

DIARY

Book 522

April 29 and 30, 1942

- A -

American Soldiers  
See United Kingdom

Book Page

- B -

Bernays, Edward  
See Financing, Government: War Savings Bonds

- C -

Cairns, Huntingdon  
Alternate for HMJr on National Munitions Control  
Board - 4/30/42..... 522 255

Cochran, Mrs. Merle  
To be released from Johns Hopkins Hospital April 30.. 120

Congress of Industrial Organizations  
Murray asks for assistance in getting new office  
space - 4/30/42..... 237

a) Houghteling-HMJr conversation..... 242  
(See also Book 523, page 294)

b) Kuhn memorandum on Jones's offer - 5/6/42:  
Book 524, page 228

c) Carey-HMJr conversation - 5/12/42:  
Book 527, page 331

d) Husbands-HMJr conversation - 5/12/42:  
Book 527, page 336

e) Houghteling-HMJr-Carey conversation:  
Book 527, page 338

- D -

Dietrich, Marlene  
HMJr unable to see - 4/30/42..... 250

- E -

Early, Stephen  
See Financing, Government  
Exchange Market  
Resumes - 4/29-30/42..... 147,296

- F -

Federal Reserve Board  
See Financing, Government

	Book	Page
Financing, Government		
May Financing:		
Conference; present: HMJr, Burgess, Stewart, Harrison, Brown, Spencer, Edward, Smith, Bell, Haas, and Murphy - 4/29/42.....	522	1
a) 5-point program presented by Federal Reserve Board.....		12,66
Conference of Open Market Committee - 4/29/42.....		41
a) Calendar of direct and guaranteed bonds and notes - 4/29/42.....		70
Conference; present: HMJr, Eccles, Sproul, Szymczak, Williams, Bell, Baker, Buffington, Haas, and Murphy - 4/30/42.....		204
a) Governing basis of subscription discussed		
Announcement of offering - 4/30/42.....		156
a) Progress discussed by Sproul and HMJr - 5/4/42: See Book <u>523</u> , page 274		
b) Progress discussed by Bell and HMJr - 5/4/42: Book <u>523</u> , page 276		
c) New York Federal Reserve Bank's report: \$1,277,000,000: Book <u>524</u> , page 1		
d) Subscriptions for 2% bond total \$3,200,000,000 and 2 1/2% registered security total \$530 million - 5/6/42: Book <u>524</u> , page 211		
1) Subscriptions: Book <u>527</u> , page 321		
e) Closing discussed with Rouse - 5/12/42: Book <u>527</u> , page 317		
f) Closing announcement: Book <u>527</u> , page 320		
Home Owners Loan Corporation: Call of 2 1/2% bonds, Series G, 1942-44, for redemption before maturity - notice of - 4/30/42.....		235
Securities Dealers: Cooperation of		
a) Conference of representatives, together with Treasury group, Eccles, and Sproul - 4/30/42.....		157
(See also Book <u>527</u> , page 4 - 5/9/42)		
b) State Set-ups: To consist of chairman selected by Treasury and representatives of banks, insurance companies, and securities dealers.....		186
c) Conference; present: HMJr, Bryce, Fleek, Buffington, Fulton, Rich, and Burns - 4/30/42.....		226
1) Program explained		
d) Conference; present: HMJr, Eccles, Sproul, Hopkinson, Bryce, and Buffington - 5/13/42: Book <u>528</u> , pages 53 and 70		
1) Report prepared by securities dealers and Federal Reserve Bank presidents: Book <u>528</u> , pages 68 and 89		
e) Cooperative plan announced - 5/13/42: Book <u>528</u> , pages 94 and 96 (Victory Fund Committees)		
1) Eccles' message to Federal Reserve Bank presidents: Book <u>528</u> , page 97		
f) Buffington discusses details of District Committee with HMJr en route to Treasury - 5/16/42: Book <u>529</u> , page 3		

- F - (Continued)

	Book	Page
Financing, Government (Continued)		
Voluntary contributions to finance war suggest to Early story in support of voluntary rather than compulsory savings - 4/30/42.....	522	181
War Savings Bonds:		
"War Bonds and Cost of Living" - Washington Post article - 4/29/42.....		37
Conference of Treasury staff and Patterson (New York), Engelsman, Legler, Coyne, Harper, Mrs. HMJr, and Henry III - 4/29/42.....		77
a) Tie-in of <del>F</del> and G bond sales with War Savings organization discussed.....		84
b) Federal Reserve representatives in field to be restricted and responsibility to remain with Treasury (see also May Financing).....		86
c) Speakers like Lieutenant O'Hare to be included in programs.....		89
1) Eddie Bernays not satisfactory to HMJr after association with Gianninis.....		92
Navy Department: Participation in War Bond sales magnificent - 4/29/42.....		98
New York City first War Stamp Concert on May 3; LaGuardia asks HMJr to speak - 4/29/42.....		107
Tennessee Walking Horse Colt - offer with War Savings Bonds refused by Treasury and McKellar so informed - 4/29/42.....		109
(Golden, John		
(Luce, Henry		
(Skouras, Spyros		
Gamble-Patterson recommendations for "public gathering activity" - 4/30/42.....		247
Fox, A. Manuel		
Priority for passage by air requested - 4/29/42.....		135

- G -

Glass, Carter  
    See Latin America  
Golden, John  
    See Financing, Government: War Savings Bonds

- H -

Home Owners Loan Corporation  
    See Financing, Government

- I -

	Book	Page
Iceland		
Stabilization Agreement:		
a) Draft mailed to Icelandic Minister.....	522	138
b) White resume'.....		137
c) Minister ready to sign - 4/29/42.....		136
d) Treasury announces signing - 5/5/42:		
See Book 524, page 125		
Insurance, War Damage		
See United Kingdom		
Inter-American Bank		
See Latin America		

- L -

LaGuardia, Fiorello - Mayor, New York City		
See Financing, Government: War Savings Bonds		
Latin America		
Inter-American Bank: Carter Glass-Treasury-State correspondence - 4/30/42.....		260
Lend-Lease		
Reciprocal aid - United Kingdom-United States: British memoranda on - 4/30/42.....		278
United Kingdom: Vesting order sales - 4/30/42.....		289
Luce, Henry		
See Financing, Government: War Savings Bonds		

- M -

McKellar, Kenneth (Senator, Tennessee)		
See Financing, Government: War Savings Bonds		
Military Reports		
British operations - 4/29-30/42.....		148,298,300
Coordinator of Information reports:		
British Political Warfare Executive Weekly Directive - 4/29/42.....		150
The War This Week, April 23-30, 1942.....		303
Kamarck summaries - 4/29-30/42.....		152,304
Munitions Control Board, National		
See National Munitions Control Board		

- N -

National Munitions Control Board		
Cairns (Huntingdon) alternate for HMJr - 4/30/42.....		255
Navy Department		
See Financing, Government: War Savings Bonds		

- O -

	Book	Page
Office of Price Administration		
Price Ceiling Plan - analysis of: Haas memorandum - 4/30/42.....	522	256

- P -

Poland		
Loan of \$12 million discussed by representative of Polish Embassy and White - 4/30/42.....		271

- S -

Securities Dealers		
See Financing, Government		
Silver		
Legislation:		
See also Book 520		
Conference at Senate; Foley and White accompanied HMJr - 4/29/42.....		14
a) Industrial use of silver - memorandum on.....		17
b) HMJr reports on conference to Eccles, Jones, Currie, Purcell, etc., at meeting on Capital Issues control.....		18
Skouras, Spyros		
See Financing, Government: War Savings Bonds		
Soldiers, American		
See United Kingdom		
Sullivan, Mark		
"War Bonds and Cost of Living" - Washington Post article - 4/29/42.....		37

- T -

Tennessee		
See Financing, Government: War Savings Bonds		

- U -

United Kingdom		
See also Lend-Lease		
American Soldiers: Expenditures in sterling area discussed by Phillips and White - 4/29/42.....		124
(See also Book 523, page 161 - 5/2/42)		
War Damage Insurance: Memoranda sent to HMJr by Winant summarized - 4/29/42.....		128
Bank of England asks for \$1 million in <u>used</u> \$10, \$20, and \$50 bills - 4/30/42.....		287

- Y -

Book Page

Victory Fund Committees

See Financing, Government: Securities Dealers

- W -

War Damage Insurance

See United Kingdom

War Savings Bonds

See Financing, Government

April 29, 1942  
9:15 a.m.

REFINANCING

Present:

- Mr. Brown ✓
- Mr. Harrison ✓
- Mr. Spencer ✓
- Mr. Edward ✓
- Mr. Burgess ✓
- Mr. Smith ✓
- Mr. Bell ✓
- Mr. Haas ✓
- Mr. Murphy ✓
- Mr. Stewart ✓

H.M.JR: I asked you gentlemen to come down to advise the Treasury on their financing. If your advice is good, I will invite you again. (Laughter)

What I would like to do, to get any good out of you at all, would be to give you all the facts. In order to do that I have to put you on your honor that you won't discuss the thing with anybody except the Treasury people, what I am going to tell you, but there is no use having you come down here and shadow box and only tell you part of the story.

MR. BURGESS: That is fine.

H.M.JR: So, therefore, I think, taking it for granted that you are gentlemen of your word, or I never would have asked you, I think the easiest way - and I have got to explain that I have got a bad throat so if you can't hear, come up closer.

MR. SMITH: I can hear you all right.

H.M.JR: Unfortunately they called me up at ten o'clock for a hearing on silver, but if you would all have lunch with me at one o'clock you will get the story now and our

own people are available to give you the background and I thought we would talk about it more then. I think the easiest way - George Haas, you have got a good voice. This is the memorandum that the Federal Reserve gave me yesterday morning. And then there is a second memorandum which is the result of an all day conference which I think is the quickest way to give you the background, you see. Don't you think so, Dan?

MR. BELL: Yes, I think so.

H.M.JR: I mean, where we were yesterday morning and where we are this morning.

MR. HAAS: Shall I start reading?

H.M.JR: If you will.

MR. HAAS: This is a memorandum from the Open Market Committee.

H.M.JR: Talk up, George.

MR. HAAS: This is a memorandum from the Open Market Committee to the Secretary of the Treasury.

MR. BELL: Executive Committee.

MR. HAAS: "Treasury Financing: The magnitude of the war financing program is increasing enormously as we are successful in the war production program. The most recent budget estimates for the fiscal year 1943 indicate that expenditures by the Federal Government will be 76 billion dollars instead of 62 billion as was estimated in January. The Federal debt, taking account of the income from proposed new taxes, will increase by 54 billion dollars instead of 40 billion. Exclusive of sales of war savings bonds at the hoped for rate of one billion dollars per month, 35 billion dollars will have to be borrowed from banks and other lenders and investors.

"The size of this task alone emphasizes the necessity of adopting a comprehensive long range financing program.

Yesterday's Presidential message requires the support of such a program, if monetary policy is to support fiscal policy in combatting a rise in the cost of living. There is a danger in feeling our way along without a program; the danger that we shall drift into a program which does not measure up to the requirements of our situation. The views of various groups of lenders and investors should be taken into account but they should not control policy, nor be allowed to delay too long the adoption of a program. Financing a war of the present magnitude involves a judicious but very substantial amount of telling the buyer what he is to take, as well as finding out what he wants to buy."

H.M.JR: George, let B.M. Edward read that. They can't understand you.

MR. EDWARD: Mr. Secretary, you know I have a southern brogue that these Midwesterners and Yankees don't understand very well either sometimes.

H.M.JR: Well, George has got a cold. I didn't know he had it.

MR. EDWARD: "General Principles:

"1. The program should not be cast in the last war pattern of rising rates of interest as the war progresses.

"2. Maintenance or increase of the present volume of excess reserves as such in the country outside of New York or in New York is not necessary to the program and might be detrimental--it would continue pressure upon banks to invest whereas banks should have less inducement to invest and others should have more inducement.

"3. There is need for an additional amount of short-term Treasury paper, such as bills and certificates of indebtedness, so that excess reserves can be shifted readily from market to market and bank to bank, through the purchase and sale of these obligations. This mobility of funds will not be achieved, however, if short-term rates are so low as to repel demand for such maturities outside the principal money markets.

"4. Borrowing from non-bank investors must be increased to the fullest possible extent in order to avoid the inflationary implications of an unrestrained increase in the volume of bank credit.

"5. Borrowing from commercial banks, in so far as it is necessary, should be for periods not exceeding ten years.

"6. Federal Reserve System purchases of Government securities in substantial amounts will be necessary in order to maintain adequate bank reserves, and to facilitate the Treasury's financing program.

#### Methods

"The differences not covered by agreement on principles relate to methods of putting those principles into effect, and most particularly to methods of selling and keeping as large a volume of securities as possible outside the banking system.

"There are various ways of carrying forward the financing program (exclusive of War Savings Bonds, etc.), including:

"1. Continuance of present method of offerings for general subscription.

"2. Periodic offerings of very large issues to be sold by campaign methods (Canadian program).

"3. The Tap Issue Method (British program).

"4. A method which combines offerings of special securities available at all times to investors other than banks, with regular and special campaign offerings of securities suitable for bank and other investment (such as the program previously proposed by the Federal Open Market Committee and the Board of Governors of the Federal Reserve System).

"Whatever method of financing is chosen, and we again recommend the fourth method, we have now reached a point where it is imperative that we have an organization (separate

from the War Savings Bond organization, which is working in a special field) available to sell whatever securities are offered; that is, an organization of the commercial banks, as well as the investment bankers and others, that will reach investors everywhere and sell Government securities. Such an organization can and should be set up in each Federal Reserve District centering around the Federal Reserve Bank.

"There will not be time before the May financing must be decided and announced to set up the organization for making a comprehensive program effective. The attempt should be made, however, to have this financing conform, as far as possible, with the objectives of such a comprehensive program.

Specific Suggestions for May Financing.

"1. Issue a 7-9 year 2 percent bond which will be primarily a bank investment. Such an issue in the amount of 1 to 1½ billion dollars could be readily sold.

"2. Begin immediately to increase the weekly offering of Treasury bills from 150 million dollars to 250 million. For the present, the Federal Reserve System will support the Treasury bill rate firmly at 3/8 of 1 per cent.

"3. Offer a registered 2½ per cent, 20-25 year market bond which could not be registered in the name of commercial banks for 10 years and which could not be transferred for 60 days. The amount of this offering need not be fixed, the books could be left open for as long as desired, and a special canvass of insurance companies and other similar investors could be made.

"4. Discard all subscription rules. The reasons for these rules have now disappeared and subscribers should be permitted and encouraged to subscribe for whatever amount of Government securities they desire.

"The Federal Reserve System in this serious situation must, of course, do whatever it can to assist in the

- 6 -

Treasury's program. It can be of greatest help if a comprehensive program is now developed. It is ready and willing to support such a program in whatever ways are necessary by whatever means are at its disposal. As an immediate guide to its operations the System might undertake to purchase in the open market a sufficient amount of Government securities to offset future increases in currency in circulation. This in itself would not constitute a net increase in the amount of available bank credit."

H.M.JR: Now, what happened was, that was what their proposal was yesterday morning and our boys met with them and they gave me five minutes before you came in here a memorandum which - oh, I have just barely read it, that is all. I mean, that is a result of yesterday's battle.

MR. EDWARD: "Discussion of May Financing with the Federal Reserve Board, Including Allan Sproul and Bob Rouse of the Federal Reserve Bank of New York and Al Williams of the Federal Reserve Bank of Philadelphia, at the Federal Reserve Board, 30'clock on Tuesday, April 28, 1942:

"It was agreed that the following five-point program should be submitted to the Secretary for discussion at the meeting scheduled for tomorrow afternoon in his office. The whole program if adopted would be publicly announced on date of financing.

"1. Offer on Monday or Wednesday of next week a 7-9 year (1949-51) 2% bond in the amount of \$1,250,000,000. Rules governing basis of subscription would be eliminated.

"2. Offer a 20-35 year 2-1/2% bond without limit as to amount, to be registered but non-transferable for first 60 days. Commercial banks accepting demand deposits would be prohibited from subscribing or purchasing such security in the market for a period of ten years. It is estimated that this will produce \$500,000,000 during the month of May.

"3. Issue 90-day bills for an additional \$100,000,000 a week (total \$250 a week). The Federal Reserve System would post a maximum rate of 3/8% on bills at which it would buy all offerings. This would produce \$400,000,000

during the month of May.

"This would make a total of approximately \$2,100,000,000 in new cash for the month of May.

"4. Announce that the Treasury will soon issue a 5-year tap security with graduated rates of interest along the lines of our previous memorandum on this subject. (It may be possible to offer this security at same time as others.)

"5. Call the HOLC 2-1/4% bonds for payment on July 1 and, in the latter part of May, offer a refunding security for these, the RFC notes maturing on July 1, 1942, and the Treasury notes maturing on September 15, 1942. As most of these securities are held by banks, this should be a bank security. Because of this it was suggested that it be in the 5-year range.

"It is understood that before a part of this program can be completely adopted, it will be necessary for the Federal Reserve Board to call a meeting of the Executive Committee of the Open Market Committee to get its approval of the open market operation proposed under No. 3. The Board also plans, if the program is adopted, to call together the twelve Federal Reserve Bank Presidents to discuss with them the whole financing program and to organize their own districts to sell the 20-25 year 2-1/2% bond, and the short 5-year tap security. This might also include F & G Savings Bonds."

H.M.JR: Now you can see whay you have got to treat this as confidential. Now, what would you like to ask me, after hearing thosetwo memoranda so that you can get together in your own huddle and talk about it? Haas and Murphy will be available and I have got room 118 and 120 available with a stenographer downstairs. 118 and 120 are available and Murphy and Haas are available. Bell and I are both under the weather and I want to tell Bell in the next hour to go and lie down somewhere.

MR. HARRISON: I think it is unfair to ask you any questions now and I think it is better not to until we have seen this and digested it a little more anyway, so I should

suggest we proceed to room 118.

H.M.JR: And 120. I will give you two rooms.

MR. HARRISON: All right. For the bad boys and the good boys?

H.M.JR: No, in case you want to get into a huddle--

MR. BELL: Split up into committees.

H.M.JR: But maybe somebody else would like to ask some questions. I mean, I haven't agreed to anything and the thing is wide open. I am not asking you to come down and - we are meeting with the Board again at three. Do you want to ask something, Mr. Spencer?

MR. SPENCER: No, I think we should go down and talk this over. That would be better.

H.M.JR: Would you like Haas and Murphy to go with you? They have been all through the meetings.

MR. SPENCER: Yes, why don't they go down?

MR. BURGESS: I think it would be very helpful.

H.M.JR: Because they have been at all the meetings, you see, so they would know the picture.

MR. SMITH: Well, that will give us a chance to--

H.M.JR: To pump them. They know what I don't know. They have got all the facts.

MR. HARRISON: Does that include the Under Secretary too?

H.M.JR: Well, I want him to lay off for an hour.

MR. BELL: I will be all right.

MR. HARRISON: Has he got a cold, too?

H.M.JR: Yes.

MR. BELL: I got a typical Washington dizzy spell.

MR. BURGESS: I should think you would all have dizzy spells.

H.M.JR: Well, just on the personal side, you see, I made a fight, for good or for bad and I hope it is for the good, for the last three weeks to keep this war bond thing on a volunteer basis and a great many people surrounding the President are violently opposed to me. Some of them also think that my taxes aren't right because I wouldn't lower the exemptions. I am not asking for an opinion, but the President sided with me, for better or worse, and if he goes wrong I am "it."

(Mr. Stewart entered the conference.)

H.M.JR: Well, if it isn't Dr. Stewart. I don't think you know anybody in this room. (Laughter)

What we have done, they have got two memoranda, Walter, one where the Federal stood yesterday morning and one where we stand, a joint memorandum, after an all day conference. I have made available 118 and 120 for them to meet with you. Haas and Murphy are available and they are all going to have lunch with me. Then you can give me the benefit of your results and I will meet with the Federal Reserve Board again at three. What I was saying was, on account of the President having listened to me in the last three weeks, I am particularly out on the end of a limb on this thing called inflation, because the other people's advice was that we should have forced savings and lower the exemptions and a sales tax. Well, he didn't take that; he has taken mine. Now, it is the same crowd, more or less, that has come along with the recommendation except that I would say they have come fifty percent to meet us, wouldn't you, Dan? I mean, it is quite different than what it was originally.

MR. BURGESS: I think they have gone a long way since we were here last time.

H.M.JR: Since they had that "secret meeting" in New York.

MR. BURGESS: I think it is an awfully good start on a program.

H.M.JR: They have come a long way. It is no longer a tap issue. The thing that bothers me, they want to issue a lot more demand securities. The thing that we think is quite a victory, they are willing to post a price of three-eighths on bills.

MR. BELL: I believe we talked about it the last time you were down here.

H.M.JR: So it is quite a different program. So as I say, I just want to make - but if I went off on an entirely different tangent, which I might want to do, again I would be going against this thing, so I am tickled to death that you people are here as a balance wheel for me at this particularly crucial time, where whatever I do now will pretty well set the die for the war financing. I mean, it will pretty well settle it, whatever we do now. Of course, we can change but I should say in the next day or two I have got to make up my mind, so it is very fortunate for me that you people are here because with the exception of Stewart you are in this business and your livelihoods depend upon it and the Government's war effort is at stake. I mean, whatever we make up our minds. After all, unless we can raise the money they can't pay for it. So it is a pretty serious decision laid on me. I think they have come a long way, don't you?

MR. BURGESS: I agree.

MR. HARRISON: It is a great progress, if I understand the significance of that paper.

H.M.JR: Well, Bell tells me - you see, they don't want to publicly change the excess reserves but by posting the price at three-eighths, as I understand, on the bills, they are doing the thing but they are doing it--

MR. BELL: Through open market operations.

H.M.JR: As I say, the thing is wide open, nothing is settled, and my mind is wide open.

MR. SMITH: Let's go.

**DISCUSSION OF MAY FINANCING WITH THE  
FEDERAL RESERVE BOARD, INCLUDING  
ALLAN SPROUL AND BOB ROUSE OF THE  
FEDERAL RESERVE BANK OF NEW YORK AND  
AL WILLIAMS OF THE FEDERAL RESERVE BANK  
OF PHILADELPHIA, AT THE FEDERAL RESERVE  
BOARD, 3 O'CLOCK ON TUESDAY, APRIL 28, 1942**

It was agreed that the following five-point program should be submitted to the Secretary for discussion at the meeting scheduled for tomorrow afternoon in his office. The whole program if adopted would be publicly announced on date of financing.

1. Offer on Monday or Wednesday of next week a 7-9 year (1949-51) 2% bond in the amount of \$1,250,000,000. Rules governing basis of subscription would be eliminated.

2. Offer a 20-25 year 2-1/2% bond without limit as to amount, to be registered but non-transferable for first 60 days. Commercial banks accepting demand deposits would be prohibited from subscribing or purchasing such security in the market for a period of ten years. It is estimated that this will produce \$500,000,000 during the month of May.

3. Issue 90-day bills for an additional \$100,000,000 a week (total \$250 a week). The Federal Reserve System would post a maximum rate of 3/8% on bills at which it would buy all offerings. This would produce \$400,000,000 during the month of May.

This would make a total of approximately \$2,100,000,000 in new cash for the month of May.

4. Announce that the Treasury will soon issue a 5-year tap security with graduated rates of interest along the lines of our previous memorandum on this subject. (It may be possible to offer this security at same time as others.)

5. Call the HOLC 2-1/4% bonds for payment on July 1 and, in the latter part of May, offer a refunding security for these, the RFC notes maturing on July 1, 1942, and the Treasury notes maturing on September 15, 1942. As most of these securities are held by banks, this should be a bank security. Because of this it was suggested that it be in the 5-year range.

It is understood that before a part of this program can be completely adopted, it will be necessary for the Federal Reserve Board to call a meeting of the Executive Committee of the Open Market Committee to get its approval of the open market operation proposed under No. 3. The Board also plans, if the program is adopted, to call together the twelve Federal Reserve Bank Presidents to discuss with them the whole financing program and to organize their own districts to sell the 20-25 year 2-1/2% bond, and the short 5-year tap security. This might also include F & G Savings Bonds.

April 29, 1942.

MEMORANDUM FOR THE SECRETARY'S FILES

Meeting in the Senate Building  
Senate Silver Committee  
April 29, 1941  
10:00 A.M.

Present: Secretary Morgenthau  
Senator McCarran, Nevada  
Senator Thomas, Oklahoma  
Senator Murray, Montana  
Senator Wheeler, Montana  
Senator Bulow, South Dakota  
Senator Downey, California  
Senator Clark, Idaho  
Senator Murdock, Utah  
Senator Nye, North Dakota  
Senator Shipstead, Minnesota  
Senator Thomas, Idaho  
Senator Millikin, Colorado  
Mr. Foley  
Mr. H. D. White

Senator McCarran had invited Secretary Morgenthau to appear before the Senate Silver Committee to discuss with them the question of silver legislation.

There was a stenographer present also who, however, did not seem to be recording very much of the proceedings. Secretary Morgenthau stated as far as he was concerned, whatever he said could be made public or not, just as they wished.

Senator McCarran opened the meeting by saying information had come to the Committee from several sources that Secretary Morgenthau had stated he felt this was an opportune time to wipe silver legislation off the books. The Committee was interested in keeping silver legislation on the books and they wondered whether the reports accurately represented the Secretary's views. Secretary Morgenthau replied that he had frequently stated his position at various committee meetings and would be glad to state his views frankly whenever his opinion was asked. He said he might begin by recalling an episode. When the question of silver legislation was first up in Congress in 1934, he had talked to Senator Ashurst of Arizona and asked the Senator why he felt so strongly about silver and Senator Ashurst replied something along the lines that silver was as much to him as "your religion is with you".

- 2 -

(There appeared to be some chuckling in recognition of the pertinence of the Senator's remark.)

The Secretary said he knew that his views on silver were not shared by those on this Committee and that in discussing silver with them he was "licked before he started". However, he was glad, as always, to tell them what he believed. He said that his own personal position is and has been clear. He feels definitely that in view of all the circumstances, now is a good time to get silver legislation off the books. He felt that the silver policy had been tried for eight years and had not been successful. The Secretary stressed that he was expressing his own personal views.

Senator Thomas stated that silver certificates constituted the only important permanent part of the monetary circulation and the part which didn't create an interest burden by the Federal Government.

Secretary Morgenthau went on to say, in response to a question from Senator McCarran, that the Treasury Department did not intend to seek new legislation modifying the present silver policy, nor was the Treasury pressing for any such legislation. The Secretary said he liked to pick his fights and the silver fight was not among those he wished to pick. Senator McCarran asked him if the Treasury changed its mind on any contemplated change in policy, would the Secretary be willing to consult with them before taking any action. The Secretary said he would be glad to do so and would come before them and tell them about it first if he was contemplating a change.

In response to an inquiry by one of those present, Mr. Foley explained the transaction of lending free silver for use in bus bars for the production of aluminum. The Secretary informed the Committee that the matter was initiated by the War Production Board.

When asked whether the Treasury contemplated selling any silver, the Secretary stated that they had no legal authority to sell silver. The only exception was possibly a small amount of Philippine silver which was not acquired under the Silver Purchase Act. The Secretary stated, in response to another inquiry, that so far as he knew, there was no legislation for repeal of the silver policy being prepared in the Government for submission to the Congress though he had heard rumors to that effect.

Senator Murdock pressed the point that the copper, lead and other metals which were produced along with silver were essential in the war effort, and that the elimination of government purchases of silver would serve to discourage the production of necessary strategic

- 3 -

materials. The Secretary replied by indicating that the Government already had authority, and has been exercising it, to pay prices higher than the market price for strategic metals when the higher price was necessary to call forth additional supplies. He felt that authority could take care of such production of copper, zinc, etc., as depended upon some additional inducement for production.

It was a most friendly meeting and it was adjourned at 10:45.

*HPW*

April 29, 1942  
Silver Hearing  
H.M. Jr.

17

The rate of industrial consumption for silver in the United States has doubled in the past 2 years. In 1940 about 67 million ounces were being used in industry. This year the estimated consumption is 120 million ounces. Some portion of that was reused silver but that proportion is declining.

In addition, the production of silver outside the United States has decreased almost one-third from 190 million ounces to probably 130 million ounces. Imports have decreased since the war has begun, from a monthly rate of 15 million ounces to about one-half that.

Despite the fact that the Treasury has not been acquiring any foreign silver since last December, the silver market has become increasingly tighter. Because of the inadequate supply of silver, the deliveries for industrial purposes have been delayed and the Treasury has had repeated requests from the silver market for ~~aid~~ aid in assuring an adequate supply of silver for war purposes and for other industrial uses.

April 29, 1942  
11:00 a.m.

CAPITAL ISSUES CONTROL

Present:

Mr. Purcell  
Mr. Buffington  
Mr. Currie  
Mr. Bell  
Mr. Jones  
Mr. Eccles

H.M.JR: I just had a great session with the "silver Senators." I have been up on the Hill. I told them my story. I said, "Now, just so we understand each other, I want to tell you a story about Senator Ashurst and myself. When the silver legislation first came along," I said, "I went to Senator Ashurst and said, 'As you know I come from the East and I don't understand this silver business.' I said, 'Would you mind explaining to me why you feel so strongly about silver?' He said, 'My boy, I was brought up from my mother's knee on silver and I can't discuss that any more with you than you can discuss your religion with me.' I said, 'Senator, I understand you perfectly.'" I told them this story and I got a great laugh.

MR. JONES: Good.

H.M.JR: "I think it should be struck off the books and you don't," I said. "I can't convince you, and you can't convince me. There is no use having any fight about it." But the whole Rocky Mountain states were there.

MR. BELL: A big conference, was it?

H.M.JR: Oh, yes.

MR. ECCLES: I went out home and I didn't know whether I was going to get lynched or not.

H.M.JR: They were all there.

MR. PURCELL: You are right in the middle of it aren't you?

MR. ECCLES: Yes, sir, number one.

H.M.JR: Wheeler, Nye, Shipstead and the whole crowd. Well, this meeting is called at your (Purcell's) request, young man, so if you will go ahead.

MR. PURCELL: All right. The Secretary was kind enough to call a meeting so that I could ask you gentlemen, and I think you are the interested parties, or should be, to discuss the question of capital control, conservation, direction, which I know you have all--

H.M.JR: Talk a little louder.

MR. PURCELL: I know you have all been giving a good deal of thought to it. It is something that, in the nature of our particular business, impressed us and we have been working on it. We have had members of our staff studying past history of capital control efforts during other wars and in the present war and looking at the problems as they may exist at the present time, or may exist - may come in in the near future. We felt without trying to use any homely phrases to describe it, because I think they are all over-worked, that the time to get on the problem, if, for nothing else, from the point of view of study of it, by a joint committee, having in mind the various problems which each component of that committee has charged to it, and to be prepared for any emergency which may arise. Now, certain financial transactions have been engaged in, or have been proposed to be engaged in, in the recent past. I suppose related to the total dollar amount of savings and capital in the country that it is no larger than a man's hand, but there are indications of what could take place. As they come along I have felt, and I came to the Secretary to express my feeling to him, that we ought to go ahead with some arrangement or setup to study and act wherever it is necessary. Now, I had prepared for me a memorandum

to use as the basis for the discussion here. I had hoped to have it prepared in such form that I could pass it around to the various persons present, but I am not at all satisfied with certain parts of it, and before I circulate it, I would like to revamp it a little bit. I listened with some gratification to the President's speech last night. I noticed a very keen note of interest in this problem in what he had to say.

MR. JONES: Who was that?

MR. PURCELL: The President. He called attention to the necessity of spending huge amounts of money and of safeguarding that money so that it would be available for expenditure, which I think is just exactly the problem that we are faced with here. Now, it has often been said, and I think it is true, that as of the present time there is no shortage of capital in terms of dollars. Whether or not there is a shortage of capital available for appropriate and necessary purposes in the prosecution of the war is questionable. I think that from what we have seen the available funds are not nearly as large as the existing funds. That may not be acute at this time, but it is something that should be carried forward and studied by a committee in order to determine the components of our capital assets; where they are, how available they are, how they can be conserved so that they won't be dissipated against the time when they are needed. I don't want to bore you with a description in detail or otherwise of the various capital funds control measures that have been undertaken in the past and are in existence at the present time. So far as the past was concerned, we have ourselves limited the study to the first World War efforts of the United States as to which there is some question of the efficacy. Conditions were different, of course, but in the present war we have in England, as you probably know, an absolute control system of positive prohibition against every type of financing that requires any new money without the consent of the Capital Issues Committee setup under the British Treasury.

Exemptions which the Treasury is permitted to make are very limited, probably more limited if we had such a setup, which I am not advocating, than we would want here. One of the most interesting attempts at capital control has taken place in Australia. Australia combines the experience of this country in the last war and in the present war so far as efforts to control spending, price and supply are concerned. They started with an informal industrial committee in 1939 and early 1940. They found very shortly that they needed to tighten up their controls and they established a governmental system under the Treasurer of the Commonwealth. One of the most significant features, however, of the Australian effort, is that these financial controls are supplementary to direct control such as we have over price and over supply and allocation and that, to my mind, is one of the principal merits of a capital control setup such as we have urged from time to time because it can facilitate the carrying out of the efforts at limiting expenditure in the field of essential war materials and consumer goods. Its principal job, though, it seems to me, is one of directing the availability of funds for expenditure in non-consumer goods, which in turn is of assistance to price administration.

True, we now have an over-all price ceiling which reduces the problem, but I think that the over-all price ceiling due to pressures which may come in certain non-consumer goods might yield at points where ceilings would have to be readjusted. A control of the funds that are available for expenditure in non-consumer fields can ease those pressures, it seems to me. The problem, as we see it, divides itself up into two or three main categories. The first one is the propriety, advisability and timing.

MR. JONES: What is that?

MR. PURCELL: The advisability and the timing of new issues of securities in the open market. When I say advisability, there is a question as to whether funds should - we should permit corporations to go to the public market and obtain funds otherwise available for

government securities in order to expend them in non-consumer fields - non-durable fields in such a manner as to absorb material, labor, and other facilities which could be more properly used or are essential to war activities. On the timing side, of course, it is a question of the advisability from a timing point of view of permitting the corporations to go to the public market in competition either with the Government or in competition with corporations needing financing for war purposes. My current example, as Mr. Buffington knows, is the American Tobacco Company, an issue of a hundred million dollars.

MR. JONES: What was the purpose of that issue? I saw the headlines.

MR. PURCELL: The ultimate purpose of that issue was to place the corporation in a position to borrow further funds from banks in order to increase tobacco inventory. Now, the purpose of that was to retire about seventy-nine millions of existing short-term bank loans. Am I correct in that?

MR. CURRIE: That is right.

MR. PURCELL: Also to retire, using the remainder of the hundred million, plus whatever cash was necessary from their treasury, about twenty-five million of medium-term and short-term notes and debentures. Thus it appeared to be a refunding operation. However, all of that indebtedness had been incurred in order to accumulate inventory, and the company stated in its registration statement that the purpose, the ultimate purpose of retiring these bank loans and other obligations was to place itself in a position where it could incur further bank loans, where its credit would be good at the banks for the purpose of acquiring inventory. Naturally, the company is aware of the fact that tobacco gets more expensive for various and sundry reasons, labor availability and so on, as time goes on, and they are anxious to accumulate as much as possible.

Now, the question naturally arises there, perhaps not in this instance - I am merely using this as an example of what could well happen in volume or at another

period when there was less capital available. The question arises as to whether farm lands should be used to that extent or whether it should be used for cotton, beets, or what not, food materials. The farm labor involved, the transportation facilities, warehousing and so forth which might be better used for war purposes.

MR. JONES: If I may ask a question, now they borrowed this money and paid their debts and that enables them to make some more debts if they need it, is that right?

MR. PURCELL: That is right.

MR. JONES: And if they use the money to accumulate stocks--

MR. PURCELL: Inventory of tobacco.

MR. JONES: Well, now, I am not arguing but how does that hurt the full economy of the Treasury, the money being made available?

MR. PURCELL: It might, Mr. Jones, if there were a shortage of farm labor which--

MR. JONES: It might increase the production of tobacco?

MR. PURCELL: Yes, exactly.

MR. JONES: I see.

MR. PURCELL: Or maintain it at a level at which it shouldn't be maintained.

MR. BELL: It takes capital funds out of the market to build up dead assets.

MR. ECCLES: Yes, but, Dan, if they didn't take it out to build up the assets, the Commodity Credit Corporation would have to, in the case of tobacco. You have got an excess of tobacco.

MR. PURCELL: Well, perhaps that is not true. Again, I say it is an example and in other fields it might cause restrictions. In the same case, a hundred million dollars is being taken out of individual's hands, which was, previous to that time, available to purchase Government obligations. It puts cash in the bank, where there was previously a commercial loan.

MR. JONES: Well, you have explained it all right.

H.M.JR: Could I make a suggestion?

MR. PURCELL: Surely, sir.

H.M.JR: Why couldn't you do this? How long do you people take from the time a person asks you whether they can borrow money? How long does it take you to pass on it?

MR. PURCELL: Depending upon the nature of the registration statement and the skill with which it has been made up.

H.M.JR: Well, normally?

MR. PURCELL: In the normal procedure, about a week.

H.M.JR: Well, the suggestion that I was going to make is this. Why doesn't this group here act in an informal capacity and have you on call. Ask us to get together, and you bring over whatever loans are pending and put them before us, and then we will consider them and if - let's say that we find that there is some loan that shouldn't be made. We will advise you to that extent, you see. Then, if we find this thing gets to be of such proportions that it should be formalized, we can ask the President to formalize it. But we could simply write the President a letter and say, "My dear Mr. President: We are meeting on call with the SEC to pass on these things and we will do it on an informal basis pending the time when we feel it is necessary to formalize it with an Executive order," and then certainly most of us can get together on a

twenty-four hour call basis and if you take a week to pass on these things - I hate to meet more than once a week, but you could bunch these things together, What?

MR. PURCELL: Yes and--

H.M.JR: You could bunch these things together and simply say, "Would you get the people together? I have got three or four loans, and I would like to have an hour meeting," just like the executive committee of a bank.

MR. JONES: Is that suitable?

H.M.JR: I am just suggesting it.

MR. PURCELL: That, it seems to me, doesn't take care of the entire problem.

H.M.JR: It gets you started, though.

MR. PURCELL: It is a start, there is no question about it.

H.M.JR: And we could advise the President so that he knows it is being done and he knows it is being watched and then let's see what proportions it gets and then as between us, if we find, for instance, that the money market is getting too tight, they are having some trouble, and even though American Tobacco might be very worthy, simply say, "We are sorry, gentlemen, there isn't a hundred million dollars in the market. You had better go along as you are."

MR. JONES: Or we might loan them twenty-five.

MR. PURCELL: Something of that sort. I anticipated that the committee, whether informal or formal, would do that in that area of the problem.

H.M.JR: You see, the thing isn't - I think Eccles can talk better for himself than I can, but from the little

conversation I had with him, neither of us feel that it is serious enough now to go to the President and say, "Set up a formal committee." But on the other hand, if we passed on all of your loans, and did it until the time it became serious, then we could ask him to get out an order and formalize this committee.

MR. PURCELL: Well, if I may make the suggestion, there are problems that - when I speak of a formal committee, I don't anticipate any expense or increase of appropriations or elaborate setup at all. Our proposal is purely on the basis of getting these agencies interested in the financial and corporate problems and the banking problems of the country, to go on a formalized basis so that they can have designees who can meet together and discuss problems and avail themselves, utilize the existing facilities which they have. The suggestion that you made, Mr. Secretary, will take care of your original issue. That, it seems to me, is perhaps the easiest one to lick. When you come to the question of the soundness of your corporate structure, when you come to the question of the advisability of debt retirement and reshuffling of the corporate structures as they exist today for the purpose of better meeting the financial demands of the war effort, and even for the ultimate purpose of meeting readjustment problems after war, in so far as they can be met consistent with--

H.M.JR: I don't know what you are talking about, Purcell.

MR. PURCELL: Well, to illustrate, under the Utilities Act, as you know, we have to pass on financing of operating subsidiaries that come to us and need financing. At the present time it is largely in the field of expansion for war production. Just as needed at various plants for the manufacture of various products. When they come in to us we have the powers which I think that this committee should have with respect to all corporations, that when they come to us, that the proper financing with respect to their setup be worked out on

the best basis to the corporations so that it will strengthen - so that the structure of the company will be strengthened as a result of their financing. Now, what we do there is if they are overburdened with debt, we have them cut it down, put some long term debt into short term debt, put some equity capital in where it is possible.

H.M.JR: Well, now, may I interrupt you? I mean, the way it is now that is your responsibility.

MR. PURCELL: In the utilities end of it, certainly.

H.M.JR: And certainly I can't take on - I don't know how the other people are - any more responsibility at this time, but I could, and would be glad to do it and feel that it is my responsibility - I have got to finance this war as long as I am sitting here - to see that nobody interferes with it.

Now, certainly, my advice to you, if you will take it, is let's get started and ease into this thing, but I certainly - take the American Tobacco thing, you come in here and tell your story and you have it in concise manner, and I am sure that those of us here can give you a yes or no very quickly, but when it gets into making a study of - well, let's say the New York Central Railroad and the debt structure, I don't want to do it. I don't know how you feel, Jesse. Would you want to do it?

MR. JONES: No.

MR. PURCELL: I am not suggesting that you should.

H.M.JR: But I meant, I am willing to say whether the New York Central should go and borrow twenty-five or fifty million dollars--

MR. JONES: Yes, or go into receivership.

H.M.JR: Yes, or whether they needed it to buy

freight cars or locomotives or whether it is a refunding, but to advise whether they should have a complete re-designation of their financial structure, the day isn't long enough, as far as I am concerned.

MR. JONES: One point you just raised there about utilities, Henry, is this: It affects us because we are supposed, where we can, to aid these utilities in complying with the act.

MR. PURCELL: And you have done so.

MR. JONES: It is before us now and then, and it really is - it could reach proportions which we shouldn't allow it to reach and in that case there might be some extension of time for compliance with the act, something of that kind, so we wouldn't have to do it. They can't go to the market and get it. They can go and get the first mortgage money, but there is about forty percent or some substantial percentage of equity money that there is no way for them to get it unless they come to us. So we have been kind of on the fence. We have done nothing on it, but we wanted to be helpful to them where we could on a proper basis. That could be brought in here though on the plan that you suggested.

H.M.JR: Let's take one bite of the apple at a time, and not try to take the whole apple.

MR. JONES: I think that is a good suggestion.

MR. CURRIE: May I inquire, Mr. Secretary, whether, in this particular case of the American Tobacco Company if you said no, has the SEC the power under its present statutes to deny this issue on these grounds?

H.M.JR: May I answer that? I don't care whether they have got the power or not. All I have got to do is to call up the Federal Reserve Bank in New York and tell them, "Send out the word we don't like it," and that ends that.

MR. JONES: That will end it.

- 12 -

MR. PURCELL: You have got the practical power. We haven't.

H.M.JR: I don't know whether they have it or not, but all I have got to do is call up Sproul in his capacity as our fiscal agent and say, "Look, Allan, we have met here, this group, and we think it is a mistake. Pass the word around. It is thumbs down."

MR. JONES: Tell them to wait a while.

MR. ECCLES: Nobody would buy it under those circumstances.

H.M.JR: No.

MR. PURCELL: As a matter of fact, American Tobacco wouldn't even attempt to sell it after you told them that. There is no question about that.

MR. CURRIE: Will you excuse the naivety of the question?

MR. PURCELL: No, but I think it is a very pertinent question when you come to a large volume process, Lauch. True, I think that this outfit like American Tobacco or any so-called respectable company wouldn't dare, but my suggestion is merely to have a group, a recognized group, that has certain authorities. Now perhaps this isn't the time. I am not suggesting it is, although I personally feel that the sooner the better.

H.M.JR: Let's get started on an informal basis and let's get educated on what the thing is.

MR. PURCELL: Now, I was speaking--

H.M.JR: Let's find out and as Mr. Jones says, if he has any loans he will bring them here and discuss them. Is that right?

MR. JONES: Yes. I don't believe the time--

H.M.JR: Is that right?

MR. JONES: Yes. I don't believe the time is ripe for us to make this formal.

MR. ECCLES: I don't have any objection to the committee. I think it is all right if there should be some question or some reason why this loan shouldn't be made, but it seems to me that our problem isn't any shortage of - lack of funds. We can create all the funds that are necessary. I mean, the problem of creating the volume of money is no problem. The problem, of course, is one of the production of goods. That is really what it is and you have got the allocations and priorities today, and if the War Production Board makes available the materials with which to do a job, build railroad cars or anything of the sort, then the money is secondary. I mean, you don't need to ration the money here. It is a rationing now of manpower and production. In the last war it was a little different situation. We were - we never got into the allocation or rationing of goods. We approached the problem from the standpoint of rationing money. Today it is a complete reversal and, therefore, there is less need of the rationing of money today by reason of the fact that there is a rationing of goods.

H.M.JR: Well, Marriner, SEC feels there is a potential problem. They have got a big responsibility. I would like to cooperate with them so that I would feel that I am not leaving any stone unturned in this general war effort and I would like to feel that Purcell can call me up and say, "Would you get your group together tomorrow or the day after? I have got some problems that I want to lay before them." I will give you people notice, find out what the time is, and you (Purcell) can come on over and condense the stuff down as much as you can and for whatever the advice is, it is here. Then if we prove to be right and the thing gets to a point it should be formalized, I would be very glad to ask the President to do it.

MR. PURCELL: The great merit, it seems to me, in having an organized and existing committee, is to keep

functioning along these lines and not just come together when you have got one problem. It seems to me that this group should be in constant touch, taking Mr. Eccle's point, with the Production Board to find out - with the Army and the Navy, to find out what their objectives are, what their necessities are, so that they will know, of the material assembled at the time the question comes up, whether or not the money should go into this sort of thing when it is needed over here. Now, you are right, Mr. Eccles, we approached it from the other point of view in the last war, and we did it from the production and allocation in this war. Now, in so far as production and allocation goes, this is merely ancillary and supplementary to that work.

MR. BELL: I just wanted to ask you, if you had an application submitted to you for new financing, say for plant expansion in a particular company, would you ask them to submit to you the approval of the War Production Board as to the materials?

MR. PURCELL: We save them the trouble by asking the War Production Board ourselves.

MR. BELL: Oh, you go there first.

MR. PURCELL: Yes.

MR. BELL: Then you do have that contact that enables you to pass upon it from that angle?

MR. PURCELL: All we can do after that is to require them to put the facts concerning their priorities into their registration statement.

MR. BELL: You have to assume that after they have passed on it and granted the priority or allocation that it is a defense matter and should go forward from that angle.

H.M.JR: Yes. Well, of course, we have no legal authority or any judgment about whether it should or

shouldn't go forward. All we can do in that respect is to ask them to put in their registration statement whether they have got priority.

H.M.JR: You have at least one issue a week, don't you?

MR. PURCELL: Oh, yes, sure.

H.M.JR: Then we can meet--

MR. PURCELL: Sometimes we have more.

H.M.JR: Well, let's try it this way, because everybody around here, I think, feels that it is too early to formalize it.

MR. PURCELL: Well, I don't want to be upsetting the apple cart, but I would like to impress upon you some of the features which I think are of importance. You say, Mr. Secretary, and I don't blame you, that you don't want to take on the problem of appraising corporate structures. All right, we will do it for you. We can make a start on that. We would like to have some authority to be able to do that. Now, we don't want to go running out in four directions and knocking corporations over the head and telling them, "Here, get rid of that debt and do this and the other thing."

H.M.JR: Well, before we go in and tell business how to run themselves any more, let's take a look at it twice. They have got enough people crawling over their factories now telling them how to do it, before somebody else comes in.

MR. PURCELL: I hadn't conceived of this as being a way of telling the corporations how to run themselves.

H.M.JR: Well, I hear it every single day. There are so many people from Washington running through a business' executive office they don't have time to tend to management.

MR. PURCELL: They don't know who is working for them.

H.M.JR: Before we add another one let's go a little slow on this thing.

MR. ECCLES: Isn't this true with reference to other aspects--

MR. JONES: I concur with that.

