlement. An encouraging proportion of the revenues is to be derived from tangible sources amounting to 8.6 billion marks, taxation furnishing 70%. Loans are to furnish approximately 3 billion marks.

Under decree no. 489 of December 13, 1939, however, the Finnish Government is empowered to contract loans to meet deficits owing to the state of (?) and by virtue of this authorization the budgetary appropriations have been exceeded. The 1940 budget of 5 billion marks should be contrasted, for example, with actual expenditures of 21.3 billion marks defrayed in part by 5 billion marks of actual cash revenues and 11.9 billion marks from loans.

The present

The present national debt of Finland according to information supplied by the Minister of Finance, amounts to more than 22 billion marks and by the close of the present year is expected to reach 27 billion marks. This Year's actual expenditures are estimated to be 31 billion marks as against cash revenues of 9.9 billion marks and domestic loans of an undetermined amount to be raised.

SCHOENFELD

Copy:hr:10-23-41.

## TREASURY DEPARTMENT

122

## INTER-OFFICE COMMUNICATION

DATE October 15, 1941.

TO Secretary <sup>For Miss Chauncey</sup> Morgenthau  
 FROM Mr. Dietrich

**CONFIDENTIAL**

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£ 41,000
Purchased from commercial concerns	£166,000

Of the latter amount, £150,000 was reported to have represented the proceeds of machinery exports.

Open market sterling held steady at 4.03-1/2, and there were no reported transactions.

The Argentine free peso, which improved to .2365 yesterday, reacted today to close at .2352.

The Uruguayan free peso advanced 50 points to close at .4650.

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

Canadian dollar	11-1/4% discount
Brazilian milreis (free)	.0505
Colombian peso	.5775
Mexican peso	.2070
Venezuelan bolivar	.2670
Cuban peso	1/8% discount

There were no gold transactions consummated by us today.

The Federal Reserve Bank of New York reported that the Bank of Canada shipped \$3,308,000 in gold from Canada to the Federal for account of the Government of Canada, for sale to the New York Assay Office.

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

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

We made no silver purchases today.

The report of October 8, received from the Federal Reserve Bank of New York, giving foreign exchange positions of banks and bankers in its district, revealed that the total position of all countries was short the equivalent of \$3,886,000, a decrease of \$1,191,000 in the short position since October 1. Net changes were as follows:

<u>Country</u>	<u>Short Position October 1</u>	<u>Short Position October 8</u>	<u>Change in Short Position*</u>
England**	\$ 70,000 (Long)	\$ 831,000 (Long)	- \$761,000
Europe	2,553,000	2,570,000	+ 17,000
Canada	20,000 (Long)	191,000 (Long)	- 171,000
Latin America	65,000	11,000 (Long)	- 76,000
Japan	340,000	314,000	- 26,000
Other Asia	2,279,000	2,115,000	- 164,000
All others	<u>70,000 (Long)</u>	<u>80,000 (Long)</u>	- 10,000
Total	\$5,077,000	\$3,886,000	- \$1,191,000

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

\*\*Combined position in registered and open market sterling.

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**CONFIDENTIAL**

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MILITARY INTELLIGENCE DIVISION  
WAR DEPARTMENT  
Washington, October 15, 1941

SPECIAL BULLETIN  
No. 35  
G-2/2657-231

NOTICE

The information contained in this series of bulletins will be restricted to items from official sources which are reasonably confirmed.

This document is being given an approved distribution, and no additional copies are available in the Military Intelligence Division. For provisions governing its reproduction see Letter TAG 350.05 (9-19-40) M-B-M.

BATTLE OF CRETE  
MAY 20 - JUNE 1, 1941

SOURCE

This bulletin is based upon a study recently prepared in the Military Intelligence Division.

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RESTRICTED

- 1 -

RESTRICTEDBATTLE OF CRETE\*  
MAY 20 - JUNE 1, 19411. GENERAL

The German conquest of Crete, effected between May 20 and June 1, 1941, constitutes the first occasion in history when an expeditionary force transported by air and an air fleet conquered a distant island protected by an overwhelmingly superior navy and a land garrison which was considerably stronger, numerically, than the invading force. Such an outcome would have been unthinkable two years ago. Today, however, the result of that campaign awakens among soldiers merely a mild feeling of surprise; the importance of air power has been brought home to the world since 1939. Its importance was so well illustrated in Poland, Norway, and France, that the conquest of Crete from the air comes, not as a Jules Verne phantasy, but rather as a logical step forward in three dimensional warfare.

The German invasion of Crete cannot be regarded as a rehearsal for an attack on Great Britain. The conditions under which the British sought to defend Crete were exceptionally unfavorable for the defender and will probably never recur. British air power was almost non-existent over Crete, as the airfields on the island were few in number and poor in quality; and the Royal Air Force in Egypt was too weak and too far away to permit large scale British air intervention in the struggle for the island.

Such a condition could not occur in a battle of Britain. In England, a strong Royal Air Force stands ready to dispute air superiority with the Luftwaffe on even or close to even terms; whereas over Crete the superiority of the Luftwaffe was unchallenged. Hence, from the outcome of that local and small scale action no conclusions should be drawn which would also apply to a large scale attack on England.

Crete, the fourth largest island in the Mediterranean, is approximately 160 miles long and varies in width from  $7\frac{1}{2}$  to 35 miles. It is extremely mountainous; high mountain-masses exist in the central and eastern parts, and the Madara Mountains in the western half of the island rise to an elevation of 8100 feet.

On the whole, the island contains only a moderate amount of fertile soil, but nevertheless it is densely populated, the population in 1928 being approximately 385,000.

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\*The attached map will prove useful in identifying the places and areas mentioned in this bulletin.

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RESTRICTED

Its south coast is generally precipitous and lacks good harbors. Sfakia is the only port worthy of the name on this coast, but even that is just an anchorage, without wharves.

Along the northern coastal plain of Crete are the three principal cities of Canea, Retimo, and Heraklion, as well as the splendid anchorage of Suda Bay. The fact that all important strategic objectives of Crete were located on this north coast, facing the German-held mainland of Greece, and the lack of a suitable harbor on the south coast to facilitate British communications with Egypt, were major strategic handicaps for the British defense forces.

The road net of the island is inferior; by American standards, first-rate roads do not exist. The best of these generally poor roads parallel the north coast and connect the key strategic points of Canea, Suda Bay, Retimo, and Heraklion. Roads across Crete from the north to the south coast are few in number, and those that exist are mere mountain tracks. This lack of north-south communication was a serious disadvantage to the British when they were forced to evacuate their troops to Egypt from the beaches of the south coast.

## 2. FORCES

### a. British

The British forces had occupied Crete in November 1940, soon after the outbreak of the Greco-Italian war. Throughout the succeeding winter of 1940-1941, approximately one British brigade, reinforced by some Greek replacement troops, had garrisoned the island. During this six months' period of occupation, measures had been taken by the British to strengthen the island defenses. The three poor airfields at Maleme, west of Canea, and those near Retimo and Heraklion had been gradually improved, but even by May 1941, these fields could not be classified as first-class airdromes. An auxiliary field had also been laid out at Eastelli, and some medium coast artillery had been sent to Suda Bay to increase its value as a naval base.

The influx into Crete of unorganized elements of the defeated British expeditionary force from Greece proved a mixed blessing for Great Britain. While these troops brought a welcome numerical increase of strength to the hitherto small British garrison, at the same time they were necessarily but fragments of the splendid British divisions which had gone to Greece.

The British Empire garrison of the island of Crete, which was commanded by Major General Freyberg of the New Zealand Division, is believed, on May 20, 1941, to have consisted of the following units:

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<u>Unit</u>	<u>Approximate Strength</u>
New Zealand Division	7,000
8th Australian Division	6,500
Mixed English Troops - including 3,000 Marines	10,000
Palestine and Cypriot Labor Troops	4,000
Greek Forces	<u>10,000</u>
Total	37,500

It was estimated that of this number about 12,000 were fighting troops; the remainder were odds and ends of service units that had escaped from Greece.

It should be noted that such a composite force, most units of which were far below their normal strength because of their recent involvement in a disastrous defeat and withdrawal, could not be so efficient as a smaller force which was well-organized, up to strength, and fully equipped. Particularly distressing was the British garrison's lack of heavy equipment, especially tanks and artillery. A small number of these vital weapons had been brought up from Egypt to replace those lost in Greece, but the British force still lacked much essential materiel. Entrenching tools and barbed wire were also sadly wanting.

Under these circumstances the defense of Crete by the British had to be carried out under unusually difficult conditions.

British forces were disposed mainly at Maleme, Suda Bay, Retimo, and Heraklion. In the Maleme sector there were 5000 New Zealanders supported by a force of three Greek battalions, two batteries of heavy antiaircraft, one battalion of light antiaircraft, one battery of six 37-mm. howitzers, and one battery of field artillery, composed of six Italian guns. British and Greek forces in the Maleme sector, therefore, totalled about 7800.

In the Suda Bay area there was a Royal Marine mobile base defense detachment of 3000 men. In addition there were 1557 troops from English regiments, as well as a special force of about 881 men. The latter consisted of artillerymen, evacuated from Greece without their guns and equipped as infantry to assist in the defense of Crete. Two Greek battalions, a coast artillery unit, two batteries of heavy antiaircraft, two batteries of light antiaircraft - one of which was Australian - and one battery of searchlights comprised the rest of the forces in this area.

The 19th Australian Brigade, consisting of four infantry battalions and one machine gun company and totalling 2498 men, was in the

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Retimo sector. Two batteries of Australian artillery, totalling 375 men armed with 18 Italian guns, and four Greek battalions were also there, as were three infantry tanks.

Between Suda Bay and Retimo there were two battalions of infantry with a strength of 763. These were apparently spread out between the two places to act against parachute troops landing eastward of Suda Bay.

In the Heraklion sector there were four infantry battalions - three from home regiments and one Australian - totalling 2622 men. In addition, there were two batteries of light antiaircraft, one regiment of Royal Artillery armed as infantry, one battery of Royal Artillery armed with nine Italian guns, and two Greek battalions. Two infantry tanks were also in this sector.

Besides those already mentioned, the British forces in Crete had 16 additional light tanks and five infantry tanks. Their exact location is not known.

The British air forces in Crete were small. In the middle of May a total of only about 16 serviceable planes of all types were stationed on Cretan airfields. These were mainly pursuit planes of the Spitfire and Hurricane type, together with a handful of Bristol Blenheim bombers which had been flown back from Greece. It was not possible for the British to give effective air support to their land forces in Crete with squadrons stationed on Egyptian fields, although a few bombers based on fields at Mersa Matruh (west of Alexandria) actually participated each day from May 21 until the British had completed their strategic withdrawal. This small British Air Force, however, proved entirely incapable of meeting the hundreds of planes of the Luftwaffe by which Crete was attacked.

Outside of the small amount of vital weapons and equipment brought from Egypt and some improvements on existing airfields, very little had been done by the British, during their six months of occupancy, to improve the defense system of the island.

b. German

To carry out the conquest of Crete the Germans created a task force under the command of General Loehr of the German Air Force. This task force comprised strong units of the German Army and Air Force and weak elements of the Navy, the latter consisting mainly of motor torpedo boats and mine sweepers. Some Italian ground, air, and naval forces also participated in the Cretan campaign, but it appears that these units were not subordinated to the German High Command.

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The German air forces which participated in the Cretan operation are estimated to have had the following strength:

<u>Planes</u>	<u>Number</u>
Heavy bombers and dive-bombers	360
Two-engine fighters	150
Single-engine fighters	315
Transports	<u>650</u>
Total	1,475

These units were organized as the VIII Air Corps.

With the exception of 60 two-engine fighters based on the Italian island of Rhodes, the entire German Air Force was based in Attica and on airfields in the Peloponnus.

Three skeleton divisions of the land forces and parachute troops were allotted to General Loehr for the capture of Crete. These forces were placed under the command of Lieutenant General of Aviation Student, who had particularly distinguished himself as commander of the parachute and air infantry troops which had operated against Rotterdam in May 1940.

The troops placed under command of General Student comprised the following units:

<u>Units</u>	<u>Approximate Strength</u>
Parachute Division - three regiments	4,950
22d Air Infantry Division - part only	5,600
5th Mountain Division* - commanded by Major General Julius Ringel	<u>5,000</u>
Total	15,550

British reports state that a further 4600 men, the remaining elements of the 22d Division, were assigned to the operation but that the campaign was concluded before these units could be transported to Crete.

This list is undoubtedly incomplete. It is known that at least one German motorcycle company was active in Crete and that considerable anti-aircraft units were landed to defend the Maleme airport. Probably the total strength of land troops ran between 17,000 and 18,000.

These units possessed a considerable number of supporting

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\*Only two regiments of this division took part in the Cretan battle.

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weapons, notably, 37-mm. antitank guns, 81-mm. mortars, 75-mm. infantry howitzers, and 75-mm. mountain howitzers. It has been reported that these were the largest artillery weapons used by the Germans on Crete. This has not been verified, however.

While there are unconfirmed reports of the presence of German light tanks on the island in the latter stages of the battle, these rumors have not yet been confirmed. If these reports are correct, these tanks were transported by ship and not by air.

The detailed organization of the German parachute rifle regiments employed on Crete is not known at this time. During the winter of 1940-1941, however, some information could be obtained as to the then organization of existing German parachute regiments, and it is quite probable that regiments of the type described below were actually used in Crete. The organization of the parachute regiment in the winter of 1940-1941 was as follows:

Headquarters;  
1 signal platoon;  
1 mountain howitzer company;  
1 antitank company;  
3 parachute rifle battalions.

The parachute rifle battalion was organized into:

Headquarters;  
1 signal platoon;  
1 heavy weapons company;  
3 parachute rifle companies.

The parachute rifle company consisted of:

Headquarters;  
1 signal section;  
3 rifle platoons.

Each rifle platoon consisted of two standard infantry squads, each squad being armed with two light machine guns. There were also an antitank rifle section and a light mortar section in each rifle platoon. The light mortar section contained a light infantry mortar of 50-mm. caliber.

The heavy weapons company of the battalion was organized as follows:

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Headquarters;  
1 signal section;  
1 light mortar section;  
1 antitank rifle section;  
2 heavy machine gun sections;  
1 heavy mortar section.

Each of the heavy machine gun sections was equipped with two standard machine guns with tripod mounts.

The heavy mortar section contained four mortars of 81-mm. caliber.

The exact armament of the mountain howitzer company and the antitank company is not known. In the Cretan campaign these units were transported in Ju-52 airplanes and neither the weapons nor the personnel were dropped by parachute.

The strength of a parachute rifle company was estimated in the winter of 1940-1941 at 130 officers and men, that of the battalion at 550 officers and men, and that of the regiment, at 2000 officers and men.

### 3. STRATEGIC FACTORS

Whether it was wise for the British to seek to defend Crete, when it was known that the enemy could quickly achieve air mastery, is a question which history alone will be able to answer.

On the other hand, the acquisition of Crete was a tempting objective for the German High Command, for the island offered Germany both defensive and offensive advantages. From a defensive viewpoint, the capture of Crete would result in the loss to Great Britain of the only air bases from which her bombers could attack the Roumanian oil fields. In addition, German airplanes on Crete and light axis naval forces based on Suda Bay would assure relative security to Axis shipping which used the island water route from the Black Sea to the Adriatic via the Aegean Sea and the Corinth Canal.

From an offensive viewpoint the acquisition of Crete as a German military base would mean that the movements of the British fleet in the Eastern Mediterranean would be further restricted, and that German air forces based on the island airfields could increase their attacks on the Cairo - Alexandria - Suez Canal area and could intervene, if necessary, in the fighting in the western desert of Egypt. The expulsion of the British from Crete would also facilitate Axis political pressure on Turkey and would be an essential prerequisite for any military moves in Cyprus, Syria, and Iraq.

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The German campaign in Yugoslavia and Greece had been completed by May 2, with only minor losses in the German Army and with their troops still possessing combat efficiency. The Axis possessed ample ground forces in the southern Balkans for a Cretan campaign of any degree of severity. A major difficulty, however, stood in the path of any German conquest of Crete. British naval superiority in the Aegean was undisputed. Any German landing operation from the sea therefore, could be accomplished only by stealth, and even then at enormous risk. From the start, therefore, the German High Command could not count on a successful water-borne expedition to Crete until the British fleet had been either destroyed or driven from the Aegean. In consequence, the German High Command had to rely for the conquest of Crete almost entirely on its Air Force. Single-handed, the Luftwaffe would have to destroy the Royal Air Force, defeat the British Navy, carry out the usual artillery preparations prior to the attack, transport the land forces to their initial landing places, and then support them in all further operations, since these land forces would necessarily lack their usual complement of heavy weapons.

The Germans were aided in their task by unusually well placed airfields, some captured and some belonging to Italy. Whereas the British airfields in Egypt were out of effective supporting range of the few exposed bases in Crete, the fields available to the Axis were adequate in number and were at an ideal distance from their objectives for bomber operations, although inconveniently remote for continuous action over Crete by single-engine fighters. As soon as the R.A.F. on Crete was effectively neutralized, the Axis fields were practically immune from attack.

#### 4. PLAN OF ATTACK

The German plan of attack appears to have been approximately as follows:

A three or four day air bombardment was to precede the actual landing operations. To carry out this air bombardment, the VIII German Air Corps concentrated 300 bombers and 200 fighters on the German airfields at Meneidi, Eleusis, and Argos. This air bombardment concentrated on the following four primary objectives:

- a. Naval base at Suda Bay;
- b. Maleme airfield;
- c. Retimo airfield;
- d. Heraklion airfield.

The Germans hoped to achieve the following results by these attacks:

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- a. To paralyze the Royal Air Force or drive it back to Egypt;
- b. To neutralize the ground defenses of the British airfields;
- c. To render Suda Bay unusable as a British naval base.

The actual landings of German troops from the air were to begin only after sufficient progress had been made by the Air Force towards attaining these objectives.

The initial objective of the actual air landing operations was to seize one, or if possible, all British airfields. The seizure of these fields was to be effected by parachute troops. The air infantry and mountain troops were to be landed only in case one or more airfields fell into German possession.

The parachute division was directed to land three combat groups, each composed of a parachute regiment in the vicinity of the three British airfields at Maleme, Retimo, and Heraklion. This equal distribution of the parachute division indicates that there was initially no true main effort to the German attack and that the German Command felt that the chances of capturing the individual British airfields were about equal. It should be noted that these three parachute attacks were made in areas widely separated from one another.

When and if the parachute troops succeeded in capturing one or more of the British airfields, it was planned to reinforce them with strong air-borne contingents of infantry and supporting weapons, and then to develop a main attack, with full air support, in order to accomplish a specific strategic objective. This specific strategic objective, however, could not be determined until it was known which airfield had been captured.

A naval expedition of unknown size was also to play a part in the operation. This expedition was to sail from the Piraeus, but the Germans dared not place too great hopes in this expedition, for they realized that the British had enormous naval strength in this end of the Mediterranean. Nevertheless, they took the risk. The expedition was, in fact, destroyed, but this catastrophe did not prejudice German success on Crete as a whole.

##### 5. OPERATIONS

The actual invasion of Crete was preceded by several days' reconnaissance, the massing of aircraft on Greek airdromes, and a few days' intensive attacks by fighters and bombers on the island anti-aircraft defenses.

The German preparatory bombardment of British installations on Crete was extremely heavy and effective. Many transport ships were sunk

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or damaged at Suda Bay, with the result that the naval base had to be at least partially evacuated by the British Navy.

Still more serious for the British hopes of a successful defense were the German attacks on British airfields. The loss of British airplanes was so heavy that Air Marshal Longmore decided to withdraw all his remaining air units from Crete. This decision really did not greatly change the air situation over that island, for Longmore's three main squadrons stationed there could not have hoped to resist the masses of the Luftwaffe. Nevertheless, the evacuation brought about an unmistakable decline in the morale of the British land forces. From that moment on, every British soldier found himself in a position in which he had to continue the struggle without the moral backing which would have come from the presence of even a few British planes. He was forced to accept battle not only with the German Army, but with the German Air Force as well, and with the feeling that his own Air Force had deserted him. In such a frame of mind he was suddenly faced with an overwhelming air-borne attack.

The actual German landing attack was begun at about 8 A.M., May 20. Several hours of intensive preparation by dive-bombers using both bombs and machine gun fire preceded the parachute landing. British officers taking part in the defense state that this air attack was of "unparalleled intensity" and that the defenders were forced to take shelter in slit trenches.

Beginning at 8 A.M., about 2000 parachutists were dropped on the western part of the island, in the vicinity of Canea and the Maleme air-drome, covering a space eight miles long and three miles wide. The parachutes were dropped in waves of about 600 each, and approximately two-thirds of the parachutes in each wave carried only equipment. Troops were also disembarked from gliders which landed on beaches and other fairly level stretches of ground. These gliders, each of which carried twelve men, were towed by Ju-52 transport planes, generally in pairs, but occasionally in tows of three.

Two types of German gliders\* were used on Crete, each type weighing 1790 pounds. The frame of the fuselage was steel and that of the wings was wood. The span of the gliders was 80 feet, the length 60 feet. One machine gun was mounted on the starboard side of each glider to provide a measure of defensive strength.

The towing speed of the gliders is thought to have been about 105 miles per hour, the maximum gliding speed 70, and the landing speed 35-40. No auxiliary engines were fitted into any glider.

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\*The Appendix attached hereto gives further information on German gliders

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It is not believed that the Germans used any large number of gliders in the Cretan operation; and although one British informant thinks they used about 100 in all, 50 appears to be the average estimate of British observers. All evidence indicates that the German use of gliders was experimental only. The Germans consciously avoided landing gliders near British defense positions, preferring to set them down at some distance from both their own and British troops.

The parachutes used were of four colors: white, green, gray-green, and brown. The proportion of white parachutes was approximately one in 24. Personnel was carried in white and green parachutes, supplies in gray-green and brown. The average height of drop was about 300 feet, and all parachutes were equipped with a quick opening device.

After landing, the parachutists immediately proceeded to collect their arms from the containers. In order to give the containers a limited mobility, some were equipped with two wheels and a towing rope.

