

DIARY

Book 495

February 10 and 11, 1942

- A -

	Book	Page
Appointments and Resignations		
Friedman, Irving S.: Biographical data - 2/11/42....	495	447
American Bosch Corporation		
See Foreign Funds Control		
Automobile Salesmen		
See Financing, Government: Defense Savings Bonds		

- B -

Boettiger, John		
See Financing, Government: Defense Savings Bonds		
British Purchasing Mission		
Gold and dollar balances during Fridays in January and January 31 - 2/10/42.....		148, 472
Federal Reserve Bank of New York statement showing dollar disbursements, week ending January 28, 1942..		152
Vesting order sales - 2/11/42.....		480-485
Brotherhood of Teamsters, International		
See Financing, Government: Defense Savings Bonds		

- C -

Capital Funds Committee		
Memorandum to FDR and suggested reply to Healy (Securities and Exchange Commission) - 2/11/42....		411
China		
Fox's report after return to United States given to Stimson by HMJr - 2/10/42.....		14
Loan: Fox memorandum on possible uses - 2/11/42.....		492
Consultants, Tax		
See Revenue Revision		
Correspondence		
Mrs. Forbush's resume' - 2/10/42..		135
Cuba		
See Latin America		

- D -

Douglas, Melvyn		
See Office of Civilian Defense		

- E -

Ecuador		
See Latin America		
Engraving and Printing, Bureau of		
Military guard to be withdrawn February 28, 1942....		448
Exchange Market		
Resumes - 2/10-11/42.....		177, 504

	Book	Page
Exports		
To Russia, Free China, Burma, and other blocked countries, week ending January 31, 1942.....	495	141
Freight Situation - Haas memorandum - 2/11/42.....		454

Financing, Government

February Financing:

Stimson-HMJr conversations concerning outlook for the war - 2/10-11/42.....		11,261
(See also Book 496, page 30 - 2/12/42)		
Discount Corporation, Devine, etc., suggestions...		55
Rouse-HMJr conversation.....		63
Treasury Notes and Bonds - Hadley memoranda.....		69,70
Treasury Notes, Tax Series A and B - sales of:		
August 1941 to January 1942.		71
Sources of funds for Government borrowing, fiscal year 1943 - progress report (Haas) on study to outline.....		73
Open Market Committee confers with Treasury group - 2/11/42.....		197
a) A bond and a short note - HMJr's choice....		197
b) Sproul-Rouse-HMJr conversation.....		199,249
c) Conversations with Young (Boston) and Fleming (Cleveland).....		225,232, 236,259
d) Eccles memorandum.....		246
Conference; present: HMJr, Bell, Murphy, Hadley, and Haas - 2/11/42.....		269,313
a) Sproul-HMJr conversation.....		274,298,322
b) Eccles-HMJr conversation.....		289,314
c) Jones-HMJr conversation.....		304
d) Treasury Notes and Bonds - Hadley memoranda..		325
e) Recommendation to FDR.....		327
1) \$1.5 billion cash subscription - 24		
Treasury Bonds, 1952-1955		
Defense Savings Bonds:		
Tobin (Daniel J.), President of International Brotherhood of Teamsters, thanked for cooperation - 2/10/42..		79
Boettiger thanked for cooperation - 2/10/42.....		117
Automobile Salesmen: Employment of - Graves memorandum - 2/11/42.....		420
Payroll Savings Plan: Gallup Poll - 2/11/42.....		421
Stock of Series E Savings Bonds on Hand, January 25 to date - 2/11/42.....		422
Foreign Funds Control		
Knudsen, William S.: Request to remit funds to sisters in Denmark denied - 2/10/42.....		139
China: Soong and Kung holdings - 2/11/42.....		450
American Bosch Corporation - Thurman Hill memorandum - 2/11/42.		451
Friedman, Irving S.		
See Appointments and Resignations		

	Book	Page
Germany		
German casualties in Russian campaign through December 8, 1941 - Kamarck report.....	495	509
Guaranty Trust - New York City		
Stetson, Eugene - President: Ransom tells HMJr Stetson is complete and violent reactionary - 2/10/42.....		8

International Brotherhood of Teamsters
See Financing, Government: Defense Savings Bonds

Knudsen, William S.
See Foreign Funds Control

Kung, H. H.
See Foreign Funds Control

Latin America		
Cuba: Proposed issue against gold from United States Stabilization Fund - 2/11/42.....		496
(See also Book <u>501</u> , page 206 - 2/20/42)		
Ecuador:		
Exchange Stabilization Agreement - resume' of negotiations - 2/10/42.....		169
a) Welles' letter - 2/11/42.....		309
1) White-HMJr conversation.....		307
2) Welles-HMJr conversation - 2/12/42: See Book <u>496</u> , page 24 (See also Book <u>497</u> , page 33 - 2/14/42)		
3) Welles' second letter - 2/18/42: Book <u>498</u> , page 152		
b) Conference with Eduardo Salazar - 2/19/42: Book <u>498</u> , page 219		
c) Draft - 2/23/42: Book <u>500</u> , page 147		
1) Discussion - 2/24/42: Book <u>500</u> , page 168		
2) White memorandum on conference: Book <u>500</u> , page 178		
d) Agreement as signed February 27, 1942: Book <u>502</u> , page 18		
Lend-Lease		
Allocations and obligations: Executive Reports transmitted by Stettinius - 2/11/42.....		465

- M -

	Book	Page
Military Reports		
Reports from London transmitted by Campbell - 2/10-11/42.....	495	178,506
German casualties in Russian campaign through December 8, 1941 - Kamarck report - 2/11/42....		509

- O -

Office of Civilian Defense		
Douglas, Melvyn: Defense offered at Press Club luncheon - 2/11/42.....		426

- R -

Revenue Revision		
HMJR's statement before House Ways and Means Committee, on Revenue Bill of 1942: Draft 1 - 2/10/42.....		89
Consultants: Justice Department asked for opinion on restrictions on activities after service with Government is terminated - 2/11/42.....		427

- S -

Shipping		
Allied shipping position as reported by Sir Arthur Salter - 2/11/42.....		486
Soong, T. V. See Foreign Funds Control		
Stabilization Fund See Latin America: Cuba		
Statements by HMJR Before House Ways and Means Committee, on Revenue Bill of 1942: Draft A - 2/10/42..... Draft B - 2/16/42: See Book 497, page 199		89
Stetson, Eugene See Guaranty Trust - New York City		

- T -

Tax Consultants See Revenue Revision		
Teamsters, International Brotherhood of See Financing, Government: Defense Savings Bonds		
Tobin, Daniel J. (President, International Brotherhood of Teamsters) See Financing, Government: Defense Savings Bonds		

February 10, 1942

Mr. Phillip Murray called on me to tell me that they expect to have a great battle over trying to increase the wages of the steel workers. He said according to their figures -- they took the prices from the A & P -- the cost of living has gone up 30%. He said they used those figures rather than the Bureau of Labor Statistics which only shows 11%.

He said he asked the President and asked Leon Henderson to keep his mouth shut until they had a chance to appear before the National War Labor Board, but Henderson, this morning, has shot his mouth off and he thinks it most unfair that a Presidential appointee should take his case to the public before they have a chance to have a hearing.

He then told me a thing which amazed me. He said, "You remember, last year, when they raised the price of wages and froze the price of steel, and at the time they said the steel companies would not be able to make any money", Henderson jumped on a plane and flew out to Pittsburgh secretly to ask Phil Murray whether he would not agree to increase the price of steel.

He said, "I have known that fat windbag for 25 years. I have seen him walk the highways and the byways of the United States and," he said, "he's just a big fat windbag full of gas."

I imagine the reason he came to see me was he must have heard somehow about Henderson's conversation with me. (See phone conversation of February 4, 1942.)

February 10, 1942
9:23 a.m.

HMJr: George.

George
Buffington: Yes, sir.

HMJr: Mr. Philip Murray just left.

B: Yes.

HMJr: That Motion Picture Operators is not his union,
it's A. F. of L. He said so are the actors.

B: Yes. Well.....

HMJr: Wait a minute, please. He said they have what
they call a meeting of the war board on Monday.....

B: Yes.

HMJr:of which he and Green are members.

B: Yes.

HMJr: He said if Green will ask him to join him, he
will be glad to join Green on Monday and give
out a public statement supporting us.

B: Fine.

HMJr: He said he'll - that, incidentally, would be
the first public statement the both of them have
ever made.

B: Fine.

HMJr: So that in itself would be a sensation.

B: Yes, sir.

HMJr: So he said if Green will get in touch with him,
he'd be very glad to join him on Monday to make
the public statement saying that this should
be - we should get our money.

B: Fine. All right, sir.

- 2 -

HMJr: So if you need any help on that, we have very good contacts with Green through - oh, ask Harold Graves. I forget the man's name.

B: All right, sir.

HMJr: But through Harold Graves. He has a man who has very good contacts.

B: All right, sir.

HMJr: You see?

B: Thank you, sir.

HMJr: But he says both the motion picture operators' and actors' union are under.....

B: A. F. of L.

HMJr: Yeah.

B: All right, sir.

HMJr: Thank you.

February 10, 1942
9:32 a.m.

4

John
Sullivan: Yes, Mr. Secretary.

HMJr: Will you please get in touch with Buffington and work with him, because I really want to put a fight on in the Senate to get back this appropriation.

S: I'm glad. I think you should.

HMJr: Well, it - and I want you to really put your shoulder to this.

S: Well, I'll be very happy to get back into it, sir.

HMJr: Back into it?

S: Yes.

HMJr: What do you mean by that?

S: Well, I mean, I haven't been in on this up there in the House, you know.

HMJr: Well, anyway, I don't - anyway, you're in on it now.

S: Right.

HMJr: I'm not going to argue about what happened in the House.

S: Right.

HMJr: You're in on it, and I wish you'd consult with Buffington and really go to town on this.

S: I'll do my best, sir.

HMJr: All right.

S: Righto.

February 10, 1942
9:35 a.m.

Edward
Foley: Good morning, Mr. Secretary.

HMJr: Have you had time to see what the opinion is
in regard to paying for the Donald Duck picture?

F: I've got it in my hand, Mr. Secretary, and I'm
just going over it.

HMJr: You haven't read it yet?

F: No.

HMJr: Well, I won't have time now for hours.

F: All right.

HMJr: I suppose the men worked - I know that Huntington
Cairns was here last night, because he called up
Buffington.

F: Yeah. Well, he's right here now.

HMJr: Well, let me talk to him, will you?

F: Yeah. (Aside) He wants to talk to you.

Huntington
Cairns: Hello.

HMJr: Hello, Huntington.

C: Yes, Mr. Secretary.

HMJr: I hear you worked late last night.

C: Well.....(Laughs)

HMJr: Anyway, thank you for it.

C: Not at all.

HMJr: What is your offhand opinion on that?

C: Why I think it's doubtful that the Comptroller
General will pass it.

HMJr: You think it's doubtful?

C: Yes.

HMJr: I see.

C: He has refused it in cases, and he has granted it in cases; and so far as you can distinguish a line of thought in his opinions.....

HMJr: I see.

C:it seems that he would deny this one.

HMJr: That's your offhand opinion?

C: Well, that's an analysis of the cases last night.

HMJr: I see. Well, that's not so good.

C: No. You see, if he refuses it, you'd have to go back to Congress anyway.

HMJr: Uh huh. Well, of course, the thing to do would be to talk to him before we paid it.

C: That's right.

HMJr: Yes.

C: And Lindsay Warren wants very much to cooperate with us.

HMJr: Well, I've got Sullivan and Buffington handling this fight on the Hill, and I wish that you and Foley would talk to them. Let me talk to Foley a minute.

C: Yes, sir.

F: Yes, Mr. Secretary.

HMJr: I've asked Sullivan and Buffington to handle this fight on the Hill, and I'm going to fight. Now I wish you'd get busy on this thing.

C: All right.

HMJr: And I want all the help I can get around here.
F: All right.
HMJr: And - I mean, I've got to fight this thing out now.
F: All right.
HMJr: So please get busy on it, will you?
F: Okay. I'll talk to John and George.
HMJr: But I mean I want help now.
F: All right.
HMJr: All right.
F: Okay.

February 10, 1942
10:10 a.m.

HMJr: Hello.

Operator: Governor Ransom.

HMJr: Hello.

Ronald
Ransom: Hello. This is Ronald Ransom.

HMJr: Yes.

R: Yesterday you mentioned or someone mentioned the Guaranty Trust of New York, and I believe you said you'd like to see some of those people if they came down.

HMJr: Yes.

R: I thought it might be helpful to you to get a little of that background. The president and most active man in that bank is a former Georgian named Eugene Stetson.

HMJr: Yes.

R: He's a pretty able banker; he's got a pretty sharp pencil. He knows what he's doing, and he's a very likable man. He has many friends.

HMJr: Yes.

R: But I thought you'd be on the safest side if I told you I don't know in the world - even in banking - a more completely reactionary individual who has been more violent in his expressions of views about the whole Roosevelt administration during the entire time it's been in office.

HMJr: Yeah.

R: Now I don't think Gene Stetson's patriotism is bounded by his political convictions, but it colors a lot of peoples' thinking.....

HMJr: Yeah.

R:and nothing whatever that's been done by this administration, so far as I've ever been able to ascertain, has ever pleased or suited Stetson.

HMJr: I see.

R: And he - even the New York - well, Winthrop Aldrich, whom I know quite intimately, might well be classed as a liberal man in comparison to Stetson.

HMJr: I see.

R: And I thought you might have something of that background in mind.

HMJr: Well, that's very kind of you.

R: Yes.

HMJr: Thank you so much.

R: All right. You're welcome.

HMJr: Thank you.

February 10, 1942
10:29 a.m.

Allan
Sproul: Good morning, Mr. Secretary.

HMJr: How are you? I just thought I'd tell you this.
We have nobody down here on the savings banks.
Hello.

S: Yes.

HMJr: And I take it you're going to see them.

S: We'll do that. We'll see the Savings Bank Trust
people, which covers practically all of them.

HMJr: Yeah. So far the people I've seen are all talking
for two issues.

S: They are?

HMJr: Most of them for a note and a two and a half.

S: I see.

HMJr: But - then they all end up by saying, "Of course,
if you want to do a two and a quarter, you can do
it all right." But they all seem to be scared of
one issue.

S: I see.

HMJr: And - but we went all through that last time,
you remember.

S: Yes, I do.

HMJr: And I kept insisting that I can't split it up.

S: Yeah.

HMJr: I just thought I'd tell you.

S: Well, I'm glad to have it. Well, we'll, in our
checks here, we'll see how that goes.

HMJr: Right. Thank you.

S: All right. Thank you.

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it all right." But they all seem to be scared of
one issue.

S: I see.

HMJr: And - but we went all through that last time,
you remember.

S: Yes, I do.

HMJr: And I kept insisting that I can't split it up.

S: Yeah.

HMJr: I just thought I'd tell you.

S: Well, I'm glad to have it. Well, we'll, in our
checks here, we'll see how that goes.

HMJr: Right. Thank you.

S: All right. Thank you.

February 10, 1942
10:34 a.m.

HMJr: Henry.

Secretary
Stimson: Yes.

HMJr: How are you?

S: First rate.

HMJr: Henry, on Friday I have to raise a billion and a half dollars.

S: Yes.

HMJr: And I wondered.....

S: A billion and a half?

HMJr: One billion and a half - just getting started.
Hello.

S: Yes.

HMJr: And I wondered whether you would care to give me an estimate between now and Friday - anything particular that's going to happen in the Far East, like either what are the chances that either Singapore or Rangoon might fall, say between now and Saturday.

S: Between now and Saturday. Today is Tuesday.

HMJr: Yeah.

S: Well.....

HMJr: I know it's a guess, but I've got to - in my business I can only be wrong once.

S: I know, I know.

HMJr: I mean, I can only be wrong once.

S: I don't think that Singapore will actually fall by that time, but the Japanese have made a secure landing on the final island.

HMJr: Yeah.

S: And I have the map before me now which I've just been studying, and I think they'll move pretty steadily on.

HMJr: Yeah.

S: And I think that ultimately they'll get it - there is a possible chance. But I imagine that the reports will be gloomy right along, even if there's no fall.

HMJr: Yes. How about Rangoon?

S: Well, Rangoon, I think, will be fairly safe until Singapore falls.....

HMJr: I see..

S:and will leave a lot of people, a lot of forces. The reports coming from there are pretty fair. Evidently the Japanese are not making as determined a push yet on the land side, and in the air, we maintain the superiority.

HMJr: I see.

S: But, of course, what will happen there will be that if Singapore falls, there'll be a very large force released that will very likely go up there and I don't see any means of stopping that yet.

HMJr: Well, if you don't mind, I'd like to call up again tomorrow.

S: Sure, sure.

HMJr: Because I'll have to - we have to send out the announcements tomorrow afternoon, you see.

S: I'm answering you just off the bat on my own guess.

HMJr: Yeah.

S: Not on the guess of any expert.

- 3 -

HMJr: Well.....

S: Although I'm getting the facts from them, I'll -
in the meanwhile, I'll.....

HMJr: Well, I know it's a guess, but I knew you'd
give me your honest one, whatever it was.

S: Oh, yes, I'll give you that.

HMJr: And I'd like to call up again tomorrow if I
may.

S: Sure.

HMJr: Because, as I say, because all the radio com-
mentators are very gloomy about it.....

S: Yes.

HMJr:and my own guess is that even if it fell,
the public's pretty well prepared for it.

S: Yes.

HMJr: But still I wanted to get the best information,
and that's why I'm calling you.

S: Yes. Well, I spent yesterday on a very critical
matter - I don't know whether you've heard of
it from the President, but it might have been
very critical in that meanwhile, in regard to
the P. I.

HMJr: P. I.?

S: Yes.

HMJr: P. I.?

S: The P. Islands.

HMJr: Yes.

S: But I think we've taken action which I think
will prevent any catastrophic thing there.

- 4 -

HMJr: I see. Well, if you would just have me in the back of your mind.

S: Yes, I do, and I think you're entitled to it.

HMJr: And I'd like to call again tomorrow.

Now, one other thing - hello.

S: Yes.

HMJr: Mr. Fox, who is the Treasury representative in China, got back yesterday, and he had a talk with the Generalissimo before he left. He's a very intelligent fellow.

S: Yeah.

HMJr: And you might like to have a talk with him.

S: Well, I would, but.....

HMJr: Well, he's here and.....

S: I'll take his name down.

HMJr: He's formerly of the Tariff Commission. He was a Commissioner with the Tariff Commission, and he's been out there for about six months.

S: Yes.

HMJr: And.....

S: In.....

HMJr: He's here in the Treasury.

S: He's been in China, has he?

HMJr: Yeah. He just got back.

S: Yes.

HMJr: And he spent an hour and a half with the Generalissimo and with Kung the day before

- 5 -

he left.

S: Yes.

HMJr: And he has some very interesting information. He says the Japanese, whose troops were trained in Japan, are making a terrific drive.

S: Really? Of course they are.

HMJr: A terrific drive.

S: Yes, I know.

HMJr: And that this loan has come when they needed it most.

S: Yeah.

HMJr: And, of course, another thing is that the British are increasing the prices of food, and all that sort of thing.

S: Yes.

HMJr: And he also told me that they are hoarding goods.

S: Yes.

HMJr: And he said that the English will counteract almost, not quite, what we do.

S: Isn't it the devil?

HMJr: Yeah.

S: Their Colonials are the worst of the whole bunch.

HMJr: He says that Sir Otto Niemeyer is just terrible. I told you what Churchill said, you know.

S: He said he would call.....

HMJr: He said he would call Sir Otto Niemeyer back to England.

S: Well, why not tell them then that.....

HMJr: No, I'm going to talk to Fox again about it. For instance, Sir Otto Niemeyer advised a deflationary movement would save money. The result was that they cut down a little on production of articles and munitions that actually were needed.

S: Too bad!

HMJr: Yes. Well, if you don't mind, I'll call you once more tomorrow, because.....

S: All right. I might not know anything more, but I'm glad to be of any help to you.

HMJr: Because as I say, it's my job to raise the money even if the news of the invasion gets worse.

S: Well, I'll keep my ear to the keyhole. (Laughs)

HMJr: (Laughs) All right. Good-bye, now.

S: All right. (Laughs)

HMJr: Thank you.

February 10, 1942
11:13 a.m.

HMJr: How are you?

Grace
Tully: I'm all right, sir. How are you?

HMJr: I'm alive and kicking.

T: That's good.

HMJr: If the President wasn't too busy Thursday morning, I've got a couple of things that I'd like to clear.

T: All right, sir. I'll make a note of it.

HMJr: I'm putting in my bid.

T: All right, fine. Thursday morning bedside, huh?

HMJr: Yeah. (Laughs.)
You don't know whether that Aniline and Dye thing has got to him yet?

T: I think it did.

HMJr: Do you think it did?

T: Yeah. Did you get no word back on it?

HMJr: No.

T: I think yesterday something happened on it.

HMJr: I see.

T: I think you ought to have something today, Mr. Secretary, on it.

HMJr: Has he dictated something to me?

T: No, I don't - oh, was it for approval?

HMJr: Yes.

T: I think he approved it.

HMJr: You think so?

- 2 -

T: Yes. I think so, yeah.

HMJr: I see.

T: I'll check with Mr. Forster if you want me to, and let you know.

HMJr: I'd appreciate it.

T: All right, fine.

HMJr: Now, one other thing - someone told me you went down to see Missy.

T: Yeah.

HMJr: Elinor and I are very much interested.

T: Well, she's a good deal better, Mr. Secretary.

HMJr: She is?

T: Yeah. A good deal better.

HMJr: Well, that's nice. That's nice. Is she cheerful?

T: Yeah, pretty.

HMJr: Pretty.

T: Oh, naturally she can't be too contented with all that's going on and being that far away from the scene of action, like any of us would be.

HMJr: That's right.

T: A little low about the whole thing, naturally, even about it - and then being away from it and not being in the swing of the whole thing, it's pretty tough.

HMJr: But you could see.....

T: I could see great improvement.

HMJr: Fine.

T: Yeah.

- 3 -

HMJr: Thank you,

T: All right.

HMJr: If you - if Forster knows anything, if you'd call me back.

T: I will, Mr. Secretary. Fine. Good-bye.

February 10, 1942
11:40 a.m.

DONALD DUCK MOVIE

Present: Mr. Charles Bell
Mr. Schoeneman
Mr. Bernard
Mr. Sullivan
Mr. Thompson
Mr. Foley
Mr. Cairns
Mr. Buffington
Mrs. Klotz

H.M.JR: You asked Larry Bernard?

MR. THOMPSON: Yes.

MR. CAIRNS: He refused to express an opinion.

MR. THOMPSON: No, he was in a conference.

MR. FOLEY: Well, Mr. Secretary, there is no prohibition in the law--

H.M.JR: What is this about Larry Bernard?

MR. THOMPSON: Larry Bernard was in a meeting in John Sullivan's office when the question was first opened six or eight weeks ago, and he told us that it was his legal opinion that appropriation was available for this payment. On that basis we went ahead.

H.M.JR: Oh, you did have legal advice?

- 2 -

MR. THOMPSON: Oh, yes. Helvering was there, and we had Larry up before the whole group, Sullivan and Helvering and Norman Cann, and we discussed the whole thing. That was before we even sent the estimate to the Budget two months ago or six weeks ago.

MR. FOLEY: There is no prohibition in the law against the use of the regular appropriation for the Bureau of Internal Revenue for this movie. Whether or not the Comptroller General will think that it is necessary and essential expenditure, nobody can say. He has allowed expenditures where the specific authorization for a movie was not provided in some instances and in some instances has denied the use of funds for a movie. I don't know whether any of these matters have been before Lindsay Warren since he took over as Comptroller General. I think, Mr. Secretary, this may be one of those situations where it is the better part of discretion not to force this fight. You have got a roll call against you in the House, two hundred fifty-eight to a hundred and twelve, and even if you succeed in the Senate, when the House managers come out, even though they came from a committee that recommended this to the House, nevertheless they have got to - they are bound by the two hundred fifty-eight to a hundred and twelve vote in the House, and this thing has reached so large proportions now in relation to its importance or significance that I think it might be much wiser on our part not to press the thing at all, to allow the matter to be paid out of the regular appropriation, and then when the certificate goes over to the Comptroller General for audit in a year and a half or so, all of this controversy and all of this heat will be gone, and the thing will probably go through in the regular way.

If he raises a question about it at that time and then disallows the item, it will be necessary for us to go to Congress to relieve the disbursing officer's account. But if we go down there with a relief bill at that time, all of this unfortunate publicity in connection with OCD and the emotion and the heat that is focused on this problem now won't be present.

- 3 -

MR. THOMPSON: It probably wouldn't be seen, because the disbursing officer now has a billion dollars disallowed to his credit, and if you go down with a relief bill - there are hundreds and hundreds of items that will go through at the end of the war.

H.M.JR: Yesterday they asked me what I was going to do, and I said I would cross that bridge when I came to it.

MR. FOLEY: I think if they ask that question on the Senate side, Mr. Secretary, you can say that we always intended to use the regular appropriation, and we put this item in the deficiency bill to relieve the Internal Revenue bill appropriation of the eighty thousand dollars, but in view of all the controversy we are not pressing the matter, and you are going to pay it out of regular funds.

MR. THOMPSON: Well, the reason John Sullivan has gone to the Capitol, Mr. Secretary, is to see why, after they voted for it in the committee, they voted against it in the House.

H.M.JR: I see Woodrum of Virginia and Ludlow voted against it.

MR. THOMPSON: Yes. We thought we had better find out the reason for the change before we decided whether it was--

MR. FOLEY: I think the only explanation, Mr. Secretary, is that this is an election year, and this is an item on a movie, and they would have to explain their vote in the campaign next fall, and when you put it up to them that way, they just can't afford to take a chance. I think that is the reason.

H.M.JR: Well, Ludlow, that is surprising.

MR. THOMPSON: It was to me, too.

H.M.JR: Wasn't he down--

MR. BUFFINGTON: Yes, and he specially mentioned how favorably he was impressed by it and said that he approved it.

MR. THOMPSON: O'Neal, and Johnson of West Virginia, voted for it. They stood their grounds.

H.M.JR: For?

MR. THOMPSON: For the Donald Duck picture.

H.M.JR: Well, John has gone up to see who?

MR. THOMPSON: He is going to see Woodrum to get the story from him as to just what happened, why the vote was that way, whether there was something else back of it all, and when he comes back, we thought we would sit down and decide what to recommend to you, but Mark Shields in the meantime called up and advised definitely not to go to the Senate. He feels exactly as you (Foley) do, and he followed through by saying, "Why don't you just pay the bill out of Internal Revenue. That is available." He said, "You won't hear anything more of it. Forget it."

H.M.JR: Did anybody keep minutes of this meeting which took place in Sullivan's office when this thing was discussed?

MR. THOMPSON: This morning?

H.M.JR: No, six weeks ago.

MR. THOMPSON: I don't think there were any minutes kept, Mr. Secretary. He was called in - we were just discussing whether funds were available for the picture, and Mr. Helvering came and raised the question as to whether it would be legal. We called Larry Bernard, and he came up and gave us the oral advice that it would be legal to use that. I don't think Helvering had any doubt on it. He was a little afraid we might nick him for eighty thousand dollars, and he was trying to find ways to avoid that.

- 5 -

H.M.JR: How long ago was that?

MRS. KLOTZ: Six weeks, he said.

MR. THOMPSON: I may be able to get the exact date. I am not sure whether Schoeneman kept notes on it or not.

H.M.JR: Have you talked to Larry Bernard today?

MR. FOLEY: No.

H.M.JR: This is the first you had heard about it?

MR. FOLEY: I didn't know about the conference.

MR. CAIRNS: I have a written memorandum from him in which he expressly declined to give an opinion, addressed to Charlie Bell, I think. He said, "I can not give you an opinion on this." I have that on my desk in writing.

MR. FOLEY: A memorandum?

MR. CAIRNS: From Larry, yes.

MR. THOMPSON: How old is that?

MR. CAIRNS: I don't recall the date.

H.M.JR: Get it.

(Mr. Cairns left the conference.)

H.M.JR: Is he in the building?

MR. FOLEY: Yes, he is in today.

MR. BUFFINGTON: Norman, that was not as long as six weeks ago, because that was about the time that Charlie Bell wrote for your signature the letter to Walt Disney at his request when we raised that question, could it be paid, and I got the impression from the talk that you

- 6 -

had decided, or it had been decided that it could be paid.

MR. THOMPSON: It must have been the subject of this memorandum he wrote. I was under the impression it was when we were debating about the estimates for our budget. You see, we questioned as to whether the funds were available.

H.M.JR: Was Charlie Bell in on this?

MR. THOMPSON: Bell and Schoeneman both.

MR. BUFFINGTON: That was about a month ago, I think, early in January.

H.M.JR: And Bernard came in and said it was all right?

MR. THOMPSON: Yes.

(Mr. Cairns re-entered the conference.)

H.M.JR: Well, I would say from this - he doesn't say that - "We are not in a position to give you a legal opinion on this. I suggest you explain your actions somewhat as follows."

MR. CAIRNS: Yes. I understood Mr. Bell was going up on the Hill, and he called Larry to ask him, and Larry said, "I can't tell you whether it is legal or not."

H.M.JR: But he didn't tell him not to do it. If I got that thing I would say, "That is all right. I can go ahead." This is the way to explain it. I mean, I would take it from that that if you are going to go ahead, it is all right.

MR. THOMPSON: He probably gave that to Mr. Bell when he was going up on the hearings.

MR. CAIRNS: When he was going up on the hearings, and I think Charlie said, "Is this legal or not," and

Larry said, "I can't tell you, but if you are asked about it, answer the Committee this way."

H.M.JR: But he didn't say, "Don't do it."

(Mr. Bernard entered the conference.)

H.M.JR: Larry, good morning. Evidently there was a meeting in Mr. Sullivan's office where they asked you whether we could or couldn't pay for the Disney picture out of Internal Revenue.

MR. BERNARD: No, not in Sullivan's office.

H.M.JR: Where was it?

MR. BERNARD: Charlie Bell called me on the phone the day they went up before the Appropriations Committee and asked me whether I could give an opinion on the legality of the payment, and I told him no, I would have to look into it, and we talked about it a little bit. He told me something about the picture. I said, "Well, Charlie, I have got a few minutes. I will do the best I can. I will give you an argument which you can use if you are called upon to say anything about it, but I just don't have time."

H.M.JR: There was no meeting?

MR. BERNARD: No.

MR. THOMPSON: Didn't you attend the meeting Helvering was in in Sullivan's office on this? The question was--

MR. BERNARD: How long ago?

MR. THOMPSON: Oh, six or eight weeks ago.

MR. BERNARD: Oh, no, that wasn't on this film.

MR. THOMPSON: Yes, that is what they were discussing, the funds for the film.

MR. BERNARD: No. I was in a meeting at which--

MR. THOMPSON: Helvering was there, you remember.

MR. BERNARD: This is about two and a half months ago or longer. Helvering, Sullivan, Norman Cann, Tarleau, Blough, Groves, Gulick--

MR. THOMPSON: That is right. It was all the tax money that was up at the same time.

MR. BERNARD: No, they didn't ask me about the picture at all. What they wanted to know at that time was whether the regular Revenue appropriation would be available to pay for salaries of this study group in Tommy Tarleau's office and Blough's office, and I said yes, they were all working on tax matters, but there was no mention--

H.M.JR: Well, this picture is in that same group.

MR. BERNARD: No, their salaries.

MR. THOMPSON: There is no question about the legality of their salaries.

MR. BERNARD: That was the question that he raised.

MR. BUFFINGTON: Norman, if you get over two months ago, you are getting behind the time when we had our first discussions with Disney, because this was the tenth of December, and we had our first discussions the nineteenth.

MR. THOMPSON: Charlie Bell told me just a couple of days ago that Guy Helvering raised the question of the legality of this picture, and you were called in and said it was legal.

MR. BERNARD: No, I did not. The only time I ever talked to anybody about the Donald Duck film was when Charlie called me on the telephone the day that he went up before the Appropriations Committee, and I told him

then I just couldn't give him an opinion on it, because I would have to look into it.

H.M.JR: One of your memories is wrong. You can't both be right.

MR. THOMPSON: I wasn't present. Schoeneman and Bell told me that.

H.M.JR: Oh, you weren't present?

MR. THOMPSON: No. I wasn't present when they were discussing that particular item.

MR. BERNARD: I remember the meeting you mentioned very distinctly.

MR. THOMPSON: That is what they told me, that you gave them that opinion.

MR. BERNARD: That question was not raised. The only question they raised was the availability of the regular appropriation to pay for the salaries of these people, because they were working over here in the Treasury, and I told them as long as they were working on tax matters, it was perfectly all right, that location didn't mean a thing.

MR. THOMPSON: I don't see why they ever asked such a silly question, because we have been doing it for eight years. All the people Blough and Tarleau have are paid that way.

MR. BERNARD: Charlie Schoeneman was also there.

No, the question, Norman, as I recall it, the Appropriation Act says that the money shall be spent under the direction of the Commissioner of Internal Revenue, and Helvering raised the question whether that money could be used inasmuch as these people were not working under his direction.

MR. THOMPSON: Yes, but the personnel is placed under

the hands of the Secretary of the Treasury.

MR. BERNARD: John Sullivan called me up. They had had some discussion about it.

(Mr. Charles Bell entered the conference.)

H.M.JR: Hello, Bell.

MR. BELL: Good morning, sir.

H.M.JR: Well, what is your reaction, what authority or opinion did you get on the Donald Duck picture as to methods of paying for it.

MR. BELL: Mr. Barnard gave me a Comptroller General's opinion that the Government had entered into contracts to take moving pictures. We had that much of a precedent. We had nothing identically with the Donald Duck picture.

MR. FOLEY: Well, was that before or after the picture was made, Charlie?

MR. BELL: That was before.

MR. FOLEY: When, do you remember?

MR. BELL: I think it was right following our conference with Helvering and Norman Cann when you came up in Sullivan's office. It might have been probably two or three weeks after that.

MR. BERNARD: No, the only time I talked to you about the Donald Duck thing was the day you called me on the telephone before you went up before the Appropriations Committee.

MR. BELL: I think that is correct.

MR. BERNARD: And I gave you a memorandum. I told you I couldn't give you an opinion because I didn't have time to go into it.

- 11 -

MR. BELL: That is right.

MR. BERNARD: I gave you a memorandum saying, "This is an argument that you might use if you are called upon, but I can't--

MR. BELL: That is right.

MR. BERNARD: And the memorandum said that in so many words, and I did give you a couple of Comptroller General's decisions, but it was all I could do in the time I had.

H.M.JR: What about this meeting, Norman, that you told me that was in Sullivan's office where he did get an opinion?

(Mr. Schoeneman entered the conference.)

MR. BELL: We had a meeting in Mr. Sullivan's office, and we asked Mr. Bernard at that meeting whether Mr. Helvering could pay for certain of these expenses, the research principally. That was the item of discussion. It was Mr. Bernard's general, offhand opinion that that was administrative expense.

H.M.JR: I am not interested in that. Did you ask him about Donald Duck at that meeting?

MR. BELL: I believe not, Mr. Secretary, as an item.

H.M.JR: At that meeting you didn't ask him? Then when did you get an opinion?

MR. BELL: Just before we went to the Hill.

H.M.JR: And all you got is what is in this memo.

MR. BELL: Yes, sir.

H.M.JR: But that is not an opinion.

MR. BELL: No, sir, as I recall it, Mr. Bernard said he couldn't give me a definite opinion.

- 12 -

H.M.JR: Well, did you ever ask him for an opinion subsequently?

MR. BELL: Only on that one occasion before going to the Hill. We thought they would probably ask us what basis of authority they had. We would then be in a position to say that we had been guided by the General Counsel, but we decided that we couldn't use just that language.

H.M.JR: Well, now, here we are, you ask before you go up on the Hill and we have got this hit and run memorandum. It is not an opinion. That is all we have got. Now we are faced - what is the date of that memo?

MR. FOLEY: The twenty-seventh of January. That was after the picture was made.

H.M.JR: Oh, well, that is a long time after.

MR. BELL: I don't believe there has ever been any question in anyone's mind as to the ability of the Treasury Department to pay for this expense. It has always been regarded as a legitimate expense.

H.M.JR: You see the point I am going back to is this. Yesterday I asked Norman, "Can we pay for it?" I have asked him before that also. You (Thompson) always told me yes, there was no question about it.

MR. THOMPSON: I still have no doubt in my mind.

H.M.JR: Then, being cautious, I asked formally for an opinion. I said I wanted it from Foley and I said, "Have somebody work on it." I wanted it done last night. I just wanted to double check. Now I find myself in the position that we have got the thing and it is very questionable whether we can pay for it.

MR. FOLEY: I wouldn't say very questionable, Mr. Secretary. That isn't what I said. I say that I can't tell you unequivocally that the Comptroller General will pass it. He has allowed some, and he has disallowed

- 13 -

others. Whether or not it is a necessary expenditure in his opinion is something that he alone can determine.

H.M.JR: Well, excuse me, I don't know, we had something similar to this, you remember, Norman, when I told you I would hold you responsible. You most likely remember the case. I said I would hold you responsible to see that I didn't get out on the end of the limb on any expenditures of any kind, that it was your job to see that we got the lawyers and you would take the initiative. Do you remember what the case was?

MR. THOMPSON: That was the case of the telephone private line.

H.M.JR: Yes, but I told you at that time. It is your job - who is chairman of this Treasury Budget Committee?

MR. THOMPSON: Mr. Schoeneman. Well, I always consult Larry on any doubtful questions.

H.M.JR: Yes, but--

MR. THOMPSON: I know of no provision of law that prohibits the purchase of a moving picture, so in the absence of a prohibition in the law and a broad appropriation like Revenue, I can't see now there is any doubt.

H.M.JR: Gentlemen, after listening to all of this, I feel the regular Treasury personnel hasn't protected me. You haven't. I might just as well call a spade a spade. You have got the whole legal stuff, and now here we are and I say - I just got that flimsy thing to rest on.

MR. THOMPSON: Well, Mr. Secretary, there is no doubt about the availability of that - the fact that Congress is writing in a prohibition to prohibit funds for that purpose, that indicates there was no prohibition up to now.

- 14 -

H.M.JR: If Wigglesworth was smart, he would write it the way they did the other thing. I understood, they would write it so we couldn't pay it out of any appropriation. If he suspected that we could pay for it, he would write the thing so we couldn't pay for it at all.

MR. SCHOENEMAN: Mr. Mark Shields, Clerk of the House Committee, told me this morning, or rather suggested this morning, "Why don't you go ahead and pay for it out of Internal Revenue, and let the matter drop?"

H.M.JR: Well, now, Schoeneman, let's say that I say, "Go ahead and pay for it." Which Treasury official - I know I don't - but which Treasury official will this be slapped on?

MR. SCHOENEMAN: I doubt very much, Mr. Secretary, whether it will be slapped on any Treasury official. I believe it will end up merely an exchange of correspondence between the Comptroller General and the Treasury.

H.M.JR: Yes, but suppose - let's just say the Comptroller rules point blank that this can't be paid, or rather that after it has been paid - I don't know all the red tape - they hold somebody responsible, don't they?

MR. THOMPSON: The disbursing officer.

MR. FOLEY: The disbursing officer, and then you would have to go to go to the Hill with a release bill to free his account that had been disallowed in the amount of eighty thousand dollars.

H.M.JR: And supposing they don't do it? Supposing they vote me down then? Then who is held for the eighty thousand?

MR. BERNARD: Technically the disbursing officer, on his bond.

MR. SCHOENEMAN: But every other Department of the

Government has motion pictures. Shields told me this morning. He said, "Your Navy Department has any number of films. You folks are just novices in the game. You needn't be ashamed of having a motion picture film because the other fellows are doing it."

H.M.JR: I am not ashamed. I said at my press conference yesterday not only that I take full responsibility for it, but I said, "I wish everything we did in the Treasury was as good." It is in the paper today. You can read what I said. I am not ashamed of the film, but I am trying - I went all through this once before, and I am trying to impress on you Treasury people - I mean, I think that this was done - there was a question of doubt. Charlie Bell had a doubt because he called up Larry Bernard and he doesn't until just before he goes up on the thing. You can come back and say, "Well, now, you had better button this thing up." I mean, you had better button this thing up.

MR. BELL: Mr. Secretary, we had the clearance of the Bureau of the Budget before we entered into any of this. We went over early in December. We aired it with them. They told us to spend the money out of the last quarter of Revenue money.

H.M.JR: Is Harold Smith goind to go up on the Hill and testify in my behalf.

MR. BELL: No, sir, he won't, but I believe it is a legitimate expenditure that will stand up with the Comptroller General.

H.M.JR: Charlie, you know in the long-run no one looks after any Treasury people except the Treasury.

MR. BELL: Well, Mr. Secretary, there wasn't a - Mr. Bernard will tell you, any basis that would give us concrete advice as to whether we could definitely or could not definitely, isn't that true? You couldn't conclusively say.

MR. BERNARD: Well, when you called me, I hadn't thought of it at all.

-16-

MR. BELL: And I don't believe anybody here can say this morning definitely that we can or we cannot.

