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TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Wednesday, February 18, 1942.

The Secretary of the Treasury, by this public notice, invites tenders for \$150,000,000, or thereabouts, of 91-day Treasury bills, to be issued on a discount basis under competitive bidding. The bills of this series will be dated February 25, 1942, and will mature May 27, 1942, when the face amount will be payable without interest. They will be issued in bearer form only, and in denominations of \$1,000, \$5,000, \$10,000, \$100,000, \$500,000, and \$1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, two o'clock p. m., Eastern war time, Friday, February 20, 1942. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of \$1,000, and the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 10 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Secretary of the Treasury of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Payment of accepted tenders at the prices offered must be made or completed at the Federal Reserve Bank in cash or other immediately available funds on February 25, 1942.

The income derived from Treasury bills, whether interest or gain from the sale or other disposition of the bills, shall not have any exemption, as such, and loss from the sale or other disposition of Treasury bills shall not have any special treatment, as such, under Federal tax Acts now or hereafter enacted. The bills shall be subject to estate, inheritance, gift, or other excise taxes, whether

Federal or State, but shall be exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority. For purposes of taxation the amount of discount at which Treasury bills are originally sold by the United States shall be considered to be interest. Under Sections 42 and 117 (a) (1) of the Internal Revenue Code, as amended by Section 115 of the Revenue Act of 1941, the amount of discount at which bills issued hereunder are sold shall not be considered to accrue until such bills shall be sold, redeemed or otherwise disposed of, and such bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder need include in his income tax return only the difference between the price paid for such bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made, as ordinary gain or loss.

Treasury Department Circular No. 418, as amended, and this notice, prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Wednesday, February 18, 1942.

Press Service
No. 30-39

Secretary of the Treasury Morgenthau today announced the subscription figures and the basis of allotment for the offering of 2-1/4 percent Treasury Bonds of 1952-55.

Reports received from the Federal Reserve Banks show that subscriptions total approximately \$4,697,000,000. Subscriptions in amounts up to and including \$5,000, totaling about \$14,000,000, where the subscribers specified that delivery be made in registered bonds 90 days after the issue date, were allotted in full. All other subscriptions were allotted 32 percent on a straight percentage basis, with adjustments, where necessary, to the \$100 denomination.

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

February 18, 1942

Daniel W. Bell
The Secretary

Please talk to me the first thing in the morning as to whether I should or shouldn't call up Cannon and Woodrum about our \$95,000 which the Senate put back in the deficiency bill. Please talk to me about that early - at least before ten o'clock.

*Bell saw Hodge on
this at 10:00 this
morning.*

Copy for Miss Chauncey

5

February 18, 1942 1:22 P.M. OS

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T
SECRET SERVICE WASH WILSON

SECRET SERVICE NY MCGRATH

BELKNAP MESSAGE DELIVERED AND UNDERSTOOD. ALL INSTRUCTIONS CARRIED
OUT. WMC

Frank J. Wilson, February 18, 1942.
Chief, Secret Service Bureau

E. H. Foley, Jr.

The Secretary would like to have you transmit by teletype the attached memoranda from Under Secretaries Patterson and Forrestal and General Gullion, to the head of your St. Louis office, with instructions that he personally deliver them as soon as possible to Charles Belknap, Executive Vice-President of the Monsanto Chemical Company, 1700 South Second Street. Your man should wait while Mr. Belknap reads them and after he has read them your man should be instructed to burn them.

The Secretary will be talking to Mr. Belknap later in the day and wants Mr. Belknap to have read the memoranda before he telephones him.

Obviously the documents are of a highly confidential nature and care should be exercised that they be shown only to Mr. Belknap.

Attachments.

EHF:mp 2/18/42

WAR DEPARTMENT
WASHINGTON

February 17, 1942

The Honorable,

The Secretary of the Treasury.

Dear Mr. Secretary:

Your attention is invited to the attached memorandum from the Provost Marshal General dated February 11, 1942, subject: The General Aniline and Film Corporation Subsidiaries and Affiliates.

We agree with the recommendation of General Gullion and suggest that the necessary steps be taken to secure a competent manager of known loyalty to be placed in charge of the corporation. The actual discharge of individuals who are known to be or suspected of being subversive can be accomplished through the recent procedure set up in this office and agreed to by the Secretary of the Navy. It is believed that it will be necessary for a new manager to gradually replace the technical experts employed by the General Aniline and Film Corporation with loyal Americans possessing the requisite technical qualifications.

Sincerely yours,



ROBERT P. PATTERSON
Under Secretary of War



JAMES V. FORRESTAL
Under Secretary of the Navy

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February 11, 1942

Emergency Operations Division
PMG 004.4 (General Aniline & Film Corp.)

MEMORANDUM for The Under Secretary of War.

Subject: The General Aniline and Film Corporation Subsidiaries
and Affiliates.

1. Reference is made to memorandum from this office dated January 17, 1942, which contained remarks and recommendations designed to eliminate the dangerous situation existing by reason of the sympathies and activities of the personnel of the above referred to corporation and its divisions. Discussions have been recently held by this office with the Office of the Assistant Chief of Staff G-2, the Office of Naval Intelligence, and the Office of the Secretary of the Treasury. Complete reviews of all reports on this matter, which were obtained from the records of the Office of the Assistant Chief of Staff G-2, have been accomplished.

2. The reports contain definite information indicating that all of the companies mentioned are either subsidiaries of or are closely allied by interlocking directorates with the I. G. Farbenindustrie, the German Dye Trust. It appears that ninety-eight percent of the stock of this company has been held by alien enemies. It is understood that the stock is now being vested, by executive order, in the Secretary of the Treasury.

3. Prior to the action of the Treasury Department freezing the funds of this corporation, the chief executives, administrative officials and minor technicians were and in most instances still are persons of more than doubtful loyalty. This has been remedied in some degree by the recent appointments of American citizens to the executive offices of the principal company. The personnel of this corporation have had complete and uncensored access to films from which photographs of many instruments, vehicles and fort sites vital to the War effort of the United States have been and are being made. It is obvious that duplicates of these photographs could have been made and it is logical to assume that they were made and furnished to agents of the enemies of the United States. This corporation has sold or leased to government agencies,

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Army posts and manufacturing plants engaged in manufacturing material and equipment for the government, many machines used in photographic processes. Representatives of this corporation have constantly visited plants, posts, experimental laboratories, and proving grounds ostensibly for the purpose of servicing these devices and in connection with the sale of their products. It is also logical to conclude that these representatives ostensibly on a service or sales mission have used the visit as an opportunity to obtain military information otherwise not available to them. In their own reports taken from their files statements are contained which reveal valuable military information. A typical statement is contained in their report dated December 5, 1941, "Had to spend over four hours here. This camp now has eight canteens open. Three thousand men are leaving the eighteen of this month for foreign service. This number will be replaced by selectees immediately."

4. Another consideration is that thousands of American citizens, including many in the Military Service some of whom are stationed at outlying vital bases, send in their films to this corporation for development and printing. It is also logical to conclude that these films or reprints therefrom have been and are being used for purposes other than that intended. At least, such possibilities exist. It therefore appears that immediate action should be taken in this regard. The General Aniline and Film Corporation is also engaged in the manufacture of dyes for woolen goods which are used in Army Service uniforms.

RECOMMENDATION

It is the view of this office that prompt and effective action should be taken to eliminate this potential source for espionage and possible sabotage. It is recommended therefore:

a. that the Secretary of the Treasury take immediate action with the view of selecting a competent manager of known loyalty to be placed in charge of the corporation, and likewise competent managers for all divisions and subsidiaries. It is contemplated of course that the new managers will take immediate steps to divorce German or any other alien or inimical interests from the corporation and its affiliates. It should be understood, however, that these recommendations have no application to the recently appointed executive officers referred to above.

b. that where reasonable grounds exist for doubting the loyalty or suspecting subversive activities or connection on the part of employees that they be discharged and replaced by proper personnel; or in the event it is not practicable to replace technicians holding key positions, it is recommended that they be

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allowed to remain and be kept under full surveillance. It is recommended further that during the process of replacing the questionable and unsatisfactory personnel that instructions be issued by the War Department to all concerned that all orders for work or service with this corporation, its divisions and subsidiaries be restricted to unclassified matters and to items from which secret military information cannot be obtained; and that orders for work and service of a classified nature shall not be given to this corporation until authorized by the Under Secretary of War.

g. It is understood that the Office of the Assistant Chief of Staff G-2 (Safeguarding Military Information Section) is now studying the question of proposed legislation to prohibit the taking of any photographs which might reveal information vital to the War effort; likewise, the revision of the Army regulations to accomplish this same purpose. In the opinion of this office pending the completion of this study and action thereon, other prompt steps should be taken. It is therefore suggested that photographs by civilians on military reservations or facilities vital to the War effort be prohibited except where expressly authorized by the War Department. Further, that all military personnel be prohibited from taking photographs of military installations or facilities vital to the War effort except where expressly authorized by the War Department.

d. that the Secretary of the Treasury take any further action he may deem necessary or appropriate.

Allen W. Gullion,
Major General, U. S. A.,
The Provost Marshal General.

Incl:

Memo to PMG from A.C. of S. G-2
Form 1593 photostat
Ltr. of 2-3-42

February 18, 1942
12:18 p.m.

Operator: Mr. Foley.

HMJr: Foley.

Edward
Foley: Yeah.

HMJr: Good morning.

F: Good morning.

HMJr: Ed, this thing at the Provost - what did you
decide to do about my suggestion of wiring this
to Belknap?

F: We went ahead and found out that he wasn't in
St. Louis, he was in New York.

HMJr: Oh.

F: And it's being delivered to him at the hotel
up in New York.

HMJr: He's in New York?

F: Yeah.

HMJr: What do you suppose he's doing up there?

F: I don't know. He's with Queeny at the Ambassador
Hotel.

HMJr: He's with who?

F: Queeny.

HMJr: Oh, with Queeny, I see. And you told him - how
much did you deliver?

F: I delivered the covering memorandum and the
memo from Gullion.

HMJr: Signed by Gullion?

F: Yeah.

HMJr: But not the stuff sent me.....

F: No, no. Because that's all - that's all that he would have to have.

HMJr: What is a Provoet Marshal, anyway?

F: Well, he's the fellow that has to do with the internal defenses.

HMJr: I see.

F: In so far as they relate to civilians.

HMJr: Well, let me ask you this: where did he get all of this stuff from?

F: Us, pretty much.

HMJr: What?

F: Pretty much from us.

HMJr: Well, Bernie thought he might have gotten it from Sammy Klaus.

F: And Joe.

HMJr: Oh.

F: And Joe. They've been turning the stuff over to.....

HMJr: Well, it's a peculiar thing, the way the letter's worded. Sort of - I mean, I suppose it's in answer to my putting them on notice not to use it - I suppose after a month or so this is what they've done, huh?

F: That's right. Sure.

HMJr: Because I wrote them not to recommend it, and then they come back with this stuff at me, huh?

F: That's right. Yes. And I think it's - I think it couldn't be better. I think it's fine, because.....

HMJr: Well, it's good only because we acted. It

wouldn't be so good if we hadn't acted.

F: That's right.

HMJr: Because then it would look as though we again were behind.

F: That's right. Well, I mean (Laughs) the only sad part of it is that they should have had it first instead of us, and we brought it to their attention and now they're following through.

HMJr: They should have had it first.

F: Sure. Instead of us.

HMJr: Well, they didn't.

F: They didn't. We were ahead of them.

HMJr: And this is their come-back.

F: That's right.

HMJr: Okay.

F: All right.

HMJr: I'm seeing you at one.

F: All right. Fine. Thank you.

HMJr: Good-bye.

February 18, 1942
12:26 p.m.

Charles
Belknap:

How are you, Mr. Secretary?

HMJr:

Good morning.

B:

Good morning. I'm sorry I got laid up with a cold after I left Washington so I haven't been able to look this thing - get a decision on it as quickly as I expected.

HMJr:

I see.

B:

I had to hole in here at the Ambassador Hotel in New York and go to bed.

HMJr:

Oh.

B:

And - but the situation is this, Mr. Secretary. I've talked it over with the officers of our company, and we feel that we have obligated ourselves to so much Government business, that we cannot spare any of our personnel and do that job well.

HMJr:

Yeah.

B:

You see, we have taken on four Government plants.

HMJr:

Yeah.

B:

Outside of the expansion of a great many of our own processes within our plant, and we've taken on these four plants - two in Texas and two in Illinois.....

HMJr:

Yeah.

B:

.....and it does spread it very, very thin.

HMJr:

Yeah.

B:

And they feel that to have one of the executive officers pulled out at the present time would endanger the program, and I think it's going to take about two hundred men from us, of our supervisory force; and we're therefore sorry

to have to state that we feel that I should not accept.

HMJr: You're turning me down.

B: (Laughs) I hate to do it, but I agree with them that we have got this big program and it's a very extensive one.

HMJr: Well, I'm disappointed. I didn't think you'd do that.

B: Well, that's the reason of it; nothing else.

HMJr: Yeah.

B: I don't - one other thing, Mr. Secretary, and that is that I don't believe that you'll manage to keep that company together if you - keep it going at all - if you get rid of the personnel that are there.

HMJr: Uh huh.

B: You seem to be pretty insistent on that.

HMJr: Well, did you get a copy of the letter I sent you from the Under Secretary of War and Navy?

B: Beg your pardon?

HMJr: Did you get a copy of the Under Secretary of War and Navy's letter?

B: No, I have not.

HMJr: Well, I sent one up to you on that.

B: From where - I mean, where did you send it? St. Louis?

HMJr: Well, I - no, I sent it to New York and told a Secret Service man to deliver it.

B: Well, they're going to bring that up now. They just telephoned to me and said they'd be up here

in about an hour or an hour and a half.

HMJr: Well, without my knowing it or asking for it, the Under Secretary of War and Navy have written me a letter and - this is just a part here, it says, "We agree with the recommendations of General Gullion, Provost Marshal, that necessary steps be taken to secure competent manager of known loyalty to be placed in charge of the corporation. The actual discharge of individuals known to be or suspected of being subversive can be accomplished through the recent procedure set up in the office agreed to by the Secretary of the Navy."

B: Yeah.

HMJr: "It is believed that it will be necessary for new manager to gradually replace technical experts employed by the General Aniline Film with loyal Americans possessing the requisite technical qualifications." Signed Robert Patterson and James V. Forrestal.

B: Yeah.

HMJr: So that's what the Army and Navy think about it. It isn't just my opinion.

B: Yeah. Well, I've - as I say, I don't believe that you could ever replace them - I mean, I know something about the chemical industry myself, and you can't get men.

HMJr: Well, I think I'm going to write you a letter, Mr. Belknap, asking you; and then I'm going to - and if you want to turn me down formally, I'd like to have it on record. I just can't understand it. You're working for - all the work that you have is financed and paid for by the Government; and now the Government comes along and asks you to help us out, and your company says no.

B: Well, I think, Mr. Secretary, you've got - we've said yes a good many times; and we're not - it isn't from anything like that - spirit like that - in the least. It's just the question that we've

taken on so much work that we can't take on any more.

HMJr: Well, I just couldn't under - I mean, I still don't understand it. I went to you in the first instance because you're a graduate of the Naval Academy and a Naval Officer, and here is the Government asking you to do something at no financial loss to you.....

B: That doesn't worry us in the least. That doesn't enter into it in any way.

HMJr:and all this extra work you have is Government work.

B: That's right.

HMJr: And I think it's up to the Government to decide where your services can be of the greatest value.

B: Yeah.

HMJr: Now, this policy of getting these people isn't just mine. It's also, now, both the War and Navy. They're putting down the regulations - the Navy Department are.....

B: Yeah.

HMJr:and I'm glad to have them back me up; and it came to me out of the clear sky. I didn't know it, and they gave me the whole list of everything. But we are at war.

B: I realize that as much as anybody.

HMJr: And.....

B: Very serious, too.

HMJr: And I've got to have a record of this. And - can't you reconsider this?

B: Well, I really have considered this very deeply and very carefully.

HMJr: Yes.

B: And that's the conclusion we came to.

HMJr: Well, who's we?

B: Well, I mean, our company officers.

HMJr: Yeah.

Well, it doesn't - it not only doesn't help me, but it's too bad that a man, as I say, with your special training, that we can't get him to do this sort of work, and I just.....

B: Well, I'd like to - quite naturally I'd like to talk to - give your point of view - and communicate with you again.

HMJr: I just can't understand it. I mean - here's a case where I'm fairly confident that we go on, ~~that~~ this is one of the worst nests of Nazi-ism in this country.....

B: Yeah.

HMJr:and I sent you up this letter - you'll see what the - I wish it had been in here Monday, but I didn't know it was coming - what the Provost Marshal had to say about it.....

B: Yeah.

HMJr:and here the Treasury Department formally asks your company to lend us one of their men to help us clean out these people, and all this extra work that you got is for the Government....

B: That's right.

HMJr:and then the Government says, "Well, we need you more here." I could get the President to write you a letter, but I don't want to take up the President's time. I can get the Secretary of the Navy to write you a letter.

B: I don't want to bother the.....

HMJr: Well, I can get the Secretary of the Navy to

write you a letter.

B: No, you're enough, Mr. Secretary.

HMJr: Well, I'm definitely going to write you and the president of your company a letter.

B: Yeah.

HMJr: And then when we ask you this and the only excuse is, well, you've got other Government work to look after - and - supposing I don't get anybody and supposing the people who are now in lick me on this thing and then six months from now - in September - we find a lot of Nazis in there.....

B: Yeah.

HMJr:and they've gotten into the Government films and what have you and let's say, this isn't anything wild, as I understand, eighty or ninety per cent of the dye for the uniforms are made by this company.

B: Yeah.

HMJr: Well, supposing they put something into this dye which will give all these men a skin irritation.

B: Yeah.

HMJr: It's perfectly possible.

B: Yeah. Well, the only thing is that I think that you'd find on the other hand a very - I don't believe that you could get anybody to replace them.

HMJr: We've got to. We've got to. I mean, there's no two ways - we'll either get them or we'll shut the company down.

B: Well, personally I think if you don't - if you take them out of there at the present time, you'll have to shut the company down.

HMJr: Well, then maybe we'll have to do that.

B: Yeah.

HMJr: But I recommended in September '39 that I be permitted to buy the "Normandie".

B: Yeah.

HMJr: And I was blocked by that - because they said that I might be hurting some Frenchman's feelings; but in '39 I was ready to pay twenty-five million dollars for the "Normandie" and I could have bought it in September '39.

B: Yeah.

HMJr: We'd have had it now.

B: Yeah.

HMJr: But with this company and I owning the stock, I'm not going to wait until these fellows pull some devilment on us.

B: Yes.

HMJr: And all I asked of your company was to lend you long enough that we could get this thing started.

B: Would you consider at all the company itself going into that position?

HMJr: Mr. Belknap, Mr. Swope put it up to me.....

B: Yeah.

HMJr:and I can't do it on account of the public.

B: I see.

HMJr: And I didn't know how he felt or how Foley felt, but I've since talked to other people and they said the public reaction would be bad.

B: Yes.

HMJr: And if.....

B: If you considered doing that, we could strengthen it a great deal.

HMJr: Well, if you're so busy, how's your company got time to supervise somebody else?

B: Why, just simply - I mean, if you have to go in.

HMJr: Well, we're in. The United States Government is in this thing now. We're up to our necks.

B: Yeah.

HMJr: And if you're - the Monsanto Chemical are so busy, how have they got time to supervise another company which is as big?

B: Well, you miss my point. What I meant was this: if we had to go in there, it would be stronger with the backing of the whole company rather than one person out of the company.

HMJr: Well, that's perfectly true.

B: That's what I was trying to say.

HMJr: But I can't - a lot of things have been done here in Washington which I couldn't explain, and I couldn't explain if I picked one company to manage.

B: Yeah.

HMJr: I mean, I'd have difficulty enough trying to explain the hiring of the Aluminum Company to manage all of these others.

B: Yeah.

HMJr: And I don't think - even if I wanted to do it - I don't think I could get it by the Department of Justice.

B: Yeah.

HMJr: They sounded them out about it, and they didn't like it.

B: All right, Mr. Secretary, I'll.....

HMJr: What is your address?

B: Out there in St. Louis?

HMJr: No, where you are now.

B: At the Ambassador Hotel in New York.

HMJr: How long will you be there?

B: I'm planning to be here until the Spirit of St. Louis leaves tonight at six o'clock.

HMJr: Well, when you get back to St. Louis tomorrow morning, there'll be on your desk a formal letter from me and one to the president of your company asking for your services.

B: Yeah.

HMJr: And then if you want to turn me down.....

B: You make it awful hard.

HMJr: I'm going to make it just as hard as I know how.

B: (Laughs)

HMJr: I'm going to make it just as hard as I know how, because we didn't select you lightly, we selected you because you were a graduate of Annapolis, a United States Naval Officer, and you'll have this thing now from Patterson and from Forrestal and from the Provost Marshal backing me up, or rather, demanding of me that I kick these fellows out, not backing me up. Demanding that I do this.

B: Yeah.

HMJr: So - and as I told our own people - I mean, when are we going to stop playing this game as though

we'd all gone to Eaton and all wore school ties?

B: Yeah.

HMJr: And these people will stop at nothing; and as far as my responsibility is concerned, I'd much rather have somebody say, "Well, the Treasury's too tough on the Germans," than to have them say we're a lot of sissies.

B: Yeah.

HMJr: And if there ever was a bad nest of Nazis, they're right in that company.

B: Yeah.

HMJr: And, as I say, after all, it's no - you don't have to let your imagination run very far as to what they could do through their dyes and their chemicals and what have you, and through copies of our motion pictures and everything else. The Provost Marshal goes into the whole thing.

B: Yeah.

HMJr: And I just - I don't believe you're going to turn me down. I can't believe it.

B: Well, could I try to get you somebody else?

HMJr: Well, that's always possible, but.....

B: I'm only too glad to help in every way I can.

HMJr: Yeah. Well, if you know of any officer, Naval Officer, or Army Officer, I want either a retired Naval or Army Officer that has training in the chemical industry.

B: (Laughs)

HMJr: He's got to be either Navy or Army, but I much prefer the Navy.

B: Yeah. All right, Mr. Secretary.

- 11 -

HMJr: All right.

B: Good-bye.

HMJr: Good-bye.

FEB 18 1942

My dear Mr. Queeny:

I am enclosing for your information a copy of a letter which I have written to Mr. Charles Bellknop, Executive Vice President of your company. I am sure that you and Mr. Bellknop will agree with me that in times like these all citizens have a duty to their country to serve where they can most effectively help in the war effort. I believe that Mr. Bellknop can perform an invaluable service to his country by accepting the presidency of the General Aniline and Film Corporation, the great majority of whose stock is now vested in the Secretary of the Treasury.

I hope that it will be possible for you to encourage Mr. Bellknop to accept this position and for your company to give him a leave of absence for an indefinite period of time. In this way you can help me carry out an important program that is so vital to our war effort.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

Mr. Edgar M. Queeny
President, Monsanto Chemical Company
St. Louis, Missouri

Enclosure

BB/EHF:s 2-18-42

FEB 18 1942

My dear Mr. Belknap:

As you know, 97 per cent of the outstanding shares of the General Aniline & Film Corporation has been vested in the Secretary of the Treasury. In my judgment the real interest in these shares has been in the German Dye Trust.

The purpose of the Treasury Department in vesting these shares was to carry forward steps to Americanize the company and better utilize its productive facilities in the war effort. As you know, the company is one of the country's leading producers of such needed dyestuffs and film. It is the view of the War, Navy and Treasury Departments that unless immediate steps are taken to eliminate the I. G. Farben control that has dominated the General Aniline & Film through stock holdings, key personnel and patent and other contractual arrangements, this Government will not be able to make the full and effective use of the General Aniline & Film Corporation that the necessities of the war require.

The Government considers it essential to the success of this program that there be installed at once in this company as its directing head a man who has not only unquestioned integrity and patriotism but also enjoys the highest reputation as an experienced business executive in the chemical field. I am confident that you as a former Naval officer and as an important executive in chemical companies for more than twenty years possess these qualifications in an outstanding degree. I am calling on you to accept this important assignment in the Country's war effort.

I hope that you will be able to arrange a leave of absence from your present position and take over the presidency of the General Aniline & Film Corporation at your present salary.

- 2 -

In view of the urgency of the matter, an immediate answer by wire or air mail letter will be appreciated.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Mr. Charles Belknap,
Executive Vice President
Monsanto Chemical Company
1700 South Second Street
St. Louis, Missouri.

BB:EHF/mp 2/18/42

February 18, 1942
12:41 p.m.

HMJr: Mr. Swope.

Gerard
Swope: Good morning, Mr. Swope.

HMJr: Mr. Belknap, I understood, talked to you
before he talked to me?

S: Yes, sir.

HMJr: What did he have to say?

S: Well, he said that he had talked it over with
Queeny and had been ill since he left here
with a cold, but that with all the work that
the Monsanto's got, he didn't think he could
undertake it. And then he said some other
things which I'd like to tell you when I see
you.

HMJr: Yes.

S: Did you talk to him?

HMJr: Yes, I did.

S: Uh huh.

HMJr: What were the other things that he said? This
is just in the Treasury.

S: Well, he - two other things. He said - and
this is just local prediction, you might say -
that he didn't think that if you got rid of
all those people in there with German con-
nections, if they're loyal Americans, that he
thought that the company would go to the ground.

HMJr: Yeah.

S: It would never be - but that's the thing that
I'd like to talk to you at length, Mr. Secretary,
about.

HMJr: I want to talk to you, too.

S: Yeah. Well, when?

HMJr: Well, I don't know.

S: (Laughs) And then the other proposition that he and Queeny would be willing to consider with you is the question of the Monsanto operating it as an organization.

HMJr: Well, I'd like to talk to you, as I say, and we'll see how we get along.

S: All right, sir.

HMJr: Because I'd like to know where you stand and I'd like to tell you where I stand.

S: Good. That's what I'd like to do. I'm waiting for that.

HMJr: Have you seen Mr. Patterson's and Mr. Forrestal's letter? On this subject.

S: No.

HMJr: You haven't seen it?

S: No.

HMJr: Well, I'll send you in my copy so that you can be reading it before I see you.

S: You haven't any idea yet when you're going to be available?

HMJr: No, because I just got in a little while ago and this call just came through. I wasn't ready for it.

S: Yes.

HMJr: But I'll send this in to you.

S: I understand I have a meeting with you at 3:30 on the Lease-Lend.

HMJr: That's right.

S: And I'll be available before or after, at your convenience.

HMJr: Righto.

S: All right.

FEB 18 1942

Dear Judge Mack:

I am in receipt of your letter of February 14, 1942.

In view of the tenor of the discussion had in Mr. Foley's office on Monday, at which time you were advised of our intention to select a competent and trained executive to run the business of the General Aniline & Film Corporation for the Government, there is no need for an extended reply, except on one point.

Your letter contains a quotation from a statement made by the President on January 2, 1942, with regard to the general problem of the treatment of aliens and foreign-born citizens, and also your interpretation of the position taken by Mr. Foley and Mr. O'Connell in this regard. I am confident that upon mature reflection you will realize the position of the Department with respect to General Aniline personnel is entirely consistent with the statement of policy issued by the President last January.

Sincerely yours,

(Signed) H. Morgenthau, Jr

Secretary of the Treasury.

Honorable John E. Mack
President
General Aniline & Film Corporation
230 Park Avenue
New York, New York.

JJO'C:EHF/mp 2/17/42

GENERAL ANILINE & FILM CORPORATION

230 PARK AVENUE

NEW YORK

TELEPHONE:
MURRAY HILL 4-1200

February 14, 1942

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

Dear Mr. Secretary:

Your letter of February 4, 1942 has received my thoughtful consideration. It is gratifying to know that you are in accord with the objectives announced when I assumed the presidency of General Aniline & Film Corporation. The Country, the Government itself, and the national war program will all benefit from success in making this corporation an effective, loyal and dynamic American enterprise.

Your representatives, I am pleased to note, are directed to consult and cooperate closely with the management in pursuing our common purpose. You may be confident that I shall make available, in the future as in the past, any information within the knowledge of the management, or contained in the Company records. Naturally I am desirous of receiving from your representatives or from any other source information as to the possible disloyalty of any employee or as to any possible danger to our plants or defects in our products.

Your thought that our exchange of views presages an improvement in the situation, as fully set forth in my letter to you of January 29, 1942, is, indeed, welcome. I am encouraged thereby to make a brief recapitulation of the principles which appear to be essential to the success and usefulness of the Company and to the proper functioning of the management.

1. The management believes that the highest and primary aim of this Company should be to help win this war.

GENERAL ANILINE & FILM CORPORATION

230 PARK AVENUE

NEW YORK

TELEPHONE
MURRAY HILL 4-1300Honorable Henry Morgenthau, Jr.
February 14, 1942

2.

2. To this end, the Company and all its plants should be converted as quickly as possible into a full-time war-production agency.

3. The management will, of course, be constantly concerned with the question of personnel, and in its investigations it will solicit and confidently expect to receive from the Department of the Treasury, and from any other branch of the Government having jurisdiction to investigate, full cooperation for the purpose of assuring the Company against sabotage and subversive influence.

4. The fact that any American citizen is of German birth, ancestry, or training shall not be considered sufficient ground for his discharge, without evidence that he is or has been disloyal to the United States. I accept unreservedly the declaration of President Roosevelt of January 2, 1942:

"I am deeply concerned over the increasing number of reports of employers discharging workers who happen to be aliens or even foreign-born citizens. This is a very serious matter. It is one thing to safeguard American industry, and particularly defense industry, against sabotage; but it is very much another to throw out of work honest and loyal people who, except for the accident of birth, are sincerely patriotic.

"Such a policy is as stupid as it is unjust, and on both counts it plays into the hands of the enemies of American democracy. By discharging loyal, efficient workers simply because they were born abroad, or because they have "foreign-sounding" names,

GENERAL ANILINE & FILM CORPORATION

230 PARK AVENUE

NEW YORK

TELEPHONE
MURRAY HILL 4-1300Honorable Henry Morgenthau, Jr.
February 14, 1942

3.

or by refusing to employ such men and women, employers are engendering the very distrust and disunity on which our enemies are counting to defeat us.

"Remember the Nazi technique: 'Put race against race, religion against religion, prejudice against prejudice. Divide and conquer.'

"We must not let that happen here. We must not forget what we are defending: Liberty, decency, justice. We cannot afford the economic waste of services of all loyal and patriotic citizens and non-citizens in defending our land and our liberties."

The foregoing is drawn to your attention in view of statements of policy, in this regard made by both Mr. Foley and Mr. O'Connell at a formal conference held February 6, 1942, and which were to a contrary effect.

5. A general license should be issued to the Company so that the management will have full control over its internal affairs.

6. Full reports, of course, will be made to the Department of the Treasury and all records of the Company, as well as all knowledge of its employees, will be made available to the Government.

7. In order that the management may successfully operate in accordance with these principles and in cooperation with the policies of the Government, there should be agreement between the president of the Company and the Government as to the filling of vacancies arising in the Board of Directors.

GENERAL ANILINE & FILM CORPORATION

230 PARK AVENUE

NEW YORK

TELEPHONE
MURRAY HILL 4-1300

Honorable Henry Morgenthau, Jr.
February 14, 1942

4.

In order to be of as much assistance to you as possible, (especially since your representative, Mr. O'Connell, has today notified me by telephone that the Treasury is taking over the stock control of the Company) I have prepared, and attach hereto, a Report as to the business and affairs of General Aniline & Film Corporation.

I do not see how it would be possible for me and my associates to carry the varied and heavy responsibilities involved in the management of this Company otherwise than in accordance with these briefly stated general principles. I sincerely trust that I may have authoritative word that they are acceptable to you as a common working platform.

Respectfully yours,

John E. Mack
John E. Mack
President.

Attachments/

REPORT BY MR. JOHN E. MACK ON THE
GENERAL ANILINE & FILM CORPORATION

This statement has been prepared by me with the full concurrence of my associates and fellow directors, the Hon. William C. Bullitt and Mr. Ralph Budd, for two main purposes. First, because the relationship between the present management and the Government has radically changed since our last meeting - the Treasury Department now being, according to information conveyed to me today by Mr. O'Connell in a telephone conversation; in the position of majority stockholder to which it is my duty as steward to account; and second, because of the public necessity of examining our apparently divergent points of view on basic matters of policy and explaining fully my own reasoning.

My associates and I believe that a review of the affairs of this Company would be of service to the Treasury and its other shareholders, as well as to its American holders of eighteen million dollars of Company bonds.

For a long time prior to my appointment as president of General Aniline & Film Corporation, its American directors had been making continuous effort to Americanize the Company and to free it from foreign connection and control. Principal steps to this end had been:

1. Pressure upon I. G. Chemie, a Swiss corporation, alleged by the Department of Justice to be under the control of I. G. Farbenindustrie, to sell its claimed stock control to non-competitive industrial interests wholly and responsibly American. Such possible purchasers were found and proposed to I. G. Chemie, but rejected by Chemie.

2. Opposition to the proposal of I. G. Chemie to sell its stock rights to General Dyestuff Corporation. Permission for such sale was later refused by the Treasury Department.

3. Opposition to the efforts of I. G. Chemie through legal proceedings in Delaware to convene a special meeting of stockholders to substitute a board of its own choice.

4. The removal of Mr. D. A. Schmitz from the presidency.

5. The election to vacancies in the board of men of undoubted American standing and of industrial prominence.

After the removal of Mr. Schmitz, the Board of Directors requested me to accept the presidency, in the knowledge that I would pursue the policy of Americanization and lead the company wholeheartedly into the national defense program which was becoming more and more vital. With my policies the Board of Directors as now constituted has been in complete accord, with the result that the status and prosperity of the Company have improved, its affairs have been administered in furtherance of the program of the Government, and it has become, so far, at least, as its management is concerned, unmistakably an American organization wholly free from any foreign domination whatever.

The present composition of the Board of Directors is, in addition to myself as President, Hon. William C. Bullitt, as Chairman of the Board, and Messrs. Budd, Baragwanath, Bennett, Breed, McCann, Stevens, Talbott, Williamson, Hutz and Schmitz. The last two named do not attend meetings, in obedience to orders of the Treasury department. Both before and again after my election, the board requested Mr. Schmitz to resign but he declined to do so. After my election the board declared vacant the position of director held by Felix Iselin, a Swiss National and an officer of I. G. Chemie.

Since my election to the presidency, the improvement in the status of the Company has continued and been accentuated. Production figures in the last quarter of 1941 were \$8,447,218.39, an increase of \$1,888,834.48 over the last quarter of 1940. Production figures for the entire year 1941 were \$32,334,582.60, an increase of \$9,628,480.81 over 1940. It is a substantial contributor to the national economy having paid Federal taxes of \$5,973,992 in 1941 as contrasted with \$652,070 in 1938 and having a payroll in 1941 of \$10,925,490. For the last quarter of 1941 the income before payment of the Federal income taxes showed an increase of \$590,470.20 over the last quarter of 1940. The interest on its \$18,000,000.00 of American-held bonds has been paid and the customary dividends on its stock have been declared and, so far as foreign stock is concerned, paid into special accounts in

- 4 -

compliance with Treasury regulations. All this has been achieved despite enormous and increasing expenditures for research, improvements and enlargements. The figures for all branches have not been compiled but in the General Aniline Works alone the following comparison is of interest.

<u>YEAR</u>	<u>ANNUAL PAYROLL</u>	<u>NUMBER OF EMPLOYEES</u>	<u>PRODUCTS MADE</u>
1930	\$1,374,601.00	658	369
1940	\$4,155,283.00	2,074	1,055
1941	\$5,188,393.00	2,545	1,282

The activities of the General Aniline & Film Corporation are handled by three main divisions - General Aniline Works, Agfa Anasco Division, and the Ozalid Division. The history of all three of these branches follows a parallel course in the face of an identical problem. It was not the intention of I. G. Farben of Germany, who were the originators of 3,766 or 97% of the total of 3,892 patents now controlled by the Company, to relinquish the vital "know how", or in other words, to allow independence by giving complete knowledge of the processes of production.

In the case of General Aniline Works, the Corporation was, for many years, dependent on I. G. Farben for supplies of "intermediates". This handicap was overcome by the constant pressure of Dr. Aickelin who sponsored the construction of equipment to manufacture inter-

mediates, and by his efforts with I. G. Farben obtained information on the methods of this important phase in the manufacture of dye. As a result of his activity, we went into the war with completed facilities and an ample supply of imported intermediates.

In the case of the Agfa Ansco Division, the Corporation was dependent on the supply of sensitizers and color components of unknown composition. For some time attempts were made to obtain the "know how" concerning the manufacture of sensitizers and color components even though these patents were owned by the Agfa Ansco Corporation. To secure this information, Dr. Aickelin made a trip to Europe in 1940. He was unsuccessful in his attempt because I. G. Farben refused to disclose the "know how" for military reasons. He was successful, however, in obtaining adequate supplies of sensitizers and color components. Immediately on his return the Research Department of both the Agfa Ansco Division and General Aniline went into action. After two years of constant work most of the important problems were solved and a number of sensitizers are now in production. A final solution seems near at hand with respect to color components. The supplies of color components secured by Dr. Aickelin were the only material available in this country for the manufacture of this type of color film and, therefore, have been exclusively reserved for the military. This color film, which we are still in the process of perfecting, is the only

one susceptible of development by the user, and, therefore, will enable the Army to develop color film in their own field laboratories without the necessity of loss of time and the increased opportunity for espionage incurred by sending it to the manufacturer for developing. It would do incalculable harm to the war effort of our government to delay, in the least degree, the completion of the research in this field.

In the case of Ozalid products, the Corporation likewise was dependent. Here it was the sensitizing dyes necessary for coating the paper. By repeated trips to Germany, Mr. von Meister had gradually secured the "know how" on most of the Ozalid products until, in 1939, he obtained the process of manufacturing them. With the aid of General Aniline research this "know how" was exploited and we can now manufacture all the products in this line.

Other manufacturers, infringing on Ozalid Products' patents, have for years attempted to duplicate Ozalid Products' processes. Lacking Ozalid's "know how", they have been unsuccessful however, and Ozalid Products supplies today approximately 90% of all the whiteprint paper sold in the United States. The great time saving accomplished by the Ozalid process and the fact that it alone of all reproduction papers insures absolute accuracy of reproduction, makes it of particular importance to aircraft and instrument makers. Today General Aniline has no dependence on I. G. Farbenindustrie or any other foreign organization.

The manufacturing lines of the Corporation are typical of fields which have not been explored successfully by other than entrenched producers possessing trained personnel and "know how" of long standing. The progress and success of the Corporation has been the result of its ability to build up a staff of first rate brains in a highly specialized field in which acceptable talent is difficult to secure. Since the organization of the Company in 1928, Agfa Ansco has been the only manufacturer able to compete effectively with Eastman. In the matter of dyestuffs, General Aniline Works has risen from a small producer to one of the three principal factors in the field. The Ozalid Products Division has singlehandedly created a new industry of great importance for the national war effort and has, in its Ozaphane Department, started developments of substantial promise.

Virtually all the production of the Agfa Ansco and Ozalid Divisions are covered by patented processes, as are about one-sixth of the total number of products manufactured by General Aniline Works. As recently as 1940, the Company acquired 603 additional patents in various fields from I. G. Farben. It would be misleading, however, to consider the Farben patents independently of the "know how" that makes it possible to operate them successfully.