MR. ECCLES: .....of the other credit picture? For instance, on the Farm Credit, which is important, the Farm Credit Administration is doing a job now. As I understand it, they are trying to get a reduction of mortgages on farm credit. The same thing is true of the Home Owners Loan and the lending agencies. They are being restrictive in so far as it isn't for war purposes. Now, the banking agencies, we have - we now are setting up informally with the SEC and the Fed and the Comptroller a committee with reference to dealing with this credit situation, particularly the term, "consumer credit in banks," that we are going to have to issue, in the course of a day or two in accordance with the President's instructions, a regulation, and we have used the existing agencies, that is, the banking agencies, in the course of the examination to deal with that. That is a current, constant thing. In the case of the housing, and in the case of the farm credit, and in the case of the banking, it is more or less of a constant thing with the agencies. Of course, what you are talking about is something a little different. It is a capital issues thing, largely.

MR. PURCELL: Well, not only issues, but control of capital.

H.M.JR: Well, let's leave it this way. When you have got something, get in touch with George Buffington and he will get these people together on twenty-four hour's notice.

MR. JONES: Right.

H.M.JR: We are subject to your call.

MR. PURCELL: And may I address a letter to all of you?

H.M.JR: Sure, it is still a free country.

MR. PURCELL: Telling about this.

H.M.JR: Frank Walker is still working.

MR. JONES: Now, have you got something you would like to distribute to us?

H.M.JR: He is not ready. He has read it over and he doesn't like it.

MR. PURCELL: It is all chopped up, but I will be glad to send something.

April 29, 1942  
12:45 p.m.

Ferdinand  
Kuhn: Yes.

HMJr: Two things. Be sure and read Mark Sullivan today.

K: I did. It was very ~~very~~ good.

HMJr: Very good.

K: And Ralph Robey had a similar one in "Newsweek" last week.

HMJr: Now, the other thing, has anybody asked Mrs. Roosevelt to talk on - is it May 17?

K: I haven't asked her, because we haven't finally sewed up the radio arrangements.

HMJr: Oh.

K: They're all practically sewed up, but I didn't want to ask her definitely until we knew what studio, what time, and so on.

HMJr: Okay.

K: Is that all right?

HMJr: Yes. I disagree with you. I think that you should let Mr. Stimson know that he can have his full ten minutes.

K: All right. I'll call up his secretary right away.

HMJr: If you don't mind.

K: Surely.

HMJr: Now, what else?

K: That's all I have.

HMJr: All right.

- 2 -

K: I'll let you know about the Mrs. Roosevelt thing, because we've been working a lot on it.

HMJr: My Elinor wrote her and told her we most likely were going to ask her.

K: Well.....

HMJr: She would hear from the Treasury.

K: I think it's better always to give her something absolutely definite.

HMJr: Oh, yes. But she's so far dated ahead, that's the trouble.

K: Well, then, she will be saving the evening, won't she?

HMJr: That I'm not sure, Ferdie.

K: I see. Well.....

HMJr: If you want me to write her a letter to save the evening, I'll be glad to sign it.

K: I'll write a little note saying that we're - "We hope you're going to be able to save the evening."

HMJr: And you did check up on Murray.

K: On what?

HMJr: Whether Murray's coming through.

K: Oh, yes. Houghteling says they're already trying to get that letter for tomorrow morning.

HMJr: Swell.

K: So, here's hoping.

HMJr: All right. Thank you.

K: All right.

APR 29 1942

## President's Message

APR 29 1942 By Mark Sullivan

Washington Post

## War Bonds And Cost Of Living

TO GRASP President Roosevelt's message, and the whole program set under way this week, start with war bonds. In truth,



SULLIVAN

war bonds are the heart, and the key, of the whole matter—that is, the relation between war bonds and cost of living.

Between war bonds and cost of living, there is today a certain relation. To preserve that relation, roughly, for the indefinite future—that is the central purpose of the immense effort now being organized.

The relation between war bonds and cost of living, everybody can see. A war bond of low denomination costs \$17.50. Such a bond today is equal to, speaking roughly, 1 pair of shoes, or two \$2 dresses, or an inexpensive suit of men's clothes, or nearly 100 gallons of gasoline, or some 40 or 50 pounds of butter. It is about one-third the cost of a plow, or one-fiftieth the cost of a tractor.

AND THE PURPOSE of what we are attempting is to preserve, roughly, that relation—to see to it that a war bond a year from now, or two years or ten, will be worth roughly the same. To see to it that if, in the future, a war bond is turned into cash, the money will buy roughly what it will buy today.

How to accomplish this? That is what the President sets out to answer, in his message, and in the program of action now started. The way is obvious—it is to keep goods at roughly the same prices; to keep each item about the same, and the aggregate the same.

As a start, President Roosevelt takes prices of food—that is, the prices of farm crops. Mr. Roosevelt says, specifically, that these are to be kept about the same. He does not say "the same"—the term he uses is "parity," which can have a variable meaning; but he clearly means that prices of farm crops be kept roughly the same. To this end, the President is direct and courageous. He asks Congress to make a slight change in the law, which will permit the Administration to keep prices of farm crops at the present level. With this level, farmers in general are content—provided, and only provided, prices of other goods are kept roughly the same; provided the price of what the farmer must buy remains the same.

Next the President takes up prices of goods in general, manufactured articles and the like. About these, the Administration already has power, and is exercising it. Price Administrator Leon Henderson has authority to put, and is putting, a "ceiling"—that is, a maximum—on practically all articles in common use. The

ceiling is to be, in general, about the present level.

THE NEXT factor is wages. About this, the President is less direct. He says the price of labor—that is, wages—should not be regulated by act of Congress, as are the prices of crops and of goods generally. For this there is partial justification. But the President does say, clearly and specifically, that "wages in general can and should be kept at existing scales." For accomplishing this, he proposes that if labor unions make demands for higher wages, and if such demands are carried up to the War Labor Board for arbitration, the Labor Board should rule against the demands (with some minor exceptions).

Thus the sum of the President's program amounts to this: Prices of goods in general are to be kept from rising by law. Prices of food—that is, farm crops—are to be kept from rising by law, as changed in accord with the President's recommendation. Wages are to be kept from rising by the Administration, without action by Congress.

In taking responsibility for wages, the Administration assumes, really, the responsibility for all. For if wages go up, then everything else will go up. If wages go up, prices of manufactured goods will go up; prices of what the farmer buys will go up. Thereupon the farmer will demand, and will have to get, higher prices for his crops. That would mean higher prices of food, higher cost of living. Higher cost of living would lead to demands for yet higher wages—and the upward spiral of inflation would get under way, with the sky the limit. Only, the end would be, not the sky, but hell—economic and social hell.

Who is interested in helping the President with his program? The answer is, everybody. Specifically and especially, owners of war bonds are, or are going to be, the largest class in the country. It will be a larger class than labor, for it includes labor; a larger class than farmers, for it includes farmers. No interest of any one class, is as great as the interest of all in avoiding inflation. To owners of war bonds, and other groups, practically all of them overlapping—owners of all sorts of ordinary bonds, beneficiaries of life insurance policies, receivers of pensions and corporations, teachers and students in colleges whose endowments consist of bonds, employes and patients of endowed hospitals. All these have a common interest with owners of war bonds in preventing inflation. Hardly any advantage that would come to any person or group, through higher prices or higher wages, would be as great as the disadvantage that would come to them by inflation.

Further, for reasons too complex to set forth here, the act of buying war bonds is itself a preventive of inflation. For all, the answer is: Buy bonds—and preserve their value by helping in the program to prevent rise in the cost of living.

April 29, 1942  
2:58 p.m.

HMJr: Hello.

Secretary  
Stimson: Hello, Henry.

HMJr: Yes.

S: Henry, I'm going to do something very mean.

HMJr: Mean?

S: Yes. I wonder if you'd let me off on that thing Monday. I tell you why.

HMJr: Yeah.

S: I've just come to the conclusion that I'm dead to the world. I've got to go away for a week.....

HMJr: Oh, oh.

S: .....and rest - try to, and I'm going to speak to the President about it and go the end of this week.

HMJr: I'll let you off on one condition.

S: Yeah.

HMJr: Give me General Marshall in your place.

S: Well, that's pretty mean. (Laughs) For me, it makes it mean.

HMJr: No, that's easy.

S: Oh, dear.

HMJr: Give me General Marshall in your place.

S: Oh. I'd do - no, that's - I'm pinch-hitting for a day or two to let him get away because he's so tired. That's.....

HMJr: Isn't he going to be here Monday?

- 2 -

S: I don't know. I think - oh, I think he'll be here Monday.

HMJr: Well, give me General Marshall. He could tell something about his trip abroad, the troops in Ireland - there are plenty of things that he could talk about that people would be interested in.

S: (Laughs) Well.....

HMJr: He should go on the air. It would be good for him.

S: What - no -- well, you'll make me stay if you do that.

HMJr: What?

S: You'll make me stay.

HMJr: No, no. No, I'll say now that you're released.

S: You ought to have someone to help you, I know it; and if I was going to be here, I'll do it.

HMJr: No, no. I want you to have your holiday, but - well, why not Marshall? Let him talk to the six hundred thousand civilian employees in the Army on bonds, as a soldier.

S: Oh, well - I can't buy myself off at his cost. He deserves it more than I do.

HMJr: No, no. The two things have - no, no, you're released; but I'd like to have Marshall. Why so timid?

S: (Laughs) Well, I'm not.....

HMJr: You once told me you were a warrior.

S: Yeah, I know.

HMJr: You've only got to walk ten feet into his room there.

- 3 -

S: Well, I'm not now. I'm up here at my own house.

HMJr: Oh.

S: The - I was trying to think whether there was someone else. Everything's piling on him now, and I'm - if I pile on my troubles, why that just makes me feel like not going.

HMJr: No, no. Now, I want you to go. Now, look, Henry, I don't want to add to your worries. I'd rather postpone the whole thing a week.

S: If you could postpone it until - a little while - I'll do it, but I can't do it now if I go.....

HMJr: All right, let's postpone it. We'll postpone the whole thing. I want you to have your holiday, and God, I'm the last one to add to your worries.

S: (Laughs) I know it. You've been pretty good, anyhow.

HMJr: When you come back and you're full of beans, we'll go on the air together.

S: Well, I'll do the best I can.

HMJr: What?

S: I'll do the best I can.

HMJr: Well, you go away and have a holiday, and I want you to go away with a good feeling towards me.

S: (Laughs) Well, I'll do that. I wouldn't.....

HMJr: What?

S: I wouldn't have any mean feeling towards you.

HMJr: Well, I'll let you off. You have a holiday, and when you come back, we'll do it together.

S: All right. Thank you very much.

HMJr: Okay.

April 29, 1942  
3:00 p.m.

#### FINANCING

Present: Mr. Buffington  
Mr. Banker  
Mr. Haas  
Mr. Bell  
Mrs. Klotz  
Mr. Morgenthau, III  
Mr. McKee  
Mr. Eccles  
Mr. Rouse  
Mr. Williams  
Mr. Murphy  
Mr. Szymczak  
Mr. Piser  
Mr. Goldenweiser

H.M.JR: I thought I would like to let you know that I have got a group sort of advising me, so that you know who they are, and if you want to talk to them, they are available. I invited in Mr. Spencer of Boston, Mr. Brown of Chicago, Tom K. Smith of St. Louis, B. M. Edward of South Carolina, and Mr. Burgess and Mr. Harrison. Is that everybody?

MR. BELL: Yes.

MR. SZYMCAK: George Harrison?

MR. BELL: And Walter Stewart.

H.M.JR: Well, Walter Stewart is permanent, and I hope

- 2 -

that these people will--

MR. ECCLES: He is an economist. They are bankers.

H.M.JR: I hope these people will advise me and most likely we will add somebody from the West Coast.

MR. ECCLES: Are they here now?

H.M.JR: They are in the building. If you people for any reason would care to talk to them, they are here.

MR. McKEE: If you want a good name from the Pacific Coast, I will give you one.

H.M.JR: I would like one.

MR. SZYMCZAK: I think I know who John is going to tell you about. (Laughter)

H.M.JR: I was thinking more of Oregon and Washington.

MR. ECCLES: Paul Dick would be a good one.

H.M.JR: The trouble is to get somebody that you can get out here. What they did is, our boys - I spent some time with them, and they spent a lot of time on it. Am I talking loud enough?

MR. SZYMCZAK: Yes.

H.M.JR: I would like to say that we are about ninety percent together. It gives me a comfortable feeling to think that people like this after careful thought - it gives me an additional feeling of security.

MR. ECCLES: You mean that the program we have discussed, that you are about in ninety percent agreement with that or they are about in ninety percent agreement--

H.M.JR: Let's call it the three groups. The three groups, I would say, are ninety percent in agreement.

"It was agreed that the following five-point program

- 3 -

should be submitted to the Secretary for discussion," and so forth.

"1. Offer on Monday or Wednesday - " and I understand that you people would rather have Wednesday.

MR. ECCLES: Yes. It will give us a chance to get our people in here by Monday. To try to get them in Friday is almost too little time.

H.M.JR: "... of next week a 7-9 year (1949-51) 2% bond in the amount of \$1,250,000,000. Rules governing basis of subscription would be eliminated."

Well, on the next page there is some question. On that thing, "rules governing basis of subscription," our boys would like to argue with you about that, but as to the 7-9 year '49-'51 two percent bond, if that falls within the market, I would say there seems to be general agreement. There are people who feel that those rules should not be eliminated because there are still a lot of smart fellows, and they will go in too heavily because it is very attractive. So that "rules" thing we would still like to discuss. Right, Dan?

MR. BELL: That is right.

H.M.JR: "Offer a 20-25 year 2-1/2% bond without limit as to amount, to be registered but non-transferable for first 60 days. Commercial banks accepting demand deposits would be prohibited from subscribing or purchasing such security in the market for a period of ten years. It is estimated that this will produce \$500,000,000 during the month of May."

Well, on that, leaving off the figure because that is an estimate, as to their proposal, there is complete agreement, isn't there?

MR. BELL: Yes. They would like to make it available as collateral for loans.

MR. MCKEE: Assignable?

- 3 -

MR. BELL: Yes, to that extent.

H.M.JR: You think by doing that you will bring the savings banks in?

MR. ECCLES: I wouldn't see any objection on that.

MR. SZYMCAK: Neither would I.

MR. ROUSE: I think that is all right.

MR. McKEE: Any restrictions on the assignability to an institution?

MR. BELL: Well, I take it, John, you would have to make it assignable in blank to accomplish that. If the bank had to take it over because of non-payment of the loan, they would sell it to some non-banking institution.

H.M.JR: The bank can't hold stocks, but they can make a loan on stocks, and if they have to take the stocks over, they have to sell them. You have the same situation there.

MR. BELL: Yes.

H.M.JR: If you do this, the savings banks come in; and if you don't, they stay out.

MR. ECCLES: Others come in too if you do it that might not otherwise come in.

H.M.JR: Well, it is a suggestion.

MR. McKEE: I think it is a good one.

MR. ECCLES: I don't know why we left that out.

MR. SZYMCAK: I think we took it for granted it was in.

H.M.JR: It shows that you are human.

MR. ECCLES: That is right, pretty much so.

- 4 -

MR. ROUSE: I thought it was understood that it would be put in registered form and have all the same privileges except these that were specifically eliminated.

H.M.JR: "Issue 90-day bills for an additional \$100,000,000 a week (total \$250 a week). The Federal Reserve System would post a maximum rate of 3/8% on bills at which it would buy all offerings. This would produce \$400,000,000 during the month of May."

Now, on this thing, some people thought that we ought not to jump immediately to two fifty, but we ought to go to two hundred and then wait a little while and then go to two fifty. Think it over, see. It isn't a matter of great importance.

MR. ECCLES: We thought two fifty for this reason, that the size of this financing is so huge and the amount of short paper in the market is quite small by comparison, and if we posted a rate what, in effect, it really does, it makes it possible to put out anything you want because it would enable us then to meet the reserve situation by the purchase of bills. That was my thought.

MR. McKEE: Marriner, I can visualize that - maybe this suggestion might be helpful, not to jump the whole way at once, because I would like to see some medium provided in connection with investments of the smaller banks' surplus funds, excess reserves, in bills.

Now, they probably won't bid for them, but it may be possible to have some of the larger banks have a fund. We might be able to sell them on having a fund, a bill fund, which they would sell participations in to these smaller banks. But they could always get in and get out, it will be using their excess reserves. So the big fellow who is used to building for bills would be buying for the accounts of many of his correspondents. I am not so sure that we should jump right in at the top. I think it is open to argument.

H.M.JR: Well, let's think about it.

MR. McKEE: But I think we ought to work up to it.

- 5 -

H.M.JR: Can we argue a little bit?

MR. ECCLES: Yes, sure.

H.M.JR: It is far from being a basic decision.

MR. ECCLES: That is right. It isn't awfully important.

MR. BAKER: However, Mr. Secretary, it will leave you a little short of cash.

MR. SZYMCAK: That is just the point. How soon do you need the two billion?

MR. BAKER: Even in June with a two-hundred-fifty rate you only have a hundred million net coming in.

H.M.JR: If you waited three weeks, it is a hundred fifty million dollars.

MR. BAKER: It would still leave you leaning on your registered bonds a little heavily for May.

H.M.JR: Well, you are right. It is something we have got a day or two to talk about. I mean, I am so pleased that we are so near together that the other things ought to be easier for us. Now, on this fourth thing, "Announce that the Treasury will soon issue a 5-year tap security." This advisory committee that I have brought in, on this thing they feel very strongly that we are doing enough new things now, and they would very much - they are against my advising something that I may do in a month or two from now. They said to wait until I am ready, keep it an open question. Is that correct, Dan?

MR. BELL: Yes.

H.M.JR: Keep it open, but not announce it. I was a hundred percent outvoted. I didn't want to refund the HOLC's, and I was a hundred percent outvoted, so I will go along with it - I can't even call it the majority.

MR. ECCLES: You didn't want to refund it?

- 6 -

H.M.JR: No, but I was outvoted nine to one.

MR. ECCLES: We didn't even argue on that one. We all just seemed to agree without any discussion.

H.M.JR: Well, I won't state my case, but I was outvoted nine to one. I put up my argument, and they wouldn't even listen to me. So that paragraph five we will go along with. Then it says: "6. At the conference between Treasury and representatives of the Federal Reserve System on March 19, it was understood that the Federal Reserve would maintain the approximate pattern of rates existing at that time. This understanding should of course continue."

I take it, it does.

MR. ECCLES: The bill buying fixes the bottom, and on the top one we agreed with you that we would support that long market, allowing it some fluctuation. The fluctuation that was allowed would depend upon the day to day or the agreement with the Treasury, if you recall, that there was nothing particularly sacred about par on any issue. Of course, nothing has gone below par since that time. If we got into a very bad market, the extent of the support would depend upon - we would hold it to par if the Treasury felt that was what we should do; but the extent of the support, I think, should depend upon what the Treasury felt the circumstances called for at the time, so we stand ready to support the long market to whatever extent the circumstances would warrant.

MR. BELL: At that time, I think, as I recall, the long two and a half's were selling at three quarters premium, twenty-four thirty-seconds.

MR. ECCLES: Those two's were just about par.

MR. BELL: That is right. The Secretary said he would like for that line to be maintained, at least for the present, and that he would allow a fluctuation of a quarter - or a half point each way. That would bring it down to eight premium plus one and a quarter premium.

- 7 -

MR. ECCLES: That is right. But we didn't want to get it out--

MR. McKEE: It hasn't been out of that range since, has it?

MR. BELL: No, it has not. It is still well within that range, and I just thought we ought to have an understanding that it should be kept pretty well as long as you are going to fix a bottom.

MR. McKEE: I think that is agreeable to me.

H.M.JR: It is important.

MR. ECCLES: We want to avoid having the market feel on market issues that those long securities are paid at par or at some specific point. I think that is desirable. We can have an understanding among ourselves--

MR. McKEE: Well, Marriner, this is just a renewal of a commitment we made here before, and I know of no reason to change it.

MR. ECCLES: That is right.

H.M.JR: Now, let me read this thing here.

"1. Offer on Monday or Wednesday of next week a 7-9 year 2% bond.

"Suggested Modifications: It is suggested that the rules governing basis of subscription be retained."

That we discussed.

"2. Offer a 20-25 year."

"Suggested Modifications: It is suggested that these bonds be made eligible as collateral for bank loans."

I knew my lesson pretty well, Henry.

- 8 -

"It is also suggested that the Secretary should announce that this issue will be open for one week and may then be closed at the option of the Secretary. It should not be open for longer than two weeks. The Secretary might announce that there would be other issues of similar securities from time to time."

Well, we can discuss that.

"Issue ninety-day bills."

We will discuss that.

"Announce that the Treasury will soon issue a 5-year tap security.

"Suggested Modifications: It is suggested that consideration of this issue be postponed.

"Call the HOLC's 2-1/4.

"It is understood that before a part of this program can be completely adopted, it will be necessary for the Federal Reserve Board to call a meeting of the Executive Committee of the Open Market Committee to get its approval of the open market operation proposed under No. 3."

Do you want this?

MR. SZYMCAK: That is the full Open Market Committee?

H.M.JR: Will you give me another one of those please, Henry.

MR. BELL: That is the same as you have got, Marriner, except the suggested modifications for discussion.

MR. ECCLES: Yes.

MR. McKEE: Mr. Secretary, is this open for discussion now?

H.M.JR: Oh, yes.

- 9 -

MR. McKEE: I am rather a bit disappointed on number four for this reason, that I feel that Monday is going to be - give us of the Board and the Executive Committee of the Open Market Committee such a good opportunity to start an organization within the system to sell this kind of financing.

MR. ECCLES: Plus all the rest.

MR. McKEE: When we have all the presidents in here. Now, to defer that for future consideration is not going to - we are not going to have much to talk about, and they are not going to be able to go back and organize their field with nothing to sell. Now, that to me just seems like we are putting our program off until we are put up against the barn door, and I don't think that is fair to you.

H.M.JR: Well, let me just talk on that a minute so we have an understanding. This group strongly advised me, against my entire wishes, because I had no such thought, that the Treasury must continue to take the responsibility for selling whatever we have to sell, that I, as Secretary of the Treasury, cannot and must not give up that responsibility, that they feel - so I said, "Well, I have got all I can do to sell the E Bonds, and I would be tickled to death if somebody else would go to town on the others," and they said, "No, you can't do that. You will simply have to assume the responsibility for this as well. You can't delegate it to anybody else, and you will have to use the Federal Reserve as your fiscal agents, bringing in - " maybe this last part is mine, I want to be very careful what I am saying - "bringing in this organization of the security dealers of America and - as your salesmen." Well, believe me or not, I protested vigorously, because frankly I have got about all I can do. But they did convince me that the raising of this money is my responsibility.

Now, I don't want you people to think that I don't appreciate tremendously your offer. Maybe I am very silly not to take it and wash my hands of it and say, "Go ahead," but when this war is over I either will have made a success of the financing or I won't, and all the other things that

I fool around with will seem very insignificant compared to the financing. So after giving the thing careful consideration, I have decided that I will have to take the responsibility as Secretary of the Treasury for selling these securities.

MR. McKEE: Well, I don't think any of us have ever had any such idea, that you would be relieved of that responsibility, other than to offer you as an additional service in your selling facilities that which was available through the Federal Reserve System and their contacts through the member banks, and also using those member banks, with dealers or otherwise, to try to get this thing circulated under your direct leadership.

MR. ECCLES: I can't imagine that--

H.M.JR: Just one second.

MR. ECCLES: Pardon me.

H.M.JR: I may have gotten the wrong impression, because maybe the thought was further than the wish. I was thinking that I could wipe my hands of this thing and just rest on you people. That was what I had in mind, and that is what these people said I cannot do.

MR. McKEE: No, we expected to get all the hell that you could pass on to us as being the one responsible for carrying it out.

MR. ECCLES: Well, it seemed to us that here is an organization that is twenty-five years of age that went through a war before, that is the fiscal agent of the Government in the distribution of Government securities today. It is performing a very important function throughout the country. It has twelve banks and twenty-five branches and a large personnel. It has the closest touch with member banks and business institutions. It has the confidence of the people that have the funds, especially funds of the larger type outside of the small investor in the Series E. It would seem unfortunate at the time when a good organization is difficult to get, when there is such a

- 11 -

shortage of man power, not to use to the fullest possible extent that organization and it had - the thought that we had in this was that this country is so large that if we could decentralize the selling campaign in these particular issues, that is the type of securities on particular - here you have the twenty twenty-five two-and-a-half bond. It goes to the insurance companies and large trust accounts where the Series G isn't sufficient, savings banks and so forth. If you should put out number four, there is a case where it will require salesmanship on that just like it does on the Series E Bond. You will have to have a list of the corporations, and you will have to go and say, "Now, here, you wanted to know what you could do. If you have got some idle funds, here is a security for you." The Reserve banks and the branches would have the place to fit into this picture to render a service, and it wasn't our thought only that the Reserve banks would do that. We would expect, as was done for instance in Canada, to call in the commercial banks, to call in the investment banking group. You have got a lot of investment bankers that are not doing much. Call them into the districts here and get them organized on a basis to sell whatever you, who would have the decision to make as to what should be sold - the terms and all the conditions are in your hands, and we, as the Board and as the Reserve System, would act under your direction here just as fully as the organization that you have got now selling Series E Bonds. You have got an organization there that you have set up and you direct. The Federal Reserve here, we would act under your direction in exactly the same manner, using an existing public facility, and at any time that we were not entirely satisfactory, you could dispense with our services just as completely as you could in your Series E.

H.M.JR: Well, Marriner, don't think for a minute that I underestimate this offer. Let me just ask this question. The Federal Reserve Bank has never - you don't have any salesmen.

MR. ECCLES: No.

H.M.JR: You have got a magnificent organization, but you haven't got any salesmen, any more than I have.

- 12 -

MR. ECCLES: That is right, but what we would expect to do is organize in the field an organization around the Federal Reserve Bank, around the Federal Reserve District. We have got a place to meet, and we have got officers. We have got a nucleus there around which we can--

H.M.JR: I agree with you. I would expect to use the Federal Reserve Banks as the nucleus. I would expect to use them as the officers. I would expect to use them as our fiscal agents. But when it comes to the selling, I want to use salesmen.

Now, maybe we are not very far apart, but if you ask me to get a hundred salesmen to go into the District of Columbia to sell from here, I haven't got any salesmen in the Treasury.

MR. ECCLES: Well, we certainly had not the slightest objection to hiring, if need be--

H.M.JR: But you don't have to hire these fellows.

MR. ECCLES: All right, we would get as many as we could on a voluntary basis. Get them on a voluntary basis if you can. But let the Federal Reserve Bank take the responsibility in the District of getting the necessary people to do this job. Now, you will have certain goods here. We are going to try to get a much wider distribution of these bills. The Federal Reserve Banks themselves can undertake the sale of these bills on a much wider basis throughout--

H.M.JR: No argument about the bills.

MR. ECCLES: Now, the Federal Reserve Banks can likewise come along on this twenty and twenty-five year. Nobody is going to want to buy that except in amounts of over fifty thousand dollars.

H.M.JR: That is where - well, on the bills, it seems to me that that would be a natural thing which would come to the Federal Reserve Banks, but when it goes out to pounding the pavements and going out and talking face to

- 13 -

face to the people, I don't think you are any better equipped than we are, but I think that these three security - sales organizations are, and they are crazy to do the thing. They are just raring to go.

MR. ECCLES: Which three do you mean?

H.M.JR: Which are the three, George?

MR. BUFFINGTON: National Association of Security Dealers, Investment Bankers' Association, and Association of Stock Exchange Firms, which includes the New York Exchange members.

MR. ECCLES: Yes, that is right, but why couldn't they operate in - you wouldn't want to operate on a national basis. You would want to operate on a district basis. It would have to be decentralized.

H.M.JR: On a Federal Reserve District basis, and with your permission I would want to use the Federal Reserve Bank as headquarters and use the machinery just the way we do now.

MR. McKEE: Have you cleared that with the SEC?  
(Laughter)

MR. ECCLES: We are getting down, it seems to me, to why couldn't you then in doing that work through the Federal Reserve organization, the presidents of each of the Federal Reserve Banks who are public officers and who have a public responsibility and who are in close contact with the Treasury and with the Board? Why couldn't those people be, in effect, the men in the field that you would work through to these dealers? In other words, you have got - either that or you by-pass them. They sit over here and these security dealers work directly under the Treasury.

(Mrs. Klotz left the conference.)

MR. McKEE: Well, Marriner, I don't think we are so far apart here on our argument. It is just a question that the Secretary has got to decide yes or no whether he is

going to put out this type of issue. Now, as to who sells it, that doesn't make any difference with us, just so it is sold.

H.M.JR: Well, don't let's confuse this five-year issue for the minute, shall we?

MR. ECCLES: I was thinking of the organization rather than any issue.

MR. McKEE: I am directing my remarks to your number four, which is the--

H.M.JR: Well, do you mind? Could you argue just as well on number two?

MR. McKEE: Well, is there any argument on number two?

H.M.JR: As to who is going to sell it.

MR. WILLIAMS: The point has been made that it will be necessary to utilize the services of the Reserve Banks on the bill issue. I think that is quite true. Now, on the long-term issue we are already in touch with the insurance companies and the savings banks and, of course, private individuals. They are calling us as your agent now, and the only question at point here is with regard to the short issue, and that is where we are all agreed, that in the amount that is not going to be very important.

H.M.JR: No. Could I just step out in the hall a minute with Bell and Walter Stewart. Would you excuse us a minute.

MR. McKEE: Sure.

H.M.JR: It is a little bit deeper than that.

(The Secretary, Mr. Bell, and Mr. Stewart left the conference temporarily.)

H.M.JR: I have got this suggestion to make. It is sort of a compromise. What we want is a bang-up, good

live-wire salesman as chairman in each state, just the way we have a chairman in each state now for our E Bonds. I have got a chairman for New York and for each state. I have got an organization. What we thought we might offer for consideration is that we have from these security dealers a state chairman for each state and they would form a committee of which your Federal Reserve Bank presidents would be the chairmen, you see. There might be five states under him. But the president of your bank would be the chairman of this committee, and under him would be five state chairmen who would be security dealers, picked by them with the approval of the president of the bank and, say, myself, and those people - and the president of the bank keeping the same relationship to me as he would in any fiscal matter, and then my relationship with the Board would be that you would have a committee that I could work with just as we do now on E Bonds, only do it better.

Now, what do you think of that?

MR. McKEE: What was that last remark, "only better"?  
(Laughter)

H.M.JR: On our part.

MR. McKEE: Oh!

H.M.JR: No, on our part, John. I was sincere. I mean, this to me is terribly important. I mean on our part.

MR. ECCLES: Thinking of what you stated from an organization point of view, there would be this practical difficulty. We possibly could overcome it. Al Williams would know as well as anybody. For instance, in Philadelphia, the Philadelphia Federal Reserve District goes over into New Jersey and so does the New York District. The northern part of New Jersey is in the New York District, and most of New Jersey is in the Philadelphia District.

H.M.JR: I can answer that. In California I have two state chairmen, one in San Francisco and one in Los Angeles.

- 16 -

MR. McKEE: You can have two in Pennsylvania.

H.M.JR: I can have two in Pennsylvania.

MR. ECCLES: Put one over in Pittsburgh which is in the Cleveland District

H.M.JR: I can have two wherever it is necessary.

MR. McKEE: You will appoint your chairmen according to the split of states.

H.M.JR: What do you think of that?

MR. ECCLES: It would work all right that way. You would have more than one chairman, depending upon the state arrangement.

H.M.JR: What do you think, Mr. Williams?

MR. WILLIAMS: I think it would work well, Mr. Secretary. I think we could get in to motion effectively under a plan of that sort.

H.M.JR: What do you think, George?

MR. BUFFINGTON: I think it would work all right.

H.M.JR: Now, that would give us the salesmen that I want, give me the benefit of the prestige and the sincerity of the Federal Reserve Banks. The Federal Reserve Bank presidents would have the same relationship with me as they have now on any fiscal agency thing and my tie-in with the Board would be whatever the Board wants.

MR. ECCLES: I think that will work all right.

MR. McKEE: Do I take it you agree to put this issue out?

H.M.JR: Which one?

MR. McKEE: Number four. (Laughter)

- 17 -

H.M.JR: I can hear the doctor calling me. I haven't had my treatment today. I will tell you what you can do, because I am not fair pickings. I will put you up against this other committee.

MR. McKEE: Boy, I will welcome it.

H.M.JR: I will put you up against them.

MR. McKEE: O.K., it is all right with me.

H.M.JR: No, seriously if you would like to. It is the only thing - the only point of difference left, isn't it?

MR. ECCLES: That is right. We have this interest in four or whatever type of issue might be devised to get the use of existing funds. Now, the Reserve System are anxious to avoid in every way possible the getting of securities into the banks, getting them outside of the banks so far as it is possible to do for this reason, that the more securities that the banks have to take, the more pressure there is to give them further excess reserves and to the extent that we have an issue that we can raise a substantial amount of funds, as we think four would do, outside of the banks, to that extent we use existing funds and we avoid the necessity of creating further excess reserves so as to enable the banks to do the investing. That is the interest that we have, and it would certainly assure a maximum effort on the part of the System to sell this security, because to the extent that we do sell it, just to that extent, we would have to rely less upon the banks, which was the thing we wanted to do.

MR. McKEE: I take it, Mr. Secretary, your mind is open. Can we have the privilege of Mr. Bell as an umpire between the setters and the pointers and get together, and if we come out - if we lose, we lose, and if we win, your mind is open?

H.M.JR: Sure, if you can take it, Bell.

MR. BELL: Sure, I can take it.

- 18 -

H.M.JR: Can you take it this afternoon?

MR. BELL: Yes.

MR. McKEE: Go find the setters.

MR. WILLIAMS: Mr. Secretary, I would like to revert back to the point of using the investment bankers.

H.M.JR: Well, excuse me, it isn't the investment bankers, it is the Security Dealers of America, there are three organizations.

MR. WILLIAMS: I think the matter of compensation will come up sooner or later.

H.M.JR: It hasn't yet.

MR. WILLIAMS: And some consideration perhaps ought to be given to that.

H.M.JR: It hasn't yet. I think they would be insulted.

MR. McKEE: A bond man would be insulted?

H.M.JR: No, I am serious.

MR. McKEE: I am being educated.

H.M.JR: It may be funny coming from me, but these fellows are as patriotic a group of people as I have ever run up against and the time may come when they may need compensation, but it hasn't even been hinted, see. There hasn't been a hint. All they ask for is the opportunity to serve their Government, and there hasn't been a word about compensation, and I have seldom met a more patriotic, enthusiastic crowd than they are.

Now, there hasn't been one single hint of wanting to be compensated; and, as I say, one of the reasons that I wanted to find some way to use them, it seemed to me the height of stupidity not to put that energy to work.

MR. ECCLES: That is right. We discussed this a moment while you were out, that is, the question of compensation, whether now or ultimately.

H.M.JR: It may come to it, but they haven't even hinted.

MR. ECCLES: In Canada, just to put a big issue out over a six-week's period, and they used this organization of dealers and banks to do it--

H.M.JR: And paid them what, an eighth?

MR. ECCLES: Well, what it cost the - Canada to put the issue out for the entire cost of all their printing and their selling, the whole thing, was about one percent, which is less than it costs us when we price a security, for instance, a point or a point and a quarter or a point and a half above the market, and it isn't then distributed always where we would like to see it, but speculators and free-riders come in and get the one point and one and a quarter point, and they don't do any service for it, so it is our thought that it would cost the Government even less if ultimately they did have to pay a small commission by - now, you couldn't do that on a market issue. The market issues--

H.M.JR: Well, Marriner, excuse me. Right now it isn't up. The time may come when these fellows, after they have done - worked six months, they may say, "Well, now, be fair to us and compensate us." But I am not going to raise it, and they haven't raised it.

MR. McKEE: Mr. Secretary, are you appraised of how they are going to sell it? Are they going to sell it with their other wares? In other words, if they can't sell an industrial bond, they will try to sell a Government bond? Do you know?

H.M.JR: George, you can answer that.

MR. BUFFINGTON: Well, the way they did on the certificate issue was just to set everything aside and go out

- 20 -

and do the job, and I presume that is what they will do now.

MR. McKEE: This is more or less a continuing job.

MR. BUFFINGTON: For how long a period they can set that aside, I don't know.

MR. ECCLES: This number two, twenty twenty-five, and this number four, and even these bills here, it is going to be almost a continuous job for them.

H.M.JR: Well, I will get them down here tomorrow morning, the three presidents of these three organizations, and what I would like to do is this, so my time is straight. You people are going to meet with these people now, aren't you?

MR. McKEE: Yes.

H.M.JR: McKee is awfully anxious to go to see them. I don't see why I have to see them again today. You can tell me the results. Then the presidents of these three security organizations will be here tomorrow morning at nine o'clock. I would like to talk to them, and I would like to talk to - who will be your contact man on that from the Board?

MR. ECCLES: We would like to discuss that.

H.M.JR: You mean you will let me know?

MR. ECCLES: Yes.

H.M.JR: Well, then, I think I would like somebody here, whoever is going to represent the Board, at nine-thirty tomorrow morning.

MR. ECCLES: All right.

H.M.JR: And John represents you know, doesn't he?

MR. McKEE: No, I think, Marriner, you had better take

- 21 -

this on because it is a question of the whole System.

H.M.JR: Well, anyway, somebody be here.

MR. ECCLES: At nine-thirty in the morning?

H.M.JR: If you don't mind coming back again.

MR. ECCLES: All right.

H.M.JR: Then you are going to have an argument this afternoon, and in the morning we will meet with the dealers. When do you want to have a meeting to settle any unsettled points?

MR. ECCLES: Tomorrow afternoon.

MR. McKEE: I think you have covered them very well. I have them all in my mind, of the things that are pro and con. I think we can iron a lot of them out this afternoon.

H.M.JR: Well, I have asked these gentlemen to stay over, that is the only point. Supposing I meet with them again tomorrow morning, and then meeting with you fellows in the afternoon. Would that be all right?

MR. McKEE: I don't know whether - you can meet with us from the Board, but I don't know whether Al or Bob - with the market situation the boys may have to go back.

MR. ECCLES: Let the three members of the Board come over who are on the Open Market Committee.

H.M.JR: At three?

MR. ECCLES: Yes.

H.M.JR: Tomorrow afternoon.

MR. ECCLES: Mat and John and I will come over.

H.M.JR: And I will meet with this out-of-town committee at eleven.

- 22 -

MR. BELL: All right. Nine-thirty, eleven, and three?

H.M.JR: Yes. Well, I want to meet with the security dealers first at nine o'clock.

MR. ROUSE: Mr. Secretary, in respect to the security--

H.M.JR: Security dealers at nine o'clock.

MR. ROUSE: You have left out one group, which is the Government security dealers, and they have been doing a hand-painted job for you for a number of years and would like to be included.

H.M.JR: Have they an organization?

MR. ROUSE: They have a group known as the Group of Government Security Dealers. Some of them are members of these other groups, but it is, while loose-knit, still a close organization with a chairman who is Mr. Rich.

H.M.JR: Why were they overlooked?

MR. BUFFINGTON: They were not overlooked. It is an informal association and not a recognized one, and at Mr. Rouse's suggestion I talked to Mr. Dominick Rich who was acting informally. He has been down. But most of those people, I believe, are members of the Investment Bankers Association or the National Association of Security Dealers.

MR. ROUSE: Or the American Bankers Association.

MR. BUFFINGTON: So we have always felt they were part of this other group.

MR. McKEE: You mean they consider themselves a different kind of fish?

MR. ROUSE: A different kind of fish.

MR. BELL: Ask them down if they will feel better.

MR. ROUSE: In other words, they feel hurt if they

- 23 -

are not included in this, and I think they are entitled to it in view of the job they have done for you.

H.M.JR: Well, this is an open shop.

MR. WILLIAMS: Good.

MR. ROUSE: That is what we want.

H.M.JR: So would you ask them? You fix it up with George and have Mr. Rich, or whoever it is, here at nine tomorrow morning, will you.

MR. ROUSE: Yes, sir.

H.M.JR: How is that?

MR. ROUSE: Fine.

H.M.JR: Far be it from me to exclude anyone. Well, then, I will see the security dealers, including the Government Security Dealers, at nine. Somebody from the Federal Reserve Bank will join us at nine-thirty. My out-of-town group will be in at eleven and the Federal Reserve Board at three, and certainly by tomorrow night we will have this thing settled. Personally, I feel very happy, and I feel less worried than I have about this; and with all sincerity, Marriner, I would like to thank you and your group for the real contribution that you have made. I would like to thank you.

MR. ECCLES: Well, we have been delighted to be of any help we could.

MR. BELL: May I raise one question?

MR. ECCLES: It is all our mutual problem.

MR. BELL: May I raise one question? You are not going to have your Open Market meeting until Monday?

MR. McKEE: Yes.

- 24 -

MR. BELL: I wonder if this program shouldn't be announced before Monday in order to have the market settle before we announce or make up our mind Tuesday noon?

MR. ECCLES: There was only this thought that we had in mind. With reference to the posting of this bill rate and, as a matter of fact, the whole program, we thought that it might be helpful inasmuch as this is now rather a comprehensive program - it is from our standpoint pretty complete except the one item. That is the only additional thing that we would like to get in as a - we may decide to do that, but we would like to get in, so that you then have got what everybody has been talking about, a comprehensive program, that it may be desirable for the Federal Reserve to give a public announcement, too, that you are going to give a statement with reference to this as a comprehensive program.

MR. BELL: I think it ought to be a Federal Reserve announcement.

MR. ECCLES: But we don't want to do that without advising and consulting with these fellows and giving them a chance.

MR. BELL: That is the reason I was hoping you would do it on Friday.

MR. ECCLES: You can't get them all in.

MR. McKEE: It would be hard to get them in here, Dan.

MR. ECCLES: You just can't get them in from San Francisco.

H.M. JR: I think the quicker the better.

**Financing Program Agreed upon at Meeting at the  
Federal Reserve Board on the Afternoon of  
April 28, 1942, with Suggested Modifications**

1. Offer on Monday or Wednesday of next week a 7-9 year (1949-51) 2% bond in the amount of \$1,250,000,000. Rules governing basis of subscription would be eliminated.

Suggested Modifications: It is suggested that the rules governing basis of subscription be retained with respect to this issue.

2. Offer a 20-25 year 2-1/2% bond without limit as to amount, to be registered but non-transferable for first 60 days. Commercial banks accepting demand deposits would be prohibited from subscribing or purchasing such security in the market for a period of ten years. It is estimated that this will produce \$500,000,000 during the month of May.

Suggested Modifications: It is suggested that these bonds be made eligible as collateral for bank loans. It is also suggested that the Secretary should announce that this issue will be open for one week and may then be closed at the option of the Secretary. It should not be open for longer than two weeks. The Secretary might announce that there would be other issues of similar securities from time to time.

3. Issue 90-day bills for an additional \$100,000,000 a week (total \$250 a week). The Federal Reserve System would post a maximum rate of 3/8% on bills at which it would buy all offerings. This would produce \$400,000,000 during the month of May.

This would make a total of approximately \$2,100,000,000 in new cash for the month of May.

- 2 -

4. Announce that the Treasury will soon issue a 5-year tap security with graduated rates of interest along the lines of our previous memorandum on this subject. (It may be possible to offer this security at same time as others.)

Suggested Modifications: It is suggested that consideration of this issue be postponed.

5. Call the HOLC 2-1/4% bonds for payment on July 1 and, in the latter part of May, offer a refunding security for these, the RFC notes maturing on July 1, 1942, and the Treasury notes maturing on September 15, 1942. As most of these securities are held by banks, this should be a bank security. Because of this, it was suggested that it be in the 5-year range.

It is understood that before a part of this program can be completely adopted, it will be necessary for the Federal Reserve Board to call a meeting of the Executive Committee of the Open Market Committee to get its approval of the open market operation proposed under No. 3.

DISCUSSION OF MAY FINANCING WITH THE  
FEDERAL RESERVE BOARD, INCLUDING  
ALLAN SPROUL AND BOB ROUSE OF THE  
FEDERAL RESERVE BANK OF NEW YORK AND  
AL WILLIAMS OF THE FEDERAL RESERVE BANK  
OF PHILADELPHIA, AT THE FEDERAL RESERVE  
BOARD, 3 O'CLOCK ON TUESDAY, APRIL 28, 1942

It was agreed that the following five-point program should be submitted to the Secretary for discussion at the meeting scheduled for tomorrow afternoon in his office. The whole program if adopted would be publicly announced on date of financing.

1. Offer on Monday or Wednesday of next week a 7-9 year (1949-51) 2% bond in the amount of \$1,250,000,000. Rules governing basis of subscription would be eliminated.

2. Offer a 20-25 year 2-1/2% bond without limit as to amount, to be registered but non-transferable for first 60 days. Commercial banks accepting demand deposits would be prohibited from subscribing or purchasing such security in the market for a period of ten years. It is estimated that this will produce \$500,000,000 during the month of May.

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6. At the conference between Treasury and representatives of the Federal Reserve System on March 19, it was understood that the Federal Reserve would maintain the approximate pattern of rates existing at that time. This understanding should of course continue.

It is understood that before a part of this program can be completely adopted, it will be necessary for the Federal Reserve Board to call a meeting of the Executive Committee of the Open Market Committee to get its approval of the open market operation proposed under No. 3.

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

April 1, 1942

(In millions of dollars)

Date	Description	Fixed maturities		Callable issues <sup>2/</sup>			
		Direct	Guaranteed	First callable		Final maturities	
				Direct	Guaranteed	Direct	Guaranteed
1942-Jan.							
Feb.							
Mar.							
Apr.							
May							
June							
July 1	RFO 1% -----		276				
July 1	HOLC 2-1/4% (1942-44) -----				875		
Aug.							
Sept. 15	Note 2% -----	342					
Oct. 15	RFO 7/8% -----		320(T)				
Nov.							
Dec. 15	Note 1-3/4% -----	232					
	Total	574	596		875		
1943-Jan.							
Feb.							
Mar. 15	Note 3/4% -----	66(T)					
Apr.							
May 1	GOO 3/4% -----		289				
June 15	Note 1-1/8% -----	629					
June 15	Bond 3-3/8% (1943-47) -----			454			
July 15	RFO 1-1/8% -----		324(T)				
Aug.							
Sept. 15	Note 1% -----	279					
Oct. 15	Bond 3-1/4% (1943-45) -----			1,401			
Nov.							
Dec. 15	Note 1-1/8% -----	421					
	Total	1,395	613	1,855			
1944-Jan.							
Feb. 1	USHA 1-3/8% -----		114				
Mar. 15	Note 1% -----	515					
Mar. 15	FFMC 3-1/4% (1944-64) -----				95		
Apr. 15	Bond 3-1/4% (1944-46) -----			1,519			
Apr. 15	RFO 1% -----		571(T)				
May 1	HOLC 3% (1944-52) -----				779		
May 15	FFMC 3% (1944-49) -----				835		
June 15	Note 3/4% -----	416					
July 1	HOLC 2-1/4% (1942-44) -----					875	
Aug.							
Sept. 15	Note 1% -----	283					
Sept. 15	Note 3/4% -----	635(T)					
Oct.							
Nov.							
Dec. 15	Bond 4% (1944-54) -----			1,037			
	Total	1,849	685	2,556	1,709		875
1945-Jan.							
Feb. 15	GOO 1-1/8% -----		412(T)				
Mar. 15	Note 3/4% -----	718					
Apr.							
May							
June 1	HOLC 1-1/2% (1945-47) -----				755		
July							
Aug.							
Sept. 15	Bond 2-3/4% (1945-47) -----			1,214			
Oct. 15	Bond 3-1/4% (1943-45) -----					1,401	
Nov.							
Dec. 15	Bond 2-1/2% -----	541					
Dec. 15	Note 3/4% -----	531(T)					
	Total	1,790	412	1,214	755	1,401	

- <sup>1/</sup> Excludes special issues, issues redeemable at option of holder, Postal Savings bonds, FHA debentures, and issues for which an exchange offer has been made and accepted by the bulk of the holders.
- <sup>2/</sup> Callable issues with respect to which a definite notice of call has been made are listed as fixed maturities.

