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February 20, 1941

MEMORANDUM FOR THE SECRETARY'S DIARY

On Tuesday, February 18, there was a meeting in Mr. Foley's office and on February 19, there was a meeting in Dean Acheson's office. Present at both meetings were Messrs. Acheson and Pasvolsky of the State Department and Messrs. Foley, White, Pehle and Bernstein of the Treasury. At these two meetings there was a full and comprehensive discussion of the possible advantages and disadvantages of extending freezing control on a geographic basis. Mr. Acheson is to prepare a memorandum describing the advantages and disadvantages and will submit the memorandum to the Treasury for comment.

9.14.76

February 20, 1941
9:15 a.m.

H.M.Jr: Hello.

Operator: Secretary Jones.

H.M.Jr: Hello.

Jesse
Jones: Hello, Henry. I'm kind of mixed up about
our - I've kind of got more dates for lunch
than I can fill. What is your situation?

H.M.Jr: Four dates?

J: I say I've got more dates than I can fill for
luncheon. What is your situation - could I
see you at another hour?

H.M.Jr: Well, I'm awful tight on that and I wanted
to talk to you and tell you what we were
thinking about on financing and get your
ideas. That's what I had in mind and I'm
seeing people all day on the financing, but
if you've got three other dates I can't bid
you more than 4% for lunch.

J: Can't do what?

H.M.Jr: Can't offer you more than 4%.

J: For lunch, huh?

H.M.Jr: Yeah.

J: Good. Well, now could I beg off and see you
a little bit - could I come and then get
away.

H.M.Jr: Well, here's the point - I'm afraid we're
going to have Cabinet this afternoon.

J: I see.

H.M.Jr: Are you busy around 11:30?

J: No, I could come any time.

- 2 -

H.M.Jr: Well, let's forget lunch

J: And come at 11:30.

H.M.Jr: At 11:30.

J: That will be fine.

H.M.Jr: I'll just save some fish.

J: Fine, thank you very much. I'll miss the fish.

H.M.Jr: All right. 11:30.

J: 11:30.

February 20, 1941
10:05 a.m.

H.M.Jr: Hello. Have I got Haas and Hadley?

George
Haas: Yes, sir.

Mr. Hadley: Yes, Mr. Secretary.

H.M.Jr: Well, now the Discount Corporation, what they recommend is a 5-year $1\frac{1}{2}$; a $7\frac{1}{2}$ -year, 2% and a '61-63, $2\frac{3}{4}$ ths. I wish both Haas and Hadley would figure this thing and see what it looks like. See? Or what they are?

Hadley: They all look pretty good except that $7\frac{1}{2}$; that's a little short.

H.M.Jr: Well, anyway they are recommending 3 and I wanted you both to know about it and be working on it.

Hadley: All right.

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

Haas: Yes, right away.

February 20, 1941

D. W. Bell

Secretary Morgenthau

I would like to have before my 10:30 press conference today the following information:

If we borrow a billion dollars in new money today, what percentage of it can I say would go for national defense?

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 20, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

Mr. Livesey telephoned me at 11:30 this morning in regard to the memorandum dated February 19 with respect to Hungarian accounts in New York, a copy whereof had been given to Mr. Livesey. After talking with Mr. Livesey, I spoke by telephone with Mr. Knoke who confirmed our opinion that the transaction made by the Central Corporation of Banking Companies of Budapest in the sum of \$370,871 suggested a movement of Hungarian funds out of this country. Mr. Knoke promised to have a special study made of Hungarian balances and to give me the result thereof. He volunteered the information that he had already instructed his people to draw up a memorandum on Greek, Bulgarian and Yugoslavian balances and offered to send me a copy of this study as soon as it is finished.



February 20, 1941
12:35 p.m.

Mrs.
Klotz: Hello, Henry.

Henry, III: How are you?

K: I'm fine, thank you, and how are you?

H: I'm fine.

K: Good.

H: I called you because I wanted to find out about my automobile insurance, because I had a little accident today.

K: Oh!

H: As you know it's snowing very hard out here and I had a collision.

K: Oh, my! You weren't hurt?

H: No, I wasn't hurt at all and the other people weren't hurt. He had a slight cut, but you know it was very icy and we were both coming very slow and the cars were banged up a little bit but there was no serious damage.

K: I see.

H: I've looked and I have absolutely no record of anything at all.

K: You mean of any insurance.

H: Yeah.

K: No, I have it here I think, Henry. I don't know. I mean, I know we were carrying it

H: Oh, I know that because you spoke to me about renewing it.

K: Well, we did. I mean, you're covered.

H: I wasn't worried about that but I thought that I had to report it right away.

- 2 -

K: Yes, you do and you see I'll have to report it for you. Now give me some more of the details because I know that's what they'll want. When did it happen?

H: It happened at 11:25 Central time.

K: Today.

H: Yes.

K: And you were riding alone in your car?

H: Yes. It is reported at the Shaker Heights Police Station.

K: At the what?

H: Shaker Heights Police Station.

K: Shaker Heights.

H: They have the complete record.

K: That's Cleveland.

H: Shaker Heights, Cleveland.

K: All right. Well, I think that's

H: Well, I think I had better give you a little more. I asked the Chester Body Company

K: What?

H: Chester, like in Chesterfield, to take my car away and repair it.

K: I see. Well, I don't think that they care much who is doing the repairing. I tell you, Henry, I don't know what questions they may ask and I think that there are forms to be filled out and all that business. I'll report it to the broker when I know better what he wants, then I'll let you know.

H: You don't know what insurance company it is?

K: No, off hand I don't know.

- 3 -

H: Yeah, but they probably have an agent here in Cleveland.

K: Well, that's what they'll probably do but I'll have them communicate with you at once.

H: You have my telephone number and address and everything?

K: Yes, of course.

H: I'll give you my two telephone numbers in case they want to call me. Maine 8231

K: Maine 8231.

H: during the day.

K: That's the office.

H: Yes, and Fairmount 8166.

K: And home, Fairmount 8166. All right, Henry. I'll report it and then I'll let you know just what the next step is. Did you do much injury to the other car?

H: He ran into me - the front of his car was damaged.

K: I see.

H: The front of his car was smashed up, the radiator, I think, was broken and my car was hit on the side, on the right side, and I think the transmission was smashed. The car had to be removed from the accident.

K: I see, and you weren't hurt at all?

H: Not the slightest.

K: Oh, that's marvelous. Well, that's all that really mattered.

H: The man in the other car got a slight cut on his head, but there was nothing at all - he's gone to the hospital though so it will all be reported in the regular fashion.

- 4 -

K: Well, they make big things out of these little ones, you know.

H: Well, it will all be reported.

K: Well, you know how I've always^{felt} about - I mean, so finicky about the insurance, and it's just for things like this.

H: I know you have. I've never had an accident before but you never can tell and in this weather if you drive at all, it is almost impossible not to have one.

K: Well, Henry, don't worry about it. I'll call the broker immediately and report it from this end and I guess that they - I'll let you know just what the next steps are.

H: You needn't say anything to Daddy at all unless you want to or if you have to.

K: Well, he knows you called.

H: He does.

K: Yeah.

H: Well, you can tell him that there isn't anything in it at all. I think that would be better.

K: Yeah.

H: Well, then I won't speak to him now

K: No, he's downstairs resting but he knew that you were calling me.

H: Yes.

K: All right, Henry, don't worry about it. I'll look after it.

H: Right-o.

K: Henry, look, would you be good enough as long as I have you on the phone to let me know what your income was?

- 5 -

H: Oh, I sent that to Mr. Martin.

K: Oh, you did.

H: I got something from the people out here;
I got them to fill out a thing so it is all
official.

K: Oh, that's grand!

H: I sent it to him quite a little while ago
I think.

K: Oh, well that's good. Well, I didn't know.
You see I've been away for a couple of weeks
and I just got back.

H: Have you been sick?

K: No, I was out West with Elinor.

H: How is she?

K: Oh, she's fine. We're simply thrilled to
death.

H: Oh, that's fine. She really likes school
now.

K: Oh, she likes the school and she is feeling
so well and looks so well and it's just the
perfect place for her.

H: Well, that's fine.

K: We're awfully happy. Thank you for asking
about her.

H: One other thing, as long as I have you on
the phone. I have some traveling money, you
know that I usually report, that I haven't
reported for quite some time. It's about
\$110 for traveling back and forth between here
and Washington.

K: Oh, you mean that your father owes you. \$110.

H: Yes, \$110.

- 6 -

K: All right.

H: So you can send me a check.

K: Surely.

H: Well, then I'll hear from you.

K: Right. You'll hear from me, Henry.

H: Or from the agent.

K: Or from the agent - from one of us. You can count on it. O. K. I'm so happy that nothing more serious happened.

H: Well, it was all right.

K: Right.

H: Thank you.

K: Good-bye.

H: Good-bye.

February 20, 1941

Files

Mr. Cushman

*HMC reported
this orally
to the Sec'y
of the
H.C.*

After Mr. Dietrich brought to my attention a shipment by Railway Express, due to arrive on February 20, of \$20,000,000 of gold from Ottawa to the Federal Reserve Bank of New York, for sale to the New York Agency Office for account of His Britannic Majesty's Government, I inquired of Mr. Flayfair whether this shipment might represent gold from the earmarked account of France, for which gold in South Africa had been swapped. Mr. Flayfair called me back to let me know that this gold was not gold of French origin against which South African gold had been swapped, but came principally from Australia. That is, the British had been able to assemble enough gold of their own in Canada to make up this \$20,000,000 shipment.

When Mr. Vincent called on me this noon, I asked him the same question in regard to this Ottawa gold shipment. He was not aware of the inquiry which I had made of Flayfair. Vincent's immediate answer was that this must be swapped gold, but asked me to look into it further when I let him know what Flayfair had thought of the transaction.

A. M. J.

FOR MR. CHAMBERLAIN

FEB 20 1941

My dear Mr. Secretary:

There is referred to you herewith for your consideration a transaction involving materials in this country owned by the Government of Rumania, relative to which two applications are now pending before the Treasury Department.

Enclosed herewith is a memorandum summarizing the transaction set forth in application No. NY 98569 filed by the Standard Oil Company of New Jersey and application No. NY 103328 filed by Secor Vacuum Oil Company, Inc.

It will be appreciated if this Department is advised as promptly as possible of your views with respect to the transaction set forth in such memorandum as the Advisory Commission to the Council of National Defense has indicated its interest in this matter.

Very truly yours,

(Signed) R. W. WELLS

Acting Secretary of the Treasury.

The Honorable,

The Secretary of State.

Enclosure

BLT:mgb 2/14/41

MEMORANDUM

Application Nos. NY 98369 and NY 103328 are pending which seek licenses to permit the Standard Oil Company of New Jersey to sell as brokers on behalf of the Rumanian Government a varied assortment of war materials now in the United States which have been bought and paid for by the Rumanian Government for the use of its army and air force. This miscellaneous material, consisting chiefly of airplane parts and strategic metals, is loaded on a Rumanian vessel, the SS "Mangalia", presently tied up at Brooklyn, New York; in addition there are 400 Ford trucks and trailers at Chester, Pennsylvania. Upon completion of the sale it is proposed that the proceeds would be divided between the Standard Oil Company of New Jersey and the Secony Vacuum Oil Company, Inc. and applied by them to accounts receivable due or anticipated from their respective Rumanian subsidiaries, such amounts receivable having arisen from equipment supplied to such subsidiaries by the two parent companies. It is not indicated in the applications under reference in what proportion the proceeds of the proposed sale would be divided between the two companies. The Rumanian Government would be reimbursed in lei through payments by the above mentioned Rumanian subsidiaries from credit balances now on deposit in Rumanian banks and from collections which such subsidiaries expect to make in the future. The value of the war materials and trucks is estimated at between \$2,000,000 and \$3,000,000.

TO THE SECRETARY
TECHNICAL ASSISTANT
OFFICE OF THE

APR 1951 PM 2 51

RECEIVED
DEPARTMENT

FEDERAL RESERVE BANK
OF NEW YORK

VICE CORRESPONDENCE

CONFIDENTIAL

Date February 20, 1941.

To Mr. Knoke
From W. H. RoxellSubject: Hungarian Gold and Dollar
Resources

(Copies to Messrs. Sproul, Rounds, Williams, Roelse (Sanford), McKeon (Cameron)).

Supplementing the data contained in yesterday's memorandum on the gold and dollar resources of Bulgaria, Yugoslavia, and Turkey, the table below gives available data on Hungarian holdings. The gold reserves of Hungary were last reported at \$24,500,000, none of which, however, was under earmark in this country and, therefore, subject to Treasury control in the event of a "freezing" of Hungarian accounts in the United States. Such action, in fact, would probably not affect more than \$5,000,000. Hungarian deposits in the Second District were reported at only \$3,100,000, as of December 31, 1940, and long term investments have been estimated by the Department of Commerce at only \$400,000 for the end of 1939.

United States investments in Hungary, on the other hand, would appear to amount to over \$50,000,000, or at least 10 times Hungary's short and long term investments here. Our estimated investments at the end of 1939 consisted largely of \$42,800,000 of bonds payable in dollars, all but \$7,800,000 of which were government or government-guaranteed obligations. In addition, Americans had an estimated \$9,300,000 invested in Hungarian business enterprises.

COPY

- 2 -

ESTIMATED HOLDINGS OF GOLD AND AMERICAN ASSETS OF HUNGARY

(In Millions of Dollars)

Gold

Earmarked at F. R. Bank

Elsewhere

Total (Dec. 15)

-
<u>24.5</u>
24.5

Dollar Balances in Second District

Official at F. R. Bank

Other

Total (Dec. 31)

(a)
<u>3.1</u>
3.1

Long Term Investments (End of 1939)

0.4

Total Gold and Dollar Assets

28.0

Estimated Holdings in U. S.
(Excluding gold elsewhere)

3.5

(a) Less than \$100,000. The same, currently.

ESTIMATED UNITED STATES INVESTMENTS IN HUNGARY
As of End of 1939

(In Millions of Dollars)

Estimated Holdings of Dollar Bonds

42.8

Direct investments

9.3

Total (a)

52.1

(a) Exclusive of short term assets, figures on which are not available,
but probably small.

WHR:EC

C O P Y

February 20, 1941

Mr. Felt

Mr. Jackson

Will you kindly send a cablegram along the following lines:

"American Embassy.

Rio de Janeiro.

Referring to your No. 96, February 13, 3 p.m., the Treasury Department states that you may advise the Bank of Brazil that B.I.S. is a national within the meaning of Executive Order No. 8789 of April 10, 1940, as amended, regulating foreign exchange transactions, etc. Accordingly, before B.I.S. could transfer any of its gold in New York to the Bank of Brazil it would be necessary to obtain from the United States Treasury a license under such Executive Order and also a license under the Gold Reserve Act of 1934 permitting such a transfer. Whether or not such licenses will be granted will depend upon the full facts and circumstances of the case as described in applications which would have to be filed with the Treasury on behalf of the B.I.S."



ENC:lap-2/20/41

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 20, 1941.

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

The Federal Reserve Bank of New York reported the following transactions in which Hungarian accounts are involved.

Guaranty Trust Company of New York

<u>Date</u>	<u>Account Debited</u>	<u>Amount Debited</u>	<u>Paid To</u>
February 19	Central Corporation of Banking Companies, Budapest	\$40,000	Chase National Bank of the City of N.Y. for account of Reichsbank, Berlin, in favor of Reichspostzentralamt Auslandsabrechnungen, Berlin, by order of Royal Hungarian General Direction of Posts, Budapest

Chase National Bank

<u>Date</u>	<u>Account Credited</u>	<u>Amount Credited</u>	<u>Received From</u>
February 19	Reichsbank, Berlin, in favor of Reichspostzentralamt Auslandsabrechnungen, Berlin	\$40,000	Guaranty Trust Company of N.Y. by order of Royal Hungarian General Direction of Posts, Budapest, by order of Central Corporation of Banking Companies, Budapest



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 20, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£88,000
Purchased from commercial concerns	£11,000

Open market sterling remained at 4.03 up to about noontime. It then moved down to 4.02-3/4 and stayed at that level for the remainder of the day. There were no transactions by the reporting banks.

In Shanghai the U. S. dollar moved lower against both the Chinese yuan and sterling. The yuan was quoted at 5-11/16¢, up 1/32¢, and for sterling it was 3.93-1/2, up 1-1/4¢. In Hong Kong sterling was 3.92, off 2¢.

Closing quotations for the other currencies were as follows:

Canadian dollar	15-1/4% discount
Swiss franc (commercial)	.2323-1/2
Swedish krona	.2385-1/2
Reichsmark	.4005
Lira	.0505
Argentine peso (free)	.2370
Brazilian milreis (free)	.0505
Mexican peso	.2066
Cuban peso	7% discount

There were no purchases or sales of gold consummated by us today.

The Federal Reserve Bank of New York reported the shipment of gold valued at \$5,600,000 from Vladivostok to the Chase National Bank, San Francisco, for account of the State Bank of the U.S.S.R. This gold will be sold to the U. S. Mint in that city.

The Treasury issued licenses under both the Gold Reserve Act and Executive Order No. 8389 as amended, permitting the Federal Reserve Bank of New York to effect the following transfers of gold in its vaults:

\$1,120,000 from the National Bank of Denmark's account to B.I.S. account No. 2, and a like amount from B.I.S. account No. 2 to the account of the Swiss National Bank, Berne.

The above operation represents a purchase of gold by the B.I.S. from the Danish Bank and a sale of the same amount of gold by the B.I.S. to the Swiss National Bank, Berne. Payment will be made in dollars on the books of the Federal Reserve Bank of New York.

- 2 -

In London, the price for spot silver was unchanged at 23-3/8d and forward silver was off 1/16d, at 23-5/16d. The U. S. equivalents of these prices are 42.44¢ and 42.33¢ respectively.

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 two purchases of silver amounting to 125,000 ounces under the Silver Purchase Act. This silver consisted of new production from foreign countries, for forward delivery.



CONFIDENTIAL

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 20, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

I called Mr. Gifford at 3:20 this afternoon and thanked him for the information which he had sent us by airmail in regard to British official holdings of U. S. Government securities. I asked Mr. Gifford if he wanted to take advantage of the offer which we made yesterday of providing him with a customer for such American Government securities as he may have immediately available for sale. Mr. Gifford replied in the negative. He said that of the U. S. Government securities which he had immediately on hand there were only \$130,000 worth which he was not committed to sell to British insurance trust funds, and that he had succeeded in disposing of this \$130,000 worth this morning. Since this item had been so small, he had not cared to bother us with it.

Mr. Gifford was quite struck by today's turn in the security market and said this again confirmed his belief that it is always foolish to make market predictions.



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 20, 1941

TO Secretary of the Treasury

FROM Mr. Foley

fel

Pinsent was in today and left the attached papers with me. The proposition, to which my initial reaction was unfavorable, is as follows:

The Anglo-Palestine Bank, Ltd., a commercial bank operating primarily in Palestine, is desirous of improving its liquidity; the Palestine Foundation Fund, Ltd., a British organization carrying on Jewish colonization work in Palestine and supported by contributions of Jewish people, is desirous of raising funds for its work.

In order to carry out the above purposes, it is proposed that the Palestine Foundation Fund, Inc., the American subsidiary of the Palestine Foundation Fund, Ltd., borrow a maximum of about \$8,000,000. There is apparently some desire to borrow this money from the Export-Import Bank. The \$8,000,000 will be used as follows:

- (a) To purchase from the Anglo-Palestine Bank £750,000 of shares and debentures in various Palestine enterprises owned by the Palestine Bank and also to purchase £250,000 in new shares to be issued by the Anglo-Palestine Bank; thereby increasing the liquidity of the bank by £1,000,000.
- (b) To pay off a loan of £450,000 owed by the Palestine Fund, Ltd., to Lloyd's Bank of London, thereby giving the Palestine Fund, Inc., the lien now held by Lloyd's on the collections and assets of Palestine Fund, Ltd.

- 2 -

- (c) To extend a revolving credit not to exceed \$2,000,000 to the Palestine Fund, Ltd., for its activities in Palestine.

The \$8,000,000 borrowed by the Palestine Fund, Inc., would be secured by all of the aforementioned assets acquired by the Palestine Fund, Inc., and a floating charge on the present and future collections of the Palestine Fund both in the United States and elsewhere in the world.

In accordance with an understanding arrived at with the Bank of England, the dollar equivalent of all sums which become payable to Anglo-Palestine Bank and to Lloyd's Bank will be turned over to the British Treasury which will provide these two institutions with the sterling equivalent. Furthermore, the British Treasury will be asked to agree to the unrestricted transfer into dollars of all interest and dividends to be received on the assets pledged under the American loan contract.

Although the proposition here involved is somewhat different from the first situation presented by the British, namely, borrowing money against the security of American shares, I believe that this is not a propitious time to encourage any type of loan the effect of which is to give dollars to the British Government.

Do you agree?

E. W. F. H.

G. K. H. M. R.
By order of Foley

TO:

25

~~STRICTLY CONFIDENTIAL~~

March 4, 1941

Mr. Foley called Mr. Pinsent today and advised him that the Secretary approved Mr. Foley's memo to the effect that this is not a propitious time to encourage any type of loan the effect of which is to give dollars to the British Government.

Mr. Pinsent requested the return of material. (Returned 3-5-41 - 5 photostatic copies were made and sent to: Miss Chauncey,
v Gerntstein
Cochran, White, Pehle,)

MR. FOLEY

Loans: Etouh

420/1/41



The SHOREHAM

Washington D.C.

27 January 1941

Dear Sir,

re Anglo-Palestine Bank Ltd

I am a British subject, a member of the Bar (Gray's Inn) and a Director of the Anglo-Palestine Bank Ltd in London; I am in a position to satisfy you that I am personally known to the Rt. Hon. Montagu Norman Governor of the Bank of England.-

I have come to this country with the approval of the Bank of England for the purpose of ascertaining whether it would be possible for me with the help of associated Zionist controlled Institutions to raise dollar funds to increase the liquid resources of my Bank.-

The enclosed Memorandum outlines the nature of the transactions which I have in contemplation; these transactions come under the Defence Finance Regulations and would normally not be permitted; - however by a letter dated the 9 August 1940 the Bank of England informed me that there would be no objection raised if the dollars thus obtained will be offered to H.M. Treasury.-

I am now advised by competent friends that I may have a good chance to succeed in my endeavours if my proposition is brought before the Ex-Import Bank owing to some specific features of the proposition and before doing this I would like to know whether I can count on support from H.M.Embassy.-

I shall be grateful if you will give ^{me} the opportunity of discussing the matter with you after you have read my Memorandum.-

I am, dear Sir,

Yours faithfully

L. Istoric
L. Istoric

R. Opie Esq.
First Secretary
British Embassy
Washington.

P.S. Kindly note that on pp5-6 you will find the actual construction of the proposition, -the rest is explanatory.-

Bank of England
9th August 1940

Dear Mr. Istorik,

In Mr Kershaw's absence I am replying to your letter of the 26th July
I am sorry there has been some delay.-

The position of your Bank under the Defence(Finance)Regulations with re-
gard to the raising of additional resources outside the sterling area may be
defined as follows:

A corporation resident/~~in~~ⁱⁿthe United Kingdom may not without permis-
sion of the Treasury-

- a) acknowledge a debt in the form of a loan in favour of a non-resident,
- b) sell, deliver or transfer its shares to a non-resident,
- c) increase the share capital.

A bank, of course, is fully entitled to accept deposits from any customer,
subject to such regulations as may exist affecting financial relations with the
country of the customer concerned.-

In the circumstances it would perhaps be better for you to obtain a con-
crete proposition from your friends in U.S.A. and to put this before ^{the} Foreign
Exchange Control as regards items a) and b) above, and the Capital Issues Com-
mittee as regards item c), rather than attempt to obtain answers to hypothetical
questions. I do not think that in this case objections are likely to be raised
should you find it possible to increase the capital of your Bank through the
medium of dollar funds raised among your friends in the U.S.A. Such funds would
of course, have to be offered for sale to the Treasury.-

Yours sincerely

J. Fisher

L. Istorik Esq.

MEMORANDUM RE:

THE ANGLO-PALESTINE BANK, LIMITED
LONDON, ENGLAND

The Anglo-Palestine Bank, Limited, is an English company formed in the year 1902 in London. It is a commercial bank, operating in London and in Palestine where it has its headquarters and ten branches.

Attached hereto you will find a copy of the bank's last published annual report with balance sheet as of December 31, 1939.

You will note that the paid up share capital is £860,854 and the reserve fund £218,843.

The Jewish Colonial Trust, Ltd. of London, a holding company, owns substantially all of the 300,854 ordinary shares of £1 par value. In addition, there are outstanding 250,000 preference shares of £1 par value which were issued at par to Messrs. Benson & Co., Ltd. of London in 1935. The 310,000 ordinary "A" shares of £1 par value outstanding in addition to the above were issued in 1936 to the Jewish Colonial Trust Ltd. of London (100,000 shares as a stock bonus). Subsequently, Messrs. Benson & Co., Ltd. purchased all of the ordinary "A" shares at £1/15/0 per share and placed them at £1/17/6 with institutions such as Lloyd's Bank Limited, Prudential Assurance, Pearl Assurance, Equity & Law Life Assurance Society, Gresham Life Assurance and other insurance and investment companies which also own most of the preference shares.

The Anglo-Palestine Bank holds a controlling interest in the General Bank of Palestine, which grants credit against urban property only. The share capital of the Mortgage Bank is £475,000 and debentures of the bank in circulation total £2,437,000.

Palestine has shown general satisfactory progress since 1920, and the Anglo-Palestine Bank has naturally played a very important part in the economic development of that country. It has rendered very appreciable help to commerce and industry. This explains why, among the assets of the Anglo-Palestine Bank, are such as controlling interest in the share capital of the General Mortgage Bank of Palestine and an appreciable number of shares in the Palestine Electric Corporation, which is the largest industrial undertaking in Palestine, providing light and power and operating under government concession. The controlling share interest of that company is held by the British Mandate Administration, the

Anglo-Palestine Bank, and, partly, by the General Electric Company of London. Each of these three companies hold their shares independently, the control being maintained by tacit understanding.

The total amount of shares and debentures now owned by the Anglo-Palestine Bank in the General Mortgage Bank of Palestine, the Palestine Electric Corporation, the Palestine Potash Company, Ltd. (the Dead Sea concession), the Bizur Corporation (the public utility finance corporation), and the Anglo Palestine Trust Company represents a capital investment of approximately £750,000.

When the present war broke out, the uncertainty of Italy's part in the war caused some economic and psychological upheaval in the country, which resulted in heavy withdrawals of deposits at the beginning of September, 1939, when the Anglo-Palestine Bank paid out over £2,000,000 to depositors; but soon afterwards the entire amount was brought back by the depositors. You will note from the attached balance sheet that the bank's deposits as of December 31, 1939 were £7,560,775, only about £65,000 below the high record of deposits in the bank's history, reached during 1936.

Liquidity in the form of cash in hand and at banks and in securities of the British Government totalled £3,410,437 as of the same date, or approximately 45%.

In June, 1940, when Italy entered the war, a second heavy withdrawal of deposits occurred, causing a shrinkage in liquidity to £1,250,000, at which level this remained for a few months only. Since September, deposits started to return and, according to the latest cabled information from Palestine, the preliminary balance sheet will show total deposits and other creditor accounts at the end of 1940 of approximately £7,600,000, with liquid funds of approximately £3,300,000 -- all represented by cash in hand and in banks -- a liquidity of about 43%.

The recent successes of the British armies in Libya have restored the feeling of security to Palestine. However, the fortunes of war are changeable, and, as long as the war continues, the directors of the bank consider it their duty to improve further the bank's liquidity.

This they would wish to achieve either by increasing the bank's capital or by selling some of the bank's holdings in various enterprises in Palestine--such as the debentures and shares of the General Mortgage Bank of Palestine, shares of the Palestine Electric Corporation and of the Palestine Potash Company. However good the value of these assets may be intrinsically, their lack of marketability in time of emergency has led the directors to consider their sale.

The British defense finance regulations prohibit increase of capital and sale of assets, but the Bank of England, by a letter dated August 9, 1940 addressed to me as director of the Anglo-Palestine Bank, has indicated that no objections would be raised if transactions in either of these forms are handled in the United States and the dollar proceeds of such transactions are turned over to H.M. Treasury, which the Anglo-Palestine Bank would be asked to do.

The purpose of my present visit to New York is to ascertain whether it would be possible to work out a transaction between one or more American banking institutions and the Anglo-Palestine Bank which would be acceptable to both the British and American authorities and serve the purpose in mind.

This necessitates my bringing in the Palestine Foundation Fund, Limited, an English company formed in 1920 by the Zionist Organization for the purpose of carrying on the Jewish colonization work in Palestine under the supervision of the Jewish Agency for Palestine, (a consulting body created by mandate of the League of Nations). The Palestine Foundation Fund, Ltd., is, in fact, the financial instrument of the Jewish Agency for Palestine and consists of various committees. It has subsidiaries in every country and receives contributions--voluntary, not compulsory--from Jews in every country.

The funds of the Palestine Foundation Fund, Ltd. are used for various purposes--in the same manner as funds of a government are used for government purposes.

It is essential to state that, under the British Government's administration of Palestine under the mandate from

the League of Nations, it is predominantly Jewish money that is employed in the unbuilding of Palestine, and this money finds its way to Palestine through various channels -- private or public. Private individuals invest money in private enterprises while public money collected as contribution finds its way to Palestine through the Palestine Foundation Fund, Ltd. and through the Jewish National Fund, Ltd.

The latter Fund also collects money through its subsidiaries all over the world but uses this money for land purchases only, and the Jewish National Fund, Ltd. is the overlord of all land acquired with public funds and leases the land to settlers on long term leases.

The Palestine Foundation Fund, Ltd. has taken an active part in the creation of various public utility and industrial undertakings in the country, and it therefore holds assets of various descriptions--such as land and shares in industrial and public utility enterprises--but the main assets of this company consists of contracts with the settlers whose colonizing work is being financed by the Foundation's funds.

In 1934, Lloyd's Bank Limited of London granted a 15-year loan to the Palestine Foundation Fund, Ltd. in the amount of £500,000 at 4-1/5%, receiving as security a floating charge on all the assets and collections of the Fund.

In 1937, Lloyd's Bank granted an additional short term loan of £250,000, the Anglo-Palestine Bank participating in both loans to the extent of 10%.

At present, the total outstanding balance of both loans is about £450,000, the Anglo-Palestine Bank having been repaid its share in the short term loan but still participating proportionately in the first loan.

The account of the Foundation Fund with Lloyd's Bank is a perfectly satisfactory one and the bank is happy to carry the original 1934 contract until its maturity in 1949 and has expressed willingness to carry the short term loan until after the war, inasmuch as the remaining balance of both loans has now been reduced to below the amount of the original credit.

The subsidiary of the Palestine Foundation Fund, Ltd. in the United States is called "Palestine Foundation Fund, Inc." and is an American legal entity. The funds collected in the United States for the Palestine Foundation Fund in the last ten years were as follows:

1931	-	\$588,892	1936	-	\$628,197
1932	-	491,560	1937	-	822,680
1933	-	437,807	1938	-	1,095,050
1934	-	793,996	1939	-	2,012,187
1935	-	626,773	1940	-	808,383

Since the Palestine Foundation Fund, Ltd., like the Jewish National Fund and the Jewish Colonial Trust, is under the control of the Zionists organization and has an absolute interest in the economic stability of Palestine (in fact, it has no interest whatever outside Palestine), it would be only natural for the Palestine Foundation Fund and/or the Jewish National Fund, separately or together, to help to provide those liquid means that the Anglo-Palestine Bank, Ltd. has invested in the above mentioned enterprises (General Mortgage Bank of Palestine, Palestine Electric Corporation, Palestine Railway Company, etc.) until such time when market conditions, both in the United States and in Great Britain, will make it possible to dispose of these securities to private investors.

However, neither of these two funds is in possession of the necessary liquidity, and, in any case, they are English companies situated in Palestine and/or London.

It is therefore suggested that the Palestine Foundation Fund, Inc., the American organization, shall pay Lloyds Bank the remaining £450,000 due from the Palestine Foundation Fund, Ltd., so as to liberate the lien now existing in favor of Lloyds Bank on the consolidated collections and assets of the Palestine Foundation Fund, Ltd. In order to do so, the Palestine Foundation Fund, Inc. must raise a loan of roughly \$1,200,000. In addition, the Palestine Foundation Fund, Inc. shall buy from the Anglo-Palestine Bank the investments referred to in the first paragraph of page two for a total amount of £750,000 and

£250,000 worth of the Anglo-Palestine Bank, by £1,000,000. Finally, the Palestine Foundation Fund, Inc., on the strength of its having acquired substantially all the assets of the Palestine Foundation Fund, Ltd. now pledged with Lloyds Bank (originally acquired at a cost of not less than \$3,000,000), should be placed in a position to extend a revolving credit not to exceed \$2,000,000 to the Palestine Foundation Fund, Ltd. should it need funds to carry on its activities in Palestine during the life of the loan contract. To do all this, the Palestine Foundation Fund, Inc. would have to borrow a maximum of about \$8,000,000 under a loan contract to be secured by a lien on all the debentures and shares to be acquired from the Palestine Foundation Fund, Ltd. and from the Anglo-Palestine Bank and further by a floating charge on the present and future collections of the Fund in the United States and elsewhere.

In accordance with the understanding arrived at with the Bank of England, the dollar equivalent of all sums that will thus become payable to the Anglo-Palestine Bank and to Lloyds Bank will be handed over to H.M. Treasury in London which will, in turn, provide these two institutions with the sterling equivalent. In turn, H.M. Treasury will be asked to agree to the unrestricted transfer into dollars of all interest and dividends to be received on the assets pledged under the American loan contract.

There is no doubt in my mind (and I am supported in my viewpoint by a number of eminent Jews in your country) that American Jews will continue to contribute to the Palestine cause as liberally as they have shown willingness to do in previous years. Furthermore, it must be borne in mind that, for several generations, Jews in all parts of the world have invested some hundred million pounds in Palestine, about half of which amount was invested during the past twenty years. It is recognized that the Anglo-Palestine Bank is an important artery within the circulation of all business enterprise resulting from these investments and, as such, renders a service which must be continued at all cost in the interests of all concerned.

34

MO Cox received this from Mr. McCloy on
February 20th.

EXECUTIVE ORDER

PROVISIONS FOR THE ADMINISTRATION OF THE ACT
ENTITLED "AN ACT FURTHER TO PROMOTE THE
DEFENSE OF THE UNITED STATES AND
FOR OTHER PURPOSES."

Under and by virtue of the authority vested in me by the Act of Congress entitled "AN ACT Further to promote the defense of the United States, and for other purposes," approved March , 1941, and as President of the United States, it is hereby ordered as follows:

(1) Subject to general supervision and control by the President, the provisions of the foregoing Act shall be administered by an agency to be known as the "Administration for Immediate Defense" which shall consist of the Secretary of State, the Secretary of the Treasury, the Secretary of War, the Secretary of the Navy, an Executive Secretary and appropriate staff.

(2) Whenever the Agency, under the direction of the President, shall determine that any action authorized by the Act of March , 1941, is in the interest of national defense it shall take such steps as may be necessary to carry such determination into effect in the manner prescribed by the Act.

(3) Within the limits of such funds as may be allocated to it by the President on the recommendation of the Bureau of the Budget, the Agency may employ necessary personnel and make provision for the necessary supplies, facilities and services. All departments and agencies of the government shall make available for the use of the Agency statistical, informational, fiscal and other general business services and facilities.

(4) The Agency may promulgate such rules and regulations as may be needed to implement this Executive Order.

February 20, 1941

My dear Mr. President:

When I lunched with you on February 10th, I submitted a memorandum, photostatic copy of which you will find attached to this letter.

You approved the form which the Appropriation measure would take when we met with you on February 17th.

I am now submitting to you, for your consideration, a proposed Executive Order to make effective the Lend-Lease Bill. I have not shown this to anybody as I was not sure whether you wanted me to do this or not. If you would like me to clear this with the various individuals concerned, I will be glad to do so. However, I will do nothing further until I hear from you.

Yours sincerely,

The President,
The White House.

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Yours sincerely,

The President,
The White House.

j) The kind and extent of testing, inspecting, proving, repairing, outfitting, reconditioning, or otherwise putting into good working order, of defense articles which it would be in the interests of our defense to do for such foreign countries.

k) The kind of defense information which can and should be communicated to any such foreign country in the interests of our defense.

l) The conditions under which any foreign country can transfer to anyone else any defense article or information disposed of to it under the Act.

m) The terms and conditions upon which material aid should be supplied to such foreign countries, and the benefit or benefits which the United States should receive for the supplying of such aid.

n) The information of the operations under the Act of March , 1941, which it would be in the public interest to report to the Congress.

e) The method or methods for protecting the rights of citizens of the United States in defense articles or defense information disposed of to any such foreign country.

p) The circumstances under which and when it would be necessary in the interests of our national defense to purchase or otherwise acquire arms, ammunition and implements of war from a foreign country whose defense is determined to be vital to our defense.

q) The revisions which the Board deems necessary or desirable in this Executive Order.

r) The amendments to the Act of March , 1941, or the additional legislation, which the Board deems necessary or desirable more effectively to supply material aid to such foreign governments in the interests of our own defense.

s) The other basic matters necessary or desirable to effectuate the purposes of the Act of March , 1941.

- 3 -

3. Each member of the Board may assign from the staff of the department or agency of which he is the head the kind and number of persons which he deems it necessary adequately to assist him in his capacity as a member of the Board.

4. The Board is empowered to employ the kind and number of persons which it considers necessary to assist it efficiently to execute the duties and responsibilities imposed on it by this Order.

5. Each member of the Board may designate, from the department or agency of which he is the head, an alternate to act for him on the Board when he deems it desirable to do so.

6. The Board is empowered to consult with and receive the advice of the Chief of Staff of the Army, the Chief of Naval Operations of the Navy, and, with the consent of the head of the department or agency concerned, any other officer or employee of the Government, whose advice the Board deems desirable to carry out its functions under this Order.

- 7 -

II.

Administration

1. The chief administrative officer of the Board (hereinafter called the Secretary) shall be a person appointed by the President, with the advice of the Board, and may be a person detailed from any of the departments or agencies of the Government.

2. In accordance with the policies formulated by the Board, the Secretary shall:

a) Receive the requests of the foreign countries for assistance or act as the liaison between the Board and the department or agency of the Government designated by the Board to receive the foreign request or requests.

b) Collaborate with or act as the liaison for the representatives of the department or agency concerned and the representatives of the foreign country concerned in standardizing specifications for defense articles, and in disposing of the other administrative problems involved.

EXECUTIVE ORDER

Providing for An All-Inclusive Defense
Policy Board, the Administration and
the Rules and Regulations to Carry Out
the Act of March , 1941, "An Act to
Promote the Defense of the United States."

By virtue of the authority vested in me by section 9 of the Act of March , 1941 (Public No. , 77th Cong.), by the Constitution of the United States and otherwise, it is hereby ordered as follows:

I.

The All-Inclusive Defense Policy Board

1. There is hereby established an All-Inclusive Defense Policy Board (hereinafter referred to as the Board). It shall consist of the Secretary of War, the Secretary of the Navy, the Secretary of State, and the Secretary of the Treasury. The Board shall elect a chairman from one of its five permanent members. From time to time, the Board can, when problems arise concerning a particular department or agency, add as a temporary member the head of such department or agency.

- 2 -

2. From time to time, the Board shall formulate the policy and make recommendations to the President on:

a) The foreign countries which should receive material aid because their defense is vital to ours.

b) The method or methods for best ascertaining the needs of such foreign countries for material aid.

c) The nature and extent to which such aid is intended to be given to such foreign countries.

d) The plant expansion, procurement and other operations which are necessary, in the interests of our own defense, effectively to supply our own direct defense needs and the defense needs of such foreign countries in the requisite time.

e) The appropriations which should be requested to manufacture, procure and repair defense articles and otherwise to carry out the purposes of the Act of March , 1941.

- 3 -

f) The method or methods of handling the allocation of appropriations which may be made to the President to carry out the purposes of the Act.

g) The results of the Board's determinations, after consultation with the Chief of Staff of the Army, the Chief of Naval Operations of the Navy, or both, of what existing defense articles and defense information of the Government can and should be transferred, in the interests of our own defense, to those foreign nations whose defense is determined to be vital to ours.

h) The method or methods to be used in evaluating existing defense articles or defense information disposed of to any such foreign government.

i) The allocation or distribution which should be made of newly produced defense articles as between the United States and each foreign country whose defense is determined to be vital to our defense.

- 8 -

c) After consultation with the department or agency concerned, present to the Board, with his recommendations the requests of the foreign countries for material aid.

d) Determine the value of any defense article or defense information disposed of to any such foreign country and execute a valuation certificate therefor.

e) Keep records of the dollar value of existing defense articles disposed of and check the observance of the limitation in the Act on the value of existing defense articles disposed of under the Act.

f) Prepare the necessary agreements with the foreign country concerned, clear them with the departments or agencies concerned and sign them on behalf of the Government.

g) File with the Department of the Treasury all agreements and all collateral or security that is received under the Act.

- 9 -

h) Receive the necessary information from the department or agency concerned and prepare the reports under the Act required to be submitted to the Congress and the Administrator of Export Control.

i) Prepare and keep all of the records required under the Act or necessary to show clearly all of the operations under the Act.

j) Act as a central clearing house of information about the administration of the Act.

k) Perform such other administrative duties which may be necessary to carry out the purposes of the Act or which the Board deems desirable to assign to him to carry out the Act.

III.

General

1. When a request is sent by the Secretary to any department or agency, as a source of supply, such department or agency will state with its recommendation:

- 10 -

a) The extent to and the manner in which the requested aid should be granted.

b) What defense articles are immediately available for transfer to foreign countries whose defense is vital to ours.

c) What defense articles are on order and will be available in the future.

d) What defense articles will require additional contracts and against which appropriation or appropriations they can or should be placed.

e) What additional plant, machinery, tools or facilities are necessary adequately to meet the request of the foreign country for aid in the requisite time.

f) What factors should be considered in arriving at the value of such defense articles.

g) Any other information or data requested and deemed by the Secretary necessary or desirable to execute his duties.

- 11 -

2. The Secretary of War, the Secretary of the Navy, or the head of the department or agency concerned will execute the contracts for manufacturing, procuring, acquiring or repairing of defense articles, and the contracts necessary to carry out the other purposes of the Act, except the contracts with the foreign country receiving the material aid, and will handle and clear them in the manner now provided by statute, executive orders and regulations.

3. Delivery of the defense articles in accordance with the terms of the agreement with the foreign country shall be effected by the supplying department or agency which shall immediately upon such delivery notify the Secretary and the Administrator of Export Control of the quantities, character, value, terms of disposition and destination of the defense articles or defense information so delivered.

4. In those cases where the supplying of the material aid is to be financed by allocations from appropriations, requests for such allocations shall be routed through the Secretary to the Bureau of the Budget for approval.

- 12 -

5. The Department of the Treasury shall be the custodian of all agreements executed under the Act and of any collateral or security received from such foreign countries.

6. The Department of the Treasury will determine how and when property, collateral or security received from any foreign country shall be liquidated or otherwise handled best to protect the interests of the United States.

copied in ja
2/20/41

OSC:djb
2/17/41

FEB 9 1941

My dear Mr. President:

I submit for your information a memorandum prepared in the Treasury Department regarding the application of customs duties to imports of defense materials.

Faithfully yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The President,
The White House.

Enclosure ✓

HC/mjb 2/19/41

By Messenger ✓¹⁵

MEMORANDUM

Re: Application of customs duties to imports of defense materials.

All articles imported into the United States are subject to duty unless expressly exempted therefrom and no general exemption exists in favor of articles imported by or for the use of the United States or any department or agency thereof. The Tariff Act of 1930 provides specifically for the free entry of certain articles such as books, maps, charts, etc., imported by or for the use of the United States; but there is no free entry provision in the tariff act for articles likely to be classifiable as defense materials.

The only provision for free entry outside the tariff act likely to be of interest in connection with imports of defense materials is found in the Act of June 30, 1914, 38 Stat. 399 (U.S.C., title 34, sec. 568), which provides:

"That hereafter the Secretary of the Navy is hereby authorized to make emergency purchases of war material abroad: And provided further, That when such purchases

- 2 -

are made abroad, this material shall be admitted free of duty."^{1/}

In connection with recent purchases by the Navy Department of copper and zinc, which materials at the time of purchase were located in customs bonded warehouses within the United States, the Treasury Department took the position that it would not question a categorical certificate of the Navy Department that the procurement by it of such materials constituted an emergency purchase of war material abroad. Pursuant to such certificate the customs officers concerned have been authorized to release the copper and zinc without the collection of customs duties or import duties.

Article 314(d) of Customs Regulations of 1937 provides as follows:

"Estimated duties need not be deposited on shipments consigned to Government departments or bureaus or authorized representatives thereof, nor will the bond above provided for be required in such cases. After due entry therefor has been made, such merchandise

^{1/}Temporary provisions in similar language with regard to purchases of war material by the Secretary of War appeared in the following appropriation acts: Act of June 6, 1896, 29 Stat. 260; Act of March 2, 1907, 34 Stat. 1062; Act of June 15, 1917, 40 Stat. 201; and the Act of February 23, 1927, 44 Stat. 1137.

- 3 -

may be immediately released. On liquidation of the entry the collector will state the duties due on vouchers, in duplicate, and present them for payment to the proper department disbursing officer."

Under this regulation it would be entirely possible in the case of importations for immediate clearance through customs, which will be released without deposit of estimated duties, for the importing department or agency to find itself without funds to pay the voucher for customs duties. In such case the importing department or agency might apply to Congress for a specific appropriation to pay the duties, or the claim might be closed on the ground of uncollectibility.

A more direct way to meet the situation, if it is determined that duties should not be payable, would be to seek legislation. This approach has already been considered to some extent. A draft bill was informally submitted to this Department by the Office of Production Management. A copy as revised by this Department is attached.

Attachment

EC/mjb 2/19/41

- 3 -

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A more direct way to meet the situation, if it is determined that duties should not be payable, would be to seek legislation. This approach has already been considered to some extent. A draft bill was informally submitted to this Department by the Office of Production Management. A copy as revised by this Department is attached.

Attachment

EC/mjb 2/19/41

77th Congress
1st Session

IN THE HOUSE OF REPRESENTATIVES

A B I L L

To exempt strategic and critical materials
from customs duties and internal revenue taxes
in certain cases.

Be it enacted by the Senate and House of Representatives
of the United States of America in Congress assembled, That
no duty or internal revenue tax shall be imposed or collected
upon any strategic and critical materials procured in accord-
ance with the Act of June 7, 1939 (U.S.C., 1934 edition,
Supplement V, title 50, section 98-98f), or section 5d of
the Reconstruction Finance Corporation Act, as amended by
section 5 of the Act of June 25, 1940 (Pub. No. 664, 76th
Cong.), and entered, or withdrawn from warehouse, for consump-
tion on or after the day following the passage of this Act by
or for the account of the United States or any agency thereof,
including any corporation all the capital stock of which is
owned and controlled directly or indirectly by the United
States, when such materials are, or have been, imported or
brought into the United States or any of its Territories or
possessions (except the Philippine Islands).

- 2 -

Sec. 2. In the case of the sale by the United States or any such agency of any such material imported or brought into the United States or into any of its Territories or possessions (except the Philippine Islands), no tax shall be imposed by reason of such sale.

EMBASSY OF THE
UNITED STATES OF AMERICA

No. 784.

Chungking, February 20, 1941

Subject: Increase of Exports through
Chungking in January.

Air mail

The Honorable

The Secretary of State,

Washington, D. C.

Sir:

I have the honor to report that certain commodities exported from or through Chungking during January, 1941, showed an increase as compared with the previous month.

