

DIARY

Book 396

May 8 - 11, 1941

- A -

	Book	Page
Aluminum Company		
American and Canadian Companies: HMJr thinks shareholders are identical		
a) Asks Foley to check - 5/8/41.....	396	12
b) Discusses with Ickes - 5/8/41.....		18
c) Foley's memorandum to Ickes - 5/29/41: See Book 402, page 207		
d) Ickes' letter to Jones showing them "twin brothers in iniquity" - 6/5/41: Book 405, page 17		
American Securities, Foreign-owned		
O'Mahoney and HMJr discuss - 5/9/41.....		150
Appointments and Resignations		
Banning, Paul		
Cox, Oscar S.		
Young, Philip		
Etc.		
To be given opportunity to choose between going to Office of Emergency Management or staying at Treasury - 5/9/41.....		105

- B -

Banning, Paul	
See Appointments and Resignations	

- C -

Canada	
See War Conditions	
China	
See War Conditions	
Coast Guard	
See also War Conditions: Greenland	
British ship repairs: HMJr asks for allotment - 5/8/41.....	26
Correspondence	
Mrs. Forbush's resume's - 5/9/41.....	301, 306
Cox, Oscar S.	
See Appointments and Resignations	

- D -

Defense Savings Bonds	
See Financing, Government	

- F -

	Book	Page
Financing, Government		
Announcement of offering: \$100 million of 91-day Treasury bills, to be dated May 14 and to mature August 13, 1941 - 5/9/41.....	396	319
Defense Savings Bonds:		
First seven days' report - copy sent to FDR - 5/8/41.....		73
Deposits in Treasurer's Account - 5/8/41, 5/10/41.....		77, 371
Paderewski and Ludvig to assist in program - 5/9/41.....		108
a) Paderewski thanked for assistance - 5/19/41: See Book 399, page 339		
Foreign-owned American Securities		
See American Securities, Foreign-owned		

- G -

Greenland
See War Conditions

- H -

Hawaii		
For British-owned American securities, see War Conditions: Purchasing Mission		
Heath, Donald		
Possible transfer from Berlin to Latin America discussed by State Department and Cochran - 5/8/41.....		79, 124
Hyde Park Declaration of Policy		
See War Conditions: Canada		

- I -

India		
See War Conditions: United Kingdom		
Indo-China		
See War Conditions: Foreign Funds Control		
Insurance, Marine		
Jackson and HMJr discuss - 5/9/41.....		201
a) Confidential Customs reports sent to Jackson - 5/20/41: See Book 400, page 149		

- K -

Keynes, John Maynard		
See War Conditions: United Kingdom		

- L -

	Book	Page
Latin America		
Mexico:		
Hochschild transmits report - 5/8/41.....	395	33
Ludwig, Emil		
See Financing, Government: Defense Savings Bonds		

- M -

Magill, Roswell		
See Revenue Revision		
Marine Insurance		
See Insurance, Marine		
Mexico		
See Latin America		
Myers, William I.		
HMJr recommends highly to Jones - 5/9/51.....		203

- P -

Paderewski, Ignace Jan		
See Financing, Government: Defense Savings Bonds		
Paydays, Staggered		
Discussed at 9:30 meeting - 5/9/41.....		103
Price Control		
See War Conditions		

- R -

Reconstruction Finance Corporation		
Incorrect restoration of interest exemption from		
Federal income taxes discussed in HMJr's letter		
to Jones - 5/8/41.....		30
a) Jones' answer.....		31
b) Discussion by Treasury group - 5/12/41:		
See Book 397, page 67		
c) HMJr expresses Treasury point of view to Jones		
and asks him to present views to Senate		
Banking and Currency Committee - 5/12/41:		
Book 397, page 139		
d) Letter to Wagner, Chairman, Senate Banking		
and Currency Committee - 5/12/41:		
Book 397, page 147		
British reaction to approval of Senate Banking and		
Currency Committee of legislation authorizing		
Reconstruction Finance Corporation to lend on		
security of British direct investments - 5/9/41..		266
British direct investments - list of as provided for		
Reconstruction Finance Corporation - 5/9/41.....		280

	Book	Page
Revenue Revision		
Eccles-Henderson testimony as arranged by Minton (HMJr not to be informed) discussed by HMJr and Watson - 5/8/41.....	396	1,10
HMJr and Doughton - 5/8/41.....		5
a) HMJr tells Foley, Gaston, Sullivan, and Kuhn about conversation.....		8,12
(See also Book 397, page 6)		
Excess Profits Tax:		
Entire new program may be necessary - Sullivan tells Treasury group - 5/9/41.....		125,206
Magill confidential memorandum to HMJr - 5/10/41..		347
Kuhn draft (not used) of possible statement by HMJr - 5/10/41.....		353
White memorandum on excess profits--corporation taxes - 5/10/41.....		350

Stabilization Fund		
Extension: HMJr's statement before House Committee on Coinage, Weights, and Measures - 5/8/41.....		34
Eccles' possible testimony discussed by Congressman Cochran and Bell - 5/9/41.....		265
Dollar devaluation powers - Senate Committee votes to prohibit Treasury from paying more than \$35 per ounce of gold - 5/13/41: See Book 397, pages 228, 232 and 234		
a) Foley suggests HMJr call Rayburn and Cochran		
b) Hearings: Book 397, page 229		
c) Memorandum on effect of amendment: Book 397, page 230		
d) Rayburn swings vote: Book 397, page 327		
1) FDR told: Book 397, page 328		
e) Glass asks whether Treasury has asked FDR to write letter supporting - 6/2/41: Book 403, page 13		
Staggered Paydays		
See Paydays, Staggered		
Statements by HMJr		
Before House Committee on Coinage, Weights, and Measures - on extension of Stabilization Fund - 5/8/41.....		34
Switzerland		
See War Conditions		

Taxation		
See Revenue Revision		

United Kingdom

See War Conditions: Military Planning;
Purchasing Mission; United Kingdom

Book Page

War Conditions

Airplanes:

Shipments to United Kingdom and overseas commands -
Kamarck memorandum - 5/9/41.....396

248

Canada:

Hyde Park Declaration of Policy - 5/9/41.....

258, 259

a) "War Supplies, Ltd." created to carry out -
5/19/41: See Book 399, page 402

China:

Transfer of defense articles authorized by FDR -
5/8/41.....

82

Exchange market resume' - 5/8/41, etc.....

93, 324, 366

Export Control:

Exports of petroleum products, scrap iron, and
scrap steel from United States to Japan, Russia,
Spain, and Great Britain, week ending
May 10, 1941.....

323

Foreign Funds Control:

Indo-China: Blocked funds and use thereof discussed
in Fehle memorandum - 5/9/41.....

270, 272, 274, 276

Greenland:

HMJr's letter to Navy concerning assistance of
Coast Guard and formation of a Greenland
Squadron - 5/8/41.....

24

Military Planning:

Report from London transmitted by Campbell -
5/9/41.....

326

Tactics of German Infantry and Its Support by
Other Arms: War Department bulletin - 5/9/41....

329

Price Control:

Minutes of May 6 meeting of Price Administration
Committee.....

321

Agenda for May 13 meeting - 5/10/41.....

367

Purchasing Mission:

Weekly report - Lend-Lease purchases - 5/9/41.....

252

Hawaiian holdings discussed in memorandum to
Cochran - 5/9/41.....

254, 255

(See also Book 397, page 149)

a) Cochran-Peacock discussion - 5/15/41:
Book 398, page 297

b) Russell reports "good progress" with
Peacock - 5/16/41: Book 399, page 133

British reaction to approval of Senate Banking and
Currency Committee of legislation authorizing
Reconstruction Finance Corporation to lend on
security of British direct investments - 5/9/41..

266

British direct investments - list of as provided
for Reconstruction Finance Corporation - 5/9/41..

280

- W - (Continued)

	Book	Page
War Conditions (Continued)		
Purchasing Mission (Continued):		
Vesting order sales - 5/9/41.....	396	295
Federal Reserve Bank of New York statement showing dollar disbursements, week ending April 30, 1941 - 5/9/41.....		296
Transfer of defense articles to United Kingdom authorized by FDR - 5/10/41.....		373
Switzerland:		
Swiss National Bank representation in United States - 5/9/41.....		278
United Kingdom:		
Keynes, John Maynard:		
To confer with HMJr May 12 - 5/10/41.....		368
a) Cochran memorandum on conference - 5/13/41: See Book 397, pages 221 and 225		
b) Second conference, Phillips accompanying Keynes - 5/14/41: Book 397, page 306		
1) India and Lease-Lend Act memorandum: Book 397, page 312		

- Y -

Young, Philip
See Appointments and Resignations

May 8, 1941
12:12 p.m.

H.M.Jr.: Hello.

Operator: General Watson

H.M.Jr.: Hello

E. M.
Watson: I'm working on that.

H.M.Jr.: You are.

W.: Yes. I'm not quite ready yet to report.

H.M.Jr.: I see.

W.: But I think you'll hear from down there.

H.M.Jr.: Pardon me.

W.: I think we'll get something today.

H.M.Jr.: You do.

W.: Yes. I checked up with Harry and everybody and nothing came from here, but I think your - maybe your suspicions weren't too far from the truth.

H.M.Jr.: I see.

W.: But I'm running that down and it's going to be complete disavowal as far as we are concerned.

H.M.Jr.: And you'll do that with Doughton.

W.: I've sent a man already to do that.

H.M.Jr.: To see Doughton?

W.: Yes.

H.M.Jr.: You have?

W.: Yes.

- 2 -

H.M.Jr.: You are not ready to talk yet.

W.: I'd rather wait until I hear from my man.

H.M.Jr.: Oh, you sent somebody up on the Hill.

W.: Yes, I sent a man, yes.

H.M.Jr.: I see.

W.: A man that had something to do with passing the message on.

H.M.Jr.: What's that?

W.: A man that had something to do with passing the message on.

H.M.Jr.: Oh.

W.: I sent him down to get first hand - just to go over it with him.

H.M.Jr.: Oh, you have located the man?

W.: Oh, yes. I know where he is.

H.M.Jr.: What?

W.: Yes.

H.M.Jr.: You are not alone now, is that it?

W.: Yes, I'm alone.

H.M.Jr.: Oh.

W.: Well, I tell you Henry, I think there's a misunderstanding and I'm having it thrashed out.

H.M.Jr.: I see.

W.: And you're right - Harry feels just like I did. You had a perfect right to come up about that, I'd have felt the same way. I told Harry, the only thing you disliked was that the implication that the fellow

- 3 -

went down there from the White House.

H.M.Jr.: Well, at that --

W.: There was no contradiction of the testimony at all, was there? There wasn't anything about that.

H.M.Jr.: Well, that part didn't bother me.

W.: That's what I told them.

H.M.Jr.: But here's the Chairman of the Committee who gets the message that these two fellows should testify and are sworn to secrecy not to tell me, the Secretary of the Treasury.

W.: Well, I think you'll have that settled before the day is out.

H.M.Jr.: Yes.

W.: I'm trying now to clear that up.

H.M.Jr.: Well, you tell me the whole story when you get it out.

W.: You bet I will. You bet and I think you'll

H.M.Jr.: There's somebody up on the Hill now, huh?

W.: How?

H.M.Jr.: You've got somebody up on the Hill?

W.: Yeah. I'd rather wait and tell you when I hear from them though.

H.M.Jr.: Well, if you're doing it, I'm in your hands.

W.: Well, that's right. I'm doing it and

H.M.Jr.: Harry had nothing to do with it, did he?

W.: Not a damn thing. In fact, I went over there first and he didn't know a thing about it.

- 4 -

H.M.Jr: Well, didn't he think I was right?

W: He thought you had quite a lot on your side, and I told him it was just a matter of the way it was done and that you felt grieved and I didn't know but what you had a perfect right to be, and he agreed with me.

H.M.Jr: You can't work that way, Pa.

W: No, I know you can't. Well, you know you're in sympathetic hands when I get to working around and we're not going to tell the President anything about it because he's up there sleeping and I'll just fix it up so that it's going to be cleared up with Doughton and it's being worked on right now and just leave it alone until maybe sometime this afternoon I'll call you up.

H.M.Jr: Wonderful.

W: Yeah, all right.

H.M.Jr: Thank you. .

W: Good-bye.