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

April 1, 1942

(In millions of dollars)

Date	Description	Fixed maturities		Callable issues <sup>2/</sup>			
		Direct	Guaranteed	First callable		Final maturities	
				Direct	Guaranteed	Direct	Guaranteed
1946-Jan. 1	Conversion 3%	16					
Feb.							
Mar. 15	Note 1%	503(T)					
Mar. 15	Bond 3-3/4% (1946-56)			489			
Apr. 15	Bond 3-1/4% (1944-46)					1,519	
May							
June 15	Bond 3% (1946-48)			1,036			
June 15	Bond 3-1/8% (1946-49)			819			
July							
Aug.							
Sept.							
Oct.							
Nov.							
Dec.							
	Total	519		2,344		1,519	
1947-Jan. 1	Conversion 3%	13					
Feb.							
Mar.							
Apr.							
May							
June 1	HOLD 1-1/2% (1945-47)						755
June 15	Bond 3-3/8% (1943-47)					454	
July							
Aug.							
Sept. 15	Bond 2-3/4% (1945-47)					1,214	
Oct. 15	Bond 4-1/4% (1947-52)			759			
Nov.							
Dec. 15	Bond 2%	701					
	Total	714		759		1,668	755
1948-Jan.							
Feb.							
Mar. 15	Bond 2% (1948-50)			1,115(T)			
Mar. 15	Bond 2-3/4% (1948-51)			1,223			
Apr.							
May							
June 15	Bond 3% (1946-48)					1,036	
July							
Aug.							
Sept. 15	Bond 2-1/2%	451					
Oct.							
Nov.							
Dec. 15	Bond 2% (1948-50)			571			
	Total	451		2,909		1,036	
1949-Jan.							
Feb.							
Mar.							
Apr.							
May 15	FFMO 3% (1944-49)						835
June 15	Bond 3-1/8% (1946-49)					819	
June 15	Bond 2% (1949-51)			1,014(T)			
July							
Aug.							
Sept.							
Oct.							
Nov.							
Dec. 15	Bond 3-1/8% (1949-52)			491			
Dec. 15	Bond 2-1/2% (1949-53)			1,786			
	Total			3,291		819	835

<sup>1/</sup> Excludes special issues, issues redeemable at option of holder, Postal Savings bonds, FHA debentures, and issues for which an exchange offer has been made and accepted by the bulk of the holders.

<sup>2/</sup> Callable issues with respect to which a definite notice of call has been made are listed as fixed maturities.

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

April 1, 1942

(In millions of dollars)

Date	Description	Fixed maturities		Callable issues 2/			
		Direct	Guaranteed	First callable		Final maturities	
				Direct	Guaranteed	Direct	Guaranteed
1950-Jan. Feb. Mar.15 Apr. May June July Aug. Sept.15 Oct. Nov. Dec.15	Bond 2% (1948-50)					1,115(T)	
	Bond 2-1/2% (1950-52)			1,186			
	Bond 2% (1948-50)					571	
	Total			1,186		1,686	
1951-Jan. Feb. Mar.15 Apr. May June15 June15 July Aug. Sept.15 Oct. Nov. Dec.15 Dec.15	Bond 2-3/4% (1948-51)					1,223	
	Bond 2% (1949-51)					1,014(T)	
	Bond 2-3/4% (1951-54)			1,627			
	Bond 3% (1951-55)			755			
	Bond 2-1/4% (1951-53)			1,118			
	Bond 2% (1951-55)			510(T)			
	Total			4,010		2,237	
1952-Jan. Feb. Mar.15 Apr. May 1 June15 July Aug. Sept.15 Oct.15 Nov. Dec.15	Bond 2-1/2% (1952-54)			1,024(T)			
	HOLD 3% (1944-52)						779
	Bond 2-1/4% (1952-55)			1,501(T)			
	Bond 2-1/2% (1950-52)					1,186	
	Bond 4-1/4% (1947-52)					759	
	Bond 3-1/8% (1949-52)					491	
	Total			2,525		2,436	779
1953-Jan. Feb. Mar. Apr. May June15 July Aug. Sept. Oct. Nov. Dec.15 Dec.15	Bond 2% (1953-55)			725			
	Bond 2-1/2% (1949-53)					1,786	
	Bond 2-1/4% (1951-53)					1,118	
	Total			725		2,904	

1/ Excludes special issues, issues redeemable at option of holder, Postal Savings bonds, FHA debentures, and issues for which an exchange offer has been made and accepted by the bulk of the holders.

2/ Callable issues with respect to which a definite notice of call has been made are listed as fixed maturities.

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

April 1, 1942

(In millions of dollars)

Date	Description	Fixed maturities		Callable issues <sup>2/</sup>			
		Direct	Guaranteed	First callable		Final maturities	
				Direct	Guaranteed	Direct	Guaranteed
1954-Jan. Feb. Mar.15 Apr. May June15 June15 July Aug. Sept. Oct. Nov. Dec.15	Bond 2-1/2% (1952-54)					1,024(T)	
	Bond 2-3/4% (1951-54)					1,627	
	Bond 2-1/4% (1954-56)			681			
	Bond 4% (1944-54)					1,037	
	Total			681		3,688	
1955-Jan. Feb. Mar.15 Apr. May June15 June15 July Aug. Sept.15 Oct. Nov. Dec.15	Bond 2-7/8% (1955-60)			2,611			
	Bond 2% (1953-55)					725	
	Bond 2-1/4% (1952-55)					1,501(T)	
	Bond 3% (1951-55)					755	
	Bond 2% (1951-55)					510(T)	
	Total			2,611		3,491	
1956-Jan. Feb. Mar.15 Mar.15 Apr. May June15 July Aug. Sept.15 Oct. Nov. Dec.	Bond 3-3/4% (1946-56)					489	
	Bond 2-1/2% (1956-58)			1,449(T)			
	Bond 2-1/4% (1954-56)					681	
	Bond 2-3/4% (1956-59)			982			
	Total			2,431		1,170	
1957-Jan. Feb. Mar. Apr. May June July Aug. Sept. Oct. Nov. Dec.							
	Total						

- <sup>1/</sup> Excludes special issues, issues redeemable at option of holder, Postal Savings bonds, FHA debentures, and issues for which an exchange offer has been made and accepted by the bulk of the holders.
- <sup>2/</sup> Callable issues with respect to which a definite notice of call has been made are listed as fixed maturities.

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

April 1, 1942

(In millions of dollars)

Date	Description	Fixed maturities		Callable issues <sup>2/</sup>			
		Direct	Guaran- teed	First callable		Final maturities	
				Direct	Guaran- teed	Direct	Guaran- teed
1958-Jan. Feb. Mar.15 Apr. May June15 July Aug. Sept. Oct. Nov. Dec.	Bond 2-1/2% (1956-58)					1,449(T)	
	Bond 2-3/4% (1958-63)			919			
	Total			919		1,449	
1959-Jan. Feb. Mar. Apr. May June July Aug. Sept.15 Oct. Nov. Dec.	Bond 2-3/4% (1956-59)					982	
	Total					982	
1960-Jan. Feb. Mar.15 Apr. May June July Aug. Sept. Oct. Nov. Dec.15	Bond 2-7/8% (1955-60)					2,611	
	Bond 2-3/4% (1960-65)			1,485			
	Total			1,485		2,611	
1961-Jan. Feb. Mar. Apr. May June 1 July Aug. Sept. Oct. Nov. Dec.	Panama 3% _____	50					
	Total	50					

<sup>1/</sup> Excludes special issues, issues redeemable at option of holder, Postal Savings bonds, FHA debentures, and issues for which an exchange offer has been made and accepted by the bulk of the holders.

<sup>2/</sup> Callable issues with respect to which a definite notice of call has been made are listed as fixed maturities.

Calendar of Direct and Guaranteed Bonds and Notes 1/

April 1, 1942

(In millions of dollars)

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

1/ Excludes special issues, issues redeemable at option of holder, Postal Savings bonds, FHA debentures, and issues for which an exchange offer has been made and accepted by the bulk of the holders.

2/ Callable issues with respect to which a definite notice of call has been made are listed as fixed maturities.

Calendar of Direct and Guaranteed Bonds and Notes 1/  
 April 1, 1942

(In millions of dollars)

Date	Description	Fixed maturities		Callable issues <u>2/</u>			
				First callable		Final maturities	
		Direct	Guaran- teed	Direct	Guaran- teed	Direct	Guaran- teed
1966-Jan. Feb. Mar. Apr. May June July Aug. Sept. Oct. Nov. Dec.							
	Total						
1967-Jan. Feb. Mar. Apr. May June July Aug. Sept.15 Oct. Nov. Dec.							
	Bond 2-1/2% (1967-72)			2,716(T)			
	Total			2,716			
*	*	*	*	*	*	*	*
1972-Sept.15	Bond 2-1/2% (1967-72)					2,716(T)	

1/ Excludes special issues, issues redeemable at option of holder, Postal Savings bonds, FHA debentures, and issues for which an exchange offer has been made and accepted by the bulk of the holders.

2/ Callable issues with respect to which a definite notice of call has been made are listed as fixed maturities.

April 29, 1942  
5:00 p.m.

DEFENSE SAVINGS BONDS

- Present: Mr. Graves<sup>+</sup> *Mr Gumble*
- Mr. Callahan<sup>+</sup>
- Mr. Tickton<sup>+</sup>
- Mr. Odegard<sup>+</sup>
- Mr. Sloan<sup>+</sup>
- Mr. Houghteling<sup>+</sup>
- Mr. Engelsman<sup>✓</sup>
- Mr. Legler<sup>✓</sup>
- Col. Patterson<sup>(n)</sup> *←*
- Mr. Coyne<sup>✓</sup>
- Mr. Harper<sup>✓</sup>
- Mr. Kuhn<sup>+</sup>
- Mrs. Klotz<sup>+</sup>
- Mr. Morgenthau, III<sup>✓</sup>
- Mrs. Morgenthau<sup>✓</sup>

H.M.JR: I thought I would just let you have a crack at me, Harold, to let you know I was alive.

MR. GRAVES: This is pretty impromptu. I haven't had a chance to do any home work with these boys.

H.M.JR: Can I ask a couple of questions?

MR. GRAVES: I wish you would.

H.M.JR: Houghteling, how are you coming along with your labor people?

MR. HOUGHTELING: I beg your pardon?

H.M.JR: Labor, CIO, with a similar letter to what we got out of Green.

- 2 -

MR. HOUGHTELING: I got a message from Carey today that he was working on a big plan that he could draft up for - and read to Mr. Murray over the phone and get permission to sign a general letter endorsing the plan in time for tomorrow morning, but normally he would wait until he could work out a whole plan for the campaign that we want him to put on.

H.M.JR: Well, I would like to use this opportunity to see how we fit in with the state organizations like Col. Patterson's. I don't know whether this has reached you (Col. Patterson) yet or not. If it has, you stop me. The AF of L have got a hundred and fifty organizers who have got nothing to do. The same for CIO. They have offered us the use of these people to work amongst their memberships to bring them up to ten percent in the factories. They don't want management to put any pressure on them, they mustn't touch them. They said, "You let us put the pressure on."

Now, just for my own education, how will this dovetail in with New York State? How will they work together? Have you got that far?

MR. HOUGHTELING: Yes, because the AF of L wants to work through organizers who are connected - who are located in New York City and who would clear through Lyon's office there and naturally would work through you (Col. Patterson). They want to put at our disposal a lot of these organizers to just go right to the plants where the AF of L has contracts and say, "Now, you have got only fifty-five percent participation and you are only giving five percent of your wages. We want you of our local union here to get together either in a big meeting or in a member-by-member canvass and just put the thing up to ninety percent and ten percent of the pay roll." They can go to their members and put it up to them a lot more forcibly than we can, and they are willing to do that.

H.M.JR: How soon do you think either AF of L or CIO will be ready to start?

MR. HOUGHTELING: Well, we were working today with Mr. Fenton on the AF of L. Our plan is to divide the country

- 3 -

into four districts with one of our men and one man appointed by Fenton in charge of each district to get hold of these organizers and educate them on what it is all about. Then we will give them a list of the plants which have pay-roll savings plans and what they are doing now and what we expect them to do, and tell them to go into the plants and organize meetings and organize committees and canvassers and all through their own local union in that plant.

H.M.JR: Do you think we can get started maybe - when?

MR. HOUGHTELING: Well, I think we will have - I think Fenton will appoint his men within the next forty-eight hours.

H.M.JR: Good. And CIO?

MR. HOUGHTELING: CIO is a little bit behind. I am waiting for a comprehensive plan from Carey on the CIO. He is working on it.

H.M.JR: We think that if we get these couple of hundred organizers really working on their own members, they will go to town. It will be very helpful. And they mean business. They have written very powerful letters, Green has, to his whole organization.

Mr. Graves?

MR. GRAVES: Mr. Callahan has a very interesting little item that I think will please you.

H.M.JR: Yes, sir.

MR. CALLAHAN: This comes from the Navy, and it is a communique from the Sixteenth Naval District in the Philippine area. The message reads: "U. S. Navy Personnel, Manila Bay Area, have purchased War Bonds totalling four hundred and seven thousand dollars today. Amount will presently exceed one half million dollars."

H.M.JR: That is wonderful.

- 4 -

MR. GRAVES: Isn't that incredible that that could be done like that?

MR. CALLAHAN: We can save this for tomorrow morning's press conference.

H.M.JR: You had better find out what part of the Philippines that is.

MR. CALLAHAN: Manila Bay Area, Corregidor.

H.M.JR: That is Corregidor?

MR. GRAVES: That is Manila Bay, and that is all that is left to us.

H.M.JR: I couldn't believe it.

MR. CALLAHAN: It is official from the Navy.

MR. GRAVES: While Mr. Callahan is on his feet--

H.M.JR: He isn't any more.

MR. GRAVES: He might tell you where we stand on the publicity on this pledge thing which begins the first of May.

MR. CALLAHAN: Well, we have sent to every weekly newspaper and daily newspaper in the country a map showing the quotas for each county, which we have asked them to print tomorrow afternoon. We have also sent them a letter signed by you to the people of the individual states asking them to print that on the first of May. We have a half-hour radio program running on between eight hundred and eight hundred fifty stations on the night of May 1. Now, those are the highlights of our activities tomorrow and the following day.

H.M.JR: Mr. Stimson called up and this is in the room. He said if I would excuse him he could go on a week's holiday and if I wouldn't excuse him, he couldn't. Then I said, "Well, will you give me General Marshall instead of yourself?"

- 5 -

He said, "No, that means I can't go on the holiday." The man sounded so tired that I just didn't have the courage to say anything, so I said, "Well, you get your holiday, and when you come back we will do it." I just didn't have the heart.

MR. KUHN: Mr. Secretary, would you mind calling Nelson sometime and telling him that? I talked to Nelson's man, but I said that you would tell Mr. Nelson personally what happened.

H.M.JR: I will do it before I go home.

MR. KUHN: Good.

H.M.JR: I just didn't have the heart.

MR. CALLAHAN: It is perfectly all right.

H.M.JR: He sounded so tired. He said, "Well, if you insist on that, I won't go on my - I won't go away." I think the President has done us such a good job we can roll along for a few days.

MR. CALLAHAN: I have some things for tomorrow morning's press conference which I could tell you about now or I can wait.

H.M.JR: Before, and from now on I think that you should come to all my press conferences.

MR. CALLAHAN: All right, sir.

H.M.JR: I think you should come to all of them. This isn't a staged meeting for your benefit, Col. Patterson. If it was, it would be better.

MR. GRAVES: He knows how short the notice was. He was in there.

H.M.JR: All right. Go ahead.

MR. GRAVES: Now, Mr. Gamble and Mr. Engelsman and I are trying to make a chart of what we should do in these

- 6 -

ten most important states with a view to doing something within the next few days to lay out in each state a pattern both for pursuing this payroll allotment thing, which is our most important problem, and also reaching by pledge or purchase agreement, or whatever we can work out, the people who are not going to be reachable through the payroll allotment plan, and I think Mr. Gamble might - we have nothing except some ideas, but he can at least tell you what we are thinking about.

MR. GAMBLE: Well, our plans call briefly for reaching everybody included in the group of--

H.M.JR: Talk louder, Ted.

MR. GAMBLE: Our plans call briefly for reaching everyone of the thirty-four million people that are available in pay-roll savings by June 15 as a deadline. We are trying to work this into a June 1 program.

H.M.JR: You haven't stepped New York up yet, have you?

MR. GAMBLE: New York is included in these thirty-four million. They represent about twenty percent of this program so much of the weight of our program is going to fall right on the back of their neck. But we are trying to set the - mark out the procedure for all these organizations to follow to enable them to get this job done in that period of time. As Mr. Graves said, we are working on it now. It won't be ready for a day or two, but it has taken into consideration the job that we have to do and the time element involved.

MR. GRAVES: Mrs. Klotz, send for that letter from Mayor LaGuardia. I think Dave Patterson, being from New York, would like to see it. These other people wouldn't understand it but he will.

MR. KUHN: Peter would, Mr. Secretary. He knows him.

H.M.JR: I think you people ought to know what I was doing all day, but I can't see that it would in any way

- 7 -

interfere. What we decided to do today is this. The E Bond organization stays, naturally, as it is, but the F and the G and the regular securities that I have to sell, we have invited in for tomorrow - there are four different agencies known as security dealers, stock exchange, investment bankers, and I don't know what all. They represent fifteen thousand salesmen. We are asking them to appoint a state chairman and where the District and Pennsylvania are divided--

(Mrs. Morgenthau entered the conference.)

What we are doing is, in every state there will be a state chairman, a security dealer, and in states like Pennsylvania where there are two Federal Reserve Districts, there will be two. These state chairmen will be responsible to the - in each case to the President of the Federal Reserve Bank, who will be chairman of five or six states, and their job will be to sell our regular Treasury securities, see.

MR. GRAVES: You mentioned F and G Bonds in that?

H.M.JR: Yes. No?

MR. GRAVES: No.

H.M.JR: No?

MR. GRAVES: No.

H.M.JR: You fellows don't sell them.

MR. GRAVES: Well, the quotas that have been fixed for our organization--

H.M.JR: All right.

MR. GRAVES: ... include F and G Bonds, and I think there is no state that hasn't set in motion machinery to cover F and G Bonds.

H.M.JR: Well, Harold, you don't care if you get a little push from somebody else. You will get the credit.

- 8 -

MR. GRAVES: But I would hate to have anything happen that would seem to carve away from our War Savings organization any responsibility for F and G Bond sales. Now, for instance, in Indiana--

H.M.JR: All right, just see Bell. Nothing has jelled.

MR. GRAVES: Well, that shouldn't jell.

H.M.JR: Well, see Dan before you go home.

MR. GRAVES: That ought to be tied right in with Dick Patterson. I don't know, but I suspect that Patterson has been getting together an organization.

COL. PATTERSON: Very much so, Mr. Secretary.

MR. GRAVES: For F and G Bonds.

H.M.JR: Then see Bell still tonight, will you?

MR. GRAVES: Yes.

H.M.JR: Because these security dealers haven't been told anything yet. So tell Dan tonight.

COL. PATTERSON: But, Mr. Secretary, may I?

H.M.JR: Yes.

COL. PATTERSON: There may be some way, Harold, that we can use their services without violating what you so well have in mind, but do what the Secretary wants.

H.M.JR: I don't see why it takes away from your quota but--

COL. PATTERSON: He didn't mean that, I don't think. There might be some ambiguity or division of responsibility and the plan--

H.M.JR: Well, when you get through here--

- 9 -

MR. GRAVES: I think this all ought to be tied into our War Savings organization.

H.M.JR: Well, you don't mean, for instance - I am selling a long twenty-year bond.

MR. GRAVES: No, I am talking about F and G Bonds.

H.M.JR: I am talking about a long bond, a bill, or a five-year note.

MR. GRAVES: That is all right.

H.M.JR: And they wanted to get in on the F and G's.

MR. GRAVES: I think they ought to be kept out except as they may help to add to our staff for the promotion of the sale of F and G Bonds.

COL.PATTERSON: I think we can do what the Secretary wants without interfering with the setup that we have.

H.M.JR: Let me just explain it. I have got to raise four billion dollars between now and the first of July. That is what I have been trying to do for the last two days. Over and above what you fellows sell. The four billion dollars is over and above E, F, and G.

MR. GRAVES: Yes. That, I would say, is the field for this group.

H.M.JR: And that was the group. They wanted to help on the F and G's.

MR. GRAVES: It is perfectly all right for them to help so long as they are tied in with your State War Savings Division.

H.M.JR: Dan is tired tonight. Why don't you see him before nine o'clock tomorrow?

MR. GRAVES: Yes.

H.M.JR: Or if you can't see him - he isn't feeling

- 10 -

well. See George Buffington.

MR. GRAVES: All right.

H.M.JR: See George, who is handling it. You had better see George because Dan is awfully tired.

MR. GRAVES: I will see George Buffington.

H.M.JR: I just wanted to explain while you are here. I have got - I mean, my job, entirely aside from this, which they insisted I assume the responsibility for and not give it to the Fed - the Fed wanted to take the entire responsibility for this, and I had in this advisory group of bankers and they said, "You mustn't give it to the Fed, you have got to keep it yourself." I didn't want to do it, and they insisted that I keep it, so as between the two we decided that there would be a state chairman of one of these security dealers; but where there are, say, five states, the president of the bank, acting in his capacity as fiscal agent for the Treasury, would be my representative. Can that in any way --

MR. GRAVES: That won't interfere provided it is--

COL. PATTERSON: Mr. Secretary, providing it ties in. I see Harold's point, and I think it is well taken, but I think we can use the material you have suggested very effectively by tying this particular man, chairman of this state--

MR. GRAVES: I can work it out with Buffington.

COL. PATTERSON: I think Harold can work it out without any trouble. I know what you want, and I am sure he does.

H.M.JR: I will tell Buffington before he goes home you want to see him. I am glad I mentioned it.

MR. GRAVES: It would be quite a blow to our people--

H.M.JR: All right.

- 11 -

MR. GRAVES: ' ... to have anything taken away, any responsibility taken away, for promoting F and G Bonds, because they are all planning that and our quotas include that. Had we known before the quotas, we could have fixed our quotas just on the basis of E Bonds.

COL. PATTERSON: That is right.

H.M.JR: Perfectly frankly, I wasn't conscious of the fact that you people were selling F and G's.

MR. GRAVES: We haven't been trying to sell F and G's. I think that is a perfectly true thing.

H.M.JR: And that was the criticism. People come in here, these national bankers that I have got - I have got an advisory committee of six of them. They say, "Why don't you get a sales organization behind your F and G's?"

MR. GRAVES: Well, we have been under the impression that the Treasury hasn't particularly wanted to sell F and G, and now we are changing our attitude with reference to that and have included - well, one quarter of our billion-dollar quota from July on F and G, and that is allocated to all the states.

H.M.JR: Harold, I will be the last person to take anything away from your quota. (Laughter) But if we can give you a little push--

MR. GRAVES: That is right, we want the push. We want the help and all I am suggesting is that we don't duplicate--

H.M.JR: Well, you and George get together. Now, if you can have some of George Buffington's fifteen thousand salesmen selling it, and you get the credit, what the heck!

MR. GRAVES: That is right.

H.M.JR: O.K.?

- 12 -

MR. GRAVES: That is right.

MR. GAMBLE: I just had one other thing to mention, Mr. Secretary, and that is the Advertisers Council. They were here for two days and have returned to New York, and they have set one week from today as the deadline to deliver to us a program.

H.M.JR: Good. Are they going to have something to help us in the factories?

MR. GAMBLE: Yes, sir, that is designed entirely for the factories. This has nothing to do with their supplementary program.

H.M.JR: Just factories?

MR. GAMBLE: Just factories.

H.M.JR: What else?

MR. GRAVES: Well, I thought perhaps Mr. Gamble would mention this. What I have in mind that we should do about these ten large states where we allocated about exactly two-thirds of our quota is to tackle those states, perhaps bring in Dick Patterson and his colleagues from the other large states and lay plans to go to work in those states immediately on pay-roll savings and on the other problem that I mentioned a moment ago. Now, we may want to take the road on that job instead of assembling those people here. We may want to go around to each one of these--

H.M.JR: Are you going to take Ted Gamble with you?

MR. GRAVES: Gamble and Mr. Engelsman and perhaps some promoter of the Callahan department.

H.M.JR: What else?

MR. GRAVES: I can think of nothing else especially.

H.M.JR: I just wanted to know from Ted Gamble and Dick Patterson, do I get Billy Rose or do I get somebody else?

- 13 -

MR. GAMBLE: You answer it, Mr. Patterson.

COL. PATTERSON: Well, Mr. Secretary, we have been - I told you we would have some kind of an answer tomorrow morning at ten-thirty. I have been giving a good deal of thought to your telephone talk yesterday morning. As I understand it, you want a personality that can dramatize - head up that phase of your War Bond drive and dramatize this story all over the United States. You want a man that - in the hub of the wheel here that reports right to Washington.

H.M.JR: Now, let me just take a minute. What I want to do is this. I have told the President during the next couple of months that we of the War Savings Bond Staff will bring to the American public the war and make them war conscious and make them hate the Germans. Now, in order to do that I want to get a number of heroeslike Lieutenant O'Hare and put them on the air and on the speaking platform to show them that we, given a chance, can lick the enemy, you see. Now, in order to do that - I am going to let Kuhn tell me the result of his visit this afternoon - I want to be able to say, supposing I get - what is this English aviator's name?

MR. KUHN: Paddy Finucane.

H.M.JR: Supposing I can get him, who is the English ace of aces, who has brought down how many?

MR. KUHN: Thirty-one.

H.M.JR: Thirty-one German planes, and if the English would let me have Paddy Finucane and - I have asked them, and I know he is coming for a month, and I want to route him through the country and around him I want to build rallies, you see. I want to be able to say to you and Ted Gamble, "Now, you can have Paddy Finucane for three days. I want a meeting in New York, Buffalo, Rochester, and so forth," and you will say, "Fine." But the thing will be built around Paddy Finucane. We will get the crowd to come and see Paddy Finucane. My idea is that we can pay the

- 14 -

expenses for this by having the people pay either ten cents or a quarter of their own money, cash, to come to the meetings and make the meetings self-supporting because I think anybody will pay twenty-five cents to come and hear Paddy Finucane say how he shot down thirty-one German planes. I think they will do it. And there are many other O'Hares or Paddy Finucanes.

Then you get your rally and your community sing and the whole thing of this idea of working up the population into a war fever. Now, that is what I want.

Now, in order to have it, I have got to have somebody that is going to run it, and I have got to have the places to go to and somebody who understands the show business. I called you and I spoke to Gamble about it, who was in the theater business, and he thought that the theater owners would be a better group to work with rather than trying to get a man like Billy Rose who is a showman who doesn't own any theaters.

Now, you in your peacetime job as chairman of RKO and an RKO theater owner, I thought between the two of you I could get something, but I could simply say, "Paddy Finucane will be here on the fifteenth of May, and I want to route him across the country," you see.

COL. PATTERSON: Mr. Secretary, I understand what you want and I--

H.M.JR: I want to route him across the country and build around him a meeting. We will pay for it by letting the people - whatever it is we decide, pay twenty-five cents cash and tell them if there is any profit out of the meeting, anything over and above the expenses will go to the Army and Navy relief. Anything over and above actual expenses will go to Army and Navy relief.

But that is what I have in mind.

- 15 -

COL. PATTERSON: I understand, Mr. Secretary.

H.M.JR: The President is keen for it, MacLeish is keen for it, everybody wants it, nobody is doing it, and I would like to do it.

COL. PATTERSON: If you will give us until ten thirty tomorrow morning, when my time is up on that forty-eight hour understanding of ours, I think Ted Gamble and I will be ready to submit to you two or three names. Now, Billy Rose is not in my line of thinking for that particular job. After I talked to Ted - you want a man that has some administrative experience. This takes somewhat of an administrator to do this job. You can't have the Billy Rose type, because he only knows one phase of this. You have got to have a man that will accept this responsibility and see it through.

H.M.JR: That is right.

COL. PATTERSON: And I think Ted and I can do it for you.

H.M.JR: I will supply the military heroes, and I want to be able to simply say - call up somebody and say, "Now, The English Government is giving me the services of Paddy Finucane for the month of June. I want to route him across the country."

COL. PATTERSON: Very good, sir.

H.M.JR: It is just like these four meetings which we asked OCD to run for us all over the country. We had to do the work, and they were a howling success. The President asked for that. They are going to have fifteen now, aren't they?

MR. KUMIN: Fifteen this Saturday, and many more the Saturday after.

H.M.JR: Do you get the idea?

- 16 -

COL. PATTERSON: Yes, I do, Mr. Secretary, but I understood there was more to it than just the theater end of it. The theaters can do something, but I visualize this as an all-out dramatization in every way possible to get this story over to the public, and besides the theater, you have got rallies, community sings, you have got Army and Navy parades, you have got pageants, publicity and public relations, you have got shows, theaters, you have got all kinds of things which should come into this whole picture, and in the center of it you have got to have an administrator, a man that knows his business plus the show business and can get - with four or five strong men - Billy Rose could be one angle of it. Somebody else could take publicity and public relations. General Nolan up in New York has consented as far as New York State is concerned to take the Army and Navy and handle the whole business. And we can get someone else to take the theaters.

H.M.JR: But you get the idea?

COL. PATTERSON: I do, Mr. Secretary.

H.M.JR: And I don't expect to do it - I mean, for instance, if at this meeting we can do here the way they did in Washington, swear in a half dozen or a dozen volunteers to the Air Corps, it would get tremendous enthusiasm.

COL. PATTERSON: For instance, you have got John Golden, Billy Rose, George Cohan, Eddie Dowling, Eddie Bernays, and Howard Dietz. All those men fit into certain slots. As I understand your desire to put this program over, that would be true.

H.M.JR: That is right. Leave Bernays off of it.

COL. PATTERSON: Walter Gifford.

H.M.JR: I will never forget. Bernays got a hundred dollars a day from a man by the name of Giannini to come down here and work against me. I think there must be somebody else besides Bernays.

- 17 -

COL. PATTERSON: Well, he is just an example.

H.M.JR: And he was willing to take a hundred dollars a day to blacken my name from Giannini.

COL. PATTERSON: As a matter of fact, we had Paul Garrett in mind for that phase of it. Mr. Sloan's assistant and I talked to Mr. Sloan after talking to you yesterday.

H.M.JR: Fine. Somebody like that. I don't know what the answer - what kind of a reception did you get at the Air Mission?

MR. KUHN: Wonderful.

H.M.JR: Tell them about it. I haven't heard the story.

MR. KUHN: I spent about forty-five minutes with Air Marshal Evill, who was in to see the Secretary this week, and he had with him--

H.M.JR: Yesterday.

MR. KUHN: Yesterday he was in here, and today he had General Beaumont-Nesbitt of the British Army and another Air Force man, and they wanted more specific suggestions. I gathered that what the Air Marshal liked best as a possibility, what he is going to cable to London about, is not only Paddy Finucane, but to get a Liberator bomber to arrive in this country two days after having bombed Germany, and bring a crew of British RAF aces in that bomber to land them at LaGuardia Field with all the publicity that we can give it.

H.M.JR: Good.

MR. KUHN: And they won't announce anything except that the photographers and so on had better be at LaGuardia Field, because there is going to be something good.

H.M.JR: Who is this man?

- 18 -

MR. KUHN: Air Marshall Evill.

H.M.JR: He ought to work for us. We don't need Billy Rose. (Laughter)

MR. KUHN: He then suggested, Mr. Secretary, that that Liberator bomber should fly around to aircraft plants, to Consolidated or other places where the thing was made, and the crew that had flown that bomber over Germany would talk to the workers as well as doing our War Bond work, and I said I thought that from our point of view it would be just as effective, perhaps more so, not to announce that these people were coming over to sell War Bonds, but to announce that they were coming over here to see and speak to the British air men who are in training in this country, and on the way we are going to use them for their real job, which is to sell Bonds; because the moment you say they are over here for the Bond program, people think this is a publicity stunt. He is going to cable to London and ask for an individual like Finucane, a bomber with its crew, which appealed to him the most, and he said he wants to get them here so that it will be two days after they have bombed Germany, and finally he said that it ought to be entirely possible to get one or more commandos to tell the story in the first person of what happened at Boulogne or Trondheim or wherever they may have been in action. He is sending a cable to that effect to London. General Nesbitt was in the business for the British, and he agreed completely and thought nothing could be finer from our point of view and theirs.

H.M.JR: I insist they come on the invitation of the Treasury. I am not going to give way to anybody. You can talk that over with Peter Odegard. I don't agree with you.

MR. KUHN: That is O.K. That is a minor point.

H.M.JR: No, I think it is much better that they come - what are they coming here for? From the British standpoint, it is much better. Then immediately people's

- 19 -

backs don't come up that the British are trying to - and so forth and so on. I think from the British standpoint it is much better to have it announced that they are coming here on the invitation of the Treasury.

MR. KUHN: Well, that can be arranged.

H.M.JR: No, I am serious. Am I wrong, Peter?  
From the British standpoint--

MR. ODEGARD: I think this is a very logical time if they come over in a Liberator.

H.M.JR: But from the British standpoint, isn't it better that they come on somebody's invitation rather than drop here and try to spread British propaganda?

MR. ODEGARD: Ferdie's reason was that they would come over to help in the training of the British air men who are training here. I am inclined to agree with you that they should come at the invitation of the Treasury.

H.M.JR: They will come at the invitation of the Secretary of the Treasury. I am not going to give way.

MR. ODEGARD: To show what the War Bond money is used for.

MR. CALLAHAN: I am afraid that if they land at LaGuardia Field the Army will take them over, and we will never see them again. I am not fooling. Unless they come on our invitation--

MR. KUHN: There are a lot of jobs such men can do.

H.M.JR: Don't give them too many jobs. I mean, if they will do my War Bond thing, otherwise, you are going to - you are just going to work these fellows to death.

MR. KUHN: The Air Marshal was a little worried about the length of time we needed. He said that is what is

- 20 -

going to cause the headaches on the other side, and I said that I was afraid that a trip over here of a few days would not be worth all the expense and trouble, that it would have to be a matter of sparing each man for at least a month.

H.M.JR: That is right.

MR. KUHN: And then he could go back and new men could take his place. But he is a great guy, that little Air Marshal.

H.M.JR: Well, he comes publicly on my invitation.

MR. KUHN: O.K.

H.M.JR: Now, knowing that something like this is coming, and you theater fellows - can you get busy?

COL. PATTERSON: Oh, yes.

H.M.JR: Now, that is the kind of show.

COL. PATTERSON: That is down our alley. That is just what we want.

H.M.JR: It shouldn't be any trouble. They will certainly pay twenty-five cents to come in and see a group like that, won't they?

COL. PATTERSON: It is our fault if we can't handle it.

H.M.JR: Oh, sure.

MR. KUHN: I asked them, Mr. Secretary, if they could take good care that the men they send over are articulate, able to talk on the radio, and on platforms, and people who won't shrink from any publicity. He said, "In fact, we might even send over some of the people who were in 'Target For Tonight,' and who were used on bombing raids regularly and get them over here."

- 21 -

H.M.JR: Ferdie, you did a good job this afternoon.

MR. KUHN: We will see what happens. He is a very enthusiastic fellow.

H.M.JR: I tell you, when the Air Marshal left here, I said there are two fellows I met. There was Air Marshal Evill, and there is this General Meyers of the Air Corps, who came in in the morning. There is a boy. He is very quick. He looks to me like about thirty-eight. I never met him before. He is the best man in the Air Corps I have met yet. He is in our Air Corps. O.K., gents. Thank you all.

TREASURY DEPARTMENT

98

INTER OFFICE COMMUNICATION

DATE April 29, 1942

TO Secretary Morgenthau  
FROM Mr. Callahan *FC*

As you know, The Navy's participation in War Savings through regular payroll deduction plans, is magnificent. This wire was received just now by the Navy Department:

"16th Naval District, Phillipine Area

U. S. Navy personnel Manila Bay area have purchased War Bonds totalling four hundred and seven thousand dollars to date. Amount will presently exceed one-half million dollars."

Here is Navy (Washington) reply:

"Commandant, 16th Naval District

Please extend my congratulations to Navy Personnel, Manila Bay Area for splendid cooperation in War Bonds Purchased." - Chief of the Bureau of Navigation.

4/29/42

99

These letters were sent out on 4/28/42  
over Mr. Graves' signature.

M  
April 28, 1942.

Harold Graves  
Secretary Morgenthau

After discussing the matter with Mrs. Morgenthau, I have come to the decision that I would like you, today, to send to each of our 47 State Chairmen a copy of the New York Times ad appearing in Sunday's paper addressed to the "Secretary of the Treasury," with a little letter simply saying:

"My dear Mr. Chairmen:

I am enclosing herewith an ad from the New York Times which I would like to bring to your attention.

Yours truly,

(Signed) Harold Graves"

I don't mind your changing a few words in the letter but that's the idea, and I would very much like to have it go out today airmail. Tell Kuhn and Gamble about my decision. This is going to be quite different than the ad which was shown to them addressed to "Mr. Secretary". I would like the various State Chairmen to see the ad/the <sup>in</sup> New York Times. They can make up their own minds about what they want to do with it. Thank you.



TREASURY DEPARTMENT  
DEFENSE SAVINGS STAFF  
NEW YORK

HEADQUARTERS—1270 SIXTH AVENUE, NEW YORK, N. Y.—CIRCLE 6-3100

ALBANY  
STATE BANK BUILDING

BUFFALO  
MARINE TRUST BUILDING

ROCHESTER  
LINCOLN ALLIANCE BUILDING

April 29, 1942

NEW YORK STATE COMMITTEE

GEN. HERBERT H. LEHMAN  
HONORARY CHAIRMAN  
RICHARD C. PATTERSON, JR.  
STATE CHAIRMAN  
MRS. LYTLE HULL  
VICE-CHAIRMAN  
NEVIL FORD  
STATE ADMINISTRATOR  
BRUCE D. SMITH  
ASSOCIATE STATE ADMINISTRATOR

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

Dear Henry:

Thank you for your April 27th note with reference to the New York Times ad. There is much planning and negotiation to a job like this - more than appears on the surface. We can't afford to make a mistake and we do believe it will help us toward reaching and passing our quota.

With best wishes,

Sincerely yours,

*Rich.*

Richard C. Patterson, Jr.

LEWIS W. DOUGLAS  
CHAIRMAN, GREATER NEW YORK  
MRS. COURTLANDT D. BARNES  
VICE-CHAIRMAN

ED H. LETCHWORTH  
URMAN, UPSTATE NEW YORK  
MR. OSCAR SOLBERT  
VICE-CHAIRMAN

EXECUTIVE COMMITTEE

GUY EMERSON  
CHAIRMAN

BAYARD POPE  
VICE-CHAIRMAN

HENRY BRUERE  
FRANK S. COLUMBUS  
EUGENE C. DONOVAN  
DR. ARTHUR GETMAN  
WALTER S. GIFFORD  
HENRY H. HEIMANN  
ARTHUR H. KUDNER  
THOMAS J. LYONS  
WILLIAM I. MYERS  
SAMUEL W. REYBURN  
ROBERT G. ROUSE  
Miss ROSE SCHNEIDERMAN  
GUSTAVE STRUBEL



April 29, 1942.

Mr. Houghteling  
Secretary Morgenthau

Please write Mr. William Green in appreciation for the splendid letters which he sent out to the AF of L organizations.

*Sent 4/30 -*

April 29, 1942.

Mr. Houghteling  
Secretary Morgenthau

Please write Mr. William Green in appreciation for the splendid letters which he sent out to the AF of L organizations.

*Sent 4/30-*

April 29, 1942

My dear Mr. Green:

Since our luncheon together yesterday, I have had more opportunity to read over the splendid letters which you addressed to the officers of your national unions and state federations and to your organizers. You have presented to the leadership of the American Federation of Labor in the most telling way the program which we discussed yesterday and which is so vitally important to the national war effort.

Please accept my sincere thanks for your generous and able help.

Sincerely,

**(Signed) H. Morgenthau, Jr.**

William Green, President,  
American Federation of Labor,  
901 Massachusetts Avenue, N. W.  
Washington, D. C.

JLH:f1

*n. m. c.*  
By Messenger *Brown 4:10 pm.*  
*4/29/42*  
*Copies to Horgan*

April 29, 1942.

Harold Graves, Ted Gamble and Ferdinand Kuhn  
Secretary Morgenthau

I saw the New York Times today, and the International Brotherhood of Electrical Workers of AF of L has voted a weekly wage deduction of 10%. They have 20,000 members.

If we have this meeting in Madison Square Garden, my thought is to invite all Union members who have voted 10% deduction--call it maybe a Victory meeting--and as we get enough Unions to deduct, do the same thing in other cities. I wish that at the first opportunity the three of you would talk to me about meetings, who should handle them, and what sort of entertainment we should have.

*Finished -*

April 29, 1942

My dear Commander:

I should like to extend my personal thanks to you for all the assistance you gave us in arranging the broadcast from my office last Thursday evening.

Commander O'Hare's participation was immensely useful to us in our War Savings program. I have already written to him to thank him, but I know that his appearance here was due in large part to your own efforts, and all of us are grateful to you for your help.

If the Treasury can be of service to you in your work with Commander O'Hare, please feel free to call upon us for assistance at any time.

Sincerely,

(Signed) H. Morgenthau, Jr.

Lieut. Commander H. B. Miller,  
Navy Department,  
Washington, D. C.

FK/cgk

cc - N. M. C.  
Copies to Longman

April 29, 1942

Dear Commander O'Hare:

This is just to tell you how much we all enjoyed and appreciated your presence at our broadcast last Thursday evening.

You added a great deal to the value of the broadcast by taking part in it, and I know that the occasion will be long remembered. We have already had enthusiastic comments from listeners in many parts of the country.

Please tell Mrs. O'Hare that we were all glad to have had her here at the Treasury with you.

With all good wishes to both of you,  
I am

Sincerely,

(Signed) H. Morgenthau, JF7

Lieutenant Commander Edward H. O'Hare,  
Navy Department,  
Washington, D. C.

FK/cgk

cc - D.M.C.  
Copies to Thompson

April 29, 1943.

Dear Fiorello:

If anything could tempt me to change my plans for the coming week-end, it would be your letter of April 28th, with its warm invitation to attend the War Stamp Concert, and to speak at some appropriate time during the course of the program.

I am sorry to say, however, that it will be simply impossible for me to be there. I hope that you will ask me again sometime, and hope also that the event will be in every way a success. I know that if you have a hand in it, it is sure to be.

With best wishes,

Sincerely,

(Signed) Henry

*File N.M.C.*

Honorable Fiorello H. LaGuardia,  
Mayor of the City of New York,  
New York, New York.

g27/dbe -



CITY OF NEW YORK  
OFFICE OF THE MAYOR

April 28, 1942. g

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

My dear Henry:

On Sunday, May 3rd, we have our first War Stamp Concert. It will be held at the Cosmopolitan Opera House, 56th Street and Seventh Avenue at six o'clock. The orchestra is our City Symphony Orchestra - WPA - and will be conducted by Leopold Stokowski. The plan provides for admission by the purchase of War Stamps from twenty-five cents up. The patron gets the stamp, Uncle Sam gets the money and the people get the music and also their money back at the proper time.

I am scheduled to speak at the concert on May 10th. It occurred to us here that it would be fine if you could appear at the opening May 3rd and say a few words. If you cannot do so yourself, please do not send any one from your department. We have plenty of Shlimmiels right in our own city government from which we can find a substitute. I do hope you can come. There is no substitute for Henry, The Great.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "Fiorello".

April 29, 1942

Dear Senator McKellar:

I appreciate very much your letter of April 24th and the letter from Mr. W. L. Parker of Shelbyville which you enclosed.

Anyone would be proud to own a Tennessee Walking Horse Colt, but I doubt whether we ought to accept Mr. Parker's fine offer. We have always tried to avoid giving premiums or prizes of any kind in connection with the purchase of War Bonds. My own feeling is that the bonds are good enough to stand on their own merits, without any other inducement to buy.

All the same, I wish you would tell Mr. Parker for me how much I like the spirit of his suggestion.

Best regards.

Sincerely,

(Signed) Henry Morgenthau, Jr.

Honorable Kenneth McKellar  
United States Senate  
Washington, D. C.

FK:blb

*File n.m.c.*  
*cc Thompson*

# United States Senate

COMMITTEE ON  
POST OFFICES AND POST ROADS

April 24, 1942

KENNETH MC KELLAR, TENN., CHAIRMAN  
 CARL HAYDEN, ARIZ.  
 JIMMIE W. BAILEY, N. C.  
 WELCH, S. DAK.  
 JPH C. O'MAHONEY, WYO.  
 JAMES CHAMBERLAIN, N. MEX.  
 ALLEN J. ELLENDER, LA.  
 WILLIAM H. SMATHERS, N. J.  
 JAMES M. MEAD, N. Y.  
 PAT MC CARRAP, NEV.  
 BERNARD DOWNEY, CALIF.  
 LLOYD SPENCER, ARK.

JAMES A. DAVIS, PA.  
 CLYDE M. REED, KANS.  
 JOHN THOMAS, IDAHO  
 WILLIAM LAMBER, N. DAK.  
 HUGH A. BUTLER, NEBR.  
 RAYMOND E. WILLIS, IOWA  
 EUGENE D. MILLBURN, COLO.

PERSONAL

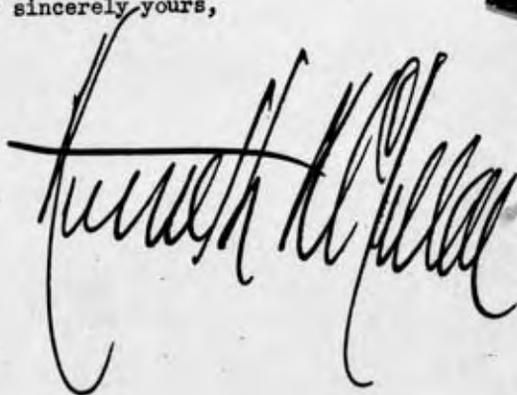
Honorable Henry Morgenthau, Jr.,  
 Secretary of the Treasury,  
 Treasury Department,  
 Washington, D. C.

My dear Mr. Secretary:

Enclosed please find a letter from my friend,  
 Mr. W. L. Parker of Shelbyville, Tennessee, which  
 explains itself.

I have written Mr. Parker that you are a very  
 great expert and that you will write him and I know you  
 will. I am not an expert in money matters at all. Please  
 advise me what you think of this.

Very sincerely yours,



# Peoples National Bank

SMITHSVILLE, TENN.

WILLIAM L. PARKER  
Chairman

April 23, 1942.

Hon. K. D. McKellar,  
U. S. Senator,  
Washington, D. C.

Dear Senator:

Enclosed you will find a letter which I have written to the Hon. Henry Morgenthau, Jr., Secretary of the Treasury, relative to our War Bond Sales Day which will be held here on May 13th.

We have made a suggestion in this letter that it would assist us as well as the nation in the sale of bonds if he would be interested in the purchase of a Tennessee Walking Horse which would go with a purchase of War Bonds. In other words, were he to approve our movement and be present or send a representative to buy bonds which would carry with them this famous registered Tennessee Walking Horse Colt, it would give a boost not only to the sale of bonds throughout the Nation but to one of Tennessee's most famous products.

I am writing you because I felt that there might be some way that you could convince the Secretary of the Treasury that he should own one of our famous horses even though it cost him nothing.

All of us in Beauford County and throughout Middle Tennessee will appreciate any efforts you make in our behalf.

With kindest personal regards, I am,

Yours very truly,

*W. L. Parker*  
W. L. Parker, Chairman,  
Beauford County Defense Staff.

April 23, 1942.

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

Dear Mr. Morgenthau:

May 13th. has been designated as War Bond Sales Day in Bedford County, Tennessee. All of Middle Tennessee has united with us in an effort to make this the largest Bond Day in Tennessee.