In furtherance of the policy of making this Company completely independent, I have by authority of the Board of Directors instituted a suit against General Dyestuff Company to obtain a judgment declaratory of the right of General Aniline & Film Corporation to terminate the present agency contract with General Dyestuff Corporation under which the latter acts as exclusive selling agent of the Company. The Board of Directors and I desire to discontinue that contract which was made in 1928, and to have our company market all its own products; but because of a serious question as to the duration of the agency contract, we have found it necessary to seek a declaratory judgment in the Supreme Court of the State of New York, where it is now pending.

The extent to which the Company contributes both directly and indirectly to the war program is already enormous, and will will be still further expanded if the plans and policies of the present management are carried out.

The total business now being done for war purposes is as follows: (1) in the General Aniline Work& Division 62% of all sales; (2) in the Ozalid Division 85%; and (3) in the Agfa Ansco Division 32%. By June 30, 1942, this last Division's percentage will, it is estimated, be increased to approximately 60%.

The production of uniform colors for which General Aniline Works is estimated to have the largest individual capacity in the

country, is expected in 1942 to approximate 400% of the 1940 production. 40% of all dyes for military textiles (uniforms, tents, blankets, etc.) are manufactured by General Aniline Works.

Moreover, recent developments by General Aniline Works include carbonyl iron powder, for which General Aniline Works is the only manufacturer within the territory of the Allied Powers, and for which both the United States Government and the British Government have approached General Aniline Works on the manufacturing "know how". Another recent development is vinyl carbazol, which General Electric believes to be superior to mykalex as insulation material for electric wires.

In the Ozalid Division, defense orders for whiteprint papers and machines are expected to rise substantially as the armament program gets further underway. Recent developments of considerable importance are:

1. An ozaphane paper and process for microscopic prints - a development considered unique and revolutionary;
2. The first usable photographic process for reproduction of reticules on optical glass - a process which is expected to eliminate existing bottlenecks in the manufacturing of optical instruments, including range finders, calibrated binoculars, etc.

Many of the sales referred to are made direct to the United States Government, including Army, Navy, Coast Guard, War Production Board, Civil Aeronautics Administration, etc. Special sales for the war program to governmental contractors or sub-contractors or to corporations whose products are used for governmental supplies, include such important customers as Boeing Aircraft, Douglas Aircraft, Curtiss-Wright Corporation, Vultee Corporation, Ford Company, Bendix Aviation, Chrysler Corporation, General Motors, Cramp Shipbuilding, Sperry Gyroscope, General Electric, and many other leading aviation and war-instruments corporations.

As to the Company's staff and employees, the other officers and I, as well as the Board of Directors, have been and will be, as matter of course, constantly concerned. We have been vigilant in conducting investigations as to the antecedents, affiliations, and loyalties of all our employees; and we solicit and confidently expect to receive from all departments of the Government full cooperation so that this Company and its business and plants may be protected from sabotage and disloyalty.

The great majority of the Company's employees are American by birth and citizenship. The following table will illustrate:

Total Employees	<u>American Citizens born in Germany</u>	<u>Born in Germany having 1st Papers</u>	<u>Born in Germany having no Papers</u>
6,118	417	83	7

- 11 -

While the percentage of employees of German birth and training is small, these particular employees have in the main been with the Company or its predecessor many years and some of them are in the top flight in the chemical field. Its increasing success in the technical and manufacturing field and in the expansion of its highly scientific products, has been due in very large part to their unique training, skill and inventive genius.

Much of the credit for the upbuilding of this great industry in America and for its present independence of German industry and German scientific knowledge is due to the fact that these employees had training in German processes, inventions and chemical formulae. Through this "know how" they have equipped America with scientific products of the utmost value in times of peace and war and not duplicated by any other American industrial organization. Their removal merely because of their original German training, and irrespective of complete loyalty to this business and to this country, would be to deprive this Company of much of its vital technical life and to cripple greatly, if not to paralyze, its large and increasing contribution to the national war effort.

While the first duty of management is to purge the Company of subversive factors as soon as ascertained, the management also has the duty and, in the present instance, the fortunate opportunity

of turning against the enemy its own industrial secrets, achievements and weapons through those familiar with their content, make and use. In my judgment it would be little short of a tragedy if we should by our own obtuseness forego the opportunity to employ this high technical skill against the very sources which gave it birth.

I feel strongly, therefore, that sound and patriotic management must not make expulsions in any haphazard or unrestrained fashion or merely because of prejudice, rumor, or German origin, but rather with fair and intelligent ascertainment and consideration of the facts, and with careful discrimination in the light thereof. Indeed, not only do I feel that this principle is essential to good and successful management, but I also feel that it is the only principle in accordance with American standards and American interests, for my associates and I, at least, take our stand squarely with President Roosevelt in his assertion that the opposite policy would be "as stupid as it is unjust, and on both counts it plays into the hands of the enemies of American democracy." This point is stressed because at our last conference, February 8, 1942, Mr. Foley and Mr. O'Connell, informed me that it was the Treasury's policy to remove from the Corporation all employees of German birth (whether citizens of the United States or not) who

have at any time had the benefit of Farben training. I trust that so drastic and devastating a policy will be reconsidered, in favor of a policy more realistic in its approach.

I may add that this Company has pursued and is pursuing an enlightened and liberal labor policy, in full obedience to the law. It has had no serious labor trouble. It pays generous and recently increased wages in the belief that efficient mass production is thereby promoted. Its rapid commercial expansion has brought expanded employment, and today over 6,000 employees are dependent upon the Company's continued success and intelligent management.

As already stated, the Company is the largest individual producer of dyestuffs for Army textiles. It is the only producer at all likely to succeed in producing color film capable of being developed on the spot by Army laboratories. It is the only producer of quality whiteprint reproduction paper and machines. It is the only producer of carbonyl iron powder. If left with full opportunity to pursue its pending developments, it expects soon to be the producer of many other vital materials which chemists, trained in German secret processes, are attempting to perfect against the background of the 603 patents acquired from I. G. Farben in 1940. Furthermore, production agencies of both the American and the British Governments are turning to me as the

president of this Company to place at their disposal the technical advice and knowledge which only we can effectively give, and to undertake to give assistance in certain features of their production plans. As an example, I append hereto a letter to me, dated February 14, 1942, from Dr. E. W. Reid, Chief, Chemicals and Allied Products Branch, War Production Board, relative to carbonyl iron powder and the proposed construction by the Government of a plant for its manufacture and relative to the doubling of the output of our Linden factory. Such increase illustrates the purpose of the present management to devote all our plants and equipment to the fullest possible extent to the war effort, and to expand in accordance with national requirements.

If the present management continues the operation of the company we plan further to develop our Research Department with all possible speed. I have always had in mind that our Research Department should be greatly expanded and that we should, in the course of time, have expertly trained corps of American scientists. It is contemplated that President Conant of Harvard be invited to become a member of the Board of Directors, and if this is not feasible for reasons of his own, at any rate to secure his counsel and advice. Ambassador Bullitt has already conferred with Mr. Conant on the subject of technicians and research men. He has also discussed the matter with President Gates of the University of Pennsylvania.

I have emphasized these considerations because it should be fully understood that the technical and scientific staffs have successfully bent every effort to make the Company independent of outside assistance, and that in a comparatively short period they have achieved, against considerable odds, the building up of new industries unmistakably American and of great value to the country.

Naturally, the officers of the Company and I, as well as the Board of Directors, desire that the Company's relation with the Government be those of close cooperation and mutual confidence.

It was to that end that I wrote to the Secretary of the Treasury my letter of January 29, 1942. For the sake of clarity and brevity, and in order to avoid repetition, I attach hereto a copy of that letter and of the Secretary's answer of February 4, 1942. Attention is also drawn to my reply to the Secretary, dated February 14, 1942 to which this report was appended. The last mentioned letter states my conception of the principles which I deem to be essential to the success and usefulness of the Company and to the proper functioning of its president and Board of Directors under the law and a general license from the Treasury Department.

I fully recognize that the Treasury Department by taking over the stock interests of foreign nationals is in a position to elect a Board of Directors; but I cherish the hope that as

long as the present management is to remain in office and to accept responsibility for the continued success of the Company, the principles which I have stated in my letter of February 14, 1942, and which have met the approval of other directors, will also be approved by the Treasury Department.

I accepted the presidency of this Company only after mature consideration. I did so because I was fully persuaded that I had no right to forego an opportunity to render a service of constructive importance to the country. I have no wish to continue in the office for a moment beyond the time when I feel I cannot continue to render this constructive service in accordance with the only principles and conditions under which I can responsibly continue, or beyond the time when the Government manifests by word or action that it has other plans or objectives as regards the Company. In saying this, I feel sure that I also express the viewpoint of the other directors, both those who joined the Board at my solicitation and those now on the Board who elected me.

Respectfully submitted,

/s/ John E. Mack

President, General Aniline & Film
Corporation

February 14, 1942

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January 29, 1942

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

Dear Mr. Secretary:

As of course you are aware, I became president of General Aniline & Film Corporation on November 1, 1941. For many months prior to my appointment, there had been going on within the company an effort upon the part of the American directors to free the concern of the foreign influence existing by virtue of the claimed ownership of a majority of the stock of the company by I. G. Chemie, a Swiss corporation, alleged by the Department of Justice to be under the domination of I. G. Farben of Germany. The American directors were not only seeking to Americanize the company, but to secure the sale of the foreign-owned stock to a noncompetitive industrial group of undoubted American standing.

This internal struggle is fully revealed in the minutes of the meetings of the directors; and, as a corollary thereto, there were proceedings in the Chancery Court of Delaware brought for the purpose of forcing a stockholders' meeting in order that the Chemie stock could be voted by its purported owners in an effort to oust the then existing officers and directors who were seeking to Americanize the company. As you undoubtedly know, a hearing upon the proceedings in Delaware has been postponed from time to time at the request of the Attorney General of the United States.

I was made aware of so much of this history as had already transpired, and other details which I have not time to enumerate, when I agreed to become president of the company. It was represented to me and I fully believed, and still believe, that by accepting the presidency of the company I would be in a position to aid in important matters of national defense, which, incidentally, have become more and more important as time has gone on.

Honorable Henry Morgenthau, Jr.
January 29, 1942

2.

Upon accepting the presidency of the corporation, I issued a public statement, a copy of which is attached hereto. Since that time, I have consistently labored for the purposes therein outlined. It was my thought that ultimately an Alien Property Custodian would be appointed and that the stock in question would be taken over by the United States Government, or, if there were difficulties growing out of the claimed ownership by the Dutch, some alternative method might be found by which this stock could be disposed of to American purchasers. It was my belief that my duty was primarily to conserve the interests of the company as a going concern essential to the war purposes of our Government and to preserve the status until such time as the Government saw fit to act through an Alien Property Custodian. I recognized from the beginning that my tenure of office might be temporary and in any event was uncertain. It was for this reason, amongst others, that my salary as president of the company was made payable upon a monthly basis. You will do me the credit of believing, I am sure, that the personal monetary considerations involved were of secondary consequence. I was, however, pleased to have this opportunity to render a public service. Incidentally, I may say that my salary was fixed by the Board of Directors at precisely the amount paid my predecessor.

The changes that have been wrought in the official setup of the company are well illustrated by an additional memorandum which I attach hereto. You will note that Ambassador William C. Bullitt is Chairman of the Board of Directors. I was very much gratified when he found, after full consideration and discussion of the problem involved, that he was in a position to become a member of the Board. I then issued another public statement, a copy of which is also appended hereto. Prior to Mr. Bullitt's departure from the country on a special mission for the President, he left a written statement outlining the circumstances under which he was appointed and the purposes he had in mind.

For many months prior to my appointment, the Department of Justice, through the Antitrust Division, was conducting a sweeping investigation into the affairs of the company, its business affiliates and the status of I. G. Chemie as related thereto. Indeed, there were two grand jury investigations under way and one group of indictments has already been handed down. These proceedings

Honorable Henry Morgenthau, Jr.
January 29, 1942

3.

are still active. As you will readily see, there was much to require the constant attention of the officers of the company and their counsel, both prior to and subsequent to my election as president. Moreover, the demands upon the time of the directors have been very heavy. The officers of the Board of Directors are acting in complete harmony and are fully conscious of the grave responsibility that rests upon them.

In addition to these matters, I have been concerned with problems of personnel and have sought help in this respect wherever I could secure it. This is especially important in view of the history of the company, its antecedents, and the specialized work in which it is engaged. Of course, you could not possibly be more interested than I am in purging General Aniline & Film Corporation of subversive factors, in freeing it completely of foreign domination and in making it in every sense of the word an effective, loyal American enterprise. Your attention, however, is drawn to the fact that recent communications received through your representative, Mr. Joseph J. O'Connell, Jr., amount to orders issued by you with reference to the internal affairs of the company and its personnel without any previous consultation with me, and, indeed, without any subsequent explanation.

You will realize that the corporation is large, with wide flung interests and thousands of employees, many of whom are working upon matters important to the Nation's war effort. It would seem to me that before issuing orders in the nature of unexplained commands, well calculated to shake the morale of the company and to impair its usefulness, it would be desirable for your representative to consult with me as to the wisdom and propriety of any particular move. The timing and method of an action otherwise appropriate may be fully as important as the action itself.

Your order of January 13, 1942 (of which I had no previous notice), directing the simultaneous and immediate suspension of five individuals and barring them from the company premises was, I am free to say, particularly ill-timed. I also note that this order, signed by Joseph J. O'Connell, Jr., "Treasury Representative", contains the following language:

Honorable Henry Morgenthau, Jr.
January 29, 1942

4.

"All the company officers and employees are to be advised immediately that they are not to communicate with any of these individuals, directly or indirectly, without my prior written approval."

I cannot help but believe that this portion of the order, at least, was inadvertent for I am frank to say that I cannot find for it any warrant in law or in fundamental justice. So far as I am personally concerned, that portion of the order I cannot be expected to honor. Nevertheless, you will note that in all other respects the order has been fully complied with, although the individuals concerned were afforded no opportunity to know what accusations, if any, were made against them and have had no opportunity to be heard. Compliance with your order was based upon the settled purpose of the management to cooperate as fully as may humanly be possible with any branch of the Government having any authority in the matter whatsoever.

Frankness compels me to say that the method adopted in ordering the foregoing suspensions could have only an adverse effect upon the practical operation of the affairs of the company. Furthermore, I regret to say that certain sources, which I am not presently prepared to identify, have sought to shake the confidence the company enjoys with the various Government agencies with which it does business.

A little more restraint and a little less disposition to condemn upon the basis of ex parte statements would seem to be indicated. In my judgment this company cannot be successfully operated by remote control. There should be an intimate and frank cooperation between the company management and your Department. That frankness and cooperation I not only would welcome but most earnestly solicit. It lies well within your power to achieve this result. I stand ready, and so do the officers and directors of the company, to consult at any time with regard to any feature of the business of the company. If this course does not appeal to you, I shall have to assume that your

Honorable Henry Morgenthau, Jr.
January 29, 1942

5.

Department desires to manage the enterprise in every detail without reference to the wishes, the advice or the experience of the officers and directors. I cannot believe that you would wish to assume such a heavy burden or so great a responsibility. Moreover, it would place me in an embarrassing position and render the task I have assumed increasingly difficult. In view of the fact that our objectives are, as I hope, identical, I would appreciate an authoritative word from you which would tend to clarify the present confused situation and prevent unnecessary friction.

Respectfully yours,

/s/ JOHN E. MACK

JOHN E. MACK
President

December 5, 1941

The following statement was issued by Judge John E. Mack, President of the General Aniline & Film Corporation, this morning:

When I accepted the Presidency of General Aniline & Film Corporation, I made an announcement of the policies which would guide me and which were fully approved by the Board of Directors. These policies in brief are to improve the status of the Company, bring its affairs into harmony with the purposes and policies of the Government, and to establish this important enterprise, so essential to national defense, as unmistakably an American organization. It is, therefore, with great satisfaction that I am able to announce today that Ambassador William C. Bullitt, who is thoroughly in accord with the policies as set forth, will today become a member of the Board of Directors of our Company.

STATEMENT ISSUED BY JUDGE JOHN E. MACK
FOLLOWING HIS APPOINTMENT AS PRESIDENT
AND DIRECTOR OF GENERAL ANILINE & FILM
CORPORATION, NOVEMBER 1, 1941

I have accepted a place on the board of directors as well as the presidency of the company after acquainting myself with recent developments in the management indicating a determination upon the part of a majority of that board to bring the affairs of the company into harmony with the purposes and policies of the government and to establish this important industry, which is now so essential to national defense, as unmistakably an American organization.

I have expressed to the directors my views and they are thoroughly in accord with the policy I intend to pursue. It seemed to me that there was here offered an opportunity not only to develop fully and completely an institution that was nurtured and grown on American economic soil, but to make certain that it was truly American in every sense of the word and completely free from foreign influence or domination. I conceived this to be a public service which I had no right to forego.

GENERAL ANILINE & FILM CORPORATIONOld SetupNew SetupOfficers

President - Schmitz
 Secretary - Vom Rath
 Treasurer - Williamson
 Chairman of Board - Bosch

Mack
 Gibbons
 Williamson
 Bullitt

Directors

Iselin
 Schwartz
 Schmitz
 Breed
 Hutz
 Ford
 Aichelin
 Bennett
 Williamson
 Weiss
 Vom Rath
 Vacancy

Mack
 Bullitt
 Schmitz
 Breed
 Hutz
 Budd
 Stevens
 Bennett
 Williamson
 Talbott
 Baragwanath
 Charles L. McCann

THE SECRETARY OF THE TREASURY
WASHINGTON

Feb. 4 1942

Dear Judge Mack:

I am in receipt of your letter of January 29, 1942, and the two documents enclosed.

I agree that our objectives are, or ought to be identical. In consequence, I assume that you are in accord with the changes made by order of this Department on January 13, 1942. We were unfortunately unable to reach you prior to the issuance of the order but I can assure you that the decision was made only after a thorough examination of the facts.

I have asked Mr. O'Connell and the other Treasury representatives in New York who are supervising the operations of General Aniline and Film Corporation to consult with and cooperate closely with you or any of your officers or directors in pursuing our common objective.

I hope this exchange of views presages an improvement in the situation.

Sincerely yours,

H. Morgenthau, Jr.
Secretary of the Treasury

Honorable John E. Mack
President
General Aniline and Film Corporation
230 Park Avenue
New York, New York.

WAR PRODUCTION BOARD

Washington, D. C.

In Reply Refer To:
EWR-2029 Tempo R

February 14, 1942

Judge John E. Mack, President
General Aniline and Film Company
230 Park Avenue
New York, New York

Dear Judge Mack:

I thank you very much for your very courteous interview.

I am very glad to know that you will cooperate in every way with the Government in turning out carbonyl iron powder for use in the Signal Corps. We are making an examination of the situation in Louisiana, but I will be governed to a great extent by the War Department and the Signal Corps as to what will be required to prepare for defense work.

If it is necessary to locate a new factory for this purpose in another location, we shall be glad to cooperate with you. I understand you will be glad to locate a factory (if necessary) wherever we desire. I note also that you have 110,000 pounds of carbonyl iron powder in reserve and can increase this amount, and that you will be glad to locate additional warehouses to store this surplus wherever we desire. I also note that at a reasonably small expense you can double your output of your Linden factory.

Very sincerely yours,

s/ E. W. Reid

E. W. Reid, Chief
Chemicals and Allied
Products Branch

February 18, 1942
1:15 p.m.

HMJr: Hello. Bob Rouse.

Robert Rouse: Yes.

HMJr: Hadley's sitting here with me.

R: Uh huh.

HMJr: And he tells me the new bonds are kind of slipping.

R: Yes, that's right; they're a little easier, the fourteen-sixteen and fifteen-sixteen.

HMJr: Well, why don't you buy the new bonds a little more aggressively?

R: Well, we've gone ahead fairly well on them. I don't think that will do it because it's the whole tone of the market, and the rest of it - there's stuff for sale that isn't being taken in the tax-exempt bonds and all through the list. A lot of switches going on.

HMJr: You don't think buying the new one might be sort of an anchor for the rest?

R: No, I don't.

HMJr: You don't?

R: Because you've got this question of the tax-exempt bonds in it, and they're coming in for sale and there are very few takers.

HMJr: The tax-exempt's?

R: Yeah, the partially-exempt's.

HMJr: Federals?

R: Federals.

HMJr: Why do they want to sell those?

- R: Well, they've had all this talk, with which you're familiar, of the nullification in part of the value of the tax exemption in one way or another.
- HMJr: Yeah.
- R: And it affects - it's made the whole market one. It's affected not only the - it drags the taxables with it. It drags - of course, the municipals are in bad shape, market-wise, and it affects the corporate market as well.
- HMJr: Well, what news has there been out since Monday to affect the partially-taxables?
- R: Just - no specific news since Monday. It's just the circularization of the conversation and, of course, you had Ted Goldsmith publish his story on it.
- HMJr: Yeah. Well, I.....
- R: It's just that people earn - there isn't so very much selling, but it's a case of nobody wants to buy until the thing is clarified.
- HMJr: Well, what are you going to.....
- R: And I don't feel that your statement clarified it.
- HMJr: Yeah. What are they going to do? Wait for the tax bill?
- R: I don't know.
- HMJr: Well, I can take the loss of the bond market a damned sight better than they can. Let's stop buying entirely. To hell with it! Let her go.
- R: Another thing.....
- HMJr: Let's let her go. If they want to bluff me, let's stop buying. Let's pull the plug out.
- R: Well, I think probably it would help if we did

it on the two's at fifty-one, five. That's.....

HMJr: I mean, if they think they can scare me, let's stop buying. I can stand it. The U. S. Treasury can take it a good deal better than anybody else. I mean, I'm not going to have my hand forced.

R: Uh huh.

HMJr: I'm not going to have my hand forced. I mean, if they think that they can get me to change my position on taxation by not buying or standing to one side, I'll stand aside and we'll see where the bottom is.

R: Well, here's - you run across a thing like this. I told Dan about it, there was quite a big block of the four and a quarters, forty-five, seven for sale.

HMJr: Yeah.

R: And they were able to place those, and primarily, I think, because the yield of those bonds was - had gone through the tax-exempt line and was on the taxable line.'

HMJr: Yeah.

R: The Guaranty bought them at about a one fifty-four basis to the call date, which is in 1947.....

HMJr: Yeah.

R:which seems a fair enough thing over all.

HMJr: Yeah.

R: And when they get in that range - as the other longer ones get in that range - it presumably will work out, but there's quite a long distance between them.

HMJr: Well, what I'm going to do is, after lunch I'll get Mr. Eccles and some of these others over here and we'll have a little conference.

R: Good.

- HMJr: And - but if the market, through all these rumors, if they want to play poker with me, I can bluff just as well as they can.
- R: I don't think it's a case of playing poker. You've made it.....
- HMJr: I made a statement and I'm standing by it. Now, if they want to question my statement, why the hell should I buy their bonds?
- R: Well, you have this difficulty and you also have Treasury people discussing these formulas and so on.
- HMJr: Well, that was weeks ago at the ABA.
- R: Well, I thought there'd been further discussions quite recently.
- HMJr: Well, tell me. I'd like to know about it. I'd like to know what it is. With whom?
- R: Well, I'll have to check it up with my informants and find out exactly; but I had thought that this had continued fairly recently.
- HMJr: Well, I'd like to know.
- R: You issued that statement two or three weeks ago.
- HMJr: Well, I'm going to have Mr. Eccles over here at three o'clock.
- R: All right.
- HMJr: And if you've got anything on that between now and three, let me know, will you?
- R: All right, I will.
- HMJr: But we'll just have to - we'll have to change - we'll have to take a fresh look at our policy, because.....
- R: I think we'd ought to have a discussion of it, certainly.

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HMJr: There's something wrong somewhere.

R: Right.

HMJr: Okay.

R: Okay.

February 18, 1942
2:21 p.m.

HMJr: I got very angry with Rouse about this bond market.

Daniel Bell: Yeah.

HMJr: And I'm just not going to let this New York crowd bluff me over this tax-exempt business, so we might just as well have a showdown.

B: Uh huh.

HMJr: And I asked Eccles and his group to come over at three o'clock. Now, if the New York crowd don't want to play ball and they're going to try to teach me a lesson whether I can or cannot have tax-exempts, why hell, I'd just as lief stop buying entirely and then let's see what happens to the bond market.

B: No, I don't think you can do that.

HMJr: Well, I don't know. I'm good and mad, and we might just as well have a showdown. The war news is bad, and they're trying to take advantage of me and I'm not to be taken advantage of.

B: Well, I'm not so sure that it's the - it's your statement that you've already made on the tax-exempt outstanding.

HMJr: Yeah.

B: I think it's this other thing that's been injected in here.

HMJr: Well, what other thing?

B: Well, you said that that was all you were going to do, you were not going to tax the Federals, directly or indirectly, and you didn't intend to lower the normal.

HMJr: Yeah.

B: Now then a couple of days after that it got into the pictures the discussions with this ABA committee about reallocating the expenses of the bank.....

HMJr: I know. I.....

B:and also the reamortization.

HMJr: Yeah.

B: And they say that's doing, indirectly, what you said you would not do.

HMJr: But I never had anything to do with that.

B: I know you didn't, and the people who discussed it told them very plainly that it was not a policy decision. They merely wanted a formula if the policy were to do it.

HMJr: Well, this.....

B: They think that if you do this, why you can do most any other thing and get around it and there's that uncertainty. Garner told you the other day that there was a jitteriness and there was uncertainty as to just what the Treasury had in mind.

HMJr: Well, I think it's - now, Burgess and Stonier are coming in at 4:45.....

B: Yeah.

HMJr:and I want something ready to hand them at that time, you see?

B: Yeah.

HMJr: And we can give it to the public if necessary. Who's been seeing this ABA committee, anyway?

B: Somebody around in the drafting section.

HMJr: Well, God ding it all, I mean, there's just

too many people seeing too many people.

- B: Well, I think that's the difficulty with the whole tax program. It leaks out bit by bit. As I told you the other day, I thought we got rotten publicity on our whole tax thing because it came out through Congress and through individual members after it passed from mouth to mouth, and not the way that you would give it out.
- HMJr: Well, the boys will be in here at three, and we can hit it.
- B: Uh huh.
- HMJr: And Eccles and the others, and then we'll have to get out something, but I.....
- B: Well, I think it might be clarified if that thing was made clear. At least I hope that would clarify it some and help the market.
- HMJr: Well, I think it's much deeper than that.
- B: You see, you've got the tax-exempt markets in this picture now.
- HMJr: Dan, it's something - I'm sorry - I hope you're right - I think it's much deeper than that.
- B: Well, that's the way I feel about it. I think we've got a fifty billion dollar market now instead of a ten, as we had before.
- HMJr: Well, it's easy enough to prove whether you're right or wrong. If that's all that's worrying them, we'll clear that up tonight.
- B: Yeah. Well, I think we'll clear that up.....
- HMJr: If it's one damn little thing like that, why then we'll clear that up.
- B: All right.
- HMJr: See? That's all it is.

B: Uh huh. Of course, that on top of the bad news, why everything came at once.

HMJr: Well, it's bad news; but we'll see.

B: All right. Three o'clock, huh?

HMJr: Yeah.

B: All right.

February 18, 1942
3:00 p.m.

TAX EXEMPT SECURITIES

Present: Mr. Bell
Mr. Morris
Mr. Murphy
Mr. Hadley
Mr. Sullivan
Mr. McKee
Mr. Eccles
Mr. Paul
Mr. Ransom
Mr. Piser
Mr. Blough

H.M.JR: I thought you (Bell) told me the last you and I talked about it you were going to ask this so and so Goldsmith not to get this thing out. Didn't you tell me that, that you were going to ask him not to print it at all?

MR. BELL: Well, we discussed it down in Paul's office and we thought we had better not ask him because we would be unable to give him something and Paul was going to have another conference with him that evening and did, as I understand it, didn't he, John?

(Mr. Paul comes in)

H.M.JR: Hello, Paul. How are you? Sit down. I am expecting some other people.

MR. PAUL: I saw him. I put the responsibility on him just the way we agreed.

H.M.JR: Well, I put off - in a meeting at a quarter of four - Stonier, he is the president of the ABA, isn't he?

MR. BELL: He is the executive director.

- 2 -

H.M.JR: He and Burgess are coming in to ask what to do about cooperation. Dan and I disagree on this thing. I think this thing is much deeper than just a rumor. The way to prove whether Dan is right or I am right, let us get up a statement and get it out tonight. What is the Treasury position on this stuff, you see, and then if the bond market doesn't act right then the thing is much deeper than we think it is.

MR. BELL: Well, I don't know as it can all be laid to this but it is everything coming at once.

MR. SULLIVAN: There is nothing new about this.

H.M.JR: Well, there is something new about the bond market.

MR. BELL: Well, it is new in the past week.

(Mr. Eccles, Mr Ransom, Mr. McKee, and Mr. Piser entered the conference.)

H.M.JR: The reason I asked you gentlemen to come over here is this. I think the bond market is behaving - or rather the bond market is all right but people who deal in it are behaving very badly and I got quite angry today about one twenty when Rouse told me that no one wants to buy and they are sitting back and going to wait until we have settled this thing about this tax question. Well, we are talking here, all members of Mr. Roosevelt's Administration, and I think that this thing is much deeper than that. I think that there is bad war news and as the war news gets worse they attack the Administration in different parts and this is just one of them. In anger I said to Rouse, "Well, as far as I am concerned the Treasury can stand this much better than the owners of the bond market. Let's stop buying any bonds. If the fellows don't want them, let's stop buying." I wasn't giving them an order, but I meant if they don't want to buy, why should we buy. Let's see what happens to this thing. But I mean, just because we get a little bad news - but here you have got Walsh saying they should withdraw the fleet from convoy to England and bring it back to the Atlantic and Senator Johnson wants the fleet brought

back from the far East to protect the coast and this is something which I think we may have to take from now up through next November, the Congressional election. We might just as well, on the financial front, make up our mind we are going to hit it hard and find out who is going to be the boss. Maybe I am wrong. Dan thinks that one of the principal things, and that is why I asked my tax people to come in, is this misunderstanding about whether I meant what I said when I said that we weren't, by direction or indirection, going to try to do anything for outstanding tax-exempt Federals or partially tax-exempt Federals as this thing keeps coming on. Well, if that is all it is, we could, between us, write a statement which I could give out tonight laying that to rest and I had Mr. Burgess and Mr. Stonier coming in at three today wanting to know what the ABA could do and I postponed them until a quarter of five because if they want to do some, by God here is something they can do.

But I think it is much deeper and whether we buy thirty or fifty million dollars a day, we can go on indefinitely and I think that this is something which I was faced with in the fall of '33 when Mr. Roosevelt put me in here and all through '34 and I may be wrong, but I think it is right on us and if I am wrong and a little tax statement fixes this up, everything is lovely, and it is just a question of until the bad news blows over, but if I am right then I think we all have just got to put our backs into this thing and find out who is the boss, Washington or New York. And I never was more in dead earnest because this thing - if the bad war news continues, this situation will get worse and worse and worse right up to election day. Now, I am talking very frankly and I know my Treasury people can keep their mouths shut and I am sure Mr. Chairman, you and the members of your Board and Mr. Piser won't repeat anything outside of this room, please. I am talking here with the friends of this Administration. I don't mean everybody has got to - but I meant, I have got to talk frank. I have got to call a spade a spade, but I don't want anything outside this room.

MR. MCKEE: What is to stop us from taking a

brave front and sticking with it.

H.M.JR: Nothing.

MR. McKEE: There are no ropes around our hands.

H.M.JR: And I am not calling up--

MR. McKEE: If your suspicions are right, the sooner they find out that their part is a minor part, the better they are going to be off.

H.M.JR: Well, I think either we should - we should either go into this thing and lick them or say, "All right, if you want to play this game, we will play the game, we won't buy anything," and then let's see where the bond market goes to, one or the other, but I think we are in between.

MR. RANSOM: You think that is the choice?

H.M.JR: I think what we are doing isn't accomplishing anything.

MR. ECCLES: You may be right, but I doubt if there is - I think they are confused up there. I think there is a hell of a lot of confusion on the part of a lot of bankers and investors, and maybe dealers, for that matter.

I do think that there is something, however, in this tax-free picture. Of course, they are making the financial press and the people who speak for the owners of these totally tax-exempt securities - of course, they are going to be pinched awfully hard and they are making a fuss about it. It is their way of using every spring board, every opportunity they get, and this is - they see this as a reason to give, why the market is bad. I don't believe that merely because of your statement on the totally tax-exempt securities, that that is making the market in Governments. I think that would have very little influence on the Government market as such. I do think that there is something with reference to the misunderstanding or lack of confusion--

I mean, misunderstanding or some confusion in the case of what the Treasury's attitude on the tax-exempt feature of Governments are concerned.

H.M.JR: Well, Marriner, if you are right, certainly with the talent in this room you can write a statement which I can put my name to.

MR. ECCLES: That is right. Well, I would do that. I would get that thing cleared up. At least then they can't--

MR. RANSOM: Get that excuse out of the way.

MR. ECCLES: I would get that excuse out of the way.

H.M.JR: That is what I told you, Dan.

MR. ECCLES: I would get that excuse out of the way so that they can't - now, so far as the municipal securities are concerned that is a very different picture. You are on record on that. The President is--

H.M.JR: He O.K.'d my speech before I gave it.

MR. ECCLES: That is right and everybody knows he is on--

H.M.JR: He O.K.'d it before I gave it.

MR. ECCLES: . . . on record on that. and further than that, the Government did not make any contracts with the states. It is not a Government contract at all. It is a different picture than in the case of the issuance of your own securities.

H.M.JR: Marriner, it is funny my arguing with you, because usually it is the other way around on this thing.

MR. McKEE: Something might happen here, Dan.
(Laughter)

H.M.JR: I think both you and Dan are wrong. I think that this thing is much deeper, but I would like

H.M.JR: We all agree on that.

MR. RANSOM: And diagnose the disease from that point on.

H.M.JR: If you fellows will fix me up something--

MR. PAUL: Well, as I understand it, Mr. Secretary, you want to take a position on the policy question now, saying you are not going to deal without - not going to try to cut down that exemption.

H.M.JR: Expand what you are saying a bit..

MR. PAUL: I am trying to surmise. In other words, you are going to decide that you are not going to make any statutory amendment in that regard?

H.M.JR: In regard to what?

MR. PAUL: In regard to the allocation of expenses applicable to tax-exempt interest.

MR. ECCLES: In other words, you are going to - you are going to maintain the status quo in so far as the--

H.M.JR: Well now wait a minute. In going over it with you (Paul) yesterday, you told me that that is what Eccles wanted, but I said I thought we ought to treat a bank just the same as we do any other corporation.

MR. PAUL: That is what I wanted to get.

MR. ECCLES: Oh, sure, treat them all alike.

MR. PAUL: Oh, banks alike?

MR. ECCLES: No--

H.M.JR: All businesses alike.

MR. ECCLES: Any holder of these tax-exempt securities

to sign this statement. I think by the time you get the mayors and the governors and the attorney generals and the state together and all their friends, and the business that they throw to the bond dealers, plus the fellows that would like - who would sit down tomorrow with Mr. Hitler and make peace--

MR. RANSOM: There are too many of them in this country today.

H.M.JR: There is a nice combination, but I pray that you and Dan are right and it is nothing as deep as I think it is, but the only way to find out--

MR. ECCLES: Does Dan feel that way too, in part?

H.M.JR: Well, Dan just thinks that - no, he can talk for himself.

MR. ECCLES: I would give them the benefit of the doubt at this time.

MR. PAUL: Suppose the reason for selecting this occasion to give out advance information as distinguished from information to the very many people who want to know about what our policy is going to be, is that we help Government security operation, is that it? Because it seems singular to get some pressure from New York and then respond to that pressure--

H.M.JR: No, that isn't the thing. You have had somebody in the Treasury who sat down with the ABA and talked this thing over.

MR. PAUL: That is right.

H.M.JR: And this thing has been going over and over and over and I, perfectly properly, can say, tell the story. I can simply tell the story. Mr. So-and-So in the Treasury talked with So-and-So in the ABA and discussed the thing - whatever the story is.

MR. ECCLES: Well, you have got billions of dollars

of tax-exempt Government securities out. Now, last year you permitted the twenty-four percent exemptions, see. This year if you are going to permit less, whether directly or indirectly, through a formula that only permits a part of the tax-exempt interest to apply against expenses--

MR. PAUL: That formula hasn't a thing to do with the twenty-four percent. It has to do with the deduction of expenses.

MR. ECCLES: I know, but that is the same thing. So far as the holder of a security is concerned, it means the same thing to him and nobody is going to buy these securities without getting that settled. There is no difference between that and a drop - the dropping of the rate from twenty-four percent to twenty or sixteen. It is the net result that the investor is concerned about and as long as you leave that net result uncertain, then you have left the market for those bonds uncertain.

MR. McKEE: Have we got today's market prices?

H.M.JR: Hadley will get them.

MR. ECCLES: As long as that thing is uncertain there is no certainty whatever as to what those securities are. There are no buyers for them except at a lower price, and that has an effect on the whole Government bond market.

MR. BELL: It is a funny thing, you know, the one fellow that mentioned that the other day in these conferences said the whole street is jittery about this tax program and he mentioned these two projects that were under discussion and you said, "Well, I never heard of it," so it couldn't have been passed upon." In the last two days they have bought fifteen million dollars of tax-exempt securities.

H.M.JR: That is Garner of the Guaranty.

MR. BELL: Yes

H.M.JR: They bought the tax-exempts?

MR. BELL: They bought the tax-exempts where everybody else is trying to sell tax-exempts or letting them drift down.

H.M.JR: You mean on what I said here?

MR. BELL: I assume he has taken that to mean that maybe after all this policy hasn't been made and that he would buy tax-exempts.

H.M.JR: Excuse me. If that is the only thing, for God's sake, let's nail that. Now, I can't believe - Paul was up in the country with me and he was explaining. I can't believe it gets down to whether you have deducted your - what you deduct as an expense of the bank, whether you deduct against the taxable or not. It seems unbelievable but if it is down to that--

MR. ECCLES: It is any corporation.

H.M.JR: Let us at least clear it up.

MR. McKEE: Well, the public is entitled to clarification.

H.M.JR: Why not.

MR. McKEE: Sure.

H.M.JR: But then if it is deeper--

MR. McKEE: Then we will see.

H.M.JR: We will go after it, what?

MR. RANSOM: I don't believe, Mr. Secretary, it is anything but a very superficial fight in the present situation. It is just one more argument.

H.M.JR: That is right.

MR. RANSOM: That is my opinion, but I would remove that argument.

should be treated alike. In other words, they are a market security and it seems to me if you want to try to stabilize the Government bond market you have got to get--

MR. PAUL: Oh, sure. You wouldn't treat one holder of that security different from another, but what I mean is that that would be treating holders of those securities different from the way in which you treat other holders of tax-exempts.

H.M.JR: Wait a minute. As I understand it, what you told me, and Marriner is here, is that Marriner wanted to give the banks special consideration on this thing as against--

MR. PAUL: Well, yes.

H.M.JR: Let's say against a business corporation.

MR. ECCLES: No, I wouldn't advocate that. What I said was this, that the banks were very big owners of these securities and that the banks, a lot of them, were feeling this way, that we are going-- incurring a big expense in connection with the Savings Bond Campaign, and that we can't get any pay for that. I mean, they are doing that thing now. For the Treasury to come in and where they own these tax-exempt features to change the rules that applied last year so that the benefits they get are less than they had is making a lot of them feel, "Well, hell, the more we do for the Treasury the less consideration we get."

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MR. McKEE: Well, Marriner, do you think that the ordinary bond holder has gone that deep? It would seem to me that the tax-exempts are now held in portfolios that get a benefit from tax exemption.