According to the statistics released by the Bureau for the Inspection and Testing of Commercial Commodities, 893 tons of wood oil were exported through Chungking last month as compared with 473 tons during December. Of the January shipments 826 tons were transported through Burma and the remaining 67 tons to Hong Kong.

Exports of pig casings during January showed almost a hundred per cent increase as compared with December and hog bristles registered an approximate 250 per cent increase over the previous month.

The

-2-

The following table gives a comparative list of certain commodities exported from or through Chungking during the months of December, 1940, and January, 1941.

<u>Commodity</u>	<u>January exports in tons</u>	<u>December exports in tons</u>
Wood Oil	893.0	473.40
Black Hog Bristles	115.3	46.69
White Hog Bristles	3.06	0.61
Pig Casings	30.78	17.30
White Silk	----	.67

Respectfully yours,

NELSON TRUSLER JOHNSON

Original (by air mail) and
five copies to the Department
Copy to Peiping
Copy to Shanghai

610.22

JJM:MCL

EMBASSY OF THE
UNITED STATES OF AMERICA

No. 786.

Chungking, February 20, 1941

Subject: Establishment of Banks in Small Towns.

Air mail

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

Sir:

I have the honor to report that the Joint Administration Office of the four Government Banks, namely the Central Bank, the Bank of Communications, the Bank of China and the Farmers Bank of China, has decided to establish branch offices in towns with a population of 50,000 or more as well as in mining centers, railway and highway stations, industrial centers with more than 500 workers, cultural centers with concentrated schools, distributing centers for special products and rural commercial centers.

These branches will be small institutions with only one or two clerks. They will handle remittances, make small loans, accept saving accounts and sell Thrift and Saving Certificates.

Such additional banking facilities will be of considerable assistance in furthering the development of unoccupied China and in addition it means another step towards more bank credit which China urgently needs to develop in order to help finance the continued hostilities against Japan and to control inflation. The banking community considers the establishment of these branch banks as an important step forward as it has always been realized that the lack of a larger and more nationally spread banking system has been a serious economic weakness in China. While no immediate general economic improvement can be expected due to the establishment of the branch banks, it indicates, however, that the Government banks are following a progressive policy which will eventually strengthen the country's financial position.

Since the outbreak of hostilities the Government banks have established 250 branches in interior cities.

Respectfully ours,

NELSON TRUCLER JOHNSON

Original (by air mail)
and five copies to the Department.
Copy to Peiping
Copy to Shanghai

851.6
JJM:MCL

EMBASSY OF THE
UNITED STATES OF AMERICA

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JJM:MCL

	Yd. to fund or corp. or bank paying no tax	Net yd. to corp. or bank paying 30% tax (normal)	Net yd. of comparable issue in market	Yd. on taxable bond at 100, to produce yd. in column 3	Taxable equivalent yd. to bank or corp. paying tax and having offsetting capital gains compared with yd. in column 3	Probable opening market	Basis	Total spread between proposed taxable return & tax exempt in mkt.	Diff. from in points
2 3/4% 1961/56 @ 100✓	2.75	1.93%	2 3/4, 59/56 2.21	3.15	3.39	102 16/32	2.55	.54	+ .35
2 1/2% 1953/51 @ 100	2.50	1.75%	2 1/4, 53/51 1.90	2.71	2.86	102 8/32	2.25	.60	+ .35
2 % 1950/48 @ 100✓	2.00	1.40%	2, 50/48 1.44	2.05	2.30	101 20/32	1.75	.56	+ .31
1 % Mar. 43 @ 100✓	1.00	.70%	1 1/8, June '43 .29	.41	.76	101	.51	.71	+ .22

From Mr Knight of Chicago
Feb 20th 1941

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 20, 1941

TO Secretary Morgenthau

FROM W. H. Hadley

Recent Issues Slow in Secondary Distribution

Approximately \$40 million of recent corporate and municipal bond and stock issues offered since the first of the year remain on dealers' shelves. The groups included in this amount frozen or moving very slowly in secondary distribution are:

Municipal Bonds	\$ 5 - 10 million
Corporate Bonds	20 - 25 million
Corporate Stocks	10 million
Estimated Total	35 - 45 million

Price losses from original syndicate prices run as high as 4 points with an average loss on recent issues near 3 points.

Included in the municipal group is \$1 million of an original \$3 million U. S. Housing offering of various term bonds issued recently, \$2 million of the \$4.3 million offering by the City of San Diego on January 2 and \$1.5 to \$2 million of the \$12 million November offering by New York Metropolitan Water District.

Included in the corporate bond group is \$12 million of a \$25 million 1 - 25 year bond of Chesapeake & Ohio Railway offered February 6 and \$7 million of an \$11 million Monongahela Railway 25 year issue of February 5.

Sticky stock issues include \$7.5 million of an original \$20 million common offering by Libby, McNeill & Libby on January 29 and \$2 million of a \$6.5 million common offering on February 10th by S. H. Kress.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 20, 1941

TO Secretary Morgenthau

FROM W. H. Hadley

FEDERAL INTERMEDIATE CREDIT

Up to the present moment \$30 million subscriptions have been received on the offering of \$25 million Federal Intermediate Credit 3/4% 6 and 10-month maturities. The offering is going very well according to early reports on subscriptions. Of the 130 dealers in New York, all but one large one and two or three smaller ones have placed their subscriptions. All the New York banks have already made subscriptions and the out-of-town wires are beginning to show up very well.

There may be no quotations on this issue until some indication of allotment is given to the various subscribers.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 20, 1941

TO Secretary Morgenthau

FROM W. H. Hadley

TREASURY BONDS

<u>Coupon</u>	<u>Term</u>	<u>Yield</u>	<u>Probable Price</u>	<u>Premium</u>
2%	8 - 10 years (3/15/49-51)	1.75	101.28	1 pt. 28/32
		1.80	101.15	1 pt. 15/32
	8 1/2-10 1/2 yrs. (6/15/49-51)	1.78	101.23	1 pt. 23/32
		1.83	101.10	1 pt. 10/32
2 1/8%	9 - 11 years (3/15/50-52)	1.90	101.27	1 pt. 27/32
		1.94	101.16	1 pt. 16/32
2 1/4%	10 - 12 years (3/15/51-53)	2.02	102.2	2 pts. 2/32
		2.06	101.22	1 pt. 22/32
	11 - 13 years (3/15/52-54)	2.11	101.12	1 pt. 12/32
		2.15	101.	1 point
2 3/8%	12 - 14 years (3/15/53-55)	2.20	101.27	1 pt. 27/32
		2.24	101.13	1 pt. 13/32
2 1/2%	13 - 15 years (3/15/54-56)	2.30	102.8	2 pts. 8/32
		2.34	101.25	1 pt. 25/32
2 5/8%	16 - 20 years (3/15/57-61)	2.45	102.10	2 pts. 10/32
		2.50	101.20	1 pt. 20/32
2 3/4%	20 - 25 years (3/15/61-66)	2.60	102.10	2 pts. 10/32
		2.65	101.17	1 pt. 17/32
	21 - 25 years (3/15/62-67)	2.61	102.8	2 pts. 8/32
		2.66	101.14	1 pt. 14/32

February 20, 1941
4:35 p.m.

RE FINANCING

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

H.M.Jr: Well, Bell knows mostly what I am going to say anyway. I have sent some of these people back to you, and the way I feel tonight after listening to them, I feel on two issues, a two percent and a two and three quarters. That is the way I feel tonight.

Haas: I am just half of that, just the two.

H.M.Jr: Well, to give you my reasons, I am afraid if we do a two, they will all come piling to us, "There you go right back to the banks again. I thought you were going to go to the insurance companies and not just rely on the banks."

Murphy: Of course we are dealing with an exchange offer and rights.

(Mr. Bell entered the conference.)

H.M.Jr: I was telling them how I feel.

- 2 -

Haas: If that was new cash, there would be a stronger argument.

Murphy: The insurance companies have practically no rights. The only way that they would be able to acquire them would be through a secondary market.

H.M.Jr: We just had one in here that has 27 million, Mutual.

Murphy: But with only a few large insurance companies, that is probably exceptional. You wouldn't get to a substantial amount. As you know, we haven't accurate data on this. We hope to get it as Mr. Haas indicated to you, but probably the total insurance company holdings of rights would be - oh, a hundred million?

H.M.Jr: Well, as of tonight, how do you feel, George?

Haas: As of tonight, I, after thinking it over and listening to the arguments and propositions these people put up, would be inclined to take what Burgess called the anchor and just the anchor only, for this reason. The anchor was a two percent issue, probably eight to ten, depending on what the market was. I think that the - I think, first of all, you want to have the thing go over beautifully without any catch, and the visibility certainly isn't very good. I mean there are a lot of things you are not sure about. There is a lot of switching going to take place in the market and all that sort of thing, and if you put out the long issue, I think there is a tendency for people out in the market to get you to put out an issue which they can sort of tag, "Is that somewhat the rate that the defense effort is going to be financed at?" And I think a good deal of that is behind this recommendation for a long issue. And another thing, Mr. Secretary, what occurred to me was

- 3 -

that in - if a larger amount goes out into the long, well, that will look well, it will look as though the Government's credit is good and most of it went into the long, but I don't think it will do the market any good under these conditions to get too much of it out in there, and I think if you nurse this market along, you can - the market will handle itself beautifully. Now, you start with the bills. You put out this sure thing of eight to ten, and then you have got some cash to come out, and then by that time the market will have a chance to settle down, and it is showing, as you pointed out, evidences of doing it right now. Those are my reasons for - I mean the way I feel tonight. I don't feel very strongly, but--

Murphy: Mr. Burgess, in talking to us, envisaged as little as two hundred million going into the long issue with a possibility of perhaps nine hundred million in the medium and a hundred million note issue that you recommended.

H.M.Jr: I think Burgess is all wet on that. I think he is all wet on it. I think the five-year market is all cluttered up now with these last two issues.

Murphy: It is very difficult to predict it, of course.

H.M.Jr: He agreed with you on that.

Bell: He doubts the note.

Haas: He told me it was no good at all.

H.M.Jr: Discount, that is right.

Bell: Yes, that is right.

Murphy: He envisaged a possibility of easily a billion

- 4 -

in a medium term issue, but he said, "If you get two hundred million out in the long, that is two hundred million."

H.M.Jr: Never mind what Burgess thinks. What do you think after listening today?

Murphy: I would go with Mr. Haas for the anchor issue.

H.M.Jr: What do you mean?

Murphy: For a single issue.

H.M.Jr: And what is that?

Murphy: About an eight ten.

H.M.Jr: One issue?

Murphy: Yes.

Hadley: I am for two issues because you are going to get some buying support. If you put something out in the long area, you have got your insurance. companies and some of the other investors that have been holding back, and they can come in with cash and help your issue, where if you just put out the one issue, and it goes to the exchange holders, you won't attract the same cash buying support.

H.M.Jr: Dan, how do you feel?

Bell: I am leaning toward two issues, but I have to admit that I am a little bit afraid of the two and three quarters, '60 area. I have some doubt about it.

H.M.Jr: But you don't like the two and a quarter?

Bell: No, I don't like the single issue very well.

- 5 -

H.M.Jr: I mean, what the Federal is recommending, the two and a quarter.

Bell: I don't like that very well now. I would like to see a short bond somewhere in that area of six to eight or seven to nine, and then along intermediate somewhere in the 54-56 area, but I realize again that that is pretty close together. Where would the two and a half come in that area?

Hadley: Thirteen years.

Bell: That would be eight, wouldn't it? I am still a little afraid of the two and three quarters.

H.M.Jr: Have you spoken to Eccles?

Bell: No.

H.M.Jr: I will tell him.

Well, I haven't heard anybody come in to recommend a two and a quarter.

Bell: No.

Haas: I think that was a compromise, Mr. Secretary.

Hadley: That is adding the market up and dividing by two, and it doesn't work that way.

H.M.Jr: No.

Murphy: I am greatly disturbed by the fact that the people who presumptively want the long issue are not large holders of rights and vice versa. If we priced the long issue attractively so that the banks go into it nevertheless, we may have a very weak secondary market. On the other hand, if we don't do it, and we get a very short subscription in the long issue, it is just a question

- 6 -

of whether we are going to be psychologically satisfied with it. If we are prepared to accept a very short subscription in the long issue and be happy about it, why that is one thing; but if it is to be taken or if it would be taken, it is another matter. Also, there is a question, as Mr. Haas says, of striking the keynote, setting the rate, whether before we felt out the market, we want to set a rate as high as two and three quarters.

Hadley: If we don't set a rate now, we have got to set it later.

Haas: Well, that is the point.

Bell: Devine recommended the two percent in the fifties, about nine and three quarter years. Then when we asked him about the long bond, two and three quarters, he said there would be no harm in adding it, but a two and three quarters in the early sixties he thought would be very sweet.

H.M.Jr: He was very enthusiastic about it. He said he didn't dream that we would offer it.

Bell: Yes, he said he thought it would be a higher coupon than we would want to pay. He said the note market needs a rest, and he wouldn't recommend that. He thought one issue, nine and three quarters, two percent, would tone up the market.

(Telephone conversation with Marriner Eccles follows:)

February 20, 1941
4:45 p.m.

H.M.Jr: Hello.

Operator: Chairman Eccles.

Marriner
Eccles: Hello.

H.M.Jr: Marriner, I thought you'd like to know the result of our talking to the people today.

E: I would.

H.M.Jr: Nobody that came down suggested the $2\frac{1}{2}$.

E: They didn't.

H.M.Jr: Nobody. Some suggested a 5-year note, an 8 to 10-year, and then a long bond, but most of them were talking about was a 2%

E: Shorter - a 2% shorter than the

H.M.Jr: A 2% and then a $2\frac{3}{4}$ ths and let them take their choice. I got more on that than on anything else.

E: Was that the market - some of the dealers you talked to ?

H.M.Jr: Well, I had a dealer, I had a president of an insurance company, I had a head - second man in one of the big banks, so there is three different fellows: a dealer, the second man in one of the biggest banks and the president of an insurance company, and then another dealer.

E: In other words they go all the way from a 5-year note to a $2\frac{1}{2}$ % long bond.

H.M.Jr: No, $2\frac{3}{4}$ ths.

E: I mean, $2\frac{3}{4}$ ths long bond. Did they all favor putting out two issues?

H.M.Jr: Wait a minute. Let me ask Bell. (Talks aside.

- 2 -

Nobody wanted one issue did they?

D.W. Bell: Devine, but he changed when we told him.)

H.M.Jr: Well, Devine when he came down first said a 2%. Then we said we were thinking about a 2-3/4s and he said that was more than he'd hoped for but he thought that would be wonderful.

E: Un-huh. Well, in that case I would think that if you were going to put a 2-3/4 out you would want to put two issues out. I would think if you put a 2% one out, you wouldn't want - you wouldn't need, if you didn't want to, to put out the long one. I don't see any great objection to the long one, that's a 2-3/4. There will probably be some insurance company and some other savings bank buying, but I'm rather surprised that they wanted the 2% bond in the shorter maturity.

H.M.Jr: Well, that's what they seemed to think was the safest.

E: When did they talk about maturity on the 2%?

H.M.Jr: Between 8 and 10 - somewhere around there.

E: It would be priced about the same as we figured the 2% on the 10-12.

H.M.Jr: I would say so. A little bit less.

E: Of course on just the note issue alone, that wouldn't help you much on future pricing, would it?

H.M.Jr: No, but they all wanted to keep away from the 5-year note.

E: Well, that's the way we felt about it. I thought you said some of them suggested the 5-year note.

H.M.Jr: One, the Discount Corporation. They wanted three things: they wanted a 5-year note, a 2% and a 2-3/4s. They wanted it three ways.

- 3 -

E: Well, that is just on refunding.

H.M.Jr: Yeah.

E: We agree on that on new money possibly, but they wanted that on refunding.

H.M.Jr: Yeah.

E: Well, how are you leaning? Are you leaning toward the 2%.

H.M.Jr: Well, I was leaning tonight towards two issues: toward the 2% and a 2-3/4s. That's what I wanted to tell you so that you could
think

E: Well, we'll/ of it. We've just been discussing now the savings proposal. We were just going over the Haas memorandum and we had one from Piser and Rouse and we're just considering all the aspects of the savings ,.....

H.M.Jr: But this I got today was so different to what we've been talking yesterday that I wanted to get it to you so you could digest it tonight.

E: What did they think about not getting new money? I guess they were a little disappointed weren't they?

H.M.Jr: No. They all thought it was fine. They all thought that the bill thing was smart.

E: And that you ought to try out the market on the refunding until you got - determined the method of pricing.

H.M.Jr: They all thought that was smart. They all thought that bill thing was smart. They all thought it was smart and of course the market reacted that way today.

E: Oh, yes. Well, I was sure the market would go up when they found that out. Well, O.K., then and in the morning you'll want to discuss likely these two issues

H.M.Jr: Well, we'll take that up and any other

- 4 -

suggestion that you have, and I'm seeing two or three other people tomorrow. I'm starting at 9:30 and we'll listen and then I'd like to discuss the whole thing with you and also these savings bonds.

E: Yeah. Well, O.K. We'll be over there at 11 o'clock then prepared to discuss that whole program.

H.M.Jr: Thank you.

E: Thanks for calling.

- 7 -

H.M.Jr: Well, let's all sleep on it.

Bell: It is really quite a nut to crack.

Haas: Yes, it is.

Bell: It is quite a decision.

H.M.Jr: Well, at least they have got a nice market. The market has been falling away from us every night. It is a damn sight better to have it get a little better each day. How are the rights?

Hadley: They came up two thirty seconds today. They are 117 or 115, something like that.

Bell: We did get an indication from the insurance president that he would buy a lot of long bonds in case they were turned out. He turned all of his 27 million for the long two and three quarters, and then he would have about 20 to 30 million dollars more in cash they would invest in them if he could get them in the market.

Hadley: He said that there is nine hundred million cash in the insurance companies.

H.M.Jr: Nine hundred fifty five million.

Haas: They only take a fraction of that.

Hadley: Yes, but it is available, some of it.

Haas: It has been available for a long time.

H.M.Jr: Well, anyway, I am going home. I had a good day and we will start in, you (Bell) and I at 9:30 tomorrow morning.

- 8 -

Bell: O.K.

H.M.Jr: Thank you all.

Haas: Good night.

H.M.Jr: Whatever we do, I think you ought to put in a little for the trust fund.

Bell: I was wondering whether we ought to put in an additional amount for the trust fund. It might increase a hundred million on the long bond. Of course, the trust funds now are a pretty good cushion because we have got tax exempt securities in the trust funds, and we may sometime want to sell them out.

H.M.Jr: I also may want to take all of them and cancel them.

Bell: Well, that is an idea. You hadn't ought to treat them any differently than you do the others.

H.M.Jr: No worse, anyway.

WAR DEPARTMENT
OFFICE OF THE CHIEF OF STAFF
WASHINGTON

February 20, 1941.

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

Dear Mr. Morgenthau:

Thank you very much for the following reports,
which you sent me this date:

Part I - Airplanes

Deliveries of and New Orders for Airplanes,
June 23, 1940 - February 15, 1941; Unfilled
Orders and Estimated Deliveries on February
15, 1941.

Part II - Airplane Engines

Deliveries of and New Orders for Airplane
Engines, June 23, 1940 - February 15, 1941;
Unfilled Orders and Estimated Deliveries on
February 15, 1941.

Sincerely yours,



ORLANDO WARD,
Colonel, General Staff,
Secretary, General Staff.

February 20, 1941.

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Washington, D. C.

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Unfilled Orders and Estimated Deliveries on
February 15, 1941.

Sincerely yours,

(Signed) ORLANDO WARD

ORLANDO WARD,
Colonel, General Staff,
Secretary, General Staff.

vah



DEPARTMENT OF AGRICULTURE
WASHINGTON

February 20, 1941.

The Honorable,

The Secretary of the Treasury.

Dear Henry:

I am sending you, and a very few other people, the attached article by Dr. Frederick Strauss, an economist who works jointly for this Department and the National Bureau of Economic Research. The subject is The Food Problem in German War Economy and the Conquered Nations.

Dr. Strauss relates the food problem to the total war economy and shows that the conquered nations could feed themselves if it were not for German confiscations of food and the forced integration of the conquered economies to the needs of Germany rather than to their own needs. He points out that there is no likelihood that during this war a breakdown in food supplies such as occurred during the first World War will take place. But even maintenance of present rations will probably reduce working efficiency and staying power of the working population. In a prolonged war Germany would not be able to meet her ration requirements by domestic food production and surpluses available from the Danubian countries. Unless the Soviet Union, for political reasons, is willing to ship food which she needs at home, the conquered nations are the most convenient and probably the only source of such foods in which Germany will be deficient in a prolonged war.

A summary of the findings in the article is attached for your own personal convenience, since I doubt that you will have time to read the full text, although I recommend a full reading if you have the time. Dr. Strauss has worked on this subject considerably since the outbreak of the war in Europe, both on his own time and for a temporary period in the Office of Foreign Agricultural Relations. The article should be treated confidentially since it has been prepared for publication in a forthcoming issue of one of the economic journals. Dr. Strauss has consented to a limited distribution in advance of publication.

Sincerely,

Claude R. Wickard

Secretary.

Enclosure

Summary contained
in pp I - II

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Not for publication
Official use only

THE FOOD PROBLEM IN THE GERMAN WAR ECONOMY
AND THE CONQUERED NATIONS

by Frederick Strauss

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THE FOOD PROBLEM IN THE GERMAN WAR ECONOMY AND THE CONQUERED NATIONSSUMMARY AND CONCLUSIONS

This article emphasizes that the food problem in a modern war does not consist merely in averting starvation for the population at large, but that the German war strategy requires a diet safeguarding the striking power of the army and the efficiency of the working population (p. 1-4). Therefore armament workers receive higher rations than average workers, and soldiers still higher rations (p. 8-10). The article surveys the food problem, within Germany and the conquered nations, as part of the total German war effort.

Germany tried, during the period of war-preparation, 1934-39, to adjust domestic food production to the needs of the expected war (p. 13-21) and to alter people's food habits to go with war-time supplies (p. 5-8). Consumption planning was more successful than the attempts at expanding domestic food output. On the whole, however, Germany is better prepared to face the present war than it was in 1914-18. While more intensive farming methods resulted in higher grain and potato yields before the war, (p. 15-21), such high yields cannot be expected in war-time (p. 21-32); and shortages of labor, fertilizers, fuel, and transportation in a protracted war will reduce German farm production (p. 33-40). Meanwhile, German war-time requirements of breadgrains (wheat and rye), potatoes, and vegetables are 20-40 percent higher than in peace-time, (p. 10-13), even during the period of inactive war.

This is the German food outlook, based on German production, existing reserves, currently available imports from the Danube Basin, and from the Netherlands and Denmark, assuming that Germany would not extract from the conquered nations food quantities they themselves need urgently (p. 46-50). Breadgrain supplies will meet German needs fully, at least until the end of 1941, possibly till mid-1942. Potato supplies are ample, though transportation difficulties may interfere with

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distribution to the ultimate consumer, as in 1939-40. Windfall meat supplies, the result of emergency slaughter, from Denmark and the Netherlands have supplied Germany with at least 5 weeks' ration requirements. These may be enough to sustain the present meat rations at least till the middle of 1941. In 1941-42, the cessation of Dutch and Danish supplies, and decreasing domestic output, will make it necessary either to allot the heavy manual workers' ration to fewer workers or to reduce the rations generally.

The fat situation is most critical. By mid-1941 most of Germany's fat reserves will be used up, with Holland and Denmark no longer able to supply appreciable quantities. Current supplies, including imports, will then be only about half of pre-war — while present rations require 80 percent of pre-war quantities.

Deficiencies of vitamins and minerals may not damage health immediately or visibly. But they tax the nervous system of workers, who already have to endure lack of proper clothing, insufficient heat, and all the nervous strains that go with war itself. The effects of malnutrition may be postponed, but workers' efficiency and staying power will decline.

Under these circumstances Germany could not maintain, in a protracted war, the prevailing differentiated rations in the face of steadily decreasing domestic food output, depletion of emergency stocks, and dwindling imports. The task has become even more difficult with the course of events in Italy.

However, the ruthless Nazi determination in the preparation and execution of the war indicates clearly that the Reich will employ every means to avert, or at least postpone, the serious food difficulties to be anticipated. The conquered nations, including Hungary and Rumania, remain the most convenient — perhaps the only — source of the needed food supplies (p. 51-55).

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It must be assumed, therefore, that Germany will extract from the conquered area all the food she needs for the maintenance of her war effort, disregarding the food needs of the population in these countries. Such exploitation will be limited by their capacity to produce food rather than by their own needs. There are signs that farmers in the occupied regions have little incentive to adjust their farm operations to the German demands.

Denmark, Norway, Holland, Belgium, and France would actually be able to feed their people, despite the British blockade, if Germany were not adjusting their agricultural economies to her own growing food needs and their industrial machinery and transport systems to her war effort.

There are those who argue that we must send food to the conquered nations because their peace-time food imports were great and these have been cut off by the blockade. But these peace-time imports were needed largely to produce food surpluses (meat, dairy products, eggs) for export (p. 52-53).

The article shows that domestic food production in these countries could be adjusted to furnish somewhat better than minimum food requirements for a moderate level of economic activity, with no danger of malnutrition, despite the blockade (p. 53-59).

How about the crucial period of 1940-41? Despite war destruction and poor 1940 grain harvests, these 5 countries could have fed themselves, thanks to emergency reserves they had stored up, and the meat and fat from emergency slaughter (p. 57-59). For the conquered nations as a whole, food supplies for this season would have been adequate, although concentration of refugees and transportation disruption would have created temporary difficulties.

Why, then, has there been widespread food shortage (p. 59-65)? Nazi officials themselves answer this question. They proudly declare that the conquered

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nations' economic life is being reconstructed--"from the cows' milk to foreign exchange"-- to meet the needs of the German war machine.

The food consumed by the German armies of occupation is only the most obvious drain. In Norway alone, for instance, the army of occupation is consuming enough to keep a fourth of the Norwegian population from malnutrition. However, the Germans are drawing off enormously greater quantities of food from the conquered nations for use in Germany herself than for their armies of occupation. Germany has extracted from Denmark enough meat to supply Denmark and Norway combined for 2 years; from emergency slaughter in Holland enough meat to supply the entire Belgian population for 6 months. Part of the shortages in Belgium and France are due to German "purchases" of wheat, meat, and fat.

These are only the direct effects of German coordination. The indirect effects are no less important. The Nazis are drafting Danish, Norwegian, Dutch, Belgian, and French, as well as Czech and Polish prisoners and civilians in an attempt to overcome the shortage of farm labor in Germany. The confiscation of rolling stock and the utilization of rail, water, and truck transportation in the conquered nations interrupt both the flow of products which these countries need in farm production and the distribution of farm products to their own people.

The German war effort has begun to subordinate the industrial machinery of the occupied regions to its immediate needs. The occupied countries are being merged into the Nazi war-time New Order. Their food supplies are being used as an integral part of the total German war effort.

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THE FOOD PROBLEM IN THE GERMAN WAR ECONOMY
AND THE CONQUERED NATIONS

The food question in continental Europe at the present time cannot be separated from the complex problem of Germany's total war economy. From the beginning of the rearmament program in 1934, German "Wehwirtschaft" specialists have studiously applied the lessons which they drew from the world war experience, namely that the war-time food problem does not consist merely in averting starvation for the population at large. The German war strategy proper, with its emphasis on the large-scale use of highly mechanized war weapons, requires utmost efficiency, and physical and mental alertness, of the armed forces and of the workers in war industries. The food problem posed to the German war economy is therefore not the maintenance of a bare subsistence level, but of a diet safeguarding the striking power of the army and the efficiency of the working population.

This article attempts to show how Germany endeavors to solve this problem by integrating the food policy within Germany herself and in the conquered nations completely to her war effort.

I. Germany's Food Requirements During This War

1. The Lessons of the World War

The world war brought against each other, for the first time in a prolonged struggle, highly industrialized nations, whose domestic food supplies were insufficient and whose war effort relied on a developed industrial machinery. Only gradually did the authorities in the belligerent countries

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conceive the changed importance of food in such a novel war, whose decision depended largely on the industrial potential.

Even during the first two years of the first world war neither the German nutrition experts nor the officials in charge of food production planning and of food distribution envisaged clearly the peculiarities of the war-time food problem. They carried on with the traditional concept derived from previous wars, that the population at large should be protected from starvation or malnutrition and that an army marches on its stomach.

Probably the first clear notion was expressed by the German General Staff through Field Marshal Hindenburg in September 1916 when he made this ominous appeal to the German chancellor: ... "You are aware that, in order to terminate this war victoriously, our war industries must solve a tremendous task. The labor question is of decisive importance, not only maintaining a sufficient number of workers, but particularly keeping up their working efficiency by means of adequate nutrition."

Before that time no attention had been paid to the special food requirements of workers engaged in war industries. Towards the end of 1916, the neglect of the munition workers' diet was recognized, and the resulting serious reduction in efficiency noted with much apprehension. "Fatigue and exhaustion after hard work became the rule. Equally serious was the effect on the mental attitude of heavy manual workers. Lack of initiative, loss of mental alertness, nervousness and irritability were general."¹⁾

This observation led to a complete reorganization of the rationing system. The original plan had been one of general rationing. At the end of 1916 a new system was adopted: Heavy manual workers were allotted between 15 and 40 percent, extra heavy manual workers between 40 and 80

1) Max Rubner, Deutschlands Ernährung nach dem Weltkriege, Berlin.

percent more bread and other foods than other civilian adults. Yet it also became apparent that maintenance of workers' efficiency is not solely a function of food quantities.

After the war, it was seen, on the basis of special enquiries on workers' food consumption during the war, covering a representative sample²⁾ of 6000 family budgets, that "the diet of urban working families was typically deficient in protein and fat. Hunger was stilled by means of coarse food, containing predominantly carbohydrates. But since such food fills rather than satiates, the workers suffered constantly from hunger. The urban worker was accustomed to a varied diet favoring animal products that kept his balance and maintained his health and efficiency. The war experience has demonstrated the damages which a diet deficient in protein³⁾ and fat inflicts upon urban workers."

With the increasing emphasis on mechanized war instruments, the heavy industries experienced an expansion no one had anticipated at the beginning of the first world war. Nazi economists studied the effects of this expansion very closely: In a special study on the munition workers,⁴⁾ Schilling-Voss points out that "millions of additional workers were needed in war industries. All these men, women and children were not satisfied with food barely meeting physiological requirements. In view of the heavy manual work before open furnaces to which they had not been previously accustomed, of the nervous strain as a consequence of the noise of the machines, they had to be well fed to sustain their staying power."

These lessons were the basis for the planning of food production and distribution for this war.

2) Beitrage zur Lebenshaltung, special publication of the Reichs Arbeits Blatt, No. 17 and 21, Berlin 1918 and 1919.

3) Carl von Tyska, Ernahrung und Lebenshaltung des deutschen Volks, Berlin, 1934.

4) D.A.F. Schilling-Voss, Die Sonderernahrung der Ruestungsarbeiter, Hamburg, 1936.

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2. Consumption Planning During 1934-39: Rationing Correlated with Occupational Activities in War-time.

a) War Preparation: Consumption Planning.

Long before the outbreak of the present war, the German authorities laid plans to avoid such a breakdown in food supplies as occurred during the first world war. Not only was it necessary to avoid the world war mistakes in production and distribution; it was recognized that it was equally important to adjust both differentiated individual food allotments and the procurement of total food requirements to the new pattern of the war economy.

From the outset, the limitation of domestic food resources presented a serious obstacle. It was clearly recognized that war-time conditions would make impossible a continuation of food consumption habits as they prevailed before 1933. On the other hand, world war experience had shown the serious psychological effects of sudden changes in the workers' diet. Therefore the government tried, from 1934 on, to direct food consumption into channels suited to the quantities and qualities of food supplies which would be available in war time.

By 1937 the effect of such planning of consumption had become apparent. A comparison of the average weekly per capita consumption of German working class families in 1937 with that in 1927 reveals the changes. They were clearly in accordance with the official recommendations to substitute foods which could readily be produced domestically, for foods whose domestic production potentialities were limited. Thus the consumption of bread was 3 percent higher in 1937 than in 1927, and that of potatoes 7 percent higher; whereas the consumption of meat had decreased 16 percent, of all fats combined

5) This comparison is based on official German enquiries. The 1927 figures are derived from "Die Lebenshaltung von 2000 Arbeiter-, Angestellten- und, Beamten-Haushaltungen," published in "Einzelechriften zur Statistik des Deutschen Reiches, No. 22, Parts I and II, Berlin 1932; the 1937 figures from Wirtschaft and Statistik, No. 4 and 8, February and April 1939.

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7 percent, and of milk 30 percent. Reduction in imports, forced by foreign exchange considerations, had by 1937 reduced consumption of fruits by 30 percent, and green vegetables by 5 percent. The German policy of consumption planning was gradually directing the food habits of the population towards a war-time diet. The authorities could rightly point out at the beginning of this war that "those who had followed the government recommendations in the field of nutrition during the past few years will hardly find that they must now change their food habits essentially."⁶⁾

But consumption planning preparatory to war has another less desirable effect -- an effect which is bound also to have its repercussions on the continental European food situation in a protracted war. The diet of German working class families in 1927 had corresponded closely to internationally recognized calorie requirements. The food energy value of the 1937 diet, however, was 15 percent below that of 1927. Although it did not result in serious malnutrition, the 1937 diet allowed almost no margin of safety. Since the composition of the diet deteriorated in 1938 and the first half of 1939, it is safe to say that the German people entered this war after 3 years of inadequate consumption compared with what is generally considered a desirable diet.

At the outbreak of this war, the average German did not possess the physical reserves to carry on strenuous work over any considerable period on the insufficient war-time diet. In contrast, the German population had entered the first world war with those body reserves, - for the energy value of the food consumed in 1913 was roughly 15 percent above that of 1937.⁷⁾

6) Nationalsozialistische Landpost, October 20, 1939.

7) Analyses of the pre-world war workers' diet can be found in Tyska, l.c., W. Ziegelmayer, Die Kost der Schwerarbeiter, in Zeitschrift fuer Volksernahrung, July 20, 1937; Einzelschriften Zur Statistik des Deutschen Reiches, No. 23, Part I. p. 81.

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Experience during the world war showed that consumption may in certain respects go a good deal below the generally accepted standards, even for a period of several years, without dangerous consequences, if the population is willing to accept hardships. During a war such criteria as malnutrition become obsolete, and only the direct consequences of a restricted diet on workers' efficiency count. Nutrition experts know from experiments and actual observation that the human organism automatically tries to overcome the consequences of insufficient food by loss of weight, by the economical use of its reserves, and by adjusting their activity. Deficiencies in the diet may therefore more readily be counterbalanced by average consumers, who are in a position to adjust their activity, than by heavy manual workers.

The food specialists in the German War Ministry gathered ample information of this kind during the period of war preparation, so as to get maximum efficiency of the war machinery out of restricted war-time food supplies. One of the leading nutrition experts, Ziegelmayr, carried out a large-scale inquiry into the food consumption of heavy manual workers in the manufacturing and mining industries as early as 1936. He found that the energy value of their diet was nearly 10 percent below the level necessary for the maintenance of efficiency, that meat consumption could not be further reduced and fat consumption only if a decrease would be compensated for by larger quantities of carbohydrates.⁸⁾

His conclusions appear to have been justified by later developments. When it became necessary in 1938 to increase working hours in coal mining to offset a 15 percent decrease in output per miner, the government had to allot higher fat rations to the miners. Yet even towards the end of the rearmament period it became evident that the then available food was insufficient to

8) Wilhelm Ziegelmayr, Die Kost der Schwerarbeiter, Zeitschrift, fuer Volksernahrung July 20, 1937, p. 205-18, also Der deutsche Volkswirt, August 20, 1937, p. 2284.

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sustain the kind of working efficiency that was demanded.

A few months before the outbreak of the present war, the official economic journal of the Nazi party said:⁹⁾ "Lately signs of overexertion of workers and employees have become apparent. First, the grippe epidemic has reached such an extent that it can only be explained by increased susceptibility owing to physical and psychological weariness (Abgekaempftheit). Secondly, extreme irritability on account of nervous strain resulting from overexertion is common. Thirdly, unexcused absences and attempts to stay away from work for flimsy reasons have increased sharply. This also can only be attributed to the need for recreation and relaxation from overstrain. The overexertion of the workers is, in the last analysis, only another symptom of the general over-utilization of all resources which, at the same time, has led to scarcity of goods, slowdown of deliveries, and labor shortage."

b) Food Policy During the Present War.

In regulating war-time food distribution, the authorities had to be primarily concerned with the preservation of the physical and psychological strength of the workers engaged in essential war industries. This lesson was applied from the very first day of the outbreak of this war, whereas during the first year of the world war no systematic food rationing had been introduced and differentiated rationing was not resorted to before the end of 1916. The rigid food rationing system initiated at the outbreak of the present war undoubtedly attempted to strike a compromise between the satisfaction of the minimum requirements of the various types of consumers and the potentially available food supplies.¹⁰⁾ In view of the limited domestic supply situation, this compromise leaves the individual consumer with a reduced diet. But the present food rationing system tries to maintain the differentials in consumption

9) Die deutsche Volkswirtschaft, March 2, 1939.

10) This point will be dealt with in the next section of this article

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between average adult consumers, heavy manual workers and extra heavy manual workers as they prevailed before the war.

In 1936 and 1937 heavy manual workers consumed roughly 30 percent more bread, 70 percent more meat and 120 percent more fat than the average adult. The present rations allotted to heavy manual workers provide for only 45 percent more fat, but grant 100 percent more meat and 58 percent more bread.

The absolute quantities of the rations are much below pre-war consumption for most foods. Average adults obtain now 6 percent less bread, 32 percent less meat, 24 less fat than in 1937. The rations of heavy manual workers for meat are 22 percent below 1936, for fat 50 percent lower; but 15 percent higher for bread.

The relatively high bread ration is the backbone of the present German diet, and as long as potatoes are available in sufficient quantity, there is probably no danger of serious malnutrition. But the lack of variety and the diminished palatability of food will necessarily have psychological, if not tangible physical effects, on staying power and efficiency. The present diet cannot sustain heavy manual work for more than 8 hours, and even within 8 hours efficiency will be below pre-war. This had already become apparent towards the end of 1939, when the authorities found it advisable to modify noticeably the demands on labor they had proclaimed at the outset of the war. Since November 1939 the 10 hour working day has been, with few exceptions, the upper limit; and most of the privileges abolished in September 1939, have been restored.

It is safe to say that even if the present rations can be maintained, the efficiency of the working population must continuously deteriorate in a protracted war.

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The food requirements of the armed forces will be met first, as during the first world war. Nazi economists found that the German world war army of 6 million soldiers (comprising 8 percent of the population) and 1 million horses had obtained 15 percent of all available food supplies.¹¹⁾ This means that the individual soldier alone was allotted approximately 70 percent more food than the average civilian.

The food requirements of the individual soldier have not decreased since. It may not be commonly known that the soldier's food ration far exceeds even that of the heavy manual worker.¹²⁾ He receives more than twice as much bread as the average consumer at the present time, and 40 percent more than the heavy manual worker, 140 percent and 20 percent respectively more meat, and 100 percent and 30 percent more fat. His potato consumption is more than double that of the average adult and nearly double that of the heavy manual worker.

3. Total German Food Requirements During this War.

The change to a war economy, even for a well organized war-directed economy such as the German, involves important shifts in food needs. Such shifts occur in three directions: (1) Adult males formerly belonging to the group of average adult consumers, and to a lesser degree to that of heavy manual workers, become soldiers and consume the higher rations of soldiers; (2) those formerly employed in occupations which are not essential during a war (workers in consumers' goods industries, merchants, salesmen, etc.) are

11) Florian Lorz, *Kriegsernaehrungswirtschaft und Nahrungsmittelversorgung vom Weltkrieg bis heute*, Berlin 1938.

12) Derived from W. Ziegelmeier, *Die Ernaehrung des deutschen Soldaten*, in *Zeitschrift fuer Volksernaehrung*, September 30, 1938 and Quartermaster General Piesczek. These figures refer to the soldier's peace-time consumption. His war-time rations are even higher. Soldiers in the field obtain more than 3 times as much meat as the average adult, more than 10 times as much cheese, and 4 times as much potatoes. In addition they are allotted large quantities of fresh vegetables, legumes and canned fish.

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drawn into war industries and their consumption needs increase from a level slightly above the average adult's to near that of the heavy manual worker; (3) women in non-essential occupations and women not formerly employed are directed into occupations requiring increased food consumption. The extent of such shifts is, of course, largely dictated by the course of war activities. Yet it is possible to arrive at approximate estimates of minimum requirements based on the present rations, and to indicate the increase in total needs which would result from an expansion in war activities.

Now to consider Germany's total war-time food requirements. The following estimates of minimum needs (i.e. during a period of limited war activity) assume that army rations go to 5 million soldiers; that the ration for extra heavy manual workers is granted for all rationed foods to 10 million people, composed of farmers, miners and workers in war industries; that the increased bread ration for heavy manual workers is allotted to 10 million people, but the higher fat and meat ration only to 4 million people, and that an additional 6 million workers working longer hours receive the "special" meat and fat rations, which are only slightly higher than the rations for average adults. The reduced rations for children of various age groups are considered. On this basis we find that the minimum war-time breadgrain needs exceed peace-time needs by more than 20 percent. Instead of 9 million tons, as in peacetime, the Old Reich now requires at least 11 million tons of breadgrains a year. Even more striking is the increase in potato requirements for human consumption. Since potatoes have to offset the lack of a great many other foods, war-time consumption will exceed peace-time consumption by at least 40 percent. Minimum needs are about 17 million tons a year, as against 12 million tons before the war.

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Although the present meat and fat rations are greatly below the peace-time consumption levels, the total savings in requirements are relatively small. This is largely because it was necessary after the first few months of the war to increase children's rations to near peace-time in order to counteract unfavorable effects on children's health. At present, the total meat requirements are only 17 percent below pre-war, the fat requirements roughly 20 percent lower. This allows savings of 500,000 tons of meat and 300,000 tons of fat per year.

The approximate changes in food requirements resulting from the war are summarized in the following table:

TABLE 1

	<u>Germany's Approximate Food Requirements in War-time</u>		<u>Change in Requirements</u>	
	<u>Requirements in Million Tons</u>		<u>In Million Tons</u>	<u>In Percent of Peace-time</u>
	<u>Peace-time</u>	<u>War-time</u>		
Breadgrains	9.0	11.0	+2.0	+22
Potatoes	11.9	17.0	+5.0	+42
Meat	2.9	2.5	-0.5	-17
Fat	1.5	1.2	-0.3	-20
Milk	7.5	4.5	-3.0	-40

It is worth noting that throughout the first year and a half of this war, the demand on the German workers' efficiency and the length of the working day were probably not much higher than during 1937-39. This was largely made possible by the long periods of relative lulls in military activity and by the contribution of the war industries of some of the conquered nations, notably Austria, Czechoslovakia and Poland. Without this latter factor, the Nazi authorities would undoubtedly have been obliged to allot the higher rations for heavy and extra heavy manual workers to a much larger sector of the population, thus increasing the total German food needs.

The allotment of the rations for heavy manual workers to an additional million workers in the category of average adults automatically increases total

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breadgrain needs by 100,000 tons a year. It raises meat needs by 1 percent of total peace-time consumption, and needs for potatoes, vegetables and fruit in the same ratio.

Any expansion of the armed forces would have a similar effect: each additional million soldiers would add 2 percent to the over-all German breadgrain needs, 1.5 percent to the potato needs and 0.5 percent to the meat needs.

As the war is prolonged, a continual lessening of the German workers' stamina will probably have to be offset by granting the higher rations to many more workers, if the present rate of efficiency is to be maintained.

II. Germany's Ability to Produce its War-time Food Requirements.

I. Food Policy as an Integral Part of the Rearmament Program.

Regulation of consumption was only one side of war-preparation in the food economy. More important from the original Nazi viewpoint - was the final accomplishment of what was grandiloquently called "food freedom as a pre-requisite of political freedom," or in plain English - self-sufficiency. "In Hitler's Reich the German peasants and farmers, organized and led by the Reich Food Estate, will prove through work and relentless will that in spite of all difficulties it will be possible to close the remaining gaps and thus to win the battle for food freedom. In former years doubts were in place. Today, however, the Reich Food Estate is a guarantee that measures formerly considered Utopian can be put into practice within the shortest period."¹³⁾

These original intentions had to be revised gradually, and the farm program became of necessity less ambitious. More and more it was condensed to the more modest goal of pushing output in products whose imports would be jeopardized in time of war. Early in 1938, State Secretary of Agriculture Herbert Backe

13) Ernst Schneider, *Kraftfutter aus eigener Scholle*, Reichsnährstand 1936, p. 545.

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stated openly that "absolute food freedom will not be obtained unless we succeed not only in substituting domestic output for imported feedstuffs, but in addition provide enough feed to produce the animal products heretofore imported. It is now apparent that such a degree of self-sufficiency cannot be reached."¹⁴⁾

Nazi propaganda nevertheless claims that the "battle of production" increased self-sufficiency in food from 79 percent to 83 percent of total food requirements between 1933 and 1939. It is significant that only once before had a similar increase in the self-sufficiency ratio been obtained, namely between 1929 and 1932, the years of the deepest depression, when import restrictions "improved" the ratio from 73 to 81 percent. The apparent sharp increase then was largely a result of decreased total consumption. The deterioration of the German diet since 1933 shows clearly the meaning of the alleged improvement in self-sufficiency between 1933 and 1939.

As will be shown in this section of the article, the consumption planning part of the Nazi program was far more successful than the endeavors to increase total domestic food supplies. The failure to approach food self-sufficiency is no reflection on the organizational efficiency of the Reich Food Estate. Considering the resources of Germany, the task of "closing the remaining gaps" would have been an impossible task even under ideal conditions. But the conditions during the "battle of production" were far from ideal. The agricultural program was from the beginning an integral part of the total program of war preparation. Obviously, in a country with limited resources and depleted reserves in all fields, direct war preparation left inadequate resources for the extremely difficult task of increasing self-sufficiency in food.

Whatever partial successes towards the goal of food autarchy may have been

(14) Herbert Backe, Die Erzeugungsschlacht - eine Futterfrage, in Der Vierjahresplan, January 1938, p. 20.

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attained, they necessarily resulted in strains in practically every area of the economy, including agriculture itself. In the official German publications of the last few years before the war, the authorities responsible for carrying out production plans in agriculture as well as in various branches of industry and transportation, again and again complained that progress in their own fields was delayed by excessive demands on available resources of material and labor made by other sectors of the economy. It was probably unavoidable that, in attempting to push domestic production of practically all essential war materials, shortages arose even in raw materials for which the German supply situation was highly elastic, such as coal, electricity, etc. Delayed deliveries of machinery, coal and even substitutes retarded production plans, particularly in agriculture, whose progress had to be sacrificed to the needs of essential war industries. When the construction of the western fortifications and the preparation and execution of the Austrian and Czech invasions required large additional resources, the farm program felt even more acutely the shortage of machinery, building materials, and transportation. In fact, the authorities drew increasingly upon the existing agricultural resources to support the rearmament program proper.

2. Accomplishments of the Food Production Program.

To what extent is Germany able to meet her present food requirements as dictated by her war machinery? Upon the answer to this question largely depends the Germany policy toward the agricultural and industrial economies of the conquered nations.

Are the German claims justified that, in contrast to the world war experience, the farm program since 1934 has succeeded both in increasing the production level of important foods and in strengthening the farm economy so that domestic production can be maintained or even increased in a war of long duration?

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The agricultural "battle of production" centered around two main factors, namely, (1) to make the country independent of breadgrain (wheat and rye) imports, and (2) to increase the output of virtually every kind of animal products by expanding the domestic feedstuff basis.