Each parachutist is said to have carried an automatic pistol, four hand grenades, and a large knife. The automatic pistols are believed to have been dropped in containers, as were the heavier weapons: light and heavy machine guns, antitank rifles, and 50-mm. and 81-mm. mortars. No weapon heavier than the 81-mm. mortar appears to have been dropped by parachute.

The casualties of the parachutists were extremely heavy. This is evidenced by both British eyewitness accounts and the official statement of the German High Command. British machine gunners and individual marksmen took a heavy toll among the helpless Germans as they drifted to earth and in the first moments after landing, before they could reach their kit bags and secure their weapons. The parachutists who landed within the British defense lines at Maleme and Canea were largely accounted for, but the bulk appear to have landed farther back. Within a few hours after landing, these men were becoming organized and were gradually developing themselves into an efficient fighting force. At noon some of these groups gained undisputed control of a hospital and a penitentiary on the high road between Maleme and Canea, splitting off the Maleme airfield and its defenders from the main British base at Canea. As evening approached, the attacking parachutists followed up this initial success with one of almost decisive importance - the seizure of the Maleme airfield itself. This success permitted the Ju-52 transport airplanes to begin the movement of the air infantry detachments, and during the evening of the 20th, only a few hours after the airfield had come into German possession, these planes began using the Maleme field. At this time the Maleme airport was still under British artillery fire, and many of the German troop-carrying Ju-52 planes appear to have been destroyed while on the field.

The second phase of the German attack began at 4:15 P.M., when parachute landings began in the vicinity of Retimo and Heraklion. Approximately a regiment of parachutists was dropped in each area. Here also the German objectives were undoubtedly the capture of the local airfields. The British estimates of parachutists dropped at Retimo ranged from 1200 to 1500 and at Heraklion, from 2000 to 2500.

It is noteworthy that the original groups of parachutists attacking Maleme, Retimo, and Heraklion were about equal in strength, although the Retimo group was probably slightly weaker than the other two.

The successful British defense at Retimo and Heraklion, in the opinion of certain British officers, was the result of the adoption by the local commanders of a "defensive in depth," and not, as in the case of Maleme, to the mere holding of the perimeter of the airfield.

The losses of the parachutists at Retimo and Heraklion were exceptionally heavy - heavier indeed than at Maleme. Early British reports described these parachute groups as having been destroyed. These reports proved to be inaccurate. Seriously weakened as these parachute groups were by their initial losses, a considerable proportion of the two groups escaped destruction and remained a serious threat to the British position in the central portion of the island. As a result, however, of their failure to capture an airfield, these Germans were entirely dependent on supplies of food and ammunition dropped by air. On the 22d, small German parachute groups forced their way into Heraklion, but were shortly thereafter driven out of the city by the British garrison.

British reports state that on the 24th the Retimo parachute group succeeded in interposing itself on the highway between Suda Bay and Retimo.

It would appear from various British accounts that these isolated parachute groups, no matter how unsuccessful they were in attaining their primary objectives, nevertheless succeeded in fulfilling an important role in the German campaign. As a whole, the continued existence of these groups in the central portion of the island prevented the British from massing their full strength in the western sector to repel the German main effort at Maleme. The isolated parachute groups at Retimo and Heraklion were eventually, on May 27, relieved from their predicament by German mountain and motorcycle troops advancing east from Suda Bay.

The fate of Crete was finally settled in the Maleme area.

During the 21st and 22d, the ever-strengthening German forces drove the British back out of artillery range of the Maleme airfield.

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German transports encountered British warships, with disastrous results for themselves.

The size and composition of this German water-borne expedition is not known at this time. The British Intelligence reports that one large transport and many small schooners were destroyed by their naval forces and also states that some thousands of Germans were drowned in these encounters. The Italians report the loss of a destroyer in their encounter with the British fleet. The Germans, on their part, admit the failure of their expedition and state that some 300 soldiers were lost at sea and that only a few schooners reached Crete. Summing up all evidence available, it can be said that there can be no dispute that the German expedition was largely destroyed in this encounter and that the reinforcements reaching Crete by water were numerically so insignificant that they could in no way influence the outcome of the land battle.

The German water-borne threat to Crete, however, caused the British fleet to expose itself to the German and Italian air forces based on the airfields of Attica, the Peloponnese, Italian Rhodes, and the Greek Aegean islands. This British fleet was almost totally without the support of the Royal Air Force in the resulting series of engagements. A few planes from the aircraft carrier Formidable participated in the early stages of the fighting, but these planes were hopelessly out-numbered, and soon were forced to withdraw altogether when the Formidable was damaged.

The result of this air force-naval engagement was disastrous for the British Navy. While only two cruisers and four destroyers were sunk, fully three-quarters of all British ships engaged in the battle suffered more or less severe damage. On May 23 Admiral Cunningham came to the conclusion that for the fleet to remain in Cretan waters was to invite total destruction, and consequently he gave orders for the navy to withdraw to its Alexandria base. This decision left the British land forces on Crete isolated, and exposed them from that time forward to unopposed German landing attacks from the sea as well as from the air.

The details of the final decisive land operations around Ganea and Suda Bay cannot be given at this time. It is known, however, that the key British positions around the village of Galatas west of Ganea were penetrated on May 25. On the 26th this initial penetration was broadened and deepened, and on the 27th Ganea itself was captured.

German accounts stress the importance of the part played in these operations by mountain regiments of the 5th German Mountain Division under the command of General Ringel. These regiments are said to have brought about the fall of Ganea by a flanking movement through

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trackless mountains from Galatas to the area just south of Suda Bay. German accounts stress the influence of this flank movement on the British decision to evacuate not only Canea and Suda Bay, but all Crete.

The British have so far been silent on details of this battle around Canea. They state, however, that the decision to evacuate Crete was reached on May 26.

On the day Canea fell, the 27th, a small Italian force transported by boats landed at Sitia in the eastern portion of the island. The size of the expedition is not known, but it is thought that its strength did not exceed that of an infantry regiment. This landing does not seem to have been opposed, and a slow advance in the direction of Heraklion was begun by the Italians on May 28.

The British withdrawal from Canea to villages on the south coast probably began on May 27. The principle route of retreat appears to have been the road Canea-Suda-Armenoi-Sfakia. This direction of withdrawal left free, for the Germans, the north coast highway Suda-Retimo-Heraklion. German motorcycle detachments and infantry groups in captured trucks, were dispatched eastward from Suda in the direction of Retimo to make contact with the long isolated parachutists in that region. This contact was gained on May 29. Meanwhile the parachute group at Heraklion, by its own efforts, had taken that city. The following day this Heraklion group was reinforced by German motorized troops from Retimo. Upon the latter's arrival, the weak British force in the Heraklion area surrendered, although some elements succeeded in escaping into the mountains and making their way to waiting ships which were standing by off the south coast.

The main body of the pursuing German mountain division followed the British through Armenoi towards Sfakia, the principal British embarkation point. In the hills to the south of the village, heavy fighting occurred on May 29 and May 30, which ended, according to German claims, with the capture of the British rear guards. The main body of the British force, however, succeeded in embarking on the waiting destroyers and transports, and eventually reached Egypt. One cruiser, two destroyers, and an unknown number of transports were sunk in the course of this evacuation.

#### 6. LOSSES

The losses incurred by the two belligerents on Crete have been given out by the respective governments.

The Germans report the following losses in Crete:

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Army

Killed	321
Wounded	287
Missing	<u>524</u>
Total	1132

Air Forces

Killed	1032
Wounded	1632
Missing	<u>2097</u>
Total	4761

Total loss of Armed Forces 5893

The following British official statement gives the strength of British forces in Crete and the number evacuated therefrom:

	<u>Strength in Crete</u>	<u>Evacuated</u>
British Troops	14,000	7,130
Australian Troops	6,500	2,890
New Zealand Troops	<u>7,000</u>	<u>4,560</u>
Total	27,500	14,580*
Total loss		12,920

It is not known whether the troops designated as British troops include the small contingents of Cypriot and Arab labor troops which were on Crete.

The German High Command claims the capture of 12,230 British personnel on Crete. This figure, however, was said to include a few hundred Cypriots and Arabs.

7. LESSONS

It is still too early to draw conclusive lessons for future use from the meager information now available on the Cretan operations. Many British officers have expressed their views on various phases of the fighting but these necessarily are personal opinions formed soon after the evacuation. Since they could not have been carefully considered they should be received with caution. As Berlin also has said little, individual accounts, however interesting, should under no circumstances

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\*This figure includes wounded.



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with the fleet, the Naval units were actually self-contained. The Army and Air units, on the other hand, were dependent upon instructions from Egypt. As Air Marshal Longmore, Admiral Cunningham, and General Wavell were all of equal rank and were subordinate only to the War Cabinet in London, through their respective ministries, it is obvious that as far as operations in the Middle East as a whole are concerned, unity in the British command did not exist.

The absence of this unity of command will be pointed out as one of the major causes of the British defeat in this battle. It should not be forgotten, however, that even if that unity of command had existed, the outcome, under the circumstances, would have been much the same. The Navy could not possibly have offered finer cooperation. Nor could it in any way have contributed more to the defense of the island. The fleet was not withdrawn until it had suffered almost tragic casualties in both men and ships; and not until its loss limit was reached did Admiral Cunningham finally make his decision, a decision with which no fault can be found from a naval point of view. Nor could the air force have intelligently cooperated more than it did. Obviously Air Marshal Longmore's small force of planes would have served no useful purpose by remaining to be instantly destroyed by the overwhelming strength of the German Luftwaffe. And Longmore's decision to withdraw on May 19 can hardly be criticized from an air viewpoint, particularly when it is remembered that his decision was not made until General Freyberg, the land commander, had recommended it.

It is believed, however, that unity of command of the three major arms of the service in the Middle East would have benefited by central planning. Such planning should without doubt have given consideration to the strategic importance of the island of Crete and should have considered the nature of the eventual use of this island as a delaying position, pending the unavoidable outcome of the operation.

Although the British made efforts to improve existing airfields and defenses, it is thought that during their six months' occupancy of the island they could have performed much more useful work had they utilized more of the time in bettering supply facilities and communications. More motor transport could have been sent in and would have proved invaluable in the movement of troops and in supply. It has been said by some observers that more anti-aircraft guns and a hundred or more pursuit planes might have turned the tide of the air battle. It should be remembered, however, that it is questionable whether these additional guns and planes could have been spared. Crete was only part of a very important and complicated campaign which was being fought by the British Empire. When considering whether it was wise to defend Crete one must keep in mind three facts which justify the decision actually made: First, the Germans suffered heavy casualties in this battle. Although their official reports show total losses of only

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5293, reliable British sources estimate that about five thousand Germans were drowned trying to land on Crete and that at least twelve thousand were killed or wounded on the island itself. In addition, the German Air Force sustained extraordinary losses. More than 180 fighting and bombing planes and at least 250 troop-carrying planes were destroyed. Second, the campaign furnished a pattern for a major attack in the third dimension (air) and revealed to a certain extent the relative value of various types of defense against mass parachute landings. Third, and possibly most important, the defense of Crete constituted another step in the effort to delay the advance of the German might and to gain time, which is vital to Great Britain in the present conflict.

A second point of interest in studying the part played by the Germans in this campaign is the organization of all parachute troops as a parachute division under a general officer. In previous campaigns, notably in Holland, the parachute battalion appears to have been the largest unit of these troops. Parachute battalions in Holland were attached to air infantry formations to act as a sort of advanced guard. In Crete, on the other hand, one can note the evolutionary changes which have occurred in the German organization of parachute troops since 1940. The individual companies and battalions which operated in Holland gave way in Crete to a division composed of three parachute regiments. This division differed from a normal division in three respects only: it had fewer troops, it lacked supporting weapons, and it lacked artillery.

A third development worthy of attention is the excellent use the Germans made of their motorcycle companies during the latter stages of the Cretan battle. Motorcycles or light cars lend themselves to transport by plane since they do not consume too much cargo space. These motorcycle companies constituted the mobile troops of the expedition and did valuable service as reconnoitering agencies and as advanced guards in all phases of the battle. They also did splendid work pursuing British detachments during the final advances to Heraklion and Sfakia.

As pointed out before, most of the unofficial British statements with regard to military lessons learned at Crete must be accepted with reserve. The statements of the various British Headquarters however, were made only after a careful study of all ascertainable facts, and they, therefore, deserve close attention.

A New Zealand Brigadier drew the following conclusions from his experiences in Crete:

"Perimeter defense of airfields with artillery in depth is apparently most necessary. The British placed their guns too close to the airfields. The guns should be scattered and well camouflaged. They should not fire at aircraft and

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betray their position except as a last resort to protect their own planes on the ground, or they will be bombed out of existence as these were. All possible airfields or other landing sites should be wired or otherwise protected with ground obstructions. Many German planes landed on the roads. Infantry guarding airfields should be in short shallow trenches, 4½' deep, 2½' wide, and 6' long; individual trenches should be scattered haphazardly around the field. No mounds of dirt should be left visible to the planes. A few tanks are useful in protecting airfields - the British had several, but they were bombed out of commission before the German planes started landing troops. Some tanks had been damaged by being flooded with salt water before landing. The whole defense of an airdrome must be well organized; its first objective should be to prevent the landing of troop-carrying planes.

"German organization was excellent, of course, down to the most minute detail. Instructions taken from some of the first parachutists gave the method of signalling planes for food, bicycles, reinforcements, and direction of enemy forces. After landing, parachutists used rockets to indicate the location of British forces. Red and white rockets were fired from different points toward British forces, the red being used when the bombing and strafing was on. New Zealand troops actually succeeded in signalling German planes to drop them food, coffee, bicycles, and 'reinforcements' whom they were ready for and promptly shot down. Food parcels were small in bulk, nutritive, and well done up in weather proof containers. Fragmentation of bombs was excellent - very uniform - and in 1 to 1½" fragments. No delayed action fuses or land mines were used in the campaign."

A tentative report from the British Middle East Command draws the following lessons from the experiences of British troops on Crete:

"Airdromes, being the enemy main objective, must be organized for all-round defense, even to pillboxes, especially as parachutists may drop behind the defenses. Defenses, including artillery, must be in depth. Artillery in sites with cover proved more useful than that in the open with all-round field fire.

"All ranks of all arms must be armed with rifles, bayonets, and a high proportion of tommy guns in order to protect themselves and in the case of artillery, their guns.

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"By day it should be easy to deal with parachutists, but it must be remembered that they may land at night and secure an airdrome. The main problem is to deal with enemy air-borne troops, and as it is impossible to be strong everywhere, there must be strong mobile reserves centrally placed, preferably with tanks.

"Defense must be offensive. Immediate action by mobile reserves is essential to prevent the enemy from settling down. In order to secure quick action a good system of inter-communication is vital. Delay may give the enemy air force an opportunity to prevent movement.

"During the bombing phase, antiaircraft and light machine guns should remain silent unless required to protect their own aircraft on the ground.

"The antiaircraft layout should include dummy antiaircraft guns and alternative positions. Positions of antiaircraft guns should be continually changed.

"Arrangements must be made so that those airdromes which are liable to attack may quickly be rendered temporarily unfit for landing.

"As important as the quick action of a mobile reserve, is the position of the fighter aircraft support, the existence of which might prevent any air-borne landing from succeeding, or at least might reduce the enemy effort.

"The foregoing are interim lessons which may be modified as a result of the findings of a special interservices committee which is now examining the operations."

Another British higher officer described the military lessons he had learned in Crete in the following words:

"Because of the type of training they had received and because of their normal duties, the usual airfield crews were valueless for defending fields.

"Positions of the defenders should be organized in depth on all sides of the landing fields, rather than merely on the edges of the fields.

"Immediately after landing, parachute troops are relatively helpless.

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"Trained marksmen using rifles are the best means of defense.

"Artillery, if properly placed and camouflaged, is very valuable against troop-carrying planes.

"Defense troops should be located near areas suitable for landings and should have available a motorized reserve which can be transported in trucks to unguarded points where enemy landings are being made.

"The two most important points to be kept in mind are the time factor and the necessity for trained marksmen."

A brief and tentative study of the Crete fighting by British official sources, recently published, stresses four major lessons learned in that campaign:

- a. Slit trenches, rather than elaborate field fortifications, are the best protection against dive-bombers.
- b. The defense system of airfields must be organized in depth. A perimeter defense is not sufficient in itself.
- c. Artillerymen must be armed with rifles. On one occasion in Crete, a British battery was captured by parachutists, because the lack of infantry weapons left the personnel of the battery helpless.
- d. Mobile reserves are absolutely necessary to repulse parachute attacks.

Parachutists are relatively helpless and easily destroyed if the defender launches strong counterattacks without delay. Mobile reserves should be held in readiness for this purpose. In Crete, a lack of motorized equipment prevented the launching of such counterattacks.

One of the most important lessons to be drawn from a study of the German operations on Crete as a whole is the importance of the air transport plane. Air power must necessarily be based primarily on pursuit and bombardment planes, but for a full exploitation of air power, the transport plane appears to be as important as the other two. To be sure, the German pursuit and bombardment planes made possible the conquest of Crete. However, in the last analysis it was German troops transported to Crete in German transport planes - Ju-52's - who actually conquered the island.

Such a transport fleet as the German Air Force now possesses -

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650 Ju-52's were used in Crete - cannot be improvised in time of war. Such a fleet must be created, organized, and equipped in time of peace, long before the outbreak of war, if it is to function to its full capacity. Reliance on the transport planes used in civil aviation for more than the nucleus of such a fleet is ill-advised and is likely to prove illusory.

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APPENDIX A

NOTES ON GERMAN GLIDERS

SOURCE

These notes are based upon the report submitted on June 7, 1941, by an American official observer in Cairo. The information contained in that report was obtained by British officials from a 25 year old German glider pilot who was captured near Canea on May 20, 1941.

CONTENTS

1. QUESTIONS AND ANSWERS
2. MISCELLANEOUS INFORMATION

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RESTRICTEDNOTES ON GERMAN GLIDERS1. QUESTIONS AND ANSWERS

Question: How many men are carried in each glider?

Answer: Ten men are carried.

Question: What accommodation is provided for armament, equipment, etc., of troops carried?

Answer: Their rifles are stowed inside the glider on clamps at the side of individual passengers.

Question: Are troops sitting or standing?

Answer: All the passengers are seated, one behind the other.

Question: Is a reserve pilot carried?

Answer: No reserve pilot is carried.

Question: Is an observer carried?

Answer: No observer is carried, since the glider is released near its objective.

Question: What guns, if any, are carried, and who manipulates them?

Answer: One machine gun, Type 34, is fitted horizontally on a clamp on the outside of the glider; it is fired by the man sitting behind the pilot. This machine gun is fixed and no definite aim is made. It is fired, shortly before landing, on anything that is in the line of flight of the machine. P/W<sup>1</sup> believed that this is valuable chiefly for its effect on morale. He carried an O.8 pistol<sup>2</sup> as his only weapon.

Question: What type of troops are carried, special Glider Corps or ordinary infantry troops?

Answer: Ordinary infantry troops were carried on the operational flights made by P/W. This was also true of training flights in Germany.

Question: What type of training is given glider pilots?

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<sup>1</sup>P/W is the abbreviation used for prisoner of war.

<sup>2</sup>This is thought to be an 8-mm. pistol. G-2.

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Answer: P/W's training was not normal, for he had started gliding as a boy in 1931. He subsequently entered the German Air Force as a pilot and was removed from power-driven aircraft and sent to Hildesheim. Because he had had considerable experience, he was started immediately on operational gliders, making many spot landings, some of them with local troops as passengers.

No special tactics were taught; the main problem was to put the machine down on the required spot as quickly as possible after release from the towing airplane.

Question: What type of training is given glider troops?

Answer: Glider troops do not appear to have had any special training beyond instruction and practice in getting out of the machine speedily.

Question: What provision is made for getting into, and out of, the glider? How soon can the troops get out of the glider?

Answer: There is an exit in the front and one at the rear. The troops, being at the ready, can get out fairly quickly.

Question: Do glider-borne troops carry parachutes, and is it possible for them to escape by parachute in case of impending crash?

Answer: No parachutes are carried by troops or pilot.

Question: How many gliders can be towed by one aircraft? One report speaks of six gliders having been towed by one Ju-52. Is this true?

Answer: P/W insisted that not more than three gliders can be towed by a Ju-52 and that he had never heard of other towing aircraft except the He-46 and the Henschel-126.\* He stated that in point of fact the largest number of gliders he had ever seen being towed together was two; he had, however, heard of three.

Question: What is the organization of glider units? Are glider units separate entities?

Answer: Glider Units are under the Luftwaffe.

Question: Do they depend upon particular groups of troop transport aircraft?

Answer: Yes. Ju-52's were at Hildesheim and were known as

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\*The Klemm has been previously mentioned by a German Air Force pilot for towing single seaters.

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Staffel\* One.

Question: How many gliders are in each unit?

Answer: About 15 to 20 gliders are in each unit.

Question: What repair and maintenance facilities are provided?

Answer: In Greece, there were about as many riggers as there were aircraft.

Question: What are the ranks of glider personnel?

Answer: The ranks are the same as in the German Air Force.

Question: What is the relation of glider personnel to other units of the German Air Force? Are they interchangeable or a separate organization?

Answer: Glider personnel is not interchangeable with that of the German Air Force.

Question: What is the total number of gliders available?

Answer: P/W insisted that he had no idea of the number of gliders available. The whole scheme was supposed to be very secret and pilots were given no information concerning it.

Question: Is a radio carried?

Answer: No radio is carried.

Question: Do gliders carry flame throwers, gas equipment, smoke-producing apparatus, etc.?

Answer: P/W stated that no flame throwers, gas equipment - except masks - nor smoke-producing apparatus were carried.

Question: Are gliders used to carry stores, equipment, guns, light cars, light tanks, etc., instead of troops?

Answer: The rear four seats are removable and P/W saw no reason why the equivalent weight in stores, etc. could not be carried. He knew nothing of a larger type capable of carrying light tanks, etc.

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\*The Staffel corresponds to the U.S. squadron.

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Question: What is an L.S. Fuhrer?

Answer: An L.S. Fuhrer is a Lastensegelflugzeugfuhrer, that is, a freight-carrying glider pilot.