MR. ECCLES: That is right.

MR. McKEE: And, any idea that they are going to lose that exemption is going to make them conscious of the premium that they have paid for tax-exempts and they are going to get out while they can still get a premium. Now, if and when - I think it is a good - it would be well worth the attempt to try to clarify that atmosphere if you are in a position to clarify it.

H.M.JR: Well, this is the way I understood it, it was put up to me, that if a bank owned a million dollars worth of tax-exempts they could only charge against those tax-exempts actual business expenses incurred by handling the tax exempts.

MR. BELL: You mean on the--

MR. PAUL. It is the other way around.

H.M.JR: I mean taxables.

MR. PAUL: That is right. It is the taxables, not the tax-exempts.

MR. BELL: That is right.

H.M.JR: I mean they could only charge the actual business against the taxables.

MR. McKEE: Just what does that mean?

MR. PAUL: Suppose the bank has a million dollar tax exempt income and a million dollar non tax-exempt. Notwithstanding that half of its income is from tax exempts, it may deduct all of this - its expenses. Now some of those expenses, which under the present rule, it may deduct are plainly allocable, chargeable, against the keeping - the purchasing and the keeping and the

maintaining of the tax-exempt situation and shouldn't be deductible any more than anybody else owning other - getting other tax-exempt income can deduct tax-exempt expenses. Now, since 1934 we have had a rule that excepted from that general situation the holder of the tax-exempt and the basis of the rule is purely - it is stated in the committee report, it might interfere with Government bonds

(Mr. Blough enters the conference)

MR. McKEE: Maybe I was taking that statement too literally that you would only charge against income from taxable bonds that portion that would be allocated in the operation of collecting that taxable income.

MR. PAUL: What happened was that you charge all, now, there is no restriction whatever. The bankers heard that we were thinking of changing that rule, and they came down and said, "If you are thinking of that, let's discuss the method of allocation. Don't do it on a dollar basis, because it doesn't cost us as much to maintain the tax-exempt department as it does to maintain the taxable department." For instance, real estate is more expensive to - real estate income is more expensive to serve than is tax-exempt income, so what the boys in the legislative counsel's office did was to discuss a method of allocation, leaving the policy question completely open.

MR. BELL: And that is where it got mixed up.

MR. McKEE: It got mixed up.

MR. BELL: They plainly told them that they were not a policy group. They said, "We are discussing merely a form; and if the policy is adopted, we want to know the best way to do it." By the time that went through fifteen or twenty mouths in the street, it got out as a definite policy, and that these fellows were told to come down here and help write a formula. "Now, we don't want you to discuss policy. It has already been determined." At least, that is what it finally wound up with. So, you see, that now it is out as a definite policy.

MR. McKEE: Doesn't it all spell out to you in common denominators that there is a fog and a mist hanging over the market of misunderstanding? There is that possibility.

MR. PAUL: There is that plus a fear that we are ~~going~~ to take away this special privilege that banks now have.

MR. McKEE: In its entirety. Do you believe that is the thought?

MR. PAUL: I think there is a fear that we are going to cut down on their right to deduct and, therefore, hurt the owners of such bonds in that indirect way.

MR. ECCLES: To whatever way it affects their net earning, any formula that you adopt, if it affects their net earning, it means that so far as they are concerned the bonds are discounted that much, and they are worth that much less to them, and they are that much less interested in purchasing in the existing market; and until that thing is determined, they are not going to be able to figure out how much these bonds are worth to them in the market.

MR. PAUL: That is right, exactly.

MR. BELL: Now, there are two other things.

MR. RANSOM: Mr. Secretary, may I say this in the light of this explanation, that there seems to be involved here the question of Treasury policy in relation to your tax program.

H.M.JR: That is right.

MR. RANSOM: Now, if such a statement as you - as the suggestion has been made that you make at the present time is to decide that Treasury policy, I don't know at the moment on which side of that argument I would find myself. I think there would be definite advantage, however, in clarifying the issue as long as the story seems to have gotten very wide circulation all over the

country and if it is going to be your decision to follow the suggested formula which was discussed with these bankers, then I think even a statement to that effect would be better than no statement at all, where if you are not going to adopt that as a policy, then such a statement as has been suggested would indicate that that is not to be your policy. I don't want to attempt on the spur of the moment hearing an explanation for the first time to say what ought to be your policy, because I am not at all sure.

H.M.JR: Here is what is bothering me about the thing and that is this. If you make - I have always found this in Washington in dealing with legislation. Just as soon as I give an inch to any group, I am sunk.

MR. PAUL: That is what I meant before, Mr. Secretary.

H.M.JR: I am sunk. Now, if - and that is where I understood that you (Mr. Eccles) and I differed on this particular thing. And if I say--

MR. ECCLES: I don't know because I don't know what your position is.

H.M.JR: Well, this is the way I feel. I think that if there is any loophole where any particular group getting a special privilege through deducting expenses or anything else - whether it is a special amortization of an oil well or whether it is joint return - that the only position on which I am on safe ground is that during the war nobody is entitled to any special treatment. Now, if I take that position, they could perfectly well - the next group - the next group will be the oil well people come in. "Well, we won't dig any new oil wells."

MR. PAUL: You are perfectly right on a theoretical basis, but there is a conflict between the theoretical and the practical, and the practical answer might be that you should yield on this issue on account of the fact that we have Government securities involved

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and that makes it very exceptional, but on the theoretical side there is no reason why these banks should get these expenses. Nobody else does.

H.M.JR: More than theoretical, this thing - this particular thing - it is a matter of ethics. I don't think it is theoretical at all. I mean, if I can go before any group, Congress or any audience and say, "As far as I am concerned, I am not going to favor any group knowingly, no matter how important they are." Now, if you say this, then - "Well, Mr. Morgenthau, you made an exception on the banks. How about Western Cartridge? Do you mean to say that you are going to stand here with MacArthur short of ammunition and say that Western Cartridge has to do so and so when they want a special allowance?" I mean, I am going to extremes.

MR. RANSOM: Has anyone suggested that you make a statement that this shouldn't be applicable to the banks, but should be to everybody else? That doesn't seem to me to be a possible position. You retreat from the whole thing.

MR. ECCLES: My position is this, that last year--

H.M.JR: Excuse me. I understand it that that was the position, and we should--

MR. PAUL: That is another refinement of the situation.

H.M.JR: But, I understood we were to give the banks - treat everybody except the banks--

MR. ECCLES: No, I wouldn't make any special provision at all. Now, last year you provided the exemption of twenty-four percent normal tax continued by putting on a six percent surtax so as not to give any windfall to the existing owners at that time, and the twenty-four percent was the exemption. Now, my point is, I would leave the rules and let the market know that so far as the tax - the tax-exempt securities

are concerned, that you do not intend to make any change with reference to those securities, not only insofar as the twenty-four percent tax exemption feature is concerned, but likewise insofar as changing the formula permitting the application of the tax-free interest.

MR. PAUL: That is right, and that would apply to all owners.

MR. ECCLES: To everybody, just leave them as they are, make no exceptions, just maintain the status quo insofar as those particular securities are concerned.

MR. RANSOM: All of them, banks or otherwise.

MR. ECCLES: Just leave them as they were last year.

MR. McKEE: That is fine, Marriner, but we are not making policies for the Treasury. Are you (H.M.Jr.) in such a place as you can make that statement today?

H.M.JR: I can, yes.

MR. McKEE: I mean, you are not going to change your policy?

H.M.JR: As far as I am concerned, if Fed and ourselves agree and I decide I want to do this - let's put it this way. If I decide I want to do this and the Federal Reserve Board agree - I told that to the President subsequently. I said, "Well now, Mr. President, we made this decision, Would you go along?" And he never would even be interested in this thing.

MR. ECCLES: No, it wouldn't bother him.

MR. SULLIVAN: Well, I think, Mr. Secretary, before you make that decision you should be aware that making it this way means giving up hope on your taxing outstanding states and municipalities.

H.M.JR: Well, why?

MR. SULLIVAN: Well, we have already - the country already knows that we are interested in making these two reforms in the tax law as they affect outstanding federal tax-exempts. Now, if we are going to give in on this and refrain from that reform, we are going to be in a very vulnerable position on our other side.

H.M.JR: I will tell you what I am going to do. May I go into your room, Bell? It won't take me more than ten or fifteen minutes.

MR. BELL: Do you want us to go in there?

H.M.JR: I don't want to move everybody. You stay here and I will come back.

MR. BELL: Sure.

H.M.JR: Because I have got this Lend-Lease Russian crowd out here.

MR. PAUL: We can get out of here.

(The Secretary and the Reporter left the conference temporarily.)

H.M.JR: Well, where do we stand? Have you got it all settled?

MR. ECCLES: No.

MR. RANSOM: It is a question of policy for the Treasury to decide as to whether or not it is increasing its revenue by means of the formula which I understand has been under discussion. There have been arguments both for and against it on principle, morals and expediency.

H.M.JR: Well, where do you stand, Randolph?

MR. PAUL: Well, I am inclined to think we should change the law, though I recognize the practical problem of hitting the banks, as Marriner says, at this time when they are helping us. On the other hand, I recognize that-

two points against it, first that we are going to open the door, not to make changes - not to eliminate special privileges. Second, we are going to make it very much more difficult to deal with the state bond issues as John has mentioned. That would be about the conclusion I would have to come to. I would adopt your reasons first in addition to John's

H.M.JR: Well, to sum up, would you go ahead and try to close this loophole or wouldn't you.

MR. PAUL: I would go ahead and do it, I think. If I were going to extend some special favor to the banks for helping us, I would try to find some other avenue for doing so.

MR. RANSOM: It seems to me impossible to make any distinction in your formula between the banks and other holders of these securities.

MR. PAUL: That isn't the point. I don't think we have to worry about that

MR. RANSOM: I think that is out of the discussion.

H.M.JR: The question is, should we close this loophole for everybody or not, John?

MR. SULLIVAN: I am for closing it, sir. Now, the question I would like to ask is whether or not Dan feels that if we do make a clean-cut statement, "Yes, this is what we are going to do," will that remove any doubts as to our doing anything beyond that?

MR. BELL: It will remove doubts as to this one point. I don't think making that statement would necessarily help the bond market.

MR. PAUL: Well, how about hurting it, Dan?

MR. BELL: It might not hurt it any more.

MR. PAUL: I mean, we have to regard those practical things.

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MR. SULLIVAN: I thought you said, Dan, that what was bothering them was not so much this as the fear that we might do anything beyond this.

MR. BELL: Well, I think that fear is in there now, but the Secretary made a statement that he wasn't going to do anything to the outstanding Federals directly or indirectly and a day or so later out came this rumor.

MR. ECCLES: They figure this is doing it indirectly.

MR. BELL: And they said this certainly is doing it indirectly, and the formula which they had and which I understand is an example in the past was figured out by some of the people in the market, and they said it was equivalent to a nine percent reduction in the normal tax, and of course it just struck them right between the eyes. Now, I am against the law as enacted in 1934. I think it was wrong then, but these people have bought securities relying on it, and I think it is unfortunate that we have to change it and hurt the bond market this way when we have got as much financing to do as we have.

MR. ECCLES: That is the way I feel about it.

MR. MCKEE: What does it mean, income wise, does anybody know?

MR. BELL: It affects each bank differently.

MR. MCKEE: I mean as far as the Treasury income is concerned.

MR. BELL: I don't know. Does anybody know?

MR. BLOUGH: I can't see more than forty or fifty million at the outside, and probably less.

H.M.JR: How much is that?

MR. BLOUGH: Forty or fifty at the outside and probably less.

H.M.JR: Who would know?

MR. BLOUGH: Nobody at the moment. It would take a little while to work it out.

H.M.JR: This has been around for ten days. Somebody ought to know.

MR. BLOUGH: I may say, Mr. Secretary, the reason that we have this difficulty is that in trying to be fair with the bankers, we cooperated with them and this is what happened. We wouldn't be in this spot if we had been allowed to work the formula through and get everything up and have you have a chance to see it before it gets into the bond market. The bankers are coming in in a day or two with a revision of this formula, and we were holding up the rather complicated process of working out estimates until we had something that looked all right, because we weren't interested in revenue, we were interested in the equity of the deduction.

MR. BELL: There is another formula in the picture, too, and that is the amortization of the bonds. You see, the Comptroller requires the banks to amortize their premiums and the Internal Revenue bases the tax on the coupon rate. Now, that is another thing that has gotten into the picture. The banks have been used to carrying the coupon rate, and now we want to change that, and they don't like it, so there are two things in the picture. I don't know how much--

MR. PAUL: The insurance companies have terrific quantities of these bonds and will also be affected by any change we make.

H.M.JR: What do you think? Have you said your piece?

MR. SULLIVAN: Yes, I have, sir.

H.M.JR: You are for changing it?

MR. SULLIVAN: Yes, I am.

MR. PAUL: I would make it perfectly clear that any of these expenses that Marriner is talking about, these additional expenses, should be--

MR. ECCLES: Well, that is incidental. I mean that is--

MR. PAUL: Should be allowed--

MR. ECCLES: ...as much against the factor that the banks say, "Hell, we are trying to do a job on this Defense Savings thing. We are putting on a lot of help. We are incurring a lot of expenses, which is all right. Now for the Treasury to come along and change this formula--"

MR. PAUL: But how can you possibly--

MR. ECCLES: "... which in effect is doing indirectly - it is reducing our net revenue when you change this formula," and I think it is pretty generally upsetting, that they feel that--

MR. PAUL: It is upsetting, but how can you defend the old practice, the existing practice? Nobody else--

MR. ECCLES: Hell, I wouldn't want to defend it - why the hell we ever issued tax-exempt securities in the first place. I mean, that is an old practice, but because you can't defend it, it doesn't necessarily mean that so far as the Government is concerned, you are going to eliminate it, and I can't see any difference between the elimination or partial elimination of the tax-exempt feature that has existed, and the changing of the formula, which has exactly the same effect.

MR. PAUL: There is a lot of difference, Marriner. One is protected by a contractual obligation and the other merely by an exemption statute. When you say you won't change the rule as to what is the normal tax, you are talking about your contractual obligation in the bond, but when you are talking about this expense formula, you are merely talking about an exemption in the statute which is always subject to change.

MR. McKEE: Could that be made plain in a statement in not too long language?

MR. PAUL: Yes, it could be, but it wouldn't satisfy our friends in the banks.

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MR. McKEE: Well, it wouldn't satisfy the big buyers probably, but would it not go some distance to clarify some of the thinking on this?

MR. ECCLES: What does it mean if the formula that is proposed should be adopted in lieu of the one in effect, what does - what would that mean in revenue - not revenue to the Government but what would it mean to the banks? In other words, today they get the benefit of the twenty-four percent. If you put the proposed formula in, what would that be? Would that give them the benefit of fifteen percent or sixteen or what would it be?

MR. PAUL: Translating into those terms, it is difficult to say, but it would result--

MR. ECCLES: You said about nine points?

MR. PAUL: Somebody said that. I didn't say that.

MR. BELL: I said someone in the market had figured out the example that was given in the formula.

MR. ECCLES: That being the case, then, if that is the case, then whereas they have purchased these securities thinking they had the twenty-four percent exemption with the present statute and the present formula in existence, now you have changed the formula as proposed and instead of having a twenty-four percent, they would then have only--

MR. SULLIVAN: It reduces the twenty-four percent tax on the taxable income, Marriner.

MR. ECCLES: Yes, it would be fifteen in effect. That would be the effect. It would be the same--

MR. SULLIVAN: It wouldn't be the same in any two cases.

MR. ECCLES: No, but this is a hypothetical case, as I get it.

MR. BELL: I understood it was, yes.

MR. ECCLES: Figuring to be nine percent. Some may be more and some less.

MR. BELL: We should have given an example that figured out about two percent.

MR. PAUL: There is no doubt about it, that this is going to take away a very pretty place in which some of the banks are sitting.

MR. BLOUGH: Most of the main banks aren't paying any income tax now.

MR. BELL: Of course the next six or seven years that will pretty well go out anyhow as we refund the maturing debt.

MR. PAUL: That is right.

MR. McKEE: When we sit down and think of this problem, it may be that whatever formula comes out is an increase in tax, and, after all, should we stop with - I am impressed with what John Sullivan says, that you are attempting to do something with another body of investors such as municipal holders, why you should close that door if you think there is a chance. After all, these bonds are going to slide down to a place that by the normal deductions they can best work out in their own minds will be a market for these present tax-exempt securities. We may be near that now, I don't know. Why should we worry about this thing and just keep on the program we have and let it go for a day or so before any statement is made? Who is putting the pressure on you to make a statement, the market?

H.M.JR: No, I am just - I am excited over this thing, and, as I say, I think that what we have tried to do here - I mean, I think there are attacks on all fronts on the President wherever they think he is vulnerable, and I personally think that this is one of them. There is nobody to answer your question, but, as I say, if they have any reason to be worried, I would like to clear it up.

Now, what I am going to say in view of that - I have never, since I have been here, tried to give any special group special treatment on account of the tie-ups, and therefore I have been able to face all of them equally. On the other hand, I do realize the fact that as this thing gets worse, we are going to have to go ~~for~~ and more to the banks, but I would rather stand firm on this, and giving out a statement at least the market would know where they stood. I would rather do that, and then, if necessary, if we have got to do something for the banks, then I would rather pay them for what they are doing in the Defense Bonds, you see.

MR. BELL: We may have to face that anyhow.

MR. MORRIS: I was going to say I think you will have to do it anyway.

MR. ECCLES: I don't know, it is pretty difficult to do, though. You couldn't get Congress to appropriate any money to do that. I think Congress would just--

H.M.JR: Well, supposing you people think this thing over tonight. We have never put this to you this way, have we?

MR. RANSOM: I have never heard anything about it.

H.M.JR: And I am not going to go off half cocked tonight just because I have got a lot of appointments, but I would like you all to think about it, and I would like to meet with you again tomorrow, but just as a matter of facing any other group, my own inclination would be, wherever there is a loophole and we recognize it, let's close it, no matter who it is. In other words, treat everybody alike.

MR. RANSOM: Mr. Secretary, this conversation--

MR. ECCLES: The tax-exempts is a loophole, and we are not eliminating the tax-exempt feature.

MR. PAUL: It is a loophole by contract, our contract.

MR. ECCLES: The other is a loophole by practice.

MR. PAUL: By statute.

MR. BELL: By statute just like the fifteen hundred dollar exemptions on married people.

MR. PAUL: What Congress gives, it can take away.

MR. ECCLES: Doesn't the investor, though, look at that statute, however, as--

MR. PAUL: Probably does.

MR. ECCLES: They look at that as a part of that contract. The bonds were issued during that period--

H.M.JR: Something wrong, John?

MR. SULLIVAN: No.

H.M.JR: I thought you were in pain.

MR. SULLIVAN: No, I was just waiting for Marriner to finish this sentence so I can get in there. (Laughter)

MR. ECCLES: That is done by statute, and I think you will find that it has been generally recognized by investors that in the purchase of bonds they have got the tax-exempt feature as provided for in the contract and likewise in the statute. I recognize that Congress can always change the statute, but I don't think that is generally recognized in the market.

MR. PAUL: You just heard why they fixed it the way they did in '34.

MR. ECCLES: Yes, for financing purposes.

MR. PAUL: That is right.

MR. McKEE: Yes, but since that time the changes--

MR. ECCLES: But you have got a bigger problem than you had then for financing purposes. You have got a greater reason today to retain it, because you have got a damn sight worse problem today than you had then.

MR. SULLIVAN: Marriner, you don't think that these--

MR. PAUL: We don't have any financing job any more. It is just a question of these outstanding and partially exempts. It is a question of the premium on them.

MR. McKEE: I hope he is right.

MR. SULLIVAN: You don't think that the change in these two formulas together is as radical as the change we made last year when we put in a corporate surtax rather than an increase in the normal tax, do you?

MR. ECCLES: Yes, I do, because that didn't - that only involved - that didn't involve a return on a security that had been issued previous to that time at all.

MR. SULLIVAN: Well, Marriner, we had the same objection when we did this thing. People said, "Why? We had a right to expect that we would be - that these would be free from all corporate taxes."

MR. ECCLES: Normal tax.

MR. SULLIVAN: Yes, that is right, but there had never been a surtax, and there were all kinds of efforts made to prevent the Congress from enacting a corporate surtax.

MR. ECCLES: That would have been a windfall.

MR. SULLIVAN: But every increase in normal rate that has been voted since the time those bonds were purchased has been a windfall.

MR. ECCLES: That is right, and you may have had some--

MR. SULLIVAN: And most of these fellows who had these bonds bought them when the normal tax was around thirteen or fifteen.

MR. ECCLES: But a lot of these were issued when the normal tax was likewise twenty-four. You issued a lot of securities, and they were purchased while the normal tax was twenty-four, and, if that hadn't been true, you would have possibly paid a little bit higher rate at the time the tax - the bonds were floated.

MR. SULLIVAN: I don't think that this proposed change is nearly as radical as what we did then.

H.M.JR: Could I just interrupt? Supposing, Paul, you and Sullivan and your assistants draw up a statement defining the Treasury's position along these lines, that we consider one thing as a matter of contract and the other as a matter of statute, and going on the assumption that we are going to close this loophole, you see, and why. Fix it up and then mark it strictly confidential and send it over to the Chairman so he can show it to his people tomorrow morning, and let them take a look at it, you see. How is that?

MR. ECCLES: Yes, that will be fine.

H.M.JR: At least let us state the case in legal language so, if possible, it could be understood by the cop on the corner, if that is possible.

MR. BELL: Do you want to say why it is not in conflict with your statement the other day.

MR. SULLIVAN: Yes.

MR. MORRIS: I think his statement the other day was basically on not doing anything with the normal tax, and that was all that statement referred to really, and they took it to refer to other things which wasn't in any way implied.

MR. SULLIVAN: That is right.

MR. BELL: Well, that is what I wanted to do, is just clarify it.

MR. MORRIS: I agree it ought to be clarified, but that is the point I am making.

H.M.JR: Dave, what is the point?

MR. MORRIS: Your other statement referred to not doing anything but change the normal tax of twenty-four percent and--

H.M.JR: No, my statement was that here I recognize there is a contract between the Federal Government and the buyers of Federal issues, and I didn't propose by indirection or circumvention or any other way to try to reduce that privilege.

MR. MORRIS: That privilege applied to the normal tax only.

MR. SULLIVAN: I think what Dave means--

H.M.JR: They didn't interpret it that way.

MR. SULLIVAN: ... that what you had in mind was the question about reducing the normal tax and hence reducing the value of the exemption by reducing the normal tax. These other things weren't in our minds at all when we made that statement.

H.M.JR: Well, you had better look up the statement, and, in making this statement, Paul, I think you can say, "Mr. Morgenthau said," and then give my original statement.

MR. MORRIS: You might say, "In answer to a question," because I think that is what people have forgotten, what the question was about.

H.M.JR: In answer to it, and so forth, and then give the thing and let the Fed have a look at it and chew over it, and, after they have had a look, we will meet

again. What?

MR. ECCLES: Tomorrow afternoon?

H.M.JR: Yes.

MR. McKEE: It looks as though your record is better than the ABA. I think they have probably made the record.

H.M.JR: I hope it is.

MR. ECCLES: In the meantime on this market, we will just continue as is.

H.M.JR: For the time being. Until we get this thing straightened out.

MR. ECCLES: For tomorrow. Just take whatever comes.

H.M.JR: Four o'clock tomorrow, is that all right?

MR. ECCLES: It is all right for me, I think. John? All right with you, Ronald?

MR. RANSOM: I will make it all right.

H.M.JR: And you fellows, you tax fellows, can get over something to them so they can get it back to you?

MR. PAUL: Yes, we will.

February 18, 1942
3:30 p.m.

AID TO RUSSIA

Present: Mr. Hazaid
Mr. Raugh
Mr. Pratt
Mr. Stettinius
Mr. Cox
Mr. Swope
Mr. Mack

H.M.JR: I got your letter.

MR. STETTINIUS: Well, you know--

H.M.JR: What's-his-name told me an amusing letter came when he was subordinate to Stark. He said he was waiting outside and there was a letter waiting there for Stark to see, and it said outside, "Frantic." This is just special service, and I am trying to live up to it.

MR. STETTINIUS: I don't think we have to discuss the importance and the seriousness of filling the Russian Protocol. Of course the delays have been in some respects the Russians' own fault, because they haven't brought their requisitions in soon enough, and when they have brought the requisitions in, they have had a lot of specifications that weren't fillable, and they have insisted on getting into price negotiations and other things. Also, the embargo and the shortage of ships.

Now, we wanted to go over with you briefly and talk to Cliff about this as to what we could do to speed along the contracts after they were once let. Mr. Swope and I had a word, Mr. Secretary, before we came in, and I think that the chief thing to emphasize is that after a contract is let, if we could organize some system between your office, our office and the War Production Board to follow those contracts through Procurement, through to delivery, that we could save a lot of time that we are now perhaps losing.

H.M.JR: What is the story, Cliff?

MR. MACK: Well, of course the purchases have been put through just as quickly as we had clearance of the requisitions from the War Production Board. I think that the problem that we have to meet is this, that allocations are made to particular manufacturers. Most of these - I guess almost entirely, these items are critical and therefore call for allocations. Allocations are made to particular manufacturers for deliveries of stated quantities by months.

Now, we have had some difficulties. I think we are going to work them out, but we are right in the middle of it now, because a lot of these requisitions - of course they are coming through. We still don't have some requisitions because they are in the process of coming to us. Now, on certain items we find that allocations were made. Steel wire, which is a big item, and the mill is already running on Russian orders that were placed prior to Lend-Lease. However, we are going to try to work up some other allocation or work it out with the Russians or do something to overcome that hurdle. We find, in the case of aluminum, that we are short an allocation of five hundred tons of aluminum that we will need to make up shipments by April 1 under the protocol agreement. There are certain items that shipments have been made ahead of time, but--

H.M.JR: This is the interesting part. You don't even get credit for those.

MR. MACK: No, our man is with the War Production Board today on steel items. Those seem to be the difficult ones. He will have tomorrow the - what we hope will be a revision of certain allocations that we know we will have to have in order to meet April 1 delivery date.

For example, we have allocations coming through on certain items in May and June. Obviously those are too late, so we have gone back at them on the basis of trying to get allocations before April 1, so that tomorrow, we are going to work it out tonight, and tomorrow we will have a complete schedule showing the - item by item just what delivery will be made and the allocation and so on right down the line.

H.M.JR: Why don't you fix up that table and let me write a letter to Mr. Nelson and say--

MR. COX: That is right.

MR. STETTINIUS: That is right.

H.M.JR: ... that Stettinius is just raising hell with me, and what is he going to do about it.

MR. COX: I think the Secretary is right. You have got this problem, Cliff. There are certain things which are outside your control and where the Secretary's weight will put it across. You have got two major problems, as I see it. One is that due to other people's fault and so forth, you are now at a point where the President's directive is to make up the backlog by April 1.

Now, if you haven't got the right allocations or if your present delivery schedule calls for delivery in August, you have got to cut in ahead of somebody else and that is Nelson's job based on what the Secretary tells him, because that is the President's directive. It comes ahead of everything else. Suppose the British got an order for wire from a particular plant. The only way we can comply with this protocol is if Nelson says the Russian orders come ahead.

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MR. STETTINIUS: If he can't do it, we have got to go back to the President and get him to amend his Executive Order, because we are proceeding under a Presidential Executive Order.

H.M.JR: I think you ought to fix it up with Mr. Swope and give it to me and make sure that Mr. Stettinius' people - it is satisfactory to them before I sign it, you see.

MR. MACK: Yes.

MR. SWOPE: Well, he may be able to work it out tonight.

MR. COX: If he can, that is wonderful.

MR. SWOPE: If he can, fine, and if he can't, we will come to you. Tomorrow noon is the deadline.

H.M.JR: Whatever I have, I would like Mr. Stettinius' people to see it and initial it before I sign it, and then we will send it over and I will make an appointment for you two gentlemen to see Mr. Nelson and simply say that you want to bring this letter over and expect to sit there until you get an answer.

MR. COX: Cliff, is it at all practical, after you have placed an order and gotten the proper allocation, to follow up on the deliveries?

MR. MACK: It is, and that is our responsibility. We have progress expeditors in the field. We have, I guess, about a hundred and fifty men, inspectors and expeditors in the field, that go right to the plant. On steel items, we have been getting reports from the mills.

MR. STETTINIUS: Cliff, has the War Production Board recognized that now, or is there still confusion, them thinking that it is their responsibility?

MR. MACK: Well, there was this situation, that the War Production Board, steel group, followed out their

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allocations, you see. If they made an allocation of so much for a certain amount, they followed it up to make sure that it was delivered accordingly, and you recall a conference we had in your office a while ago, and we took the position that we felt that if we made a contract we should follow up, because then we knew whether something was late or not. Well, it has been worked out - I talked about that again this morning. It has been worked out on this basis, that if the mill - we will follow up the shipments, but if the mill disregards the allocation order, then, of course, it gets back to them, because they were the power that created the allocation. But, if there is no dispute about the allocation, then it is our job to make sure that it moves accordingly.

MR. COX: Do we have special service expeditors on the Russian stuff?

MR. MACK: We set up a man - or rather we had a man appointed to take care of Russian expediting, and he follows through on various items with the field, and of course with the purchases elsewhere where that needs to be done.

MR. COX: Because you are meeting such a tough deadline here that I raised the question of whether you don't have to deploy your expeditors a little bit differently.

MR. MACK: Some of these things are coming through now and others that haven't cleared the War Production Board yet call for deliveries in January, February, March, April, and May, and so on.

H.M.JR: Let's get it all down on paper. The deadline is when?

MR. COX: April 1, to make up not only the deliveries current in that month but the backlog.

H.M.JR: Well, the thing that discouraged me from going to town on this thing was that if you got it, it

would just lay in the backyard in Boston.

MR. COX: No. You see, those two things are inter-related, Mr. Secretary. You have got to be ahead on your Procurement with the shipping as tight as it is to assert a claim, because the minute you end up in the position that you have got enough cargo--

H.M.JR: Do you know how much tonnage that we have bought is lying in the yards in the United States? Have you seen those figures?

MR. COX: I have seen some of them.

H.M.JR: Do you know offhand what they are? You remember, the number of cars and tons. I mean, it was so discouraging that I frankly didn't put any heat on anybody because the stuff wasn't moving.

MR. COX: Isn't most of it going to be moved out this month?

MR. STETTINIUS: Between now and the fifteenth of March it is going to move.

MR. MACK: The question is trucks. The trucks are in the yard, but the urgent things are more urgent.

MR. SWOPE: We had a lot of steel there. Those are the figures the Secretary is speaking of.

H.M.JR: You ought to take those figures up again. As a matter of fact, Mr. Swope gave me those figures, and I brought it up at Cabinet about this Russian thing and the President said, "What will we do about this?" and I said, "Won't you ask Mr. Nelson to take it?"

It was a shocking figure of the stuff lying in the yard, and we never heard from Nelson again.

MR. SWOPE: Yes, I did. I spoke to you about it. I heard from him, and he asked what we had in mind, and I simply said it was to acquaint him with the situation.

H.M.JR: But he hasn't done anything.

MR. SWOPE: Then I saw Admiral Land about the ships. That was the tight place. I assume he has done everything he could.

MR. COX: You will never comply with the protocol unless you have a backlog of material, and then put the heat on the shipping.

H.M.JR: I certainly would like to have tomorrow, up to the minute, how much stuff we have bought, particularly that they are pushing, how much of that is now lying in some freight yard. You have those tonnage figures, don't you?

MR. MACK: Yes, we do. Most of these Russian items are special items, micro wire, it is unusual. Copper tubing and all that sort of thing.

H.M.JR: We will go to town, gentlemen. You are putting the pressure on the wrong place. When you see the tonnage figures.

MR. SWOPE: Mr. Stettinius recognizes that. We had a word before.

MR. STETTINIUS: Mr. Secretary, I spent half of yesterday on shipping. We have just been raising - well, you can just imagine what we have been doing on the shipping thing.

H.M.JR: Well, we will go to town, but I am not - we are just a buying agency and our job is to buy this stuff and somebody else has got the responsibility of moving it. We will raise the hell on the buying and getting the contracts, but I do want to do it with my eyes open, and I would like to see how much tonnage has been moving, and, frankly, I didn't get excited about it before this because with all these literally thousands and thousands of tons lying in the yards of Boston, what was the use? And I would like to know how much has been moved since you gave me that report, and I gave it to the President.

I would like to know how much has been moved. It seemed to me somebody else might use the stuff better, but if you (Stettinius) want to go to town on this thing, I will go right with you.

MR. STETTINIUS: We have got to do it. We have got to go to town on it.

H.M.JR: Music to my ears. We will do our end.

MR. STETTINIUS: The shipping situation is much better than it has been at any time.

H.M.JR: We will do our end. We will buy the stuff for you.

MR. STETTINIUS: All right.

H.M.JR: You move it.

MR. STETTINIUS: Good.

H.M.JR: All right, we will buy it.

2/18/42

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○ Copies to Mr. Swope and Mr. Mack for
3:30 pm meeting today in Secretary's
office.

OFFICE OF LEND-LEASE ADMINISTRATION
FIVE-FIFTEEN 22d STREET NW.
WASHINGTON, D. C.

E. R. Sattman, Jr.
Administrator

February 16, 1942

My dear Secretary Morgenthau:

As you doubtless know, the President has directed that the Moscow Protocol commitments be re-established and that the accumulated deficiencies during the final quarter of 1941 be made up by April 1, 1942.

The Treasury is procuring some of the items agreed to be supplied under the Moscow Protocol, and, in view of your great interest in this matter, I would appreciate it if you could lend a hand on meeting the Protocol and the President's directive.

In so far as the Treasury is concerned, the situation is most critical in connection with the steel items. Through no fault of the Treasury, only inconsequential amounts of these items were available on January 31, 1942, and no quantities at all had been made available to meet commitments for armor plate, calibrated steel, hot rolled steel, steel billets and cold rolled steel sheets.

To meet the Protocol and the President's directive, it will doubtless be necessary to either speed up the manufacture by a follow-up system with the manufacturers, to arrange for higher priorities where the same materials are on manufacture for someone else, or set up a systematic reporting system so that the necessary speed can be obtained in procurement and adequate

- 2 -

data can be available for shipping purposes, and take every other step necessary to meet the objectives.

I will be on hand at any time, if you should wish it, to discuss the matter with you, your staff people and the Russian representatives.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "E. A. Tamm". The signature is written in dark ink and is positioned below the typed name "E. A. Tamm".

The Honorable

The Secretary of the Treasury

February 19, 1942

MEMORANDUM FOR THE SECRETARY'S FILES

Conference in the Secretary's Office
February 18, 1942
4:15 p.m.

Present: Lord Halifax
Sir Frederick Phillips
Mr. Viner
Mrs. Klotz
Mr. White

Phillips had telephoned last week to say that the Ambassador would like the answer of the President which had been transmitted to the Secretary and to Phillips orally by Mr. White. When Mr. White transmitted the request to the Secretary the latter asked to have the British Ambassador call on him so that he could give the message to him orally. The conference was the result.

The Secretary began by reading the President's answer. He then added that he wished Lord Halifax to transmit to his Government the assurance that he, Secretary Morgenthau, would continue to make every effort to see that the British Treasury had the dollars they needed to continue their war effort; that there were a number of other agencies dealing with the British, such as the Lend-Lease, the Army and Navy, the agency allocating military supplies and others, and that their cooperation was also necessary in the matter. He repeated that he would do all that was in his power and within his authority to help the British maintain an adequate supply of dollars to effectively conduct the war, but he needed the help of the British. He repeated it would be necessary for the British Ambassador and Phillips to help and do whatever they could to obtain the cooperation of other agencies.

Halifax asked in what way he and Phillips could be of help. The Secretary replied that they could help by getting the cooperation of other agencies who are dealing with the British. They could, for example, help in another way, if Phillips were going to spend any dollars in the United States, if he would bring the matter to the Secretary's attention he could see whether it would be possible for one of the agencies to finance the operation instead of having the British use up their dollars. Phillips commented that they were making

as little purchases as possible, but there were items which the Lend-Lease felt they could not finance. They were, he said, becoming more liberal in the interpretation of their authority. For example, they were placing under lend-lease, material going directly to Australia and South Africa. Formerly they felt they could not do so. But, he said, that still left a number of purchases to be made with dollars which Lend-Lease could not appropriately handle. He cited the purchase of cotton cloth in the United States to be exported to the British Bahamas. Formerly these cotton goods were exported from England, but that was no longer feasible, and "if the natives were not to go naked" they would have to have cotton cloth from the United States which the Lend-Lease people felt they could not buy. The Secretary thought it might be possible for the Export-Import Bank to finance an operation of that character. He said he did not know, but if he knew in time he could see whether it could be possible to be financed in that way. There were so many agencies having the authority to negotiate financial transactions with foreign countries that it was worthwhile exploring various possibilities before the dollar expenditures were made, and if he knew about it ahead of time he could make certain that that was done.

Halifax then said he was impressed with the latter part of the President's reply, namely, that this was not the appropriate time for the request. He wondered if that meant that it might be appropriate to raise that question some other time. The Secretary said that was his interpretation, that it might be appropriate to raise it some other time, though he (the Secretary) felt if dollars were needed it would be better to approach the problem from some other channel. He reiterated that he would leave no stone unturned in his effort to see that the British would have enough dollar exchange to meet their needs. He felt it was the responsibility of the Treasury to do whatever he appropriately could within his powers under the President's instructions to see that the British did not lack foreign exchange with which to conduct the war.

He asked Halifax whether Hopkins had disapproved of the proposal when Halifax had seen him about it. Halifax responded that he hadn't spoken to Hopkins and he didn't remember that he said he would. Mrs. Klots stated definitely that he said he was going to see Hopkins in the hospital that afternoon and speak to him about the request. Halifax replied that that was so, but said he hadn't done so. Then he added that he thought he remembered that he had not done so because Hopkins did not seem to be up to it. The Secretary said that if the President hadn't committed himself it was just as well, since it might then be easier to get him to change his mind later. However he (the Secretary) felt a different approach to the problem might be preferable.

When the Secretary spoke of the increasing number of agencies that were dealing with England and the resulting necessity for the British to examine all channels, Halifax asked was he to understand then that the Secretary's authority to protect British dollar exchange position was getting narrower. The Secretary said, no, that he felt 90 percent certain that the President would accept his recommendation if the Secretary were to tell the President that the British had to have several hundred million dollars more. The President would probably tell him to go ahead and find ways of getting it.

Mr. Halifax then said that he hoped that if sometime in the future the Secretary felt the moment propitious that the Secretary would re-raise the question of take-outs with the President again. The Secretary replied that he thought that possibly it might be better to attempt to raise the funds through some other channel.

After the meeting adjourned, Mrs. Klotz, Mr. Viner and Mr. White remained, and the Secretary said that the thing to do was to examine their dollar position possibly every week, unless we felt that to be too often, and to let him know if they did not have enough or were not likely to have enough in the near future. Mr. White said it would be very helpful if the Secretary could indicate some figure which would be appropriate for the British to have as a working balance as available cash. The Secretary said they ought to have half a billion dollars more or less, and that if they were dropping much below that, or if there was danger of their dropping much below, that he should be informed and he would see what could be done to make it up.

HDW

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Referred to Mr. Bell "to do whatever
he thinks should be done".

