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February 24, 1941
9:35 a.m.

H.M.Jr; Hello.

Operator: Mr. Rouse.

Robert
Rouse: Good morning, sir.

H.M.Jr: Hello, Rouse. What are your early morning ideas over the weekend?

R: Well, I come back to this that the 2½, '50-52 that I mentioned on Friday afternoon, and I can see equally well that you're disturbed about just one issue - to do a 2%, 1948-50 in combination with a 2½.

H.M.Jr: A 2% what?

R: A 2%, 1948-50 in combination with a 2½% bond of 1954-57.

H.M.Jr: That's your weekend

R: That's my weekend.

H.M.Jr: Now, let me give you mine. My men have been working all Saturday and Sunday and they say it is next to impossible to price a 2-3/4.

R: I agree with them.

H.M.Jr: So they take a 2% '48-50, March 15th. Is that the date you picked?

R: Yes, sir.

H.M.Jr: And they give it an estimated yield basis of 1.71. How do you price it?

R: Well, I think that's probably a little strong. I didn't go that far. I was figuring a 1.75 to 1.80, but it's ample room.

H.M.Jr: I see. Well, yours would sell at what?

R: Sir?

H.M.Jr: What do you figure yours would open at?

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R: Well, I figure it ought to open at about a point and a quarter.

H.M.Jr: 101 $\frac{1}{4}$?

R: Yeah. Let me get my book. That's 7 years - no, about 101- $\frac{3}{8}$ ths and go in the neighborhood from there to 102. In that range.

H.M.Jr: Well, what proportion of the tax are you figuring?

R: I'm not trying to do too close on it. I'm paying more attention to it as a money market because I think it's been the tax exemption and the attempt to work out a formula in relation to it that's throwing us all off.

H.M.Jr: Well, at least your men and ours are close enough that it's not - you both arrive at a 7-9-year, irrespective of how you arrived at it.

R: That's right, and the range we have in mind is the same.

H.M.Jr: I see. Now the range is from what - 101 $\frac{1}{4}$ you say?

R: 101- $\frac{3}{8}$ ths - 101 $\frac{1}{4}$, that's all right.

H.M.Jr: 101- $\frac{3}{8}$ ths to 102, huh?

R: Yeah on the 1.70 basis.

H.M.Jr: Yeah, well they're not very far apart.

R: They're right in the same thing - 1.80 to 1.70.

H.M.Jr: Just a minute. (Talks aside). Now, this is to give you the first blush. My men come in and say this is the one they've picked but supposing Mr. Hitler should start marching, see, they want a basket for me to catch it, so they've recommended a March 15th 2-year note, $\frac{3}{4}\%$.

R: (Pause). 2-year, what rate?

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H.M.Jr: 3/4s.

R: 3/4s. Do you think you'd need the basket?

H.M.Jr: Do I? The way I figure this morning, yes.

R: I see. Well, you have some judgment about that that I haven't.

H.M.Jr: Well, it's the old elbow hunch.

R: Yeah.

H.M.Jr: Yeah. Well, let's put it this way: if during the day I stick by my idea that I do want an anchor to those to the windward, what I want to know from you, is that as good a one or can you suggest anything better, if we decide to do the 2%, 7-9 year.

R: I haven't thought in those terms because I was thinking for - except for that very contingency, which I wasn't anticipating, the '48-50 really represented the anchor to the windward.

H.M.Jr: Well, I'm on the ultra-conservative side.

R: And that they would be very desirable if everything went well to get something out a few years longer that would be a better indication of our future jobs.

H.M.Jr: Well, let's put it this way: supposing the thing doesn't get any worse - What would the banks do? What proportion would take the 2-year note and what proportion would take the 7-9?

R: I think most of your out-of-town banks would take your 2% '48-50 and your big in-town banks of the type - of course the Guaranty and the Chase don't have any rights but if they had them and they're cheap enough, they'd take the note.

H.M.Jr: But on a percentage basis, I mean, how would you divide up the billion two? What percent would go into the 2%?

R: Oh, I should think that probably 70%, into the 2% bond.

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H.M.Jr: Well, that would be swell.

R: It would be fine if it worked that way; that's just a guess

H.M.Jr: Oh, I know and you can change it, but if you're right and things got no worse than they are today, if 70% went into the 7-9, I'd be very pleased.

R: Well so should I. I think it would work out - you would have something out there anyway.

H.M.Jr: And then if he should start marching his armies Wednesday or Thursday and they went into the other, it would be there to catch them, wouldn't it?

R: Yes, and they'd take it because they want to do the right thing by and large.

H.M.Jr: And they'd feel that they could take that and that we weren't squeezing them too hard.

R: I'm sure of that.

H.M.Jr: Well, Rouse, think on it hard, see, and can you test it out a little bit?

R: Yes. I'm just about to see Mills and Repp - they're here - and I've just seen Levy. Levy's idea was fixed maturity 2% 1949 or a 2 $\frac{1}{2}$ fixed at 1959.

H.M.Jr: Well, neither of them attract me.

R: Right, and I'll try it out on Repp in particular.

H.M.Jr: Try it out, you see. I mean, I've given up the 2-3/4s because it's too damn hard to price.

R: I agree. I'm glad you have.

H.M.Jr: I've given it up but - you're going to see a flock of people, are you?

R: No, I'm just seeing those that you've seen.

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H.M.Jr: Are you going to see Devine?

R: Going to see Devine and Mills & Repp and I think there was only one other: we wanted to get First of Boston in because I didn't think you had had them down there.

H.M.Jr: That's right. Now we haven't had the First of Boston, but what's that other concern that used to do so much business?

R: Childs.

H.M.Jr: Yes. I haven't seen Childs.

R: Well, I'll give them a ring and get them to come over.

H.M.Jr: No, I haven't seen Childs.

R: All right, sir. Well, I'll call them.

H.M.Jr: And I tell you another fellow I'd like you to send for - what's the name of this bond man that Lew Douglas has taken on.

R: Woodward.

H.M.Jr: Yeah. Will you send for him?

R: Yes, sir. All right, I'll go right ahead with that and ring you back probably about 11:00 o'clock.

H.M.Jr: Yeah. I tell you what we could do: I won't call up - you know I was calling up the bank presidents - but I'll save 11:00 for you and Sproul. Will you be ready?

R: Yeah. I'll be in his office at 11:00.

H.M.Jr: Well, in order to give you time I'll say 11:30.

R: That's even better.

H.M.Jr: Wouldn't that be better?

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R: Yes, it would.

H.M.Jr: I'll call you at 11:30.

R: Thank you, sir.

H.M.Jr: Just a second. (Talks aside). Have you seen anybody from the Guaranty?

R: I did on Friday.

H.M.Jr: Oh, yes! I haven't got any report from the Chase.

R: Well, Chase has no - I'll talk with them this morning. I talked with Green on Friday and he was very much pleased at the decision about the bills and he was thinking in terms of bonds and he had no rights and he hadn't given it a great deal of thought, but he was thinking of the 2% of '48-50 primarily.

H.M.Jr: 2% of '48-50. Well, they've got an enormous number of correspondents.

R: Yes, they have, and I'll give him a ring to see if he's changed his mind and he would be very helpful on the note.

H.M.Jr: He would. And then you might sort of find out what these insurance fellows will do if we stick to a 2% note.

R: Well, I asked Levy about that this morning and he said, well, if you take a concern like the Equitable Insurance Company, they'd be very happy with it. He said the others, of course, would just have to turn them in as they did for the March 3/4% note in the spring. He said they didn't like it but that's what they did. The Prudential, you remember, had \$40 million, and they just turned them in.

H.M.Jr: Yeah.

R: So that's what you'll have.

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H.M.Jr: Well, if you'll be in Sproul's office at
11:30, I'll call you.

R: Fine. Thanks.

H.M.Jr: Thank you.

February 25, 1941
9:45 a.m.

GROUP MEETING

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

Gaston: I haven't heard anything new on that case for sometime.

H.M.Jr: It is a little embarrassing, coming from the President to us.

Gaston: I will get Sammy on it.

H.M.Jr: I sent it to him. I think it is all right to say we want it for the President.

Gaston: Well, we can get it.

H.M.Jr: Hadley tells me though the new bond has opened at a hundred and one, twenty to twenty-two. It is just what they figured it to the dot, I think. That is the rights. The new bond is expected to go

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two points on scarcity value. Well, that is very nice. I never worked harder or had more disagreement in my life. Bell isn't here, is he? I wish you would give this to Bell for me, Norman, that as a result of my conversations with 12 presidents of the Federal Reserve Banks, I have - this is not to be repeated to Bell - I have never talked with more mediocre people in my life. Eccles said to me, "Oh, you mustn't pay any attention to them. They just give you what the bankers say." And I said, "Well, why do we pay four million dollars to get a report on that." And the thought that I had in mind with this thing growing, I would like to have a good bond man in Chicago and at the beginning, if necessary, on the Treasury payroll, and George is sick, and I want one of his men to go up immediately to New York and stay there the rest of the week and sit at Rouse's desk and see what happens, you see. I think we ought to have one on the West Coast, San Francisco, too, at the beginning, and then we might talk with Bell and Graves and see whether we are going to do most of the work, you see. Graves will work in connection with getting outlets and all that kind of thing. I think we ought to end up by having our own man in each district. That is what I think. Because the stuff that I went through yesterday - it is just unbelievable what those dopes do to earn their salaries. I don't know.

Gaston: They only get 25 thousand dollars. (Laughter)

H.M.Jr: What those dopes do is just beyond me. There wasn't a one of them that thought of asking how much these maturing issues - I don't want you to misunderstand me. New York was on their toes, and the fellow down at Richmond was, and also tell Bell I think I would like to have this

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man come up from Richmond. Mrs. Klotz teased me because I said he was the only man that agreed with me so he must be smart. That is paraphrasing what I said.

Sullivan: How about that fellow from Boston?

H.M.Jr: Well, Young? He is in Miami.

Sullivan: Well--

H.M.Jr: He is in Miami or he is out on Cape Cod, one place or the other. But Boston, too, ought to be - I think we ought to end up by having our own man in each place so that, for instance, if Graves wants to say, "Well, now, I want to get distribution. I want this. I want that." Well, one week, a month, or 10 days he would work like hell for me; and then the rest of the time he wouldn't be so busy. We can think whether we want to tie him up with Graves. The rest of the month he would be just traveling out, visiting banks, talking with them and so forth and so on, finding out how our customers feel. But to rely on the presidents of the Federal Reserve Banks, we might just as well bring in the N.A.M. and ask them to do the job. Having the N.A.M. review our literature, they would see it is subversive. (Laughter) They say we use the American flag too often. They are suspicious.

Gaston: The President sent you a little memorandum on vacancies. I gave you a little short memorandum. I will give you a more detailed memorandum later in the day. There is one collector of Customs and two collectors of Internal Revenue on which we are awaiting word.

H.M.Jr: Will you give me a letter?

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Gaston: A letter to the President? Yes.

H.M.Jr: Please.

Gaston: And this matter of the letter to the President being signed. He didn't understand it, and I don't blame him. It wasn't well explained. But that memorandum explains it, if you care to have a memorandum.

H.M.Jr: Well, I will never get around to the President on this thing. I know how it is.

Gaston: Shall I write a letter?

H.M.Jr: After all, the President was working on January's mail yesterday up at Hyde Park. Yes, write a letter. He will never get around to it.

Gaston: It is a very simple matter.

H.M.Jr: By the time I see him and get around to it - I would write him another letter. You see the stuff that came in yesterday was mostly January memoranda.

Gaston: Yes. Our Customs man made a very interesting seizure up in New York last week. They got a couple of sailors coming off the Excambion with a false bottom carton and in that were a hundred thousand dollars worth of coupons on German bonds. Did you see the story in the papers?

H.M.Jr: It said 10 thousand. Is it a hundred?

Gaston: I may be wrong on that.

H.M.Jr: That is all right. You have been right for so long, and you have been in the Treasury so long that you can't fool around with 10 thousand.

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Gaston: They are both felonies.

H.M.Jr: American sailors?

Gaston: Well, they are naturalized Americans.

H.M.Jr: What will happen to Kuhn after he is here a couple of days.

Gaston: German born sailors, naturalized American citizens, and they are acting as smuggling agents between this Warner Von Clemm in New York who is said to be a relative of Ribbentrop and his agent in Lisbon.

H.M.Jr: The next time you seize any champagne, let me know if it is good.

Gaston: There is some coming in from France.

H.M.Jr: Really?

Gaston: By way of Martinique.

H.M.Jr: Don't we have to sample it?

Gaston: Oh, we should.

H.M.Jr: What is Houghteling doing these days?

Gaston: Do you want him to sample the champagne?

H.M.Jr: Well, I mean not too much-- (Laughter)

Gaston: I will look it up.

H.M.Jr: What else?

Gaston: It looks as if we will have to do a little field investigation in connection with the Foreign

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Fund matter that Mr. Pehle reported to me. There seems to be some finagling going on, and we are lining up what we can get on the people here, and we will get some of the agents to see what they can find about their activities in New York. I don't think it is a thing that we want to ask FBI to do. It is apparently Foreign Fund Control Division, and it is out of their territory.

H.M.Jr: And you are keeping the Wiley-Klaus organization under surveillance, aren't you?

Gaston: More or less, yes. Before long I will be ready to talk to you about that.

H.M.Jr: How many men - the last I heard they had 10 men.

Gaston: That is right. In addition to John and Sam.

H.M.Jr: Anything else, Herbert?

Gaston: No, that is all.

H.M.Jr: Professor Foley?

Foley: Dean Acheson said last night that he - they wanted to add over at State Department jute and borax and lead to the embargos, and they have had some talks with Buckley and Phil's office. Buckley intimated that he didn't think it was the right time to do it or something to that effect. He said he would like to talk about it if we were still of that disposition.

Young: The situation there seems to be simply that there isn't any particular reason to put them on the control list. Every country in the world practically has a lead supply, as far as that goes. What you have is just the situation where Maxwell's organization now has practically every

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United States export under control that amounts to anything, which doesn't make any difference as long as it is handled on a license basis that is adequate, either blanket licenses or something of that sort, on a reasonable basis, which he is not doing. He has gradually reached out and pulled everything in under his own control.

Gaston: That situation is very bad, and we plan to try to have a talk with you in the next day or two about it when we get a little more data put together.

H.M.Jr: Well, if you come in to have a talk, have a letter to the President on it for me, will you, as a basis for your talk.

Gaston: That is what we were thinking about.

Young: I went to Herbert on it the other day because I was getting worried about it and our participation in it because I thought you ought to know what we are doing.

H.M.Jr: Is this in the interests of protecting your principal client, Oumansky? What?

Young: Oh, we are having a very nice time these days with Oumansky.

H.M.Jr: If you get any caviar, remember, 50-50.

Young: I haven't quite reached that point.

Foley: He is coming over at four this afternoon to talk about the exchange.

H.M.Jr: I read your memo and that was a good trip, wasn't it, to see Norman Davis.

(Mrs. Klotz entered the conference.)

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Foley: Well--

H.M.Jr: Well, it is another iron which another--

Foley: He goes farther than we do. He wants to do the whole job, and he thinks our suggestion is almost as inadequate as the State Department's unless we take in everything. When we started in with that that was all right, but we gradually cut it down just to Continental Europe with some exceptions there because of the State Department's attitude.

H.M.Jr: In your talks with him, you are confining yourself to freezing of funds?

Foley: We didn't go into anything at all except freezing of funds and he is sympathetic. He thinks something ought to be done.

H.M.Jr: You see, Norman Davis has a personal interest in this thing through his son. I got that.

Foley: Well, he also claims to have been in the Treasury during the last war and to have some knowledge of this subject.

H.M.Jr: It is mostly his son. Right?

Pehle: I think so, yes.

H.M.Jr: What else?

Foley: You wanted to have a meeting sometime today on the bank holding company legislation.

H.M.Jr: Today?

Foley: Yes, that is what you said.

H.M.Jr: Well, what I have done is, I have got a call in

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for the Speaker, and I am asking to see him tomorrow in connection with our legislation with regard to exemptions for states and municipals, and I want to do that first and then right after that I will do bank holding, but keep after me, will you?

Foley: All right.

H.M.Jr: I am asking the Speaker - I thought I would ask whether we can't meet with him and Doughton and Cooper and anybody else that he wants, and have a little meeting and see how they would like to proceed. The bill hasn't been introduced yet, has it?

Sullivan: No, sir.

H.M.Jr: Is that agreeable to you, John?

Sullivan: Yes.

Foley: I would like to have a meeting on that subject, the general subject with you, before you talk to Sam Rayburn.

Sullivan: I think we should too.

H.M.Jr: But that wouldn't - whatever the outcome of the meeting is, that doesn't mean we wouldn't see Sam anyway.

Foley: No, no, but it would implement your hand when you talk with Sam.

H.M.Jr: That would be lovely.

Sullivan: And time is on our side, I think, as you will agree after you talk with him.

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H.M.Jr: Well, that is all to the good then, isn't it, my call for Sam?

Sullivan: Yes, I think so.

Foley: I think John and Dan and I--

Sullivan: Yes.

Foley: should see you sometime before.

H.M.Jr: Whenever you get the meeting, we will talk it over together. You know how lots of times we talk it over as we ride up in the car to the Hill.

Sullivan: I think we had better talk this over before we go up.

Foley: This is a little more than that. We might have Ferdie in, too.

Sullivan: Yes.

Foley: We have got to do a little finagling here.

H.M.Jr: We will line up our own crowd. Are you having trouble-with Ferdie?

Foley: He is a little difficult, but I think he will come along. Still a little New York Time-ish.

Kuhn: I never will live that one down, will I?

H.M.Jr: Well, that is better than a little William Randolph Hearst-ish.

Foley: Here are some things for the diary. Do you want to read them before the meeting, or do you want us to bring it up at the meeting? This is the

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subject we want to talk to you about at that meeting. I tried to give it to Stephens once before, and he gave it back.

H.M.Jr: Mrs. Klotz and Stephens and I have worked out a new rule. Principally as a home defense against Philip Young. From now on all of these memoranda that you fellows try to sneak in to me via Stephens will go to Miss Chauncey, is that right?

Klotz: I guess so.

H.M.Jr: Is that what you like?

Klotz: If you want to make sure you don't see them, they can go to Miss Chauncey.

H.M.Jr: And if you people have something you want cleared within the day, do the way Foley did the other day. He had something and I was busy, and he said he had to see me and he got an appointment and brought the stuff in and cleared it. But otherwise, if it is a memorandum, let it go to Miss Chauncey--

Klotz: It can come to me, if you like.

H.M.Jr: No, let it go to Miss Chauncey unless you want it.

Klotz: No, I don't want it. If I could be helpful, I will take it.

H.M.Jr: No, I would rather - let it go to Miss Chauncey, and it will come to me. I try every day between two and three to get the stuff, between two and three, but if it is something that you have to clear and you are sure you have to clear it that day, then ask Stephens and walk the memorandum

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in, and I will see you during the day. See?

Foley: All right. These are on our meetings with Dean Acheson.

H.M.Jr: Good.

Foley: And this is that meeting I had with Courtauld, Viscose, and Playfair. This is the memorandum on that Palestine Bank I mentioned to you last night. *Same dated 2/22/41*

H.M.Jr: Oh, yes. Well, now - Palestine Bank? Oh, that is both the English, isn't it?

Foley: Yes.

H.M.Jr: All right.

Foley: Congressman Gifford of Massachusetts called and said that he got a letter from a very important constituent of his in regard to authorizing the acceptance of obligations in payment of income taxes, and he wanted to know what the attitude of the Treasury would be and wanted some information generally on the subject. I should think we would be very much opposed to anything like that because it would unstabilize your bond market if you had a long term issue and any holder could offer the obligation at par with accrued interest, payment of taxes at any time. You would never know how much taxes you were going to get in any given year, and your whole maturity schedule would be upset because instead of having your bonds come in at a set time, they would come in at any time people wanted them to. In so far as the notes are concerned on the maturity date, the note may be presented if it falls due.

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H.M.Jr: Talk to Bell about that.

Sullivan: I presented that to Bell last night, and I think he is for it.

H.M.Jr: Let it come to me through Bell.

White: Isn't that preeminently a problem that George's staff ought to prepare a memo on.

Foley: I have asked George for a memorandum on that, and I haven't gotten anything. Of course, he has been busy with financing.

H.M.Jr: Still I say Bell.

Anything else?

Foley: Nothing else.

Sullivan: I saw Mr. Helvering Sunday in the hospital. He has had a pretty bad time and he is anxious to get back to work, and I understand the doctor and Mrs. Helvering thought he ought to go away to Florida for a while when he gets out of the hospital.

H.M.Jr: What is his trouble?

Sullivan: He has a septicaemic pocket and was operated on and had very severe hemorrhages, and he feels that he was sick when he was home at Christmas, and he doesn't want to go, but I think it would be folly not to send him away for a little while to recuperate. If it is agreeable with you, I will tell him you want him to rest up.

H.M.Jr: Who looks after that shop?

Sullivan: Tim Mooney is acting commissioner and does a very

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good job.

H.M.Jr: O.K.

Sullivan: The amendment to the general relief provision was introduced yesterday morning, and we had a hearing yesterday afternoon from one to five in executive session. It is coming up in the House today. Debate is limited to two hours, and I expect it will pass the House in less than two hours today.

Congressman Robinson came over to me and asked me to tell you that Speaker Rayburn and John McCormick were going to try to see the President today on this bill to increase the benefits under Social Security, and that if the President was insisting on that, as long as they were throwing money away that way, they would never vote another dollar of taxes, as long as that kind of extravagance continued, and he had a speech that was in the Congressional Record, and he thought you ought to know it. I said, "Well, it isn't a Treasury problem." He said, "Well, it is the Treasury's problem in so far as it affects the attitude of Congress toward taxes." I told him I would give you that message.

That copper problem that Clayton discussed will be completed today with a satisfactory solution. It is working out all right.

H.M.Jr: When it is finished, give me a one page memo on it.

Sullivan: Yes, sir.

H.M.Jr: You see, I wrote the President a letter on that.

Sullivan: Yes.

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H.M. Jr: Did you know about that?

Sullivan: I gave you a two-page memorandum on the entire situation.

H.M. Jr: Which wasn't helpful. But your letter went to the President and somebody wrote to me on that.

Gaston: Johnson and Cairns. That was on the Customs' angle, not on the Internal Revenue tax angle. They are separate problems.

Foley: He was only talking about the Customs' side of it.

Sullivan: I doubt if you want to write the President about this.

H.M. Jr: Give me one page.

Sullivan: I will give you the memorandum.

H.M. Jr: O.K.

Sullivan: In St. Louis I met Gale Johnson, the new man whom Mr. Graves is bringing in, and I think he is a humdinger. He is a corker. That is all.

Cochran: I will give Miss Chauncey a memo for you today on another 25 million dollars of gold coming down from Ottawa. Shall I give her the daily figures from Gifford for you too?

H.M. Jr: Only when they are something out of the ordinary. I don't want them every day.

Cochran: Could Mr. Foley give me copies of those two memos, the cases he just mentioned?

Foley: Sure.

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Cochran: Because they are talking about them, too.

H.M.Jr: John?

Pehle: I have nothing.

Pickett is coming in this afternoon.

H.M.Jr: Just remember, I want - with the exception of the Purchasing Mission - with the Purchasing Mission, my contact with them should be through Philip Young. My contact with the British embassy or their people should be through Cochran. Now, does anybody see them besides Cochran and Young?

Gaston: I see Stopford.

Pehle: I see Stopford.

Gaston: I see Stopford fairly often, and I have phoned to Helm fairly often.

H.M.Jr: Who is he?

Gaston: One of the first secretaries of the embassy on shipping matters.

Cochran: As I understand, it was Stopford with both Mr. Gaston and Pehle. Stopford comes to me, and with something detailed he goes on to see Gaston.

H.M.Jr: That is all right. I just wanted to check up. O.K.

Cochran: Yes, sir.

Pehle: I have nothing.

Young: On this Russian situation, I want to talk to you

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a minute about it in the next two or three days.

H.M.Jr: On what?

Young: On Russia.

H.M.Jr: Tell Stephens.

That memorandum you gave me on disposition of boats and airplanes doesn't show any PBV's being flown.

Young: Well, the British have enough people to handle the PBV's. The immediate problem there--

H.M.Jr: But wasn't this memorandum that you sent me this morning as to what goes by ships and what goes by air - it was everything.

Young: Yes.

H.M.Jr: Well, it doesn't show any PBV's.

Young: Then they didn't fly any out.

H.M.Jr: Somebody said there were supposed to have been 18 PBV's left.

Gaston: There was at least one group flew by way of Elizabeth City, Coast Guard Air Station, one group of Consolidated's. There were five in that group. I don't know whether there have been any more or not.

H.M.Jr: It doesn't show up.

Young: It may have been since that. The difficulty with that statement is that they only report it after the planes arrive at destination point rather than when they leave the country. That is based on planes which have arrived at Africa

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or England or somewhere else and have reached the assembly point or their destination.

H.M.Jr: And they are not going to give us when they leave? Do you think we ought to continue to receive it when they leave? It showed how many they had on the docks and all that.

Young: We still have that information.

H.M.Jr: Do we?

Young: We have - in this engine table, for instance, exactly where your engines are.

H.M.Jr: But I used to find out how many planes were on the docks in New York awaiting shipment.

Young: Oh, we are getting that information and we will have it for frames within a very short time.

H.M.Jr: No, completed frames. I got for a while information showing how many completed planes there were awaiting shipment in this country and how many had left. I got that information.

Young: You want the number of planes just on docks.

H.M.Jr: Well, I was getting it.

Young: Yes.

H.M.Jr: Why can't I get it for a while?

Young: Well, you can get it.

H.M.Jr: You remember it showed how many - even by types, didn't it?

Young: Yes, I think so. The last report we had on it

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showed it for all types.

H.M.Jr: By types?

Young: By types.

H.M.Jr: Well, ask them to give it to me again as of last Saturday. How many planes are there at the factories, completed? How many are there at the docks awaiting shipment?

Young: I think we are running into some duplication here. I think we ought to straighten out those reports. I will talk to Lindow. George is out. I will see if we can't make up one report which will give that information instead of three.

H.M.Jr: Can I get it fairly soon?

Young: Yes.

H.M.Jr: I would like, in a day or so, a report showing how many planes by types there are at the docks. Never mind the factories. Well, yes, how many completed planes there are awaiting shipment and where they are. Let's put it, how many completed planes and completed engines there are awaiting shipment for England and where they are. Destination - let's say - well, I mean England - I mean United Kingdom. How many planes and engines completed are awaiting shipment, and where are they as of Saturday? And tell them I want that by Thursday morning, Phil.

Young: Yes, sir.

H.M.Jr: Thursday morning, I want that.

Young: Right.

H.M.Jr: They don't ship frames without engines, do they?

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Young: Oh, yes.

H.M.Jr: Do they?

Young: They have been.

H.M.Jr: All right, then frames, engines, completed planes, how many have they got and where are they awaiting shipment as of Saturday, and I want it Thursday morning. Tell them I will be very much displeased if I don't get it.

Young: You want it by location, like San Francisco and Chicago?

H.M.Jr: Yes. If they haven't got it, their organization is even worse than I think it is, and that is bad.

Young: Well--

H.M.Jr: What?

Young: I won't talk about the Air Commission.

H.M.Jr: No. Well, then, if you can't get it, I am going to have Morris Wilson in here, and I will talk to him like Beaverbrook never talked to him.

Young: I think you may have to, because that situation is getting pretty bad.

H.M.Jr: Well, let's ask them for it, and tell them I want it Thursday morning, and I will wait and see. All right?

Young: Yes. Right.

H.M.Jr: You will do that as soon as you leave.

Young: Yes.

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H.M.Jr: Have I overlooked anything?

Young: Well, I gather that you want to keep on with these other reports, at least temporarily, until we see what happens on this.

H.M.Jr: Right.

Young: You will have everything as long as you include these others too. I want to talk to you about Russia sometime.

H.M.Jr: All right.

Young: In the next two or three days if possible.

H.M.Jr: Tell Stephens.

Young: On the Dutch, we now have a pretty adequate picture. We have all of their stuff on order. We have a list of their requirements and all of their future program until 1942 in detail, as to what they want. Their future requirements will run about 350 or 75 or 400 thousand dollars.

H.M.Jr: Dollars? Thousand or million?

Young: Million. I am sorry. Four hundred million.

H.M.Jr: All right.

Young: Roughly, at the outside, for all future requirements. It is a very interesting list. Knudsen originally asked for that and shall I send it to him or do you want to send it to him?

H.M.Jr: Let me send it to the President first.

Young: Right.

White: Is that going to be paid out of their frozen

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balances?

Young: Yes. Part of it comes from the Indies and part comes from the home Government.

H.M.Jr: What happened to that memorandum? I never got an answer Friday. I gave you that memorandum from Secretary Knox in which he said that the - in great glee he gave me this memorandum showing that the Greeks didn't have enough money to pay for what they wanted. It was over a week ago I gave you that.

Young: The Greeks didn't have enough money?

H.M.Jr: Yes, it was a memorandum from Frank Knox in which he said they couldn't take certain stuff. He said, "What is the use of selling them planes? They can't pay for this." It was in his own handwriting. It must have been a week ago Friday.

Young: I don't know, I will have to find out.

H.M.Jr: Well, I sent it to you, Phil.

Young: It is probably right.

White: How much is it?

H.M.Jr: Well, I ought to give an answer to Knox. Will you look into it?

Young: Yes, sir, I certainly will.

H.M.Jr: Anything else?

Young: Yes, sir. I have this extra planes on Curtiss-Wright that I mentioned last night on the telephone. Do you want to do anything on that or shall I take it up in the routine way?

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H.M.Jr: Regular routine way.

Young: I have two British contracts.

H.M.Jr: Wait on that, Phil. Stay behind and I will clear it.

Young: All right. I have got a couple of other items here. Shall I wait on them?

H.M.Jr: All right.

Kuhn: I have nothing.

H.M.Jr: I want to see you and Harold Graves right after this meeting. I will take a couple of minutes to clear Phil, and then I will see you and Harold.

Schwarz: We sent you down some of the comment on the financing. Not the routine stories, because they were--

H.M.Jr: Where are they?

Schwarz: They should have been in unless Stephens has--

H.M.Jr: Well, see if he has got them.

Harry?

White: There have been negotiations going on in the past two months between Leith Ross and the State Department with respect to a proposal that there be an Anglo-American Commission set up to handle surpluses of all important crops. It is a rather significant development, but the State Department has - final word has been that they are generally sympathetic to the idea, but it is not an appropriate time now to set up the Commission. I am merely keeping you informed

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about it.

H.M.Jr:

Crops?

White:

Crops and other surplus commodities.

H.M.Jr:

Why don't they work with Agriculture on that?

White:

Well, Agriculture, I take it, is being represented through the Interdepartmental Committee, at which the matter is being considered; but how much they have to do actually with it, I don't know.

We are able to run down 60 percent of the gold that we buy from figures that Merle supplies us, purchases from central banks and governments; but there is approximately 40 percent of the gold we get, we don't know whose it is, and we think that we ought to know - we have been investigating, so we know all the gold that is coming in, where it comes from, and who is selling it. Unless you have some objections, we would like to go into the matter more carefully. It will require several clerks, at least to trace what we have done since the war and to currently find out, and we will have to contact the Assay Office and possibly get more information from Merle.

H.M.Jr:

Well, Norman, on that, I think all of these men, as they take on people now, wherever it is possible, they ought to get women, because more and more men under 35 are going to be drafted, and taking on these young fellows, spending six months to a year to teach them, I think it is just a waste of good money, and I think wherever they can get a woman who is capable of doing it, they should do it, because I mean we might just as well be a little foresighted on this thing. There are lots and lots of

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women economists graduating with Ph.D.'s in economics, but these men, White particularly, you can't get him to take on any women.

White: I have one.

H.M.Jr: He is prejudiced against them. (Laughter)

White: I am against women economists. (Laughter) I want that clearly understood.

H.M.Jr: He says he has got one, and he says he is proud of that one. I hear she is very good, too. Somebody was telling me.

White: She is good.

H.M.Jr: On these English figures?

White: She is very good. She was one of the very highly recommended Ph.D.'s of Cornell University.

H.M.Jr: There are women with Ph.D.'s in economics that they can take on as clerks and gradually work them in. We might just as well be a little foresighted on this thing, and when they come in with their requests, will you keep that in mind?

Thompson: They will probably pick married women.

H.M.Jr: That doesn't answer the thing.

White: Norman, did you say something I should have heard?

H.M.Jr: No. Norman leaves the wisecracks to me. But seriously - I am serious about this, and both with Haas who is taking on a lot of people - where you can get an able woman economist with a Ph.D., which I know that you can get in economics--

Thompson: Oh, yes.

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H.M.Jr: They should do it. Would you keep that in mind? Don't you agree there are a lot of able women?

White: Oh, I am sure there are a lot of able women, and I think that is a good thought. I will certainly try to find some. There aren't a great many, but there should be enough to amplify the staffs available. We will give them preference, other things being equal. (Laughter)

Sullivan: Now he may get another one.

H.M.Jr: Whatever that means.

Schwarz: You will double your number.

White: Standard statistics--

H.M.Jr: Now that you have got that nice new office.

White: I have to be more careful now. Standard statistics--

H.M.Jr: Did I make an impression?

White: The office?

H.M.Jr: Did I make an impression?

White: Oh, yes, definitely. Well - it is curious that women have not been applying for jobs in the last - in recent months or even the last year. We used to get quite a few applications. I don't know why. Maybe they got discouraged or maybe they are not there.

Klotz: They know better now.

H.M.Jr: Well, Norman, any - you know. You know how to do it, don't you?

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Thompson: Yes.

White: Particularly as to clerks. I think we ought to be able to get plenty of those.

H.M.Jr: You know how to do it. And that goes for building up this organization--

White: I think I will start out with a humdinger that applied about six months ago, now that I remember. We will get immediate results.

H.M.Jr: That goes for you too, Harold.

Graves: All right.

White: Standard Statistics has published a list of British owned American companies. I mention it only because it may come to your attention. That list is shorter than ours. It is not as comprehensive. Although it does contain a large number of small companies which neither Commerce nor we had, and it may be that a full list will be larger even than those that we had, but their list is not as complete as ours. If I understand your new procedure, you will at least glance at the titles of the memoranda; and, if you are interested in reading it, you will, but there is no need of mentioning them here unless they call for immediate action.

H.M.Jr: You would be surprised how many I read.

White: Yes, sir. That is all.

H.M.Jr: Norman?

Thompson: I received your message about the car. It is a Lincoln Zephyr that we picked up in Virginia. It is to be lodged at Fort McHenry in Baltimore.

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H.M.Jr: I thought it was being used by the Army.

Thompson: Oh, no, the District Supervisor up there.

H.M.Jr: When it was cleaned up this morning, it really looked nice. Could we spend \$20 on it and have it painted black and put it out here.

Thompson: Yes, sir.

H.M.Jr: It is a very nice car.

Thompson: I have a letter from Mr. McReynolds asking for the loan of a classification man for about six days. If you have no objections, I thought--

H.M.Jr: Can you spare him?

Thompson: I think so. We can't give him a very high type man.

H.M.Jr: I wouldn't.

Thompson: We can give one of our junior men who can work under someone that he has on classification.

H.M.Jr: That is all right.

Thompson: Mr. Helvering has asked that we request the War Department to put first lieutenant - he has a first lieutenant in the Military Intelligence, James J. Brown, one of Irey's men, and he wants to have him put in the reserve pool so he can keep him on his work in Revenue. He is involved in two important cases that he has been investigating, one is Hopkins' case, a several million dollar case.

H.M.Jr: O.K. Want me to sign it?

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Thompson: No, sir, you don't have to sign it. I think it is a meritorious case. That is all I have.

H.M.Jr: O.K.

February 24, 1941
9:49 a.m.

Operator: Governor Ransom.

H.M.Jr: Hello.

Ronald
Ransom: Yes, Mr. Secretary.

H.M.Jr: Good morning. I tried to get Marriner and they say he is not in. I wanted to give you as soon as I could the way we were thinking over the weekend because I've changed my thinking considerably.

R: That's interesting.

H.M.Jr: I'd like, if you could, for you to put your crowd on to check it particularly on the pricing. Hello?

R: Yes, I will.

H.M.Jr: Now, we find it next to impossible to price a 2-3/4 bond.

R: Un-huh. I suspected that.

H.M.Jr: So I've practically given up the idea of a 2-3/4s. Just a second. (Talks aside). Now, what we're leaning towards is a 2%, '48-50, but with the possibility always that something might burst in the Balkans, you see, sort of to have an extra anchor to the windward, I was thinking of a 2-year, 3/4s of 1% note.

R: 2-year, 3/4 note. I see. Now you'd like our boys to be sharpening their pencils on that one so we can talk to you about the

H.M.Jr: Well, what do you think about it?

R: Personally, I agree with you. I don't see how you can price a 2-3/4 right now. You will recall I always did feel in our previous conferences that it would be simpler if we had the one issue but I can see the advantage of having a 2-year note in the background there in case of some unexpected situation.

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H.M.Jr: Well, I've given it to Rouse a few minutes ago and he's going to talk to a half a dozen people and then see how it goes. He wasn't thinking that way, but I asked him this question: if everything stayed - because he had no time to think about it, it was new - what proportion of it would go into the 2%? He said about 70%.

R: Oh, I don't - I'd have to think that over. That sounds pretty high.

H.M.Jr: Well, that was his first blush. Of course if that was correct, I'd be delighted.

R: Yes, that would be fine. (Laughs).

H.M.Jr: But after he has talked to half a dozen people he may feel differently.

R: I suspect he will, yeah.

H.M.Jr: But anyway that's the very latest and if you would be thinking about it

R: We have a conference with you at 2:30.

H.M.Jr: Yeah, but if you get any ideas, call me between now and 12:00 will you?

R: Yes, I will.

H.M.Jr: Will you pass this on to Marriner?

R: Right away.

H.M.Jr: Let's put it this way: just as soon as you fellows say you do or don't like it - on this idea - give me a ring. How'll that be?

R: That's all right.

H.M.Jr: So I can adjust my figures.

R: I'll do that.

H.M.Jr: Thank you.

February 24, 1941
10:05 a.m.

H.M.Jr: Hello.

Operator: Mr. Young is out of the city for a week; he's in Florida. Mr. Paddock, the vice president, will talk if you'd like to talk to him.

H.M.Jr: Who?

Operator: Paddock, P-a-d-d-o-c-k.

H.M.Jr: O. K.

William Paddock: (F.R.B., Boston) Good morning, Mr. Secretary.

H.M.Jr: How are you?

P: First rate, thank you.

H.M.Jr: Mr. Paddock, on our refunding, how do you and your customers up there feel?

P: Well, we've talked it over with all of them up here and I've never seen such a variety of opinion. Of course with the banks it depends upon what they have in their portfolios to quite an extent, but my own view after talking with most of them is that something middle term probably would go best.

H.M.Jr: I see.

P: If you want to reach the individuals, why a long-term of course with a better coupon rate would go.

H.M.Jr: Uh-huh. What do you call middle term.

P: Well, 10, 15 years.

H.M.Jr: I see. But that's what the concensus is. Hello?

P: Hello.

H.M.Jr: That's what they're thinking about.

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P: I think so, after talking with them all. It's pretty hard to get any consensus but I think more of them feel that way.

H.M.Jr: Well now let me tell you how we're feeling here this morning. We're thinking in terms of a 2% bond from 7 to 9 years. We feel that would go all right but if during the time that the thing was opened there should be something startling in Europe, I want sort of an extra anchor to the windward, so we're thinking for that purpose of a 2-year, 3/4s of 1% note.

P: 2-year, 3/4s of 1%.

H.M.Jr: Now I wonder if you could talk to some of the people who own some of these bonds or notes, you see. Do you know ~~where~~ many of them are?

P: Why, I think so. I ~~can~~ find some of them.

H.M.Jr: And find out if they ~~can~~ how they'd feel about it ~~if~~ I'm interested in what percentage ~~of~~ nothing happens, I mean, ~~if~~ says as good as it is now - what percentage of them would take the 7-9-year bond and what percentage would go into the 2-year. See?

P: I see.

H.M.Jr: How does it strike you - first blush?

P: Well, let's see. (Pause) I think that might go - pretty close.

H.M.Jr: Pretty close?

P: Let's see, 2 years - well, I think you can depend on them here to go along whatever you do.

H.M.Jr: Yeah, I know, but I'd like to

P: They are slow to express any very definite opinion - any strong opinion. They think your sources of information down there are so much better than ours here that they are satisfied to

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H.M.Jr: I know, but if you could find some people who really own them, if you would put it up to them - will you?

P: Yes, I will.

H.M.Jr: And do you have teletype at the bank?

P: No, we haven't.

H.M.Jr: Oh, I see, but you have telegraph.

P: Yes.

H.M.Jr: Could you get me a telegram off before 12:00?

P: I think so.

H.M.Jr: And address it to me at the Treasury please?

P: I'll be glad to.

H.M.Jr: You don't have teletype though.

P: No.

H.M.Jr: Well, if you could give me a telegram and mark it rush.

P: Yes, we'll do that.

H.M.Jr: Thank you so much.

P: Thank you.

February 24, 1941
10:24 a.m.

H.M.Jr: Hello.

Operator: John Sinclair. (F.R.B., Philadelphia).

John
Sinclair: Good morning, Mr. Secretary.

H.M.Jr: Hello. How are you?

S: Oh, fine, thank you. And you?

H.M.Jr: I'm all right.

S: Good.

H.M.Jr: What are your people up there talking about on our refunding?

S: Well, among the Philadelphia banks there is not much over about 3 million 2 of the Treasury bonds in that portfolio and not much over - a little over $3\frac{1}{2}$ million of the note so on the pure refunding of what they've got to refund, there is not a very large amount here. Of course most of the stuff before your refunding date usually finds its way to New York on that so there's not a large amount here.

H.M.Jr: Yeah.

S: Now of course as I said the other day, there is a good deal of potential demand in Philadelphia for long-term bonds but I don't think it is as important this time because it is not a cash issue, you see. Now all of them are thinking in terms of - around our neighborhood they don't like notes very much. Therefore, those who have got the bonds and the notes would rather have a bond and most of them would rather have a longer bond, but they would consider an intermediate bond.

H.M.Jr: What do you call an intermediate?

S: Well, I'd say somewhere between '50 and '54 along the lines we were discussing the other day, and that would make it in the realm of $2\frac{1}{2}$.

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H.M.Jr: Yeah.

S: Now that's about the best judgment. We've talked to the Savings Funds, we've talked to the insurance companies here and also some of the larger banks.

H.M.Jr: How widely scattered are those \$6 million?

S: Well, I'd say there are not more than about a half a dozen of the banks.

H.M.Jr: Well, then if I told you what I had in mind this morning you could sound them out and see how

S: Very quickly so.

H.M.Jr: Well, this is what I'm thinking of: I'm thinking of a 7-9-year, 2%, and as an extra anchor to the windward in case there was a blow-up in Europe, a 2-year, 3/4s of 1% note. See?

S: Yeah.

H.M.Jr: Now what I'd like to know is how do they like it and, if conditions got no worse than they are today, what percent would go into the bond and what percent would they put in the note. That's what I'd like to know.

S: Well, we can find out that pretty well.

H.M.Jr: Could you?

S: Yeah.

H.M.Jr: Now do you have teletype up there?

S: No.

H.M.Jr: But you have telegraph.

S: Yeah, we have telegraph. Well, we have the combination of teletype, yes.

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H.M.Jr: If you have teletype if you'd send it in on Washington 168, then I get it direct; but if you don't, just a telegram.

S: Yes, I see.

H.M.Jr: My call number is Washington 168.

S: All right, fine.

H.M.Jr: Could you get me something off before noon?

S: Yeah, I'll do my best for you on that. Now that's the 7 to 9-year, 2% bond with the possible alternative of a 2-year, 3/4s note.

H.M.Jr: That's right.

S: I think their first reaction is they wouldn't like it as well as the longer, but we'll find out what the reaction is.

H.M.Jr: No, the idea is we'd offer both.

S: Yeah, I realize that but I mean I think the 7 to 9-year bond wouldn't appeal to them as much as a longer bond would. That would be my off-hand reaction to it, but we'll find out what they say.

H.M.Jr: Thank you.

S: Right-o.

February 24, 1941
10:35 a.m.

H.M.Jr: Hello.

Operator: Mr. Fleming. (F.R.B., Cleveland).

Matthew Fleming: Hello, Mr. Secretary.

H.M.Jr: Hello. Mr. Fleming?

F: Yes, sir.

H.M.Jr: Morgenthau. How are you?

F: First rate, thank you. You're well?

H.M.Jr: I'm all right. Mr. Fleming, how do your people feel out there about this refunding?

F: Well, this holiday intervening kind of upset things so I was not able to get in touch with some of the people I would like to have talked to, but the ones I did talk to feel that about a 10 to 13-year bond at 2½%, or it might be split so that you have a 3-year note at 1%.

H.M.Jr: Yeah, I see. Do you know how many of the bonds and notes are held out there?

F: I don't think there is many of them out here. It's hard to tell. You see we don't have analyses of that.

H.M.Jr: We really ought to, oughtn't we?

F: I think we should have. If we had some way we could work out some plan whereby the banks report to the Federal Reserve Banks their holdings - previous - it might help a lot when we come around to a point like this and especially for future financing.

H.M.Jr: I think we'll have to do it on the next one in advance.

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F: That stuff gravitates to New York you know and we absolutely lose the picture.

H.M.Jr: Well, Mr. Fleming, this is what we're thinking of this morning: a 2%, 7 to 9-year bond and, in case something in Europe should go radically wrong and we want another anchor, we were thinking of a 2-year, 3/4s of 1%. See?

F: Yeah.

H.M.Jr: Now, are there any people that you could try that out on?

F: Yes. That's a 3/4% on a 2-year. Yeah, I'll try that out and shall I call you or Dan?

H.M.Jr: No, I'd like you to send me a telegram, if you don't mind.

F: I'll do it, yes.

H.M.Jr: Do you have teletype?

F: Yeah.

H.M.Jr: Well, my teletype call number is 168.

F: Yeah, a 7 to 9 and 3/4, 2-year.

H.M.Jr: And you see they'll have their choice.

F: Yeah.

H.M.Jr: What I'm interested in is say a man owns some, what percentage do you think would go into the bond and what percentage would go into the note? See?

F: I see. Well, I'll see what I can get on that and I'll wire you then.

H.M.Jr: Thank you.

F: Yes, sir.

February 24, 1941
10:38 a.m.

H.M.Jr: Hello.

Operator: Mr. Leach in Richmond. (F.R.B.)

Hugh
Leach: Hello, Mr. Secretary.

H.M.Jr: Good morning. Mr. Leach, have you got any reaction to our proposed refunding?

L: The opinion runs something like this, Mr. Secretary. I think the banks would rather have, as far as one issue is concerned, a 2% bond about 8 years than anything else.

H.M.Jr: A 2% what?

L: 2% bond of about 8 years. They'd rather have a bond of about that maturity than any other one thing. They don't want to go beyond 10 or 11 years at most.

H.M.Jr: Yes.

L: The opinion is general that the differential between a taxable and a nontaxable bond would be about 1/4 of a percent. They're guessing of course. Some of them think it would be a little bit more but as near as I can tell that is about the best guess.

H.M.Jr: Yeah.

L: They all think that there ought to be an option, that the issue is right good size, and that this is sort of a critical time - first time you've gotten out a taxable one - and they realize it will be difficult to price it. Some of them suggest a 3-way option but of course they all recognize that that would be very difficult to do.

H.M.Jr: Yeah.

L: But even though I think most of them would want up around 8 years, they do think there ought to be an option and from a bank standpoint

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they'd rather have nothing - one to go beyond 8 to 11 years, the option would be a note say for about $4\frac{1}{2}$ years at about 1%.

H.M.Jr: I see.

L: Now as to whether the option would be that or would be a longer bond would seem to depend on how these things are held as between banks and insurance companies and I don't have much information on that as to the country as a whole. Around here they seem to be held mostly by the banks.

H.M.Jr: I see.

L: Also a good many people expressed the opinion that if you do try a long bond that it ought not to be too long.

H.M.Jr: Yeah. Well, that's very interesting. Now, let me tell you - we're not far apart the way we're thinking this morning. We're thinking of getting out two: a bond and a note, the bond to be 2%, 7 to 9 years, and in case something should go wrong in Europe as a kind of an anchor to the windward, we're thinking of a 2 year note with a $3/4$ s of 1% coupon. See?

L: Yes.

H.M.Jr: Now what I'd like to know, if you could talk to some of your people, is how do they like it and if they own any of these what percentage would they put into the bond and what percentage in the note provided the situation didn't get any worse than it is now.

L: Yes. I didn't say a while ago that some of them, particularly a couple in Baltimore, suggested a $7/8$ ths note for about 3 years or so.

H.M.Jr: Did what?

L: Some of our people in Baltimore, I didn't mention it just now, suggested a note - $7/8$ ths note for about 3 years, so that's closer even than the other one to what you've got in mind.

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H.M.Jr: Well, you've been closer this morning, or we're closer to you, than anybody I've talked to yet.

L: I see.

H.M.Jr: You and the Treasury are thinking more alike than anybody we've talked to yet.

L: Well, that's fine. I haven't checked with any other District so I don't know what's going on.

H.M.Jr: But you've got the picture and as I say if the market stays the way it is, if you could get a reaction as to what percentage would go into the bond and what percentage would go into the note

L: Yes, that's 2%, 7 to 9, and a 2 year, 3/4s. Well, would you like for me actually to talk to the people about it?

H.M.Jr: Yes, and I'd like to get a reaction from you if I could not later than 12:00 o'clock. Have you got teletype in Richmond?

L: No, I have not.

H.M.Jr: Well, have you got telegraph?

L: Yes, I've got a private wire.

H.M.Jr: If you'd send me a telegram on it.

L: Well, of course this would be - you don't object to its being known around then what you're figuring on?

H.M.Jr: No, I don't object. I do not object.

L: And you don't mind my calling people in Baltimore over the telephone. Is that it?

H.M.Jr: No, it's all right. I'd like you to.

L: And to tell them that this is what you are considering and you'd like to have their reaction before you decide.

H.M.Jr: That's right.

L: All right, sir.

February 24, 1941
11:09 a.m.

H.M.Jr: Hello.

Operator: Mr. Schaller in Chicago.

George J. Schaller: Good morning, Mr. Secretary.

H.M.Jr: How are you?

S: Very well, thank you.

H.M.Jr: Mr. Schaller, what do you hear out there about our proposed refunding?

S: Well, I've been making a little inquiry trying to keep in touch here. Of course you've got Edmondson's report.

H.M.Jr: Yes.

S: I think the people out here would feel favorable to a double offering; that is, bonds and notes. As I get it about a 3 year note, 1% would go all right. On the bonds there is a difference of opinion whether we should have a 25 year one or a 10 to 12. A 10 to 12 of course the consensus of opinion is around 2½, that is with the nontaxable feature removed.

H.M.Jr: Yeah.

S: Some of them think that a 3% for 25 years would go but I think they all feel a little safer on the 10 to 12.

H.M.Jr: Well, now what they like is a 10 to 12

S: Not less than 2½.

H.M.Jr: Uh-oh.

S: They figure that they'd be about 6/10ths off on account of the nontaxable feature.

H.M.Jr: And they'd like a note?

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S: A note was suggested at 3 years 1%.

H.M.Jr: I see. Tell me this, are there many of these bonds held out there or notes?

S: I don't have before me the figures in our District. I can have our men in that department tell you in a few minutes.

H.M.Jr: No, I tell you, I'm going to ask you to send me a telegram anyway

S: Wire the amount of these notes

H.M.Jr: How much notes and bonds they've got out there.

S: That are called for March 15th. All right, we'll do that right away.

H.M.Jr: Now, this is what we're thinking of this morning; we're not terribly apart. We're thinking of a 7 to 9 year, 2% bond and, in case the war in Europe should get much worse to have another anchor out, we were thinking of a 2 year note with a $\frac{3}{4}$ of 1% coupon.

S: Well, I believe that's a little low. I believe the other year with the quarter on would go better.

H.M.Jr: You think so.

S: Yes, I believe it would. The 3 year, 1% would take better I think out in this District, Mr. Secretary.

H.M.Jr: Well, I tell you what I'd like you to do for me. Could you call up some people who have these and tell them that we're thinking of this and get their reaction?

S: You're thinking of a 7 to 9 at 2, and a 2 year at $\frac{3}{4}$ s, and ask them how they feel about it.

H.M.Jr: And then could you send me a telegram not later than 12:00 o'clock your time?

S: Certainly. We'll go right at it and get it cleaned up for you right away.

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H.M.Jr: I don't know whether you have teletype out there or not. If you have teletype, my call number is 168.

S: 168.

H.M.Jr: Yes. That comes right into my office.

S: All right. I'll see what we've got here.

H.M.Jr: But if you haven't got teletype if you'd send it by telegram.