2. MISCELLANEOUS INFORMATION

Other points of interest, some of which refer to information contained in the question and answer section of this bulletin, are as follows:

a. P/W stayed in Salonika for about three days. The machines of his Staffel were assembled - wings and flying wires rigged - in about one day. In this Staffel, there were approximately as many riggers as there were machines.

b. Another unit, proceeding by air, was seen by P/W while he was at a railway station in the Balkans.

c. The flaps, which are fitted on the upper trailing edge of the wings, open upwards. When flaps are shut in the flight the machine does not drop suddenly like a power driven aircraft. Spot landings are therefore comparatively easy.

d. The fuselage of the machine is constructed with steel tubing; P/W believed that the wings were of wooden construction.

e. P/W received his Iron Cross I and II for landing near a bridge on the Albert Canal with about five other gliders and about 60 men and holding this bridge for 24 hours, preventing its destruction. A vastly superior force of Belgians took to flight, and the main force of Germans was able to cross the canal without resistance.

f. The following phosphorescent flying instruments were fitted in the glider:

Air speed indicator;  
Altimeter;  
Rise and fall indicator;  
Compass;  
Turn and bank indicator.

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APPENDIX B

ADDITIONAL NOTES ON THE BATTLE OF CRETE

SOURCE

These notes are based upon extracts from a translation which was published June 1941 in the Revue Militaire Suisse, a Swiss military journal. It is hoped that this additional information on Crete may prove of use in completing the picture described in the bulletin to which these notes are appended. With that in mind, they are offered to the reader for whatever of value they may contain.

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ADDITIONAL NOTES ON THE BATTLE OF CRETE

"Without a doubt, the Battle of Crete is one of the most interesting military operations of this war. Certainly it has shown neither the character nor the magnitude of the actions which took place a year ago on the Western Front; but it reveals methods of attack which will have further development.

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"The campaigns in Norway and Holland have shown that the Germans possess troops extremely well-trained as parachutists and air-borne infantry. Those campaigns have proved that fact, but the engagements themselves have been far less encompassing than those in Crete. In Norway and in Holland, the actions of these specially trained troops were limited to the taking of airdromes and of other objectives which would facilitate the advance of German land forces.

"Even in Greece, the parachutists which were dropped on the Isthmus of Corinth, had as their mission only the creation of a bridgehead on the Peloponnesus which would permit the advance of the German Armored Forces and would prevent the British retreat through this sector.

"On the other hand, the Crete parachutists and air-borne infantry carried on practically the entire battle. That is the new fact.

\*\*\*

"The systematic aerial reconnaissance prior to the actual invasion of Crete permitted the photographing of all details of the principal objectives.

\*\*\*

"Before departing for the attack, the parachutists studied the air photographs of positions they were to occupy. The first parachutists afterwards occupied those positions and then covered the arrival of those who followed, loaded with material and light cannon. Pioneers next descended with orders to clear immediately landing places for large transport planes.

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"The idea of transporting troops by gliders seems to have reached the stage of practical application.

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"Instead of utilizing materiel which is costly and often difficult to replace, the Germans preferred to employ towed gliders. Since gliders can land almost anywhere the difficulties of finding good terrain for landing fields hardly exists. Moreover, if the glider is damaged in landing, the loss is small.

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"The use of air-borne troops seems to present advantages over the use of parachutists. In the first place, the training of transported troops is not nearly as complicated as that of the parachutist. In the second place, the men are already grouped as soon as they reach the ground, and there is thus avoided the dangerous period preceding re-assembly.

\*\*\*

"German aviation supported fully the troops on the ground. Aviation officers joined the air infantry officers on the ground in order to determine the objectives which were common to their respective commands.

"In order to induce the defender to disperse his reserves, the parachutists always attacked in several places at one time.

\*\*\*

"Since the necessity of good terrain diminishes in proportion with the employment of gliders, the greater part of the country becomes vulnerable to this sort of attack."

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APPENDIX C

FURTHER NOTES ON THE BATTLE OF CRETE

SOURCE

These notes on the Battle of Crete are based upon extracts from a report just received from an American official observer in Cairo and give the latest version of the initial attack.

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FURTHER NOTES ON THE BATTLE OF CRETE

"For a month prior to the main attack on Crete the Germans had been making a general movement toward the south of Greece. Transport planes and gliders gathered in the vicinity of Athens and Corinth, and special troops came by air, sea, road, and rail. Supplies and enormous stocks of munitions were piled well forward. Landing fields were hastily constructed in southern Greece; Aegean Islands which offered landing facilities were seized. At Milos British officers and men were captured and put to work building airfields.

"The preparation prior to the attack by air-borne troops was divided into three distinct phases.

"The Germans spent the first ten days of May - the first phase - in thorough reconnaissance accompanied by light dive-bombing and machine gun attacks. The Nazi plan for the main attack was based on the extensive series of air photographs taken at this time.

"The second phase was made up of daylight bombings and machine gun attacks on an ever increasing scale, both in frequency and intensity. The Germans launched vicious thrusts at communications and probing attacks to locate antiaircraft, troop concentrations, and defensive positions. Fighters struck the few remaining RAF planes and forced the British on the 15th to withdraw all aircraft to Egypt.

"In the third phase a series of fierce attacks was directed against sea communications in an effort to interrupt supplies. One night, operating singly, planes bombed Suda Bay continuously for seven hours. On the 17th seventeen Ju-88's, escorted by ten Me-109's, dive bombed Suda Bay. The next day, after four reconnaissances, Suda Bay was subjected to seven heavy bombing attacks supported by fighters. Even though the ships there were on fire and sinking, the unloading continued; Suda anchorage became a graveyard for vessels. On Malemi and Heraklion airdromes bombing and machine gun attacks were heavy and frequent, and there was a general intensification of all attacks in an effort to break down morale.

"Throughout the month preceding May 20 there had been a constantly rising tempo in the preparation for the air-borne invasion. The method of attacks varied; their intensity progressively increased. Daily reconnaissance and air photography enabled the Nazis to study defense disposition of troops and the location of guns and slit

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trenches. Having completed a thorough reconnaissance and having battered resistance and interrupted supply, the Nazi air army was ready to attack.

"Soon after dawn on May 20 the Luftwaffe struck the Malemi-Canea area. Its mission was to silence antiaircraft batteries and to prevent the use of the roads between Suda and Malemi. At Malemi the attack was especially heavy.

"The New Zealand 22d Battalion defending Malemi airdrome was heavily bombed and machine-gunned for ninety minutes by Ju-87's, Ju-88's, Me-109's, and Me-110's. The bombardment was so intense that everyone was driven to slit trenches - some participants claim the severity of the attack exceeded the heaviest artillery preparations of the World War. Before the dense cloud resulting from this attack had lifted, fifty gliders had landed in the dry river bed directly in front and to the west of the 22d Battalion.

"The big scale Blitz was an awe inspiring spectacle. A distinguished British officer relates how he stood on a hill watching the attack over Malemi, enthralled by the magnitude of the operation. While he was watching the bombers, he suddenly became aware of a greater throbbing, or overtone, during the moments of comparative quiet. Looking seaward he saw hundreds of planes, tier upon tier, coming toward him. They were huge, slow-moving troop carriers with the airborne troops he had been expecting. They circled counter clock-wise over Malemi airdrome and then as if by magic, when the planes were only 200 feet above the ground, white specks suddenly appeared beneath them, and clouds of colored parachutes floated slowly to earth.

"The dry stream banks afforded shelter to the glider-borne troops which landed there. Fully armed and organized as combat teams, the troops poured out of the gliders and took up positions facing the 22d Battalion where they could cover their parachutists landing west of the stream bed. Flying at low altitude in circles whose center was about a half mile west of the 22d Battalion position, Nazi fighters covered the descent of the parachutists by continuous, murderous strafing of ground troops.

"Most of the parachutists who landed near defending troops were killed. Some who landed on the Malemi-Canea road interrupted communications. On the airdrome, defending troops were overwhelmed by parachutists who actually landed on top of them with stores and equipment. To the east and west of the airdrome Ju-52's crash-landed on the beaches and disgorged troops."

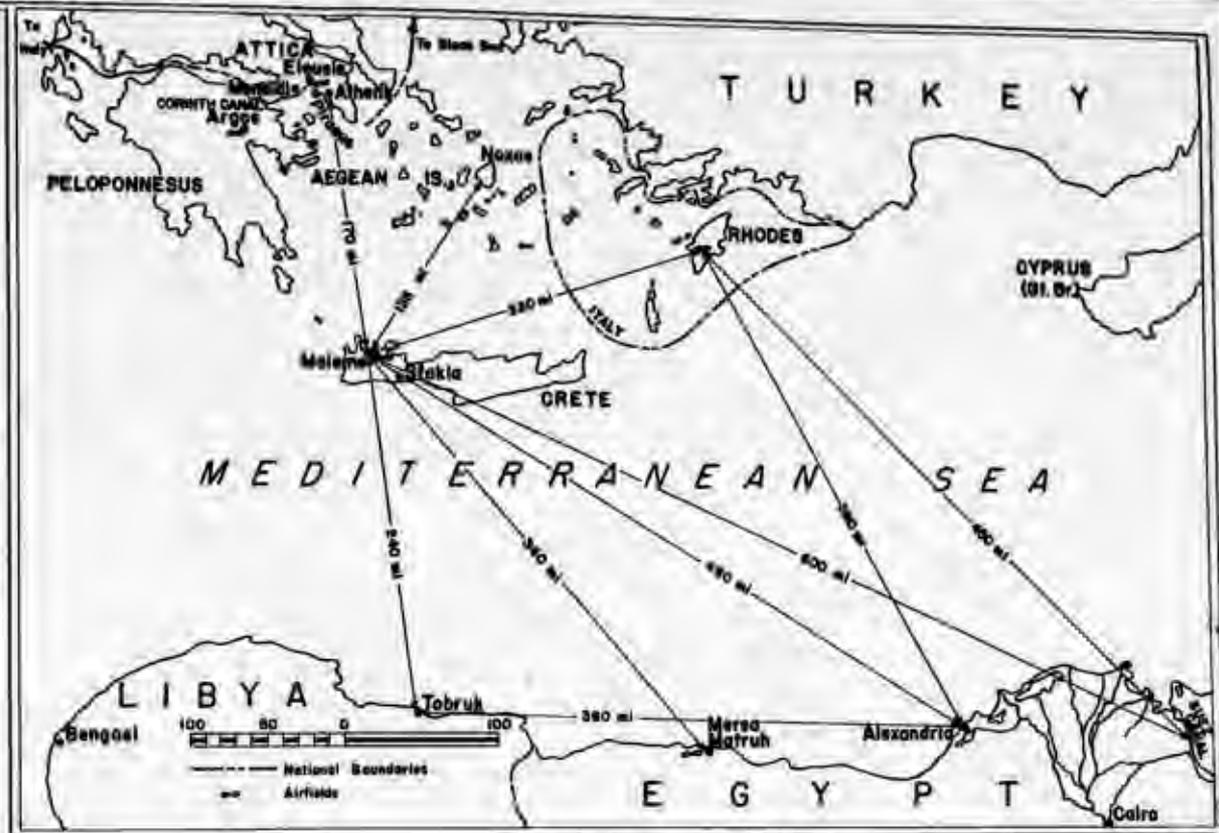
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In addition to their use in transporting covering forces for mass parachute landings, gliders permit the introduction of the element of surprise. Released by their towing planes as much as 10 or 15 miles from their objectives, they approach with no roar of motors and may remain undetected until the moment of landing. They carry completely equipped and organized units, which are ready for action the instant they touch the ground. The future will doubtless show a more extensive use of gliders in seacoast landings.

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## CRETE

0 20 40 60 80 100 miles

- Main Roads
- Other Roads
- ⊙ Airfields
- Airfield



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G-2/2657-220; No. 519 M.I.D., W.D. 11:00 A.M., October 15, 1941

SITUATION REPORTI. Eastern Theater.

Ground: The island of Oesel is now completely in German hands.

Heavy fighting continues on the central front with Russians admitting German advances.

The German High Command states that the pocket west of Vyazma has been eliminated. This action and the fighting around the pocket east of Bryansk has netted so far a total of 500,000 prisoners.

The Germans are advancing slowly on the southern front with advance guards near Tagenrog.

Air: A Russian communique tells of an attack against German ground forces by the air arm of the Black Sea fleet.

The British Air Ministry claims that their attacks on Germany have kept half the Luftwaffe fighting force on the Western Front and thus aided preventing German control of the Eastern Theater air.

II. Western Theater.

Air: British reports spoke of attacks against south Germany last night. There was no elaboration. Fighters are said to have carried out offensive patrols over northern France during daylight.

German planes raided British airfields last night. German sources declare British losses yesterday to have been heavy.

III. Middle Eastern Theater.

Air: The Italian communique admitted a British raid last night on Benghazi.

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## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE October 16, 1941.

TO Secretary Morgenthau  
FROM D. W. Bell  
D. H. Morris, Jr.  
Subject: Summary of discussion at lunch, October 15, 1941.

Present: Messrs. Walter Stewart, Laughlin Currie, Allan Sproul,  
E. A. Goldenweiser, D. W. Bell, George C. Haas, and  
D. H. Morris, Jr.

Possible elimination of guaranteed issues.

With respect to certain factual data this discussion was based on a memorandum prepared by Messrs. D. W. Bell and Morris, dated October 14, 1941, which is attached hereto as Exhibit A. The discussion brought out the following major advantages and possible disadvantages on this subject.

Advantages

- (1) Simplification of government debt structure.
- (2) Simplification of financing problems through having fewer issues.
- (3) A supplemental advantage under this heading is indirect aid to the program of issuing larger amounts of "bills".
- (4) Will result in cheaper financing (on a memory basis). It was thought this would average about a quarter of a percent. For a later check-up, see report by Mr. Hadley, Exhibit B.

Possible disadvantages

- (a) Critical public psychology on the apparent larger "public debt" figure. While this figure has always been somewhat of a fiction, and although figures on the guaranteed issues are always included by careful students, nevertheless, they are omitted

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in public discussion far more often than they are included. If the "guaranteeds" are eliminated, it may be desirable to show the amounts borrowed from the Treasury by each governmental agency. However, it is guessed that in more cases than otherwise, the unadjusted public debt figures will be used for comparative purposes.

- (b) The difficulty from a practical point of view of resuming future "guaranteed" issues should that for some reason seem desirable in the future.
- (c) Some difficulty from time to time with the agencies as to the rate that should be charged.
- (d) The "breaking of faith with the market" on the question of rights, in view of the practice built up over a period of many years.

#### Conclusions

It was also felt that if a change was to be made it was best to make the plan inclusive when it was announced, so that all agencies would be treated in the same way with respect to the problem regarding the debt limit. Secretary Morgenthau said he would wish to do this through the proper channels and believed he would have no difficulty under present conditions. It was also felt that present conditions presented a favorable opportunity for putting the plan into effect. With respect to the immediate detailed effects on the Treasury financing, and also as to the possibility of working out some solution to the "rights" problem, Messrs. Bell and Morris were asked to submit a memorandum.

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Possible desirability of issuing a larger amount of bills.

Secretary Morgenthau mentioned that this had been under consideration for some time and had been recommended by, among others, Mr. Eccles and Mr. Stewart. The general advantages of enlarging the bill market seemed to be so well agreed upon that there was not much discussion of the subject as to the principle involved. As to details, not much was said at this meeting.

With respect to the question of correlating public flotations (other than those by the Treasury) with Treasury financing.

The memorandum from Messrs. D. W. Bell, Buffington, Viner, and Morris, dated October 14, was read. (See Exhibit C.)

There seemed to have been some misunderstanding as to what was in the Secretary's mind, but after discussion it was brought out that he did not have in mind, except as a possible secondary issue, the question of "policing" the purposes of loans, but rather the question of arranging a timing schedule of public issues so that they did not interfere with government financing. On this score it was felt that there should be no great difficulties and that it could be very easily handled through the Federal Reserve System, presumably on the basis of each district making reports covering flotations within its borders.

Just as a spot check as to possible information at this point, simply on a "gossip" basis, Mr. Sproul was asked to

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report for the next week on contemplated and actual issues in his district. This information would then be used by the Treasury on the basis of an informational check in a suitable way to see if the question of priorities might be important.

During the course of the discussion reference was also made to the informal Capital Issues Committee of 1918, and its successor established by Congress but given no actual statutory powers. The basis of this information and related data are covered by a memorandum from Mr. Haas to Secretary Morgenthau, dated April 17, 1941, entitled "Restriction of Capital Issues Competing with Government Securities."

*J.M.F.*  
*4/17/41*

TREASURY DEPARTMENT

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INTER-OFFICE COMMUNICATION

EXHIBIT A

DATE October 14, 1941

TO Secretary Morgenthau

FROM D. W. Bell  
D. H. Morris, Jr.

Subject: (1) Immediate cash and refunding requirements; and  
(2) Total refunding requirements on currently outstanding issues of:

- (a) Reconstruction Finance Corporation
- (b) U. S. Housing Authority
- (c) Commodity Credit Corporation
- (d) Home Owners' Loan Corporation
- (e) Federal Farm Mortgage Corporation.

Reconstruction Finance Corporation: In our cash position statement estimates we contemplated raising \$500,000,000 for this Corporation to meet its cash requirements up to December 31 and, in addition, refunding its outstanding 7/8% notes maturing November 1 in the amount of \$300,000,000. This offering should be announced on October 21, 22 or 23 and the issue should be dated November first.

The Reconstruction Finance Corporation has authority to borrow on maturities not exceeding five years.

Commodity Credit Corporation: This Corporation does not need any cash at this time. As a matter of fact, the Reconstruction Finance Corporation owes it about \$80,000,000 and it has a free cash balance of about \$25,000,000, so that when the Reconstruction Finance Corporation receives its new cash it will pay off the Commodity Credit debt, which will give this Corporation approximately \$100,000,000 which it can use to pay off a part of its 1% notes maturing November 15 in the amount of \$204,000,000. It will be necessary either to

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refund the balance, amounting to \$100,000,00 or to pay it off with cash, in which case the Treasury would have to loan the Commodity Credit Corporation \$100,000,000. There does not appear at this time any need for additional funds until possibly next spring, since its receipts are about sufficient to meet its cash expenditures.

There are no restrictions on the Commodity Credit borrowings other than the limitation on the amount which it can have outstanding, and that is ample to meet all of its requirements for the next year at least.

Mr. Bell has discussed the matter of paying off the maturing issue with the Vice President of the Corporation, Mr. Farrington, by the Treasury supplying the cash and he could see no objection to this procedure. As a matter of fact, he thinks it would simplify the operations of the Corporation.

U. S. Housing Authority: The Authority needs approximately \$150,000,000 of additional cash which would be used to liquidate \$108,000,000 which it already owes the Treasury and to carry it on for the next two or three months. It also has \$112,000,000 of its 1/4% notes maturing on November 1. We originally contemplated an issue of \$150,000,000 of its notes for new cash and increasing this amount by the refunding of the outstanding notes maturing on November 1.

For all practical purposes there is no limitation on the borrowing of this organization other than the limitation in amount of \$800,000,000. This latter may embarrass them as it is not a revolving fund, and issuing securities for refunding purposes either to the Treasury or the public, uses up this authority. A bill has been introduced in Congress to remedy this situation.

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Mr. Bell talked to Mr. Straus about the matter of paying off the maturing issue in cash and the Treasury advancing whatever additional cash is needed by the organization to carry on its program. He says that they have no objection to it and would welcome such a procedure.

Right Values: The Reconstruction Finance Corporation securities which mature on November 1 are selling at 100-19/32, which is 18/32 in excess of zero yield. Commodity Credits are selling at 100-19/32, or 16/32 in excess of zero yield, and the U. S. Housing Authority obligations maturing November 1 are selling at 100-6/32, which represents 6/32 in excess of zero yield. If we intend to pay off these two latter issues in cash I believe it only fair to the market and the holders that we announce this policy as soon as possible so that there will not be any trading in them at a higher value anticipating exchanges into other securities of these agencies.

"Over-all" requirements: The schedule on the following page is based on an estimate of the new money required by these agencies for the balance of this fiscal year, and also shows the amounts eventually needed to refund all presently outstanding obligations.

*J.M.F.*

Estimated Requirements if Treasury Directly Took Over  
Financing of Government Corporations

(Millions of Dollars)

	USHA	CCC	HOLC	FFMC	Subtotal	RFC	Total
Current Direct Advances by Treasury (10/13/41)	108	-0-	-0-	-0-	108	97	205
In Hands of the Public - Due or Callable between 11/1/41 and 6/30/42							
7/8% - 11/1/41						300	300
1/4% - 11/1/41	112				112		112
1% - 11/15/41		204			204		204
7/8% - 1/15/42						310	310
3% - 1/15/42-47				236	236		236
2-3/4% - 3/1/42-47				103	103		103
Additional estimated requirements - net 10/13/41 - 6/30/42	<u>200</u>	<u>180</u>	<u>Gr 175</u>	<u>15</u>	<u>220</u>	<u>1,000</u>	<u>1,220</u>
Total - on "old" basis which would normally be raised by "guaranteed" issues - 10/13/41 - 6/30/42	420	384	Gr 175	354	983	1,707	2,690
Issues in Hands of Public, Due or Callable on or after 7/1/42							
1% - 7/1/42						276	276
2-1/4% - 7/1/42-44			875		875		875
7/8% - 10/15/42(T)						320	320
3/4% - 5/1/43		289			289		289
1-1/8% - 7/15/43(T)						324	324
1-3/8% - 2/1/44	114				114		114
3-1/4% - 3/15/44-64				95	95		95
1% - 4/15/44(T)						571	571
3% - 5/1/44-52			779		779		779
3% - 5/15/44-49				835	835		835
1-1/8% - 2/15/45(T)		412			412		412
1-1/2% - 6/1/45-47			755		755		755
Total	534	1,085	2,234	1,284	5,137	3,198	8,335

TREASURY DEPARTMENT

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INTER-OFFICE COMMUNICATION

EXHIBIT B

DATE October 15, 1941

TO Mr. Morris  
FROM W. H. Hadley

The attached table gives present yield differentials between selected Treasury notes and guaranteed notes.

Since maturity dates of direct and guaranteed are not comparable, I projected the maturities of the guaranteed issues and estimated yields from those points.

In regard to taxable issues, there are none which have been outstanding a year so I picked one that has been out 6 months and two others which have been out about 3 months.