MR. FOLEY: Mr. Secretary, the procedure in my division for opinions is pretty well defined and I think it is pretty well understood throughout the Department. If we had been formally asked for an opinion on this matter before any contract was entered into for the picture and before any expense was incurred, we would have said at that time that there is no specific prohibition against the use of these funds. Whether or not the Comptroller General will allow the expenditure as a necessary expenditure out of the current appropriation for the Bureau is a question that ought to be taken up with him and it ought to be cleared with him before the expenditure is incurred. That is the only way to be safe. That is what we would have said. Now, we weren't asked and I don't think that we do business around here on a basis of calling somebody in from my office that may or may not have anything to do with this. Larry is not in the opinion section and Larry wouldn't be the fellow that would work on an opinion of this kind. The matter is a thing that would be referred to Cairns and then to Fiedler and the opinion section would work on it and the opinion section would say, "Here are the precedents," and I would review the thing and I would come to you and I would tell you as a practical matter what I thought you ought to do, and I would say to be prudent here and to be safe if you weren't going to ask--

MR. THOMPSON: Why go to you at all? Why not go to Lindsay Warren?

MR. FOLEY: Now, you have to go to him after a record has been made against you, after you have been turned down in the House after a specific request for a deficiency appropriation to pay for this item, whereas if you had gone over in the first place and just said, "Now, we don't have any doubt about this, but we want to make sure that you are not going to raise a question about it, and here is this proposition and we want to make sure that we are not going to have any trouble with you later on," and he, under those circumstances, would say O.K. This way he may want to look into it. He may pass it on down the line and some of his people like Tulloss and those people that were

there before he came over may have very serious doubts about this and it may be rather difficult for Lindsay Warren now to say O.K., whereas before there would have been no question about it.

MR. SCHOENEMAN: You remember we had some difficulty years ago on the use of radio and the Comptroller General disallowed the item, didn't he, Mr. Thompson?

MR. THOMPSON: Yes, the same thing.

MR. SCHOENEMAN: And then there were a series of letters, but in the end he finally permitted us to do it.

MR. FOLEY: Back in 1935 he allowed out of the appropriation that the President made available from his emergency fund of a million dollars an item for a Resettlement picture on soil erosion. He said that was all right. There was a lot of correspondence back and forth. There was not--

MR. CAIRNS: They wanted to instruct the employees before they sent them out in the field.

MR. FOLEY: Yes, and they wanted to use the film for purposes of instruction and he cleared that. Another time he told the Veteran's Administration that they couldn't contract for radio time in order to instruct the Veterans in the change of the law and in the change of regulations. He said that that wasn't essential to the administration of the Veteran's laws.

H.M.JR: Was Mr. Sullivan handling this in the first place?

MR. FOLEY: Well, it normally would come under John, because he is in charge of the Bureau and it comes out of the Bureau appropriation.

H.M.JR: Well, who took it up with you people? Who said we wanted it?

MR. SCHOENEMAN: Mr. Ruffington.

MR. RUFFINGTON: I did.

H.M.JR: Who did you go to, George?

MR. BUFFINGTON: I wrote a memorandum originally outlining in a general way what the expenses were and I had that initialed by John Sullivan, Norman, Mr. Helvering, with the understanding that his initials were attached, we understanding that there were no funds available in Internal Revenue. Then I went to Charlie Bell and to Norman Thompson to determine how we were going to get funds for that purpose.

MR. THOMPSON: We decided we would have to go to the Budget with an estimate in view of the --

H.M.JR: I still say, gentlemen, I hope that this will be a lesson to the regular Treasury personnel, because it isn't the standards under which I can work.

MR. THOMPSON: Of course, at that time we had no question of the legality of the thing.

H.M.JR: No, wait. The thing was something new for the Treasury and it should have been gone into right in the first instance; "Is this all right? Can we go ahead and make a commitment for \$80,000? Is the money in Internal Revenue? Is Mr. Helvering satisfied?" I mean, this isn't something - I mean, if I had sent for you and said, "I am going to do this, I don't care what happens -" I mean, there was no particular pressure on you.

(Mr. Sullivan entered the conference.)

H.M.JR: Hello, John.

MR. SULLIVAN: May I come in?

H.M.JR: I don't know where you fit in the picture, but I am simply saying that this picture never should have been born in the first instance until they had satisfied themselves with the General Counsel's office that it was absolutely legal. Now I find they never gave the General Counsel's office a chance and on the 27th

of January they asked Bernard here, and that was long after the picture was made, and it was ready to be delivered in a couple of days. Now we are faced with the fact that we don't know what your message is from the Hill but - let's say your message is that we shouldn't make the fight. Then how are we going to pay for it and what is going to happen and so forth and so on? I don't know just where you fit in the whole picture.

MR. SULLIVAN: I didn't fit in it. I wasn't in it. I mean, George frequently talked with me about it.

H.M.JR: You (Schoeneman) are Chairman of this Committee?

MR. SCHOENEMAN: Yes, sir. May I make this statement?

H.M.JR: Norman is my Administrative Assistant and I charge him particularly, and it is his responsibility and it is your responsibility to see on something like this that there are no loopholes.

MR. SCHOENEMAN: On the afternoon that Walt Disney was here--

H.M.JR: I mean, after all if you had come to me and said, "Now, Mr. Morgenthau, give us time, don't push us," through Norman - but no one has ever mentioned a word until I raised this question last night. I called you at home, didn't I, Foley?

MR. FOLEY: Yes. It was late in the afternoon and you called me at my office.

H.M.JR: I was home. I was worried. This isn't the way. It is water over the dam and I am going to take it now.

MR. SCHOENEMAN: Mr. Secretary, there are other matters along similar lines which we should watch. For instance, changing procedure in the Mint. We shouldn't let that happen without having it very carefully investigated.

H.M.JR: What is that?

- 20 -

MR. SCHOENEMAN: Paying overtime to the Mint employees.

MR. THOMPSON: Mr. Swope ordered that and I had to stop it because of the same thing, we had no money. He has ordered them to buy presses and told Harold, "Don't worry about the money, you will get the money," but I told Harold not to do it.

H.M.JR: That is what you are here for.

MR. SCHOENEMAN: We don't feel that we should stop what you have ordered done, Mr. Secretary but--

H.M.JR: Yes you should. But I want you to go back over nine years and show me a case where I ordered something where I didn't first go through the regular channels because I have never been in hot water. Norman, give me a case where I have gone ahead and bought anything or made any financial commitments. I remember during the World War the time that Julius Rosenwald got in trouble over the shoes. I never found out until the other day that it wasn't Rosenwald, it was Stanley King, president of Amherst, who bought the shoes from the former president of the company that he was associated with and Stanley King was under Rosenwald and McKellar went after Rosenwald and he had to resign from his job and go over in the Red Cross, but it was Stanley King. But I have always remembered that and ever since I have been here I have told you boys--

MR. THOMPSON: Well, it is our duty, if you order a picture or anything to see that we tell you--

H.M.JR: I mean, I have never bought two cent's worth of anything, as far as I know. Do you know of a case?

MR. THOMPSON: No.

H.M.JR: And I have never been in hot water before.

MR. THOMPSON: I don't think you are in hot water now.

- 21 -

MR. SCHOENEMAN: Mr. Secretary, may I make this further statement? Walt Disney had to take a plane at about a quarter of four and with him he had to take a yes or no answer in order to get into production. That was before we went to the Budget. The decision had to be made. You remember that, George.

MR. BUFFINGTON: Yes.

MR. THOMPSON: Neither Schoeneman nor I had any doubt as to legality.

H.M.JR: How long have you worked for the Government?

MR. SCHOENEMAN: I hate to tell you. Thirty-six years.

H.M.JR: You ought to know how to resist snap judgment or pressure.

MR. SCHOENEMAN: I have learned it this morning.

H.M.JR: Well, don't forget. You know me. When I am through with this meeting it is washed up and forgotten and we go on to the next thing. I don't carry anything from one meeting to another. It is finished, but I want to impress on you. You too, Charlie. But when this meeting is through then we go on and decide how to handle it, but I don't carry things over. Now, John?

MR. SULLIVAN: I couldn't see Congressman Cannon until one thirty but I did talk to him on the phone because Mr. Thompson and Mr. Bell and Mr. Buffington and Mr. Foley and I were afraid that if we pressed this they might come back and put a stoppage on all pictures and prevent us from paying it from any source and that was the intimation the clerk of Appropriations had given to Mr. Schoeneman. So I talked with Mr Cannon and I asked his opinion over the phone, since I couldn't see him until one thirty and he said that he thought that it would be better to let this go over until the next deficiency bill and that by that time all of these associated troubles would be forgotten and we wouldn't have any trouble, and I asked him how we would fare if it came back from the Senate with this item in it and he

- 32 -

ssid well, he thought he could put it over but on the whole he thought it would be better to let it go until the next bill. Then I went up to the Hill. I was leaving as this meeting started and I saw Congressman Woodrum and I talked with him about it and he said that he voted for it in the committee and against it on the floor. That the thing was generally misunderstood that it was an unorthodox approach to the problem of educating the public on pictures and, hence, should have a very strong presentation. And he said, "By the way, how much are the producers paying for this picture and to whom are they paying the money? We understand you are not getting anything for it and the Disney pictures just aren't thrown around." and I said, "They are not paying anything. We couldn't get them to re-arrange their schedules to show this all over the country in six weeks in twelve thousand theaters if we were going to make them pay for it." He said, "Many people asked me on the floor yesterday afternoon." Then we discussed the picture at some length and the numbers of the filers and the fact that there were seven million filers beyond that who had filed only once and that was last year beyond our general problem. And he said, "I think you ought to go ahead with this and go ahead over in the Senate and present a strong case and then come back and we can take care of it in conference." And he said, "If there is anybody in the Senate Committee you want me to call, I will be glad to call them and you can tell them that I have reconsidered and I am in favor of this, and I will be glad to do anything I can to help you." I said, "Would it be better to present this now or to wait until the next bill?" And he said, "Oh, no, present it right now because if you don't then you have lost in both houses and you have got a two way verdict against you. The way it stands now you have only lost one decision."

H.M.JR: Now what is your advice to me?

MR. SULLIVAN: I think I ought to try to see Woodrum.

H.M.JR: Woodrum?

MR. SULLIVAN: I mean Cannon and put it up to him again because his recommendation was going over until the next bill and I think that is the opinion of all of the fellows here I have talked to.

H.M.JR: Of course, the fellow to talk to is Carter Glass. None of you have talked to him.

Mr. SULLIVAN: That is right.

MR. FOLEY: Well, let's say that the Senate Appropriations Committee agrees. I think they probably will. It will get out on the floor, and you will have a repetition of this same thing again, and you get politics mixed up with it, and you get a voting record again. Let's say you get by the Tafts and fellows who will attack you. You will have a good deal of publicity again. Then, the thing goes back to Congress, with the Senate authorizing eighty thousand dollars, with the House disallowing the expenditure with a two to one vote against you, two fifty-eight to a hundred and twelve. The House managers, it seems to me, have to represent the vote of the House in conference, and they will have to ask either for a special vote on this thing or they will have to stand their ground; and then, if you get a vote of the entire Congress against you, it makes it much more difficult. You should let the thing go through in the ordinary way and come up to the Comptroller General without any heat or controversy, and perhaps you will never hear about it again. And, if you happen to hear about it again, and after all these letters that go back and forth in the light of what happened two years ago, because it will be a year and a half or two years before the thing comes up, those things are usually passed by the Comptroller General, but - and he is not going to - has got no prohibition in the law, Mr. Secretary, that he can point to. It is merely his judgment against yours as to what is necessary; and under those circumstances, I don't think he is ever going to disallow the item finally; but if he should disallow the item finally, you can go back with a relief bill to free the account of the disbursing officer of this item that has been disallowed, and those things are usually paid.

H.M.JR: Well, you told me that before, You are repeating.

MR. FOLEY: Yes, I am repeating myself, and I don't think that Woodrum is any fellow to rely on. Here he changed his vote, voted for it in committee and against it on the floor, and now he says, "You can

- 24 -

tell those fellows over on the other side that I think they ought to do it." I don't think that is good advice.

H.M.JR: I will tell you, John, what I would like you to do, see--

MR. SULLIVAN: Yes, sir.

H.M.JR: I would like you to see Ludlow, who is, after all, Chairman of the Treasury Committee--

MR. SULLIVAN: That is right.

H.M.JR: I would like you to see Sam Rayburn, see, and John McCormack, who was not there yesterday.

MR. SULLIVAN: I tried to get John this morning. Hewas coming back from Boston, and went direct from the train to the White House.

H.M.JR: I would like you to see those people.

MR. SULLIVAN: Yes, sir

H.M.JR: And then this thing isn't coming up in the Senate tomorrow, is it?

MR. SCHOENEMAN: Tomorrow or later, not today.

H.M.JR: Well, I would see--

MR. SULLIVAN: I guess I had better see Cannon again, too.

H.M.JR: I would see Sam Rayburn, John McCormack, Cannon, Ludlow, and Doughton, because Doughton, after all - it was to help the taxes.

MR. FOLEY: He voted against it.

H.M.JR: I know. I would see those people, and then either this afternoon or the first thing tomorrow morning we will have another meeting, depending upon what luck you have, see.

- 25 -

MR. SULLIVAN: Yes, sir.

H.M.JR: But I would like you to see those people because I can - I did say yesterday at my press conference I would fight, see. Just to give you an indication, Mr. Phillip Murray was here this morning on his invitation, and I asked him whether his union - the motion picture union was CIO. He said, "No, it is AF of L." He says, "I know what you want, and I am with you. We are meeting, the so-called War Board, Monday with Mr. Green. It is Mr. Green's union; and if Mr. Green will ask me, I will join with him on Monday in making a public statement address to Congress, asking that you get this." That would be the first joint statement the AF of L and the CIO have made in five years. We have some friends. He says, "I will join Mr. Green in making a powerful statement, urging Congress to give you this appropriation, because you should have it." I will wait, but my inclination is to fight.

MR. FOLEY: Yes. I mean if that has got to be the decision. My judgment is that it isn't worth it on your part for an eighty thousand dollars appropriation that can be absorbed out of your regular expenditures.

H.M.JR: It is a little bit deeper than that, Ed. I think that - you see, back of all of this - this is the opening of the Congressional fight. They can't criticize Mr. Roosevelt on his war effort. They can't criticize him on his war production. So it gets down to a very narrow field.

MR. FOLEY: Very petty.

MR. SULLIVAN: Both Cannon and Woodrum said exactly that, just what you are saying now, that they can't go after him. He is invulnerable on his war record, and that is the big thing, and they are trying to get things between the eyes of the voters and the major issue.

MRS. KLOTZ: That is right.

- 26 -

MR. FOLEY: Why give them fire for that?

H.M.JR: Oh, no, because I have to be able to fight on a good basis. The OCD crowd haven't. Therefore, I think it is up to me to fight.

MR. FOLEY: But you are suffering because of the bad position they are putting you in.

H.M.JR: Well, all through this - I haven't read the Congressional Record. Have you read it yet? There is no attack on me personally, is there?

MR. BERNARD: No.

H.M.JR: There is no attack on me personally.

MR. BERNARD: No.

MR. THOMPSON: Not a word.

H.M.JR: I am going to wait. After all, this is John's meat, because if he is anything - amongst his many qualifications, he has good sense. I was going to say if he was anything, he was a politician. But amongst his many qualifications, his old elbow clicks on this. I am not saying that others don't, but he knows this, and I would like his advice both as a friend and as Assistant Secretary, and as a politician on this thing, but they can't fight on the other basis, but I can, and I would love to go to the country with Donald Duck as a partner. I think in the long-run I can laugh these fellows out of town, but I am not going to let them laugh me out. If I quit, everybody will think there is something I am ashamed of. I have got nothing to be ashamed of. That is the finest Government picture that has been turned out by any agency in any country anywhere. Why should I have to do this by the back door?

MR. FOLEY: Well, you have got a vote of two hundred fifty-eight to a hundred and twelve, and it is not on the merits, it is a political thing.

- 27 -

H.M.JR: If Doughton would say he would do it - I don't know, but let's count noses. If Sam says all right, we will have - if they will pass it in the Senate, we are all right over here. Sam said yesterday, "I am shorthanded. McCormack isn't here. I have got no floor leader." After all, when they come back they will be voting on ours, and wouldn't they be voting on the three things?

MR. SULLIVAN: Yes.

H.M.JR: They would be voting on the question of over-lapping taxes, which hasn't been explained.

MR. SULLIVAN: That is right.

H.M.JR: The tax research thing which hasn't been explained. It wasn't handled right in the House, and anyone of those three things I could talk about, any one of those three things.

MR. SULLIVAN: May I ask a question?

H.M.JR: The three things are in one appropriation, aren't they?

MR. SULLIVAN: That is right.

H.M.JR: Three hundred and how much?

MR. SCHOENEMAN: Three hundred and fifty thousand.

H.M.JR: If we come back and OCD doesn't, they will vote on the Treasury alone, won't they? They won't be voting the two things--

MR. SCHOENEMAN: Yes, because OCD has nothing to protest. They have lost nothing. The amendment that was put in affecting OCD doesn't really affect them.

H.M.JR: They can go ahead and hire anybody they want?

MR. SCHOENEMAN: Certainly, because those folks are not paid from that appropriation.

- 28 -

H.M.JR: Ed?

MR. FOLEY: That is all the more reason why this is all a lot of politics. It isn't on the merits.

H.M.JR: Well, there is no argument about that. John, if you would go up there and see Sam Rayburn and John McCormack and Cannon and Ludlow and Doughton and just keep a little thumbnail sketch of what each says, either tonight or tomorrow, and I would like to talk about it again. I realize it has taken three quarters of an hour, but I have got enough Irish in me that I like to fight.

MR. SULLIVAN: Atta-boy. (Laughter)

H.M.JR: I just don't like to take a licking--

MR. FOLEY: Don't count me out. I will fight too. (Laughter)

MR. SULLIVAN: I would like to ask a question, Mr. Secretary. I think time is very definitely on our side, because every day--

H.M.JR: I agree with you.

MR. SULLIVAN: Every day millions of people have seen this and the reaction is good, and I want to know the chances of our deferring the hearing in the Senate.

MR. SCHOENEMAN: Well, you can defer it only as long as they themselves defer their consideration of the bill. They won't touch it today, but they may touch it tomorrow.

MR. SULLIVAN: But can we ask them not to touch it tomorrow?

MR. SCHOENEMAN: While you are at the Capitol, could you see McKellar or Glass?

MR. SULLIVAN: I will see Glass.

- 29 -

MR. FOLEY: McKellar is Chairman of the Subcommittee on the Treasury, isn't he?

MR. SCHOENEMAN: On deficiencies.

MR. FOLEY: This will go to McKellar.

MR. SCHOENEMAN: And Glass will be merely a member of his subcommittee.

MR. FOLEY: So McKellar is the fellow to see.

MR. SULLIVAN: I had better see both of them.

H.M.JR: He should tell Carter Glass, "This is the appropriation I am in. I didn't want to encumber my appropriation with this additional eighty thousand dollars if I could avoid it, but I have been turned down in the House. Now, you fellows advise me what I ought to do." That is the way I feel.

MR. THOMPSON: Would you do that before--

H.M.JR: All right, any more Irishmen in this room?

MR. BUFFINGTON: May I make one point?

MR. SCHOENEMAN: I am half Irish, so I will take it.

MR. BUFFINGTON: When Walt Disney left here after the first conference, he had seen Helvering's memorandum stating he had no appropriation for this purpose and left with a statement that he was willing to take his chances that if the Secretary wanted the film, he thought the money would be found and no definite commitment was made to him until the letter was written in your (Bell's) office when Walt Disney was present. During that interval, he understood he was taking his chances subject to the money being found for this purpose.

MR. SULLIVAN: Who, Commissioner Helvering?

MR. FOLEY: No, Disney.

- 30 -

MR. SULLIVAN: No, the Commissioner protected himself on this.

H.M.JR: Well, let's stop this now. John, you do a little work on this.

February 10, 1942
12:41 p.m.

HMJr: Hello.

Operator: Senator Glass.

HMJr: Hello.

Senator
Glass: Hello.

HMJr: Henry Morgenthau talking. Junior.

G: How do you do, Mr. Secretary.

HMJr: How are you?

G: Very well.

HMJr: Senator, I need a little friendly advice.

G: Yes.

HMJr: You may have seen the vote in the House yesterday on this Donald Duck picture. Hello.

G: Yes.

HMJr: And I wondered whether I could have an opportunity to show it to you; then after you've seen it, get your advice on what you think we ought to do.

G: Well, yes, you can do that.

HMJr: Would you like to see it late in the afternoon or first thing in the morning?

G: Well, either; whichever you.....

HMJr: Well, we'll fix it to suit your convenience. We can show it right here in the Treasury. We have a place for showing it.

G: What is it you want to show me?

HMJr: It's the actual picture. It takes seven and a half minutes.

- 2 -

G: The picture that you propose to pay eighty thousand dollars for?

HMJr: That's right.

G: Yeah. Well, I can see it most any time.

HMJr: Well, what would.....

G: I'll come down in the morning and see it.

HMJr: What time would that be?

G: Well, I suppose ten-thirty?

HMJr: That'll be fine. Now, would you like me to call for you?

G: No, I have a car and I'll drive down.

HMJr: Fine. And then I'll look forward to seeing you at ten-thirty, and it only takes seven and a half minutes.

G: All right.

HMJr: And we can show it right here.

G: All right, sir.

HMJr: At ten-thirty.

G: Yes.

HMJr: Thank you so much.

Congress of the United States
House of Representatives
Washington, D. C.

February 10, 1942

Hon. Henry Morgenthau Jr.
Treasury Department
Washington, D.C.

Dear Mr. Secretary:

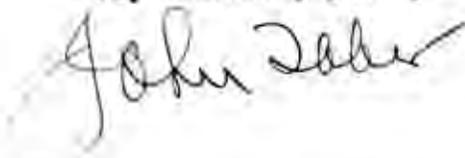
I have your letter of February 9th. I am glad to be able to report that the House voted on yesterday 259-112 to eliminate the Donald Duck operation. The vote in Committee of the Whole on Friday was 78 to 63. This showed vast improvement in sentiment as knowledge of the situation became more general.

I am in hopes that you, also, will be persuaded, and that you will see that the Treasury Department does not get into any more such situations.

I have not held this against you or against the Department, in my own mind, because you have simply drifted with the pressure for the wasting of Government funds on some of these projects.

I do hope that we may now have an all-out defense effort on the part of the Treasury and all other departments.

Very sincerely yours,



Congress of the United States
House of Representatives
Washington, D. C.

February 10, 1942

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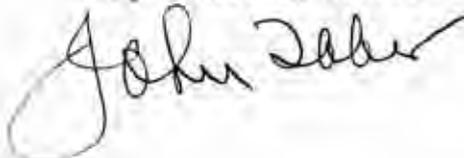
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Very sincerely yours,



TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, February 10, 1942.
2/9/42

Press Service
No. 30-20

The Secretary of the Treasury announced last evening that the tenders for \$150,000,000, or thereabouts, of 91-day Treasury bills, to be dated February 11 and to mature May 13, 1942, which were offered on February 6, were opened at the Federal Reserve Banks on February 9.

The details of this issue are as follows:

Total applied for - \$399,966,000
Total accepted - 150,049,000

Range of accepted bids: (Excepting 2 tenders totaling
\$230,000)

High	- 99.950	Equivalent rate approximately	0.198 percent
Low	- 99.932	" "	0.269 "
Average		" "	
Price	- 99.937	" "	0.250 "

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

-oOo-

TREASURY FINANCING
INTERVIEWS IN SECRETARY'S OFFICE
TUESDAY, FEBRUARY 9, 1942

- 9:30 Messrs. Mills and Repp, Discount Corporation
9:50 C. J. Devine, C. J. Devine and Co., New York
10:10 Mr. Baker, Travelers Insurance Company, Hartford
~~10:30 Mr. Parkinson, Equitable Life Assurance, N. Y.~~
10:50 Mr. Gibson, Manufacturers Trust Company

2:30 Mr. Brown, First National Bank, Chicago
2:50 Mr. Fitzgerald, or Mr. Walker, Northwestern
Mutual Life
3:10 Mr. Fisher and Mr. Murray, National Bank of Detroit
3:30 Mr. Congdon and Mr. Coney, National City Bank of
Cleveland
3:50 Mr. George L. Harrison, New York Life

Feb 10th 1942 

Mills - Discount Corp.

$2\frac{1}{2}$ } 60-65 } \$750.00
61-66 }

~~$1\frac{1}{4}$~~ } June 15 - 1945 } 750.00
sell at 100.

or

$2\frac{1}{4}$ } 53-55 whole issue go very well

C. J. Levine.

$\frac{1}{2}$ } 60-63 } - \$750.

$\frac{1}{2}$ either } Sept 45 } \$750.
 $\frac{3}{8}$ } Dec 46 }

$\frac{1}{4}$ } 53-55

would split issue

Mr. Baker - Travelers Ins.

2¹/₂% 61-63 \$750.⁰⁰

few 2% 49-51 \$750.⁰⁰

Gibson Manuf Trust

2¹/₂% 59-63

Brown - 1st Nat. BK

2¹/₄ { 53-55
54-56

Northwestern Life
2¹/₂ %

National PK of Lebruit

$2\frac{1}{4}$ 53-55 Sept 15 - \$750.
101.8

note

\$750.

march 15-45 $1\frac{1}{8}$

~~Sept 15~~

Sept 15- $4\frac{1}{4}$

Sept 15-46 $1\frac{3}{8}$

$1\frac{1}{2}$

1
Nat. City of Cleveland

10yr Bond

3-5yr note

~~that~~ Jerry Harrison
wants $2\frac{1}{2}\%$
and 2%

OFFICIAL

FEBRUARY 10, 1942

MR. R. A. YOUNG
PRESIDENT FEDERAL RESERVE BANK
BOSTON MASSACHUSETTS

I WILL TELEPHONE YOU WEDNESDAY FORENOON TO GET YOUR OPINION AS TO WHAT YOUR DISTRICT WOULD LIKE IN CONNECTION WITH OUR FINANCING. WOULD APPRECIATE YOUR CHECKING WITH PEOPLE IN YOUR DISTRICT BETWEEN NOW AND TOMORROW. REGARDS.

HENRY MORGENTHAU JR.

February 10, 1942
4:15 p.m.

FINANCING

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

MR. BELL: Stedman wants a two and a half, and he has got a hundred million dollars he would like to invest.

H.M.JR: What bank is he?

MR. BELL: He is the Prudential Company.

H.M.JR: He wants a two and a half?

MR. BELL: Yes.

H.M.JR: What have you got, Hadley?

MR. BELL: But he has got a hundred million dollars to invest in two and a half's, and he doesn't want any other security.

H.M.JR: Is this today's?

MR. HADLEY: Yes.

H.M.JR: What?

MR. HADLEY: Yes, those are right up to the amount.

H.M.JR: Did they lose much today?

- 2 -

MR. HADLEY: They lost about eight thirty-seconds in the longer area. It shoves them back about six months from previous estimates.

(Mr. Morris entered the conference.)

MR. HADLEY: It pushes the estimates back about six months.

H.M.JR: Dan, supposing this military thing doesn't look so good tomorrow? Could we announce it on Friday?

MR. BELL: I was wondering if you would like to do this. Supposing we sent it to the banks tomorrow afternoon.

H.M.JR: Yes.

MR. BELL: And said, "Get all ready to catch an early train and release Thursday afternoon," and then they would put it in the mails and announce it Friday morning. We will be here, but there is a holiday in eight districts. How would you like to do that?

H.M.JR: I think we will do that and not announce it until Thursday morning.

MR. BELL: Well, I noticed you said Thursday yesterday. I didn't know whether you meant that or not. Did you?

H.M.JR: It was a slip of the tongue.

MR. BELL: Because there are four districts open, and we shouldn't announce it until we announce it in all of them.

(The Secretary held a telephone conversation with Mr. Rouse as follows:)

February 10, 1942
4:18 p.m.

HMJr: Hello.

Operator: Mr. Rouse.

HMJr: Hello.

Robert Rouse: Hello.

HMJr: Bob Rouse.

R: Yes, sir.

HMJr: I hope you got less different kinds of advice than I did.

R: Oh, we got a great variety.

HMJr: Yeah, so did I.

R: But I think the weight of it - of the whole thing - would tend toward the - doing the whole thing with a one and a quarter - two and a quarter.

HMJr: I see. But the insurance companies want two and a half.

R: That's clear.

HMJr: Yeah.

R: You probably found some of the banks wanted a note.

HMJr: Yeah.

R: And that the two and a quarter really didn't satisfy a hundred per cent.

HMJr: No. I don't think anybody - I'm just looking over my notes - there's only one man was for - Gibson, the manufacturer, said "Let's put it all into two and a half's, '59-'63." Hello.

R: Yes, sir.

HMJr: And outside of that, about everybody else wanted

to split it or the insurance companies talked - what is it - two and a half long. The most conservative was the bank from Cleveland. Hello.

R: They're good people.

HMJr: They were the most conservative. They wanted a ten-year and a three to five year note.

R: Uh huh. Well, we talked with the Savings Bank Trust Company this afternoon, and they thought either two and a quarter or two and three eights.

HMJr: Yeah.

R: Recommended against the two and a half on the theory that at the price the two and a half's at '72 are selling, any insurance company or any buyer for two and a half can practically buy them at par.

HMJr: Yeah.

R: And he thought it would be a healthy thing in the whole market.

HMJr: Yeah.

R: We find no interest in notes at all.

HMJr: No interest in notes?

R: No. People that mention them don't want to buy them themselves, particularly. Just a case of playing short. And the only ones that do recommend it, recommend it at a pretty substantial rate.

HMJr: Well, one thing that I think I'm going to do is this. I'm going to tell them - I'm not going to make any public announcements until Friday, because Bell tells me four of the Districts are open - hello.

R: Yes.

HMJr: And then on account of the war news, I might just

- 3 -

as well gain another day.

R: Uh huh.

HMJr: But my reason is going to be that I thought all the Districts were going to be closed, and I find four of them opened.

R: It will appear in the papers on Friday morning.

HMJr: Yeah.

R: And you'll have your meeting tomorrow at.....

HMJr: Just the same.

R: Just the same.

HMJr: But then we think we'll give you a preliminary and hold it until Thursday afternoon.

R: Right.

HMJr: Have everything ready.

R: Uh huh.

HMJr: But not shoot it until Friday afternoon.

R: We sent word to you that.....

HMJr: Thursday afternoon.

R: I mean Thursday afternoon, yesh.

HMJr: Yeah, Thursday afternoon.

R: Well, I hope you can go through with your meeting at eleven, because we have quite a job to get it out in time.

HMJr: Yeah.

R: And have it ready.

HMJr: Yeah. (Talks aside) Tell Shaeffer to come in.

R: In any event, we'll be here and we'll be working.

- HMJr: Well, we'll be talking to you tomorrow. I say, I don't - how much do you think the two and a quarter was knocked off today?
- R: Yesterday and today, possibly to September '52.
- HMJr: September.
- R: I think that's something I'd rather thing about over night.
- HMJr: I see.
- R: Because part of it's an anticipation, and we find here there's been some unsettlement in the tax-exempt bonds - there's some talk of the Treasury developing some line of apportionment on taxes which has caused a further unsettlement there.
- HMJr: Well, anybody that knows anything about taxes officially - it's just one wild guess.
- R: Well, I assumed that that was the case, and anybody that's raised the question with us we assume have taken your statement at face value and repeated it as such.
- HMJr: Yes. Nothing is settled other than what I said at Cleveland.
- R: Well, I think the later - the market took and we're taking the later statement that should do nothing to circumvent the tax exemption.
- HMJr: That's right.
- R: That's fair enough, isn't it?
- HMJr: That sticks.
- R: Good.
- HMJr: That holds.
- R: Because we're giving that assurance here that we - your statement - later statement - is the thing.

- 5 -

HMJr: That's still true.

R: Good.

HMJr: It will be as far as I'm concerned.

R: That's fine.

HMJr: Yeah. Even though - let's see, what's his name - Henry Epstein begs me to change.

R: (Laughs)

HMJr: I refuse to change.

R: Right.

HMJr: Okay.

R: That's fine. We'll be talking in the morning.

HMJr: Thank you.

- 3 -

(Mr. Murphy and Mr. Schaeffer entered the conference.)

H.M.JR: You (Schaeffer) tell your boys that I didn't realize when I said that we announced this financing for Thursday morning that four Federal Reserve districts would be open. I thought they would all - you see?

MR. SCHAEFFER: Yes, sir.

H.M.JR: And therefore the announcement will not come until Friday morning. In other words, out of the twelve districts, four of them are going to be open, so it isn't fair to the other eight that will be closed, so we won't - the announcement will not be until Friday morning.

MR. SCHAEFFER: Yes, sir.

H.M.JR: That is official. The other thing, I wanted to have an extra day to see what happens in Singapore.

MR. SCHAEFFER: Yes, sir.

H.M.JR: I don't think I am getting away with anything. I need the extra day. (Laughter)

MR. SCHAEFFER: Yes, sir.

(Mr. Schaeffer left the conference.)

H.M.JR: I just thought I would tell you it is a mess so far, so we will take a look at it tomorrow morning.

TREASURY DEPARTMENT

69

INTER OFFICE COMMUNICATION

DATE February 10, 1942

TO Secretary Morgenthau
 FROM W. H. Hadley

TREASURY NOTES

<u>Coupon</u>	<u>Approx. Maturity</u>	<u>Date</u>	<u>Yield</u>	<u>Price</u>	<u>Premium</u>
1½	2 yrs. 10 mos.	12/15/44	0.85	100.14	14/32nds
1-1/8	3 yrs. 1 mo.	3/15/45	0.90	100.22	22/32nds
1-1/8	3 yrs. 4 mos.	6/15/45	0.95	100.18	18/32nds
1-1/8	3 yrs. 7 mos.	9/15/45	1.00	100.14	14/32nds
1-1/4	4 yrs. 4 mos.	6/15/46	1.15	100.13	13/32nds
2-3/8	4 yrs. 7 mos.	9/15/46	1.20	100.24	24/32nds
1-3/8	4 yrs. 10 mos.	12/15/46	1.25	100.19	19/32nds

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 10, 1942

TO Secretary Morgenthau
 FROM W. H. Hadley

TREASURY BONDS

<u>Common</u>	<u>Approx. Maturity</u>	<u>Date</u>	<u>Yield</u>	<u>Price</u>	<u>Premium</u>
22	6-1/4 - 8 1/4 yrs.	1948-50	1.79	101.8	1 pt. 8/32nds
		June 15	1.81	101.4	1 pt. 4/32nds
	6-1/2 - 8 1/2 yrs.	1948-50	1.82	101.3	1 pt. 3/32nds
		Dec. 15	1.84	100.30	30/32nds
2-3/10	10 1/4 - 12 1/4 yrs.	1952-54	2.10	101.13	1 pt. 13/32nds
		June 15	2.12	101.6	1 pt. 6/32nds
	10 1/4 - 13 1/4 yrs.	1952-55	2.12	101.6	1 pt. 6/32nds
		June 15	2.14	101.	1 pt.
	10 1/2 - 12 1/2 yrs.	1952-54	2.12	101.9	1 pt. 9/32nds
		Sept. 15	2.14	101.3	1 pt. 3/32nds
	10 3/4 - 12 3/4 yrs.	1952-54	2.13	101.5	1 pt. 5/32nds
		Dec. 15	2.15	100.31	31/32nds
7-1/2	16 - 21 yrs.	1958-63	2.37	101.24	1 pt. 24/32nds
		Mar. 15	2.39	101.15	1 pt. 15/32nds
	17 - 22 yrs.	1959-64	2.39	101.17	1 pt. 17/32nds
		Mar. 15	2.41	101.9	1 pt. 9/32nds
	18 - 23 yrs.	1960-65	2.41	101.10	1 pt. 10/32nds
		Mar. 15	2.43	101.1	1 pt. 1/32nd

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

August 1941 to January 1942

Classified by denomination

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

Series and denomination	Aug. & Sept.	Oct.	Nov.	Dec.	Jan.	Total
Tax Series A						
\$25.....	.9	.3	.3	.3	.2	2.0
50.....	1.2	.4	.3	.6	.4	2.9
100.....	24.7	5.1	3.5	4.9	4.1	42.3
500.....	*	*	*	*	.5	.5
1,000.....	*	*	*	*	.9	.9
Total-Tax Series A...	<u>26.8</u>	<u>5.8</u>	<u>4.1</u>	<u>5.8</u>	<u>6.1</u>	<u>48.6</u>
Tax Series B						
\$100.....	1.7	.5	.5	.9	.6	4.2
500.....	4.0	1.4	1.2	2.1	1.3	10.0
1,000.....	40.2	12.1	11.2	19.2	12.1	94.8
10,000.....	165.3	44.2	43.9	58.7	39.8	351.9
100,000.....	478.1	114.2	104.4	120.9	71.8	889.4
500,000.....	91.0	26.5	32.0	22.0	19.0	190.5
1,000,000.....	<u>576.0</u>	<u>233.0</u>	<u>123.0</u>	<u>116.0</u>	<u>77.0</u>	<u>1,125.0</u>
Total-Tax Series B...	<u>1,356.3</u>	<u>431.9</u>	<u>316.2</u>	<u>339.8</u>	<u>221.6</u>	<u>2,665.8</u>
Total-Both Series....	<u>1,383.1</u>	<u>437.7</u>	<u>320.3</u>	<u>345.6</u>	<u>227.7</u>	<u>2,714.4</u>

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

February 10, 1942

* \$500 and \$1,000 denominations not available prior to
January 1942.

Classification by Type of Purchaser of the Sales of Treasury Notes

Tax Series A and Tax Series B

August 1941 to January 1942

(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> ^{1/}			
August.....	16.0	50.0	66.0
September.....	6.2	21.1	27.3
October.....	5.2	20.4	25.6
November.....	3.5	14.3	17.8
December.....	5.4	36.7	42.1
January.....	<u>5.4</u>	<u>60.7</u>	<u>66.1</u>
Total.....	<u>41.7</u>	<u>203.2</u>	<u>244.9</u>
<u>Corporations</u>			
August.....	3.7	1,024.9	1,028.6
September.....	.9	260.3	261.2
October.....	.6	411.5	412.1
November.....	.6	301.9	302.5
December.....	.4	303.1	303.5
January.....	<u>.7</u>	<u>160.9</u>	<u>161.6</u>
Total.....	<u>6.9</u>	<u>2,462.6</u>	<u>2,469.5</u>
<u>Total sales</u>			
August.....	19.7	1,074.9	1,094.6
September.....	7.1	281.4	288.5
October.....	5.8	431.9	437.7
November.....	4.1	316.2	320.3
December.....	5.8	339.8	345.6
January.....	<u>6.1</u>	<u>221.6</u>	<u>227.7</u>
Total.....	<u>48.6</u>	<u>2,665.8</u>	<u>2,714.4</u>

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

February 10, 1942

^{1/} Includes partnerships and fiduciaries.

TREASURY DEPARTMENT

73

INTER OFFICE COMMUNICATION

DATE Febr. 19, 1943

TO Secretary Morgenthau
FROM Mr. Haas
Subject: Progress Report on Study to Outline Sources of Funds
for Government Borrowing, Fiscal Year 1943

1. Introduction

According to the budget, the Treasury will have to borrow \$39.8 billions in the fiscal year 1943 in order to finance the deficit and purchase obligations from those Federal agencies which formerly financed themselves through the sale of guaranteed securities. The development of a program for borrowing this amount raises two important questions: (1) How much will be available for borrowing from current savings and accumulations? (2) How should the additional amount required be raised? In order to answer these and similar questions, we inaugurated a study of the basic factors involved.

2. Method of approach of our study

The first step in our analysis was to make a set of estimates comparing the prospective flow of goods and services in the fiscal year 1943 with the prospective application of the resulting incomes to various uses. This provided us with estimates showing how much goods and services Government as a whole was going to buy and how much tax receipts would be available to pay for its expenditures. In addition, it showed how much would be available for Government borrowing from savings and accumulations out of current income payments to individuals and businesses.

These estimates, which are shown in the attached Table I, were made on the assumption of an increase of 10 percent in the cost of living from December 1941 and an increase in national income to \$115 billions in terms of such increased prices. The assumption of such a rise in the cost of living seems necessary in view of the outlook at present and because some price rise may be a useful device to maximize output.

Secretary Morgenthau - 2

The estimates we have used in this part of our analysis, although still tentative, have been discussed with representatives of the Divisions of Monetary Research and Tax Research, and with representatives of the nine agencies requested by you, in your letter of December 6, to appoint a consultant for this type of work.

3. Opinions of the consulting group

Although individual figures in our basic analysis are subject to disagreement, there is a unanimous feeling among the outside consultants and the Treasury staff working on this study that the present outlook is for a very substantial amount of borrowing from inflationary sources, and for a large increase in prices beyond the assumed 10 percent rise in the cost of living. This feeling was concurred in by the entire group which met Thursday, February 5, in Mr. Bell's office on this problem.

In fact, the consensus of the meeting was that the situation is extremely serious and that the Administration should look into every possible means to combat the large degree of inflation which appears in prospect. Richard Gilbert, from the Office of Price Administration, contended that taxes should be increased even beyond the \$9 billions recommended in the budget. He also stated that his organization was going to have to take vigorous steps at once through extensions of price control and consumer rationing to tie-in with the suggested vastly increased tax program. There was no evidence of any significant disagreement with Mr. Gilbert's point of view. Other persons present, including particularly Isidor Lubin, stressed the advisability of confining new taxes as much as possible to forms which could not be seized upon by labor as justification for further wage increases; and the prospective wage adjustment negotiations for Little Steel were cited to indicate the need for immediate and concerted action on the inflation front.