S: Wire. All right, we'll go right at it.

H.M.Jr: But not later than noon your time.

S: Yes, all right. We'll send it out right away.

H.M.Jr: Thank you.

February 24, 1941
11:14 a.m.

H.M.Jr: Hello.

Operator: Mr. McLarin, in Atlanta.

W. S.
McLarin, Jr.: Yes, sir. McLarin talking.

H.M.Jr: Morgenthau. Good morning.

M: Good morning, sir. How are you?

H.M.Jr: Fine. Mr. McLarin, how do they feel in your territory about this refunding.

M: Well, I've talked with a number of people and they seem to have an idea that rates on the new issue should be about 2-1/8 to 10 years, 2 1/2 to 12 years, 2 1/2 for 25 - 20 to 25 years, and about 1% for 5 years - notes.

H.M.Jr: I see.

M: I think they're looking after themselves rather than the Treasury Department in suggesting those figures though. I think they're a little bit high on them.

H.M.Jr: Yeah. Have you any ideas of your own?

M: I think the rates that I quoted there are a little bit high, but they want to take into consideration the taxable feature and I think we ought to try to protect the Treasury Department on the rate a little bit and see how they take.

H.M.Jr: I agree with you. Well, let me tell you what we're thinking about this morning. We're thinking of offering them a choice of two: a bond and a note, the bond would be 7 to 9 years with a 2% coupon.

M: I think that's ample rate.

H.M.Jr: And the note would be a 2 year with 3/4s of 1%.

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M: That's just about my line. That's a little bit lower than our people down here want but I don't think you ought to give them what they want.

H.M.Jr: Well, we were thinking of the note just in case something went sour over in Europe while our issue was open. You see?

M: That's right.

H.M.Jr: Now what I'd like you to do would be, if you could get in touch with some of your people there that are interested in this and tell them that the Treasury is thinking along these lines and get their reaction, and then if you could send me a telegram not later than noon your time, I would appreciate it very much.

M: All right. That's a bond 7 to 9 years, 2% and a note, 2 years, 3/4s. I'll do that, sir.

H.M.Jr: And if you could get some idea what percentage would go into the bond and what percentage would go into the note, it would be helpful to me if I could get a telegram from you.

M: I'll do what I can on it.

H.M.Jr: Thank you so much.

M: You're welcome.

February 24, 1941
11:19 a.m.

H.M.Jr: Hello.

Operator: Mr. Martin in St. Louis.

Wm. McC. Martin: Hello.

H.M.Jr: Morgenthau speaking.

M: I'm awfully glad to hear from you, Mr. Secretary.

H.M.Jr: How are you?

M: First rate.

H.M.Jr: How do they feel out in St. Louis about our refunding?

M: Well, as far as I can get it, - you mean as to whether there'd be notes or bonds?

H.M.Jr: Yes.

M: Well, the general impression I get here is that a note would not be any too attractive, that an intermediate bond of from 10 to 12 years, taxable, might go all right. They are very much disturbed over the tax feature; they don't know how to take it.

H.M.Jr: I see. Well, Mr. Martin, this is what we're thinking about this morning. We're thinking of offering them a bond and a note: the bond would be 7 to 9 years with a 2% coupon, and the note would be for 2 years with $\frac{3}{4}$ s of 1% coupon.

M: 3 years note at $\frac{3}{4}$ s.

H.M.Jr: No, 2 year note.

M: 2 year note at $\frac{3}{4}$ s.

H.M.Jr: Yes. Now, the idea behind it was this: if everything stayed quiet we think the 7 to 9 year bond would be all right, but if the armies started to move in the Balkans, we'd like an extra anchor to the windward and that's why we were thinking of the note.

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M: Yes, I get it. I think that's wise.

H.M.Jr: Now what I'd like you to do if you could would be to talk to some of your people there - banks or whoever else - and tell them that this is what we're thinking about, get their reaction, and if you could send me a telegram by noon your time, I would appreciate it very much.

M: Well, I'll be awfully glad to do it. Now, I've been talking along a little way, not along this line exactly, but the reaction I get on an 8 year note is 2%.

H.M.Jr: Well, that checks with us.

M: That checks all right. They seem to think that'll go. Now on a 5 year note, they seem to think that it's got to be from 7/8ths to 1%. On the 2 year note I just don't know.

H.M.Jr: Well, you might talk it over with some of the people and you can say that is the way the Treasury is thinking and what is their reaction.

M: Yes, I'll get it out right away. I think our bond information checks pretty well; it's the note that I'm worried about.

H.M.Jr: Good.

M: I'll just wire you as soon as I can get it and I'll do it by 12:00 o'clock.

H.M.Jr: Thank you.

M: All right.

February 24, 1941
11:25 a.m.

RE FINANCING.

Present: Mr. Bell
Mr. Hadley
Mr. White
Mr. Haas
Mr. Murphy
Mrs. Klotz

H.M.Jr: How are you fellows, are you still talking to each other?

White: No, I think --

H.M.Jr: What do you mean, "No"? I said, "Are you talking to each other?"

White: No, we just stopped.

H.M.Jr: But I mean, are you still friendly?

White: Oh yes, yes.

H.M.Jr: Got any suggestions?

White: Well, did George - did you have a chance?

Haas: No, I didn't see him.

White: Well, I am in complete agreement with their general analysis, in their recommendation that there be two issues, one short

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issue and one longer term issue. I also am in complete agreement with them as being opposed to a long bond at this time. The only point of difference that exists is one which I really don't feel very competent to stand out against their views - I think that the short term issue could be five eighths instead of three quarters and still be good. That is the only point of difference, and that is a minor one.

H.M.Jr: Is that the only point of difference?

White: That is the only point of difference.

H.M.Jr: Wonderful.

White: We are in agreement both as to conclusions and as to the reasoning that lay behind it.

H.M.Jr: Either George Haas is good or you are weakening. (Laughter)

White: No, I am stuck.

Haas: Oh, I thought you had him. I said, "I will let Harry handle that one himself." (Laughter)

H.M.Jr: What did you say?

Haas: I said I would let Harry handle that one himself. I couldn't lose on that.

White: Well, I am going to admit George is good on that, because that way I am good, too, if I agree with him.

H.M.Jr: Well, Mrs. Klotz has a wonderful laugh on me. I have been talking to all the

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presidents of the Federal Reserve Banks this morning, and I said, "You know, there is one man that is really good, who is in Richmond. He agrees completely with me. There is only one man that has got any idea of what it is about. Every single one of them are still thinking about what the Federal Reserve said last Friday about a two and a quarter. You see, Piser got that stuff out and there isn't a one that did anything on his own, and the only fellow that has been doing anything - and he agrees with George and me." But that is interesting, Harry, when they figure that two and three quarters and you get up against those corporate bonds. Isn't that interesting figuring?

White: Yes. Of course, I think they are dead wrong on that long bond stuff anyway, but I have never been in agreement with them so there is no reason why I should be now.

H.M.Jr: But just on a mathematical end.

White: I understand they picked two and three quarters by a year or something.

Haas: The Secretary meant the big variations you get.

White: Oh, I thought you were talking about something else.

H.M.Jr: No, I was on the two and three quarters, so be careful. I was riding for that while, and then I saw it was impossible to price it.

White: I think there is little doubt that all financial writers will pan you from one

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end to the other if they --

H.M.Jr: Figuratively?

White: Figuratively speaking. Literally it will be worse than a panning if you don't show some increase, whether or not it is justified.

H.M.Jr: Some increase?

White: In rates. Even though I think that you probably - you might find theoretical justification for not doing it, but I think that you have to be conservative.

Bell: I don't get what they are going to pan him for. For not stepping out?

White: I think you could find justification from every angle to have lower rates than a two and three quarters, but I think that their reaction would be very unfavorable.

H.M.Jr: Well, that doesn't - I mean, I wouldn't bother about that, but I just don't see it on a statistical basis. Here is the interesting thing. These boys did it purely on an actuarial mathematical basis over the weekend. Rouse comes along and says, "I am not interested, I am only interested in the money market," and they come practically together.

(Unrecorded telephone conversation with Mr. Rouse and Mr. Sproul.)

H.M.Jr: You (Hadley) are not on board yet, are you?

Hadley: No, I am not.

February 24, 1941
11:30 a.m.

H.M.Jr: Hello.

Operator: Mr. Sproul.

Allan
Sproul: Good morning.

H.M.Jr: Good morning. How are you?

S: Fine. How are you?

H.M.Jr: I'm all right. Do you want to talk or does Rouse want to talk?

S: Well, I think we'd better let him talk. We've both been canvassing the situation for the last two hours but he can tell you the story.

H.M.Jr: Well, if one of you will talk to me I'll appreciate it.

S: All right.

Robert
Rouse:

We've pretty well canvassed these people that we mentioned. First I'll give you our own conclusion which is this, that we feel you can do it with one issue; that is, a 2 $\frac{1}{2}$ of '50-52 or a 2% of '48-50, and by and large the market recommends two issues. They feel that a '48-50, 2% by and large would be the thing that would absorb the bulk of the exchange and would put you on very sure ground. There has been a tendency partly because of, I think, a feeling they have that you don't want a 2-3/4 but in any event it is a transition from a 2-3/4 to a 2 $\frac{1}{2}$, and a number of them even think that a 2 $\frac{1}{2}$ of '53-5 or '54-57 as a combination, that it doesn't commit you to any long-term idea of setting a rate, that it would be regarded as a feeler and still might be well taken. By and large there is no feeling of a need of a note.

H.M.Jr: I see.

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R: In canvassing the storm cellar idea of a note, the general expression of opinion was that a '48-50, 2% would represent sufficient of a storm cellar, that if you still wanted a note as a storm cellar that a 3/4 note, 2 years was all right and would take care of most any contingency. Even some expressions that a 1/2% note could be done.

H.M.Jr: For 2 years?

R: For 2 years but that would be regarded as being fairly fine.

H.M.Jr: How about 5/8ths?

R: Well, one expression of 5/8ths but by and large they didn't show any interest in the note, they thought the note market was in poor shape anyway and that it would be better left alone if you possibly could.

H.M.Jr: Well, Rouse, let me ask you this. Let's say the market stays as good as it is today until Thursday night. Have you changed your opinion any as to what the percentage would be that would go into the bond?

R: No, sir. I think if it stays as good as it is now it would be at least 70%. It might be higher.

H.M.Jr: Now let's say that they begin to march in the Balkans. Do they feel and do you feel - I'll put it on you - that the two percent, the 2 year 3/4s would definitely see us through no matter what happened in Europe?

R: Yes, I do from that basis. If something happened that was definitely putting us into the war, that would be another story.

H.M.Jr: No, I'm not thinking along those lines.

R: As far as any contingency that I can foresee other than our being precipitated ourselves, a 3/4% note for 2 years would be ample storm cellar.

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H.M.Jr: No, I'm not thinking in terms of our getting in the war at all. I'm thinking of something happening in Singapore, landing in England, march on Saloniki - something like that.

R: Sure. I think a $3/4\%$ note of 2 years from that standpoint is storm cellar.

H.M.Jr: Well, are you or Mr. Sproul ready at this time to make a firm recommendation? Is Sproul listening?

Allan Sproul: I'm here, yes.

R: He's on the wire.

H.M.Jr: Well, let's ask Sproul.

S: Yes, we're ready to make a firm recommendation. We would, as Mr. Rouse said, do it with one issue: a 2, '48-50 or a $2\frac{1}{2}$, '50-52. If you want to take the market views into account and put a $3/4\%$, 2 year note with the 2% of '48-50, that would be a good package.

H.M.Jr: It would be. Would you be enthusiastic about it?

S: Yes, I'd be enthusiastic about it in the sense that it would go without question in my mind.

H.M.Jr: Well, that's what I want. I can't at this time see the $2\frac{1}{2}$.

R: Well, in our opinion here we feel you'd get a definite secondary market demand for the '48-50 2%, and that is the thing that you really need most.

H.M.Jr: That's right. Well, now, are there any hidden bugs or any tricks that anybody can play on me that I don't know about?

R: I don't know of any. I think we've had them all tried.

H.M.Jr: Who is this talking now?

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R: Rouse.

H.M.Jr: There are no tricks that somebody could play on me.

R: I don't know of any that we haven't already had to deal with.

H.M.Jr: I see. Well, as I say, I don't see why I should go out for the 2½ at this time.

S: Now, this is Sproul. I don't see why you should go out to the 2½ either. The 2% of '48-50 does the job and apparently does it better so far as range and rate is concerned. If you were going to go out, then your consideration is the longer bond with the higher coupon which might attract the insurance companies and savings banks and which might fix the rate for long term financing. Well now in the present state of the market, I understand you don't want to do that and it would be better to have a test of the market before trying to do that.

H.M.Jr: That's right. Now, I tell you, you may get some repercussions from the field because I've talked to eight of the bank presidents and told them that they could talk to the banks, so your dealers may be getting inquiries. You see?

S: Yes.

H.M.Jr: And if you get anything I'd like to talk again at 2:15 if I could.

S: Fine. We'll both be here.

H.M.Jr: At 2:15.

S: Right.

R: Right.

H.M.Jr: Thank you.

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Murphy: This is a table that you asked for earlier in the day, Mr. Secretary. It shows you what the effect of various taxes would be on the three quarters note.

H.M.Jr: The three quarter is out. I don't see why we should pay more than two.

Bell: That is a note.

Murphy: This is a short note, Mr. Secretary. These are the tax-exemptions on the two year note. You asked for it earlier this morning, what would be the effect of various taxes, and that shows the effect of tax exemptions all the way to 30 per cent, what the effect would be on the premium for the two-year note.

H.M.Jr: There still is room enough, isn't there?

Murphy: Oh yes, plenty of room. There would probably be room for a five eighths, but I don't like the idea of weaving a basket with loose lattice work. If you are having a basket, you might as well weave it pretty close.

White: Five eighths would be weaving it close, would it?

Murphy: I would call it loose lattice work. If you held it up to the light, you might be able to see some light through it.

Hadley: After the experience we have had on the last two defense notes, we have got to use some generosity on this.

H.M.Jr: Just use the word pail. We don't want any holes in the pail. You can always see light through a basket.

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Murphy: Well, this is a pail.

Haas: A porcelain pail. (Laughter)

Bell: I think you have got to be a little more generous on the note, because after all, the note is there for an anchor, and I think you can assume it isn't going to be sweet at all unless we have some bad news.

White: I think your general principle is right. The only place where we disagree is, I think half would be enough and five eighths is generous.

H.M.Jr: I have been living with this thing, but I wanted to see whether you could say, "Well now, Mr. Morgenthau, you overlooked that thing there."

White: No, as I indicated, the only difference I have is that one point, and that is minor as far as I am concerned.

H.M.Jr: Well, I think that is all right. Thanks very much, Harry. And then if the rest - well, Bell, you and I will start in again at 12:30, and the rest of you people come back at 2:15, please.

Estimated Yield Bases and Probable Premiums
on a 3/4 Percent 2-year Treasury Note

Assumed tax rate on coupon	Estimated yield basis	Probable Premiums <u>1/</u>
0%	.20	101.03
8	.26	100.31
12	.29	100.29
16	.32	100.27
20	.35	100.25
24	.38	100.24
30	.42	100.21

Treasury Department,
Division of Research and Statistics.

February 24, 1941

1/ Decimals are thirty-seconds.

February 24, 1941
12:30 p.m.

John
Peyton:

Hello, Mr. Secretary. This is Mr. Peyton of Minneapolis.

H.M.Jr:

How are you?

P:

I'm pretty well - cold weather but I'm bearing up under it.

H.M.Jr:

Well, it's 22 above here so we're not suffering from a heat wave.

P:

I've made a check with our local people here as nearly as I could about this offering and I'll give you in a general way what they say. It's the concensus of opinion of the group that are initiated here. They've made various different suggestions. Perhaps the one that seemed to be the most popular would be a 10 - redeemable in 10 - 15 year bond which they place at $2\frac{1}{4}$. I don't think that any of them are very sure what the differential should be as more of these bonds come out between the nontaxable and the taxable bonds, but that's the suggestion. Then one of them has suggested that along with that might be offered a 5 year note at 1 to $1\frac{1}{8}$.

H.M.Jr:

I see.

P:

Another man suggested a 10 year bond at $2\frac{1}{4}$, and one man would like to see a short time issue together with a 22 to 25 year bond that might even run up to $2\frac{3}{4}$ s. They all would rather have an intermediate bond from 10 to 15 years bearing a rate someplace around they guess $2\frac{1}{4}$ to $2\frac{1}{2}$ and most of them feel that you will probably will want to tack a note onto it anyway to assure yourself of the issue.

H.M.Jr:

Yeah.

P:

I have always been of the opinion and still am myself although I didn't hear it mentioned among local people so much that some method of putting the bonds into the safety deposit box of the investor rather than into the banks is a desirable thing.

- 2 -

H.M.Jr: Well, I agree with you on that.

P: I think that's pretty much the consensus of this District. I won't go into a lot of detail because you wouldn't be interested in it.

H.M.Jr: Well, let me tell you this. This is what we're thinking about pretty much this morning. We're thinking of offering them a bond and a note - a 7 to 9 year bond with a 2% coupon.

P: Yes, I think that would go all right.

H.M.Jr: And then in case something should blow up in Europe we're thinking of a 2 year note with a 3/4s of 1% coupon.

P: Well, that ought to go. I couldn't argue with that. I think you've got your rate just about as low as you'd want it under present conditions, don't you?

H.M.Jr: Well, that's what we think. Now I tell you what I'd like you to do. I'd like you to talk to some of the people who hold some of these or have an interest in them, you see, and could you get me off a telegram by noon, your time?

P: Yes, surely. I'll try. That's only 25 minutes but I'll do my best.

H.M.Jr: Until noon, your time?

P: Yeah. 25 minutes to 12:00. It's 25 minutes to 12:00 here.

H.M.Jr: Oh, well, I'll give you until

P: Give me until 1:00 I guess.

H.M.Jr: I'll give you until 1 o'clock.

P: And I'll do the best I can for you, Mr. Secretary.

H.M.Jr: And I'm particularly interested in what

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percentage would go into the bond and what percentage would go into the note.

P: We'll try and make a survey just as fast as we can.

H.M.Jr: Right. Thank you.

P: You're welcome.

February 24, 1941
12:36 p.m.

George H.
Hamilton:

Hello. (F.R.B. Kansas City)

H.M.Jr:

How do you do.

H:

Pretty good.

H.M.Jr:

How do they feel out there on this refunding,
Mr. Hamilton?

H:

On this proposed offering?

H.M.Jr:

Yes.

H:

Well, we've consulted a number of banks around the District and I think their first choice would be a 7 to 15 year intermediate bond, rate ranging from $2\frac{1}{2}\%$ to $2\frac{3}{4}\%$ - the bulk of them $2\frac{1}{2}\%$, some of them on 7 to 10 year bonds $2\frac{1}{2}\%$, $2\frac{1}{2}\%$ on 10 to 12 and $2\frac{3}{4}\%$ 10 to 15. The next choice would be a 5 year note at $1\frac{1}{2}\%$. Two I believe suggested a $7/8\%$ rate and one went over to about $1\frac{1}{2}\%$. Long term bond is first choice at about an average of $2\frac{3}{4}\%$. They range from $2\frac{1}{2}\%$ to 3% , the bulk of them being $2\frac{3}{4}\%$.

H.M.Jr:

Yeah. Well, now Mr. Hamilton, let me tell you along what lines we're thinking this morning. We're thinking of offering a note and a bond. The note would be for 2 years and would pay $3/4\%$ of 1% interest, and the bond would be from 7 to 9 years and pay 2% interest.

H:

Yeah. Well, I think that would be very acceptable. Probably the choice of the larger banks would be the note. They are barely maintaining their short maturity position and I think a 2% would be all right.

H.M.Jr:

Well, it would be helpful to me if you could speak to some of the banks, tell them that's the way we feel, and could you get me off a telegram by noon your time?

H:

Give you a telegram

- 2 -

H.M.Jr: Telegraph me not later than noon your time.

H: Yeah, that's our time. Yeah, I'll get a telegram. That's a 2 year note at $3/4$ s and a 7 to 10 at 2 flat.

H.M.Jr: 7 to 9.

H: 7 to 9. Well, I'll get a telegram off to you then.

H.M.Jr: Now if you have a teletype, we have teletype right in my office here. It's number 168 Washington.

H: Yeah, well we have.

H.M.Jr: If you'll send it to number 168 then I get it much quicker than by telegraph.

H: All right, we'll do that.

H.M.Jr: Thank you.

February 24, 1941
12:46 p.m.

H.M.Jr: Hello.

Operator: Mr. Purvis.

Arthur
Purvis: Henry, Arthur speaking. After three very lovely days I've been called back and I'm very anxious if I could to unofficially see you with a view to settling something in regard to this afternoon's interview that may be very vital. It would take about ten minutes I fear.

H.M.Jr: I see. Well, they're coming in at 4:30.

P: Yes, and what we really - after you've heard what I want to say, I think you may want to put it off and therefore if I could just see you for ten minutes

H.M.Jr: Well, Arthur, today I'm trying to do a refunding. We're in the midst of our financing.

P: I see. Well, if this wasn't - this would probably get rid of the necessity for the talk this afternoon so there'd be that amount, Henry, gained. I'm sorry to trouble you but it really is vital and I think you'll agree the minute I talk about it.

H.M.Jr: Well, it'll be sometime between 3 and 4:00. Will you be in your office?

P: Yes, and I'll ask the Ambassador to hold himself

H.M.Jr: Oh, I don't think you can do that. No, no.

P: You haven't got ten minutes now I suppose.

H.M.Jr: No, I'm right up to my ears.

P: Well, I can ask him because I'm lunching with him and I have no feeling about it at all. He knows I'm calling you. You see.

- 2 -

H.M.Jr: I don't know what it's all about but

P: It's pretty vital, Henry, and something that I think is quite in accord with what you'd want. Otherwise, I wouldn't press it.

H.M.Jr: Well, I'd rather that as far as I'm concerned you didn't say anything to him until I hear about it.

P: Well, now, Henry, you're putting me in a pretty bad spot if I can't just come over. The decision will still lie with you

H.M.Jr: No, no. I'm going to see you between 3 and 4:00.

P: All right.

H.M.Jr: No, I will see you.

P: Oh, that's grand.

H.M.Jr: No, I just meant I didn't want to put the Ambassador off.

P: All right. That will be fine. We can still do it. He won't start until quarter past anyway.

H.M.Jr: I'll see you between 3 and 4:00.

P: That's grand. Thank you very much, Henry. So sorry to bother you.

February 24, 1941
12:48 p.m.

H.M.Jr: Hello.

Operator: Robert Gilbert of Dallas.

Robert
Gilbert: Hello, Mr. Morgenthau. This is Gilbert at Dallas.

H.M.Jr: Hello, Mr. Gilbert. How do they feel about
our refunding?

G: Well, of course there is a great deal of
interest in it, Mr. Morgenthau. The fact that
it is the first new issue of taxable bonds is
causing a good deal of talk and comment. The
most of the banks that I've talked to - I've
been able to contact larger banks - have
indicated a preference for an intermediate
bond say around 10 or 12 years. Now on the
basis of expected increase in tax rate and
increase in the amount of government debt
outstanding those fellows, when I've asked them
what rate they thought would have to apply,
have indicated about 2-3/4s to 2-7/8s. I
think possibly they may have overlooked the
likelihood of these tax exempt outstanding
increasing in value and lowering in yield.

H.M.Jr: Yeah. Well, let me tell you what we're
thinking about and then I thought you might
talk it over with some of your banks and then
send me a telegram by noon your time if you
would. Do you have teletype?

G: Yes we do.

H.M.Jr: Well, my number here is 168 on the teletype.

G: Teletype 168.

H.M.Jr: Yes. Now, we're thinking of two issues: a 2%
bond, 7 to 9 years and a 2-year note, 3/4s of 1%.
Now the idea of the note is in case something
should blow up in Europe why we'd have that to
kind of fall back on, but we kind of hope that
most everybody will take the bond.

G: Yes.

- 2 -

- H.M.Jr: Now, in talking to your people, if you could find out what percentage of them would go to the bond and what percentage would go to the note provided that the market stays about the way it is
- G: Yes, I see. Now of course they are immediately going to ask me on a 7 to 9 year bond, 2% - with the tax deduction that wouldn't yield but about 1.40. That's a little bit lower than the 7 year bonds that are now out.
- H.M.Jr: We figures on a 1.70 basis.
- G: I see.
- H.M.Jr: 1.71 on the bond and on the note .32.
- G: I see. I tell you, Mr. Secretary, some of the banks I say very few and one of the large insurance companies of course indicated a preference for a long-term bond.
- H.M.Jr: Yeah, well, we may get there in the not too distant future but this is just a refunding and my trouble is everybody around here has tried to figure a 2-3/4% bond and none of us can figure it. That's our trouble and the Federal Reserve in New York has the same trouble that we do. They say it is next to impossible to figure that at present.
- G: Well, of course it is - the uncertainty as to the tax rate and so forth.
- H.M.Jr: Well, they don't know just where it should fall so that's why we're being on the conservative side.
- G: Yes, I see. The thing right now then is that you'd like to have their reaction to a 7-9-year 2% bond and a 3/4%, 2-year note.
- H.M.Jr: That's right, and if you could get me off a message not later than noon your time
- G: Yes. Well, it's 5 minutes to 12:00 here now.

- 3 -

H.M.Jr: What? Well, make it 1:00.

G: Yes. That'll give me a little more time to contact some of these banks.

H.M.Jr: Oh, I'm sorry. I'm mixed up on my time. I thought there was 2 hours difference.

G: No, just one hour.

H.M.Jr: Well, I'll give you 2 hours - 2 hours.

G: All right, that'll be about 2 o'clock then.

H.M.Jr: Yes, it'll be 2 o'clock our time, 1 o'clock yours.

G: That's right.

H.M.Jr: Then the thing which I'm very much interested in, on the basis that the market stays the way it is today, what percentage would go into a bond and what percentage would go into a note?

G: Yes. I can see the importance of that.

Well, I'll try my best to get some information along that line and will wire you by 1 o'clock our time.

H.M.Jr: Thank you.

G: All right, Mr. Morgenthau.

February 24, 1941
12:55 p.m.

H.M.Jr: Hello, Marriner.

Marriner
Eccles:

Henry, I got your message from Ronald and I'd like to report my views and analysis of the thing as I see it up to this time.

H.M.Jr: Go ahead, please.

E: I would not personally favor a note. I don't think it is necessary and I think we've got to make up our mind to - over the next few years - ignore a lot of these crises because we're likely to have one thing after another and we've got to be like the British and we've just got to go on and after all the control of the thing I think is pretty well in the hands of the Treasury and the Fed. anyway.

H.M.Jr: Well, that's ridiculous. How are we going to make them refund?

E: Well, I don't mean that you can make them refund, not in that sense. I don't think it is a question of a compulsion at all, but I think in the question of their own interests they would refund. I can't imagine them doing otherwise. It's just a question of giving them something, of course, that's fair and fair to them. Now, I don't think that the note is necessary. I would suggest, personally, the '49-51, 2%. A '48-50 has been suggested; it seems to me that that is a little bit higher priced than it - I mean lower priced than it needs to be. It gives more than is necessary. On the '49-51, allowing for $\frac{3}{4}$ - I mean $\frac{2}{3}$ s of the tax equivalent on a 24% tax basis - if it was on a 30% it would even be more favorable - it would yield .181 and it would sell at 101 $\frac{1}{2}$. The premium would be 1 $\frac{1}{2}$ points.

H.M.Jr: Are you figuring on a 16 or 20% tax basis?

E: I am figuring on a 24%, the present corporation tax. Now if it was on a 30% tax, which a lot of them are figuring, it would even be more favorable.

- 2 -

H.M.Jr: Well, we figure the '48-50 on a 24 would sell at 100.1.

E: A '48-50 on a full 24. Yeah, that's right. I'm thinking on a 3/4s.

H.M.Jr: That's 20.

E: Yeah. Here's what the '49-51 figures on a full tax equivalent: it would sell for 100 $\frac{1}{2}$, if it adjusted to the full tax equivalent.

H.M.Jr: Well, you're figuring '49. Wait a minute, I've got the '49-51. On the full equivalent
.....

E: Just slightly over par.

H.M.Jr: No, on the '49-51 20% tax, we figure it would go below par - 24, that much more below par.

E: Well, no, 24 would bring it higher.

H.M.Jr: On a tax?

E: No, that's right.

H.M.Jr: On a 20% tax '49-51 our boys figure that it would sell below par.

E: You mean in today's market?

H.M.Jr: Yeah.

E: Well, by golly, there's something wrong with either your boys or our boys

H.M.Jr: Well, I think we're together in our figuring with New York. On 16%, '49-51, .09. Now that's too close. 100.09.

E: And I've got 101 $\frac{1}{2}$ on the '49-51.

H.M.Jr: We're way off.

E: We certainly are. Of course if those figures that you have are right and these are wrong, then you'd have to have a '48-50.

- 3 -

H.M.Jr: Well, would you do this to be helpful to you and me? Let Piser contact Haas who has done this, you see?

E: I'll have him do that immediately, and see what the difference is on this.

H.M.Jr: We've had our Treasury actuary go over all these.

E: Yes. Well, of course, the pricing is everything.

H.M.Jr: It is, but before we take each other's time let's see whether Piser and Haas can't get together between now and 2:15.

E: Then there was another thing. If there was going to be two issues - I've been thinking of it quite a bit over the weekend and I feel that 2-3/4s would be a mistake.

H.M.Jr: I agree with you. We're together there.

E: Not only because of the pricing but to put out that high a rate on a refunding at this time would seem to me to establish it too high.

H.M.Jr: Sorry, my White House phone - I think it's the President.

E: Well, then I'll see you at 2:30.

H.M.Jr: Right. I'm sorry.

E: That's all right.

February 24, 1941
1:12 p.m.

Sumner
Welles: Hello, Henry. How are you?

H.M.Jr: Sumner, I'm all right. How are you?

W: Fine, thanks.

H.M.Jr: This may be a silly question, but I'm going to try to refund a little over a billion, 200 million Tuesday, Wednesday and Thursday and would you care to make a guess as to whether anything out of the ordinary was going to happen in Europe. I mean, I know it's a very difficult question

W: For what guesses are worth, Henry, I should say not.

H.M.Jr: Nothing. How about the Far East?

W: Well, I have that in mind, of course.

H.M.Jr: In other words, you don't know anything that

W: No, I don't know anything at this moment, but you and I would hardly be able I think to constitute ourselves prophets in this present world.

H.M.Jr: That's right but I wanted

W: I'm giving you the best judgment I can at this moment.

H.M.Jr: That's all I can ask for.

W: All right.

H.M.Jr: Thank you.

February 24, 1941
2:00 p.m.

H.M.Jr: Hello.

Operator: Mr. Day. (F.R.B. in San Francisco)

Wm. A. Day: Yes.

H.M.Jr: Morgenthau speaking.

D: Good morning, Mr. Secretary.

H.M.Jr: How are you? Mr. Day, have you had a chance to talk with the banks or insurance companies how they feel about this refunding?

D: Yes.

H.M.Jr: I'd like to get your impressions please.

D: All right. We received your wires and went out on the basis of the wires to the insurance companies and to the banks.

H.M.Jr: Could you talk a little louder?

D: I say we received your telegrams and on the basis of the inquiry we went out to the banks and to the insurance companies.

H.M.Jr: And what reaction did you get?

D: The reaction that we got was from the commercial banks - from the commercial banks they were in favor of a shorter 8 to 10 year maturity and in the savings banks as in the insurance companies for a maturity up to say 20 years.

H.M.Jr: I see.

D: They were interested in those. Now in the commercial banks there are two groups: one who handles only short-time issues and another who have their portfolios so arranged that they take long-term issues. Now those are about the three categories into which the thing has developed.

- 2 -

H.M.Jr: I see.

D: We asked them what they would be interested in, what would interest them as to rates and of course the fellows in the market - those in the group of the short-term 8 or 10 years spoke of a 2% rate, and in the long-time, 2-3/4s. That was the expression of their opinion.

H.M.Jr: Well, this is what we're thinking of doing. We're thinking of giving them a choice of two issues: a bond and a note and we're thinking in terms of a 7 to 9 year 2%.

D: 7 to 9 year, 2% bond.

H.M.Jr: Yes, and a 2 year note with a 3/4s of 1% coupon. Now how do you think that would hit them out there?

D: I think that the bond will hit them very well. We could not develop any large interest out here in more short-time notes.

H.M.Jr: Well, the purpose, Mr. Day, of the note is simply in case there should be some very bad foreign news. I would hope that they wouldn't take it, you see.

D: You'd hope that they would not take it.

H.M.Jr: Yes, but in case there was some very bad foreign news it would be there as a sort of anchor to the windward, and that was the idea of the note.

D: Now is there real opposition to a longer term bond through attempts to find the market?

H.M.Jr: Well, the trouble is this: we find it very, very difficult to price it at this time. That's the trouble, and there is such a difference of opinion as to how to price it that we thought we'd start on the more conservative and shorter and if we met with success there why then we'll be back in the market again very soon for new money and then if we were successful we could go out a little bit longer.

- 3 -

D: All right, but I wonder sometimes if you're not going to run into that continuous doubt as to the long-term situation as each necessity comes up for adjustment or for issue.

H.M.Jr: Well, of course we've had continuous crises - one after the other.

D: Exactly what I mean.

H.M.Jr: Well, thank you anyway.

D: That's about all that I can tell you.

H.M.Jr: Thank you.

February 24, 1941
2:15 p.m.

RE FINANCING

Present: Mr. Jones
Mr. Haas
Mr. Bell
Mr. Murphy
Mr. Hadley
Mr. Szymczak
Mr. Ransom
Mr. Eccles
Mr. Goldenweiser
Mr. Piser
Mr. Purcell

H.M.Jr: I thought I told you to carry Piser on this.

Haas: Well, we should have started it early this morning.

H.M.Jr: Well, he calls me up and I sent him over my sheet. You were out, and I couldn't get you. But it makes it so difficult if you don't carry - how about New York, have you been carrying them?

Haas: The New York bank? We haven't been contacting them ordinarily, Mr. Secretary.

Hadley: I do that.

H.M.Jr: You do that? How are they on this?

Hadley: Our rates are pretty much the same.

- 2 -

- H.M.Jr: Well, that is it. Eccles calls me up and everything. Have you the quota sheet for me?
- Hadley: Surely.
- Murphy: Surely.
- H.M.Jr: Well, do you know whether Piser and you are together.
- Haas: I know why we are not the same. He takes a series of optimistic assumptions.
- H.M.Jr: But there is such a terrific difference. I thought this was on a mathematical basis.
- Haas: It is mathematical after you make the first assumption.
- Murphy: The difference between Piser and ourselves is not the tax exemption. He makes a more conservative assumption, but our reasons are different. You might say Piser and us are in absolute agreement as to why we are just in disagreement. We see exactly what the difference is. There are some issues which are supposedly out of line. For example, there is an issue right at the very date at which we propose to put this one which is selling at a yield of 151.
- H.M.Jr: But listen, don't take up my time, God damn it, trying to tell me what is the matter with Piser. That is your job, George. And then it comes from Eccles to me - so I don't wear myself out listening to Eccles.
- Murphy: He still thinks he is right, but we haven't persuaded him, but we have come to a complete agreement as to why we differ; so the issue

- 3 -

is rather clearly presented for you to make the final decision as to what kind of decision you want to make.

H.M.Jr:

Boil it down, Henry, come on, what are the differences?

Murphy:

Piser has compiled different issues which he considers to be the most representative issues. He has ignored the rest of the market and he has drawn a line through those five issues. On the other hand, we have taken what is supposed to be a more conservative basis of taking either the curve that is drawn to all the issues or issues which are selling above - that is, above the yield, below in price, that curve when they fall near to our point. We are told that we should ignore those points because they are out of line, but how do you know the new issue might not be out of line. Now, to come directly to the issue, for a March, 1948, call date, Piser reckons the yield on a partially tax-exempt security would be 1.29. Now, there is an issue with a call date at that time, and it has a yield of 151, so that he is 22 basis points there in his estimate below the yield of an actual issue.

Now, our estimate of a yield at that point is 146. We are actually five basis points below an actual issue. Piser is not worried because he is 22 points below, because he says, after all, that actual issue outstanding there has a premium of eight points. The market has never liked it, so it is an unpopular issue. But if we put an issue in that vicinity, can we have any assurance that the market is not going to price our issue in line with an issue which is actually outstanding.

We are unable to go along and draw a curve --

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Haas: We are more conservative than he is.

H.M.Jr: But suppose you had taken this up with him Saturday and hadn't let me get this reper-
cussion at three minutes to one.

Murphy: We have talked to him all along. I talked to his man, Edmonston this morning. We haven't been able to persuade him, or he us. I am sorry. I would like to persuade him and thereby cause the same story to come through to you from every point.

Bell: Let me ask you this.

Haas: He said we worked too hard, and he was rested and more optimistic.

Bell: What is this criticism of the two per cent 48-50? Is it too generous?

Haas: Too generous.

Murphy: That is his only criticism.

H.M.Jr: Every telegram there says the seven to nine is priced too low.

Haas: Yes, we noticed that.

H.M.Jr: You haven't seen those, George?

Haas: Oh, I saw the others. Oh, those are new ones?

H.M.Jr: That is a new batch.

Haas: He may be right, Mr. Secretary, but I don't see that you can afford to make a mistake; and he says, "I am pretty sure it will go." I said, "you have got to be sure."

H.M.Jr: Well, Hadley prices it at seven to nine to sell

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at a premium of two and three thirty-seconds.

Hadley: That is maximum.

H.M.Jr: Between 25 thirty-seconds and three. Where did you have it?

Hadley: Here is a copy of it.

H.M.Jr: Let me take my stuff here. Take it away, please. Well, they price it a hundred and 129. You are not very far apart, are you?

Hadley: No.

Bell: Hadley puts a minimum and maximum range, and they have got one price. They are pretty close.

H.M.Jr: How many thirty-seconds are you apart?

Hadley: They are right in the middle of my maximum and minimum.

H.M.Jr: That is all right. How are you in New York?

Hadley: Practically the same.

H.M.Jr: Well then, New York and Haas' shop and you are practically together, and Piser is off by himself. Is that right?

Murphy: Piser states that he is more optimistic than anyone else about it, that he thinks we are unduly alarmed.

Bell: Hadley has got a 13 minimum and 25 maximum, and that is 29 --

(Telephone conversation with Mr. Sproul and Mr. Rouse follows.)

February 24, 1941
2:20 p.m.

H.M.Jr: Hello.

Operator: Sproul and Rouse.

Sproul and Rouse: Yes, sir.

H.M.Jr: Now, who is this.

S: This is Sproul and Rouse.

H.M.Jr: Well, will one of you tell me where you are now? What you're at?

S: We're in the same place we were before.

H.M.Jr: I see. Well, do you mind just restating, because I've talked to a lot of people.

S: (Laughs). Well, we said before that we would still be in favor of one issue, either a 2 in the '48-50 area or a 2½ in the '50-52 area, but the market quite generally thinks there should be more than one issue - that there should be two issues.

H.M.Jr: That's right.

S: The alternatives there were, it seems to us, a 2% of '48-50 plus a 2½% of '54-6 or -7 or alternatively a 2% of '48-50 and this short note.

H.M.Jr: Well, now just so that we're together, how do you price the '48-50? I mean, where do you think the maximum and minimum would be?

S: Well, we think there would be 1 to 2 points - minimum and maximum.

H.M.Jr: Well, I mean, what - my minimum price is 101-25/32nds to 102-3/32nds.

S: Well, we would figure it from 101-12/32nds say to 102.

H.M.Jr: I see. Well, that's quite a range. Now, on the 3/4%, how do you price that?

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S: I'll let Mr. Rouse answer you on that.

Robert Rouse: I think you'd have to price it by the full taxable equivalent there inasmuch as that market is under the money market. In other words be 18/100s on a 3/4s coupon, bring it to about 40.

H.M.Jr: Yeah, but in terms of price.

R: In price 40 would be about - just a second - about par .21, .22. That's pretty much a maximum.

H.M.Jr: Well, now here's the trouble. Do you ever talk with Piser?

R: No, the Chairman called me. I had a talk with him.

H.M.Jr: Since 1 o'clock?

R: No, before 1:00.

H.M.Jr: Because I talked to him just a little bit before 1:00 and Piser and our boys are away apart.

R: Well, Piser from what the Chairman said with respect to one bond was quite a way off from where we were.

H.M.Jr: Well, as near as I could make it as far as pricing, there is very little difference between New York and ourselves.

R: Yes, sir.

H.M.Jr: Now the telegrams that I got from out West from these various presidents of the Federal Reserve Banks, most of them think we're pricing the bonds too cheap. They all want a higher coupon rate so therefore I want to just ask you again, have you any doubt, either of you gentlemen, that if we come out with this tomorrow with a 7 to 9 and a 2-year note that no matter what happens that that thing will go?

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R: No, we haven't any doubt on that.

H.M.Jr: I mean, you'd underwrite it?

R: That's right.

H.M.Jr: Have you any doubt - is that as near a fool-proof issue as we can make it?

R: Yes, sir, I think it is.

H.M.Jr: Has there been any repercussions from the Federal Reserves out West talking - I mean, has it come back to New York yet?

R: No. Dudley Mills called me up about 1 o'clock and said among some of the bank presidents he had heard some talk but not down the line at all, so it has had no effect on the market. The rights are 1/32 better if anything.

H.M.Jr: 1/32. What are the rights on the note?

R: 101.12 bid - up 3/32nds on the day.

H.M.Jr: And on the bond?

R: On the bond they are 101.13 - 15 - up 2/32nds on the day.

H.M.Jr: Well, they're kind of bullish, aren't they?

R: Well, Mr. Hitler didn't scare them at all. The market itself is up on long bonds about 4/32nds, but it is very thin and no sizable transactions taking place.

H.M.Jr: Well, do either of you gentlemen lean towards 2 1/2 bond over the 2?

R: Not strongly. No, we don't have any material difference of opinion there - we'd just as soon stick to the '48-50.

H.M.Jr: Well, which is the safer one?

R: The '48-50.

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H.M.Jr: Well, that's what I want. I want safety.

R: The reason I say that, Mr. Secretary, is that the 2 $\frac{1}{2}$ represents something of a compromise between bank opinion and insurance savings institution opinion.

H.M.Jr: I see.

R: Now to combine those both to the best advantage was the reason for the 2% and the 2 $\frac{1}{2}$ %.

H.M.Jr: Well, I don't want any Munich bond this time.

Rouse and Sproul: (Laughs).

H.M.Jr: So no compromises. Well, these people are coming in again at 2:30 - Mr. Eccles, Mr. Jones, Purcell and S.E.C. and I'll have a talk and then when I get through before I make up my mind I'll call you again. I'll give you time so that you can get together, but it'll be sometime after 3:00. If you'll just stick with the market, but more and more my mind is jelling on the 7-9 and on the 2-year note. All right?

R. and S: All right.

H.M.Jr: Thank you.

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(Mr. Jones entered conference.)

H.M.Jr:

Before Marriner comes, the thing is this. I have never worked so hard in my life. These fellows - you see, they have all got out their sheets and they figure they are going to have to pay a 24 per cent corporate tax on this income and some of them figure that they are even going to have to pay 30 per cent. So it is very, very difficult to price. Our boys just gave up hope that they could price a two and three-quarters per cent bond. They said it was impossible. I mean, you get way, way out there and there is no bench marks to go by. Therefore, I gave up the idea. I wanted to explain it to you. And we came back to where we are at this point.

We have gone very, very conservative, and we are talking in terms of a seven to nine year bond with a two per cent coupon which New York thinks will go well. So does the Seaboard. But as soon as you get out West, they want about two and a quarter per cent. But in case Mr. Hitler should do something, we thought as an ace in the hole we would have a two year three quarters of one per cent note.

Now, what they say is, if the thing stays as it is today, at least 75 per cent will take the bond, but if Mr. Hitler should start to march on Greece and we got a drop, then the note would be there as a catch-all. Now --

Jones:

Seven to nine years at two?

H.M.Jr:

Two.

Jones:

Well, I think pretty well of that, even up to ten years.

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H.M.Jr: Well, the trouble is - you mean make it eight to ten?

Jones: Or eight to ten.

H.M.Jr: Well, we are a little bit afraid. As soon as you figure that tax thing - has anybody shown you how that tax thing works?

Well, it very rapidly eats up your interest and drives the thing down below par. Now, unfortunately these men and New York, Federal Reserve of New York, are practically together, but Marriner has got a fellow by the name of Piser over there. He has figured the thing entirely differently than we have, and we can't get together; and I am not going to try to get together, but as long as the New York fellows who are right down in the money market are together with ours and have arrived at the same rates independently, I figure I am all right; and I have talked to every Federal Reserve president in the United States. I talked to twelve of them. I have talked to the presidents of every Federal Reserve bank in the United States, which is a job in itself, and as soon as you get out West, they think the seven to nine isn't good enough.

(Messrs. Szymczak, Ransom, Eccles, Goldenweiser, Piser, and Purcell entered the conference.)

H.M.Jr: Before I go on I would just like to ask Purcell, who is here representing the S.E.C., if there is anything in the wind they think we ought to look out for.

Purcell: We have made a check this morning --

H.M.Jr: Can you talk a little louder?

Purcell: We checked informally in New York, Chicago, and San Francisco during the morning and up

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until about an hour ago. We have only very general information as to investor's psychology. The two principal points that we get in all places are first, that investors are not very anxious to purchase at the present time. They have to be sold. Recently the secondary distributions of equities have gone fairly well, that is up until a week or ten days ago, when the general market went off, but those have been the results of sales efforts. They are shying away from long-term, low-maturities. They are not particularly interested, and one of the best examples is the Bell Telephone issue recently in the Chicago area. There also does not appear to be any particular patriotic enthusiasm, at least we get that more particularly from the Middle West and the far West, not so much in New York. There have been accumulations of cash. There has been a tendency which you have probably noted to purchase the United States Savings Bonds recently, which is attributed to the fact of the announcement that after March 1 they would no longer be tax exempt. In a very general way, that is what we have gotten pretty uniformly in those three centers.

I understand that there will probably be two or three secondary issues come out this afternoon, secondary distributions. The reason why they will come out this afternoon is because the New York Stock Exchange was holding them up to put out a new ruling in connection with giving notice on the tape of those and managers being required to hold their books open for a half hour after that notice. I can, very easily, after the close, furnish you with information concerning those. They may be large, and they may not.

H.M.Jr:

What time would that be?

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Purcell: That would be between three and ten minutes after three. I left instructions in case any large, significant ones should come out to get in touch with our New York office and find out how it was going.

H.M.Jr: Yes.

Purcell: I think that about covers it, sir.

H.M.Jr: Well, as you people know, we have been working here about as hard as we have ever worked on anything, and I find myself at this time in the position that pricing it on today's market, as of today, a two per cent seven to nine year bond. If I were to be assured that nothing would happen on Tuesday, Wednesday, or Thursday, I would be willing to get out the one issue, but nobody can assure me anything, so therefore, in case Mr. Hitler or the Emperor of Japan or somebody else might do something all of a sudden, we felt we ought to have an extra anchor to the windward, and therefore we were thinking of a two-year note at three quarters of one percent.

Now, in asking the various - New York, particularly, if the market stayed as it was today how would it go, they felt about 70 per cent would go into the bond. We have got some telegrams in where they think they will go as much as a hundred per cent to the bond if the market stays the way it is.

Ransom: Is that still their opinion, Mr. Secretary?

H.M.Jr: Most of these are dated about noon. I phoned them and then the telegrams are available to you people here, but on the other hand, on the Seaboard here, a two per cent seven to nine year bond seems perfectly agreeable, but

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as soon as you get out West, they want a higher interest rate.

Szymczak:

Two and a half, is it?

Eccles:

At Chicago, particularly.

H.M.Jr:

Nobody has said they were priced too high, but here is Peyton of Minneapolis, who says we would all prefer a seven to nine year bond. It would go practically a hundred per cent into the bond, and then as Mr. Eccles says, Chicago says the local banks feel the rate should be two and an eighth to two and a quarter and a note one per cent.

Eccles:

That is a longer maturity, though, isn't it, than seven to nine.

H.M.Jr:

No.

Eccles:

Well, I thought what they wanted was a little higher rate and a little longer maturity.

H.M.Jr:

No, it says although they indicated they would probably subscribe on terms mentioned without a definite commitment to do so, local banks feel rate two and a quarter to two and an eighth on bonds and one per cent on a three-year note. He might have that in mind, but if he does, he doesn't explain it here.

Hamilton of Kansas City, o.k. on what we suggested. McLarin of Atlanta says, "Notes and bonds too low. Majority favor notes, being more attractive to banks than bonds." Well, he is an exception.

Paddock of Boston says, "Bankers and brokers consulted not interested in long maturities at present, think two year three quarters, seven year two and one-eighth or ten year two

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and one-quarter would go. Although some suggest ten year two and three-eighths. No suggestion for less than one and one-eighth for five years."

Martin of St. Louis. He says the bond issue with rate as proposed would not appear attractive. Feel that rate should be approximately one-eighth to one-quarter per cent higher.

Sinclair, Philadelphia, general preference seven to nine year two per cent bond too close. Leach of Richmond says, "Talked with six banks holding 67 million of March, all would favor seven to nine year bonds over two-year notes except one bank holding four million." Leach is the only fellow that agrees with me, and I think he is smart.

Fleming of Cleveland - estimates here to favor 66 and two-thirds and - to 75 per cent for bonds. These estimates are considered - are after considering those of larger banks with due regard to smaller banks. Large banks run from 66 and two-thirds to 50 per cent. I asked which they would figure.

Eccles:

What did New York say?

H.M. Jr:

Well, I just talked to New York a few minutes ago. They still are talking a little bit about a two and a quarter per cent bond, but as to the pricing on the seven to nine and on the note, we are practically together; and Allan Sproul and Bob Rouse said if we do it the way I have been talking, they will underwrite it. They say they can't imagine anything that would happen which would hurt it, and they have been working damn hard, too.

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Eccles: Well then, you said Leach was the only one that agreed with you. New York agrees on that.

H.M.Jr: Yes, and New York. New York and Richmond. I mis-spoke myself. Anyway, New York and Richmond, which covers more than one.

Eccles: New York agrees with you on the bond, but they don't want the note?

Bell: New York thought at least 70 to 75 per cent would go to bonds.

Eccles: I talked to them a while ago, and they don't - they would prefer - they don't think the note is necessary. They would prefer the bond without the note.

Szymczak: That is, the two and a quarter bond?

Eccles: Well, the two bond. They would feel all right with the two and a quarter as they did before, but they feel that the two percent bond, the 48-50, the two per cent bond, as you proposed, would be all right.

Szymczak: You mean by itself?

Eccles: Yes.

Szymczak: I thought if there was just one bond they preferred two and a quarter.

H.M.Jr: I have been through a number of these slumps, and I can only be wrong once in my business. I can't hide it. I can only be wrong once. And I can't see but what it is a good insurance policy to have the two-year note, and then if things go all right, we might only have a hundred and fifty or two hundred million of them, and so what. That is the way I feel.

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- Jones: You like the two years, three quarters, better than the three year one.
- H.M.Jr: I don't know. What is the argument pro and con on that, George?
- Haas: The - we have got out a three and a half, Mr. Jones, which is fully taxable; and the market, three and a half on the five-year notes, isn't so good. It has been upset. And if you want real protection in the note market in the shape it is in now, you have to get real short. You have to go back to the two. The three might work all right, but I think you are more conservative to take two.
- H.M.Jr: Both our last defense notes, I am sorry to say, are selling under par.
- Eccles: But that is only a three-quarters per cent note on a five-year basis.
- H.M.Jr: I know. But George was looking for me for something that was just as safe as it could be and that is what he feels.
- Jones: My guess would have been that they would rather have the three years at one per cent than they would the two years at three-quarters.
- Eccles: I think they would.
- Jones: If you are looking for insurance.
- Haas: That is a whole quarter for one year, there.
- Szymczak: What is that going to do to your present notes, if you get out a three-year note at one per cent? You have got the other two out.

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Haas: That wouldn't do them any good.

Szymczak: It certainly wouldn't.

H.M.Jr: The purpose is to raise these questions.

Jones: Yes. What was the last issue, three-quarters?

Murphy: Three and a half at three-quarters.

Jones: How long?

Murphy: Three and a half years.

Jones: And they are below par?

Murphy: Just below par now.

Eccles: One was just at par, wasn't it, Saturday?

H.M.Jr: Ninety-nine-30 to par.

Eccles: Yes.

Szymczak: They are both taxable.

Eccles: That is five years.

Hadley: No, it is three and a half years.

Eccles: These are non-taxable.

Szymczak: No, these are taxable.

Murphy: That is the taxable notes, Mr. Jones.

Eccles: One is selling at par, and it is five-year maturity, and it is three and a quarter.