May 8, 1941
2:50 p.m.

H.M.Jr: Hello.

Operator: Doughton.

H.M.Jr: Hello.

Robert
Doughton: Hello, Mr. Secretary.

H.M.Jr: Hello, Bob. Henry talking.

D: Yes, how are you, Henry?

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

D: Anything new since we talked?

H.M.Jr: Well, I - General Watson said he'd have something for me this afternoon; he sent somebody up to see you.

D: Well, if you could come down, or if I can see you, I'd come right up if you are ready to see me, but we've got these tobacco men in here you know and I've a little new light on it and I think I can help a little.

H.M.Jr: All right. I could be there by 3:30.

D: Just suit your own time.

H.M.Jr: Well, where will I come?

D: You come to the - well, it might be best not to create any commotion about it for you to come over to the Ways and Means Committee room in the Capitol. I don't know whether - if the newspapers weren't watching so much I could see you here in the Clerk's office. I'm working in my Committee Room now, holding hearings.

- 2 -

H.M.Jr.: Well, I'll come wherever you -- it's best for you. You tell me. Where do you want me?

D.: Ah - hah.

H.M.Jr.: Where would you like?

D.: Well, where the papers not getting any knowledge of it at all, it might be the best for you to come on down there.

H.M.Jr.: Oh, no. Let me come up to see you.

D.: Ah - hah. Well, suppose you just drop in at 3:30 over at the Ways and Means Committee room in the Capitol - you know where it is?

H.M.Jr.: No, you will have to tell me.

D.: How's that?

H.M.Jr.: You will have to tell me where it is.

D.: On the second floor of the Capitol. You have been there many times.

H.M.Jr.: Oh, yes.

D.: Right there next to the hall to the House, you know.

H.M.Jr.: Oh, sure.

D.: In the Capitol on the second floor, the Ways and Means Committee room.

H.M.Jr.: I'll be there at 3:30.

D.: Thank you. Be right there.

H.M.Jr.: You got some more light on it?

D.: How's that?

H.M.Jr.: You have some more light?

- 3 -

D.: I didn't get that.

H.M.Jr.: You know you have some more light
on it, you say?

D.: Yes, perhaps I can give you a
little more light.

H.M.Jr.: Thank you.

D.: I want to give you everything
I can that I think can help the
situation.

H.M.Jr.: Thank you.

D.: All right.

May 8, 1941
4:10 p.m.

RE TAXES

Present: Mr. Foley
Mr. Gaston
Mr. Sullivan
Mr. Kuhn

H.M.Jr:

We were all wrong on our guesses. Congressman Doughton called me up and asked whether I could see him; could he come down here or could I come up there, so I said I would come up there, which I did. He said shortly after he left here he had a call from ex-Senator Minton, who wanted to see him, had to see him. So he said, "All right," and he came over and he said, "I just want to tell you, Bob, that the request that I made of you that you have a hearing for Eccles and Henderson, also the request that I made that you tell nobody, even the Treasury, that I take the entire responsibility for that request. The President had nothing to do with it." Then he said Minton went on and said, "The President isn't feeling well and, of course, he shouldn't be bothered or know anything about this," but he says, "I take entire responsibility." So Bob said to him, "Is it something that the President wanted?" and Minton said, "No, I take full responsibility for this and leave the President out of this." So he

- 2 -

said, "Now, Henry, if you were in my place and I got this message--"

(Mr. Kuhn entered the conference.)

H.M.Jr:

".... what else could I do when I was told by the man who was supposed to be former floor leader on the Senate, a contact man from the Hill, and I get a request like this?" He says, "I didn't like it, but could I have done anything else?" I said, "No." So we renewed our affections. I explained to him when I asked for a meeting yesterday I didn't have this in mind. I only had it after reading the papers plus seeing it was inferred that we no longer were - that these other men were really talking for the President. I just asked him this in a more or less jocular way this morning. So he said, "When you sent for me yesterday, you didn't have this in mind?" And I said, "No, I didn't." Well, we left better friends than ever, if possible. Then he dropped a kind of funny remark. He said, "Now, Henry, let me give you an older man's advice. I would forget about this if I were you. I can tell you something else. Minton isn't going to be around the White House much longer."

Gaston:

He was nominated for the Circuit Court of Appeals yesterday.

Foley:

His name was sent down to the Senate yesterday for the vacancy on the Seventh Circuit.

May 8, 1941
4:12 p.m.

H.M.Jr: Hello.

Operator: Just a moment.

E.M.
Watson: Hello.

H.M.Jr: Pa?

W: Say, Henry, have you seen Bob Doughton?

H.M.Jr: Yes.

W: Well, now I can tell you Shay Minton did that.

H.M.Jr: Yes?

W: And Shay made a suggestion to Doughton that he have Eccles and Henderson testify.

H.M.Jr: Yes.

W: And that so far as he knew, the President had known nothing about this. That ought to clear it up all right.

H.M.Jr: Are you over there now?

W: Yes.

H.M.Jr: Well, I got another one that I'd like to nip in the bud before it happens.

W: (Laughs) Yes. What the hell is that for Christ sake?

H.M.Jr: Well, suppose I come over and show it to you.

W: All right.

- 2 -

H.M.Jr: I'll come on over.
W: All right.
H.M.Jr: What?
W: I'm right over here in my office.
H.M.Jr: I'll come and try to stop this one.
W: All right, I did pretty good today.
H.M.Jr: Yes, you are a friend in need.
W: All right, you come on over here.

May 8, 1941
4:50 p.m.

RE TAXES

Present: Mr. Gaston
Mr. Foley
Mr. Sullivan
Mr. Kuhn

H.M.Jr: I made a statement that the Aluminum Company in Canada and the Aluminum Company of America have identical shareholders.

So would you (Foley) try through Arnold - say, could he help us out. You might talk to Harry White about it.

Gaston: Joe O'Connell could probably get it.

H.M.Jr: I think I am correct. They have identical shareholders.

Foley: All right.

H.M.Jr: Well, we have got another fellow.

Sullivan: A good one?

H.M.Jr: Yes. We have got the fellow who told Sherman Minton to do it. It was Lauch Currie. So I think that makes it all right. That sounds like sense. It was Lauch Currie who asked Sherman Minton to do it. But that is all in the room here.

- 2 -

I said, "Well, what is going to keep him from doing it again?" And Pa says, "Don't worry; I jumped on that fellow with both shoes and he is not going to do it again."

He says Sherman Minton took the rap on it because he is through. He says, "I wanted Lauch to go up on the Hill, and he said, 'What is the use of both of us going up as long as Minton is going up?'"

So I think that makes it all right. Don't you think so, Ed? Don't you think that makes sense?

Foley: It makes more sense.

Gaston: Lauch was in it all right, that was obvious,

H.M.Jr: He was. He asked Sherman Minton to do it. Sherman Minton is a judge, so he doesn't care. Pa says we can forget the whole thing. He says, "It won't happen again, I will promise you that."

The principal thing is, you see, it leaves Bob feeling we are aces high. He had it all the time. He gets the word from the President's secretary to call these fellows up, but don't tell anybody, even the Treasury. Just think of the difficulty Doughton was in. I am tickled to death, John, that I blew off this morning.

Sullivan: Yes, I think the way it came out we would have been under a cloud all summer and we wouldn't have known what the cloud was.

H.M.Jr: I waited, should I or shouldn't I do it; and I said, "Well, I am tired and I am sore, but I will do it anyway."

- 3 -

Sullivan: I watched you and you were watching him while he was telling you what he could tell you and what he couldn't tell you, and I thought I saw the storm brewing there.

H.M.Jr: Well, I told Doughton, "It is just like a slap in the face to me when you said you couldn't tell me who had asked you and where the message came from." I don't think it will happen again. Pa Watson promised me it wouldn't. It was an outrageous performance.

Gaston: I don't think it will be pulled on Bob Doughton again, either. I don't think it would work on Bob Doughton again.

H.M.Jr: Oh, he was very much upset. Oh, he was awfully upset.

Gaston: I think Bob Doughton will say, next time, "Well, I am right here and the President has got a telephone."

Foley: Sure.

H.M.Jr: No, because I first thought, "Well, I am going to go and ask Henderson what it is - no, I am going to let the thing die. I am not going to bother with it."

Foley: I think that is what it is.

H.M.Jr: I don't think I want to pursue it any further.

Gaston: I think you had to make a point of it at the time as you did.

H.M.Jr: But let it drop.

Gaston: Yes.

H.M.Jr: I am awfully glad I did it.

Sullivan: So am I.

OFFICE OF
THE SECRETARY OF THE TREASURY

15

May 8, 1941.

TO: Mr. Gaston
FROM: Secretary Morgenthau

Please report to me about
this on Monday.

(Please return this copy to Room 285.)

May 8, 1941
4:55 p.m.

H.M.Jr: Hello.

Operator: F. M. Johnston.

Mr. F. M. Johnston: Hello, Mr. Secretary.

H.M.Jr: Talking.

J: How are you, sir?

H.M.Jr: Fine.

J: Mr. Secretary, I received word from Senator Harrison instructing me to get in touch with you personally concerning John J. Kennedy who is at present Comptroller of Customs at New Orleans.

H.M.Jr: Yes.

J: He was originally appointed in 1933 and was re-appointed in '37 and his appointment is one requiring Presidential nomination and confirmation.

H.M.Jr: Yes.

J: While the Senator realized that his present term will run until July 1st of this year, he recalled, and so indicated to me, that the question would probably be up within the next few weeks and knowing that he would not be here he wanted me to call you to tell you of his great interest and his wish and desire that Mr. Kennedy be re-appointed.

H.M.Jr: Well, I'll give it very serious consideration and I'll give you a ring Monday.

J: All right, sir.

H.M.Jr: How is the Senator?

- 2 -

J: He's getting along fine. We get splendid reports.

H.M.Jr: Well, I'm delighted.

J: Well, thank you very much, Mr. Secretary.

H.M.Jr: Thank you.

May 8, 1941
4:57 p.m.

H.M.Jr: Hello.

Operator: Secretary Ikes.

H.M.Jr: Hello.

Harold Ikes: Henry, at the last Cabinet meeting....

H.M.Jr: Yes.

I: Jesse Jones talked about buying aluminum from Canada. I asked whether it was connected with the Aluminum Company of America. He said it was not and you looked at me with a half wink....

H.M.Jr: Yes.

I: What did you mean?

H.M.Jr: Well, what I understand is this. That while they are not the same companies, they are the same shareholders.

I: I see.

H.M.Jr: They are identical shareholders. That's what I've been told.

I: Well, shareholders in one company are not going to compete with shareholders in another. I suppose the price is the same.

H.M.Jr: The price is the same.

I: I think I'll raise that question again.

H.M.Jr: But, I think you ought to check on my information if you could.

I: Where can I check? I thought you had all the financial knowledge and information in the world.

- 2 -

H.M.Jr: (Laughs) That's just a slight exaggeration. Let me ask some of my boys if they can help.

I: All right, fine.

H.M.Jr: I think that Harry White can help on that.

I: All right.

H.M.Jr: I think my information is correct but before

I: I wonder if Arnold would have it.

H.M.Jr: I don't know.

I: See what you can get for me, will you?

H.M.Jr: I'll do that.

I: I'd appreciate it.

H.M.Jr: I'll do that.

I: Thank you.

MAY 8 1941

My dear Mr. Chairman:

Reference is made to your letter of May 6, 1941, enclosing a copy of S. J. Res. 74, "To authorize the postponement of payment of amounts payable to the United States by the Republic of Finland on its indebtedness under agreements between that Republic and the United States dated May 1, 1923, May 23, 1932, and May 1, 1941."

The joint resolution provides for the postponement at the option of Finland of the payment of amounts payable to the United States during the period from January 1, 1941 to December 31, 1942, inclusive. In the event of the exercise by Finland of the option to postpone such payments the Secretary of the Treasury would be authorized to make on behalf of the United States an agreement with Finland for the payment of the postponed amounts in forty semiannual installments, the first two installments to be paid during the calendar year beginning January 1, 1943, and two to be paid during each of the nineteen calendar years following. It is also provided that the amounts postponed shall not bear any interest beyond the dates when such amounts first become payable under existing agreements.