4. Funds available for borrowing from current savings and accumulations

The data in Table I on current savings and accumulations show that \$26.5 billions will be available for Government borrowing either directly or indirectly from these sources. The figures are itemized again in the upper part of the attached Table II, and we have distributed them among the

Secretary Morgenthau - 3

various types of Government securities which might be sold to absorb the funds either directly from the persons who may be said to own them or from secondary sources which might acquire these funds through transfers, such as by paying off consumer credit, home mortgages, or other debt.

The amount available from current savings and accumulations, however, is \$13.3 billions short of the amount of financing which the budget states it will be necessary to undertake. If there is no increase in the amount of these funds made available, this additional \$13.3 billions will have to be borrowed from banks and idle balances, as indicated in the lower part of Table II, and a larger price rise will occur than was assumed in our estimates. This would begin a vicious inflationary circle, since the price rises would in turn cause Government expenditures to rise further and so cause even more borrowing to be made from what may be called inflationary sources.

5. Suggestions

From the point of view of financing, our present analysis, even though using very tentative data, suggests certain steps for immediate consideration as follows:

- (1) The reserve position of banks should be eased in some manner, in order to facilitate their purchase of securities to whatever extent is necessary.
- (2) The new security which has been suggested as a medium to absorb deferred business expenditures should be offered as soon as possible.
- (3) Unless the intention is to rely very heavily on price fixing and rationing, voluntary savings and the present tax program will be inadequate to avert inflation. The introduction of additional new taxes and compulsory savings should be seriously considered.
- (4) A tentative goal for sales of savings bonds to absorb current savings and accumulations and idle balances should be placed in the range of from \$10 to \$12 billions annually. These figures would, of course, have to be reduced somewhat if substantially higher taxes or a compulsory savings plan were adopted but might be substantially increased if extensive rationing and price fixing were put into effect.

Secretary Morgenthau - 4

- (5) Every effort should be made to induce corporations and individuals to greatly expand their holdings of tax notes by investing current savings and accumulations in this manner.

6. Future plans

We will continue to work with members of the consultative committee in order that we may improve our estimates as much as possible and keep a continuous check on current developments, and will provide you with periodic reports.

Attachments

Table 1

Analysis of the Disequilibrium Implicit in the Estimated Flow of Goods and Services and the Estimated Application of Incomes to Various Uses

Fiscal Year 1943

(Based on a national income of \$115 billions and a rise in the cost of living of about 10% from December 1941)

(In billions of dollars)

Type of Goods and Services	Application of Incomes made available (Under existing habit patterns and pressures)
<p>D. To be purchased by Government:</p> <p>1. Defense expenditure:</p> <p>a. Total..... 56.6</p> <p>b. Less: Prepayments, loan and offshore, etc..... <u>2.5</u></p> <p>c. Net defense expenditure..... 54.1</p> <p>2. Other public expenditures:</p> <p>a. Federal..... 6.1</p> <p>b. State and local..... <u>7.8</u></p> <p>c. Total other public expenditure..... 13.9</p> <p>3. Total Government..... 68.0</p>	<p>A. Available for Government use:</p> <p>1. Assured - Taxes:</p> <p>a. Existing business taxes $\frac{1}{3}$..... 15.7</p> <p>b. Existing personal taxes..... 6.8</p> <p>c. New business and personal taxes $\frac{2}{3}$..... <u>7.0</u></p> <p>d. Total taxes..... 30.5</p> <p>2. Potential - For buying Government securities, directly or indirectly (Unabsorbed saving, depreciation and other allowances):</p> <p>a. Unabsorbed personal saving $\frac{3}{5}$..... 15.5</p> <p>b. Social security net accumulation..... 4.0</p> <p>c. Unabsorbed business saving $\frac{4}{5}$..... .3</p> <p>d. Reserves for existing taxes $\frac{1}{5}$..... 1.7</p> <p>e. Reserves for new taxes..... 0.5</p> <p>f. Unabsorbed depreciation and other allowances $\frac{1}{5}$..... <u>4.5</u></p> <p>g. Total..... 26.5</p> <p>3. Total income available for Government use..... 57.0</p>
<p>E. To be purchased by private persons:</p> <p>1. Private capital expenditures:</p> <p>a. Plant and equipment..... 5.5</p> <p>b. Inventories:</p> <p>(1) Increase in volume -.5</p> <p>(2) Increase in value <u>1.5</u></p> <p>(3) Total..... 1.0</p> <p>c. Foreign balance..... -.5</p> <p>d. Residential housing construction..... <u>.5</u></p> <p>e. Total..... 6.5</p> <p>2. Consumption goods and services:</p> <p>a. Durables..... 3.5</p> <p>b. Non-durables and services..... <u>64.5</u></p> <p>c. Total..... 68.0</p> <p>3. Total private..... 74.5</p>	<p>B. Available for private use:</p> <p>1. Income absorbed by private capital expenditures:</p> <p>a. Absorbed depreciation and other allowances $\frac{1}{5}$ $\frac{5}{5}$..... 4.5</p> <p>b. Absorbed business saving $\frac{4}{5}$..... 1.5</p> <p>c. Absorbed personal saving $\frac{3}{5}$..... <u>.5</u></p> <p>d. Total..... 6.5</p> <p>2. Income available for consumer spending..... <u>79.0</u></p> <p>3. Total income available for private use..... 85.5</p>
<p>F. National gross product plus inventory revaluations..... 142.5</p>	<p>C. National gross product plus inventory revaluations..... 142.5</p>

February 4, 1942

Not included in national income concept used by Department of Commerce.

In estimating personal and business saving, the revenue to be obtained from new taxes is arbitrarily divided 1/3 each from (1) corporation income and excess profits taxes, (2) excise taxes, and (3) individual income, estate and gift taxes.

Total personal saving, exclusive of social security net accumulation, is estimated at \$16.0 billions.

Total business saving is estimated at \$1.8 billions.

Total depreciation and other allowances is estimated at \$9.0 billions.

Note: There is a disequilibrium implicit in the above figures, amounting to \$11.0 billions, resulting from the discrepancy between the goods and services the Government requires and the income available for Government use. This disequilibrium may be solved by transferring income now estimated to be available for private use so that it becomes available for Government use. This may be accomplished by increasing taxes, or by increasing saving, either by voluntary or forced means, or by the use of direct price and rationing controls. Unless the disequilibrium is solved by changing the application of incomes, however, it will solve itself by changing the flow of goods and services as a result of price rises which will occur in addition to the 10 percent rise in the cost of living allowed for. This will in turn cause Government expenditures to increase in order to purchase the same volume of goods and services and so further complicate the problem of raising funds to pay for the expenditures.

Estimated Sources of Funds to Finance Budgetary Deficit and Federal Agencies Financed with Treasury Funds
Fiscal year 1943

(In billions of dollars)

Sources of funds	Total amount	Distribution between types of Government securities								Subtotal for marketable securities
		Savings bonds	New security to absorb deferred business expenditures	Tax notes	Special issues to trust funds	Marketable securities				
						Sold to individuals	Sold to corporations other than banks and insurance companies	Sold to insurance companies	Sold to banks	
i. Current savings and accumulations - estimated on the basis of existing habit patterns and pressures (based on a national income of \$115 billions and a rise in the cost of living of about 10% from December 1941) 1/										
1. Personal saving	15.5	7.0	.5	.5	-	1.0	.5	2.0	4.0	7.5
2. Social Security trust funds ...	4.0	-	-	-	4.0	-	-	-	-	-
3. Business saving .....	.3	-	.2	-	-	-	-	-	.1	.1
4. Corporate tax accruals in excess of tax payments										
(a) Existing taxes	1.7	-	-	1.2	-	-	-	-	.5	.5
(b) New taxes .....	.5	-	-	.3	-	-	-	-	.2	.2
5. Excess of bookkeeping charges for depreciation and similar items over actual outlays therefor	4.5	.2	1.3	.5	-	-	.5	-	2.0	2.5
6. Net surplus of State and local revenues over expenditures ...	-	-	-	-	-	-	-	-	-	-
7. Total from current savings and accumulations	26.5	7.2	2.0	2.5	4.0	1.0	1.0	2.0	6.8	10.8
ii. Funds available only at the cost of an additional price rise:										
1. Funds derived by drawing on old idle balances										
(a) Increase in outstanding amount of tax notes due to habit growth in their use .....	.5	-	-	.5	-	-	-	-	-	-
(b) Conversion of idle balances of individuals into active balances through purchase of savings bonds	2.0	2.0	-	-	-	-	-	-	-	-
(c) Conversion of idle balances of corporations into active balances through purchase of Government securities	1.0	-	1.0	-	-	-	-	-	-	-
(d) Total from old idle balances	3.5	2.0	1.0	.5	-	-	-	-	-	-
2. Residual balance which will have to be borrowed from banks	9.8	-	-	-	-	-	-	-	9.8	9.8
3. Total	13.3	2.0	1.0	.5	-	-	-	-	9.8	9.8
iii. Total borrowing according to the budget (but this will have to be increased as a result of prices rising even higher than allowed for if borrowing listed under ii is used)	39.8	9.2	3.0	3.0	4.0	1.0	1.0	2.0	16.6	20.6

February 4, 1942

1/ Estimates derived from Table I.

February 10, 1942

Dear Mr. Tobin:

Your letter of February 5, addressed to the President, has been referred to me for reply. I am especially glad to have seen your letter because of the fine spirit of patriotism which prompted you to send it. It should be an example to the whole country.

It is most encouraging to know that your union is willing to lend six million dollars to the Government without any interest, to help in winning the war. We at the Treasury feel, however, that it would be unfair to accept your offer. After all, we pay interest to millions of other holders of government obligations, and there is no reason why we should not do the same for your union.

It may help you in investing your six million dollars to know that we plan to have a regular financing operation of \$1,500,000,000 on Friday of this week. In all probability the books will remain open for that day only. You can, of course, subscribe up to the limit permitted by the regulations and you can do this through your local bank, or the nearest Federal Reserve bank, or through the Treasury itself.

We are also considering the issuance within a few weeks of a new kind of security which, I think, will be of particular interest and usefulness to your organization and others with idle balances. I am sorry that I cannot tell you more about this offering, as we ourselves have not yet reached final decisions regarding it, but I thought you would like to know that a new issue of this kind is in prospect.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. Daniel J. Tobin,
General President, International
Brotherhood of Teamsters,
Chauffeurs, Warehousemen and
Helpers of America,
Washington, D. C.

FK/hkb

File N.M.C.
By Memorandum *Shy 9.05*
2/12/42
H. Morgenthau

February 10, 1942

Dear Mr. Tobin:

Your letter of February 5, addressed to the President, has been referred to me for reply. I am especially glad to have seen your letter because of the fine spirit of patriotism which prompted you to send it. It should be an example to the whole country.

It is most encouraging to know that your union is willing to lend six million dollars to the Government without any interest, to help in winning the war. We at the Treasury feel, however, that it would be unfair to accept your offer. After all, we pay interest to millions of other holders of government obligations, and there is no reason why we should not do the same for your union.

It may help you in investing your six million dollars to know that we plan to have a regular financing operation of \$1,500,000,000 on Friday of this week. In all probability the books will remain open for that day only. You can, of course, subscribe up to the limit permitted by the regulations and you can do this through your local bank, or the nearest Federal Reserve bank, or through the Treasury itself.

We are also considering the issuance within a few weeks of a new kind of security which, I think, will be of particular interest and usefulness to your organization and others with idle balances. I am sorry that I cannot tell you more about this offering, as we ourselves have not yet reached final decisions regarding it, but I thought you would like to know that a new issue of this kind is in prospect.

Sincerely,

(Signed) H. Morganthau, Jr.

Mr. Daniel J. Tobin,
General President, International
Brotherhood of Teamsters,
Chauffeurs, Warehousemen and
Helpers of America,
Washington, D. C.

FK/hkb

File N.M.C.
By *Morganthau* Aug 9:45
2/24/42
H. Morganthau



THE SECRETARY OF THE TREASURY
WASHINGTON

February 10, 1942

Dear Mr. Tobin:

Your letter of February 5, addressed to the President, has been referred to me for reply. I am especially glad to have seen your letter because of the fine spirit of patriotism which prompted you to send it. It should be an example to the whole country.

It is most encouraging to know that your union is willing to lend six million dollars to the Government without any interest, to help in winning the war. We at the Treasury feel, however, that it would be unfair to accept your offer. After all, we pay interest to millions of other holders of government obligations, and there is no reason why we should not do the same for your union.

It may help you in investing your six million dollars to know that we shall have a regular financing operation of \$1,500,000,000 very shortly, and that the terms of this financing will be announced on Friday of this week. It would be perfectly possible for you to subscribe up to one-half of your total assets, and you can do this through your local bank, or the nearest Federal Reserve bank, or through the Treasury itself.

We are also considering the issuance within a few weeks of a new kind of security which, I think, will be of particular interest and usefulness to your organization and others with idle balances. I am sorry that I cannot tell you more about this offering, as we ourselves have not yet reached final decisions regarding it, but I thought you would like to know that a new issue of this kind is in prospect.

Sincerely,

Mr. Daniel J. Tobin,
General President, International
Brotherhood of Teamsters,
Chauffeurs, Warehousemen and
Helpers of America,
Washington, D. C.

81

THE WHITE HOUSE
WASHINGTON

February 9, 1942.

MEMORANDUM FOR

H.M. Jr.

For preparation of reply to

Dan.

F.D.R.



INTERNATIONAL BROTHERHOOD OF TEAMSTERS-CHAUFFEURS-WAREHOUSEMEN & HELPERS OF AMERICA

AFFILIATED WITH THE
AMERICAN FEDERATION OF LABOR

WASHINGTON, D. C.

932 Bowen Building
February 5, 1942

The Honorable Franklin Delano Roosevelt
President of the United States
The White House
Washington, D.C.

My dear President:

At a meeting of the General Executive Board of the International Brotherhood of Teamsters, held on January 29, 1942, I was instructed to personally convey to you the following information and action of the Board:

The International Brotherhood of Teamsters has now over eight million dollars in finances. Two million of this amount is invested in United States Defense and other Government bonds. There remains six million dollars in cash. This fund has been created over a period of thirty years by contributions of one cent per day per member of the International Union. The message that I have been instructed to convey is that this remaining amount of cash in the treasury of the International Union, six million dollars, is at the disposal of our Government at any interest rate that the Government desires to pay, or at no interest rate if the Government so desires; this money to be held and used by the Government until this world conflict is ended and until peace has been established throughout the world under the inspiration of God and the leadership of the President of the United States.

The General Executive Board further adds that it takes this action knowing that unless our country is successful in winning this present struggle our civilization, liberty and all we have will be destroyed. Secondly, we hope that by this action we may influence other Labor Unions, individuals and corporations that have large amounts of money to act likewise, so that we can all join in helping toward the re-establishment of world safety and relieve, if possible, future generations from enormous taxation which must obtain

as a result of tremendous interest rates on Government indebtedness.

Very Sincerely Yours,

Daniel J. Tobin

GENERAL PRESIDENT.

CONGRESS OF THE UNITED STATES
JOINT COMMITTEE ON REDUCTION OF
NONESSENTIAL FEDERAL EXPENDITURES

There will be a meeting of the Joint Committee in
Room 314 Senate Office Building on Tuesday, Feb. 10,
at 10:00 a.m.

2-10-42 To _____

W. F. Byrd
Chairman
1887

HARRY FLOOD BYRD,
Chairman.

570 5535



TREASURY DEPARTMENT
WASHINGTON

February 10, 1942.

MEMORANDUM ON MEETING OF THE JOINT
COMMITTEE ON REDUCTION OF NON-DEFENSE EXPENDITURES

A meeting was called at 10:00 A. M., Tuesday, February 10, in the Senate Finance Committee Room in the Senate Office Building. There were present:

Senators:	Congressmen:
Byrd	Taber
Glass	American Farm Bureau:
McKellar	Mr. O'Neill and associates
LaFollette	Bureau of the Budget:
George	Mr. Lawton
Nye	General Accounting Office:
	Mr. Barger

Senator LaFollette addressed himself to Mr. O'Neill and asked Mr. O'Neill in his remarks concerning his Association's investigation of the FSA if he would explain who his investigators were and how the investigation was made. Mr. O'Neill stated that the General Counsel of the organization employed certain Attorneys to make the investigation and that his associates and the State officials of his organization were contacted.

Senator LaFollette read a telegram which he had received from Mr. Santwell, Chairman of the Agricultural Committee of the Mississippi House of Representatives and Chairman of a Fact Finding Committee. Based upon such telegram Senator LaFollette asked Mr. O'Neill whether it was a fact that 6 Mississippi counties were credited with 19,000 members in the Mississippi Farm Bureau Association; whether it was true that 13,000 negro membership dues were involuntarily set off against AAA payments; whether or not banks, etc. donate blocks of memberships, without in some instances names of members. Mr. O'Neill explained that his organization published a national magazine which had from 500,000 to 600,000 subscriptions and that Farm Bureau representatives are often present when AAA payments are made. These representatives carry cash with them and cash checks for their

FOR DEFENSE



- 2 -

members and at such time deduct the Farm Bureau Association dues.

Mr. O'Neill in reply to questions by Senator LaFollette explained the manner of organization of the American Farm Bureau. He also explained and presented reports of the Bureau's investigators who investigated the activities of the FSA. These reports, in some cases supported by affidavits, were submitted for the record. A number of particular situations were presented which appeared to be isolated cases and not generally applicable to all FSA activities.

Thereupon the meeting adjourned at 12:30 P. M. to meet again on Friday, February 13, at 10:00 A. M.

mt

February 10, 1942
4:31 p.m.

HMJr: Yes.

Grace Tully: Nine-thirty Thursday morning.

HMJr: Nine-thirty Thursday would be perfect.

T: And I asked the President again about that Aniline thing. He said, "Why, yes, I think I approved it." Now, if you haven't got it, and Mr. Forster doesn't seem to remember it - I asked him - he doesn't recall it going over his desk. I recall it coming over this desk, but I don't - I thought that it went to the President and that he did approve it, but I couldn't swear to it.

HMJr: How about looking under the desk?

T: (Laughs) But Rudolph didn't remember seeing it is the only reason why I.....

HMJr: What has he got - you say over the desk, but why not under the desk?

T: Well, he doesn't usually put them under the desk.

HMJr: Oh, he doesn't?

T: No, we try to work on them on top. However, that's what he thinks he did about it.

HMJr: Well, it's a big help to me.

T: Yeah, it's a big help if you don't get it back with the okay on it, but I don't know - if he did approve it, of course, it should go back to you.

HMJr: Yeah.

T: And if you haven't got it, I don't know what happened to it.

HMJr: How about if I make another one?

- 2 -

T: Yeah, how about that?

HMJr: What?

T: Then it won't hold it up. If we get another one, then we'll see if we can hang onto that one until you get it back.

HMJr: Supposing I make another one and send it to you.

T: All right, fine.

HMJr: How's - are you alone?

T: Yes - no.

HMJr: Well, make up your mind.

T: (Laughs)

HMJr: Have you got time for a joke?

T: Yeah, oh, sure.

HMJr: I can't vouch for this, but I think it was Felix Frankfurter who told it to me. If you've heard it, stop. Because you said looking for the papers - they said they couldn't find some Lend-Lease papers.

T: Yeah.

HMJr: And he said, fortunately they change the linen on Wednesday and they found it at the foot of the bed of Harry Hopkins.

T: (Laughs) Oh, dear! That could be. (Laughs)

HMJr: Okay.

T: All right. Fine, Mr. Secretary.

HMJr: I'll make another one.

T: All right, grand.

HMJr: Good-bye.

T: Good-bye.

February 10, 1942

Statement by Secretary Morgenthau before
the Ways and Means Committee

I. Introduction

I am here to offer my suggestions as to our first revenue act of the war. I hardly need emphasize the seriousness of the occasion. The task before us is to decide how this war is to be financed and how its cost is to be distributed. Economic and social conditions during and after the war will depend to a large degree upon the courage and vigor with which we attack these problems.

Victory in this war will demand expenditures on a scale for which there is no precedent. The President has announced a program involving war expenditures of \$52.8 billion in the fiscal year 1943. If we are to furnish the weapons to the men who are doing the fighting, we shall have to mobilize every possible dollar of our income. It is my belief that the minimum amount of revenue to be raised by the Revenue Act of 1942 is \$7 billion. This will leave \$_____ billion

- 2 -

to be borrowed. Of this amount I am hopeful that \$___ billion will be raised by the sale of Defense Savings Bonds.

In the development of our program for financing the war, several principles should guide us. The first will be to facilitate the maximum production of war materials. This will mean that our usual ways of living will be drastically affected. We should not hesitate to change our ways of living in any way that helps the war effort.

However, it is also important that we should not upset civilian life beyond the point which is helpful to war production. Still another consideration is that the readjustment after the war should not be made unnecessarily difficult. We must never forget that our first task is to win the war, but we must also remember that our problems will not cease with the end of the war.

As we assemble for the consideration of the 1942 tax bill we are confronted with an economic problem

- 3 -

which goes far beyond the need of revenue. I refer, of course, to the grave threat of inflation. In war time money incomes are high due to full employment at high wages, while the quantity of civilian goods available for purchase is not enlarged, and in general is actually diminished. The consequence is that, in the absence of effective measures, there will be a rapid general rise in prices.

Such a price rise would be an unqualified evil at a time when we are approaching full utilization of our productive resources. An inflationary price rise is a source of grave social injustice. It undermines morale and impedes war production. The hardships of inflation strike at random without consideration of equity or ability. Once it has acquired momentum, inflation is extremely difficult to control, and it will leave a heritage of post-war difficulties that will haunt us for decades. Every consideration of national welfare calls for its prevention.

The way to prevent inflation is to prevent people from engaging in the futile effort to buy more goods than can be produced. This requires a comprehensive and integrated program of anti-inflationary measures, in which increased taxes and increased savings are essential parts. Price control, allocations, rationing, and the regulation of consumer credit are other parts of such an integrated program.

All these controls are interrelated. The devices of price control, allocation, and rationing will be more effective if taxes and savings are increased. Similarly, the effectiveness of the fiscal devices in preventing inflation will be greater if price control and controls over the quantity of goods available for sale are used.

Although increased taxes cannot by themselves solve the inflation problem, a much larger volume of taxes is necessary than will be collected from our existing tax system. My purpose today is to

- 5 -

indicate the tax program which the Administration believes should be adopted at this time for the best interest of the country in the light of the considerations I have mentioned.

II. Volume of Revenue

A. Objectives of Tax Bill

It is my belief that the minimum amount of revenue which should be raised by the Revenue Act of 1942 is \$7 billion. In reaching the conclusion that the tax bill should raise \$7 billion, I have had in mind the fact that a social security program should be expanded both as to coverage and to protection, and that increased taxes and contributions for this purpose should be increased by approximately \$2 billion a year. I am not making any recommendations with regard to social security taxation or benefits in connection with this bill, but changes of the magnitude indicated should be kept in mind in planning the tax program.

B. Restraint of Inflation

The tax recommendations which will be presented have been framed also to promote the objective of curbing inflation as well as raising revenue. I have already indicated the menace of inflation and the manner in which taxes contribute to its restraint. The most effective anti-inflationary taxes are those which bear most directly on consumers' purchasing power. Since mass purchasing power is very largely in the low incomes, it is therefore necessary to place heavier burdens on such incomes than would be justifiable if there were no inflationary danger.

It may be noted in passing that the increased collections for social security taxes will also serve an anti-inflationary purpose.

C. Ability to Pay

In his recent Budget Message the President said that "progressive taxes are the backbone of the Federal tax system." Although the financing of the war requires taxes upon lower income levels to help

- 7 -

in restraining inflation, we must not lose sight of the basic principle of our tax system, namely, that taxes should be imposed in accordance with ability to pay and that taxes should be fair and nondiscriminatory. The recommendations I am making at this time have been framed with these principles clearly in mind. Accordingly, increases in taxes on lower incomes should be accompanied by increases in taxes at all other levels of income as well.

Taxation according to ability to pay leads to other conclusions also. One of these is that loopholes in our tax laws should be removed. Another is that taxes not capable of being adjusted to differences in income or family responsibilities, such as general sales taxes, should be avoided except as a last resort. Finally, it is an essential of taxation according to ability to pay that undue profits should be recaptured wherever they occur. It is not necessary to allow unreasonable profits in order to secure maximum production with economical business

management. Under conditions of a war time economy the country cannot tolerate the retention of undue profits.

III. Tax Recommendations

A. Removal of Special Privileges

There are in our tax system certain provisions which allow relatively few of our people special advantages and privileges at the expense of the great mass who must pay what is thereby lost. I am unwilling to ask the great mass of the taxpayers of the United States to pay billions of dollars of additional revenues until these defects have been removed from the tax laws. They are bad enough in time of peace--they are completely inexcusable in time of war.

An important example of such a privilege is presented by tax exempt securities. Every element in our population should bear its fair share of the burdens which war imposes. Through tax exempt

securities, however, persons with large taxpaying ability find themselves in a sheltered position. For the most part they did not buy these securities at prices reflecting the great privilege of escape from war time burdens and surely the States did not offer the securities on any such basis. The holders of tax exempt securities are obtaining what are essentially windfall profits in a time of national sacrifice.

For a long time Presidents, Secretaries of the Treasury, and Congressional Committees have recommended the elimination of the tax exemption of interest on Government securities. Last year the Congress, at my recommendation, removed the exemption on interest from future issues of Federal securities. No action has been taken with respect to the interest on State and local securities.

In times of peace, when the strain on other elements in the population was not so heavy, the gradual elimination of tax exemption through imposing taxes

- 10 -

only on future issues had much to recommend it, but the national emergency of war makes this gradual approach unacceptable. I therefore recommend the repeal of the present exemption applicable to outstanding issues of State and local securities. Unfortunately, tax exemption clauses appear in many of the outstanding issues of Federal securities and these promises must not be violated. In the case of State and local securities, however, there has never been any contract between the Federal Government and the security holders regarding Federal taxation. Moreover, since the Supreme Court decision in the case of Graves v. O'Keefe in 1939 fair minded experts in constitutional law have had no doubt of the Federal power to tax the income from State and municipal securities. Federal tax policy has never been static; new taxes and higher rates have always been adopted when necessary. The absence of taxation has never been considered to give a right or claim to the continuation of such exemption. The holders of

State and local securities have no more claim to special treatment than the numerous other groups on whom new or higher taxes will have to be imposed.

A tax system cannot be defended which in a time of grave national emergency calls upon the great mass of our taxpayers to shoulder the heavy burden of additional taxes and yet permits persons with large taxpaying ability to pay nothing. The sacrifices necessary to win a war for the benefit of all of us should be shared by all of us--including the holders of tax exempt securities. The President said in his Budget Message, "When so many Americans are contributing in their energies and even their lives to the Nation's great task, I am confident that all Americans will be proud to contribute their utmost in taxes." I should feel remiss in duty if I did not recommend the elimination of an exemption which prevents all Americans from contributing their utmost.

Further examples of special privileges which should be removed from our tax laws will be given to the Committee in the statement following mine.

B. Removing Other Discriminations

The inequities of our tax laws work in two directions. As I have said, some of them extend undue privileges to a favored few. Still others result in unfair burdens upon certain taxpayers. Such inequities are like the defects in a picture-- bad enough when the picture is small, but increasingly glaring as the picture is enlarged. With rates at war time levels it becomes urgent to correct all such defects. I, therefore, propose that we make every effort in this session of Congress to eliminate all hardships of this character so that our tax laws will cast their burden equitably upon all taxpayers.

C. Individual Income Taxes

Most of the revenue that will be raised by closing loopholes will come from the individual income tax. In addition, it is recommended that the

individual income tax be changed to yield approximately \$2 billion more revenue than will be yielded under the present law. In recommending this amount I have had in mind that the great bulk of tax increases under the social security changes will fall on individual incomes.

The individual income tax is the best available type of tax based upon ability to pay. Its rates and exemptions can be adjusted according to amount of income and differing family responsibilities. Furthermore, it is a direct tax. It falls where the Congress wants it to fall.

If the income tax is to be an effective means of inflationary control, it must reach smaller incomes than have been taxed in the past. A large proportion of the total income and of the increased income during the defense and war periods is received by persons whose incomes are too small to be subject to the income tax at present exemption levels. These are people whose incomes are so meager that only with

the greatest reluctance do I suggest the lowering of the personal exemptions to \$1200 for married persons and \$600 for single persons and \$300 for each dependent. I make this suggestion because I can see no alternative if there is to be effective control of inflation, and if we are to avoid the harsher alternative of a general sales tax. If any sales tax were enacted I would not be in favor of lowering the exemptions.

If we do reduce the exemptions, relief should be afforded to persons who have very small incomes, in that part of their income taxes should be treated as savings deposited with the Government, to be repaid after the war. The result will not only be the maintenance of purchasing power after the war when purchasing power may be badly needed, but also the assurance that the standard of living of these low income groups will not be permanently impaired.

Because of the lowering of exemptions and the addition of large numbers of taxpayers with small

incomes to the tax rolls, it becomes essential to afford an easy way for the payment of income taxes. A provision for the collection of as much of the tax as possible at the source for those incomes that are paid periodically, including wages, salaries, bond interest, and royalties, is the best available expedient to this end. To institute such a system immediately, however, might cause considerable hardship to taxpayers because of the substantial increases they are already called upon to pay during the year 1942 as a result of the Revenue Act of 1941. On the other hand, if the threat of inflation makes necessary quick and substantial increases in the rate of tax collection, the institution of the collection at the source cannot be postponed. Since it is not known how soon substantial increases in the rate of tax collection may be necessary for the restraint of inflationary price rises, it would be desirable to enable the collection of income taxes at the source at any time and at rates within the discretion of the

Treasury up to _____ percent--the rate applicable to the first dollar subject to normal and surtax. This will furnish desirable flexibility without imposing additional taxes that may not be necessitated by future economic conditions.

D. Corporation taxes

It is recommended that additional taxes be raised from corporations in the amount of \$3 billion.

A large share of the increased corporation tax should fall on excess profits. Taxes paid from such profits have less disrupting effects on business than have taxes which are generally applicable to all corporate earnings, irrespective of amount. A tax which absorbs excess profits still leaves the corporate taxpayer with a sufficient margin of income for dividends and safety and for continued incentive to produce. On the other hand, a tax which dips too deeply into the incomes of low earning corporations may seriously affect their debt-paying

- 17 -

capacity, if not their very existence. Excess profits taxes have the additional virtue of recapturing undue profits on war contracts.

The goal of \$3 billion additional corporate taxes cannot be achieved alone by increased excess profits taxes. Unfortunately, the surtax rate applicable to all corporations must also be substantially increased. There should be no increase in the corporate normal tax because any such increase would be an undesirable windfall to the holders of partially tax exempt Federal securities.

There can be no fair quarrel with the imposition upon corporations of substantial proportions of the increased load of taxation required by our National peril. We are fighting for the maintenance of the very system of free enterprise which enables corporations as the largest segment of the business community to earn profits in the future as they have in the past. I am confident that incorporated business will willingly contribute at such a time

an additional amount of tax which will leave it in a position in which its profits after taxes will in the aggregate be at the level of corporate earnings during the relatively prosperous year 1939.

Although the proposed increases in the corporate surtax and excess profits tax rates will probably not bring the aggregate corporate profits after taxes below the 1939 level, they will apply a very high rate of tax to any additional dollars earned by corporations subject to maximum excess profits tax rates. It is recognized that very high top or so-called "marginal" rates leave very little incentive for the maintenance of efficiency in business operations. For this reason it is believed desirable that in the case of any dollar of corporate profits the receipt of which results in an increase in tax beyond 80 cents, the additional tax on such dollar shall be held by the Government to the account of the corporation and be returnable after the war is over, in those cases where it is spent for new and

additional capital equipment or otherwise is spent in the employment of labor.

E. Estate and Gift Taxes

Increased revenues of approximately \$250 million should be obtained from estate and gift taxes. This will involve primarily an increase in rates. It will also call for somewhat lower exemptions and the further elimination of loopholes and special privileges which exist in the law at the present time.

F. Excise Taxes

New and increased special excise taxes are suggested to raise approximately \$ of additional revenue.

Although these excise taxes are in the nature of sales taxes, their effects are substantially different from the effects of general sales taxes. Most of them are imposed on commodities of which there is or will increasingly be a scarcity. The taxes yield needed revenue while exercising a rationing effect and conserving materials needed for defense. Those excise taxes not relating to commodities of which there is a particular scarcity have been chosen so as to fall on goods

which are widely used and are of a luxury or semi-luxury character. The increase in consumer incomes will permit maintenance of the demand for those commodities despite the higher taxes. The Government will thus secure needed revenue, consumer purchasing power will be tapped, the producers will not be injured, and the consumers will not be taxed on necessities of life.

These special excise taxes have the further advantage of not requiring any substantial expansion of administrative machinery.

No general sales tax is recommended and, indeed, I strongly recommend that no such tax be made a part of this revenue bill. The general sales tax falls on scarce and non-scarce commodities alike. It falls across the board on necessities and luxuries alike. It bears disproportionately on the low income groups whose incomes are wholly spent on consumers goods. It is, therefore, regressive and lowers the standard of living. It increases prices and makes price control more difficult. It encourages demands for higher wages and adds to the parity prices of agricultural products.

It is not, as many suppose, easily collected; on the contrary, its collection would require much additional administrative machinery at a time when manpower is scarce.

IV. Conclusion

I would like to end my recommendations with a further plea as to their importance as part of our war effort. Your task is the hardest any Congress has ever faced. The consequences of failure are staggering. But--on the happier side--if our war financing is wisely done, war production may be encouraged, inflation may be curbed, public morale may be improved, and our economic world after the war will be in a better position to meet the inevitable problems following victory.

Such objectives cannot be painlessly accomplished. There must be temporary dislocation, hardship, and sacrifice. But I feel certain that we will all rise to the opportunity presented to us. Taxes have been described by a great American as "the cost of living in a civilized society." It will be our privilege to pay that cost cheerfully.

This is the spirit in which the American people will want to approach the problem of financing the war.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

111

DATE February 10, 1942

TO Secretary Morgenthau
FROM Mr. Hagg

1. Attached to this memorandum are tables showing (1) the number of agents qualified to issue Defense Savings Bonds, Series E, at the close of business on February 7, classified by type of agent, by Federal Reserve Districts, and (2) the number of such agents on selected dates since May 7, 1941.

2. On February 7 there were 19,483 agents other than post offices qualified to issue Series E savings bonds, an increase of 385 since January 31.

3. On February 7, there were 457 corporations qualified to issue Series E savings bonds on payroll allotment plans in accordance with the instructions contained in your telegram of December 27 to the Federal Reserve Banks. This represented an increase of 106 corporations over last week.

4. There were 48 members of the investment industry qualified to issue Series E savings bonds on February 7, as compared with 37 members one week ago.

Attachments

Classification of the number of agents qualified to issue
Series E Savings Bonds, on February 7, 1942

	Banks	Building: and loan associa- tions	Credit unions	Other corpora- tions ^{1/}	Invest- ment industry	All others ^{2/}	Total
Corporations and Associations:							
Federal Reserve District of:							
Boston	830	233	208	19	-	12	1,302
New York	1,169	253	376	41	9	50	1,898
Philadelphia	843	105	103	124	-	-	1,175
Cleveland	1,168	364	320	33	6	1	1,892
Richmond	1,022	184	124	23	7	1	1,361
Atlanta	1,012	151	169	20	-	-	1,352
Chicago	2,323	457	197	115	13	14	3,119
St. Louis	1,355	146	57	18	8	2	1,586
Minneapolis	1,282	55	62	3	-	3	1,405
Kansas City	1,755	179	158	5	2	30	2,129
Dallas	847	118	200	42	-	2	1,209
San Francisco	<u>549</u>	<u>231</u>	<u>255</u>	<u>14</u>	<u>3</u>	<u>3</u>	<u>1,055</u>
Sub-total	14,155	2,476	2,229	457	48	118	19,483
Post offices	-	-	-	-	-	-	<u>17,604</u>
Grand total	<u>14,155</u>	<u>2,476</u>	<u>2,229</u>	<u>457</u>	<u>48</u>	<u>118</u>	<u>37,087</u>

112

Office of the Secretary of the Treasury,
Division of Research and Statistics
^{1/} In accordance with telegram of December 27, 1941.
^{2/} Except post offices.

February 10, 1942

Number of agents qualified to issue Series E
Savings Bonds, May 7, 1941
to date

Type of agent	1941		1942				
	May 7	Sept. 30	Jan. 10	Jan. 17	Jan. 24	Jan. 31	Feb. 7
Commercial and savings banks.....	7,676	11,571	13,832	13,966	14,037	14,097	14,155
Building and loan associations.....	739	1,481	2,144	2,268	2,365	2,434	2,476
Credit unions.....	8	389	1,529	1,736	1,911	2,080	2,229
Other corporations <u>1/</u>	-	-	12	118	240	351	457
Investment industry.....	-	-	-	-	10	37	48
All others.....	<u>7</u>	<u>27</u>	<u>59</u>	<u>30</u>	<u>54</u>	<u>99</u>	<u>118</u>
Total other than post offices...	8,430	13,468	17,576	18,118	18,617	19,098	19,483
Post offices.....	<u>15,812</u>	<u>16,429</u>	<u>16,883</u>	<u>17,140</u>	<u>17,140</u>	<u>17,123</u>	<u>17,604</u>
Grand total.....	<u>24,242</u>	<u>29,897</u>	<u>34,459</u>	<u>35,258</u>	<u>35,757</u>	<u>36,221</u>	<u>37,087</u>

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

February 10, 1942

1/ In accordance with telegram of December 27, 1941.

Stock of Series E Savings Bonds on Hand ^{1/}
January 25, 1942 to date

(In thousands of pieces)

	: Stock on hand : beginning : of day	: Sales : this day	: Bonds : manufactured : this day	Stock on hand close of day	IBM deliveries this day
Jan.					
25	10,525	none-closed	none-closed	10,525	-
26	10,525	487	1,000	11,038	2,000
27	11,038	186	1,000	11,852	-
28	11,852	251	1,000	12,601	2,000
29	12,601	265	1,000	13,336	-
30	13,336	283	800	13,853	2,000
31	13,853	139	800	14,514	-
Feb.					
1	14,514	none-closed	none-closed	14,514	-
2	14,514	505	800	14,809	-
3	14,809	158	800	15,451	-
4	15,451	262	800	15,989	2,500
5	15,989	250	800	16,539	-
6	16,539	341	800	16,998	2,500
7	16,998	159	none-closed	16,839	-
8	16,839	none-closed	none-closed	16,839	-
9	16,839	379	740	17,200	-

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

February 10, 1942

^{1/} Includes stock in hands of (1) Federal Reserve Banks and branches, (2) Post offices, (3) Federal Reserve Bank issuing agents, and (4) Treasury vaults in Washington.

UNITED STATES SAVINGS BONDS

Comparative Statement of Sales During
 First Seven Business Days of February and January 1942 and December 1941
 (February 1-9, January 1-8, December 1-8)
 On Basis of Issue Price

(Amounts in thousands of dollars)

Item	Sales			Amount of Increase or Decrease (-)		Percentage of Increase or Decrease (-)	
	February 1942	January 1942	December 1941	February over January	January over December	February over January	January over December
Series E - Post Offices	\$ 33,976	\$ 43,894	\$ 14,424	-\$ 9,918	\$ 29,470	- 22.6%	204.3%
Series E - Banks	<u>133,627</u>	<u>107,467</u>	<u>25,128</u>	<u>26,160</u>	<u>82,339</u>	<u>24.3</u>	<u>327.7</u>
Series E - Total	167,602	151,362	39,552	16,240	111,810	10.7	282.7
Series F - Banks	24,207	17,394	6,371	6,813	11,023	39.2	173.0
Series G - Banks	<u>113,526</u>	<u>73,022</u>	<u>44,732</u>	<u>40,504</u>	<u>28,290</u>	<u>55.5</u>	<u>63.2</u>
Total	<u>\$305,336</u>	<u>\$241,777</u>	<u>\$ 90,655</u>	<u>\$ 63,559</u>	<u>\$151,122</u>	<u>26.3%</u>	<u>166.7%</u>

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

February 10, 1942.

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

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

UNITED STATES SAVINGS BONDS

Daily Sales - February 1942
On Basis of Issue Price

(In thousands of dollars)

Date	Post Office Bond Sales	Bank Bond Sales				All Bond Sales			
		Series E	Series F	Series G	Total	Series E	Series F	Series G	Total
February 1942									
2	\$ 8,435	\$ 34,150	\$ 6,191	\$ 19,795	\$ 60,136	\$ 42,585	\$ 6,191	\$ 19,795	\$ 68,571
3	3,572	7,887	2,793	19,518	30,199	11,459	2,793	19,518	33,770
4	4,893	16,537	3,937	18,515	38,989	21,430	3,937	18,515	43,882
5	4,257	16,149	2,367	14,640	33,156	20,406	2,367	14,640	37,413
6	4,310	23,510	3,829	18,620	45,958	27,820	3,829	18,620	50,269
7	3,023	10,039	2,019	6,174	18,233	13,062	2,019	6,174	21,256
9	5,486	25,354	3,071	16,265	44,690	30,839	3,071	16,265	50,176
Total	\$ 33,976	\$133,627	\$ 24,207	\$113,526	\$271,360	\$167,602	\$ 24,207	\$113,526	\$305,336

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

February 10, 1942.