Murphy: The five-year maturity is 9923 to '25. Of

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course, this two-year note is proposed to be put in as something that will be safe in all contingencies, and under those circumstances, two years is really short. Everybody will recognize it as short. Three years might not seem so short under those circumstances.

Szymczak: That is right.

H.M.Jr: It is just a question of how short is short.

Szymczak: Yes. They have got us where we are short.

Haas: Under normal conditions, we are hoping it is not attractive, you see.

Eccles: A three-quarter two and - two year is, of course, a lot different from a three-quarter, five-year, and that is just slightly below par, so you have still got.....

H.M.Jr: Well, where does the Board stand at this time?

Eccles: Well, we haven't had much chance to discuss this thing because I talked to you about 12:30, and we had a meeting with - this morning with a committee that was in here that had come in especially, and most of them were tied up, and I just had a chance to discuss it for a few minutes. I can give you the table that I discussed with you on the phone, and I asked Piser to check with your boys to see what was the reason that we got that different figure. Go ahead, Piser, and explain to the Secretary why there was that difference in what we figured would be the premium.

Piser: The difference arises in their estimate of what his partially tax exempt bond would sell for, and in making my estimate, I used as a basis the outstanding low-premium bonds which

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have always sold on a more attractive basis than the higher-premium issues, taking as the most important point in my line the 48-50 bonds. That gives me a yield on a partially tax-exempt bond of March, 48-50, of about 129, and the rest of my calculations are made on that estimate. Now, I understand that Mr. Murphy has used as his basis the high-premium issues which sell on a much higher yield basis than the one that I have used as a more conservative estimate and that I think is the basis of our difference. Is that right, Henry?

Murphy: Yes, I think that is substantially accurate.

H.M.Jr: That is the way Murphy explained it to me, but our crowd and the Fed in New York are practically together.

Piser: On the basis of the partially tax exempt or on the basis of the taxable bonds?

H.M.Jr: On the result at which we arrived at, that is, how we price them.

Piser: The taxable bond?

H.M.Jr: The taxable bond.

Eccles: There is only this point that I raised. 48-50 two per cent or the 49-51. The 49-51, of course, is a year longer, and the premium would be slightly less than the shorter one. It is just a question of how conservative you feel you want to be. We figure here that, allowing a full 24 per cent tax differential, that is, allowing for an adjustment of the full amount, the two per cent would sell on a basis of a premium of two and a half points,

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a hundred and two and a half, which of course is a --

Jones: What rate is that?

Eccles: Two per cent, 48-50. It gives the market today - on the basis of today's market that would be worth a hundred and two and a half if you allow for two-thirds the difference in the tax differential. You see, one is a taxable bond in which they pay 24 per cent tax, this one we are going to issue. Those that are the - the equivalent bond outstanding, is a tax-free bond, so taking that bond, the outstanding bond, and making allowance for two-thirds of the difference on a taxable bond, would figure a hundred two and a half.

H.M.Jr: Well, our men say - they arrive at it differently, and we figured that we would take a - I told Marriner over the phone, if we take a 49-51 and figure a 16 per cent tax, it would only be selling at 9/100 above par, and if they figured on a 20 per cent tax, it would be selling below par.

Eccles: Ours figured a hundred and one and a half and a quarter. It was a question of --

H.M.Jr: And in our figuring, I just wanted to explain to Jones, that whatever way New York does it, the Fed of New York, we arrive at practically the same result as they do.

Eccles: Well, if you take the high-premium bond, that figures one way, and if you take this low-premium, and this is a low-premium, you get this result.

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Jones: What do you mean by 16 or 20 per cent tax?

H.M.Jr: Corporate tax. The corporate tax is 24 per cent, so they figure on a two per cent --

Bell: Two-thirds of that.

H.M.Jr: Some of the banks don't have to pay any taxes, and some have to pay two-thirds and some figure, well, one banker was in here and said, "Well, we have used up about all of our losses now, and the insurance company will have to be paying a tax," so depending upon the situation, some figured half, some figured - I have had some come in and say, "Well, you are going to raise it to 30 per cent, aren't you?", and I try to give them the look of a poker player and not answer them, and they say they are figuring on 30 per cent, and if you do, it drives the price of your bond down.

Eccles: It either does that or it lifts the price of the tax-free bond, makes a scarcity value for the tax-free bond.

H.M.Jr: But we are not selling that now.

Eccles: But the market would go up on demand.

H.M.Jr: We have got to sell in competition with any other bonds, that is the thing.

Eccles: If you do your corporate bonds today, which are fully taxable - here is their picture on a two percent. A two percent bond is selling at a hundred and three.

H.M.Jr: Well, I can't take Piser's estimates.

Eccles: Well, this is a corporate market, not the tax exempts.

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H.M.Jr: I couldn't sell this issue on his basis. If New York was with him, I would send my men out, and we would figure all over again, but as long as they are with us - and they arrive at it independently. Piser may be right, but we will know tomorrow.

Bell: Your estimates, Marriner, just show that the 48-50 bond we are talking about would be sweeter than we figure it.

Szymczak: That is right. Better figure the other way.

Eccles: We figure if there is any objection to it, it is too sweet.

Bell: Well, we want this one sweet, don't we?

Eccles: Well, I figure with a 48-51 it is certainly going to be plenty sweet.

H.M.Jr: You mean 48-51?

Eccles: 48-50.

Bell: Well, we want it sweet so it will go well.

Eccles: Well, if you put a 48-50 with this premium, I don't see any objection to the note, but I don't think it is necessary.

H.M.Jr: Well, I just can't afford to take any chances, and it isn't going to cost anything to speak of, if it does anything, it won't hurt the market.

Eccles: No, it won't hurt it.

H.M.Jr: They say it would be good for the secondary market. We will have to be back in a couple

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of weeks either for Mr. Jones or myself, and that is why I wanted him here.. Everybody says as far as the results would be, they say it would be good. That is what they tell me. It would leave a good after taste, Jesse, either for you or for me.

Jones: I like the two per cent. I don't think that is too sweet.

H.M.Jr: It would leave a good after taste. They all say that, and I have to be back in two or three weeks again.

Jones: I don't think it is too sweet.

Eccles: You have got this situation. We always have it. I have never yet seen the time when the Federal Reserve Banks - they reflect the view of the bankers, and of course, if you ask them what the price should be, they are always from an eighth to a quarter up. Naturally, they want just as good a deal as they can get. It is perfectly natural, and they have always been that way. I have never seen it fail when they didn't want to get just as good a deal as they can get. So I always like to discount a little bit New York and the rest of them.

Now, you take the Middle West, Peyton, now those wires are just typical. They are typical of the way they nearly always are trying to get the best deal they can.

H.M.Jr: Well, what is the matter with them?

Eccles: Well, they are only reflecting. That isn't their view. They are reflecting the view of the bankers.

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- H.M.Jr: We pay them. My God, we pay the system about four million a year. We ought to get something.
- Eccles: But what you wanted was the view of what they found in the territory and that is - I don't think that is necessarily Sharon's or Peyton's. I think they have called up Ed Brown and the different people and what they are expressing is the view of the banker.
- Szymczak: And Marriner, you weren't trying to criticize these bankers.
- (Laughter.)
- Eccles: I am just pointing out what is the natural situation.
- Szymczak: You put us in a hell of a spot.
- Eccles: You can figure they are doing plenty..
- H.M.Jr: You can figure on the average we are pricing about an eighth to a quarter below what these telegeams say. It is about an eighth to a quarter below.
- Eccles: That is all right. I would do that. I think you would find it is plenty. How do you account for the corporate market? The private corporate market? The two per cent 48-50 corporate bonds are selling on a yield basis of about one and a half at a hundred and three and a quarter.
- Haas: That is a scarcity value.
- Murphy: I wouldn't - we wouldn't get a figure that high. We have 1.70 as the ordinate nature of our corporate curve there. There is a Union

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Pacific issue just due before then that used to be considered the incarnation of God Almighty and that only yields 194.

Eccles: This is a list of - I don't know what list this is, Piser. It is a Triple A bond of substantial issues.

Piser: It is a line drawn through the scattering of Triple A bonds which we have. It includes some of the equipment trusts which, as Mr. Haas says, is a very thin market. I don't think a new Treasury bond would sell on a one and a half per cent basis because of the thinness of the market. I don't think the corporate market is a good place.

H.M.Jr: We have never thought of a Treasury bond as the incarnation.

(Laughter.)

Murphy: They are all supposedly semi-incarnations.

Eccles: But it is unusual in a way. To think I have a Treasury bond selling on a better yield basis than this cross-section of these corporate bonds.

H.M.Jr: We think here, we may be wrong, but we think the corporate bonds have still got to go down.

Eccles: I think that is right.

H.M.Jr: And that Treasury bonds have made the bottom. We think Treasury bonds have made the bottom now and that the corporates will go down.

Bell: Everybody has told us that.

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H.M.Jr: And everybody has told us that.

Jones: Made a bottom because they know you have got to have a lot of money.

H.M.Jr: Yes.

Jones: The corporates don't.

Eccles: Well, of course there would be naturally then a shifting from corporate into Treasury with this kind of a situation which would force the corporate down.

H.M.Jr: Everybody told us, didn't they, Dan, that they think the corporates are in for a fall, and they think we have made a floor now for ourselves.

Bell: They are out of line with the Governments and they have got to go down to get into line.

H.M.Jr: Well, unless somebody feels very strongly about it - I don't like to tie up so many people. My own feeling is that if it goes wrong I have got to take it all by myself. I would like to go ahead with a seven to nine. If it goes wrong, I have got to take it all myself.

Szymczak: That is a two per cent two-year note.

Jones: Two years three quarters?

H.M.Jr: Yes. Is that all right?

Eccles: That is very safe. It is being ultra-conservative.

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

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Ransom: Just as safe as you can be, I think.

H.M.Jr: Do you think that is ultra-conservative?

Ransom: I think it is conservative, and I think it is all right. If you want it as safe as you can make it within reason, I should think that would be it.

H.M.Jr: And we are not paying too much?

Ransom: No, I don't frankly see just why you need the note, but if you want it as an anchor to the windward, o.k.

H.M.Jr: The President liked it. I talked to him the second I got through with Marriner, and I spoke to him about that and explained what I wanted and he said, "That is smart, I like that."

Ransom: It isn't going to do you any harm.

H.M.Jr: I talked to Sumner Welles, and he says he doesn't see anything right on the horizon, but he says, "Far be it from me what will happen in the next six hours." Everybody feels that way. If we feel that way, how must the fellows who own the money feel?

Jones: If it happens in six days or six weeks, it is just about as bad.

H.M.Jr: You are right.

Jones: Because the market will slump.

H.M.Jr: That is a very shrewd remark, because we have got to be back again.

Eccles: You are going to have a continuation, of course,

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no doubt, over the next few years of - possibly the country will get adjusted to it, though, so that it --

H.M.Jr:

Well, Marriner, you said that. The last time we were like this was in September, '39. Now, this is February, '41, and that is quite a long ways between. The last time was September, '39, that we had a bad spell.

Eccles:

That was when the war started.

H.M.Jr:

I know. And this is a new situation. Here we are in February, '41. If we go another year and a half, I will be tickled to death.

Szymczak:

You have got your taxable feature.

Eccles:

You haven't got a bad market. Your prices outside in the last 90 days are as high as they have ever been. It is the shifting from the --

H.M.Jr:

It is the unknown.

Szymczak:

It is the unknown with the taxable feature and the picture altogether.

H.M.Jr:

Hardly two people agree on how to figure this bond.

Ransom:

Mr. Secretary, is there any reason in the world to anticipate any good news, even over the period that Mr. Jones suggests, of six weeks, there isn't any good news in prospect, and with what you have got ahead of you, if you want to make it as conservative as you can within reason, bearing in mind all of these unpredictable situations that may affect us in this situation, I think you are doing a very con-

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servative piece of financing.

H.M.Jr:

Dan?

Bell:

Nothing.

H.M.Jr:

I can't see that the news is going to get any better.

Ransom:

No, it can get worse.

H.M.Jr:

Very easily.

Eccles:

Fed can do this. They have no need of a tax any more than these insurance companies do. It means nothing - they can do shifting to very good advantage if the situation makes it necessary, because they can take the - if the demand is for your taxable securities and this security should drop so that it covers the full tax equivalent, they could very easily supply the tax-free security and take on the taxed securities here for whatever amount would be necessary, so you have got that as a factor.

H.M.Jr:

And as between the bond and the note, you will take which?

Eccles:

Take either.

Bell:

They have to take the bond. They can't take the note.

H.M.Jr:

You would take the bond?

Eccles:

Oh, sure, whatever the market seemed to --

Bell:

You said there was no use of the notes.

(Laughter.)

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Ransom: Oh, well now, that is different.

Eccles: What I meant was, whether the Treasury, if it didn't choose to do it - I wouldn't object if you put all notes. I have always been for the Treasury getting the benefit of low-interest and short-term financing.

H.M.Jr: But just so there is no misunderstanding, you are going to take the bond, aren't you?

Eccles: In on the exchange?

H.M.Jr: Yes.

Eccles: It is a matter the committee will have to decide. I haven't discussed it.

H.M.Jr: Do you mind if I ask some of these people?

Eccles: Would the Treasury prefer that?

H.M.Jr: Sure.

Szymczak: Why would you prefer that.

Bell: We will let you make up your mind.

Szymczak: It all depends how many bonds would be taken by the others. I don't know whether you would want us to take all bonds. You may not. It all depends upon what the rest of the market is like.

Ransom: It depends on what you think the situation is going to be. I don't think we are in on this thing on the basis of getting the most desirable issues.

Eccles: What we would like to do, is switch into the

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security that we feel will be the one that will best take care of the after market.

Ransom: Will fix up your market.

H.M.Jr: Before you do it --

Jones: You would step into the one that needs help?

Eccles: That is right.

Szymczak: That is right.

H.M.Jr: You always talk it over with Bell before you do it, don't you?

Eccles: Oh yes. We talk it over with the committee and then we always talk to - gosh, I don't know how long it has been since we have had any problem of making exchanges.

Bell: Haven't had one.

Ransom: I like the two per cent bond so much better than I like that two and three quarter that I won't object to the note.

Eccles: We are all fully - it is switching from the two and three quarters to the three quarters, and there is just no comparison.

H.M.Jr: Don't you think the Federal Reserve ought to pay some taxes to help pay for all this national defense.

Eccles: It is all right with us.

Ransom: Not a bad idea.

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Bell: That question came up as to whether the earnings on that stock shouldn't be taxable.

Szymczak: You mean in Congress?

Bell: No, it came up in discussion here as to whether the Treasury shouldn't pay a tax --

Eccles: The thing I have always wondered is why the devil it should be a six per cent stock.

Bell: I agree.

Ransom: Yes, why?

Eccles: That doesn't make sense.

Jones: To sell at premium.

Eccles: Can't sell it. It isn't a market stock. If it was a market stock it would sure sell at one.

Szymczak: Only have half of it out, Jesse.

H.M.Jr: Well, all right.

Jones: I vote "aye."

Eccles: All right, sir.

Jones: Got two minutes for me? You have got a lot of talent here.

Szymczak: Want us all to stay?

Jones: Yes, if you will.

Szymczak: When you said talent I was going to walk off.

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Eccles: I will bet this sells at a right good premium now.

H.M.Jr: I hope so.

Jones:- This Arkansas issue that is coming up Thursday, a hundred and 40 million dollars, the bankers are talking about a three and a half per cent rate. Looks to me like it is too high.

Eccles: What are the terms of it, Jesse, the period?

Jones: It is from two to thirty-three years. It will average about twenty years.

Eccles: Two years to thirty-three years?

Jones: Yes.

Bell: Is that the average rate?

Jones:- The bankers were down yesterday, and they are coming down again tomorrow to talk to us, and we have got to take part of the bonds, because they can only bid for the - can't bid for that many.

Eccles: What is the size of it?

Jones: A hundred and thirty-seven million dollars.

Eccles: Which is it, the Arkansas Power?

Jones: State of Arkansas, a tax-free bond. Now, I think that three and a half is too high a rate for that bond to sell at.

Eccles: You mean that is the average rate?

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Jones: It is a fixed rate.

Eccles: Whether it is a two year or a 30 --

Jones: No, they will price it.

Eccles: But it averages on the entire money outstanding three per cent?

Jones: It averages three and a half per cent.

Bell: They will get a reduction through a premium. They will pay three and a half.

Jones: They will pay three and a half and they will sell some of these bonds, of course, short bonds at a premium. They figure that to offer them to a basis that will bring a hundred and two and a half. The two and a half is for their distribution. We have got to make up our minds at the R.F.C. whether we will bid for all of them or half of them or whatever, and if so, at what price. We would like to bid just what the bankers bid, but I think their price is too high.

Eccles: They want a two and a half point premium for handling it?

Jones: Yes, a three per cent bond.

Eccles: Well, I don't know what the credit of the State is. It seems to me that certainly any State that would pay that for a fully tax-free security, it is a reflection on its credit.

Jones: They are paying now 442. These are a refunding issue. They - at three and a half they would be saving about a million a year.

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Ransom: What is the general credit of the State?

Jones: It is very good. They defaulted in '32 and '33. The old governor thought that they ought to - oughtn't to have to pay, and he stopped them from paying. They could have paid. They had the revenue.

(Laughter.)

Eccles: He is all right.

H.M.Jr: He is just ahead of his time.

Eccles: He is like that boy up in Canada.

Jones: Henry loaned the money down there through the Farm Credit, and the R.F.C. did a little bit, but the bankers regard the bond as a perfectly good bond. They have made the set-up and ridden it like they think it ought to be.

Ransom: I should think they would regard it as a perfectly good rate then, too.

Eccles: What does Harvey Couch think about it, Jesse?

Jones: I haven't talked to him. I just wanted the reaction of you gentlemen if you have any.

H.M.Jr: Haas has been working on it.

Haas: I know quite a little bit about it except his particular problem, Mr. Secretary, what the rates should be, and I haven't - we would have to go into that. It would be rather a difficult job, too. I was thinking in terms of three and a quarter, but for no very good reason.

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Jones: Thinking of what?

Haas: About three and a quarter, but for no very good reason. I wouldn't be in a position to support my three and a quarter. I think I got the figure from Mulligan, so I thought Mulligan was all right at three and a quarter, but I couldn't write out a list of reasons for it. I would have some difficulty at the present time.

Jones: Anybody else got any suggestions?

Eccles: Jesse, what I can't understand is that - of course it depends on the credit of the State. If the credit is questionable and it lacks marketability, that is a different matter, but certainly for a first-class credit with a totally tax-free security, anything more than three per cent would seem to me to be out of line.

Haas: The outstanding ones are rated by Moody's as BA and B. It depends on what you call a first-class credit.

Hadley: The outstanding bonds are below a bank issue. The banks aren't supposed to take on anything below a Triple B and some of their outstanding bonds are below bank credit rating and so that wouldn't help them.

Eccles: That makes an entirely different story.

Jones: It isn't a very good record they have got, but either the bond is good or it isn't.

Haas: These bonds may rate higher, though.

Jones: It is a tax-free bond, and the bankers think

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it is a good bond.

Eccles:

You see, that doesn't help the bankers, because the totally tax-free security is of real value where the people pass a high surtax. That is where that would come in.

Jones:

Why isn't it?

Eccles:

Well, when you get up into the 50 and 60 per cent surtax, it is really - the fully tax-free municipal securities are held largely by people who have the surtaxes to pay. I mean, that is the best market for them.

Jones:

Well, I am not getting a hell of a lot of help.

H.M.Jr:

That is what I thought.

(Laughter.)

Szymczak:

We could have told you that before we started.

H.M.Jr:

Your pastures don't look so green to us, Jesse.

February 24, 1941
3:20 p.m.

H.M.Jr: Hello.

Operator: Sproul and Rouse.

Mr. Rouse: Hello, Mr. Secretary.

H.M.Jr: I've had my meeting and I'm still where I was.

R: So are we.

H.M.Jr: Good, so we're trying to draw the thing up now. Nothing has come in from the country to make you change your mind?

R: No, not a thing and the market is a little stronger than it was, if anything, when we talked to you before.

H.M.Jr: Well, then if there has been any leaks it's on the good side.

R: Yeah. (Laughs).

Sproul: They've been good leaks.

H.M.Jr: Good leaks. All the leaks out of the Treasury are good.

R. and S: (Laugh).

H.M.Jr: All right. Say, listen, this is off the record. Can't you take Piser down there and give him a short course on how to figure?

S: Well, we've been trying that for a long time.

H.M.Jr: Well, I wish you'd take him on.

S: We might try again.

H.M.Jr: Yeah. That's just between us girls.

R. and S: Right, sir.

H.M.Jr: All right. Good-bye.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE February 24, 1941

TO Secretary Morgenthau
 FROM Mr. Haas
 Subject: Alternative Proposals for the Refunding.

I. First Choice

Our first choice for the refunding would be a two-way deal with issues as follows:

Maturity	Coupon	Estimated yield basis	Probable opening price (Decimals are thirty-seconds)
March 15, 1943 (note) (2 years)	3/4	.32	100.27
March 15, 1948-50 (7 - 9 years)	2	1.71	101.29

This combination includes a note and an intermediate issue rather than an intermediate and a long issue. The note is practically certain to go, whatever may happen. It would go even if the market should allow in full for a 30 percent corporate tax. The intermediate issue falls in the area likely to be the most popular with the most important holders of rights — the banks. It was an issue in this range which Mr. Burgess said should be the "anchor" of the refunding program. The proposed combination would have two anchors. It seems, therefore, to be the safest of all possible alternatives.

II. Second Choice

Our second choice would be the two issues recommended above plus a 25 - 30 year 2-3/4 percent bond. Our estimates of the yield basis and probable opening price of the long bond

Secretary Morgenthau - 2

would be as follows:

Maturity	Coupon	Estimated yield basis	Probable opening price (Decimals are thirty-seconds)
March 15, 1966-71 (25 - 30 years)	2-3/4	2.60	102.24

The above issue is included only as a second choice because it introduces so many uncertainties into the program. The most important of these uncertainties have to do with the proper amount of allowance for the corporate income tax. Opinions on how much should be allowed for this tax vary from little or nothing to the whole of the present amount of the tax (24 percent of the coupon) -- or even more to allow for an expected rise in the rate. As an example of how much difference such variations may make in the estimated prices of new securities, and of how much wider these variations are in the case of longer securities, the following table shows the estimated prices at which the intermediate and long bonds described in the memorandum would sell if the market should allow for one-third of the tax, two-thirds of the tax, and the whole of the tax respectively.*

* We have allowed for one-half of the tax in the case of the intermediate bond, and one-third in the case of the long bond. The reason for the lower allowance in the latter case is that mutual savings banks and insurance companies, the most important prospective classes of purchasers of the longer issue, are legally or practically exempt from the corporate income tax. As far as individuals -- another important factor in the long market -- are concerned, the only tax from which the partially tax-exempt bonds are exempt is the 4 percent normal individual income tax.

Secretary Morgenthau - 3

Maturity	Coupon:	: Estimated prices, allowing for:		
		1/3 of	2/3 of	All of
		tax	tax	tax
(Decimals are thirty-seconds)				
March 15, 1948-50 (7 - 9 years)	2	102.14	101.12	100.10
March 15, 1966-71 (25 - 30 years)	2-3/4	102.24	98.19	94.10

These uncertainties with respect to the proper amount of the tax allowance can be resolved only by an actual market test. Adding a long issue at this time would precipitate this test earlier and so clear up a good deal of market uncertainty both about the proper amount of the tax allowance and about other matters. It would also have the advantage of commencing without delay the Treasury's announced policy of tapping the funds available in the long market.

Against these advantages, however, are to be set certain serious disadvantages. The difficulty in pricing has already been mentioned. In addition it may be urged (1) that a long issue at this time would set too high a bench mark of rates for the remainder of the financing program, (2) that it might give rise to an embarrassing problem of secondary distribution due to the fact that few of the rights are held by those alleged to want long bonds, and (3) that it might result in considerable dislocation of outstanding long issues due to swaps by non-taxpayers from outstanding issues to the new issue.

All of these objections would be mitigated by the inclusion of the short note in the program as here suggested, since this would permit a stricter pricing of the bonds than would otherwise be advisable. None of the objections against the long bond would completely disappear, however, no matter how strictly it was priced, and too strict a pricing might send it to a discount even if such of the bonds as were taken at the time of original exchange were very firmly placed. It is because of this element of risk which the long bond seems to introduce in the refunding program, no matter how carefully it is handled, that we have included it only in our second choice.

**Estimated Yield Rates and Probable Premiums
on a 3/4 Percent 2-year Treasury Note**

Assumed tax rate on coupon	Estimated yield basis	Probable Premiums $\frac{1}{2}$
0 %	.20	101.03
8	.26	100.31
12	.29	100.29
16	.32	100.27
20	.35	100.25
24	.38	100.24
30	.42	100.21

Treasury Department,
Division of Research and Statistics.

February 24, 1941

$\frac{1}{2}$ Decimals are thirty-second.

Estimated Yield Rates and Probable Premiums on a 2 Percent Treasury Bond

Maturity	Term	Estimated Yield Basis						Probable Premiums 1/							
		Assumed Tax Rate on Income						Assumed Tax Rate on Income							
		0	25	125	165	205	245	305	0	25	125	165	205	245	305
March 15, 1970-1972	9 yrs.-11 yrs.	1.79	1.95	2.03	2.11				101.24	100.13	99.23	98.30			
March 15, 1970-1971	8 " - 10 "	1.64	1.80	1.88	1.96	2.04			101.17	100.19	100.25	100.09	99.88		
Sept. 15, 1970-1970	75 " - 95 "	1.54	1.70	1.80	1.88	1.96	2.04		101.31	101.13	100.27	100.09	99.81		
March 15, 1970-1970	7 " - 9 "	1.63	1.71	1.79	1.87	1.95	2.07		101.14	101.09	101.12	100.37	100.10	99.14	
Oct. 15, 1970-1970	62 " - 82 "	1.57	1.65	1.74	1.81	1.89	2.01		100.24	100.05	101.21	101.04	100.22	99.29	

1.49

Treasury Department, Division of Research and Statistics.

February 23, 1961

1/ Premiums are thirty-seconds.

Estimated Yield Rates and Probable Premiums on a 2-1/2 Percent Treasury Bond 1/

Maturity	Term	Estimated Yield Basis							Probable Premiums 1/						
		Assumed tax rate on coupon							Assumed tax rate on coupon						
		0	5%	12%	16%	20%	24%	30%	0	5%	12%	16%	20%	24%	30%
June 15, 1955-1959	16 1/2 yrs-18 1/2 yrs.	2.14	2.32						101.16	98.31					
March 15, 1955-1959	11 " -13 "	2.09	2.18	2.27					101.18	100.22	99.25				
March 15, 1955-1959	9 " -11 "	1.97	2.06		2.24	2.33			102.10	101.18		100.05	99.07		
June 15, 1955-1959	8 1/2 " -10 1/2 "	1.86		2.04		2.22	2.36		102.31		101.19		100.07	99.00	
December 15, 1955-1959	7 1/2 " - 9 1/2 "	1.77			2.04		2.27		103.15			101.16		99.26	
June 15, 1955-1959	7 1/2 " - 9 1/2 "	1.70				2.04	2.18		103.24				101.13	100.15	

Treasury Department, Division of Research and Statistics.

February 23, 1961

1/ Decimals are thirty-seconds.

Estimated Yield Rates and Probable Premiums on a 2-3/4 Percent Treasury Bond //

Maturity	Term	Estimated Yield Rates								Probable Premiums 1/							
		Assumed tax rate on coupon								Assumed tax rate on coupon							
		0	5%	12 1/2	16 1/2	20 1/2	24 1/2	30%	0	5%	12 1/2	16 1/2	20 1/2	24 1/2	30%		
March 15, 1962-1966	40 yrs.-45 yrs.	2.67	2.89							101.31	96.16						
March 15, 1969-1974	55 " -33 "		2.65	2.76						101.31	99.23						
March 15, 1966-1971	45 " -30 "	2.38	2.60	2.71	2.82	2.93	3.04	3.21	106.30	102.24	100.23	98.19	96.14	94.10	91.06		
March 15, 1975-1980	14 " -19 "			2.52	2.63	2.74	2.85				102.22	101.13	100.04	98.17			

Treasury Department, Division of Research and Statistics.

February 23, 1961

1/ Premiums are thirty-second.

WBC:ms

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE February 24, 1941

TO Secretary Morgenthau

FROM W. H. Hadley

TREASURY BILL OFFERING

	<u>Aver. on 1st 100 mil. recd. NY & Chi.</u>	<u>Aver. 1st 100 mil. NY & Chi. last wk.</u>	<u>Aver. price for country last wk.</u>	<u>Total tenders recd. NY & Chi.</u>
91-day bills	0.055	0.008	0.007	\$239,899,000

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE Febr. 24, 1941.

TO Secretary Morgenthau
FROM Mr. Haas

Subject: Telephone call from Mr. Purcell, of the Securities and Exchange Commission, regarding new security offerings.

(1) Public offering, Tuesday, February 25, 1941, of \$3 millions preferred stock by Cleveland Graphite Bronze Company.

(2) Private sale, Tuesday, February 25, 1941, to 20 insurance companies of \$101 millions of Georgia Power bonds.

(3) A possibility that G. C. Murphy and Company may offer on Tuesday, February 25, 1941, \$4 million shares of common stock to the public. This, however, is not certain and plans at this moment are indefinite.

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE February 24, 1941

TO Secretary Morgenthau
FROM W. H. Hadley

RECOMMENDATIONS ON FINANCING

My first choice for the refunding of the \$1,200,000,000 maturities is a ~~2%~~ 8 - 10 year bond together with a 2 3/4% 20 - 25 year bond. My reasons for this choice are:

First, that our market is made up of two investing sections and we should cater to each one.

Second, no long bonds have been offered for two years and we have been loading up the intermediate area in our last four offerings.

Third, pricing job on a long issue is somewhat simpler on this exchange offering than it will be later for cash.

I believe the combination of a ~~2%~~ and a 2 3/4% issue would be good insurance against loading up the area from 7 to 10 years which would occur if we offered a ~~2%~~ bond and a short note. From the Treasury viewpoint, this area is already exceedingly crowded with maturities. Since we must obtain an enormous amount of cash in the next year, this should come from the longer area. We should start now to get our bearings in that section of the market and not wait for a cash offering to do that. The exchange

offering is the simplest market operation the Treasury has and we should take advantage of that fact at the present time in offering the long bond.

SECOND ALTERNATIVE

As a second choice to the above proposal, I would recommend a $2\frac{1}{2}\%$ 8 - 10 year bond and a $2\frac{1}{2}\%$ 13 - 15 year bond. By such an offering we are reaching part way out toward the longer maturities and thus will be making a start on plotting our course toward the longer maturities. At the same time, we should avoid getting from \$900 million to \$1 billion in the $2\frac{1}{2}\%$ issue to further congest that maturity area.

To me the pricing job cannot be done accurately by taking a percentage of the corporate tax but must be done by taking into consideration market influences and background as well. From this viewpoint, therefore, I feel that our best pricing job can be done with a $2\frac{1}{2}\%$ and a $2\frac{3}{4}\%$ issue and I recommend the $2\frac{1}{2}\%$ bond only in case you hesitate to reach out as far as a 20 year at this time.

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MORGENTHAU TELETYPE 168

REFERRING TELEPHONE CONVERSATION OUR BEST ESTIMATE OF TOTAL AMOUNT CALLED BONDS AND MARCH NOTES HELD IN THIS DISTRICT BASED ON PERCENTAGE OF SUBSCRIPTIONS USUALLY FILED HERE WOULD BE ABOUT \$125,000,000. BRIEF TELEPHONE CONTACT WITH HOLDERS OF ABOUT \$40,000,000 COMBINED BONDS AND NOTES WOULD INDICATE THAT CROSS SECTION OF OPINION ON TERMS SUGGESTED BY YOU OVER PHONE IS THAT WHILE THESE TERMS ARE JUST ABOUT IN LINE WITH CURRENT MARKET MOST OF THE HOLDERS FEEL THAT THEY SHOULD BE SLIGHTLY MORE GENEROUS, A NUMBER INDICATING THAT THEY WOULD PROBABLY MAKE THE EXCHANGE BUT WOULD NOT HOLD THE SECURITIES. LARGEST SINGLE HOLDER WITH TOTAL \$21,000,000 THOUGHT THAT NINE YEAR BOND SHOULD BE 2 1/8 TO 2 1/4 ALTHOUGH THEY INDICATED THEY WOULD PROBABLY SUBSCRIBE ON TERMS YOU MENTION WITHOUT OF COURSE A DEFINITE COMMITMENT TO DO SO. LOCAL BANKS FEEL RATE SHOULD BE 2 1/8 TO 2 1/4 ON THE BONDS AND 1 PER CENT FOR THREE YEAR NOTE. PLEASE ADVISE IF FURTHER DETAILS DESIRED.

SCHALLER

*Chicago**AAA*

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1941 FEB 24 PM 1 16

W30WASH G285 KC 24-1204 RUSH
MORGENTHAU TELETYPE 168

BELIEVE TWO YEAR 3/4 PERCENT NOTE AND SEVEN TO NINE
YEAR 2 PERCENT BOND WILL BE SATISFACTORY

HAMILTON.

Kansas City

AM

881

PHILA FEB 24-1201

MORGENTHAU

TELE 168 WASH

PRINCIPAL BANKS AND ONE INSURANCE COMPANY IN PHILADELPHIA AREA HOLD SIX MILLION BONDS AND THREE MILLION THREE NOTES. FOUR TRUST COMPANIES IN TRUST ACCOUNT HOLD FIFTEEN MILLION BONDS AND THREE AND ONE-HALF MILLION NOTES. STRONG PREFERENCE FROM THESE INSTITUTIONS FOR TWO AND ONE-QUARTER PER CENT BOND. GENERAL IMPRESSION THAT SEVEN TO NINE YEAR TWO PER CENT BOND TOO CLOSE

AND OVER-CAUTIOUS. LITTLE INTEREST IN TWO-YEAR NOTE. SOME BANKS WOULD ACCEPT SEVEN TO NINE YEAR BOND BUT WOULD PROBABLY SELL AT FIRST OPPORTUNITY. THREE BANKS, ONE INSURANCE COMPANY AND ONE TRUST ACCOUNT HOLDING IN ALL THREE AND ONE-HALF MILLION MATURING BONDS AND NOTES WOULD EXCHANGE FOR SEVEN TO NINE YEAR BOND TO MEET PARTICULAR PORTFOLIO REQUIREMENTS. SUBSTANTIAL DEMAND IN THIS AREA FROM ALL INSTITUTIONS FOR CASH OFFERING OF LONGER TERM BOND

SINCLAIR

1207PM

1941 FEB 24 PM 1 15

W28WASH F55 ATLA 24-1210P

MORGENTHAU

REFERRING TO TENTATIVE REFUNDING PROGRAM SURVEY IN THIS
DISTRICT INDICATES THAT THE BANKS ARE OF THE OPINION THAT THE
RATES ON NOTES AND BONDS ARE TOO LOW. MAJORITY FAVOR NOTES AS
BEING MORE ATTRACTIVE TO BANKS THAN THE BONDS. BANKERS WOULD NOT
COMMIT THEMSELVES AS TO THE PERCENTAGES

MCLARIN FIRST VICE PRES.

Att. Hunt
AAH

#280

W56WASH G367 DLS 24-117

SECRETARY MORGENTHAU TELETYPE NO 168

1941 FEB 24 PM 2 39

REFERRING OUR TELEPHONE CONVERSATION TODAY,
MAJORITY OF BANKS CONTACTED INDICATED PREFERENCE FOR BONDS OF
MATURITY YOU MENTIONED. TWO OR THREE OF THEM, HOWEVER, INDICATED
PREFERENCE FOR TWO-YEAR NOTE. ON BASIS OF OUR SURVEY, THINK
EITHER OF ISSUES WILL BE WELL RECEIVED AT RATES YOU MENTIONED,
BUT BELIEVE IT WOULD BE DESIRABLE TO OFFER BOTH ISSUES, GIVING
BANKS OPTION OF SUBSCRIBING TO EITHER

GILBERT.

Dallas

1941 FEB 24 PM 1 48

W43WASH G323 MPLS 24-1235

MORGENTHAU

AS PER OUR TELEPHONE CONVERSATION I HAVE CONTACTED SEVERAL BANKS
ALSO SEVERAL INSURANCE COMPANIES AND OTHER INVESTORS AND FIND
THAT THEY WOULD ALL PREFER THE SEVEN TO NINE YEAR TWO PERCENT
BONDS. BELIEVE THAT IF A BOND AND NOTE WERE OFFERED AS SUGGESTED
THE SUBSCRIPTION OUT HERE WOULD BE ON THE BASIS OF INFORMATION
AVAILABLE PRACTICALLY ONE HUNDRED PERCENT FOR THE BOND.

PEYTON.

Minneapolis

W82WASH G171 CLEV 24-1140 RUSH

MORGENTHAU - 168

1941 FEB 24 AM 11 56

1204 72

ESTIMATES APPEAR TO FAVOR BETWEEN 66 2/3 PERCENT AND 75 PERCENT
FOR BONDS. THESE ESTIMATES ARE AFTER CONSIDERING THOSE OF LARGER
BANKS AND WITH DUE REGARD TO SMALL BANKS. LARGE BANKS RUN FROM
66 2/3 PERCENT TO 50 PERCENT

FLEMING.

Charland

2013 *484*

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W81 WASH RH 29 RICH 24-1150

SECRETARY MORGENTHAU

TREAS

HAVE TALKED WITH SIX BANKS HOLDING OVER \$67,000,000 OF MARCH MATURITIES. ALL WOULD FAVOR SEVEN TO NINE YEAR BONDS OVER TWO YEAR NOTES EXCEPT ONE BANK HOLDING \$4,000,000 MATURITIES WHICH WOULD TAKE \$2,000,000 OF EACH

LEACH.

Richmond

1941 FEB 24 AM 11 55

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St. Louis

1941 FEB 24 PM 1 01

W16WASH G269 STL 24-1142

MORGENTHAU

IN ACCORDANCE WITH OUT TELEPHONE CONVERSATION THIS MORNING,
INVESTIGATION AMONG LARGER STL BANKS REVEALS THAT BOND
ISSUE WITH RATE AS PROPOSED WOULD NOT APPEAR ATTRACTIVE.

FEEL THAT RATE SHOULD BE APPROXIMATELY $1/8$ PC TO $1/4$ PC HIGHER
AND DEFINITE MATURITY WOULD BE PREFERABLE. ALL REACTED FAVORABLY
TO PROPOSED TERMS ON NOTE ISSUE

MARTIN.

*St. Louis**JA*

St. Louis

1941 FEB 24 PM 1 01

W16WASH G269 STL 24-1142

MORGENTHAU

IN ACCORDANCE WITH OUT TELEPHONE CONVERSATION THIS MORNING,
INVESTIGATION AMONG LARGER STL BANKS REVEALS THAT BOND
ISSUE WITH RATE AS PROPOSED WOULD NOT APPEAR ATTRACTIVE.

FEEL THAT RATE SHOULD BE APPROXIMATELY $1/8$ PC TO $1/4$ PC HIGHER
AND DEFINITE MATURITY WOULD BE PREFERABLE. ALL REACTED FAVORABLY
TO PROPOSED TERMS ON NOTE ISSUE

MARTIN.

*St. Louis**JA*

W14WASH B187 BOS 24-1247P

1941 FEB 24 PM 1 00

MORGENTHAU

BANKERS AND BROKERS CONSULTED NOT INTERESTED IN LONG
MATURITIES AT PRESENT THINK TWO YEAR THREE-QUARTERS, SEVEN YEAR TWO
TO TWO AND ONE-EIGHTH OR TEN YEAR TWO AND ONE-QUARTER WOULD
GO, ALTHOUGH SOME SUGGESTIONS FOR TEN YEAR TWO AND THREE-EIGHTH.
NO SUGGESTION FOR LESS THAN ONE AND ONE-EIGHTH FOR FIVE
YEARS

PADDOCK.

Boston

1241 FEB 24 PM 1 00

MAA

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 24, 1941

TO Secretary Morgenthau
FROM W. H. Hadley

TREASURY NOTES

<u>COUPON</u>	<u>Term</u>	<u>Yield</u>	<u>Probable Price</u>	<u>Premium</u>
5/8%	2 years (3/15/43)	0.35 0.40	100.17 100.14	17/32nds 14/32nds
3/4%	2 years (3/15/43)	0.35 0.40	100.26 100.22	26/32nds 22/32nds

TREASURY BONDS

1 3/4%	6 - 8 years (3/15/47-49)	1.50 1.55	101.21 101.10	1 pt. 21/32 1 pt. 10/32
2%	7 1/4 - 9 1/4 yrs. (6/15/48-50)	1.70 1.75	102.1 101.22	2 pts. 1/32 1 pt. 22/32
2%	8 - 10 years (3/15/49-51)	1.76 1.81	101.25 101.13	1 pt. 25/32 1 pt. 13/32
	8 1/2 - 10 1/2 yrs. (6/15/49-51)	1.80 1.85	101.18 101.5	1 pt. 18/32 1 pt. 5/32
2 1/4%	10 - 12 years (3/15/51-53)	2.01 2.06	102.5 101.22	2 pts. 5/32 1 pt. 22/32
2 1/2%	13 - 15 years (3/15/54-56)	2.29 2.34	102.12 101.25	2 pts. 12/32 1 pt. 25/32
2 3/4%	20 - 25 years (3/15/61-66)	2.59 2.65	102.15 101.17	2 pts. 15/32 1 pt. 17/32
	21 - 26 years (3/15/62-67)	2.60 2.66	102.13 101.14	2 pts. 13/32 1 pt. 14/32
	24 - 29 years (3/15/65-70)	2.63 2.69	102.6 101.2	2 pts. 6/32 1 pt. 2/32

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 24, 1941

TO Secretary Morgenthau

FROM W. H. Hadley

2% TREASURY BONDS

<u>Coupon</u>	<u>Term</u>	<u>Yield</u>	<u>Probable Price</u>	<u>Premium</u>
2%	7 - 9 years (3/15/48-50)	1.68	102.3	2 pts. 3/32
		1.73	101.25	1 pt. 25/32
	7 1/4 - 9 1/4 yrs. (6/15/48-50)	1.70	102.1	2 pts. 1/32
		1.75	101.22	1 pt. 22/32
	7 1/2 - 9 1/2 yrs. (9/15/48-50)	1.72	101.31	1 pt. 31/32
		1.77	101.20	1 pt. 20/32
	7 3/4 - 9 3/4 yrs. (12/15/48-50)	1.74	101.28	1 pt. 28/32
		1.79	101.16	1 pt. 16/32
	8 - 10 years (3/15/49-51)	1.76	101.25	1 pt. 25/32
		1.81	101.13	1 pt. 13/32
	8 1/2 - 10 1/2 yrs. (9/15/49-51)	1.80	101.18	1 pt. 18/32
		1.85	101.5	1 pt. 5/32

Over-the-Counter Closing Quotations on United States Securities

(Decimals except in yield columns are thirty-seconds)

Date: February 21, 1941

Index	Date of issue	Range since first traded 1/				1940-1941 range 1/				Amount outstanding (Millions)	Terms	Over-the-counter closing			Net change	Yield 2/	Net change in yield	Index
		High	Date	Low	Date	High	Date	Low	Date			Bid	Ask	Mean				
Treasury Bonds																		
1	3-16-31	109.22	11-19-35	88.01	1-12-32	104.24	1-4-40	101.01	2-15-41	545	3-3/8 - 3-15 41-43**	101.11	101.13	101.12	+0.04	1-5/32**	+4/32**	1
2	8-15-33	109.24	11-19-35	87.29	1-10-34	105.18	1-4-40	102.01	2-15-41	834	3-1/4 - 6-1 41	102.02	102.04	102.03	.00	21/32**	+1/32**	2
3	6-15-27	111.14	5-5-39	87.20	1-11-32	109.28	1-8-40	106.25	2-17-41	454	3-3/8 - 6-15 43-47	107.03	107.05	107.04	+0.01	.08	-.02	3
4	10-15-33	111.07	6-5-39	97.29	1-10-34	110.02	1-8-40	107.02	2-15-41	1,401	3-1/4 - 10-15 43-48	107.12	107.14	107.13	+0.01	.43	-.02	4
5	4-16-34	111.26	6-7-39	99.30	9-17-34	110.23	4-4-40	108.02	2-15-41	1,519	3-1/4 - 10-15 44-46	108.11	108.13	108.12	+0.01	.56	-.03	5
6	12-15-24	116.19	6-22-39	94.06	1-11-32	115.06	4-4-40	111.22	6-5-40	1,037	4 - 12-15 44-52	112.16	112.20	112.19	+0.01	.65	-.01	6
7	9-16-35	110.12	12-12-40	99.27	9-17-35	110.12	12-12-40	106.24	6-3-40	1,214	2-3/4 - 9-15 45-47	108.13	108.15	108.14	+0.02	.86	-.01	7
8	12-15-37	109.24	12-14-40	101.31	12-15-37	109.24	12-14-40	106.16	6-10-40	541	2-1/2 - 12-15 45	107.27	107.29	107.28	+0.03	.83	-.02	8
9	3-15-26	116.14	12-14-40	89.18	1-12-32	116.14	12-14-40	111.20	6-10-40	489	3-3/4 - 3-15 46-50	113.16	113.19	113.18	+0.04	1.00	-.02	9
10	5-15-34	112.28	12-16-40	97.28	9-17-34	112.28	12-16-40	108.08	6-10-40	1,036	3 - 6-15 46-48	110.06	110.08	110.07	+0.04	1.02	-.02	10
11	6-15-31	113.19	12-14-40	83.05	1-11-32	113.19	12-14-40	108.26	6-10-40	819	3-1/8 - 6-15 46-49	110.26	110.28	110.27	+0.02	1.02	-.02	11
12	10-16-22	122.22	12-14-40	98.18	10-8-23	122.22	12-14-40	117.06	6-10-40	799	4-1/4 - 10-15 47-52	119.11	119.14	119.12	.00	1.21	.00	12
13	12-15-38	107.20	12-12-40	99.14	9-25-39	107.20	12-12-40	102.26	6-5-40	701	2 - 12-15 47	105.06	105.08	105.07	+0.02	1.20	-.01	13
14	3-16-36	111.18	12-12-40	99.10	4-1-37	111.18	12-12-40	105.28	6-3-40	1,223	2-3/4 - 3-15 48-51	108.08	108.10	108.09	+0.02	1.51	-.01	14
15	3-15-38	111.01	12-12-40	100.30	4-2-38	111.01	12-12-40	105.16	6-5-40	451	2-1/2 - 9-15 48	107.25	107.27	107.26	+0.01	1.41	.00	15
16	12-8-39	107.00	12-12-40	101.10	5-24-40	107.00	12-12-40	101.10	5-24-40	571	2 - 12-15 48-50	104.09	104.11	104.10	+0.02	1.41	-.01	16
17	12-15-34	115.04	12-12-40	101.07	12-15-34	115.04	12-12-40	109.16	6-3-40	491	3-1/8 - 12-15 49-52	111.24	111.26	111.25	-.01	1.64	.00	17
18	12-15-36	108.28	12-10-40	96.19	4-8-37	108.28	12-10-40	103.04	6-10-40	1,786	2-1/2 - 12-15 49-53	105.15	105.17	105.16	-.02	1.82	+0.01	18
19	9-15-38	108.30	12-10-40	99.15	9-25-39	108.30	12-10-40	103.06	6-10-40	1,186	2-1/2 - 9-15 50-52	105.19	105.21	105.20	-.01	1.86	+0.01	19
20	6-15-36	110.24	12-30-40	98.16	4-1-37	110.24	12-30-40	104.26	6-10-40	1,627	2-3/4 - 6-15 51-54	107.16	107.18	107.17	-.01	1.94	.00	20
21	9-15-31	113.24	12-30-40	82.08	1-11-32	113.24	12-30-40	107.24	6-10-40	755	3 - 9-15 51-55	110.14	110.16	110.15	-.01	1.99	.00	21
22	12-22-39	106.24	12-14-40	101.08	5-24-40	106.24	12-14-40	101.08	5-24-40	1,118	2-1/4 - 12-15 51-53	103.17	103.19	103.18	-.01	1.88	.00	22
23	10-7-40	104.24	12-12-40	101.19	2-15-41	104.24	12-12-40	101.19	2-15-41	725	2 - 6-15 53-55 3/	102.03	102.05	102.04	+0.01	1.81	.00	23
24	7-22-40	106.24	12-12-40	102.02	7-24-40	106.24	12-12-40	102.02	7-24-40	681	2-1/4 - 6-15 54-56 3/	103.16	103.18	103.17	+0.01	1.99	.00	24
25	3-15-35	111.30	12-12-40	98.30	9-20-35	111.30	12-12-40	105.00	6-10-40	2,611	2-7/8 - 3-15 55-60 3/	108.08	108.10	108.09	+0.03	2.19	-.01	25
26	9-15-36	111.06	12-30-40	98.10	4-1-37	111.06	12-30-40	103.26	6-10-40	982	2-3/4 - 9-15 56-59 3/	107.14	107.16	107.15	+0.04	2.18	-.01	26
27	6-15-38	111.06	12-30-40	99.15	9-25-39	111.06	12-30-40	103.18	6-10-40	919	2-3/4 - 6-15 56-63 3/	107.15	107.17	107.16	+0.04	2.23	.00	27
28	12-15-38	111.22	12-10-40	99.14	9-25-39	111.22	12-10-40	103.16	6-10-40	1,485	2-3/4 - 12-15 60-65 3/	107.21	107.23	107.22	+0.02	2.27	.00	28
LTA	1-1-19	1.86%	12-30-40	5.84%	5-20-20	1.86%	12-30-40	2.49%	6-10-40		Long-term average 4/ Treasury Notes					2.10	-.01	LTA
1	3-16-36	101.08	6-21-38	99.06	4-8-37	102.20	1-6-40	100.28	2-15-41	677	1-1/2 A - 3-15 41	101.09	101.11	101.10	+0.04	1-7/32**	+4/32**	1
2	6-15-36	103.03	3-29-39	98.19	4-10-37	102.21	1-6-40	101.03	2-15-41	504	1-3/8 B - 6-15 41	101.11	101.13	101.12	+0.02	30/32**	+2/32**	2
3	12-15-36	103.06	6-5-39	97.31	4-9-37	102.30	1-6-40	101.19	2-15-41	204	1-1/4 C - 12-15 41	101.24	101.26	101.25	+0.01	24/32**	+1/32**	3
4	6-15-37	104.18	5-18-39	99.26	9-7-37	104.01	1-6-40	101.28	2-15-41	426	1-3/4 A - 3-15 42	102.05	102.07	102.06	+0.02	11/32**	+3/32**	4
5	9-15-37	105.28	4-5-39	100.26	9-16-37	105.15	1-2-40	103.05	2-15-41	342	2 B - 9-15 42	103.11	103.13	103.12	+0.01	8/32**	+1/32**	5
6	12-15-37	105.03	6-24-39	101.05	12-15-37	104.25	1-24-40	103.04	2-17-41	232	1-3/4 C - 12-15 42	103.10	103.12	103.11	+0.01	5/32**	+1/32**	6
7	6-15-38	103.00	4-3-40	99.04	9-6-39	103.00	4-3-40	101.08	6-11-40	629	1-1/4 A - 6-15 43	102.04	102.06	102.05	+0.02	.19	-.03	7
8	6-15-40	102.15	11-8-40	100.22	6-11-40	102.15	11-8-40	100.22	6-11-40	279	1 C - 9-15 43	101.28	101.30	101.29	+0.02	.25	-.03	8
9	12-15-38	103.08	4-2-40	98.30	9-6-39	103.08	4-2-40	101.07	6-11-40	421	1-1/8 B - 12-15 43	102.10	102.12	102.11	+0.02	.29	-.02	9
10	11-1-39	102.15	11-9-40	100.13	6-10-40	102.15	11-9-40	100.13	6-10-40	515	1 B - 3-15 44	101.21	101.23	101.22	+0.03	.44	-.04	10
11	6-15-39	101.15	12-9-40	97.16	6-6-39	101.15	12-9-40	99.12	6-10-40	416	3/4 A - 6-15 44	100.23	100.25	100.24	+0.03	.52	-.03	11
12	12-22-39	102.16	12-9-40	100.10	6-11-40	102.16	12-9-40	100.10	6-11-40	283	1 C - 9-15 44	101.19	101.21	101.20	.00	.54	.00	12
13	1-31-41	100.05	1-25-41	99.23	2-15-41	100.05	1-25-41	99.23	2-15-41	635	3/4 B - 9-15 44	99.30	100.00	99.31	+0.01	.76	-.01	13
14	3-15-40	101.12	12-9-40	98.26	6-10-40	101.12	12-9-40	98.26	6-10-40	718	3/4 A - 3-15 45	100.20	100.22	100.21	+0.02	.99	-.01	14
15	12-18-40	100.16	12-12-40	99.15	2-15-41	100.16	12-12-40	99.15	2-15-41	531	3/4 B - 12-15 45	99.23	99.25	99.24	+0.01	.80	-.01	15

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

1/ Today's prices not included. Bond prices prior to 9/30/39 are those on N.Y. Stock Exchange. Other prices are mean of closing bid and ask quotations. When issued prices included in history beginning 9/30/39. 2/ Computed to call date when prices are above par; to maturity date when prices are below par. 3/ Included in long-term average. 4/ Ranges expressed in yields, high yields representing low prices and vice versa. The "Date of issue" is that of commencement of the average. *Excess of price over zero yield. **Called for redemption on March 15, 1941.