The amounts payable to the United States by Finland which would be subject to postponement under the proposed joint resolution are as follows:

Date Payable	Funding Agreement May 1, 1923		Moratorium Agreement May 23, 1932	Postponement Agreement May 1, 1941	Total
	Principal	Interest			
June 15, 1941	-	\$139,037.50	\$19,030.50	\$13,695.06	\$171,763.06
Dec. 15, 1941	\$79,000	139,037.50	19,030.50	13,695.06	250,763.06
June 15, 1942	-	137,655.00	19,030.50	13,695.06	170,380.56
Dec. 15, 1942	<u>82,000</u>	<u>137,655.00</u>	<u>19,030.50</u>	<u>13,695.06</u>	<u>252,380.56</u>
TOTAL - - -	<u>\$161,000</u>	<u>\$553,385.00</u>	<u>\$76,122.00</u>	<u>\$54,780.24</u>	<u>\$845,287.24</u>

Finland's indebtedness for relief supplies aggregated \$8,281,926.17 and was represented by obligations of \$3,289,276.98 dated June 30, 1919 and \$4,992,649.19 dated July 1, 1920. As a result of the negotiations initiated in 1922 by the World War Foreign Debt Commission, the Congress by an Act approved March 12, 1924, authorized a refunding agreement with Finland under which interest on the original indebtedness at the rate of 4-1/4 per cent per annum to December 15, 1922 amounting to \$1,027,387.10 was added to the

- 2 -

original debt, and after a cash payment of \$309,315.27 by Finland, the balance of \$9,000,000 with interest at 3 per cent per annum from December 15, 1922 to December 15, 1932, and thereafter at 3-1/2 per cent per annum, was to be repaid over a period of 40 years. Each semiannual installment has been promptly paid by Finland except the installments due in the fiscal year 1932 which were postponed under the authorization proposed by President Hoover, and authorized by the Joint Resolution of Congress approved December 23, 1931, and the installment due on December 15, 1940, which was postponed pursuant to the Joint Resolution approved June 15, 1940. The postponed installments due in 1932 are being repaid in ten annuities with interest at 4 per cent per annum from July 1, 1933, and the postponed installment due on December 15, 1940 is to be repaid in ten annuities with interest at 3 per cent per annum from January 1, 1941.

Since 1923, Finland has paid to the United States the sum of \$6,050,687.77, of which \$960,394.17 represented principal and \$5,090,293.60 represented interest. This includes the payment of \$159,394.00 by Finland on June 15, 1940.

The Treasury has no objection to the enactment of the proposed Joint Resolution if the Congress determines to grant a further measure of assistance to the Republic of Finland. Finland was one of the first nations to come forward in 1922 to make arrangements for repaying to this Government amounts representing the cost to it of relief supplies which it had received. World conditions which have prevailed during the past few years have seriously affected that country. The United States has recognized this situation. The Congress enacted the Joint Resolution approved June 15, 1940, to postpone payment of amounts due from Finland in 1940, and the Export-Import Bank has granted certain credits to that Government. The resources available to Finland are undoubtedly needed to provide the necessities of life for the Finnish people.

The proposal embodied in the Joint Resolution will assist Finland to maintain the enviable record of its credit relationship with the United States. The difficulties now confronting Finland recommend our helpful attitude towards that debtor.

The Department has been advised by the Bureau of the Budget that there is no objection to the submission of this report to your Committee.

Very truly yours,
(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Honorable Walter F. George,
Acting Chairman,
Committee on Finance,
United States Senate,
Washington, D. C.

(Not mailed here)

WTH:mlb
5-7-41

C
O
P
YUNITED STATES SENATE
Committee on FinanceWashington, D. C.,
May 6, 1941.

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

Dear Mr. Secretary:

I am attaching copy of S. J. Res. 74, introduced by Senator Vandenberg on yesterday and referred to the Committee on Finance. The purpose of the joint resolution is to authorize the postponement of payment of amounts payable to the United States by the Republic of Finland under agreements between that Republic and the United States.

This joint resolution is referred to you for consideration, and it will be greatly appreciated if you will furnish the committee a report thereon as promptly as possible, as the committee is anxious to take action on the proposal as speedily as possible.

Thanking you, I am

Sincerely yours,

s/ Walter F. George

ACTING CHAIRMAN

Encl.

77TH CONGRESS
1ST SESSION

S. J. RES. 74

IN THE SENATE OF THE UNITED STATES

MAY 5, 1941

Mr. VANDENBERG introduced the following joint resolution; which was read twice and referred to the Committee on Finance

JOINT RESOLUTION

To authorize the postponement of payment of amounts payable to the United States by the Republic of Finland on its indebtedness under agreements between that Republic and the United States dated May 1, 1923, May 23, 1932, and May 1, 1941.

1 *Resolved by the Senate and House of Representatives*
2 *of the United States of America in Congress assembled,*
3 That the Republic of Finland, at its option, may postpone
4 the payment of amounts payable to the United States of
5 America during the period from January 1, 1941, to
6 December 31, 1942, inclusive, under the agreements between
7 that Republic and the United States of America dated May
8 1, 1923, May 23, 1932, and May 1, 1941. In the event of

1 the exercise of the option granted in this section the Secretary
2 of the Treasury is authorized to make, on behalf of the
3 United States of America, an agreement with the Republic
4 of Finland for the payment of the postponed amounts in
5 forty semiannual installments, the first two such installments
6 to be paid during the calendar year beginning January 1,
7 1945, and two to be paid during each of the nineteen calen-
8 dar years following: *Provided*, That the amounts postponed
9 shall not bear any interest beyond the dates when such
10 amounts first become payable under the above mentioned
11 agreements.

12 SEC. 2. The agreement authorized in the first section
13 of this joint resolution shall be in such form that payments
14 thereunder shall, unless otherwise provided in such agree-
15 ment, be in accordance with, and subject to the same terms
16 and conditions as payments under, the agreement with the
17 Republic of Finland dated May 1, 1923.

May 8, 1941.

Dear Sir:

This will acknowledge receipt of your letter of May 7, requesting assistance from the Coast Guard in the formation of a Greenland Squadron, which is being created in order to carry out a directive of the President.

I have instructed the Commandant of the Coast Guard to make the necessary arrangements to comply with your request.

Yours very truly,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The Honorable

The Secretary of the Navy.

HEG:pm

By Messenger 9³⁰ on 5/9

File to Mr. Gaston

DEPARTMENT OF THE NAVY
OFFICE OF THE SECRETARY
WASHINGTON

(SC)A4-3/Q813
Serial 041130

CONFIDENTIAL

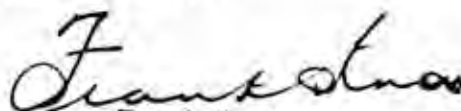
MAY 7 1941

Sir:

In order to carry out a directive of the President it becomes necessary to form a Greenland Squadron. Accordingly, assistance is desired from the Coast Guard as follows:

- (a) Assign to operate under naval control for purposes connected with the establishment of military and naval installations in Greenland:
 - (1) One Coast Guard cutter of the ALGONQUIN class for use in a survey to be made in the Angmagssalik Area when ice conditions permit.
 - (2) One 110 foot ice-breaking tug for use in connection with the movement of Army troops and supplies for the airdrome construction project
- (b) Assign to operate under naval control for purposes connected with the defense of Greenland:
 - (1) The NORTHLAND and the NORTH STAR
 - (2) A senior officer experienced in Arctic operations to command the ships and aircraft operating in northeast Greenland this summer.
- (c) Assist the Navy in retaining the BEAR as a ship of the Navy for duty in northeast Greenland in order that the services of her experienced naval crew may be utilized.
- (d) Assist the Navy in obtaining the use of the BOWDOIN for duty in connection with airdrome surveys and construction projects.

Respectfully,


Frank Knox

The Honorable
The Secretary of the Treasury

MAY 8th 1941

My dear Mr. Hopkins:

In order to meet requisitions of the British Advisory Repair Mission and the British Purchasing Commission, respectively, submitted to the United States Coast Guard for fulfillment, request is hereby made for the allotment of \$250,000 to the Treasury Department out of appropriations made available in the Defense Aid Supplemental Appropriation Act, 1941, approved March 27, 1941. Of the total amount requested, \$100,000 is initially required for spare parts and special material for the maintenance of the ten ex-Coast Guard cutters transferred to the British Government; \$80,000 for refitting these cutters, and \$400,000 for aids to navigation and their appendages, as more fully set forth in the attached letter of the Commandant, United States Coast Guard, dated May 2, 1941.

Inasmuch as certain refitting and equipment is desired by the British authorities before the vessels in question sail from the United States, it will be appreciated if your early approval is given to this request.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Enclosures:

Honorable Harry L. Hopkins,
The White House.

HUN:mas 5-2-41

(Copies of Requisitions #834, 879, 889
enclosed. Copies of these requisitions
in Comdr. Gorman's office.)

By Messenger 324

MAY 8th 1941

My dear Mr. Hopkins:

In order to meet requisitions of the British Advisory Repair Mission and the British Purchasing Commission, respectively, submitted to the United States Coast Guard for fulfillment, request is hereby made for the allotment of \$850,000 to the Treasury Department out of appropriations made available in the Defense Aid Supplemental Appropriation Act, 1941, approved March 27, 1941. Of the total amount requested, \$100,000 is initially required for spare parts and special material for the maintenance of the ten on-Coast Guard cutters transferred to the British Government; \$50,000 for refitting these cutters, and \$400,000 for aids to navigation and their appendages, as more fully set forth in the attached letter of the Commandant, United States Coast Guard, dated May 2, 1941.

Inasmuch as certain refitting and equipment is desired by the British authorities before the vessels in question sail from the United States, it will be appreciated if your early approval is given to this request.

Very truly yours,

(Signed) H. Wergentzau, Jr.

Secretary of the Treasury.

Enclosure

Honorable Harry L. Hopkins,

The White House.

HWH:mas 5-3-41

(Copies of Requisitions #634, 879, 659
enclosed. Copies of these requisitions
in Comdr. Gorman's office.)

By Messenger



HEADQUARTERS

ADDRESS THE COMMANDANT, U. S. COAST GUARD
AND REFER TO NO. F-0161

TREASURY DEPARTMENT

UNITED STATES COAST GUARD

WASHINGTON

2 May, 1941.

CONFIDENTIAL

Budget Officer,

Treasury Department.

Sir:

In connection with the transfer of the 10 Coast Guard cutters to the British Government, Coast Guard Headquarters is in receipt of two requisitions from the British Advisory Repair Mission, copies of which are inclosed herewith.

Requisition No. 834 of 26 April, 1941, requires certain items for refitting and equipment of the 10 Coast Guard cutters and involves expenditure of approximately \$35,000 for alterations and equipment desired by the British Mission, which were not included in the rearmament program for these cutters for which the Coast Guard had been given appropriations.

Requisition No. 879 of April 28, 1941, is in connection with spare parts and special material necessary for maintenance of the 10 former Coast Guard cutters. Correspondence and interviews with the British Advisory Repair Mission reveals that it will be necessary for the Coast Guard to keep these cutters supplied with spare parts and special material, and that from time to time the British Advisory Repair Mission will submit requisitions to the Coast Guard for these items. As an example of the spare parts which will be requisitioned by the British from time to time Coast Guard Headquarters has been advised by Engineer Rear Admiral G. G. T. Burt, R. N., that it is desired to have immediately available four spare propellers and two tail shaft assemblies. The estimated cost of these items is \$24,000. Consultation with the Navy regarding similar arrangements for maintenance of the 30 destroyers previously transferred to the British reveals that the same procedure is being carried out with respect to the furnishing of spare parts and special material for those destroyers, and that an average of \$10,000 per vessel would be required for such items. As requisition No. 879 states that the delay incident to submitting a separate requisition for each small item required is very undesirable, it is believed that funds in the amount of \$100,000 should be allocated to the Coast Guard to meet requisitions which will be continually received from the British Advisory Repair Mission for spare parts and special material for the 10 ex-Coast Guard cutters.

P-0161, 2 May, 1941.
Budget Officer, Treas. Dept.

There has also been received from the British Purchasing Commission requisition No. 659 of April 24, 1941, requesting 50 light buoys complete with moorings suitable for Trinity House requirements. Communication with the British Purchasing Commission has established that the light buoys required are the 9 x 32 type in use by the Coast Guard which cost approximately \$6,000 a piece. The sum of \$300,000 will, therefore, be required to fill this requisition.