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.

February 10, 1942

Dear John:

I am delighted to learn from your letter of the fine results of your newspaper's campaign to push the sale of Defense Savings Bonds and Stamps.

You seem to have done an excellent job in Seattle, and I should like you to know how much we appreciate all your efforts.

Best regards to you and Anna from both of us.

Sincerely,

(Signed) Henry

Mr. John Boettiger,
Seattle Post-Intelligencer,
Seattle, Washington.

Air Mail
Jill M.C.

FR/ogk

118

Buy a Boeing Bomber?

2/5/42

118

Drive Zooms Over

the Top

HAVE YOU JOINED IN

Better act quickly if you want YOUR investment in Defense Savings Bonds and Stamps to be applied on the purchase of Seattle's own Boeing Bomber! That's because the giant ship is nearly paid for!

However, there's still time for you to take part—and here's

THE "BUY A BOEING

^{2/11/42}
how you do it. Buy Defense Savings Bonds or Stamps—then write your name and the amount invested on the coupon which you will find in today's Post-Intelligencer. Then mail the coupon (YOU KEEP THE DEFENSE BONDS AND STAMPS) to The Post-Intelligencer—and your investment will be earmarked by the U. S.

BOMBER DRIVE?

treasury department to be applied on the purchase of the Boeing Bomber which is to be inscribed with the name of Seattle and the Pacific Northwest. See the coupon and list of those who invested on Page 7.

118
-Feb.
1942

SEATTLE POST-INTELLIGENCER

P. R. 6-3

1941

LARGE LETTER PUBLISHED

February 5, 1942 

Dear Henry:

We have just put on here a campaign to "Buy a Boeing Bomber" through the purchase of Defense Bonds and Stamps.

Today we completed our campaign and have sold approximately \$400,000 worth of stamps and bonds.

From what I have gathered of the campaigns in other cities, the newspapers conducting them claimed credit for all the stamps and bonds that were sold in the region. Our program was somewhat different, in that we listed as our contributors only those people who notified us specifically of their NEW purchases and requested that they be earmarked for the purchase of a bomber.

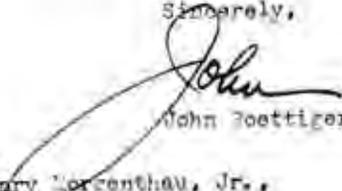
All in all I think it was an excellent campaign, and that it has done a lot of good.

I am sending you herewith copies of letters which went off today to Assistant Secretary of War Lovett and Colonel Arthur I. Ennis, Chief of the Public Relations Branch of the Army Air Forces.

I thought you might like to know of the very enthusiastic manner in which our Seattle people entered into this program. Also, I would appreciate your sharing this file with Carlton Duffus of your Defense Savings Staff, who has been in constant touch with this campaign.

Anna joins me in sending our best to you as always.

Sincerely,


John Foettiger.

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

2025 RELEASE UNDER E.O. 14176

February 5, 1942

Dear Mr. Secretary:

The Seattle Post-Intelligencer has just completed a drive to "Buy a Boeing Bomber."

I have been advised that, under an agreement between yourself and the Treasury Department, you will designate bombers in production to be presented at the culmination of drives of this character.

In our case, the Post-Intelligencer has invited its readers to purchase Defense Savings Bond and Stamps, and to report their specific purchases to us. We have acknowledged these purchases in detail in our paper, giving the names of the purchasers and the amounts invested. We have not sought to include all purchases of stamps and bonds in the region.

Today the funds so invested reached a total of \$357,316.

I have been advised that the amount agreed upon between yourself and the Treasury Department for heavy bombers is at a rate of \$335,000 each.

Therefore, may I ask that you please designate a Boeing Flying Fortress, now in production at the Seattle Boeing plant, to be used for presentation by ourselves to the Army Command in this area.

We wish to place upon the plane a 25-word inscription, which I am clearing through Colonel Arthur I. Ennis, Chief of the Public Relations Branch of the Army Air Forces.

We should like to complete this program as soon as possible, and therefore would appreciate your designating a plane which is about ready for delivery to the Army.

Thanks very much, and with every good wish.

Sincerely yours,

John Koettiger.

Honorable Robert A. Lovett,
Assistant Secretary of War for Air,
Washington, D. C.

February 5, 1942

Dear Colonel Emis:

With further references to my letter of January 27 and your reply of January 31, signed by Major W. R. Cooper, I am pleased to advise you that our campaign to "Buy a Boeing Bomber" went "over the top" today.

Our program was set up a bit differently than other newspapers engaged in this effort, in that we have included in our total only those purchases of Defense Stamps and Bonds as were made by individuals directly advising us that they wished their purchases to be earmarked specifically for the purchase of a Boeing Bomber.

We required individuals to send us coupons advising us of the amount of stamps or bonds they were purchasing as of that date.

This morning the total so invested reached a sum of \$357,318. For your information, I am sending you clippings from the Post-Intelligencer of this morning and of yesterday morning, which will give you a general idea of the manner in which the campaign was conducted, the type of coupon used, the method of acknowledging investments and the sum total involved.

I have today written to Assistant Secretary of War Lovett asking him to designate a bomber in production for us to present on behalf of these investors to the United States Army. A copy of my letter to Secretary Lovett is attached.

Now with respect to the inscription which we wish to place upon the plane, we suggest the following, subject to your approval:

CHIEF SEATTLE

This Flying Fortress presented
by the people of Seattle and the Pacific
Northwest to the fighting forces of the
United States Army.

This inscription would be lettered upon the plane itself, rather than in the form of a plaque, as I first indicated. The inscription is within the limit of twenty-five words described in your letter of January 31.

May we have your approval of this inscription, and may we also ask your consent to our having public ceremonies

Colonel Arthur I. Emsie - 2.

February 6, 1942

at which the presentation may be made. Our suggestion is that the ceremonies be held in front of the Administration Building of the Boeing Aircraft Company. We propose to invite the public to the dedication and have the proceedings broadcast over a local radio station. We should also be happy to christen the ship with a bottle broken against a steel plate held in front of the fuselage.

To take part in this ceremony, we propose to invite General Carlyle Wash, in command of the Second Air Interceptor Command, to accept the plane on behalf of the Tactical Command; Lieutenant Colonel John S. Griffith, at present assigned to the Boeing Company as the Army's representative, to accept the plane on behalf of the Army; Phillip Johnson, president of the Boeing Company; officials of the state and city governments; Mrs. Besttger and myself.

We would, of course, like to take pictures of the dedication for publication, and would appreciate having your approval of this procedure.

Should you have any further suggestions or changes to propose, we would be pleased to have you outline them.

Since we are anxious to proceed as rapidly as possible, so as to maintain the continuity of the campaign, and to insure these patriotic individuals who participated in it, we would appreciate hearing from you as soon as possible.

With every good wish,

Sincerely yours,

John Besttger.

Colonel Arthur I. Emsie,
Chief,
Public Relations Branch,
Army Air Forces,
Washington, D. C.

'BUY A BOMBER' CAMPAIGN HAS GRAND FINALE

2/15/42
By Carlton Fitchett

Inbued with some of the spirit of MacArthur's gallant men and the heroes of Wake Island, Seattle and the Pacific Northwest smashed far beyond the goal in The Post-Intelligencer's "Buy a Boeing Bomber" campaign yesterday.

It was an inspiring "V for Victory" written by men, women and children who sent their dollars to the fighting line to battle for democracy and human liberties.

Hundreds of patriotic citizens, eager to be listed among the bomber's purchasers, added the near record sum of \$46,327.50 to the fund yesterday to bring the campaign's total up to \$357,318.21.

Since the officially quoted estimated price of a Boeing bomber is \$335,000, this leaves \$22,318.21 over-subscribed.

This will go to pay for tanks, guns and ammunition—possibly for the bombs our own Flying Fortresses will soon be spowering on Axis war lords.

Immediately after the campaign had reached its goal, John Boutlinger, publisher of THE POST-INTELLIGENCER, wired Robert A. Lovett, assistant secretary of war for air, in Washington, D. C., that Seattle and the Pacific Northwest had ex-

'BUY BOMBER' DRIVE CLOSSES

(Continued from Page 1)

ceeded enough defense securities to buy the bomber. He asked that Lovett choose the Boeing bomber from those now in production and that the mighty air craft be inscribed with the wording, "Seattle and the Pacific Northwest."

DEDICATION PLANNED

Formal dedication ceremonies will be held in the near future. Details of this will be given later.

The biggest contribution of the closing day was made by the Joint Council of Teamsters No. 26, its affiliated Seattle unions and their memberships. They earmarked \$16,995.75 in defense bonds and stamps to bring their total investment in defense securities up to \$115,000.

Another Seattle union, Stage Employees No. 15, swelled yesterday's list with a contribution of \$1,000.

POEM FOR VICTORY

Inspired by the objectives of the campaign, Julia Kathleen Bohan, a teacher in Seattle public schools, wrote an excellent poem containing good advice for every American.

Its theme is expressed in the following:

Come, buy a Defense bond.

*Be proud of what you've done,
When we hold America's banner
Above the Rising Sun.*

The goal was reached in just two and one-half weeks, which makes it by far the most successful campaign ever conducted by a newspaper in Pacific Northwest history.

To those who made this fine achievement possible THE POST-INTELLIGENCER offers its congratulations. This newspaper is proud to have had the privilege of directing the campaign.

And so, good luck and happy landings—to the good ship "Seattle and the Pacific Northwest."

Although our bomber is now bought and paid for, let's not rest on our honors, but keep right on buying defense bonds and stamps.

**WE MUST KEEP BUYING TO
KEEP 'EM FLYING!**

'BUY BOMBER' DRIVE ALMOST OVER THE TOP

\$39,049 More Swells 'Buy a Boeing Bomber' Fund

Grand Total Now Over \$300,000; Still Coming

From the day of Pacific Northwest War Termination League of Great Britain

Table listing donors and amounts for the 'Buy a Boeing Bomber' fund. Includes names like Louis W. Stone, Robert A. ... and amounts ranging from \$1.00 to \$100.00.

(Send this Coupon to The Post-Intelligencer) BUY A BOMBER FUND. Includes a coupon form with fields for name, address, and amount.



KIWANIS CLUB HELPS SWELL BOMBER FUND

INVESTING IN A DEFENSE FORTESS—Furthering the "Buy a Boeing Bomber" campaign, the Kiwanis Club of Seattle yesterday helped swell the fund by \$1,226.00. Here they are presenting

their "Buy a Bomber" coupons to President Harold Thompson. The Kiwanis invested that amount in bonds to buy the great war bird, in addition to previous purchases.—(Story on Page 7.)

February 10, 1942

Dear Senator:

Thank you very much for your letter of February 8th, enclosing a copy of your speech to the Real Estate Board of New York. I had seen the quotations from your speech in the newspapers, but I am very glad indeed to have the full text.

You have paid the Treasury a fine tribute, and one which I appreciate immensely.

Sincerely,

(Signed) H. Morgenthau, Jr.

Hon. Joseph C. O'Mahoney,
United States Senate,
Washington, D. C.

FX/cgk

*Copies to Thompson
File N. M. C.*

For release Tuesday A. H. February 8, 1942.

THE INDIVIDUAL AND THE CHANGING WORLD

Summary of the address of Senator Joseph C. O'Mahoney of Wyoming to The Real Estate Board of New York at its 46th annual dinner on February 7 at the Hotel Commodore, New York City.

That the democratic philosophy of social, political and economic organization is now facing its greatest test, no one, I'm sure, would be bold enough to deny. On every war front in the world, the United Nations stand in desperate peril before the mechanized legions of leaders who frankly assert that the principles of democracy have outlived their usefulness and should give way to the theory of totalitarian authority.

Because we reject that theory, because we believe that all men "are and of right ought to be free and independent", we are marshalling all the wealth and power of this nation to keep the light of liberty burning for all mankind. Not only men in the United States, but throughout the Western Hemisphere and wherever they are able to escape the terror of the oppressor, men are responding to the call of freedom.

The danger to democracy, however, is far greater than that which is represented by the military power of the Axis. It is to be measured only by the extent to which the ideas of the authoritarian state have spread, even subconsciously among our own people and by the degree to which we have forgotten the real meaning of democracy. I do not hesitate to say that right here in America there are people who believe that democracy and the capitalistic system are out-moded and who are confident that out of the war will come a new social and political order based upon the principles of totalitarianism.

The friends of democracy will be blind, indeed, if they fail to realize this fact, for in the desperate crisis of war we have been forced to adopt many of the methods of the totalitarian state. Civilian industry is giving way to war industry and war industry is controlled by centralized political power. The task we must assume when the war is over will be not only the restoration of civilian industry, but the restoration of authority of the citizen over his government and over the organizations through which his economic needs are served.

The expansion of government power, a necessity, of course, in time of war, has proceeded to a degree that will make more difficult than ever before the resumption of normal democratic processes. Nothing illustrates this better, obviously enough, than the enthusiastic and patriotic response of the people to the appeal of Secretary Morgenthau for investment in war bonds. It is a record of popular contribution to the defense of the nation which exceeds anything that ever happened in history. Without pressure, without force and with only an appeal to the patriotism of our people, the Treasury Department, during the month of January, sold defense bonds having a cash value of over one billion dollars. More than eight million separate bonds were sold during that month and there is every reason to believe that the contributions will continue as long as the people are able to preserve their sources of income.

Remarkable as this achievement is, however, it represents an increase of the public debt which, in the years to come, will challenge the loyalty of our people. As "the American way of life" in a degree greater even than the challenge by which they are now confronted. It is estimated by the President in the budget which he submitted to Congress at the beginning of the present session that the interest on the public debt for the year 1943 will amount to \$1,750,000,000. The highest annual payment of interest ever previously recorded was in 1919 when the World War debt cost the government \$1,054,000,000. But in 1919 the government was paying an interest rate slightly in excess of 4.1%. The interest rate today is only about 2.4% but the debt is more than twice as great as it was in 1919. Something more than 25 billions then, it is already more than 60 billions and we are appropriating under the pressure of necessity, for the manufacture of the instruments of war and the equipment of our armed forces at a rate which defies imagination. The program already calls for additional expenditures that will equal last year's debt.

We shall never even begin to comprehend what this debt means in terms of democracy unless we realize that though the government may create a debt, only the people can pay it. The government has nothing except that which it takes from the people by way of taxation or by way of preempting the activities in which the people themselves should engage. Production by the people is the only dependable source of government revenue. The supreme task of a democracy therefore is to enable the people to produce. The only alternative is some form of national socialism.

We can talk easily about the "American way of life", the Declaration of Independence, the Constitution and the Bill of Rights. We can repeat the familiar phrases about freedom of speech, freedom of religion, freedom of the press, but the meaning of all of these traditional principles will be lost unless we realize that the freedoms of which these great instruments speak are the freedoms of individuals. The right to life, liberty and the pursuit of happiness is a right which can be enjoyed only by living persons, and all of the organizations which men form are good or bad according to the manner in which they serve the living person. It is only because we have lost sight of this fundamental fact, because we have confused the rights of men with the rights of organizations of men, that democracy, in the middle of the Twentieth Century, finds itself in mortal danger. It is only because we have lost sight of the fact that government should be only the servant of men, that even here in this country as well as in the Old World, government threatens to become our permanent master.

The pattern of the problem which is presented to us should perhaps be more clear to men who are engaged in the real estate business than to any other group because real estate is local and because most of the troubles of modern real property owners proceed from the fact that we have been losing our local economic independence. Local desires and needs have increased more rapidly than the capacity of local revenue to meet them. Inadequacy of local revenue in turn proceeds from the inability of local enterprise to hold its own with national enterprise. The struggle has been constantly becoming more unequal as the emphasis and scope of economic life during the past half century has been turning steadily away from the local to the national sphere. This has been necessarily accompanied by a steady expansion of the power and activity of the central government and a steady contraction of the effective powers of local government.

When the ideals and principles of democratic society were developed, land was the principal source of economic income, and business activity, like the land itself, was principally local. In the early days of our history whenever men found themselves oppressed or confronted by an economic depression they could move on to new land and there earn their own living in their own way with their own labor and the resources of nature. The growth of this country for one hundred years was measured by the migration of men into unsettled areas where they brought uncultivated land into cultivation and built new communities. Ours was an agricultural economy until after the Civil War. In that era the problem of readjusting the lives of the men who had fought the Civil War was solved in the building of the transcontinental railroads and the settlement of the Great West. The building of the railroads and the spanning of the country by the first telegraph wire was the beginning of the modern phase of the industrial age and after the World War, when our economy had become industrial rather than agricultural, we found the means of readjustment, not in the opening of new lands, but in the building of motor roads and automobiles, airplanes and radios and all of the devices which have made the modern economy so luxurious. As our economy changed from an agricultural one to an industrial one, from local to national, it also changed from an individual economy to a group or organizational economy and we have never taken the time or the thought to adjust these organizations of the modern world to the lives of individuals. In that failure lies not only the cause of the present war, but the challenge to democracy. Unable to support themselves in the complex economic order of our day, unable to command their own jobs and make their own living on their own land or with their own tools, people have turned to government for support and when they do that they undermine democracy. Government cannot produce for us, we must produce for ourselves. Government, when it becomes the master of men, produces only disaster.

If, therefore, we believe in the democratic theory, in the right of the individual to govern himself and if we are determined that this right shall be preserved, then we have no recourse except to make certain that, first of all, the right of the individual to support himself shall be protected.

Political democracy depends absolutely and completely upon economic democracy. There can be no such thing as a free government without free enterprise. There can be no such thing as free enterprise without the right of private property. These two institutions, the institution of private property and the institution of free government, are one and the same thing. They are inseparable from the individual. They belong to him before they belong to any organization.

It was precisely because the founders of this government understood that people come before any of the organizations which society forms that they drafted the Bill of Rights and limited the authority of government to control the citizens. If it be true, as we must admit, that the government should not control the citizens then how much more true is it that no subordinate organization under the government should exercise that power. The people in a democratic nation are the source of all power and if they are to remain democratic they must control every organization, whether it be economic, social or political, and the control must be co-extensive with the organization itself. If it operates locally, local public control is sufficient. If it operates nationally, then national control in the public interest is essential. But when we speak of control in a democratic government we do not mean the exercise of discretionary power by any government official. We mean only regulation within the law. Through the law the people must, if they are to protect their own rights, lay down the standards of responsibility and conduct which shall

side the groups which they permit to come into existence. Only thus can group activity be preserved from becoming collectivism.

Whatever may happen to be our habit of thought with respect to this controversial question, however determined we may be not to take the blinders off, however willfully we close our eyes to the realities, the fact remains that centralism in government has been the product of centralism in business. The facts themselves speak at us.

In this superlative war effort in which we are now engaged, we are of necessity utilizing not local enterprise, not small business, but the resources of the huge economic and political organizations which have been the product of our time. A few weeks ago, on the floor of the United States Senate, I pointed out that the federal government had awarded in war contracts between June, 1940, and October 1, 1941, a total of fifteen and one-quarter billion dollars. More than 50% of this vast sum was awarded to fifteen corporations; more than 80% was awarded to only 100 corporations. And as these awards have been made, the position of little business and of local business has become steadily more precarious. The government at Washington had no other choice if it were to be faithful to its obligation to manufacture the airplanes, the guns, the torpedoes and the war ships by which alone the democratic principle may now be defended.

Not only was it necessary for the government to award these contracts to the organizations which could speedily produce the weapons that were needed, but it was also necessary for the government itself to assume complete power over the economic system. So here before our very eyes, in the throes of the life and death struggle of democracy, we see exemplified the fact which we have been so slow to comprehend, that Big Business leads directly to Big Government.

This turning away from Little Business to Big Business has taken place in the face of insistent and even desperate efforts upon the parts of members of Congress and officers in the executive branch to protect Little Business. Committee hearings have been held, speeches made, bills have been introduced, executive orders have been issued, all intended to provide materials and contracts of Little Business, but the bulk of the work has gone nevertheless to the huge units.

Before Pearl Harbor I sought to establish in the Office of Production Management a division to protect the interests of Little Business. After Pearl Harbor that was dismantled and the War Production Board took its place. To Donald Glavin was committed the responsibility of speeding up the production of war materials. In this effort which he is making, he deserves and will get the support of all loyal Americans. War production comes first and we must make whatever sacrifice is necessary to help him to achieve it. Nevertheless, it must be clear to all who study this crisis that the threat to free, independent enterprise in the war effort is greater by far than it might otherwise have been if, in the years that preceded the war, we had not blindly permitted huge organizations to secure a more dominant place in our economy than was proper in the public interest. Because we did not protect little business and local business in time of peace, because we allowed central government steadily to expand instead of building up the strength of local government we find ourselves entering the war to defend democracy suffering from precisely the same problems of unemployment of men and of capital that produced Hitler in Germany and tore France asunder before the advance of the dictator's armies.

I believe it is an essential part of our defense even now to preserve little business and to preserve agriculture because the little businessman and the farmer represent practically the only ties we have left to free, individual enterprise.

In this great crisis we are not using all our material, we are not using all our capital, we are not using all our labor and this has been the result of failure to keep individual enterprise free and strong. Because we have permitted such an economic condition to arise in this country, we are compelled, in the mortal emergency of the nation, to turn the great bulk of our war contracts over to a few huge organizations with the result that displaced Little Business and displaced workers are turning to government for relief, thus only increasing the gravity of the problem.

Instead of putting Little Business, the unemployed and the farmer on a WPA scale to be supported by government subsidies drawn from the ever-deepening well of the national deficit, our effort even now should be to stimulate the investment of private capital and human labor in free, independent enterprise.

That, however, is a subject which must eventually be presented to the tax experts of the government, in the Treasury and in the Congress. We shall not find salvation for free enterprise and the capitalistic system by destroying the profit motive. Unless we adopt a wise tax policy we shall cause the springs of revenue to

any way, but it would be such a simple matter, it seems to me, to set free all of the latent energies of the people by holding forth rewards in the way of abated taxes to those who establish independent enterprise for the production of the materials we so badly need. Instead of encouraging independent enterprise, we are loaning non-productive government funds to the huge organizations which have already pushed free enterprise out of the picture.

We shall raise the whole threat to the democratic ideal if we fail to realize that the essential mark of concentration of economic power in government and in huge private organizations is that they are controlled from the top instead of from the bottom in the democratic way.

Because economic organization has developed in the national and international spheres instead of in the local sphere, the position of the individual has become more unstable. The independent private businessman and worker has been taken away from the employee, for even the executives of Big Business are today job-holders in exactly the same manner, if not to the same degree, as the wage worker. Those who occupy places of responsibility and indeed even those who occupy minor positions of more or less security with the modern huge economic organization usually have more loyalty to the organizations with which their economic lives are bound up than to the communities of which they are citizens. That, too, is only natural, because, after all, a man's job is his existence and in this complex era a man or a business executive who uses or manages the huge machines that modern society requires cannot easily change from job to job or from place to place as his father did.

So it is that in the path of the big national industrial organization there followed the big national labor organization. Big Labor, like Big Government, has been a product of Big Business, and here again the tendency is to govern from the top down instead of from the bottom up. Abuses in the field of labor, as in the field of business, often tend to be exaggerated. It is easy to find fault, it is easy to argue from the particular to the general, so not infrequently we find reasonable and able persons condemning all business organization and all labor organization. The time for that approach, it seems to me, has gone. The time is here now to recognize that organization means power and that power can be exercised wisely or unwisely, in the public interest or against the public interest. The time has come now for the people of this nation to seek the good in all economic organization and to preserve it, because, when all is said and done, the great majority of the people of America, whatever their walk of life, whatever their affiliation, are still loyal Americans devoted to the democratic ideal and to the institutions of freedom which we all cherish. They do not want to allow power to be abused.

The mood of our time is to recognize that the modern world is indeed a world of organization and that all types of citizens tend to band together to protect their separate interest, sometimes against one another and sometimes against the public interest, so in Washington today, we behold pressure groups of various kinds exerting their influence upon the national government, not only organizations of commerce and industry, not only labor organizations, but trade associations, agricultural associations and consumer organizations, all established in Washington with offices and staffs to guide the action of the government so that the particular interest may be protected.

Surely the time has come to put an end to all of these little class campaigns for separate groups and begin one big campaign for all of us. The public interest, such it is, the interest of all of the people is superior to the interest of any class or group. We must make up our mind to work together and not against one another. Prosperous business is the only guarantee that labor has that it may earn good wages. Steadily employed labor at good wages is the only guarantee that business has of a market in which it may dispose of its goods and services with profit. The best way to increase government revenue is to improve business, private business, and thus to increase employment by private enterprise.

There is a field for government. There is a field for management. There is a field for labor. There is a field for agriculture. But no one of them can be permitted to dominate the whole, not if we desire to preserve the democratic principle. Making is in search of the formula by which the responsibilities and duties of each group may be defined and democratic controls established. Instead of having each of these various divisions of society grasping for the last ounce of advantage for its own members and thereby following the sad pattern of the past in which wars over the ownership and distribution of a scarcity have served to dominate history, we must step forward into the new era of abundance which can be attained by intelligent cooperation.

- 5 -

I was pleased last week to read in a pamphlet written by Professor Alvin H. Hansen of Harvard University, and published by the National Resources Planning Board at Washington, this enlightened paragraph:

"We do not want the government to run the whole show. We do not want a totalitarian state. We want freedom of enterprise. We want freedom for collective bargaining between employers and employees. We want freedom for cooperative action. We want freedom of choice of occupation."

These are objectives which the democratic state can achieve and which, indeed it must achieve if the world is to be saved from disaster and despair. There can be no business, there can be no prosperity, there can be no culture, no education, no art, no civilization without people. The needs and the desires of people are the mainspring of all human activity. The natural resources of land and sea and air are utterly useless without people. Rich or poor, educated or uneducated, white or black or yellow, people inhabit the world and create the demand for everything that people produce. The more people there are, the greater is the demand and this in turn varies with their intelligence. The more honest and energetic they are, the more the opportunity for development and the democratic system is the only one which releases all their energies and abilities.

That is why I applaud the declaration of Professor Hansen that we do not want the government to run the whole show. No organization, least of all the organization of government, should, in time of peace, be permitted to direct the course men shall follow. The natural and inevitable result of concentrated power is the limitation of growth. The progress of the world in letters, in art, in science has been the work of free men, so democratic society must, first of all, make absolutely certain that no arbitrary power, whether it be exercised by private or public authority shall be permitted to restrain the activities of men.

It is only by setting men free to use all their energies, to work for themselves and for their families, for honor and glory and even for pecuniary reward that we can render possible the full production and the full employment which alone will pay the bills we are now incurring in defense of democracy.

MEMORANDUM FOR THE SECRETARY.

February 10, 1942.

Mail Report

The outburst of protest over the Chaney-Douglas appointments has been reflected in comments on sales of Defense Bonds and Stamps. I am therefore sending you this separate brief on letters of this type, as received up to noon, Tuesday. Subsequent criticism and comment will be added to the other report at the end of the week.

So far, we have received 24 such communications in all -- not a large number, but outstanding in proportion to the rest of the mail, and unanimous in registering disapproval of the situation. The Congressional voting of pensions which, for a while, dominated the complaint mail, has been entirely forgotten. The only reference to it came this morning in a bulky package addressed to Mr. "M. theau", from Clearwater, Minn. Inside was a typewritten slip - "Bundles for Congress - a cabbage for Morgenthau", and the bundle contained just that!

The protest mail on OCD appointments varies from anonymous postal cards to signed telegrams. Among the latter are two requesting a definite statement that funds received from Bond sales do not go into activities of this sort.

The following states are represented: Pennsylvania, New York, Washington, D. C., Minnesota, California, Montana, Washington State, Maryland, and New Jersey.

Some quotations follow:

Blane Steinberg, N.Y.C. If your Bond sales drop, blame Mrs. Roosevelt. What suckers we would be to spend money on bonds to have said money used to pay some of her favorite gets - Chaney-Douglas-Lash. Why this Gilbert-Sullivan Opera? Let men and women who know what war is, do all the work. No American has a price, and when these three take money to help win the war four thousand miles behind the \$21 a month

Memorandum for the Secretary.

February 10, 1942.

Fighting men, you can bet your bottom dollar they're not real Americans.

A Disgusted American Citizen, Washington, D. C. I saw your film about paying taxes. I would have been impressed if I hadn't recalled also that my money is going to finance Mrs. Roosevelt's travels, and salaries for her dancing friends, picture actors, parlour pinks, and glamour boys on the payroll of the OCD. So why should I rush to pay taxes or be for National unity? The billions are running down the sewers and you know it.

Anonymous - N.Y.C. (A chain letter.) I shall buy no more Defense Stamps or Defense Bonds until the Government gets rid of Mrs. Roosevelt. Why should our money be wasted by that silly woman? Ask 5 of your friends to write cards like this.

Alvina M. Van Dusey, Rochester, N.Y. As spokeswoman for a group of business women of this city, who are going to pay larger income taxes this spring than ever before, I respectfully ask you to read the two enclosed clippings. We wish to ask you if this is the way our tax money is to be spent? Not one of our group earns more than \$30 a week, and we maintain ourselves and contribute to our families.

W. Fromby, Staten Island, N.Y. For your information, four people today have - without any prompting or asking from me - said to me in different words as follows: "Why the hell should I cut my expenses and buy Defense Bonds if the Government is going to throw fat salaries to movie stars and dancing girl pals of Mrs. Roosevelt?"

Edward W. Piper, Baltimore, Md. HEADLINES in Baltimore Newspaper -- Secretary Morgenthau urges "More buying Defense Stamps and Bonds" * * * Mrs. Roosevelt recommends dancers to OCD at \$4,800.00 per. * * * Senate votes for more pensions despite plea of Byrd to end waste. * * * John Smith, Taxpayer, sees his shadow, scared - retreats, runs for cover, afraid to buy more 10-cent Defense Stamps and Bonds.

Memorandum for the Secretary.

February 10, 1942.

N. B. Matthews, Vice President, Basin State Bank, Stanford, Montana. Late in December I was asked to go to Helena for a Bond meeting and got up at 5 a.m. and drove 180 miles in the cold for the said meeting, at my own expense, even to paying for the lunch at noon for myself and the one other member from this country, who was less able to pay than I. Then we were told that we had to pay the postage on all correspondence pertaining to the defense program, as well as for ordering and remitting for Bonds, and that one-half of one man's time for selling the Bonds had to be absorbed by the bank. (Quotes Chaney clipping.) Then I also have a service from Washington which states that the State Administrators for Defense Bonds are being paid from \$4,600 to \$8,000 salaries. Apparently us little fellows on the firing line are not worth much anyway.

C. H. Longshore, Westfield, N.J. From time to time I have received from your office requests to subscribe to various issues of Savings and Defense Bonds, and have done what I felt I could in purchasing such Bonds. To use an expression of the street, "it burns me up" to hear that the funds contributed by myself and other patriotic Americans, are used in part at least, for such purposes as the Physical Fitness Division of the Office of Civilian Defense.

E. W. Bennison, St. Paul, Minn. * * * If you will check you will find I purchased \$2,000 in Defense Bonds last year, and I had planned to purchase a similar amount this year. However, after reading the reports about the activities of the Civilian Defense program, I have decided to spend no more money that might be used for such purposes as dancing, etc., or paying any movie actors' salaries. I happened to serve overseas in the last World's War, and it seems to me it would be more appropriate to get at the Japs and let the dancing go.

P. O. Huston, N.Y.C. (Telegram) Have purchased six Defense Bonds in January. Refuse to buy additional until assured my money not used to pay fancy salaries to fan dancers, movie actors or communist proteges under cloak of national defense.

Memorandum for the Secretary.

February 10, 1942.

Disgusted Patriot, Albany, N.Y. Enclosed clippings may give an inkling ^{off from} why real patriotic U. S. citizens henceforth will shy buying Defense Bonds. * * * If Mrs. Roosevelt is too dense to realize her disgraceful position, and has not the sense to resign, she should be asked to do so. She certainly is not helping to bolster the morale of American citizens. Furthermore, will you or anyone else please tell us citizens one single word she or her misfits have spoken, or one act they have done that will add to the protection or "physical fitness" of our people? * * * No more Bonds for yours truly as long as the present bunch of nitwits control our unfortunate country's policies, if any.

R. S. Woglum, Pasadena, California. We have received your literature on the sale of war Bonds and Stamps. We have been purchasing issues and intended to continue. However, since Mrs. Roosevelt seems to think this is a Roman holiday, rather than war, and we are told is squandering our Bond money for such pinks as the night club Chaney-Douglas duet, rather than permitting its full use in real prosecution of destroying the Japs and Germans, we have decided to discontinue further purchases until the rotten mess of OCD is cleaned up.

One communication which reads as follows -- As American citizens, we are willing and anxious to do our part in winning the war, but in view of the recent ruling passed, granting a pension to our "\$10,000 a year" Congressmen, and the salaries granted for the so-called physical fitness division of the OCD, (as per enclosed newspaper clipping), we are wondering if our country needs our "Bond Money" quite as much as we are led to believe. -- is signed by 26 different residents of Pittsburgh, Pa.

TREASURY DEPARTMENT

139

INTER OFFICE COMMUNICATION

DATE FEB 10 1942

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

An application has been filed by General Motors Overseas Corporation to remit a total of \$700 to the four sisters of William S. Knudsen, who are Danish subjects residing in Denmark.

A similar application was approved shortly after war broke out, when our policy with respect to such transactions had not been decided. Our policy has now been clarified, and we are not allowing remittances to be made to non-American citizens residing in enemy or enemy occupied areas. Accordingly, the application filed by General Motors Overseas Corporation will be denied.

I am bringing this to your attention, as Knudsen will probably call you on the matter.

Smith

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

139

DATE FEB 10 1942

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

An application has been filed by General Motors Overseas Corporation to remit a total of \$700 to the four sisters of William S. Knudsen, who are Danish subjects residing in Denmark.

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I am bringing this to your attention, as Knudsen will probably call you on the matter.

S. H. F.

Transactions in domestic stocks executed on February 10, 1942
for account of foreigners

(Values in thousands of dollars)

Country	Purchases	Sales	Net Purchases	Net Sales
Great Britain		2		2
Switzerland	41	16	25	
Other European Countries	9	2	7	
Canada	6	4		2
Latin America	14	5	9	
Far East	1	1		
All Other Foreign Countries				
TOTAL	71	30	41	

22 firms reporting volume and value for regular transactions.

TREASURY DEPARTMENT

141

INTER OFFICE COMMUNICATION

DATE February 10, 1942

TO Secretary Morgenthau

FROM Mr. White

SUBJECT: Exports to Russia, Free China, Burma and other blocked countries, as reported to the Treasury Department during the week ending January 31, 1942.

1. Exports to Russia

Exports to Russia, as reported to the Treasury during the week ending January 31, 1942, amounted to more than \$9,600,000, of which the chief items were landplanes, and military tanks and parts. (See Appendix C.)

2. Exports to Free China and Burma

Exports to Free China during the week under review amounted to nearly \$7 million, the largest figure for any single week since July 28, 1941. The principal item was landplanes. (See Appendix D.)

Exports to Burma amounted to \$923,000. A large percentage of the exports to Burma are destined for Free China. (See Appendix E.)

3. Exports to France

No exports to France were reported during the week ending January 31, 1942.

4. Exports to other blocked countries

Exports to other blocked countries are given in Appendix A.

SUMMARY OF UNITED STATES
DOMESTIC EXPORTS TO SELECTED COUNTRIES
AS REPORTED TO THE TREASURY DEPARTMENT
FROM EXPORT DECLARATIONS RECEIVED
DURING THE PERIOD INDICATED 1/

July 28, 1941 to January 31, 1942.

(In thousands of dollars)

	July 28 to <u>Jan. 17</u>	Week ended <u>January 24</u>	Week ended <u>January 31</u>	Total <u>Domestic Exports</u>
U. S. S. F.	\$94,669	\$ 3,880	\$ 9,608	\$ 108,157
Free China	30,155	-	6,938	37,093
Burma <u>2/</u>	8,522	-	923	9,445
France <u>3/</u>	6	-	-	6
Occupied France	2	-	-	2
Unoccupied France	4	-	-	4
Spain	2,334	78	81	2,493
Switzerland	5,279	600	906	6,785
Sweden	11,516	566	75	12,157
Portugal	5,467	6	1	5,474
French North Africa <u>4/</u>	1,731	-	16	1,747

Treasury Department, Division of Monetary Research

February 4, 1942.

- 1/ Many of the export declarations are received with a lag of several days or more. Therefore this compilation does not accurately represent the actual shipment of a particular week. The longer the period covered, the closer will these figures come to Department of Commerce revised figures.
- 2/ From September 11, 1941 to date — It is presumed that a large percentage of material listed here, consigned to Burma, is destined for Free China.
- 3/ Includes both Occupied and Unoccupied France through week ending October 4, 1941. Occupied and Unoccupied France separated thereafter.
- 4/ Includes Morocco, Algeria and Tunisia.

NOTE: Starting February 10, 1942, this report will be released on a ten day or tri-monthly basis in order to coincide with the time period of expected releases by the Department of Commerce.

APPENDIX B

Exports from the U. S. to Free China, Burma and
U.S.S.R. as reported to the Treasury Department
July 28, 1941 - January 31, 1942
(Thousands of Dollars) 1/

	Exports to Free China	Exports to Burma 3/	Exports to U.S.S.R.
July 28 - Aug. 2	395		4,523
Aug. 4 - Aug. 9	-		551
Aug. 11 - Aug. 16	309		986
Aug. 18 - Aug. 23	2		2,735
Aug. 25 - Aug. 30	1		1,023
Sept. 2 - Sept. 6	204		4,280
Sept. 8 - Sept. 13	2,281 2/		5,217
Sept. 15 - Sept. 20	3,822 2/		752
Sept. 22 - Sept. 27	110	449	2,333
Sept. 29 - Oct. 4	1,225	684	323
Oct. 6 - Oct. 11	5,312	1,157	6,845
Oct. 13 - Oct. 18	5	35	1,924
Oct. 20 - Oct. 25	269	403	5,623
Oct. 27 - Nov. 1	4,772	58	4,484
Nov. 3 - Nov. 8	1,672	342	4,552
Nov. 10 - Nov. 15	2,851	88	2,677
Nov. 17 - Nov. 22	1,228	1,021	3,581
Nov. 24 - Nov. 29	3,239	1,364	2,436
Dec. 1 - Dec. 6	791	64	3,609
Dec. 8 - Dec. 13	2,337	18	12,040
Dec. 15 - Dec. 20	111	8	4,580
Dec. 22 - Dec. 27	1	196	1,829
Dec. 29 - Jan. 3	35	2	3,993
Jan. 5 - Jan. 10	91	1,073	8,247
Jan. 12 - Jan. 17	1,695	447	5,874
Jan. 19 - Jan. 24	-	-	3,885
Jan. 26 - Jan. 31	6,938	923	9,608
Total	\$39,696	\$8,332	\$108,510

1. These figures are in part taken from copies of shipping manifests.
2. Figures for exports to Free China during these weeks include exports to Rangoon which are presumed to be destined for Free China.
3. It is presumed that a large percentage of exports to Burma are destined for Free China.

Treasury Department, Division of Monetary Research February 9, 1942

APPENDIX C

Principal Exports from U.S. to U.S.S.R.
as reported to the Treasury Department
during the week ending January 31, 1942
(Thousands of Dollars)

Total Exports \$ 9,608

Principal Items:

Landplanes, powered	2,573
Military tanks and parts	1,831
Wheat	794
Explosive shells and projectiles	394
Insulated copper wire	307
Motor trucks and chassis	288
Ethyl fluid (anti-knock compound)	257
Copper pipes and tubes	244
Wheat flour	229
Aluminum plates, sheets, bars, strips and rods	229
Sole leather	206
Refined copper	205
Brass and bronze plates and sheets	170
Coated wire, n.e.s.	142
Forging machinery and parts	119
Trinitro toluene (T.N.T.)	116
Drilling machines	115
Tool, cutter, and universal grinding machines	97

APPENDIX D

Principal Exports from U.S. to Free China
as reported to the Treasury Department
during the week ending January 31, 1942.

(Thousands of dollars)

Total Exports	\$ 6,938
Principal Items:	
Landplanes, powered (P-43)	3,510
Motor trucks	479
Printed matter (bank notes)	397
Cotton sheeting	362
Aircraft parts and accessories, n.e.s.	328
Auto replacement parts	270
Refined copper	239
Anti-tank guns and parts	175
Smokeless powder	154
Explosive bombs	130
Projectiles	111
Steel bars	110
Relief supplies - surgical and hospital	86

APPENDIX E

Principal Exports from U. S. to Burma
as reported to the Treasury Department
during the week ending January 31, 1942

(Thousands of Dollars)

Total Exports	\$ 923
Principal Items:	
Motor trucks and chassis	287
Metallic cartridges	208
Condensed and evaporated milk	98
Steel sheets	88
Iron and steel bars	46
Insulated copper wire	31
Well and refining machinery	23
Auto replacement parts	17
Portable air compressors	17
Barbed wire	16

DEPARTMENT OF STATE
WASHINGTON

In reply refer to

February 10, 1943

My dear Mr. Secretary:

I am in receipt of your letter of February 6, 1942, in which you request that an effort be made to include in the American official party to be repatriated from Japan and Japanese-occupied territory certain personnel of the Treasury Department now in the Far East.