We are the home of the famous Tennessee walking horses and one of our largest producers has donated to us a registered Tennessee Walking Horse Colt which will be auctioned off on that day along with a general auction sale at which the purchaser of the items sold will receive an equal amount of bonds. This colt has a value of between \$500.00 and \$1,000.00 and we feel that it will make our bond auction sale the largest held in our State if not all the States.

It has been suggested that as Chairman of the Defense Staff that I write you and see if you would not be interested in sending a representative of your department or you, if it is possible, to be present on that day and purchase this colt. We feel that it would not only assist Tennessee in reaching its quota or more, but that the publicity, the purchase by you of a famous Tennessee walking horse colt, would bring to the bond sales throughout the nation would be enormous. The Tennessee walking horse is known throughout the nation and since it would go with the bonds purchased there would be absolutely no cost as so far colt was concerned. We are also the home of the Tennessee walking horse National Celebration which is held annually and which drew people from 40 states of our Union and three foreign countries last year.

PAGE #2

We have this in mind only that Tennessee may do more than its part in the purchase of War Bonds. It may be possible that you now own a Tennessee walking horse and if so it is needless to tell you about them, if not, I am sure that you have heard of this horse and possibly would like to own one. They are the world's greatest pleasure animals.

Please consider this matter and advise us if you would be interested, and assisting you in our desire to serve our country by the purchase of as many bonds as it is possible for our people to buy.

On this day a Middle Tennessee Calvacade honoring Gen. and Mrs. McArthur will take part in our activities.

Trusting that we may have your reply immediately, I am,

Yours very truly,

Chairman Bedford County Defense Staff.

wlp/fs

SEATTLE POST-INTELLIGENCER  
1863 78<sup>th</sup> year 1941

OFFICE OF THE PUBLISHER

April 29, 1942

*(Personal)*

Dear Henry:

Thanks for your letter and the page from the Times. It is rather easy for the Times to develop sources in New York for that type of advertising, but not so easy for papers out in the far reaches of the country.

Also, your statement that the Treasury has not spent "a penny" on paid advertising isn't quite true. You must have spent many hundreds of thousands of dollars on your direct-by-mail advertising. I understand you have abandoned that because you are getting so much excellent free advertising.

Our paper and its publisher and all its staff are breaking their necks to give you free advertising and we're going to keep on doing it.

Let's postpone the argument until I see you, which I hope will be before too many months go by!

Sincerely,

*John*  
John Boettiger.

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

*the army recruiting service has not been criticized for its paid advertising.*



## UNITED STATES SAVINGS BONDS

Comparative Statement of Sales During  
 First Twenty-four Business Days of April, March and February 1942  
 (April 1-28, March 1-28, February 1-28)  
 On Basis of Issue Price

(Amounts in thousands of dollars)

Item	Sales			Amount of Increase or Decrease (-)		Percentage of Increase or Decrease (-)	
	April	March	February	April over March	March over February	April over March	March over February
	:	:	:	:	:	:	:
Series E - Post Offices	\$ 76,918	\$ 79,224	\$ 86,938	-\$ 2,306	-\$ 7,714	- 2.9%	- 8.9%
Series E - Banks	<u>223,271</u>	<u>231,483</u>	<u>311,051</u>	- <u>8,212</u>	- <u>79,568</u>	- <u>3.5</u>	- <u>25.6</u>
Series E - Total	300,188	310,708	397,989	- 10,520	- 87,281	- 3.4	- 21.9
Series F - Banks	36,405	37,828	51,820	- 1,423	- 13,992	- 3.8	- 27.0
Series G - Banks	<u>147,874</u>	<u>165,902</u>	<u>253,391</u>	- <u>18,028</u>	- <u>87,489</u>	- <u>10.9</u>	- <u>34.5</u>
Total	<u>\$484,467</u>	<u>\$514,437</u>	<u>\$703,200</u>	-\$ <u>29,970</u>	-\$ <u>188,763</u>	- <u>5.8%</u>	- <u>26.8%</u>

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

April 29, 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 - April, 1942  
On Basis of Issue Price  
(In thousands of dollars)

CONFIDENT

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
April 1942									
1	\$ 2,476	\$ 10,517	\$ 2,380	\$ 9,608	\$ 22,504	\$ 12,993	\$ 2,380	\$ 9,608	\$ 24,980
2	2,999	8,264	2,119	7,570	17,953	11,263	2,119	7,570	20,953
3	3,222	7,572	1,185	6,235	14,992	10,794	1,185	6,235	18,214
4	2,778	9,292	1,387	5,334	16,013	12,070	1,387	5,334	18,790
6	4,961	13,035	2,329	8,027	23,391	17,996	2,329	8,027	28,352
7	2,958	5,722	834	8,983	15,539	8,680	834	8,983	18,497
8	2,309	9,610	1,142	6,562	17,314	11,919	1,142	6,562	19,623
9	2,906	9,304	955	5,715	15,974	12,210	955	5,715	18,880
10	2,730	8,052	1,573	5,261	14,885	10,782	1,573	5,261	17,615
11	2,150	5,224	668	2,720	8,613	7,374	668	2,720	10,762
13	4,619	17,572	2,432	8,604	28,609	22,192	2,432	8,604	33,228
14	2,513	6,152	1,076	3,333	10,561	8,665	1,076	3,333	13,074
15	2,584	5,102	1,251	5,374	11,728	7,686	1,251	5,374	14,312
16	3,472	10,008	1,400	7,773	19,180	13,480	1,400	7,773	22,652
17	2,690	8,076	850	3,695	12,621	10,766	850	3,695	15,311
18	3,111	7,175	948	3,303	11,426	10,286	948	3,303	14,537
20	5,252	13,334	2,227	9,001	24,562	18,586	2,227	9,001	29,814
21	2,517	6,845	977	3,703	11,525	9,362	977	3,703	14,042
22	2,925	9,112	1,925	6,793	17,830	12,037	1,925	6,793	20,755
23	3,101	9,403	1,805	5,928	17,136	12,504	1,805	5,928	20,237
24	3,451	10,981	1,721	5,694	18,396	14,431	1,721	5,694	21,846
25	2,616	8,704	1,327	4,552	14,583	11,321	1,327	4,552	17,200
27	5,317	15,721	2,313	7,971	26,004	21,038	2,313	7,971	31,321
28	3,260	8,494	1,580	6,138	16,211	11,754	1,580	6,138	19,472
Total	\$ 76,918	\$223,271	\$ 36,405	\$147,874	\$407,549	\$300,188	\$ 36,405	\$147,874	\$484,467

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

April 29, 1942.

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

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

Regraded Unclassified

WAR PRODUCTION BOARD  
WASHINGTON, D. C.

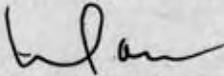
April 29, 1942

OFFICE OF  
DONALD M. NELSON  
CHAIRMAN

Dear Henry:

I want to thank you very much  
for your note of April 22 and the attached  
copy of a letter from Sir Frederick Phillips  
concerning the volunteer system in England.  
I found this very interesting.

Sincerely yours,



Donald M. Nelson

The Honorable  
The Secretary of the Treasury  
Washington, D. C.

RECEIVED  
MAY 5 1942  
U.S. DEPARTMENT OF WAR

April 29, 1942  
5:38 p.m.

HMJr: Henry talking.

Donald  
Nelson: Yes, sir.

HMJr: I wanted to explain to you what happened about that broadcast.

N: Yes.

HMJr: This is just between us. Henry Stimson called up, and he evidently is all in, see; and he wanted to go away and he said unless I excuse him and tell him it was all right, he wouldn't go away, and so forth. I said, "Well, give me General Marshall."

"No, then I'd have to stay anyway." Hello.

N: Yes, sir.

HMJr: So he said, "Unless you let me off, I won't go away, and I need a holiday." And the man really sounded terrible tired. So I said, "Go on, go away for your week; and when you come back, we'll all go on again." Hello.

N: Yes, sir.

HMJr: So I thought on that, I called off the broadcast.

N: That's fine.

HMJr: But I wanted to explain to you just what happened.

N: That's awfully nice of you to call.

HMJr: But I just didn't have the heart to insist.....

N: No.

HMJr: .....that Henry Stimson stay here, because he sounded as though he was on his last legs.

N: Naturally, sir. Well, any time will be all right.

- 2 -

HMJr: But I did appreciate so much your being willing; and when he comes back, I thought we'd all do it together.

N: That'll be fine.

HMJr: Is that all right?

N: That's perfectly all right.

HMJr: Well, you're an awfully good sport about it, and I appreciate it.

N: Fine. That's awfully nice of you to call.

HMJr: Thanks, Don.

N: Good-bye.

HMJr: Good-bye.

TREASURY DEPARTMENT  
Office of the Secretary  
Secret Service Division

120

MEMORANDUM

April 29, 1942

To: The Secretary of the Treasury

From: Chief, Secret Service

Information has been received that Mrs. Merle Cochran will be discharged from John Hopkins Hospital at Baltimore on Thursday, April 30 and will return to her apartment in Washington.



*no funds -*

April 29, 1942

Dear Archie:

It will be very useful to me to get copies of your weekly surveys of opinion, especially as they will enable me to see Alan Barth's press reports in a new form.

I shall appreciate your placing me on the new mailing list. Thanks very much for thinking of me in this connection.

Sincerely,

(Signed) Henry

Hon. Archibald MacLish,  
Director, Office of Facts and Figures,  
Washington, D. C.

FK/cgk

*Other file n.m.c.  
File to Thompson*

b

OFFICE OF FACTS AND FIGURES

WASHINGTON

THE DISTRIBUTOR

April 27, 1942

Dear Henry:

I am glad to have your letter of the twenty-third and to tell you a little bit more about our plans for the summary of Editorial Opinion. We discontinued it partly because we rely so heavily on Alan Barth for the preparation of our weekly reports to the Committee on War Information and partly because we propose to add to those reports a summary of Editorial Opinion though in briefer form. When this latter change is made, I should be glad to see that you get copies of the weekly Intelligence Reports, if you would like to have them. They are, of course, secret and cannot go to the list which previously received the Analysis of Editorial Opinion, but I think you would find them useful. However, I hesitate to add to your mail and will not send copies to you unless you feel you would like to receive them.

Best regards.

Faithfully yours,

*Archibald MacLeish*  
Archibald MacLeish

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

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

✓ 123  
DATE April 29, 1942

TO Secretary Morgenthau  
FROM Mr. Kamarck

Subject: Securing Information On American War Production

1. Our war production is one of the decisive factors in the war. To keep in touch with the progress of the war, it seems to me that you should be kept informed, as a minimum, on the current figures of our production of tanks, planes and guns. Better still would be a more complete coverage with information on major policy changes, progress in conversion, and other important developments.

2. In order that both the economic and military aspects of the program be covered, it would probably be best for me to work with Mr. White on this job.

3. (a) Do you want me to attempt to do the complete job working under Mr. White?  
(b) Do you want me merely to secure the production figures on tanks, planes and guns?

If so, should I do this with your authorization?

(I believe it would be possible to get these figures without using your authorization, but it would be better to have it.)

Conference in Mr. White's Office  
April 29, 1942  
12:45 P.M.

Present: Mr. White  
Sir Frederick Phillips

Sir Frederick called at his own request. He called to leave with the Treasury some British documents with reference to proposals for Lend-Lease in reverse. (Copies distributed).

Sir Frederick asked whether we had any information with respect to the amount of expenditures which the American soldiers would be expected to make in the sterling area. Mr. White replied that there were some tentative estimates supplied by the Army and Navy but that the situation changed so rapidly that he did not know how much reliance could be placed on the estimates since they were made a couple of months ago. Sir Frederick said he had heard it had been estimated the American soldiers would spend an average per head of \$40 a month. Mr. White expressed the view that that seemed a little high but it is possible that in U.K. there was a larger proportion of highly paid officers and technical men than was usual and therefore the average was higher than might be expected from the over-all picture. Sir Frederick said he felt that the Americans would have a hard time spending that much a month in most places in the sterling area but that he hoped to get some more detailed information on the matter.

*with the  
Whites memo of  
5/8/42 -*

# THE BRITISH SUPPLY COUNCIL IN NORTH AMERICA

TELEPHONE: REPUBLIC 7860



Box 680  
BENJAMIN FRANKLIN STATION  
WASHINGTON, D. C.

April 29, 1942.

Dear Doctor White,

## EXPENDITURE BY UNITED STATES FORCES IN THE UNITED KINGDOM.

The information sent me from London was expressed in terms of average amount per man per day, and related to United States forces in the United Kingdom. In view of the limited experience and the many variable factors involved, the figures were largely guesswork.

United States headquarters in the United Kingdom have estimated that the money spent by United States army personnel in a private capacity was slightly over 6<sup>s</sup>. Our authorities have no means of checking this.

We estimate that the amount spent officially by the United States authorities in sterling on their forces is about 6<sup>d</sup>.

We estimate, also, that the value of issues being made to United States forces under reverse lend-lease is about 3<sup>s</sup> to 3<sup>s</sup>6<sup>d</sup>. Of this, about 8<sup>d</sup> would represent petrol, oil and lubricants - of the remainder, rather over 1<sup>s</sup> 3<sup>d</sup> is for accommodation (including fuel and light), and somewhere about 1<sup>s</sup> 3<sup>d</sup> for railway travel and freight.

As regards United States navy personnel, the same figures would be about right for permanent based personnel, but it is impossible to make any estimate at present in respect of ships calling or stationed in the United Kingdom. However, the total sum involved is, no doubt, negligible compared with the Army. Reverse lend-lease issues to United States Navy ships vary too widely according to circumstances for any estimate now made to be of value.

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

# THE BRITISH SUPPLY COUNCIL IN NORTH AMERICA

TELEPHONE: REPUBLIC 7880



Box 680  
BENJAMIN FRANKLIN STATION  
WASHINGTON, D. C.

-2-

The bases in Scotland and Northern Ireland seem to be substantially finished, and the United States authorities have furnished the following figures of actual expenditure:

Dollar labour costs .....	£ 1,008,000
Sterling labour costs, including sterling paid to U.S. employees...	£ 812,000
Local sterling purchases .....	£ 380,000
No estimate available of dollar material supplied.	

As regards the tasks at Langford Lodge and Warton, the estimated capital expenditure to be incurred by the United Kingdom is £3,000,000, plant being supplied by the United States. Apart from military personnel these establishments will have some 2,000 civilian employees with an average annual salary of about £900, of which not more than one-third would be spent locally.

It seems quite hopeless to get reliable figures about tasks in the Middle East. We are, in fact, proposing in connection with the reverse lend-lease negotiations that whichever government is responsible for a particular task should look after all questions of local expenditure.

Yours sincerely,

*J Phillips*

Treasury Department  
Division of Monetary Research

127

Date.....April 29,.....1942

To: Miss Chauncey

From: Mr. White

The Secretary might be interested  
in glancing at this. The memoranda re-  
ferred to have been sent to Mr. D. Ball.

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE April 29, 1942

TO Mr. White  
FROM Mr. Hoflich  
Subject: British War Damage Insurance.

Ambassador Winant has sent to Secretary Morgenthau two memoranda on British war damage insurance, prepared in the Financial Section of the London Embassy at the request of the Secretaries of Treasury and Commerce and the Chairman of the Social Security Board.

These memoranda are excellent summaries of the provisions to compensate for war damage in the United Kingdom, and should be kept on hand for reference purposes. It may be well at this time to point out the fundamental principles of the British scheme, which may be of value as provisions are being made to meet war damage to property in the United States.

1. The original key principles of British Government policy were embodied in a statement of the Chancellor of the Exchequer on January 31, 1939:

- a. Insurance in the usual sense is not feasible, chiefly, because of the lack of any basis for actuarial calculations.
- b. War damage to property should be considered as a community, rather than as an individual, loss. Consequently the community as a whole should bear the burden of compensation.
- c. Damage should be recorded and assessed as soon as possible after its occurrence, but compensation should not be paid until after the close of the war, and then out of public funds, and on the highest scale compatible with the financial situation of the country at that time.

2. Winston Churchill, on September 5, 1940, said: "Damage by enemy action stands on a different footing from any other kind of loss or damage, because the nation undertakes the task of defending the lives and property of its subjects and taxpayers against assaults from outside."

3. It was pointed out in Parliament, at the time of its passage, that the war Damage Act, relating to fixed property, is not an insurance scheme, but one of compensation, and that the contribution (or premium) should be regarded merely as a special tax imposed on property owners as a whole.

4. The private chattels scheme is not on an insurance basis for the amount of free coverage, but is a matter of government compensation for damage by the public enemy. Also it is, in a sense, compulsory. A member of Parliament calls it "a compulsory scheme of insurance, based on the general level of taxation. We must realize that the people who are likely to have furniture are also the householders of the country . . . and that that body of persons does not differ materially from the general taxpayers."

5. The Commodity Insurance Scheme, on goods held for sale, is operated in the manner of insurance, by the Board of Trade acting through the agency of private insurance companies. In a statement of policy on this insurance, the President of the Board of Trade said, on July 17, 1939:

- a. This insurance must be compulsory (1) to prevent inequalities between traders, and (2) to keep price disparities from emerging, as between safe and dangerous areas.
- b. It must be a Government monopoly (1) to protect the public against companies with insufficient resources to pay claims, and (2) to prevent private carriers from undercutting Government rates by taking the good risks and leaving the bad ones.

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YDEPARTMENT OF STATE  
WASHINGTONIn reply refer to  
FD

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and transmits herewith paraphrases of telegrams from this Department to the American Embassy at London and the American Legation at Tehran and replies of the Embassy and the Legation thereto concerning arrangements for the purchase of rials. In this connection reference is made to telegram 1697 from the American Embassy at London dated April 8, 1942, which was transmitted to the Treasury Department on April 9 and to recent conversations of officers of this Department with Mr. Harry White of the Treasury Department on the matter under reference.

## Enclosure:

1. From Embassy, London,  
no. 2269, April 29, 1942.
2. From Legation, Tehran, Iran,  
no. 127, April 29, 1942.
3. To Embassy, London,  
no. 1811, April 25, 1942.
4. To Legation, Tehran, Iran,  
no. 102, April 25, 1942.

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## PARAPHRASE OF TELEGRAM RECEIVED

FROM: AMERICAN EMBASSY, LONDON

DATE: APRIL 29, 1942, 9 p.m.

NO.: 2269

IN STRICT CONFIDENCE.

This morning I discussed the viewpoint expressed in the Department's telegram of April 25, 11 p.m., no. 1811, with Waley of the British Treasury and Sir Maurice Peterson. With reference to the Anglo-Iranian exchange dispute, Sir Maurice stated that the British are willing to accept our point of view as to the fact that it is inadvisable to apply economic pressure on Iran. To take any steps which might cause an overthrow of the present Iranian Government might be dangerous, he agreed, describing that Government as "the best that under the circumstances could be hoped for, but not all that could be desired."

"Bullying the Iranians is not our desire," he added, "but a little bullying in the air is sometimes useful. In getting the Japanese Legation out of Tehran, it worked quite well."

The question of utilizing dollars to cover British expense needs in Iran, Wally did not, however, look upon with much favor. In Tehran, he said, the negotiations whereby sterling will be acceptable to the Iranians and whereby a certain percentage of their sterling balances will be available to them quarterly in gold, seem to be proceeding favorably. The British Treasury, he said, is at present discussing the question of making gold available for that purpose with our Treasury, and he wondered whether the Department's telegram no. 1811 was really a reply to a telegram recently sent to Washington by the British Treasury. I replied that I did not believe that this was the case and that probably he would hear directly from officials of our Treasury.

Finally, Sir Maurice stated that at the present time order seems to be maintained in Iran relatively well and that our view that nothing should be done now which might interrupt the supply line to Russia is fully shared by the British.

MATTHEWS

Copy:lc:5/1/42

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: AMERICAN LEGATION, TEHRAN, IRAN

DATE: APRIL 29, 1942, noon

NO.: 127

A more cordial atmosphere in the conversations between the Iranian Government and the British Legation concerning financial matters leads us to hope for a successful settlement. A settlement along the following lines would be welcomed by the British Legation:

- (1) Rials would be supplied by the Iranian Government at a controlled rate of exchange which would be unchangeable for the duration of the war against the sale of sterling.
- (2) Sterling would be converted into dollars by the British to the extent that there is a need for dollars for import purposes.
- (3) Part of the sterling would be converted by the British into gold and the remaining balances would be guaranteed in terms of gold against depreciation.

The Iranians would agree to a settlement of this nature, according to the beliefs of the British Legation, with the right to convert into gold between  $1/3$  and  $1/2$  of sterling balances. For the purpose of prestige, however, London seems to favor obtaining rials through the sale by the United States Government of dollars.

The Iranians would rather have an arrangement similar to that suggested in telegram 102, sent by the Department on April 25, although they will probably agree to some solution similar to the above-mentioned. The rate of exchange is going to be the major stumbling block. The Iranians want to move the rate up to somewhere between 120 and 80 thus taking advantage of their increasing balances of foreign exchange. The British believe that only on the basis of a fixed rate of exchange which should not go lower than 120 and preferably would remain at the present rate of 140 should settlement be made, and I concur. Even greater pressure to change the rate upward will be exerted later as balances of dollars and sterling accumulate if the rate is not fixed there now. Thus our obligations in Iran would always be uncertain and in an increasing amount. Emphasis should be placed on the fact that it is from allied war work in Iran much of which will give permanent benefits to the country, that the present foreign exchange situation, favorable to Iran, has arisen and not from ordinary commercial transactions. It is my suggestion that equitable treatment as to the exchange rate might be attained by using the arrangement suggested by the Department as a bargaining point.

DREYFUS

Copy:imc  
5/1/42

## PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, London, England

DATE: April 25, 1942, 11 p.m.

NO. : 1811

After a formal request by the British was presented asking that this Government intervene in the Anglo-Iranian dispute on exchange and monetary affairs, the British Embassy here in Washington was informed by the Department that it was considered inadvisable by this Government to apply to Iran in this connection any economic pressure. The feeling here is that under present circumstances if such measures are applied Anglo-Iranian relations might only be strained further and the fall of the present Iranian Cabinet might even result without the desired end being accomplished, and consequently that such measures should be employed only as a last resort.

Since we understand that the Government of Iran would not mind having its reserves of either gold or dollars increased, this Government has proposed that British meet their expenses in Iran by selling dollars which could if Iran so desired be converted into gold. The United States would in turn undertake to give consideration to the loss of dollars entailed in such payments to Iran when measures were being considered for the maintenance of a satisfactory dollar position for Great Britain. Treasury has assured us that this can be connected to the various adjustments which are now being considered by the British Treasury and our Treasury.

This proposal has been referred to London by the British Embassy in Washington. Please give such support to the Department's position as opportunity may present, placing emphasis on our desire to avert any collapse in Iran which might cause the diversion of Allied troops for the maintenance of order or lead to an interruption in the Russian supply line.

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(SW)eh:copy  
5-1-42

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134

PARAPHRASE OF TELEGRAM SENT

TO: American Legation, Tehran, Iran

DATE: April 25, 1942, 8 p.m.

NO. : 102

The British have been informed by the Department that it was considered inadvisable by this Government to apply to Iran in connection with the monetary and exchange dispute between the Iranians and the British any economic pressure. The feeling here is that under present circumstances if such measure are applied Anglo-Iranian relations might only be strained further and the fall of the Scheily Cabinet might even result without the desired end being accomplished, and consequently that such measures should be employed only as a last resort.

Since we understand that the Government of Iran would not mind having its reserves of either gold or dollars increased, this Government has proposed that British meet their expenses in Iran by selling dollars which could if Iran so desired be converted into gold. The United States would in turn undertake to give consideration to the loss of dollars entailed in such payments to Iran when measures were being considered for the maintenance of a satisfactory dollar position for Great Britain.

London is being consulted by the British Embassy at Washington with regard to the proposal set forth above.

HULL  
(SW)

Copy:bj:5-1-42

APR 29 1942

Dear Colonel Teberg:

I am writing to request that the highest priority be given for a passage by air to China for Mr. A. Manuel Fox, American Member of the Stabilization Board of China.

It is desired that Mr. Fox return as soon as possible to Chungking in connection with his duties on the Stabilization Board of China.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Lt. Col. E. J. Teberg,  
Air Priority Section,  
War Department,  
Room 3105 Munitions Building,  
Washington, D. C.

n.m.c.

By Messenger

Bunsy  
5:40  
Copies to Dr. WhiteISW/efs  
4/29/42

Return to Secy's office

April 29, 1942.

NOTE FOR THE FILES

The Minister from Iceland telephoned Mr. White at 11:20 this morning to say he was now prepared to sign the Stabilization arrangement.

*WJW*

TREASURY DEPARTMENT

137

INTER OFFICE COMMUNICATION

DATE April 29, 1942

TO Secretary Morgenthau  
FROM Mr. White  
Subject: Iceland Stabilization Agreement

1. Late in 1941 negotiations took place between Treasury officials and the Iceland Trade Delegation looking toward a stabilization agreement. At the end of these negotiations a draft agreement was handed to the Icelanders.

The provisions of this draft were essentially those in our Argentine Agreement in that they provide that the Iceland Bank must repurchase all kroner within 30 days after notice from you.

2. On March 11, 1942, Assistant Secretary of State Berle informed you by letter that the Icelanders were ready to sign the agreement. You replied on March 20 that the Treasury was willing to conclude the agreement but you suggested a meeting to discuss the matter inasmuch as it no longer appeared that the Iceland dollar position needed strengthening.

At this meeting, held on March 24, a State Department official told me that Iceland considered a stabilization agreement with us as the best way of breaking away somewhat from the sterling area.

3. On April 7 the Icelandic Minister discussed the question of a \$2 million stabilization agreement with Treasury and State Department officials. He stated that Iceland has some temporary need for dollars but he agreed that the dollar position of his country was strong. On April 9 a revised draft agreement was mailed to the Icelandic Minister. Inasmuch as he requested no changes in the agreement, the more liberal repayment terms of the Mexican and Ecuadoran agreements were not offered to him.

4. Today the Icelandic Minister notified me that he is prepared to sign the agreement. In view of the very strong dollar position that Iceland is acquiring as a result of both Lend-Lease and Army expenditures in Iceland there is no financial reason why we cannot safely conclude the agreement.

The papers will be ready any time tomorrow.

Draft Mailed to the Icelandic Minister - April 9

AGREEMENT made as of the 1st day of May, 1942, at the City of Washington, District of Columbia, between the Secretary of the Treasury of the United States of America (hereinafter called the Secretary), the National Bank of Iceland (hereinafter called the Bank) and the Government of Iceland (hereinafter called Iceland).

WHEREAS, the monetary and financial cooperation of the United States of America and Iceland and the stabilization of the United States dollar-Icelandic krona rate of exchange are important factors in promoting trade and in fostering the welfare and friendly relationships of the two countries;

NOW, THEREFORE, in order to further such objectives and in consideration of the premises and of the mutual covenants herein contained, it is agreed as follows:

1. The Secretary, through the Federal Reserve Bank of New York as Fiscal Agent of the United States (hereinafter in its capacity as Fiscal Agent of the United States called the Federal) shall, as hereinafter provided, purchase Icelandic kronur from the Bank from time to time as requested by the Bank, the United States dollars paid therefor to be used exclusively for the purpose of stabilizing the exchange value of the Icelandic krona with respect to the United States dollar. The total amount of kronur thus purchased by the Secretary, exclusive of accrued interest thereon and of any kronur repurchased, shall not at any time exceed in the aggregate the equivalent of United States \$2,000,000 computed at the rate at which such kronur are purchased as hereinafter provided. The kronur so purchased shall be credited to the Federal on the books of the Bank in a special account to be opened in the name of "Federal Reserve Bank of New York as Fiscal Agent of the United States". Upon receipt by the Federal Reserve Bank of New York of advice from the Bank by teletype or radiogram that this

- 2 -

account has been credited with a stated amount of Icelandic kronur, the Federal will in turn, in payment therefor, credit the Bank in a special account to be opened by the Federal in the name of "National Bank of Iceland, Special Account", in an amount in United States dollars equivalent, at the Bank's buying rate of exchange in New York, which it shall have determined by virtue of its actual current market operations, to the amount in Icelandic kronur so credited to the account in the name of the Federal on the books of the Bank. At the time that the Bank requests the purchase of the Icelandic kronur, it shall advise the Federal of its buying rate for dollars.

2. The Bank shall credit interest to the special krona account in the name of the Federal on the last day of each successive month from and after the date hereof. Such interest shall be computed at the rate of 1-1/2% (one and one-half percent) per annum on the daily balance of such kronur in such special account as were purchased by the Secretary under this Agreement.

3. (a) Within thirty days after the receipt of notice from the Secretary or the Federal containing such request, the Bank shall repurchase, or cause to be repurchased (and in the case of accrued interest, purchase, or cause to be purchased), in United States dollars, by payments at the Federal Reserve Bank of New York:

(i) Any or all of the kronur purchased by the Secretary through the Federal at the same rate or rates of exchange at which such kronur were purchased; and

(ii) Any or all of the kronur representing interest accrued on, and whether or not credited to, the special krona account on the books of the Bank in the name of the Federal at the average rate of exchange at which the kronur, upon which such interest has accrued, were purchased by the Secretary through the Federal.

(b) Notwithstanding the foregoing, in the absence of such a request by the Secretary or the Federal, kronur in the amount of such

- 3 -

accrued interest shall be purchased or caused to be purchased by the Bank by payment in United States dollars at the Federal Reserve Bank of New York on the last day of each successive three-months' period from and after the date hereof and upon the termination of this Agreement, at the rate of exchange described in subdivision (a)(11) of paragraph 3.

(c) The aforementioned special krona account, the kronur credited thereto (including interest), and all transactions respecting such account, and the other obligations of the Bank and Iceland under this Agreement shall, in so far as the rights, powers and privileges of the Secretary or the Federal may thereby be affected, be exempt and immune from any taxes, fees, charges, restrictions, and controls of any nature under the laws of Iceland or any political subdivision or taxing authority thereof.

(4) The Bank may also at any time by making payments at the Federal Reserve Bank of New York in United States dollars at the rate of exchange provided in paragraph 3, repurchase the kronur described in paragraph 3, with available funds from any source.

(5) In the event of any failure to repurchase (or, in the case of interest, purchase) the kronur as provided in paragraph 3 or of any other act, done or omitted, not in accordance with the provisions of this Agreement, the Bank shall, if and when the Secretary, acting directly or through the Federal, so elects by giving notice to the Bank and/or Iceland to such effect, become forthwith obligated to repurchase or cause to be repurchased, or in the case of interest, purchase or cause to be purchased, all of the kronur at a total purchase price in United States dollars determined as provided in paragraph 3 by payment at the Federal Reserve Bank of New York and the dollars remaining in the "National Bank of Iceland, Special Account" shall be retained by the Federal and applied by the

- 4 -

secretary or the Federal as a payment on account of such purchase price. No failure or delay on the part of the Secretary in exercising any of his rights, powers, or privileges in whole or in part, under this Agreement shall constitute a waiver thereof, or of any other rights, powers or privileges granted to the Secretary under this Agreement. It is understood that the Federal Reserve Bank of New York will act only as fiscal agent of the United States in carrying out this Agreement and in doing and performing any acts or transactions in connection with this Agreement, and that it will not incur any liability for any acts done or omitted pursuant to instructions of the Secretary. The Federal is authorized to accept and act upon any writing relating to the purchase of kroner under this Agreement or to the "National Bank of Iceland, Special Account" which is received by the Federal in the name of the Bank and which is believed by the Federal to be genuine, and upon any cablegram, radiogram or telegram relating to the foregoing which is received by the Federal in the name of the Bank and which conforms to existing or future arrangements agreed upon between the Bank and the Federal Reserve Bank of New York, or to arrangements hereafter agreed upon between the Bank and the Federal with regard to the authentication of cablegrams, radiograms or telegrams by the use of test numbers, and all such writing, cablegrams, radiograms and telegrams shall be binding upon the Bank and Iceland.

6. Iceland hereby unconditionally guarantees the full performance by the Bank of all the obligations, duties and liabilities of the Bank under this Agreement and any arrangements made pursuant thereto. |||

7. Any notice given by the Secretary or the Federal either to the Bank or to Iceland shall be deemed and taken as full notice to both of them, and such notice may be given by the Secretary or the Federal to

- 5 -

the Bank at its head office in Reykjavik, Iceland, or to Iceland at the office of the Minister of Finance of Iceland at Reykjavik, Iceland, or to the Icelandic Minister at Washington, D. C. The Bank and Iceland hereby waive diligence, protest, notice and demand of every kind, except as expressly provided for in this Agreement.

8. It is agreed that the United States Dollar-Icelandic krona rate of exchange and all other monetary, financial and economic problems of mutual interest shall be discussed between the parties at Washington, D. C., from time to time as circumstances may render appropriate at the request of either the Secretary, Iceland or the Bank and that in any case such discussions shall take place at intervals of approximately six months from and after the date of this Agreement. The Bank and Iceland further agree that the dollars made available under this Agreement will be used as a revolving fund for the stabilization of the exchange value of the Icelandic krona with respect to the United States dollar, and that due diligence will be exercised to prevent the permanent exhaustion of such fund. In particular, the Bank and Iceland agree to take all reasonable measures to prevent internal currency and credit expansion such as would cause an undue drain on the dollars made available hereunder.

9. Each of the parties to this Agreement shall take and cause to be taken all the necessary measures to effectuate the purposes and intent of this Agreement and to provide each other with such information in their possession relative to foreign exchange transactions, stabilization operations and other matters of mutual interest as is relevant to the proper functioning of this Agreement.

- 6 -

10. Any obligation of the Secretary pursuant to this Agreement shall be conditioned and dependent upon the prior performance by the Bank and/or Iceland of any obligations to be performed or liabilities to be discharged by them, or either of them, under this Agreement and any arrangements made pursuant thereto.

11. Any obligation of the Secretary to purchase kroner under this Agreement shall terminate on June 30, 1949, subject to earlier termination at any time thirty days after receipt by the Bank of a written communication or cablegram, radiogram, or telegram from the Secretary or the Federal to that effect. The termination of any such obligation of the Secretary shall not affect any of the rights, powers or privileges of the Secretary or of the Federal, or any of the duties, liabilities or obligations of the Bank or of Iceland hereunder, all of which shall continue in effect until the Bank and Iceland shall have fully performed their said duties and obligations and discharged said liabilities. If any extension of the Agreement is agreed upon, the Agreement shall continue in full force and effect during the period thus agreed upon. In the event that the Bank and Iceland wish an extension of this Agreement, they will give the Secretary notice to that effect in writing or by cablegram, radiogram, or telegram at least thirty days prior to the termination of the Agreement.

12. This Agreement shall come into operation and effect as between the parties hereto when Iceland shall file with the State Department of the United States appropriate documents satisfactorily evidencing the authority of the Bank and Iceland under the constitution, laws, statutes, decrees and regulations of Iceland, and under the statutes, by-laws, regulations, resolutions and rules of the Bank, to enter into this Agreement, or satisfactorily evidencing ratification of the action of the Bank and Iceland in entering into this Agreement. The Bank and Iceland each for

- 7 -

itself represents and agrees that upon the delivery of the aforementioned documents, the execution and delivery of this Agreement shall have in all respects been duly authorized or ratified, and that all acts, conditions and legal formalities which should have been completed prior to this Agreement becoming effective shall have been completed as required by the constitution, laws, statutes, decrees and regulations of Iceland, and under the statutes, by-laws, regulations, resolutions and rules of the Bank, and in conformity therewith.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement in duplicate.

\_\_\_\_\_  
SECRETARY OF THE TREASURY OF THE UNITED STATES

NATIONAL BANK OF ICELAND

By \_\_\_\_\_

GOVERNMENT OF ICELAND

By \_\_\_\_\_

TREASURY DEPARTMENT

145

INTER OFFICE COMMUNICATION

DATE April 29, 1942

TO Secretary Morgenthau

FROM Mr. Hase

I am attaching an up to date table on the movement of bottom cargo for the Russians which takes account of a revision in the earlier allotment of ships for this week. It appears that 10 ships originally scheduled for Philadelphia are now being directed toward New York. Accordingly, there is a surplus of cargo at the former port and a considerable volume of cargo required at the latter port. In order to meet these requirements the Procurement Division of the Treasury Department has stepped up shipments to New York during the past few days.

Attachment

Bottom cargo for Russians sent from mill to port  
(In tons)

	Philadelphia	Baltimore	New York	Seattle	Total
1. Bottom cargo requirements at the port:					
Week of April 19 to April 25.....	17,175	6,500	21,300	--	44,975
Week of April 26 to May 2.....	15,000	11,000	46,500	4,000	76,500
Total April 19 to May 2.....	32,175	17,500	67,800	4,000	121,475
Less bottom cargo on hand at port on April 19	24,840	7,520	1,240	--	33,600
Net shipments required, two weeks April 19 to May 2.....	<u>7,335</u>	<u>9,980</u>	<u>66,560</u>	<u>4,000</u>	<u>87,875</u>
2. Record of actual tonnage sent from mill to port April 19 to April 28:					
Sunday April 19.....	1,133	1,942	1,498	--	4,573
Monday April 20.....	2,893	1,410	2,064	--	6,367
Tuesday April 21.....	2,060	2,591	1,494	--	6,145
Wednesday April 22.....	2,686	2,846	3,343	288	9,163
Thursday April 23.....	2,399	2,650	5,594	998	11,641
Friday April 24.....	1,877	2,470	6,972	381	11,700
Saturday April 25.....	1,294	1,429	4,201	226	7,150
Sunday April 26.....	673	625	729	--	2,027
Monday April 27.....	1,406	1,563	6,487	271	9,727
Tuesday April 28.....	916	1,786	8,269	429	11,400
Total actual shipments, April 19 to April 28.....	<u>17,337</u>	<u>19,312</u>	<u>40,651</u>	<u>2,593</u>	<u>79,893</u>
3. Amount required to be shipped from April 29 to May 2.....	0	0	25,909	1,407	27,316 <sup>1/</sup>

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

April 29, 1942

Source: Procurement Division, Treasury Department.

<sup>1/</sup> Total excludes surplus of cargo at Philadelphia and Baltimore.

## TREASURY DEPARTMENT

## INTER-OFFICE COMMUNICATION

DATE April 29, 1942

TO Secretary Morgenthau

FROM Mr. White

**CONFIDENTIAL**

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£51,000
Purchased from commercial concerns	£55,000

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

The Canadian dollar improved further in very light trading. The final quotation was 11-7/8% discount, as against 12-1/16% yesterday.

The Cuban peso, which has been offered at a premium of 1/4% for more than a week, moved off to 1/16% premium today.

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

Argentine peso (free)	.2365
Brazilian milreis (free)	.0516
Colombian peso	.5775
Mexican peso	.2064
Uruguayan peso (free)	.5295
Venezuelan bolivar	.2870

It was reported that New York banks purchased small amounts of 'free' Swiss francs at .2600 today, as compared with the quotation of .2540 that has prevailed since mid-February. Swiss francs for commercial and certain other purposes can still be purchased from Swiss banks against dollars at the rate of .2331.

In order to increase the Stabilization Fund's gold balance, we purchased \$2,500,000 in gold from the General Fund through the New York Assay Office.

The Federal Reserve Bank of New York reported that the Bank of Canada shipped the following amounts of gold from Canada to the Federal, for sale to the New York Assay Office:

\$10,150,000	for account of the Royal Netherlands Government.
<u>2,830,000</u>	for account of the Government of Canada.
\$12,980,000	Total

In London, 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 Harman's settlement price for foreign silver was also unchanged at 35-1/8¢.

We made no purchases of silver today.

BRITISH MOST SECRET

(U.S. SECRET)

OPTEL No. 140

Information received up to 7 A.M., 29th April, 1942.

1. NAVAL

A Polish destroyer under repair at COWES received superficial damage in an air attack yesterday morning. One of H.M. submarines between the 9th and 18th sank a minesweeper and a laden south-bound schooner off the IONIAN ISLANDS, a fully laden 5,000 ton ship off TARANTO and set on fire a German auxiliary petrol carrier off CRETE.

2. MILITARY

LIBYA. 27th. Encounters took place between our columns and 2 enemy columns with some tanks in the TENGEDER and SENGALI area.

3. AIR OPERATIONS

WESTERN FRONT. 27th/28th. 100 tons of H.E., including 30 2,000 pounders, and incendiaries were dropped on COLOGNE in good visibility. Good fires were started all over the town, some merging into conflagrations. 2 R.C.A.F., and 8 New Zealand aircraft took part without loss. 92 tons of H.E. were dropped on the naval base at TRONDHEIM. It is claimed that 4 heavy bombs fell near the TIRPITZ, 2 of which were hits or very near misses. 5 aircraft are missing from this operation.

28th. 6 Bostons and 8 Hurricane bombers, escorted by 24 squadrons of Spitfires attacked the railway station at ST. OMER. The escort destroyed 3 enemy fighters, probably destroyed 4 and damaged 6. 6 Spitfires are missing. About 14 enemy aircraft flew over this country, some of which made a low level bombing and machine gun attack on COWES, ISLE OF WIGHT.

28th/29th. 141 aircraft were sent out - KIEL 91, TRONDHEIM Naval Base 34, GHEENT Power Station 6. Visibility at KIEL was very good but observation was hampered by smoke screen and night fighters. 9 aircraft are missing, including 6 from KIEL and 2 from TRONDHEIM. About 50 enemy aircraft operated off and over the Yorkshire Coast. Night fighters destroyed 6, probably destroyed 2 and damaged one.

MEDITERRANEAN. 27th/28th. Albacores torpedoed a tanker and a merchant ship off TUNISIA, both southward bound.

MALTA. Between 2 p.m. 27th and 12.45 p.m. 28th 176 bombers, escorted by fighters attacked. The aerodromes were hit and 2 Wellingtons on the ground destroyed. Our fighters and A.A. destroyed one aircraft and damaged 6. We lost one Hurricane.

- 2 -

4. HOME SECURITY

NORWICH. 27th/28th. Further reports give 65 killed and 130 seriously wounded, damage was confined mainly to the poorer residential quarters, fires had been extinguished by dusk 28th.

COWES. 28th. During an air attack in the morning 8 persons were killed and damage was caused in the shipbuilding yard of Samuel White.

28th/29th, YORK was the main enemy objective. Details of the attack are not yet available but all fires are reported under control.



UNITED STATES GOVERNMENT  
COORDINATOR OF INFORMATION  
WASHINGTON, D. C.

April 29, 1942

The Honorable  
The Secretary of the Treasury  
Washington, D. C.

Dear Henry:

The attached is the British Political  
Warfare Executive Weekly Directive.

Sincerely,

*Bill*  
William J. Donovan

Strategy.

a. Unusually severe thaw conditions preclude large-scale German counter-offensive in Russia before the middle of May and probably early June, except in the Crimea. Both sides are already preparing offensives in the Crimea. The German Air Force, ordered to isolate the Kerch Peninsula, is bombing harbors, troop formations and attacking Caucasian ports.

b. Our successful raids on Rostock and Luebek prove not only that the German Air Force in the West is no longer able to protect Germany but they also exemplify the assistance to Russia by dislocating German communications and industry and by destroying shipping.

Propaganda.

a. Political: A contrast between the early stages of the war and the Spring of 1942 should be drawn in our propaganda. The new order no longer a fighting weapon. Political initiative has been lost by Germany. Even in Germany the first ardor cannot be recaptured. In occupied countries, including Italy, the new order has been exposed as corrupt, inefficient not even formidable. The spirit of revolt is now spreading even in France. In Europe the stage for political offensive of united nations is being set.

b. Military: The turn of the tide is less pronounced in the purely military sphere. The probably gigantic German Spring offensive should not be minimized in our propaganda, but attention should be called to our quickening activity in the West. The already obvious German anxiety as to the nature of our own offensive against them should be increased in our propaganda.

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE April 29, 1942

TO Secretary Morgenthau  
 FROM Mr. Kamarck  
 Subject: Summary of Military Reports

R.A.F. Activity

(The Royal Air Force attacks on Rostock, according to reports reaching Sweden, have almost wiped out the town). The following is a compilation of the secret data on the attacks:

	Total Planes Used	Tons of Explosives and Incendiaries Dropped:		
		On the town	On the Heinkel Works	Total
April 23/24	161	201	28	229
April 24/25	125	106	43	149
April 25/26	128	Est. 100	Est. 50	150
April 26/27	<u>107</u>	<u>50</u>	<u>86</u>	<u>136</u>
Total	521	457	207	664

The British bombing attacks are stated to have made the population of the Ruhr uneasy. There is a marked desire to move outside the towns. The government has forbidden workers to live more than 10 kilometers (6 miles) from their work.

(U.K. Operational Report, April 25, 26, 27, 28, 1942)

German Air Force

The German Air Force is feeling the results of the Russian campaign. Many units had less than half their strength towards the end of 1941. The reserves had been swallowed up in six months. The results of this shortage have been shown as follows:

- (a) The number of dive bomber units has been reduced to two-thirds of June, 1940.
- (b) Owing to a shortage of ME 110 fighters, twin-engine day-fighter units have been disbanded into the night-fighter units.

- 2 -

- (c) Until late in March, no dive bombers could be spared for Malta and since then there have been only enough to contribute less than ten percent of the total effort.
- (d) For months, the raids on Moscow have had only a nuisance effect. It has been necessary to use first-line bomber aircraft for transport work.

(U.K. Political Warfare Executive Directive; C.O.I., April 28, 1942)

#### Yugoslavia

The Yugoslav Army is making a large contribution to the Allied victory. Thirty Axis divisions are occupied in trying to crush Yugoslav resistance. Seventeen of these are Italian divisions, the rest Bulgarian, Hungarian and German. (The U.S. Army has, at present, only a few more than 30 divisions.)

(U.K. Political Warfare Executive Directive; C.O.I., April 28, 1942)

The Secretary announced today that the May financing would be in substantially the following form:

1. Offer on Monday of next week a 2% bond with a medium maturity in the amount of \$1,250,000,000, or thereabouts. The rules theretofore in effect governing the basis of subscriptions to Government securities will remain in effect for this offering.

2. Offer at the same time a 2-1/2% registered bond of longer term. This bond will not be transferable for the first sixty days and it will not be available for subscription by commercial banks accepting demand deposits, nor eligible for purchase by such banks for a period of ten years. The bonds may be pledged as collateral for loans, including loans by commercial banks, but any commercial bank acquiring such securities because of the failure of such loans to be paid at maturity will be required to dispose of them in the same manner as they dispose of other <sup>Assets</sup> ~~securities~~ not eligible to be owned by banks. The amount of the offering of this security will not be specifically limited. Subscriptions will be allotted in full as received and the offering will remain open for a number of days.

- 2 -

3. Next week the Treasury will offer for payment on Wednesday, May 13, \$250,000,000 in Treasury bills instead of the ~~usual~~ usual \$150,000,000. An offering of \$250,000,000 each week will continue for the next several weeks. In this connection the Open Market Committee of the Federal Reserve System has announced the establishment at each of the Federal Reserve Banks of a buying rate of  $\frac{3}{8}$  of 1% for Treasury bills.

TREASURY DEPARTMENT  
Washington

FOR IMMEDIATE RELEASE,  
Thursday, April 30, 1942.

Press Service  
No. 31-36

Secretary Morgenthau announced today that the Treasury's May financing will be in substantially the following form:

1. The Treasury will offer on Monday of next week a 2% bond with a medium maturity in the amount of \$1,250,000,000, or thereabouts. The rules theretofore in effect governing the basis of subscriptions to Government securities will not be applicable. All subscriptions up to \$10,000 will be allotted in full.

2. The Treasury will offer at the same time a 2½% registered bond of longer term. This bond will not be transferable for the first sixty days and it will not be available for subscription by commercial banks accepting demand deposits, nor eligible for purchase by such banks for a period of ten years. The bonds may be pledged as collateral for loans, including loans by commercial banks, but any commercial bank acquiring such securities because of the failure of such loans to be paid at maturity will be required to dispose of them in the same manner as they dispose of other assets not eligible to be owned by banks. The amount of the offering of this security will not be specifically limited. Subscriptions will be allotted in full as received and the offering will remain open for a period longer than customary. Subscriptions may be forwarded to the Federal Reserve Banks through commercial banks and the latter may make payment for the subscription allotted for account of their depositors through the Government's War Loan Account with such banks.