The Coast Guard has no funds with which to fill these or future requisitions from the British Purchasing Commission and the British Advisory Repair Mission respectively, but, in order to obviate delay in filling these requisitions all preliminary work with respect to placing the orders is being accomplished.

Under requisition No. 834 \$35,000 is required immediately, under requisition No. 879 \$24,000 is required immediately, and under requisition No. 659 \$300,000 is required immediately. However, since, as will be seen from the tenor of these requisitions, it is the intention of the British Advisory Repair Mission and the British Purchasing Commission to continue to requisition spare parts and special material for the maintenance of the 10 ex-Coast Guard cutters and aids to navigation and their appendages, if the items are to be furnished with a minimum of delay, as requested by the British authorities, funds should be allocated to the Coast Guard from the Defense Aid Supplemental Appropriation Act, 1941, to be set up as a working fund for the filling of requisitions as received from the British authorities.

It is believed that an initial allocation of \$100,000 for spare parts and special material for the maintenance of the 10 ex-Coast Guard cutters, \$50,000 for refitting of these cutters, and \$400,000 for aids to navigation and their appendages should be made to the Coast Guard from the Defense Aid Supplemental Appropriation Act, 1941. It is, therefore, requested that the sum of \$550,000 be allocated to the Coast Guard from the Defense Aid Supplemental Appropriation Act, 1941, as soon as practicable. Inasmuch as certain refitting and equipment is desired by the British authorities before the vessels sail from the United States it is requested that the necessary steps be taken to expedite this allocation and Coast Guard Headquarters advised when an allocation is approved.

Very truly yours,



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

May 8, 1941

Dear Jesse:

My attention has been called to one of the provisions of S. 1438 which might be construed to restore the exemption of interest on obligations issued by R.F.C. from Federal income taxes.

Foley tells me that someone in his office spoke to Clay Johnson and Klagsbrunn and was informed that the language was included by inadvertence and was not intended to restore the exemption. I understand that language to correct the ambiguity has been agreed upon by our lawyers.

I am satisfied that the language was not intended to restore tax-exemption to R.F.C. obligations. Therefore, I am bringing it to your attention rather than to the attention of the Committee in order that you may make the necessary change before the bill is reported.

Yours sincerely,

(Signed) Henry

Honorable Jesse H. Jones,

SECRETARY of Commerce.

HTF:sup 5/8/41

By Messenger 2nd

C O P Y

The Secretary of Commerce
Washington

May 8, 1941

Dear Henry:

Your letter of today received. The matter about which you write was brought out at the hearings this morning, and I explained that it was not intended to restore the exemption of interest on obligations issued by R.F.C. from Federal income taxes.

We requested that the language be changed to conform to my agreement with you that we would support your program in this respect.

Sincerely yours,

/s/ Jesse

MAY 8 1941

Dear Mr. Curtice:

In connection with reports I am receiving bi-weekly from the airplane and airplane engine industry, I should like to secure certain information regarding unfilled orders, new orders, and deliveries of airplane engines for your company. I am enclosing a table which has been prepared for your company from various data available at the War Department showing the number of airplane engines on order on April 26, 1941. Will you please revise this table in accordance with the procedure outlined below.

Bring forward to May 10 the estimated deliveries of the unfilled orders by (1) inserting new orders received during the period April 27 through May 10 in their proper place, combining new orders with orders now shown on the table where the type of airplane engine and class of purchaser are the same, and using a new line for any type of airplane engine not already included in the schedule, and (2) indicating any revisions that have been made in the estimated delivery dates of the remaining orders now shown on the schedule. After these revisions have been made, the schedule should show estimated deliveries of all orders unfilled on May 10, including new orders received during the period. When deliveries start, of course, a further adjustment of the figures to reflect such deliveries would have to be made.

Data should include spare parts. If any spare parts are included in the contract, please show the percentage these bear to the total order in the column at the extreme right of the table.

Please forward the revised table, together with a statement of new orders received and deliveries made in the period April 27 through May 10, to Mr. George C. Haas, Director of Research and Statistics, Treasury Department, Washington, D. C., whom I have asked to arrange to obtain from you such subsequent figures as are necessary to bring the information up to date. I shall appreciate it if you will send your reply by air mail special delivery so that it will reach him on Monday, May 12.

Sincerely,

(Signed) E. Hergenthan, Jr.

Mr. Harlow E. Curtice,
General Manager,
Pack Motor Division,
General Motors Corporation,
Flint, Michigan.

Enclosure

FILE COPY

(Returned to Haas' office for mailing)

Copy of Letter from B. Mexico City, May 8, 1941.

While May 1st as labor day was observed in the usual manner, no disorders were reported. Here in the city the Labor Unions staged their customary parade of militarized and civilian battalions, which was reviewed from the National Palace by the President and most members of the Cabinet. All activities were, of course, at rest on that day, which is one of those days on which tourists and out of town people find it difficult to secure a meal or find a taxi to take them around, although things are getting a little less radical from what they were a few years ago.

The main celebrations of 5th of May (anniversary of the battle of Puebla) were transferred to Puebla itself on this occasion, to where the President journeyed for reviewing the troops, who had just concluded extensive military maneuvers in that vicinity.

Politically, things have been entirely quiet. After an exile of several years in the United States, former strong man, Gen. Plutarco Elias Calles, has returned to the country, staying for the present at his Hacienda Soledad de la Mota, near Monterrey. His intentions seem to be to reside at Mexico City and Cuernavaca, in both of which Calles owns homes. In our own opinion, the return of Calles lacks political significance and we doubt that he himself has any political ambitions left. He is getting along in years, and we believe his health is not always of the best. And most of his political friends are "gone with the wind". In general, little importance is being given to the matter.

Travels and interviews, sightseeing and other activities of the President's brother, Gen. Maximino, in the United States are still making headlines, whereas a convention of the Brotherhood of American Locomotive Engineers is being held in Mexico City, Ambassador Josephus Daniels presiding over the inaugural session, assisted by Gen. Enrique Estrada, Director of the National Railways, who is probably hopeful that Mexican railroadmen will learn something from their American comrades in the way of discipline and efficiency.

The Miners Union still seems to have it in for the A.S. & R. Co., whose Monterrey and Parral strikes, as was reported, have been declared legal by the Labor Board. And today's press talks of strike notices to the Smelting Company at Santa Barbara, Chihuahua Smelter, San Luis Potosi Smelter, Santa Eulalia and Angangueo. The deadline according to these reports is May 15th.

On the other hand, a strike at the sugarfields and mill of El Colorado in Sinaloa, was declared illegal by the Federal Labor Board, and when the workers did not return to their jobs within the time stipulated contracts were declared void, much to the dislike of the respective Union, which is now vigorously attacking this decision of the Labor authorities.

U.S. currency offers seem to exceed slightly the demand, and have caused dollars to be a little weaker, exchange remaining at a flat 4.85 during the last few days. We do not anticipate any variations of importance.

draft: discussed 5/7/41 ✓
file 6/6/41 -

Statement of Secretary Morgenthau Before
the Committee on Coinage, Weights and
Measures of the House of Representatives,
Thursday, May 8, 1941.

34

Mr. Chairman, Members of the Committee:

On April 28, 1941, the President wrote to the Speaker of the House recommending extension to June 30, 1943, of the powers relating to the Stabilization Fund and of the power to alter the gold content of the dollar, which powers, under the present law, will expire on June 30, 1941. A Bill (H.R. 4646) has been introduced to accomplish this purpose. I am appearing before you in support of this Bill.

When I appeared before your Committee on February 28, 1939, to recommend extension of these same powers, I said:

"The emergency in the international economic and monetary field still exists and unfortunately there are no grounds for believing that such emergency will end on June 30, 1939. On the contrary, the recurrence of international crisis is as probable now as when the Stabilization Fund was created in 1934."

These forebodings turned out to be only too true. I am afraid that the period ahead of us will be even more critical.

During the last two years the international exchange markets have been more disrupted than they have been in the past twenty years.

In reviewing the work of the Stabilization Fund during the last two years, I want to mention in some detail two of the operations which have been undertaken by the Stabilization Fund.

The first arrangement was with China. You will recall that on December 2, 1940, I appeared before a joint session of the Senate Committee on Banking and Currency and the House Committee on Coinage, Weights and Measures, to make a statement about the proposed stabilization arrangement with China. I had on previous occasions in testifying before this Committee stated that I would not consent to the use of the Stabilization Fund to assist any foreign country in prosecuting a war without first consulting with the Congressional committees. The transaction we contemplated and entered into with China was for currency stabilization purposes. So long as there was any difference of opinion as to whether this type of transaction was similar to the one that I

had referred to when I previously appeared before your Committee, I decided to lay all of the facts of the proposed transaction before the joint session.

I was greatly appreciative of the vote of confidence given to Secretary Hull and myself on this occasion.

Following months of intensive negotiation and study of the Chinese foreign exchange and monetary position, an Agreement was signed on April 25, 1941, making available \$50,000,000 to China for the purpose of stabilizing the dollar-yuan rate of exchange. The Agreement also provided for the establishment by China of a United States dollar-Chinese yuan stabilization fund. Included in the fund's resources will be the dollars acquired from the United States through the purchase of Chinese yuan and a further sum of 20,000,000 United States dollars contributed by Chinese banks.

The Chinese Government has placed this Fund under the control of a 5-man Board, one member of which will be an American appointed by China on the recommendation of the Secretary of the Treasury.

This Board will also have charge of the Chinese Yuan -

37

British Sterling stabilization funds which include a 5,000,000 sterling credit recently extended to China by the British Government.

The stabilization arrangement with China has been of great aid to China in the currency battle in which she has been engaged with the puppet currencies and has been of assistance in strengthening the Chinese internal monetary position.

This new stabilization agreement with China differs from the earlier agreement of July 14, 1937 with China, in that in the earlier agreement China was required to post with us gold collateral equal to the dollars which we had furnished to China. Under the 1937 agreement we had at one time purchased \$48,000,000 of yuan. The amount of this operation has in the intervening period been reduced until it now stands at \$19,000,000 fully collateralized by gold. It is expected that this old stabilization agreement with China will be allowed to lapse on June 30, 1941.

38

The second arrangement of importance to be entered into by the Stabilization Fund was the arrangement executed last January with the Argentine Government and the Central Bank of Argentina. Under that arrangement we have agreed to buy \$50,000,000 of Argentine pesos and Argentina will use the dollars to stabilize the dollar-peso rate of exchange. The arrangement also provides for the exchange of information and of views bearing on the proper functioning of such a program. The monetary authorities of the two countries expect to hold further discussions in the future, which discussion it is hoped will enable both countries to reap the greatest possible benefit from the workings of the stabilization arrangement. The mere announcement of this arrangement had a ~~most~~ favorable effect upon the Argentine exchange market and upon financial conditions in Argentina. The machinery of the fund was most opportunely at hand to enable us to implement the Good Neighbor Policy at a time when Argentina,

- 6 -

in common with other Latin American countries, was disturbed about a prospective drain of its foreign exchange resources. Before the Treasury actually pays any dollars to Argentina under this arrangement it will be necessary for Argentina to take certain action to confirm the authority of the Argentine Government to guarantee performance of all obligations undertaken by it and by the Argentine Central Bank.

One of the older agreements in connection with which there was activity in the recent period is that with Brazil. On October 18, 1940 we bought \$10,000,000 of milreis from

Brazil under this agreement. As Brazil's foreign exchange position improved, Brazil repurchased from us \$5,000,000 of these milreis on December 13, 1940 and the remainder on February 13, 1941. Under another part of the same agreement with Brazil we sold \$24,000,000 of gold to Brazil for dollars.

These are the largest exchange operations which have occurred since I appear before you in 1939.

As I have previously promised, we have during this period published quarterly reports of the position of the Stabilization Fund. This is in addition to the yearly record of the activities of the Stabilization Fund which the statute requires that the Treasury send to the President and to the Congress. These annual reports, the most recent one of which sent to the Congress was dated March 12, 1941, give summaries of transactions in all of the accounts of the Exchange Stabilization Fund for the period April 26, 1934 to June 30, 1935 and for each fiscal year thereafter up to June 30, 1940.