The names of the Treasury personnel which are shown in the enclosure to your letter under acknowledgment to be stationed in Japan, Japanese-occupied China, and Hong Kong are all included in a list of American official personnel already submitted to the Swiss authorities as a basis for negotiations. Should it become advisable to open negotiations with the Japanese authorities for the return to the United States of American officials now in the Philippine Islands, every consideration will be given

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

FOR DEFENSE



-2-

be given to the matter of the presence of Treasury
personnel in Manila.

Sincerely yours,

Ordell H. Full

February 10, 1942.

Dear Mr. Pinsent:

Thank you for your letter of February 9th, enclosing a table showing gold and dollar balances for each Friday in January and for January 31st.

Sincerely yours,

(Signed) H. D. White
H. D. White,
Director of Monetary Research.

Mr. O. H. S. Pinsent,
British Supply Council in
North America,
Box 680 Benjamin Franklin Station,
Washington, D. C.

LS
2/10/42

THE BRITISH SUPPLY COUNCIL IN NORTH AMERICA ¹⁵⁰

TELEPHONE: REPUBLIC 7650



BOX 580
BENJAMIN FRANKLIN STATION
WASHINGTON, D. C.

February 9, 1942

Dear Dr. White,

In continuation of previous correspondence,
I enclose a table showing our gold and dollar balances
for each Friday in January and for January 31st.

Yours sincerely,

A handwritten signature in cursive script, appearing to read "J. H. Pincent".

Dr. H. D. White
Director of Monetary Research
United States Treasury
Washington, D.C.

AVAILABLE GOLD AND DOLLARS

	<u>1942</u>				
	<u>Jan.</u>	<u>Jan.</u>	<u>Jan.</u>	<u>Jan.</u>	<u>Jan.</u>
	<u>2</u>	<u>9</u>	<u>16</u>	<u>23</u>	<u>31</u>
Total Gold (incl. Belgian)	529	539	545	557½	570
Official Dollar Balance	<u>80</u>	<u>74</u>	<u>63</u>	<u>61½</u>	<u>55</u>
Total Gold and Dollars	609	613	608	619	625
Less: Belgian Gold	105	105	105	105	105
Scattered Gold	37	38	37	51	52
Gold reserve against immediate liabilities	<u>10</u>	<u>10</u>	<u>10</u>	<u>10</u>	<u>10</u>
Available Gold and Dollars	<u>457</u>	<u>460</u>	<u>456</u>	<u>453</u>	<u>458</u>

RECEIVED
 Treasury Department
 FEB 14 1942
 Division of
 Monetary Research

**TREASURY DEPARTMENT
OFFICE OF THE SECRETARY**

February 10, 1942.

CONFIDENTIAL

Received this date from the Federal Reserve Bank of New York, for the confidential information of the Secretary of the Treasury, compilation for the week ended January 26, 1942, 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.

dm:2/10/42

FEDERAL RESERVE BANK
OF NEW YORK

February 5, 1942

CONFIDENTIALDear Mr. Secretary: Attention: Mr. H. D. White

I am enclosing our compilation for the week ended January 28, 1942, 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. W. Knoke

L. W. Knoke,
Vice President.

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

Enclosure

Copy:hj:2-10-42

ANALYSIS OF BRITISH AND FRENCH ACCOUNTS
(In Millions of Dollars)

Week ended January 28, 1942

Partially
classified

PERIOD	BRITISH ACCOUNTS (BRITISH GOVERNMENT)							FRENCH ACCOUNTS							
	Total Debits	Gov't Expenditures (a)	Other Debits	Total Credits	CREDITS			Net Inv. (+) or Decr. (-) in Balance	Total Debits	Gov't Expenditures (d)	Other Debits	Total Credits	CREDITS		
					Proceeds of Sales of Gold	Securities (Official) (b)	Other Credits (c)						of Gov't Sales	Other Credits	In Balance
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	3,095.3(e)	900.2	195.1(e)	+229.0
War period through December, 1940	2,752.3	1,425.6	1,356.7	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	109.0	77.3	31.7	150.9	0.8	-	150.1	+ 41.9	0.3	-	0.3	0.3	-	0.3	-
Oct. 30 - Dec. 3	156.1	111.6	44.5	134.6	-	1.0	133.6	- 21.5	16.1	-	16.1	0.4	-	0.4	- 15.7
Dec. 4 - Dec. 31	88.4	69.6	18.8	51.5	-	-	51.5	- 36.9	0.8	-	0.8	0.4	-	0.4	+ 0.4
1942															
Jan. 1 - Jan. 28	102.3	73.2	29.1	69.3	-	0.5	68.8	- 33.0	0.2	-	0.2	0.4	-	0.4	+ 0.2
WEEK ENDED:															
Jan. 7	26.4	17.7	8.7	11.5	-	-	11.5	- 14.9	0.1	-	0.1	0.1	-	0.1	-
14	30.2	22.9	7.3	24.8	-	0.5	24.3	- 5.4	-	-	-	0.1	-	0.1	+ 0.1
21	24.4	16.8	7.6	10.2	-	-	10.2	- 14.2	-	-	-	0.1	-	0.1	+ 0.1
28	21.3	15.8	5.5	22.8	-	-	22.8(f)	+ 1.5	0.1	-	0.1	0.1	-	0.1	-

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) 40.8 million

Transfers from British Purchasing Commission to Bank of Canada for French Account

Week ended January 28, 1942 \$ -
Cumulation from July 6, 1940 \$162.7

million
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)

- (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.
- (f) Includes \$10.0 millions transferred from New York accounts of British authorized banks.

ANALYSIS OF CANADIAN AND AUSTRALIAN ACCOUNTS
(In Millions of Dollars)

Week Ended August 28, 1942

Strictly
Confidential

PERIOD	BANK OF CANADA (and Canadian Government)									COMMONWEALTH BANK OF AUSTRALIA (and Australian Government)						
	D E B I T S				C R E D I T S					D E B I T S				C R E D I T S		
	Total Debits	Transfers to Official British A/C	Other Debits	Total Credits	Proceeds of Gold Sales	Transfers from Official British A/C	For Own A/C	For French 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	534.8	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	16.7	55.5	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	0.5	10.2	2.8	2.1	0.7	- 7.9
Oct. 2 - Oct. 29	37.4	-	37.4	29.7	11.6	-	-	7.8	- 17.7	8.2	5.5	2.7	8.0	5.9	2.1	+ 0.2
Oct. 30 - Dec. 3	52.8	0.1	52.7	32.5	19.3	-	-	13.2	- 20.3	10.3	6.9	3.4	11.6	9.6	2.0	+ 1.3
Dec. 4 - Dec. 31 1941	47.7	-	47.7	22.2	1.2	-	-	1.8	- 2.7	4.8	1.1	3.7	2.7	2.2	0.5	- 1.1
Jan. 1 - Dec. 29 1942	39.3	-	39.3	20.8	20.8	-	-	1.1	- 6.5	1.1	-	0.2	1.1	-	10.2	+ 8.2
WEEK ENDED:																
Jan. 7	0.8	-	0.8	1.0	1.1	-	-	1.1	- 5.1	0.7	-	0.7	1.2	-	0.2	- 0.3
14	9.2	-	9.2	10.0	10.0	-	-	2.0	- 1.2	2.1	-	2.1	2.2	-	0.2	- 1.3
21	12.0	-	12.0	10.0	10.0	-	-	1.4	- 10.3	1.2	-	1.2	1.1	-	1.0	+ 0.1
28	11.3	-	11.3	10.0	10.0	-	-	1.3	+ 0.6	0.3	-	0.3	3.4	-	8.4	+ 7.8

Weekly Average of Total Debits Since Outbreak of War

through January 28, 1942 \$ 1.6 million

- * For monthly breakdown see tabulations prior to April 23, 1941.
- ** For monthly breakdown see tabulations prior to October 8, 1941.

(a) Includes \$8,000,000 paid by the Treasury Department to the War Relocation Authority for the benefit of the U. S. Army.

TREASURY DEPARTMENT

157

INTER OFFICE COMMUNICATION

DATE February 10, 1942

TO Secretary Morgenthau

FROM H. D. White

Subject: London Press Reactions, January 29-February 4, 1942.

Arrangements have been made to obtain regularly telegraphic London press digests from Colonel Donovan's office, following advice from Mr. Cassday that such reports were sent to Washington. The first of these digests have been received, covering January 29-February 4, 1942. The following are some of the more interesting highlights:

1. There is general but "temperate" approval of Beaverbrook as Minister of Production. Still considerable disappointment is expressed that the Cabinet changes do not include the creation of a smaller, stronger war cabinet. Only two papers--Telegraph and Herald--express unqualified approval of the Cabinet changes.

It is said that Sir Stafford Cripps refused to accept appointment as Minister of Supply because he was denied adequate guarantees against encroachment on his authority in that post.

2. Although general satisfaction is expressed over Churchill's vote of confidence, criticism of the government has not subsided. Such adverse criticism runs along the following lines:

- (a) Charges of government complacency and inefficiency continue.
- (b) The R.A.F. is concentrating too much on long-range bombing, which cannot knock out Germany. More dive-bombers, fighter planes and troop carriers are needed.
- (c) British treatment of India is short-sighted and undemocratic.
- (d) China's importance in the war is not sufficiently recognized.
- (e) One paper thinks the Government might profit from the example of the Soviet army, which has many generals in their thirties.
- (f) A recurrent theme is the urgency of more aid to Russia.
- (g) The Government is chided for failing to conduct a campaign to explain the new income tax to workers.

TREASURY DEPARTMENT

157

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- (f) A recurrent theme is the urgency of more aid to Russia.
- (g) The Government is chided for failing to conduct a campaign to explain the new income tax to workers.

EXCHANGE STABILIZATION FUND

FEB 10 1942

FEDERAL RESERVE BANK OF NEW YORK
NEW YORK NEW YORK

ATTENTION D. J. CAMERON

PLEASE TRANSFER BY CABLE THROUGH THE BANK OF ENGLAND, LONDON,
\$300 TO THE CHASE NATIONAL BANK, BEEKLEY SQUARE, LONDON, FOR
ACCOUNT OF LAUREN W. CASABAY, SPECIAL ASSISTANT TO THE
AMBASSADOR, AMERICAN EMBASSY, LONDON STOP YOU ARE HEREBY
AUTHORIZED TO DEBIT \$300 PLUS CABLE COSTS TO THE ACCOUNT ON
YOUR BOOKS ENTITLED "SECRETARY OF THE TREASURY, SPECIAL ACCOUNT"
STOP SCHW

(Signed) D. W. BELL

ACTING SECRETARY OF THE TREASURY

COPY

No. 3439

Habana, February 10, 1942.

AIR MAIL

Subject: (Cuban Government seeks authority to issue additional
 (peso certificates and to reduce minimum bank reserve
 (requirements

The Honorable

The Secretary of State,

Washington, D. C.

Sir:

Supplementing the Embassy's air mail despatch No. 3418 of February 9, 1942, on the Cuban peso exchange rate, and with special reference to the statement contained therein to the effect that the Cuban Government intended to issue additional Cuban peso certificates in order to meet the increasing demand for circulating media, I have the honor to enclose a copy and translation of a Presidential message to Congress dated February 7, 1942, as it appeared in today's issue of the Diario de la Marina.

The Department will note from the enclosure that the President is seeking authority from Congress to issue such additional amounts of Cuban peso certificates as may be required to meet the increased demands of the monetary market and that each peso of the proposed issue would be guaranteed by \$0.98 in gold, United States dollars or dollar exchange. In other words, the proposed issue would have a gold or dollar coverage equal to 98 per cent of its total nominal value (not 100 per cent, as mentioned in the Embassy's despatch No. 3418 of February 9).

The message states that the gold or dollar backing mentioned above would give the new issue sufficient elasticity to permit the Government to withdraw readily all or part thereof if at any future date the amount of Cuban currency in circulation were found to be in excess of the market's requirements.

In order further to increase the available supplies of circulating media, the President also requests authorization to reduce, should it be deemed necessary, the minimum reserve requirements of Cuban banks from 25 per cent to 12-1/2 per cent of their total deposits. (On the basis of aggregate deposits in local banks on November 30, 1941, of

roughly 146,000,000 pesos, the suggested 12-1/2 per cent reduction would release for circulation, at least theoretically, about 18,000,000 pesos which are now held in the banks' vaults as part of the required legal gold reserves.)

Authorization is also sought to issue Treasury notes, the amount in circulation of which could not at any time exceed 6,000,000 pesos. The proceeds from the sale of these notes would, the Embassy understands, be devoted mainly to facilitating the purchase of gold or dollars and other operations arising from the proposed issue of peso certificates. The proceeds would apparently also be used to meet urgent budgetary obligations in anticipation of future revenue receipts. The notes would mature within one year from the date of their issue and the interest and other charges thereon could not exceed 4-1/4 per cent per annum.

In addition to the above measures, the message also recommends the enactment of a 25 per cent surcharge on the existing port improvements and tonnage taxes, the proceeds from which would be devoted to the defense of Cuban navigation, harbors, etc.

The preamble to the attached Presidential message explains briefly the motives which led the President to request the enactment of the several measures mentioned above. It should be noted in this connection that insofar as the proposed issue of silver certificates is concerned, the plan outlined in the message is based to a large extent on the recommendations made in the matter by the technical mission which visited Cuba several months ago to assist the Government in its financial and monetary problems.

Respectfully yours,

Ellis O. Briggs,
Charge d'Affaires ad interim

Enclosures:

1. President's message, as published in Diario de la Marina of February 10, 1942
2. Translation thereof

File No. 351.5
JW/cd

REF: 12-7/20/42

C.
O.
P.
Y

Enclosure No. 2 to despatch No. 3439
of February 10, 1942, from the Embassy at Habana

(From Habana newspaper Diario de la
Marina of February 10, 1942)

TRANSLATION

MESSAGE

To the Honorable Congress of the Republic:

Existing circumstances resulting from the world war from which humanity is now suffering has obliged the principal industries of the United States to devote themselves almost exclusively to the production of commodities necessary for the huge conflict in which the entire world is involved.

The efficient help which the great republic is rendering its allies requires the use of an enormous quantity of raw materials, manufactured articles and foodstuffs, resulting inevitably in their substantial price increase, to which we must add increases in freights and other services which logically reflect themselves in increased prices in Cuba for such products.

The increased cost of many of the so-called articles of prime necessity consumed in Cuba has induced the Government to take very necessary protective measures for the working classes, among others the just and equitable increase in the wages which were being paid by industries and by commerce.

On the other hand, the inevitable increase in the next sugar crop, due to the necessity of Cuba's grinding all available sugar cane to supply the United States market and the other allied nations, and the impetus which will be given to the production of other Cuban produce, will result in a substantial increase in agricultural activities. All these present and future factors have affected and will affect even more our monetary market as they will require an increasing volume of means of payment, especially coined and printed money, which are the kinds preferentially used in the payment of salaries and wages.

- 2 -

There is already circulating in this country at a discount in terms of the national currency a very substantial amount of United States money which in former months did not appear in daily market transactions. This opportunity must not be lost in view of the possible establishment of a central bank, and an effort must be made by all possible means to accumulate this American money which might have to serve not only for the purpose of contributing to the establishment of the gold reserves of that bank, but also to maintain the value of our money when unforeseen factors may cause it to go to an unexpected discount.

In addition to the problem of monetary circulation which we have just outlined, the Government will be confronted with another problem resulting from the functioning of the Exchange Stabilization Fund, which the Government must maintain in all events, as it will be the most effective complement of the proposed bank. In order that the functioning of the Fund may not be obstructed as a result of the heavy exports of sugar which will be made during the early months of 1942, the Government must have available, even if only temporarily, an additional amount of Cuban money, without which it would find itself required immediately to dispose of in the market the dollars which it receives from sugar exporters.

The only feasible way in which additional amounts of Cuban money can be rapidly created to meet the emergency situation without affecting the stability of the money market when the causes responsible for the increased demand disappear, would be to issue silver certificates guaranteed by gold or dollars which [certificates] could be easily withdrawn from circulation as soon as circumstances indicate that the volume of circulating media is excessive.

With this end in view, the Executive requests the Congress of the Republic to authorize him to purchase and sell gold, dollars or dollar exchange; to negotiate short-term loans with national or foreign banking entities for the purpose of facilitating these purchases, and to issue silver certificates guaranteed by gold, dollars or dollar exchange held by the Treasury General of the Republic.

While the printing of the new certificates necessary for said issue is taking place, it is desirable to authorize the Executive to place in provisional circulation the printed but unissued certificates which may be in the Treasury General of the Republic under the custody of the commission created by Decree-Law No. 406 of August 10, 1934.

In order to give even greater elasticity to the Cuban money in circulation, Congress is requested to modify Article 180 of the existing Code of Commerce so as to authorize the Executive to reduce to 12-1/2 per cent, when circumstances so require, the amount which the banks must maintain in cash reserves against deposits.

With the dollars obtained through the functioning of the Exchange Stabilization Fund or through purchases from banking or private entities, the Government will purchase gold at the rate of 35 dollars per troy ounce and must be authorized to pay on these purchases a commission which will not exceed 1/2 of 1 per cent, and with the guarantee of this gold it will issue the amount of silver certificates which the market requires.

The issue of certificates guaranteed by dollars or dollar exchange which the Government may make will have a provisional character and will be used only until the necessary gold for their coverage can be purchased.

Both issues will be made with a coverage equivalent to at least 95 per cent of the nominal value thereof and the profits obtained thereby will be destined first to cover the expenses incurred in making the loans and other operations in connection with the purchase of gold, and the balance to the payment for the printing of the new certificates destined to increase the circulation of Cuban money and to substitute deteriorated bills presently in circulation.

Finally, in view of the urgency of this matter, the Executive must avail himself of this opportunity to inform the Honorable Congress of the necessity of duly preparing the coasts, bays, keys and ports of the Republic and the navigation against war risks, which involves additional expenditures not provided for, for which the Treasury must be provided with appropriate sources of income, for which purpose he pro-

poses to establish a 25 per cent surcharge in the port improvements and tonnage taxes established by Articles 175 and 176 of the Customs Ordinances.

In virtue thereof and in compliance with an agreement of the Cabinet, and under the authority granted me by Article 135, item b) of the existing Constitution of the Republic, I submit to the consideration of the Honorable Congress, through the Senate, the following

LAW PROJECT

Article I. Article 180 of the Code of Commerce will be amended to read as follows:

"Banks will maintain in their vaults in legal tender currency, as reserves, at least one-fourth of the amount of the deposits of all kinds which they hold.

"The Executive at any moment may reduce the amount of the reserves set forth in the preceding paragraph but it in no case may be less than 12-1/2 per cent of the amount of the deposits. The President of the Republic will also periodically and in accordance with the market requirements, fix the proportion of the several kinds of legal tender currencies which must compose that reserve."

Article II. The Executive is authorized to issue silver certificates to be guaranteed by the gold, dollars or dollar exchange in the possession of or purchased by the Treasury General of the Republic.

Article III. The guarantee of the certificates issued in accordance with this law is fixed as follows: For each silver peso placed in circulation in the form of a certificate there will be deposited in the Treasury General of the Republic in accordance with the formalities established in Presidential Decree No. 161 of January 26, 1935, an amount of gold equivalent to at least 98/100 of the gold content of the peso, of the weight and fineness established by Article I of Decree-Law No. 410 of August 10, 1934, or \$0.98 in United States currency or in dollar exchange.

- 5 -

The gold guarantee of this issue may also, as long as the circumstances warrant, be partially or wholly deposited with the Treasury of the United States or with a Federal Reserve Bank of said Republic and in that event, there will be delivered to the commission established by the above mentioned Decree No. 161 of January 26, 1935, a certificate issued by the aforementioned entities certifying to the existence of the deposit and that the same may not be withdrawn without the presentation of that certificate.

Article IV. Upon presentation and delivery of any certificate to be issued under this law, the Treasury General of the Republic will deliver to the bearer in Cuban metal money an amount equal to the nominal value of the certificate presented for conversion.

Article V. The President of the Republic is authorized to negotiate with the appropriate entity for the engraving and printing of the new silver certificates of the same denominations and designs previously authorized in the amount which is believed necessary for the strictest compliance with the present law. He may also negotiate for the printing of silver certificates in 500 peso and 1,000 peso denominations with such designs as he believes appropriate.

Article VI. The Executive is also authorized to purchase at the rate of 35 pesos ~~[dollars]~~ per troy ounce, hold ~~[conservar]~~ or sell gold, as well as dollars or dollar exchange, and to negotiate loans with national or foreign banking entities for the purpose of implementing such operations, and may give in guarantee for such loans the gold or dollars held by the Republic. The proceeds from the loans authorized by this law will be destined exclusively to the purchase of gold, dollars or dollar exchange and said loans must be paid within a period not exceeding 120 days. The Executive is also authorized to pay for the gold purchases a commission not exceeding $1/2$ of 1 per cent.

Article VII. While the engraving and printing of the certificates referred to in Article II of this law is taking place, the Executive is authorized to place in circulation the engraved and printed but unissued silver certificates which may be in the Treasury General of the Republic under the custody of

- 6 -

the commission created by Decree-Law No. 406 of August 10, 1934. As soon as the certificates referred to in Article II of this law have been engraved and printed, they will be substituted, with all the formalities prescribed by Decree-Law No. 406 of August 10, 1934.

Article VIII. The profits which might be derived from the issue authorized by the present law will be applied first to defraying the expenses incurred by the operations authorized by Article VII thereof and any remaining balance to meeting the cost of the silver certificates to be printed in accordance with the authorization granted by this law and the Law of June 23, 1936.

Article IX. The President is authorized to issue Treasury certificates or Treasury notes, the amount in circulation of which may not exceed 6,000,000 pesos, for the purpose of borrowing from any banking institutions or entities or by subscription the amounts which are considered necessary to meet budgetary obligations or to substitute revenues to be received later and which are indispensable to meet obligations against the Treasury, the interest charges and expenses on which notes may not exceed 4-1/4 per cent per annum.

The notes referred to in the foregoing paragraph may also be discounted by the Treasurer against any account, loan, liquidation or fund which is not needed at the moment.

The maturity date of these notes may not exceed one year, and for their payment pertinent receipts will be pledged as the Executive may decide.

Article X. There is established a surcharge of 25 per cent on the port improvements and tonnage taxes referred to in Articles 175 and 176 of the Customs Ordinances as regulated by the Law of February 9, 1936, and Decree-Law No. 491 of January 7, 1936.

The proceeds from the surcharges mentioned above will be devoted to the defense and protection of the navigation, the coasts, bays, keys and ports, and the President is authorized to pledge the receipts obtained from the surcharges in contracting for projects or in issuing notes or negotiating loans destined to the purposes mentioned above.

- 7 -

Article XI. All laws, decree-laws, orders, decrees and other legislative dispositions opposed wholly or in part to the fulfillment of this law are derogated, and the law will become effective upon its promulgation in the Official Gazette of the Republic.

Presidential Palace, Habana, February 7, 1942.

F. BATISTA
President.

Translated/AFN:cd

Copy:
eh:dm;lp:vw;2-20-42

Treasury Department 168
Division of Monetary Research

Date 2/11/42 19

To: Miss Chauncey

I would like this called
to the Secretary's attention today
if possible.

H.D.W.

MR. WHITE
Branch 205B - Room 214½

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 10, 1942

TO Secretary Morgenthau

FROM Mr. White

Subject: Exchange Stabilization Agreement with Ecuador

1. The State Department has urged that we resume exchange stabilization negotiations with Ecuador in order to determine, at the earliest possible moment, what sort of an agreement -- if any -- we can offer to the Ecuadoreans.

An exchange stabilization agreement in an amount up to \$5 million is one of a four-point program of aid which was handed to the Ecuadoreans at Rio by Under Secretary Sumner Welles in an effort to provide some offset for Ecuadorean bitterness over the boundary settlement with Peru.

You will recall that in your conversation with Finance Minister Illingworth, on August 15, 1941, you informed him that the Treasury would sympathetically consider Ecuador's request.

2. Ecuador's gold and foreign exchange position is good.

Gold reserves have been increasing and the Central Bank reserve ratio is now about 61 percent. Ecuador's exports have improved and foreign exchange has been carefully rationed. The official exchange rate has been firm and black market transactions are unimportant.

3. Will you indicate an early hour at which the negotiations can be taken up with you?

This agreement could follow the lines of our agreement with Mexico, which includes the Government and the Central Bank as co-signers or possibly could be an agreement between the two Treasuries.

Dr. Eduardo Salazar -- Ecuadorean Financial Counselor -- is in Washington for a very short time and Under Secretary Welles has asked if anything can be done to provide Dr. Salazar with a draft agreement before he returns to Quito.

We have had several meetings on this matter with representatives of the State Department and Treasury people and agree that it is desirable to make the stabilization arrangement in view of all the circumstances.

Treasury Department **170**
Division of Monetary Research

Date February 11 19 42

To: Miss Chauncey

From: Mr. Southard

This is a routine matter which was handled in conversations between Mr. White and Messrs. D. W. Bell, Pehle and B. Bernstein.

NEV

This telegram must be paraphrased before being communicated to anyone other than a Governmental agency. (BR)

Lima

Dated February 10, 1942

Rec'd 12:14 p.m.

Secretary of State,

Washington.

122, February 10, 10 a.m.

The Central Reserve Bank of Peru has presented for certification a consular invoice covering 52 bars of gold containing ounces 24,707.058691 at \$35 per ounce valued at \$864,747.05 excluding shipping charges. The gold was received from Japan prior to December 7. Minister of Hacienda Dasso says that Mr. White of the Treasury Department told him at the Rio Conference the shipment would be permitted. The Bank wishes to make the shipment on the motorship ACONCAGUA sailing tomorrow. Please expedite instructions.

HONWEB

BB

INCOMING CABLEGRAM

REC'D: February 10, 1942

FROM: Lisbon

DATED: February 10, 1942

Federal Reserve Bank of New York,
New York, New York.

No. 6.

In order to strengthen our gold reserves request
you obtain license and convert \$5,000,000 into gold to
be held by you earmarked our account. You will receive
Bank of Manhattan, New York, \$2,000,000, Chase Bank,
New York, \$2,000,000, City Bank, New York, \$400,000.
Please cable execution.

(Signed) Banco de Portugal

(Received by telephone from Federal Reserve Bank of New
York - 11:55 a.m. - 2-10-42)

COPY

173

Notes

F. Dietrich

MSV

PLAIN

Stockholm

Dated February 10, 1942

Rec'd 4 a.m., 11th

Secretary of State,

Washington.

244, tenth.

Riksbank returns February 7 loans and discounts 868 gold holdings, 947 foreign exchange, 766 note circulation 1539 all million crowns. Existing financial agreement between Riksbank and Bank of Norway extended March 31, 1943 covering all Norwegian obligations maturing 1943. Social board cost living index January increased two points to 150. Swedish trade delegation now negotiating Budapest, also visiting Bratislava for informal discussions explore possibilities trade agreement. So far small volume Swedish business Slovakia transacted barter basis. Same Swedish delegation expected after completing negotiations Budapest discuss certain matters German authorities regarding Swedish trade with Holland, Belgium. Sweden February 7 declared free foot mouth disease by local medical board. Washing, cleansing compounds and honey placed under Government control.

According Oslo advices Sweden purchased 2000 tons herring and negotiating delivery further 3500 tons.

INFORM COMMERCE, AGRICULTURE, TREASURY.

JOHNSON

MG

Copy:bj:2-12-42

C
O
P
YDEPARTMENT OF STATE
WASHINGTON

February 10, 1942

In reply refer to
FD 893.51/7401

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses copies of telegram No. 34, dated February 9, 1942, from the American Commissioner, New Delhi, India.

Enclosure:

From Commissioner, New Delhi,
No. 34, February 9, 1942.

Copy:bj:2-10-42

C
O
P
Y

NWN
This telegram must be
paraphrased before being
communicated to anyone
other than a Governmental
agency. (BR)

New Delhi

Dated February 9, 1942

Rec'd. 12:39 p.m.

Secretary of State,
Washington.

RUSH

34, February 9, 4 p.m.

Fil telegrams are subject to indefinite delay.

Department's 21, January 31, 7 p.m. was not received
here until today. Fox has already left Karachi.

See my 24, February 1, 4 p.m.

WILSON

HPD

Copy:bj:2-10-42

C
O
P
Y

175

DEPARTMENT OF STATE
WASHINGTON

February 10, 1942

In reply refer to
FD 811.515/1326

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses copies of telegram no. 94, dated February 9, 1942, from the American Consulate, Batavia, Java, Netherlands Indies, reporting that Treasury checks in the aggregate amount of \$111,654.02 were delivered to the American Consul at Batavia by the Javasche Bank on February 7, 1942.

Enclosure:

From Consulate, Batavia,
no. 94, February 9, 1942.

Copy:ec:2-9-42

EJ
This telegram must be
paraphrased before being
communicated to anyone
other than a Governmental
agency. (BR)

Batavia

Dated February 9, 1942

Rec'd 6:26 p.m.

Secretary of State,
Washington.

RUSH

94, February 9, 5 p.m.

Reference is made to paragraph two Department's
telegram no. 22, January 21, 5 p.m.

Treasury checks aggregating United States dol-
lars 111,654.02 (repeat one hundred eleven thousand
six hundred fifty-four point zero two) cashed by
the De Javasche Bank, were delivered to me on February
7, 1942.

FOOTE

GL

TREASURY DEPARTMENT

177

INTER-OFFICE COMMUNICATION

DATE February 10, 1942

TO Secretary Morgenthau

FROM Mr. Dietrich

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£47,000
Purchased from commercial concerns	£ 0,000

The market sterling remained at 4.05-5/4, with no reported transactions.

The Cuban peso, which was offered at 1/2% premium at yesterday's close, moved off further to a premium of 3/8% today.

The Venezuelan bolivar advanced 30 points to close at .2800.

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

Canadian dollar	11-3/4% discount
Argentine peso (free)	.2304
Brazilian milreis (free)	.0516
Colombian peso	.5775
Mexican peso	.2065
Uruguayan peso (free)	.5310

We sold £600,000 in gold to the Bank of Portugal, which was added to its reserved account. An additional \$4,400,000 in gold will be sold to that bank tomorrow.

We advanced \$9,307,000 in gold from the reserved account of the Bank of Mexico. This was the amount of gold which the Bank of Mexico sent to the United States in four shipments during the last few days, to be used in liquidating the \$14,000,000 payment due under agreements with the United States Government.

In order to increase the Stabilization Fund's gold balance, we purchased \$4,000,000 in gold from the General Fund through the New York Assay Office.

The Federal Reserve Bank of New York reported that the Bank of Mexico would send \$2,722,000 in gold from Mexico to the Federal for its account, for sale to the New York Assay Office.

In London, spot and forward silver remained at 23-1/2d and 23-3/16d respectively, equivalent to 42.57¢ and 42.78¢.

The Treasury's purchase price for foreign silver was unchanged at 35¢. Eddy's settlement price for foreign silver was also unchanged at 35-1/2¢.

We had no purchases of silver today.

BRITISH EMBASSY
WASHINGTON, D.C.

PERSONAL
AND SECRET

February 10, 1942.

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,

(For the Ambassador)

R. I. Campbell

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D.C.

BRITISH MOST SECRET

(U.S. SECRET)

OPTEL No. 37

Information received up to 7 A.M., 9th February, 1942.

1. NAVAL

One of H.M. submarines was damaged in collision with an enemy destroyer which she had unsuccessfully attacked off ARGOSTOLI on the 8th and is returning to port. A Free French corvette was torpedoed and sunk on the 8th off NEWFOUNDLAND.

2. MILITARY

LIBYA. Nothing to report.

SINGAPORE. 8th. The enemy after heavy artillery fire landed in unknown strength on the northwest coast on a front of about 5,000 (5,000) yards. On the same day a small force landed on UBIN ISLAND, JOHORE STRAIT, and our patrols withdrew after inflicting casualties.

BURMA. Reference OPTEL No. 45, BURMA paragraph. Small force in PAPUN area turned out to be thirty Siamese irregulars who have been dispersed by the police forces.

NETHERLANDS EAST INDIES. AMBOINA is reported almost entirely in enemy hands although guerilla fighting continues.

3. AIR OPERATIONS

WESTERN FRONT. 8th. Coastal command sent twenty-three aircraft which included some R.C.A.F., on anti-shipping operations off the Dutch coast. A 4,000 ton merchant vessel was hit. Three aircraft are missing including one R.C.A.F. and one crashed. A Hudson bombed a 3,500 ton ship off the Norwegian coast leaving her low in the water and listing. One of our fighters shot down an enemy bomber near OSTEND.

LIBYA. 7th/8th. Wellingtons claimed at least three hits on shipping at TRIPOLI (L) and naval sources report that aircraft set on fire a merchant vessel near LAMPEDUSA ISLAND.

MALTA. 7th. In addition to the raids reported yesterday sixty-one enemy aircraft attacked HAL FAR and LUQA aerodromes. At the former serious damage was done to stores and administrative buildings and many craters were made on the aerodrome. 7th/8th. Further craters were made at HAL FAR and some aircraft on the ground were hit. Buildings at KALAPPAH were severely damaged.

BURMA. 7th. Hurricanes made a low altitude sweep over MOULMEIN and attacked suitable objectives. 8th. Bombers, in support of our ground

- 2 -

forces attacked a concentration of boats and barges near PAAN. Enemy fighters were intercepted by Hurricanes and American Tomahawks over MINGALADON on the 7th. Two Japanese fighters were destroyed, two probably destroyed and four damaged. 7th/8th. MINGALADON and its satellite were bombed with little damage.

4. ICE CONDITIONS

BALTIC. The belts are closed. Navigation in the Sound is just possible with icebreakers.

NORTH SEA. The inner end of OSLO FJORD is probably closed. Southern Norwegian ports east of and including KRISTIANSAND (S) are difficult of access. There is ice up to the ten-fathom line off the west coast of DENMARK. HAMBURG is probably closed. Traffic in and out of the Dutch ports north of ROTTERDAM must be very restricted.

DENMARK STRAIT. There is a channel about sixty miles wide between the edge of the pack ice and the northwest point of ICELAND (G).

February 10, 1942

Dear Col. Donovan:

This will acknowledge receipt of your letter of February 4th, transmitting the contents of a cable received from your representative in London. I was very much interested in reading this information.

Yours sincerely,

(Signed) E. Morgenthau, Jr.

Col. William J. Donovan,
Coordinator of Information,
Washington, D. C.

File NMB.



UNITED STATES GOVERNMENT
 COORDINATOR OF INFORMATION
 WASHINGTON, D. C.

February 4, 1942

The Honorable
 The Secretary of the Treasury
 Washington, D. C.

My dear Mr. Secretary:

The following is a cable we have received from our representative in London:

"1. In their home propaganda, Germans continue to avoid revealing Russian place names, and have sought for six weeks to maintain fiction that German line is substantially unchanged since December 7. Attribution of rumor of new German spring offensive to British sources indicated new propaganda technique. Prominence given to alleged German air supremacy in Russia.

"2. America - raw material shortage represented as making Roosevelt's armament figures ridiculous. Their technique is to refrain from discussion of American arms program while plugging American vulnerability. Indications of 'blockade of U.S.A.' soon featurable. Parallels with American production of the last war uncarefully avoided.

"3. Large scale ridiculing of Churchill blaming him for unreliability of British propaganda, for collapse of British Empire, for failure of Libyan campaign to produce dividends: report Imperial dissension; prophecies of American domination of British Empire apparently intended to (a) conform to home campaign to make Germans think 'news bad with us but worse with British', (b) discredit result of Washington consultations.

"4. U-boat sinkings in Canadian and North American waters given great prominence as proving long range capabilities of operation assuring cutting off of enemy's supply lines in all theaters of the war. Practically no news about America except sinkings and Pacific reverses, very little about Rio."

Sincerely,

William J. Donovan
 William J. Donovan

TREASURY DEPARTMENT

183

INTER OFFICE COMMUNICATION

DATE February 10, 1942

TO Secretary Morgenthau

FROM Mr. Kamarck

Subject: Summary of Military Reports

French Aid to the Axis

On February 3 and 4, three French ships arrived at Tunis and another was unloaded there. It had been reported previously that all four were carrying trucks and supplies from Marseilles to Tunis destined for Libya.

(U.K. Operations Report, February 8, 1942)

Use of American Planes

During the night of February 5/6, two Consolidated Liberators (B-24, four motor bombers) from Egypt dropped seven tons of bombs on the Tripoli docks. (The main use the British have put their Liberators to in the past, I believe, is in the ferry service to North America and in Coastal Command work. In the latter use, they have performed reconnaissance and patrol duty and on occasion acted as long-range fighters in protecting convoys from the German long-range bombers.)

(U.K. Operations Report, February 8, 1942)

Conditions in Europe

Passenger train services have recently been still further drastically reduced in Germany and German-dominated territory. The immediate reasons are the severe weather, essential military movements, transportation of fuel, and the food and coal shortage. The reductions reflect the increasing strain upon the European railroad system.

(U.K. Operations Report, February 8, 1942)

RESTRICTED

G-3/2857-230: No. 627 H. I. D., W. D. 11:00 A.M., February 10, 1942.

SITUATION REPORTI. Pacific Theater.

Philippines: The Japanese have been repulsed again, after suffering severe casualties, during intermittent but savage engagements along our front lines. Our artillery executed counter-battery missions on hostile guns firing from the Cavite coast. Seven Japanese planes were shot down yesterday. There is no change in the Visayans or at Mindanao.

Hawaii: No further reports of enemy activity.

Malaya: Press reports indicate that severe fighting is taking place on Singapore Island, with the Japanese claiming substantial gains in the north. An artillery battle continues across the Johore Strait.

Burma: No important change. Light patrol activity continues.

Australasia: This morning's Netherlands East Indies communique announces that the Japanese have made a landing at Macassar (southwest Celebes) and states that communications between Java and Sandjerasin (southern Borneo port) have been interrupted. Elsewhere in this area the situation remains relatively unchanged with both sides active in the air.

West Coast: No reports of hostile activity.

II. Eastern Theater.

There is no change in the general situation. (A situation map will not be issued this date).

III. Western Theater.

No operations of any importance have been reported.

IV. Middle Eastern Theater.

Ground: The press reports the establishment of a North-South British defense line in the vicinity of Gazala. British patrols are said to be operating considerable distances to the north and west of this line.

Air: The B.A.F. is concentrating against Libyan ports, airdromes, and Mediterranean convoys.

Axis air activity is directed against ground troops and supply lanes to Cyrenaica. According to the press, the German Air Force yesterday bombed a British convoy in the eastern Mediterranean. Results were not announced.

RESTRICTED

February 11, 1942
9:40 a.m.

Mr: Hello.

Sen JOP
McKellar: All right, Mr. Secretary.

Mr: How are you?

Mr: Fine.

Mr: I'm sorry to miss your company this morning.

Mr: Well, I am, too. I met Mr. Sullivan yesterday, one of your assistants.....

Mr: He told me.

Mr:and I told him that I'd see it if I could and I went last night and saw it.

Mr: Well, that was good.

Mr: I don't get the full vote of it, though, Mr. Secretary.

Mr: You don't?

Mr: I wish you'd go up before the Committee.

Mr: I see. Well, now, when would you like me to come, Senator?

Mr: Any time you wish.

Mr: Well, what day?

Mr: Well, we're going to start hearings on the whole bill today, but we'd make that to suit your convenience.

Mr: Well, are you going to be having hearings this afternoon?

Mr: I don't think they'll last longer than - today - longer than the noon hour.

- 2 -

HMJr: Well, my trouble is, Senator, I'm trying to make up my mind how to borrow a billion and a half dollars the cheapest way.

Mc: You'd better go on and do that, and we'll hold it until you.....

HMJr: How about tomorrow?

Mc: Tomorrow will be all right.

HMJr: Would eleven o'clock be agreeable?

Mc: That would be fine.

HMJr: Well, eleven.....

Mc: We meet at ten-thirty.

HMJr: Well, I tell you - could I just tell you confidentially why I said eleven?

Mc: Well, it's not necessary. We'll be delighted to have you at eleven o'clock tomorrow.

HMJr: I'd like to tell you.

Mc: Yes, sir.

HMJr: Because I'm due over at the White House tomorrow.

Mc: Oh, yes. Well, that's all right. Sure.

HMJr: And so - but I always count a little bit on the President being a little late.

Mc: Yeah.

HMJr: All right.

Mc: That'll be all right. Any time you come tomorrow morning.

HMJr: Eleven o'clock?

Mc: That'll be all right.

HMJr: And have you made up your mind whether you think.....

Mc: Well, I haven't made up my mind. I've talked to Senator Glass about it.

HMJr: Yes.

Mc: He's going to come up there and see this picture today, I think.

HMJr: He's coming at ten-thirty.

Mc: Yes.

HMJr: Yes.

Mc: Well, you come before the Committee tomorrow.

HMJr: I'll come tomorrow.

Mc: All right.

HMJr: Thank you so much.

February 10, 1942

Norman Thompson
George Buffington
John Sullivan
Secretary Morgenthau

I will be busy all day today on my financing so I would like you people to find out when the deficiency Bill will come up in the Senate. Will Senator Glass call for a hearing? I would like to have an opportunity to show "The New Spirit" to Senator Glass and as many members of his Committee as possible. I want to put up a fight in the Senate for this appropriation and the other part of the appropriation - the three hundred and some odd thousand which was cut out by the House. Just as soon as the three of you know what the procedure is, please give a memo to Lt. Stephens and he will bring it in to me. Just remember that we want to put up a real fight in the Senate and try to get this appropriation back.