TREASURY DEPARTMENT

115

INTER-OFFICE COMMUNICATION

DATE Feb. 18, 1942

TO Secretary Morgenthau
FROM Dave H. Morris, Jr.
Subject: Section 13(b) of Federal Reserve Act

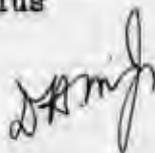
Because of the political complications involved, the present status of 13(b) is that after Chairman Eccles discussed it with Mr. Jones, and the latter said he would oppose it, Chairman Eccles has referred the matter to Mr. Nelson. Chairman Eccles has told Mr. Nelson that unless he (Nelson) gets squarely behind 13(b) the Federal Reserve will not officially do anything further about it.

Just as a matter of record I would like to say that, aside from any possible political considerations, I believe there is a real need for the revision of Section 13(b) along the lines suggested by Chairman Eccles. Even admitting that the Reconstruction Finance Corporation can do a much better job than they have been doing and even if, as proposed by a very recent bill (S 2250), their powers are extended, nevertheless there are several important limitations involved.

First, there is the limit of the amount of work their present organization can handle, and the difficulty under present conditions of expanding personnel on a satisfactory basis. Secondly, there is the handicap of the ultra conservative viewpoint in which all their personnel have been trained. Lastly, there is so much work to be done that I think there is more to be accomplished than both the Reconstruction Finance Corporation and the Federal Reserve Banks together can do. Hence I certainly believe 13(b) should be amended.

These conclusions are based on a substantial number of discussions with the Army, the Navy, Office of Production Management, and the Federal Reserve Board; plus discussions within the Treasury itself.

Copy to Mr. D. W. Bell



TREASURY DEPARTMENT

116

INTER OFFICE COMMUNICATION

DATE February 18, 1942

TO Secretary Morgenthau

3:00 P.M.

FROM W. H. Hadley

During last three days Federal Reserve has purchased approximately \$37 million, made up of about \$20 million 2s of 1951-55 and \$17 million 2-1/4s of 1952-55.

TREASURY DEPARTMENT

117

INTER OFFICE COMMUNICATION

DATE February 18, 1942

TO Secretary Morgenthau
 FROM W. H. Hadley

Relative Movement of Taxable and Tax-Exempt Bonds

During the last week long tax-exempt issues have dropped an average of 1 point whereas long taxable issues have fallen only 1/2 point.

	Average 4 long <u>Tax-exempts</u>	Average 3 long <u>Taxables</u>
Feb. 9	108.24	102.6
Feb. 17	<u>107.26</u>	<u>101.22</u>
<u>Decline</u>	30/32nds	16/32nds

February 18, 1942

Dear Mr. Childs:

This is just to tell you again how much I enjoyed being with you and your fellow members on Saturday. The dinner was a great occasion, and I appreciate very much all the courtesies that you extended to me.

Your achievement in selling more than \$6,000,000 in Defense Bonds was most impressive and reflects the greatest credit upon the Advertising Club.

Will you please convey my thanks to Mr. Hammerman and to any others who helped to arrange the party?

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. W. T. Childs, Sr.,
President, Advertising Club
of Baltimore,
Emerson Hotel,
Baltimore, Maryland.

FK/cgk

*W. T. C.
Copies to Huber*



TREASURY DEPARTMENT
WASHINGTON

February 18, 1942.

MEMORANDUM FOR THE SECRETARY:

On February 6, you asked me to have Mr. Houghteling call on the Secretary of Labor for a discussion of our program as it affects organized labor.

I attach a memorandum from Mr. Houghteling, making a preliminary report.

He is to see Miss Perkins again some day this week.


GRAVES.

February 13, 1942.

To: The Secretary of the Treasury

From: James L. Houghteling

Last Saturday Mr. Graves told me you wished me to talk to the Secretary of Labor, in order to give her up-to-date details regarding the participation of individual members of Organized Labor in the Defense Savings Program.

After I had made several requests for an appointment, Secretary Perkins telephoned me herself and asked me to tell her what I wanted. She was deeply interested and said that if I could allow her a few days more time, she would like to have me come and tell not only her but the heads of Labor Department divisions about the work of the Defense Savings Staff among Organized Labor groups. She said that she had understood that the labor unions themselves were all buying Defense Savings Bonds, but that purchases by individuals were not up to what we have a right to hope. I told her of our emphasis on Pay-Roll Savings Plans and other systematic saving plans for individuals; also about the splendid backing which we were receiving from practically every labor union in the country in developing these plans, and the specific aims set by many unions for their members--like the Automobile Workers' goal of \$50,000,000, the Ladies' Garment Workers' \$25,000,000, the American Federation of Labor's \$1,000,000,000 campaign, etc.

Secretary Perkins expressed the keenest approval of this as exactly the right way to handle such a program. She again expressed the hope that I would come to the Labor Department and show our records to a meeting of division heads. I am following up this suggestion for sometime during the coming week.

James L. Houghteling

February 18, 1942

Honorable Evan Griffith
State Administrator
Defense Savings Staff
208-210 Federal Building
Topeka, Kansas

Dear Mr. Griffith:

I wish to congratulate your Staff and the employers and employees in Kansas for the outstanding accomplishment attained by your State in becoming the first in the Union to have the Payroll Savings Plan installed in every company employing more than one hundred persons.

This is a record of which you may all be proud. By their purchases of Defense Bonds through the Payroll Savings Plan, the workers of Kansas are both making a sound investment and performing a patriotic duty.

May I extend personal thanks to all who have aided in this initial achievement. It is the hope of all of us here at the Treasury Department that Payroll Savings by all Kansas workers will increase at a pace in keeping with the costs of war.

Very truly yours,

(Signed) E. W. Ferguson, Jr.

Secretary of the Treasury

JMM/HBM:mf

*n. m. c.
File to Houston*

Daily changes in the stock of Series E savings bonds on hand ^{1/}
(In thousands of pieces)

		: Number of : pieces sold : this day	: Number of pieces : manufactured : this day	: Stock on hand : at close of : day	: IBM : deliveries : this day
Feb.	3	158	800	15,451	-
	4	262	800	15,989	2,500
	5	250	800	16,539	-
	6	341	800	16,998	2,500
	7	159	none-closed	16,839	-
	8	none-closed	none-closed	16,839	-
	9	379	740	17,200	-
	10	193	705	17,712	2,000
	11	159	695	18,248	-
	12	220	640	18,668	-
	13	144	370	18,894	-
	14	87	none-closed	18,807	-
	15	none-closed	none-closed	18,807	-
	16	363	535	18,979	2,500
	17	89	800	19,690	1,000

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

February 18, 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 Fourteen Business Days of February and January 1942 and December 1941
 (February 1-17, January 1-16, December 1-16)
 On Basis of Issue Price

(Amounts in thousands of dollars)

Item	Sales			Amount of Increase or Decrease (-)		Percentage of Increase or Decrease (-)	
	February	January	December	February	January	February	January
	1942	1942	1941	over January	over December	over January	over December
Series B - Post Offices	\$ 57,253	\$ 88,998	\$ 34,652	-\$ 31,745	\$ 54,346	- 35.7%	156.8%
Series B - Banks	<u>211,330</u>	<u>251,175</u>	<u>63,011</u>	- <u>39,845</u>	<u>188,164</u>	- <u>15.9</u>	<u>298.6</u>
Series B - Total	268,582	340,173	97,663	- 71,591	242,510	- 21.0	248.3
Series F - Banks	33,449	37,650	11,339	- 4,201	26,311	- 11.2	232.0
Series G - Banks	<u>164,119</u>	<u>152,093</u>	<u>68,012</u>	<u>12,026</u>	<u>84,081</u>	<u>7.9</u>	<u>123.6</u>
Total	<u>\$466,150</u>	<u>\$529,916</u>	<u>\$177,014</u>	-\$ <u>53,766</u>	<u>\$352,902</u>	- <u>12.0%</u>	<u>199.4%</u>

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

February 14, 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
10	3,902	11,794	1,109	12,679	25,581	15,695	1,109	12,679	29,483
11	3,279	9,782	1,487	7,637	18,906	13,061	1,487	7,637	22,185
12	3,293	14,670	1,584	7,781	24,035	17,963	1,584	7,781	27,328
13	2,710	9,026	1,047	4,385	14,458	11,736	1,047	4,385	17,168
14	1,714	5,740	113	1,152	7,005	7,454	113	1,152	8,719
16	5,741	22,405	3,212	13,748	39,365	28,147	3,212	13,748	45,107
17	2,639	4,285	690	3,211	8,187	6,924	690	3,211	10,825
Total	\$ 57,253	\$211,330	\$ 33,449	\$164,119	\$408,898	\$268,582	\$ 33,449	\$164,119	\$456,150

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

February 18, 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.

TREASURY DEPARTMENT

125

INTER OFFICE COMMUNICATION

DATE February 18, 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 10-day period ending February 10, 1942.

1. Exports to Russia

Exports to Russia, as reported to the Treasury during the ten-day period ending February 10, 1942, amounted to more than \$13 million, of which the chief item was land-planes. (See Appendix C.)

2. Exports to Free China and Burma

Exports to Free China during the period under review amounted to approximately \$4,559,000. The principal items were machine and heavy ordnance guns and accessories, auto replacement parts, motor trucks and chassis, and gun parts and accessories. (See Appendix D.)

Exports to Burma amounted to about \$1 million. A large part 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 period under review.

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 February 10, 1942

(In thousands of dollars)

	July 28 to <u>Jan. 24</u>	Week ended <u>January 31</u>	Period ended <u>February 10</u>	Total <u>Domestic Exports</u>
U. S. S. R.	\$98,549	\$ 9,608	\$13,315	\$ 121,472
Free China	30,155	6,938	4,889	41,982
Burma <u>2/</u>	8,522	923	1,054	10,499
France <u>3/</u>	6	-	-	6
Occupied France	2	-	-	2
Unoccupied France	.4	-	-	.4
Spain	2,412	81	144	2,637
Switzerland	5,879	906	33	6,818
Sweden	12,082	75	1,123	13,280
Portugal	5,473	1	223	5,697
French North Africa <u>4/</u>	1,731	16	4,536	6,283

Treasury Department, Division of Monetary Research

February 13, 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.

NOTES: Starting with this report, these figures 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 - February 10, 1942

(Thousands of Dollars)

	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
Feb. 1 - Feb. 10 4/	4,889	1,054	13,315
Total	\$44,585	\$9,386	\$121,825

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.
4. Beginning with February 1 figures will be given for 10-day period instead of week.

APPENDIX C

Principal Exports from U.S. to U.S.S.R.
as reported to the Treasury Department
during the ten-day period ending
February 10, 1942.

(Thousands of Dollars)

TOTAL EXPORTS \$ 13,315

Principal Items:

Landplanes, powered	6,002
Military tanks and parts	1,920
Molybdenum concentrates	558
Explosive shells and projectiles	398
Brass and bronze plates and sheets	286
Relief supplies - drugs and biologics	284
Lathes	262
Aircraft parts and accessories, n.e.s.	237
Aluminum plates, sheets, bars, strips and rods	226
Sole leather	192
Refined copper	186
Trinitro toluene (T.N.T.)	167
Motor trucks and chassis	156
Aluminum tubes, moldings, castings and other shapes	156
Zinc slabs	129
Landplanes (partial shipment)	118
Pumps and parts, n.e.s.	113
Copper plates and sheets	108
Coated wire, n.e.s.	97

Treasury Department, Division of Monetary Research February 16, 1942

APPENDIX D

Principal Exports from U. S. to Free China
 as reported to the Treasury Department
 during the ten-day period ending
 February 10, 1942
 (Thousands of Dollars)

TOTAL EXPORTS \$ 4,889

Principal Items:

Machine and heavy ordnance guns and accessories	586
Auto replacement parts	455
Motor trucks and chassis	396
Gun parts and accessories	348
Scout cars	285
Cartridges	282
Landplanes	264
Cartridge cases	235
Portable air compressors	183
Motorcycles	169
Printed matter (bank notes)	157
Steel strip	146
Brass rods	107
Submachine guns and accessories	103
Railroad rails	84

Treasury Department, Division of Monetary Research Feb. 15, 1942

APPENDIX E

Principal Exports from U. S. to Burma as
reported to the Treasury Department
during the ten-day period ending
February 10, 1942

(Thousands of Dollars)

TOTAL EXPORTS \$ 1,054

Principal Items:

Ammunition shot shells	308
Motor trucks over 2½ tons	228
Machine and heavy ordnance guns	103
Automobile replacement parts	79
Relief commodities	50
Motor trucks 1 to 1½ tons	49
Motor trucks under 1 ton	36
Copper insulated wire	31

Treasury Department 131
Division of Monetary Research

Date... February 20 1942

To: Miss Chauncey

Please call the Secretary's
attention to this and also to the fact
that we would like to have him set
aside ten minutes as soon as convenient
to get his approval or disapproval of
action.

H.D.W.

MR. WHITE
Branch 2058 - Room 214½

TREASURY DEPARTMENT

132

INTER OFFICE COMMUNICATION

DATE February 18, 1942

TO Secretary Morgenthau

FROM Mr. White

Subject: Payments on Behalf of Belligerent Governments
through Stabilization Fund Accounts

The State Department has been negotiating with the Swiss Government for payments in enemy territory on behalf of the United States and other American republics. At the same time, Switzerland and Sweden have been negotiating with the State Department for payments to be made in the United States on behalf of the belligerent European countries whose interests they represent.

At a meeting in my office on February 11, 1942 (attended by B. Bernstein, Viner, Pehle, Timmons, Southard, E. M. Bernstein), it was unanimously agreed that our Stabilization Fund could be useful in facilitating such payments on behalf of belligerent governments while maintaining safeguards the Treasury exercises through licensing the transfer and use of funds. It was agreed that we could recommend that the Stabilization Fund be used for that purpose.

The procedure would be as follows: The Stabilization Fund, through the Federal Reserve Bank of New York, can maintain a Special Swiss Franc Account with the Swiss National Bank. Whenever the State Department wishes to acquire Swiss francs for payments in enemy territory, the Stabilization Fund will provide the necessary Swiss francs in return for dollars. Similarly, when the Swiss Government wishes to make payments on behalf of enemy governments, the Treasury will issue a license to acquire the necessary dollars from the Federal Reserve Bank of New York, acting for the Stabilization Fund, in return for a credit to the Special Swiss Franc Account of the Stabilization Fund.

The maintenance of a Special Swiss Franc Account by the Stabilization Fund will be of great convenience to the State Department and to other American republics as a readily available source of funds for payments on their behalf in enemy territory. The requirement that all dollar funds for payments in this country on behalf of enemy governments be secured through the Federal Reserve Bank of New York from the account of the Stabilization Fund will provide the assurance that no blocked funds will be used for such payments and that Treasury supervision will always be exercised. As transactions will be made at agreed rates of exchange, the Stabilization Fund need not undertake any risk in holding, buying, and selling Swiss francs.

Miss Charnsey

TREASURY DEPARTMENT

133

INTER-OFFICE COMMUNICATION

DATE February 18, 1942

TO Secretary Morgenthau

FROM Mr. Dietrich

48
With reference to telegram no. 22 dated February 17, 4:00 p.m. from the United States High Commissioner, Manila, Philippines, the State Department has now informed us that the correct number of this telegram is no. 48 and that 22 is the serial number of the message contained in the telegram.

February 18, 1942

My dear Mr. Secretary:

There is transmitted herewith a copy of a cable received Monday, February 16, 1942, from Commissioner Sayre of the Philippines, regarding the matter of supplying funds to procure food and medical attention for Americans interned in Manila.

In view of the fact that any facilities for transmitting funds to these people, if any are available, would be through your Department, I would appreciate it if you would be good enough to reply to Mr. Sayre's cable. I have not advised him that it has been transmitted to you for answer.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

The Honorable,

The Secretary of State.

DWB:NLE

Copy of File N.M.C.
By Messenger 12:30 Stein
Original File M.D. Bull 2/19/42

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135

SIGNAL CORPS, UNITED STATES ARMY

Received at

War Department Message Center,
Room 3441, Munitions Building,
Washington, D.C.

2 WTJ P 77 WD

FTMILLS PI POM FEBY 15, 1942.

TREASURY

WASHN DC

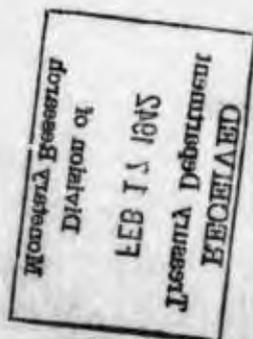
TWENTY ONE FIFTEENTH STOP UNCONFIRMED REPORTS INDICATE AMERICANS INTERVIEWED
MANILA URGENTLY REQUIRE FUNDS TO PROCURE FOOD AND MEDICAL ATTENTION STOP
PRIVATE ENQUIRES BEING RECEIVED HERE WHETHER TEMPORARY EXPEDIENT CAN BE
ARRANGED FOR REMITTING FUNDS FROM UNITED STATES THROUGH SOME THIRD COUNTRY
IN IMMEDIATE FUTURE PENDING RESULTS OF EFFORTS TO WORK OUT.
SOLUTION OF WHOLE PROBLEM OF ASSISTANCE TO CIVILIANS BY AMERICAN
RED CROSS WHICH HAS BEEN ADVISED BY STATE DEPARTMENT STOP
SUGGEST YOU ALSO CONTACT AMERICAN RED CROSS

SAYRE

120P

(Telephoned to Mr. Gaston 2:00 P.M. 2-15-42)

Original sent to Mr. D.W. Bell



Treasury Department **136**
Division of Monetary Research

Date..... Feb. 19 19⁴²

To: Miss Chauncey

From: Mr. White

For the Secretary's Files

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137

February 18, 1942

Mr. Livesey

Mr. D. W. Bell

Will you please send the attached cable from the
Secretary of the Treasury to High Commissioner Sayre,
Manila (Fort Mills).

WTH:ew

Copy:lc;2/18/42

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138

CABLE TO BE TRANSMITTED TO THE HIGH COMMISSIONER OF THE
PHILIPPINE ISLANDS

For Sayre from Secretary of the Treasury.

Reference No. 47 (your No. 23) February 16th.

With approval of Director, Division of Islands and Territories Treasury has charged \$9,950,000 against Treasurer of Philippine Islands, General Fund, Demand Account and has credited such sum to new account QUOTE Treasurer of Philippine Islands, General Fund for account of Manila Clearing House Association UNQUOTE You are authorized to deliver to Commonwealth Government 19,900,000 pesos held in your custody for account of Manila Clearing House Association. Withdrawals from new account will not be permitted without the knowledge of Division of Islands and Territories and appropriate officials of Commonwealth Government.

Copy:lc:2/18/42

Regraded Unclassified

PARAPHRASE OF TELEGRAM SENT

139

TO: U.S. High Commissioner, Manila (Fort Mills)
via N. R.
DATE: February 18, 1942, 6 p.m.
NO.: 26

The following is from the Secretary of the Treasury for the U. S. High Commissioner.

The Department refers to the High Commissioner's telegram no. 23 (no. 47) to the Department of State dated the 16th of February.

The Treasury Department, with the approval of Director, Division of Islands and Territories, has charged \$9,950,000 against Treasurer of Philippine Islands, General Fund, Demand Account. This sum has been credited to new account "Treasurer of Philippine Islands, General Fund for account of Manila Clearing House Association" by the Treasury Department. Authorization is given to the U. S. High Commissioner to deliver to Government of the Commonwealth 19,900,000 pesos held in his custody for account of Manila Clearing House Association. No withdrawals from new account will be permitted without the knowledge of appropriate officials of the Government of the Commonwealth and of Division of Islands and Territories.

HULL
(FL)

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

140

DATE Feb. 18, 1942

TO Secretary Morgenthau
FROM H. D. White

HDW

In accordance with your instructions (via Miss Chauncey) I telephoned to Mr. Acheson for a copy of the modifications referred to in Sir Kingsley Wood's telegram No. 595.

Mr. Acheson said that even before that telegram was received the modifications suggested by the British were flatly turned down by this government and the President sent a message to Mr. Churchill whereupon the agreement without the modifications was signed.



DEPARTMENT OF STATE
WASHINGTON

February 18, 1942

STRICTLY CONFIDENTIAL

My dear Henry:

Harry White has just asked me about the proposal, referred to in Sir Kingsley Wood's cable to you, as having been made by the British in the Lease-Lend matter. I have told him that the proposal was not acceptable to the President and has been withdrawn by the British as the result of the message sent by the President to the Prime Minister. For your confidential information, I am enclosing a copy of the President's message. The British have informed us that they are prepared to accept the draft agreement as it stands, upon the President's assurances. They expect in a short time to complete their communications with the Dominions.

I believe that the President is most anxious to keep this entire matter strictly confidential until the agreement

The Honorable

Henry Morgenthau, Jr.,

The Secretary of the Treasury

-2-

agreement is finally achieved and he and the Prime Minister have decided when and how they wish to announce it.

With many thanks for your help,

Sincerely yours,

Alan Turing

Enclosure:

Copy of cable
Feb. 11, 1942
to LONDON.

February 11, 1942

AMEMBASSY,
LONDON.

SECRET AND PERSONAL FOR THE FORMER NAVAL PERSON FROM
THE PRESIDENT.

In regard to the proposed exchange of notes relating to Article 7 of the interim Lend-Lease Agreement, referred to in your message No. 25, I want to make it perfectly clear to you that it is the furthest thing from my mind that we are attempting in any way to ask you to trade the principle of imperial preference as a consideration for Lend-Lease.

Furthermore, I understand something of the nice relationships your constitution requires of your home government in dealing with the Dominions. Obviously the Dominions must not only be consulted but I assume you must have their approval on any affirmative changes

SECRET

-2-

in existing arrangements which might be developed in the broad discussions which you and I both contemplate.

It seems to me the proposed ^{note} note leaves a clear implication that Empire preference and, say, agreements between ourselves and the Philippines are excluded before we sit down at the table.

All I am urging is an understanding with you that we are going to have a bold, forthright, and comprehensive discussion looking forward to the construction of what you so aptly call "a free, fertile economic policy for the post-war world". It seems perfectly clear to me that nothing should now be excluded from those discussions. None of us knows how those discussions will turn out, although, as I told you when you were here last, I have great confidence that we can organize a different kind of world where men shall really be free economically as well as politically.

The idea of attaching notes to this interim agreement would seem to me to give an impression to our enemies that we were overly cautious. I believe the

Secret

- 3 -

peoples not only of our two countries but the peoples of all the world will be heartened to know that we are going to try together and with them for the organization of a democratic post-war world and I gladly accept your intimation that we might get going at once with our economic discussions.

What seems to be bothering the Cabinet is the thought that we want a commitment in advance that Empire preference will be abolished. We are asking for no such commitment, and I can say that Article 7 does not contain any such commitment. I realize that that would be a commitment which your government could not give now if it wanted to; and I am very sure that I could not, on my part, make any commitment relative to a vital revision of our tariff policy. I am equally sure that both of us are going to face in this realistic world adjustments looking forward to your "free and fertile economic policy for the post-war world", and that things which neither of us now dreams of will be subjects of the most serious consideration in the not too distant future. So nothing should be excluded from

secret

- 4 -

the discussions.

Can we not, therefore, avoid the exchange of notes which, as I have said, seems to dilute our statement of purpose with cautious reservations, and sign the agreement on the assurances which I here give in reference to the matter that seems to be the stumbling block.

I feel very strongly that this would demonstrate to the world the unity of the American and British people.

In regard to coming to a meeting of minds with you at an early date, I only need to say to you that there are very important considerations here which make an early understanding desirable.

In saying this, I want again to tell you that I am not unmindful of your problem. We have tried to approach the whole matter of Lend-Lease in a manner that will not lead us into the terrible pitfalls of the last war.

A-ADA:PK

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147

DEPARTMENT OF STATE

WASHINGTON

February 18, 1942

In reply refer to
FD 800.20211Richter, Herbert R./19

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses copies of a paraphrase of telegram no 418, dated February 12, 1942, from the American Embassy, Rio de Janeiro, Brazil, concerning activities of Herbert Richards Richter Schuntler.

Enclosure:

From Embassy, Rio de Janeiro,
no. 418, February 12, 1942.

Treasury Department **149**
Division of Monetary Research

Date..... Feb. 20 19 42

To: Miss Chauncey

I brought this to the
Secretary's attention orally on
February 19th, and I think this
therefore can be put in the file.

H.D.W.

MR. WHITE
Branch 2058 - Room 214½

TK

This telegram must be paraphrased before being communicated to anyone other than a governmental agency. (br).

Habana

Dated February 18, 1942

Rec'd 7:05 p.m.

²
Secretary of State

Washington

65, February 18, 1 p.m.

Department's telegram No. 72, of February 13, midnight.

For Harry White, Chief of American Technical Mission.

Information regarding printing of Cuban silver certificates has been brought to Cuban Government's attention.

Garcia Montes has informed that if he finds that early favorable action by the Cuban Congress is probable in connection with President's message of February 7, regarding proposed gold purchase and peso certificate issue, he will proceed to Washington within next few days to make arrangements for printing of the notes. He says that Government proposes to print additional certificates for a total value of 106 million pesos. Of this amount 48 million pesos would be in circulation to relieve Cuban currency shortage and 58 million pesos would

be

-2- #65, February 18, 1 p.m., from Habana.

be kept in Treasury to be exchanged for deteriorated bills in circulation. Of the former amount 25 million pesos in certificates in denominations of from five pesos to one hundred pesos are urgently needed.

The Minister would, of course, also wish to discuss other aspects of Cuba's monetary problem and proposed action in connection therewith as set forth in above mentioned Presidential message of which a copy and translation were enclosed with Embassy's airmail despatch No. 3439 of February 10.

BRI GGS

HTM

THE UNDER SECRETARY OF STATE
WASHINGTON

February 18, 1942

Dear Henry:

In accordance with our long-distance telephone conversation of Monday morning, I got out the text of my letter to you of February 14, and re-read pages five and six.

What I wished to point out to you was that it has always been my thought that it would be most desirable for the Treasury to proceed with the discussions begun with Finance Minister Illingworth looking toward the conclusion of a stabilization arrangement with Ecuador. In the few hours which were available to us at Rio, however, it was not possible to request the Treasury to consider and make a formal commitment, and consequently, since a representative of the Federal Loan Agency was available at Rio and empowered to make a formal undertaking for the Export-Import Bank, I requested and received Mr. Pierson's assurances that if no other agency of the United States felt it possible to undertake the stabilization arrangement, the

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

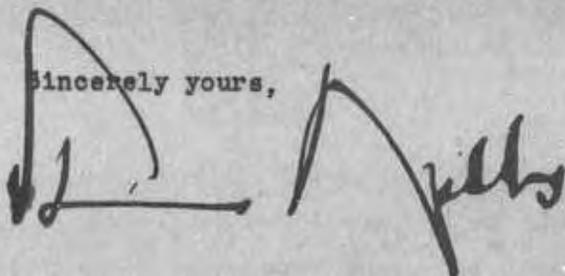
the Export-Import Bank would. I took this step solely because of the urgent necessity of concluding a general agreement with the Ecuadoran Minister of Foreign Affairs that particular day. As I have indicated, we worded the monetary stabilization section so generally as to make it quite possible and appropriate for the Treasury to take over this section of the program if, as we all hoped, you felt it desirable to do so. The commitment of the Federal Loan Agency was merely a precaution, since I did not feel myself in a position to make an undertaking for the Government of the United States without the full approval of some financial agency of the Government.

Although the Federal Loan Agency was willing thus to underwrite section 3 of the program, Mr. Pierson and Mr. Clayton have stated to me that they believe the item more properly to fall within the province of the Treasury Department, and that they would be very happy if the Treasury in fact took over all or part of that section. As I have told you, I myself believe that this particular phase of the program can most appropriately be handled by the Treasury rather than some other agency of the United States, and is entirely consistent with somewhat similar arrangements entered into with other American republics. I accordingly requested that you give
consideration

consideration to carrying out this phase of the Ecuadoran program as a continuation of your discussions with Finance Minister Illingworth last August.

I have been informed that you are planning to meet with the Ecuadoran representatives on Thursday, and I shall be happy to hear of the progress of your discussions.

Sincerely yours,

A handwritten signature in dark ink, appearing to read "D. Mills". The signature is written in a cursive style with a large, sweeping initial "D" and a long horizontal stroke extending to the right.

C
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155

DEPARTMENT OF STATE
WASHINGTON

February 18, 1942

In reply refer to
FD 851.515/153

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses a copy of despatch no. 167, dated February 11, 1942, from the American Consulate, Martinique, French West Indies, concerning the verification of the presence of French gold at Martinique.

Enclosure:

From Consulate, Martinique,
no. 167, February 11, 1942.

STRICTLY CONFIDENTIALMartinique, F.W.I.,
February 11, 1942.

156

In quadruplicate; all copies via Naval Patrol Plans
February 13 to San Juan, thence Panair. One copy "For
Division of Commercial Affairs".

Verification of Presence of French Gold at
Martinique.

I have the honor to refer to the Department's instruction of
January 16, 1942 (851.515.151), directing me at my discretion to re-
quest the French officials here to open the boxes containing gold for
my inspection, and to report that it would be highly inadvisable to
make the request at this time, whether a few boxes chosen at random or
every tenth or hundredth. Such a request would be so strongly resented
as to tear down much of the good-will I have painfully built up in the
past year against heavy obstacles. It would be particularly resented so
soon after Admiral Robert had reduced his word to writing, as he did on
December 17, 1941, that the gold was intact.

In any case, the relatively few boxes that could be inspected
practicably would still leave doubt regarding most of the 9,000 boxes,
particularly since any inspection would be imposed on the French and
therefore hedged around by them with obstacles to a satisfactory
inspection.

The British Intelligence report that I employed as a pretext for
visiting the vaults was, as I suspected, based on a very unreliable
source: A negro laborer expelled to his native Island of St. Lucia
after imprisonment here. Most rumors about Martinique reaching the
British Intelligence have their inception here, though not in this
case, which indicates one more instance of a negro manufacturing in-
formation for sale to the British Intelligence.

The general impression left by the very interesting and useful
report of the Federal Reserve Bank of New York, enclosed with the
Department's instruction, is that the doubts raised in my despatch were
probably unfounded. Nevertheless, I shall watch for another suitable
pretext to visit the vaults again and will report to the Department.

Respectfully yours,

Marcel E. Malige
American Consul

863.4
MEM:alg

a true copy
of the signed original (1) A.L.G.

Copy:bj:2-18-42

C
O
P
YDEPARTMENT OF STATE
WASHINGTONIn reply refer to
FF 840.51 Frozen Credits/5411

February 18, 1942

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and transmits for his information a copy of despatch no. 168, dated February 11, 1942, from Martinique, concerning exports from French West Indies to other American Republics.

Enclosure:

From Martinique, no. 168,
February 11, 1942.Copy:inc:2/19/42
2:10 p.m.

C
O
P
Y

168

Martinique, F.W.I.,
February 11, 1942.

In quadruplicate; all copies via Naval Patrol Plane February 13 to San Juan, thence Panair. One copy "For Division of Commercial Affairs".

Exports from French West Indies to Other
American Republics.

I have the honor to acknowledge the receipt by ordinary mail of the Department's instruction dated January 17, 1942 (840.51 Frozen Credits/4947) regarding possible exportation of goods from the French West Indies to the other American republics.

The question raised by the Department is one of the principal aspects of the Martinique situation that has been kept under careful and constant observation ever since this Consulate was opened in August 1940. Various factors have combined to produce an ever-tightening control, until now the Department is supplied with cargo manifests of all French ships arriving at or departing from the French West Indies.

It is therefore possible to state confidently that no goods are exported from the French West Indies to any destination in the Western hemisphere other than French Guiana and the United States. Exports to the former consist of small transshipments of goods received from the United States for consumption in French Guiana, while the proceeds of exports to the United States are regularly transferred to the French Government "C" Account in New York.

The only exports to destinations outside this hemisphere are those permitted by the British under a control in which the American Consulates at Casablanca and Martinique participate. They are mandatorily limited to goods produced in the Islands, and produce no foreign exchange since they must be shipped to and consumed in French North Africa.

With respect to the French Guiana gold mentioned in the Department's instruction, it may be of interest to add that such gold was regularly shipped to New York until the British seized a shipment at

Trinidad

- 2 -

Trinidad in the autumn of 1940, whereupon it was diverted to Rio de Janeiro. The resulting loss of revenue to Pan American Airways induced attempts on its part to re-establish the northward movement, which culminated last September in my securing (while en route to and from French Guiana) from the Acting Governor of Trinidad the promise that no more shipments of the gold would be seized and from the Governor of French Guiana a favorable reaction to their resumption. The latter needed, however, the consent of the High Commissioner at Martinique, who reacted unfavorably when I broached the matter on my return a few days later. He appeared sceptical of the British promise and preferred to have the gold at his disposal in Brazil rather than blocked in the United States.

Respectfully yours,

Marcel E. Malige
American Consul

850
MEM:alg

A true copy of the
signed original. ALG

Copy:imc:2/19/42
2:10 p.m.

C
O
P
Y

160

DEPARTMENT OF STATE

WASHINGTON

February 18, 1942

In reply refer to
FD

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses copies of telegram no. 114, dated February 17, 1942, from the American Consulate General, Batavia, Java, reporting that Treasury checks in the aggregate amount of \$19,094.31 were delivered to the American Consul at Batavia by the Javasche Bank on February 14, 1942.

Enclosure:

From Consulate, Batavia,
no. 114, February 17, 1942.

CB
This telegram must be
paraphrased before being
communicated to anyone
other than a Governmental
agency. (RR)

Batavia

Dated February 17, 1942

Rec'd 2 p.m.

Secretary of State,
Washington.

RUSH

114, February 17, 4 p.m.

Reference is made to paragraph two Department's
telegram no. 22, January 21, 5 p.m.

Treasury checks aggregating United States dollars
19,094.31 cashed by de Javasche Bank were delivered to
me February 14, 1942.

FOOTE

WSB

February 15, 1942

Mr. Livesey
Mr. Dietrich

Will you please send the following cable to the American Consulate,
Calcutta:

"Reference your 96, February 17, 4 p.m. From the Secretary of
the Treasury for Hewlett. Return by surface transportation if you
want to but your decision not to use plane should not be based on
question of expense. We can arrange plane accommodation from Cairo
if you can get there. Transportation expense can be arranged by Fox
at this end. Signed Fox."

FD:dm:2/15/42

TELEGRAM SENT

163

TRB

This telegram must be
paraphrased before being
communicated to anyone
other than a Governmental
agency. (BR)

February 18, 1942

10 p.m.

AMERICAN CONSUL,

CALCUTTA (INDIA).

RUSH.

52.

Your 96, February 17, 4 p.m.

QUOTE. From the Secretary of the Treasury for
Hewlett. Return by surface transportation if you
want to but your decision not to use plane should
not be based on question of expense. We can arrange
plane accommodation from Cairo if you can get there.
Transportation expense can be arranged by Fox at
this end. Signed Fox. END QUOTE.

HULL
(FL)

FD:FL:BMcB

TREASURY DEPARTMENT

164

INTER-OFFICE COMMUNICATION

DATE February 18, 1942

TO Secretary Morgenthau
 FROM Mr. Dietrich

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£33,000
Purchased from commercial concerns	£49,000

Open market sterling remained at 4.03-3/4, with no reported transactions.

The Canadian dollar improved to close at 11-1/8% discount, as against 11-7/16% yesterday and 11-3/4% a week ago.

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

Argentine peso (free)	.2358
Brazilian milreis (free)	.0516
Colombian peso	.5775
Mexican peso	.2065
Uruguayan peso (free)	.5295
Venezuelan bolivar	.2820
Cuban peso	9/32% premium

We sold \$24,962,000 in gold to the Bank of Sweden, and this was earmarked in the Bank of Sweden account that is subject to the instructions of Messrs. Bostrom and Eriksson. All of the gold used in this transaction was purchased by us from the General Fund through the New York Assay Office. We also purchased \$250,000 in gold from the General Fund in order to add to the Stabilization Fund's gold balance.

The Federal Reserve Bank of New York reported that the Bank of Canada was shipping \$2,739,000 in gold from Canada to the Federal for account of the Government of Canada, for sale to the New York Assay Office.

In London, both spot and forward silver remained at 23-1/2d, equivalent to 42.67¢.

The Treasury's purchase price for foreign silver was unchanged at 35¢. Handy and Herman's settlement price for foreign silver was also unchanged at 35-1/8¢.

We made no purchases of silver today.

165

BRITISH EMBASSY
WASHINGTON, D.C.

February 18th, 1942.

Personal and Secret.

Dear Mr. Secretary,

I enclose herein for your
personal and secret information copies
of the two latest reports received from
London on the military situation.

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

Halper

The Honourable
Henry Morgenthau, Jr.,
United States Treasury,
Washington, D.C.

BRITISH MOST SECRET

(U.S. SECRET)

REF ID: A67

Information received up to 7 A.M., 17th February, 1942.

1. NAVAL

An enemy force of 4 cruisers with destroyers was attacked by 5 Naval aircraft 85 miles east of CAPE PASSARO, SICILY, on the morning of the 16th. Hits were claimed on two cruisers and a destroyer and one of the cruisers hit was on fire aft and losing speed. Subsequently one of H.M. submarines attacked two 3rd cruisers entering the STRAITS OF MESSINA and obtained two torpedo hits on one of them.

2. MILITARY

LIBYA. During 15th February there was no very great ground activity. The three enemy columns continued their advance towards our forward positions between GAZALA and BIR HAKEEM, our armoured car patrols remained in contact with them. During the night 15th/16th there was little enemy activity and reports up to 11 A.M. 16th showed that the three enemy columns appeared to have withdrawn.

BURMA. 15th/16th. Our troops were withdrawn from the THATON area to new positions behind the BILLIN RIVER.

RUSSIA. Russian attacks continue in the REHEV area but the town remains in German hands. In the DONETS sector the Germans continue to hold up the Russian advance and have succeeded in making slight progress in counter attacks.

3. AIR OPERATIONS

WESTERN FRONT. 16th. 3 Beauforts attacked 4 small ships off the West coast of FRANCE, two were sunk and a third was damaged. A German bomber was destroyed by fighters off WALES. 16th/17th. 96 aircraft were sent out roving commission over north-west GERMANY - 20 to Dutch aerodromes, 5 leaflets, Belgium and Northern France 22, Sea-mining 49. Two aircraft are missing.

LIBYA. 14th/15th. Wellingtons dropped 25 tons of bombs on BENI HALL. Two squadrons of Blenheims successfully bombed enemy tanks and M.T. south-west of GAZALA. Enemy bombers hit a reservoir at TOBERIE causing the loss of 500 tons of water.

MALTA. 15th/16th and 16th. A total of 45 aircraft bombed LUQA and TAMALI aerodromes, at the former two aircraft and the runway were damaged.

BURMA. On the 15th and 16th our aircraft made good attacks on troop concentrations, the railway station and shipping at MOUMHEIN and the railway station at THATON.

- 2 -

NETHERLANDS EAST INDIES. On the 14th and 15th our medium and U.S. bombers attacked a convoy off BANKA opposite PALEMBANG. 5 transports and two cruisers were hit.

4. There were 125 Stalkan railway wagons on the quay at MARSEILLE on or about 11th February containing about ^{1,300} 1,300 tons of war material of which 40% is reported to be ammunition, cases containing Italian cartridges were identified. 5 sailing vessels probably Italian but flying the Tunisian flag were reported ready to sail from TUNIS for LIBYA on the 11th with wine and wheat.

BRITISH MOST SECRET

(U.S. SECRET).

CFTEL NO. 58.

Following is supplementary resume of operational events covering the period 5th-12th February 1942.