3. Next week the Treasury will offer for payment on Wednesday, May 13, \$250,000,000 in Treasury bills instead of the usual \$150,000,000. An offering of \$250,000,000 each week will continue for the next several weeks. The Treasury is advised that the Federal Open Market Committee has directed the twelve Federal Reserve Banks to purchase for the System Open Market Account all Treasury bills that may be offered to such banks, on a discount basis, at the rate of 3/8 per cent per annum.

April 30, 1942  
9:15 a.m.

FINANCING:

Present: Mr. Schram  
Mr. Burns  
Mr. Fleek  
Mr. Fulton  
Mr. Rich  
Mr. Bell ✓  
Mr. Buffington ✓  
Mr. Graves ✓  
Mr. Bryce  
Mr. Eccles -  
Mr. Sproul -  
~~Mr. Graves~~

H.M.JR: The reason I asked you gentlemen to come down was this. Next week we start in on the regular Government financing, and I was very much impressed and pleased with what the securities dealers did the last time. We were very short stocked. What we would like to do is to sort of regularize this thing, if it appeals to you people. Mr. Eccles will be here at 9:30, representing the Board. The thought that we had in mind was this, as a sort of a compromise. You can't always do everything just the way you want to. As I understand it, you people want to continue to help us sell our securities. I am going on that assumption.

MR. BRYCE: There is not much doubt about that.

MR. FLEE: No doubt about that, Mr. Secretary.

H.M.JR: And the Federal Reserve Board wanted to do it also, entirely, so this is the suggestion we made, that the securities dealers get together and recommend several names to me for a chairman for each state; and in a case like Pennsylvania, where there are two Federal Reserve Districts, there would have to be two chairmen. These chairmen - let's say there are five states in the New York District. These chairmen would be chairmen, say, for the state of New York with a group of salesmen under

- 2 -

them, and - but the group of the five state chairmen would meet under the President of the Federal Reserve Bank of that District. He in turn would be responsible to me in his capacity as fiscal agent, you see. We have this fiscal agency relationship, and he would be responsible to me as the Treasury fiscal agent, not to the Board, but to me. Now, that very briefly was the idea.

MR. BELL: That is right. Then the Board would have a liaison here between you and the Board.

H.M.JR: That is right.

MR. SCHRAM: We have chairmen, I think, in each state now, and I don't think that - well, in some states we would have to have two, I presume, where a Reserve District splits a state.

MR. BRYCE: I think in northern and southern California - of course, that is not a split of the Federal Reserve. In Pennsylvania you have the eastern and western, and that splits up in our business.

MR. SCHRAM: Illinois would be the same way, too.

MR. BELL: That is right.

MR. BRYCE: But I don't think you will have any trouble agreeing with them in the main. Those committees that have been appointed are splendid committees. You might make a change here and there, but they are usually the leading men in their community. They are already clicking on the War Bond thing, and that will work out fine, I would think. It can be worked out quickly. That is what we are particularly interested in.

H.M.JR: Well, Mr. Graves, who is responsible for the sale of "E," "F," and "G" Bonds, wanted to make sure that there is no conflict. Really, what we are trying to do is build two separate organizations, one to sell "E," "F," and "G," and this organization which I am talking to now to sell what I call our regular Treasury financing.

- 3 -

MR. SCHRAM: I see.

H.M.JR: Isn't that right, Dan?

MR. BELL: I suppose that is the split. Graves hasn't done very much on "F" and "G."

H.M.JR: Well, he wants a hearing. He was all upset last night.

MR. BUFFINGTON: Yes.

H.M.JR: Did he talk to you?

MR. BUFFINGTON: Yes, he did, and I explained to him that I had assumed from the talk yesterday, in spite of what you said in that meeting, that this interest of this group was exclusive of War Savings Bonds. In other words, we hadn't--

MR. BRYCE: That is true of this group, but Mr. Graves already has thousands of these men as individuals working for him who will continue to help out on this pledge campaign; but as a real effort, this crowd can organize just the way you want them to on the other thing.

MR. FLEEK: Yes.

MR. BUFFINGTON: What Mr. Graves is disturbed about, the "F" and "G's" fit into his quotas that he already has set up, and he doesn't want any interference that wouldn't permit these men to continue as individuals to work with the state administrators.

H.M.JR: I think during the morning you ought to sit down with Mr. Graves and work it out, because he is counting on "F" and "G" as part of his billion dollar quota for July.

MR. BELL: He may need it.

MR. BRYCE: We will put both sides up.

- 4 -

MR. BUFFINGTON: He told me last night that he was interested in selling all he could, no matter who sold them.

H.M.JR: He needs all the help he can get, but there should be a clean-cut division so that we have got a state chairman in every state now, and they don't want any conflict between the two organizations. They ought to be fairly - there should be a clean-cut division, and I think the thing to do would be to sit down with Graves this morning and understand where his state organizations begin and end, and where this one would begin and end.

MR. SCHRAM: Fine.

H.M.JR: He has it very definitely in mind. Before Mr. Eccles comes here, what do you think of the idea? Do you think that that would work? You (Schram) know Washington pretty well.

MR. SCHRAM: I think it will.

H.M.JR: I mean, having the president of the Federal Reserve Bank as chairman of his Federal Reserve District, the security people having a state chairman for each state, and the president of the bank being responsible directly to the Secretary of the Treasury.

MR. SCHRAM: I think that will work, Mr. Secretary.

MR. BURNS: I think so.

MR. SCHRAM: I see no conflict there at all.

MR. BURNS: No.

MR. SCHRAM: We have got our organization pretty well ready to go, just fill in here and there, and they are ready to go.

H.M.JR: Well now, they raised - I didn't know how - you mean, you don't want to think it over or talk it over? You think that sounds all right?

- 5 -

MR. SCHRAM: I don't think that is necessary, Mr. Secretary.

MR. BURNS: I don't think it is necessary.

MR. BRYCE: This is what they have been asking for.

MR. SCHRAM: These boys want something to do.

MR. BRYCE: They like having something new to do, I mean, something different to do, and having divorced it from these "F" and "G's," that is fine. They can go to town on that.

H.M.JR: Well, I think you will find that Graves wants help there, but you don't want overlapping.

MR. BURNS: That is right.

MR. BRYCE: No. That will work out fine.

H.M.JR: As Mr. Bell said, the "F" and "G's" haven't been sold, but - well anyway, I think the easiest thing is to talk to Graves. You (Bryce) are here as liaison between them. Buffington can represent Bell and me.

MR. BELL: I take it Graves is more interested in getting credit for the sales than he is--

MR. BUFFINGTON: Right. He said when we got through, "Hell, we want to sell them all of them we can, but remember, I have got them in my quota."

MR. BELL: I take it that is what he is worried about.

MR. BUFFINGTON: Yes.

H.M.JR: That is part of it, but as I understand it, some of these security salesmen are working now in New York State with War Bond committees.

MR. BRYCE: That is right.

- 6 -

MR. BURNS: That is right.

MR. BRYCE: Have them all over the country.

MR. FLEEK: All over the country, Mr. Secretary.

H.M.JR: And he doesn't want any trouble.

MR. BRYCE: Yes.

H.M.JR: That is the thing.

MR. BURNS: I think that can be handled very easily and still make the cleavage there between the two groups very easily.

H.M.JR: Well now, you say you have your organizations?

MR. SCHRAM: Yes, and have had it for some time.

H.M.JR: Would you object if we sort of passed on who the chairmen for each state would be?

MR. SCHRAM: No.

H.M.JR: He might not have paid his income taxes.  
(Laughter)

MR. SCHRAM: The chances are if he is a broker, he won't have any to pay. No, we have had that underway for some time. We had that set up some time ago.

H.M.JR: Some of Mr. Rich's men made plenty of money last year in Government Bonds. They paid a tax. No, I think if it was agreeable, we would like to pass on them, because they will be sort of representing the Treasury. We would like to look them over.

MR. BURNS: I think it should be carefully done.

MR. BRYCE: I think we have done that, but we can double check, as you said.

- 7 -

H.M.JR: I think it is only fair to your organization and to us.

MR. SCHRAM: No objection to that at all.

H.M.JR: It would be a shame after you got started, and then if there was some scandal.

MR. SCHRAM: Yes.

MR. FLEEK: I would much rather have it that way. I think it would be much better for us.

MR. BURNS: Oh, definitely.

H.M.JR: It would be a reflection on your organization if three months after we got going we found there was a black sheep in the crowd.

MR. BURNS: I agree with you.

H.M.JR: Now, let me ask you - they asked me one question which I couldn't answer. One of these issues that we are proposing next week will be open for one or two weeks. Now, how do you propose to do that? After all, you men have got to make your own living. Somebody asked me this question. I said I didn't know how to answer it. They may be selling an American Tobacco bond. Are they going to go out and sell that and ours, or are they going to take a half day or something like that for ours? I mean, where a thing is open for a week and we have got a bond we want to sell to the insurance companies--

MR. BRYCE: I know my answer to that. They will go right to it, and they will work hard on it, and they will do a good job. I mean, they won't ask this or that about it. If you want them to do it, they will.

H.M.JR: Well, it doesn't worry me if it doesn't worry you people, but the Federal Reserve seemed very doubtful that you fellows would really go to the thing.

- 8 -

MR. BRYCE: I am sure they will go to it.

MR. BURNS: I really am not worried about that, are you, Emil?

MR. SCHRAM: No, I am not. I think if they are given the job to do - of course, we will press them pretty hard.

MR. BRYCE: I have been around the country a lot, and so have you, Emil, and all of us have in the last few months, in the interest of the War Bond thing and everything else, and there is a fine feeling, and this is just what they have been asking for. This is something that they alone will be working on, and they can work on it in their way. I will be very much surprised, sticking my neck way out, if they don't do the job you want them to do.

H.M.JR: Well, I told the Fed boys yesterday who were making this plea to handle it entirely, that after all, they haven't got any salesmen.

MR. BRYCE: They are a little inconsistent, Mr. Secretary, because I have been in a bank all my life, and went out of a bank because banks were supposed to go out of this business, which I have been in all my life. I don't say that banks should be out of the bond business, but they are out; and therefore they are not supposed to have the machinery to handle the thing. It is machinery you are after.

H.M.JR: Well, as I told them, I said, "If you asked me to go in the District of Columbia from the Treasury and furnish a hundred salesmen to sell, we haven't any salesmen in the Treasury." We just don't have them.

MR. SCHRAM: No.

H.M.JR: I think you fellows will have to be a little diplomatic with the Fed. Now, the Fed went out of here yesterday, and I think they were all right, weren't they, Dan?

- 9 -

MR. BELL: I think they were.

H.M.JR: I think the way I look at it, it will be a meeting place, and the president of the bank will be there and will render whatever help he can, but I just think it is starting a little bit behind the eight ball as far as they are concerned. That is a fair statement, isn't it?

MR. BELL: I think they will be all right on that.

H.M.JR: You think they will be all right?

MR. SCHRAM: You mean you think we won't be able to sell them?

H.M.JR: I think you will.

MR. SCHRAM: No, I mean the Fed.

H.M.JR: No, they wanted this job. No, I am sold on you fellows, but I just--

MR. BRYCE: We ought to be diplomatic and work with them, and that will work out all right.

H.M.JR: I am definitely sold. I am sure that you fellows can do it, and I was just trying to get over that we have got to--

MR. SCHRAM: No, my question - you said we were going to be more or less back of the eight ball with the Fed in the beginning. That is what I had reference to.

H.M.JR: Well, you will have to sell yourselves to the Fed.

MR. SCHRAM: That is what I had in mind.

H.M.JR: You have sold yourselves to me, but you have got to sell yourselves to them.

MR. FLEEK: Mr. Secretary, if this is a proper question, I think the problem might be that it is in the

- 10 -

month of May and, say, there are two weeks to do a job. What is the job, how many hundred millions, or have you anything - a definite amount in mind?

H.M.JR: I will tell you in a minute.

(Mr. Eccles and Mr. Sproul enter the conference.)

H.M.JR: Good morning, Marriner.

MR. ECCLES: I brought Alan Sproul, is that all right?

H.M.JR: Sure. Sproul is chairman of the presidents' association, is that what he is?

MR.SPROUL: No, just one of the boys.

MR. ECCLES: Alan is - I felt that in connection with the question of organization, he would really be better advised with reference to what might be necessary than I would, and I felt that the Reserve Banks should be represented in the discussion of this.

H.M.JR: Well--

MR. ECCLES: He ought to be here this afternoon, anyway.

H.M.JR: I outlined, and I will do it again so Sproul can hear. I said that the suggestion that we made - I have been very frank with the people as I was with you yesterday, that this was a compromise, and the compromise was that in each Federal Reserve District the securities dealers would appoint a chairman and have a sales organization, and the state chairman would work on the committee, and the president of the bank of the Federal Reserve would be there acting as the Treasury's fiscal agent, in that capacity, responsible to me. I have asked them if they would - they said they have their state chairmen, and I have asked them whether they would submit the names of these state chairmen, just to make sure they had all paid their income tax so we could all have a look at them.

- 11 -

The plan that I have outlined to these people is entirely satisfactory, Marriner. I mean, they are entirely willing to work with the president of each Federal Reserve Bank. They are ready to go. Now, when we get through here, I want them to meet with Harold Graves who runs my "E," "F," and "G" organization, and he is a little bit worried that there will be some overlapping here. He wants to get that straightened out before we go to town.

MR. ECCLES: Your idea would be two set-ups, though?

H.M.JR: Entirely separate.

MR. ECCLES: Would you expect Graves to continue to handle "G" and "F" or largely "E"?

H.M.JR: Well, he says he has got to handle "F" and "G." He says it is in his quota, and he says it is part of the War Bond program.

MR. ECCLES: Well, it is all War Bonds when you get right down to it. The "G" Bonds go to an entirely different class of investor than the "E" Bond, and I--

H.M.JR: Well, I thought that when this meeting was over, I would ask these gentlemen if they would stay and meet with Harold Graves, and talk it over, because he has got an organization which has been going just a year now. It is going pretty well, and I don't want to do anything to upset it.

MR. BRYCE: Mr. Secretary, I assume that Mr. Eccles and Mr. Sproul know that these associations of the securities dealers, the stock exchange, investment bankers, National Association of Security Dealers, and so forth, organized themselves two or three months ago and have picked what we regard as very good committees in all of these states that are working in it, so what we are talking about could be set up with your approval very quickly.

H.M.JR: Well, don't you want to tell him why you were sent here a couple of months ago? I don't know that he knows.

- 12 -

MR. BRYCE: Well, these associations came down and saw the Secretary, as I remember it, right after Pearl Harbor, and offered their services on a voluntary basis in connection with the War Bond financing. As a result, they were asked to have someone down here that could work with the Treasury, and we knew some of them, and a number of names were discussed, and it was tried out on a few people; and when it got to me, I said I would be very happy to do it. I have been down here two or three months working originally in the War Savings Staff, helping to get these men tied in as individuals with that program by Mr. Graves, and then the Secretary asked me to come over here in connection with the certificates of indebtedness, as you know; and we are going to coordinate the bond men and brokers of the country in connection with the War Bond thing, and we ought to get them working on everything else. I have been over here ever since. In connection with all of that, these associations have carefully thought out who should be set up in the forty-eight states and the District of Columbia as a committee to organize the states along proper lines to cooperate with the Treasury in every way, and those committees have been set up; and in connection with the War Bond thing, they were told to cooperate with the state administrators, and the state administrators and bond men are all human, and in some states it has clicked beautifully.

The state administrator made great use of the bond men. In other states, it hasn't worked as well. They have all offered their services, and they are all set up. We know those men, and think they have selected the leading ones in every community. There might be a difference of opinion here and there, but that machinery has been set up and has been functioning for several months. We have a complete list of that, and we can sit down, and I am sure that Mr. Sproul would know certain ones that are in the New York committee, and I am sure you would know the ones there and out West and other places.

(Mr. Graves entered the conference.)

MR. ECCLES: I would like, Mr. Secretary - I met with Allan this morning before coming over here, and also

- 13 -

Al Williams, and we discussed a little the discussion we had yesterday, that is, with reference to this organization matter. I would like Allan to state how he views this situation. I think you should have this before this thing is crystallized too far.

MR. SPROUL: I would like to ask first where the banks of the country fit into this picture, because I think, as you have said, they are your biggest customers for Government securities, and they also are in touch with many of your customers outside of the banking system. Many of your non-bank investors still, strange as it may seem, look to bankers for advice and counsel and respond to what they have to say. I think the job is so big that we have to use every avenue of selling we have and every approach we have to investors outside the banking system, so that it seems to me we must marry the investment bankers and the commercial bankers in this organization.

MR. BRYCE: I think - just a minute. I think we can point out to the Secretary that most of the big banks of the country belong to the Investment Bankers Association, the big banks.

MR. SPROUL: It is not a question of the technical membership in any group. I think we have to have them in there as bankers, not as subordinate members of an investment banking setup. There is no idea of exclusion of anybody nor of setting one above the other, but I think we have to use everybody and have them in there on terms where they will all be working enthusiastically on this job. Now, as you know, I think, I have been working with the bankers in the Second Federal Reserve District. I have already started the machinery for setting up a committee there--

MR. ECCLES: So has every other president.

MR. SPROUL: ... getting the New York City bankers together first, and then working out through the District.

- 14 -

I have already taken some steps on that. I think it has to be put together with the investment bankers setup if we are going to do this job properly and to the best advantage, so that it seems to me that the setup should be a District committee in each District, including bankers, investment bankers, and some businessmen, I would say, under the chairmanship of the president of the Federal Reserve Bank in each District; and then as far as your selling organization is concerned under this committee, that executive director or whatever you want to call him in each state and each District probably should be the best investment banker we can get in that area. It seems to me that is the sort of a setup which will marry together all your possible sales outlets on the basis on which they have all worked to the best advantage.

H.M.JR: What do you men think?

MR. FLEEK: I agree with Mr. Sproul.

MR. FULTON: That makes sense.

MR. FLEEK: Any member of the FDIC, certainly - they have got the biggest job in the world, and nobody is trying to carry the flag here. We are doing a job for the United States of America.

H.M.JR: If you people are willing, I am willing, as long as the--

MR. FLEEK: I should be willing myself, Mr. Secretary.

H.M.JR: Well, you can talk it out more today, but just as long as we keep the nucleus of this idea that the men who can sell won't be hog-tied so they can go out and sell.

MR. FULTON: Well, that is part of Mr. Sproul's plan, I assume, that the men who can sell will be given their heads and allowed to sell.

MR. SPROUL: Nobody has got to hold back on selling in this job.

- 15 -

H.M.JR: ... because I have yet to see a national bank since I have been here really go out and sell any Government Bonds.

MR. FLEEK: They, of course, aren't set up for it, Mr. Secretary.

MR. BRYCE: I would like to say what I did before Mr. Eccles and Mr. Sproul and Mr. Graves came in, that there is no argument in what you are saying, but unfortunately the banks were asked to get out of the bond business some time ago; and it is the machinery that the Secretary is willing to employ. If there is any of it left in banks, and I am sure there is in certain banks that I know about, that ought to all be used; but many of these men that are so-called investment bankers today grew up in banks and had to get out of banks because banks were ruled out of the general market.

MR. SPROUL: It is not a question of machinery or existing machinery. The machinery can be set up. It is a question of reaching out in every town and village to everybody and having an organization that can do it and having these banks who are, as I say, not only the biggest customers for Government securities, but in touch with the non-bank investors on a very special relationship in many cases, working on the job as well as the investment bankers. I think they both have to be on this job, and they have to be on it on the basis that one is not subordinate to the other.

MR. ECCLES: It seems to me that the Federal Reserve Banks, of course, are the financial centers of the various twelve Districts, that they have been so close to the Treasury over years of operation that they are the natural direct representatives of the Treasury in each District, and that they have a relationship with the commercial banks, with the savings banks, with the insurance companies, and with the investment bankers, that they have no vested interest, it is a public institution, and they have a proper relationship with every type of financial interest

- 16 -

in the community. Therefore, they should, as Allan said, be the Treasury's particular representative in the District with a representation on the committee from the investment bankers, from the stock exchange houses, from the commercial bankers, from the savings bankers, and possibly from the insurance companies, and maybe from certain business interests, so that you have a committee that ties in; and then under that committee in each state, or like in the state of Pennsylvania, where you have two Federal Reserve Districts, or New Jersey, where you would have one District manager or chairman, and in Cleveland - I don't mean Cleveland, I mean Pittsburgh. It is in the Cleveland District, and Philadelphia is in another District. You have got to divide it there. What you really have in the Federal Reserve is a Federal Reserve District committee under the chairmanship of the president of the bank, who is the Treasury's direct representative. Then under that committee you have your selling organization in each state, and in connection with the selling organization, it seems to me that all the investment bankers can be used fully, that the commercial bankers to the extent that they can help in selling can be used; and further than that if they feel they are tied in, you can educate them to educate their customers so that you don't create any offense on the part of anybody, because you tie everyone into this picture, and you get rid of the--

MR. BRYCE: Well, you don't want to get too many people tied into too many things. Now, you take Mr. Graves. If you start doing that, you will get all mixed up.

MR. ECCLES: Well, Mr. Graves is in entirely another field.

MR. BRYCE: He has got and should have everyone working for him in a great job being done there, and you want to be careful that you don't get the same people wrapped up. I think that was the thought in getting the so-called specialists in the selling of bonds on this job. People have made a livelihood of it all their lives,

- 17 -

and there are still plenty of them around.

MR. SPROUL: The banks have been the ones who have both bought and sold Government securities, except a few security dealers in New York City.

MR. BRYCE: There is no question about that.

MR. FULTON: Is there very much difference between Government securities and any other securities?

MR. SPROUL: I think there is in this situation. We are not in a security market any longer, we are trying to maintain a stable market. I don't see that there is any difference really here.

H.M.JR: I want this group to help me, see. Now, I don't want to exclude anybody. I am perfectly willing to have an over-all committee. These men are willing to go out and pound the pavement. Nobody has made that offer yet, except this group.

MR. BRYCE: Well, they are all set together, I will tell you that.

H.M.JR: Now, they are enthusiastic. I am perfectly willing to have an over-all committee for window dressing just as long as these fellows are unhobbled so that they can go to town and sell, and I don't mind if they call up the same corporation a half dozen times and get the treasurer upset. The more sold, the better. It doesn't bother me in the least. We have got to get some fresh blood into this thing, because this thing has been a wholesale business where the banks have been dealing, and the best answer is that when we give them a twenty-five thousand dollar limit on the last thing, our total sales were--

MR. BELL: Sixty-six.

H.M.JR: Sixty-six million out of a billion and a half. That is the best answer, that there has been no selling. When we give them a limit of whatever it is,

- 18 -

five or ten thousand dollars, we get twenty or thirty million dollars on a billion dollars of securities. So, it is a wholesale job, and up to now I have been entirely satisfied with the way it has gone. Now, we have got to get down and beat the bushes; and in order to do it, I need real salesmen. None of these organizations up to the time this crowd came along offered to do it.

MR. SCHRAM: Mr. Secretary, I see no conflict with what you have proposed and Marriner's and Allan's suggestions here. Of course, all our industry wants is just an opportunity to get out and do something; and, of course, we realize we will have to demonstrate that we can sell them. I think we can.

H.M.JR: I know you can.

MR. SCHRAM: I think we can work it out all right.

MR. SPROUL: I think that is all anybody wants, is a chance to go to work on this job, and I think you want all the selling outlets you can get.

MR. ECCLES: Nobody is more anxious than we are to sell bonds outside of the banks. I have been--

H.M.JR: Well, Marriner, that is the whole point. This may ruffle the banks a little bit, and so forth.

MR. ECCLES: I don't think so. I think the banks--

H.M.JR: They may even go after some of the bank's customers, but there is no money in it for anybody.

MR. ECCLES: But the banks aren't going to lose deposits. They get them right back. If the Government draws out two hundred million today, it goes back tomorrow. It isn't as though the banks lose anything.

H.M.JR: This is a labor of love, it isn't as though anybody was getting anything out of it, but there is this little resentment, maybe we are barging into something that the banks have had--

- 19 -

MR. ECCLES: The banks haven't been selling. The banks have been the buyers and the holders. You take over the last two years the banks have been doing most of the buying and holding for themselves.

H.M.JR: And second distribution.

MR. ECCLES: And now, if we don't give them a lot of excess reserves so as to put them under pressure - we expect them to continue to do the buying. We are going to say, "Now what we expect you fellows to do is not to do all the buying yourself, but to help sell it to others." That is the reason we propose these various types of issues, so as to give them something to go out and sell.

H.M.JR: Well, what I would like to suggest is this. Can Sproul stay with these people a little while now?

MR. SPROUL: Yes.

H.M.JR: And Graves? And Buffington will represent me. Is the room available down there? The room they had yesterday?

MR. BELL: I think so.

H.M.JR: Graves has a nice room. You have got a big room, Graves.

MR. GRAVES: Yes, sir.

H.M.JR: Do you want to sit with them, or not, Marriner?

MR. ECCLES: Well, I will sit - what do you think, Allan?

MR. BRYCE: I think you ought to.

MR. SPROUL: You might as well, yes.

MR. ECCLES: I have got a meeting at eleven o'clock.

- 20 -

H.M.JR: Why don't they go in to Harold Graves' room, and the first thing, Harold, make sure that your organization stays intact, see.

MR. SPROUL: There is one thing I would like to make clear, though. I don't look on this District committee as window dressing, nor would I want to look on the chairmanship of the president of the Federal Reserve Bank as being a sort of an honorific office for these fellows to do the job when we are to have some responsibility in the public eye, but no authority. I don't see it that way.

H.M.JR: No, I didn't tell that to them before you came in. (Laughter) What I said to them was that you in your capacity, and having this relation with the Treasury, would be my representative, and would be chairman of these state groups. That is what I told them.

MR. FLEEK: Mr. Secretary, I think this ought to work out well.

H.M.JR: That is what I told them.

MR. SPROUL: You used the term just now, window dressing, and I don't look on this as window dressing.

MR. ECCLES: You meant in addition to window dressing, did you?

MR. SPROUL: It may have a window dressing effect.

H.M.JR: I don't mind being called. I wasn't thinking of you as window dressing, but I was thinking of all the other people you wanted to put on. I don't think they will do much. If they are, I will be the first to be pleased and surprised and say I was wrong, see, but I will be delighted if I am wrong.

MR. BRYCE: I should think the bond-selling committee, which would be the investment banks, are the ones who will do the trick.

- 21 -

MR. FLEEK: Mr. Secretary, it seems to me this will unfold, and we will get to discussing it, because there is no conflict of interest there, and we want everyone we can to work on this, and there are plenty of people in the banks that are accepting orders and giving advice, and as far as the details of the committee are concerned, how many they should be, it seems to me we can work that out. I don't think we want very many. You should have the people financially minded on that committee, and not too many manufacturers and things.

MR. ECCLES: Two things. First, we haven't called in these presidents. We were waiting until we got through this meeting this afternoon. If we do, they will be here Monday.

H.M.JR: Oh, get them here tomorrow. I have got to announce this thing tomorrow.

MR. ECCLES: You can announce this other without--

H.M.JR: The financing?

MR. ECCLES: What I am thinking of is this organization thing.

H.M.JR: He (Fleek) asked me a question, and I didn't answer him. I have got to announce for tomorrow morning's papers at least the framework for this financing.

MR. ECCLES: That is all right, I think that can be done.

MR. BELL: How about the bill program?

MR. ECCLES: Well, so far as that posting of rate is concerned, these fellows have got - we have got - they have got to agree to that. That is, we can force it on them, but we want to talk to them first. You can announce your bill program, but I wouldn't want to announce the posting of the rate without talking to them.

- 22 -

MR. BELL: I wouldn't want to announce the bill program until the rate is announced. That is important.

MR. BRYCE: When does that bill program have to be announced?

MR. BELL: It ought to be announced all over at the same time. I think it is in the minds of everybody, and we ought to have it settled before we make the terms on Wednesday.

(Discussion off the record.)

H.M.JR: Harold, will you take this group into your room, and Mr. Sproul and Mr. Eccles will join you in a few minutes. In the meantime, get your own thing straightened out, and I hope that sometime after three o'clock, by four o'clock I hope, I will be able to tell you what the financing program is, so I am going to ask you to stick around today if you can, but I hope to be able to tell you before sunset, and then, Harold, if you would take them in, Mr. Sproul and Eccles will join you in a couple of minutes.

April 30, 1942  
10:58 a.m.

HMJr: Hello.

Operator: Miss Tully.

Grace  
Tully: Good morning, Mr. Secretary.

HMJr: How do you do, Miss Tully.

T: How are you, sir?

HMor: I'm alive.

T: That's good.

HMJr: When you see the President of the United States would you tell him that it would be a great pleasure for me if I could see him tomorrow morning?

T: Yes, sir.

HMJr: Is there anybody ahead of me?

T: I don't know.

HMJr: Well, who would if you didn't?

T: Well, I can't always tell about that, because sometimes he tells them direct, you see, and forgets to tell me, so that I can never be positive that if I made an appointment that he wouldn't have somebody else coming in; but I'll check with him.

HMJr: Well, look under the bed.

T: (Laughs) All right. For surprises.

HMJr: (Laughs) Yeah.

T: All right. I'll call you back a little later and let you know definitely.

- 2 -

HMJr: I thank you.  
T: Grand, Mr. Secretary.  
HMJr: Good-bye.  
T: Good-bye.

April 30, 1942

Mr. Kuhn, Mr. Schwarz, Mr. Callahan  
The Secretary.

This is for Kuhn, Schwarz, and Callahan.

Please read this memo, and the three of you  
get together right away and do something  
about it, and then let me know so I can let  
Steve Early know what we've done; but I want  
to do something with his suggestion today.

Be sure and do something today. The three  
of you put your heads together.

April 30, 1942  
11:00 a.m.

HMJr: Hello.

Operator: Mr. Early.

HMJr: Hello.

Stephen  
Early: Henry, Steve.

HMJr: Henry, Steve, yes.

E: Steve speaking, I should say.

HMJr: Righto. How are you?

E: Saving breath.

HMJr: (Laughs)

E: Henry, I had an idea over here, and I've just come out of a press conference and I passed the idea along to the press.

HMJr: I'll bet you it's good.

E: Well, here it is. In the last two or three weeks, and particularly was it stimulated by the President's message and his radio talk.....

HMJr: Yeah.

E: .....we've received several hundred checks.....

HMJr: Yeah.

E: .....most of them made out to the President and so forth.....

HMJr: Yeah.

E: .....some of them running as high as \$75,000.

HMJr: My heavens!

E: Now, they come in, Henry, voluntary, outright

- 2 -

gifts to the Government to help it finance and win the war.

HMJr: Yeah.

E: They've been pouring over to your Department.

HMJr: Yeah.

E: They come from groups of workers, from plant managements.

HMJr: Yeah.

E: For example, \$5,000 came in this morning from Greek sponge divers down in Florida.

HMJr: Well, I got one, too, from them.

E: Yeah. Now, I thought if you'd turn Schwarz in on that story.....

HMJr: Yeah.

E: .....you could make a great argument out of it in favor of voluntary rather than compulsory and strengthen your - the position you've taken - you and the President have taken on that.

HMJr: Well, I'm glad you.....

E: A sort of a round-up story.

HMJr: I'm glad you include the President. (Laughs)

E: (Laughs)

HMJr: I think it's a swell idea, and I'll.....

E: Now, you must have - our figures here show that in the last two or three weeks we've sent over more than \$200,000.

HMJr: Good heavens!

E: Yeah.

HMJr: I didn't realize that.

- 3 -

E: Yeah. And I think there's a hell of a good story in it.

HMJr: I agree with you, and I think they're doing it because they love the President.

E: Well, anyhow, it shows - it's a reaction from the people - the workers who are contributing. One check came in here for \$30,000.

HMJr: Good heavens!

E: From the workers who have contributed their extra day's pay.

HMJr: Well, that's wonderful. Well, Steve, I'm ever so much obliged; and I'll put the boys on it at once.

E: Thank you, sir, because I think my boys, after hearing what I said along that line this morning, will be over at the Treasury asking for a sort of a round-up story on it.

HMJr: Well, we'll have something. We'll back you up.

E: Thank you, sir.

HMJr: I thank you.

E: All right. Good-bye.

HMJr: Good-bye.

April 30, 1942  
11:00 a.m.

#### FINANCING

Present: Mr. Harrison  
Mr. Brown  
Mr. Burgess  
Mr. Edward  
Mr. Stewart  
Mr. Spencer  
Mr. Smith  
Mr. Bell  
Mr. Haas  
Mr. Murphy

H.M.JR: Well, we had a little meeting this morning with Eccles and Sproul, and they have agreed to my argument, that I don't want to make a commitment beyond one financing, and that I keep my mind open, but that I was very loath to commit myself beyond one financing. On that basis we dropped the five year. Is that right, Dan?

MR. BELL: For this financing, yes.

H.M.JR: And I will keep my mind open. What else was there?

MR. BELL: They also agreed to the setting up of the committees in each Federal Reserve District with a state committee which would be responsible to the president of the Federal Reserve Bank in each case as chairman of the over-all committee.

- 2 -

MR. BURGESS: I think that is the most important thing of all, to get the thing set up.

H.M.JR: The president of the bank will be chairman of the committee. Each state will have a chairman and then Sproul said he thought that it shouldn't only be security dealers on this over-all committee, there also should be representatives of the banks and insurance companies, so I said I didn't care how much window dressing he put on that committee just as long as they wouldn't hobble these security salesmen, I mean give them a chance to go to work. So he was agreeable that the security salesmen should have their own state chairmen.

MR. HARRISON: That is an excellent solution of what might have been a difficult problem.

H.M.JR: Stewart and Bell and I went out in the corner there in the other room and stood there and talked, and I don't know where the idea came from, but it was the three of us anyway.

MR. STEWART: It came from you.

H.M.JR: I don't know where it came from. The security dealers are here and you never saw a more enthusiastic bunch. I guess Sproul can pretty well talk for the presidents of the banks, and he is satisfied. Then Harold Graves, who has responsibility for my War Bonds, he has been in conference with them. I haven't heard the results, but he was worried. I don't know what happened on that F and G. He doesn't want these two organizations to get mixed up, so they meet this morning and they have drawn a line. I don't know just what the lines are. Would you care to know?

MR. HARRISON: I think it would be important to know whether the F and G goes to the new setup or stays in the Defense Savings Staff.

H.M.JR: We will have Graves come in and explain it.

MR. BELL: It might be worked out on a liaison basis.

H.M.JR: He is counting on the F and G's in his quota,

- 3 -

you see, a billion dollars in July. He is counting on them.

MR. BURGESS: I think that is all right to count them in his quota, but he can't sell them. He hasn't got the machinery to sell them, and this other outfit can.

MR. HARRISON: That is one reason I opposed the Eccles five-year tap, redeemable issue, to the extent that it was successful it might be competitive with the G Bond and would not go into the quota on the Savings Bonds.

H.M.JR: Well, I don't know, Graves met with them this morning, and they came to some kind of an agreement.

MR. BURGESS: I think that is a great forward step to get these organizations under way.

(Mr. Graves entered the conference.)

H.M.JR: Graves, do you know these people? You know B. M. Edward. Now, Harold, sit down. These gentlemen came down to informally advise me. They asked me a question which I couldn't answer. What happened in this meeting this morning that you had with the security dealers on the F and G? Can you tell them and me what was the result of your meeting?

MR. GRAVES: Well, Mr. Sproul and Mr. Eccles did not come in to that meeting, but it was the consensus of the others that there should be a - in the first place, that the primary responsibility for the sale of all Defense Bonds should be left with our state organizations. That goes for the F and G as well as the E, for the reason that the quotas which have now been made public include the F and G prospective sales as well as the E sales, but that we ought to welcome any help that can be given our state organizations in the promotion of the sale of F and G Bonds as well as the E, and that there is nothing in this proposed new arrangement that in any way will interfere with the War Bond program as it has been projected. That was the consensus of opinion of that group.

- 4 -

H.M.JR: Will I get the benefit of these salesmen on the F and G?

MR. GRAVES: Oh, yes.

H.M.JR: I will?

MR. GRAVES: Yes indeed, you will.

H.M.JR: I will get the benefit?

MR. GRAVES: That is right. We want all the help that we can get. It is simply a matter of where - we wanted to avoid, and they agree we should avoid, having a separate organization as such that would be given the responsibility for promoting the sale of F and G Bonds.

MR. BURGESS: I don't quite understand it.

Now, this organization of security dealers, from what office will they operate?

MR. GRAVES: They have been operating, many hundreds of them have been operating so far with the War Savings organization.

MR. BURGESS: On the pay-roll deduction?

MR. GRAVES: On the pay-roll deduction, on the sale of E Bonds, on the sale of F and G Bonds, on the whole program. I would hope that they would continue the effort that they have been making in the past on that program. The more, the better. There is no reason for us to be particular about the details of any setup or arrangement. We wouldn't be particular. I think that if there are to be additional committees appointed - there is no reason why they shouldn't be appointed so long as the impression is not given out that the responsibility for the sale of F and G Bonds has been taken away from the War Savings organization.

MR. BURGESS: Has your sale of F and G's been organized in each--

- 5 -

MR. GRAVES: It is now being organized, Mr. Burgess.

MR. BURGESS: I know about New York because that is in my committee.

MR. GRAVES: You see, we have now announced quotas for all the states and for all the counties in each state. Those quotas include prospective sales of all three issues, and obviously our people are going to organize to sell F and G Bonds, a thing which they have not been specially promoting in the past, but since they are charged now with quotas that include F and G Bonds, there is just no escape from it. They are bound to go to work on F and G sales, and in many of our states they have set up special organizations to do that, to work specially on F and G Bonds.

MR. BROWN: But the people that have been working on the sale of E Bonds in your organization up to date have been largely insurance listers and volunteers and so forth. They have not been the security salesmen who know from experience who has got an income of ten or twelve thousand dollars a year, whose securities are perhaps worth two or three hundred in principal with opportunities for re-investment. I think the people who are now working for you, your present personnel, in my opinion, can't effectively reach and talk to the people who will buy F and G Bonds. I think it is the security salesmen primarily and the banks in so far as they have been security salesmen, but most of the banks have no outside solicitors or bond salesmen and haven't had since '35. I think those are the people who have got to go out and ring doorbells and call on people, and they have got to be people who know their customers and who have their confidence, maybe have sold them other securities before, and I think it would be unfortunate if these securities salesmen reported to the present state defense organizations which are primarily selling E Bonds rather than to some chairman who would represent the Security Dealers Association from the Security Dealers Bankers group.

MR. GRAVES: Well, there is no conflict there, Mr. Brown, that I can see. As I said, I know of no reason why there shouldn't be some supplemental setup to specialize,

- 6 -

among other things, on F and G Bonds. All I am saying is that since the quotas that have now been charged against our state organizations include prospective sales of F and G Bonds, our people are organizing to sell F and G Bonds, and in some cases have gotten quite a way with an organization setup.

MR. BURGESS: They haven't in New York. In New York so far there are two men who have come in within the past week, and all they have done is sat at two desks and draw a little plan. Now, ninety-nine point ninety-nine percent of all the F and G Bonds so far have been sold by the banks.

MR. GRAVES: All the F and G Bonds have been sold by the banks, so far as I know.

MR. BURGESS: Pretty near a hundred, isn't it?

MR. GRAVES: Yes, that is right.

MR. BURGESS: Now, it is terribly important that in the new organization setup we get this thing tied up together so that you have got your banks and your security dealers working together. In New York, for example, your defense sales organization, of which, by the way, I am a county chairman--

MR. GRAVES: I know.

MR. BURGESS: ... is up at Rockefeller Center. All the banks have got their headquarters down town. The security dealers are all down town. I think as an operating proposition, if you are going to get this F and G Bond going, it has got to operate from 33 Liberty Street if it is going to do a job. Now, whether you call it an element in your organization or whether you call it a separate committee may not be material, but if you try to operate from Rockefeller Center, it is going to be a bust, and there will be a lot of trouble.

MR. GRAVES: I don't think we care, Mr. Burgess, where it is operated from. I think it ought to be operated from

- 7 -

the spot where it is best managed. All I am saying is that there ought to be some liaison between that organization and the other organization in New York.

H.M.JR: Harold, let me bust in on this thing. How are we going to work it out that the new sales organization can put time on the F and G's and still not come in conflict with the War Savings Committee?

MR. GRAVES: I don't think there will be the slightest difficulty in working that out. I am sure Mr. Burgess will agree with me that if this thing were talked over in New York with Colonel Patterson, he would be the first one to say, "Bless your hearts, go ahead and set up an organization and go to work on F and G Bonds," and that, I am sure, will be true of everybody.

MR. BURGESS: I think if your Rockefeller Center organization does its full job on the E, that is the way to do it up there, is to center E from the Rockefeller Center office and to center F and G from 33 Liberty Street and have the main organization around the Federal Reserve.

Now, you can call that Federal Reserve Committee on Open Market Issues and the Subcommittee on F and G's of the Defense Savings Staff.

MR. GRAVES: Something like that that I have in mind, that there would be a tie-up between the War Savings organization and any new--

MR. BURGESS: Well, in actual operation, in actual details of operation, the F's and G's ought to center in the Federal Bank in each District, I would think.

MR. GRAVES: I would agree with that.

MR. BELL: All you need, Harold, is somebody from Patterson's committee to sit in on the committee down at 33 Liberty Street.

MR. BURGESS: I think, for example, Richard Kimball

- 8 -

and his associates, who have just started, ought to move down to Liberty Street because that is the place to put the F and G's as far as operating is concerned.

Now, Neville Ford ought to sit in constantly on the thing.

MR. HARRISON: The F and G's are entirely a different kind of problem than the E's, and they fit much more into this new sales organization than they would into the old Defense Bond organization as it has existed up until now.

MR. GRAVES: That is true certainly in places like New York and Chicago and so on. It is not necessarily true when you talk about South Carolina or Alabama or Mississippi.

MR. HARRISON: And there would be no difficulty about giving full credit for any F and G's sold by the new organization.

MR. GRAVES: Not at all. The sales go - I mean, the statistical thing is broken down according to the domicile of the purchaser, as I understand, and that would automatically be credited to the quota of the state where the purchaser resided.

MR. SMITH: Have you thought any of increasing the amount, Henry, the authorized amount of--

H.M.JR: Well, that thing is tied up with this question of the so-called tap issue, which is no longer a tap issue.

MR. BELL: It is tied up with the short tap issue, which has been postponed.

H.M.JR: Yes. But the whole thing - I mean, we have considered it, but until we - I mean, we don't want to increase the amount of that issue two and a half percent if we are going to try to sell a twenty twenty-five year two and a half percent. I mean, we think about it all the time, but we postpone doing anything about it just so we won't be cutting our own throats.

- 9 -

MR. SMITH: I see

H.M.JR: We wouldn't be cutting our own throats.

MR. SMITH: We find a lot of funds - now, the University of Missouri has two hundred fifty thousand dollars. They can only buy fifty thousand G's. Of course they can buy this new twenty twenty-five bond.

H.M.JR: That is the answer, Tom. You and all the labor unions have been riding me and riding the President because I won't increase this fifty thousand dollar limit. The AF of L wants to put five million dollars into it. Well, they could buy this new twenty twenty-five year bond.

MR. BURGESS: That is right.

MR. SMITH: Yes.

H.M.JR: There is that bond, so I think we have been sensible in holding off, but there never has been a drive made to reach everybody who has fifty thousand.

MR. BURGESS: That is right.

H.M.JR: What?

MR. BURGESS: That is right.

H.M.JR: And I think this, Harold, that these boys will be very busy next week, these security dealers, for us, very busy. Just as soon as they get through that week, I think that you ought to work out a pattern.

MR. GRAVES: Yes, I think we should.

H.M.JR: Next week they will be very busy, but right after that they will have nothing to do then for three or four weeks, and you ought to be able to - as I say, they will be working one week out of four for us on Mr. Bell's issue. Then they have got three weeks with nothing to do, and you ought to put them to work on the F and G's.

- 10 -

MR. GRAVES: We would like to very much, and I don't anticipate any trouble on the organizational matters. That can readily be worked out.

H.M.JR: Between you and George Buffington you ought to be able to keep it straight.

MR. BURGESS: I think it is enormously important that these security dealer fellows coordinate with the banks on this thing.

H.M.JR: Well, the banks are going to be on the committee of the presidents of the Federal Reserve.

MR. BURGESS: That is all right, as long as they operate from that as headquarters.

H.M.JR: They will and so will the insurance companies, and Sproul is entirely satisfied.

MR. BURGESS: Fine.

MR. EDWARD: Harold, if I may say something here about your organization, I see your situation, I think. You have these state organizations around the state, the administrators and the state chairmen and so forth and county committees, and they have worked hard. Now, I can see your position. You don't want a new organization set up to come in and tumble that down and get all that pleasant - all this pleasant relationship you have broken down. Now, what you want to do, and I think it will work all right, if we only understand it, you don't want your present state administrators disturbed, and you don't want your present state chairmen disturbed. This new committee that we want to set up, you are perfectly willing to have them set it up and name a state chairman of that division, but you want it made a part of your state organization.

MR. GRAVES: That is right. I think that was Mr. Burgess' suggestion, too.

MR. BURGESS: When you are setting it up, say coordinate it with the state savings banks.

- 11 -

MR. EDWARD: You want it to be a part of your present state organization.

MR. GRAVES: You see, take South Carolina, Mr. Edward's state. If there are to be sales of F and G Bonds in that state, I would suppose, B. M., that it has got to be done by these county committees of ours pretty much.

MR. EDWARD: Yes, because there are very few security dealers in the state.

H.M.JR: It is a big country.

MR. HARRISON: That is the answer.

MR. GRAVES: And if the thing is to be promoted in South Carolina, it has got to be done by the only organization they have ever had, the present war savings organization. That is why I said that in cities like New York and Chicago and so on, you might have something in the nature of a distinct organization that would be tied in with the war bond organization, but when you get into the rural sections of Indiana, for example, if there are to be any promotions of F and G Bond sales, our people have got to do it, and they intend to do it, and I would hate to see anything done that would appear to be relieving them of the responsibility for doing it.

H.M.JR: George, before we let this other thing jell, have you or Henry Murphy got any doubts about this program? I am not talking about Graves' program.

MR. HAAS: The financing, the main financing?

H.M.JR: Yes. Thank you, Harold.

(Mr. Graves left the conference.)

MR. HAAS: May financing?

H.M.JR: Yes.

MR. HAAS: I have just one suggestion which I talked

- 12 -

over with Dan this morning. On the question of the subscription rules, we think it would be more realistic if the banks were allowed to buy ten percent of their assets rather than relating it to net worth.

H.M.JR: Well, I thought--

MR. HAAS: It makes it all uniform all the way through.

H.M.JR: I thought someone wanted to take the rules off.

MR. BURGESS: What do you mean?

MR. HAAS: The banks now have fifty percent of their net worth, their capital surplus, for the two's, and change that to ten percent of their assets and that makes it uniform with the corporations and others.

MR. EDWARD: You mean ten percent of their total resources?

MR. HAAS: Yes.

MR. BROWN: That would be more than doubling the banks' subscriptions.

MR. HAAS: That is right.

MR. MURPHY: It would be distributed very differently.

MR. HAAS: It is a tailor-made security for banks, and I see no reason why that shouldn't be done.

H.M.JR: Well, Bell, you work that out.

MR. BELL: All right.

H.M.JR: I mean--

MR. SMITH: Isn't that going to increase your subscription?

MR. BELL: It could. The banks will be doubled on

- 13 -

that basis.

MR. HAAS: As it is now, Tom, the commercial banks is only about two billion and a half.

MR. SMITH: That is half of the capital surplus?

MR. HAAS: That is right.

MR. BELL: We had several recommendations in the last issue, that the banks be permitted to subscribe one hundred percent.

MR. SPENCER: This is a hundred percent of any bank that has got a ten to one ratio.