Roughly speaking, the yields on tax-exempts have become substantially lower both in guaranteed and direct issues. Of the taxable issues, the shortest ones have declined in yields. The spreads in the tax-exempt group have been increasing in favor of the direct notes whereas the spreads in the taxable group show mixed tendencies, with the relationship remaining about unchanged for the longer issues and the spread decreasing in favor of the guaranteed issue in the shorter issues. The short period that these taxable issues have been in the market plus the unfavorable reception given the first taxable notes tends to make a comparison of this nature rather uncertain.

Yield Differentials Between  
Direct Treasury Notes and Guaranteed Notes

NON-TAXABLES:

<u>Amt. Outstdg.</u>	<u>Issue</u>	<u>Rate</u>	<u>Maturity</u>	<u>Today's Yield</u>	<u>Yield 10/15/40</u>
114 mil.	USHA	1-3/8%	2/1/44	0.55	0.64
	Maturity projected to		3/15/44	0.58	0.66
515 mil.	T/N	1%	3/15/44	<u>0.25</u>	<u>0.39</u>
			Difference	0.33	0.27
289 mil.	CCC	3/4%	5/1/43	0.46	0.53
	Maturity projected to		6/15/43	0.49	0.55
629 mil.	T/N	1-1/8%	6/15/43	<u>0.09</u>	<u>0.23</u>
			Difference	0.40	0.32

TAXABLES:

				<u>Today's Yield</u>	<u>Yield 7/15/41</u>	<u>Yield 4/15/41</u>
320 mil.	RFC	7/8%	10/15/42	0.35	0.32	0.62
	Maturity projected to		3/15/43	0.49	0.50	0.79
66 mil.	T/N	3/4%	3/15/43	<u>0.22</u>	<u>0.10</u>	<u>0.32</u>
			Difference	0.27	0.40	0.47
				<u>Today's Yield</u>	<u>Yield 7/15/41</u>	
324 mil.	RFC	1-1/8%	4/15/44	0.87	0.78	
	Maturity projected to		9/15/44	0.93	0.86	
635 mil.	T/N	3/4%	9/15/44	<u>0.67</u>	<u>0.65</u>	
			Difference	0.26	0.21	
412 mil.	CCC	1-1/8%	2/15/45	0.99	0.94	
	Maturity projected to		12/15/45	1.09	1.06	
531 mil.	T/N	3/4%	12/15/45	<u>0.73</u>	<u>0.70</u>	
			Difference	0.36	0.36	

October 15, 1941

TREASURY DEPARTMENT

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INTER-OFFICE COMMUNICATION

EXHIBIT C

DATE October 14, 1941

TO Secretary Morgenthau

FROM Messrs. D. W. Bell  
Buffington  
Viner  
Morris

Subject: Possible sources of information on

I. Proposed public "flotations", other than U. S. Government.  
It is to be noted that this excludes the following:

- (a) Loans direct with insurance companies,
- (b) Term financing with banks, and
- (c) R. F. C. loans.

II. Non-defense capital expenditures.

I. If it is decided to keep track of proposed public "flotations", as defined above, in the early stages when such financing is being contemplated, it is felt that the great bulk of it can be kept track of through contacting the leading investment banking houses. Possibly it may develop that contact should also be made with large accounting firms throughout the country, and with the Municipal Comptrollers' Association.

With respect to the investment houses, it is felt that the list of names to be covered would be somewhere between thirty and fifty. The approach could either be made directly to the investment houses, or, at least in the preliminary stages, the matter might advisedly be discussed with the I.B.A. headquarters. It is believed that no serious mechanical problems would be met. However, in the very early stages of negotiating with respect to future financing, an investment house might well feel that because of the client relationship it could not with propriety divulge any information.

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The same general plan is recommended for obtaining similar information from the large accounting firms, if it is found necessary to do so. However, our preliminary guess is that it will not be necessary. The same general comments likewise apply to the Municipal Comptrollers' Association.

Arrangements should also be made with the S.E.C. to notify the Treasury when they receive applications for financing. When applications reach the S.E.C., any "financing" is already pretty well along. The main purpose of the S.E.C. contact, therefore, will be to provide a check as to the adequacy of the prior information furnished by the investment houses.

II. If it is desired to keep track of non-defense capital expenditures, the mechanics of obtaining such information would be much more complicated and it might be necessary to do such a thorough job that at the same time it would be possible to keep track of all capital expenditures, broken down into whatever general categories might finally be decided upon. If it is decided to do this, the matter would probably have to be taken up with such agencies as O.P.M., R.F.C., the Federal Reserve System, the S.E.C., and the Reserve City Bankers Association.



October 16, 1941  
9:00 a.m.

HMJr: Good morning. Mr. Buffington spoke to me about compensation.

Norman  
Thompson: Oh, yes.

HMJr: And I told him we'd pay him twenty-two fifty a day and five dollars and his railroad fare.

T: Fine.

HMJr: Will you - beginning the day he came.

T: Yes, sir. All right.

HMJr: Will you take care of it, please?

T: I will. Yes, sir.

HMJr: Thank you.

October 16, 1941  
9:30 a.m.

## GROUP MEETING

## Present:

Mr. Foley  
Mr. Sullivan  
Mrs. Klotz  
Mr. Johnson  
Mr. Buffington  
Mr. Morris  
Mr. Kuhn  
Mr. Haas  
Mr. Thompson  
Mr. Graves  
Mr. Odegard  
Mr. Bell  
Admiral Waesche  
Mr. Gaston  
Mr. Barnard

## Mr. Thompson:

There was one matter I wanted to clear with you in connection with putting the Minute Man on the stationery. The Post Office Department has the contracts for all of the envelopes for the whole Federal Government. They estimate there may be close to two billion this year. The contractors tell them it would cost ten cents a thousand to put that on the envelopes, which would mean about two hundred thousand dollars for the two billion.

I was wondering, in view of that, if it wouldn't be better just to continue the Post Office "Buy a Bond" cancellation.

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H.M.Jr: That is on the Treasury?

Thompson: No, the whole thing.

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

Bell: You mean the Post Office cancellation stamp?

Thompson: Yes.

On the letterheads there is no charge. The Government Printing Office will take care of that.

Some time ago you asked me to have the telephone operators checked. I did have that done, and they all check out, including the Internal Revenue, Procurement and Engraving and Printing switchboards.

That is all I have.

Bell: They hadn't gotten the report ready yesterday. They worked all night before and said they probably would be there all day yesterday and last night, getting it ready, but they promised us a copy as soon as it is available.

I have Lauch Currie's memorandum to the President, which he says, "Read and return." Maybe you would like to see it.

We have been giving Jesse Jones authority to draw on us up to a billion and a half at a time, with interest at the rate of one per cent. Now he has exhausted that authority and he wants another one. I have the

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letter, but this time I put in, "subject to the right of the Treasury to terminate at any time the agreement to purchase their note." I thought you might want to change the rate.

(Mrs. Klotz entered the conference).

H.M.Jr: As of when is that?

Bell: That is a billion and a half from here on. They have exhausted their authority to borrow from us.

I forgot yesterday to bring to your attention the investment of these special funds while we were making allotments. Could we do that sometime today?

H.M.Jr: We will do it right after this meeting.

Bell: All right. That is all I have.

Buffington: I have nothing, sir.

Graves: The memorandum that you asked for about Washington and Oregon.

H.M.Jr: Oh. Is this a thing that I can send out?

Graves: Oh, yes.

H.M.Jr: Would you (Mrs. Klotz) write a little note to John Boettiger and send this over to the White House this morning?

Graves: The President sent you also a letter, and here is the reply to it. This is the follow-up letter to the Secretary of Labor on that kickback statute.

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Here are letters of transmittal to the President and Vice-President for those commercial posters.

H.M.Jr: Oh, yes.

Graves: I didn't get it straight and the record doesn't show what distribution you wanted made of the other three. We made six of those.

H.M.Jr: Well, let's just hold on to the others.

Graves: Fine.

(Mr. Foley entered the conference).

H.M.Jr: Is there a letter here for the President too?

Graves: Yes, sir. The boys suggest that you might like to sign a letter to Earl Godwin. He is doing a swell job on broadcasting.

You asked that we have Mr. Warwick and Mr. Legler in to see you. They did those commercial posters that we are talking about, and they have had this tabloid for post office distribution in the works. Would Friday be agreeable to you? They will be in town Friday.

H.M.Jr: Will they be in town anyway?

Graves: Yes.

H.M.Jr: What I want to do, if you (Barnard) are ready, I would like to start in at nine fifteen tomorrow morning with you and run through an hour if necessary on your plan. Do you think you will be ready to present it?

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Barnard: Yes.

Bell: Is the eleven o'clock conference on today?

H.M.Jr: Is that on today?

Barnard: Yes. We can put that off until tomorrow, just as well, I should think.

Bell: If you are talking about the memorandum, I think the two tie together, don't you?

Barnard: Yes.

H.M.Jr: Well, are you ready today? I am ready this morning.

Barnard: I won't have seen many of these men around here by that time.

H.M.Jr: Let's see how far we get. If the people come in who are interested in Social Security at eleven. Is Harry White sick?

Bell: Yes, he is sick this morning.

H.M.Jr: Well, anyway, supposing we go at eleven and we will see how far we get. I would like Buffington in on that. I would like him to listen. And Peter, although it is a little out of your line, I think you might sit in.

Odegard: Eleven o'clock?

H.M.Jr: Yes. There are some other angles I would like you to listen to. Kuhn also. I want you to hear it. Are you going to be here, Foley, at eleven?

Foley: I hadn't planned to be, but I will be.

H.M.Jr: I want you to be. And you (Sullivan) be here too.

Sullivan: Yes, sir.

H.M.Jr: And you (Morris), and Bell. What about that

telephone call from Senator Hughes?

Graves: I have the transcript here. We had a protest also from the other Senator from Delaware. It didn't come to you, so far as I know, but he protested on the same grounds.

Buck, the man that they object to, is a Republican. He was for eight years Governor of Delaware. We had no knowledge and still have none except as these Senators have made the statement that Buck intends to run for Senator, as they say. We are pretty far committed with Buck, but I suppose we could get out of it should you think it is advisable. Buck is president of a bank in Wilmington and a very high grade fellow and would have done our purpose a great deal of good there. He is connected by marriage with the DuPont family.

H.M.Jr: Well, I think this: You don't have to get these people confirmed, but I think where a man like Hughes makes such a strenuous protest, I think it is a mistake.

Graves: A mistake to go through with it, you mean?

H.M.Jr: Yes, I do.

Foley: He is a good friend of the Administration, Hughes.

H.M.Jr: Who?

Foley: Hughes.

H.M.Jr: I think it is a mistake.

Graves: I will see then if we can't withdraw. Of course, it is going to be - that will simply increase our difficulties in getting someone.

H.M.Jr: Well, I think it is a mistake. You saw what

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he said.

Graves: Yes, I did.

H.M.Jr: He wasn't unreasonable.

Graves: Well, it depends on your point of view. He, of course, is taking the position, as I see it, that these positions that we are talking about, although they are honorary and carry no compensation, do carry a certain amount of prestige, and therefore ought to go to--

H.M.Jr: He didn't recommend anybody.

Graves: No, I know that, but he objected to a political opponent being put in this place, because he said, "It will give him a certain amount of prestige." As you know very well, we have as chairman in other states many - in several cases we have Republicans that have come into this because they are believers in the President's international policy and believers in the defense program and thoroughly sound in all the matters that count in this program of ours and this is the first case where any objection has been made to appointments on that basis.

H.M.Jr: Well, I wouldn't go through with it.

Graves: All right.

H.M.Jr: I will call up afterward and say that we are not going to go through with it.

Graves: Well, I would like, if you don't mind, to have a chance to check with Buck.

H.M.Jr: Could you let me know tomorrow?

Graves: I think so. Our contacts were made there

first by Mr. Sparks, who is now sick in a hospital and Mr. -- followed up by Gail Johnson, who is in Florida. I think Gail Johnson ought to contact him again. I have had no contact with Buck myself, so I will try and get in touch with Johnson in Florida and have him contact Buck by phone and then report to you, if that is agreeable.

H.M.Jr: Will you, by tomorrow?

Graves: Yes, sir.

H.M.Jr: Thank you.

Graves: Mr. Stodgill of the Philadelphia Bulletin is coming down to see us tomorrow. I see no reason for you to see him unless you would like to. He is the circulation manager of the Bulletin, that you asked that we try to--

H.M.Jr: I would like to shake hands with him. Will you remind me in the morning?

Graves: Yes, I will.

And you didn't give me an hour for Warwick and Legler for tomorrow.

H.M.Jr: What time will they be here?

Graves: They will be here, I think, all day.

H.M.Jr: It is just a question of shaking hands, isn't it?

Graves: I think so.

H.M.Jr: Ten twenty-five.

Graves: And did you meand to have Stodgill at that time also?

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H.M.Jr: Yes, why not just bring them all in.

Graves: Yes, sir. That is all I have.

H.M.Jr: Peter?

Odegard: Nothing this morning.

H.M.Jr: George? You come to that social security meeting, don't you?

Haas: I have been to some of them. (Handing report to Secretary.)

H.M.Jr: Does Buffington get a copy of this?

Haas: I will give him one.

H.M.Jr: I am waiting on an answer to that cable from Ambassador Winant.

Bell: Yes, I have been delaying that because I have been tied up. I intended to do it this morning, but now Harry is not here.

H.M.Jr: Isn't there any way you can do it?

Bell: I guess so. We will try it.

H.M.Jr: It really ought to be answered.

Bell: It has really been my fault, because I have been on these other things.

H.M.Jr: Well, that is unfinished business.  
George?

Haas: That is all.

H.M.Jr: Admiral?

Waesche: I have nothing this morning.

Johnson: We received information that a package containing two hundred forty thousand dollars worth of diamonds was coming in a diplomatic pouch to the British Embassy for delivery to a former diamond dealer of Antwerp through the Netherlands Legation.

H.M.Jr: I know about that.

Johnson: You know about it?

H.M.Jr: Go ahead.

Johnson: The package was delivered to us late yesterday afternoon. We are now holding it, and we have not heard from the Netherlands Legation.

H.M.Jr: It was to be delivered to whom?

Johnson: The British were to turn it over to the Netherlands Legation.

H.M.Jr: And they turned it over to you?

Johnson: Yes, sir, and said they did notify the Netherlands Legation.

H.M.Jr: They did. What are you going to do, just sit there?

Johnson: Hold it until we hear what the Netherlands Legation has to say about it.

H.M.Jr: They are industrial diamonds, aren't they?

Johnson: I had assumed not.

H.M.Jr: I was told they were.

Johnson: That is a very high value for industrial diamonds.

H.M.Jr: Supposing the Netherlands Legation says they want them?

Johnson: For delivery to the owner?

H.M.Jr: Yes.

Johnson: They can pay the duty and comply with the freezing control requirements.

H.M.Jr: Where did they come from?

Johnson: They came from the Netherlands Legation at Lisbon

I believe, but that is not quite sure. Our information shows that they came out of occupied France.

H.M.Jr: Well, I think Foreign Funds ought to have a look at them.

Johnson: Pehle is already in touch with the matter.

Foley: We would freeze them as soon as he releases them.

Johnson: I notified Pehle about it yesterday afternoon.

Foley: They have to have a license in order to be negotiated.

Johnson: And I told our Deputy Collector to let the Netherlands Legation people know that freezing control would apply.

H.M.Jr: Ferdie?

Kuhn: You agreed last week at the group meeting to give a five minute radio talk today to the National Association of Insurance Agents. They are meeting in Kansas City. The time that would be best for them would be 4:30 our time. I wonder if that is all right with you.

H.M.Jr: Can I see the speech?

Kuhn: Before lunch?

H.M.Jr: Yes. (Laughter)

Kuhn: I have got a draft I am not satisfied with.

H.M.Jr: I would like to see it.

Kuhn: Will twelve o'clock be all right?

H.M.Jr: Yes.

Kuhn: N.B.C. has offered us December 23rd and December 30th for the Toscanini concerts. They are just

clearing it with the people they have already had in for those dates, as a matter of politeness. They will let me know this morning.

H.M.Jr: Tuesday night?

Kuhn: Yes. They will take the place of our Treasury Hour, which is washed out for those weeks, and the Treasury Hour can be continued two weeks longer under the terms of their contract.

H.M.Jr: When we do this, they won't say, "Sponsored by Bendix"?

Kuhn: Not at all.

H.M.Jr: It takes the place of that?

Kuhn: That is right. The Bendix thing is simply put off for two weeks more.

(Mr. Gaston entered the conference).

H.M.Jr: Hello, Herbert.

Gaston: Good morning.

H.M.Jr: Just in?

Gaston: Yes.

Kuhn: You spoke to Mr. Rainey, who is handling the Toscanini thing in New York and also the Saturday night thing and said that you would be glad to see him on Friday, tomorrow. I wonder if I could give him a time.

H.M.Jr: He said Thursday.

Kuhn: He said Thursday?

H.M.Jr: Yes. Has he come in?

Kuhn: He is coming in tomorrow.

H.M.Jr: Well, he can come in at 10:20.

Kuhn: Mr. Palmer of the Bendix Company is in town today. I spoke to you about him yesterday morning.

H.M.Jr: Eleven-fifty-five.

Kuhn: I have a very nice telegram from Jerome Kern which I think you ought to see.

H.M.Jr: This is another one?

Kuhn: This is an answer to the one I sent for you.

H.M.Jr: Miss Chauncey showed this to me.

Kuhn: Oh. That is all I have.

Morris: I have a report on the status of this bill that Mr. Bestor was talking about. The general counsel and George Haas are both working on it. It is a long, complicated bill.

Sullivan: Ambassador Winant has expressed the concern they feel in England over these figures published by the United States Chamber of Commerce which purport to show that taxes are relatively higher here in the United States than they are in Britain, and asks that some representative of the Government repudiate those figures. I am having them worked on by Mr. Blough's shop and I will give them to you as soon as I get them.

Mr. Doughton called this morning and said Mr. Vinson had asked him to send the new profit limiting bill to us for a report, and I explained to Mr. Doughton that the report of the investigating

committee wouldn't be available until December 1st and we might want to know what facts and figures had been turned up by that investigation before we passed on it. He said, "Well, that is all right. I don't want to send it down to you. I am not in any hurry about this thing, but I just wanted to make sure that you weren't in a hurry about it."

H.M.Jr: I don't quite follow you.

Sullivan: Well, Vinson, the author of the bill, asked Mr. Doughton to send this new profit limiting bill to us for a report and for an announcement of our position on it. Now, they are making an investigation, the investigating committee, and they are going to file a report December 1st, and we will not be able to get it before November 15th at the earliest. I think we should find out what that committee has turned up before we start expressing opinions about this new legislation.

H.M.Jr: Well, by your action will they not send it down?

Sullivan: That is right.

H.M.Jr: I think that is a mistake. I think you ought to let it come on down.

Sullivan: You mean and then just hold it until we get the report?

H.M.Jr: Yes.

Sullivan: All right.

Barnard: I have nothing.

H.M.Jr: Herbert?

Gaston: I have nothing special.

H.M.Jr: I have got a lot of things that I sent in to you. I have got to see you today after I get around to it.

Gaston: Do you have a time?

H.M.Jr: No. Will you speak to Fitzgerald? I am all tied up.

Gaston: Yes. It was a disappointment that you didn't come. I got a very kind reception.

H.M.Jr: So Boettiger said.

Gaston: You saw John?

H.M.Jr: Yes, he was here yesterday. He said you got a good reception. When you get back on your feet, read that and we will discuss it. You had better keep it in your pocket.

Gaston: Yes.

H.M.Jr: If half the things he says he has done are true, then I think it is quite amazing. It is almost unbelievable.

Gaston: He has done some useful things.

H.M.Jr: But I do want to see you today.

Gaston: Yes.

H.M.Jr: And thanks for going.

Gaston: Well, thank you. I had a pleasant interlude and rest.

Foley: Here is a letter to the President of the American Bankers Association in connection with this publicity we worked out with Stonier. Here is the letter to the presidents of all banks.

H.M.Jr: Do you want this?

Foley: Yes, I would like to get it all back if I could.

H.M.Jr: This I have read, haven't I?

Foley: You have read that. There are minor changes, nothing substantial. This is the proposed telegram to the secretaries of the State Bankers Associations.

H.M.Jr: Has everybody seen this?

Foley: Yes, Ferdie and the rest. All of this has been cleared.

H.M.Jr: All right.

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J: Yeah.

HMJr: I'd like - I'm very seriously considering the idea that the Treasury be the only agency to go to the market for money.

J: Yeah.

HMJr: And that we, for instance, advance to you whatever money you want at a reasonable rate, you see?

J: Yeah.

HMJr: The Treasury can borrow about on an average of - oh, a quarter of a point plus for less than a guaranteed obligation, and so we save a little money on it.

J: Yeah.

HMJr: The main idea is, I just got through this big financing last week. Now, within two weeks after it I've got to go to the market again.

J: Yeah.

HMJr: And I think if the Government went to the market every other month during the next couple of years, it would be more than plenty.

J: Yeah.

HMJr: And in order to accomplish that, we'd want to pay off in cash the various obligations and advance the RFC and Commodity Credit whatever they needed.

J: Yeah.

HMJr: Now, would you think that over?

J: I'll be glad to.

HMJr: How do you feel about it - just a horseback opinion?

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J: I don't see any - I certainly don't see any reason why the Treasury shouldn't do all of the borrowing. The RFC can only borrow for up to five years, so that if you sold an RFC note it couldn't be longer than five years; and the point that would present itself to the RFC would be that five-year money they could get cheaper than twenty-year money.....

HMJr: Yeah, that's right.

J: .....so that that's the only point in - only way that it would affect the RFC.

HMJr: Well, right now, for instance, if you wanted to borrow five hundred million dollars from me, see?

J: Yeah.

HMJr: I'd lend it to you on sort of open account.....

J: Yes.

HMJr: .....at one per cent, you see?

J: Yeah.

HMJr: And as long as our average rates stayed where they are, about two and a half per cent or less.....

J: Yeah.

HMJr: .....I could afford to lend it to you at one.

J: Yeah.

HMJr: So that would be fair, wouldn't it?