In the period which I am now describing, the functioning of the Tri-Partite accord, the development of which had appeared to hold so much promise, was interrupted by the war. In July and August 1939, there were transactions aggregating some \$37,000,000 in pounds sterling, French francs, Dutch guilders and Swiss francs. Since the outbreak of the war, these transactions have been discontinued and the machinery set up by the Tri-Partite accord has been inactive. Since the outbreak of the war we have not acquired any currency of a belligerent nation and at the present time we are holding less than \$4,000 worth of British pounds sterling, Belgian belgas, and French francs, acquired before the outbreak of the war. I venture to predict that the experience in international monetary cooperation gained through the Tri-Partite accord will prove of permanent value. I believe that that machinery, which functioned in a spirit of cooperation and equality, promises more for future international economic organization than any of the aggressive monetary devices which now hold sway.

During the period from June 30, 1939 to Dec. 31, 1940
the Stabilization Fund purchased approximately
\$3,920 million of gold. - 9 -

42

This gold was bought from twenty-three countries situated in all parts of the world. It is noteworthy also that in the same period there were sales of approximately \$380,000,000 of gold to foreign countries. Eighteen countries sought and obtained gold from our stabilization fund in exchange for dollars. To give an idea of the far-flung extent of these operations, I will just mention Afghanistan, Java, and Uruguay as among the countries which the Stabilization Fund machinery has enabled to build up gold reserves.

In this period the total number of gold transactions of the Stabilization Fund was large. The circumstances of the purchases and sales were varied. In these transactions, also, the stabilization fund proves itself an effective piece of machinery in the field of international finance. Incidentally, the Stabilization Fund has made possible three large acquisitions of gold from hard-pressed friendly countries in need of dollars. For the consummation of these transactions, it was essential to have governmental machinery which could function with the utmost speed and secrecy.

The Stabilization Fund has proved its value during years of unparalleled crisis in international trade and finance. Long ago we made the dollar the strongest currency in the world. Foreign nations and foreign individuals have preferred the dollar to all other currencies. The flow of billions of European capital and the accompanying flow of gold to this country in recent years have made this point clear even to the most unfriendly critics of our monetary policies.

The profit of the Stabilization Fund since its inception down to December 31, 1940 has been \$25,581,763.31. In the crises of recent years it would have been worth while for the United States to spend large sums of money to stabilize the foreign exchange value of the dollar. We have greatly succeeded in this endeavor and yet in the process we have made money, not lost it.

Now we are going forward into times of even greater peril. We are in the midst of a forest of exchange controls, a jungle of

controlled currencies. Some are controlled with no friendly intent toward the United States. Our Stabilization Fund is now a potent weapon of defense in our international economic relations. This is hardly the time to abandon the machinery of control which we have built up to protect the dollar and the American economy.

Economic warfare, as well as military warfare, is now being waged on all sides of us. There is no certainty that even with peace these aggressive economic instruments will be abandoned by other countries. Nobody can say what kind of international economy will emerge from this war. But everybody would say that we were fools indeed if we chose this time to let private speculators and foreign governments determine the exchange value of the dollar.

In these circumstances, I have no hesitation in making the strongest possible recommendation that Congress extend the Stabilization Fund powers.

II. Alteration in the Weight of the Dollar

The argument in favor of renewing the President's power to alter the gold content of the dollar to not less than 50% of its former weight is substantially the same as that I have just given for the

- 11a -

Stabilization Fund. When I was before the House Committee on Weights and Measures on February 28, 1939, I said:

"The dollar now has identically the same gold value it had 5 years ago when ~~the~~ President proclaimed on January 31, 1934,

that the gold content of the dollar shall be 15-5/21 grains of gold nine-tenths fine. The fact that we have kept the gold value of the dollar stable through the international monetary disturbances and alarms of the past 5 years should be adequate assurance that there is neither desire nor intent on the part of this Administration to alter the gold value of the dollar except under circumstances which clearly demand such action."

Just as there were critics some years back who said that an irresponsible administration would squander the Stabilization Fund in a foolish manner, so there have been persistent critics who said that the mere existence ^{of} ~~is~~ the President's power to devalue the gold content would lead to inflation. Obviously the Administration has no present intent to devalue the gold content of the dollar. But is this the time to remove flexible powers from the Executive when the Executives of all other nations possess virtually complete powers over the domestic and external monetary affairs

of their countries? In 1939, I said to Congress "This 47
power is a weapon in reserve needed for protection of
American interests. In the monetary field, it is as
important as a powerful Navy in the field of defense
against armed attack." That statement is as true now
as in 1939.

There is no basis for believing that we are going to
have inflation in this country because the President possesses
this emergency power. I am sure that the President will
be as zealous as Congress in taking the steps to prevent
inflation.

What steps will be necessary in the next two years in
the international monetary field depends to a considerable
extent upon the wars which are being fought all around the
globe. We are not seers and we cannot describe what the
future holds in store. I feel very strongly that for
Congress to remove this power at the present time because
there is no immediate use for it would be an unwise step

in the face of an uncertain future. As I have previously stated, for this country to surrender any of its instruments for dealing adequately and promptly with international economic and monetary problems as they may from time to time arise would tie our hands when immediate action might be crucial.

SECRETARY MORGENTHAU'S TESTIMONY
BEFORE HOUSE COMMITTEE ON COINAGE, WEIGHTS AND MEASURES
MAY 8, 1941

(Extension of Stabilization Fund and Power to Alter
the Gold Content of the Dollar)

On April 28, 1941, the President wrote to the Speaker of the House recommending extension to June 30, 1943, of the powers relating to the Stabilization Fund and of the power to alter the gold content of the dollar, which powers, under the present law, will expire on June 30, 1941. A Bill (H.R. 4646) has been introduced to accomplish this purpose. I am appearing before you in support of this Bill.

When I appeared before your Committee on February 28, 1939, to recommend extension of these same powers, I said:

- 2 -

"The emergency in the international economic and monetary field still exists and unfortunately there are no grounds for believing that such emergency will end on June 30, 1939. On the contrary, the recurrence of international crisis is as probable now as when the Stabilization Fund was created in 1934."

These forebodings turned out to be only too true. During the last two years the international exchange markets have been more disrupted than they have been in the past twenty years. I am afraid that the period ahead of us will be even more critical.

In reviewing the work of the Stabilization Fund during the last two years, I want to mention in some detail two of the operations which have been undertaken by the Stabilization Fund.

The first arrangement is with China. You will recall that on December 2, 1940, I appeared before a joint session of the Senate Committee on Banking and Currency and the House Committee on Coinage, Weights and Measures, to make a statement about the proposed stabilization arrangement with China. I had previously stated to this Committee that I would not consent to the use of the Stabilization Fund to assist any foreign country in prosecuting a war without first consulting with the congressional committees.

The transaction we contemplated and entered into with China was for currency stabilization purposes. So long as there was any difference of opinion as to whether this type of transaction was of the character that I had promised to discuss with your Committee, I decided to lay all of the facts of the proposed transaction before the joint session of the committees.

I was greatly appreciative of the vote of confidence given to Secretary Hull and myself on that occasion.

Following months of negotiation and study of the Chinese foreign exchange and monetary position, an Agreement was signed on April 25, 1941, making available \$50,000,000 to China for the purpose of stabilizing the dollar-yuan rate of exchange. The Agreement also provided for the establishment by China of a United States dollar - Chinese yuan stabilization fund. Included in the Fund's resources will be the dollars acquired from the United States through our purchase of Chinese yuan and a further sum of at least 20,000,000 United States dollars contributed by Chinese governmental banks.

The Chinese Government is placing this Fund under the control of a five-man Board, one member of which will be an American appointed by China on the recommendation of the Secretary of the Treasury. This Board will also have charge of the Chinese yuan - British sterling stabilization funds, which include a 5,000,000 sterling credit recently extended to China by the British Government.

These stabilization arrangements with China should be of great aid to China in her monetary problems and also in the struggle with the puppet currencies. In fact, the mere knowledge in the Far East of the contemplated arrangement has been of some assistance to the Chinese monetary position.

- 7 -

Under the earlier stabilization arrangement of July 14, 1937 with China, we had at one time in the Stabilization Fund \$48,000,000 of yuan. This amount has been reduced to \$19,000,000, fully collateralized by gold.

The second arrangement of importance to be entered into by the Stabilization Fund is the one signed December 27, 1940 with the Argentine Government and the Central Bank of Argentina. Under that arrangement we have agreed to buy \$50,000,000 of Argentine pesos and Argentina will use the dollars to stabilize the dollar-peso rate of exchange. The arrangement also provides for the exchange of information and of views bearing on the proper functioning of such a program.

The monetary authorities of the two countries expect to hold further discussions in the future, which discussions it is hoped will enable both countries to reap the greatest possible benefit from the workings of the stabilization arrangement. The machinery of the Fund was most opportunely at hand to enable us to implement the Good Neighbor policy at a time when Argentina, in common with other Latin American countries, was disturbed about a prospective drain of its foreign exchange resources.

- 9 -

Before the Treasury actually pays any dollars to Argentina under this arrangement, it will be necessary for Argentina to take certain action to confirm the authority of the Argentine Government to guarantee performance of all obligations undertaken by it and by the Argentine Central Bank.

There has been activity recently in connection with the stabilization arrangement which we entered into in 1937 with Brazil. On October 18, 1940, we bought \$10,000,000 of milreis from Brazil under this agreement. As Brazil's foreign exchange position improved, Brazil repurchased from us \$5,000,000 of these milreis on December 13, 1940 and the remainder on February 13, 1941.

- 10 -

Under another part of the same agreement with Brazil we have sold \$24,000,000 of gold to Brazil for dollars.

In the period which I am now describing, the functioning of the Tripartite accord, the development of which had appeared to hold so much promise, was interrupted by the war. Since the outbreak of the war, the machinery set up by the Tripartite accord has been inactive. We have not acquired any currency of a belligerent nation since September, 1939, and at the present time we are holding less than \$4,000 worth of British pounds sterling, Belgian belgas, and French francs, acquired before the outbreak of the war.

- 11 -

I venture to predict that the experience in international monetary cooperation gained through the Tripartite accord will prove of permanent value. I believe that that machinery, which functioned in a spirit of cooperation and equality, promises more for future international economic organization than any of the aggressive monetary devices which now hold sway.

During the period from July 1, 1939 to April 30, 1941, the Stabilization Fund purchased approximately \$3,920,000,000 of gold. This gold was bought from twenty-three different countries. In the same period there were sales of approximately \$380,000,000 of gold to foreign countries.

Eighteen countries sought and obtained gold from our Stabilization Fund in exchange for dollars. To give an idea of the far-flung extent of these operations, I will just mention Afghanistan, Java and Uruguay as among the countries with which the Stabilization Fund has cooperated in building up their reserves.

The total number of gold transactions of the Stabilization Fund during this period was large. The circumstances of the purchases and sales were varied. In these transactions the Stabilization Fund has proved an effective piece of machinery. Incidentally, the existence of the Stabilization Fund made it possible to carry out, with the essential speed and secrecy, three large acquisitions of gold from hard-pressed friendly countries.

As I have previously promised, we have during this period published quarterly reports of the position of the Stabilization Fund. This is in addition to the yearly record of the activities of the Stabilization Fund which the statute requires that the Treasury send to the President and to the Congress. These annual reports, the most recent one of which sent to the Congress was dated March 12, 1941, give summaries of transactions in all of the accounts of the Exchange Stabilization Fund for the period April 26, 1934 to June 30, 1935 and for each fiscal year thereafter up to June 30, 1940. I have with me for inspection by the Committee the last published balance sheet of the Stabilization Fund as of December 31, 1940.

The Stabilization Fund has proved its value during years of unparalleled crisis in international trade and finance. Long ago we made the dollar the strongest currency in the world. Foreign nations and foreign individuals have preferred the dollar to all other currencies. The flow of billions of European capital and the accompanying flow of gold to this country in recent years have made this point clear even to the most unfriendly critics of our monetary policies.

- 15 -

Now we are going forward into times of even greater peril. We are in the midst of many systems of currency and exchange controls. Some are operated with no friendly intent toward the United States. Our Stabilization Fund is a potent weapon of defense in our international economic relations. This is hardly the time to abandon the machinery of control which we have built up to protect the dollar and the American economy.