MR. MURPHY: Mutuals and insurance companies are now permitted to subscribe to ten percent of total assets and this would put commercial banks on the same basis. Since they are expected to be the principal subscribers for the issue, it seems they should be treated equally well and relating it to total assets relates it to what they really have to subscribe from. They are buying out of total assets, not out of capital surplus.

MR. BURGESS: It also reduces your market support.

MR. HAAS: They get it finally, it comes around.

MR. BURGESS: Well, you want to leave them a little hungry. That needs a lot of thinking about, I think.

MR. BELL: This group recommended that the rules be suspended.

MR. BURGESS: No, we didn't. The other fellows did that.

MR. BELL: Oh, excuse me, that is right. (Laughter)

MR. SMITH: We didn't think they should be suspended. We thought you should leave the rules as they were.

- 14 -

MR. BELL: Yes, that is right. I got you mixed up with Eccles.

MR. SMITH: We accept your apology.

MR. BURGESS: Thankyou for telling us.

MR. HARRISON: Then, as I see it, an insurance company could buy all that it wants of the two and a half provided he gets in before the issue is closed?

MR. BELL: Yes.

MR. HARRISON: And ten percent of its assets in the two's if we wanted to?

MR. BELL: Yes, that is right.

MR. HARRISON: Don't worry.

MR. BURGESS: Is that enough for you, George?

MR. HARRISON: Don't worry.

MR. BELL: You would have to borrow money, wouldn't you?

MR. HARRISON: Yes.

MR. EDWARD: You could increase the amount you were going to sell.

MR. HARRISON: I want you to know that I suspect that sometime before we get through this program, though, that some of us, even insurance companies, will be borrowing money to buy what we want, and I have served notice with Sproul when the time comes that he wants the ice broken that we will be willing to do just that.

MR. BELL: That is very nice.

H.M.JR: That is good. If the war lasts long enough, you will do it.

- 15 -

George, any other questions?

MR. HAAS: No, that is the only thing.

H.M.JR: Henry?

MR. MURPHY: That is all.

H.M.JR: I think we are pretty well together, then. Anybody want to raise something now on this financing? You see, I sort of felt badly asking you in. I didn't know. But the fact that Eccles and Sproul dropped the five-year thing this morning left nothing much. I put it this way. They are going to word their statement - that three-eighths thing. How are they going to word it?

MR. BELL: They are going to make it a firm offer to buy at three-eighths.

H.M.JR: I said I didn't want any offer good until canceled, I wanted a firm bid, and they said they would make it firm.

MR. HARRISON: That doesn't mean that you and they can't agree to change it sometime.

H.M.JR: Oh, yes.

MR. BELL: Well.....

H.M.JR: You put it right. But you know, if you are going to say, I am going to buy, you don't want any if's, and's, and whereas's.

Mr. Brown, have you got any suggestions?

MR. BROWN: I think it might be of some use in connection with these securities - I don't think it is important as regards May, but as regards June, particularly in the case of New York, to allow banks to have war loan accounts or even more than the present hundred and fifty percent. I don't mean necessarily in this May issue, but I think it would be desirable to think of raising that amount to two hundred percent in view of the large size of the issues that

- 16 -

are coming along.

MR. BELL: What we did have in mind, Mr. Brown, was telling you, probably next Monday or whenever we announced the issue, about how much you could expect to be drawn out of your war loan account before the payment date.

MR. BURGESS: Very good.

MR. BELL: So that you could judge.....

H.M.JR: Got anything else?

MR. BROWN: No.

H.M.JR: B. M.?

MR. EDWARD: Yes, sir.

H.M.JR: Anything you want to spill?

MR. EDWARD: I think everything is all right just at the moment.

H.M.JR: Any suggestions, Walter?

MR. EDWARD: I think you have done a fine job.

H.M.JR: Well, it isn't me, it is everybody working together.

Walter Stewart?

MR. STEWART: Nothing to add. It satisfies me all right.

H.M.JR: Are you satisfied, Tom Smith?

MR. SMITH: I am very well satisfied.

H.M.JR: Are you all right?

MR. SMITH: Except there is just one thing I would like

- 17 -

to say. I think you are aware that the banks are giving you a hundred percent support all over the country.

H.M.JR: Oh, yes.

MR. SMITH: There were some things said yesterday in our meeting in the afternoon--

H.M.JR: By me?

MR. SMITH: No, by the other fellows, that rather indicated they weren't satisfied with it.

H.M.JR: Not only do I know it, but I tell everybody so publicly. I know.

MR. SMITH: They are really very enthusiastic, and Mr. Spencer and Dr. Burgess and I came from two conventions in the last two weeks, and they are all in it a hundred percent.

H.M.JR: I am very appreciative of not only their attitude but what they are doing. I am trying to meet them half way. Anything else, Tom?

MR. SMITH: No.

H.M.JR: Randolph?

MR. BURGESS: I think it is a good program. It satisfies me.

MR. HARRISON: I think it is a fine program, and I am perfectly satisfied for May. I think that looking ahead to next month, and next month rolls around pretty quickly, you may have to consider the question of excess reserves, and I don't think it is too early to start thinking about that or to have somebody really working on it. There are so many different ways in which you can accomplish it that the better focused opinion you can get on it now before the last minute, the better. The war loan account is fine for a while, and it will be up high as soon as the May issue is over, but at the rate of Treasury expenditures, it will

- 18 -

go down and it will probably be at its lowest ebb just as you want to float a new issue. Whether we can tell in the next four weeks whether anything must be done about New York or the reserve cities generally, I don't know, but I think it still warrants real consideration, especially in view of the fact that we are doing the financing through market issues rather than through these other so-called frozen redeemable issues.

MR. SPENCER: I think it is a very good program.

H.M.JR: You are satisfied?

MR. SPENCER: I am satisfied.

H.M.JR: Dan, have you anything else?

MR. BELL: I just wondered if this group might like to take a few minutes to look over this proposed statement that you would issue tomorrow morning.

H.M.JR: Where is it?

MR. BELL: I dictated one that is very rough. It is in my office.

H.M.JR: Could they go into your room and look at it?

MR. BELL: Yes. The other things is, I let the Treasury bills go for next week. I thought on that first bill issue you would have at two fifty it would be the thirteen instead of the six.

MR. BURGESS: I think that is a very good idea.

H.M.JR: I want to thank you all and I hope you found it sufficiently worth while and that you will come down again next month.

MR. HARRISON: Very glad to.

MR. BURGESS: We will be glad to come any time you want us.

- 19 -

H.M.JR: It is very helpful to me. I hope you will come down again.

MR. SPENCER: All you have got to do is send us word and we will be here.

H.M.JR: All right.

April 30, 1942  
3:00 p.m.

## FINANCING:

Present: Mr. Buffington ✓  
Mr. Haas ✓  
Mr. Murphy ✓  
Mr. Baker ✓  
Mr. Bell ✓  
Mr. Sproul ✓  
Mr. Eccles ✓  
Mr. Szymczak ✓  
Mr. Williams ✓

H.M.JR: Is that your release?

MR. BELL: Yes, a rough draft of it.

H.M.JR: Let's settle this amongst ourselves if we can before Eccles comes, whether we are going to have a governing basis of subscription.

MR. BELL: Well, we settled it inside as far as that other group is concerned. They don't think that you ought to take it off, and they didn't think that you - it would be a nice thing if you could announce that there was no change in it. Now, Eccles just called me a few moments ago, and he said they felt rather strongly over there that something ought to be done to up the basis for the bank subscriptions, because he didn't think you were going to get a lot of subscriptions. After all, they are limited to two and a half or three billion dollars, something like that in capital surplus, and that would be the limit. That is half.

MR. HAAS: It is half.

MR. MURPHY: Our proposed basis would be about seven and a half for commercial banks.

H.M.JR: What is your proposed basis?

MR. MURPHY: Ten percent of total assets.

- 2 -

MR. BELL: Some of them were very much against that, particularly Brown of Chicago. He said he just thought that would be terrible, but I don't think he would object so much if you went to a hundred percent.

H.M.JR: A hundred percent of what?

MR. BELL: Of capital surplus, which would give you a basis of about five billion for the banks. Of course, there are going to be others come in on this than banks.

H.M.JR: But I agree with - how much is this limited to now?

MR. HAAS: Two and a half.

MURPHY: Two and a half for commercial banks.

MR. HAAS: I think that is what I would do. We did it this other way.

H.M.JR: Which way?

MR. HAAS: I mean, suggested this way, because that would make it so that the insurance companies would have it on that basis.

H.M.JR: Are they that way now?

MR. HAAS: Insurance companies and mutual banks.

H.M.JR: Why not make it straight across the board?

MR. HAAS: And it didn't look like an upping, it looked like a change.

MR. BELL: Well, it is quite an upping all right. It is really three times.

MR. HAAS: Yes.

MR. BELL: And that is what they objected to, the bankers.

- 3 -

H.M.JR: But how about Eccles?

MR. BELL: I expect Eccles would rather leave it off altogether.

H.M.JR: What would happen then?

MR. BELL: Well, the other group was afraid that you would just get a tremendous number of over-subscriptions, and you probably would have free riding and everything else.

MR. HAAS: And they thought that the smart bankers, Mr. Secretary, could size the situation up and know how to bid, where the little fellow would do as he did before. He would get a very small allotment.

MR. MURPHY: I think perhaps there are two views. Piser just told me over the phone that the issue that he is recommending has an estimated premium of eight to twelve thirty-seconds. In other words, they want to cut it so thin that they - there will be no problem.

MR. BELL: But they won't be over-subscribed very much.

MR. MURPHY: Maybe they will have to come in on the rate.

MR. HAAS: Randolph Burgess said he was afraid there wouldn't be any buying power for an after market effect. I mean, that was his thought.

MR. BELL: Yes. He thinks you ought to keep them a little hungry.

H.M.JR: Well boys, make up your mind in here anyway. What do you want, Dan?

MR. BELL: I don't know as it makes a lot of difference.

H.M.JR: What would you do if you had to do it alone?

- 4 -

MR. BELL: Well, this morning I was inclined to leave it alone, but I think maybe the hundred percent would be all right.

H.M.JR: A hundred percent? What does that mean?

MR. BELL: Just twice what they can do now, about five billion. If you go to ten percent, which is about three times, it might look funny.

H.M.JR: Henry?

MR. MURPHY: I would go on an asset basis, because it is based on assets, and not on capital. There is no logical relationship between the capital surplus of the bank and its ability to buy bonds.

(Mr. Sproul, Mr. Eccles, Mr. Szymczak, and Mr. Williams entered the conference.)

MR. ECCLES: Sorry to be late, but you just give us a schedule here that--

H.M.JR: The only thing you gain, if we settle it today then you won't have to be worrying about it Monday and Tuesday.

MR. ECCLES: Well, that is a consolation.

H.M.JR: You won't have to worry Monday or Tuesday. That is the only thing. I haven't done any mail practically all week.

MR. ECCLES: I certainly haven't done much. We still have a couple of people coming in another car. John McKee and Piser were coming, and we didn't wait for them.

MR. BELL: I sent Marriner a copy of this proposed release, Mr. Secretary, just before lunch.

(Mr. McKee entered the conference.)

H.M.JR: You haven't lost a thing. Come up here. I can't see you.

- 5 -

MR. ECCLES: Did Piser come over?

MR. McKEE: Was he to come with me?

MR. ECCLES: Yes, we thought so. I guess he got left. (Laughter)

MR. BELL: I guess he is walking.

H.M.JR: We were having quite a little argument amongst ourselves, and you might as well get in on it. That is on number one, what to do about the rules affecting the basis of this subscription.

MR. SZYMCAK: Drop them.

H.M.JR: Entirely?

MR. ECCLES: We feel pretty strongly about that. I talked to the Reserve Banks today. I talked to Young in Chicago, and I talked to Levy, and I talked to the man in Dallas on this with reference to our rate, and also with reference to the program, and told them why I was calling them, because we didn't have time to have a meeting. They all liked this program very much, and I said with reference to the rules - they were all of the opinion that the rules should be dropped, because this was a complete change, that you are putting out here a long bond that you want the insurance companies and other investors to come on, and you are putting another bond here that is more or less directed to the banks primarily. Therefore, why restrict the banks, why say to them, "Now, we want you to come in and take this bond and such others that want to," and then to say, "but you can only take so much of it." We don't restrict the insurance companies in the twenty twenty-five year. We simply say, "Here is an issue for you and your savings banks, and take all you want to take. It is open to you. We don't give you any rules governing your subscription, and we feel that the time for putting rules is gone, because this program is a very different program." We were very unanimous on that whole thing.

- 6 -

MR. BELL: That was to eliminate them altogether?

MR. ECCLES: Except give a minimum. I would say ten thousand dollars to fill every subscription fully up to - the allotment up to say ten thousand; but so far as saying you can only subscribe for half your capital surplus when we want to get all the money we are going to want to get, it just seems to be a big mistake.

H.M.JR: Well, just to argue, of course you would have rules on one and have no rules on two.

MR. SZYMCAK: Oh yes, you could.

MR. BELL: Well, there are no rules on two.

MR. ECCLES: There are none on two now. That is what we say, that we tell the insurance companies, "You can take all you want," and we tell the other subscribers, "Here is a security designed for you, but you can't take what you want."

H.M.JR: Do you want the banks to have all they want?

MR. ECCLES: Not necessarily. The thing will be open to everybody; but when you put number two out, your mutual savings banks and your trustees and your insurance companies are going to take the two and a half. That is what they want.

H.M.JR: We are with you on that. No rules on two, what? Is that right?

MR. BELL: Yes.

MR. ECCLES: But that keeps them out of one so that the limits - it reduces the number of your subscribers in one, and when you then reduce the number of your subscribers, why likewise reduce what they can take? You want to get this fully subscribed and over-subscribed; and when you put a rule in restricting what they can take, you take a chance on getting it fully subscribed, you see.

- 7 -

H.M.JR: Are you afraid they won't take it?

MR. ECCLES: Of course, they will take it, but I think they would subscribe for more if you didn't limit it.

H.M.JR: You can only sell a billion and a quarter.

MR. ECCLES: But what I mean is that they would put their subscription in for more than half their capital surplus. You might get a subscription of three or four or five billion if you take the limit off as to what they can subscribe to.

MR. SPROUL: My approach to this, Mr. Secretary, is that we are entering a period now, and the purpose of the rules has disappeared. They were to prevent padding of subscriptions, free riding, too small allotments, and so forth. That purpose has disappeared; and now is the time to take them off when it has disappeared, rather than wait until some time when the question of selling the issue is a little more doubtful than it is now. It is not doubtful at all now.

MR. BELL: Do you think it is a sign of weakness to change the rules here so that the banks can subscribe for any amount, three or four times what they want?

MR. ECCLES: I think it would be a sign of weakness if you took it off later.

MR. SPROUL: I don't think it is, and I think the banks so far as I have had contact with them would understand it and would feel as I do, what is the purpose of the rules any longer.

MR. McKEE: You will maintain the rule of ten thousand dollars?

MR. BELL: Oh, yes. And if you do that, shouldn't we say that in view of the fact that this issue will be primarily for banks that there is no reason for having those rules as a basis of subscription?

- 8 -

MR. WILLIAMS: A general change.

MR. BELL: Shouldn't you say something like that?

MR. SPROUL: I would just say nothing, that they were off. I think if you try to tell why they are off--

MR. McKEE: Don't you think the two different issues, separately as they are, as to the types of investors allowed to come in in the second one, warrants you doing something without saying anything about it?

MR. BELL: Well, you have got to say something about it one way or the other. You have got to say they are off, or you have got to say--

MR. ECCLES: You can simply say that.

MR. McKEE: I get you. You have got to make an announcement.

MR. BELL: Yes, you have got to say something about it. There have been two suggestions, and one is that you double it, make it a hundred percent of your capital surplus, and the other is make it ten percent of assets like we do for savings banks and insurance companies.

MR. McKEE: Then you are going to have to look at that again at some later date.

MR. ECCLES: If you take them off now, with issues every month, you don't want to restrict them. You want people to take what is offered. Why try to restrict them when you have got a job ahead of you? We are talking about putting salesmen out and trying to sell and get all the money in that we can, and then we come along here and say that we are going to limit you on these open market issues.

MR. BUFFINGTON: Dan, offering this new security is the best excuse in the world for doing it now, it seems to me.

- 9 -

MR. WILLIAMS: You have got a change here.

MR. BUFFINGTON: You have got a change in program.

MR. MCKEE: I don't know whose side of the argument I am on on this thing, but I am still always worried about secondary markets. Without rules, what will we produce for ourselves in the secondary market, Allan?

MR. BELL: This was one of the arguments that was presented this morning before leaving it as it is.

MR. ECCLES: I wouldn't worry a particle about it.

MR. SPROUL: I think the banks and others have had a little training now in the last two issues to know that the party is a different kind of a party. It isn't a big over-subscription, go to a big premium, buy it and sell it in the market, and we want to get them in the frame of mind now of buy and hold, not buy to sell at a profit in a couple of weeks, so that I think--

MR. MCKEE: You wouldn't anticipate an abnormal secondary market?

MR. SPROUL: No, I would not.

MR. BELL: We can discuss that afterward.

H.M.JR: I don't care. It kind of amuses me.

MR. BELL: Then we will fix it up amongst ourselves.

MR. ECCLES: Why?

H.M.JR: To see the Federal Reserve take the limit off. The sky is the limit.

MR. ECCLES: Well, you have got a whole different picture here.

H.M.JR: I could see it if you take the limit off if you were going to give them all they were going to subscribe to

- 10 -

but you can only sell a billion and a quarter, and then you take the limit off--

MR. ECCLES: Well, the subscription limit. We could still give them an allotment.

H.M.JR: I know. As I say, I don't care. If you fellows feel strongly on it, I don't; and if you feel strongly, I am willing to give in, what the hell. If I had an opinion, I would say so. That is fair, isn't it?

MR. ECCLES: That is fair.

MR. BELL: We will go into my office after this meeting.

H.M.JR: I can't get a sweat up over that.

MR. BELL: I suppose that word securities down there should be assets, shouldn't it? The only other thing remaining open, Mr. Secretary, is whether the subscription books should remain open for a number of days.

H.M.JR: I would say it will remain open.

MR. BELL: We had quite a bit of discussion about that in the other room this morning, and we had first several days, at least a week. We thought a number of days comes nearer to getting what we want, because the number of days may be three or ten.

H.M.JR: Why couldn't you say just that it will remain open--

MR. SZYMCAK: For a period longer than customary?

MR. ECCLES: Yes.

MR. BELL: For a period longer than customary?

- 11 -

MR. SZYMCZAK: Sure. That gives you one day, two days, three days, four.

MR. BELL: That is what we were trying to get at this morning. We don't know whether it will be three or whether it will be up to the fifteen or just what it will be.

MR. McKEE: On that last, number three there, I don't know when your release will be made, but Marriner, will we be embarrassed by the word announced in the second line from the bottom?

MR. ECCLES: We have got a change on that. I have got the insertion.

MR. BELL: We will be. (Laughter.)

MR. ECCLES: Don't you want to finish number two?

MR. BELL: Yes.

MR. SZYMCZAK: Have you got something else on number two?

MR. ECCLES: Yes. Did you decide on that?

MR. BELL: The Secretary said he would leave it to us.

MR. ECCLES: On number two?

H.M.JR: Yes.

MR. ECCLES: O.K. I am glad you went to two fifty on bills.

H.M.JR: Listen, fellow, it is the first time I have known it. (Laughter) I was just coming to that. What I want to know is, when did I get there?

MR. ECCLES: These fellows are doing to you what you have been doing to me. They have been rushing you so you couldn't keep up with them.

MR. MCKEE: My question isn't so embarrassing then, where is number four? (Laughter)

H.M.JR: Yes, where did we get this way?

MR. BELL: Wasn't that the program? I thought it was.

H.M.JR: If it was I had never heard it.

MR. BELL: Gee! I am sunk again.

H.M.JR: It is funny, when you do it in typewriting you begin to believe it.

MR. BELL: We need the money.

MR. ECCLES: Well, even those bankers, all except Burgess, agreed on this yesterday. I mean, Burgess was dragging his feet a little, but Brown and the rest--

MR. BELL: He came around later.

MR. ECCLES: So you have got almost a unanimity on that.

H.M.JR: Before I agree to this, what are you fellows going to say?

MR. ECCLES: Here is what we are going to say:

MR. BELL: That is the reason I wanted that word announced in there.

MR. ECCLES: "The Treasury Department is advised that the Federal Open Market Committee has directed the twelve Federal Reserve Banks to purchase for the System--

H.M.JR: Excuse me just a minute.

MR. ECCLES: I will start over. "The Treasury Department is advised that the Federal Open Market Committee has directed the twelve Federal Reserve Banks to purchase for the System Open Market Account all Treasury bills that may be offered to such banks on a discount basis at the rate of three-eighths percent per annum."

MR. BELL: It sounds pretty good. Why do you say the Treasury is advised?

MR. ECCLES: Well, it is your statement. I am saying that you - this is the insertion for yours.

MR. SZYMCAK: This has already passed the Open Market, you see. We have already called them.

MR. ECCLES: All we will say is that the Federal Open Market Committee announced, see, and then we will--

H.M.JR: You mean you want us to stick that in here?

MR. McKEE: For your last sentence on the bottom.

MR. SZYMCAK: In the number three.

MR. SPROUL: In other words, we want you to say we have announced what we have announced.

MR. ECCLES: We want you to say that the Treasury Department is advised, instead of saying in this connection the Open Market Committee, and so forth.

MR. BELL: Yes, I see. ~~\*\*\*\*~~

H.M.JR: Is this the corrected one?

MR. ECCLES: No, that is yours.

H.M.JR: You take this out--

MR. BELL: He would take our last sentence out. As a matter of fact, that is the way I had this draft at the first. We thought it would be better for you to announce it.

MR. WILLIAMS: Well, we will but this is your announcement also.

MR. SZYMCAK: When does this go out, today?

MR. BELL: For tomorrow morning's paper.

H.M.JR: No, no, no, no, let me get in on this, please. I would like to, if it is agreeable, announce it this afternoon for immediate release for this reason rather than for tomorrow morning's papers. Then if you say for immediate release, then these security dealers who are chafing at the bit will begin telephoning. Then nobody has a break.

MR. BELL: I think that is a good thing because they are going to have to discuss that thing tonight.

MR. McKEE: Then we have got to hit the press with an immediate release ourselves on this action of ours.

H.M.JR: That is right. Instead of saying for tomorrow morning, the only difference would be that I would say, "For immediate release." Then nobody gets a break. Is that all right, John?

MR. McKEE: Sure, if we do likewise.

MR. ECCLES: I assumed that was what you were going to do. You told Allan and I this morning that was what you were going to do so we assumed it would be this afternoon.

H.M.JR: For immediate release.

MR. ECCLES: That is right. Now, you have got to decide on this provision.

MR. BELL: Well, if we announced it today I assumed it would be for tomorrow morning, but this afternoon is much better.

H.M.JR: No, for immediate release. Am I at two-fifty?

MR. BELL: Yes.

H.M.JR: I am?

MR. BELL: Yes, very definitely. (Laughter)

MR. McKEE: You have to sign your name to it.

MR. ECCLES: You have got to give us something to operate with. Are you going to announce this three-eighths rate?

MR. BELL: Yes, I think they go together.

MR. ECCLES: You need that volume to operate with.

H.M.JR: Now, you two boys sitting there, are you all right on this two-fifty?

MR. HAAS: Absolutely, very strongly.

MR. MURPHY: Very strongly.

H.M.JR: I suppose you both hatched it, did you?

MR. SPROUL: They know we are going to have some of them.

H.M.JR: I was thinking of your interest, Allan, that is why I was so reluctant. O.K., I am for it.

MR. BELL: There is one suggestion that Bob Rouse made. He thought that we ought to put in the fact that these - under two they could be paid for through the War Loan Account. He thought it ought to be in this, and I am going to put that in.

MR. MURPHY: Does that include the bills or just the--

H.M.JR: No, we haven't announced the bills from week to week because we don't know our cash position.

MR. ECCLES: We have been thinking of calling in the bank presidents Monday morning and with reference to this organization matter that was discussed this morning, and Allan later discussed it with the security dealers, so as to get them advised and get the whole organization question set up here now. You see no objection to that?

H.M.JR: The only thing, I talked with Allan Sproul and Buffington and then with Bell over the phone and we thought - we all agreed, subject to your approval, that we would make this issue Monday morning.

MR. SPROUL: That sounds good.

MR. BUFFINGTON: This is all right.

MR. ECCLES: Oh, this issue is all right. I am talking about the decision--

H.M.JR: What are we going to do with - won't it hamper us, having all the bank presidents here in Washington instead of in their offices working? That is what I mean.

MR. BELL: You will have the operating people there.

MR. ECCLES: Yes, I think so.

MR. SPROUL: Two of them are going to be in Chicago Tuesday and it was a question of working them in.

MR. ECCLES: You see, most of them could be back Tuesday. They will come in here Monday and go out Monday afternoon. The two that are going to Chicago would leave here Monday afternoon for Chicago and they would be here Monday morning and get through during the day and most of them would be in their offices - the only ones that won't be there - Bill Day is going to be in Chicago Tuesday anyway and you see, Boston, Philadelphia, Richmond, Cleveland, they would all be back by Tuesday before your--

MR. BELL: Before the long issue is out, you mean.

MR. ECCLES: They will be out Tuesday. What you are going to do here is - yes, the long issue will be - it will take it a day or two won't it, to get under way, don't you think?

MR. BELL: I should hope it would be open at least a week.

MR. BUFFINGTON: I should hope so too.

H.M.JR: Just let me get this straight so there is no mix up. As I understood from Allan Sproul, he thought he would let these dealers more or less go their own way on this issue.

MR. SPROUL: That is right.

H.M.JR: And then get organized properly for the next one.

MR. SPROUL: That is right.

H.M.JR: Well, I don't know, do you think it is good to have all of the bank presidents here on a day when we have a financing?

MR. ECCLES: Well, we could have them here a little later than that. What do you think about it, Allan?

MR. SPROUL: As far as the question of organization

for Government security selling is concerned, we can have them here later. You also had the question of regulation "W" however.

MR. ECCLES: Well, that is right. We didn't want them to - regulation "W" has been practically approved. The only point was, before we released it, in as much as we thought they were coming in we thought we would hold it up until after Monday to release it, but I wouldn't have them come in for that alone.

H.M.JR: Well, this is wartime. If you have got to have them here, couldn't they be here Sunday and then go back and be on their jobs Monday morning? If they have to be here--

MR. ECCLES: They can't get here.

H.M.JR: Why not? Today is only Thursday. I mean, if they have to. I would feel more comfortable if they were - as you say, "window dressing," I don't consider them window dressing. I would like to have them on the job Monday.

MR. SPROUL: Well, from the standpoint of organization, you agree, (Buffington) do you not, that this issue isn't involved in the organization program so we don't need to have them here until a week from Monday as far as the organization is concerned.

MR. BUFFINGTON: They would like it the sooner the better to get the organization going.

H.M.JR: A week from Monday would be ideal from our standpoint.

MR. BUFFINGTON: If it is all right with them.

MR. ECCLES: How do you feel about that, Al?

MR. WILLIAMS: It is all right.

MR. ECCLES: Let's let it go then, and on this regulation we possibly had better talk to them on the telephone.

MR. SZYMCAK: Oh, yes, we are sending it out to them.

MR. ECCLES: They will get copies of it anyway.

H.M.JR: I would feel better.

MR. WILLIAMS: Yes.

MR. ECCLES: We just didn't want to release it and let them read it in the paper.

MR. WILLIAMS: Questions may come up to the bank and they will be there to answer them.

H.M.JR: Questions will come to the bank and with all these fellows running all over town, "Where is the president of the bank? Who is chairman of this committee?" "He is in Washington." "Well, that is a hell of a chairman." I think it would make a bad impression.

MR. ECCLES: Of course we thought the committee wouldn't be set up yet, you see.

H.M.JR: Well, you weren't thinking of making any announcement on this, George?

MR. BUFFINGTON: No, I had no such thoughts.

H.M.JR: I didn't think we would make any announcement until we could really sort of describe the organization.

MR. ECCLES: I think it would be very inadvisable to make an announcement until we can get the presidents in here, because for them to read in the paper that they were head of a committee and it hadn't been discussed with them--

MR. BUFFINGTON: They are not going to make any announcement until they talk with you people. They will make an announcement on their interest--

MR. MCKEE: I think the Secretary is unduly disturbed

about Monday and being away from the banks, because the pressure for the presidents of the banks is going to be after you announce an organization, and until you have done that, then I think if they could get the picture and be back and be ready for you it would be helpful.

MR. BUFFINGTON: These security dealers are not planning on this first run to tie in particularly to the - that is, there is not going to be an announcement of the Federal Reserve president chairmen of these committees during this period so they thought the sooner they got down and got the lines of organization set up with the Federal Reserve the better it would be, and they rather planned on early next week if that were possible.

H.M.JR: Marriner, let's do this thing Monday and leave the presidents of the banks at their desks. Then Monday a week they could come here and work this thing out and the security dealers could be here.

MR. BUFFINGTON: Sure.

H.M.JR: If you wanted them.

MR. ECCLES: Well, I don't - I think that is all right if no announcement would be made here at all until after they had had a chance to get this thing set up. Now, what do you think about the security dealers' income then, Allan?

MR. SPROUL: Well, I think we want to discuss the final setup with them, and we might as well all be here at the same time. We can have a meeting and they could have a meeting and then we could get together with them.

MR. MCKEE: It seems to me the Secretary ought to have a meeting with both of you, jointly, if it is going to be his appointees here.

MR. ECCLES: Wouldn't this be the thing to do, to have either the Secretary meet both of them jointly first.

or let each of them meet and work out a program and present it to him, and then let him meet with them afterward.

H.M.JR: That is better.

MR. ECCLES: After the thing has been set up.

H.M.JR: I will hold myself in readiness.

MR. BUFFINGTON: Then that is definitely set for a week from Monday?

MR. ECCLES: I think that is a good time. To get the security dealers and our fellows and do all this Monday is just too much of a job to do, especially when two of them have got to be in Chicago Tuesday, so let's figure then a week from Monday, take Monday and Tuesday, or Wednesday, as long as necessary for these conferences, and get this thing set up.

H.M.JR: O.K. Now, gentlemen, what can I tell my press men? We will have this thing ready for the men when?

MR. BELL: When do you have it, four o'clock?

H.M.JR: No, it is half past three. Could I tell them five o'clock?

MR. BELL: I mean your press conference is four.

H.M.JR: I have no press conference.

MR. BELL: You mean just tell your own people?

H.M.JR: No, I mean I will have Chick Schwarz hand it out to the press.

MR. BELL: Well, I was going to have him down to work on this with us.

H.M.JR: That is all right. Then I told the boys this morning there might be something, that we would let them know if there was going to be something.

MR. BELL: How long are you going to be here?

H.M.JR: Long enough to take care of that.

MR. BELL: We want to get through and let you read it.

H.M.JR: Shall I tell Chick to tell the boys there will be something at five?

MR. BELL: We will be through by that time.

MR. ECCLES: As far as we are concerned, we are ready now with what we have.

MR. McKEE: We have got to get ours to the press now.

MR. ECCLES: We can do that immediately.

H.M.JR: Is five o'clock all right?

MR. McKEE: What about releasing them simultaneously at some one place?

MR. ECCLES: They will get out at practically the same time. We will make ours available at five and you are going to make yours available at five.

MR. BELL: I don't think it will take us very long when we get in my room.

April 30, 1942  
3:40 a.m.

## FINANCING

## Present:

Mr. Bryce  
Mr. Fleek  
Mr. Buffington  
Mr. Fulton  
Mr. Rich  
Mr. Burns

H.M.JR: Well, gentlemen, at five o'clock we will announce something for the press and I will tell it to you. You are on your honor between now and five. I am giving it out for immediate release. The program is this: We are going to offer, Monday, see, a billion and a quarter two percent bond. We don't know yet just where it will fall, somewhere around 7-9 years. You will have a copy of the press statement. And then a two and a half. I think what they are going to do is take all rules off the subscriptions, the sky being the limit. That is what the Fed wants, believe it or not. No rules. I think that is what they are going to do. Catch as catch can. And then a two and a half percent 20-25 year registered bond. We will keep selling until we think we have got enough, or at least until we are satisfied. There will be no limit. Then next week we will start offering two hundred fifty million dollars worth of bills and the Federal Reserve announces today that they will maintain a three-eighths rate until hell freezes over. I don't like to use the word posted, but that is what they are doing. So that is the program.

Now, of course, the job for the security dealers will be on the long bond. A billion and a quarter of two percent, we ought to be able to do that in a day.

MR. BRYCE: I should think so.

H.M.JR: I am a little bit more optimistic about it than some of the other people, as to what we will get.

MR. FLEEK: How long will the books be open on the 20-25 year bond?

H.M.JR: Well, that depends upon how much you sell.

MR. FLEEK: I see.

H.M.JR: In the announcement we are simply saying we are going to leave it open. That depends upon how much you sell. And then we will more or less let you run your own show this time, and then we are going to bring - they are going to ask you gentlemen and the presidents of the twelve banks to be here a week from Monday and sit down together and work out a program and then come in and see me.

MR. BRYCE: That is fine. That gives us time. In other words, in the announcement today, there will be nothing about anything like that.

H.M.JR: No, no.

MR. BRYCE: That is what we had to think about in the wire.

H.M.JR: No, they don't want anything because they said they don't want the twelve bank presidents to read in the paper that they are chairmen of unborn, unheard of organizations. I don't mean unheard of.

MR. FLEEK: It will be announced then tomorrow, the 20-25 year two and a half?

H.M.JR: It will be in the papers at five o'clock for release.

MR. FLEEK: That is what we have been trying to work out in this telegram.

H.M.JR: There will be a release that the Treasury will offer on Monday morning a billion and a quarter two percent bond, that they will offer a 20-25 year two and a half percent bond, and that beginning next week two hundred fifty million a week of bills will be offered, and that the Federal Reserve stands ready to buy all bills at three-eighths.

Now, that will be in tomorrow morning's papers, and then what I thought I would try to do is what I did last time, fix the number of years on the two percent Saturday morning and try to give it to you so you fellows can have it at ten or eleven o'clock Saturday morning. What?

MR. BUFFINGTON: Yes. It can go to the Feds and they can pick it up there.

H.M.JR: I will try to fix it sometime Saturday morning so you will have it.

MR. FULTON: On the two and a halves?

H.M.JR: No, the two's. You know the two and a halves now. You don't know whether it will be seven and a quarter years, or seven and a half years, or seven years, or 7-9. This announcement will be out and then the market will wait and the bonds may go up and down a little bit, and we will see what happens, and we will fix the price Saturday morning.

MR. FLEEK: Those two's will be bearer bonds, I take it.

H.M.JR: Regular.

MR. FLEEK: The two and a half will be the--

H.M.JR: Registered.

MR. RICH: Registered only?

H.M.JR: The two and a half percent registered bonds - it doesn't say anything about the two percent. I just take it they will be like all the other bonds.

MR. BUFFINGTON: That is right, the regular bonds.

H.M.JR: The two and a half, this bond will be non-transferable for the first sixty days and will not be available for commercial banks. That is the two and a half. In other words, until it becomes a fifteen year bond. You will have a direct copy of this at five o'clock. You may have it before then.

MR. BRYCE: So when the wire goes out tonight we can tell them definitely the terms of the long term thing, which is what you want this industry to concentrate on.

H.M.JR: Yes, and we are doing all of this in order to make it possible for you fellows to get busy. We have never done it before.

MR. BRYCE: We appreciate it very much. We have got the whole list all set to go as soon as we get that release.

H.M.JR: The Fed wanted it Wednesday and I said, "No, let's make it Monday," and they wanted their bank presidents to come in this Monday and I said, "No, let's make it Monday a week. Let's get this one over before we sit down and argue about an organization."

MR. FLEEK: Well, as you know, Mr. Secretary, we have this national organization set up and we have the names of a man or men in each state, ready to send out the additional wire and put them on notice. We will have to get the follow up material to them by mail or through the Federals. We are ready to go.

H.M.JR: Well, you two fellows (Bryce and Buffington) will have to service these people and see that they get the stuff.

MR. BUFFINGTON: We are going to work it this time so they can actually take orders and turn them into the Fed, because last time there was a lot of confusion where they would call up a man and ask him if he wanted to buy some bonds and he would say, "Yes," and they would say, "We can't take your order, go to your bank." And he would say, "What the hell did you call us up for?" So we want to work it out this time so they can actually do their job.

H.M.JR: Which man is from the Stock Exchange?  
You? (Burns)

MR. BURNS: Yes, sir.

MR. BRYCE: We were putting a lot of trimmings in this telegram they were getting up about the new era and so forth which will come later, and we thought we could make an announcement - but this is just going to be a business-like telegram giving the terms of this issue that has really been created for the use of the investment bankers. It is their type of issue. If we get on the telephone with these people and get under way, and fortunately we can give them the terms right now, but before we had to hold it until the last minute, and now you are set.

H.M.JR: The only thing you won't know is whether it is a seven or a seven and a quarter year bond.

MR. BRUCE: But on the long one they are all set to go as soon as you release it.

MR. FLEEK: I think our bailiwick, Mr. Secretary, is on the long term-two and a halves because the others will be taken care of.

MR. BUFFINGTON: And you can't actually take subscriptions on that.

MR. BURNS: That is right. The big job we can do on the two and a halves.

MR. BRYCE: We will get right at it as soon as you release this thing.

H.M.JR: Well, I am putting my money on you.

MR. BRYCE: We will not fail you.

MR. BURNS: We are going to do the best we can, I can assure you.

MR. BRYCE: We are all so happy at your attitude on this thing. It is wonderful. They will do a good job for you.

H.M.JR: Well, I just think that competition is the life of trade and this is such a big thing. We haven't got enough salesmen.

MR. FLEEK: When will we look at this, Mr. Secretary, as sort of a - to see what we can do on our initial assignment, you might say, on the long-terms because this is a long job, I take it? It will be a long war and we are in for the duration to do a job.

H.M.JR: Well, they were arguing with me this morning and I said, "Now, look here, gentlemen, this is the first organization that has come in and offered their services and want to do it. Now that they want to do it, somebody else says, 'Let's us do it.'" I said, "They are the first that came in here and said, 'We want to do it,' and I am going to stick by them."

MR. BRYCE: That is very much appreciated, I will tell you that.

MR. BURNS: Very much so. It is a correct statement, too.

H.M.JR: Nobody else came in and offered. And then after we get this thing over, when you come in next week, I think, is the time for you to sit down with Harold Graves and argue about who is going to push our F and G's.

MR. BUFFINGTON: Well, we pretty much talked that out this morning and we are all cleared.

H.M.JR: Well, who is going to sell those, because those have got to be sold too.

MR. BUFFINGTON: We are all going to sell them, and he is very much in sympathy with it. We had a session.

H.M.JR: Well, just to give you - I don't know whether you were here this morning, but Kandolph Burgess, chairman of New York county - I am just going to give you what he said. He said, "The man that handles the F and G shouldn't be up at Rockefeller Center in New York, he ought to be down in the Federal Reserve Bank in the financial center.

MR. BUFFINGTON: That is right.

MR. BRYCE: That is right.

MR. FULTON: We have always felt that.

MR. BRYCE: I think you ought to throw those F's out the window anyway.

H.M.JR: On the other hand, B.M.Edward, in South Carolina, said, "Well, if it wasn't for the banks, you have no salesmen in South Carolina." There are no salesmen there.

MR. BRYCE: Well, we know a couple there. There were a few down there on the certificate issue that weren't banks. Mr. Rush Dickson and the other fellow.

MR. FULTON: That is North Carolina.

MR. BRYCE: Yes, that is right, but we had some in South Carolina, too.

H.M.JR: The thing, gentlemen, the F and G's have not been sold and I doubt very much if he will raise the

limit on them now, because if we did it would kill the two and a half long.

MR. FLEEK: Mr. Secretary, I think some of them have been sold in the course of giving advice to the customers by investment houses. On the other hand, this financial committee, we had no push. We had been told to lay off them and push the E's.

H.M.JR: Well, we have still got to push the E's but I think when you come down a week from Monday - first get together with the twelve bank presidents, and then we will sit down - do that first and then sit down with the War Bond crowd. I mean, it wasn't settled to my satisfaction yet, but that can wait very well. No damage will be done. We are up to our necks on the pay-roll deduction plan.

MR. BUFFINGTON: There is no doubt but what these fellows can do more on it if it is desired to have them do it. There is no question about that.

MR. BURNS: Oh, yes, those are the ones we can do the best.

MR. BUFFINGTON: All we covered this morning is not to get any interference with Harold Graves' quotas, which he is depending upon.

H.M.JR: He will get the credit but I think if you will do this job for me this week, then you come back a week from Monday, I think the first thing is to get straight with the twelve Federal Reserve Bank presidents, and then after you get that then sit down with Graves and his crowd and decide how we can push the F and G's, and I am perfectly willing to listen to an argument about dropping that one.

MR. BRYCE: The F?

H.M.JR: Yes.

MR. BRYCE: We are selling five times as many G's.

MR. FLEEK: As far as that goes, if these new bonds have a definite maturity, it would be much better to sell them than the G's.

MR. BRYCE: People buy the E's. They can buy more E's.

H.M.JR: We sold thirty-six million this month and we have got one day to go. We have got a nice horse race. On the E Bonds we have got one day to go and we have been gaining every day about two percent. We are just one and four-tenths percent behind March. We may make it. We are only four million behind on the E's, April over March, so if we get a good day - we have been catching up every day.

MR. BRYCE: They are getting a lot of steam up on it, I will tell you that, these meetings they are getting all set. These boys are mixed up in a lot of meetings. There is a big thing on in New York, when is it, May 18?

H.M.JR: What is that, Stock exchange?

MR. BURNS: Yes.

MR. BRYCE: That is going on all around the country.

MR. BURNS: Oh, yes. They are having meetings in Cincinnati, Cleveland and Detroit this week.

MR. BRYCE: I think May ought to be a good month.

H.M.JR: I am ever so much obliged.

MR. BURNS: It certainly was a pleasure, Mr. Secretary.

H.M.JR: I hope you have a fine success.

Thank you.

April 30, 1942

Dear Sir:

I have your letter of April 29, 1942, accompanied by a certified copy of the order of the Federal Home Loan Bank Commissioner with respect to the call for redemption on July 1, 1942, of the 2-1/4 percent Series G bonds of 1942-44, of the Home Owners' Loan Corporation and the formal notice of call for redemption before maturity. The call for redemption of these bonds at this time has my approval and I am returning herewith the formal notice of call with my approval indicated thereon.

In accordance with your request, the Treasury will arrange for the publication and distribution of this notice through the facilities of the Federal Reserve Banks, and copies of the notice will be mailed by the Bureau of the Public Debt to registered holders of record. I note that the Corporation will file the notice with the Federal Register today.

Very truly yours,

(Signed) H. MORGENTHAU, JR.

Secretary of the Treasury.

Mr. Francis X. Pavesich,  
Financial Adviser,  
Home Owners' Loan Corporation,  
Washington, D. C.

Enclosure

ELK:arp

*n. m. c.*

## HOME OWNERS' LOAN CORPORATION

Washington, D.C.

## 2½ Percent Bonds, Series G 1942-44

## Notice of Call for Redemption Before Maturity

To Holders of Home Owners' Loan Corporation 2½  
percent bonds, Series G, and Others Concerned:

Public notice is hereby given that all outstanding Home Owners' Loan Corporation 2½ percent bonds, Series G 1942-44, dated July 1, 1935, are hereby called for redemption on July 1, 1942, and will cease to bear interest on that date. Full information regarding the presentation and surrender of the bonds for redemption under this call is given in Treasury Department Circular No. 666 governing payment or redemption of securities.

An offering of interest bearing obligations of the United States may be made available to holders of the bonds now called for redemption, concerning which public announcement will be made at a later date by the Secretary of the Treasury.

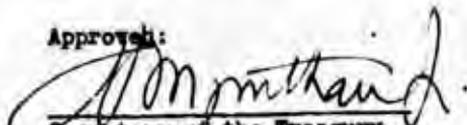
(Sec. 4(c) of the HOL Act of 1933, 48 Stat. 129, as amended by secs. 1(a), 2, 3, 4, 13 of the Act of April 27, 1934, 48 Stat. 643, 644, 645, 647, secs. 506(a), (b), 508(b) of the Act of June 27, 1934, 48 Stat. 1263, 1264, sec. 11 of the Act of May 28, 1935, 49 Stat. 296; 12 U.S.C. 1463; E.C. 9070, 7 F.R. 1529.)

  
Federal Home Loan Bank/Commissioner

Washington, D.C.

April 30, 1942

Approved:

  
Secretary of the Treasury

April 30, 1942  
4:00 p.m.

HMJr: Hello.

Operator: Mr. Philip Murray.

HMJr: Okay. Hello.

Philip  
Murray: Hello, Mr. Secretary. How are you?

HMJr: Fine, how are you?

M: Pretty good, pretty good. I was giving you a ring about a housing problem that the Congress of Industrial Organizations is confronted with over in the City of Washington.

HMJr: I see.

M: Some time ago we got arrangements perfected to get space in a new building that's being erected over on K Street.

HMJr: Yes.

M: Just close to the corner of Sixteenth and K - the Commonwealth Building.

HMJr: Yes.

M: And it seems that the owner of the building, together with the manager, were quite willing to give us the space.

HMJr: Yes.

M: But unfortunately the Reconstruction Finance Corporation didn't feel it could afford to give the space.

HMJr: Yeah.

M: The result being that we're out of luck.

HMJr: Where do they come in the picture?

M: I don't know how they get into it at all. I

- 2 -

don't have any idea. So we're housed in a dinky establishment over on Connecticut Avenue, that's altogether inadequate, see.

HMJr: Yeah.

M: We're over-crowded, and poor ventilation, and all of that stuff, see.

HMJr: Who has the details?

M: What?

HMJr: Who's got the details?

M: Jimmie Carey.

HMJr: Well, could he get them to me?

M: I certainly will get ahold of him and tell him to get them over to you this afternoon, Mr. Secretary.

HMJr: I don't know whether I can do anything, but I'm always willing.

M: Very fine, splendid.

HMJr: How are you?

M: Quite well, quite well, sir, thank you. You're well, are you?

HMJr: I called you up two different times and left my name - once with your secretary, and once with Mr. Carey's office when he was out, to get word to you.

M: Oh, for heaven's sake.

HMJr: And neither - twice.

M: I'll tell you what I done about that.

HMJr: And neither.....

M: Your man Houghteling came over to see me on

- 3 -

each occasion, see.

HMJr: No, this was something that.....

M: Oh, oh.

HMJr: This was something going back when they were talking about putting a ceiling on wages.....

M: Oh, I see.

HMJr: .....and I wanted to get the thing to you, and I left word that I had something for you.....

M: Uh huh.

HMJr: .....and I did it twice.

M: Oh, goodness gracious! That was mighty unfortunate, Mr. Secretary.

HMJr: And when I - who should I call up?

M: Well, I think Miss Daugherty is the one to talk to.

HMJr: Miss who?

M: Daugherty - D-a-u-g-h-e-r-t-y.

HMJr: All right.

M: Yeah.

HMJr: Because I had bad luck twice.

M: Well, goodness gracious. You know that I'd break my neck to get to a telephone to talk to you.....

HMJr: Well, I don't want you.....

M: .....in spite of where I'm at, you know.

HMJr: I don't want you to break your neck.

M: (Laughs) Well, of course.....

- 4 -

HMJr: It's too valuable.

M: I'm just explaining my desire to talk to you about anything.....

HMJr: Right.

M: .....at any time.

HMJr: Well, I just thought I'd tell you, because I knew there was.....

M: Well, that's very unfortunate, Mr. Secretary. I'm very sorry it happened.

HMJr: Well, Miss Daugherty.

M: Yeah. D-a-u-g-h-e-r-t-y. She'll take care of it.

HMJr: Fine.

M: That's right.

HMJr: And you tell Jim Carey to get that stuff to me.

M: I'll do that this afternoon, Mr. Secretary.

HMJr: I don't know if I'll have any luck with Jesse Jones.

M: Well, I don't know. I've had poor luck with him myself, you know.