Taken care of 2/10/42 - N. Thompson

February 11, 1942

Senator Glass came to see me at 10:30 this morning, and I showed him the Donald Duck picture. He said, "It is very impressive but I don't know whether it would make anybody want to pay his taxes who isn't going to pay his taxes any way."

I tried to get him to advise me as to whether I should go ahead with it, but he wouldn't say what I should do. So I said I would call on him tomorrow morning before I go before the Committee at eleven and ask his advice after he has had time to think it over.

February 11, 1942
10:43 a.m.

HMJr: We're going up on the Hill at eleven tomorrow.

John
Sullivan: Yes, sir.

HMJr: Sometime after lunch I want to see a draft
of a justification for those things that have
to do with taxes.

S: Yes, sir.

HMJr: Will you have it ready for me?

S: That's Gulick, Paul, Buffington, Tarleau and
Blough.

HMJr: Yeah.

S: I will.

HMJr: But I want to have it ready after lunch without
fail, please.

S: Yes, sir. And what about Donald?

HMJr: Well, I'll take care of Donald.

S: Righto.

HMJr: I'll take care of Donald.

S: All right.

February 11, 1942

Mr. Norman Thompson, Mr. George Buffington

The Secretary

Please let me have a memo, if possible, before ten-thirty, just how much we owe Disney and how much we owe Technicolor on the picture, "The New Spirit".

February 11, 1942

Secretary Morgenthau

Mr. Thompson

Respecting your memorandum of February 11, concerning amounts due Walter Disney and Technicolor, you are advised as follows:

We have an itemized bill from Technicolor embracing the total expense which amounts to \$38,140.29.

We have received no formal billing from Walter Disney but have been given to understand that the total expense for his participation in this picture will amount to \$46,500.

Our agreement with Mr. Disney was to the effect that we would not be obligated for the production of this film by his company for an amount in excess of \$40,000 covering out-of-pocket expense.

It appears that certain incidental contingent expenses have arisen in connection with this project which were not considered as a part of the direct production costs, such as furnishing 5,000 posters, still shots for newspaper purposes, traveling expense for conferences, long distance telephoning, and other incidentals, the total of which could be, according to verbal understanding with Mr. Disney, fixed at \$6,500. Hence the total of \$46,500 would represent (a) \$40,000 covering the cost of the production of the film in accordance with the understanding had with Mr. Disney, and (b) \$6,500 for incidental expenses, making up the total of \$46,500 for his out-of-pocket expense.

CSB:rem

February 11, 1942
10:44 a.m.

Mr. Secretary: Hello.

Mr. Secretary: Buffington.

Mr. Secretary: George.

Mr. Secretary: Yes, sir.

Mr. Secretary: I've just got this memo from Thompson saying that the Disney now comes to forty-six five.

Mr. Secretary: Yes, sir.

Mr. Secretary: I've talked to you personally on this at least three times on the cost.

Mr. Secretary: Well, the....

Mr. Secretary: And every time you said we were going to keep it under forty.

Mr. Secretary: We have, Mr. Secretary. One day last week for the first time I heard from Roy Disney that their actual cost would be in excess of forty thousand, but we are not in any way obligated to pay more than forty; and the conversation which I told you about that I had with Walt Disney in California before I left was would we be happy if the cost were around thirty-six thousand. Then on Sunday - last Sunday - I had word from New York that they'd received a memorandum from the California office stating that the actual cost was forty-six five; but we're in no way obligated to pay forty-six.....

Mr. Secretary: Well, then, why give me a memo like this?

Mr. Secretary: Well, I did explain to Charles Bell that those were the figures that I had been given by Disney most recently; but we're not obligated to pay - under our arrangement with him - more than forty thousand, but I wanted you to know the facts and the actual.....

February 11, 1948
10:44 a.m.

WJr: Hello.

Secretary: Buffington.

WJr: George.

George Buffington: Yes, sir.

WJr: I've just got this memo from Thomson saying that the Disney now comes to forty-six five.

S: Yes, sir.

WJr: I've talked to you personally on this at least three times on the cost.

S: Well, the.....

WJr: And every time you said we were going to keep it under forty.

We have, Mr. Secretary. One day last week for the first time I heard from Roy Disney that their actual cost would be in excess of forty thousand, but we are not in any way obligated to pay more than forty; and the conversation which I told you about that I had with Walt Disney in California before I left was would we be happy if the cost were around thirty-six thousand. Then on Sunday - last Sunday - I had word from New York that they'd received a memorandum from the California office stating that the actual cost was forty-six five; but we're in no way obligated to pay forty-six.....

WJr: Well, then, why give me a memo like this?

S: Well, I did explain to Charles Bell that those were the figures that I had been given by Disney most recently; but we're not obligated to pay - under our arrangement with him - more than forty thousand, but I wanted you to know the facts and the actual.....

- 2 -

HMJr: Well, I - when it came to ordering anything over the thousand reels, you told me that the thing was only up to thirty-six.

B: I think I told you thirty-seven, Mr. Secretary.

HMJr: Well, let's say thirty-seven. I can't remember. Now it jumps to forty-six five.

B: No, sir. The figure I gave you was on Technicolor for the eleven hundred reels, plus a hundred additional sixteen millimeter reels.

HMJr: But look, the last time you gave me a figure on how much Disney was, it was under forty, wasn't it?

B: Yes, sir. Yes, sir. That was the information I had at that time, and on Sunday they called me from New York, telling.....

HMJr: Remember the discussion that you said that you thought it very important to keep it under the eighty?

B: Yes, sir, I do remember.

HMJr: And I agreed with you.

B: Yes, sir.

HMJr: Well, let's keep it under eighty.

B: All right, sir. We'll be.....

HMJr: I mean - because you told me that you thought it was very important because you told the committee to keep it under eighty.

B: That is correct, sir.

HMJr: Well, I'm going to hold you to that.

B: Why, that's all right.

HMJr: I'm going to hold you to that.

B: That's fine.

HMJr: Because I wouldn't order the extra two hundred reels. I wouldn't do anything. Do you remember?

B: I remember.

HMJr: And you told me yourself you told the committee under eighty, and you were going to keep it under eighty.

B: Well, Mr. Secretary, as far as I am concerned, we are obligated for no more than forty.....

HMJr: Then don't send me stuff showing that they have spent more.

B: All right, sir.

HMJr: Don't send it to me. I've got enough worries.

B: May I have that back, and I will change it.

HMJr: I don't want it in the record.

B: All right, sir.

HMJr: I mean - well, there's no sense putting this up to me. I mean, it's your job - you've had the job and you said you'd keep it under eighty and I'm going to expect you to keep it under eighty.

B: I will do that, Mr. Secretary.

HMJr: All right.

B: May I have that memorandum back?

HMJr: You certainly can.

B: All right, sir.

TREASURY DEPARTMENT

196

INTER OFFICE COMMUNICATION

DATE February 11, 1942

TO Secretary Morgenthau
FROM George Buffington

Respecting your memorandum of February 11, concerning amounts due Walter Disney and Technicolor, you are advised as follows:

We have an itemized bill from Technicolor embracing the total expense which amounts to \$37,790.29 plus estimated shipping expense, \$350.00, or a total of \$38,140.29.

We have received no formal billing from Walt Disney Productions. Mr. Walt Disney assured me today their bill would not exceed \$40,000.00 in accordance with our agreement dated January 7, 1942.

G.B.

TREASURY DEPARTMENT

196

INTER OFFICE COMMUNICATION

DATE February 11, 1942

TO Secretary Morgenthau
FROM George Buffington

Respecting your memorandum of February 11, concerning amounts due Walter Disney and Technicolor, you are advised as follows:

We have an itemized bill from Technicolor embracing the total expense which amounts to \$37,790.29 plus estimated shipping expense, \$350.00, or a total of \$38,140.29.

We have received no formal billing from Walt Disney Productions. Mr. Walt Disney assured me today their bill would not exceed \$40,000.00 in accordance with our agreement dated January 7, 1942.

G.D.

February 11, 1942
10:50 a.m.

FINANCING

Present: Mr. Eccles
Mr. Ransom
Mr. McKee
Mr. Goldenweiser
Mr. Piser
Mr. Bell
Mr. Haas
Mr. Murphy
Mr. Hadley
Mr. Morris
Mrs. Klotz

H.M.JR: While shaving this morning I think I got the answer to this, gentlemen. We will pull the same thing that we did before. We will offer the people a choice of a bond and a short note as an anchor to the windward, you see, and then if Singapore falls on Friday, we have got that thing. It worked before, and I think it will work again. Not that same note, but another one. A new note for an anchor to the windward.

MR. MURPHY: How can you do that on a cash offering, Mr. Secretary?

H.M.JR: Now, Henry, don't ask a lot of smart aleck questions. Why the hell do you think I am trying to do it?

MR. MURPHY: Pardon me, Mr. Secretary--

H.M.JR: Why do you think I am trying to do it?

- 2 -

You think up something to get the people to buy a billion and a half dollars so that they will take it.

MR. MURPHY: I am sorry, Mr. Secretary. I meant quite well.

H.M.JR: What do you mean?

MR. MURPHY: My problem is merely this, that if we offer two issues, we will customarily have to name the amount of each issue.

H.M.JR: No you don't. You are wrong. Leave it purely one issue.

MR. BELL: We had an issue one time, I believe, Henry, where we offered a billion and a half and gave them their choice, and we allotted proportionately on the basis of subscriptions received. I think we did that one time several years ago. It is a little difficult to do, but I think we did that once.

(The Secretary held a telephone conversation with Mr. Sproul and Mr. Rouse as follows:)

February 11, 1942
10:53 a.m.

40Jr: Hello.

41Jr:
42Jr: Hello.

43Jr: Are you both on the wire?

44: Yes, we are.

Robert
45Jr: Yes, sir.

46Jr: I've got this suggestion to make, and I'd like to get your reaction - if not right away, at least after you've had a chance to think about it.

47: Yes.

48Jr: I think in view of much - well, different kind of advice that I'm getting, I'd like to make this suggestion, that we offer this - let's say this two and a quarter bond, and then if anybody doesn't like it, let's have a short note as an alternative.

49: Well, that's just the suggestion we were going to make to you.

50Jr: Well, that shows that I must be smart.

51: (Laughs) I can't admit that. Modesty forbids.

52Jr: Yes. Well, and I leave - what I - the only thing that I think I may be different from you, I mean, not set any amounts.

53: Not set any amounts of either.

54Jr: No, let them decide.

55: Yes.

56Jr: A billion and a half.

57: Yeah.

- 2 -

- HMJr: And then they can subscribe either to a bond or a note, just as they want to.
- S: I see. Well, we were thinking in terms of a billion on the bond and a half a billion on the note. Well, we'll think that over.
- HMJr: No, the reason I'm doing it my way is that I hope - I'd made the note just as unattractive as possible. Hello.
- S: Yeah.
- HMJr: But then if we should be unfortunate enough that Singapore should fall on Friday, why - and they want to buy, oh, something with a, say, eight thirty-seconds margin, a note, you see?
- S: Yeah. Well, it's there.
- HMJr: As a catch-all. On the other hand, if this market has just fallen because they're getting ready for the financing and if Friday - well, we've made a bottom - and the thing works, we might only sell fifty or a hundred million, see?
- S: Yes, I see. Well.....
- HMJr: It's an anchor to the windward, that's my idea.
- S: Yes, I see. Well, as I say, we've been thinking along the same lines and with fixed amounts and.....
- HMJr: No, I don't want fixed amounts.
- S: You do not.
- HMJr: Well, I say I don't want it - I think it would be a mistake.
- S: Well, it has the virtue of not seeming so much a concession to a possible unfavorable development which we'll have to face whenever we do

- 3 -

financing from here on.

- HMJr: Well, I know, but you don't have a big military disaster hanging over your head the way we have right now.
- S: Not every week, no.
- HMJr: I hope not.
- S: No. But we will undoubtedly have a possibility of bad situations constantly with us for some time to come.
- HMJr: Well, the only place I differ - I think making it a billion and five hundred million - that shows that we're five hundred million scared. And the other way, we've just got it there if somebody is frightened or if something goes wrong.
- S: Well, you might say you were a billion and a half scared then.
- HMJr: Well, that would be the worst.
- S: Yeah.
- HMJr: Think about it.
- S: Well, we'll think about it.
- HMJr: Think - I would hate to make it a billion and a half a billion. Maybe there's something wrong with me, but I wouldn't mind doing it my way.
- S: Yes, I see. Well, we'll think about it and give you our view on it.
- HMJr: But - I was going to put it up to this group at eleven o'clock, and I wanted you to have a chance to think about it.
- S: All right. Now when will you want to talk to us again?
- HMJr: Well, it will be right around twelve.

S: All right, fine.

HMJr: Thank you.

H.M.JR: I am sorry I jumped on you, Henry.

MR. MURPHY: That is perfectly all right.

H.M.JR: I apologize.

MR. MURPHY: Well, you can't expect to have Singapore fall without being jumped at. My troubles are minor.

H.M.JR: Well, everybody's troubles are relative, but you just keep making your suggestions. Just forget I ever said it.

MR. HAAS: Could I throw another one--

H.M.JR: Let's see if Henry has another suggestion.

MR. MURPHY: No, Mr. Secretary. As far as I can remember, the action that is proposed to be taken is - I can't recall the precedent that Mr. Bell speaks of, but I think it is quite feasible technically. The only objection to it - the principal objection to it I see is the one that Mr. Sproul mentioned, that it would appear we were--

MR. BELL: That is the thing that occurs to me. I am wondering if it is a sign of weakness here when maybe a little strong heart is needed?

MR. HAAS: I have got an idea that might help out.

H.M.JR: Well, it is just a concession to the times, that is all.

MR. BELL: Yes, I agree with that.

H.M.JR: And I had it this morning, but then you had these fellows come in here this morning from the Guaranty, and this is the kind of advice they give you, "We won't buy anything over five million dollars - five years unless we are asked."

MR. HAAS: Mr. Secretary, you know--

- 4 -

H.M.JR: Just a minute. Then he turns around - I said, "What do you think the Treasury should do, only sell long-term governments?" I said, "How do you make that out? You won't buy any, but you tell us to sell long-term governments."

I think if you price this thing low enough that - now, I was amazed. I thought people would say - and here is this fellow - what is this man's name?

MR. HAAS: Conway.

H.M.JR: He can't make up his mind until Friday morning whether he is going to subscribe. I said, "You mean to say that you don't know today whether you are going to subscribe Friday?" And he has got to - get this. They have one-third of all the excess reserves in New York.

MR. MORRIS: Well, that is always the Guaranty's attitude, you know. Whenever it is shaky, they always call their loans.

H.M.JR: But - which all goes - I have got - why do I see these people? I want to look at their teeth and see how sound and how sharp they are, and here is a fellow sitting with one-third of all the excess reserves, and he doesn't know today whether he will buy a bond on Friday. And I told him--

MR. BELL: Well, I think--

H.M.JR: He said, "Unless somebody tells me to." I said, "Nobody is going to tell you to."

MR. HAAS: He wished he had a little more time. He thought he conveyed the wrong impression on that.

MR. BELL: Yes.

H.M.JR: Listen, George, I ask - when a man comes down and he is my guest and I ask him three times, "Will

- 5 -

you or won't you subscribe--"

MR. HAAS: That is right.

H.M.JR: And each time he tells me - how did he put it? "Well, we don't know whether we - " he wouldn't answer me.

MR. HAAS: He said it was a market proposition. He kept repeating.

H.M.JR: Well, there is such a thing as a fellow says, "I come down and I am not coming in, Morgenthau puts me, with my back against the wall, and says, 'Are you or aren't you - '" I asked him three times, and he wouldn't answer me. I knew what he meant, I thought I did, namely that he would buy and sell, but I wasn't sure. Did he clear that up?

MR. BELL: That is what he meant. They have a trading desk, you see.

H.M.JR: I did ask him three times, didn't I?

MR. BELL: That is right. But he said, when he went out, he thought he had left the wrong impression. He didn't want to leave the impression with you that the Guaranty wasn't behind this program. They are, one hundred percent.

H.M.JR: Well, he did leave that impression.

MR. BELL: He said he was sorry he didn't have a little more time. He wanted to clear that up.

H.M.JR: Well, he had his chance.

MR. BELL: He just left with the Treasury the Guaranty attitude that has been a policy for five years. There is no doubt about it.

H.M.JR: Dan, the only difference between that and

- 6 -

a lot of the others, this fellow was honest. This fellow was being honest, and you know--

MR. BELL: Except--

H.M.JR: Dave, aren't there a lot of people feel that way, but wouldn't tell me so?

MR. MORRIS: Yes, but the Guaranty is outstanding in their attitude toward things. They are notorious. They really are.

H.M.JR: How many correspondents have they got?

MR. MORRIS: Oh, that is very important, yes.

H.M.JR: And I said to Mr. Conway, "What do you tell somebody when you call up?" He said, "Naturally, there is only one thing to tell them, I tell them what I do myself."

MR. MORRIS: Sure. No, I agree with you in looking at it that they are a big company.

H.M.JR: I would much rather have a fellow come down like that than say, "Morgenthau is wonderful, how are you doing?" and, "We are back of you," and then go out and knife me. I would much rather have that kind of a fellow. He was perfectly frank with me. I mean, he was being very honest. I will bet you that they have - what, a couple of thousand banks who are correspondents?

MR. BELL: They have a lot of them.

MR. MORRIS: They have a lot of them.

H.M.JR: They are one of the--

MR. MORRIS: They are one of the big correspondent centers.

MR. BELL: They have got three or four hundred

- 7 -

million dollars in outside deposits.

H.M.JR: When you get a man like that calling up and everybody saying, "We won't buy anything over a five-year note, we don't know until Friday morning whether we will buy a bond or not," they need a couple of Donald Duck pictures.

MR. HAAS: We made an analysis, Mr. Secretary, of the holdings of governments by the large New York banks and ninety-five percent of the governments were five years or less, not only the Guaranty but all the large banks up there.

H.M.JR: Say it again?

MR. HAAS: We made an analysis of the government holdings of all the large New York banks, and the governments which - in aggregate these large New York banks held, ninety-five percent of them had maturities of five years or less, so you see his situation is - the whole New York situation is that way; and, if outsiders call in, they are calling in to a bank which operators sort of like a central bank and their situation is entirely different. It isn't new. It has been that way for some time.

H.M.JR: Oh, I know that, but it is - well, it doesn't help you sell it.

MR. HAAS: No, particularly with the reserve situation.

H.M.JR: And we are just at the very inception of this program. I mean, we are just - I heard now, Dan, it is up to a hundred and fifty billion, the war program.

MR. BELL: It probably is, yes. I don't think these things going up, Mr. Secretary, change the budget picture any. They contemplated all of these.

H.M.JR: All of that?

MR. BELL: Yes.

(Mr. Eccles, Mr. Goldenweiser, and Mr. Piser entered the conference.)

MR. ECCLES: I don't know what happened to the others. We were late, and they didn't show up, so I said we would come on over here.

H.M.JR: For discussion, after we get this thing settled, Marriner, I would like very much to talk to you about this excess reserve situation, because, with only a little over a billion - eleven hundred million, for instance, in New York, the Guaranty was in here this morning, and they have three hundred fifty million of it.

MR. ECCLES: The Guaranty?

H.M.JR: Yes.

MR. ECCLES: Well, of course it is - the situation isn't the same with each bank.

H.M.JR: No, but here they have it, and they frankly say, "We won't buy and keep anything over a five-year note." I am just telling you, see. They can't make up their mind until Friday morning whether they will subscribe to a bond or not. If they do, it is just for trading purposes, and they control a third of the excess reserves in New York. It is not healthy.

MR. BELL: That would be the case even--

H.M.JR: It is not healthy.

MR. ECCLES: Of course it gets down to the question of whether we want to finance this through the banks. Now, if that is what the Treasury wants--

H.M.JR: You know what we want. We want to get every dollar we can from every kind of money outside of the banks, but then you and I know when we have done that

we have still got to go to the banks.

MR. ECCLES: Yes, that is right, but of course what--

H.M.JR: You and I know we have still got to go to the banks.

MR. ECCLES: The way we feel is that we haven't gone nearly as far as we can go outside of the banks.

H.M.JR: I agree, but I am just looking forward, not too far, you see. What, Marriner?

MR. ECCLES: Well, we have--

H.M.JR: It makes a difference in the feeling.

(Mr. McKee and Mr. Ransom entered the conference.)

MR. ECCLES: And as was indicated in this--

H.M.JR: Come up here, fellows. I can't see that far any more. I am getting old and decrepit.

MR. RANSOM: You are not missing a great deal if you don't see Dan and me.

H.M.JR: Well, let me decide that.

MR. MCKEE: I was late for a cause this morning.

H.M.JR: A good cause?

MR. MCKEE: Ever hear of Mr. Giannini?

H.M.JR: Yes.

MR. MCKEE: Well, we are working for a good cause.

H.M.JR: Did you see him?

MR. MCKEE: No, it was another problem out there.

- 10 -

H.M.JR: Just another one, was it?

MR. ECCLES: Let me read just this--

H.M.JR: One with us or one with the SEC?

MR. McKEE: No, it is a banking problem.

H.M.JR: Your own?

MR. BELL: We are involved.

MR. RANSOM: You can get involved very easily.

MR. BELL: We don't want to. We want you fellows to keep it.

MR. RANSOM: That is what we are trying to do.

MR. BELL: O.K.

H.M.JR: Keep it until this afternoon anyway.
(Laughter) Do you mind if I just repeat what I said for the benefit of these gentlemen?

MR. ECCLES: Go ahead.

H.M.JR: I said as soon as this financing is over I would like very much to talk to you people about the excess reserve situation, because we have just had the Guaranty Trust people here, and they have been very frank. Of the eleven hundred million excess reserves in New York, they have three hundred fifty, and they say, very frankly, they won't buy anything over a five-year note, and they can't make up their mind until Friday morning whether they will buy a bond or not. They will only buy it for speculating purposes. They have got a third of all the excess reserves.

Now, Marriner says, "Do you want to finance through the banks?" and I said, "No, not now." I want to get every dollar I can, but before long I will have to, but on the other hand if the banks in New York would be a

- 11 -

little bit more interested in bonds than they are, it would just give me a - more customers, that is all, and I really think that we have got to take a look at it.

MR. ECCLES: Let me just read this--

H.M.JR: I think you have to take a look at it. Not this morning.

MR. McKEE: I can verify that story they told you about the Guaranty Trust Company. The Guaranty Trust Company has done a better job with the liquidation of their portfolios than every other bank in New York, and when they tell you three hundred fifty, don't forget that that bill covers the entire district.

H.M.JR: That is the point.

MR. McKEE: And that - take the Guaranty and the Chase out of the picture, there is only two or three others that are really liquid to take care of themselves.

H.M.JR: Then you take it that the banks for all over the country - I said to Mr. Conway, "What do you tell a bank that calls you up?" I suppose they have got what, a couple of thousand correspondents?

MR. McKEE: I imagine so.

H.M.JR: I think so.

He said, "Naturally we tell them what we do ourselves."

MR. ECCLES: Well, that would indicate that no matter what the excess reserves were, if they take the attitude of the Guaranty Trust, they just don't want long bonds. It isn't a question of reserves. They have got reserves and could buy if they want to, but they just don't want to.

H.M.JR: But my point, there are banks in the New York district that would buy bonds if the reserve situation

wasn't so tight.

MR. McKEE: Well, they will all buy them, but they will sell them.

MR. ECCLES: That is right, they won't hold them.

MR. McKEE: There is no--

MR. ECCLES: That is the difficulty.

MR. McKEE: The New York picture, if we might take a minute to discuss it, is that they offer both in '41 in the first six months before realizing that their deposit liability has become stationary. They ended the year with - about where they started in '41 with a very much increased portfolio which cut into their liquidity. They really did that because of the necessity for earnings.

MR. ECCLES: Here is a memorandum that we gave you the morning Jesse was here. It was on October 7. I don't know whether you got a chance to read it, but it covers this very point, that no matter what the excess reserves may be, it doesn't necessarily mean that banks would buy long bonds at these rates, that it isn't a question of the reserve in itself that will do it, and that the more inflation you get irrespective of reserves, the higher the rate goes, that that has been true of other countries, that with an inflationary development, interest rates have gone up irrespective of the supply of money. I just - just look at that again in the light of what you said.

H.M.JR: I won't do it now--

MR. ECCLES: No. Better have the boys look at it too.

H.M.JR: I will. I will circulate it.

MR. ECCLES: It is one that we left back in October.

Now, there is just one thing I would like to say, Henry, on this - just a very short thing. It is on this memorandum we sent over here last week. It is the closing paragraph.

"Within the terms of the general financing program, we suggest the establishment and maintenance of such a pattern of rates does not require the excessive volume of excess reserves which has characterized recent years."

That doesn't say immediately. That is recent years.

"It does contemplate that should excess reserves shrink to a point that endangers the maintenance of the pattern of rights, that is, whatever pattern we decide upon, the Reserve System will provide a sufficient volume of reserves to enable the banks to assist the Treasury's financing to whatever extent is necessary."

H.M.JR: Well, I had--

MR. ECCLES: I mean, that is--

H.M.JR: That is fine if you don't mind my saying, if you will carry through.

MR. ECCLES: Well, there is a commitment we have put down in black and white.

H.M.JR: Well, then just as soon as we get by this income tax, the money flows in and out, and we see where the thing settles, wouldn't you say around the first of April?

MR. ECCLES: Well, I would say at least then, yes. I would think so. I would like--

MR. McKEE: You mean when it would be settled and starting to go back?

H.M.JR: Yes.

MR. McKEE: Before that, I would say.

- 14 -

H.M.JR: Whenever you can see where it leaves us, then we ought to talk about what would be the wise thing to do.

MR. ECCLES: This currency situation is, of course, pretty serious, and that has been responsible for a very large drop in the excess reserves because of the amount of hoarding. You take at this time of year you would naturally expect the currency in circulation to be less than it was during the holiday period, but it reached a new peak here just last week.

MR. BELL: It didn't come back in January?

MR. ECCLES: Well, some of it, but it didn't--

MR. McKEE: Not very much.

MR. ECCLES: A small amount only.

MR. McKEE: In certin districts, Dan, that is all.

MR. ECCLES: It is still going into - they are still going into hoarding.

MR. McKEE: And another thing, in addition to that, is that your Savings Bond program is bringing on market liquidation from the mutuals and a lot of other people, where people are converting their savings into Defense Bonds, and you get more market liquidation than you probably do pick up in Defense Savings Bonds.

MR. ECCLES: The drive to get current savings rather than existing savings.

MR. RANSOM: Mr. Secretary, on your suggested timing of a consideration of this, don't you think we could, between now and the first of April through contacts with your own staff and otherwise, give a more complete exploratory trip into this whole field than waiting until the first of April? I think--

MR. BELL: Immediately?

MR. RANSOM: ... collectively we ought to be able to project our thinking into that period almost now.

H.M.JR: Well, if you can. I was trying to be fair. I didn't want to crowd you.

- 15 -

MR. ECCLES: You suggested a day or two ago, though, that we do just that, that we get together on this memorandum. Now, if we get together and discuss the memorandum that we submitted, that would open up this--

H.M.JR: Well, I think we ought to--

MR. BELL: We can't escape that subject in that memorandum.

MR. ECCLES: That is right. We can't escape every aspect of it.

MR. McKEE: Now, we have got this present thing to meet, I mean your financing with limited purchasing power in the Street.

H.M.JR: That is right.

MR. McKEE: Again I might raise the question I raised the other day. May I ask you directly? Do you feel that you are obligated to go your billion and a half now plus your ten percent? Could you go your - a billion and take some additional?

H.M.JR: No.

MR. McKEE: You feel you have got to go the billion and a half?

H.M.JR: Definitely. I have got to.

MR. RANSOM: I think once having announced a billion and a half you couldn't recede from that.

MR. McKEE: He will take the plus ten anyway, won't you, Dan?

MR. BELL: Well, it doesn't always go to ten. It might be five, you see.

H.M.JR: And we are not putting anything in for the Government account.

- 16 -

MR. BELL: No, I am not.

MR. McKEE: Then how soon can you, to offset that additional money, how soon can you stop selling bills, around the first of March?

MR. BELL: Stop altogether?

MR. McKEE: Not put any bills out.

MR. BELL: We could stop any time we wanted to.

MR. McKEE: Because we are going to take additional money. Your balances are going to be well preserved.

MR. BELL: I contemplate running the balances down below a hundred million by March 14, and we will go in with practically no balance.

H.M.JR: You don't mean below a hundred million?

MR. BELL: Yes, in the Federal Reserve Banks. I will draw no money out of the bank depositaries but go into the tax payment date with a very small balance, practically no balance, and then it will have to be - they will have to build up out of tax receipts in ten days, and in addition pay off four hundred fifty million dollars worth of bills.

MR. McKEE: Four hundred fifty million--

MR. BELL: Plus tax bills.

MR. McKEE: Could you pay off some bills prior to that time, Dan? Could you afford to pay off bills prior without rolling them over?

MR. BELL: The only way would be to call money from the depositaries which would be just a wash.

MR. McKEE: Yes, just a wash there.

MR. ECCLES: If you let your balances run down to where you propose, it will be all right.

MR. McKEE: What I was trying to figure out and just thinking out loud was how can we put money in the market in New York between now and March 15? Should we start a bill buying program if you can't afford to let your bills run off?

MR. ECCLES: If they let their balances run down it takes care of it.

MR. McKEE: He wants to keep his balances up, which is good.

MR. BELL: No, I don't. I am letting my balances in the Federal Reserve banks at the present time run down below three hundred million, and I am going to try to let them run down by the twenty-fifth, which is the payment date of this new issue, to around a hundred million. Then we will get cash on the new issue. We are going to let that cash run off by meeting the expenditures from day to day plus paying off a hundred and fifty million dollars of bills, three issues of two hundred million dollars each. We will have heavy expenditures in the first ten days of March, more, I am sure, than enough to exhaust our balances. So we may have to call some money from the banks between the first and the fourteenth, but in spite of that, I am going to let my balances run down to a hundred million or less.

MR. ECCLES: In Federal?

MR. BELL: In the Federal, yes, so that we won't have to call anything beginning the fourteenth. We will let our balances build back up to around three hundred and we will pay off four hundred fifty million, at least, of bills and we can pay off another hundred and fifty if we want to and pay off five or six hundred million dollars in tax notes.

MR. McKEE: I am just putting forth this thought. If the Open Market Committee would start a bill buying program that would equal to - in amount to what your roll-over would be. How much would that relieve the New York situation in your opinion?

- 18 -

MR. BELL: I don't know. The fourth, eleventh, eighteenth, - three one hundred fifty million dollar issues. That would be four hundred fifty million dollars, would be the maximum roll-over in that period. According to the New York banks' own figures given by Rouse and Sproul the other day in making their statement on the figures that you have just indicated, that is, the paying off of the four hundred and fifty or the six hundred million, letting your balances run down, the New York situation will not - their funds will not - their balance - I don't mean their balance, I mean their reserves will not drop over this period.

MR. BELL: Just about level out.

MR. ECCLES: That is right.. And if that works out the way they have figured it, this program will not upset the market at all.

MR. BELL: I don't believe it will.

MR. ECCLES: I don't either.

MR. BELL: I don't believe it will.

MR. ECCLES: And you wouldn't need to do what John indicated.

MR. BELL: That is right, but we can always do that.

MR. ECCLES: You can always do it. If we get to the point we can always go and buy whatever bills are necessary in the market any time and, of course, we would be able to buy direct pretty quick, it looks like, if we need to.

MR. McKEE: Mr. Secretary, do you think that Conway's statement was so pointed that it was more or less trying to direct your hand by giving his own picture? I doubt very much whether he wouldn't come along--

H.M.JR: No, I don't think he was doing that. I think he was just being very frank. He said, "This is nothing new. We have been this way all the time. Of course, if somebody asked us--" I said, "Nobody is

going to ask you." You mean, whether he was trying to put me on the spot?

MR. McKEE: Or whether he was trying to develop your financing according to his own needs.

H.M.JR: No. I would ten times rather have a man like that come in here who is very frank and tell you what he thinks than to have some of these other people. No, there was nothing I could take objection to.

MR. ECCLES: There are a lot of banks that won't go into notes now. They won't do it.

MR. BELL: I wouldn't be surprised, though--

H.M.JR: I don't object to a man like that.

MR. BELL: He is--

H.M.JR: What did you say?

MR. BELL: I wouldn't be surprised if it isn't discussed the next time the board of directors meets.

H.M.JR: What?

MR. BELL: The question of how long they should go. He has gotten down here and found out what our program is and what we have got to do to finance this war, and I think he was a little concerned when he went out of here.

H.M.JR: If he was, then--

MR. BELL: It was a good thing to have him down.

H.M.JR: Then it was a good thing. I must have handled myself all right.

MR. BELL: You did.

H.M.JR: I was very anxious to be courteous to him.

- 20 -

MR. BELL: You were courteous and I think he appreciated your asking him, and I think it just set him to thinking, don't you, George?

MR. HAAS: Yes.

MR. BELL: When he went out of here, that may be we are not following the right policy. I think he was thinking about it because he wanted to come back and make it clear that they were not - they were behind the program.

H.M.JR: Well, there was nothing in here that would give you any idea that he was. (Laughter)

MR. BELL: That is the reason I think it will be discussed in the next board meeting.

H.M.JR: When a man can't make up his mind until Friday morning whether he wants to buy a Government Bond, there is something the matter with him. Well now, look, gentlemen, what I would like to do, if it is agreeable to you, I sent telegrams yesterday to Mr. Young of Chicago, Mr. Fleming of Cleveland, and Mr. Young of Boston. Get them on the wire and we can put them on the loud-speaker. I asked them to give me what they thought. Is that all right?

MR. ECCLES: Sure. They were supposed to find out what the banks wanted?

H.M.JR: This is the telegram: "I will telephone you Wednesday forenoon and get your opinion as to what your customers would like in connection with our financing. I would appreciate your checking with people in your district between now and noon."

MR. ECCLES: Glad to hear it.

H.M.JR: Have you people changed any since I have seen you last?

MR. ECCLES: We haven't discussed it any.

- 21 -

MR. McKEE: We haven't been together since.

MR. ECCLES: The market has shown a little weakness in this range of maturity that was considered and there has been a - there has been this aspect of it, whether to put out a billion of the two and a quarter, and a half billion of a note. It would be my personal judgment that we ought to be bold in this thing. We have got to be bold in this thing. We have got a lot of financing to do, and it is just going to be done. If the Fed has to do it all. It is one of those things that has got to be done, and I would say, let's be bold about it and put out the one issue of the billion and a half with a - as far as I am concerned, I would be willing to agree, and I think the Open Market Committee - I would think they would - if that was the decision of the Treasury to put out one issue, that we would give the market what ever support was necessary to see to it that the issue didn't go below par and that it--

MR. McKEE: Your next refinancing is when, Dan?

MR. BELL: It ought to be April.

MR. McKEE: Refinancing?

MR. BELL: Refinancing?

MR. McKEE: Yes.

MR. BELL: New financing would be in April.

MR. MORRIS: July.

MR. BELL: No refunding until--

MR. McKEE: No refunding?

MR. BELL: The first refunding is July and then that is a call security--

MR. MORRIS: July 1.

MR. BELL: ... of the Home Owners' Loan. We don't have to do that. It is eight hundred seventy five million, I think.

H.M.JR: Well, the only suggestion that I have to make this morning is that we do that and then follow that thing that - so that we have a note as an anchor to the windward.

MR. ECCLES: That is, do one and a note.

H.M.JR: Well, offer a billion and a half and give them a choice of the two and a quarter and then have a note and cut the note very fine, maybe eight thirty-seconds, you see.

MR. ECCLES: Yes.

H.M.JR: And if Singapore should fall on Friday, and somebody gets scared, it is there, you see. I mean, cut the note very fine.

MR. ECCLES: Don't you think they have written off Singapore by now?

H.M.JR: Well, I asked some of them, and the surprising thing is, there was only one man said to me, "Well, if Singapore falls, I will buy more than ever." Everyone said, "Well, it won't be so good."

MR. McKEE: They won't be market-wise.

H.M.JR: There was only one fellow said, "If Singapore falls, I will go out and buy heavier than ever," which is a pretty bad state of affairs. It is all right for the President to talk about complacency being a thing of the past. He should say that. I haven't met it in the last two days, I am sorry to say.

MR. McKEE: No, it isn't.

H.M.JR: I haven't met it in the last two days. But I think - think that little wrinkle over, you see.

MR. ECCLES: You mean the option?

H.M.JR: Yes.

MR. ECCLES: Of course, if you cut the one fine and you give the other - you price it fairly liberally, they--

H.M.JR: I will.

MR. ECCLES: They certainly are not going to take the note.

H.M.JR: Well, it is just there--

MR. ECCLES: Would it be a short note? How long do you have in mind?

H.M.JR: Oh, somewhere around three or four years.

MR. McKEE: I think we might as well prepare ourselves, whether we have to meet it or not, that the circumstances surrounding the present day situation may prepare a secondary market here that is bad. Now let's hope we don't have it but let's prepare that if we do have it we know - we are ready to handle it. I think a lot of things could happen that would just make our secondary market of the two and a quarter a real problem, but there is going to be a lot of - there is going to be a lot of subscriptions re-sold immediately. But if that - they are going to work faster because they thought of Pearl Harbor when they had a premium and it just disappeared over the week end, and right on top of Singapore, if Singapore is still standing, and there is any premium in subscription, aren't they going to sell their rights?

MR. ECCLES: We ought to stand ready to buy them.

MR. McKEE: Well, that is--

MR. ECCLES: I mean, what difference if they want to sell - if it is a bill, if it is five hundred - I mean, if it is a hundred million or if it is five hundred million, it just seems to me that we have got the job to do, we have got to determine it and put it out and then go ahead. That is the way I look at it.

MR. McKEE: That is right.

MR. ECCLES: I don't think there should be any--

MR. McKEE: We have got to be prepared to meet it.

H.M.JR: That is encouraging to hear you men talk like that.

MR. ECCLES: After all, I don't think - I think we want to try to feel that it - but I don't feel that we want to be concerned about the financing job. It has got to be done and we have got to put ourselves to do it and I think it is just a question of when the market knows we have made up our mind that we are going to do it and at what rates we are going to do it, they can take it or leave it, and I think we are going to have a little different picture.

MR. RANSOM: It is only natural that the market is trying to mix profits and patriotism in a somewhat equal degree. That is almost an irreconcilable situation facing what this country faces today, and I think they are going to take their cue ultimately from the Treasury's attitude toward this situation, and in so far as the Federal Reserve can back the Treasury's attitude I think those two things together are going to make the pattern of thinking that is going to dominate this situation from now on. I think it takes courage and boldness and a definite policy.

(The Secretary held a telephone conversation with Governor Young of the Federal Reserve Bank of Boston as follows:)

(The Secretary held a telephone conversation with Mr. Fleming, President of the Cleveland Federal Reserve Bank as follows:)

8-23V

February 11, 1942
11:31 a.m.

Governor Roy Young: Hello.

HMJr: Governor Young?

Y: Yes.

HMJr: Morgenthau.

Y: Oh, yes.

HMJr: Can you hear me?

Y: Yes. Can I go in another room for a minute?

HMJr: Yeah.

Y: It'll only take me a half a minute.

HMJr: That's all right.

Operator: Hello. Hello.

HMJr: Yes.

Operator: Just a minute, please, for Governor Young.

Y: Hello. Hello.

HMJr: Hello. Mr. Young.

Y: Yeah.

HMJr: Morgenthau. You're on a loudspeaker in my room. I wanted to tell you.

Y: Yeah.

HMJr: And the Open Market Committee, plus my own people, are listening. Hello.

Y: Yes.

HMJr: Now, would you mind telling me how you find things in your district in regard to our next financing?

- 2 -

Y: Well, promptly after I got your wire, Mr. Secretary, we got in touch with about thirty-five banks and insurance companies.

HMJr: Yeah.

Y: We didn't go beyond that.

HMJr: Yeah.

Y: The banks yesterday seemed to think about two and a quarter with the maturity in the fifties. About fifty-three to fifty-five. Now, I realize that the banks are always a little high.

HMJr: Yeah.

Y: Because some of the banks didn't want to go beyond three years.

HMJr: I see.

Y: They thought on that one and an eighth; and, of course, they always estimate a little high, too. One bank thought they might go to five per cent at one and a quarter.

HMJr: Yeah.

Y: And had you called me yesterday, that's what I would have said to you.

HMJr: Yes.

Y: Now this news is very bad.

HMJr: Yes.

Y: Some of it I think was anticipated by many people; I think even if they go beyond Singapore a good deal of that is anticipated.

HMJr: Yes.

Y: I don't see how we're going to get any good news for some time to come, so the problem will be

with you for some - for three or four months I think. However, there is this situation. If you try to put an issue out simultaneously with bad news, even if it's anticipated, you know the public as well as I do. If on the other hand the anticipated news is out, and it really comes out worse than anticipated, an issue is still possible.

HMJr: Yeah.

Y: I think that's a reasonable line of reasoning on the whole situation. Now, I did get some intimation that they're expecting a tightening situation in New York. That I don't know about. I don't know how heavy the New York banks would go into this. I don't know what position you can make with the Open Market Committee, or with the Federal Reserve in case this should slip somewhat.

I talked with some of my associates in the bank this morning - some of those that have more to do with the market than I do. They thought I was a little unduly alarmed. It would be extremely unfortunate to have it slip. Hello.

HMJr: Hello. I'm here.

Y: Yeah. Now is that reaction far away from the others?

