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United States Senate

COMMITTEE ON FOREIGN RELATIONS

March 12, 1941

CHRISTIE S. KENNEDY, CLERK

file

Dear Mr. Secretary:

You will let me thank you for your letter of the 11th. I am very happy to have your letter.

Let me assure you that it is a pleasure to work with you and all members of your staff.

Cordially yours,

Walter George

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

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2
March 12, 1941

CONFIDENTIAL: To be held in STRICT CONFIDENCE and no portion, synopsis or intimation to be published or given out until the READING of the President's letter to the Speaker has begun in the House of Representatives. Extreme care must therefore be exercised to avoid premature publication.

STEPHEN EARLY
Secretary to the President

March 12, 1941.

My dear Mr. Speaker:

This nation has felt that it was imperative to the security of America that we encourage the democracies' heroic resistance to aggressions, by not only maintaining but also increasing the flow of material assistance from this country. Therefore, the Congress has enacted and I have signed H.R. 1776.

Through this legislation, our country has determined to do its full part in creating an adequate arsenal of democracy. This great arsenal will be here in this country. It will be a bulwark of our own defense. It will be the source of the tools of defense for all democracies who are fighting to preserve themselves against aggression.

While the defense equipment produced under H.R. 1776 remains under the control of the United States until it is ready for disposition, it is the fixed policy of this government to make for democracies every gun, plane and munition of war that we possibly can.

To accomplish these objectives, I am transmitting an estimate in the amount of \$7,000,000,000, the details of which are set forth in the accompanying letter from the Director of the Bureau of the Budget. I strongly urge the immediate enactment of this appropriation.

Respectfully,

FRANKLIN D. ROOSEVELT

Honorable Sam Rayburn,
Speaker, House of Representatives,
Washington, D. C.

Est. no. 86, 77th Cong.
1st Session

March 12, 1941

Sir:

I have the honor to submit for your consideration an estimate of appropriation to carry out the provisions of the Act entitled "An Act to Promote the Defense of the United States", approved March 11, 1941, Public No. 11, in the amount of \$7,000,000,000, as follows:

SPECIAL DEFENSE FUND

To enable the President, through such departments or agencies of the Government as he may designate, to carry out the provisions of the Act entitled "An Act to Promote the Defense of the United States", approved March 11, 1941, and for each and every purpose incident to or necessary therefor, there is hereby appropriated out of any money in the Treasury not otherwise appropriated:

- (a) For the procurement, by manufacture or otherwise, of defense articles for the government of any country whose defense the President deems vital to the defense of the United States, including services and expenses in connection therewith, as follows:

Ordnance and ordnance stores, supplies, spare parts, and materials, including armor and ammunition and components thereof.	\$1,343,000,000
Aircraft and aeronautical material, including engines, spare parts, and accessories.	2,054,000,000
Tanks, armored cars, automobiles, trucks, and other automotive vehicles, spare parts, and accessories	362,000,000
Vessels, ships, boats, and other water craft, and equipage, supplies, materials, spare parts, and accessories	629,000,000
Miscellaneous military equipment, supplies and materials	260,000,000

Facilities and equipment for the manufacture or production of defense articles, including the construction, acquisition, maintenance and operation thereof, and the acquisition of land \$ 752,000,000

Agricultural, industrial and other commodities and articles \$1,350,000,000

- (b) For testing, inspecting, proving, repairing, outfitting, reconditioning, or otherwise placing in good working order any defense articles for the government of any country whose defense the President deems vital to the defense of the United States \$ 200,000,000

Provided: That not to exceed 20 per centum of any of the foregoing appropriations may be transferred by the President to any other such appropriation, but no appropriation shall be increased more than 30 per centum thereby; and Provided further: That any defense articles procured under the foregoing appropriations may be allocated by the President to any department or agency of this government for the use of such department or agency.

- (c) For necessary services and expenses for carrying out the purposes of said Act not specified or included in the foregoing. \$ 40,000,000

- (d) For administrative expenses. \$ 10,000,000

In all \$7,000,000,000, to remain available until June 30, 1945; Provided: That the President may transfer from the foregoing appropriations to appropriate current appropriations of any department or agency amounts equivalent to the value of defense articles disposed of by such department or agency to the government of any country whose defense the President deems vital to the defense of the United States, not exceeding in total \$1,300,000,000.

I recommend that the estimate be transmitted to Congress.

Very respectfully,

(Signed) HAROLD D. SMITH
Director of the
Bureau of the Budget.

The President,

The White House.

March 12, 1941

Memorandum for the Secretary's Files:

Mr. Foley, Mr. Cox and I have talked to the Secretary on a number of occasions about the subject matter of this memo. Draft of proposed executive order embodying regulations has been submitted to the President. The Secretary had a conference on it on Monday afternoon at 2:45, March 10th.

D. W. Bell

March 8, 1941

TO: Mr. Bell
Mr. Foley
H S K ✓

FROM: The Secretary

What preparations have been made in the Treasury for rules and regulations to carry out the financial end of the Lend-Lease Bill. By that I mean have we any suggestions as to how we should lend or lease articles of war, ships, etc., to England, China, Greece. I have not heard any suggestions made by the President or anybody else and I think we ought to take the leadership in this and be prepared to make concrete suggestions.

I would like to have something on this Monday morning and sit down and discuss the whole matter with you.

7 ✓
March 12, 1941.

MEMORANDUM

TO: Mrs. Klotz
FROM: Mr. Gaston

I am returning for your files the letter of Secretary Stimson, dated March 8, to Secretary Morgenthau, enclosing a copy of a letter and memorandum from Herbert Hoover on the subject of delays of ships in American ports. The Secretary called Admiral Waesche and me to his office Monday morning at 9:15 to talk about this and asked us to get together some information on the situation. I have forwarded two memoranda on the subject to the Secretary and will have a later report.

A handwritten signature in dark ink, appearing to be 'M. S.', with a long, sweeping underline that extends to the right.

March 11, 1941.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston

Coast Guard discovered this morning that the Maritime Commission is also engaged in a study of ship turn-around time. It is being done by Wilcox, formerly of United Fruit, whom Admiral Land brought to Washington as head of a new division of emergency shipping in the Maritime Commission. Wilcox told Waesche that port time in the present situation can not be compared to time consumed in the first World War since all the vessels are in effect making their home ports in the United States. Most of the repairs are done here and they store and fuel here and they also use American ports for convoy rendezvous. Wilcox found out, as we had, that there is no crew trouble with respect to British ships but some with those of Belgian and Greek registry. Wilcox is working very closely with the inland transportation department of the British Ministry of Shipping and both of them with the railroads to expedite cargo shipments to the ports.

Our men report, as does Wilcox, that there is no congestion of cargo in any American port awaiting shipment. Our men say that the British are handling the situation badly in two respects: (1) There is too much movement of ships from port to port to pick up cargo instead of saving ship time by concentrating cargo at one port. (2) The best judgment is not being used in assigning cargo to ships; some ships are going out carrying exclusively steel, which brings them down to the load line, while in the case of others all space is occupied by bulky cargo and they are not down to the load line. More goods could be shipped in the same tonnage if heavy and bulky cargoes were combined so as to utilize both space and tonnage fully.

All Captains of the Port have been asked to make a more intensive study and a fuller report. We have not asked Captains of the Port to do anything except to report the facts.

W.G.



TREASURY DEPARTMENT
UNITED STATES COAST GUARD
WASHINGTON

10 March, 1941

MEMORANDUM TO MR. HERBERT E. GASTON, ASSISTANT SECRETARY OF THE TREASURY:

Subject: Survey of conditions affecting "turn-around" periods in U. S. ports of vessels controlled by the British Ministry of Shipping.

1. In order to get information quickly on the subject of "turn-around" periods of British shipping in United States ports dispatches were sent this morning to the Captains of Ports at New York, Philadelphia, Baltimore, Norfolk and New Orleans, asking them the following questions:

- (1) What is the usual time in port required for a British vessel to arrive, load and depart?
- (2) What is the length of delay in forming convoys at Halifax?
- (3) Is any delay caused by crew troubles, longshoreman troubles, subversive activities?
- (4) Is there complaint of any unnecessary delay?
- (5) What measures can be taken to shorten the import period?

2. The replies are pretty well in agreement.

- (1) For a cargo of steel, a general cargo, the import period is from eight to ten days, or loading proceeds at the rate of 800 to 1000 tons a day. Grain, oil and coal cargoes may be loaded in two days.
- (2) Normally there is little delay in forming a convoy at Halifax, except on account of stormy or foggy weather. Halifax is not congested and supply conditions are good. Vessels are ordered to leave United States ports as to arrive at Halifax for a specified convoy. The vessels usually arrive, the Captain goes ashore for instructions, and the convoy leaves the following day.

SG 661
10 March, 1941

- (3) British vessels are having little trouble with their crews. Greek, Norwegian, Belgian and Dutch vessels are having crew troubles due to men paying off or deserting, the Greek vessels being the worst and the Dutch vessels the least troublesome. The crew trouble causes some delay but can not be regarded at this time as a serious difficulty.
- (4) American longshoremen labor is satisfactory in all ports.
- (5) Subversive activities have not been troublesome up to the present time.

3. The following measures have been suggested by the British authorities as being helpful in aiding British shipping:

- (a) Direct ship yards to give priority to dry docking and repairs of vessels actively employed in trade with the United Kingdom.
- (b) Arrange for making up convoys in American waters instead of at Halifax.
- (c) To discourage desertion, shorten the present 60 day period which alien seamen may have in United States ports and have the Bureau of Immigration enforce the law more strenuously in order to keep alien seamen from congregating in United States ports. Another method of discouraging desertions of alien seamen would be to suspend the law which requires payment of one-half of their earned wages on arrival in a United States port.
- (d) The British themselves could help matters by arranging for each vessel to load an entire cargo at one port instead of picking up part cargoes at several United States ports.



R. R. WAESCHE,
Rear Admiral, U. S. Coast Guard,
Commandant.

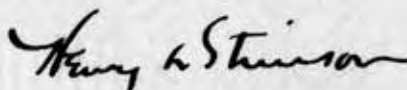
WAR DEPARTMENT
WASHINGTON

March 8, 1941.

Dear Henry:

I am sending to you herewith a copy of the memorandum of Mr. Hoover in regard to the waste of time in the turnaround of British ships now as compared with the Great War. This in accordance with your request yesterday at Cabinet.

Faithfully yours,



Secretary of War.

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

HERBERT HOOVER

The Waldorf Astoria
New York, New York
March 2, 1941

My dear Harry:

I am enclosing herewith a little memorandum which would be worth your looking into. The information comes to me because of associations in the last war where I had a considerable part in the handling of ship-loading throughout our ports. I am not able to confirm it as it should be confirmed, but if this statement is correct it is absolutely vital that it should be remedied.

Yours faithfully,

HERBERT HOOVER.

The Honorable Henry L. Stimson
Secretary of War
Washington, D. C.

Enc.

MEMORANDUM

During the last three months the time used between the arrival of British ships and their departure has averaged 23 to 25 days. This compares with an average of only 6 days for reception, loading and departure during the last war. If these matters could be so organized as to again reduce the turn around to 6 days, if applied to the probable tonnage to be moved over the next 12 months, it would be equivalent to enlarging the British merchant fleet by 1,800,000 tons.

There appears to be several causes for this:

First, no very great enthusiasm in certain trade unions who are loading ships.

Second, there are very definite subversive influences trying to attract the sailors on these incoming ships to desert.

Third, and probably the most important of all, is the fact that under our shipping and immigration laws, sailors on foreign flag ships are allowed to demand one-half of their accumulated pay and leave the ship. They are theoretically allowed to remain in the United States 60 days seeking a new job. The sailors, and often the officers, particularly on ships of foreign nationalities which the British have chartered, disappear in considerable numbers, and as these ships must have crews of foreign nationalities,

the British are often not able to get enough men on the ships to take them out of port. I have heard of one ship which has been held up for 80 days because of inability to get a crew. A subsidiary consequence of this is that the British are offering as high as \$200. a month to common seamen.

If the period for foreign sailors to remain in the United States to seek a job could be reduced to 24 hours, and if these men who have deserted were followed up vigorously, it might help to remedy this situation.

The main thing the British need, however, is generally a much better coordination of the whole of their shipping and our port facilities and our interior transportation system.

The matter is of such gravity that I think it is worthy of an investigation.

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March 12, 1941
9:03 a.m.

H.M.Jr: Hello.

Operator: Mr. Hopkins.

Harry
Hopkins: Hello, Henry.

H.M.Jr: Good morning. Harry, my boys told me that they got the impression that you and Purvis were talking about the possibility of taking over some of their existing contracts.

H: Well, we told Purvis last night that there wasn't going to be any of that done so far as the boys said they knew.

H.M.Jr: Well, I just wanted to emphasize it, because I'm having a devil of a time with them, you see, and past contracts I consider sort of my responsibility opposite the British Treasury.

H: Well, that's what I told him. I told him I had nothing to do with that.

H.M.Jr: And it has nothing to do with Purvis; it's between Phillips and me, you see. I just wanted to make sure that you and I understood each other.

H: Well, I understood that, Henry.

H.M.Jr: Well, I wasn't sure, and if that memo that you said you had for me from Kingsley Wood

H: Oh, gosh. I'd forgotten to give it to you. I'll get it out this morning, Henry.

H.M.Jr: Will you do that?

H: Yeah. Now, I want to ask you something about this thing. Now, under the section of the bill that refers to the billion three - not the appropriation bill - now, in that section of the bill, as I understand it, this stuff, if the President wanted to, he doesn't have to get a quid pro quo for it. The billion three I'm talking about.

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HM,Jr: Yeah, I'm listening.

H: Now, on the other hand, while this appropriation bill is going through, I think it would be great for public opinion for us and sensible for the British too if there could be a quid pro quo worked out, where some of this stuff that now exists - some of this old stuff - that is going to the British

HM,Jr: I'm listening.

H: Now, is there any chance of getting one or two things shown so that the American people would not think all of this stuff is simply being given to the British.

HM,Jr: Such as what?

H: Well, I understand that - let's say that the British have a stake now in, take the Memphis plant - that they would transfer their interest in that Memphis plant without our giving them any dollars at all.

HM,Jr: Well, now, let me explain that to you.

H: Is anything like that a possibility?

HM,Jr: Well, I went into this at great length for the President Monday. See? Now, are you so you can listen for a couple of minutes?

H: Yeah, I haven't got a thing to do.

HM,Jr: Well, let me just go over this - the financial part - which, I take it, he still holds me responsible for.

H: That's right. He told me yesterday he wanted you to do all of it.

HM,Jr: Well, it's just one of those things; it's so vast and so difficult; it's either with me, all or nothing, you see.

H: Yeah.

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H.M.Jr: Now, here is the situation on British payments - I'll come to the plants last. They've got a certain amount of - the South African and Australian gold is pledged to us for existing contracts; that's No. 1. Marketable securities, listed securities, which was \$600 millions; that's No. 2. Factories which they own, like Lux Soap and Viscose, and so forth, \$900 to \$1 billion, you see. Now, all of those I told Congress were pledged and would be liquidated against existing contracts, amounting to about \$1 billion ⁴, as of on the first of January.

H: Yeah.

H.M.Jr: That's one picture against existing contracts. Now then, they come along and they say, "We're hard up for cash," so the Army works out a formula whereby they'll take over English contracts where they have down payments - they've made 25% down payments, see - and they are in the process of doing that.

H: Is that through the defense appropriations or is it through the regular Army appropriations?

H.M.Jr: No, through regular Army appropriations. No. 2: Jesse Jones is in the process of negotiating for \$1³/₄ millions of monies to put in plants, and the No. 1 thing he's working on, is the DuPont powder factory. The money that they get from Jones and from the Army, we have told them that they can use that money for anything that they want. You see?

H: Yeah.

H.M.Jr: Was that a belch?

H: Yeah.

H.M.Jr: God bless you!

H: I get it.

H.M.Jr: Now, that is the set-up, and Purvis and his crowd are all the time trying to change it, and the President wrote a memorandum - I'll send you a photostat of it immediately - to

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the R.F.C. and to the Army to expedite that. That is the picture, and I've got both the Army and Jones cooperating and so forth. Now, of course, they'd like to - that is very slow and it'll take considerable time, but, so to speak, it has been used once. You see what I mean?

H: Yeah.

H.M.Jr: And to set those things up as collateral again would be using them twice, and you'd have to make up your mind - well, we won't do it the other way. But Jones is three-quarters through on negotiating on the powder plant and my own feeling is - my own boys brought that up to me - would be to leave that aside and in talking with the President, this is what the President said on the billion three. Have you got the financial picture?

H: Yeah, I've got the two points you made now complete.

H.M.Jr: See?

H: Yeah.

H.M.Jr: Now, I'm having a terrific time with them to get them to sell their first factory in this country, and I've put the heat on them unbelievably, and the President is backing me. For your own private ear, Monday night I told Halifax that if, by the end of the week, they didn't make a sale, I was asking that they recall Sir Edward Peacock, and they got everybody in a huddle yesterday and I hope that they're going to do something.

H: Yeah.

H.M.Jr: Because until they sell some factories, I can't tell the world that they've kept their word or that the English businessman thinks more of his investment than of winning the war. Did you get that?

H: Yeah.

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- H.M.Jr: Now, on Monday at lunch, I probed the President very hard on what he had in mind in the way of collateral and this is what he told me. He said, "Henry, let's take those cutters; let's say they're worth \$2 million; you and I can decide what they're worth better than anybody else. We'll say they're worth \$1 million. So I'll say to them, you can have a cutter - \$2 million cutter for \$1 million, and I want \$1 million worth of shipping returned during a 5-year period after the war is over." And he said, "If you can build them cheaper in England, you can make the difference between the English price and the dollar value." Now, that is what he had in mind, and I went over this whole thing that I'm going over with you.
- H: You mean you'd throw under the billion three; in fact, you'd put that in the same category as other stuff that we lend-lease. That's what it amounts to.
- H.M.Jr: That's what he said, and I went at it - I mean, I probed very, very hard. Now, he said, "As to the \$7 billion, let's place the orders and when they're ready to come off the line, we'll talk about it then." Now, that was the way he felt and we really were at it consistently, with no stories or anything else, for one hour.
- H: Yeah, but let's get back now to this billion three a minute. Let's say you got the cutters at \$1 billion - we're on shipping now. This thing runs into a hell of a lot of different items as well. Under the billion three alone there would probably be 4 or 500 different things, although they'll all fall under four or five main headings. Now, do you visualize making one or two major deals covering the whole business, or each time making some dicker - which is a hell of a chore?
- H.M.Jr: Well, frankly, I don't think that the President had thought it through.
- H: You can't - last night he jumped me about this.
- H.M.Jr: He jumped you.

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H: Well, he said, "What's the quid pro quo here for this billion three?" He said that he had talked to you about it. I said, "Mr. President, I can't tell you that. All I can tell you is that legally you don't have to have a quid pro quo, and the understanding is on this first move that the quid pro quo is to be decided later, and if you hold this up"- he was going to hold the damn thing up. I said, "If you hold this up to work out the quid pro quo on this - it doesn't amount to a damn anyway - it'll be a week before you can work that one out." Well, now let me ask you this, Henry. Is the quid pro quo on this billion three something that you would work out with Purvis or with Phillips?

H.M.Jr: Well, let me just go back a minute.

H: Well, let me say that I'd like to have - as far as I'm concerned, I'd like to knock any responsibility for the quid pro quo, but on the other hand, I'd hope it could be worked out under two or three main headings so that each time we make a move, even though some of them may be quite small, we'd have some overall agreement that would cover the small items in it.

H.M.Jr: Well, let me tell you some more of my conversation with him, you see, on this, because evidently he may not have spent as much time on it with you as he did with me because I kept him on it for an hour.

H: Yeah.

H.M.Jr: I said, "Now, Mr. President, I'm not recommending this but I'm asking you. What about the West Indies Islands? Do you want those?" He said, "No, no. I'm too old and too tired to work that thing out." See?

H: Yeah.

H.M.Jr: I said, "Well, do you want a mortgage on the British fleet?" He said, "No, by the time we'd get them they'd be out of date."

- 6 -

H: Well, he said, "What's the quid pro quo here for this billion three?" He said that he had talked to you about it. I said, "Mr. President, I can't tell you that. All I can tell you is that legally you don't have to have a quid pro quo, and the understanding is on this first move that the quid pro quo is to be decided later, and if you hold this up"- he was going to hold the damn thing up. I said, "If you hold this up to work out the quid pro quo on this - it doesn't amount to a damn anyway - it'll be a week before you can work that one out." Well, now let me ask you this, Henry. Is the quid pro quo on this billion three something that you would work out with Purvis or with Phillips?

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H: Yeah.

H.M.Jr: I said, "Well, do you want a mortgage on the British fleet?" He said, "No, by the time we'd get them they'd be out of date."

- 7 -

So then he said, "All that I want, Henry, is if we let them have \$1 millions worth of ships or the value we place on them, sometime within five years, I want \$1 million worth of shipping." I'm not going to say what kind of ships they are because I don't know. Now, answering your question - the first question. If that's the way he feels, I am in sympathy with it because if left to me, if I wrote the ticket, I'd give them the stuff and call it a day. You see?

H: Yeah.

H.M. Jr: I mean, I want you to know where I stand. If it were just left to me, I'd - because we'll never get anything anyway - we're just kidding ourselves. So if I had to write the ticket, I'd just say here take it; you're doing the fighting; it's your men and your blood that you're shedding and we're in your debt. You see? We're indebted to you. All we're doing is to give you the tools. But I'm not writing the ticket. In order to answer your question, first as to the difficulties, this thing can't be broken down into so many million dollars worth of ships, so many million dollars worth of ordnance, without saying whether it is a 5-inch gun or a rifle or a bullet, and so much of airplanes and so much of merchant ships, and follow with this thing which he told me Monday and say that within five years after the war we want so much in those categories back. Now what's the matter with that?

H: That's all right. Well, what would make it much simpler for me would be, though, if that deal could be worked out in one big over-all deal. Then as we give them stuff that has an estimated value of x dollars, we could put that up against one of the things they have agreed to do, whether it would be ships or airplanes or what.

H.M. Jr: Well, you could do this. Let's say the value we're first going to use would fall in where he was Monday. We're going to say we're going to deal you - lend you - a billion 300 million dollars worth of materiel and within five years after the war, we want a billion 300 million

- 8 -

dollars worth of materiel back in the following categories and we will sit down and work out what those will be within a 5-year period.

H: That's right.

H.M.Jr: Now, how about that?

H: And want them back in materiel and not in dollars.

H.M.Jr: That carries out the original spirit.

H: And that's really the same thing we'll do later under the appropriation bill.

H.M.Jr: I would think so but I wouldn't ask - because as I say, if he doesn't want the West Indies, I don't want to mess up those contracts - I don't know who suggested it to you - but I want to leave it with the Army and with Jesse Jones.

H: Yeah. Well, I've got no desire to do it and this scheme sounds fine and a very easy one because it could be done in one shot. Now, that would have to be negotiated with Halifax and Phillips, wouldn't it?

H.M.Jr: I should think it would be Halifax and Sir Frederick Phillips and not the Purchasing Mission. See?

H: That's right.

H.M.Jr: And that would not be a too difficult package and

H: Well, do you understand at the moment that the working out of that is a responsibility of yours?

H.M.Jr: Do I understand it?

H: Yeah.

H.M.Jr: No, because the President hasn't told me so. All I understood was that the actual papers,

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I mean, the pieces of paper would be deposited here and

H: Do you think he has got any other thing up his sleeve about that billion three? He sounded very mysterious to me last night - something about some damn thing he's got cooked up out in the Pacific.

H.M.Jr: Well, if he has

H: Not that it is important that I know it

H.M.Jr: But if he has, I'm almost positive he didn't have it on Monday because I pressed him as hard as I ever have.

H: When I see him this morning, suppose I tell him about this talk and tell him about this part three of this financial negotiation; namely, the quid pro quo of the billion three, and ask him if he won't tell you today that all the responsibility in relation to that he is turning over to you, because I can see how easy it is to gum this up and I just - if Purvis ever opens his mouth again about dollars, I'll just tell him not to talk to me about it; I don't want to hear about it; I don't want to talk about it; I've nothing to do with it and neither have you.

H.M.Jr: I think that's right.

H: And I'll tell him that in words of one syllable, but very politely.

H.M.Jr: I think that that's right.

H: And if any of those other Britishers in any other lay-outs try to talk to me, which they haven't, I'll tell them the same thing.

H.M.Jr: Now, one thing that - if you're going to talk to the President this morning - that I think he ought to do for his own sake - you see, take this committee of four. If any of the other members know anything more about the appropriation bill than I do, well, I start with zero. See? So whatever they know is

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plus. Now, I take it that somebody is going to have to testify for it and I think that the President ought to get the four of us together as soon as possible and tell us what he expects each of us to say, because I haven't got the foggiest idea; I don't know what to work on.

H: I agree with you.

H.M.Jr: And personally it seems to me that the Director of the Budget has it and he ought to go up and testify. I don't see why I should testify; I only know what I've seen on the ticker. But if the others are as much in the dark as I am and he expects somebody to go up on the Hill Thursday - I hope it'll be Harold Smith and not me - I've got to be told, because I'm completely in the dark.

H: Well, I told you I talked to him about this yesterday - not about the appropriation bill but about this committee - and I said, "You've just got to get a-straddle of this now; you can't act the way you're acting about this; you've got to have this committee together once a week. Otherwise, we're going to get all bawled up here and I'm working like hell on these things and it's got to be done one of two ways. Either I've got to go each week and spend a great deal of time with each member of the committee, which I think is very unsatisfactory, or you've got to have them together so they're in the room with you during these early weeks of this thing." He said, "I know; I want to do it, but I'm awfully busy today." I wanted to get them together last night - have a meeting yesterday afternoon between five and six - but

H.M.Jr: But, Harry, supposing

H: But he's not easy to handle, Henry, you know.

H.M.Jr: But somebody is going to have to carry the ball on the Hill - a number of people are. Now, when they go up there, you want them full of vim and vigor.

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H: That's right.

H.M.Jr: I'm as flat as a pancake.

H: I don't suppose any of the rest of them know a damn thing about it. The only thing I know about the bill is that it is to be \$7 billions; I haven't seen the language of the bill; I haven't seen the bill; Smith has very carefully avoided showing it to me; and I don't know how the money is being divided up.

H.M.Jr: Do you mean that really?

H: Exactly. I haven't asked him to show me the bill because the President didn't indicate it was my business. He told me he wished I would not be at the meeting of the legislative leaders yesterday on the ground - on account of he didn't want me to get my neck out about the appropriation, which I think he's right.

H.M.Jr: But, Harry, I mean, if you could have heard Harold Smith yesterday afternoon begging me to tell him what it was and my insisting, and his not believing me, that I didn't know, and here it was sometime yesterday afternoon, and he says that 24 different people have got something to do with it, so he said, "Can I talk to Purvis?" I said, "You'd better ask Hopkins about that because he's looking after Purvis." Then I can cross out - make it 23 people, because I don't know anything. But he said, "Mr. Morgenthau, please tell me what I'm to do." And I said, "I can't!" So, as I say, if

H: That was silly of Harold to say that because Harold has been talking to the President right along.

H.M.Jr: What? I'm repeating word for word what - the whole thing that I'm saying - the only person who knows what the seven billion is in the breakdown, I take it, is the President. I take it that he expects somebody to go up on the Hill and put up a fight for it. Well, if he does, he'd better get busy and have the people together, whom he expects to go up on the Hill.

- 12 -

H: I agree with you. Well, I'm going to try and see him now and see if I can get both of these things cleared up. One of them is that financial thing and the other thing. The point is that every time, for instance, during the week I know that we can scrape together 12 or 14 more items which can be transferred immediately, you see - every time those things come up, he's going to jump me on what's the quid pro quo on this billion three.

H.M.Jr: Yeah.

H: That's why that's got to be understood right away, because you know he never lets up on a thing like that.

H.M.Jr: Well, I'm glad to have this chance to tell you what I know and how it was as of two o'clock Monday. And I wanted to know what he wanted, but he didn't in any way tell us anything but we should be the State Department's lodge for the papers. That's all I got. See?

H: All right.

H.M.Jr: Good-bye.

Mr. Thompson read this letter over
the telephone to Mr. McReynolds who
said it was exactly right.

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March 12, 1941.

My dear Mr. President:

As I indicated to you in my letter of March 5, it is my opinion that, with the signing of the Lend-Lease Bill, there will no longer be any need for the Liaison Committee which you established on December 6, 1939, to coordinate foreign military purchases with our domestic program.

The Committee has handled approximately 2000 requests between July, 1940, and March, 1941. Of these, over 1000 were British, and some 700 Dutch, with the balance representing the American Republics and a few other countries, such as Russia, Portugal and Iran.

It is my understanding that purchasing operations by all countries in the war zone will come under the lend-lease procedure, although in certain instances, such as the Dutch East Indies, the country itself may continue to buy for cash. The purchasing operations of foreign countries not included in this lend-lease area depend basically on questions of foreign policy rather than upon questions of production. This is specifically true in the case of Russia, and it is also true with respect to all the American Republics.

Because of this situation it is my recommendation that the Liaison Committee be disbanded and that all foreign countries outside the lend-lease area desiring to purchase military supplies in this country be advised to submit their needs to the Secretary of State.

I believe I can be most useful as a member of your new advisory committee and the members of my office experienced in handling British purchasing operations can be of the greatest assistance if they are instructed to devote their full energies to assisting Harry Hopkins in the detailed problems involved in the lend-lease administration. They already have instructions to assist him in any way and to the full extent he desires.

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I would appreciate it if you would notify the Secretary of War and the Secretary of the Navy that the original Liaison Committee has been dissolved and that all foreign purchasing operations outside of the lend-lease area will henceforth be the responsibility of the Secretary of State.

Faithfully,

(Sgd) Henry Morgenthau Jr.
Secretary of the Treasury.

The President,

The White House.

Copies to:

Secretary of State
Secretary of War
Secretary of the Navy
Honorable Harry Hopkins
Mr. William H. McReynolds

W.H.M.

Copies of
President's ltr. of Dec.
6, 1939, Scarp ltr. of
June 27, 1940, 5
President's ltr. of
July 1, 1940
Inclosed.

W.H.M.

March 5, 1941

My dear Mr. President:

With the signing of the Lend-Lease Bill the period of cash-on-the-barrelhead will come to an end for the great bulk of foreign government orders in this country. Your appointment of an advisory committee, to assist you in administering the provisions of the bill, means that a vital new phase of our effort has begun. I shall be delighted to serve as a member of this committee.

Complete coordination of all foreign buying will, in my opinion, be even more necessary under the new system than under the old cash sales plan. You may remember that at the first meeting of the newly constituted advisory committee, on March 1, I brought to your attention the problem of Russian purchasing, and you said that you felt this came within the scope of the new committee's work. I think that the same considerations should apply just as much to the Dutch and Canadians, who will continue to pay cash, as to the British and others who will come under the Lend-Lease procedure. It seems to me that all foreign government purchasing, commercial as well as military, can be handled more efficiently and fitted more smoothly into United States production if this purchasing is coordinated in one place.

Therefore, I should like to suggest that all the complex liaison work on foreign purchases, which has been done in the Treasury for the past two and a quarter years, should be consolidated immediately and completely with the work to be done by Harry Hopkins as Secretary of the new advisory committee. This will relieve me of all direct responsibility with respect to foreign purchases, except for the great and continuing responsibility that now faces all the committee members alike. I have already begun to turn over to Harry Hopkins a part of the foreign purchase work we have been doing, and, complying with the request stated in your letter of February 25, I have offered him the assistance of anyone he needs in the Treasury.

Faithfully,

(Signed) H. MORGENTHAU JR.

The President,
The White House.

March 12, 1941.

Dear Harry:

I enclose a copy of a letter which I have today sent to the President with respect to the Liaison Committee which has been handling matters relating to foreign military purchases in this country.

Sincerely yours,

(Signed) Henry

Honorable Harry Hopkins,
The White House.

Letter 3-12-41 HMI to Pres.

HP

March 12, 1941.

Dear Mac:

I enclose a copy of a letter which I have today sent to the President with respect to the Liaison Committee which has been handling matters relating to foreign military purchases in this country.

Sincerely yours,

(Signed) Henry.

Mr. William H. McReynolds,
Administrative Assistant to the President,
The White House.

Letter HNS to Pres Mar. 12, 1941
FDR to Secy Treas Dec 6, 1939
HNS to Pres June 28 1940
FDR to Secy Treas July 1, 1940

WNT:nms

March 12, 1941.

Dear Cordell:

I enclose a copy of a letter which I have today sent to the President with respect to the Liaison Committee which has been handling matters relating to foreign military purchases in this country.

Sincerely yours,

(Signed) Henry

Honorable Cordell Hall,
Secretary of State.

Letter of March 12, 1941 HMTV to Pres
Letter of July 1, 1940 FDE to Secy Treas.
Dec. 6, 1939 " "

WNT:mas

March 12, 1941.

Dear Henry:

I enclose a copy of a letter which I have today sent to the President with respect to the Liaison Committee which has been handling matters relating to foreign military purchases in this country.

Sincerely yours,

(Signed) Henry.

Honorable Henry L. Stimson,

Secretary of War.

Letter HM Jr to Pres Mar 12, 1941

WNT:DES

ful

March 12, 1941.

Dear Frank:

I enclose a copy of a letter which I have today sent to the President with respect to the Liaison Committee which has been handling matters relating to foreign military purchases in this country.

Sincerely yours,

Reginald D. Henry

Honorable Frank Knox,
Secretary of the Navy.

Incl. of ltr 3/5/41

WT:mas

hm

March 12, 1941
9:35 a.m.

GROUP MEETING

Present: Mr. Gaston
Mr. Wiley
Mr. Cochran
Mr. Pehle
Mr. Sullivan
Mr. Thompson
Mr. Young
Mr. Graves
Mr. Schwarz
Mr. Bell
Mr. Haas
Mr. Foley
Mr. Kuhn
Mr. White
Mrs. Klotz

H.M.Jr: I want a fairly brief meeting this morning.

Thompson: I read the letter to Mac and he said it is exactly right, so I am having copies made now.

H.M.Jr: Will you please tell both - just tell Bell about it. I want Bell to know about it.

Thompson: Yes, I will show it to him.

H.M.Jr: Will you?

Thompson: Yes.

H.M.Jr: Dan?

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- Bell: You saw, I suppose, where we got 450 million of bids for Treasury bills as compared to 525 of last week, and the rate went from .08 to .12. The rate is now about 18 per cent. And several of the larger corporations, such as General Motors, came in, which is very good.
- H.M.Jr: That is tapping their cash balances.
- Bell: You might get quite a lot of that if you keep the banks out of it, at the rate of say between 18 and one quarter. I have a number of letters to be signed. One is the investment of the Old-Age Reserve, 171 million.
- H.M.Jr: In what?
- Bell: In the two and a half per cent.
- H.M.Jr: I thought it was three.
- Bell: No, that was reduced in the last amendment. These are reports of the Stabilization Funds similar to the one we had last year, what goes to the Speaker and the Vice-President and the President.
- H.M.Jr: You have been clearing out your basket, I see.
- Bell: Yes. I talked to Eccles about financing, and I wondered if you would like to talk to him tomorrow afternoon or Friday.
- H.M.Jr: Well, I would like to --
- Bell: We can see if the information on the seven billion has an effect on the market.
- H.M.Jr: After this meeting is over, I want to talk to Bell and Young and Foley and Gaston and Cox

- 3 -

and then right after that, if you will stay behind, see. And then, John, I will phone you and if you don't mind, John, when you do come in I just would like you and Blough and nobody else.

Sullivan: Yes, sir.

H.M.Jr: I want to do my home work, and I don't want to show my ignorance in front of too many people, so just you and Blough.

Sullivan: Yes, sir.

Bell: That is all I have.

H.M.Jr: But then if you stay behind this other group, I will talk to you. It will be the group and then you alone.

Bell: Yes, all right.

H.M.Jr: Harold?

Graves: At your convenience, Mr. Hall and his men are ready to report on that visit to Mr. Dwiggin about the money.

H.M.Jr: Well, tell Stephens that the first time that I am at ease, so to speak, I will see him.

Graves: I think it would be nice if Mr. Bell could sit with us.

H.M.Jr: But there is no rush about it, is there?

Graves: Oh no, not at all.

H.M.Jr: The first time I am at ease.

Graves: Yes.

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H.M.Jr: All right.

Graves: I think I should report to you that we are authorizing the mint to buy between now and May a thousand tons, approximately, of foreign copper, because there is no supply of domestic.

H.M.Jr: I think that is a great mistake. American money on American copper. They have got to give it to us.

Bell: Can't get it.

H.M.Jr: Oh --

Graves: We can probably get it by going to O.P.M. and securing a revocation of clearances that they have given for domestic copper to defense industry.

Haas: Hamm said he could help on that in case it came up again.

H.M.Jr: Well, I don't even have to ask anybody. I am not going to make American pennies out of Chilean copper. I am just not going to do it.

Graves: Well, we will revoke that.

H.M.Jr: I am glad you talked to me. Somebody is going to get up, like Senator Bob Reynolds, and make an American flag speech and so forth and so on, and I am just not going to make American money out of foreign copper.

Graves: Well, we will just have to push our way through this.

H.M.Jr: The thousand tons that we had, that come to us, just swap it around. Take a thousand tons of

- 5 -

American copper and give it to somebody and get a thousand tons - get a thousand tons of American copper for a thousand tons of Chilean. Don't you think I am right, Herbert?

- Gaston: Well, I don't know. I think it is all right. I don't think anybody would make any noise about it. After all, we do make silver coins out of Mexican silver, I suppose.
- H.M.Jr: Not knowingly. Anyway, I don't want to do it.
- Graves: All right.
- Bell: It didn't seem to me it made any difference. We are buying foreign copper anyhow, and we have practically exhausted the supply.
- H.M.Jr: Well, if he hadn't put it up to me, it would have been something different.
- (Laughter.)
- Bell: Then I would have approved it, because we have to go through a lot of difficulty to get it.
- Gaston: Maybe we could design a special good-neighbor penny.
- H.M.Jr: That is about all the good neighbors have got for the last seven or eight years.
- Graves: We have been struggling with this for several days, and it seems to me and to Dan that this is the most practical way to do it.
- H.M.Jr: Well, two bright young fellows like you can do it my way. All right?
- Graves: All right.

- 6 -

H.M.Jr: If you hadn't mentioned it..... Anything else?

Graves: That is all.

Bell: Have you had any confirmation of the hearings tomorrow?

H.M.Jr: That is the purpose of what I am asking you people to stay behind for. I received yesterday, March 11, a memorandum written by Harry White on March 5 on statistics for foreign exchange control. Where it was all the time, I don't know, but it was only given to me yesterday afternoon, and I took it home.

Bell: It has been on my desk part of the time.

H.M.Jr: I don't know. It has no initials, nothing on it, and I take it there is a committee on foreign exchange control, isn't there?

White: That is right.

H.M.Jr: And I think it ought to come up through regular channels. Now, I will say this, that I read it. I mean, I read the two pages carefully, and I have no objections, but I am a stickler for form and --

White: Well, that, I think, is the proper routine. The committee approved it. It has to deal with me, not the committee.

H.M.Jr: Well, there is nothing on here, Harry --

Bell: Yes, I think there is a note in there that the committee has approved it.

H.M.Jr: What an unusual way - no. Well, I have never got a request for money like this before.

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- White: Well, there is a first time to everything. I don't know what you mean. From me?
- H.M.Jr: From anybody. I mean, we have got a Treasury Budget Committee and all that sort of thing. I mean, this is a Treasury matter. Your initials aren't even on it. It isn't even signed.
- White: Well, you just suggest whose you want on there, and we will collect them.
- H.M.Jr: Well, I am giving it to Norman Thompson to put it through the regular Treasury organization, but that thing comes up like that - I mean, it is - did you ever see one like that, Norman?
- Thompson: No, sir.
(Laughter.)
- Foley: We need a new technique.
- White: It is an innovation in the interests of expediency - of efficiency, I mean.
- H.M.Jr: Well, I want you to know you got twelve-hour service out of me.
- White: I am amazed. It is better than I got out of anybody else.
- Bell: I think I am responsible for the delay, because it came up while Harry was away, and they wanted to bring in a \$7500 man to do a little statistical job, and I am the one that stopped it, and I wanted more information about it because the thing started when I was in charge, and I said I would like to have them experiment and then I would like to know where they were going. It came to me as a sort of a settled proposition,

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and I made inquiry about bringing these people into the Treasury, \$7500 man and a \$2300 secretary. Well then when Harry came back, he wrote this memorandum and I found that you had approved on January 27, which I hadn't had at the time I got the recommendation for the personnel, Harry's division taking over this statistical work. I think you had approved it.

White: Well, let's finish the story.

When I heard that Dan had some questions about the staff being taken over, I raised the question with him, and he said, well, he didn't realize that you had approved the project, and since you had approved it, he didn't feel that he wanted to - it was necessary for him to make any comment, and I stated at the time that it didn't matter to me whether the project had been approved by the Secretary or not, that I wanted Dan's approval and acquiescence, because I didn't think we ought to go forward with it unless it had it, and I said we ought to take it up with him again.

Bell: No, I assumed that Harry had discussed it with you on January 27, and that is the reason I said I didn't think there was any use of --

White: Well, Dan, I thought I made it clear at the time that when I discussed it with the Secretary I didn't think that he had an idea of how much was involved, and I wanted to re-raise the problem with you irrespective of that. That is why I sent you the memo, and then you remember the note you sent back --

Bell: Yes, I said the Secretary had approved it, and I didn't see any use of --

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H.M.Jr: Now, everybody --

White: We can start from scratch all over again. You can, now that you know the whole story.

H.M.Jr: As I remember it, a lot of things happened. You went home with me one afternoon. You said - I don't remember this --

White: It had nothing to do with this, Mr. Secretary.

H.M.Jr: Now just let me - you had a chance. You went home with me, and you said that you wanted to increase your staff to the extent of a hundred thousand dollars.

White: That is right.

H.M.Jr: My impression had nothing to do with this.

White: It had absolutely nothing to do with this.

H.M.Jr: That is just what I want to come to, and I told you, in order not to hold you up, as you can find good people, take them on. You said, "Well, I can only get a couple of people." I said, "I don't want to slow you up. Take them on," and then you said certain people objected but - don't lose a chance to get a couple of good people, take them on and --

White: I said I would take them on until you told me to stop. So far we have taken, I think, one man on. That is going forward.

H.M.Jr: But that also was a hundred thousand.

White: I said that might amount to a hundred thousand.

H.M.Jr: But that was your regular stuff.

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White: Yes, that had nothing to do with this.

Cochran: Does that come from the Stabilization Fund?

White: That comes from the Stabilization Fund.

(Laughter.)

I don't get any commission. There is no kick-back on these salaries.

H.M.Jr: Now, I will be perfectly frank, on this Foreign Funds thing my mind is a blank.

White: Well, that may be.

H.M.Jr: I wish you would refresh my memory, because, I mean, the other thing I have straight, Now, Harry, where is that in the works? Let's do one thing at a time.

White: I said that I would go forward with that until you told me to stop. So far we have - I have interviewed probably half a dozen good prospects, but so far I have only been able to get, I think, one or possibly two.

H.M.Jr: Will you please formalize that.

White: That is formalized.

H.M.Jr: No, you have nothing in writing from me.

White: I take it I don't need anything from you until Norman stops okaying them.

H.M.Jr: It is up to you to get something to protect yourself. You have got nothing to show of this conversation that I approved this thing. Get something. I mean, I am - the kind of red

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tape I am talking about is protection to you (White), to you (Thompson), and to me. I am all for the initials and everything else. For both of our sakes, please formalize that particular conversation, because I made no notes on it, you see, Harry.

Bell: I think that is a good thing for the record, because I approved most of those appointments just on a statement from Harry that he has cleared it with you informally.

H.M.Jr: There is nothing to show it except that we are here and I remember it. Now this thing, just to show you I am human and my brain is over busy, you will have to refresh my memory on this, but let's formalize the other thing, you see. Now, what about --

Bell: That has been formalized.

White: Let's start again.

H.M.Jr: Refresh my memory, will you please?

White: I should say it is four or five months, isn't it, John, we have taken this up at the committee, and we have had an experimental period. A committee of five voted on it. Mr. Merle Cochran, as I suggested, was doubtful about the wisdom of taking on the additional work.

H.M.Jr: In a case like this, you call him Mr. Merle Cochran?

White: Well, I am being very formal. (Laughter.) Mr. Pehle, Mr. Bernstein were for it, and Mr. Wiley also voted for it at the time, although I don't remember - I don't think he was in at any of the subsequent discussions, but it developed since then. I had an opportunity to

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get what I thought was an excellent man for the job. He was here for one day. I wanted authority to get him for this job. I had none yet. The committee had voted in favor of it and many weeks had passed. I prepared a statement making it clear that the functions for performing those duties would be in the Secretary, so there would be no question about my authority to get this man.

H.M.Jr: Is this four or five months ago?

White: No, this was about five weeks ago, I think. It was before.--

H.M.Jr: Well, when did you get to me, Harry?

White: I am getting to you right now.

H.M.Jr: O.K.

White: Therefore, I prepared this statement and asked you to sign it if you approved, on the grounds that I needed to act quickly. You did sign it. I wasn't here. I thought you might call me in to tell me about it, but you didn't, you signed it. I negotiated for this man. The president of the university would not let him go. That was dropped. Therefore, so far as I was concerned, the order had no value because it was just for that one case, and I wasn't going on the basis of that to pursue the matter beyond getting some of the other men. I left for Mexico and left word - or we drew up plans to get some men. The first men that came to Mr. Bell's attention, he raised some questions about. When I returned, I took it up with Mr. Bell. I had mentioned this order, and he said, "Well, if that order has already gone forth, there is no need of my getting in on it at this stage," and I said it didn't matter to me whether the order had gone forth or not, because we can easily tear it up, that if he had any objections, or if he wanted any further information, that I would be glad to give it to him, and I awaited his dis-

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posal. Well, we couldn't get together for a few more weeks. So I drafted this memorandum. This memo was cleared by Mr. Pehle.

Pehle: That is right.

White: By Mr. Bernstein and nobody else - I don't remember Mr. - Mr. Wiley wasn't here, and I think we gave it to his assistant, but I am not sure of that.

H.M.Jr: You mean Sam Klaus?

White: Sam Klaus. I am not positive of that. I don't remember whether he was there. But we did discuss it at the meeting. Then I sent it in to Dan Bell with a note that I was going to present that to you, and I would like his reaction, thinking that that would give him an opportunity to object, or if he wanted, to discuss it with me. But Dan very rightly said --

H.M.Jr: Wait a minute, why is it Mr. Bell, Bell, Dan? I don't understand it.

White: Well, I am --

H.M.Jr: You are getting warmed up now.

White: I am getting to the hot spot now. (Laughter)

H.M.Jr: Mr. Bell, Dan Bell, and Dan.

White: All right, Mr. Daniel Bell. At that point he wrote back a note saying that he noticed, or noted, I don't remember exactly, that the Secretary had approved of this plan already and he didn't see where there was room for comment.

In other words, he dodged the issue. I suppose he didn't want to oppose it because it had already been approved and he didn't like it.

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Well, under those circumstances - (Laughter) - what was I going to do? I passed it in to you and made it very clear what was involved, how much was involved, and said that the committee had approved it and if you approved it we will go ahead, and if you don't approve it, we will drop it, so that it seemed to me that step by step it was all right with one important exception, in the retrospect.

Unquestionably it would have been desirable to have cleared with Bell the order which you signed before I submitted it to you, and the reason I didn't, in retrospect now, was that I didn't know where Bell fitted in that picture, since this was a matter between my section and you, and if you remember, I am responsible to you and not to Mr. Bell, according to the orders, so far as being formal is concerned --

- H.M.Jr: I think you are wrong on the last part.
- White: No, I don't think I am wrong, Mr. Secretary. I have looked it up carefully.
- Thompson: The order says he comes under Bell.
- H.M.Jr: You are wrong on that.
- Thompson: Then the order has been changed without my knowledge. I don't think I am wrong.
- H.M.Jr: Well, Thompson says you are wrong.
- White: Well, one of us is wrong. (Laughter)
- Thompson: The last circular signed said you were responsible to Bell.

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H.M.Jr: Can you hold your fire a minute? I want to talk a little bit on this. Somebody, and I was under the - I don't know whether it was White or some lawyer, came to me and said - you can tell me - this goes back months and months - that this whole Foreign Funds Section - nobody is keeping a good record, nobody is keeping a history, and the minutes of the whole thing are not in good shape. "Some day you will be called on to explain, and we should have a very careful and then an interpretation of what they are doing so if you have to go before the Congress, you can explain."

Now, who made that speech to me?

White: I don't think I did, but that - I definitely could have because that is the way I feel, and I think I say that in there.

H.M.Jr: Well, somebody made that speech to me.

Pehle: It may have been Bernstein, but we are all in agreement, I think.

White: We are all in agreement on that.

H.M.Jr: Let's do one thing at a time. It seems to me - I can't remember. This goes back months. It seems to me that on keeping records of the Foreign Funds, the interpretation of what you do from day to day, and have it in such shape that if I am called on to explain, I can, or an annual report.

It seems to me that that responsibility is Pehle's. See? I don't sit with you every day.

Now, as to the economic interpretations and

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repercussions of what you are doing, I would like White to do that, but I don't think he ought to be off completely on one side on that thing, particularly if he is being paid for out of Foreign Funds, and I would like to ask John Pehle what he thinks.