1. NAVAL.

Slightly fewer U-boats were operating in the North Atlantic, most of them are concentrated off the American Seaboard from Cape Race to Charleston. Others have been reported North-East of Bermuda and in the North-eastern Approaches. Two or three are operating between the Cape Verde Islands and Freetown. Shipping losses, primarily due to U-boats, were moderate. During January, shipping losses, so far reported, amounted to 70 ships totalling 340,055 tons. Most of them occurred off the Eastern Seaboard of North America, where 31 ships of approximately 195,000 tons were sunk. The majority of losses due to air attack took place in the Far East. Casualties due to marine risk were heavy. During the week ending 11th February, 1066 ships were convoyed, of which only one was lost. Imports into the United Kingdom by ships in convoy during the week ending 7th February amounted to 729,000 tons, including 201,000 tons of oil imports.

During the past six weeks, supplies have been reaching Libya fairly steadily and without appreciable casualties. Benghazi is not yet in use as a supply base.

2. MILITARY.Libya.

The enemy is apparently trying to establish a series of strong points extending for some 17 miles Southwards from the Coastal road between Gazala and Tami. His object appears to be to prevent observation of his movements West of that line. No doubt Rommel is concentrating upon the redistribution of his forces and the development of his lines of communication.

Far East.

Recent identifications suggest that two divisions have been withdrawn from Manchukuo, and two divisions from North China to reinforce the Japanese Forces in the Southern theatre of operations. It is estimated that the Japanese have now available four divisions in transports, one of these being at present employed in the operation in Southern Sumatra. A further four divisions are also immediately available in the South China Seas Area if required. In addition, ten

divisions recently mobilized in JAPAN could be made available at short notice.

RUSSIA. Information has been mainly negative. No change in FINLAND or on Leningrad front. In the Central Sector, the Russians have not extended their advance towards the Leningrad-Moscow railway and are still about 50 miles north-east of VITEBSK. RZHEV still remains in German hands. Due west of MOSCOW, there is no change, and in the YUKHNOV area German resistance is preventing Russian progress. From this area southwards, apart from German counter-attacks in the DONETS area, which have not lessened the extent of the Russian break-through, there has been no substantial change. Weather conditions render movement off the roads difficult for tanks and impossible for other forms of mechanical transport. To sum up, there has been a general slowing down of the Russian advance, due, no doubt, to winter conditions as much as to German resistance. Russian morale remains high, and the Russians are confident of being able further to exploit their advance.

3. AIR OPERATIONS

WESTERN FRONT. Weather conditions again restricted operations. Bomber Command operated on three nights, the main objectives being BREAST, BREMEN, EMDEN, HAVRE and MANHEIM. 274 tons of bombs were dropped. It is estimated that aircraft of Coastal Command damaged about 7,500 tons of enemy shipping. Only 13 enemy aircraft crossed our coasts by day and seven by night.

LIBYA. Successful attacks on Axis mechanical transport were made by fighters and Hurricanes, more than 150 vehicles were reported destroyed or damaged over a period of two days. The enemy has been using decoy mechanical transport convoys heavily defended by anti-aircraft guns as a counter to our low-flying fighter attacks.

BENGHAZI and TRIPOLI (L) were bombed, the latter from MALTA and also by Liberators operating from south of PORT SAID, one of which completed the flight of 2,390 miles without refuelling. Enemy activity was not great, due probably to water-logged aerodromes in Eastern CYRENAICA at the beginning of the week, although fighter activity increased considerably as soon as aerodromes in the TERMA-MARTURA area were brought into use.

MALTA. Attacks on aerodromes and the Grand Harbour continued.

MEDITERRANEAN. Our aircraft hit and damaged two ships totaling about 6,600 tons.

BURMA. Our bombers attacked objectives near PAAN and an aerodrome about 200 miles further North. The enemy raided RANICON twice, on one occasion using 30 fighters which suffered heavy losses.

SINGAPORE. Enemy pressure in the air was very heavy especially against aerodromes and shipping at the beginning of the week, when our troops were still on the mainland. After Japanese troops landed on the Island, the attacks were mainly made against our forward troops with bombs and machine-gun fire. Several raids were made on the town of SINGAPORE and on shipping in the harbour.

JAPANESE AIRCRAFT LOSSES. Full information is not available upon which to base a reliable, up-to-date estimate of Japanese aircraft losses. It is, however, considered probable that on a conservative basis some 850 aircraft had been lost in combat and from wastage up to 10th February.

4. Extracts from Photographic and Intelligence Reports on results of Air attacks on enemy territory in EUROPE.

DUSSELDORF. 27th/28th November. Metal works, employing 1,800 operatives, and two textile factories, employing 700 and 500 respectively, all hit and damaged. Much textile stock destroyed heavy damage goods yard, repairs to track and removal of debris took several days. (68 tons high explosive, including ten 4,000-pounders, were dropped. Bursts seen in town and near railway centre. Large fires started.)

HAMBURG. 30th November/1st December. Severe damage to shipyard and harbour installations, four ships in port hit, considerable damage to railway tracks, sidings and wagons, which was increased by fire among petrol wagons. About 300 wagons destroyed. Nearly 400 persons killed. (150 tons high explosive and 9,000 incendiaries. Good weather but ground haze and searchlights prevented accurate aiming. Many fires seen.)

TREASURY DEPARTMENT

171

INTER OFFICE COMMUNICATION

DATE February 18, 1942

TO Secretary Morgenthau
FROM Mr. Kamarck
Subject: Summary of Intelligence Reports

Germany

(The Germans are making all-out preparations for the spring. As in the winter of 1917-18, the Germans must clearly realize that it is now or never. Just as in 1918, it will probably strain the United Nations to the utmost to stop them.)

This winter there is no evidence of any movement of men from the armed forces into industry for "factory leave", comparable to that in 1939 and 1940. Even small-scale release of specialists seems to have stopped. Germans abroad are being recalled for military service, even including skilled workers engaged on work for Germany in Swiss factories. Suitable Danes, Dutchmen, Norwegians and other foreigners are being recruited directly into the German Army.

(U.K. Ministry of Economic Warfare, "Enemy Economic Developments", December 1941)

The staffs of German metallurgical factories are being depleted by call-up for the Eastern front. According to the Reichsarbeitsblatt (official organ of the German Labor Ministry), entire staffs from managers down will be transferred from France to man German factories.

(C.O.I., Cable from Ministry of Economic Warfare, February 17, 1942)

- 2 -

Foreign Radio BroadcastsVoice of the Chief

The Voice of the Chief attacks the "gigantic recruiting program" just started by the S.S. because German youths are thus induced "not to spend their valuable time as soldiers on the front". Young Germans "of 1.72 meters height or better, desirous of getting promotions, and not of fighting for the Fatherland had better join the S.S. Undoubtedly, this will chiefly attract all who desire to seduce soldiers' wives at home, starve prisoners to death, or beat them mercilessly. Also, the S.S. will attract all interpreters of Teutonic hieroglyphs, believers in the Twilight of the Gods, the wishing rod and other trance objects." The S.S. will also attract all desirous of "teaching the Wehrmacht the art of high strategy, shooting generals in the back or administering to them injections for apoplexy."

(Federal Communications Commission, Foreign Monitoring Service, February 18, 1942)

Underground German Station

The underground German radio station, "Station of the European Revolution", reports a move by German bankers to discuss peace terms with their British counterparts. The Bank for International Settlements in Basle is stated to be the intermediary through which such contacts are made.

(Federal Communications Commission, Foreign Monitoring Service, February 14, 1942)

Paris Radio

The Paris radio is making attempts to ridicule the apparently growing pro-American feeling in France. "The de Gaullist is (now) less pro-Bolshevist, no longer Anglophile, but an all-out American-maniac. Up to the present America-mania was favored by the bourgeois and snobs, and was worn like a family jewel with distinction. Today it's all over the streets, like de Gaulle papers once were, or like Stalin's tracts."

(Federal Communications Commission, Foreign Monitoring Service, February 14, 1942)



UNITED STATES GOVERNMENT
COORDINATOR OF INFORMATION
WASHINGTON, D. C.

173

February 18, 1942

The Honorable
The Secretary of Treasury ~
Washington, D. C.

My dear Mr. Secretary:

We have just received the following from our London Office:

"For the week preceding February 13, German Home Propaganda increasingly stressed Russia.

"The worst is over and spring is approaching",
"We have learned that we cannot be beaten".

"Publication for first time of Russian operational map of 7 December was offered by propaganda machine as:

- "(a) Proving that a phase of the fighting is past.
- "(b) Demonstrating that claims by Russians of great advances are without foundation.
- "(c) Illustrating that although the Russians are obtaining certain advantages from winter they have failed to achieve a single success of operational significance.
- "(d) Advances by the Russians have never been more than local.
- "(e) Russia could attack only because a defensive policy was decided upon by the German high command in recognition of the limitations of winter.

"(f) Time is approaching when offensive will be resumed by Germany and when it will be discovered by Russia that in her costly winter campaign she has sacrificed essential troops and equipment.

"Attention given to the Far East declined steadily, but great emphasis placed on Singapore, Burma fighting, and "Virtual destruction of Netherlands East Indies fleet". Phillipines barely mentioned.

"Campaign for increase in production intensified with particular attention to further "rationalization" of individual concerns and groups of firms.

"Sir Stafford Cripps broadcast strongly played up in revival of theme of willingness of Britain to deliver Europe to Bolshevism.

"Apart from submarine sinkings off the East Coast very little about the United States is heard by Germans."

Sincerely,


William J. Donovan

Treasury Department 175
Division of Monetary Research

Date...February 20 1942

To: Miss Chauncey

I am going to continue to
send these digests to the Secretary
unless he indicates that he is not
interested.

H.D.W.

yes

MR. WHITE
Branch 2058 - Room 214½

TREASURY DEPARTMENT

176

INTER OFFICE COMMUNICATION

DATE February 18, 1942.

TO Mr. White

FROM Mr. Hoflich

Subject: Digest of London Press Reactions

Highlights from London press reviews, received from Colonel Donovan's office, for the period February 10-15, 1942:

1. Adverse criticism of Churchill and the Government has been aroused anew, and to a more acrimonious pitch, by two events of the last few days:
 - a. The escape of the German warcraft from Brest. "If the verdict of the editors can be accepted, the British people are stunned, bewildered and hopping mad about Thursday's events." There is general agreement that the consequences of the escape are bound to be serious.
 - b. The fall of Singapore, "the worst blow the Navy has suffered in this war." Churchill's speech on Sunday did little to allay criticism. While there was a favorable response to his summons to renewed fortitude and determination, the press - with two exceptions - insisted that unity of purpose did not mean renunciation of the right to criticize.
2. Criticism runs along the following lines:
 - a. "Too much complacency, hazy optimism and superfluous oratory."
 - b. Outmoded ideas of warfare. One writer remarked that Singapore is one more fallen monument to outdated notions of warfare, along with the Maginot and Mannerheim lines, and the Belgian fortresses.
 - c. Too much emphasis on long range bombers and not enough on fighter planes. The failure of the air attack on the escaping German ships was due to a lack of fighter planes.
 - d. A large unwieldy war cabinet. There is needed a war cabinet of five or six men without departments and unhampered by masses of detail.
 - e. The Prime Minister has too many duties. The Ministry of Defense should be transferred to someone else.

February 18, 1942.

It has been learned from a most secret source that on January 15, 1942, ANTONIO BETTIN BELLA, of the Argentine Legation, in Bern, Switzerland, in a statement to his friend DR. D. GUILLERMO DEMARE, whose address in Buenos Aires, is RIVADIA 6279, expresses his opinion, as below, regarding the following subjects:-

a. Argentine Ambassador in Germany:

"As you already know 'El Viejo' (the old man) has left Berlin. We shall see whether he sinks or swims after rendering an account of his mission in Germany to the authorities. If there is still any justice, they will have to "torpedo" him because, as everyone is saying "Argentine had no Ambassador, but Germany had two, one in Buenos Aires and the other in Berlin. I believe that the Commission presided over by SR. TABORDA is well informed of everything."

b. The Rio Conference.

"We are hungrily awaiting news from Rio. For my part, I am expecting the rupture every minute, in spite of all the news going round. I think the moment has arrived to show the world that the Americas are united and that the Pan American Conferences were not only opportunities to do honour to the heroes of the past and take part in succulent banquets but that their resolutions were and are sacred pledges in the moment of peril"

He adds that, should the need arise, he will come home to fight in the defence of his country in spite of his 44 years.

c. The General State of Europe.

"You can have no idea of the state Europe is in. Nobody, in the world will ever be able to describe this collective and private tragedy. It is the quintessence of collective and individual murder. Now they are also killing incurable invalids. They are freeing the nursing homes of "useless" beings. One day history will have something to say about the events through which we are living. It will give its verdict, but will it find the appropriate adjectives?"

d. Living Conditions in Switzerland.

Life here is for the moment quiet and pleasant but very dear, and with the salary of a second-grade Counsellor it is already a problem to meet even the most essential expenses of daily life". He then gives the following prices:-

- 1 kilo of beef - 7 francs, including 30% bone
- 1 kilo of bread - 2 francs.
- one egg - 50 centimes, when there are any.

He also states that D'ALFREDO CIPRIANO POWS, the Argentine Consul in Berlin is going home on leave and hopes to sail from Lisbon on the 24th or 26th of January.

February 18, 1942.

It has been learned from a most secret source that on January 7, 1942, the Press and Propaganda Service of the Foreign Service of F.E.T. and J.O.N.S., Madrid, Spain, issued the following bulletin:-

SPANISH FALANGE BULLETIN.

Falange Achievements in Spain during 1941.

A resume of the work of the Falange in Spain during 1941 is given, consisting of social items such as the provision of 44 million meals in Madrid, Child Welfare Centres run by the Auxilio Social etc. Emphasis is also laid on the increase in members of the Feminine Section - the present number being 669,000 and the value of their work in directing and educating women in moral and religious matters and all forms of general culture.

The World As seen from Spain.

1. "Slave and Germans." Writer of this article reviews the countries that Germany has freed from the Soviet yoke, and refers to various past attempts made by the Ukraine to gain its independence before it finally came under Soviet control. In spite of this 20 years' subjection, however, the writer affirms that the Ukraine, which is much more advanced than the rest of Russia, has not given up the idea of independence. Germany, on her part, has profited by her 1918 experience and will arrive in the Ukraine armed with a detailed programme and with the men to carry it out, and has already announced to the people of the U.S.S.R. that they will be free to practise their own religion. These are the weapons which Germany will use to destroy the Russian Colossus, and the writer points out the fact that with the Occupation of the Ukraine Germany will have more than half the Slav world under her dominion, and will certainly try to reach some permanent understanding with the people constituting the Eastern frontier of the Reich.
2. Spain and the Philippines. deals mainly with the past history of the islands and faithfully follows the lines of "Hispanidad" also developed in previous articles on Latin America i.e. the debt due to Spain for her civilizing influence, religion, culture, etc. Writer merely expresses sorrow for the present plight of the Philippines, "innocent of any guilt in the catastrophe", and adds that the respectful silence with which Spain has followed the struggle is only a further proof of the chivalry of the Spanish nation.

Hispanidad.- Hispanidad and International Law by H. MUÑOZ, Manila.

A long article on the usual lines: Latin-America's debt of gratitude to Spain for having created cultured nations out of disunited and uneducated peoples, and the sanction given to Spain's work by international law until the very day when the last American country claimed its independence. The writer maintains, however, that the result of Spain's work remains strong and indestructible; that Spanish blood is freely mingled with all the native races in South America, the fact that Spain was the only colonizing nation which did not scorn the intermingling of coloured races with white being sometimes forgotten. The writer then vehemently refutes the accusation that Hispanidad has territorial designs on these Spanish-speaking countries simply because of their mutual desire to maintain closer cultural and patriotic relations. The allegation contained in a certain issue of "that insipid and odious publication" "The Commonwealth" in America that the totalitarian states are, under the cover of Hispanidad, trying to impose their respective regimes, could only have been made "from a deliberate wish to misinform its few readers or through complete ignorance of Hispanidad's real aims", which are again emphasized as being purely those of the Catholic Christian religion, tradition, culture and patriotism.

February 18, 1942.

It has been learned from a most secret source that on January 29, 1942, the Central Information Service for the French West Indies, Fort de France, Martinique, issued the following bulletin:-

FRENCH WEST INDIES PROPAGANDA BULLETIN NO. 5 (2nd Year).

1. Return of the Caribbees by PHILIBERT MISTRE (Extract from an article in "Orlagor" 5/12/41)

An extract from an article written by one of the French prisoners of war released from Germany. Writer speaks of his disappointment at finding on his return to France that there are people who are attempting to hinder the MARSHAL'S actions or to sabotage his work. He writes:- "Do they know that the defeat means, those who base their hopes on rebels, who, under the pretence of carrying on the fight to the end, receive high wages paid to them by England for bringing them the rage of our Colonial Empire, for massacring their brothers in arms in the Congo, at Damascus, at Palmyra, taking care meanwhile never to attack forces other than French ones?"

Have they understood the defeat, those who refuse to see with what a deep sense of European realities, Germany knows how to out the triumph of her crushing victory by inviting France to participate in a new order?

Have they understood the defeat, those who think that a military collapse without precedent, which destroyed in six weeks the tremendous and heroic efforts of twenty generations of Frenchmen, sh did not affect our future and that England and the Soviets will efface its effects.

I declare that what the prisoners desire above all things with passionate unity, is to find on their return no traces of the rotten regime which led us to disaster by corrupting all the strengths of the race, by means of parliamentarism, electoral fights, demagogu, bribes, corruption, sectarianism and secret associations."

2. CHARLES MAURRAS. A short laudatory account of the life and work of Charles Maurras on the occasion of his nomination as member of the National Council by Marshal Petain. Writer describes a work carried out by Charles Maurras as editor of the royalist newspaper "L'ACTION FRANCAISE" and states "His portrait would not be complete if we were not to mention the deep respect MAURRAS has for the Catholic religion. He is highly esteemed by the French clergy and Popes PIUS XI and Benedict XV did not hide their sympathy for him."

NOTE (Writer has omitted all mention of the fact that "L'ACTION FRANCAISE" was placed under a ban by the Pope about 19 years ago and that this ban was only lifted two years ago.)

3. The Week in the World

1. EUROPE - AFRICA

AFRICAN THEATRE Writer refers to the BOWEN'S counter offensive and says:-

"According to military experts General Bowen is attempting a bold manoeuvre which should succeed, will force the English to evacuate Madagascar, BAHIE, and other towns without fighting."

-2-

NAVAL WARFARE. Writer states that allied shipping has suffered some heavy blows in the Atlantic recently. He mentions the loss of the "NORNESS" (U.S.A.) Long Island, the "COMERA" (British tanker), "ALLANJACKSON" (U.S.A.) The "MALAY" (U.S.A. tanker) off North Carolina was struck by a torpedo but escaped. "Berlih claimed on the 27th January the sinking of 30 ships of a total tonnage of 220,000 tons in the North Atlantic since the appearance of German submarines in those seas."

"The English Admiralty acknowledges the loss of the cruiser "BARHAM" sunk off SOLLUM. Actually this ship was sunk on 26th November by a German Submarine commanded by BARON VON TIESENHAUSEN.

4. The Week in France.
Life in the Empire:

Referring to the French residing in New Caledonia under British occupation, writer states: "Several French of New Caledonia who have remained faithful to the French Government have sent a message of loyalty to Marshal Petain which has succeeded in getting through the Gaullist and British Censorships."

5. NATIONAL SOLIDARITY.

Address made by Admiral Robert on the occasion of the closing ceremony of the IMPERIAL FORTNIGHT ordained by the Head of the State. In the course of this address Admiral Robert refers to the "five Frances" existing after the Armistice:- Free Zone, Occupied Zone, prohibited zone, the Empire, prisoners of war. He continues:-

"The crime of one Frenchman unworthy of this title has added a sixth France" and what is not the least unhappy of all, France occupied by the English. Not satisfied with having advocated separation from the Mother Country, this "Gaulism" has shed the blood of Frenchmen, it is dyed in the deepest treachery, the treachery paid for with distinctions and money. It is nothing but an Anti-French schism dressed up as a strange patriotism which consists of adding your blows to those of the conqueror, by striking your mother while she is bound and defenceless."

RESTRICTED

MID 319.1 No. 635 M.I.D., W.D. 11:00 A.M., February 18, 1942.
Situation 8-11-41

SITUATION REPORTI. Pacific Theater.

Philippines: Increased enemy artillery fire is reported as well as increased air bombing attacks. From the south nothing new to report. Burma: No significant change reported. Allied air action continues to be effective in this theater. Australasia: Land: A sharp Japanese air attack in the Timor Sea was reported to have inflicted no damage. Air: Japanese bombers attacked the naval base at Soerabaja this morning. A squadron of American Fighters raided on February 17 the Japanese occupied airdrome at Palembang and shot down 4 enemy planes without a loss to our air men. Enemy aerial reconnaissance over the New Guinea area continues.

II. Western Theater.

The R.A.F. carried out raids on Northwest Germany on February 17.

III. Eastern Theater.

The Russians continue to maintain their pressure along the front especially northwest of Moscow. Official reports do not indicate any change in the general situation. (No situation map will be issued this date).

IV. Middle Eastern Theater.

Ground: Latest press reports from Cairo state deep penetrations have been made by British mobile columns into the desert area south of the Tmimi-El Mekili line. No opposition was reported.

Air: Bombing of Malta continues. Axis and Royal Air Forces continue attacks on rear area and supply lines. Conflicting claims of successful air attacks on naval convoys in Mediterranean have been issued by both London and Rome.

RESTRICTED

February 19, 1942
9:23 a.m.

HMJr: Hello.

Operator: Mr. Rouse.

HMJr: Hello.

Robert Rouse: Good morning, sir.

HMJr: How are you?

R: Oh, fair, thank you. And you?

HMJr: I'm all right. I just wanted to compliment you on the way you handled yourself yesterday vis-a-vis me, and I always want you to tell me what you think.

R: All right. Well, I did have some apprehension afterwards that I'd been too frank, but on.....

HMJr: No, no.

R:on the other hand, I thought about it and it seemed to me that that's what you want.

HMJr: No. I just wanted to tell you that's what I always want, and I want you to continue to give it to me just as you see it.

R: Well, that's fine.

HMJr: I just wanted to tell you I compliment you on the way you handled yourself yesterday.

R: Well, I appreciate that very much, because I was afraid you might misunderstand it, and.....

HMJr: No, no.

R:it's actually this call to show that you did think about it, because it means a good deal to me.

HMJr: Good. Well.....

- 2 -

R: What was the decision? I had to leave early to go to the doctor yesterday.

HMJr: Something wrong with you?

R: Well, I've been having a bad dose of sinus, and I'm tired.

HMJr: I see.

R: And I had a pretty good going-over by the doctor through my head last night to just sort of keep them going, you know.

HMJr: I see.

R: I've been hoping to get away, and I haven't been able to.

HMJr: Well, they're coming back at four o'clock today.

R: Uh huh.

HMJr: And the thing isn't quite as simple as it seems.

R: No, it's not.

HMJr: And Stonier and Burgess was here after that, and I told them we were working on this thing and that I expect to work closer with them and if we're going to do anything that affects the banks, I'll first let them have a look at it.

R: Good.

HMJr: And get their suggestions. So the Fed boys are coming back at four. In the meantime we've agreed we'd carry on as is.

R: Well, the thing lightened up in the afternoon a good deal.

HMJr: Yeah.

R: And the pressure came off. We'll just go on as is today then.

HMJr: That's right.

- 3 -

R: Fine.
HMJr: Thank you.
R: Thanks a lot.

February 19, 1942
9:43 a.m.

Edward
Foley: Good morning, Mr. Secretary.

HMJr: Hello, Ed. How's your cold?

F: It's a lot better, thank you.

HMJr: Good. Ed, I yesterday sent for the comment in the Congress on our Donald Duck thing. I don't think your Legislative Section sent it to me. I asked for it. Hello.

F: Yes.

HMJr: You know, they're supposed to keep me posted, you know.

F: Yes. And they do, Mr. Secretary. They send to Norman Thompson's office every morning the extracts from the records.

HMJr: No. Well, look. Let's see if we can't get this straightened out once in awhile, see?

F: All right.

HMJr: Now, let me tell you what I'd like.

F: All right.

HMJr: This thing, for instance, this is what I want you to do for me, and tell your boys. I mean, we've all got lots of things to do and I hate to have to be checking up.

F: Right.

HMJr: In this Congressional Record there was a long speech by Downey.

F: Yes.

HMJr: Very friendly; a long speech by Barkley.

F: Yeah.

- 2 -

HMJr: Now, what your boys should do when somebody does like that, they should write a letter for me.....

F: All right.

HMJr:to Downey and to Barkley, saying how pleased I was and thank them and so forth, and then automatically it comes on my desk.

F: All right.

HMJr: You see?

F: Right.

HMJr: And I never see what you send to Norman Thompson. Norman Thompson never shows it to me.

F: Okay.

HMJr: But tell the boys two things. If it's something pleasant, a little letter from me - I'd like to thank them; and if there's something unpleasant, a suggestion from them to you.....

F: Right.

HMJr:directly to me, how it could be answered.

F: All right.

HMJr: You see?

F: Right. We'll do it directly, you and I.

HMJr: You and I.

F: The two of us.

HMJr: Now, simply say to Larry Bernard that there's something there about the Treasury or the Secretary that's unpleasant, "It's up to you to give me a suggestion" - you, Foley, a suggestion - "how to handle it."

F: Yeah.

HMJr: "And then I'll make that suggestion to Mr. Morgenthau."

F: Right.

HMJr: And if somebody gets up and defends the Treasury, I want the letter drafted at once thanking him.

F: Right.

HMJr: These fellows like it, you know.

F: Sure they do. I think it's a good idea.

HMJr: But, after all, Larry's not so busy but what he could do that.

F: Oh, he can do that. Sure, we can do that just as well as we do the other thing, Mr. Secretary.

HMJr: Now, one other thing. I still am not satisfied how that letter came to me from Forrestal and Patterson.

F: Yeah.

HMJr: And I called up Eddie about it.....

F: Yeah.

HMJr:and he said Sam Klaus had something to do with it.

F: Yeah.

HMJr: Bernie said he thought he did.

F: Right.

HMJr: Now, Sam is responsible to you, isn't he?

F: Yes, sir.

HMJr: Now, I'd like to know - but it worked out swell, see?

F: Sure.

HMJr: But the next time Sammy has a bright idea, it

might not be, see?

F: Yeah.

HMJr: And I want to - I mean, it looks to me - I mean, I'm guessing now - that he cooked this whole thing up, and I wonder in cooking it up and helping them prepare the letter, again I'm guessing.....

F: Right.

HMJr:did he consult you, his boss, or didn't he?

F: Well, he - yes, he did, Mr. Secretary. He told me that Army and Navy Intelligence were very much exercised about the Nazis up there in the plant and the information we'd put up to them and all that; and they didn't want to enter into more contracts until the situation was cleared up. And I said, "Well, Sammy, let's get it in writing from them." And he said, "Okay."

HMJr: I see. Well, then, you knew about it.

F: Yeah, I knew about it.

HMJr: That's all I want to know.

F: Sure.

HMJr: I just didn't know whether he'd run off again on one of his.....

F: No, he talked to me about it, and I said, "Let's have it in writing, Sam."

HMJr: Fine. That's all.....

F: And the thing came over, and it couldn't have been better. The only thing that I was disappointed about was that it wasn't here on Monday when we had this meeting; because if I could have pulled that in reply to the letter that John E. Mack read, it would have been perfect.

HMJr: Well, Eddie said he was ready to send it Saturday, but Forrestal was out of town.

F: Yeah.

HMJr: So there you are.

F: Yeah. Well, Sam and Larry are up in New York checking on the investigators today and tomorrow.

HMJr: Well, that was one of my private spies that tipped me off on that.

F: Well, I didn't know what you had in mind.

HMJr: Well, I have my spies everywhere.

F: Yeah.

HMJr: As you know.

F: Yeah.

HMJr: Don't ask.

F: Okay.

HMJr: All right.

F: All right, sir.

HMJr: Good-bye.

F: Good-bye.

February 19, 1942
11:21 a.m.

Secretary to
Arthur
Sulzberger:

Hello.

HMJr: This is Mr. Morgenthau.

S: Yes, Mr. Morgenthau. You know Mr. Sulzberger left for Phoenix last week. He had that bad sinus trouble.

HMJr: Oh.

S: He's gone off there to try to get rid of it.

HMJr: Oh.

S: And from there on he hopes to take a trip around the country to look at naval and air bases and so on, and isn't planning to come back until the middle of March.

HMJr: I see. Well, I'm sure you can do what I was going to ask him to do. He wrote me a letter, oh, just before he left, about my private telephone number.

S: Yes, I know it.

HMJr: And in which he said he was sure in case of an emergency I'd want to be called.

S: Yes.

HMJr: Also that they had my number before he came down.

S: Yes.

HMJr: I don't know whether they did or didn't - I have no way of knowing, but.....

S: Well, they said they did. That's all I know.

HMJr: Well, here's the thing.

S: Yes.

HMJr: Prior to Mr. Sulzberger's coming down, no New York Times reporter ever called me.

S: Yes.

HMJr: Then, too, I don't want to be called.

S: Yes.

HMJr: I don't care how great the emergency is - I've had a rule - that's why I've had my phone unlisted.

S: Oh, yes.

HMJr: And last night one of your reporters did call us.

S: Yes.

HMJr: Now, that was just what I was afraid of.

S: Oh, yes.

HMJr: And I had to tell him very nicely, which I tried to, that I don't want to talk to reporters because if I talked to one, then immediately I've got to call them all up.

S: Why, of course, that's true.

HMJr: Now, I don't want to have to go to the trouble to have our phone number changed.

S: No.

HMJr: So I would like you to call up your office and tell them that this number was given to Mr. Sulzberger while he was my guest.

S: Yes.

HMJr: And I would please like you to give them orders not to use it.

S: Yes, indeed. I'll be glad to attend to that.

- 3 -

HMJr: Would you do that?

S: Yes, I'll be glad to do it right away.

HMJr: Because otherwise it just means we've got to go through the trouble and then let the children and the children's friends all know the new number.

S: Yes.

HMJr: Can I rely on you?

S: Yes. You can depend upon me; I'll do it immediately.

HMJr: Thank you so much.

S: You're welcome.

February 19, 1942
11:50 a.m.

HMJr: Hello.

Operator: Miss Tully.

HMJr: Hello.

Grace
Tully: Hello.

HMJr: How is the President, Grace?

T: Well, he seems to be better this morning,
but he still has a little cold.

HMJr: Oh. Well, when you see him would you ask
this of him?

T: Yes, sir.

HMJr: Would it be convenient for him to see me
and, if he cared about it, Sullivan and
Randolph Paul, Saturday, say, on the tax
bill.

T: Sullivan and Randolph Paul?

HMJr: And me.

T: Yes.

HMJr: We're ready now, and I'd like to - it wouldn't
take terribly long, although he'd ought to
give us, I'd say, a half an hour.

T: Yeah. On Saturday, did you say?

HMJr: If he's there, Saturday.

T: Saturday.

HMJr: I didn't want to ask for tomorrow.

T: Uh huh.

HMJr: And I never ask for Sunday.

T: Yes. I don't know whether the President's

going to have Cabinet tomorrow or not. It all depends upon how he feels.

HMJr: Well, I was thinking maybe Saturday morning he might like us.

T: I see. Well, all right, Mr. Secretary. Let me ask him, and I'll call you back just as soon as I can find out. I probably won't see him until after luncheon.

HMJr: Fine.

T: And then I'll have word for you this afternoon.

HMJr: If you see him, give him my regards.

T: Indeed I will, Mr. Secretary. All right, sir.

HMJr: Good-bye.

T: Good-bye.

February 19, 1942
2:35 p.m.

HMJr: Hello.

Operator: Mr. Foley.

HMJr: Ed.

Edward
Foley: Yes, Mr. Secretary.

HMJr: At lunch today with Odegard and Kuhn, I told them something about Aniline Dye.

F: Uh huh.

HMJr: And I would like you to have start prepared a letter as though I was writing to Mr. Belknap laying down the principles that I want, you see?

F: Yeah.

HMJr: And then after you have a draft, I'd like you to show it to both Kuhn and Odegard together and get their background. I think - I know they can be helpful.

F: Fine.

HMJr: Because I think we ought to have that in the works so that if he should call me up.....

F: Yeah.

HMJr:I can say - he'll say, "Under what conditions?" I'll say, "Well, I'll read you the conditions, Mr. Belknap." And we'll have it in a letter.

F: Yeah.

HMJr: You see?

F: Sure.

HMJr: Now, Kuhn - you'll find Kuhn and Odegard both

sympathetic along the lines we've been talking.

F: Yes.

HMJr: And what I'm planning, you see, whatever we do will be to make it public; and this will be our policy in relation to these companies.

F: Yeah.

HMJr: And we may eventually even want to clear it - not clear it - but this will certainly show it to the people who are on this committee, plus Army and Navy, because I think what I write on this should be the Government's policy toward any company in which there are either Nazis or representatives of German companies who have been sent over here.

F: That's right.

HMJr: And this should be an Administration policy.

F: Well, I think that's right; and I think that what you got from Forrestal and Patterson will make it easier to get an agreement out of the Army on a policy that we'll put on a piece of paper than it would have been if they hadn't expressed themselves.

HMJr: Get an agreement out of whom?

F: I think that it will be easier to get an agreement out of the Army and the Navy to our policy, now that Forrestal and Patterson have indicated how they feel about it.

HMJr: Yeah. Well, they didn't go far enough.

F: Well, they went pretty far.

HMJr: Well, anyway, I'd get that started in the works, so that.....

F: All right.

HMJr:if Belknap says, "Well, what is, Mr. Morgenthau" - because he'll talk with Swope

and will say, "Well, what is your policy?"
And I'll say, "Well, I'll read it to you over
the phone."

F: Yeah.

HMJr: You see?

F: Yeah.

HMJr: I think the sooner you start that letter the
better.

F: All right. Well, we'll get started on it
right away.

HMJr: Thank you.

F: All right, sir.

February 19, 1942

MEMORANDUM FOR THE SECRETARY'S FILES:

Meeting held in Mr. Bell's Office
February 19, 1942
3:15 P. M.

Present:

For China: Dr. T. V. Soong

For Treasury: Mr. Bell
Mr. White
Mr. Foley
Dr. Viner
Mr. B. Bernstein
Mr. Southard
Mr. Friedman

For State: Mr. Hornbeck
Mr. Hamilton
Mr. Livesey
Mr. Hiss

Mr. Currie
Mr. Fox

At discussion held with Treasury officials in Mr. Bell's office between 2:30 and 3:15 P. M. regarding the China loan agreement it was decided that all the Treasury was prepared to say at this time to Dr. Soong, who was expected at 3:15, was that the agreement would be in the spirit of Lend-Lease Act, the China Loan Act, the United Nations Declaration of January, 1942 and the exchange of communications between the President and the Generalissimo. Nothing would be said about terms and conditions and Dr. Soong would be promised a written document in the form of a draft agreement by the following Saturday or Monday.

Dr. Soong and members of the State Department arrived at about 3:20. Mr. Bell informed Dr. Soong of the present attitude of the Treasury as outlined above and Dr. Soong expressed his approval. It was then agreed that Dr. Soong would come down to the Treasury for a meeting on Saturday morning to discuss the written document. Dr. Soong stressed the fact that he would like to consummate the matter by the middle of next week since he was going to Canada to look over some war materials for China. Dr. Soong then left after asking Mr. Fox to call upon him later in the day.

Mr. Hornbeck commented to the effect that he had hoped that we would be able to anticipate the Chinese asking us to convene negotiations by having a document prepared in view to give Dr. Soong. It was explained to him by various members of the Treasury Department present that action was proceeding on the matter as quickly as possible and that Dr. Soong had called at the Treasury at the suggestion of Treasury officials.

Mr. Hornbeck then outlined his own attitude, stressing that it was his own:

(a) A loan of \$150 to \$200 million was to be made immediately, thus placing that amount of funds at the disposal of the Chinese. There would be a low rate or no rate of interest and amortization of the loan would begin at some period after the conclusion of the war. Amortization would take place over an extended period of time.

(b) \$200 to \$250 million would be handled according to the ideas which had been put forth regarding uses of the loan, for example, as underpinning for a bond issue. In this matter he would defer to the experts in the Treasury Department.

(c) The remainder would be held back for further consideration pending future developments. Thus, the Chinese would not have all the loan nor would we be keeping all of it and this would be a desirable situation.

The query was then made by a Treasury representative as to whether this would not have a very bad effect. Mr. Hamilton of the State Department seemed to agree that it would be desirable to go through the motions of making all of the money available. The point was then made by a representative of the Treasury Department that it could all be placed as a credit on the books of the Treasury and drawn upon by the Chinese. Another official of the Treasury made the point that what was of most immediate importance was the drafting of the document embodying the agreement. Dr. Viner's suggestion of an overall agreement, very general and brief, to be followed by technical memorandums on actual operations was raised and Dr. Viner explained what he had in mind by his proposal. He added that in addition he would favor what he had in mind by his proposal. He added that in addition he would favor what he had in mind by his proposal. He added that in addition he would favor what he had in mind by his proposal. The point was made that what was important to decide at present was whether there would be any conditions in the agreement. The feeling was expressed that there should be no conditions on availability since this would have a very bad effect and moreover Foreign Funds Control could always be used to freeze the Chinese funds, in the case of developments in the future making such action desirable. The point was made that the agreement should add to the morale strengthening in China rather than to detract from it.

Mr. Fox stressed the desirability of having an agreement which the Generalissimo would be happy about. He stressed the unfortunate impression made by dickering in connection with the last stabilization loan.

A Treasury official then said that, as in the case of Lend-Lease, terms and conditions of repayment could come later and the provisions of the British Lend-Lease Agreement were outlined. In this way the Chinese would be assured that the terms of the loan would be liberal. After making the loan we would then be able to work out the uses as technicians and not as conditions of the loan.

Mr. Currie interposed to say that he liked this idea very much.

Mr. Hornbeck said that in his opinion Lend-Lease was not analogous. The point was then made that what was meant was the spirit of Lend-Lease, particularly in regard to repayment. Mr. Hornbeck went on to say that this loan did not concern materials as did Lend-Lease. The point was made that the similarities are not in use but rather in terms of repayment. For example, as in the case of Lend-Lease, repayment could be indirect and include other benefits received, etc. Thus, terms of repayment would be left open until the post-war period when we would have a much better idea of the Chinese ability to repay. In this way we could be generous twice, once in giving the loan and once in making the terms of repayment. The advantage of flexibility was stressed.

Mr. Currie expressed the feeling that he would like to make the terms of repayment as generous as possible but from the point of view of China the objective that should be kept in mind was getting maximum benefits to China from the loan.

The feeling was then expressed that this could be accomplished by making the entire \$500 million available and later working out conditions of repayment. Mr. Currie made the suggestion that an opportunity might be given in connection with mechanism of transfer.

Mr. Fox said that as he reviewed what had been said, what was really still undecided and was very crucial was how to introduce control without imposing conditions. A Treasury official suggested that we would have to depend for control on (1) the objectives of the loan as stated in the agreement, and (2) the powers which the legal division has to control foreign funds. Mr. Hornbeck had some doubts regarding the matter but Mr. Hamilton supported Treasury's position.

Mr. Hamilton made the suggestion that perhaps a document could be obtained from China making suggestions as to uses.