J: That'd be perfectly fair. I think this - I think what - I think the boys here, and I certainly would recommend it - would all be perfectly satisfied if you would charge them the - currently the five-year rate.

HMJr: Well, I.....

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J: Or something of that nature.

HMJr: Well, what I - I'd go better than that. I'd be willing to say - I mean, I don't want to commit myself.....

J: Yeah.

HMJr: .....but something you think about.....

J: Yeah.

HMJr: .....that as long as the public debt averages two and a half, we'd be willing to charge you one.

J: That'd be all right.

HMJr: And keep that ratio.

J: I would recommend that to the boys.

HMJr: You see what I mean?

J: Yeah.

HMJr: Now, if we had to go up to two and three quarters.....

J: Then you got to hunch it up a little.

HMJr: .....then I'd have to hunch it up a little.

J: I'll be glad to recommend that to the boys.

HMJr: You see?

J: Yeah.

HMJr: Now what I thought - the only step I thought I'd take this morning is - I did think I would announce.....

J: Yeah.

HMJr: .....that on the U. S. Housing - a hundred and twelve million - that I would pay that off.

J: Yeah.

HMJr: And I would like to say, if it's agreeable to you - I have press at ten-thirty - that we are considering the others.

J: That'd be perfectly all right.

HMJr: It's under consideration and discussion with you.

J: That's perfectly all right.

HMJr: Is that all right?

J: Fine.

HMJr: Thank you.

J: Okay.

October 16, 1941  
11 a.m.

RE FORCED SAVINGS

Present: Mr. Coe  
Mr. Barnard  
Mr. Haas  
Mr. Bell  
Mr. Buffington  
Mr. Foley  
Mr. Odegard  
Mr. Sullivan  
Mr. Kuhn  
Mrs. Klotz  
Mr. Shere

H.M.Jr: Mr. Barnard, in order to - well, I will do it another way. I would rather use the time that I have now to let you - there is nobody here from Harry White's office. Go ahead and shoot your plan, the one that you gave me. Let's just let the other thing go. Let him run through it and then talk to him, if you don't mind being questioned.

Barnard: Not a bit.

H.M.Jr: It is more important than the other memo.

Barnard: This is a shot in the dark, since I have got no dope whatever. I have no estimates, and I have no idea about the political practicability. I have got some idea about the business psychology in the thing, but we start out with the proposition that you have got to take it away from people and you have got to get it into Treasury. You have got to curb inflationary tendencies.

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You have got to take very large sums with some sugar coating. That is, it isn't taxation as such that will reap off the money where you can get it, which is from those that are being paid and from those whose income is increasing. The most important distinction that I am making in the set-up is between income and spendable income, which so far as I know, is a new emphasis, corporate income and distributable income.

(Mr. Kuhn entered the conference).

The first proposition is to require a contribution for a thing which is called "family reserve" for obvious reasons. I think it may be obvious, but I don't want to say "compulsory saving" and that sort of thing, and that is what it works out to be, a reserve for the welfare of families under adverse conditions which we anticipate will surely develop after the emergency is over, by getting them to provide for themselves in advance, and in the meantime, to provide the Treasury with a great deal of money which would be difficult to get from them otherwise.

Assuming that people with a thousand dollar income or less can't desirably or practicably be asked to contribute anything into this program, at least now, the rates of deduction would apply on amounts of salaries and wages paid above a thousand, and applied uniformly to the fellow getting twelve hundred dollars or the fellow getting two hundred thousand dollars, making no discrimination, just like the draft laws.

Every citizen within certain limits had the same general obligation. That is a departure from the income tax treatment.

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Second, to get from the people who have an increase in spendable income, income from all sources, not salaries and wages, interest, capital gains, every other kind of income. If they have an increase in spendable income in one year after the other, then we want twenty-five per cent - if their income level is two thousand or less, we want fifty per cent. If it is above that - just to make it a little sweeter, I have suggested without having thought it through too much that the alternative to these two types of contributions which go into a single reserve for each individual affected - as an alternative, if they show receipts of having bought twice as much as this liability amounts to of series F or G, but not E, then they are relieved of this contribution.

In order to work that, you would have to have some kind of a certificate or other to show the tax collector and the employer, because on the payroll proposition I am suggesting that it be deducted at the source, at the time that it is due and payable to the employee.

- Bell: You would have to have a provision that they couldn't cash those bonds for the period, the same as you have here.
- Barnard: You don't need that, because if they cash them quickly they do it at a very considerable penalty, F and G, you see. If they cash them within a year they are absolutely paying you a tax for the privilege. How much is it, one per cent?
- Haas: That is all on the F.
- Barnard: F and G. Those are discount bonds you can't cash for a year or two, except at below par, is that right?

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Haas: Well, it is the same equivalent.

Bell: They don't lose anything, however, by that cashing. They get their money out.

Barnard: I know, but they get less than they put in, and if they do it three or four years afterward they get it with a very, very low rate of interest. That is the way that scale was set up.

However, you could do something different, make a different penalty. The only purpose in that is this. My observation both in corporations and being with the public and Governmental things as I view it from the outside, wherever you have to do anything more or less compulsory, if it isn't a tax which people are adjusted to, if you give people an option, they always feel like they are getting a run for their money. They are doing the deciding, and you are not doing it for them. If you have four options, they would feel like they were free agents. They are no more free than they were when they started, but they feel that way, and it is a desirable thing to give people an option where you can, so they exercise that judgment. That applies to individuals.

The reserve having been created, it can be withdrawn before the end of the emergency in the event of a disastrous situation, that is what it amounts to, for the individual. That means terrific hospital bills or sickness, or something of that kind.

It may be a little difficult to administer that. The only purpose is to make this look very realistic to the fellow who is paying it. We don't want him to feel it

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is thrown into the Treasury forever, and it is just a nominal thing he has title to, and also in the case of unemployment, but only after any unemployment benefits have been exhausted.

The object of this thing is to keep these reserves until after this party is over, so far as we can, but, on the other hand, to give people a feeling that if they are really up against it, they have got some relief coming.

After the emergency is declared over, the President makes a proclamation that the period is ended, beginning one year after that date, you begin to pay back the reserves for each year, year by year, in the order in which they are accumulated. The purpose of that is to keep the inflationary effect of the repayments spread out through a little period of time.

Last time we kept on booming for twenty months after the war was ended. If we paid back all at once, we would be paying back too fast. We would be giving another shot in the arm at a time when we shouldn't have it, and we would be losing our resources for doing it in a little later period.

We ought also to have in mind that it would probably be desirable to space the liabilities from the standpoint of the Treasury, because you have to borrow money when these bills come due in order to pay them.

Perhaps that is enough to say, as far as my notion goes, as to the individual or family reserves. You notice they apply not only to

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the people who have wages and salaries, but to people who have other incomes, and in some cases that would probably be substantial, and I have a hunch that a good many of those people would thank God that had been taken away from them when they saw what happened to some other people, as they would have in 1931 and '2, if somebody had taken it away from them.

The business reserves we call "business stabilization". They are a scheme for recapturing into the Treasury excessively large net profits after the taxes.

(Mr. Coe entered the conference).

Now, some of these concerns, I suppose the proportion wouldn't be very large, but I have no dope on that, but some of them certainly, either by design or by reason of windfalls, probably half to three quarters of the high profits made during this period would be pure windfalls to fellows who didn't know anything about it. They had some materials or supplies that the price went up on, or the cost was much less than expected, or whatever you please. They didn't do anything about it, but they are going to be the recipients of it. It is a scheme for recapturing but without taking it away from them as an asset. Recapturing into the Treasury for a considerable period of time the real excessive earnings, that is, those in excess of six per cent after excess profits taxes have been taken out.

As I say, I don't think the proportion of people of which that is true would be very large. As to those people if they are making

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between six and eight per cent, I suggest we might require them to buy business stabilization certificates from the Treasury, twenty-five per cent of the amount of the earnings between six and eight per cent, fifty per cent of the amount between eight and ten per cent, seventy-five per cent of the amount between ten and fifteen per cent, and a hundred per cent of all earnings over fifteen per cent. Those certificates can be cashed - in a layman's way I am suggesting it just to put something down - through the Federal Reserve Banks under two or three conditions. One, if the concern shows that it is running a deficit after contract obligations and interest. Then it can get back enough to run the business, but not enough to pay any dividends. That is a protection to bondholders and creditors.

Second, and that is not in the picture. There probably ought to be some provision so that the Department in certain cases could prevent insolvency due not to deficits, but illiquidity. That is an administrative proposition possibly of some difficulty and it might be handled through the Federal Reserve, but it ought to be considered. I haven't got it in there as I have some other things. But except for those two types of conditions, these stabilization certificates cannot be converted into cash by the concerns owning them until beginning two years after the termination of the emergency by proclamation, and then they can get back in successive years, according to the years in which they created the reserve, as much as they put in, plus the interest on that accumulation.

Again, that is a proposition for keeping a lot of these concerns who are in danger of failure, who have lost everybody in unemployment, not because they incompetent or inefficient, but because of the accidents of particular hazards or the question of liquidity, or various other things that come in a very unsettled state, which we are bound to have after we get through this emergency.

After shooting the money back to them, again when they are beginning to go down into the valley and again to space out the load on the Treasury of refinancing, I am again guessing that that is a desirable thing to do. That is the business stabilization end. It seems to me to have a very attractive element, assuming you have got to take it away from people anyway, to the business community from several standpoints. In the first place, they don't lose all title to it. In the second place, from the standpoint of all contract investments, there is a safeguard in there that it is impossible for them to get by any other system I ever heard of or know about. If you put bonds in a manufacturing concern or make advances from a bank or whatever, there is very little safeguard against the kind of hazards that we are providing for there and which can't very well be anticipated in general. The reduction of the number of receiverships and insolvencies which I would hope we could provide for by this method, although it would not apply to a very large proportion of the enterprises, would nevertheless, I should think, be an extremely desirable thing from the standpoint of the readjustment or recovery period, but at any rate, it pulls in a certain number of millions of dollars

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to the Treasury when we need it, and keeps it out of distribution as dividends or - also keeps it out of an excessive attempt to get it in the form of wages which you have then got to recapture by some more of this same sort of thing that I talked about earlier.

The fourth proposition is to definitely provide for the voluntary creation of trust funds for the payment of dismissal wages and part time wages after we get into the deflationary period, for those concerns who wish to put it up. Now, there are a number of them, it is my guess, and I know of two or three who would like to do that very much. For instance, Mr. Samuel Ferguson, who I have never met, but I have heard of him for many years as a very progressive broad-gauged fellow, who is president of the Hartford Electric Light Company. He caught a report of the speech of the Secretary, and he immediately wired him that he thought it was a fine thing, but he wasn't thinking big enough. I saw the gentleman on behalf of the Secretary and he was in a few days ago and called me again this morning. He is imbued with the idea that very large reserves ought to be created in order to keep the whole economy from going plumb to hell when this thing is over, and he says most of these fellows who are managing these concerns during this period are going to make large profits which they can't stop. I want to emphasize there is a large amount of purely windfall profits in this situation. They are dying for something like this, because they can't keep it in their surpluses. If they have got it, either their employees or their stockholders insist on getting it, and they feel, under these conditions it is

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a cost to the country of carrying on this kind of program, and the Treasury ought to facilitate voluntary provisions. He doesn't say what I am saying, that that kind of thing is the subject of collective bargaining. You don't have to - you can make it voluntary as to the concern, but I see no reason why a labor union shouldn't make a deal with a concern that it would provide this kind of trust or reserve.

H.M.Jr: You didn't explain what you did to me, that under our laws, if you make an irrevocable trust for a retirement fund like this, you can deduct it from your --

Barnard: As I understand it, if you pay a dismissal wage to a man - say I am fired tomorrow and you give me ten thousand dollars and say, "Good-bye and I hope you get along well." That is an expense of doing business, assuming there is no racket in it. If the thing were provided for irrevocably, as in the case of contributions to pension funds, I assume --

H.M.Jr: You know. Right here is Shere. Is that right?

Shere: I would like to check on it but I think that is so.

Barnard: If not so, I propose it be made so.

H.M.Jr: You remember when you said that yesterday I didn't know. I was surprised that you can make an irrevocable trust from pension funds and deduct it from your profit.

Sullivan: Under certain circumstances, you can.

Barnard: The plan has to be approved by the Department, hasn't it?

Sullivan: Yes.

Shere: There is a deduction for payments into pension trusts.

Barnard: My understanding is that that was true and if it isn't, that is a thing to be considered. To make this convert, Mr. Ferguson calls me this morning. He is a director of the Colt Manufacturing Company. Colt is making the large machine guns. Their normal force is two thousand men. They now have got eight thousand men. They will have ten

thousand men and they have got a lot of money.

Mr. Ferguson said, "Now, there is a meeting of the board this morning and the president and I and one or two other fellows want to put three and a half million dollars into a trust fund right now while we have got it, for the benefit of dismissal wages, and so forth, and we have got two or three hard-boiled directors there that are going to want to get all this money right now. Can you tell me anything?"

I said, "No, I can't, except that your plan would be considered, and I have great hopes that in conjunction with a good many other things that you don't know anything about, that the Department will have to consider something will be done." That is all you can say.

"Well," he said, "maybe that will give me a little courage to fight some of these fellows." He says there is fifty or sixty million dollars that can be secured for this kind of thing in Hartford alone.

Now, I know one other concern, which I won't name because it is entirely confidential, that is actively considering building up this same kind of a trust fund or reserve by increasing two percent or three percent the payroll reserve each year until it reaches fifteen percent. They know that would be sufficient to take care of a depression as severe as the one we have been through, because they have analyzed the record. They could take care of part time, give half the lost time to the men, and could also pay a very substantial dismissal wage to those they had to let go. That would create a fund of - in the order of ninety million dollars for that concern.

Now, my proposal is to cultivate that, which will

cost you some tax money, and get it all in to the Treasury. Stop the private trust funds of this kind of thing in which the investments will be made in Treasury securities and other things, whatever they can get. They will then be anxious to get a high rate of return. Get it into the Treasury at a low rate of interest and get complete control during this period of that fund.

H.M. Jr:

Let me just interrupt. If I might help out a little on some of the things which you told me yesterday, which impressed me, and give you a chance to catch your breath, the thing that impressed me on this thing is this: Mr. Barnard feels that if this Social Security thing goes through, that is one way to get the money, and there is our regular tax program and that there is only so much money to get and in certain ways you get it, and he particularly pointed out in the Social Security program there is no provision for the small business and there is no provision for the business which loses money.

Everything you have suggested here takes care of that consideration. Now, I am not sure that I understand; describe to me simply, because I haven't got it yet, your so-called family reserves. There are four things. Now, just how does the family reserves work?

Barnard:

The employer deducts from the payroll as he pays it currently five percent or whatever other percent you determine on, the amount that is required to be deducted.

H.M. Jr:

Five percent?

Barnard:

Yes. We say five percent. Maybe it ought to be ten percent.

H.M. Jr:

Well, five percent.

- Barnard: I used five as a shot in the dark to illustrate it. We say that is two dollars. That is set down in the Treasury or the Social Security -- I think they could probably administer that family reserve thing better than anybody else -- it is set down there and you have an account. You may give him a passbook. It makes it a little more real and more convenient. I heard Blough say something about the passbook idea. That might be a thing that could be done.
- I think that Social Security has in mind that if they extended some of these things they might better go to that kind of a system.
- Bell: Yes, the agricultural group and so forth.
- Barnard: It appeals to me very much because something besides a card is desirable.
- H.M.Jr: Is the five percent on the increase or on his present?
- Barnard: It is on his present salary less a thousand dollars.
- H.M.Jr: You wouldn't apply it to anybody unless it was over a thousand dollars?
- Barnard: No.
- H.M.Jr: But your proposal is a straight five percent tax on everybody that earns a thousand dollars or over at the source?
- Barnard: Yes. Not a tax, a contribution.
- H.M.Jr: Well, a contribution of five percent.
- Barnard: Yes.
- H.M.Jr: And I think they have got that in Canada. Somebody

in this shop ought to know.

- Shere: They have a collection-at-the-source tax in Canada, especially a war tax.
- Kuhn: They have the collection-at-the-source in England too.
- H.M.Jr: But in Canada that is one of the many taxes. Now, what is the sales tax that you give to the man? Why is it in his interest to be willing for the Government to take five percent?
- Barnard: Because he gets it back.
- H.M.Jr: When and under what circumstances?
- Barnard: He gets it back if he is in distress any time and he gets it back after the emergency is over.
- Odegard: Does he get interest on these deposits?
- Barnard: He gets interest at two and a half percent.
- Foley: Is it five percent on the two hundred dollars or five percent on the twelve?
- Barnard: Five percent on the two hundred dollars. Maybe that is too soft but I think at eighteen dollars a week they need it.
- H.M.Jr: I do.
- Barnard: If they get twelve hundred, five percent is six dollars tax. It isn't an awful lot in a year. It doesn't build up much reserve for that class of people, but if you get some from the other people you get some from them and it relieves your situation later.
- H.M.Jr: But he only draws on it after he has exhausted

the Social Security provisions.

Barnard: On unemployment until after the thing is over and then he finally gets it back anyway a year later.

H.M.Jr: And we give him two and a half percent on that?

Barnard: Yes, sir.

H.M.Jr: And that is what you call your family reserve?

Barnard: Plus increase in spendable income one year over another. It goes into the family reserve if he has any.

H.M.Jr: I don't understand it. Explain it.

Barnard: I am working at two thousand dollars a year, --

Bell: In '41.

Barnard: Yes. How much is the tax on that? Who knows offhand about what it is?

Sullivan: A single person?

Barnard: Yes, we will take a single person.

Sullivan: Around forty dollars.

Barnard: All right. In 1941 I had two thousand dollars net income and I paid forty dollars, so I had eighteen hundred and sixty dollars net income. Then I paid fifty dollars payroll contributions at five percent, so that brings it down to nineteen hundred dollars spendable income I have got out of my earnings in 1941.

In 1942 I got an increase of a thousand dollars. My tax went up, my contribution went up, but

when I got all through paying both of those, I still had an increase. We will say the increase was six hundred dollars. We will say, all right, twenty-five percent of six hundred dollars you also put in this reserve fund. That is a hundred and fifty dollars. Now, you say, what is the argument? That is the argument; it is in your interest to do it.

There couldn't be any safer place. You are protected from inflation. You don't have to pay unless your condition is improving and the Government needs the money and I would put a lot of emphasis on "the Government needs the money," but people don't get it.

H.M.Jr: Now, how do you increase that percentage?

Barnard: Well, people on the income level of two thousand dollars and less, we say twenty-five. It is on the general theory that we can't hit them too hard. They have got another baby coming along right in that period and they are going to be in trouble anyway. But the fellows over that, five thousand dollars - suppose a fellow had five thousand dollars and he got ten thousand by some accident or other. He got a big promotion. Some other fellow hired him.

We will say, "Buddy, fifty percent of your net improvement has to come in to this. It comes back to you but we are going to take it away from you. You get it back with interest, but we have got to have it.

H.M.Jr: There is a little private joke between Bell and me.

Odegard: You would have to allow people an alternative of purchasing Defense Bonds, you said. Does that apply to this family reserve?

- Barnard: Yes.
- Odegard: To both types, both the increase and the --
- Barnard: That is right. That was my thought.
- Odegard: So that if an individual purchaser's Defense Bonds are equivalent to the contribution he would make --
- Barnard: Twice equivalent. He has got to double his Savings Bonds in order to get any relief from it, and I don't propose to give him any credit whatever in figuring out this increase of spendable income for the money he spent on Defense Bonds as such, even though he is buying twice as much.
- In other words, a little effort to drive him into this Government reserve plan for their own protection. If they buy Defense Bonds in twice the amount otherwise required and they cash them in quick, they pay a considerable penalty. Nevertheless, there are a lot of people in the world that are perfectly willing to get that penalty and get the cash back, and I should say we don't want them to do it. We don't want them cashing them and we want the reserve there. It seems to me a very important part of this whole scheme is to deal with the future as well as the present.
- Haas: There is a little technicality in administering that because you have to beat this problem of keeping the person from liquidating some other securities to buy these. He wouldn't gain anything.
- H.M. Jr: I have got to see this Greek. Don't go beyond the family reserves. The fellow is going to have a baby. Just hold on. (Laughter) I will be back. Treat them gently, boys.
- Barnard: I have no more to say. Ask your questions.
- (The Secretary left the conference).

Shere: May I ask a question for clarification purposes? The taxes are always taken out in advance before you start compiling these savings quotas?

Barnard: Yes.

Shere: In the case of the corporation, for example, the excess profits tax would be taken out, and then what is left - I don't quite see how the percent on invested capital - that comes out as a basic credit. Then if we impose, let us say, a fifty percent tax on the balance, excess profits, would that come out before you start to determine how much they need to invest?

Barnard: Yes. Strictly speaking, what you take out in taxes isn't what the fellow has got, and you can't ask him to save what you have already taken away from him or any proportion of it. He can only save what is left to him after he has paid his taxes; so we will say to these corporations, "Now, if you have got a lot left after you have paid these taxes, we want some of it back."

Of course, the only other thing you could do is increase the tax rates.

Shere: The savings program wouldn't interfere at all with any tax program that we might want to impose?

Barnard: I am assuming that you would also have to raise the taxes later. It would cut down some that you would get in this way.

Buffington: Mr. Barnard, when you pay these funds back, you said you paid them back in kind. I assume that if people bought defense bonds they would get back defense bonds, and if

they put in cash, they would get back cash at interest.

Barnard: Yes.

Buffington: If there was a very large percentage of that fund represented in bonds, and though you were paying it back in bonds during that reconstruction period, the chances are the Government would have to borrow, and you might get heavy liquidation of those bonds for people to spend like you did during the soldiers' bonus where you would upset your rate structure on your bond market.

Barnard: If you bought F and G Bonds, you would be in the same class as anybody else that has them. They are not in the reserve.

Bell: You would probably be in that position anyhow when that question comes. They are all demand.

Barnard: Yes.

Morris: Just offhand, I don't agree with you that in this kind of a program there is enough penalty on the F and G Bonds as they stand today.

Haas: No, I don't think so.

Morris: I don't think there is anything like the kind of penalty there for this kind of program.

Kuhn: Just a mild discouragement.

Haas: It just means that you get low rates at the beginning.