The solution of the breadgrain problem involved no major difficulties. In favorable crop years Germany had produced, before the Nazis came into power, sufficient quantities of both wheat and rye to meet the domestic requirements for human consumption and in addition to feed 2.7 million tons of rye (or 25 percent of the total domestic breadgrain output) to livestock. But consumer taste was switching from rye to wheat bread. However, since domestic production of wheat cannot easily be increased, varying quantities of wheat had to be imported. The Nazi farm program had to be concerned with potentially higher breadgrain needs in war-time, which could be fulfilled domestically only if rye was partly substituted for wheat. The first step was therefore "consumption planning" to change food habits back to rye bread, and to regulate bread quality through admixture of potatoes and corn. In order to avoid the necessity of an expansion in breadgrain production, feeding of breadgrains to livestock was prohibited. The success of these measures depends, of course, on the possibility of providing other feedstuffs, notably root crops such as potatoes and beets, in place of the rye feed.

In this way the breadgrain problem is closely connected with the feedstuff problem. This the Nazi authorities recognized at the outset: "The feed question is of decisive importance not only for the solution of the fat and meat problem, but it is also a necessary pre-requisite for adequate bread supplies. This became apparent in 1937, when we were forced to prohibit the feeding

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of breadgrains to safeguard our bread supplies. One can even say that nearly all food shortages as they occurred intermittently within the last few years can be traced directly to preceding feed shortages. The solution of the feed question is therefore the central problem of the 'battle of production'.¹⁵⁾

To gain or increase independence from feedstuff imports in war-time was not simply a task of expanding output of such feed crops as can easily be grown on German soil. German agriculture has always been able to produce nearly sufficient feed carbohydrates such as potatoes and beets. To offset the lack of rye as feed, merely larger quantities of potatoes and beets had to be made available for feeding purposes.

The real difficulty, as during the world war, consists in securing the necessary amount of protein feed. To fatten animals and to produce milk requires definite minimum quantities of carbohydrates and protein.¹⁶⁾ If these requirements cannot be met for any length of time, the weight of slaughter animals and the volume of production must decline. One purpose of the imported feedstuffs (concentrates like oilcake and corn) was to fill the quantitative protein gap. Hardly less important was another purpose, to maintain the necessary ratio between carbohydrates and protein. To keep up milk production, for instance, milk cows require feed containing a protein-carbohydrate ratio of about 1:6. The bulk of Germany's domestically produced feed, however, has an unsatisfactory protein-carbohydrate ratio.

15) Ernst Schneider Die Futterfrage, ein Zentralproblem der Erzeugungschlacht, in Landwirtschaft und Technik, March 1939.

16) German and American experts on animal nutrition are very nearly agreed on the minimum requirements. Compare, for instance, the figures of O. Kellner in Grundruege der Futterungslehre, 8th edition, Berlin 1928, with the figures of Morrison, Hacker, Mitchell, and Hamilton, Yearbook of Agriculture 1939.

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When the agricultural "battle of production" started in 1934, there was a protein deficit of over 1 million tons a year, about 15 percent of the total requirements. To produce this quantity domestically would have required an additional acreage of 12.5 million acres, one sixth of the acreage then operated by German farmers. This was impossible: Germany possesses virtually no additional land that could be put to farm use. On the other hand, the annual population increase of 470,000 persons necessitates the equivalent of an annual addition of 650,000 acres of improved land, corresponding to fully 1 percent of the entire improved acreage of the Old Reich. To make matters more difficult, the rearmament program required considerable acreage for roads, airdromes, cantonments, fortifications, etc., with the result that in 1937 and 1938 alone there was a net reduction of 1.4 million acres of improved land, an area large enough to feed 360,000 people.

One of the Food Estate officials stated the dilemma as follows: "Our farm acreage is limited, and nowhere did we previously produce more than we needed. To increase acreage of a particularly important crop, we had to curtail acreage of other crops whose production had, however, to be maintained¹⁷⁾ as well, since otherwise shortages in these products would have arisen."

The impossibility of increasing the crop acreage explains largely the nature of emergency farm measures introduced by the Nazi authorities since 1934. Essentially, the entire program was an attempt to circumvent the limitation of acreage. One way was the substitution of higher yielding crops, or

17) Gustav Behrens, Hat die Erzeugungsschlacht Erfolg gehabt?-in Der Vierjahresplan, January, 1938.

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crops containing a higher food or feed value per acre, or crops especially rich in protein, for less productive crops.¹⁸⁾ This method, however, did not create any net production increases.

A second device was the increased utilization of intermediate or cover crops. Intermediate crops make it possible to harvest two crops in one year or at least three crops in two years. They furnish not only green feed for summer and autumn feeding, but especially feed the protein content of which can be preserved for the winter months by fermenting in silos. Although the protein content of such feed is low, this silage feed would partly compensate for feed concentrates formerly imported.¹⁹⁾ Despite tremendous efforts, this most important latent feed reserve could be utilized only to a very limited extent.²⁰⁾ Labor shortage was one reason, the impossibility of constructing silos owing to shortage of building material and labor was another. In order to provide sufficient amounts of silage, 80 million cubic yards of silos would have been necessary.²¹⁾ However, by the middle of 1939, not even one tenth of this silo capacity was available,²²⁾ so that barely 10 percent of the cattle can now be supplied with this kind of protein feed.

18) This device is the only one that produces higher yields per acre without great additional efforts, and that can be readily continued in war-time. It was largely restricted to substituting winter barley (whose yield is 25 percent higher) for spring barley, or increasing the acreage of sugar beets (whose protein content is a third higher than that of fodder beets), and by shifting to high yielding clover and alfalfa.

19) Herbert Backe, l.c., p.22.

20) Der Anbau Landwirtschaftlicher Zwischenfruechte in Jahre 1938, in Wirtschaft und Statistik, February 1939.

21) Werner Willikens, Bauten fuer die Volksernaehrung, in Der Vierjahresplan, June, 1939.

22) Hermann Hildebrand, Futteraufbewahrung und Gaerfutterbereitung in der deutschen Landwirtschaft, in Der Vierjahresplan, June 5, 1939.

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Most important under the circumstances were the attempts at increasing the yield of virtually all crops by more intensive farm methods. Increased mechanization, and particularly tremendous increases in fertilizer consumption, actually led to a noticeable improvement in average yields. If one compares average yields during the 4 year period before 1934 with those during 1935-39, one will find that the yield of alfalfa was increased by nearly 14 percent, that of hay 12.5 percent, of clover 8.7 percent, of sugar beets 8.2 percent, of potatoes 7.1 percent and of all grains combined 6.3 percent. For the question as to whether such a favorable level of yields can be maintained in war-time (when fertilizer consumption is curtailed), it is important to call attention to the fact that "even the layman can easily note that the coincidence of record yields in three different groups of crops during three consecutive years is almost entirely due to the influence of increased fertilizer application."²³⁾

As long as these measures of intensification could be applied, partial output successes resulted. Most important was the 10 percent increase in potato production during 1935-39 as compared with 1928-32. The record potato crop of 1937 and the excellent crops of 1938- and 1939, in combination with the favorable yields of sugar and fodder-beets, largely overcame the effects of the prohibition of breadgrain feeding. The efforts to increase domestic²⁴⁾ production of protein feed were far less successful, as we have seen.

Even during 1934-39, such partial success was accompanied by acreage and production reductions in other fields. The continuous decrease in forage crops,

23) K. Schuenemann, Der Duengerbedarf in der Landwirtschaft, in Die deutsche Volkswirtschaft, January 20, 1939.

24) It is true the acreage of corn and sweet lupines was expanded eight-fold between 1934 and 1939, but the 1939 corn acreage of 100,000 acres and the lupines acreage of 115,000 acres were of no practical significance.

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amounting by 1939 to 10 percent of the total acreage, was noted with much apprehension by the authorities. The acreage in breadgrains was reduced 4 percent, and the total grain acreage by 1.4 million acres. The level of production could be maintained only by means of yield improvement.

To summarize briefly the accomplishments of the "battle of production": The farm program was limited from the outset to such measures as promised to increase production by intensified farm methods. Prior to 1937, these measures did not produce the desired effect; periodic food shortages occurred, forcing the authorities to relax their policy of import restrictions. After 1937, the intensification program resulted in improved yields. This improvement in yield, particularly of root crops, offset the acreage decrease in grains. Although the official output figures for animal products cannot be taken at their face value, the large root crops probably led to some increase in lard and pork production. Yet, although huge imports of feed concentrates were being furnished by overseas countries, Germany still depended on imports for close to 50 percent of its fats for human consumption.

Probably the outstanding asset of the efforts during 1934-39 is the creation of the rigidly organized Reich Food Estate, which plans and supervises war-time food production and distribution incomparably better than during the world war.

3. Strains Resulting from the Agricultural "Battle of Production."

Long before the outbreak of war, it became apparent that whatever partial successes had been obtained, they were overshadowed by the seriousness of the strains that developed in the course of the agricultural "battle of production." It is well to recall in this connection that in 1914 the German farm economy possessed latent reserves in virtually every field which could be and actually

25) Joh. Stephan, Die Entwicklung des Futterpflanzen Anbaus seit 1933, in Deutsche Landwirtschaftliche Presse, March 4, 1939.

were utilized, and which were of great assistance at least during the first two years of the world war. Except for the advantages of better organization, it is safe to say - and the following discussion will show - that the basic conditions in German agriculture were, on the whole, *probably* less satisfactory at the outbreak of this war than they were in 1914.

a) Farm Labor:

Before the start of the "battle of production" in 1934, farm labor represented no problem. The authorities were therefore justified in recommending acreage expansion in root crops, corn, oilseeds and intermediate crops rather than in grains, although under the German crop system potatoes require 2.5 times as much labor as grain, beets 3.5 times as much, corn 5 times as much, intermediate crops twice as much and oilseeds 5 times as much. During the first few years, these higher labor requirements could be met without much difficulty, since at that time farmers were still able to increase their manual efforts in the same way as at the beginning of the world war. Efficient organization succeeded within a short time, by education as well as by intimidation, in making farmers work longer and more strenuously.

But neither education nor intimidation could avert large-scale city-ward migration, once the rearmament program opened better opportunities in factories. "The original plans of the 'battle of production' had to be sacrificed on account of the urgent industrial expansion and the pressing work connected with the rearmament program. Farm labor, urgently needed for expanding domestic food output, had to be drawn off into construction and other industries,

26) H. Reischle, *Wirtschaftliche Auswirkungen der Landflucht*, in *Der deutsche Volkswirt*, Jan. 1, 1939; also, Hugo Richards, *Die Sorgen der Landwirtschaft*, *ibid.*, Dec. 17, 1937.

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thus further deepening the existing farm labor shortage.²⁷

According to official figures, the total number of farm workers was reduced 18 percent between 1935 and 1938. Small farms (those between 12.5 and 50 acres) even lost 26 percent of their total labor and 30 percent of their male workers.²⁸⁾ Darré, the Minister of Agriculture, estimated the net city-ward migration at between 700,000 and 800,000 persons. This figure would be alarming enough, since it would mean that 10 percent of the total number gainfully employed and helping as family members in agriculture had left farms within 4 years. But the actual decrease was about twice the number admitted by Darré.²⁹⁾ The farm labor expert of the Reich Food Estate, Guenther Pacyna, arrives at an estimate of 1,800,000 farm workers and farmers who had left farms for cities between 1933 and 1938, i.e., before the intensified rearmament program led to a new wave of city-ward migration. The outstanding German labor expert, P. Bramstedt, corroborates this estimate and explains Darré's estimate by stating that "the Minister of Agriculture intended merely to indicate the lower limit of the magnitude of this migration."³⁰ The actual net loss of farm labor amounted to 1.5 million persons between 1933 and 1939, according to the farm census of 1939 whose results were published recently.

Farm policy from 1933 on, combined with the pre-eminence of the industrial rearmament program, thus led to a 16 percent decrease in the number of farmers and farm workers between 1933 and 1939. It is fair to assume that

27) Editorial in "Der Vierjahresplan", October, 1938.

28) Konrad Mayer, ed., Gefüge und Ordnung der deutschen Landwirtschaft, Berlin, 1939. p. 322.

29) In Nationalsozialistische Landpost, March 3, 1939.

30) Paul Bramstedt, Lohngefuge und Landflucht, in Die deutsche Volkswirtschaft, March 8, 1939.

at the outbreak of war, close to 20 percent of the 1933 number had been drawn into the war machinery.

The effect of this shortage can hardly be overrated. Instead of a lengthy analysis, it may be far more elucidating to let one of the highest Nazi officials, Reich Food Estate leader Behrens, describe the situation: "It may not be generally comprehended how the farm labor shortage affects our agriculture. Whoever visits our villages is struck by the consequences of this shortage, visible on nearly every single farm... Many farmers are thinking about giving up their livestock entirely. On a great many farms herds have been cut in half... solely on account of labor shortage.

"The health of farm youth is suffering to an alarming extent on account of overexertion. In Saxony, 680 out of 1938 applicants for the Storm Troops had to be refused as unfit. In a farm college in Saxony only 7 out of 66 students were physically fit, and of the 7 fit ones, 4 came from the city. The other 59 pupils all exhibited deformities of the back and chest, fallen arches and other deformations, which were clearly a result of overexertion..

"The number of women and girls willing to^{do}/farm work has decreased continually. The work load is increasingly shifted to married and older women. No fewer than 500,000 women over sixty are occupied in agriculture as full-time help, in most cases day-in, day-out from 4 or 5 o'clock in the morning to late at night. From all this, one can gauge how difficult it is for the individual farmer to carry out the demands of the 'battle of production.'³¹⁾ Nay, this appears virtually impossible under the circumstances."

31) Gustav Behrens, Stillstand in der Erzeugungsschlacht; in Odal, Monatschrift fuer Blut und Boden, March 1939, p. 152/53.

Conditions may not have been quite as alarming as Behrens described them, although it is difficult to see any reason, a few months before the outbreak of war, for painting the picture darker than it actually was. In any case, these conditions largely explain why after 1938 it was impossible even to maintain acreage in general, and production of animal products in particular. 32)

It should be emphasized that these conditions persisted long before the outbreak of war. This was in marked contrast to farm labor conditions before the outbreak of the world war.

In view of the extent of the labor shortage during the last few years, it is not surprising that the farm production program could not be extended. Rather, it is remarkable that Germany came near to maintaining the output of crops requiring much labor and of animal products.

b) Farm Machinery and Other Improvements.

The shifts from imported feed concentrates to domestic root crops and fermented green silage, accompanied by sharply increased labor requirements in the 33)

32) The effect of the shortage of trained help on the livestock economy had been viewed with anxiety by officials: "Care and feeding of milk cows necessitate well experienced and qualified personnel. By far the greatest part of milk production originates in districts of small peasant holdings. In these districts help was predominantly young, unmarried farm hands and girls, who migrated to cities during the last few years. Thus, the farmer and his wife must now do their work as well, besides all the work which has already kept them busy from dawn to dusk. Of course, they are just not able to do all the necessary work for any length of time. Whenever possible, they reduce the number of milk cows and substitute feeding cattle, which requires less work." Cf. Lage und Aussichten der Butterproduktion (Situation and aspects of butter production) in "Deutsche Landwirtschaftliche Presse, January 7, 1939.

33) Intermediate crops whose tilling and harvesting coincide with the peak of the usual workload on farms, involved novel additional labor requirements. Similarly, the fermenting of greenfeed, and the artificial drying of roughage and leaves, represent operations which were unnecessary before 1934. (cf., for instance, Albert Brunnentbaum, Möglichkeiten der Technisierung der Landwirtschaft, in Der Vier-Jahresplan, June 5, 1939.

face of a 20 percent decrease in the number of farm workers and farmers, had been possible only at the cost of overexertion of the remaining farm population. But this explains only partly the relatively favorable output conditions before the war. Without the utilization of labor saving measures of intensification, the general level of farm output would certainly have rapidly diminished after 1937.

The Reich Food Estate had originally planned a large-scale mechanization of farm operations. As late as 1937 it had hoped for an annual delivery of 50,000 farm tractors to medium and large farms. This program could not be carried out. According to State Agriculture Secretary Backe, the total number of tractors on farms does not exceed 57,000; this means that less than 2 percent of German farms are equipped with tractors. Backe gives specific reasons for the limited use of the tractor: "At first the conservative attitude of the German peasant, which is adverse to new devices, prevented rapid mechanization. Today (1939) another reason stands out: German agriculture has, during the last few years of labor shortage, learned the great advantages of the tractor. But then the scarcity of raw materials, or rather the insufficient quotas of raw materials allotted to agriculture, made it impossible to satisfy farmers' demands for tractors and trucks. But this may be changed in the future. On small and medium-sized farms, tractors are rarely seen, except where tractors are used cooperatively. This is to be regretted, since the labor shortage is most serious on small and medium-sized farms." 34)

Increased mechanization facilitated operations on larger farms, and may have been instrumental in the relative maintenance of grain production. It was not able,

34) Herbert Backe, *Mehr Farmschlepper*, in *Nationalsozialistische Landpost*, January 6, 1939.

however, to overcome to any appreciable extent the effects of the general labor shortage. On the whole the construction of fermenting bins and silos, and the mechanization of dairy operations, which led to a sharp increase in manufactured butter in place of farm butter production, was far more important than the mechanization of crop production.

Under war-time conditions, the limited progress in mechanization is an advantage, rather than an impediment, because of the present gasoline shortage. The inability to use most of the farm machinery during this war is apt to cause additional labor difficulties.

c) Fertilizer.

By 1937, the farm labor shortage was doubtless at a critical stage and endangered the continuation of the food self-sufficiency program. At about the same time, shortages of strategic raw materials and ensuing retardation in the delivery of farm machinery made it impossible to offset labor shortage by extended mechanization.³⁵⁾ Increased application of fertilizer was probably the only effective means of improving crop yields without additional labor. The increased use of fertilizer was further stimulated in 1937 when prices of nitrogen and potash were greatly reduced.

The sharp increase in fertilizer proved to be the most fruitful of all the emergency farm measures. "The success of the 'battle of production', and especially the larger root - and feedstuff crops, would not have been possible without it." 36)

35) In January, 1937, it was admitted by Backe that the potentialities of production increases had reached their limit, particularly for fats (cf. H. Backe, Warum wurde eine Feuregelung des Fett Verbrauchs notwendig? in Der Vierjahresplan, January, 1937 36) Karl Krauch, Gesicherte Duengemittelversorgung, in Nationalsozialistische Landpost, February 16, 1940.

It is significant that even critical observers accept at its face value the argument of German propaganda which emphasizes only the accomplishment of noticeable expansion of fertilizer consumption without, of course, indicating the real issues behind the specific German fertilizer problem. We believe that the fertilizer problem is even more decisive than the labor problem in determining domestic German food supplies during this war, because Germany will be able to alleviate the labor shortage, but cannot possibly remedy the fertilizer shortage.

The belief that German agriculture had been able in the years of increased fertilizer application to enrich its soil with the necessary plant nutrients, and thus to store reserves for emergencies, is completely unfounded. In view of the important conclusions with regard to war-time food supplies which the fertilizer question poses, it is necessary at least to indicate the crucial factors determining the present aspects of this problem.

During the "battle of production" considerably greater quantities of fertilizer than before were needed merely to maintain the level of crop yields³⁷⁾ since less care in tilling and soil preparation could be exercised, since the quality and quantity of the manure had deteriorated, since intermediate crops,³⁸⁾

37) "Efficient tilling and soil preparation save half the amount of fertilizer otherwise needed. The shortage of trained farm labor made it impossible even on well managed farms to till the soil adequately and in time." (F. Kertscher, Die Bodenuntersuchung in Dienste der praktischen Landwirtschaft, in Die Phosphorsäure, vol. VI, 1937.)
 38) The manure showed a decided deficiency in phosphoric acid and in nitrates owing to shortages of feed concentrates. The only means of overcoming these deficiencies is increased application of fertilizers." (P. Ehrenberg, Welche Folgen hat das weitgehende Fortfallen der Handelsfuttermittel fuer die Beschaffenheit unseres Stallduengers, in Superphosphat, Oct. 1937.) The Reich Food Estate attempted in part to overcome this loss in plant nutrients by inducing farmers, through subsidies, to construct liquid manure tanks. But owing to construction material and labor shortages, only 5 percent of all farms now possess such tanks. (Karl Schuenemann, Die Duengerwirtschaft Deutschlands, in Der Vierjahresplan, June 5, 1939.)

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formerly used as green manure, must obtain the same fertilizer quantities as main crops,³⁹⁾ and particularly since the planned shifts in crops emphasized root crops and oilseeds, which require 2 to 3 times as much phosphoric acid per acre as grains.⁴⁰⁾

All these novel factors caused a sharp rise in fertilizer needs merely to maintain yields. Yet the "battle of production" demanded increased yields as the one means of expanding total farm production. However, according to the leading German soil experts, "at a time when not medium but record harvests were required, German agriculture was not provided with the amounts of fertilizer necessary to offset the loss of plant nutrients drawn out of the soil by the current crops. Even worse, we have further deprived our soil of plant nutrients and endangered its fertility."⁴¹⁾

There is ample evidence that soil conditions at the outbreak of this war were much less satisfactory than before the first world war. In 1914 "German agriculture was assisted by the fact that for decades it had applied phosphoric acid fertilizer far beyond the amounts drawn out of the soil by the current crops. The soils contained large reserves, which could be splendidly utilized when the emergency arose."⁴²⁾ The soil was equally well supplied with the other plant nutrients.

39) "Intermediate crops must obtain the same quantity of fertilizer as main crops, therefore fertilizer consumption must be increased in line with the expansion of intermediate crops." (Hans Seher, *Anbau von Zwischenfrüchten als Grundlage der Viehhaltung*, in *Superphosphat*, August 1937.) Most of the intermediate crops had been plowed under prior to 1934, and thus had furnished green manure; their nearly exclusive utilization as feed after 1934 occurred at the cost of increasing soil depletion. (Konrad Meyer, *Gefuege und Ordnung* ---, p. 537.)

40) F. Kertscher, l.c. p.87.

41) S. Gericke, *Neue Untersuchungen ueber die Duengewirkung des Thomasmahls*, in *Die Phosphorsaeure*, Vol. VII, p. 95

42) F. Aereboe, *Der Einfluss des Krieges auf die landwirtschaftliche Produktion in Deutschland*, Stuttgart 1927, p. 44.

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Before the outbreak of this war, the soil showed marked deficiencies in virtually every kind of plant nutrient. The deficiency was most serious in the case of phosphoric acid. Official soil tests on a large scale revealed that 70 percent of the soils were greatly deficient in phosphoric acid.⁴³⁾ Some experts believed that only the light soils had suffered, but that the heavy soils possessed sufficient reserves to endure a reduction in phosphoric acid application. "The soil tests proved, however, that 64 percent of the heavy soils have insufficient reserves and are, for instance, no longer able to produce sugar beets; only 19 percent still had sufficient reserves."⁴⁴⁾ The phosphoric acid deficiency of the soil would be less alarming if the lime content had been satisfactory. Lime deficiency causes the phosphoric acid in the soil to be converted into a state in which it cannot be absorbed by the plants. But the German soil experts found that 50 percent of all soils suffer from lime impoverishment and the other half needed to be kept under constant observation.⁴⁵⁾ Even the number of potash-deficient soils increased, and more than half the cultivated acreage contained insufficient potash.⁴⁶⁾

The phosphoric acid deficiency was primarily due to shortage of raw material supplies. Germany does not produce any raw phosphates and its output of basic phosphate slag, a by-product of the steel industry, did not nearly meet the phosphoric acid fertilizer requirements. It was forced to import

43) Prof. O. Engels, Verstärkte Düngerverwendung im Zeichen der Ertragssteigerung—in Kunstdünger und Leim, August 1937.

44) S. Gericke, Die Leistung der Phosphorsäure im Zuckerrübenbau, in Zeitschrift der Wirtschaftsgruppe Zuckerindustrie, January-February, 1940.

45) R. Herrmann, New Results of Soil Research and Their Importance for Practical Agriculture, in Proceedings of the 18th International Conference of Agriculture, Dresden, June 6-12, 1939, p. 25.

46) L. Schmitt, Zeitgemässe Düngungsfragen--, in Die Phosphorsäure, Vol. VI, p. 128; also, O. Engels, Erfolgt die Kaliversorgung Unserer Böden nach richtigen Gesichtspunkten?, in Deutsche Landwirtschaftliche Presse, March 18, 1939.

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about 1 million tons of phosphates annually, mostly from countries with which no barter arrangements existed - 90 percent from the United States and French North Africa, now cut off by the British blockade. The remaining 10 percent came from Russia, whose total pre-war phosphate exports would have met only half the German import needs. Long before the war, it became increasingly difficult to obtain even basic phosphate slag from neighboring countries. France had imposed an embargo in 1938. German foreign exchange difficulties forced a curtailment of both kinds of imports with the result that phosphoric acid was clearly "at the minimum." It has been at the minimum for 20 years.⁴⁷⁾

The reasons for the deficiency of potash, lime and nitrates are less obvious, since the domestic supply situation should normally cause no problem. Transportation difficulties were the primary cause. To transport the amounts of fertilizer consumed in 1938, 906,000 railway freight cars were needed, more than twice as many as for breadgrains and flour and nearly 4 times as many as for potatoes.⁴⁸⁾ At least since 1937, the German railway system had faced increasing difficulties, which became critical when the rearmament program was stepped up in 1938. "Unfortunately the political events (Austria, Western fortifications) led to serious strains in the transportation facilities, which have cut the level of fertilizer consumption. Transportation difficulties were most severe at the time when the fields had to be plowed and immediate delivery of fertilizer would have been necessary."⁴⁹⁾

47) For a decade and a half after the world war, phosphoric acid consumption was, on the average, 30 percent below pre-war, although the soil had been seriously depleted of phosphoric acid during the world war years.

48) Nationalsozialistische Landpost, August 11, 1939.

49) Kunstduenger und Leim, October 1938.

The effect of this deficiency of the soil on the war-time domestic food output, discussed in the following section, can hardly be overrated.

4. German Food Supplies in War-time.

The preceding discussion purported to develop and to emphasize the two main issues of the German war-time food problem, namely (1) that the minimum war-time needs for breadgrains, potatoes, and vegetables are noticeably greater than in peace-time, and (2) that the potentialities for increasing or even maintaining the level of domestic food production have been lessened rather than improved in the course of the "battle of production" since 1934.

It is difficult to determine accurately the extent to which domestic food production and still available imports can meet food requirements now and during a protracted war. Most of the belligerent countries do not publish current crop figures, and such figures as have been released by the German authorities are not acceptable as a basis of analysis.

We must instead, appraise the effect of specific war-time factors on domestic food supplies, in the light of the preceding analysis. This will elucidate not only the German war-time food situation, but also the ways in which Germany may use the conquered nations to support her war effort.

2) War-time Factors Influencing the Domestic Supply Situation.

The war itself created no major new difficulties in German agriculture, but it greatly intensified the existing difficulties. The greatest difficulties still are the shortage in trained farm labor and in draft animals, the deficiency in some fertilizers, and the inadequacy of transportation facilities.

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During the first year of the war the farm labor problem was probably the greatest single impediment in maintaining pre-war production. The loss of a great many of the most efficient farmers to the armed forces added tremendously to the farm labor shortage, which was serious, long before the war. The shortage was accentuated by the simultaneous reduction in the number of available draft animals and the difficulties in operating the existing farm machinery. Meanwhile unusually heavy rains in the autumn of 1939 and severe cold in the winter 1939-40 increased the work load.⁵⁰⁾ The use of school children and soldiers on leave for farm work hardly alleviated the labor shortage. By the middle of December 1939, 70,000 Polish prisoners and farm workers had been transported to Germany. The authorities had contemplated employing about one million Poles on German farms, but now they admitted that organizational and transport⁵¹⁾ difficulties would delay such help for many months.

The German domination of Denmark, Norway, the Low Countries, and France, bids fair to alleviate part of the farm labor difficulties. The number of prisoners and conscript workers from these countries on German farms is not known. World war experience showed that such forced labor is only a meager substitute for trained German farm labor, familiar with the peculiarities of the work.⁵²⁾ German regulations for the treatment of Polish farm help hold out little inducement to the workers to overexert themselves.

50) Landwirtschaftsrat E. Mieweg, Richtlinien zum Sommergetreideanbau 1940, in Mitteilungen fuer die Landwirtschaft, Sonderheft 19.

51) P. Syrup, Beseitigung des Landarbeitermangels, in Nationalsozialistische Landpost, February 16, 1940.

52) When the world war started, 400,000 Russian Polish farm workers were engaged in German agriculture and most of them stayed in Germany throughout the war. In 1916, there were 600,000; in 1918, 800,000; and in 1919, 900,000 prisoners on German farms. In spite of all efforts, these prisoners could not be forced to do efficient work. The farm labor problem during the world war did not express itself in a sharp decrease in the number of total workers on farms, but in lack of trained farmers, particularly of competent managers (cf. F. Aerebor, l.c., p. 32 ff.)

The loss of these workers to the agriculture of the German-dominated countries is far greater, absolutely and relatively, than the benefit which German agriculture is likely to receive. This forced labor may be able to avert some reduction in crop output, but it will be of little use to the German livestock industry, which requires highly trained and experienced help.

The farm labor problem is bound to have important ramifications which were unknown until the last year of the world war. It may be recalled that the main efforts since 1933 have been directed towards substituting domestic feedstuffs for imported feed concentrates. The most serious difficulty right from the beginning of this war has been the shortage of protein feed. This deficiency ought to be partly overcome by such emergency measures as the fermenting of the roots and leaves of beets. Even during 1934-39, this device was widely applied, although at that time large imports of feed concentrates were still taking place. During the war, such measures have to be applied on a much larger scale. It is therefore significant that, as early as the end of 1939, great anxiety was expressed lest the labor shortage endanger the execution of these measures, which partly determine the output of milk and meat. "The shortage of help and draft animals made it impossible to exercise the necessary care when the root crops were harvested. Unfortunately this lowered their quality and increased their perishability. But other difficulties result, aside from the loss of feed value. The roots and leaves frequently contain 15-20 percent of foreign matter. Everybody knows that such unclean and rotted feed are a great danger to our livestock. Reductions of 4 quarts a day in the milk output per cow are frequent. Even if feed concentrates can

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be added, direct damage to the health of livestock and to their digestion cannot be avoided. The labor shortage has already caused a decline in herds in many districts.⁵³⁾"

Such factors will become increasingly important if the war continues. With the depletion of the reserves stored before the war, the various emergency measures become more and more essential. Yet each single emergency measure involves additional requirements for experienced labor. This was the reason why before 1937 increased mechanization was encouraged and why expansion in fertilizer consumption was feasible and fruitful.

Shortages of gasoline, binder twine and many other materials make it more and more difficult to utilize labor-saving devices. As a high Nazi official states, "At the present time, when we are forced to save labor to the utmost, it is particularly regrettable that we should give up the advantages resulting from labor-saving machinery."⁵⁴⁾

The most serious war-time difficulty is the shortage of phosphoric acid fertilizer. Owing to lack of supplies, the allotment of phosphoric acid fertilizer was reduced to 40 percent of the 1937-38 consumption (which was 10 percent below 1938-39) right at the outbreak of war. For the fertilizer year 1939-40 only 25 percent of 1937-38 will be available.⁵⁵⁾ In combination with the various other impediments, the curtailment must reduce crop yields in a protracted war.

53) E. Jenal, Was ist bei der Verfuetterung von Riebenblaettern zu beachten? In Mitteilungen fuer die Landwirtschaft, Nov. 18, 1939, also: Wochenblatt der Landesbauernschaft Schlesien, Dec. 30, 1939.

54) Prof. L. W. Ries, Wie hilft man sich beim Drusch ohne Bindergarn? - Mitteilungen fuer die Landwirtschaft, Oct. 7, 1939.

55) At the end of 1939, the 1939-40 ration was increased to 50 percent, and in November 1940 the 1940-41 ration was improved to 30 percent of 1937-38; it is not known whether the higher rations have actually been allotted.

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German soil experts know that the world war attempt to offset the lack of certain fertilizers by increased consumption of others, must be futile.⁵⁶⁾ They also know that "the view formerly held, that phosphoric acid application may be reduced momentarily without damage to quantity and quality of crop yields, is unwarranted---. Yields cannot be maintained without adequate phosphoric acid fertilization."⁵⁷⁾

Of course, yields are determined by many other factors aside from fertilizer, not least by the vagaries of the weather, as was again demonstrated all over Europe in 1940. Yet it is possible to indicate approximately what potential reductions in yield may result from reduced phosphoric acid consumption, assuming that all other factors remain unchanged.

The following estimates of potential yield reductions are derived from 5000 German field experiments.⁵⁸⁾

In order not to burden this article with details, only the conclusions

56) Prof. Engels, Die Notwendigkeit der Beschaffung genuegender Mengen von Rohphosphaten Zwecks Gewinnung und Anwendung leichtloeslicher Phosphorsaureduenger, in Das Superphosphat, April 1935, p. 33.

57) Potash consumption was increased (as against 1913-14 consumption) 70 percent in 1914, 205 percent in 1915, 355 percent in 1916, 310 percent in 1917 and 342 percent in 1918. During the world war, nitrates had played the role phosphoric acid is bound to play during this war, since it was the factor "at the minimum." Yet nitrate consumption had to be reduced 53 percent in the first year, 65 percent in the second year, 62 percent in the third year, 55 percent in the fourth year, whereas phosphoric acid was already reduced by 75 percent in the second year of this war.

58) These experiments were undertaken with the utmost care "in all parts of Germany, under different climatic and soil conditions, running over a decade, and are far more conclusive than pot experiments." (S. Gericke, Wege und Moeglichkeiten einer Ertragssteigerung in Getreidebau, in Die Phosphorsaure, Vol. 7, 1935, p. 287). The German experts regard these experiments as representative; in fact the recommendations of the Reich Food Estate with respect to fertilizer application were based largely on their results.

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59)

applicable to the present-day problem may be stated. The estimates here given refer to a 60 percent reduction in phosphoric acid fertilizer. The experiments assume full quantities of all other fertilizers, although actually, nitrates, potash, and lime will hardly be applied in full quantities on account of labor and transportation difficulties. Of course, since these estimates are derived from field experiments and represent average results for the years 1927-1936, the reduction in crop yields in 1941 and the following years need not coincide completely with the estimates here presented, although the deviations from the average in the 1927-1936 period are as a rule small.

From the experiments it appears that a 60 percent reduction in phosphoric acid fertilizer resulted, *ceteris paribus*, in a reduction of the yields of rye by 12.4 percent, of wheat by 11.5 percent, of oats by 11.3 percent, of barley by 10 percent. The reduction in potato yield depends greatly on the nature of the soils; one set of 1000 experiments reveals a decrease of 6.5 percent, another set of 230 experiments carried out on average or below-average

59) The reader who is interested in these highly significant experiments may be referred to the following sources: S. Gericks, *ibid.*, p. 269 ff. for rye, p. 292 for wheat; R. Floess, *Zweckmaessige Massnahmen zur Leistungsteigerung im Kartoffelbau*, in *Die Phosphorsaure*, Vol. 7, 1938, p. 215, for potatoes; S. Gericks, *Die Phosphorduengung der Hackfruchte*, in *Wiener Landwirtschaftliche Zeitung*, Febr. 10, 1940, for sugar beets; S. Gerlach, *Erfolgreiche Wirtschaftsfuehrung*, in *Die Phosphorsaure*, Vol. 7 1938, p. 227, for fodder beets; Th. Pollinger, *Ziele und Aufgaben der zukuenftigen Wiesenwirtschaft*, in *Die Phosphorsaure*, Vol. 7, 1938, p. 348 for hay.

60) With the outbreak of war, shortages of labor and transportation made it impossible, for instance, to apply lime on many farms. In the autumn of 1939 lime consumption was therefore reduced appreciably as compared to 1938, and even in 1938 consumption had been low on account of the difficulties connected with the occupation of the Sudetenland. (Oberlandwirtschaftsrat Hiller, *Wie ist die Duengung zur Ernte 1940 vorzunehmen?*, in *Wochenblatt der Landesbauernschaft Schlesien*, Dec. 16, 1939). Reich Food Estate officials are aware that neither lime nor potash can be supplied in sufficient quantities. "Lime and nitrates are not restricted. In practice, however, it is different: Transportation difficulties make it impossible to fill the demand." (*Womit koennen wir jetzt duengen?*, in *Gartenbauwirtschaft*, Dec. 28, 1939.)

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farms showed a reduction of 9 percent. The average yield reduction for sugar beets and fodder beets is in the neighborhood of 10 percent. Hay yields, which are of particular importance since hay is the most valuable protein feed, may be expected to decline between 7.5 and 10.5 percent, provided potash and nitrates are applied in satisfactory quantities.

Before the outbreak of war, the Reich Food Estate had contemplated soil analyses on a large scale in order to allot fertilizer according to the needs of individual soils. This project has not progressed far, however. Furthermore, the rationing of fertilizer is handled in such a way that "requests for special allotments cannot be considered, even if soil analyses have shown that the nutrient content is particularly low."⁶¹⁾

In view of the many additional difficulties, and the fact that the 1940 allotment of phosphoric acid fertilizer was below 40 percent of 1937-38, it is fairly probable that the actual decline in yields will be greater than these estimates.

The effects will not be restricted to crop quantities. The ensuing qualitative deterioration of domestic feedstuffs will add to the difficulties facing the livestock economy, and further aggravate the fat situation, the most vulnerable factor in German war-time agriculture.

Deficiencies in phosphoric acid fertilization lead inevitably to reduction in the protein content of the green feed, and it is believed that the nutrient content of feedstuffs may go below the norms necessary for adequate

61) Hiller, Wie ist die Düngung zur Ernte 1940 vorzunehmen, in Wochenblatt der Landesbauernschaft Schlesien, Dec. 16, 1939.

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82)

livestock nutrition.

The livestock situation is further complicated by the effects of disease. By the beginning of 1939, 35 percent of the German cattle had suffered from hoof-and-mouth disease. Past experience has proven that the damage caused by this disease will be noticed only in months and years to come. Maintenance of milk production will be possible only if more care can be devoted to the cattle, and pastures and green land can be brought into better shape.⁶³⁾ In the face of such conditions, the potential decrease in both quantity and quality of protein feed will seriously affect the output of animal products.

The problem of distribution should not be omitted in appraising the war's effect on available domestic supplies. During the first world war, the sharply curtailed domestic food supplies did not all get to the ultimate consumers, owing to lack of transportation facilities.⁶⁴⁾ And during the winter of 1939-40, difficulties in transportation, partly caused by the freezing of the water routes, resulted in shortages even in such foodstuffs as potatoes, which would otherwise have been accessible in ample quantity. As during the unusually

62) Prof. K. Scharrer, Die Bedeutung von Kalk und Phosphorsäure fuer die Ernährung unserer landwirtschaftlichen Nutztiere, in Die Phosphorsäure, Vol. 8, 1938, p. 382, also, L. Schmitt, Zeitgemässe Duengungsfragen, in Die Phosphorsäure, Vol. 6, 1938, p. 382, also, L. Schmitt, Zeitgemässe Duengungsfragen, in Die Phosphorsäure, Vol. 6, 1937. To grasp the implications of this particular factor, it is necessary to keep in mind that "to produce one quart of milk, the milk cows need 50 grams (about 1-1/2 ounces) of protein. If the fodder contains less protein, the animal can draw the needed protein out of its body; but this is possible only for a limited time, after which the volume of milk production must decline." (Bachner, Sparsamere Verwendung von Eiweissfutter, Wochenblatt der Landesbauernschaft Wuerttemberg, Oct. 21, 1939).

63) Lage und Aussichten der Buttererzeugung, Deutsche Landwirtschaftlich Presse, Jan. 7, 1939.

64) In the autumn of 1916, for instance, the organization of the potato distribution functioned flawlessly. But when the Rumanian offensive took place and Rumania entered the war, all railroad cars were needed for military operations. Heavy frosts added to the calamity that led to the unfortunate "turnip-winter" of 1916-17. (cf. A. Skelweit, Die deutsche Kriegsernaehrungswirtschaft, Publication of the Carnegie Foundation, 1927, p.192).

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severe winter of 1916-17, the population was faced with hardships beyond anything that could have been expected on the basis of the food supply situation proper.

German transportation facilities are decidedly less adequate than they were during the world war. As early as 1936, when freight traffic was 10 percent higher than in the previous record year of 1929, there were 4000 fewer locomotives and 80,000 fewer railroad cars than in 1929. And the rolling stock was generally in bad condition. Even at that time special transportation requirements could be met only by curtailing normal freight traffic. For instance, the construction of the Western fortifications required a daily average of 6,400 freight cars; this was made possible only by reducing the Ruhr coal freight traffic by from 6,300 to 6,800 cars a day. The seizure of Austria and Czechoslovakia made conditions worse. Meanwhile the demands on the railways have increased greatly as a result of the war and the reduction in motorized transportation.

b) Germany's Potential Food Imports in War-time.
The Effect of the Blockade.

Contrary to the German claims, the blockade had serious effects from the start. These effects are now beginning to be visible. Domestic farm production is unable to meet current requirements of the rationing system for any kind of food except potatoes and sugar.

Even before the war, then, Germany tried to monopolize the food surpluses from neighboring countries which would not be exposed to the British blockade. Most of the countries of continental Europe, however, do not produce food beyond their own requirements. The following discussion surveys

65) Deutscher Volkswirt, Nov. 18, 1938.

66) Deutscher Volkswirt, Jan. 27, 1939.

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the potential food exports of those countries/ which do/

Great promises were held out to the German people at the signing of the first Russo-German trade agreement, and the expectations run even higher for the trade treaty of January, 1941. It is not likely, however, that the Soviet Union can offer much support in the near future, unless for political considerations she is willing to ship food which she very much needs at home. According to all indications, the increase in domestic food needs of the Soviet Union -- resulting from the expansion of the armed forces -- will hardly leave food surpluses. And the strain on the notoriously weak Russian transportation system has become more serious with increased military requirements. The difficulty of shipping to Germany from the Black Sea ports, (even via the Danube) from which practically all Russian grain exports originated before this war, makes it even more improbable that Germany can obtain appreciable quantities of grains, oilseeds, or phosphates. In this connection the experience during 1940 may shed light on the 1941 potentialities: When the reduction in phosphoric acid fertilizer allotments for 1940 was announced, the German authorities stated that Russian Phosphate deliveries during 1940 would improve the situation for 1941. ⁶⁷⁾ Actually the allotment for 1941 was further diminished.

No appreciable grain or other surpluses are likely to be extracted now from the enslaved peasantry of German-occupied Poland. Whatever quantities may be forcibly taken, will be at the expense of the starving Polish population. Direct economic relations of the Baltic countries with Central Europe have largely ceased, owing to the Russian influence.

⁶⁷⁾ Cf., for instance, J. Diekmann, Unsere Versorgung mit Duengemitteln, Mitteilungen fuer die Landwirtschaft, Sept. 1939.

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Today only the Danube Basin can furnish, under normal or better than normal crop conditions, appreciable quantities of bread and feedgrains, and small quantities of animal products and fruits. Denmark and the Netherlands have normally been able to export large amounts of animal products to Great Britain and continental Europe; but they will not, after 1941, have any surpluses during this war.

68)

1) The Danube Basin

The Nazi efforts to obtain economic control over Rumania, Hungary, Yugoslavia and Bulgaria were only partly successful before the outbreak of war, since they attempted to maintain trade relations with free exchange countries. The bulk of their pre-war grain surpluses was shipped to such countries. Germany, including former Austria and Czechoslovakia, received only 27 percent of the Danubian wheat exports, and 47 percent of the total corn exports, between 1935 and 1939. During the same period the Old Reich obtained only 15 percent of the Rumanian, 49 percent of the Yugoslavian, and 14 percent of the Bulgarian wheat exports. The Old Reich took only 4 percent of the Hungarian wheat exports in 1937, and 32 percent in 1938. Only 25 percent of the Rumanian, 17 percent of the Yugoslavian and 2 percent of the Bulgarian corn exports found their market in Germany proper. By far the larger part of the German pre-war imports of breadgrains and feedgrains came from countries from which Germany is now cut off by the blockade.

68) A detailed analysis of the food export potentialities can be found in an article by this writer on "Wartime agricultural Surpluses of the Danube Basin," in Foreign Agriculture, December, 1940.

It is significant that even if Germany had succeeded in monopolizing the pre-war Danubian surpluses, they would have fully met peace-time import needs only in breadgrains and dry beans. Total Danubian exports would have met only 74 percent of German import needs in feedgrains, 5 percent in butter, 52 percent in eggs, 8 percent in oilseeds and 3 percent in oilcake.

Reich Food Estate experts had no illusions regarding the potential support of the Danubian countries in war-time. Well aware of the instability of crop yields and the insufficient feedstuff basis in these countries, they warned shortly before the war that "such factors should silence all those who hold out hope that the cooperation with Southeastern Europe, desirable though it is, may appreciably improve our food balance. Despite increased trade relations it would be dangerous to overestimate the potentialities of their food exports."⁶⁹⁾

These apprehensions were only too well justified by the 1940 Danubian crops. Surpluses were sharply diminished by adverse weather conditions. The unusually severe winter of 1939-40 affected most crops, greatly reducing yields. In addition, the late spring and the extensive floods retarded and curtailed spring sowing. Large scale mobilization, particularly in Rumania, led to a sizeable reduction of the winter grain acreage. To these handicaps must be added the effect of the territorial changes in Rumania. Bessarabia, now ceded to the Soviet Union, normally produced one-fifth of the Rumanian wheat and corn crops and three-fourths of the oilseeds. The grain loss this year will be even more serious, since, while Bessarabia enjoyed favorable crop conditions, crops in the rest of Rumania were short.

⁶⁹⁾ Keine Übertriebenen Erwartungen. Der Ausbau des Südosthandels und die Ernährungsbilanz, in Nationalsozialistische Landpost, May 26, 1939.

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Unless the Danubian countries are deprived, by pressure, of part of their own urgent requirements, exports of wheat will hardly exceed 10 million bushels, and those of corn 5 million bushels. The 1940-41 Danubian wheat exports will thus amount to only one-sixth, and those of corn to one-eighth, of the 1935-39 exports. The total exports will meet only 40 percent of the German pre-war wheat imports and less than 3 percent of the pre-war German corn imports.

This is a serious blow to the German food balance. Import conditions during the first two years of the first world war were incomparably more favorable. Total food imports during the first year were still about two-thirds, and in the second year one-half, of peace-time imports. Even in 1916, before Rumania entered the war, it sent Germany 2.5 million tons of wheat. From Rumania alone, therefore, Germany received 9 times as much wheat as she can at best receive in 1940-41 from the whole Danubian Basin.

Analysis of the social and economic structure of the Danubian countries reveals that there is little likelihood of an expansion in farm production and surpluses in the next few years. Peculiarities of peasant attitudes, national habits, and a high degree of illiteracy make it improbable that education can succeed in expanding production in a few years. Traditions and customs will prevent the ready adoption of new modes of living and progressive farming methods, even under German supervision and pressure. The uneconomic size of farm holdings in Rumania, Bulgaria and Yugoslavia hampers rapid improvement in farm conditions.

With the cession of Bessarabia, any prospects for large deliveries of oilseeds to Germany have virtually disappeared. Even more than before the outbreak of war, German apprehension regarding the limited potentialities of fat

and fat raw material exports are warranted. Minister of Agriculture Darré warned, in 1939, that "in case of decreasing German fat production, South-eastern Europe will not be able to offset shortages in Germany. These countries will not be in a position during the next decade to alleviate our fat deficit. Despite the greatest efforts, they cannot furnish more than 2 or 3 percent of the German import needs of oilseeds."⁷⁰⁾

The Danubian countries cannot possibly overcome the food deficiencies which must arise in Germany once the reserves are depleted and the current crops diminish. Even if the 1942 Danubian crops should be of average condition, there would be a total breadgrain surplus of 1.5 million tons, if no Danubian grain goes to Austria, Czechoslovakia, Italy or Greece. This would barely meet the German breadgrain deficit. A corn surplus of 1 million tons could satisfy only a fraction of the urgent German feedgrain needs.