HMJr: Well, I think that possibly Chairman Eccles can talk to you best himself as to what the Open Market Committee is ready to do.

Y: Yeah.

HMJr: And I think that - (talks aside) wouldn't you like to say something?

Marriner
Eccles: Hello, Roy.

Y: Yeah.

E: With reference to what the Open Market would do,

we haven't had any formal meeting; but based on the authority that the Executive Committee has and the authority that the Executive Committee has given to New York, and the general understanding with reference to Treasury markets, it would seem to me that there would be no question whatever about the Executive Committee carrying out a buying program to whatever extent was necessary.

Y: Yeah.

E: That was our attitude before, and I see no reason whatever why it should be any different now. The - certainly it would be my attitude and, as I say, there has been no formal meeting of the Committee. Rouse - I mean, Allan and Hugh are not here today. They were here to a meeting a day or two ago, but they decided they'd prefer not to come in today unless it was necessary.

Y: Well, how much am I off the location?

E: Well, I think that on the - what you say about the issues, it seems to me the two and a quarter is in line; and likewise, if a note is to be put out, the note seems to be in line. I would not be - you may know more about the market picture up there, but it would be my impression that the country is pretty well - has had bad news so continuously - that they pretty well discounted it and I think that the situation calls for some boldness on the part of the Government - God, if Britain could finance themselves when they were being raided right and left, it seems to me we shouldn't have any problem to do any financing that's necessary if we just make up our mind what we're going to do and go out and do it and give the support to the market that's necessary.

Y: Well, wouldn't you have to - if this did slip, wouldn't you have to go beyond the market?

E: How do you mean?

Y: Well, I mean, if they're not taken. For instance,

- 5 -

this was what they said yesterday, and it just looked like a push-over on a two and a quarter with the maturity in the fifties.

E: Yes. Fifty-two, fifty-four; fifty-three, fifty-five.

Y: Yeah. Now, today I would hesitate about calling them back on it.

E: Yes.

Y: Now, my people in the bank say I'm unduly alarmed about that; but if the thing should slip some way, shape, or manner, shouldn't go - you know how bankers are - supporting the market in another issue might not be so hot, and you might have to go out and ask these banks to take it with an understanding from the Federal that we'd take it off their hands at par.....

E: We could do that if we had to.

Y:after thirty days.

E: That's right.

Y: Now, do you think that we can announce that ahead of time?

E: Well, I don't think you're going to need to. You can get this subscribed to. We always get a heavy over-subscription. It's a question of getting it subscribed once - and once and a half or twice seems fantastic.

Y: Yeah.

E: I think you're going to get it subscribed.

Y: I think probably we're pretty much in agreement then.

E: It's a question of your secondary market. They'll take it in the first instance. There won't be any question about that. It's a question of your secondary market.

- Y: Yeah. Well, I was a little skeptical about that; but I don't know, I guess I had a - I was unduly alarmed last night.
- E: Just a second, Roy.
- Y: What?
- E: Just a second. Just one second; hold the line.
- Y: Yeah.
- E: Your inquiry for the short-time paper, that is, the three year; that is, the note instead of the bond - has that inquiry come from the large banks in Boston and that area?
- Y: That's right.
- E: I see. Any of it come from the country?
- Y: Well, the country banks seem to be interested in the longer bond.
- E: Yes. Uh huh. Earning.
- Y: As far as the insurance companies are concerned, they're interested in rate rather than maturity, most of them.
- E: Yes. Uh huh.
- Y: But there seems to be a favorable reaction to two and a quarter in the fifties - that's fifty-three to fifty-five.
- E: Uh huh.
- Y: One company said they would rather see the two and three eighths at fifty-five, fifty-seven; but there's only one company that talked that way.
- E: Uh huh. Well, that's all I have. Just a minute. Let me see if the Secretary has anything more. That's all, Roy.

Y: Yeah.
E: All right. Well, that's all. Thanks.
Y: All right. Good-bye.
E: Good-bye.

February 11, 1942
11:41 a.m.

WJr: Hello.

Operator: Mr. Fleming in Cleveland.

WJr: Have the Chicago wire ready for me.

Operator: I will.

WJr: Hello.

Mr. W. J. Fleming: Good morning, Mr. Secretary.

WJr: Hello, Mr. Fleming. You're on the loud-speaker in my room and the Open Market Committee are here listening besides the Treasury people.

F: Yeah.

WJr: I wanted you to know. Tell me, what have you found amongst the banks?

F: They're pretty dull, shifting towards the reopening of the two of 1949 and '51.

WJr: Just say that again.

F: A reopening of the two's in 1949 and '51.

WJr: Really?

F: Yeah.

WJr: Put it all in that one spot?

F: Well, they are favorable to a note.

WJr: What's that?

F: A note - probably one to one and a quarter.

WJr: Well, how would they divide it?

F: Well, I had no discussion as to the percentages, as to the dividing of it, but they thought it

- 2 -

should be broken up in two pieces.

HMJr: Two pieces.

F: Yeah.

HMJr: Does that come - you don't have any insurance companies out there, do you?

F: We have one of them. We have one insurance company. Of course, they say they're three per cent minded.

HMJr: Yeah.

F: And they want a long maturity with a high rate, you know.

HMJr: Yeah. Well, let me see whether any of the Federal Reserve people want to ask anything.

How is the feeling toward this? I mean, do you think they'll subscribe about the regular amount?

F: Yes, I do.

HMJr: You do.

F: Yeah.

HMJr: I see.

F: I think they're interested in it. I think the banks in this issue will go through all right with anything you want.

HMJr: Well, thank you very much, Mr. Fleming.

F: You're very welcome.

HMJr: Thank you.

MR. BELL: They have the Central Union Life out there and they want a two and three eighths '57-'59 or '59-'61.

MR. ECCLES: Union Central, do you mean? Isn't that Cincinnati?

MR. BELL: It is in that district. The fellow there calls me up every time we have a financing.

H.M.JR: What do they want?

MR. BELL: A two and three eighths, '57-'59 or '59-'61, wherever it would fit. This suggestion of re-opening the '49-'51's also came from the Travelers, you remember. They said two issues or split the amount in two, and re-open the two's for '49-'51 for seven hundred fifty and have a '61-'63. Two and a half of that amount also.

H.M.JR: Well, I don't think - as far as I am concerned if we are going to do the bond I would just as lief do it two and a quarter.

MR. McKEE: Would you want to do two bonds?

H.MJR: No.

MR. McKEE: In a bond market that hasn't really got a lot of demand.

H.M.JR: No.

MR. ECCLES: I think your suggestion that the two and a quarter - giving them the option of subscribing to a three year note, for instance a note - say a one and an eighth of a June maturity. That is three years and three months or maybe three and an eighth of October. At least get it so that it is pretty thin so that they lean toward the bond.

H.M.JR: I wouldn't give them more than eight thirty-seconds.

MR. ECCLES: Well, if you can figure it. The trouble is something that will figure around that. I think that is right. Eight to twelve.

MR. McKEE: Have you got any issues outstanding that you could --

H.M.JR: No.

MR. BELL: Forty-five in September and --

MR. HADLEY: You couldn't give eight thirty-seconds on any of the outstanding ones.

MR. McKEE: You couldn't?

H.M.JR: They are below, aren't they?

MR. HADLEY: Yes.

MR. ECCLES: Where do you fellows figure a--

(The Secretary had a telephone conversation with Mr. Young, President of the Federal Reserve Bank of Chicago as follows:)

February 11, 1942
11:45 A.M.

236

Operator: Go ahead.

Mr. J.: Hello.

Mr. C. S. Young: Hello. Young speaking.

Mr. J.: Mr. Young, Morczenbau. You're on my loudspeaker and, besides the Treasury, members of the Open Market Committee are listening. I just thought I'd tell you.

Mr. J.: All right.

Mr. J.: Now - how do you find things in - in your district? What would they like to have?

Mr. J.: Well, I have checked a - oh, probably twenty-four.....

Mr. J.: Yes.

Mr. J.: ..banks and corporations, insurance companies, and now, for example, the National Bank of Detroit, which is a large buyer - why, they would rather have a - a long term of a billion and a short term of five hundred million around five years.

Mr. J.: Yeah.

Mr. J.: With a short term.

Mr. J.: Yeah.

Mr. J.: And the maturity of the two and a quarter's about fifty-three to fifty-five or fifty-four - fifty-six.

Mr. J.: Yeah.

Mr. J.: And the Detroit bank is along the same lines.

Mr. J.: Yeah.

Mr. J.: They probably would be satisfied with one and a quarter.

Mr. J.: Yeah.

Mr. J.: And the First National of Milwaukee - a large buyer - why, they'd rather have one issue at two and a quarter around fifty-four - fifty-six.

February 11, 1942
11:45 a.m.

236

Operator: Go ahead.

WJG: Hello.

Mr. S. S. Young: Hello. Young speaking.

WJG: Mr. Young, Morgenthau. You're on my loudspeaker and, besides the Treasury, members of the Open Market Committee are listening. I just thought I'd tell you.

Y: All right.

WJG: Now - how do you find things in - in your district? What would they like to have?

Y: Well, I have checked a - oh, probably twenty-four.....

WJG: Yes.

Y: ..banks and corporations, insurance companies, and now, for example, the National Bank of Detroit, which is a large buyer - why, they would rather have a - a long term of a billion and a short term of five hundred million around five years.

WJG: Yeah.

Y: With a short term.

WJG: Yeah.

Y: And the maturity of the two and a quarter's about fifty-three to fifty-five or fifty-four - fifty-six.

WJG: Yeah.

Y: And the Detroit bank is along the same lines.

WJG: Yeah.

Y: They probably would be satisfied with one and a quarter.

WJG: Yeah.

Y: And the First National of Milwaukee - a large buyer - why, they'd rather have one issue at two and a quarter around fifty-four - fifty-six.

HMJr:

I see.

Y:

And the Continental would rather have one issue, but the Northern Trust Company and the Harris Trust - why, of course, they are - they're sold on the - on the short only.

HMJr:

I see.

Y:

And - and the City National along the same line, although they - they thought that the - the two issues would be advisable.

HMJr:

I see.

Y:

Now the insurance companies that we talked to - why they feel that they would rather go into the market and buy the two's and a half now outstanding rather than to - to buy the two and a quarter's.

HMJr:

Yeah.

Y:

And I also talked to the Continental Casualty which is a pretty good buyer and they - they thought that - that two issues were advisable, but they would rather buy the two's and a half now outstanding.

HMJr:

Yeah.

Y:

And the Security dealers, they want two issues, and I had two suggestions from them for the shorts to have a - to open up the two's.

HMJr:

Yeah.

Y:

That was the only suggestion I had - like that.

HMJr:

I see.

Y:

Ah - but the - nearly all of the smaller institutions, the smaller buyers - why, they recommended two issues. But the Continental and the First Wisconsin-Milwaukee and one or two others - why, they'd rather have one - one issue and to save the short term for future markets. And one or two of them would like to have a three-year one per cent, but they - they were in the minority. And, so that's about the story, Mr. Secretary - I had twenty-four - checkings.

HMJr:

Fine. Well, let me ask you this: What - what will be their attitude, do you think, Friday about subscribing?

- Y: Well, they - here's what nearly all of them told me: Regardless of what the issue was they were going to subscribe for the - for the - for all they could anyway.
- HMJr: Good for Chicago!
- Y: And, with the possible exception of one bank that said that they just - they just couldn't pass the long term.....
- HMJr: I see.
- Y: ..And - practically all of them said regardless of what it was, why they were going to subscribe for the - for the limit. And, of course, nearly all of them are kicking on the - they want a hundred per cent privilege of capital and surplus -- in practically every bank.
- HMJr: I see.
- Y: That is - and, of course, that's out this time, but they - they mention that practically in every - every inquiry will want to know what's going to be done about that.
- HMJr: I thought Bell sent that out.
- Y: Well, that was - no change this time.
- HMJr: Yeah, but the - no change?
- Y: No change, as far as the banks are concerned - they can only subscribe for fifty per cent.
- HMJr: But that was supposed to have gone out Monday.
- Y: Uh-huh. Well, they - they know about that, but they - they had reference to future issues.
- HMJr: Oh. Oh.
- Y: Future issues and they all are anxious for the - for the hundred per cent privilege.
- HMJr: I see.
- Y: And we had - had two that thought that maybe a ten-year bond - but the ten to twelve years would be satisfactory for one issue - but they would rather have the two.

HMJr: I see.

Y: And they thought they'd sell around a hundred one and a quarter - most of them.

HMJr: Well. Now let me see if anybody wants to ask you anything. That's a very good report; they're all satisfied.

Y: Yes, and I think that, regardless of what they - what they said about the - that whatever, for example, if you'd put out one issue, why - they feel it'll go over with - one or two exceptions.

HMJr: Well, I'm very much obliged to you.

Y: Yeah; all right.

HMJr: Thank you.

Y: All right. Goodbye.

H.M.JR: Chicago feels better than the rest of the country.

MR. ECCLES: It is farther removed.

MR. ELL: Farther from Singapore.

MR. ECCLES: They are closer than Boston. (Laughter)

H.M.JR: Well, I don't - I think you know I decided we wouldn't do it until Friday morning. I thought we might as well have an extra day. You have been very quiet there, doctor.

MR. GOLDENWEISER: I haven't anything to say, Mr. Secretary, I am well satisfied with the two and a quarter bond. If you wanted a note for your - in your cupboard for safety, I don't think that will do any harm but I think you will get your subscription and you won't have much of a secondary market. You won't have much of a problem in the secondary market.

H.M.JR: Piser?

MR. PISER: Well, I would be in favor of putting the whole issue in a two and a quarter bond. I think the market will take it on its own but if not the Federal Reserve could come in and support the market, if it proved to be necessary.

MR. ECCLES: Piser, let me ask you this. You wouldn't see any objection to putting out a three year note priced very close to par, say as the Secretary indicated, from eight to twelve thirty seconds, would you?

MR. PISER: I think it would be better if it were not done because there might be some reaction in the market that the Treasury was scared of the market and it seems to me this is the time that you should have a bold financing policy.

MR. ECCLES: Except you have got outfits like the Guaranty in New York and you have got certain other banks, as has been indicated, that won't take a bond and will take a short issue. Now, the question is, should you be

arbitrary and say to them, "You can either take this or nothing," or is it sensible to say, "Well, all right, we will give you a three year issue here priced very close to the market if you - if that is what you want"? Should you attempt to say within reason some of these banks that I can't personally say that - I can't feel that we should try to force them into a long-term bond.

H.M.JR: That is the way I feel. That is what you (McKee) said.

MR. ECCLES: And if it is their policy and their judgment they don't want to go in for twelve or fifteen, that is a long while, and they don't need the earning from the higher rate and they are willing to put their funds in to the shorter one, then why should you say that you are not going to give it to them?

H.M.JR: There is one thing I just said to McKee. Supposing the thing goes sour and they say, "Well, we told Morgenthau we would go for a note, but by gosh he wouldn't give us one, he was stubborn and he wanted a bond." Now, if we give them a note, it is there. I would be surprised if we sold a hundred million of them but at least, again, these people can't say that we are trying to force something down their throat.

MR. ECCLES: I wouldn't like to see it divided so that you put a billion of one and five hundred of the other. I don't like that. I like to put the billion and a half with the option to - but the option to take the note is as unfavorable as you can make it.

H.M.JR: You and I agree. I don't want to divide it up. It is there for anybody that wants it.

MR. McKEE: Well, what is the harm in having all kinds of goods on the shelf? I can't be very much impressed with that. The A & P has done a pretty good job selling all kinds of soap.

MR. ECCLES: Would you mind using another example?
(Laughter)

MR. HAAS: A cafeteria. Help yourself.

H.M.JR: Could I leave you with this impression, and call you up again, maybe between three and four, I take it that you people have no objections, as of this morning, if we want to go ahead with a two and a quarter with an option of a note with eight to twelve thirty-seconds, and I take it if we do something like that you people are ready to stand behind us a hundred and one percent.

MR. RANSOM: We will stand behind you regardless of what you do.

H.M.JR: Well, I know, but it is just as nice to stand behind something that you like.

MR. McKEE: I don't know how Ronald feels, but that is agreeable to me.

MR. ECCLES: It looks all right to me.

H.M.JR: How about it?

MR. RANSOM: If that is your decision, yes. I would personally prefer to see you do it in the bond. I think it would go all right but it is a rather close decision and if you, in the light of your survey, of this market, think that to give them an option will help your situation, then I don't think it is anything about which we should object.

H.M.JR: But you people are agreeable to the note, aren't you?

MR. McKEE: Yes, I am.

H.M.JR: And you are, Marriner?

MR. ECCLES: Yes, I am agreeable.

MR. McKEE: As long as you don't allocate any certain amount to it.

H.M.JR: I won't.

MR. ECCLES: The way I look at it, market financing must depend upon the banks to a very large extent as underwriters. Now, if you have got a lot of the banks, quite a substantial number of them, that say, we are not willing to go in and take a long bond but we are willing to take a note, then it seems to me that it would be rather arbitrary and possibly a mistake in policy to not bring those banks in that are willing to take this short note, especially if we don't make it - if we make it unfavorable, as unfavorable as you can.

H.M.JR: Well, supposing we wait. What time will this market close, around four?

MR. HADLEY: Four o'clock.

H.M.JR: In the neighborhood of four I would like to call you people up and we will keep open. My mind is open.

MR. ECCLES: Ronald, are you free at four?

MR. RANSOM: Yes.

MR. ECCLES: John?

MR. McKEE: Yes.

MR. ECCLES: Let's do this. We will arrange to be together.

H.M.JR: I will call you sharp at four.

MR. ECCLES: We will be together.

MR. McKEE: Does that mean you are going to announce it tonight?

H.M.JR: Oh, no but--

MR. BELL: Well, we do intend to send the information do we not, to

-31-

the banks tonight but to hold it for release--

H.M.JR: Until Friday morning.

MR. BELL: That is, tomorrow afternoon, we will tell them to go ahead and mail it out to the banks to release Friday morning.

MR. ECCLES: When will you release it to the market?

MR. BELL: Friday morning.

245

2/11/42

Handed to the Secretary by Mr. Eccles
today.

CONFIDENTIAL

October 7, 1941

FINANCING PROGRAM

In view of the enormous amount of financing that the Treasury will have to do in the next few years, it is essential to formulate as soon as possible a long-time policy in regard to the character of the debt structure that it is proposed to build and the interest rates at which the funds should be obtained.

Monetary policy, at this time, is closely related to and dependent on the financing policy of the Treasury. Both should be related to the Government's general program to fight inflation. By itself monetary action can accomplish little, but it can play an important part in a general program pursued by the Government in all fields.

The following observations are presented for consideration with a view to having the method of Treasury financing contribute to the achievement of the general objective of preventing inflation.

In the long run it will not be in the public interest, and consequently not in the interest of the Treasury, which represents the public, to obtain funds at rates so low as to lead to serious consequences in other fields. A rate on open-market offerings that is too low will have the effect of discouraging purchases by individuals, insurance companies, trusts, endowments, and educational and philanthropic institutions. They will suffer from the low rates on their holdings of Government's and will tend to seek outlets in other securities or to hold their funds idle. On the other hand, banks, having a large supply of idle funds, will tend to buy more Government

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-2-

securities in order to make up in volume of holdings for the decline in rates and to maintain earnings at a level sufficient to meet expenses and dividends.

Allowing rates to go too low, therefore, would work against the purpose of the Treasury to finance the maximum possible amount of its requirements through sales of securities to others than commercial banks: as the rate goes down others will buy less and banks will buy more Government securities. Such purchases will swell the already excessive volume of deposits. The deposits so created will, in turn, add to the buying power pressing on the limited amount of goods available. They will be an inflationary factor.

Except for the fact that sales of securities to banks require interest payments and do not increase but rather utilize bank reserves, the process of financing defense or war through the sale of Government obligations to the banks has the same economic effects as financing through the printing press. In either case fiscal needs are met by the creation of new money rather than by the use of money already in existence. Both courses of action are inflationary.

Experience shows that inflation, aside from its other economic, financial and social consequences, results in a rapid rise in interest rates. Every inflation in history has been accompanied by high, sometimes by fantastic rates of interest. When the value of money is shrinking, when the amount of goods a dollar will buy is declining, holders of money are eager to exchange it for land or goods, but are reluctant to lend it, for

-3-

fear that the buying power of the principal will decline. Others are eager to borrow in order to convert the proceeds into real values. When lenders are reluctant and borrowers eager, a rise in interest rates is inevitable.

The extraordinarily low yields that prevail in the market this autumn were brought about largely by bank purchases and could probably not be sustained without continued large-scale bank participation. To capitalize on the present low level of long-time yields would tend to continue the spiral of lower rates, more bank purchases, more money, still lower rates, and ultimately, as inflation progresses, a sharp rise in rates and a severe drop in the price of all fixed interest-bearing obligations, including Government securities.

A saving of interest to the Treasury from a further lowering of the coupon rate on long bonds to be issued now, therefore, would be only a temporary saving which would in all probability result in greater difficulties and much higher costs for Treasury financing in the not too distant future. It would also increase the risk of subjecting the country to other consequences of inflation.

On the other hand, the selection now of a sustainable rate to constitute the core of a pattern of rates would stabilize the situation, facilitate the development of a program of credit control, and help to avoid grave difficulties in months and years to come.

February 11, 1942
12:06 p.m.

EMJr: Hello.

Allen Soroul:
Hello, Mr. Secretary.

EMJr: Bell's here with me.

S: Yeah.

EMJr: The other people have left. What's your thought now?

S: Well, I've asked Mr. Rouse to tell you what we think of the idea on open end issues - two issues - from the market's standpoint.

EMJr: Go ahead.

Robert Rouse:
Well, it seems to me that it just emphasizes what Allen said earlier of being a billion and a half afraid. And then mechanically.....

EMJr: When it's bad news, Soroul lets Rouse tell me, huh?

S: (Laughs)

S: (Laughs)

S: Well, I raised the question right at the start of the mechanical difficulties involved.

EMJr: Yeah.

S: And you take subscriptions for both, people would be subscribing to a blind pool and they wouldn't know where they'd come out. You could have no trading after the books closed until the allotments were announced so people knew where they stood. It seems to me to be an almost impossible situation that would be created from the standpoint of the market, and at this point an innovation of that kind I think would be more disturbing than comforting.

- 2 -

HMJr: Well, now, the two out of the three members of the Fed liked it, the Open Market Committee.

R: Well, I don't know - offhand, it may seem like a good idea until you get to the mechanics and see what the effect is. I'm not sure that they would understand how the mechanics would work. How does Dan feel about it?

HMJr: Wait a minute.

Daniel Bell: Hello.

R: Hello, Dan.

B: We have no difficulties here, Bob, in working out the mechanical end of it; but I had some misgivings about the same point you raise. But I think we could give the market on Saturday morning, say, approximately the basis of allotment. Now, would that be soon enough?

R: Well, could you spell it all out in extension with the offering as to how it would be handled?

B: Oh, yes. We'd say that we'd offer a billion and a half dollars of Treasury notes and Treasury bonds, and that the amount of each issue will be determined in proportion to the subscriptions received for each as related to the total offering. We did that in 1930 on an eight hundred million dollar issue of certificates - two certificate issues.

R: And you could get out some preliminary figures Saturday morning which would be close enough to give the market something to go on.

B: That's right. Of course, we couldn't get the mail stuff that came in midnight that night.

R: No.

B: I don't know why - we'd probably miss it some, too. We certainly could have it out by Monday. Probably wouldn't be much trading.

- 3 -

- R: We ought to have it Monday.
- B: We could have it Monday, because Saturday at noon we have pretty accurate figures on the total subscriptions and we could say then that the note - the amount of the note will be in the neighborhood of four hundred million, and the amount of the bond can be a billion one, if that's what it turns out.
- R: And on the basis of your announcement of Monday, people could subscribe the limit on each.
- B: No. The books would be closed then.
- R: No. You announced last Monday that the same rules would apply that applied in December.
- B: Yeah.
- R: Which is that if a bank had a limit of ten billion subscription, it could subscribe ten million for each.
- B: Yeah, that's right. They could subscribe on each issue on the basis of that formula sent out Monday.
- R: And your basis of allotment would be in proportion to the amount subscribed. In other words, you wouldn't reduce in advance your base of allotment to sell more of one issue than the other out of proportion to the subscription.
- B: No. We got four billion subscriptions in bonds and two billion subscriptions in notes; we'd give a billion dollars in bonds and five hundred million in notes.
- R: Yeah.
- B: Two thirds and one third.
- R: Well, I should say that if you could get out

- 4 -

a reasonably accurate forecast on Saturday, it would meet the objections to the market situation.

- B: We can have it out just as soon as we have the final reports in, and I should say they ought to be in here around between eleven and twelve. We could give out preliminary the night before, but of course we wouldn't have the mail reports.
- R: No. They're not.....
- B: I mean, we have some big mail reports.
- R: You get some big mail reports, and they're not usually available even here and the same time that you are until pretty close to eleven o'clock.
- B: Yeah. Well, I say, we usually get our reports between - around twelve o'clock the next day. We certainly could have them out by Monday morning, and there isn't much of a market Saturday anyhow; and I'm wondering what harm would be done Saturday morning if there isn't any trading in them.
- R: Well, there normally is no trading on Saturday, but with the books closed Saturday night there'd be trading, and we've had a good deal of pressure by the dealers coming to us and suggesting that the market be kept open and some suggested until one o'clock, and some until four. We've taken the position that it should be just a normal day's trading - start at ten, close at twelve.
- B: Uh huh.
- R: That there shouldn't be anything unusual about it on the general theory it will just facilitate the subscription dealer, the fellow who's trying to sell subscriptions.....
- B: And he can take a vacation on this Saturday.
- R:more than those that are buyers of subscriptions.

- 5 -

- B: Yeah.
- R: The first morning.
- B: Well, do you think that much harm would be done if we get it to you by opening of business Monday? We can get it to you Saturday, but the market would probably be closed.
- R: Well, the harm is done on Friday when people don't know how to subscribe - they don't know how to make their calculations and it would tend to throw - to be safe - to throw the subscription to the note, which is what you don't want.
- B: No, I don't get that.
- R: Well, they'd rather play safe - they could go the limit on the note and there'd be no harm done, and they probably would tend to - they might tend to cut down their subscriptions to the bond because of the uncertainty.
- B: Then we'd give them more bonds.
- R: Give those that subscribe more bonds.
- B: Yeah.
- R: Then there are always some who would figure that just that would happen and subscribe for more bonds than they wanted and get caught on a bigger allotment base. The whole thing, I know, is bound to be confusing to the market. It's always notable how little comprehension and understanding of a thing of this sort there is on their part. The country banks don't understand, and they don't know how to do it. The banks don't understand even the simplest instructions. It's surprising the amount of error we have, and you've seen that yourself, of course, in a good many fields in dealing with the banks.
- B: The Secretary wants to talk to you.
- HMJr: Hello.
- R: Yes.

HMJr: I've got no objection if you want to try it out on a few people. Hello.

R: Yes.

HMJr: Why don't you try it out on a few people.

S: All right, we'll do that. I think we'll probably get no great help from them in rights.

HMJr: Well, the only thing is they might be able to understand it better than you think.

R: (Laughs) Well, it can't do any harm. We can try it.

HMJr: Try it out.

R: All right, we'll do that.

HMJr: Why don't you try it out.

R: All right, we'll try it.

HMJr: Well, now let me ask you this. Let's say that these fellows don't understand these things. I thought I might do this and then be known as the greatest Secretary of the Treasury since Ogden Mills.

R: (Laughs)

S: (Laughs)

HMJr: Because he did it. Evidently - and did it successfully. So - well, let's say we don't. Then what do you advise?

S: Could you put out a billion at two and a quarter and then five hundred million in a note?

HMJr: No, that's what I don't want to do.

S: That, you think, puts a price on your uncertainty.

HMJr: Yes. That's where you and I differ.

S: Yeah.

HMJr: That puts a label on my uncertainty.

S: Yeah. Well, we'll.....

HMJr: No. I think if I can't do it my way - or rather, I don't want to say my way, the way I suggest - then I think I'll put all my money on the - what is it when you just place to win, what is it, on the nose?

S: On the nose, yeah.

HMJr: On the nose.

S: Yeah.

HMJr: On the nose. Yeah, I'll put it all on the two and a quarter.

S: Yeah.

HMJr: Not to place.

S: Yeah.

HMJr: Is that correct? What is place?

S: Place is.....

HMJr: Second.

S: Second, yeah.

HMJr: Well, that's right. This - what I'm suggesting is putting my bet place, you see, you give a fellow a first and second choice.

S: Well, we'll.....

HMJr: You think it over, and I'll be calling you up, oh, around three o'clock, somewhere around there.

S: And we'll check that over meanwhile with a few people, and see if they react favorably or unfavorably or with confusion.

HMJr: But I just went under the - if it's good enough

for Ogden Mills, it ought to be good enough for me.

S: (Laughs) Yeah. You have a bigger problem than he ever had.

HMJr: That's right. That's right. And he died.

S: Well, we won't go into that.

HMJr: All right.

S: All right.

HMJr: Okay.

February 11, 1942
12:18 p.m.

HMJr: Hello.

Operator: Buffington.

HMJr: Hello. George.

George Buffington: Yes, sir.

HMJr: I can't remember whether I asked you to prepare a little booklet of the good reviews. I don't mean like just a photograph of Donald Duck, but the criticisms - like the one in the Tribune?

B: Yes, sir.

HMJr: Have you got one for each member of the Committee?

B: I have it in preparation, but I haven't it finished yet, Mr. Secretary.

HMJr: When will it be finished?

B: I think I can get it this evening - this afternoon.

HMJr: No, no, no, no. It's got to be up here by two-thirty with a letter from me to each member saying, "My dear Senator Glass, I'm sending you, enclosed herewith, copies of some of the reviews in the newspaper....."

B: All right, sir.

HMJr:of "The New Spirit".

B: All right, sir.

HMJr: And I want that - plus a complete set - they can do it down there in the.....

B: Photostatic.

HMJr: Yes. And I want it up here by two-thirty with

a letter from me, and I'll sign one and send one up by messenger by hand to each of these people.

B: All right, sir.

HMJr: But it's got to be up here by two-thirty.

B: Yes, sir.

HMJr: I think I asked you this yesterday.

B: You did, Mr. Secretary.

HMJr: Well, they ought to - they can turn that out down there.

B: All right, sir.

HMJr: And if you - just get busy and have the letter just along those lines, and then we'll send them up by hand to each member of the Finance Committee, starting with Carter Glass.

B: Yes, sir.

HMJr: And I want it by two-thirty.

B: All right, Mr. Secretary.

HMJr: Thank you. Hello.

B: Yes, sir.

HMJr: Show the letter to Kuhn before you have it typed.

B: Yes, sir.

HMJr: Thank you.

February 11, 1942
12:20 p.m.

HMJr: Hello.

Gov. Roy A.
Young: Hello, Mr. Secretary.

HMJr: Yeah. You've got me alone, now.

Y: Well, when I talked with you before there happened to be a banker in my office.

HMJr: Yes.

Y: That's why I excused myself to go in another room.

HMJr: That's all right.

Y: He was the man that I didn't talk to yesterday because he happened to be in New York.

HMJr: Yes.

Y: He's awfully conservative, and I sounded him out on it a little bit, which I could.....

HMJr: Yes.

Y:better than some of those that I talked to yesterday.

HMJr: Yes.

Y: As near as I can figure out, even the most conservative are reconciled to the bad news - even worse than they anticipate.

HMJr: Yes.

Y: And he said that his institution had made up its mind that it had to go ahead and do everything it could and everything that was requested of it, even to a point of reducing the dividends if not cutting them out entirely.

HMJr: Right.

Y: Now, in addition to that, I talked to another very conservative banker and the attitude seemed to be pretty much the same; so I guess that maybe the impression of my associates this morning is a little better than my own.

HMJr: I see.

Y: I think that.....

HMJr: Hello.

Y: I assume you have in mind a split issue now.

HMJr: Not necessarily.

Y: Uh huh.

HMJr: Not necessarily.

Y: I see.

HMJr: But we're working on it.

Y: Yeah. Well, I think some of them have that in mind.

HMJr: Yeah. Well, thank you very much for calling back.

Y: Yeah.

HMJr: Thank you.

Y: Well, I thought you'd like to get the expression of these two other men after this bad news is out and everything.

HMJr: Yes. It's very helpful.

Y: Yeah.

HMJr: Thank you.

Y: All right.

February 11, 1942
12:36 p.m.

HMJr: Hello.

Secretary
Stimson: Hello, Henry. I was sorry that - took that
minute. I couldn't wait.

HMJr: That's all right.

S: But now I can - do you want to speak to me
about the same matter as yesterday?

HMJr: If you please.

S: Well, of course, the situation is bad and is
deteriorating very rapidly.

HMJr: Yes.

S: I just spoke to Marshall about it, and put to
him the answer that I gave you yesterday that
I thought it wouldn't break before Friday.

HMJr: Yes.

S: And he thinks I'm right still, although the
things are deteriorating rather more rapidly
than I thought yesterday.

HMJr: No. You see, my financing is on Friday. We
go to the country for a billion and a half on
Friday.

S: Yes. I see.

HMJr: And they have up until midnight Friday night.

S: Yes.

HMJr: So Friday's the day.

S: Yes. Well, that'll be a pretty bad day. We
have word that they're running tanks over the
causeway.

HMJr: Good heavens!

S: Yeah.

- 2 -

HMJr: Good heavens!

S: But.....

HMJr: I don't announce it.....

S:it's going faster than I thought yesterday.

HMJr: They're running tanks over the causeway?

S: Yeah.

HMJr: Looks bad. Well, it doesn't go out of the Treasury until four o'clock tomorrow. We hold it until four o'clock tomorrow. So I think I'll call you up just before that, if I may.

S: Yes.

HMJr: What?

S: Yes.

HMJr: I've got until four o'clock tomorrow.

S: Well, I'll be right on the - up to date with the news. There's a little - I don't always get those messages quite as close as that.

HMJr: Well, I mean, supposing I call you an hour in advance - tell your secretary I'm going to call up within an hour. Is that all right?

S: Yes.

HMJr: What?

S: Yes.

HMJr: But I meant, I have until four o'clock.

S: All right.

HMJr: Is that pressing you too hard?

S: Oh, no. It isn't pressing me. I was only considering whether I would have the up-to-the-date news on the moment, but I'll try to.

HMJr: Well.....

S: You see, we don't get it - it isn't like having it happening in the next state.

HMJr: No, I know. But if you tell me that the tanks are running over the causeway, I can use my own imagination.

S: Yes. Yes, they've made - the Japanese have made one of the most astonishingly good operations that military history in recent times have fought.

HMJr: The Japanese have.

S: Yes, the Japanese have.

HMJr: Yes.

S: In getting across as they did that strait the way they did and with the speed they did.

HMJr: Yeah.

S: And they're doing a very good job of it.

HMJr: Yeah.

S: And I heard this morning that Wavell had thrown up there - evidently he regarded it as critical.

HMJr: Yeah.

S: My only fear is that he may not get out.

HMJr: I see.

S: And - now the latest news that Marshall gave me was that, as I say, they were going over the causeway pretty fast.

HMJr: Uh huh. Well, I'll be calling you, and I'll let your secretary give you an hour's notice.

S: Yes. Of course, you'll keep these things to yourself - the details. Just take - use your

- 4 -

own judgment.

HMJr: There are no leaks out of my office.

S: That's right.

HMJr: There haven't been yet. I'm knocking wood when I say that.

S: That's a good plan.

HMJr: No, there have been no leaks in nine years.

S: Well, that's a.....

HMJr: It may be more luck than brains.

S: Well, I'm trying to help you on this thing, because I realize how important it is to you. I've given you everything that I know.

HMJr: The thing that bothers me is that there's been only one institution so far has said, "Well, if Singapore falls on Friday, we'll buy more than we would normally."

S: Yes.

HMJr: In other words, the spirit has not yet got around that I hope for.

S: Only one has said that.

HMJr: Only one.

S: Well, they ought to buy more.

HMJr: Of course they should.

S: Because it's - it means that we've got to make a real totalitarian effort.

HMJr: Well.....

S: And.....

HMJr:they haven't let me down yet, and -

- 5 -

but I just want all the information so I have all the tools available, because the President relies on me on this entirely, and I don't even bother him with it.

S: Yes.

HMJr: I mean, I don't bother him with these at all.

S: Well, the.....

HMJr: So with me it's sink or swim.

S: The picture is sombre in a great many ways. The picture is sombre, as you know, in Libya and it's having its effect in the European nations, like France, and the situation has darkened up.

HMJr: Yeah.

S: But the outstanding things still remain, and Russia has made a very surprising comeback. In the reports - the reports, for instance, that I got this morning were that the Germans were showing - way up from Finland there came a report that the Germans were in pretty desperate straits there. They showed it, I mean; and there comes in other reports that they've taken out of France all - the only troops they've got there are certain of the poorer type.

HMJr: Yeah.

S: Things like that. But there's going to be a period of - from now on - of enemy successes, undoubtedly, in these fields.

HMJr: Well, I told T. V. Soong last night - I saw him out for dinner - that I hoped that we can take bad news as well as the Chinese have for four and a half years.

S: Well, you bet. They're doing mighty well.

HMJr: Wonderful.

S: And the thing that I haven't told - well, you heard me mention it before the House Committee there.....

HMJr: Yeah.

S:the man is off and.....

HMJr: Good.

S:the staff.....

HMJr: Good.

S:and I - well, we're moving - I tell you - give you this idea - we're playing safe in our - we see so much difficulty in the Indies, we're playing the bases which I've always thought we'd have to fall back on in Australia and in India.

HMJr: I see.

S: And we're concentrating our forces there.

HMJr: Yeah.

S: Although we're still fighting hard to hold the Indies as far as we can.

HMJr: How are these four-engine bombers getting through?

S: Why, the trouble has been that - they get through all right, but they haven't been handled right over there.

HMJr: I see.

S: And we've had to take a big percentage of losses being caught on the ground.

HMJr: For heaven's sake.

S: And - oh, it's been sickening to me.

HMJr: Yeah.

S: But for that reason - I mean, the Japanese came

through so fast.....

HMJr:

Yeah.

S:

.....that our people didn't adapt themselves to what they should have. They ran them up to bases that were too close to the front, and, of course, they can be bashed up on the ground just as easy as any other place.

HMJr:

Yeah.

S:

And they have lost quite a lot that way. For that reason, we're not going to put any in now, and they've set them pretty well back.

HMJr:

I see.

S:

And until we have a big group - big groups in each place - when they do move, they'll move with force. The great thing about air - and, of course, it's all moving so that - everybody's learning - that the great thing is that - is to get it in masses, and then it's enormous advantage of being able to swarm quickly en masse.....

HMJr:

Yeah.

S:

.....counts like the devil.

HMJr:

Yeah.

S:

The Germans know that, and they've been doing it.

HMJr:

Yeah.

S:

And other people don't.

HMJr:

Yeah.

S:

The British have been on the shoestring right along.

HMJr:

Yeah.

- 8 -

S: And we've been pretty much on the shoestring, because we've been trying to help them.

HMJr: Yeah.

S: And in this case in the Far East, we've suffered very badly from it.

HMJr: Yeah.

S: It's been very expensive. But wherever they've got into action, they've done mighty well.

HMJr: Yeah. Well, sir, thank you. I'll take the liberty of calling again.

S: Sure.

HMJr: Thank you. Don't worry about.....

February 11, 1942
2:30 p.m.

FINANCING

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

H.M.JR: Dan, your sheet is as good as any to see where this damn stuff will drop. Have you got your sheet?

MR. BELL: I can get it in a second.

H.M.JR: Which is the last one?

MR. BELL: Isn't this it right here? Is this the last one?

MR. HADLEY: Yes.

MR. BELL: June 15, '52-'54 issue. Right here, see. That is your first issue, June 15, '52, right there. This is a vacant date, and there is where it will be called.

H.M.JR: I see.

MR. BELL: Right there, at six eighty one. That is a '54-'56 bond, you see. This is a '53-'55. That is vacant, and then you have got two--

H.M.JR: Now, just one second, please. I just wanted to see what the difference is.

- 2 -

MR. BELL: It is down three thirty-seconds.

MR. HADLEY: I moved it up on the basis that it wouldn't be a billion and a half issue.

H.M.JR: Did you all move them up on that basis?

MR. BELL: Anyhow, it would be from four to eight points premium, four to eight thirty-seconds.

H.M.JR: That isn't enough. You are not giving me enough gravy.

MR. HADLEY: You can't get any more than that. If you try harder, you will get less.

H.M.JR: How do you mean?

MR. HADLEY: You will scare the market if you make it too short.

MR. BELL: No.

MR. HADLEY: About a point premium is what you can expect on most of those issues, and if you back back of June 25, you will land on top of an outstanding issue. If you back back to December '51, you will land on top of another, and it won't be as good as if you move out farther.

H.M.JR: What about the '52-'55? Where would that be?

MR. BELL: That would be June.

H.M.JR: June '52, yes.

MR. BELL: Same place as the other one. That would go from there down to here (indicating on table).

H.M.JR: He has got one '52 and the other is a '54.

MR. BELL: There is a little difference in the price, you see.

- 3 -

H.M.JR: O.K.

MR. BELL: Here are the notes. These are the only vacant spots in the notes. There is June 1945 and--

H.M.JR: We have got one in there.

MR. BELL: No, the bonds come in there, '46-'48.

H.M.JR: What have you got in March?