Barnard: Well, maybe there should be a new restriction on it.

Bell: That is right.

(The Secretary returned to the conference.)

Barnard: But I would very much favor having an alternative, if you can. People like it, and it may serve your purpose just as well. Particularly, for the class of people who - they are not too numerous, but in the four or five or ten thousand dollar class.

Now, those people might very well prefer to buy bonds and pay a penalty if they had to cash them in and it would cover your purpose just as well and they would be much happier having that alternative than they would going into this reserve scheme handled by Social Security. If so--

Bell: We can have a new series with restrictions on them.

H.M.Jr: Well, could I just - I mean, I don't - am I stopping you?

Bell: No, not at all. Go ahead.

H.M.Jr: Well, I have got a pretty good idea of the family reserve. I haven't got it yet, but we will be back at it again this afternoon. I just want to get it clear in my mind for once. I understand what you are getting at.

Now the next thing is for the business reserves, isn't that it?

Barnard: Yes.

H.M.Jr: Give me that again, what I call my sugar-coated, six percent plan.

Barnard: This is a game of recapturing a large part

of the distributable earnings in excess of six percent.

Now, your earnings that are taken out by taxes aren't distributable. They are really taken away. They don't belong to the fellow at all, and they don't belong in the earnings at all except for computation of how much taxes will be paid. But we say under these conditions anybody, after paying their taxes, who has large earnings through their capital, using the same basis you use for other purposes, we don't take it away from them. It isn't a tax in the sense that it is irrevocably gone, but we put in a reserve to protect them and their creditors, to protect their solvency, to protect against unemployment and to give the Government the money in the meantime and not let them by distribution or otherwise try to invest it in the things that we don't want money put into under these conditions. All of those purposes are served by it. But it isn't a tax. I think that is exceedingly important. I never did agree with your six percent thing for this reason: Despite Odlum's game, there is going to be a perfectly terrible number of business people, small and some large, who are badly hurt. They are not going to make any money. They are going to be badly discouraged, and you want all the initiative and incentive that you can get out of that group of people to still go on and try to do business and employ people.

Now, to do it, they have got to risk money. If you say to a man, "Now, you risk losing a hundred percent, but you can't have more than six," he says, "Well, hell, look what I am up against, and if I am successful I get nowhere because they are going to take

away in taxes a large part of the six percent, which is true, when it is distributed.

I mean, you have absolutely killed off at the wrong time all incentive. On this basis, you say, "Boys, if you make it, it belongs to you. Sure, we are going to keep it a while for you, but that is good for you, and we can't let you go ahead spending money for essential materials that we have got to have for other purposes." That is perfectly logical. You may not like it, but you will have to agree that is logical. "We need the money. We can't let you have the materials. But it is all yours if you make it. Sooner or later, we will pay you interest on it."

- H.M.Jr: Now, if a fellow makes - you said between six and eight percent - on what? How would you figure the six percent?
- Barnard: What is the basis for your excess profits tax?
- Shere: Invested capital.
- Barnard: The same basis that you use for calculating the excess profits tax.
- Haas: But this is six percent after all taxes.
- H.M.Jr: I understand. If he makes six percent after all taxes, how much do you take?
- Barnard: If he makes between six and eight percent, we take twenty-five percent of that quantity in that layer.
- H.M.Jr: And put it into reserve funds?
- Barnard: Put it into reserves. If he makes from eight

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to ten, we take fifty percent of that layer. If he makes ten to fifteen, we take seventy-five percent of that. Over fifteen, we take a hundred.

I haven't figured it out, but you will find the possibilities of dividend distribution above six percent are not very great under that. You would be giving up most of the money.

H.M.Jr:

And that goes into a fund at which - it would bear how much interest rate?

Barnard:

Two and a half.

H.M. Jr: Certificates. It would be payable to him how soon after the national emergency is over?

Barnard: The first year's contribution, say 1942, will be paid back two years after the emergency is declared ended. The second year's contribution would be paid back in the following year, spaced along in the same order in which the contributions were made, with interest at two and a half.

H.M. Jr: That is that scheme. Now, your third scheme --

Barnard: The third scheme is the voluntary employer's dismissal part time wage or trust fund, which is to be accumulated by the purchase of a special certificate or security paying a half percent interest.

H.M. Jr: This is the employer?

Barnard: Employer. No compulsion in it. He can do it if he wishes.

H.M. Jr: He can buy as much of this as he wants?

Barnard: Yes.

H.M. Jr: And we use the dismissal wage by the company?

Barnard: Yes. I think that should be set up so this particular thing is only applicable after the emergency is declared ended, except in the case of war industries, which may be liquidated before then with the approval of some board here or whatever you set up. There may be some cases where that ought to be done.

H.M. Jr: And the fourth?

Barnard: That is the fourth.

H.M. Jr: That is the fourth?

Barnard: Yes. You see, what I think we have to look out for here on dismissal compensation is that you don't set up a condition where a lot of fellows want to keep changing their jobs, get themselves fired and go somewhere else and get an artificial shifting of the population for the purpose of getting dismissal compensation and then getting another job immediately afterward. I think that needs to be controlled because the purpose of this is to ease off the post defense period and substantially it all ought to be restricted to that, is my guess.

H.M. Jr: Well, what I would like to do is this. I want to give you somebody from White's organization to put full time on this, you see. The best man you have got, Coe. I want Blough when he gets back and you (Shere) until then to give this full time, you see. Get the thing so we can begin to estimate how much money we will get in and what effect it will have on taxes and so forth, you see. George, I want you to get in on this thing yourself. Have you got a tax lawyer, Foley?

Foley: Kades.

Sullivan: I want to have a man in there from Tarleau's shop, too.

H.M. Jr: And then Kades. I am tremendously impressed. We don't want to kid ourselves. When we examine this thing and see what is the matter with it and Odegard may have an objection after he gets into it more and so forth, that this isn't on the basis -- that it interferes with the thing we have set out to do and so forth, but the main thing that interests me is this, that we are going to have to get a lot of money and with the present scheme that we have planned outside of the tax scheme, we are not going to get enough money and we are not going to get the increase. We are just not

going to do it. You can come back at me now, Peter. Unless I put all kinds of quotas and drives on our present plan, I am not going to get the money.

Odegard: You are not going to get it in volume sufficiently.

H.M. Jr: No.

Haas: Even with the drive, Mr. Secretary, I don't think you will.

Odegard: No.

H.M. Jr: And we might just as well call a fact a fact.

Odegard: But you might get it if you face them with this alternative.

Haas: This isn't bad. This is two and a half percent.

H.M. Jr: But we have got to get it. Now, what is the way to get it? I mean, I have been groping for dismissal wages. I am taking unfair advantage of Barnard. He walks in here and he says, "I have got something I have thought of. I have written it down." I am making him come in and do this today without any time. But he takes pretty good care of himself. I am interested. I don't want to lose any time. I am very much interested.

I got a message that I am not going to Cabinet today. I would like this group to come back at 3:00 o'clock. I would like to continue this discussion and let some of these people take you (Barnard) on and I would like to listen, you see. I would like to start in at 3:00 and run for an hour. You are available between now and three?

Barnard: Yes.

- H.M. Jr: And get these people - there is White's division and Haas' division and there are two divisions under Sullivan. Right?
- Sullivan: Yes.
- H.M. Jr: There is the bill drafting section and the tax people. You (Foley) have got Chuck Kades and then there is White's division. I want our top flight people on this thing. Do you want to give, or don't you, Peter, your horseback opinion as you have listened?
- Odegard: I was impressed at the way in which it was laid out.
- H.M. Jr: With what?
- Odegard: The way in which it was laid out. I don't pretend to know enough about what it is going to cost in tax revenue and those other things to --
- H.M. Jr: But the social aspects of it.
- Odegard: It seems to me admirable in many ways.
- H.M. Jr: I mean the social aspects.
- Odegard: Yes. I think the idea of giving people some evidence of participation is important. If it is simply another tax which is anonymously given and people are going to think of it in that way and the effect on morale is not going to be good, the idea of a passbook or bond certificate of some kind which gives them evidence of having done this and having this claim against the Government seems to me very useful and very valuable.
- H.M. Jr: And I like this method of scooping up the excess profits. That satisfies me that labor will be reasonable, if they see that the money isn't lying around in the coffers and being paid out

in dividends. But they are not going to be reasonable if they see 10 percent dividends by Consolidated Aircraft and all the rest of that stuff.

Odegard: Mr. Barnard's suggestion that this might be made a matter of collective bargaining contracts seems to me a very interesting one.

Sullivan: I think so from the other angle, Peter. It means that in the excess profits the labor -- the bargainer can say "Now, see here. You put this money into a trust fund for us and it is only costing you 25 cents, because you will be paying an effective tax of 75 percent with your excess profits if you don't set it aside in the trust fund."

H.M.Jr: That is good.

Sullivan: Well, it isn't good from the ultimate balance sheet of the Government.

Barnard: Figure it out, though.

H.M.Jr: You are not sure.

Sullivan: No, I am not sure. This is all at first wash, but otherwise that 75 cents would come to us to pay our bills.

Barnard: But this way you will get a hundred percent and then you will get larger earnings on which to apply scheme number three. You will get anywhere from, in some cases, three or four hundred percent as much money in the Treasury as you will get from the taxes and a good deal of it will be at a half percent. I think naturally we probably still will lose some money.

H.M.Jr: Well, the reason I want top flight people in each of these groups on it is really to work and they are going to work, because I am going

to see them about once a day. I am not going to sit around and wait for weekly reports on this thing. We will have to move fast on this if we want our place in the sun and this is what I have had in mind. If we can satisfy ourselves in the Treasury and get some figures, then I am going to ask whether we can't have time enough with the President to give it to him, you see. I will say, "I don't want you to say yes or no, but I want you, if you like it enough --" then I want to go up and informally get together the people on Ways and Means and Finance and I am going to ask them in for an evening to listen to me explain it. I am going to sell this entirely differently than I have ever sold anything before. We are not going to write a bill and shoot it up. We will let some of the labor people and some of the manufacturers look at it. But I want to move very fast. I think we are starting from a good base and if we work hard at it there will be some way and I have been licked so badly on the excess profits thing now for two years and this comes as an entirely fresh approach. It is better than a strict interpretation of my six percent rule, because it leaves the incentive there because he gets something back and that is what the English went through. They started out with my six percent scheme and ended by saying, "We will take it and we will give you twenty percent back when the war is over."

Well, we will meet again at three. We will have another hour at it. In the meantime, you are available, aren't you?

Barnard:

Yes. They will probably get farther along not working with me because I have said all I have got to say and they have got this scheme written down.

Foley:

Can we have these minutes typed up and distributed before three o'clock?

H.M.Jr: Can you do that?

Reporter: Yes, sir.

H.M.Jr: You are superhuman if you do.

Foley: I think it will be helpful if we are going to have people working on it.

H.M.Jr: Well, there is a formal memo on this which is available.

October 16, 1941  
12:59 p.m.

HMJr: .....very seriously this morning.

Allan  
Sproul: Yes, they have; but I don't think there's  
any reason to be concerned about it.

HMJr: Well, I just wondered whether you wanted to  
have somebody down there say that I did not  
have the regular Government issues in mind  
at this time.

S: On rights?

HMJr: Yes.

S: Yes.

HMJr: How did you put it yesterday? You put it  
very well.

S: Well, I think I said that this does not  
necessarily involve the regular Government  
issues.

HMJr: Yeah. Well, I wondered whether you didn't  
want to pass that word out down there.

S: I think it would be a good idea.

HMJr: I'd appreciate it if you'd do it.

S: All right. We'll do that.

HMJr: And then I think on the rest of the stuff,  
we can just sit tight, can't we?

S: Yes, I think so.

HMJr: What?

S: I think so.

HMJr: And see what happens.

S: I think that's the thing to do on it.

- 2 -

HMJr: Well, if you'll take care of that statement on the regular Government issues down there, I'd appreciate it.

S: All right, I'll do that.

HMJr: Thank you.

October 16, 1941  
1:00 p.m.

Frank  
Coe:

Mr. Secretary, Bewley was in, and what he's curious about is the arrangements - if any - we've made with the Russians.

HMJr:

Well, you can tell him about the thirty million.

C:

We're buying thirty million of gold in advance.

HMJr:

Yes.

C:

Yes. And they had a telegram from Harriman which said that he had been talking with Beaverbrook and told Beaverbrook that finances were not holding up this flow of goods, and they had evidently sent on what you had told them; so that's the reason for the query.

HMJr:

Who had sent it on?

C:

I suppose when you called Sir Ronald Campbell, didn't you - the other day?

HMJr:

Yeah, but I didn't tell any of the English about the thirty million until last night. When Halifax was at the house I told him last night.

C:

You told Halifax.

HMJr:

Last night.

C:

Oh, good. Well, then I'll tell him you had already given it to them; because I think they wanted it fast.

HMJr:

Well, Halifax knew it last night.

C:

Well, that's what - I'll be sure to mention that.

HMJr:

And I wonder if we should say anything to

- 2 -

Harriman about this. I don't think it's necessary.

C: Well, he evidently has the right idea; namely, that the flow of goods is not being held up by finance.

HMJr: Yeah.

C: So it's probably not necessary. We might - there's another case where we might inform Cassidy so he can tell the Ambassador.

HMJr: Do that. Get a cable off to Cassidy.

C: All right, sir. Fine. Thanks.

HMJr: Tell him to tell the Ambassador and Harriman.

C: Okay.

HMJr: What?

C: Yes, that's good.

HMJr: All right?

C: Thank you.

HMJr: Thank you.

October 16, 1941  
2:18 p.m.

John  
Boettiger: .....whatsoever.

HMJr: There isn't.

B: No. There is this. The reason that Harold wrote that letter is as follows: he needs some help from Bone or some help with Bone, rather, on the power bill - which is tremendously important - that's the Columbia Valley Bill.....

HMJr: Yeah.

B: .....and Bone has been fighting it, and he just the day before yesterday issued a very scurrilous attack on Ickes, and I think that Haas could straighten that out; and I wondered if you would be disposed - it really - I mean the legislation is tremendously important and Bone is wrong. I've gone into it with great thoroughness all around the place. I wondered if it could be worked out - I don't know whether you do these kind of things - but there's no harm in them as I see it - to have Haas come on here and have Herbert tell him that Ickes is holding up the matter or has talked with the President and why don't he settle this - help to get this power thing straightened out and then there'd be no opposition. I suppose you hate to get involved in an intrigue of that kind; but if you do it at other times or if you don't object to it, I think it would be an excellent idea.

HMJr: Well, let me talk it over with Herbert. He just got back a little while ago.

B: Yeah.

HMJr: And I'll have a talk with Herbert. Where is the bill now?

B: It's in both the House and the Senate.

HMJr: I see.

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- B: And the power people have been here for - the public power people have been here for a couple of weeks trying to get Bone and Ickes together; and Ickes says he's willing to be courted - he's willing to - he doesn't want to initiate a compromise; but if a compromise is agreed to, he won't oppose it. And that's what I want. I mean that's what the power people out there - the public power people want.
- HMJr: What do the public power people want? You mean publicly owned?
- B: Yes. We've got a dual system.
- HMJr: What I call the private - the private power people - is that what you call public?
- B: No. Private power people in our state are - should sell out, because we've got a dual system and it's very uneconomical. For example, in our own city of Seattle, we have two systems - one public and one private.
- HMJr: I see.
- B: And they have separate distribution lines and our bills are, as a result, about fifty to sixty per cent higher than they should be.
- HMJr: Well what do the public power people want? Do they want this bill to go through?
- B: The public power people want this bill to go through, and they want a compromise to be effected between Bone and Ickes.
- HMJr: I see.
- B: And they've been here trying to work that out after they went over to see Bone, and Bone refused to agree to it.
- HMJr: Well, I'll get - I'll tell Herbert about this this afternoon. We'll see what we get off.

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B: Well, if you talk it over with him and not send the recommendation over to the White House until I have a chance at Hyde Park to talk with you further about it, I would appreciate it.

HMJr: That's easy.

B: Could you talk with Herbert this afternoon; and then when we get up at Hyde Park, we can talk the whole thing over?

HMJr: Uh huh. And I've got the story now on the investigation in Seattle.

B: Yeah.

HMJr: And that's going ahead. Both of those men have been withdrawn that have been there.

B: Oh, is that so?

HMJr: Yes.

B: Well, that's fine.

HMJr: Both of them have been withdrawn, and the man who completed the case is in New Orleans and is going to be put as Agent in Charge up there.

B: This fellow Frank is a peach.

HMJr: Yeah, he's good.

B: I was very much impressed with him, and so was the Governor. I mean, he's - when you first see him, you think, "Well, gee whiz, who is this little fellow? He can't know anything."

HMJr: Well, the fellow's name, I think, is Lohn or Rohn or something like that.....

B: Uh huh.

HMJr: .....who's coming up there now.

B: Yeah.

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HMJr: And they're giving him a chance, and he completed these so-called "Louisiana Cases". He's a good man.

B: Well, that's swell.

HMJr: And the two men that were there have been taken away, and we'll go through with it.

B: I'm not so sure that it's a good idea to take away this man Hyatt, because he has all the facts and all the background and everything else. He's been working on it for four years.

HMJr: Well, Irey wasn't satisfied and Irey is going out himself around the first of November.

B: Well, in a way, I hate to get caught mixing up in this thing; but Anna and I won't be back there until the fourteenth of November, and if we could be of any help to him, we'd like to.

HMJr: I see. Well, I'll tell him that.

B: All right. Fine, Henry. And we'll be seeing you on Saturday.

HMJr: Good.

B: All right, fine.

HMJr: Thank you.

B: Thank you. Good-bye.

October 16, 1941  
2:30 p.m.

HMJr: Herbert, did you read that memo from Currie about these.....

Herbert  
Gaston: Yes. I've taken care of that.

HMJr: What did you do?

G: Well, Currie said that he didn't want any different treatment for these men than the treatment we've been giving to the British trainees who come over here; and we find the British trainees have just been given the - not the diplomatic courtesies, but just some ordinary facilitation of their entry; and we're taking care of that. Johnson is writing a letter to see that they get.....

HMJr: Have you let Currie know?

G: I have let Currie know, yes.

HMJr: Thank you.

G: Right.

October 16, 1941  
3:00 p.m.

RE FORCED SAVINGS

Present:           Mr. Bell  
                  Mr. Morris  
                  Mr. Foley  
                  Mr. Kades  
                  Mr. Buffington  
                  Mr. Sullivan  
                  Mr. Shere  
                  Mr. Tarleau  
                  Mr. Haas -  
                  Mr. Barnard  
                  Mr. Coe  
                  Mr. Odegard  
                  Mr. Kuhn

H.M.Jr:           Well, have you gone any further since I saw  
                  you last?

Barnard:           I haven't.

H.M.Jr:           Who wants to start asking Mr. Barnard some  
                  questions?

Haas:             I guess everybody has questions.

H.M.Jr:           Well, we will start with Bell.

Bell:             I say I don't know where they held the con-  
                  ference, but somebody in that conference ought  
                  to begin asking questions.

H.M.Jr:           Somebody what?

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- Bell: That was in the conference. Haven't they had a conference this morning since they left your office?
- H.M.Jr: Not that I know of. Not with Barnard.
- Bell: I understood that was the purpose, after they left this conference, that they would get together and discuss the memorandum.
- Barnard: Well, we only have had time to adjust the memorandum since then.
- H.M.Jr: Foley, do you want to ask some questions?
- Foley: Well, I haven't, obviously, had the chance to go into it very much. The thing that bothers me, Mr. Secretary, is the corporate end of this thing. It seems to me that it would be a lot more palatable to me if the corporate end of it was taken off and it was merely this individual excess profits tax that was left standing. It seems to me from the point of view of our economy and also from the point of view of Treasury financing, it might be better for the stockholders to get these dividends and to pick it up and bring it back into the Treasury under the individual excess profits proposal which is involved here.
- (Mr. Kuhn entered the conference.)
- Barnard: You are getting down to the optional and final thing?
- Foley: Yes. Rather than have the corporations put it away and get it back with interest after the emergency is over, because in that way it is being saved for the corporations and for the stockholders.

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Barnard: That is a valid point of view, and I think it would be raised by a good many people. In effect, that proposal is one of the Treasury's pretty directly contributing, not to the corporations, but to the people who are employed by them. The only strong argument that I think there is for it is that the particular corporations likely to be affected are the ones who would be able to make by this process a very substantial dismissal compensation scheme, much more so than will be provided for by the rest of the program. Take for the person making around two thousand or twenty-five hundred dollars a year, unless this lasted a long while, the accumulation of reserve wouldn't be a very large sum of money at five percent each year, whereas the company that could set up a dismissal compensation program, one that Mr. Foley is talking about, the amount would be very much larger. But I think the question he raised is quite open to debate. It is in my own mind as well. And it isn't essential to the rest of the plan either.

H.M.Jr: But don't throw it out lightly.

Barnard: No, I don't. I am for it, but I don't want to suggest that I don't see that point of view. There is a real question there.

Foley: Well, it is just an observation of mine.

H.M.Jr: Well, am I asking you people too soon? I mean, if you haven't had any chance to meet before, would you rather read the memorandum and - are you ready, John?

Sullivan: No, I don't think I am ready, sir, and I think that we could use your time more profitably after we have had time to discuss

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this among ourselves. I hadn't seen the memorandum until after this morning's meeting, and it is quite a mouthful to chew.

H.M.Jr:

Well, does everybody feel that way?

Shere:

I think there are a few questions that I would like to raise at this time. That is, I notice some difference in the philosophy of the tax proposed here and the ones, say, that Keynes raised in his forced savings plan in that he restricted it to the low income classes, whereas this one runs all the way up the gamut of the scale. Now, there is a possibility that a withholding tax that covers all the income classes might result in a considerable tax relief to the middle and the upper income classes if, because you had your five percent flat tax, it should turn out that by reason of that you would have a less progressive system, than you otherwise would have had without it, then during the emergency period these middle and upper income classes would be taxed less than they otherwise would have been. Then when you get into the post emergency period, if the tax system maintains its progressive character during the depression period or increases its progressivity, then there is no inequitable tax relief given to the middle and the upper income classes, but if, on the other hand, you should reduce your tax rates on the high and middle classes first and your system become less progressive, then they may benefit during the post emergency period as well as during the emergency period, so that it may be that the restrictions of the forced savings, the flat five percent forced saving or ten, whatever the percent is, to the low income classes is desirable.