Pehle: Well, that has been a matter of long discussion in the committee and between Harry and myself outside the committee, and we are in agreement that it won't be this idea of the Foreign Funds being in one section and some of Harry White's men working off here. Obviously it is an integrated job. But we are normally in agreement that the statistical and economic analysis should be done by people who are responsible to Harry, and that he will select along with me, and there is no disagreement there at all.

H.M.Jr: Just so we get this thing, today is Wednesday. I would like Friday morning, Dan, a statement setting this thing up in a formal manner, you see, for my approval or disapproval, if that will give you time enough, barring testifying on the Hill, to clear this particular thing. This is one thing, you see. If you will get them together and give the watch dog of the Stabilization Fund a chance, Mr. Merle Cochran --

Cochran: I was protesting on this, Mr. Secretary, when I thought it was their money, the Foreign Funds.

Pehle: It is the Foreign Funds money.

Cochran: But Harry has another hundred thousand.

H.M.Jr: We will come to that. (Laughter)

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White: This is a field day, go to it.

Pehle: Mr. Secretary, may I suggest that at the same time we consider whether we ought to set up the Foreign Funds as a division of the Treasury? I think you (Bell) mentioned it at one time.

H.M.Jr: Do it all at one time.

Pehle: That is what I wanted to know.

H.M.Jr: I will give you two days to have the thing in shape for me. I will clear it Friday morning. Let it come up in the regular way, you see. Ten fifteen Friday morning. All this is pending the hearing on the Hill. That is number one. Is that agreeable to you, Harry?

White: Quite.

H.M.Jr: Then as to - so that - as to - regarding the additions to Harry's staff who are paid by Merle Cochran's funds, let's say you will have that ready for me Monday morning and we will sit down and talk that thing over Monday morning. I think we had better do it in two bites, don't you think so?

White: Yes. They are very different problems.

H.M.Jr: This has taken 20 minutes as it is.

All right, Harry?

White: Quite.

Bell: My note should not be construed as a criticism of what Harry had done. I intended to go into the thing, but when I found you had approved the order, it

- 17 -

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White: Quite.

Bell: My note should not be construed as a criticism of what Harry had done. I intended to go into the thing, but when I found you had approved the order, it

- 18 -

seemed to me a duplication of effort. That was not a criticism, Harry, at all.

- H.M.Jr: I just want to ask this. I find it very easy if some of you come to me and say, "Well, we need this thing desperately," and something that I am particularly interested in. I say, "Yes," but then to protect yourselves and myself, don't let the sun set and go around and see Norman Thompson and say, "I have had this conversation with Mr. Morgenthau. I want you to know about it -- "
- White: I think I sent a copy of the statement, too, to Norman.
- H.M.Jr: But for the future. Ed Foley might come in and say, "I need 40 more lawyers," and I might be under the influence of liquor and say, "Yes."
- Foley: I hope so. - (Laughter) - I wouldn't ask you unless you were.
- H.M.Jr: Well, I wouldn't say "yes" unless I was. So, protect me, will you please? All right, Chick?
- White: We are under way on the effort to finally clear up that record on the --
- H.M.Jr: Two thirds and one third?
- Schwarz: Right. And this fellow from the Memphis paper, George Morris, did get the ideas from the Department of Agriculture, and I recommend that if you could take a few minutes, we invite him over.
- H.M.Jr: Well, I am having lunch with one Wickard, and if you would give me that in a little

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memo, I will give it to Wickard for dessert.

Schwarz: Fine. We have told --

H.M.Jr: No, let me take it up with Wickard.

Schwarz: Fine. As a Chicagoan in the world events, I don't want to lose sight of the fact that Skidmore was convicted, You may not have noticed it.

H.M.Jr: And what is the sentence?

Schwarz: He will be sentenced later in the month.

H.M.Jr: That is amazing.

Foley: That is the case Jake Viner said the people in Chicago were watching, and if Skidmore actually was convicted, then the people in Chicago would believe the Administration meant to clean up some of these people.

H.M.Jr: Anybody I should write to saying thank you?

Foley: No, they have brought all kinds of pressure.

H.M.Jr: Who tried the case?

Foley: The new United States Attorney out there.

H.M.Jr: Why don't you write him a letter?

Foley: All right, I will get you up a letter.

H.M.Jr: To be transmitted to him by Robert Jackson. Yes?

Foley: It doesn't have to be. We always wrote in the past to the United States Attorney if he did a good job. You can send a copy to Bob Jackson.

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H.M.Jr: All right. Will you do that?

Foley: Yes.

H.M.Jr: Anybody in the Treasury I should thank?

Foley: I don't know. The case was investigated by Elmer Ireys.

H.M.Jr: Well, supposing you (Thompson) prepare a letter for me to Elmer Ireys, and I would like to - you see? All right. I never thought we would get that.

Schwarz: It created quite a stir out there.

H.M.Jr: I would like to see the Chicago clippings on it.

Schwarz: We will get them.

H.M.Jr: Both the Tribune and the News. It would be interesting.

Schwarz: Yes, sir.

Foley: The jury was out over Friday and Saturday.

H.M.Jr: That is very interesting.

Haas: I haven't anything this morning.

Young: Meigs has sent me over his aircraft report. I was thinking that I might turn it over to George to look over and see how it compares with ours.

H.M.Jr: That is exactly what I want done. All right?

Kuhn: I have nothing.

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H.M.Jr: Is Odegarde in town?

Kuhn: He is coming tomorrow.

Pehle: I think Cochran has mentioned to you the recent movements of Hungarian and Yugoslavian funds. There has been a million and a half go into the Hungarian Legation account here in the last two days. Part of that money is coming out of the BIS, which we have some control over; but I think we ought to approve the application and let it go.

H.M.Jr: Well, don't put it up to me, because I - my mind can't take it. You fellows will have to decide in your own committee. I just can't take it.

Merle?

Cochran: Nothing.

H.M.Jr: John?

Sullivan: There is a rumor on the Hill that I got yesterday afternoon from Stam that the Treasury is contemplating softening up its position on tax exempts, on its own securities, and that we are - we intend to provide that the interest from those securities will be subject to a lesser tax or be given some sort of a credit or in any event, that interest will receive preferential treatment, and I told Stam absolutely nothing of that kind is being discussed down here, and I asked him where he got it. He said he didn't care to disclose it.

I talked with him awhile, and he indicated it came from banking circles. It looks to me as though it is the old crowd trying to

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start a back-fire, and I think he had --

- Foley: A fellow came in to see me yesterday and told the same story.
- Schwarz: I had an inquiry on the same thing.
- Sullivan: I am wondering if we couldn't put somebody on the trail and find out.
- H.M.Jr: There will be a million of those.
- Foley: It is just one of those that start up on the Street. We had a little trouble with the financing, and we are afraid to go ahead the next time without asking for discretion or a recision of the action Congress took or something.
- H.M.Jr: Anything else?
- Sullivan: No.
- H.M.Jr: Ed?
- Foley: The Schenk case is moving along satisfactorily. The people that are watching it have got the impression that the jury and the people in the court room believe that Schenk is a high pressure fellow that tries to get away with something.
- H.M.Jr: You ought to talk with some of the press people. PM ran a very, I thought, stupid article last night by Hecht, saying what a great guy this fellow Schenk was and how all the newspapers were riding him, and he was the most charitable and good hearted fellow, and he couldn't say who he had really given this money to. Read it in PM last night.

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- Schwarz: Mr. Hecht has been making a lot of money out in Hollywood himself.
- H.M.Jr: He said he would never be able to pay this man. But here on one hand, PM was such a crusader going after all these people, and here they let this column run saying what a wonderful character this man is.
- Foley: Francis Biddle called up last night and said that as far as they were concerned, it was entirely agreeable with them for us to go ahead on the Port Authority bonds and send out a 90 day letter. That is the matter we discussed with you that day when we rode down on the Hill.
- H.M.Jr: Yes.
- Foley: And we checked the returns and two fellows have substantial holdings of Port Authority bonds that are connected with the Authority, and I think we ought to do that so that they won't have to pay anything out of their own pockets for lawyers' fees and printing the record and all that.
- H.M.Jr: Who oughtn't to pay?
- Foley: The people we select here to bring this test case.
- H.M.Jr: You mean they oughtn't to have to pay?
- Foley: That is right.
- H.M.Jr: I thought you were doing it against the Port Authority?
- Foley: That is right, so I think that the Port Authority legal staff should handle the

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case and the fellow wouldn't have to go out and hire his own lawyer and have the record printed and everything else.

H.M.Jr: You mean the individual?

Foley: Yes.

H.M.Jr: Well, why should the individual?

Foley: Well, why shouldn't he?

H.M.Jr: Are you naming him as an individual?

Foley: Yes. It is the only way you can do it. You have got to send out a letter against the fellow who doesn't report the income.

H.M.Jr: Will the Port Authority do it?

Foley: Sure, they did it on the Gerhardt case.

H.M.Jr: What do you want me to do?

Foley: I was going to raise the names of the two individuals. One of them is your friend Howard Cullman, who is a member of the Authority.

H.M.Jr: Can I name the other one? I could have named him.

Foley: Yes. Who is the other one?

H.M.Jr: Vincent Astor.

Foley: He hasn't anything to do with the Port Authority.

H.M.Jr: He has got a lot of it.

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- Foley: Yes. Well, there is one of the vice presidents of the Port Authority. His name escapes me now, but he has \$200,000 of those bonds and I think we ought to name two. We named three in the other case. So that when we get before the Court, they don't get out on some technicality; and if it is agreeable with you, we will go ahead and send out the letter.
- H.M.Jr: Fine. Wonderful. Howard Cullman has three shows on Broadway now. They say he has a piece in each of them. They are all a success. "Arsenic and Old Lace" is one of them. So maybe he won't write me more than --
- Foley: Just to show you that I didn't pick Cullman out because he was a friend of yours, I have a cousin who is on the Authority; and we took a look at his returns, but he didn't have any bonds.
- H.M.Jr: Don't worry about my friendship for Howard Cullman. It is all right. I can take it if he can.
- Foley: I would have liked to have done Henry Cohen. He didn't have any. He is the general counsel. His wife has got a few, but not many.
- Sullivan: Professional courtesy.
- Foley: Good old Southern chivalry, John. Once a gentlemen, always a gentleman.
- H.M.Jr: I see, doctors and lawyers, is it? Anything else?
- Foley: Nothing.

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H.M.Jr: Herbert?

Gaston: Joe Guffey for some time has been trying to displace the collector of Internal Revenue at Pittsburgh. He was appointed on Guffey's recommendation in about '35, I think it was. I got a letter some two or three weeks ago from Sherman Minton over at the White House saying the President had agreed that we should go ahead and look up the character of the man who has been recommended by Joe Guffey, and I referred that to Ed Flynn. Yesterday Ed Flynn got back to town. Minton called me up and said that he had got the O.K. from Flynn, and I suggested he had better have Flynn call me up; so Flynn called me up and he said he didn't like to do it, but the substance was that we would have to let the White House have what it wanted. But I asked him whether he had confirmed that that was what the President wanted, and he had not personally. He didn't think he could get into that situation without embarrassment.

So I am rather stumped to find out whether it is Sherman Minton that has done this or whether the highest authority wants it done.

H.M.Jr: Write a letter for my signature.

"My dear Mr. President: Here is the story."
Put at the bottom, "approved" or "disapproved."

Gaston: Yes.

H.M.Jr: How is that?

Gaston: Fine.

H.M.Jr: Type out the word, "disapproved" or "approved."

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I will sign it and let him send it back to me.

White: Be sure and get the right initials.

Gaston: The man is a pretty good collector. He was a deputy before he was made a collector.
(Laughter)

H.M.Jr: That is the White House, not the Treasury.

Were you (Gaston) through when Harry interrupted you?

White: That was sotto voce. That was on the side.

H.M.Jr: Not too sotto, though.

March 12, 1941.

My dear Mr. President:

Sherman Minton has informed me that Senator Guffey has recommended the appointment of Stanley Granger, of Waynesburg, Pennsylvania, as Collector of Internal Revenue for the 23rd District, at Pittsburgh, in place of William Driscoll, the present Collector, and that you wish to go along with Senator Guffey's recommendation if Mr. Granger is found, on investigation, to have the necessary qualifications.

Mr. Driscoll was appointed Collector at Pittsburgh in February, 1936, on the recommendation of Senator Guffey. At the time of his appointment he was Chief of the Field Division in the same office and had had prior experience in the Internal Revenue service extending back to 1917. I am informed that he has a satisfactory record as Collector.

The tenure of office of a Collector of Internal Revenue is indeterminate. He holds office at the pleasure of the President.

If it is your desire that Collector Driscoll be replaced and that we proceed to the investigation of the fitness of Senator Guffey's candidate, will you be so good as to indicate your approval?

Faithfully,

(Signed) E. Morgenthau, Jr.

Secretary of the Treasury.

The President,

The White House.

Approved:

March , 1941.

File to Mr. Thompson

By Messenger 10:30 A.M. - 3/15/41

THE SECRETARY OF THE TREASURY
WASHINGTON

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Faithfully,

Wm. C. Clegg
Secretary of the Treasury.

The President,

The White house.

Approved:

Franklin D. Roosevelt

March 14, 1941.

March 12, 1941

TO: The Secretary 10:18
3/12/41

The White House called
you are wanted for
a meeting at 3:00 PM this
date.

Present will be:

Harold Smith
Secretary Hull
Secretary Stimson
Mr. Forester
and yourself.

From: LIEUT. STEPHENS 3/5

March 12, 1941

10:18 a. m.

Present:

Mr. Gaston
Mr. Foley
Mr. Young
Mr. Bell
Mrs. Klotz

HM, Jr: You gentlemen in the room here will go into Mrs. Klotz room after this and read it. I had twenty-five minutes' conversation this morning with Harry Hopkins. So, as I say, if you will go in and read it, it will bring you up to date on this whole question of Hopkins and the President vis-a-vis the English and the Treasury vis-a-vis the English. I won't go into the whole thing, but the easiest thing is -- it ran twenty-five minutes; terribly important, and I want you all to read it because then you will know exactly where I stand opposite the English and the whole business. It's most important that you read it. Then I think, after you have all read it, if there is anything you want to ask me -- didn't we cover the thing pretty closely?

Mr. Young: I think it was pretty plain.

HM, Jr: As far as the Treasury. The principal thing, what I told Hopkins is I take it the President of the United States wants somebody to go up and defend the appropriation and I said, "All I can say to you is I know zero. Maybe somebody else knows more than I do about it, but I doubt it." He said, "I don't know, I don't even know what divisions are in the Appropriations Bill."

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Mr. Cox: That's right.

HM, Jr: He said, "Somebody with vim and vigor has to go up and defend the thing" and I said, "It's between the President and Harold Smith" and he definitely said it ought to be Smith. Harry said, "I don't know. I don't even know how the thing is divided up." He said, "I have not been in on it." So I said, "You had better get these people together and talk to them." Harry said, "I Absolutely agree with you and I tried my best to get the President to get the four of you together yesterday." But those of you whom I call on to help me probably know something I don't know.

I sincerely hope I won't have to go on the Hill.

Mr. Bell: Harry did not know whether you were expected to go or not?

HM, Jr: His attitude was that he knew nothing of what was in the Appropriation Bill and he had not taken part in it and he did not know who the President wanted to go up. So I said if somebody has to go up Thursday, the President had better make up his mind pretty quickly.

Mr. Bell: I talked to McCloy this morning and he said he had been to the Budget on different occasions to furnish figures, but did not know the breakdown of the thing.

Mr. Cox: I have seen some of the language and I think one of the spots where you may come in is Procurement where they may possibly do some of the buying. There will be some things which will not be Army and Navy, but Procurement will buy -- nuts and bolts and a certain amount of oils and things of that kind.

HM, Jr: Have you got a copy?

Mr. Cox: I could not get a copy. They were not

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finished last night.

HM, Jr: Can you get a copy?

Mr. Cox: I think so.

HM, Jr: From what you have seen of it, where would I come in?

Mr. Cox: I think the only spot would be Procurement backed up by British figures as to what odds and ends they want Procurement to buy as against Army or Navy or Maritime or Agriculture.

HM, Jr: I don't have to go up to do that.

Mr. Bell: That would be Mack.

Mr. Cox: I don't see any other spot where you would be in directly except to give the past history of British purchasing if they wanted background.

Mr. Bell: You might be asked to give the financial picture.

HM, Jr: That's just what I don't want to do. I don't want to do that.

Mr. Cox: I think you are right. It would not add anything because they can read your testimony before both Committees in any event.

HM, Jr: I don't want to say what we did in January or February. That's where I took a tremendous responsibility and the English cleared \$35,000,000 every week and I don't want to give them figures as of the first of March. "How could you let them place a couple of hundred million dollars of orders when they said they would stop buying?"

Mr. Bell: Don't you think we ought to talk to Woodrum?

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HM, Jr: The purpose of this meeting is -- my thought was to sit tight until I find out -- I take it McCloy does not know anything more than I either?

Mr. Cox: He does not know either. He has not been in on the appropriation thing.

HM, Jr: To show you how badly Hopkins handled this thing -- I got the story this morning -- they get a list over from Forrestal of what the Navy is going to do, but they never showed the list to the Acting Chief of Naval Operations.

Mr. Cox: That wasn't Hopkins' fault. That was Forrestal and Lockwood. Because he asked them several times specifically whether it had been cleared with the Chief of Naval Operations -- the Acting Chief, and they said yes and then they called Ingersoll about Coast Guard cutters and Ingersoll blew up and in his best quarterdeck voice said, "God damn it. He had never seen it before" and then he said, "Somebody has just brought it in."

HM, Jr: Unless you people advise me definitely, I perhaps could do nothing unless somebody calls me from the Hill or until after I have talked to the President. Now, if anybody gets anything between now and 3 o'clock, for Heaven's sake let me have it.

Mr. Cox: I gathered by implication yesterday that a meeting would be called today of yourself, Smith and the Secretary of War and Secretary of the Navy.

HM, Jr: That has been done, for 3 o'clock this afternoon. And Hull.

What do you think, Dan?

Mr. Bell: Well, the only thing I can think of, might be objection to that if Woodrum officially gives

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out the list of the people who are going to appear and then you later don't appear, why, it will raise some question as to why you didn't, whereas it might be fore-stalled and there may not be any original list.

Mr. Foley: He has already said that. It's been on the ticker.

Mr. Bell: I wondered if that was an official list but said he probably would be called.

HM, Jr.: If I call up Woodrum and say, "Well now, before you do anything ..." he would say, "What's the matter? You don't want to come up?" and I said, "No, I don't want to come up," and a couple of minutes later he tells it to some newspaper man.

Mr. Bell: You could say you have nothing to add to your testimony before the

HM, Jr.: Don't you think I ought to wait until I get an invitation?

Mr. Foley: I think it would be a great mistake to go down and try to get Woodrum not to include you before he gets in touch with you.

HM, Jr.: That's what I think. What do you (Mrs. Klutz) think?

Mrs. Klutz: I do too.

Mr. Foley: You have more confidence in Woodrum than I do.

As I see the thing, Dan, Woodrum is liable to blow up. He is liable to say, "You can't ask me to appropriate \$7,000,000,000 to carry out the purposes of the Bill without a hearing and I am going to have a hearing with my Sub-

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Committee and have people down to tell me and if you don't want to and I don't have witnesses, you have no right to ask me for the appropriation. You can't blame him. He may blow up anyway.

Mr. Bell: I don't assume you are going to blame him by talking to him. You could be right. I don't know. I raise the question whether it would not be better to keep your name out of it right at the beginning.

Mr. Cox: Aren't you likely to cross the wires up? As I get the picture, the President and Harold Smith have done most of the talking with the fellows on the Hill about the appropriations and the handling of it and they must have said somewhere that the Secretary was going to be one of the people to testify and I should think he either out to wait to be invited or find out who's running the show and say "What can I add? What should I testify?", instead of going to Woodrum because somebody has had talks with Woodrum, Byrnes and Taber and I would guess it was Harold Smith.

HM, Jr: If you heard Harold Smith on the telephone you would not guess. I tell you, Mrs. Klotz, let them read my conversation with Harold Smith yesterday and then mine with Hopkins this morning.

Mr. Bell: Why wouldn't it be better, after your conference today, to have the President say to Woodrum, "It seems to me these are the men you ought to call."

Mr. Foley: I think nothing ought to be done until the 3 o'clock meeting.

HM, Jr: I think so.

Mr. Foley: And at the 3 o'clock conference it ought to be decided and the President ought to say who the people are who should testify and that information should be given to Woodrum.

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HM, Jr: That's right. That was my attitude with Hopkins this morning. The President knows and nobody else knows and he has to say who's going to carry this bill.

Mr. Foley: If we talk to Woodrum now and the President orders you to testify, I think it would be a bad tactical blunder.

HM, Jr: Let's let it ride until 3. Oscar, will you keep after them? Let Bell do it.

Mr. Bell: After Smith?

HM, Jr: Yes. If he has a draft before 3 o'clock I would like to read it.

Mr. Cox: He has, because they had it all in pieces last night ready to be typed up.

Mr. Bell: Do you want me to try to get it?

HM, Jr: Yes, because Oscar goes over there as Hopkins' man, not as mine, and you represent me with the Budget. Isn't that right?

Mr. Bell: Yes.

Mr. Cox: Yes, I think so. Of course I don't think it makes any difference.

HM, Jr: Because of future relations, I want to keep my lines straight with Harold Smith. I want him to know where it stands.

This is an awful mess. Here you are supposed to start Thursday and after you have seen my conversation and Hopkins is bewildered and Smith is bewildered. I certainly talked straight from the shoulder this morning.

Mr. Gaston: I think you will be told at 3 o'clock to go up there.

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Mr. Cox: The only other thing in the picture, Hopkins has tried to keep out of the appropriations thing directly on the theory that was Harold Smith's job to look after that. Purvis mentioned something yesterday about my seeing the Appropriations leaders and it was quite obvious that Hopkins did not want to ask Smith and Smith, as a matter of fact, the night before asked me if I would look after it and he said, "You had better pick that up" and I gathered he did not want to be, as far as the Appropriations end, in on it at all.

Mr. Young: He said he would not ask Smith to let Oscar to go over.

HM, Jr: How did you finally get over there?

Mr. Cox: Smith asked me the night before to take a look at it for him and it was not a request, directly or indirectly, from Hopkins.

HM, Jr: Hopkins said point blank he did not know anything about the appropriations and he was going to tell Arthur Purvis to keep his nose out of it.

Mr. Cox: Arthur Purvis was over there last night.

HM, Jr: Before supper?

Mr. Cox: After supper.

HM, Jr: Smith called me up and asked me how I could get hold of Purvis and I said "Call Hopkins" which he did and Hopkins approved.

Mr. Bell: Unusual for the Budget Director to go up and defend an appropriations bill.

HM, Jr: Didn't you go with me?

Mr. Bell: I used to go with you when the larger appropriations were up.

Mr. Foley: Didn't you go up on the \$2 billion 8?

Mr. Bell: I said I did

HM, Jr: Who defended the \$4 billion?

Mr. Bell: You and I, from the President's standpoint, and Hopkins defended it from the Works end.

HM, Jr: I mean on the \$2 billion 3.

Mr. Bell: Douglas and Ickes.

HM, Jr: The Secretary of the Treasury did not go up there?

Mr. Foley: Wait a minute! Ickes did not have anything to do with it until the 8th of August and that Bill passed on the 16th of June.

HM, Jr: Who defended NIRA, the \$3 billion 3?

Mr. Bell: Douglas was in on it.

Mr. Foley: I know we did not have anything to do with it -- on the Ickes thing.

Mr. Bell: Somebody on the Stabilization Board.

HM, Jr: Can you (Foley) find out?

Mr. Foley: I can get it.

HM, Jr: Get it now.

(Mr. Foley left the room to phone and returned almost immediately.)

HM, Jr: I don't mean the \$4 billion 8. I mean NIRA. That money went directly to the President. It's the only other thing like it.

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Mr. Gaston: No logic in your defending the appropriation bill, but there might be in your reviewing the fiscal picture.

Mr. Bell: That's what they want. If they call him they want to know how can they raise it; how does it affect the fiscal situation.

Mr. Cox: Might want to know how much money is going back to the Revolving Fund.

Mr. Bell: I think McReynolds and Smith defended the \$100,000,000 Emergency Fund last year for the President.

HM, Jr.: I am very anxious not to go into this whole English financial picture over again.

Mr. Foley: I think that's important and I think that this could be put on the basis of what the Army can do and how it will do it and what the Navy can do and how it will do it and what Mack in the Procurement Division can do and how he will do it and skim the thing over lightly without getting into the question of deliveries, because nobody has done any thinking on that and nobody has any definite plans and without going into the British financial picture.

(At this point the Secretary called Secretary Stimson on the phone and the following is HM, Jr's end of the conversation:)

"Harry, sometime between now and that 3 o'clock meeting, I would like to compare notes with you.

"Well, what we are being sent for at the White House. This whole question of this Appropriation Bill, and just what has happened the last week.

"What's that?"

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"You don't like to go -- you don't like to come -- you like to go home for lunch, don't you?"

"I see.

"I see.

"Well, I would rather not on the phone -- something I would want to sit -- I hate to do it on the telephone.

"Yeah.

"Yeah.

"Well, at least I know what I don't know, so I can go in there.

"All right.

"All right. I will see you

"Well, I will see you at 3.

"All right."

HM, Jr: He says -- for some reason or other -- he's going very slowly today. Can't move fast. He said he got his orders last night and I guess he's all befuddled. Well, O. K. "

oOo-oOo

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 12, 1941

TO Secretary Morgenthau
FROM Mr. Cochran

At 10:45 this morning Mr. Zoltowski, the Polish Financial Counselor who makes headquarters in New York, telephoned me from his Embassy in Washington. He is here through Friday, and is then going to take a short holiday. He reminded me that he had not seen the Secretary since May 1939. He feels that his position with his own people would be helped if he could be permitted a ten-minute call on the Secretary which would enable him to report that he is still in touch with the head of the Treasury. I believe Zoltowski has nothing new to take up, and would only want to thank the Secretary for his interest in the Roman case, etc.

Will the Secretary let me know if an appointment is at all possible?

Handwritten notes:
Mr. Z. rec'd.
by Sec'y 11:00
MAR. 13. 1941
M. M. S. [Signature]

March 12, 1941
10:47 a.m.

H.M.Jr: Hello.

Allan
Sproul: Good morning, Mr. Secretary.

H.M.Jr: How are you?

S: Fine. How are you?

H.M.Jr: Allan, you got our message yesterday we were yesterday kind of thinking somewhat of doing a little financing.

S: Yeah.

H.M.Jr: I don't feel so much like it today.

S: Well, I would want to watch the market for a day or two before deciding definitely to come into it or not.

H.M.Jr: It doesn't taste so good today, does it?

S: No, it doesn't, but I think we have to watch it for a little longer because there wasn't a great deal doing even though price declines are pretty sharp.

H.M.Jr: Well, unless the thing changes decidedly Thursday or Friday, and then I'd like to have it sort of quiet for a week before I do anything.

S: Well, I think that would be much better and I think there is something to be said for letting it digest both the remainder of the last issue and this latest news before you hit it again.

H.M.Jr: I think so.

S: But I think you ought to watch it today and tomorrow before you make up your mind finally as to whether you're going to do it or not.

H.M.Jr: Well, I'll call you up again tomorrow.

S: All right, fine.

H.M.Jr: Thank you.

March 12, 1941
11:40 a.m.

Henry Wallace: Hello, Henry.

H.M.Jr: How are you?

W: Oh, fine. Your man, Wilson, of the Secret Service came in yesterday.

H.M.Jr: Oh, yes. I asked him to come to see you.

W: I appreciated the spirit in which he came but, frankly, I don't like to have an atmosphere of physical fear around me.

H.M.Jr: Well, you know how it came about?

W: No, I don't.

H.M.Jr: Well, this friend of yours phoned, you know.

W: Who was it? Do you know?

H.M.Jr: Oh, what's his name - this writer. Oh, David Cushman.

W: Oh, that's it, huh.

H.M.Jr: That's where it came from, and he spoke to Gaston twice and he was quite exercised about it.

W: Coyle didn't want me to go down to Mexico. He seems to be full of that kind of thing.

H.M.Jr: So we've had nothing except from Coyle and I just felt that if there was anything

W: Well, Coyle is just that kind of a guy. He urgently - put all the pressure he could on me to keep me from going to Mexico for fear I'd get shot down there.

H.M.Jr: Well, I didn't know that.

W: (Laughs).

H.M.Jr: But I wanted you to know that we're more than willing to provide the protection.

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- W: Yes. Well, I had some experience with the Secret Service in Mexico and I just don't like the atmosphere that it puts you into. I'm afraid I'm a little of a Christian Scientist.
- H.M.Jr: Well, if you change your mind, I wish you to know that we're more than willing.
- W: Well, that's certainly swell. I appreciated the fellow's spirit, it was grand
- H.M.Jr: But it's nothing we want to force on you. And if you do get any threatening letters or
- W: If I get any threatening letter - I was very much interested in what he told me along that line - I'll certainly ship them over.
- H.M.Jr: Good. But it came from Coyle; that's where it came from.
- W: Well, I'm interested in knowing that, but it checks right in with what I'd expect, from that sort of person.
- H.M.Jr: All right. Well, we're here to be helpful.
- W: Thanks, Henry. How are things going?
- H.M.Jr: Pretty good. Pretty good. We've got more than our share of troubles.
- W: Can we release this production bottle-neck any faster by any action that might be taken?
- H.M.Jr: I don't know. I don't know, but I'd love to sit down and talk with you sometime. They're so many headaches.
- W: Well, will you come over and eat lunch with me?
- H.M.Jr: Sure. I'd love to. Any time.
- W: How does Saturday fit in with your show?
- H.M.Jr: Saturday and Sunday
- W: How's that?

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H.M.Jr: They're not good days, Henry.

W: They're not good days for you?

H.M.Jr: No.

W: Would next Monday fit in?

H.M.Jr: Well, I save that

W: Oh, I remember now.

H.M.Jr: But Tuesday, if you want me.

W: Well, let's see how Tuesday, 18th, would be.

H.M.Jr: And if something comes up that bothers you on that day, let me know.

W: All right, sir. Tuesday the 18th at 1:30. Is that O.K.? What time suits you best.

H.M.Jr: Well, I get a little hungry by 1:30.

W: (Laughs). Well, 1:00 o'clock.

H.M.Jr: Where do you eat?

W: Well, I eat over at the

H.M.Jr: Well, I'll come to your office anyway.

W: Well, I tell you, in my office in the Capitol instead of the Senate Office Building.

H.M.Jr: At the Capitol.

W: Yeah, the office at the Capitol.

H.M.Jr: I'll be there at 1:00 o'clock Tuesday.

W: I may shift the place depending on whether the Senate is in session or not.

H.M.Jr: All right. I'll look forward to it.

W: All right, we'll plan on that unless otherwise stated.

H.M.Jr: Thank you.

*Miss Galt
soon
k 2/24
M.W.*

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE March 12, 1941

TO Secretary Morgenthau
FROM Mr. Cocoran

In a conversation by telephone this noon Mr. Knobe told me that the Federal Reserve Bank had this week its first request in many months to bid for Treasury bills in behalf of a foreign Central Bank. On Monday the Federal received instructions from the Swiss National Bank to submit two tenders, each for \$5,000,000, on the new Treasury bills. One of the tenders was accepted and payment thereon is being made today.

J. M. R.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 12, 1941

Mr. Jones
OK

TO Secretary Morgenthau

FROM Mr. Cochran

By appointment, Minister Procope of Finland called on me at 12 noon, March 10. He left with me a copy of a letter which he had addressed to the Secretary of State under date of February 1, 1941, in regard to his desire to obtain a new \$30,000,000 credit for Finland, and also a copy of a memorandum dated February 14, 1941, giving information about the present rationing system in Finland. Copies of these documents are attached.

The Minister reminded me that when he had last called several weeks ago I had suggested that Mr. Jones was the proper person to approach for further financial assistance, and that the Minister had promised to let me know how he came out. The Minister had promised to let me know how he came out. The Minister had now come to bring me to date on his negotiations. He has seen Messrs. Jones, Pierson and Clayton on various occasions and has emphasized the need for a \$30,000,000 credit to provide foodstuffs and other necessities for his country. His last conversation was very recently with Mr. Pierson, who let him know that nothing could be done before the end of the month, but that the Export-Import Bank "would not let Finland starve." Procope thought that some of the hesitancy on the part of the Export-Import Bank to act before this time came from the fact that credits given Finland previously had not been completely exhausted, although Procope stated that the total had already been allocated for definite purchases and freight items.

The Minister reminded me that he had not seen Secretary Morgenthau for some time and would like to have an opportunity to impress upon him Finland's needs before the question of this new credit is decided, especially since the Minister believes it may be a matter to come before the Cabinet.

B.M.P.

(Delivered by the Minister of Finland to Mr. Cockren in the Treasury at 12 o'clock, March 10, 1941)

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February 1st, 1941.

Dear Mr. Secretary,

Under instructions from my Government I have again to take up the question concerning an extended credit for purchases of commodities in this country. I do it referring to our previous conversations and to the interest, understanding and sympathy which you as the Government of the United States and all American authorities always have shown for my country in her present difficulties. There are two special reasons why it is necessary at this very moment to present the matter to you.

On the one hand the 30 million dollar credit accorded Finland one year ago through the Export-Import Bank is now exhausted. On the other hand the British Government have declared their willingness to allow shipments of different commodities to Finland through the blockade.

During the last six months the American Red Cross has, out of the 30 million dollar credit accorded by Congress for help to suffering nations in Europe, administered to destitute and suffering people in

Honorable

Nesse H. Jones

Secretary of Commerce and Federal Loan Administrator

Washington, D. C.

- 2 -

Finland help in kind, amounting in value to over 1-1/2 million dollars.

I think there are reasons to hope that this assistance given through the Red Cross might be increased through some further allocations.

This assistance is certainly most welcome and valuable and my country feels the deepest gratitude towards the American authorities and the American nation for this most timely help. But it is evident that this assistance, however great, cannot solve the economic and financial problems Finland is up against at the present moment.

Finland's whole economic life, the nation's very possibilities to live are dependent upon her foreign trade. She is obliged to import a lot of commodities of primary importance in daily life. Finland's imports in value between 130 and 190 million dollars during the last years before the present world war, were paid for by her exports, amounting in value to 150 & 200 million dollars, and the favorable balance of payments thus brought about made it also possible for Finland to provide for the payment of interest and amortisation on the country's foreign indebtedness.

Owing to the war Finland had to fight and to the general European situation exports have shrunk to a fraction of their normal value. During the first half-year 1940 total exports amounted to only about 16 million dollars and exports to Great Britain, the United States and other overseas markets, totalling in normal years about 100 million dollars, have been reduced to a minimum. On the other hand it is obvious that Finland's requirements of imported goods did rather increase than decrease owing to the prevailing circumstances. Thus Finland's need for financial assistance has become most urgent.

When last year the discussion about extended credit to Finland in order to meet the country's requirements took place, there was still a considerable amount left of the 30 million dollar credit, which as Federal Loan Administrator you had placed at Finland's disposal through the Export-Import Bank. Since that this credit has been exhausted through shipments of goods and through commitments and orders from the authorities in Finland for purchases of goods to be shipped in the next future.

During the autumn shipments were delayed owing to the difficulties in getting English navicerts, no goods being shipped from here to Finland

without such permission from the British authorities. This situation has been improved, since the British Government - as was pointed out in a press release recently published here by the British Embassy - have "decided to allow passage through the blockade of such supplies as may be necessary to meet Finland's requirements", thus making a distinct difference "between supplies to Finland and supplies for territories under German occupation." As a matter of fact the British Ministry of Economic Warfare has recently in a letter addressed to the Finnish Minister in London declared their willingness to give navicerts for different goods and in this connection indicated the quantities for which navicerts will be granted during the first quarter of this year. Part of those "quotas" will be covered by goods, for which already commitments are made or which Finland has ordered to be purchased under the Export-Import Bank credit. These goods will thus be paid for by the credit, as far as it goes. But a very considerable part cannot be paid for in this way, the credit being exhausted. A preliminary estimation of these goods, for which the present credit is not sufficient but financing has to be arranged, shows that their value amounts to about 10 million dollars.

The above mentioned quotas have been fixed by the British authorities - as said in the release - "after careful consideration" and according to the British Government's wish "to do everything they can to ease the difficulties of Finland at the present time." If Finland is unable to finance the goods for which the British Government is disposed to grant navicerts, a rather extraordinary and awkward situation will arise implying that this British concession and wish to help Finland will lose its effect.

It should be noted that the above mentioned sum of about 10 million dollars refers only to purchases to be made in the immediate future in order to fill the quotas indicated by the British authorities for the first quarter of this year. In order to keep life going on and to prevent hunger and disease Finland's urgent requirements are much greater. At least 30 million dollars are needed to meet them for some time to come even according to a most conservative estimate.

It may be emphasized that in this matter speed is of essential importance, both because Finland's needs for different commodities are most urgent and because of the fact that the quotas indicated by the

British authorities for the first quarter of this year are promised only up to the end of the said quarter, before which time the goods have to be purchased and the navicerts applied for and granted.

I venture to attach to this letter a statement concerning the general economic position of Finland, a copy of the above mentioned British press release indicating the policy the British Government intends to follow towards Finland and a statement showing the quotas indicated by the British authorities for the last two months of 1940, and for the first quarter of this year and also, as per the 9th of January, the navicerts applied for and free quantities under the quotas.

Referring to the above mentioned and once more expressing Finland's ardent hope that the United States at this time as before would lend her a helping hand in her present grave difficulties, and at the same time emphasizing that Finland's firm determination is in the future as hitherto scrupulously to fulfill all her obligations, I venture most respectfully, under instructions from my Government, to submit to Your Excellency that through Your Good offices a credit of 30 million dollars may be granted Finland on conditions to be agreed upon.

Please accept, Mr. Secretary, the renewed assurances of my highest consideration.

January 9th, 1941.

FUTURE RELEASE, HOME NEWS

For release in newspapers and news
broadcasts on Friday, January 10th.

The British Embassy have noted that some misapprehension seems to exist in regard to the policy of His Majesty's Government towards the passage through the blockade of relief supplies and other commodities destined for Finland. They feel it well, therefore, to explain that H.M.G. are anxious to do everything they can to ease the difficulties of Finland at the present time. The British Government wish to assist in maintaining the Finnish economy and in preventing the Finnish people from suffering privations. On the other hand, the British Government must direct their blockade policy in such a way that supplies allowed to reach Finland in no way benefit Germany.

In enforcing their blockade, the British Government draw a distinction between supplies to Finland and supplies for territories under German occupation. As regards the latter, the policy of H.M.G. was reiterated in the statement issued by the late Lord Lothian on December 10th. In October the Finnish Government agreed to permit the regular passage of German troops through Finnish territory, and thereby called so seriously in question Finland's status as a neutral that it seemed doubtful whether she could still be regarded as wholly independent and neutral. Nevertheless, the British Government decided, after careful consideration, to allow passage through the blockade of such supplies as may be necessary to meet Finland's requirements, provided that - and this is an essential condition - Finland refrains from any further unneutral act.

Even before this decision was reached, however, the British Government had approved the passage through British controls of relief goods supplied by the American Red Cross to Finland. During the past three months, navicerts have been approved for the despatch of such goods to the value of rather more than \$1,000,000. These supplies include clothing, blankets, shoes, flour, sugar, lard and dried fruits. In addition, navicerts have been issued to cover the shipment of 140 tons of foodstuffs sent to Finland by the various relief organizations in the United States.

Furthermore, apart from supplies sent by relief organizations, facelittles have been given during the past two months for the despatch, both from the United States and other sources, of many important commodities for use in Finland, including substantial quantities of sugar, lard, edible oils, wheat and rye.

(Delivered by the Minister of Finland to Mr. Cochran in the Treasury at
12 o'clock, March 10, 1941)

M E M O R A N D U M III

Some information about the
present rationing system in
Finland.

According to information just received from Finland there is a shortage or in some instances practically a complete lack of commodities that are of primary importance in daily life. The distribution of these necessities has therefore long ago been put under a strict rationing system, but if considerable imports cannot be made, the present distribution has to be curtailed even more heavily or in some cases entirely stopped. In order to give a picture of the prevailing distribution of foodstuffs in Finland, there are given below some informations regarding the present rations:

Meat: The ration of meat products in February is about 13 ounces a week (if the ration is taken out in bacon the quantity is less than a half of this; if taken out in cheap beef somewhat higher). In March the ration will be reduced and in April furthermore to only half of the present or to about 6-1/2 ounces a week.

The normal average meat consumption in the United States has been indicated to be about 2-1/2 lbs. a week.

Fats: The ration of butter and margarine together is at present a trifle over 6 ounces a week. This reduction of the normal consumption is particularly heavy as at the same time the ration of milk has been reduced to only a third of a quart a day.

Also cereals are scarce and rationed.

Dried fruits are lacking.

Coffee: The ration of coffee is 250 grams (about 1/2 lb.) every two months. A surrogate consisting mostly of roasted rye is also distributed about 1/2 lb. a month.

Sugar: The ration of sugar is 750 grams (about 1 lb. 10 ounces) a month.

Tea: The ration of tea is 50 grams (about 1.7 ounces) a month.

- 2 -

In this connection it can also be mentioned that the distribution of soap is about half a pound for two months.

There are great needs for textile raw materials. Clothes, dress materials, and shoes are strictly rationed and the rations extremely small.

February 14th, 1941.

COPY:lep

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE March 12, 1941

Mr. Knok
cht
TO Secretary Morgenthau
FROM Mr. Cochran

At 12:15 today I telephoned Mr. Knoke in the Federal Reserve Bank at New York, referring to his memorandum dated March 5, 1941, in which there was submitted the request of the Utvegsbanki Islands of Reykjavik for a Stabilisation Fund loan.

I told Mr. Knoke that I had brought this matter to the attention of Secretary Morgenthau and Under Secretary Bell and that I am now obliged to state, with the request that he pass the message on to the gentlemen who called on him, that the proposal is not one which properly falls within the field of operations of the Stabilisation Fund.

Mr. Knoke said he would transmit this message at once since it was his understanding that the Iceland visitors would be coming down to Washington this evening on other matters, and might conceivably raise this question with the Treasury if no answer is received from us before their departure.

J. M. S.

March 12, 1941

3 p. m.

Meeting with the President. Present: Secretaries Hull, Morgenthau and Forrestal (representing Secretary of the Navy) as members of the 4-Man Board with Hopkins present as Secretary of the Board. Also present: Director of the Budget Smith, General Marshall, Mr. McCloy and Admiral Ingersoll.

Navy says cruiser on way to Brazil. Cochran please check with Admiral Noyes and then speak to me.

Admiral Ingersoll says British will take 10 Coast Guard cutters "as is".

Smith says British asked for \$9,000,000,000. Cutting it to \$7,000,000,000.

* * * *

President asked me to go on the Hill. I gave him three reasons why I should not go:

1. They would ask me about the Bill. (I could not explain it. Smith can and should.)
2. They would ask me about taxes. (If I did, it would shock them.)
3. They would ask me about British finances. It would be a mistake to reopen the whole question.

* * * *

Evidently, according to Forrestal, \$7,000,000,000 is the limit of our productive capacity. I was very much interested because this dovetails with my testimony on debt limit when I said that \$53,000,000,000 plus \$7,000,000,000 was arrived at by considering our productive capacity.

Many says ~~Cruik~~ on way
to Brazil. Cochran please
check with admiral Moyes
and then speak to me.

admiral Ingersoll says British
will take 10 coast guard
cutters as is.

Smith says British asked for
9 billion. Cutting to 7 billion.

Pres asked me to go on hill.
I gave him 3 reasons why
I should not ~~go~~.

1. ^{they would} ask me about bill (I could
not explain it. Smith can and
showed).
2. ask me about taxes (if I did
it would ~~not~~ shock them.)
3. ask me about British finances
it would be a mistake to reopen
the whole question.

(over)

(373)

H. Smith
Hopkins

General Marshall

Stimson

McCoy

Hull

Forrestal

admiral Ingersoll

March 12, 1941

Evidently according to
Forestal 7 billion is the
limits of our productive
capacity. I was very much
interested because
this ~~details~~ dovetails
with my testimony
on debt limit when I
said that ~~7 billion~~
~~was~~ $58 + 7$
I was arrived at
by considering our
productive capacity.
Mrs Klotz please check
this against my
testimony.

March 12, 1941
3:00 p.m.

RE DEFENSE SAVINGS BONDS

Present: Mr. Bell
Mr. Rouse
Mrs. Klotz
Mr. Haas
Mr. Hadley
Mr. Murphy
Mr. Graves

H.M.Jr: All right, gents.

Bell: Well, we got the reports in from the various Federal Reserve Banks. They were quite long, some of them. I don't know whether you would rather read them or have us classify them. We have got them classified, Murphy has, and he can tell you how many banks commented on each point.

H.M.Jr: Well, if I can - I would like to get the benefit of what you did this morning without having to read the originals, if possible.

Bell: This is the best way, then, is to take up the points which they brought out in their text, and you can see what we did in each case.

H.M.Jr: All right, Professor Murphy.

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Murphy: The first point is the limit on sales in the case of the bonds designed for the small holders. Three banks --

H.M.Jr: How many?

Murphy: Three, New York, Chicago, and Cleveland, approved of the proposal to reduce the limit to \$5,000. Six banks, Boston, Philadelphia, St. Louis, Kansas City, Minneapolis, and San Francisco, suggested that we retain the \$10,000 limit; and another three banks, Richmond, Atlanta, and Dallas, made no comment on the matter.

The matter was discussed at the meeting this morning, and it was decided to recommend reducing it to \$5,000.

H.M.Jr: New York and Chicago win. Strike one.

Haas: It is really fifty-fifty, because these other three didn't comment, and they said the proposal looked satisfactory.

H.M.Jr: But how many said --

Murphy: Six suggested retaining the 10,000. Three definitely suggested retaining the 5,000.

Now, as Mr. Haas suggests, the other three that didn't comment said the proposal was generally satisfactory.

H.M.Jr: Two to one in favor of leaving it at ten, and we go the way the one wants it.

Bell: No, we figured it was fifty-fifty, six banks for and six banks against it.

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- H.M.Jr: Three didn't comment.
- Bell: Well, we assumed that the proposal we put up to them was all right.
- H.M.Jr: It is like the Gallup Poll on Willkie. Fellows that don't comment are for Willkie.
- Bell: No, it is not in that same category at all.
- H.M.Jr: How is that? - (Laughter) - Everybody that doesn't comment is for Willkie.
- Bell: Well, the ones that suggested we leave it at ten have largely done that because we have already got the campaign going and it might disturb the campaign; and two, we are really out after money and we ought to leave it there for that reason, but it doesn't fit in very well with the rest of the program to leave it at ten.
- H.M.Jr: Well, I think that - I can always come back, but my own feeling is, I would leave it at five.
- Murphy: At five.
- H.M.Jr: To put it at five, as we said the other day. You see, we are making it so attractive - if we want to get the small person to buy \$5,000 worth of bonds, that is a lot of money.
- Murphy: I would like to suggest, Mr. Secretary, that the classifications are apt to be a little arbitrary because as in this case where they didn't comment and said the proposal was generally good, you can --
- H.M.Jr: You vote them. (Laughter)

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Murphy: I have never voted them - I specifically mention they don't comment but often their remarks are made with some qualification, and you have to interpret them as best you can.

H.M.Jr: I will try to be serious.

Murphy: The next point that was taken up was the proposed reductions in the intermediate yields on the bonds designed for the small investor. One bank, the Philadelphia bank, especially commented on it and said they thought it was all right. Six banks commented on it adversely in various degrees. The New York bank criticized it slightly, and suggested a slight revision. The Boston bank said that the reduction on it only ought to be about half as much as actually made, that the yield ought to be about half way between the present ones and the ones we have proposed.

Two banks, Cleveland and Richmond, said we ought to leave them undisturbed. Two more banks, Chicago and Kansas City, expressed some concern that they were being reduced, but didn't give any idea of how much they thought would be proper or whether they thought any would be proper; and five banks, Atlanta, St. Louis, Dallas, Minneapolis, and San Francisco did not comment. The point was discussed at the meeting, and the recommendation that was arrived at there, would be that we would revise the intermediate yields at the end a trifle more than suggested by the New York bank; and aside from that, go through with the program --

H.M.Jr: You mean they would pay more or less interest at the end?

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Murphy: Slightly more.

H.M.Jr: Make it more attractive to hold them longer?

Murphy: No, it would be a less strong penalty on the people that didn't hold them.

Haas: They aren't out the \$5.00.

Bell: We spread the sum at the end over five years, wasn't it?

Haas: Yes.

Bell: No, the last five periods.

Haas: Two and a half years.

Rouse: Spread it a little more evenly.

Murphy: At the present time there are two step-ups of a dollar and a half, then a series of \$2.00 and the final one is \$5.00, that we would take the \$3.00 that is now in that final step-up and use a dollar of it to move up those \$2.50 step-ups to \$2.00 each, and then push the \$2.00 step-ups as far present as the money went. Then you would have 50¢ for a time, then a dollar for a time, and then \$2.00 for a time, until you are up to a hundred.

H.M.Jr: Are you all satisfied with that?

Bell: Yes, we think that is a little better.

H.M.Jr: O.K.

Murphy: There is one other minor point with respect to the type one bonds. The Philadelphia bank suggested that we open the sales to

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other than natural persons. They suggested particularly non-profit corporations and the recommendation there was that we continue to restrict them to natural persons.

H.M.Jr: Well, you have made one change so far.

Murphy: In the proposed program, on the intermediate yields. The next point and the most controversial and probably important of all the points is the maturity yield on the bonds designed for the larger investors. Four banks expressed satisfaction with the two and a quarter per cent yields, but with varying overtones and undertones. The Chicago --

H.M.Jr: Which four?