HMJr: But nothing ventured, nothing gained.

M: (Laughs) All right. Very fine.

HMJr: Thank you.

M: Thank you, Mr. Secretary.

April 30, 1942  
4:07 p.m.

HMJr: George, that twenty, twenty-five years isn't going to be announced until Saturday.

George  
Buffington: Okay, sir.

HMJr: It's just going to be a two and a half year long bond, and a two per cent medium bond.

B: Yes, sir.

HMJr: But the number of years we're going to hold up until Saturday morning.

B: Okay, sir. I'll see that they get that information right away.

HMJr: Right.

B: Okay, sir.

April 30, 1942  
4:45 p.m.

HMJr: Hello.

Operator: Mr. Houghteling.

James L.  
Houghteling: Hello.

HMJr: Hello.

H: Hello.

HMJr: Lawrence Houghteling.

H: Yeah. Talking.

HMJr: Listen, you picked up something which I didn't touch; and now I've got it in my lap.

H: What's that?

HMJr: Well, when Carey talked about his space troubles the other day, I didn't pay any attention to them.

H: Yeah.

HMJr: You evidently did.

H: I already had. Mr. - it had been suggested to me that through Mr. Delano, my father-in-law, it might be possible to straighten out that situation; and so I talked to Mr. Delano and he talked to Harold Smith and Wayne Coy about it.

HMJr: Yeah.

H: Wayne Coy thought he had it all straightened out yesterday.

HMJr: Well, the reason I'm calling you is, Mr. Murray called me all the way from Pittsburgh on it, you see.

H: Yeah.

- 2 -

HMJr: And now Carey's trying to get me on the phone, and I've referred him to you.

H: Yeah, that's quite right.

HMJr: But frankly, I'm not very anxious to get in on it.

H: No, I think Wayne Coy can handle it. The situation was that Wayne Coy got the Space Control to surrender part of that space, which had been allotted to the RFC Mortgage Company, but Jesse Jones refused to give any of it up.

HMJr: Well, do you think you can handle it?

H: Yeah, I think I can handle it.

HMJr: Okay.

H: I'll let you - I'll try and keep you out of it, Mr. Secretary.

HMJr: Well, I told Carey to send me a note; but if he wasn't satisfied, to come over in the morning.

H: Yeah.

HMJr: If he does, I'll have you here at that time.

H: Yeah. They're awfully worried, because of this.....

HMJr: Well, it would be nice to do something for them, but.....

H: Yeah.

HMJr: .....it's kind of warm this afternoon, and I'm not looking for any new battles.

H: (Laughs) No, absolutely. I agree with you.

HMJr: Okay.

H: I'll try and see if I can't get it straightened

- 3 -

out through Wayne Coy. I've got a call in  
for him now.

HMJr: Thank you so much.

H: All right.

245

April 30, 1942.

Harold Graves and Ted Gamble  
Secretary Morgenthau

When are we going to make use of the U. S. Chamber  
of Commerce and the National Association of Manufacturers?  
I would like to have a report on that soon.

*Completed  
J.R.B.*

April 30, 1942.

Ted Gamble (Copy to Graves and Kuhn)

Secretary Morgenthau

I think I've got the answer on how to handle the English aviators and the other people. I would have them at night in the ball parks. If we have a plane, we could put it on exhibition right in the ball park, also any other military equipment.

If we are going to try my idea of using the ball parks, which I think is very good, then think of the owner of the St. Louis Ball Team, who has helped us so much, in connection with helping us again. I think the ball park is the answer. After you have talked it over, please talk to me about it.

*Finished - 6/1/42*

*5-12-42 -  
now in work  
MB*

TREASURY DEPARTMENT

247 ✓

INTER OFFICE COMMUNICATION

DATE Apr. 30, 1942

TO THE SECRETARY  
FROM TED R. GAMBLE

The matter of selecting a Chairman to head up our large public gathering activity was discussed at considerable length with Colonel Patterson. In closing this matter out with Colonel Patterson it was decided that three names would be submitted to you as follows:

Henry Luce  
John Golden  
Spyros Skouras

In Col. Paterson's opinion these three men are the best possible people that we could choose for this job. Spyros Skouras is, I think, by all odds the best of the three, for a number of reasons: he has direct lines to every part of the nation, and can command all kind of cooperation from the right people in every important city. Also, he can go behind the problems of the Victory Committee and support your selection of military people with a continual flow of stars of stage and screen.

Mr. Tom K. Smith is reporting to me tomorrow from St. Louis regarding the several points that we wanted cleared up concerning Mr. Skouras, and I will submit this whole matter to you at that time.

# War Activities Committee

## MOTION PICTURE INDUSTRY

1501 BROADWAY, NEW YORK

TELEPHONE: WISCONSIN 7-4633

Rec'd  
5-1

### COORDINATING COMMITTEE

MR. J. SCHLESWEL, Chairman  
FAMAM, Treasurer  
MR. S. HARMON, Co-ordinator  
MR. BERENSON, Chairman Theatres'  
Division, *ex officio*  
MR. FREEMAN, Chairman Hollywood  
Division, *ex officio*  
MR. GARRETT, Chairman Publicity and  
Printing Division, *ex officio*  
MR. HAYCKE, Chairman Newsreel  
Division, *ex officio*  
MR. QUINLEY, Chairman Trade Press  
Division, *ex officio*  
MR. A. SCULLY, Chairman Distributors'  
Division, *ex officio*  
MR. ZUKOR, Chairman Drives  
Division, *ex officio*  
MR. ARNOLD  
MR. BALABAN  
MR. H. HAZEN  
MR. L. KUYKENDALL  
MR. TITFEL  
MR. C. MICHEL  
MR. F. MYERS  
MR. H. POOLE  
MR. ROBBING  
MR. M. SCHENCK  
MR. VINCENT  
MR. WILBY  
MR. YAMON

April 30, 1942

Office of the  
Executive Vice-Chairman  
Francis S. Harmon

Arthur L. Mayer  
S. H. Fabian  
Donald E. Hyndman

Mr. Ted Gamble  
Treasury Department  
Washington, D. C.

Dear Ted:

For your information, I attach hereto copies of wires received relative to the audience reaction to Secretary Mortenthou's trailer. I anticipate a considerable number of additional reports which I will forward to you promptly upon their receipt.

Sincerely yours,

*Arthur L. Mayer*

AM:se

Enc.

April 30, 1942

My dear Miss Dietrich:

Mr. Morgenthau has asked me to thank you for your telegram of April 29th, and to say that he is terribly sorry he cannot see you as he is leaving directly after Cabinet Friday afternoon for his home in the country.

Sincerely yours,

(Signed) H. S. Klotz

H. S. Klotz,  
Private Secretary.

Miss Marlene Dietrich,  
Carlton Hotel,  
Washington, D.C.

*F. de M. C.*

251

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NSR NEWYORK NY APR 29 1942 535P

HENRY MORGENTHAU JR

K

MY TOUR THROUGH THE ARMY CAMPS WILL BRING ME TO WASHINGTON  
 FROM FRIDAY TILL SUNDAY STOP I KNOW IT MAY BE TOO MUCH  
 TO ASK YOU IF YOU COULD GIVEME A FEW MINUTES OF YOUR  
 TIME BUT I TRY ANYWAY STOP I WILL BE AT THE CARLTON  
 HOUSE FROM FRIDAY TILL SUNDAY BEFORE I LEAVE FOR THE  
 CAMP EACH AFTERNOON AND SHOULD THERE BE A MESSAGE FROM  
 YOU I WILL BE VERY HAPPY. MY KINDEST REGARDS AND THANKS  
 MARLENE DIETRICH.

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## UNITED STATES SAVINGS BONDS

Comparative Statement of Sales During  
 Last Twenty-four Business Days of April, March and February 1942  
 (April 2-29, March 4-31, February 1-28)  
 On Basis of Issue Price

(Amounts in thousands of dollars)

Item	Sales			Amount of Increase or Decrease (-)		Percentage of Increase or Decrease (-)	
	April	March	February	April over March	March over February	April over March	March over February
Series E - Post Offices	\$ 78,107	\$ 77,493	\$ 86,938	\$ 614	-\$ 9,445	0.8%	- 10.9%
Series E - Banks	<u>222,245</u>	<u>226,994</u>	<u>311,051</u>	- 4,749	- 84,057	- 2.1	- 27.0
Series E - Total	300,352	304,487	397,989	- 4,135	- 93,502	- 1.4	- 23.5
Series F - Banks	36,079	37,398	51,820	- 1,319	- 14,422	- 3.5	- 27.8
Series G - Banks	<u>147,326</u>	<u>161,718</u>	<u>253,391</u>	- 14,392	- 91,673	- 8.9	- 36.2
Total	<u>\$483,757</u>	<u>\$503,602</u>	<u>\$703,200</u>	-\$ 19,845	-\$199,598	- 3.9%	- 28.4%

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

April 30, 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 - April, 1942  
 On Basis of Issue Price  
 (In thousands of dollars)

CONFIDENTIAL

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
April 1942									
1	\$ 2,476	\$ 10,517	\$ 2,380	\$ 9,608	\$ 22,504	\$ 12,993	\$ 2,380	\$ 9,608	\$ 24,980
2	2,999	8,264	2,119	7,570	17,953	11,263	2,119	7,570	20,953
3	3,222	7,572	1,185	6,235	14,992	10,794	1,185	6,235	18,214
4	2,778	9,292	1,387	5,334	16,013	12,070	1,387	5,334	18,790
6	4,961	13,035	2,329	8,027	23,391	17,996	2,329	8,027	28,352
7	2,958	5,722	834	8,983	15,539	8,680	834	8,983	18,497
8	2,309	9,610	1,142	6,562	17,314	11,919	1,142	6,562	19,623
9	2,906	9,304	955	5,715	15,974	12,210	955	5,715	18,880
10	2,730	8,052	1,573	5,261	14,885	10,782	1,573	5,261	17,615
11	2,150	5,224	668	2,720	8,613	7,374	668	2,720	10,762
13	4,619	17,572	2,432	8,604	28,609	22,192	2,432	8,604	33,228
14	2,513	6,152	1,076	3,333	10,561	8,665	1,076	3,333	13,074
15	2,584	5,102	1,251	5,374	11,728	7,686	1,251	5,374	14,312
16	3,472	10,008	1,400	7,773	19,180	13,480	1,400	7,773	22,652
17	2,690	8,076	850	3,695	12,621	10,766	850	3,695	15,311
18	3,111	7,175	948	3,303	11,426	10,286	948	3,303	14,537
20	5,252	13,334	2,227	9,001	24,562	18,586	2,227	9,001	29,814
21	2,517	6,845	977	3,703	11,525	9,362	977	3,703	14,042
22	2,925	9,112	1,925	6,793	17,830	12,037	1,925	6,793	20,755
23	3,101	9,403	1,805	5,928	17,136	12,504	1,805	5,928	20,237
24	3,451	10,981	1,721	5,694	18,396	14,431	1,721	5,694	21,846
25	2,616	8,704	1,327	4,552	14,583	11,321	1,327	4,552	17,200
27	5,317	15,721	2,313	7,971	26,004	21,038	2,313	7,971	31,321
28	3,260	8,494	1,580	6,138	16,211	11,754	1,580	6,138	19,472
29	3,665	9,491	2,054	9,060	20,605	13,156	2,054	9,060	24,270
Total	\$ 80,583	\$232,761	\$ 38,459	\$156,934	\$428,154	\$313,344	\$ 38,459	\$156,934	\$508,737

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

April 30, 1942.

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

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

Regraded Unclassified

April 30, 1942

Dear Walter:

This is just to remind you  
that I am expecting you to be in Wash-  
ington on Wednesday, May 13th.

With kind regards,

Yours sincerely,

(Signed) Henry

Dr. Walter W. Stewart,  
Institute for Advance Study,  
Princeton University,  
Princeton, New Jersey.

n.m.c.

APR 30 1942

Dear Mr. Cairns:

You are hereby designated to act as my  
for the Secretary of the Treasury  
alternate/on the National Munitions Control  
Board. The duties of the Board are outlined  
in Section 12 of the Neutrality Act of 1939,  
approved November 4, 1939, a copy of which  
Act is attached.

Very truly yours,

15/ D. W. Bell

Acting Secretary of the Treasury.

Mr. Huntington Cairns,  
Assistant General Counsel,  
Treasury Department.

HH:r

cc. N. M. C.

Filote Thompson

## TREASURY DEPARTMENT

256

## INTER OFFICE COMMUNICATION

DATE April 30, 1942

TO: Secretary Morgenthau  
FROM: Mr. Haas  
Subject: Analysis of OPA price ceiling plan

Objectives: As under the Canadian program, the OPA plan aims to establish a strict ceiling on retail prices, in order to halt the rise in living costs. Administrator Henderson says: "This regulation places an absolute ceiling over substantially all of the commodities and services sold at retail. .... Prices under the ceiling are going no higher. The retail price will be held." It is more broadly applied than the Canadian system, however, since wholesale and factory prices are also placed under ceilings. A companion measure controls rent increases in defense areas by establishing ceilings on rents in 301 newly-defined defense rental areas, in addition to the 22 areas previously under control.

Effective dates: Price ceilings are fixed generally at the highest prices for which goods or services were sold in March. The ceilings become effective May 18 for retail prices, May 11 for wholesale and manufacturers' prices, and July 1 for services. Rent ceilings become effective in 60 days, and in most cases are fixed at March 1 levels, but in certain war-industry areas where they have risen more rapidly they are reduced to levels of January 1, 1941.

Exceptions: Certain classifications of goods and services do not come under the present order, chiefly the following:

- (1) Primary agricultural products, and some processed products,
- (2) various goods for which representative prices are difficult to obtain, such as highly seasonal fruits and vegetables, objects of art, used goods, etc.,
- (3) food and beverages to be consumed on the premises,
- (4) certain personal and professional services,
- (5) various raw materials and some other products already subject to price control, or which are to be placed under special control,
- (6) securities.

Enforcement: The order will be enforced by

- (1) a licensing system for all establishments selling goods or services subject to price ceilings,
- (2) powers granted the Administrator under the Price Control Act, which make violators subject to criminal penalties (maximum \$5,000 fine and 1 year imprisonment), civil enforcement actions, and suits for treble damages,
- (3) provision for public policing, including the requirement that price lists be made available for public inspection, but OPA offices will mainly be relied on for enforcement.

A major difficulty: Aside from problems of enforcement, which should be aided by rationing, taxation policies, etc., a major administrative difficulty will be the handling of the price squeeze to which retailers (and some wholesalers) will be subject. Since retail prices generally have not kept up with replacement costs, in view of the usual time lag, the imposing of retail price ceilings will make it difficult or impossible for retailers to replenish their stocks at prices permitting a margin of profit. The Secretary of the Association of Retail Grocers, for example, contends that thousands of stores will be forced out of business by the order, and that a time lag of at least 60 days should have been provided for.

The Price Administrator recognizes this difficulty, and says: "Retailers whose ceiling prices are not adequate to cover the cost of replacing merchandise, because wholesale prices have advanced, must expect and receive relief from their suppliers. .... Manufacturers and wholesalers must back up the retailers by lowering their prices where the retail margin is unduly narrow." If such readjustments are not made voluntarily, the OPA proposes to take action to insure equitable allocations of price margins. Some price adjustments may be made by the OPA in case of exceptional hardships.

Probable immediate effects: Prices generally have been advancing recently, particularly for foods and clothing, and many prices must therefore be reduced on or before May 11 (for wholesale prices) and May 18 (for retail prices). The result is almost certain to be a slackening of buying prior to those effective dates, probably followed by some increase. The general effect, however, will be to remove one important incentive for hoarding.

The plan will also doubtless lead to economies in wholesale and retail distribution to offset reduced profit margins, and may cause a higher casualty rate among retail concerns.

April 30, 1942

Report of Mr. Daggit's talk with Mr. MacKeachie in regard to effect of the OPA ceiling order on sales.

I talked with Mr. MacKeachie yesterday afternoon in regard to the effect of the OPA ceiling order on wholesale and retail sales. He is now with the War Department, however, and is out of touch with day-to-day market conditions, but he gave me his opinions based partly on actual experience in Canada when the ceiling plan was put into effect.

He said that in Canada there was a period of confusion for some weeks, during which wholesale trade slackened noticeably, but retail trade surprisingly continued at practically an unchanged level.

In this country, he says that wholesalers, retailers, and consumers are heavily stocked with goods, bought in fear of price increases and shortages. For this reason there were grounds for expecting some slackening of buying this spring even without the ceiling order. The order should result in some lull in buying, since it will remove the hoarding incentive caused by fear of rising prices, although he doesn't expect this to be sufficient to have much effect on business. The fear of shortages and of rationing, however, will not be removed by the OPA order. Retail sales, judging from the Canadian experience, will probably be fairly well maintained. He thinks that buying is likely to increase again when the order goes into effect, after prices have been reduced to the ceiling levels.

Mr. MacKeachie suggested that we get in touch with Mr. David Bofinger, in the office of the Atlantic and Pacific Tea Company in New York, who could give us current information on sales. A report of a telephone conversation with Mr. Bofinger is attached.

April 30, 1942

Report of Mr. Daggit's telephone conversation with  
Mr. Bofinger of the Atlantic and Pacific Tea Company,  
regarding effect of ceiling order on sales.

As suggested by Mr. D. C. MacKeachie, I called Mr. David Bofinger of the Atlantic and Pacific Tea Company, 420 Lexington Avenue, New York, in regard to the effect of the price ceiling order on consumer buying.

Mr. Bofinger said that no reaction was noted yesterday, and he felt that it was too early for consumers to familiarize themselves with the order and to adjust their buying. He thought quite definitely, however, that it would discourage hoarding, and that customers would slow up their buying in the hope of getting goods later at lower prices.

He felt that there would be a reduction in retail food prices of perhaps as much as 3 percent in adjusting to ceiling levels, although the number of important items affected would not be great. Stores will make the reduction gradually, and are already beginning to do so, in order to avoid too much of a shock at one time.

In regard to wholesale buying, he said undoubtedly there would be less buying until the price adjustments were made. He expected that manufacturers and wholesalers would mark down prices before the effective date in order to move their goods, particularly those of which inventories are large.

Mr. Bofinger believes that the ceiling plan will work, and that difficulties can be ironed out without much trouble. He agreed to send us a wire each day giving the observed reaction of the plan on consumer buying as shown by A and P retail sales, with any other comments he may have.

April 30, 1942

MEMORANDUM FOR MISS TULLY:

I have your memo of April 29 and complying with your request I am returning herewith the Senator Glass correspondence.

THE WHITE HOUSE  
WASHINGTON

April 29, 1942.

MEMORANDUM FOR THE

SECRETARY OF THE TREASURY:

The President thought that he had sent you the previous correspondence from Senator Glass in regard to the Inter-American Bank. However, I now find that it was not sent to you so will you be good enough to return it, as the President thinks the whole thing should go to the Under Secretary of State?

RECEIVED BY  
BVS VBS TO Grace G. Tully

*Grace G. Tully*  
Grace G. Tully

262

THE WHITE HOUSE  
WASHINGTON

April 27, 1942.

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY

I think I sent you the  
previous correspondence from  
Senator Glass. Here are the  
suggested amendments to the Bill.

F. D. R.

CARTER GLASS, W. CHAIRMAN  
KENNETH MC KELLAR, TENN.  
CARL HAYDEN, ARIZ.  
CLAREN THOMAS, OKLA.  
WILLIAM E. TYSON, MD.  
MO B. RUSSELL, GA.  
AC CARRAN, NEV.  
J. H. EVERETT, LA.  
JERRY H. BARKER, ALA.  
JEROME C. BROWN, N.Y.  
JERRY S. TRUMAN, MO.  
THEODORE FRANCIS GREEN, R. I.  
FRANCIS MALONEY, CONN.  
SERGIO CHAVEZ, N. MEX.  
JAMES H. MCAD, N. Y.  
WALLACE W. WOOD, N. Y.  
JIMMY A. HAYBANK, S. C.

EVERARD H. SMITH, CLERK  
JOHN W. H. SMITH, ASST. CLERK

GERALD P. NYE, N. DAK.  
STYLES BRIDGES, N. H.  
HARRY CARBY LADD, JR., MASS.  
RUFUS C. HOLMES, IOWA.  
WALLACE H. WHITE, JR., MARI  
CHARLES GUNBY, S. DAK.  
C. WAYLAND BRIDGE, S.A.

# United States Senate

COMMITTEE ON APPROPRIATIONS

*2-Intro.*  
263

April 22, 1942.

Honorable Franklin D. Roosevelt,  
The White House,  
Washington, D. C.

My dear Mr. President:

I forgot to enclose the proposed  
amendments to the Inter-American Bank bill.

Faithfully,

*Carter Glass.*

CG/M. enc.



# COPY

April 22, 1942.

Honorable Sumner Welles,  
Under-Secretary of State,  
Washington, D. C.

My dear Mr. Secretary:

I have a letter dated March 25th, which I assume was signed by you; but God only could tell what the name is attached to the letter. I suggest that you should write your name so an ordinary person may know what it is.

Touching the Inter-American Bank Convention, I have held the matter in abeyance because Honorable Jesse Jones personally told me that he did not see any need for it, inasmuch as the Reconstruction Finance Corporation is making all the loans which should be made to the South American countries designated.

However, I have referred the matter to George Harrison and Dr. W. Randolph Burgess for such comment as they might please to make and have drawn proposed amendments in agreement with their suggestions, which are enclosed for your information. Frankly, I do not think your memorandum to the President covers the suggestions made by these gentlemen nor the objection presented by me.

I shall ask for an early meeting of the Banking and Currency Committee and propose the amendments herewith enclosed; but before doing so I would be glad to have your comment as to the proposed amendments.

Sincerely yours,

ca/m.

Suggested Amendments to the Bill Relating to the Establishment  
of an Inter-American Bank.

(Section references are to the bill on pages 18 to 20 of  
Senate Document, 76th Congress, 3d Session, known as "Executive K")

At the end of section 5, add the following new sentence:  
"Notwithstanding the provisions of section 2 and the foregoing  
provisions of this section, no amendment hereafter made to the  
By-Laws of the Bank shall become effective until such amendment  
is expressly approved and ratified by the Congress."

At the end of the paragraph added by section 206 to section  
14 of the Federal Reserve Act, insert a colon and the following  
proviso: "Provided, That no loan, advance or extension of  
credit shall be made by any Federal Reserve bank to the Inter-  
American Bank except upon its time or demand notes having  
maturities of not more than four months and which are secured  
to the satisfaction of the Federal Reserve bank, and the aggre-  
gate amount of all such loans, advances and extensions of credit,  
and commitments therefor, made by any Federal Reserve bank to  
the Inter-American Bank and which are outstanding at any one time  
shall not exceed its surplus as of December 31, 1941".

267

**THE WHITE HOUSE  
WASHINGTON**

April 27, 1942.

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY

I think I sent you the previous correspondence from Senator Glass. Here are the suggested amendments to the Bill.

F. D. R.

CARTER GLASS, W. VIRGINIA

JENNETH MCKELLAR, TENN.  
LEWIS WATSON, ARIZ.  
BLAIR THOMAS, OKLA.  
WILLIAM B. STEWART, MD.  
EDWARD B. HULL, ILL.  
C. CARROLL, NEV.  
JOHN H. BARKER, ALA.  
JAMES C. O'CONNOR, WYOM.  
HENRY S. THOMAS, MISS.  
FRANCIS FRANKLIN GREEN, N. C.  
FRANCIS MALONEY, CONN.  
JAMES CHAYNE, N. MEX.  
JAMES M. MEAD, N. Y.  
WILL COXLEY, MISS.  
HENRY R. HAYBANK, S. C.

GERALD P. WYLLIE, N. CAROL.  
STYLER BISHOP, N. CAROL.  
HENRY GARDY LAMM, JR., MISS.  
WALTER C. HULMAN, MISS.  
WILLIAM H. WHITE, JR., MASS.  
CHARLES BURNETT, S. CAROL.  
C. WYLAND BRIDGES, S. C.

EVERARD H. SMITH, CLERM.  
JOHN W. R. SMITH, ASST. CLERM.

# United States Senate

COMMITTEE ON APPROPRIATIONS

268

April 22, 1942.

Honorable Franklin D. Roosevelt,  
The White House,  
Washington, D. C.

My dear Mr. President:

I forgot to enclose the proposed  
amendments to the Inter-American Bank bill.

Faithfully,

*Carter Glass*

CG/M. enc.

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of an Inter-American Bank.

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WAR SHIPPING ADMINISTRATION  
WASHINGTON

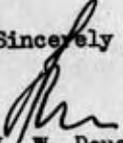
April 30, 1942

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

Dear Henry:

Thanks ever so much for your note of the 28th, with  
which you enclosed confidential Treasury memorandum listing  
vessels at various ports as of April 24th.

Sincerely yours,

  
L. W. Douglas.

Conference in Mr. White's Office  
April 30, 1942  
3:00 P. M.

Present: Mr. White  
Mr. Zoltowski, Polish Embassy

Mr. Zoltowski called at his own request. He said that his Government had made a request of this Government for financial assistance amounting to about \$12 million. The negotiations had taken place between the Prime Minister, General Sikorsky, when he was here and with the State Department. The General had told Mr. Zoltowski before leaving that they expected the aid would soon be granted and the money forthcoming. Several weeks have elapsed, he said, and he recently learned that the State Department had turned the matter over to the Treasury. Mr. Zoltowski asked whether there was any hope that when the matter did come to the Treasury that the Treasury would be able to give it favorable consideration. Mr. White replied that the matter had not yet come to his attention and that when it did, Mr. Zoltowski could be assured that the Treasury would not delay unduly in the matter, but that he obviously could not yet say what the Treasury's action would be.

Mr. Zoltowski added that there was considerable pressure on their Embassy here to have the matter expedited and requested permission to get in touch with Mr. White in a week to see what progress had been made. Mr. White replied he had no objection but repeated that the matter had not yet come to his attention.

Conference of Mr. Bewley with Mr. White and  
Mr. Hicks in Mr. White's office  
April 30, 1942  
4:00 P.M.

Mr. Bewley called at his request.

He referred to the negotiations for War Department payment of the balance due on British "ordnance" contracts, and asked what was meant by the word "ordnance." Mr. White replied that ordnance was meant to cover all British contracts other than those for aircraft or ships. Mr. Bewley asked if there was anything he might do to assist in this program, and Mr. White suggested that he might go directly to the Army officer working on the problem.

Mr. Bewley then referred to his Government's negotiations with Iran for the purchase of rials. He said that he had received three cables relayed from London, which he showed to Mr. White. Two of the cables, from the British Minister in Teheran, indicated that it would be possible to make an agreement with the Iranian Government under which Britain could continue to obtain rials at the present exchange rate of 140 by agreeing to settle some portion of the annual balance in dollars or gold. The third cable, London's instructions to the Minister at Teheran, authorized the Minister to negotiate an agreement upon those terms, and to attempt to limit Britain's obligations to settle the balance in gold to 30 per cent.

Mr. Bewley said that he thought the discussions with the State Department and the Treasury on this matter should be held in abeyance pending the outcome of these negotiations. Mr. White explained to Mr. Bewley that the Treasury's position in the matter had been that it would probably be willing to have the U.S. Stabilization Fund purchase rials with dollars for resale at the same price to the British Government. He said that the Treasury realized that this arrangement would put pressure upon Britain's dollar balances, and that, in line with its policy of maintaining an adequate dollar balance for Britain, it would take this factor into consideration, but that it would not provide dollars for the British Government specifically to meet this or any other particular contingency. Mr. Bewley said that he understood this position and that it was acceptable to him.

Mr. White then asked Mr. Bewley whether the British Government had concluded its negotiations with China. Mr. Bewley said that he did not know, but that he would inquire and inform Mr. White.

J. E. Hicks

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE April 30, 1942

TO Mr. White

FROM Mr. Hoflich

Subject: British Press Reaction to President Roosevelt's April 27  
Message to Congress

We are informed by cable from the London Embassy that the President's April 27 message to Congress was widely carried in the British press the next day, with special emphasis given to the seven points of the proposed program against inflation. The following brief summary will indicate the editorial reaction of four of the leading London papers:

1. All agree that the President's program is drastic and will mean serious disturbances in American living habits and standards. Both the Times and the Manchester Guardian point out that the proposals include all of the measures which have evolved gradually in Great Britain during the past 2 1/2 years. But, the latter paper notes, the American transition to war production has been more rapid than in Britain and the danger of inflation is greater.
2. The Times says that Americans are asked by their President to accept restrictions and sacrifices on the same scale as their Allies, and the Daily Telegraph thinks there is no doubt of the response of the American people. The Manchester Guardian believes, nevertheless, that the program will test all the courage of Congress.
3. The Daily Telegraph holds that the President's scheme "will bring the United States by methods like our own to the concentration of all the national energy which can be developed upon winning the war, and in such a way that the peace will not be lost".
4. The Financial Times says that the response of Congress will be watched with interest in Great Britain, where experience has shown that finance must be combined with rationing and price control to shape the wartime economic structure. This paper believes, however, that the President's program touches only the fringe of the inflation problem, relying on price stabilization to avert what it considers the more serious problem of wage increases. The Financial Times praises the President for placing the farm price problem squarely before Congress, and says a prompt response is needed to prevent inflationary price rises.

LSH

PLAIN

London

Dated April 29, 1942

Rec'd 8:59 a.m.

2237 Twenty-ninth

President's April 27 message to Congress was widely carried in British press yesterday, with special emphasis given to 7 points of proposed program against inflation.

President's broadcast last night came too late for press coverage today, but is being extensively used by B.B.C. in domestic and foreign broadcasts.

TIMES today states that American production program announced by President when United States entered war, "and widely regarded at the time as fantastic, even by American standards", will actually be exceeded, and that all thinking Americans know this cannot be accomplished without profound disturbance in life of every citizen and working of whole economic system. It says President's proposals are drastic, contemplating the "establishment at one swoop of the same degree of control over incomes, profits, wages and prices, and over the distribution of goods, in short supply, which has been gradually achieved in this country during 2-1/2 years of war"

Americans

-2- #2237 April 29, 1942 from London

Americans are asked to accept restrictions and sacrifices on same scale as their Allies, which is an American tradition of disliking compromising half-measures, and in spirit of common effort and pooled resources of United Nations. Natural differences which will be expressed in Congress and elsewhere regarding details of program will not detract from determination of all classes to make every sacrifice necessary to victory.

FINANCIAL TIMES declares that response of Congress will be watched with interest in Great Britain, where experience has shown that finance must be combined with rationing and price control to shape wartime economic structure. It comments: "the President, with this knowledge before him, has covered the whole ground with one comprehensive outline. He has left no doubt that he knows what he wants and what the country needs." It adds that while his tax proposals, fixing a net maximum personal income, should commend itself to congress in present circumstances, fact remains that it "only touches the fringe of the real problem of mounting purchasing power and diminishing supplies". Full employment and over-time pay will add greatly to incomes

-3- #2237 April 29, 1942 from London

to incomes of wage-earners; and President, like British Government, seems content to rely primarily on effect of price stabilization in averting more serious problem of general demand for wage increases. Editorial praises President for placing farm price problem squarely before Congress, and declares that prompt response is needed "if inflation is to be debarred both from swelling the cost of war and from projecting its evil consequences into the years of peace".

MANCHESTER GUARDIAN yesterday stated that American transition to war production has been more rapid and danger of inflation greater than in this country. The need for a program of counter-measures has been met with President's proposals including "all the various types of measure which our own Treasury, Board of Trade, Ministry of Food and Ministry of Labor have been evolving for the last 2-1/2 years". It asserts that Congress now has before it a series of interrelated problems which will test all its courage; that while necessarily general, the President's program has imaginative appeal; and that it is put forward without pretence that it does not mean great interference with the American people's habits of life and reduction in their standard of living.

DAILY TELEGRAPH

-4- #2237 April 29, 1942 from London

DAILY TELEGRAPH stated that proposals involve revolutionary procedure for United States, but that "there is no more doubt of the response of the American people to the general principle of heavy sacrifices than of the readiness with which our own drastic finance has been approved". It holds that the President's scheme "will bring the United States by methods like our own to the concentration of all the national energy which can be developed upon winning the war and in such a way that the peace will not be lost. "

M.THEWS

JMH

278  
JJA

**TREASURY DEPARTMENT**

**INTER OFFICE COMMUNICATION**

DATE April 30, 1942

TO The Secretary

FROM Mr. White

Subject: Outline of Attached British Memoranda on Reciprocal Aid

I. Introductory Memorandum:

A. U.K. desires to extend reciprocal aid, but is limited by its finances, overseas obligations, the loss of Empire exports, and the "increasingly inappropriate" financial arrangements with U.S., particularly the continuation of payments on dollar contracts for materials destined for a common pool.

B. H.M.G. suggests as a principle

(1) "No further transfer of capital assets or gold between U.S. and Sterling Area." Apparently this provision would preclude further sale of British securities.

(2) The Sterling Area "should not accumulate dollars beyond an adequate working balance." It is implied that gold holdings are outside the working balance and that they would continue to increase.

(3) U.K. could then provide reciprocal aid from itself and its colonies (not Dominions) according to the following plan:

II. Memorandum on Reciprocal Aid from U.K. and its Colonies:

A. Types of transaction

(1) Exports to U.S.

(a) commercial and raw material exports U.S. pay dollars.

(b) U.K. military and naval exports Reciprocal aid to either U.S. or its authorized contractors. (profit limitation imposed.)

(c) Items from Britain's dollar contracts U.S. pay dollars.

(2) Expenses for U.S. Troops in Sterling Area

(a) pay and allowances U.S. purchase local currency with dollars.

(b) troop supplies Either reciprocal aid or U.S. purchase or importation, depending upon convenience. U.K. would refund any payments made for materials previously imported under Lend-Lease.

(c) oil Special case. Reciprocal aid unless it cost U.K. dollars.

Division of Monetary  
Research

(d) construction and  
maintenance of  
bases

Government making the base to bear the cost with no apportionment of expense on the basis of use, and with no lend-lease or reciprocal aid obligation. U.K. would like this to be "retrospective" (retro-active?). However all dollar costs would be met by U.S. or provided on Lend-Lease, and U.K. would provide supplies and services for projects in U.K. or colonies.

## B. Procedure

- (1) Requisitions for reciprocal aid to be filed in London.
- (2) U.K. cannot keep full records and suggests that no records be kept of such services as repairs.
- (3) Shipping arrangements need further discussion.

## III. Australian Memorandum.

- A. Australia is generally in agreement with U.K. memoranda, but suggests that the magnitude of the problem is greater in Australia, and requests that the matter be discussed further.

MEMORANDUM

280

His Majesty's Government are anxious to grant reciprocal Lend-Lease aid to the United States of America on the most generous scale possible, and are well aware of the political importance attaching to the matter, but the extent of the assistance which they can give is necessarily affected by their financial position. The United Kingdom is already defraying war expenditure equal to sixty percent of the national income and the rates of taxation in force are the heaviest of any of the United Nations.

Progress towards a financial settlement is now urgent and H.M.G. submit that the present financial arrangements are increasingly inappropriate. Munitions supplied from our pre-lend-lease contracts are now regarded as being at the disposal of Combined Boards and are allocated by these Boards in accordance with strategic needs. The move towards a pool of overseas resources is further emphasized by the reciprocal lend-lease proposals, the principle behind which we accept and warmly approve.

It seems quite inappropriate in present circumstances that we should be required to ship to the United States currently mined gold, which can surely be of little value as an addition to United States resources, to pay for munitions which will be as much at the disposal of the United States as at ours. We can only obtain such gold by increasing our overseas indebtedness and even if we had no payments to make in the United States or Canada and were acquiring no gold, we should still have to increase our overseas indebtedness by upwards of £400 millions to meet our growing expenses elsewhere. This point is frequently overlooked. It is not merely that we export less and import much

more from the United States and Canada. The same thing happens with every other country from which we draw supplies.

The annual increase in the liabilities now being incurred by the United Kingdom to countries other than the U.S.A. and Canada, is not less than four times the total amount of the present output of gold by the sterling area, and H.M.G. are anxious that the gold output should be retained as a partial reserve against these liabilities. At the same time the possibility of holding or accumulating a reserve has been heavily reduced by the loss of tin and rubber exports, by the loss of exports, which it is impossible yet to estimate, from India, and the absence or shortage of shipping, labour and raw materials resources in the United Kingdom itself.

H.M.G. suggest as a general principle that from now on there should be no transfer of capital assets or of gold between the United States and the sterling area, and that at the same time the sterling area should not accumulate dollars over and above an adequate working balance. If this is to be done a new settlement involving the remaining pre-lend-lease contracts is urgently required.

If arrangements can be made to carry this general principle into effect, H.M.G. would hope not only to extend reciprocal lend-lease aid on the desired scale, but also to avoid difficulties and possible criticism arising out of the bringing of borderline or doubtful cases within the ambit of the lend-lease system.

(Sgd.) F. Phillips

Washington, D.C.,

April 18, 1942.

## MEMORANDUM

### 1. MILITARY STORES

We propose to supply munitions, military and naval stores (not including local supplies for United States forces abroad for which see below) and associated services on Lend-Lease terms to the United States Government. These supplies if requested from and furnished through a recognized Government organisation would be made on lend-lease terms whether they are issues from stores or whether they involve the placing of special contracts by the supplying Government. They would similarly be made available to contractors working for the United States Government on specific request of the United States Government to that effect, and on the assurance that the contractor is acting on behalf of the United States Government and that steps will be taken to prevent his making an uncovenanted profit.

The above offer would not apply to commercial supplies or to raw materials except that minor supplies of raw materials might be more properly dealt with as military stores and furnished on Lend-Lease terms at the discretion of the supplying Government.

Munitions, etc., off United Kingdom dollar contracts would not be transferred under reverse lend-lease, but should be paid for in dollars. We should not, however, claim dollars for materials which had already entered our depots except when they can be distinguished from lend-lease or sterling materials.

### 2. UNITED STATES FORCES IN STERLING AREA

United States would purchase the local currency required for pay and allowances and for local cash disbursements.

As regards supplies other than munitions and strictly military stores for American forces in the sterling area, it is not possible

-2-

owing to the variety of considerations which may arise, to lay down precise rules in advance. It would have to be settled on considerations of convenience from the point of view of supply, shipping and administration whether particular supplies should be made available on reverse lend-lease by local purchase or by importation by the United States Government.

As regards American forces in the United Kingdom, the arrangements would be settled in London between the Service Departments and the United States Missions who are in daily contact on these matters, and broadly speaking, the supplies such as food, fuel, etc., are being treated on the same lines as munitions.

Arrangements would have to be made to avoid possible criticism if United States Purchasing Officers paid for particular goods previously received by the United Kingdom under Lend-Lease. This would be done by refunding in any particular cases claimed by the United States authorities. If desired a short list of important articles could be agreed on which a general refund would be made of a proportion of the cost corresponding to the proportion of Lend-Lease supplies to the total supplies in the United Kingdom.

Oil is a special case. Broadly speaking, H.M.G. would provide both lend-lease and sterling oil on reverse lend-lease, but would expect to be recouped any dollar expenditure in the case of oil supplies (e.g., from Bahrain) which had involved the United Kingdom Government in such expenditure.

### 3. TASKS AND OTHER CAPITAL WORKS

The original conception of tasks and other capital works as works carried out on our behalf by the United States should, since the entry of the United States into the war, be revised to a

-3-

conception of them as joint works carried out for the mutual benefit of the two countries. It is suggested that:-

(i) The initial cost should lie where it falls; i.e., the government responsible for construction, maintenance, and/or operation should bear the cost, including the provision of local currency, except for such supplies and services as it may be convenient for other governments to contribute. Dollar costs would, in all cases, be provided on Lend-Lease. We should be willing to make available supplies and services for tasks being carried out by the United States Government in United Kingdom and the Colonial Empire. In the Middle East, whichever government has assumed responsibility as above should normally itself obtain supplies and services by local purchase wherever expenditure in local currency is involved.

(ii) The contribution by each government to the capital and running costs should finally dispose of the question of the respective liability of the two countries and no attempt should be made on either side to record Lend-Lease or reverse Lend-Lease liabilities or to apportion the liability according to user benefit. This disappearance of book records and apportionments might, it is suggested, be made retrospective.

H.M.G. would like the above principle of no account and no liability in connection with works of mutual benefit extended as widely as possible.

#### 4. PROCEDURE

United States demands for reverse Lend-Lease should be presented not to the Missions in Washington, but to the appropriate department in London by the appropriate United States Mission.

In the case of assignable stores the appropriate department would keep the London Munitions Assignment Board informed, and its decisions would be communicated to the Combined Munitions Assignment Committee in Washington. It is important that the American requests should follow the above channel and not be presented direct to the suppliers.

#### 5. DOMINIONS AND COLONIES

We will take the responsibility as regards the Colonies and the same principles will be applied as in the United Kingdom.

As regards the Dominions and India they have been, and will be, kept informed of our views. So far as possible uniform criteria for reverse lend-lease will be applied, but there will no doubt be difference of detail between the various Dominions.

#### 6. RECORDS

We cannot keep complete priced records, and there can be no joint accounts or records. We must ask the United States not to expect full records from us. No standardised requisition form is suggested for reverse lend-lease. In particular no records are being kept of services (e.g. repairs of army trucks) rendered by British to United States forces. In view of the fact that records of such services must in any case be extremely incomplete we suggest that it is important that the principle should be followed that no record should be kept on either side in the case of miscellaneous services.

#### 7. SHIPPING

Under the head of shipping, questions of reverse lend-lease depend rather intimately on the arrangements made as regards direct lend-lease, and in view of the complications and technicalities involved, the matter needs direct discussion between the War Shipping Administration and the British Shipping Mission.

(Sgd.) F. Phillips

Willard Hotel

Washington, D.C.

C  
O  
P  
YRECIPROCAL LEND LEASE.

1. Australia is supplying war stores to United States forces in Australia, and has provided supplies for United States forces in the Philippines to the value of about £500,000. It has also approved the construction of special defence works in Australia to a value of about £5,000,000 in excess of the requirements of its own forces, and is considering a much larger programme of the same kind, estimated at present to cost about £50,000,000 and required by the United States forces.
2. Australia desires to come to an arrangement with the United States on these matters, and to enter into joint discussion on aspects of mutual interest with representatives of the United States and of the United Kingdom, with a view to a common understanding on the principles to be followed based on the terms of the Mutual Aid Agreement of Feb. 23rd between the United States and the United Kingdom, and on views which have been expressed by the Department of State.
3. A memo of current date setting out the proposals of the United Kingdom in connection with similar arrangements, has been noted. The Australian view is generally in accord with the suggestions made therein, but it is desired to state certain special Australian considerations which have been communicated by the Prime Minister.
4. The magnitude of Australian supplies to the United States forces is likely to be proportionately greater than those of the United Kingdom or of any other country, with respect to -
  - (a) the range of supplies, and
  - (b) the population and resources of the country, e.g.
    - (i) The range of stores to be supplied will include prepared foods and personal equipment for the forces, which in other theatres will normally be provided from the United States. It may also include a larger proportion of arms and ammunition and other military stores and maintenance than could be provided locally to U.S. forces in other countries.
    - (ii) The supply of all such stores to United States forces in the South-Western Pacific areas other than Australia may become large also, particularly when a strong offensive is launched with Australia as a base.
    - (iii) The Works proposed are much in excess of the needs of Australia, other than as a base for United Nations operations. The addition of these "Tasks" to an already crowded programme will strain the resources of the country and reduce production for commercial export, with consequential reductions in overseas funds.
5. Australia is a debtor country with large annual liabilities for interest etc. It also has very heavy liabilities in sterling, and in U.S.A. and Canadian dollars, for special war expenditures both with respect -
  - (a) to the maintenance of its forces in various theatres of war, and
  - (b) to the purchase of war equipment and components in the United States, Canada and the United Kingdom.
 Despite certain countervailing credits, which can be discussed, and severe restrictions on civil imports from all sources, Australia is at present faced with a heavy deficit on overseas account.

It is the desire of the Australian Government to contribute what is needed in and from Australia to the fullest possible extent, but its circumstances are difficult and peculiar to itself. It is realised that these facts are appreciated both by the United States and the United Kingdom, and it is hoped that a solution satisfactory to all concerned will emerge from the proposed discussions.

Treasury Department 287  
Division of Monetary Research

Date.....April 30.....1942

To: Miss Chauncey

From: Mr. White

The Secretary might be interested in this bit of curious information: The Bank of England asking to ship to England, via British Naval vessels, a million dollars in \$10, \$20, and \$50 bills for "special official purposes".

INCOMING CABLEGRAM

Rec'd: April 30, 1942

From: London

No. 343/42

FOR INFO

REPLY PLEASE

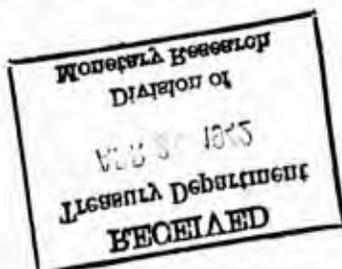
(1) We are in urgent need of used repeating used dollar notes of the following denominations: \$10, \$20, \$50 for special official purposes.

(2) If possible would you please arrange to ship uninsured up to total one million dollars, notes in above denominations STOP We should prefer to effect shipping via British naval vessels from Canadian ports STOP Please contact Bank of Canada, Ottawa, who are accustomed to ship by this method and who have been warned STOP

(3) Please debit His Britannic Majesty's Government Account 8 with cost and all expenses.

(Sgd.) Bolton  
Bank of England

(Received by telephone from Federal Reserve Bank of New York,  
N. Y. 11:25 a.m. April 30, 1942)



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FEDERAL RESERVE BANK  
OF NEW YORK

April 30, 1942

CONFIDENTIAL

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

I am enclosing our compilation for the week ended April 22, 1942, showing dollar disbursements out of the British Empire and French accounts at this bank and the means by which these expenditures were financed.

Faithfully yours,

/s/ L. W. Knoke

L. W. Knoke,  
Vice President.

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

Enclosure

Copy:vw:5-2-42

ANALYSIS OF BRITISH AND FRENCH ACCOUNTS

(In Millions of Dollars)

Week Ended April 22, 1942

PERIOD	BANK OF ENGLAND (BRITISH GOVERNMENT)								BANK OF FRANCE						
	DEBITS			CREDITS					DEBITS			CREDITS			
	Total Debits	Gov't Expenditures (a)	Other Debits	Total Credits	Proceeds of Sales of Gold	Securities (Official) (b)	Other Credits (c)	Net Incr. (+) or Decr. (-) in Balance	Total Debits	Gov't Expenditures (d)	Other Debits	Total Credits	Proceeds of Gold Sales	Other Credits	Net Incr. (+) or Decr. (-) in Balance
First year of war (8/29/39-8/28/40)*	1,792.2	605.6	1,187.6	1,828.2	1,356.1	52.0	420.1	+ 35.0	866.3 (a)	416.6 (e)	449.7	1,095.3 (b)	900.2	195.1 (e)	+229.0
War period through December, 1940	2,792.3	1,425.6	1,356.7	2,793.1	2,109.5	108.0	575.6	+ 10.8	878.3	421.4	456.9	1,098.4	900.2	198.2	+220.1
Second year of war (1/29/41-8/21/41) (see)	2,203.0	1,792.2	410.8	2,189.8	1,193.7	274.0	722.1	- 13.2	38.9	4.8	34.1	8.8	-	8.8	- 30.1
1941															
Aug. 28 - Oct. 1	140.9	105.9	35.0	176.2	20.1	2.0	154.1	+ 35.3	0.3	-	0.3	0.5	-	0.5	+ 0.2
Oct. 2 - Oct. 29	109.0	77.3	31.7	150.9	0.8	-	150.1	+ 41.9	0.3	-	0.3	0.3	-	0.3	-
Oct. 30 - Dec. 3	156.1	111.6	44.5	134.6	-	1.0	133.6	- 21.5	16.1	-	16.1	0.4	-	0.4	- 15.7
Dec. 4 - Dec. 31	88.4	69.4	18.8	51.5	-	-	51.5	- 36.9	0.8	-	0.8	0.4	-	0.4	- 0.4
1942															
Jan. 1 - Jan. 28	102.3	73.2	29.1	69.3	-	0.5	68.8	- 33.0	0.2	-	0.2	0.4	-	0.4	+ 0.2
Jan. 29 - Feb. 25	87.2	63.8	23.4	57.2	-	1.0	56.2	- 30.0	-	-	-	0.3	-	0.3	+ 0.3
Feb. 26 - Apr. 1	121.4	86.4	35.0	171.4	-	-	171.4	+ 50.0	0.1	-	0.1	0.4	-	0.4	+ 0.3
WEEK ENDED:															
Apr. 1	19.8	13.3	6.5	58.9	-	-	58.9	+ 39.1	-	-	-	-	-	-	-
8	36.2	19.0	17.3	20.3	-	0.5	19.8	- 16.0	-	-	-	0.1	-	0.1	+ 0.1
15	24.8	17.6	7.2	22.8	-	-	22.8	- 2.0	0.1	-	0.1	0.1	-	0.1	-
22	18.6	12.9	5.7	14.1	-	-	14.1 (f)	- 4.5	-	-	-	0.1	-	0.1	+ 0.1

Average Weekly Expenditures Since Outbreak of War

France (through June 19, 1940) \$19.6 million

England (through June 19, 1940) 27.6 million

England (since June 19, 1940) 38.7 million

\*For monthly breakdown see tabulations prior to April 23, 1941.