Economic warfare, as well as military warfare, is now being waged on all sides of us. There is no certainty that even with peace these aggressive economic instruments will be abandoned by other countries. Nobody can say what kind of international economy will emerge from this war. But it would surely be unwise if we chose this time to let private speculators and foreign governments determine the exchange value of the dollar.

In these circumstances, I have no hesitation in making the strongest possible recommendation that Congress extend the Stabilization Fund powers.

- 17 -

II. Power to Alter the Gold Content of the Dollar.

The reasons favoring the renewing of the President's power to alter the gold content of the dollar to not less than 50% of its former weight are comparable to those I have just given for extending the Stabilization Fund powers. When I was before the House Committee on Weights and Measures on February 28, 1939, I said:

"The dollar now has identically the same gold value it had five years ago when the President proclaimed on January 31, 1934, that the gold content of the dollar shall be 15-5/21 grains of gold nine-tenths fine.

- 18 -

The fact that we have kept the gold value of the dollar stable through the international monetary disturbances and alarms of the past five years should be adequate assurance that there is neither desire nor intent on the part of this Administration to alter the gold value of the dollar except under circumstances which clearly demand such action."

Just as there were critics some years back who said that an irresponsible administration would squander the Stabilization Fund in a foolish manner, so there have been persistent critics who said that the President's power to devalue the gold content of the dollar would be used to bring about inflation.

- 19 -

There is no basis for believing that we are going to have inflation in this country because the President possesses this emergency power.

I am sure that the President will be as zealous as Congress in taking the steps to prevent inflation.

Obviously the Administration has no present intent whatsoever to devalue the gold content of the dollar. But certainly this is not the time to remove flexible powers from the Executive when the Executives of all other nations possess virtually complete powers over the domestic and external monetary affairs of their countries.

- 20 -

In 1939, I said to Congress "This power is a weapon in reserve needed for protection of American interests. In the monetary field, it is as important as a powerful Navy in the field of defense against armed attack." That statement is as true now as in 1939.

What steps will be necessary in the next two years in the international monetary field depends to a considerable extent upon the wars which are being fought all around the globe. We are not seers and we can not describe what the future holds in store. I feel very strongly that for Congress to remove this power at the present time because there is no immediate use for it would be an unwise step in the face of an uncertain future.

-oOo-

Balance Sheet of the Exchange Stabilization Fund
As of June 30, 1940 and December 31, 1940

	June 30, 1940	December 31, 1940
Assets		
Cash:		
Treasurer of the U. S., gold.....	\$1,800,000,000.00	\$1,800,000,000.00
Treasurer of the U. S., checking account.....	1,964,314.28	1,574,999.77
Federal Reserve Bank of New York, special account.....	127,194,969.35	143,000,401.59
Reserving officers' balances and advance accounts.....	11,072.25	11,286.23
	<u>\$1,938,274,375.89</u>	<u>\$1,954,792,287.59</u>
Special accounts of Secretary of the Treasury in Federal Reserve Bank of New York:		
Special account No. 1, gold (Schedule 1).....	85,020,180.65	47,998,800.05
Due from foreign banks (foreign exchange):		
France.....	\$ 17.82	\$ 17.82
Belgium.....	505.06	505.06
Sterling.....	2,836.40	2,980.02
Central Bank of China (secured deposits) 1/.....	19,112,900.00	19,117,212.66
Banco de Brasil (secured deposits) 2/.....	-	5,026,712.34
	<u>19,115,859.34</u>	<u>24,147,427.99</u>
Investments in U. S. Government securities (Schedule 2)	10,444,723.13	10,444,723.13
Accrued interest receivable (Schedule 2).....	9,730.73	10,435.48
Other accounts (deferred charges).....	6,013.43	26,066.94
Commodity sales contracts (deferred charges).....	2,635.00	2,635.00
	<u>\$2,044,377,519.15</u>	<u>\$2,087,018,377.76</u>
Liabilities and Capital		
Accounts payable:		
Yenholders payable.....	\$ 4,018.09	\$ 7,609.47
Due to foreign banks.....	22,849,963.21	1,424,804.98
	<u>\$ 22,853,981.25</u>	<u>\$ 1,432,414.45</u>
Capital account.....	2,000,000,000.00	2,000,000,000.00
Earnings less administrative expenses (Schedules 3 and 4)	21,527,537.89	29,593,763.31
	<u>\$2,044,377,519.15</u>	<u>\$2,087,018,377.76</u>

Each figure: Annual balance sheets for the years 1934 through 1940 may be found in the Annual Report of the Secretary of the Treasury for 1940. Quarterly balance sheets commencing December 31, 1938 may be found in previous issues of the Treasury Bulletin.

1/ Consisted of 65,000,000 yuan as of June 30, 1940 and 69,016,027.40 yuan as of December 31, 1940. Gold held as collateral amounted to \$19,379,015.65 as of both dates.

2/ Consisted of 100,534,246.58 milreis as of December 31, 1940. Gold held as collateral amounted to \$5,063,429.57.

Schedules for Balance Sheet of the Exchange Stabilization Fund

Schedule 1

Location of gold held by and for account of the Exchange Stabilization Fund 1/

Location	June 30, 1940		December 31, 1940	
	Ounces	Dollars	Ounces	Dollars
Federal Reserve Bank of New York.....	462,392.062	16,183,721.49	169,382.911	6,628,401.84
U. S. Assay Office, New York.....	1,999,327.406	69,836,429.14	1,170,411.346	40,964,398.15
Total.....	<u>2,461,719.468</u>	<u>86,020,180.63</u>	<u>1,339,794.257</u>	<u>47,592,800.05</u>

1/ Includes gold held by Treasurer of the U. S.

Schedules for Balance Sheet of the Exchange Stabilization Fund (Continued)

Schedule 2

U. S. Government securities held by the Exchange Stabilization Fund

Items	June 30, 1940				December 31, 1940			
	Face value	Cost	Average price	Accrued interest	Face value	Cost	Average price	Accrued interest
2-1/4% Treasury bonds, 1931-33..	\$10,000,000	\$10,000,000.00	100.0000	\$9,821.31	\$10,000,000	\$10,000,000.00	100.0000	\$ 9,890.11
2-3/4% Treasury bonds, 1938-43..	50,000	49,940.63	99.8813	56.35	50,000	49,940.63	99.8813	60.44
2-3/4% Treasury bonds, 1940-45..	402,000	399,082.50	99.2743	493.07	402,000	399,082.50	99.2743	495.33
Total U. S. Government securities.....	\$10,452,000	\$10,448,723.13		\$9,730.73	\$10,452,000	\$10,448,723.13		\$10,456.88

Schedule 3

Earnings of the Exchange Stabilization Fund

Source	January 31, 1934 through June 30, 1940	January 31, 1934 through December 31, 1940
Profits on British sterling transactions.....	\$ 310,494.44	\$ 310,634.09
Profits on French franc transactions.....	351,537.99	351,537.99
Profits on gold bullion (including profits from handling charges on gold).....	12,907,587.19	16,801,760.44
Profits on silver transactions.....	105,371.27	105,371.27
Profits on sale of silver bullion to Treasury (nationalized).....	3,473,362.29	3,473,362.29
Profits on investments.....	1,019,326.18	1,019,326.18
Interest on investments.....	3,836,149.24	3,359,969.49
Miscellaneous profits.....	473.74	473.74
Interest earned on foreign balances.....	56,717.37	83,429.71
Interest earned on Chinese yuan.....	1,865,696.11	1,421,384.07
Total earnings.....	\$22,726,619.72	\$26,513,397.61

Schedule 4

Administrative expenses of the Exchange Stabilization Fund

Classification	January 31, 1934 through June 30, 1940	January 31, 1934 through December 31, 1940
Salaries.....	\$ 723,720.40	\$ 814,746.09
Travel.....	47,753.99	51,181.79
Subsistence.....	35,106.04	37,181.43
Telephone & telegraph.....	279,696.42	300,120.74
Stationery, etc.....	13,811.21	15,410.15
All other.....	99,027.81	112,994.20
Total administrative expenses.....	\$1,199,077.83	\$1,331,634.36

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 8, 1941

TO Secretary Morgenthau
FROM Herbert Merillat

HEARINGS OF WAYS AND MEANS COMMITTEE
May 8, 1941

The entire day was taken up with testimony of tobacco farmers and their representatives protesting increases in taxes on tobacco. A Mr. Lanier of North Carolina led off with an able presentation of the tobacco farmers' case and visibly impressed the committee. The sympathetic attitude of the committee continued throughout the day. Although the members' interest lagged as farmer after farmer gave essentially the same testimony, it is apparent that most members on both sides of the committee are inclined to question the desirability of further increases in taxes on tobacco.

IRVING BERLIN

May 8, 1941

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

My dear Mr. Morgenthau:

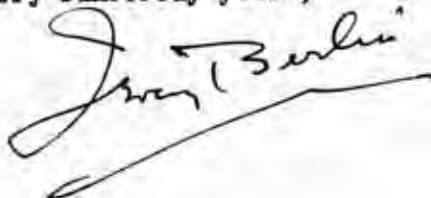
On my return from Hollywood today, I found
your letter of May 1st with the clippings
enclosed.

Nothing would give me greater satisfaction
than to write a good song for your Defense
Bonds Program. Quite frankly, its not an
easy job to write this kind of a song to
order. However I am going to try because I
appreciate the importance of the Cause.

I have spoken to Howard Dietz, who as you
know, is doing some publicity for this; and
hope that something will come of it. I
can only promise that I will try very hard.
In the meantime, I would suggest that nothing
be said about this until I have something
concrete to tell you.

Kindest regards.

Very sincerely yours,

A handwritten signature in dark ink, reading "Irving Berlin". The signature is written in a cursive, flowing style. The first name "Irving" is written in a larger, more prominent script, and "Berlin" follows it. A long, horizontal flourish extends from the bottom of the signature.

IB:G

May 8, 1941

My dear Mr. President:

I thought you would be interested in the first report that we have had on the sales of United States Defense bonds and stamps for the first seven days of May.

I have been keeping in touch with Admiral McIntire and I was glad to learn that you were feeling better.

Yours sincerely,

(Signed) Henry

The President,

The White House.

enc.

By Messenger 326

May 8, 1941

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The President,

The White House.

By Messenger

UNITED STATES SAVINGS BONDS AND SAVINGS STAMPS

Daily Sales From May 1, 1941
On Basis of Issue Price

(In thousands of dollars)

Confidential

Date	All Sales					Post Office Sales			Bank Sales			
	Total	Stamps	Series N	Series F	Series G	Total	Stamps	Series N	Total	Series N	Series F	Series G
1941												
2	\$35,670	\$1,145	\$ 4,996	\$ 4,483	\$25,047	\$ 5,549	\$1,145	\$ 4,403	\$ 30,121	\$ 591	\$ 4,483	\$25,047
3	30,766	106	2,471	3,668	24,521	1,416	106	1,310	29,349	1,161	3,668	24,521
5	15,076	113	2,992	2,094	9,878	1,695	113	1,581	13,383	1,410	2,094	9,878
6	14,751	91	3,800	2,095	8,765	1,698	91	1,607	13,053	2,193	2,095	8,765
7	18,615	99	4,420	2,177	11,919	1,490	99	1,351	17,165	3,069	2,177	11,919
al	\$114,680	\$1,554	\$18,679	\$14,517	\$80,130	\$11,809	\$1,554	\$10,254	\$103,072	\$8,425	\$14,517	\$80,130

Treasury Department, Division of Research and Statistics.

May 2, 1941.

Source: Division of Savings Bonds. The post office figures are estimated by the post office on the basis of actual sales by 100 larger post offices. The bank figures are taken from Federal Reserve Bank reports and include their own sales.