Murphy: Chicago, Cleveland, Richmond, and Dallas. The Chicago bank, for example, said it looked all right to them, but commented one institution would prefer a 15 year two and a half.

The Richmond bank said they were not out of line under present conditions, but it certainly shouldn't be any lower. The Dallas bank said the opinion there was about equally divided between considering that they were right and that they should be higher.

Four banks said unequivocally that they considered the two and a quarter per cent rate too low. Those banks were New York, Boston, Philadelphia, and St. Louis.

H.M.Jr: New York --

Murphy: Boston, Philadelphia, and St. Louis. I might say we were a little surprised at these results, because we thought that it was the

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western banks which would be pushing it most for the highest rates, and it turned out to be the eastern banks, so we were a little surprised at the results of the classification.

Bell: But we did get questions raised pretty generally about the higher rate.

Murphy: Yes. The New York bank commented that the two and a quarter per cent rate was a little fine, and suggested a two and a half rate and extend the term for two or three years.

The Philadelphia bank was the most exuberant of all on the rate subject, and said they ought to be at least two and a half and possibly two and three quarters for a 12-year bond.

The Boston and St. Louis banks said the rate was too low, but didn't make any specific suggestion as to how much higher it should be.

The Atlanta, Minneapolis, Kansas City and San Francisco banks did not comment on the rate. After discussing the rate situation, we recommended that we fix the rate at 2.40 for the coupon bonds and 2.41 for the appreciation bonds. The reason for this odd figure is that it gives you an even figure the other way around. If you set a two and a half per cent rate for a 12-year bond, you would have an issue price of \$74.20 for an appreciation type bond.

H.M. Jr: And if you do it --

Murphy: If you put an issue price of an even \$75.00 on the appreciation type bond, that will

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give you a yield of 2.41. That seems to be rather good from a sales point of view. You can say that in either case you increase your money by a third, only the big people have to wait two more years than the little people.

Bell: You see, we issue both at \$75.00, the regular savings bond now in effect, and then this one would be \$75.00, too, the same issue price.

H.M.Jr: I see.

Bell: Which has an advantage.

H.M.Jr: It sounds good.

Haas: You don't go to two and a half, you go under it.

Bell: Yes, you are still under the two and a half.

Murphy: It is much neater than an issue price of \$74.20, and the corresponding income type bond, since I think the sentiment was unanimous that the interest should be paid by check, the corresponding income type bond would have an annual return of \$2.40 per year.

H.M.Jr: Will you describe that last bond?

Murphy: An income type bond would have a return of 2.4 per cent. It would be issued at \$100 and it would go down as low as \$94.10 at the bottom of the pattern, so that the yields for intermediate periods would be the same as on the appreciation type bond. You would get a return of slightly more than one basic point more than the appreciation type bond, and the differential if there is any should be that way, because it is less expensive to

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the Treasury, and there is this little insurance feature on it paying the full amount if the original purchaser dies, on the coupon bond, which isn't on the appreciation type bond.

It seemed to the group that the 2.4 rate would represent a fair compromise between the different groups and probably --

H.M.Jr: Are you satisfied with that, Rouse?

Rouse: Yes, I think it is the best compromise and it has got a lot of good features fitting in with the sales campaign that has been built up over a period of years.

H.M.Jr: \$75.00.

Rouse: And the one third and so on.

H.M.Jr: Yes.

Murphy: There were several other special points that were taken up. The one was the matter of the proposal that the bond be redeemed only - now the bond offered to the larger investors - be redeemed only at semi-annual periods and on 30 days' notice. Several of the banks didn't like that.

H.M.Jr: I didn't know that was in. I knew about the 30 days, but I didn't know it was semi-annual.

Murphy: The Chicago and St. Louis banks particularly objected to it, and the St. Louis bank felt that it might be important as an obstacle in selling the bonds, and it was agreed to suggest that instead we should make them redeemable on quarterly dates, irrespective of the date of sale of the bond, at calendar

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quarterly dates, on 30 days' written notice, with, of course, no accrued interest beyond the last semi-annual anniversary date of the bond when you redeemed it. It was felt that that would meet that objection.

Now, of course, this doesn't apply to the bonds sold to the small man. That would continue just as it is now. This provision would apply only on the larger type.

Bell: There is no notice now, but in the regulations you have - there is a provision that you may require reasonable notice, and we are going to continue that just as it is.

H.M.Jr: Put it in if you want to.

Bell: We can put - require a notice if they get too heavy. That is a good deal like a savings bank that has a requirement for notice, and they never invoke it. If we would ever invoke it, we would probably get an avalanche of redemptions.

H.M.Jr: Go ahead.

Murphy: Two banks, Minneapolis and Dallas, suggested that the bonds should be made eligible to secure bank loans, and they suggested if this were done, people who just needed money for a short time would be able to avoid redeeming their bonds.

H.M.Jr: I hope you turned that down.

Murphy: That was recommended to be turned down. Three of the banks, New York, Chicago, and Cleveland, believed that the option with respect to the coupon bonds that we would pay the face - original face of the bond

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if the original purchaser died should be extended to repay that if they were sold to a trust account, and the trust terminated because of natural reasons or involuntarily.

H.M.Jr: That is quite complicated.

Murphy: It would involve a very substantial administrative problem.

Rouse: It is a matter, Mr. Secretary, that I don't believe very many of us understand. I don't for one, and I am relying on the judgement of people at the City Bank, Farmers Trust, and the United States Trust Company. I think both of them would be glad to voluntarily try to work out something that would be a general provision and not be subject --

H.M.Jr: Does that have to be decided now?

Bell: That can go in the regulations, and what we have got to do before we draft the regulation is to get all of these problems and see how we can meet them by a general provision.

H.M.Jr: You look at those two as amongst the best trust companies?

Rouse: Yes, that is the old Farmers Loan and Trust Company and the United States Trust Company.

H.M.Jr: I have to get a trust company on the estate of Mrs. Morgenthau, and I was asking Preston Delano which was the most conservative. It is just to be a custodian. I asked about the Farmers Loan and Trust, New York Trust, United States Trust, and Central Hanover.

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United States Trust is too expensive. The others will all do it at the same price.

Rouse: I see.

H.M.Jr: Are they all about the same?

Rouse: They are all very highly regarded, and the Bankers Trust and the Guaranty Trust as well. I think the Farmers and the United States Trust have probably more personal trusts, trusts of individuals.

H.M.Jr: That is what this is. Now, is the Farmers Trust - as a trust, is that separate, for instance, from the liabilities of the National City Bank?

Rouse: Yes, sir, it is a separate institution, a separate corporation, and it is called City Bank, Farmers Trust Company.

H.M.Jr: That is separate from the liabilities?

Rouse: Yes, sir.

H.M.Jr: And is that as such examined by the State of New York?

Rouse: Yes, sir.

H.M.Jr: We don't examine it?

Rouse: No, the Federal Reserve System, I believe, does.

H.M.Jr: Well, you are going to let that go today? That is too complicated for me and you.

Bell: We have got to get some more information on it and find out how it should fit into the regulations.

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Rouse: I think either of those firms are continuing to study it, and they would be glad to come down.

Bell: Burgess suggested that their trust man, Morris, come down and spend a day or two days telling us of the different types of trusts, how they would terminate and under what conditions, and we might be able to draw regulations.

Rouse: I have heard a good deal of Morris over a period of years, but have never met him. He is at the City Bank Farmers Trust, and he impressed us very favorably.

Murphy: No one raised any comment one way or another with respect to the proposed \$50,000 limit on the amount of the bonds that were to be offered, to be allowed to be purchased, of the ones offered for the larger investor, and it seemed that that - we should - we recommended retaining that limit and basing it on the issue price of the bonds so that a person could vest an equal sum of money in either type of bond, irrespective of which type he chooses. If he based it on the maturity value, he could only put \$37,500 in the appreciation type --

H.M.Jr: \$50,000 cash value? Before you told me face value.

Murphy: Well, it would be face value on the small type bonds and it would be issue price on the large type bonds. The problem doesn't arise, of course, at all in the small bonds, because there is only one type; but when there are two types, you let a person put as much money in one as the other.

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H.M.Jr: All right, go ahead.

Murphy: Those were only points we discussed, that we took up. One bank, the Cleveland bank, suggested a different type of bond, a bond with a graduated coupon that would always be redeemable at par and you would get just an itsy-bitsy coupon the first year, and a little more and a little more and a real big one out toward the end.

Bell: Burgess likes that, too. He thinks that - well, one or two of them expressed some apprehension on three types of bonds, thought it would be a little complicated, and I think another one said that they didn't think the people would like the redemption value below the issue price.

Murphy: That is right.

Bell: And Burgess said he had some fears about that.

Rouse: The tapered coupon bond that they speak of would remove any liability on the part of the trustee for a loss in the event of earlier redemption for some reason or contingency that wouldn't be covered in the regulations Mr. Bell spoke of, and that is one of their problems.

H.M.Jr: Well, but you wouldn't recommend that?

Rouse: No, we tried to work it out last summer and autumn, and we weren't able to work out a satisfactory suggestion along that line.

H.M.Jr: Well, we can let it go.

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- Murphy: It provides a little income in the early years, but doesn't really meet the demand for income type security. If I could, Mr. Secretary, I would like to read to you the comments of the different banks on the numbers of types, and which bond they thought would go the best.
- H.M.Jr: All right.
- Murphy: New York bank didn't comment on the numbers of --
- H.M.Jr: Can't you make Rouse come across?
- Rouse: Oh, I will come. I should think the second bond, the income bond. I might say in fairness probably to the other Reserve banks and the people whom they interviewed, because we have found it universally, that by and large in dealing with a savings bond situation, they felt they were only laymen, that they might advise in a general way and have some basis for it with respect to the rates, but they didn't profess to be experts in the sale of savings bonds.
- H.M.Jr: I see.
- Murphy: The Chicago type bond said that they thought - Chicago bank said they thought the income type bond would have the greater appeal. They said that three types might be confusing and that as a remedy for that they suggested that they be handled by the banks and that the banks be compensated. (Laughter)
- H.M.Jr: Less confusion, more profit.
- Bell: More confusion and more profit.

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H.M.Jr: Yes.

Murphy: The Boston bank said they thought the income type would be strongly preferred. The Philadelphia bank suggested that we have only two types, that we have the type designed for the small saver and the income type. That we omit the appreciation type.

The Cleveland bank said that the income type would have the broader appeal and suggested that instead of the appreciation type, we offer this tapered coupon bond.

The St. Louis bank commented that they thought the appreciation type should have a slightly higher rate than the income type.

Richmond, Atlanta, and Minneapolis made no comment. Kansas City said that both types would find a ready market, but they thought the income type not as much as the appreciation. They were the only bank that indicated that.

All the other banks that expressed an opinion thought the income type would go better.

The San Francisco bank didn't comment. The San Francisco bank, incidentally, their letter was in an entirely different vein than the others. The thing the San Francisco bank was concerned with was the exclusion of commercial banks from participation in a large issue, and they suggested that we would have to define commercial banks and that we ought to define a commercial bank as a bank that had more than 20 per cent of its deposits as demand deposits.

Rouse: There is an old regulation or practice that - in that regard that the New York bank people

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tell me of, and that is that the definition of a commercial bank would be one that receives demand deposits.

Bell: In any amount?

Rouse: That is it.

H.M.Jr: Of course, if I had to define a commercial bank and could write the ticket, I would define a commercial bank as one which does not accept demand deposits. I would do it just the other way around.

Bell: Just like the drug store when it doesn't sell drugs.

H.M.Jr: I mean, if I could write the ticket, I would say it was one that did not have demand deposits, but that isn't up just now.

Rouse: I don't think I follow your reasoning, sir.

H.M.Jr: Well, I am thinking of a hundred per cent reserves.

Rouse: Oh yes, I see.

H.M.Jr: That is what I am thinking of. I am thinking of commercial banks as banks that only accept deposits from businesses and make long-term loans and do not have checking accounts for bonds. In other words, banks that do commercial business and not personal checking accounts. You may have heard of that. Throw the checking accounts into the post offices. But I am not starting anything.

Rouse: I understand.

H.M.Jr: Today anyway. (Laughter.)

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Well, what else?

Bell: That covers it, doesn't it?

Murphy: That covers it.

H.M.Jr: I will tell you, gentlemen, the way I feel. This is not like a normal refunding or a financing. The thing doesn't just have to go or I have to go back milking cows. I don't like to milk cows. We can try this out. Something may go and something may not. What did we get, \$30,000,000 worth of subscriptions to the notes? You just don't know. I think - I like your having increased the interest rate. I think that is good. I wouldn't have objected to two and a half, but I think if you put it at \$75.00 instead of \$74.20, it is good.

Rouse: I was just going to say that we think the two and a half per cent rate for ten years is the right rate for it, and I would go along with this as a compromise, looking at the thing from a period of - at first you want to get in money. It is more a matter of receipts than a promotional campaign of thrift in this case.

H.M.Jr: Well, I think it is good enough, and I am willing to walk across the street, but now listen, Dan, when I go over to see the President - I have asked, I don't know whether he will see me today. He is supposed to see me at eleven tomorrow.

I only want three pieces of paper. On the one piece of paper, I want the savings bonds, how it works out, and then another column - have it in different colored type, will you please, red, black, and green.

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Bell: What do you mean, the different statements in colors or the columns?

H.M.Jr: Just the columns. Have you got two colors?

Bell: I think we have got red or black or blue.

H.M.Jr: The table of the United States savings bonds. I am not interested in anything except the return.

Bell: Just the rate, that is all you want? You don't want the \$75.00 and the change in the step-up?

H.M.Jr: Yes, but not with a - not the return that you get, the amount of interest that you get.

Bell: Supposing we put down present plan and put two columns under it; one, the \$75.00 and go up to a hundred, and next the rate, and then the proposed plan would be the \$75.00 and the change in step-up and rate.

H.M.Jr: That is right. That is Plan No. 1.

Bell: Then two, the same way but, of course, on two you wouldn't have a present plan, you would just have a proposed plan.

Now, two and three are part of one plan. We could call them bonds A and B, if you want to, on the same table.

H.M.Jr: I would rather call them Plan 2 and 3 and have them separately; and I could say, "Now, you could buy either \$50,000 of one or the other or \$50,000 of both," but I just want three sheets of paper.

Bell: All right.

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Haas: Do you want the yield or maturity on that?

H.M.Jr: That is just what I don't want. I don't want more than two columns. Do you think it is necessary? You don't print that on the face of the bond, do you?

Bell: No, but we are going to put it in the literature.

H.M.Jr: That is all right. What is going to be on the face of the bond.

Bell: Just the step-ups in the yield.

H.M.Jr: That is what I want.

Bell: With redemption value.

H.M.Jr: That is all I want. Then if I could see it the first thing in the morning to make sure it is all right. You could have that, couldn't you, Murphy?

Murphy: Surely.

Bell: It is just taking the figures off these tables.

Murphy: Yes, and just a slight revision.

Bell: Oh yes.

H.M.Jr: Let me ask you this. Let me get Harold Graves in on this if he is here. I want to get my answers for the President.

Bell: How about the first --

H.M.Jr: I mean, is everybody together? Anybody - are there any minority reports?

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Hadley: Well, mine is slightly minority in that I feel that the income bond is all that is needed. You don't need the second appreciation bond.

H.M.Jr: But as to the pricing --

Hadley: The pricing is all right.

H.M.Jr: Have you got any minority report, Rouse?

Rouse: Well, I have a preference for the two and a half per cent rate, ten years. I will go along with this.

Haas: Two and a half for ten years.

Rouse: That would be my preference, George.

Haas: Don't you think it would break your general bond market?

Rouse: No, I do not. I think there will be adjustments there, some repercussions, but I think in the taxable bonds you are going to get them anyway.

H.M.Jr: You don't think 2.4 is close enough?

Rouse: I think it will go, close enough.

H.M.Jr: But you cut it out.

Rouse: I am not taking exception to it. I am just stating my preference. I think the thing will go along and work.

H.M.Jr: But not with a bang.

(Mr. Graves entered the conference.)

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- H.M.Jr: Mr. Graves, do you know Mr. Rouse?
- Graves: How do you do.
- Rouse: You can't be dogmatic about it or have a clearcut idea. What we are looking for here is a view to bring in a great deal of money from sources that aren't now tapped, and we want to make it as attractive as we dare to in the light of the political picture. Your present savings bonds have had a good wallop in the removal of tax exemption, which pretty much brings them in line, and that is a good horse and it has run a fine race, and you want to continue that and put a companion piece with it that will go right along the same way; and we have felt that the two and a half per cent rate probably fitted the bill better, but in view of the difference of opinion, this represents as nearly an ideal of compromise as anything I can imagine.
- H.M.Jr: George?
- Bell: And you wouldn't say that certainly down to or under the present market for that term money, \$2.40, taxable money, for 12 years, is not, certainly, under the present market.
- Rouse: It is a shade better than ten years at two and a quarter per cent.
- H.M.Jr: You can always change it, you know.
- Haas: Yes.
- Rouse: Well, it is much easier to change it better, downward, than upward.

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H.M.Jr: Change it --

Rouse: Change the yield downward rather than upward.

Haas: You mean reduce it?

Rouse: Yes.

Haas: Haven't got a chance now.

Bell: We have had a lot of difficulty in changing the 2.91 down. The argument has been that we lose our sales.

Rouse: Of course the other point for the higher rate is that you hope this rate will stay in effect for quite a long time, and we want to adjust for shades of attitude in the interim. You don't want to have to change your rate on the next series.

H.M.Jr: O.K. George?

Haas: I like it. There is only one comment I would like to make, and that is that I think if you run the rate up too high, like two and a half for a 10-year proposition, I think the market will evaluate the rest of the market on that basis, and that would be a decline in the market, the outstanding issues. That is what I was fearful of.

H.M.Jr: I agree with you.

Haas: I like the thing.

Murphy: I am happy about it.

Bell: I am happy about it, too. It is very nice.

H.M.Jr: Now, what I asked you for, Harold, we have

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settled the prices. I am going over to see Mr. Roosevelt tomorrow, I hope. He is going to say, "Well, when do we get started?"

What is my answer?

Graves: Well, I think that can be announced in accordance with the schedule Mr. Kuhn had made up before in about ten days. His point is that he would like to get local press publicity about this thing which can best be done by preparing releases here and sending them to the local postmasters, and that is about a ten day job.

Bell: Now, are you going to have --

H.M.Jr: That would be about the 15th of March.

Graves: Yes.

Bell: Are you going to have a lot of publicity before you have your bonds ready to sell?

Graves: No, I think we can have about as much as you want.

Bell: Well, do you want it before you have your bonds ready for sale? We ought to start the sale of the bonds on the first of the month, and the first of April is a little close to put out a new series and everything.

You see, we have got to stop the present series, Mr. Secretary, and they are started for March, and we have got to get a supply of bonds into the hands of all these post offices and all the other agencies which we are talking about, and that is really quite a task. The bond is now all ready to be printed whenever we get the text. We have

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got the borders.

H.M.Jr: Does it have to be on the first?

Bell: It ought to be on the first of the month. It doesn't have to be, but you see when you run over, you are running over a series. The present series will go now --

H.M.Jr: Could it be the 15th of April?

Bell: It could be, but you will have your present series going, and you will have to stop it in the middle of the month.

H.M.Jr: The 12th is a Saturday. Supposing you stopped it on the 12th and started the new ones on the 14th?

Bell: That could be done.

H.M.Jr: Let's try that.

Bell: It is a question of whether you want two series going the same month, the same type bond.

H.M.Jr: It wouldn't bother me.

Graves: There is another point there. In the first place, Broughton has told me that he thought that he would get 60 days to get directions after the decision is made.

Bell: He thinks he could do it by the 15th. He would rather have it by the first of May.

Graves: There is always a question of stamp books involved here. It would be smart, in my opinion, to have both stamps and bonds available at the same time.

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- H.M.Jr: Will you tell me tomorrow morning, now that we know, when can you do it and do it well. I want the stamps out.
- Graves: And the books for the stamps to be pasted in.
- H.M.Jr: Yes, the whole works.
- Bell: Now, where is that program, the stamp thing?
- Graves: Mr. Hall has it. He is preparing the models to go to the Post Office Department now. They ought to be ready - perhaps this afternoon or tomorrow. The books Mr. Hall is also designing. They were going to be done by a private lithographer, but he is making the design of the stamp books to paste these stamps in according to different combinations and I believe that the time is a little short, the 15th of April.
- H.M.Jr: I don't want to postpone it. I want to tell the President.
- Graves: I will have the answer in the morning.
- H.M.Jr: Before I go over there, I want to see you guys.
- Graves: I had better check in with Dan.
- Bell: We will get them up when we go out of here, but I think May 1 would be better.
- Graves: I do, too.
- Bell: And I think also we ought to decide just who is going to handle these bonds and stamps. Some of the representatives of the banks have been in and said they would be glad to sell these bonds across their counters without

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any charge. Burgess thinks that they ought to do it, that it gets them back into the public eyes, doing something patriotic and it would be good for them to do it without charge.

H.M.Jr: The banks?

Bell: We have had a few suggestions.

H.M.Jr: Oh, we are counting on them.

Graves: That is right.

H.M.Jr: In the room here, we thought if they asked pretty pretty, we might let them do it, you see. I think they would like to do it, don't you, Bob?

Rouse: Yes, I do.

Bell: The other thing is as to whether we are going to put bonds of rather high denominations, particularly the type for the second and third class, into these small post offices.

Graves: Well, I think the answer to that should be no.

Bell: That is the way my mind is running, too.

Graves: The merchandise we want to get in the hands of the post offices is the small bonds for the little purchaser, and I think we ought to keep these big bonds out of the post offices.

H.M.Jr: I agree with you.

Bell: But you could put them in the hands of some of the post offices, like the larger accounting

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post offices.

- Graves: Would there be any particular purpose in doing it, Dan? Wouldn't anybody who is interested in buying a \$5,000 bond --
- Bell: Only the fellow who can buy the present bonds for \$3,000, has in excess of that amount to spend, he gets them both at the same window.
- H.M.Jr: Well, I think the fellow who has \$50,000 better go to another place.
- Bell: I think the Federal ought to sell them too, and he can go to the Federal or to a bank and get both types.
- H.M.Jr: What do you mean, \$3,000? We are not dropping to \$3,000.
- Bell: I mean \$5,000, excuse me.
- H.M.Jr: Trying to put one over on me, are you? (Laughter)
- Bell: My watch changes so fast.
- H.M.Jr: Tomorrow he would say, "Look at the Steno-type, you agreed, I said \$3,000."
- Bell: I never look back.
- Klotz: Smart boy.
- H.M.Jr: My horseback opinion, I would keep that high stuff out of the post offices.
- Graves: Yes, I think so. The people who will be buying that will be accustomed to dealing with banks and --
- Bell: That is probably right.

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Graves: And there is no reason why they shouldn't go to the banks to get that security. The Post Office is there for the fellow who doesn't know about banks, but does know about post offices.

H.M.Jr: What else?

Bell: That is all.

H.M.Jr: Well, the main thing is to see you tomorrow morning so when I go over and say, "Mr. President, here is the thing, and this plan will be ready on the 15th of April or the first of May," but when I give him a date --

Graves: We will mean it.

Bell: We won't change it.

Graves: We will mean it.

H.M.Jr: No if, and, or but.

Graves: Yes, sir.

H.M.Jr: Thank you for coming down, Bob.

March 12, 1941
5:10 p.m.

H.M.Jr: Hello.

Rep. Clifton
Woodrum: Yes, sir, Mr. Secretary.

H.M.Jr: How are you, Clif?

W: Splendid. Fine.

H.M.Jr: This is Henry talking. I just wanted to make 100% sure for old times that there was no misunderstanding as between you and me personally.

W: Right.

H.M.Jr: Now, I know that Harold Smith called you a little while ago and after this whole discussion, they felt that the questions that might be asked me particularly in regard to the tax bill might hurt, and Harold Smith said that he gathered that that that was the way they felt and that therefore, I'm not to make any appearance. Hello.

W: They don't want you to make any appearance.

H.M.Jr: No, they felt and the President felt - Smith told them that was what he got from Mark Shields also, that they were afraid that they might ask me these questions.

W: Well, they want to ask somebody about some money. Somebody has got to put up \$7 billions. Now, I've got a realistic situation to deal with - a committee that is going to want to know something about that. I don't think they'd ask you any embarrassing question.

H.M.Jr: Well, they can't help.

W: But I think they'd come nearer raising a row about it if we didn't do anything. Can't you fix up a little prepared statement on this aid to Britain business and

- 2 -

- H.M.Jr: Well, they've got everybody lined up and everybody, I think, is going to fill all of the crossword puzzle.
- W: Well, let's see if we can get away without it and if they press me too hard, I'll have to talk to you further.
- H.M.Jr: Well, that's all right, but I just wanted it so there is no - there has never been a misunderstanding between you and me.
- W: Well, there couldn't be.
- H.M.Jr: And I can't play dumb, and if they get on this tax bill and want to know how much it's going to cost and I'm sitting there - and they will - I'm just afraid I'm going to hurt the situation, and I wanted you to know it.
- W: Well, of course, Harold thought there was going to be a public hearing. Of course it isn't; it's executive
- H.M.Jr: Well, it was the concensus of everybody there that it would be much better to leave me down here.
- W: All right.
- H.M.Jr: But I think you'll find that there's enough people there to give you the whole thing, and if you go back to the three billion three bill of the N.I.R.A., the then Director of the Budget handled the bill before you, and not the Secretary of the Treasury.
- W: Sure, that's right.
- H.M.Jr: So you've got that precedent.
- W: Well, I'm going to do the ^{very} best I can and if I get in trouble I'll holler.
- H.M.Jr: If you get in trouble - but I thought towards the press and everything, don't give out my name as coming.

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W: Well, all the papers have got it, because that's what they said. You know, we discussed that at the White House yesterday and in that meeting up there it was said that the Secretary of State and Secretary of the Treasury, and so forth.

H.M.Jr: Well, if I'm asked, I'm going to say, if it's agreeable to you, according to previous precedent, both on the three billion three and on the 100 million for the President, in both instances where the money went to the President, the Director of the Budget handled it.

W: That's right.

H.M.Jr: Now, that's two cases, you see.

W: That's right.

H.M.Jr: Is that all right?

W: Yes, you bet.

H.M.Jr: But I'm here, but I'm dynamite and I think you'd better leave me alone.

W: All right, sir. I won't bother you unless I need dynamite.

H.M.Jr: Thank you.

W: All right.

H.M.Jr: Good-bye.

March 12, 1941

Mr. Lacuhlin Currie brought this in today and gave it to the Secretary.

The Executive Yuan

Chungking, February 26, 1941

My dear Mr. Secretary,

Upon the arrival of Dr. Currie I was very glad to receive your very kind letter dated January 24th. I was indeed glad to hear from you and wish to thank you for writing to me. Dr. Currie has been here with us for the last two weeks and we find him very sympathetic and understanding. We have supplied him with all possible information, some of which is, of course, confidential. I am sure that he will report to the President and your goodself.

In regard to the chairmanship of the proposed Chinese Stabilization Committee, I am happy to hear that you have every confidence in Mr. K. P. Chen and, ~~as~~ it is agreeable to you, the Chinese Government would be very glad to appoint him to the chairmanship of that Committee. However, he needs a collaborator, and, if you will nominate an American gentleman to cooperate with him in this effort, I am sure that not only I will feel happy but that Mr. Chen will be glad to welcome anybody you wish to nominate.

I have thought very often and especially during these recent months when the country under the leadership of your great President is taking the lead in preserving world peace and justice that, while we appreciate, my dear Secretary, all you have done for China, I am sure that when this war is over and you look back in later years you will be happy in the thought that you have not only helped China but have helped to preserve peace, justice and confidence for the whole world. We are encouraged in this great effort we are making for the independence of our own country and we hope that we are making some contribution in preserving the future peace of the Pacific.

With my most cordial greetings and best wishes.

Yours sincerely,

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



March 12, 1941
5:15 p.m.

RE AID TO BRITAIN

Present: Mr. Young
Mr. Schwarz
Mr. Sullivan
Mr. Foley
Mr. Bell
Mr. Gaston
Mr. Cox
Mr. Klotz

H.M.Jr: Well, we had a very good meeting and I don't have to go up on the Hill to testify, but Dan Bell does. (Laughter)

Cox: Some compliment!

Gaston: I think that is a nice solution.

Klotz: So we are together again, are we? I didn't help him.

Gaston: Well, Dan can say, "I don't know anything about this--"

Bell: Sure, I have got that.

Gaston: ".... about these British payments," and that sort of thing, the quid pro quo.

H.M.Jr: Seriously, as soon as this is over, will you

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(Bell) get in touch with Harold Smith?

Bell: Sure.

H.M.Jr: Because you follow Hull.

Bell: I follow Hull?

H.M.Jr: Yes.

Bell: On what?

H.M.Jr: Well, on this whole question, as the ex-Director of the Budget and the Under Secretary of the Treasury.

Bell: O.K.

H.M.Jr: Will you? Seriously.

Bell: You are not serious.

H.M.Jr: No, but the President of the United States is. I can't help laughing. He said, "Dan knows about this thing." I said, "Well, he has had past experience."

Bell: He was a great help, wasn't he?

Klotz: What?

Bell: He was a great help.

H.M.Jr: Will you get in touch with him?

Bell: Sure I will get in touch with him, but I don't believe--

Klotz: I am innocent, really I am. (Laughter)

Gaston: You don't get the distinction between the

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Secretary's being pleased and joking.

H.M.Jr: Well, I was just kidding.

Bell: Well, I thought you were.

Klotz: What do you think I shook hands with you for?
That was a tip-off.

H.M.Jr: Well, anyway, we went through this thing and Hull reluctantly - he said he didn't know anything about it and so forth and so on, but he is going to go up and then they came to me and we had quite an argument about it and I gave three reasons why it was a mistake for me to go up there. I wrote them down. I thought they would ask me about the bill, I mean about this whole bill, which I couldn't explain. They would ask me about taxes and if they did and I answered, I would shock the life out of them when I read that it would cost a little over four billion to get two-thirds of the revenue, four billion, and then they would ask me about the British finances and I thought it would be a mistake to open the whole thing. After I got through, to my amazement Harold Smith said, well, Mark Shields told him that he thought it was a mistake to have the Secretary of the Treasury come up because they would ask about taxes and reopen the whole British finance thing and so forth and so on, so I said to Smith afterward, "Why didn't you say that in the first place?" "Well, I thought I would let you do it. I didn't think it was up to me." Then after the meeting - it was all in the Cabinet room. Harold Smith left the room to talk to Woodrum and he said everything was all right and they wanted this and that. And I said, "What about me?" And he said, "You didn't come up, you didn't figure." So I just called up Cliff Woodrum and I said, "Just for old times' sake,

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I don't want any misunderstanding between us, where do you and I stand?" He said, "What do you mean?" "Well," I said, "it is understood that I am not to come up." He said, "That is the first I have heard of it."

Cox: Gee!

H.M.Jr: Well, I said, "It was discussed there and they thought it was a mistake because of the tax bill and British finances and so forth and so on," and he said, "If you have decided, it is all right with me," but I said, "If you get stuck give me a ring, but toward the public I am going to take the position that the three billion three, the President and the Director of the Budget have defended it," and I said, "There will be enough people, I think, to answer every question. Frankly, I think it would be a great mistake to have me there and have them ask all these questions." So he said, "That is all right just as long as if I get stuck I can call on you." I said, "Well, I will be here. That is all right." Smith hadn't done a thing. He is not like my Danny Bell when he was Director of the Budget.

Bell: Was it his job--

H.M.Jr: The President first said to Harry Hopkins, "I want you to contact them up on the Hill." Harry said, "All right. I think that is a mistake, Mr. President." We went in the Cabinet room. I was sitting there arguing who was going to do what and Harry said, "I think the President should call." We all agreed. And out of a clear sky, Smith gets up and says, "I am going to go out and call." So Harry was just as made as he could be. He said, "How can the President of the United States call up Woodrum after Smith does? Whatever he says will be wrong." But just as soon as it

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was decided the President should do it, Smith did it, which in the room makes me think that Smith wanted to get there first because he wanted to get his line straightened out. Why was he in such a hurry to talk to Clif Woodrum before the President? Which made me suspicious, so when I came back - I know Clif Woodrum from Farm Credit days. I have talked to Clif Woodrum in '32 when we first came down here and I still have got his fellow occupying a cot and a chair over at Farm Credit, you know. You know about that, Herbert. You know that story. We came down there and there was a fellow getting four thousand dollars a day and I said, "What is--"

Foley:

A day?

H.M.Jr:

A year. (Laughter) I said, "What does he do?" I forgot; I was thinking of dollar a year men. Excuse me. (Laughter) And he said, "Why, he is Clif Woodrum's man," and we went into a huddle and I said, don't you remember, "What does he do?" And I said, "Build a partition right through an office with one room and put a cot and a chair in there and leave him alone," and they did. They when Bill Meyers came in they called me up and said, "What shall we do with this man?" and I said, "Well, if you want to get your appropriations through, you had better leave him there," and he is still there, as far as I know. You (Klotz) remember.

Klotz:

Oh, I remember the story very well.

H.M.Jr:

Well, anyway, you were a good sport, Dan. You took your kidding well. You weren't quite sure, were you?

Bell:

I was pretty sure.

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H.M.Jr: You know I wouldn't do that to you.

Bell: That is right.

H.M.Jr: I never dished anything on any of you that I wouldn't take myself.

Bell: I didn't think you would.

H.M.Jr: It would be the first time. But this fellow, I am saying in the room here, Harold Smith - I don't think he is versed on the way - he told the Appropriations - and then all of this business about his testifying. You see, he sat there and - the whole thing, he didn't put on a very nice behavior. I mean, some of the things that he has told you, that he was willing to work with us but the President didn't want him to. I just question all of that now. And then his saying to us that the reason he didn't want to do it was because he didn't want Lauch Currie in. The reason the President didn't have Dan or me in on this budget this year was because last time they had Lauch Currie in and he wrote it and therefore they didn't want any of us. Was that the story?

Bell: Well, that was one reason that Smith was trying to dodge the issue and he asked about you. He didn't say anything about Lauch. That was the answer I got. That is - I hope that won't be repeated out of the room as gossip.

H.M.Jr: He told it to me, too.

Bell: Oh, did he?

H.M.Jr: He told me that this time Lauch Currie had nothing to do with it. He told that to me, and so it doesn't come from you.

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- Bell: I mean the whole picture.
- H.M.Jr: Well, all these things are in the room. That is all right.
- Bell: We have enough fights.
- H.M.Jr: You don't mind if I tell Dorothy Thompson?
(Laughter)
- Bell: We have enough fights without getting into any more.
- H.M.Jr: I didn't say anything to the President about not seeing us tomorrow, because I thought it would be a good thing for him if he sees us. I thought it would be good for him to see this. I said it today and he just brushed it aside and I thought we would go over there tomorrow anyway if we get an appointment, so that - Bernie Baruch is feeding this stuff to him every day. I thought it was just as well-- "Now, Mr. President, if you want to do this thing on the Baruch plan, it takes four million plus and not a billion and a half." He might just as well get. And if we go over, I want Dan to go with me. But as of tonight I feel very happy. It was tough going, boys, but it is all right.
- Klotz: Just to digress a moment, here is a memorandum on another subject from Mr. Pehle. (See Attachment)
- H.M.Jr: Well, all I would like to do is to see the Hungarian Charge d'Affaires. He might throw a nice party. Haven't we frozen the Hungarians?
- Bell: No.
- H.M.Jr: Who is contacting the State Department?

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Klotz: Pehle said he notified Acheson.

Bell: On what?

H.M.Jr: This (handing memorandum to Mr. Bell).

Bell: Well, that question was up, you know, when Germany was through--

H.M.Jr: No, this is today.

Klotz: I just got that a little while ago.

H.M.Jr: The principal thing that Lauch Currie wanted this morning was that he had had half an hour with General Chaing Kai Shek. He is very, very anxious to have us freeze his funds in this country, only to do it like that (indicating quickly), because if the Chinese have their own money in American names - well, we will take it up with the President and let the President take it up with Mr. Hull, but that is the way it has got to go. I feel pretty good tonight, gents.

Sullivan: There is going to be a wreck, but you are not going to be in it.

H.M.Jr: No, these fellows will do their stuff. They gave me - Bell gives it to me at a quarter of three, and I come over there at five minutes of three and the Director of the Budget gives me a copy of a press release. Here was the Navy in a huddle all going over it trying to see what the figures were. General Marshall in front of the President shows that he doesn't know what is in the thing, and Stimson says, "You had better come over and sit next to me and you can see." He was showing him the figures for the first time. Marshall couldn't explain it. He couldn't explain it.

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Now, I don't want to get - why, he says, "You will just have to go up there and don't answer." I said, "Well, Mr. President, I can't do that. When they ask you about the British, say you just don't know. If they ask you how much the taxes will be, tell them you haven't figured it out."

Gaston: I hope nobody starts talking a smart acheme of quid pro quo up there.

H.M.Jr: Well, did you people read my - have you all read it?

Cox: Yes.

H.M.Jr: You (Sullivan) haven't seen it since the tax thing, but did the rest of you read that?

Cox: Yes.

H.M.Jr: Wasn't I good?

Cox: Excellent.

Gaston: That is a clear record.

H.M.Jr: Have you all read it?

Foley: Yes.

H.M.Jr: I talked to Mrs. Morgenthau. She has read it already. I sent it up to the house. She says, "I can't understand it. Mr. Hopkins doesn't seem to know what it is all about. It is amazing." I would have given a hundred dollars for that record.

Cox: I don't blame you. Have you gotten that record?

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H.M.Jr: No, nor have I got the letter from Kingsley-Wood, either, which Harry has in his pocket.

(Telephone conversation with Dean Acheson follows:)

March 12, 1941
5:32 p.m.

H.M.Jr: by the Hungarian Legation here?

Dean Acheson: No, I haven't heard a word about it.

H.M.Jr: Didn't they? Well, Pehle was supposed to get in touch with you. I got this memorandum here. It seems that - this is of course for you and Mr. Hull. We learned from the Riggs Bank in confidence that \$900,000 was put to the credit of the Hungarian Legation here and then the Charge D'Affaires of the Hungarian Legation immediately cashed it in \$10,000-bills.

A: God.

H.M.Jr: And it says there is an application now pending which would transfer another \$600,000 to the Hungarian Legation. I don't see why - I can't understand why, if we froze Bulgaria, I don't know why we haven't frozen Hungary.

A: I've wondered about that a little myself.

H.M.Jr: I tell you what I'm going to do. Would you be there for fifteen minutes more?

A: Oh, I'll be here for a couple of hours. I've got some people in my room and I just came out to talk with you, but I'll be here.

H.M.Jr: Well, I tell you what I'll do. I will send John Pehle with the original memorandum over to you now. It'll be there within ten minutes.

A: Yeah.

H.M.Jr: It's my original copy - the one I'm reading from, and if you could - oh, he says on this, "I have furnished Mr. Acheson a copy of this." On this thing it says here - maybe it's in your outer office. Pehle says, "I have furnished Mr. Acheson a copy of this."

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- A: Well, it may have come into my basket. I haven't looked at those things.
- H.M.Jr: Well, could you ask your secretary to fish it out?
- A: Yeah, I will.
- H.M.Jr: Because if we were going to ask Riggs to hold up anything, we'd have to do the whole business, but evidently there is something going on.
- A: Yeah. Who put this to their credit, do you know?
- H.M.Jr: Just a minute. The B.I.S. through the Guaranty Trust.
- A: Yeah.
- H.M.Jr: Not very good having all that money around.
- A: It certainly is not.
- H.M.Jr: Cash. Well, if you don't mind, if you would ask somebody in your office to give you Pehle's memorandum
- A: I'll get it right away. Now, what should I do with it? Take it up with Mr. Hull at once?
- H.M.Jr: Yes, and simply say that in view of what is going on, would he like us to freeze Hungary. That's the question I'm raising, in view of what's going on.
- A: All right, fine.
- H.M.Jr: Thank you, Dean.
- A: I will.
- H.M.Jr: It's nice to have someone over there I can talk to.
- A: (Laughs). I'm delighted to be the person, Henry. That matter you talked to me yesterday I took care of right away.

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H.M.Jr: And I'll get sympathetic support from the State Department.

A: You bet.

H.M.Jr: Thank you.

A: Absolutely.

H.M.Jr: Thank you. Good-bye.

A: All right.

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Bell: He called me on that.

Klotz: Did you tell Pehle?

H.M.Jr: Well, will you (Bell) when you go out of here? Do you mind letting me keep this memorandum? Haven't you got it?

Bell: Oh, yes, I have got it.

H.M.Jr: No, I need it for my record.

Bell: Dean called me on that thing that you talked to him about yesterday and said that he had talked to Hull, and Hull said that you could rely on him to be behind you one hundred percent and support you.

H.M.Jr: Well, thanks, everybody, for the support I have gotten in the last 24 hours. I was pretty sick about it. I don't like, as Secretary of the Treasury, first, to make a fool of myself, and, second, to do anything to injure the bill. I say injure the bill first and make a fool of myself incidentally.

Foley: What are you going to do if he calls you?

H.M.Jr: He won't.

Foley: You have got Wigglesworth and Taber on that committee.

H.M.Jr: Well, they are going to try to do this thing all tomorrow.

Cox: They have got Taber--

Foley: Taber is the fellow that was questioning the thing before.

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H.M.Jr: They say not.

Foley: Who was it, Adams?

H.M.Jr: No, it was Adams.

Cox: Taber has been pretty good.

H.M.Jr: I may go for a drive tomorrow afternoon.

Foley: That would be good.

Cox: Go around the park.

Foley: That would be good.

H.M.Jr: I may go for a drive.

Foley: That would be good. Unavailable, something like that.

Klotz: You promised him that you would be available if he called for you. (Laughter)

Foley: He didn't promise him.

Klotz: I didn't hear it. All right.

Sullivan: If you were to call him about a quarter past one and say, "Something has come up, what is your present judgment? Will you need me this afternoon?"

Bell: No, he--

Klotz: He will say--

Bell: He wouldn't call you until late in the afternoon.

H.M.Jr: I have never run away. Have you ever known

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me to take a drive when something hot was on?

Klotz: No, that is why I am so surprised.

H.M.Jr: I was just trying it out. (Laughter)

Klotz: Well, you know where we stand.

H.M.Jr: Good night. All right, thanks, everybody.

MEMORANDUM

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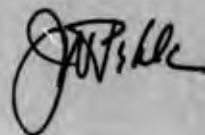
March 12, 1941

TO: Secretary Morgenthau
FROM: Mr. Pehle

I called Mr. Dent of the Riggs Bank at 11:35 this morning to ascertain what disposition was made of the \$900,000 transferred to the Hungarian Legation account on March 10, 1941, from Hungarian accounts with the Guaranty Trust Company and the First National Bank of Boston. Mr. Dent advised me that on the same day the Hungarian Charge d'Affaires drew a check in the amount of \$900,000 payable to himself and cashed the check in \$10,000 bills. Mr. Dent promised to keep me advised with respect to further developments in connection with this account.

An application is now pending which would transfer an additional \$600,000 to the Hungarian Legation account with the Riggs National Bank from the B. I. S. account with the Federal Reserve Bank by order of the National Bank of Hungary, Budapest. It would be difficult for us to deny this application since the funds involved appear to be Hungarian and Hungarian funds have not been frozen.

I am furnishing Mr. Acheson of the State Department with a copy of this memorandum.



TOTAL PAYMENTS RECEIVED ON ACCOUNT
OF INDEBTEDNESS OF FOREIGN GOVERNMENTS
TO THE UNITED STATES
AS OF JUNE 30, 1939.

Country	Total payments received	On funded debts		On debts prior to funding ^{1/}	
		Principal	Interest	Principal	Interest
Belgium	52,191,273.24	17,100,000.00	14,490,000.00	2,057,630.37	18,543,642.87
Cuba	12,286,751.58	-	-	10,000,000.00	2,286,751.58
Czechoslovakia.....	20,134,092.26	19,829,914.17	-	-	304,178.09
Estonia.....	1,248,432.07	-	1,246,990.19	-	1,441.88
Finland.....	5,656,598.77	880,668.30	4,466,615.20	-	309,315.27
France.....	486,075,891.00	161,350,000.00	38,650,000.00	64,689,588.18	221,386,302.82
Germany (Austrian indebtedness) ^{2/}	862,668.00	862,668.00	-	-	-
Great Britain.....	2,024,848,817.09	232,000,000.00	1,232,770,518.42	202,181,641.56	357,896,657.11
Greece.....	4,039,888.01	981,000.00	1,896,812.00	2,922.67	1,179,153.34
Hungary.....	507,778.96	73,995.50	433,030.42	-	753.04
Italy.....	100,829,880.16	37,100,000.00	5,766,708.26	364,319.28	57,598,852.52
Latvia.....	761,549.07	9,200.00	621,520.12	-	130,828.95
Liberia.....	36,471.56	-	-	26,000.00	10,471.56
Lithuania.....	1,237,956.58	234,783.00	1,001,626.61	-	1,546.97
Nicaragua.....	168,575.84	-	-	141,950.36	26,625.48
Poland.....	22,646,297.55	1,287,297.37	10,310,775.90	-	2,048,224.28
Romania.....	4,791,007.22	2,700,000.00	29,061.46	1,798,632.02	263,313.74
Russia.....	8,750,311.88	-	-	-	8,750,311.88
Yugoslavia.....	2,588,771.69	1,225,000.00	-	727,712.55	636,059.14
	<u>\$2,749,663,012.53</u>	<u>\$475,634,526.34</u>	<u>\$1,320,683,658.58</u>	<u>\$281,990,395.99</u>	<u>\$671,354,430.62</u>

^{1/} Includes cash received upon execution of debt funding agreements amounting to \$4,768,606.14, of which amount \$600,639.83 was applied on principal and \$4,167,966.31 on interest.

^{2/} The German Government has been notified that the Government of the United States will look to the German Government for the discharge of the indebtedness of the Government of Austria to the Government of the United States.

STATEMENT SHOWING TOTAL INDEBTEDNESS OF FOREIGN GOVERNMENTS TO THE UNITED STATES - JUNE 30, 1939

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Country	Total Indebtedness	Principal unpaid 1/	Interest postponed and payable under moratorium agree- ments.	Interest accrued and unpaid under funding and moratorium agree- ments.
Funded debts:				
Belgium	\$ 453,324,480.11	\$ 400,680,000.00	\$ 3,750,000.00	\$ 48,894,480.11
Czechoslovakia.....	165,752,041.30	165,241,108.90	-	520,935.90
Estonia	21,029,440.02	16,466,012.87	492,360.19	4,071,066.96
Finland.....	8,233,157.56	8,119,331.70	113,825.86	-
France.....	4,180,628,819.88	3,863,650,000.00	38,636,500.00	278,342,319.88
Germany (Austrian indebted- ness) 2/.....	26,011,672.09	25,980,480.66	-	31,191.43
Great Britain.....	5,497,069,379.48	4,368,000,000.00	-	31,191.43
Greece.....	34,295,967.22	31,516,000.00	131,520,000.00	997,549,379.48
Hungary.....	2,388,730.08	1,908,560.00	449,080.00	2,330,887.22
Italy.....	2,024,150,441.19	2,004,900,000.00	57,072.75	423,097.33
Latvia.....	8,668,365.93	6,679,464.20	2,506,125.00	16,744,316.19
Lithuania.....	7,760,608.08	6,197,682.00	205,989.96	1,582,911.77
Poland.....	263,166,398.70	206,057,000.00	185,930.46	1,376,995.62
Rumania.....	63,999,476.67	63,860,560.43	6,161,835.00	50,947,563.70
Yugoslavia 3/.....	61,779,062.52	61,625,000.00	-	138,916.24
Total	\$12,618,268,044.33	\$11,231,081,200.75	\$184,078,719.22	\$1,403,108,124.35
Unfunded debts:				
Armenia.....	23,803,104.11	11,959,917.49	-	11,843,186.62
Nicaragua 4/.....	-	-	-	-
Russia.....	390,298,848.71	192,601,297.37	-	-
Total	414,101,952.82	204,561,214.86	-	197,697,551.34
Grand total	\$13,232,369,997.15	\$11,435,642,415.62	\$184,078,719.22	\$1,612,648,862.31

Includes principal postponed under moratorium agreements and principal amounts not paid according to contract terms. The German Government has been notified that the Government of the United States will look to the German Government for the discharge of the indebtedness of the Government of Austria to the Government of the United States. This government has not accepted the provisions of the moratorium. The United States holds obligations in the principal amount of \$269,898.78, which, together with accrued interest thereon, are to be canceled pursuant to agreement of Apr. 14, 1938, between the United States and the Republic of Nicaragua, ratified by the United States Senate on June 13, 1938. Indebtedness of Germany to the United States on account of costs of army of occupation and guards under the War Relocation Act of 1928, as recorded, not shown in above statement.