2. Denmark and Netherlands.

The combined peace-time butter export surpluses of Denmark and Holland, 200,000 tons, amounted to nearly 15 percent of the total German peace-time fat requirements, and to nearly 20 percent of present fat requirements. But, during 1935-38, Germany obtained only one-fifth of these exports. In view of the seriousness of the German fat situation, political and economic domination of both countries is a desirable and effective way, from the German point of view, to monopolize not only the surpluses but also part of current production needed in these countries.

71)

Germany may receive, during 1940-41, 70,000 tons of butter. This is about 6 percent of her entire fat requirements, or enough to meet the rations for

70) W. Darré, in *Die deutsche Fettwirtschaft*, July 21, 1939.

71) These estimates are explained in the next section of this report.

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3 weeks. She may also obtain about 250,000 tons of pork and beef, equalling 10 percent of present meat needs, or 5 weeks' rations. Such relatively large exports can be furnished only at the cost of sharply diminished supplies in the future, and at the cost of present consumption in Denmark and Holland.

c) Germany's War-time Food Outlook.

Exact data are not available on crop acreage, output of crops and animal products, and stored food reserves. The following summary is derived from the preceding analysis, from scattered information found in numerous farmers' bulletins issued by the Reich Food Estate (which appears more reliable than releases by the Ministry of Agriculture or of Propaganda), and from reports of neutral observers.

Up to the present, at least, the food reserves assembled before the outbreak of war have helped greatly, and supplies obtained in the conquered nations have assisted, in maintaining rations. They may make it possible to sustain the current rations for most foods even until the end of the crop year 1940-41. This despite the unfavorable 1940 crops, which with the exception of potatoes and beets were much below those of the preceding years, and despite the sharply diminished surpluses of the Danube Basin. Prospects differ greatly for the various foods, so it is necessary to look at breadgrains, animal products and other foods separately. It should be emphasized that the following survey does not account for such quantities of food as Germany may have extracted from the conquered nations (except the meat and fat supplies from Danish and Dutch emergency slaughter.)

Breadgrains: It is certain that the 1940 winter grain acreage was well below 1939, and that acreage reduction and winter kill could not nearly be offset by increased spring plantings. The total acreage reduction was probably between

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10 and 20 percent. Inclement weather conditions contributed even more to yield reduction than did fertilizer shortage. Most likely, the 1940 breadgrain crop did not exceed 11 million tons, the size of the 1937 crop. Since it is known that rye is increasingly being fed to livestock, in spite of severe penalties, the 1940 breadgrain crop may leave not more than 8.5 million tons for human consumption, as against requirements of at least 11 million tons. To the German deficit of 2.5 million tons must be added the Austrian deficit of 0.5 million tons. The total shortage of 3 million tons will be alleviated only slightly by Danubian supplies of about 0.3 million tons. The German claims that more than 7 million tons of breadgrains are still kept as reserves are not fully warranted, but it is possible that stocks of 5 million tons were available at the beginning of the 1940-41 crop year. This would mean that the 1940-41 deficit of about 2.5 million tons could be met easily, and there would still be available a reserve of 2.5 million tons, or nearly 3 months' requirements, by the middle of 1941. These reserves may not offset the breadgrain deficit in 1941-42, unless favorable Danubian crops enable larger imports.

Thus, the total available breadgrain supplies will meet the German needs at least until the end of 1941, and possibly until the middle of 1942. Expansion of the armed forces, or increased demands on working efficiency in the armament industries, would deplete the reserves at an earlier date.

It should be emphasized that, long before the outbreak of war, such devices for saving breadgrain as a higher milling ration and admixture of corn or potatoes had been fully utilized. A further deterioration of the quality of bread is hardly feasible. With the prolongation of war beyond 1942, an annual deficit of 2-4 million tons appears likely. Only half of this, at the most, could be made up by imports from Southeastern Europe.

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Potatoes and Meat: Nazi authorities have insisted that adequate supplies of breadgrains and potatoes for human consumption take precedence over the needs of the livestock economy. Since human requirements have increased at least 40 percent, even a record potato crop would diminish the quantity of potatoes available for feeding by 5 million tons. After the outbreak of war, the Reich Food Estate was forced, therefore to recommend a reduction in hog numbers and in slaughter weights.⁷²⁾

Evidently the 1940 potato crop was favorable and made it possible to maintain a larger hog population than originally contemplated. Yet, considering that before the war roughly 10 percent of the feed carbohydrates were imported and that the potato yield must decrease in a prolonged war, it is probable that hog numbers will be reduced by the middle of 1941, and domestic meat and lard production will decrease continuously. The windfall supplies from Denmark and the Netherlands may enable a continuation of the present meat rations at least until the middle of 1941. Decreasing domestic output and cessation of supplies from Denmark and the Netherlands in 1941-42 will then impose unavoidable strains upon the meat supply.

Fat: Most serious is the fat situation. Before the war, about one half of the total requirements had been imported, in the form of lard, butter, whale oil and oilseeds. Only an insignificant part of these imports are now available, yet rationing has decreased total needs by not more than 20 percent. Domestic supplies of feedgrains and green feed will decline in the face of increased army needs. The former imports of oilcake and oilseeds and the bulk of corn imports are cut off by the British blockade.

72) State Secretary H. Backe, Schweinebestand und Marktordnung, Nationalsozialistische Landpost, February 16, 1940, also M. Kisch, Der zukunftsige Umfang der Schweinesucht und Mast in der Ostmark, in Zeitschrift fuer Schweinesucht, February 11, 1940.

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At the outbreak of war, the Minister of Agriculture claimed that the reserves of oilseeds and whale oil were equivalent to one year's peace-time consumption of margarine. This would correspond to about 5 months' total war-time fat requirements. A large part of this reserve must have disappeared during the first year and a half of the war. These reserves, and the windfall butter supplies from Denmark and the Netherlands, largely explain the maintenance of the current fat rations. By the middle of 1941, most of the fat reserves should be used up, and no appreciable supplies can be expected from Denmark or the Netherlands.

The domestically produced fat supplies were derived about 45 percent from butter, 40 percent from lard, 10 percent from whale oil and 5 percent from tallow and vegetable oil. The enforced idleness of the German whaling fleet alone cuts off 10 percent of these supplies. The decrease in hog numbers and slaughter weights will diminish supplies by at least another 10 percent. Although the Reich Food Estate has taken vigorous steps to maintain milk output and to increase butter production by sharply curtailing the consumption of milk, the great deficiency in protein feed must result in a sizeable decline in butter production during 1941-42 and even greater reductions later. It is not known to what extent it is possible to curtail fat consumption for industrial purposes, but such savings would be too small to alter the situation materially.

Current fat supplies, i.e., current domestic production plus current imports, will be at least 50 percent below pre-war.

73) During the first year of the war, milk production decreased by at least 10 percent. Reich Food Estate officials claim that milk deliveries to dairies have increased 10 percent. But since the average savings resulting from the rationing of fresh milk should increase butter production by more than 20 percent, milk output must have declined. (Ein Jahr Kriegsernährungswirtschaft, in Molkerei Zeitung, Sept. 9, 1940).

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Other Foods: Even the restricted German diet before this war contained a great many foods which, though of minor importance individually, contributed to variety and palatability. Before the outbreak of war, Germany imported 250,000 tons of rice and 100,000 tons of legumes. Rice and legumes are now virtually unobtainable. Of the nearly one million tons of fruit imports, only a fraction can be supplied by Italy and other neighboring countries.

The scarcity of these foods is felt with much concern by the population. Nor can the demand for fresh vegetables be even nearly met. Throughout this war, egg supplies allowed a ration of only one egg per week. It is doubtful whether declining domestic supplies, and dwindling production in Denmark and the Netherlands (on account of feed shortage), will make it possible to maintain even the one-egg-a-week ration for any length of time.

Breadgrains and potatoes in sufficiency will not solve the German problem. Once the fat and meat rations have to be further curtailed, their shortage, and the complete lack of stimuli like coffee and tea, must be felt increasingly.

It is increasingly difficult to provide the minimum needs of vitamins and minerals. Synthetic vitamins, so far, have been distributed only to the armed forces and to children. Deficiency of vitamins and minerals may not have immediate and visible effects on the health of the population. But even now it taxes the nervous system of the workers, who have to endure lack of proper clothing, insufficient heat, and all the nervous strains that go with war itself.

The typical effects of malnutrition may be avoided for some time, but efficiency and staying power must decline gradually or perhaps even rapidly.

III. The War-time Food Problem in the Conquered Nations

Prospects of a prolonged war pose to the German economy the difficult problem of allotting at least the prevailing rations to the armed forces, the heavy manual workers and the population at large in the face of continuously decreasing domestic food output, dwindling imports, and depletion of emergency stocks.

The preceding discussion should have left little doubt that this problem cannot be solved adequately during a war of long duration. The task has become even more difficult with the course of events in Italy. Germany may eventually be forced to assist her Axis partner, not only with military force and with armaments, coal and industrial materials, but also with large quantities of food.⁷⁴⁾ Even military and industrial assistance, has, of course, the same effect on the German food situation as an expansion of the German armed forces or an increase in the number of heavy manual workers for the German war effort itself.

Nazi efficiency and the ruthless Nazi determination in the preparation and execution of the war indicate clearly that the Reich will employ every means to avert, or at least postpone, the serious food difficulties to be anticipated.⁷⁵⁾ Under the circumstances, the conquered nations remain the most convenient, and possibly the only, source of the needed supplies. This source has been exploited in 1940-41 and will be exploited increasingly as the war goes on.

It will be shown that the countries subjugated by Germany—Denmark, Norway, the Netherlands, Belgium, and France—might be able to solve their

74) For a detailed account see N. William Hazen, Italian Agriculture under Fascism and War, in Foreign Agriculture, Nov. 1940.

75) Rumania and Hungary belong in the same category.

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war-time food problem despite the British blockade, if Germany were not adjusting their agricultural economies to her own growing food needs, and subordinating their industrial machinery and all their resources to the immediate requirements of her war effort.

Actually, however, the food situation at the present time is serious in most countries of continental Europe. This conclusion is inescapable if one pieces together such information as is available from official American sources, from statements of various European government spokesmen and particularly from the scant rations known to prevail in most of these countries. Still their present food shortages are not primarily a result of reduced crops in 1940 or the British blockade, as the following discussion will prove. 76)

1. Apparent Food Import Requirements of the Conquered Nations.

The national economies and the farm systems in most of the German-dominated countries had been developed on the basis of close international cooperation and interchange.

Denmark and the Netherlands, in particular, had built up intensive livestock industries, which allowed huge export surpluses only by means of large imports of feedgrain and concentrates. The high pre-war ratio of imports of grains to domestic production of such farm products was the expression of this structural peculiarity.

76) Cf. for instance, *Review of the Food and Feed Situation in Continental Europe, 1940-41*, in U. S. Department of Agriculture, *Foreign Crops and Markets*, October 7, 1940, also *Foreign Crops and Markets*, Jan. 6, 1941, and January 13, 1941. The discussion in this section will be limited to the German-dominated countries, Denmark, Norway, the Netherlands, Belgium and France, since their food situation is closely connected with the food situation and the general war effort of Germany. Austria, Czechoslovakia, and Poland are fully integrated with the German economy; the food shortages in Poland are largely a direct result of German requisitions of staple foods. Spain's food problem is to a large extent an outgrowth of the civil war. Sweden, Portugal and Switzerland are believed to possess sizeable food reserves and the food situation in these countries is incomparably better than in the German-dominated regions.

TABLE 2

Apparent Degree of Food Self-Sufficiency in the Conquered Countries, 1935-38

	Denmark	Norway	Netherlands	Belgium	France	Total of 5 Countries
<u>Breadgrains:</u> 1)						
Domestic supplies 2)) Thousand	550	70	780	730	7,360	9,490
Net imports) Metric	330	350	670	1,200	180	2,730
Apparent consumption) Tons	880	420	1,450	1,930	7,540	12,220
Imports as % of apparent consumption	37	84	46	62	2.5	22
<u>Foodgrains:</u> 3)						
Domestic supplies 2)) Thousand	1,840	270	420	610	5,400	8,540
Net imports) Metric	350	150	1,170	1,280	910	3,870
Apparent consumption) Tons	2,190	430	1,590	1,890	6,310	12,410
Imports as % of apparent consumption	16	38	74	68	15	31
<u>Imports:</u>						
Oilseeds)	90	5	65	60	400	640
Oilcake) Thousand	740	40	500	160	600	2,040
Phosphate) Metric	200	25	410	325	640	1,640
<u>Exports:</u>) Tons						
Butter)	150	0	50	3	4	201
Eggs)	75	1	75	10	11	160
Ham, bacon and pork)	165	0	30	3	1	211

1) Rye and Wheat.

2) Domestic production minus amounts needed for seed and falling to waste.

3) Barley, oats, and corn.

4) Oilseeds are in terms of oil equivalent.

Only France, among the conquered nations, had been able to produce nearly enough breadgrains to meet her apparent peace-time requirements. All the other countries had imported large quantities, varying from 37 percent of apparent consumption in the case of Denmark to 84 percent in the case of Norway. The 5 countries combined met more than one-fifth of their total apparent breadgrain requirements by imports.

(See Table 2). It should be emphasized, however, that these figures do not express the actual dependence on foreign supplies, since these breadgrain imports were not used merely for human consumption. In all the countries, appreciable quantities of rye and wheat, ^{oilseeds and} oilcakes were normally imported, in order to sustain livestock herds, and to produce the large output of meat, milk and eggs on which the economies of Denmark and the Netherlands depended in peacetime. Furthermore, domestic crop yields had been assisted by appreciable imports of fertilizer.

The large net exports of pork products, butter, and eggs indicate that much of the breadgrain and feedstuffs imports were actually converted into animal product surpluses. Peace-time imports were by no means an outgrowth of domestic needs; they cannot serve as a yardstick for the real needs of the population of the conquered countries at the present time.

2. Could the Conquered Nations Feed Themselves without German Interference?

The outbreak of war made it impossible for the surplus-producing countries to continue their pre-war policy. The British blockade and difficulties of trade with other European countries would have forced them to rearrange not only their foreign commercial relations, but also their domestic economy, and their farm economy and food consumption in particular, even if their neutrality had been respected by Germany. The Dutch authorities, for example, figured that impossibility of obtaining feedstuffs from overseas in war-time would force them to

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reduce the herds by about 10 percent, hogs by 85 percent and poultry flocks by about 80 percent, and they had storage facilities prepared for the products of such emergency slaughter.⁷⁷⁾

War conditions would of course have made it impossible to continue the high peace-time consumption level in all 5 countries. Unlike Germany, none of them had made organized efforts before the outbreak of war to change food habits or domestic food production according to war-time needs. Virtually the only preparation for eventual emergencies consisted in storing varying quantities of food reserves. But these unavoidable consequences of the war would not necessarily endanger domestic food supplies in the German-dominated countries if they were able to make adjustments in accordance with their own needs.

German political and economic domination and the German occupation, however, have completely upset the possibility of such orderly readjustment.

Current information on existing supplies in these countries is scant and often unreliable. But the purpose of this article is not so much to give a precise and detailed account of the present food situation, as to point out its connection with the German war economy.

To appraise the adequacy of potential war-time food supplies, it is necessary first to estimate war-time requirements. We assume that the 5 countries had gone through the war as they actually did during the past 20 months, but that they are free to adjust their economic life without German direction. In other words, although defeated, they are not part of the German war-time "New Order" and are not forced to deprive themselves of urgently needed materials, and to organize industry and transportation to suit German needs.

In view of the innumerable immediate war-time impediments, it can then

⁷⁷⁾ Algemeen Handelsblad (Rotterdam), Nov. 18, 1939.

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be assumed that industrial activity in all these countries would be reduced below peace-time. As a result, less work would be demanded from the population, workers would be able to adjust their activities to reduced food consumption.

Under such circumstances - which are not far fetched in a civilized world - people would get along on less food than in peace-time without endangering health or staying-power. The type of economy which would exist in these countries if it were not for the German interference, would, of course, have no resemblance to war economy.

In a war economy, the food problem is one of sustaining a high efficiency of the armed forces and the war industries; in a war-time economy which is not concerned with the maintenance of a war effort, however, it is merely a problem of averting malnutrition. The special food allotments to heavy manual workers in Germany are designed to sustain the efficiency of workers in war industries. If the conquered countries could provide their population with such quantities of food as the average adult is receiving in Germany, their war-time food problem would be solved. For, as was shown, the German rations are above the danger zone for moderate work.

Their "war-time food balance" may conveniently be condensed, as in Table 3, into a discussion of requirements and supplies.

Contrary to a widespread impression, even such important basic foods as breadgrains, potatoes and sugar could be adequately supplied. A simple computation, the results of which are given in Table 3, will bear out this statement.

To arrive at an approximation of the present food requirements, we allot the German rations for "normal adults" to each inhabitant of the 5 countries. The inclusion of children, who receive smaller rations in Germany, would make it possible to grant bigger rations to heavy manual workers or to offset

TABLE 3

War-time Requirements and Domestic Supplies of Coarse Foods
in the Conquered Nations

		Denmark	Norway	Netherlands	Belgium	France	Total of 5 Countries
Population	Millions	3.6	2.9	5.7	5.4	42.0	65.6
<u>Breadgrains:</u>							
German ration for adult))	Kilograms	125	125	125	125	125	125
normal consumers)	per annum						
Corresponding requirements)		0.5	0.4	1.1	1.0	5.2	6.2
Average peace-time production)	Million						
minus seed and waste)	Tons	0.6	0.1	0.6	0.3	7.5	9.5
Apparent surplus (+) or)							
deficit (-))		+0.1	-0.3	-0.3	-0.2	-2.3	+1.6
<u>Potatoes:</u>							
Peace-time consumption of)	Kilograms	165	165	165	165	165	165
German adults)	per annum						
Corresponding requirements)		0.6	0.5	1.4	1.4	6.9	10.8
Average peace-time production)	Million						
minus seed and waste)	Tons	1.2	0.8	2.5	3.0	15.0	22.5
Apparent surplus (+))		+0.6	+0.3	+1.1	+1.6	+6.1	+11.7
<u>Sugar:</u>							
German ration for adult)	Kilograms	13	13	13	13	13	13
normal consumers)	per annum						
Corresponding requirements)		0.050	0.040	0.110	0.105	0.500	.305
Average peace-time production)	Million	0.210	0	0.210	0.200	0.650	1.470
Apparent surplus (+) or)	Tons						
deficit (-))		+0.160	-0.040	+0.100	+0.095	+0.350	+0.665

periodical shortages in other less essential foods, by more generous rations of the basic foods to the total adult population.

As a first but realistic approach, we contrast pre-war (1935-38) domestic production available for consumption with present requirements. Both rye and wheat would be used only for human consumption - an assumption which is borne out by the fact that all these countries have prohibited the feeding of bread-⁷⁸⁾grains. Then average pre-war production would have met present requirements fully for Denmark, and more than adequately for France, where a surplus of more than 2 million tons (or over 40 percent of production) would remain. The Netherlands and Norway would face a deficit of 300,000 tons each and Belgium of 200,000 tons, but the 800,000 ton deficit of these three countries could easily be met by the Danish and French surplus of 2.4 million tons.

Even the allotment of the high German peace-time potato ration would require not more than half the production of these countries; each country would have appreciable quantities available for their livestock.

The sugar problem could also be met without any difficulty. Denmark produced four times the amount it now needs, and would be able to supply Norway, and still keep a surplus of 100,000 tons. The Netherlands and Belgium would need only half as much as they produced, and France too would have enough and to spare. In all countries, except Norway, large quantities of sugarbeets could be fed to livestock.

This computation may raise the objection that pre-war production is hardly a measuring rod for war-time conditions, the more so since we have shown that Germany's domestic production must decrease in a protracted war. However, farming

⁷⁸⁾ This may necessitate increased admixture of rye. Belgium, for instance, used no rye before the war, but decreed recently that the bread must contain 30 percent of rye.

conditions in these countries cannot be likened to those in Germany. Whereas Germany largely exhausted the potentialities of production expansion between 1933 and 1939, they did not apply any emergency farm measures before the war. Fertiliser shortage may decrease average yields for some crops, but acreage in breadgrains, potatoes, sugarbeets and vegetables can be expanded so that total output will be greatly increased. This is particularly true for the Netherlands and Denmark, which can reduce their acreage in roughage crops in favor of breadgrains. They did exactly that during the first world war.

Pre-war livestock numbers, as was indicated previously, have to be reduced in accordance with domestically available feed supplies. Since the requirements for meat and fat will be only about half of pre-war, such adjustment would still leave enough supplies to honor the rations. Denmark and the Netherlands might still be able to furnish small surpluses to Norway or Belgium. The reduced Belgian and French requirements could be filled by butter and lard. Eventual seasonal shortages could be kept within the margin of safety.

In all countries there still exist possibilities of saving breadgrains and other foods by such typical emergency measures as were introduced in Germany long before the war. Breadgrain supplies, for instance, may be stretched 20 percent by increasing the milling ratio and by admixing potatoes, supplies of which are ample.

It is fairly certain that domestic farm production of these countries in war time could furnish somewhat better than minimum food requirements for moderate work.

Not all these changes, it is true, could have been undertaken prior to the 1941 harvests. But it can be shown that, without German interference, the conquered nations could have managed to get along with diminished but still safe

rations with their 1940 crops and animal products, since they all had stored large emergency reserves before the outbreak of war.

It is known that Norway possessed, at the time of the German invasion, more than a year's stocks of the foods and other necessities that would be cut off in war-time. The official German Institute for Business Research stated as late as December, 1940, that Denmark and the Netherlands had large quantities of grains and feedstuffs in storage. According to Count Grote, chief of the agricultural and food section of the Reich Commissioner for the Netherlands, "Dutch bread supplies are guaranteed until the 1941 harvest, since large reserves can be drawn upon."⁷⁹⁾ Belgium had prepared herself adequately to avert the bitter food shortage of the first world war. France had made it part of her policy for some years to build up emergency food reserves.⁸⁰⁾

Despite the fact that the grain harvests of 1940 were between 10 and 40 percent below normal, these reserves would undoubtedly have carried all these countries through the crucial period before the 1941 crops. However, potato crops were favorable everywhere, so that admixture of potatoes to grain and a higher milling ratio would have provided breadgrains and potatoes for adequate rations.⁸¹⁾

As to meat and fat during the critical period 1940-41: Denmark, for which reliable data are available in a report of the Danish Agricultural Board, exemplifies how meat supplies from emergency slaughter would have sustained adequate rations in all the conquered nations. Since the Danish herds had to be reduced from 3.3 to 2.6 million cattle, and hogs from 4 million to 2 million, at least 200,000 tons of beef and 100,00 tons of hog products resulted. These

79) Information released by the Norwegian Embassy.

80) Weekly report of Dec. 9, 1940.

81) Kann man Europa aushungern? Deutsche Landwirtschaftliche Presse, August 10, 1940.

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windfall supplies correspond to 2 years' needs (measured in terms of German rations) for Denmark and Norway combined. Likewise from emergency slaughter, the Netherlands obtained approximately 100,000 tons of beef and pork. Since current slaughter meets Dutch needs, this emergency slaughter could have filled Belgium's requirements for fully 6 months. Similar results could have been expected from emergency slaughter in France.

The Danish Agricultural Board estimates that the 1940-41 butter production from the reduced herds may amount to 110-120,000 tons, as against total Danish fat needs of 50,000 tons. Holland too is still able to produce somewhat more than her own requirements. According to German statements, "the war reduced Belgian butter production only 10-15 percent as compared to the high level of 1939."⁸²⁾

Temporary disruption of transportation and the massing of refugees in some centers would have caused local difficulties during the first few months after the German invasion. But the organizational problems of distribution would not have been insurmountable. Without German interference, these countries would have transported food in preference to other materials. It is safe to say that the food supply itself in all the conquered nations was such that no danger of malnutrition need have arisen during the critical period of 1940-41.

3. The Conquered Nations in the German War-time "New Order."

Why then do food conditions in the conquered nations present so far different a picture? -

Nazi officials give a complete answer to this question. The chief economic administrator for occupied France stated plainly the German policy towards the occupied countries: "I wish to emphasize in unequivocal terms that the

⁸²⁾ Volkerei Zeitung, August 23, 1940.

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interests of the German army and of the war effort are pre-eminent to us; all our measures are dictated by this aim,"⁸³⁾

What are these measures? - They are, of course, not restricted to food, although the food question is involved, directly or indirectly, in the execution of virtually all these measures. The economic general staff and its officers, who accompanied the German army during the invasions, admittedly worked according to preconceived plans in integrating the economies of the conquered nations into the German war efforts. This integration varies from country to country.⁸⁴⁾

In Poland, no attempt is even made to claim that the forthright exploitation is in the interest of the Polish population. The only justification is, according to Dr. Ley, that a "lower race needs less room, less clothing, less food and less culture."⁸⁵⁾

In Denmark, "one tries to show the population what a tremendous advantage it is that their southern neighbor is able to take over, without hesitation, the great quantities of perishable products which form the largest part of Danish agriculture."⁸⁶⁾

In Norway "Germany successfully endeavored to offset the consequences of the Norwegian war-time isolation, by taking the place of former customers. Germany contracted not only for goods it took before the war, but also for products which formerly were not exported to Germany."⁸⁷⁾

83) Minister Dr. Schmidt Chef des Verwaltungsstabes der Militärverwaltung in Frankreich, Deutsche Verwaltung in Frankreich, in Kölnische Zeitung, November 1, 1940.

84) Wehrwirtschaft schon bei den Kämpfenden Truppen, in Voelkischer Beobachter, Nov. 24, 1940.

85) in Der Angriff, January 13, 1940.

86) Das Reich ist Dänemarks bester Kunde, in Voelkischer Beobachter, Nov. 17, 1940.

87) Dr. Landfried, Norwegens Wirtschaft im neuen Europa, in Voelkischer Beobachter, Nov. 20, 1940.

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The Netherlands seem to have called for even greater attention, according to Dr. Seyss-Inquart. "Dutch agriculture is already enjoying the security of a wide market in the greater German 'Wirtschaftsraum.' Her unemployed are finding remunerative work in Germany. Moreover, we intend to place German orders with Dutch industries."⁸⁸⁾

The integration of Belgium and France presents greater difficulties than that of Luxemburg, where "the whole country was reconstructed according to the needs of the German war economy within 10 days, from cows' milk to foreign exchange, (von der Kuhmilch bis zur Devisen) as a high economic officer jokingly put it."⁸⁹⁾

Thus far, Belgium and France give to the German economic general staff somewhat more limited tasks, namely, "securing and transporting to Germany such existing stocks, machinery, etc., as are important to the German economy; and controlling establishments which can assist the German effort."⁹⁰⁾ "Many French plants can resume the output of essential war instruments or they can produce parts for German firms."⁹¹⁾

Of course, these German plans make it absolutely impossible for the conquered nations to adapt their economy to their own needs. The food situation, in particular, is affected.

Food requisitioning for the German armed forces quartered there is the most obvious drain. It is not the most harmful factor, but in the food deficit countries, Norway and Belgium, its effect should not be underrated. The army

88) Dr. Seyss-Inquart, Ueber den Aufbau in Holland, Koelnische Zeitung, October 29, 1940.

89) Waffe und Wirtschaft, Koelnische Zeitung, November 1, 1940.

90) Ibid. A detailed account of the "Economic Control of Belgium under the German occupation" can be found in Foreign Commerce Weekly, January 18, 1940.

91) Minister Dr. Schmidt, l. c.

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of occupation in Norway, for instance, corresponds to at least 10 percent of the population.⁹²⁾ In view of the large food rations for soldiers, the total food consumed by the occupying forces could probably provide a fourth of the entire Norwegian population with a diet that would avert malnutrition.

Far more damaging is the German endeavor to give the farm surplus countries, Denmark and the Netherlands, "a secure market for their perishable products in the Greater German Wirtschaftsraum." We have seen how the surplus from emergency slaughter would have solved the meat and fat problem in all conquered nations during the most critical period.

Yet despite the large temporary surpluses, the Dutch population faced "temporary difficulties" in obtaining meat, as Nazi officials admit. These officials attempt to refute the "wild rumors concerning the cause of shortages,⁹³⁾ circulated by non-experts" by pointing out that only 15,000 live cattle were shipped to Germany, forgetting the statement of a week earlier that "the meat and fat surpluses in their entirety benefited Germany."⁹⁴⁾ Much to the Germans' surprise, "farmers delivered only 1600 cattle instead of the previous 16,000 per week, because they fear, without any foundation, a devaluation of the guilder or a confiscation of part of their herds."⁹⁵⁾

Of course, the German policy need not resort to outright confiscation. Paying in Reich Credit Notes (Reichskreditkassenscheine) is much more "business-like" and serves the same purpose. It is known, for instance, that the German clearing debt to Denmark, resulting from imports of foodstuffs, increased 1.5

92) Norwegens Aussenhandel, in Neue Zürcher Zeitung, Nov. 4, 1940.

93) See Deutsche Zeitung in den Niederlanden, Dec. 9, 1940.

94) Wo bleibt das Fleisch, in Deutsche Zeitung in den Niederlanden, Dec. 7, 1940.

Germany also obtained, between July and December 1940, the meat from the emergency slaughter of 13 million chickens, corresponding to another 20,000 tons.

95) Deutsche Zeitung in den Niederlanden, Nov. 30, 1940.

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billion kroners between the invasion and the end of 1940. This amount is equal⁹⁶⁾ to the value of the total annual peace-time exports of Denmark. Thus the conquered nations are exchanging food for German clearing balances, instead of being able to barter foodstuffs for industrial products among themselves.

This form of trade is not restricted to 'surplus' products. From Norway, under such terms, the Germans bought large quantities of fish, butter and even⁹⁷⁾ potatoes. Despite official denials, the fact remains that an appreciable part of French livestock from both the occupied and unoccupied zones had to be "sold" to Germany, together with sizeable quantities of virtually every kind of food. From Holland, "hundreds of carloads of fresh vegetables have been transported into the Reich each week. This gives the Dutch vegetable grower a secure market⁹⁸⁾ and financial compensation for his work."

Aside from the immediate shortages in the conquered countries resulting from such purchase, this form of integration into the New Order has another serious effect. At the end of 1940 the Nazi economic supervisors had already found that "the current practice of requisitioning, marketing and price deter-⁹⁹⁾mination has not increased eagerness of the peasants to deliver their products." Likewise, it may be hard to convince the Belgian farmer that "the serious butter shortages in Brussels and other large cities are due solely to illicit Jewish¹⁰⁰⁾ trading, but that Germany is in no way responsible for such shortages."

Farmers in the occupied countries will have little incentive to adjust their operations to suit German needs. They know that their remuneration will

96) Dänischer Ausverkauf, in Neue Zürcher Zeitung, Nov. 7, 1940, also Henry Chalmers, The impact of war upon the trade policy of foreign countries, in Foreign Commerce Weekly, Febr. 1, 1941.

97) Norwegens Aussenhandel, in Neue Zürcher Zeitung, Nov. 4, 1940.

98) Graf Grote, Kann man Europa aushungern, in Deutsche Landwirtschaftliche Presse, August 10, 1940.

99) Wo bleibt das Fleisch, Deutsche Zeitung in den Niederlanden, Dec. 7, 1940.

100) Deutsche Volkerei Zeitung, August 23, 1940,

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be devalued whenever Germany sees fit to increase the purchasing power of the "occupation mark" by reducing the exchange rate of the occupied countries' money.¹⁰¹⁾ This will jeopardize farm production in a prolonged war despite German efforts to "de-industrialize" the conquered nations.

So far, we have considered only the direct consequences of the "New Order" on food supplies in the occupied countries, i.e. the direct drain on their food supplies by Germany. The indirect effects are no less serious.

Even the reduced food supplies cannot be distributed adequately because of German interference with transportation. In occupied France, Germany confiscated at least one third of the rolling stock, a sizeable proportion of the inland tugs and barges and of motorized transportation facilities.¹⁰²⁾ Much of the food shortage in unoccupied France is due to the deliberate German policy of cutting off unoccupied France from the occupied food producing areas. Germany exercises complete control over transportation in all occupied countries, with the effect that the transport requirements of the armed forces leave little for the civilian needs of the conquered people. This German policy contributes as much to the prevailing food shortages in German-dominated countries as lack of foodstuffs.

Transportation restrictions affect equally seriously the available supplies of coal and industrial raw materials and finished products. They make it impossible to reorganize industrial life except in those industries which Germany needs for her own war effort. So far, little is known concerning German plans for the workers in such industries. But the German authorities will probably follow their practice in Poland, and give the workers engaged in essential war industries adequate rations at the cost of the rest of the population.

101) The rate of the Belgian franc, for instance, was reduced another 20 percent on July 22, 1940 (see Foreign Commerce Weekly, January 18, 1940).

102) Das Transportproblem in der französischen Wirtschaft, Neue Zürcher Zeitung, Nov. 5, 1940, also Binnenwasser Strassen in Frankreich, *ibid.*, Nov. 21, 1940.

This policy creates another dilemma for the conquered nations. They will not be able to give remunerative work to large groups of the population, who will then lack the means of buying even the reduced quantities of food. This will again play into the hands of the Nazi authorities, who make registration for employment in Germany compulsory for all unemployed workmen, by taking away their dole cards. This registration has been enforced on a large scale¹⁰³⁾ in Belgium, and in the Netherlands. From the Netherlands, alone, 50,000 workers¹⁰⁴⁾ had been sent to Germany by the middle of November, 1940.

It is hardly necessary to complete the picture by discussing other ramifications of the food problem in the occupied countries as it is affected, directly or indirectly, by the German efforts at integrating these countries into the "New Order." As in Austria and Czechoslovakia, whose war industries have contributed much to the German economy throughout the war, the occupied countries are in the process of becoming part of the Greater German Wirtschaftsraum. By the same token, the food problem in these countries is becoming an integral part of the total German war effort.

¹⁰³⁾ Foreign Commerce Weekly, Jan. 18, 1940.

¹⁰⁴⁾ Neue Zuercher Zeitung, Nov. 19, 1940.

BRITISH EMBASSY,
WASHINGTON.

PERSONAL AND
SECRET

20th February, 1941

Dear Mr. Secretary,

I enclose herein for your
personal and secret information a
copy of the latest report received
from London on the military situa-
tion.

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

Helifax

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D.C.

TELEGRAM RECEIVED FROM LONDON

DATED FEBRUARY 19th, 1941

TNAVAL

Benghazi expected to be clear of mines by a.m. February 18th.

2. Malta raided by enemy aircraft 11 nights in succession no bombs dropped but mine laying was carried out. On February 17th one mine was exploded in Valletta harbour.

3. Convoy of 16 ships totalling 147,000 tons G.R.T. with troops and supplies arrived at Suez February 16th.

4. Attack on convoy S.L. 64 off the Azores. The situation now, 7 ships totalling twenty-one thousand eight hundred and six G.R.T. believed lost, 8 have arrived in harbour, 4 unknown but thought that these may yet turn up. Survivors state that the raider camouflaged and reports indicate that she was Hipper class cruiser.

5. A.M. February 17th coastal aircraft sighted off Jaederens Point 17 small vessels believed torpedo boats and E-boats apparently exercising at high speed close in shore. Later 12 similar craft sighted off Haugesund. Fighters drove our aircraft off. P.M. February 17th one coastal aircraft sighted convoy of about 9 merchant vessels off Obrestad, attacked largest unsuccessfully. Two M.E.'s attacked, pilot wounded and wireless put out of action.

6. NAVAL

Two homeward bound British ships to

14,000, tons one carrying war material are reported torpedoed in the North Western approaches. Tugs and destroyers have been sent.

7. A British tanker (4700 tons) mined in the Bristol Channel on February 16th has now sunk.

8. The Naval oil depot at Invergordon and the training depot at Skegness were attacked by enemy aircraft yesterday. One oil cistern at Invergordon was demolished, there were no casualties. At Skegness damage was fairly extensive and there were a few casualties.

9. MILITARY. ITALIAN SOMALILAND

Jetties at Kismayu are intact and a number of coast defence guns appear to be serviceable.

10. ROYAL AIR FORCE

February 17th and February 18th.
No operations of importance; night operations cancelled.

11. EAST AFRICA

Operations in support of our troops were conducted in Keren and Kismayu areas.

One Italian fighter was destroyed and another damaged.

12. During a further attack on Caproni workshops on the 16th all hangars were hit and other buildings were demolished.

13. Brindisi aerodrome was bombed by four Wellingtons on the night of February 15/16th, hangars and a seaplane were set on fire. One aircraft is missing.

14. GERMAN AIR FORCE. Feb. 17th.

Enemy activity slight only 9 aircraft penetrated a short distance. One bomber was destroyed by our fighters another probably destroyed and a third damaged.

15. Night of Feb. 17/18th. Enemy operations on a moderate scale consisting of two main attacks the first on South East England including London the second on East Anglian aerodromes. Much mine-laying is reported. One bomber was shot down by a night fighter.

16. LIBYA

On February 14th aircraft attacked our forces in Benghazi area and before dawn on February 15th heavy bombing of Benghazi took place during which 93 civilians were killed. Two enemy aircraft were destroyed and one probably destroyed by ground defences and one German bomber was shot down by our fighters.

17. MALTA

Twelve enemy aircraft were mine-laying on the night of Feb. 16th/17th.

18. Aircraft casualties over and from the British Isles. Germans 2 destroyed, one probable, one damaged. British, nil.

19. HOME SECURITY. Night of Feb. 17th/18th.

In the London area several fires were started including two in the Docks. All were quickly under control and little damage of military importance reported. Casualties were small except in one case where a bomb struck a railway arch shelter under London Bridge Station and caused estimated casualties of over 70 killed and 46 seriously injured.

Paraphrase of Code Radiogram
Received at the War Department
at 8:36, February 20, 1941.

London, filed 14:00, February 20, 1941.

1. On Wednesday, February 19, and during the preceding day adverse weather conditions caused the cancellation of all flights of British planes over the Continent.

2. During the night of February 19-20, 22 German planes attacked London and the vicinity in a 3-hour raid beginning at 7 o'clock. Cardigan Bay and the city of Swansea, Wales, were attacked by 50 German bombers during the same night. During the preceding day small forces of German planes were plotted over the southeastern coasts, east Yorkshire, Norfolk and Suffolk, and over the Scotch ports of Arbroath and Inverness. In addition, merchant shipping along the east coast of Britain was attacked by German planes. The extent of aircraft losses and of military damage done during this day and night has not been determined.

3. British air activity in the Middle East was as follows: Italian land forces, motor transport concentrations and a camp in the Tepeleni area were attacked by British bombers; air fields, troop concentrations and an Italian camp in the Chisimiao and Bardara regions were bombed; and British bombers attacked the harbor at Rhodes. The British lost no planes as a result of these activities and Axis plane losses were four confirmed, two probable and four damaged.

4. Aircraft being employed in the Kenya theater by the South African Air Force with such success are obsolete Hartbeests and Fairey Battle light bombers.

5. The Suez Canal will probably be closed for one week as a result of its having been mined on February 18 by five Axis planes.

6. During the British assault on Benghazi the harbor was damaged considerably and extensive repairs will be necessary to restore it to its full usefulness.

7. A British U-boat sank one escorted Italian cargo boat in an attack on a convoy outbound from Italy and another U-boat sank one escorted Italian vessel and damaged two others bound for Tripoli. Off the Tunisian coast at Sfax a 5,000-ton Italian vessel was sunk by British planes of the Fleet Air Arm.

8. Only three ships from the British convoy attacked near the Agades on February 18 are still unaccounted for as one more has arrived safely in England.

END

Distribution:

Secretary of War
State Department
Secretary of Treasury
Asst. Secretary of War
Chief of Staff
War Plans Division
Office of Naval Intelligence
Air Corps
G-5

4
CONFIDENTIAL

RESTRICTED

G-2/2557-220
No. 321

U.I.D., W.D.
February 20, 1941
12:00 M.

SITUATION REPORTI. Western Theater of War.

Air: German. Last night activity over Great Britain was on an increased scale. Widespread attacks on ports included a fairly heavy raid on London and a very destructive attack on Swansea, South Wales.

British. On the night of the 19th-20th attacks were made on Brest and Calais.

II. Greek Theater of War.

Ground: Attacks by the Greeks and counterattacks by the Italians took place in the southwest sector.

Air: No reports of air activity.

III. Mediterranean and African Theaters of War.

Ground: Abyssinia (Ethiopia). In the Gojjam (south of Lake Tana) Enjabara has been captured by the British. In the south the town of Mega, about 60 miles northwest of Moyale, has been captured by the British.

Italian Somaliland. The British report progress in their operations on the Juba River line.

Libya. The British are putting more pressure on the Jarabub and Kufra oases.

Eritrea. No change.

Air: German bombers continued active over Libya and the Mediterranean.

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



BRITISH EMBASSY,
WASHINGTON, D.C.

Personal and Secret

February 20th, 1941.

Dear Mr. Secretary,

I enclose herein for your
personal and secret information a copy
of the latest report received from
London on the military situation.

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

Halifax

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

Telegram received from London
dated February 19th, 1941.

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Naval. Four or five enemy aircraft dropped mines and bombs in Suez Canal area early morning of February 18th. No report of damage but some mines fell in the canal which will probably be closed one week.

2. Two mines were exploded on February 18th, off Saint Elmo light Malta.

3. P.M. on February 18th. Stella Rigel, mine sweeping trawler, shot down enemy aircraft off Harwich and Saronta s/s trawler off Lowestoft damaged by two near miss bombs. This aircraft believed hit by Lowestoft anti-aircraft guns.

4. Night of February 15th/16th. Four Swordfish bagged escorted merchant vessel 30 miles East of Sfax. Ship believed Juventus Italian 4930 Gr. T.

5. P.M. February 11th. Truant attacked with gunfire two escorted ships off Tripoli. She scored hits then forced to dive. Later convoy sighted returning to Tripoli and she torpedoed and sank biggest ship 3500 Gr. T.

6. On February 12th Utmost attacked Westbound escorted convoy of 3 merchant vessels and scored one hit on ship of 8000 Gr. T. Heavy counter-attack made with bombs depth charges. Four hours later ship sighted with after part awash and escort had left her.

7. Reported that at Benghazi extensive salvage operations required before harbour can be fully utilised and breach in breakwater lets in the swell and requires repair.

-2-

8. One ship of four from convoy SL 64 whose fate was unknown has now arrived in harbour.

9. Royal Air Force. February 18th/19th.
No operations home front.

10. German Air Force. About 15 enemy aircraft reported over Great Britain on February 18th. Ineffective attacks were made on a number of aerodromes in East Anglia, and elsewhere two aircraft and five hangars were damaged at Royal Air Force station. The night of February 18th/19th, no enemy aircraft reported.

Night of February 17th/18th. In addition to the bomber reported destroyed in yesterday's summary, three more enemy bombers were shot down by anti-aircraft and ground defences.

11. Aircraft casualties in operations over and from British Isles. Germans 4, destroyed. British nil.

February 21, 1941

9 a.m.

Present: Mr. Graves.

HM, Jr: Listen, young fellow, I am not going to wait two months to start my drive. I want to start this thing -- well, I think we ought to get something started by the first of March. We just can't wait two months.

Mr. Graves: I did not want to give you the impression that we would wait two months to start the drive.

HM, Jr: We have got to start something. We can not wait. We lose the whole public psychology on the thing. We have just got to get started. I don't care whether it's -- begging Miss Chauncey's pardon -- to hell with the post office with their thing. The fact they are unattractive, hell with it. You have the public all worked up. I got a good press this morning. Swell editorial in the Wall Street Journal. The public is ready for this thing and I am not going to miss the boat. I am not just going to sit around until somebody makes up his mind what kind of a symbol on the stamp. We have the stamps. We could sell them now, because the public is waiting for them and then later on, when interest begins to wane, we will come along with some pretty pictures. I want to go to town on the first of March, but I want to get going, Harold.

Mr. Graves: Is there anything wrong with this? We have in all post offices our present Treasury Savings Bonds. Why shouldn't we go ahead on that basis and as soon as our new bonds are out, substitute them?

HM, Jr: What's the matter with the savings stamps? "Buy savings stamps and when you get \$18.75, buy a Savings Bond."

Mr. Graves: Nothing the matter at all. We think

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the preferable psychology would be to wait for the drive until you have the new form of security.

H.M., Jr.: I can't wait. I am going to miss the whole thing.

I sent a memorandum to Bell this morning "where is that \$3,000,000? I am not going to wait for it to go through with the regular Deficiency Bill. I want it picked up separately and I can get it through Congress the next week. Congress is ready. The people are ready. I can get my \$3,000,000. But to sit here and not do anything until the first of May, I am not going to sit! God! We can do the regular savings bonds.

Mr. Graves: Yes. We have that, and we can start our publicity on the present Savings Bonds.

H.M., Jr.: You don't want to start on regular Post Office stamps?

Mr. Graves: Well, that too. That's an adjunct to the present Savings Bond. We could begin on the basis of what we have on the counter today. I would like to talk that over with Odegard and Kuhn.

H.M., Jr.: That's all right.

Mr. Graves: Because all of our thinking has been it would be best to start the thing with the new package we are going to have the first of May.

H.M., Jr.: I won't wait beyond the first of March. You have your mailing lists?

Mr. Graves: We are using them. We are sending out 2,000 pieces of literature a day.

H.M., Jr.: Not enough. Not enough.

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Mr. Graves: That's pretty fast. We are distributing literature right now through the Post Office and carriers.

HM, Jr: Well, Harold, get together with the crowd and instead of thinking in terms of the first of May, think in terms of the first of March. But mind, I want something on the first of March. I know if we get the \$3,000,000 out you can get it through Congress.

Mr. Graves: Certainly we can have by the first of March, regardless of what should happen to that \$3,000,000, we can have a full announcement of this program. We can have it in all the newspapers and we can, in that, say that we have these Treasury Savings Bonds on sale now at all post offices.

HM, Jr: And that it will be followed by others as fast as we can move them. We can also draw the public's attention, which the Post Office has been afraid to, to these savings stamps and savings certificates.

Mr. Graves: We can announce all of the details of this plan.

HM, Jr: Harold, the first of March!

Mr. Graves: Yes.

HM, Jr: O. K?

Mr. Graves: Yes, sir.

HM, Jr: Just step on it. You are sitting around arguing about unimportant things and with your help I am going to town the first of March, and no fooling, Harold.

oOo-oOo

The Test Is Coming

With the President's signature upon a bill the legal limit of the national debt has been pushed up from 40 to 65 billions, all future issues of Treasury obligations have been rendered taxable and the Treasury has been enabled to give them the character and denominations it considers expedient.

In the fiscal year to begin July 1 next, the Treasury will incur a deficit probably not less than seven billions, even after new taxes soon to be laid plus more active business have increased annual Treasury income from roughly seven billions to nine or 10. The deficit—to be borrowed—may easily go above that minimum estimate, depending on defense program speed-up and aid to Britain.

The Treasury will offer stamp books and bonds in small pieces to enlist for the government the financial backing of many millions of "little fellows" and their wives. That is, the government will ask the country to buy "guns" instead of "butter." It will offer as a material inducement—in addition to the moral obligation on every citizen to help make his country secure—its promise to repay him hereafter for what he presently spends for "guns," with a modest accretion of interest.

When the Treasury begins to offer these "popular" loans, we Americans will begin to decide just how much sacrifice of comfort or luxury we are willing to make for our security as a nation in a world of frantic wars. This or that authority may meanwhile decree priorities in manufacturing but these orders are likely to prove only piecemeal expedients. Our coming bond subscriptions will test our real willingness to give the government the right-of-way at mine, mill and factory.

There will be our opportunity to do it voluntarily and so avoid the necessity of compulsion. The principle of freedom under law will be at stake

February 21, 1941

D. W. Bell

Secretary Morgenthau

Isn't it possible to get our \$3,000,000 request for money to pay for the advertising of our savings defense notes before Congress as a special bill? I don't think we would have any trouble to get it through at once if we could only get it before them now. Please talk to me about it today.