Over-the-Counter Closing Quotations on Securities Guaranteed by the United States

Date: February 21, 1941

(Decimals except in yield columns are thirty-seconds)

Index	Date of issue	Range since first traded 1/				1940-1941 range 1/				Amount outstanding (Millions)	Issue	Over-the-counter closing			Net change	Yield 2/	Net change in yield	Index
		High	Date	Low	Date	High	Date	Low	Date			Bid	Ask	Mean				
0 1	1-15-35	106.27	6-8-39	100.01	9-17-35	105.16	1-5-40	102.20	2-19-41	236	FFWD	102.20	102.23	102.22	.00	.01	-.01	0 1
0 2	3-1-35	106.15	6-6-39	98.23	9-21-35	105.06	1-8-40	102.22	2-20-41	103	3% - 1-15 42-47	102.20	102.23	102.22	.00	.12	-.01	0 2
0 3	3-15-34	110.07	6-8-39	98.02	9-18-34	108.28	4-4-40	105.28	6-10-40	95	3-1/4 - 3-15 44-54	107.01	107.04	107.02	.00	.91	.00	0 3
0 4	5-15-34	109.22	6-5-39	95.03	9-12-34	108.23	4-3-40	105.20	6-3-40	835	3 - 5-15 44-49	107.02	107.05	107.04	.00	.76	.00	0 4
0 5	5-15-39	100.22	3-26-40	99.19	9-13-39	100.22	3-26-40	100.04	2-20-41	191	HOLC	100.03	100.06	100.04	.00	.08	-.01	0 5
0 6	7-1-35	105.22	6-5-39	98.20	11-16-35	104.24	3-7-40	102.20	2-17-41	875	5/8% L- 5-15 41	102.21	102.23	102.22	.00	.27	.00	0 6
0 7	5-1-34	109.18	6-6-39	95.03	9-12-34	108.14	4-3-40	105.07	6-3-40	779	2-1/4 O- 7-1 42-44	106.27	106.29	106.28	.00	.81	.00	0 7
0 8	6-1-39	103.26	12-13-40	96.24	9-25-39	103.26	12-13-40	100.06	6-5-40	755	3 A- 5-1 44-52	102.04	102.06	102.05	+.01	.96	-.01	0 8
0 9	7-20-38	101.10	6-6-39	99.19	9-11-39	101.04	3-18-40	100.11	2-20-41	211	1-1/2 M- 6-1 45-47	100.10	100.12	100.11	.00	.04	-.01	0 9
0 10	11-1-38	101.11	6-9-39	99.19	9-11-39	101.07	3-11-40	100.15	6-6-40	299	7/8 P- 11-1 41	100.17	100.19	100.18	.00	.06	.00	0 10
0 11	2-15-39	101.09	3-11-40	99.16	9-7-39	101.09	3-11-40	100.14	6-10-40	310	7/8 R- 1-15 42	100.18	100.20	100.19	.00	.21	.00	0 11
0 12	11-10-39	101.25	3-15-40	100.18	5-28-40	101.25	3-15-40	100.18	5-28-40	276	1 S- 7-1 42	100.30	101.00	100.31	.00	.29	.00	0 12
0 13	8-1-39	100.24	3-15-40	99.08	9-6-39	100.24	3-15-40	100.04	6-10-40	203	CCC	100.07	100.09	100.08	.00	.06	-.01	0 13
0 14	11-2-39	101.14	3-18-40	100.18	10-18-39	101.14	3-18-40	100.20	6-10-40	204	5/8% D- 8-1 41	100.21	100.23	100.22	.00	.06	.00	0 14
0 15	5-1-40	101.02	12-14-40	100.06	8-15-40	101.02	12-14-40	100.06	8-15-40	289	1 E- 11-15 41	100.18	100.20	100.19	.00	.46	.00	0 15
0 16	11-1-40	100.05	11-4-40	100.01	2-20-41	100.05	11-4-40	100.01	2-20-41	112	3/4 F- 5-1 43	100.00	100.02	100.01	.00	.20	.00	0 16
0 17	2-1-39	103.02	12-14-40	99.07	9-25-39	103.02	12-14-40	101.06	6-10-40	114	USRA	102.03	102.05	102.04	+.01	.65	-.01	0 17

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

1/ Today's prices not included. Bond prices prior to 10/30/39 are closes on N.Y. Stock Exchange. Other prices are mean of closing bid and ask quotations. When issued prices included in history beginning 9/30/39. 2/ Computed to call date when prices are above par; to maturity date when prices are below par.

2/24/41

Boston ✓	Roy A. Young, President
New York	Allan Sproul
Philadelphia ✓	John S. Sinclair
Cleveland	Matthew J. Fleming
Richmond ✓	Hugh Leach
Atlanta	Robert S. Parker - <i>McLavin</i>
Chicago	George J. Schaller
St. Louis	William McC. Martin
Minneapolis	John N. Peyton
Kansas City	George H. Hamilton
Dallas	Robert R. Gilbert
San Francisco	William A. Day

150

In this connection see also Cochran's memo of 2/25 and Sir Edward Peacock's letter of 2/25.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 24, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

At 4:40 this afternoon the Secretary received the British Ambassador, Lord Halifax, Mr. Arthur B. Purvis and Sir Edward Peacock. Mrs. Elotz and Messrs. Foley, White and Cochran were present at the conference.

The Ambassador told the Secretary that he was aware that his associates had conferred with the Secretary upon the question of British investments in the United States. The Ambassador had now received a message from his Prime Minister which he was instructed to communicate to the American Government through Secretary Morgenthau. The Ambassador thought that he was in position to interpret the thoughts which the Prime Minister had in mind in the formation of the plan which is now being suggested, and he desired to set forth these thoughts. After speaking, the Ambassador handed to Secretary Morgenthau a single sheet of paper on which, the Ambassador stated, he had recorded the remarks which he had made. This statement reads as follows:

"These investments are of a special character. They are in the main the result of decades of healthy competitive effort. They represent an economic link different from investments in market securities. We ask the President to give his sympathetic consideration to the views of our representatives, either on particular cases, or, for example, on the important case of insurance businesses mentioned in the memorandum. We believe there is a common interest in the maintenance of some of our direct investments, and while we put ourselves entirely in the President's hands, we ask him to take account of our many financial problems, both those which assail us now, and those which, without proper forethought, might overwhelm us after the war."

The Ambassador then summarized to the Secretary the attached memorandum. The Ambassador stated that it was the idea of his Government that the President of the United States should be asked to take over the British direct investments in the United States and arrange for the disposal of such investments as he saw fit and in such circumstances as he deemed appropriate. The representatives of the British Government would be available to submit their observations on any question which might arise.

Secretary Morgenthau asked if this did not constitute a change from the original British policy with respect to such investments. The Ambassador expressed the opinion that the suggested plan would accomplish the end mutually desired. When the Secretary questioned Sir Edward Peacock directly as to whether this new plan was the same as that embodied in the instructions under which Sir Edward had come to the United States, the latter explained that there was a difference. He said that it

had been his understanding when he left England that he was to come to the United States and to look into the possibility of disposing of direct investments, under the supervision of the British Government. This new plan would change the system to a disposal of the investments under the authority of the United States Government. Sir Edward went on to explain that since arriving in this country and undertaking his task as he saw it, he had found that important difficulties were to be faced and that it was a "lonesome" job. He thought that the task would be greatly facilitated if the United States Treasury or its designated agent was working directly with the British in the task. Both the Ambassador and Sir Edward Peacock thought the atmosphere would be better if the United States Government took this responsibility. The Secretary differed with them, pointing out that the Treasury Department has no organization prepared for this sort of business and would incur all manner of blame if it attempted to sell the assets under reference. The President would be accused of selling out the British. The Secretary remarked that he would much prefer that Sir Edward Peacock rather than Henry Morgenthau, Jr., be held responsible for selling some man's property at a price lower than that which the owner thought it should go. The Ambassador thought this plan constituted a placing of all of the British cards on the table. The Secretary appreciated the spirit in which the Ambassador and his associates had come and had presented this proposal.

The Secretary said that his study of the proposition would be facilitated if the British officials would present to him a memorandum setting forth the original plan under which Sir Edward Peacock came to the United States to take over his duties, and point out wherein this new proposition differs from the original plan. The Secretary stated that his immediate reaction was unfavorable; that is, he did not desire to see the President take over this responsibility. He wanted time, however, to think over the question, to discuss it with his Staff, and also desired to have the additional British memorandum to assist in reaching his conclusions. The British promised to draw up the memorandum shortly. *See memo dated 1/14/41*

During the conversation both the Ambassador and Mr. Purvis mentioned that the British cash position during the next few months might become quite difficult. The Ambassador understood that the Secretary was called upon to make certain recommendations as to amounts under the Lend Lease Bill. The Ambassador reminded the Secretary that Sir Frederick Phillips and his other associates were available if the Secretary cared to have their observations with respect to British requirements. The Secretary immediately inquired as to whether the prospective cash position of the British was related to this new plan for handling direct investments. He insisted that the two should be considered separately.



Dear,

These investments are of a special character. They are in the main the result of decades of healthy competitive effort. They represent an economic link different from investments in market securities. We ask the President to give his sympathetic consideration to the views of our representatives, either on particular cases, or, for example, on the important case of insurance businesses mentioned in the memorandum. We believe there is a common interest in the maintenance of some of our direct investments, and while we put ourselves entirely in the President's hands, we ask him to take account of our many financial problems, both those which assail us now, and those which, without proper forethought, might overwhelm us after the war.

TO THE VICE PRESIDENT
LEONARD B. WOOD
WASHINGTON, D. C.

RECEIVED BY MR. 200

THE VICE PRESIDENT
WASHINGTON, D. C.

The British Government are prepared to place all British direct investments under the control of the United States Government so that these may be sold in orderly fashion and so that the United States Government, through suitable representatives, shall be able to supervise and if they think fit control the selling.

2. If desired, the British Government are also willing as rapidly as is practicable to transfer to the United States Government the title to these investments.

3. In order to provide a convenient means of settling by joint discussion all questions which arise as regards the disposal of direct investments, while leaving the ultimate decision to the United States Government, the British Government propose the following procedure:-

(a) that the realisation of money upon the direct investments should be placed under the control of a joint committee representing the United States and British Governments;

(b) that after hearing from the British representatives relevant details of the particular case the United States representatives should have the right to require any particular direct investment to be made available either (1) for outright sale at a price agreed between the vendor and the purchaser, or (2) if this seems preferable, as a means of raising funds by

borrowing or by the sale of shares on acceptable terms;

(c) that if the best terms obtainable are not acceptable to the vendor company, the committee shall be authorised to impose them if, acting in agreement, they consider that they should be accepted;

(d) that the President should have the last word in the event of any difference of opinion between the United States and British representatives on the Committee.

4. This procedure will give an opportunity of settling all questions as regards individual concerns as they arise; there is, however, one general question which should be mentioned in advance. The British-owned insurance companies and branches in the United States appear to the British Government to be in a special category compared with other direct investments. It is hoped that before the United States Government decide that British-owned insurance interests in the United States must be sold, an opportunity will be given at the proper time for a discussion of the whole question of insurance, its bearing upon the United States and Great Britain alike, and what the effects of selling the British holdings in the United States would be.

February 24, 1941
5:20 p.m.

H.M.Jr: Hello.

Operator: Mr. Purvis.

Arthur Purvis: Hello, Henry.

H.M.Jr: Arthur, can you listen?

P: I can listen, yes.

H.M.Jr: I mean, I don't know whether you can talk

P: Yes, I can completely.

H.M.Jr: Good. I think you see I was quite disturbed.

P: Yes, and frankly that worried us all because we didn't quite know why.

H.M.Jr: I'm going to ask you something because I don't feel - I still don't feel I know what it's all about, and I wondered if you could come over tomorrow - are you busy tomorrow at 10:15?

P: Not a bit. I'll be there.

H.M.Jr: I tell you what I'd like to have - if you could have with you. You told me a lot of cables went over on this thing.

P: Yes.

H.M.Jr: If you could read me what you sent, and if that is a typical cable of what went on it - is yours typical?

P: Oh, well, absolutely. Any cable that I can bring you will be absolutely typical because it's - yes, Henry, I see exactly what you mean. You want to find out whether there is any ulterior thing in this. Actually it is my own - I think I have been the one who has had this motive power of desiring to get them to put themselves in your hands. I'd like you not to worry about that.

- 2 -

H.M.Jr: Well, then, if it is you, then you can straighten me out because I need straightening out, Arthur. I just don't get it.

P: Well, Henry, it's a genuine effort to get something into a correct proportion in London as much as here, as I told you before. Those I think were my words more or less on both occasions.

H.M.Jr: Well, what I'm asking you now - don't let that in any way interfere with what I have officially asked the Ambassador.

P: No, no, no.

H.M.Jr: About the instructions that Sir Edward got when he left.

P: Yes, quite. Oh, no, that's going on anyway. That will be there, but I'll come over and see you at 10:15.

H.M.Jr: But all I can say is, I'm awfully glad that I'm the first hurdle and this didn't go directly to the President.

P: Oh, well, yes.

H.M.Jr: Because - oh, I'm 99% sure that his reaction would be the same.

P: I see. Well, let's get it straightened out, Henry. I mean, there is nothing sinister in this I can assure you unless it's in me and I don't believe I'm that type.

H.M.Jr: Well, I know you're not. If this is you, then I don't worry but

P: It was I who strongly recommended that this be done. Strongly urged.

H.M.Jr: Well, if you would in the process of straightening me out, if you could show me your arguments for it, that would help me.

P: Yes, I know what you mean.

H.M.Jr: There'll just be you and me.

P: All right, Henry.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE February 24, 1941

TO Secretary Morgenthau
FROM Mr. Haas *[Signature]*

Work Projects Administration reports indicate an increase of 568 persons over the previous week's employment to a rounded figure of 1,893,000 for the week ended February 12, 1941.

Attachments

WORK PROJECTS ADMINISTRATION
Number of Workers Employed - Weekly
United States

Week ending	Number of Workers (In thousands)
1940-41	
July 3	1,608
July 10	1,620
July 17	1,659
July 24	1,690
July 31	1,701
August 7	1,709
August 14	1,708
August 21	1,698
August 28	1,691
September 4	1,690
September 11	1,687
September 18	1,689
September 25	1,704
October 2	1,747
October 9	1,762
October 16	1,768
October 23	1,776
October 30	1,779
November 6	1,783
November 13	1,785
November 20	1,806
November 27	1,820
December 4	1,832
December 11	1,855
December 18	1,872
December 25	1,878
January 1	1,880
January 8	1,887
January 15	1,893
January 22	1,896
January 29	1,895
February 5	1,892
February 12	1,893

Source: Work Projects Administration

WORK PROJECTS ADMINISTRATION
Number of Workers Employed - Monthly
United States

	Number of Workers (In thousands)
1938	
July	3,053
August	3,171
September	3,228
October	3,346
November	3,287
December	3,094
1939	
January	2,986
February	3,043
March	2,980
April	2,751
May	2,600
June	2,551
July	2,200
August	1,842
September	1,790
October	1,902
November	2,024
December	2,152
1940	
January	2,266
February	2,324
March	2,288
April	2,092
May	1,926
June	1,665
July	1,701
August	1,691
September	1,704
October	1,779
November	1,820
December	1,878
1941	
January	1,895

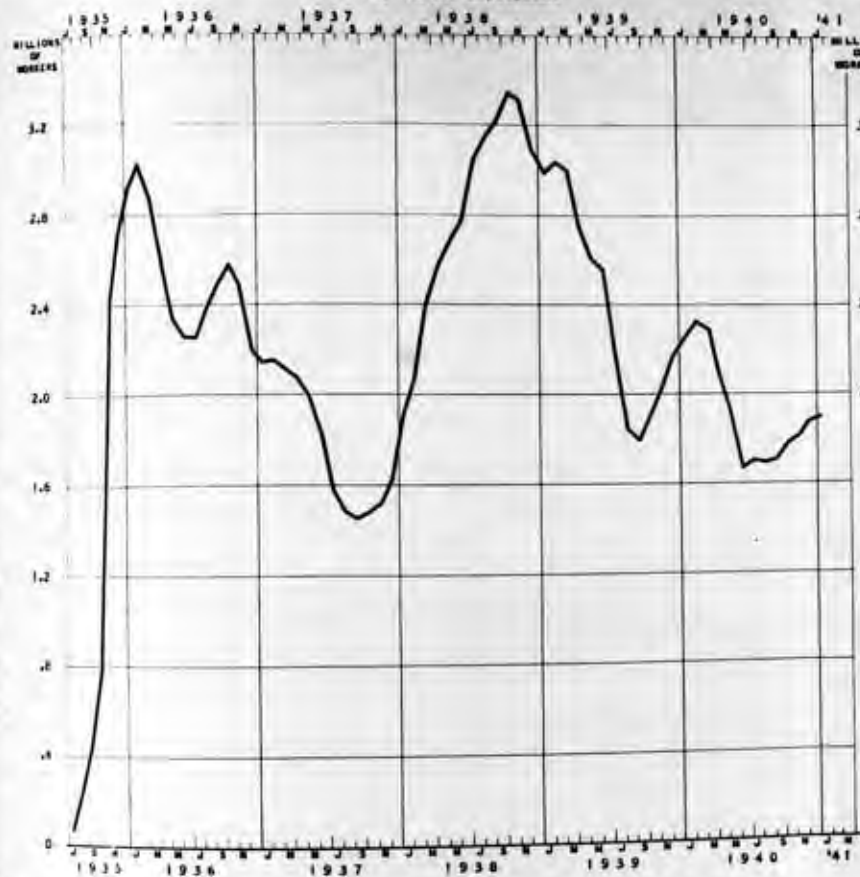
Source: Work Projects Administration

Monthly figures are weekly figures for the latest week of the month.

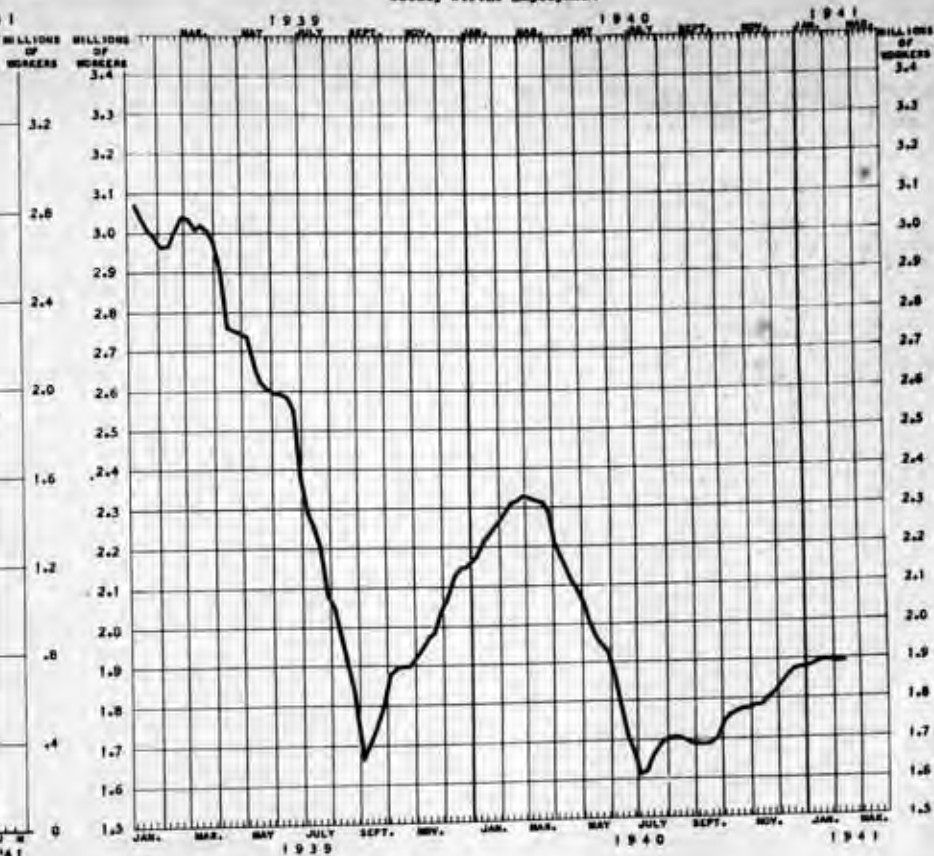
They include certified and noncertified workers.

WORK PROJECTS ADMINISTRATION
Number of Workers Employed
United States

Monthly W.P.A. Employment



Weekly W.P.A. Employment



SOURCE: WORK PROJECTS ADMINISTRATION

CONFIDENTIAL(To Keep You Posted)

February 24, 1941

To: The Secretary

From: Mr. Young

Re: Van Duzen of Consolidated Aircraft
and Heavy Bomber Deliveries.

I talked with Mr. Van Duzen of Consolidated Aircraft on the telephone Friday, and I asked him to come in and explain his difficulties but he was too busy with the C.A.A. and the War Department.

His story was that it was going to be a great hardship on Consolidated if they could not fly the B-24's or the PB4's direct from the United States to a British possession other than Canada, that our request to have no British passengers carried in these planes within the United States had stopped the British training program, and that Consolidated did not have enough crews to flight deliver these planes to Canada or Bermuda. Mr. Van Duzen's attitude, which strongly resembled Major Fleet's upon his first contact with this office last summer, was such that I did not waste much time on him.

I called the British Air Commission, and, as a result, a meeting was held in my office late Friday afternoon, at which were present Neil Gray, Mr. Dickens, and Mr. Munson, representing the British. Mr. Dickens is the fellow in Montreal who has charge of all flight deliveries of planes. I asked Oscar Cox to sit with me and we went over the whole situation. Subsequently, we met with Ed Foley and went over the legal aspects of the situation. The story is as follows:

As you know, the State Department in the three letters, which you know about, gave the British permission to flight deliver aircraft from the United States to the British territory under three conditions: (1) that the title remain with an American citizen until the plane based the territorial

- 2 -

jurisdiction of the United States; (2) that the plane be flown by British civilian crews; and, (3) that the plane be unarmed.

In this connection, fourteen or fifteen PBY's have already been flown to the Far East in accordance with these provisions. Evidently, the State Department got worried about this situation pending passage of lend lease and communicated their worries to the Attorney General, which resulted in the conference we had last week with respect to the B-24 which was then in New York. *Telegraphed 4/12*

As a result of that conference, we asked the British to deliver the planes to Canada with American crews and not to carry any British passengers in the United States or on the delivery flight. As a result of these instructions, the B-24 in New York was flown to Canada with an American crew.

There are two problems at present; first, can the State Department renew its permission to flight deliver these bombers with a British crew from United States territory, and, secondly, will the State Department allow British crews to train in these ships at San Diego. The British deem the latter problem more immediately important because there is no field outside of the United States where British crews can get their training before taking these planes abroad.

The field at Botwood is in such condition that it can only be used for a jump-off point and then only with some risk and under good weather conditions. It is not possible to use it for training purposes. The only other field in Canada which can accommodate the B-24 is presently under five feet of snow. The field in Bermuda is not adequate for the B-24 so training cannot be done there.

For some time British civilian crews have been going up with the Consolidated crews getting a little training at San Diego and then going alone with the planes across the continent to complete their training. These British civilian pilots are former employees of Imperial Airways, and, although they have had heavy bomber experience, they cannot fly the B-24 without some training. (It must be remembered that the B-24 has several innovations which make training necessary for any pilot.)

Thus, it is impossible for the British to fly these ships abroad unless the British crews are trained in the United States. The actual training period is only a matter of ten or fifteen flying hours. (As a matter of fact, British pilots are flying with United States pilots at Boeing although nothing has been said about this).

- 3 -

Ed Foley talked with the Attorney General about this training problem, and the latter stated that he was not going out of his way to look for trouble. It was his suggestion that the British make a formal application to the Secretary of State for permission to train these British crews as the Secretary of State had power to give such an authorization.

In order that this matter may be handled in the proper way and formal action secured, Oscar Cox and I are meeting with Assistant Secretary of State Berle at 2:30 this afternoon and taking with us representatives of the British Air Commission to discuss this situation.

Dy.

CONFIDENTIAL(In Response to Your Request)

February 24, 1941

To: The Secretary

From: Mr. Young

Re: British Planes in Greece

Some time ago you mentioned the fact that you had heard through McVeigh that the British had only thirty-two planes operating in Greece whereas Sir Henry Self had told you some time previously that there were 400.

After the usual difficulties, Sir Henry advised me that he had been a little optimistic in his figures due to the fact that he had based his estimate upon the number of squadrons which he had been advised were operating in that area. It turned out, however, that the squadrons used were not of standard size.

Air Commodore Pirie has advised Sir Henry that as of the middle of January one squadron of Gladiators and three squadrons of Blenheim bombers were operating in the front line in Greece. This would make a total of fifty-two planes, sixteen Gladiators and thirty-six Blenheims. Pirie also said that there was now being added one squadron of Hurricanes and one or two additional bomber squadrons, which would bring the total of planes at the front line up to about ninety-two.

Further, there will be a fifty per cent reserve in Greece or adjacent areas which, if included, would bring the total up to 138. Sir Henry said that he could not understand the figure of thirty-two planes reported by McVeigh.

404.

JT

PLAIN

STOCKHOLM

Dated February 24, 1941

Rec'd 10:30 p.m.

Secretary of State,
Washington.

116, twenty-fourth.

Legation's 73, February 3.

Swedish Cooperative Union approves Riksbank's
proposal and suggests that part of Swedish funds in
United States be expended to purchase official premises
abroad and for housing semiofficial organizations.

STERLING

NPL

eh:copy

(Extract from Congressional Record, No. 35, February 24, 1941)

Mr. DANAHY. * * * * * Apparently we were not yet ready for the pending bill "to promote the defense of the United States, and for other purposes", which has nothing to say about defense of the United States but much to say about "other purposes."

Then again, there was an election campaign last fall and it would never do to submit these issues to the people.

Meanwhile, the vast sums comprising our stabilization fund were not being overlooked. I am not able to say how long conversations proceeded with reference to its diversion "for other purposes" but there came a day in December when the Secretary of the Treasury appeared before the Banking and Currency Committee at half past 10 in the morning. By midafternoon the newspapers recounted in great headlines the tale of our use of vast millions from the stabilization fund for the maintenance of the Chinese yuan. It is reasonable to deduce that the transactions among the nations as related in the Treasury announcement were not begun and concluded that day. It was carefully noted by the Secretary of the Treasury that he had told us in 1939, when he asked for an extension of his powers for the use of the stabilization fund, that he would not depart from the practices then prevailing "without coming to the Congress." There was no bill pending when he came before the Banking and Currency Committee in December but he explained the nature of the proposed transaction with China, and on the strength of his explanation asked for a vote of confidence. A motion that his testimony be recorded was overwhelmingly defeated by a vote of many of those sponsoring the pending bill. Not one word was said to that committee about a proposed loan to Argentina in the sum of \$50,000,000 from the stabilization fund and \$50,000,000 more from the Export-Import Bank. The Senators present that morning learned that afternoon about the transaction from the same newspaper articles which recited the vote of confidence. There was no explanation of why we should provide dollar exchange for foreign exporters to Argentina, but the Secretary had come back to the Congress. I might observe that his coming to the Congress was not half as important as where he is going from there.

February 24, 1941

Mr. Felt

Mr. Cochran

Will you kindly send the following cables:

"American Consul,

Narcville.

Please inform Mortimer Singer in reply to his cablegram February 19 to Cochran that Treasury Department states that in instances in which the American citizen has been located and found to desire and need pension funds remitted to him checks are being released for transmission through the State Department. Treasury suggests such American citizens advise local American Consular Officer of facts in order that prompt consideration may be given such cases."



RMS:lap-2/24/41

JR

PLAIN

London

Dated February 24, 1941

Rec'd 5 a.m., 25th.

Secretary of State,
Washington.

707, twenty-fourth.

FOR TREASURY FROM BUTTERWORTH,

1. I have been back in London for something over two weeks. Except for the damage to the city, physically the scene has if anything changed for the better: comparatively little destruction has taken place in the past three months and methods of removing debris in London have greatly improved.

2. The increasing pace of war production and the geographical extension of hostilities are reflected in the second jump in British governmental expenditure this year from pounds 10.6 million per day to pounds 12.5 million between October and January. Though taxation is coming in better than expected and receipts from savings issues have increased from pounds 17 million in the last week of October (or an annual rate of about pounds 834 million) to about pounds 27 million in each of the past two weeks (or an annual rate of pounds 1,232 million), the floating debt has increased from pounds 2,262 million to pounds 2,647 million in the period. Even if the efforts to
increase

-2- 707, February 24, from London.

increase small savings by 50 per cent (from pounds 10 to pounds 15 million per week) succeed and if the present level of the larger savings also grows the public's voluntary effort will still be far from sufficient not only to fill the gap between revenue and expenditure but also to absorb the growing money income which is moving in the opposite direction from the volume of consumable goods. Therefore in spite of the Chancellor of the Exchequer's recent assurances reported in the Embassy's telegram No. 465 of February 7, that the gap is exaggerated because of the use of "other resources", such as the various social insurance and war insurance funds as well as dollar assets and Empire sterling balances, there is a good deal of anxiety as to the possibility of an inflationary movement given the probable figures of expenditure next year.

Since his speech reported in the Embassy's telegram No. 3201 of September 25, Keynes, who I understand is now for all practical purposes a regular Treasury official, has not again publicly analyzed or pronounced judgment on the financial position but others in the Treasury are both surprised and pleased that "somehow" there has been no marked inflationary movement yet. But the fact remains that wage increases continue to be demanded and in part granted

-3- 7707, February 24, from London.

granted in one industry after another, the Minister of Labor has asserted that he does not favor a uniform wage policy, the cost of living index continues to rise (by 2 per cent between November 1 and January 1) and shop shortages are becoming apparent. The Minister of Food recently stated that the British Government is spending at the rate of pounds 82 million per annum on food subsidies to stabilize prices and a similar measure for coal price equalization is now contemplated. However next year's budget will be influenced by the operations of the Lease and Loan Bill and the Government's present reliance on the restriction of supplies of consumers' goods and voluntary savings may well prove adequate to hold off the main inflation forces for some time.

3. The official control of the money and capital markets continues to work smoothly. Stock exchange prices have continued to move upward. Not only has the rise in gilt-edged prices gone on steadily though slowly but equities also have tended upwards with of course some fluctuation influenced by military and diplomatic news. The FINANCIAL TIMES government securities index (November 15, 1926 equals 100) which stood at about 110.9

on

-4- #707, February 24, from London.

on October 25 is now 112.2 or 11.3 points higher than at the outbreak of war, while the FINANCIAL NEWS index of ordinary shares (July 1, 1935 equals 100) which had climbed from the low of 50.4 when France collapsed to 66.3 by October 25 is now 69.9 having touched 73.7 on January 17. This index stood at 77.5 on the eve of the declaration of war, having dropped from 81.3 during the month of August 1939.

4. The money market continues to ^{be} easily managed so as to supply abundant cheap credit to the government. Deposits shown in the end of January clearing bank returns were seasonally lower than in December but pounds 115 million or 4.3 per cent higher than at the end of October. The banks continue to absorb government securities while their advances decline, and to supply the Treasury with deposit receipt loans only partially offset by reductions in bill holdings and call money. Their profits consequently suffered in 1940 but not seriously. The note circulation continues high as the nation's wage bill swells in spite of the calling of increasing numbers into the fighting services.

JOHNSON

RR

ALLISON ENGINEERING COMPANY

Shipments of Airplane Engines

STRICTLY CONFIDENTIAL

	: Actual : : shipments :	: Estimated shipments : on existing orders :
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1940

January.....	10
May 24 - June 22.....	28
June 23 - July 20.....	43
July 21 - Aug. 17.....	47
Aug. 18 - Sept. 14.....	140
Sept. 15 - Oct. 12.....	263
Oct. 13 - Nov. 9.....	233
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January.....	470
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April.....	225
May.....	225
June.....	66

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

February 24, 1941.

EXPORTS OF PETROLEUM PRODUCTS, SCRAP IRON AND SCRAP STEEL
FROM THE UNITED STATES TO JAPAN, RUSSIA, SPAIN, AND GREAT BRITAIN
AS SHOWN BY DEPARTURE PERMITS GRANTED

Week ended February 22, 1941

	JAPAN	RUSSIA	SPAIN	GREAT BRITAIN
PETROLEUM PRODUCTS				
Fuel and Gas Oil (including Diesel Oil)	--	--	--	162,491 Bbls.
Crude -				
Blended or California High Octane Crude*	73,000 Bbls.	--	--	--
All Other Crude	59,000 Bbls.	--	--	--
Gasoline -				
Gasoline A**	--	--	--	--
Gasoline B*	108,900 Bbls.	--	--	12,000 Bbls.
All Other Gasoline	--	--	--	--
Lubricating Oil -				
Aviation Lubricating Oil***	166 Bbls.	--	--	92 Bbls.
All Other Lubricating Oil	4,198 Bbls.	--	--	558 Bbls.
Tetraethyl Lead***	--	--	--	--
"Boosters", such as Iso-Octane, Iso-Hexane, or Iso-Pentane	--	--	--	--
SCRAP IRON AND SCRAP STEEL				
Number 1 Heavy Melting Scrap	--	--	--	5,642 Tons
All Other Scrap	--	--	--	2,755 Tons

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

February 24, 1941.

Source: Office of Merchant Ship Control, Treasury Department.

Any material from which by commercial distillation there can be separated more than 3 percent of aviation motor fuel, hydrocarbon or hydrocarbon mixture - President's regulations of July 26, 1940.

Aviation Gasoline.

As defined in the President's regulations of July 26, 1940.

CONFIDENTIAL(In Response to your Request)

February 24, 1941

To: The Secretary

From: Mr. Young

*See memo to
Young from Hough
of 2/21/41*

Re: Grumman Fighters

The British Air Commission finally reported to me on Saturday morning concerning the secret memorandum which you received from Sir Hugh Dowding, which included a note on the Grumman Fighters.

According to Sir Henry Self, this report is satisfactory insofar as aircraft is concerned. The details with respect to the guns was given to show the difficulties which the British have had with the .50 calibre type. These planes have four .50 calibre guns in the wings, each equipped with 300 rounds. Evidently, the British have had a good deal of difficulty with this type of gun, but Sir Henry Self assured me definitely that most of the difficulties had been eliminated and that little trouble was expected in the future.

Sir Henry also said that he had heard indirectly that Harry Hopkins reported trouble with the undercarriage of the first sixteen Grummans sent over. Sir Henry stated that the difficulty was not so much in the undercarriage as it was in the training of the British pilots because this type of undercarriage was different from that usually used. This situation was well understood before the Grummans were shipped to England, and all necessary steps have been taken to have it corrected.

BY

THE BRITISH SUPPLY COUNCIL IN NORTH AMERICA

TELEPHONE: REPUBLIC 7860

Box 680
BENJAMIN FRANKLIN STATION
WASHINGTON, D. C.

February 13, 1941.

Most Secret

Dear Henry:

A cable has just arrived for Sir Hugh Dowding giving a performance report on various U. S. aeroplanes which I feel you would like to see.

Yours sincerely,

A handwritten signature in cursive script, likely belonging to Anthony Eden.

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

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MEMORANDUM

MOST SECRET

Grumman Fighters

Following is summary of report on shooting of German aircraft by Grumman fighters off Scotland. On December 25, 2 Grummans attacked and shot down a J.U. 88. First machine, first attack, inner guns stopped firing after 3 seconds. Second attack, outer gun continued firing. Third attack, starboard outer gun stopped. Rounds fired port outer 110, port inner 30, starboard inner 30, starboard outer 100. Second machine, first attack, all guns fired, port outer 4 rounds only, second attack, remaining 3 guns stopped, pilot reloaded. Third attack, starboard inner and outer only fired, then all stopped. Fourth, fifth, and sixth attacks starboard inner only fired. Rounds fired port outer 4, port inner 4, starboard outer 220, starboard inner 100. All bursts 2/3 seconds. About 15 bullet strikes found on crashed aircraft.

Curtiss P. 40's (Tomahawks)

These are from French orders and are being erected and modified. Official reports on performance in United Kingdom should be available shortly. View at present is that the Tomahawk is a good aircraft. It has a reliable engine and flies easily. Its speed and altitude compare favourably with the Spitfire. The only doubtful element is the armament.

Glenn Martin 167's

These are highly successful at Malta. They have done valuable general reconnaissance work, and the Taranto photographs were taken by a Glenn Martin. Their speed and manoeuvrability makes it possible for them to evade the Italian fighters. Glenn Martins are being sent to the Middle East for use as bombers, but none has yet proceeded East of Takoradi so no reports on their use as bombers are yet available.

Douglas DB7's

These are being modified for use as night fighters for which they are particularly suitable because of their speed and armament. Others will be used as medium bombers for Army cooperation.

Northrop A17's

Owing to limitations of speed, range, and armament, these are only suitable for training purposes for which they are now being adapted.

.

Information on other types is not yet available but will be sent to you later.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 24, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

The Federal Reserve Bank at New York informed us today that it had been advised by the Bank of England that a shipment of \$25,000,000 of gold was to be made from Ottawa to New York, the proceeds thereof to be credited to the British account.

After receiving this information I telephoned Mr. Pinsent at 12:45 noon. He had no information in regard to this shipment, but promised to give me such data as might subsequently arrive. He explained that an arrangement had now been made with London whereby the British Treasury officials in Washington would be informed currently of British gold operations. In this connection, Pinsent stated that they had now been advised that there had been on February 20 a "switch" transaction in gold amounting to \$20,000,000. I believe this was the \$20,064,000 mentioned in our daily report of February 19, which Playfair had first thought represented an accumulation of Canadian and Australian gold.

Mr. Playfair called me at 4 o'clock this afternoon and also gave me the message as to \$20,000,000 having been switched on February 20. When I told him of our word today in regard to a shipment of \$25,000,000, he was inclined to believe that this is the "switch" transaction under reference. I pointed out the divergency between the two amounts and also reminded Playfair that the earlier shipment of gold was reported to us on February 19 and was very likely the amount which was reported to him as being a transaction of the 20th. Playfair promised to give me anything further in the premises.

My own feeling is that the \$25,000,000 of which we were informed today, as well as the \$20,000,000 covered in our report of February 19, will prove to be "switched" gold. It will be recalled that the Bank of England transferred to Canada \$280,000,000 of gold which the Bank of France had earmarked in London. Out of this total the British had through two operations earlier in the year transferred \$50,000,000 and then \$25,000,000 to the United States from Canada and earmarked in South Africa corresponding amounts of gold for the Bank of France. If these two later amounts are now added to the above total of \$75,000,000, the above amount of \$280,000,000 would be reduced by \$120,000,000, or to \$160,000,000.



February 24, 1941

MEMORANDUM**A CONTINENTAL EUROPEAN FREEZING ORDER****Balance Sheet of Advantages and Risks**

The following memorandum attempts to appraise the principal points of advantage and risk involved in an order freezing the accounts and other assets in this country of continental European nations and nationals or accounts and other assets controlled by either, with the exception of Great Britain, Greece, and Turkey.

Prior freezing orders were directed toward protecting the accounts and other assets owned in the invaded countries and toward preventing them from falling into the hands of the invaders. Their results have thus been both protective as regards the invaded countries and, at the same time, to the disadvantage of the invaders. The present order would be directed entirely toward the latter result. Broadly speaking, it would be designed to prevent the use by Germany and Italy, either directly or through other European powers which might cooperate with them, of financial resources now in this country
and

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and of any further accretions to such resources, except as permitted by the United States.

ADVANTAGES

The device of funds freezing, applied on a wide scale, is a drastic, powerful and flexible instrument of economic warfare. Under our present-day conditions, it can be put into effect without additional legislation. In the geographically restricted form in which it is now proposed to use it through the freezing order under consideration, it would permit the following types of action to the approximate extent indicated:

(1) It would make possible the securing of reasonably accurate information as to the extent and nature of Axis-owned and Axis-controlled funds and properties in this country. Such information would be of a continuing character.

(2) It would aid in impeding activities in this country designed to disadvantage the United States. Such activities are of two principal types:--so-called subversive activities such as espionage, sabotage, etc.; and, second, the control of American business or industry by Axis powers.

In

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In respect of espionage and sabotage, the order would aid in impeding hostile action in so far as it made more difficult the use for this purpose of Axis-owned funds in this country. Since the great bulk of these acts must necessarily be undercover, the principal reliance would still have to be upon the F.B.I. and the Department of Justice to discover them and prevent them by the use of the criminal laws.

In respect of preventing the control of American industry by hostile foreign owners, the order would again complement the work of the Department of Justice; but here it would play a larger role. This it would do directly to the extent that it made possible control over the transfer of ownership, dividends, etc., and indirectly by permitting the use of such controls to work out a management of the companies in the interest of the United States.

(3) It would aid in preventing the purchase for export of commodities in the United States. Here the order would operate in the same field as the existing export controls. It could be used, if desired, to prevent direct purchases by Germany and Italy of commodities not now on the export control list. In many cases articles are not on the list, or, if on, are licensed for

- 4 -

for reasons of policy; and, presumably, the same reasons of policy might operate against the use of freezing control as an instrument to prevent the purchase. If changes of policy occurred, it might be possible to move more swiftly through the use of freezing control than by the use of export control. It would not be effective in preventing indirect purchases through Japan, Russia or South America, except in so far as it would render German-owned and Italian-owned funds in the United States no longer available for this purpose.

At the present time there is no control over imports into the United States. If it were desired to establish such control, this might be done through the freezing order in respect of countries to which that order would be applicable, pending the establishment of a more comprehensive system and, thereafter, as a temporary supplement to that system.

(4) It would aid in controlling trade between the Axis powers and other countries. The order would operate in this field by preventing the use of Axis-owned or Axis-controlled dollar funds which would be immobilized in the United States for Axis purchases in Latin America or elsewhere. To this extent, it might inconvenience or curtail such purchases. Its use would obviously not prevent

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prevent such purchases altogether, since they might be executed by the use of local currencies, in so far as they are available to the Axis powers, by direct transfer of gold, by barter, or in other ways. Our principal reliance in this field would still have to be on preventive buying and other methods.

(5) It would make possible the holding of German and Italian accounts as hostage for possible action against American interests in other countries. It is estimated that German accounts and property in the United States are somewhat less than \$100,000,000. This represents recorded property and does not include the capitalized value of patent royalties. Our similar claims in Germany total about \$350,000,000, though much of this is probably not saleable in terms of dollars. Similar American claims in Italy are placed at \$140,000,000, and Italian claims in this country at less than \$90,000,000. The position would be more favorable to us if the invaded countries were added to the picture. The effectiveness of our position would obviously depend upon the extent to which we would, as a matter of policy, permit the frozen funds to be used currently rather than would hold them completely immobilized.

THE

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THE RISKS OF INACTION

It cannot be asserted that if the proposed freezing order is not issued, we would run the risk of doing nothing or of being able to do nothing in the fields indicated above. This would be true only as regards the possibility of holding German and Italian funds and properties as hostage for adverse action against American interests in other countries.

As has already been stated, in the field of subversive activities and of German and Italian control of American industries, the Department of Justice already has substantial powers. Its work can be strengthened by an order requiring only registration of foreign-owned properties and other assets, with full disclosure of ultimate ownership, and the reporting of transactions, accompanied by power to freeze individual accounts or properties. On the other hand, the knowledge acquired by the Government in this manner as to the extent and use of foreign-owned funds would not be as currently accurate as it would be under a freezing order. Moreover, a freezing order applied to geographical areas would be easier to administer than one applying to specific cases irrespective of nationality of ownership.

In regard to control of exports from the United

States

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States, adequate powers are available and are being exercised in accordance with policy determinations as to the national interest. The scope of such control can be extended at will, and such extension would involve the same type of policy decisions as would be required if freeing were used for this purpose. Moreover, export control catches both direct and indirect purchases by the Axis powers. In the field of German and Italian trade relations with other countries, notably those of Latin America, there are such instruments as preventive buying, although, as already stated, the freeing of German and Italian funds in the United States might make it somewhat more inconvenient or more difficult for Germany and Italy to buy outside the United States.

Such risks as may come from failure to issue the freeing order under consideration relate, therefore, to the extent to which German and Italian activities in these fields may be carried on despite existing controls and despite other measures which may be taken apart from geographic freeing. In appraising these risks, it is agreed that the proposed order should be regarded much more importantly as a means of supplementing our policy of aid to Great Britain than as an instrument of domestic action. So regarded, the first question is how extensive would

- 3 -

would be such assistance.

It is difficult to make a quantitative appraisal. Freezing would operate principally as an aid to the blockade of Germany. Here, of course, the major instrument is the British fleet and the other blockade measures. While it is not claimed that action under the freezing order would be decisive or essential in preventing British defeat, it cannot be asserted that it would be negligible. It would be another step in the direction of helping Britain by hurting Germany.

RISES IN OUR RELATIONS WITH FOREIGN COUNTRIES

The real question at issue relates to the risks involved in the proposed freezing order as regards our relations with foreign countries as compared with the purposes that would be served by such an order. It is agreed that risks of this type would be inevitable, but there is difference of opinion as to how serious they would be. The principal risks would be as follows:

(1) Repayment and retaliation on the part of Germany and Italy. The risk to American relations with Germany and Italy inheres not so much in the material disadvantages which the latter countries would suffer but in the fact that the action would stand out as aimed directly at these nations and as an impairment of their

sovereignty

- 9 -

sovereignty and prestige. The destroyer deal and the Lend-Lease Bill, while designed to aid their enemies, could be put aside in Germany and Italy as ineffective and indirect. It might be more difficult for German propaganda to explain away an action directly affecting the prestige of Germany as a sovereign power. If Germany and Italy chose to regard the freezing of their diplomatic accounts and the licensing of the expenditures of their diplomatic and consular missions in this country, however liberally administered by us, as an affront to their sovereign rights--which, indeed, it would be--they might subject our missions and consulates to a similar or more stringent treatment. The contrary view is that Germany and Italy have already had sufficient occasion for resentment against us because of much more important acts of aid to Great Britain on our part than would be represented by the freezing order and are therefore not likely to do anything about such an order, unless they want to use it as an excuse, in which case they can find other excuses as well.

It is agreed that the Axis powers would undoubtedly retaliate by worsening the treatment now being accorded to our financial interests, which, especially in the case of Germany, has recently notably improved. It has been suggested

suggested, however, that German policy of increasing of late the transfer of some payments to American interests is for the purpose of gaining the sympathy of the recipients, and that Germany might continue to do so for the same reason or that, if the transfers were stopped, there might be compensating advantages.

(2) Complications with the American Republics

There are several points here about which friction might arise. First, in so far as freezing controls were effective in preventing transactions between Axis accounts in this country and consorts in the American Republics the action would affect both parties to the proposed transaction--that is, the Axis interest and the Latin American interest. Presumably the transaction would be of some advantage to the latter, and irritation might arise from its prevention. In this respect it is assumed that this Government must obviously be taking other measures in this hemisphere which are to the benefit of the American Republics and that, therefore, the preventive transaction would not stand alone. On net balance, it is argued, the American Republics would gain more than they would lose from the total of this country's efforts in South and Central America.

Another point at which friction might arise is

through

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through the possible determination that certain accounts alleged to be owned by nationals of South or Central American countries were in reality controlled, in whole or in part, by German or Italian interests. If, say, German interests owned a ten per cent interest in a Latin American company, resentment might easily arise from the freezing of that company's account here, while failure to freeze such an account would leave open a channel of evasion. Pursuit of this and other types of evasion through the use of South American concerns may take us into disputes with various South American countries at the time when we are seeking, and in the main securing to a marked degree, their cooperation in common economic measures.

(3) Evasion through Russia and Japan. The order as now proposed is limited to the continent of Europe in order to avoid undesirable complications with regard to Russia and Japan, which would be unquestionably dangerous in the case of Japan and do not at present appear desirable in the case of Russia. Here again, however, as in the case of South American countries, pursuit of evasions may well create serious irritations and lead to a situation in which the choice would be between applying freezing control to these countries or failure to a

marked

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marked degree to implement freezing against Germany and Italy.

(4) Effects on Switzerland, Sweden, and Portugal.
The order as proposed would affect these countries and may have far-reaching effects on their domestic and international positions. The representatives of Switzerland and of Sweden, as well as those of Finland, have already officially expressed most anxious concern.

In considering the effect on Switzerland, the matter has psychological aspects as well as economic and financial ones. The total assets belonging to the Swiss, and Swiss nationals, are in the neighborhood of a billion and a half dollars. The Swiss Government has asserted that this constitutes between one-fourth and one-third of the mobile wealth of the country. It includes a large part of the capital and reserve of the Swiss National Bank, of the private Swiss banks, and of various Swiss firms, as well as the savings of many private individuals. The assets of the private Swiss banks, it should also be noted, are built up largely from the savings of the Swiss people, and more than perhaps in any other country of Europe, the savings are the basis of the Swiss social structure.

The suspicion exists that various accounts now in
this

this country which claim Swiss nationality in reality belong to nationals of other countries. This may be true particularly of the accounts of specific Swiss companies that are indirectly controlled in other countries. The Swiss Government has pointed out that, in its belief, the amount of German funds directly or indirectly represented by these accounts will be found to be negligible because of the great withdrawals in recent years as a result of a heavy penalty administered by the German Government against nationals with capital outside Germany.

The Swiss economic situation has now to reckon with serious dislocation of markets and of raw material supplies. There is plain nervousness in all industrial and financial groups and great fears of widespread unemployment. Any action taken at the present time that would seem to place under rigid restriction the financial reserves of Swiss banking and manufacturing institutions, would almost certainly have further serious psychological effects throughout Switzerland. These would obviously be magnified by Axis propaganda.

In the light of this fact various suggestions have been made whereby the degree and manner of control that would be exercised over Swiss funds would be lessened.

These

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These suggestions include

(a) The granting of a general license to Switzerland on condition of full information and disclosure.

(b) Granting permission for all Swiss accounts to buy or sell American securities.

(c) Issue of a general license to pay for all purchases in the United States for shipment to Switzerland.

(d) Permission to any Swiss private account to be transferred to the account of the Swiss National Bank.

The granting of such comparative freedom of disposal would of course lessen the actual economic and financial effects, and if properly announced and understood, would somewhat diminish the psychological effect.

On the other hand, the situation in Switzerland is extremely tense. The very word "freezing" is there widely associated with the costly experience that Switzerland has had in her trade and financial relations with Germany. Thus even though there were simultaneous announcement of the comparative freedom of action to be allowed under a freezing order, the announcement might still have very serious connotations and repercussions.

It is estimated that Swiss has in the neighborhood of \$250,000,000 in this country. A freezing order would

not

not seem to have as grave possibilities of harmful effect in Sweden as in Switzerland, though there, too, it would be occasion for powerful pro-German propaganda.

Portuguese accounts in this country are not extensive. There has been some increase in shipments of gold from Portugal, which suggests that it might have been acquired from Spanish or German sources. There seems to be less possibility that Portugal would be used as an avenue of evasion than any of the other countries, since such operations would be more clearly discernible in these transactions. It is important that our relations with Portugal are kept on the best possible basis, since it is our point of contact with Europe for air and marine communication. A freezing order applied to Portugal would entail substantial risk. It has been suggested that these might be minimized by the announcement of a general license at the same time.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

CONFIDENTIAL

DATE February 24, 1941

TO Secretary Morgenthau
FROM Mr. Haas
Subject: The Business Situation,
Week ending February 22, 1941.

Summary

(1) The preliminary estimate of the FRB index of industrial production for January, seasonally adjusted, has been revised upward 1 point to a new all-time high at 139, as compared with 138 (revised) for December. This high level of production has apparently been well maintained in February, although steel ingot production on a seasonally-adjusted basis is lower, and the New York Times index of business activity has declined slightly.

(2) Retail trade in January, after allowance for seasonal factors, held close to December's high levels. On the basis of department store and new automobile sales reports for the early part of February, the current month promises to make a strong showing. Consumer buying has been stimulated by the rising tide of national income payments, although some forward buying doubtless has been taking place.

(3) Steel production last week showed the largest decline of any non-holiday week in recent months (2.5 points), largely due to shutdowns for repairs, although labor troubles were a slight contributory factor.

(4) Security and commodity prices were higher at the end of last week. Prices of imported commodities again rose sharply on increased tension in the Far East, fears of shipping shortages, and further ocean freight rate increases.