1,255,521,415
3,113,120,227

STATEMENT SHOWING TOTAL INDEBTEDNESS OF FOREIGN GOVERNMENTS TO THE UNITED STATES - JUNE 30, 1939 4

149

Country	Total Indebtedness	Principal unpaid 1/	Interest postponed and payable under moratorium agree- ments.	Interest accrued and unpaid under funding and moratorium agree- ments.
Funded debts:				
Belgium	\$ 453,324,480.11	\$ 400,680,000.00	\$ 3,750,000.00	\$ 46,594,480.11
Czechoslovakia.....	165,762,044.30	165,241,103.90	-	520,935.90
Estonia	21,029,440.02	16,466,012.87	492,360.19	4,071,066.96
Finland	8,233,157.56	8,119,331.70	113,825.86	-
France.....	4,180,628,619.88	3,863,650,000.00	36,636,500.00	278,342,319.88
Germany (Austrian indebted- ness) 2/.....	26,011,672.09	25,980,480.66	-	31,191.43
Great Britain.....	5,497,069,379.48	4,368,000,000.00	131,520,000.00	997,549,379.48
Greece.....	34,295,967.22	31,516,000.00	449,080.00	2,330,667.22
Hungary.....	2,388,730.08	1,908,560.00	57,072.75	423,097.33
Italy.....	2,024,150,441.19	2,004,900,000.00	2,506,125.00	16,744,316.19
Latvia.....	8,668,365.93	6,679,464.20	205,989.96	1,582,911.77
Lithuania.....	7,760,608.08	6,197,682.00	185,930.46	1,376,995.62
Poland.....	263,166,398.70	206,057,000.00	6,161,835.00	50,947,563.70
Romania.....	63,999,476.67	63,860,560.43	-	138,916.24
Yugoslavia 3/.....	61,779,062.52	61,625,000.00	-	154,062.52
Total	\$12,518,263,044.33	\$11,231,081,200.75	\$184,078,719.22	\$1,403,106,124.35
Unfunded debts:				
Armenia.....	23,803,104.11	11,959,917.49	-	11,843,186.62
Nicaragua 4/.....	-	-	-	-
Russia.....	390,298,848.71	192,601,297.37	-	197,697,551.34
Total	414,101,952.82	204,561,214.86	-	209,540,737.96
Grand total	\$13,232,369,997.15	\$11,435,642,415.62	\$184,078,719.22	\$1,612,646,862.31

1/ Includes principal postponed under moratorium agreements and principal amounts not paid according to contract terms.
 2/ The German Government has been notified that the Government of the United States will look to the German Government for the discharge of the indebtedness of the Government of Austria to the Government of the United States.
 3/ This government has not accepted the provisions of the moratorium.
 4/ The United States holds obligations in the principal amount of \$269,898.78, which, together with accrued interest thereon, are to be canceled pursuant to agreement of Apr. 14, 1938, between the United States and the Republic of Nicaragua, ratified by the United States Senate on June 13, 1938.
 Note: Indebtedness of Germany to the United States on account of costs of army of occupation and awards under War Claims Act of 1928, as amended, not shown above statement.

TOTAL PAYMENTS RECEIVED ON ACCOUNT
OF INDEBTEDNESS OF FOREIGN GOVERNMENTS
TO THE UNITED STATES
AS OF JUNE 30, 1939.

Country	Total payments received	On funded debts		On debts prior to funding ^{1/}	
		Principal	Interest	Principal	Interest
Belgium	52,191,273.24	17,100,000.00	14,490,000.00	2,057,630.37	18,543,642.87
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Estonia.....	1,248,432.07	-	1,246,990.19	-	1,441.88
Finland.....	5,656,598.77	880,668.30	4,466,615.20	-	309,315.27
France.....	486,075,891.00	161,350,000.00	38,650,000.00	64,689,588.18	221,386,302.82
Germany (Austrian indebtedness) ^{2/}	862,668.00	862,668.00	-	-	-
Great Britain.....	2,024,848,817.09	232,000,000.00	1,232,770,518.42	202,181,641.56	357,896,657.11
Greece.....	4,039,888.01	981,000.00	1,896,812.00	2,922.67	1,159,153.34
Hungary.....	507,778.96	73,995.50	433,030.42	-	753.04
Italy.....	100,829,880.16	37,100,000.00	5,766,708.26	364,319.28	57,598,852.52
Latvia.....	761,549.07	9,200.00	621,520.12	-	130,828.95
Liberia.....	36,471.56	-	-	26,000.00	10,471.56
Lithuania.....	1,237,956.58	234,783.00	1,001,626.61	-	1,546.97
Nicaragua.....	168,575.84	-	-	141,950.36	26,625.48
Poland.....	22,646,297.55	1,287,297.37	19,310,775.90	-	2,048,224.28
Romania.....	4,791,007.22	2,700,000.00	29,061.46	1,798,632.02	263,313.74
Russia.....	8,750,311.88	-	-	-	8,750,311.88
Yugoslavia.....	2,588,771.69	1,225,000.00	-	727,712.55	636,059.14
	<u>\$2,749,663,012.53</u>	<u>\$475,634,526.34</u>	<u>\$1,320,683,658.58</u>	<u>\$281,990,395.99</u>	<u>\$671,354,430.62</u>

^{1/} Includes cash received upon execution of debt funding agreements amounting to \$4,768,606.14, of which amount \$600,639.83 was applied on principal and \$4,167,966.31 on interest.

^{2/} The German Government has been notified that the Government of the United States will look to the German Government for the discharge of the indebtedness of the Government of Austria to the Government of the United States.

March 12, 1941
5:40 p.m.

H.M.Jr: Hello, Pat.

Sen. Pat Harrison: How are you, sir?

H.M.Jr: Oh, I'm fine. I hear you're going away to Arkansas for a little rest.

H: Yes, I'm going to leave in a few minutes.

H.M.Jr: Oh. Well, you've certainly earned a rest.

H: Well, Henry.

H.M.Jr: Yes, sir!

H: I had a talk with John the other day, he was up here, and I've had a talk with Walter George and all these boys, and I don't think we'll have any trouble. Of course, I hope we can delay things in order to be careful, you understand.

H.M.Jr: Well, now, I tell you how I feel - I wonder if it makes horse sense to you. I think it's a mistake even to start anything on a tax bill in the House until they get this \$7 billion appropriation through.

H: Well, I think that you're right.

H.M.Jr: Now, they say it'll take a couple of weeks, but I think we ought to let that get through and then take up the tax bill. Now, does that make sense?

H: No, I'll tell you, you just show a lot of discretion about this thing and good common horse sense. Don't let these fellows run away with things.

H.M.Jr: Well, some of these fellows are in a hurry and I think they'd better get this \$7 billion bill through first.

H: Yes, I think that is the important thing now.

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H.M.Jr: And then if they are on the timetable, why sometime after the first of April, I thought I'd begin to talk with Bob.

H: Yeah.

H.M.Jr: But not until after this bill got by. What do you think?

H: I've told Walter George to take my place on this, and I've left word today - I tried to get Bob; I haven't been able to get him. And Walter will pull along.

H.M.Jr: Well, you'll be back in a little over a month, they tell me.

H: Oh, about a month or something like that, but I'm going to take it easy.

H.M.Jr: Well, Pat, nothing will happen in the Senate as far as taxes are concerned, I don't believe. If we come over there by the first of May, we'll be lucky.

H: Yeah. All right, Henry.

H.M.Jr: But take care of yourself.

H: Yeah, I'm going to do that. I'm going to

H.M.Jr: Well, you've earned it.

H: Yeah, I think we got through fine on this other stuff.

H.M.Jr: Oh, it was wonderful.

H: And the President was very much delighted today that things are showing up as well on these receipts.

H.M.Jr: Good. Well, thank you for calling.

H: Well, good luck to you.

H.M.Jr: Thank you.

Finished

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March 12, 1941

Chick Schwara

Secretary Morgenthau

Today's New York Tribune again carries the statement that I made before the House Appropriations Committee; namely, that I favor raising the money through two-thirds borrowing and one-third taxation. Naturally, this annoys me. I have tried so hard to have this corrected.

I would like to make the suggestion that you get in touch with the various press services in Washington and ask them if they won't send a memo to their various newspapers that this statement is wrong, and what I said subsequently at hearings and at my press conferences is that I expect to raise two-thirds through taxation and one-third through borrowing.

Please get after this and let me know what you can do.

Is there a representative in Washington of the weekly newspapers; that is, do they have a news service in Washington? If they do, by all means, get in touch with them also. Please give me a report on this as soon as possible.

finished

*See letter to
Rep. Sullow
dated 3/14/41*

MAR 12 1941

Sir:

Pursuant to subsection (a) of Section 10 of the Gold Reserve Act of 1934, approved January 30, 1934, as amended by the Act of July 6, 1939, I have the honor to submit herewith the annual report for the fiscal year ending June 30, 1940, of the Exchange Stabilisation Fund created by Section 10(b) of that Act, including a summary of operations of the Fund from its establishment to June 30, 1940.

There are enclosed the following tables showing summaries of transactions in all of the accounts of the Exchange Stabilisation Fund for the period April 26, 1934 to June 30, 1935, and for each fiscal year thereafter up to June 30, 1940:

- Exhibit A - Statement of condition as of June 30, 1940
- Exhibit B - Recapitulation of profit from April 26, 1934 to June 30, 1940
- Exhibit C - Transactions in gold from April 26, 1934 to June 30, 1940
- Exhibit D - Transactions in silver from April 26, 1934 to June 30, 1940
- Exhibit E - Transactions in British sterling from April 26, 1934 to June 30, 1940
- Exhibit F - Transactions in French francs from April 26, 1934 to June 30, 1940
- Exhibit G - Transactions in Mexican pesos from April 26, 1934 to June 30, 1940
- Exhibit H - Transactions in Chinese yuan from April 26, 1934 to June 30, 1940
- Exhibit I - Transactions in Netherlands guilders from April 26, 1934 to June 30, 1940
- Exhibit J - Transactions in Belgian belgas from April 26, 1934 to June 30, 1940
- Exhibit K - Transactions in Swiss francs from April 26, 1934 to June 30, 1940
- Exhibit L - Transactions in investments in United States securities from April 26, 1934 to June 30, 1940
- Exhibit M - Transactions conducted by the Federal Reserve Bank of New York as Fiscal Agent of the United States on behalf of and for account of the Bank of France, Bank of England, and Bank of Netherlands, respectively, under the Tripartite arrangement.

Section 10(b) of the Gold Reserve Act of 1934 appropriated the sum of \$2,000,000,000 from the receipts representing the increment resulting from the reduction in the weight of the gold dollar, which was covered into the Treasury as miscellaneous receipts in accordance with Section 7 of the Act. The Secretary of the Treasury, with the approval of the President, is authorized, for the purpose of stabilizing the exchange value of the dollar, to deal in gold and foreign exchange, and such other instruments of credit and securities as he may deem necessary to carry out the purpose of Section 10(a) of the Act.

The Fund was set up on the books of the Treasury on March 9, 1934, and on April 27, 1934, \$2,000,000,000 in gold from the increment resulting from the reduction in the weight of the gold dollar was transferred to the Fund. Simultaneously \$200,000,000 was transferred from the principal account of the Fund to accounts with the Treasurer of the United States and the Federal Reserve Bank of New York to be used as working capital.

As originally provided, the Fund was to have a life of two years from January 30, 1934, unless sooner terminated by the President. However, the President was authorized to extend such period for not more than one additional year. On January 10, 1936, the President issued a Proclamation extending the Fund for one additional year from January 30, 1936. In January, 1937, (Public No. 1, 75th Congress, approved January 23, 1937) Congress extended the life of the Fund to June 30, 1939, and again in July, 1939, (Public No. 163, 76th Congress, approved July 6, 1939) further extended its life to June 30, 1941, unless sooner terminated by the President.

The accompanying exhibits, M, N, and O, summarize the transactions conducted by the Federal Reserve Bank of New York as fiscal agent of the United States on behalf of and for account of the Bank of France, the Bank of England and the Bank of the Netherlands, respectively, under the tripartite arrangement of September, 1936. Following the outbreak of hostilities in Europe in the latter part of 1939, transactions with England and France under the tripartite arrangement were suspended. Upon the occupation of the Netherlands and Belgium by German forces, operations under the arrangement were no longer possible with those countries. The arrangement is still in force with respect to Switzerland. The only recent transaction which the Fund consummated with Switzerland was a sale of gold to that country. The gold was delivered by the Fund from its gold deposit in New York.

At the present time, the Stabilization Fund is not acquiring any currencies of belligerent countries and the amounts of foreign currencies, excluding Chinese yuan, held on June 30, 1940, had a dollar value of a little less than \$3,500. Transactions in foreign currencies are summarized in exhibits E to K, inclusive.

during the two months prior to the outbreak of the present war in Europe, the Fund rendered valuable assistance in connection with stabilizing the exchange value of the dollar. As the threat of war became more pronounced a large volume of foreign funds sought refuge in this country, thereby increasing the demand for dollars. During this period conditions were such that these operations could not be taken care of through normal commercial banking operations. In cooperation with the Stabilization or Equalization funds of other governments, the American Stabilization Fund intervened and provided the necessary dollars against gold, thereby performing the function envisaged by the basic legislation, that is, using the Fund to stabilize the exchange value of the dollar.

Under the arrangement covering the purchase of yarn from China, which that country agreed to repurchase at the same rate as that at which the yarn was sold to the Fund, there were held on June 30, 1940, 65,000,000 yarn with a dollar value of \$19,112,500, secured by gold collateral deposited with the Federal Reserve Bank of New York for account of the Stabilization Fund having a dollar value of \$19,579,015.65.

On July 15, 1937, the United States entered into an agreement with Brazil under which the United States undertakes (1) to sell gold to Brazil at such times and in such amounts as the Brazilian Government may request, up to a total of \$60,000,000, and (2) to make dollar exchange available to the Government of Brazil or its fiscal agent, under conditions which safeguard the interests of both countries, for the purpose of promoting exchange equilibrium. Up to June 30, 1940, the Fund sold \$12,508,168.39 in gold to Brazil in accordance with the first part of the agreement. There were no transactions in dollar exchange under the second part of the agreement up to June 30, 1940.

The Gold Reserve Act of 1934, as originally enacted, required that an annual audit of the operations of the Fund be made and a report thereof submitted to the President. The amendment of July 6, 1939, extending the life of the Fund to June 30, 1942, provides that a report should also be made to the Congress. In view of the confidential nature of the transactions of the Fund, it was not deemed advisable to permit documents covering these transactions to leave the Treasury or to permit any outside auditors to come into the Treasury to review the records. It was decided, therefore, that the audit should be made by a committee composed of three Treasury officials under the Civil Service. This committee is composed of three officials who are not in any way connected with the operations of the Fund and who have served in the Treasury for periods ranging from twenty-five to thirty years. They are thoroughly conversant with Treasury fiscal operations. Each year this committee, together with employees working under their immediate jurisdiction, have audited every transaction of the Fund and its reports and accompanying certifications have been submitted to the President as required by the Gold Reserve Act of 1934. No statements

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showing the position of the Fund were published prior to March, 1939, since that date arrangements have been made for the publication of quarterly balance sheets of the Fund.

Similar reports have been submitted to the President and the President of the senate.

Faithfully,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Honorable Sam Rayburn
Speaker of the House of Representatives
Washington, D. C.

Enclosures.

File to Mr. Thompson

By Messenger 12³⁶

MAR 12 1941

Sir:

Pursuant to subsection (a) of Section 10 of the Gold Reserve Act of 1934, approved January 30, 1934, as amended by the Act of July 6, 1939, I have the honor to submit herewith the annual report for the fiscal year ending June 30, 1940, of the Exchange Stabilization Fund created by Section 10(b) of that Act, including a summary of operations of the Fund from its establishment to June 30, 1940.

There are enclosed the following tables showing summaries of transactions in all of the accounts of the Exchange Stabilization Fund for the period April 26, 1934 to June 30, 1935, and for each fiscal year thereafter up to June 30, 1940.

- Exhibit A - Statement of condition as of June 30, 1940
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- Exhibit L - Transactions in investments in United States securities from April 26, 1934 to June 30, 1940
- Exhibit M - Transactions conducted by the Federal Reserve Bank of New York as Fiscal Agent of the United States on behalf of and for account of the Bank of France, Bank of England, and Bank of Netherlands, respectively, under the Tripartite arrangement.

Section 10(b) of the Gold Reserve Act of 1934 appropriated the sum of \$2,000,000,000 from the proceeds representing the increment resulting from the redemption in the weight of the gold dollar, which was served into the Treasury on miscellaneous receipts in accordance with Section 7 of the Act. The Secretary of the Treasury, with the approval of the President, is authorized, for the purpose of stabilizing the exchange value of the dollar, to deal in gold and foreign exchange, and such other instruments of credit and securities as he may deem necessary to carry out the purpose of Section 10(a) of the Act.

The Fund was set up on the books of the Treasury on March 9, 1934, and on April 27, 1934, \$2,000,000,000 in gold from the increment permitting from the redemption in the weight of the gold dollar was transferred to the Fund. Simultaneously \$200,000,000 was transferred from the principal account of the Fund to accounts with the Treasury of the United States and the Federal Reserve Bank of New York to be used as working capital.

As originally provided, the Fund was to have a life of two years from January 30, 1934, unless sooner terminated by the President. However, the President was authorized to extend such period for not more than one additional year. On January 10, 1936, the President issued a Proclamation extending the Fund for one additional year from January 30, 1936. In January, 1937, (Public No. 1, 75th Congress, approved January 21, 1937) Congress extended the life of the Fund to June 30, 1939, and again in July, 1939, (Public No. 169, 76th Congress, approved July 6, 1939) further extended the life to June 30, 1941, unless sooner terminated by the President.

The accompanying exhibits, H, F, and G, summarize the transactions conducted by the Federal Reserve Bank of New York as fiscal agent of the United States on behalf of and for account of the Bank of France, the Bank of England and the Bank of the Netherlands, respectively, under the tripartite arrangement of September, 1936. Following the outbreak of hostilities in Europe in the latter part of 1939, transactions with England and France under the tripartite arrangement were suspended. Upon the occupation of the Netherlands and Belgium by German forces, operations under the arrangement were no longer possible with those countries. The arrangement is still in force with respect to Switzerland. The only recent transaction which the Fund consummated with Switzerland was a sale of gold to that country. The gold was delivered by the Fund from its gold deposits in New York.

At the present time, the Stabilization Fund is not operating any currency of belligerent countries and the amounts of foreign currencies, including Chinese funds, held on June 30, 1940, had a dollar value of a little less than \$3,900. Transactions in foreign currencies are resumed in exhibits E to H, inclusive.

- 3 -

During the two months prior to the outbreak of the present war in Europe, the Fund rendered valuable assistance in connection with stabilizing the exchange value of the dollar. As the threat of war became more pronounced a large volume of foreign funds sought refuge in this country, thereby increasing the demand for dollars. During this period conditions were such that these operations could not be taken care of through normal commercial banking operations. In cooperation with the stabilization or equalization funds of other governments, the American Stabilization Fund intervened and provided the necessary dollars against gold, thereby performing the function envisaged by the basic legislation; that is, using the Fund to stabilize the exchange value of the dollar.

Under the arrangement covering the purchase of yuan from China, which that country agreed to repurchase at the same rate as that at which the yuan were sold to the Fund, there were held on June 30, 1940, 65,000,000 yuan with a dollar value of \$19,112,500, secured by gold collateral deposited with the Federal Reserve Bank of New York for account of the Stabilization Fund having a dollar value of \$19,379,015.65.

On July 15, 1937, the United States entered into an agreement with Brazil under which the United States undertakes (1) to sell gold to Brazil at such times and in such amounts as the Brazilian Government may request, up to a total of \$60,000,000, and (2) to make dollar exchange available to the Government of Brazil or its fiscal agent, under conditions which safeguard the interests of both countries, for the purpose of promoting exchange equilibrium. Up to June 30, 1940, the Fund sold \$12,508,168.39 in gold to Brazil in accordance with the first part of the agreement. There were no transactions in dollar exchange under the second part of the agreement up to June 30, 1940.

The Gold Reserve Act of 1934, as originally enacted, required that an annual audit of the operations of the Fund be made and a report thereof submitted to the President. The amendment of July 6, 1939, extending the life of the Fund to June 30, 1941, provides that a report should also be made to the Congress. In view of the confidential nature of the transactions of the Fund, it was not deemed advisable to permit documents covering these transactions to leave the Treasury or to permit any outside auditors to come into the Treasury to review the records. It was decided, therefore, that the audit should be made by a committee composed of three Treasury officials under the Civil Service. This committee is composed of three officials who are not in any way connected with the operations of the Fund and who have served in the Treasury for periods ranging from twenty-five to thirty years. They are thoroughly conversant with Treasury fiscal operations. Each year this committee, together with employees working under their immediate jurisdiction, have audited every transaction of the Fund and its reports and accompanying certifications have been submitted to the President as required by the

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Gold Reserve Act of 1934. No statements showing the position of the Fund were published prior to March, 1939. Since that date arrangements have been made for the publication of quarterly balance sheets of the Fund.

Similar reports have been submitted to the President and the House of Representatives.

Faithfully,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Honorable Henry A. Wallace,
President of the Senate,
Washington, D. C.

Enclosures. ✓

File to Mr. Thompson

By Messenger 12³⁵

WTH:vf
March 1, 1941.

MAR 12 1941

My dear Mr. President:

Pursuant to subsection (a) of Section 10 of the Gold Reserve Act of 1934, approved January 30, 1934, as amended by the Act of July 6, 1939, I have the honor to submit herewith the annual report for the fiscal year ending June 30, 1940, of the Exchange Stabilization Fund created by Section 10(b) of that Act, including a summary of operations of the Fund from its establishment to June 30, 1940.

There are enclosed the following tables showing summaries of transactions in all of the accounts of the Exchange Stabilization Fund for the period April 26, 1934 to June 30, 1935, and for each fiscal year thereafter up to June 30, 1940:

- Exhibit A - Statement of condition as of June 30, 1940
- Exhibit B - Recapitulation of profit from April 26, 1934 to June 30, 1940
- Exhibit C - Transactions in gold from April 26, 1934 to June 30, 1940
- Exhibit D - Transactions in silver from April 26, 1934 to June 30, 1940
- Exhibit E - Transactions in British sterling from April 26, 1934 to June 30, 1940
- Exhibit F - Transactions in French francs from April 26, 1934 to June 30, 1940
- Exhibit G - Transactions in Mexican pesos from April 26, 1934 to June 30, 1940
- Exhibit H - Transactions in Chinese yuan from April 26, 1934 to June 30, 1940
- Exhibit I - Transactions in Netherlands guilders from April 26, 1934 to June 30, 1940
- Exhibit J - Transactions in Belgian belgas from April 26, 1934 to June 30, 1940
- Exhibit K - Transactions in Swiss francs from April 26, 1934 to June 30, 1940
- Exhibit L - Transactions in investments in United States securities from April 26, 1934 to June 30, 1940
- Exhibit M - Transactions conducted by the Federal Reserve Bank of New York as Fiscal Agent of the United States on behalf of and for account of the Bank of France, Bank of England, and Bank of Netherlands, respectively, under the Tripartite arrangement.

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Section 10(b) of the Gold Reserve Act of 1934 appropriated the sum of \$2,000,000,000 from the receipts representing the increment resulting from the reduction in the weight of the gold dollar, which was covered into the Treasury as miscellaneous receipts in accordance with section 7 of the Act. The Secretary of the Treasury, with the approval of the President, is authorized, for the purpose of stabilizing the exchange value of the dollar, to deal in gold and foreign exchange, and such other instruments of credit and securities as he may deem necessary to carry out the purpose of Section 10(a) of the Act.

The Fund was set up on the books of the Treasury on March 9, 1934, and on April 27, 1934, \$2,000,000,000 in gold from the increment resulting from the reduction in the weight of the gold dollar was transferred to the Fund. Simultaneously \$200,000,000 was transferred from the principal account of the Fund to accounts with the Treasurer of the United States and the Federal Reserve Bank of New York to be used as working capital.

As originally provided, the Fund was to have a life of two years from January 30, 1934, unless sooner terminated by the President. However, the President was authorized to extend such period for not more than one additional year. On January 10, 1936, the President issued a Proclamation extending the Fund for one additional year from January 30, 1936. In January, 1937, (Public No. 1, 75th Congress, approved January 23, 1937) Congress extended the life of the Fund to June 30, 1939, and again in July, 1939, (Public No. 165, 76th Congress, approved July 6, 1939) further extended its life to June 30, 1941, unless sooner terminated by the President.

The accompanying exhibits, W, X, and Y, summarize the transactions conducted by the Federal Reserve Bank of New York as fiscal agent of the United States on behalf of and for account of the Bank of France, the Bank of England and the Bank of the Netherlands, respectively, under the tripartite arrangement of September, 1936. Following the outbreak of hostilities in Europe in the latter part of 1939, transactions with England and France under the tripartite arrangement were suspended. Upon the occupation of the Netherlands and Belgium by German forces, operations under the arrangement were no longer possible with those countries. The arrangement is still in force with respect to Switzerland. The only recent transaction which the Fund consummated with Switzerland was a sale of gold to that country. The gold was delivered by the Fund from its gold deposit in New York.

At the present time, the Stabilization Fund is not acquiring any currencies of belligerent countries and the amounts of foreign currencies, excluding Chinese yuan, held on June 30, 1940, had a dollar value of a little less than \$3,500. Transactions in foreign currencies are summarized in exhibits Z to K, inclusive.

During the two months prior to the outbreak of the present war in Europe, the Fund rendered valuable assistance in connection with stabilizing the exchange value of the dollar. As the threat of war became more pronounced a large volume of foreign funds sought refuge in this country, thereby increasing the demand for dollars. During this period conditions were such that these operations could not be taken care of through normal commercial banking operations. In cooperation with the Stabilization or Equalization Funde of other governments, the American Stabilization Fund intervened and provided the necessary dollars against gold, thereby performing the function envisaged by the basic legislation, that is, using the Fund to stabilize the exchange value of the dollar.

Under the arrangement covering the purchase of yuan from China, which that country agreed to repurchase at the same rate as that at which the yuan was sold to the Fund, there were held on June 30, 1940, 65,000,000 yuan with a dollar value of \$19,112,500, secured by gold collateral deposited with the Federal Reserve Bank of New York for account of the Stabilization Fund having a dollar value of \$19,379,015.65.

On July 15, 1937, the United States entered into an agreement with Brazil under which the United States undertakes (1) to sell gold to Brazil at such times and in such amounts as the Brazilian Government may request, up to a total of \$60,000,000, and (2) to make dollar exchange available to the Government of Brazil or its fiscal agent, under conditions which safeguard the interests of both countries, for the purpose of promoting exchange equilibrium. Up to June 30, 1940, the Fund sold \$12,508,168.39 in gold to Brazil in accordance with the first part of the agreement. There were no transactions in dollar exchange under the second part of the agreement up to June 30, 1940.

The Gold Reserve Act of 1934, as originally enacted, required that an annual audit of the operations of the Fund be made and a report thereof submitted to the President. The amendment of July 6, 1939, extending the life of the Fund to June 30, 1941, provides that a report should also be made to the Congress. In view of the confidential nature of the transactions of the Fund, it was not deemed advisable to permit documents covering these transactions to leave the Treasury or to permit any outside auditors to come into the Treasury to review the records. It was decided, therefore, that the audit should be made by a committee composed of three Treasury officials under the Civil Service. This committee is composed of three officials who are not in any way connected with the operations of the Fund and who have served in the Treasury for periods ranging from twenty-five to thirty years. They are thoroughly conversant with Treasury financial operations. Each year this committee, together with employees working under their immediate jurisdiction, have audited every transaction of the Fund and its reports and accompanying certifications have been submitted to the President as required by the Gold Reserve Act of 1934. No statements

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showing the position of the Fund were published prior to March, 1939. Since that date arrangements have been made for the publication of quarterly balance sheets of the Fund.

Similar reports have been submitted to the Congress.

Faithfully,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The President

The White House.

Enclosures.

File to Mr. Thompson

By Messenger 12²⁶



TREASURY DEPARTMENT 166

WASHINGTON

December 17, 1940.

The Honorable,

The Secretary of the Treasury.

Dear Mr. Secretary:

Pursuant to your instructions, the books of account and records maintained with respect to the operations of the Exchange Stabilization Fund during the fiscal year ended June 30, 1940, have been examined and audited. It was found that such books of account and records were correct and that the transactions reflected therein had been duly authorized. Similar examinations and audits were previously made as of the close of each of the fiscal years, 1935 to 1939.

As a result of the several examinations and audits, the Audit Committee appointed by you has the honor to submit herewith a statement (Exhibit "A") disclosing the financial condition of the Fund as of June 30, 1940, together with several other statements (Exhibits "B" to "O"), which show the totals of the various classes of transactions that were conducted during each of the periods under audit from April 26, 1934, to June 30, 1940. Exhibits "A" to "L" relate to transactions directly affecting the Fund. Exhibits "H" to "O" relate to transactions involving the purchase and sale of exchange for and in behalf of the central banks of countries operating under the Tripartite Arrangement.

Very truly yours,

Audit Committee.

166-A

EXCHANGE STABILIZATION FUND

RICHMOND STABILIZATION FUND
STATEMENT OF CONDITION AS OF JUNE 30, 1940

Initial deposit in Fund.....		\$2,000,000,000.00
Increment to Fund (Net Profit) -		
To June 30, 1939.....		\$15,032,457.12
July 1, 1939 to June 30, 1940.....		<u>7,083,608.21</u>
Total.....		22,116,065.33
Cash Accounts -		
With Treasurer of the United States (Gold Account of the Secretary of the Treasury, Symbol 17-610).....	\$1,800,000,000.00	
With Treasurer of the United States (Checking Account of the Secretary of the Treasury, Symbol 17-615) -		
Balance June 30, 1940.....	\$ 1,564,334.28	
Less: Net amount paid subsequent to June 30, 1940 relating to transactions negotiated prior to that date.....	<u>8,268.82</u>	
Total.....		1,556,065.46
Accounts with Special Disbursing Officers and Special Agents -		
Balance June 30, 1940.....	11,072.26	
Less: Net amount paid subsequent to June 30, 1940 relating to transactions negotiated prior to that date.....	<u>1,442.61</u>	
Total.....		9,629.65
With Federal Reserve Bank of New York (Special Account with the Secretary of the Treasury) -		
Balance June 30, 1940.....	127,198,969.35	
Less: Net amount paid subsequent to June 30, 1940 relating to transactions negotiated prior to that date.....	<u>20,978,086.11</u>	
Total.....		106,220,883.24
Gold - Special Account No. 1 -		
Balance June 30, 1940.....	86,020,180.63	
Less: Amount disposed of subsequent to June 30, 1940 relating to transactions negotiated prior to that date.....	<u>1,267,657.85</u>	
Total.....		84,752,522.78
French francs - Special Account No. 3 -		
Balance June 30, 1940.....		17.68
British sterling - Special Account No. 4 -		
Balance June 30, 1940.....		2,836.40
Belgian belgas -		
Balance June 30, 1940.....		905.06
Chinese yuen - Central Bank of China -		
Balance June 30, 1940.....		19,112,500.00
U. S. Government securities held June 30, 1940 as investments with Federal Reserve Bank of New York at cost (Par amount \$10,452,000.00).....		10,446,723.13
Interest on investments, accrued but not due (Amount accrued to June 30, 1940).....		9,730.73
Due from designated agencies on commodity sales contracts - silver.....		15.00
Deferred charge to Profit and Loss Account (1).....		2,636.00
Gold held by Federal Reserve Bank of New York as collateral to secure account with Central Bank of China.....	19,379,035.66	
Liability to Central Bank of China for gold held (as above).....	<u>19,379,035.66</u>	
Gold held by Federal Reserve Bank of New York on deposit for Bank of Brazil.....	15,070,679.66	
Liability to Bank of Brazil for gold held on deposit.....	<u>15,070,679.66</u>	
TOTAL AMOUNT OF FUNDS PER AUDIT.....	<u>\$2,022,116,065.33</u>	<u>\$2,022,116,065.33</u>

(1) This item consists of expenses in the amount of \$436.00 and losses in the amount of \$2,180.00. The expenses were incurred and the losses sustained in connection with commodity sales contracts for silver which were pending when silver was nationalized on August 9, 1934. The loss constitutes the difference between the contract sales price and the nationalization price.

EXCHANGE STABILIZATION FUND

RECAPITULATION OF PROFIT FROM APRIL 26, 1934 TO JUNE 30, 1940

Period	I n c r e m e n t t o F u n d										Total	Loss net administrative expenses	Net profit
	Gold transactions	Silver transactions	British sterling transactions	French franc transactions	Mexican peso transactions	Chinese yuan transactions	Netherlands guilder transactions	Belgian belga transactions	Investments in U. S. Government securities	Interest on Disbursing Officers' bank balances			
Apr. 26, 1934 to June 30, 1935	\$ 585,627.95	\$3,461,142.44	\$ 25,049.40	\$351,594.95	\$.....	\$.....	\$.....	\$.....	\$1,428,476.00	\$.....	\$ 5,871,890.74	\$ 117,391.24	\$ 5,754,499.50
F. Y. 1936	12,065.95	.....	65,249.94	(1) - 90.00	55,593.49	.....	.....	.....	683,667.68	.....	816,487.06	137,993.16	678,493.90
F. Y. 1937	641,300.83	74,326.30	8,962.75	.....	.....	.....	.....	.....	673,199.38	7.52	1,397,796.78	195,544.02	1,202,252.76
F. Y. 1938	1,244,378.27	23,264.82	211,396.41	511.79	1,123.88	406,368.31	.....	.....	572,754.01	15.94	2,459,813.43	220,611.61	2,239,201.82
F. Y. 1939	4,549,732.87	.....	6,239.09	(2) - 4.25	.....	573,023.34	10.00	.....	290,866.58	- .16	5,419,867.47	261,894.33	5,158,000.14
F. Y. 1940	6,475,192.17	.....	(3) - 5,970.21	(4) - 469.50	.....	227,635.35	.....	2.50	606,511.67	.....	7,363,101.98	279,493.77	7,083,608.21
Totals	\$13,508,298.04	\$3,578,733.56	\$310,927.34	\$351,542.99	\$56,717.37	\$1,267,227.00	\$10.00	\$2.50	\$4,255,475.32	\$23.30	\$23,328,957.46	\$1,212,892.13	\$22,116,065.33

(1) Represents communication expenses incurred.

(2) Represents decrease in dollar value of French franc balance on June 30, 1939 below its dollar value on June 30, 1938.

(3) Difference between book value and revaluation of British sterling balance June 30, 1940.

(4) Difference between book value and revaluation of French franc balance June 30, 1940.....	\$472.00
Less: Miscellaneous earnings derived from cable charges....	2.50
Net Loss.....	\$469.50

Note:

During the fiscal year 1939 Belgian belgas and Swiss francs were acquired but were disposed of prior to the close of fiscal year without profit, as shown on attached Exhibits J and K. There were no transactions in these currencies in prior years.

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RESERVE REVALUATION FUND

ANALYSIS OF PROFIT FROM APRIL 26, 1934 TO JUNE 30, 1940

D e t a i l	April 26, 1934 to June 30, 1935	Fiscal Year 1936	Fiscal Year 1937	Fiscal Year 1938	Fiscal Year 1939	Fiscal Year 1940	T o t a l *
GOLD TRANSACTIONS							
Profits on gold (1).....	\$ 383,067.61	\$ 12,065.95	\$ 641,300.83	\$1,244,378.27	\$4,549,732.87	\$6,475,192.17	\$13,305,737.70
Unaudited balance of reserve for expense of shipping gold, transferred to profit.....	202,960.34						202,960.34
Total.....	585,027.95	12,065.95	641,300.83	1,244,378.27	4,549,732.87	6,475,192.17	813,508,298.04
SILVER TRANSACTIONS							
Profits on silver sold to Treasurer U.S.	3,473,362.29						3,473,362.29
Profits on silver sold in London.....	7,780.15		74,326.30	23,264.82			105,571.27
Total.....	3,481,142.44		74,326.30	23,264.82			3,578,733.56
BRITISH STERLING TRANSACTIONS							
Profits or loss on sterling transactions.....	25,012.99	65,112.90		211,258.34	6,205.03	(2) - 5,970.21	301,619.05
Interest on sterling balances.....	36.41		4,799.11	55.57	9.06		4,850.15
Miscellaneous earnings.....		137.04	203.64	82.30	25.00		448.18
Total.....	25,049.40	65,249.94	4,962.75	211,396.41	6,239.09	(2) - 5,970.21	310,887.58
FRENCH FRANK TRANSACTIONS							
Profits or loss on franc transactions.....	335,162.94	(3) - 90.00		309.29	(4) - 4.25	(5) - 472.00	335,105.98
Interest on franc balances.....	16,432.01			2.50			16,432.01
Miscellaneous earnings.....						2.50	5.00
Total.....	351,594.95	(3) - 90.00		511.79	(4) - 4.25	(5) - 469.50	351,548.99
OTHER EURO TRANSACTIONS							
Interest on peso balances.....		55,593.49		1,123.88			56,717.37
OTHER YUAN TRANSACTIONS							
Interest on yuan balances.....				406,362.31	573,023.34	227,635.35	1,207,021.00
IRELANDS GUILDER TRANSACTIONS							
Profits on guilder transactions.....					10.00		10.00
NEEDLE HEDGE TRANSACTIONS							
Miscellaneous earnings.....						2.50	2.50
INVESTMENTS IN U.S. GOVERNMENT SECURITIES							
Profits on securities.....	425,171.59	3,233.62		61,802.49	128,612.47	399,500.01	1,018,319.18
Interest on securities.....	1,002,304.41	685,428.06	673,199.38	510,951.52	162,294.11	207,011.66	3,236,199.14
Total.....	1,427,476.00	688,661.68	673,199.38	572,754.01	290,806.58	606,511.67	4,254,475.32
INTEREST ON DISBURSING OFFICERS' BALANCES							
Miscellaneous earnings.....			7.52	15.94	- .15		23.31
TOTALS.....	5,471,890.74	816,487.06	1,397,196.78	2,459,813.43	5,413,867.47	7,363,101.98	23,328,957.46
LESS: ADMINISTRATIVE EXPENSES							
Salaries.....	51,524.44	80,952.23	108,914.81	134,536.19	169,691.01	176,787.77	726,406.45
Travel.....	12,441.40	6,505.32	4,253.16	4,585.92	9,436.32	8,919.03	50,141.15
Maintenance.....	7,235.19	4,261.69	1,990.31	5,021.95	10,308.10	7,345.10	36,162.34
Telephone and telegraph.....	30,805.66	35,160.06	43,429.66	48,101.79	90,622.90	57,519.52	278,599.61
Printing, stationary, and office supplies.....	216.60	2,269.12	6,249.21	2,101.74	1,969.40	1,219.61	14,025.68
Miscellaneous.....	9,137.93	8,396.63	22,629.28	18,264.02	17,402.41	27,302.74	103,133.61
Total.....	117,351.24	136,096.05	193,667.03	220,611.61	299,030.14	279,493.77	1,208,438.44
PROFIT OR LOSS ON SALE OF FRENCH FRANCS RECEIVED IN DEBIT OF ACCOUNT OF GAINA CHANGE							
Profit - P; Loss - L.....		P - 51.89	L 3,676.99		L 2,828.19		4,453.29
TOTALS.....	117,351.24	137,993.16	195,944.02	220,611.61	261,898.33	279,493.77	1,212,891.73
NET PROFIT.....	85,754,499.50	678,493.90	81,202,252.76	82,239,201.82	85,158,009.14	87,083,608.21	882,116,065.33

(1) Includes profit derived from handling charges.

(2) Difference between book value and revaluation of British sterling balance June 30, 1940.

(3) Represents communication expenses incurred.

(4) Represents decrease in dollar value of French franc balance on June 30, 1939, below its dollar value on June 30, 1938.

(5) Difference between book value and revaluation of French franc balance June 30, 1940.

EXCHANGE STABILIZATION FUND

TRANSACTIONS IN GOLD FROM APRIL 26, 1934 TO JUNE 30, 1940

Period	Gold acquired		Shipping and miscellaneous expenses Dollars	Gold disposed of		Profit Dollars (1)	Unused balances: of reserve for: expense of shipping gold transferred to: profit Dollars	Less in melting of gold Ounces	Total increment to Fund Dollars	Balance held at close of fiscal year	
	Ounces	Dollar value		Ounces	Dollar value					Ounces	Dollar value
Apr. 26, 1934 to June 30, 1935	5,823,525.183	203,161,120.78	.....	5,823,525.183	203,544,166.39	383,067.61	202,960.34	.....	585,627.95	.....	.....
F. Y. 1936	1,729,183.528	60,455,862.76	.....	37,872.623	1,329,480.05	12,065.95	.....	.....	12,065.95	1,691,310.905	99,132,442.66
F. Y. 1937	10,627,119.288	369,903,906.92	568,249.96	7,474,016.614	261,612,396.76	641,300.83	.....	603.153	641,300.83	4,843,210.426	162,639,549.61
F. Y. 1938	12,941,689.897	452,204,057.63	323,079.60	16,536,179.425	578,709,838.83	1,244,378.27	.....	452.528	1,244,378.27	1,244,862.370	43,701,226.28
F. Y. 1939	36,193,017.983	1,260,912,946.91	1,706,255.66	35,022,236.209	1,226,234,739.13	4,549,732.87	.....	1,489.213	4,549,732.87	2,412,154.931	24,635,422.99
F. Y. 1940	67,241,222.221	2,347,192,803.68	242,435.25	67,238,394.224	2,353,799,331.51	6,475,192.17	.....	142.219	6,475,192.17	2,421,900.649	24,752,522.72
Totals	134,956,424.700	4,693,836,692.68	2,240,021.07	132,132,224.938	4,625,229,934.67	13,305,737.70	202,960.34	2,699.113	13,908,298.04	.....	.....

(1) Includes profit derived from handling charges.

MONROE STABILIZATION FUND

TRANSACTIONS IN SILVER FROM APRIL 26, 1954 TO JUNE 30, 1960

Period	Silver acquired		Silver disposed of		Profit Dollars	Total increment to fund Dollars	Balance held at close of fiscal year	
	Ounces	Dollar value	Ounces	Dollar value			Ounces	Dollar value
Apr. 26, 1954 to June 30, 1955	107,357,312.41	54,963,829.35	107,357,312.41	56,044,971.79	3,461,142.44	3,461,142.44	.....	.....
F. Y. 1956	224,728,369.53	148,345,874.75	224,728,369.53	148,345,874.75	.....	.....	.....	.....
F. Y. 1957	7,099,805.41	3,198,915.26	4,100,000.00	1,990,991.14	74,326.30	74,326.30	2,999,805.41	1,322,690.38
F. Y. 1958	3,801,516.67	1,636,705.76	6,801,322.08	2,982,620.96	23,264.82	23,264.82	.....	.....
F. Y. 1959	.....	.....	.....	.....	.....	.....	.....	.....
F. Y. 1960	.....	.....	.....	.....	.....	.....	.....	.....
Totals	342,987,004.02	207,745,325.12	342,987,004.02	211,324,058.68	3,578,733.96	3,578,733.96	.....	.....

Notes:

Profit on silver -
 Sold to Treasurer of the United States 83,473,362.29
 Sold in London 105,371.67
83,578,733.96

EXCHANGE STABILIZATION FUND

TRANSACTIONS IN BRITISH STERLING FROM APRIL 26, 1934 TO JUNE 30, 1940

Period	Sterling acquired		Sterling disposed of		Profit Dollars	Interest received on sterling balances Dollars	Excess of allowances by purchasers of sterling, over expenditures, for cables Dollars	Total increment to fund Dollars	Balance held at close of fiscal year	
	\$ s. & c.	Dollar value	\$ s. & c.	Dollar value					\$ s. & c.	Dollar value
Apr. 26, 1934 to June 30, 1935	16,485,584- 3- 1	81,562,742.18	16,481,254- 2- 5	81,566,480.67	25,012.99	36.41	.....	25,049.40	4,300- 0- 8	21,274.50
F. Y. 1936	16,806,325-15- 5	83,295,119.57	16,810,625-16- 1	83,381,644.01	65,249.94	.....	.....	65,249.94	.....	.....
F. Y. 1937	28,564,275- 0- 6	139,919,154.10	28,302,833-10- 8	138,609,850.56	.....	8,759.11	203.64	8,962.75	261,445- 9-10	1,309,303.54
F. Y. 1938	9,227,618- 7- 7	45,610,188.74	9,468,815-14- 6	47,030,504.85	211,256.34	55.57	82.50	211,338.81	20,246- 2-11	100,245.77
F. Y. 1939	26,088,604- 0- 7	124,186,524.18	26,099,828- 5- 3	124,250,749.94	6,205.03	9.06	25.00	6,239.09	9,825-14- 3	42,285.04
F. Y. 1940	.....	.....	8,278-14- 0	33,418.43	(1)-5,970.21	.....	.....	(1)-5,970.21	745- 0- 3	2,836.40
Totals	97,172,411- 7- 2	474,573,728.77	97,171,666- 6-11	474,872,648.46	301,756.09	8,860.15	311.14	310,927.38		

(1) Difference between book value and revaluation of British sterling balances June 30, 1940.

EXCHANGE STABILIZATION FUND

TRANSACTIONS IN FRENCH FRANCS FROM APRIL 26, 1934 TO JUNE 30, 1940

Period	Franco acquired		Franco disposed of		Profit Dollars	Interest received on franc balances Dollars	Expense of allowances by purchasers of franco, over expenditures, for cables Dollars	Total increment to Fund Dollars	Balance held at close of fiscal year	
	Number	Dollar value	Number	Dollar value					Number of francs	Dollar value
Apr. 26, 1934 to June 30, 1935	1,171,904,682.89	77,340,684.20	1,171,904,682.89	77,675,847.14	335,162.94	16,432.01	.....	351,994.95	.....	.....
F. Y. 1936	.....	.....	.....	.....	(1) - 90.00	.....	.....	(1) - 90.00	.....	.....
F. Y. 1937	2,000,000.00	93,071.25	1,970,815.56	91,711.86	.....	.....	.....	.....	29,184.44	1,395.39
F. Y. 1938	2,713,893.40	91,719.56	2,740,001.40	93,502.90	509.29	.....	2.50	511.79	3,076.44	85.74
F. Y. 1939	.....	.....	.....	.....	(2) - 4.25	.....	.....	(2) - 4.25	3,076.44	81.49
F. Y. 1940	1,700,000.00	81,311.75	1,702,182.52	82,905.16	(3) - 472.00	.....	2.50	(3) - 469.50	893.92	17.89
Totals.....	1,180,318,576.29	77,606,788.76	1,180,317,682.37	77,943,966.86	335,105.94	16,432.01	5.00	351,542.99		

(1) Represents dollar communication expenses relating to French franc transactions which were charged against profit on French francs.

(2) Represents decrease in dollar value of French franc balance on June 30, 1939 below its dollar value on June 30, 1938.

(3) Difference between book value and revaluation of French franc balance June 30, 1940.

EXCHANGE STABILIZATION FUND

TRANSACTIONS IN MEXICAN PESES FROM APRIL 26, 1934 TO JUNE 30, 1940

Period	Pesos acquired		Pesos disposed of		Profit Dollars	Interest received on peso balances Dollars	Total increment to Fund Dollars	Balance held at close of fiscal year	
	Number	Dollar value	Number	Dollar value				Number of pesos	Dollar value
Apr. 26, 1934 to June 30, 1935	.....	.....	.....	.....	.....	.....	.....	.....	.....
F. Y. 1936	17,000,000	4,726,000.00	17,000,000	4,726,000.00	.....	95,593.49	95,593.49	.....	.....
F. Y. 1937	.....	.....	.....	.....	.....	.....	.....	.....	.....
F. Y. 1938	10,804,050	2,996,123.88	10,804,050	2,996,123.88	.....	1,123.68	1,123.68	.....	.....
F. Y. 1939	.....	.....	.....	.....	.....	.....	.....	.....	.....
F. Y. 1940	.....	.....	.....	.....	.....	.....	.....	.....	.....
Totals	27,804,050	7,724,123.88	27,804,050	7,724,123.88	.....	96,717.37	96,717.37	.....	.....

Notes:

Mexican pesos were purchased from time to time by the Federal Reserve Bank of New York, as fiscal agent of the United States, from the Banco de Mexico, S. A., in exchange for dollars, under an arrangement approved by the Secretary of the Treasury January 7, 1936. By the terms of this arrangement (1) the Banco de Mexico, S. A., was to credit any pesos purchased, and interest thereon at the prescribed rate per annum, to an account in the name of the Federal Reserve Bank of New York, as fiscal agent of the United States; and (2) the Banco de Mexico, S. A., was to repurchase all pesos standing to the credit of the Federal Reserve Bank, including pesos credited as interest.

The repurchases of pesos were effected by the Banco de Mexico, S. A., at the same rate at which the pesos were purchased thus yielding no profit on the purchase and repurchase transactions. The pesos received as interest, however, netted a profit of \$96,717.37 as disclosed above.

The arrangement was entered into for the purpose of supplying the Republic of Mexico with United States dollar exchange and the account was at all times secured by either silver or gold deposited as collateral. The arrangement was terminated December 31, 1936.

EXCHANGE STABILIZATION FUND

TRANSACTIONS IN CHINESE YUAN FROM APRIL 26, 1934 TO JUNE 30, 1940

Period	Yuan acquired		Yuan disposed of		Profit Dollars	Interest received on yuan balances Dollars	Total interest to Fund Dollars	Balance held at close of fiscal year		Gold held as security for repurchase of yuan by Central Bank of China	
	Number	Dollar value	Number	Dollar value				Number of yuan	Dollar value	Ounces	Dollar value
Apr. 26, 1934 to June 30, 1935											
F. Y. 1936											
F. Y. 1937											
F. Y. 1938	166,383,013.98	46,893,868.31	1,383,013.98	406,368.31	.....	406,368.31	406,368.31	165,000,000.00	48,487,500.00	1,395,381.168	48,638,340.89
F. Y. 1939	1,949,758.98	573,023.34	101,949,758.98	89,948,023.34	.....	573,023.34	573,023.34	65,000,000.00	19,118,500.00	553,686.168	19,379,015.65
F. Y. 1940	978,901.69	287,635.35	978,901.69	287,635.35	.....	287,635.35	287,635.35	65,000,000.00	19,118,500.00	553,686.168	19,379,015.65
Totals	169,311,676.59	49,754,727.00	104,311,676.59	30,642,227.00	.....	1,267,227.00	1,267,227.00				

Notes:

Chinese yuan were purchased from time to time by the Federal Reserve Bank of New York, as fiscal agent of the United States, from the Central Bank of China, in exchange for dollars, under an arrangement approved by the Secretary of the Treasury July 14, 1937. By the terms of this arrangement (1) the Central Bank of China was to credit any yuan purchased, and interest thereon at the prescribed rate per annum, to an account in the name of the Federal Reserve Bank of New York, as fiscal agent of the United States; and (2) the Central Bank of China was to repurchase all yuan standing to the credit of the Federal Reserve Bank, including yuan credited as interest.