February 21, 1941
9:10 a.m.

H.M.Jr: I hope in the excitement you didn't cut yourself.

Tom
Corcoran: (Laughs). I almost did.

H.M.Jr: I got your message through Ed and I'm up to my ears; I'm trying to borrow a little money.

C: I understand there is a March 15th financing.

H.M.Jr: And if you would tell me how urgent it is

C: Well, I can tell you what it's about.

H.M.Jr: But I've always got time to see you.

C: No, I can tell you what it's about. Soong has asked my brother, who used to live in the East, and pending the time when my brother gets back in this country and will look at it, has asked me to represent him in some things. I have had talks with him about the fact that if I were going into the Chinese situation I would want to go into it through your Universal Trading Company. He said that this is not a trading business, this has to do with things after you get the planes and because I wanted to be sure that there was no objection by the Treasury and so the Treasury would know what I was doing, I carefully took it up with Harry White yesterday and with Ed Foley and last night with Larry Morris and they all agreed that if Soong didn't want to use the Universal Trading Corporation the thing to do was to let him form another corporation, and that it was better for me to go in and take it for him than to have someone else through whom he'd try to bring all kinds of influence to bear and who might not play ball.

H.M.Jr: Well, all those things are true, Tom, but you don't know what the nature of it is?

C: Well, may I talk on this line?

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H.M.Jr: Yes, you can.

C: What Soong wants me to do is to help him recruit pilots. What he really wants me to do is to go over and wrangle for him with the Army and with the Navy to have them practically order certain men to enlist in the Chinese Air Force.

H.M.Jr: Well, that has nothing to do with the Universal.

C: Well, I should assume that.

H.M.Jr: No. As a matter of fact, they ought not to get mixed up in that.

C: Well then it's all right if it isn't done through Universal as far as you're concerned?

H.M.Jr: Oh, surely.

C: Now I want you perfectly to understand that I may go in with Soong.

H.M.Jr: Go in what?

C: I may go to work for Soong.

H.M.Jr: That's all right. I just want to make one other suggestion for your own sake.

C: Yes.

H.M.Jr: I think you ought to talk to Hu Shih about it and make sure he's satisfied - the ambassador.

C: Yes. I understand the relationship between Hu Shih and Soong are bad.

H.M.Jr: Well, I don't know but just for your own sake
.....

C: Yes, I understand that and I know Hu Shih very well.

H.M.Jr: Don't you think that is a very good idea?

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C: I think that's a very good idea.

H.M.Jr: Just so that he doesn't cut the ground out from under you.

C: That's right. Now I may only be available to Soong for about a month if certain plans that the President has come off.

H.M.Jr: For the Navy.

C: Yes, for the Aeronautics job in the Navy. I think in that event, of course, by that time my brother will be back and I'd frankly turn it over to him.

H.M.Jr: Well, I think as far as I'm concerned your going to work for Soong is absolutely O.K. and I just make the suggestion that

C: I clear all the way around.

H.M.Jr: That you clear with Hu Shih.

C: All right. I shall do that, Mr. Secretary.

H.M.Jr: Good luck!

C: Thank you.

February 21, 1941
10:18 a.m.

H.M.Jr: Hello.

Operator: Congressman Doughton.

Robert
Doughton: Hello, Henry. How're you feeling?

H.M.Jr: Oh, I'm all right. How are you?

D: Oh, I don't know; I'm going along some way - still down here.

H.M.Jr: And going strong by all accounts.

D: I have a letter here - I thought I could speak to you about it over the phone without coming down and taking up your time - from O. K. LaRoque, President of the Federal Farm Loan Bank, Winston-Salem. They're going to have a stockholders meeting down there the last of March and they want you to come down and talk to them. They think it'll be a wonderful opportunity for a real national service, with which statement I fully concur.

H.M.Jr: Well, that's very nice. Well, he had - Mr. Reynolds had already sent over

D: Dick Reynolds. Yeah.

H.M.Jr: And I told him I just couldn't do it. The day isn't long enough, Bob.

D: How's that?

H.M.Jr: My day isn't long enough.

D: I was fearful that you wouldn't have much time for out-of-town speaking unless it was some social function or something of that kind which, of course, you can't overlook.

H.M.Jr: Well, I'd love to do it for you, but you'll have to excuse me.

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D: Well, understand it wouldn't be primarily for me; it's not in my District. It's Lon Folger's District, but I'd be mighty glad if you could because it's an institution you know that serves the state. I'll have to tell them - shall I send a letter down or just tell them what you said.

H.M.Jr: Just tell them you talked to me and if I'd do it for anybody, I'd do it for you.

D: Well, thank you very much. I was fearful you couldn't go, Henry. How're you getting along? All right?

H.M.Jr: I'm getting along all right; I want to see you soon.

D: Well, I'll come down any time you say.

H.M.Jr: Well, I want

D: I think we'll get up our bill and introduce it on Monday - it's been taking a long time to draft it - about amendments to the excess profits tax. I hope to bring it up on Monday - bring it up on the House - and pass it Tuesday.

H.M.Jr: Then we want to do something about these state exempt bonds, you know. I want to talk to you about that.

D: Think we'd better get on that before we get on a general tax bill?

H.M.Jr: I think so.

D: Or would it all come in together?

H.M.Jr: Well, I'd like to talk to you about it.

D: Be glad to do it any time that I'm not tied up here with a bill.

H.M.Jr: I'll get in touch with you early next week.

D: Thank you very kindly.

February 21, 1941
11:00 a.m.

RE FINANCING

Present: Mr. Bell
Mr. Hadley
Mr. Haas
Mr. Murphy
Dr. Goldenweiser
Mr. Eccles
Mr. Ransom
Mr. Piser
Mr. Szymczak

H.M.Jr: This isn't the easiest one in the world to price, but I would rather price it on the market than have it be on the bottom.

Eccles: Well, there isn't any question, as I said the other day, that it is much easier to price it with the adjustment that has been going on than it would have been if you had been - if it had been up at the top of the market. It does look like it has made a bottom.

H.M.Jr: It looks that way. Well, I called you gentlemen up last night to tell you the way the thing looked; and, as far as I am concerned, the people that I have seen this morning, they are still talking the same way, and two and three quarters is what they would like, and they all agree. They don't all agree that a bond, a short bond--

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Eccles: Has the option.

H.M.Jr: Yes.

Eccles: Two issues?

H.M.Jr: Two issues. I haven't talked to New York. I haven't talked to Rouse.

Eccles: I have talked to him.

H.M.Jr: Well, I haven't.

Ransom: It is obviously more difficult to price two issues at this time than one, however.

H.M.Jr: I don't see why.

Eccles: Well, we discussed this this morning. We haven't had a lot of time, of course, after I talked to you last night. I asked the committee to meet this morning at 10, and we had this memorandum prepared here on - maybe you would be interested in reading it.

H.M.Jr: Yes. I will read it out loud.

"Strictly confidential," from Piser.

Eccles: Last evening we discussed in a general way this picture and asked Piser to put it down, the general points of view.

Szymczak: It is just on the basis of rates.

Eccles: Pretty largely.

H.M.Jr: Oh, shall I read it?

Eccles: Possibly we could discuss the various aspects. Well, we are still somewhat of the same opinion

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that we had the other day, that one issue, two and a quarter In talking to Rouse, he felt the same way about it. He was of the opinion that most of the securities or at least - were held by the banks, especially the notes and a good many bonds, that the insurance companies didn't hold many of them, that the insurance companies are the ones that wanted the two and three quarters percent bonds, that the banks were not the ones that were particularly strong for that bond, that if a two and three quarters was put out as well as the two percent bond, there would be a good deal of milling around in the market, a good deal of shifting, that the job of pricing the long bond would be much more difficult than the job of pricing the shorter bond, that there would be the - not only the difficulty of pricing the long bond but the relative pricing, that is, the relationship between the pricing of the shorter bond and the longer bond. The two and three quarters, of course, seems to me somewhat of a drive to get the highest rate that they can - that can be gotten at this time. I would personally, the way I feel today about it, like to see the rate kept lower than the two and three quarters. I think the putting out of a two and three quarters percent bond may have to be done at some time, but certainly doesn't - I doubt if at the present time that is going to be necessary. I think the insurance companies are the ones that are making the drive to try to get the two and three quarters rate established for long bonds.

H.M.Jr:

Well, all this talk about getting away from the banks, don't we want to get the money from the insurance companies?

Eccles:

Well, that may be. The banks, however, own - if it was new money, I would think quite differently

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than on the refunding operation. I would like to see the one issue in the refunding put out at this time, and then when it comes to getting new money, it would be easier to price the issue. You would be able to establish what the relationship was likely to be between the taxable and the non-taxable, and I am - it would be my personal view that you are going to be able to get two and a half percent money. Maybe not quite so long, but I think that you can get two and a half percent money from the insurance companies and from the Mutual Savings Bank, particularly where they don't pay taxes. The two and a half is going to look all right to them. If that is true, you won't likely have to price your savings securities on quite as high a basis as you might otherwise have to. I don't mean that - as I said, we haven't had a lot of time to think about it, and after we discuss it more and we get some different points of view, we might change, but this morning that is the - as I interpret the discussion, it is the general feeling of the committee.

Piser: In regard to issues also, the market may put a very different value on one issue than the other; and, if that is the long-term bond, you would find practically all of the exchanges going into that issue which might prove more than the long-term market could stand at this time.

Bell: There is an awful lot of insurance money hanging around to grab up the long term bond, they told us.

Eccles: I think you are right. I think if you put out the long bond, the insurance companies would grab it in a hurry.

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Bell: It hasn't been only the insurance companies that have recommended this long bond.

Eccles: Mutual Savings would take it.

Bell: I don't think we have had anybody in here except one man that has recommended an intermediate bond and an intermediate only. We had one man from a bank who recommended a long bond as one issue.

Eccles: Savings or commercial?

Bell: Trust.

Eccles: Yes. You see, that is savings funds.

Bell: But he is a dealer in general bonds.

Eccles: Your commercial banks wouldn't take it.

H.M.Jr: I thought that was what all you Federal Reserve fellows wanted.

Szymczak: But that was on the basis of new money, Mr. Secretary. You have gotten some bills out and you have gotten some notes out. Now it would seem logical to get out an intermediate bond and then go out into a long bond, especially when you are going in for new money.

H.M.Jr: Not a single person has come in here and suggested two and a quarter. But not one.

Bell: We had one man that recommended two, that is on the single issue. He was a dealer.

Eccles: I am thinking of it from the Government's standpoint and not the bankers'.

Szymczak: Sixty-two, that would be below sixty-sixty five

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for a two and three quarter bond, and I take it the thinking has been to go into 30 years on two and three quarters.

H.M.Jr: If you wanted to do it as economically as possible, I would rather do a two.

Szymczak: Two about that--

Eccles: I wouldn't object to a two. The only reason for the two--

H.M.Jr: I don't see the sense of two and a quarter if it is a question of economy.

Eccles: The only argument for the two and a quarter, I wouldn't feel very strongly between the two and a two and a quarter, personally, but there would be some insurance demand for it because it yields, in the case of those concerns not paying taxes, the same as the - well, let's see. In the case of the two and a quarter where a concern is paying taxes, it yields the same as a two and three quarters.

Szymczak: And that single bond was proposed on the basis that it would appeal to both insurance companies and banks. However, you can reverse that and say it is just in between where it won't appeal to either. I mean, you just reverse the same thing.

Eccles: If the insurance companies buy two and three quarters percent bonds today, they will yield two and a quarter. The premium will figure two and a quarter on the two and three quarters percent bond today, so that a two and a quarter percent taxable bond would give them the same return that the two and three quarters percent bond would if they buy it on the market today with the present premium.

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- Murphy: And if they get the two and a quarter percent bond at par in the secondary distribution, but they don't unless the issue is a failure, do they?
- Eccles: Well, I - if they paid some premium, it would vary to that extent, whatever the premium is.
- H.M.Jr: Have you got any ideas, Goldenweiser?
- Goldenweiser: Well, I have a - yes, I have. They are not awfully firm but I don't feel inclined toward a two and three quarter bond this early in the game. You haven't issued a two and three quarters for three years, and I think that it is a little early to start the two and three quarter financing. I think you can still do it easier. I think this situation is one where you might better try out one that is two or two and a quarter and not go up as high as two and three quarters, and see how the market does price it in the course of a few weeks before you start on a higher basis if you have to.
- Szymczak: As a matter of fact, we seem to feel just a little more cautious here on this thing and that is the reason we suggested the one bond. On the other hand, we may be entirely wrong in making the suggestion.
- H.M.Jr: Well, I gather from what you said, you people haven't had time enough to think about it.
- Eccles: Well, we had the discussion this morning. We haven't had the time that you have. I mean, you people--
- H.M.Jr: I have done nothing else.
- Eccles: That is right, you spent all day yesterday, and

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you talked with a lot of people, and you got the point of view of - I can see why the market, the banker, would have just that point of view, but in the past a good many times we haven't followed it. I don't feel that they are always right at all. I think that they are looking at it purely from their own selfish point of view, naturally, and that is what you would expect.

Bell: They are our customers.

Szymczak: Yes.

Eccles: But you haven't always--

Bell: We always satisfy our customers.

Eccles: No you don't. I think they think this, that here the Treasury is in a difficult spot here at this time, and I don't think there is any such a situation at all. I think that the only problem is purely a technical problem of pricing, and I just don't personally like the attitude that some of the people have taken, the bankers, in trying to capitalize on the situation and give an impression that the Treasury financing is going to be a difficult job, because I don't agree with them at all on it, and--

Szymczak: You have a lot of that two and three quarter bond taken by banks because they are the people that have the money on this refunding. Most of the holdings are in the banks. The insurance companies would take a small portion, and you would have a secondary market on your two and three quarter bond.

H.M.Jr: Well, as far as letting the bankers dictate, they have never done it since I have been here, so I am not going to start at this time, but it is only sensible to listen to them.

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Eccles: Of course.

H.M.Jr: And after all, we are getting our new money temporarily through bills and it doesn't please them, but this whole drive for higher interest rates is one that the bankers want, and it is the one that I am trying to forestall.

Eccles: Well, you are getting a two and a half percent bond, and I don't say that a two and three quarters percent bond isn't a long - a long bond isn't all right if you are going into long bonds a little later on after this bond - after you find out what the relative relationship is going to be between the taxable and the non-taxable security. And I would think that it may be desirable to put out a long bond, wherever you could properly price it, that would tap the insurance companies, and if you had to go to two and three quarters in order to do it, I would say that we possibly shouldn't do that.

H.M.Jr: Let's let the thing cook over the weekend and see where we are at and just as soon as this is over, which will be Monday night, if you people - I would like to get your suggestions on these.

Szymczak: Same people?

H.M.Jr: Yes. I would like to wait until this is out of the way. I don't want to start two discussions at the same time.

Szymczak: Mr. Secretary, you are going to call them Monday morning. Is there anything particular you are going to ask them about?

H.M.Jr: Yes. I am going to ask them from their contacts with the banks in their district what they think would go the best.

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Eccles: Wouldn't it be well then in your wires to indicate the questions that you will ask?

H.M.Jr: Yes. I just want to ask them in their communities what securities do they thing the Government could offer.

Szymczak: Would you say as between these two bonds?

H.M.Jr: I wouldn't like to put any suggestion in there. I would just say, "What securities does your community think - "

Szymczak: And at what rate?

H.M.Jr: "And at what rate?"

Eccles: You said day before yesterday to wire them and say you were going to call them, but you didn't indicate. We assumed it was with reference to the financing, but I wondered if we shouldn't be more specific and say, "It is with reference to the financing. The Secretary would like to know, in your opinion, what would go the best in the market at this time," so they can be prepared to answer.

H.M.Jr: If you would do that.

Eccles: Well, we will include that in the wire.

Ransom: Mr. Secretary, may I ask you this: when we were over here last, your group and ours seemed to have a meeting of minds as to what was indicated. I take it from what has been said this morning that the faith of your own boys in that particular plan has been somewhat shaken by your subsequent conversations with the market. Is that the case?

H.M.Jr: They can talk for themselves. Bell, you talk.

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- Bell: Well, I have some feeling about this single issue. It has worried me right along as to whether we should attempt here to put this billion and a quarter in one issue. We have never done it before and the market was good. We have always split a billion dollar issue one way or the other, and that has worried me since last week when it was suggested here.
- Szymczak: Because it is a billion, more than a billion, or is it because there are two kinds of securities?
- Bell: Because it is more than a billion.
- Szymczak: Not because of the fact that you have got notes and bonds?
- Bell: We never have in the past, as I remember, put over a billion dollars into a single issue, just because we said that you are getting into one spot where the market might not like it, and there would be all of that churning and so forth around here, that you would throw all the rest of the market out of line. I am not satisfied that we ought to do that.
- Eccles: Isn't it one thing where you have got a total of 45 or six or seven billion, 45 billion outstanding, and where you are going out to 65 billion, it seems to me that you have got to increase the size of your issues in relation, possibly to your total size of the--
- Bell: Should we do that in a market that isn't very good? It may be all right a little later, if the market settles down pretty steady, but it hasn't been steady.
- Eccles: Isn't this true? You have usually gotten some new money along with your refunding. You haven't

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had occasion to do any very large amount of refunding and not new money. Always you have been in for new money when you have got your refunding.

Bell:

Not always. We have had some pretty large refundings alone. I don't know how George and Murphy feel about it. They are the ones that recommended the last time the one issue. I don't know whether they have changed or not in view of their conference.

H.M.Jr:

George?

Haas:

I look at it this way. We are doing - it is a refunding job, and I have my eye - my thoughts are on the market after this job is done, because you have got - you are not going into the market and leaving it stand for a long time, and although I am not very firm in my thoughts this morning, my thoughts are running toward one issue of about a two as being a safe proposition and the other - I am a little afraid of the long, that you are going to have a lot of churning in the market just because you are putting out new types of bonds, all taxable, and the market has got to absorb that sort of thing in addition. I am afraid if you get a long one and an intermediate one, you will add churning to it, particularly because to reach the insurance companies to any degree you have to go through the right market, through the banks.

Eccles:

The insurance companies hold so few today, you mean?

Haas:

That is right, and I think some people are over-estimating the cash available to insurance companies and in Mutual Savings Banks, available for investment.

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- Bell: I don't know about that. We have had three insurance companies in here and two of them had just a little under a hundred million and the other one said, "Well, I could dig up 300 million in cash." He has got cash and short term securities.
- Eccles: I think they hold over a billion dollars.
- Goldenweiser: Half a billion in those three.
- Haas: A billion dollars in the whole outfit, I think, but you can't figure they would clean that all out, you see; and another thing I think about the insurance companies, if the market isn't nursed right, the insurance companies - you see, the banks will buy these two and three quarters with the idea of getting them over on secondary distribution and the market isn't acting right and the insurance companies will still hold back and say, "Wait until we get something even better than that."
- H.M.Jr: But they are not talking that way this time.
- Haas: No, you have got the market churning, Mr. Secretary. That makes a lot of difference.
- H.M.Jr: I think last week the Treasury was really in a spot on this thing, but I think this week is much encouraging.
- Ransom: I think, as the Secretary says, he has never allowed the market to dictate to him. In this particular instance, I think you are in a much stronger position than perhaps the market thinks you are, so that there would be even more reason for guiding the market by the security you were issuing than to let the market dictate the terms, which I think they would be very glad to do if

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they could. I think George has expressed my views almost exactly as to the present situation. They are certainly subject to change, Mr. Secretary, and the thing is a little perplexing.

Szymczak: I am afraid we are making this too strong this morning, but that is the way we still feel.

H.M.Jr: All right.

Ransom: We are still open to argument.

H.M.Jr: All right.

Eccles: How do you feel about it?

Murphy: I concur very much in what Mr. Haas said. I would prefer a single, two.

Eccles: Do you feel the same way, Mr. Hadley?

Hadley: No, I don't.

Eccles: I wanted the other side.

Hadley: My opinion is that if you put out a two percent issue, you are not going to help yourself to gauge a longer term issue later. I think it would be better to put the two out now and give them both an even start. If you put out a two percent, eight year, something like that at this time, it is going to gauge that section of the market, but you have a different type of market out at the other end, and I would rather do the two together.

Bell: Of course, if we put out a short one that way, they are all going to lodge in the banks. You don't know what insurance companies will do or the real investors.

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- Murphy: Of course they are there already. This isn't a question of promoting a further increase in bank deposits.
- Szymczak: That is right.
- Murphy: The banks have them.
- Szymczak: It is entirely different when you go into new money.
- Murphy: I don't think we have ever taken the position that we want to disgorge the present bank holdings of Government securities, and that is what it would amount to. If we are attempting to get the banks to redistribute a portion of their present holdings to insurance companies, and we know that the insurance companies are skittish, they will buy them on a rising market, but if the market stops going down, they will wait and they won't support you.
- Bell: The insurance companies have some of these three and three eighths. The three insurance companies that we talked to had about 50 million dollars of the bonds.
- Eccles: We have got about 75 million of the two and the insurance companies, I think, a year ago, you said, Piser, when I asked you this morning, that the last figures that you had on it, that the insurance companies had about - you thought about 75 million.
- Bell: Of what, the bonds?
- Piser: Of the two together, just as an estimate.
- Bell: Well, we know three insurance companies that have 50 million in bonds and they are not the big ones.

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Ransom: Mr. Secretary, after you have talked to the presidents of the Federal Reserve banks, would you have someone tell us in a general way what their thoughts are?

H.M.Jr: Yes, Mr. Bell can do that.

Ransom: I think that would be interesting to us.

H.M.Jr: Sure, we can do that.

Eccles: I am going to talk to Rouse. I told him to talk to Allen about this and to consider it from every aspect, and that I would talk to him again this afternoon. They felt the other day a good deal like we do. Now, I would like to see whether they have had some reason to change after they have discussed the matter and considered it and, if so, what the reason may be.

H.M.Jr: O.K.

February 21, 1941
11:40 a.m.

RE FINANCING

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

H.M.Jr: Hadley, you are on which front?

Hadley: I want the two issues, a bank issue and a long issue.

H.M.Jr: You see, these babies are always willing to have me take the risk and they know if it goes wrong, it is me, and here I didn't know that the great Morgan Stanley firm had two issues go sour. Chesapeake and Ohio Railroad, certainly - it is a Triple A bond, isn't it? It went sour on them. And then they have the Monongahela. That went sour. And here is Republic Steel went sour, and all of these sour issues are around, and these fellows are perfectly willing for me to take the risk.

Bell: Republic isn't out, is it?

Hadley: Well, they held it up.

H.M.Jr: But it just burned me up to hear Eccles talking about not listening to the bankers.

Bell: That was a little unnecessary.

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H.M.Jr: I was awfully good this morning. I could say, "well, what about reading Aldrich's speech and then yours?"

Bell: And then the statement.

Haas: And the year-end statement.

H.M.Jr: I was awfully good this morning. He put me in a bad humor.

Bell: He can't help saying something that comes right back to that year-end statement. He almost got back on it this morning.

Haas: He was justifying the market. It makes it much easier now because it has gone down.

Bell: Well, this is a hard one to price.

H.M.Jr: We haven't priced it yet.

Bell: It is a hard one.

(Telephone conversation with Mr. Devine follows.)

February 21, 1941
11:43 a.m.

H.M.Jr: Hello.

Operator: C. J. Devine.

Mr. Devine: Hello, Mr. Secretary.

H.M.Jr: How are you?

D: Fine, thank you. How are you today?

H.M.Jr: Oh, wonderful. Well, after you get back in that rarified Wall Street atmosphere - how does it look to you today?

D: Well, I don't have any doubt in my mind that you can't sell a long bond. I absolutely think you can sell a long bond but there is no two ways about it, it is going to cause - of course, you've got to try it sometime there's no doubt about it - but it is going to cause some switching.

H.M.Jr: Well, so what, as they say.

D: Well, so what? It will mean this, and it isn't that I don't want to see you try it, I do. I think the issue will go and go out the window and I'd have no worry about it at all.

H.M.Jr: Yeah, but if you were writing the ticket, what would you write? Never mind about me.

D: I'd sell my 2, a '48-50.

H.M.Jr: Do you think it'll go?

D: Oh, sure, it'll go! My goodness yes! No doubt about it any more than I have any doubt about your '65 combination with it but yet you see that if you sell '65 or '62-67, a long bond, there are going to be insurance companies and there are going to be savings banks who are going to sell your outstanding '60-65 to buy this new bond because exemption means nothing to them. Now, if they can get 107 or 107½ for an outstanding non-taxable bond, which

- 2 -

means nothing to them, and can buy your new bond at 101, 101½ or 102, they're going to do it, particularly the savings banks, because they pick up 5 points in price and they get a better return. The exemption means nothing. Of course, that is going to have to happen some day; it's got to happen some day because there is always going to be a spread but how much I don't know.

H.M.Jr: Well, Devine, how much do you - how much value is there in having two pieces of paper instead of one?

D: Well, I'll say this, if you sell a longer bond that bond will go to insurance companies, there's no doubt about it. You take your '60-65 today, I know that if we were to check up to find out where those '60-65's lie, I would say offhand that 60 to 70% of those '60-65's are in the hands of insurance companies.

H.M.Jr: Well, there isn't much argument about that.

D: Which is good, I think.

H.M.Jr: Yeah, Well, in other words, you're right where you were yesterday.

D: No different.

H.M.Jr: That's all right.

D: But you understand I'm not saying that a 60-65 won't go because I'd like to buy the issue.

H.M.Jr: Yeah. Well, I'll be talking to you again Monday.

D: All right, sir. If I get any different ideas or anything happens, would you want me to call you? Or call Danny?

H.M.Jr: Well, Monday call me.

D: Well, you'll probably be busy so I'll wait until you're available.

H.M.Jr: That's right. Thank you.

D: All right. Good-bye.

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H.M.Jr:

Well, at least he sticks by his guns. That is something, you know.

You know, what they wanted this morning was somebody to tell them what I say when I talk to all of these presidents. Well, if there was anybody on the Federal Reserve Board that I felt friendly with, I would ask them to come over and sit at my elbow.

Bell:

They would like to know everything that goes on in the banks and every conversation that is carried on by the presidents of the banks. I understand they get copies of all the things that come here, fiscal agency.

H.M.Jr:

Well, they have got to keep busy.

(Telephone conversation with Mr. Sproul and Mr. Rouse follows.)

February 21, 1941
11:47 a.m.

H.M.Jr: Hello.

Operator: Mr. Sproul.

Allan
Sproul: Hello, Mr. Secretary.

H.M.Jr: Good morning. Have you been in touch with the market today, Allan?

S: I haven't been myself. Bob Rouse has been seeing a number of people. I had to be out this morning.

H.M.Jr: Where is he?

S: He's right here.

H.M.Jr: Well, can I talk to him.

S: I'll get you a transfer to him right away.
(Aside - will you transfer Mr. Morgenthau to Mr. Rouse right away, please.)

Robert
Rouse: Hello.

H.M.Jr: Bob Rouse?

R: Good morning, sir.

H.M.Jr: How are you?

R: First rate.

H.M.Jr: What's the temperature today in New York?

R: Well, it's a little chilly.

H.M.Jr: Well, how about the bond market?

R: The bond market seems to be very quiet and not much going on. It's a shade easier than it closed last night but there's very little going on from our reports. I've been spending most of the morning interviewing a few people and getting their ideas.

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H.M.Jr: Yeah. Well, let me have your ideas.

R: Well, I'd rather, if you could give me some time, call you back.

H.M.Jr: Oh, come on. Come on.

R: No, let me put it - give you my judgment on it. I've been listening to about eight or ten people talking this thing and I heard so many darn suggestions that I really am a little confused at the moment and I was just sitting down now to dictate some reports of these interviews which I was going to send on to you at lunch time and then I'd just like to take a little time and do my own thinking and get these things out of my head.

H.M.Jr: Well, that's fair. When do you think your head will be clear?

R: Well, it'll take about half an hour to dictate these and about an hour thereafter, about half past one, I'd figure.

H.M.Jr: I'm leaving - well, I'll be ready to talk to you at 2:00; I'll give you an extra half hour.

R: That's swell.

H.M.Jr: Will you be at your desk at 2:00?

R: Yes, sir. Shall I call you?

H.M.Jr: I'll call you.

R: All right, fine.

H.M.Jr: Thank you very much.

R: Thank you, sir.

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H.M.Jr: There is a fellow with a nice personality.

Bell: I take it that he is at least thinking about it.

H.M.Jr: There is a man with a pleasant personality and I think smart.

Bell: I think he is smart, too, and I think he is the best bond man they have ever had in the Fed.

H.M.Jr: Well, he is the only bond man that really is a bond man.

Bell: He is the only fellow they have really had that has worked on the desk.

H.M.Jr: Burgess's recommendations to me have not always been very good. That is in the room here.

Gentlemen, you are all invited back at 2:00.

February 21, 1941
11:57 a.m.

H.M.Jr: Now wait a minute - say it again.

Colonel
Greenbaum: "We can always recover lost ground, but never
lost time."

H.M.Jr: Very good.

G: There's only one trouble: it comes from a
German general in an "Art of Modern Warfare"
book by the German General Staff - but no
one will know that. (Laughs).

H.M.Jr: Are you sure?

G: Yeah, that's where I got it.

H.M.Jr: Yeah, but I don't think that's so good then.

G: Well, we can paraphrase it, using it differently -
don't use it as a quote. Somebody can work it
up. Freddie can take a crack at it - like
"Lost ground can - - - - -"

February 21, 1941
11:59 a.m.

H.M.Jr: Hello, Mac?

W. H.
McReynolds: How are you?

H.M.Jr: How's the Chief Pooh-Bah, of Pooh-Bahville?

McR: (Laughs). Pooh-bahing to beat the band.

H.M.Jr: What?

McR: Do you suppose you could chisel five minutes for me sometime today? When are you going away?

H.M.Jr: 2:30.

McR: I'll see you next - when are you coming back, Tuesday?

H.M.Jr: Monday. What's on your mind?

McR: Well, I want to talk to you about investigations.

H.M.Jr: Oh.

McR: Oh! (Laughs). Then you don't want to see me, do you?

H.M.Jr: Well, why not get down a couple of hundred more dollar-a-year men and put them to work?

McR: (Laughs). They can't investigate.

H.M.Jr: What?

McR: They can't investigate.

H.M.Jr: Well, how do I know that you won't be investigating Miss LeHand next or General Watson or Steve Early or somebody like that.

McR: Well, maybe we ought to.

H.M.Jr: No, I don't think so.

McR: No, I don't think so either.

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H.M.Jr: I don't want to get into that hot water.

McR: No, I know, but I'd like to talk to you about it sometime. Bob Jackson threw back everything that he had.

H.M.Jr: What?

McR: Bob Jackson threw back everything he had; he wouldn't hear to it. As a matter of fact his boys weren't getting any place.

H.M.Jr: Well, they must have fifteen or twenty times the appropriation we have.

McR: Yeah, I know, but we'll pay for what you do for us.

H.M.Jr: Can't bribe me.

McR: (Laughs). We'll do it under Section 6 of the Economy Act; we'll let you bill us for all you spend on us.

H.M.Jr: Well, no, that isn't it; I don't want to get into hot water. What are you - are you talking to me - I see the chart in the Post this morning. Are you director of the Emergency

McR: Emergency Management Office.

H.M.Jr: Yeah. Is that you?

McR: No, the President of the United States is director of that.

H.M.Jr: Is he director of that?

McR: Oh, yeah. I'm merely the liaison officer and my duties are to assist him in carrying it on.

H.M.Jr: Well, you get me about \$1 million more for Secret Service and I'll talk to you.

McR: Um-m-m.

H.M.Jr: I don't see why I should take F.B.I. leavings, but I'm always glad to see you, Mac. You know that and I'll talk to you about anything -

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about my rose garden or anything.

McR: Yeah, I know.

H.M.Jr: I tell you: come around Tuesday - give me a ring Tuesday morning when my financing will be out of the way and I'll be glad to see you.

McR: Swell, I'll call you up. But there really is a problem here because

H.M.Jr: I've got an idea: Harold Ickes used to have a wonderful investigation

McR: Oh, the devil with Harold Ickes! (Laughs). Well, I tell you. We've got to have somebody that's got divisions scattered all over the country.

H.M.Jr: What's Glavis doing?

McR: Oh, he doesn't work for them any more?

H.M.Jr: Maybe you could hire him.

McR: The hell I could. We've got to have somebody that has field service scattered over the country or else we've got to send people all over the country and of course it's ridiculous to do that sort of thing.

H.M.Jr: Well, if you'd send about a hundred of your dollar-a-year men out in the field, it'd be wonderful.

McR: Well, I'm just making rules to keep them from going out in the field because they send in expense accounts which I don't like to pay and these fellows - I can't sit quietly by - you know these boys over in F.B.I. sent back 1400 cases back to me the other day. They've had them now for a period of six months accumulating during that period. They had completed less than 50, they got about 200 partially completed and sent back the partial reports, and over 800 of them they hadn't even touched.

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H.M.Jr: Well, did you tell that to Mr. Roosevelt?

McR: No, I haven't told him.

H.M.Jr: No, of course you don't. Nobody will tell him that.

McR: Sure I'll tell him that. I expect to, but

H.M.Jr: Well, Mac, to be serious a minute: I won't do it unless the President of the United States asks me to do it.

McR: O.K. Well, I didn't want to ask the President to ask you to do it.

H.M.Jr: What?

McR: I didn't want to ask the President to ask you to do it unless I had first talked to you about it because after all I consider that you're - I'd talk to you about anything that I'd talk to anybody about and I would want your advice and I wouldn't want you to think ever that I was going and trying to get the Boss of both of us to ask you to do something that you didn't want to do.

H.M.Jr: That's right. Well, now, look. The President wouldn't touch this before Tuesday anyway, so come in Tuesday and see me.

McR: I will. I'll give you a call Tuesday morning. Thank you.

H.M.Jr: O. K.

February 21, 1941
2:00 p.m.

RE FINANCING

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

H.M.Jr: Do you want to talk, Dan?

Bell: On the three million dollar appropriation?

H.M.Jr: Yes.

Bell: It probably won't get through before March 15 in the regular, orderly procedure. It will be in the next deficiency bill, which won't be reported until week after next. I believe that you will do better just to let it go, and we will use our present money by having it reapportioned. I will talk with Woodrum on Tuesday and tell him that is what we want to do, if he has no objection. To put it out, you have to have a rule by the committee, and it takes time to do that, and we have already had Crawford making a speech on the debt bill in which he said you were coming up for a lot of money to advertise these bonds whereas if it is in a regular deficiency bill they never notice it.

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H.M.Jr: I accept your recommendation.

Bell: Lew Douglas called me over this morning and said that over the night he thought he might be helpful, and he would be glad to try it if you wanted him to, and he would contact all the other members to see what their reactions would be. I told him to wait until we gave him the word.

H.M.Jr: I don't want anybody as my mouthpiece.

Bell: He told you what he would do on the long one, and he said he might get some indication what they would do. Burgess called and he said he thought it was important that you or I talk to the other insurance companies, such as Metropolitan, Credential, Penn Mutual, and so forth.

H.M.Jr: Why?

Bell: Well, to get their attitude.

H.M.Jr: Well, if you have the time, it is absolutely all right. That is purely optional.

Bell: I thought I might call at least the larger ones.

H.M.Jr: All right.

Bell: See if they are thinking along the lines--

H.M.Jr: If you have the time, it would be very nice.

Bell: Well, I will do some of them any how. I will do the larger ones.

H.M.Jr: What else?

Bell: That is all.

H.M.Jr: George, will you read this over the weekend and

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see if there is anything in it?

Bell: The market is a little better.

H.M.Jr: Is it?

Hadley: One dealer got an order for a million bonds and turned the market right around.

H.M.Jr: Just one million?

Hadley: Yes.

(Telephone conversation with Mr. Rouse follows:)

February 21, 1941
2:05 p.m.

Operator: Mr. Rouse.

H.M.Jr: Hello, Rouse.

Robert
Rouse: Yes, sir.

H.M.Jr: Have you had time for the old bean to clear?

R: Yeah, the bean is cleared I think. It looks this way to me - I'll start right from the beginning and repeat some of the ground we've been over but it helps my follow through and I hope it won't bother you.

H.M.Jr: Go ahead.

R: First that the deal has to be a successful one, in view of the failure of the - not the failure, but the experience with the Defense Notes. We've got to consider the market and it has got to be successful. In the background the people feel that there isn't any hurry about buying securities at this time in view of the probably supply and in a sense the burden is on the Treasury to make it attractive. The pricing of any issues that are made has got to be such that there'll be a secondary market at a premium and to my mind a $2\frac{1}{2}\%$ bond, such as we were discussing the other afternoon, seems to be the best suited for that purpose.

H.M.Jr: What percent?

R: The $2\frac{1}{2}\%$ coupons, but after the discussions I've had here and thinking it over, I think we were a little too cheerful as far as maturity was concerned because I think it leaves a little doubt in your mind as to the secondary market, and I think that would have to be brought back to a 1950-52. However, the market with only minor exceptions recommend either a two or three way offer. They all seem to feel quite strongly it should be 2-way and I don't know that that should be disregarded.

H.M.Jr: Yeah.

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R: And a 2½% coupon does not fit well with any other combination - in combination with another coupon. If you are going to do a 2-way, and I would recommend against a note, it would seem to me that the best thing to do would be a 2% bond of 1948-50, combined with a 2-3/4% bond in the 1960's. I haven't talked myself with the insurance companies because I know you've been seeing them down there and I think probably in the light of what you've learned from them you can set the actual dating better than I.

H.M.Jr: Yeah.

R: That's the conclusion that I've come to.

H.M.Jr: Good. Well, as far as I'm concerned I'll let it rest now until Monday and I'll pick it up then again.

R: I'm going to do one more thing: to try and get a little check on our judgment. I'm asking one of the big corporate underwriters to tell me how he would price the best grade corporate issue of unusual size in this market for 10 and 20 years, and I think that is the point of view from which we've got to look at this thing rather than attempt a mechanical formula having to do with corporate tax equivalents.

H.M.Jr: O. K.

R: Thank you, sir.

H.M.Jr: Thank you very much. Mr. Bell may talk to you later.

R: I hope so. Thank you.

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H.M.Jr: Well, let's leave it just like that. All right,
Dan? I will be back Sunday night or Monday
morning.

Bell: O.K.

February 21, 1941

Ferdinand Kuhn

Secretary Morgenthau

Please look up the speeches of Woodrow Wilson. He is supposed to have made one in October, 1916, when he accepted the gift of a log cabin in Kentucky.

*see memo from
Mr. Young 2/24*
February 21, 1941

Mr. Young

Secretary Morgenthau

Two or three days ago I asked you to have the British Air Mission - I think it was as far back as Monday that I asked this of you - to interpret Air Marshall Dowding's report on the Grumman plane. *(att to Young memo of 2/24)*

It seems to me that when I make a simple request on Monday the Air Mission ought to be able to give me the answer the same day.

*See memo from
Foley of 1/21.*
February 21, 1941

Mr. Foley and Mr. Pehle

Secretary Morgenthau

I met Norman Davis out at dinner last night and, to my surprise, I learned that Cordell Hull has been discussing with him the question of freezing of foreign funds. At first Norman Davis took the same attitude that Hull has; namely, that we should register all foreign companies; but then when we got along in the discussion he said what he really believed in was that we should freeze all countries and then exempt our friends. In other words, he claimed to agree with the exact position which I have taken from the beginning.

I don't really know what he thinks but, at any rate, I said that I would have Foley and Pehle call on him, and give him the Treasury's position. He said he would like very much to have that happen.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Messrs. Foley and Pehle

DATE: February 21, 1941

We went over to see Norman Davis at 3 p.m. today and discussed the freezing question with him for about a half hour.

He told us of his conferences with Mr. Hull relative to this matter. As you know, he feels that freezing should be effected covering the entire remaining areas and then, by a system of general licenses, lifted in the case of certain countries. We explained to him the developments which have occurred to date in the matter and the reluctance of the State Department to proceed, except in the case of selective freezing, which he heartily agreed would be unworkable and objectionable. He said that he had suggested to Mr. Hull that Mr. Acheson be assigned the task of working the matter out with the Treasury and he was happy that Mr. Acheson was taking the matter in hand.

Mr. Davis said that our discussion with him had clarified the matter for him and that he was going to take the matter up again with Mr. Hull in the near future.

8.1-76

[Signature]

February 21, 1941

Ed Foley

Secretary Morgenthau

Next Tuesday, please talk to me about the Bank Holding Company Bill as I would like to make plans to get started on it.

February 21, 1941

MEMORANDUM

To: Secretary Morgenthau
From: Mr. Delano

Following the receipt of your memorandum of January 10th with respect to the effect of bank holding companies upon the number of banking institutions in the areas where the holding companies operate, we arranged for a comprehensive statistical analysis of the situation. The results of that analysis are included in the attached memorandum.

There is no statistical proof and almost no statistical evidence that bank holding company development has been a cause of the decline in number of banks and banking offices since 1933 or that the decline has been any greater in holding company communities than in others. In this respect, the statistics support the conclusion we would have drawn from general knowledge and observation of the banking field.

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For illustrative purposes here, we compare Minnesota, a holding company state, with Illinois, with no holding companies. Neither state has branches. In Minnesota, banks declined from 1036 in 1930 to 678 in 1940, or by one third. In Illinois, banks declined from 1735 in 1930 to 853 in 1940, or by over one half.

The effect of branch banking on number of banks has been significant in some areas, but if number of banking offices is considered, it has caused no real reduction in numbers either, and in some communities the trend has been in the other direction.

Preston Delano
Preston Delano

THE EFFECT OF GROUP BANKING UPON THE AVAILABILITY
OF BANK FACILITIES

The evidence does not indicate that group banking per se has affected the availability of banking facilities. Conclusions reached with respect to changes occurring in the country as a whole are, in the main, supported by a more detailed analysis of selected geographic regions.

The fact should be stressed that this survey covers only one point concerning bank holding companies. It is intended to show the extent to which the amount and distribution of banking facilities is affected by group banking. The question as to whether or not group control of several banks in an area affects the competitive allocation of bank credit within that area has not been touched.

Data for 1929 and 1940, relating only to non-branch operating banks, show the following:

1. The number of banking offices (both group and non-group banks) was reduced during the period but total deposits increased and the average size of banking offices increased substantially.
2. In general, the increase in total deposits and the increase in the size of banks were greater in the larger cities.
3. The increase in size was greater in the case of those banks members of a group than in the independent banks. For both dates group banks averaged larger than the independent banks.
4. The reduction in the number of offices resulted in a ten percent increase in the proportion of centers with only one or two banking offices.
5. The proportion of unit banks in centers with only one office was greater among the independent banks than among the group banks both in 1929 and in 1940.
6. The proportion of independent banks in centers with only one office increased, whereas for group banks the proportion decreased slightly.

The concentration of group banks in the larger centers does not indicate that the acquisition of a bank in a small center by a holding company tends to result in the discontinuance of its operation. Presumably the bank would be acquired because it is profitable and strategically located.

Table I
 PERCENTAGE DISTRIBUTION OF THE NUMBER OF BANKS
 According to Population of Center

Population of center	<u>Selected regions with group banking^{1/}</u>		<u>Selected regions without group banking^{2/}</u>	
	1929	1940	1929	1940
Less than 250	17.3	9.1	17.2	12.0
250 to 500	20.0	16.7	19.4	17.2
500 to 1,000	19.4	21.8	19.9	21.1
1,000 to 2,500	17.8	21.2	19.1	21.7
2,500 to 5,000	8.4	10.7	9.0	11.1
5,000 to 10,000	6.0	7.7	4.7	6.4
10,000 to 25,000	3.9	5.2	4.9	5.3
25,000 to 50,000	2.2	2.5	1.8	1.3
50,000 and over	5.0	5.1	4.0	3.9
<u>Total</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Note: Data relate only to banks not operating branches and to regions where branch banking is nonexistent or of negligible proportions.

^{1/} Selected regions with group banking include: Minnesota, Wisconsin, North Dakota, South Dakota, Montana, Florida, Tennessee, and Georgia.

^{2/} Selected regions without group banking include: Iowa, Kansas, Nebraska, Wyoming, Alabama, North Carolina, and South Carolina.

Table II

PERCENTAGE DISTRIBUTION OF THE NUMBER OF BANKS

According to the Number of Banking Offices in the Center

Number of banking offices in center	Selected regions with group banking ^{1/}		Selected regions without group banking ^{2/}	
	1929	1940	1929	1940
1	48.2	60.5	42.3	60.5
2	31.6	25.5	33.8	27.2
3	9.6	6.5	11.4	6.5
4	3.5	1.6	4.4	1.9
5	0.7	0.9	2.5	0.6
6	0.7	0.6	0.9	0.5
7 or 8	1.1	0.8	1.0	1.2
9 or more	4.6	3.6	3.7	1.6
<u>Total</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Note: Data relate only to banks not operating branches and to regions where branch banking is nonexistent or of negligible proportions.

^{1/} For a list of the States included see footnote ^{1/} Table I.

^{2/} For a list of the States included see footnote ^{2/}, Table I.

- 4 -

Table III

PERCENTAGE DISTRIBUTION OF THE NUMBER OF BANKS
IN SELECTED REGIONS WITH GROUP BANKING^{1/}

According to Size of Center

Population of center	<u>Independent banks</u>		<u>Group banks</u>	
	1929	1940	1929	1940
Less than 250	18.7	10.0	10.1	-
250 to 500	21.0	18.2	14.2	1.4
500 to 1,000	20.1	23.3	15.7	7.6
1,000 to 2,500	17.7	21.3	18.0	20.0
2,500 to 5,000	8.1	10.3	10.0	15.2
5,000 to 10,000	5.3	6.6	9.3	18.0
10,000 to 25,000	3.2	4.1	7.9	15.6
25,000 to 50,000	2.1	2.1	3.0	6.6
50,000 and over	3.8	4.1	11.8	15.6
<u>Total</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Note: Data relate only to banks not operating branches and to regions where branch banking is nonexistent or of negligible proportions.

^{1/} For a list of the States included see footnote ^{1/}, Table I.

- 5 -

Table IV

PERCENTAGE DISTRIBUTION OF THE NUMBER OF BANKS
IN SELECTED REGIONS WITH GROUP BANKING^{1/}

According to the Number of Banking Offices in the Center

Number of banking offices in center	Independent banks		Group banks	
	1929	1940	1929	1940
1	50.1	63.6	37.5	31.3
2	31.3	24.2	33.1	37.9
3	9.4	5.9	10.7	12.3
4	3.4	1.5	4.2	2.4
5	0.6	0.8	1.6	1.4
6	0.7	0.3	0.9	3.3
7 or 8	1.1	0.8	1.1	0.5
9 or more	3.4	2.9	10.9	10.9
<u>Total</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Note: Data relate only to banks not operating branches and to regions where branch banking is nonexistent or of negligible proportions.

^{1/} For a list of the States included see footnote ^{1/}, Table I.

- 6 -

Table V

AVERAGE DEPOSITS HELD BY BANKS IN SELECTED REGIONS

	<u>1929</u>	<u>1940</u>
Regions with group banking ^{1/}	\$673,000	\$1,090,000
Regions without group banking ^{2/}	543,000	890,000
Independent banks	519,000	810,000
Group banks	1,487,000	3,928,000

Note: Data relate only to banks not operating branches and to regions where branch banking is nonexistent or of negligible proportions.

^{1/} For a list of the States included see footnote ^{1/}, Table I.

^{2/} For a list of the States included see footnote ^{2/}, Table I.

- 7 -

Availability of banking facilities in selected areas. The evidence substantiates the conclusions reached for the country as a whole. In selected States in the Central Northwest where group banking is prevalent the following shifts from 1929 to 1940 are revealed:

1. The shift to centers with a larger population was apparent among both the group and the non-group banks but was much more marked in the case of the group banks.
2. There was a five percent increase in the proportion of centers with not more than two banking offices. This shift occurred entirely with respect to the non-group banks, there being no shift among the group banks.
3. During the period there was a substantial increase in the amount of deposits held. This increase was greater proportionately among the group banks than the independent banks.