Mr. Currie then gave the gist of the cable which we received today from Chungking regarding the proposed loan and the flotation of a bond issue. A Treasury official then said that this was a good case in point regarding what would happen in case of disagreement between China and the United States as to the uses of the loan. Mr. Currie interjected to say that, as he saw it, the postponement of the actual loan agreement would give our suggestions more weight. A member of the legal division expressed the opinion that the agreement as contemplated would have a statement to the effect that the loan would be used for the war effort, that there would be sufficient safeguards.

Mr. Hamilton made the point that it was important that there should be no implication that we were encouraging the Chinese to continue fighting.

Mr. Livesey made the suggestion that we should speak of loan adjustment instead of repayment.

Mr. Fox made the point that the Chinese would prefer gold to dollars and he was assured that gold could be made available.

Representatives of State Department then raised again the possibility of a statement from the Chinese stating purposes of the loan, saying that from the point of view of the Chinese it might be better for them to have such a statement as it would prevent raids on the loan. Treasury representatives then outlined possible uses and stated that nothing was to be gained by trying to get commitments in advance. The point was made that the State Department's anxiety regarding raids on the loan would be met by the fact that the loan would provide for consultation with the United States and the Chinese could always plead that any suggested use would have to be referred to the United States. Mr. Fox made the point that promise of consultation in the agreement would not carry us any closer to actual consultation than a voluntary offer of consultation by the Chinese.

Mr. Currie again emphasized his support of leaving the agreement regarding repayment, etc. until a future date.

The question of uses was again raised and the suggestion was made that it could be indicated that since an accounting had to be made by the Secretary to Congress we would have to know about the uses.

Mr. Fox stressed the fact that Chungking favored the agreement being made in the United States, although when made, it should be given to the Chinese as a draft and not as a definitive document.

It was agreed that a draft agreement would be drawn up by Treasury officials to be discussed at a meeting with State Department representatives the following afternoon.

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AF
This telegram must be
paraphrased before being
communicated to anyone
other than a Governmental
agency. (RR)

Chungking via H. R.

Dated February 18, 1942

Rec'd 9:11 a.m.

Secretary of State,

Washington.

132, February 18, 3 p.m. (SECTION ONE)

Embassy's no. 123, February 14, 9 p.m.

Several days ago the Ministry of Finance convened an informal meeting of Chinese finance and banking experts to discuss flotation of an internal bond issue secured from the American and British credits. Hiemeyer, Young and Adler were also present. The discussion centered around four main points:

One. The conversion rate between fapi and the dollar to be adopted in issuing bonds. Rates between five and six cents to the fapi were suggested, the latter being favored on the grounds that the higher rate would prove attractive and permit issuance at par. There was inconclusive discussion with regard to whether the bonds should bear on their face the dollar, as well as the fapi redemption value.

Two. The rate of interest. Five and six per cent were mentioned, with the latter receiving principal support.

Three. The amount of the first issue. A figure as high as 5,000,000,000 fapi was suggested, but two and one-half million was favored, the idea being to follow a limited first issue immediately with a second issue, if the first issue was readily subscribed.

GAUSS

RR

HVN
This telegram must be
paraphrased before being
communicated to anyone
other than a Governmental
agency. (HR)

Cinching via P. E.

Dated February 18, 1942

Rec'd. 10:41 a.m.

Secretary of State,

Washington.

132, February 18, 3 p.m., (SECTION TWO).

Four. The term of the bonds. The general feeling was that they should be short term—five to ten years. While no decisions were taken at the meeting, it is understood that the foregoing indicates along broad lines the general thought of the Ministry of Finance with regard to a bond issue. Suggestions with regard to lifting exchange restrictions, importing United States currency, and issuing new currency with dollar support met with no encouragement from Kung or from others present. There was no discussion at the meeting of possible other uses which might be made of the credits.

The degree of response which a dollar supported bond issue will meet continues to be largely a matter of conjecture. There was talk at the meeting of using various forms of compulsion if the response was inadequate. Unless very carefully handled it is believed that the adoption of such measures would prove to be unwise although the bonds might be used to induce hoarders to disgorge their commodity holdings. In implementing its avowed policy of agrarian reform, the government might advantageously use bonds to finance more equitable land (distribution?) without increasing currency in circulation. The bonds might also be utilized to encourage the responsible banks to be more generous and more effective in their financing of production for immediate use and in making loans to farmers for small scale land reclamation and improvement work.

GAUSS

WSB (END OF MESSAGE)

Copy:vw:2-19-42

FEB 19 1942

Dear Sir Frederick:

This is in reply to your letter of February 14, 1942 regarding the China loan. I presume that by the "Hieneyer plan" you are referring to the schemes outlined in your letters of January 3 and January 27, 1942 to the Secretary of the Treasury. I believe that the feeling here is that under the present circumstances these proposals are not suited to achieve the aims of the present loan.

With reference to your inquiry regarding terms and conditions relating to the loan, I wish to inform you that we have not yet reached any definitive conclusions regarding these matters.

I have not received a copy of the document dated December 26, 1941 entitled "Chinese Government Allied Victory Loan, 1942" to which you refer in your letter.

Yours sincerely,

(Signed) H. D. White

H. D. White,
Director of Monetary Research.

Sir Frederick Phillips,
The British Supply Council
in North America,
Box 680,
Benjamin Franklin Station,
Washington, D. C.

See file British Supply Council for incoming letter

ISF/afw
2/19/42

Telephone: REpublic 7860

Box 680
Benjamin Franklin Station
Washington, D. C.

February 14, 1942.

Dear Dr. White,

Can you say anything yet as to how you are getting on with the consideration of the matters relating to China, viz;

1. A specific scheme, such as the Niemeyer plan, for tackling the problem of inflation; and
2. The terms and conditions relating to the new loan.

I have received from Chungking a document dated December 26th which is a draft prospectus or sketch of the "Chinese Government Allied Victory Loan, 1942". This I take to be a draft by Niemeyer, or by Young, or by both of them, and I presume you will have had a copy already.

Yours sincerely,

(S) F. Phillips

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

FP:KF

FEB 19 1942

My dear Mr. Welles:

Reference is made to your letters of February 14, 1942, regarding financial aid to China, and of February 17, 1942, enclosing a copy of a letter of February 16 from the Chinese Minister of Foreign Affairs together with a copy of the translation of the telegram of February 15 from General Chiang Kai-shek to the President.

We have been giving the problem of effecting the loan careful consideration here and we are now preparing a definite plan. I hope to be able to call a meeting on the matter early next week.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The Honorable Sumner Welles,

Under Secretary of State.

J. de M. A. C.

By Messenger

Slava 11:05
Copies to R. W. Rice

HPW

MEM: ISF: Bah
2-19-42

FILE COPY

FEB 19 1942

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Secretary of the Treasury.

The Honorable Sumner Welles,

Under Secretary of State.

By Messenger *Learte* 11:05

HMW:ISV:dmh
2-19-42

photostatic to Mr. Beall
or White
2082/16/42



DEPARTMENT OF STATE
WASHINGTON

February 14, 1942

My dear Mr. Secretary:

I believe that all of us who have been especially interested in meeting Chiang Kai-shek's request that this Government extend substantial financial aid to China are warranted in feeling gratified at the unanimity and the speed with which the Congress has made legislative provision for extending financial aid to China in amount not to exceed \$500,000,000. The psychological effect produced, both in this country and in China and elsewhere, by this Government's action has been, I am confident, highly beneficial to the common war effort of the United Nations.

It has occurred to me that further political advantage would be gained were this Government to take prompt steps looking toward the formulating of a proposal or proposals whereby there would be made immediately available
to the

The Honorable

Henry Morgenthau, Jr.,
Secretary of the Treasury.

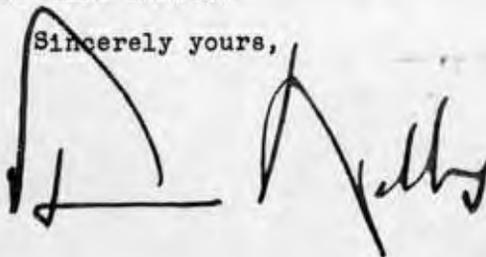


to the Chinese Government some substantial portion of this money.

If this suggestion should appeal to you in principle, might I suggest that there be held at the earliest practicable date a conference of representatives of the interested agencies of this Government for the purpose of working out what may seem to be the most feasible and appropriate plan?

I am bringing the foregoing suggestions to your attention in view of this Department's continuing interest, which I am sure you appreciate and share, in the political aspects of this matter.

Sincerely yours,

A handwritten signature in black ink, appearing to read "D. M. Kelly". The signature is written in a cursive style with a large initial "D" and a long horizontal stroke extending to the left.

948

Beell
White
MISTAK

210



DEPARTMENT OF STATE
WASHINGTON

February 17, 1942

My dear Mr. Secretary:

I send you herewith a copy of a letter of February 16 from the Chinese Minister for Foreign Affairs together with copy of the enclosure thereto, translation of a telegram of February 15 from General Chiang Kai-shek to the President.

I have forwarded to the President the copy supplied by the Chinese Minister for Foreign Affairs of the translation of the telegram from General Chiang Kai-shek.

Sincerely yours,

Enclosure:
From Chinese Minister
for Foreign Affairs,
February 16, with
enclosure.

RECEIVED
TREASURY DEPARTMENT
FEB 17 1942
Division of
Foreign Affairs

The Honorable
Henry Morgenthau, Jr.,
Secretary of the Treasury.



CONFIDENTIAL

MINISTER FOR FOREIGN AFFAIRS
REPUBLIC OF CHINA

February 16, 1942

My dear Mr. Secretary:

I take pleasure in enclosing a translation of a telegram to the President from Generalissimo Chiang Kai-shek under date of February 15, 1942, and shall be grateful if you will be so good as to transmit it to its high destination.

I remain, Mr. Secretary,

Very sincerely yours,

T. V. SOONG

The Honorable
Cordell Hull,
Secretary of State of the
United States of America,
Washington, D. C.

TRANSLATION OF A TELEGRAM FROM THE GENERALISSIMO
FOR PRESIDENT ROOSEVELT

DATED FEBRUARY 18, 1942

Soon after my arrival in Delhi I received your most welcome message informing me of the granting to China of the loan of \$500,000,000. I am most grateful to you for having accepted my suggestions in their entirety and without any attached conditions. On behalf of the Chinese Army and the Chinese People I wish to convey to you, and through you to the Congress of the United States as well as the American People, our deep gratitude for this timely assistance.

For four and a half years my people have suffered untold privations and distress. This loan, which you have now secured for China, will not only ameliorate the economic situation but will also raise the morale of the people in the present struggle. The loans and supplies, which we previously received from you, have enabled China to continue our war of resistance up till now. Your new gesture in granting us this timely assistance gives inspiration and encouragement to all who are fighting for freedom during the unprecedented crisis with which the world is faced.

Besides the meeting of military needs, the proceeds of the loan will be used mainly for strengthening China's
economic

economic structure, redemption of legal tender notes, control of currency, stabilization of prices and the promotion of war production.

I wish to reciprocate most heartily your greetings and good wishes.

February 16, 1942

February 19, 1942
3:45 p.m.

HMJr: Hello.

Dean
Acheson: Hello, Henry. This is Dean Acheson.

HMJr: Yeah.

A: I have a matter that Sumner Welles asked me to take up with you.

HMJr: Yeah.

A: I've spoken about it briefly with Ed. Ed discussed it with me, but said he wouldn't want to express any view and that he thought it was a matter that he would want you in the first instance to talk about. Now, would it be convenient for you if I came over?

HMJr: No, I'm sorry, old man. I'm tied up just as tight as a drum.

A: You are?

HMJr: Sorry.

A: Well, I'll do it whenever it is convenient.

HMJr: Well, what's the subject?

A: It's on the - you know, the President's order transferring to the Secretary of the Treasury the power under 3-A and 5-B. Do you remember that? Under freezing.

HMJr: I'm not - the 5-B - the freezing, you mean the recent one?

A: Yeah. The recent memorandum of the President.....

HMJr: Yeah.

A:which confers on you the power to do whatever the President could do under those two sections.

- 2 -

HMJr: Yes.

A: You've only.....

HMJr: Now, what're you worrying about?

A: Well, the thing that Welles wanted to do was to get an agreement with you.....

HMJr: Yeah.

A:that if you were contemplating any action extending beyond the countries now within the scope of that - and, of course, what he has primarily in mind is South America.....

HMJr: Yeah.

A:that you would take it up with this department, somebody designated, and would act in accordance with our joint views.

HMJr: You mean if we're going to take on any new countries?

A: Yes. That's the principal thing. Any new countries that are not now in the order.

HMJr: Oh, well, if that's all, tell him of course he has my assurance. That gets into foreign affairs. I wouldn't dream of freezing a country without first taking it up with him.

A: Then there's another corrolary of that.....

HMJr: I mean, that's easy.

A: Yeah. Then where you are taking over a property which is claimed to be the property of a neutral in this war, such as Switzerland and Sweden and that sort of thing, that you would also take that up with us.

HMJr: Well.....

A: Like General Aniline and Dye. You do it as a matter of.....

- HMJr: Well, we do it; we do do that. I mean, that's.....
- A: You do do it. That's quite right, and I know that you will continue to. What he wanted was to get a letter which you and he would both sign, and.....
- HMJr: I'm not going to write any letters. He'll just have to trust me. He'll have to - we've been doing this now for months. There's been no question; there's been no worry.
- A: Well, I haven't any worry.
- HMJr: Well, he shouldn't worry. He's got nothing to worry about. There are two damn many letters coming over every day from the State Department. They've got a sort of letter fever over there. If Sumner isn't satisfied, I'll tell him; but we'll continue just as we have in the past and he hasn't got a single case to point to that he's had any reason to worry about.
- A: I quite agree that there couldn't have been better cooperation between the departments.
- HMJr: Well, he'll just have to trust me. He'll just have to trust me.
- A: All right. I'll talk with him about it. I can tell you when we're talking what I think the real worry is.
- HMJr: What's the real worry?
- A: Well, I think that it's felt that everything goes along now because you and I and Ed and I understand one another, that if a brick should fall on me or on you, that they would know.
- HMJr: Well, that's time enough. Tell him I think it's - we don't have to have all of these agreements and counter agreements, and you tie yourself up all in red tape. The day I fall off the roof or something like that, then he can get worried. In the meantime, I'm asking him to trust me.
- A: All right. I will talk with him and see if we can do it.

HMJr: He's got - I mean, after all, we can - we could have done this any time and freeze any country that we wanted to - the funds. We've never done it. Now why all this apprehension? I don't like it. There isn't a single thing to point to that we've moved without first consulting the State Department. Let him point to it.

A: I quite agree, Henry.

HMJr: No, tell him not to push it. I mean, if he pushes it, I'll get annoyed.

A: (Laughs) All right.

HMJr: If there's any case that he can tell us where we haven't, then I'll sit down; but tell him there a lot of more important things than to try to get me to write a lot of letters. Tell him to forget about it.

A: I think probably.....

HMJr: Tell him to forget about it.

A: Well.....

HMJr: He's got my word. He doesn't need anything else.

A: Uh huh. All right. Perhaps if I got him to call you up, it might be.....

HMJr: That's all right. But tell him to forget it - not to push me on this. I'm taking care of his Ecuador for him; I'm taking care of all of his other little darlings, but not this one.

A: (Laughs) All right.

HMJr: All right, Ach.

A: I'll do my best.

HMJr: You put up your case, and you tell him I'm taking care of all of his little darlings down there, but I'm not going to tie myself up in more red

- 5 -

tape than I've got already.

A: All right, Henry. I'll try it out. It may be back on your doorstep. Don't you kick me out.

HMJr: No, no, no, no. If it comes back, Sumner Welles can come over himself. But if that's all you want, save shoe leather.

A: All right.

HMJr: And, as I say, this is a matter - I do business here in I don't know - such large sums - everything's a matter of my word, and I don't want it questioned. But - there's no feeling now, but if he's going to push me, he'll create some feeling.

A: All right, sir. I'll try and work it out that way.

HMJr: Okay.

A: All right. Good-bye.

HMJr: Good-bye.

February 19, 1942

MEMORANDUM FOR THE SECRETARY'S FILES:

Re: Ecuadoran Stabilization Arrangement.

The Secretary arranged an appointment for Dr. Eduardo Salazar at three o'clock, Thursday, February 19, to discuss with him the Ecuadoran request for a stabilization arrangement.

A few minutes before that time Mr. White and Mr. Southard discussed this matter with the Secretary and informed him that the Ecuadoran exchange position was at present quite satisfactory and that while the Ecuadorans had for some months been eager to have an exchange stabilization arrangement, this should not be taken to mean that they were likely, in the near future, to make any heavy drains on any fund placed at their disposal. It was further explained to the Secretary that the Ecuadorans had requested that they be permitted to use an amount up to \$1 million to repay the extraordinary debt to the Central Bank incurred by the Government during the Peruvian War. It was suggested to the Secretary that this would not seem to be an appropriate use of stabilization funds and that it was hoped that the Ecuadorans would be content with a straight stabilization arrangement in the amount of \$5 million.

The Secretary asked what basis it was intended to use for the proposed arrangement with Ecuador. It was replied that it was thought that the Mexican agreement might be used as the basis. The terms of the Mexican agreement were then reviewed with the Secretary, particularly as to the provisions for 180-day notice and subsequent 180-day repayment. It was also explained how that agreement differed in this respect from the Argentine agreement and that the Argentines had indicated at one time that they would be interested in re-exploring the call provision of their agreement. The Secretary observed that the Argentine agreement had not been ratified and he also took note of the fact that the Brazilian agreement involves a full gold collateral.

The Secretary said that he was aware of the manner in which the proposed stabilization arrangement would fit into the four-point program proposed to the Ecuadorans

- 2 -

by Under Secretary of State Welles at Rio. The Secretary asked why we should consider offering the Ecuadorans a full \$5 million stabilization arrangement if none of it was to be used to repay the Central Bank. The reply was that the psychological effect of the larger sum might be good in Ecuador.

At this point Dr. Salazar came into the room. He told the Secretary that he was glad of this opportunity to present his country's need to so understanding a person as the Secretary. The Secretary stated to Dr. Salazar that he was prepared to enter into a stabilization arrangement with Ecuador in the amount of \$4 million but that he could not agree to a credit for the purpose of enabling the Ecuadoran Finance Ministry to repay a portion of its debt at the Central Bank. He further explained, however, that if it would be of any use to the Ecuadorans he would be willing to make the amount of the stabilization commitment \$5 million.

Dr. Salazar said that he was sure that his Government would want the full \$5 million amount. He made no mention whatever of the Central Bank debt problem. He said that he wanted to raise two matters which he hoped the stabilization agreement might meet:

- (1) The Ecuadorans would hope that they could draw against any stabilization credit without delay or, as he said the Americans would phrase it, "red tape".
- (2) The Ecuadorans would hope that there would be always reasonable notice before they would have to re-convert the sucres back into dollars. He explained that he had every confidence in the Secretary's understanding that Ecuador would need such notice but since the Ecuadorans could not be certain as to who, in the future, would occupy the Chair of the Secretary of the Treasury, they would wish some safeguard in the agreement on this point.

Dr. Salazar said that the reason he was sure his Government would want to have the full \$5 million amount was that it would have a very good effect in Ecuador if the people could have the feeling that this sizable sum stood as a foreign exchange reserve. He said that his Government would not draw on the funds except as need arose.

- 3 -

The Secretary assured Dr. Salazar that as to the first point there would not be any "red tape" whatever; that if a cable were received from Ecuador in the morning requesting that certain sums of sucres be purchased and the dollars made available, the transaction would be carried out that same day. As to the second point, the Secretary said that of course there was not the slightest intention of compelling repayment by Ecuador under conditions which would be onerous since the desire was to help Ecuador rather than to cause difficulties.

The Secretary told Dr. Salazar that if his general proposition was acceptable we could go forward very rapidly. Dr. Salazar said that the general proposition was acceptable and that he had very broad powers which would permit him to sign such an agreement without even referring it to Quito. It was therefore arranged that Dr. Salazar would see Dr. White on February 21 at 11 o'clock, at which time a draft agreement would be handed to him.

February 19, 1942
4:00 p.m.

TAX EXEMPT SECURITIES

Present: Mr. Eccles
Mr. Paul
Mr. McKee
Mr. Ransom
Mr. Hadley
Mr. Sullivan
Mr. Piser
Mr. Morris
Mr. Haas
Mr. Murphy
Mr. Blough
Mr. Bell

H.M.JR: Has the Fed seen this?

MR. ECCLES: Yes.

MR. PAUL: This is virtually the same. They got it this morning.

MR. RANSOM: Are there any changes in it?

MR. PAUL: The only change is an insignificant one right at the start shortening it up a little bit.

H.M.JR: Who is the Assistant Secretary?

MR. PAUL: Sullivan.

H.M.JR: Why should he be nameless?

MR. McKEE: It may not work out all right. (Laughter)

- 2 -

MR. ECCLES: As long as they have got several of them, John, it is all right, isn't it?

H.M.JR: I would certainly put it, "Mr. Sullivan, Assistant Secretary of the Treasury, replied."

MR. PAUL: No reason why it shouldn't be. That was done at the last minute. The body is what we worked harder on, down below.

H.M.JR: Sure, put in Mr. Sullivan, John L. of New Hampshire. And down here where it says the Secretary, I take it that is me. Put my name in. You might think it was Mellon.

MR. SULLIVAN: I feel better now.

H.M.JR: How would they know it wasn't Mellon? (Facetiously) I think we have gone around the thing pretty much. Can't you cut that out, where you say--

MR. PAUL: We can cut any of the quotes out because we put in the whole quote, just exactly what it was. We can probably reduce that quotation.

H.M.JR: Well, you don't want to go on and state our position?

MR. PAUL: Well, we do state it.

H.M.JR: But not as to how you are going to deduct these expenses.

MR. ECCLES: Well now--

MR. SULLIVAN: That is the objection.

MR. ECCLES: We don't agree with that approach, at least I don't. I don't know, we didn't have a conference. Here is a memorandum. I showed it to Randolph just a minute ago because I only got it about 3:30, so I didn't get a chance to - I don't know, do you want me to read it?

MR. PAUL: I think you had better read it because it is in the smaller type.

MR. ECCLES: I won't read it all.

H.M.JR: Who is this from?

MR. ECCLES: This is just a memorandum.

H.M.JR: By you?

MR. ECCLES: It states your view, doesn't it, John?

MR. MCKEE: Yes, it states a record of the situation.

MR. ECCLES: Of the analysis, and as I get it, Ronald, you agree with the analysis.

MR. RANSOM: Well, I agree with the fact so far as I know the facts. I don't know that I agree with the conclusion that is finally reached in it. Like you, I only had a very brief time in which to read it.

MR. ECCLES: Let me give the argument on the thing.

MR. MCKEE: Harriner, may I suggest, I think you can eliminate a lot of that which is a record.

MR. ECCLES: I am going to eliminate it all, I have got here what would seem to be the record as we know it at the press conference, so I won't repeat that here. "It appears that these remarks say explicitly that the Treasury does not propose directly or indirectly to break or circumvent the contract with the holder of Federal tax exempt securities. This seems clearly to indicate not only that the Treasury does not propose to lower the normal tax rate, but they do not propose any change in the law or any regulation that would have the same effect as would a lowering of the normal tax rates." Now, that is where you may differ.

"The market seems at first to have placed the same interpretation on the statement. The 1960-'65's which

had declined twenty-six thirty-seconds since the rumor first started recovered by ten thirty-seconds on the two days following the Secretary's press conference. As new rumors again developed, however, the recovery was quickly lost, and at yesterday's close these same issues, '60-'65's, were quoted a hundred and eight and three thirty-seconds, or a decline from January 13 of two and one thirty-second points. As far as the law is concerned, Congress has the power to reduce the normal tax to a negligible figure, if not to eliminate it altogether. Congress has the power also to change the provisions regarding the deductions in computing income taxes provided in the 1934 law. Neither change would directly abrogate, however, the Treasury's contract regarding partially tax exempt Treasury Bonds, which reads - "I won't read it - it's in the bond itself, so I won't read that."

As far as indirection and circumvention are concerned, there appears to be no difference from the point of view of the investor whether the normal tax is lowered or the same result is achieved by reducing deductions. If it is argued that the present deduction provisions are unfair and should never have been inserted in the law, the argument could be made that the normal tax should never have been raised to twenty-four percent and the tax increases of recent years should all have been in the form of a surtax. If this had been done, the rate of interest on new issues of partially tax exempt Federal securities would have been higher than was actually the case.

It is also true that some of these securities were issued when the normal tax rate was lower than twenty-four percent, hence the original purchasers have received somewhat of a windfall as a result of subsequent increases in the normal rate. It is also true, however, that the investors since that time have bought partially tax exempt securities at premiums that were predicated on the maintenance of the twenty-four percent rate. It would appear to be a violation, not of the strict legal contract, but of the implied terms of the contract to reduce this normal rate. From the point of view of investors, however, the deduction provisions are as much

- 5 -

a part of the implied terms of the contract as is the normal rate, since the two are tied together in determining the amount of tax that will be paid by an investor.

It appears that the discussion of changing the deduction provisions has stirred up a large amount of uncertainty, both as to present and future tax policy, where only a small amount of revenue is involved. The present provisions do not seem to be a loophole any more than is the existence of the Federal tax exempt securities themselves and as mentioned above, they appear to be as much a part of the implied contract as is the maintenance of the present normal rate. The original reason for inserting the provision in the law was to help both the Federal and the state and local security markets. There is more reason now than there was in 1934 when this was placed in the law for helping the Federal securities market.

It does not appear that failure to change the deduction provisions would affect the possibility of obtaining the taxation of state and local securities. The argument for the latter is that the Federal Government has no contractual obligations to the holders of these securities. It is proposed to remove the tax exemption of state and local securities by a new provision of the law, with no reference to the deduction provision. In fact, there seems to be no reason for drawing attention to this provision in connection with the proposed tax bill.

In view of the present market situation, it seems certain that the Treasury should make a statement clarifying the position so that investors can appraise the relative values of partially tax exempt as against taxable securities, and can proceed with their investment programs. Under the present situation, investors are unlikely to do any important buying until they can decide which type of bond meets their individual requirements. In view of the statement at the press conference, however, it would seem that the Treasury is already committed against changing the deduction provisions as well as against lowering the normal tax rate.

"Now, here is a brief suggested press release. In

other words, I said to myself, well, if the Secretary - he has asked us what our views of this situation are. What would I do if I had the responsibility of taking the action? Well, this is my thought on it. "In view of the current uncertainty over the possibility of taxing outstanding partially tax exempt Federal Securities, attention is called to a statement by the Secretary of the Treasury at a press conference on January 26, when he said -" and this is just part of it. "I feel there is a contract which stands between the Federal Government and the holders of these Federal tax exempt securities, and I don't intend to directly or indirectly break that contract or circumvent it.

The Assistant Secretary of the Treasury later said, 'We have not considered lowering the normal tax on individuals or corporations.' Subsequently, consideration has been given to the possibility of changing the provision of law which now permits the deduction of expenses incurred in connection with the production of tax-exempt interest. Although, this possibility has been under study, the Treasury at no time reached a decision to recommend its enactment. After careful consideration the Treasury has reached the conclusion that such a change in the law might be construed as an attempt to circumvent the existing contract and has decided not to recommend that the change be made."

H.M.JR: Well, I don't--

MR. ECCLES: That could be cut down.

H.M.JR: There is a lot of stuff in there that I would hate to see the light of day until we had a chance, because this philosophy that you are laying down - because these people enjoy certain privileges of certain rates now, that that has sort of become part of the contract or by implication that we can't change them - I would certainly question that.

MR. PAUL: The basic point of difference--

- 7 -

(Mr. Bell enters the conference.)

H.M.JR: Did you forget about us?

MR. BELL: No, I didn't, I was in a conference.

H.M.JR: With China?

MR. BELL: Yes

H.M.JR: Well, I didn't know.

MR. BELL: It is all right. It is about to break up anyhow.

H.M.JR: We are all right here.

MR. BELL: It was about to break up anyhow.

H.M.JR: All right.

MR. PAUL. I think, Marriner, the basic point of difference between us is in the fact that we recognize the distinction between getting around and circumventing what is in the contract and the position of investors with regard to what we have said before and the position of investors with respect to an exemption provision or deduction provision in the statute. With respect to the former we want to lean over backward and live up to our contract, although we might, as you point out, reduce the normal tax. We recognize that legally we could do that.

MR. ECCLES: You wouldn't be breaking the contract.

MR. PAUL: It would be rather sharp practice, and we wouldn't want to try to do it. Now, on the other point of the deduction, nobody in the investment market has a right to assume that the law, as distinguished from what is in the contract, ought to be changed - can't be changed. He takes that risk in everything he does in the investment market. We all take that risk.

MR. ECCLES: He took a risk as to what the normal tax would be, likewise.

MR. PAUL: That is right. We don't want to go in as one of the parties to this contract and recommend a change in the meaning of the term, normal tax. That would be a suggestion by one of the parties to the contract that the meaning of the contract be changed, but when you are talking about a provision in the statute, everybody is on notice that the statute may be changed. You and I are on notice that we can't enjoy the rates of 1928.

MR. ECCLES: That is right. Of course, the normal tax is a provision of the contract.

MR. McKEE: I think this subject - after I read this material of these varied statements, I think you will find yourself not doing what you want to do, but what you have got to do because of statements. Now, I think you find yourself in a position, if these facts are correct in these quotations, that the Secretary is out here - never has changed his position from the statements that I read, but this other stuff has come behind the gates, so to speak, and hit the Street in a fashion that maybe he is thinking of changing his mind.

H.M.JR: That is right.

MR. McKEE: Now that is the complex I get from this statement, that your record at Cleveland and otherwise, here in your press conferences, doesn't give any indication that he is uncertain of his position.

MR. PAUL: That is right.

MR. McKEE: But this other thing has come around by conferences here, not with the Secretary, but in the office of the Treasury, that has leaked out and that has brought about a condition marketwise in the expectation that maybe the Secretary is going to change his mind. Now, I am just looking at this thing factually and isn't that what you have got to meet. Now if you have got to meet it, the Secretary has got to make up his mind whether he is going to stand on the statements he has made that the public has accepted or is he going to go along with some other approach that may change his statements at a later date. Now, that is the way it looks to me in cold facts.

MR. SULLIVAN: I think those are the alternatives, John. He still stands by the statement he made in his press conference but in his press conference he wasn't referring to the statutory limitations. He was referring to the contractual and he can clearly distinguish between those two when he makes his announcement and go ahead and say just what he is considering doing.

MR. McKEE: That is all right as far as you go. But marketwise, do you believe the construction placed on the statements made by the Secretary was just that?

MR. SULLIVAN: I don't know.

MR. McKEE: Well, I don't think so.

MR. MORRIS: I think originally it was.

MR. PAUL: I thought the papers understood it very well. Mr. morris looked them up last night and it

seemed that they had it very clearly.

MR. MORRIS: I think on the conference of January 26, the papers all had it, the careful ones, that the question was asked as to whether the intention was to do it by lowering the normal tax and the answers were all based on the question, by lowering the normal tax, in the newspapers the next morning, particularly the Tribune, said it was very clear what the Secretary had in mind, that it all related to this normal tax thing, and they passed it off. Then subsequent to that this other thing came around indirectly and I think that this statement is based on pointing out that it was by the normal tax and that is what we are sticking to because it is contractual.

MR. ECCLES: Yes, but the record wouldn't indicate that because John says the normal tax, and the Secretary directly or indirectly. Now, so far as the public is concerned, what they are - it is a question of the impression. You can't get technical. It is a question of what is the impression they got. Now, there is no question but what they got the impression that their status as an investor would not be changed.

MR. MCKEE: It was frozen.

MR. ECCLES: And whether you change it by one means or the other doesn't make any difference to them. If their net income is less as a result of action, whether it is reducing the normal tax or whether it is changing the '34 statute, which gives them a less benefit. The result is exactly the same and the difficulty of praying the value of their investment, of course, is increased and the uncertainty has increased, so I don't think that it is - I agree with John, it isn't a question so much what the technical meaning was because I don't believe that at that particular time either the Secretary or John or anybody else had thought of all these aspects of the problem and I think you have got to consider today from a market standpoint just what is the impression given and I don't believe the Secretary can afford, because

of his general reputation for standing so meticulously back of what he says and the impressions he gives, I don't believe that he can afford to have the public feel that there is any circumvention whatever on this thing.

H.M.JR: That is right.

MR. ECCLES: From a market point of view.

H.M.JR: But give my boys a chance to answer that memorandum.

MR. ECCLES: I will be glad to.

H.M.JR: Because there are things in there which I would like them to argue with you.

MR. ECCLES: Well, I don't think that you - you possibly didn't understand it all.

MR. MORRIS: I would like to get the papers of the next day and have you all look at them because they are interesting reading.

MR. PAUL: We got out the papers last night.

H.M.JR: But there is stuff in Marriner's statement--

MR. PAUL: Well, we just got that.

H.M.JR: Well, he will give it to you.

MR. McKEE: You had pretty much the same quotations. I would like to call attention to another phase of this. Like so many of these questions of principle, it often is very important, precisely what one is going to do. Now, we had a conversation yesterday afternoon, Marriner, in which you said, "Which expenses are we talking about?" And we talked about - for instance, you said, "Well, it doesn't make any difference. Most of the banks in the country don't have any--"

MR. ECCLES: That is right, allocations.

(Discussion off the record)

MR. PAUL: I want to get down to brass tacks.

H.M.JR: That is all right.

MR. PAUL: As to exactly what expenses we are talking about. We were talking yesterday, Marriner, about how none of the country banks have any expenses connected with tax exempts.

MR. ECCLES: Very few of the banks--

MR. PAUL: And by that we mean expenses of maintaining tax exempt portfolios, don't we.

MR. ECCLES: That is right.

MR. PAUL: The expenses of picking out the bonds and servicing that department, but there is no use talking about this whole question unless you recognize one essential fact, that the expenses of getting deposits, getting the money which is involved - which is invested by the bank in tax exempts, are allocable to tax exempt income and that would effect the country banks and all the other banks and it isn't only a matter of a tax exempt department in a bank, it is a matter of charging tax exempt income with the expenses connected with getting the money in to the bank by way of deposit, which is investment in tax exempt securities. Now, if we don't face that fact, we don't-- then there is no use talking about this question.

MR. ECCLES: That is right, and that leaves, of course, a very uncertain element as to what that is.

MR. PAUL: Well, that is the point of the banks' plea to us that we should use a dollar basis.

H.M.JR: May I just butt in on this thing?

MR. PAUL: Surely. I want you to understand it.

H.M.JR: I would like to butt in. This thing, of course, I am disappointed. I thought that you fellows were going to come in with a recommendation. Instead of that, you end up by no formula or allocation has yet been agreed upon. It is hoped that a generally acceptable one may be devised. Well, as far as the bond market is concerned, what I wanted to do was to let them know one way or the other where we stand and this doesn't let them know anything.

MR. PAUL: Well, this does let them know--

H.M.JR: That we don't know.

MR. PAUL: Don't know what form--

MR. McKEE: You haven't made up your mind yet.

MR. SULLIVAN: That is what I was going to suggest, Mr. Secretary.

H.M.JR: Well, this doesn't help me.

MR. SULLIVAN: If you are going to make any announcement, and the market is better today, we had better wait until we know what proportion is going to be allocated.

MR. PAUL: We can't do that now.

MR. SULLIVAN: If we are going to follow this course we shouldn't say so until we know and can tell them and I am afraid that leaving it up in the air this way would just add fuel to the flames.

MR. BELL: Then you have got another statement to make after you make this one.

MR. SULLIVAN: Yes. I think if the bankers are coming in in a couple of days, and I understand from

Tom they are, it is much better to wait that forty-eight hours and give it to them and end it right then and there if we are going to do it.

MR. PAUL: But if you are going to make a statement today, and that is what we are going on, this is all the statement you can make.

H.M.JR: Then we don't make any.

MR. PAUL: Then that is another matter.

MR. McKEE: I don't agree with that. I don't say that today is the day to make a statement, and I would favor John's approach on waiting to see - you may end that you don't have to make any statement at this particular time because the Secretary's record is still the record. Although other stuff is make-believe stuff behind the Secretary's record. Isn't that right? Conversations have been carried from your office out by bankers' associations and so forth which isn't any record. Now, without any statement you stand on the record already made by the Secretary. Isn't that right?

H.M.JR: And the record is all right.

MR. McKEE: The record is such that what you have said and what the boys have learned from the Treasury has caused a fog. Now, it may some place need some clarification. Maybe today isn't the right day. Now, what kind of a clarification will you make? I don't care which way you go on this thing, but I am thinking of your record and I think that what you have got to maintain here is that what you say - if you put out that statement, I would say that you are probably trying to whipsaw what you had said here before to such an extent that - well, they don't know what you are going to stand for. Now, you can't afford to have that out.

MR. PAUL: That is the best thing you can get

out today.

MR. SULLIVAN: That is right.

MR. PAUL: John and Morris and Roy Blough and we all worked on that and agreed on it as the best statement you can get out right now.

MR. SULLIVAN: That is right.

MR. ECCLES: Well, that is from a tax standpoint. You fellows, of course, have approached it from a tax standpoint. Now you get over to the market side of the picture, which is another question. It seems to me that you could make a statement that you are not going to recommend that change that you people are recommending be made.

MR. PAUL: That is right. You can do that.

MR. RANSOM: That means that the Secretary has reached a final decision so far as his position is concerned.

MR. ECCLES: That is right, that he would consider that doing indirectly which the market, some of the market feel, that it is doing directly, see.

MR. PAUL: If you decided the policy question that way then you can make a statement.

H.M.JR: Then summing it up, I stand on my record of January 26, until the time arrives that we in the Treasury can say which way we are going to go, as far as the expense item is concerned. That is all that it amounts to.

MR. ECCLES: That is right, but that still leaves the element of uncertainty in the market as to whether or not you are going to finally recommend as a matter of policy that you follow the recommendations of John and Randolph or you don't follow it. Now, if you don't follow it--

H.M.JR: Well, we will have to make up our mind when we make up our mind that is the time to make a statement.

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MR. McKEE: That is right, but you have got to think of the record you have already made.

MR. ECCLES: The market says in the meantime, "If you do follow that recommendation, that is doing indirectly--"

H.M.JR: Well, I mean the most important thing in government finance, you can read all the text books, there is just one thing, and that is, when the Secretary of the Treasury says something and that is to make them believe that is that.

MR. McKEE: That is right, and you are not going to change your mind.

H.M.JR: Right or wrong.

MR. ECCLES. But I think if you follow the tax people, the market would construe your doing it indirectly.

H.M.JR: That is why we had the Assistant Secretary nameless.

MR. SULLIVAN: I am glad we have got the Secretary named there so they won't decide it is Andrew Mellon.
(Laughter)

(Discussion off the record.)

H.M.JR: Well look, gents, this is the thing we have got to do. We are going to have to fish or cut bait damn fast on this tax program and I have asked the President to give us an appointment, so we are just going to have to cut - and also the other thing which I have been thinking about, pending an announcement of the whole tax program, to come out and say the Treasury Department announces that you can or can not deduct your expenses from taxables looks like a mouse out of a mountain.

MR. ECCLES: Only as you refer it to the statement that you made. In other words, only to the extent that you clarify what you meant by - indirectly as well as directly. You said directly, and that meant, of course, and John clarified that when he said that there would be no change recommended in the normal tax. Now, the

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question comes along, is it accomplishing the same thing indirectly by this other proposal to amend the 1934 requirement which so far as the investor is concerned, affects his income in the same manner?