The repurchase of yuan were effected by the Central Bank of China at the same rate at which the yuan were purchased, thus yielding no profit on the purchase and repurchase transactions. The yuan received as interest, however, netted a profit of \$1,267,227.00 as disclosed above.

The arrangement was entered into for the purpose of supplying the Republic of China with United States dollar exchange and the account has at all times been secured by gold deposited as collateral. The arrangement had not been terminated to June 30, 1940.

EXCHANGE STABILIZATION FUND

TRANSACTIONS IN HOLLERLAND GUILDERS FROM APRIL 26, 1934 TO JUNE 30, 1940

Period	Guilders acquired		Guilders disposed of		Profit Dollars	Total increment to fund Dollars	Balance held at close of fiscal year	
	Number	Dollar value	Number	Dollar value			Number of Guilders	Dollar value
Apr. 26, 1934 to June 30, 1935	.....	.....	.....	.....	.....	.....	.....	.....
F. Y. 1936	.....	.....	.....	.....	.....	.....	.....	.....
F. Y. 1937	.....	.....	.....	.....	.....	.....	.....	.....
F. Y. 1938	.....	.....	.....	.....	.....	.....	.....	.....
F. Y. 1939	100,000.00	53,085.00	100,000.00	53,095.00	10.00	10.00	.....	.....
F. Y. 1940	.....	.....	.....	.....	.....	.....	.....	.....
Totals	100,000.00	53,085.00	100,000.00	53,095.00	10.00	10.00		

EXCHANGE STABILIZATION FUND

TRANSACTIONS IN BELGIAN BELGAS FROM APRIL 26, 1934 TO JUNE 30, 1940

Period	Belgas acquired		Belgas disposed of		Profit Dollars	Total increment to fund Dollars	Balance held at close of fiscal year	
	Number	Dollar value	Number	Dollar value			Number of Belgas	Dollar value
Apr. 26, 1934 to June 30, 1935	.....	.....	.....	.....	....	....	.....	.....
F. Y. 1936	.....	.....	.....	.....	....	....	.....	.....
F. Y. 1937	.....	.....	.....	.....	....	....	.....	.....
F. Y. 1938	.....	.....	.....	.....	....	....	.....	.....
F. Y. 1939	12,190,000.00	2,051,604.50	12,176,806.44	2,049,364.16	....	....	13,193.56	2,220.34
F. Y. 1940	.....	.....	10,001.65	1,715.28	(1) 2.50	2.50	3,191.91	905.06
Totals	12,190,000.00	2,051,604.50	12,186,808.09	2,051,079.44	2.50	2.50		

(1) Miscellaneous earnings derived from cable charges.

RICHARDS STABILIZATION FUND

TRANSACTIONS IN SWISS FRANCS FROM APRIL 26, 1934 TO JUNE 30, 1940

Period	Franco acquired		Franco disposed of		Profit Dollars	Total increment to fund Dollars	Balance held at close of fiscal year	
	Number	Dollar value	Number	Dollar value			Number of Franco	Dollar value
Apr. 26, 1934 to June 30, 1935	.....	.....	.....	.....	.....	.....	.....	.....
F. Y. 1936	.....	.....	.....	.....	.....	.....	.....	.....
F. Y. 1937	.....	.....	.....	.....	.....	.....	.....	.....
F. Y. 1938	.....	.....	.....	.....	.....	.....	.....	.....
F. Y. 1939	290,000.00	56,050.00	290,000.00	56,050.00	.....	.....	.....	.....
F. Y. 1940	.....	.....	.....	.....	.....	.....	.....	.....
Totals	<u>290,000.00</u>	<u>56,050.00</u>	<u>290,000.00</u>	<u>56,050.00</u>	.....	.....	.....	.....

EXCHANGE STABILIZATION FUND

TRANSACTIONS IN INVESTMENTS IN UNITED STATES SECURITIES FROM APRIL 26, 1934 TO JUNE 30, 1940

Period	Purchases		Sales		Profit	Interest earned			Total increment to Fund	Balances held at close of fiscal year	
	Par amount	Cost	Par amount	Sale price		Due and collected	Accrued but not due	Total		Par amount	Cost
	Dollars	Dollars	Dollars	Dollars		Dollars	Dollars	Dollars		Dollars	Dollars
Apr. 26, 1934 to June 30, 1935	71,438,310.00	72,119,226.52	44,804,910.00	45,770,508.17	426,171.59	792,427.67	209,876.74	1,002,304.41	1,428,476.00	26,633,400.00	26,774,889.94
F. Y. 1936	.....	.....	6,633,400.00	6,671,879.56	3,239.62	513,240.56	167,187.90	680,428.06	683,667.68	20,000,000.00	20,106,850.00
F. Y. 1937	10,000,000.00	10,061,075.03	.....	.....	.....	495,765.98	177,433.40	673,199.38	673,199.38	30,000,000.00	30,187,385.03
F. Y. 1938	1,165,000.00	1,280,507.83	15,165,000.00	16,361,997.82	61,802.49	458,908.74	52,042.78	510,951.52	572,754.01	15,000,000.00	15,107,637.53
F. Y. 1939	.....	.....	10,000,000.00	10,209,687.90	128,612.47	120,457.83	41,796.88	162,254.11	290,866.58	5,000,000.00	5,086,562.90
F. Y. 1940	10,782,000.00	10,779,588.76	5,330,000.00	5,756,928.14	399,500.01	197,280.93	9,730.73	207,011.66	606,511.67	10,452,000.00	10,448,723.13
Totals	93,389,310.00	94,200,398.14	82,933,310.00	84,771,001.19	1,019,326.18	2,578,081.11	658,068.03	3,236,149.14	4,295,475.32		

SPECIAL FOREIGN EXCHANGE

TRANSACTIONS CONDUCTED BY THE FEDERAL RESERVE BANK OF NEW YORK AS FISCAL AGENT OF THE UNITED STATES
ON BEHALF OF AND FOR ACCOUNT OF BANK OF FRANCE UNDER THE BILATERAL AGREEMENT
FROM APRIL 26, 1934 TO JUNE 30, 1940

Period	Francs required		Add cable expense Dollars	Deduct brokerage refunds Dollars	Total cost Dollars	Francs disposed of		Allowances made by, and received from, purchasers on account of cable charges Dollars	Add brokerage refunds Dollars	Total proceeds Dollars
	Number	Dollar value				Number	Dollar value			
Apr. 26, 1934 to June 30, 1935	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
F. Y. 1936	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
F. Y. 1937	193,660,000	8,906,569.99	115.00	53.37	8,906,631.62	176,675,000	8,291,910.31	180.00	310.39	8,292,340.70
F. Y. 1938	286,515,000	9,234,746.14	145.00	.....	9,234,891.14	363,320,000	11,373,448.51	150.00	.....	11,373,598.51
F. Y. 1939	551,215,000	14,850,092.65	245.00	.....	14,850,337.65	76,535,000	2,042,467.18	35.00	.....	2,042,522.18
F. Y. 1940	11,300,000	287,950.00	10.00	.....	287,960.00	35,840,000	876,439.63	17.50	.....	876,457.13
Totals	1,042,690,000	33,281,358.78	515.00	53.37	33,281,820.41	651,770,000	22,564,285.63	382.50	310.39	22,564,918.52

SPECIAL FOREIGN EXCHANGE

TRANSACTIONS CONDUCTED BY THE FEDERAL RESERVE BANK OF NEW YORK AS FISCAL AGENT OF THE UNITED STATES
ON BEHALF OF AND FOR ACCOUNT OF BANK OF ENGLAND UNDER THE TRIPARTITE ARRANGEMENT

FROM APRIL 26, 1934 TO JUNE 30, 1940

Period	Sterling acquired			Add cable expense Dollars	Total cost Dollars	Sterling disposed of			Allowances made by and received from purchasers on account of cable charges Dollars	Total proceeds Dollars
	\$	s. d.	Dollar value			\$	s. d.	Dollar value		
Apr. 26, 1934 to June 30, 1935	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
F. Y. 1936	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
F. Y. 1937	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
F. Y. 1938	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
F. Y. 1939	10,839,000- 0- 0		50,746,984.48	185.00	50,747,169.48	1,593,500- 0- 0		7,604,963.13	10.00	7,604,973.13
F. Y. 1940	6,916,500- 0- 0		32,381,985.36	85.00	32,382,070.36	.....	.....	.....	.....	.....
Totals	17,755,500- 0- 0		83,128,969.84	270.00	83,129,239.84	1,593,500- 0- 0		7,604,963.13	10.00	7,604,973.13

SPECIAL FORBIS RICHARDSON

TRANSACTIONS CONDUCTED BY THE FEDERAL RESERVE BANK OF NEW YORK AS FISCAL AGENT OF THE UNITED STATES
ON BEHALF OF AND FOR ACCOUNT OF BANK OF SPAIN UNDER THE TRIFARIAN ARRANGEMENT

FROM APRIL 26, 1934 TO JUNE 30, 1940

Period	Builders acquired		Add cable expense Dollars	Total cost Dollars	Builders disposed of		Allowances made by and received from purchasers on account of cable charges Dollars	Total proceeds Dollars
	Number	Dollar value			Number	Dollar value		
Apr. 26, 1934 to June 30, 1935	.....	.....	.....	.....	.....	.....	.....	.....
F. Y. 1936	.....	.....	.....	.....	.....	.....	.....	.....
F. Y. 1937	.....	.....	.....	.....	18,420,000	10,085,980.25	155.00	10,085,135.25
F. Y. 1938	.....	.....	.....	.....	5,012,000	2,768,209.80	22.50	2,768,838.30
F. Y. 1939	11,820,000	6,274,647.00	32.50	6,274,679.50	.....	.....	.....	.....
F. Y. 1940	6,990,000	3,498,301.50	32.50	3,498,334.00	.....	.....	.....	.....
Totals	18,410,000	9,772,948.50	65.00	9,773,013.50	23,432,000	12,854,190.05	177.50	12,854,367.55

March 12, 1941

Memorandum for the Secretary's Files:

In regard to Paragraph One of this memo, I talked to the Secretary about Mr. Leach, President of the Federal Reserve Bank of Richmond, and told him that Mr. Leach was originally in charge of the Baltimore Branch of this bank, having served there several years before he was made Treasurer of the RFC when it was organized in 1932. He left RFC to become President of the Federal Reserve Bank of Richmond.

The Secretary is not going to call him up for a conference.

In regard to Paragraph Two as to getting a banker to come to Washington, this is now under consideration and several names have been submitted to the Secretary to date by the Comptroller.

D. W. Bell

February 27, 1941

Mr. D. W. Bell

Secretary Morgenthau

I wish you would find out something about the President of the Federal Reserve Bank at Richmond, and talk to me about him because I would like to have him come up to see me.

Please also speak to Preston Delano and ask him whether through his bank examiners he couldn't find out where in the United States, outside of New York and Chicago, we might find a very able, outstanding banker who voted for Roosevelt during the last election. My idea is that we might want to borrow him and bring him to Washington. Please tell Delano to get busy on this.

*(Discussed at 9:30 meeting on 3/5/41-)
(See also telephone conversation
with Preston Delano at
11:55 on March 3-1941)*

March 12, 1941

Memorandum for the Secretary's Files:

I talked to the Secretary at the time of the last financing after I had talked with Mr. Rouse, and we decided we would not ask anybody from these two organizations, but would consider it for future financing.

D. W. Bell

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February 19, 1941

Dan Bell

Secretary Morgenthau

Please talk to me about the desirability of bringing down whoever is the bond man for Standard Statistics and for Moody.

March 12, 1941

Memorandum for the Secretary's Files:

I submitted to the Secretary March 7th the attached statement of past expenditures under the budget, budget estimates for 1941 and 1942, revised estimates for 1941 and 1942 in accordance with my ideas, and a projected budget for the period 1943 to 1947 showing proposed outlays in several items. The Secretary kept this statement for his records.

The Director of the Budget does have a field force which is continuously checking on Public Works, National Defense, WPA, CCC AND National Youth. The Director is getting reports from these representatives constantly.

D. W. BELL

March 5, 1941

Mr. D. W. Bell

Secretary Morgenthau

On February 17th I sent you a memorandum asking you to take a look at the Agriculture Department appropriations to see where we could cut some of the appropriations. In that memorandum, I also asked you about field investigations of public expenditures.

Today's New York Times' editorial shows how in 1934 farm aid cost 780 million; in 1935, one billion 76; in 1936, it cost 938 million; in 1937, 976 million; in 1938, 860 million; in 1939, one billion 235 million; and in 1940, one billion 567 million.

I am bringing these figures to your attention, and again wish to ask you what you are doing about making a study for me as to where we can cut this year's proposed budget, starting with Agriculture, CCC, and any other non-defense items that may be cut.

Does the Bureau of the Budget have any field organization that goes out and checks regularly on public works, Army cantonments, and any other expenditures? Does any Department in the Government have a field organization which goes out and checks on public expenditures? I am aware of what the Comptroller General does, but that is not what I have in mind.

COST OF FARM AID

The House has begun consideration of the 1942 fiscal appropriation of the Agriculture Department. The over-all figure for the fiscal year to end June 30, 1942 is \$1,421,000,000, compared with \$1,477,000,000 for the 1941 fiscal year. The saving—if, when present estimates are turned into actual expenditures, it should turn out to be a saving—would be less than 4 per cent. The total sum to be saved is microscopic when compared with the enormous increases in expenditures for defense.

The cost of the Federal Government's aid to agriculture over the last eight years has been steadily mounting. Here are the figures in millions of dollars:

1933.....	\$209	1937.....	\$976
1934.....	780	1938.....	880
1935.....	1,076	1939.....	1,235
1936.....	938	1940.....	1,567

The present annual expenditure on agricultural aid is twice the total annual expenditure of the Federal Government for all purposes in the years immediately preceding the World War. It is greater than the entire tax receipts from all sources in the war year 1917.

The various agricultural subsidies and bonuses were all originally urged as purely "emergency" measures. The farmers were to be "tided over" an embarrassing but temporary period. But as farm income rose from the depression levels of 1932 and 1933, the Government's agricultural aid showed no corresponding tendency to diminish. On the contrary, it kept rising also. Gradually the theory seems to have got itself established that the Government owes certain groups of producers a permanent living. They are to continue to receive a "fair share of the national income"—usually conceived as a permanently fixed share of that income—no matter how the conditions of production and consumption change in the meanwhile. And though the need for economy in nondefense expenditures has now become vital, Congress does not even seriously inquire whether there may not be more economical forms of farm subsidy than the recklessly wasteful ones at present employed.

Confidential from John Sullivan

ESTIMATED EXPENDITURES AND RECEIPTS, 1942 (fiscal)
(Figures in millions)

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I.

Budget estimates plus aid to Britain

Expenditures as shown in the budget	\$17,485	
Expected aid to Britain	<u>5,500</u>	
Total budget plus aid to Britain.		\$22,985
Two-thirds of above total of \$22,485	15,323	
<u>Less: Net receipts as estimated in the budget.</u>	<u>8,275</u>	
Additional revenue necessary if receipts are to equal two-thirds of expenditures.		7,048

II.

Amounts Treasury Department expects actually
will be spent and received in fiscal 1942

Maximum expected to be spent (in the absence of drastic priorities for defense purposes).		\$19,000
Two-thirds of above figure of \$19,000.	\$12,667	
<u>Less: Net receipts now expected ^{1/}</u>	<u>8,500</u>	
Additional revenue necessary if receipts are to equal two-thirds of expenditures		4,167

^{1/} The budget estimates anticipated almost all the additional revenue now expected to be received due to improved business conditions and higher national income.

3/12/41

Source		Estimated increase (In millions)
<u>Individual income taxes</u>		
Increase surtax rates by adopting attached rate schedule (1/7/41)		\$ 504.0
<u>Estate and gift taxes</u>		
(1) Increase the estate tax rates by adopting the attached rate schedule; and (2) increase the gift tax rates to three-quarters the rates in the attached schedule (1/22/41)		103.0
<u>Corporation taxes</u>		
(1) Excess profits tax: Increase rates and revise base	500.0	575.0
(2) Normal tax: Increase rate on all corporations 1% (Not an official estimate)	75.0	
<u>Soft drinks</u>		
Impose a tax on bottled soft drinks at the rate of 1 cent per bottle with equivalent taxes on unbottled drinks and fountain syrups (1/31/41)		132.5
<u>Check tax</u>		
Reenact the 2-cent check tax which was imposed by the Revenue Act of 1932 (1/22/41)		56.0
<u>Admissions tax</u>		
Reduce the exemption under the admissions tax from 20 cents to 9 cents (1/22/41)		55.0
<u>Automobiles</u>		
Impose an additional 2 percent tax on the items covered in Sec. 3403(b) of the I. R. C. (1/2/41)		40.0
<u>Liquor</u>		
Distilled spirits: Additional \$1 per gallon	135.0	192.2
Fermented malt liquors: Additional \$1 per barrel	55.0	
Wines, cordials and liqueurs: Increase of 16 2/3%	2.2	
Floor stock taxes (first year only)		
Distilled spirits, \$1 per gallon	(29.0)	
Fermented malt liquors, \$1 per barrel (11/29/40)	(3.0)	
		<hr/> 1,657.7

1/ Estimates for individual income taxes are on basis of calendar year 1941 levels of income; all other estimates are at business levels estimated for the fiscal year 1942. The date when the estimate was made is given in parenthesis after each source.

3/12/41

Individual surtax rate schedule

\$504 million, with defense tax

(Estimated calendar 1941 income levels)

Surtax net income : (in thousands : of dollars) :	Bracket rate : (Percent) :	Total surtax : cumulative :
\$ 0 - 2	4	\$ 80
2 - 4	6	200
4 - 6	8	560
6 - 8	10	560
8 - 10	12	800
10 - 12	14	1,080
12 - 14	16	1,400
14 - 16	18	1,760
16 - 18	20	2,160
18 - 20	22	2,600
20 - 22	24	3,080
22 - 26	27	4,160
26 - 32	30	5,960
32 - 38	33	7,940
38 - 44	36	10,100
44 - 50	40	12,500
50 - 60	44	16,900
60 - 70	47	21,600
70 - 80	50	26,600
80 - 90	53	31,900
90 - 100	56	37,500
100 - 150	58	66,500
150 - 200	60	96,500
200 - 250	62	127,500
250 - 300	64	159,500
300 - 400	66	225,500
400 - 500	68	295,500
500 - 750	70	468,500
750 - 1,000	72	648,500
1,000 - 2,000	75	1,378,500
2,000 - 5,000	74	3,598,500
Over 5,000	75	-

Comparison of surtax rate schedules under present law and proposal

Surtax net income (\$000)	Bracket rate (percent)		Total surtax cumulative	
	Present law	Proposal	Present law	Proposal
0 - 2	-	4	-	\$ 80
2 - 4	-	6	-	200
4 - 6	4	8	\$ 80	360
6 - 8	6	10	200	560
8 - 10	8	12	360	800
10 - 12	10	14	560	1,080
12 - 14	12	16	800	1,400
14 - 16	15	18	1,100	1,760
16 - 18	18	20	1,460	2,160
18 - 20	21	22	1,880	2,600
20 - 22	24	24	2,360	3,080
22 - 26	27	27	3,440	4,160
26 - 32	30	30	5,240	5,960
32 - 38	33	33	7,220	7,940
38 - 44	36	36	9,380	10,100
44 - 50	40	40	11,780	12,500
50 - 60	44	44	16,180	16,900
60 - 70	47	47	20,880	21,600
70 - 80	50	50	25,880	26,600
80 - 90	53	53	31,180	31,900
90 - 100	56	56	36,780	37,500
100 - 150	58	58	65,780	66,500
150 - 200	60	60	95,780	96,500
200 - 250	62	62	126,780	127,500
250 - 300	64	64	158,780	159,500
300 - 400	66	66	224,780	225,500
400 - 500	68	68	292,780	293,500
500 - 750	70	70	467,780	468,500
750 - 1,000	72	72	647,780	648,500
1,000 - 2,000	73	73	1,377,780	1,378,500
2,000 - 5,000	74	74	3,597,780	3,598,500
Over 5,000	75	75	-	-

Comparison of present and proposed individual income taxes
on net incomes of selected sizes ^{1/}

Married person - no dependents

Net income before personal exemption ^{2/}	Amount of tax ^{3/}		Effective rates		Increase in tax	
	Present law	Proposal	Present law	Proposal	Amount	Percent
\$ 2,500	\$ 11	\$ 33	.4%	1.3%	\$ 22	200.0%
3,000	31	75	1.0	2.5	44	141.9
4,000	70	158	1.8	4.0	88	125.7
5,000	110	264	2.2	5.3	154	140.0
6,000	150	370	2.5	6.2	220	146.7
8,000	317	625	4.0	7.8	308	97.2
10,000	528	924	5.3	9.2	396	75.0
12,500	858	1,364	6.9	10.9	506	59.0
15,000	1,258	1,874	8.4	12.5	616	49.0
20,000	2,336	3,106	11.7	15.5	770	33.0
25,000	3,843	4,635	15.4	18.5	792	20.6
50,000	14,128	14,920	28.3	29.8	792	5.6
75,000	27,768	28,560	37.0	38.1	792	2.9
100,000	43,476	44,268	43.5	44.3	792	1.8
500,000	330,156	330,804	66.0	66.2	648	.2
1,000,000	717,584	718,232	71.8	71.8	648	.1
5,000,000	3,916,548	3,917,196	78.3	78.3	648	^{4/}

^{1/} Under the proposal the attached surtax rate schedule is substituted for present schedule.

^{2/} Maximum earned income assumed.

^{3/} Includes 10% defense tax.

^{4/} Less than .05 percent.

Estate and Gift Tax Rate Schedule

\$103 million combined effect, without defense tax, assuming gift tax rates are equal to three-quarters of estate tax rates

(estimated fiscal 1942 business levels)

Net estate after specific exemption : (in thousands) :	Bracket rate : (percent) :	Cumulative tax on higher amount :
\$ 0 - 5	3	\$ 150
5 - 10	6	450
10 - 20	9	1,350
20 - 30	12	2,550
30 - 40	15	4,050
40 - 50	18	5,850
50 - 60	21	7,950
60 - 100	23	17,150
100 - 250	25	54,650
250 - 500	27	122,150
500 - 750	29	194,650
750 - 1,000	31	272,150
1,000 - 1,250	33	354,650
1,250 - 1,500	35	442,150
1,500 - 2,000	38	632,150
2,000 - 2,500	41	837,150
2,500 - 3,000	44	1,057,150
3,000 - 3,500	47	1,292,150
3,500 - 4,000	50	1,542,150
4,000 - 5,000	53	2,072,150
5,000 - 6,000	56	2,632,150
6,000 - 7,000	59	3,222,150
7,000 - 8,000	61	3,832,150
8,000 - 9,000	63	4,462,150
9,000 - 10,000	65	5,112,150
10,000 - 20,000	67	11,812,150
20,000 - 50,000	69	32,512,150
Over 50,000	70	-

Proposed estate tax rates under Schedule I compared
with present estate tax rates

Net estate after specific exemption: (in thousands of dollars)		Proposed rates 1/ Schedule I:		Present rates 1/	
	Bracket rate (percent)	Cumulative : tax on higher : amount		Bracket rate (percent)	Cumulative : tax on higher : amount
0 - 5	5	\$ 150		2	\$ 100
5 - 10	6	450		2	200
10 - 20	9	1,350		4	600
20 - 30	12	2,550		6	1,200
30 - 40	15	4,050		8	2,000
40 - 50	18	5,850		10	3,000
50 - 60	21	7,950		12	4,200
60 - 100	25	17,150		12 - 14	9,600
100 - 250	25	54,650		17 - 20	36,600
250 - 500	27	122,150		20 - 23	89,600
500 - 750	29	194,650		23 - 26	151,600
750 - 1,000	31	272,150		26 - 29	222,600
1,000 - 1,250	33	354,650		32	302,600
1,250 - 1,500	35	442,150		32	382,600
1,500 - 2,000	38	632,150		35	557,600
2,000 - 2,500	41	837,150		38	747,600
2,500 - 3,000	44	1,057,150		41	952,600
3,000 - 3,500	47	1,292,150		44	1,172,600
3,500 - 4,000	50	1,542,150		47	1,407,600
4,000 - 5,000	53	2,072,150		50 - 53	1,922,600
5,000 - 6,000	56	2,632,150		56	2,482,600
6,000 - 7,000	59	3,222,150		59	3,072,600
7,000 - 8,000	61	3,832,150		61	3,682,600
8,000 - 9,000	63	4,462,150		63	4,312,600
9,000 - 10,000	65	5,112,150		65	4,962,600
10,000 - 20,000	67	11,812,150		67	11,662,600
20,000 - 50,000	69	32,512,150		69	32,362,600
Over 50,000	70	-		70	-

1/ Exclusive of temporary defense tax.

Comparison of proposed estate tax under Schedule I with
present estate tax on net estates (before exemption)
of selected sizes ^{1/}

Net estate: before exemption ^{2/} (000)	Amount of tax ^{3/}		Effective rate		Increase in tax	
	Present law	Proposal Schedule I	Present law	Proposal Schedule I	Amount	Percent
\$ 50	\$ 220	\$ 495	0.4%	1.0%	\$ 275	125.0%
60	660	1,485	1.1	2.5	825	125.0
80	2,200	4,455	2.8	5.6	2,255	102.5
100	4,620	8,745	4.6	8.7	4,125	89.3
200	21,780	35,365	10.9	17.7	13,585	62.4
400	64,460	92,785	16.1	23.2	28,325	43.9
600	113,740	153,505	19.0	25.6	39,765	35.0
1,000	252,100	285,725	25.2	28.6	53,625	23.1
2,000	597,960	678,645	29.9	33.9	80,685	13.5
4,000	1,527,680	1,674,365	38.2	41.9	146,685	9.6
6,000	2,706,220	2,870,725	45.1	47.9	164,505	6.1
10,000	5,430,260	5,594,765	54.3	55.9	164,505	3.0
20,000	12,799,380	12,963,885	64.0	64.8	164,505	1.3
40,000	27,978,500	28,143,005	69.9	70.3	164,505	.6
60,000	43,268,060	43,432,565	72.1	72.4	164,505	.4
100,000	74,068,060	74,232,565	74.1	74.2	164,505	.2

Treasury Department, Division of Tax Research

- ^{1/} Under the proposal the attached rate schedule is substituted for the present schedule.
- ^{2/} The specific exemption of \$40,000 allowed under present law is retained under the proposal.
- ^{3/} Includes 10 percent defense tax.

Plan to raise an additional \$2,150 million of revenue ^{1/}

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Source	: Estimated increase : (In millions)
<u>Individual income taxes</u>	\$ 992.3
Increase surtax rates by adopting attached rate schedule, without defense tax (2/11/41)	
<u>Estate and gift taxes</u>	103.0
(1) Increase the estate tax rates by adopting the attached rate schedule; and (2) increase the gift tax rates to three-quarters the rates in the attached schedule (1/22/41)	
<u>Corporation taxes</u>	575.0
(1) Excess profits tax: Increase rates and revise base	500.0
(2) Normal tax: Increase rate on all corporations 1% (Not an official estimate)	75.0
<u>Soft drinks</u>	132.5
Impose a tax on bottled soft drinks at the rate of 1 cent per bottle with equivalent taxes on unbottled drinks and fountain syrups (1/31/41)	
<u>Check tax</u>	56.0
Reenact the 2-cent check tax which was imposed by the Revenue Act of 1932 (1/22/41)	
<u>Admissions tax</u>	55.0
Reduce the exemption under the admissions tax from 30 cents to 9 cents (1/22/41)	
<u>Automobiles</u>	40.0
Impose an additional 2 percent tax on the items covered in section 3403(b) of the I. R. C. (1/2/41)	
<u>Liquor</u>	192.2
Distilled spirits: Additional \$1 per gallon	135.0
Fermented malt liquors: Additional \$1 per barrel	55.0
Wines, cordials and liqueurs: Increase of 16 2/3%	2.2
Floor stock taxes (first year only)	
Distilled spirits, \$1 per gallon	(29.0)
Fermented malt liquors, \$1 per barrel (11/29/40)	(3.0)
	2,146.0

^{1/} Estimates for individual income taxes are on basis of calendar year 1941 levels of income; all other estimates are at business levels estimated for the fiscal year 1942. The date when the estimate was made is given in parenthesis after each source.

Individual surtax rate schedule

\$ 992.3 million, without defense tax

\$1,078.9 million, with defense tax

(Estimated calendar 1941 income levels)

Surtax net income : (in thousands : of dollars) :	Bracket rate : (Percent) :	Total surtax : cumulative :
\$ 0 - 4	6	\$ 240
4 - 6	8	400
6 - 8	12	640
8 - 10	15	940
10 - 12	20	1,340
12 - 14	25	1,840
14 - 16	30	2,440
16 - 18	35	3,140
18 - 20	40	3,940
20 - 22	45	4,840
22 - 25	50	6,340
25 - 30	55	9,090
30 - 50	60	21,090
50 - 100	61	51,590
100 - 150	62	82,590
150 - 200	63	114,090
200 - 250	64	146,090
250 - 300	66	179,090
300 - 400	68	247,090
400 - 500	70	317,090
500 - 1,000	72	677,090
1,000 - 2,000	73	1,407,090
2,000 - 5,000	74	3,627,090
Over - 5,000	75	-

Comparison of surtax schedules
under present law and proposed Schedule B

Surtax net income (\$000)	Bracket rates (Percent)		Total surtax cumulative	
	Present law	Proposal	Present law	Proposal
\$ 0 - \$ 2	-	6	-	120
2 - 4	-	6	-	240
4 - 6	4%	8	80	400
6 - 8	6	12	200	640
8 - 10	8	15	360	940
10 - 12	10	20	560	1,340
12 - 14	12	25	800	1,840
14 - 16	15	30	1,100	2,440
16 - 18	18	35	1,460	3,140
18 - 20	21	40	1,880	3,940
20 - 22	24	45	2,360	4,840
22 - 25	27	50	3,170	6,340
25 - 26	27	55	3,440	6,890
26 - 30	30	55	4,640	9,090
30 - 32	30	60	5,240	10,290
32 - 38	33	60	7,220	13,890
38 - 44	36	60	9,380	17,490
44 - 50	40	60	11,780	21,090
50 - 60	44	61	16,180	27,190
60 - 70	47	61	20,880	33,290
70 - 80	50	61	25,880	39,390
80 - 90	53	61	31,180	45,490
90 - 100	56	61	36,780	51,590
100 - 150	58	62	65,780	82,590
150 - 200	60	63	95,780	114,090
200 - 250	62	64	126,780	146,090
250 - 300	64	66	158,780	179,090
300 - 400	66	68	224,780	247,090
400 - 500	68	70	292,780	317,090
500 - 750	70	72	467,780	497,090
750 - 1,000	72	72	647,780	677,090
1,000 - 2,000	73	73	1,377,780	1,407,090
2,000 - 5,000	74	74	3,597,780	3,627,090
Over 5,000	75	75	-	-

Comparison of present and proposed individual income taxes on net incomes of selected sizes ^{1/}

Married person - no dependents

Net income :	Amount of tax			Effective rates			Increase in tax				
	before :	Proposal		:	Proposal		:	Amount		Percent	
		personal exemption :	Present :		Without defense :	With defense :		Present :	Without defense :	With defense :	Without defense :	With defense :
2/	law	defense tax	defense tax	law	defense tax	defense tax	Without defense tax	With defense tax	Without defense tax	With defense tax	
\$ 2,500	\$ 11	\$ 40	\$ 44	.4%	1.6%	1.8%	\$ 29	\$ 33	263.6%	300.0%	
3,000	31	88	97	1.0	2.9	3.2	57	66	183.9	212.9	
4,000	70	184	202	1.8	4.6	5.1	114	132	162.9	188.6	
5,000	110	280	308	2.2	5.6	6.2	170	198	154.5	180.0	
6,000	150	376	414	2.5	6.3	6.9	226	264	150.7	176.0	
8,000	317	608	669	4.0	7.6	8.4	291	352	91.8	111.0	
10,000	528	920	1,012	5.3	9.2	10.1	392	484	74.2	91.7	
12,500	858	1,410	1,551	6.9	11.3	12.4	552	693	64.3	80.8	
15,000	1,258	2,054	2,259	8.4	13.7	15.1	796	1,001	63.3	79.6	
20,000	2,336	3,804	4,184	11.7	19.0	20.9	1,468	1,848	62.8	79.1	
25,000	3,843	6,204	6,824	15.4	24.8	27.3	2,361	2,981	61.4	77.6	
50,000	14,128	21,754	23,929	28.3	43.5	47.9	7,626	9,801	54.0	69.4	
75,000	27,768	37,984	41,686	37.0	50.6	55.6	10,216	13,918	36.8	50.1	
100,000	43,476	54,234	58,811	43.5	54.2	58.8	10,758	15,335	24.7	35.3	
500,000	330,156	335,554	351,999	66.0	67.1	70.4	5,398	21,843	1.6	6.6	
1,000,000	717,584	715,514	743,963	71.8	71.6	74.4	- 2,070	26,379	- .3	3.7	
5,000,000	3,916,548	3,825,474	3,942,927	78.3	76.5	78.9	-91,074	26,379	- 2.3	.7	

^{1/} Under the proposal, the attached surtax rate schedule B is substituted for the present schedule.

^{2/} Maximum earned income assumed.

Plan to raise an additional \$2,600 million of revenue 1/

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Source	Estimated increase (In millions)
<u>Individual income taxes</u>	
Increase surtax rates by adopting attached rate schedule, including defense tax (2/11/41)	\$1,140.7
<u>Estate and gift taxes</u>	
Estate tax changes: (1) Reduce exemption from \$40,000 to \$25,000; (2) adopt the attached estate tax rate schedule; (3) Reduce insurance exclusion from \$40,000 to \$25,000	321.0
Gift tax changes: (1) Reduce the exemption from \$40,000 to \$25,000; (2) increase the gift tax rates to three-fourths the rates in the proposed estate tax schedule (1/27/41)	
<u>Corporation taxes</u>	
(1) Excess profits tax: Increase rates and revise base	500.0
(2) Normal tax: Increase rate on all corporations 1% (Not an official estimate)	75.0
<u>Soft drinks</u>	
Impose a tax on bottled soft drinks at the rate of 1 cent per bottle with equivalent taxes on unbottled drinks and fountain syrups (1/31/41)	132.5
<u>Check tax</u>	
Reenact the 2-cent check tax which was imposed by the Revenue Act of 1932 (1/22/41)	56.0
<u>Admissions tax</u>	
Reduce the exemption under the admissions tax from 20 cents to 9 cents (1/22/41)	55.0
<u>Automobiles</u>	
Impose an additional 2 percent tax on the items covered in section 3403(b) of the I. R. C. (1/2/41)	40.0
<u>Liquor</u>	
Distilled spirits: Additional \$1 per gallon	135.0
Fermented malt liquors: Additional \$1 per barrel	55.0
Wines, cordials and liqueurs: Increase of 16 2/3%	2.2
Floor stock taxes (first year only)	
Distilled spirits, \$1 per gallon	(29.0)
Fermented malt liquors, \$1 per barrel (11/29/40)	(3.0)
<u>Tobacco</u>	
Manufacture of cigars, tobacco and snuff; Double rates (Not an official estimate)	70.0
	<hr/> 2,582.4

Estimates for individual income taxes are on basis of calendar year 1941 levels of income; all other estimates are at business levels estimated for the fiscal year 1942. The date when the estimate was made is given in parenthesis after each source.

Estate and gift tax rate schedule

\$521 million combined effect without defense tax:
 \$288 million from estate tax and \$55 million from
 gift tax assuming gift tax rates are equal to
 three quarters of estate tax rates, the specific
 exemption under both taxes is reduced from \$40,000
 to \$25,000 and that the insurance exclusion under
 the estate tax is reduced from \$40,000 to \$25,000

(Estimated fiscal 1942 business levels)

Net estate after specific exemption (in thousands of dollars)	Bracket rate (Percent)	Cumulative tax on higher amount
\$ 0 - 5	4	200
5 - 10	8	600
10 - 20	12	1,800
20 - 30	16	3,400
30 - 40	20	5,400
40 - 60	25	10,000
60 - 80	26	15,200
80 - 100	29	21,000
100 - 150	32	37,000
150 - 200	35	54,500
200 - 250	38	75,500
250 - 300	41	94,000
300 - 500	44	182,000
500 - 1,000	47	417,000
1,000 - 2,000	49	907,000
2,000 - 3,000	51	1,417,000
3,000 - 4,000	53	1,947,000
4,000 - 5,000	55	2,497,000
5,000 - 6,000	57	3,067,000
6,000 - 7,000	59	3,657,000
7,000 - 8,000	61	4,267,000
8,000 - 9,000	65	4,897,000
9,000 - 10,000	65	5,547,000
10,000 - 20,000	67	12,247,000
20,000 - 50,000	69	32,947,000
Over - 50,000	70	-

Proposed estate tax rates under Schedule II compared
with present estate tax rates

Net estate after specific exemption: (in thousands of dollars)		Proposed rates ^{1/} / Schedule II:		Present rates ^{1/}	
	Bracket rate: (percent)	Cumulative: tax on higher amount	Bracket rate: (percent)	Cumulative: tax on higher amount	
\$ 0 - 5	4	\$ 200	2	\$ 100	
5 - 10	8	600	2	200	
10 - 20	12	1,800	4	600	
20 - 30	16	3,400	6	1,200	
30 - 40	20	5,400	8	2,000	
40 - 60	25	10,000	10 - 12	4,200	
60 - 80	26	15,200	12 - 14	6,800	
80 - 100	29	21,000	14	9,600	
100 - 150	32	37,000	17	18,100	
150 - 200	35	54,500	17	26,600	
200 - 250	38	75,500	20	36,600	
250 - 300	41	94,000	20	46,600	
300 - 500	44	182,000	20 - 23	89,600	
500 - 1,000	47	417,000	23 - 29	222,600	
1,000 - 2,000	49	907,000	32 - 35	557,600	
2,000 - 3,000	51	1,417,000	38 - 41	952,600	
3,000 - 4,000	55	1,947,000	44 - 47	1,407,600	
4,000 - 5,000	55	2,497,000	50 - 53	1,922,600	
5,000 - 6,000	57	3,067,000	56	2,482,600	
6,000 - 7,000	59	3,657,000	59	3,072,600	
7,000 - 8,000	61	4,267,000	61	3,682,600	
8,000 - 9,000	63	4,897,000	63	4,312,600	
9,000 - 10,000	65	5,547,000	65	4,962,600	
10,000 - 20,000	67	12,247,000	67	11,662,600	
20,000 - 50,000	69	32,947,000	69	32,362,600	
Over 50,000	70	-	70	-	

^{1/} Exclusive of temporary defense tax.

Comparison of proposed estate tax under Schedule II with
present estate tax on net estates (before exemption)
of selected sizes ^{1/}

Net estate: before exemption ^{2/} (000)	Amount of tax ^{3/}		Effective rate		Increase in tax	
	Present law	Proposed Schedule II:	Present law	Proposed Schedule II:	Amount	Percent
\$ 50	\$ 220	\$ 660	0.4%	1.3%	\$ 440	200.0
60	660	1,980	1.1	3.5	1,520	200.0
80	2,200	5,940	2.8	7.4	3,740	170.0
100	4,620	11,000	4.6	11.0	6,580	158.1
200	21,780	44,550	10.9	22.5	22,770	104.5
400	64,460	132,440	16.1	35.1	67,980	105.5
600	115,740	251,220	19.0	38.5	117,480	105.5
1,000	232,100	458,020	25.2	45.8	205,920	88.7
2,000	597,960	976,140	29.9	48.8	378,180	65.2
4,000	1,527,680	2,118,580	38.2	53.0	590,700	38.7
6,000	2,706,220	3,548,620	45.1	55.8	642,400	23.7
10,000	5,430,260	6,075,100	54.3	60.7	642,840	11.8
100,000	74,068,060	74,710,900	74.1	74.1	642,840	.9

- ^{1/} Under the proposal the attached rate schedule is substituted for the present schedule.
- ^{2/} The specific exemption of \$40,000 allowed under present law is retained under the proposal.
- ^{3/} Includes 10 percent defense tax.

Individual surtax rate schedule

\$1,043.1 million without defense tax

\$1,140.7 million with defense tax

(Estimated calendar 1941 income levels)

Surtax net income (in thousands of dollars)	Bracket rate (percent)	Total surtax cumulative
\$ 0 - 2	8	\$ 160
2 - 4	10	360
4 - 6	12	600
6 - 8	14	880
8 - 10	16	1,200
10 - 12	18	1,560
12 - 14	21	1,980
14 - 16	24	2,460
16 - 18	26	2,980
18 - 20	30	3,580
20 - 22	34	4,260
22 - 26	38	5,780
26 - 32	42	8,300
32 - 38	46	11,060
38 - 44	50	14,060
44 - 50	55	17,360
50 - 70	60	29,360
70 - 100	61	47,660
100 - 150	62	78,660
150 - 200	63	110,160
200 - 250	64	142,160
250 - 300	66	175,160
300 - 400	68	243,160
400 - 500	70	313,160
500 - 1,000	72	673,160
1,000 - 2,000	73	1,403,160
2,000 - 5,000	74	3,623,160
Over 5,000	75	-

Comparison of surtax schedules
under present law and proposed Schedule O

Surtax net income (\$000)	Bracket rates (Percent)		Total surtax cumulative	
	Present	Proposal	Present	Proposal
	law		law	
\$ 0 - \$ 2	-	8	-	160
2 - 4	-	10	-	360
4 - 6	4 ¹ / ₂	12	80	600
6 - 8	6	14	200	880
8 - 10	8	16	360	1,200
10 - 12	10	18	560	1,560
12 - 14	12	21	800	1,980
14 - 16	15	24	1,100	2,460
16 - 18	18	26	1,460	2,980
18 - 20	21	30	1,880	3,580
20 - 22	24	34	2,360	4,260
22 - 25	27	38	3,170	5,400
25 - 26	27	38	3,440	5,780
26 - 30	30	42	4,640	7,460
30 - 32	30	42	5,240	8,300
32 - 38	33	46	7,220	11,060
38 - 44	36	50	9,380	14,060
44 - 50	40	55	11,780	17,360
50 - 60	44	60	16,180	23,360
60 - 70	47	60	20,880	29,360
70 - 80	50	61	25,880	35,460
80 - 90	53	61	31,180	41,560
90 - 100	56	61	36,780	47,660
100 - 150	58	62	65,780	78,660
150 - 200	60	63	95,780	110,160
200 - 250	62	64	126,780	142,160
250 - 300	64	66	158,780	175,160
300 - 400	66	68	224,780	243,160
400 - 500	68	70	292,780	313,160
500 - 750	70	72	467,780	493,160
750 - 1,000	72	72	647,780	673,160
1,000 - 2,000	73	73	1,377,780	1,403,160
2,000 - 5,000	74	74	3,597,780	3,623,160
Over 5,000	75 ¹ / ₂	75 ¹ / ₂	-	-

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Comparison of present and proposed individual income taxes
on net incomes of selected sizes ^{1/}

Married person - no dependents

Net income before personal exemption ^{2/}	Amount of tax			Effective rates			Increase in tax			
	Present law	Proposal		Present law	Proposal		Amount		Percent	
		Without defense tax	With defense tax		Without defense tax	With defense tax	Without defense tax	With defense tax	Without defense tax	With defense tax
\$ 2,500	\$ 11	\$ 50	\$ 55	.4%	2.0%	2.2%	\$ 39	\$ 44	354.5%	400.0%
3,000	31	108	119	1.0	3.6	4.0	77	88	248.4	283.9
4,000	70	224	246	1.8	5.6	6.2	154	176	220.0	251.4
5,000	110	360	396	2.2	7.2	7.9	250	286	227.3	260.0
6,000	150	496	546	2.5	8.3	9.1	346	396	230.7	264.0
8,000	317	808	889	4.0	10.1	11.1	491	572	154.9	180.4
10,000	528	1,160	1,276	5.3	11.6	12.8	632	748	119.7	141.7
12,500	858	1,660	1,826	6.9	13.3	14.6	802	968	93.5	112.8
15,000	1,258	2,234	2,457	8.4	14.9	16.4	976	1,199	77.6	95.3
20,000	2,336	3,644	4,008	11.7	18.2	20.0	1,308	1,672	56.0	71.6
25,000	3,843	5,504	6,054	15.4	22.0	24.2	1,661	2,211	43.2	57.5
50,000	14,128	18,124	19,936	28.3	36.2	39.9	3,996	5,808	28.3	41.1
75,000	27,768	34,054	37,459	37.0	45.4	49.9	6,286	9,691	22.6	34.9
100,000	43,476	50,304	55,274	43.5	50.3	55.3	6,828	11,798	15.7	27.1
500,000	330,156	331,624	348,462	66.0	66.3	69.7	1,468	18,306	.4	5.5
1,000,000	717,584	711,584	740,426	71.8	71.2	74.0	- 6,000	22,842	- .8	3.2
5,000,000	3,916,548	3,821,544	3,939,390	78.3	76.4	78.8	- 95,004	22,842	- 2.4	1.6

Treasury Department, Division of Tax Research

March 11, 1941

- ^{1/} Under the proposal the attached surtax Schedule C is substituted for the present schedule.
^{2/} Maximum earned income assumed.

Source	Estimated increase (In millions)
<u>Individual income taxes</u>	\$1,700.0
Lower exemptions to \$500 for single person and \$1,000 for a married person and increase surtax rates by adopting attached rate schedule, without defense tax (Not an official estimate)	
<u>Estate and gift taxes</u>	321.0
<u>Estate tax changes:</u> (1) Reduce specific exemption from \$40,000 to \$25,000; (2) adopt the attached estate tax rate schedule; (3) reduce insurance exclusion from \$40,000 to \$25,000	
<u>Gift tax changes</u> (1) reduce the specific exemption from \$40,000 to \$25,000; (2) increase the gift tax rates to three-fourths the rates in the proposed estate tax schedule (1/27/41)	
<u>Corporation taxes</u>	575.0
(1) Excess profits tax: Increase rates and revise base	500.0
(2) Normal tax: Increase rate on all corporations 1% (Not an official estimate)	75.0
<u>Liquor</u>	350.0
Distilled spirits: Additional \$2 per gallon	
Fermented malt liquors: Additional \$2 per barrel	
Wines, cordials, and liqueurs: 33 1/3% increase (Not an official estimate)	
<u>Tobacco</u>	200.0
Cigarettes: Additional 75 cents per 1,000	130
Manufacture of cigars, tobacco and snuff: Double rates (Not an official estimate)	70
<u>Automobile taxes, including gasoline</u>	200.0
Items covered in Secs. 3403(b) and 3403(c) of Code: Double rates	80
Gasoline tax: Increase 1/2 cent per gallon (Not an official estimate)	120
<u>Soft drinks</u>	132.5
Impose a tax on bottled soft drinks at the rate of 1 cent per bottle with equivalent taxes on unbottled drinks and fountain syrups (1/31/41)	
<u>Check tax</u>	56.0
Reenact the 2-cent check tax which was imposed by the Revenue Act of 1932 (1/22/41)	
<u>Admissions tax</u>	55.0
Reduce the exemption under the admissions tax from 20 cents to 9 cents (1/22/41)	
	<hr/> 3,589.5

Estimates for individual income taxes are on basis of calendar year 1941 levels of income; all other estimates are at business levels estimated for the fiscal year 1942. The date when the estimate was made is given in parentheses after each source.

Individual surtax rate schedule ^{1/}

\$1,140.7 million, without defense tax

\$1,261.5 million, with defense tax

(Estimated calendar 1941 income levels)

Surtax net income : (in thousands : of dollars) :	Bracket rate : (Percent) :	Total surtax : cumulative :
\$ 0 - 2	10	\$ 200
2 - 4	12	440
4 - 6	14	720
6 - 8	16	1,040
8 - 10	18	1,400
10 - 12	20	1,800
12 - 14	22	2,240
14 - 16	24	2,720
16 - 18	26	3,240
18 - 20	28	3,800
20 - 22	30	4,400
22 - 26	33	5,720
26 - 32	36	7,880
32 - 38	39	10,220
38 - 44	42	12,740
44 - 50	45	15,440
50 - 60	49	20,540
60 - 70	52	25,540
70 - 80	55	31,040
80 - 90	58	36,840
90 - 100	61	42,940
100 - 150	62	73,940
150 - 200	63	105,440
200 - 250	64	137,440
250 - 300	66	170,440
300 - 400	68	238,440
400 - 500	70	308,440
500 - 1,000	72	668,440
1,000 - 2,000	73	1,398,440
2,000 - 5,000	74	3,618,440
Over - 5,000	75	-

^{1/} Combined with reduced exemptions of \$500 for a single person and \$1,000 for a married person, it is unofficially estimated that this schedule, without the defense tax, would yield approximately \$1,700 million.