- H.M.Jr: Well, I think this: I really didn't realize that - I set aside this hour. I don't want to go through the elementary stages. Why can't they spend this hour with you (Barnard) in your office or Bell's office, and then keep at it, and I will set aside eleven o'clock Monday morning. By that time we ought to be ready to go somewhere. If these people tell you they are busy, don't listen to them.
- Barnard: All right.
- H.M.Jr: If they don't give it enough time, we will just leave them out, that is all. You and I will go ahead, see, but they have got from now until eleven o'clock Monday.
- Barnard: We wouldn't want to get out on a limb that way, would we?
- H.M.Jr: Well, we will shove off in a boat, and we will leave them on the shore.
- Barnard: We had better get them in.
- H.M.Jr: All right, it suits me, but I am serving notice on them. But by eleven o'clock Monday, everybody ought to have had a chance to look at the thing, and these various staffs and give us kind of an estimate, plus or minus, and so forth and so on. I think there are plenty of people around here. I think we will do it that way.
- Barnard: Shall we go down to my office? There is a big table there and it is a big office.
- H.M.Jr: All right, thank you.

## Note:

While this is marked "Draft" it was actually the reading copy which the Secretary used in telephoning this message to the Convention at 4:32 pm, October 16th, from his desk in the Treasury.

nmc

DRAFT OF  
SECRETARY MORGENTHAU'S BROADCAST  
TO THE  
46th ANNUAL CONVENTION  
OF THE  
NATIONAL ASSOCIATION OF INSURANCE AGENTS  
KANSAS CITY, MISSOURI, OCTOBER 16, 1941

242

I am very happy to be able to express to you my personal thanks and those of your Government for your pledge of all-out participation in the Treasury Department's payroll allotment plan for the purchase of Defense Savings Bonds and Stamps.

After five months of our Defense Savings effort I feel that the most important thing for us to do now is to spread the idea of systematic, regular savings among millions who are earning more today than ever before. We need to enlist current income and current savings. We need to draw off a large part of the increase in purchasing power which has been produced by our Defense program. In this effort your help can be invaluable.

The payroll allotment idea as such is not new to you. For many years you and your agents have spread the habit of systematic saving among clients who trust and value your judgment. You know from your own experience that systematic saving is the most dependable way for any citizen to protect himself against an uncertain future.

You also know, as insurance men, that the basis of any sound insurance program is the good will and understanding of your clients. That is true in group insurance, and it is just as true in the Defense Savings program and in the national defense effort generally. The American people will respond to the demands of the defense program if they know the purposes of national defense. They will bear the burdens of higher taxes

and greater savings, and bear them cheerfully and willingly, if they understand that these burdens are the price of security and freedom.

It is impossible to high-pressure them into such an understanding. The job can only be done by patient effort, by telling them the facts and by emphasizing the need.

From what I have said you will understand why the Treasury is conducting its Defense Savings program on a voluntary basis, without coercion of any kind. You will understand why we approached the great labor organizations at the very start of our payroll allotment plan, and why we were able to get their wholehearted endorsement and support. We now have their approval in principle, expressed to us in scores of

resolutions that have reached the Treasury. We <sup>also</sup> ~~already~~ have the tangible support of labor, expressed in large investments of union funds in Defense Bonds.

The job that faces all of us now, however, is to translate this good-will into systematic, week by week saving. You meet, in your daily work, men and women of modest and small incomes. You meet many people whose pay envelopes are fatter now than they were before the defense program began. You can be of immense help in showing to these people the need of systematic saving for their own good and their country's good.

After all, this is not a charity to which we are asking men and women to contribute. Defense Bonds and Stamps are the best investment anyone can make. More than that, they are a direct method of keeping prices

down and keeping the evils of inflation from our homes. Everyone who owns a Defense Bond, moreover, has a reserve for a rainy day. For all these reasons, we can ~~in all honesty~~ say to the American people that these Defense Bonds are rock-solid security for the future.

But there is one more argument which, to my mind, is overwhelming in its truth and its importance for every American. We are asking our people to lend their savings for the greatest blessing of all, the safety and freedom of these United States.

Our national defense program is, after all, a national insurance policy. Its object is to ensure the preservation of all the values that make our American way of life worth living. I believe that millions upon millions of men and women already see it in this light, and I am confident

that they will respond.

I only wish that I could be with you in Kansas City to tell you how much I appreciate what you are doing, and what you are about to do, to help in this national effort. From my desk in Washington I can only say thank you again, and good luck in your endeavors.

October 16, 1941  
4:40 p.m.

HMJr: Hello.

Operator: Mr. Forrestal.

HMJr: Hello.

James V.  
Forrestal: Henry.

HMJr: Talking.

F: Your broadcast didn't last long.

HMJr: (Laughs) Five minutes.

F: Do you and Mrs. Morgenthau want to go to the Cornell game over in Annapolis - over in Baltimore Saturday?

HMJr: Well, thanks terribly; but she's leaving on the midnight for Dutchess County and I'm leaving after lunch tomorrow.

F: Okay.

HMJr: I'd love to some other time.

F: Well, we'll do it again.

HMJr: If you would.

F: All right, Henry.

HMJr: Thank you.

F: Good-bye.

# STRICTLY CONFIDENTIAL

RFC 7/8 Percent Notes Maturing on November 1, 1941

249

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

(In millions of dollars)

Guaranty Trust Co., New York, N.Y.....	86.9
Metropolitan Life Insurance Co., New York, N.Y....	21.0
J. P. Morgan & Co., Inc., New York, N. Y.....	16.0 <i>old 10</i>
First National Bank of Chicago, Chicago, Ill.....	15.0
The Northern Trust Co., Chicago, Ill.....	11.0
Irving Trust Co., New York, N.Y.....	10.0 ✓
Bank of the Manhattan Co., New York, N.Y.....	10.0
American Motorists Ins. Co., Chicago, Ill.....	9.3
National City Bank, New York, N.Y.....	9.0
National Bank of Detroit, Detroit, Mich.....	6.7
French American Banking Corp., New York, N.Y.....	5.4
Penn Mutual Life Ins. Co., Philadelphia, Pa.....	5.0
State Bank of Albany, Albany, N.Y.....	5.0
Maryland Casualty Co., Baltimore, Md.....	5.0
The New York Trust Co., New York, N.Y.....	2.5
The Cleveland Trust Co., Cleveland, Ohio.....	2.3
City National Bank & Trust Co., Chicago, Ill.....	2.2
Bayonne Trust Co., Bayonne, N.J.....	2.0
Bankers Trust Co., New York, N.Y.....	1.3
Union Planters Natl. Bk. & Tr. Co., Memphis, Tenn.	1.2
Union Natl. Bank, Houston, Texas.....	1.2
Brown Bros. Harriman & Co., New York, N.Y.....	1.2
Emigrant Industrial Savings Bk, New York, N.Y....	1.2
Marine Midland Tr. Co. of New York, New York, N.Y.	1.0
Bank of New York, New York, N.Y.....	1.0
Total amount owned by 25 largest holders.....	<u>228.4</u>
Total amount outstanding.....	<u>299.6</u>
Percent of total owned by 25 largest holders.....	76.2%

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

October 16, 1941

# STRICTLY CONFIDENTIAL

CCC 1 Percent Notes Maturing on November 15, 1941 250

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

(In millions of dollars)

National City Bank, New York, N.Y.....	23.3✓
Irving Trust Co., New York, N.Y.....	12.0✓
First National Bank, New York, N.Y.....	8.3✓
J. P. Morgan & Co., Inc., New York, N.Y.....	6.9
National Bank of Detroit, Detroit, Mich.....	6.2
The Cleveland Trust Co., Cleveland, Ohio.....	5.6
Manufacturers Natl. Bank, Detroit, Mich.....	5.0
First National Bank of Chicago, Chicago, Ill...	4.9
First National Bank of Boston, Boston, Mass....	4.7
First National Bank, Shreveport, La.....	4.2
The Northern Trust Co., Chicago, Ill.....	4.0
City Natl. Bk. & Tr. Co., Chicago, Ill.....	3.8
Fidelity Union Trust Co., Newark, N.J.....	3.5
Bankers Trust Co., New York, N.Y.....	3.0
Camden Trust Co., Camden, N.J.....	3.0
Toledo Trust Co., Toledo, Ohio.....	2.5
Bank of North Dakota, Bismarck, N.D.....	2.2
Northwestern Natl. Bk. & Tr. Co., Minneapolis..	2.0
Public Natl. Bk. & Tr. Co. of N. Y., New York..	2.0
American Motorists Insurance Co., Chicago, Ill..	2.0
The Detroit Bank, Detroit, Mich.....	2.0
Marine Midland Tr. Co. of N.Y., New York, N.Y..	1.8
N. Y. Life Insurance Co., New York, N.Y.....	1.6
Commerce Trust Co., Kansas City, Mo.....	1.6
The New York Trust Co., New York, N.Y.....	<u>1.5</u>
Total amount owned by 25 largest holders.....	<u>117.6</u>
Total amount outstanding.....	<u>204.2</u>
Percent of total owned by 25 largest holders...	57.6%

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

October 16, 1941

# STRICTLY CONFIDENTIAL

USHA 1/4 Percent Notes Maturing on November 1, 1941

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

(In millions of dollars)

Chase National Bank, New York, N.Y.....	45.7
First National Bank, New York, N.Y.....	9.2
J. P. Morgan & Co., Inc., New York, N.Y.....	6.2
Union Tr. Co. of Pittsburgh, Pittsburgh, Pa.....	2.6
Bank of the Manhattan Co., New York, N.Y.....	2.3
First Natl. Bank of Boston, Boston, Mass.....	2.0
Bankers Trust Co., New York, N.Y.....	1.8
Brown Bros. Harriman & Co., New York, N.Y.....	1.0
The Cleveland Trust Co., Cleveland, Ohio.....	.9
National Bank of Detroit, Detroit, Mich.....	.8
Fidelity Union Trust Co., Newark, N.J.....	.6
Security-First Natl. Bk., Los Angeles, Calif....	.6
Anglo-California Natl. Bk., San Francisco, Calif.	.6
Penn Mutual Life Ins. Co., Philadelphia, Pa.....	.6
Chicago Title & Tr. Co., Chicago, Ill.....	.5
Union Natl. Bank, New Brighton, Pa.....	.5
Phoenix State Bk. & Tr. Co., Hartford, Conn.....	.5
R. I. Hospital Trust Co., Providence, R. I.....	.5
First National Bank, Louisville, Ky.....	.4
Bank of North Dakota, Bismarck, N. D.....	.4
National City Bank, Cleveland, Ohio.....	.4
Peoples-Pittsburgh Tr. Co., Pittsburgh, Pa.....	.4
Farmers Deposit Natl. Bk., Pittsburgh, Pa.....	.4
The Savings Bank of Baltimore, Baltimore, Md....	.4
National Union Bk. of America, Paterson, N.J....	.3
Total amount owned by 25 largest holders.....	<u>79.6</u>
Total amount outstanding.....	<u>112.1</u>
Percent of total owned by 25 largest holders....	71.0%

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

October 16, 1941

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Just previous to doing the mail, the Secretary had Mr. Kuhn in, Mrs. Klotz and Miss Chauncey also present, he told Kuhn that he had phoned Stoessel he would send him the Deems Taylor material as he was not satisfied. Kuhn urged the Secretary not to do so as it was high-handed and rude. After some discussion the Secretary agreed that Kuhn was right. This note to Kuhn was intended to be a facetious reference to their conference.

nmc

THE SECRETARY OF THE TREASURY  
WASHINGTON

October 16, 1941

Dear Doctor Farrand:

This is just to tell you that I did see your letter of October 11th and that I am sorry that two copies of my letter were sent to you in error.

I am also sorry that you feel as you do about receiving such letters from me. I shall see that no more are sent to you in the future.

Sincerely,

*Hear Ferdy: I am surprised!!  
I have never written such*

Doctor Max Farrand,  
Reef Point,  
Bar Harbor, Maine.

*a high handed letter before  
and I hope you will not  
bring pressure to bear on me  
to go through with it. Max.*

OCT 16 1941

**MEMORANDUM FOR THE PRESIDENT:**

The statement on the attached chain letter referred to in your memorandum is not true, and the whole scheme is fraudulent.

The transmission in the mails of chain letters of this type, many of which have been brought to our attention, is in violation of the postal fraud and lettery statutes.

All such letters received at the Treasury are sent to the Post Office Department, which is making a strong effort to suppress the scheme.

(Signed) H. Morgenthau, Jr.

by Messenger *Shy* 11:00

THE WHITE HOUSE  
WASHINGTON

October 15, 1941.

MEMORANDUM FOR THE  
SECRETARY OF THE TREASURY:

Please note the statement  
at the bottom of this page. Is it  
O.K.? Or is it a fraud?

F.D.P.

HELP YOUR COUNTRY

Buy a 25 cent Defense Savings Stamp at your Bank or Post Office NOW, and mail it to the person whose name appears at the top of this list.

Make five copies of this letter, leaving off the top name, and adding your own name at the bottom. Send or give a copy to five persons WHO WILL KEEP THE CHAIN GOING.

In this way you will help your country and yourself. Every Defense Stamp purchased is a step in the preservation of our liberty.

If the chain is not broken, you should receive \$781.25 in Defense Savings Stamps.

Mrs. Hazel Howard.....527 Fifth Avenue.....New York City  
 Miss Clare Elliott.....527 Fifth Avenue.....New York City  
 Miss Dorothy Reindel.....Hotel Barbizon, Lexington Ave. at 63rd, N.Y.C.  
 Mrs. Harold G. Richards..58 Weed Hill....Springdale, Conn.  
 Mrs. Albert W. Neely.....143 Coleman St.....Bridgeport, Conn.

THE ONLY TYPE OF CHAIN LETTER WHICH HAS THE APPROVAL OF THE  
UNITED STATES GOVERNMENT

October 16, 1941

Dear John:

I am inclosing herewith a progress report on our Defense Savings Program in Oregon and Washington.

Sincerely yours,

(Signed) Eddy

Mr. John Boettiger,  
The White House.

*P.S. Please note Oregon stands #3  
and Washington #8.*

*J. M. C.*



TREASURY DEPARTMENT  
WASHINGTON

October 15, 1941.

MEMORANDUM FOR THE SECRETARY:

Re: Progress in Washington and Oregon  
on the Defense Savings Program.

I attach memoranda from the Defense Savings Staff which give some of the more important details of our organization and work on the Defense Savings Program in these two States.

I attach also a statement showing per capita sales of Series E Bonds by States during the period from May 1 to August 31, inclusive. You will note that in this comparison, Oregon stands No. 3 and Washington No. 8.

GRAVES.

WASHINGTON

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209 Federal Building  
Seattle, Washington

CHAIRMAN, STATE COMMITTEE - Joel E. Ferris (Spokane)

STATE ADMINISTRATOR - Saul Haas (Collector of Customs)

DEPUTY ADMINISTRATOR - Wm. C. H. Lewis  
Karl M. Richards (Customs Agent)

NUMBER OF MEMBERS ON STATE COMMITTEE - 11 (Complete)

ORGANIZATION MEETING HELD - August 6, 1941

NUMBER OF LOCAL COMMITTEES ORGANIZED - 92 (Complete)

CHAIRMAN, KING COUNTY COMMITTEE - Dietrich Schmits  
President, Washington Mutual  
Savings Bank  
Seattle

Notes:

With all national leaders in this State cooperating and all counties organized, Administrator Haas, as of Monday of this week, accompanied by Karl M. Richards, Joel E. Ferris, and Mr. Lewis, started on a State-wide tour to every county where, by prearrangement, public gatherings will be addressed.

Splendid cooperation is being obtained from all newspaper and radio facilities. Six hundred carriers of the Seattle Post Intelligencer have passed out Defense Savings literature to every household in Seattle.

Over two thousand school children have bought bonds since the opening of school in Seattle, following the school plan inaugurated by the Educational Committee. The school children in one city are going without sodas one day a week and are buying Defense Stamps with the money saved.

Labor is cooperating splendidly throughout all of the unions; pay roll allotment plans are being installed through the active

WASHINGTON

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- 2 -

cooperation of the national organization of Life Insurance Underwriters; employees of the City of Spokane have purchased \$15,450.00 worth of bonds; and the City of Spokane itself has purchased \$50,000 worth of bonds from their sinking fund.

Retailers everywhere are selling Defense Savings Stamps.

**OREGON**

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806-807 Bedell Building  
Portland, Oregon

**CHAIRMAN, STATE COMMITTEE - Palmer Hoyt**

**STATE ADMINISTRATOR - Ted R. Gamble**

**DEPUTY ADMINISTRATOR - George H. Godfrey**

**ASSOCIATE ADMINISTRATOR - Thomas R. Conway**

**NUMBER OF MEMBERS ON STATE COMMITTEE - 45 (Complete)**

**ORGANIZATION MEETING HELD - August 4, 1941**

**NUMBER OF LOCAL COMMITTEES - 33 out of 36**

**CHAIRMAN, MULTNOMAH COUNTY (Portland) - Harold Wormser**  
1124 Southwest 11th Avenue  
Portland

**NOTES:**

With the utmost support of all State leaders and under the able leadership of Chairman Hoyt and Administrator Gamble, Oregon is going ahead in fine style.

All Oregon banks have qualified as issuing agents.

Billboards are being used extensively throughout the State to call attention to the program.

Series F and G Bonds have been purchased by the Oregon State Government from its sinking fund.

Oregon's purchases through September 3 by its several agencies of \$420,000 worth of Defense Savings Bonds, and its plan for additional purchases, is a record for the North West.

The newspapers throughout Oregon have been most cooperative and with the support that is being given by the banks of the State the Defense Savings program is reaching out and interesting thousands of people.

UNITED STATES DEFENSE SAVINGS BONDS - SERIES E  
Per Capita Sales by States, May through August, 1941  
(In dollars and cents)

1 - District of Columbia	\$7.72
2 - New York	7.14
3 - Oregon	5.57
4 - Connecticut	5.23
5 - New Jersey	5.05
6 - Massachusetts	4.71
7 - Illinois	4.65
8 - Washington	4.50
9 - Missouri	4.34
10 - Rhode Island	4.27
11 - California	4.23
12 - Nevada	3.88
13 - Texas	3.64
14 - Delaware	3.59
15 - Ohio	3.57
16 - Pennsylvania	3.53
17 - Michigan	3.35
18 - Maryland	3.29
19 - Montana	3.24
20 - Vermont	3.18
21 - Arizona	3.10
22 - Wisconsin	3.07
23 - Colorado	3.06
24 - Wyoming	3.01
25 - Minnesota	2.98
26 - New Hampshire	2.86
27 - Florida	2.68
28 - Maine	2.68
29 - Iowa	2.45
30 - Indiana	2.40
31 - Kansas	2.34
32 - Nebraska	2.26
33 - Virginia	2.22
34 - Utah	2.04
35 - Oklahoma	1.92
36 - Louisiana	1.91
37 - Idaho	1.77
38 - North Dakota	1.64
39 - South Dakota	1.64
40 - Georgia	1.50
41 - Tennessee	1.45
42 - Kentucky	1.41
43 - West Virginia	1.41
44 - New Mexico	1.17
45 - South Carolina	1.13
46 - Mississippi	1.12
47 - North Carolina	1.11
48 - Alabama	1.10
49 - Arkansas	1.09

Total United  
States \$3.53

## UNITED STATES SAVINGS BONDS

Comparative Statement of Sales During  
First Thirteen Business Days of August, September, and October, 1941  
(August 1-15, September 1-16, October 1-15)  
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	\$ 21,028	\$ 20,815	\$ 22,371	\$ 213	-\$ 1,556	1.0%	- 7.0%
Series E - Banks	<u>39,020</u>	<u>34,858</u>	<u>42,625</u>	<u>4,162</u>	- <u>7,767</u>	<u>11.9</u>	- <u>18.2</u>
Series E - Total	60,049	55,673	64,996	4,376	- 9,323	7.9	- 14.3
Series F - Banks	11,375	8,990	12,050	2,385	- 3,060	26.5	- 25.4
Series G - Banks	<u>63,134</u>	<u>58,262</u>	<u>74,696</u>	<u>4,872</u>	- <u>16,434</u>	<u>8.4</u>	- <u>22.0</u>
Total	<u>\$134,558</u>	<u>\$122,924</u>	<u>\$151,742</u>	<u>\$11,634</u>	- <u>\$28,818</u>	<u>9.5%</u>	- <u>19.0%</u>

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

October 16, 1941.

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

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

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## UNITED STATES SAVINGS BONDS

Daily Sales - October 1941  
On Basis of Issue Price

(In thousands of dollars)

Date	Post Office Bond Sales  Series E	Bank Bond Sales				All Bond Sales			
		Series E	Series F	Series G	Total	Series E	Series F	Series G	Total
October 1941									
1	\$ 1,450	\$ 3,029	\$ 1,286	\$ 8,271	\$ 12,587	\$ 4,479	\$ 1,286	\$ 8,271	\$ 14,036
2	1,870	2,786	867	4,324	7,977	4,656	867	4,324	9,847
3	2,150	3,299	1,065	6,323	10,687	5,449	1,065	6,323	12,837
4	1,270	1,696	612	6,400	8,707	2,966	612	6,400	9,978
6	3,449	4,778	1,444	9,286	15,508	8,226	1,444	9,286	18,956
7	1,207	2,595	572	2,913	6,080	3,802	572	2,913	7,287
8	1,363	3,674	821	3,611	8,106	5,037	821	3,611	9,469
9	1,652	4,270	903	3,654	8,827	5,923	903	3,654	10,479
10	1,495	3,672	989	5,272	9,933	5,167	989	5,272	11,428
11	1,291	2,400	632	4,098	7,129	3,690	632	4,098	8,420
13	2,515	3,624	1,164	4,989	9,778	6,139	1,164	4,989	12,293
14	437	1,022	261	511	1,794	1,459	261	511	2,231
15	879	2,175	759	3,482	6,417	3,055	759	3,482	7,296
Total	\$ 21,028	\$ 39,020	\$ 11,375	\$ 63,134	\$113,529	\$ 60,049	\$ 11,375	\$ 63,134	\$134,558

October 16, 1941.