H.M.JR: Let me ask you this. I don't know how much time you people have got, but couldn't you kind of have a knock-down and drag-out fight on this thing and come to a decision, try to come to a decision, whether permitting them - whether saying to these people, "You can no longer deduct your taxable expenses from non taxables,--

MR. PAUL: Deduct from your taxable income your non-taxable expenses.

H.M.JR: Yes, that that would be in any way circumventing my statement, you see. Have you got--

MR. ECCLES: It isn't what we think, necessarily, it's what the public might interpret it to be.

H.M.JR: Have you got a little time now?

MR. ECCLES: Oh, sure.

MR. PAUL: All right.

MR. ECCLES: It is a question of policy. I don't know whether we could--

MR. McKEE: I think we are here--

MR. PAUL: I have had plenty of fights with Marriner before. (Laughter)

MR. McKEE: I think we are here to advise you and that is what you asked for, and I predicated my thinking on this thing that I don't care which way it goes, and I would rather see it go for the benefit of the Government, but I think I am lead by the statements the Secretary has made, and I don't think for what money is involved

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you can afford for the good of the credit system of this government and maintaining a market, that you can afford to put him out on any limb that is going to be misconstrued.

MR. ECCLES: That is the way I feel. With the huge amount of financing to be done, I just don't feel that this thing is of sufficient importance to have anybody say that the Secretary is getting around this.

MR. PAUL: It isn't of any importance unless we answer that other question about expenses of getting the money.

MR. ECCLES: That is right.

H.M.JR: Well, have you fellows got a little time? Could you go in somebody's office?

MR. PAUL: You can come on in my office and we will have a fight.

H.M.JR: Well, I want to say this, I appreciate the attitude of the Federal Reserve on this thing in wanting me to uphold my hand, which is very, very important in these times, and I would like to just say here now, I think that for myself, that we have really been working closer together than we have any time since I have been here, and it means a lot to me.

MR. ECCLES: We are all either going to hang together or hang separately.

H.M.JR: I will tell you something that is very interesting about this war. Some people can't take it and some can. Some get along better, and some don't. I think the one thing that this war has done is to bring the Treasury closer to the Federal Reserve than we have been at any time, and that is the way I would like it, because on that basis we can lick the world on the financial front and we have got to do it, but I think it has brought us closer together, and I think it is very important and it is very encouraging to me.

MR. ECCLES: Well, I feel the same way about it. I feel that we are going down the same road here, and we all have the same objective, and we seem to have about the same way of reaching that objective.

H.M.JR: Now, one thing that happened here after you fellows left along the same line, Burgess and Stonier came in. They wanted to know what they could do to help. They got to talking about this thing and that thing, a committee on this and a committee on that and a committee on something else. So I said, "Now look, gentlemen, we have got a lot of things and I know Burgess very well, and if you people" - I mentioned this problem and having seen and talked to the ABA and how this thing circulated and so forth, and I said, "If you people are willing and I can get you fellows so I don't have to do business with about six different people, before we do this thing we will let you take a look at it." "Now, I said, "it may not please you, but at least you will know where we stand." "And," I said, "there are a lot of other things and this is the point." I said, "I would like the ABA to do their own policing. I don't want to be telling banks what to do, if that would be agreeable to you fellows." They said it would. Then Dan brought up a point about the clearing house in Chicago passing a resolution that all "E" Bonds should be handled by the Federal Reserve and no longer by the local banks. I said, "What about it?" They said, "You leave that to us, and we will take it up and handle it for you." I think that attitude is very encouraging, and I would like to, when I see them - I think if the Fed and ourselves could see them together so I won't be telling them one thing and you another, that would be a move in the right direction, if that would be agreeable. I mean, to Burgess and Stonier say, "Now look, we have worked out a program, the Fed and ourselves, will you come on down, and before we shoot it we will let you see it." If we saw them together they would know we were together, and I hope you will like this idea of my telling them they should police themselves rather than we trying to scold them or anything like that. What? Give them a chance. Don't you think so?

MR. ECCLES: I think that is right.

H.M.JR: I mean, take this thing of the clearing house in Chicago. Now, both boys will get busy and take care of it. It is damn sight easier for us and for you.

MR. BELL: They did, Mr. Secretary. They went right out of here and telephoned, and our information was a little wrong. What happened was that the Standard Oil Company of Indiana had adopted the payroll deduction plan, and in order to issue the bonds and keep the record that required - it required employment of about two-hundred people. They went to the Chicago banks and asked them to issue the bonds for them. The Chicago bank said they couldn't do that, they couldn't put on two-hundred people to issue the Standard Oil Company bonds. They were an issuing agent, and why didn't they do it? They said, "Take it over to the Federal Reserve Bank." I think you (Eccles) said that is right, and they are making arrangements to do it. Then Brown sent word to you that there wasn't any change in the general attitude of the Chicago banks. They are going right ahead and issuing the bonds the same as they always have to everybody that comes in their banks, but they didn't think it was fair for them to do the Standard Oil Company's business.

H.M.JR: But they cleared it up?

MR. BELL: Yes, that was cleared up in thirty minutes after they left the office.

H.M.JR: Through the ABA?

MR. BELL: That is right

MR. MCKEE: That brings up the situation that I want to throw in your lap here, that you have just got to open your minds to. I have got a lot of faith in this payroll deduction plan, and I think you have too, and I don't want to see it fail, but there are just such companies as that that are too busy doing war work to bother issuing bonds, and several of them have gone to banks, and are willing to pay the out of pocket expense

it would cost them to issue it and let the banks take it on in their Trust Department for a service charge from the company, not from anybody else, not from the Government. Now, a lot of that is going to be done. Here is the Pennsylvania Railroad with a hundred and four thousand employees, Dupont with a hundred thousand employees; they are busy doing other things, and they can't assume the responsibility as issuing agents. Now, we are starting out on a campaign to try to make them issuing agents. Let's not destroy it, the payroll deduction plan, if they don't want to be issuing agents. Now, let's find another medium.

MR. BELL: If you allow Standard to go pay a bank and the other bank doesn't get any pay, you are going to get into difficulty.

MR. McKEE: I think that is all a question of volume, Dan. In the first place, you haven't any right to - you haven't any authority whatsoever to keep the Standard Oil Company from paying the Continental Bank for that kind of services.

MR. BELL: No, we have no authority.

H.M.JR: Have you tried to do that?

MR. BELL: No, not that I know of.

H.M.JR: Who handles this for the Fed? You do?

MR. ECCLES: John does.

MR. BELL: John is the liaison on the committee.

H.M.JR: I know, I am mixed up. I mean, have you raised this question before?

MR. MORRIS: Yes, it is up and I have been talking a little bit. I haven't had a chance to see Dan Bell. I talked to Harold Graves about it yesterday.

H.M.JR: Well, get--

MR. MORRIS: He felt that while we had no authority to say no, that he was at the moment opposed to it, and I talked to Mr. McKee this morning, and he felt the other way, and as I said, I want to explore it further and I was going to get hold of Dan on it.

H.M.JR: Well, you had better see him.

MR. McKEE: I just don't want anything to stop the payroll deduction plan.

H.M.JR: You and me both.

MR. McKEE: Whether Graves likes it or not.

H.M.JR: Well, I don't - I think on a matter like that Graves would abide by what the banking people - I mean, you people and - you know, the people that are handling that.

MR. MORRIS: That is up for further discussion, and it just came up.

H.M.JR: Well, it ought to be settled now.

MR. MORRIS: This afternoon--

MR. McKEE: That is what brought this thing up in Chicago.

H.M.JR: Well, do you want to go in with Paul and Sullivan?

MR. ECCLES: I don't think we can do much, but we will go in there.

At a Treasury press conference held on January 26, 1942, a question was asked as to whether the Treasury had "any intention of indirectly reaching some of the partially exempt Federal securities by lowering the normal tax." An Assistant Secretary of the Treasury replied: "We have not considered lowering the normal tax on individuals or corporations. On the other hand, we are opposed to any increase in the normal tax, and we think that any increases the Congress considers should be increases in surtaxes, rather than in normal taxes. The reason why we are not considering a reduction in the normal taxes is, as the Secretary said, we do not wish to attempt to do by indirection what we think we cannot openly accomplish directly." In response to a question whether it was intended to resort "to the old Glass scheme of using tax exempt income as a base to put taxable income in a higher bracket," the Secretary of the Treasury said: "~~I think we have gone around the thing pretty much.~~ I said I am opposed - let me go over it once more. I recognize a contract exists between the Federal

Government and the men or women who have bought our securities, and we don't propose by direction or indirection to tax them on this income, as long as these issues are outstanding."

The Treasury's statement was intended to make clear that it would fully respect the contractual provisions of its partially exempt bonds now outstanding in the approximate amount of \$50 billion. Such bonds have not been issued since the Public Debt Act of 1941 making all subsequent issues fully taxable. It was intended to state a policy that no attempt would be made to impair the exemption accorded to these outstanding bonds by direct means, by the so-called "Glass" plan, or by the expedient of reducing the normal tax.

Unfortunately, some confusion has arisen with respect to an entirely different question. At the present time persons having both taxable earnings and tax exempt interest have an advantage, as compared with other taxpayers, in that they are permitted to reduce their taxable earnings by the expense incurred in connection with the production of their tax exempt interest. The privilege of

deducting such expenses from taxable earnings is entirely a matter of legislative grace and has no bearing on the contractual obligation of the Federal Government not to impose taxes on tax exempt interest. Quite to the contrary, the privilege constitutes a loophole in the statute which has long been apparent and has permitted certain taxable earnings to avoid their fair share of the tax burden.

Since banks are large holders of Federal partially tax exempt securities, members of the Treasury's staff have had under discussion with representatives of the banking profession a method of charging against taxable earnings the expenses of banks which are a proper deduction from earnings and withdrawing the privilege of deducting from taxable earnings the expenses properly applicable to tax exempt interest. Suggestions have been made for a formula to accomplish this result. No formula of allocation has yet been finally agreed upon, but it is hoped that a generally acceptable one may be devised.

From The Eccles

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February 19, 1942

MEMORANDUM ON TAXATION OF PARTIALLY TAX-EXEMPT FEDERAL SECURITIES

STRICTLY CONFIDENTIAL

According to the February 14 edition of Goldsmith's letter, which is widely read in financial circles, the following statements on taxation of partially tax-exempt Federal securities were made at the Secretary's press conference on January 26:

"Since Secretary Morgenthau gave the war as a reason for a change of policy on outstanding State and Municipal securities, he was naturally asked by reporters why the war did not also necessitate a change in the tax policy on outstanding partially tax-exempt Treasury bonds. He replied:

'Because where Federal issues are concerned, there is a contract between the Federal Government and the holder of these issues, and there is no contract between the Federal Government and a holder of a State or Municipal.' And later Secretary Morgenthau added: 'I feel that there is a contract which stands between the Federal Government and the holder of these Federal tax-exempt securities, and I don't intend to directly or indirectly break that contract or circumvent it. Is that flat enough?'

"When asked specifically whether he had any intention of indirectly reaching some of the partially tax-exempt Treasury bonds by lowering the normal tax, Secretary Morgenthau indicated that he was expecting that question which he referred to Assistant Secretary John L. Sullivan. Mr. Sullivan said:

'We have not considered lowering the normal tax on individuals or corporations. On the other hand, we are opposed to any increase in the normal tax, and we think that any increase the Congress considers should be increases in surtaxes, rather than in normal taxes. The reason why we are not considering a reduction in the normal taxes, is, as the Secretary said, we do not wish to attempt to do by indirection what we think we cannot openly accomplish directly. We think it would be pretty much --' At this point Secretary Morgenthau added: 'We don't want to circumvent.'

"Then Secretary Morgenthau was asked whether what he said applied to the old Glass scheme (proposed by Senator Carter Glass when he was Secretary of the Treasury in 1919) of placing taxable income of people who had tax-exempt income in a higher tax bracket. Secretary Morgenthau replied:

'I think we have gone around the thing pretty much. I said I am opposed -- let me go over it once more. I recognize a contract exists between the Federal Government and the men or women who have bought our securities, and we don't propose by direction or indirection to tax them on this income as long as these issues are outstanding. Doesn't that cover the waterfront?'

It appears that these remarks say explicitly that the Treasury does not propose directly or indirectly to break or circumvent the contract with the holder of Federal tax-exempt securities. This seems clearly to indicate not only that the Treasury does not propose to lower the normal tax rate but that they do not propose any change in the law or in the regulations that would have the same effect as would a lowering of the normal tax rate. The market seems at first to have placed the same interpretation on the statement. The 1960-65s, which had declined by 26/32 since the rumors first started, recovered by 10/32 on the two days following the press conference. As new rumors developed, however, this recovery was quickly lost, and at yesterday's close the 1960-65s were quoted at 108 3/32, a decline since January 13 of 2 1/32.

As far as the law is concerned, Congress has the power to reduce the normal tax to a negligible figure if not to eliminate it altogether. Congress has power also to change the provisions regarding deductions in computing net income. Neither change would directly abrogate the Treasury's contract regarding partially tax-exempt Treasury bonds, which reads "The bonds shall be exempt, both as to principal and interest, from all taxation now or hereafter imposed by the United States, any State, or any of the possessions of the United States, or by any local taxing authority, except (a) estate or inheritance taxes, or gift taxes, and (b) graduated additional income taxes, commonly known as surtaxes, and excess-profits and war-profits taxes, now or hereafter imposed by the United States, upon the income or profits of individuals, partnerships, associations, or corporations". As far as indirection and circumvention are concerned, there appears to be no difference from the point of view of the investor whether the normal tax is lowered or the same result is achieved by reducing deductions.

If it is argued that the present deduction provisions are unfair and should never have been inserted in the law, the argument could be made that the normal rate should never have been raised to 2 1/4 per cent, and the tax increases of recent years should all have been in the form of a surtax. If this had been done the rate of interest on new issues of partially tax-exempt Federal securities would have been higher than was actually the case. It is true that some of these securities were issued when the normal tax rate was lower than the present 2 1/4 per cent and that original purchasers have received somewhat of a windfall as a result of subsequent increases in the normal tax rate. It is also true, however, that investors since that time have bought partially tax-exempt securities at premiums that were predicated on the maintenance of the 2 1/4 per cent rate. It would appear to be a violation not of the strict legal contract but of the implied terms of the contract to reduce the normal rate. From the point of view of investors, however, the deduction provisions are as much a part of the implied terms of the contract as is the normal rate, since the two are tied together in determining the amount of tax that will have to be paid.

It appears that the discussion of changing the deduction provisions has stirred up a large amount of uncertainty, both as to present and future tax policy, where only a small amount of revenue is involved. The present provisions do not seem to be a loophole any more than is the existence of Federal tax-exempt securities, and as mentioned above they appear to be as much a part of the implied contract as is maintenance of the present normal rate. The original reason for inserting the provision in the law was to help both the Federal and the State and local security markets. There is more reason now than there was in 1934, when the provision was enacted, for helping the Federal security market.

It does not appear that failure to change the deduction provisions would affect the possibility of obtaining the taxation of State and local securities. The argument for the latter is that the Federal Government has no contractual obligation to holders of these securities. It is proposed to remove the tax-exemption of State and local securities by a new provision of the law with no reference to the deduction provisions. In fact there seems to be no reason for drawing attention to this provision in connection with the proposed tax bill.

In view of the present market situation it seems certain that the Treasury should make a statement clarifying the position, so that investors can appraise the relative values of partially tax-exempt as against taxable securities and can proceed with their investment programs. Under the present situation investors are unlikely to do any important buying until they can decide which type of bond meets their own individual requirements. Even if the decision is unfavorable to holders of partially tax-exempt bonds, such an announcement would remove one important uncertainty and probably would greatly improve the situation in the market. In view of the statements at the press conference, however, it would seem that the Treasury is already committed against changing the deduction provisions as well as against lowering the normal tax rate.

The Banker in Wartime

The banks of the United States have a major role in the war. They are the principal channel between the Treasury and the investor. They themselves are large buyers of government securities. They are a contact point between government and war industry. Their machinery is used at almost every step in the great war program.

Fulfillment of this great responsibility will be aided by a clear definition and wide recognition of the banker's duties. That is the purpose of this statement.

Financing the War

To avoid inflation the government must draw its funds primarily from the current income of individuals and savings institutions and only secondarily from commercial banks. It is the duty of the banks,—

1. To encourage thrift and discourage spending so as to accumulate funds for war.
2. To push vigorously the sale of defense savings bonds and stamps and tax anticipation notes.
3. To subscribe for Treasury issues suitable for banks.
4. To help maintain a broad and dependable market for government securities.
5. To advise with the Treasury and the Federal Reserve System in planning government fiscal policies.

Aid to War Production

Business large and small alike must be mobilized for war. The banker can help through his knowledge of business and government, and his power to lend. It is his task,—

1. To assist small business with war orders.
2. To finance war industry both in plant expansion and in current operations.
3. To participate with Federal financing agencies when the job extends beyond proper banking scope.
4. To advise with business customers in converting plants to war use, in dealing with government agencies, and in other war problems.
5. To lend to the farmer and distributor for the "Food and Feed" defense program.
6. To scrutinize non-defense loans with care and to discourage expenditures which might compete with war production for materials or labor.

7. To cooperate in the regulation of consumer credit under Regulation W.

Keeping the Economic Machine Running

The country's whole economic machine must be put in high gear, to run as it never ran before. Almost every business transaction involves banking: the use of checks or money; buying materials or meeting payrolls; transferring funds; handling securities. The banker's ordinary job has become a war job. It is his responsibility therefore,—

1. To provide for business and government deposit, checking, transfer, and payroll facilities, on a new and larger scale.
2. To sell and distribute vast numbers of defense bonds and stamps, tax anticipation notes, and handle tax checks.
3. To cooperate with the Treasury in dealing with foreign funds.
3. To offer special services for men in the armed forces.
5. To help interpret government to business and business to government that they may work together with understanding and unity.

These tasks must be carried through swiftly and accurately while many bank workers are entering military and special services. This means harder work and longer hours for Bank Staffs from top to bottom.

A House in Order

The Nation faces years of great industrial and financial expansion and severe readjustments. To play his part effectively the banker's own house must be kept in order. It is his duty,—

1. To preserve the quality of his bank's assets.
2. To husband his resources through a prudent policy of reserves and dividends.
3. To practice as well as preach the gospel of *work and save*.

—And in the Community

As a citizen of his community the banker who is not himself called into the armed services has special obligations,—

1. To share with others the responsibility for the success of Red Cross and United Service activities and civilian defense.
2. To make local, state, and national bankers' organizations effective agencies in

the Nation's service.

3. To help the public understand war taxes, war restrictions, rationing, price controls, and other war measures which depend for their success upon public cooperation and public morale.

—A Statement of
the Economic Policy Commission,
American Bankers Association.



THE GOLDSMITH WASHINGTON OFFICE

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UNITED STATES GOVERNMENT

NATIONAL PRESS BUILDING

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WASH

BULLETIN NO. 180

ISSUED EVERY OTHER WEEK AT \$50 THE YEAR

FEBRUARY 14, 1962

The Treasury announced the offering for cash of \$1,500,000,000 of 2¼% Treasury bonds, 1952-55, last Friday.

The terms of this offering were in accordance with the majority view of those consulted in financial circles. It is true that in the week preceding the offering a minority of bankers and dealers consulted thought the offering should include a 2½% issue, of course somewhat shorter than the 2½'s 1967-72. And when the war news turned bad towards the "deadline" others suggested that part of the offering should be confined to Treasury notes.

There was no change in the method of accepting subscriptions as compared with the last offering of 2½'s of 1967-72 in December.

Although there have been almost continuous discussions between Federal Reserve officials and the Treasury in regard to long-range methods of financing the war, there is no indication that the Treasury has as yet adopted any long-range blueprint. It is known that Chairman Marriner S. Eccles and the members of the Federal Reserve Board have been of the opinion for some time that the Treasury should indicate to the bond market the general methods it proposes to utilize in financing the war and the pattern of interest rates that would be acceptable to the Government. On this basis the cooperation of the financial community towards such a general plan could be invited. An increasing number of financial institutions now agree that they would welcome an indication of the Treasury's wishes along these lines.

But there are indications that after the present financing is out of the way these Treasury-Federal Reserve Board discussions to work out a long range pattern will be resumed. In view of the large amount of Government financing that will necessarily be effected through the commercial banks, some leading bankers are particularly anxious that the Treasury adopt a policy of selling only short and intermediate maturities to the banking system. There will be more on this soon.

Although our involvement in war has been a distinct possibility for more than a year, the Treasury has not even completed the drafting of its war-time tax recommendations. No one knows when the Treasury will be ready to present its tax program to the House Ways and Means Committee. There is a growing belief that Secretary Morgenthau's present policy of operating the Treasury Department on a twenty-four hour basis is partly to blame for these delays. I am attempting to give you an objective report on tax developments that may affect the relative position of partially tax-exempt Treasury securities herewith.

THE POSITION OF PARTIALLY TAX-EXEMPT TREASURY NOTES

A new plan to reduce the tax exemption now enjoyed by banks and other financial institutions, by virtue of their large holdings of totally and partially tax-exempt bonds, is now under consideration by the Treasury's tax experts. During the past two weeks they have had conferences with certain bankers in which a tentative formula for this purpose has been submitted to them in confidence and at their request for their suggestions.

But Secretary Morgenthau has not studied or passed on this proposal. It is entirely in the discussion stage. I am certain that the Treasury

would welcome suggestions on this question from anyone interested at this time.

Treasury technicians are trying to find as simple a formula as possible for income tax purposes to make it mandatory for financial institutions to segregate their expenses and if that is impractical, to allocate them to three types of income: (1) totally tax-exempt income, (2) partially tax-exempt income, and, (3) totally taxable income.

Under the proposed plan it would in the future become mandatory for these financial institutions to allocate that part of their expenses incurred in acquiring, trading in and handling partially and totally tax-exempt securities and in obtaining the deposits to be thus invested, against partially or totally tax-exempt income. That part of their

expenses would therefore in the future not be an effective deduction for income tax purposes.

Heretofore these institutions have been permitted to deduct all their expenses from their taxable income. That is one of the reasons banks have paid relatively low taxes. The plan recently submitted by Treasury officials to bankers for their reaction would permit banks to apply only expenses actually incurred in obtaining taxable income against that income.

Since the formula to solve "this problem" is still in the discussion stage and details are not available, it is not possible to estimate the extent the adoption of such a plan would effect the relative position of partially tax-exempt Treasury bonds as compared with fully taxable ones. But since the tax exemption appertaining to partially and totally tax-exempt bonds would under the plan be less valuable to many financial institutions, there can be no doubt that the relative desirability of totally and partially tax-exempt securities would suffer.

For these reasons some people in the "street" feel that the above proposal of Treasury tax experts is contrary to statements made by Secretary Morgenthau in his press conference only three weeks ago. Many bankers reached the conclusion that Secretary Morgenthau had by his language indicated that the relative position of the partially tax-exempt Treasury bonds would not be altered by the Treasury's coming tax recommendations.

So that you may judge for yourself as to whether the present Treasury proposal is contrary to the statements made by Secretary Morgenthau three weeks ago, I herewith give you the pertinent quotations from that conference. It was held on Monday, January 26th, following Secretary Morgenthau's speech in Cleveland the preceding Saturday, in which he came out in favor of taxing *outstanding* as well as *future* issues of State and Municipal securities.

Since Secretary Morgenthau gave the war as a reason for a change of policy on outstanding State and Municipal securities, he was naturally asked by reporters why the war did not also necessitate a change in the tax policy on outstanding partially tax-exempt Treasury bonds. He replied:

"Because where Federal issues are concerned, there is a contract between the Federal Government and the holder of these issues, and there is no contract between the Federal Government and a holder of a State or Municipal."

And later Secretary Morgenthau added:

"I feel that there is a contract which stands between the Federal Government and the holder of these Federal tax-exempt securities, and I don't intend to directly or indirectly break that contract or circumvent it. Is that flat enough?"

When asked specifically whether he had any

intention of indirectly reaching some of the partially tax-exempt Treasury bonds by lowering the normal tax, Secretary Morgenthau indicated that he was expecting that question which he referred to Assistant Secretary John L. Sullivan. Mr. Sullivan said:

"We have not considered lowering the normal tax on individuals or corporations. On the other hand, we are opposed to any increase in the normal tax, and we think that any increase the Congress considers should be increases in surtaxes, rather than in normal taxes. The reason why we are not considering a reduction in the normal taxes, is, as the Secretary said, we do not wish to attempt to do by indirection what we think we cannot openly accomplish directly. We think it would be pretty much—"

At this point Secretary Morgenthau added:

"We don't want to circumvent."

Then Secretary Morgenthau was asked whether what he said applied to the old Glass scheme (proposed by Senator Carter Glass when he was Secretary of the Treasury in 1919) of placing taxable income of people who had tax-exempt income in a higher tax bracket. Secretary Morgenthau replied:

"I think we have gone around the thing pretty much. I said I am opposed—let me go over it once more. I recognize a contract exists between the Federal Government and the men or women who have bought our securities, and we don't propose by direction or indirection to tax them on this income as long as these issues are outstanding. Doesn't that cover the waterfront?"

TREASURY TAX EXPERTS DENY CONTRADICTION
Treasury tax experts deny that the plan now proposed and outlined above is in contradiction to statements made by Secretary Morgenthau in his press conference on January 26th. They point out that from a legal point of view there is no connection whatsoever between the now discarded proposal to reduce the normal tax and the one outlined in this letter.

Treasury tax experts point to two provisions in the present tax laws as a precedent for the proposal they have tentatively drafted.

One of these is Section 23 of the Internal Revenue Code which prohibits the deduction from gross income of interest paid for the purpose of carrying obligations, the interest upon which is wholly exempt from the taxes imposed by "this chapter." That provision has been in the Internal Revenue Code for over twenty years. It was placed there to prevent what was considered a double exemption. It is pointed out that the double exemption that would be enjoyed if it were not for this section, is similar to the present privilege of financial institutions to write off expenses incurred in obtaining tax-exempt interest against their totally tax-exempt income.

In addition, Treasury tax experts refer to (5) of Section 24 of the Revenue Code which in effect provides that the taxpayer may not deduct expenses connected with all tax-free income (other than interest) from gross income. This section expressly excludes interest from this general prohibition.

It is pointed out that (5) Section 24 was adopted in the Revenue Act of 1934. When this bill was first adopted by the House, interest was not exempt from this prohibition. But the Senate Finance Committee specifically excluded tax-exempt interest from the general prohibition in this section. One of the reasons why tax-exempt interest was excluded from this general prohibition in the law is because of the special problems involved in allocating expenses between tax-exempt and taxable interest. That is the technical problem Treasury experts are now attempting to solve.

It is ironical, however, that the Senate Finance Committee's report covering the 1934 Revenue Act excluded interest from this general prohibition in part on the grounds that its inclusion would make the sale of Government, State and Municipal securities more difficult.

It should be pointed out that the Treasury tax experts who drew up the tentative plan discussed in this letter were asked to make studies on methods of closing every possible loophole in the tax laws. They considered the existing exclusion of tax-exempt interest from the prohibition in Section 24 as one possible loophole. But these tax experts are not policy makers and they drew up the proposed plan only to have information ready so that Secretary Morgenthau might recommend it if he decided it was advisable from a policy point of view.

I am not competent to analyze the legal approach of Treasury experts on the recent proposal discussed herein. But it is my observation that sentiment in financial circles is perhaps more adversely affected by the piecemeal and sometimes contradictory manner in which Treasury announcements of vital interest to the holders of Federal securities are made, than by the proposals themselves. Unprepared statements in reply to questions in Secretary Morgenthau's press conference are considered the wrong way to advise holders of Federal securities of a change in their status. It is, moreover, impossible for Treasury officials to discuss in confidence technical matters vitally affecting the position of Government securities with members of Congress or groups of bankers without generating general discussions frequently with inadequate information in market circles. It would, therefore, seem advisable, wherever possible, for the Treasury to reach at least tentative conclusions on questions vital to the market with Secretary Morgenthau's personal

sanction—to make these tentative programs public and only then to obtain a general reaction from those active in the Government bond market. But I would like to add that this is just an opinion. Government officials are frequently damned when they don't consult people in business in advance; now it appears they may be damned if they do.

The Treasury's present proposal would require legislation. It is much too early to judge what the reaction of Congress to such a proposal will be. And it should be repeated that Secretary Morgenthau has not passed on this proposal and he may not even recommend it.

DIRECT PURCHASES OF GOVERNMENTS

There is no doubt that the Administration's proposal to permit direct purchases of Government securities by the Federal Reserve System from the Treasury will be adopted in the near future. The Republicans will object and attempt to obtain limiting amendments but they will be outvoted. The House Judiciary Committee approved this section in the following language and I quote the report in full:

"Title IV of the bill authorizes the Federal Reserve banks to purchase Government securities directly from the Government instead of limiting such purchases to the open market.

"During the last World War and until 1935, Federal Reserve banks had authority to make purchases of Government securities directly from the Government. In 1935 the Federal Open Market Committee, consisting of the members of the Federal Reserve Board and five representatives of the Federal Reserve banks, was empowered to control the purchases and sales of Government securities which were made by the twelve Federal Reserve banks. It was then felt desirable to restrict purchases of Government securities to purchases in the open market. In view of the war emergency and the huge amount of borrowing that will be necessary to finance the war, the Federal Reserve System must now be able to meet any situation which may arise.

"The Chairman of the Federal Reserve Board advised this committee that it is essential for the Federal Reserve System to be given the power to purchase Government securities directly from the Government as well as in the open market in order to maintain a stable market for Government securities during the war. It was represented to this committee that this power will not be used as a substitute for the ordinary method of financing Government securities but will be used as an extraordinary power at times when the stability of the market might otherwise be impaired.

"The power is necessary to enable the Federal Reserve System to aid the Treasury Department, which concurs in the necessity for this amendment, to meet emergencies which may arise during

the war, the exact nature of which cannot be foreseen at this time. It is a power now possessed by other central banks, such as the Bank of Canada and the Bank of England.

"The committee is of the opinion that this title is essential not only for the purpose of war financing, but as a protection to the holders of Government securities who may be disastrously affected if the Government securities market does not remain stable."

MR. ECCLES EXPLAINS

The debate on the whole question of selling Governments directly to the Federal Reserve System has been pretty "muddy" on both sides. Mr. Eccles' testimony, however, before the House Judiciary Committee which is quoted below was very clear from his point of view. An important thought may have, however, escaped him. This provision makes it easier for the Government to finance the war through the banking system—the Federal Reserve Banks or the commercial banks. That is the easy and the unsound way to finance the war. Administration leaders seem to agree that the sound way to finance the war is to take the excess purchasing power away from the people by "forced savings" or taxes. I am giving you as much of Mr. Eccles' testimony on this proposal as space permits:

"This restriction was put in the Federal Reserve Act by the Senate. The House had passed the Banking Act of 1935 without such restriction. At the time we did not feel the restriction was called for. It did not seem to us, however, to be of very much importance at the time. There was little or no buying of Government securities by the Federal Reserve System, and there was not much prospect at the time that there would be a purchase of securities.

"However, since that time there has been, of course, as you all know, a very great change in the situation. The very large amount of the Government deficit requiring the Treasury to do an increasing amount of borrowing to meet that deficit, made us feel that this amendment was desirable.

"This is not an unusual provision for central banks to have. As a matter of fact, other large central banks throughout the world have no such restriction as is imposed upon the Federal Reserve. Neither the Bank of Canada, the Bank of England, nor other central banks have ever had any such restriction as this imposed upon them. So that we are not asking for an unusual power; that is, a power unusual for central banks to have.

"It has been said that for the Federal Reserve to be able to purchase directly from the Treasury

instead of in the open market is very inflationary. That is not true. It is no more inflationary for the Federal Reserve System to purchase directly from the Treasury than it would be for the Federal Reserve System to purchase securities in the open market. If we purchase securities in the open market, we put funds into the banking system. That is the purpose of it; by purchasing securities we put funds into the banks and thus make funds available for the purchase of Treasury securities or otherwise. If we purchase directly from the Treasury and the Treasury spends that money, exactly the same thing happens. There is no difference whatever in the ultimate effect of purchasing directly from the Treasury or purchasing in the open market, as is now required.

"Insofar as its being inflationary is concerned, the inflationary condition, if one is brought about, is through the Congress appropriating more money than it levies taxes to collect. In other words, it is the difference between what the Government spends, and it can spend only what is appropriated, and the taxes they collect, and they can be only the taxes that are levied. The difference between what is appropriated and what is raised by taxation in the coming fiscal year we estimate will be \$30,000,000,000 and that will have to be borrowed by the Treasury. It is the size of that deficit and the manner in which it is financed that determines the extent of the monetary inflation, and not whether the Federal Reserve System buys direct in the open market or from the Treasury.

"It has seemed to us that if Congress appropriates the money that is asked for in the Budget and if taxes are levied that will collect one-half or less of that amount, then Congress should not restrict the Treasury in its effort to borrow the difference between what has been appropriated and what it is able to collect in taxes. It is a stupendous job and the Treasury should not be hampered or restricted.

"If the market situation happens to be unfavorable on any given day when a financing operation is up—and it may well be under the conditions in which the world is in today—the Federal Reserve System should be in a position where it can take care of it by a direct purchase from the Treasury of an issue of securities. That does not mean that the Federal Reserve System would hold indefinitely securities that are so purchased. It may purchase a block of securities at a given time and then sell them in the market at such time as the market may be favorable."

The above is taken verbatim from Mr. Eccles' statement before the House Judiciary Committee.

February 19, 1942

Mr. Charles Schwarz

The Secretary

Last week in the New York Tribune they had two snooty stories. I know one ran Saturday and I think one on Thursday on the financial page under financial news. I wish you'd give it to me before my press conference, because I want to say something to Gregory about it.

Schwartz took care of.

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TREASURY DEPARTMENT

254

INTER OFFICE COMMUNICATION

DATE February 19,
1942

TO Secretary Morgenthau
FROM Mr. Haas
Subject: Why Banks Buy Bonds -- The Effect of Taxes

In general, banks will be active purchasers of Government securities when they

- (1) have ample excess reserves,
- (2) need earnings,
- (3) lack alternative outlets for their funds.

War news, temporary waves of optimism and pessimism, and other factors may be influential in determining the attitude of the banks toward the Government bond market for short periods; but in the long run these factors will govern.

Applying the above analysis to the present situation, it would appear that the reserve position of the banks should be eased and alternative outlets for bank funds should be blocked so far as this is compatible with the war effort. The former of these objectives could be accomplished by open-market operations by the Federal Reserve System. The latter is in large part taking care of itself as the result of priorities and allocations, and might be further speeded by selective credit controls.

This leaves one remaining factor -- the need of the banks for earnings. Most banks are anxious to maintain their dividend rates, and often determine the amount of United States securities which they will purchase largely upon the basis of the amount necessary to provide the requisite income. It has, therefore, been often observed that a decline in yields causes banks to buy more, rather than fewer, Government securities. It is interesting to note in this connection that a tax upon banks, by increasing their need for earnings, ought to have the same effect.

In 1939, the most recent year for which statistics are available, all banks and trust companies in the United States paid total income and excess profits taxes of only \$14.6 millions. During the same year, these banks paid dividends of \$213.7 millions.

255

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 19, 1942

TO Secretary Morgenthau

FROM W. H. Hadley

FEDERAL RESERVE PURCHASES

In the past four days the Federal Reserve has purchased a total of \$52 million, including \$32 million 2s 1951-55 and \$20 million new 2-1/4s 1952-55.

TREASURY DEPARTMENT

256

INTER OFFICE COMMUNICATION

DATE February 19, 1942

TO Secretary Morgenthau
 FROM George Buffington *GB*

The following list shows "The New Spirit"
 bookings for the week ending February 15, 1942.

Albany	23
Atlanta	115
Boston	82
Buffalo	37
Charlotte	84
Chicago	113
Cincinnati	93
Cleveland	36
Dallas	114
Denver	24
Des Moines	101
Detroit	75
Indianapolis	47
Kansas City	47
Los Angeles	65
Memphis	84
Milwaukee	52
Minneapolis	65
New Haven	18
New Orleans	45
New York	137
Oklahoma City	55
Omaha	11
Philadelphia	105
Pittsburgh	64
Portland	27
St. Louis	73
Salt Lake City	30
San Francisco	37
Seattle	23
Washington, D. C.	60

TOTAL 1942

I have a complete detailed record of distribu-
 tion through February 15 if you care to see it.

TREASURY DEPARTMENT

257

INTER OFFICE COMMUNICATION

DATE

February 19, 1942.

TO The Secretary of the Treasury
FROM James L. Houghtaling

On February 17, I had a half-hour talk with the Secretary of Labor about the participation of Organized Labor in the Defense Savings Program.

I told her of our enlistment of the support of the leaders of practically all of the international and national unions. She expressed great surprise and approval about many of the leaders whom we have gotten to go on record in favor of the Pay-roll Savings Plan. Her opinion is that our method of setting up systematic Savings Plans for the earnings of individual workers under the sponsorship of their local unions is the only sound method of approach to Organized Labor.

Secretary Perkins said that she would like to have me come to a staff luncheon of the Labor Department in the near future and tell the key people of her staff exactly what I had told her, because it was important that the Labor Department should know what a fine job the Treasury Department is doing in this field.

James L. Houghtaling

February 19, 1942.

Hear Governor Gruening:

Secretary Morgenthau has written Hon. Anthony J. Dimond, Delegate for Alaska, in answer to inquiries the latter made in respect to certain criticisms of the Defense Savings Program for the Territory. In view of your own interest in these matters, both as Governor and as Defense Savings Administrator for Alaska, I am transmitting to you herewith a copy of the Secretary's letter, together with the enclosure referred to in it.

Let me add our hope that the reports in circulation in Juneau will not interfere with the successful conduct of the Defense Savings Program there.

Sincerely,

Harold N. Graves,
Assistant to the Secretary.

Hon. Ernest Gruening,
Governor of Alaska,
6519 South Interior Building,
Washington, D. C.

Enclosures

UNITED STATES SAVINGS BONDS

Comparative Statement of Sales During
 First Fifteen Business Days of February and January 1942 and December 1941
 (February 1-15, January 1-17, December 1-17)
 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	\$ 60,245	\$ 93,828	\$ 38,815	-\$ 33,583	\$ 55,013	- 35.5%	141.7%
Series E - Banks	<u>225,241</u>	<u>258,108</u>	<u>72,761</u>	- <u>32,867</u>	<u>185,347</u>	- <u>12.7</u>	<u>254.7</u>
Series E - Total	285,486	351,936	111,577	- 66,450	240,359	- 18.9	215.4
Series F - Banks	35,164	38,409	12,519	- 3,245	25,890	- 8.4	206.8
Series G - Banks	<u>178,238</u>	<u>155,101</u>	<u>74,340</u>	<u>23,137</u>	<u>80,761</u>	<u>14.9</u>	<u>108.6</u>
Total	<u>\$498,887</u>	<u>\$545,446</u>	<u>\$198,435</u>	-\$ <u>46,559</u>	<u>\$347,011</u>	- <u>8.5%</u>	<u>174.9%</u>

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

February 19, 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 thousands 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 Series E	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
10	3,902	11,794	1,109	12,679	25,581	15,695	1,109	12,679	29,483
11	3,279	9,782	1,487	7,637	18,906	13,061	1,487	7,637	22,185
12	3,293	14,670	1,584	7,781	24,035	17,963	1,584	7,781	27,328
13	2,710	9,026	1,047	4,385	14,458	11,736	1,047	4,385	17,168
14	1,714	5,740	113	1,152	7,005	7,454	113	1,152	8,719
16	5,741	22,405	3,212	13,748	39,365	28,147	3,212	13,748	45,107
17	2,639	4,285	690	3,211	8,187	6,924	690	3,211	10,826
18	2,992	13,911	1,715	14,118	29,745	16,903	1,715	14,118	32,737
Total	\$ 60,245	\$225,241	\$ 35,164	\$178,238	\$438,643	\$285,486	\$ 35,164	\$178,238	\$498,887

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

February 19, 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.