In other economically comparable States in the same area, where group banking is either non-existent or insignificant the following shifts from 1929 to 1940 are revealed:

1. The shift was toward centers with a larger population.
2. The proportion of centers with not more than two banking offices showed a ten percent increase, or more than that in comparable States with group banks.
3. The average size of the banking offices experienced a fifty percent increase as was the case in the States in which group banking is prevalent.

In selected States in the Southeast where group banking exists the shifts were as follows:

1. The shift to centers with a larger population was considerably more noticeable among group banks than among non-group banks.
2. A ten percent increase in the proportion of banking centers with not more than two offices in the case of the non-group banks was partially offset by a decrease in the case of the group banks.

- 8 -

3. The increase in the average size of the banks was much greater in the case of the group banks.

In other economically comparable States of the same area where group banking is insignificant the following shifts occurred:

1. There was a relatively slight shift toward centers with a larger population.
2. The proportion of banks in centers with not more than two offices increased approximately fifteen percent.
3. The increase in the average size of the banks was almost identical with that in the comparable States in which group banking was a major factor.

With regard to the distribution of branch banking offices the presence of group systems has had no observable effect. There is no significant difference in the distribution of branch banks either according to the size of the center or according to the number of offices within the center. These observations are based upon data for the entire country, since no detailed analysis was made of this problem.

The data show that the presence of group banking has not changed the distribution of banking facilities from what it would have been in the absence of bank groups.

Tynan Smith

February 14, 1941

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE January 10, 1941

TO Mr. Preston Delano
FROM Secretary Morgenthau

I wish you would begin to prepare arguments why Senator Glass' bank holding company bill should go through. One of the suggestions I would like to make is for you to go back five years or ten years in each community where bank holding company banks operate, and find out just how many banks are in each community. My impression is that where the bank holding company banks operate there are less banks serving the community than there would be if there were not bank holding companies.

I would like you to make this study just as soon as possible, and see whether the argument will or will not hold water.

February 11, 1941

Herbert Gaston

Secretary Morgenthau

Would you please inquire of our Collector of Internal Revenue and Collector of Customs in Philadelphia what they know about Mr. Sinclair, President of the Federal Reserve Bank of Philadelphia. Try to find out from them as to whether he is taking any part in politics one way or the other. Also ask Elmer Irey to look up his income tax and see if everything is all right. I would like a report on Sinclair by Monday please.

C
O
P
Y

February 24, 1941.

To: Secretary Morgenthau
From: Mr. Gaston

There is attached a summary of the personal income tax returns of John S. Sinclair from 1933 to 1939, inclusive. There is nothing irregular on the face of the returns and there is no record of any controversy between this tax payer and the Bureau.

Walter J. Rothensies, Collector of Internal Revenue at Philadelphia, and A. Raymond Raff, Collector of Customs, have been interviewed. Neither knows of any political activity on the part of Sinclair. Raff feels certain that if Sinclair had been at all politically active in recent years, he would have known of it.

Gabriel J. Wilson, Internal Revenue Agent in Charge, says that Kelly, Democratic District Leader, is "strongly opposed" to Sinclair, but he does not know the reason. Kelly is in Florida and we have not attempted to get in touch with him. Wilson was promoted from Revenue Agent to Revenue Agent in Charge largely through the influence of Kelly.

Enclosure.
HEG:ds

FEB 21 1941

Dear Mr. Frank:

In connection with our interest in the British financial position, we should like to have the Commission designate two experts to study the question of the valuation of insurance direct investments.

Your cooperation in this matter will be heartily appreciated.

Sincerely,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The Honorable Jerome Frank,
Chairman,
Securities & Exchange Commission,
Washington, D. C.

AMK/jm
2/27/41

File to Mr. Thompson

H White

222

THE AMERICAN METAL COMPANY, LIMITED
61 BROADWAY
NEW YORK

TELEPHONE BOWLING GREEN 9-1800
CABLE ADDRESS: EFFLUX, NEW YORK

HKH:AA

February 21, 1941

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

Dear Henry:

In case it is of interest to the Treasury Department, I enclose copy of letter just received from the head office of our Mexican Company regarding reported proposals to stabilize the Mexican peso.

Sincerely,

Harold

Enc

RECEIVED
FEB 21 1941
U.S. DEPT. OF TREASURY
WASHINGTON, D.C.

February 17, 1941

According to a radio report two experts from the Treasury Department of the United States Government have returned to Washington after making a study of the financial situation in Mexico, apparently with the purpose of attempting to stabilize the peso.

While we presume that the Treasury experts will make a thorough study of the matter from all angles before arriving at a conclusion, nevertheless we wish to point out that should the Mexican peso be stabilized at a lower exchange rate than at present, i.e. 4.85, and metal prices remain at their present level, it would be very disastrous, if not fatal to the mining and smelting industry, which is not only producing the greater portion of the Government's revenue at the present time, but also serves as a base for profitable operations for other industries and commercial enterprises. In fact, it would call for a complete readjustment of the economic situation of the country. As the wage scales of practically all mining and industrial workers have been adjusted to an exchange rate of from 5 to 6x1, it would mean that these wage scales would have to be greatly lowered, which would result, of course, in serious unrest among the laboring class.

While the average wage scale in Mexico, when converted into dollars, may seem low as compared to the average wage scale in the United States, when the efficiency of the labor is taken into consideration, the picture is quite different. You will recall that in one of our recent memorandums we mentioned that Lombardo Toledano, the head of the Confederation of Mexican Laborers, had stated before a meeting of laborers that the various classes of cooperative societies which had been formed in the last few years had been a failure, principally due to the inefficiency of the laborers.

We believe that the Mexican officials realize that, to prevent a complete upset in their economic situation, a 4.85 to 5x1 exchange rate is necessary at the present time; but should the United States Government favor a lower exchange rate and offer the necessary funds for the stabilization at a lower rate, the Mexican Government may be tempted to acquiesce, which would certainly be unfortunate for all concerned.

While a reduction in the exchange rate, no doubt, would result in some increase in imports of American goods, it would work against Mexico's export business, and in the long run, we believe, would be against the best interests of both countries. Mexico, in a prosperous condition, will purchase much more from the United States at around a 5x1 exchange rate, than they would purchase in a depressed condition at a 3.80 exchange rate, and there would certainly be a depression in Mexico at the present time, should the exchange rate be lowered to 3.60 and metal prices remain at their present level.

-2-

We made an endeavor to secure from the American Consul at Monterrey statistics showing the amount of imports into Mexico from the United States for the years 1938, '39, and '40, when exchange varied from 3.60 to 6x1, but they did not have the information available for '39 and '40, which we regret, as we believe it would have given some very interesting facts.

The Bank of Mexico, for reasons unknown to us, have discontinued the publication of their ten-day and monthly balance sheets, and we therefore have no way of knowing their present financial condition, but we have every reason to believe there has been no appreciable decrease in the amount due the Bank by the Government, nor do we believe their metallic reserve has been materially increased.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 21, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Extracts from the records of the Federal Reserve Bank of New York show the following debits to the Bank of England account:

DEBITS

<u>Week Ended</u>	<u>Total Debits</u>	<u>Government Expenditures</u> (a)	<u>Other Debits</u>
January 15	\$56,900,000	\$49,900,000	\$ 7,000,000
January 22	37,800,000	31,900,000	5,900,000
January 29	41,800,000	37,000,000	4,800,000
February 5	46,500,000	40,700,000	5,800,000
February 11	37,400,000	31,900,000	5,500,000

The Federal Reserve Bank has calculated average weekly expenditures of the British, through the Federal Reserve Bank account, at \$27,600,000 from the outbreak of the war through June 19, 1940, and at \$56,000,000 from June 19, 1940 through February 11, 1941.

- (a) Includes payments for account of British Purchasing Commission, British Air Ministry, British Supply Board, Ministry of Supply Timber Control, and Ministry of Shipping.

February 21, 1941

CONFIDENTIAL

Dear Mr. Knets:

Permit me to acknowledge, on behalf of Secretary Hargenthan, the receipt of your letter of February 20, enclosing your compilation for the week ended February 11, 1941, showing dollar disbursements out of the British Empire and French accounts at the Federal and the means by which these expenditures were financed.

Faithfully,

(Signed) H. Merle Cochran

H. Merle Cochran
Technical Assistant to the Secretary

L. W. Knets, Esquire,
Vice-President,
Federal Reserve Bank of New York,
New York, New York.

HMC:lap-2/21/41

FEDERAL RESERVE BANK
OF NEW YORK

February 20, 1941.

CONFIDENTIAL

Dear Mr. Secretary: Attention: Mr. H. Marle Cochran

I am enclosing herewith our compilation for the week ended February 11, 1940, showing dollar disbursements out of the British Empire and French accounts at this bank and the means by which these expenditures were financed.

Faithfully yours,


L. W. Knoke,
Vice President.

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

Enclosure

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

Peak Ended Feb. 11, 1941. Strictly Confidential

PERIOD	BANK OF ENGLAND (BRITISH GOVERNMENT)							BANK OF FRANCE						
	DEBITS				CREDITS			DEBITS				CREDITS		
	Total Debits	Gov't Expenditures (a)	Other Debits	Total Credits	Proceeds of Sales of Gold	Securities (Official) (b)	Other Credits (c)	Total Debits	Gov't Expenditures (d)	Other Debits	Total Credits	Proceeds of Sales of Gold	Other Credits	Net Incr. (+) or Deccr. (-) in Balance
1939														
Aug. 31 - Sept. 17	94.3	5.6	90.7	207.8	185.4	-	22.4	113.5	19.4	6.0	13.4	11.3	-	- 8.1
Sept. 23 - Nov. 1	109.7	5.9	100.9	142.0	3.2	-	138.8	+ 35.3	88.6		61.8	76.2	35.0	- 12.4
Nov. 2 - 29	191.7	8.9	182.8	105.8	57.8	-	48.0	+ 85.9	78.6			52.9	55.1	+ 4.3
Nov. 30 - Jan. 3	97.7	8.7	89.0	75.2	50.6	-	24.6	- 22.5	86.8	28.1	58.7	109.2	93.9	+ 22.4
1940														
Jan. 4 - 21	54.8	16.6	38.0	45.4	20.6	-	22.8	- 11.4	61.5	31.5	30.0	55.9	50.1	- 5.6
Feb. 1 - 28	124.2	15.4	108.8	108.3	56.7	-	51.6	- 15.9	72.7	32.8	39.9	71.5	54.8	- 1.2
Feb. 29 - Apr. 3	115.5	14.5	101.0	94.0	60.9	14.0	19.1	- 21.5	99.6	35.9	63.7	105.0	75.4	+ 5.4
Apr. 4 - May 1	113.4	26.1	87.3	86.4	45.8	20.0	19.6	- 27.0	84.8	29.4	55.4	78.7	60.7	- 6.1
May 2 - 29	100.9	23.6	77.3	126.2	93.2	12.0	21.0	+ 25.3	101.4	57.0	44.4	145.4	126.2	+ 44.0
May 30 - June 2	225.2	145.3	137.9	319.3	301.3	3.0	15.0	+ 35.1	256.7 (e)	127.5 (e)	29.4	345.1 (e)	335.6	+ 158.4
July 3 - 31	247.7	156.7	93.0	225.0	212.2	2.0	10.8	- 24.7	7.5	6.3	1.0	3.2	0.2	- 4.1
Aug. 1 - 28	221.1	180.2	80.9	294.8	267.4	1.0	26.4	+ 33.7	8.9	0.5	8.4	10.9	10.4	+ 2.0
First year of war	1,791.2	805.6	1,187.6	1,828.2	1,338.1	58.0	420.1	+ 35.0	866.3	416.6	449.7	1,095.3	900.2	+ 229.0
Aug. 29 - Oct. 2	216.8	244.3	72.5	308.9	271.5	6.0	31.4	- 7.9	8.8	4.4	4.2	1.3	-	- 7.3
Oct. 3 - 31	184.7	167.8	39.2	198.5	160.6	6.0	32.0	+ 1.8	9.5	0.3	0.2	0.5	-	- 0.5
Oct. 31 - Nov. 27	241.0	201.1	39.9	259.5	210.0	18.0	31.5	+ 18.5	0.8	0.1	0.7	0.7	-	- 0.1
Nov. 28 - Dec. 31	234.8	226.6	27.8	193.0	111.4	23.0	60.6	+ 36.6	2.1	-	2.1	0.6	-	- 1.5
War period through Dec. 31	7,925.5	4,425.6	3,905.7	5,793.1	2,109.6	108.0	575.6	+ 10.8	872.3	421.4	456.9	1,099.4	890.2	+ 220.1
Jan. 3 - 28	107.3	122.7	34.2	253.8	125.2	52.0	31.7	+ 62.5	1.7	-	1.7	0.6	-	- 1.2
Jan. 29 - Feb. 28														
Feb. 29 - Apr. 2														
WEEK ENDING:														
Jan. 22	37.8	31.9	5.9	28.6	5.8	12.0	10.8	+ 9.2	0.5	-	0.5	-	-	- 0.5
29	41.3	37.0	4.3	19.6	1.0	12.0	4.6	- 22.2	0.4	-	0.4	0.1	-	- 0.3
Feb. 5	46.5	40.7	5.8	23.2	-	10.0	11.2	+ 21.1	0.1	-	0.1	-	-	- 0.1
11	37.4	31.9	5.5	14.1	-	6.0	2.1 (f)	- 23.3	-	-	-	0.1	-	+ 0.1

Average Weekly Expenditures Since Outbreak of War
France (through June 19) \$19.6 million

England (through June 19) \$7.6 million
England (since June 19) \$6.0 million

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

Week ended Feb. 11 \$ 4.3 million
Cumulation from July 5 \$ 132.3 million

(See footnotes on reverse side)

- (a) Includes payments for account of British Purchasing Commission, British Air Ministry, British Supply Board, Ministry of Supply Timber Control, and Ministry of Shipping.
- (b) Estimated figures based on transfers from the New York Agency of the Bank of Montreal, which apparently represent the proceeds of official British sales of American securities, including those effected through direct negotiation. In addition to the official selling, substantial liquidation of securities for private British account occurred, particularly during the early months of the war, although the receipt of the proceeds at this Bank cannot be identified with any accuracy. According to data supplied by the British Treasury and released by Secretary Morgenthau, total official and private British liquidation of our securities through December 1940 amounted to \$334 million.
- (c) Includes about \$85 million received during October from the accounts of British authorized banks with New York banks, presumably reflecting the requisitioning of private dollar balances. Other large transfers from such accounts during more recent months apparently represent the acquisition of proceeds of exports from the sterling area and other currently accruing dollar receipts.
- (d) Includes payments for account of French Air Commission and French Purchasing Commission.
- (e) Adjusted to eliminate the effect of \$20 million paid out on June 26 and returned the following day.
- (f) Includes about \$2.5 million transferred for account of Courtland's Ltd., by order of American Viscose Corp., and about \$1.1 million transferred from the accounts of British authorized banks with New York banks.

OFFICE OF THE
TECHNICAL ASSISTANT
TO THE SECRETARY

941 FEB 21 AM 11:42

RECEIVED
TREASURY DEPARTMENT

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

Week Ended Feb. 11, 1941.

Strictly
Confidential

ANALYSIS OF CANADIAN WAR AND POST-WAR DEBTS

(In Millions of Dollars)

PERIOD	BANK OF CANADA								COMMONWEALTH BANK OF AUSTRALIA							
	DEBITS				CREDITS				DEBITS				CREDITS			
	Total Debits	Transfers to Official British A/C	Other Debits	Total Credits	Proceeds of Gold Sales	Transfers from Official British A/C		Other Credits	Net Incr. (+) or Decr. (-) in Balance	Total Debits	Transfers to Official British A/C	Other Debits	Total Credits	Proceeds of Gold Sales	Other Credits	Net Incr. (+) or Decr. (-) in Balance
						For Own A/C	For French A/C									
1939																
Aug. 31 - Sept. 27	17.6	0.6	16.9	51.8	15.1	0.8	-	5.9	+ 4.3	-	-	-	-	-	-	-
Sept. 28 - Nov. 1	9.6	0.3	9.3	16.7	7.3	2.1	-	7.3	+ 7.1	-	-	-	1.9	1.9	-	+ 1.9
Nov. 2 - 29	9.9	0.7	9.2	14.4	13.3	-	-	1.1	+ 4.5	-	-	-	-	-	-	-
Nov. 30 - Jan. 3	30.0	-	30.0	22.8	13.3	3.0	-	6.5	- 7.2	2.5	-	2.5	5.8	5.8	-	+ 3.3
1940																
Jan. 4 - 31	23.5	-	23.5	25.7	21.1	-	-	4.6	+ 2.2	5.2	0.3	4.9	3.3	3.0	0.3	- 1.9
Feb. 1 - 28	23.1	-	23.1	17.0	16.1	-	-	0.9	- 6.1	3.3	0.1	3.2	2.4	2.2	0.2	- 0.9
Feb. 29 - Apr. 3	42.3	-	42.3	29.5	29.3	-	-	0.2	- 12.8	3.0	0.3	2.7	2.2	1.6	0.6	- 0.8
Apr. 4 - May 1	38.2	-	38.2	42.9	24.9	15.0	-	3.1	+ 4.7	2.3	-	2.3	2.0	1.8	0.2	- 0.3
May 2 - 29	37.9	15.0	37.9	50.2	50.0	-	-	0.2	+ 12.3	1.2	0.2	1.0	2.6	1.7	0.9	+ 1.4
May 30 - July 3	44.1	-	44.1	72.5	72.2	-	-	0.3	+ 28.4	2.3	-	2.3	5.9	4.4	1.5	+ 3.6
July 4 - 31	28.2	-	28.2	117.6	96.3	-	-	2.1	+ 89.4	4.6	-	4.6	5.0	4.2	0.8	+ 0.4
Aug. 1 - 28	18.7	-	18.7	73.6	53.9	-	-	0.2	+ 54.9	6.8	3.0	3.8	5.0	3.4	1.6	- 1.8
First year of war	323.0	16.6	306.4	504.7	412.7	20.9	38.7	32.4	+181.7	31.2	3.9	27.3	56.1	30.0	6.1	+ 4.9
Aug. 29 - Oct. 2	44.3	-	44.3	43.9	16.4	-	-	0.2	- 0.4	6.7	2.5	6.2	8.0	6.7	1.3	- 0.7
Oct. 3 - 30	26.7	-	26.7	28.5	14.0	-	-	0.3	+ 1.9	10.1	7.5	2.6	7.9	6.5	1.4	- 2.2
Oct. 31 - Nov. 27	35.2	-	35.2	69.6	49.2	-	-	3.7	+ 34.4	3.1	0.6	2.5	3.6	2.1	1.5	+ 0.6
Nov. 28 - Dec. 31	48.0	-	48.0	60.6	42.6	-	-	4.4	+ 12.6	4.8	-	4.8	6.8	4.8	2.0	+ 2.0
War period through Dec.	477.2	16.6	460.6	707.4	534.8	20.9	110.7	41.0	+230.2	57.9	14.5	43.4	62.4	50.1	12.3	+ 4.5
Jan. 2 - 29	33.7	-	33.7	33.9	16.9	-	-	2.0	+ 0.2	4.8	-	4.8	6.8	5.1	1.7	+ 2.0
Jan. 30 - Feb. 26																
Feb. 27 - Apr. 2																
WEEK ENDED:																
Jan. 29	9.0	-	9.0	9.7	4.5	-	4.8	0.4	+ 0.7	0.8	-	0.2	5.4	5.1	0.3	+ 5.2
29	12.9	-	12.9	15.4	5.2	-	10.2	-	+ 1.5	0.9	-	0.9	0.9	-	0.9	-
Feb. 5	8.4	-	8.4	7.1	4.6	-	2.3	0.2	- 1.3	2.6	1.7	0.9	2.2	0.6	1.6	- 0.4
11	1.2	-	1.2	9.7	3.4	-	4.3	2.0	+ 7.8	1.0	-	1.0	0.5	-	0.5	- 0.5

Weekly Average of Total Debits Since Outbreak of War
Through Feb. 11 \$ 6.9 million

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 21, 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	£12,000

Open market sterling was first quoted at 4.02-3/4. Early in the afternoon it moved up to 4.03 and closed at that level. Transactions of the reporting banks were as follows:

Sold to commercial concerns	£13,000
Purchased from commercial concerns	£ 5,000

In Shanghai the United States dollar was higher against both the Chinese yuan and sterling. The yuan was quoted at 5-21/32¢, off 1/32¢ and sterling was 3.92, off 1/8¢. In Hong Kong the H.K. dollar was quoted at 24-3/8¢, off 1/8¢ and sterling was 3.90, off 2¢.

In New York the closing rates for foreign exchange were as follows:

Canadian dollar	15-1/8% discount
Swiss franc (commercial)	.2323-1/2
Swedish krona	.2385
Reichsmark	.4005
Lira	.0505
Argentine peso (free)	.2370
Brazilian milreis (free)	.0505
Mexican peso	.2066
Cuban peso	7-1/32% discount

There were no purchases of gold consummated by us today.

The London prices for silver were unchanged at 23-3/8d for spot and 23-5/16d for forward. The United States equivalents of these prices are 42.44¢ and 42.33¢ respectively.

Hendy 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 three purchases of silver totaling 180,000 ounces under the Silver Purchase Act. Of this amount 125,000 ounces consisted of new production from foreign countries, for forward delivery. The balance of 55,000 ounces was the final sale of shipment of 822,000 ounces sent to this country by the Central Bank of China. The Treasury purchased a total of 805,000 ounces of this shipment.

Prepared by: Mr. Turner
Mr. Murphy
Mr. Haas

DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE February 21, 1941

TO Secretary Morgenthau
FROM Mr. Haas
Subject: Current Developments in the High-grade Security Markets

SUMMARY

- (1) Treasury securities have risen in price this week, recovering part of last week's losses (Chart I). High-grade corporate and municipal bonds have suffered net price declines in the past week. Both classes of securities firmed yesterday (Charts II and III).
- (2) The corporate market's diminished receptivity to new issues is probably due in large part to the prospect that the issuance of taxable Treasury securities will create a competing supply for those investors to whom tax exemption means nothing, but who desire the maximum of safety.
- (3) While the yield basis for a 20-year bond is not greatly different from what it was when long-term Treasury bonds were at their pre-war price peak, on June 5, 1939, the yield basis for a 10-year bond is about 20 basis points higher than in June 1939 (Chart V). The yields of Treasury notes are shown for comparison in Chart VI.
- (4) The average dividend rate on mutual savings deposits fell below 2 percent during the last six months of 1940.

I. Current Price and Yield Movements of High-grade Securities

Treasury securities have risen in price this week, notes more than recovering their losses of last week and bonds recovering most of such losses. Price changes are shown, by maturity classes, in Chart I and in the following table:

Secretary Morgenthau - 2

		Average price change	
		February 10-15	February 15-20
		(In thirty-seconds)	
<u>Notes</u>			
1 to 3 years	-8		+ 9
3 to 5 years	-8		+10
<u>Bonds</u>			
5 to 15 years to call	-20		+15
15 years and over to call	-23		+16

The longest Treasury bonds have declined on net balance by almost 4 points since December 30, 1940 (Chart I). This has been reflected in an increase of the average yield of long-term Treasury bonds by 25 basis points (Chart II).

High-grade corporate bonds held steady during most of last week, but have dropped in price rather sharply since Friday (Chart II). The net decline in price since the end of December is reflected in an increase in yield of 19 basis points. Municipal bonds also continued to decline in price last week (Chart III). Both classes of securities firmed yesterday.

II. Comparative Movements of Treasury and Corporate Bonds

Except for the improved market this week, prices of Treasury bonds have declined fairly steadily since December 30, 1940. High-grade corporate bonds, on the other hand, rose in price for about three weeks following December 30, but have since declined sharply. Second-grade corporate bonds (represented by Moody's Baa bonds) also rose in January and declined in February but their movements have tended to parallel those of the stock market. The details of these movements are shown in Charts II and IV.

The situation in the market for high-grade corporate bonds at the present time is particularly interesting. The recent price decline doubtless reflects the anticipation of

Secretary Morgenthau - 3

generally higher interest rates, an anticipation aroused largely as the result of the Federal Reserve statement on January 1, 1941. Of great importance for the future, however, is the prospect of the issuance of Treasury securities subject to the Federal income tax. Hitherto investors who desired the maximum of security, but whose tax position was such that there was no reason for them to pay a premium for tax exemption, were restricted in their choice to corporates of the highest grade. Actually, Treasury securities would have been better suited to their needs had it not been for their partial or complete tax exemption. The enactment of legislation to tax the income from Treasury securities promises to create a competing supply of securities for the class of investors who have hitherto been the mainstay of the high-grade corporate market.

It is probably this new factor in the market which more than any other accounts for the weakness of high-grade corporate securities, and for the market's inability or unwillingness to absorb new corporate offerings. There have been no important new bond offerings to the public since February 6 when \$11.0 millions of serial bonds of the Chesapeake and Ohio Railway Company were offered to the public (out of a total issue of \$24.8 millions). According to the latest available information, these bonds remain about 50 percent unsold.

III. Changes in Levels of Yields of Government Securities since April 1, 1937

The yield basis for a 20-year bond of corresponding tax-exemption privileges is not greatly different today from what it was when long-term Treasury bonds were at their pre-war price peak on June 5, 1939. The yield basis for a 10-year bond, however, is about 20 basis points higher than on June 5, 1939. This is shown in Chart V which compares the yields of Treasury bonds on February 19, 1941; on June 5, 1939, the date of the pre-war price peak; and, for perspective, April 1, 1937, the date on which long-term Treasury bonds reached the lowest prices in the past five years, following the increase in reserve requirements announced on January 30, 1937.

Secretary Morgenthau - 4

The net movements in the yields of Treasury notes since April 1, 1937 have covered a wider range than have those of Treasury bonds. Yields of Treasury notes on the three dates listed above are shown in Chart VI.

IV. Mutual Savings Bank Dividends

During the last six months of 1940 the average dividend rate on all mutual savings deposits fell below 2 percent. On January 1, 1941 the average dividend rate on all savings accounts in the 540 mutual savings banks was 1.97 percent as compared with about 2.04 percent on July 1, 1940. The volume of deposits receiving a rate of 2-1/2 percent or better dropped from nearly 20 percent to about 16 percent of the total. This is indicated by the following table:

Percent of Total Mutual Savings
Deposits Drawing Dividends at Various Rates

Dividend rate	July 1, 1938	July 1, 1939	July 1, 1940	January 1, 1941
3-1/2%	.3	.3	.3	.3
3 %	6.7	3.9	1.8	1.2
2-1/2%	30.2	27.1	17.6	14.8
2 %	61.8	67.4	69.7	62.6
1-1/2%	.9	1.1	7.7	18.0
1 %	.1	.2	2.9	3.1

The accelerated decline in interest rates is well illustrated in the table. Leaving out of account the very small volume of deposits receiving 3-1/2 percent (a single bank on January 1, 1941), it will be seen that the percentages of all deposits in the 3 percent and 2-1/2 percent classes have declined continuously while the percentages in the 1-1/2 percent and 1 percent classes have increased. The

Secretary Morgenthau - 5

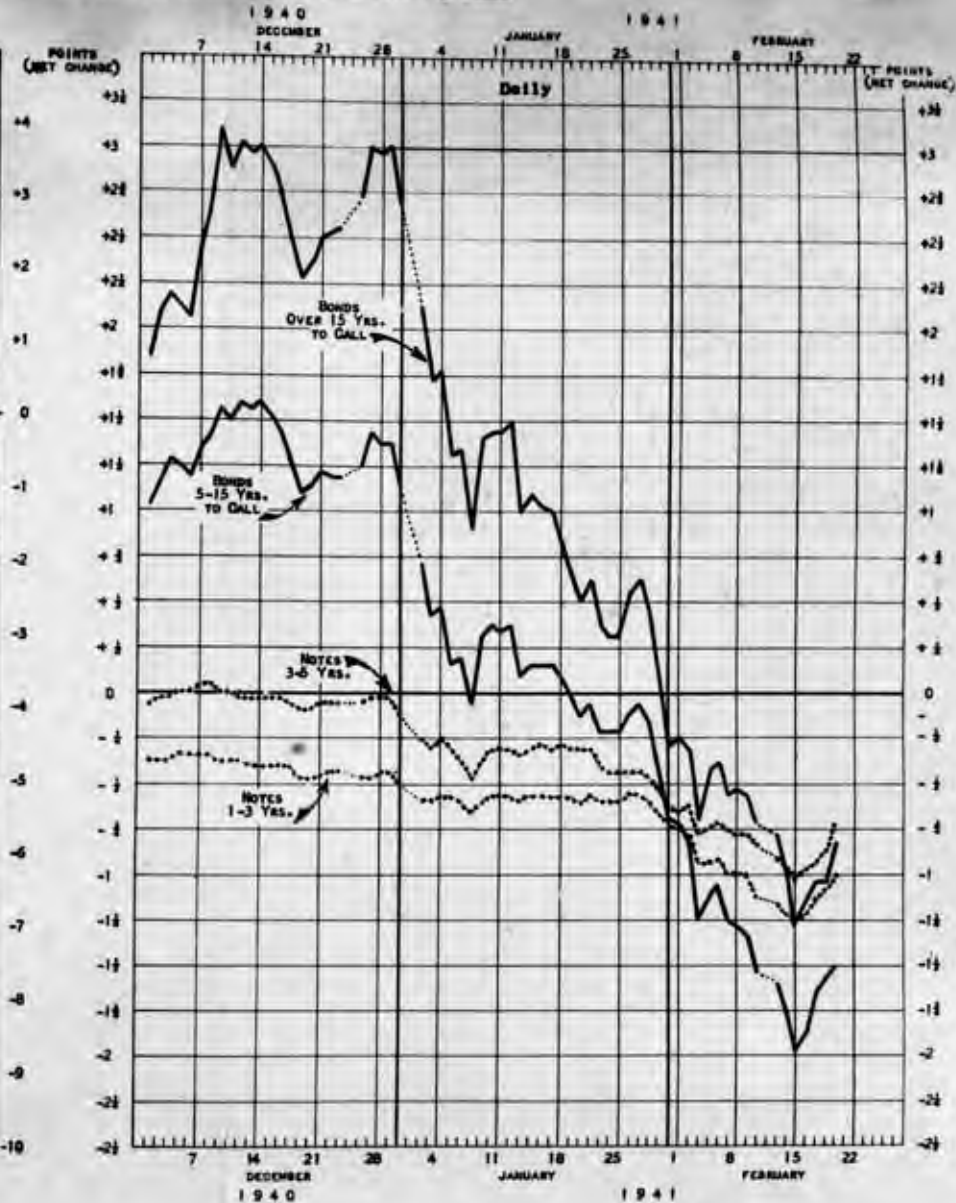
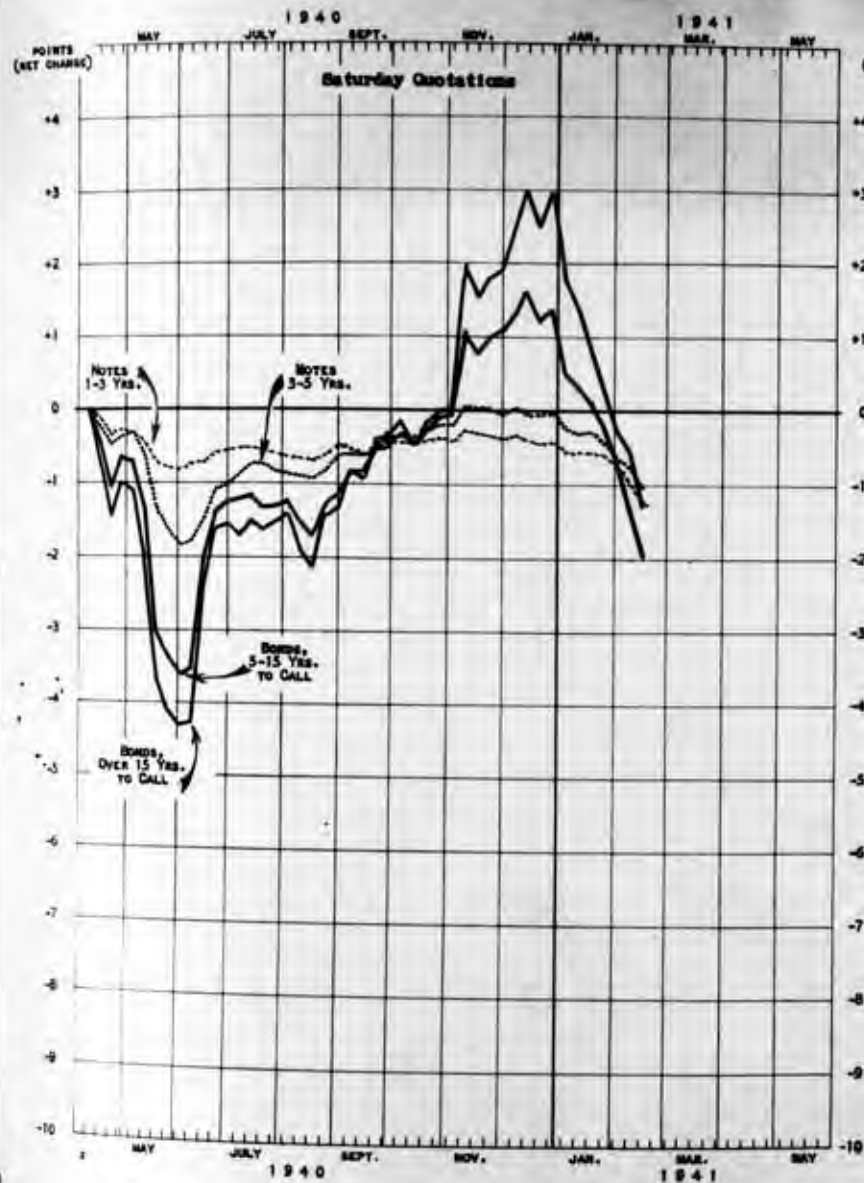
2 percent class, meanwhile, gained in proportionate size up to July 1, 1940 as the volume of deposits falling from higher dividend classes into the 2 percent class exceeded the volume falling from 2 percent into lower classes. In the last six months of 1940, however, as a number of New York City banks reduced their rates, more deposits fell into lower classes than were gained by the 2 percent class from higher dividend classes.

It should be noted, also, that mutual savings deposits have increased by only \$700 millions in the past five years, and by only \$137 millions in 1940, to \$10,618 millions on January 1, 1941. This represents an average annual increase of only about 1.4 percent which is less than the annual interest accrual. Hence it would not appear that mutual savings deposits are likely to be an important source of funds for the defense financing program.

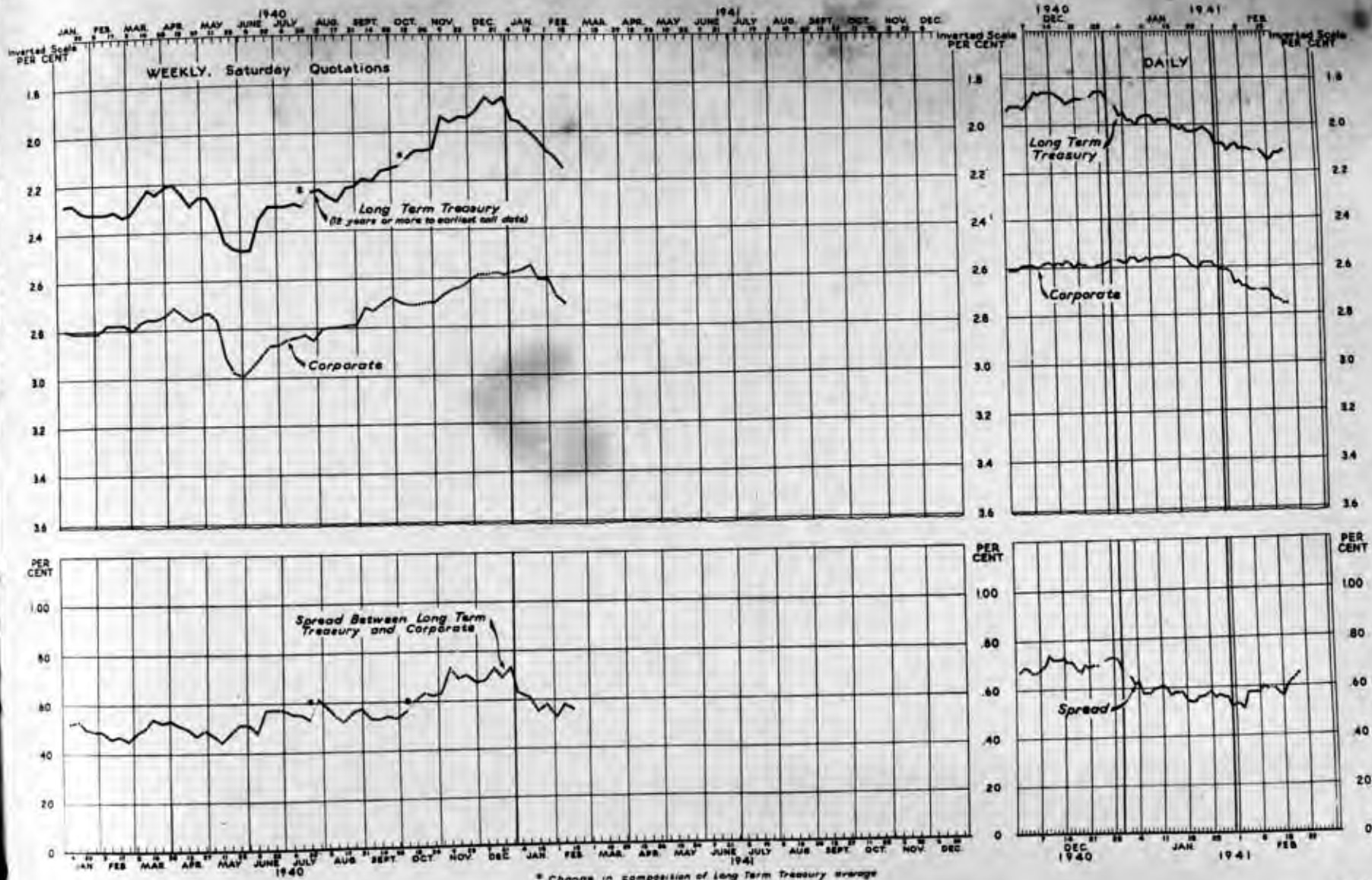
Attachments.

Chart I

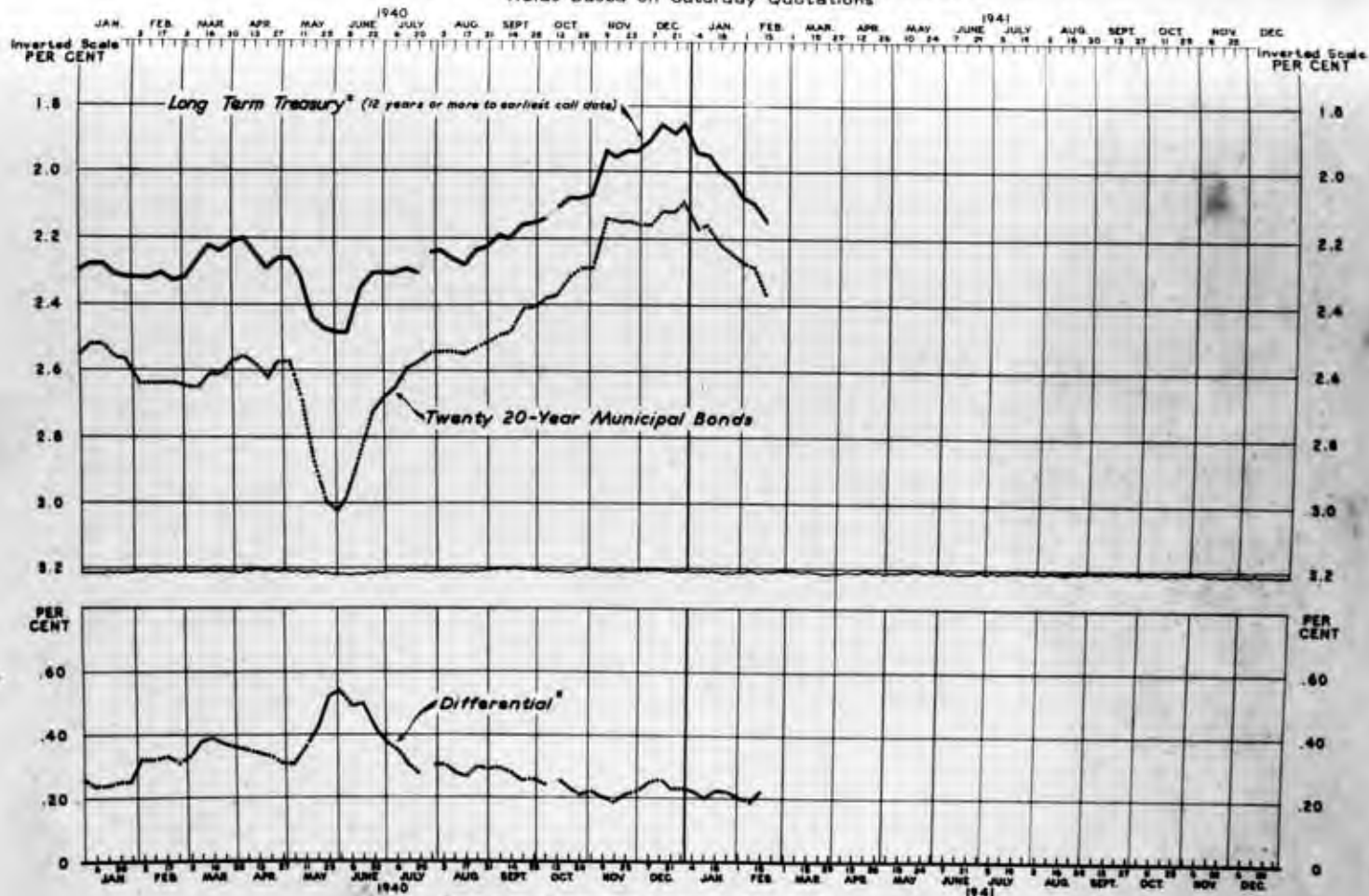
CHANGES IN THE PRICES OF U.S. SECURITIES
 Points Plotted Represent the Difference from April 6, 1940 Price of Each Maturity Class



COMPARATIVE YIELDS OF AVERAGE OF ALL LONG TERM U.S. TREASURY AND AVERAGE OF HIGH GRADE CORPORATE BONDS



COMPARATIVE YIELDS OF AVERAGE OF ALL LONG TERM U.S. TREASURY
AND DOW-JONES AVERAGE OF MUNICIPAL BONDS
Yields Based on Saturday Quotations

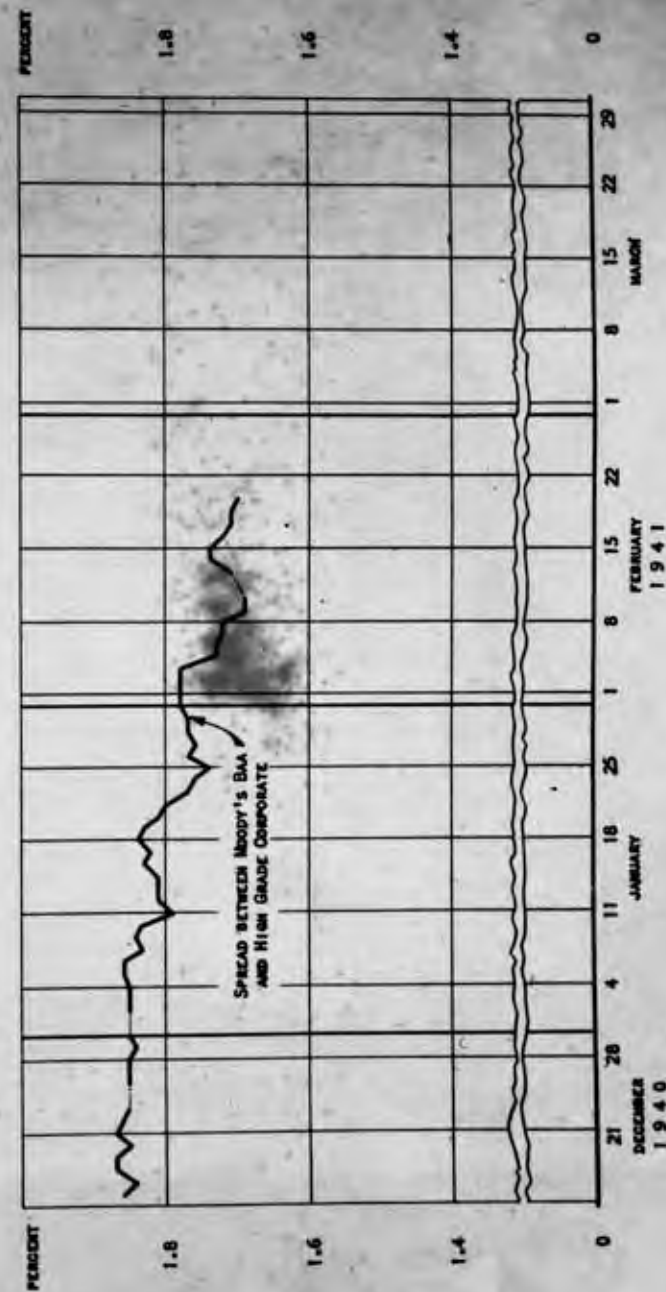
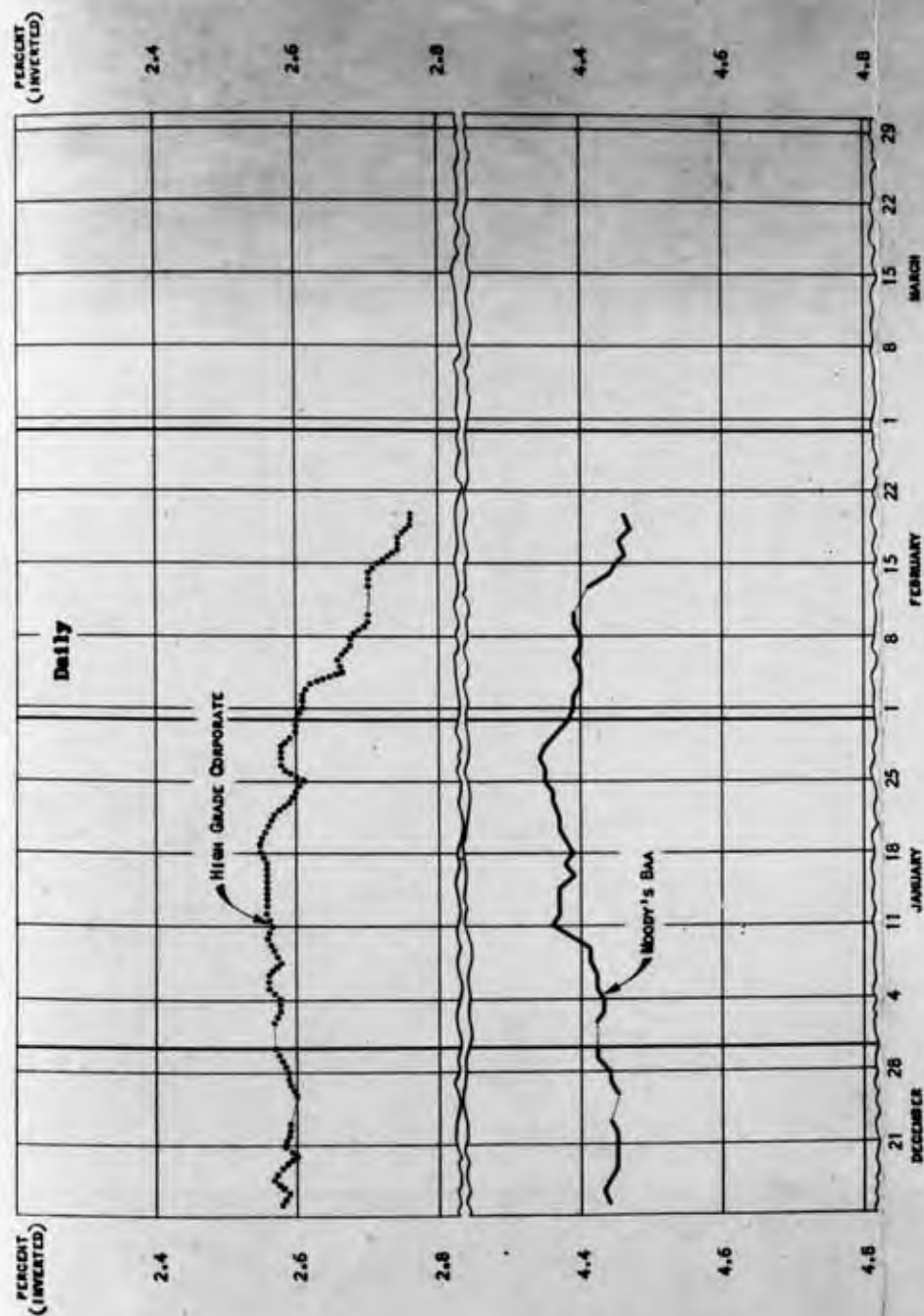