- - - - -

- 2 -

Industrial production maintains high level

The preliminary estimate for the FRB seasonally-adjusted index of industrial production for January proved to have been 1 point too low, and the figure for the month now stands at a new all-time high of 139, as compared with 138 (also revised upward) in December. The vigor of industrial activity is attested by the fact that in the last two months all monthly records have been broken for such basic items as steel production and cotton, copper, and rubber consumption.

This fast pace of industrial production appears to have been well maintained in the current month, although steel ingot production has recently shown a moderate contra-seasonal decline, and the New York Times adjusted index of business activity has fallen slightly below January levels.

The upward surge of industrial production in recent months has carried output in certain important industries well above the highest levels attained in 1929 or in the 1937-39 period. Thus, among the durable goods industries, which have benefited particularly from the defense program, new peaks have been reached by the iron and steel, machinery, non-ferrous metals, and stone, clay and glass industries. (See Chart 1.) In addition, among the non-durable goods industries, the chemical, textile, and rubber industries have also reached new production peaks. These new highs in every instance represent actual physical volume of production, since the comparisons have been made without seasonal adjustment.

Retail trade very active

In addition to the requirements of the defense program, industry is being called upon to provide for expanding consumer buying in the normal lines of trade. Thus, department store sales in January, after allowance for seasonal factors, maintained the strong showing made in December. (See Chart 2.) Furthermore, in the first half of February, department store sales showed gains of about 19 per cent over the corresponding period last year. While part of this gain may be discounted due to the relatively poor showing of trade in February 1940, nevertheless it now appears likely that department store sales in the current month will show a further gain on a seasonally-adjusted basis.

- 3 -

Variety store sales in January, after allowance for seasonal factors, showed only a fractional decline from December levels, which in turn were the high for 1940. (Refer to Chart 2.) After rising substantially at the end of 1940, rural retail sales in January on a seasonally-adjusted basis held very close to the previous month's high levels, and showed a gain of 8 per cent over January 1940. (Refer to Chart 2.)

In addition to the recent strong showing of other lines of trade, retail sales of new automobiles in January and early February contributed further strong evidence of expanded consumer buying. Preliminary estimates indicate that January retail sales ran about 30 per cent above January 1940 and were a trifle above the previous month, in contrast to the usual substantial decline. During the first 10 days of February, this strong showing appears to have been fully maintained.

Heavy buying by consumers, especially of automobiles, has been attributed to advanced purchasing prompted by fears of price increases and possible production curtailment, particularly in the automobile industry. While these factors undoubtedly have been present in some degree, the rising tide of national income payments probably has been a more potent influence.

The great importance of the increased income payments is brought out in a new chart we have prepared, in which the high degree of correlation between department store sales and national income payments on an annual basis in recent years is clearly shown. (See Chart 3, at left.) The monthly sales figures, of course, show considerable fluctuation in relation to the more stable national income trend. (See right section of chart.) It will be noted that sales have recently been running somewhat higher than could ordinarily be expected at current income levels. In contrast, sales were relatively low last spring and during certain other periods of extreme tension abroad.

Steel production declines

The largest drop in steel ingot production in recent months, with the exception of Christmas week, occurred during the past week, when the operating rate dropped 2.5 points to 94.6 per cent of capacity. This decline was attributed largely to shutdowns for repairs, although labor troubles at Youngstown, which have already been settled, and at Buffalo caused some loss of production. The operating rate for the current week is scheduled at 96.3 per cent of capacity.

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Although trade sources report no substantial change in the volume of new business booked by steel mills, orders received by the U. S. Steel Corporation during the second week of the current month decreased to the lowest point since the first of the year. Nevertheless, this volume of new orders was still nearly 40 per cent in excess of capacity.

Among other records broken by the steel industry in January was that for the consumption of Lake Superior iron ore, which increased nearly 3 per cent above the previous peak figure attained last December. Despite this record consumption, stocks of ore at furnaces and Lake Erie docks on February 1 were only about 1 per cent below year-earlier levels. At the current rate of consumption, stocks were equivalent to a 4.7 months' supply, which is somewhat higher than the trade had expected a few months ago.

While no significant change occurred in prices of No. 1 heavy melting steel scrap during the past week, trade sources indicate that scrap has been slow in coming out at the new lower price level established recently. This is said to be due in part to the abnormal situation prevailing with respect to price differentials between the various districts and the different grades of scrap.

New orders still high

Our index of new orders declined to 174.4 in the week ended February 15, compared with 191.4 in the previous week, with all components lower. In spite of this decrease, the index is near the high level about which fluctuations have occurred since October. (See Chart 4.)

Prices of imported commodities sharply higher

Rising tendencies in the commodity markets were accelerated during the latter part of last week, as security markets strengthened. (See Chart 5, upper section.) Prices of imported commodities again rose sharply, with increased tension in the Far East and the fear of a shipping shortage as major influences. Trade reports indicate that further ocean freight rate increases are in prospect. Of the 11 imported commodities included among the BLS basic commodities, only hides and wool declined in the week ended February 20. (See Chart 5, lower section.) In that week, the following price changes were reported:

- 5 -

Shellac: Prices increased 15 per cent. Cargoes from the Far East have been allocated for strategic and critical materials for the next 4 to 5 months, so that space remaining for commodities like shellac will be limited. Shellac is beginning to pile up in Calcutta. Both civilian and military domestic demand for raw paint materials is strong.

Tin: Spot prices increased 7 per cent; futures prices higher. The nearby shipping situation is tight and practically all tin afloat has been sold. The price of tin increased sharply in London and Singapore.

Coffee: Spot prices increased. Minimum export prices in Colombia were raised once more, while freight rates for April-May shipments from Brazil have been increased.

Cocoa: Spot prices were higher on fears of shipping shortage, together with further influence of a possible quota arrangement.

Silk: Spot prices increased; futures prices higher. Fear of shipping shortage was the primary influence. Domestic dealers say that Japanese government purchases have absorbed most of the desirable grades.

Flaxseed: Spot prices increased. Domestic requirements for flaxseed shipping space are covered for about 1 month, but the freight situation remains tight.

Sugar: Spot prices have increased and futures prices are higher. The ocean freight situation is tightening. Miss Elliott, NDAC Commissioner, warned against any statements that a sugar shortage is in prospect, and discounted a statement by a southern producer that the retail price of sugar may reach 10 cents.

Burlap: Prices increased. Current offerings limited because of shipping shortage, although some additional space will be available in March and April. Accumulation in Calcutta is substantial.

Rubber: Spot prices increased; futures considerably higher. Shipping space is tight. January crude rubber consumption in the United States was 64,000 long tons, the highest on record and 12.4 per cent over the previous high in October 1939.

Hides: Spot prices decreased but futures prices were higher. According to trade reports, the Argentine market is temporarily sold out.

- 6 -

Prices of domestic commodities slightly lower

Although the HLS index of spot prices of domestic commodities declined slightly for the week ended February 20 (refer to Chart 5), futures prices generally showed a rising tendency and closed above the previous week's levels.

Wheat: Spot and futures prices moved higher. Buying orders accompanied reports of a cold wave and reduced receipts at terminal markets. Another bullish influence was the announcement by the Department of Agriculture that farmers will be asked to vote on May 31 on whether a marketing quota shall be imposed. Acceptance of the quota scheme will mean curtailed production.

Zinc: Futures prices steeply higher, although spot prices nominal and unchanged. Trading in zinc futures in the past month has been small in volume so that the significance of the futures price quotations is limited. The Price Stabilization Division of the Defense Council last week requested zinc smelters to make sales on the Commodity Exchange only to liquidate current long positions, a move which will tend to curtail trading further. A strike was reported during the week at the third largest zinc smelter in the country.

Tallow: Prices declined, representing further reaction following previous steep advance; soap manufacturers buying in volume.

Steers: Prices lower. The number of cattle on farms January 1, other than milk cows, reported by Department of Agriculture at 5 per cent larger than a year ago and 8 per cent above the ten-year average.

Weekly business indexes

Declines in four components of the New York Times index of business activity slightly outweighed gains in the remaining four components during the week ended February 15, and the combined index receded 0.2 to 120.9.

The principal factors in the small decrease were contra-seasonal declines in automobile production and cotton mill activity. In addition, the indexes of electric power production and miscellaneous freight carloadings, after allowance for seasonal factors, showed fractional declines. On the other hand, a substantial rise in the adjusted index of

- 7 -

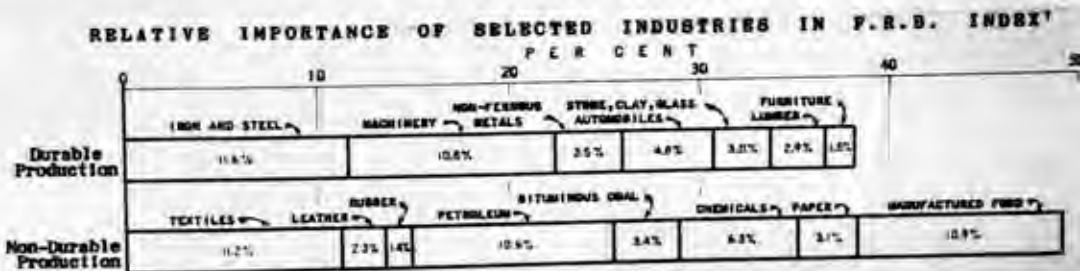
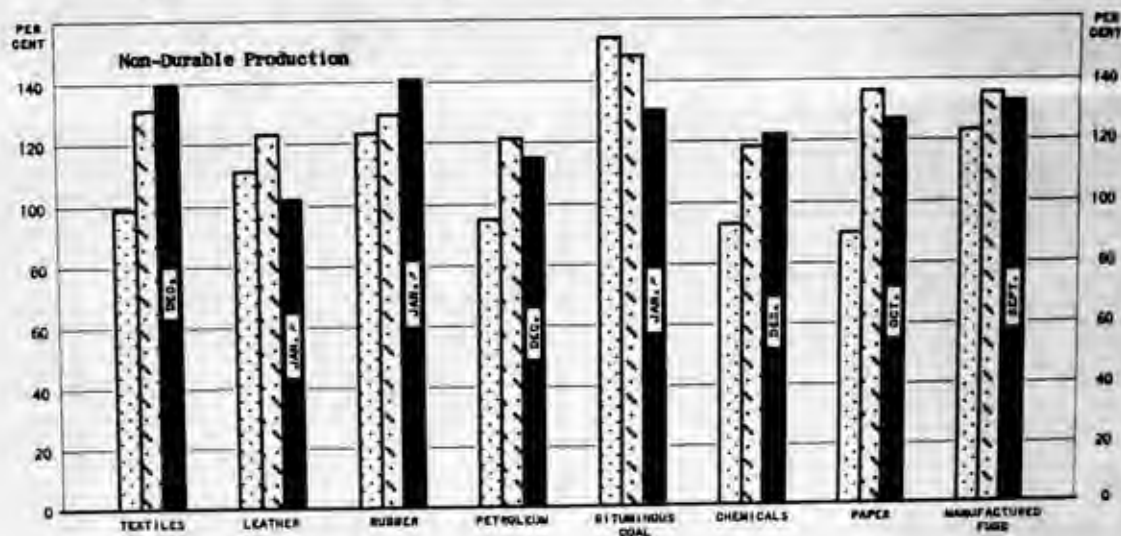
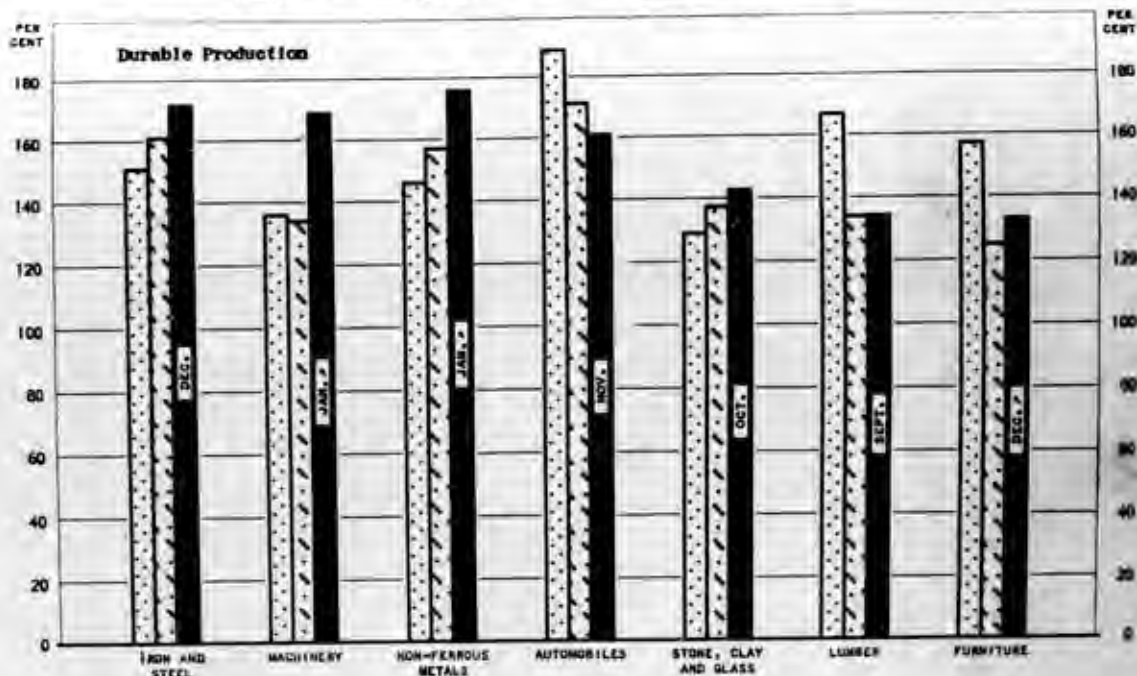
paperboard production was the principal factor tending largely to offset the declines above mentioned. The adjusted indexes of lumber and steel ingot production and "all other" carloadings all rose fractionally.

Barron's index of business activity again ran counter to the New York Times index and rose to a new high at 130.2 from 130.0 in the previous week.

Preliminary data for the week ended February 22 reveal (1) a moderately greater than seasonal decline in steel ingot production, and (2) a slightly less than seasonal rise in automobile production, despite an increase in actual output to a new high for the year at over 129,000 units -- a gain of 1,700 over the previous week.

F.R.B. INDUSTRIAL PRODUCTION IN SELECTED INDUSTRIES
Recent High Compared with Peak Month in 1929 and Peak Month in Period 1937-1939
1935 - 1939 - 100, UNADJUSTED

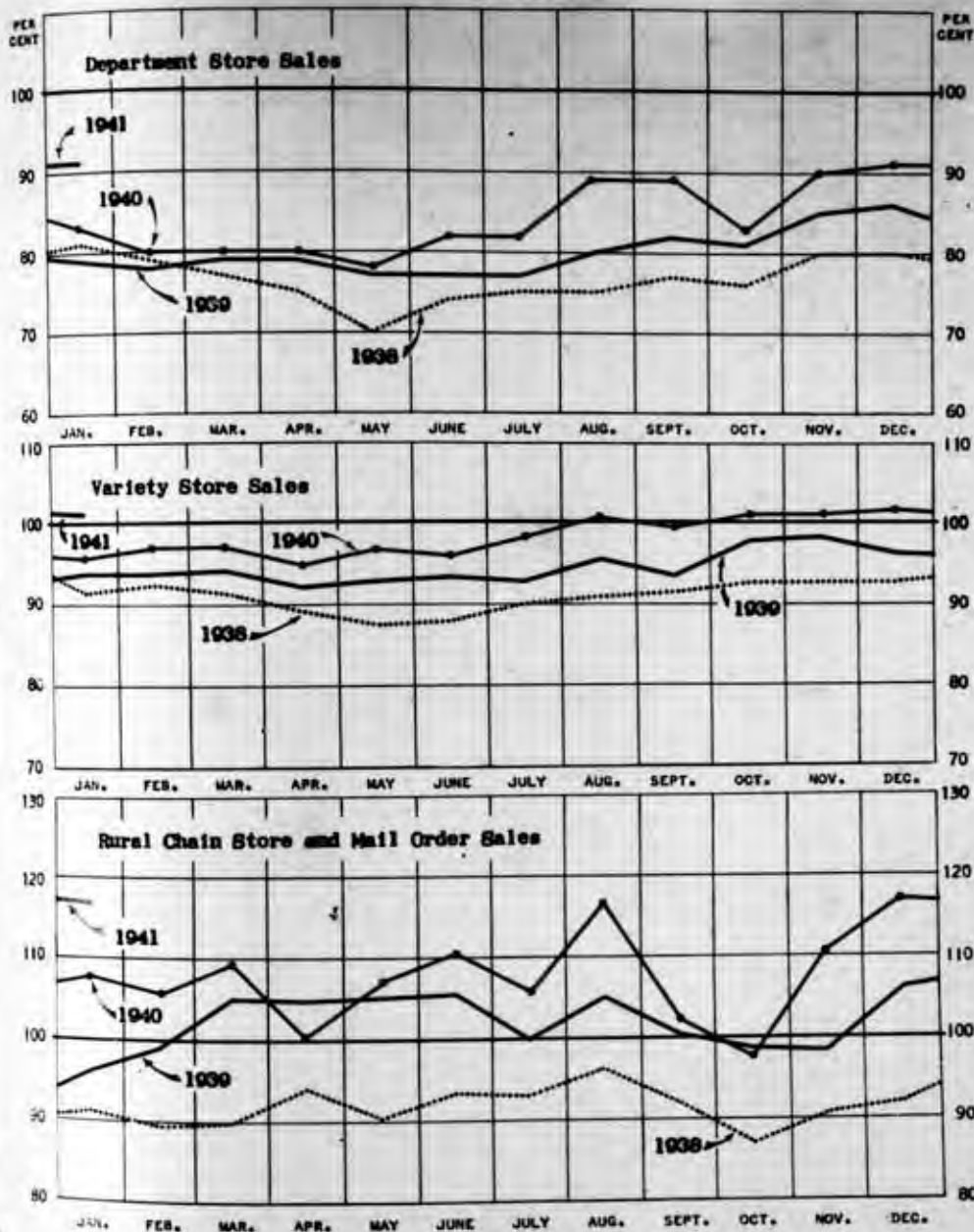
1929 Peak
 1937-1939 Peak
 Peak, Sept. 1940 to date*



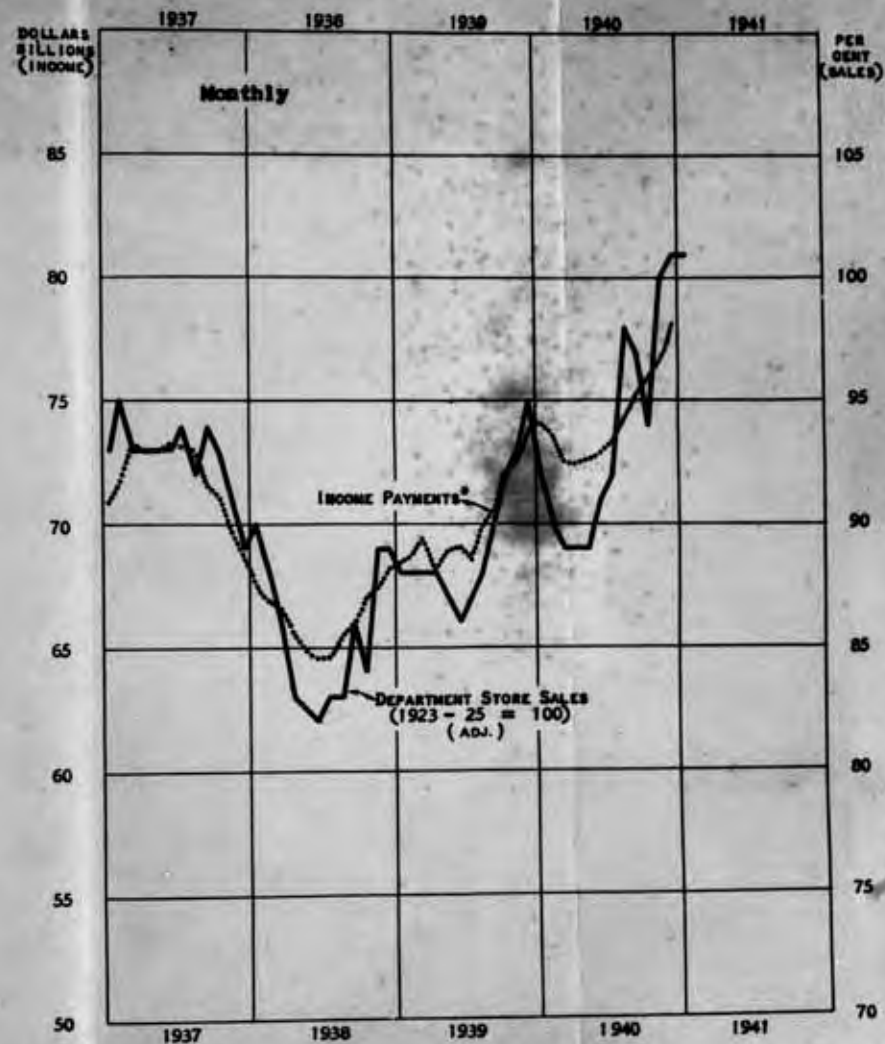
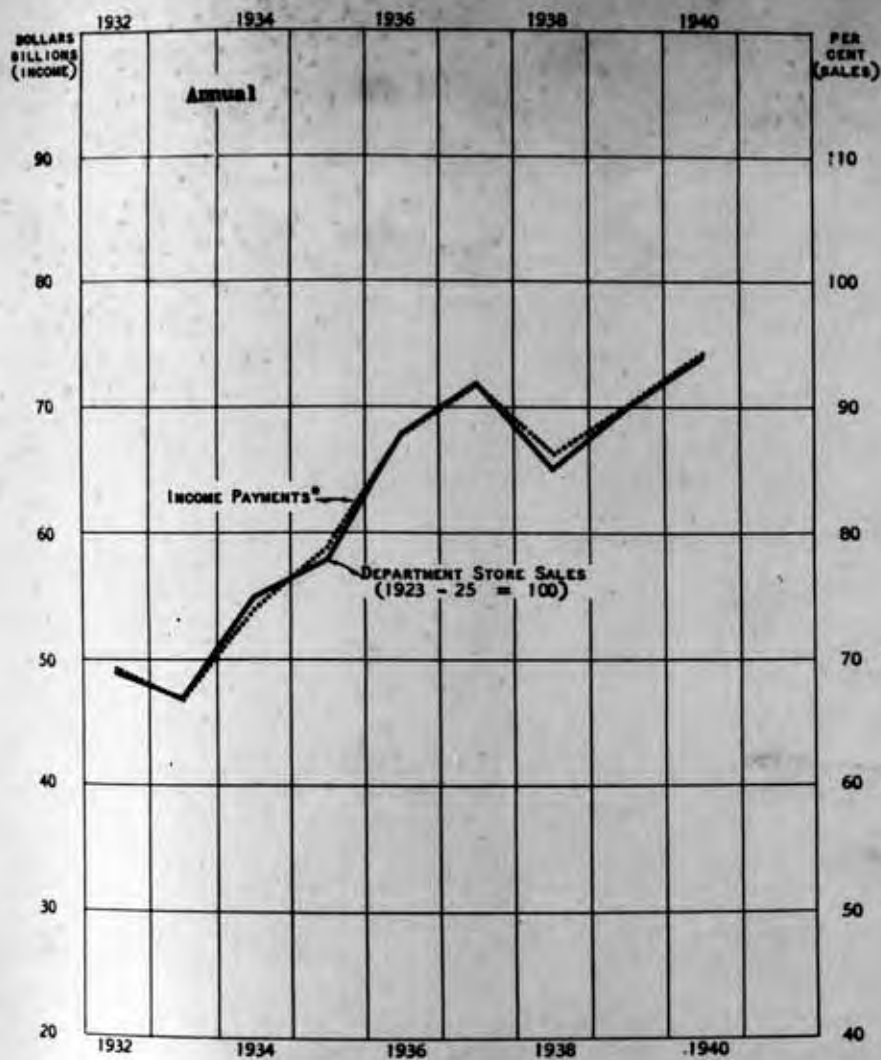
* BASED ON LATEST AVAILABLE F.R.B. FIGURES.

† WEIGHTS ON THE INDIVIDUAL ITEMS INCLUDING BOTH MANUFACTURING AND PRIMARY PRODUCTION

RETAIL TRADE
Urban and Rural Sales of General Merchandise
 1929 = 100, Adjusted



DEPARTMENT STORE SALES AND NATIONAL INCOME PAYMENTS



* SEASONALLY ADJUSTED MONTHLY FIGURES, MULTIPLIED BY 12

INDEXES OF NEW ORDERS

Combined Index of New Orders and Selected Components

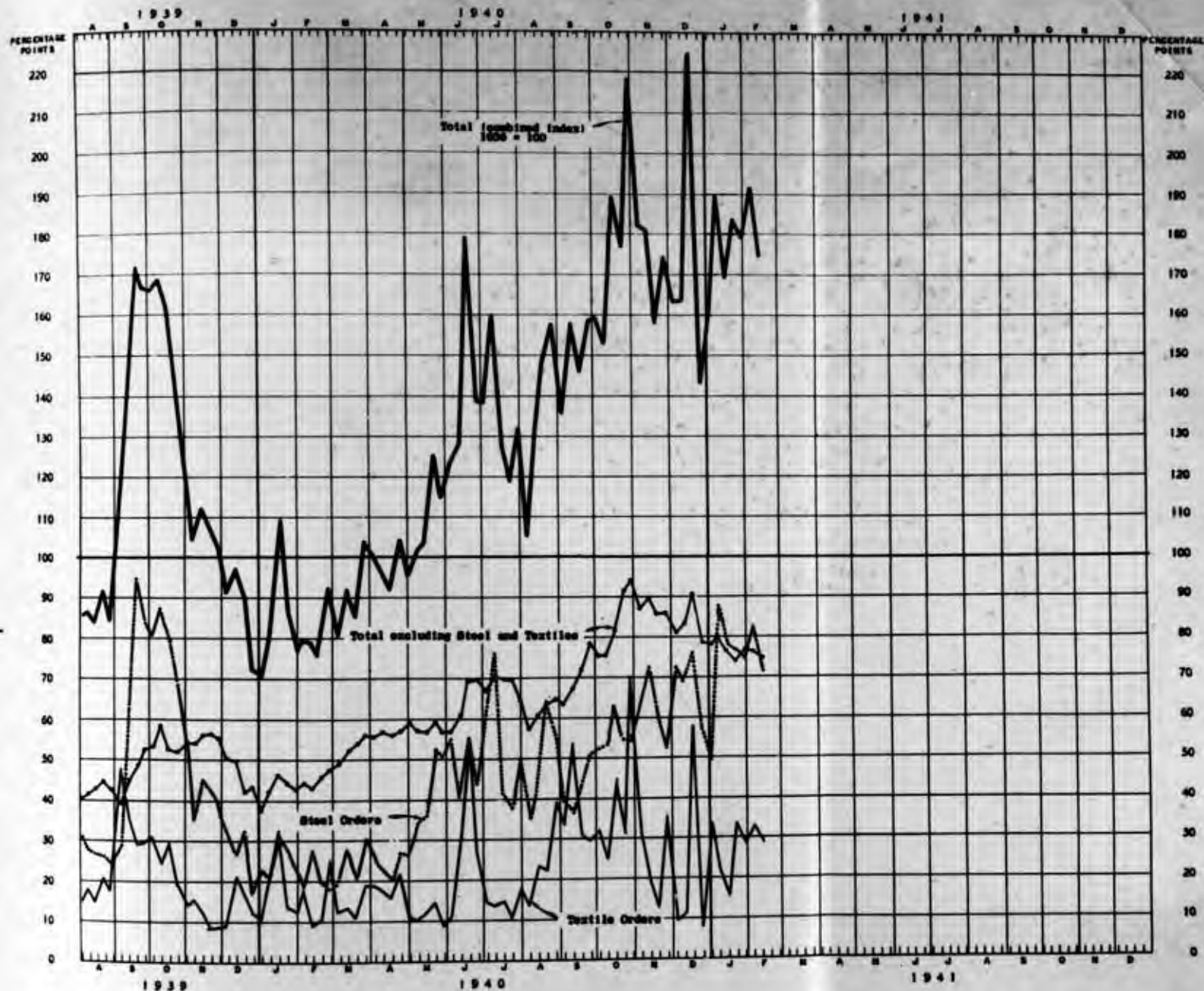
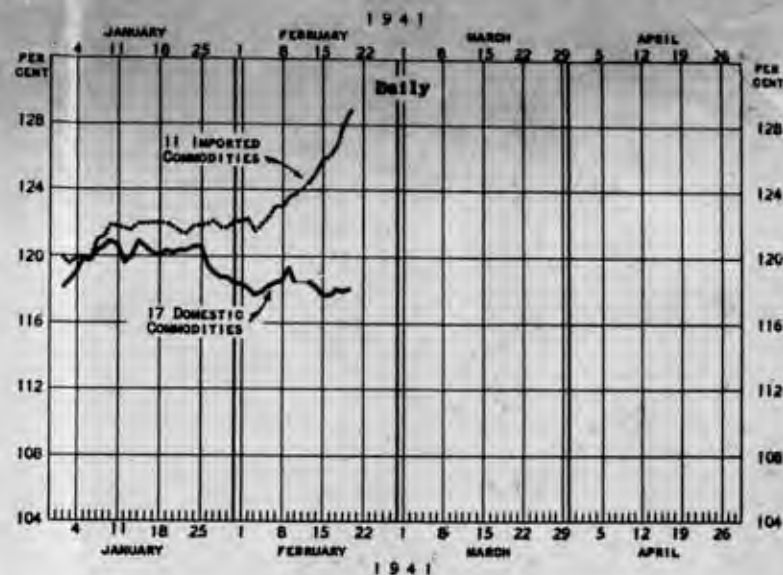
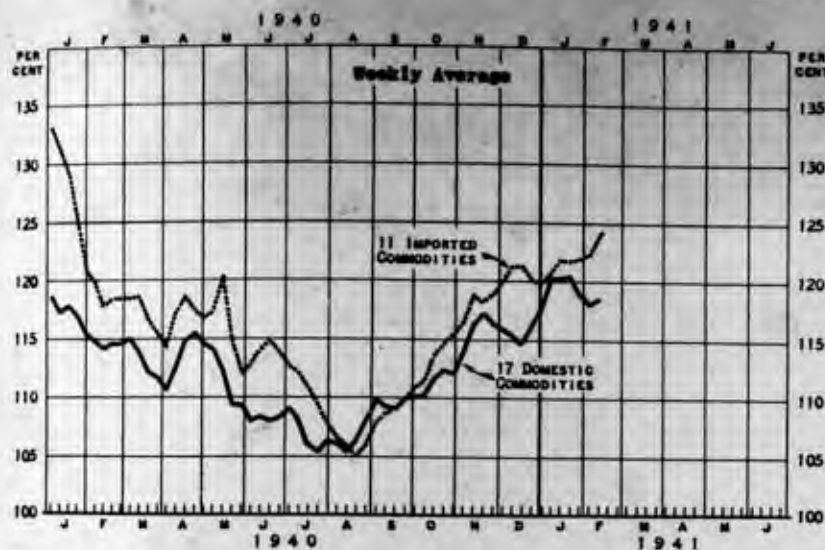


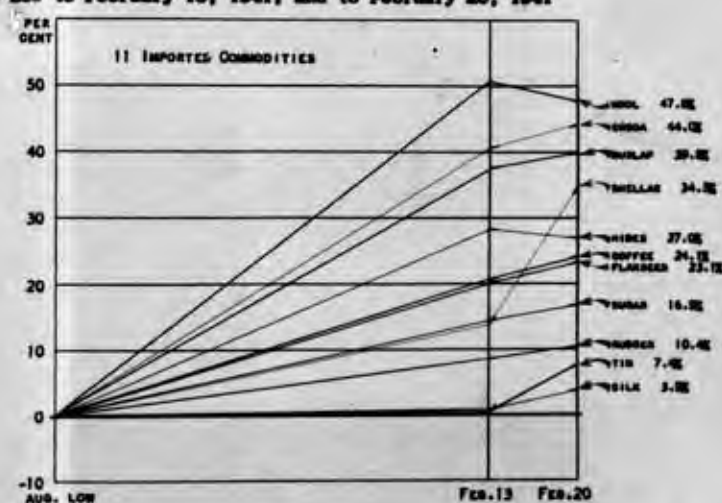
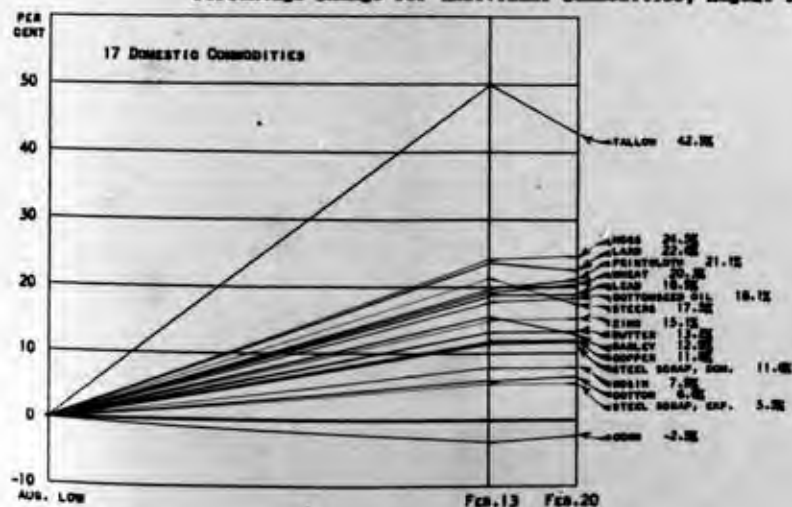
Chart 4
CONFIDENTIAL

MOVEMENT OF BASIC COMMODITY PRICES Domestic and Imported

AUGUST 1939 = 100



Percentage Change for Individual Commodities, August 1940 Low to February 13, 1941, and to February 20, 1941



415

Confidential

Rangoon, Burma, February 24, 1941

SUBJECT: Foo Shing Trading Corporation buys storage and steaming tanks for wood oil at Rangoon; only a small quantity of oil shipped to date, but more than 7,000 tons now in Burma; transport facilities a problem; Burma not to levy transit duty.

THE HONORABLE

THE SECRETARY OF STATE,

WASHINGTON, D. C.

SIR:

I have the honor to report that the Foo Shing Trading Corporation has made definite arrangements for the erection at this port of storage and steaming tanks that will enable it to treat China wood oil destined for the United States, according to the statements of the local manager of that concern.

He says that four 1000-ton steel tanks have been purchased in the United States, that they will be shipped in sections to Rangoon, and that it is hoped to receive them in March and to have them ready for oil storage in May. Also, that three 50-ton steaming tanks, with boilers, pumps, and other equipment, have been obtained from a British firm in Shanghai, and that two 10-ton steaming tanks have been procured locally. It is expected to have these latter steaming tanks in operation by the middle of March, and the larger units by the middle of May. A chemical laboratory has been set up for testing and grading the oil.

More Than 7,000 Tons in Burma.

The Foo Shing manager here reports that the wood oil now in Rangoon and at Lashio totals more than 7,000 tons. Most of the oil continues to reach Rangoon by rail from Lashio, but some oil is now being shipped to this port by river, from Bhamo, to which point it is taken by the highway which connects with the Burma Road 105 miles north of Lashio. Only two small shipments of wood oil from Rangoon to New York have been made this year, up to this time. The first shipment, one of 447-1/3 long tons, left this port early in January, and the second, one of 651 long tons, went forward on February 9th. Oil of the first shipment was priced at 26-1/4 cents a pound, c.i.f. New York, and that of the second shipment, at 26-1/2 cents; the declared value of the two shipments was US\$ 577.396.

The total movement of China wood oil from Rangoon to the United States to date has been 2,961-1/2 long tons, valued at

- 2 -

US\$1,370,333. Shipments in 1939 amounted to only 53-1/2 tons, and four shipments made in 1940 reached a total of only 1,810 tons.

Little Cargo Space Available.

The Foo Shing manager in Rangoon also reports that the question of shipping space for wood oil moving to New York from this port, either in drums or in bulk, still presents difficulties, as relatively little space is obtainable through local steamship agents. Most of the cargo space of American steamers now calling regularly at Rangoon is reserved for Calcutta shipments. The assistance of the Universal Trading Corporation in solving the shipping problem is expected by the Foo Shing interests, and it is understood here that the matter has been taken up in New York. Pending the erection of steaming tanks here, Foo Shing is ready to forward oil to New York for required treatment there, if transport facilities can be obtained.

The ocean freight rate on wood oil from Rangoon to New York is to be increased by \$5.00 a ton, or from \$20.00 to \$25.00, according to advices received by the local Foo Shing office from the agents of the American Export Lines. Shipments up to this time have been made on American Export vessels.

No Transit Duty on Exports.

It is authoritatively stated that no transit duty will be levied on China wood oil passing through Burma for shipment from Rangoon, a proposal for a duty of one percent on export products having been abandoned after discussion of the matter at the recent Burmo-Chinese conference at Chungking. When the matter was taken up the representatives of the Chinese Government asked not only that no transit duties be levied on China's export products, but that the present duty of one percent ad valorem on goods imported through Burma be canceled, and in this connection they pointed out that when the ports of Indochina were open to Chinese trade no transit duties were demanded by the Indochina Government. With reference to the duty on imports, the members of the Burma mission contended that one percent was not unreasonable in view of the fact that Burma had to bear considerable costs for additional customs services, including guards, but it was agreed that no further action would be taken in connection with the proposal for a transit duty on China's exports.

Respectfully yours,

Austin C. Brady
American Consul

Distribution:

In quintuplicate to Department.
Copy for Embassy, Chungking
Copy for Consulate, Kunning.

BOC
ACB/cp
whcopy

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 24, 1941.

TO For Miss Gannett
Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£ 66,000
Purchased from commercial concerns	£115,000

Open market sterling opened at 4.03 and it closed at 4.03-1/2. Transactions of the reporting banks were as follows:

Sold to commercial concerns	£ 17,000
Purchased from commercial concerns	£ 1,000

In Shanghai the United States dollar again moved higher against both the Chinese yuan and sterling. The yuan was quoted at 5-19/32¢, off 1/16¢ and sterling was 3.91, off 1¢. In Hong Kong the Hong Kong dollar was quoted at 24-7/16¢ and sterling was 3.91.

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

Canadian dollar	15% 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

There was no quotation for the Cuban peso as it was a holiday in that country.

We sold \$2,450,000 in gold to be added to the earmarked account of the National Bank of Yugoslavia.

The Federal Reserve Bank of New York reported that the Bank of Canada shipped to it gold valued at \$2,252,000 for account of the Government of Canada. This gold will be sold to the Assay Office at New York.

In London the prices for both spot and forward silver were up 1/16d at 23-7/16d and 23-3/8d respectively. The United States equivalents of these prices are 42.56¢ and 42.44¢.

Bandy 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¢.

There were no purchases of silver under the Silver Purchase Act.



BRITISH EMBASSY,
WASHINGTON.

Personal and Secret.

February 24th 1941.

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

Halifax

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D.C.

BRITISH EMBASSY,
WASHINGTON.

Personal and Secret.

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United States Treasury,

Washington, D.C.

TELEGRAM FROM LONDON DATED FEBRUARY 21st 1941.

Naval.

One minesweeping trawler was mined off Tyne a.m. February 20th. No report of sinking received.

2. Very heavy fall of snow Tyne area on February 19th - 20th by seriously interfering with all transport will delay repairs to ships in hand.

3. Wolf Rock Light reported put out of action by machine gun fire.

4. Bramble off Harwich p.m. February 20th was attacked by 2 enemy aircraft. One bomb hit but did not explode and she is holed on water line. Bramble shot down one aircraft.

5. Two ships were bombed off Falmouth - one reported on fire and sinking the other a 7000 ton tanker was undamaged.

6. Military. Ethiopia: South of Lake Tana enemy retreating from Njabara suffered many casualties from patriots.

7. Italian Somaliland. On the night of February 17th small parties of our troops crossed the Juba river at Yonte and established a bridgehead. An enemy counter attack with lorry borne troops was repulsed. Later reports state that a number of South African troops have now reached East bank in the same locality. Our troops also attacked North of Jelib.

8. Royal Air Force. On February 20th one Blenheim attacked docks at Ijmuiden causing a large fire and two offensive operations were flown over France by small formation of fighters.

9. Night of February 20th - 21st. All operations cancelled.

- 2 -

10. On February 18th & 19th military objectives in Asmara and Keren areas were bombed and machine gunned; seven enemy aircraft were destroyed on the ground.

11. German Air Force. Six M.E. 109's attacked by five Spitfires (some words undecypherable) Canterbury (some words undecypherable) two of our aircraft and pilots were lost.

12. Night of February 20th - 21st. About 145 enemy aircraft were operating, 90 over South Wales and the majority of the remainder in the Chatham area.

13. Libya. On February 19th five enemy bombers escorted by seven M.E. 110's were intercepted by six Hurricanes over Bengasi; one enemy bomber was damaged.

14. Same day Bengasi was attacked by two Heinkel bombers, one of which was destroyed by anti-aircraft. Three Hurricanes engaged seven M.E. 110's near Agheila; two of our aircraft were shot down, one pilot is safe.

15. Aircraft casualties in operation over and from British Isles - German one probable, British two fighters lost.

16. Home Security. Swansea was attacked fr the second night in succession. Fires were started in locomotive shed, timber yards, warehouses and residential areas. From preliminary reports damage appears confined mainly to residential property.

17. Later in the night Chatham was attacked, damage was caused to gas and electric mains and serious damage to one gas works.

TELEGRAM RECEIVED FROM LONDON

DATED FEBRUARY 22nd, 1941.NAVAL

Units of the Mediterranean Fleet on February 21st landed military reinforcements at Malta from Alexandria.

2. German long distance aircraft damaged a tanker in an outward convoy west of Hebrides on the 20th and on the 21st severely damaged 7000 ton tanker in the same convoy 320 miles west of Cape Wrath; former returning to harbour, latter maybe towed in. Fokker Wulf raids on western approaches made most days but not always successful and of the ships hit a good proportion only damaged.

3. FAEROES.

Two enemy aircraft attacked an oiler and an oil cistern without success. One aircraft was brought down by a Naval trawler and ground defences, one naval trawler was sunk.

4. MILITARY. LIBYA.

One hundred and seven Italian medium tanks were captured or destroyed in recent operations south of Benghazi.

5. ERITREA.

Total prisoners taken on Eritrean front between 20th January and 20th February were 47 Italian officers, 698 other ranks and 5576 Colonial troops. In addition many prisoners have been taken in Blue Nile, Upper Nile and Gojjam areas.

R.A.F/

6. R.A.F. Night of 21st/22nd.

51 aircraft were sent to attack industrial targets at Wilhelmshaven and Dusseldorf, aerodromes in Northern France and docks at Boulogne. 42 more were engaged in mine laying; and 11 coastal command aircraft attacked a cruiser at Brest where preliminary reports indicate that some bombs hit the dock. From all operations three aircraft are missing.

7. GERMAN AIR FORCE.

On 21st about 75 enemy aircraft carried out patrols and reconnaissances and further 10 crossed our coast.

8. Night of 21st/22nd. Swansea was attacked for the third night in succession, by approximately 90 aircraft.

9. LIBYA.

On 20th February Benghazi was attacked by a number of unidentified aircraft one of which was destroyed by anti-aircraft fire.

10. Aircraft casualties in operations over and from British Isles. Enemy: Nil, British: 3 bombers missing.

11. HOME SECURITY. Swansea. Night of 21st/22nd. Most bombs fell in centre of the city and no reports of damage to docks or industrial areas have been received. There were many fires.

RESTRICTED

G-2/2657-220
No. 323

M.I.D., U.D.
February 24, 1941
12:00 M.

SITUATION REPORT

Note: This report covers the period February 21-24.

I. Western Theater of War.

Air: Relatively light activity by both sides. The R.A.F. operated principally against the Invasion Ports.

II. Greek Theater of War.

Ground: No change.

Air: Minor activity only.

III. Mediterranean and African Theaters of War.

Ground: Italian Somaliland. British troops have occupied Jumbo (Giumbo) near the mouth of the Juba (Giuba) River. British operations east of the river are reported developing satisfactorily.

Abyssinia (Ethiopia). A combined force of British and native Ethiopians have occupied Shogahi (Scioghali) on the blue Nile.

Libya and Eritrea. No change.

Air: German and Italian planes continued offensive operations along the Libyan coast. Elsewhere, minor activity only.

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

**Summary of Code Intelligence
Received at the War Department
at 9:44, February 24, 1941.**

London, filed February 24, 1941.

1. On Sunday, February 23, adverse weather caused the abandonment of flights of British medium bombers that were assigned the missions of bombing Brast, Boulogne and Dunkirk. During the preceding night the Brast airfield and German naval targets in the harbor at this port were attacked by a medium-size formation of British heavy bombers. Due to cloudy weather results could not be observed. German night fighters were up but all of the British bombers returned safely. One of the German fighter planes was shot down.

2. During the night of February 23-24 there were some civilian casualties and some damage to private property as a result of light German attacks on London and southeast Britain. There were no British aircraft losses and no damage to military establishments. Later in the night the Germans planted mines along the coastline from The Wash to Flamborough Head and engaged in a raid on the Humber River area. Late reports show that during daylight hours of February 23, 134 German fighter planes, 20 bombers and 23 reconnaissance-type planes were plotted over England. A total of 145 German fighter planes were on patrol duties over the western section of the French Channel coast during this day.

3. British aircraft activities in the Middle East were as follows: Four Italian planes were destroyed by British fighters over France, Greece, and an Italian motor transport concentration, land

CONFIDENTIAL

forces and supply depots near the Allamien town of Bari (?) were attacked by British bombers; Italian land forces in the vicinity of Brusa, on the Indian Ocean in Italian Somaliland, were attacked by Kenya-based British planes with machine gun fire and bombs; six hangars and a gasoline storage tank at Hannan, Eritrea, were set on fire and eight Italian planes were destroyed when British fighters from the Sudan machinegunned the airfield at this place; Sudan-based British bombers attacked the city of Suva (?).

4. In the Libyan theater the airfield at Agadabia (Johdya) was attacked by German planes and Benghazi was the objective of two German air raids in which machinegun fire was used. Considerable damage was inflicted on the civilian population and on Italian property during these raids. British equipment suffered no damage. On February 22 four mines were planted in the Suez Canal by Axis aircraft.

5. In the afternoon of February 22 a German "pocket battleship" was sighted in the Indian Ocean between the Seychelle Islands and Madagascar. A British cruiser attempted to overtake her but was unable to do so. She is now being looked for by other British naval units.

6. At Swansea, Wales, a total of 128 civilians were killed and 194 civilians were injured seriously as a result of the recent German attacks during three straight nights.

7. Some British military forces have been moved from Alexandria to Malta to reinforce British troops there.

-2-

CONFIDENTIAL

8. German air activities against British merchant shipping consisted of an attack on a west-bound convoy about 210 miles northwest of the Hebrides Islands in which two British vessels were damaged, an attack on another convoy travelling westward about 300 miles west of Cape Wrath, Scotland, in which two British tankers were damaged, and an attack on shipping at Faroe Island during which one trawler was sunk. In this last attack antiaircraft fire brought down one of the German attackers.

9. On February 22 a German warship raider fired on British merchant vessels 500 miles east of Newfoundland.

SCARLE

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-3

-3-

CONFIDENTIAL

TO:

218

MISS CHAUNCEY

O
Mr. Foley carried the original and
2 attachments (drafts (1) and (2)) to
the Secretary's 9:45 meeting this morn-
ing.

2/25/41

O
MR. FOLEY

FEB 25 1941

Mr. Mergenthan

Mr. Foley

RE: Bank Holding Company Legislation.

The following work has been done by the office of the Comptroller of the Currency and attorneys in the General Counsel's office, preparatory to a hearing by the Senate Banking and Currency Committee on the bank holding company bills:

1. Draft of proposed statement to be read by the Secretary of the Treasury before the Committee.

2. Draft of proposed statement to be read by the Comptroller of the Currency before the Committee.

3. List of existing bank holding company groups with number of banks, location, and aggregate deposits of banks.

4. Write-up of each of the existing bank holding company groups with illustrative charts.

5. Brief historical statement of the effect of an excessive dividend policy in some 30 specific banks.

6. Short statement showing the disastrous effect of the operations of The Hancock-Kentucky Company, a defunct bank holding company which operated in the South.

7. A statement relative to operations of defunct bank holding companies in the State of Michigan is almost completed.

8. Digest of laws of certain States relating to control of bank holding companies.

- 2 -

9. Digest of State laws relative to control of bank dividends by State supervising authorities.

It is suggested that the following individuals testify before the Senate Committee on Banking and Currency relative to the bills:

1. Secretary of the Treasury--The Secretary would briefly discuss the subject in a historical manner. He might refer to the extensive hearings (more than 2,000 printed pages) of the House Committee on Banking and Currency in 1930 relative to branch, chain, and group banking. He would deal a little more extensively with the Pecora investigation of stock exchange practices by the Senate Committee on Banking and Currency in 1934, of which some 1,800 pages are devoted to the bank holding company situation in the State of Michigan. He might quote from the report of the Senate Committee on Banking and Currency to the Congress at the close of the Pecora investigation. He would refer to the President's message to the Congress in 1938 and his recommendation for bank holding company legislation. He would briefly discuss the more recent difficulty with Transamerica Corporation. He might end his statement by indicating that there appeared to be little need for any extensive hearings by the Senate Committee on Banking and Currency since the Committee is already fully acquainted with the situation.

2. Mr. Delano--Mr. Delano would give a general summary of the bank holding picture in the United States and the fundamental evils inherent in that system. He might discuss the specific holding company situations uncovered in Michigan, Kentucky, and New England, and might also advert very briefly to Transamerica Corporation.

3. Dean Bates or Mr. Whitney Seymour, or both--Discussion of the Transamerica situation in considerable detail.

4. Mr. Crowley--Mr. Crowley would discuss the inherent evils in bank holding companies, how they might injuriously affect the operations of the Federal Deposit Insurance Corporation, and would set forth his position relative to the pending legislation.

- 3 -

Mr. David Schenker of the Securities & Exchange Commission, with whom the bill has been briefly discussed, suggested that Judge Healy, a Republican member of the Securities & Exchange Commission, might testify before the Committee with reference to the evils of bank holding companies in general. In addition to his experience on the Securities & Exchange Commission, Judge Healy was with the Federal Trade Commission during its extended investigation of public utility holding companies. Mr. Schenker also suggested Judge Pecora as a witness, since he was counsel for the Senate Committee on Banking and Currency in its investigation of 1934, which included an investigation of the operations of bank holding companies in the State of Michigan. However, there is some question whether either of these gentlemen would add very much to the picture. The evils of holding company operations in general seem to be fully appreciated by Congress, and Judge Pecora's views relative to bank holding companies are rather fully set forth in the report of his investigation, which is a report of the Senate Committee on Banking and Currency.

It would be advisable to have some bankers as witnesses on behalf of the bill, if they can be obtained. It is probable that some bankers would testify in favor of the dividend control provisions.

- 4 -

We have not discussed the bill with possible witnesses outside of the Government, such as Dean Bates, Mr. Seymour, and Judge Pecora. If such persons are to be used as witnesses the matter should be taken up with them immediately as it will doubtless take them considerable time to prepare to testify.

You will recall that at the meeting in your office, attended by Mr. Eccles, it was understood that the Board of Governors of the Federal Reserve System would submit to us their suggestions with reference to the legislation. No suggestions have as yet been received from them.

(Initialed) E. H. F., Jr.

DJS:es typed 2.24.41.

The Bill under consideration is designed to curb the extent to which banks insured by the Federal Deposit Insurance Corporation may be controlled by holding companies, at present almost unrestricted, and to enable bank supervising authorities to regulate banks more effectively through the power to prevent the payment of dividends out of funds which should be retained for the purpose of strengthening the capital structure of the banks. It would not prevent corporations from holding the shares of insured banks purely as investments, but would prohibit them from controlling any insured bank through ownership of more than 10% of its stock or otherwise.

If enacted, the Bill would necessitate the dissolution of some existing holding companies or the distribution of a large part of their holdings of bank stock by June 30, 1944. During the interim, there might be a temptation for existing holding companies to drain banks controlled by them of accumulated earnings. In order to prevent that it is necessary to empower bank supervising authorities to prohibit banks from declaring and paying dividends in amounts which might weaken their financial structure. But this portion of the Bill, which authorizes the Comptroller of the Currency and the Federal Deposit Insurance Corporation, to veto payment of excessive dividends by national banks and other insured banks, is designed not only to prevent the milking of controlled banks prior to June 30, 1944, but also to provide the supervising officials with a vitally necessary sanction to assist in the enforcement of the banking laws and in persuading insured banks to engage in safe and sound banking practices.