Comparison of surtax schedules
under present law and proposed Schedule A

Surtax net income (\$000)	Bracket rates (Percent)		Total surtax cumulative	
	Present Law	Proposal	Present Law	Proposal
\$ 0 - \$ 2	-	10%	-	200
2 - 4	-	12	-	440
4 - 6	4%	14	80	720
6 - 8	6	16	200	1,040
8 - 10	8	18	360	1,400
10 - 12	10	20	560	1,800
12 - 14	12	22	800	2,240
14 - 16	15	24	1,100	2,720
16 - 18	18	26	1,460	3,240
18 - 20	21	28	1,880	3,800
20 - 22	24	30	2,360	4,400
22 - 25	27	33	3,170	5,290
25 - 26	27	33	3,440	5,720
26 - 30	30	36	4,640	7,160
30 - 32	30	36	5,240	7,880
32 - 38	33	39	7,220	10,220
38 - 44	36	42	9,580	13,740
44 - 50	40	45	11,780	15,440
50 - 60	44	49	16,180	20,540
60 - 70	47	52	20,880	25,540
70 - 80	50	55	25,880	31,040
80 - 90	53	58	31,180	36,840
90 - 100	56	61	36,780	42,940
100 - 150	58	63	65,780	73,940
150 - 200	60	63	95,780	105,440
200 - 250	62	64	126,780	137,440
250 - 300	64	66	158,780	170,440
300 - 400	66	68	224,780	238,440
400 - 500	68	70	292,780	308,440
500 - 750	70	72	467,780	488,440
750 - 1,000	72	72	647,780	668,440
1,000 - 2,000	73	73	1,577,780	1,398,440
2,000 - 5,000	74	74	3,597,780	3,618,440
Over 5,000	75	75	-	-

Comparison of present and proposed individual income taxes
on net incomes of selected sizes ^{1/}

Married person - no dependents

Net income before personal exemption ^{2/}	Amount of tax ^{3/}		Effective rates		Increase on tax under proposal	
	Present law	Proposal	Present law	Proposal	Amount	Percent
\$ 1,500	\$ -	\$ 70	-	4.7%	\$ 70	
2,000	-	145	-	7.3	145	
2,500	11	220	.4%	8.8	209	1,900.0%
3,000	31	295	1.0	9.8	264	851.6
4,000	70	466	1.8	11.7	396	565.7
5,000	110	638	2.2	12.8	528	480.0
6,000	150	832	2.5	13.9	682	454.7
8,000	317	1,241	4.0	15.5	924	291.5
10,000	528	1,694	5.3	16.9	1,166	220.8
12,500	858	2,321	6.9	18.6	1,463	170.5
15,000	1,258	3,018	8.4	20.1	1,760	139.9
20,000	2,336	4,646	11.7	23.2	2,310	98.9
25,000	3,843	6,560	15.4	26.2	2,717	70.7
50,000	14,128	18,583	28.3	37.2	4,455	31.5
75,000	27,768	33,708	37.0	44.9	5,940	21.4
100,000	43,476	50,857	43.5	50.9	7,381	17.0
500,000	330,156	344,880	66.0	69.0	14,724	4.5
1,000,000	717,584	736,862	71.8	73.7	19,278	2.7
5,000,000	3,916,548	3,935,844	78.3	78.7	19,296	.5

^{1/} Under the proposal personal exemptions are reduced from \$800 to \$500 for a single person and from \$2,000 to \$1,000 for a married person, and the attached surtax rate schedule A is substituted for present schedule.

^{2/} Maximum earned income assumed.

^{3/} Includes 10 percent defense tax.

COMPARISON OF PRESENT AND PROPOSED INDIVIDUAL
INCOME TAXES ON NET INCOMES OF SELECTED SIZES ^{1/}
MARRIED PERSONS - NO DEPENDENTS

Net Income before Personal Exemption ^{2/}	Amount of Tax		Effective Rates		Increase or Decrease in Tax Under Proposal	
	Present Law	Proposal ^{3/}	Present Law	Proposal	Amount	Percent
\$ 1,500	\$ -	\$ 64	-	4.3%	\$ 64	
2,000	-	132	-	6.6	132	
2,500	11	200	.4%	8.0	189	1,718.2%
3,000	31	268	1.0	8.9	237	764.5
4,000	70	424	1.8	10.6	354	505.7
5,000	110	580	2.2	11.6	470	427.3
6,000	150	756	2.5	12.6	606	404.0
8,000	317	1,128	4.0	14.1	811	255.8
10,000	528	1,540	5.3	15.4	1,012	191.7
12,500	858	2,110	6.9	16.9	1,252	145.9
15,000	1,258	2,744	8.4	18.3	1,486	118.1
20,000	2,336	4,224	11.7	21.1	1,888	80.8
25,000	3,843	5,964	15.4	23.9	2,121	55.2
50,000	14,128	16,894	28.3	33.8	2,766	19.6
75,000	27,768	30,644	37.0	40.9	2,876	10.4
100,000	43,476	46,234	43.5	46.2	2,758	6.3
500,000	330,156	327,644	66.0	65.5	-2,512	-.8
1,000,000	717,584	707,624	71.8	70.8	-9,660	-1.4
5,000,000	3,916,548	3,817,604	78.3	76.4	-98,944	-2.5

^{1/} Under the proposal personal exemptions are reduced from \$800 to \$500 for a single person and from \$2,000 to \$1,000 for a married person, and the attached surtax rate schedule "A" is substituted for present schedule.

^{2/} Maximum earned income assumed.

^{3/} Without 10 percent defense tax.

Plan to raise an additional \$4 billion of revenues ^{1/}

214 54

Source	Estimated increase (In millions)
Individual income taxes	
Lower exemptions to \$500 for single person and \$1,000 for a married person and increase surtax rates by adopting attached rate schedule, with defense tax (Not an official estimate)	\$2,010.0
Estate and gift taxes	
Estate tax changes	
(1) Reduce specific exemption from \$40,000 to \$25,000	
(2) Adopt the attached estate tax rate schedule, with defense tax	
(3) Reduce insurance exclusion from \$40,000 to \$25,000	
Gift tax changes	
(1) Reduce the specific exemption from \$40,000 to \$25,000	
(2) Increase the gift tax rates to three-fourths the rates in the proposed estate tax schedule, with defense tax (Not an official estimate)	
Corporation taxes	
(1) Excess profits tax: Increase rates and revise base	500.0
(2) Normal tax: Increase rate on all corporations 1%	75.0
(3) Capital stock tax: Increase rate to \$1.50, including defense tax (Not an official estimate)	60.0
Liquor	
Distilled spirits: Additional \$2 per gallon	
Fermented malt liquors: Additional \$2 per barrel	
Wines, cordials, and liqueurs: 33 1/3% increase (Not an official estimate)	
Tobacco	
Cigarettes: Additional 75 cents per 1,000	130
Manufacture of cigars, tobacco and snuff: Double rates (Not an official estimate)	70
Automobile taxes, including gasoline	
Items covered in Secs. 3403(b) and 3403(c) of Code: Double rates	80
Gasoline tax: Increase 1/2 cent per gallon (Not an official estimate)	120
Soft drinks	
Impose a tax on bottled soft drinks at the rate of 1 cent per bottle with equivalent taxes on unbottled drinks and fountain syrups (1/31/41)	132.5
Check tax	
Reenact the 2-cent check tax which was imposed by the Revenue Act of 1932 (1/22/41)	56.0
Admissions tax	
Reduce the exemption under the admissions tax from 20 cents to 9 cents (1/22/41)	55.0
	3,991.5

^{1/} Estimates for individual income taxes are on basis of calendar year 1941 levels of income; all other estimates are at business levels estimated for the fiscal year 1942. The date when the estimate was made is given in parenthesis after each source.

Comparison of surtax rate schedules under present law and proposal

Surtax net income (\$000)	Bracket rate (percent)		Total surtax cumulative	
	Present law	Proposal	Present law	Proposal
\$ 0 - 2	-	11	-	\$ 220
2 - 4	-	14	-	500
4 - 6	4	16	80	520
6 - 8	6	19	200	1,200
8 - 10	8	21	360	1,620
10 - 12	10	23	560	2,080
12 - 14	12	25	800	2,580
14 - 16	15	27	1,100	3,120
16 - 18	18	29	1,460	3,700
18 - 20	21	31	1,880	4,320
20 - 22	24	33	2,360	4,980
22 - 26	27	36	3,440	6,420
26 - 32	30	39	5,240	8,760
32 - 38	33	42	7,220	11,280
38 - 44	36	45	9,380	13,980
44 - 50	40	48	11,780	16,860
50 - 60	44	51	16,180	21,960
60 - 70	47	54	20,880	27,360
70 - 80	50	57	25,880	33,060
80 - 90	53	59	31,180	38,960
90 - 100	56	61	36,780	45,060
100 - 150	58	62	65,780	76,060
150 - 200	60	63	95,780	107,560
200 - 250	62	64	126,780	139,560
250 - 300	64	66	158,780	172,560
300 - 400	66	68	224,780	240,560
400 - 500	68	70	292,780	310,560
500 - 750	70	72	467,780	490,560
750 - 1,000	72	72	647,780	670,560
1,000 - 2,000	73	73	1,377,780	1,400,560
2,000 - 5,000	74	74	3,597,780	3,620,560
Over 5,000	75	75	-	-

Comparison of present and proposed individual income taxes
on net incomes of selected sizes 1/

Married person - no dependents

Net income before personal exemption 2/:	Amount of tax 5/		Effective rates		Increase in tax under proposal	
	Present law	Proposal	Present law	Proposal	Amount	Percent
\$ 1,500	-	\$ 76	-	5.1%	\$ 76	-
2,000	-	156	-	7.8	156	-
2,500	\$ 11	257	.4%	9.5	226	2054.5%
5,000	51	517	1.0	10.6	286	922.6
4,000	70	510	1.8	12.8	440	628.6
5,000	110	704	2.2	14.1	594	540.0
6,000	150	920	2.5	15.3	770	515.3
8,000	517	1,584	4.0	17.3	1,067	556.6
10,000	528	1,905	5.3	19.0	1,575	260.4
12,500	858	2,615	6.9	20.9	1,755	204.5
15,000	1,258	3,392	8.4	22.6	2,134	189.6
20,000	2,336	5,185	11.7	25.9	2,849	122.0
25,000	3,843	7,264	15.4	29.1	3,421	89.0
50,000	14,128	20,112	28.3	40.2	5,984	42.4
75,000	27,768	35,798	37.0	47.7	8,030	28.9
100,000	45,476	53,189	43.5	53.2	9,713	22.3
500,000	330,156	346,788	66.0	69.4	16,632	5.0
1,000,000	717,584	738,770	71.8	73.9	21,186	3.0
5,000,000	5,916,548	5,957,752	78.3	78.8	21,204	.5

Treasury Department, Division of Tax Research

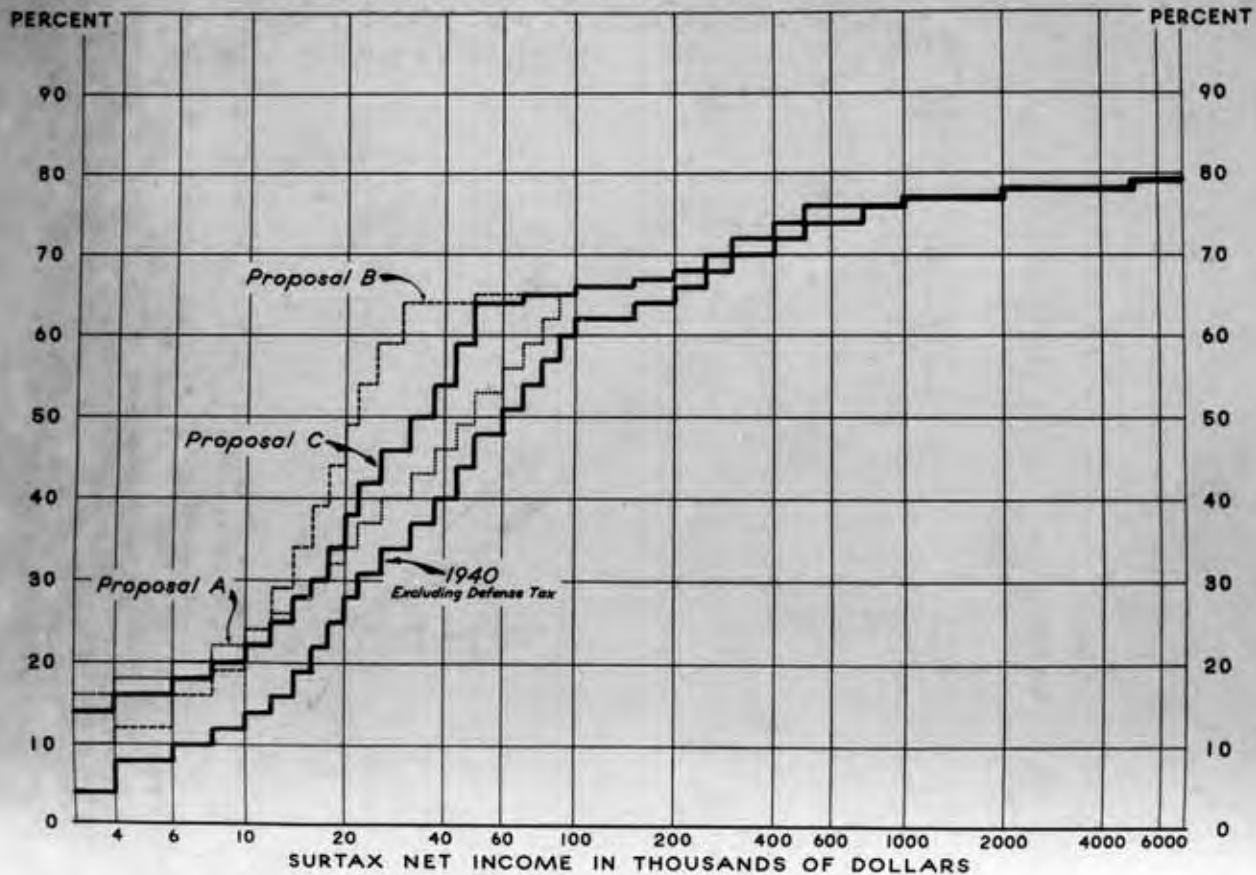
1/ Under the proposal personal exemptions are reduced from \$800 to \$500 for a single person and from \$2,000 to \$1,000 for a married person, and the attached surtax rate schedule is substituted for present schedule.

2/ Maximum earned income assumed.

3/ Includes 10 percent defense tax.

INDIVIDUAL INCOME TAX RATES 1940 AND PROPOSED RATES

Combined Normal and Surtax Rates



Individual Surtax Rate Schedule

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Surtax net income (In thousands of dollars)	Bracket rate (Percent)	Total surtax cumulative
\$ 0 - \$ 2	11	\$ 220
2 - 4	14	500
4 - 6	16	820
6 - 8	19	1,200
8 - 10	21	1,620
10 - 12	23	2,080
12 - 14	25	2,580
14 - 16	27	3,120
16 - 18	29	3,700
18 - 20	31	4,320
20 - 22	33	4,980
22 - 26	36	6,420
26 - 32	39	8,760
32 - 38	42	11,280
38 - 44	45	13,980
44 - 50	48	16,860
50 - 60	51	21,960
60 - 70	54	27,360
70 - 80	57	33,060
80 - 90	59	38,960
90 - 100	61	45,060
100 - 150	62	76,060
150 - 200	63	107,560
200 - 250	64	139,560
250 - 300	66	172,560
300 - 400	68	240,560
400 - 500	70	310,560
500 - 1,000	72	670,560
1,000 - 2,000	73	1,400,560
2,000 - 5,000	74	3,620,560
Over 5,000	75	-

Treasury Department, Division of Tax Research

March 11, 1941

Source	Estimated increase (in millions)
Individual income taxes	
Lower exemptions to \$500 for single person and \$1,000 for a married person and increase surtax rates by adopting attached rate schedule, with defense tax (Not an official estimate)	\$2,000.0 <u>2/</u>
Estate and gift taxes	
Estate tax changes	
(1) Reduce specific exemption from \$40,000 to \$25,000	
(2) Adopt the attached estate tax rate schedule, with defense tax	
(3) Reduce insurance exclusion from \$40,000 to \$25,000	
Gift tax changes	
(1) Reduce the specific exemption from \$40,000 to \$25,000	
(2) Increase the gift tax rates to three-fourths the rates in the proposed estate tax schedule, with defense tax (Not an official estimate)	
Corporation taxes	
(1) Capital stock tax: Increase rate to \$1.50: including defense tax	\$ 60.0
(2) Normal tax: Increase rate 6%	360.0
(3) Undistributed profits tax: Reenact the 1936 law (Not an official estimate)	225.0 <u>2/</u>
Liquor	
Distilled spirits: Additional \$2 per gallon	
Fermented malt liquors: Additional \$2 per barrel	
Wines, cordials, and liqueurs: 33 1/3% increase (Not an official estimate)	350.0
Tobacco	
Cigarettes: Additional 75 cents per 1,000	130
Manufacturers of cigars, tobacco and snuff: Double rates (Not an official estimate)	70
Automobile taxes, including gasoline	
Items covered in Secs. 3403(b) and 3403(c) of Code: Double rates	80
Gasoline tax: Increase 1/2 cent per gallon (Not an official estimate)	120
Soft drinks	
Impose a tax on bottled soft drinks at the rate of 1 cent per bottle with equivalent taxes on unbottled drinks and fountain syrups (1/31/41)	132.5
Check tax	
Reenact the 2-cent check tax which was imposed by the Revenue Act of 1932 (1/22/41)	56.0
Admissions tax	
Reduce the exemption under the admissions tax from 20 cents to 9 cents (1/22/41)	55.0
	<u>3,991.5</u>

1/ Estimates for individual income taxes are on basis of calendar year 1941 levels of income; all other estimates are at business levels estimated for the fiscal year 1942. The date when the estimate was made is given in parenthesis after each source.

2/ The indirect effect of the undistributed profits tax is taken into account in the estimates for the individual income tax.

JR

GRAY

Hanoi via N. R.

Dated March 12, 1941

Rec'd 10:08 a.m.

Secretary of State,
Washington.

37, March 12, noon.

Department's telegram No. 4, March 6, 7 p.m.

During a conversation yesterday the Governor General expressed appreciation of the action of the American Government in creating the "special account" for the use of the Bank of Indochina. He declared however that the commitments of the Bank of Indochina far exceed the credits allocated to the "special account", as required contracts in the United States for exports to Indochina total approximately four million American dollars and desired purchases in the Netherlands East Indies are calculated at about two million American dollars whereas the proceeds from the sale of 8000 tons of rubber are only approximately three million American dollars. He inquired whether, in addition to the proceeds from future sales of Indochina products to the United States, the American Government would consider crediting to the "special account", to be used under the same conditions, at least

-2- #37, March 12, noon, from Hanoi.

least a part of the proceeds from previous sales of rubber notably the contracts in 1940 (October 22 7000 tons, August 26 8000 tons and July 19 10,000 tons).

The bank of Indochina has suspended forward operations in American dollars except for absolute essentials. Sent to Cavite for repetition to the Department Chungking, Peiping.

REED

WSB

DEPARTMENT OF STATE

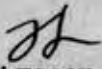
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ADVISER ON
INTERNATIONAL ECONOMIC AFFAIRS

March 12, 1941

Dear Merle:

Mr. Pehle is working
actively on this matter.


F. Livesey



DEPARTMENT OF STATE
WASHINGTON

March 12, 1941

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses a translation of an aide-mémoire of the French Embassy, dated March 10, 1941, regarding funds of the Banque de l'Indochine, Saigon, arising from sales of rubber in the United States.

There are also enclosed copies of paraphrases of telegrams nos. 35 and 36 dated March 10, 1941 from the American Consul at Hanoi, relating to possible sales of Indochinese products in the United States.

Enclosures:

1. Translation of aide-mémoire.
 2. No. 35, March 10, from Hanoi.
 3. No. 36, March 10, from Hanoi.
- TO THE SECRETARY OF STATE
18 MAR 15 1941
ENTRUSTED MAR 23
MAR 15 1941
- 28

TRANSLATION

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AMBASSADOR OF THE
REPUBLIC OF FRANCE
TO THE UNITED STATES

Washington, March 10, 1941

AIDE-MEMOIRE

The Treasury Department has recently granted the French American Banking Corporation, New York, a license permitting the establishment of a "special account" in the name of the Banque de l'Indochine, Saigon, which may be credited with the proceeds of a purchase of 8,000 tons of rubber under the contract signed December 2, 1940 between the Rubber Reserve Company and the Government General of Indochina.

This account is also to receive the proceeds of all future sales of raw materials by Indochina to the United States.

The sums paid into the special account as the result of these last operations amount to about \$2,100,000, and the Government of Indochina counts on using them to make in the United States the purchases of materials indispensable to the economic life of the colony, and necessary, among other things, to assure the equipment and the development of the rubber plantations of Indochina.

The Government General of Indochina estimates that these purchases, taking into account the orders placed and the export licenses at present in suspense, already amount to more than \$3,000,000. It therefore becomes necessary, in order to assure the maintenance of the special account of the Banque de l'Indochina, that the Treasury extend to the contracts signed July 19, August 26 and October 22, 1940, covering a total tonnage of 25,000 tons of rubber, the measure adopted with regard to the contract made December 2, 1940. This measure would permit Indochina to continue to assure regular sales of rubber to the United States.

The Ambassador of France to the United States is happy, in this connection, to inform His Excellency the Secretary of State that the French Government has decided not to take any measure which might obstruct the shipment to the United States of

The 2,300 tons of rubber (last crop) now loading, and he has instructed the Governor General of Indochina not to delay this shipment.

The Ambassador of France hopes that in these circumstances the requests presented by the Government General of Indochina will be favorably received and that the Banque de l'Indochine may have at its disposal, as soon as possible, the funds necessary to make in the United States the purchases essential to the colony.

HENRY HAYS

EA:FL:MSG

Department of State,
Washington, D. C.

COPI

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Consul, Hanoi, French Indochina

DATE: March 10, 1941, 2 p.m.

NO. : 35

The following is strictly confidential:

The Acting Chief of the Government General's Economic Section has informed me that very soon there may be available for sale to the United States certain quantities of wolfram. It is probable that this will be Chinese ore. This official asks whether it would be possible to agree on an arrangement whereby the containers could be marked by a letter, word or insignia, so that the words "Product of Indochina" would not have to be put on them as required by American customs regulations. If the Government General and the United States could agree on this, it is hoped that thereby other countries which are interested in exports of wolfram from Indochina could be prevented from knowing that Indochina is exporting such ore to the United States. The official commented that it would not be advisable to put "Product of China" on the containers, inasmuch as traffic with China is supposed to have ceased.

HEED

EA:LWW

eh:copy

PARAPHRASE OF TELEGRAM RECEIVED

227

FROM: American Consul, Hanoi, French Indochina

DATE: March 10, 1941

NO. : 36

The following is strictly confidential:

I have had a talk with an official of the Government General who helped with the Tokyo economic negotiations, and who visited in Malaya and the Netherlands East Indies more recently. He informs me that Indochina, Malaya and the Netherlands East Indies are concluding an arrangement whereby they would limit rubber exports to Japan to what Japan needs for consumption at home. During 1941 Indochina will export to Japan about 25,000 tons of rubber. The other two countries will reduce their rubber exports to Japan so that the established needs of that country will not be exceeded by their total exports.

The foregoing has been sent to Cavite for repetition to the Department of State, Shanghai, Peiping, Chungking, and Hong Kong.

REED

EA:LNW

Copy:bj



DEPARTMENT OF STATE
WASHINGTON

In reply refer to
EA 865.51/1081

March 12, 1941

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses a copy of a partial paraphrase of telegram no. 318 dated March 6, 1941 from the American Embassy, Rome, regarding the financial situation in Italy.

Enclosure:

From Rome, no. 318,
March 6, 1941.

TO THE SECRETARY OF STATE
RECEIVED
MARCH 15 1941
MARCH 15 1941
MARCH 15 1941

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PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rome.

1941,
DATE: March 6, /5 p.m.

NO.: 318.

According to a press communique, returns thus far received show subscriptions representing 18,017,000,000 lire par value to the issue of 5% nine-year traveler bonds referred to in Embassy's telegram no. 116 dated January 24, 8 p.m.

Almost all of the treasury bonds in circulation of the issues expiring May 15, 1941 have been offered in payment for the new issue while cash subscriptions represent 14,502,000,000 lire which the communique points out is 4,593,000,000 lire more than cash subscriptions resulting from a similar issue of February 1940.

The communique declares that the small and middle range savings classes have contributed in "truly notable measure" to the national issue. It is confidentially reported from individual sources, however, that the usual methods of disguised pressure were used; fear of refusing to subscribe was displayed uniformly by public employees, for example.

Although the new money which the present issue will make available ought to ameliorate the financial situation of the government temporarily, it is easy to see that only a small part of the currently accumulating deficit will be covered by the receipts; additional financing measures will have to be devised.

PHILLIPS

EA:MSG

DEPARTMENT OF STATE
Washington

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In reply refer to
HN 740.00112 Navicert/337

March 12, 1941

My dear Mr. Secretary:

Reference is made to my letter of March 7, 1941, regarding the use of funds to be derived from the sale of certain Syrian commodities in the United States for the purchase of goods in the United States to be exported to Syria. The opinion was expressed that the exchange of commodities between the United States and Syria was desirable from the point of view both of the political situation in the Near East and the need in the United States for the Syrian commodities concerned.

There is now enclosed a copy of a letter dated March 5, 1941, which has been received from Balfour, Guthrie & Co., Limited, 67 Wall Street, New York, New York, asking whether funds to be derived from the sale of 800 tons of Syrian wool in the United States might be transferred to Java, Netherlands Indies, to pay for sugar to be sent to Syria.

Since the desire of the present authorities in the Dutch East Indies to build up the defenses of that area, largely through the purchase of defense materials in the United States with such dollar exchange as may become available to them, is one which the Department of State wishes to support, this Department recommends for the favorable consideration of the Treasury Department the request of Balfour, Guthrie & Co.

An early expression of the Treasury Department's views in this regard will be much appreciated.

Sincerely yours,

For the Secretary of State:
(s) Adolf A. Berle, Jr.
Assistant Secretary

The Honorable
Henry Morgenthau, Jr.,
Secretary of the Treasury.

Encl: From Balfour, Guthrie & Co.,
March 5, 1941.

RALFOUR, GUTHRIE & CO., LIMITED
67 Wall Street
New York

231

March 5, 1941

Secretary of State
Department of State
Washington, D. C.

Sir:

In connection with a movement of carpet wools, silk and silk waste from Syria to the United States and the export of Java sugar and foodstuffs to Syria, the subscriber had the pleasure yesterday of meeting in Washington Mr. King of the Treasury Department and Mr. George Allen of the Department of State.

According to the information cabled to us by our correspondents in Aleppo, there is under consideration the export via Basrah of 800 tons wool to the United States against the import into Syria of about 5,000 tons of Java sugar to be shipped from the Netherlands Indies, the movement to be made with the consent of the British Authorities. We were informed that the American Consul at Beyrout had cabled to you about the matter on February 24th.

It will be necessary to sell the wools in order to finance the sugar and we wish to be advised whether the funds (U.S. Dollars) which we might collect from the buyers here representing the proceeds of sales of Syrian wool, will be released to us by the Treasury Department in order to pay the Java shippers for the sugar sent to Basrah and/or for the payment of other foodstuffs which might be exported to Syria.

In order to clarify our position it is proper that we should afford you some explanation. Our correspondents in Syria are The African & Eastern (Near East) Ltd., their principal office in Syria being located in Aleppo. We have represented this company in the United States for a considerable number of years and we might mention that it is an affiliate of The United Africa Co. Ltd., London, and we believe the capital is entirely British owned. The African & Eastern (Near East) Ltd. handle the bulk of the Syrian carpet wools which are shipped mostly to the United States and we might mention that the volume which we have handled during the last three or four years has been in the neighborhood of 4,000,000 lbs. annually.

In our opinion there will be no difficulty about finding buyers for the 800 tons carpet wools mentioned herein. However, the movement should be kept quiet and confidential, otherwise the price structure might be very seriously disturbed.

We also handle the sale of silk and silk waste which is shipped from Shanghai and Canton and we will gladly do anything at this or any other time to assist this movement or the development of any other business with the United States.

May we look forward to a prompt reply to the question about the release of funds because we have to cable our correspondents in Aleppo advising them regarding your attitude so that they may continue their negotiations with regard to the movement of wool, etc.

We are taking the liberty of sending a copy of this letter to Mr. Pehle's Department inasmuch as we consulted Mr. King yesterday and we were referred to your Department with the indication that in all probability the Treasury Department would be guided by your views.

Respectfully,

BALFOUR, GUTHRIE & CO., LIMITED

(Signature illegible)

President

eh:copy

DEPARTMENT OF STATE
Washington

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In reply refer to
EA

March 12, 1941

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and transmits herewith copies of the paraphrase of telegram no. 79 to the American Embassy at Rio de Janeiro, dated February 21, 1941, concerning the regulations applicable to the transfer of gold by the Bank for International Settlements to the Bank of Brazil.

Enclosure:

To American Embassy,
Rio de Janeiro, no. 79,
February 21, 1941.

eh:copy

PARAPHRASE OF PRIMEHAM BERT

TO: American Embassy, Rio de Janeiro

DATE: February 21, 1941, 8 p.m.

NO. : 79.

Reference is made to Embassy's telegram 96 of February 13,
5 p.m.

It is stated by the Treasury that you may inform the Bank of Brazil that the Bank for International Settlements is a national within the meaning of Executive Order No. 8389 dated April 10, 1940, as amended, which regulates transactions in foreign exchange, etc. Therefore, before the Bank for International Settlements would be able to transfer any of its Gold in N.Y. to the Bank of Brazil it would have to obtain a license under this Executive Order from our Treasury Department, as well as a license under the Gold Reserve Act of 1934 allowing such a transfer of gold. It will depend on the full facts and circumstances of the case as set forth in applications which would have to be filed with the Treasury Department on behalf of the B.I.S. as to whether or not such licenses will be granted.

HULL
(AAB)

HA:GL:VOL:BA

HA:MSG

shioogy

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BRITISH EMBASSY,
WASHINGTON, D.C.

March 12th, 1941.

PERSONAL AND
SECRET

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

Halifax

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D.C.

TELEGRAM RECEIVED FROM LONDON DATED MARCH 10th, 1941.

1. Naval. E Boats approaching two convoys off East Coast night of 9th/10th, were driven off by "Worcester" and "Southdown". No apparent damage to any ship. One minesweeper is mined and sunk off Dungeness.
2. During attack on Malta by fifteen enemy aircraft night of March 7th/8th, His Majesty's Ship "Imperial" slightly damaged, S.S. "Essex" damaged by two hits and one near miss.
3. M.S. Trawler "Nadine" attacked by Heinkel aircraft off Yarmouth a.m. March 8th was not damaged but she severely damaged and set on fire the aircraft with machine guns. Last seen diving towards the sea.
4. Two East Coast Convoys bombed p.m. March 9th off Aberdeen Coast - no damage - but one ship of channel convoy in the Straits of Dover was hit by bombs night of March 9th/10th.
5. Military. South East Europe. Total German divisions in South East Europe now probably twenty-eight. Total of thirty to thirty-two divisions may be reached in the near future. Approximately thirteen German divisions reported in Bulgaria.
6. Royal Air Force. March 9th and March 9th/10th. No operations by bomber command owing to weather.
7. Albania. On March 8th eighteen medium bombers escorted by fighters bombed Tepelene and large enemy convoys in the vicinity.
8. Ethiopia. Medium bombers from Aden dropped two and one-half tons of bombs on Dire Dawa.
9. German Air Force. March 9th. In early morning twelve Messerschmidt 109's made an ineffective attack on

Hanston aerodrome.

10. Night of March 9th/10th. Chief attack again against London by about 120 aircraft and subsidiary attack was made on Portsmouth.

London. Raid lasted longer than previous night but there was less damage. Slight damage was caused in two docks and to house property in the East end.

Portsmouth. Some damage was done to barracks and also in docks.

Malta. At dawn March 9th four enemy fighters and a bomber approached at sea level and attacked an aerodrome where one Hurricane was burnt and another damaged. Bomber crashed on Gozo and crew were killed.

TELEGRAM RECEIVED FROM LONDON DATED MARCH 9th, 1941.

1. Naval. Scharnhorst and Gneisenau were sighted p.m. March 8th by an aircraft from H.M.S. "Malaya" whilst escorting a convoy midway between the Canaries and Cape Verde Islands. "Malaya" turned towards and subsequently sighted one battle cruiser but on receiving aircraft's report of two battle cruisers, "Malaya" retired to cover the convoy. This convoy was attacked by U-boat one hundred and eighty miles west of Cape Blanco early a.m. March 8th and five merchant ships were sunk out of fifty-four.
2. In the East Coast convoy attacked by E boats on the night of March 7th/8th one further British merchant ship of 2,000 tons was also sunk making total of three sunk, two beached.
3. His Majesty's Destroyer "Greyhound" sank Italian submarine "Anfitrite" forty miles south of Creta on March 6th and took thirty-nine prisoners.
4. Military. Eritrea, to 8.50 p.m. March 7th. In the Red Sea area our troops are now ten miles North of Keren. In Barentu area our patrols have reached a point three miles East of Aressa.
5. Ethiopia. In Metemma area patriot forces have occupied a camp fourteen miles north of Gondar. In Gojjam area retreating garrison of Burye were ambushed by Ethiopian troops north of Dambacha and suffered three hundred casualties including one hundred killed.
6. Yugoslavia. Three armies stationed on the Bulgarian and Roumanian frontiers are reported mobilising; strength of Yugoslavia March 9th would therefore be about 500,000 and is expected to reach 600,000 by March 10th.
7. Royal Air Force. March 8th no major operations /undertaken.

undertaken.

8. Night of March 8th/9th no night bombers sent out owing to probable weather deterioration but nine aircraft of the Fighter Command went to attack aerodromes in Northern France and probably damaged two enemy aircraft.

9. German Air Force. March 8th, only twelve aircraft were plotted over the country during the day.

10. Night of March 8th/9th. About 120 enemy aircraft were operating and a short but intensive attack was directed against London by about sixty of them; other localities visited were South East England, East Anglia and Portsmouth from which no serious damage or casualties have been reported. Anti-aircraft claim three enemy aircraft destroyed and two damaged.

11. Malta. Night of March 7th/8th, fifteen enemy bombers caused slight damage to a naval store.

12. Aircraft casualties in operations over and from the British Isles.

German: probable three, damaged four.

British: nil.

13. Home Security. London, fifty casualties were effected; damage of military importance was slight; fires in London and Cheney Docks soon put out. Cafe de Paris received a direct hit and twenty-six persons are reported killed and over eighty injured. The North Lodge of Buckingham Palace was demolished.

RESTRICTED

G-2/2657-220
No. 337

M.I.D., W.D.
March 12, 1941
12:00 H.

SITUATION REPORTI. Western Theater of War.

Air: German. Last night the Luftwaffe made widespread attacks over England with concentrations on Birmingham, London, and Southampton. It is estimated that about 200 bombers were employed in all.

British. On the night of the 11th-12th, the R.A.F. operated on a normal scale over Northwest Germany. The submarine base at Kiel was subjected to a particularly heavy attack.

II. Balkan Theater of War.

Ground: Bulgaria. No change.

Albania. The Greeks report that they have repulsed Italian attacks of great violence. The Italians report nothing beyond patrol, local infantry, and local artillery actions.

Air: Albania. Normal close support operations.

III. Mediterranean and African Theaters of War.

Ground: Eritrea and Italian Somaliland. Nothing of importance.

Abyssinia (Ethiopia). A British column advancing eastward from the Sudan has captured the Afodu escarpment (150 miles southwest of Lake Tana).

Libya. Minor operations incident to the siege of Giarabub (Jarabub).

Air: German. Malta was bombed for the 401st time since the start of the war. Harrassing attacks continued in northern Libya.

Note: This military situation report is issued by the Military Intelligence Division, General Staff. In view of the occasional inclusion of political information and of opinion it is classified as Restricted.

RESTRICTED

CONFIDENTIAL

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Paraphrase of Code Radiogram
Received at the War Department
at 12:04, March 12, 1941.

London, filed 16:30, March 12, 1941.

1. During the night of March 11-12 German planes were destroyed by British fighter planes at the airfield at Beauvais. On Tuesday, March 11, the Eillem railroad shops and stores of oil at Rotterdam were bombed by lone British planes. During the preceding night the German cruiser at the port of Brest and harbor facilities at Cherbourg were targets of British bombers from the Coastal Command. Fighter Command planes carried out raids on the Nerville and Poix airfields. During the same night 51 British heavy bombers carried out raids on the St. Aubin airfield and the harbors of Le Havre, Boulogne, Dieppe, and St. Nazaire. In addition 19 other heavy bombers were active against Cologne. As a result of operations on this night the British lost two bombers.

2. During the night of March 11-12 a small number of German planes were plotted over Aberdeen and over the suburbs of London. Manchester and Liverpool were the objectives of other secondary German raids. The principal German raids during this night were directed at targets in the Midlands. These raids were very severe and were of long duration. The number of German planes shot down and the damages done to British installations have not yet been reported. During the preceding day a small number of German planes were on reconnaissance missions off the coasts of England and other small formations were plotted over Gravesend and the Thames Estuary. In addition, a large formation of German fighter planes carried out an offensive sweep over the East Kent area. One German fighter plane was shot down during this day. It is now reported that the total number of German planes used in

CONFIDENTIAL

attacks on Britain during the night of March 20-21 was 250. Eight of these planes were shot down. Of this total 125 planes were used in the attack on Rotterdam. During the Rotterdam attack one German plane crashed, four were shot down by anti-aircraft fire and one was brought down by British fighter planes. As a result of this raid three oil storage tanks at nearby Saeport were set on fire and destroyed, other fires caused some damage to the electric work shops and the power station, a British tender was sunk and severe damage was inflicted on a British destroyer in the harbor. In addition, a floating dock for submarines was sunk.

4. Royal Air Force activity in Middle Eastern theaters was as follows: the Egyptian city of Hama was attacked by Egypt-based British bombers; in the Italian theater fires were started at the Sirte airfield, which is now occupied by the Germans, by British bombers; Italian troops in the Gheva-Ghevi area of Albania were attacked by British bombers from Greece; in the Balkan theater Italian troops and the railroad between Assara and Korca were attacked by British bombers.

5. In the early morning hours of March 11 German airplanes raided the airfield at Leon and 20 German dive bombers flying in formation carried out three separate attacks against harbor facilities at Malta. The extent of the damage done has not been determined. During the preceding night mines were planted in the Grand Canal by five German planes. The canal had just been cleared of German mines and was scheduled to be reopened on March 11.

6. Many German supply depots have been set up at Brussels, Belgium, and large supplies of fuel, ammunition and supplies are located at this city. The German Air Force has taken over the control of the area.

CONFIDENTIAL

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Plan of the Belgian system of defense against air raids, both as regards
Belgian fighter planes and anti-aircraft batteries. The extent of
additional units of the German Air Force in Belgium given in appendix.

SECRET

Distributions

Secretary of War
State Department
Secretary of Treasury
Asst. Secretary of War
Chief of Staff
War Plans Division
Office of Naval Intelligence
Air Corps
6-3

+

CONFIDENTIAL

file-

March 13, 1941.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston

The Army has been ordering amounts of morphine sulphate which seemed to Anslinger excessive, ignoring our special arrangement to supply them morphine processed from seized stocks. Anslinger has taken it up with a Major Wilson and will see the Surgeon General. I think the matter is well in hand but I thought you might like to know about it.

A handwritten signature in dark ink, appearing to be 'MG' with a large flourish underneath.

*File**3/19/41*

FROM: MR. GASTON'S OFFICE

TO: Secretary Morgenthau

Chief Wilson saw Vice President Wallace yesterday. The Vice President expressed great appreciation of your solicitude for him. He said the idea of a guard was repugnant to him, but since it had been suggested to him so forcibly by his friends, he would give it serious consideration and would talk to you or to Chief Wilson about it. I agree with Coyle that he ought to have a guard.

A handwritten signature in dark ink, appearing to be 'W.S.', enclosed within a large, sweeping, horizontal oval flourish.

Answer to memo 246
2/21/41 to Mr. Bell

March 13, 1941

Memorandum for the Secretary's Files:

I talked to Congressman Woodrum February 26th regarding this item. He said it would take a period of about two weeks to get it through. I asked him then if it would be possible for us to go ahead on our program by reappropriating, if necessary, our present funds, anticipating to the extent of \$250,000 to \$300,000 the appropriation proposed for this amount. He said that would be all right, and he was quite certain that we would get a substantial part of the three million, although he was also quite certain we would not get that much. He indicated we might get \$1,500,000, which is the figure that came out in the Committee report.

D. W. Bell

received 3/14/41
9:03 A.M.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 13, 1941.

TO Secretary Morgenthau

FROM Mr. Hass *[Signature]*

(9/10)

In connection with your request for an analysis of the Dunn Steel Report, I indicated that our analysis would be submitted to you this afternoon. I regret that some unforeseen complications in connection with some of the technical statistical aspects of the report now make it impossible for us to have the analysis ready today and hope that it will be satisfactory if our analysis is submitted to you sometime tomorrow, March 14th.

Report submitted 3/14/41



TREASURY DEPARTMENT

WASHINGTON

March 13, 1941

MEMORANDUM FOR THE SECRETARY'S DIARY:

At 11:35 A. M., Wednesday, March 12, 1941, Pehle called Dent of the Riggs National Bank with regard to the Hungarian Legation account and promptly wrote and despatched to the Secretary and to Acheson of the Department of State a memorandum with respect thereto, a copy of which is attached.

Later the same day the Secretary talked to Acheson and Acheson agreed that Hungarian assets should be frozen the following morning. Cochran called Knoke and Knoke agreed to advise the New York banks accordingly. Pehle and Luxford put the appropriate papers in final form and cleared Executive Orders on Hungary, and Yugoslavia, and another on Hungary and Yugoslavia with Assistant Solicitor General Townsend at his home at about 10 P. M.

The following morning Pehle cleared the papers with Foley and then cleared them with Acheson by telephone and read to him the proposed memorandum from the Secretary to the President which he said was entirely satisfactory. He said that Hull would initial the Executive Order when convenient, if desired, but that the Treasury should go ahead and have the Executive Order issued. At that time Pehle raised with Acheson the status of Yugoslavia. Acheson said that the State Department did not feel it was desirable to include Yugoslavia at this time and that Atherton had indicated that Yugoslavia was apparently trying to gain more time and that if the British made a real showing in Salonica, Yugoslavia might take a more firm attitude. Pehle called Dent of the Riggs National Bank in order to advise Riggs not to make Hungarian payments without checking with the Treasury. Since Dent had not arrived at the office, Pehle talked to Burns of the Riggs National Bank at 9:25 A. M., who said they would be glad to cooperate in the matter.

The Secretary initialed the Order and signed the Regulations on his arrival at the office and Pehle took them to the White House where they were signed by the President at about 11:30 A. M. and the information went out on the ticker at 11:55 A. M. Appropriate instructions which had been drafted in the meantime were signed by Acting Secretary Bell and promptly despatched, and the Federal Reserve Bank of New York and the Riggs National Bank in Washington notified by telephone.

Pehle sent the initialed copy of the Order to Acheson and asked him to obtain Hull's initials on the initialed copy. The initialed copy bearing Hull's initials was returned by Acheson the next day.



MEMORANDUM

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March 12, 1941

TO: Secretary Morgenthau
FROM: Mr. Fehle

I called Mr. Dent of the Riggs Bank at 11:35 this morning to ascertain what disposition was made of the \$900,000 transferred to the Hungarian Legation account on March 10, 1941, from Hungarian accounts with the Guaranty Trust Company and the First National Bank of Boston. Mr. Dent advised me that on the same day the Hungarian Charge d'Affaires drew a check in the amount of \$900,000 payable to himself and cashed the check in \$10,000 bills. Mr. Dent promised to keep me advised with respect to further developments in connection with this account.

An application is now pending which would transfer an additional \$600,000 to the Hungarian Legation account with the Riggs National Bank from the B. I. S. account with the Federal Reserve Bank by order of the National Bank of Hungary, Budapest. It would be difficult for us to deny this application since the funds involved appear to be Hungarian and Hungarian funds have not been frozen.

I am furnishing Mr. Asheson of the State Department with a copy of this memorandum.

(Signed) J.W. Fehle

MEMORANDUM

March 12, 1941

TO: Secretary Morgenthau
FROM: Mr. Fehle

I called Mr. Dent of the Riggs Bank at 11:35 this morning to ascertain what disposition was made of the \$900,000 transferred to the Hungarian Legation account on March 10, 1941, from Hungarian accounts with the Guaranty Trust Company and the First National Bank of Boston. Mr. Dent advised me that on the same day the Hungarian Charge d'Affaires drew a check in the amount of \$900,000 payable to himself and cashed the check in \$10,000 bills. Mr. Dent promised to keep me advised with respect to further developments in connection with this account.

An application is now pending which would transfer an additional \$600,000 to the Hungarian Legation account with the Riggs National Bank from the B. I. S. account with the Federal Reserve Bank by order of the National Bank of Hungary, Budapest. It would be difficult for us to deny this application since the funds involved appear to be Hungarian and Hungarian funds have not been frozen.

I am furnishing Mr. Asheson of the State Department with a copy of this memorandum.

(Signed) J.W. Fehle

DEPARTMENT OF STATE

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ASSISTANT SECRETARY

March 13, 1941

Mr. Pehle,
Treasury Dept.
(R.1046, Raleigh Hotel)

Attached is the initialed
copy of the Executive Order freezing
Hungarian assets which I have had
the Secretary of State initial as
you requested in your memorandum
today.

Dear Acheson.

NA

A-A:ATJ

A-A

EXECUTIVE ORDER

AMENDMENT OF EXECUTIVE ORDER NO. 8389
OF APRIL 10, 1940, AS AMENDED.

By virtue of the authority vested in me by section 5(b) of the Act of October 6, 1917 (40 Stat. 411), as amended, and by virtue of all other authority vested in me, I FRANKLIN D. ROOSEVELT, PRESIDENT of the UNITED STATES OF AMERICA, do hereby amend Executive Order No. 8389 of April 10, 1940, as amended, so as to extend all the provisions thereof to, and with respect to, property in which Hungary or any national thereof has at any time on or since March 13, 1941, had any interest of any nature whatsoever, direct or indirect; except that, in defining "Hungary" and "national" of Hungary the date "March 13, 1941" shall be substituted for the dates appearing in the definitions of countries and nationals thereof.

THE WHITE HOUSE,

MAR 13 1941.

MAR 13

Approved
R.H.P.
MAR 24 76

Wm J.

CH

United States Senate

CONFERENCE OF THE MAJORITY

sb
March 13, 1941.

Dear Henry:

Let me thank you for your letter of March 11. It was good of you to write to me in such generous terms. I am glad that the fight is over. It lasted a little longer than it should but on the whole I think it is better to have given them a little extra time than to have created bad feeling by any effort to coerce the opponents of the bill.

With all good wishes, I am,

Sincerely,

Alben Barkley

Honorable Henry Morgenthau, Jr.,

Secretary of the Treasury,

Washington, D. C.

March 18, 1941

Ferdinand Kuhn
Philip Young
Secretary Morgenthau

I think that I ought to write a letter to Arthur Purvis letting him know that I have officially stopped looking after the English Purchasing Mission since the signing of the Lend-Lease Bill. I would like to say something quite warm and from the heart about the satisfaction I have received from working with him.

Will the both of you please prepare a draft for me this morning, and I will go over it with you. I would like to do this before lunch, if possible.

(letter sent 3/19/41)
Filed in Special
A. H. H. -

March 18, 1941

Dear Arthur:

Now that the Lend-Lease Bill has been signed, I should like to send you a personal word of appreciation that comes straight from the heart.

You know already, I suppose, that my two and a quarter years of work in connection with the British Purchasing Mission have now come to an end. This work has been a burden, but it has had many compensations. One of them, and by no means the least of them, has been the satisfaction of working so closely with you in a great cause.

Your courage and cheerfulness made my part of the task much easier. Wherever your work may lead you, you will always have my good wishes and my deep regard.

Sincerely,

(Signed) Henry

Mr. Arthur B. Purvis,
Willard Hotel,
Washington, D.C.

March 13, 1941

Dear Arthur:

Now that the Lend-Lease Bill has been signed, I should like to send you a personal word of appreciation that comes straight from the heart.

You know already, I suppose, that my two and a quarter years of work in connection with the British Purchasing Mission have now come to an end. This work has been a burden, but it has had many compensations. One of them, and by no means the least of them, has been the satisfaction of working so closely with you in a great cause.

Your courage and cheerfulness made my part of the task much easier. Wherever your work may lead you, you will always have my good wishes and my deep regard.

Sincerely,
(Signed) Henry

Mr. Arthur B. Parvis,
Willard Hotel,
Washington, D.C.

2029 Connecticut Avenue 358

150 CENTRAL PARK SOUTH

Dear Henry,

Your note with its —
to me — sad confirmation
of the break with your
arduous work in the
field of war supplies for
Britain, has reached me
today.

I can only hope,
for my country's sake
as well as for mine,
that that break will
not extend to the
policy field. It would

be a disaster if it did.

As I said often
in London you have
from the start been ~~the~~
consistent and persistent
friend "in shade or shine."
And this also at a
time when such friends
were few and far
between. The fact that
your guiding skill was
available to us in the
time of trial is far from
the least of the debts
we owe to the President.
I shall greatly hope,
therefore that the break

is only partial.

260

As for myself it is difficult to put in words how much I have valued & enjoyed my association with you.

From the very first day you made me feel at home in your office. And from then on you made possible what otherwise would have often been exasperating & discouraging times.

I shall never forget the considerate way in which you helped me round many difficult

corners. In fact I doubt
very much if I could
have stood up to the
strain without the
friendly consideration,
shown so abundantly,
and frequently so
inconspicuously.