\*\*For monthly breakdown see tabulations prior to October 8, 1941.

(See attached sheet for other footnotes)

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

Week ended April 22, 1942

Cumulation from July 6, 1940

\$ -

\$ 162.7

million

million

- (a) Includes payments for account of British Purchasing Commission, British Air Ministry, British Supply Board, Ministry of Supply Timber Control, and Ministry of Shipping.
- (b) Estimated figures based on transfers from the New York Agency of the Bank of Montreal, which apparently represent the proceeds of official British sales of American securities, including those effected through direct negotiation. In addition to the official selling, substantial liquidation of securities for private British account occurred, particularly during the early months of the war, although the receipt of the proceeds at this Bank cannot be identified with any accuracy. According to data supplied by the British Treasury and released by Secretary Morgenthau, total official and private British liquidation of our securities through December, 1940 amounted to \$334 million.
- (c) Includes about \$85 million received during October, 1939 from the accounts of British authorized banks with New York banks, presumably reflecting the requisitioning of private dollar balances. Other large transfers from such accounts since October, 1939 apparently represent the acquisition of proceeds of exports from the sterling area and other currently accruing dollar receipts.
- (d) Includes payments for account of French Air Commission and French Purchasing Commission.
- (e) Adjusted to eliminate the effect of \$20 million paid out on June 26, 1940 and returned the following day.
- (f) Includes \$5 million transferred from account of Commonwealth Bank of Australia.

STATE OF CANADIAN AND AUSTRALIAN ACCOUNTS

From Period April 22, 1942 Strictly Confidential

PERIOD	BANK OF CANADA (and Canadian Government)								COMMONWEALTH BANK OF AUSTRALIA							
	DEBITS				CREDITS				DEBITS				CREDITS			
	Total Debits	Transfers to Official British A/C	Other Debits	Total Credits	Proceeds of Gold Sales	Transfers from Official British A/C	For Own A/C	For French A/C	Other Credits	Net Incr. (+) or Decr. (-) in Balance	Total Debits	Transfers to Official British A/C	Other Debits	Total Credits	Proceeds of Gold Sales	Other Credits
First year of war (8/29/39-8/28/40)*	323.0	16.6	306.4	504.7	412.7	20.9	38.7	32.4	+181.7	31.2	3.9	27.3	36.1	30.0	6.1	+ 4.9
War period through December, 1940	477.2	16.6	460.6	707.4	534.8	20.9	110.7	41.0	+230.2	57.9	14.5	43.4	62.4	50.1	12.3	+ 4.5
Second year of war (8/29/40-8/27/41)**	460.4	-	460.4	462.0	246.2	3.4	123.9	88.5	+ 1.6	72.2	16.7	55.5	81.2	62.9	18.3	+ 9.0
Aug. 28 - Oct. 1 1941	23.1	-	23.1	52.2	21.2	-	-	31.0	+ 29.1	10.7	0.5	10.2	2.8	2.1	0.7	- 7.9
Oct. 2 - Oct. 29	37.4	-	37.4	19.7	11.9	-	-	7.8	- 17.7	8.2	5.5	2.7	8.0	5.9	2.1	+ 0.2
Oct. 30 - Dec. 3	52.8	0.1	52.7	32.5	19.3	-	-	13.2	- 20.3	10.3	6.9	3.4	11.6	9.0	2.6	+ 1.3
Dec. 4 - Dec. 31	47.7	-	47.7	22.2	17.3	-	-	4.9	- 25.5	3.9	1.8	2.1	2.8	0.2	2.6	- 1.1
1942																
Jan. 1 - Jan. 28	39.5	-	39.5	33.0	27.0	-	-	6.0	- 6.5	4.5	-	4.5	10.8	-	10.8	+ 6.3
Jan. 29 - Feb. 25	34.1	-	34.1	35.7	12.4	-	-	23.3	+ 1.6	8.4	5.3	3.1	1.6	-	1.6	- 6.8
Feb. 26 - Apr. 1	46.5	-	46.5	99.3	20.5	7.7	-	71.1	+ 52.8	7.8	1.3	6.5	3.6	-	3.6	- 4.2
Next ended:																
Apr. 1	14.1	-	14.1	12.7	9.2	-	-	3.5	- 1.4	2.3	1.3	1.0	2.4	-	2.4	+ 0.1
8	7.2	-	7.2	9.5	2.5	-	-	7.0	+ 2.3	0.3	-	0.3	0.8	-	0.8	+ 0.5
15	7.6	-	7.6	7.9	3.7	-	-	4.2	+ 0.3	1.1	-	1.1	12.3	-	12.3	+11.2
22	5.9	-	5.9	11.8	5.1	-	-	6.7(a)	+ 5.9	5.2	5.0	0.2	2.1	-	2.1	- 3.1

Monthly Average of Total Debits Since Outbreak of War

Through April 22, 1942 \$ 7.8 million

\* For monthly breakdown see tabulations prior to April 23, 1941.

\*\* For monthly breakdown see tabulations prior to October 8, 1941.

(a) Includes about \$4.9 million representing proceeds of U. S. Government checks deposited by War Supplies, Ltd.

Treasury Department 293  
Division of Monetary Research

Date.....May 5.....19

To: Miss Chauncey

From: Mr. White

There is no need for the Secretary to see this cable at this time. The divisions of the Treasury Department who are working on the currency program will prepare an appropriate statement when the program is complete.

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

Ankara

Dated April 30, 1942

Rec'd 6:48 p.m.

Secretary of State,  
Washington.

342, April 30, 8 a.m.

Department's 166, April 23, 10 p.m.

FOR TREASURY DEPARTMENT.

I appreciate the force of the considerations advanced by the Department in support of the policy being pursued by it. As the Department desires that it become known throughout the Near and Middle East that the depreciation of United States currency is a definite policy of our Government, I am of the opinion that a formal statement by the Treasury Department would be the most effective means of bringing this policy to the attention of this part of the world. Any other means such as the suggested educational program would not be regarded as authoritative and might lead to rumors and misunderstanding which would affect the prestige of the United States whereas an authoritative statement by the Treasury Department could have no such consequences.

STEINHARDT

BB

LM

PLAIN

London

Dated April 30, 1942

Rec'd 7 p.m.

Secretary of State,  
Washington.

2297, Thirtieth.

FOR TREASURY FROM CASADAY.

Please send material enabling me to meet a request from Kindersley for descriptive details of United States savings campaign. He asks specifically: (A) Whether our savings stamps are cashable. The cashable feature of British savings stamps and certificates is being criticized here. (B) If all our defense bonds are registered and non-transferable will we not have a "tremendous" register before we are through?

MATTHEWS

JRL

## TREASURY DEPARTMENT

## INTER-OFFICE COMMUNICATION

DATE April 30, 1942

TO Secretary Worgenthau  
 FROM Mr. White

**CONFIDENTIAL**

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£95,000
Purchased from commercial concerns	£22,000

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

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

Canadian dollar	11-7/8% discount
Argentine peso (free)	.2365
Brazilian milreis (free)	.0516
Colombian peso	.5775
Mexican peso	.2064
Uruguayan peso (free)	.5295
Venezuelan bolivar	.2870
Cuban peso	1/16% premium

The 'free' Swiss franc advanced further to reach a record high of .2700, as compared with the rate of .2540 that prevailed until two days ago. The rise was attributed to one New York bank's attempt to purchase 290,000 Swiss francs in execution of an order from Peru. By the end of the day, the bank reported that it had been able to buy only 150,000 francs. The 'commercial' Swiss franc remained at about .2331.

There were no gold transactions consummated by us today.

No new gold engagements were reported.

In London, 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 Harman's settlement price for foreign silver was also unchanged at 35-1/8¢.

The Federal Reserve Bank of New York bought an additional 68,000 ounces of silver in New York today at 35-3/8¢ per ounce, to be used in the 1,200,000-ounce silver coinage order that the United States Mint is executing for the Australian Government. So far the Federal has purchased 764,000 ounces.

We made no purchases of silver today.

During the month of April we made no purchases of silver. This makes the fifth consecutive month in which no silver has been offered to us.

-2-

The report of April 22 received from the Federal Reserve Bank of New York, giving foreign exchange positions of banks and bankers in its district, revealed that the total position of all countries was short the equivalent of \$2,263,000, an increase of \$215,000 in the short position since April 15. Net changes were as follows:

<u>Country</u>	<u>Short Position</u> <u>April 15</u>	<u>Short Position</u> <u>April 22</u>	<u>Change in</u> <u>Short Position*</u>
England	\$1,067,000 (Long)	\$1,082,000 (Long)	- \$ 15,000
Europe	2,494,000	2,491,000	- 3,000
Canada	1,659,000 (Long)	1,464,000 (Long)	+ 195,000
Latin America	159,000 (Long)	177,000 (Long)	- 18,000
Japan	160,000	160,000	--
Other Asia	2,344,000	2,319,000	- 25,000
All Others	<u>65,000 (Long)</u>	<u>16,000</u>	<u>+ 81,000</u>
Total	\$2,048,000	\$2,263,000	+ \$215,000

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

# CONFIDENTIAL

COPY NO. 13

BRITISH MOST SECRET

(U.S. SECRET)

OPTEL No. 141

Information received up to 7 A.M., 30th April, 1942.

1. NAVAL

Photographic reconnaissance of TRONDHJEM yesterday evening showed TIRPITZ, HIPPER and PRINZ EUGEN in their usual positions, the first two emitting funnel smoke. SCHEER was not in her berth but a ship resembling her was seen moving eastwards up the Fjord.

2. MILITARY

BURMA. IRRAWADDY FRONT. 27th. During an engagement with enemy motorized columns south of MEIKTILA, we killed 100 - 150 enemy and destroyed 10 - 15 lorries. We lost 2 tanks.

3. AIR OPERATIONS

WESTERN FRONT. 28th/29th. KIEL. About 90 tons of bombs were dropped in good weather conditions, several large fires reported. 10 R.C.A.F. and 10 R.A.A.F. aircraft took part, each Dominion losing 1 aircraft.

TRONDHJEM. 29 heavy bombers dropped 56 tons of bombs and mines. Results were mainly obscured by haze and smoke but 1 aircraft claims to have straddled the TIRPITZ with mines. The bombers destroyed 1 Messerschmidt 110 and probably another. 29th. (?) 19 squadrons of Spitfires covered an attack by 6 Bostons on DUNKIRK docks. 2 enemy fighters were destroyed, 2 probably destroyed and 3 damaged. 2 Spitfires are missing. 29th/30th. 142 aircraft were sent out. PARIS (Gnome Rhone Works) 88, OSTEND 20, aerodromes 29, sea mining 5. 6 bombers are missing. Preliminary reports indicate that the PARIS attack was very successful. The Gnome Rhone, the Thomson Houston and Goodrich Plants were attacked from a low altitude, and a power plant was also hit. 9 R.C.A.F. and 8 New Zealand aircraft took part without loss. About 45 enemy aircraft carried out a short but heavy attack on NORWICH and the surrounding districts. One enemy bomber was probably destroyed and 3 others damaged.

MIDDLE EAST. Wellingtons bombed BENGHAZI on the nights of the 25th, 26th and 28th. Two light attacks were made on MARTUBA landing ground. On the 28th, Beaufighters hit a tanker in the GULF OF SIRTE with cannon fire and shot down 2 German flying boats. South of BENGHAZI, a petrol lorry was destroyed and some mechanical transport damaged. On the 25th/26th about 20 enemy aircraft operated over the SUEZ CANAL zone. 3 Wellingtons and a Lysander were destroyed and 3 Wellingtons damaged. The following night, 25 bombers attacked ALEXANDRIA, causing

- 2 -

damage in the harbour and in the town. 3 were shot down, 3 probably destroyed and 1 damaged. On the 28th/29th, 18 Wellingtons bombed 2 aerodromes in CRETE. Between 3.30 P.M. 28th and 2.30 P.M. 29th, 108 enemy bombers, with fighter escort, attacked MALTA. 1 fighter on the ground was destroyed and 3 other aircraft damaged. 2 enemy aircraft were probably destroyed and 5 damaged.

#### 4. HOME SECURITY

BATH. Fatal casualties on both nights are now estimated at 300.

YORK. 28th/29th. The Guildhall was destroyed by fire and the railway station was damaged. Fatal casualties now reported 55.

NORWICH. 29th/30th. Damage to residential property, the goods station and warehouses. Both main lines to CAMBRIDGE temporarily interrupted. Two fires still burning at 6 A.M.

COPY NO. 13

BRITISH MOST SECRET

(U.S. SECRET)

OPTeL No. 147

Following is supplementary resume of operational events covering the period twenty-third - thirtieth April, 1942.

1. NAVAL

Our submarines and aircraft in the MEDITERRANEAN reported several successful attacks upon enemy shipping, about 35,000 tons being sunk. Several attacks upon enemy submarines were made both by warships and aircraft. About 50 thousand tons of shipping reached LIBYA from ITALY during April, a considerable increase on the previous quarter's average. Further reinforcement of Japanese warships to the Southern MANDATED ISLANDS confirm the indications of intended activity in the south-west PACIFIC area. A new aircraft carrier has joined the Japanese fleet but whether she is a genuine carrier or a converted merchant ship is uncertain. The main U-boat concentration was still in the western Atlantic and Caribbean. Italian submarines were operating off BRAZIL and FREETOWN. There was a further reduction in shipping casualties, seven ships including two tankers were torpedoed, two of these ships sank and one has reached port. During the week ending 29th April 1060 ships were convoyed. Imports into the United Kingdom from ships in convoy during the week ending 25 were 721,000 tons including 255 thousand tons of oil. During March only five enemy merchant ships of any size tried to pass through the STRAIT OF DOVER. One of them was sunk and a large tanker seriously damaged and later beached. A nine thousand six hundred ton French ship believed to be carrying rubber left DAKAR on 18th northward bound.

2. MILITARY

Overwhelming evidence still indicates that the next German major operation will be an attempt to defeat the Russian army and obtain Caucasian oil, probably starting late May or early June. Recent Russian operations have been designed to interfere with German preparations and so postpone the attack and reduce its force. It would be over-optimistic to assume that they have had any large effect. The rate of Axis reinforcement in LIBYA and the estimate of present enemy strength tend to discount the probability of an offensive by Rommel in the near future. The date of the recently reported increase in Japanese forces in MANCHURIA being uncertain no deduction as to Japanese intentions towards RUSSIA can be drawn from this move. It is assumed that these reinforcements came from JAPAN thus reducing the home garrison to six divisions.

3. AIR OPERATIONS

WESTERN FRONT. Daylight activity by our fighters was intensive and much air fighting took place. Our night bombing force favoured by excellent weather, heavily attacked objectives in GERMANY and German-occupied territory. Raids on ROSTOCK were particularly effective. During the four raids, a total of 270 tons of high explosive and 257 tons incendiaries were dropped on the town besides 189 tons incendiaries were dropped on the Heinkel Works. Out of 470 bombers employed all but eleven returned. Other objectives were PARIS factories, KIEL, COLOGNE and TRONDHJEM Naval Base. During the week, 1,103 tons of high explosive and 464 tons of incendiaries were dropped. The Germans after a long interval resumed their concentrated night bombing of town but only 305 aircraft flew inland by night during the period as compared with our 1,050 sorties, of these ten were definitely destroyed. During the two attacks on BATH, forty percent of the German aircraft employed made two sorties and they included some aircraft of reserve training units.

MALTA. Heavy attacks persisted, mainly against the aerodromes and the Grand Harbour. A total of 1036 bombers were used with fighter escort. Since 29th the scale of these attacks has fallen considerably.

4. EXTRACTS FROM PHOTOGRAPHIC AND INTELLIGENCE REPORTS ON RESULTS OF AIR ATTACKS ON ENEMY TERRITORY IN EUROPE

ROSTOCK. Heavy damage to the Heinkel Works and the town is proved by excellent photographs.

- 2 -

COLOGNE. Photographs on 15th April show new damage on both banks of the RHINE, especially at the Humboldt Deutz Engineering Works and in other factories and warehouses. It is reported that after our raid of 13th/14th March some fires were not under control until the following afternoon and about three hundred persons were killed.

DUSSELDORF. Photographs 15th April. A large part of a factory producing magnetic mines, heavy shells, etc., has been demolished.

LUBECK. A complete embargo on the despatch of goods via LUBECK was imposed for 21 days after our attack. It is said that 42,000 people were rendered homeless.

Northern FRANCE. Various photographs taken during daylight attacks reveal damage to - railway services at HAZEPROUCK, artificial silk factory at GALAIS, goods yards at ABBEVILLE, quays at DUNKIRK, a foundry in the docks at OBERBOURG.

#### 5. OPERATIONAL AIRCRAFT BATTLE CASUALTIES

Metropolitan Area. British. In the air: Bombers 46, fighters 57, coastal 5, total 108.

<u>Enemy</u>	<u>Destroyed</u>	<u>Probably Destroyed</u>	<u>Damaged</u>
Bombers	17	7	20
Fighters	34	22	46
Miscellaneous	<u>3</u>	<u>1</u>	<u>5</u>
TOTAL	54	30	71

#### MIDDLE EAST (including MALTA)

<u>British</u>	<u>In the Air</u>	<u>On the Ground</u>
Bombers	6	7
Fighters	14	23
Others	<u>--</u>	<u>4</u>
TOTAL	20	34

One pilot is safe.

<u>Enemy</u>	<u>Destroyed</u>	<u>Probably Destroyed</u>	<u>Damaged</u>
Bombers	27	13	46
Fighters	9	6	23
Miscellaneous	<u>2</u>	<u>--</u>	<u>1</u>
TOTAL	38	19	70

Of the above totals 21 were destroyed, 2 probably destroyed and 21 damaged by A.A.

#### FAR EAST

<u>British and Allied</u>	<u>In the Air</u>	<u>On the Ground</u>
Bombers	1	6
Fighters	10	1
Miscellaneous	<u>--</u>	<u>4</u>
TOTAL	11	11

<u>Enemy</u>	<u>Destroyed</u>	<u>Probably Destroyed</u>	<u>Damaged</u>
Bombers	11	2	1
Fighters	<u>24</u>	<u>8</u>	<u>8</u>
TOTAL	35	10	9

Note: No account is taken of enemy aircraft destroyed on the ground in any theatre or of British Naval aircraft casualties.

- 2 -

6. HOME SECURITY

On the whole there was little damage to factories engaged on car production and only slight interference with war industry although residential and commercial property suffered severely in the town subjected to concentrated attack. Estimated fatal casualties for the week ending six a.m. twenty-nine April totalled 537. BATH 350, EXETER 81, NORWICH 93, YORK 36.

BRITISH MOST SECRET

(U.S. SECRET)

WTEL No. 148MADAGASCAR

Advance proceeding according to plan at 1100 hours (local time), invading? troops were in position on South of DIEGO SUAREZ BAY. Casualties few, opposition slight.

Governor-General has indicated intention not to yield.

BRITISH MOST SECRET

(U.S. SECRET)

WTEL No. 149MADAGASCAR

Report timed 2.15 P.M. local time states DIEGO SUAREZ captured. Our troops  $3\frac{1}{2}$  miles beyond ANTISERVANE.

303

NUMBER 29

SECRET

COORDINATOR OF INFORMATION

# THE WAR THIS WEEK

April 23-30, 1942



*Printed for the Board of Analysts*

Copy No. 6

*The Secretary of the Treasury*

APRIL 23-30, 1942

SECRET

**Coordinator of Information**

**THE WAR THIS WEEK**

With a rapid thrust from a new quarter, the Japanese have reached Lashio, railhead for the Burma Road, and may very soon menace the last of the alternative routes from India to China. As the isolation of China became virtually complete, the Japanese launched heavier attacks in the Melanesian-North Australian area, and some observers believe a larger offensive operation may be imminent there.

At Vichy Laval continued to make haste slowly, and certain informed circles believed that he might soon attempt to arrange a peace. Meanwhile Hitler recurred to defeatist language in an address to the Reichstag which gave rise to widely variant interpretations, agreeing only that his words must not be accepted at face value. And as the Nazi drive in the east drew near, the British opened a "second front" in the air with continuous attacks of "unparalleled intensity" on military targets in Germany and the occupied territories.

*Critical Phase in Burma*

In Burma tank-led columns of Japanese troops, heavily supported from the air, have outflanked the Chinese to the east, have reached the vital Burmese railhead at Lashio, and are menacing Hsipaw, important communications center on the Mandalay-Lashio railroad. The critical position of the Chinese is reflected in a communiqué declaring emphatically that these events have in no way affected Chinese determination to fight on. If the Japanese take Lashio and Hsipaw, it is believed they may drive northward with Bhamo as an early objective. The capture of Bhamo would sever the

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northernmost alternative route from India to the Burma road.

With a rapid occupation of Lashio, the Japanese may capture considerable quantities of lend-lease supplies concentrated there and awaiting transit over the Burma Road to Chungking. Although news dispatches suggested that "essential supplies" were being removed from Lashio, there was some doubt whether any considerable quantities could be shipped out in time to save them.

#### *Evacuation of Maymyo*

The civil government of Burma has been evacuated from Maymyo, 40 miles east of Mandalay. The fighting in central Burma, which heretofore has taken place largely in the parallel river valleys separated by the Pegu range, appears now to be converging in the open plains of Mandalay. Here the comparatively fresh troops of the Japanese and the superior maneuverability of their mechanized units should give the invader an even more pronounced advantage than he has had in the past.

Details of the fighting both in central Burma and on the Shan plateau were obscured by the rapid movement of the battle. One observer points out, however, that a second great crisis in the Far Eastern area is now in the making. When Singapore fell, the conquest of the Netherlands Indies followed. If Burma is conquered, Japan may be in a position to concentrate her efforts on concluding the war in China. This is a danger with which the United Nations must reckon.

#### *The Record of the AVG*

The press now reports that the members of the American Volunteer Group may shortly be enrolled in the Army Air Corps. The AVG has played a role of the first importance in the defense of Burma. Its record is perhaps unique in the history of military aviation. Although exact and reliable figures on the number of Japanese planes shot down are not available, the Group destroyed some 200-odd enemy planes

SECRET

in action, while the Japanese brought down hardly more than a half-dozen American planes, it is claimed. Great credit is due the lend-lease authorities who created this military force before the outbreak of war.

When all the recruits were assembled last autumn, the AVG had a full complement of 295 men, including both pilots and ground crews, plus 10 flying instructors. The personnel was made up as follows: From the Navy, 102, including 59 pilots and 43 others; from the Army, 182, including 43 pilots and 139 others; and 5 civilians.

In the course of the winter's operations seven pilots and one crew chief were killed in action; seven pilots, one an instructor, were killed in accidents; and three persons are missing. The Group at present totals 234 persons, of whom a considerable number are pilots. A large part of the original 100 Curtis P-40 pursuit planes have been destroyed in one way or another.

The spectacular success of the AVG apparently must be attributed to a combination of factors. In the first place, the American planes are armored, whereas some of their Japanese adversaries are not. Second, the American planes are faster than the Japanese, and their pilots take advantage of this fact. Third, General Chennault has shown a genius for combat tactics, developing the principle of concentration of fire power. For example, three American planes attacking a large number of Japanese customarily attack with great speed and concentrate their fire upon one enemy plane at a time. Their tactics also show many variations upon this theme.

#### *Resumption of Activity in the Southwest Pacific*

With the shift of carriers from the Bay of Bengal and the reinforcement of Japanese air power in the Melanesian area, the enemy has increased the tempo of his air attacks in the southwest Pacific, and there are some indications of early operations on a larger scale in this area. The Japanese have twice bombed Port Darwin—after a lapse of three weeks.

SECRET

They have increased the pressure on Port Moresby. They claim to have occupied all important air bases in the Molucca Islands, and along the northern shore of Dutch New Guinea, thus obtaining air base facilities permitting a rapid shift of aircraft from Singapore to the New Guinea-New Britain area. The Japanese also raided Abemama Island in the British-held Gilbert group, suggesting a possible interest in the Ellice Islands and possibly Fiji, bases for attacks on Allied supply lines.

#### *Current Chinese Morale*

Chinese morale and opinion since Pearl Harbor have passed through several phases, according to one close observer of the Chinese scene. In the first phase, there was wild elation at the entry of the United States into the war. In the second, there was a growing feeling of discouragement at Allied reverses, coupled with a demand for increased aid in the Pacific.

A third phase in the development of Chinese opinion was inaugurated by the air raids on Japan on April 18. This event introduced a new note of optimism, and the Chinese official *Central Daily News* has gone so far as to class this attack with the appointment of General MacArthur and the maintenance of an uninterrupted flow of supplies to China, Australia and the Soviet Union as the most effective method of defeating the Axis.

#### *The Japs Fail to Discover Shangri La*

The mystery of the recent air raid on Japan was only deepened by repeated Japanese air attacks between April 20 and 22 on bases at Ch'u-hsien and Li-shui in Chekiang Province, together with raids on various Kiangsi towns. These raids were no doubt inspired by the hope of discovering the landing place of the planes which bombed Japan. The Japanese radio has admitted, however, that "no enemy planes were sighted at these air bases." Chungking added

SECRET

to the general mystery by its announcement that it was unable to confirm or deny one of its previous reports that American planes had landed safely. Meanwhile, the Japanese envoy to Russia protested against the landing of one American bomber in Siberia and intimated that any repetition of this occurrence would seriously affect Russo-Japanese relations.

#### *British Air Offensive*

Seeking to sap German strength at its source before the eastern offensive begins, British bombings on the Continent have been steadily increasing in intensity and are now described by BBC broadcasters as one of the major operations of the war. While some military observers are not convinced that the raids will succeed in making any substantial reduction in German strength, the intensive bombing of German supply bases, such as Lübeck and Rostock, obviously will have some effect both on German operations and on German morale. A pro-Ally Swede, familiar with the situation in Germany, reports that the Lübeck raid has already had a damaging effect on German morale.

The repeated heavy raids this week on the Baltic port of Rostock suggest that the British are turning to the policy of concentrated, rather than dispersed, night attacks. Rostock, key base for sea-borne supplies for the Nazi armies in Norway, Finland and northern Russia, is the site also of the extensive Heinkel aircraft works and the Neptune shipyards. The Heinkel factory was delivering between 55 and 75 planes a month (long-range bombers and coastal aircraft) at the beginning of 1941, it is estimated, and important plant extensions have since been made. The Neptune plant had six vessels building and seven fitting out in August, 1941. The press reports that Rostock is nothing but smoking rubble, its fate worse than that of Lübeck, where the British claim the raid of March 28 did more damage than was suffered by any English city, Coventry not excepted.

The Nazis have answered these raids with "reprisal"

SECRET

attacks on such English towns as Exeter, Norwich and Bath. The last of these—scarcely a military objective—they bombed on two successive nights, inflicting heavy casualties and damage.

#### Daytime "Sweeps"

In addition to large-scale night bombing attacks (made with medium and long-range bombers unaccompanied by fighter planes, which are restricted in range—see map), the British have also developed daylight "sweeps" over the coast of France and the low countries with increasing numbers of planes. In one instance 75 bombers were accompanied by more than 300 fighters, some of the latter doing light bombing and "strafing." The British apparently intend these sweeps to draw German fighter planes into the air—both to provide combat and to mark the location of German airfields. Their chief purpose is the destruction and diversion of German air power, but indications to date suggest that the Germans are not taking the bait. Recent newspaper figures from Allied sources for a week's fighting over Western Europe showed the British to have lost 41 planes while the Axis lost only 14.

The map indicates the limitations to air operations from Britain. The tactical air ranges for fighter planes have been decreasing as their armaments and armor have increased, so that even with additional gas tanks, the effective combat radius for a single-engine interceptor is not more than 150 miles, and is likely to be less. For a two-engine escort fighter, the radius can be increased to 250 miles by means of extra tanks, but the escort fighter cannot equal the interceptor fighter in combat.

#### Hitler's Speech and German difficulties

Reaction to Hitler's speech among his enemies has been generally optimistic. London press comment pictures the speech as an apologetic and discouraging description of the situation on the Russian front. Hitler's assumption of

SECRET



greater military and legal powers is taken to reflect hidden internal unrest and possibly to presage a new purge. Kuibyshev correspondents found the speech "encouraging" and Mr. Hull is reported to have described it as a rather "frantic" performance.

From neutral centers—Bern and Ankara—news despatches have begun once again to talk of lowered German morale and of the postponement and even the abandonment of blitzkrieg methods in Russia, in favor of a "strategy of conservation." From diplomatic sources also come reports of German difficulties. A Latin American consul, just out of Germany, reports a steady slump in morale, with foodstuffs definitely running low and continued animosity between Hitler and his generals. A pro-allied Swedish source repeats the view regarding morale, under-nourishment, and war-weariness, and adds that the Nazis themselves would now be glad to make peace on the basis of the *status quo ante* in the west if they could "save face" in the east. Talk of a negotiated peace with the United States also is appearing in German-controlled broadcasts.

#### *The Dangers of Optimism*

While close observers are not inclined to discount Germany's difficulties, there is little evidence either in Hitler's speech or elsewhere to warrant any great optimism concerning coming events on the war's most vital battlefield—the Eastern Front. The speech is also interpreted by certain competent observers as partially precautionary, no doubt indicating that some elements in the German government have not yet fully sacrificed traditional standards to the Nazi behemoth, and possibly aiming to confuse the United Nations about the situation in Germany as a prelude to a new offensive.

The admission that Russia may not be defeated this year might suggest to optimistic parts of the American public that important voluntary sacrifices now being asked by the government are scarcely necessary. In any event a really

significant motive must have prompted Hitler's somewhat defeatist admission at this particular juncture: mere preparation of the German people for another winter of war in Russia would have come more properly in late summer or autumn and at a time when the Nazi offensive had obviously failed.

#### *The New Hitlerian Law*

One observer concludes that the sole object of the speech was simply the emphatic reassertion by Hitler of his power to remove without trial any official of the state, or officer of the army, or official of the party; to force any businessman to act as he (Hitler) wishes, irrespective of contract or material effect; and to order any employee to remain at his present post for an indefinite time.

The new law, in which these powers are made explicit, amounts to an abrogation of the last vestiges of orderly procedure governing civil service officials and the judiciary, courts martial, and the decrees on the time limits for compulsory labor. Furthermore, it may contain a significant threat to party officials and even to the SS. These organizations constituted the only body of persons in Nazi Germany which still had the right to criticize broad questions of policy. They had made abundant use of this right. Now finally terror has become appropriately universal in the totalitarian state.

#### *Laval and the Future*

Although Laval's precise plans for the future are still somewhat in doubt, informed circles consider it quite possible that he will try to negotiate a peace, in the light of which the rumored appointment of Georges Bonnet as the new Vichy Ambassador to Turkey is considered to be of some significance. On the naval situation a high Free French naval authority states that it is inconceivable that Laval should turn over the French fleet to the Germans, to be manned by their crews and officers. Technical reasons and the opposition of both the

French crews and French people would prevent such an act, he believes. At the same time, however, our informant stresses the importance of preventing a concentration of the fleet in any one place. Although he does not minimize the possibility of skirmishes here and there as a result of convoying of French merchant ships (foreseen as a possible Laval move), he nevertheless points out what he considers to be the unlikelyhood of any great danger of this developing at present.

No fewer than 500 Frenchmen met death aiding the British during the recent commando raid at St. Nazaire, according to a reliable report from Ankara. This report suggests that Germany, fearing increased British military activity and the growing hostility of the French, felt the necessity of precipitating a much more effective police control of the French population—hence the Laval regime. In this connection there are even rumors to the effect that Laval might be replaced by a regime headed by Doriot or Déat, the notorious Parisian collaborationists. Meanwhile, reports indicate that certain French civilian and military authorities, although not in sympathy with Laval himself, are still unwilling to believe that he will play the Germans' game completely. This wishful thinking extends apparently even to a belief in these circles that Laval is clever enough to be able to fool the Germans by double-crossing them.

Laval's accession has likewise affected the situation in Madagascar, where he is said to have ordered the arrest of many Free French sympathizers. And it is also reported that the government at Vichy is deeply concerned as a result of South Africa's rupture of diplomatic relations. After long negotiations the Japanese have finally seized 90 percent of French shipping in Indochina, leaving only 10 percent for coastwise trade, according to an announcement from Vichy, which blames the interference of the United States for precipitating this action.

### *Italy and Laval*

Although the bulk of the Italian press has adopted a calm "wait and see" attitude toward the change of government in France, the *Telegrafo* has already charged that Vichy is playing a double game. Laval's return to power could very possibly induce Italy to reexamine her whole role in the war, some observers point out. From now on, an Italian might reason, France instead of Italy will become Germany's junior partner in Europe, and the chief purpose of Italy's participation in the war—eventual dominance of the Mediterranean—might miscarry. Indeed, from the Nazi standpoint, even a crushed and humiliated France would offer far more resources and imperial prestige than an Italy drained by two years of inglorious warfare.

Reports from Bern suggest, moreover, that the Italians are still unyielding in their irredentist demands. According to the periodical *Relazioni Internazionali*: "Italy has not abandoned one iota of its claims against France, no matter what government presides over French destinies . . . Let the French have no illusions on this subject." The newspaper *Il Nizzardo* is more specific: "The French are mistaken if they think they can now obtain a reduction in Italian claims. The resurrection of Laval is not an insurance premium for France in all eventualities. With or without Laval, Nice will return to Italy."

In Spain the initial reaction has been much more favorable. There Suñer expressed in a press interview his gratification over Laval's appointment and over the assistance he felt it would contribute to the fight against Communism.

### *Food Situation in Unoccupied France*

At a time when Frenchmen in the unoccupied zone are being further buffeted and confused by leaders at Vichy, their political "will to resist" is undoubtedly being undermined to some extent by the serious current food situation. According to a report prepared by the Economics Division of the

Coordinator's Office, legal food rations in unoccupied France, even when augmented by the non-rationed foods which may be available, are sufficient to provide French adults with only about 50 per cent of their calory requirements.

Breadgrains are rationed at 60 percent of the pre-war level, fats and oils at 40 percent, and meats at 22 percent. Diets are deficient in calories, proteins, calcium, and iron, and vitamin intake is correspondingly low. Such a diet, according to nutrition experts in the Bureau of Home Economics (Department of Agriculture), produces serious physical and mental results. Following prolonged deficiency of certain vitamins and minerals, one may expect to find loss in weight, lowered resistance to disease, increasing incidence of digestive disturbances, fracturing of bones, dental decay, and delayed healing of wounds. Weakness, lassitude, and a loss of initiative and interest in life occur under such conditions.

#### *Artificial "Surpluses"*

The facility with which the Germans have been able to requisition local food "surpluses" has greatly aggravated the food situation. The armistice agreement, which divided the country, created these "surpluses" in both occupied and unoccupied areas by cutting off markets from their former supply sources. Further "surpluses" were created within the unoccupied zone because of the incompetence of the Vichy-appointed bureaucracy which controlled food distribution. Attempting to smother illegal traffic, they merely succeeded in restricting trade between departments. Additional "surpluses" resulted—which invited further German requisitions.

The unoccupied zone, which in normal years was dependent upon the rest of France for a large share of its foodstuffs, suffered most from such activities. Nonetheless, analysis by the Economics Division reveals that food supplies remaining in that zone should have been sufficient to balance requirements at the legal ration levels effective during the past year.

#### *The Black Market*

The significant "leak" in this rationing system has come through the Black Market. That leak is made possible by the cooperation of incompetent and corrupt administrators, and by the participation of the farmers themselves in illegal marketing activities. Wealthy consumers and the rural producers fare reasonably well, but at the expense of the rest of the population—in particular, the large majority of urban consumers.

The extent of dealings outside of the rationing system may be judged in part from the statement by one French food official who estimated that in France as a whole 1.4 million tons of wheat had been diverted from "proper" use by the Black Market, fraud, the feeding of animals, and the use of counterfeit ration cards. More revealing is the fact that rations in unoccupied France were severely cut in April 1942, even though analysis indicates clearly that supplies would have been adequate if consumption had been rationed at the levels in effect at the beginning of the crop year.

For those whose need for foodstuffs is most acute, there is likely to be little benefit even from increased production, at least until such time as German requisitioning declines and the rationing system is made effective. In the opinion of a competent observer, these reasons, particularly the last, would prevent improvement in the food position of low-income urban consumer groups, even were new food import sources made available to Vichy France.

#### *Growing Axis Strength in the Mediterranean*

In the eastern Mediterranean Axis submarines have virtually eliminated British convoys, according to various enemy sources, and Nazi submarine production is declared adequate to equal their admittedly important losses in that area. Malta continues to suffer from the almost unremitting bombardment from Sicily. And the forecasts of neutral

observers in Berlin tend to confirm earlier impressions that there will be no offensives against Egypt and Syria this spring by reason of the heat and Hitler's involvement in Russia. The Spanish Ambassador in Berlin, it is understood, has reported to his government that Rommel will not have enough equipment for active campaigning before autumn, and that Laval and the Nazis definitely plan to reconquer Syria, although there is no indication as to when this might take place.

Meanwhile, however, Anglo-Egyptian relations appear to be improving. Nashaat Pasha, the Egyptian envoy to London, who was under some suspicion, is reported to have remonstrated strongly with the King in favor of the British and the Wafd; and, according to the *Frankfurter Zeitung*, the new Wafd premier, Nahas Pasha, recently had a long and apparently satisfactory conversation with Sir Stafford Cripps on Egyptian post-war aspirations. After a two-day debate, the Egyptian Chamber of Deputies approved by an overwhelming majority Nahas' arrest of Aly Maher, the pro-Axis leader. At that time Nahas said that, although he wanted to spare Egypt the horrors of war and to prevent Egyptian manhood from becoming cannon fodder, he would remain loyal to engagements with Britain and tolerate nothing harmful to the democracies in the world struggle for freedom.

#### *Syrian Imbrolio*

In Syria and the Lebanon, the three-cornered political controversy continues between the British General Spears, the Free French General Catroux, and the natives. In general, the British desire to strengthen military defense, the Free French to maintain French control and prestige unimpaired, and the natives to further Arab nationalism. The French and the natives are in direct opposition, a situation tending to weaken the whole Allied defense position.

The British Foreign Office had disapproved of Spears' proposal for a new election in the Lebanon and had approved

Catroux' cooperation with generally pro-Vichy Maronites, even though the outcome might be a Lebanese government not as friendly to the British as the present one. But in the meantime, Catroux, who had telegraphed de Gaulle he would no longer allow Spears to intervene, made a hurried trip from Beirut to Damascus and set up a new Syrian ministry without the knowledge of his British colleague.

#### *Thrusts and Counter-Thrusts in the Far North*

In the northern sector of the Russian front, where snow is still on the ground and the thaw has not yet bogged down the movements of armies, a series of confused attacks and counterattacks have been going on for the past two weeks. Apparently the Germans are still sniping at Allied supply lines south from Murmansk, while the Russians are evidently trying to disorganize the Finnish army—which may well prove to be the weakest link in any German plans for a renewed offensive.

Last week at least, the Germans and Finns were more vocal than the Russians in their reports of successful action. Marshal Mannerheim claimed the repulse of Soviet attacks along the Svir River, while Berlin reported that, in the Arctic theater, German planes had bombed Murmansk and Nazi mountain troops had shattered Russian advance units. Stockholm even went so far as to say that part of the long-encircled German 16th Army had fought its way to safety from Staraya Russa. Far to the south, the Germans told of an air attack on Novorossisk on the Caucasian coast of the Black Sea—Russia's chief naval base east of the Crimea. Neutralization of Novorossisk would be a logical prelude to an offensive in the Caucasus area.

Meantime, S. A. Lozovsky, Russian Vice Commissar for Foreign Affairs, overflowed with optimistic predictions for the coming campaign. But with American lend-lease aid to Russia just beginning to hit its stride, competent observers in this country were little inclined to prophecy. And a report

SECRET

that between 1500 and 3000 people were starving to death daily in Leningrad gives, if correct, some indication of the extent of civilian suffering in Russia's beleaguered cities. Furthermore, according to Soviet sources, Leningrad has recently undergone a three-day air attack by the Luftwaffe.

#### *Conciliation on the Diplomatic Front*

Diplomatic dispatches last week suggested that the Soviet foreign office was beginning to abandon its characteristic attitude of reserve toward neutral and even Allied powers. From Ankara came the report that the advance guard of the 30,000 Polish soldiers whom Russia is sending to the Middle East for training, had arrived at Jerusalem. Furthermore, Russo-Turkish tension over the trial of those accused in the bombing attempt on German Ambassador Von Papen appears to have abated. Soviet officials have evidently been somewhat surprised at the furor that certain tactless remarks on their part have aroused in the Turkish capital. And it now appears that the Turkish foreign minister himself has admitted in private that the judges in the case were not being entirely fair to the defendants.

#### *Russia, Bulgaria, and Poland*

The Soviets also appear to be making efforts to undermine whatever aid Bulgaria has promised to give the Nazis on the Eastern Front. A *Tass* dispatch from Geneva suggests that despite the "Hitlerization" of the country and the suppression of all opposition by the new Bulgarian cabinet, there is still danger of a popular uprising against active Bulgarian participation in the war. The Bulgarian people, the dispatch concludes, are determined to resist the attempt to convert them into cannon fodder for Hitler. Nothing has diminished their hatred for "Bulgarian traitors and their Berlin masters."

The remaining thorny issue in Russian foreign policy—that of the post-war status of the three small Baltic States—

SECRET

is also being currently discussed with the British, and may be nearing a solution.

#### *Modest Victory for the Left in Argentina*

In Argentina the Radical and Socialist members of the Chamber of Deputies, whose combined vote gives them a slim majority, succeeded in uniting their forces to reelect Dr. José Luis Cantilo, a Radical, to the presidency of the Chamber. This was the first test of the use the Socialists would make in the new Parliament of their balance of power position, and indicates that Acting President Castillo may have strong Chamber opposition. Some observers predict that in such a case Castillo may find some pretext to dissolve Parliament and make the semi-dictatorship of the conservative National Democratic Party complete. In the Senate, where the conservatives have unchallenged control, Dr. Robustiano Patrón Costas was reelected president.

#### *Paraguay's Liberal Party Dissolved*

The dissolution of Paraguay's once-dominant Liberal Party, announced by the government on April 25, makes legal a situation which has existed in fact for some time. Since assuming office in September 1940, President Morinigo has systematically ousted Liberal officials and has exiled or imprisoned the party's leaders, thereby effectively eliminating it from the political scene. There have been recent indications that political exiles have been active (*The War This Week*, March 19-26, p. 19). The dissolution decree, which probably reflects that renewed activity, makes no essential change in the military dictatorship, which has methodically suppressed all opposition.

#### *Nazi Propaganda of Confusion in Latin America*

The Nazis continue to spread the propaganda of confusion in Latin America, aiming to paralyze the opposition through conflicting and disturbing rumors and reports. When, for

SECRET

instance, ten advanced training planes destined for Brazil made a forced landing on the Orinoco Delta, the newspapers in Rio de Janeiro the next day carried the story that three of the B-25's then being sent from the United States to Brazil had cracked up also—a story which had no foundation in fact but which was widely believed.

Another blow was struck at hemisphere solidarity by an apparent agreement on the part of the Axis to respect Argentine shipping if Argentina remains neutral. The existence of such an agreement is reflected in secret instructions issued by the Argentine government to ship owners on how to mark and light their vessels and what routes to follow.

During the past week the Nazis have been making strenuous efforts to reestablish radio communications with Latin America. When certain Brazilian stations were raided (*The War This Week*, March 26–April 2, 1942, pp. 17–18), the Germans lost the channel through which connection was maintained between Berlin and the espionage system of the Western Hemisphere. Now messages from several stations in Chile indicate that a new connection is in the process of being set up from the latter country. The Germans are calling for the plans of "our invasion" of northwest Africa.

#### *Quebec Votes "No"*

Canada's voters, by a two to one majority, have signified their willingness to release Prime Minister MacKenzie King's government from its previous promises never to introduce conscription for overseas service. This result had been anticipated, but it had been hoped that the negative vote in Quebec would be considerably less than the actual 72 per cent which the returns show. In effect, French Canada as a whole voted against releasing the government from its anti-conscription pledges. The 28 per cent of the Quebec population who voted "Yes" were probably confined largely to the English speaking groups who constitute 20 percent of the whole and to the small number of French Canadians in urban centers

SECRET

like Montreal whose constant contact with English speaking Canadians makes them more tolerant of other points of view. As a result of the vote, Quebec is now pitted against the rest of the Dominion. Instead of unifying the country, the plebiscite reveals more clearly than before that many of its sons will be forced unwillingly to serve overseas, and that an ultra loyalist Ontario is convinced that French Canada is trying to sabotage the war effort.

The position of Prime Minister King has been made very difficult by the plebiscite result. The main objective of his political career has been the maintenance of national unity, and according to one informed observer, it is not expected that he would further confuse the political situation at the present time by resigning. Nevertheless, by the vote of April 27, the Quebec members of the Federal Parliament, who by a great majority supported the government, have been repudiated by their own constituents. Mr. King, a master of political maneuver, must find his way out of this predicament, possibly by means of a general election, in which his talent for persuading French Canadians might be more fully exercised than it was in the plebiscite campaign.

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## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE April 30, 1942

TO Secretary Morgenthau  
FROM Mr. Kamarck  
Subject: Summary of Military Reports

Russo-German Front

The British Intelligence services feel that the main German large-scale offensive will be against Russia, but will probably not start before the end of May. The main German attack will be in the south with subsidiary attacks farther north to pin down the northern Russian armies.

Our Military Intelligence believes that conditions in Leningrad are very bad. During the winter, the Russians laid a railroad across the Lake Ladoga ice and were able to get some supplies into the city in this way. The Germans are still holding at the south of the city, while the Finns are tying up Russian reserves on the north.

Finland remains the chief German ally on the Russian front. Finland is contributing 300,000 soldiers, or more than all the rest of the Nazi allies put together.

(The United States is at war with Italy, but maintains cordial relations with Finland which has more soldiers active on the main fronts than Italy has. The Italians have at most 150,000 soldiers in Libya fighting the British and had only 60,000 in Russia until very recently.)

(U.K. Operations Report, April 16-23, 1942;  
Military Intelligence information, April 29, 1942)

Malta

Malta is still under the heavy attack which has continued unchecked now for three months. Since January 1, the defenders of Malta have absorbed the energies of a first-line German force of 300-400 planes. In this period, almost 250 German planes have been destroyed in the air over Malta. (In addition, losses of at least 50 percent

more must have resulted from planes shot down by the British, but listed as "probably destroyed", damaged planes which failed to return to their base, and the normal service wastage.)

(U.K. Operations Report, April 16-23, 1942)

Far East

The Japanese are concentrating a striking force of a large number of cruisers, aircraft carriers and transports at Truk in the Caroline Islands. This force may be designed for operations against our supply lines to Australia.

(Military Intelligence Information, April 29, 1942)