I am convinced that the problem involved is a serious one demanding prompt attention by the Congress. The dangers inherent in the concentration

- 2 -

of the control of banks in holding companies, must inevitably result in disastrous consequences to the banks controlled by such holding companies, to the depositors of these banks, and to the financial structure of the country. Even during the banking crisis of 1933, when holding companies had not attained their present prominent position in the banking field, we witnessed some startling instances of the destructive effect of holding company domination of banks. Several of these instances will be discussed by the Comptroller of the Currency when he appears before you.

I do not intend to burden you with an involved discussion of the evils inherent in holding company control of banks. Not only are others better qualified than I to discuss the details of bank holding company control and of the pending bill, but in my opinion there is no necessity for a mass of testimony or for extended hearings on the subject by this committee.

Committees of the Congress have already given much attention to the matter of holding company control of banks. In 1933 the House Committee on Banking and Currency held hearings to obtain information necessary as a basis for legislation on group banking. The printed record of these hearings covers more than 2000 pages. (71st Cong., hearings on H.Res. 171)

After the banking crisis of 1933 the Senate Committee on Banking and Currency, as a part of its intensive investigation of stock exchange practices, the so-called Pecora investigation, gave a great deal of

- 3 -

consideration to the problem of holding company control of banks. More than 1600 pages of the printed record of the hearings are devoted to the disastrous effects of bank holding company operations in the State of Michigan. A substantial part of the excellent report of your committee to the Congress at the close of that investigation was devoted to the bank holding problem. (73rd Cong., Senate Report No. 1455)

In that report this Committee stated:

"Prior to the Michigan banking moratorium, declared on February 14, 1933, and our inquiry, respectable banking authority existed in favor of group banking, particularly as conducted in Detroit. Within less than 5 years after their organization, however, the group banking institutions of Detroit had completely collapsed. Their demise cannot be substantially attributed to the stock market collapse of October, 1929, and the subsequent depression, since both groups were organized either just prior to or immediately following the October crash. Nor can the failure of these companies be attributed solely to the constitutancy, competency, or honesty of the persons controlling these institutions. An analysis of the evils and abuses uncovered at the hearings rather impels the conclusion that this system of banking, predicated upon centralized control of unit banks, possesses inherent latent deficiencies and dangerous potentialities which inevitably become patent when the system commences to function.

"Despite the proved determined intention of the dominant person of these institutions to avoid the known pitfalls of a banking system based on centralized control of unit banks, the basic principles and structure of the system were not consonant with or sympathetic to such intention. The very structure of the group banking system, ownership of unit banks in a superior body, encouraged and was conducive to the exercise of the most vital component power and right of ownership—control. The set-up afforded the opportunity for the indulgence in the practices disclosed, and the temptation to commit these acts, particularly in times of stress, seems irresistible."

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Your Committee in its report discussed some of the most obvious abuses resulting from holding company control of banks, as disclosed by the investigation. It should be sufficient for me to comment briefly upon those abuses found by the Senate Committee on Banking and Currency:

1. Excessive Concentration of Control. The continued expansion of bank holding companies will result in the development of a financial oligarchy inimical to the basic principles of our democratic order. Congress by the enactment of appropriate legislation has already taken steps to protect the public against the evils inherent in the operation of holding companies in the public utility field. In my opinion the potential dangers inherent in the operation of holding companies in the field of banking are just as serious as those involved in similar operations in the field of public utilities. In the banking field the control of the financial structure of the country and the savings of millions of depositors are involved.

2. Drainage of Unit Resources to Maintain Gross Dividend Policy. The maintenance of the market value of its stock is fundamental to the continued prestige and growth of a bank holding company. The value of that stock depends primarily upon the dividends paid by the holding company, which in turn are composed of dividends from unit banks in the system to the parent holding company. The result is that the bank holding company is frequently so much concerned with maintaining an undiminished or increasing flow of dividends from the banks which it controls, that it is unable or unwilling to recognize the dangerous

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effect of an excessive dividend policy upon the soundness of the banks. The Comptroller of the Currency's severe criticisms of excessive dividend payments by national banks controlled by holding companies are often of no avail.

3. Tendency to Present Unintelligible or False Statements and Reports.

Your Committee reported that certain of the bank holding companies investigated deliberately prepared their statements and reports in such a form as to misrepresent the real condition of their controlled banks and to create a financial mirage. The structure of the average bank holding company is so complicated that examination and supervision is very difficult and there is an ever present temptation, to which those in control of the holding company all too frequently yield, to use the complicated structure as a cloak for circumvention of the law.

4. Loans by Controlled Banks on Stock of the Holding Company. One of the easiest ways for the holding company to maintain the market price of its stock is for the controlled banks to loan their funds upon security of the holding company stock. Much of the stock in bank holding companies is purchased in that manner. The result is a vicious circle. Since the value of the holding company stock depends upon dividends from the controlled banks, these banks are restrained from reducing their dividends by the realization that any dividend reduction means a drop in value of the holding company stock held by the banks as collateral for loans. Your Committee concluded that such a condition "compelled declarations of dividends by the unit banks to maintain the value of this collateral and the earnings of the parent company."

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5. Loans by Controlled Banks to Officers and Directors of Holding Companies. Although existing law restricts loans by member banks of the Federal Reserve System to executive officers of such banks, the law is frequently circumvented by loans made to officers and directors of holding companies which control such banks.

6. Listing of Bank Holding Company Stock on Security Exchanges. The danger involved in exchange listing of bank holding stock is that fluctuations in the market price of the holding company stock affect the public confidence, not only in the holding company group "as a distinct entity but in each and every banking unit of the whole, regardless of its own inherent soundness."

7. Strong Banks in the Holding Company Group are Endangered by Weak Units. As the Committee succinctly expressed this criticism:

"The most patent deficiency in group banking is that the group is only as strong as its weakest unit. During a period of prosperity when public confidence in the unit institutions is abundant, the group may prosper concomitantly with these units. When the shock of adversity, however, dislodges confidence in any one of the units, the entire structure is destined to collapse. Unit banks which might otherwise have survived are doomed because of their affiliation in the public mind with the weaker units."

After its careful investigation the Senate Committee on Banking and Currency concluded that:

"The holding company is no longer the parent fostering the unit industries; rather, the infant unit operating companies are nurturing the holding company. The pragmatic result has been that holding companies have not created any economic wealth, but have merely facilitated the concentration of control of wealth.

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" * "Little justification, economic or social, exists for the holding company as presently constituted and conducted. Holding companies, whether employed in the banking, public utility, or railroad field, have been catastrophic to the American public.

" * "Holding companies serving no production function, but organized merely to pervert the use of controlled companies and to evade their legal limitations, are detrimental to the public welfare. Holding companies are a major problem meriting immediate consideration and action."

In light of the intensive investigation made by this Committee in 1934 and the very positive condemnation of holding companies, including those operating in the banking field, by the Committee in its monumental report, it is hardly understandable why after seven years Congress has not enacted legislation to protect banks and their depositors against the dangers inherent in holding company control. On several occasions in recent years, when appearing before committees of Congress, I have strongly recommended the enactment of legislation to deal with this problem.

The impelling necessity for bank holding company legislation was made increasingly clear as a result of recent difficulties which the Office of the Comptroller of the Currency, in cooperation with the other bank supervising agencies, encountered in the examination and supervision of one of the largest national banks, which is the largest unit in a complicated holding company system. The chairman of the board of directors of the holding company is chairman of the board of directors of the bank, and his son is president of the bank. The value of the

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holding company stock depended to a marked degree upon the dividends paid by the bank to the holding company, and many of the financial transactions of the holding company group involved the use of funds obtained from the bank. The bank, under the domination of the holding company group, refused to follow recommendations and directions of the Comptroller of the Currency, that it reduce its excessive dividend rate, improve its capital position, charge off certain losses set up by the national bank examiners, drastically reduce excessive loans to the holding company and affiliated and allied interests, eliminate excessive real estate holdings, and take other steps considered by the Comptroller of the Currency as necessary to protect the soundness and stability of the bank.

The various sanctions given the Comptroller of the Currency under existing legislation are of such a character that the use of certain of them would probably have been ineffective while the use of the others might, because of their drastic nature, have done serious injury to the bank. The Comptroller of the Currency was most reluctant, except when every other method had failed, to use any drastic sanction against the bank, such as publishing reports of examination containing criticisms of the bank. As a result, for a period of approximately three years a tug of war went on between the bank and the Office of the Comptroller of the Currency in cooperation with the Federal Deposit Insurance Corporation, the Board of Governors of the Federal Reserve System, and the Reconstruction Finance Corporation. Finally the bank agreed

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to make a number of the changes insisted upon by the Comptroller of the Currency, although it did not agree to any reduction in its dividend rate of 19.2 percent. Although it is believed that the changes agreed to by the bank, if faithfully carried out, will assure the present soundness and stability of the bank, it is inevitable that the continued domination of the bank by the holding company group will result in further difficulties in the future.

It is a situation fraught with inherent dangers, when the future of some of the largest banks in the country, as well as thousands of small banks, is tied to the dubious and uncertain career of a few holding companies which in most instances can be considered as nothing more than parasites sucking the life blood of the banks which they dominate. Banks are established, not to nurture the holding company fungus, but to serve their depositors and the general public. The Federal Government, as charterer, insurer, examiner, and supervisor of banks, has the responsibility of taking every possible step to assure the soundness of such banks. The various agencies intrusted by Congress with that responsibility cannot function effectively unless Congress enacts legislation conferring adequate powers upon such agencies.

In 1938 an interdepartmental committee composed of representatives of the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Reconstruction Finance Corporation, and the Treasury Department gave considerable attention to the bank holding company problem and reached the unanimous conclusion that the operations

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of bank holding companies should not be allowed to expand,—that the principle of bank holding companies is not in the best interests of the country and that something should be done about them. The opinion of that committee was communicated to the President. Shortly, thereafter, in his message to Congress, on April 29, 1938, the President made the following statement recommending the enactment of bank holding company legislation:

"It is hardly necessary to point out the great economic power that might be wielded by a group which may succeed in acquiring domination over banking resources in any considerable area of the country. That power becomes particularly dangerous when it is exercised from a distance and notably so when effective control is maintained without the responsibilities of complete ownership.

"We have seen the multiplied evils which have arisen from the holding company system in the case of public utilities, where a small minority ownership has been able to dominate a far-flung system.

"We do not want these evils repeated in the banking field, and we should take steps now to see that they are not.

"It is not a sufficient assurance against the future to say that no great evil has yet resulted from holding company operations in this field. The possibilities of great harm are inherent in the situation.

"I recommend that the Congress enact at this session legislation that will effectively control the operation of bank holding companies; prevent holding companies from acquiring control of any more banks, directly or indirectly; prevent banks controlled by holding companies from establishing any more branches; and make it illegal for a holding company, or any corporation or enterprise in which it is financially interested, to borrow from or sell securities to a bank in which it holds stock.

"I recommend that this bank legislation make provision for the gradual separation of banks from holding company control or ownership, allowing a reasonable time for this accomplishment—time enough for it to be done in an orderly manner and without causing inconvenience to communities served by holding company banks."

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That was almost three years ago. Congress has not yet taken any action to deal with the problem. Some may assert that during the present crisis, when our energies are centered primarily on matters of national defense, we have no time to deal with problems essentially domestic or to worry about internal reforms. But certainly recent events have made abundantly clear that a nation is more likely to collapse from weaknesses and injustices in its internal social and economic structure than it is from lack of military equipment or errors of diplomacy. Whether the democratic form of government will survive depends to a large degree upon its ability, during national and international crises, to continue to protect the lives, the rights and the interests of its citizens, not only against oppression from abroad, but against oppression from within. Domination by economic or financial oligarchies such as bank holding companies, is in some respects just as undemocratic and oppressive as domination by a totalitarian government.

Statement by Comptroller of the Currency to be
made before Senate Committee on Banking
and Currency with respect to
proposed Bank Holding
Company Act of 1942
(S. 318)

Ever since the establishment of the National Banking System in 1863 the public policy of this country has favored local decentralized banking control. The typical commercial bank has been a local institution with one office, a small number of shareholders of some local prominence, securing its deposits from a small area and making its loans within that same area.

The evolution of our banking system has brought changes, some desirable and some undesirable. In the early days branch banking was unpopular and in some areas definitely prohibited, as it still is in several states. While there was a considerable development in the closing years of the last century and in the early 1900's, as well, in the field of chain banking—that is, the ownership of a string of banks by one individual or one family or by a small group of persons with some common interest—it was not until the late 1920's that there was any development of consequence in the field of corporate ownership, management and operation of groups of banking institutions.

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The period of greatest development in the group banking field is illustrated by the following table which gives a chronology of the appearance of some of the leading names in the bank holding company field. The table is taken from a survey of group and chain banking by a Federal Reserve Committee on Branch, Group and Chain Banking, which was made some ten years ago and filed with the Senate Committee on Banking and Currency.

Table 2 -- Chronology of the Appearance of
Some of Leading Names in Bank
Holding Company Field

Name	Date of Incorporation
Marine Bancorporation	September 10, 1907
Citizens and Southern Holding Company	April 9, 1928
Old Colony Trust Associates	May 14, 1928
United States National Corporation	May 6, 1928
Shawmut Association	May 21, 1928
First Security Corporation of Oregon	June 15, 1928
Pacific Bancorporation	July 7, 1928
Transamerica Corporation	October 11, 1928
Anglo National Corporation	December 3, 1928
Northwest Bancorporation	January 24, 1929
First Bank Stock Corporation	April 15, 1929
Guardian Detroit Union Group	May 9, 1929
Financial Institutions, Inc.	1929
BankOhio Corporation	September, 1929
Marine Midland Corporation	September 23, 1929
Wisconsin Bankshares Corporation	December 10, 1929
Detroit Bankers Company	January 6, 1930
Hamilton National Associates	January 20, 1930
Southwest Bankshares Corporation	February 6, 1930

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The intensive development of bank holding companies in the late twenties was preceded by several attempts to establish a community of interest among groups of banks. As early as 1902 it was noted by A. Burton Egleston that "the prohibition against the establishment of branches and the desirability of close affiliations are developing a system of joint ownership in banks." In the same year, H. Parker Willis wrote of "a process of federation . . . through the efforts of coteries of individuals to acquire stock in groups of banks." In 1902, also, Horace White wrote that "some of the large banks in cities far distant from each other have been exchanging shares through the persons of men who own controlling interests in each." Mr. White described the process as being accomplished by "individuals connected with the large bank, buying the shares of the small one, and borrowing from the former the money which pays for them, the shares being pledged as collateral security for the loan."

In July, 1911, the National City Company was organized as an affiliate of the National City Bank of New York. It immediately began the acquisition of the stocks of

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other banks and within a very short time had acquired holdings in 16 banks and trust companies, nine of which were national banks. Their holdings of stocks in national banks are shown in the table below:

Table 5 -- National City Company's National Holdings of Bank Stock in 1911

Name and location of bank	Company's holdings	Total number of shares of capital stock of bank
Second National Bank of New York	10	10,000
Fletcher American National Bank of Indianapolis	167	20,000
American National Bank of Indianapolis (1)	250	-
Fourth Street National Bank of Philadelphia	500	30,000
National Steam Bank of Boston	1,000	35,000
Riggs National Bank of Washington	2,240	10,000
National Dutchess and Brevers Bank of New York	3,000	3,000
Lincoln National Bank of New York	4,324	10,000
National Bank of Commerce of New York	9,800	250,000

(1) No cash bank shown in the American Bank Reporter.

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The Solicitor General of the United States rendered an opinion in 1911 (which was not made public until 1932) unfriendly to this type of arrangement, holding that it was too near an approach to ownership of stock of other banks by a national bank, recognized as unlawful if done directly. He argued that a State corporation which owned and exercised control of national banks was in reality engaging in the national banking business, which, in his judgment, was "in usurpation of Federal authority and in violation of Federal law." The National City Company is understood to have disposed of its holdings shortly after this opinion was rendered.

It should be noted also that in his annual report for 1911 Secretary of the Treasury McVeagh asked for legislation denying:

" . . . with great precision to any bank included within its provisions, whether national or state, the right to own stock in any other independent bank . . . There is no immediate danger to be apprehended from such holdings; but now is the time to protect for the future the independence and individuality of the banks; and to forestall in their case the general tendency to the formation of water combinations and trusts. The prohibition should be so explicit that its spirit as well as its letter could be enforced . . ."

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Moreover, in a special message to Congress in December, 1911, President Taft asked for legislation assuring "the individuality and independence of each bank."

A statistical survey and analysis of the development of group banking as of December 31, 1931 was undertaken by a committee of the Federal Reserve System. It showed that there were at that time 97 groups including 978 banks. Leading groups (defined as those with six or more banks and \$25,000,000 or more of loans and investments) numbered 34 and included 674 banks with 878 branches and total loans and investments of \$6,300,000,000. Most of these groups operated in one state only; seven operated in two states; two in three states; one in five states; and one in eight. The 63 "minor" groups included 304 banks with loans and investments of \$2,400,000,000.

One of the chief contributing causes to the development of bank holding companies was the prohibition of branch banking in many parts of the country. Group banking developed for the most part in those sections where it was impossible to establish branches or to establish them over any wide area, and in many cases, as a preparatory step to branch banking, the organizers being of the

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opinion that they would be permitted eventually to convert their groups into branch systems.

The types of organization of holding company banking are diverse. It is difficult to separate them into rigid classifications. Three general types can be distinguished: (1) The investment-trust type in which ownership is the main characteristic with little or no management or direction of the member banks and where there is not even an attempt at complete or majority ownership; (2) the overall holding company type where a majority or all of the stock of the banks in the group is owned by the top holding company; (3) the subsidiary holding company type where an important bank through a subsidiary or affiliate owns the stock of other banks. In any one of these types, of course, there can be one or more non-banking affiliates to further complicate the organization structure. Most of the important groups are of the overall holding company type.

Probably the greatest weakness of holding company banking lies in the manipulative possibilities which are present. The more complicated the corporate relationships in the group and the greater the number and types of non-

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banking affiliates, the greater are the manipulative possibilities. Funds may be shifted from one bank to another. Low-grade securities may be forced upon another bank. The funds of one bank may be used to buy another. There can be inter-group loans of doubtful validity. Special interests of insiders can be given preferences. Banks can be milked through excessive dividend requirements. Expansion and growth can be exercised at the expense of conservative banking. It should not go unnoticed that the greatest development of holding company banking was in the speculative era of the late 1920's.

The group organization presents difficulties of audit and supervision. The interrelationships can and sometimes do become so complicated that it is almost impossible for supervising authorities to find out what the true situation is.

There have been a number of cases of failure of entire group bank systems. Notable among these are two Detroit groups, one in Louisville, Kentucky, and one in Maine. Separate memoranda will be presented discussing each of these. As a matter of fact the details of the abuses which developed in connection with the two Detroit groups were

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brought out in the hearings before this Committee in 1933 and are set forth in the report of the Committee which was prepared at the conclusion of these hearings. They demonstrate in dramatic fashion the domination of the banks in the group by the officials of the overall holding company and reveal in particular the methods by which the banks were compelled to pay excessive dividends against the better judgment of the local directors so that the dividend record of the holding company might be maintained at a level which would support its stock in the market and enable it to float additional issues and acquire the stocks of additional banking units.

The Banking Act of 1933 provided for a degree of regulation of group banking by Federal supervisory officials. It provided for the examination of holding company and other affiliates and established a system of voting permits, under which the Federal Reserve Board was given some authority over holding company affiliates which wished to vote their stock in banks owned by them. These regulatory measures have not proven entirely satisfactory. The potential evils of holding company banking still exist and in some cases develop into actual abuses. In recognition of this situation

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the Secretary of the Treasury upon several occasions during the last three or four years urged upon the Congress the enactment of legislation dealing with bank holding companies. The President of the United States in his message of April 29, 1935 said:

"It is hardly necessary to point out the great economic power that might be wielded by a group which may succeed in acquiring domination over banking resources in any considerable area of the country. That power becomes particularly dangerous when it is exercised from a distance and notably so when effective control is maintained without the responsibilities of complete ownership.

"We have seen the multiplied evils which have arisen from the holding company system in the case of public utilities, where a small minority ownership has been able to dominate a far-flung system.

"We do not want these evils repeated in the banking field, and we should take steps now to see that they are not.

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- 11 -

"I recommend that the Congress enact at this session legislation that will effectively control the operation of bank holding companies; prevent holding companies from acquiring control of any more banks, directly or indirectly; prevent banks controlled by holding companies from establishing any more branches; and make it illegal for a holding company, or any corporation or enterprise in which it is financially interested, to borrow from or sell securities to a bank in which it holds stock.

"I recommend that this bank legislation make provision for the gradual separation of banks from holding company control or ownership, allowing a reasonable time for this accomplishment — time enough for it to be done in an orderly manner and without causing inconvenience to communities served by holding company banks."

At the end of 1939 there were 41 group systems comprising _____ banks and _____ branches, or a total of _____ banking offices. The deposits of these banks totaled \$_____. Of these groups _____ were "leading" groups using the same definition as that used by the Federal Reserve Committee in 1931 — those with six or more banks and \$25,000,000 or

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more loans and investments (using deposits in 1939 in place of loans and investments). These _____ groups include _____ banks and _____ branches, or a total of _____ bank offices and \$ _____ deposits.

Of the 41 groups operating at the end of 1939 _____ include national banks as revealed by reports to the Comptroller of the Currency by national banks. The number of national banks included in the groups at the end of 1939 was _____, with _____ branches. Their deposits totaled \$ _____.

The banks in groups at the end of 1939 represented _____ per cent of the total banks in the United States and _____ per cent of the total banking offices, including branches, and _____ per cent of the total bank deposits.

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The sanctions which are available to the Comptroller of the Currency to enforce his requirements in connection with the examination and supervision of national banks are all extreme and drastic in their character. Penalties, such as closing the bank or publishing the report of examination or removing officers and directors, are either too severe or too cumbersome except in cases of absolute necessity. For that reason this bill includes a proposal that the Comptroller be given, so far as national banks are concerned, the authority to object to dividend distributions in cases where he deems that in the best interests of the bank. This authority is particularly necessary during the period between now and June 30, 1944 to prevent holding company affiliates from draining off from the banks excessive dividend payments. It is an authority which would be useful in extreme cases, irrespective of the holding company legislation.

Uym 2/5/41

February 25, 1941

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Photostats to Mr. White, Mr. Foley and
Mr. Bell. Original returned to White
House today for President's files, in
accordance with his request.

OFFICE OF
THE SECRETARY OF THE TREASURY

February 25, 1941

Memorandum for General Watson:

In accordance with the President's request, this memorandum is being returned for his files.

THE WHITE HOUSE
WASHINGTON

CONFIDENTIAL

Hyde Park, N. Y.,
February 22, 1941.

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY

Will you read and return
for my files?

F. D. R.

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THE WHITE HOUSE
WASHINGTON

January 22, 1941.

MEMORANDUM FOR THE PRESIDENT: - Confidential

Re: Proposed Banking Legislation.

I am outlining very briefly some of the possible courses of action developed in our discussion this morning. As I told you, Mr. Eccles would not oppose any proposals tending to tie in the Federal Reserve more closely with the Administration. Such proposals would include redeeming stock in the Federal Reserve Banks now held by member banks; would disqualify any banker as such from serving on the Boards of Directors of the Federal Reserve Banks; would provide for conversion to the Treasury of any earnings after the surplus account had reached a certain figure. I am also pretty certain that he would not oppose any proposal to abolish the Open Market Committee and transfer its powers to the Board. Finally, in the interests of a coordinated economic program he would not oppose granting the President veto power over the actions of the Board nor the power of the President to require action. All of these changes, of course, would be extremely unpalatable to bankers and the financial community.

In exchange for making the Federal Reserve System more truly a public system and the additional control granted to the President over domestic monetary policy, you might very well consent to a removal of the power to issue three billion dollars of greenbacks. You could even, if necessary, consider letting the power to devalue the dollar lapse, provided that the Stabilization Fund was retained, and also Section 8 of the Gold Reserve Act that provides that the Secretary of the Treasury may purchase gold "at such rates and upon such terms and conditions as he may deem most advantageous to the public interest". It is quite true that purchases of gold at higher than the statutory gold price would entail a loss to the Fund; however, it does provide a means of meeting the threat of excessive foreign currency depreciation and the threat itself may be sufficient to prevent such a depreciation from taking place.

In a possible post-war deflation you would then be in a position

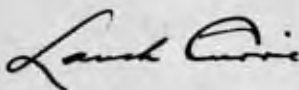
- (a) to offset or prevent excessive foreign currency depreciation,
- (b) to increase government expenditures through the use of the Stabilization Fund and the remaining silver seigniorage power, (c) require the Federal Reserve to reduce reserve requirements.

January 22, 1941.

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Having secured complete control over Federal Reserve policy you might then consider asking that the Federal Reserve be given completely adequate powers to cope with any conceivable inflationary development. You could, for example, suggest that instead of the Federal Reserve's power to raise reserve requirements being limited to double existing requirements, a limitation imposed by the bankers on the Federal Reserve, it should have unlimited power. You could even suggest that emergency power be provided to prohibit, for a limited period, any increase in individual banks' total loans and investments not offset by an increase in savings deposits.

The combination of these various proposals would, of course, be strongly opposed by some. Your position, however, would be eminently "sound". The resulting line-up would at least serve the purpose of bringing out clearly that the bankers and financial community are not really as concerned over inflation as they are with taking powers away from you.



Lauchlin Currie

February 25, 1941
10:58 a.m.

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H.M.Jr: Hello.

Operator: Mr. Rouse.

H.M.Jr: Hello.

Robert Rouse: Good morning, sir.

H.M.Jr: Hello, Sproul.

R: This is Rouse.

H.M.Jr: Oh - Rouse.

R: Yeh.

H.M.Jr: Rouse, is that - any signs of these things drying up?

R: No, they're still coming in. The notes are quoted 101.57 at the moment and they tell me there's some buying indicated between here and 101.

H.M.Jr: I see.

R: I think the - it's brought a little selling and the bonds around it and generally speaking they seem to feel that the things intrinsically are worth more than the price at which they are quoted in the market now, according to the dailies that pile in, and that, because they're declining, people are holding off and some are hastening to sell their rights. I'm trying to watch it pretty closely here and I want to talk to our people too to see how they regard it.

H.M.Jr: Well, if it breaks 101 let me know.

R: Yeh. Well, that's what I had in mind from our standpoint here. Of course, we'll have to clear with my Committee but I'm just about to start to do that.

H.M.Jr: What committee? Oh the open market?

R: Yeh.

H.M.Jr: Well, if it breaks 101 let me know.

R: I shall immediately.

H.M.Jr: Thank you.

R: Right.

February 25, 1941
11:01 a.m.

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H.M.Jr: Hello.

Operator: Chairman Eccles.

H.M.Jr: Hello.

Marriner
Eccles: Hello.

H.M.Jr: Marriner -

E: Yes, Henry.

H.M.Jr: I suppose you know that these bonds are selling at just a little over a hundred and one. The rights -

E: The rights - in the rights this morning.

H.M.Jr: Yeh.

E: I didn't know just what they were selling at at the moment.

H.M.Jr: And your friend Piser is only off about a point and a half - at best.

E: That is figuring -

H.M.Jr: If we had taken Piser's figures right now - that the rights would either be par or below par -

E: Well, I'll check with him. I haven't talked to him and I'll check with him.

H.M.Jr: I told Rouse if they break 101 let me know.

E: Well, I think what we ought to do is to make some shifts if - in other words, it isn't the usual thing but I would think that we'd be justified in taking some of the rights and shifting to some of the tax-free securities.

H.M.Jr: Well, if you - before you do it would you mind giving me a ring?

E: Well, we won't do anything on it; I'm merely giving you that as a way to keep them about where they are.

H.M.Jr: I'd much rather see it come about naturally.

E: Yes.

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H.M.Jr: Now Rouse thought - he wasn't going to get in touch with the open market committee unless it broke 101.

E: Yes.

H.M.Jr: Which it has not yet done.

E: Yes. What did they open at?

H.M.Jr: 101-5/8.

E: Uh-huh.

H.M.Jr: Then they dropped very rapidly.

E: What is the - is the exchange - or is it too early yet to tell, isn't it?

H.M.Jr: They're not impressed with the notes.

E: Well, I didn't think they would be. How long do you expect to keep it open?

H.M.Jr: Well, we were thinking of keeping it opening until Thursday night. Two days.

E: Well, of course that gives them - that gives them - they're going to sit and wait likely until the last minute - they usually do, don't they - a lot of them?

H.M.Jr: Yeh. I don't - I haven't made up my mind. Bell would like me to keep it open three days; I don't see why two days isn't enough.

E: Well, I think the longer you keep it open the more chance you're getting to gamble.

H.M.Jr: Yeh. And with that Arkansas thing coming along I would like to close it. Think about it, will you?

E: I will. I'll think about it and I'll talk to them and I'll call you later.

H.M.Jr: And I'll leave word that whatever I'm doing - to put you right through.

E: Yeh. O.K.

H.M.Jr: Thank you.

February 25, 1941
12:09 p.m.

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H.M.Jr: Put him on. Put him on.

Operator: I had to call him back. Go ahead.

Claude
Wickard: Hello.

H.M.Jr: Hello.

W: Why -

H.M.Jr: Hello.

W: Hi-yah!

H.M.Jr: O.K.

W: I'm still getting some communications through the State Department on the British requirements for things like cheese and lard and canned meats.

H.M.Jr: Yeh.

W: Now, I don't know - these things don't disturb us any except that I don't think we can do much about them until the lend-lease appropriation thing is through. Is that right?

H.M.Jr: That's right, and Purvis has a man coming over here from the Food Ministry. He's on his way over.

W: He is? Well, that's good. Now, I'm very anxious to see him and I think we can make some definite plans. Here's the second question that comes up. Chester Davis just left my office. He wants to know who is to have the food administration work and he is rather disturbed I think about the fact that he is not being consulted and he thinks that there ought to be a place in the Government where the civilian, the Army and Navy and the British requirements are centered and he wants to know whether ~~that's~~ to be under him or under me. He said he's going to see the President tomorrow. He wants to know what my recommendations are.

H.M.Jr: Who is the person?

W: Chester Davis.

H.M.Jr: Chester Davis?

W: Yes.

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H.M.Jr: Well, I can say unhesitatingly who. Wickard.

W: Well -

H.M.Jr: That's who I say.

W: Well, you understand that's a pretty big assignment. I'm not wanting the thing -

H.M.Jr: Well, you can't escape it.

W: What?

H.M.Jr: You can't escape it.

W: Well now, he's going to ask the President tomorrow. You see he has a number of employees over there who are making surveys - who are dealing with the various commercial people in agriculture like the packers and the canners and all others. He's been bringing in quite a staff. And that does throw a little confusion, of course, into the trade, into the farmers' minds but I think that we'll be glad here to work with whatever agency that is going to handle this thing. I could see a need for the coordination of all these requirements -

H.M.Jr: Claude, listen you and I live on the farm; we don't need another God damn bottleneck.

W: Well, now -

H.M.Jr: You sat in at the meetings that took place at my house; you sat in at the meetings that took place over the White House.

W: That's right.

H.M.Jr: It's all damn nonsense having somebody else in on it.

W: Yes. Well, now maybe you'd better talk to the President and get that matter cleared before Davis gets over there. He's asked me. I refused to commit myself. I said, "This is what I have. No direct opinion on it; we're willing to do whatever is required." Then he wanted to know what my understanding with the President was on the thing and my understanding with you and Mr. Purvis and I was a little vague in my reply because I -

H.M.Jr: I don't know whether I could get the President but I'm just taking it for granted it's going to be Wickard.

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W: Well, I'd better not say. That is, I don't want you to influence the President but this question is coming directly before him.

H.M.Jr: I understand.

W: And he said, you know, for me to deal with Purvis to find out how much they would want. Now then-finding out how much they want and then giving the production and the division allocation between all these requirements is something else.

H.M.Jr: Well, Claude -

W: Wanting me to be a surveyor and yet be sort of an administrator and executive -

H.M.Jr: Well, Claude -

W: Yeh.

H.M.Jr: If I may give you some advice -

W: All right.

H.M.Jr: Until you hear to the contrary I'm going on the assumption that it's between the British Purchasing Mission and any agency that governs the Secretary of Agriculture.

W: All right.

H.M.Jr: Until I hear different, as far as I'm concerned Chester Davis is just a member of the Federal Reserve Board.

W: Yeh.

H.M.Jr: That's between you and me. Is that straight talk?

W: That's straight enough. Now, I don't want - I said I don't want to be caught in any arguments here about that sort of thing. We've got plenty to do over here.

H.M.Jr: There have been too damn many arguments and too little action and I'm fed up.

W: All right. All right. Now, whenever this man comes over - when Purvis comes over here why we'll deal with him.

H.M.Jr: As soon as he comes over, I'll direct him to you.

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All right. Then, the next thing is the State Department I think ought to be straightened out on this thing. Now, for instance, I talked to Harry Hopkins the other day. Have you talked with Harry about this sort of thing?

H.M.Jr:

No.

W:

Well, I think somebody ought to. Well, here's what happened. This Davis has been trying to get Mr. Lloyd Stear who is the Agricultural Attache at London -

H.M.Jr:

You mean Norman Davis?

W:

No, Chester Davis.

H.M.Jr:

Yeh.

W:

Chester Davis - to come over here to work with him on this thing. You see what I'm pointing to?

H.M.Jr:

Nuts!

W:

I talked to Harry Hopkins. Harry Hopkins says he's the best informed man over there. He worked with us, of course, until the Agricultural thing was put under the State Department as far as the foreign offices are concerned. But I suppose that Chester has gone directly to the State Department and asked for Mr. Stear to be assigned over to him.

H.M.Jr:

Well now -

W:

You can see how that's going to complicate things. It's perfectly all right but I did want to know too -

H.M.Jr:

Whose payroll is he on?

W:

He's on the State Department's payroll. See?

H.M.Jr:

Well, you'll have to -

W:

Hopkins says and I agree that he perhaps knows more about that than anybody that we have had in London and Hopkins thinks he ought to be left there - come over here to consult and go back - to keep his finger on the thing over there. But if -

H.M.Jr:

Look, old man. You'll have to fight your own battles for the next day or two but if you - can't you keep that fellow in London until the thing gets straightened out? If the English are sending somebody here, we're sending Harriman over there then

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certainly we want a man on food in London.

W: Yes. That's right.

H.M.Jr: How well do you know Sumner Welles?

W: Very well.

H.M.Jr: Well call up Sumner and say until this thing is straightened out you want the man to stay in London.

W: Well, all right, I'll think about that. Well, thanks a lot.

H.M.Jr: Well, don't - I'll just go on the assumption that you're going to do it and I just don't see where Chester Davis sits in this picture at all.

W: All right.

H.M.Jr: That's between you and me.

W: O.K. I understand you then.

H.M.Jr: Well, that's where I stand and if I change my position I'll call you up.

W: (Laughs) All right. All right. Well, thanks.

February 25, 1941
12:20 p.m.

260

H.M.Jr: Hello.

Operator: Mr. Rouse.

H.M.Jr: Hello.

Robert Rouse: Hello, Mr. Secretary.

H.M.Jr: How's it going?

R: Better.

H.M.Jr: Better. You fellows haven't been doing any monkey business down there, have you?

R: No, sir.

H.M.Jr: Now don't.

R: Right.

H.M.Jr: Don't do it without talking to papa.

R: O. K.

H.M.Jr: 'Cause I feel very strongly. I want a natural market.

R: Well, I'm glad you feel that way. I'm in here with Allan talking about it now and he feels the same way.

H.M.Jr: No monkey business without talking to the old man.

R: (Laughs) All right. Should I say "uncle"?

H.M.Jr: "Uncle" is all right. No, I don't like "uncle". That's Jesse Jones; he's the uncle.

R: He's the uncle?

H.M.Jr: I'm the old man.

R: All right. O. K., old man. (Laughs)
It's better all the way along. There's some buying come in and the rights have gotten up to 101.46 and

- 2 -

H.M.Jr: Where did the selling the rights come from?

R: It was pretty general.

H.M.Jr: I see.

R: And not so many - there were some fairly good sized amounts and the reason given was largely that they had hoped and expected a long bond.

H.M.Jr: Yes.

R: 2- $\frac{1}{4}$ or 2- $\frac{3}{4}$ and so on. The - I talked to two big holders, the Bankers Trust Company and the Mutual Life Insurance Company and they both appeared quite satisfied and it was said to be the intention of the officers to recommend to the Executive Committees to make the exchange.

H.M.Jr: Now, is Allan Sproul listening?

R: He's not listening; I'm sitting at his desk.

H.M.Jr: Well, tell him we're seriously thinking of announcing tonight to close it Tuesday but to let the fellows who hold up to ten thousand have up till Wednesday night.

R: Wait a minute now. To close it - not Tuesday, that's today.

H.M.Jr: I mean Wednesday.

R: To close it Wednesday but to hold over on ten thousand -

H.M.Jr: Until Thursday.

R: Until Thursday.

H.M.Jr: Yeh.

R: Well, that's - I think that's all in order.

H.M.Jr: Well, you might ask a few people around the street how they feel about it.

R: I shall.

H.M.Jr: Will you?

R: And I'll ring you back.

H.M.Jr: And - All right, thank you.

R: Right, sir.

February 25, 1941
2:07 p.m. 262

H.M.Jr: Hello.

Operator: Mr. Rouse.

H.M.Jr: Hello.

Robert Rouse: Hello, Mr. Secretary.

H.M.Jr: Yes -

R: I called about quarter of two and they said you were at lunch -

H.M.Jr: Yes.

R: The situation is about thirty to the dollar.

H.M.Jr: Yes.

R: Mills says that from discount that he's seen practically no buying in the market this morning.

H.M.Jr: I see.

R: Chris Devine on the other hand tells me he's sold nineteen million of the new bonds, but has bought about thirty three million of the rights.

H.M.Jr: Who has?

R: That's Devine.

H.M.Jr: He's bought thirty three million.

R: Yeh, he bought twenty one million of the 1½s and twelve million of the 3-3/8s.

H.M.Jr: Yeh.

R: And sold nine, six and seven of them respectively.

H.M.Jr: What's your idea?

R: There's been some sizeable selling apparently and very little buying. There's no selling of the outstanding exempt securities. That part of the market seems to be perfectly satisfactory and it's better than the lows of the morning.

H.M.Jr: Now, will you hold the wire one minute.

R: Yes, sir.

- 2 -

H.M.Jr: Hello.

R: Yes?

H.M.Jr: What price are they now?

R: Well, the last I had was within five minutes at thirty to the dollar. Par thirty bid.

H.M.Jr: I see. Just one second.

R: In other words, there were offerings at 101. That was the best offering I've heard. I haven't heard of any offered at thirty one.

H.M.Jr: Say it again please.

R: I understand that the rights are offered at 101 and par thirty bid.

H.M.Jr: Now what would you think of this? If you would tell Devine that if he would buy up to another fifty million - Hello.

R: Yeh.

H.M.Jr: If he loses any money, I'll guarantee to take them off his hands -

R: Well, let me think about it a minute. Can you hang on just a second?

H.M.Jr: Surely.

R: Hello.

H.M.Jr: Hello.

R: My feeling about that is that I wouldn't put myself in his hands in that sense.

H.M.Jr: Yeh.

R: And secondly that I believe in this offering - I think that somewhere in this neighborhood this price - this thing has got to - will solve itself. If I didn't believe in the offering, I, of course, couldn't say that but I think that some - even at the issue price this is better than the taxable. It's just as attractive as the taxable equivalent if you had figured that giving the whole thing away. And I think you're pretty well protected by the notes and I'd be inclined

- 3 -

to see this thing through a little further before doing this.

H.M.Jr: O. K. Call me back in ten minutes.

R: Right.

H.M.Jr: - on Chris' advice, call me back in ten minutes.

R: Yes, sir.

H.M.Jr: Thank you.

February 25, 1941
2:39 p.m.

H.M.Jr: Hello.

Robert Rouse: Hello.

H.M.Jr: Go ahead, Rouse.

R: The $1\frac{1}{2}$ percent rights which are the lowest are the par 27 bid.

H.M.Jr: Just a minute. $1\frac{1}{2}$ are what?

R: $1\frac{1}{2}$ s - notes - March 15 - par 27 bid.

H.M.Jr: Par 27. Yeh.

R: New bonds - just about - new $2\frac{1}{2}$ bonds the same.

H.M.Jr: Par 27?

R: Yeh.

H.M.Jr: That's down a little bit.

R: That's down a bit.

H.M.Jr: Yeh.

R: 60-65s, 107.24 bid.

H.M.Jr: 60-65s are what?

R: 107.24 bid.

H.M.Jr: Yeh. Why do you give me those?

R: Just as a matter of interest.

H.M.Jr: I see. Well, I'm not weakening, are you?

R: No, I'm not weakening.

H.M.Jr: Well, call me again in ten minutes.

R: Right.

H.M.Jr: Thank you.

February 25, 1941
2:52 p.m.

H.M.Jr: Hello.

Operator: Mr. Young.

H.M.Jr: Anything straightened out with the State Department on flying the Consolidated bombers?

Philip Young: I'm just dictating a letter to Berle now on this thing which Parks and Foley are going to go over.

H.M.Jr: Right.

Y: And revise. Then I'll show it to you.

H.M.Jr: Right.

Y: I thought after talking with Oscar that it would probably be better if I sent it as coming from the Liaison Committee rather than any sort of an official letter signed by you.

H.M.Jr: I'm correct am I that the English want to fly the Consolidated bombers overseas with English crews?

Y: Yes, sir.

H.M.Jr: That's the point is it?

Y: The point is - well, the most vital problem is training.

H.M.Jr: Yeh, but they do want to fly them with English crews.

Y: Yes, but that's not immediate. They can wait until after the Lend-Lease gets through to do that, if they have to.

H.M.Jr: Well -

Y: As far as taking off from this country is concerned.

H.M.Jr: Well, I just - I'm mentioning it to the President anyway.

Y: Right.

H.M.Jr: Thank you.

February 25, 1941
2:59 p.m.

H.M.Jr: Hello.

Operator: Mr. Rouse. Go ahead.

H.M.Jr: Hello.

Robert Rouse: Hello, Mr. Secretary.

H.M.Jr: Yeh.

R: The situation is the notes are now offered at par 27 instead of bid 27.

H.M.Jr: That's a little bit better isn't it?

R: No, that's worse. They were bid par 27 when I talked with you last.

H.M.Jr: Yeh.

R: They're now offered there.

H.M.Jr: I see.

R: And there have been some sales off the market.

H.M.Jr: I see.

R: At somewhat under that; I don't exactly what the price was.

H.M.Jr: Yeh.

R: That was reported to us.

H.M.Jr: Yeh.

R: My mind is still the same.

H.M.Jr: Well, let's watch now - I'll call you about quarter past. I'll call you.

R: All right. That's the official - of course the stock exchange is closed now and there's just the over the counter market which we have to deal with -

H.M.Jr: That's the bad one -

R: And I'd like to get through this next hour.

H.M.Jr: Well, I'll call you again in a little while.

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R: All right, sir.

H.M.Jr: I haven't changed my mind about closing though. We're announcing tonight we're going to close Tuesday night.

R: Right.

H.M.Jr: After all, 27 margin, that's $3/4$ of a point. What the hell!

R: I think that's quite a lot of margin and that when you get down to 20 you're right in the range of the note.

H.M.Jr: Yeh.

R: And it seems to me you're sitting fairly well.

H.M.Jr: Well, we'll see.

R: We'll see. Right.

H.M.Jr: Thank you.

R: Thank you.

February 25, 1941
3:36 p.m.

269

H.M.Jr: Hello.

Operator: Mr. Rouse.

Robert Rouse: Hello.

H.M.Jr: Rouse -

R: Well, I can tell you that up till half past three there were sixty million of them accounted for here in this bank that have been exchanged.

H.M.Jr: Yes.

R: The market is on the 1 $\frac{1}{2}$ s is par 24-26.

H.M.Jr: Uh-huh.

R: That's substantially the same. 1/32 off I guess from what I talked with you last.

H.M.Jr: I see.

R: The savings banks we find have been buying small amounts of the new bonds all during the day.

H.M.Jr: Good.

R: They're still doing a little buying but of course it hasn't been big enough to offset it.

H.M.Jr: Yes.

R: We've run across banks here in town and out of town that have been selling rights and buying tax exempts.

H.M.Jr: I see.

R: We just ran across one we heard about earlier in the day but it's got down to brass tacks just now of eight and a quarter million which they want to swap for 53-55s.

H.M.Jr: Yeh.

R: And there is a demand for the intermediate tax exempt issues which aren't - there's no supply of them about.

H.M.Jr: I see.

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R: There just not for sale.

H.M.Jr: I see.

R: That's the situation at 3:30.

H.M.Jr: Well, it hasn't levelled off yet has it?

R: No. It's right at the lows and it hasn't levelled off.

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

R: That's it.

H.M.Jr: Thank you.

February 25, 1941
3:42 p.m.

H.M.Jr: Hello.

Sam
Rayburn: Yes, Henry.

H.M.Jr: How are you?

R: Fine.

H.M.Jr: Sam, I want to talk to - would like very much to talk to you and Bob Doughton and Jere Cooper about our next move, namely, about whether we do or don't want to go ahead and have a bill introduced to tax State and municipal bonds, see?

R: I see.

H.M.Jr: And I wonder if you could call a little meeting in your office so I could come up there and talk with the fellows?

R: Yeh. When do you want it?

H.M.Jr: Tomorrow morning?

R: Tomorrow morning. Fine. What time would suit you the best?

H.M.Jr: Oh, 10:30 or eleven.

R: Eleven o'clock would be fine.

H.M.Jr: 11:30.

R: Eleven. I say eleven would be better.

H.M.Jr: Eleven o'clock.

R: All right, Henry.

H.M.Jr: Fine.

R: I'll have them over here.

H.M.Jr: You'll have them over here - at your office.

R: I think it would be a good idea to have John here too.

H.M.Jr: John McCormack. I think it would be swell.

R: All right, Henry.

H.M.Jr: Thank you, Sam.

February 25, 1941
4:06 p.m.

H.M.Jr: Hello.

Operator: Speaker Rayburn.

H.M.Jr: O.K. Hello.

Sam
Rayburn: Henry.

H.M.Jr: Sam.

R: Bob Doughton has a very important engagement at eleven. Could you make that ten?

H.M.Jr: I can with one if. Unless the President sees me at his bedside tomorrow. And I'd know that tonight. Hello.

R: Yes.

H.M.Jr: I'm trying to see him. I don't know whether he's going to see me tonight or tomorrow morning. But if he sees me tomorrow can I get word to you?

R: Yes. Well, Henry, would it be just as convenient for you to come up some time in the afternoon?

H.M.Jr: Sure.

R: Well, why don't we say 2:30 then and I'll have them all here because the House is in session at that time and we're camped right up in the office.

H.M.Jr: Sure.

R: 2.30 then.

H.M.Jr: 2:30 would be swell.

R: All right, Henry, fine.

H.M.Jr: I'll be at your office 2:30 tomorrow. How's that?

R: That will be fine.

H.M.Jr: Thank you.

R: All right, Henry.

February 25, 1941
4:20 p.m.

273

H.M.Jr: Hello.

Operator: Mr. Rouse.

H.M.Jr: Hello.

Robert Rouse: Hello.

H.M.Jr: Hello, Bob.

R: Hello.

H.M.Jr: How's she going?

R: Well, of course, it closed at four and just off the bottom. It didn't mean very much except it made you feel a little more hopeful.

H.M.Jr: It was off the bottom?

R: It was off the bottom and it went to 22.4 and the last markets I heard were 23 bid.

H.M.Jr: Well, that's a little bit better than -

R: That's a little encouraging.

H.M.Jr: Now, -

R: And we agree with your proposal - to close the books tomorrow night.

H.M.Jr: All right. We might just as well. I think if we don't it would be a sign of weakness.

R: Yeh. The other thing I'm doing - I'm just about to have four of - about four of the dealers come over and I want to review the day with them so we'll have a little clearer idea before the market opens tomorrow. Both Allan and I will be in early.

H.M.Jr: Right. What do you call early, 9:30?

R: Well, between nine - we'll be available I think at nine o'clock - certainly at 9:15.

H.M.Jr: All right.

R: That's not very early.

H.M.Jr: All right. Thank you.

R: Thank you, sir.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 25, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

At 4:45 this afternoon the Secretary received Mr. Purvis. Mrs. Klotz, Messrs. Bell, Foley, White and Cochran were present. The Secretary explained that Mr. Purvis had been good enough to act upon the suggestion which the Secretary had made at the conference yesterday afternoon with the British officials, and had brought down copies of cablegrams which had been dispatched by the British Embassy here suggesting a new scheme for the disposal of British direct investments in the United States. The Secretary had his assistants go into Mrs. Klotz' office to read these messages. Mrs. Klotz then returned them to the Secretary in order that Mr. Purvis could take them away with him. No copies were made.

The messages which Mr. Purvis permitted us to read consisted of two cablegrams sent on the same day, but the date thereof was not indicated, by Lord Halifax to Foreign Minister Eden. The first message, a short one, was to the effect that an urgent message was following it which required prompt and careful consideration if bad feeling here was to be avoided.

The second message purported to have resulted from a conference between the British Ambassador, Purvis, Phillips and Peacock. The message stated that the one problem between the British and American Governments which threatened seriously to result in misunderstandings and to detract from the Lease-Lend Bill was that arising out of the disposal of British direct investments in the United States. The cablegram emphasized that there was already a bad atmosphere, and that this would seriously injure other negotiations and relations if it were not clarified.

The message recounted that Secretary Morgenthau had called Sir Edward Peacock to the Treasury and had expressed his unhappiness over the lack of despatch of the British in starting the actual sale of British direct investments. On the following day, February 14, as I recall it, the Secretary had expressed the same sentiment to Mr. Purvis. The point was made that members of the United States Cabinet, including such strong supporters of the British as Secretary of War Stimson, had felt that the British were remiss in their efforts to dispose of their direct investments, and that the United States Congress could not be expected to go the whole way in the Lease-Lend program unless the British showed a better spirit in the premises. It was to eliminate such feeling within the Cabinet and to prevent its spread within Congress that the British officials in Washington felt obliged to make the recommendations incorporated in the cablegram.

The recommendations set forth in the cablegram were very much along the lines of the proposal as presented by Lord Halifax to the Secretary yesterday afternoon. The point was made that there was a lack of confidence in this country that the British really intended to dispose of their direct investments. The argument was set forth

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that as long as the British were wholly responsible for the disposal, pressure would be put on them to get rid of everything and there would be a tendency "to search their pockets". It was recommended, therefore, that the arrangement be offered whereby the United States Government would be obliged to take decisions and be really the responsible authority, but with which the British officials could advance their arguments. The desirability of representations in the case of insurance companies was particularly mentioned.

The group read over the letter addressed under date of February 25 to the Secretary by Sir Edward Peacock, together with its enclosure, consisting of a memorandum setting forth instructions under which Sir Edward Peacock came to this country, and pointing out the differences between the plan under which he came out, and the plan now proposed.



February 25, 1941
4:51 p.m.

Operator: Mr. Bell?

H.M.Jr: Bell.

Operator: Mr. Bell.

H.M.Jr: Hello.

Dan
Bell: Hello.

H.M.Jr: Dan, I just talked to Rouse -

B: Yeh.

H.M.Jr: And he said it had a little bounce from the bottom just at the end.

B: Small one. (Laughs)

H.M.Jr: Yeh. But he thinks he agrees we'll go ahead and close tonight.

B: Really?

H.M.Jr: Yeh.

B: I was just going to recommend against it.

H.M.Jr: No. It would be a sign of weakness.

B: Well, why would it? It's always been - it's been a policy to leave it open three days.

H.M.Jr: Well, you talk to Rouse. He just got through talking to me. He said he thought we ought to close it.

B: Well, O.K. Then, can I go ahead?

H.M.Jr: What's that?

B: May I go ahead?

H.M.Jr: Yeh. That's the purpose of this call.

B: Well, O.K. We've got about 116 million. Two banks are missing but they're small ones.

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H.M.Jr: Rouse as a matter of fact brought it up. He said that they - he put it this way: "We still think we ought to close tonight."

B: Uh-huh. O.K.

H.M.Jr: What?

B: O.K.

H.M.Jr: But the fellows with ten thousand over get an extra day.

B: Well, you want to do that?

H.M.Jr: Yes.

B: Uh-huh.

H.M.Jr: Yes I do.

B: Well, I think you ought to look at this press release. If it was just a straight press release why I'd go ahead but I think you ought to look at this one.

H.M.Jr: Oh, I trust you.

B: Well (laughs) O.K.

H.M.Jr: That's just -

B: I'm not so sure that that isn't a sign of weakness.

H.M.Jr: No.

B: Doing it this way. As I say, it's something unusual.