MR. BELL: Five hundred three million in the notes and four hundred eighty-nine million of the bonds.

H.M.JR: What have you got in '47?

MR. BELL: You can't go over the five year.

H.M.JR: How about back in here?

MR. BELL: Yes, you can make it September - December or September, '46. They are both vacant.

H.M.JR: What about December '46?

MR. BELL: That is four years and ten months, one and three-eighths.

H.M.JR: On the one and a quarter.

MR. BELL: That would be September.

H.M.JR: What about that.

MR. BELL: That is vacant.

H.M.JR: That is about right.

(Mrs. Klotz left the conference.)

MR. BELL: Have you talked to New York on it?

H.M.JR: No, I am going to do it now. While we are

waiting, how do you - George, how do you feel about the mechanics of this thing, of making it optional?

MR. HAAS: I am afraid of it.

H.M.JR: Why?

MR. HAAS: I think on one side there will be uncertainty as to what the people's allotments will be and on the other side the banks will probably subscribe to the full amount in each issue, and you will get a lot more in the note than you like.

H.M.JR: Where do you stand?

MR. HAAS: I would stand - I think over the period - I mean this war period on it, I think you will improve your situation by putting out the two and a quarter all in one issue and depend on the Federal Reserve as your anchor and be prepared to have to use it.

H.M.JR: It is a hell of an anchor.

MR. HAAS: Well, I think your - this anchor business isn't so good, Mr. Secretary. I think it is a little - if you price that note, then your anchor will sink before the - probably before the bond, in case something happens and it doesn't work as well on a cash deal as it does on a refunding. It is all over in a day.

MR. BELL: If you have an insurance company that would ordinarily subscribe for two hundred million of bonds, it might - they might say, "Well, we don't know how many of these bonds we are going to get, so we had better cut our subscriptions to fit our cash," and you might have that subscription cut way down to thirty or fifty million.

H.M.JR: At four years and four months, that is a vacant spot, isn't it, June?

MR. BELL: No, you have got two bonds in there that

are callable, see. Those two bonds are in that same area.

H.M.JR: Oh, yes.

MR. HADLEY: It is vacant as far as notes are concerned, but not bonds.

MR. BELL: They are three and three eights percent bonds aren't they?

MR. HADLEY: Yes.

H.M.JR: Is that the first call date?

MR. BELL: Yes.

H.M.JR: That is a little thin, isn't it?

MR. BELL: Yes.

MR. HADLEY: Especially when you are getting out on the end there, and you are not too sure of the estimates. If you were going to do this, I would prefer the three years, one month, one percent issue, March '45.

MR. BELL: How about June '45? That is an open date.

MR. HADLEY: Well, there again that might be six, and it might only be three or four thirty-seconds.

H.M.JR: Well, three years is too little.

(The Secretary held a telephone conversation with Mr. Sproul and Mr. Rouse as follows:)

February 11, 1942
2:45 p.m.

Operator: Go ahead.

HMJr: Hello.

Mr. Allan
Sproul: Hello, Mr. Secretary.

HMJr: Well, where do you gentlemen stand after lunch now on this?

S: Well, we've talked to some people from the market and have confirmed our own views.

HMJr: I see.

S: It - it would be another element of uncertainty in the market; it would make people doubtful as to the amount of their allotments, and therefore probably cautious on their subscriptions to give them a couple of open-end issues.

HMJr: I see. Well, then - what - what do you - if you had the responsibility of writing the terms, what kind of a ticket would you give me?

S: I'd give you a billion on a two and a quarter per cent bond and half a billion on a note - either one and an eighth on June forty-five, say, or one and one-quarter out a little further.

HMJr: Well, wait a minute now. Let's do the bonds first. Which.....

S: I think that a billion on the - on the two and a quarter per cent bond of fifty-three/five.....

HMJr: Fifty-three/five - due when?

S: March.

HMJr: March. And how much cushion is that?

S: How much what?

HMJr: How much cushion?

S: Well, that would be.....

HMJr: What would that total?

S: Well, that would be anywhere from eighteen thirty-seconds to a point, I should say.

HMJr: Is that all?

S: Yeah.

HMJr: Not enough, I don't think.

S: Well, I think you'd have a good market for it and - and it would probably be toward the upper rather than the lower side.

HMJr: You say from eighteen to what?

S: To a point.

HMJr: To a point.

S: Yeah.

HMJr: Let me see what we have.

S: That - I - I say that on the basis that I think this market in there has gone down on very little since the first announcement of your financing and ought to be - that the decline ought to be discounted a bit.

HMJr: Well, our boys give it a - from thirty - thirty-two thirty-seconds to a point four thirty-seconds.

S: That is a - fifty-three/five?

HMJr: Yeah.

Mr. Robert

Rouse: Well, based on markets as they were, I think that that's right. They've gone down fairly sharply the last few days, as you know.

HMJr: Uh-huh.

R: About three-quarters of a point on the fifty-two/four's, for example.

HMJr: This was written at noon.

R: As far as we can figure it, it - the fifty-three/five looked like it might possibly be a little lower than that, but we didn't think that was the real market. We think nearer the top figure that Allan mentioned.

HMJr: Uh-huh. To a point. Well -

R: To a point - yeah.

HMJr: Just a moment. Will you hold on a minute?

R: Yeah.

(Secy. speaks aside to Henry Murphy.)

HMJr: What do you think, Henry?

Murphy: I wouldn't like to go beyond fifty-two, fifty-four, June. We have that figured for a point - for par thirty-one on the assumption that the whole issue would go into it. Maybe that would be a little over a point, if only a billion went into it, but I wouldn't like to go beyond June. I wouldn't be - unless your boldness in going out there, which is a high factor to Discount, results in pulling the market along with you, I would say that you should get nearer the lower end of Mr. Sproul's range than the higher on the fifty-three, fifty-five.

HMJr: You are for fifty-two, fifty-four?

Murphy: Yes.

HMJr: (On phone) Henry Murphy is for a fifty-two, fifty-four. Hello.

S: Oh, yeah. What month?

HMJr: (To Murphy) What month?

Murphy: June.

S: Well, my own opinion is that you don't have to - for a billion you don't have to go back that far - you could do it for March fifty-three/five and have a good market.

HMJr: Well - that's - anybody who's down here - I'm just looking over - Knight of Continental said fifty-three, fifty-five for a billion and a half.

S: Yeah.

HMJr: Discount was fifty-three, fifty-five for a billion and a half. Devine fifty-three, fifty-five; billion and a half.

S: Well, I'd go.....

HMJr: I - I don't see any fifty-two, fifty-four's.

S: Well, I'd certainly, for a billion would go fifty-three, five.

HMJr: You would?

S: Yeah.

HMJr: Just a moment.

(Murphy speaks from aside to Secy.)

Murphy: Mr. Secretary, the market has changed since you talked with Devine. We would have been fifty-three, fifty-five then.

HMJr: (On phone.) Have you talked with Devine or Discount today?

S: We talked to both of them.

HMJr: What did they say?

S: Why, they said - we talked to them about this possible type of issue, injecting that into a discussion of the whole financing so as not to make it too pointed - they reflected what I already told you on that - and they would go for fifty-three, five on a billion of two and a quarter.

HMJr: Uh-huh.

S: And they'd go for a note of about the maturity and coupon I mentioned.

HMJr: Yeah, well, the note - what was the note that you mentioned?

S: I said one and an eighth for June forty-five or a one and a quarter if you go out beyond that.

HMJr: One and an eighth. Just a minute. One and an eighth - June forty-five?

S: Yes. Discount said one and a quarter for June forty-five, but I think that would be a little rich myself.

HMJr: Well, give me something further out.

S: Out five years?

HMJr: Well, yeah - now.

S: Or one and three-eighths out to September forty-six.

HMJr: Or -

S: But don't - we don't think that's a very good place to stick a note.

HMJr: You don't?

S: When you get out to five years it figures out one and a half.

HMJr: How about December fifteen, forty-six?

S: Well, you'd have to - that'd be between one and three-eighths and one and a half. I'd better let Mr. Roue answer on that.

R: Oh, I think that would have to be one and a half.

HMJr: Oh.

S: See, Mr. Secretary, the relationship there with the two's at forty-eight/fifty and the March one's of forty-six nominally at par one per cent, there's too big a discrepancy in that period.

HMJr: I see.

S: And there's got to be an adjustment there sooner or later.

HMJr: Yeah.

S: And today to do a note offering there, you'd have to discount that fully, and the query is even whether one and a half per cent does it.

HMJr: Well, give me something long in a June forty-five. What have you got?

S: Well, I think the September maturity there - how would that be - another three months?

HMJr: And what - what coupon?

S: I'd go to one and a quarter there.

HMJr: You would. Well, that isn't long enough to make it interesting.

S: Well, it's - it normally isn't - but your one and an eighth is not rich at all. At June forty-five it's all right.

HMJr: Well, how - how - what do you figure it?

S: It works out, I think, about half a point to eighteen.

HMJr: Half a point.

S: At ninety-five - I have - ninety-five one-hundredths to one per cent should be the range.

HMJr: Well, that's rich enough, isn't it?

S: I think that June forty-five one and one-eighth fits the bill best myself.

HMJr: You do?

S: Yeah.

HMJr: Just a minute. (Talks aside.)

Well, I'll be back again not too long off. Have you - have you said anything to the Fed?

R: No, we have not.

HMJr: Tell you what you might do to be saving me wear and tear. Why don't you call up - unless you'd rather not - would you call up Eccles and tell him what.....

R: I think it'd be better if you would call him, if you.....

HMJr: I'll - I'll.....

S:have the time and the wear and tear. (Laughs.)

HMJr: I've got the wear and tear. I'm all right.

S: All right.

HMJr: Okay.

S: I.....

HMJr: I'll be calling you back. Do you want.....

S: He usually feels that we're short-circuiting him if we call him.

HMJr: I'll call him.

S: All right.

HMJr: Okay.

MR. BELL: We were just thinking. A six year bond would be just over the note area, March '47.

H.M.JR: What would we have to pay there?

MR. BELL: About one and three quarters.

MR. HADLEY: That is paying too much and not getting out far enough. My first preference is still a - one two and a quarter issue for the whole works.

H.M.JR: One what?

MR. HADLEY: One issue of two and a quarter for the works.

H.M.JR: That is your preference?

MR. HADLEY: That is my first preference. The second one would be the billion in the two and a quarter and five hundred million in the note.

H.M.JR: How about you?

MR. MURPHY: My personal preference--

H.M.JR: Where is Dave Morris?

MR. BELL: I meant to ask you when you came in why he wasn't on your list.

H.M.JR: What?

MR. MURPHY: I would prefer it all in the two and a quarter at the present time, June '52-'54.

H.M.JR: George?

MR. HAAS: That would be my preference too, Mr. Secretary, but I would be prepared to call on the Federal if you had to. I think you will have to do that before this way is over. I think the market is waiting for leadership and I think you can dictate the terms by stepping out.

H.M.JR: Dan?

MR. BELL: I feel that way. I don't like a note.

MR. HADLEY: I think there will come some bad news later where the note market will be very useful and I think we should save it longer.

H.M.JR: Well, there I agree with you. I am just full of perfume. I shook hands with Barry Wood and his wife. Can you smell it?

MR. BELL: Yes, sure we can smell it.

MR. HAAS: If someone was an expert they could give you the name of it.

MR. BELL: You had better get it off before you go home to your wife.

H.M.JR: How about you, Dan, did you say?

MR. BELL: Yes, I agree with George. I am afraid of a note. I hate to put out a note.

(Mr. Morris entered the conference.)

H.M.JR: I called up New York, Dave, and they say mechanically they think that this suggestion of mine is not good.

MR. MORRIS: That is too bad.

H.M.JR: It gets down to whether we want a billion bond and a note, or something else. Everybody here except myself has expressed an opinion. These fellows are all putting it in one shot right on the nose.

MR. MORRIS: I am afraid I am in that camp.

H.M.JR: You are?

MR. MORRIS: Yes.

MR. MURPHY: I might prefer two bonds, Mr. Secretary, except the Federal has expressed the preference for a single - originally for a single two and a quarter and still the preference of Governor Ransom, certainly is second choice, is for a bond and a note, of Chairman Eccles also. And I think we ought to go into this very closely in accordance with them because we want to make sure that the issue is well covered.

H.M.JR: Well, let us be practical. What the hell can the Federal Reserve do?

MR. MURPHY: They can buy as much of the issue as necessary. I don't think it will be necessary. I think it will go over all right.

H.M.JR: I am a little bit - I pride myself on psychology. I don't think - I think everybody has discounted the fall of Singapore.

MR. HAAS: I think that is probably the case. I am not much good on that but if that is the case, then the one shot is just the ticket.

MR. BELL: The market ought to go up, hadn't it?

MR. HAAS: Yes.

H.M.JR: Just talk a minute and then I am going to ask you. Have you (Morris) expressed yourself?

MR. MORRIS: Yes.

(The Secretary left the conference temporarily)

MR. HAAS: You said you were a Democrat.

MR. MURPHY: What more could you want?

MR. BELL: He went out to consult.

MR. MORRIS: I take it you said you were all on one shot.

MR. HADLEY: Yes.

MR. HAAS: You have been one shot, Dave, for a long time.

MR. MORRIS: Yes.

MR. BELL: If you are going to put out two issues why wouldn't a split issue of two and a half and a note be better than a billion two and a quarter?

MR. HAAS: One thing I don't like about the two and a half - it doesn't bother some people as much - on the two and a half, Dan, you have to run it way back about ten years or more.

MR. BELL: How far can you put out a two and a half?

MR. HADLEY: If you have a split issue I think you can go to 1960.

H.M.JR: '60-'63?

MR. HADLEY: '60-'63, '60-'65, it doesn't make any difference.

MR. BELL: What is the matter with that?

MR. HADLEY: I don't see anything wrong with it.

MR. BELL: Your big insurance companies want it. New York life would like a hundred. Prudential would like a hundred.

MR. MORRIS: Do they want that or want to subscribe for that?

MR. BELL: They want that. There is two hundred million of it right there in two places and they would like to have it at a two and a half and they don't give a damn about the maturity. Prudential has got a hundred and sixty million dollars in cash and they would like to put a hundred million dollars of it in a two and a

- 10 -

half percent bond at par.

MR. MURPHY: I had been for a split two and a two and a half.

MR. HADLEY: I would prefer that to that split and a note. I would rather have it two and a two and a half.

MR. MURPHY: I think that with the exception of your New York banks they have no portfolio in anything. The 2's are going to be very popular among banks.

MR. BELL: The banks outside of New York would rather have the two and a note.

MR. MURPHY: I feel there is a real investment demand for the two and a half which would be glad to absorb perhaps a half billion or three quarters of a billion of them and so, as I am told, Mr. Harrison said, yesterday, it would.

MR. HAAS: If an area of - no.

MR. MURPHY: Consistency? Well, a phrase of that kind.

MR. HAAS: You are not taking him in as an ally, are you? I would rather lose.

MR. BELL: Who?

MR. MURPHY: George Harrison.

MR. MORRIS: George, howfar do you think you could put a two and a half out?

MR. HAAS: I don't know, we had it - we had '58-'63 or something, didn't we?

MR. MURPHY: After yesterday's market we have '56-'62. Now, beyond that you are going on psychology. That involves a weight of a half point and if we supposed that the market

is going to stand up on its existing curb without the weight, we could push that out to billions, '60-'65.

MR. HAAS: Well, you know this fellow Brown of Chicago, Dan, says if you do that it will depress the outstanding '67-'72's. That is what I am afraid of.

MR. HADLEY: Well, they are depressed now.

MR. HAAS: I know but that wouldn't improve the situation any.

MR. HADLEY: Well, all the taxable issued today are practically held unchanged after early losses this morning and the tax exempts have been going out.

MR. BELL: These two and a half's here, that changed a little, I suppose. '56-'63.

MR. HADLEY: I would stand by those for today.

MR. BELL: '59-'64 and '60-'65. It would be point one to - one, one to one, ten premium on the long one.

MR. HAAS: They are thinking about a two and a quarter. I don't think they are thinking about a two and a half at all, are they?

MR. HADLEY: No, They have given that up.

MR. HAAS: So then we shoot this thing out right now on them and the - and the banks outside of New York, I think, would like the two and a quarter a little better than the two.

MR. BELL: You do?

MR. HAAS: It is still short bonds, you know.

MR. HADLEY: It is so close to the ten year bond that it is pretty attractive, and June is only ten and a quarter years.

MR. BELL: Do you think eleven - thirteen is a little out of line, Henry?

MR. MURPHY: That is fifty-three - fifty-five?

MR. BELL: Yes.

MR. MURPHY: Yes, I do. I might say that we have allotted a half point for the depression in the market at the area where the bond would hit, assuming that the whole financing goes into it. Now, if we don't allow that half point, the fifty-three - fifty-five is all right.

MR. BELL: Why haven't they taken that? Damn near it, haven't they?

MR. HADLEY: I think they have.

MR. MURPHY: Of course, they know that there is going to be a billion and a half financing, but they don't know where it falls. If we assume that the market has properly anticipated the area in which it will fall and has already adjusted that area to the weight of the new financing, then fifty-three - fifty-five is perfectly all right.

MR. HADLEY: I think they have pretty well anticipated it when you stop to think that in a week the fifty-two - fifty-four's fell off twenty-two thirty-seconds and the issues around it fell eight and ten.

MR. MORRIS: I should say with all the talk on a two and a quarter in that area it is pretty well anticipated.

MR. HADLEY: The fifty-two--fifty-four really took a drop when the rest of them were comparatively small.

MR. MURPHY: What do you figure the premium on fifty-three - fifty-five?

MR. HADLEY: I figure you might get a point.

- 13 -

MR. HAAS: That is about the weight.

MR. MURPHY: Yes.

MR. BELL: Would this be a pretty good time to price it closely? Of course, a billion and a half might be a weight, whereas a billion might not.

MR. MURPHY: The market doesn't know it is going to be one issue. After all, we don't. The market can't know any more than we do.

MR. BELL: Well, but they have been down here talking, and they have been talking to New York, and they have got it pretty well figured out that it is going to be two issues.

MR. HAAS: Two?

MR. BELL: Yes.

MR. MURPHY: In that case, if it is one, there has to be more weight.

(Secretary returned to the conference.)

MR. BELL: I say, if you put the whole thing in there, it might press it, the half point you are talking about.

MR. MURPHY: A half point allows for the whole issue.

H.M.JR: They are fussing about Ecuador. I must do it today, says Sumner Welles. I told him to keep his shirt on. I can't do more than one thing at a time. Are you fellows all for one shot?

MR. BELL: Yes.

H.M.JR: What a crowd. Here I give you fellows all this lecture - twice I have been for one shot, haven't I?

MR. HAAS: You sold us too well.

H.M.JR: What were the last two issues we did, anyway, what was the last one?

MR.HADLEY: The last one was a '49-'51. That was a refunding of about a billion dollars.

H.M.JR: What is that selling at now?

MR. HADLEY: It is selling for about par twenty-three.

H.M.JR: And the one before that?

MR. HADLEY: The one before that was an addition to your '67-'72, so it came about par twelve and the '51-'55's which were about par nine. They have been up and down.

H.M.JR: I hate like hell to get out a three year note. My experience has always been that before the news is out is the worst.

(The Secretary held a telephone conversation with Mr. Eccles as follows:)

February 11, 1942.
3:10 p.m.

Operator: Hello.

HMJr: Hello.

Mr.
Marriner
Eccles: Hello.

HMJr: Marriner.

E: Yes, Henry.

HMJr: We've been talking a couple of times with New York and they say that this thought that I had of giving it at option to a fellow for a bond or note.....

E: Yes.

HMJr:mechanically it wouldn't work, and they - I told them try it out on a couple of fellows and they didn't get a good reaction. They said it would be throwing something new into the picture and they're afraid that the people might buy quite a lot of these notes.

E: Well, what if they do? I can't see how they'd say - I'm not afraid of something new, damn it, we're go - we're having something new every day.

HMJr: Yeah, I know.

E: And we're going to have to try a lot of things new before we get through. Now I don't know about the mechanics - I can't - while I would - I would be influenced if it won't work mechanically, but I wouldn't be influenced much about the fact that it.....

HMJr: No.

E: That the different.....

HMJr: No, no, no, they're all right, they didn't bother us new because, as I told them, Ogden Mills did it in 1930, and if he did it, why that makes it all right.

E: Well, it ought to make it all right in the New York market.

HMJr: Yeah. But they said - they pretty well unsold me on it - about throwing new confusion. Not, as I say - a bank nor know which way, you know, and that sort of thing.

E: Well, but if you don't want to go one way, you could go the other maybe.

HMJr: Yeah.

E: Of course, -

HMJr: My crowd, they've come back now - they - they're back to one issue. They were impressed with what you said here this morning, and they're back to one issue, two and a quarter.

E: Well, I'm - that was, of course, my first choice, and I saw no objection to your suggestion.....

HMJr: Yeah.

E: If - if - but at the same time, insofar as the one issue is concerned, I haven't the slightest fear of it, and - and further than that I think it has - it does have this advantage in that it's an indication of - of a bold program, and we've got to be bold. It, likewise, is an indication of - of us, more or less, giving to the market what we feel - what we feel we want to give to them instead of trying - there's such a thing as trying to meet - to meet the wishes of an awful lot of people in the market and letting them run it. Now in giving the one issue is, of course, not catering to any particular group, it's - it's a compromise - of the entire situation and I - I know our people feel - Piser felt pretty strongly only for the one issue; Ransom, as he indicated, favored that; as far as McKee and I were concerned, we had no objection to the other, but I'm sure that you'll have no difficulty with the one issue, and we - we're ready to.....

HMJr: Supposing it doesn't go well, what will the Fed do?

E: Well, we'll just buy whatever is necessary.

HMJr: Well, we - we wouldn't know, would we, until too late?

E: Well, you mean, if it isn't subscribed for?

HMJr: Yeah.

E: Of course, I can't imagine an issue not being subscribed for. Now, of course, if we could buy directly, what wasn't subscribed for, we'd just take.

HMJr: Yeah. But you can't do that yet.

E: No; but we can do this: It would seem to me if there's any question about it being subscribed, we could do just as we did before in the case of the bills. We could get the dealers.....

HMJr: Yeah.

E:to take whatever is necessary and agree to take them off their hands.....

HMJr: Uh-huh.

E:at some commission.

HMJr: Yeah. Well, ah - but.....

E: But, you see, your subscriptions have usually been - oh, anywhere from five to ten times.

HMJr: Yes.

E: Now it's rather difficult to imagine not having this fully subscribed.

HMJr: Yeah; well, I was just.....

E: From what Young said on the phone this morning, he - he said the banks were complaining over there because they were out - we continued to cut them down to one-half the capital surplus.

HMJr: Well, I had an interesting thing happen from Young from Boston.

E: Yeah.

HMJr: He called me back and said he saw two more men.....

E: Yeah.

HMJr:and they said they were going to go along no matter what it was. He didn't want to leave in my mind that Boston wasn't going to do its part. I thought that was very interesting.

E: Yeah; well, of course, he didn't sound much like that this morning.

HMJr: No. Well, I wanted to tell you he called me back. Evidently he also got to thinking about the impression he made, you see?

E: Yeah; which was pretty pessimistic.

HMJr: Yeah; well, he called back and said, "I've seen two more people and they feel different, and I think you ought to know it."

E: Fine.

HMJr: So.....

E: Well, I - I would - I would be favorable to the one issue if the New York boys feel it's - it offers any - any objection.

HMJr: Have you people figured about what that would sell at?

E: Yes.

HMJr: What do you.....

E: We - we - we figured - well, now, it depends on which maturity.

HMJr: Well, we're talking here of - just a minute.....

E: Do you - is that a fifty-two, fif--.....

HMJr: Fifty-three, fifty-five, March.

E: No, we haven't. We've got a fifty-two, fifty-four.

HMJr: Oh.

E: A June. A June. Take this one: We've got a June fifty-two, fifty-four.

HMJr: Just a minute - June, fifty-two, fifty-four, - yeah.

E: Yeah. Now this is pretty conservative, I think, and that's from a hundred and one to a hundred and - and one and four-thirty-seconds.

HMJr: A hundred what?

E: From a hundred and one to a hundred and one and four thirty-seconds - somewhere in the range of from a hundred and one to a hundred and an eighth.

HMJr: Oh, you're back June fifty-two, I see.

E: You say you're September fifty-three?

HMJr: No; March fif-

E: Of course - yeah - this list is nine months shorter.

HMJr: Yeah.

E: Yeah, that's one issue. That's a billion and a half. That's assuming the whole thing is put into the one issue.

HMJr: Yeah.

E: Yeah. Of course, if you put.....

HMJr: Well, let's talk one issue now - one issue.

E: Yes. Well, figuring on the one issue, that - that's the estimated price. If the issue were small, the estimated price would be a little bit more.

HMJr: Is that the one you pick?

E: That's right.

HMJr: You'd rather have that than the little one a little longer, huh?

E: Well, I think this. If you have any - if you have any - if you're going to put it all in the one issue.....

HMJr: Uh-huh.

E:and not give an option.....

HMJr: That's right.

E:and you put the billion - the million and a half out.....

HMJr: Yes.

E:it - it would seem to me to - to make it a little bit surer - if it was - if it was a ten. This is a - this is a little over a ten - twelve year issue.

HMJr: How would you feel about a fifty-two, fifty-five?

E: All right.

HMJr: Huh?

E: All right. I think it - I - I think I'd - I think I'd just as soon go to fifty-five. I think I'd sooner. If you're going to make it fifty-two, I think I'd - I think I'd put it at fifty-five.

HMJr: Gives us a little bit more.....

E: Gives you - gives you three years.

HMJr: Yeah. I think there's room enough there.

E: I - I don't know - I don't know what your maturity is.....

HMJr: What?

E: What your fifty-five maturity is - why they - why we figured it fifty-four here.

HMJr: Just a minute. I've got the - just a minute - we get - June fifty-two is vacant, and June fifty-five is vacant. They're both vacant.

E: They're both vacant?

HMJr: What?

E: You say they're both vacant?

HMJr: Yeah.

E: Yeah. Is fifty-four vacant?

HMJr: What's that?

E: Fifty-five is vacant, is it?

HMJr: June fifty-five is vacant.

E: Well, then, I'd - I'd make it fifty-two, fifty-five, June. And that gives you just - that gives you slightly over a hundred and one premium.

HMJr: Well, why not let's - I'll - I'll say just - I'll call you back. Are you going to be where I can get at you?

E: Well, we were going to - I was going to meet with John and Ronald at four. You.....

HMJr: Yeah.

E: You said you'd call us back at four, and I'd have the other two fellows here.

HMJr: I'll call you back. In the meantime, we'll work on June fifteen, fifty-two, fifty-five, because that seems to have a little bit more attraction than a fifty-three, fifty-five.

E: Well - and I think if you're going to have the one issue and there's any question about it, the one way to get around that is to make it slightly more attractive.

HMJr: That's right. And this does it.

E: Yes.

HMJr: This does it.

E: Well, that's what - that's what we figured here if you're going to have the one issue.

HMJr: Yeah.

E: Yeah.

HMJr: Well, I'll call you back at four.

E: Okay.

HMJr: Goodbye.

- 15 -

H.M.JR: You know, the one I suggested has everything that the '53-'55 has.

MR. HADLEY: Plus three months longer.

H.M.JR: Yes, what is the matter with that, Henry?

MR. MURPHY: I think it is a little thin. As you know, I am always in favor of--

H.M.JR: What would you do?

MR. MURPHY: I would fall back to December and make it a '51-'54.

H.M.JR: I don't think so.

MR. HADLEY: You will fall right on top of your '51-'55's if you do that, and you will have a worse reception than if you put it out by itself on an open date. You have a two percent of '51-'55.

MR. MURPHY: With a four year call period you don't have to - a three year call period, you don't have to worry about it.

MR. BELL: Why won't that be around a point, '52-'55?

MR. MURPHY: It depends on this weight we were discussing.

MR. BELL: Well, they have already got bad news and they have discounted that and they have got certainly in mind a billion dollars for that area, and they have probably discounted that area, and they have probably discounted that so all the weight there is about a half billion dollars, and you have taken that out of the note area.

MR. MURPHY: We would figure maybe a par twenty-five and thereabouts.

- 16 -

MR. BELL: Supposing it drops back to a half point premium?

MR. MURPHY: Well, I understand the Secretary wanted it priced for a larger premium than that. I think a '52-'55 will go, but--

H.M.JR: New York will guarantee a '53-'55.

MR. MURPHY: Of course, I can't guarantee it.

H.M.JR: The stock market, industrial, was only off a quarter of a point and in the government bonds, off three thirty-seconds.

MR. HADLEY: Your taxable issues didn't lose at all today. That is mostly tax exempts.

(The Secretary held a telephone conversation with Mr. Sproul and Mr. Rouse as follows:)

February 11, 1942
3:22 p.m.

HMJr: Hello.

Operator: Sproul and Rouse.

HMJr: Hello.

Allen Sproul: Hello.

HMJr: Morgenthau.

S: Yes, sir.

HMJr: Now, I've just been talking with Eccles and with my own people. We're like a weather vane in a storm - we're hard to keep up with.

S: (Laughs)

HMJr: We're back to one issue.

S: Well, that would be my second choice.

HMJr: What's that?

S: That would be my second choice.

HMJr: And we were talking about June 15, '52-'55.

S: Fifty-two, five.

HMJr: Yes.

S: That's all right.

HMJr: There's nothing in June 15, '52 or '55 falling due.

S: No.

HMJr: They're both blank.

S: That's all right, I should say.

HMJr: What?

S: I should say that's all right.

HMJr: Wouldn't that sell at a little bit better price than a March 15, '53-'55?

S: I think it would, yes.

HMJr: A little bit better.

S: A little better.

HMJr: A little sweeter.

S: Yes.

HMJr: Would there be a point in that for the whole issue?

S: On our figures there would be a point in that, yes.

HMJr: There would be a point.

S: Yeah.

HMJr: What?

S: On our figures there'd be a point in that.

HMJr: Anything more than a point?

S: Well, we figure it would range from thirty thirty-seconds to one and four; so it would be around a point premium.

HMJr: Yes. Well, isn't that enough?

S: Yes, I think that's plenty.

HMJr: Yes. (Laughs) Bell wants to know whether you'll guarantee it.

S: Sure, I'll guarantee it'll go; I don't know how long it will be around the market before it's finally put away, but I'll guarantee it'll go.

HMJr: Well, that's good enough, because the Federal

Reserve Board will buy up to a billion and a half of it.

S: That's what I thought.

HMJr: (Laughs) You don't think that's a very good rumor to spread?

S: No. But it will go, and the market knows it will go and knows it's got to go and that's that.

HMJr: Well, would they be cheerful about it?

S: I think they'd be cheerful about that, yes. I think we've indicated they'd be more cheerful about the two, but I think they'd be cheerful about this one.

HMJr: There's something else I want to ask you - I don't know. The - well, I told the Board I'd call them back at four, see?

S: Told who?

HMJr: The Federal Reserve Board.

S: Yes.

HMJr: And right after that I'll call you gentlemen.

S: All right, we'll be here.

HMJr: But you feel there's a good point in it?

S: Yes, I do.

HMJr: Well, I think that's all right. Thank you.

S: All right.

- 17 -

H.M.JR: Your thought is that you would get the stuff out and then hold it,?

MR. BELL: Yes, we would send it out just as though we were going to announce it, see, but tell them not to send it out to the banks and not to release it to the press until they get another wire from us tomorrow, say about two o'clock or something like that, so they can catch all afternoon trains.

H.M.JR: Anybody worried about that, about it going?

MR. MORRIS: I wanted to ask, would you put in the rate, the whole thing?

MR. BELL: Yes, just as though we had made the decision final, but we will take one more look at it with the news tomorrow.

H.M.JR: I don't mean worried about doing it that way; I mean worried about that particular issue.

MR. MORRIS: Oh, no.

H.M.JR: I mean worried about a June '52-'55.

MR. MORRIS: But I would hate to have to recall it.

H.M.JR: Well--

MR. BELL: You would only recall it from the Federal Reserve Banks.

MR. MORRIS: I know, but when it goes that far it has gone a long way.

H.M.JR: There isn't much chance. I know what I want to ask. You (Hadley) run out and get that for me, have they made any bottom today, is there any bottom in the market? Is there any bottom in this bond market, Have they made a bottom yet?

MR. HADLEY: They have leveled off.

H.M.JR: Have they?

MR. HADLEY: This morning the long taxables were off two thirty-seconds and they came up around noon and they have stayed that way the rest of the day.

H.M.JR: Go out there now and come right back, please.

MR. HAAS: And bring in that little sheet that you gave me.

H.M.JR: Henry, are you still a little uneasy?

MR. MURPHY: I wouldn't be uneasy. I think the pricing is perhaps a little high, but even if it is three-quarters of a point it is still a successful issue, so I wouldn't be uneasy.

MR. BELL: Oh, you mean the way they are figured it is a little high?

MR. MURPHY: Yes. However, the difference between our figuring, Mr. Secretary, is principally that we had supposed that the market, not knowing whether it would be all in one issue or where that issue would be, that putting it all in one issue at a particular place would grease the market about a half point. We may be wrong. I think we have been conservative. Even allowing the full force of our assumptions, the issue would still be quite successful.

H.M.JR: How about you, George?

MR. HAAS: New York may allow something and even on our conservative figures we are only off around five thirty-seconds, so I think we are all right. You can't price it that close.

H.M.JR: If the market would level off between now and four o'clock, I would feel a little bit better.

MR. BELL: The market hasn't been bad today. It has pretty well leveled off.

H.M.JR: I think I have got an excellent chance to have Singapore drop in my lap about Friday.

MR. BELL: Yes.

MR. HAAS: Do you know what we have got here now? Friday the thirteenth and a thirteen-year bond. (Laughter)

H.M.JR: Thirteen-year bond?

MR. HAAS: Isn't that what it is?

H.M.JR: Yes, That makes it all right.

MR. MORRIS: The United States started with thirteen original states.

MR. BELL: Sure.

H.M.JR: I never heard anybody say that before in connection with superstition.

MR. MORRIS: That is my old war cry.

H.M.JR: Is it?

MR. MORRIS: Yes. If anybody pulls thirteen on me, I give them that one.

H.M.JR: If you gentlemen would come back a couple of minutes before four, please.

MR. BELL: Yes.

February 11, 1942
3:41 p.m.

HMJr: Jesse.

Jesse Jones: Yeah.

HMJr: I thought you might like to know what I'm thinking about doing about this billion and a half financing.

J: I would.

HMJr: We're thinking of - I think they call it in racing, "putting it all on the nose", one shot.

J: Yeah.

HMJr: A June 15, '52-'55 bond.

J: Uh huh.

HMJr: Two and a quarter per cent.

J: Uh huh.

HMJr: There ought to be about a point leeway in that they figure.

J: That sounds pretty good to me.

HMJr: Well, around.....

J: It sounds rather normal, rather natural.

HMJr: Yeah. Well, we think here - you've heard me before - in these times, that a billion and a half is not too big to do at one time because we'll have to be doing more.

J: You've got to be trying it, so you just as well put it on the line.

HMJr: Yeah. The people in New York would like us to split it up, you know.

J: Yeah.

HMJr: Does it frighten you?

J: Not the slightest.

HMJr: No, the slightest.

J: Not the slightest. I like the time, and I think the rate's appropriate.

HMJr: There's a little over a point in it.

J: Well, that's good enough.

HMJr: But, of course, what'll happen between now and Friday we don't know.

J: You're going to do this on Friday, the thirteenth, are you?

HMJr: Yes, sir.

J: That's good.

HMJr: Well, as somebody said, we started this country with thirteen states and we got along pretty well.

J: Well, why not, huh?

HMJr: What?

J: I think it's - it looks to me like it sounds very, very right and very appropriate.

HMJr: Now, if I could change the subject.

J: Yes.

HMJr: Are you in on this Ecuador deal?

J: Ecuador?

HMJr: Yeah. Are you doing anything for Ecuador?

J: Yeah.

HMJr: What are you doing? They're trying to get me to do something.

J: Are they?

HMJr: Yeah.

J: Well, let's get Harry White and Warren Pearson together on it.

HMJr: Well, I'll tell - yes, that would be fine. Would you tell Warren?

J: I will. We - when they were down there, Henry, we did make some agreements that we would give consideration to certain items up to so many dollars.

HMJr: Well, I got a letter today from Sumner. Did you get one?

J: I haven't seen it.

HMJr: Telling me he'd got - he had to have something as of yesterday.

J: Yeah. Well.....

HMJr: Well, supposing I tell Harry he'll hear from Warren Pearson?

J: Yes, he'll do it right away. I'll have Warren call him right away.

HMJr: How's that?

J: Fine.

HMJr: Thank you.

J: Thanks.

February 11, 1942
3:45 p.m.

HMJr: I'm sending you in a letter from Sumner Welles about Ecuador. Miss Chauncey has it.

Dr. Harry White: Yes.

HMJr: That's number one. Number two, I tried to get Sumner Welles. He's out until five-thirty.

W: Yes.

HMJr: Number three, I called up Jones and asked him what he was doing about it, and he said he was. "Have you got a letter from Welles?" "No." But he'd like you and his Export-Import.....

W: Warren Pearson.

HMJr: Warren Pearson.

W: Warren Pearson has been in touch with me on it.

HMJr: Well, he said he'll be in touch with you again this afternoon.

W: Yes. Well, I sent a note around this morning to you on it.

HMJr: Yes, I got it.

W: I see. Well, do you want us to wait until we.....

HMJr: Well, let's find out what Jones is going to do. He hasn't made up his mind.

W: Oh, well, I can tell you what.....

HMJr: Well, he hasn't made up his mind.

W: All right.

HMJr: Just stall it for another day, because I'm in the midst of my financing.

W: Oh, well, it's easy enough to stall it for a

day or more.

HMJr: I've tried to get Welles; he wasn't in. I talked to Jones; he knew nothing about it, and he's sending what's-his-name over to see you.

W: Yes.

HMJr: Now, we've got to do Lend-Lease in reverse.....

W: Okay.

HMJr:and we've got to work out China.

W: Right. I'll call - I'll remind you of it if you don't remind me of it by Saturday.

HMJr: That's right.

W: Okay, sir.

HMJr: Thank you.



DEPARTMENT OF STATE
WASHINGTON

309

Handwritten notes:
to Be...
Will

In reply refer to
80

February 11, 1942

My dear Mr. Secretary:

Reference is made to discussions which took place last summer between officials of the Treasury Department and representatives of the Government of Ecuador regarding the request of that Government for aid in the stabilization of the relationship between the dollar and the sucre. As you are aware, this matter was raised with the United States Delegation at the recent meeting at Rio de Janeiro, and has been discussed during the last several days by the financial representative of the Ecuadoran Government with officials of the Treasury.

It is the view of the Department that the speedy conclusion of such a stabilization arrangement would strengthen public confidence in the stability of the Ecuadoran currency, which is, as a matter of fact, in
a relatively

The Honorable

Henry Morgenthau, Jr.,

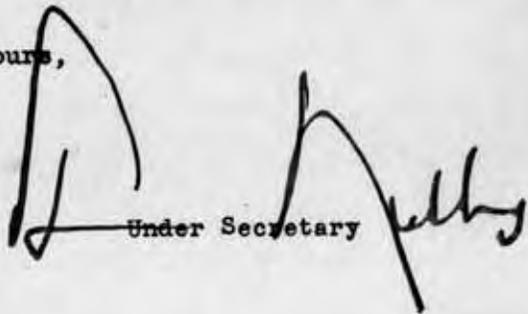
Secretary of the Treasury.



-2-

a relatively good situation. This would assist the Government of Ecuador materially in dealing with problems which have arisen as a result of the Peruvian-Ecuadoran boundary dispute recently settled at Rio de Janeiro. I cannot, consequently, too strongly urge that the Treasury make every appropriate effort to expedite this matter.

Sincerely yours,



Under Secretary

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February 11, 1942
3:56 p.m.

WJr: We got the letter from the President telling us to go ahead.

Edward Foley: Yeah.

HMJr: What did we do about it?

F: Well, we're getting the papers ready, Mr. Secretary.

HMJr: Well, how long does that take.

F: Well, I think we ought to be - have the stock vested by the time we get together on Monday next week, for the next discussion.

WJr: You're not going to - I thought you were going to rush it through.

F: Well, I'm doing the best I can, Mr. Secretary. This is the guinea pig, you know, the first one; and we haven't got any precedents and we haven't got any papers and we're drafting each one de novo.

HMJr: And Leo Crowley's got all the books on it, huh?

F: (Laughs) Well, that's where we found they were when we went to the library; but we're making progress.

HMJr: Well, it's in hand - I can forget about it.

F: I think so. And I think we'll be able to tell you by the end of the week that we've taken over the stock.

HMJr: Well, I'd rather have you do it carefully than make a mistake.

F: Well, it's an important step and it's going to be a precedent for the rest of them, and we haven't got any guides. We're doing the best we can.

HMJr: I know. I just thought you'd have everything ready, waiting for the President's signature.

F: Well, I'm pushing the fellows just as hard as I can.

HMJr: I say, I just thought, you know - once you sent it over to the President, you'd have it all ready. Evidently it's more of a job than I realized.

F: It's a big job.

HMJr: Well, be sure you're right.

F: It's a big job.

HMJr: All right, I won't call again. You just let me know when you're ready. But don't - if it's a big job, do it right.

F: Right. Thank you, sir.

HMJr: Good-bye.