I shall also carry
away from our period
of work together a
thousand memories of
pleasant times and
chats - all too short
because of the pressures of
work - which eased
the nervous strain of
the anxious months of
1940.

150 CENTRAL PARK SOUTH

May our country
always have — and
deserve — such
friends as you.

Sincerely

Arthur

March 13th 1941.

March 13, 1941
9:56 a.m.

H.M.Jr: Hello.

Operator: Senator Byrnes.

Sen. James Byrnes: Yes.

H.M.Jr: Jimmy.

B: Yes, Henry.

H.M.Jr: How are you?

B: Fine.

H.M.Jr: Jimmy, we've been looking around for a banker who voted for Roosevelt. Hello?

B: Yes.

H.M.Jr: And B. Marian Edwards has been recommended to us. Do you know him?

B: Oh, well. You know him too.

H.M.Jr: Do I?

B: Yes. I can tell you about - I'll call him to your mind. He's an unusual fellow. He was president of the South Carolina National Bank; he was a vice president in 1932; he was - the Comptroller of the Currency recommended a loan to the bank, it had about five branches, upon condition that he take the active direction of it. I really recommended that myself because I saw he was the best man in the outfit. He pulled it out and the damn stuff is selling \$2.50. When you were in the Farm Credit Administration outfit there, this fellow was consulted by you on one or two occasions, I think on my recommendation originally, and he helped you reorganize that thing down there and put it in pretty good shape. You offered him the assistant secretaryship there and he said that he owed a duty to these depositors and stockholders. At that time he wasn't getting but about \$6500, but he said he had a reputation with them that he

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couldn't take any job that he had to work them out.

H.M.Jr: And he turned me down.

B: Yes. And Jesse Jones offered him - he fell in love with the fellow and he wanted him to take a receivership out West somewhere with more money and the damn fellow said that he had an obligation to the people, and I rather think he is an unusual fellow.

H.M.Jr: Of course. He's a big, thick-set fellow.

B: Yes.

H.M.Jr: He started as a railroad telegrapher.

B: Yes. You've got him.

H.M.Jr: Well, you know when they brought his name in, I said, "That name is familiar."

B: Well, I think possibly the Marian part - the way they put it - we know him as B.M. and

H.M.Jr: But that's the bit, thick-set fellow.

B: That's right.

H.M.Jr: And I liked him very much.

B: Yeah, and he went to the Bankers' Convention and he cussed the whole damn shooting-match out for Roosevelt. In 1936 he raised the money for us and he's the only banker down our way that I know of who's a fighting Democrat and who is a damn good banker at the same time.

H.M.Jr: Well, I don't want him full time. I want somebody to come up here and contact other bankers with us on this Savings plan. You see?

B: Well, you can pick no better man than that fellow.

H.M.Jr: But I wanted a fellow who is 100% for Roosevelt.

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B: Well, he's 500%.

H.M.Jr: Well, I know him now. It all comes back.

B: He fights them; he gets mad at every damn fellow who isn't, and that's why he's my kind of fellow.

H.M.Jr: Well, I remember him now and I remember talking to you and I remember being turned down.

B: Yeah. Oh, he's really - he might feel differently now because he put his bank in such wonderful shape that

H.M.Jr: Well, he's just been made president of this bank?

B: Huh?

H.M.Jr: He's just been made president of the South Carolina National Bank.

B: Well, he's run it. Nobody ever knew anybody else as president anyway.

H.M.Jr: Well, now that you refresh my memory - and he's been all right all these last few years.

B: Oh, my God, he's the only man we've got there. He raised the money for us this year.

H.M.Jr: Wonderful.

B: He's the only fellow I had to get in touch with them and he went - he'd leave his bank and go out and make - he made these fellows cough up some money. I wanted to get some money to pay for my radio speeches. He went out and raised more than - he and a law partner of mine were the only two damn fellows I could get.

H.M.Jr: Wonderful.

B: So you don't make any mistake in that fellow if he's so fixed that he could possibly perform, and he might be able to do it now.

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- H.M.Jr: Wonderful. I'm going to call him right up on the phone.
- B: Fine. Let me ask you something?
- H.M.Jr: Yeah.
- B: Are you going before that committee in the House?
- H.M.Jr: No, I'm not.
- B: Well, then, who is going to present the thing - the question of additional facilities? Who's is going to justify that amount?
- H.M.Jr: You mean additional facilities?
- B: Yes.
- H.M.Jr: Well, the way it was left last night, they were going to have the Director - first came Cordell Hull, then the Director of the Budget was going to present it.
- B: Well, here's what I want to tell you. I talked to - old Taber came to see me yesterday, he and Wigglesworth, while I was over in Appropriations. Taber says that the one thing that bothers him is the size of the amount estimated for additional facilities, that he thinks that's too large, that he thinks that we have gone, when you take the \$5 or \$600 million in a bill that is now pending over there, that we have put all the money that could be justified into facilities without just wasting it, and that's the one thing that was bothering him in the amounts that were suggested. I thought if you could get word to whoever was going to justify it to take the position that this is merely a guess, that if it should prove that it cannot be intelligently be used in the erection of more plants, that it will be switched to one of the other items.
- H.M.Jr: Who was bothered, Jimmy?

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- B: Taber, the ranking Republican, whose help we need.
- H.M.Jr: Well, I'll get word to Harold Smith.
- B: Well, you see, what he'd do - he'll say this: how necessary is it? What is for this? If you go into this, those facilities - additional facilities could not be constructed for about a year and a half. If you take the \$5 or \$600 million you have already asked for and the amount here, that would mean a terrible increased expansion that you couldn't get into operation for certainly a year and a half, on so large an expansion, and, therefore, I think that the wise thing to do would be to say what I told him that that's a surgical job and that it must be left to these fellows - Knudsen and his crowd, who had the very same idea that he has. In trying to work it out along that plan, they wanted that margin. They hope that they can do it, but if they can't do it, they'll switch 20% from that item to airplanes or something else.
- H.M.Jr: O. K., Jimmy.
- B: And it might be if you agree with the fellow instead of antagonizing him, you could work it out.
- H.M.Jr: Well, of course, I think you're right and I thank you and I'll pass it along at once.
- B: Good-bye.
- H.M.Jr: Thank you.

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE March 13, 1941

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

At 10:20 this morning the Secretary called me to his office. He said that he had talked with the President, and that also Admiral Ingersoll had been called in regard to the possibility of sending a cruiser to South Africa to bring gold to us. He told me that the idea has been approved, and that a cruiser is now en route to Brasil and likely to be there around March 24. I was instructed to get in touch with Admiral Noyes to confirm this date and to learn when the cruiser might be expected to reach South Africa. The Secretary told me that after speaking with Admiral Noyes I should get in touch with the British and let them know that the cruiser would arrive in South African waters at a certain date, ready to pick up at least \$120,000,000 of gold, and any more that the British might be ready to send us. I told the Secretary that it was my understanding that Sir Frederick Phillips had cabled to London in regard to such a proposal, but that I was not aware that any reply had yet been received.

At 10:30 I telephoned Admiral Noyes. He confirmed that a cruiser had been ordered to Pernambuco and should be there about March 17. The ship was to pay a visit in Brazilian waters which would require a few days. He said he would check up and call me back as to the exact date it was planned for the cruiser to leave Brazilian waters, and the approximate date by which the cruiser could reach Capetown if sent on a South African voyage. He informed me further that the Brazilian trip was definitely planned, irrespective of any extension of the voyage to South Africa.

At 10:45 I telephoned Phillips. When he found out what I desired to discuss, he volunteered to come to the Treasury. Accompanied by Mr. Playfair, Phillips called at 11:30. I told him that the Secretary had received approval from the President for a cruiser which is now ordered to Brasil to go on to South Africa, there to pick up at least \$120,000,000 of gold, and as much more as the British might desire, to bring to the United States under conditions similar to those covering the earlier transportation of gold from Capetown to New York. Phillips said this was just a little premature, since he has not yet obtained approval from London of such a proposition. As a matter of fact, he had been receiving word from London as to the desirability of some gold being on hand in South Africa to meet emergency war requirements in the Near East.

At this point Phillips referred to the conversation which I had with him two days ago, as reported in my memorandum to the Secretary of March 11, concerning the Secretary's testimony before Congress on the Lend-Lease Bill with respect to South African and Australian gold production being sold to us. Phillips reminded me that the date which the British Treasury officials had submitted to us also envisaged payments of gold and/or dollars to third countries, including Canada. Definite amounts

were allocated for such purposes in the statements which we submitted to Congress. Phillips had communicated with Deputy Minister Clark of Canada after his conversation wherein I had explained the Secretary's position, and expects to hear further from Mr. Clark within a few days.

I reiterated to Phillips the Secretary's position as presented to Congress, with respect to our receiving South African and Australian gold production. I made the point that we were ready to offer facilities for transporting South African gold production that is now available to New York, but that we could not be asked to carry such gold to Canada, or to make such gold available to Canada once we had received it here as gold purchased by us. I pointed out that Phillips had already explained in his memorandum of March 5 that any gold which the British gave to Canada would eventually come back to the United States because of Canada's adverse trade balance with our country. I asked Phillips, therefore, whether Canada would not be just as ready to receive dollars as gold, to such extent as the British may be able to make funds available to Canada.

I told Phillips that the hearings on appropriations under the Lend-Lease Bill began today and that while Secretary Morgenthau was not appearing this morning, he or a Treasury representative might be called upon at any time. Furthermore, we shall have other hearings before Congress within the next few weeks where we are very likely to be questioned upon our receipts of South African and Australian gold, as anticipated in the hearings. I thought it vitally important that we be able to state that we have received at least \$120,000,000 representing South African production for the first three months of 1941. I intimated that we might even give publicity to the cargo brought by this cruiser, once it has safely arrived in New York.

When Phillips again raised the point that there should be some store of gold in South Africa to meet war requirements in the Near East, and for payments to other countries, I suggested that there must by this time be some accumulation beyond the \$120,000,000 of gold which had already been switched to French earmark some days ago. In addition, a fair amount should be forthcoming from other African production, including that of the Belgian Congo which is now available to the British. Phillips was concerned over the fact that it appears that the British are not currently receiving the full output of South African gold production. He assured me that London was working to rectify this situation. In answer to my further question, he thought there was little likelihood of the British obtaining a loan of any gold from the Central Bank of South Africa's reserves. He said the small parliamentary majority which General Smuts has makes it risky for anything like this to be undertaken. He referred to the recent riots in Johannesburg as being indicative of the difficulties in South Africa. The situation in India is somewhat similar.

Phillips promised to send another cable to his Government at once and to let me hear from him as soon as a reply is received. I emphasized personally the great desirability of having this arrangement go through in accordance with the Secretary's wishes and plans.

At 12:30 Admiral Noyes called me back. He corrected his first impression, that is, he said that this cruiser had been ordered to Brazil only as the first part of a trip to South Africa, and had not been despatched for any purpose of a separate visit

to Brasil. The ship will reach Pernambuco on the 17th and would probably remain there for two days fueling. It is urgent, therefore, that we get word to the ship by the 17th as to further plans. It would require approximately ten days to proceed from Pernambuco to Capetown.

I immediately telephoned Sir Frederick Phillips and in his absence gave the foregoing information to Mr. Playfair, explaining that this made it even more urgent that a prompt approval of our plans be received.

A handwritten signature in dark ink, appearing to be 'J. M. R.', is centered on the page. The signature is fluid and cursive, with the first letter 'J' being particularly large and stylized.

March 13, 1941
10:51 a.m.

H.M.Jr: Hello.

Rudolph
Forster: Hello, Mr. Secretary.

H.M.Jr: Yes, Mr. Forster.

F: Your Mr. Pehle is getting a little bit nervous, but there is nothing I can do about it. The President's in his bathroom now in his bath. I'll try to catch him before he gets to seeing - talking to people. In fact, I've a man watching the door like a hawk but that's the best I can do.

H.M.Jr: O.K., thank you.

F: All right. I'll tell Mr. Pehle not to worry and to make himself comfortable.

H.M.Jr: Well, that's right.

F: All right.

H.M.Jr: Thank you.

March 13, 1941
11:02 a.m.

H.M.Jr: Hello.

Senator Bankhead: Hello, Mr. Secretary.

H.M.Jr: I'm sorry that I was out but I was over at the White House yesterday.

B: Well, I guess you didn't get a chance to talk about my subject over there?

H.M.Jr: No, I haven't.

B: Well, now, I just called you to make a suggestion. Regardless of what your position is and the President's, you're against one thing, and you so expressed yourself to me, and that's the certificate plan.

H.M.Jr: Yes.

B: Now I hope that you can see your way clear to suggest to the President that when Mr. Fulmer and I come down there that he make that perfectly clear to Mr. Fulmer, that he doesn't favor that plan.

H.M.Jr: Well, now, what I'm going to do is this: I'm lunching today with Wickard. See?

B: How's that?

H.M.Jr: I'm lunching today with Claude Wickard, and I'm going to talk with him. I think it's up to him to carry the ball on this thing because after all it is his Agriculture.

B: Mr. Secretary, I'm afraid he's a new man and he's a little too timid.

H.M.Jr: Well, he isn't timid when he talks to me.

B: Well, I know, but he may be with the President.

H.M.Jr: Well, if you don't mind, I'm going to talk with him anyway and then - I want to find

- 2 -

out how he feels about it because it's his responsibility rather than mine, and I don't know where he stands.

B: Well, frankly, I don't on this phase of it.

H.M.Jr: But I'm trying to be friendly; I want to see the cotton farmer get a fair price, and after I've had lunch with Wickard maybe I'll know a little bit more than I do now.

B: Well, all right. Of course, you're following your own road and that's right, but the only point I had in calling you was to either get you - of course, Wickard will be down there when I go. The President said yesterday that he was going to have Fulmer and me there today, but he hasn't got to it yet; I've heard nothing about it, but he's going to have us down with the Secretary.

H.M.Jr: Well, what I'll do

B: And what I wanted the President to do now is to tell Fulmer - Fulmer is for this certificate plan and no one else up here is that I know anything about.

H.M.Jr: Well, I'll try to get that across.

B: If you can get it across to him that the Administration don't want that, that's all that I'm asking you to do.

H.M.Jr: Well, I'll try my best to get that across.

B: It's in line with what you told me you favored, that's the reason I'm asking you, to get it across to Fulmer.

H.M.Jr: Well, that's fair, and I'll do the best I can.

B: All right.

H.M.Jr: Thank you.

March 13, 1941
11:10 a.m.

H.M.Jr: Hello.

Harold
Smith:

Hello. Say, I've talked to Woodrum. He's perfectly willing to keep you out of this but he says that some Republican members of the committee are likely to ask us about British assets, and he said to me, "They may ask you about that."

H.M.Jr: May ask who?

S: Me.

H.M.Jr: Well, you've got a simple answer.

S: That's right, that I don't know a damn thing about it.

H.M.Jr: Right.

S: So he said, "Well, if you give that answer, then he thinks we'll get out of it by their possibly asking you to submit something for the record."

H.M.Jr: Well, that we can do.

S: On the point. Yeah. Well, I just wanted to get your thought on that because I don't know anything about it. I know they're having trouble - or are going to have - with dollar exchange.

H.M.Jr: No, I think that the simple answer is that you don't know and you haven't been handling it.

S: That's right exactly.

H.M.Jr: Now, while I've got you on the wire, I was talking to Jimmy Byrnes about another matter - had nothing to do with this - and he said that he had been talking with Taber, and Taber was worried that there was so much money in there for plant facilities.

S: Yeah.

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- H.M.Jr: And he thought if we could sort of handle Taber kind of carefully and sort of smooth him over on that thing and say that we're looking toward the future and that sort of thing - but his whole thought was just to kind of treat him gently.
- S: Yeah, that's right. Woodrum told me that Taber had performed very well on this and that he thinks that - what he's going to do is to get his committee together in executive session before we come down there and make the plea to the committee not to get into details, and his general plan is to get these four brief statements before any questions are asked. I don't know - you never know how those things are going to come out - but I hope it works out smoothly.
- H.M.Jr: Well, when I came back last night from the White House, I called up Woodrum and talked to him myself, and he seemed to be perfectly happy, because you said you hadn't brought it up and so I thought I had better.
- S: That's right.
- H.M.Jr: And he said, well, if he got stuck, he'd give me a telephone call, and I said I'd be here.
- S: Yeah. Well, he and Mark Shields told me that - that is, I may have gotten the wrong slant on this over there. Mark Shields told me that he thought that there would be a number of the members of the committee that would want you to testify but that they wanted to put you on the spot on British assets.
- H.M.Jr: They did or did not?
- S: They would. And he said, "I don't think they're going to raise any questions about taxation," and so on. But if we can get out of that asset thing in this way, why I think probably that's the best thing to do.

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H.M.Jr: Well, I'm sure it is and I think it would be most embarrassing to the Administration if they got me talking about taxes.

S: Yeah. That's right.

H.M.Jr: Right.

S: O.K. Thank you very much.

H.M.Jr: You're welcome.

March 13, 1941
11:54 a.m.

H.M.Jr: Hello, Mr. Edwards.

Mr. B.M. Edwards: Yes, sir.

H.M.Jr: Henry Morgenthau, Jr.

E: I'm delighted to hear your voice.

H.M.Jr: It has been some years since I've seen you.

E: Well, I guess you've been working and I have too.

H.M.Jr: Well, I hear you've been getting along fine.

E: I'm happy to tell you that we have done well.

H.M.Jr: Mr. Edwards, as you know, we're getting started on a new campaign to sell these Defense Savings Bonds, and we're anxious to get somebody of good reputation to come up here and sit with us for awhile and sort of help us with the national banks. You see?

E: Yes.

H.M.Jr: And I wondered if you couldn't come up to Washington and talk the thing over and then let us know how much time you could let us have.

E: Yes, I'll be very happy to do that, Mr. Morgenthau. I can tell you the truth, the only thing that I'm doing with the money that I personally get my hands on today is that - you go look at your records - I go to the post office every payday and buy a certain amount of those savings bonds.

H.M.Jr: Good for you.

E: The only time I don't do it is when you take all my money for income tax. Now, this month I won't buy any because they think you're going to take it all for income tax.

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- H.M.Jr: I see. Well, that's the privilege that you have, you know.
- E: A privilege. (Laughs).
- H.M.Jr: Yeah. That's what we call it.
- E: I'd be delighted to come up there, Mr. Morgenthau, anytime you want.
- H.M.Jr: Well, could you be here the first thing Monday morning?
- E: Yes, sir.
- H.M.Jr: And could you be prepared to stay a few days when you come up?
- E: Well, I've got a directors' meeting on Thursday.
- H.M.Jr: That's all right. If you're here from Monday to Wednesday, could you stay that long?
- E: I think so. I'm supposed to go to Charlotte to a directors' meeting of the Federal Reserve Bank on Tuesday, but I guess we could forego that.
- H.M.Jr: Well, you come on up and - you don't do anything up there anyway.
- E: Not much.
- H.M.Jr: Except have a - come up here and we'll tell you what our troubles are.
- E: Well, we just have a pow-wow, that's all.
- H.M.Jr: Well, come up here Monday and bring enough collars and shirts with you to stay three days anyway.
- E: Well, I'll come up and try to stay with you until Wednesday. I'll have to come back home though Wednesday afternoon because I have a regular monthly meeting of directors on Thursday.

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H.M.Jr: Well, if you'll come to my office at 10:00 o'clock Monday morning, why Mr. Bell and I will be here to receive you.

E: Thank you very much.

H.M.Jr: Thank you.

E: Good luck.

H.M.Jr: Thank you.

March 13, 1941
12:00 noon

H.M.Jr: What does the bond market look like today?

Allan
Sproul:

Well, it looks much better today on quotations. It's still a thin market but I think that what you can say is, from the experience of yesterday and today, it was just marked down slightly on quotations and marked up again today on a thin market, but that the underlying market is good, that it wasn't a fundamental weakness in the market which caused yesterday's difficulties.

H.M.Jr: I see.

S: So it seems to me it's in shape for an offering if you want to make it.

H.M.Jr: Oh, really?

S: Yeah.

H.M.Jr: Well, the way I feel is we'd maybe better do it.

S: Well, that's the way I feel.

H.M.Jr: I don't think it's going to be any better in April.

S: No, as far as the difficulties abroad are concerned, we'll have that with us for sometime to come, so there is no use waiting for anything there, I should say.

H.M.Jr: Well, I'll have Bell get in touch with Eccles and say we want a meeting tomorrow.

S: I think it would be a good idea and, if possible, you ought to say something tomorrow so you could do it next Tuesday or Wednesday.

H.M.Jr: I think I had better say something now.

S: Well, that would be all right too.

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H.M.Jr: I think I had better say something now.

S: Yeah.

H.M.Jr: Now, what I'm thinking of is - well, I think just for today I'll say I'm thinking of doing some financing.

S: Yeah.

H.M.Jr: I won't say anything more than that.

S: No. I think that would be enough today, but you ought to prepare them for it.

H.M.Jr: Well, I think we'll get it on the ticker right away.

S: And we're thinking here in terms of something a little less than a billion rather than more. That is, of an exchange, plus \$400 million, say.

H.M.Jr: Oh, I don't like these Macy prices - 99¢.

S: (Laughs).

H.M.Jr: What?

S: Well, I think it would.....

H.M.Jr: Oh, \$500 million is the least I can ask for.

S: Well, that would be just on the billion.

H.M.Jr: Yeah.

S: Well, let's say that it's the least that you can ask for and the most you should ask for at this time.

H.M.Jr: Well, I'm willing to leave it there today and maybe if you take a couple of Vitamin B-1 and maybe you'll feel better tomorrow.

S: (Laughs). All right, sir.

H.M.Jr: I'll have Bell get busy right now and get hold of Eccles and so forth.

S: Yeah.

H.M.Jr: Right. Thank you.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE March 13, 1941

TO Secretary Morgenthau
FROM W. H. Hadley

CASH AND REFUNDING PROGRAM

In view of the present status of the market, it is my opinion that a refunding of the \$500 million June notes and a cash offering of not more than \$500 million could be made now. As to the amount of cash, it would be preferable to limit this to \$400 million and carry the \$200 million Treasury bills an additional week. If the total amount of cash and refunding is more than a billion dollars, the secondary distribution of the issue may upset an offering which might by its terms look very favorable. The smaller amount of cash would result in lower allotment percentages and this would be a favorable factor in a new offering.

Thus an offering for exchange and cash of \$900 million could be done in one issue and my preference would be a 2 1/2% 12 1/3-14 1/2 or 13-15 year bond. On the exchange side of the offering it might be well to re-open the recent 3/4% 2-year note as a hedge for the exchange and also to build up this issue which at the present is technically too small for trading purposes. A new 2 1/2% bond should attract both savings banks and insurance companies. It does not seem desirable to put a lower coupon issue out at this time and a 2 1/2% would give us a good guide-post for future long term offerings. A 2 1/4% issue would be at the most only 1 1/2 years longer than our recent 2% offering and would crowd that area which is still undergoing a period of adjustment.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 13, 1961

TO Mr. D. W. Bell

2:00 P. M.

FROM W. H. Hadley

TREASURY BONDS

<u>Coupon</u>	<u>Term</u>	<u>Yield</u>	<u>Price</u>	<u>Premium</u>
2 1/4%	8 1/4 - 10 1/4 yrs. (6/15/49-51)	1.95	102.9	2 pts. 9/32
		2.03	101.24	1 pt. 24/32
	8 1/2 - 10 1/2 yrs. (9/15/49-51)	2.00	101.30	1 pt. 30/32
		2.08	101.10	1 pt. 10/32
2 1/2%	12 - 14 yrs. (3/15/53-55)	2.27	102.12	2 pts. 12/32
		2.35	101.16	1 pt. 16/32
	12 1/2 - 14 1/2 yrs. (9/15/53-55)	2.30	102.5	2 pts. 5/32
		2.37	101.12	1 pt. 12/32
	13 - 15 yrs. (3/15/54-56)	2.32	102.	2 points
		2.40	101.3	1 pt. 3/32
2 3/4%	20 - 22 yrs. (3/15/61-63)	2.58	102.18	2 pts. 18/32
		2.65	101.18	1 pt. 18/32

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE March 13, 1961

TO Secretary Morgenthau

4:00 P. M.

FROM W. H. Hadley

TREASURY BONDS

<u>Coupon</u>	<u>Term</u>	<u>Yield</u>	<u>Price</u>	<u>Premium</u>
2 1/4%	8 1/4 - 10 1/4 yrs. (6/15/49-51)	1.94	102.12	2 pts. 12/32
		2.02	101.27	1 pt. 27/32
	8 1/2 - 10 1/2 yrs. (9/15/49-51)	1.99	102.1	2 pts. 1/32
		2.07	101.13	1 pt. 13/32
	9 - 11 yrs. (3/15/50-52)	2.04	101.23	1 pt. 23/32
		2.11	101.4	1 pt. 4/32
2 1/2%	12 - 14 yrs. (3/15/53-55)	2.25	102.20	2 pts. 20/32
		2.33	101.24	1 pt. 24/32
	12 1/2 - 14 1/2 yrs. (9/15/53-55)	2.26	102.12	2 pts. 12/32
		2.35	101.20	1 pt. 20/32
	13 - 15 yrs. (3/15/54-56)	2.30	102.6	2 pts. 8/32
		2.38	101.10	1 pt. 10/32
	13 1/4 - 15 1/4 yrs. (6/15/54-56)	2.31	102.5	2 pts. 5/32
		2.39	101.8	1 pt. 8/32
	13 1/2 - 15 1/2 yrs. (9/15/54-56)	2.32	102.2	2 pts. 2/32
		2.40	101.5	1 pt. 5/32
2 3/4%	20 - 22 yrs. (3/15/61-63)	2.56	102.24	2 pts. 24/32
		2.63	101.24	1 pt. 24/32
	21 - 23 yrs. (3/15/62-64)	2.58	102.24	2 pts. 24/32
		2.65	101.20	1 pt. 20/32

March 13, 1941
12:15 p.m.

General
Watson: Hello.

H.M.Jr: Morgenthau is the name.

W: E.N.W. speaking. E.N.W.

H.M.Jr: I see.

W: Say, look here.

H.M.Jr: Yeah, what happened?

W: He said he didn't want to talk about that today but I can get you on tomorrow.

H.M.Jr: No. Well, I tell you

W: He said, "I don't want to talk about that - I won't have time to talk about that," you and Sullivan.

H.M.Jr: Yeah. Well, I'm going to skip it altogether, but I just got this thing from the President - Hello.

W: Yeah.

H.M.Jr: Which he says he is asking me to undertake - the question of the quid pro quo on this whole British materiel. You see?

W: Yeah.

H.M.Jr: And that he wants to see me to talk about it, and that he's in a hurry. See?

W: Yeah.

H.M.Jr: He said, "I think it would be wise to get this accomplished soon. We must move forward"

W: Why don't you do that tomorrow?

H.M.Jr: That's what I'm calling you for.

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W: Well, I'll give you this thing instead of the other.

H.M.Jr: That's right. We'll skip the tax thing. He never likes taxes; he hasn't made out

W: No, he didn't want to talk about it.

H.M.Jr: No, I know why.

W: He says, "Hell, I don't want to talk about that."

H.M.Jr: But this thing is in a letter that I just got from him. It's the quid pro quo for the British - for their materiel - which he's asked me to undertake.

W: Yeah. Well, that's very good.

H.M.Jr: So will you take care of me tomorrow?

W: Yes. I'll put you right down tomorrow morning.

H.M.Jr: What time do you think it will be?

W: Well, let me see. You like - he has the press you know.

H.M.Jr: What time does he have press?

W: 10:30.

H.M.Jr: Well, why not right after press.

W: All right.

H.M.Jr: About 11:00 o'clock?

W: Well, I'd say 11:15 is about when you'll get in. I'll put you down 11:00 to 11:30.

H.M.Jr: That's fine.

W: All right. I always take care of you.

H.M.Jr: Yeah, I can't complain.

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W: I know you can't.

H.M.Jr: I can't complain.

W: Not justly.

H.M.Jr: What?

W: I mean, justly you couldn't. You might complain, but I mean you couldn't justly.

H.M.Jr: We're looking forward to hearing your wife.

W: Yeah, I am too. That gal can play, now, I'm telling you.

H.M.Jr: I know she can.

W: That gal can play. You'll be proud of her.

H.M.Jr: How do you like to be married to a member of the union?

W: Well - (laughs) - I always get more nervous than she does.

H.M.Jr: I see.

W: But we'll be there - you'll find me there cheering.

H.M.Jr: All right. I'm going to be there too.

W: That's fine. I'm delighted.

H.M.Jr: Right.

W: All right, sir.

H.M.Jr: Good-bye.

FROM: MR. GASTON'S OFFICE

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TO: _____

MEMO FOR THE SECRETARY'S FILES

Mr. Sullivan will see that Squire is called to Washington after Helvering's return and after the filing date pressure has eased up. I so informed Senator Bone's office.

3/15

A handwritten signature in black ink, consisting of a large, stylized initial 'M' followed by a surname that is partially obscured by a flourish.

March 13, 1941
2:24 p.m.

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H.M.Jr: Hello.

Sen. Homer T. Bone: Hello, Mr. Secretary.

H.M.Jr: How are you?

B: Fine. This is Homer Bone talking.

H.M.Jr: I know, Senator.

B: Say, it'll only take me a half a second to talk to you. The Department has sent down and we have approved the name of Clark Squire for Collector of Internal Revenue in Tacoma - that comes out of your Department. He's a hell of a swell fellow; his appointment has been well received. He's a man of scrupulous integrity and honor but that's beside the point. This poor old delegation is belabored with ten billion letters here more or less about that Department, and I suppose in any event you might like to see Squire and see what he looks like.

H.M.Jr: Surely.

B: Know what kind of a guy he is - he's a fine, decent human being, and he's a newsman, and you were in that game. I was just wondering if it wouldn't be a good idea if you can do it to have him come back here. This delegation would like to sit down and tell him some of the problems they have and see if they can get somewhere on a common basis about this ungodly flood of mail, because everybody out there thinks poor old Squire is going to fire everybody from top to bottom. You know how those things go.

H.M.Jr: Well, I'm glad to get the suggestion and you'd like him brought East, you mean.

B: Yes, that's right. If he could only be here for a couple of days, he could see you and you could see what kind of a man you've approved. I'm sure you'd care for him and like him; he's a swell fellow, and it would

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allow eight be-deviled Congressmen down here to sit down behind closed doors and hold his hand for a minute and say, now, this is the way we can handle this patronage business. We're not interested in patronage, but we want to know what to do with all this mail, and we can have a few minutes personally with him. We don't want to write a lot of letters.

H.M.Jr: I'll be glad to accept your suggestion.

B: It'll help us like everything if you can do it.

H.M.Jr: It's done.

B: Swell. Thanks a million.

H.M.Jr: Consider it done.

B: Swell. Thank you.

H.M.Jr: All right.

March 13, 1941
2:30 p.m.

RE AID TO BRITAIN

Present: Mr. Foley
Mr. Cox
Mr. Young
Mr. Bernstein
Mr. White
Mrs. Klotz
Mr. Bell

H.M.Jr: I had a dream about you (Foley) last night. I was trying to remember what it was.

Foley: I hope it was a dream. (Laughter)
(Mr. Bell entered the conference.)

H.M.Jr: I remember. It was all right. I don't know whether Cox or Young wrote this letter, but this is a letter I got signed by the President.

"Dear Henry:

I wish you would undertake to negotiate the quid pro quo with the British relative to the material up to one billion three, which I am authorized to transfer to them."

I don't know why he is holding out on us on the seven billion.

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"I should think it would be best if we could work out some kind of over-all agreement, and I should like to discuss it with you when you have developed further informal proposals which we talked about the other day. I think it would be wise to get this accomplished soon, because we must move forward with our transfers.

Sincerely yours."

Have any of you seen this?

Cox: No, but that was the letter I told you yesterday you were going to get, and Hopkins talked to me about it.

(Unrecorded telephone conversation with Mr. Sullivan.)

H.M.Jr: Incidentally, it is terribly funny. This man, Marion Edwards, I had once offered him a position of Assistant Secretary of the Treasury.

Cox: That is interesting.

H.M.Jr: When I called up Jimmie Byrnes, "Why do you ask me? You know him. You tried to get him once before." So I said he reminded me when I tried to get him. He felt he had this obligation to these depositors that he owed the money at that time, and the RFC and he wanted to work the thing out, and he evidently has now, and he is in good shape. Jimmie Byrnes said when he was running for office there were only two people that raised any money to help him. One was his brother and one was Edwards. So he is coming up Monday.

Cox: Fine. Phil was kidding me about a Democrat savings bank fellow up in Maine. I think the last one died in 1860.

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H.M.Jr:

I see.

Cox:

On that letter, I think the explanation of it was your telephone conversation with Hopkins yesterday morning, because the seven billion, I gather, you mentioned as a result of your conversation with the President, could be taken care of when it came off the line, which would be far in the future. There would be an immediate problem of the billion three.

H.M.Jr:

Well, look, if anybody has got an idea, please let me have it, because other than what the President told me as of Monday - I will give you that. I may have done it once, but it does no harm to do it twice. If we were letting them have a two million dollar Coast Guard cutter and I decided was worth a million dollars, that we would say to the British, "You can have this cutter for a million dollars and during a period of five years after the war is over, we want a million dollars worth of shipping in return." If they can build it for less in England, it is all right with - you can make the difference between what your costs are in England and what it is worth in the United States of America. Now, I will go over it once more. I can't remember if all of you--

Bell:

Do you think that means a million dollars worth of shipping at United States costs?

H.M.Jr:

No, a million dollars worth of what it would cost us to build it in the United States of America, but if they can built it for 750 thousand dollars, he will let them make the difference. If they can build a ship for 750 thousand dollars and it is worth a million here, we will accept it at a million dollars.

Cox:

One consideration there, doesn't that have

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political disadvantages, because our ship builders will say, "Why should we have our ships if we need them built in England?"

H.M.Jr:

My dear Oscar, that applies to everything with the possible exception of something like tin or rubber or jute. Now, you can go right on down the line.

Cox:

Well, except there are about 50 of those items that are not produced at all in this country or in any substantial quantities that are produced in the British Empire.

Bell:

As I understand, that was the reason for taking the dollar sign off, isn't it? We loaned them goods during the last war, but the dollar sign is there so you can't get the loan out of the minds of the politicians and American people. Now, if you loan them goods and you want to bring those goods back after the war, then Congress will take care of it.

Cox:

I am not trying to indicate even remotely--

H.M.Jr:

Let me answer you. I have sat in on so many meetings, and I can tell you what the President's answer was when he talked about planes and somebody says, "Well, won't the American plane manufacturers say, 'Well, we don't want a lot of English planes dumped on us,'" and the President said, "No, because if we are building 10 thousand planes a year, the first year after the war we will build 75 hundred, and the next year five, and the next 25 hundred, and we will taper the thing off gradually and not just say, 'We will stop building planes the day that peace is declared.'" Now that was his answer, and the same thing would apply to ships. I mean, somebody - oh, this goes back a couple of months ago when he was first

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thinking of the idea.

White:

One way of getting around that, it would appear to me, would be to require repayment in so far as it is possible of the identical instruments. It would be possible in the case of ships that weren't sunk. It might be possible in some other items. And a second category, which I don't think would meet the political objection very much, would apply to Government requirement. The moment you got on to private equipment, then I think the opposition that would develop here to getting that stuff from abroad at a time when we would doubtless have considerable unemployment here would be very considerable, but I am wondering whether you couldn't go through the first billion three and segregate a larger portion of it and ask for the identical equipment back, and then take another category of that kind of equipment which is purely Government in character and then get similar equipment.

H.M. Jr:

What do you mean, Government equipment?

White:

Well, one would regard a cruiser or coast guard cutter as Government in character. You don't have to resell it on the open market here. It is different than a freighter would be, for example.

H.M. Jr:

Well, now, what are you going to do? Let's be specific. You put in so many four-inch guns. Are you going to ask for the same four-inch guns back again?

White:

Well, the alternatives are worse. Yes, I think - where you can get the same material back, it would make it very easy for them to liquidate it. The American public would have no objection and neither could the British.

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- H.M.Jr: What are we going to do with a thousand four-inch guns which have been used and so forth and so on? What do we want them all shipped back here for?
- White: They are of very little use.
- H.M.Jr: Let's say these guns are worth a million dollars. We will say, "Well, we will take back a million dollars worth of guns and at the time we will tell you what kind of guns we want."
- White: That could be a second possibility.
- H.M.Jr: I think you are getting something for your money, but if you simply say, "We will take those same thousand guns back a couple of years from now - I mean, it all depends - if you want a good bargain or whether you don't, and as I explained, I am starting with the preface that I would give them the things for nothing, but I am also thinking in terms that the President is leaving Monday night, and he wants something by tomorrow morning, and I don't see that - he is moving so terrifically fast on this thing that - these guns and ammunition and so forth, where you can't just make a lump sum and simply say, "Well, make them categories. We will take a million - we will place a value on it. We will have the choice, if you want, of taking a million dollars worth of guns or these guns less depreciation in return."
- White: Yes. You can do that as long as it is stuff which the Government uses.
- Bell: Wear and tear deducted?
- H.M.Jr: Pardon?
- Bell: Wear and tear deducted?

- H.M.Jr: Yes, I said less depreciation.
- Bell: Is it possible to make two forms of agreement under this act, one a lease agreement and the other a loan agreement on things that you could get back, like a ship, put in fair condition you could put under the lease equipment. If you loan, you loan ammunition, you get ammunition in kind back.
- White: That is right.
- H.M.Jr: Well--
- Bell: Isn't it possible to do that?
- H.M.Jr: Say that again, Dan, will you?
- Bell: Have two agreements, one a lease agreement and the other a loan agreement. If you take a cruiser, we would lease a cruiser to them for the duration of war and after war that cruiser should be returned in as good condition as it can be, realizing it has been through pretty hard service. The other is, we loan them certain materials such as ammunition and shells and so forth and they return us in kind under the loan agreement.
- H.M.Jr: Couldn't you just say this, on a cruiser - supposing we let them have a cruiser. We will take back the same - we have the option. We will either take back the cruiser we loaned you or we want a new one at our option.
- Bell: Well, that might be a little difficult to get, a modern cruiser, unless you put a value on it of some kind, not to exceed the appraised value of this one at the time it was turned over.
- H.M.Jr: Well, they have got to place a value on it at

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the time it is turned over, Dan.

Bell: Probably they have.

H.M.Jr: They have to.

White: Well, that would be all right if there were only a billion three in the whole picture, but if there is going to be seven billion plus--

H.M.Jr: But he hasn't - Harry, I pressed him awfully hard, and the President hasn't thought it through beyond a billion three. He hasn't and doesn't want to think about it.

Foley: Well, he doesn't have to yet. It will be months and months before--

Bell: I don't see how you can distinguish.

Foley: You can distinguish, Dan, for the same reason that we distinguished when we brought the thing up here to discuss it the other day, and the thing that we suggested wasn't acceptable. It is going to be months and months and months before anything which you buy with money that is appropriated to carry out the Lease-Lend Bill will be available for transfer. Six months, a year. On the billion three, it is available immediately, and then you turn it over to them now or within a reasonably short time so it seems to me the logical break-down is into two categories. On the stuff in the future, I think you will want to work out some kind of statesman-like arrangement, not for the return of the goods in kind but for other considerations. On the billion three, I think it is possible to work out an exchange of these defense articles for other things that are of value to us that we can get over a period of years. I don't think we want - certainly in

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so far as the stuff that can be used up is concerned, the shells and bullets and that sort of thing, you can't get any of that back.

H.M.Jr:

Well now, let's just take, for instance, some of these high-speed torpedo motor boats, 80-foot boats. Those boats, they run them for six months and they are not worth anything. The engines are gone, the hulls are pounded to pieces at the end of six months. They are not worth anything. So I mean either - if you wanted to say just to use those, if you say, "Well, we want these same ones back or we want other high-speed surface craft," you see - I mean, in six months those things are worthless. In the first place, they are out of date - one of the reasons they are giving them is that they found all kinds of bugs in them. There are all kinds of things which are wrong in them. They pound too much. The vibration is too much. They tell me the wear and tear on the men is something terrific, that the vibration is so terrific. Let me, just to make this thing a little extra difficult - Wickard has an idea that on the food he wants to throw in as a requirement that they get in to world crop control. I mean, just to make this thing extra difficult.

White:

That is the sort of thing about which there are great possibilities. Commercial arrangements, quotas controlled on things that they have a monopoly, particularly, on, like rubber and tin, arrangements in which we both have mutual surplus problems. In other words, that type of arrangement need not have a dollar value and yet the public will not be in a position to say you are not getting your money's worth and the British will not feel that they are being licked to the last drop.

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H.M.Jr:

But don't you think in view of the fact that what it really amounts to, we have got this afternoon and this evening and tomorrow morning before we see the President, because on this appropriation bill, he put it through in one night. He put it through the Bureau of the Budget in one night. If we can say, "These are the kind of things, Mr. President, you may want to consider in connection with the seven billion. I just want to let you know we are thinking and you can cross them off when you are away on this trip, and if you can get any ideas if you would telegraph me, but in order to make this thing simple, you say you want it to flow while you are gone." I am just saying this is what he will say. Let's do it this way. You see what I mean?

Foley:

Yes, that is all right.

H.M.Jr:

But just let him know we are thinking along. You may want to say a world crop conference, a wheat conference, which I started for you in December '32 which hasn't been consummated yet, and shipping agreements and labor, hours and wages, international agreements, the kind of thing that they never were able to get through at Geneva, you know.

White:

No, that is too difficult, but something along those lines.

H.M.Jr:

Harry, if we are going to have a decent world to live in afterward, it is not too difficult. I don't know whether you have every seen those computations at Geneva--

White:

I was in on the committee.

H.M.Jr:

We might just as well do a little pipe dreaming

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here. I mean, if you have seen those figures on wages and hours in the various countries in the world and what they paid, it gets down to pretty much what the World War is about, doesn't it?

White: Yes.

H.M.Jr: I mean from an economic standpoint.

White: That is right, but it is a result, not a cause.

H.M.Jr: But anyway, I am just saying that those are the kind of things you could think of. Here is a suggestion that you might want to take over in connection with the seven billion; but as to this, if you want a quick job, this is the simple pleasant way to do it.

White: How about a continued flow - if you spread it out over a long enough period, I don't think the British and Americans will object to some tin and rubber.

Foley: That is what we suggested the other day. A portion of their exports of tin and rubber plus these plants that Jesse will never take them out of.

H.M.Jr: Who gave Harry that thought about the plants? Where did he get it?

Cox: I did. He asked me about them.

H.M.Jr: Did it originate with him?

Cox: Well, he was asking about the quid pro quo and asked about the plants, what I knew about them. I don't know where he got it before that.

Young: Probably from Purvis.

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- Foley: But it originated from us. Jesse never will take them out of those plants. He is not interested in plants.
- H.M.Jr: Well, don't let's get off on that track again. We want something very simple, and I don't want any fights, unnecessary fights.
- Cox: Well, following up Ed's suggestion, can't you have a lease-loan arrangement by which the British Government is given the option that instead of replacing a mosquito boat with the equivalent or better, they can pay in the dollar equivalent of tin or rubber over a period of time?
- White: The difficulty with that is that they know that any tin and rubber they pay you that way is just replacing the tin and rubber which they would sell you any how, and they would lose dollar exchange at a time when they need it. If you could tie it up with a certain definite percentage, either to go into a stock pile for us, another military stock pile, then they would like that because that would be additional.
- Foley: It would be deteriorated, Harry. You couldn't leave it in a stock pile.
- White: You keep revolving it. Or a flat amount each year which would represent a definite dollar exchange loss to them, but it would be spread over enough time so that they might be willing to pay it just as though they were paying interest or paying back the loan.
- H.M.Jr: The English Government has to pay somebody for the tin and rubber they don't own.
- White: You see where the payments broke down in the

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last war, the transfer payments from Germany to England and from England to use and so on, was in the transfer part. It wasn't in the domestic financing. It was the inability to get enough exports to provide dollar exchange, and that is the one possible advantage of getting repayment in terms of goods. If you have to take a certain amount of tin--

H.M.Jr:

Now, look. We are fighting time. Let me go back. Why couldn't we simply say this: "Do it this way"? In connection - because after all, if you are thinking after the war, we have also got to give their people a chance to work. The President has that in mind too, and he can't just shut all the ammunition factories down over night. I mean, if we do, it just means they are going to have to borrow that much more money from us anyway. So, if we get it in the categories, I mean, if it is ammunition and you have to place a value on it and it is a million dollars worth of ammunition, we want a million dollars worth of - we want a million dollars worth of ammunition in return, you see. If it is a million dollars worth of ships. But again in this tin and rubber business, for cheese, condensed milk, and those other things which Wickard is working on, we certainly don't want that kind of stuff back in this country, do we?

White:

No.

H.M.Jr:

And that is the time, I think, to say that we would like to have for that, tin and rubber.

White:

That would be reasonable, things that are consumed of that character.

H.M.Jr:

Tin, rubber, and jute. How would that strike

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Tin, rubber, and jute. How would that strike

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you?

White: All right. You could have a further provision on there that under mutual agreement you can substitute some goods for others, so that, in other words, if you don't want a million dollars of ammunition and they would just as soon give you something else, you could--

H.M.Jr: Yes, that is all right. Or a substitution under mutual agreement.

White: Which you won't know until the end of the war.

H.M.Jr: And carrying out the President's five year stuff.

Bell: I should think it would be well to consider getting interests of the British in plants outside of the United States.

H.M.Jr: Dan, where I differ a little bit, I think, from this crowd is this: This is the beginning. I have always planned my work here as far ahead as I can see. We are going to be at this thing, I am afraid, for a great many years, see, and make it as easy as you can and you are going to get your seven billion now, there isn't going to be any trouble, but the second seven billion and the third seven billion, you see, are going to be more and more difficult, and save some of these things like their properties in Mexico and South America for these second and third times we have to go to Congress, you see. Now I hope I am wrong, but I am afraid I am right, and don't--

White: I think so.

H.M.Jr: You are going to get the seven billion. It makes very little difference what we ask for. They are going to get it now. The President

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doesn't have to do much window dressing, but as we get along and get further and further and have to go to Congress the second and third and fourth times--

White: I think that is a good idea.

H.M.Jr: And that is why I don't want to scrape the bottom. You will get your seven billion dollars. There isn't going to be any trouble. But the next time and the next time, then they are going to have to put up more and more, and as the taxes begin to increase and all the rest of that stuff and the people realize - we are all right, what is this billion dollars in taxes for? why are my taxes up? and so forth. Well, more and more in order for England. Do you see, Harry, what I mean?

White: I think so.

H.M.Jr: What I am saying is plain enough?

White: I think so. I think that--

H.M.Jr: Don't you think?

Klotz: Yes.

White: It will be more difficult to spend additional sums and the situation will be clearer so you know how far you can go. What are you going to do about the question of interest that will be raised? I think a flat statement to begin with that there will be no interest would be well taken.

H.M.Jr: They will bear no interest. No one has raised that question. They don't carry any interest.

Bell: It would probably be harder to get the cash later on to loan to England than it will this

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seven billion, which is what you are going to have to do after this war is over.

H.M.Jr: What is that?

Bell: It will probably be harder to get cash from Congress to loan England after the war is over.

H.M.Jr: I am going to make another prophecy, see? Right now, at this time, on March 13, the feeling for England is at its highest, I mean the friendliness, and that from now on it can only go one way, and it will go down and it will be more and more difficult. Just as of today, the feeling for England will never be any higher. From now on it will go down. I mean, as they get into the - all of these things that they have done on that basis - everybody has kept his mouth shut. As you get into the thing - I mean, what I am going through on the direct investment, I keep my mouth shut, and all of these things. I mean, they are very difficult people to do business with. So the more things that we can keep - that we can offer as collateral later on to Congress, I think we will be better off.

White: And Latin American investments is just in that second category?

H.M.Jr: Oh, yes.

White: Holding them in reserve until they become recalcitrant. I think so.

H.M.Jr: And a lot of these things that I clear every day that Philip Young brings to me, it is going to be very difficult to land-lease some of those things, isn't it, Philip?

Young: Very.

- H.M.Jr: Very difficult. What?
- Young: I have one right here.
- H.M.Jr: On the Lend-Lease?
- Young: No, this is a regular contract.
- H.M.Jr: So that I can have something - we will have an appointment tomorrow. How can we do this? Who can give me something in the way of a piece of paper to put my teeth into?
- Bernstein: Before you come to that, may I just mention a possibility?
- H.M.Jr: Yes.
- Bernstein: What is the purpose of giving England all of this material? I take it, it is to defeat Hitler. Now, we give them all of this armament. If England defeats Hitler, the armament has served its function and they can give us back, of that armament, what they have left of it. If they don't defeat Hitler, but they go down, then we need every bit of that for our own defense, and they then must agree to give back an equivalent amount of armament which we select and for the food they will give us armament.
- H.M.Jr: That doesn't make sense. Listen, if they go down, they will be exactly in the same position as occupied France, and are you going to say to occupied France, "You have got to give us food"?
- Bernstein: No, we won't ask for food. We have a legal claim for the equivalent where if they win--
- H.M.Jr: Bernie, I am disappointed in you. I don't want

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to be saracastic, but what the hell good is a legal claim in occupied France today, or Viche? What good is a legal claim on any of these occupied countries?