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

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

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

— Ste. Augustine Station, 10/10/41  
P.D.

Dear Mr. Drayman,

Thanks for my  
 bunch for your kind note and  
 continued interest. So, I had  
 not forgotten about Arthur's picture,  
 Miss Beady plans to bring for me  
 when she goes to Washington, although  
 she thinks that Arthur gave you  
 one signed by himself.

Things here are still so completely  
 unsettled, that it is uncertain just

When Miss Brady can plan to go to  
 Lexington. We were very shocked to  
 read of your dear accident in  
 the joy over Philadelphia & very  
 thankful it was no worse. The  
 Country can not afford to lose you!

With my kind regards to Mrs. Mayntan,  
 and to you. I am, yours sincerely,  
 Margaret Parson.

To The Secretary of the Society.

October 16, 1841.

To MISS CHAUNCEY  
FROM MR. BARNARD

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MENT

FOR THE SECRETARY'S FILES,  
INTER OFFICE COMMUNICATION

DATE October 16, 1941

TO Secretary Morgenthau  
FROM Mr. Chester I. Barnard

Reported verbally to the Secretary that Mr. Mack and others had a conference with Mr. Stettinius on October 15th, as a result of which the delays which are being encountered on release of funds to cover requisitions had been removed. The primary source of the delay was the desire of the British Purchasing Commission to rescrutinize requisitions in view of the small balance of appropriation left, so as to concentrate on the most important items. It is reported that the President has released the remaining 5% of outstanding appropriations. The matter is entirely cleared up for the present and so far as it can be until the next Lend-Lease appropriation bill is passed.



## TREASURY DEPARTMENT

## INTER-OFFICE COMMUNICATION

STRICTLY CONFIDENTIAL

DATE October 16, 1941

TO Secretary Morgenthau  
FROM Mr. Klaus

Ramon Beteta, according to the Mexican Embassy, is Undersecretary of Finance of the Mexican Government and a member of the Board of Directors of the Bank of Mexico. Under the Cardenas regime he was Undersecretary of Foreign Affairs and was largely responsible for the oil expropriation program of the Mexican Government, handling all the negotiations with the United States State Department. He is a lawyer, was educated in the University of Texas, is a professor at the University of Mexico, and is one of the outstanding public figures among the younger men in Mexican life (he was born in 1901).

Naval Intelligence reports that Hilda Kruger "is reported to be the mistress of Miguel Aleman, Secretary of Government in Mexico, and exercises great influence over him..... Her present residence is reported to be an elaborate establishment in the Colonia Roma, Mexico City, maintained by Aleman." Aleman is Secretary of the Interior in the Camacho Cabinet and was manager of Camacho's successful campaign for President of Mexico. I am attaching the ONI report.

Enc. 1

hl



ISSUED BY THE INTELLIGENCE DIVISION  
OFFICE OF CHIEF OF NAVAL OPERATIONS  
NAVY DEPARTMENT

~~CONFIDENTIAL~~

INTELLIGENCE REPORT

~~CONFIDENTIAL~~

Serial 134-41 Monograph Index Guide No. 104-500  
(Last new series each year, i. e. 1-99, 2-00) (To accompany with SUBJECT given below. See W. I. Index Guide. Make separate report for each main title.)

From Op-13-Y-7 (O.S.I.) at Washington, D. C. Date October 9, 1941  
(Reg., div., unit, division, office, station, or person)

Reference \_\_\_\_\_ **RATING "A"**  
(Directive, correspondence, previous related report, etc. if applicable)

Source Various Evaluation 4.00  
(As official, personal observation, publications, press, conversation with—identify when practicable, etc.) (As reliable, doubtful, unverified, etc.)

Subject Mexico Political Forces Foreign Propaganda  
(Nation reported on) (Main title as per index guide) (Subtitle) (When separate report for each title)

Summary.—(Here enter careful summary of report, containing substance succinctly stated; include important facts, names, places, dates, etc.)

PHOTOGRAPH OF HILDA KRUGER ENCLOSED. SHE IS GERMAN AGENT IN MEXICO, EXERCISING INFLUENCE OVER IMPORTANT OFFICIAL. COULD PROBABLY BE BROUGHT TO UNITED STATES IF DESIRED TO TAKE HER INTO CUSTODY.

The enclosed photograph is of Mathewina Mathilde KRUGER, a German moving picture actress now residing in Mexico City. She has been rumored in the past to have been the mistress of Hitler, of Goebbels, and at present, according to information from a source believed to be reliable, she is reported to be the mistress of Miguel ALAMAN, Secretary of Government in Mexico and to exercise great influence over him. She has been mentioned in numerous reports from various sources as a Nazi agent, associating particularly with government officials in Mexico.

It is believed that it would be possible to bring her to the United States if it were desired to take her into custody.

Her present residence is reported to be an elaborate establishment in the Colonia Roma in Mexico City, maintained by ALAMAN. Her telephone number is reported to be J-8000.

~~CONFIDENTIAL~~

Distribution By Originator

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Div.	Off.	Coll.	Mr. C. D.	Mr. G.											
OP-13	OP-13-1														
Nov.	Oct.	T. A. D.	C. A. R.	Eng.	S. & A.	M. & S.	Ass.	U. S. S.	State	War	Nav.	Post	Tele. Rm.	Mr. C. D.	Mr. G.
Chf.	Asst.	Adm.	Lab.	Justice	Treasury	Immigration	Border Patrol	END	IND	R-1-6	State	War	Nav.	Post	Tele. Rm.

*Form is not authorized for reproduction of this material in any copy by specific Security of the Navy*

From the original... (vertical text on the left margin)

FEDERAL RESERVE BANK  
OF NEW YORK

October 16, 1941

CONFIDENTIAL

Dear Mr. Secretary: Attention: Mr. E. Maria Goshorn

I am enclosing our compilation for the week ended October 6, 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/ L. V. Eshko,

L. V. Eshko,  
Vice President.

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

Enclosure

CGP:vm:10-16-41

STATEMENTS OF DEBIT AND CREDIT BALANCES  
(In Millions of Dollars)

Sept. 1940 - Dec. 1942

PERIOD	BANK OF CANADA (and Canadian Government)								COMMONWEALTH BANK OF AUSTRALIA (and Australian Government)							
	DEBITS				CREDITS				DEBITS				CREDITS			
	Total Debits	Transfers to Official British A/C	Other Debits	Total Credits	Proceeds of Gold Sales	Transfers from Official British A/C		Other Credits	Net Incr. (+) or Decr. (-) in Balance	Total Debits	Transfers to Official British A/C	Other Debits	Total Credits	Proceeds of Gold Sales	Other Credits	Net Incr. (+) or Decr. (-) in Balance
First year of war (8/29/39-8/28/40)*	323.0	16.6	306.4	504.7	412.7	20.9	38.7	32.4	+181.7	31.2	3.9	27.3	36.1	30.0	6.1	+ 4.9
War period through December, 1940	477.2	16.6	460.6	707.4	536.8	20.9	110.7	41.0	+230.2	57.9	14.5	43.4	62.4	50.1	12.3	+ 4.5
Second year of war (8/29/40-8/27/41)**	460.4	-	460.4	462.0	246.2	3.4	123.9	88.5	+ 1.6	72.2	13.1	59.1	81.2	62.9	18.3	+ 9.0
Aug. 28 - Oct. 1 1941	23.1	-	23.1	52.2	21.2	-	-	31.0	+ 29.1	10.7	-	10.7	2.8	2.1	0.7	- 7.9
Oct. 2 - Oct. 29 1941																
Oct. 30 - Dec. 3 1941																
Dec. 4 - Dec. 31 1941																
1942																
WEEK ENDED:																
Sept. 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
Oct. 1	18.2	-	18.2	7.0	5.3	-	-	1.7	-11.2	0.6	0.5	0.1	0.7	0.1	0.3	- 0.2
8	5.6	-	5.6	7.1	2.6	-	-	4.5	+ 1.5	1.6	0.5	1.1	0.2	-	0.2	- 1.4

Weekly Average of Total Debits Since Outbreak of War

Through Oct. 8, 1941 \$ 7.3 million

- \* For monthly breakdown see tabulations prior to April 23, 1941.
- \*\* For monthly breakdown see tabulations prior to October 8, 1941.

(In Millions of Dollars)

PERIOD	BANK OF ENGLAND (BRITISH GOVERNMENT)								BANK OF CANADA				Net Incr. (+) or Decr. (-) in Balance		
	DEBITS				CREDITS				DEBITS			CREDITS			
	Total Debits	Gov't Expenditures (a)	Other Debits	Total Credits	Proceeds of Sales of			Total Debits	Gov't Expenditures (d)	Other Debits	Total Credits	Proceeds of Gold Sales		Other Credits	
					Gold	Securities (Official) (b)	Other Credits (c)								
First year of war (8/29/39-8/28/40)*	1,793.2	605.6	1,187.6	1,828.2	1,356.1	52.0	420.1	+ 35.0	866.3(e)	416.6(e)	449.7	1,095.3(e)	900.2	195.1(e)	+229.0
War period through December, 1940	2,792.3	1,425.6	1,366.7	2,793.1	2,109.5	108.0	575.6	+ 10.8	878.3	421.4	456.9	1,098.4	900.2	198.2	+220.1
Second year of war (8/29/40-8/27/41)**	2,203.0	1,792.2	410.8	2,189.8	1,193.7	274.0	722.1	- 13.2	38.9	4.8	34.1	8.8	-	8.8	- 30.1
1941															
Aug. 28 - Oct. 1	140.9	105.9	35.0	176.2	20.1	2.0	154.1	+ 35.3	0.3	-	0.3	0.5	-	0.5	+ 0.2
Oct. 2 - Oct. 29															
Oct. 30 - Dec. 3															
Dec. 4 - Dec. 31															
1942															
WEEK ENDED:															
Sept. 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	+ 9.0	-	-	-	0.1	-	0.1	+ 0.1
Oct. 1	27.2	22.8	4.4	23.5	0.3	-	23.2	+ 66.3	0.2	-	0.2	-	-	-	+ 0.2
8	34.3	26.2	8.1	14.7	0.8	-	13.9	- 19.6	0.2	-	0.2	0.2	-	0.2	-

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) 44.2 million

\*For monthly breakdown see tabulations prior to April 23, 1941.  
\*\*For monthly breakdown see tabulations prior to October 8, 1941.  
(See attached sheet for other footnotes)

Transfers from British Purchasing Commission to  
Bank of Canada for French Account

Week ended October 1, 1940

Cumulative from July 6, 1940

162.7 million

- 11
- (a) Includes payments for account of British Purchasing Commission, British Air Ministry, British Supply Board, Ministry of 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 the proceeds of official British sales of American securities, including those effected through direct negotiation. 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 accruing dollar receipts.
  - (d) Includes payments for account of French Air Commission and French Purchasing Commission.
  - (e) Adjusted to eliminate the effect of \$20 million paid out on June 26, 1940 and returned the following day.

FOUR ENGINE BOMBERS INCLUDED IN AIRPLANE DELIVERIES  
July, August and September, 1941

Company, class of purchaser and model	July	August	September	Total
<b>Consolidated Aircraft Corporation:</b>				
U.S. Army B-24 Heavy Bomber.....	1	-	-	1
U.S. Navy PB2Y Flying Boat.....	1	-	-	1
British B-24 Heavy Bomber.....	-	<u>19</u>	<u>27</u>	<u>46</u>
<b>Total.....</b>	<b>2</b>	<b>19</b>	<b>27</b>	<b>48</b>
<b>Boeing Aircraft Company:</b>				
U.S. Army B-17E Flying Fortress..	-	-	<u>5</u>	<u>5</u>
<b>Total deliveries of four engine bombers.....</b>	<b><u>2</u></b>	<b><u>19</u></b>	<b><u>32</u></b>	<b><u>53</u></b>

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

October 16, 1941

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DELIVERIES OF TANKS  
July, August and September, 1941

	: JULY	: AUGUST	: SEPTEMBER	: TOTAL
Medium tanks .....	38	93	169	300
Light tanks.....	<u>253</u>	<u>281</u>	<u>309</u>	<u>843</u>
Total tanks delivered.....	<u>291</u>	<u>374</u>	<u>478</u>	<u>1143</u>

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

October 16, 1941

Note: Tanks included in this table are new tanks only. Old tanks which have been rebuilt and modernized are excluded.

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DELIVERIES OF AIRPLANES  
July, August and September, 1941

	JULY	AUGUST	SEPTEMBER	TOTAL
<b>Bombers:</b>				
4 engine .....	2	19	32	53
2 engine .....	288	298	349	935
1 engine .....	<u>55</u>	<u>39</u>	<u>27</u>	<u>121</u>
Total bombers.....	345	356	408	1109
Pursuits .....	202	438	474	1114
Other military tactical airplanes.....	79	164	162	405
Trainers.....	<u>829</u>	<u>885</u>	<u>860</u>	<u>2574</u>
Total military airplanes.....	1455	1843	1904	5202
Commercial transports.....	<u>5</u>	<u>10</u>	<u>10</u>	<u>25</u>
Total airplanes delivered.....	<u>1460</u>	<u>1853</u>	<u>1914</u>	<u>5227</u>

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

October 16, 1941.

Note: Commercial transports included in this table are airplanes carrying 12 or more passengers only.

FLYING BOATS INCLUDED IN AIRPLANE DELIVERIES  
July, August and September, 1941

Class of boat and class of purchaser	July	August	September	Total
2 engine flying boats:				
U. S. Navy.....	35	33	5	73
British.....	5	8	23	36
Other foreign.....	<u>—</u>	<u>5</u>	<u>14</u>	<u>19</u>
Total.....	<u>40</u>	<u>46</u>	<u>42</u>	<u>128</u>
4 engine flying boats:				
U. S. Navy.....	1	—	—	1
British.....	—	—	—	—
Other foreign.....	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total.....	<u>1</u>	<u>—</u>	<u>—</u>	<u>1</u>
Total flying boats delivered.....	<u>41</u>	<u>46</u>	<u>42</u>	<u>129</u>

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

October 16, 1941



HEADQUARTERS

ADDRESS THE COMMANDANT, U. S. COAST GUARD  
AND REFER TO No. AV-26

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TREASURY DEPARTMENT

UNITED STATES COAST GUARD

WASHINGTON

16 October, 1941.

MEMORANDUM FOR: Secretary of the Treasury.

The Lockheed Aircraft Corporation will furnish the necessary repair parts for Model R50-1 Airplane V188 in fifteen days after this date, with A-1-A priority rating. They have been notified by dispatch, this date, to proceed with the furnishing of these parts with this priority rating. It is expected the parts will arrive at Naval Aircraft Factory, Philadelphia, Penna., about 5 November, 1941.

We have been informed by the Naval Aircraft Factory, this date, that contingent upon arrival of the above parts at Naval Aircraft Factory by 5 November, 1941, repairs to this airplane will be completed by 15 December, 1941.

R. R. WAESCHE.



THE SECRETARY OF THE TREASURY  
WASHINGTON

October 16, 1941

Mr. William H. Martin, President,  
Merrill Trust Company,  
Bangor, Maine.

Dear Mr. Martin:

Here in Washington we are anxious to learn more about any difficulties you may be encountering with respect to the freezing of foreign funds.

It is no easy task to administer freezing control. I know that it may have raised a number of serious problems for you. I should like to hear from you about these problems and at the same time receive your views on how we can do a better job.

What can we do to make your job easier? Do you have enough information? If not, what else can we send you? What kind of problems are causing you difficulty? Are the Federal Reserve Banks and the Treasury Department giving you the kind of assistance you need? Do you see loopholes we are missing? If so, how can we plug them? Are we unnecessarily strict in some areas? Where?

You are on the firing line. If you can give us your suggestions, we at the Treasury can better understand your problems and improve our efforts. We shall distribute generally our answers and discussions of general questions and problems which are raised.

If you have not already done so, I hope you will give the Federal Reserve Bank in your district the name of the senior officer of your bank who has been placed in charge of freezing control problems for your bank.

I shall appreciate very much hearing from you as soon as possible.

Sincerely yours,

*H. Morgenthau Jr.*  
Secretary of the Treasury.

FOR DEFENSE



BUY  
UNITED STATES  
SAVINGS  
BONDS  
AND STAMPS

## TELEGRAM SENT

To: Shanghai, China

October 16, 1941

To: Nicholson  
From: Mr. Pehle

Can you provide any additional pertinent information in respect to the transaction of Williston. Investigation reveals that there was no remittance of extent or nature referred to in your radiogram of September 15.

(Rec'd by phone from Mr. Bishop, CGI - 11/1/41 - kma)

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DEPARTMENT OF STATE  
WASHINGTON

In reply refer to  
FF 893.51/7324

October 16, 1941

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses five copies of telegram No. 416, dated October 15, 1941, from the American Consulate General, Hong Kong, China, transmitting a message from Mr. Merle Cochran for the Secretary of the Treasury.

Enclosure:

From Consulate General, Hong Kong,  
No. 416, October 15, 1941.  
(5 copies of telegram).

DES

GRAY

Hong Kong via N. R.

Dated October 15, 1941

Rec'd 9:50 p.m.

Secretary of State,  
Washington.

416, October 15, 9 a.m.

FOR TREASURY FROM COCHRAN:

Leaving tonight Wednesday for Chungking together with Niemeyer and Baxter. Detained by pressure of board work in Hong Kong Fox, Hallpatch and perhaps Chinese members of board expect to join us in Chungking two days later.

Separate message being filed on progress to date.

SOUTHARD

WVC

Copy:hr:10-16-41.

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AF

Peiping

Dated October 16, 1941

Rec'd 9:51 a.m.; 17th

Secretary of State,

Washington.

October 16, 4 p.m.

Your October 1, 2 p.m.

Unfreezing arrangement.

Neither this Embassy nor other American governmental establishments in Peiping nor any member of their staffs has a bank account in China which is frozen under existing retaliatory regulations. No difficulties are at present (repeat at present) being experienced in making disbursements.

Sent to Tokyo, repeated to the Department.

BUTRICK

WSB

Copy:bj:10-29-41



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BRITISH EMBASSY,  
WASHINGTON, D. C.

October 16th, 1941

PERSONAL AND  
SECRET

Dear Mr. Secretary,

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

Believe me,  
Dear Mr. Secretary,  
Very sincerely yours,

*Halifax*

The Honourable  
Henry Morgenthau, Jr.,  
United States Treasury,  
Washington, D. C.

Telegram from London dated  
October 15th, 1941.

Operational summary (information received  
up to 7 a.m. October 15th, 1941).

Naval. A naval corvette was torpedoed and  
sunk by U-boat yesterday morning just west of the  
Straits of Gibraltar. Only 3 survivors reported.

Accident occurred in an oil ship during fire  
fighting exercises on 13th. One officer and four  
ratings were killed.

Naval drifter was sunk in collision in the  
Thames yesterday.

Military. Tobruk 12/13. Party of Polish  
Cavalry Regiment successfully attacked enemy strong  
post. Enemy minimum losses 20 killed. Polish  
casualties 4. In El Adem sector enemy tanks patrolled  
actively during the night but ours could not make  
contact.

Russia. German advance towards Moscow is  
continuing but the Russians have counter-attacked and  
driven out Germans from Mojaisk (65 miles west south  
west of Moscow) and Russian pockets are still  
resisting behind the German lines in Vyasma and  
Bryansk areas.

Ukraine. Germans are widening northward  
wedge from Berdyanak through Mariupol towards Rostov.

Royal Air Force. 13/14. 29 aircraft bombed  
Cologne (34 tons) and 35 Dusseldorf (55 tons). A Hudson  
hit a merchant ship 4,000 tons off Northern Brittany.

14th. Off south west Norway Beauforts twice  
hit with bombs 2 merchant ships 8,000 and 2,000 tons  
respectively, torpedoed a third and probably a fourth  
both of 2,000 tons. 1 Beaufort is missing.

-2-

During cross Channel operations our fighters set fire to a small ship and an escort vessel and destroyed a float plane.

14th/15th. 95 aircraft sent: Nurnberg 80, leaflets (Paris Orleans area) 12, mining 3. 3 missing.

Libya. 12th. 9 Marylands bombed Berna landing ground destroying a large aircraft and damaging others. 12th/13th 6 Blenheims attacked 2 landing grounds where ammunition dumps were exploded and fires started and four others bombed Bardia harbour.

Mediterranean. 13th/14th. Naval aircraft set fire to a 6,000 ton merchant ship in convoy south of Lampedusa.

12th/13th. 5 Wellingtons attacked oil cisterns at Piraeus starting small fire.

German Air Force. 14th/15th. 30 enemy aircraft were operating of which about 20 are suspected of sea mining in the Thames Estuary.

Malta. 13th/14th. 9 fighters machine-gunned Luqa aerodrome slightly damaging one Wellington. Our fighters destroyed 1 and anti-aircraft fire probably destroyed 1 and damaged 4.

RESTRICTED

G-2/2657-220; No. 520 M.I.D., W.D. 11:00 A.M., October 16, 1941

SITUATION REPORTI. Eastern Theater.

Ground: Powerful German forces are advancing on Moscow from the northwest, west and southwest. Kalinin has been captured and German spearheads have reached the general line: Kalinin—Mozhaisk—Borovsk—Kaluga.

Northwest of Kharkov the Germans have occupied Aktyrka and are east of Bagodukov. South of Kharkov, Lozovaya has been captured.

The situation at Odessa and Leningrad remains obscure.

The Finns are reported unofficially to be operating successfully north of Petrozavodsk.

Air: German quarters claimed heavy destruction yesterday of Russian aircraft and commented upon the substitution of dive-bombers for heavy artillery in many cases in the siege of Moscow. They claim great success against what they call "extremely good" Russian defenses.

II. Western Theater.

Air: The R.A.F. was said by the British to have heavily pounded the Channel coast on Tuesday night. Bombs were dropped upon Boulogne to Dunkirk.

German planes operated against objectives in the Humber Estuary and the southeast coast of England.

Yesterday Major General George Brett announced satisfaction over the progress being made in refurnishing the Middle East forces with American aircraft.

III. Middle Eastern Theater.

No news of importance.

RESTRICTED