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

DEPOSITS IN TREASURER'S ACCOUNT FROM SALE OF UNITED STATES SAVINGS BONDS (ALL SERIES)

(In Thousands of Dollars)

(Based on Telegraphic Reports)

	<u>MAY 1</u>	<u>MAY 2</u>	<u>MAY 3</u>	<u>MAY 5</u>	<u>MAY 6</u>	<u>MAY 7</u>	<u>MAY 8</u>	<u>MAY 9</u>	<u>MAY 10</u>	<u>TOTAL TO DATE</u>
Treasury	58	27	36	31	30	65				247
Boston	23	177	37	2,127	1,959	238				4,561
New York	511	2,128	683	1,336	1,292	1,842				7,792
Philadelphia	201	182	216	246	1,121	1,146				3,112
Cleveland	955	246	942	1,158	2,467	1,444				7,212
Richmond	163	234	289	292	1,021	1,166				3,165
Atlanta	121	305	174	1,317	523	298				2,738
Chicago	457	634	740	1,233	585	983				4,632
St. Louis	534	804	1,822	1,538	505	981				6,184
Minneapolis	150	567	73	238	569	242				1,839
Kansas City	695	876	388	863	827	843				4,492
Dallas	271	157	429	271	824	585				2,537
San Francisco	<u>312</u>	<u>572</u>	<u>534</u>	<u>687</u>	<u>259</u>	<u>1,333</u>				3,697
TOTAL - - - - -	4,451	6,909	6,363	11,337	11,982	11,166				
Cumulative Total	4,451	11,360	17,723	29,060	41,042	52,208				

Office of the Under Secretary
May 8, 1941.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 8, 1941.

TO Secretary Morgenthau
FROM Mr. Haas

Mr. Carl Hamilton, Assistant to the Secretary of Agriculture, telephoned me this morning to say that he had explored further the question of the Department's continuance of its surplus disposal programs in view of the price rise in cotton textiles. The justification for continuing the programs is that foreign markets have been greatly restricted and Government stocks of cotton amount to more than 10 million bales. He said they are fully aware that something should be done, but they feel that the real bottleneck is in the manufacturing facilities and that some arrangement should therefore be made with the processors.

He told me that Milo Perkins, who is running the surplus disposal program, had talked with Donald Nelson, and it was Mr. Hamilton's understanding that Mr. Nelson intended to go into the matter thoroughly with the Agriculture people and call a meeting with the textile manufacturers. They feel that if production at the mills can be increased the problem will be solved.

Mr. Hamilton said they appreciated your calling this matter to their attention and they realize that their program as it now stands does aggravate the price rise. However they are now working on the problem, in conjunction with the other Government people concerned, and hope to be able to work out a satisfactory solution.

Miss Gandy

79

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE May 8, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

At 5 o'clock yesterday evening Mr. John G. Erhardt, Chief of the Division of Foreign Service Personnel in the Department of State, telephoned me informally to see whether the Treasury had any objection to Donald Heath being transferred from Berlin, where he is now serving as First Secretary of Embassy and doing some special reporting for the Treasury. Erhardt let me know that Heath's services were required in a Latin American capital, and reminded me that he had been in Berlin for some time. I told Erhardt that we would place no obstacle in the way of Heath's transfer, but that I did desire to speak with Secretary Morgenthau personally on this point before giving a final answer.

My recommendation is that we offer no objection. Within the near future I hope to talk with Erhardt on the general question of foreign service officers providing the Treasury with pertinent monetary and financial data, and I may suggest that the Secretary be good enough to receive Erhardt, who seems anxious to cooperate with us completely. In present circumstances, it is little worth while to designate new officers as special representatives of the Treasury in war-torn capitals of Europe. We should continue to receive such material as reaches the State Department on a monetary, financial and economic subjects and through Erhardt I can suggest topics for reports by our regular staff in any capital. Later on we can reopen the question of special representation when conditions warrant it.



May 8, 1941

80

Miss Chauncey said that she got this letter back from Mr. Knudsen and showed it to the Secretary, who said she should hold it as General Arnold is getting some additional information. The letter is dated January 8, 1941.

May 8, 1941

Miss Chauncey
Secretary Morgenthau

Several months ago I gave Mr. Knudsen a letter that I had received from the Boeing Company in which they mentioned certain shortages which they had. I wish you would please call up Mr. Knudsen's office and ask them to send me back the original letter this morning.

Letter dated

THE WHITE HOUSE
WASHINGTON

May 8, 1941

My dear Mr. Secretary:

I find that:

(1) The defense of China is vital to the defense of the United States;

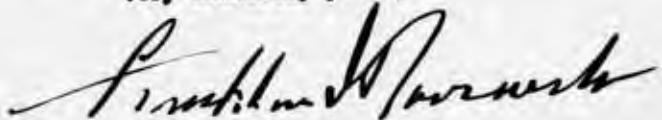
(2) Sections 4 and 7 of the Act of March 11, 1941 have been complied with by the necessary agreement on the part of the Government of China;

(3) It would be in the interests of our national defense to transfer the defense articles set forth in the annexed schedule.

I therefore authorize you immediately to make the transfer to the Government of China of the defense articles set forth in the annexed schedule.

I would appreciate it if you would arrange with the proper representative of China Defense Supplies, Inc., for the time, method, and other details of the disposition.

Very sincerely yours,



The Honorable

The Secretary of the Treasury

Defense Articles Authorized
For Transfer to the Republic of China
by the Secretary of the Treasury

Requisition Number	Quantity	Articles	Description
C-2	1,800	7.50 x 20.8 ply truck tires and tubes.	
C-3	9,000 short tons	Copper ingots, weight of ingots about 35 lbs. each.	
C-4	8,000 short tons (2,000 lbs. each)	Pig Lead.	
C-5	5,500 short tons	Zinc, weight of each slab: 50-60 lbs. Zinc content 99.95% min.	
C-6	3,000,000	Gray Military Cotton Blankets.	
C-7	10,000,000 yds.	Gray Sheetings, 36" in width, 48x48 threads.	
C-13	42 50 30	Caterpillar Tractors D-2 Caterpillar Tractors D-4 Caterpillar Tractors D-6	
C-14	5,000,000 gals. 2,500 tons 30,700 lbs. 1,000,000 C.C.	Gasoline Lubricating Oils Misc. Oils and Greases Tetra Ethyl Lead Fluid	

A BILL

To establish a Department of Supply in order more effectively to coordinate and expedite the national defense program of the United States, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Department of Supply Act of 1941".

SEC. 2. Where used in this Act, unless the context clearly indicates otherwise—

(a) The term "agency" includes any executive department, independent establishment, commission, office, board, bureau, service, administration, authority, Federally owned or controlled corporation, agency, division, or activity of the United States, whether in the District of Columbia or in the field service, or any part thereof.

(b) The term "functions" includes any rights, privileges, powers, immunities, duties, authority, or functions, or any part thereof.

(c) The term "property" includes any articles, goods, materials, things, facilities, structures, improvements, machinery, equipment, stores, supplies, or any other property or rights in property, real or personal, tangible or intangible, including (without any limitation of the foregoing) any defense article or defense information as defined in section 2 of the Act of March 11, 1941 (Public No. 11, 77th Congress).

- 2 -

SEC. 3. There shall be at the seat of government an executive department to be known as the Department of Supply and a Secretary of Supply (hereinafter referred to as the Secretary), who shall be the head thereof, and shall be appointed by the President, by and with the advice and consent of the Senate, and have a tenure of office and salary like those of the heads of the other executive departments. Section 158 of the Revised Statutes, as amended (U.S.C., title 5, sec. 1), is amended to include such Department, and the provisions of Title IV of the Revised Statutes, including all acts amendatory and supplementary thereto, shall be applicable to such Department if not inconsistent with this Act.

SEC. 4(a) There shall be in the Department of Supply an Under Secretary of Supply, a General Counsel, and seven Assistant Secretaries of Supply, who shall be appointed by the President, by and with the advice and consent of the Senate, all of whom shall exercise such functions as may be prescribed by the Secretary or required by law. The Secretary is authorized to exercise any function now or hereafter conferred or imposed upon him through any of the foregoing officers, or any other officer of his Department whom he may designate. The Under Secretary of Supply, the General Counsel, and the Assistant Secretaries of Supply shall each receive a salary of \$10,000 per annum.

(b) In the absence or disability of the Secretary, or in the event of a vacancy in that office, the Under Secretary of Supply

- 3 -

shall act as Secretary. In the absence or disability of both, or in the event of vacancies in both offices, one of the Assistant Secretaries of Supply or the General Counsel shall act as Secretary, and another Assistant Secretary or the General Counsel shall act as Under Secretary, in such order as may be determined by the Secretary. The Secretary may designate any officer of his Department to act as the Under Secretary, an Assistant Secretary, the General Counsel, a Director of Division, or an Assistant Director of Division, in the absence or disability of the officer involved, or in the event of a vacancy in the office involved. Any officer filling another office in an acting capacity under this subsection may exercise any function which might be exercised by the regular incumbent of that office.

SEC. 5. There shall be in the Department of Supply such major Divisions as the Secretary shall by regulations prescribe, which regulations shall be approved by the President. In addition, there shall be in the Department of Supply such lesser subdivisions, sections, and offices, as the Secretary shall by regulations prescribe. All regulations under this section shall be published in the Federal Register.

SEC. 6. There shall be at the head of each major Division of the Department of Supply a Director, who shall be appointed by the Secretary without regard to the civil service laws and shall receive a salary of \$10,000 per annum, and one or more Assistant Directors (as the Secretary may find necessary), who shall be appointed by the Secretary

- 4 -

without regard to the civil service laws and each shall receive a salary of \$9,000 per annum.

SEC. 7(a). The President is authorized to transfer by Executive Order to the Department of Supply any agency or function relating to any one or more of the following activities:

- (1) The manufacture or production of any property by or under the supervision of any agency;
- (2) The management, coordination, and stimulation of expansion, of the manufacture or production of any property by private industry, private persons, or other persons or entities;
- (3) The procurement, warehousing, transportation, and distribution of any property for national defense or other governmental purpose;
- (4) The establishment of priorities with respect to:
 - (i) deliveries of property under any contracts, subcontracts, orders or suborders;
 - (ii) the carriage of any property, or classes of property, by any means of transportation;
 - (iii) the carriage of any message, or class of message, by any manner of communication facility;
- (5) The allocation of property for defense, for private account, or for export, in the public interest or to promote the national defense;
- (6) The requisitioning of any property;
- (7) The control of prices and the protection of consumers; and
- (8) Such other activities as the President may deem so closely related to one or more of the foregoing that they should be administered

- 5 -

in the Department of Supply.

(b) The President is authorized to transfer by Executive Order any agency or function of the Department of Supply to any other agency in the same manner and subject to the same provisions of this Act or other law as in the case of a transfer of an agency or function to the Department of Supply under subsection (a).

(c) Each Executive Order under this section shall be printed in the Federal Register, and shall also be printed in the Statutes at Large in the same volume as the public laws.

SEC. 8(a) Any supervisory or other functions exercised by any officer of any agency with respect to any agency or function transferred to the Department of Supply under this Act are transferred to the Secretary.

(b) The Secretary shall administer the laws relating to any agency or function transferred to the Department of Supply under this Act or brought within the jurisdiction and control of such Department by or pursuant to any other provision of law.

SEC. 9(a) The Secretary shall cause a seal of office to be made for the Department of Supply, of such design as the President shall approve, and judicial notice shall be taken of such seal.

(b) The Secretary shall annually, at the close of each fiscal year, make a report in writing to the Congress, giving an account of all money received and expended by the Department of Supply and describing the work done by that Department. He shall also from time to time make such special investigations and reports as he may deem necessary or

- 6 -

as he may be required to make by the President or requested to make by either House of Congress.

SEC. 10(a) The Secretary is authorized, subject to the civil service laws, to appoint such officers and employees as he deems necessary to enable him to exercise the functions now or hereafter conferred or imposed upon him or his Department by or pursuant to law, and the compensation of all such officers and employees shall be fixed in accordance with the Classification Act of 1923, as amended.

(b) Notwithstanding the provisions of subsection (a), the Secretary is authorized to employ such compensated or uncompensated persons as he in his discretion may deem necessary for part-time or special work, and any such person may be appointed without regard to the civil service laws, and, if compensated, may receive compensation without regard to the Classification Act of 1923, as amended.

SEC. 11. The Secretary may enter into contracts (which he is otherwise authorized to enter into by or pursuant to law) without advertising or competitive bidding. No contract which would otherwise be subject to the provisions of the Act of June 30, 1936 (49 Stat. 2036; U.S.C., Supp. V, title 41, secs. 35-45), shall be exempt from the provisions of such Act solely because of being entered into without advertising or competitive bidding pursuant to this section. The cost-plus-a-percentage-of-cost system of contracting shall not be used under this section, but this shall not be construed to prohibit the use of the cost-plus-a-fixed-fee form of contract when such use is deemed

- 7 -

necessary by the Secretary. The Secretary shall report every three months to the Congress the contracts entered into by his Department without advertising or competitive bidding pursuant to this section. This section shall be supplementary to, and not in lieu of, all other provisions of law authorizing officers of the United States to enter into contracts without advertising or competitive bidding. The authority conferred by this section shall terminate June 30, 1943.