H.M.Jr: No, no. I think it's good. You could let Chic Schwarz explain it - heretofore every once in a while some fellow couldn't get to his safe deposit box so that, therefore, the fellow -

B: Well, that's what we put in there. "Many of ^{the} small holders of securities to be exchanged, especially the bonds, do not have as immediate access to their securities and are not as conversant with the manner of entering subscriptions as are the larger holders. For these reasons they are given an extra day in which to make the exchange." That's in the press release.

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H.M.Jr: I think that's all right. There's no sense -
B: Did you get the amount?
H.M.Jr: How much?
B: 116 million of the bonds and a little less than
a million of the notes and that's pretty big.
That's bigger than I thought. I didn't think it
would go more than 75 million the first day.
H.M.Jr: 116.
B: Yeh.
H.M.Jr: I think we've got to pull it through.
B: O.K.
H.M.Jr: And I think if I show courage the others will
take courage. Buy yourself a little leadership.
B: O.K. We'll let it go. I think this statement
is all right then.
H.M.Jr: Let it go and -
B: Yeh. I wonder if we hadn't better make it -
well tomorrow morning I guess is all right. I
was going to say might make it immediate release,
for today.
H.M.Jr: Oh I think I'd do it for the morning.
B: It gives them a little more time.
H.M.Jr: Well, give it for immediate release.
B: Well, O.K. then. I think maybe that's a little
better. It's a little more time.
H.M.Jr: Immediate release immediately and let Eccles
know.
B: O.K. Fine.
H.M.Jr: Thanks.

February 25, 1941
5:00 p.m.

279

H.M.Jr: Hello.

Jesse

Jones: Hello, Henry.

H.M.Jr: How are you?

J: Pretty good. How did it - how did they like the market?

H.M.Jr: Well, I'll tell you, Jesse, thank heavens that I didn't follow the advice of the Federal Reserve.

J: Yeh.

H.M.Jr: If I had - our bonds would be selling at 99. They were a point and a half/8¹ their figuring.

J: Well, I declare.

H.M.Jr: It's been selling around par 23 to 24/32s.

J: Par 23 to 24. That's on the bonds.

H.M.Jr: That's on the bonds. You know that's the rights and the notes are about the same.

J: The notes are about the same?

H.M.Jr: The turn in today was pretty good in this respect - this - it was better than what I thought it would be.

J: Uh-huh.

H.M.Jr: But it was about a hundred to one on the bonds as against the notes but we're announcing tonight that we're going to close tomorrow night.

J: You're going to close tomorrow night?

H.M.Jr: With the exception of those people who own ten thousand or less - we give them an extra day.

J: I see.

H.M.Jr: But we've done nothing in the market. It's an absolutely natural market but if I had taken Eccles and that fellow Priser's advice I'd be in the soup.

J: Yeh.

- 2 -

J: Well, I realize that. I got to thinking about it and thinking on these taxes and everything I -

H.M.Jr: Well, this is the second time that Piser's been off base. The trouble is that what he thinks Ecoles takes and sends it all over the country.

J: Uh-huh.

H.M.Jr: And that - it upsets everybody.

J: Yeh.

H.M.Jr: But I think that after all it's selling about $2/3$ of a point above par which is a comfortable margin but not too much.

J: Not too much. No.

H.M.Jr: What?

J: That's right. That's close enough.

H.M.Jr: Too damn close.

J: Yeh.

H.M.Jr: It's too damn close.

J: I've got -

H.M.Jr: What's happening for your information is - a lot of the people are selling these rights and buying totally tax exempts.

J: I see.

H.M.Jr: That's what's happening.

J: Well now I've got - going to sit down in a few minutes - the boys are waiting to talk to these bankers - they're down again today from New York about the Arkansas bonds.

H.M.Jr: Well now.- You know what's happened. I mean - you wouldn't want to figure your own too close.

J: That's right.

H.M.Jr: What?

J: Yeh. But I - the only think I'm thinking about is if we get them too high -

- 3 -

H.M.Jr: Yes.

J: That it might hurt your situation.

H.M.Jr: That's right. Yours are totally tax exempt. I forgot that.

J: Totally tax exempt.

H.M.Jr: That's right.

J: These bankers don't want - they want to have a $3\frac{1}{2}\%$ rate and a little shakey even on that.

H.M.Jr: Yeh.

J: They got sort of cold feet on that.

H.M.Jr: Well.

J: And I've been thinking that it oughtn't to be over three. It's a full tax exempt bond.

H.M.Jr: Yeh.

J: But I guess we can't hope for three now the way they are unless we just buy them all.

H.M.Jr: No. You saw none of my fellows had figured it carefully.

J: I know that.

H.M.Jr: I wouldn't want to advise you but all I can tell you how ours - they're selling their tax exempt - I mean they're selling these rights -

J: Yeh.

H.M.Jr: And buying wholly tax exempts.

J: Yeh. Thank you very much.

H.M.Jr: And one other thing - and there's great scarcity of the tax exempts.

J: I see.

H.M.Jr: Great scarcity.

And the other thing - neither the Fed or ourselves has done a damn thing today.

J: What would you - would ^{you} have any feeling about it

- 4 -

if we bought all of these bonds?

H.M.Jr: Would I?

J: Yeh. We'd have to get the money, of course, in the market.

H.M.Jr: No, because the way I feel is I think that this is a mild hold up.

J: Uh-huh.

H.M.Jr: And if you've got to buy them I think it would be a good lesson.

J: I see. Thank you.

H.M.Jr: What?

J: That sounds all right.

H.M.Jr: It would be a good lesson.

J: I see.

H.M.Jr: Now I'll back you up.

J: O.K.

H.M.Jr: Thank you.

February 25, 1941
5:21 p.m.

H.M.Jr: Hello.

John
Winant: Mr. Morgenthau.

H.M.Jr: Talking.

W: This is Winant. I called up because I wanted to say good bye to you -

H.M.Jr: Yes.

W: And I also wanted to tell you that I talked to Purvis and spent about three hours with him just after I saw you - as you suggested.

H.M.Jr: Right.

W: And I've kept.- I think I've kept all the contacts - I think I've kept those lines straight and kept our machinery simple abroad so as not to impede but rather to expedite -

H.M.Jr: Good.

W: And I just wanted to let you know that -

H.M.Jr: Fine.

W: And to thank you ever so much for your nice letter and your many kindnesses I -

H.M.Jr: When are you sailing?

W: I was to go tomorrow morning but they tell me they may postpone the plane because of rough water.

H.M.Jr: Oh. Well the best of luck!

W: Thanks ever so much. If there's anything we can do will you let us know?

H.M.Jr: I certainly will.

W: All right.

H.M.Jr: I certainly will.

W: Thanks very much.

H.M.Jr: Thank you.

W: Good bye.

CABLE ADDRESS 'THEROSEVELT' NEW YORK

TELEPHONE MURRAY HILL 6-9200



BERNARD G. HINES, MANAGING DIRECTOR

Hotel
ROOSEVELT
MADISON AVENUE AT 45TH STREET
NEWYORK.N.Y.

February 25, 1941

Dear Mr. Morgenthau:

Just a note to thank you for
your personal kindness and good wishes.

I am sorry that the time was so
short the other day. I had hoped to see
you again before leaving but find I must
get off sooner than I had expected.

With kind regards,

Sincerely,

John S. Winant

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

IN THE  SYSTEM

NEW YORK CITY, N. Y.
PHILADELPHIA, PA.
NEWARK, N. J.
PITTSBURGH, N. J.
SEATTLE, WASH.
HARRISBURG, PA.

THE ROOSEVELT
THE BENJAMIN FRANKLIN
THE ROBERT TRACY
THE ALEXANDER HAMILTON
THE OLYMPIC
THE PENNSYLVANIA

ROCHESTER, N. Y.
ALBANY, N. Y.
SYRACUSE, N. Y.
HADDAM FALLS, N. Y.
ELIZABETH, N. J.
BOSTON, MASS.

THE BENICIA
THE TEN EYER
THE OROQUOGA
THE HADAM
THE LAWRENCE
THE BRADFORD

LANCASTER, PA.
FLINT, MICH.
TUCSON, ARIZ.
PUERTO RICO
TORONTO

THE BRUNSWICK
THE DURHAM
ST. COLUMBIA
THE CONRAD
IN CANADA
THE KING EDWARD

CABLE ADDRESS THEROSEVELT NEW YORK

TELEPHONE MURRAY HILL 6-9200



BERNARD G. HINES, MANAGING DIRECTOR

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ELIZABETH, N. J.
BOSTON, MASS.

THE SENeca
THE TEN Eyck
THE ORONDAGA
THE NIAGARA
THE LAWRENCE
THE BRADFORD

LANCASTER, PA.
FLINT, MICH.
TUCSON, ARIZ.
PUERTO RICO
TORONTO

THE BRUNSWICK
THE DURANT
EL COMENDADOR
THE CONDADO
IN CANADA
THE KING EDWARD

February 25, 1941

MEMORANDUM FOR THE SECRETARY'S DIARY

Secretary Morgenthau saw Mr. Clarence E. Pickett, Executive Secretary, and Mr. John Rich, Associate Secretary, of the American Friends Service Committee, today at Mr. Pickett's request. Mrs. Klotz and Mr. Pehle were present.

Mr. Pickett indicated that Mr. Kershner, the Friends' representative in France, had worked out a plan for the trial-feeding of children in occupied France and Belgium. Mr. Pickett said that supplies such as oatmeal and cocoa were believed to be obtainable in limited quantities in such areas, but that the question arose as to funds for making such purchases. He also mentioned that milk would have to be shipped in from Switzerland, if obtainable there, or from the United States. Secretary Morgenthau referred to the fact that the American Friends had not been able to obtain much of the milk they had purchased in Switzerland, which was confirmed by Mr. Pickett. Mr. Pickett and Mr. Rich indicated that the peanuts which were to be sent from Dakar to Marseilles and then to Switzerland as a barter for the milk had not left Dakar. Mr. Pickett referred to the

- 2 -

importance of seeing that the people in the occupied regions were not forced towards the Nazis through their being cared for and fed exclusively by the occupying forces.

Mr. Pehle questioned Mr. Pickett as to why it was necessary that American dollars be used to make purchases in occupied France and Belgium and asserted that if the local authorities wished the Friends to assist in the redistribution of supplies already in the area, local currency could be made available. Mr. Pickett said that he was not sure whether the Germans would allow local currency to be used.

Secretary Morgenthau said that the matter was one that would have to be taken up with Secretary Hull, and that before the Treasury would be in a position to discuss the matter further he would have to have a letter from Secretary Hull indicating that the State Department wanted the Friends to work in the occupied areas.

The conference closed with this understanding.



February 25, 1941.

Dear Mr. President:

In response to your memorandum dated February 22, at Hyde Park, I am enclosing a memorandum on Presidential vacancies in the Treasury Department.

Summarizing the attached memorandum you will note that the situation is as follows:

Collectors of Customs - One vacancy; three Collectors holding office after expiration of their terms of appointment; two terms to expire in June.

Collectors of Internal Revenue - Four vacancies. One commission in process of execution after confirmation; one selection made and recommendation pending; two to be selected.

Assayers - Two vacancies. One nomination confirmed and commission in process of execution; one nomination in hands of the Senate.

Customs Appraiser - One vacancy.

Comptrollers of Customs - One vacancy and another holding office after expiration of term.

Respectfully,

(Signed) H. Morgenthau, Jr.
Secretary of the Treasury.

The President

The White House.

HEG/mah

File returned to Mr. Gaston

By Messenger 3 42

MEMORANDUM ON PRESIDENTIAL VACANCIES
IN THE TREASURY DEPARTMENT

Collectors of Customs - 1 vacancy

Duluth, Minnesota - Vacancy. Chairman Flynn has asked time to get a recommendation from former State Supreme Court Justice Devaney, who has been named head of an informal patronage committee in Minnesota.

There are no other vacancies, but Collectors of Customs hold office until their successors have qualified and there are three whose terms have expired. They are:

Tampa, Florida - Allie J. Angle, term expired March 31, 1938. He has been recommended for reappointment by Senator Andrews; Senator Pepper has not agreed. He is a veteran of the World War and a very active and satisfactory Collector.

Savannah, Georgia - Howell Sans, term expired February 28, 1938. On agreement of the Senators his nomination for reappointment was sent to the White House on January 21, 1938, and has since been held there.

Baltimore, Maryland - Gilbert A. Dailey, term expired February 28, 1938. There has been no nomination for reappointment. Dailey, along with Collector of Internal Revenue Magruder, broke with Tydings in 1938 and supported Dave Lewis for the Senate.

Chairman Flynn indicated he would like to look into the Georgia situation but indicated he planned no action as to the other two.

The terms of two other Collectors will expire on June 30 of this year. They are:

New York - Harry M. Durning. There seems to be no question that he will be endorsed for reappointment by the Senators from New York and by the National Chairman. He is a very satisfactory Collector.

- 2 -

Wilmington, North Carolina - John Bright Hill.
He has already been recommended for reappointment by both Senators.

Collectors of Internal Revenue - 4 Vacancies

Toledo, Ohio - Vacancy. Frank Baum of Toledo has been recommended by Senator Donahay, by Charles Sawyer, National Committeeman, and others. Chairman Flynn has asked for further time on this but indicated he would approve appointment of Baum.

Milwaukee, Wisconsin - Vacancy. Frank J. Kohl has been recommended by C. E. Broughton, National Committeeman. Chairman Flynn has asked also for further time on this one.

Tacoma, Washington - Vacancy. The appointment of Clark Squire of Seattle, endorsed by Senators Bone and Wallgren, has been confirmed by the Senate.

Wichita, Kansas - Vacancy. William H. Burke resigned to run for Governor and was defeated. He desires reappointment and has the necessary political recommendation. We have Chairman Flynn's authority to put his appointment through at a time convenient to Commissioner Helvering and Burke himself.

Comptrollers of Customs - 1 Vacancy

San Francisco, California - Vacancy. Various endorsements. Soon after the vacancy occurred Senator Downey made a recommendation which Chairman Farley considered highly unsatisfactory. The late Senator Hodge, then National Committeeman, recommended Mrs. Alice K. Rosseter. We have been satisfied to leave this place vacant since the work is well handled by an Acting Comptroller and the position of Comptroller of Customs is invariably treated as a political sinecure. This was discussed with Chairman Flynn and he indicated that he had no present intention to make a recommendation.

- 3 -

Baltimore, Maryland - The term of S. Scott Beek expired February 23, 1938, but he continues to hold office under the same law as applies to Collectors. There has been no recommendation.

Appraiser of Customs - 1 Vacancy

New York - Vacant since the death of Mrs. Thomas Lynch. The work is capably handled by an Acting Appraiser. The same considerations apply to this office as to that of Comptroller of Customs.

Assayers - 2 Vacancies

San Francisco, California - The nomination of Hugh T. Rippete, transferred from New Orleans, has been confirmed by the Senate.

New Orleans, Louisiana - The nomination of Charles M. Miller has been referred to a Committee of the Senate.

THE WHITE HOUSE
WASHINGTON

Hyde Park, N. Y.,
February 22, 1941.

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY

How about filling the vacant positions which are Presidential? There are six Collectors of Customs, two Controllers of Customs, four Internal Revenue Collectors, one assayer and one appraiser.

F. D. R.

February 25, 1941

My dear Mr. President:

I am enclosing herewith (1) a draft of a letter, for your signature, to Congressman Wigglesworth and (2) a confidential up-to-the-minute report from Philip Young as to the airplane engine orders on hand from the Russian Government.

I am sending copies of this material to Mr. Sumner Welles.

Yours sincerely,

(Signed) H. H. H. H. H.

The President,
The White House.

By Messenger 3421

February 25, 1941

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I am sending copies of this material to Mr. Sumner Welles.

Yours sincerely,

(Signed) E. M. Mendenhall, Jr.

The President,
The White House.

By Messenger

CONFIDENTIALTO KEEP YOU POSTED

February 25, 1941

To: The Secretary
From: Mr. Young

Re: Airplane Orders for Russia

Attached herewith is a draft reply for the signature of the President in response to Congressman Wigglesworth's note of February 17th concerning the sale of United States airplanes to Russia.

A careful check has been made by the Liaison Committee against its own records and with the Aeronautical Board, Amtorg, and Curtiss Wright Corporation. The only outstanding orders for Russia as of February 15th in the aircraft field are:

(1) Ten Cyclone GR-1820 engines which were ordered November 28, 1939, from Wright Aeronautical Corporation, with an approximate total value of \$108,000. Two of these engines have been completed and the rest are in production. No export license has been issued.

(2) Spare parts for airplane motors ordered February 3, 1941, with a value of about \$50.00 manufactured by S. F. Bowser & Company. These parts have been completed but no export license has yet been issued.

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My dear Mr. Wigglesworth:

Thank you for your note of February 17th, enclosing a copy of a letter from the St. Brendan Society of Boston, Massachusetts, concerning the sale of United States Airplanes to Russia.

May I advise you that as of February 15th no airplanes were on order for Russia with United States aircraft manufacturers, and further that no requests were pending for the negotiation of any such contracts.

Sincerely,

Honorable Richard B. Wigglesworth,
House of Representatives,
Washington, D. C.

FX:bj
2/25/41

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Chap 4/17

THE WHITE HOUSE
WASHINGTON

296

February 21, 1941.

MEMORANDUM FOR H.M. Jr.

For preparation of reply.

F.D.R.

(COPY)

297

CONGRESS OF THE UNITED STATES
House of Representatives
Washington, D. C.

February 17, 1941

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

Dear Mr. President:

I venture to enclose herewith copy of
a letter just received from the St. Brendan
Society of Boston, Massachusetts with reference
to the sale of United States airplanes to Russia.

I should greatly appreciate any
views that you may care to give me in this
connection.

Sincerely yours,

/s/ R. Wigglesworth

CUMANN BHREANDAIN
ST. BRENDAN SOCIETY
BOSTON, MASS.

January 22, 1941

Mr. Richard B. Wigglesworth
House of Representatives
Washington, D. C.

Honorable Sir:

The St. Brendan Society, an American organization of the Irish country group, are concerned and alarmed at the report that Russia is to get U. S. Airplanes. The weakened condition of our own military forces as outlined by President Roosevelt is the basis of this society's strongest protest against any further weakening or dissipation of strength which we have gained.

The society trusts that you, sir, as an American with the protection of Christian America at heart will proceed with fellow members to safeguard at once the strength of our military forces and the peace of our country.

We respectfully request an early reply as to what efforts you will make in this regard. Your letter will be read at our next meeting of this society.

Respectfully yours,

ST. BRENDAN SOCIETY

Sylvester E. Sullivan
Corresponding Secretary

93 Federal Street
Boston, Mass.

February 25, 1941

My dear Sumner:

For your confidential information,
I am sending you herewith copies of my letter
to the President and the enclosures referred
to therein.

Yours sincerely,

Henry

Hon. Sumner Welles,
Under Secretary of State.

Confidential

By Messenger

February 25, 1941

My dear Sumner:

For your confidential information,
I am sending you herewith copies of my letter
to the President and the enclosures referred
to therein.

Yours sincerely,

Hon. Sumner Welles,
Under Secretary of State.

By Messenger

February 25, 1941

My dear Sumner:

For your confidential information,
I am sending you herewith copies of my letter
to the President and the enclosures referred
to therein.

Yours sincerely,

Hon. Sumner Welles,
Under Secretary of State.

By Handwritten

February 23, 1941.

Dear Mr. President:

I am returning the letter on the subject of Coast Guard contracts, written for your approval, which you asked me to speak to you about this week.

The purpose of the enclosed letter is not to permit the Coast Guard to advance funds to contractors but rather to permit us to take advantage of the standard form of Government contract, which provides for making payments as the work progresses on a ten per cent withholding basis, that is, up to ninety per cent of the value of the work done.

The Coast Guard is under a handicap in letting contracts, created by an old (1894) law, which is Section 542 of Title 31 of the Code. This law compels us to withhold twenty-five per cent of the contract price, in the case of vessels constructed for the Coast Guard, until actual completion of the contract and delivery of the vessels. All other departments of the Government are permitted to do business on a ten per cent basis.

The Coast Guard has recently negotiated a contract with Toledo Shipbuilding, Inc., of Toledo, Ohio, for the construction of a new cutter for Greenland and similar Arctic service at a cost of \$1,300,000. To induce the contractor to undertake the work Coast Guard had to agree to employ the standard form of contract providing for ten per cent withholding instead of the usual Coast Guard form of contract, which provides for twenty-five per cent withholding.

The situation is the same with respect to a contract for a lighthouse tender under negotiation with the Marine Iron and Shipbuilding Company of Duluth and a contract for 83 ft. patrol boats with the Wheeler

- 2 -

Shipyards of Brooklyn.

You will note that while the first sentence of the Act of June 23, 1940, cited in the enclosed letter, authorizes thirty per cent advances, the second sentence authorizes the Secretary of the Department concerned "in his discretion to make partial payments on the balance of the contract price from time to time during the progress of the work, such partial payments not to exceed the value of the work already done" It is this authority that we desire to employ so as to be able to use the standard ten per cent contract used by the Navy and other Government Departments.

Respectfully,

(Signed) H. Magrath, Jr.

Secretary of the Treasury.

HEG/mah

The President,

The White House.

ORIGINAL FORWARDED TO ADDRESSEE
FROM OFFICE OF THE SECRETARY
By Messenger

February 24, 1941.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Canton

The purpose of the attached letter for the President's approval is not to permit the Coast Guard to advance funds to contractors but rather to permit us to take advantage of the standard form of Government contract, which provides for making payments as the work progresses on a ten per cent withholding basis, that is, up to ninety per cent of the value of the work done.

The Coast Guard is under a handicap in letting contracts created by an old law, which is Section 542 of Title 31 of the Code. This law compels us to withhold twenty-five per cent of the contract price, in the case of vessels constructed for the Coast Guard, until actual completion of the contract and delivery of the vessels. All other departments of the Government are permitted to do business on a ten per cent basis.

The Coast Guard has recently signed a contract with Toledo Ship Building, Inc., of Toledo, Ohio, for the construction of a new cutter for Greenland and similar Arctic service at a cost of \$1,300,000. In order to negotiate the contract Coast Guard had to agree to employ the standard form of contract providing for ten per cent withholding instead of the usual Coast Guard form of contract, which provides for twenty-five per cent withholding.

The situation is the same with respect to a contract for a lighthouse tender under negotiation with the Marine Iron and Ship Building Company of Duluth and a contract for 63 ft. patrol boats with the Wheeler Shipyards of Brooklyn.

You will note that while the first sentence of the Act of June 28, 1940, cited in the letter to the President, authorizes thirty per cent advances, the second sentence authorizes the Secretary of the Department concerned "in his discretion to make partial payments on the balance of the contract price from time to time during the progress of the work, such partial payments not to exceed the value of the work already done" It is this authority that we want to employ so as to be able to use the standard ten per cent contract used by the Navy and other Government Departments.



THE SECRETARY OF THE TREASURY
WASHINGTON

February 8, 1941.

My dear Mr. President:

In the case of some Coast Guard contracts, the contractors are encountering difficulty in financing the particular projects. It is deemed desirable, therefore, to invoke the authority contained in section 1 of the Act of June 28, 1940 (Public, No. 671, 76th Congress), which provides:

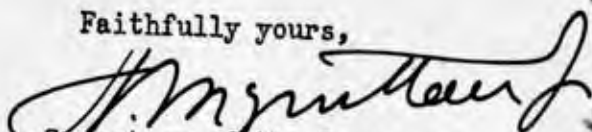
"That whenever in the opinion of the President of the United States such course would be in the best interests of national defense during the national emergency declared by the President on September 8, 1939, to exist, the Secretary of the Navy, or the Secretary of the Treasury in the case of Coast Guard contracts, is authorized to advance, from appropriations available therefor, payments to contractors in amounts not exceeding 30 per centum of the contract price, upon such terms as such Secretary shall prescribe, and adequate security for the protection of the Government for the payments so made shall be required. The Secretary concerned is further authorized in his discretion to make partial payments on the balance of the contract price from time to time during the progress of the work, such partial payments not to exceed the value of the work already done, but to be subject to a lien as provided by the Act of August 22, 1911 (37 Stat. 32; U.S.C., title 34, sec. 582), entitled 'An Act authorizing the Secretary of the Navy to make partial payments for work already done under public contracts': Provided,

- 2 -

That the Secretary concerned shall report every three months to the Congress the advance payments made under the authority of this section."

If you concur, it is requested that you indicate, by your approval hereon, that in your opinion such course would be in the best interests of national defense at this time.

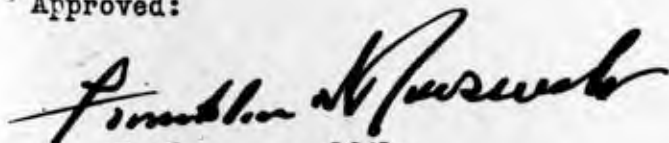
Faithfully yours,


Secretary of the Treasury.

The President,

The White House.

Approved:


Feb 25, 1941.

THE WHITE HOUSE
WASHINGTON

Factor
- Hq 46
307

February 21, 1941.

MEMORANDUM FOR H.M. Jr.

To speak to me about next week.

F.D.R.

31-562
with Hq 754 and
1944



TREASURY DEPARTMENT

WASHINGTON

FEB 3 1941

THE WHITE HOUSE
FEB 4 10 06 AM '41
RECEIVED

My dear Mr. President:

In the case of some Coast Guard contracts, the contractors are encountering difficulty in financing the particular projects. It is deemed desirable, therefore, to invoke the authority contained in section 1 of the Act of June 28, 1940 (Public, No. 671, 76th Congress), which provides:

"That whenever in the opinion of the President of the United States such course would be in the best interests of national defense during the national emergency declared by the President on September 8, 1939, to exist, the Secretary of the Navy, or the Secretary of the Treasury in the case of Coast Guard contracts, is authorized to advance, from appropriations available therefor, payments to contractors in amounts not exceeding 30 per centum of the contract price, upon such terms as such Secretary shall prescribe, and adequate security for the protection of the Government for the payments so made shall be required. The Secretary concerned is further authorized in his discretion to make partial payments on the balance of the contract price from time to time during the progress of the work, such partial payments not to exceed the value of the work already done, but to be subject to a lien as provided by the Act of August 22, 1911 (37 Stat. 32; U.S.C., title 34, sec. 582), entitled 'An Act authorizing the Secretary of the Navy to make partial payments for work already done under public contracts': Provided, That the Secretary concerned shall report every three months to the Congress the advance payments made under the authority of this section."

If you concur, it is requested that you indicate, by your approval hereon, that in your opinion such course would be in the best interests of national defense at this time.

Faithfully yours,



Acting Secretary of the Treasury.

The President,

The White House.

Approved:

, 1941.

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This Board is based on the suggestion contained in Secretary Stimson's memorandum which he presented at the secret meeting held at Secretary Morgenthau's home on February 13th to discuss appropriations in connection with the Lend-Lease Bill.

THE WHITE HOUSE
WASHINGTON

February 25, 1941.

Confidential
Dear Mr. Secretary:-

I want to get ready for the administering of the Lend-Lease Bill at once so that upon the day I sign the bill I can also take a number of important actions in relation to it.

My plans are to be away from Washington for about ten days after the bill is signed, and during that period I would like to have other proposals adequately canvassed so that I may take the series of steps immediately upon my return.

I propose to administer the bill through the assistance of an Advisory Committee composed of the Secretary of State, the Secretary of War, the Secretary of the Navy and you.

I am going to ask Harry Hopkins to act as Secretary of this Committee during the next few months. I do this because of his intimate acquaintance with the needs of Britain and his understanding of governmental relationships here.

Will you be good enough to assign one of the members of your Department

to work with Hopkins in developing the details of the proposals which your Committee will consider from time to time?

I am anxious to hold the first meeting with this Advisory Committee at once, and I will arrange a time either Wednesday or Thursday of this week.

Always sincerely,

A handwritten signature in dark ink, appearing to read "Franklin D. Roosevelt". The signature is fluid and cursive, with the first name "Franklin" and last name "Roosevelt" clearly legible.

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

February 25, 1941

My dear Mr. President:

For the first time, I have received very highly confidential information as to the disposition of American planes once they leave our factories. I would appreciate it if you would destroy the enclosed statement after reading the same.

We have had a great deal of trouble with both the State Department and the Department of Justice trying to get permission for the English to fly the new Consolidated bomber overseas with English crews. The matter is not yet straightened out. The trouble originated when the State Department filed a complaint with the Department of Justice.

Yours sincerely,

(Signed) H. Morganthau, Jr.

The President,
The White House.

Confidential

By Messenger 342

February 25, 1941

My dear Mr. President:

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Yours sincerely,

(Signed) H. Morganthau, Jr.

The President,
The White House.

Confidential

By Messenger

CONFIDENTIALACTION REQUIRED

February 20, 1941

To: The Secretary

From: Mr. Young

Re: British Aircraft Shipments

You will recall that last week you asked me to procure information with respect to the shipment of British planes, the destination of the planes, and the means of transportation involved. The attached statement represents the first attempt by the British Air Commission to fulfil your request, and it is presented on a preliminary basis to see if it shows what you want.

I might add that the information is compiled from three different sources, and that the Air Commission is anxious to keep it on a strictly confidential basis and not include it as part of the regular weekly aircraft statement. You will recall that the weekly statement includes a table on exports which shows the number of planes exported for the week as well as total exports classified according to destination.

The attached statement gives additional information in the form of the assembly point and the method of transportation. Sir Henry Self is anxious to discontinue the information contained in the regular weekly table as this new statement will take the place of it, and as he is anxious to keep it confidential.

With respect to the last two columns on this new statement dealing with the method of shipment, the figures represent planes that have arrived at the assembly point within the last week. The "week ending January 25" and the "week ending February 15" included in the two headings represents when the planes were exported from the United States. Presumably, the British will include a footnote in those instances where planes have been exported but did not arrive at the assembly point due to sinking or other reasons.

du

CONFIDENTIAL

STATEMENT of AIRCRAFT SHIPPED to U.K.

& OVERSEAS COMMANDS

Type	Destination	Assembly Point	By Sea during week ending Jan. 25.41	By Air during week ending Feb. 15.41
<u>Douglas</u>				
Boston I	-	-	-	-
Boston II	U.K.	U.K.	13	-
<u>Lockheed *</u>				
Hudson I	U.K.	U.K.	1	-
Hudson III	U.K.	U.K.	-	2
Hudson IV	U.K.	U.K.	3	-
Electra	U.K.	U.K.	3	-
<u>Curtiss</u>				
Tomahawk	M.E.	Takoradi	100	-
<u>Glenn Martin</u>				
Maryland	M.E.	Takoradi	20	-
<u>Consolidated*</u>				
PBY	-	-	-	-
			140	2

British Air Commission
February 19th, 1941

* The Consolidated PBY's are flown via Bermuda and the Lockheeds via Montcal, Halifax. (This information was given by phone by the British Purchasing Commission at 3:30 p.m., February 20, 1941.)

CONFIDENTIAL

STATEMENT OF AIRCRAFT SHIPPED TO U.K.
& OVERSEAS COMMANDS

Type	Destination	Assembly Point	By Sea During Week ending Jan. 18.41	By Air During week ending Feb. 8.41
<u>Douglas</u>				
Boston I	U.K.	U.K.	1	-
Boston II	U.K.	U.K.	16	-
<u>Lockheed</u>				
Hudson I	-	-	-	-
Hudson III	-	-	-	-
Hudson IV	U.K.	U.K.	5	-
Electra	-	-	-	-
<u>Curtiss</u>				
Tomahawk	-	-	-	-
<u>Glenn Martin</u>				
Maryland	-	-	-	-
<u>Consolidated</u>				
PBY	U.K.	U.K.	-	3

British Air Commission

February 19, 1941.

February 25, 1941

TO: DR. HAAS
FROM: THE SECRETARY

I cannot understand why from February 16th to February 22nd the Army got 77 Type "C" and the British got none of the "C". What is the explanation?

Please take up with Allison when do they expect to go into real production on Type "E" and Type "F" and how far as they behind on their schedule of delivery on Type "E" and "F".

STRICTLY CONFIDENTIAL

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ALLISON SHIPMENTS

Purchaser and model	:Dec.29: :Jan. 4:	:Jan.: 5-11:	:Jan.: 12-18:	:Jan.: 19-25:	:Jan.26: Feb. 1:	:Feb.: 2-8:	:Feb.: 9-15:	:Feb.: 16-22:	:Dec.29- Feb.22:	Total
British										
C	8	83	41	33	31	60	30	-		286
E	-	-	-	-	-	-	1	-		1
Total British	8	83	41	33	31	60	31	-		287
U. S. Army										
C	1	-	-	-	-	25	32	77		135
E	3	2	2	-	1	1	2	2		13
F	-	-	-	-	-	-	1	1		2
Total Army	4	2	2	-	1	26	35	80		150
Total Shipments	12	85	43	33	32	86	66	80		437

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

February 25, 1941

STRICTLY CONFIDENTIALMEMORANDUM

Report of telephone call to Mr. F. C. Kroeger,
General Manager of the Allison Division, General
Motors Corporation, on Tuesday, February 25, 1941,
4:00 p.m.

Mr. Kroeger said that engine deliveries for the British were eliminated last week at the request of the Curtiss Aeroplane Division. The Air Corps, he said, is pushing Curtiss for the delivery of some P-40s and Curtiss could not use immediate deliveries of engines for the British. Previous deliveries of engines for the British are still in storage and the storage space is full. Present indications are that most of the deliveries this week will also be for the Army.

Mr. Kroeger did not know off hand how far behind schedule they were on deliveries on the E and F type of engine. He thinks that real production on these engine types will not occur before April 1. Experimental work has been completed on these types, however, and they are now working 24 hours a day trying out and testing their new tools. Even on this basis, it will be nearly a month before they will be able to produce satisfactory engines in volume.

The failure to produce the E type engine may handicap the Bell Aircraft Corporation, Mr. Kroeger said. Bell uses these engines in its Airacobra Pursuit model which it is producing for both the British and the Army.

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

February 25, 1941.

BRITISH EMBASSY,
WASHINGTON, D.C.

25th February 1941

Dear Mr. Secretary:

At our conference yesterday, you asked to be provided with a statement showing the difference between the situation when I arrived, and the plan proposed to you yesterday. We have tried to set this out briefly in the enclosed memorandum, and I venture to add a few words of explanation of what was in our minds.

The essence of our plan is that instead of transactions depending on instructions from London, the power of final decision in all matters would rest in Washington with the United States Government. It was hoped that this would clear the air of any misunderstandings on the subject.

Again, in the carrying out of the work of investigating and disposing of these investments, it would be of great advantage to the British Representative, if he were in a position to consult someone nominated by you, who would collaborate in the main decisions while not being burdened with the day to day work, and who could keep you advised of progress.

I gained the impression that you felt that appeals on particular cases to the United States Government might involve you in embarrassing questions, and if this were likely to happen often, no doubt that would be so. But if I were able to consult someone in your confidence, we would both be anxious to arrive at a sensible arrangement over each transaction and would be unlikely to persist in carrying a difference of opinion to a point requiring appeal.

The fact that the essence of the proposal is that the whole of the securities are placed under the control of the United States Government carries with it the necessity of such an appeal in the last analysis, but in practice, I think that the question would rarely, if ever, arise.

BRITISH EMBASSY,
WASHINGTON, D. C.

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As I know you realize, this question of direct investments is a complicated and difficult one and I do feel very strongly the need for the collaboration of some American representative who enjoys your confidence and has had some practical business experience.

Yours sincerely,

J B P. Macrae

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

DIRECT INVESTMENTS

1) Previous Position

The instructions given to Sir Edward Peacock, when it was agreed that he should be sent out to the United States to take charge of the matter, were to the effect that

1. The British Government had decided that a substantial amount of direct investments were to be sold or used as a basis of capital issues.
2. The British Government endorsed the suggestion made in a letter written by Sir Frederick Phillips on the 8th of January to Mr. Walter Stewart, that, if Secretary Morgenthau wished it, Mr. Stewart should collaborate with Sir Edward Peacock in the manner there suggested.

While Sir Edward Peacock was on his way, Sir Frederick Phillips saw Secretary Morgenthau on the 13th of January and explained that everything was being done to expedite Sir Edward Peacock's arrival and to give him the widest powers. The British Government wished the discussion about the subject to be realistic, and would not allow a vendor, by an unreasonable attitude, to block an equitable transaction.

2) New Proposal

The new proposal now submitted corresponds with the former situation in one respect, viz:- that the responsibility for the executive work of effecting sales or capital issues rests on the British side. It differs, however, from the

previous position in four important ways:-

1. Standing machinery is proposed to be set up for consultation between British and American representatives, which will not only enable the American representatives to be fully informed of what is going on and, if necessary, to initiate and control operations, but will also enable the British representatives to convey their views currently both on particular cases and on general questions.
2. The British Government offer, if desired, to place the titles to the investments in question in the hands of the United States Government.
3. If the American and British representatives are in agreement, the proposals go ahead without further reference to higher authority.
4. Sir Edward Peacock's instructions only contemplated joint consultation. The present plan proposes operations under joint control, and makes definite provision for the possible case of disagreement. It is believed that disagreement will be rare, but if it occurs, the final decision will now rest with the United States Government and not with the British Government. The British Government, who will have to carry out the actual operations, undertake to give effect to such decisions.

Washington, D. C.

25th February 1941

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 25, 1941

TO Mr. White
FROM Miss Kistler

Subject: Statements made by Secretary Morgenthau before the Senate and House Committees on British sale of their American investments.

Testimony before the Senate Committee

"... in order to raise \$1,775,000,000 that they need to meet their outstanding obligation, it means that they have got to sell every share of United States securities they own and all of their properties that they own in the United States within the calendar year." (p. 21)

"I have not looked into the individual cases, but if Lord and Lady Astor own real estate in New York their assets will be on the auction block with the rest." (p. 66)

"Every dollar of property, real property or securities that any English citizen owns in the United States, they have agreed to sell during the next 12 months, in order to raise the money to pay for the orders they have already placed, they are going to sell — every dollar of it." (p. 66)

"Senator Byrnes, they will have to sell every share of United States stock and every piece of property that every English citizen owns in this country within the next 12 months in order to raise sufficient money to pay for the orders that are already placed." (p. 70)

Testimony before the House Committee

"What they are doing now is this: In the case of American securities listed on our exchanges, they have been rapidly taking those over and selling them to American investors; and they propose to sell, as rapidly as they can find buyers, the so-called direct investment in factories or businesses, which are not listed on the exchange." (p. 62)

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 25, 1941

TO Mr. White

FROM Mr. Adler

Subject: The Report of the British Select Committee on National Expenditure

The Select Committee on National Expenditure in its report of January 16 made the following recommendations:

1. Hours of work of munition workers should be reduced to 60 a week with the aim of a further reduction to 55 or 56, which is the optimum from the production point of view. In this respect "the lessons which the last war should have taught seem largely to have been ignored."
2. The ideal to be aimed at is the three-shift system. Greater uniformity of hours between different firms should be established to prevent men from moving in search of overtime rates.
3. The Minister of Labor should make greater use of his compulsory powers to move and transfer works. There should be a maximum dilution of labor and training should be extended.
4. The post-costing system used by the Ministry of Supply is inefficient and a current costing system should be substituted. Contracts should be placed wherever possible on a fixed price basis.
5. Further inquiries into cost discrepancies are being made. Certain shells were produced by one firm at a cost of 1s. 5d against another firm's 5s. 2d.

Note: It would be worth while asking the Treasury Attache to send us a copy of the report. *yes*

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 25, 1941

TO Secretary Morgenthau
FROM Mr. White
Subject: United States Foreign Trade Developments in 1940

The attached memorandum, prepared by Miss Kistler, develops the following points:

1. Our exports totalling \$4 billion were at the highest level in over a decade. Imports amounted to \$2.6 billion, and although higher than in 1939, were less than the comparatively large total of 1937. The resultant \$1.4 billion excess of merchandise exports was the largest in 20 years.

2. Exports of agricultural commodities are at the lowest point in 70 years.

Six essential war materials -- heavy iron and steel, non-ferrous metals, metal-working machinery, aircraft, firearms and chemical products -- are now accounting for over 40 percent of the value of all our exports.

Three-fifths of all our exports are now going to British Empire countries. Exports to Latin America, Asia and Africa have also increased.

3. A sharp increase in our imports of strategic and other crude materials have more than counter-balanced the drop in our foreign purchases of finished manufactures.

Excepting Continental Europe, imports from all areas of the world were larger than in 1939. Since June, imports from Continental Europe have been negligible.

Attachment

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 6, 1941.

TO Mr. White
FROM Miss Kistler

Subject: United States Foreign Trade Developments in 1940.

Our excess of merchandise exports in 1940 was the largest since 1921. Exports exceeded imports by \$1.4 billion.

United States Export Developments.

1. Our exports rose to \$4 billion, the highest level since 1929, notwithstanding the drastic curtailment in shipments of agricultural and peace-time consumption goods, particularly to Europe. Greatly expanded shipments of essential war materials to United Kingdom and other British Empire countries together with increased exports to Latin America are responsible for the rise.
2. Agricultural commodity exports declined contraseasonally to the lowest point in 70 years. Since July they have accounted for less than 10 percent of the value of all exports, as compared to 28 percent during the corresponding period of 1938.
3. Our exports of six essential war materials - heavy iron and steel, non-ferrous metals, metal-working machinery, aircraft, firearms and chemical products - doubled in value during 1940 and in the latter months of the year accounted for over 40 percent of the value of all our exports. This is twice as high a proportion as during the pre-war months.
4. Exports of other manufactured commodities increased (10 percent) but less than total exports increased. Trade in many commodities was erratic both in volume and distribution as compared to pre-war years. Exports of passenger automobiles were one-third lower than in 1939 despite larger sales to Latin American countries. Exports of paper and wood pulp were two and one-half times as large as in 1939, due largely to increased shipments to Latin America and British Empire countries. Exports of lubricants and gasoline,

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Division of Monetary
Research

on the other hand, have recently reversed their upward trend of the early months of the war; exports of gasoline were only half as large in volume as in 1939.

5. The shift in the commodity composition of our exports during 1940 is indicated by the table below.

Percentage Distribution of U.S. Exports by Principal
Commodity Groups, 1939 and 1940

	1938		1939	
	Jan. - June	July - Dec.	Jan. - June	July - Dec.
Six essential war materials ^{1/}	21	24	33	43
Other manufactured commodities	54	47	44	43
Agricultural commodities	19	22	18	9
Other crude materials	6	7	5	5
Total	100	100	100	100

6. Three-fifths of all our exports are now going to British Empire countries, principally the United Kingdom and Canada. This compares with a proportion of two-fifths during the early months of the war.
7. Exports to Latin America increased (27 percent) but no more than total exports increased. Approximately one-fifth of our exports have gone to Latin America since the outbreak of the war.

United States Import Developments.

1. Our imports in 1940 totalled \$2.6 billion. Although 13 percent higher than in 1939, they were still \$400 million under the comparatively large total of 1937, when the high level of industrial activity and short crops here combined to swell our purchases abroad.

^{1/} Include heavy iron and steel, non-ferrous metals, metal-working machinery, aircraft, firearms, and chemical products.

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Division of Monetary
Research

2. Sharply increased imports of strategic materials highlighted our import trade during 1940. Imports of six commodities - crude rubber, raw silk, nickel, tin, antimony and ferro-alloying materials - as a group were half again as large as in 1939 and during the second half of the year represented about 30 percent of the value of all imports into United States.
3. The building up of stock piles of imported materials is further evidenced by the 14 percent rise in imports of other crude and semi-manufactured materials.
4. Imports of finished manufactures dropped sharply. Food-stuff imports were also lower than in 1939.
5. Since June, imports from Continental Europe have been negligible. They have averaged only \$10 million monthly whereas they averaged \$40 million monthly during the half year prior to the outbreak of the War.
6. Imports rose from all other areas of the world. Asia and Africa registered the largest gain. Imports from Asia were over 40 percent higher in value in 1940 than in 1939 while imports from Africa were 75 percent higher.
7. The table below shows the change commodity composition of our trade since the outbreak of war.

Percentage Distribution of U.S. Imports by Principal
Commodity Groups, 1939 and 1940

	1938		1939	
	Jan. - June	July - Dec.	Jan. - June	July - Dec.
Six strategic materials				
1/	16	21	22	29
Other crude and semi-				
manufactured materials	43	41	44	42
Foodstuffs	27	26	24	20
Finished manufactures	<u>14</u>	<u>12</u>	<u>10</u>	<u>9</u>
Total	100	100	100	100

1/ Crude rubber, raw silk, tin, nickel, antimony, ferro-alloying ores and metals.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 25, 1941

TO Secretary Morgenthau

FROM Mr. White

Subject: Germany's improved foreign exchange position

There is transmitted herewith a memorandum on Germany's improved foreign exchange position, prepared by Mr. O. Gass of this Division.

Some salient points of this memorandum are:

1. Germany has become one of the large gold-holding nations of the world. It is quite possible that she now has $\$3\frac{3}{4}$ billion of gold.
2. Germany has acquired control over many hundreds of millions of dollars of non-European securities. Such foreign securities, formerly belonging to nationals of the occupied countries, as she has not confiscated, purchased (with funds supplied by the occupied country), or brought under German control by the assumption of administrative authority over banks and security agents, have been required to be registered in special blocked accounts--where they will be ready when Germany needs them.
3. Germany has substantial balances in free currencies, which she holds in many countries--wherever advisable in Swiss, Swedish, Portuguese or other names. Her dollar resources are so adequate that, in addition to meeting all her current payments, she has recently been able to make a number of offers to American firms to repurchase a total of tens of millions of dollars of those firms' holdings in Germany, for immediate payment in dollars.
4. Germany now has no foreign exchange problem in Europe at all. She has complete control over the economic resources of the occupied countries, and her position in the unoccupied countries is unchallengeable so long as she is their one great industrial supplier, their one great buyer, and so long as she is obviously capable of supporting her economic policy by military force.

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE February 12, 1941

TO Mr. White
FROM Mr. Clegg

Subject: Germany's improved foreign exchange position

Summary Germany has no foreign exchange problem with regard to continental Europe, and her foreign exchange position with respect to the rest of the world is stronger today than it has been for at least as far back as the late 1920's.

1. So far as the invaded countries are concerned, Germany has no foreign exchange difficulties at all. Apart from confiscation without even the form of payment, Germany has three principal sources of funds, which she can expand in her own sovereign discretion, for payments in these countries. These sources of funds are: (a) "occupation costs", (b) clearing credits, and (c) credits from their (now German controlled) banking systems.

2. In the non-invaded countries of Europe, Germany's foreign exchange position is also strong. The reasons for this are: (a) she is their one great industrial supplier, (b) she—together with the occupied countries, whose foreign trade she controls—is their one great buyer not cut off by the blockade, and (c) she is obviously capable of supporting her economic policy by military force.

3. Throughout the rest of the world, Germany's foreign exchange position is also stronger now, relative to her needs, than it has been for a great many years. The blockade has cut extremely drastically into Germany's imports from countries outside of continental Europe. But her conquests have yielded several hundred million dollars of gold, many hundred million dollars of foreign securities, increased participation in the foreign exchange assets held all over the world in the names of non-invaded countries, and the prospect of further acquisitions of gold and foreign assets at the final peace settlements. Having few current payments to make to countries outside of Europe, Germany has recently been using her foreign exchange assets liberally to improve her capital position with respect to those countries.

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Division of Monetary
ResearchThe occupied
countries

The vital economic bases of Germany's war potential are in her own territory, the occupied countries, and to a lesser extent—the rest of continental Europe. Next to her own territory, the occupied countries make the largest contribution to her war potential, and it is in these countries that her foreign exchange position is strongest.

1. France is now pledged to pay Germany 146 billion francs a year as "occupation costs". This amount is well over twice as much as Germany has spent in France for the maintenance of the occupying army. The residue is available for any purchases Germany may care to make. (In 1938, French national income was about 300 billion francs. Even allowing for a substantial rise in French prices, "occupation costs" must be of the order of one-third the French national income.)

On November 14, 1940, a compensation agreement between Germany and France was signed at Wiesbaden, permitting Germany to buy anywhere in French territory. The compensation exchange rate was set at 20 francs to the mark. Henceforth, Germany was free to buy as much as she pleased and accumulate a clearing debt to France. Indeed Germany has already taken an inventory of French manufacturing facilities and has set up a special war economic staff (the Wehrwirtschafts- und Ruestungsstab Frankreich) to place armament orders in France.

If (to assume the impossible) the Germans should not have enough French money from occupation costs and clearing credits to make all the purchases they want in France, they can always get credits from the French banking system. A German commissar controls the French banking system, including the Bank of France, and he can arrange for any credits German interests may require.

2. The foreign exchange position of Germany in Belgium, the Netherlands and Norway is substantially the same as in France, except that in these smaller countries Germany has not even preserved the form of an independent domestic government and, therefore, she has direct control over tax receipts in addition to occupation costs, clearing credits, and bank credits.

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Division of Monetary
Research

In Denmark the situation is different to the extent only that Germany is not formally requiring the Danish Government to meet the expenses of the army of occupation. The funds for these expenses are being advanced, in the first instance, by the Danish National Bank, but the amounts advanced are being credited to Denmark's account in her clearing balance with Germany. So far, Germany has been unable or unwilling to supply Denmark even with urgent necessities in exchange for these mark credits, but on the books they stand in Denmark's favor.

3. Czechoslovakia, the German share of Poland, Luxembourg, and Alsace-Lorraine—like Austria—are not foreign exchange areas so far as the Reich is concerned. The customs frontier between these territories and the Reich has been eliminated. The mark circulates freely as a local currency. Payments among these territories and the older parts of the Reich are not subject to exchange control.

In Czechoslovakia the koruna has been retained as a subordinate local currency side by side with the mark, and the same thing has been done with the sloty in Poland. In Luxembourg the franc is being eliminated entirely, and the same is true—according to our very scanty information—in Alsace-Lorraine.

It may be noted that this complete elimination of customs and exchange frontiers is "the coming thing" as the German economic reorganization of Europe proceeds. Important steps in this direction have already been taken in the Netherlands, and they may be expected soon in Norway, Belgium and perhaps even France. It is not wise to assume that the German exploitation of the European continent will necessarily take the form of the external dominance of one State over another, implemented by tributes and forced extensions of credit. What appears to be more likely is that, if the Germans have their way, they will gradually bring a larger and larger part of Europe within the boundaries of a single State, composed of various nationalities, subject to differential taxation and with sharply differentiated economic, social and cultural opportunities. To the extent that this development takes place, the foreign exchange problem will disappear entirely. But this is a large question, and we hope to return to it at another time.

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Division of Monetary
ResearchOther Europe

As a result of her 1940 conquests, several of the unoccupied European countries have lost part of their importance to Germany. Swedish iron ore is no longer so important because Germany can get all the iron ore she wants in France. Balkan food surpluses are not so vital as long as Germany can drain Denmark, the Netherlands and France. Nevertheless, unoccupied Europe does make an important contribution to Germany's war potential; it is important to Germany to be able to buy in these countries. But, even apart from the power over them which Germany has due to her military strength, they are more dependant on her than she is on them. Therefore, Germany has had no great difficulty in buying in their territory.

1. Among the unoccupied countries, Sweden is probably now the largest supplier of goods to Germany. But Sweden buys much more from Germany than she sells. Therefore Germany has accumulated considerable Swedish kronor balances. In the agreement of July 1940, an unknown part of these balances was paid by Sweden in gold and free foreign exchange (probably dollars and Swiss francs). There is every reason to believe that in 1941 Germany will acquire further free exchange from Sweden.

In 1939 Swedish imports from Germany amounted to 578 million kronor (say \$139 million) and her exports to Germany were 435 million kronor (say \$104 million). In the first nine months of 1940, Swedish imports from Germany were 531 million kronor, 92 percent of the total for whole year 1939, while exports to Germany at 371 million kronor were running at about the 1939 rate. Already in July 1940 German balances in Stockholm amounted to 280 million kronor.

A new clearing agreement, signed in December 1940, provides that 70 percent of Swedish exports in 1941 will go to Germany. Germany will also increase her sales to Sweden. It is planned that the total value of German exports to Sweden will be about 26 percent higher than in 1940, but most of this increase is accounted for by price rises. Germany raised the prices of coal, coke and chemicals for delivery to Sweden by 20 percent, while the price of the iron ore which Sweden sells to Germany was raised only about 2 percent.

Mr. Clark, of this Division, has estimated that Sweden's trade with Germany will show the following movement, in millions of kronor (exchange value roughly 24 cents):

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Sweden's trade with Germany

Imports from Germany	<u>1939</u>	<u>1940</u>	<u>1941</u>
Exports to Germany	578	750	950 - 1,050
Germany's favorable balance	435	550	850 - 950
	143	200	100 - 200

Part of Germany's favorable balance is being applied to reduce German long-term debts to Sweden. The remainder will constitute a claim on Sweden's free foreign exchange assets.