Daily changes in the stock of Series E savings bonds on hand ^{1/}
(In thousands of pieces)

	: Number of : pieces sold : this day	: Number of pieces : manufactured : this day	: Stock on hand : at close of : day	: IBM : deliveries : this day
Feb. 3	158	800	15,451	-
4	262	800	15,989	2,500
5	250	800	16,539	-
6	341	800	16,998	2,500
7	159	none-closed	16,839	-
8	none-closed	none-closed	16,839	-
9	379	740	17,200	-
10	193	705	17,712	2,000
11	159	695	18,248	-
12	220	640	18,668	-
13	144	370	18,894	-
14	87	none-closed	18,807	-
15	none-closed	none-closed	18,807	-
16	363	535	18,979	2,500
17	89	800	19,690	1,000
18	218	800	20,272	1,000

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

February 19, 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.

February 21, 1942

MEMORANDUM FOR THE SECRETARY'S FILES

Conference in Mr. White's Office
February 19, 1942
 12 noon

Present: Mr. Rubin, Dodge Local, U.A.W.
 Mr. Marshall, Secretary, Chrysler
 Division, U.A.W.
 Mr. White
 Mr. Ullmann

Mr. Marshall and Mr. Rubin called, at their request, to point out that the Dodge contract for trucks, obtained with Secretary Morgenthau's assistance, was not working out as had been anticipated to the benefit of the unemployed Dodge workers.

They said the morale of the Dodge workers has suffered a considerable set-back as a result of their disappointment in the failure of work to materialize.

The current situation in the Dodge plant is as follows:

1. There are from 16,000 to 19,000 Dodge workers now unemployed. There are now employed in the plant only 4,000 workers — including 800 foundry workers who will soon be laid off.
2. Almost none of the men now in the plant are working on conversion to truck manufacture. It looks as if it will be several months before any of the men will be called back to work on the truck job; and even then, only relatively small numbers will participate in the truck job, since Chrysler plans to complete this job largely in outside plants.
3. The ambulance part of the contract was completely subcontracted to an independent manufacturer in Richmond, Indiana (Wayne Body Works). The company said this step was taken at the request of the Government (agency unspecified) because Richmond is a distressed area.

The union rejects the explanation on the grounds that Richmond is not a distressed area, since there is plenty of work. They ascribe the shift to lower wage levels in Richmond, which is not a United Auto Workers city. (Top wages in Richmond are 60¢ as against \$1.16 in the Dodge plant.)

4. The foundry work was turned over to an independent firm in New Haven, Michigan — after the Dodge Company had completed work for conversion. The company ascribed this move to an effort to relieve a distressed area.

This move will keep unemployed 70 percent of Dodge's 1800 foundry workers, almost all negroes who will have difficulty getting other work.

5. Nearly all the assembling will be turned over to the Dodge Truck plant, instead of carried out in the main plant, even though the Truck plant is already busy.

The company justifies this action on the ground that the Truck plant is entitled to all truck work.

6. Only the overflow assembling will be carried out in the main Dodge plant.
7. In addition to overflow assembling, the plant will make the motors -- but this work will involve employment for only a relatively few of the company's employees, and will not begin for several months.

W 9 TWS PAID 3 MINS

1942 FEB 19 PM 3 16

PUADETROIT MICH 19 128P

HENRY J MORGENTHAU

TREASURY BLDG WASHINGTON DC

WE UNDERSTAND THAT TRUCK CONTRACT LET TO CHRYSLER CORPORATION THROUGH YOUR EFFORT WAS ON A BASIS OF LEND- LEASE APPROPRIATIONS. FURTHER THAT THE ENTIRE PRODUCTION OF TRUCKS WAS TO BE COMPLETED AT DODGE PLANT LOCATED IN DETROIT, PRESENT COMPANY IS SUB-LETTING GREATEST PORTION OF THIS CONTRACT, THEY HAVE INDICATED THEY ARMY HAS INSISTED THEY SUBLET. WILL YOU KINDLY ADVISE US YOUR UNDERSTANDING WHEN CONTRACT WAS GRANTED THIS COMPANY. WIRE REPLY VIA POSTAL

GORGE FADDES UAW CIO SECY TREAS 281 W GRAND BLVD

Gorge F. Faddes

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February 19, 1942
5:15 p.m.

Dr. Harry
White:

Yes, sir.

HMJr:

I got a telegram just now from George Faddes -
F-a-d-d-e-s - of the Automobile Workers.....

W:

Yes, sir.

HMJr:

.....asking me for some details on the Dodge
contract. Well, now, I don't know anything
about it, see?

W:

Yeah.

HMJr:

I want you to call up Lee Pressman and tell them
I don't know any of the details and I'm not
going to answer Mr. Faddes' telegram because I
don't know how to answer it.

W:

Yeah.

HMJr:

You see?

W:

All right.

HMJr:

I did the best that I could; and since I've been
in on the thing they've now got Mr. Nelson in
there and - I did all I could. I can't do any
more, see?

W:

Do you want to follow up at all or hear what these
men say on the Dodge, or shall I tell them from
now on they'd better look elsewhere?

HMJr:

On the Dodge?

W:

Yeah. They were in today, and they left a story
which I was going to - I'll leave it with you in
writing and then you can decide what you want to
do.

HMJr:

Well, this may be along the same lines, but I'm
going to send this up to you. But I just - I
don't know what that story is, but this story of

George Faddes is I'm very sorry, but I just.....

W: All right. And I'll send you the other written story and then you'll let me know if you want to do anything on it.

HMJr: That's right, Harry.

W: All right, sir.

HMJr: Hello.

W: Yes.

HMJr: That - that's all right. Thank you.

W: Okay.

February 19, 1942.

MEMORANDUM FOR THE SECRETARY'S FILES:

On February 19th Mr. White telephoned Mr. Lee Pressman, of the CIO office, at the Secretary's request and informed him that the Secretary didn't have the information which would enable him to answer the telegram he had just received from Mr. Addes. Mr. Pressman said he would tell Mr. Addes to inquire elsewhere.

H.D.W.

February 19, 1942
5:26 p.m.

HMJr: Hello.

Operator: Mr. Secretary, Grace Tully is calling you.

HMJr: Yes. Hello.

Operator: She'll be on in just a moment.

HMJr: All right. Hello. Hello.

Operator: I thought she was ready. I'm sorry.

HMJr: All right. Hello. Hello

Grace
Tully: Hello.

HMJr: Yes.

T: Hello.

HMJr: Yes.

T: Mr. Secretary.

HMJr: In person.

T: Mr. Secretary, now the President says he doesn't know, he can't make a date yet for Saturday.

HMJr: Yes.

T: It depends upon how he feels. He doesn't want to say yes, and he may not feel like it on Saturday.

HMJr: Uh huh.

T: So can we let you know a little later?

HMJr: Well, what do you mean later?

T: Well, wait and see tomorrow afternoon, late, for instance, or even Saturday morning.

HMJr: That's perfect.

T: What?

HMJr: That's perfect.

T: (Laughs) Well.....

HMJr: I'll leave it with you.

T: All right, fine. I'll keep it in mind and keep the memorandum, and ask him again late tomorrow afternoon or early Saturday morning.

HMJr: Am I 1-A on that list?

T: Yes, sir.

HMJr: That's good. That's good enough.

T: You are.

HMJr: Thank you.

T: All right, fine, Mr. Secretary.

HMJr: Good-bye.

T: Good-bye.

Photostat to Mrs. Morgensthan 2/20/42

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OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT

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PROCUREMENT DIVISION

WASHINGTON

February 19, 1942.

MEMORANDUM FOR THE SECRETARY:

Purchase has been made today of wood desks to meet the urgent requirements of the Army Air Corps. This purchase involved 49,633 desks at a total cost of \$1,499,660.52, and was divided among 24 producing sources.

In response to the requests for persons to supply these desks, 74 sources were heard from. Of these, 54 offered to meet the specifications and presented evidence of adequate facilities and competency. The placing of orders with 24 bidders, therefore, resulted in a 44% spread of the business.

This business has been placed at prices within a range of 15% and at costs that are in the aggregate substantially below prices paid for the last previous purchase of similar wood desks.

Delivery is to be made to eight Air Corps Depots located in various sections of the country and is to start by March 15th and be completed by June 30th.

You will be interested to know that one lot of 750 desks was awarded to the Arthurdale Craftshop, Division of Arthurdale Associates, Inc., at Arthurdale, West Virginia. These will be for delivery to Wright Field at a cost of \$39.34 each or a total of \$29,505.00.

This purchase doubtless constitutes the largest single purchase of wood desks ever made.



Cliff Mack
Cliff E. Mack,
Director of Procurement.

ed.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE February 19, 1942

TO Secretary Morgenthau
FROM Gerard Swope

I am afraid that we have to admit that the cafeteria is overcrowded and the service is slow. You are aware of the fact that we had hoped to get more space by the vacating of space by the Public Buildings Department, but this has been postponed until March 1. We hope that that space will be relinquished and we can then use it for the cafeteria.

I had always heard that the quality of the food was good, but we will look into that also.

G.S.

I received a complaint about the cafeteria over in
Procurement. Would you please look into it? I understand
that it is overcrowded and you can't get food and the quality
of the food is poor.

The Secretary

Mr. Gwope

February 19, 1942

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OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

February 19, 1942

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MEMORANDUM TO: Secretary Morgenthau

FROM: Mr. Swope

REPORT OF CARS AS OF FEBRUARY 14, 1942

Steel at all ports purchased by the Procurement Division of the Treasury Department under the Lend-Lease program amounts to 395,599 tons, and in addition there are being loaded at present at all ports 20,684 tons, making a grand total of 416,283 tons.

UNITED KINGDOM

As of February 14 there were 7,296 cars of Lend-Lease material within the area of the port of New York purchased by the Army, Navy, Agriculture, and Procurement Division of the Treasury Department. Of that total 3,139 were purchased through the Procurement Division and in addition, 7,535 tons of steel were being loaded.

RUSSIA

As of February 14, 1942, there were 1,730 cars of Lend-Lease material within the area of the Port of Boston and 1,651 cars within the area of the Port of Philadelphia, a total of 3,381 cars. Approximately 531 of the Boston cars and 165 of the Philadelphia cars were purchased by the Procurement Division of the Treasury.

CHINA

As of February 14, 1942, there were 1,882 cars of Lend-Lease material within the area of Norfolk and Newport News. Of this number 804 cars were purchased through the Procurement Division of the Treasury Department. This includes 3,392 tons of steel for China.



TREASURY DEPARTMENT

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PROCUREMENT DIVISION

WASHINGTON

February 19, 1942

OFFICE OF THE DIRECTOR

MEMORANDUM TO: Secretary Morgenthau

FROM: Mr. Swope

The following are a few figures of the Lend-Lease program of material at all ports, in carloads:

LEND-LEASE PROGRAM
Carloads of Material at All Ports
February 14, 1942

<u>Date</u>	<u>Total</u>	<u>New York</u> (United Kingdom)	<u>Boston & Philadelphia</u> (Russia)	<u>Norfolk</u> (China)
2/14/42	12,561	7,298*	3,381	1,882
1/30/42	10,951	6,461#	2,839	1,651

TREASURY DEPARTMENT (PROCUREMENT)
Carloads of Material at All Ports
February 14, 1942

2/14/42	4,639	3,139*	696	804
1/30/42	4,580	3,468#	575	537

*In addition 20,684 tons of steel were being loaded
" " 14,592 " " " " " "

NOTE: Under the United Kingdom, the above figures cover the New York port area only. At all other ports there were on February 14th 6,501 cars of Treasury material, of which 6,099 cars were steel; as compared to 4,157 cars on January 30, of which 3,740 were steel.



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT
PROCUREMENT DIVISION
WASHINGTON

FEB 19 1942
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February 19, 1942

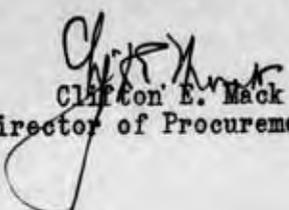
To the Secretary

MEMORANDUM TO MR. SWOPE

Herewith schedule relative to Russian requirements. Also Shipping Report together with a summary of the carload situation as of February 14; likewise, the comparative figures as of January 30.

The Secretary asked if there is any Lend-Lease steel in storage which could be applied to Russian requirements. The steel items in storage are semi-finished steel, rails and drum sheets, whereas Russian needs are for items that cannot be matched against those products now in storage.

The file on carloading reports which you gave me yesterday is being returned herewith.


Clifton E. Mack
Director of Procurement

FOR DEFENSE



TREASURY DEPARTMENT

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INTER-OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau

February 19, 1942

FROM E. H. Foley, Jr.

I am attaching for your information a copy of Ambassador Bullitt's letter of resignation as Chairman of the Board of General Aniline and Film.

After speaking to you, I called Joe O'Connell and asked him to have Judge Mack's office release the letter to the press.

E.H.F.

Attachment

3030 Cambridge Place, N.W.
Washington, D. C.

February 17, 1942.

Dear Judge Mack:

I submit to you herewith my resignation as Chairman of the Board of Directors of General Aniline & Film Corporation.

You will recall that when I consented to become a director of this corporation on December 3, 1941, the United States was not in war and there was danger that German control of the corporation might be reestablished by court order on December 10, 1941. You invited me to assist you in preventing German control of the corporation and in working for its full Americanization. After consulting with the President and the Attorney General, I accepted your invitation. During my absence abroad on Government business, I was elected Chairman of the Board of Directors.

The Department of the Treasury has now taken action to seize the outstanding common stock of the corporation. Since the corporation is now controlled by the Government of the United States through the Department of the Treasury, danger of German control has been eliminated. I feel therefore that the object for which I was elected to the Board of Directors of the Corporation has been achieved and I desire to resign as Chairman of the Board so that I may be free to devote my entire time to Government business.

I am returning to you herewith a check which I have just received for services as Chairman of the Board of Directors for the month of January, 1942. As you know, my absence from the United States on official business made it impossible for me to preside over a single meeting of the Board and I feel that such services as I may have rendered should be regarded as voluntary public services rather than services requiring remuneration.

May I express my appreciation of the patriotic manner in which you have conducted your part in the conferences in the past two weeks and my thanks for your great personal kindness.

With every good wish, I am,

Yours very sincerely,
/s/ William C. Bullitt.

Hon. John E. Mack
President, General Aniline & Film
New York, New York.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE February 19, 1942

TO Secretary Morgenthau
FROM Gerard Swope

Mr. Belknap called me up at three o'clock this afternoon and stated that he and Mr. Queeny had received your letter and he called to recommend very highly for the job of the General Aniline and Film, Andrew F. Carter of the class of 1905 at Annapolis.

He retired from the Navy in 1919 with the rank of Commander. Since then he has been with the Merrimac Chemical Company, the company with which Mr. Belknap was formerly connected, and with the Shell Oil Company, and at present has his own oil business in Houston, Texas.

Mr. Belknap spoke of him very highly and said that he is a very able man, dependable in every respect. He said Admiral Stark knows him well and indeed has asked him to come to Washington to take a commission as Commander again.

Mr. Belknap states that the President also knows him.

Mr. Belknap has spoken to him about this job and he would be interested and could come on immediately. I asked him if he took this job, if Mr. Belknap and his company would help him, and he said 100%.

His address is 1938 Commerce Building, Houston, Texas. His residence is Lamar Hotel, and his telephone number is Fairfax 4462.

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C
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YDEPARTMENT OF STATE
WASHINGTONIn reply refer to
FF

February 19, 1942

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and transmits herewith a copy of a circular telegram to All Diplomatic Missions in the American Republics, dated February 17, 1942, concerning the vesting of ninety-seven percent of the stock of the General Aniline and Film Corporation.

Enclosure:

Circular telegram to
All Diplomatic Missions
in the American Republics,
dated February 17, 1942.

Copy:lc:2/23/42

TO FILE IN CLASS

NO 27 20
BY COPY: 2-25-42
(NY)
HULT

and legitimate interests which were adversely affected being given an opportunity
as to what disposition should be made of them by the Secretary of the Treasury,
needs thereof were to be held in a special account pending further determination
stop in the order setting the stock to be provided that the stock and the pro-
cess stop. Seizure of the company by the Government was therefore necessary
the productive facilities of the company were important to this country's war
war value are outstanding in the hands of the American public and the fact that
\$60,000,000, was inadvisable due to the fact that bonds aggregating \$18,000,000
the protected stop. Liquidation of the concern, which had total assets of around
German drug interests of Germany stop. Legitimate Swiss and Dutch interests will
and ownership and control of most, if not all, of the stock is in the U. S.
the name of Swiss or Dutch concerns, but investigation has revealed that the
the corporation stop. Practically all of the stock of the company was held in
of stock of General Aniline and Film Corporation and hence acquired control of
of the Treasury on February 16, 1942 seized 97 percent of the outstanding shares
issued in Department's circular instruction of January 13, 1942; the Secretary
acting under the powers granted under the First War Powers Act as de-

Circular, Seventeenth.

AMERICAN REPUBLICS.

ALL DIPLOMATIC MISSIONS IN THE

February 17, 1942

SECRETARY

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TREASURY DEPARTMENT

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INTER-OFFICE COMMUNICATION

DATE February 19, 1942

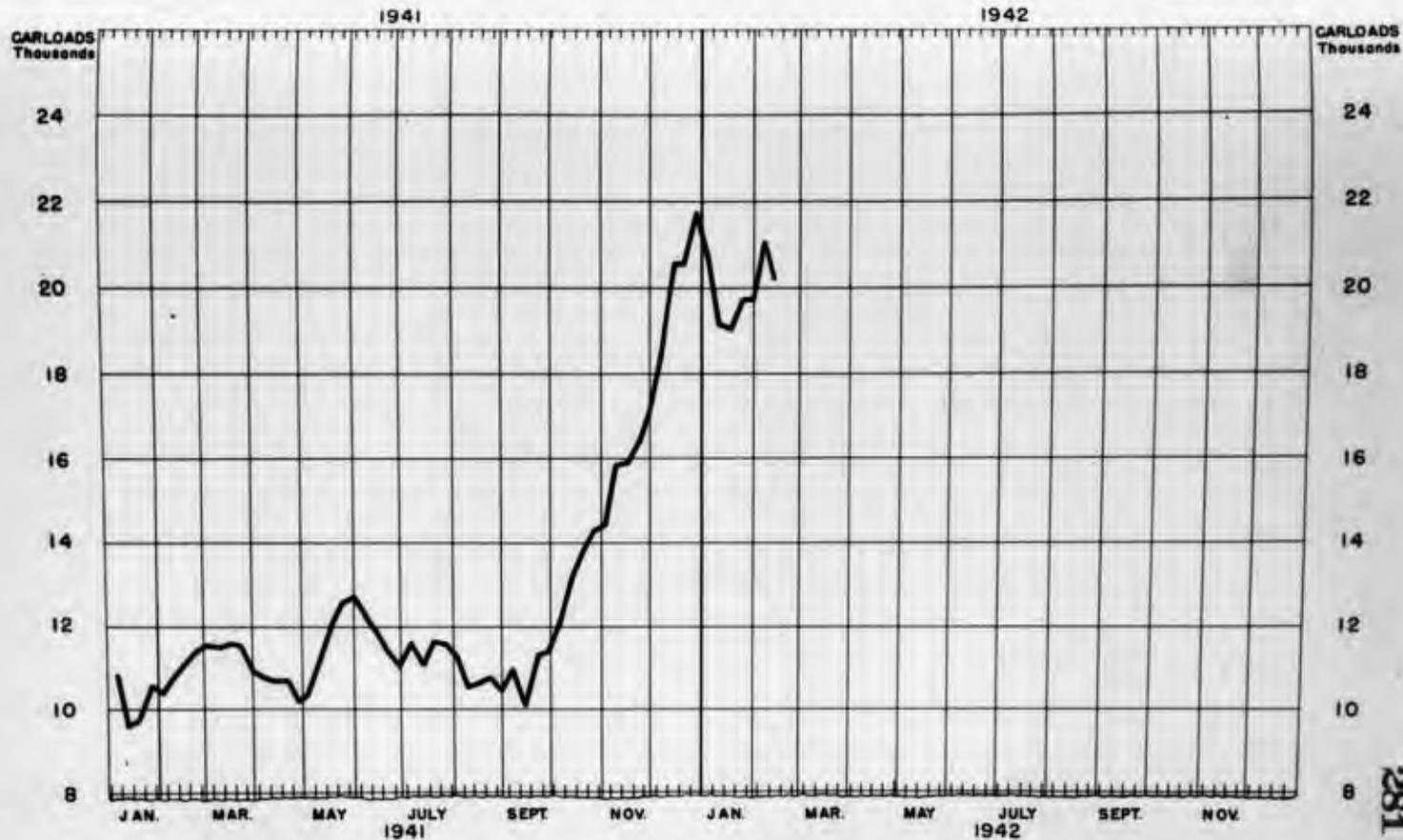
TO Secretary Morgenthau
FROM Mr. Haas
Subject: The Export Freight Situation

The volume of lighterage freight in storage and on hand for unloading in New York harbor at the end of last week showed a decline of 934 cars from the previous week's figure, standing at 20,146 cars. (See Chart 1.) The amount in storage actually increased by 585 cars, but this was more than offset by a decline of 1,519 cars in the amount of export freight on hand for unloading. As of February 16, there was additional storage space available for 8,802 cars, as compared with 9,665 cars a week earlier.

Exports from New York last week declined rather sharply to an estimated 4,838 cars from 6,575 cars in the previous week. (See Chart 2, upper section.)

Receipts of export freight at New York dropped sharply to 3,998 cars from the high figure of 7,755 cars in the previous week. Receipts at 9 other North Atlantic ports and at 6 Pacific ports were but slightly below the previous week's figure. (Lower section of Chart 2.)

LIGHTERAGE FREIGHT IN STORAGE AND ON HAND FOR UNLOADING IN NEW YORK HARBOR*



* Largely export freight, but about 10% represents freight for local and coastal shipment. Figures exclude grain.

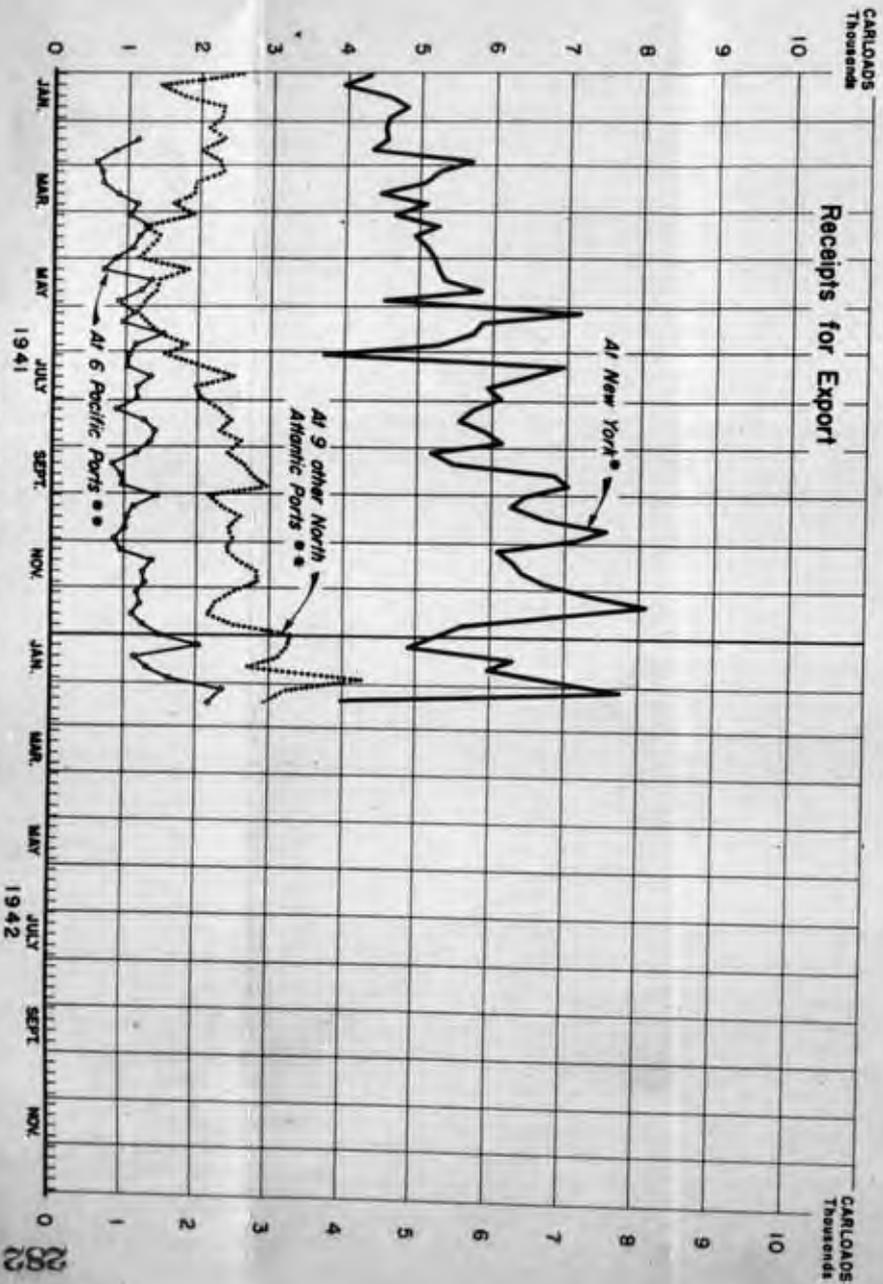
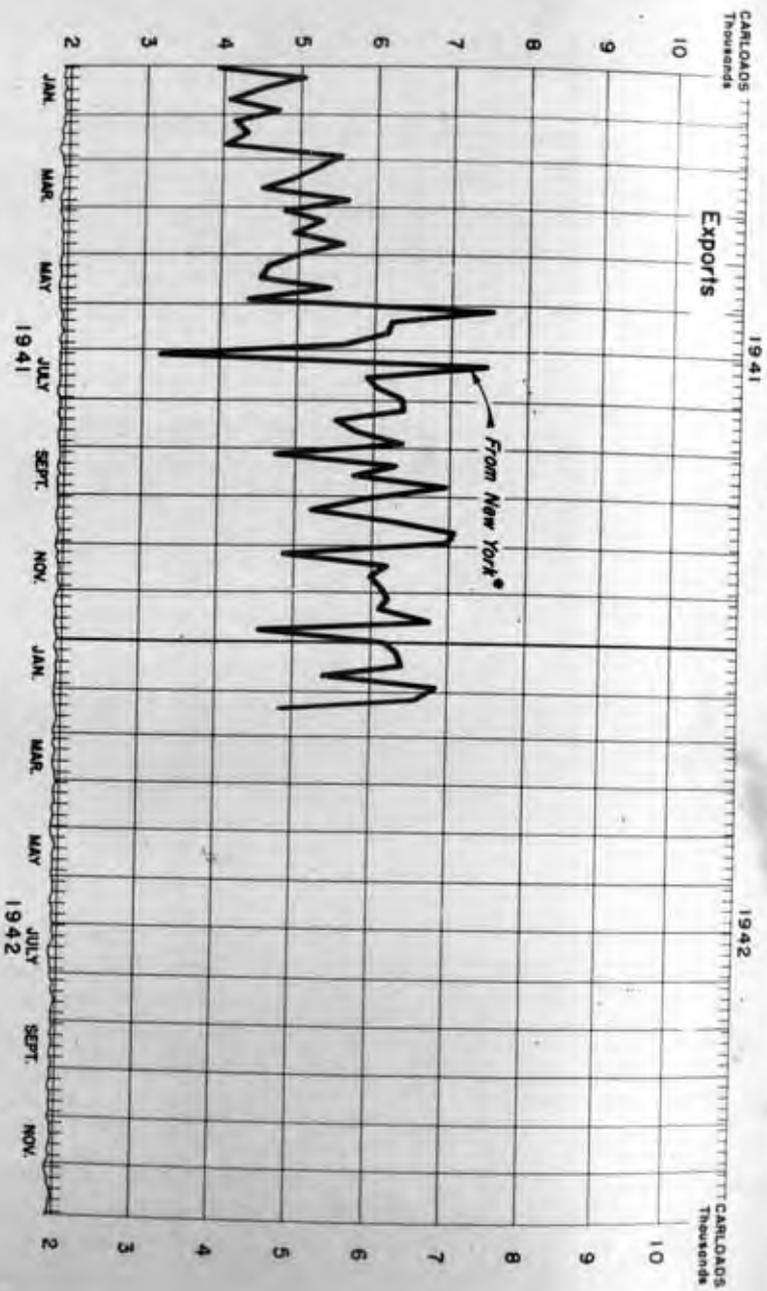
Office of the Secretary of the Treasury
Division of Research and Statistics

C-303-D

Regraded Unclassified

Chart 1
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EXPORT FREIGHT MOVEMENT



* As estimated from data of general managers' association of New York.
 ** Association of American Retreads.

Office of the Secretary of the Treasury
 Bureau of Economic Warfare

C-362-B

Chart 2

February 19, 1942

Dear Mr. Nelson:

In accordance with the conference which I had yesterday with Mr. Stettinius, Administrator of the Lend-Lease organization, I am sending you herewith a statement of the Procurement Division of the Treasury Department on the status of purchases under the Moscow Protocol Agreement, as of February 18.

You will see there a number of items on which, if we are to complete the shipments by April 1, we must have assistance from the War Production Board.

Our Procurement Division has taken it up with your organization, and I am bringing this to your attention simply to emphasize the need of your assistance.

Sincerely yours,

Secretary of the Treasury

Mr. Donald M. Nelson
Chairman
War Production Board
Washington, D. C.

GS:blb 2/19/42



U. S. S. S. MOSCOW PROTOCOL AGREEMENT
 STATED BY THE U.S. TRADE DEPARTMENT, PROGRAMS DIVISION, ON STATE OF
 PURCHASES WITH THE AGREEMENTS OF FEBRUARY 18, 1947

MATERIAL	TOTAL PROTOCOL REQUIREMENT	SHIPMENTS REQUIRED BY PROTOCOL BY APRIL 1, 1947	AMOUNT RECEIVED	AMOUNT ALLOCATED TO APRIL 1, 1947	AMOUNT RECEIVED	TOTAL SHIPMENTS AVAILABLE BY APRIL 1, 1947	REMARKS
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Flange	36,000 Tons	24,000 Tons	36,000 Tons	36,000 Tons	36,000 Tons	24,000 Tons	
Barred Pipe	36,000 "	24,000 "	35,015 "	35,015 "	35,015 "	24,000 "	
High Speed Tool Steel	900 "	600 "	1,000 "	1,000 "	1,000 "	800 "	
Tool Steel	4,500 "	3,000 "	2,470 "	1,001 "	1,001 "	1,001 "	Allocation deficiency: Regulation need, in W.P.B. Feb. 16, 1947, in process of allocation.
Calibrated Steel	Not specified	Not specified	5,960 "	5,960 "	5,960 "	5,960 "	
Steel Wire	63,000 Tons	42,000 Tons	7,792 "	6,880 "	6,880 "	7,022 "	Suppliers claim inability to meet deliveries specified in allocation orders. An allocation deficiency has arisen as they are endeavoring to obtain revision in specifications to enable production.
Steel Billets (Shell Steel)	72,000 "	48,000 "	72,000 "	16,000 "	16,000 "	10,000 "	Delivery deficiency due U.S.S.R. delaying mill production until Feb. 2, 1947. Mill capacity insufficient to make up shortage. Allocation deficiency: Regulation received by U.S.S.R. Feb. 16, 1947, now in process allocation throughout industry.
Steel Alloy Tubes	1,800 "	1,200 "	130 "	None	None	None	Allocation deficiency: Regulation just received by W.P.B. now in process of allocation.
Stainless Steel Wire	180 "	120 "	22 "	12 Tons	12 Tons	12 Tons	Ditto
Cold Rolled Steel Strip	72,000 "	48,000 "	47,740 "	28,459 "	28,459 "	28,459 "	Ditto
Cold Rolled Steel Sheets	72,000 "	48,000 "	75,660 "	74,200 "	74,200 "	48,000 "	Allocation deficiency: W.P.B. awaiting clarification of application from U.S.S.R. in order to allocate.
Alloy Steel Ball and	Not specified	Not specified	500 "	500 "	500 "	350 "	
Hot Rolled Steel	63,000 Tons	42,000 Tons	26,000 "	None	None	None	Allocation deficiency: Regulation just received by W.P.B. in process of allocation.
Steel Balls	Not specified	Not specified	60,000 "	None	None	None	Allocation deficiency: Regulation just received by W.P.B. prior to allocation.
Steel Plates	Not specified	Not specified	33,000 "	None	None	None	Allocation deficiency: Regulation just received by W.P.B. in process of allocation.
Steel Wire Rope	10,800 Tons	7,200 Tons	None	None	None	None	

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**BRITISH AIR COMMISSION**

1785 MASSACHUSETTS AVENUE

WASHINGTON, D. C.

TELEPHONE HOBART 9000

PLEASE QUOTE

REFERENCE NO. _____

With the compliments of British Air Commission,
who enclose Statement No. 21 - Aircraft Despatched
- for week ended February 17, 1942.

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

February 19, 1942.

AIRCRAFT DESPATCHED FROM THE UNITED STATES

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DURING WEEK ENDED, FEBRUARY 17, 1942.

	DESTINATION	ASSEMBLY POINT	BY SEA	BY AIR	FLIGHT DELIVERED FOR USE IN CANADA
<u>CONSOLIDATED</u>					
Calina	U.K.	U. K. (via Bermuda)		2	
<u>EL</u>					
Macobra	U.K.	U. K.		26	
<u>GLIAS</u>					
aton III	Russia	Basrah		3	
<u>IRCHILD</u>					
R 9	U.K.	U.K.		6	
<u>LENN MARTIN</u>					
Baltimore	U.K. Middle East	U.K. Port Sudan		1 8	
<u>MRTISS</u>					
ittyhawks	Middle East	Port Sudan		5	
<u>NORTH AMERICAN</u>					
Mustang	U.K.	U.K.		10	
<u>OLTEE</u>					
Stinson 049	U.K.	U.K.		1	
TOTAL				60	2

British Air Commission
February 19th, 1942.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE February 19, 1942

TO Secretary Morgenthau
 FROM Mr. White

Subject: United Kingdom investments in Argentina.

In December 1940, we made a survey of United Kingdom investments in Argentina which indicated that these investments had at that time a nominal value of approximately \$1,562,000,000 and a market value of approximately \$450,000,000. This investment was distributed roughly as follows:

	<u>Nominal</u>	<u>Market</u>
National Debt	\$ 177,500,000	\$130,000,000
Railways	1,050,000,000	206,900,000
Tramways	79,000,000	11,100,000
Other Utilities	19,400,000	10,800,000
Miscellaneous sterling companies	116,000,000	75,000,000
Miscellaneous peso companies	120,000,000	?
Total	\$1,561,900,000	\$432,900,000

Probably the principal change since that time has been in British holdings in the Argentine National Debt, which now may have declined by the equivalent of \$20,000,000 face value or to about \$156,000,000. Under Finance Minister Irigoyen informed us in January 1942 that the British held £43,000,000 sterling (or at the official rate about \$172,000,000) of Argentine National Debt and that by agreement with the British Government up to 25% of blocked sterling may be used by the Argentine Government to repurchase these securities. He also informed us that Argentina at that time held about £12,000,000 in blocked sterling. By using blocked sterling, Argentina may have reduced British holdings to the equivalent of \$156,000,000.

- 2 -

The largest British investment in Argentina is clearly in railroads. These enterprises have not been profitable in recent years. Mr. Irigoyen said his Government believes the refusal of the British to permit more than 25% of blocked sterling to be used to repatriate the National Debt reflects an effort to force Argentina to agree to purchase the British-held railways. He said further that his Government is inclined to regard these railroads as "white elephants".

There may be other minor British investments not included in the above table. For example, we cannot determine how much British money there is in the Union Telephone Company.

The estimate of the market or actual value of the investments should not be regarded as more than a rough approximation.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

290

DATE FEB 19 1942

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

After the outbreak of war with Japan the F. B. I. took into custody a Japanese named Maruyama, who operated a restaurant named the Tokio Roof Garden in Miami, Florida.

Ostensibly as a side-line Maruyama operated an airplane storage and repair shop. One of the four planes found in the shop is registered in the name of an American citizen of Japanese descent, Kenneth Itch, who is now in a unit of the United States Army Air Corps stationed at Trinidad, British West Indies. Our investigators on the premises found letters indicating that photographs of military equipment were being taken by Itch and sent to Maruyama. This information has been furnished to Army Intelligence and will be given to the F. B. I. also.

8-1072

FEB 16 1942

My dear General:

I have received your letter of February 11, 1942, in which you refer to an application filed with this Department by the American Friends Service Committee to purchase in Switzerland milk to be used in the American Friends Service Committee relief program in France.

In view of existing circumstances, the application in question has been formally referred to the Secretary of State for his views and recommendations, and to date we have not received a reply. Accordingly, you will understand that the Treasury Department is not in a position to take action upon the pending application at the present time.

Sincerely,

(Signed) R. Morgenthau, Jr.

General John J. Pershing,
Washington, D. C.

*File to Pershing
How file N. M. C.*

BLTimmons :mgb 2/13/42

JOHN J. PERSHING
WASHINGTON

February 11, 1942

The Honorable
Henry Morgenthau, Jr.,
Secretary of the Treasury.

My dear Mr. Secretary:

At the request of Mrs. Seton Porter, with whose work for French soldiers and later for destitute children of unoccupied France you undoubtedly are familiar, and because of my own conviction that the organization involved is doing a great humanitarian service, I am taking the liberty of soliciting your personal consideration of the present situation of the American Friends Service Committee (The Quakers).

This organization has heretofore purchased from neutral countries in Europe powdered milk and food, principally the former, with which to carry on its live-saving work among children of unoccupied France. Its supply of these necessities is now practically exhausted, but an additional two hundred tons of Swiss milk can be procured if the Treasury Department will grant the necessary license. I understand that the State Department has no objection to the purchase of this milk provided payment can be made in America and that accordingly arrangements have been made to deposit dollars in New York to the credit of Nestle Milk Corporation.

In view of the present strained relations between the French Government at Vichy and our own, perhaps the State Department has changed its view, but if not I hope that you may find it feasible to direct the issuance of the license the Quakers seek.

With high esteem and cordial regards, believe me,
my dear Mr. Secretary,

Sincerely yours,

John J. Pershing

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TRB
This telegram must be
paraphrased before being
communicated to anyone
other than a Governmental
agency. (HR)

Santiago

Dated February 19, 1942

Rec'd 6:32 p.m.

Secretary of State,
Washington.

290, February 19, 5 p.m.

Department's confidential telegram no. 188, February
18, 7 p.m.

All cases approved for publication. It is recommended
that Casa Hargo also be listed under the style, Gonzalez y
Cia. Ltda.

BOWERS

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Copy:bj:2-25-42

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DEPARTMENT OF STATE

WASHINGTON

In reply refer to
FD 837.5151/139

February 19, 1942

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses a copy of confidential despatch No. 3418, dated February 9, 1942, from the American Embassy, Habana, Cuba, concerning Cuban peso exchange rate.

Enclosure:

From Embassy, Habana,
Despatch No. 3418,
February 9, 1942.