Office of the Secretary of the Treasury
Bureau of Research and Statistics

T-124-B

Regraded Unclassified

Chart IV
COMPARATIVE YIELDS OF AVERAGE OF HIGH GRADE CORPORATE BONDS
AND MOODY'S BAA BONDS



YIELDS OF TREASURY BONDS

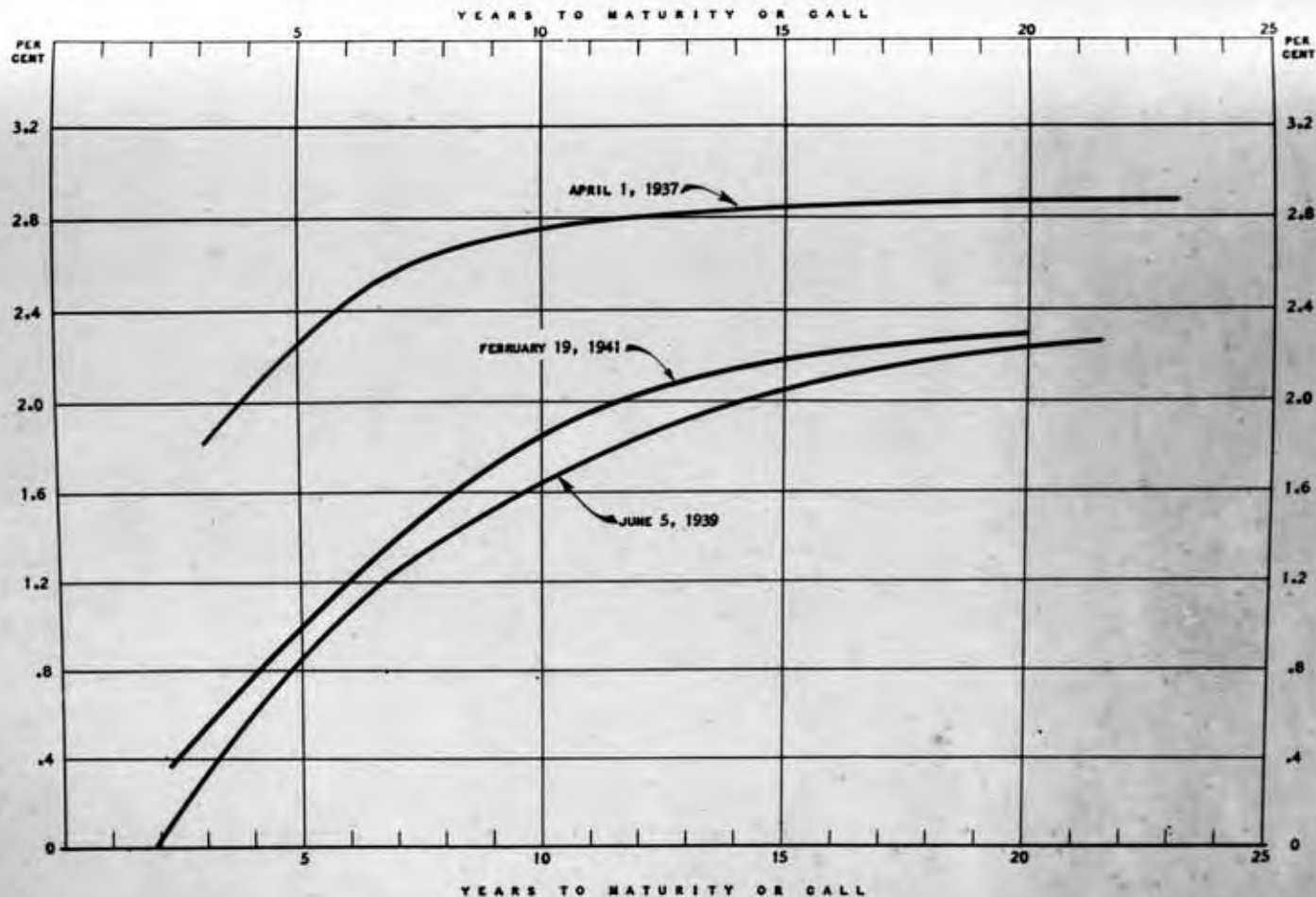
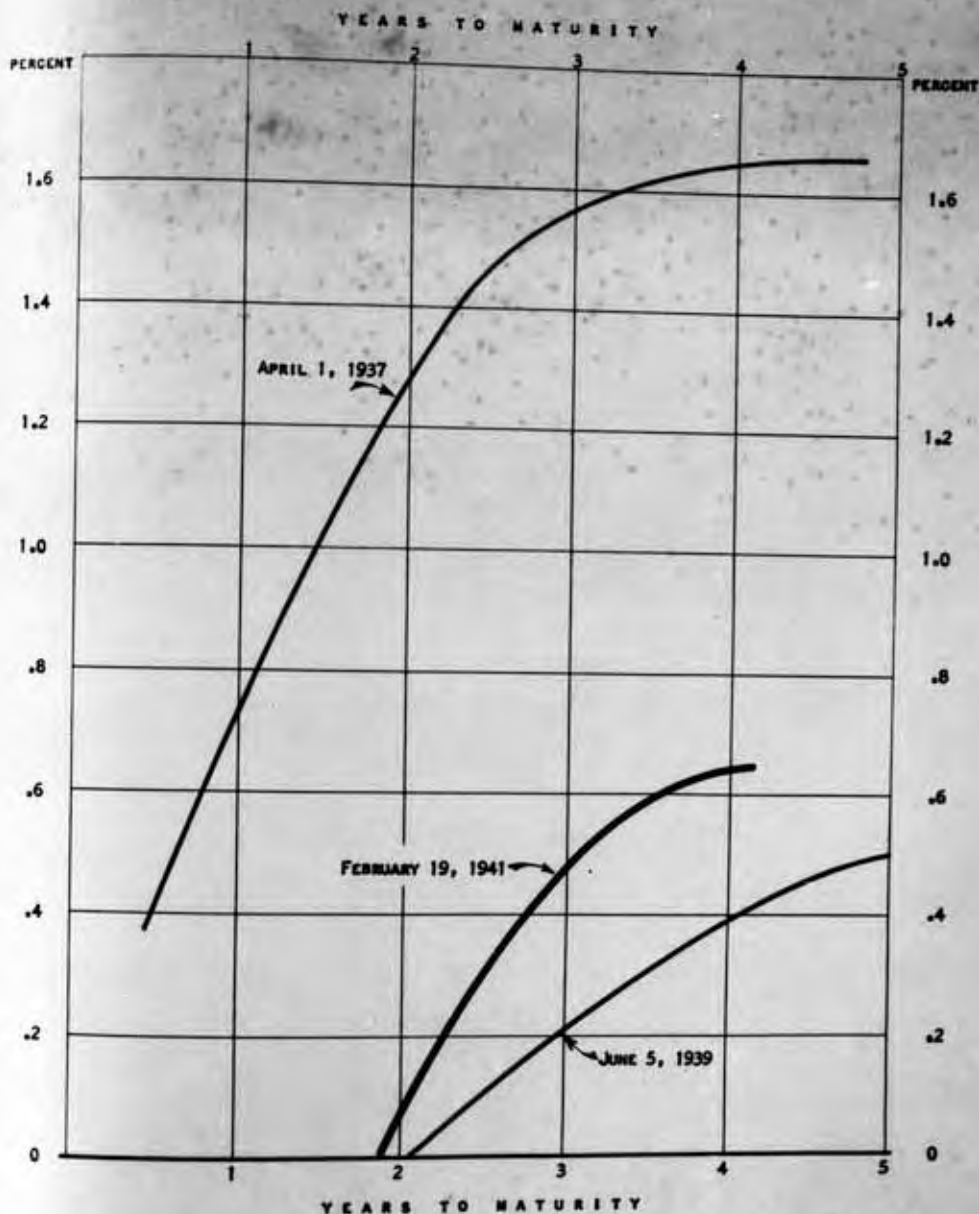


Chart VI
YIELDS OF TREASURY NOTES
Excluding Defense Notes



High-Grade Corporate Bond Issues
February 21, 1941

No.			Price	Yield	Rating
1	Bell Telephone, Pennsylvania	5's 1-1-1944	112-1/4	.67	Aa
2	Union Pacific	4's 7-1-1947	112-1/4	1.94	Aaa
3	United States Steel	2.10's 11-1-1949	101-1/4	1.94	A
4	United States Steel	2.20's 11-1-1950	100-1/2	2.14	A
5	Liggett & Myers	5's 8-1-1951	126-1/2	2.15	Aaa
6	Standard Oil, New Jersey	2-3/4's 7-1-1953	104	2.37	Aaa
7	Bell Telephone, Pennsylvania	5's 10-1-1957	130-1/4	2.72	Aa
8	New England Tel. & Tel.	4-1/2's 5-1-1958	125-1/8	2.67	Aa
9	Union Oil, California	3's 8-1-1959	103-1/8	2.78	A
10	Pennsylvania Railroad	4-1/2's 8-1-1960	121-3/4	3.01	Aa
11	Inland Steel	3's 4-1-1961	105-7/8	2.62	A
12	National Steel	3's 4-1-1965	104	2.77	A
13	Brooklyn Edison	3-1/4's 5-15-1966	109	2.75	Aaa
14	Cleveland Electric, Ill.	3's 7-1-1970	106-3/4	2.67	Aaa

Treasury Department, Division of Research and Statistics.

February 23, 1941.

(Rundberg)

Used 2/24/41

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

February 21, 1941.

TO Secretary Morgenthau

FROM Alan Barth

EDITORIAL OPINION ON H. R. 1776CURRENT TREND

Ennui has overtaken the editorial writers. Having expressed their thoughts to the limits of redundancy respecting H. R. 1776, they now show clear signs of weariness at the reiteration of the same ideas in the Senate.

It is evident from their current comments that they have been glancing at the front page headlines of their respective papers. The news from the far east and from the Balkans has made them restive over Senate ritual. Two points have received dominant stress during the past week: (1) that aid to Britain must be prompt to be effective; (2) that, since enactment of the bill is certain, an overwhelming vote in favor of it will contribute to its usefulness.

PRESSURE FOR UNITY

Most critics of the original bill seem to feel that they have now secured all that they can expect — more than they hoped for — in the way of limitations on the powers granted to the President. A number of influential Republican papers chide their party representatives for the partisan division in the House. They acknowledge that the Administration has contributed generously toward the achievement of unity and exhort G. O. P. leaders to go and do likewise.

Similarly, papers which have consistently supported the bill now advocate the acceptance of amendments in order to enlist the support of doubtful Senate votes. There is exceedingly strong sentiment for the Dirksen amendment, and particularly for the improved version of it offered by the Senate committee. Clamor continues for Congressional specification of the countries to be beneficiaries of lend-lease aid. But the desire for unity now seems to be the pervading motive.

The revelation of the true faith according to the gospel of Wendell Willkie has undoubtedly had a potent effect on the newspapers which are normally anti-Administration. Applause for his testimony before the Senate Foreign Relations Committee was all but universal, The Daily Worker, The Chicago Tribune and a few satellites alone screaming "Treason!" Among the newspapers examined, 123 commented approvingly on his appearance, while only seven registered outright condemnation of him.

- 2 -

PRESENT DIVISION OF OPINION

It is somewhat difficult to catalogue newspapers rigidly as for or against H. R. 1776. The bulk of them assail features of the bill, while applauding its basic purposes. Unquestionably, both the quality and the quantity of the opposition has diminished steadily as the Administration made concessions, as the genuine significance of the measure became understood, as public opinion made itself felt and as a sense of urgency developed.

Study of the temper of editorials, as distinct from their explicit observations prompts the following generalization: A five to one ratio now exists between those newspapers which are prepared to endorse the bill, albeit with misgivings, and those newspapers which would destroy it entirely or substitute for it something radically different, such as the Taft proposal.

H. R. 1776 AS A BUSINESS TRANSACTION

H. R. 1776 is variously referred to in news columns and editorials as "The Lend-Lease bill", "The Anti-Hitler bill", "The Aid-Britain bill", and "The War Dictatorship bill". Newspapers have presented it to the public sometimes as a piece of pure philanthropy, more often as a bloodless method of warfare against the Axis, or, in the case of The Chicago Tribune, as "The Twilight of Free Government".

But implicit in almost all comment concerning it is the assumption that the goods to be transferred to Britain will be given away. Virtually no consideration has been accorded to the "payment or repayment in kind or property, or any other direct or indirect benefit" which the President is authorized to secure in return for the assistance rendered. If this aspect of the bill is mentioned at all, it is generally alluded to as a probable future embarrassment to the United States, on the assumption that the goods will glut our markets.

The possibilities of repayment in forms that will be economically beneficial to the United States — and, indeed, to the whole of world trade — are inadequately appreciated by newspaper commentators. Access can be secured to raw material sources now controlled under arbitrary price policies by British cartels. Compensation can be made, to some degree, through shipment to this country of strategic materials in which the United States is deficient. Perhaps it will be possible to cement Good Neighbor relations with Latin America by setting up a trusteeship over British assets there and giving the other American Republics an opportunity to free themselves from the burdens of absentee landlordism.

H. R. 1776 is now accepted as a means of combatting the Totalitarian military menace. It has virtues, also, as an instrument with which to relieve the economic conditions responsible for Totalitarianism.

OFFICE OF PRODUCTION MANAGEMENT
SOCIAL SECURITY BUILDING
WASHINGTON, D. C.

February 21, 1941

Dear Henry:

On my return from your office this morning I found on my desk your cordial note regarding my trip to England. Your good wishes mean much to me.

Sincerely,

A handwritten signature in dark ink, appearing to read "W. A. Harrington", with a long, sweeping horizontal stroke extending to the right.

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

February 18, 1941.

Dear Mr. Harrison:

It was with a great deal of pleasure that I heard of your selection as "superintendent" in connection with the carrying out of the loan-lend program. I want to send you my best wishes for your success in this arduous and important assignment, and I hope that all will go well with your approaching trip to England, and in your negotiations there.

With cordial regards and good wishes,

Sincerely,

(Signed) H. Morgenthau, Jr.

Honorable E. Averell Harrison,
Chief of the Materials Division,
Office of Production Management,
National Defense Commission,
Washington, D. C.

GHF/dbs

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE February 21, 1941.

TO Secretary Morgenthau

FROM E. H. Foley, Jr.

The Public Debt Act of 1941 will be effective on March 1, 1941. Thereafter no obligations issued by the United States or any agency or instrumentality thereof will be exempt from Federal income tax. The Treasury has shown its good faith in its endeavor to eliminate tax exempt securities.

I believe that you are now called upon to proceed against bondholders of the Port of New York Authority for the collection of taxes on the income derived from the outstanding bonds of the Authority. Needless to say, I am not recommending any change in our attitude that only future issues of state and local securities should be subjected to Federal income taxation. It must also be emphasized that you will again recommend legislation abating back income taxes on securities of the character of the Port Authority bonds as you did when the Supreme Court held that salaries of non-Federal employees were taxable.

The purpose of this memorandum is (a) to suggest the general nature of the considerations which lead to the conclusion that you have no justifiable alternative under the law and the policy of the Administration, and (b) to submit for your approval a plan of procedure.

1. On January 13, 1939 I spoke on the telephone to you when you were at Boca Grande about the necessity for Congress to enact remedial legislation in order to avoid the collection of taxes from bondholders of state corporate instrumentalities. You suggested that in the interests of expedition Mr. Hanes present a letter to the President at the Cabinet meeting that afternoon, calling his attention to the fact that the Bureau of Internal Revenue had no choice but to enforce the income tax law as declared in the latest decisions of the Supreme Court.

2. The need for such haste arose from the decision of the Supreme Court in Helvering v. Gerhardt [304 U. S. 405] in which the Court held the salaries of employees of the Port of New York Authority subject to Federal income tax. One ground of the decision was that the Port of New York Authority was "a state-owned corporation" like the public trustees who operate the Boston street rail-

- 2 -

road business or any other state-owned public service enterprise.

3. After you had called the President's attention to the practical situation created by this decision, Bob Jackson (who was then Solicitor General) wrote a note to the President in which he said he thought that your suggestion that the attention of Congress should be called to the urgent need for legislation to eliminate the inequities which would flow from the retroactive application of the decision in Helvering v. Gerhardt was important and proper.

4. The result of your letter and this note was that on January 19, 1939 the President sent a message to Congress asking Congress to enact legislation "to prevent recent judicial decisions from operating in such a retroactive fashion as to impose tax liability on * * * income derived from securities heretofore issued."

5. The statutory exemption from the Federal income tax of interest applies only to obligations of "a State, Territory, or any political subdivision thereof." Unless the Port of New York Authority is a political subdivision its obligations are subject to Federal income tax.

6. The Port of New York Authority is a bi-state corporation, created by a compact between New York and New Jersey. The compact was approved by Congress, which declared that the activities of the Port Authority would facilitate interstate and foreign commerce. Unlike counties, cities, towns and villages and similar subdivisions created for political purposes, the Port Authority lacks general powers of local government. Although it has geographical boundaries, it has no power to levy or collect taxes and no power to legislate within such boundaries. It has all the powers which any private corporation would need to construct and operate bridges, tunnels, terminals and similar public utilities, including the right of eminent domain.

7. Because of the hope that the legislation recommended by the President would be enacted, the Bureau of Internal Revenue has taken no action to assert a tax against interest on Port of New York Authority bonds for the last two years. On March 15, 1941, the statute of limitations will expire on income taxes due March 15, 1938.

- 3 -

8. It is extremely questionable that you should undertake to exercise any longer administrative discretion not to enforce the payment of taxes by Port of New York Authority bondholders, even though the Court has not ruled squarely on the point as to whether it is a political subdivision. While there is no doubt as to your authority to approve amendments to Treasury Regulations without retroactive effect, there is doubt that you have the same authority with respect to decisions of the Supreme Court.

9. If you approve, I should like to talk the problem over with Bob Jackson. If he agrees that we should proceed, we would then send a notice of deficiency (90 day letter) to an appropriate taxpayer owning Port of New York Authority bonds for failure to include interest on the bonds in gross income. Simultaneously with sending this notice we would issue an announcement that the Treasury would continue to recommend that Congress provide clearly that only the interest on future issues was subject to taxation, and that interest on outstanding bonds of all public corporations, whether political subdivisions or not, was not subject to taxation.

10. The Port Authority is the focal point of opposition to the elimination of future issues of tax-exempt securities. It provides the money, writes the speeches, and stimulates the lobbying against the Administration on this issue. Once it is made clear that the Port Authority bonds are subject to income taxation, the Authority will be forced to cooperate with the Treasury in urging upon Congress the elimination of future tax-exempt securities because as a part of that legislation Congress will relieve the inequity which would flow from taxing the interest on outstanding bonds.

This was the strategy which we followed in securing the elimination of tax-exempt salaries, the opposition to which also came from the Port Authority and which collapsed when the Court held employees of the Port Authority subject to Federal income tax on their salaries. The Public Salary Tax Act of 1939 provided for taxing future salaries and at the same time it relieved the Treasury from applying the Supreme Court's decision retroactively.

- 4 -

11. If the Supreme Court holds that the Port Authority is not a political subdivision, but is merely a state agency organized solely to manage a commercial enterprise in the public interest, it will then have to decide whether the interest on the bonds is exempt from income taxation under the Constitution. In the light of recent decisions of the Court, I have no doubt that the Court will hold that the interest is not constitutionally immune in the hands of private owners of the bonds, and will overrule the case of Pollock v. Farmers Loan & Trust Co. [(1895) 157 U. S. 429; 158 U. S. 601].

Justices Stone, Frankfurter, Douglas, Black and Reed will be with the Treasury beyond any question, and I think that Justices Murphy and Roberts will also be with the majority. Chief Justice Hughes will probably disqualify himself because, when he was in private practice, he gave an opinion to the Port Authority that the interest on its bonds was exempt under the Constitution. With Justice McReynolds now retired, there is no Justice on whom the Port Authority can count on its side on the constitutional issue.

If you agree that we should proceed on the basis outlined in this memorandum, please indicate your approval below.

E. W. F.

Approved:

FEB 21 1941

My dear Senator Vandenberg:

Reference is made to your letter of February 15, 1941, in which you inquire whether the old World War debt stands upon our books against the United Kingdom or against the entire British Empire.

When the debt-funding arrangement of 1923 was made, the agreement was made by "His Britannic Majesty's Government", thereafter referred to in the document as "Great Britain". The Moratorium Agreement of 1932 was made on behalf of "the Government of the United Kingdom of Great Britain and Northern Ireland". It is this entity which may properly be said to owe us the debt and not the entire British Empire.

In connection with the application of the Johnson Act to the British Dominions, you may be interested in an opinion submitted by Attorney General Cummings to the Secretary of State on May 5, 1934 (37 Op. Atty. Gen. 505), in which the following paragraph appears on page 512:

"It has also been asked whether or not Canada, a member of the Commonwealth of nations which compose the British Empire,

- 2 -

is to be regarded as a political subdivision of Great Britain. The question should properly be answered in the negative, and this conclusion was suggested in Congress (Cong. Rec. Vol. 78, p. 8052), but it appears to be immaterial in view of my conclusion above stated concerning the intention of Congress as applied to the obligations of political subdivisions. Canada, I believe, is not in default."

Of course, entirely apart from the terms of the Johnson Act, extensions of credit to Canada, Australia, New Zealand, and the Union of South Africa are governed by the provisions of section 7 of the Neutrality Act, which deals with the extension of credit by any person within the United States to the government of any state named in certain proclamations of the President, or any political subdivision thereof, or to any person acting for or on behalf of such government or political subdivision. The provisions of section 7 of the Neutrality Act were made applicable to the above-mentioned countries by the President's Proclamation No. 2374 of November 4, 1939 (4 Fed. Reg. 4493).

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Honorable Arthur H. Vandenberg,

United States Senate.

BB:JAS/mh - 2/20/41

File to Mr. Thompson

By Messenger 2

UNITED STATES SENATE
Committee on Foreign Relations

February 15, 1941

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

My dear Mr. Secretary:

You will recall that when you appeared as a witness before the Senate Foreign Relations Committee I asked you whether the old World War debt stands upon our books against the United Kingdom or against the entire British Empire, and you were unable to give me a conclusive response.

I am very anxious to have a definite answer and I shall appreciate it at your earliest convenience. The point is that if the old World War debt stands in the name of the United Kingdom, then Canada, Australia, New Zealand and South Africa are not defaulters under the terms of the Johnson Act.

I shall welcome official comment upon this proposition.

With warm personal regards and best wishes,

Cordially and faithfully,

/s/ A. H. Vandenberg

The following testimony appears on page 23 of the Hearings before the Committee on Foreign Relations, United States Senate, on S. 275 (Lease Lend Bill):

SENATOR VANDENBERG. Is the old World War debt a debt in the name of the United Kingdom or in the name of the British Empire?

SECRETARY MORGENTHAU. I shall just have to answer that "I do not know," Senator; the statement I have here, which is not an answer to your question, says "Great Britain," but I will have it looked up and give it to you. I have not got the answer. This says "Great Britain," which is not an answer to your question. I shall get it, however.

When the funding arrangement was made it was signed for His Britannic Majesty's Government, thereafter referred to in the document as Great Britain. In the moratorium agreement of 1932 the British representative signed for the Government of the United Kingdom, and therefore it is this latter entity which may properly be said to owe us a war debt.

SHANGHAI

February 21 1941

Nicholson
Spagent

Washn DC

Fisher Yu states that Admiral Baron Osumi's plane in which he was killed on February 5th with several other high Japanese military men was definitely brought down by Chinese guerrillas; that plans for taking Singapore base were found among the papers of Osumi; that these plans were turned over to the British Ambassador by Chungking officials; and that this is the reason for Australian troops being sent to Malaya. Yu also has heard rumors that puppets and Japanese have been discussing ways and means of seizing Bank of Communications and new Bank of China buildings and are planning to open their safe in new Bank of China building on bund about June 1st

Jacobson

Office of Treasury Attache

KD

GRAY

Berlin

Dated February 21, 1941

Rec'd. 12:44 p.m.

Secretary of State,
Washington.

655, February 21, 9 a.m.

My 342, January 30, 6 p.m.

FOR TREASURY FROM HEATH

According to a statement of the Reich's indebtedness at the end of November, which has just been published, disclosed long and medium term indebtedness increased during November by 1.42 billion marks which together with the increase of 1.74 billion marks in short term indebtedness, reported in my telegram under reference, makes a total increase of 3.16 billion marks during November exactly one billion marks less than the October increase but about the same as the average borrowing of the five months preceding October. Total disclosed indebtedness (including tax certificates) stood at 76.98 billion marks at the end of November.

The

-2- 655, February 21, 9 a.m., from Berlin.

The principal increases in long and medium term debt during November were 1.06 billion marks in 4% treasury bonds and 0.4 billion marks in li-loans.

MORRIS.

WSB

TREASURY DEPARTMENT
INTER-OFFICE COMMUNICATION

DATE February 21, 1941

TO Mr. Thompson

FROM Mr. Haas *HA*

In further response to your request of December 26, 1939, there is submitted herewith for the Division of Research and Statistics a memorandum listing, with brief descriptions, the studies or projects completed or under way, and the names of persons working on each, for the month of January 1941.

DIVISION OF RESEARCH AND STATISTICS

Report of Studies or Projects Completed or Under Way, and the Names of Persons Working on Each, for the month of January 1941

For convenience of reference, the studies listed are grouped under general subject heads.

The names shown for persons working on each project include only those who participated fairly directly, as explained in the introductory note to the corresponding report submitted on December 28, 1939. No attempt has been made to cover also persons whose responsibility in each particular case was mainly in planning, supervising, or consulting.

Financial Analysis

I. Projects or studies completed

1. Reviews of current developments in the high-grade securities markets were prepared, and memoranda were transmitted to the Secretary on January 8 and 28. - Mr. Haas, Mr. Turner, Mr. Purvis

These reviews contained, in addition to analysis of the current situation, the following special studies:

- (a) Excess reserves (Review of January 8, page 3). - Mr. Turner
- (b) Estimated amount of privately held tax-exempt securities (Review of January 8, page 4). - Mr. Turner
- (c) The new Defense note (Review of January 28, page 2). - Mr. Turner
- (d) Bank holdings of securities of the Federal Government (Review of January 28, page 4). - Mr. Turner

2. A memorandum was prepared in connection with the proposed new issue of National Defense notes including estimated yield bases and probable premiums on three suggested issues, and was transmitted to the Secretary on January 21. - Mr. Haas, Mr. Murphy, Mr. Turner, Mr. Conrad

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3. A table was prepared of probable yield bases and premiums of suggested National Defense notes with three different maturities, based on closing bids on January 15, and was completed on January 16. - Mr. Murphy
4. A table was prepared of probable yield bases and premiums of suggested National Defense notes with three different maturities, allowing a five basis point leeway over the estimated bases on the new Defense notes, and was completed on January 21. - Mr. Conrad
5. A table was prepared of probable yield bases and probable premiums of suggested National Defense notes, showing estimated bases on the first two Defense notes if their maturities are shortened three months, and was completed on January 21. - Mr. Conrad
6. Yield rates on United States securities, direct and guaranteed, on the basis of over-the-counter closing quotations were calculated daily. These were summarized each day in a table showing for each issue the closing price and yield that day, the change in price and yield from the preceding day, and the price range since date of issue and also for the years 1940 and 1941 to date. A chart for each issue was kept up to date showing recent daily price and yield figures together with comparative monthly data since 1933 or since date of issue. Similar calculations are made daily on the basis of New York Stock Exchange closing quotations on direct and guaranteed bonds of the United States, for use in preparation of the publication "Market Prices and Yields of Outstanding Bonds, Notes, and Bills of the United States", described under Publications in this report. - Mr. Moody, Miss McCoy, Mr. Kroll
7. At the request of the Secretary, arrangements have been made to secure periodically from the British Purchasing Commission certain information regarding purchases in the United States by the British Empire. - Mr. Haas, Mr. Lindow, Mr. March
 - (a) Weekly statements are received covering the itemized purchases by British Empire Governments through the Commission, the itemized purchases made by these Governments with the knowledge of the Commission but not through its facilities, and inquiries made by the Commission or with its knowledge for future purchases. Similar statements are received showing, by itemized contracts, deliveries made with respect to orders placed by Great Britain through the Commission. The details with respect to orders and deliveries are classified by some twenty-five commodity groups designed especially for the purpose.

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These data are reviewed and edited in the Division each week and a report is then prepared summarizing in dollar volume the information on orders and deliveries, by commodity groups. This report consists of eight statements: the first three summarize orders placed by the individual governments of the British Empire for the current week and the totals to date; the next three statements summarize total orders of the British Empire on a historical basis; the last two statements present data on deliveries with respect to orders placed by Great Britain through the British Purchasing Commission. These weekly commodity statements were prepared on January 4, 10, 17, 25, and 31, and were transmitted according to instructions by the Secretary.

- (b) The Commission also supplies the Division each week with the data required to prepare statements giving the details concerning the physical volume of airplane and airplane engine orders in the United States by the British Empire. The material for these statements is contained in a group of worksheets prepared by the Commission, but it is necessary for the Division to consolidate and coordinate the information contained in the Commission's statements. The finished tables show, by company and by type of plane or engine, the following information: (1) summary of orders, deliveries, and exports; (2) history of orders; (3) history of deliveries; (4) exports, classified by destination; (5) scheduled deliveries of unfilled orders; (6) options: scheduled deliveries; (7) spare parts: orders, deliveries, unfilled orders, and options; and (8) secondhand units: orders, deliveries, and scheduled deliveries of unfilled orders. These aircraft reports were prepared, and were transmitted on January 4, 10, 17, 25, and 31, according to instructions by the Secretary.
- (c) Reports are prepared each week showing commitments by the British Empire Governments for capital expenditures in the United States and for extraordinary charges designed to expedite deliveries. The data for these statements are provided by the Commission but the tables actually are prepared in the Division. Tables showing capital commitments were prepared, and were transmitted on January 4, 10, 17, 25, and 31, according to instructions by the Secretary.

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- (d) Monthly statements also are prepared with respect to certain activities of the Commission. One of these statements shows the physical volume of iron and steel purchases by, and deliveries to, the British Government. A revised monthly report, consisting of nine statements, has been prepared on a preliminary basis, with certain information still lacking, with the hope that subsequently full information will be made available by the British Iron and Steel Corporation. The new report was transmitted on January 30, 1941, according to instructions by the Secretary.
- (e) Information is being prepared also by the British Purchasing Commission which will make possible the regular issuance of similar statements concerning contractual deliveries on orders placed in the United States by the British Empire for (1) explosives and propellants, (2) toluol, (3) shells and bombs, (4) small arms ammunition, (5) ordnance, (6) automatic small arms, (7) sub-machine guns, revolvers, and rifles, (8) tanks and equipment, (9) non-ferrous metals, (10) motor vehicles, (11) small boats and ships, and (12) marine engines.
- (f) Several special statements were prepared for the Secretary during January. On January 10, a statement was prepared itemizing orders placed by the British Government through the British Purchasing Commission after December 19, 1940, as reported to December 28, 1940. On January 22, 1941, this statement was brought up to January 16, 1941, and transmitted to the Secretary.

On January 29, a similar statement was prepared itemizing orders placed by the British Government through the British Purchasing Commission from January 1 through January 28, 1941. This was transmitted to the Secretary on January 30, 1941.

A summary of commitments made with respect to orders placed by the United Kingdom in the United States up to December 31, 1940 was prepared on January 14, 1941. This statement showed total orders placed, total payments made thereon, and the balances due, as of December 31, 1940, and presented a time distribution of estimated future payments on these commitments. The data were classified by commodity groups. On January 25, this statement was brought up to January 16, 1941, and was transmitted according to instructions by the Secretary.

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8. At the request of the Secretary on January 17, a letter was prepared to Mr. Gano Dunn on that date, for signature of the Secretary, attaching an estimate of requirements by the British Government for steel in the United States. - Mr. Haas, Mr. Lindow
9. At the request of the Secretary, arrangements have been made to secure periodically certain information regarding purchases in the United States by the Netherlands Purchasing Commission, and Lindeteves, Inc. - Mr. Haas, Mr. Lindow, Mr. March
- (a) Weekly statements are received covering the itemized purchases in the United States by the Netherlands Purchasing Commission, and the volume of deliveries made thereon. Similar statements are received concerning the activities of Lindeteves, Inc., a large private commercial organization operating in the Dutch East Indies. The details with respect to orders and deliveries for these purchasing agencies are classified by the same twenty-five commodity groups used for reporting orders placed in the United States by the British Empire.

These data are reviewed and edited in the Division each week. Reports are then prepared for each of these agencies summarizing the information on orders and deliveries, classified by commodity groups. These reports consist of three statements: the first shows the history of orders placed; the second shows the history of deliveries made on these orders; and the third shows the current delivery status of orders. These weekly commodity statements covering orders of the Netherlands Purchasing Commission were prepared, and were transmitted on January 4, 10, 17, 25, and 31, in accordance with instructions by the Secretary. Similar statements for Lindeteves, Inc., were prepared, and were transmitted on January 9, 14, and 18, also according to instructions by the Secretary.

- (b) Statements summarizing future requirements in the United States by the Netherlands Government were begun by the Netherlands Purchasing Commission with the assistance of the Division, in the latter part of January. These statements will show in dollar values estimated future requirements of the Commission with respect to all commodities, and estimated delivery requirements in terms of physical quantities for all important individual products.

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10. At the request of the Secretary on May 23, arrangements were made for securing weekly until September 11, and after that fortnightly, from more than forty airplane and airplane engine manufacturers data on deliveries, new orders, unfilled orders, and estimated deliveries by months on the unfilled orders. Analytical tables are prepared every other week showing this information by type of plane or engine and by class of purchaser. Reports for the fortnights ended January 4 and 18, were prepared on January 8 and 22, and were transmitted according to instructions by the Secretary. - Mr. Haas, Mr. Tickton, Mr. D. J. Leahy
11. At the request of Under Secretary Bell, various memoranda and charts were prepared for use in the Friday discussion group, considering matters of general interest in connection with defense financing. - Mr. Haas, Mr. Murphy, Mr. Daggit

The material presented during the month included the following:

- (a) An analysis was made of recent price movements, illustrated by six wall charts and one small chart: the first showing the movements of an index of 16 industrial raw materials and of an index of 12 foodstuffs since August 1939; the second showing the movements of the NICE cost-of-living index compared with the BLS index of 863 commodities since 1935, and the BLS index of 28 basic commodities compared with the BLS index of 863 commodities since August 1939, both on the basis of 1926=100. On the first of these charts were shown also percentage price changes for 28 individual commodities, 16 industrial raw materials, and 12 foodstuffs, from the August 1940 low to December 11, 1940, and to January 8, 1941.

On the third and fourth charts were shown percentage price increases for the 10 major groups and 26 selected subgroups of the BLS all-commodity index of wholesale prices, indicating the extent and dispersion of price advances in 1940 from the 1940 lows to the latest available quotations.

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Two similar charts were presented for a group of 40 selected industrial materials which had shown extensive price advances, and for the 44 items comprising the BLS index of lumber prices.

To illustrate the effect of higher lumber prices on the cost of residential construction, a small chart was shown indicating percentage changes from July to December 1940 in various cost items in the construction of a standard frame house in the St. Louis area. This chart is described also under Economic Conditions, I, as item 10. (These seven charts presented at the meeting on January 10.) - Mr. Daggit, Mrs. May

- (b) An analysis was made of recent price trends illustrated by two wall charts, described above under item (a) brought up to date as of January 15, and showing for 28 individual commodities: 16 industrial raw materials and 12 foodstuffs, percentage price changes from the August 1940 low to January 8 and to January 15. (Chart presented at the meeting on January 17.) - Mr. Daggit, Mrs. May
- (c) A review was presented of the pamphlet entitled "Fundamental Economic Issues in National Defense" by Harold G. Moulton, issued by the Brookings Institution on January 13, and copies were distributed of a comparative table of the Budget Estimates and the Brookings recommendations of receipts and expenditures. (Presented at the meeting on January 17.) - Mr. Murphy
- (d) An analysis was made of recent price movements illustrated by the first two wall charts described above under item (a), brought up to the date of January 22, and showing for 28 individual commodities: 16 industrial raw materials and 12 foodstuffs, percentage price changes from the August 1940 low to January 15, and to January 22. A chart was shown to illustrate the recent price movements of 18 industrial materials, which in December had shown extensive price advances from their lowest prices in 1940. Percentage increases were shown to December 26 and to January 15. (This chart is described also under Economic Conditions, I, as item 9.)

The fourth and final chart illustrating price trends showed for each of the 18 commodities monthly prices from January 1935 to January 15, 1941. (Charts presented at the meeting on January 24.) - Mr. Daggit, Mrs. May

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- (e) A presentation was made of the freight car situation with reference to the prospect of a shortage next fall. Five wall charts were used. The number of freight cars owned by Class I Railroads, and the volume of car loadings were shown by months for the period from 1924 to 1940. Total freight car loadings were shown by weeks for the years 1938, 1939, and 1940, and for the first three weeks of 1941. Coal and coke freight car loadings were shown by months for the years 1938, 1939, and 1940. The October freight car surplus was shown, with the ratio of cars owned to car loadings, for the period from 1933 through 1940, and projected for 1941. The final chart showed, on the basis October 1935-39=100, October freight car loadings and the FRB index of industrial production 1935-39=100, adjusted, for the period from 1928 through 1940, and projected for 1941. This study is described also under Economic Conditions, II, as item 8. (Statement and charts presented at the meeting on January 24). - Mr. Daggit, Mrs. May
12. An estimate was completed of the distribution, by classes of holders, of tax-exempt securities outstanding as of June 30, 1940, and was transmitted to Mr. Blough on January 24. - Mr. Lindow, Mr. Conrad, Mr. Purvis, Mr. Stringham
13. At the request of Mr. Broughton on January 10, a memorandum was prepared comparing tables published by the National City Bank of New York with those in the Secretary's Annual Report for 1940, on estimates of holdings and absorption of the public debt and guaranteed obligations, and was transmitted to him on January 28. - Mr. Murphy, Mr. Turner, Mr. Barnett
14. Three tables were prepared and were completed on January 21 and 28, on the basis of certain arbitrary assumptions, forecasting the amount of tax-exempt securities which will be outstanding as of June 30, 1941, their distribution by classes of holders, and their run-off during the next five calendar years. - Mr. Turner, Mr. Conrad, Mr. Purvis, Mr. Barnett
15. At the request of Under Secretary Bell on November 12, a study was made of the relationship between the amount of currency in circulation and the volume of bank deposits, and was transmitted to him in a memorandum on January 2. - Mr. Turner, Mr. Stringham

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16. At the request of the Secretary on January 2, for a point-by-point discussion of the joint recommendations made to Congress by the Board of Governors of the Federal Reserve System, the Presidents of the Federal Reserve Banks, and the Federal Advisory Council, a memorandum was prepared, and copies were transmitted on January 7, to Under Secretary Bell. - Mr. Haas, Mr. Murphy, Mr. Turner, Mr. Purvis
17. At the request of the Secretary on January 2, cooperation was given the Division of Monetary Research in preparing a memorandum on the joint recommendations made to Congress by the Board of Governors of the Federal Reserve System, the Presidents of the Federal Reserve Banks, and the Federal Advisory Council. - Mr. Haas, Mr. Murphy
18. At the request of Under Secretary Bell on December 20, a memorandum was prepared on the estimated reduction in excess reserves possible under the existing law, and was transmitted to him on January 2. - Mr. Murphy, Mr. Turner, Mr. Stringham
19. At the request of Under Secretary Bell on January 8, a memorandum was prepared on the reduction in excess reserves which might be effected by a reclassification of cities for reserve purposes, and was transmitted to him in a memorandum on January 24. - Mr. Murphy, Mr. Purvis, Mr. Barnett
20. At the request of the Secretary on January 4, a memorandum was prepared and was transmitted to him on January 6 with reference to the Post Office's handling checking accounts. - Mr. Haas, Mr. Murphy
21. At the request of the Secretary on January 7, a memorandum, and chart were prepared and were transmitted to him on January 9, on the trends of prices of six individual bank stocks, in comparison with the market trends of the Dow-Jones industrial stock index, before and after publication on January 1, 1941, of the joint recommendations made to Congress by the Board of Governors of the Federal Reserve System, the Presidents of the Federal Reserve Banks, and the Federal Advisory Council. - Mr. Daggit, Mrs. May, Mr. Smith, Miss Hagedorn
22. At the request of the Secretary on January 15, a memorandum was transmitted to him on January 16, with respect to Mr. Haas' conversation with Mr. Leon Henderson concerning investigation of bank stocks. - Mr. Haas

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23. At the request of the Secretary on January 3, a memorandum and chart were prepared and were transmitted to him on January 9, on price trends since the first week of October 1940, of United States securities taken over by the British on December 15, 1940, compared with price trends for representative groups in the general market. Indexes were computed on price movements of the 42 common stocks, 17 preferred stocks, and 6 bonds included in the British vesting order of December 15, and these were compared with the Dow-Jones averages of 65 common stocks and 40 bonds, and a composite compiled in the Division from 16 selected stocks. - Mr. Daggit, Mrs. May, Mr. Smith, Miss Hagedorn
24. At the request of the Secretary on January 6, a memorandum was prepared, transmitting to him on January 30, photostats and memorandum prepared by the SEC on trading in common stock of the International Telephone and Telegraph Corporation between January 2 and 6, 1941, together with a summary table prepared in the Division of Research and Statistics. - Mr. Haas, Mr. Tickton
25. At the request of the Secretary on January 13, a memorandum was prepared on the prices of German municipal bonds, and was transmitted to him on the same date. - Mr. Murphy, Mr. Turner, Mr. Purvis, Mr. Barnett
26. At the request of the Secretary on January 27, assistance was given on January 27 and 28, in preparing the statement made by the Secretary on January 29, before the Committee on Ways and Means of the House of Representatives, on H. R. 2654, a bill to increase the debt limit of the United States, to provide for the Federal taxation of future issues of obligations of the United States, and for other purposes. - Mr. Haas, Mr. Murphy

II. Projects or studies under way

1. Study of the relationship between the yields and maturities of high-grade securities immediately preceding major bear markets in such securities. - Mr. Turner
2. Comparison of the relative amplitude of price fluctuations of long-term and short-term securities. - Mr. Lindow, Mr. Conrad

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3. Study of the effect of the maturity, call period, coupon, premium, and size of the issue on the prices and yields of U. S. securities. - Mr. Conrad
4. Memorandum comparing and contrasting war and depression deficit-financing. - Mr. Murphy
5. Review of war-financing measures in belligerent countries in the present war. - Mr. Murphy, Mr. Purvis, Mr. Stringham
6. United States Savings Bonds - An analysis of factors affecting sales and redemptions of United States savings bonds, as a guide to future experience. - Mr. Conrad
7. At the request of the Division of Statistical Standards, Bureau of the Budget, on September 20, a review is being made of the "Base Book of Financial Statistics", to be issued by the Federal banking authorities. - Mr. Murphy
8. At the request of Under Secretary Bell on October 14, a memorandum is being prepared on a memorandum submitted by Mr. John Evans, President of the First National Bank of Denver, Colorado, in reference to United States Government bonds now owned by the Federal Reserve System and its member banks, and suggestions concerning a refunding and change in form which would appear to be in interest of the Treasury Department, the Federal Reserve System, the member banks, the Federal Deposit Insurance Corporation, and the public generally whose money is deposited in member banks. - Mr. Murphy
9. A memorandum is being prepared for Under Secretary Bell on a new type of investment security proposed by Mr. Rouse. - Mr. Murphy, Mr. Turner
10. In response to a request by Under Secretary Bell on January 27, comments are being prepared on a memorandum by Mr. George Eddy to Mr. White, in regard to a plan of Mr. N. E. Peterson entitled, "A Means of Financing the Defense Program". - Mr. Turner
11. At the request of Under Secretary Bell replies are being prepared to certain questions asked by the Wagner Committee preparatory to its investigation of banking and monetary conditions pursuant to Senate Resolution 125. - Mr. Haas, Mr. Murphy, Mr. Turner, Mr. Conrad, Mr. Purvis

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12. Assistance was given the Legal Division and the Division of Tax Research in the preparation for the General Counsel of one group of examples of the possibilities of tax avoidance by means of tax-exempt securities (for use of Mr. Walker Stone). These examples were transmitted under cover of a memorandum of January 13, addressed to Assistant Secretary Sullivan and Mr. Foley with letter to Mr. Stone and data attached. Additional instances are in preparation. - Mr. Murphy
13. At the request of the Secretary on December 1, four maps were prepared of group banks and their branches, and were transmitted to the First Deputy Comptroller of the Currency on January 30. Additional material is in preparation. - Mr. Tickton, Mrs. Wolkind
14. At the request of Mr. Broughton on January 27, a memorandum is being prepared on the revision of Department Circular No. 596 - "United States Savings Bonds - Series D". - Mr. Tickton
15. A memorandum is being prepared on the relationship between public debt operations and bank reserves. - Mr. Turner

Revenue Estimates

I. Projects or studies completed

1. The regular monthly statement was prepared for the Bureau of Accounts, showing the latest revised estimates of receipts, by months and by principal sources of revenue, for the period January 1941-June 1942, and was transmitted on January 3. - Mr. Delcher
2. The regular monthly summary comparison of estimated receipts and actual receipts in December 1940 on the daily Treasury statement basis, was prepared. - Mr. Delcher
3. The regular monthly detailed comparison of estimated and actual receipts in December 1940, and for the period January-June 1941, based on the collections classification, was prepared. - Mr. Delcher

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4. A forecast was completed on the basis of the 1942 Budget of the United States, of the monthly distribution of estimated revenue for the fiscal years 1941 and 1942. - Mr. O'Donnell, Mr. Daggit, Mr. T. F. Leahy, Mrs. May, Mr. T. L. Smith, Mr. Bronfenbrenner, Mr. R. R. Smith, Miss Hagedorn
5. Preliminary revised estimates of the population of the continental United States, as of the end of each month from December 1939 through December 1940, based on the final population figures of the 1940 Census, were prepared, and were transmitted on January 8, to Mr. Bartelt, Mr. Mulroney, Miss Barr, and Mr. Weber, in memoranda including, in response to a question, the suggestion that per capita figures be revised whenever new population estimates are released by the Bureau of the Census. - Mr. Bronfenbrenner
6. Preliminary revised estimates of the population of the continental United States, by States, as of June 30, 1940, based on the final population figures for the 1940 Census, were transmitted to Mr. Kane on January 16. - Mr. Bronfenbrenner
7. At the request of Mr. Bartelt on January 21, a review was made of a memorandum to the Commissioner of Accounts from the Acting Commissioner of Internal Revenue setting forth the Bureau of Internal Revenue's method of estimating the amount of Defense taxes to be collected under Title II of the Revenue Act of 1940. The review was transmitted to Mr. Bartelt in a memorandum on January 31. - Mr. Leahy
8. At the request of the Division of Tax Research on January 24, a review was made of a schedule outlining the proposed punch card for an advance tabulation from Form 1121 for 1940, relating to the excess profits tax, and was transmitted on January 31 in a memorandum to Mr. Blough. - Mr. Leahy
9. Estimates were prepared of the effects on the revenue of the Federal Government for (1) the fiscal years 1942, 1943, 1944, and 1945, and (2) when all the present tax-exempt issues have been retired, if (a) the interest on all future issues of securities by the Federal Government, its agencies and instrumentalities, were made fully subject to Federal income taxes, with no change in the taxable status of State and local securities, estimated on the basis of the shift to tax-exempt securities and

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on the non-shift basis; and (b) if the interest on future issues of State and local securities were also made taxable and State taxation of the interest on future issues of Federal securities were permitted. These estimates were transmitted to Assistant Secretary Sullivan and to Mr. Blough in a memorandum addressed to Mr. Blough on January 22, and in a table transmitted to Assistant Secretary Sullivan on January 28. - Mr. Leahey, Mr. Delcher, Mr. Bronfenbrenner

10. In connection with the probable revision of the revenue laws in 1941, a number of revenue estimates listed below, were prepared for use of Assistant Secretary Sullivan and the Division of Tax Research. - Mr. O'Donnell, Mr. Leahey, Mr. Smith, Mr. Bronfenbrenner, Mr. Delcher
 - (a) An estimate was prepared of the revenue effect, on the basis of forecast income levels for the calendar year 1941, of increasing the normal tax rate (including the Defense tax) from 24 to 30 percent for corporations with net incomes in excess of \$25,000, and with proportionate increases in rates applicable to corporations with net incomes of \$25,000 or less, and was transmitted in a memorandum to Assistant Secretary Sullivan on January 2.
 - (b) An estimate was prepared of the revenue effect, at forecast business levels for the fiscal year 1942, of imposing a tax on bottled soft drinks at the rate of one cent per bottle with equivalent taxes on unbottled drinks and fountain syrups, and was transmitted in a memorandum to Mr. Blough on January 31.
 - (c) Estimates were prepared of the revenue effects, at the business levels forecast for the fiscal year 1942, of (1) reenacting the 2-cent check tax imposed under the Revenue Act of 1932 and repealed January 1, 1935; and of (2) reducing the exemption under the admissions tax from 20 cents to 9 cents, and were transmitted in a memorandum to Mr. Blough on January 22.