SEC. 12(a) Each Executive Order under this Act transferring agencies or functions shall contain appropriate provisions for the transfer or other disposition of records, property (including office equipment), personnel, and unexpended balances of appropriations or other funds, affected by such transfer.

(b) The Secretary may appropriately change the name of any agency or the title of any officer transferred to the Department of Supply.

(c) In the case of any commissioned officer or enlisted man of the Army, Navy, or Coast Guard transferred by any such Executive Order to the Department of Supply, such transfer shall be regarded as a detail, revocable at any time by the President. In addition, the President, or the head of any agency at the request of the Secretary, may at any time detail any officer or employee of his agency (including commissioned officers or enlisted men of the Army, Navy, or Coast Guard) to the Department of Supply, such detail to be revocable in the same manner in which it was made.

SEC. 13 (a) All orders, rules, regulations, permits, or other privileges, made, issued, or granted by or in respect of any agency or function transferred under this Act, and in effect at the time of the transfer, shall continue in effect to the same extent as if such transfer had not occurred, until modified, superseded, or repealed.

(b) No suit, action, or other proceeding lawfully commenced by or against the head of any agency or other officer or employee of the United States, in his official capacity or in relation to the discharge of his official duties, shall abate by reason of any transfer of functions from one officer, employee, or agency of the United States to another under this Act, but the court, on motion or supplemental petition filed at any time within twelve months after such transfer takes effect, showing a necessity for a survival of such suit, action, or other proceeding to obtain a settlement of the questions involved, may allow the same to be maintained by or against the head of the agency to which the transfer is made.

(c) All laws relating to any agency or function transferred under this Act shall, insofar as such laws are not inapplicable, remain in full force and effect.

SEC. 14. No transfer under this Act shall have the effect—

(a) of continuing any agency or function beyond the date when it would have terminated if such transfer had not been made;

(b) of continuing any function beyond the time when the agency in which it was vested before its transfer to the

- 9 -

Department of Supply would have terminated if such transfer had not been made; or

(c) of authorizing the Department of Supply, the Secretary, or any other agency or officer, to exercise any function which is not authorized by or pursuant to law.

SEC. 15. There is hereby authorized to be appropriated such sums as may be necessary to carry out the provisions of this Act.

SJS:mfw
5/8/41

TREASURY DEPARTMENT
INTER-OFFICE COMMUNICATION

DATE May 6, 1941.

to Secretary Morgenthau
from Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£50,000
Purchased from commercial concerns	£22,000

Open market sterling remained at 4.03-1/4. Transactions of the reporting banks were as follows:

Sold to commercial concerns	-0-
Purchased from commercial concerns	£2,000

The Cuban peso, which closed last night at a two-year high of 2-1/4% discount, reacted to close at 2-1/2% today.

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

Canadian dollar	12-1/4% discount
Swiss franc	.2321
Swedish krona	.2365
Reichsmark	.4005
Lira	.0505
Argentine peso (free)	.2375
Brazilian milreis (free)	.0505
Mexican peso	.2066

In Shanghai, the yuan was 1/16% higher at 5-9/32%, and sterling was quoted at 3.90, up 2-3/4%.

There were no gold transactions consummated by us today.

The Federal Reserve Bank of New York reported that the Central Bank of the Colombian Republic shipped \$2,776,000 in gold from Colombia to the Federal disposition unknown.

We were informed that the Bombay gold price for May 3 was equivalent to \$34.57, representing a decline of 5¢ from the quotation of April 26. Silver was unchanged at the equivalent of 44.62¢.

- 2 -

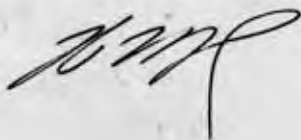
The Bureau of Foreign and Domestic Commerce reported on May 7 that \$204,000 in foreign silver coin was exported from New York to the Netherlands Indies Government, Batavia, Java. Including this shipment, a total of \$1,295,000 worth of silver coin has been shipped to the Javanese Government under its order to purchase \$2,100,000 in silver for conversion into coin.

The Bureau of Foreign and Domestic Commerce also reported on May 7 that 300,000 ounces of refined silver bullion was imported from Mexico, consigned to the American Metal Company in San Francisco, for trans-shipment to Bombay, India.

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

The Treasury's purchase price for foreign silver was unchanged at 35¢. Handy and Harman's settlement price for foreign silver was also unchanged at 34-3/4¢.

We made no purchases of silver today.



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95

Paraphrase of Code Sablage
Received at the War Department
at 09:11, May 8, 1941.

London, filed 13:35, May 8, 1941.

1. British Air Activity over the Continent.

a. Daylight, May 7.

An Axis ship was observed to be hit by British bombs off the coast of France. Fighter squadrons performed offensive missions over the English Channel.

b. Night, May 6-7.

There was heavy bombing of Hamburg by 115 long range bombers. Le Havre, Lorient and Bremen were subjected to attacks by a small number each. One Axis ship was sunk by bombing off the coast of the Netherlands. Airfields in occupied France were attacked by five patrols of fighters.

2. German Air Activity over Britain.

a. Night of May 7th.

There was German bombing over the vicinity of the Humber, East Anglia, the Timeside, Bristol, Barrow-In-Furness, Glasgow, with the principal attacks on the Manchester and Merseyside.

b. Daylight, May 7.

Air activity over the United Kingdom was limited to fighter patrols in the Calais-Dover area and several attacks by fighters on airfields in Kent.

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96

2. Night of May 6-7.

The air activity over England has now been reported on the scale of 360 planes.

3. Air Losses. British Theater.

a. British.

(1) Night of May 6-7.

1 bomber was shot down over occupied France.

(2) Daylight, May 6.

6 fighters and 2 bombers were shot down. Four of the pilots escaped without injury.

b. German.

(1) Night of May 7-8.

British night fighters shot down 9 German planes and damaged one in widespread attacks over England. There was no report of damage done.

(2) Daylight, May 7.

Fighter squadrons shot down 3 planes with 4 more probable and damaged 6 in fighting over the British Channel.

(3) Night of May 6-7.

Large scale German raids on Great Britain. Eight and possibly three additional bombers were shot down and four damaged. Another was destroyed by antiaircraft fire.

4. British Air Activity. Middle East Theater.

a. Daylight, May 7.

(1) Libya.

Planes based in Egypt attacked all Axis airfields in Eastern Libya.

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(2) Malta.

British squadrons from Malta bombed an Axis ship convey south of Pantellaria and scored direct hits on 3 ships, with a 4th probably hit. From the same base Tripoli harbor was mined.

(3) Iraq.

British planes continued to attack troops and gun positions of the Iraq Army.

5. German Air Activity, Middle East Theater.

German planes bombed Suda Bay in Crete and Tobruk in Libya, without inflicting any military damage.

6. The following is a summary of British Military Intelligence opinion:

1. Increased numbers of German agents and Fifth Columnists have recently entered Portugal.

2. No serious trouble is expected in Iran as long as the British are successful in Iraq. British reverses there may have repercussions in Iran.

3. There is no trouble in Syria as yet.

LEE

Distributions:

Secretary of War
State Department
✓ Secretary of Treasury
Under Secretary of War
Chief of Staff
Assistant Chief of Staff, G-2
War Plans Division
Office of Naval Intelligence
Air Corps
G-3

CONFIDENTIAL

SECRET

98

By authority A. C. of S., G-2

Date 5/15/41 (lta)
Initials

Paraphrase of Code Cablegram
Received at the War Department
at 18:00, May 8, 1941.

Panama, filed May 7, 1941.

It is reported the Dunav, a Yugoslav ship, will be ready to sail this afternoon at Cristobal, where it is now located. Its cargo consists of British Columbian Lumber destined for South Africa. The Secretary of the Treasury, according to the understanding of the Fifteenth Naval District Commandant, has ordered no Yugoslav ships to be given clearance. It is requested further instructions be given. Reference is made to radio 945 from A. C. of S., G-2, PCD, and radio reply No. 1179 thereto.

VAN VOORHIS

Distribution:

Secretary of War
State Department
Secretary of Treasury
Under Secretary of War
Chief of Staff
Assistant Chief of Staff, G-2
War Plans Division
Office of Naval Intelligence

SECRET

SECRET

99

By authority A. C. of S., G-2

Date 13 May 44 (MILH)

Initials

Paraphrase of Gede Cablegram
Received at the War Department
at 20:48, May 8, 1941

Cairo, filed May 8, 1941.

1. It is reported that General Milch has recently inspected the German operations in Libya.

2. Tobruk. The 9th Australian Division with less than 30 tanks is included in the garrison of 26,000 which holds Tobruk. The British technique for resisting attack by armored forces is to allow the German tanks to pass through the defenses of the outer perimeter and then to counter them with a combination of interior anti-tank defense and counter-attack by British tanks. The Axis Infantry which follows the tanks is then dealt with.

The antiaircraft defense of Tobruk has 75 Breda guns, 5 4.7 caliber, and 40 Bafors. The latter is considered the most efficient British anti-tank gun. There are no planes available for supporting Tobruk and Axis aircraft are making continuous heavy attacks.

3. The British have lost 7 ships sunk in Tobruk harbor through enemy action.

One brigade of the 2nd Armored Division was lost in Greece, another in Libya. The 7th Armored Division remains ineffective while awaiting new mechanized vehicles. West of Matruh there is a force of 4 Infantry battalions partly motorized, with 40 field pieces, 13 light tanks and 50 armored cars which have been given the task of delaying without becoming seriously engaged.

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4. Mersa Matruh and Baggush are defended respectively by the 4th Indian and 5th British Divisions supported by one squadron of armored cars and 34 infantry tanks.

5. I estimate that the line on which the British will make the major defense effort is north from El Maghra to the Mediterranean. They place their reliance upon the hot season, delay in successive positions by the forces at Matruh and Baggush, and Axis supply problems. The British are of the opinion that the Axis by the middle of next month can maintain one armored and one air borne division as far east as El Maghra and that in order to support major operations the Axis must have the use of harbors east of Bengasi. This estimate I consider over optimistic in that it seems to ignore air transport and the overwhelming superiority in the air which the Axis enjoy and which may block efforts to delay at Matruh and Baggush.

6. During the week beginning April 24th 6 German bombing squadrons were moved from bases in Europe to Bulgaria and 2 squadrons of Junkers 88 plus one squadron Me-109's were transferred from Sicily to Libya.

German losses for the week in the Middle East Theater are estimated at 50 planes.

7. There is almost continuous traffic in munitions, oil products and troops between Italy, Sicily and Africa by the means of 250 air transport planes principally Junkers 52's, which in critical areas, are conveyed by fighters. The main Axis air base in Libya is at Derna.

8. From bases in Sicily nine heavy bombing squadrons are concentrated on attacks on British shipping.

9. Supplies are flown into southern Greece by 300 transport planes presumably to assist in an offensive against Crete, Cyprus or possibly Syria.

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In Greece the following number of planes have been identified:

30 Junkers 88's or He 111's

123 Junkers 187's

1 Do-17's

80 ME-109's

30 ME-110's

45 ME 126's

10. It is estimated that in Yugoslavia and Bulgaria there are 200 planes. The following planes have been identified in Sicily.

9 Do-17's

78 Junkers 87's

59 Junkers 88's

18 ME-110's

18 ME-109's

36 ME 111's

11. There are 9 ME 111's in Italy.

12. British air strength as of May 5 in the Middle East Theater. There were 35 fighters and 87 bombers in operation over the whole theater. 20 bombers and 9 fighters were out of operation undergoing overhauling. At Takoradi 75 P-40's have not yet been put into commission. The same applies to 10 P-40's in Egypt. 25 P-40's and 6 Blenheim are in commission at Takoradi but pilots capable of flying them to Egypt are lacking.

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Distribution:

Secretary of War
State Department
Secretary of Treasury
Under Secretary of War
Chief of Staff

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