- Cox: How about the first half of the proposition, though, that if England wins we won't need the ammunition.
- H.M.Jr: Well, the President doesn't agree with you on that. He wants modern - his present frame of mind is - I have had a number of discussions with him. Every time I - the President wants the stuff over here. He would like to have it.
- White: Moreover, after the war, if there is a mutual arrangement, as there will be, to substitute other things, England will be under great obligation to use, not only for past favors but for future aid, so that I think there will be no difficulty at all about arriving at a change in the repayment if at that time it is so desired. I was wondering whether a definite - what?
- Bell: I say there wouldn't be any harm in putting this agreement to requesting a return of that material or material like it in kind or some other material.
- Cox: Well, that is the question, whether the option is in the United States Government or just a substitution.
- H.M.Jr: Now look, can't we get something? Couldn't I see something before I go home?
- Cox: I should think so.
- H.M.Jr: Purvis is coming here at 4:15.

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- White: Couldn't a legal document be drawn up?
- Cox: I should think so.
- White: A rough legal document of various types, say three or four, each one of a different category.
- H.M.Jr: Well, I will tell you. I have unfortunately got one of my very worse headaches. I would like to let this thing to, and you fellows do it, and I will be here tomorrow morning. We have got a terrific day tomorrow.
- I burned my bridges on financing. You (Bell) saw what happened to the bond market? It went up, too, after my announcement.
- Bell: Went off a little at first, and then went up.
- H.M.Jr: I am going to do a 500 million dollar refinancing and 600 million dollars cash. Why don't we - would it be too late for you, Ed, if we meet at 8:30 tomorrow morning?
- Foley: No.
- H.M.Jr: Let's say a quarter of nine tomorrow morning. Then my mind will be nice and clean and fresh, you see. Do you (Bell) want to see something before then, or would you rely on this?
- Bell: I will take a look at it tonight if they have it ready.
- H.M.Jr: Well, you (Foley) have got two lawyers working, haven't you, that you can supervise?
- Foley: Yes.
- H.M.Jr: Well, don't forget about your first liens and

so on. The lien on a drowning man is - his automobile license, as he goes down the third time, isn't going to help you get his automobile back, but anyway, I will be here tomorrow morning at a quarter of nine, and I would like something, and do your fighting before you come in, please.

Klotz: They never fight.

Bell: You don't want it in the form of an agreement, you just want one, two, three, what could be in that agreement.

H.M.Jr: Yes, so I can take it over and show it to the President.

Bell: And let him mark off what he wants to.

H.M.Jr: You fellows have got enough to work on haven't you?

Cox: I think so.

H.M.Jr: I mean enough from this conversation. (Laughter)
Well, it is all the same thing.

Foley: It is easy to draw agreements if you know what to draw.

H.M.Jr: Well, we have got a good idea. Don't you think you have got it?

Bell: I think that is the purpose of putting this on paper is to get the President to indicate the types of things that he wants to put in the agreement.

White: There aren't going to be any miracles.

Foley: Look at him. (Laughter)

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Klotz: You have got to do the work.

H.M.Jr: Well, if you have got anything else, just cut out - who is coming over? Currie?

Bell: Yes.

H.M.Jr: Well, I would call it off.

Bell: Well, it won't take very long.

H.M.Jr: What do you mean? I would call it off. This is more important. Tell Currie you will see him tomorrow. He can wait. The bad news he has got can hold.

Bell: I was hoping he would have some good news.

H.M.Jr: Well, he hasn't. He has got nothing but bad news. Bad news can always wait. Well, I am just going to wait. I want to talk to Cox a minute about a personal matter.

THE WHITE HOUSE
WASHINGTON

acked 3/14

C
O
P
Y

March 13, 1941

Dear Henry:

I wish you would undertake to negotiate the "quid pro quo" with the British relative to the material up to \$1,300,000,000 which I am authorized to transfer to them. I should think it would be best if we could work out some kind of over-all agreement and I should like to discuss it with you when you have developed further the informal proposals which we talked about the other day. I think it would be wise to get this accomplished soon, because we must move forward with our transfers.

Very sincerely yours,

(Sgd) Franklin D. Roosevelt

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

C
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Y

Draft I

3-13-41

AGREEMENT dated as of March 11, 1941, at the City of Washington, District of Columbia, between His Majesty's Government in the United Kingdom (hereinafter called the United Kingdom) and the United States of America (hereinafter called the United States).

WHEREAS, the President of the United States (hereinafter called the President) has determined that the defense of the United Kingdom is vital to the defense of the United States,

NOW, THEREFORE, it is agreed as follows:

1. Pursuant to the Act of the Congress of the United States of March 11, 1941 (Public No. 11, 77th Congress and hereinafter called the Act) the United States will transfer, exchange, lease, lend, sell, or otherwise dispose of certain defense articles and defense information to the United Kingdom, as listed and valued in schedules, appropriately identified, now or hereafter to be attached to this Agreement.

2. Within such period or periods as determined by the President:

(a) The United Kingdom agrees to return to the United States such defense articles which, in the opinion of the President, are

- 2 -

not used up, worn out, destroyed, or otherwise rendered incapable of effective use.

(b) The United Kingdom agrees, in the case of defense articles, other than agricultural commodities, which in the opinion of the President are used up, worn out, destroyed, or otherwise rendered incapable of effective use, to return to the United States an equivalent amount of similar defense articles, which, in the opinion of the President, are of a quality and efficiency substantially equal to the defense articles transferred hereunder to the United Kingdom.

(c) The United Kingdom agrees,

- (i) in return for agricultural commodities, and
- (ii) in return for other defense articles and defense information

transferred to it hereunder and for which the United States has not otherwise received full reimbursement, to deliver to the United States an equivalent dollar value of tin, rubber, jute, and other products and commodities produced in the British Empire and which, in the opinion of the President, are needed by the United States. Such products and commodities

shall be delivered in such quantities and at such time or times as shall be determined by the President.

(d) The United Kingdom may at its option and in lieu of the return of the defense articles or similar defense articles, as provided in Paragraphs (a) and (b) above, deliver to the United States any other raw materials, services, facilities, or other consideration or benefits acceptable to the President.

3. By future agreement, the parties may substitute, in lieu of Section 2, any other payment or repayment in kind or property, or any other direct or indirect benefit to the United States, which the President deems satisfactory.

4. The President shall determine the fair value of any defense article or other consideration or benefit received by the United States from the United Kingdom; and the United Kingdom shall be credited therefor on account of the defense articles and defense information transferred to the United Kingdom hereunder.

5. The United Kingdom agrees that it will not, without the consent of the President, transfer title to or possession of any defense article or defense information, transferred to the United Kingdom hereunder or

- 4 -

permit its use by anyone not an officer, employee, or agent of the United Kingdom.

6. If, as a result of the transfer to the United Kingdom of any defense articles or defense information, it is necessary, for the United Kingdom to take any action or make any payment in order fully to protect, pursuant to the Act, any of the rights of any citizen of the United States who has patent rights in and to any such defense article or information, the United Kingdom will do so, when so requested by the President.

7. The President may exercise any power or authority conferred on him hereunder through such officer or agency as he shall direct for that purpose. The terms "defense article" and "defense information" as used in this Agreement shall have the same meaning as defined in the Act.

8. The parties to this Agreement, and the officials signing this Agreement on their behalf, each for itself, himself, or themselves, represent and agree that the execution and delivery of this Agreement have in all respects been duly authorized, and that all acts, conditions, and legal formalities which should have been performed and completed prior to the making

- 5 -

of this Agreement have been performed and completed as required by, and in conformity with, respectively, the laws of the United States and the United Kingdom.

IN WITNESS WHEREOF the parties hereto have executed this Agreement in duplicate.

THE UNITED STATES OF AMERICA.

By _____

(Title)

HIS MAJESTY'S GOVERNMENT IN THE
UNITED KINGDOM.

By _____

(Title)

March 13, 1941
3:21 p.m.

H.M.Jr: Hello.

Arthur
Purvis: Hello, Henry.

H.M.Jr: Arthur, I wondered if it would be just as convenient if I could see you later in this afternoon - hello?

P: Henry, would it - in that case - I haven't anything very special - be as well tomorrow, because I had an appointment from 5:00 to 7:00.

H.M.Jr: Well, then it would be much better for me if you've got nothing special

P: Well, I have nothing special. In that case, could I see you though tomorrow or sometime before it gets too far?

H.M.Jr: Oh, yes.

P: No hurry, I mean, even Monday. I haven't anything special, it's just that I wanted to have a talk with you.

H.M.Jr: Well, then if it's that way, then sometime maybe Saturday.

P: Well, we'll leave it until tomorrow morning and I'll get Miss Brady to keep in touch with Mrs. Klotz for the time that suits you best.

H.M.Jr: Thank you so much.

P: Fine.

STRICTLY CONFIDENTIAL

~~CONFIDENTIAL~~

March 18, 1943

To: Mr. Hopkins

From: Mr. Young

Attached herewith is a copy of a letter from the British Supply Council, concerning the tea cutters, which is to replace the letter I left with you Tuesday afternoon.

Please note that the last line of the first paragraph has been corrected to read "U. S. Treasury" instead of "U. S. Navy".

(Initialed) P.Y.

THE BRITISH SUPPLY COUNCIL IN NORTH AMERICA

Box 680
Benjamin Franklin Station
Washington, D. C.

March 11, 1941.

Philip Young, Esq.
President's Liaison Committee
Treasury Department
Washington, D. C.

Dear Mr. Young,

The British Naval Attache has just received a reply to a cable to the British Admiralty with regard to the ten coast guard cutters which we hope will be released to us by the U. S. Treasury.

The admiralty advise as follows:

1. That an offer of ten cutters would be cordially welcomed.
2. That the vessels would be acceptable in present condition with low angle armament only, high angle armament to be fitted in the United Kingdom.
3. Ammunition for 5" guns would be required from United States, both outfit and reserve, including practice.
4. That the newer type having a speed of 20 knots would be of considerably greater value than the older type which has a speed of 16 1/2 knots.

As the Navy Department has been pressing for this information, the British Naval Attache, through whom it was obtained, has given it to them direct.

Yours very truly,

(Signed) C. T. Ballantyne

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 13, 1941

TO Secretary Morgenthau

FROM H. D. White

Subject: Types of Compensation Which British Might Give the United States for Supplies Transferred Under the Lease-Lend Bill

For convenience, the possible types of compensations are grouped into the following six headings:

- A. Returned material and equipment
- B. Raw materials
- C. Military equipment and facilities
- D. Financial assets
- E. Economic and political arrangements
- F. Territories

A. Return of Material and Equipment

Some of the items that will be sent to England are of a type that could easily be treated under a leasing arrangement. Ships, soldiers' equipment, signalling equipment, small arms and scores of items left in good condition after the war could easily be returned. The economic and military value of such items to the United States after the war would not be great if prospects for sustained peace were good. Nonetheless, in many cases they would have substantial value in this country for civilian uses in emergencies such as fire, flood, C.C.C. camps, etc. Even, however, if their value was not great to the United States their return would serve a useful purpose in making the final adjustment of aid to England easier.

There is a second category which would include equipment having little use after the war, either by virtue of their considerable depreciation or rapid obsolescence. Military planes, artillery and munitions might fall in that category. Where the items have become obsolete or of little peace value, the conditions of payment might be set in terms of items of similar but civilian character. Such an arrangement would have the advantage of making the return comparatively

easy, and would avoid all the transfer problems arising from a settlement in terms of dollars such as arose after 1918.

Whenever, however, the return would be in the form of newly-produced equipment there would be opposition to having the British factories building material for American use while there existed in the United States a large volume of unemployment and idle equipment.

B. Raw Materials

1. The United States could obtain large quantities of British rubber, tin, wool, etc., for stock piles to be accumulated after the war. Aside from having considerable military value, such a stock pile could be useful in price and inventory control.

From the British point of view, such repayment would not be unduly burdensome provided the payment was made after the war and not while the war was on. After the war such shipments would not seriously diminish sources of foreign exchange available to the British because the export of those materials would presumably be to satisfy an otherwise non-existing demand. Such an arrangement would have the further advantage for Great Britain in that it would stimulate employment and business activity at the very time when it would probably be most needed.

2. Arrangement with respect to future sales policy of British raw materials.

In lieu of accumulating a stock pile of strategic commodities or in addition to the accumulation of such stock piles, it might be possible to obtain commitments from the British relating to the creation of international committees with authority to fix quota and prices with a view to assuring the American consumer representation and favorable treatment during the post-war decade.

3. Ownership of mines, plantations, etc., which produce strategic raw materials.

A transfer of ownership from the British to Americans of such properties would obviously have some economic value to the United States. Where such properties are located in the Western Hemisphere they would have a strategic value as well as an economic value. The value of properties outside the Western Hemisphere would depend upon the political situation in those areas.

C. Military Equipment and Facilities

1. Military and technical information, including designs and patents constitutes excellent compensation although it would be difficult to place a monetary value on such information and designs. This latter feature may be an advantage.

2. Joint use of military and naval bases. Joint use of bases such as Singapore and Halifax is a possible form of compensation. But their use in this manner is dependent on questions of military and naval policy. Of course, no monetary value can be placed on such compensation.

3. The right to use repair facilities in various British bases and ports is an additional form of compensation which might be of considerable value to the Navy and Merchant Marine.

D. Financial Assets

1. Latin American securities and investments. These total over \$3 billion nominal value, but market values are much less.

The political and strategic economic values of British-owned properties in Latin America are, in many instances, more important to England than the dollar value. From the point of view of the United States their significance would lie in our ability to utilize them to strengthen our economic and political ties with Latin America.

2. British investments in Asia, Africa, etc. The nominal value of British investments in these areas (outside the British Dominions and India) is in excess of \$2 billion. Their market value is much smaller. The economic value of these holdings to the United States depends largely upon the outcome of the present world conflict. The British would be naturally most reluctant to part with these investments.

3. British investments in Canada. These investments amount to about \$2 billion and have a far greater degree of liquidity than British investments outside North America. However, Britain is already liquidating her Canadian investments at the rate of perhaps half a billion dollars a year in order to meet her anticipated current Canadian commitments.

4. Gold and dollar balances. Present gold holdings of United Kingdom are negligible. The Empire gold production during 1941 (\$515 million, excluding Canada) is already

allocated to meet payments chiefly to United States. Whether England will be able to accumulate any gold out of her 1942 production is uncertain.

5. Private dollar balances in the United States. These amount to about \$300 million. None of this is available inasmuch as the British Treasury has stated that the present level of these balances is necessary in the conduct of British private business.

6. United Kingdom investments in the United States, both direct investments and security holdings, cannot be included because they are presumably already allocated for sale to cover dollar commitments already made.

E. Economic and Political Arrangements

There are many possible economic and political arrangements which would be of the greatest value to the United States. Examples of such economic and political arrangements are: United States representation in the peace conference, agreements about the post-war economic policies of the British Empire, joint policy with regard to activity in certain areas of common interest such as the Far East, Latin America, etc. However, it is doubtful that the British can or should be expected to make these arrangements at the present time.

F. Territories

The transfer of sovereignty over British colonial territories is not desirable economically or politically. The island and mainland possessions of Britain in the Americas are an economic burden rather than an economic asset. It is politically undesirable to give the impression that the United States and the United Kingdom would engage in the transfer of sovereignty over peoples now in the British Commonwealth without consulting them. These objections apply even more strongly to British colonial possessions outside this Hemisphere.

*9/10/41
Wings Does not want
to send this to Pres.
any more - Feb -*

325

CONFIDENTIAL

(To Keep You Posted)

March 13, 1941

To: The Secretary

From: Mr. Young

Re: British Aircraft Shipments

Attached herewith is the latest statement of aircraft shipped to the United Kingdom and other points. This statement gives figures showing the number of planes which have been received at the assembly points during this last week.

DY.

SECRET 326

STATEMENT NO. 5
STATEMENT OF AIRCRAFT SHIPPED TO U. K.
& OVERSEAS COMMANDS

Type	Destination	Assembly Point	By Sea during week ending Feb. 15/41	By Air during week ending Mar. 8/41
<u>Douglas</u>				
Boston II	U.K.	U.K.	13	
<u>Lockheed</u>				
Hudson III	U.K.	U.K.		1
Hudson IV	U.K.	U.K.	2	
<u>Consolidated</u>				
P.B.Y.	U.K.	U.K. (via Bermuda)		2
P.B.Y.	F.E.	Singapore (ex San Diego)		1
<u>Curtiss</u>				
Tomahawk	M.E.	Alexandria	10 25	4

British Air Commission
March 10, 1941

RECEIVED

MAR 12 1941

Treasury Department
Office of Philip Young

4-1
M. G. W. 1

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

327

DATE March 13, 1941.

TO Secretary Morgenthau
FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns £35,000
Purchased from commercial concerns £ 5,000

In the open market, sterling was quoted at 4.05-1/2. Transactions of the reporting banks were as follows:

Sold to commercial concerns £ 4,000
Purchased from commercial concerns -0-

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

Canadian dollar	15-1/8% discount
Swiss franc (commercial)	.2322-1/2
Swedish krona	.2364
Belchmark	.4005
Lira	.0505
Argentine peso (free)	.2300
Brazilian milreis (free)	.0505
Mexican peso	.2066
Cuban peso	6-7/16% discount

In Shanghai, the yuan in terms of our currency was unchanged at 5-1/2¢, and sterling was 2¢ higher at 3.93¢.

There were no gold transactions consummated by us today.

The Federal Reserve Bank of New York reported the following gold engagements:

\$2,891,000 from Canada, shipped by the Bank of Canada, Ottawa, to the Federal Reserve Bank of New York for account of the Government of Canada, for sale to the New York Assay Office.

319,000 from Japan, shipped by the Yokohama Specie Bank, Kobe, to the San Francisco Agency, for sale to the San Francisco Mint.
\$3,210,000 Total

The State Department forwarded a cable to us stating that the following amounts of gold had been shipped from Australia, for sale to the San Francisco Mint:

\$6,144,000 shipped by the Commonwealth Bank of Australia, Sydney, to the Federal Reserve Bank in San Francisco. Disposition of the proceeds is unknown at present, but a similar shipment made last month was sent here for the Commonwealth Bank's own account.

155,000 shipped by the Bank of New South Wales, Sydney, to the American Trust Company, San Francisco.

\$6,329,000

In London, the price fixed for spot silver was unchanged at 23-7/16d. Forward silver was also priced at 23-7/16d, representing a gain of 1/16d. The U. S. equivalent of this price is 42.56¢.

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

We made four purchases of silver totaling 200,000 ounces under the Silver Purchase Act, all of which consisted of new production from foreign countries, for forward delivery.

CONFIDENTIAL

Rio de Janeiro, March 13, 1941.

Subject: Dollar Balances of Third Countries in the Bank of Brasil.

Original and Three Copies by Airmail—Confirmation Copy by Steamer.

STRICTLY CONFIDENTIAL.

The Honorable

The Secretary of State,
Washington.

Sir:

Referring to my telegram No. 119, February 22, 1 p.m., I have the honor to report, for the Treasury Department also, that dollar balances held in the Bank of Brasil by third countries were as follows on March 7, 1941:

Portugal

Banco Espirito Santo e Comercial
de Lisboa..... \$ 500,000.00

Finland

Suomen Pankki - Helsingfors..... 400,000.00

Japan

Yokohama Specie Bank, Tokio..... 5,500,000.00

Italy

Royal Italian Embassy (futures)..... 8,690,000.00

Bank of International Settlements

Gold - 500,831.813 grs. of gold
deposited in the Bank of Brasil
by the French Embassy..... = 563,435.79

Respectfully yours,
For the Ambassador:

William C. Burdett,
Counselor of Embassy.

WA/MVJ
File 851.6.
eh:copy

Confidential

STRICTLY CONFIDENTIAL

PARAPHRASE

A telegram of March 13, 1941, from the American Consul at Kunming reads substantially as follows:

A few days ago the Mekong River bridge which was wrecked by bombing on December 14 was put into service again, according to information which is thought to be reliable. For about a week there has also been in operation across the Mekong River a pontoon bridge. It is said that there is now no delay in traffic. In the bombing on February 27 slight damage is said to have been inflicted on the Salween suspension bridge, two cables of which were severed. It was reported also that a pontoon there was hit. The passage of trucks has, however, not been interfered with. For the week ending March 6, approximately 700 trucks carrying an estimated 2200 tons which was the average figure previously arrived in Kunming, according to the latest unofficial figures.

GRAY

BERLIN

Dated March 13, 1941

Rec'd 10:53 a.m. March 14.

Secretary of State

Washington

950, March 13, 4 p.m. (SECTION ONE)

In an address delivered yesterday to the annual stockholders meeting of the Reichsbank Dr. Funk, the President of the Bank made several important statements relative to the Government's policy in regard to private business and the limitation of dividends. He also made public additional data on national savings and on the volume of Germany's foreign trade since the war began.

Funk announced that in the near future drastic restrictions on corporate dividends would be imposed under which dividends in excess of 6% would be subjected to "prohibitive taxation". He stated that the loan stock law which expired at the end of 1940 and which impounded dividends in excess of 6 or in some cases 8% did not solve the problem of dividend restrictions schedule.

Funk admitted, however, that in most cases the distribution of a higher dividend than 6% is the result of an under-capitalization of the respective companies and that dividends, therefore, are only paid on a very small part of the actually invested capital. Succession companies, Funk stated, will be offered an opportunity of "correcting" this situation by increasing their stock capital. Asserting that the capacity of the German capital market is now "greater than ever" Funk promised an easier access for private corporations to this market by the issuance of shares and bonds and condemned the Reich's past policy in this respect as "erroneous". He also denounced the widespread policy of

"selbstfinanzierung" on the part of industrial concerns which in the past has led to the reinvestment of undistributed profits to the detriment of tax revenue.

Funk strongly reproached private business for its tendency to evade risks and to rely on government guarantees and added that if business were not prepared to assume normal risks there was no justification for its further existence. He also referred to the increase in stock quotations since the war started that has resulted in many shares yielding a smaller revenue than Reich bonds - a situation which he characterized as "unhealthy".

MORRIS

WSB

GMW

GRAY

333

Berlin

Dated March 13, 1941

Rec'd. 6:20 a.m., 14th

Secretary of State,
Washington.

950, March 13, 4 p.m. (Section Two)

Speaking of war financing Funk stated that the Government's policy was to meet as great a part of war expenditures as possible from tax revenues. The exceedingly easy conditions of the money market permits the Reich to borrow "any amount at any time" Funk alleged. This borrowing is facilitated by record national savings. Savings deposits with savings and other banks totaled 30 billion marks at the end of 1940 according to Funk--a result which is "worthy of greater Germany". Funk added that during the first sixteen months of the war the German nation had saved approximately as much as in the six years preceding the war. It will be recalled that the Minister of Finance recently placed the total increase in savings deposits since the beginning of the war at 8 billion marks.

Dealing with the monetary situation Funk said that the German currency had stood its war test and that in the past year the Reichsmarks had become the "dominating currency of Europe" while the pound sterling had largely lost its character of an international currency. In rejecting the gold standard foreign trade Germany "admits of no compromise", Funk emphasized. He stated that the Reich's attitude could not be changed by economic arguments and that the gold standard is unacceptable to Germany because it was "misused" after the world war for purposes of "power politics".

-4-

Reiterating the assertion recently made by various government officials that the value of the Reich's foreign trade had reached its pre-war level during the past few months, Funk asserted that this was all the more remarkable because the trade with the protectorate and the incorporated eastern provinces is no longer included in the Reich's foreign trade figures. Funk stated in this connection that the value of Germany's trade with European countries except Britain and France had increased during the past year by 65% although he admitted that this gain was in part due to higher prices.

Please inform Commerce and Treasury.

(End Message)

MORRIS

RR

Copy:bj

TREASURY DEPARTMENT

335

INTER OFFICE COMMUNICATION

DATE March 13, 1941

to Mr. White

FROM Mr. Clark

Subject: German Exploitation of Denmark

Denmark is one of the few occupied countries which did not offer armed resistance to Germany. Has Denmark, which "cooperated" with the new order, fared better than other countries which fought Germany, for example, Norway? Politically, the answer must be yes. Interference with the normal life of the people, and in particular with the civil administration, the courts and the Church, has been much less harsh than in Norway. Further, everything-nominally-is paid for, including the costs of occupation. But German exploitation of the economic resources of Denmark has been as thorough as it has elsewhere. In both senses, Denmark has become a milch cow for Germany. The depletion of Danish agricultural capital, which has accompanied German looting, makes it only a question of time (perhaps a year) until the cow is dry. By that time what happens to Denmark will matter little to Germany.

What Germany has Obtained

Before the war, Danish exports, which are primarily agricultural, went in largest amount to Great Britain which took 52 percent of Danish exports in 1939, while Germany took only 23 per cent. In turn Britain supplied 33 per cent of Danish imports and Germany 27 per cent. Since the invasion, practically all of Danish trade has been with Germany. Requisitioning by the military authorities must be considered as a part of Danish exports.

Butter In 1939, Denmark produced 402 million pounds of butter of which all but 73 million pounds were exported. Normally the Danes produce their weight in butter each year - more than 120 pounds per capita. Yet, because of the large exports to Germany, butter had to be rationed within six months of the occupation; these rations now amount to about 3/4 of a pound of butter per week per person.

In 1940, Germany may be estimated to have obtained not less than 275 million pounds of butter. This estimate is based on Denmark's productive capacity, and the length of the occupation (nine months in 1940) with an allowance for the sharp decline in production in the last four months of the year. Since Germany in 1939 purchased only 96 million pounds of butter from Denmark, she received an additional 175 million pounds in 1940.

The Danish farmer has been receiving extraordinarily high prices for his butter (45 to 50¢ a pound), prices which are largely based on internal German prices converted at the artificial exchange rate which was established between the krone and the mark, and he has therefore a vested interest in the continuance of the German market now that other export markets are cut off. It is expected that Danish butter production will fall off sharply in 1941, however, since Danish cattle stocks have been greatly depleted. Production in December, 1940, was down 30-35 per cent from the previous December.

Cattle In 1939 there was 3,300,000 heads of cattle in Denmark; of these half have either been slaughtered or removed from Denmark for resettlement in places where, according to the Germans, "pastures are better". Germany has obtained at least 1,500,000 head of cattle, either as stock or as meat, and this estimate probably errs on the conservative side. In 1939, Denmark exported to Germany only 150,000 head of cattle and 21 million pounds of beef and veal.

It is expected that because fodder is scarce, further slaughters will have to take place in 1941. Since the Danish economy has been heavily dependent on cheese, butter and meat exports, the long-run effects on her economy are very serious. Danish livestock has been developed "through years of scientific breeding" and the milk yield of Danish cattle is high. The production of butter and cheese for export is closely tied in with milk production. In October, 1940, because of the slaughtering of cattle, milk production was down a third below the figure of the previous year. Since the fat content of the milk was also lower, production fell even more than is indicated.

Chickens During 1940, it has been estimated that two-thirds of the Danish chickens were either slaughtered or exported. This would amount to 20 million of the 30 million hens and chickens in Denmark in 1939. Since eggs in 1939 constituted nearly 10 per cent of the value of Danish exports, the wholesale disappearance

of her poultry is another blow to her economy.

Pigs At the time of the invasion there were 3,066,000 pigs in Denmark. In January, 1941, there were 1,968,000, a decline of over a million in ten months. Exports of live hogs to Germany amounted to 136,000 in 1939 and to 750,000 in 1940; in value this represented an increase from 25 million to 115 million kroner. Germany in addition received perhaps 250 million pounds of bacon and ham in 1940.

Rolling Stock Even before the war, Denmark had had difficulties with her rolling stock; cars and locomotives of the State Railways, sent to Germany, took months to return. Since the invasion this problem has become still more acute. The cattle, butter and pigs exported to Germany have been transported in Danish railway equipment, and the Danish rolling stock has been heavily drained. The Director General of the State Railways, who is also president of the Danish-German Association and one of the few Danes on whom a pro-Nazi label can be hung, has publicly complained of the serious shortage of rolling stock. One estimate has placed the number of locomotives taken at 700. If the same proportion of Denmark's freight and cattle cars were taken as the percentage of locomotives, Denmark has lost around 9,000 freight and cattle cars.

Trucks Before the invasion there were 43,000 trucks in Denmark and it is estimated that not more than 10,000 remain in Danish hands. The rest have been requisitioned.

Shipping Danish shipping is an important part of her national income and normally contributes about 300 million kroner in the Danish balance of payments. Around seventy per cent of Danish shipping is now outside the control of Denmark; twenty-seven per cent is under British control. A large part of the 375,000 tons still in Danish hands is idle; a part is in use in Baltic trade under agreement with Germany. Forty-three per cent of Danish shipping is in ports throughout the world, earning nothing and costing heavily for dock charges. The annual loss to Denmark may be from 300 to 500 million kroner, since many shipping rates have tripled or quadrupled.

Germany has requisitioned the ship-building concerns, including the important firm of Burmeister and Wain. Danish ship-yards in 1938 turned out thirty-five ships with a gross tonnage of 158,000; this does not represent capacity production. In addition to the ship-building capacity which Germany has requisitioned and the ships in the Baltic which are available for German use, Germany has taken over some of the patrol and torpedo boats of the Danish Navy. This latter was done in the face of the German promise to respect the integrity of the Danish defense forces.

How Germany "Pays for" her Purchases

The Germans have organized the exploitation of Danish resources through a simple control of access to purchasing power. The Germans pay for goods and services as well as the costs of occupation in return for mark credits. Unlike countries which resisted, the costs of the occupation are nominally borne by Germany. In practice, they are borne by Denmark, since the Danes have been unable to utilize these credits. The Germans receive kroner, while Denmark is credited with reichsmarks in (a) the official clearing account covering imports and exports (b) an unofficial and secret clearing account for the costs of occupation. In consequence of the extension of kroner credits by the Danish National Bank, note-circulation and demand deposits have rapidly expanded and prices have soared. The result is a forced saving by the Danish people while the Germans are able to obtain the goods they want since they have what amounts to an unlimited credit at the Danish central bank. Under such circumstances it is easy for Germany to "pay" for all purchases and to keep up the pretense of legality in all her Danish transactions. But Denmark has been looted on a wholesale scale, as the previous section on Danish trade with Germany has shown. The credits in Germany are really long-term and highly illiquid loans. For the present they are nearly worthless to Denmark. In the long run, should Germany win, Denmark might collect. If Germany loses, Denmark will never collect, and in any case she cannot use the credits at the present time. Denmark is able to utilize reichsmark only for goods which Germany can spare, and looking at the rapidly accumulating balances, Germany apparently is unwilling to spare much. Denmark receives some raw materials, metals and fuel which she needs but far below her minimum requirements. The Danes are able to buy only a limited range of goods at high prices. In part this may be considered a deliberate plan to strangle Danish industry through a refusal to sell essential industrial materials.

There are four principal sources of the mark credits which Germany uses in obtaining goods and services from Denmark: (1) German

payments for military defense and fortifications in Denmark, (2) payments to the occupying force, (3) payments for Danish exports, (4) payments to the unemployed Danes who work in Germany. During the first four and a half months the occupation costs were paid in the scrip marks which Germany also used in other countries. These marks were redeemed by the Danish National Bank. At the end of August the use of scrip marks was discontinued and the German authorities are now given kroner in exchange for mark credits. As far as Denmark is concerned, there is no real difference between the two methods. Both the official and unofficial clearing accounts have grown rapidly and the accumulation of mark balances by Denmark has reached a staggering total for so small a country. The total amount which Germany now owes Denmark may be estimated to be at least 1,100 million kroner, almost twice the ordinary budget of the state, and about one fourth of the national income of 1939. It is possible the balances are even higher.

The Krone-Mark
Exchange

The official exchange rate set by agreement between Germany and Denmark is 2 kroner for 1 reichsmark. Although this rate represented the exchange value of the artificially pegged German reichsmark, it in no way corresponded to the relative purchasing powers of the two currencies, nor did it represent the real value of the German commercial marks which ordinarily were sold at a heavy discount. In competition on the world market, the German mark, valued at 40¢, had ceased to have any meaning. It was replaced by the widely assorted varieties of commercial, tourist and charity marks with which Germany juggled her foreign trade. Since the world price level after the invasion no longer affected German trade with Denmark, the old pegged rate of the reichsmark was reestablished. In consequence, Danish goods have been cheap for Germany, while German goods have been very high-priced for Denmark. This has been an important cause of the lop-sided trade between the two countries. In recent months, however, since Danish prices have been rapidly rising, while prices in Germany have been controlled, the Danish price-level has been slowly approaching that of Germany.

Denmark's Mark
Balances

In April, 1940, before the invasion, Denmark owed Germany 43 million kroner in her clearing account, since Denmark ordinarily had an unfavorable trade balance with Germany. In May as German "purchases" in Denmark increased, a new item appeared on the balance sheet of the Danish National Bank: "Clearing Accounts with Foreign Countries", which represented credits owing to Denmark by Germany and which increased thereafter month by month:

(Millions of kroner)*

May	June	July	August	Sept.	Oct.	Nov.	Dec.
75	123	192	284	338	380	401	418

This clearing account may be considered to show Germany's purchases of Danish goods over and above Danish imports of German goods. In general these purchases represent the surplus agricultural products which formerly went in large part to Great Britain. In nine months the balance rose from -43 million to 418 million, averaging around 50 million kroner a month. By the end of February, 1941 the balances will be well along toward 500 million kroner. Because Denmark's production of dairy products has been dropping rapidly, the balances have shown a decreasing growth in recent months.

In addition to these purchases, there are the costs of occupation and for defense which do not appear in the published statements of the Danish National Bank. The unofficial clearing account for the occupation has averaged around 60 million kroner a month, and will total more than 600 million kroner by the end of February, 1941. It stood at 466 million kroner in December.

The Economic Situation in Denmark

The budget for the fiscal year ending on March 31, 1940, showed a surplus of 9.3 million kroner which was transferred to the surpluses of previous years as a reserve for possible future deficits. For the first time in several years, it is expected the budget for the fiscal years, 1941 and 1942, will show large deficits:

	Danish State Budget (millions of kroner)			
	1938/39	1939/40	1940/41	1941/42
Receipts	543.2	620.7	607.0	491.0
Expenditures	523	611.4	655.7	557.7
	plus 20.2	plus 9.3	minus 48.7	minus 66.7

The original budget estimates for the present fiscal year have unquestionably been too optimistic. The deficit may run to 150 million kroner. It is anticipated that customs receipts as well as personal taxes will drop much more rapidly than the estimates contained in the

* Gross

tabled budget. In addition, extraordinary expenditures for relief and public works have increased while the government has been forced to raise the salaries of civil servants because of the rapid rise in prices.

Taxation Two weeks before the invasion, the government imposed additional emergency turn-over and customs taxes. These amounted to a ten per cent ad valorem surtax on imports and a turn-over or sales tax of eleven per cent. The taxes were limited to a six months period but, because of the budget deficit, the taxes in October were continued for another year, with a few slight revisions.

Industrial Production Denmark's industrial production showed a marked decline even before the invasion. Production dropped from 116 (1935-100) in October, 1939 to 104 in April, 1940. By October, 1940, a decline to 89 was registered. A further drop in production was evident during the past winter. This fall was caused by the curtailment of raw material and full imports on which Danish industry depends. The new order has meant that Danish industry is being slowly starved to death.

Agriculture The serious situation in Danish agriculture has already been indicated in the summary of what Germany got from Denmark. Ordinarily, while Denmark is self-sufficient in many varieties of food, she is not self-sufficient in animal foodstuffs (such as oil-cakes) of which she normally imports around 800,000 tons. Since Germany is unable to supply Denmark with animal feedstuffs, a further depletion of Danish agricultural capital is indicated in 1941. Danish agriculture has probably been permanently injured. Given a few years of peace now it would have, perhaps, a chance of recovering; at the end of another year of exploitation the chances of recovery will be slim.

The agricultural situation is complicated by the fact that so many Danish farmers are debtors. Their receipts in kroner for sales of products to Germany at high prices are a means of paying off their debts, which amounted two years ago to 4 billion kroner (20,000 kroner per head for the Danish farmer). In consequence, any move, such as that proposed to appreciate the krone, would be bitterly opposed by many of the peasants. The loyalty to the new order has been bought by Germany; the farmers are completely dependent on Germany since no other market is available.

Prices The scarcity of many goods combined with the rapid expansion of money in circulation has sent costs of living soaring. From April, 1940 to January, 1941, costs of living rose 22 per cent.

Costs of Living in Denmark

1935 (aver.)	Oct. 1939	Jan. 1940	Apr. 1940	Jan. 1941
100	111	118	129	158

The jump from January, 1940 to April was caused in large part by the introduction of an 11 per cent sales tax. Costs of living have risen more rapidly since the invasion (aside from this tax).

The rapid price rise has brought a sharp drop in real wages in Denmark. The trade unions and civil servants have recently obtained a rise in wages, which averages 8 per cent. This is a small jump in relation to the great price rise. Ordinarily wages go up automatically with rises in the cost of living, but this provision in collective agreements was ordered suspended by the government shortly after the occupation. The government has made strenuous efforts to control prices through decree-laws but with little success.

Banking The extension of kroner credits to the Germans through the Danish National Bank has resulted in an expansion of the note circulation and of short-term deposits in the commercial banks. The bank-note circulation which amounted to 609 million kroner in March, 1940 was up to 718 million kroner by November while demand deposits were up from 702 million kroner to 923 million. There was an additional small rise of 30 million kroner in savings deposits (largely deposits by farmers of funds received from sales to Germany). Cash holdings of the banks rose during the year by 250 million kroner, because of a decline in commercial loans, and the expansion in central bank credit.

Rationing and Scarcity of Goods The following goods are either rationed or are high-priced and scarce: butter, eggs, cheese, milk, leather, clothing, sugar, coffee, electricity, gas, fuel, gasoline, oil, bread, soap and fodder. The scarcity of fuel has been especially severe. Germany did promise to deliver fuel but has failed to do so in the quantity needed. Factories have closed down because no coal is available, while schools and homes have not been heated. The lack of heating made more severe a winter which sent temperatures to 30 below zero in Jutland.

The latest figures available show an unemployment of 130,000. In addition, there are 30-35,000 persons on short-time work. The closing of factories because of lack of coal and raw materials sent up unemployment in 1940 and it may reach a new high record in 1941. About 20,000 Danish unemployed were sent to Germany in 1940 under threats of losing their relief allowances in Denmark. These unemployed are permitted to send back to Denmark 125 RM (250 kroner) a month. Under this scheme the Danes are paying 250 kroner a month for each worker hired in Germany and are providing free labor to Germany at an additional cost to Denmark of 150 kroner above the ordinary relief allowance amounting to 100 kroner. In 1941 there may be as many as 50,000 Danes sent because of the expected severe unemployment in Denmark. In consequence the remittances of the unemployed may run in 1941 to 10 or 12 million kroner a month which the Danish National Bank will bear. Unemployment has forced the Danish government to introduce additional measures for relief and public works for the unemployed, as well as soup kitchens and relief stations for the poor.

Social and Political Conditions

The administration remains in the hands of the King and Rigsdag; the Prime Minister and his Cabinet, with some changes, continue in power. While control in Norway has passed from the hands of the legitimate government and revolt there has required the personal appearance of Herr Himmler and his agents, the government of Denmark has escaped the harsher aspects of German rule. That of course does not mean the government has much freedom of action, but the press, the administration and the schools are less thoroughly controlled than in Norway. The German authorities have, on occasion, interfered with the government. Shortly after the invasion, the cabinet was re-organized to take in members of all parties. The leader of the conservatives, Hr. Christmas Møller, whose blunt speeches provoked the Nazis, was forced to resign in August. Recently, because he held political mass meetings which were attended by large crowds, he was required not only to give up the leadership of his party but to quit his Rigsdag seat. The German authorities nearly forced out Prime Minister Stauning.

Life is probably less intolerable in Denmark than in other occupied countries. The reasons for this lie partly in the lack of resistance to the occupation and partly in the character of the Danish people. Since Denmark was the only Northern country to allow occupation without resistance, the Germans have apparently been treating the people with a moderate degree of liberality in order to demonstrate what can be gained through "cooperation". The freedom is largely superficial but it does exist, although control is exerted by the German authorities to the extent they consider desirable.

The Danish people ^{1/} have not permitted their feelings (with a few isolated exceptions) to take the form of sabotage and violence. The principal forms of open protest have been in mass community singing of national songs, demonstrations of affection for King Christian, the wearing of the Danish colors in lapels and frigid indifference to the occupying Germans, who, because they marched in to "save" Denmark, have been mockingly called the "Salvation Army". On various occasions great numbers of Danes gathered throughout the country in parks to sing their folk songs, including on one occasion people in 208 cities and towns. The German authorities have now forbidden such community singing. Much of the Danish patriotism has revolved around King Christian. His daily rides around town on horseback, alone, are always a subject of cheers and demonstrations from the Danes. On his seventieth birthday several hundred thousand Danes gathered in front of Amalienborg Castle to greet him.

The intercourse of the Danes with the Germans is limited to the minimum necessary to transact business. A Swedish correspondent in Stockholm wrote that the Danes have transformed themselves into a "nation of icicles". "Not a single German of the occupying forces has succeeded in being admitted to a private home. The art of not seeing German soldiers, of seeming to look through them, has reached the rank of masterpiece. The fact is that Germans find themselves in Denmark and also completely outside it without having the slightest ground to complain."

Although life is somewhat more free than elsewhere, the people have suffered economically and from the despair which has come at seeing German authorities and German troops (even under their "correct behavior") in control. While German race-laws have not

^{1/} A letter received in this country from Denmark stated that the feelings of the Danes were summed up in Revelations, Chapter 13. The most significant extracts (with some rearrangement) follow:—
And I stood upon the sand of the sea and saw a beast rise up out of the sea...he doeth great wonders so that he maketh fire come down from heaven on the earth in the sight of men...and deceiveth them that dwell on the earth...and cause that as many as would not worship the image of the beast should be killed...And he causeth all, both small and great, rich and poor, free and bound to receive a mark in their right hand...and that no man might buy or sell, save that he had the mark.

He that killeth with the sword must be killed with the sword.
Here is the patience and the faith of the saints.

yet been extended to Denmark, the German decree-laws have placed many restrictions on the normal life of the people, on the press, on freedom of speech and on Copenhagen's famous night life. The blackouts, for example, are a great source of discomfort, although in late Spring and summer, they will be impossible with the Danish summer twilight.

Probably no more than 5 per cent of the population was genuinely sympathetic to National Socialism before the invasion. Some Nazi sentiment was found among large landowners, a few industrialists (although more contributed funds to the Danish Nazis for insurance), and in the army and among the nobility. The rank-and-file members of the Danish Nazi party were largely a lunatic or criminal fringe. The leader, Fritz Clausen, unlike Quisling, has not received political power since the occupation nor received much support from the Germans since the invasion. The Danish Nazi party, although it has increased its activities since the occupation, is apparently disintegrating. Already it has split into nine different groups, each with a Fuhrer. It is unquestionable that there has been no increase in Nazi sentiment since the occupation; the reverse is far more likely.

RESTRICTED

G-2/2657-220
No. 338

M.I.D., W.D.
March 13, 1941
12:00 M.

SITUATION REPORTI. Western Theater of War.

Air: German. Last night the German Air Force was over England in strong force with its main effort directed against the Liverpool area. The British report this attack as "repulsed."

British. The invasion coast was raided by day on the 12th and 13th. Last night the R.A.F. attacked Berlin, Hamberg and Bremen in what was officially described as its greatest effort to date over Germany.

II. Balkan Theater of War.

Ground: Bulgaria. No change.

Albania. Heavy fighting in the Viosa River sector (Tepelini-Klisura or central sector).

Air: No reports available.

III. Mediterranean and African Theaters of War.

Ground: Italian Somaliland. British troops advancing towards Harar, Ethiopia, have occupied Dagabur which is about 450 miles northwest of Mogadiscio. Since the crossing of the Juba (Giuba) River February 20, the British claim the Italians have lost over 31,000 men.

Eritrea. The Italians claim they have attacked and occupied a British position in the Cheren sector.

Air: No reports available.

Note: This military situation report is issued by the Military Intelligence Division, General Staff. In view of the occasional inclusion of political information and of opinion it is classified as Restricted.

RESTRICTED

Reproduction of Code Intelligence
Received at the War Department
at 8:30, March 15, 1941.

London, filed 15:40, March 15, 1941.

1. During the night of March 11-12 good weather conditions prevailed over the Continent and a formation of British heavy bombers successfully attacked German airfields in the vicinity of Brunswick. During the same night a larger force made up of 27 heavy bombers carried out an attack on Kiel naval ship building plants with great success. It is now known that the British attacks on the German cruiser located at Brest during the night of March 10-11 was unsuccessful.

2. During the night of March 13-15 the Manchester-Liverpool area was attacked by a large number of German planes. Other German planes carried out raids on widely scattered targets in England. The total number of German planes plotted over Britain during this night was more than 500. One German plane crashed and another struck a balloon cable and fell. German aircraft losses as a result of the activities of British night fighter planes were four confirmed, three probable and one damaged. The extent of the damage done has not yet been determined. During daylight hours of March 12 some damage to private property resulted from an attack on targets in Norfolk and Suffolk by five German bombers. During the same day one formation of nine German fighters and another formation of six fighters carried out offensive sweeps over airfields in Kent. Two of the German fighters were shot down and there was no damage to British installations.

3. Later reports indicate that German attacks on Manchester during the night of March 11-12 resulted in some damage to the Manchester Canal and to merchant vessels in harbor. In addition, a serious fire was started at

the Manchester plant of the Anglo-American Oil Company. While the city of Manchester suffered the greatest damage during this night the principal target of the 215 German airplanes that were over England was the Coventry-Birmingham area. British night fighters shot down two of the German attackers. It is now known that during the German raid on Portsmouth on the night of March 10-11 naval personnel casualties were 87 killed and 224 injured seriously.

4. Operations of the Royal Air Force in Middle Eastern theaters were as follows: during an attack by British planes on the Isle of Rhodes seven Italian planes were shot out of the air and a successful heavy attack was made on three airfields; in southern Britain the city of Assab was attacked by British bombers; in northern Britain Italian positions and the railroad near Haron were attacked by British bombers; in Libya the British destroyed five grounded German planes, damaged several others, bombed the harbor at Tripoli, and attacked the Sirte airfield with machine-gun fire and bombs without the loss of a single plane.

5. German Air Force activities in the Middle East consisted of two attacks on Malta. Minor damage was inflicted on two airfields.

6. In the western Mediterranean Sea two Italian troop transport vessels totalling more than 20,000 tons and one Italian cruiser were sunk by units of the Royal Navy. There was great loss of life.

7. At the present time invasion alert No. 3 is still in effect in Britain.

8. The recent mobilization of Yugoslavian Army has brought its strength up to approximately 500,000.

2
CONFIDENTIAL

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9. The East Coast is not yet open to traffic.

SECRET

Distribution

Secretary of the
State Department
Secretary of Treasury
Asst. Secretary of War
Chief of Staff
The Plans Division
Office of Naval Intelligence
Air Corps
C-3

CONFIDENTIAL

350

BRITISH EMBASSY,
WASHINGTON, D.C.

March 13th, 1941.

PERSONAL AND
SECRET

Dear Mr. Secretary,

I enclose herein for your
personal and secret information a copy
of the latest report received from
London on the military situation.

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

Halifax

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D.C.

350

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TELEGRAM RECEIVED FROM LONDON DATED MARCH 12th, 1941.

1. Naval. Air reconnaissance p.m. March 10th showed Hipper cruiser out of dry-dock and alongside jetty.
2. One destroyer was seriously damaged and a mine sweeping trawler and submarine floating dock sunk in air attack on Portsmouth night of March 10th/11th.
3. Same night destroyer "Holderness" destroyed by direct hit from four inch guns an enemy aircraft minelaying in the Thames Estuary.
4. A British ship (5,250 tons) was torpedoed and sunk by a submarine in the North Thames approaches on March 8th.
5. Military - Balkans. There are now probably twenty-eight German divisions in south-east Europe. Increased railway movements into Roumania are reported and a total of thirty - thirty-two divisions may well be reached in the near future.
6. Eight German divisions including motorised divisions have entered Bulgaria via Dobrudja. Troop movements were reported in the various districts between March 9th/10th and large petrol, munition and food dumps at Karmovat. It would appear that about thirteen German divisions are represented in Bulgaria although several are unlikely to be at full strength.
7. Royal Air Force. Night of March 9th/10th. Thirty-nine heavy and medium bombers attacked three Channel ports and nineteen heavy bombers raided industrial area of Cologne. Two aircraft are missing.
8. Albania. Night of March 8th/9th. Harbour installations at Durazzo were successfully attacked by our bombers.
9. March 9th. Fifteen Gladiators engaged a formation of thirty-five enemy bombers and thirty fighters over

/Kelcyre.

Isle of Wight. Six fighters and a bomber were destroyed and one fighter and one bomber probably destroyed. One Gladiator shot down (pilot safe), and another damaged.

10. German Air Force. Night of March 10th/11th. An attack was made on Portsmouth by about 150 aircraft. Our night-fighters destroyed one bomber and another forced-landed in East Anglia.

11. Malta. On March 10th, enemy fighters carried out a low-flying attack on St. Paul's Bay. One "Sunderland" was burned and another slightly damaged. Ground defences claimed one enemy aircraft destroyed and two damaged.

12. Aircraft casualties over and from British Isles:-

German - Destroyed	Bombers	1, destroyed.
		1, night fighter
		1, forced landed
	Total:	3

British - Damaged		1 fighter
		1 fighter missing
		2 bombers missing

13. Home Security. Portsmouth and district. Attack was heavy. Considerable damage by fire to Royal Naval barracks; several fires started in the dockyard where power station and two electric workshops were damaged. Three oil cisterns set alight at Gosport and Victualling Yards reported burned out. Damage to utility service in the district and some temporary railway dislocation.

14. Bulgaria. Movement of German Air Force into Bulgaria continues. Bulgaria anti-aircraft and fighter defences are now under German Air Force operational command and will co-operate with them.