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- (d) An estimate was prepared of the revenue of a full year's collections in the years following the first year of tax collections, at the forecast levels of business and incomes for the fiscal year 1942, from increasing estate tax rates upon net estates which, after specific exemption, are less than \$5 million, and increasing gift tax rates to $\frac{3}{4}$ the rates in a proposed estate tax schedule, and was transmitted in a memorandum to Mr. Blough on January 22.
- (e) Estimates were prepared, based on the forecast levels of business and incomes for the fiscal year 1942, and assuming a full year's collections of the estate and gift taxes in years following the first year of tax collections under the new proposals, of the revenue effects of the following proposed estate tax and gift tax changes:
- (1) reduce specific exemption under the estate tax and gift tax from \$40,000 to \$25,000;
 - (2) adopt a new tax rate schedule increasing rates upon net estates which, after specific exemption, are less than \$6 million, and increase the gift tax rates to $\frac{3}{4}$ the rates in the proposed estate tax schedule; and (3) reduce the insurance exclusion under the estate tax from \$40,000 to \$25,000. These estimates were transmitted in a memorandum to Mr. Blough on January 28.
- (f) An estimate was prepared of the revenue effect, if a full year of collections were received at fiscal year 1942 forecast levels of business, of an additional 2 percent excise tax on passenger automobiles, and was transmitted in a memorandum to Mr. Blough on January 2.
- (g) Estimates were prepared of the revenue effects, at forecast calendar year 1941 income levels, of (1) increasing the bracket rates of tax up to \$20,000 of surtax net income, and of (2) increasing the bracket rates of tax on surtax net incomes under \$16,000, and were transmitted in a memorandum to Mr. Blough on January 7.

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II. Projects or studies under way

1. Tentative plans for a WPA statistical project in connection with work on the excess-profits tax, as well as material proposed to be obtained from the Securities and Exchange Commission, are being reviewed in accordance with requests by the Division of Tax Research on July 12 and 17. - Mr. T. F. Leahey
2. At the request of the Division of Tax Research on July 12, an estimate is being made of the additional revenue which would be derived if mutual insurance companies other than life insurance companies taxable under Section 207 of the Internal Revenue Code were made taxable in the same manner as stock insurance companies other than life insurance companies taxable under Section 204, and at the same time the exemption under Section 101(11) were restricted to local mutual companies of the assessment type. - Mr. T. F. Leahey
3. At the request of the Division of Tax Research on January 24, a review is being made of table outlines proposed for tabulation from partnership returns of income for 1939, submitted by the Statistical section of the Bureau of Internal Revenue. - Mr. Leahey
4. At the request of the Division of Tax Research on January 24, a review is being made of table outlines submitted by the Statistical section of the Bureau of Internal Revenue for tabulation of interest on Government obligations reported on individual and fiduciary income tax returns for 1938. - Mr. Leahey
5. In connection with the probable revision of the revenue laws in 1941, at the request of the Division of Tax Research on January 27, estimates are being made of the revenue effects of adoption of three proposed changes in the individual income tax surtax rate schedules, showing separately the amounts attributable to the Defense tax. - Mr. Bronfenbrenner
6. Projects for revising and improving methods of estimating revenues from the following taxes: - Mrs. May, Mr. R. R. Smith
 - (a) Telephone and telegraph, radio and cable facilities, leased wires, etc.
 - (b) Automobile trucks.
 - (c) Tires and inner tubes.

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- (d) Bituminous coal.
- (e) Gasoline.

Economic Conditions Related to Fiscal
and Revenue Matters

I. Projects or studies completed

1. Memoranda on the business and price situation were prepared and were transmitted to the Secretary on January 6, 13, 21, and 27. - Mr. Haas, Mr. Daggit, Mrs. May, Mr. Chevraux, Mr. Smith

These memoranda contained in addition to analysis of the current situation the following special studies:

- (a) An analysis of the 13 percent increase from July to December 1940, in the cost of constructing a standard 6-room frame house in the St. Louis area. (Chart in memorandum of January 6. Also described below, under Economic Conditions, I, as item 10). - Mr. Daggit, Mr. Smith, Miss Hagedorn
- (b) A comparison of the unrevised New York Times index of industrial activity with the index as revised. (Chart in memorandum of January 13. Also described below, under Economic Conditions, I, as item 8). - Mr. Daggit, Mr. Chevraux
- (c) A study of the relation of current prices to prices for the past six years of 18 industrial materials. (Chart in memorandum of January 21. Also described below, under Economic Conditions, I, as item 9). - Mr. Daggit, Mrs. May, Mr. Smith, Mr. Colclough, Miss Hagedorn

2. Memoranda on employment under the Work Projects Administration were prepared, and were transmitted on January 6, 13, 21, and 30, to the Secretary. - Miss Hagedorn
3. In accordance with arrangements previously made an estimate of employment in the airplane industry by geographic areas was prepared for December, and was transmitted on January 14, according to instructions by the Secretary. - Mr. Tickton

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4. At the request of the Secretary, a table is prepared each week summarizing exports of petroleum products, scrap iron, and scrap steel, from the United States to Japan, the U.S.S.R., Spain, and Great Britain, as indicated by departure permits reported daily by the Office of Merchant Ship Control. The tables were prepared for the weeks ending January 4, 11, 18, and 25. On January 6, 13, 21, and 27, the original and 13 photostats were transmitted to Assistant Secretary Gaston. In addition, each week two photostats were transmitted to Mr. Young, one of which was for Mr. Purvis. - Mr. Tickton, Mr. D. J. Leahy
5. At the request of the Secretary on January 22, a memorandum and charts were prepared and transmitted to him on that date, on the export freight situation. - Mr. Daggit, Mrs. May
6. Compilations were made of daily quotations on selected commodities and daily and weekly figures on selected business indexes, foreign and domestic security transactions, security prices, exchange rates, as well as other data for the Secretary's chart book. - Mr. Chevrax
7. Comments were prepared on the commodity situation as of January 8, 15, and 22, for information in connection with the Friday meetings of January 10, 17, and 24. - Mr. Daggit, Mrs. May
8. A chart was prepared comparing the unrevised New York Times index of business activity with the index as revised from January 1938 through December 1940. This chart was used in connection with the business memorandum of January 13, and was listed under Economic Conditions, I, as item 1(b). - Mr. Daggit, Mr. Chevrax.
9. A study was made of the relation of current prices to prices for the past six years of 18 industrial materials selected from the BLS all-commodity index of wholesale prices, which in December 1940 had advanced 25 percent or more from their lowest prices in 1940. This chart was used in connection with the meeting of the Friday discussion group on January 24, and was listed under Financial Analysis, I, as item 11(d), and also in connection with the business memorandum of January 21, and was listed under Economic Conditions, I, as item 1(c). - Mr. Daggit, Mrs. May, Mr. Smith, Mr. Colclough, Miss Hagedorn, Miss Spiegel

- 19 -

10. At the request of the Secretary on January 7, an analysis was made of the 13 percent increase from July to November and December 1940, in the cost of constructing a standard 6-room frame house in the St. Louis district, using the monthly estimates compiled by the Real Estate Analyst. Itemized increases for materials, labor, and general costs were shown in a chart. A copy of the chart, which had been included in the business memorandum of January 6, listed under Economic Conditions, I, as item 1(a), and also was presented at the meeting of the Friday discussion group on January 10, listed under Financial Analysis, I, as item 11(a), was supplied to the Secretary for use by the President. - Mr. Daggit, Mr. Smith, Miss Hagedorn
11. At the request of the Secretary on January 16, a memorandum was prepared and was transmitted to him on that date, containing an explanation of the 50 percent rise in tallow prices above the price of August 1940. - Mr. Haas, Mr. Daggit
12. At the request of Assistant Secretary Gaston on January 17, a telegram was drafted for reply to one from Mr. F. R. Marshall on the views of the Secretary as reported by the press on the rise in wool prices, and the draft was transmitted to the Assistant Secretary on January 17. - Mr. Haas, Mr. Daggit
13. At the request of the Secretary, a memorandum was prepared and was transmitted to him on January 28, concerning a telephone conversation Mr. Haas held with Mr. Hamm, of Mr. Leon Henderson's office, with regard to controlling prices in some of the metal markets, particularly aluminum scrap and zinc scrap. - Mr. Haas
14. At the request of the Secretary, memoranda were transmitted to him on January 7, reporting a conversation with Mr. Fred H. Sexauer, President, Dairymen's League Cooperative Association, New York City, with respect to recent developments in the New York Milk Marketing order. - Mr. Haas
15. At the request of the Secretary, a memorandum was transmitted to him on January 17, reporting a telephone conversation with Mr. Sexauer, with respect to recent developments in the New York milk marketing order. - Mr. Haas

- 20 -

16. At the request of the Secretary on January 27, a memorandum concerning Dr. Palyi was prepared and was transmitted to the Secretary on the same date. - Mr. Haas
17. At the request of the Secretary on January 23, a memorandum was prepared with three exhibits concerning Mr. Thomas D. Campbell of Hardin, Montana, and was transmitted to the Secretary on January 28. - Mr. Haas, Mr. Tixton
18. The project on trends of individual commodity prices and price factors during the World War period, patterned after the general study of prices and price factors, 1913 to 1922, made in October 1939, but dealing with six individual basic commodities: wheat, cotton, hogs, steel, copper, and zinc, is in abeyance for the present. The project was designed to determine the principal price factors associated with the wartime rise and subsequent collapse of prices of these commodities. - Mr. Daggit, Mrs. May
19. The project designed to develop a composite index of basic commodity stocks as a measure of one important factor in the general price level, is in abeyance for the present. Stocks of sixteen important industrial materials, expressed in terms of their net effect on prices, were being compiled for this index. - Mrs. May

II. Projects or studies under way

1. An attempt is being made to improve our information on the volume of unfilled orders by working out a composite index of unfilled orders based on data from individual industries. - Mr. Daggit
2. A project is under way concerning forces determining trends of basic commodity prices, which involves a study of (1) the forces determining general commodity prices and (2) the forces determining the prices of individual commodities.

With respect to (1), general commodity prices, an analysis is in process of disparities between demand and production as a basic price factor which, under excessive war demand, might lead to inflation. For use in this analysis two indexes of demand are being constructed:

An index of export demand which expresses the exports of manufactured goods in physical volume, and the index of consumer buying in terms of physical volume, which is part of the project on measures of consumer buying listed as item 3 below.

With respect to (2), prices of individual commodities, shipments of a given commodity, or deliveries to consumers, are taken as a measure of demand, to be compared with production. Ten basic commodities have been selected tentatively for study, and this work is in process. - Mr. Daggit, Mrs. May, Mr. Smith, Miss Hagedorn

3. A project on measures of consumer buying is under way, with the object of developing (1) an index to measure the buying power of consumers in terms of physical volume of purchases, after correcting for the effect of changes in price on the apparent demand; and (2) an index to measure changes in total consumer expenditures, in dollar volume. These two indices will supplement our present "index of sales", which is designed to measure the "offtake" of manufactured goods into various consumption channels.

Studies on a monthly basis have been nearly completed on individual components of two physical volume indexes of consumer buying, one corrected for the effect of price changes, and the other corrected both for the effect of price changes and for the effect of changes in national income. The weighting of the individual components remains to be done. In addition, with respect to the index of consumer expenditures in dollar volume, substantial progress has been made in developing individual series, in determining their suitability for inclusion and the necessary adjustments. The purpose is to cover as large as possible a proportion of the purchases of ultimate consumers. - Mr. Daggit, Mrs. May, Mr. Smith

4. A better index of inventories of finished goods is needed as an indication of business maladjustments, with a breakdown as between inventories of finished goods held by manufacturers and those held by others. An attempt to develop such an index is under way. - Mr. Daggit

- 22 -

5. A study of the volume of installment buying and consumer credit has nearly been completed. This study is designed eventually to provide a monthly index of the volume of buying on deferred payments, which at times is an important business factor. It is in abeyance at present, pending publication of a new study by the Department of Commerce. - Mrs. May
6. A project in process is designed to develop an index of industrial production that will indicate week by week the approximate level of the FRB index. It will include a larger number of weekly series than are included in any current business indices, with weightings and seasonal adjustments approximating those in the FRB index. - Mr. Daggit, Mr. Smith
7. A study is being made of the relationship between the New York Times revised index of business activity and the new FRB index of industrial production in an attempt to forecast the weekly level of the FRB index from the New York Times index. - Mr. Daggit, Mrs. May, Mr. Colclough
8. At the request of Under Secretary Bell on January 29, a memorandum for the Secretary is being prepared, illustrated by five charts, on the possibility of a freight car shortage in October 1941, when car loadings are at their seasonal peak, and containing a forecast of freight car loadings for October, a forecast of the number of freight cars that may be required, and outlining steps which would alleviate or prevent such a shortage. The five charts used at the meeting of the Friday discussion group on January 24, were described under Financial Analysis, I, as item 11(e).

Actuarial Problems

I. Projects or studies completed

1. At the request of Under Secretary Bell on January 15, a schedule was prepared showing the annual amount paid in equal installments on June 15 and December 15 over a period of ten years which would be required to amortize the amount due from Finland on December 15, 1940, with interest. This schedule was prepared in the manner requested by Mr. Heffelfinger, and in addition an alternative schedule was prepared. Both schedules were submitted to the Under Secretary in a memorandum dated January 22. A supplemental memorandum of the same date to Mr. Heffelfinger explained the method of constructing the amortization schedule. - Mr. Reagh, Mr. Brown, Mr. Kroll

- 23 -

2. At the request of Mr. Broughton on January 18, a table was prepared and was transmitted to him on January 28, showing the issue prices of 5-year and 20-year discount bonds of \$100 maturity, to yield, one, two, or three percent, compounded semiannually, if held to maturity. - Mr. Brown
3. In accordance with a request contained in a letter of December 19 from Mr. Warren Wattles, Special Assistant to the Attorney General, assistance was given in connection with several tax cases of the Department of Justice, involving life insurance paid in the form of annuities certain and life annuities. - Mr. Reagh, Mr. Brown
4. In response to an oral request on January 3, by Mr. Gilleland and Mr. Pennstone of the Rural Electrification Administration, certain calculations were made with respect to a loan subject to variable monthly payments. The results were transmitted in a letter to Mr. Gilleland dated January 6, and a copy was supplied to Mr. Pennstone. - Mr. Brown, Mr. Kroll

II. Projects or studies under way

1. The Board of Actuaries of the Civil Service Retirement and Disability Fund is laying out detailed plans for tabulating and processing data for use in preparing the regular five-year valuation of the Civil Service Retirement Fund for the purpose of determining the liabilities of the Government under the Civil Service Retirement law. Under the law, such a valuation must be prepared as of July 1, 1940. - Mr. Reagh, Mr. Brown, Mr. Kroll
2. An actuarial report of the Board of Actuaries of the Civil Service Retirement and Disability Fund on the cost of the provisions of the bill S. 4407, a bill to amend the Civil Service Retirement Act to provide for certain added benefits, was reviewed, and suggestions were transmitted in a letter to Mr. G. B. Buck, on January 29. The report, revised to incorporate the suggestions, was returned for approval on January 30. - Mr. Reagh, Mr. Brown

- 24 -

3. At the request on December 19 of Mr. John P. Kiley of the Chicago Division Technical Staff of the Bureau of Internal Revenue, further assistance is being given in preparation of material for use in an income tax case involving the payment of the proceeds of life insurance policies in installments. - Mr. Reagh, Mr. Brown
4. In cooperation with the members of the staff of the Social Security Board, there is being prepared a draft for the first annual report of the Board of Trustees of the Federal Old-Age and Survivors Insurance Trust Fund. - Mr. Reagh, Mr. Murphy, Mr. Brown
5. The Foreign Service Retirement law, as approved April 24, 1939, Section 26(m), provides that the "Treasury Department shall prepare the estimates of the annual appropriations required to be made to the Foreign Service Retirement and Disability Fund and shall make actuarial valuations at intervals of five years, or oftener if deemed necessary by the Secretary of the Treasury". An outline of the data required for making an actuarial valuation has been submitted to the State Department. A preliminary estimate of the appropriation required for the fiscal year 1942 has been prepared, and has been submitted to the State Department. - Mr. Reagh, Mr. Brown
6. In response to a request from the Farm Credit Administration on October 10, assistance is being given in devising a retirement system covering field employees in that organization. Several conferences have been attended by a member of the staff, and it is expected that additional assistance will be requested. - Mr. Reagh
7. A copy of H. R. 1847, a bill relative to certain annuities, was transmitted by the Office of the General Counsel, for preparation of a voluntary report if desired. - Mr. Reagh

Other Projects or Studies

1. Publications

- (a) Data were prepared for the January issue of the Treasury Bulletin on average yields of long-term Treasury bonds and high-grade corporate bonds. - Miss Eyre

- 25 -

All the material submitted for the January issue was reviewed and edited. Substantial revision was made in the tables on the balance sheet of the Exchange Stabilization Fund.

Additional revisions are being considered for future issues. - Mr. Lindow, Miss Eyre

- (b) For the publication Market Prices and Yields of Outstanding Bonds, Notes, and Bills of the United States, computations were made and copy was prepared for the issue covering the month of December. This publication shows by securities the rates of interest, maturities, interest payment dates, and amounts outstanding; and for each day of the month, together with a monthly average, closing market quotations (accrued interest to be added), and yields. Quotations of closing prices for Treasury bonds are from the New York Stock Exchange and are furnished by the Federal Reserve Bank of New York. Bid and asked prices for Treasury notes and bid and asked discount for Treasury bills are received from dealers in New York City. All yields are calculated to the call and maturity dates. - Mr. Moody, Miss McCoy
- (c) The editing of the Annual Report of the Secretary of the Treasury for the fiscal year 1940, was completed, and copy for the extracts was prepared for the Government Printing Office. - Mr. Tickton, Miss Westerman
- (d) At the request of Under Secretary Bell, on December 20, a memorandum was completed and was transmitted to him on January 6, on the background and results of the statement on prices read by the President at his press conference on February 18, 1938, in connection with its inclusion in one of the next four volumes of the Public Papers of the President. - Mr. Daggit
- (e) At the request of Assistant Secretary Gaston on October 18, an article is being prepared on the operations of the Treasury Department during 1940 to be incorporated in the 1941 Americana Annual. - Mr. Tickton, Mrs. Wolkind

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- (f) Work has been begun on the preparation of a cumulative subject index of Treasury publications since the establishment of the Department, covering (1) Annual Reports of the Secretary, (2) other publications issued by the Department, including annual reports of the bureaus and offices in the Department, and (3) material prepared in the Treasury Department which was published in Congressional documents, hearings before Committees of Congress, or the Congressional Record. - Miss Westerman

2. Correspondence

Replies were prepared to letters received on subjects relating to the work of the Division, and letters drafted elsewhere and submitted to the Division for that purpose were reviewed. - Miss Michener, Miss Ziegler, and other members of the staff in appropriate fields of work.

During January 375 letters were received in the Division and 370 were handled as required.

3. Charts

Charts are prepared and continually brought up to date for use in memoranda and in chart books on special subjects, and corresponding photographic, photostatic, and multilith work is carried on. This is done in the Graphic Section under the supervision of Mr. Banyas. A statistical report on the work of the Graphic Section for the month of January is attached.

Work completed in the Graphic Section, Division of
Research and Statistics, during January 1941

Type of work	For Division of R & S	For Others	Total
<u>Alto:</u>			
<u>New charts:</u>			
Total charts completed	43	7	50
Bond book charts completed	-	-	-
<u>Charts brought up to date:</u>			
3 bond chart books brought up to date	26 (times)	-	26 (t)
All other charts brought up to date	705	29	734
<u>Miscellaneous:</u>			
Total jobs	21	14	35
<u>Photographic:</u>			
<u>Photographs:</u>			
Total jobs	79	26	105
Number of-			
Negatives	133	20	153
Contact prints	189	35	224
Enlargements	121	88	209
<u>Photostats:</u>			
Total jobs	163	4	167
Number of-			
Lettersize copies	506	240	746
All other copies	10,803	25	10,828
<u>Utilith:</u>			
Total jobs	6	2	8
Number of-			
Zinc plates	98	2	100
<u>Miscellaneous</u>	8	8	16

Type of work	Jan.	Feb.	March	April	May	June	Total
A. Graphic:							
New charts completed	50						
Charts brought up to date	754						
Bond book charts completed	-						
3 bond books brought up to date	26 (times)						
Miscellaneous jobs	35						
B. Photographic:							
<u>Photographs:</u>							
Total jobs	105						
Number of-							
Negatives	153						
Contact prints	224						
Enlargements	209						
<u>Photostats:</u>							
Total jobs	167						
Number of-							
Lettersize copies	746						
All other copies	10,828						
<u>Multilith:</u>							
Total jobs	8						
Number of-							
Zinc plates	100						
<u>Miscellaneous:</u>							
Total jobs	16						

RESTRICTED

G-2/2657-220
No. 322

M.I.D., W.D.
February 21, 1941
12:00 M.

SITUATION REPORTI. Western Theater of War.

Ground: Detachments of German troops are reported to have entered Spain for relief work in the Santander region (north coast) following the hurricane there.

Air: German. Minor daylight activity on the 20th. Last night fairly heavy attacks were made over the Thames Estuary and Bristol Channel. Swansea was again bombed severely.

II. Greek Theater of War.

Ground: The Greeks claim local gains, probably in the Tepeleni area.

Air: Close support of the Greek attacks by R.A.F. and Greek planes continues.

III. Mediterranean and African Theaters of War.

Ground: Italian Somaliland. British troops have crossed the Juba (Giuba) River, otherwise no change in the situation.

Air: German attacks in Libya renewed. About 50 bombers appear to be employed daily in these operations.

The British again bombed the German air base at Catania, Sicily, on the 20th.

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

Enclosure of Code Holloman
Received at the War Department
at 18:45, February 21, 1941.

London, filed 18:45, February 21, 1941.

1. During the night of February 20-21 British night fighter planes were on an offensive patrol over northern France. The results of this operation have not yet been determined. On Thursday, February 20, fighter planes in two formations engaged in offensive patrols along the occupied coast of France with no aircraft losses. On the same day a large fire resulted from the bombing of harbor installations at a port in Holland by one Heinkel bomber. During the preceding night the Calais harbor and a German cruiser at the port of Brest were the targets of successful attacks by bombers of the Coastal Command. Adverse weather forced the cancellation of all flights of planes of the Bomber Command that night.

2. During the night of February 20-21 ten German planes were plotted over the area between central London and Chatham, 13 others were active in the Tilbury-Dorchester area, and a total of 100 were used against targets in south Wales in the Brecon-Cardiff-Pembroke area. These raids were followed by an attack in the area bounded by London, Tilbury and Chatham by 20 German planes. Royal Air Force fighter planes were in the air but it is not known whether they were able to intercept the attackers or not. During the preceding day 12 German planes were plotted over East Kent, Lincolnshire, Norfolk, Suffolk and Sussex. British fighters were up and two were lost. German losses have not yet been reported. During the

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one day the Germans maintained offensive patrols over the Straits of Dover.

3. British air operations in Middle Eastern theaters were as follows: In Britain the air fields at Amara and Hagerah, Italian positions and a railroad were attacked by British bombers; in southern Ethiopia the city of Jowelle was attacked by Kenya-based British bombers; in Libya two German planes were shot down by the British; in the Sudan theater Italian aircraft losses were seven confirmed and three probable.

4. Benghazi, Libya, was the target of an attack by two German planes, one of which was shot down.

5. One more British vessel from the convoy which was attacked by a German U-boat 200 miles east of the Azores on February 12 has arrived in England safely. Of the 19 ships in this convoy, 10 have arrived in London, two others are thought to be safe, five are definitely known to have been sunk and two others were probably sunk.

6. A total of 31 German mines have been exploded in the waters surrounding Australia.

7. A total of 224 German divisions have now been definitely identified.

8. Late reports indicate that there was no damage to key manufacturing plants or military establishments as a result of the German air attacks on London and Bremen during the night of February 12-13. Heavy damage, however, was inflicted on private property.

SECRET

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Distribution:

Secretary of War
State Department
Secretary of Treasury
Asst. Secretary of War
Chief of Staff
War Plans Division
Office of Naval Intelligence
Air Corps
C-3

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RDS

GRAY

BUENOS AIRES

Dated February 22, 1941

Rec'd 5:55 p.m.

Secretary of State,
Washington.

150, February 22, 5 p.m.

The Director of the Exchange Control advises that new exchange control regulations to become effective February 26 will be announced this evening. They provide that the exchange received from certain exports and which since 1933 could be sold in the free market must now be sold to the Central Bank at the rate of 4.2182 per dollar. The list of export products allowed this rate has been considerably increased.

Imports will be of two categories. Essentials will continue to receive exchange permits at the same official selling rates as now, that is approximately 3.73 and 4.22 pesos per dollar. For imports of other than essentials the rate will be determined by bids made by importers to the Central Bank, the exchange going to the highest bidder. Hence this rate may vary with each transaction and will to a considerable degree be determined by supply and demand.

Imports

-2- #150, February 22, 5 p.m. from Buenos Aires.

Imports of products considered as luxuries and of others for which domestic substitutes are readily available will be prohibited.

Dr. Louro stated that as a result of this plan it would be possible to remove all quotas on imports of specific commodities other than those specifically provided for in trade conventions with other countries. He added that while in certain cases exceptions would continue in favor of imports from Great Britain both by way of preference in exchange rate granted and by allowing the importation from that source of some products which from other countries might be prohibited, such exceptions would be limited to merchandise predominantly of British origin even in normal times.

Treatment to be accorded specific import products as well as the list of export products to receive the new exchange rates will be announced on February 26. The first exchange auction will occur March 7.

ARMOUR

EMB

EMBASSY OF THE
UNITED STATES OF AMERICA

Chungking, February 22, 1941

Subject: China's War Loans.

Air mail

The Honorable

The Secretary of State,

Washington, D. C.

Sir:

I have the honor to report that up to the end of 1940 the Chinese Government floated eleven loans totaling \$3,430,000,000 in Chinese National Currency, 100,000,000 in Customs Gold Units, £20,000,000 and \$100,000,000 in United States currency. These loans do not include the recent \$100,000,000 loan from the United States or the £10,000,000 loan from Great Britain.

The following table lists the loans in the currency in which they were floated with the year of issue.

Loans in Chinese National Currency

<u>Name of Loan</u>	<u>Year of Issue</u>	<u>Value of Loan</u>
National Salvation Loan	1937	\$ 500,000,000
National Defense Loan	1938	500,000,000
Relief Loan	1938	30,000,000
Reconstruction Loan	1939	600,000,000
Military Supplies Loan	1939	600,000,000
1940 Military Supplies Loan	1940	1,300,000,000
Total		\$3,430,000,000

Customs Gold Units

<u>Name of Loan</u>	<u>Year of Issue</u>	<u>Value of Loan</u>
Gold Loan of May 1938	1938	C.G.U. 100,000,000

Pounds Sterling

<u>Name of Loan</u>	<u>Year of Issue</u>	<u>Value of Loan</u>
Gold Loan of May 1938	1938	£10,000,000
Reconstruction Gold Loan of 1940	1940	£10,000,000
Total		£20,000,000

United States Currency

<u>Name of Loan</u>	<u>Year of Issue</u>	<u>Value of Loan</u>
Gold Loan of May 1938	1938	\$ 50,000,000
Reconstruction Gold Loan of 1940	1940	\$ 50,000,000
	Total	\$100,000,000

The domestic loans were well received and before 1940 all the new issues, except the Relief Loan of \$30,000,000, were subscribed at their full face value. In 1940, however, there was a change in policy and in order to facilitate the sale of the two 1940 Reconstruction Gold Loans and the \$1,200,000,000 Military Supplies Loan they were issued at 98 and 94 percent, respectively, of their face value.

Respectfully yours,

NELSON TRUSLER JOHNSON

Original (by air mail) and
five copies to the Department
Copy to Peiping
Copy to Shanghai

851

JJM:MOL

eh: copy

(Extract from Congressional Record No. 34, February 22, 1941)

Mr. TAFT. * * * * * The other powers given by the bill before us seem to me wholly irrelevant to the question of aid to Britain. They go beyond anything justified in the past campaign. If the bill is to be voted upon in substantially its present form, I intend to vote against it, even though some features of it provide for aid to Great Britain. If the pending bill should be defeated, a resolution along the lines of my substitute could be put through Congress in three days. If the original bill had done no more, it could have been passed a month ago. Certainly we do not have to vote for any bill offered to us simply because it aids England, no matter how unsound its other methods and principles may be.

There has been some charge by violent interventionists, and in interventionist cartoons, that Congress is fiddling while Rome burns. The truth is that the British have the funds, if they want to use them, to go on giving orders for some months to come. The truth is that Secretary Morgenthau has already used the stabilization fund for loans to China and Argentina and that he can make loans to the British if he has the right to make loans to Argentina and China. I do not think he has the power to do so, but he says he has the power. He has about \$1,900,000,000 with which he could buy pounds to provide a cash credit. As a matter of fact, simply making a loan does not carry through the transfer of materials.

Mr. BARKLEY. Mr. President, will the Senator yield?

Mr. TAFT. I shall be glad to yield in just a moment. Today I obtained from the Treasury Department and from the Reconstruction Finance Corporation the figures with respect to the Chinese loan made the first of last December. There is still \$75,000,000 waiting in our Treasury because the Chinese cannot use it. There was a \$110,000,000 loan to Argentina back in December, and there is still \$110,000,000 in our Treasury. Not one cent of it has been used, because, apparently, there has been no requirement for it.

I now yield to the Senator from Kentucky.

Mr. BARKLEY. Mr. President, I do not wish to take the Senator's time or interfere with the continuity of his thoughts, but it is not accurate to say that Secretary Morgenthau has made a loan to China out of the stabilization fund. What he has done has been to do what the law authorizes him to do, that is, to purchase currencies for the purpose of stabilizing China's currency. That operation may, incidentally, give China credit in the United States; but no direct loan has been made out of the stabilization fund to China, or to any other country.

Mr. TAFT. That is a matter of nomenclature; but in substance it is a loan, and in substance the purchase of Chinese yuan with gold and the transfer of the gold to China enables China to use that gold to buy materials in the United States. In every substantial effect it is a loan. Moreover, the Chinese Government agrees to buy back those yuan with gold, so that they also are really obligated to see that the stabilization fund is restored.

- 2 -

Mr. BARKLEY. It is a stabilization process which enables China to buy materials in the United States, but it is not a loan in the ordinary sense of the word, although it inures to the benefit of China. It stabilizes Chinese currency and enables the Chinese to purchase articles in the United States.

Mr. TAFT. I think the Senator is talking about inconsequential matters, because in every substantial effect it is a loan; and if Secretary Morgenthau were to do the same thing with British pounds--and goodness knows they need support in the exchange market today--he could, in effect, make Britain a loan tomorrow of \$1,900,000,000.

Mr. BARKLEY. If I am talking about inconsequential matters, it is because the Senator from Ohio started it.

* * * * *

Shank

COPY:lp

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rio de Janeiro, Brazil.

DATE: February 22, 1 p.m.

NO: 119

Reference Embassy's 69, January 30, 5 p.m.

Dollar balances of the Yokohama Specie Bank at the Bank of Brazil were reduced by five million dollars in order to cover payments due in the United States. Balances remaining in Bank of Brazil after these withdrawals amount to three million dollars.

CAFFERY

RA:JSH

COPY:aja

RDS

GRAY

(PARIS)
VICHY

Dated February 22, 1941

Rec'd 8 p.m.

Secretary of State,
Washington.

215, February 22, 6 p.m.

FOR THE TREASURY FROM MATTHEWS.

Today's JOURNAL OFFICIEL publishes an arrêté of the Ministry of Finance providing that "provisional administrators" shall be placed in charge of 29 listed Jewish banking houses whose directors, under the anti-Jewish law of September 10, 1940, are prohibited from "exercising their functions". The list includes Lazard Freres, Heine Essam Compagnie, Maurice Rueff et Compagnie and the several Dreyfus firms. The decree stipulates that the powers of the "provisional administrator" shall apply only to that part of the concern located in the occupied zone. The system of establishing "provisional administrators" for these banking houses is similar to that applied to other Jewish concerns in the occupied zone under the coordination of former Governor Fournier of the Bank of France.

LEAHY

EMB

p.p. 2-4 = 10.11.

Speech delivered at the Beth
Sholom Congregation Banquet 23.2.41.

by
Hj. J. Procopé

Mr. Chairman, Ladies and Gentlemen!

I thank you most heartily for having invited my wife and myself to this Banquet. We enjoy deeply to be here and we thank you for your charming hospitality. We see in it a renewed sign of your sympathy and friendship for Finland. I know that I am not called upon to make a long speech, but just only to greet this distinguished audience. I am glad of that for your sake -- you will all notice that tonight my singing voice could be a bit better -- as a matter of fact I am rather hoarse -- and furthermore I remember an old saying to the effect that even the best sermon is spoilt after 20 minutes. I for my part should be happy to talk to you -- or rather with you, answering questions -- for hours, because a representative of a small nation like mine is always happy having the opportunity of giving friends information

2.

about his country.

I bring you a greeting from Finland -- from a nation that in spite of all the ordeals she had to pass through, and perhaps just thanks to them, still is a free, independent, democratic country -- but not occupied by foreign armies and with no foreign troops within her present frontiers.

I am glad having this opportunity of thanking you for the assistance and support you and other Jewish organizations and committees in this country and leading representatives of the Jewry all over the world have given us Finns. I feel a sincere gratitude for that and also for the fact -- which I will think is an undeniable one -- that your heart as the heart of all this great American nation is still open to Finland and her sufferings.

To me personally it is a quite particular privilege to be with you tonight as to have been invited last year by the Jewish

3.

Congress and only a few days ago by the Service Guild. It has also been a highly appreciated privilege to me to receive from the B'nai B'rith and other Jewish organizations the expression of their friendship for my country. All this reminds me of one of the moments in my work I will never forget. Twelve years ago, being a member of the League of Nations Council I drew the attention of this high assemblage upon the incidents at the Wailing Wall at Jerusalem. This brought me in contact with some of the leaders of the Jewish movement; it brought still closer to me the sufferings of your people.

You all know the story about a man from France, an Irishman and an American discussing somewhere in Europe the qualities of different nationalities. Very politely the Frenchman said: "Were I not French, I should like to be Irish". And the Irishman replied: "Were I not Irish, I should like to be French". But the American said: "I am American, and I should be ashamed not to be so."

4.

So I think we all stick to our own particularities, to our traditions and to our memories. But this does not exclude cooperation. Daily we meet in this country men and women of different descent, Finnish, Jewish, Irish and so on; but above all they are Americans, loyal citizens of this great republic.

I do not at this occasion advocate any particular political solution for the difficulties of the world. But I urge the necessity of organized cooperation between all nations -- particularly those of the western civilization who build their life upon the basic influences from Juda, from ancient and Christian Rome and from the deep forests north of the Alps.

I represent a small nation whose only aim always was and always will be to develop her own spiritual and material possibilities living as a free nation among other free people and in peaceful cooperation with them.

5.

Surrounded by all the uncertainties of the present troubled international situation Finland faces a tremendous task of reconstruction and rehabilitation. In the war last year Finland suffered tremendous losses in lives and in material wealth.

Through the peace we lost 10 percent of our territory. We have about half a million refugees from the part of the country ceded to Russia, we have tens of thousands of war orphans and invalids.

We have gone into the work without hesitation and with the same unanimity as we fought for our existence and liberty. For the refugees new homes and new farms are created. We are taking land from the state and from private land-owners. A friend of mine who owns an estate comprising except vast forest tracts about 1500 acres of tilled soil cedes of this 1100 acres to the new farmers. Furthermore we are paying compensations to those who have suffered losses, and in order to do this we have introduced a progressive capital

6.

levy to be paid in a short space of time. This levy is rather heavy. A man who owns a net fortune of \$20,000 has to pay about \$2,000 and in the highest bracket a man, whose net fortune is \$1,000,000 has to cede of that \$200,000. And please note that I am speaking about fortune, not about income.

But in spite of all difficulties we feel confident that being left in peace we will be able to fulfil the task of reconstruction before us. We have still plenty of arable land; we have the greatest forests in Europe, outside Russia; we have mineral resources and waterpower still unutilized. And the development during the 20 years of peace showed that our economic life is built on a sound basis. We more than doubled our production in different fields and in the 1930's we paid off about 225 million dollars of our country's foreign indebtedness. Even now our foreign state debt is only about 60 million dollars.

7.

But all our efforts in order to reconstruct our country and heal the wounds of the war cannot save us from the difficulties of the present moment. All the Finnish nation faces starvation, exposure and epidemics if help cannot be gotten from abroad. We do not export foodstuffs and other essential commodities and nothing of that kind has been brought out from our country. Since the autumn of 1939 not a single pound of butter or fat has been sold abroad, and still there is a terrible scarcity of edible fats, as of other foodstuffs and also of textiles. This is due to different factors outside our control. We have lost 14 percent of our agricultural output, a great part of the cattle has been slaughtered owing to lack of imported feedstuffs and to a bad harvest. Imports of foodstuffs, fodder and other commodities are reduced or completely impossible and our exports, by which we used to pay for our imports, are only a fraction of what they used to be.

8.

The ration of fats is 6 ounces per person a week. Soon the meat ration will be reduced to the same level. It is generally recognized that about 19 ounces a week is a minimum, and in our cold climate the quantity ought to be higher. The rations of bread can be maintained only if imports from abroad can be had in the next future. - The distribution of soap is half a pound every two months. Of coffee the ration is $1\frac{1}{2}$ lbs. in two months - and so on.

However, help can be sent. Ships can go and are going from here to our port, Petsamo, on the Arctic Sea. As a matter of fact we send ships over - all our own, and the British allow these shipments through the blockade. The British Government draws a clear distinction between supplies to Finland and supplies to countries occupied by Germany. They have declared that they wish to assist in maintaining our country's economy and in preventing suffering in our country.

Thus imports to Finland are possible; but our funds are running low.

I state it openly and frankly: Finland as a nation needs help both in kind and in the financial field. And just therefore we are so deeply grateful for the assistance we get from our friends in this country. A year ago, the Federal Loan Administrator and the Export-Import Bank arranged a credit for purchases in this country. This credit, now completely exhausted, has been of the greatest help. The American Red Cross, living up to its high humanitarian ideals, has, under the leadership of Ambassador Norman Davis, since the autumn sent and is still sending foodstuffs and other commodities for the destitute people in Finland. This generous help is most timely and welcome as also contributions we get from private persons and organizations, continuing the splendid work accomplished last year by the Hoover Relief Fund and other organizations. For all this

10.

we feel deep and sincere gratitude, convinced as we are that still in our dire need America's heart is open to us.

Few nations have suffered more than the Jewish people. Therefore you understand us in our difficulties. Few people have had to fight harder and to take heavier sacrifices to maintain their existence than Finland. Therefore we understand you, and therefore we have from the first moment of our freedom in our country applied the principle of tolerance and freedom of worship. As you know, Finland was during 110 years up till 1918 under Russian Czarist yoke. In those days of oppression, 40 years ago, a relative of mine and my namesake wrote about us Finns a poem, that in my very poor translation begins:

We are like Juda's oppressed race --
We wait for our freedom's advent.
In sorrow and suffering we now have to face,
We wait for the time when in light and freedom our
life will be spent.

11.

I thank you members of the Beth Sholom Congregation for this evening. Beth Sholom - isn't it the House of Peace. We all hope for days to come when peace, order and justice will reign among men and nations.

I thank you.

BRITISH EMBASSY,
WASHINGTON.

February 22nd, 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,

Frank Batten

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D.C.

TELEGRAM RECEIVED FROM LONDON DATED FEBRUARY 20th. 1941.

1. Naval. Polburn, mined and damaged in the Thames approaches on the 19th has arrived safely in harbour.
2. Total of 31 enemy mines have been destroyed in Australian waters.
3. Shipping off the east coast of Scotland and England repeatedly reported enemy aircraft p.m. 19th but only two ships were attacked. Both safe but one was damaged by two very heavy near misses.
4. A Greek ship of 5,000 G.R.T. has arrived in harbour with only slight damage from convoy S L. 64 S which raider attacked February 18th off the Azores. Situation now is, safe - ten ships certain, two probably, sunk - five ships certain, two probably.
5. Military. Germany. Total identified German divisions is increased by three to two hundred and twenty one.
6. Ethiopia. On the 16th patriots supported by British elements captured/ Njabara (15 miles south of Dangila) taking many prisoners and have surrounded retreating enemy ten miles north of Burye. They have also occupied Italian posts on Piccolo Abbai River 20 miles north-east of Dangila, which enemy has evacuated.
7. R.A.F. 19th February. No operations took place.
8. Night 19th/20th. Six medium bombers of the coastal command attacked an enemy cruiser at Brest and returned safely. Reports not yet available.
9. Eritrea. South African Air Force fighters attacked Gura aerodrome near Asmara on 18th and destroyed two enemy bombers on the ground.

10. G.A.F. 19th. Enemy activity consisted of patrols in Straits of Dover and a few penetrations inland over Eastern England and Scotland.

11. Night of 19th/20th. 70 enemy aircraft operated over Swansea area, a few over Plymouth, 38 over London area.

12. Lybia. Benghazi. Enemy aircraft made two attempts to lay mines in the harbour on the 16th. One was shot down, two others probably destroyed and a further four damaged by our fighters. Another was destroyed by anti-aircraft.

13. Home Security. Night of 19th/20th. Swansea. About 100 H.E's and several hundreds of incendiary bombs were dropped. Several fires were started but were soon under control. Damage appeared to have been mainly confined to business and private property.

Purchase of Code Indicators
Received at the War Department
at 9:42, February 22, 1941.

London, filed 13:00, February 22, 1941.

1. On Friday, February 21, planes of the British Fighter Command carried out an offensive sweep over the Boulogne-Calais region. On the same day a German cargo boat was sunk by planes of the Coastal Command off the Norwegian coast. Adverse weather conditions forced the cancellation of all flights of planes of the Bomber Command during the night of February 20-21.

2. During the night of February 21-22 the Germans carried out continued attacks on London, Norfolk and Suffolk and engaged in another raid on Swansea, Wales. During the South Wales attack British fighter planes were in the air but were unable to intercept the attackers. Damage resulting from these attacks has not yet been determined. During the preceding day a small number of German planes were plotted over Suffolk, Sussex, Norfolk and Kent. One of the German attackers was shot down. In addition the Germans maintained patrols along the coast of England and over the Dover Straits. No Royal Air Force planes were lost during the day. Later reports indicate that a British fighter patrol was attacked by six German fighter planes on February 20 near Canterbury. There were no German losses and two British planes were destroyed.

3. Royal Air Force activities in the Middle Eastern theaters were as follows: British bombers based in Aden attacked Aden (7), Aisha, and Birkan; supply points and troop concentrations in the vicinity of Beirut and Topoloni, Albania, were successfully attacked by

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British bombers from Greece and eight Axis planes were destroyed in this theater; at Messana in northwest Britain six Axis planes were destroyed; a large number of fires were started and some explosions were caused by a heavy attack by Malta-based planes on the Sicilian airfields at Catania and Catania.

4. It is now known that the Wolf Rock lighthouse was attacked by machinegun fire and put out of commission.

5. German planes bombed a 7,000-ton tanker of British registry off the coast at Falmouth and sent her to the bottom.

6. Later reports indicate that the German attack on Glasgow during the night of February 20 inflicted severe damage on the electricity and gas distributing systems.

END

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Transmission of Code Radiogram
Received at the War Department
at 18:38, February 23, 1941.

London, filed February 23, 1941.

1. On Saturday, February 22, planes of the British Coastal Command engaged in the usual patrols. Planes of the Bomber Command were dispatched against oil installations at Le Havre, France, and Ghent, Belgium, but adverse weather caused the abandonment of the mission. Planes of the Fighter Command engaged in a raid on the Dunkirk-Calais region. No planes were lost and there was no opposition to the Fighter Command's sweep. During the preceding night planes of the Coastal Command were active against naval installations at the harbor of Brest. Mines were laid along the coast of France in the vicinity of Brest by planes of the Bomber Command. In addition, German airfields in northern France and in the Netherlands, harbor facilities at Boulogne and industrial plants at Dusseldorf and Wilhelmshaven were attacked by British bombers. As a result of these night activities two British planes failed to return to England.

2. During the night of February 22-23 a small number of German planes carried out a bombing attack in the area of the Rhine and Hall rivers. During the day before German bombers carried out small bombing attacks over Bristol Channel, Weymouth Bay, Exeter, Aberdeen and Falmouth. During these raids one German plane struck a balloon barrage cable and was destroyed. During the preceding day there was a large scale German fighter plane sweep over the Straits of

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Dover, the Thames Estuary and East. Following this a small number of German fighter planes carried out a sweep over the Dover region.

3. In all Middle Eastern theaters British planes were active on reconnaissance and patrol missions. Italian troop concentrations north of Christmas, Italian Somaliland, were attacked by British bombers.

4. Axis planes carried out two reconnaissance flights over the Island of Malta and bombed the region of the Suez Canal.

5. The British War Office has information indicating that German troops will probably arrive in Sofia, Bulgaria, on or about the 1st of March. This report indicates further that Field Marshall List and his staff officers will reach there February 23 or 24.

SCARLE

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