2. In Switzerland also Germany should have no foreign exchange difficulties. Switzerland buys twice as much in Germany as she sells to Germany. In 1939 Switzerland imported 440 million Swiss francs (say \$99 million) worth of goods from Germany and sold only 192 million francs (say \$45 million) to Germany. It is of course true that Switzerland has a considerable mark income from investments in Germany, but on the other hand there is also a large German participation in Swiss enterprises, which yields Germany Swiss franc exchange.

In June 1940 Switzerland, like Sweden, owed Germany money on clearing balance. The Swiss debt was only 40 million Swiss francs (say \$9 million), but since then it has probably increased substantially. In the clearing agreement of August 9, 1940, Germany raised the prices for the coal and sugar which she supplies Switzerland while (according to Swiss press reports) Switzerland was forced actually to subsidize her own meat exports to Germany in the face of a domestic Swiss food shortage.

Germany's exchange position with respect to Switzerland has been further strengthened by subsequent negotiations providing that all Swiss business with Norway, Belgium and Holland is to be cleared through Berlin. In addition, Belgium and Holland, in particular, had considerable investments in Switzerland (or other-where, but in Swiss names), and these are now under German control.

All together Germany now occupies a very strong position both with respect to Swiss franc exchange and participation in foreign exchange assets held in other countries for Swiss accounts.

3. Germany's foreign exchange position in Italian lire is so strong that she can buy a hold over the Italian economy any time she pleases. In 1938 Germany's favorable balance of trade with Italy was about \$155 million; in the first seven months of 1939, the favorable balance was about \$62 million. Since then, Germany has increased her exports to Italy to provide 1,000,000 tons of coal a month, ores, metal manufactures, lumber and other

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commodities sent off from Italy by the blockade. The weak Italian economy, deprived of its overseas supplies of raw materials, can export little in exchange. In December 1940 Germany began a drive to increase her agricultural imports from Italy so as to reduce her clearing balances.

Even if Germany's clearing balance on merchandise trade were to be reduced to zero, she would still have the old balance of about 6 billion lire (say \$300 million) due her for the property of Germans repatriated from northern Italy.

Nominally Italy has quite considerable dollar resources in her \$10 million balance with the Bank of Brazil, in the tens of millions of dollars which she has drawn in cash from American banks, in the dollars she holds in Swiss names, etc., but Germany very probably now has a strong claim to dispose of a large part of these. For practical purposes, all such resources might fairly be included in a balance sheet of foreign exchange assets under German control.

4. Of Germany's exchange position with respect to Russia we know practically nothing. It is quite possible that Germany's balance of payments with Russia has been so favorable that Germany has acquired a large part of Russia's current gold output. In 1940 Russia shipped less than \$31 million of gold directly to the U.S., while her production was of the order of \$200 million. The known data on world gold holdings is not consistent with the assumption that Russia has sold any considerable part of her current gold output to any other country on whose gold holdings we have information, and—in view of her need of industrial imports—it is not likely that Russia is accumulating any considerable gold stock.

Dr. Rudolf Eicke (director of the foreign trade activities of the Reichsbank) said, in an address delivered at the beginning of December 1940, that Germany's trade with Russia had expanded very satisfactorily since the outbreak of war. But he laid particular stress on Germany's imports from Russia—largely, no doubt, because the reality of such imports had been questioned in foreign countries. He said that German imports from Soviet Russia had now reached the pre-war peak of 1930 when they totaled 436 million marks, compared with a low of 47 million marks in 1938. When Germany's imports from Russia were 436 million marks, her exports to Russia were 625 million marks. But that was over 10 years ago,

1/ Mr. E. M. Bernstein, of this Division, concurs in this view.

and it would be ridiculous to assume that the relationship between exports and imports has remained the same. Therefore we have nothing but a vague presumption that Germany has acquired some gold from the Soviet Union. Here, as always in questions relating to the Soviet Union, our ignorance covers a great deal more of the ground than our knowledge.

5. In the Balkans also Germany has no serious payment or foreign exchange problem. The extreme dependence of the Balkan countries upon German markets, together with the existence or threat of political control, makes it possible for Germany to build up adverse clearing balances if she wishes to be exacting or to grant long term credits if she wishes to be generous.

In both Rumania and Yugoslavia Germany is now practicing "generosity". In Rumania, by terms of the protocol of December 4, 1940, Germany is granting long-term credits to "coordinate" agriculture and industry with the requirements of the German market. In Yugoslavia, on December 8, 1940, Germany had a credit balance of 45,900,000 marks on clearing account; Germany also had an "investment" credit balance of 250 million dinars (about \$5.6 million) from the recent settlement on pre-1914 Serbian debts.

Everywhere in the Balkans, since the outbreak of war, Germany has used her monopolistic position both as a buyer and a seller to increase the clearing value of the mark as well as to raise the mark prices of the goods she sells. Now the clearing mark stands fairly uniformly at a discount of 20 percent compared to the 40 cent value of freely convertible mark exchange. Herr Puhl, the acting head of the Reichsbank, has said recently that, in the near future, clearing rates must be adjusted to eliminate even this comparatively moderate discount. When this process has been completed, Germany's position as a buyer in Balkan markets will become even stronger than today.

The rest of the world

Possession of foreign exchange with which to make payments outside of Europe is important, but not vital, to Germany. Her war potential is not based on non-European resources. Some shipments come through to her via Japan, Vladivostok and the trans-Siberian;

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a few things no doubt slip through Spain and Portugal; an occasional item of importance may come through Petasco. But in the total perspective of the economic resources on which her war effort is based, these things are not of great importance. Further, they do not require much foreign exchange.

Germany can use foreign exchange currently outside of Europe not only to purchase imports, but also to maintain her embassies, her agents, her propaganda, and her saboteurs. But these things do not require sums which can be called "large" in the perspective of a great nation's resources. They are not a serious drain on Germany's foreign exchange resources.

Finally, Germany can use her free foreign exchange resources outside of Europe to accumulate balances, to buy investments, to buy back her own securities and for other similar capital purposes. There is evidence that she is now doing these things and would perhaps like to do a great deal more.

All of these activities, however, are on so restricted a scale that it must be presumed that Germany is accumulating a large surplus of gold, non-European exchange, and non-European investments, which she plans to use after the war is over.

1. It is not at all impossible that the Germans have as much as \$3/4 billion of gold.

Some gold they no doubt had when the war began. The Treasury Attache in Berlin indicates that they may have acquired \$40 million worth in Poland. The British report that the Germans seized \$160 million worth in Holland. Probably about \$190 million worth of Belgian gold (but possibly as much as \$260 million) is being turned over to them by France. They have certainly acquired some Swedish gold, and they have very probably acquired some Swiss gold and some Russian gold. They may have acquired some private gold in Alsace-Lorraine, Belgium, the Netherlands, etc.

It is impossible to add these items up, but considering them together cannot fail to suggest the probability that Germany is today one of the great gold-holding nations of the world. Estimates between a half billion and a billion for the size of her gold stock can certainly not be ruled out as unreasonable. And Germany has not yet made her final settlement with France!

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2. Then we come to estimate the value of the non-European securities which the Germans have acquired recently we are on even more shaky ground. A cable of February 4, 1941 from our Embassy at Vichy reports that about \$800,000,000 worth of Belgian owned securities were taken over by the Germans from the National Bank of Belgium, of which about half were said to be American, Brazilian and South African securities. In France, the Germans have bought stocks and bonds freely with the funds supplied them for occupation costs. In all the occupied countries they have required that foreign securities be registered in special blocked accounts. German officers in the occupied countries have been known to say that, when the time comes for the final war indemnities, Germany will simply take over these blocked securities. At that time, no doubt, Germany hopes also to acquire securities now frozen by the U. S. foreign funds control—or offsetting American-owned assets in Europe. The total amounts involved are many billions of dollars, but it is impossible at this time to present an addition sum. All that we can be certain of is that German acquisitions of non-European securities, like bar acquisitions of gold, are greatly in excess of the amount which she can profitably use at the present time.

3. So also with balances in free currencies. There is no doubt that the Germans have acquired free balances, in many cases, expressed in dollars, in Sweden and Switzerland. There can be little doubt that they have also acquired substantial dollar balances in Latin America. However, we do not even know how much is held for Germany in accounts in this country which appear in our reports as the accounts of Swiss, Swedish, Portuguese, Japanese, Brazilian or other non-German nationals. Our knowledge of the extent of German free exchange balances outside of the United States is correspondingly more hazy. All we can say with certainty is that the German foreign exchange authorities apparently have plenty of dollars and other free exchange. Mr. Southard of this Division, found that to be the universal opinion of all firms who had come in contact with the German authorities on exchange problems in recent months. The Germans have so large a supply of dollars that they have made a wide variety of offers to American firms to repurchase a total of tens of millions of dollars of those firms' holdings in Germany, for immediate payment in cash.

It is, therefore, apparent that, in relation to their needs, the Germans have a plentiful supply of non-

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European currencies (or assets readily convertible into such currencies) as well as a plentiful supply of all kinds of European exchange.

February 25, 1941

TREASURY DEPARTMENT
Office of the SecretaryDate Feb 25
2:45 PM

TO:

Secy Morgenthau
Room _____

Market continues down
New bond now 100.27-28
Selling appears heavier.

From: MR. HADLEY

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE February 25, 1941

TO Secretary Morgenthau
FROM W. H. Hadley

GOVERNMENT BOND MARKET

The Treasury refunding offer was the principal influence on the market today. At the opening "rights" moved up 3 and 4/32nds in line with estimates of the worth of the new 2 1/2% 7-9 year bond. Immediately, however, selling developed in the "rights" by those who had expected the Treasury to offer a long bond and some buying of long bonds appeared. As this "right" selling gained momentum the influence was carried through the whole market, which turned down sharply. "Right" selling continued heavy throughout the day from all parts of the country, mainly by commercial banks.

About the middle of the day some savings bank buying of "rights" developed, with the new bond quoted at about 101. This buying was not enough to counter-balance the selling and prices moved off steadily until about 3:30. The general market gained 2 to 3/32nds in late trading. Bonds callable after 1947 were off 7 to 14/32nds, with the 1948 issues off 10 to 14/32nds. Sympathetic pressure on the notes occurred and these prices moved off 4 to 8/32nds.

The new 2 1/2% bond moved from a high of 101.18 to a low of 100.20 at 3:30 and closed at 100.21 at 4:00 o'clock. The 3/4% notes were quoted nominally until 2:00 o'clock at about 100.16 when they moved steadily upward, closing at 100.21 at 4:00 o'clock.

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS
Tuesday, February 25, 1941.
2/24/41

Press Service
No. 23-65

Secretary of the Treasury Morgenthau today announced the March 15 financing, restricted to exchange offerings to provide for the refunding of the 3-3/8 percent Treasury Bonds of 1941-43, called for redemption on March 15, 1941, and the 1-1/2 percent Treasury Notes of Series A-1941, maturing on the same day. The offering includes two exchange issues, 7-9 year 2 percent Treasury Bonds of 1948-50, and 2-year 3/4 percent Treasury Notes of Series D-1943, the called bonds and the maturing notes being exchangeable, at the option of owners, for either the new bonds or the new notes. Exchanges will be made par for par as of March 15, 1941, and the amount of the new bonds and of the new notes to be issued will be limited to the amount of called bonds and maturing notes tendered and accepted in exchange therefor. Cash subscriptions will not be received.

The Treasury Bonds of 1948-50, now offered only in exchange for the bonds and notes due March 15, 1941, will be dated March 15, 1941, and will bear interest from that date at the rate of 2 percent per annum, payable semiannually. The bonds will mature March 15, 1950, but may be redeemed, at the option of the United States, on and after March 15, 1948. They will be issued in two forms: bearer bonds with interest coupons attached, and bonds registered both as to principal and interest. Both forms will be issued in the denominations of \$50, \$100 \$500, \$1,000, \$5,000, \$10,000 and \$100,000.

The Treasury Notes of Series D-1943, also offered in exchange for the bonds and notes due on March 15, 1941, will be dated March 15, 1941, and will bear interest from that date at the rate of $3/4$ percent per annum, payable semiannually. The notes will mature March 15, 1943, and will not be subject to call for redemption before that date. They will be issued only in bearer form with coupons attached in the denominations of \$100, \$500, \$1,000, \$5,000, \$10,000 and \$100,000.

Pursuant to the provisions of the Public Debt Act of 1941, interest upon the new securities now offered shall not have any exemption, as such, under Federal Tax Acts now or hereafter enacted. Otherwise, the securities will be accorded the same exemptions from taxation as are accorded other issues of Treasury bonds now outstanding. These provisions are specifically set forth in the official circulars released today.

Subscriptions will be received at the Federal Reserve Banks and Branches, and at the Treasury Department, and should be accompanied by a like face amount of $3-3/8$ percent Treasury Bonds of 1941-43, called for redemption on March 15, 1941, or of $1-1/2$ percent Treasury Notes of Series A-1941, due for payment on March 15, 1941. If coupon bonds are tendered for exchange, coupons due March 15, 1941 should be detached for collection in regular course, and all subsequent coupons should be attached to the bonds when surrendered. If registered bonds are tendered for exchange, they must be assigned to the Secretary of the Treasury for exchange

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as provided in the offering circular, and final interest due March 15 on such bonds will be paid in accordance with the assignments, following acceptance of the bonds.

The right is reserved to close the books as to any or all subscriptions at any time without notice, and subject to the reservations set forth in the offering circular, all subscriptions will be allotted in full.

There are now outstanding \$544,870,050 of 3-3/8 percent Treasury Bonds of 1941-43, called for redemption on March 15, and \$676,707,600 of 1-1/2 percent Treasury Notes of Series A-1941, due March 15. The present offerings of Treasury bonds and Treasury notes afford the holders of the called bonds and the maturing notes an opportunity to exchange them for other interest-bearing obligations of the United States. Any called bonds and maturing notes not so exchanged at this time will be paid in cash following their presentation on and after March 15, 1941.

The texts of the official circulars follow:

UNITED STATES OF AMERICA

2 PERCENT TREASURY BONDS OF 1948-50

Dated and bearing interest from March 15, 1941 Due March 15, 1950

REDEEMABLE AT THE OPTION OF THE UNITED STATES AT PAR AND ACCRUED
INTEREST ON AND AFTER MARCH 15, 1948

Interest payable March 15 and September 15

1941
Department Circular No. 649
Fiscal Service
Bureau of the Public Debt

TREASURY DEPARTMENT,
Office of the Secretary,
Washington, February 25, 1941.

I. OFFERING OF BONDS

1. The Secretary of the Treasury, pursuant to the authority of the Second Liberty Bond Act, approved September 24, 1917, as amended, invites subscriptions, at par, from the people of the United States for 2 percent bonds of the United States, designated Treasury Bonds of 1948-50, in payment of which only Treasury Bonds of 1941-43, called for redemption on March 15, 1941, or Treasury Notes of Series A-1941, maturing March 15, 1941, may be tendered. The amount of the offering under this circular will be limited to the amount of Treasury Bonds of 1941-43 and of Treasury Notes of Series A-1941 tendered and accepted.

II. DESCRIPTION OF BONDS

1. The bonds will be dated March 15, 1941, and will bear interest from that date at the rate of 2 percent per annum, payable semiannually on September 15, 1941, and thereafter on March 15 and September 15 in each year until the principal amount becomes payable. They will mature March 15, 1950, but may be redeemed at the option of the United States on and after March 15, 1948, in whole or in part, at par and accrued interest, on any interest day or days, on four months' notice of redemption given in such manner as the

Secretary of the Treasury shall prescribe. In case of partial redemption the bonds to be redeemed will be determined by such method as may be prescribed by the Secretary of the Treasury. From the date of redemption designated in any such notice, interest on the bonds called for redemption shall cease.

2. The income derived from the bonds shall be subject to all Federal taxes, now or hereafter imposed. The bonds shall be subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but shall be exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority.

3. The bonds will be acceptable to secure deposits of public moneys, but will not bear the circulation privilege and will not be entitled to any privilege of conversion.

4. Bearer bonds with interest coupons attached, and bonds registered as to principal and interest, will be issued in denominations of \$50, \$100, \$500, \$1,000, \$5,000, \$10,000 and \$100,000. Provision will be made for the interchange of bonds of different denominations and of coupon and registered bonds, and for the transfer of registered bonds, under rules and regulations prescribed by the Secretary of the Treasury.

5. The bonds will be subject to the general regulations of the Treasury Department, now or hereafter prescribed, governing United States bonds.

III. SUBSCRIPTION AND ALLOTMENT

1. Subscriptions will be received at the Federal Reserve Banks and Branches and at the Treasury Department, Washington. Banking institutions generally may submit subscriptions for account of customers, but only the Federal Reserve Banks and the Treasury Department are authorized to act as official agencies.

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2. The Secretary of the Treasury reserves the right to reject any subscription, in whole or in part, and to close the books as to any or all subscriptions at any time without notice; and any action he may take in these respects shall be final. Subject to these reservations, all subscriptions will be allotted in full. Allotment notices will be sent out promptly upon allotment.

IV. PAYMENT

1. Payment at par for bonds allotted hereunder must be made or completed on or before March 15, 1941, or on later allotment, and may be made only in Treasury Bonds of 1941-43, called for redemption on March 15, 1941, or in Treasury Notes of Series A-1941, maturing March 15, 1941, which will be accepted at par, and should accompany the subscription. Payment of final interest due March 15, 1941, on securities exchanged hereunder will be effected, in the case of coupon bonds or notes, by payment of March 15, 1941 coupons, which should be detached by holders before presentation of the securities for exchange, and in the case of registered bonds, by checks drawn in accordance with the assignments on the bonds surrendered.

V. SURRENDER OF CALLED BONDS

1. Coupon bonds. - Treasury Bonds of 1941-43 in coupon form tendered in payment for bonds offered hereunder should be presented and surrendered with the subscription to a Federal Reserve Bank or Branch or to the Treasurer of the United States, Washington, D. C. Coupons dated September 15, 1941, and all coupons bearing subsequent dates, should be attached to such bonds when surrendered, and if any such coupons are missing, the subscription must be accompanied by cash payment equal to the face amount of the missing coupons. The

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bonds must be delivered at the expense and risk of the holder. Facilities for transportation of bonds by registered mail insured may be arranged between incorporated banks and trust companies and the Federal Reserve Banks, and holders may take advantage of such arrangements when available, utilizing such incorporated banks and trust companies as their agents.

2. Registered bonds. - Treasury Bonds of 1941-43 in registered form tendered in payment for bonds offered hereunder should be assigned by the registered payees or assignees thereof, in accordance with the general regulations of the Treasury Department governing assignments for transfer or exchange, in one of the forms hereafter set forth, and thereafter should be presented and surrendered with the subscription to a Federal Reserve Bank or Branch or to the Treasury Department, Division of Loans and Currency, Washington, D. C. The bonds must be delivered at the expense and risk of the holder. If the new bonds are desired registered in the same name as the bonds surrendered, the assignment should be to "The Secretary of the Treasury for exchange for Treasury Bonds of 1948-50"; if the new bonds are desired registered in another name, the assignment should be to "The Secretary of the Treasury for exchange for Treasury Bonds of 1948-50 in the name of _____"; if new bonds in coupon form are desired, the assignment should be to "The Secretary of the Treasury for exchange for Treasury Bonds of 1948-50 in coupon form to be delivered to _____".

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VI. GENERAL PROVISIONS

1. As fiscal agents of the United States, Federal Reserve Banks are authorized and requested to receive subscriptions, to make allotments on the basis and up to the amounts indicated by the Secretary of the Treasury to the Federal Reserve Banks of the respective districts, to issue allotment notices, to receive payment for bonds allotted, to make delivery of bonds on full-paid subscriptions allotted, and they may issue interim receipts pending delivery of the definitive bonds.

2. The Secretary of the Treasury may at any time, or from time to time, prescribe supplemental or amendatory rules and regulations governing the offering, which will be communicated promptly to the Federal Reserve Banks.

HENRY MORGENTHAU, JR.,
Secretary of the Treasury.

UNITED STATES OF AMERICA

3/4 PERCENT TREASURY NOTES OF SERIES D-1943

Dated and bearing interest from March 15, 1941

Due March 15, 1943

Interest payable March 15 and September 15

1941
Department Circular No. 650

TREASURY DEPARTMENT,
Office of the Secretary,
Washington, February 25, 1941.

Fiscal Service
Bureau of the Public Debt

I. OFFERING OF NOTES

1. The Secretary of the Treasury, pursuant to the authority of the Second Liberty Bond Act, approved September 24, 1917, as amended, invites subscriptions, at par, from the people of the United States for 3/4 percent notes of the United States, designated Treasury Notes of Series D-1943, in payment of which only Treasury Bonds of 1941-43, called for redemption on March 15, 1941, or Treasury Notes of Series A-1941, maturing March 15, 1941, may be tendered. The amount of the offering under this circular will be limited to the amount of Treasury Bonds of 1941-43 and of Treasury Notes of Series A-1941 tendered and accepted.

II. DESCRIPTION OF NOTES

1. The notes will be dated March 15, 1941, and will bear interest from that date at the rate of 3/4 percent per annum, payable semiannually on September 15, 1941, and thereafter on March 15 and September 15 in each year until the principal amount becomes payable. They will mature March 15, 1943, and will not be subject to call for redemption prior to maturity.

2. The income derived from the notes shall be subject to all Federal taxes, now or hereafter imposed. The notes shall be subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but shall be exempt from all taxation now or hereafter imposed on the principal or interest thereof by any

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State, or any of the possessions of the United States, or by any local taxing authority.

3. The notes will be accepted at par during such time and under such rules and regulations as shall be prescribed or approved by the Secretary of the Treasury in payment of income and profits taxes payable at the maturity of the notes.

4. The notes will be acceptable to secure deposits of public moneys, but will not bear the circulation privilege.

5. Bearer notes with interest coupons attached will be issued in denominations of \$100, \$500, \$1,000, \$5,000, \$10,000 and \$100,000. The notes will not be issued in registered form.

6. The notes will be subject to the general regulations of the Treasury Department, now or hereafter prescribed, governing United States notes.

III. SUBSCRIPTION AND ALLOTMENT

1. Subscriptions will be received at the Federal Reserve Banks and Branches and at the Treasury Department, Washington. Banking institutions generally may submit subscriptions for account of customers, but only the Federal Reserve Banks and the Treasury Department are authorized to act as official agencies.

2. The Secretary of the Treasury reserves the right to reject any subscription, in whole or in part, and to close the books as to any or all subscriptions at any time without notice; and any action he may take in these respects shall be final. Subject to these reservations, all subscriptions will be allotted in full. Allotment notices will be sent out promptly upon allotment.

IV. PAYMENT

1. Payment at par for notes allotted hereunder must be made or completed on or before March 15, 1941, or on later allotment, and may be made only in Treasury Bonds of 1941-43, called for redemption on March 15, 1941, or in Treasury Notes of Series A-1941, maturing March 15, 1941, which will be accepted at par, and should

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accompany the subscription. Payment of final interest due March 15, 1941, on securities exchanged hereunder will be effected, in the case of coupon bonds or notes, by payment of March 15, 1941 coupons, which should be detached by holders before presentation of the securities for exchange, and in the case of registered bonds, by checks drawn in accordance with the assignments on the bonds surrendered.

V. SURRENDER OF CALLED BONDS

1. Coupon bonds. - Treasury Bonds of 1941-43 in coupon form tendered in payment for notes offered hereunder should be presented and surrendered with the subscription to a Federal Reserve Bank or Branch or to the Treasurer of the United States, Washington, D. C. Coupons dated September 15, 1941, and all coupons bearing subsequent dates, should be attached to such bonds when surrendered, and if any such coupons are missing, the subscription must be accompanied by cash payment equal to the face amount of the missing coupons. The bonds must be delivered at the expense and risk of the holder. Facilities for transportation of bonds by registered mail insured may be arranged between incorporated banks and trust companies and the Federal Reserve Banks, and holders may take advantage of such arrangements when available, utilizing such incorporated banks and trust companies as their agents.

2. Registered bonds. - Treasury Bonds of 1941-43 in registered form tendered in payment for notes offered hereunder should be assigned by the registered payees or assignees thereof to "The Secretary of the Treasury for exchange for Treasury Notes of Series D-1943 to be delivered to _____", in accordance with the general regulations of the Treasury Department governing assignments for transfer or exchange, and thereafter should be presented and surrendered with the subscription to a Federal Reserve Bank or Branch or to the Treasury Department, Division of Loans and Currency, Washington, D. C. The bonds must be delivered at the expense and risk of the holder.

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VI. GENERAL PROVISIONS

1. As fiscal agents of the United States, Federal Reserve Banks are authorized and requested to receive subscriptions, to make allotments on the basis and up to the amounts indicated by the Secretary of the Treasury to the Federal Reserve Banks of the respective districts, to issue allotment notices, to receive payment for notes allotted, to make delivery on notes on full-paid subscriptions allotted, and they may issue interim receipts pending delivery of the definitive notes.

2. The Secretary of the Treasury may at any time, or from time to time, prescribe supplemental or amendatory rules and regulations governing the offering, which will be communicated promptly to the Federal Reserve Banks.

HENRY MORGENTHAU, JR.,
Secretary of the Treasury.

February 25, 1941

TO: MR. GRAVES
FROM: THE SECRETARY

Please have these in mind as a place to sell our savings stamps and U. S. Savings Bonds or whatever new bonds we get out, and start contacting them at once.

TREASURY DEPARTMENT
WASHINGTON

February 24, 1941.

MEMORANDUM FOR THE SECRETARY:

The number of telegraph offices in the
United States is as follows:

Western Union	19,489
Postal.	2,861

GRAVES
GRAVES

Copy to Mr White 3/6/41.

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BRITISH EMBASSY,
WASHINGTON, D.C.

25th February 1941

Dear Cochran:

You may remember ringing me up some time ago for information about the Canadian war effort, for use in the House. It occurred to me that this kind of thing might crop up in the Senate too, and we asked Dr. Clark if there were anything which he would like us to give you for use in that case. He has sent us a speech by the Minister of Finance which contains a lot of useful stuff; I enclose copies in the hopes that they may be useful to you.

Yours sincerely,

E. J. Payfair

Mr. Merle Cochran
Treasury

By hand

Extract from the Official Report
of the Canadian House of Commons
February 18, 1941

Mr. ILSLEY moved:

That Mr. Speaker do now leave the chair.

He said: I wish to speak to this motion. Perhaps the shortest way in which I can bring the subject matter of the resolution before the house is to read the resolution as it appears in the "Votes and Proceedings":

Resolved, that it is expedient to introduce a measure to provide, inter alia,

1. That sums not exceeding \$1,300,000,000 be granted to his majesty towards defraying any expenses or making any advances or loans that may be incurred or granted by or under the authority of the governor in council during the year ending March 31, 1942, for-

- (a) the security, defence, peace, order and welfare of Canada;
- (b) the conduct of naval, military and air operations in or beyond Canada;
- (c) promoting the continuance of trade, industry and business communications, whether by means of insurance or indemnity against war risk or in any other manner whatsoever; and
- (d) the carrying out of any measure deemed necessary or advisable by the governor in council in consequence of the existence of a state of war.

2. That the governor in council be empowered to raise by way of loan under the provisions of the Consolidated Revenue and Audit Act, 1931, such sum or sums of money, not exceeding in the whole the sum of \$1,300,000,000 as may be required for the purpose of defraying such expenses or making such advances or loans, the principal and interest of any such loan to be a charge upon and payable out of the consolidated revenue fund.

3. That the governor in council be empowered to reexpend, advance or loan moneys that may be received by way of refund or repayment of advances, loans or expenditure under the war appropriation acts of 1939 (2nd session), 1940 and 1941.

If this resolution pass it will be followed by a bill, the War Appropriation Act of 1941. This bill will be substantially in the same form as the War Appropriation Act passed last summer. The essential features of the bill are:

- (1) A vote of credit.

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- (2) A grant of borrowing authority; that is to say, it gives the governor in council power to borrow funds to pay for any of the expenditures covered by the vote of credit.
- (3) It confers power to make temporary recoverable advances to any allied government.

The only change of substance is a provision authorizing the governor in council to reexpend refunds of expenditure or repayments of advances or loans made under this or any previous war appropriation act. For example when a dominion wholly-owned corporation buys, let us say, rubber or silk, the purchase price is charged against the war appropriation. Later the government corporation sells the rubber or silk to firms which have war contracts, and the government is reimbursed for its original expenditure. The purpose of the amendment - perhaps I should call it the new feature of this bill - is to allow the amount reimbursed to be re-expended without making an additional appropriation.

The same principle is involved in connection with temporary advances or loans which are really in the nature of revolving funds. The adoption of the new principle will avoid duplication or pyramiding of expenditures or loans.

Perhaps I should follow the precedent which was set in the introduction of war appropriation bills in the last war, and give the house some indication of the expenditures that were made under the last War Appropriation Act. It might be more appropriate if I did that at the time of the introduction of a supplementary war appropriation act, which will be necessary before the end of the present fiscal year, but it is a little difficult for the house to give intelligent consideration to the war appropriation bill which we are introducing now unless the house knows something of the disposition that was made of the moneys provided by the last War Appropriation Act.

Expenditures under last year's act:

Under the War Appropriation Act of 1940, which was assented to on May 29, \$700,000,000 were provided for war expenditures. In the budget brought down by the present Minister of National Defence, (Mr. Ralston), then Minister of Finance, in June of 1940, he stated that the amount required for the full fiscal year would be larger than this total by perhaps \$150,000,000 to \$200,000,000.

On the second day of August last I spoke in this house and indicated that the total commitments then outstanding for the present fiscal year were approximately \$940,000,000. I think the leader of the opposition (Mr. Hanson) will remember that occasion, because for some days he was pressing the government to state what the commitments were for the present fiscal year, and \$940,000,000 was the best estimate we could make then, after crediting the money that we expected to be repaid to us by the United Kingdom government.

- 3 -

Now, what has been the actual experience? For this fiscal year up to January 31 the actual cash outgo on the dominion war account has amounted to \$538,804,000, excluding \$27,133,000 of disbursements recoverable from the United Kingdom or other allied governments. This amount is broken down as follows:

Militia services	\$268,686,000
Naval services	57,990,000
Air Force	
Home war defence and overseas ..	41,188,000
Air training plan - Canada . . .	86,294,000
Other defence services (admin- istration, internment, censor- ship, Royal Military College, etc.)	4,155,000
Department of Munitions and Supply	61,951,000
Other departments	18,540,000
	<u>\$538,804,000</u>

This total does not take full account of obligations incurred overseas for which accounts have not yet been rendered by the United Kingdom government. We have made certain advances on account pending the working out of final accounting arrangements, including per capita issue rates for various supplies and services.

For the full fiscal year it is now estimated that our total war expenditures will approximate \$875,000,000. That is the closest, the most accurate estimate that can be made now. It means a rapid expenditure during the remaining months of the fiscal year; the expenditure being made now is at a rapid rate. Starting at relatively low levels in the early spring and summer months - approximately \$25,000,000 a month in the first quarter of the fiscal year - our war expenditures increased rapidly, amounting in December to \$84,000,000 and in January to \$87,000,000. This is at a rate of over a billion dollars a year.

In planning the war programme for the coming year we have had regard to the following factors:

- (a) The physical capacity of Canada to produce equipment and supplies for ourselves and Britain;
- (b) Our consultations with the British government as to the forms our effort should take in order to make the most effective contribution to the joint cause; and
- (c) Our belief that the Canadian people desire that this country do its utmost, and that they are willing to make the sacrifices and bear the burdens which such an effort involves.

To finance the programme that has been developed on the basis of these considerations we have decided to ask parliament for a war appropriation of \$1,300,000,000 for the coming fiscal year.

The war programme which was outlined by the Prime Minister yesterday and the war activities which will be carried on during the next fiscal year, as set out in the statements made by the defence ministers in the debate on the address, will involve a total estimated expenditure in excess of this sum by perhaps as much as \$150,000,000. But, as the house will realize, there are very great difficulties in making precise estimates of war expenditures. In particular, there are at least three factors which make accurate estimates impossible.

First, there is the impossibility of calculating wastage of equipment and the amount of ammunition that will be used, as this will depend upon the nature of the warfare that develops.

The second factor has to do with the capital assistance which has been given to manufacturing plants through the Department of Munitions and Supply. Large sums of money have been advanced, and additional sums will be advanced, to contractors to pay for adding to their plants or to build new ones. Additional sums will be advanced to provide working capital. In many cases Canada and the United Kingdom are making advances on a joint basis, but in some of these cases the division between the two countries has not been settled. In the meantime the money has been put up in order that there shall be no delay; the division will be worked out later.

A part of these advances may be returned during the course of the year, but this cannot be determined now. Furthermore, a portion of the amortization cost of the capital expenditures resulting from such advances may be included in the cost of the equipment which is included in the estimates of the Department of National Defence. If this is the case there may be some duplication in the amounts included in the estimates of the Department of Munitions and Supply and the Department of National Defence. At this stage it is difficult - impossible, I should say - to determine the extent of such duplication because the costs of the equipment which is to be produced are themselves based on estimates. The accuracy of these estimated costs will depend to a considerable extent upon the quantity of equipment which will be produced.

The third factor making for uncertainty in estimating is the question of the amount of war materials and equipment which can be physically produced and delivered within the coming fiscal year. Estimates have been made of the probable deliveries and I assume that the Minister of Munitions and Supply (Mr. Howe) will be discussing the whole question of the production programme at the proper time. It will suffice if I say that this programme is dependent in certain important aspects upon the delivery of machine tools and parts from the United States. If there should be delays in such deliveries the completion of the equipment in question will be held up.

- 5 -

In view of these various uncertainties I thought it preferable not to ask at this time for the total of the estimates which have been submitted. Instead, as I have said, the bill calls for an appropriation of \$1,300,000,000. It may be that the total cost of our war effort expenditures during the coming fiscal year will exceed this figure by a considerable amount, and if it does it will be necessary for me to come back for an additional appropriation at a later date.

However, in determining the magnitude of our total war effort we must not overlook another burden which Canada has assumed. I refer to the assistance which we are giving to the United Kingdom in financing the war materials, equipment and other supplies which are being produced for the United Kingdom in Canada. During the first eleven months of the war we made available to her 184 million Canadian dollars by our repatriation programme; that is, by buying in or paying off Canadian securities which were held in the United Kingdom. For the succeeding six months period ending January 31 of this year we agreed to provide \$150,000,000. We have done this, and indeed by the end of this month will have provided an additional \$137,000,000 by accumulation of sterling which, in part at least, is in anticipation of repatriation to be carried out in later months of the year. I cannot now estimate the total amount which we will be able to do for the second full year of war or for the fiscal year 1941-42, but I can say that we are following the policy of going as far as it is practically possible to go.

While repatriation involves the repayment of foreign indebtedness, and thus will strengthen the economy in the long run, it is obvious that to-day it imposes additional strain on Canada by increasing the amount her people must save in order to purchase the securities which are being returned to this country. For practical purposes, in considering the burden which is to be placed upon this country it is just as much a part of our war effort as the expenditures which we propose to make on our own account.

Mr. HANSON (York-Sunbury): Would the minister allow me to interrupt in respect to this repatriation? Would he be good enough to elucidate as to the character of the securities repatriated and whether they have been or are to be placed upon the market? That is quite an important point.

Mr. ILSLEY: All the securities that have been repatriated by or on behalf of the Canadian government to date have been government or government guaranteed securities.

Mr. HANSON (York-Sunbury): They are being cancelled, then?

Mr. ILSLEY: Yes; they are not going on the market. There are industrial securities which are being placed on the Canadian market by the United Kingdom directly, in very much smaller amounts.

If we assume that we will be able to provide assistance in this way to the extent of, say, \$400,000,000 - I am speaking about repatriation still - and if our direct war expenditures do not exceed the \$1,300,000,000, which the present resolution asks parliament to appropriate, we get a total of \$1,700,000,000 as the financial measure of the burden of our war effort. If we add to this total the non-war dominion estimates of \$433,000,000 and probable provincial and municipal expenditures of say \$575,000,000 we get a total of over \$2,700,000,000 which governments will have to raise from the Canadian people during the coming fiscal year. We get talking of these hundreds of millions and billions, and after a while some of us lose our sense of the importance and significance of these sums, but \$2,700,000,000 is an important amount of money for governments to raise from the Canadian people in one year. This is over fifty per cent of the national income, which for the coming fiscal year we estimate will be about \$5,300,000,000.

In this calculation hon. members will have noted that I do not take into account the additional moneys which will have to be tied up in wheat financing, or the possibility that our direct war expenditures may exceed the amount we are now asking from parliament.

I pause, Mr. Speaker, to let the meaning of this programme and these amounts sink in. Probably none of us can realize the true significance of passing over to governments on the average half of our individual income; or, to put it another way, devoting half the labour and productive facilities of the country to war and other governmental work. When it is remembered that a large part of our population is now at such a level of living standards that it can bear very little of the increased burdens which Canadians as a whole must bear, the burden on the remaining part of the population becomes recognized as all the more staggering. Let each of us in this house ask himself what would happen to his own standard of living if he were to pay or lend more than half his individual income to the state. We are asking the house for this appropriation because we recognize the fact that probably this will be the most critical year in the history of civilization.

I need not say that to carry out the war programme for which we are asking the house to make provision will tax Canada's productive capacity to the limit, will necessitate a continuing and more rapid shift from peace-time to war-time production, and will require for many of us drastic changes in our mode of living and habits of life. As the Prime Minister said in his Sunday night broadcast about two weeks ago, it will "mean more in the way of united determination, effort and sacrifice than has ever before been asked of the Canadian people".

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE February 25, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£16,000
Purchased from commercial concerns	£ 6,000

Open market sterling was steady at 4.03-1/2 for the entire day. There were no transactions by the reporting banks.

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

Canadian dollar	15% discount
Swiss franc (commercial)	.2323
Swedish krona	.2385
Reichsmark	.4005
Lira	.0505
Argentine peso (free)	.2370
Brasillian milreis (free)	.0505
Mexican peso	.2066
Cuban peso	6-15/16% discount

In China the U. S. equivalent of the yuan was 5-9/16¢, off 1/32¢ and for sterling it was 3.92-1/2, up 1-1/2¢. In Hong Kong both the H.K. dollar and sterling were unchanged in terms of United States currency at 24-7/16¢, and 3.91.

There were no gold transactions consummated by us today.

The Federal Reserve Bank of New York reported that the Bank of Canada will ship to it on February 27 gold valued at \$21,010,000 for account of the Royal Netherland's Government. The disposition of this gold is unknown at the present time.

The London prices for both spot and forward silver were unchanged at 23-7/16d and 23-3/8d respectively. The United States equivalents of these prices are 42.56¢ and 42.44¢.

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 purchased 300,000 ounces of silver from the Bank of Canada under our regular monthly agreement. During February we purchased a total of 500,000 ounces as compared with the agreed monthly limit of 1,200,000 ounces.

- 2 -

The report of February 19 received from the Federal Reserve Bank of New York giving foreign exchange positions of banks and bankers in its district, revealed that the total position of all countries was short the equivalent of \$8,081,000, an increase of \$215,000 in the short position. Net changes were as follows:

Country	Short Position February 11	Short Position February 19	Change in Short Position*
England**	\$ 2,000 (Long)	\$ 185,000	+ \$187,000
Europe	3,392,000	3,547,000	+ 155,000
Canada	245,000 (Long)	133,000 (Long)	+ 112,000
Latin America	108,000	114,000	+ 6,000
Japan	3,470,000	3,106,000	- 364,000
Other Asia	1,239,000	1,276,000	+ 37,000
All Others	96,000 (Long)	14,000 (Long)	+ 82,000
	<u>\$7,866,000</u>	<u>\$8,081,000</u>	<u>+ \$215,000</u>

*Plus sign (+) indicates increase in short position, or decrease in long position.
Minus sign (-) indicates decrease in short position, or increase in long position.

**Combined position in registered and open market sterling.

The Federal Reserve Bank's report of February 19, listing deposits of banks in Asia with the New York agencies of Japanese banks, showed that such deposits totaled \$108,796,000, a decrease of \$4,374,000 since February 11. Most of the change in deposits took place on the books of the Yokohama Specie Bank's New York agency. The latter's principal dollar liabilities to and dollar claims on Japanese banks in Asia stood as follows on February 19:

	February 19	Change from February 11
Liabilities: Deposits for Japan and Manchuria.....	\$61,628,000	- \$3,688,000
Deposits for China.....	36,412,000	- 770,000
" : U. S. Treas. Bills, comm. paper, etc.	24,865,000	- 2,598,000
Claims : Loans.....	\$57,357,000	- \$4,640,000
" : Other - mainly Jap. import bills.....	16,258,000	+ 2,961,000

The last three categories refer mainly to Japanese banks in Japan and Manchuria. The \$3,688,000 decrease in deposits in those banks plus the \$770,000 decrease in deposits for China accounted for the \$4,640,000 reduction in the Agency's loans. The \$2,598,000 decrease in United States Treasury bills, commercial paper, etc. was more than offset by the \$2,961,000 increase in Japanese import bills.

[Signature]

CONFIDENTIAL

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 25, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Official sales of British-owned dollar securities under the vesting order effective February 19, 1940:

	No. of Shares Sold	\$ Proceeds of Shares Sold	Nominal Value of Bonds Sold	\$ Proceeds of Bonds Sold
February 17	8,362	236,798	415,600	458,550
18	24,331	644,499	859,300	861,907
19	32,645	951,576	116,000	121,531
20	30,702	684,767	398,000	432,245
21	8,746	442,427	113,500	118,127
22				
	<u>104,786</u>	<u>2,960,067</u>	<u>1,902,400</u>	<u>1,992,360</u>
Sales from				
February 22, 1940				
to February 15, 1941	<u>5,300,035-1/2</u>	<u>161,378,856</u>	<u>16,955,300</u>	<u>16,082,911</u>
TOTAL FEBRUARY 22, 1940				
TO FEBRUARY 22, 1941	5,404,821-1/2	164,338,923	18,857,700	18,075,139

Miss Poate reported sales of non-vested securities for the week ending February 15 totaled \$400,000.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 25, 1941.

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

The Federal Reserve Bank of New York reported the following transaction in the account of the Central Corporation of Banking Companies, Budapest, maintained with the Guaranty Trust Company of New York.

<u>Date</u>	<u>Amount Debited</u>	<u>Paid To</u>
February 24	\$105,000	National City Bank for account of Banque Nationale de Hungary, Budapest





DEPARTMENT OF STATE
WASHINGTON

In reply refer to
A 893.5151/807

February 25, 1941

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses a copy of telegram no. 107 dated February 19, 1941 to the American Consulate General, Shanghai, regarding Chinese currency.

Enclosure:

No. 107 to Shanghai,
February 19, 1941.

TELEGRAM SENT

JT

GRAY

February 19, 1941

4 p.m.

AMERICAN CONSUL

SHANGHAI VIA N.R.

107

Your telegram 33, January 9.

It appears that the inquiry in your telegram as well as previous inquiries of a similar nature and the Department's replies thereto (for example your 185, March 5, 1940, 5 p.m. and the Department's 97, March 7, 1940) have been based upon some mutual misunderstanding as to the nature of the rates of conversion involved. It appears useful therefore at this time to clarify the data somewhat.

The Bureau of the Mint states that it has not proclaimed the value of the Chinese monetary unit in terms of United States money since April 1, 1936. The Bureau of the Mint also states that it has never proclaimed the United States value of the Chinese customs gold unit.

The Department understands that for general statistical purposes the Finance Division and the Far Eastern Section of the Division of Regional Information
of

-2- 107, February 19 to Shanghai

of the Department of Commerce use the rates given in your telegraphic reports for the values established for these units.

The rate of conversion of the Chinese standard dollar into United States currency which was given to you in the Department's no. 97, March 7, 1940, was the daily average for the preceding year of the noon buying rate in New York for cable transfers on Shanghai. This is the rate which the Federal Reserve Bank of New York daily certifies to the Secretary of the Treasury for customs purposes under the provisions of Section 522 (c) of the Tariff Act of 1930. This figure is published regularly in the Federal Reserve Bulletin. The 1940 average for this rate is .059998 (as published the figure appears as .06000).

The Federal Reserve Board does not make any official valuation of the Chinese customs gold unit. It simply takes the gold content of that unit as indicated in the Monthly Returns of the Foreign Trade of China and converts at \$35.00 an ounce. This gives the figure previously reported to you as .677265. The minor discrepancy between this figure and that reported in the Monthly Returns is said to be probably due to the more accurate conversion in the latter of the metric measure of the gold content of the unit. So long as there is no change in the gold content of the unit or in the American buying price for gold,
there

-3- 107, February 19 to Shanghai

there would seem to be no need for an annual repetition of this figure.

Please circularize as much of the foregoing as you believe to be useful to the interested United States Government offices in China.

HULL
(DA)

893.5151/807

EA:LDS:EHS

FE

DCA

RC

(Copy of an extract from a letter from the Chase Bank at Shanghai, China, dated February 25, 1941, which was received from the Chase Bank in New York by Mr. Inoke, and transmitted by him to Mr. Cochran.)

"According to a new item that appeared in the local Japanese papers recently, the new Central Reserve Bank note issue as of February 15, 1941 was reported as \$20,339,000., which was a decrease of \$42,000 compared with the total circulation of February 5th.

"The circulation of these new notes has not presented any problem so far and, as far as we know, none of our clients have been called upon to accept the new notes and we have not as yet been asked by anyone to receive or handle any of the new currency. The Central Reserve Bank has made deposits with other Chinese banks in Central Reserve notes but these deposits have been segregated and are repayable in Central Reserve notes and the corresponding cash is no doubt being carried by these other Chinese banks in their vaults without any attempt on their part to make use of them. The Central Reserve Bank has also opened accounts with other Chinese Banks in National Currency notes of the Chungking Government and we understand that various government organizations operating under the control of the Kanking Government are carrying accounts with the Central Reserve Bank in the currency of the Chungking Government.

"It was reported yesterday that the Kanking Authorities are going to try to make stronger efforts to force the Chinese Banks and the Native Banks to receive and handle the new Central Reserve notes and as the Chinese Banks and the Native Banks are not in a position to refuse, they will probably start to carry Central Reserve accounts for clients which, however, they will keep separate from their regular accounts. As one of the Chinese banks pointed out, it is not up to the banks to start opening Central Reserve accounts but if the bank's clients find a use for the new notes and that they will be accepted for the purpose of trade and for the purpose of exchange, the Chinese banks would, as a convenience to their depositors, open accounts in the new notes whenever requested to do so by their clients.

"The circulation of Military Ten notes does not seem to have been diminished in any way and the currency in use in the occupied territories outside of Shanghai is practically all Military Ten with the possible exception of Kanking, where a small amount of the new Central Reserve notes may now be in actual use."

CCF:lep



BRITISH EMBASSY,
WASHINGTON, D.C.

February 25th, 1941.

Personal and
Secret

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

Halifax

The Honourable

Henry Morgenthau, Jr.

United States Treasury,
Washington, D.C.

TELEGRAM RECEIVED FROM LONDON FEBRUARY 23rd, 1941.

Naval. At 0018/22. Glasgow reported pocket battleship between Madagascar and Seychelles being herself about 80 miles to N.W. Westward. Enemy steering 130 degrees 18 knots. Glasgow in pursuit, later her aircraft lost touch. Available forces proceeding to support.

2. British Trelawney 4600 tons reported being fired on by warship raider 500 miles east of St. John's, Newfoundland at 11-22/22. p.m. Feb. 22nd unknown ship reported being machine gunned within a few miles of the above position.

3. Two enemy aircraft laid mines Humber between 1930 and 2200/22. Early morning of February 22. Four mines were dropped in the Suez Canal and three bombs fell in the Canal Zone.

4. On February 22nd Fokke-Wulf aircraft damaged two ships of outward convoy 210 miles N.W. of Hebrides.

5. At dawn February 21st. Seven naval aircraft dive-bombed Massawa. Searchlights and anti-aircraft fire made observation difficult but believed that three Destroyers and one U Boat were hit. More than thirty-five merchant vessels reported in anchorage.

6. Convoy in the North Minch and another off the East Coast attacked by aircraft on February 22nd but sustained no damage. Two ships in convoy damaged by aircraft on February 20th in the N. Western approaches have arrived in harbour and another also damaged is proceeding on voyage.

7. Military. Ethiopia. Kenya front. To eight p.m. February 21st Mega capitulated on February 18th. We captured 650 prisoners including 450 Europeans also

some guns and machine-guns.

8. In southern sector one company of the Sudan Defence Force together with patriots were attacked all day on February 19th by an enemy Colonial battalion. The attack was repulsed and 180 of the enemy were killed. Our casualties were 5 killed and 9 wounded.

9. R.A.F. Night of February 21st/22nd. Weather conditions were unfavourable but 17 tons of high explosive and many incendiaries were dropped on Wilhelmshaven causing fires which spread rapidly in the North East part of the town.

10. Night of February 22nd/23rd. Twenty-nine Wellingtons were sent to bomb docks at Brest.

11. German Air Force. During the day about 40 bomber aircraft operated over the British Isles. An R.A.F. aerodrome was attacked by H.E. 109's; damage was not serious. During this attack large enemy formations made over the Thames Estuary and East Kent one H.E. 110 was destroyed by fighters and one Heinkel bomber by ground defences.

12. Night of February 22nd/23rd. About 30 enemy aircraft were operating in the Humber area possibly laying mines. An enemy float plane was damaged by fighters at dusk.

13. Aircraft casualties in operations over and from the British Isles.

German: By fighters, 1 destroyed, 1 damaged.

By ground defences, one destroyed.

British: nil.

14. Home Security - Swansea. Latest total casualty figures for the three successive raids are 128 killed and 204 seriously wounded.

RESTRICTED

G-2/2657-220
No. 324

M.I.D., W.D.
February 25, 1941
12:00 H.

SITUATION REPORTI. Western Theater of War.

Air: German: Light activity against airfields, shipping and ports, including London, Hull and Harwich.

British: Light attacks on the Invasion Ports. Brest in particular was bombed.

II. Greek Theater of War.

Ground: Patrol and artillery activity only.

Air: Slightly increased activity.

III. Mediterranean and African Theaters of War.

Ground: Eritrea: The British force in northern Eritrea has continued its movement south in the direction of Cheren.

Abyssinia (Ethiopia): The British are continuing their advance toward Gondar.

Italian Somaliland: Margherita and Jelib on the east bank of the Juba (Giuba) River have been captured by the British who report their advance in the whole area east of the river is developing successfully and rapidly.

Libya: No change.

Air: Axis: German operations along the Libyan coast and against Mediterranean shipping continued. The Italian air force operated in the Kofra area (Libya). The Italians bombed the Greek island of Mytilene.

British: Considerable activity over Ethiopia. Tripoli was raided.

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

Paragraph of Code Radiogram
Received at the War Department
at 8:07, February 23, 1941.

London, filed February 23, 1941.

1. On Monday, February 24, two German destroyers off the coast of France were attacked by planes of the British Coastal Command with unobserved results. There were no flights of Bomber Command planes during this day. During the preceding night, however, harbor facilities at Bolder, Calais and Bruges were attacked by forces totalling 71 British bombers. Results at Bolder could not be determined but fires of considerable size were observed at the two other places. During the same night Brest was attacked by planes of the Coastal Command with unobserved results.

2. During the night of February 24-25 there was one German attack against London. In addition, mining operations over Morecambe Bay, Liverpool Bay and Milford Haven were carried out by 17 German planes and 28 others were active against targets in Norfolk, Suffolk and Lincolnshire. The city of Cambridge was the main target of these raids. During the preceding day a large number of German planes were on patrol over the Dover Straits. Only four German planes penetrated the coast line and these caused no damage. There were no plane losses.

3. British air activities in the Middle Eastern theater were as follows: one Italian airplane was damaged in the Egypt theater and a motor transport in the vicinity of Iamra Gharas (?) and the city of Baghdad were attacked by British bombers; in the Albanian theater the

CONFIDENTIAL

town of Baidj (fifteen miles north of the city of Tripoli) was attacked by British bombers from Greece; Italian aircraft losses in the Sudan sector were nine destroyed and three damaged; the Adia Ababa airfield was severely damaged by British bombers from Aden. In addition, Italian land forces in the vicinity of the coastal town of Brown, Italian Somaliland, were bombarded by units of the Royal Navy. Severe damage resulted.

4. Two separate Axis air attacks were directed against Malta but the raiders were driven off without causing any damage to military installations. In addition, German bombers attacked the harbor at Tobruk without causing any damage. No British planes were lost in these operations.

5. A German cruiser of the *ARNHEIM* class is known to be at Brast. British naval units have been unable to locate the German "pocket battleship" which was sighted by the British on February 22 between the Seychelle Islands and Madagascar.

6. German mines planted in British waters are being destroyed very successfully by detection.

7. The Bann Canal is not yet open after having been closed by the planting of mines by German planes. On February 25 an English cargo boat 300 miles west of the Outer Hebrides was torpedoed.

SECRET

Distributions:

Secretary of War
State Department
Asst. Secretary of War
Secretary of Treasury
Chief of Staff
War Plans Division
Office of Naval Intelligence
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